# Cathay Century 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 consolidated financial statements have been prepared originally in Chinese. These consolidated financial statements do not include additional disclosure information that is required for Chinese-language reports under the "Regulations Governing the Preparation of Financial Reports by Insurance Enterprises" and IAS 34 "Interim Financial Reporting" as recognized by Financial Supervisory Commission. If there is any conflict between these consolidated financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language consolidated financial statements shall prevail.

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**Telephone: 886-2-2755-1299**

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**Independent Auditors' Report**

English Translation of a Report Originally Issued in Chinese

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

**Opinion**

We have audited the accompanying consolidated balance sheets of Cathay Century Insurance Co., Ltd. (the "Company") and its subsidiaries as of 31 December 2017 and 31 December 2016, and the related consolidated statements of comprehensive income for the years ended 31 December 2017 and 2016, 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.

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 31 December 2016, the consolidated financial performance for the years ended 31 December 2017 and 2016, and their 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 the consolidated financial statements for the year ended 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Independent Auditors' Report (continued)**

English Translation of a Report Originally Issued in Chinese

Measurement of insurance liabilities

The measurement of the Company and its subsidiaries' insurance liabilities are 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 assumptions models made by management.

Please refer to Notes 4, 5.2 and 6.13 for information about the Company and its subsidiaries' insurance liabilities.

Valuation of financial instruments

The Company and its subsidiaries determine the fair value of financial instrument investments for which no active market exists by applying valuation techniques. The Company and its subsidiaries involve internal valuation model to determine the fair value for partial of the financial instruments. The underlying assumptions of the valuation model will significantly impact the fair value of the reported financial instruments. Therefore, we determined valuation of financial instruments as a key audit matter.

Our audit procedures included (but not limited to) assessing and testing the effectiveness of internal controls related to financial instruments valuation, including managements' 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 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 7 for information about the Company and its subsidiaries' financial instruments valuation.

**Independent Auditors' Report (continued)**

English Translation of a Report Originally Issued in Chinese

**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 of the Republic of China and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the ability to continue as a going concern of 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.

**Independent Auditors' Report (continued)**

English Translation of a Report Originally Issued in Chinese

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 one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

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

**Independent Auditors' Report (continued)**

English Translation of a Report Originally Issued in Chinese

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them about 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 for the year ended 31 December 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.

**Other**

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

Ernst & Young
Taipei, Taiwan
The Republic of China
14 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.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

**Cathay Century Insurance Co., Ltd. and Subsidiaries**

**Consolidated balance sheets**

**As of 31 December 2017 and 31 December 2016**

**(Expressed in thousands of New Taiwan Dollars)**

| Assets | Notes | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| Cash and cash equivalents | 4,6(1) | $7,548,335 | $6,961,855 |
| Receivables | 4,6(2) | 2,150,260 | 1,983,309 |
| Financial assets at fair value through profit or loss | 4,6(3) | 90,521 | 875,543 |
| Available-for-sale financial assets | 4,6(4) | 11,050,902 | 9,201,915 |
| Investments accounted for using the equity method - Net | 4,6(5) | 1,150,114 | 1,281,040 |
| Debt instrument investments for which no active market exists | 4,6(6) | 2,008,580 | 2,520,733 |
| Held-to-maturity financial assets | 4,6(7) | 6,606,306 | 6,112,465 |
| Loans | 4,6(8) | 251,770 | 354,812 |
| Reinsurance assets | 4,6(9) | 6,478,686 | 8,028,287 |
| Property and equipment | 4 | 75,145 | 91,262 |
| Intangible assets | 4 | 48,846 | 34,424 |
| Deferred tax assets | 4,6(23) | 174,813 | 132,376 |
| Other assets | 4,6(10) | 716,412 | 672,276 |
| Total assets | | $38,350,690 | $38,250,297 |

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

**Cathay Century Insurance Co., Ltd. and Subsidiaries**

**Consolidated balance sheets - (contiued)**

**As of 31 December 2017 and 31 December 2016**

**(Expressed in thousands of New Taiwan Dollars)**

| Liabilities and equity | Notes | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| Payables | 4,6(11) | $2,542,406 | $2,663,593 |
| Financial liabilities at fair value through profit or loss | 4,6(3) | 3,238 | 54,590 |
| Preferred stock liabilities | 4,6(12) | 1,000,000 | 1,000,000 |
| Insurance liabilities | 4,6(13) | 22,986,373 | 24,317,028 |
| Provisions | 4,6(14) | 426,446 | 380,158 |
| Deferred tax liabilities | 4,6(23) | 254,895 | 260,485 |
| Other liabilities | | 620,011 | 358,462 |
| Total liabilities | | 27,833,369 | 29,034,316 |
| | | | |
| Equity attributable to equity holders of the parent | | | |
| Capital stock | 4,6(15) | 3,057,052 | 2,889,552 |
| Capital surplus | 6(16) | 502,500 | - |
| Retained earnings | 4,6(17) | | |
| Legal capital reserve | | 2,064,679 | 1,570,584 |
| Special capital reserve | | 3,680,566 | 3,173,384 |
| Undistributed earnings | | 1,511,512 | 2,105,688 |
| Other equity | | (298,988) | (523,227) |
| Total equity | | 10,517,321 | 9,215,981 |
| Total liabilities and equity | | $38,350,690 | $38,250,297 |

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

**Cathay Century Insurance Co., Ltd. and Subsidiaries**

**Consolidated statements of comprehensive income**

**For the years ended 31 December 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 revenues | | | |
| Direct premium income | 4,6(19) | $20,675,815 | $21,787,874 |
| Reinsurance premium income | 4,6(19) | 1,201,806 | 985,887 |
| Premium income | | 21,877,621 | 22,773,761 |
| Deduct: Premiums ceded to reinsurers | 4,6(19) | (5,267,616) | (5,384,093) |
| Net changes in unearned premium reserve | 4,6(19) | (266,203) | (176,473) |
| Retained earned premium | | 16,343,802 | 17,213,195 |
| Reinsurance commission earned | | 488,908 | 526,081 |
| Handling fees earned | | 41,588 | 44,115 |
| Net investment profit and loss | | 892,302 | 2,082,403 |
| Interest income | | 547,114 | 568,038 |
| Gains (losses) on financial asset and financial liabilities at fair value through profit or loss | | 364,925 | 145,522 |
| Realized gains (losses) on available-for-sale financial assets | | 588,330 | 358,040 |
| Realized gains (losses) on debt instruments for which no active market exists | | - | 47,012 |
| Realized gains (losses) on held-to-maturity financial assets | | 17,413 | 3,290 |
| Share of gains (losses) of associates and joint ventures accounted for using the equity method | | (106,595) | (123,268) |
| Gains (losses) on foreign exchange | | (518,885) | (270,970) |
| Gains (losses) from other investments-Net | | - | 1,354,739 |
| Subtotal | | 17,766,600 | 19,865,794 |
| Operating costs | | | |
| Insurance claims payments | 4,6(20) | (12,646,459) | (13,002,479) |
| Deduct: Claims recovered from reinsurers | 4,6(20) | 3,508,187 | 3,443,385 |
| Retained claim payments | | (9,138,272) | (9,559,094) |
| Net changes in insurance liabilities | 4,6(13) | 10,043 | (209,323) |
| Commission expenses | | (2,783,471) | (2,948,305) |
| Other operating costs | | (75,406) | (66,802) |
| Subtotal | | (11,987,106) | (12,783,524) |

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

**Cathay Century Insurance Co., Ltd. and Subsidiaries**

**Consolidated statements of comprehensive income - (continued)**

**For the years ended 31 December 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 expenses | | | |
| Business expenses | | (2,899,929) | (3,103,297) |
| Administrative and general expenses | | (696,517) | (1,133,519) |
| Employee training expenses | | (12,740) | (11,465) |
| Subtotal | | (3,609,186) | (4,248,281) |
| Operating income | | 2,170,308 | 2,833,989 |
| Non-operating income and expenses | | (15,496) | (789) |
| Profit before income tax from continuing operations | | 2,154,812 | 2,833,200 |
| Income tax expense | 4,6(23) | (296,675) | (491,519) |
| Profit from continuing operations | | 1,858,137 | 2,341,681 |
| Net income | | 1,858,137 | 2,341,681 |
| Other comprehensive income (loss) | 4,6(21) | | |
| Not to be reclassified to profit or loss in subsequent periods: | | | |
| Remeasurements of defined benefit plans | | (54,661) | 1,420 |
| Income taxes relating to the components not to be reclassified to profit or loss in subsequent periods | | 16,131 | (241) |
| To be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences resulting from translating the financial statements of a foreign operation | | (64,569) | (143,054) |
| Unrealized gains (losses) on available-for-sale financial assets | | 345,025 | (5,713) |
| 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 | | (5,460) | (14,296) |
| Income taxes relating to the components to be reclassified to profit or loss in subsequent periods | | (12,227) | (1,640) |
| Other comprehensive income, net of tax | | 224,239 | (163,524) |
| Total comprehensive income | | $2,082,376 | $2,178,157 |
| Net income attributable to: | | | |
| Owners of parent | | $1,858,137 | $2,470,471 |
| Non-controlling interests | | $- | $(128,790) |
| Comprehensive income attributable to: | | | |
| Owners of parent | | $2,082,376 | $2,322,266 |
| Non-controlling interests | | $- | $(144,109) |
| Basic earnings per share | | | |
| Net income (In dollars) | 4,6(24) | $6.32 | $8.55 |

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

**Cathay Century Insurance Co., Ltd. and Subsidiaries**

**Consolidated statements of changes in equity**

**For the years ended 31 December 2017 and 2016**

**(Expressed in thousands of New Taiwan Dollars)**

| | Equity attributable to equity holders of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Retained earnings | | | Other equity | | | | | |
| Items | Capital stock | Capital surplus | Legal capital reserve | Special capital reserve | Undistributed earnings | Exchange differences resulting from translating the financial statements of a foreign operation | Unrealized gains (losses) from available-for-sale financial assets | Remeasurement of defined benefit plans | Total | Non-controlling interests | Total equity |
| Balance on 1 January 2016 | $2,802,202 | $- | $1,334,277 | $2,433,579 | $698,679 | $(11,502) | $(241,846) | $(121,674) | $6,893,715 | $325,384 | $7,219,099 |
| Appropriations and distribution of earnings for the year 2015 | | | | | | | | | | | |
| Legal capital reserve | - | - | 236,307 | - | (236,307) | - | - | - | - | - | - |
| Special capital reserve | - | - | - | 375,022 | (375,022) | - | - | - | - | - | - |
| Stock dividends | 87,350 | - | - | - | (87,350) | - | - | - | - | - | - |
| Provision for special reserve | - | - | - | 364,783 | (364,783) | - | - | - | - | - | - |
| Net income for the year ended 31 December 2016(Note1) | - | - | - | - | 2,470,471 | - | - | - | 2,470,471 | (128,790) | 2,341,681 |
| Other comprehensive income for the year ended 31 December 2016 | - | - | - | - | - | (131,568) | (17,816) | 1,179 | (148,205) | (15,319) | (163,524) |
| Total comprehensive income for the year ended 31 December 2016 | - | - | - | - | 2,470,471 | (131,568) | (17,816) | 1,179 | 2,322,266 | (144,109) | 2,178,157 |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | (181,275) | (181,275) |
| Balance on 31 December 2016 | 2,889,552 | - | 1,570,584 | 3,173,384 | 2,105,688 | (143,070) | (259,662) | (120,495) | 9,215,981 | - | 9,215,981 |
| Appropriations and distribution of earnings for the year 2016 | | | | | | | | | | | |
| Legal capital reserve | - | - | 494,095 | - | (494,095) | - | - | - | - | - | - |
| Special capital reserve | - | - | - | 160,557 | (160,557) | - | - | - | - | - | - |
| Cash dividends | - | - | - | - | (1,451,036) | - | - | - | (1,451,036) | - | (1,451,036) |
| Provision for special reserve | - | - | - | 346,625 | (346,625) | - | - | - | - | - | - |
| Issuance of common stock for cash | 167,500 | 502,500 | - | - | - | - | - | - | 670,000 | - | 670,000 |
| Net income for the year ended 31 December 2017(Note 2) | - | - | - | - | 1,858,137 | - | - | - | 1,858,137 | - | 1,858,137 |
| Other comprehensive income for the year ended 31 December 2017 | - | - | - | - | - | (64,569) | 327,338 | (38,530) | 224,239 | - | 224,239 |
| Total comprehensive income for the year ended 31 December 2017 | - | - | - | - | 1,858,137 | (64,569) | 327,338 | (38,530) | 2,082,376 | - | 2,082,376 |
| Balance on 31 December 2017 | $3,057,052 | $502,500 | $2,064,679 | $3,680,566 | $1,511,512 | $(207,639) | $67,676 | $(159,025) | $10,517,321 | $- | $10,517,321 |

Note: 1.For the year ended 2016, the remuneration to directors and supervisors in the amount of $0 and the employees' compensation in the amount of $2,965 thousand have been deducted from the Statement of Comprehensive Income.

2.For the year ended 2017, the remuneration to directors and supervisors in the amount of $4,500 and the employees' compensation in the amount of $2,157 thousand have been deducted from the Statement of Comprehensive Income.

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

**Cathay Century Insurance Co., Ltd. and Subsidiaries**

**Consolidated statements of cash flows**

**For the years ended 31 December 2017 and 2016**

**(Expressed in thousands of New Taiwan Dollars)**

| Items | 1 January - 31 December 2017 | 1 January - 31 December 2016 |
|---|---|---|
| Cash flows from operating activities: | | |
| Profit before income tax | $2,154,812 | $2,833,200 |
| Adjustments: | | |
| Income and other adjustments with no cash flow effects | | |
| Depreciation expenses | 52,552 | 78,784 |
| Amortization expenses | 20,501 | 20,827 |
| Reverse for bad debt expense | (57) | (576) |
| Net gains from financial assets or financial liabilities at fair value through profit or loss | (364,925) | (145,522) |
| Net gains from available-for-sale financial assets | (588,330) | (358,040) |
| Net gains from debt instrument for which with no active market exists | - | (47,012) |
| Net gains from held-to-maturity financial assets | (17,413) | (3,290) |
| Interest income | (547,114) | (568,038) |
| Net changes in insurance liabilities | (1,307,728) | 2,328,597 |
| Share of loss of associates and joint ventures accounted for using the equity method | 106,595 | 123,268 |
| Loss on disposal and scrapping of property and equipment | 2 | 6,515 |
| Net gains from disposal of investments accounted for using equity method | - | (1,354,739) |
| Changes in operating assets and liabilities: | | |
| Decrease in financial assets at fair value through profit or loss | 1,098,095 | 837,904 |
| Increase in available-for-sale financial assets | (1,095,546) | (1,951,108) |
| Decrease in debt instrument for which no active market exists | 509,464 | 1,163,995 |
| Increase in held-to-maturity financial assets | (510,816) | (1,643,141) |
| Decrease in notes receivable | 44,526 | 27,954 |
| (Increase) decrease in premiums receivable | (195,610) | 194,769 |
| (Increase) decrease in other accounts receivable | (21,705) | 238,168 |
| Decrease (increase) in reinsurance assets | 1,529,262 | (2,247,800) |
| (Increase) decrease in other assets | (41,270) | 59,042 |
| Decrease in claims outstanding | (1,847) | (13,197) |
| Decrease in due to reinsurers and ceding companies | (45,255) | (23,651) |
| Decrease in commissions payable | (6,592) | (24,487) |
| Decrease in other payables | (384,866) | (311,531) |
| (Decrease) increase in provisions | (133) | 561 |
| Increase (decrease) in other liabilities | 261,549 | (708,859) |
| Cash flows provided by (used in) operating activities | 648,151 | (1,487,407) |
| Interest received | 553,009 | 558,076 |
| Dividends received | 177,548 | 160,773 |
| Interest paid | (19,636) | (18,881) |
| Income taxes paid | (16,716) | (22,681) |
| Net cash flows provided by (used in) operating activities | 1,342,356 | (810,120) |
| Cash flows from investing activities: | | |
| Disposal of subsidiary | - | (4,609,822) |
| Acquisition of property and equipment | (41,197) | (38,748) |
| Acquisition of intangible assets | (26,061) | (25,763) |
| Decrease in loans | 103,042 | 11,443 |
| Net cash provided by (used in) investing activities | 35,784 | (4,662,890) |
| Cash flows from financing activities: | | |
| Cash dividends paid | (1,451,036) | - |
| Issuance of common stock for cash | 670,000 | - |
| Net cash flows use in financing activities | (781,036) | - |
| Effects of exchange rate changes on cash and cash equivalents | (10,624) | (80,306) |
| Increase (decrease) in cash and cash equivalents | 586,480 | (5,553,316) |
| Cash and cash equivalents at the beginning of periods | 6,961,855 | 12,515,171 |
| Cash and cash equivalents at the end of periods | $7,548,335 | $6,961,855 |

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

## 1. History and organization

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

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

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

The consolidated financial statements of the Company and subsidiaries (the "Consolidated Company") for the years ended 31 December 2017 and 2016 were authorized for issue in accordance with a resolution of the Board of Directors on 14 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 Consolidated Company 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 Consolidated Company are 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 Consolidated Company evaluted 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 Consolidated Company as at the end of the reporting period are listed below.

A. *IFRS 15 "Revenue from Contracts with Customers"*

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

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

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

B. *IFRS 9“Financial Instruments”*

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

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

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

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

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

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

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

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

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

D. *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 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.

G. *IFRS 2 "Shared-Based Payment" — Amendments to IFRS 2*

The amendments contain (1) clarifying that vesting conditions (service and non-market performance conditions), upon which satisfaction of a cash-settled share-based payment transaction is conditional, are not taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, these are taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction, (2) clarifying if tax laws or regulations require the employer to withhold a certain amount in order to meet the employee's tax obligation associated with the share-based payment, such transactions will be classified in their entirety as equity-settled share-based payment transactions if they would have been so classified in the absence of the net share settlement feature, and (3) clarifying that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date and is 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.

H. *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts — Amendments to IFRS 4*

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

I. *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.

J. *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.

K. IFRIC 22 "*Foreign Currency Transactions and Advance Consideration*"

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 "The Effects of Changes in Foreign Exchange Rates", in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially 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.

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 B. and H. which is described below, all other standards and interpretations have no material impact on the Consolidated Company:

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 Consolidated Company elects 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

Financial assets at fair value through profit or loss

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 Consolidated 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 on 1 January 2018, 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 Consolidated Company chooses 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 Consolidated Company expects to increase assets by $12,190 thousand, decrease retained earnings by $133,589 thousand and increase other equity by $145,779 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 profit or loss, and a part of available-for-slae are reclassified as financial assets at amortized cost and financial assets at fair value through profit or loss. Thus, reflect on adjustments to unrealized gains so that the assets increased by $15,185 thousand, retained earnings decreased by $130,444 thousand and other equity increased by $145,629 thousand.

(B) Impairment assessment of financial assets

The Consolidated Company recognized adjustments of expected credit losses of debt instruments, which decreased assets by $2,995 thousand, decreased retained earnings by $3,145 thousand and increased other equity by $150 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.

(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 Consolidated Company 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 FSB, the Consolidated 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 Consolidated 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 any borrowing made specifically to obtain an asset as part of general borrowings 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 Consolidated Company financial statements were authorized for issue, and the local effective dates are to be determined by FSC. The Consolidated Company is currently determining the potential impact of the standards and interpretations.

## 4. Summary of significant accounting policies

(1) Statement of compliance

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

(2) Basis of preparation

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

(3) Basis of consolidation

Preparation principle of consolidated financial statement

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

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

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

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

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

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

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

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

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

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

The consolidated entities are listed as follows:

| Investor | Subsidiary | Business Nature | Ownership Interest | |
|---|---|---|---|---|
| | | | 31 December 2017 | 31 December 2016 |
| The Company | Cathay Insurance (Vietnam) Ltd. ("Cathay Insurance (Vietnam)") | Property Insurance | 100.00 | 100.00 |

(4) Foreign currency transactions

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

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

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

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

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

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

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

(5) Translation of financial statements in foreign currency

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

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

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

(6) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term (contract period within one year) time deposits or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(7) Financial assets and financial liabilities

Initial recognition and subsequent measurement

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

All regular way purchase or sales of financial assets are recorded using trade date accounting. Financial assets and financial liabilities within scope are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Consolidated Company classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

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

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

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

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

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

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

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

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

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

B. Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit or loss, debt instrument investments for which no active market exist, held-to-maturity financial assets, or loans and receivables.

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

C. Debt instrument investments for which no active market exists

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

D. Held-to-maturity financial assets

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

E. Loans and receivables

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

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

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

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

Loans and receivables are separately presented on the balance sheet as loans and receivables. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment; amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

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

F. Financial liabilities

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

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

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

Derecognition of financial assets and liabilities

A. Financial assets

The Consolidated Company derecognizes financial assets when the contractual rights to the cash flows from the assets expire or when it transfers substantially all the risks and rewards of ownership of the asset. The difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that is recognized in other comprehensive income is recognized in profit or loss.

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

B. Financial liabilities

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

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

Reclassification of financial assets

In accordance with IAS 39:

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

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

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

D. If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and remeasured at fair value, and the difference between its carrying amount and fair value shall be recognized in other comprehensive income.

E. If, during the current financial year or during the two preceding financial year, there have been sales or reclassification of more than an insignificant amount of held-to-maturity investments, any remaining held-to-maturity investments shall be reclassified as available for sale.

Offsetting a financial asset and a financial liability

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

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

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

Impairment of financial assets

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

Other loss events include:

(a) Significant financial difficulty of the issuer or obligor; or

(b) A breach of contract, such as a default or delinquency in interest or principal payments; or

(c) It becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

(d) The disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

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

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

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

(c) Total unsecured portion of loans overdue and receivable on demand.

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

B. Available-for-sale financial assets

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event. The cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

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

C. Investments accounted for using the equity method

In accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, the Consolidated Company determine at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired. It this is the case, the Consolidated Company 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 Consolidated Company determines the value in use based on the following estimates:

(a) Future cash flows that the Consolidated Company expect to derive from the investment in the associate or joint venture, including cash flows from the operation of the associate or joint venture and from the ultimate disposal of such investment, or

(b) Present value of the future cash flows from dividend expected to be received from the associate or joint venture and from the disposal of the investment.

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

Derivative financial instruments and hedging transactions

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

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

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

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

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

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

A. Fair value hedges

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

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

B. Cash flow hedges

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

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

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

C. Hedges of a net investment in a foreign operation

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

(8) Fair value measurement

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

(a) In the principal market for the asset or liability, or

(b) In the absence of a principal market, in the most advantageous market for the asset or liability

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

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

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

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

(9) Investments accounted for using the equity method

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

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

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

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

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

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

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

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

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

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

(10) Property and equipment

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

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

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

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

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

(11) Leases

The Consolidated Company as a lessee

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

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

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

(12) Intangible assets

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

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

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

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

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

Computer software

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

(13) Impairment of non-financial assets

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

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

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

(14) Separation requirement for specific assets

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

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

A. Government bonds, not including exchangeable government bonds.

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

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

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

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

A. Treasury bills.

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

C. Government bonds in a repo transaction.

The amount of demand deposits deposited in financial institutions under the preceding paragraph shall not be less than 45 percent of the balance remaining after subtracting the amount of special reserves from the amount of funds held by the Consolidated Company due to the operation of this Insurance, or less than 30 percent of the retained earned pure premium for the most recent period as audited or reviewed by a certified public accountant. The competent authority may raise the percentage of demand deposits required by the Consolidated Company to a level it deems appropriate based on the Consolidated Company's operational status.

If the total amount of unearned premium reserve and loss reserve of the Consolidated Company with respect to this Insurance is less than 30 percent of the retained earned pure premiums of this Insurance for the most recent period as audited or reviewed by a certified public accountant, the funds held by the Consolidated Company through its conduct of this Insurance shall be deposited in full with a financial institution in the form of demand deposits.

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

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

(15) Insurance contract categories

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

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

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

(16) Reinsurance contracts assets

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

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

(17) Insurance liabilities

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

A. Unearned premium reserve

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

B. Claims reserve

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

C. Special reserve

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

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

a. Special reserve for major incident

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

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

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

b. Special reserve for fluctuation of risks

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

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

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

D. Premiums deficiency reserve

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

E. Liability reserve

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

(18) Insurance premium revenues and the acquisition costs

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

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

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

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

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

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

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

(19) Insurance claim costs

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

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

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

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

Claim reserve is not discounted to its present value.

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

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

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

(20) Liability adequacy test

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

(21) Salvage and subrogation

Salvage legally acquired from the claim procedure for direct written business shell be valued and recognized at its fair value. Subrogation legally acquired shall be recognized when the actual recovery is definite (the inflow of the economic benefits in the future is more likely than not), and its amount can be reliably measured.

(22) Reinsurance ceded

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

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

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

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

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

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

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

(24) Contribution to the stabilization funds

Since 1 July 2014, according to the “Interpretations No.10302503181 Financial-Supervisory-Property-Insurance-Corporate” issued by FSC, the Company has changed its way of contribution to rate discrimination depositing in Property Insurance Stabilization Fund Committees. It is reported as Contribution to the Stabilization funds in the income statement.

(25) Post-employment benefits plan

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

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

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

(a) The date of the plan amendment or curtailment, and
(b) The date that the Consolidated Company recognizes restructuring-related costs

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

(26) Income taxes

Income tax expense (benefit) is the aggregate amount in respect of current tax and deferred tax. Current and deferred tax shall be recognized as income or an expense and including in profit or loss for the period, except for the extent that the tax relating to item recognized in other comprehensive income or directly in equity shall be recognized in other comprehensive income or directly in equity.

Current income tax

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

Deferred tax

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

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

A. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

B. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

A. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

B. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

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

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

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

(1) Judgments

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

A. Categories of financial assets

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

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

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

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

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

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

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

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

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

(2) Estimates and assumptions

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

A. Fair value of financial instruments

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

B. Impairment of non-financial assets

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

C. Post-employment benefit

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

D. Insurance contract liabilities

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

E. Income taxes

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

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

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

## 6. Contents of significant accounts

(1) Cash and cash equivalents

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Petty cash and cash on hand | $19,232 | $13,932 |
| Cash in banks | 1,394,774 | 1,068,796 |
| Time deposits | 5,244,249 | 5,024,085 |
| Cash equivalents | 890,080 | 855,042 |
| Total | $7,548,335 | $6,961,855 |

(2) Receivables

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Notes receivable - Net | $250,186 | $294,711 |
| Premiums receivable - Net | 1,665,509 | 1,469,842 |
| Other receivable - Net | 234,565 | 218,756 |
| Total | $2,150,260 | $1,983,309 |

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

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Financial assets at fair value through profit or loss | | |
| Held for trading: | | |
| Derivative financial assets | | |
| Derivatives not designated as hedging instruments | | |
| Forward foreign exchange contracts | $90,521 | $40,000 |
| Non-derivative financial assets | | |
| Stocks | - | 22,280 |
| Beneficiary certificates | - | 813,263 |
| Total | $90,521 | $875,543 |

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

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

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Financial liabilities at fair value through profit or loss | | |
| Held for trading: | | |
| Derivative financial liabilities | | |
| Derivatives not designated as hedging instruments | | |
| Forward foreign exchange contracts | $3,238 | $54,590 |

Forward foreign exchange contracts

The Consolidated Company entered in to forward foreign exchange contracts to manage the risk exposure position for certain transactions but are not designated as hedging instruments. Details of the derivative financial instruments reported as held for trading not designated as hedging instruments as of 31 December 2017 and 31 December 2016, are as follows:

| | Nominal Amount | Maturity Period |
|---|---|---|
| 31 December 2017 | | |
| Forward foreign exchange contracts | Sell USD 195,600 | 10 January 2018-20 November 2018 |
| Forward foreign exchange contracts | Sell EUR 6,850 | 31 January 2018-21 May 2018 |
| 31 December 2016 | | |
| Forward foreign exchange contracts | Sell USD 175,600 | 9 January 2017-20 April 2018 |
| Forward foreign exchange contracts | Sell EUR 7,850 | 27 January 2017-29 September 2017 |

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

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

(4) Available-for-sale financial assets

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Stocks | $5,927,394 | $4,770,129 |
| Foreign stocks | 276,747 | 296,692 |
| Beneficiary certificates | 2,990,779 | 2,268,284 |
| Corporate bonds | 201,904 | 203,213 |
| Financial debentures | 605,242 | 608,907 |
| Government bonds | 1,331,446 | 1,258,472 |
| Overseas bonds | 301,220 | 325,882 |
| Subtotal | 11,634,732 | 9,731,579 |
| Less: Securities serving as deposits paid-bonds | (583,830) | (529,664) |
| Total | $11,050,902 | $9,201,915 |

Please refer to Note 9 for details on pledge of available-for-sale financial assets held by the Consolidated Company.

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

Investment in associates

Information of material associates was as follows:

Company: Cathay Insurance Company Limited

Relationship with the Consolidated Company: A non-life insurance company that the Consolidated Company established with Cathay Life Insurance Co., LTD. The subsidiary is accounted for using the equity method after capital increase by other investors. Please refer to Note 6(25) for related disclosures.

Main business office/ Country of registry: Mainland China

There was no quoted price for above associates.

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

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

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Total Assets | $7,134,447 | $7,469,114 |
| Total Liabilities | (3,945,897) | (3,766,311) |
| Equity | 3,188,550 | 3,702,803 |
| Percentage of ownership | 24.50% | 24.50% |
| Subtotal | 781,195 | 907,187 |
| Goodwill | 368,919 | 373,853 |
| Carrying value of the investment | $1,150,114 | $1,281,040 |

| | For the year ended 31 December 2017 | For the year ended 31 December 2016 |
|---|---|---|
| Operating revenues | $5,857,783 | $3,107,372 |
| Profit from continuing operations | (419,242) | (770,256) |
| Other comprehensive income (loss) | (22,112) | (23,983) |
| Total comprehensive income | (441,354) | (794,239) |

The investment in associates held by the Consolidated Company were not pledged as of 31 December 2017 and 31 December 2016.

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

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Corporate bonds | $350,000 | $650,000 |
| Bank debentures | 750,000 | 750,000 |
| Overseas bonds | 898,068 | 1,068,267 |
| Time deposits | 10,512 | 52,466 |
| Total | $2,008,580 | $2,520,733 |

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

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

(7) Held-to-maturity financial assets

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Corporate bonds | $999,987 | $799,987 |
| Overseas bonds | 5,606,319 | 5,312,478 |
| Total | $6,606,306 | $6,112,465 |

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

(8) Loans

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Loans | $204,894 | $358,925 |
| Less: Allowance for bad debts | (3,124) | (4,113) |
| Total | $251,770 | $354,812 |

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

| | Individually Impaired | Collectively Impaired | Total |
|---|---|---|---|
| 1 January 2017 | $315 | $3,798 | $4,113 |
| Reversal for the current period | (113) | (876) | (989) |
| Write off | - | - | - |
| 31 December 2017 | $202 | $2,922 | $3,124 |
| 1 January 2016 | $324 | $4,104 | $4,428 |
| Reversal for the current period | (9) | (306) | (315) |
| Write off | - | - | - |
| 31 December 2016 | $315 | $3,798 | $4,113 |

Individually impaired loss as of 31 December 2017 and 2016 mainly results from the financial difficulties of the obligators. The individually impaired loss is recognized as the difference between the carrying amount and the present value of estimated future recoverable amount. The pledged assets of the loans are properties and equipment.

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

(9) Reinsurance assets

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Claims recoverable from reinsurers | $539,842 | $374,437 |
| Due from reinsurers and ceding companies-net | 572,453 | 703,260 |
| Reinsurance reserve assets | | |
| Ceded unearned premium reserve | 2,889,339 | 2,752,276 |
| Ceded claims reserve | 2,474,474 | 4,198,314 |
| Ceded premium deficiency reserve | 2,578 | - |
| Subtotal | 5,366,391 | 6,950,590 |
| Total | $6,478,686 | $8,028,287 |

(10) Other assets

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Prepayment | $12,861 | $13,171 |
| Guarantee deposits paid | 662,107 | 619,410 |
| Other assets - Other | 41,444 | 39,695 |
| Total | $716,412 | $672,276 |

(11) Payables

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Claims outstanding | $- | $1,846 |
| Commissions payable | 116,750 | 123,342 |
| Due to reinsurers and ceding companies | 1,343,852 | 1,389,107 |
| Other payables | 1,081,804 | 1,149,298 |
| Total | $2,542,406 | $2,663,593 |

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

(12) Preferred stock liabilities

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

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

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

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

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

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

(13) Insurance liabilities

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Unearned premium reserve | $11,502,792 | $11,100,264 |
| Claims reserve | 8,082,584 | 9,843,664 |
| Special reserve | 3,388,317 | 3,362,525 |
| Premiums deficiency reserve | 12,625 | 10,533 |
| Liability reserve | 55 | 42 |
| Total | $22,986,373 | $24,317,028 |

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

A. Unearned premium reserve

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

| | 31 December 2017 | | | |
|---|---|---|---|---|
| | Unearned premium reserve | | Ceded unearned premium reserve | |
| | Direct business | Assumed reinsurance business | Ceded reinsurance business | Retained business |
| Fire insurance | $1,899,499 | $155,807 | $1,129,219 | $926,087 |
| Marine insurance | 139,713 | 7,157 | 89,549 | 57,321 |
| Land and air insurance | 4,648,199 | 2,662 | 226,719 | 4,424,142 |
| Liability insurance | 649,586 | 1,190 | 217,136 | 433,640 |
| Bonding insurance | 45,555 | 881 | 30,975 | 15,461 |
| Other property insurance | 623,633 | 62,732 | 378,745 | 307,620 |
| Accident insurance | 1,450,237 | 3,287 | 54,793 | 1,398,731 |
| Health insurance | 52,174 | 5,343 | - | 57,517 |
| Compulsory automobile liability insurance | 1,270,317 | 484,820 | 762,203 | 992,934 |
| Total | $10,778,913 | $723,879 | $2,889,339 | $8,613,453 |

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

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

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

| | For the year ended 31 December 2017 | | For the year ended 31 December 2016 | |
|---|---|---|---|---|
| | Unearned premium reserve | Ceded unearned premium reserve | Unearned premium reserve | Ceded unearned premium reserve |
| Beginning balance | $11,100,264 | $2,752,276 | $12,064,950 | $2,786,250 |
| Other | 3,566 | - | - | - |
| Reserve | 11,506,609 | 2,891,151 | 12,366,459 | 2,919,491 |
| Recover | (11,098,759) | (2,749,504) | (12,058,201) | (2,787,706) |
| Losses (gains) on foreign exchange | (8,888) | (4,584) | (70,227) | (8,475) |
| Lose control | - | - | (1,202,717) | (157,284) |
| Ending balance | $11,502,792 | $2,889,339 | $11,100,264 | $2,752,276 |

B. Claims reserve

(a) Claims reserve and ceded claims reserve

| | 31 December 2017 | | | |
|---|---|---|---|---|
| | Claims reserve | | Ceded claims reserve | |
| | Direct business (1) | Assumed reinsurance business (2) | Ceded reinsurance business (3) | Retained business (4)=(1)+(2)-(3) |
| Reported but not paid claim | $3,557,040 | $286,595 | $1,342,214 | $2,501,421 |
| Unreported claims | 3,796,257 | 442,692 | 1,132,260 | 3,106,689 |
| Total | $7,353,297 | $729,287 | $2,474,474 | $5,608,110 |

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

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

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

| | For the year ended 31 December 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Direct underwriting business | | Assumed reinsurance business | | Net change for claims reserve | Ceded reinsurance business | | Net change for ceded claims reserve |
| | Reserve (1) | Recover (2) | Reserve (3) | Recover (4) | (5)=(1)-(2) +(3)-(4) | Reserve (6) | Recover (7) | (8)=(6)-(7) |
| Reported but not paid claim | $3,564,752 | $5,923,908 | $286,595 | $235,435 | $(2,307,996) | $1,349,185 | $3,252,095 | $(1,902,910) |
| Unreported claims | 3,796,651 | 3,257,979 | 442,692 | 417,005 | 564,359 | 1,132,442 | 937,807 | 194,635 |
| Total | $7,361,403 | $9,181,887 | $729,287 | $652,440 | $(1,743,637) | $2,481,627 | $4,189,902 | $(1,708,275) |

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

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

| | 31 December 2017 | | |
|---|---|---|---|
| | Claims reserve | | |
| | Reported but not paid claim | Unreported claims | Total |
| Fire insurance | $1,213,571 | $12,107 | $1,225,678 |
| Marine insurance | 282,955 | 2,673 | 285,628 |
| Land and air insurance | 970,397 | 1,280,293 | 2,250,690 |
| Liability insurance | 407,046 | 620,734 | 1,027,780 |
| Bonding insurance | 49,574 | 93,893 | 143,467 |
| Other property insurance | 400,702 | 102,292 | 502,994 |
| Accident insurance | 84,084 | 509,467 | 593,551 |
| Health insurance | 933 | 49,001 | 49,934 |
| Compulsory automobile liability insurance | 434,373 | 1,568,489 | 2,002,862 |
| Total | $3,843,635 | $4,238,949 | $8,082,584 |

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

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

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

| | 31 December 2017 | | |
|---|---|---|---|
| | Ceded claims reserve | | |
| | Reported but not paid claim | Unreported claims | Total |
| Fire insurance | $550,259 | $5,457 | $555,716 |
| Marine insurance | 190,450 | 812 | 191,262 |
| Land and air insurance | 60,768 | 77,285 | 138,053 |
| Liability insurance | 231,297 | 217,576 | 448,873 |
| Bonding insurance | 29,331 | 78,160 | 107,491 |
| Other property insurance | 130,131 | 30,718 | 160,849 |
| Accident insurance | 4,857 | 35,844 | 40,701 |
| Health insurance | - | 324 | 324 |
| Compulsory automobile liability insurance | 145,121 | 686,084 | 831,205 |
| Total | $1,342,214 | $1,132,260 | $2,474,474 |

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

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

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

| | For the year ended 31 December 2017 | | For the year ended 31 December 2016 | |
|---|---|---|---|---|
| | Unearned premium reserve | Ceded unearned premium reserve | Unearned premium reserve | Ceded unearned premium reserve |
| Beginning balance | $9,843,664 | $4,198,314 | $9,053,721 | $2,575,432 |
| Other | 367 | 170 | - | - |
| Reserve | 8,090,690 | 2,481,627 | 11,269,165 | 4,383,572 |
| Recover | (9,834,327) | (4,189,902) | (9,054,952) | (2,585,365) |
| Effects of exchange rate changes | (17,810) | (15,735) | (73,267) | (5,085) |
| Lose control | - | - | (1,351,003) | (170,240) |
| Ending balance | $8,082,584 | $2,474,474 | $9,843,664 | $4,198,314 |

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

C. Special reserve

(a) Special reserve - Compulsory automobile liability insurance

| | For the year ended 31 December 2017 | For the year ended 31 December 2016 |
|---|---|---|
| Beginning balance | $1,530,609 | $1,487,506 |
| Reserve | 121,427 | 116,070 |
| Recover | (76,908) | (72,967) |
| Ending balance | $1,575,128 | $1,530,609 |

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

| | For the year ended 31 December 2017 | | |
|---|---|---|---|
| | Major incidents | Fluctuation of risks | Total |
| Beginning balance | $486,899 | $1,345,017 | $1,831,916 |
| Reserve | - | - | - |
| Recover | (18,727) | - | (18,727) |
| Ending balance | $468,172 | $1,345,017 | $1,813,189 |

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

When the Consolidated Company does not apply to “Precautions of strengthening disaster insurance of property insurance industry (commercial earthquake and typhoons flood insurance)”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance” and “Regulations for the Management of the Various Reserves for the nuclear Insurance”, the impact on the Consolidated Company’s profit or loss, liabilities’ special reserve and equity’s special capital reserve are decrease of $18,727 thousand, decrease of $1,504,690 thousand and increase of $594,801 thousand. Earnings per share decrease of $0.05 when the Consolidated Company does not apply to the precautions.

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

D. Premium deficiency reserve

(a) Premium deficiency reserve and ceded premium deficiency reserve

| | 31 December 2017 | | | |
|---|---|---|---|---|
| | Premium deficiency reserve | | Ceded premium deficiency reserve | |
| | Direct business | Assumed reinsurance business | Ceded reinsurance business | Retained business |
| Fire insurance | $- | $- | $- | $- |
| Marine insurance | 1,144 | 103 | - | 1,247 |
| Land and air insurance | 8,446 | 2,932 | 2,578 | 8,800 |
| Liability insurance | - | - | - | - |
| Bonding insurance | - | - | - | - |
| Other property insurance | - | - | - | - |
| Accident insurance | - | - | - | - |
| Health insurance | - | - | - | - |
| Compulsory automobile liability insurance | - | - | - | - |
| Total | $9,590 | $3,035 | $2,578 | $10,047 |

| | 31 December 2016 | | | |
|---|---|---|---|---|
| | Premium deficiency reserve | | Ceded premium deficiency reserve | |
| | Direct business | Assumed reinsurance business | Ceded reinsurance business | Retained business |
| Fire insurance | $- | $- | $- | $- |
| Marine insurance | - | - | - | - |
| Land and air insurance | 1,640 | 8,893 | - | 10,533 |
| Liability insurance | - | - | - | - |
| Bonding insurance | - | - | - | - |
| Other property insurance | - | - | - | - |
| Accident insurance | - | - | - | - |
| Health insurance | - | - | - | - |
| Compulsory automobile liability insurance | - | - | - | - |
| Total | $1,640 | $8,893 | $- | $10,533 |

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

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

For the year ended 31 December 2017

| | Direct underwriting business | | Assumed Reinsurance business | | Net change for premium deficiency reserve | Ceded reinsurance business | | Net change for ceded premium deficiency reserve | Recognized net loss (gain) for premium deficiency reserve |
|---|---|---|---|---|---|---|---|---|---|
| | Reserve | Recover | Reserve | Recover | | Reserve | Recover | | |
| | (1) | (2) | (3) | (4) | (5)=(1)-(2)+(3)-(4) | (6) | (7) | (8)=(6)-(7) | (9)=(5)-(8) |
| Fire insurance | $- | $- | $- | $- | $- | $- | $- | $- | $- |
| Marine insurance | 1,144 | - | 103 | - | 1,247 | - | - | - | 1,247 |
| Land and air insurance | 8,446 | 1,640 | 2,932 | 8,893 | 845 | 2,578 | - | 2,578 | (1,733) |
| Liability insurance | - | - | - | - | - | - | - | - | - |
| Bonding insurance | - | - | - | - | - | - | - | - | - |
| Other property insurance | - | - | - | - | - | - | - | - | - |
| Accident insurance | - | - | - | - | - | - | - | - | - |
| Health insurance | - | - | - | - | - | - | - | - | - |
| Compulsory automobile liability insurance | - | - | - | - | - | - | - | - | - |
| Total | $9,590 | $1,640 | $3,035 | $8,893 | $2,092 | $2,578 | $- | $2,578 | $(486) |

For the year ended 31 December 2016

| | Direct underwriting business | | Assumed Reinsurance business | | Net change for premium deficiency reserve | Ceded reinsurance business | | Net change for ceded premium deficiency reserve | Recognized net loss (gain) for premium deficiency reserve |
|---|---|---|---|---|---|---|---|---|---|
| | Reserve | Recover | Reserve | Recover | | Reserve | Recover | | |
| | (1) | (2) | (3) | (4) | (5)=(1)-(2)+(3)-(4) | (6) | (7) | (8)=(6)-(7) | (9)=(5)-(8) |
| Fire insurance | $70 | $- | $- | $- | $70 | $468 | $622 | $(154) | $224 |
| Marine insurance | - | - | - | - | - | 14 | 43 | (29) | 29 |
| Land and air insurance | 1,640 | - | 8,893 | 13,988 | (3,455) | - | (13,585) | 13,585 | (17,040) |
| Liability insurance | 13,661 | 12,400 | 5 | (3) | 1,269 | 5,273 | 5,913 | (640) | 1,909 |
| Bonding insurance | 11 | - | - | - | 11 | 4 | 4 | - | 11 |
| Other property insurance | 294,628 | 276,441 | - | 32 | 18,155 | 82 | 37 | 45 | 18,110 |
| Accident insurance | - | - | - | - | - | - | - | - | - |
| Health insurance | - | - | - | - | - | - | - | - | - |
| Compulsory automobile liability insurance | 67,353 | 61,528 | - | - | 5,825 | - | - | - | 5,825 |
| Total | $377,363 | $350,369 | $8,898 | $14,017 | $21,875 | $5,841 | $(6,966) | $12,807 | $9,068 |

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

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

| | For the year ended 31 December 2017 | | For the year ended 31 December 2016 | |
|---|---|---|---|---|
| | Premium deficiency reserve | Ceded premium deficiency reserve | Premium deficiency reserve | Ceded premium deficiency reserve |
| Beginning balance | $10,533 | $- | $367,287 | $(6,912) |
| Reserve | 12,625 | 2,578 | 386,260 | 5,841 |
| Recover | (10,533) | - | (364,386) | 6,967 |
| Effects of exchange rate changes | - | - | (20,674) | (331) |
| Lose control | - | - | (357,954) | (5,565) |
| Ending balance | $12,625 | $2,578 | $10,533 | $- |

(d) Effects for the change of estimation and assumption

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

E. Liability reserve

(a) Liability reserve and liability-ceded reserve：

| | 31 December 2017 | | | |
|---|---|---|---|---|
| | Liability reserve | | Liability-ceded reserve | |
| | Direct written business (1) | Reinsurance ceded-in (2) | Reinsurance ceded-out (3) | Retention (4)=(1)+(2)-(3) |
| Health insurance | $55 | $- | $- | $55 |
| Total | $55 | $- | $- | $55 |

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

| | 31 December 2016 | | | |
|---|---|---|---|---|
| | Liability reserve | | Liability-ceded reserve | |
| | Direct written business (1) | Reinsurance ceded-in (2) | Reinsurance ceded-out (3) | Retention (4)=(1)+(2)-(3) |
| Health insurance | $42 | $- | $- | $42 |
| Total | $42 | $- | $- | $42 |

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

| | For the year ended 31 December 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Direct written business | | Reinsurance ceded-in | | Net change for liability reserve | Reinsurance ceded-out | | Net change for liability reserve ceded |
| | Reserve (1) | Reserve (2) | Reserve (3) | Reserve (4) | (5)=(1)-(2)+(3)-(4) | Reserve (6) | Reserve (7) | (8)=(6)-(7) |
| Health insurance | $25 | $12 | $- | $- | $13 | $- | $- | $- |
| Total | $25 | $12 | $- | $- | $13 | $- | $- | $- |

| | For the year ended 31 December 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Direct written business | | Reinsurance ceded-in | | Net change for liability reserve | Reinsurance ceded-out | | Net change for liability reserve ceded |
| | Reserve (1) | Reserve (2) | Reserve (3) | Reserve (4) | (5)=(1)-(2)+(3)-(4) | Reserve (6) | Reserve (7) | (8)=(6)-(7) |
| Health insurance | $43 | $1 | $- | $- | $42 | $- | $- | $- |
| Total | $43 | $1 | $- | $- | $42 | $- | $- | $- |

(14) Post-employment benefits

Defined contribution plan

The Company adopt 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 to the employees' individual pension accounts. The Company have made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

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

Expenses under the defined contribution plan for the years ended 31 December 2017 and 2016 are $77,063 thousand and $99,200 thousand, respectively.

Defined benefits plan

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

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

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 $33,177 thousand to its defined benefit plan during the 12 months beginning after 31 December 2017.

The defined benefits plan obligation will expire in 2031 and 2030 as of 31 December 2017 and 2016.

Pension costs recognized in profit or loss for the years ended 31 December 2017 and 2016:

| | For the year ended 31 December 2017 | For the year ended 31 December 2016 |
|---|---|---|
| Current period service costs | $27,463 | $29,617 |
| Net interest of liability (asset) of the defined benefit plan | 5,664 | 5,099 |
| Total | $33,127 | $34,716 |

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

| | 31 December 2017 | 31 December 2016 | 1 January 2016 |
|---|---|---|---|
| Defined benefit obligation | $868,373 | $813,394 | $790,914 |
| Plan assets at fair value | (441,927) | (433,236) | (409,898) |
| Other non-current liabilities - Accrued pension liabilities recognized on the consolidated balance sheets | $426,446 | $380,158 | $381,016 |

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

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

| | Defined benefit obligation | Fair value of plan assets | Benefit liability (asset) |
|---|---|---|---|
| 1 January 2016 | $790,914 | $(409,898) | $381,016 |
| Current period service costs | 29,617 | - | 29,617 |
| Net interest expense (income) | 10,811 | (5,711) | 5,100 |
| Subtotal | 40,428 | (5,711) | 34,717 |
| Remeasurements of the net defined benefit liability (asset): | | | |
| Actuarial gains and losses arising from changes in demographic assumptions | (18,543) | - | (18,543) |
| Experience adjustments | 15,302 | - | 15,302 |
| Return on plan assets | - | 1,821 | 1,821 |
| Subtotal | (3,241) | 1,821 | (1,420) |
| Payments from the plan | (14,707) | 14,707 | - |
| Contributions by employer | - | (34,155) | (34,155) |
| 31 December 2016 | 813,394 | (433,236) | 380,158 |
| Current period service costs | 27,463 | - | 27,463 |
| Net interest expense (income) | 12,629 | (6,965) | 5,664 |
| Subtotal | 40,092 | (6,965) | 33,127 |
| Remeasurements of the net defined benefit liability (asset): | | | |
| Actuarial gains and losses arising from changes in demographic assumptions | 39,663 | - | 39,663 |
| Experience adjustments | 3,445 | - | 3,445 |
| Return on plan assets | - | 11,553 | 11,553 |
| Subtotal | 43,108 | 11,553 | 54,661 |
| Payments from the plan | (28,221) | 28,221 | - |
| Contributions by employer | - | (33,260) | (33,260) |
| Other | - | (8,240) | (8,240) |
| 31 December 2017 | $868,373 | $(441,927) | $426,446 |

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

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

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Discount rate | 1.21% | 1.56% |
| Expected rate of salary increases | 1.50% | 1.50% |

A sensitivity analysis for significant assumption as of 31 December 2017 and 2016 is shown below:

| | For the year ended 31 December 2017 | | For the year ended 31 December 2016 | |
|---|---|---|---|---|
| | Increase defined benefit obligation | Decrease defined benefit obligation | Increase defined benefit obligation | Decrease defined benefit obligation |
| Discount rate increase by 0.5% | $- | $59,918 | $- | $57,751 |
| Discount rate decrease by 0.5% | 65,996 | - | 63,445 | - |
| Expected rate of salary increase by 0.5% | 63,391 | - | 61,818 | - |
| Expected rate of salary decrease by 0.5% | - | 59,049 | - | 56,938 |

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

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

(15) Common stock

Issuance of common stock for cash at $40 per share by 16,750 thousand common shares were resolved by the Board of Directors, acting on behalf of the shareholders on 16 August 2017. The issuance of share capital was approved by the FSC’s Insurance bureau on 31 August 2017 and the record date for issuance of share capital was 15 September 2017. As of 31 December 2017 and 31 December 2016, the total authorized and issued shares were 305,705 thousands and 288,955 thousands at par value of $10, respectively. Each share carries equal rights to vote and to receive dividends.

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

(16) Capital surplus

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Additional paid-in capital | $502,500 | $- |

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.

(17) Retained earnings

A. Legal capital reserve

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

On 26 April 2017 and 27 April 2016, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of $494,095 thousand and $236,307 thousand, respectively.

B. Special capital reserve

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

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

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

On 26 April 2017 and 27 April 2016, the Company's board of directors, acting on behalf of the shareholders, recognized special capital reserves of $525,340 thousand and 858,776 thousands, among which special reserves for major incidents and special reserves for fluctuation of risks in the amount of $364,783 thousand and 483,754 thousands had been recognized at the end of 2016 and 2015 in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises." The rest of the special capital reserve will be recognized in year 2017 and 2016.

C. Undistributed 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 shareholders' meeting. The dividends go first to preferred shareholders for current year dividends and any dividends that have been omitted in the past.

(b) If there is any surplus earnings of 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.

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

(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” after deducting and setting aside an amount equal to the cumulative losses (if any). The abovementioned employee remuneration may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders’ meeting. Furthermore the Articles of Incorporation may stipulate that the employee remuneration could be distributed to employees of affiliated enterprises meeting certain criteria. The company amended the related regulations on the Company’s Article of Incorporation according to the abovementioned addition on 16 March, 2016.

Please refer to Note 6(22) for details on employees’ compensation and remuneration to directors and supervisors.

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

(e) Special reserves for major incidents and special reserves for fluctuation of risks are recorded as special capital reserve under equity at the end of this year. As of 31 December 2017, the reserves amounted to $3,144,986 thousand.

(18) Non-controlling interests

| | For the year ended 31 December 2017 | For the year ended 31 December 2016 |
|---|---|---|
| Beginning balance | $- | $325,384 |
| Net income (loss) attributable to non-controlling interests | - | (128,790) |
| Other comprehensive income attributable to non-controlling interests: | | |
| Exchange differences resulting from translating the financial statements of foreign operations | - | (11,486) |
| Unrealized gains (losses) on available-for-sale financial assets | - | (3,833) |
| Other | - | (181,275) |
| Ending balance | $- | $- |

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

(19) Retained earned premium

| | For the year ended 31 December 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Direct premium income (1) | Reinsurance premium income (2) | Premium ceded to reinsures (3) | Retained premium (4)=(1)+(2)-(3) | Net change in unearned premium reserve (5) | Retained earned premium (6)=(4)-(5) |
| Fire insurance | $3,214,850 | $267,647 | $2,143,707 | $1,338,790 | $122,785 | $1,216,005 |
| Marine insurance | 587,704 | 33,381 | 391,748 | 229,337 | 15,427 | 213,910 |
| Land and air insurance | 8,542,485 | 4,173 | 375,007 | 8,171,651 | 185,546 | 7,986,105 |
| Liability insurance | 1,257,867 | 1,758 | 438,822 | 820,803 | 35,048 | 785,755 |
| Bonding insurance | 146,173 | 1,453 | 107,333 | 40,293 | 575 | 39,718 |
| Other property insurance | 627,754 | 96,839 | 347,946 | 376,647 | (67,512) | 444,159 |
| Accident insurance | 3,039,299 | 8,806 | 233,051 | 2,815,054 | (27,199) | 2,842,253 |
| Health insurance | 288,144 | 12,180 | - | 300,324 | 5,389 | 294,935 |
| Compulsory automobile liability insurance | 2,971,539 | 775,569 | 1,230,002 | 2,517,106 | (3,856) | 2,520,962 |
| Total | $20,675,815 | $1,201,806 | $5,267,616 | $16,610,005 | $266,203 | $16,343,802 |

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

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

(20) Retained claim payment

| | For the year ended 31 December 2017 | | | |
|---|---|---|---|---|
| | Insurance claims paid (1) | Reinsurance claims paid (2) | Claims recovered from reinsurers (3) | Retained claim paid (4)=(1)+(2)-(3) |
| Fire insurance | $(2,107,435) | $(53,239) | $(1,687,729) | $(472,945) |
| Marine insurance | (245,903) | (1,113) | (152,248) | (94,768) |
| Land and air insurance | (5,338,115) | (1,420) | (188,800) | (5,150,735) |
| Liability insurance | (513,993) | (715) | (122,422) | (392,286) |
| Bonding insurance | (463) | (149) | 23,135 | (23,747) |
| Other property insurance | (291,789) | (24,240) | (98,281) | (217,748) |
| Accident insurance | (1,190,374) | (232) | (80,143) | (1,110,463) |
| Health insurance | (110,564) | (2,717) | - | (113,281) |
| Compulsory automobile liability insurance | (2,079,105) | (684,893) | (1,201,699) | (1,562,299) |
| Total | $(11,877,741) | $(768,718) | $(3,508,187) | $(9,138,272) |

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

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

(21) 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 benefit (expense) | Other comprehensive income, net of tax |
| Not to be reclassified to profit or loss in subsequent periods: | | | | | |
| Remeasurements of defined benefit plans | $(54,661) | $- | $(54,661) | $16,131 | $(38,530) |
| To be reclassified to profit or loss in subsequent periods: | | | | | |
| Exchange differences resulting from translating the financial statements of foreign operations | (64,569) | - | (64,569) | - | (64,569) |
| Unrealized gains (losses) on available-for-sale financial assets | 756,307 | (411,282) | 345,025 | (12,227) | 332,798 |
| Share of other comprehensive income of associates and joint ventures accounted for using equity method | (5,460) | - | (5,460) | - | (5,460) |
| Total | $631,617 | $(411,282) | $220,335 | $3,904 | $224,239 |

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

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

(22) Summary statement of employee benefits, depreciation and amortization expenses by function during the years ended 31 December 2017 and 2016:

| | For the year ended 31 December 2017 | | | For the year ended 31 December 2016 | | |
|---|---|---|---|---|---|---|
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Employee benefits expenses | | | | | | |
| Salary and wages | $294,874 | $1,811,735 | $2,106,609 | $298,928 | $2,017,961 | $2,316,889 |
| Labor & health insurance | - | 183,527 | 183,527 | - | 222,677 | 222,677 |
| Pension expenses | - | 110,190 | 110,190 | - | 133,916 | 133,916 |
| Other employee benefits | - | 58,601 | 58,601 | - | 92,699 | 92,699 |
| Depreciation | - | 52,552 | 52,552 | - | 78,784 | 78,784 |
| Amortization | - | 20,501 | 20,501 | - | 20,827 | 20,827 |

The numbers of the Consolidated Company’s employees were 2,212 and 2,162 as of 31 December 2017 and 2016, respectively.

A resolution was passed by the Board of Directors, acting on behalf of the shareholders, on 7 November 2017 to amend the Articles of Incorporation of the Consolidated Company. According to the resolution, 1‰ to 2‰ of profit of the current year is distributable as employees’ compensation and no more than 15‰ 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 Consolidated 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.

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

Based on profit of the year ended 31 December 2017 and the Company's Articles of Incorporation, the Company recognized the employees' compensation and remuneration to directors and supervisors for the year ended 31 December 2017 amounted to $2,157 thousand and $4,500 thousand, respectively. The Company recognized the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended 31 December 2016 amounted to $2,965 thousand and $0 thousand, respectively. The abovementioned employee's compensation and remuneration to directors and supervisors for the years ended 31 December 2017 and 2016 were estimated based on post-tax net income of the period and recognized as salaries expense. If differences exist between the estimated amount and the actual distribution of the employee bonuses and remuneration to directors and supervisors, the differences are recognized in profit or loss of the subsequent year.

A resolution was passed at a Board of Directors meeting held on 7 March 2017 to distribute $2,965 thousand and $0 thousand in cash as employees' compensation and remuneration to directors and supervisors for 2016, respectively. Both amounts distributed were the same as the amount recognized as expense in 2016.

(23) Income tax

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

Income tax expense (income) recognized in profit or loss

| | For the year ended 31 December 2017 | For the year ended 31 December 2016 |
|---|---|---|
| Current income tax expense: | | |
| Current income tax charge | $348,016 | $305,606 |
| Adjustments in respect of current income tax of prior periods | 1,017 | 2,454 |
| Deferred tax expense (income): | | |
| Deferred tax expense (income) related to origination and reversal of temporary differences | (44,119) | 183,459 |
| Other | (8,239) | - |
| Total income tax expense | $296,675 | $491,519 |

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

Income tax related to components of other comprehensive income

| | For the year ended 31 December 2017 | For the year ended 31 December 2016 |
|---|---|---|
| Deferred tax expense (income): | | |
| Unrealized gains (losses) on available-for-sale financial assets | $12,227 | $1,640 |
| Remeasurements of defined benefit plans | (16,131) | 241 |
| Income tax relating to components of other comprehensive income | $(3,904) | $1,881 |

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

| | For the year ended 31 December 2017 | For the year ended 31 December 2016 |
|---|---|---|
| Accounting profit before tax from continuing operations | $2,154,812 | $2,833,200 |
| Tax at the domestic rates applicable to profits in the country concerned | $366,318 | $503,546 |
| Tax effect of expenses not deductible for tax purposes | 3,883 | 1,265 |
| Tax effect of revenues exempt from taxation | (88,823) | (56,037) |
| Other income tax adjustments | 14,282 | 40,340 |
| Tax effect of deferred tax assets/liabilities | (2) | (49) |
| Adjustments in respect of current income tax of prior periods | 1,017 | 2,454 |
| Total income tax expense recognized in profit or loss | $296,675 | $491,519 |

**(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 | Deferred tax income (expense) recognized in profit or loss | Deferred tax income (expense) recognized in other comprehensive income | Exchange differences | Ending balance |
| Temporary differences | | | | | |
| Revaluations of available-for-sale investments to fair value | $5,062 | $- | $(12,227) | $- | $(7,165) |
| Revaluations of financial liabilities at fair value through profit or loss | (30,179) | 12,861 | - | - | (17,318) |
| Provisions for employee benefits liability | 66,685 | (8,262) | 16,131 | - | 74,554 |
| Bad debt losses | 13,692 | (1,741) | - | - | 11,951 |
| Unrealized exchange gain | 46,633 | 41,239 | - | 4 | 87,876 |
| Gain from disposal of subsidiaries | (230,306) | - | - | - | (230,306) |
| Other | 304 | 22 | - | - | 326 |
| Deferred tax income expense | | $44,119 | $3,904 | $4 | |
| Net deferred tax assets/(liabilities) | $(128,109) | | | | $(80,082) |
| Reflected in balance sheet as follows: | | | | | |
| Deferred tax assets | $132,376 | | | | $174,813 |
| Deferred tax liabilities | $(260,485) | | | | $(254,895) |

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

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

## Unrecognized deferred tax assets

As of 31 December 2017 and 2016, deferred tax assets that have not been recognized as they may not be used to offset taxable profits amount to $165,001 thousand and $138,814 thousand, respectively.

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

Imputation credit information

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Balances of imputation credit amounts | (Note) | $15,862 |

The actual creditable ratio for distribution of the Company's earnings of 2016 and 2015 were 0.83% and 1.35% respectively. For 2016, the creditable ratio for individual shareholders residing in the R.O.C. is half of the original creditable 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 |

(24) Earnings per share

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

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

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

| | For the year ended 31 December 2017 | For the year ended 31 December 2016 |
|---|---|---|
| Basic earnings per share | | |
| Profit attributable to ordinary equity holders of the Company (in thousand) | $1,858,137 | $2,470,471 |
| Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand) | 293,865 | 288,955 |
| Basic earnings per share (in dollars) | $6.32 | $8.55 |

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

(25) Changes in ownership over the subsidiary

Lose control of the subsidiary

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

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

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

## 7. Risk management for insurance contracts and financial instruments

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

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

(A) Board of directors

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

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

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

(B) Risk management committee

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

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

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

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

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

(C) Chief risk officer

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

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

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

(D) Risk management department

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

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

(E) Business unit

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

   (a) To supervise the daily risk management and report of the responsible unit and take necessary responsive actions.

   (b) To oversee the sharing of risk management information to risk management on a regular basis.

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

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

(F) Audit department

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

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

(A) Risks reporting

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

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

(B) Scope and nature of risk evaluation system

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

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

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

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

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

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

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

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

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

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

| | For the year ended 31 December 2017 | For the year ended 31 December 2016 |
|---|---|---|
| Fire insurance | NT$1,105,000 | NT$898,000 |
| Marine insurance | NT$1,105,000 | NT$898,000 |
| Engineering insurance | NT$1,105,000 | NT$898,000 |
| Other property insurance | NT$1,105,000 | NT$898,000 |
| Automobile insurance | NT$1,105,000 | NT$898,000 |
| Health and accident insurance | NT$1,105,000 | NT$898,000 |

F. Methods of asset / liability management

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

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

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

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

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

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

(2) Receivables and payables of insurance contracts

A. Receivables of insurance contracts

| | Premiums receivable (Note) | |
|---|---|---|
| | 31 December 2017 | 31 December 2016 |
| Fire insurance | $751,065 | $545,610 |
| Marine insurance | 231,980 | 211,652 |
| Land and air insurance | 130,372 | 208,831 |
| Liability insurance | 251,238 | 173,051 |
| Bonding insurance | 22,206 | 24,476 |
| Other property insurance | 202,333 | 217,992 |
| Accident insurance | 118,032 | 131,391 |
| Health insurance | 6,159 | 10,393 |
| Compulsory automobile liability insurance | 14,866 | 21,643 |
| Total | 1,728,251 | 1,545,039 |
| Less: Allowance for bad debts | (62,742) | (75,197) |
| Net | $1,665,509 | $1,469,842 |

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

Aging analysis of account receivables:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| ≦ 90days | $1,530,976 | $1,292,660 |
| ＞ 90days | 197,275 | 252,379 |
| Total | $1,728,251 | $1,545,039 |

Note: As of 31 December 2017 and 31 December 2016, the receivables included overdue receivables amounted to $197,203 thousand and $251,988 thousand, respectively. The allowance for bad debts amounted to $47,475 thousand and $62,291 thousand, respectively.

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

| | Claims reported and paid off | |
|---|---|---|
| | 31 December 2017 | 31 December 2016 |
| Fire insurance | $18,931 | $108,058 |
| Marine insurance | 25,499 | 12,168 |
| Land and air insurance | 41,553 | 42,067 |
| Liability insurance | 33,210 | 34,899 |
| Bonding insurance | 305 | 2,143 |
| Other property insurance | 18,812 | 14,724 |
| Accident insurance | 15,473 | 16,645 |
| Health insurance | - | - |
| Compulsory automobile liability insurance | 391,512 | 143,733 |
| Total | 545,295 | 374,437 |
| Less: Allowance for bad debts | (5,453) | - |
| Net | $539,842 | $374,437 |

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

C. Payables of insurance contracts

| | 31 December 2017 | | |
|---|---|---|---|
| | Commissions payables | Other payables | Total |
| Fire insurance | $21,904 | $11,967 | $33,871 |
| Marine insurance | 6,148 | 12,585 | 18,733 |
| Land and air insurance | 28,889 | 85,161 | 114,050 |
| Liability insurance | 12,574 | 21,819 | 34,393 |
| Bonding insurance | 3,243 | 441 | 3,684 |
| Other property insurance | 3,375 | 10,166 | 13,541 |
| Accident insurance | 11,582 | 25,716 | 37,298 |
| Health insurance | 2,475 | 1,850 | 4,325 |
| Compulsory automobile liability insurance | 26,560 | - | 26,560 |
| Total | $116,750 | $169,705 | $286,455 |

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

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

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

| | 31 December 2017 | |
|---|---|---|
| | Due from reinsurers and ceding companies (Note) | Due to reinsurers and ceding companies |
| Non-Life Insurance Association of the R.O.C | $134,595 | $324,393 |
| AON | 39,290 | 55,471 |
| Central Re | 10,052 | 81,312 |
| Guy Carpenter | 82,142 | 4,816 |
| Marsh | 9,226 | 232,780 |
| Others | 325,864 | 645,080 |
| Total | 601,169 | 1,343,852 |
| Less: Allowance for bad debts | (28,716) | - |
| Net | $572,453 | $1,343,852 |

| | 31 December 2016 | |
|---|---|---|
| | Due from reinsurers and ceding companies (Note) | Due to reinsurers and ceding companies |
| Non-Life Insurance Association of the R.O.C | $132,069 | $345,501 |
| AON | 48,647 | 148,371 |
| Marsh | 45,277 | 179,328 |
| Willis | 261,070 | 71,683 |
| Guy Carpenter | 76,895 | 15,070 |
| Others | 164,360 | 629,154 |
| Total | 728,318 | 1,389,107 |
| Less: Allowance for bad debts | (25,058) | - |
| Net | $703,260 | $1,389,107 |

Note: As of 31 December 2017 and 31 December 2016, the due from reinsurers and ceding companies included overdue receivables amounted to $22,912 thousand and $19,305 thousand, respectively. The allowance for bad debts amounted to $22,912 thousand and $19,305 thousand, respectively.

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

(3) Information of management achievements

A. Acquisition cost for insurance contracts

| | For the year ended 31 December 2017 | | | | |
|---|---|---|---|---|---|
| | Commission expenses | Surcharge | Reinsurance commission expenses | Other cost | Total |
| Fire insurance | $173,119 | $6,158 | $45,312 | $10,150 | $234,739 |
| Marine insurance | 50,082 | 803 | 7,593 | 1,185 | 59,663 |
| Land and air insurance | 949,245 | 2 | 736 | 346,703 | 1,296,686 |
| Liability insurance | 145,173 | 62 | 737 | 9,489 | 155,461 |
| Bonding insurance | 12,966 | 4 | 48 | - | 13,018 |
| Other property insurance | 61,370 | 2,506 | 22,528 | 2,512 | 88,916 |
| Accident insurance | 370,623 | 28 | 381 | 97,666 | 468,698 |
| Health insurance | 51,548 | 304 | 1,218 | 10,538 | 63,608 |
| Compulsory automobile liability insurance | - | 402,682 | - | - | 402,682 |
| Total | $1,814,126 | $412,549 | $78,553 | $478,243 | $2,783,471 |

| | For the year ended 31 December 2016 | | | | |
|---|---|---|---|---|---|
| | Commission expenses | Surcharge | Reinsurance commission expenses | Other cost | Total |
| Fire insurance | $138,190 | $25,804 | $17,016 | $32,353 | $213,363 |
| Marine insurance | 43,859 | 1,828 | 1,084 | 2,784 | 49,555 |
| Land and air insurance | 467,703 | - | 128 | 732,579 | 1,200,410 |
| Liability insurance | 131,401 | 17,051 | 122 | 757 | 149,331 |
| Bonding insurance | 12,329 | 170 | 58 | 400 | 12,957 |
| Other property insurance | 50,009 | 278,816 | 5,126 | 16,327 | 350,278 |
| Accident insurance | 162,991 | - | 1 | 326,366 | 489,358 |
| Health insurance | 32,822 | - | - | 20,235 | 53,057 |
| Compulsory automobile liability insurance | 2 | 429,994 | - | - | 429,996 |
| Total | $1,039,306 | $753,663 | $23,535 | $1,131,801 | $2,948,305 |

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

B. Disclosure for insurance cost benefit analysis

a. Cost benefit analysis for direct underwriting

| | For the year ended 31 December 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Direct premium income | Net change for unearned premium reserve | Acquisition cost for insurance contracts | Insurance claims payments | Net change for claims reserve | Net gain(loss) |
| Fire insurance | $3,214,850 | $(117,616) | $(189,427) | $(2,107,435) | $1,860,861 | $2,661,233 |
| Marine insurance | 587,704 | (16,724) | (52,070) | (245,903) | (18,157) | 254,850 |
| Land and air insurance | 8,542,485 | (134,071) | (1,295,950) | (5,338,115) | 240,421 | 2,014,770 |
| Liability insurance | 1,257,867 | (71,576) | (154,724) | (513,993) | (180,853) | 336,721 |
| Bonding insurance | 146,173 | (9,418) | (12,970) | (463) | (86,804) | 36,518 |
| Other property insurance | 627,754 | 7,745 | (66,388) | (291,789) | 8,828 | 286,150 |
| Accident insurance | 3,039,299 | 33,041 | (468,317) | (1,190,374) | (24,352) | 1,389,297 |
| Health insurance | 288,144 | (46) | (62,390) | (110,564) | 2,339 | 117,483 |
| Compulsory automobile liability insurance | 2,971,539 | 19,201 | (402,682) | (2,079,105) | 18,201 | 527,154 |
| Total | $20,675,815 | $(289,464) | $(2,704,918) | $(11,877,741) | $1,820,484 | $7,624,176 |

| | For the year ended 31 December 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Direct premium income | Net change for unearned premium reserve | Acquisition cost for insurance contracts | Insurance claims payments | Net change for claims reserve | Net gain(loss) |
| Fire insurance | $3,083,155 | $22,534 | $(196,347) | $(2,313,330) | $(1,815,052) | $(1,219,040) |
| Marine insurance | 594,231 | (24,231) | (48,471) | (291,245) | 58,778 | 289,062 |
| Land and air insurance | 8,271,027 | (253,165) | (1,200,282) | (4,519,350) | (544,070) | 1,754,160 |
| Liability insurance | 1,253,048 | (56,925) | (149,209) | (471,594) | (94,230) | 481,090 |
| Bonding insurance | 118,054 | 7,568 | (12,899) | (217,811) | 50,706 | (54,382) |
| Other property insurance | 1,672,912 | 99,580 | (345,152) | (868,874) | 99,563 | 658,029 |
| Accident insurance | 2,996,461 | (45,180) | (489,357) | (1,152,253) | (7,392) | 1,302,279 |
| Health insurance | 259,807 | 2,513 | (53,057) | (108,169) | 7,526 | 108,620 |
| Compulsory automobile liability insurance | 3,539,179 | (47,764) | (429,996) | (2,245,149) | 64,280 | 880,550 |
| Total | $21,787,874 | $(295,070) | $(2,924,770) | $(12,187,775) | $(2,179,891) | $4,200,368 |

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

b. Cost benefit analysis for assumed reinsurance business

| | For the year ended 31 December 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Reinsurance premium income | Net change for unearned premium reserve | Reinsurance commission expenses | Reinsurance claims payments | Net change for claims reserve | Net (loss) gain for assumed reinsurance |
| Fire insurance | $267,647 | $(73,671) | $(45,312) | $(53,239) | $(37,395) | $58,030 |
| Marine insurance | 33,381 | 1,245 | (7,593) | (1,113) | (6,642) | 19,278 |
| Land and air insurance | 4,173 | 4,562 | (736) | (1,420) | 1,235 | 7,814 |
| Liability insurance | 1,758 | (489) | (737) | (715) | (2,009) | (2,192) |
| Bonding insurance | 1,453 | (81) | (48) | (149) | (279) | 896 |
| Other property insurance | 96,839 | (40,748) | (22,528) | (24,240) | (5,348) | 3,975 |
| Accident insurance | 8,806 | (782) | (381) | (232) | (111) | 7,300 |
| Health insurance | 12,180 | (5,343) | (1,218) | (2,717) | (701) | 2,201 |
| Compulsory automobile liability insurance | 775,569 | (3,079) | - | (684,893) | (25,597) | 62,000 |
| Total | $1,201,806 | $(118,386) | $(78,553) | $(768,718) | $(76,847) | $159,302 |

| | For the year ended 31 December 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Reinsurance premium income | Net change for unearned premium reserve | Reinsurance commission expenses | Reinsurance claims payments | Net change for claims reserve | Net (loss) gain for assumed reinsurance |
| Fire insurance | $150,101 | $(9,834) | $(17,016) | $(66,045) | $65,471 | $122,677 |
| Marine insurance | 18,202 | 1,080 | (1,084) | (24,747) | 24,856 | 18,307 |
| Land and air insurance | 16,404 | 8,000 | (128) | (1,449) | 596 | 23,423 |
| Liability insurance | 1,186 | 721 | (122) | (5) | 33 | 1,813 |
| Bonding insurance | 1,300 | (43) | (58) | (167) | 168 | 1,200 |
| Other property insurance | 31,760 | 4,777 | (5,126) | (13,704) | 7,062 | 24,769 |
| Accident insurance | 6,711 | (115) | (1) | (116) | 9 | 6,488 |
| Health insurance | - | - | - | - | - | - |
| Compulsory automobile liability insurance | 760,223 | (17,774) | - | (708,471) | (132,517) | (98,539) |
| Total | $985,887 | $(13,188) | $(23,535) | $(814,704) | $(34,322) | $100,138 |

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

c. Recognized gain (loss) for reinsurance contracts purchased

| | For the year ended 31 December 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Reinsurance expenses | Net change for unearned premium reserve ceded | Reinsurance commission earned | Claims recovered from reinsurers | Net change for claims reserve ceded | Net loss (gain) for reinsurance ceded |
| Fire insurance | $2,143,707 | $(68,502) | $(102,255) | $(1,687,729) | $1,824,676 | $2,109,897 |
| Marine insurance | 391,748 | (52) | (46,706) | (152,248) | (3,666) | 189,076 |
| Land and air insurance | 375,007 | 56,037 | (105,327) | (188,800) | (10,259) | 126,658 |
| Liability insurance | 438,822 | (37,017) | (96,185) | (122,422) | (66,838) | 116,360 |
| Bonding insurance | 107,333 | (8,924) | (16,696) | 23,135 | (69,806) | 35,042 |
| Other property insurance | 347,946 | (100,515) | (62,577) | (98,281) | 24,190 | 110,763 |
| Accident insurance | 233,051 | 5,060 | (59,162) | (80,143) | 8,343 | 107,149 |
| Health insurance | - | - | - | - | 449 | 449 |
| Compulsory automobile liability insurance | 1,230,002 | 12,266 | - | (1,201,699) | 1,186 | 41,755 |
| Total | $5,267,616 | $(141,647) | $(488,908) | $(3,508,187) | $1,708,275 | $2,837,149 |

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

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

(4) Sensitivity of insurance risk

A. The Company

| | | | Changes in income when the expected loss ratio increases 5% | |
|---|---|---|---|---|
| | Premium income | Expected loss ratio | Before reinsurance | After reinsurance |
| Fire insurance | $3,087,894 | 20.28% | $(154,395) | $(109,160) |
| Marine insurance | 579,091 | 44.23% | (28,954) | (8,639) |
| Land and air insurance | 8,440,380 | 65.45% | (422,019) | (401,629) |
| Liability insurance | 1,256,751 | 55.16% | (62,838) | (41,634) |
| Bonding insurance | 146,173 | 87.69% | (7,309) | (1,929) |
| Other property insurance | 621,180 | 42.44% | (31,059) | (24,712) |
| Accident insurance | 3,020,539 | 41.18% | (151,027) | (140,358) |
| Health insurance | 288,144 | 60.89% | (14,407) | (14,368) |
| Compulsory automobile liability insurance | 2,971,539 | NA | NA | NA |

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

B. Cathay Insurance (Vietnam)

| | | | Changes in income when the expected loss ratio increases 5% | |
|---|---|---|---|---|
| | Premium income | Expected loss ratio | Before reinsurance | After reinsurance |
| Automobile insurance | $102,106 | 52.44% | $(5,105) | $(5,105) |
| Flood insurance | 8,613 | 29.70% | (430) | (112) |
| Fire insurance | 126,956 | 155.05% | (6,348) | (605) |
| Engineering insurance | 6,574 | 119.40% | (329) | - |
| Accident insurance | 18,759 | 29.73% | (938) | (938) |
| Liability insurance | 1,116 | 51.42% | (56) | (18) |

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

(5) Interpretation of concentration of insurance risk

A. The Company

a. Situations that might cause concentration of insurance risk:

I. Single insurance contract or few related contracts

For the year ended 31 December 2017, the Company will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

II. Exposure to unanticipated change in trend

For the year ended 31 December 2017, the loss rates of the rest insurance categories are still within reasonable range.

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

"Regulations for Assisting Lawsuit Cases of Cathay Century Insurance" is set up to safeguard the rights of the Company and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of the Company will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the year ended 31 December 2017, no material lawsuit or legal risks has taken place.

IV. Correlation and mutual influence between different risks

In case of a catastrophe, beside huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of the Company being severely endangered by these derived risks, the Company has established “Operation standards under crisis” that set up crisis team in reaction to the event. The team will execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and the Company and to guard financial order. For the year ended 31 December 2017, there is no catastrophe has taken place.

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

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

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

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

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

VI. Concentration risks in geographic regions and operating segments

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

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

| | For the year ended 31 December 2017 | | | | |
|---|---|---|---|---|---|
| Insurance type | Direct premium income | Reinsurance premium income | Premiums ceded to reinsurers | Net premium income | % |
| Fire insurance | $3,087,894 | $274,373 | $2,040,389 | $1,321,878 | 8.03% |
| Marine insurance | 579,091 | 35,012 | 387,309 | 226,794 | 1.38% |
| Land and air insurance | 8,440,380 | 4,060 | 374,959 | 8,069,481 | 49.00% |
| Liability insurance | 1,256,751 | 1,762 | 438,089 | 820,424 | 4.98% |
| Bonding insurance | 146,173 | 1,453 | 107,333 | 40,293 | 0.24% |
| Other property insurance | 621,180 | 96,992 | 343,315 | 374,857 | 2.28% |
| Accident insurance | 3,020,539 | 8,806 | 233,051 | 2,796,294 | 16.98% |
| Health insurance | 288,144 | 12,181 | - | 300,325 | 1.82% |
| Compulsory automobile liability insurance | 2,971,539 | 775,569 | 1,230,002 | 2,517,106 | 15.29% |
| Total | $20,411,691 | $1,210,208 | $5,154,447 | $16,467,452 | 100.00% |

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

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

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

A. Cathay Insurance (Vietnam) Ltd.

a. Situations that might cause concentration of insurance risk:

I. Single insurance contract or few related contracts

For the year ended 31 December 2017, Cathay Insurance (Vietnam) will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

II. Exposure to unanticipated change in trend

For the year ended 31 December 2017, the loss rates of the rest insurance categories are still within reasonable range.

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

“THE PROCEDURE FOR SUBROGATION” and “THE PROCEDURE FOR SUBROGATION” is set up to safeguard the rights of Cathay Insurance (Vietnam) and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of Cathay Insurance (Vietnam) will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the year ended 31 December 2017, no material lawsuit or legal risks has taken place.

IV. Correlation and mutual influence between different risks

In case of a catastrophe, beside huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of Cathay Insurance (Vietnam) being severely endangered by these derived risks, Cathay Insurance (Vietnam) has established “Points for Handling Major Events of Cathay Insurance (Vietnam)” that set up crisis team in reaction to the event. The team will execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and Cathay Insurance (Vietnam) and to guard financial order. For the year ended 31 December 2017, there is no catastrophe has taken place.

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

V. Concentration risks in geographic regions and operating segments

Cathay Insurance (Vietnam)'s catastrophe insurance for earthquakes and floods are centralized in the areas of Ho Chi Minh City、Tinh Dong Nai and Tinh Ha Tinh.

b. Following table summarizes the concentration risk of Cathay Insurance (Vietnam) before and after reinsurance by types of insurance:

| | For the year ended 31 December 2017 | | | | |
|---|---|---|---|---|---|
| Insurance type | Direct premium income | Reinsurance premium income | Premiums ceded to reinsurers | Net premium income | % |
| Automobile insurance | $102,106 | $113 | $49 | $102,170 | 71.67% |
| Flood insurance | 8,613 | - | 6,069 | 2,544 | 1.79% |
| Fire insurance | 126,956 | 2,257 | 112,300 | 16,913 | 11.86% |
| Engineering insurance | 6,574 | - | 4,785 | 1,789 | 1.25% |
| Accident insurance | 18,759 | - | - | 18,759 | 13.16% |
| Liability insurance | 1,116 | - | 737 | 379 | 0.27% |
| Total | $264,124 | $2,370 | $123,940 | $142,554 | 100.00% |

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

Catastrophes such as typhoon and flood, will bring tremendous insurance risk to property insurance business. To control infrequent risk that impacts significantly, Cathay Insurance (Vietnam) assesses risk of natural disasters and specially covered item. Cathay Insurance (Vietnam) also holds loss prevention seminars regularly to help customers reduce the incidence rate of disasters.

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

(6) Claim development trend

A. The Company

| | 31 December 2011 | 1 January 2012- 31 December 2012 | 1 January 2013- 31 December 2013 | 1 January 2014- 31 December 2014 | 1 January 2015- 31 December 2015 | 1 January 2016- 31 December 2016 | 1 January 2017- 31 December 2017 | Total |
|---|---|---|---|---|---|---|---|---|
| Estimate of cumulative claims incurred: | | | | | | | | |
| At end of underwriting year | $12,662,713 | $4,851,463 | $5,773,901 | $7,066,945 | $7,559,012 | $12,235,424 | $8,134,147 | |
| One year later | 14,579,295 | 5,687,982 | 6,109,827 | 7,217,836 | 7,418,703 | 11,455,620 | | |
| Two year later | 14,208,834 | 5,742,806 | 6,169,858 | 7,156,309 | 7,548,387 | | | |
| Three year later | 15,628,701 | 5,780,856 | 6,103,460 | 7,135,341 | | | | |
| Four year later | 15,588,400 | 5,667,019 | 6,135,016 | | | | | |
| Five year later | 15,518,703 | 5,723,779 | | | | | | |
| Six year later | 15,370,875 | | | | | | | |
| Estimate of cumulative claims incurred | 15,370,875 | 5,723,779 | 6,135,017 | 7,135,341 | 7,548,387 | 11,455,620 | 8,134,147 | $61,503,166 |
| Cumulative payment to date | 15,404,991 | 5,709,763 | 6,035,770 | 6,786,744 | 7,213,628 | 10,043,459 | 4,725,465 | 55,919,820 |
| Subtotal | (34,116) | 14,016 | 99,247 | 348,597 | 334,759 | 1,412,161 | 3,408,682 | 5,583,346 |
| Reconciliation | - | - | - | - | - | - | 112,755 | 112,755 |
| Recorded in balance sheet | $(34,116) | $14,016 | $99,247 | $348,597 | $334,759 | $1,412,161 | $3,521,437 | $5,696,101 |

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

The upper table excludes direct claim reserve of compulsory insurance $1,390,925 thousand and claim reserve assumed reinsurance $729,287 thousand.

B. Cathay Insurance (Vietnam)

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

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

(7) Financial instruments

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Financial assets | | |
| Financial assets at fair value through profit or loss: | | |
| Held for trading | $90,521 | $875,543 |
| Available-for-sale financial assets | 11,050,902 | 9,201,915 |
| Held-to-maturity financial assets | 6,606,306 | 6,112,465 |
| Loans and receivables: | | |
| Cash and cash equivalents (exclude cash on hand) | 7,529,103 | 6,947,923 |
| Debt instrument investments for which no active market exists | 2,008,580 | 2,520,733 |
| Receivables | 2,150,260 | 1,983,309 |
| Claims recoverable from reinsurers | 539,842 | 374,437 |
| Due from reinsurers and ceding companies-net | 572,453 | 703,260 |
| Loans | 251,770 | 354,812 |
| Guarantee deposits paid | 662,107 | 619,410 |
| Subtotal | 13,714,115 | 13,503,884 |
| Total | $31,461,844 | $29,693,807 |
| Financial liabilities | | |
| Financial liabilities at fair value through profit or loss: | | |
| Held for trading | $3,238 | $54,590 |
| Financial liabilities measured at amortized cost: | | |
| Payables | 2,542,406 | 2,663,593 |
| Preferred stock liabilities | 1,000,000 | 1,000,000 |
| Subtotal | 3,542,406 | 3,663,593 |
| Total | $3,545,644 | $3,718,183 |

(8) Financial risk management objectives and policies

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

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

A. Market risk

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

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

(A) Foreign currency risk

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

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

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

(B) Interest rate risk

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

(C) Equity price risk

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

B. Credit risk

(A) Credit risk management policies

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

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

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

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

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

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

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

(B) Credit concentration risk analysis

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

| | 31 December 2017 | | | | | |
|---|---|---|---|---|---|---|
| Financial assets | Taiwan | Asia | Europe | North Americas | Emerging market and others | Total |
| Cash and cash equivalents | $5,891,152 | $95,401 | $87,956 | $541,678 | $912,916 | $7,529,103 |
| Financial assets at fair value through profit or loss | 90,521 | - | - | - | - | 90,521 |
| Available-for-sale financial assets (Note) | 2,138,591 | 79,416 | - | - | 221,805 | 2,439,812 |
| Debt instrument investments for which no active market exists | 1,100,000 | 272,655 | 321,203 | 304,210 | 10,512 | 2,008,580 |
| Held-to-maturity financial assets | 999,988 | - | 1,130,412 | 2,942,947 | 1,532,959 | 6,606,306 |
| Total | $10,220,252 | $447,472 | $1,539,571 | $3,788,835 | $2,678,192 | $18,674,322 |
| Proportion | 54.73% | 2.40% | 8.24% | 20.29% | 14.34% | 100.00% |

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

| | 31 December 2016 | | | | | |
|---|---|---|---|---|---|---|
| Financial assets | Taiwan | Asia | Europe | North Americas | Emerging market and others | Total |
| Cash and cash equivalents | $5,569,029 | $107,518 | $62,267 | $296,291 | $912,818 | $6,947,923 |
| Financial assets at fair value through profit or loss | 40,000 | - | - | - | - | 40,000 |
| Available-for-sale financial assets (Note) | 2,070,592 | 86,670 | - | - | 239,212 | 2,396,474 |
| Debt instrument investments for which no active market exists | 1,400,000 | - | 347,116 | 332,006 | 441,611 | 2,520,733 |
| Held-to-maturity financial assets | 799,987 | - | 1,025,896 | 2,919,855 | 1,366,727 | 6,112,465 |
| Total | $9,879,608 | $194,188 | $1,435,279 | $3,548,152 | $2,960,368 | $18,017,595 |
| Proportion | 54.83% | 1.08% | 7.97% | 19.69% | 16.43% | 100.00% |

Note: Guarantee deposits paid in bonds are included.

(C) Credit risk quality analysis

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

| | Credit quality of financial assets | | | | |
|---|---|---|---|---|---|
| | 31 December 2017 | | | | |
| | Normal assets (Note 2) | | | | |
| Financial assets | Investment grade | Non-investment grade | Past due but not impaired | Impaired | Total |
| Cash and cash equivalents | $7,529,103 | $- | $- | $- | $7,529,103 |
| Financial assets at fair value through profit or loss | 90,521 | - | - | - | 90,521 |
| Available-for-sale financial assets (Note 1) | 2,439,812 | - | - | - | 2,439,812 |
| Debt instrument investments for which no active market exists | 2,008,580 | - | - | - | 2,008,580 |
| Held-to-maturity financial assets | 6,606,306 | - | - | - | 6,606,306 |
| Total | $18,674,322 | $- | $- | $- | $18,674,322 |

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

| Financial assets | Credit quality of financial assets | | | | |
|---|---|---|---|---|---|
| | 31 December 2016 | | | | |
| | Normal assets (Note 2) | | Past due but not impaired | Impaired | Total |
| | Investment grade | Non-investment grade | | | |
| Cash and cash equivalents | $6,947,923 | $- | $- | $- | $6,947,923 |
| Financial assets at fair value through profit or loss | 40,000 | - | - | - | 40,000 |
| Available-for-sale financial assets (Note 1) | 2,396,474 | - | - | - | 2,396,474 |
| Debt instrument investments for which no active market exists | 2,520,733 | - | - | - | 2,520,733 |
| Held-to-maturity financial assets | 6,112,465 | - | - | - | 6,112,465 |
| Total | $18,017,595 | $- | $- | $- | $18,017,595 |

Note 1: Guarantee deposits paid in bonds are included.

Note 2: Investment grade assets refer to those with credit rating of at least BBB-granted by a credit rating agency; non-investment grade assets are those with credit rating lower than BBB- granted by a credit rating agency.

II. Loans

| Loans | 31 December 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Neither past due nor impaired | | | Past due but not impaired | Impaired | Total (EIR principal) | Loss reserve | Net |
| | Excellent | Great | Normal | | | | | |
| Consumer Finance | $244,769 | $- | $- | $- | $- | $244,769 | $2,922 | $241,847 |
| Corporate Finance | - | - | - | - | 10,125 | 10,125 | 202 | 9,923 |
| Total | $244,769 | $- | $- | $- | $10,125 | $254,894 | $3,124 | $251,770 |

| Loans | 31 December 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Neither past due nor impaired | | | Past due but not impaired | Impaired | Total (EIR principal) | Loss reserve | Net |
| | Excellent | Great | Normal | | | | | |
| Consumer Finance | $279,075 | $- | $- | $- | $- | $279,075 | $3,477 | $275,598 |
| Corporate Finance | 64,100 | - | - | - | 15,750 | 79,850 | 636 | 79,214 |
| Total | $343,175 | $- | $- | $- | $15,750 | $358,925 | $4,113 | $354,812 |

C. Operational Risk

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

D. Liquidity risk

(A) Sources of liquidity risk

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

(B) Liquidity risk management

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

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

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

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

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

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

| | 31 December 2017 | | | | | |
|---|---|---|---|---|---|---|
| Liabilities | Total | Less than 6 months | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
| Payables | $2,542,406 | $2,515,114 | $15,234 | $4,707 | $7,351 | $- |
| Financial liabilities at fair value through profit or loss | 3,238 | 3,238 | - | - | - | - |
| Preferred stock liabilities | 1,000,000 | - | 1,000,000 | - | - | - |

| | 31 December 2016 | | | | | |
|---|---|---|---|---|---|---|
| Liabilities | Total | Less than 6 months | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
| Payables | $2,663,593 | $2,645,825 | $8,293 | $1,013 | $8,462 | $- |
| Financial liabilities at fair value through profit or loss | 54,590 | 46,807 | 7,783 | - | - | - |
| Preferred stock liabilities | 1,000,000 | - | - | 1,000,000 | - | - |

E. Market risk analysis

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

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

(A) Value-at-risk

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

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

(B) Stress testing

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

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

I. Simple Sensitivity

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

II. Scenario Analysis

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

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

i. Historical scenarios

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

ii. Hypothetical scenarios

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

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

| 31 December 2017 | Stress testing | |
|---|---|---|
| Risk factors | Variation (+/−) | Changes in profit and loss |
| Equity price risk (Index) | −10% | $(590,461) |
| Interest rate risk (Yield curve) | 20bp | (175,672) |
| Foreign currency risk (Exchange rate) | USD exchange NTD devalue 1 dollar | (124,777) |

| 31 December 2017 | | Profit and loss | Equity |
|---|---|---|---|
| Foreign currency risk sensitivity | EUR appreciate 1 % | $16 | $868 |
| | CNY appreciate 1 % | 9,765 | 680 |
| | HKD appreciate 1 % | 565 | 3,933 |
| | USD appreciate 1 % | 31,139 | 8,884 |
| | VND appreciate 1 % | 5,896 | - |
| Interest rate risk sensitivity | Yield curve (USD) flat rises 1bp | (6,100) | (66) |
| | Yield curve (CNY) flat rises 1bp | (62) | (53) |
| | Yield curve (NTD) flat rises 1bp | (1,390) | (1,029) |
| Equity securities price sensitivity | Increase 1% in equity price | - | 59,046 |

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

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

| 31 December 2016 | | Profit and loss | Equity |
|---|---|---|---|
| Foreign currency risk sensitivity | EUR appreciate 1 % | $117 | $714 |
| | CNY appreciate 1 % | 10,422 | 761 |
| | HKD appreciate 1 % | 543 | 2,729 |
| | USD appreciate 1 % | 30,270 | 7,227 |
| | VND appreciate 1 % | 6,127 | - |
| Interest rate risk sensitivity | Yield curve (USD) flat rises 1bp | (5,226) | (93) |
| | Yield curve (CNY) flat rises 1bp | (1) | (58) |
| | Yield curve (NTD) flat rises 1bp | (1,605) | (1,119) |
| Equity securities price sensitivity | Increase 1% in equity price | 300 | 49,709 |

(9) Fair values of financial instruments

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

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

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

II. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures, etc.) at the reporting date.

III. Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).

IV. Fair value of debt instruments without market quotations, bank loans, bonds payable and other non-current liabilities are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the GreTai Securities Market, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.)

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

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

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

B. Fair value of financial instruments measured at amortized cost

Other than cash and cash equivalents, accounts receivables, loans, guarantee deposits paid, accounts payable and preferred stock liability whose carrying amount approximate their fair value, the fair value of the Consolidated Company’s financial assets and financial liabilities measured at amortized cost is listed in the table below:

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 31 December 2017 | 31 December 2016 | 31 December 2017 | 31 December 2016 |
| Financial assets | | | | |
| Held-to-maturity financial assets | $6,606,306 | $6,112,465 | $6,976,818 | $6,127,774 |
| Debt instrument investments for which no active market exists | 2,008,580 | 2,520,733 | 2,044,928 | 2,542,908 |

(10) Fair value measurement hierarchy

A. Fair value measurement hierarchy

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

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

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

Level 3 -Unobservable inputs for the asset or liability

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

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

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

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

As of 31 December 2017:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Non-derivative financial instruments: | | | | |
| Assets | | | | |
| Available-for-sale financial assets | | | | |
| Stocks | $5,665,581 | $99,960 | $438,600 | $6,204,141 |
| Bonds (Note) | 301,220 | 2,138,592 | - | 2,439,812 |
| Beneficiary certificates | 2,990,779 | - | - | 2,990,779 |
| | | | | |
| Derivative financial instruments: | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Forward foreign exchange contracts | - | 90,521 | - | 90,521 |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Forward foreign exchange contracts | - | 3,238 | - | 3,238 |

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

As of 31 December 2016:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Non-derivative financial instruments: | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Stocks | $22,280 | $- | $- | $22,280 |
| Beneficiary certificates | 813,263 | - | - | 813,263 |
| Available-for-sale financial assets | | | | |
| Stocks | 4,247,821 | 300,000 | 519,000 | 5,066,821 |
| Bonds (Note) | 325,882 | 2,070,592 | - | 2,396,474 |
| Beneficiary certificates | 2,268,284 | - | - | 2,268,284 |
| Derivative financial instruments: | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Forward foreign exchange contracts | - | 40,000 | - | 40,000 |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Forward foreign exchange contracts | - | 54,590 | - | 54,590 |

Note: Guarantee deposits paid in bonds are included.

Transfers between Level 1 and Level 2

For the year ended 31 December 2017, the Consolidated Company transferred stocks which were measured at fair value on a recurring basis, from Level 2 to Level 1. A total of $435,526 thousand was transferred as its market price was obtainable.

For the year ended 31 December 2016, there were no transfers between Level 1 and Level 2 fair value measurements.

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

Reconciliation for fair value measurements in Level 3

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

| Available-for-sale financial assets | Stocks |
|---|---|
| 1 January 2017 | $519,000 |
| Total gains (losses) recognized | |
| Amount recognized in other comprehensive income (Unrealized gains (losses) on available-for-sale financial assets) | (80,400) |
| 31 December 2017 | $438,600 |
| | |
| 1 January 2016 | $600,000 |
| Total gains (losses) recognized | |
| Amount recognized in other comprehensive income (Unrealized gains (losses) on available-for-sale financial assets) | (81,000) |
| 31 December 2016 | $519,000 |

Total gains (losses) recognized in profit or loss in the table above contains gains (losses) related to assets on hand as of 31 December 2017 and 2016 are both in the amount of $0 thousand.

Information on significant unobservable inputs to valuation

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

As of 31 December 2017

| | Valuation techniques | Significant unobservable inputs | Quantitative information | Relationship between inputs and fair value | Sensitivity of the input to fair value |
|---|---|---|---|---|---|
| Financial assets: | | | | | |
| Available-for-sale | | | | | |
| Stocks | Market approach | discount for lack of marketability | 30% | The higher the discount for lack of marketability, the lower the fair value of the stocks | 5% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in the Consolidated Company’s equity by $31,200 thousand. |

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

As of 31 December 2016

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

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

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

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

As of 31 December 2017

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets not measured at fair value for which only the fair value is disclosed: | | | | |
| Held-to-maturity financial assets | $- | $6,976,818 | $- | $6,976,818 |
| Debt instrument investments for which no active market exists | 10,512 | 2,034,416 | - | 2,044,928 |

As of 31 December 2016

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets not measured at fair value for which only the fair value is disclosed: | | | | |
| Held-to-maturity financial assets | $- | $6,127,774 | $- | $6,127,774 |
| Debt instrument investments for which no active market exists | 52,466 | 2,490,442 | - | 2,542,908 |

## 8. Related parties transactions

Information of the related parties that had transactions with the Consolidated Company during the financial period is as follow:

Name and nature of relationship of related parties

| Name | Relationship |
|---|---|
| Cathay Financial Holdings Co., Ltd. | Parent company |
| Cathay Life Insurance Co., Ltd. | Other related parties |
| Cathay United Bank Co., Ltd. | 〃 |
| Indovina Bank Ltd. | 〃 |
| Funds issued from Cathay Securities Investment Trust Co., Ltd | 〃 |
| Cathay Securities Investment Trust Co., Ltd. | 〃 |
| Cathay Futures Co., Ltd. | 〃 |
| San Ching Engineering Co., Ltd. | 〃 |
| Cathay Real Estate Co., Ltd. | 〃 |
| Cathay Medical Care Corporate | 〃 |
| Seaward Card Co., Ltd. | 〃 |
| Symphox Information Co., Ltd. | 〃 |
| Others | 〃 |

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

Significant transactions with related parties

(1) Premium income

| Name | For the year ended 31 December 2017 | For the year ended 31 December 2016 |
|---|---|---|
| Other related parties | | |
| Cathay Life Insurance Co., Ltd. | $115,158 | $122,617 |
| Cathay United Bank Co., Ltd. | 172,376 | 167,339 |
| San Ching Engineering Co., Ltd. | 7,264 | 4,498 |
| Cathay Real Estate Co., Ltd. | 6,718 | 7,782 |
| Cathay Medical Care Corporate | 3,667 | 3,823 |
| Total | $305,183 | $306,059 |

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

(2) Premiums receivable

| Name | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Other related parties | | |
| Cathay Life Insurance Co., Ltd. | $7,706 | $8,856 |
| Cathay United Bank Co., Ltd. | 9,994 | 3,259 |
| Total | $17,700 | $12,115 |

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

(3) Insurance claims payment

| Name | For the year ended 31 December 2017 | For the year ended 31 December 2016 |
|---|---|---|
| Other related parties | | |
| Cathay Life Insurance Co., Ltd. | $13,114 | $11,809 |

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

(4) Cash in banks

| Name | Type | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| Other related parties | | | |
| Cathay United Bank Co., Ltd. | Cash in banks | $1,079,221 | $634,754 |
| | Checking Deposits | 129,755 | 142,370 |
| | Time deposits | 618,200 | 623,200 |
| Indovina Bank Ltd. | Cash in banks | 5,281 | 5,722 |
| | Time deposits | 140,380 | 219,997 |
| Total | | $1,972,837 | $1,626,043 |

| | | Interest Rate | |
|---|---|---|---|
| Name | Type | 31 December 2017 | 31 December 2016 |
| Other related parties | | | |
| Cathay United Bank Co., Ltd. | Cash in banks | 0.001%~0.35% | 0.001%-0.35% |
| | Time deposits | 0.05%~1.065% | 0.38%-1.205% |
| Indovina Bank Ltd. | Cash in banks | 1.00% | 1.00% |
| | Time deposits | 5.50%~7.50% | 4.30%-7.40% |

| | | Interest Revenue | |
|---|---|---|---|
| Name | Type | For the year ended 31 December 2017 | For the year ended 31 December 2016 |
| Other related parties | | | |
| Cathay United Bank Co., Ltd. | Cash in banks | $640 | $478 |
| | Time deposits | 6,470 | 6,825 |
| Indovina Bank Ltd. | Cash in banks | 119 | 89 |
| | Time deposits | 5,519 | 4,865 |
| Total | | $12,748 | $12,257 |

As of 31 December 2017 and 31 December 2016, time deposits pledged were $23,041 thousand and $28,677 thousand.

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

(5) Loans

| | For the year ended 31 December 2017 | | | |
|---|---|---|---|---|
| Name | Maximum amount | Ending balance | Interest rate | Interest income |
| Other related parties | $34,421 | $31,103 | 1.53%~1.60% | $451 |

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

(6) Available-for-sale financial assets

| Name | Type | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| Other related parties | | | |
| Funds issued from Cathay Securities Investment Trust Co., Ltd. | Beneficiary certificates | $302,124 | $306,641 |

(7) Discretionary account management balance

| Name | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Other related parties | | |
| Cathay Securities Investment Trust Co., Ltd. | $898,774 | $1,069,225 |

(8) Guarantee deposits paid

| Name | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Other related parties | | |
| Cathay Life Insurance Co., Ltd. | $26,786 | $24,469 |
| Cathay United Bank Co., Ltd. | 17,224 | 22,224 |
| Cathay Futures Co., Ltd. | 6,821 | 6,817 |
| Indovina Bank Ltd. | 8,041 | 8,677 |
| Total | $58,872 | $62,187 |

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

(9) Other payable

| Name | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Parent company | | |
| Cathay Financial Holdings Co., Ltd. | $231,138 | $307,399 |
| Other related parties | | |
| Cathay Life Insurance Co., Ltd. | 56,124 | 152,623 |
| Total | $287,262 | $460,022 |

(10) Preferred stock liability

| Name | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Parent company | | |
| Cathay Financial Holdings Co., Ltd. | $1,000,000 | $1,000,000 |

(11) Operating costs

| Name | Type | For the year ended 31 December 2017 | For the year ended 31 December 2016 |
|---|---|---|---|
| Other related parties | | | |
| Cathay Life Insurance Co., Ltd. | Marketing expenses | $564,373 | $1,225,132 |
| Cathay United Bank Co., Ltd. | Handing fee paid | 26,927 | 24,027 |
| Total | | $591,300 | $1,249,159 |

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

(12) Operating expenses

| Name | Type | For the year ended 31 December 2017 | For the year ended 31 December 2016 |
|---|---|---|---|
| Other related parties | | | |
| Cathay Life Insurance Co., Ltd. | Rental expenses | $105,435 | $103,072 |
| | Other equipment expenses | 5,845 | 5,726 |
| | Party premium expenses | 19,215 | 17,516 |
| | Administrative expenses | 8,382 | 8,211 |
| Cathay United Bank Co., Ltd. | Marketing expenses | 127,518 | 98,684 |
| | Rental expenses | 9,004 | 9,020 |
| Cathay Securities Investment Trust Co., Ltd. | Management fees | 5,391 | 4,468 |
| Symphox Information Co., Ltd. | Other expenses | 43,542 | 45,371 |
| Seaward Card Co., Ltd. | Other expenses | 4,791 | 4,743 |
| Total | | $329,123 | $296,811 |

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

(13) Non-operating expenses and losses

| Name | For the year ended 31 December 2017 | For the year ended 31 December 2016 |
|---|---|---|
| Parent company | | |
| Cathay Financial Holdings Co., Ltd. | $18,600 | $18,600 |

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

(14) Other

As of 31 December 2017 and 31 December 2016, the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below (in thousands):

| Name | | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| Other related parties | | | |
| Cathay United Bank Co., Ltd. | CS contracts | US$88,700 | US$76,700 |
| | | EUR$4,850 | EUR$5,850 |

(15) Key management personnel compensation in total

| Name | For the year ended 31 December 2017 | For the year ended 31 December 2016 |
|---|---|---|
| Short-term employee benefits | $50,583 | $63,528 |
| Post-employment benefits | 5,505 | 5,147 |
| Total | $56,088 | $68,675 |

## 9. Pledged assets

(1) The Company

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Guarantee deposits paid-government bonds | $583,830 | $529,664 |
| Guarantee deposits paid-time deposits | 15,000 | 20,000 |
| Total | $598,830 | $549,664 |

As of 31 December 2017 and 31 December 2016, the Company provided government bonds amounting to $583,830 thousand and $529,664 thousand as the "Guaranteed Depository Insurance" in accordance with the Insurance Act, respectively. The pledged assets are stated at book value.

(2) Cathay Insurance (Vietnam)

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Government deposits paid-time deposits | $8,041 | $8,677 |

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

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

## 10. Contingent liabilities and unrecognized contractual commitments

Legal claim contingency

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

Operating lease commitments - The Consolidated Company as a lessee

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

According to the noncancelable operating lease contracts, the future minimum lease payments at 31 December 2017 and 31 December 2016 are as follows:

Significant lease contracts of the Consolidated Company

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Not later than 1 year | $124,238 | $86,025 |
| Later than 1 year but not later than 5 years | 83,133 | 4,699 |
| Total | $207,371 | $90,724 |

## 11. Significant disaster losses: None.

## 12. Subsequent events

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 $30,849 thousand and $44,963 thousand, respectively.

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

## 13. Others matters

(1) Discretionary account management

A. As of 31 December 2017 and 31 December 2016, the Consolidated Company contracts with securities investment trust business for discretionary investments management. The investment details are disclosed as follows:

| | 31 December 2017 | |
|---|---|---|
| | Carrying amount | Fair value |
| Listed stocks | $1,076,002 | $1,076,002 |
| Reverse repurchase bonds | 320,431 | 320,431 |
| Cash in banks | 203,770 | 203,770 |
| Futures and options | 2,008 | 2,008 |
| Total | $1,602,211 | $1,602,211 |

| | 31 December 2016 | |
|---|---|---|
| | Carrying amount | Fair value |
| Listed stocks | $880,460 | $880,460 |
| Reverse repurchase bonds | 600,050 | 600,050 |
| Cash in banks | 104,183 | 104,183 |
| Futures and options | 2,007 | 2,007 |
| Total | $1,586,700 | $1,586,700 |

B. As of 31 December 2017 and 31 December 2016, the Consolidated Company entered into discretionary account management contracts in the amounts of $1,200,000 thousand and $1,500,000 thousand, respectively.

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

(2) Assets and liabilities are distinguished based on expectations regarding recovery or settlement within 12 months after the reporting date and more than 12 months after the reporting date.

| | 31 December 2017 | | |
|---|---|---|---|
| | Recovery or settlement within 12 months | Recovery or settlement more than 12 months | Total |
| Cash and cash equivalents | $7,548,335 | $- | $7,548,335 |
| Receivables | 2,150,260 | - | 2,150,260 |
| Investments | 9,738,096 | 11,420,097 | 21,158,193 |
| Reinsurance assets | 1,112,295 | 5,366,391 | 6,478,686 |
| Property and equipment | - | 75,145 | 75,145 |
| Intangible assets | - | 48,846 | 48,846 |
| Other assets | - | 891,225 | 891,225 |
| Total assets | | | $38,350,690 |
| | | | |
| Payables | $2,530,348 | $12,058 | $2,542,406 |
| Financial liabilities | 1,003,238 | - | 1,003,238 |
| Insurance liabilities | - | 22,986,373 | 22,986,373 |
| Provision | - | 426,446 | 426,446 |
| Other liabilities | - | 874,906 | 874,906 |
| Total liabilities | | | $27,833,369 |

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

| | 31 December 2016 | | |
|---|---|---|---|
| | Recovery or settlement within 12 months | Recovery or settlement more than 12 months | Total |
| Cash and cash equivalents | $6,961,855 | $- | $6,961,855 |
| Receivables | 1,983,309 | - | 1,983,309 |
| Investments | 8,603,548 | 11,742,960 | 20,346,508 |
| Reinsurance assets | 1,077,697 | 6,950,590 | 8,028,287 |
| Property and equipment | - | 91,262 | 91,262 |
| Intangible assets | - | 34,424 | 34,424 |
| Other assets | - | 804,652 | 804,652 |
| Total assets | | | $38,250,297 |
| | | | |
| Payables | $2,654,118 | $9,475 | $2,663,593 |
| Financial liabilities | 54,590 | 1,000,000 | 1,054,590 |
| Insurance liabilities | - | 24,317,028 | 24,317,028 |
| Provision | - | 380,158 | 380,158 |
| Other liabilities | - | 618,947 | 618,947 |
| Total liabilities | | | $29,034,316 |

(3) Eliminated inter-company transactions

A. For the year ended 31 December 2017

| Company | Counter-party | Accounts | Amounts |
|---|---|---|---|
| The Company | Cathay Insurance (Vietnam) | Due from reinsurers and ceding companies | $2,142 |
| The Company | Cathay Insurance (Vietnam) | Reinsurance premium income | 10,771 |
| The Company | Cathay Insurance (Vietnam) | Insurance claims paid | 4,024 |
| Cathay Insurance (Vietnam) | The Company | Due to reinsurers and ceding companies | 2,142 |
| Cathay Insurance (Vietnam) | The Company | Premium ceded to reinsures | 10,771 |
| Cathay Insurance (Vietnam) | The Company | Claims recovered from reinsurers | 4,024 |

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

B. For the year ended 31 December 2016

| Company | Counter-party | Accounts | Amounts |
|---|---|---|---|
| The Company | Cathay Insurance (Vietnam) | Due from reinsurers and ceding companies | $774 |
| The Company | Cathay Insurance (Vietnam) | Reinsurance premium income | 10,755 |
| The Company | Cathay Insurance (Vietnam) | Insurance claims paid | 31,416 |
| Cathay Insurance (Vietnam) | The Company | Due to reinsurers and ceding companies | 774 |
| Cathay Insurance (Vietnam) | The Company | Premium ceded to reinsures | 10,755 |
| Cathay Insurance (Vietnam) | The Company | Claims recovered from reinsurers | 31,416 |

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

| | 31 December 2017 | | |
|---|---|---|---|
| Financial Assets | Foreign Currency | Exchange Rate | NTD |
| Monetary Items | | | |
| USD | $223,177 | 29.8480 | $6,661,379 |
| CNY | 227,868 | 4.5847 | 1,044,696 |
| VND | 476,342,466 | 0.0013 | 625,914 |
| EUR | 2,247 | 35.6743 | 80,168 |
| HKD | 17,155 | 3.8176 | 65,489 |
| SGD | 1,375 | 22.3233 | 30,700 |
| JPY | 90,743 | 0.2656 | 24,106 |
| SEK | 876 | 3.6086 | 3,160 |
| DKK | 629 | 4.7787 | 3,007 |
| | | | |
| Non-Monetary Items | | | |
| USD | 215,369 | 29.8480 | 6,428,344 |
| EUR | 13,873 | 35.6743 | 494,901 |
| HKD | 103,023 | 3.8176 | 393,294 |
| SGD | 2,561 | 22.3233 | 57,168 |
| | | | |
| Investments accounted for using the equity method: | | | |
| CNY | 250,862 | 4.5847 | 1,150,114 |

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

| | 31 December 2016 | | |
|---|---|---|---|
| Financial Assets | Foreign Currency | Exchange Rate | NTD |
| Monetary Items | | | |
| USD | $194,434 | 32.2790 | $6,276,148 |
| CNY | 238,132 | 4.6448 | 1,106,100 |
| VND | 454,271,509 | 0.0014 | 644,157 |
| EUR | 1,708 | 33.9172 | 57,920 |
| HKD | 13,062 | 4.1608 | 54,349 |
| SGD | 1,595 | 22.3112 | 35,583 |
| JPY | 64,123 | 0.2744 | 17,594 |
| Non-Monetary Items | | | |
| USD | 191,138 | 32.2790 | 6,169,745 |
| EUR | 14,590 | 33.9172 | 494,858 |
| HKD | 65,596 | 4.1608 | 272,928 |
| SGD | 3,167 | 22.3112 | 70,651 |
| Investments accounted for using the equity method: | | | |
| CNY | 275,801 | 4.6448 | 1,281,040 |

As the Consolidated Company has a large variety of foreign currencies, it is not possible to disclose the foreign currency exchange gains or losses based on each foreign currency's exposure to major impact. The foreign currency exchange gains (loss) for the years ended 31 December 2017 and 2016 were $(518,885) thousand and $(270,970) thousand, respectively.

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

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

(5) Interests in unconsolidated structured entities

Unconsolidated structured entities

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

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

B. Details of the carrying amount of assets recognized by Consolidated Company relating to its interests in unconsolidated structured entities as of 31 December 2017 and 31 December 2016 are as follows:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Securitization vehicle | | |
| Available-for-sale financial assets | $117,283 | $136,785 |
| Held-to-maturity financial assets | 680,481 | 880,018 |
| Total | $797,764 | $1,016,803 |

(6) Capital management

A. Objective

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

B. Policy

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

C. Procedures

a. Periodically

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

b. Aperiodically

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

D. Capital adequacy ratio

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

(7) Significant contract

None.

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

## 14. Information of investment in Mainland China

On 31 December 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to USD$28,963 thousand to establish an insurance subsidiary, engaging in the business of property insurance business. On 8 October 2007, China Insurance Regulatory Commission (CIRC) authorized the Company to prepare to build a property insurance company in form of joint venture with Cathay life Insurance. The joint venture company named Cathay Insurance Company Ltd. (China) established in Shanghai has acquired a business license of an enterprise as a legal person on 26 August 2008. On 28 May 2013, the MOEAIC authorized the Company to CNY$200,000 thousand to establish an insurance subsidiary. On 13 June 2013 and 18 March 2014, each amount of the company's remittance was CNY$100,000 thousand and was authorized by CIRC. As of 31 December 2017, the Company has totally remitted USD$60,007 thousand.

## 15. Operation segments information

(1) Geographic information

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

(2) Geographic information

The Consolidated Company engages mainly in premium revenues from domestic and foreign countries and investment profits:

| | For the year ended 31 December 2017 | For the year ended 31 December 2016 |
|---|---|---|
| Taiwan | $17,168,214 | $17,489,199 |
| Other Countries | 598,386 | 2,376,595 |
| Total | $17,766,600 | $19,865,794 |

The Consolidated Company categorized the net revenue mainly based on the country in which the customer is headquartered.

(3) Major customers

The Consolidated Company don't have major customers representing at least 10% of net revenue.