

**CENTRAL REINSURANCE CORPORATION**  
**FINANCIAL STATEMENTS AND REPORT OF**  
**INDEPENDENT ACCOUNTANTS**  
**JUNE 30, 2017 AND 2016**

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

## REPORT OF INDEPENDENT ACCOUNTANTS

PWCR17000075

To Central Reinsurance Corporation

### ***Opinion***

We have audited the accompanying balance sheets of Central Reinsurance Corporation (the “Company”) as of June 30, 2017, December 31, 2016 and June 30, 2016, and the related statements of comprehensive income for the three months and six months ended June 30, 2017 and 2016, as well as the statements of changes in equity and of cash flows for the six months ended June 30, 2017 and 2016, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2017, December 31, 2016 and June 30, 2016, and its financial performance and its cash flows for the three months and six months ended June 30, 2017 and 2016 in accordance with the “Rules for the Preparation of Financial Reports by Insurance Institutions” and the International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the 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 generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. 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 financial statements as of June 30, 2017. These matters were addressed in the context of our audit of the financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

## **Recognition of reinsurance revenue**

### Description

For the accounting policy for reinsurance revenue, please refer to Note 4(27) of the financial statements; for critical accounting estimates and assumptions of reinsurance revenue, please refer to Note 5(2) of the financial statements.

The Company's reinsurance revenue accounts for 107% of its operating revenues. The Company estimates reinsurance revenue based on an accrual basis; that is, once reinsurance contracts are signed, the Company elects the ceding company's annual forecasted reinsurance information and then calculates the revenue proportion to be recognized in each quarter based on previous experience of actual statements. Thereafter, when actual statements are received each quarter, original estimates are reversed and actual statements are accrued. The Company then evaluates the reason for differences between actual statements and estimated amounts to adjust the estimated revenues of each quarter, accordingly. Because the recognition of reinsurance revenue involves management's professional judgment and because reinsurance revenue is material to the financial statements, we have thus included the recognition of reinsurance revenue as one of the key audit matters in our audit as of June 30, 2017.

### How our audit addressed the matter

The procedures that we have conducted in response to specific aspects of the above-mentioned key audit matter are summarized as follows:

1. Understood and assessed the Company's policies, internal controls, and processing procedures related to the recognition of reinsurance revenue.
2. On a sample basis tested the effectiveness of internal controls related to the recognition of reinsurance revenue, including:
  - (1) Checking that management has already recorded reinsurance contracts into their system.
  - (2) Checking the consistency of reinsurance revenue recorded for in the system with the information provided by the ceding company.
  - (3) Calculating the revenue proportion allocated to each quarter during the contract period and recognized amounts used by management to determine their accuracy.
  - (4) Checking the accuracy of actual statements and recorded reversal of estimates.
  - (5) Checking whether management had provided clear reasons for its adjustments on the amounts of estimated revenues of each quarter and checked whether such adjustments were appropriately approved.
3. On a sample basis checked information of actual statements to assess the reasonableness of the Company's adjustments to estimated reinsurance revenue.

## **Estimation of claims reserve**

### Description

For the accounting policy for claims reserve (under insurance liabilities), please refer to Note 4(22) of the financial statements; for critical accounting estimates and assumptions of claims reserve, please refer to Note 5(2) of the financial statements; for details on claims reserve, please refer to Note 6(10) of the financial statements.

The Company's claims reserve accounts for 60% of its insurance liabilities. Aside from statutorily required insurances, the Company estimates the ultimate loss ratio and provisions claims reserve based on assessment factors such as information provided by the ceding company, claim development factors, contract type, insurance risk characteristics, market information, and judgment for the experience of claims and underwriting. Because the methods and assumptions for calculating claims reserve involve management's professional judgment and because claims reserve is material to the financial statements, we have thus included the estimation of claims reserve as one of the key audit matters in our audit as of June 30, 2017.

### How our audit addressed the matter

The procedures that we have conducted in response to specific aspects of the above-mentioned key audit matter are summarized as follows:

1. Checked the accuracy and completeness of financial information used in calculating claims reserve.
2. On a sample basis calculated claim development factors to determine their accuracy.
3. Used the work of actuarial specialists to assist us in assessing the reasonableness of methods and assumptions used in calculating the ultimate loss ratio. This included:
  - (1) Checking the claim development experience, contract type, insurance risk characteristics, market information, and judgment for the experience of claims and underwriting that are used in estimating the ultimate loss ratio and assessing their reasonableness;
  - (2) Checking whether methods used in the claim development experience agrees with generally accepted actuarial methods;
  - (3) Comparing the ultimate loss ratio with those of the most recently audited period in order to assess its reasonableness.
4. Recalculated claims reserve using the aforementioned ultimate loss ratio.

## **Impairment evaluation on equity investments**

### Description

For the accounting policy for the impairment of financial assets, please refer to Note 4(10) of the financial statements; for critical accounting judgments used in the accounting policy for the impairment of financial assets, please refer to Note 5(1) of the financial statements; for details on the available-for-sale financial assets, please refer to Note 6(4) of the financial statements.

Impairment evaluation on equity investments is recognized in accordance with the requirements of IAS 39, 'Financial Instruments: Recognition and Measurement', wherein management is required to assess at the end of each reporting period, on an item by item basis, whether there is any objective evidence that investments are impaired. Management sets a threshold to filter fair value declines in order to assess investments that may have indications of impairment. Thereafter, filtered investments are assessed for objective evidence of impairment on an item by item basis. Because objective evidence used in impairment evaluation involves management's professional judgment, and because if there is objective evidence of impairment, the financial statements will be materially impacted, we have thus included impairment of equity investments as one of the key audit matters in our audit as of June 30, 2017.

### How our audit addressed the matter

The procedures that we have conducted in response to specific aspects of the above-mentioned key audit matter are summarized as follows:

1. Understood and assessed the policies, internal controls, and processing procedures related to management's impairment evaluation on equity investments.
2. Examined the completeness of investments included by management in the threshold to filter fair value declines in order to assess equity investments that may have indications of impairment.
3. Obtained management's judgments and explanations for filtered equity investments and examined management's referenced basis, such as the industry overview, competitiveness, profitability, future prospects, and recent stock price movements, for its judgments in order to assess the reasonableness of management's professional judgment in evaluating objective impairment evidence.
4. Recalculated the accuracy of impairment amounts of equity investments indicating existing objective evidence of impairment.

## ***Responsibilities of management and those charged with governance for the financial statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the “Rules for the Preparation of Financial Reports by Insurance Institutions” and the International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee, are responsible for overseeing the Company’s financial reporting process.

## ***Auditor’s responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the 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 ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from error or fraud 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 financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

effectiveness of the Company's internal control.

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 Company ability to continue as a going concern. 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 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 to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements as of June 30, 2017 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.

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Chen, Hsien-I

Lai, Chung-Hsi

For and on behalf of PricewaterhouseCoopers, Taiwan

August 9, 2017

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The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

**CENTRAL REINSURANCE CORPORATION**  
**BALANCE SHEETS**  
(Expressed in thousands of New Taiwan dollars)

	ASSETS	Notes	June 30, 2017		December 31, 2016		June 30, 2016	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
11000	Cash and cash equivalents	6(1)	\$ 14,810,522	41	\$ 15,588,709	47	\$ 14,931,202	44
12000	Accounts receivable	6(2)	225,478	1	116,044	-	167,081	-
12600	Current income tax assets		-	-	-	-	69,977	-
14110	Financial assets at fair value through profit or loss	6(3)	1,955,084	6	773,557	2	563,645	2
14120	Available-for-sale financial assets	6(4)	5,465,018	15	6,004,823	18	5,325,541	16
14160	Investments in debt instrument without active market	6(5)	5,021,908	14	4,720,927	14	4,850,150	14
14170	Held-to-maturity financial assets	6(6)	1,769,447	5	748,490	2	1,147,260	3
14180	Other financial assets	6(7)	447,864	1	206,259	1	1,563,309	5
14200	Investment property, net	6(9)	453,662	1	454,638	1	455,427	1
15000	Reinsurance contract assets	6(10)	4,328,620	12	3,624,254	11	3,917,828	11
16000	Property and equipment, net	6(13)	209,223	1	208,193	1	210,784	1
17000	Intangible assets		1,670	-	2,480	-	3,205	-
17800	Deferred income tax assets		61,544	-	61,140	-	38,190	-
18000	Other assets		1,085,419	3	1,078,718	3	1,049,502	3
	<b>TOTAL ASSETS</b>		<u>\$ 35,835,459</u>	<u>100</u>	<u>\$ 33,588,232</u>	<u>100</u>	<u>\$ 34,293,101</u>	<u>100</u>
	<b>LIABILITIES AND EQUITY</b>							
21000	Accounts payable	6(14)	\$ 787,732	2	\$ 317,140	1	\$ 1,041,030	3
21700	Current income tax liabilities		126,627	1	81,327	-	75,256	-
23200	Financial liabilities at fair value through profit or loss	6(3)	62,910	-	25,879	-	8,427	-
24000	Insurance liabilities	6(10)	24,570,137	69	23,594,638	71	23,925,500	70
27000	Provisions		2,338	-	3,142	-	7,467	-
28000	Deferred income tax liabilities		76,943	-	41,555	-	49,331	-
25000	Other liabilities		28,154	-	25,342	-	38,343	-
	<b>TOTAL LIABILITIES</b>		<u>25,654,841</u>	<u>72</u>	<u>24,089,023</u>	<u>72</u>	<u>25,145,354</u>	<u>73</u>
30000	<b>EQUITY</b>							
31000	<b>Capital</b>							
31100	Common stock	6(16)	5,622,750	16	5,622,750	17	5,622,750	16
32000	Capital reserve		300,000	1	300,000	1	300,000	1
33000	<b>Retained earnings</b>							
33100	Legal reserve		1,754,742	5	1,601,584	5	1,601,584	5
33200	Special reserve	6(18)	1,569,429	4	1,434,161	4	1,194,523	3
33300	Undistributed earnings		823,616	2	798,710	2	577,728	2
34000	Other equity interest		110,081	-	(257,996)	(1)	(148,838)	-
	<b>TOTAL EQUITY</b>		<u>10,180,618</u>	<u>28</u>	<u>9,499,209</u>	<u>28</u>	<u>9,147,747</u>	<u>27</u>
	<b>TOTAL LIABILITIES AND EQUITY</b>		<u>\$ 35,835,459</u>	<u>100</u>	<u>\$ 33,588,232</u>	<u>100</u>	<u>\$ 34,293,101</u>	<u>100</u>

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

**CENTRAL REINSURANCE CORPORATION**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
(Expressed in thousands of New Taiwan dollars, except for earnings per share)

Items	Notes	Three-month periods ended June 30				Six-month periods ended June 30			
		2017		2016		2017		2016	
		AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
41000		<b>Operating revenues</b>							
41100		\$ 3,805,653	105	\$ 3,614,484	106	\$ 7,680,142	107	\$ 7,362,633	111
51100		( 251,976)	( 7)	( 258,734)	( 8)	( 530,531)	( 7)	( 540,150)	( 8)
51310	6(10)	( 170,490)	( 5)	( 120,881)	( 3)	( 430,490)	( 6)	( 386,677)	( 6)
41130		3,383,187	93	3,234,869	95	6,719,121	94	6,435,806	97
41300		66,860	2	74,729	2	137,908	2	142,511	2
41400		3,171	-	3,481	-	6,213	-	6,720	-
41500		<b>Net gain from investment</b>							
41510		83,687	2	89,636	3	146,285	2	159,714	2
41521	6(3)	45,165	1	4,714	-	402,702	6	100,426	2
41522		( 10,166)	-	15,970	-	( 39,696)	( 1)	( 69,115)	( 1)
41524		12,166	1	-	-	12,166	-	-	-
41550		36,715	1	( 41,562)	( 1)	( 240,932)	( 3)	( 133,460)	( 2)
41570	6(9)	3,858	-	4,555	-	10,240	-	10,949	-
		171,425	5	73,313	2	290,765	4	68,514	1
41800		( 945)	-	12,887	1	392	-	17,868	-
		3,623,698	100	3,399,279	100	7,154,399	100	6,671,419	100
51000		<b>Operating costs</b>							
51200		( 2,022,573)	( 56)	( 1,932,361)	( 57)	( 3,772,782)	( 53)	( 3,981,755)	( 59)
41200		118,192	3	104,042	3	217,494	3	207,824	3
51260		( 1,904,381)	( 53)	( 1,828,319)	( 54)	( 3,555,288)	( 50)	( 3,773,931)	( 56)
51300	6(10)	( 129,725)	( 4)	( 102,650)	( 3)	( 483,049)	( 7)	( 179,351)	( 3)
51500		( 1,100,890)	( 30)	( 1,115,383)	( 33)	( 2,237,138)	( 31)	( 2,184,240)	( 33)
51800		( 241)	-	( 1)	-	( 251)	-	( 21)	-
		( 3,135,237)	( 87)	( 3,046,353)	( 90)	( 6,275,726)	( 88)	( 6,137,543)	( 92)
58000		<b>Operating expenses</b>							
58100		( 51,372)	( 1)	( 48,634)	( 1)	( 105,720)	( 1)	( 98,662)	( 1)
58200		( 29,538)	( 1)	( 28,290)	( 1)	( 63,142)	( 1)	( 61,024)	( 1)
58300		( 423)	-	( 441)	-	( 499)	-	( 510)	-
		( 81,333)	( 2)	( 77,365)	( 2)	( 169,361)	( 2)	( 160,196)	( 2)
		407,128	11	275,561	8	709,312	10	373,680	6
59000		314	-	-	-	314	-	4	-
62000		407,442	11	275,561	8	709,626	10	373,684	6
63000	6(19)	( 78,531)	( 2)	( 42,471)	( 1)	( 115,156)	( 2)	( 65,276)	( 1)
64000		328,911	9	233,090	7	594,470	8	308,408	5
66000		328,911	9	233,090	7	594,470	8	308,408	5

(Continued)

**CENTRAL REINSURANCE CORPORATION**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
(Expressed in thousands of New Taiwan dollars, except for earnings per share)

Items	Notes	Three-month periods ended June 30		Six-month periods ended June 30					
		2017	2016	2017	2016				
		AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
83000		<b>Other comprehensive income</b>							
83200		<b>Items may be reclassified to profit or loss subsequently</b>							
83210		Exchange differences on translation of foreign financial statements							
		\$ 1,067	-	(\$ 787)	-	(\$ 61,798)	( 1)	(\$ 12,578)	-
83220	6(4)	Unrealized gain or loss on available-for-sale financial assets							
		328,361	9	( 78,645)	( 2)	489,049	7	( 119,553)	( 2)
83280	6(4)(19)	Income tax relating to the items may be reclassified to profit or loss subsequently							
		( 44,828)	( 1)	8,886	-	( 59,174)	( 1)	15,582	-
		<b>Total other comprehensive income (loss) for the period (after tax)</b>							
		284,600	8	( 70,546)	( 2)	368,077	5	( 116,549)	( 2)
85000		<b>Total comprehensive income for the period</b>							
		\$ 613,511	17	\$ 162,544	5	\$ 962,547	13	\$ 191,859	3
		<b>Earnings per share</b>							
97500		<b>Basic and Diluted (in NT dollars)</b>							
		\$ 0.58		\$ 0.41		\$ 1.06		\$ 0.55	

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

**CENTRAL REINSURANCE CORPORATION**  
**STATEMENTS OF CHANGES IN EQUITY**  
(Expressed in thousands of New Taiwan dollars)

Notes	Common Stock	Capital Reserve	Retained Earnings			Other Equity Interest		Total Equity
			Legal Reserve	Special Reserve	Undistributed Earnings	Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gains or Losses on Available-For-Sale Financial Assets	
<u>Six-month period ended June 30, 2016</u>								
	\$ 5,622,750	\$ 300,000	\$ 1,448,411	\$ 1,194,523	\$ 816,086	\$ -	(\$ 32,289 )	\$ 9,349,481
Distributions of 2015 earnings								
	-	-	153,173	-	( 153,173 )	-	-	-
Legal reserve	-	-	153,173	-	( 153,173 )	-	-	-
Cash dividends	6(18) -	-	-	-	( 393,593 )	-	-	( 393,593 )
Net income for the period	-	-	-	-	308,408	-	-	308,408
Other comprehensive loss for the period	-	-	-	-	-	( 10,440 )	( 106,109 )	( 116,549 )
Balance at June 30, 2016	<u>\$ 5,622,750</u>	<u>\$ 300,000</u>	<u>\$ 1,601,584</u>	<u>\$ 1,194,523</u>	<u>\$ 577,728</u>	<u>(\$ 10,440 )</u>	<u>(\$ 138,398 )</u>	<u>\$ 9,147,747</u>
<u>Six-month period ended June 30, 2017</u>								
	\$ 5,622,750	\$ 300,000	\$ 1,601,584	\$ 1,434,161	\$ 798,710	(\$ 9,158 )	(\$ 248,838 )	\$ 9,499,209
Distributions of 2016 earnings								
	-	-	153,158	-	( 153,158 )	-	-	-
Legal reserve	-	-	153,158	-	( 153,158 )	-	-	-
Special reserve	6(18) -	-	-	135,268	( 135,268 )	-	-	-
Cash dividends	6(18) -	-	-	-	( 281,138 )	-	-	( 281,138 )
Net income for the period	-	-	-	-	594,470	-	-	594,470
Other comprehensive (loss) income for the period	-	-	-	-	-	( 51,292 )	419,369	368,077
Balance at June 30, 2017	<u>\$ 5,622,750</u>	<u>\$ 300,000</u>	<u>\$ 1,754,742</u>	<u>\$ 1,569,429</u>	<u>\$ 823,616</u>	<u>(\$ 60,450 )</u>	<u>\$ 170,531</u>	<u>\$ 10,180,618</u>

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

**CENTRAL REINSURANCE CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
(Expressed in thousands of New Taiwan dollars)

	Six-month periods ended June 30	
	2017	2016
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Profit before tax	\$ 709,626	\$ 373,684
Adjustments		
Adjustments to reconcile profit (loss)		
Depreciation	4,545	4,569
Amortization	810	797
Net change in reserves	910,522	564,329
Net gain on financial assets and liabilities at fair value through profit or loss	( 41,246 )	( 63,480 )
Net loss on available-for-sale financial assets	80,389	104,619
Net gain on investments in debt instruments without active market	( 12,166 )	-
Interest income	( 153,968 )	( 167,512 )
Dividend income	( 46,325 )	( 35,581 )
Unrealized foreign exchange loss	139,703	183,320
Changes in operating assets and liabilities		
Changes in operating assets		
Accounts receivable	( 82,217 )	100,160
Financial assets at fair value through profit or loss	( 1,108,442 )	11,363
Reinsurance contract assets	( 639,389 )	( 380,499 )
Other assets	( 12,003 )	32,121
Changes in operating liabilities		
Accounts payable	189,454	222,245
Provisions	( 804 )	( 548 )
Other liabilities	2,812	11,331
Cash (outflow) inflow generated from operations	( 58,699 )	960,918
Interest received	160,677	176,671
Dividend received	31,268	20,820
Income tax paid	( 94,045 )	( 79,370 )
Net cash flows from operating activities	<u>39,201</u>	<u>1,079,039</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Acquisition of financial assets at fair value through profit or loss	( 8,000 )	( 11,000 )
Proceeds from disposal of financial assets at fair value through profit or loss	13,192	13,923
Acquisition of available-for-sale financial assets	( 4,474,147 )	( 7,006,874 )
Proceeds from disposal of available-for-sale financial assets	5,394,332	5,258,599
Acquisition of investments in debt instruments without active market	( 750,982 )	( 807,532 )
Proceeds from repayments of investments in debt instruments without active market	293,663	1,277,447
Acquisition of held-to-maturity financial assets	( 1,126,240 )	( 1,364,455 )
Proceeds from repayments of held-to-maturity financial assets	75,180	200,000
Acquisition of property and equipment	( 4,301 )	( 606 )
Acquisition of intangible assets	-	( 216 )
Acquisition of investment property	( 298 )	-
Increase in other financial assets	( 241,605 )	( 140,377 )
Net cash flows used in investing activities	<u>( 829,206 )</u>	<u>( 2,581,091 )</u>
Effects of exchange rate changes	11,818	( 28,313 )
Net decrease in cash and cash equivalents	( 778,187 )	( 1,530,365 )
Cash and cash equivalents at beginning of period	15,588,709	16,461,567
Cash and cash equivalents at end of period	<u>\$ 14,810,522</u>	<u>\$ 14,931,202</u>

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

CENTRAL REINSURANCE CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

(Expressed in thousands of New Taiwan dollars, unless otherwise stated)

1. HISTORY AND ORGANIZATION

Central Reinsurance Corporation (the “Company”) was originally a state-owned enterprise, incorporated on October 31, 1968, and provides a broad range of property and life inward and outward reinsurance services. The Company’s shares of stock have been traded on the Taiwan Stock Exchange since July 6, 2000. On July 9, 2002, the Ministry of Finance (MOF), the major shareholder of the Company, privatized the Company in accordance with rules of privatization of government-owned enterprises, effective on July 11, 2002. In addition, the Company has obtained the certificate for establishment and business license for its offshore insurance branch, and commenced its operation on January 1, 2016. Evergreen International Corporation holds 35.13% equity interest in the Company and has the ability to control the Company. Evergreen International Corporation is the Company’s parent company.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These financial statements were authorized for issuance by the Board of Directors on August 9, 2017.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by the FSC effective from 2017 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by International Accounting Standards Board</u>
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, ‘Regulatory Deferral Accounts’	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by International Accounting Standards Board</u>
Recoverable amount disclosures for non-financial assets (amendments to IAS36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

The above standards and interpretations have no significant impact to the Company's financial position and financial performance based on the Company's assessment.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company

New standards, interpretations and amendments endorsed by the FSC effective from 2018 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial Instruments'	January 1, 2018
IFRS 15, 'Revenue From Contracts with Customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue From Contracts With Customers' (amendments to IFRS 15)	January 1, 2018
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, 'Foreign Currency Transactions and Advance Consideration	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time Adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of Interests in Other Entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in Associates and Joint Ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Company's financial position and financial performance based on the Company's assessment. The

quantitative impact will be disclosed when the assessment is complete.

A. Amendments to IFRS 4, ‘Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts’

To address the concerns about the different effective dates of IFRS 9, ‘Financial Instruments’, and the forthcoming new standard IFRS 4, ‘Insurance Contract’, which may result in different bases for measuring assets and liabilities, this amendment allows insurers who meet specific requirements as set out in IFRS 4, ‘Insurance Contract’ to adopt temporary exemption from IFRS 9, ‘Financial Instruments’, or to use overlay approach under IFRS 9, ‘Financial Instruments’ alternatively.

B. IFRS 9, ‘Financial Instruments’

- (a) Classification of debt instruments is driven by the entity’s business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortized cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.
- (b) The impairment losses of debt instruments are assessed using an ‘expected credit loss’ approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognize 12-month expected credit losses (‘ECL’) or lifetime ECL (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance).
- (c) The amended general hedge accounting requirements align hedge accounting more closely with an entity’s risk management strategy. Risk components of non-financial items and a group of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of ‘rebalancing’; while its risk management objective remains unchanged, an entity shall rebalance the hedged item or the hedging instrument for the purpose of maintaining the hedge ratio.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board

<u>New Standards, Interpretations and Amendments</u>	Effective date by International Accounting Standards Board
IFRS 16, 'Leases'	January 1, 2019
IFRS 17, 'Insurance Contracts'	January 1, 2021
IFRIC 23, 'Uncertainty over Income Tax Treatments'	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact to the Company's financial position and financial performance based on the Company's assessment. The quantitative impact will be disclosed when the assessment is complete.

#### IFRS 17, 'Insurance Contracts'

IFRS 17, 'Insurance Contracts' replaces IFRS 4 and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. The standard applies to insurance contracts (including reinsurance contracts) issued, to reinsurance contracts held and to investment contracts with discretionary participation features issued, provided the entity also issues insurance contracts. Embedded derivatives, distinct investment components and distinct performance obligations shall be separated from the insurance contracts. An entity shall at initial recognition to disaggregate a portfolio into three groups of contracts: onerous, no significant risk of becoming onerous, and remaining contracts. IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ('CSM') representing the unearned profit of the contract. An entity may apply a simplified measurement approach (the premium allocation approach) to some insurance contracts. An entity recognizes the profit from a group of insurance contracts over the period the entity provides insurance coverage, and as the entity is released from risk. If a group of contracts is or becomes loss-making, an entity recognizes the loss immediately. Entities are required to present separately insurance revenue, insurance service expenses and insurance finance income or expenses and to disclose information about amounts, judgements and risks arising from insurance contracts.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

##### (1) Compliance statement

These financial statements are prepared by the Company in accordance with the "Rules for the Preparation of Financial Reports by Insurance Institutions" and IAS 34, 'Interim Financial Reporting' as endorsed by the FSC.

##### (2) Basis of preparation

A. The Company does not have a subsidiary, and the Company's financial statements are separate financial statements composed of balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows, and relevant notes.

B. Except for the following items, these financial statements have been prepared under the historical cost convention:

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (b) Available-for-sale financial assets measured at fair value.
- (c) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.
- (d) Various insurance liabilities and reinsurance reserve assets recognized in accordance with specific statutory requirements and regulations relevant to insurance enterprises.

C. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

(3) Foreign currency translation

A. Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the “functional currency”). The financial statements are presented in New Taiwan Dollars (“NTD”), which is the Company’s functional and presentation currency.

- (a) Transactions denominated in foreign currencies are translated into functional currency at the spot exchange rates prevailing at the transaction date. The translation differences upon actual payment are recognized in current profit or loss.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the reporting date. Exchange differences arising upon re-translation at the reporting date are recognized in current profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) Except for aforementioned non-monetary assets denominated in foreign currencies held at fair value through profit or loss, foreign exchange gains or losses that arise from investing activities are recognized under net gain (loss) from investment in the statement of comprehensive income.

Other foreign exchange gains or losses that do not arise from investing activities are recognized under other operating revenues or other operating costs.

B. The financial position and financial performance of offshore insurance branch that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each balance sheet presented are translated at the spot exchange rate at the date of that balance sheet;

(b) Income and expenses for each statement of comprehensive income are translated at spot exchange rates of the trade date ; and

(c) All resulting exchange differences are recognized in other comprehensive income.

(4) Cash equivalents

A. The statement of cash flows is prepared on the basis of cash and cash equivalents.

B. Cash equivalents refer to short-term, highly liquid investments that are:

(a) Readily convertible to known amount of cash; and

(b) Subject to an insignificant risk of changes in value.

C. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

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

A. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(a) Hybrid (combined) contracts; or

(b) They eliminate or significantly reduce a measurement or recognition inconsistency; or

(c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.

C. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.

D. Gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss recognized in the statement of comprehensive income includes gain or loss arising from transactions, dividend and bonus, interest income, and evaluation at fair value on balance sheet date.

(6) Available-for-sale financial assets

- A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- B. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.
- C. Available-for-sale financial assets are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income. The cumulative gain or loss should be reclassified from equity to profit or loss when financial assets are derecognized.
- D. The realized gain or loss on available-for-sale financial assets recognized in the statement of comprehensive income includes gain or loss arising from transactions as well as dividend and bonus except interest income.

(7) Investments in debt instruments without active market

- A. Investments in debt instruments without active market are loans and receivables not originated by the entity. They are bond investments with fixed or determinable payments that are not quoted in an active market, and also meet all of the following conditions:
  - (a) Not designated on initial recognition as at fair value through profit or loss;
  - (b) Not designated on initial recognition as available-for-sale;
  - (c) Not for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.
- B. On a regular way purchase or sale basis, investments in debt instruments without active market are recognized and derecognized using trade date accounting.
- C. Investments in debt instruments without active market are initially recognized at fair value on the trade date plus transaction costs and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Amortization of a premium or a discount on such assets is recognized in profit or loss.
- D. The realized gain or loss on investments in debt instruments without active market recognized in the statement of comprehensive income includes gain or loss arising from transactions except interest income.

(8) Held-to-maturity financial assets

- A. Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Company has the positive intention and ability to hold to maturity other than those that meet the definition of loans and receivables and those that are designated as at fair value through profit or loss or as available-for-sale on initial recognition.
- B. On a regular way purchase or sale basis, held-to-maturity financial assets are recognized and derecognized using trade date accounting.
- C. Held-to-maturity financial assets are initially recognized at fair value on the trade date plus transaction costs and subsequently measured at amortized cost using the effective interest method,

less provision for impairment. Amortization of a premium or a discount on such assets is recognized in profit or loss.

D. The realized gain or loss on held-to-maturity financial assets recognized in the statement of comprehensive income includes gain or loss arising from transactions except interest income.

(9) Derivative financial instruments

A derivative financial instrument is initially recognized and subsequently measured at fair value. Any changes in the fair value are recognized in profit or loss. The gain or loss relating to derivative financial instrument is recognized in the statement of comprehensive income within “gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss”.

(10) Impairment of financial assets

A. The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

B. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss are as follows:

- (a) Significant financial difficulty of the issuer or debtor;
- (b) A breach of contract, such as a default or delinquency in interest or principal payments;
- (c) The Company, for economic or legal reasons relating to the borrower’s financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
- (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) The disappearance of an active market for that financial asset because of financial difficulties;
- (f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
- (g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered; or
- (h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

- (a) Financial assets measured at amortized cost

The amount of the impairment loss is measured as the difference between the asset’s carrying

amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(b) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, and is reclassified from "other comprehensive income" to "profit or loss". If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognized, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(11) Investment property

- A. An investment property is stated initially at its cost including related transaction costs; measured subsequently using the cost model and stated at cost less accumulated depreciation and accumulated impairment loss. Subsequent costs of major renewals and betterments are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. Repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- B. The Company uses a portion of the property for its own use and another portion to earn rentals or for capital appreciation. When these portions can be sold separately, the own-use portion is accounted for in accordance with IAS 16, "Property, Plant and Equipment". However, property held either to earn rental income or for capital appreciation or for both is subject to IAS 40, "Investment Property". If part of property cannot be individually sold, and owner-occupied property is insignificant, it is accounted for as investment property.
- C. An investment property shall be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. When assets are derecognized, the cost and the accumulated depreciation at the time of sale or retirement are written off. Gain or loss on sale of the investment property, rental income, and

relevant payment shall be recognized in gain or loss on investment property under net gain from investment. Except for land, property is depreciated on a straight-line basis over its estimated useful life of 3 to 60 years. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", from the date of the change.

(12) Lease

The Company's lease contracts are all operating leases, where substantially all risks and rewards of ownership of the assets remain with the lessor. If the Company is a lessor, assets involved in operating lease are recognized under "investment property". If the Company is a lessee, leased assets will not be recognized in the balance sheet. Payments that the Company receives or charges under the operating lease are recognized as "gain or loss on investment property" and "operating expenses".

(13) Reinsurance contract assets

Reinsurance contract assets include due from reinsurers and ceding companies, ceded unearned premium reserve, ceded claims reserve, ceded premium deficiency reserve, ceded liability reserve and ceded liability adequacy reserve. Each of the reinsurance contract assets should be in compliance with relevant regulation and policy of "Regulation Governing Financial and Business Operations of Professional Reinsurance Enterprises" and "Rules for the Preparation of Financial Reports by Insurance Institutions".

(14) Impairment on reinsurance contract assets

Regular evaluation on reinsurance assets should be made to evaluate if there is any impairment. When there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company 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 Company will receive from the reinsurer, the Company should reduce its carrying amount accordingly and recognize the provision for impairment loss or allowance for doubtful accounts.

(15) Property and equipment

A. Property and equipment are stated initially at its cost including related transaction costs, measured subsequently using the cost model and stated at cost less accumulated depreciation and accumulated impairment loss. Reserve for land revaluation increment tax set aside for revaluation over the current land value is recognized as deferred income tax liabilities. Subsequent costs of major renewals and betterments are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. Repairs and maintenance are charged to

profit or loss during the financial period in which they are incurred.

B. Depreciation is computed using straight-line method over the estimated service lives as follows: buildings and equipment, 3 to 60 years; computer equipment, 3 to 6 years; transportation equipment, 3 to 10 years; and miscellaneous equipment, 3 to 10 years.

C. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", from the date of the change.

D. When an asset is retired or disposed, the cost plus revaluation increment, if any, and related accumulated depreciation are removed from the accounts, and the resulting gain or loss is credited or charged to non-operating income and expenses during the financial period in which they are incurred.

(16) Impairment of non-financial assets

The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized. Impairment loss and gain on reversal of impairment loss for investment property are recognized under operating revenue. Impairment loss and gain on reversal of impairment loss for property and equipment are recognized in non-operating income and expenses.

(17) Allowance for doubtful accounts

Accounts receivable, due from reinsurers and ceding companies under reinsurance contract assets, refundable deposits and funds held by other insurance companies under other assets, and other rights may be transferred to overdue accounts booked in accordance with IAS 39, "Financial Instruments: Recognition and Measurement", IFRS 4, "Insurance Contracts" and the "Guidelines for Handling Assessment of Assets, Loans Overdue, Delinquent Accounts Receivable on Demand by Insurance Enterprises", and the Company shall also recognize appropriate allowance for doubtful accounts with consideration of impairment losses and unrecoverable amounts.

(18) Financial liabilities at fair value through profit or loss

A. Financial liabilities at fair value through profit or loss are financial liabilities held for trading. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges.

B. Financial liabilities at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognized in profit or loss.

(19) Derecognition of financial assets and financial liabilities

A. The Company derecognizes a financial asset when one of the following conditions is met:

(a) The contractual rights to receive the cash flows from the financial asset expire.

(b) The contractual rights to receive cash flows from the financial asset have been transferred and the Company has transferred substantially all risks and rewards of ownership of the financial asset.

(c) The contractual rights to receive cash flows from the financial asset have been transferred; however, the Company has not retained control of the financial asset.

B. A financial liability is derecognized when the obligation under the liability specified in the contract is discharged or cancelled or expires. Any difference between the book value of extinguished or transferred financial liabilities and the consideration paid is recognized in profit or loss.

(20) Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(21) Classification of reinsurance contracts

Classification of reinsurance contracts should be made in compliance with IFRS 4, “Insurance Contracts”.

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. A contract with no significant insurance risk being transferred is not classified as an insurance contract and is recognized by deposit accounting.

A contract that falls within the definition of insurance contract on the initial recognition will still be deemed as insurance contract before its maturity.

(22) Insurance liabilities

The reserves related to Compulsory Automobile Liability Insurance are determined in accordance with “Regulations for Management of the Reserve of Compulsory Automobile Liability Insurance”. The equalization reserve related to residential earthquake insurance is determined in accordance with “Regulations Governing Implementation of the Residential Earthquake Risk Spreading Mechanism”.

The reserve related to nuclear insurance is determined in accordance with “Regulations Governing the Setting Aside of Nuclear Insurance Liability Reserves”.

The reserves excluding the reserve listed above were determined in accordance with “Regulations Governing Financial and Business Operations of Professional Reinsurance Enterprises ” and “Rules for the Preparation of Financial Reports by Insurance Institutions” to calculate unearned premium reserve, claims reserve, premium deficiency reserve, liability reserve, liability adequacy reserve and other reserve of inward reinsurance business.

According to “Directions for Strengthening Special Reserve by Reinsurance Enterprises”, “Directions for Strengthening Co-insurance Reserve of Residential Earthquake Insurance” and “Regulations for Reserving Nuclear Energy Insurance Reserve by Non-Life Insurance Enterprises” dated December 28, 2012, subsequent equalization reserve recognized under liabilities by December 31, 2012 should still be recognized under liabilities. Starting from January 1, 2013, the additional provision for equalization reserve less income tax should be recognized as special reserve under equity after annual closing and should not be distributed without approval. The release of the equalization reserve shall be made through equalization reserve under liabilities first. If such reserves are insufficient for release, then the deficiency shall be released through special reserves under equity based on its net amount after tax in accordance with IAS 12.

Among the reserves above, except for unearned premium reserve for long-term fire insurance which was calculated at a rate of 7.8% based on the coefficient table of unearned premium reserve for long-term fire insurance, the other reserves were not calculated by discounting.

(23) Liability adequacy test

When the estimated future cash flow of insurance contracts recognized as insurance liability at book value is insufficient, the entire deficiency is recognized in current loss in accordance with the requirement of the Actuarial Institution of Republic of China.

(24) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plan

For defined contribution plan, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plan

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation

is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Company uses interest rates of government bonds (at the balance sheet date) instead.

ii. Remeasurement arising on defined benefit plan are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.

iii. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. And, the related information is disclosed accordingly.

#### C. Employees' compensation and directors' remuneration

Employees' compensation and directors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts should be recognized in profit or loss of the following year.

#### (25) Income tax

A. The income tax expense (benefit) for the period comprises current and deferred income tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. Income tax (10%) on undistributed earnings is recorded as expense in the year when the stockholders approve to retain the earnings.

C. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset

is realized or the deferred income tax liability is settled.

D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each reporting period, unrecognized and recognized deferred income tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current income tax assets against current income tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

F. The interim period income tax expense is recognized based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

(26) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to common stock on the effective date of new shares issuance.

(27) Reinsurance revenues

Income from reinsurance business refers to various premiums earned from reinsurance operations, including those that meet the requirements in IFRS 4 and can be recognized as income. The Company's estimates for reinsurance premium income are assessed based on estimated premiums of reinsurance contracts, information provided by ceding companies, and historical trends. Reinsurance related revenues are recognized on the accrual basis.

(28) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker, who is responsible for allocating resources and assessing performance of the operating segments.

**5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY**

The preparation of these financial statements requires management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The related information is addressed below:

(1) Critical judgements in applying the Company's accounting policies

Impairment of financial assets - equity investments

The Company's impairment evaluation on equity investments is conducted in accordance with the requirements of IAS 39, 'Financial Instruments: Recognition and Measurement', wherein an entity is required to assess at the end of each reporting period, on an item by item basis, whether there is any objective evidence that investments are impaired. The Company sets a threshold to filter fair value declines in order to assess investments that may have indications of impairment. Thereafter, filtered investments are assessed for objective evidence of impairment on an item by item basis. Items that the Company assesses include factors such as the industry overview, the company's competitiveness, company's profitability, future prospects, and recent stock price movements.

(2) Critical accounting estimates and assumptions

A.Reinsurance premiums

The Company's estimated reinsurance revenue is based on the ceding company's annual forecasted reinsurance information and then the Company calculates the revenue proportion to be recognized in each quarter based on previous experience of actual statements. Thereafter, when actual statements are received each quarter, original estimates are reversed and actual statements are accrued. The reason for differences between actual statements and estimated amounts is evaluated to adjust the estimated revenues of each quarter, accordingly.

B.Claims reserve (under insurance liabilities)

Aside from statutorily required insurances, the Company estimates the ultimate loss ratio and provisions claims reserve based on assessment factors such as information provided by the ceding company, claim development factors, contract type, insurance risk characteristics, market information, and judgment for the experience of claims and underwriting. If the methods and assumptions for estimating the ultimate loss ratio are changed, the Company's claim reserve may be materially impacted.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Cash:			
Petty cash	\$ 129	\$ 141	\$ 123
Checking accounts	23,202	4,382	19,463
Demand deposits	4,067,870	5,673,710	5,375,728
Cash equivalents:			
Time deposits	10,719,321	9,910,476	9,535,888
	<u>\$ 14,810,522</u>	<u>\$ 15,588,709</u>	<u>\$ 14,931,202</u>

A.The Company transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B.The Company has no cash and cash equivalents pledged to others.

C. According to Regulations for Management of the Reserve of Compulsory Automobile Liability Insurance, the deposits which the Company deposited in the financial institutions are as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Demand deposits	\$ 444,711	\$ 1,215,517	\$ 1,308,857
Time deposits	3,558,536	2,830,424	2,231,975
	<u>\$ 4,003,247</u>	<u>\$ 4,045,941</u>	<u>\$ 3,540,832</u>

D. Certain time deposits of the Company did not meet the definition of cash equivalents and are presented in other financial assets. Please see Note 6 (7).

(2) Accounts receivable

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Notes receivable	\$ 6,390	\$ 5,288	\$ 4,210
Other receivables	219,088	110,756	162,871
Total	225,478	116,044	167,081
Less: allowance for doubtful accounts	-	-	-
Net amount	<u>\$ 225,478</u>	<u>\$ 116,044</u>	<u>\$ 167,081</u>

A. The credit quality information of accounts receivable that are neither past due nor impaired was in the following categories based on the payment records:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Good	\$ 225,254	\$ 115,732	\$ 167,037
Delayed previously	-	-	-
	<u>\$ 225,254</u>	<u>\$ 115,732</u>	<u>\$ 167,037</u>

Accounts receivable that are neither past due nor impaired are accounted for in accordance with the “Guidelines for Handling Assessment of Assets, Loans Overdue, and Delinquent Accounts Receivable on Demand by Insurance Enterprises”. The Company transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The balances and ageing analysis of accounts receivable that were past due but not impaired are as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
31 to 90 days	\$ -	\$ -	\$ 44
91 to 180 days	224	268	-
181 to 270 days	-	44	-
	<u>\$ 224</u>	<u>\$ 312</u>	<u>\$ 44</u>

(a) For the ageing of accounts receivable above, notes receivable are classified by maturity date and other receivables are classified by the date for recognition except that repayment date shall be stipulated according to the contract.

(b)The overdue accounts receivable above indicate those that were due but not paid. Except for notes receivable that were overdue and transferred to overdue accounts, other receivables were transferred to overdue accounts in three months after they were due.

C.The Company does not have any accounts receivable that were impaired.

D.The Company does not hold any collateral as security.

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

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Financial assets held for trading			
Domestic listed and over-the-counter stocks	\$ 401,660	\$ 114,406	\$ 27,303
Foreign listed stocks	1,038,822	175,781	-
Foreign index funds	-	41,854	41,854
Derivatives	3,982	31,192	45,824
	<u>1,444,464</u>	<u>363,233</u>	<u>114,981</u>
Valuation adjustment of financial assets held for trading	103,296	( 25,857)	( 4,632)
	<u>1,547,760</u>	<u>337,376</u>	<u>110,349</u>
Financial assets designated as at fair value through profit or loss on initial recognition			
Domestic convertible corporate	-	4,300	1,500
Domestic mandatory convertible corporate bonds	500,000	500,000	500,000
	<u>500,000</u>	<u>504,300</u>	<u>501,500</u>
Valuation adjustment of financial assets designated as at fair value through profit or loss on initial recognition	( 92,676)	( 68,119)	( 48,204)
	<u>407,324</u>	<u>436,181</u>	<u>453,296</u>
	<u>\$ 1,955,084</u>	<u>\$ 773,557</u>	<u>\$ 563,645</u>
	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Financial liabilities held for trading			
Derivatives	\$ 62,910	\$ 25,879	\$ 8,427

A.The Company's gain or loss on financial asset or financial liability at fair value through profit or loss are as follows:

	Three-month period ended June 30, 2017	Three-month period ended June 30, 2016
Financial instruments held for trading	\$ 56,507	\$ 517
Financial instruments designated as at fair value through profit or loss on initial recognition	( 11,342)	4,197
	<u>\$ 45,165</u>	<u>\$ 4,714</u>
	Six-month period ended June 30, 2017	Six-month period ended June 30, 2016
Financial instruments held for trading	\$ 418,929	\$ 95,428
Financial instruments designated as at fair value through profit or loss on initial recognition	( 16,227)	4,998
	<u>\$ 402,702</u>	<u>\$ 100,426</u>

B.The credit rating levels of the counterparties of the Company's debt instrument investments are provided in Note 13 (1).

C.The non-hedging derivative instruments transaction and contract information are as follows:

	June 30, 2017		December 31, 2016	
Derivative instruments	Contract amount (Notional principal)	Contract period	Contract amount (Notional principal)	Contract period
FX swap contracts	\$ 5,615,976	2017.03.30~ 2018.04.27	\$ 5,617,127	2016.06.29~ 2017.04.12
Forward foreign exchange contracts	2,296,270	2017.06.01~ 2017.09.21	967,600	2016.09.19~ 2017.03.06

	June 30, 2016	
<u>Derivative instruments</u>	Contract amount (Notional principal)	Contract period
FX swap contracts	\$ 5,389,819	2016.04.12~ 2017.04.05
Forward foreign exchange contracts	2,470,540	2016.03.02~ 2016.08.16
Futures	24,873	2016.06.15~ 2016.07.15

Note: Contract amount is translated into thousands of New Taiwan dollars using the exchange rates prevailing at the end of the period.

(a)FX swap contracts

The Company entered into FX swap contracts with financial institutions to hedge risk on its foreign investments arising from variations in the exchange rate. However, these FX swap contracts are not accounted for under hedge accounting.

(b)Forward foreign exchange contracts

The Company entered into forward foreign exchange contracts with financial institutions to hedge risk on its foreign investments arising from variations in the exchange rate. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

(c)Futures

As of June 30, 2017, December 31, 2016 and June 30, 2016, all futures contracts were settled, and the related margins were \$100,055, \$100,030 and \$102,142, respectively.

D.The Company has no financial assets at fair value through profit or loss pledged to others.

(4) Available-for-sale financial assets

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Domestic items:			
Listed and over-the-counter common stocks	\$ 1,569,999	\$ 1,648,020	\$ 1,412,786
Listed and over-the-counter preferred stocks	14,232	14,232	14,232
Securitized real estate products	590,059	613,948	613,947
Government bonds	527,618	531,248	935,694
Open-end funds	15,000	90,528	360,000
Index funds	29,519	60,498	152,434
Foreign items:			
Listed and over-the-counter common stocks	1,565,734	2,597,809	1,906,546
Open-end funds	387,527	387,527	593,543
Government bonds	270,217	286,383	-
Corporate bonds	156,856	166,620	-
Index funds	615,725	375,807	393,611
	<u>5,742,486</u>	<u>6,772,620</u>	<u>6,382,793</u>
Valuation adjustment of available-for-sale financial assets	201,921	( 287,128)	( 163,638)
Less: statutory deposits	( 479,389)	( 480,669)	( 893,614)
	<u>\$ 5,465,018</u>	<u>\$ 6,004,823</u>	<u>\$ 5,325,541</u>

A. The credit rating levels of the counterparties of the Company's debt instrument investments are provided in Note 13 (1).

B. Under the Insurance Act, the Company is required to deposit an amount equal to 15% of its paid-in capital. As of June 30, 2017, December 31, 2016 and June 30, 2016, the Company provided government bonds with a par value of \$850,000 as statutory deposit, which have been respectively listed under available-for-sale financial assets and held-to-maturity financial assets.

C. Changes in unrealized gain or loss on available-for-sale financial assets under other comprehensive income are as follows:

	<u>2017</u>	<u>2016</u>
At January 1	(\$ 248,838)	(\$ 32,289)
Recognized directly in other comprehensive income	408,660	( 224,172)
Reclassified to profit or loss	80,389	104,619
Effect of deferred income tax	( 69,680)	13,444
At June 30	<u>\$ 170,531</u>	<u>(\$ 138,398)</u>

(5) Investments in debt instruments without active market

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Domestic items:			
Securitized financial asset products	\$ 300,000	\$ 300,000	\$ -
Corporate bonds	500,328	600,290	700,338
Financial bonds	500,828	503,097	705,731
Foreign items:			
Securitized financial asset products	774,406	897,852	955,786
Corporate bonds	860,885	808,219	832,977
Financial bonds	2,085,461	1,611,469	1,655,318
	<u>\$ 5,021,908</u>	<u>\$ 4,720,927</u>	<u>\$ 4,850,150</u>

A.The Company recognized interest income of \$32,919, \$35,578, \$66,397 and \$72,489 from amortization costs through profit or loss for the three-month and six-month periods ended June 30, 2017 and 2016, respectively.

B.The credit rating levels of the counterparties of the Company's debt instrument investments are provided in Note 13 (1).

C.No investments in debt instruments without active market held by the Company were pledged to others.

(6) Held-to-maturity financial assets

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Domestic items:			
Corporate bonds	\$ 551,052	\$ 250,000	\$ 300,763
Financial bonds	452,931	-	-
Government bonds	433,771	437,792	441,873
Foreign items:			
Corporate bonds	372,010	-	-
Financial bonds	303,902	403,608	404,624
Government bonds	89,552	94,882	-
	<u>2,203,218</u>	<u>1,186,282</u>	<u>1,147,260</u>
Less: statutory deposits	<u>( 433,771)</u>	<u>( 437,792)</u>	<u>-</u>
	<u>\$ 1,769,447</u>	<u>\$ 748,490</u>	<u>\$ 1,147,260</u>

A.The Company recognized interest income of \$6,295, \$2,683, \$10,237 and \$3,818 from amortization costs through profit or loss for the three-month and six-month periods ended June 30, 2017 and 2016, respectively.

B.The credit rating levels of the counterparties of the Company's debt instrument investments are provided in Note 13 (1).

C.Held-to-maturity financial assets held by the Company were pledged to others in Note 6 (4).

(7) Other financial assets

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Time deposits	\$ 447,864	\$ 206,259	\$ 1,563,309

A.The Company transacts with financial institutions all with high credit quality, so it expects that the probability of counterparty default is remote.

B.The Company has no other financial assets pledged to others.

(8) Structured entities

A.In accordance with the regulations of IFRS 12, 'Disclosure of interests in other entities', information about the interests in structured entities that are not controlled by the Company is as follows:

<u>June 30, 2017</u>		
<u>Type of structured entities</u>	<u>Book value</u>	<u>Nature</u>
Securitized real estate products	\$ 795,997	The beneficial securities were issued by trustee to provide investor gain on transaction, rent and value increment of real estate market.
Securitized financial asset products	1,074,406	The risks and rewards associated with the assets of the structured entity were passed on to investors through issuing bonds.
Total	<u>\$ 1,870,403</u>	
<u>December 31, 2016</u>		
<u>Type of structured entities</u>	<u>Book value</u>	<u>Nature</u>
Securitized real estate products	\$ 865,854	The beneficial securities were issued by trustee to provide investor gain on transaction, rent and value increment of real estate market.
Securitized financial asset products	1,197,852	The risks and rewards associated with the assets of the structured entity were passed on to investors through issuing bonds.
Total	<u>\$ 2,063,706</u>	
<u>June 30, 2016</u>		
<u>Type of structured entities</u>	<u>Book value</u>	<u>Nature</u>
Securitized real estate products	\$ 897,324	The beneficial securities were issued by trustee to provide investor gain on transaction, rent and value increment of real estate market.
Securitized financial asset products	955,786	The risks and rewards associated with the assets of the structured entity were passed on to investors through issuing bonds.
Total	<u>\$ 1,853,110</u>	

The structured entities that are not controlled by the Company are held for the purpose of generating

investment income.

B. The structured entities that are not controlled by the Company are accounted for as available-for-sale financial assets and investments in debt instrument without active market. The entity's maximum exposure is the carrying amount of assets held. The investment position is restricted by contract terms and conditions of issue and exposes the corresponding market risk. The Company has considered risk management approach of relevant market. Please see Note 13 (1).

(9) Investment property

	<u>Land</u>	<u>Building</u>	<u>Total</u>
<u>At January 1, 2017</u>			
Cost	\$ 411,606	\$ 85,590	\$ 497,196
Accumulated depreciation	-	( 42,558)	( 42,558)
	<u>\$ 411,606</u>	<u>\$ 43,032</u>	<u>\$ 454,638</u>
<u>2017</u>			
At January 1	\$ 411,606	\$ 43,032	\$ 454,638
Additions-from subsequent expenditure	-	298	298
Depreciation	-	( 1,274)	( 1,274)
At June 30	<u>\$ 411,606</u>	<u>\$ 42,056</u>	<u>\$ 453,662</u>
<u>At June 30, 2017</u>			
Cost	411,606	85,888	\$ 497,494
Accumulated depreciation	-	( 43,832)	( 43,832)
	<u>\$ 411,606</u>	<u>\$ 42,056</u>	<u>\$ 453,662</u>
	<u>Land</u>	<u>Building</u>	<u>Total</u>
<u>At January 1, 2016</u>			
Cost	\$ 411,606	\$ 85,110	\$ 496,716
Accumulated depreciation	-	( 39,986)	( 39,986)
	<u>\$ 411,606</u>	<u>\$ 45,124</u>	<u>\$ 456,730</u>
<u>2016</u>			
At January 1	\$ 411,606	\$ 45,124	\$ 456,730
Depreciation	-	( 1,303)	( 1,303)
At June 30	<u>\$ 411,606</u>	<u>\$ 43,821</u>	<u>\$ 455,427</u>
<u>At June 30, 2016</u>			
Cost	\$ 411,606	\$ 85,110	\$ 496,716
Accumulated depreciation	-	( 41,289)	( 41,289)
	<u>\$ 411,606</u>	<u>\$ 43,821</u>	<u>\$ 455,427</u>

A. Rental income from the lease of the investment property and direct operating expenses arising from the investment property are as follows:

	Three-month period ended June 30, 2017	Three-month period ended June 30, 2016
Rental revenue from the lease of the investment property	\$ 5,875	\$ 6,397
Direct operating expenses arising from the investment property that generated rental income in the period	2,017	1,842

  

	Six-month period ended June 30, 2017	Six-month period ended June 30, 2016
Rental revenue from the lease of the investment property	\$ 13,170	\$ 13,513
Direct operating expenses arising from the investment property that generated rental income in the period	2,930	2,564

B. The Company leases investment properties to others under non-cancellable operating lease agreements. The lease terms are between 1 and 3 years, and the lessees enjoy preferential right to lease at the end of the lease period. The future aggregate lease payments receivable under leases contracted but not yet due are as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Due in one year	\$ 22,236	\$ 18,599	\$ 16,569
Due after one year through three years	11,148	10,035	6,027
	<u>\$ 33,384</u>	<u>\$ 28,634</u>	<u>\$ 22,596</u>

C. The fair value of investment property held by the Company is estimated by an accredited external independent appraiser under “Regulations on Real Estate Appraisal” using valuation techniques of both the income approach and comparison approach, based on observable active market prices and the characteristics, locations and conditions of each asset on the measurement date - June 30, 2017, December 31, 2016 and June 30, 2016. The fair values of investment property for the aforementioned measurement dates were \$1,220,126, \$1,220,126 and \$1,232,138, which is categorized as Level 3 within the fair value hierarchy. Key assumptions of income approach are as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Capitalization rate	0.96%~1.60%	0.96%~1.60%	1.00%~1.66%

D. The above assets were not pledged to others as collateral.

(10) Reinsurance contract assets and insurance liabilities

A.Details of reinsurance contract assets are as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Due from reinsurers and ceding companies	\$ 2,848,864	\$ 2,211,025	\$ 2,477,286
Due from reinsurers and ceding companies-overdue	40,306	38,756	38,754
Reinsurance reserve assets			
Ceded unearned premium reserve	394,326	357,086	414,326
Ceded claims reserve	812,271	837,442	811,200
Ceded liability reserve	283,995	229,893	226,057
Ceded premium deficiency reserve	999	2,193	2,348
	<u>4,380,761</u>	<u>3,676,395</u>	<u>3,969,971</u>
Less:allowance for doubtful accounts	( 52,141)	( 52,141)	( 52,143)
	<u>\$ 4,328,620</u>	<u>\$ 3,624,254</u>	<u>\$ 3,917,828</u>

(a)The credit quality information of reinsurance contract assets that are neither past due nor impaired is as follows, and the evaluation of credit rating was conducted according to the ultimate reinsurers:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Group 1	\$ 43,803	\$ 18,045	\$ 18,038
Group 2	2,098,257	1,419,942	1,596,804
Group 3	1,840,352	1,450,746	1,406,983
Group 4	87,809	60,358	26,367
Group 5	8,526	3,583	2,361
Group 6	201,103	600,083	674,158
	<u>\$ 4,279,850</u>	<u>\$ 3,552,757</u>	<u>\$ 3,724,711</u>

Group 1: S&P AAA or equivalents.

Group 2: Over S&P AA- or equivalents.

Group 3: Over S&P A- or equivalents.

Group 4: Over S&P BBB- or equivalents.

Group 5: Under S&P BBB- or equivalents.

Group 6: without credit rating etc.

Note:Reinsurances undertaken without a credit rating are primarily from domestic insurance companies.

(b)The balances and ageing analysis of reinsurance contract assets that were past due but not impaired and impaired are as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
31 to 90 days	(\$ 38,873)	\$ 41,253	\$ 184,624
91 to 180 days	66,215	48,810	32,537
181 to 270 days	42,990	5,269	10
Over 271 days	30,579	28,306	28,089
	<u>\$ 100,911</u>	<u>\$ 123,638</u>	<u>\$ 245,260</u>

i.The ages of due from reinsurance and ceding companies, except for the estimated reinsurance receivables or payables on closing date, are classified by its booking date.

ii.The overdue due from reinsurance and ceding companies above indicate those that were due but not paid and were transferred to overdue accounts in nine months after they were due.

(c)Movement analysis on the Company's provision for impairment of reinsurance contract assets is as follows:

	<u>2017</u>	<u>2016</u>
At January 1	\$ 52,141	\$ 52,143
Write-off of bad debts	-	-
At June 30	<u>\$ 52,141</u>	<u>\$ 52,143</u>

(d)The Company does not hold any collateral as security.

B.Details of insurance liabilities are as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Unearned premium reserve	\$ 5,590,910	\$ 5,126,197	\$ 5,423,181
Claims reserve	14,629,245	14,353,439	14,168,031
Liability reserve	283,995	229,893	226,057
Equalization reserve	4,028,567	3,855,222	4,066,979
Premium deficiency reserve	37,420	29,887	41,252
	<u>\$ 24,570,137</u>	<u>\$ 23,594,638</u>	<u>\$ 23,925,500</u>

C.Movements of ceded unearned premium reserve and unearned premium reserve are as follows:

	<u>2017</u>	<u>2016</u>
Ceded unearned premium reserve		
At January 1	\$ 357,086	\$ 369,344
Provision	394,720	414,453
Recovery	( 356,880)	( 369,344)
Exchange differences on translation of foreign financial statements	( 600)	( 127)
At June 30	<u>\$ 394,326</u>	<u>\$ 414,326</u>

Unearned premium reserve	<u>2017</u>	<u>2016</u>
At January 1	\$ 5,126,197	\$ 4,993,221
Provision	5,592,622	5,425,007
Recovery	( 5,124,292)	( 4,993,221)
Exchange differences on translation of foreign financial statements	( 3,617)	( 1,826)
At June 30	<u>\$ 5,590,910</u>	<u>\$ 5,423,181</u>

D.Details and movements of ceded claims reserve and claims reserve are as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Ceded claims reserve			
Outstanding losses	\$ 340,256	\$ 354,340	\$ 315,800
Incurred but not reported losses	472,015	483,102	495,400
	<u>\$ 812,271</u>	<u>\$ 837,442</u>	<u>\$ 811,200</u>

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Claims reserve			
Outstanding losses	\$ 4,787,883	\$ 4,900,668	\$ 4,942,314
Incurred but not reported losses	9,841,362	9,452,771	9,225,717
	<u>\$ 14,629,245</u>	<u>\$ 14,353,439</u>	<u>\$ 14,168,031</u>

	<u>2017</u>	<u>2016</u>
Ceded claims reserve		
At January 1	\$ 837,442	\$ 836,328
Provision	812,271	811,200
Recovery	( 837,442)	( 836,328)
At June 30	<u>\$ 812,271</u>	<u>\$ 811,200</u>

	<u>2017</u>	<u>2016</u>
Claims reserve		
At January 1	\$ 14,353,439	\$ 14,063,219
Provision	14,629,245	14,168,031
Recovery	( 14,353,439)	( 14,063,219)
At June 30	<u>\$ 14,629,245</u>	<u>\$ 14,168,031</u>

E.Movements of ceded liability reserve and liability reserve are as follows:

	2017				2016			
	Foreign currency amount (in thousands)	Currency	Exchange rate	NTD (in thousands)	Foreign currency amount (in thousands)	Currency	Exchange rate	NTD (in thousands)
Ceded liability reserve								
At January 1	\$ 49,496	CNY	4.645	\$ 229,893	\$ 32,379	CNY	5.092	\$ 164,881
Provision	14,188			55,841	14,525			63,123
Recovery	(392)			(1,739)	(388)			(1,947)
At June 30	<u>\$ 63,292</u>	CNY	4.487	<u>\$ 283,995</u>	<u>\$ 46,516</u>	CNY	4.860	<u>\$ 226,057</u>

  

	2017				2016			
	Foreign currency amount (in thousands)	Currency	Exchange rate	NTD (in thousands)	Foreign currency amount (in thousands)	Currency	Exchange rate	NTD (in thousands)
Liability reserve								
At January 1	\$ 49,496	CNY	4.645	\$ 229,893	\$ 32,379	CNY	5.092	\$ 164,881
Provision	14,188			55,841	14,525			63,123
Recovery	(392)			(1,739)	(388)			(1,947)
At June 30	<u>\$ 63,292</u>	CNY	4.487	<u>\$ 283,995</u>	<u>\$ 46,516</u>	CNY	4.860	<u>\$ 226,057</u>

The provisions above include the effects of foreign exchange gains and losses.

F.Equalization reserves

(a)Details of equalization reserves are as follows:

	June 30, 2017	December 31, 2016	June 30, 2016
Equalization reserve for statutory insurance	\$ 1,447,489	\$ 1,274,144	\$ 1,485,901
Reserve for fluctuation of risk	2,055,296	2,055,296	2,055,296
Reserve for extraordinary business losses	525,782	525,782	525,782
	<u>\$ 4,028,567</u>	<u>\$ 3,855,222</u>	<u>\$ 4,066,979</u>

(b)Movement of equalization reserves is as follows:

	2017	2016
At January 1	\$ 3,855,222	\$ 3,973,029
Provision	173,345	93,950
Recovery	-	-
At June 30	<u>\$ 4,028,567</u>	<u>\$ 4,066,979</u>

(c)According to Jin-Kuan-Bao-Tsai Order No. 10102517491, "Directions for Strengthening Special Reserve by Reinsurance Enterprises", Jin-Kuan-Bao-Chan Order No. 10102531541,

“Directions for Strengthening Co-insurance Reserve of Residential Earthquake Insurance” and Jin-Kuan-Bao-Tsai Order No. 10102517091, “Regulations for Reserving Nuclear Energy Insurance Reserve by Non-Life Insurance Enterprises” dated December 28, 2012, the Company’s accounts applicable or not applicable for the reserve for the six-month periods ended June 30, 2017 and 2016, are as follows:

Six-month period ended June 30, 2017				
Earnings per share				
	Net income	(in dollars)	Total liabilities	Total equity
Applicable	\$ 594,470	\$ 1.06	\$ 25,654,841	\$ 10,180,618
Not applicable	594,470	1.06	23,354,361	12,481,098
Effect	\$ -	\$ -	(\$ 2,300,480)	\$ 2,300,480

  

Six-month period ended June 30, 2016				
Earnings per share				
	Net income	(in dollars)	Total liabilities	Total equity
Applicable	\$ 308,408	\$ 0.55	\$ 25,145,354	\$ 9,147,747
Not applicable	308,408	0.55	22,844,874	11,448,227
Effect	\$ -	\$ -	(\$ 2,300,480)	\$ 2,300,480

G. Movements of ceded premium deficiency reserve and premium deficiency reserve are as follows:

	2017	2016
Ceded premium deficiency reserve		
At January 1	\$ 2,193	\$ 1,832
Provision	999	2,348
Recovery	(2,193)	(1,832)
At June 30	\$ 999	\$ 2,348

  

	2017	2016
Premium deficiency reserve		
At January 1	\$ 29,887	\$ 85,275
Provision	37,420	41,252
Recovery	(29,887)	(85,275)
At June 30	\$ 37,420	\$ 41,252

H. The Company’s future cash flows of insurance liabilities (excluding equalization reserve) are as follows:

	June 30, 2017	Due in one year	Due after one year	Total
Insurance liabilities				
Unearned premium reserve	\$ 2,454,776	\$ 1,658,454	\$ 4,113,230	
Claims reserve	7,482,115	5,054,941	12,537,056	
Liability reserve	-	283,995	283,995	
Premium deficiency reserve	22,332	15,088	37,420	

Note: Insurance liabilities exclude statutory insurance (total amount of compulsory automobile liability insurance, residential earthquake insurance and nuclear insurance is \$3,569,869).

<u>December 31, 2016</u>	<u>Due in one year</u>	<u>Due after one year</u>	<u>Total</u>
Insurance liabilities			
Unearned premium reserve	\$ 2,216,192	\$ 1,447,540	\$ 3,663,732
Claims reserve	7,419,842	4,846,387	12,266,229
Liability reserve	-	229,893	229,893
Premium deficiency reserve	18,079	11,808	29,887

Note: Insurance liabilities exclude statutory insurance (total amount of compulsory automobile liability insurance, residential earthquake insurance and nuclear insurance is \$3,549,675).

<u>June 30, 2016</u>	<u>Due in one year</u>	<u>Due after one year</u>	<u>Total</u>
Insurance liabilities			
Unearned premium reserve	\$ 2,399,923	\$ 1,567,547	\$ 3,967,470
Claims reserve	7,302,215	4,769,557	12,071,772
Liability reserve	-	226,057	226,057
Premium deficiency reserve	24,953	16,299	41,252

Note: Insurance liabilities exclude statutory insurance (total amount of compulsory automobile liability insurance, residential earthquake insurance and nuclear insurance is \$3,551,970).

(11) Reserves for unqualified reinsurance

A. Summary of unqualified reinsurance contracts are set forth as follows:

The Company entered into contracts with insurance companies and insurance brokers as follows:

The scope of reinsurance is the same as the Company's insurance contracts.

<u>Insurance companies / Insurance brokers</u>	<u>Type of contract</u>
WALSUN INSURANCE LTD.	Fire insurance, marine cargo insurance, inland marine insurance, marine hull insurance, automobile insurance, casualty insurance, engineering insurance, fishing vessel insurance and personal accident insurance
OIC RUN-OFF LIMITED(FORMERLY ORION)	Aviation insurance
SOMPO JAPAN INSURANCE COMPANY (ASIA) PTE LTD	Aviation insurance
AXA REINSURANCE COMPANY-FRANCE	Aviation insurance
BEST RE (L) LIMITED	Fire insurance and casualty insurance
SWISS RE FRANKONA	Aviation insurance
RUCKVERSICHERUNGS-AG GERMANY	
GLACIER REINSURANCE A.G.	Aviation insurance
ALLIANZ MARINE & AVIATION	Aviation insurance and
VERSICHERUNGS AG	personal accident insurance

<u>Insurance companies / Insurance brokers</u>	<u>Type of contract</u>
DELVAG VERSICHERUNGS-AG (FORMERLY DELVAG RUCKVERSICHERUNGS AG)	Aviation insurance
GROUPAMA ASSURANCES & SERVICES	Aviation insurance
GROUPAMA TRANSPORT, LE HAVRE	Aviation insurance
LE CONTINENT IARD	Aviation insurance
MAPFRE INDUSTRIAL SOCIEDAD ANONIMA DE SEG SA	Aviation insurance
TOKIO MARINE GLOBAL RE ASIA LTD. (KUALA LUMPUR OFFICE)	Marine cargo insurance and engineering insurance
MILLI REASURANS T. A. S. SINGAPORE BRANCH	Fire insurance, engineering and marine hull insurance
WILSON RE LIMITED	Casualty insurance
M.B. BODA REINSURANCE BROKERS PVT. LTD.	Fire insurance
COSMOS SERVICES CO., LTD.	Fire insurance
INTERLINK INSURANCE & REINSURANCE BROKERS PVT. LTD.	Fire insurance, marine cargo insurance and marine hull insurance
J B BODA INSURANCE SERVICES (L) BHD	Fire insurance and marine hull insurance
GUY CARPENTER & COMPANY LTD.	Fire insurance
CATHAY INSURANCE (BERMUDA) CO., LTD.	Personal accident insurance

B.As of June 30, 2017, December 31, 2016 and June 30, 2016, the Company had no unqualified reinsurance premiums ceded.

C.Reserve for unqualified reinsurance as of June 30, 2017, December 31, 2016 and June 30, 2016 were \$6,969, \$7,596 and \$854, respectively.

(12) Offsetting financial assets and financial liabilities

A.The Company has derivative assets that do not meet the offsetting criteria in paragraph 42 of IAS 32. However, the Company has transactions that are or are similar to net settled master netting arrangements. If one party breaches the contract (in the case of default and insolvency or bankruptcy), the counterparty can choose to use net settlement. The related amount of offsetting shall not exceed the gross amounts of recognized financial assets and liabilities.

B. The related information of financial assets and financial liabilities that can be settled under agreements of net settled master netting arrangements or similar arrangements are as follows:

(a) Financial assets

<u>Description</u>	<u>Gross amounts of recognized financial assets</u>	<u>Financial instruments not set off in the balance sheet</u>	<u>Net amount</u>
<u>June 30, 2017</u>			
Derivatives	\$ <u>3,982</u>	\$ <u>3,982</u>	\$ <u>-</u>
<u>December 31, 2016</u>			
Derivatives	\$ <u>31,192</u>	\$ <u>8,340</u>	\$ <u>22,852</u>
<u>June 30, 2016</u>			
Derivatives	\$ <u>45,824</u>	\$ <u>5,041</u>	\$ <u>40,783</u>

Note: The above-mentioned items are all accounted as financial assets at fair value through profit or loss.

(b) Financial liabilities

<u>Description</u>	<u>Gross amounts of recognized financial liabilities</u>	<u>Financial instruments not set off in the balance sheet</u>	<u>Net amount</u>
<u>June 30, 2017</u>			
Derivatives	\$ <u>62,910</u>	\$ <u>3,982</u>	\$ <u>58,928</u>
<u>December 31, 2016</u>			
Derivatives	\$ <u>25,879</u>	\$ <u>8,340</u>	\$ <u>17,539</u>
<u>June 30, 2016</u>			
Derivatives	\$ <u>8,427</u>	\$ <u>5,041</u>	\$ <u>3,386</u>

Note: The above-mentioned items are all accounted as financial liabilities at fair value through profit or loss.

(13) Property and equipment

	<u>Land</u>	<u>Building</u>	<u>Computer equipment</u>	<u>Transportation equipment</u>	<u>Miscellaneous equipment</u>	<u>Total</u>
<u>At January 1, 2017</u>						
Cost	\$ 180,796	\$ 89,414	\$ 17,302	\$ 4,923	\$ 3,689	\$ 296,124
Accumulated depreciation	-	( 68,973)	( 12,224)	( 3,791)	( 2,943)	( 87,931)
	<u>\$ 180,796</u>	<u>\$ 20,441</u>	<u>\$ 5,078</u>	<u>\$ 1,132</u>	<u>\$ 746</u>	<u>\$ 208,193</u>
<u>2017</u>						
At January 1	\$ 180,796	\$ 20,441	\$ 5,078	\$ 1,132	\$ 746	\$ 208,193
Additions	-	691	3,476	-	134	4,301
Disposals-cost	-	-	( 102)	-	-	( 102)
Disposals-accumulated depreciation	-	-	102	-	-	102
Depreciation	-	( 1,644)	( 1,366)	( 162)	( 99)	( 3,271)
At June 30	<u>\$ 180,796</u>	<u>\$ 19,488</u>	<u>\$ 7,188</u>	<u>\$ 970</u>	<u>\$ 781</u>	<u>\$ 209,223</u>
<u>At June 30, 2017</u>						
Cost	\$ 180,796	\$ 90,105	\$ 20,676	\$ 4,923	\$ 3,823	\$ 300,323
Accumulated depreciation	-	( 70,617)	( 13,488)	( 3,953)	( 3,042)	( 91,100)
	<u>\$ 180,796</u>	<u>\$ 19,488</u>	<u>\$ 7,188</u>	<u>\$ 970</u>	<u>\$ 781</u>	<u>\$ 209,223</u>

	Land	Building	Computer equipment	Transportation equipment	Miscellaneous equipment	Total
<u>At January 1, 2016</u>						
Cost	\$ 180,796	\$ 89,414	\$ 16,971	\$ 6,092	\$ 3,453	\$ 296,726
Accumulated depreciation	-	( 65,687)	( 10,195)	( 4,637)	( 2,763)	( 83,282)
	<u>\$ 180,796</u>	<u>\$ 23,727</u>	<u>\$ 6,776</u>	<u>\$ 1,455</u>	<u>\$ 690</u>	<u>\$ 213,444</u>
<u>2016</u>						
At January 1	\$ 180,796	\$ 23,727	\$ 6,776	\$ 1,455	\$ 690	\$ 213,444
Additions	-	-	514	-	92	606
Disposals-cost	-	-	( 609)	-	-	( 609)
Disposals-accumulated depreciation	-	-	609	-	-	609
Depreciation	-	( 1,650)	( 1,368)	( 161)	( 87)	( 3,266)
At June 30	<u>\$ 180,796</u>	<u>\$ 22,077</u>	<u>\$ 5,922</u>	<u>\$ 1,294</u>	<u>\$ 695</u>	<u>\$ 210,784</u>
<u>At June 30, 2016</u>						
Cost	\$ 180,796	\$ 89,414	\$ 16,876	\$ 6,092	\$ 3,545	\$ 296,723
Accumulated depreciation	-	( 67,337)	( 10,954)	( 4,798)	( 2,850)	( 85,939)
	<u>\$ 180,796</u>	<u>\$ 22,077</u>	<u>\$ 5,922</u>	<u>\$ 1,294</u>	<u>\$ 695</u>	<u>\$ 210,784</u>

The above assets were not pledged to others as collateral.

(14) Accounts payable

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Due to reinsurers and ceding companies	\$ 202,751	\$ 171,583	\$ 186,370
Other payables	584,981	145,557	854,660
	<u>\$ 787,732</u>	<u>\$ 317,140</u>	<u>\$ 1,041,030</u>

(15) Employee benefits

A. Defined benefit obligation

(a) The Company has established a defined benefit pension plan in accordance with the Labor Standards Act. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 8% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit once or in installments.

(b) For the aforementioned pension plan, the Company recognized pension costs of \$633, \$809, \$1,266 and \$1,618 for the three-month and six-month periods ended June 30, 2017 and 2016, respectively.

(c) Expected contributions to the defined benefit pension plans of the Company for the years ending December 31, 2018 and 2017 both amounts to \$4,207.

B. Defined contribution plan

(a) Effective July 1, 2005, under the defined contribution plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance in accordance with the Labor Pension Act.

(b) The pension costs under the above-mentioned pension plan of the Company for the three-month and six-month periods ended June 30, 2017 and 2016 were \$1,630, \$1,576, \$3,259 and \$3,155, respectively.

(16) Common stock

As of June 30, 2017 and 2016, the Company's authorized capital were \$6,000,000, and the paid-in capital were \$5,622,750, with a par value of \$10 (in dollars) per share.

(17) Capital reserve

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal

reserve is insufficient. However, according to Jin-Kuan-Bao-Tsai Letter No. 10202501991, for the purpose of strengthening the solvency and operation, insurance companies having no deficit should submit relevant documents demonstrating the financial soundness and steady operation of their companies to FSC for approval before the stockholders' meeting if they propose to use legal reserve provided under Article 145-1 of Insurance Act and capital surplus to issue cash to shareholders in proportion to their share ownership in accordance with Article 241 of the R.O.C. Company Act.

(18) Retained earnings

A. Limitation on distribution of retained earnings and dividend policy

Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 20% of the remaining amount shall be set aside as legal reserve. Afterwards, the Company shall recognize or reverse special reserve in accordance with regulations, and accumulated unappropriated earnings of the prior period. Appropriation of the remainder shall be proposed by the Board of Directors and resolved by the stockholders.

The Company's dividends are distributed in the form of cash dividends and stock dividends in a coordinated way, among which, the cash dividends shall account for at least 50% of the total dividends distributed.

Pursuant to the R.O.C. Insurance Act, legal reserve shall be set aside until the total amount reaches the total capital. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital. In addition, procedures for those requiring approval from competent authorities to use legal reserve for issuance of cash in accordance with Jin-Kuan-Bao-Tsai Letter No. 10202501991 are set out in Note 6 (17).

Under the Integrated Income Tax System, ROC, tax credits allocated to stockholders are based on the balance of Imputation Credit Account on the dividend distribution date.

B. Special reserve

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Equalization reserve	\$ 1,307,604	\$ 1,307,604	\$ 1,067,966
Unrealized revaluation increment	126,557	126,557	126,557
Deduction of other equity	131,439	-	-
Employees' education and training	3,829	-	-
	<u>\$ 1,569,429</u>	<u>\$ 1,434,161</u>	<u>\$ 1,194,523</u>

(a) According to regulations, the Company should set aside special reserve equal to the deducted amount of the equity from earnings after tax of the current year and the unappropriated earnings of the prior period. For the deducted amount from the equity accumulated from prior periods, an equal amount of special reserve should be set aside from unappropriated earnings of the prior period and is not to be distributed. If there is a reversal of deducted amount of equity, earnings may be distributed based on the reversal. For the year 2016, the other equity item of the Company had the debit balance of \$131,439, which has been set aside as special reserve

under equity as approved by the stockholders in 2017.

(b) For the year 2016, the provision for equalization reserve amounting to \$239,638 had been recognized as special reserve under equity upon annual resolution and is not available for distribution.

(c) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Kuan-Zheng-Fa Order No. 1010012865, dated April 6, 2012 and Jin-Kuan-Bao-Tsai Order No. 10102508861, dated June 5, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently. The Company had transferred the amount of \$126,557 of unrealized gain from real estate value-added to special reserve under equity.

(d) In accordance with the regulations of Jin-Kuan-Bao-Tsai Order No. 10502066461 promulgated on July 13, 2016, upon appropriating the earnings of 2016 through 2018, the Company shall provision 0.5% of income after tax as special reserve. And starting from the subsequent year of the provision of such special reserve, special reserve as mentioned above may be reversed in an amount equal to expenditures that were for employees' education and training and for the protection of employees' interest. The Company had transferred the amount of \$3,829 for expenditures that were for employees' education and training and for the protection of employees' interest to special reserve under equity as approved by the stockholders in 2017.

C. On May 31, 2017, the distribution of earnings for 2016 as resolved by the stockholders was \$281,138 (cash dividend of \$0.5 (in dollars) per share). On May 27, 2016, the distribution of earnings for 2015 as resolved by the stockholders was \$393,593 (cash dividend of \$0.7 (in dollars) per share).

Detailed information on earnings appropriation resolved by the stockholders' is posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

D. For information relating to employees' compensation and directors' remuneration, please see Note 6 (20).

(19) Income tax

A. Components of income tax expense:

	Three-month period ended June 30, 2017	Three-month period ended June 30, 2016
Current income tax:		
Current income tax on profits for the period	\$ 69,507	\$ 56,970
Adjustments in respect of prior years	3,762	( 770)
Deferred income tax:		
Origination and reversal of temporary difference	5,262	( 13,729)
Income tax expense	<u>\$ 78,531</u>	<u>\$ 42,471</u>

	Six-month period ended June 30, 2017	Six-month period ended June 30, 2016
Current income tax:		
Current income tax on profits for the period	\$ 135,520	\$ 87,385
Adjustments in respect of prior years	3,826	( 770)
Deferred income tax:		
Origination and reversal of temporary difference	( 24,190)	( 21,339)
Income tax expense	<u>\$ 115,156</u>	<u>\$ 65,276</u>

B. The income tax relating to components of other comprehensive income are as follows:

	Three-month period ended June 30, 2017	Three-month period ended June 30, 2016
Exchange differences on translation of foreign financial statements	\$ 182	(\$ 134)
Changes in fair value of available-for-sale financial assets	44,646	( 8,752)
	<u>\$ 44,828</u>	<u>(\$ 8,886)</u>
	Six-month period ended June 30, 2017	Six-month period ended June 30, 2016
Exchange differences on translation of foreign financial statements	(\$ 10,506)	(\$ 2,138)
Changes in fair value of available-for-sale financial assets	69,680	( 13,444)
	<u>\$ 59,174</u>	<u>(\$ 15,582)</u>

C. The Company's income tax returns have been assessed and approved by the Tax Authority up to 2015.

D. All undistributed earnings of the Company originated from years after 1998.

E. As of June 30, 2017, December 31, 2016 and June 30, 2016, the balance of the imputation tax credit account were \$64,230, \$138,787 and \$64,495, respectively. The creditable tax rate for 2016 and 2015 are 28.03% and 23.96%, respectively.

(20) Employee benefits expense, depreciation and amortization

Employee benefits expense, depreciation and amortization by function are as follows:

Expense \ Function	Three-month period ended June 30, 2017		Three-month period ended June 30, 2016	
	Operating Costs	Operating Expenses	Operating Costs	Operating Expenses
Employee Benefits Expense	\$ -	\$ 51,754	\$ -	\$ 50,047
Salaries	-	44,525	-	42,778
Employees' insurance	-	2,731	-	2,743
Pension	-	2,263	-	2,385
Other employee benefits expense (Note 1)	-	2,235	-	2,141
Depreciation (Note 2)	643	1,689	651	1,639
Amortization	-	405	-	399

  

Expense \ Function	Six-month period ended June 30, 2017		Six-month period ended June 30, 2016	
	Operating Costs	Operating Expenses	Operating Costs	Operating Expenses
Employee Benefits Expense	\$ -	\$ 103,760	\$ -	\$ 100,140
Salaries	-	89,198	-	85,649
Employees' insurance	-	5,961	-	5,872
Pension	-	4,525	-	4,773
Other employee benefits expense (Note 1)	-	4,076	-	3,846
Depreciation (Note 2)	1,274	3,271	1,303	3,266
Amortization	-	810	-	797

As of June 30, 2017 and 2016, the Company had 136 and 134 employees, respectively.

Note 1: Other employee benefits expense include employees' welfare and training expenses.

Note 2: The depreciation, which is classified as operating cost, is accounted for as deduction to gain on investment property.

A. According to the Company's Articles of Incorporation, after covering accumulated deficits with current year earnings, the remainder, if any, shall provision employees' compensation of no less than 0.5% and directors' remunerations of no more than 1%.

B. The Company's estimated employees' compensation of \$2,836, \$1,864, \$4,940 and \$2,530 for the three-month and six-month periods ended June 30, 2017 and 2016, respectively, were determined from earnings on a pro-rata basis, which fell within the scope of the Company's Articles of Incorporation's requirements. The Company's estimated directors' remuneration for the three-month and six-month periods ended June 30, 2017 and 2016 were \$675, \$675, \$1,350 and \$1,350, respectively. The aforementioned amounts were recognized in salary expenses.

The 2016 employees' compensation of \$6,175 and directors' remuneration of \$2,700 as approved by the Board of Directors of the Company were in agreement with the amounts recognized in the 2016 financial statements, and employees' compensation and directors' remuneration are

distributed in the form of cash.

Information about the appropriation of employees' compensation and directors' remuneration by the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(21) Supplemental cash flow information

Investing activities with partial cash payments:

	Six-month period ended June 30, 2017	Six-month period ended June 30, 2016
Increase in investment	(\$ 6,524,746)	(\$ 9,517,785)
Decrease in investment	5,852,958	6,645,739
Add: ending balance of payable on investment	217,889	379,904
opening balance of receivable on investment	8,443	115,224
Less: opening balance of payable on investment	( 52,512)	( 51,980)
ending balance of receivable on investment	( 85,034)	( 10,994)
Net cash used in investments	(\$ 583,002)	(\$ 2,439,892)

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and their relationship with the Company

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Evergreen International Corporation	Parent company
Evergreen Insurance Company Limited	Other related parties
Directors, general managers, vice general managers, etc.	Key management of the Company

(2) Significant related party transactions and balances

A. Due from reinsurers and ceding companies (shown under reinsurance contract assets)

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Other related parties	\$ 298	\$ 97	\$ 543

B. Other payables (shown under accounts payable)

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Parent	\$ 1,515	\$ 1,465	\$ 1,375

C. Operating revenues and operating costs

	Three-month period ended June 30, 2017	Three-month period ended June 30, 2016
Other related parties		
Gross premiums written	\$ 10,481	\$ 3,831
Reinsurance premiums ceded	66	( 439)
Reinsurance commission expenses	2,984	939
Reinsurance commission revenue	( 20)	( 34)
Reinsurance claims paid	1,647	22,038
Reinsurance claims recovery	67	71

	Six-month period ended June 30, 2017	Six-month period ended June 30, 2016
Other related parties		
Gross premiums written	\$ 8,278	\$ 12,729
Reinsurance premiums ceded	912	1,052
Reinsurance commission expenses	2,013	3,666
Reinsurance commission revenue	( 40)	( 32)
Reinsurance claims paid	5,479	22,039
Reinsurance claims recovery	87	75

The differences of prices and conditions between related parties and non-related parties were not significant.

#### D. Operating expenses

	Three-month period ended June 30, 2017	Three-month period ended June 30, 2016
Parent		
System service charge, fees paid to stock transfer agent and printing expenses, etc.	<u>\$ 3,841</u>	<u>\$ 3,799</u>

	Six-month period ended June 30, 2017	Six-month period ended June 30, 2016

Parent		
System service charge, fees paid to stock transfer agent and printing expenses, etc.	<u>\$ 7,178</u>	<u>\$ 7,116</u>

#### (3) Key management compensation

	Three-month period ended June 30, 2017	Three-month period ended June 30, 2016
Salaries and other short-term employee benefits	\$ 7,556	\$ 6,678
Post-employment benefits	170	125
	<u>\$ 7,726</u>	<u>\$ 6,803</u>

	Six-month period ended June 30, 2017	Six-month period ended June 30, 2016
Salaries and other short-term employee benefits	\$ 15,116	\$ 13,184
Post-employment benefits	339	246
	<u>\$ 15,455</u>	<u>\$ 13,430</u>

#### 8. PLEDGED ASSETS

Please see Note 6 (4).

## 9. COMMITMENTS

None.

## 10. SIGNIFICANT ACCIDENTAL LOSS

None.

## 11. SIGNIFICANT SUBSEQUENT EVENTS

None.

## 12. OTHERS

### (1) Fair value information

A. The fair value of the Company's financial instruments not measured at fair value is provided in Note 12 (1) K. The fair value of the Company's investment property measured at cost model is provided in Note 6 (9).

B. The different levels that the inputs to valuation techniques are used to measure fair value of financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an on-going basis. The fair value of the Company's investment in listed and over-the-counter stocks, beneficiary certificates and convertible corporate bonds is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Company's investment in off-the-run government bonds, corporate bonds, financial bonds and derivative instruments is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Company's investment in part of investments in debt instrument, mandatory convertible corporate bonds without active market and investment property is included in Level 3.

C. The related information of financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at June 30, 2017, December 31, 2016 and June 30, 2016 is as follows:

<u>June 30, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Non-derivative financial instruments				
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Listed and over-the-counter common stocks	\$ 1,543,778	\$ -	\$ -	\$ 1,543,778
Financial assets designated as at fair value through profit or loss on initial recognition				
Mandatory convertible corporate bonds	-	-	407,324	407,324
Available-for-sale financial assets				
Securitized real estate products	795,997	-	-	795,997
Index funds	608,394	-	-	608,394
Government bonds	-	791,948	-	791,948
Listed and over-the-counter common stocks	3,177,886	-	-	3,177,886
Listed and over-the-counter preferred stocks	-	24,200	-	24,200
Open-end funds	397,176	-	-	397,176
Corporate bonds	-	148,806	-	148,806
Derivative financial instruments				
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
FX swap contracts	\$ -	\$ 3,982	\$ -	\$ 3,982
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
FX swap contracts	-	46,677	-	46,677
Forward foreign exchange contracts	-	16,233	-	16,233

<u>December 31, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Non-derivative financial instruments				
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Listed and over-the-counter				
common stocks	\$ 273,807	\$ -	\$ -	\$ 273,807
Index funds	32,377	-	-	32,377
Financial assets designated as at fair value through profit or loss on initial recognition				
Convertible corporate bonds	4,613	-	-	4,613
Mandatory convertible corporate bonds	-	-	431,568	431,568
Available-for-sale financial assets				
Securitized real estate products	865,854	-	-	865,854
Index funds	369,166	-	-	369,166
Government bonds	-	804,350	-	804,350
Listed and over-the-counter common stocks	3,801,820	-	-	3,801,820
Listed and over-the-counter preferred stocks	-	22,907	-	22,907
Open-end funds	465,715	-	-	465,715
Corporate bonds	-	155,680	-	155,680
Derivative financial instruments				
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
FX swap contracts	\$ -	\$ 20,767	\$ -	\$ 20,767
Forward foreign exchange contracts	-	10,425	-	10,425
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
FX swap contracts	-	21,920	-	21,920
Forward foreign exchange contracts	-	3,959	-	3,959

<u>June 30, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Non-derivative financial instruments				
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Listed and over-the-counter				
common stocks	\$ 29,381	\$ -	\$ -	\$ 29,381
Index funds	35,144	-	-	35,144
Financial assets designated as at fair value through profit or loss on initial recognition				
Convertible corporate bonds	1,590	-	-	1,590
Mandatory convertible corporate bonds	-	-	451,706	451,706
Available-for-sale financial assets				
Securitized real estate products	897,324	-	-	897,324
Index funds	478,543	-	-	478,543
Government bonds	-	952,145	-	952,145
Listed and over-the-counter				
common stocks	2,895,710	-	-	2,895,710
Listed and over-the-counter preferred stocks	-	22,330	-	22,330
Open-end funds	973,103	-	-	973,103
Derivative financial instruments				
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
FX swap contracts	\$ -	\$ 41,609	\$ -	\$ 41,609
Forward foreign exchange contracts	-	4,215	-	4,215
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
FX swap contracts	-	2,026	-	2,026
Forward foreign exchange contracts	-	5,717	-	5,717
Futures	-	684	-	684

D. The methods and assumptions the Company used to measure fair value are as follows:

- (a) The instruments the Company used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

<u>Listed shares</u>	<u>Index funds</u>	<u>Convertible bond</u>	<u>Real estate securitization products</u>	<u>Open-end funds</u>
Closing price	Closing price	Closing price	Closing price	Net asset value

- (b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques method can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted from Reuters).
- (c) When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market and swap contracts, the Company adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.
- (d) For high-complexity financial instruments, the fair value is measured by using self-developed valuation model based on the valuation method and technique widely used within the same industry. The valuation model is normally applied to derivative financial instruments, debt instruments with embedded derivatives or securitized instruments. Certain inputs used in the valuation model are not observable at market, and the Company must make reasonable estimates based on its assumptions. The effect of unobservable inputs to the valuation of financial instruments is provided in Note 12 (1) I.
- (e) The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques. Forward exchange contracts are usually valued based on the current forward exchange rate.
- (f) The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Company's financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Company's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial instruments at the balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.
- (g) The Company takes into account adjustments for credit risks to measure the fair value of financial instruments to reflect credit risk of the counterparty and the Company's credit quality.
- E. For the six-month periods ended June 30, 2017 and 2016, there were no transfer between Level 1 and Level 2.

F.The following table presents the changes in level 3 instruments for the six-month periods ended June 30, 2017 and 2016:

Six-month period ended June 30, 2017							
	<u>Gain or loss on valuation</u>	<u>Acquired in the period</u>	<u>Disposed of in the period</u>				
	Recognized	Recognized in	Transfers	Sell,	Transfers		
	in profit or	other	into	disposal	out		
	loss	comprehensive	level 3	or	from		
		income	Buy or	settle	level 3		Ending
	<u>balance</u>	<u>loss</u>	<u>issuance</u>	<u>level 3</u>	<u>level 3</u>	<u>level 3</u>	<u>balance</u>
Financial assets at fair value through profit or loss							
Financial assets designated as at fair value through profit or loss on initial recognition	\$ 431,568	(\$ 24,244)	\$ -	\$ -	\$ -	\$ -	\$ 407,324

Six-month period ended June 30, 2016							
	<u>Gain or loss on valuation</u>	<u>Acquired in the period</u>	<u>Disposed of in the period</u>				
	Recognized	Recognized in	Transfers	Sell,	Transfers		
	in profit or	other	into	disposal	out		
	loss	comprehensive	level 3	or	from		
		income	Buy or	settle	level 3		Ending
	<u>balance</u>	<u>loss</u>	<u>issuance</u>	<u>level 3</u>	<u>level 3</u>	<u>level 3</u>	<u>balance</u>
Financial assets at fair value through profit or loss							
Financial assets designated as at fair value through profit or loss on initial recognition	\$ 455,027	(\$ 3,321)	\$ -	\$ -	\$ -	\$ -	\$ 451,706

Gain or loss on valuation recognized in profit or loss arising from the assets held for the six-month periods ended June 30, 2017 and 2016 was (\$24,244) and (\$3,321), respectively.

G.For the six-month periods ended June 30, 2017 and 2016, there were no transfer into or out from Level 3.

H. Financial segment is in charge of valuation procedures for fair value measurements being categorized within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently updating inputs used to the valuation model and making any other necessary adjustments to the fair value. Financial segment set up valuation policies, valuation processes and rules for measuring fair value of financial instruments and ensure compliance with the related requirements in IFRS.

I. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	<u>Fair value at June 30, 2017</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Hybrid instrument:					
Financial assets at fair value through profit or loss					
Financial assets designated as at fair value through profit or loss on initial recognition					
Domestic mandatory convertible corporate bonds (Note)	\$ 407,324	The binary tree stock discount model of convertible bonds	Liquidity premium	4.27%	Liquidity premium lower, fair value higher

	<u>Fair value at December 31, 2016</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Hybrid instrument:					
Financial assets at fair value through profit or loss					
Financial assets designated as at fair value through profit or loss on initial recognition					
Domestic mandatory convertible corporate bonds (Note)	\$ 431,568	The binary tree stock discount model of convertible bonds	Liquidity premium	3.72%	Liquidity premium lower, fair value higher
	<u>Fair value at June 30, 2016</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Hybrid instrument:					
Financial assets at fair value through profit or loss					
Financial assets designated as at fair value through profit or loss on initial recognition					
Domestic mandatory convertible corporate bonds (Note)	\$ 451,706	The binary tree stock discount model of convertible bonds	Liquidity premium	2.97%	Liquidity premium lower, fair value higher

Note: Items that affect the fair value measurement of mandatory convertible corporate bonds include observable stock prices.

J.The Company has carefully assessed the valuation models and assumptions used to measure fair value; therefore, the fair value measurement is reasonable; however, different valuation model or input could result in different valuation result. Specifically, if the valuation input of financial instrument classified in Level 3 such as market interest rates increase or decrease by 50 basis points, the effects on profit and loss in the period are as follows:

	<u>June 30, 2017</u>		<u>June 30, 2016</u>	
	Change in fair value recognized in profit and loss		Change in fair value recognized in profit and loss	
	<u>Favorable</u>	<u>Unfavorable</u>	<u>Favorable</u>	<u>Unfavorable</u>
Hybrid instrument:				
Financial assets at fair value through profit or loss				
Financial assets designated as at fair value through profit or loss on initial recognition	\$ 3,451	(\$ 3,388)	\$ 5,754	(\$ 5,584)

K.Fair value of the financial instruments not measured at fair value

Except for the financial instruments below and investment property, the carrying amounts of the Company's financial instruments not measured at fair value (including cash and cash equivalents, accounts receivable, other financial assets and accounts payable) are approximate to their fair values.

	<u>June 30, 2017</u>				<u>December 31, 2016</u>			
	<u>Book value</u>	Fair value			<u>Book value</u>	Fair value		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Non-derivative financial instruments								
Investments in debt instruments								
without active market	\$5,021,908	\$ -	\$3,470,004	\$1,546,324	\$4,720,927	\$ -	\$3,457,942	\$1,218,754
Held-to-maturity financial assets	2,203,218	-	2,195,997	-	1,186,282	-	1,167,856	-

	June 30, 2016			
	<u>Fair value</u>			
	<u>Book value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Non-derivative financial instruments				
Investments in debt instruments				
without active market	\$4,850,150	\$ -	\$3,953,293	\$ 944,605
Held-to-maturity financial assets	1,147,260	-	1,156,382	-

The different levels that the inputs to valuation techniques are used to measure fair value of financial instruments have been defined in Note 12 (1) B, and the methods and assumptions are as follows:

If recent transaction prices or market maker quotes are available, the fair value is based on such information. If there is no quoted market price available, the fair value is determined by using valuation techniques and calculated as the present value of the estimated cash flows.

(2) Assets and liabilities recoverable or payable within or over 12 months from the reporting date are as follows:

Assets	June 30, 2017			December 31, 2016		
	Book value	Within 12 months	Over 12 months	Book value	Within 12 months	Over 12 months
Cash and cash equivalents	\$ 14,810,522	\$ 14,810,522	\$ -	\$ 15,588,709	\$ 15,588,709	\$ -
Accounts receivable	225,478	225,478	-	116,044	116,044	-
Financial assets at fair value through profit or loss	1,955,084	1,547,760	407,324	773,557	337,376	436,181
Available-for-sale financial assets	5,465,018	5,003,654	461,364	6,004,823	5,525,463	479,360
Investments in debt instruments without active market	5,021,908	1,039,297	3,982,611	4,720,927	770,803	3,950,124
Held-to-maturity financial assets	1,769,447	451,419	1,318,028	748,490	81,366	667,124
Other financial assets	447,864	447,864	-	206,259	206,259	-
Investment property	453,662	-	453,662	454,638	-	454,638
Reinsurance contract assets	4,328,620	3,516,349	812,271	3,624,254	2,786,812	837,442
Property and equipment	209,223	-	209,223	208,193	-	208,193
Intangible assets	1,670	-	1,670	2,480	-	2,480
Other assets	1,085,419	9,531	1,075,888	1,078,718	5,217	1,073,501
<b>Liabilities</b>						
Accounts payable	\$ 787,732	\$ 787,731	\$ 1	\$ 317,140	\$ 316,601	\$ 539
Current income tax liabilities	126,627	126,627	-	81,327	81,327	-
Financial liabilities at fair value through profit or loss	62,910	62,910	-	25,879	25,879	-
Insurance liabilities	24,570,137	13,529,092	11,041,045	23,594,638	13,203,787	10,390,851
Provisions	2,338	-	2,338	3,142	-	3,142
Other liabilities	28,154	24,761	3,393	25,342	22,525	2,817

Assets	June 30, 2016		
	Book value	Within 12 months	Over 12 months
	Cash and cash equivalents	\$ 14,931,202	\$ 14,931,202
Accounts receivable	167,081	167,081	-
Current income tax assets	69,977	69,977	-
Financial assets at fair value through profit or loss	563,645	110,349	453,296
Available-for-sale financial assets	5,325,541	5,267,010	58,531
Investments in debt instruments without active market	4,850,150	267,721	4,582,429
Held-to-maturity financial assets	1,147,260	383,138	764,122
Other financial assets	1,563,309	1,563,309	-
Investment property	455,427	-	455,427
Reinsurance contract assets	3,917,828	3,106,628	811,200
Property and equipment	210,784	-	210,784
Intangible assets	3,205	-	3,205
Other assets	1,049,502	5,915	1,043,587
<b>Liabilities</b>			
Accounts payable	\$ 1,041,030	\$ 1,039,952	\$ 1,078
Current income tax liabilities	75,256	75,256	-
Financial liabilities at fair value through profit or loss	8,427	8,427	-
Insurance liabilities	23,925,500	13,279,061	10,646,439
Provisions	7,467	-	7,467
Other liabilities	38,343	37,632	711

(3) Calculation of retention earned premiums are shown below:

Three-month period ended June 30, 2017					
Category of insurance	Gross premiums written (1)	Reinsurance premiums ceded (2)	Retention premiums (3)=(1)-(2)	Net change in unearned premium reserve (4)	Retention earned premiums (5)=(3)-(4)
Non-Compulsory insurance	\$ 3,202,221	\$ 251,976	\$ 2,950,245	\$ 155,487	\$ 2,794,758
Compulsory insurance	603,432	-	603,432	15,003	588,429
	<u>\$ 3,805,653</u>	<u>\$ 251,976</u>	<u>\$ 3,553,677</u>	<u>\$ 170,490</u>	<u>\$ 3,383,187</u>
Three-month period ended June 30, 2016					
Category of insurance	Gross premiums written (1)	Reinsurance premiums ceded (2)	Retention premiums (3)=(1)-(2)	Net change in unearned premium reserve (4)	Retention earned premiums (5)=(3)-(4)
Non-Compulsory insurance	\$ 3,038,616	\$ 258,734	\$ 2,779,882	\$ 113,040	\$ 2,666,842
Compulsory insurance	575,868	-	575,868	7,841	568,027
	<u>\$ 3,614,484</u>	<u>\$ 258,734</u>	<u>\$ 3,355,750</u>	<u>\$ 120,881</u>	<u>\$ 3,234,869</u>
Six-month period ended June 30, 2017					
Category of insurance	Gross premiums written (1)	Reinsurance premiums ceded (2)	Retention premiums (3)=(1)-(2)	Net change in unearned premium reserve (4)	Retention earned premiums (5)=(3)-(4)
Non-Compulsory insurance	\$ 6,460,979	\$ 530,531	\$ 5,930,448	\$ 417,227	\$ 5,513,221
Compulsory insurance	1,219,163	-	1,219,163	13,263	1,205,900
	<u>\$ 7,680,142</u>	<u>\$ 530,531</u>	<u>\$ 7,149,611</u>	<u>\$ 430,490</u>	<u>\$ 6,719,121</u>

Six-month period ended June 30, 2016

Category of insurance	Gross premiums written (1)	Reinsurance premiums ceded (2)	Retention premiums (3)=(1)-(2)	Net change in unearned premium reserve (4)	Retention earned premiums (5)=(3)-(4)
Non-Compulsory insurance	\$ 6,168,719	\$ 540,150	\$ 5,628,569	\$ 358,534	\$ 5,270,035
Compulsory insurance	1,193,914	-	1,193,914	28,143	1,165,771
	\$ 7,362,633	\$ 540,150	\$ 6,822,483	\$ 386,677	\$ 6,435,806

(4) Calculation of retention reinsurance claims paid are shown below:

<u>Three-month period ended June 30, 2017</u>			
<u>Category of insurance</u>	<u>Reinsurance claims paid (1)</u>	<u>Reinsurance claims recovery (2)</u>	<u>Retention reinsurance claims paid (3)=(1)-(2)</u>
Non-Compulsory insurance	\$ 1,528,250	\$ 118,192	\$ 1,410,058
Compulsory insurance	494,323	-	494,323
	<u>\$ 2,022,573</u>	<u>\$ 118,192</u>	<u>\$ 1,904,381</u>
<u>Three-month period ended June 30, 2016</u>			
<u>Category of insurance</u>	<u>Reinsurance claims paid (1)</u>	<u>Reinsurance claims recovery (2)</u>	<u>Retention reinsurance claims paid (3)=(1)-(2)</u>
Non-Compulsory insurance	\$ 1,458,864	\$ 104,042	\$ 1,354,822
Compulsory insurance	473,497	-	473,497
	<u>\$ 1,932,361</u>	<u>\$ 104,042</u>	<u>\$ 1,828,319</u>
<u>Six-month period ended June 30, 2017</u>			
<u>Category of insurance</u>	<u>Reinsurance claims paid (1)</u>	<u>Reinsurance claims recovery (2)</u>	<u>Retention reinsurance claims paid (3)=(1)-(2)</u>
Non-Compulsory insurance	\$ 2,739,542	\$ 217,494	\$ 2,522,048
Compulsory insurance	1,033,240	-	1,033,240
	<u>\$ 3,772,782</u>	<u>\$ 217,494</u>	<u>\$ 3,555,288</u>
<u>Six-month period ended June 30, 2016</u>			
<u>Category of insurance</u>	<u>Reinsurance claims paid (1)</u>	<u>Reinsurance claims recovery (2)</u>	<u>Retention reinsurance claims paid (3)=(1)-(2)</u>
Non-Compulsory insurance	\$ 2,960,292	\$ 207,824	\$ 2,752,468
Compulsory insurance	1,021,463	-	1,021,463
	<u>\$ 3,981,755</u>	<u>\$ 207,824</u>	<u>\$ 3,773,931</u>

(5) Balance sheets for compulsory automobile liability insurance are as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 4,400,047	\$ 4,213,427	\$ 4,429,818
Due from reinsurers and ceding companies	<u>404,727</u>	<u>399,816</u>	<u>395,849</u>
	<u>\$ 4,804,774</u>	<u>\$ 4,613,243</u>	<u>\$ 4,825,667</u>
<b>Liabilities</b>			
Unearned premium reserve	\$ 1,456,376	\$ 1,443,113	\$ 1,434,819
Claims reserve	2,091,494	2,086,571	2,095,532
Equalization reserve	<u>1,256,904</u>	<u>1,083,559</u>	<u>1,295,316</u>
	<u>\$ 4,804,774</u>	<u>\$ 4,613,243</u>	<u>\$ 4,825,667</u>

Note: As of June 30, 2017, December 31, 2016 and June 30, 2016, certain time deposits, which amounted to \$396,800, \$167,486 and \$888,986 included above as cash and cash equivalents of compulsory automobile liability insurance did not meet the definition of cash equivalents, consequently they are presented under other financial assets.

(6) Details of revenues and costs for compulsory automobile liability insurance are as follows:

	<u>Three-month period ended June 30, 2017</u>	<u>Three-month period ended June 30, 2016</u>
<b>Operating revenues</b>		
Reinsurance premiums	\$ 603,432	\$ 575,868
Net change in unearned premium reserve	( 15,003)	( 7,841)
Retention earned premiums	588,429	568,027
Interest income	<u>2,803</u>	<u>3,379</u>
	<u>\$ 591,232</u>	<u>\$ 571,406</u>
<b>Operating costs</b>		
Reinsurance claims paid	\$ 494,323	\$ 473,497
Net change in claims reserve	9,826	( 12,789)
Net change in equalization reserve	<u>87,084</u>	<u>110,698</u>
	<u>\$ 591,233</u>	<u>\$ 571,406</u>

	Six-month period ended June 30, 2017	Six-month period ended June 30, 2016
Operating revenues		
Reinsurance premiums	\$ 1,219,163	\$ 1,193,914
Net change in unearned premium reserve	( 13,263)	( 28,143)
Retention earned premiums	1,205,900	1,165,771
Interest income	5,607	6,998
	<u>\$ 1,211,507</u>	<u>\$ 1,172,769</u>
Operating costs		
Reinsurance claims paid	\$ 1,033,240	\$ 1,021,463
Net change in claims reserve	4,923	57,356
Net change in equalization reserve	173,345	93,950
	<u>\$ 1,211,508</u>	<u>\$ 1,172,769</u>

### 13. RISK MANAGEMENT

The Company has established risk management policy and procedure being the highest directive of promoting enterprise risk management, to efficiently identify, assess, respond and monitor all the risks assumed and to ensure that all risks are within the limitations as planned. Reasonable consideration relationship between risk and reward has been taken into account to maximize the value of equity, maintain the capital adequacy and solvency capability and strengthen the long-term operations of business. The Company has also set up risk management committee which is in charge of executing risk management decisions made by the Board of Directors, as well as independent risk management unit which is responsible for executive affairs in daily monitoring, assessment and evaluation of risks. With regard to the overall risk management of various circumstances, the Company implemented “Risk Managing Mechanism” covering market, credit, liquidity, operation, insurance, asset and liability, emerging market and other risks. In addition, in order to better improve the strategic risk management efficiency, risk quantitative module, finance of risk variance are put to use to analyze various businesses and calculate Value at Risk (VaR) and Risk-adjusted Return of Capital (RAROC). In addition, the Company sets up risk capacity and risk bearing as the basis for risk management, and promoting the computerization of various risk modules to continually strengthen the efficiency of risk management at the same time.

#### (1) Financial instruments

##### A. Financial risk management policies

Except for derivatives held by the Company, the Company’s financial instruments mainly comprise cash and cash equivalents, and all kinds of investments. The Company utilizes those instruments to achieve adjustments to operating cash flows. The Company holds other financial assets and liabilities as well, such as notes receivable from operating activities, due from (to) reinsurers and ceding companies, reinsurance receivables (payables), other accounts receivable, and other accounts payable.

The Company undertakes derivative financial instruments such as futures, forward foreign exchange contracts and FX swap contracts to hedge fair value risk arising from fluctuations in stock prices and exchange rates.

B. Significant financial risks and degrees of financial risks

(a) Market risk

i. Foreign exchange risk

To hedge cash flow fair value risk arising from fluctuations in exchange rates, the Company undertakes derivative financial instruments such as FX swap contracts and forward foreign exchange contracts to hedge recognized assets and liabilities denominated in foreign currencies.

The Company estimates that the conditions of the hedge instruments and the hedged items are the same, thus maximizing the hedging effectiveness.

a) The Company's businesses involve some non-functional currency operations (the Company's functional currency: NTD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

June 30, 2017

	Foreign currency amount (in thousands)	Exchange rate	Book value
<b>Financial assets</b>			
<b>Monetary items</b>			
CNY	468,472	4.487	\$ 2,102,050
EUR	3,089	34.727	107,278
HKD	32,152	3.899	125,372
JPY	1,924,529	0.272	522,851
KRW	2,230,928	0.027	59,345
USD	151,710	30.436	4,617,434
<b>Non-monetary items</b>			
CAD	2,572	23.430	60,266
CNY	354,231	4.487	1,589,447
HKD	447,686	3.899	1,745,663
JPY	343,271	0.272	93,259
USD	13,415	30.436	408,304
<b>Financial liabilities</b>			
<b>Monetary items</b>			
CNY	134,441	4.487	603,240
HKD	8,198	3.899	31,965
IDR	16,139,597	0.002	36,778
INR	130,606	0.470	61,374
JPY	460,200	0.272	125,026
KRW	6,142,461	0.027	163,398
SGD	1,854	22.102	40,967
USD	63,119	30.436	1,921,075

December 31, 2016

	Foreign currency amount (in thousands)	Exchange rate	Book value
<b>Financial assets</b>			
<b>Monetary items</b>			
CNY	412,601	4.645	\$ 1,916,392
EUR	4,325	33.928	146,740
HKD	53,793	4.162	223,909
JPY	676,577	0.276	186,533
KRW	1,944,575	0.027	52,054
USD	137,160	32.279	4,427,388
<b>Non-monetary items</b>			
CAD	2,526	23.919	60,415
CNY	205,940	4.645	956,522
HKD	355,328	4.162	1,479,017
JPY	1,411,731	0.276	389,215
USD	14,671	32.279	473,567
<b>Financial liabilities</b>			
<b>Monetary items</b>			
CNY	110,432	4.645	512,921
IDR	15,732,879	0.002	37,738
INR	130,140	0.475	61,846
JPY	614,704	0.276	169,474
KRW	4,955,964	0.027	132,667
SGD	1,983	22.309	44,235
USD	42,918	32.279	1,385,347

June 30, 2016

	Foreign currency amount (in thousands)	Exchange rate	Book value
<b>Financial assets</b>			
<b>Monetary items</b>			
AUD	709	24.014	\$ 17,025
CNY	426,712	4.860	2,073,732
EUR	2,409	35.902	86,481
GBP	512	43.470	22,264
HKD	109,269	4.161	454,684
IDR	7,683,110	0.002	18,821
JPY	1,351,452	0.314	424,445
KRW	1,760,332	0.028	49,343
MYR	2,877	8.025	23,086
USD	119,243	32.286	3,849,846
<b>Non-monetary items</b>			
CAD	2,592	24.924	64,599
CNY	185,105	4.860	899,571
EUR	3,012	35.902	108,153
HKD	198,073	4.161	824,211
JPY	922,401	0.314	289,695
USD	18,403	32.286	594,143
<b>Financial liabilities</b>			
<b>Monetary items</b>			
CNY	98,529	4.860	478,828
EUR	2,057	35.902	73,863
GBP	365	43.470	15,867
HKD	9,109	4.161	37,903
IDR	17,608,791	0.002	43,128
INR	133,070	0.478	63,617
JPY	755,585	0.314	237,304
KRW	5,761,215	0.028	161,492
MYR	2,898	8.025	23,252
SGD	2,136	23.924	51,095
USD	42,312	32.286	1,366,100

b) Sensitivity analysis of foreign exchange risk for monetary financial assets and liabilities listed in the table below is performed for reasonably possible changes in foreign exchange rates with other conditions held constant and without considering foreign exchange derivatives for hedge, showing the effect on profit or loss before tax.

	Six-month period ended June 30, 2017	Six-month period ended June 30, 2016
Foreign currencies to NTD appreciate by 1%	\$ 46,508	\$ 43,988
Foreign currencies to NTD depreciate by 1%	( 46,508)	( 43,988)

ii. Price risk

a) The values of financial instruments may be changed by economic situations, industrial circumstances, market capital flows and government monetary policies. To hedge market value risk exposures, the Company adopts diversified assets allocation strategy taking into account the current trends of financial markets to flexibly adjust assets portfolio under the provisions of Article 146 (1) ~ (8) of the Insurance Act, regulating the limits of funds utilization ratios and accordingly, disperse the market value risk.

b) The Company adopts the FX swap contracts and forward foreign exchange contracts to hedge exchange rate fluctuations risk on foreign-currency denominated assets. As the gain (loss) arising from exchange rate changes will mostly offset against the loss (gain) on hedged objectives, the Company estimates no material market value risk would arise. The Company is exposed to price risk because of investments in Taiwan Stock Index Futures, which have fair value in the active market. The Company sets limits to control the transaction volume and stop-loss amount of derivatives to reduce its market risk.

c) The Company's investments comprise equity securities and REITs, etc. Their fair value would change due to the change of the prices of equity securities. If the prices of these equity securities and REITs had increased/decreased by 1% with all other variables held constant, pre-tax profit for the six-month periods ended June 30, 2017 and 2016 would have increased/decreased by \$15,438 and \$645, respectively, as a result of gains on equity securities classified as at fair value through profit or loss. Other components of other comprehensive income would have increased/decreased by \$50,037 and \$52,670, respectively, as a result of gains on equity securities classified as available-for-sale.

iii. Interest rate risk

Sensitivity analysis of interest rate risk listed in the table below is performed for reasonably possible changes in interest rate with other conditions held constant, showing the effect on profit or loss before tax and other comprehensive income before tax. Measurement of interest rate risk only takes into consideration the duration but does not include convexity. Relevant effects may differ from the actual values, but the differences are not significant.

June 30, 2017			
	<u>Changes in variables</u>	<u>Changes in profit or loss</u>	<u>Changes in other comprehensive income</u>
Financial assets at fair value through profit or loss	Increase/decrease 50 basis points	Decrease \$3,388/Increase \$3,451	-
Available-for-sale financial assets	Increase/decrease 50 basis points	-	Decrease \$25,143/Increase \$25,143
June 30, 2016			
	<u>Changes in variables</u>	<u>Changes in profit or loss</u>	<u>Changes in other comprehensive income</u>
Financial assets at fair value through profit or loss	Increase/decrease 50 basis points	Decrease \$5,597/Increase \$5,767	-
Available-for-sale financial assets	Increase/decrease 50 basis points	-	Decrease \$11,844/Increase \$11,844

(b)Credit risk

- i. When investing in financial instruments, the Company will encounter the risks that the transaction counterparties may default on contracts and the custodians may incur operating difficulties. The Company utilizes funds and makes investments in accordance with the Article 146 of Insurance Act and relevant laws, and conducts transactions only with counterparties with good credit ratings, or ensures that financial instruments are issued or guaranteed by reputable financial institutions, or acquires adequate collaterals. The Insurance Act also puts a limit to the transaction amount on an individual counterparty. Accordingly, the maximum loss to the Company is the total amount of all book value.
- ii. The Company utilizes funds and makes investments in financial instruments except for short-term notes and bills, time deposits, demand deposits and cash equivalents in accordance with the Article 146 of Insurance Act and related laws, and sets limits to control the investment volume with an individual institution. Therefore, the Company has lower significant concentrations of credit risk. As for the management of credit risk of debt instruments, the Company identifies the credit risk by its rating provided by external institutions, credit quality, conditions of locations and risk of counterparties. For credit ratings of counterparties, the Company strictly complies with the Article 146 of Insurance Act, the relevant legal interpretations and the Company's internal regulations on risk control. The counterparties of bond investments are those financial institutions and companies with a certain degree of credit rating.
- iii. The Company undertakes FX swap contracts and forward foreign exchange contracts only with high-credit-quality financial institutions. If the counterparties of Taiwan Stock Index Futures default, the futures brokers will be liable for the losses incurred on the default. Accordingly, the Company estimates no material credit risk would arise.
- iv. The credit quality information of financial instruments is as follows:

	Assets are neither past due nor impaired								
	Credit rating						Impaired assets	Impairment reserve	Total
	S&P AAA or equivalents	Over S&P AA- or equivalents	Over S&P A- or equivalents	Over S&P BBB- or equivalents	Over S&P BB- or equivalents	Without credit rating etc. (Note)			
<u>June 30, 2017</u>									
Financial assets at fair value through profit or loss	\$ -	\$ -	\$ -	\$ -	\$ 407,324	\$ -	\$ -	\$ -	\$ 407,324
Available-for-sale financial assets	405,032	535,722	-	-	-	-	-	-	940,754
Investments in debt instruments without active market	774,406	1,032,083	2,714,746	500,673	-	-	-	-	5,021,908
Held-to-maturity financial assets	89,552	799,091	1,014,356	300,219	-	-	-	-	2,203,218
	<u>\$ 1,268,990</u>	<u>\$ 2,366,896</u>	<u>\$ 3,729,102</u>	<u>\$ 800,892</u>	<u>\$ 407,324</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,573,204</u>
<u>December 31, 2016</u>									
Financial assets at fair value through profit or loss	\$ -	\$ -	\$ -	\$ -	\$ 431,568	\$ 4,613	\$ -	\$ -	\$ 436,181
Available-for-sale financial assets	155,680	804,350	-	-	-	-	-	-	960,030
Investments in debt instruments without active market	897,852	1,246,842	1,973,636	402,597	200,000	-	-	-	4,720,927
Held-to-maturity financial assets	-	936,282	-	250,000	-	-	-	-	1,186,282
	<u>\$ 1,053,532</u>	<u>\$ 2,987,474</u>	<u>\$ 1,973,636</u>	<u>\$ 652,597</u>	<u>\$ 631,568</u>	<u>\$ 4,613</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,303,420</u>
<u>June 30, 2016</u>									
Financial assets at fair value through profit or loss	\$ -	\$ -	\$ -	\$ -	\$ 451,706	\$ 1,590	\$ -	\$ -	\$ 453,296
Available-for-sale financial assets	-	952,145	-	-	-	-	-	-	952,145
Investments in debt instruments without active market	955,786	898,507	1,753,509	1,042,348	200,000	-	-	-	4,850,150
Held-to-maturity financial assets	-	624,450	522,810	-	-	-	-	-	1,147,260
	<u>\$ 955,786</u>	<u>\$ 2,475,102</u>	<u>\$ 2,276,319</u>	<u>\$ 1,042,348</u>	<u>\$ 651,706</u>	<u>\$ 1,590</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,402,851</u>

Note: Domestic convertible corporate bonds.

(c)Liquidity risk

- i. The Company uses time deposits to adequately adjust its cash flows. When conducting investment evaluation, the Company will take into account the liquidity of financial instruments in secondary markets and may allocate some funds to lower-liquidity but higher-yield-rate financial instruments on condition that the risk is controlled. Even if those financial instruments are sold in the short-term, there is a less likelihood that liquidity risk would arise due to the selling price being significantly lower than the fair value. However, those financial instruments are not intended to be sold in the short-term.
- ii. The notional principal of FX swap contracts and forward foreign exchange contracts is normally used as a calculation basis of receivables and payables for these transactions, and is not the actual settlement amount. The actual settlement amount is usually lower than the notional principal. The Company has paid margins in advance before undertaking Taiwan Stock Index Futures transactions, and daily evaluates the unsettled futures positions. In case additional margins have to be paid later on, the Company has sufficient working capital to fulfill its payment obligations. Accordingly, the Company estimates no material cash flow risk would arise.
- iii. The table below analyzes the Company's non-derivative financial liabilities and net-settled derivative financial liabilities into groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

a) Non-derivative financial liabilities

<u>June 30, 2017</u>	<u>Due in one year</u>	<u>Due after one year through three years</u>	<u>Total</u>
Accounts payable	\$ 787,731	\$ 1	\$ 787,732
Deposits-in (under other liabilities)	1,006	3,393	4,399

  

<u>December 31, 2016</u>	<u>Due in one year</u>	<u>Due after one year through three years</u>	<u>Total</u>
Accounts payable	\$ 316,601	\$ 539	\$ 317,140
Deposits-in (under other liabilities)	2,048	2,817	4,865

  

<u>June 30, 2016</u>	<u>Due in one year</u>	<u>Due after one year through three years</u>	<u>Total</u>
Accounts payable	\$ 1,039,952	\$ 1,078	\$ 1,041,030
Deposits-in (under other liabilities)	4,131	711	4,842

b) Net-settled derivative financial liabilities

<u>June 30, 2017</u>	<u>Due in three months</u>	<u>Due after three months through one year</u>	<u>Total</u>
FX swap contracts	\$ 46,556	\$ 121	\$ 46,677
Forward foreign exchange contract	16,233	-	16,233

<u>December 31, 2016</u>	<u>Due in three months</u>	<u>Due after three months through one year</u>	<u>Total</u>
FX swap contracts	\$ 21,559	\$ 361	\$ 21,920
Forward foreign exchange contract	3,959	-	3,959
<u>June 30, 2016</u>	<u>Due in three months</u>	<u>Due after three months through one year</u>	<u>Total</u>
FX swap contracts	\$ 2,026	\$ -	\$ 2,026
Forward foreign exchange contract	5,717	-	5,717
Futures	684	-	684

## (2) Risk management of insurance contracts

All insurance contracts assumed by the Company, after assessment, were considered risks transferred by reinsurance. Risk management and procedures are summarized below:

### A. Measurement and management of insurance risk:

Insurance risk occurs when loss frequency, severity, timing and other possible risk factors are far from past experience. For example, natural and man-made catastrophes risk may occur randomly and thus actual claims may be more than expected.

The Company follows underwriting and risk management related guidelines to assume reinsurance business. The Company's internal quantitative model, external monitoring model, internal control system and other related systems are developed to ensure insurance risks are efficiently identified, measured, steered and monitored.

#### (a) Underwriting policy

The reinsurance portfolio of the Company consists of various types of reinsurance and businesses from different countries and territories. The insurance types include life insurance, property and casualty insurance and others which are in compliance with regulatory requirement. The Company's core markets are in Asia.

#### (b) Retrocession strategy

In consideration of financial strength, capacity and the operation strategies, the Company arranges retrocession to increase the capacity, diversify risks, mitigate retained risk and increase business competitiveness. Furthermore, the Company has purchased catastrophe cover to minimize the exposure to catastrophe loss which may greatly impact the Company's financial performance. Stringent evaluation of the reputation and credit rating of the reinsurer is taken into account when the Company arranges a retrocession contract.

Although the Company adopts various prescribed methods to control insurance risk, given the random and unpredictable nature of insured incidents, deviation may occur between the actual result and the expectation derived from historical experience.

B. Concentration of insurance risk

Premium income and retention premium income ratio based on the business type are as follows:

Type \ Year	Six-month period ended June 30, 2017		Six-month period ended June 30, 2016	
	Reinsurance premiums	Retention premiums	Reinsurance premiums	Retention premiums
Domestic inward property reinsurance business	64.32%	63.75%	62.96%	62.31%
Domestic inward life reinsurance business	23.45%	23.66%	25.48%	25.74%
Subtotal-Domestic inward reinsurance business	87.77%	87.41%	88.44%	88.05%
Foreign inward reinsurance business	12.23%	12.59%	11.56%	11.95%
Total	100.00%	100.00%	100.00%	100.00%

C. Sensitivity analysis of insurance risk

The retention earned premium income of the Company (excluding the compulsory automobile liability insurance business) for the six-month periods ended June 30, 2017 and 2016 were \$5,513,221 and \$5,270,035, respectively. If the change of combined ratio of the Company is 1%, the estimated effect on gains and losses of underwriting for the six-month periods ended June 30, 2017 and 2016 would be approximately \$55,132 and \$52,700, respectively.

#### D. Loss development pattern

(a) As of June 30, 2017, the following table indicates the loss development pattern of the Company's inward business:

<u>Year of underwriting</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Six-month period ended June 30, 2017</u>	<u>Total</u>
Non-statutory insurance							
Accumulated estimated claim amount							
At the end of the year	\$ 4,333,245	\$ 5,222,485	\$ 4,482,819	\$ 5,067,741	\$ 4,823,223	\$ 1,576,887	
After the first year	7,341,226	9,666,215	7,292,566	7,521,055	6,781,654		
After the second year	7,077,263	9,033,742	6,837,791	7,274,606			
After the third year	6,703,107	8,812,908	6,677,136				
After the fourth year	6,486,307	8,764,118					
After the fifth year	6,434,165						
Accumulated estimated claim amount	6,434,165	8,764,118	6,677,136	7,274,606	6,781,654	1,576,887	\$ 37,508,566
Accumulated claim payment	( 5,876,167)	( 7,894,233)	( 5,763,855)	( 5,307,149)	( 2,757,662)	168,921	( 27,430,145)
Accumulated unpaid claim	557,998	869,885	913,281	1,967,457	4,023,992	1,745,808	10,078,421
Add: accumulated unpaid claim before 2011							2,458,634
Subtotal							<u>12,537,055</u>
Provision for statutory insurance							
claims reserve (Note)	-	-	157,593	554,747	894,323	485,527	<u>2,092,190</u>
Recognition in balance sheet							
(under claims reserve of insurance liabilities)							<u>\$ 14,629,245</u>

Note: Statutory insurance includes compulsory automobile liability insurance, residential earthquake insurance and nuclear insurance.

(b)As of June 30, 2017, the following table indicates the loss development pattern of the Company's retention business:

<u>Year of underwriting</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Six-month period ended June 30, 2017</u>	<u>Total</u>
Non-statutory insurance							
Accumulated estimated claim amount							
At the end of the year	\$ 4,062,535	\$ 4,924,699	\$ 4,218,773	\$ 4,796,487	\$ 4,501,311	\$ 1,512,366	
After the first year	6,797,370	9,076,191	6,809,108	7,012,164	6,271,295		
After the second year	6,596,777	8,505,546	6,420,151	6,801,769			
After the third year	6,262,364	8,296,211	6,266,018				
After the fourth year	6,048,963	8,250,269					
After the fifth year	<u>5,999,020</u>						
Accumulated estimated claim amount	5,999,020	8,250,269	6,266,018	6,801,769	6,271,295	1,512,366	\$ 35,100,737
Accumulated claim payment	<u>( 5,463,979)</u>	<u>( 7,474,134)</u>	<u>( 5,395,797)</u>	<u>( 4,939,834)</u>	<u>( 2,561,134)</u>	<u>161,206</u>	<u>( 25,673,672)</u>
Accumulated unpaid claim	535,041	776,135	870,221	1,861,935	3,710,161	1,673,572	9,427,065
Add: accumulated unpaid claim before 2011							<u>2,297,719</u>
Subtotal							<u>11,724,784</u>
Provision for statutory insurance							
claims reserve (Note)	-	-	157,593	554,747	894,323	485,527	<u>2,092,190</u>
Recognition in balance sheet							<u>\$ 13,816,974</u>

Note: Statutory insurance includes compulsory automobile liability insurance, residential earthquake insurance and nuclear insurance.

(c)As of December 31, 2016, the following table indicates the loss development pattern of the Company's inward business:

<u>Year of underwriting</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Non-statutory insurance							
Accumulated estimated claim amount							
At the end of the year	\$ 4,764,133	\$ 4,333,245	\$ 5,222,485	\$ 4,482,819	\$ 5,067,741	\$ 4,823,223	
After the first year	8,406,636	7,341,226	9,666,215	7,292,566	7,521,055		
After the second year	7,872,830	7,077,263	9,033,742	6,837,791			
After the third year	7,621,219	6,703,107	8,812,908				
After the fourth year	7,445,767	6,486,307					
After the fifth year	<u>7,378,153</u>						
Accumulated estimated claim amount	7,378,153	6,486,307	8,812,908	6,837,791	7,521,055	4,823,223	\$ 41,859,437
Accumulated claim payment	<u>( 6,836,974)</u>	<u>( 5,860,806)</u>	<u>( 7,841,546)</u>	<u>( 5,655,068)</u>	<u>( 4,557,723)</u>	<u>( 800,033)</u>	<u>( 31,552,150)</u>
Accumulated unpaid claim	541,179	625,501	971,362	1,182,723	2,963,332	4,023,190	10,307,287
Add: accumulated unpaid claim before 2010							<u>1,958,942</u>
Subtotal							<u>12,266,229</u>
Provision for statutory insurance							
claims reserve (Note)	-	-	41,926	271,142	900,661	873,481	<u>2,087,210</u>
Recognition in balance sheet (under claims reserve of insurance liabilities)							<u>\$ 14,353,439</u>

Note: Statutory insurance includes compulsory automobile liability insurance, residential earthquake insurance and nuclear insurance.

(d)As of December 31, 2016, the following table indicates the loss development pattern of the Company's retention business:

<u>Year of underwriting</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Non-statutory insurance							
Accumulated estimated claim amount							
At the end of the year	\$ 4,455,722	\$ 4,062,535	\$ 4,924,699	\$ 4,218,773	\$ 4,796,487	\$ 4,501,311	
After the first year	7,768,781	6,797,370	9,076,191	6,809,108	7,012,164		
After the second year	7,312,008	6,596,777	8,505,546	6,420,151			
After the third year	7,078,121	6,262,364	8,296,211				
After the fourth year	6,914,609	6,048,963					
After the fifth year	<u>6,846,416</u>						
Accumulated estimated claim amount	6,846,416	6,048,963	8,296,211	6,420,151	7,012,164	4,501,311	\$ 39,125,216
Accumulated claim payment	<u>( 6,328,932)</u>	<u>( 5,449,643)</u>	<u>( 7,424,224)</u>	<u>( 5,296,894)</u>	<u>( 4,252,392)</u>	<u>( 745,964)</u>	<u>( 29,498,049)</u>
Accumulated unpaid claim	517,484	599,320	871,987	1,123,257	2,759,772	3,755,347	9,627,167
Add: accumulated unpaid claim before 2010							<u>1,801,620</u>
Subtotal							<u>11,428,787</u>
Provision for statutory insurance claims reserve (Note)	-	-	41,926	271,142	900,661	873,481	<u>2,087,210</u>
Recognition in balance sheet							<u>\$ 13,515,997</u>

Note: Statutory insurance includes compulsory automobile liability insurance, residential earthquake insurance and nuclear insurance.

(e)As of June 30, 2016, the following table indicates the loss development pattern of the Company's inward business:

<u>Year of underwriting</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Six-month period ended June 30, 2016</u>	<u>Total</u>
Non-statutory insurance							
Accumulated estimated claim amount							
At the end of the year	\$ 4,764,133	\$ 4,333,245	\$ 5,222,485	\$ 4,482,819	\$ 5,067,741	\$ 2,053,907	
After the first year	8,406,636	7,341,226	9,666,215	7,292,566	6,820,528		
After the second year	7,872,830	7,077,263	9,033,742	6,964,297			
After the third year	7,621,219	6,703,107	8,876,331				
After the fourth year	7,445,767	6,521,047					
After the fifth year	<u>7,425,506</u>						
Accumulated estimated claim amount	7,425,506	6,521,047	8,876,331	6,964,297	6,820,528	2,053,907	\$ 38,661,616
Accumulated claim payment	( 6,816,359)	( 5,841,661)	( 7,779,919)	( 5,421,304)	( 3,053,974)	176,745	( 28,736,472)
Accumulated unpaid claim	609,147	679,386	1,096,412	1,542,993	3,766,554	2,230,652	9,925,144
Add: accumulated unpaid claim before 2010							<u>2,146,628</u>
Subtotal							<u>12,071,772</u>
Provision for statutory insurance							
claims reserve (Note)	-	-	128,839	558,770	937,472	471,178	<u>2,096,259</u>
Recognition in balance sheet (under claims reserve of insurance liabilities)							<u>\$ 14,168,031</u>

Note: Statutory insurance includes compulsory automobile liability insurance, residential earthquake insurance and nuclear insurance.

(f)As of June 30, 2016, the following table indicates the loss development pattern of the Company's retention business:

<u>Year of underwriting</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Six-month period ended June 30, 2016</u>	<u>Total</u>
Non-statutory insurance							
Accumulated estimated claim amount							
At the end of the year	\$ 4,455,722	\$ 4,062,535	\$ 4,924,699	\$ 4,218,773	\$ 4,796,487	\$ 1,963,921	
After the first year	7,768,781	6,797,370	9,076,191	6,809,108	6,374,739		
After the second year	7,312,008	6,596,777	8,505,546	6,520,354			
After the third year	7,078,121	6,262,364	8,357,318				
After the fourth year	6,914,609	6,083,689					
After the fifth year	<u>6,893,079</u>						
Accumulated estimated claim amount	6,893,079	6,083,689	8,357,318	6,520,354	6,374,739	1,963,921	\$ 36,193,100
Accumulated claim payment	<u>( 6,309,298)</u>	<u>( 5,431,685)</u>	<u>( 7,366,463)</u>	<u>( 5,079,377)</u>	<u>( 2,865,301)</u>	<u>146,759</u>	<u>( 26,905,365)</u>
Accumulated unpaid claim	583,781	652,004	990,855	1,440,977	3,509,438	2,110,680	9,287,735
Add: accumulated unpaid claim before 2010							<u>1,972,837</u>
Subtotal							<u>11,260,572</u>
Provision for statutory insurance							
claims reserve (Note)	-	-	128,839	558,770	937,472	471,178	<u>2,096,259</u>
Recognition in balance sheet							<u>\$ 13,356,831</u>

Note: Statutory insurance includes compulsory automobile liability insurance, residential earthquake insurance and nuclear insurance.

#### 14. THE OBJECTIVE, POLICY AND PROCEDURE OF CAPITAL MANAGEMENT

The Company's primary objectives when managing capital are to safeguard capital adequacy and solvency of the Company in order to support the Company's sustainable development and continuously create interests for shareholder.

In practice, Taiwan insurance enterprises usually measure whether the capital is adequate by using the capital adequacy ratio. Pursuant to Article 143-4 of Insurance Act, an insurance enterprise's ratio of self-owned capital to risk-based capital may not be lower than 200%. The Company calculates the capital adequacy ratio every six months in accordance with "Regulations Governing Capital Adequacy of Insurance Companies" to ensure that it can continuously meet the statutory capital requirement.

In accordance with "Regulations Governing Capital Adequacy of Insurance Companies", capital adequacy ratio is calculated as self-owned capital divided by risk-based capital. Self-owned capital is the total capital approved by the competent authority, which includes recognized owners' equity and other adjustment items as regulated by the competent authority; risk-based capital is the total capital calculated based on the extent of risk that an insurance enterprise assumes in its actual operations. Capital adequacy ratios of the Company as of December 31, 2016 and 2015 were all above 300% and in compliance with regulation.

#### 15. OTHER DISCLOSURES

##### (1) Information of significant transactions

A.Acquisition of real estate in excess of \$300,000 or 20% of the paid-in capital: None.

B.Disposals of real estate in excess of \$300,000 or 20% of the paid-in capital: None.

C.Related party transactions in excess of \$100,000 or 20% of the paid-in capital: None.

D.Accounts receivable from related parties in excess of \$100,000 or 20% of the paid-in capital: None.

E.Derivative business transactions: Please see Note 6 (3).

F.Business and significant transactions between the parent company and subsidiaries, and those between subsidiaries: None.

##### (2) Information related to long-term investments

None.

##### (3) Investments in Mainland China and business transactions

None.

#### 16. SEGMENT INFORMATION

The Company operates business only in reinsurance services. The Company allocates resources and assesses performance of the Company as a whole, and has identified that the Company has only one reportable operating segment.

#### 17. BORROWINGS RESULTED FROM PAYMENT OF CLAIMS

None.

18. ACQUISITION, CONSTRUCTION, IDLELIZATION AND SALES OF MAIN OPERATING ASSETS AND REAL ESTATE INVESTMENTS

None.

19. IMPORTANT LAWSUITS IN PROGRESS OR ADJUDICATED

None.

20. IMPORTANT CONTRACTS SIGNED, DISCHARGED BY PERFORMANCE, AGREEMENT, OR BREACHED

Aside from regular contracts related to the insurance business, the Company had no important contracts signed, discharged by performance, agreement, or breached.

21. INVESTMENT ITEMS AND INVESTMENT CEILINGS WITH THE INVESTMENT FUNDS BEING HANDLED AND MANAGED BY THE SECURITIES INVESTMENT TRUST COMPANIES OR SECURITIES INVESTMENT CONSULTING COMPANIES

None.

22. ADJUSTMENT OF ORGANIZATION AND SIGNIFICANT CHANGE OR REFORM OF MANAGEMENT MECHANISM

None.

23. EFFECTS OF SIGNIFICANT CHANGES IN GOVERNMENT LAWS

None.