

UNION INSURANCE CO., LTD. AND SUBSIDIARIES**Consolidated Financial Statements****With Independent Auditors' Report
For the Years Ended December 31, 2019 and 2018**

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The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

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Representation Letter

The entities that are required to be included in the combined financial statements of Union Insurance Co., LTD. as of and for the year ended December 31, 2019 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Union Insurance Co., LTD. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Union Insurance Co., LTD.
Chairman: HUNG, CHI-HSIUNG
Date: March 20, 2020



安侯建業聯合會計師事務所

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Independent Auditors' Report

To the Board of Directors of Union Insurance Co., LTD.:

Opinion

We have audited the consolidated financial statements of Union Insurance Co., LTD. and its subsidiaries (“the Group”), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), Interpretations developed by the International Financial Reporting Interpretations Committee (“IFRIC”) or the former Standing Interpretations Committee (“SIC”) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in 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 of our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Assessment of insurance liability

Please refer to Note 4(q) “Insurance liability” for the related accounting policy, Note 5(a) for accounting assumptions and estimation uncertainty of insurance liability, and Note 6(o) for details of the assessment of insurance liability.

Description of key audit matter:

The Group measures insurance liabilities in accordance with “ Regulations Governing the Provision of Various Reserves” and relevant administrative rules, of which the judgment of future uncertainty and related hypothetical parameters include claim development factor and expected claim rate used in estimating the claim reserve, as well as the reserve of unearned premium is based on the calculated factors according to characteristics of each insurance type. Above mentioned assessment is involved the exercise of significant professional judgments. Therefore, the valuation of insurance liabilities has been identified as a key audit matter in our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: engaging our internal actuarial specialists to perform relevant audit procedures over insurance liability, inspecting whether the methods and parameters of insurance liabilities are in accordance with insurance related regulations and administrative rules and relevant practical principles set by the Actuarial Institute of the Republic of China; independently establishing models to recalculate the amount of reserves and further comparing the result of recalculation with the one provided by the management; the appropriateness of actuarial assumptions based on internal data or industry experiences with the characteristics of insurance products, performing the changes of insurance liabilities analysis, including understanding of industry and market, and evaluating the rationality of actuarial assumption adopted by the management.

Other Matter

The Group has prepared its parent-company-only financial statements as of and for the years ended December 31, 2019 and 2018, on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and with the IFRSs, IASs, IFRC, SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s 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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including the Audit Committee) are responsible for overseeing the Group’s financial reporting process.

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

The engagement partners on the audit resulting in this independent auditors' report are Feng-Hui Lee and Tan-Tan Chung.

KPMG

Taipei, Taiwan (Republic of China)
March 20, 2020

Notes to Readers

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

The independent auditors' audit report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' audit report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Share)

	2019		2018		Change	
	Amount	%	Amount	%	Amount	%
41000 Operating revenue:						
41110 Written premium	\$ 9,860,309	122	9,848,073	128	-	
41120 Reinsurance premium	400,657	5	412,798	5	(3)	
41100 Premium	10,260,966	127	10,260,871	133		
51100 Less: Reinsurance expense	3,253,567	40	3,235,650	42	1	
51310 Net change in unearned premiums reserve	(31,813)	-	169,107	2	(119)	
41130 Retained earned premium	7,039,212	87	6,856,114	89		
41300 Reinsurance commission received	595,712	7	621,738	8	(4)	
41500 Net income(loss) from investments						
41510 Interest income	90,082	1	77,748	1	16	
41521 Gains on financial assets or liabilities at fair value through profit or loss	252,503	3	53,326	1	374	
41527 Realized gains (losses) on financial assets at fair value through other comprehensive income	48,037	1	25,930	-	85	
41550 Foreign exchange gains (losses), investments	(827)	-	(779)	-	(6)	
41570 Gains (losses) on investment property	45,924	1	47,510	1	(3)	
41585 Expected credit losses or reversal of expected credit losses of investments(note 6(f))	(288)	-	44	-	(755)	
41800 Other operating income	11,586	-	26,045	-	(56)	
Operating revenue, net	8,081,941	100	7,707,676	100		
51000 Operating costs:						
51200 Insurance claim payment	6,016,939	74	5,272,926	68	14	
41200 Less: Claims recovered from reinsurers	2,117,717	26	1,732,404	22	22	
51260 Retained claim payment	3,899,222	48	3,540,522	46		
51300 Net change in other insurance liability(note6(o))						
51320 Net change in claim reserve	(105,068)	(1)	61,467	1	(271)	
51340 Net change in special claim reserve	(23,009)	-	(2,775)	-	(729)	
51350 Net change in premium deficiency reserve	(4,360)	-	4,357	-	(200)	
51500 Commission expense	1,543,544	19	1,519,919	20	2	
51800 Other operating costs	39,455	-	38,022	-	4	
51700 Finance costs	2,168	-	2,095	-	3	
Total operating costs	5,351,952	66	5,163,607	67		
58000 Operating expenses:						
58100 General expenses	1,575,351	19	1,585,799	20	(1)	
58200 Administrative expenses	421,030	5	355,499	5	18	
58300 Staff training expenses	4,010	-	1,441	-	178	
58400 Expected credit losses or reversal of expected credit losses of non-investments	43,272	1	10,345	-	318	
Total operating expenses	2,043,663	25	1,953,084	25		
Net operating income	686,326	9	590,985	8	16	
59000 Non-operating income and expenses:						
59100 Gains (losses) on disposals of property and equipment	-	-	2	-	(100)	
59400 Asset retirement losses	(5)	-	-	-	-	
59900 Other non-operating income and expenses, net	13,933	-	34,108	-	(59)	
Total non-operating income and expenses	13,928	-	34,110	-	-	
62000 Profit from continuing operations before tax	700,254	9	625,095	8	12	
63000 Less: Income tax expenses (profits)(note 6(p))	(2,323)	-	21,813	-	(111)	
Profit	702,577	9	603,282	8	16	
83000 Other comprehensive income:						
83100 Components of other comprehensive income that will not be reclassified to profit or loss						
83110 Gains (losses) on remeasurements of defined benefit plans(note 6(m))	(19,579)	-	(30,600)	-	36	
83190 Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	85,209	1	84,825	1	-	
Components of other comprehensive income that will not be reclassified to profit or loss	65,630	1	54,225	1	36	
83200 Components of other comprehensive income (loss) that will be reclassified to profit or loss						
83210 Exchange differences on translation of foreign financial statements	710	-	2,455	-	(71)	
83260 Equity related to assets (or disposal groups) classified as held-for-sale	2,953	-	-	-	-	
Components of other comprehensive income that will be reclassified to profit or loss	3,663	-	2,455	-	49	
83000 Other comprehensive income (after tax)	69,293	1	56,680	1	22	
Total comprehensive income	\$ 771,870	10	659,962	9	17	
Profit, attributable to:						
Owners of parent	\$ 703,782	9	605,620	8	16	
Non-controlling interests	(1,205)	-	(2,338)	-	48	
	\$ 702,577	9	603,282	8		
Comprehensive income attributable to:						
Owners of parent	\$ 771,697	10	661,377	9	17	
Non-controlling interests	173	-	(1,415)	-	112	
	\$ 771,870	10	659,962	9		
97500 Basic earnings per share(note 6(r))	\$ 3.30		2.84			
98500 Diluted earnings per share(note 6(r))	\$ 3.29		2.84			

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
UNION INSURANCE CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent							Total equity attributable to owners of parent	Total equity
	Share capital	Retained earnings	Other equity			Equity related to assets (or disposal groups) classified as held-for-sale	Non-controlling interests		
		Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets		
Balance at January 1, 2018	\$ 2,129,600	328,895	1,495,014	347,153	(864)	71,355	14,608	4,314,406	4,339,210
Effects of retrospective application	-	-	-	(45,650)	-	-	(14,608)	11,097	11,097
Equity at beginning of period after adjustments	2,129,600	328,895	1,495,014	301,503	(864)	71,355	-	4,325,503	4,350,307
Profit	-	-	-	605,620	-	-	-	605,620	603,282
Other comprehensive income	-	-	-	(30,600)	1,532	84,825	-	55,757	56,680
Total comprehensive income	-	-	-	575,020	1,532	84,825	-	661,377	659,962
Appropriation and distribution of retained earnings:									
Legal reserve appropriated	-	127,265	-	(127,265)	-	-	-	-	-
Special reserve appropriated	-	-	269,952	(269,952)	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	(149,072)	-	-	-	(149,072)	(149,072)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	100,956	-	(100,956)	-	-	-
Balance at December 31, 2018	2,129,600	456,160	1,764,966	431,190	668	55,224	-	4,837,808	4,861,197
Profit	-	-	-	703,782	-	-	-	703,782	702,577
Other comprehensive income	-	-	-	(19,579)	(668)	85,209	-	67,915	69,293
Total comprehensive income	-	-	-	684,203	(668)	85,209	-	771,697	771,870
Appropriation and distribution of retained earnings:									
Legal reserve appropriated	-	121,124	-	(121,124)	-	-	-	-	-
Special reserve appropriated	-	-	273,375	(273,375)	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	(191,664)	-	-	-	(191,664)	(191,664)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	20,058	-	(20,058)	-	-	-
Balance at December 31, 2019	\$ 2,129,600	577,284	2,038,341	549,288	-	120,375	-	5,417,841	5,441,403

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
UNION INSURANCE CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31	
	2019	2018
Cash flows from operating activities:		
Profit before tax	\$ 700,254	625,095
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	55,715	38,579
Amortization expense	16,532	12,847
Interest expense	2,168	2,095
Interest income	(90,082)	(77,748)
Net change in insurance liabilities	(484,100)	620,872
Net change in other provisions	(61,807)	(8,735)
Expected credit loss (Reversal of credit loss) of investments	288	(44)
Expected credit loss of non-investments	43,272	10,345
Loss (gain) on disposal of property and equipment	5	(2)
Total adjustments to reconcile profit (loss)	<u>(518,009)</u>	<u>598,209</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease (increase) in notes receivable	45,179	(52,548)
Decrease (increase) in premiums receivable	11,297	(121,969)
Increase in other receivable	(28,602)	(4,063)
(Increase) decrease in financial assets at fair value through profit or loss	(964,175)	1,193,689
(Increase) decrease in financial assets at fair value through other comprehensive income	(787,965)	100,028
Increase in financial assets at amortized cost	(199,454)	(265,414)
Decrease (increase) in other financial assets	1,415,656	(1,907,966)
Decrease (increase) in reinsurance assets	328,591	(352,658)
(Increase) decrease in other assets	(31,055)	97,362
Total changes in operating assets	<u>(210,528)</u>	<u>(1,313,539)</u>
Changes in operating liabilities:		
Increase (decrease) in other payable	71,536	(46,661)
Increase (decrease) in other liabilities	67,543	(10,898)
Total changes in operating liabilities	<u>139,079</u>	<u>(57,559)</u>
Cash inflow (outflow) generated from operations	110,796	(147,794)
Interest received	88,574	70,605
Interest paid	(2,168)	(2,095)
Income taxes refund (paid)	(2,999)	4,083
Net Cash flows used in (from) operating activities	<u>194,203</u>	<u>(75,201)</u>
Cash flows from (used in) investing activities:		
Acquisition of property and equipment	(120,837)	(68,342)
Proceeds from disposal of property and equipment	-	3
Acquisition of intangible assets	(18,738)	(25,327)
Acquisition of investment properties	-	(471)
Net cash flows from (used in) investing activities	<u>(139,575)</u>	<u>(94,137)</u>
Cash flows from (used in) financing activities:		
Payment of lease liabilities	(16,448)	-
Cash dividends paid	(191,664)	(149,072)
Net cash flows from (used in) financing activities	<u>(208,112)</u>	<u>(149,072)</u>
Effect of exchange rate changes on cash and cash equivalents	3,550	2,363
Net decrease in cash and cash equivalents	(149,934)	(316,047)
Cash and cash equivalents at beginning of period	<u>2,272,302</u>	<u>2,588,349</u>
Cash and cash equivalents at end of period	<u>\$ 2,122,368</u>	<u>2,272,302</u>
Components of cash and cash equivalents		
Cash and cash equivalents reported in the statement of financial position	\$ 2,117,261	2,272,302
Reclassification to assets held-for-sale	5,107	-
Cash and cash equivalents at end of period	<u>\$ 2,122,368</u>	<u>2,272,302</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
UNION INSURANCE CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

UNION INSURANCE CO., LTD. (the “Company”) was founded on February 20, 1963 and registered under the Ministry of Economic Affairs, R.O.C. The address of the Company’s registered office is 12th Floor, No. 219, Sec. 4, Zhongxiao E. Road, Taipei, Taiwan, R.O.C. The Company and the subsidiary (the “Group”) are primarily engaged in underwriting of fire, marine, automobile, engineering, liability and accident insurance, reinsurance, insurance businesses entrusted by other companies, performing a variety of investments and other businesses in accordance with the regulations.

(2) Approval date and procedures of the consolidated financial statements:

The consolidated financial statements were authorized for issuance by the board of directors on March 20, 2020.

(3) New standards, amendments and interpretations adopted:

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

- (i) IFRS 16 “Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below,

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

1) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(n).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

2) As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities on balance sheet.

The Group decided to apply recognition exemptions to short-term leases of machinery and leases of IT equipment.

- Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Group applied this approach to its largest property leases; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other lease.

In addition, the Group used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The Group accounted for its leases in accordance with IFRS 16 from the date of initial application.

4) Impacts on Consolidated Financial Statements

On transition to IFRS 16, the Group recognized additional \$29,848 of right-of-use assets, \$29,525 of lease liabilities, and a reduction of \$323 of other assets, recognizing the difference in retained earnings. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 2.18%.

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 24,158
Recognition exemption for:	
Operating lease commitment of transportation equipment at December 31, 2018 that has not been disclosed in the Group's consolidated financial statements	5,910
	\$ 30,068
Discounted using the incremental borrowing rate at January 1, 2019	\$ 29,525
Lease liabilities recognized at January 1, 2019	\$ 29,525

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"	January 1, 2020
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
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The Group assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated financial statements.

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

Those which may be relevant to the Group are set out below:

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
May 18, 2017	IFRS 17 “Insurance Contracts”	<p>The new standard of accounting for insurance contracts contain recognition, measurement, presentation and disclosure of insurance contracts issued, and the main amendments are as follows:</p> <ul style="list-style-type: none"> ● Recognition: the beginning of the coverage period of the Group of contracts, the date when the first payment from a policyholder in the Group becomes due and when the group becomes onerous shall recognize a Group of insurance contracts it issues from the earliest. ● Measurement: on initial recognition, an entity shall measure a Group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. For subsequent measurement, the entity shall estimate the cash flows, discount rates and the adjustment for non-financial risk. ● Presentation and disclosure: the presentation of insurance revenue is based on the provision of service pattern and investment components excluded from insurance revenue.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
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The Group is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Group completes its evaluation.

(4) Summary of significant accounting policies:

The significant accounting policies presented in the Consolidated Financial Statements are summarized as follows. Unless otherwise indicated, the significant accounting policies have been applied consistently to all periods presented in Consolidated Financial Statements.

(a) Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Companies and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (hereinafter referred to IFRS endorsed by the FSC).

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the consolidated financial statements have been prepared on a historical cost basis:

- 1) FVTPL are measured at fair value.
- 2) FVOCI are measured at fair value.
- 3) Net defined benefit liability is recognized as the fair value of the plan assets less the present value of the defined benefit obligation and the effect of the asset ceiling.
- 4) Part of investment properties are measured at fair value as their recognized cost.
- 5) Reinsurance reserve assets, insurance liability, and the insurance contract with the nature of financial products are measured in accordance with the “Regulations Governing the Provision of Various Reserves”.

(ii) Functional currency and Presentation Currency

The functional currency of the Group entities is determined based on the primary economic environment in which the entities operate. The consolidated financial statement is presented in New Taiwan Dollar, which is the Group’s functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Group and the subsidiary.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intragroup balances and transactions, and any unrealized income and expenses arising from Intragroup transactions are eliminated in preparing the consolidated financial statements.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(ii) List of subsidiaries in the consolidated financial statements

List of subsidiaries in the consolidated financial statements are as follows:

Name of investor	Name of subsidiary	Principal activity	Shareholding		Note
			December 31, 2019	December 31, 2018	
The Company	China Insurance (Thai) Public Company Limited	Insurance	62.39 %	62.39 %	The Company controlled the subsidiary on May 8, 2015 by accessing 62.39% of its shares. The subsidiary's contributed capital is THB 60,000 thousand on December 31, 2019. On December 30, 2019, the Board of Directors of the Company approved to sell China Insurance (THAI) Public Company Ltd., the subsidiary of the Company. All shares would be transferred in January 2020. Thus, the investments accounted for using equity method were reclassified from assets to held-for-sale.

(d) Foreign currency

Transactions in foreign currencies are translated into the respective functional currencies of the Group at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for the differences relating to an investment in equity securities designated as at fair value through other comprehensive income.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
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The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the presentation currency at the average exchange rate. Exchange differences are recognized in other comprehensive income.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, Exchange differences arising from such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

(e) Principle of classifying assets and liabilities as current and non-current

Due to the specific business feature of insurance business, the operating cycle is more difficult to establish, and therefore assets and liabilities are not classified as current or non-current. Nonetheless, the items are classified per their properties and are arranged per their liquidity.

(f) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents comprise time deposits due within three months and bonds purchased under resale agreements which are held for the purpose of meeting short term cash commitments, readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Those time deposits exceed three months are recognized as other financial assets – net.

(g) Bills and bonds purchased/sold under agreements to resell

Bills and bonds purchased/sold under agreements to resell, they are accounted at the transaction price and are included in assets on the delivery date if it's compliance with financing conditions. When selling back, they are regarded as the realization of the assets, and the difference between the trading and the selling is classified as interest income.

(h) Financial instruments

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Dividend income is recognized in profit or loss on the date on which the Group's right to receive payment is established.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

4) Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial assets on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features)

5) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, receivables, guarantee deposit paid and other financial assets), debt investments measured at FVOCI, accounts receivable and contract assets.

The Group measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charge to profit or loss and is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

6) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(ii) Financial liabilities

1) Other financial liabilities

Financial liabilities not classified as held for trading or designated as at fair value through profit or loss are measured at fair value (including payables and other liabilities), plus any directly attributable transaction costs at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method.

2) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

3) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Assets classified as held-for-sale

Investments of subsidiary accounted for using equity method that are highly probable to be recovered primarily through sale rather than through continuing use, are reclassified as held-for-sale. Immediately before classification as held-for-sale, these investments are remeasured in accordance with the Group's accounting policies. Thereafter, generally, these investments are measured at the lower of their carrying amount and fair value less costs to sell.

(j) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost less accumulated depreciation and accumulated impairment losses. Depreciation expense is calculated based on the depreciation method, useful life, and residual value which are the same as those adopted for property, plant and equipment.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount) is recognized in profit or loss.

Rental income from investment property is recognized as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

When the use of an investment property changes such that it is reclassified as property, plant and equipment, its book value at the date of reclassification becomes its cost for subsequent accounting.

(k) 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". The Group defines significant insurance risk as the event which might lead to additional significant payment.

Once a contract has qualified as an insurance contract, it remains an insurance contract until all rights and obligations are extinguished or expired, even if insurance risk becomes insignificant or not existent. However, some contracts do not transfer any insurance risk to the Group at inception, although they do transfer insurance risk at a later time. In those cases, the contract is not considered an insurance contract until the risk transfer happens.

(l) Reinsurance contract assets

The Group's rights to the reinsurer include ceded unearned premium reserve, ceded claim reserve, ceded premium deficiency reserve, claims recoverable from reinsurers, and net reinsurance receivables. The way to estimate claims and payments recoverable from reinsurers is consistent with the way to estimate claims of policies. Receivables and payables of reinsurance are not offset and present by net amounts unless both parties to the contract have statutory offsetting rights and intend to deliver on a net basis or at the same time.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
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The Group periodically assesses the impairment of the reinsurance assets described above, reinsurance reserve assets, claims recoverable from reinsurers, reinsurance receivables, and reinsurance liabilities reserve deposit. A reinsurance asset is impaired if, and only if (a) there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract; and (b) that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. If the Group's reinsurance reserve assets are impaired, the Group shall reduce its carrying amount accordingly and recognize that impairment loss in profit or loss, and recognize proper allowance for claims recoverable from reinsurers, reinsurance receivables, and reinsurance liabilities reserve deposit.

The Group assesses whether significant insurance risks have been transferred to the reinsurer. If significant insurance risks of the insurance contract have not been transferred, the contract is recognized via deposit accounting. The premium minus the Group retained reinsurance premium (or fee) is recognized as deposit asset or liability, not profit or loss.

Compliance with the "Regulations Governing the Provision of Unauthorized Reinsurance Reserves for Insurance Company", the Group deposits reserve for those unauthorized reinsurance ceded businesses according to "Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms" on ceded date or balance sheet date and discloses in notes of Consolidated Financial Statements.

(m) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(ii) Reclassifies the property to investment property

When the use of a property changes to investment property, the Group reclassifies the property to investment property based on the carrying amount when the use is changed.

(iii) Subsequent cost

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
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(iv) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- | | | |
|----|----------------------------|-------------|
| 1) | Buildings | 21-60 years |
| 2) | Office and other equipment | 3-8 years |

Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted if appropriate.

(n) Leases

Leases (applicable from January 1, 2019)

(i) Identifying a lease

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the Group has the right to direct the use of the asset when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of an asset if either:
 - the Group has the right to operate the asset; or
 - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and nonlease components as a single lease component.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
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(ii) As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- there is any lease modifications.

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
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The Group presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

The Group has elected not to recognize right-of-use assets and lease liabilities for shortterm leases of machinery and leases of low-value assets, including IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) As a lessor

When the Group acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of lease income.

Leases (policy applicable before January 1, 2019)

(i) Lessor

Lease income from operating lease is recognized in profit or loss on a straight line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight line basis so that the lease income received is reduced accordingly.

(ii) Lessee

Operating lease asset is not recognized in the balance sheet. Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease. Lease payments under operating lease shall be recognized in renting expenses and disclosed in financial report.

(o) Intangible assets

(i) Recognition and measurement

Intangible assets, including computer software and golf membership, that are acquired by the Group are measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent Expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
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(iii) Amortization

The amortizable amount is the cost of an asset less its residual value. Amortization is recognized in profit or loss on a straight line basis over the estimated useful lives of intangible assets from the date that they are available for use.

The estimated useful lives for current and comparative periods are as follows:

- 1) Computer software 3-10 years
- 2) Golf membership 10-20 years

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(p) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets and employee benefit assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(q) Insurance liability

The Group determines reserves for insurance contracts in accordance with the "Regulations Governing the Provision of Various Reserves", "Regulations for Management of the Various Reserve of Compulsory Automobile Liability Insurance", "Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance", and "Regulations for the Reserve of Nuclear Insurance", methodologies used to determine the reserve are certified by the appointed actuary who is authorized by the Financial Supervisory Commission, Executive Yuan.

The methodologies used to determine the reserves are described as follows:

(i) Unearned premiums reserve:

Unearned premium reserve is determined based on the exposure of the unexpired period for the unexpired policies and the policies that have been not terminated.

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Claim reserve:

The Group shall determine claim reserve, including case reserve and IBNR, using actuarial approaches, based on the historical experiences for each line of business. The case reserve shall be estimated case by case, based on actual relevant information.

(iii) Special reserve:

Special reserve comprises two parts, catastrophe reserve and risk volatility reserve.

1) Special reserve - catastrophe special reserve

Catastrophe special reserve for each line of business shall be determined based on ratios regulated by the Authority. The portion of the losses over NT\$ 30 million shall be recovered from catastrophe special reserve. Catastrophe special reserve can be released after 15 years based on the mechanism decided by the appointed actuary and filed to the Authority.

From July 1, 2011, reserve of Commercial Earthquake Insurance and Typhoon and Flood Insurance can be released after 30 years and recognized in accordance with the “Regulations for Insurance Companies Determining Various Reserves of Commercial Earthquake Insurance and Typhoon and Flood Insurance”

2) Special reserve - risk volatility special reserve

If the actual loss, after deducting catastrophe special reserve, is less than the expected loss, an equalization special reserve shall be recognized at 15% of that difference. From July 1, 2011, according to “Regulations for Insurance Companies Determining Various Reserves of Commercial Earthquake Insurance and Typhoon and Flood Insurance”, for commercial earthquake insurance and typhoon and flood insurance, if the actual claim of the retention, deducted by the balance of the insurance written off by catastrophe special reserve, is lower than the expected claim, then a equalization special reserve shall be provided based on 75% of the difference. The expected claim shall not be less than 60% of the expected rate of loss.

If the actual loss, after deducting the catastrophe special reserve recovered for the line of business, exceeds the expected loss, the amount of that difference shall be recovered from the equalization special reserve. If the equalization special reserve is insufficient to deduct for a specific line of business, it can be released from other line of business. The amount released and the line of business from which shall follow the related regulations. If the cumulative equalization special reserve exceeds 60% of the net earned premium, the equalization special reserve shall be released by that difference. Although accident insurance and health insurance shall be released in accordance with the “Regulations Governing the Provision of Various Reserves” Art. 20.1.(3).

UNION INSURANCE CO., LTD. AND SUBSIDIARIES**Notes to the Consolidated Financial Statements**

From July 1, 2011, according to “Regulations for Insurance Companies Determining Various Reserves of Commercial Earthquake Insurance and Typhoon and Flood Insurance”, if the equalization special reserve of commercial earthquake insurance exceeds 18 times of the net earned premium, or the equalization special reserve of typhoon and flood insurance exceeds 8 times of the net earned premium, the equalization special reserve shall be released by that difference.

In addition, according to “Directions Concerning Enhanced Natural Disaster Reserve of Property Insurance (Commercial Earthquake Insurance, Typhoon Insurance, and Flood Insurance)” under Jin Guan Bao Tsai No. 10102515061, from January 1, 2013, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance” under Jin Guan Bao Chan No. 10102531691, and “Regulations for Insurance Companies Determining Various Reserves of Nuclear Insurance” under Jin Guan Bao Tsai No. 10102517091, the Group should first fill the special catastrophe reserve and risk volatility reserve for commercial earthquake insurance and typhoon and flood insurance to maximum amount with the special catastrophe reserve and risk volatility reserve, which was in liability account and was provided before December 31, 2012, in the equity account. The calculation of the maximum amount of the special catastrophe reserve and risk volatility reserve for Commercial Earthquake Insurance, Typhoon Insurance, and Flood Insurance is to take the net earned premium of 2012 and the average amount of net earned premium from 2008 to 2012, which is higher, as the base. The catastrophe special reserve is calculated by the base amount described above multiply the catastrophe special reserve rate (7%) and cumulative age (30 years), and the maximum amount of risk volatility reserve is calculated by the base amount described above multiply the cumulative multiples (Commercial Earthquake Insurance multiply 18; Typhoon Insurance and Flood Insurance multiply 8).

The deficiency between the amount which was in liability and equity accounts on December 31, 2012 and the maximum amount of the special catastrophe reserve shall be first filled by special reserves of other insurances and then scaled to the risk volatility special reserve of Commercial Earthquake Insurance, Typhoon Insurance, and Flood Insurance. If there is any reserve left, the amount deducted by income tax calculated based on IAS 12 shall be reclassified to special reserve in equity account.

The amount that is transferred from special reserves of other insurances to catastrophe special reserve under liability accounts shall be released by one thirtieth of the ending balance of liability on January 1, 2013. The recoverable amount described above shall first deduct the amount of losses caused by the event exceed over NT\$ 30 million dollars for the individual company. If the cumulative amount of catastrophe special reserve is lower than the recoverable amount described above before deduction, the excess amount can only be released after the deficiency being filled. In addition, the recoverable amount described above shall be reviewed annually before 2025. If the recoverable amount described above is greater than the released amount of other types of accidents before the implementation of the precautions, the after tax difference shall be transferred to equity account. The difference described above shall be allocated in proportion to the retained premiums of other insurances of current period.

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The “ Regulations for Insurance Companies Determining Various Reserves of Commercial Earthquake Insurance and Typhoon and Flood Insurance” shall be followed when determining risk volatility special reserve of Commercial Earthquake Insurance and Typhoon and Flood Insurance.

3) Compulsory automobile liability insurance

The special reserve of compulsory automobile liability insurance is determined in accordance with the Regulations for Management of the Various Reserve of Compulsory Automobile Liability Insurance. The amount calculated by sum of retention of earned premium, withdrawal of claims reserve and special reserve of prior period plus interests deducts retained claim payment and deposit claim reserve, shall be deposited as special reserve. If the former amount is less than the latter amount, the deficiency shall be recovered by the special reserve cumulated in previous periods. If the deficiency still exists, it shall be recorded by memo entries and recovered by the special reserve cumulated in future periods.

Except for the special reserve of compulsory automobile liability insurance, the provision each year is recognized in special reserve under equity account with the amount deducted by income tax. The amount is calculated based on IAS 12. For the amount which should be written off or reclaimed, the Group writes off and reclaims it via special reserve under equity account with the amount deducted by income tax.

(iv) Premium deficiency reserve

The Group shall evaluate the future losses and expenses for the unexpired policies and the policies that have been not terminated. If the expected future losses and expenses exceed the sum of the recognized unearned premium reserve and the expected future premium income, a premium deficiency reserve shall be recognized at the amount of that difference.

(v) Liability adequacy reserve

In accordance with IFRS 4, the Group should assess whether its recognized insurance liabilities are adequate, using current estimates of future cash flows at the end of each reporting period. If that assessment shows that the carrying amount of its insurance liabilities (less related intangible assets) is inadequate, the entire deficiency shall be recognized as a liability adequacy reserve.

(r) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(s) Premium income and acquisition costs

Premium income direct business is recognized based on the written policies and endorsement. Since January 1, 2015, sales that are attributable to car insurance recognize revenue. Assumed reinsurance premiums for reinsurance assumed business is recognized when the reinsurance statement arrived. For those statements have not been received, assumed reinsurance premium shall be estimated by a reasonable and systematic method on the balance sheet date. The related acquisition costs (such as: commissions, brokerages, fees, reinsurance commissions and etc.) is recognized in the same period without deferring.

Unearned premium reserve is determined based on the exposure of the unexpired period for the unexpired policies and the policies that have been not terminated.

Unearned premium reserve for the compulsory auto liability is determined in accordance with the Regulations for Management of the Various Reserve of Compulsory Automobile Liability Insurance.

Unearned premium reserve for the Residential earthquake insurance is determined in accordance with the Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance.

Unearned premiums reserve for the nuclear insurance is determined in accordance with the Regulations for the Reserve of Nuclear Insurance.

The approaches to determine unearned premiums reserves selected based on the characteristics of the line of business and decided by the actuary (The approaches are not allowed to change without the permission of the Authority.) Unearned premium reserve shall be certified by the appointed actuary.

Income tax, based on Value added and Non value added Business Tax Act, the Stamp Tax Act, and other relevant laws and regulations, related to the premium income shall be recognized on accrual basis.

(t) The cost of insurance claims

Loss for direct business is recognized based on the paid losses for the reported claims. Loss shall be estimated case by case, based on the actual relevant information, and recognized as the net change in reported but unpaid reserve for the claims which have been not yet paid, either have been determined or not been determined by the claim department.

Assumed reinsurance loss for reinsurance assumed business is recognized when the statement is arrival. For those statements have not been received, assumed reinsurance, loss shall be estimated in a reasonable and systematic way and recognized as the net change in loss reserve.

Unreported loss for direct written business and reinsurance assumed business shall be estimated using actuarial methodologies, based on the historical experience, and recognized as net change in the IBNR.

The loss receivable from the reinsurance companies according to the reinsurance ceded contract shall be recognized as claims recovered from reinsurers if the loss has been paid and recognized as net change in loss reserve if the loss has not been paid.

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The loss reserve is not discounted.

The loss reserve for compulsory automobile liability insurance is determined in accordance with the Regulations for Management of the Various Reserve of Compulsory Automobile Liability Insurance.

The loss reserve for residential earthquake insurance is determined in accordance with the Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance.

The loss reserve for nuclear insurance is determined based on the Regulations for the Reserve of Nuclear Insurance.

(u) Coinsurance organization, coinsurance business and guarantee fund agreement

The Group signed coinsurance contract of the compulsory automobile liability insurance with all the member companies which approved by the government to operate the compulsory automobile liability coinsurance. It was agreed that all business of compulsory automobile liability insurance should be covered by the coinsurance institution or the Group should pay the penalty and be audited by the auditor of the coinsurance organization. The business of the coinsurance was calculated based on pure premium, and distribute by coinsurance percentage.

(v) Employee Benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(iv) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(w) Income taxes

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

- (i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) arising from the transaction.
- (ii) Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) Taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - 1) the same taxable entity; or
 - 2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(x) Earnings per share

The Group discloses the Group's basic and diluted earnings per share attributable to ordinary shareholders of the Group. Basic earnings per share is calculated as the profit attributable to ordinary shareholders of the Group divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Group divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares.

(y) Operating segments

The Group has disclosed operating segments information in the consolidated financial report; therefore, the individual financial report do not disclose operating segments information.

(z) Salvage and subrogation

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

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the Consolidated Financial Statements requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses in accordance with the Regulations and IFRSs endorsed by the FSC. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

The carrying amount of the assets and liabilities as mentioned below may be affected by accounting estimates and judgment that have the most significant effects on the amounts recognized in the consolidated financial statements. The actual results may be influenced by the change of taken accounting estimates and professional judgments with the content has an existing significant difference as follows:

(a) Insurance liability and provision for investment-linked insurance contracts

The Group measures insurance liabilities in accordance with “Regulations Governing the Provision of Various Reserves”.

- (i) Unearned premium reserve is estimated based on the exposure of the unexpired period of each business line. The provision of reserves is determined by actuarial specialists in accordance with of characteristics each business line.
- (ii) Claim reserve is estimated in accordance with the method of a loss triangle. The final claim cost is calculated based on the primary assumptions that are loss development factors and expected claim ratio. The loss development factors and expected claim ratio of each business line are calculated based on historical claim experience and adjusted by Group's policies such as insurance rate and claim management.

The professional judgment used in the above process will affect the amount recognized, including net change in insurance liability, the provision of insurance liability and reserve for the insurance contract with the nature of financial products.

(b) Reinsurance Reserve assets

The estimate of ceded reinsurance unearned premiums reserve, ceded reinsurance claim reserve and ceded reinsurance liability reserve is according to with the “Regulations Governing the Provision of Various Reserves”.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand	\$ 500	507
Petty cash	11,000	18,008
Cash in bank	1,872,668	2,043,648
Bonds investment under resell agreements	<u>233,093</u>	<u>210,139</u>
Total	<u><u>\$ 2,117,261</u></u>	<u><u>2,272,302</u></u>

(b) Receivables and Payables

(i) Receivables

<u>Item</u>	December 31, 2019	December 31, 2018
Notes receivable	\$ 219,728	265,142
Premiums receivable	498,898	513,180
Other receivables	<u>139,594</u>	<u>114,032</u>
Total	<u><u>\$ 858,220</u></u>	<u><u>892,354</u></u>

(ii) Payables

<u>Item</u>	December 31, 2019	December 31, 2018
Commission payable	\$ 169,185	166,959
Due to ceding companies	67,563	132,015
Reinsurance premium payable	632,328	578,829
Reinsurance commission payable	1,628	559
Insurance claim payable	30,178	12,261
Other payables	<u>382,346</u>	<u>334,593</u>
Total	<u><u>\$ 1,283,228</u></u>	<u><u>1,225,216</u></u>

(iii) Receivables of insurance contracts

<u>Item</u>	December 31, 2019	December 31, 2018
Notes receivable	\$ 221,298	266,509
Less : Loss allowance	<u>(1,570)</u>	<u>(1,367)</u>
Total	<u><u>\$ 219,728</u></u>	<u><u>265,142</u></u>

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	December 31, 2019	December 31, 2018
Premiums receivable		
Fire insurance	\$ 165,306	175,731
Marine insurance	64,214	55,826
Hull and fishing vessel insurance	8,633	9,680
Other accident insurance	104,004	124,449
Compulsory pure premium	13,302	11,600
Voluntary automobile insurance	88,981	83,172
Compulsory automobile liability insurance	6,154	5,518
Overdue receivables	53,100	49,741
Overseas subsidiary	-	2,554
Subtotal	503,694	518,271
Less : Loss allowance	(4,796)	(5,091)
Net	<u>\$ 498,898</u>	<u>513,180</u>

(iv) Other Receivables

Item	December 31, 2019	December 31, 2018
Other Receivables	\$ 161,980	132,573
Less : Loss allowance	(22,386)	(18,541)
Total	<u>\$ 139,594</u>	<u>114,032</u>

As of December 31, 2019 and 2018, the overdue receivables in notes receivable, premiums receivable and other receivables were \$80,473 and \$74,003, which provisioned the loss allowance \$28,752 and \$24,999, respectively. The movements of the loss allowance for receivables were as follows:

	For the years ended December 31,	
	2019	2018
Beginning balance	\$ 24,999	14,654
Loss recognized	5,375	10,345
Amounts written off	(1,622)	-
Ending balance	<u>\$ 28,752</u>	<u>24,999</u>

The Company's Board of Directors has decided to write off \$32 of notes receivable and \$1,590 of premiums receivable which are impossible to recover on December 30, 2019.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group's aging analysis of receivables was determined as follows:

	December 31, 2019	December 31, 2018
Under 90 days	\$ 829,843	869,424
90~270 days	37,012	29,273
More than 271 days	20,117	18,656

The estimate of expected credit losses of the Group's receivables please refer to Note 6(v).

(v) Payables of insurance contracts

Item	December 31, 2019	December 31, 2018
Commission Payable	<u>\$ 169,185</u>	<u>166,959</u>

(c) Reinsurance assets

	December 31, 2019	December 31, 2018
Claims recoverable from reinsurers (Note 6(d))	\$ 347,461	331,694
Due from reinsurers and ceding companies — net (Note 6(e))	220,015	284,991
Reinsurance reserve assets (Note 6(o))		
Ceded unearned premiums reserve	1,913,563	1,858,148
Ceded claim reserve	1,668,147	2,010,694
Ceded premium deficiency reserve	-	42,186
Total	<u>\$ 4,149,186</u>	<u>4,527,713</u>

(d) Claims recoverable from reinsurers

Item	December 31, 2019	December 31, 2018
Fire insurance	\$ 8,524	3,729
Marine insurance	836	15,712
Land and air Insurance	43	-
Liability insurance	73,591	75,776
Surety insurance	2,491	44
Other property insurance	146,760	111,274
Accident insurance	40,592	55,477
Health insurance	495	845
Compulsory automobile liability insurance	72,750	68,633
Overdue receivables	1,379	204
Less : Loss allowance	-	-
Net	<u>\$ 347,461</u>	<u>331,694</u>

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(e) Due from (to) reinsurers and ceding companies

(i) Receivables of insurance contracts

<u>Item</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Due from ceding companies	\$ 78,042	101,957
Reinsurance premium receivable	59,585	55,277
Reinsurance commission receivable	81,396	110,500
Overdue receivable	<u>38,808</u>	<u>17,257</u>
Subtotal	257,831	284,991
Less : Loss allowance	<u>(37,816)</u>	<u>-</u>
Net	<u>\$ 220,015</u>	<u>284,991</u>

The movements of the loss allowance for receivables of insurance contracts were as follows:

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Beginning balance	\$ -	-
Loss recognized	<u>37,816</u>	<u>-</u>
Ending balance	<u>\$ 37,816</u>	<u>-</u>

(ii) Payables of insurance contracts

<u>Item</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Due to ceding companies	\$ 67,563	132,015
Reinsurance premium payable	632,328	578,829
Reinsurance commission payable	<u>1,628</u>	<u>559</u>
Total	<u>\$ 701,519</u>	<u>711,403</u>

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(f) Financial assets

(i) Financial assets measured at fair value through profit or loss

	December 31, 2019	December 31, 2018
Financial assets mandatorily measured at fair value through profit or loss:		
Beneficiary certificate	\$ 71,711	36,416
Real estate investment trust beneficiary certificate	334,724	252,620
Stocks listed on domestic markets	1,212,823	365,305
Stocks listed on foreign markets	-	8,178
Total	<u>\$ 1,619,258</u>	<u>662,519</u>

Sensitivity analysis - the risk of equity price:

If there is an increase in the securities price of 1% on the reporting date (assume that all other variables remain the same), the impact on comprehensive income for 2019 and 2018 will increase \$16,193 and \$6,625, respectively. Conversely, if there is a decrease in the securities price of 1% on the reporting date based on all other variables remain the same, there will be the same amount but opposite direction of influence.

(ii) Financial assets at fair value through other comprehensive income

	December 31, 2019	December 31, 2018
Equity investments at fair value through other comprehensive income		
Stocks listed on domestic markets	\$ 1,846,770	973,470
Stocks unlisted on domestic markets	13,524	13,650
Total	<u>\$ 1,860,294</u>	<u>987,120</u>

The Group designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Group intends to hold for long term for strategic purposes, rather than trading purposes.

During the year ended December 31, 2019 and 2018, the dividends of \$48,037 and \$25,930, respectively, related to equity investments at fair value through other comprehensive income held on the years ended, were recognized; the dividends of \$13,596 and \$0, respectively, related to the investments derecognized during the year ended December 31, 2019 and 2018, were recognized.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group disposed shares designated as measured at fair value through other comprehensive income due to assets allocation, managing and rearranging portfolio. The disposed shares, during the year ended December 31, 2019 and 2018, were as follows:

	For the years ended December 31,	
	2019	2018
Fair value	\$ 363,271	430,664
Accumulate gains by disposing	\$ 20,058	100,956

The accumulate gains by disposing above have been transferred from other equity to retained earning.

Sensitivity analysis - the risk of equity price:

If there is an increase in the securities price of 1% on the reporting date (assume that all other variables remain the same), the impacts on comprehensive income for 2019 and 2018 will increase \$18,603 and \$9,871, respectively. Conversely, if there is an decrease in the securities price of 1% on the reporting date based on all other variables remain the same, there will be the same amount but opposite direction of influence.

(iii) Financial assets measured at amortized cost

	December 31, 2019	December 31, 2018
Government bonds	\$ 538,296	538,841
Financial bonds	300,000	100,000
Corporate bonds	950,000	950,000
Subtotal	1,788,296	1,588,841
Less: Securities serving as deposits paid	(349,396)	(348,836)
Loss allowance	(949)	(661)
Total	\$ 1,437,951	1,239,344

- 1) The Group assesses financial assets that are held to maturity in order to collect contractual cash flows, which are solely payments of principal and interest on the principal amount outstanding. Therefore, these financial assets are classified as measured at amortized cost.
- 2) Please refer to Note 6(v) for further information of credit risk and the movement in the loss allowance of financial assets measured at amortized cost.
- 3) the Group's financial assets measured at amortized cost had been pledged partially, please refer to Note 8.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 4) The Group assessed the impairment of financial asset on December 31, 2019 and 2018, the amounts of the expected credit loss recognized (reversal of credit loss) were as follows:

	For the years ended December 31,	
	2019	2018
Beginning balance	\$ 661	705
Loss recognized	288	(44)
Ending balance	<u>\$ 949</u>	<u>661</u>

- (iv) Other financial asset:

	December 31, 2019	December 31, 2018
Time deposits—initial maturity date over than three months	\$ 2,772,892	4,273,534
Less: Securities serving as deposits paid	(185,322)	(209,720)
Total	<u>\$ 2,587,570</u>	<u>4,063,814</u>

the Group's time deposits were pledged as securities serving as deposits paid, please refer to Note 8 for further information.

- (v) Capital outsourcing information

As December 31, 2019 and 2018, the Group has outsourced to Securities Investment Trust to manage investment project and capital amount. Further information is as follows:

		December 31, 2019	December 31, 2018
Investment Trust Company	Investment	Amount	Amount
Nomura Asset Management	Stocks listed on domestic markets ∙ Bonds Purchased under Resell Agreements ∙ Short term bills, etc.	\$ 400,000	250,000
Fuh Hwa Securities Investment Trust	"	400,000	350,000
CTBC Investments	"	200,000	-
Capital Investment Trust Corporation	"	200,000	-
		<u>\$ 1,200,000</u>	<u>600,000</u>

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
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The investment project was mentioned above, and the carry amounts as of December 31, 2019 and 2018 were as follows:

	December 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 426,457	290,174
Financial assets measured at fair value through profit or loss - stocks	<u>859,443</u>	<u>230,420</u>
	<u>\$ 1,285,900</u>	<u>520,594</u>

(g) Assets classified as held-for-sale

On December 30, 2019, the Board of Directors of the Company approved to sell China Insurance (THAI) Public Company Ltd., the subsidiary of the Company, at the disposal amount of \$74,980. All shares would be transferred in January 2020. Thus, the investments accounted for using equity method were reclassified from assets to held-for-sale. The assets classified as held-for-sale, liabilities, and equity of the Group for the year ended December 31, 2019 were as follows:

	December 31, 2019
Assets classified as held-for-sale	
Cash and cash equivalents	\$ 5,107
Financial assets at fair value through profit or loss	7,435
Other financial assets - net	60,588
Reinsurance assets	9,239
Other assets	<u>7,342</u>
Total	<u>\$ 89,711</u>
Liabilities related to assets classified as held-for-sale	
Accounts payable	\$ 13,523
Insurance liabilities	12,440
Other liabilities	<u>1,108</u>
Total	<u>\$ 27,071</u>
Equity related to assets classified as held-for-sale	<u>\$ 2,953</u>

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(h) Investment property

The cost, depreciation, and impairment of the investment property of the Group for the years ended December 31, 2019 and 2018, were as follows:

	<u>Land and Improvement</u>	<u>Buildings and Constructions</u>	<u>Total</u>
Cost or deemed cost:			
Balance at January 1, 2019	\$ 715,774	218,790	934,564
Reclassification form property, plant and equipment	2,444	1,162	3,606
Reclassification to property, plant and equipment	(3,654)	(3,761)	(7,415)
Effect of changes in foreign exchange rates	23	526	549
Reclassification to assets classified as held-for-sale	(416)	(12,690)	(13,106)
Balance at December 31, 2019	<u>\$ 714,171</u>	<u>204,027</u>	<u>918,198</u>
Balance at January 1, 2018	\$ 893,174	225,867	1,119,041
Purchase	-	471	471
Reclassification form property, plant and equipment	4,195	5,006	9,201
Reclassification to property, plant and equipment	(181,611)	(12,883)	(194,494)
Effect of changes in foreign exchange rates	16	329	345
Balance at December 31, 2018	<u>\$ 715,774</u>	<u>218,790</u>	<u>934,564</u>
Accumulated depreciation and impairments			
Balance at January 1, 2019	\$ 2,359	85,005	87,364
Depreciation	-	4,366	4,366
Reclassification form property, plant and equipment	-	444	444
Reclassification to property, plant and equipment	-	(899)	(899)
Effect of changes in foreign exchange rates	-	526	526
Reclassification to assets classified as held-for-sale	-	(12,690)	(12,690)
Balance at December 31, 2019	<u>\$ 2,359</u>	<u>76,752</u>	<u>79,111</u>

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Land and Improvement</u>	<u>Buildings and Constructions</u>	<u>Total</u>
Balance at January 1, 2018	\$ 2,359	79,333	81,692
Depreciation	-	4,774	4,774
Reclassification form property, plant and equipment	-	1,592	1,592
Reclassification to property, plant and equipment	-	(1,025)	(1,025)
Effect of changes in foreign exchange rates	-	331	331
Balance at December 31, 2018	<u>\$ 2,359</u>	<u>85,005</u>	<u>87,364</u>
Carrying amount:			
December 31, 2019	<u>\$ 711,812</u>	<u>127,275</u>	<u>839,087</u>
December 31, 2018	<u>\$ 713,415</u>	<u>133,785</u>	<u>847,200</u>
Fair value :			
December 31, 2019			<u>\$ 1,529,595</u>
December 31, 2018			<u>\$ 1,547,652</u>

On December 31, 2019 and 2018, the assessment of fair value of investment property mainly referred to the market trade.

As of December 31, 2019 and 2018, the Group's investment property has not been pledged as collateral.

(i) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group for the years ended December 31, 2019 and 2018, were as follows:

	<u>Land</u>	<u>Buildings and Constructions</u>	<u>Computer Equipment</u>	<u>Transportation Equipment</u>	<u>Other Equipment</u>	<u>Leasehold Improvement</u>	<u>Total</u>
Cost:							
Balance at January 1, 2019	\$ 736,285	426,700	158,638	2,104	51,771	12,930	1,388,428
Purchase	65,207	26,300	24,222	-	3,689	1,419	120,837
Reclassification from investment property	3,654	3,761	-	-	-	-	7,415
Reclassification to investment property	(2,444)	(1,162)	-	-	-	-	(3,606)
Scrap	-	-	(817)	-	(1,190)	(7,133)	(9,140)
Reclassification to assets classified as held-for-sale	(517)	(15,222)	-	(1,616)	(6,758)	-	(24,113)
Effect of changes in foreign exchange rates	29	630	-	91	381	-	1,131
Balance at December 31, 2019	<u>802,214</u>	<u>441,007</u>	<u>182,043</u>	<u>579</u>	<u>47,893</u>	<u>7,216</u>	<u>1,480,952</u>

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Land	Buildings and Constructions	Computer Equipment	Transportation Equipment	Other Equipment	Leasehold Improvement	Total
Balance at January 1, 2018	\$ 523,439	399,017	156,434	2,047	53,897	12,716	1,147,550
Purchase	35,412	19,409	9,223	-	4,084	214	68,342
Reclassification	-	-	21	-	(21)	-	-
Reclassification from investment property	181,611	12,883	-	-	-	-	194,494
Reclassification to investment property	(4,195)	(5,006)	-	-	-	-	(9,201)
Disposal	-	-	-	-	(12)	-	(12)
Scrap	-	-	(7,040)	-	(6,420)	-	(13,460)
Effect of changes in foreign exchange rates	18	397	-	57	243	-	715
Balance at December 31, 2018	<u>736,285</u>	<u>426,700</u>	<u>158,638</u>	<u>2,104</u>	<u>51,771</u>	<u>12,930</u>	<u>1,388,428</u>
Depreciation and impairment loss:							
Balance at January 1, 2019	15,196	151,901	124,540	1,895	44,725	11,873	350,130
Depreciation	-	10,538	19,754	97	3,040	1,054	34,483
Reclassification from investment property	-	899	-	-	-	-	899
Reclassification to investment property	-	(444)	-	-	-	-	(444)
Scrap	-	-	(817)	-	(1,185)	(7,133)	(9,135)
Reclassification to assets classified as held-for-sale	-	(15,221)	-	(1,616)	(6,483)	-	(23,320)
Effect of changes in foreign exchange rates	-	630	-	91	358	-	1,079
Balance at December 31, 2019	<u>15,196</u>	<u>148,303</u>	<u>143,477</u>	<u>467</u>	<u>40,455</u>	<u>5,794</u>	<u>353,692</u>
Balance at January 1, 2018	15,196	142,719	111,378	1,742	47,649	11,001	329,685
Depreciation	-	9,352	20,186	96	3,299	872	33,805
Reclassification	-	-	16	-	(16)	-	-
Reclassification from investment property	-	1,025	-	-	-	-	1,025
Reclassification to investment property	-	(1,592)	-	-	-	-	(1,592)
Disposal	-	-	-	-	(11)	-	(11)
Scrap	-	-	(7,040)	-	(6,420)	-	(13,460)
Effect of changes in foreign exchange rates	-	397	-	57	224	-	678
Balance at December 31, 2018	<u>15,196</u>	<u>151,901</u>	<u>124,540</u>	<u>1,895</u>	<u>44,725</u>	<u>11,873</u>	<u>350,130</u>
Carrying amount:							
December 31, 2019	<u>\$ 787,018</u>	<u>292,704</u>	<u>38,566</u>	<u>112</u>	<u>7,438</u>	<u>1,422</u>	<u>1,127,260</u>
December 31, 2018	<u>\$ 721,089</u>	<u>274,799</u>	<u>34,098</u>	<u>209</u>	<u>7,046</u>	<u>1,057</u>	<u>1,038,298</u>

As of December 31, 2019 and 2018, the Group's property, plant and equipment have not been pledged as collateral.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(j) Right-of-use assets

The changes in the Group's costs and depreciation of leasing buildings, constructions, and transportation equipment were as follows:

	<u>Buildings and Constructions</u>	<u>Transportation Equipment</u>	<u>Total</u>
Costs of right-of-use assets:			
January 1, 2019	\$ -	-	-
Effects of retrospective application IFRS16	24,118	5,730	29,848
Additions	6,214	2,904	9,118
Derecognition	<u>(3,280)</u>	<u>(3,200)</u>	<u>(6,480)</u>
December 31, 2019	<u>\$ 27,052</u>	<u>5,434</u>	<u>32,486</u>
Depreciation of right-of-use assets:			
January 1, 2019	\$ -	-	-
Effects of retrospective application IFRS16	-	-	-
Depreciation	14,422	2,444	16,866
Derecognition	<u>(3,031)</u>	<u>(933)</u>	<u>(3,964)</u>
December 31, 2019	<u>\$ 11,391</u>	<u>1,511</u>	<u>12,902</u>
Carrying amounts:			
December 31, 2019	<u>\$ 15,661</u>	<u>3,923</u>	<u>19,584</u>

(k) Lease liabilities

The Group's lease liabilities were as follows:

	<u>December 31, 2019</u>
Within a year	\$ 15,257
One to five years	<u>4,422</u>
Total	<u>\$ 19,679</u>

The maturity analysis please refer to note 6(v) financial instruments.

The amounts recognized in profit or loss were as follows:

	<u>For the years ended December 31, 2019</u>
Interest on lease liabilities	<u>\$ 477</u>

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The amounts recognized in the statement of cash flows for the Group was as follows:

	For the years ended December 31, 2019
Total cash outflow for leases	<u>\$ 16,925</u>

(i) Leases of buildings and constructions

The Group leases buildings and constructions for its office space. The leases of office space typically run for 1 to 3 years.

(ii) Other leases

The Group leases transportation equipment with contract terms of 1 to 3 years.

(l) Operating lease

(i) Leases as lessee

Non-cancellable operating lease rentals payable were as follows:

	December 31, 2018
Within a year	\$ 13,144
One to five years	<u>11,014</u>
	<u>\$ 24,158</u>

The Group leases a number of offices under operating leases. The leases typically run for a period of 1 to 5 years, with an option to renew the lease after that date. The expenses of operating lease was \$15,197 for 2018.

(ii) Leases as lessor

The Group leases out its investment properties (refer to Note 6(h)). The future minimum lease payments under non-cancellable leases are as follows:

	December 31, 2019	December 31, 2018
Within a year	\$ 47,760	47,522
One to five years	136,942	144,192
More than five years	<u>278,138</u>	<u>304,770</u>
	<u>\$ 462,840</u>	<u>496,484</u>

Rental incomes from investment properties were \$50,290 and \$52,284 for 2019 and 2018, respectively.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(m) Employee benefit

(i) Defined benefit plans

Reconciliation of defined benefit obligation at present value and plan asset at fair value for the Group were as follows:

	December 31, 2019	December 31, 2018
Present value of the defined benefit obligations	\$ (540,267)	(532,833)
Fair value of plan assets	<u>306,835</u>	<u>257,184</u>
Net defined benefit (liabilities) assets	<u>\$ (233,432)</u>	<u>(275,649)</u>

The Group makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pensions for employees upon retirement. Plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average monthly salary for the six months prior to retirement.

1) Composition of plan assets

The Group allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two year time deposits with interest rates offered by local banks.

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$306,835 and \$257,184 as of December 31, 2019 and 2018, respectively. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of the defined benefit obligations

The movement in present value of the defined benefit obligations for Company were as follows:

	For the years ended December 31,	
	2019	2018
Defined benefit obligation at January 1	\$ 532,833	516,322
Current serviced costs and interest cost	12,531	13,648
Remeasurements of net defined benefit liabilities		
— Actuarial gains or losses arising from changes of demographic assumptions	462	5,938
— Actuarial gains or losses arising from changes of financial assumptions	21,201	7,548
— Actuarial gains or losses arising from experience adjustments	7,990	24,862
Benefits paid by the plan	<u>(34,750)</u>	<u>(35,485)</u>
Defined benefit obligation at December 31	<u>\$ 540,267</u>	<u>532,833</u>

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Group were as follows:

	For the years ended December 31,	
	2019	2018
Fair value of plan assets at January 1	\$ 257,184	262,172
Interest revenue	2,238	2,806
Remeasurements of net defined benefit liabilities		
— Expected return on plan assets (excluding current interest)	10,074	7,748
Contribution made to the plan	72,089	19,943
Benefit paid by the plan	<u>(34,750)</u>	<u>(35,485)</u>
Fair value of plan assets at December 31	<u>\$ 306,835</u>	<u>257,184</u>

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Group were as follows:

	For the years ended December 31,	
	2019	2018
Current service cost	\$ 7,895	8,123
Net interest of net liabilities for defined benefit obligations	2,398	2,719
	<u>\$ 10,293</u>	<u>10,842</u>

5) Remeasurement of net defined benefit liability (asset) recognized in other comprehensive income

The Group's remeasurement of the net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2019 and 2018, was as follows:

	For the years ended December 31,	
	2019	2018
Accumulated amount at January 1	\$ 175,580	144,980
Recognized during the period	<u>19,579</u>	<u>30,600</u>
Accumulated amount at December 31	<u>\$ 195,159</u>	<u>175,580</u>

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

6) Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follows:

	For the years ended December 31,	
	2019	2018
Discount rate	0.66 %	0.87 %
Expected return on planned assets	0.66 %	0.87 %
Future salary increases	1.00 %	0.50 %

The expected allocation payment to be made by the Group to the defined benefit plans for the one year period after the reporting date is \$8,334. The weighted average lifetime of the defined benefits plans is 8 years.

7) Sensitivity Analysis

When calculating the present value of the defined benefit obligations, the Group uses judgments and estimations to determine the actuarial assumptions, including discount rate and future salary increases. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

For the years ended December 31, 2019 and 2018, if the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows

	Effects to Defined Benefit Obligations	
	Increase	Decrease
December 31, 2019		
Discount rate (change 0.5%)	\$ 27,803	15,216
Future salary increases(change 0.5%)	27,492	15,239
December 31, 2018		
Discount rate (change 0.5%)	20,448	18,656
Future salary increases (change 0.5%)	20,421	15,171

The sensitivity analysis presented above is based on the condition that other variables are unchanged. In practice, the changes of many assumptions are correlated. The method that the sensitivity analysis adopted is in accordance with the method of calculating net pension liability.

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2019 and 2018.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Defined contribution plan

The Group allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under these defined contribution plans, the Group allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The pension costs of the Group incurred from the contributions to the Bureau of the Labor Insurance amounted to \$31,613 and \$34,711 for the years ended December 31, 2019 and 2018, respectively.

(iii) The pension costs of the overseas subsidiary were \$217 and \$ 78 which are following to local regulation for the years ended December 31, 2019 and 2018, respectively.

(n) Employee compensation and directors' remuneration

In accordance with the Articles of Incorporation the Group should contribute 1%~5% of the profit as employee compensation, and no more than 5% directors' and supervisors' remuneration when there is profit for the year. However, if the Group has accumulated deficits, the profit should be reserved to offset the deficit.

For the years ended December 31, 2019 and 2018, the Group estimated its employee remuneration amounting to \$28,000 and \$9,000, respectively, and directors' remuneration both amounting to \$6,000. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees and directors of each period, multiplied by the percentage of remuneration to employees and directors as specified in the Group's articles. These remunerations were expensed under operating costs or operating expenses during 2019 and 2018. If the actual amounts were subsequently decided after the approval and the issuance date of the Consolidated Financial Statements in the following year differ from the estimated amounts, the differences are accounted for as changes in accounting estimates and recognized in profit or loss in the following year. If the Board of Directors resolved to distribute the employees' remuneration in the form of shares, the number of shares of the distribution is based on the closing price of the day before the Board of Directors' meeting date.

The amounts of compensation for employees and directors of the Group in 2018 and 2017 were \$9,000 and \$6,000, \$9,795 and \$6,530, respectively. There is no difference in the actual distribution situation. Relevant information can be obtained from the Market Observation Post System.

(o) Insurance liability

	December 31, 2019	December 31, 2018
Unearned premium reserve	\$ 5,622,576	5,613,035
Claims reserve	3,622,952	4,070,933
Special reserve	1,159,017	1,182,026
Premium deficiency reserve	-	46,544
Total	<u>\$ 10,404,545</u>	<u>10,912,538</u>

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Unearned premium reserve

1) Unearned premium reserve and ceded reinsurance unearned premiums reserve

December 31, 2019				
Item	Unearned premium reserve		Ceded unearned premiums reserve	
	Direct business	Reinsurance ceded in	Reinsurance ceded out	Retained business
Fire insurance	\$ 768,183	29,901	415,777	382,307
Marine insurance	66,708	1,285	57,720	10,273
Land and air Insurance	41,503	483	33,525	8,461
Liability insurance	1,364,268	327,926	459,556	1,232,638
Surety insurance	11,939	362	6,469	5,832
Other property insurance	2,054,694	35,553	672,854	1,417,393
Accident insurance	374,146	2,071	42,451	333,766
Health insurance	6,891	-	1,110	5,781
Compulsory automobile liability insurance	373,487	163,176	224,101	312,562
Total	\$ 5,061,819	560,757	1,913,563	3,709,013

December 31, 2018				
Item	Unearned premium reserve		Ceded unearned premiums reserve	
	Direct business	Reinsurance ceded in	Reinsurance ceded out	Retained business
Fire insurance	\$ 814,260	23,104	386,852	450,512
Marine insurance	60,335	825	52,314	8,846
Land and air Insurance	42,159	-	28,982	13,177
Liability insurance	1,288,674	423,155	525,689	1,186,140
Surety insurance	10,941	369	4,760	6,550
Other property insurance	1,962,603	30,030	578,019	1,414,614
Accident insurance	401,307	1,970	48,601	354,676
Health insurance	6,825	-	916	5,909
Compulsory automobile liability insurance	373,024	163,691	223,821	312,894
Overseas subsidiary	9,762	1	8,194	1,569
Total	\$ 4,969,890	643,145	1,858,148	3,754,887

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Reserve for unearned premiums and reserve for unearned premiums out

For the years ended December 31, 2019													
Items	Premium revenue	Reinsurance premium	Reinsurance expense	Retained Premiums	Direct business Unearned premium reserve		Reinsurance ceded in Unearned premium reserve		Net change in unearned premiums reserve	Reinsurance ceded out Ceded unearned premium reserve		Net change in ceded unearned premiums reserve	Retained premiums earned
					Provision	Recovery	Provision	Recovery		Provision	Recovery		
Compulsory insurance	\$ 967,336	290,532	406,885	850,983	373,487	373,024	163,176	163,691	(52)	224,101	223,821	280	851,315
Non-compulsory insurance	8,865,969	109,849	2,825,032	6,150,786	4,688,332	4,575,652	397,581	479,453	30,808	1,689,462	1,626,133	63,329	6,183,307
Overseas subsidiary	27,004	276	21,650	5,630	11,457	10,249	1	2	1,207	8,771	8,604	167	4,590
Total	\$ 9,860,309	400,657	3,253,567	7,007,399	5,073,276	4,958,925	560,758	643,146	31,963	1,922,334	1,858,558	63,776	7,039,212
For the years ended December 31, 2018													
Items	Premium revenue	Reinsurance premium	Reinsurance expenses	Retained Premiums	Direct business Unearned premium reserve		Reinsurance ceded in Unearned premium reserve		Net change in unearned premiums reserve	Reinsurance ceded out Ceded unearned premium reserve		Net change in ceded unearned premiums reserve	Retained premiums earned
					Provision	Recovery	Provision	Recovery		Provision	Recovery		
Compulsory insurance	\$ 952,664	289,582	398,886	843,360	373,024	377,815	163,691	172,090	(13,190)	223,821	226,702	(2,881)	853,669
Non-compulsory insurance	8,873,058	122,801	2,818,074	6,177,785	4,587,104	4,292,411	479,453	517,160	256,986	1,626,133	1,549,448	76,685	5,997,484
Overseas subsidiary	22,351	415	18,690	4,076	9,603	11,431	1	875	(2,702)	8,061	9,878	(1,817)	4,961
Total	\$ 9,848,073	412,798	3,235,650	7,025,221	4,969,731	4,681,657	643,145	690,125	241,094	1,858,015	1,786,028	71,987	6,856,114

3) The movements in unearned premium reserve and ceded unearned premiums reserve were as follows:

Item	For the years ended December 31, 2019	
	Unearned premium reserve	Ceded unearned premiums reserve
Beginning balance	\$ 5,613,035	1,858,148
Provision	5,634,034	1,922,334
Recovery	(5,613,523)	(1,858,558)
Liabilities related to assets classified as held-for-sale	(11,561)	-
Assets classified as held-for-sale	-	(8,849)
Effect of changes in exchange rates	591	488
Ending balance	<u>\$ 5,622,576</u>	<u>1,913,563</u>
Item	For the years ended December 31, 2018	
	Unearned premium reserve	Ceded unearned premiums reserve
Beginning balance	\$ 5,386,994	1,785,815
Provision	5,612,876	1,858,015
Recovery	(5,387,258)	(1,786,028)
Effect of changes in exchange rates	423	346
Ending balance	<u>\$ 5,613,035</u>	<u>1,858,148</u>

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
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The provision methods of unearned premiums reserve are determined by an actuary according to the characteristics of each insurance and are stated in the instruction of insurance commodity calculation and shall not be changed without the approval of the competent authority. The Group has submitted the provision method of unearned premiums reserve on Letter (Wang) Zong Jing Suan No. 1112 on October 24, 2011 and had been approved by Financial Supervisory Commission, R.O.C. (Taiwan) Insurance Bureau Jin Guan Bao Cai Zi No. 10002518120.

On October 9, 2014, the Group signed a specific business transferring contract with Asia Insurance Company Ltd. Taiwan Branch and accepted its long term fire insurance contracts on the delivery date, which was December 15, 2014. The Group undertook the amount of \$3,916 unearned premium reserve and charged \$3,648 to Asia Insurance Company Ltd. Taiwan Branch. According to IFRS 4 "Insurance Contract" that paragraph of insurance contracts acquired in business combination or portfolio transfer: the intangible asset recognized was the difference of \$268 from the fair value of the contractual insurance rights acquired and insurance obligations assumed to a liability measured in accordance with the insurer's accounting policies for insurance contracts that it issued. The subsequent measurement of this asset shall be consistent with the measurement of the related insurance liability.

On December 7, 2012, the Group signed a special business transferring contract with Walsun Insurance Ltd. and accepted its direct business of four types of insurance contracts on January 10, 2013: long term residential fire insurance contracts, employer's accidental liability insurance contracts, contractor's liability insurance contracts, and architect's professional liability insurance contracts. The Group undertook the amount of \$232,939 unearned premium reserve and requested for a grants of \$67,451 from the Insurance and Security Fund of the Corporation. According to IFRS 4 "Insurance Contract" that paragraph of insurance contracts acquired in business combination or portfolio transfer: the intangible asset recognized was the difference of \$165,488 from the fair value of the contractual insurance rights acquired and insurance obligations assumed to a liability measured in accordance with the insurer's accounting policies for insurance contracts that it issued. The subsequent measurement of this asset shall be consistent with the measurement of the related insurance liability.

As of December 31, 2019 and 2018, the undertook unearned premium reserve has recovered \$16,452 and \$22,281, respectively. According to relevant measurements, the intangible asset has reduced \$11,452 and \$15,476 as recovery deduction of unearned premium reserve, respectively. The amount of \$5,000 and \$6,805 were net recovered unearned premium reserve, respectively. As of December 31, 2019 and 2018, the relevant unearned premium reserve and intangible assets were \$37,208, \$26,034, \$53,660, and \$37,486, respectively.

(ii) Special reserve

1) Segmentation of specific assets

The Group is engaged in business of compulsory automobile liability insurance (hereinafter referred to as "this insurance") accounting to this insurance's relevant accounting of Compulsory Automobile Liability Insurance Law.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

This insurance of special reserve provision obeys "Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance" Article 5 that is to the insurer shall purchase treasury bills or deposit the reserve with a financial institution as a time deposit. Provided that with the approval of the competent authority, the insurer may purchase the following domestic securities:

- a) Government bonds, not including exchangeable government bonds.
- b) Financial bonds, negotiable certificates of deposit, bankers' acceptances, and commercial paper guaranteed by a financial institution, provided that financial bonds shall be limited to ordinary financial bonds only.

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

If the balance of special reserve is less than 30 percent of the total amount of the retained earned pure premiums for this insurance in the most recent period, as audited or reviewed by a certified public accountant, then the full amount of its special reserve shall be deposited in a financial institution as a time deposit or treasury bills.

According to Article 6 of "Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance", funds (all types of reserves, payables, temporary credits and amounts to be carried forward) held by an insurer for this Insurance shall be deposited in a financial institution in the form of demand deposits and time deposits, provided that with the approval of the competent authority, an insurer may purchase any of the following domestic securities:

- a) Treasury bills.
- b) Negotiable certificates of deposit, bankers' acceptances, and commercial paper guaranteed by a financial institution.
- c) Government bonds in a repo transaction.

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

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

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Accounting Article 11 of "Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance", when an insurer suspends business operations or terminates its operation of this Insurance, the various reserves for this Insurance shall be transferred into the various reserves set aside for handling of this Insurance by the other insurer that assumes the business.

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

Special reserve – Compulsory Automobile Liability Insurance

Item	For the years ended December 31,	
	2019	2018
Beginning balance	\$ 17,944	15,653
Provision	-	38,105
Recovery	(17,944)	(35,814)
Ending balance	<u>\$ -</u>	<u>17,944</u>

Special reserve – Non-Compulsory Automobile Liability Insurance

Item	For the years ended December 31, 2019					
	Liability			Special reserve		
	Catastrophic risk	Contingency risk	Total	Catastrophic risk	Contingency risk	Total
Beginning balance	\$ 121,741	1,038,185	1,159,926	547,980	1,201,525	1,749,505
Provision	-	-	-	76,362	206,653	283,015
Recovery	(5,065)	-	(5,065)	-	(12,140)	(12,140)
Ending balance	<u>\$ 116,676</u>	<u>1,038,185</u>	<u>1,154,861</u>	<u>624,342</u>	<u>1,396,038</u>	<u>2,020,380</u>

Item	For the years ended December 31, 2018					
	Liability			Special reserve		
	Catastrophic risk	Contingency risk	Total	Catastrophic risk	Contingency risk	Total
Beginning balance	\$ 126,807	1,038,185	1,164,992	474,087	1,008,784	1,482,871
Provision	-	-	-	73,893	201,505	275,398
Recovery	(5,066)	-	(5,066)	-	(8,764)	(8,764)
Ending balance	<u>\$ 121,741</u>	<u>1,038,185</u>	<u>1,159,926</u>	<u>547,980</u>	<u>1,201,525</u>	<u>1,749,505</u>

Note: The liability of special reserve mentioned above means non-compulsory automobile liability insurance reserve had been provisioned before January 1, 2011. In addition, Article 8 4 of Various Provisions of Insurance Industry and Financial Supervisory Commission, R.O.C. (Taiwan) Insurance Bureau Jin Guan Bao Cai Zi No.10002509161 on June, 16, 2011 also have set the standard that the business of commercial earthquake insurance and typhoon flood insurance should provision various reserve, which is the base of recovered special reserve as of December 31, 2019 and 2018.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
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2) Special reserves -Other

In 2013, the determination of cost of real estate and equipment based on the International Financial Reporting Standards No. 1 that approved by the Financial Supervisory Committee, the Group chose the exemption that the revaluation reserve of land and buildings according to the Generally Accepted Accounting Principles of the Republic of China transferred to retained earnings. However, according to the standard of the Preparation of Financial Reports by Insurance Enterprises, the revaluation reserve that estimated by the cash flow discount approach via contractual rent of the investment real estate target as the upper limit adjustment to define the cost and the value added part. Then, to fill the unrecognized pension loss, the unrecognized transition net payment obligation, the increase on defined benefit obligation based on the change of actuarial assumptions, and the employee's paid leave liability, those adjustment increased the special increase of \$4,156.

(iii) Claim reserve

- 1) Liabilities for claims are to be paid, reported but unpaid and incurred but not reported (IBNR).

Item	December 31, 2019			
	Insurance claims payable	Claims reserve		
	Reported to be paid	Reported but unpaid	IBNR	Total
Fire insurance	\$ 2,829	503,164	66,957	570,121
Marine insurance	32	108,298	50,121	158,419
Land and air insurance	-	113,096	12,643	125,739
Liability insurance	8,582	804,639	122,269	926,908
Surety insurance	1	16,854	7,661	24,515
Other property insurance	9,445	603,476	59,950	663,426
Accident insurance	6,425	40,210	249,257	289,467
Health insurance	28	1,034	2,752	3,786
Compulsory automobile liability insurance	2,836	155,574	704,997	860,571
Total	\$ 30,178	2,346,345	1,276,607	3,622,952

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
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December 31, 2018				
Item	Insurance claims payable	Claims reserve		
	Reported to be paid	Reported but unpaid	IBNR	Total
Fire insurance	\$ -	962,030	76,428	1,038,458
Marine insurance	-	149,181	51,352	200,533
Land and air Insurance	-	134,081	13,911	147,992
Liability insurance	2,346	804,200	123,395	927,595
Surety insurance	-	19,655	8,046	27,701
Other property insurance	3,789	540,542	52,362	592,904
Accident insurance	4,879	48,964	216,305	265,269
Health insurance	44	1,634	2,833	4,467
Compulsory automobile liability insurance	1,203	166,836	697,035	863,871
Overseas subsidiary	-	991	1,152	2,143
Total	\$ 12,261	2,828,114	1,242,819	4,070,933

- 2) Reinsurance assets - the insurance ceded business for the policy holders with reported but unpaid or unreported claims

December 31, 2019			
Item	Reported but unpaid	IBNR	Total
Fire insurance	\$ 362,112	34,682	396,794
Marine insurance	93,530	33,666	127,196
Land and air insurance	111,125	4,805	115,930
Liability insurance	154,923	59,299	214,222
Surety insurance	7,880	2,710	10,590
Other property insurance	269,677	26,533	296,210
Accident insurance	14,493	112,335	126,828
Health insurance	32	694	726
Compulsory automobile liability insurance	59,761	319,971	379,732
Less: Accumulated impairment	(81)	-	(81)
Total	\$ 1,073,452	594,695	1,668,147

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	December 31, 2018		
	Reported but unpaid	IBNR	Total
Fire insurance	\$ 720,462	34,848	755,310
Marine insurance	123,954	34,085	158,039
Land and air Insurance	130,630	5,380	136,010
Liability insurance	170,797	61,613	232,410
Surety insurance	9,999	3,123	13,122
Other property insurance	191,755	25,487	217,242
Accident insurance	15,996	102,266	118,262
Health insurance	63	696	759
Compulsory automobile liability insurance	65,413	312,746	378,159
Overseas subsidiary	572	809	1,381
Total	\$ 1,429,641	581,053	2,010,694

3) The net change of claim reserve and ceded reinsurance claim reserve

Item	For the years ended December 31, 2019							
	Direct underwrite business		Reinsurance ceded-in		The net change in claim reserve	Reinsurance ceded-out		The net change in ceded claim reserve
	Provision	Recovery	Provision	Recovery	Provision	Recovery	Provision	Recovery
Fire insurance	\$ 554,720	1,024,308	15,401	14,150	(468,337)	396,794	755,310	(358,516)
Marine insurance	151,355	192,252	7,064	8,281	(42,114)	127,196	158,039	(30,843)
Land and air Insurance	123,308	144,974	2,431	3,018	(22,253)	115,930	136,010	(20,080)
Liability insurance	918,225	916,395	8,683	11,200	(687)	214,222	232,410	(18,188)
Surety insurance	23,994	27,016	521	685	(3,186)	10,590	13,122	(2,532)
Other property insurance	656,817	584,252	6,609	8,652	70,522	296,210	217,242	78,968
Accident insurance	284,371	260,453	5,096	4,816	24,198	126,828	118,262	8,566
Health insurance	3,389	3,993	397	474	(681)	726	759	(33)
Compulsory automobile liability insurance	633,326	632,089	227,245	231,782	(3,300)	379,732	378,159	1,573
Overseas subsidiary	561	1,748	311	502	(1,378)	387	1,450	(1,063)
Total	\$ 3,350,066	3,787,480	273,758	283,560	(447,216)	1,668,615	2,010,763	(342,148)

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
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Item	For the years ended December 31, 2018							
	Direct underwrite business		Reinsurance ceded-in		The net change in claim reserve	Reinsurance ceded-out		The net change in ceded claim reserve
	Provision	Recovery	Provision	Recovery		Provision	Recovery	
Fire insurance	\$ 1,024,309	503,126	14,149	93,676	441,656	755,310	366,521	388,789
Marine insurance	192,252	212,524	8,281	13,047	(25,038)	158,039	169,472	(11,433)
Land and air insurance	144,974	149,762	3,018	3,024	(4,794)	136,010	142,973	(6,963)
Liability insurance	916,395	946,144	11,200	17,910	(36,459)	232,410	294,834	(62,424)
Surety insurance	27,016	28,331	685	1,040	(1,670)	13,122	13,898	(776)
Other property insurance	584,252	643,407	8,652	17,092	(67,595)	217,242	250,535	(33,293)
Accident insurance	260,453	210,673	4,816	4,478	50,118	118,262	108,290	9,972
Health insurance	3,993	2,952	474	309	1,206	759	561	198
Compulsory automobile liability insurance	632,089	607,617	231,782	246,599	9,655	378,159	359,065	19,094
Overseas subsidiary	1,638	8,796	470	759	(7,447)	1,359	6,358	(4,999)
Total	<u>\$ 3,787,371</u>	<u>3,313,332</u>	<u>283,527</u>	<u>397,934</u>	<u>359,632</u>	<u>2,010,672</u>	<u>1,712,507</u>	<u>298,165</u>

4) Movements in claim reserve and ceded claim reserve

Item	For the years ended December 31,			
	2019		2018	
	Claims reserve	Ceded claim reserve	Claims reserve	Ceded claim reserve
Beginning balance	\$ 4,070,933	2,010,694	3,711,061	1,712,371
Provision	3,623,824	1,668,615	4,070,898	2,010,672
Recovery	(4,071,040)	(2,010,763)	(3,711,266)	(1,712,507)
Impairment loss recognized	-	(81)	-	-
Liabilities related to assets classified as held-for-sale	(879)	-	-	-
Assets classified as held-for-sale	-	(390)	-	-
Effect of changes in exchange rates	114	72	240	158
Ending balance	<u>\$ 3,622,952</u>	<u>1,668,147</u>	<u>4,070,933</u>	<u>2,010,694</u>

The methodology for providing claims reserve is decided by actuaries and reported to the Authority. If there is any change, it should adopt the same procedures as fore mentioned. The Group submitted the method of claims reserve provision in the letter of (Wang) Zong Qi Zi No. 1920 on December 23, 2009, which has been approved by Financial Supervisory Commission, R.O.C. (Taiwan) Insurance Bureau Jin Guan Bao Cai Zi No. 09802245610. The relevant provision methods is explained as follows:

- 1) Regarding to the claims reserve for reported but not paid, it should be estimated based on actual situation by each case.
- 2) Regarding to the claims reserve for IBNR, it should be estimated based on the experience of claim loss development of each type insurance by actuary methodology.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Premium deficiency reserve

1) Premium deficiency reserve and ceded premium deficiency reserve

December 31, 2018				
Item	Premium deficiency reserve		Ceded premium deficiency reserve	
	Direct business	Reinsurance ceded-in	Reinsurance ceded-out	Retained business
Fire insurance	\$ 44,342	642	40,670	4,314
Overseas subsidiary	1,560	-	1,516	44
Total	\$ 45,902	642	42,186	4,358

2) The net change of premium deficiency reserve and ceded premium deficiency reserve

For the years ended December 31, 2019									
Item	Direct underwrite		Reinsurance ceded-in		The net change in premium deficiency	Reinsurance ceded-out		The net change in premium ceded deficiency	Net deposit of premium deficiency reserve
	Provision	Recovery	Provision	Recovery		Provision	Recovery		
Fire insurance	\$ -	44,342	-	642	(44,984)	-	40,670	(40,670)	(4,314)
Overseas subsidiary	-	1,638	-	-	(1,638)	-	1,592	(1,592)	(46)
Total	\$ -	45,980	-	642	(46,622)	-	42,262	(42,262)	(4,360)

For the years ended December 31, 2018									
Item	Direct underwrite		Reinsurance ceded-in		The net change in premium deficiency	Reinsurance ceded-out		The net change in premium ceded deficiency	Net deposit of premium deficiency reserve
	Provision	Recovery	Provision	Recovery		Provision	Recovery		
Fire insurance	\$ 44,342	22,696	642	214	22,074	40,670	22,910	17,760	4,314
Overseas subsidiary	1,535	1,289	-	117	129	1,492	1,406	86	43
Total	\$ 45,877	23,985	642	331	22,203	42,162	24,316	17,846	4,357

3) The movements in net premium deficiency reserve and net ceded premium deficiency reserve

December 31, 2019		
Item	Premium deficiency reserve	Ceding premium deficiency reserve
Beginning balance	\$ 46,544	42,186
Recovery	(46,622)	(42,262)
Effect of changes in exchange rates	78	76
Ending balance	\$ -	-

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	December 31, 2018	
	Premium deficiency reserve	Ceding premium deficiency reserve
Beginning balance	\$ 24,286	24,286
Provision	46,519	42,162
Recovery	(24,316)	(24,316)
Effect of changes in exchange rates	55	54
Ending balance	<u>\$ 46,544</u>	<u>42,186</u>

The methodology for premium deficiency reserve provision is decided by actuaries and shall report to the Authority, same as afterward change. The Group reported the methodology for premium deficiency reserve provision on February 16, 2012 in the letter of (Wang) Zong Jing Suan No.0005, which has been approved by Financial Supervisory Commission, R.O.C. (Taiwan) Jin Guan Bao Cai Zi No.10102503930.

(p) Income tax

(i) The components of the Group's income tax in the years 2019 and 2018 were as follows:

	For the years ended December 31,	
	2019	2018
Current income tax expenses (profits)	\$ (2,431)	21,126
Deferred income tax expenses		
Origination and reversal of temporary differences	108	687
	<u>\$ (2,323)</u>	<u>21,813</u>

Reconciliation of income tax and profit before tax for the years ended December 31, 2019 and 2018 were as follows:

	For the years ended December 31,	
	2019	2018
Income before tax	\$ 700,254	625,095
Income tax using the Group's domestic tax rate	140,270	125,349
Adjustment items:		
Tax-free income	(29,693)	(7,531)
Change in unrecognized temporary differences	(3,113)	647
Permanent differences	7,480	28,464
Decrease of offset taxable income	(114,944)	(146,929)
Undistributed earnings additional tax	2,420	6,750
Prior income tax expense (over) under estimated	(13,802)	386
Income basic tax	8,951	13,990
Overseas subsidiary	108	687
Income tax expenses (profits)	<u>\$ (2,323)</u>	<u>21,813</u>

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets

	December 31, 2019	December 31, 2018
The carryforward of unused tax losses	\$ 566,321	700,083
Actuarial losses of defined benefit plans	39,031	35,115
Unrecognized deferred tax assets	<u>\$ 605,352</u>	<u>735,198</u>

The Group's income tax returns in 2017 has been approved. According to the R.O.C. Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purpose As of December 31, 2019, the information of the Group's losses for which no deferred tax assets were recognized are as follows:

<u>Loss year</u>	<u>Undeducted loss</u>	<u>Final year to be deducted</u>
Approved in 2009	\$ 2,231,118	2019
Approved in 2010	587,892	2020
Approved in 2011	12,590	2021
	<u>\$ 2,831,600</u>	

2) Recognized Deferred income tax liabilities:

	December 31, 2019	December 31, 2018
Land value-added tax	\$ (63,920)	(63,920)
Overseas subsidiary	-	(9)
	<u>\$ (63,920)</u>	<u>(63,929)</u>
Overseas subsidiary	<u>\$ -</u>	<u>554</u>

(q) Capital and other equity

(i) Share capital

As of December 31, 2019 and 2018, the number of authorized ordinary shares were both \$6,236,320 with par value of \$10 per share, i.e. 623,632 thousand shares. The issued shares were 212,960 thousand shares of common stock.

(ii) Retained earnings

1) Legal reserve

According to the Company Act, the Group is able to issue new stock or cash dividend from legal reserve if there is no deficit as long as the legal reserve is over 25% of the paid in capital.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
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2) Special reserve

Based on Financial Supervisory Committee Jin Guan Bao Cai Zi No.10102508861 on June 5, 2012, when the Group distributes retained surplus that transferred from the special reserve of unrealized revaluation increment \$12,143, it should be accounted a decrease in other equity, with the same amount of the prior years' inappropriate retained earning provision being equal to current year's net income. The amount of decrease in other equity belonged to the prior accumulation, the same amount of special reserve should be not appropriated. However, the Group's has provisioned the special reserve based on former standard, the difference between the provision amount and the decrease in other equity has been provision special reserve. Then, if a reversal of shareholders' equity contra account occurs, the reversed portion of the special reserve could be distributed as dividends.

According to the letter from the Financial Supervisory Committee Jin Guan Bao Zi No. 10502066464 on July 13, 2016. The insurance industry should allocate a special surplus reserve from 0.5% to 1% of the net profit after tax when the 2016-2018 fiscal year surplus is distributed. Moreover, since 2017, the expense of employee transferring training, transferring occupation, and settle down during the development of financial technology should be reversal.

3) Undistributed retained earnings appropriated

Under the Group's Article of Incorporation, the Group's net income after deduction of income tax and losses (if any) and offset the prior years' deficits, should be provisioned 20% of remaining amount as legal reserve, except the legal reserve is equal to the capital. In addition to any remaining profit together with any undistributed retained earnings shall be distributed based on the Group considering the operating need and legal requirement to provision special reserve, the distribution plan proposed by the Board of Directors and submitted to the stockholders' meeting for approval.

The remuneration of non-executive director in the Group is authorized to the board's meeting to set rational remuneration, and do not attend the earning distribution. The Group belongs to property and casualty insurance, the enterprise development should cooperate with the Government's policy and risk based capital, the ability of underwriting and solvency have to be stronger. The Group's earning distribution policy has to consider the current and future investment environment, capital requirement, market competition situation and budget, etc., with the benefit of shareholders, balancing dividend and long term financial plan, etc. and then the earning distribution that the board's meeting set will provide to the shareholder's meeting. The earning distribution should be in form of cash or stock dividend to distribute, in addition to the amount of cash dividend should not be lower than 10% of stock dividend. However, the amount of par cash dividend is lower than \$0.1, the dividend should use the form of stock dividend to distribute.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
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The Group's distribution of retained earnings to shareholders that approved by the resolution of the shareholders' meeting held on June 18, 2019 and June 21, 2018 for the years ended December 31, 2018 and 2017, respectively. The information were as follows:

	For the years ended December 31,	
	2018	2017
Dividends distributed to ordinary shareholders		
Cash	\$ <u>191,664</u>	<u>149,072</u>

The relevant information about distribution of retained earnings under the consent of the shareholders' meeting, can be obtained on the website of Market Observation Post System.

(r) Earnings per share

The calculation of basic earnings per share and diluted earnings per share were shown as follows:

	For the years ended December 31,	
	2019	2018
Basic earnings per share		
Profit	\$ <u>703,782</u>	<u>605,620</u>
Weighted average number of ordinary shares (thousands shares)	<u>212,960</u>	<u>212,960</u>
Basic earnings per share (in dollars)	\$ <u>3.30</u>	<u>2.84</u>
Diluted earnings per share		
Profit	\$ <u>703,782</u>	<u>605,620</u>
Weighted average number of ordinary shares (thousands shares)	212,960	212,960
Employee share options	1,236	476
Weighted average number of ordinary shares (Dilutive potential common shares)(thousands shares)	<u>214,196</u>	<u>213,436</u>
Diluted earnings per share (in dollars)	\$ <u>3.29</u>	<u>2.84</u>

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(s) Disclosure of acquisition cost of insurance contracts

Acquisition cost of insurance contracts

For the years ended December 31, 2019						
Item	Commission expense	Agent fee	Charge	Reinsurance commission expense	Other cost	Total
Fire insurance	\$ 109,179	-	-	5,364	-	114,543
Marine insurance	21,274	-	-	674	-	21,948
Land and air insurance	2,289	-	-	195	-	2,484
Liability insurance	474,565	-	-	127	-	474,692
Surety insurance	2,773	-	-	2	-	2,775
Other property insurance	589,724	-	-	8,255	-	597,979
Accident insurance	185,339	-	-	66	-	185,405
Health insurance	7,344	-	-	-	-	7,344
Compulsory automobile liability insurance	130,537	-	-	-	-	130,537
Oversea subsidiary	5,769	-	-	68	-	5,837
Total	\$ 1,528,793	-	-	14,751	-	1,543,544
For the years ended December 31, 2018						
Item	Commission expense	Agent fee	Charge	Reinsurance commission expense	Other cost	Total
Fire insurance	\$ 101,496	-	-	2,833	-	104,329
Marine insurance	21,528	-	-	843	-	22,371
Land and air insurance	7,620	-	-	12	-	7,632
Liability insurance	450,203	-	-	4,281	-	454,484
Surety insurance	3,106	-	-	141	-	3,247
Other property insurance	599,747	-	-	7,552	-	607,299
Accident insurance	181,430	-	-	1	-	181,431
Health insurance	6,756	-	-	-	-	6,756
Compulsory automobile liability insurance	127,574	-	-	-	-	127,574
Oversea subsidiary	4,652	-	-	144	-	4,796
Total	\$ 1,504,112	-	-	15,807	-	1,519,919

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(t) Disclosure of insurance cost benefit analysis

(i) Direct written business cost benefit analysis

For the years ended December 31, 2019						
Item	Written premium	The net change in unearned premium reserve	Insurance contract acquisition cost	Claims	The net change in claims reverse	Gain/Loss
Fire insurance	\$ 1,225,645	(34,644)	109,179	688,417	(469,588)	932,281
Marine insurance	231,602	6,373	21,274	134,091	(40,897)	110,761
Land and air insurance	89,284	(656)	2,289	4,386	(21,666)	104,931
Liability insurance	2,723,858	75,613	474,565	1,449,560	1,830	722,290
Surety insurance	20,310	998	2,773	3,943	(3,022)	15,618
Other property insurance	3,500,383	92,091	589,724	1,922,989	72,565	823,014
Personal accident insurance	1,026,823	(27,161)	185,339	573,595	23,918	271,132
Health insurance	48,064	66	7,344	11,544	(604)	29,714
Compulsory automobile liability insurance	967,336	463	130,537	833,338	1,237	1,761
Oversea subsidiary	27,004	1,208	5,769	2,141	(1,187)	19,073
Total	<u>\$ 9,860,309</u>	<u>114,351</u>	<u>1,528,793</u>	<u>5,624,004</u>	<u>(437,414)</u>	<u>3,030,575</u>
For the years ended December 31, 2018						
Item	Written premium	The net change in unearned premium reserve	Insurance contract acquisition cost	Claims	The net change in claims reverse	Gain/Loss
Fire insurance	\$ 1,236,710	23,523	101,496	277,490	521,183	313,018
Marine insurance	242,961	6,865	21,528	150,602	(20,272)	84,238
Land and air insurance	79,190	1,548	7,620	30,111	(4,788)	44,699
Liability insurance	2,626,539	144,394	450,203	1,331,879	(29,749)	729,812
Surety insurance	22,410	4,564	3,106	1,161	(1,315)	14,894
Other property insurance	3,535,439	66,947	599,747	1,781,776	(59,155)	1,146,124
Accident insurance	1,089,077	47,929	181,430	583,783	49,780	226,155
Health insurance	40,732	(1,077)	6,756	12,064	1,041	21,948
Compulsory automobile liability insurance	952,664	(4,791)	127,574	692,156	24,472	113,253
Oversea subsidiary	22,351	(1,828)	4,652	4,874	(7,158)	21,811
Total	<u>\$ 9,848,073</u>	<u>288,074</u>	<u>1,504,112</u>	<u>4,865,896</u>	<u>474,039</u>	<u>2,715,952</u>

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Reinsurance cost-benefit analysis

For the years ended December 31, 2019						
Item	Reinsurance premium	The net change in unearned premium reserve	Reinsurance commission expense	Reinsurance Claims	The net change in claim reverse	Ceded in gain/Loss
Fire insurance	\$ 57,939	6,797	5,364	545	1,251	43,982
Marine insurance	7,861	460	674	4,794	(1,217)	3,150
Land and air insurance	1,156	483	195	(596)	(587)	1,661
Liability insurance	1,517	(95,229)	127	71,224	(2,517)	27,912
Surety insurance	1,126	(7)	2	600	(164)	695
Other property insurance	34,076	5,523	8,255	10,056	(2,043)	12,285
Accident insurance	6,174	101	66	403	280	5,324
Health insurance	-	-	-	-	(77)	77
Compulsory automobile liability insurance	290,532	(515)	-	305,711	(4,537)	(10,127)
Oversea subsidiary	276	(1)	68	198	(191)	202
Total	\$ 400,657	(82,388)	14,751	392,935	(9,802)	85,161
For the years ended December 31, 2018						
Item	Reinsurance premium	The net change in unearned premium reserve	Reinsurance commission expense	Reinsurance Claims	The net change in claim reverse	Ceded in gain/Loss
Fire insurance	\$ 47,509	3,106	2,833	48,112	(79,527)	72,985
Marine insurance	7,386	(239)	843	(2,269)	(4,766)	13,817
Land and air insurance	(222)	-	12	1	(6)	(229)
Liability insurance	31,360	(53,065)	4,281	53,836	(6,710)	33,018
Surety insurance	1,104	4	141	1,708	(355)	(394)
Other property insurance	30,899	12,207	7,552	8,641	(8,440)	10,939
Accident insurance	4,765	280	1	1,869	338	2,277
Health insurance	-	-	-	-	165	(165)
Compulsory automobile liability insurance	289,582	(8,399)	-	295,126	(14,817)	17,672
Oversea subsidiary	415	(874)	144	6	(289)	1,428
Total	\$ 412,798	(46,980)	15,807	407,030	(114,407)	151,348

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Gain/Loss on reinsurance contracts

For the years ended December 31, 2019						
Item	Reinsurance expense	The net change in unearned premium reserve	Reinsurance commission received	Claims recovered from reinsurers	The net change in ceded claim reserve	Ceded out gain/Loss
Fire insurance	\$ (863,405)	28,925	93,206	478,022	(358,516)	(621,768)
Marine insurance	(153,096)	5,406	9,932	110,529	(30,843)	(58,072)
Land and air insurance	(74,145)	4,543	7,641	565	(20,080)	(81,476)
Liability insurance	(462,021)	(66,133)	146,108	323,964	(18,188)	(76,270)
Surety insurance	(9,763)	1,709	2,076	2,791	(2,532)	(5,719)
Other property insurance	(951,519)	94,835	243,185	526,229	78,968	(8,302)
Accident insurance	(308,714)	(6,150)	83,726	186,745	8,566	(35,827)
Health insurance	(2,369)	194	575	2,284	(33)	651
Compulsory automobile liability insurance	(406,885)	280	-	484,653	1,573	79,621
Oversea subsidiary	(21,650)	167	9,263	1,935	(1,063)	(11,348)
Total	\$ (3,253,567)	63,776	595,712	2,117,717	(342,148)	(818,510)
For the years ended December 31, 2018						
Item	Reinsurance expense	The net change in unearned premium reserve	Reinsurance commission received	Claims recovered from reinsurers	The net change in ceded claim reserve	Ceded out gain/Loss
Fire insurance	\$ (807,728)	(8,232)	76,097	192,810	388,789	(158,264)
Marine insurance	(151,535)	4,813	9,893	106,320	(11,433)	(41,942)
Land and air insurance	(55,523)	(660)	1,401	26,560	(6,963)	(35,185)
Liability insurance	(550,058)	(17,450)	171,822	343,539	(62,424)	(114,571)
Surety insurance	(9,088)	1,836	2,519	777	(776)	(4,732)
Other property insurance	(897,716)	105,176	269,883	419,629	(33,293)	(136,321)
Accident insurance	(344,087)	(8,219)	81,091	221,289	9,972	(39,954)
Health insurance	(2,339)	(579)	370	3,458	198	1,108
Compulsory automobile liability insurance	(398,886)	(2,881)	-	414,171	19,094	31,498
Oversea subsidiary	(18,690)	(1,817)	8,662	3,851	(4,999)	(12,993)
Total	\$ (3,235,650)	71,987	621,738	1,732,404	298,165	(511,356)

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(u) Disclosure of insurance contract risk

(i) The purpose, policy, procedure and the managing method of risk related to the risk management of control insurance contract

1) The range of risk management in framework, organizational, accountability

a) Risk management of framework and organization

The Group's risk managing organizational framework includes the Board of Directors, Risk Management Committee, Risk Management Department, operating segments and Audit department.

b) The responsibility of various units are as follows:

i) The Board of Directors

The Board of Directors is the highest decision making unit of risk management in the Group, which is responsible for approving risk management policy and framework, establishing the risk management culture, ensuring the effectiveness of risk management, and bear the ultimate responsibility of risk management.

ii) Risk Management Committee

1. In charge of making the risk management policy, framework, organization function, in order to establish the managing quality and quantity standard. To submit regularly the report of the executing the risk management to the Board of Directors, in case providing the necessary improve suggestion.
2. To execute the Board of Directors' decision, and entirely and periodically oversee the development, establishment and executing performance.
3. To assist and oversee various segments' risk management activities.
4. To consider the environment to adjust the types of risk, risk limit allocating and the bearing method.
5. To coordinate interaction and communication of the risk managing function between departments.

iii) Risk Management Department

1. To be responsible for risk monitoring, measuring, evaluating executive layer of routine affairs, which should be independent to the executing right of operating segments.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2. Should depend on the type of operating business to execute:
 - To assist and execute the Board setting risk management policies and strategies.
 - Accounting the Group risk appetite set risk tolerance
 - Summarize risk information, coordinated and communicated for carrying out policy and quota of each unit.
 - Risk management report is proposed regularly.
 - Monitor the risk of each operating segments regularly.
 - Assistance of pressure test.
 - Back testing.
 - Others
 3. To deal with the violation of other units by the authorization of the Board Directors or Risk Management Committee
- iv) Operating segments
1. The responsibilities of operating segments supervisor to execute the risk management are as follows:
 - To be responsible for preparing daily risk report, taking actions.
 - To monitor related information of risk management and report to risk management department regularly.
 2. The responsibilities of operating segments to execute the risk management are as follows:
 - To recognize risk, and to report the information of risk exposure situation.
 - To measure the influence of degree of risk occurred (quality and quantity), and response the accurate solution with passing the risk information.
 - Reviewing the effectiveness of the setting risk tolerance.
 - Monitor risk exposure and measure the risk exceed the tolerance.
 - To assist the risk modelling development, ensuring that the uses and hypothesis of measuring, modeling are rational and consist of the basis.

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- Ensure the effectiveness of internal control.
- Gather the information which is related to operational risk.

v) Audit department

Based on incumbent related legal regulation, to audit the implementation of risk management of each department in the Group.

2) Scope and nature of risk reporting or measure system

The Group's insurance risk monitoring included the entire or individual deal process of operating segments and various insurance goods, such as business volume, loss rate change, business structure, etc., should be in accordance with the standard, the limit, the process of over limit and the authorization. Then, through operating segments supervisors report daily or regularly to higher management level and Risk Management Department to summarize.

The Group holds Risk Management Committee periodically to report officially the insurance risk management monitor for decision making by the operating level.

3) Procedures for risk assuming, measurement, monitoring and control, as well as adequate risk classification and the underwriting policy

The Group set the underwriting policy which is following the Group's target, client demand and market competition environment. The unit of underwriting should process danger options in accordance with the underwriting policy. In addition the underwriting should cooperate with operating in term of assessment of danger and choice of business, policy due to the organization become more and more big and the market become more competitive. To achieve the goal of good quality, higher quantity, faster receivable rolling and faster claim procedure which is customer focus, the Group should enhance the method of thinking and innovation in underwriting, operating, claim and managing.

4) The range of entire basic evaluation assessment of the enterprise and risk management

The entire risk as a basic identify the Group's insurance risk, includes the design and price set risk, underwriting risk, insurance risk, claim risk, catastrophic risk and reserve risk, etc., in accordance with the various insurance risk of insurance risk management.

5) Limiting insurance risk exposure and avoiding the concentrations of insurance risk

The business of retained, ceded in reinsurance, ceded out reinsurance of the Group is under "Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms" to establish the mechanism of risk management, and considering the risk bearing capacity, formulating a reinsurance risk management plan and implementing.

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018, the amount of the retained risk limit per unit for each type of insurance is disclosed in the following table:

<u>Insurance by Type</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Fire insurance	\$ 300,000	300,000
Hull insurance	100,000	100,000
Fishing vessel insurance	50,000	50,000
Aviation insurance	200,000	200,000
Marine Cargo insurance	150,000	150,000
Injury insurance	200,000	200,000
Engineering insurance	300,000	300,000
Accident insurance	360,000	240,000
Vehicle insurance	30,000	30,000
Automobile liability insurance	120,000	120,000
Other property insurance	300,000	300,000
Health insurance	4,000	4,000
Accident insurance -Travel insurance	240,000	-

6) The method of assets and liabilities management

the Group's assets and liabilities are coordinate with the factor of risk, including market risk, liquidity risk and insurance risk, which depend on the various risk management mechanism of monitor assets and liabilities cash flows, and using such as ratio of debt to assets, net debt to assets, etc., to entirely evaluate and analyze the appropriateness of managing assets and liabilities.

7) The illustration of management, monitor and control procedure of taking extra liabilities and equities promise when obtaining or providing on special events.

Under the Insurance Act, the Group's risk based capital ratio (RBC) should be at least 200%. Otherwise, the Group would be required to raise additional capital within a certain period; in addition, the Group will be prohibited from appropriating its earnings. Moreover, the authorities will restrict the Group's operations and use of capital.

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Insurance risk information

1) Sensitivity analysis of insurance risk

Item	For the years ended December 31, 2019				
	Written premium	Expected rate of loss	Impact on the Income Statement of a One Percent Change in Rate of Expected Loss		
			Before reinsurance	After reinsurance	
Fire insurance	\$ 1,283,584	66.94 %	13,229	4,884	
Marine insurance	239,463	62.95 %	2,326	849	
Land and air insurance	90,440	70.18 %	906	210	
Liability insurance	2,725,375	66.44 %	27,451	22,169	
Surety insurance	21,436	72.60 %	204	124	
Other property insurance	3,534,459	64.90 %	34,368	25,802	
Accident insurance	1,032,997	75.10 %	10,601	7,452	
Health insurance	48,064	81.30 %	480	458	
Compulsory automobile liability insurance	1,257,868	No applicable	No applicable	No applicable	
Oversea Subsidiary					
Fire insurance	21,211	62.62 %	192	36	
Marine insurance	2,928	60.50 %	29	6	
Other property insurance	2,552	65.30 %	33	3	
Personal accident insurance	589	75.59 %	6	-	

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	For the years ended December 31, 2018			
	Written premium	Expected rate of loss	Impact on the Income Statement of a One Percent Change in Rate of Expected Loss	
			Before reinsurance	After reinsurance
Fire insurance	\$ 1,284,219	67.87 %	12,731	4,571
Marine insurance	250,347	63.48 %	2,437	970
Land and air insurance	78,968	70.07 %	774	212
Liability insurance	2,657,899	65.56 %	25,667	19,992
Surety insurance	23,514	71.40 %	189	117
Other property insurance	3,566,338	64.63 %	34,872	26,946
Accident insurance	1,093,842	78.10 %	10,456	6,933
Health insurance	40,732	72.40 %	418	389
Compulsory automobile liability insurance	1,242,246	No applicable	No applicable	No applicable
Oversea Subsidiary				
Fire insurance	15,613	64.22 %	186	36
Marine insurance	3,071	60.50 %	31	9
Other property insurance	3,251	65.30 %	28	2
Personal accident insurance	831	75.48 %	9	-

Note: Due to various insurance contract frameworks are difference, the impact of a one percent change in rate of expected loss is not linear relationship to incomes and losses.

2) Concentration of insurance risk

The risk of insurance risk concentration is controlled by reinsurance transfer method. For example, the risk caused by natural disasters is based on the RMS and AIR natural disaster model and the selected 250-year regression period is used as the basis for arranging the natural disaster reinsurance contract. Its content is used as a reference for setting key risk indicators for catastrophe.

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- a) The premium proportion of underwriting and ceded in reinsurance.

The insurance contracts which the Group underwrites are separated in various types of insurances, and not concentrated in any single type of insurance. As of December 31, 2019, the top 3 insurances in terms of proportion is voluntary automobile insurance, compulsory automobile liability insurance and accident insurance. The voluntary automobile insurance has the highest proportion accounts for 51.81% and 51.94% for 2019 and 2018, respectively. Although the proportion is slightly higher than other insurances, the loss experience of voluntary automobile insurance is stable and the risk variation is low. The remaining types of insurance are no risk concentration.

The premium proportion of underwriting insurance and ceded in reinsurance:

Type	For the years ended December 31,			
	2019		2018	
	Amount	Percentage	Amount	Percentage
Fire insurance	\$ 619,196	6.03 %	581,541	5.67 %
Marine cargo insurance	184,607	1.80 %	172,534	1.68 %
Hull, fishing vessel and aviation insurance	141,120	1.37 %	154,562	1.50 %
Voluntary automobile insurance	5,316,539	51.81 %	5,329,122	51.94 %
Compulsory automobile liability insurance	1,257,868	12.26 %	1,242,246	12.11 %
Liability insurance	383,984	3.74 %	386,103	3.76 %
Engineering and nuclear insurance	450,764	4.39 %	414,198	4.04 %
Surety and credit insurance	22,289	0.22 %	24,013	0.23 %
Other property insurance	39,962	0.39 %	30,807	0.30 %
Accident insurance	1,032,997	10.07 %	1,093,842	10.66 %
Typhoon, flood and earthquake insurance	659,962	6.43 %	698,974	6.81 %
Personal and commercial all-risk insurance	67,364	0.66 %	32,752	0.32 %
Health insurance	48,064	0.47 %	40,732	0.40 %
Overseas ceded-in reinsurance assumed	8,970	0.09 %	36,679	0.36 %
Overseas subsidiaries	27,280	0.27 %	22,766	0.22 %
Total	\$ 10,260,966	100.00 %	10,260,871	100.00 %

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

b) Percentage of retained premium

The top 3 insurances with the highest proportion is voluntary automobile insurance, compulsory automobile liability insurance, accident insurance in term of retained business. The voluntary automobile insurance which has the highest proportion accounts for 61.59% and 61.32% for 2019 and 2018, respectively. The Group assesses the possibility of accumulated loss in order to arrange the contracts of reinsuring to diversify the risk. Therefore, there is no the situation of risk concentration.

In addition, the insurance which is likely to result in significant accumulated loss such as catastrophe insurance (earthquake, typhoon and flood) and the insurances are likely to result in accumulation are property insurance (fire insurance and engineering insurance), marine insurance and accident insurance should avoid the operating risk resulting from the underwriting risk concentration, the Group has bought catastrophe reinsurance contracts in advance for abovementioned insurances to diversify the risk.

The percentage of retained premium was as follows:

<u>Type</u>	<u>For the years ended December 31,</u>			
	<u>2019</u>		<u>2018</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Fire insurance	\$ 273,913	3.91 %	261,347	3.72 %
Marine Cargo insurance	93,191	1.33 %	105,801	1.51 %
Hull, fishing vessel and aviation insurance	8,689	0.12 %	16,323	0.23 %
Voluntary automobile insurance	4,315,668	61.59 %	4,307,841	61.32 %
Compulsory automobile liability insurance	850,983	12.14 %	843,360	12.00 %
Liability insurance	285,104	4.07 %	262,112	3.73 %
Engineering and nuclear insurance	150,010	2.14 %	153,141	2.18 %
Surety and credit insurance	11,663	0.17 %	14,412	0.21 %
Other property insurance	28,683	0.41 %	21,159	0.30 %
Accident insurance	724,283	10.34 %	749,755	10.67 %
Typhoon, flood and earthquake insurance	141,840	2.02 %	211,440	3.01 %
Personal and commercial all-risk insurance	66,471	0.95 %	31,898	0.45 %
Health insurance	45,695	0.65 %	38,393	0.55 %
Overseas ceded-in reinsurance assumed	5,576	0.08 %	4,163	0.06 %
Overseas subsidiaries	<u>5,630</u>	<u>0.08 %</u>	<u>4,076</u>	<u>0.06 %</u>
Total	<u>\$ 7,007,399</u>	<u>100.00 %</u>	<u>7,025,221</u>	<u>100.00 %</u>

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

c) Claims trend

For the year ended December 31, 2019

Occurrence year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1	27,710,777	3,369,658	3,422,196	2,724,767	2,593,826	3,019,920	3,505,019	4,231,875	3,846,573	4,548,623	4,201,280
2	28,486,653	3,483,032	3,619,245	2,990,271	2,885,933	3,216,949	3,615,016	4,483,260	4,058,010	4,804,267	
3	28,562,970	3,322,498	3,712,638	2,954,427	2,855,978	3,161,079	3,557,644	4,338,968	3,989,815		
4	28,443,691	3,293,671	3,646,063	2,934,992	2,837,248	3,151,586	3,530,087	4,331,187			
5	28,429,970	3,296,180	3,633,221	2,908,274	2,835,816	3,151,839	3,505,206				
6	28,380,452	3,286,198	3,618,015	2,881,191	2,830,761	3,130,980					
7	28,377,781	3,284,263	3,613,200	2,880,642	2,834,001						
8	28,377,502	3,282,971	3,612,072	2,875,661							
9	28,354,986	3,285,710	3,611,620								
10	28,335,360	3,284,263									
11	28,323,882										
Estimates	28,323,882	3,284,263	3,611,620	2,875,661	2,834,001	3,130,980	3,505,206	4,331,187	3,989,815	4,804,267	4,201,280
Actual	28,317,268	3,275,531	3,557,862	2,846,880	2,829,786	3,118,753	3,490,860	4,279,122	3,802,860	4,359,680	2,844,750
Subtotal	6,614	8,732	53,758	28,781	4,215	12,227	14,346	52,065	186,955	444,587	1,356,530
Reconciliations	-	-	-	-	-	-	-	-	-	-	-
Total amount recognized in balance sheet	6,614	8,732	53,758	28,781	4,215	12,227	14,346	52,065	186,955	444,587	1,356,530

Overseas subsidiary

Occurrence year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1	-	-	-	-	-	50,496	2,249	4,073	4,789	1,397	1,178
2	-	-	-	-	-	50,460	1,906	3,987	675	2,208	
3	-	-	-	-	-	50,425	1,906	4,035	675		
4	-	-	-	-	-	50,751	1,906	4,035			
5	-	-	-	-	-	50,715	1,906				
6	-	-	-	-	-	50,715					
7	-	-	-	-	-						
8	-	-	-	-	-						
9	-	-	-	-	-						
10	-	-	-	-	-						
11	-	-	-	-	-						
Estimates	-	-	-	-	-	50,715	1,906	4,035	675	2,208	1,178
Actual	-	-	-	-	-	50,715	1,906	4,035	675	2,208	825
Subtotal	-	-	-	-	-	-	-	-	-	-	353
Reconciliations	-	-	-	-	-	-	-	-	-	-	-
Total amount recognized in balance sheet	-	-	-	-	-	-	-	-	-	-	353

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

Occurrence year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	23,174,506	4,133,709	3,369,658	3,422,196	2,724,767	2,593,826	3,019,920	3,505,019	4,231,875	3,846,573	4,548,623
2	23,577,068	4,408,778	3,483,032	3,619,245	2,990,271	2,885,933	3,216,949	3,615,016	4,483,260	4,058,010	
3	24,077,875	4,491,769	3,322,498	3,712,638	2,954,427	2,855,978	3,161,079	3,557,644	4,338,968		
4	24,071,201	4,419,231	3,293,671	3,646,063	2,934,992	2,837,248	3,151,586	3,530,087			
5	24,024,460	4,412,153	3,296,180	3,633,221	2,908,274	2,835,816	3,151,839				
6	24,017,817	4,416,019	3,286,198	3,618,015	2,881,191	2,830,761					
7	23,964,433	4,417,768	3,284,263	3,613,200	2,880,642						
8	23,960,013	4,416,495	3,282,971	3,612,072							
9	23,961,007	4,406,678	3,285,710								
10	23,948,308	4,406,555									
11	23,928,805										
Estimates	23,928,805	4,406,555	3,285,710	3,612,072	2,880,642	2,830,761	3,151,839	3,530,087	4,338,968	4,058,010	4,548,623
Actual	23,915,875	4,406,555	3,274,011	3,558,249	2,847,780	2,822,908	3,116,858	3,479,817	4,177,527	3,546,150	2,789,102
Subtotal	12,930	-	11,699	53,823	32,862	7,853	34,981	50,270	161,441	511,860	1,759,521
Reconciliations	-	-	-	-	-	-	-	-	-	-	-
Total amount recognized in balance sheet	12,930	-	11,699	53,823	32,862	7,853	34,981	50,270	161,441	511,860	1,759,521

Overseas subsidiary

Occurrence year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	-	-	-	-	-	379,929	1,575	2,123	3,844	4,521	1,386
2	-	-	-	-	-	378,549	1,542	1,799	3,764	4,556	
3	-	-	-	-	-	378,549	1,542	1,799	3,809		
4	-	-	-	-	-	378,516	1,745	1,799			
5	-	-	-	-	-	379,270	1,504				
6	-	-	-	-	-	378,828					
8	-	-	-	-	-						
9	-	-	-	-	-						
10	-	-	-	-	-						
11	-	-	-	-	-						
Estimates	-	-	-	-	-	378,828	1,504	1,799	3,809	4,556	1,386
Actual	-	-	-	-	-	378,828	1,504	1,799	3,809	4,556	823
Subtotal	-	-	-	-	-	-	-	-	-	-	563
Reconciliations	-	-	-	-	-	-	-	-	-	-	-
Total amount recognized in balance sheet	-	-	-	-	-	-	-	-	-	-	563

3) Credit risk of insurance contracts

a) Credit risk

i) Compliance with the “Regulations Governing the Provision of Unauthorized Reinsurance Reserves for Insurance Company” No.5, the transaction with unauthorized reinsurers shall be represented in the notes of Consolidated Financial Statements and the content shall include:

1. The summary of unauthorized reinsurance contracts and types of reinsurance,
2. The reinsurance premium expense of unauthorized reinsurance contracts

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

3. General description of the amount of unauthorized reserve and its components.

ii) The abstract and related insurance of unauthorized reinsurance contracts in the Group were as follows:

As of December 31, 2019

Company	Annotation
Arab Insurance Group (B.S.C.) (ARIG) in Bahrain	Facultative reinsurance of commercial fire insurance
Asia Capital Reinsurance Group Pte Ltd.	Facultative reinsurance of each kind of insurance
Asia Capital Reinsurance Group Pte Ltd. (Hong Kong Branch)	Treaty and Facultative reinsurance of each kind of insurance
Trust International Insurance and Reinsurance CO.B.S.C (C) Trust Re	Treaty and Facultative reinsurance of each kind of insurance
Trust International Insurance and Reinsurance CO.B.S.C (C) Trust Re, Labuan	Facultative reinsurance of commercial fire insurance
Tugu Insurance Company Limited, HK	Facultative reinsurance of marine insurance

As of December 31, 2018

Company	Annotation
Tugu Insurance Company Limited, HK	Facultative reinsurance of marine insurance
Mugatlal Bhagwandas Boda & Company	Treaty reinsurance of engineering insurance
Trust International Insurance and Reinsurance CO. B.S.C. (C) Trust Re, Labuan	Facultative reinsurance of each kind of insurance
Trust International Insurance and Reinsurance CO. B.S.C. (C) Trust Re	Treaty and Facultative reinsurance of each kind of insurance

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- iii) For the years ended December 31, 2019 and 2018, the reinsurance premium expenses for unauthorized reinsurance in the Group amounted to \$31,826 and \$12,046, respectively.
- iv) The principle summary of amounts and component items of unauthorized reinsurance reserve in the Group was as follows:

	December 31, 2019	December 31, 2018
Unearned premium reserve	\$ 5,235	3,487
Claims recoverable from reinsurers of paid claims overdue in nine month	109	2,089
Claims recoverable from reinsurers reported but unpaid	17,338	28,225
The unauthorized reinsurance reserves- Total	\$ 22,682	33,801

b) Liquidity risk

The Group's liquidity risk includes capital liquidity risk and market liquidity risk of insurance contracts, via monitoring and managing the liquidity risk of risk management to maintain the sufficient liquidity when the occasion events and raise the balance of assets income investment.

To ensure the operating stability, the Group needs the sufficient liquidity assets that can immediately into cash in case the needs of premium deficiency or unexpected claim duty increase sharply.

c) Market risk

The market risk of insurance contracts in the Group includes interest rate risk, foreign currency risk and price risk. The monitoring market risk includes the overall and individual transaction processes of each trading unit and each financial product, such as change in positions, change in profit and loss, trading patterns and trading targets, etc., which should be carried out within the scope of the Group including quota, stop loss and over limit treatment. The competent authority shall conduct risk reporting according to its responsibilities and the risk management department shall regularly report the market risk monitoring table to the operating management and report to the risk management committee and the board of directors regularly.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Financial instruments

(i) Credit risk

1) Credit risk exposure

Maximum credit risk exposure were as follows:

	December 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 2,117,261	2,272,302
Receivables	858,220	892,354
Assets classified as held-for-sale	21,781	-
Financial assets measured at fair value through profit or loss	1,619,258	662,519
Financial assets at fair value through other comprehensive income	1,860,294	987,120
Financial assets measured at amortized cost	1,437,951	1,239,344
Other financial assets	2,587,570	4,063,814
Reinsurance Contract Assets	4,149,186	4,527,713
Other assets	<u>699,250</u>	<u>654,074</u>
Total	<u>\$ 15,350,771</u>	<u>15,299,240</u>

The Group does not involve into lending business. The financial assets are mainly receivables, reinsurance contract assets and investment projects in the open market. The credit risk is controlled by the limit method and the risk status of the counterparty is assessed regularly.

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) The changes in loss allowance and information of credit quality of financial assets at amortized cost

a) The changes in loss allowance

For the year ended December 31, 2019						
	12-month ECL	Lifetime ECL (assessed on collective)	Lifetime ECL (assessed on individual)	The provision of impairment in accordance with IFRS 9 (subtotal)	The provision of impairment in accordance with Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises.	Total
Beginning balance	\$ 661	-	-	661	-	661
Change	288	-	-	288	-	288
Ending balance	<u>\$ 949</u>	<u>-</u>	<u>-</u>	<u>949</u>	<u>-</u>	<u>949</u>

For the year ended December 31, 2018						
	12-month ECL	Lifetime ECL (assessed on collective)	Lifetime ECL (assessed on individual)	The provision of impairment in accordance with IFRS 9 (subtotal)	The provision of impairment in accordance with Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises.	Total
Beginning balance	\$ 705	-	-	705	-	705
Change	(44)	-	-	(44)	-	(44)
Ending balance	<u>\$ 661</u>	<u>-</u>	<u>-</u>	<u>661</u>	<u>-</u>	<u>661</u>

b) The information of credit quality

December 31, 2019											
	stage1				stage2				stage3 Allowance impairment loss		
	Low-risk	Moderate- risk	High-risk	Total	Low-risk	Moderate- risk	High-risk	Total			
	Financial assets at amortized cost (including statutory deposit)	\$ <u>1,788,296</u>	<u>-</u>	<u>-</u>	<u>1,788,296</u>	<u>-</u>	<u>-</u>	<u>-</u>			<u>-</u>

December 31, 2018											
	stage1				stage2				stage3 Allowance impairment loss		
	Low-risk	Moderate- risk	High-risk	Total	Low-risk	Moderate- risk	High-risk	Total			
	Financial assets at amortized cost (including statutory deposit)	\$ <u>1,588,841</u>	<u>-</u>	<u>-</u>	<u>1,588,841</u>	<u>-</u>	<u>-</u>	<u>-</u>			<u>-</u>

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Liquidity risk

The following table shows the maturity date of financial liabilities. The Group does not anticipate that the cash flow of the maturity analysis will occur significantly earlier, or the actual amount will be significantly different.

		December 31, 2019					
		Amount	Contract undiscounted cash amount	Overdue under 3 months	Overdue for 3 - 9 months	Overdue for 9 - 12 months	Overdue over 12 months
Non-derivative financial liabilities:							
Payables							
Claims payable	\$	30,178	30,178	28,133	65	85	1,895
Commissions payable		169,185	169,185	169,185	-	-	-
Due to ceding companies		701,519	701,519	698,486	-	3,033	-
Other payables		382,346	382,346	344,884	35,227	639	1,596
Liabilities related to assets classified as held-for-sale - Accounts payable		13,523	13,523	13,523	-	-	-
Lease liabilities		19,679	19,957	4,246	7,850	3,402	4,459
Other liabilities							
Guarantee deposits received		7,695	7,695	129	197	112	7,257
Reinsurance liability reserve deposits		18,443	18,443	18,443	-	-	-
Total	\$	<u>1,342,568</u>	<u>1,342,846</u>	<u>1,277,029</u>	<u>43,339</u>	<u>7,271</u>	<u>15,207</u>
		December 31, 2018					
		Amount	Contract undiscounted cash amount	Overdue under 3 months	Overdue for 3 - 9 months	Overdue for 9 - 12 months	Overdue over 12 months
Non-derivative financial liabilities:							
Payables							
Claims payable	\$	12,261	12,261	8,733	95	1,036	2,397
Commissions payable		166,959	166,959	166,797	162	-	-
Due to ceding companies		711,403	711,403	699,860	5,676	5,867	-
Other payables		334,593	334,593	315,257	19,045	235	56
Other liability							
Guarantee deposits received		7,909	7,909	121	422	196	7,170
Reinsurance liability reserve received		26,398	26,398	26,398	-	-	-
Total	\$	<u>1,259,523</u>	<u>1,259,523</u>	<u>1,217,166</u>	<u>25,400</u>	<u>7,334</u>	<u>9,623</u>

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Foreign currency risk

1) Exposure about foreign currency risk

The amounts of the original currency (in thousands) exposed to the significant foreign currency exchange rate risk were as follows:

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
<u>Financial assets</u>		
USD	\$ 10,820	8,392
EUR	113	263
JPY	30	30
HKD	391	300
KRW	60	460
CNY	67	2,059
GBP	23	83
THB	1,926	2,103
<u>Financial liability</u>		
USD	2,155	1,997
EUR	14	-
KRW	546	69
CNY	-	5,769
THB	3	19

Important rate:

	<u>Rates</u>	
	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
USD	\$ 29.98	30.72
EUR	33.59	35.20
JPY	0.2760	0.2782
HKD	3.85	3.92
KRW	0.0262	0.0278
CNY	4.31	4.47
GBP	39.36	38.88
THB	1.0098	0.9532

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Sensitivity analysis

As of December 31, 2019 and 2018, with all other variable factors that remain constant, when NTD increases 1% compared to other currency, the amount of the Group's comprehensive income will increase as follows:

	December 31, 2019	December 31, 2018
USD(increases 1%)	\$ 2,598	1,965
EUR(increases 1%)	33	93
HKD(increases 1%)	15	12
CNY(increases 1%)	3	(166)
GBP(increases 1%)	9	32
THB(increases 1%)	19	20

Conversely, if there is a decrease of 1% compared to other currency based on all other variables remain the same, there will be the same amount but opposite direction of influence as of December 31, 2019 and 2018.

(iv) Interest rate risk

1) Brief

The amounts of interest bearing financial instruments related to interest rate risk on the reporting date are as follows:

	Amount	
	December 31, 2019	December 31, 2018
Variable interest rate instrument:		
Term deposit	\$ <u>1,480,125</u>	<u>1,578,039</u>

2) Sensitivity Analysis of variable interest rate financial instruments

Based on the carrying amount of those financial instruments on the reporting date, assuming they are held for one year, and all other variable factors remaining constant, when interest rate change 10 basis points, the Group's net income will increase or decrease as follows:

	December 31, 2019	December 31, 2018
Increase 10 basis points	\$ 1,480	1,578
Decrease 10 basis points	(1,480)	(1,578)

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Fair value and hierarchy information

1) Fair value information

a) General description

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction among market participants at the measurement date.

b) Definition of fair value hierarchy

i) Level 1

The input of Level 1 is the public quote of the same financial instrument in an active market. An active market is a market that meets all the conditions listed below: Products traded in the market is of homogeneity; it is able to reach buyer and seller anytime in the market and the price information can be accessed by the public. Listed stock, OTC stock, beneficiary certificates, as well as equity and derivative instruments with public quote in an active market possessed by the Group belong to Level 1.

ii) Level 2

The input of Level 2 refers to observable price except public quote in an active market, including direct observable input parameters (such as price) or indirect observable input parameters (derivation from price).

iii) Level 3

The input of level 3 is the parameters of measuring fair value, which is from neither on direct market data nor from the counter party.

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Based on fair value measurement

a) Hierarchy information of fair value

The Group's financial instruments measured at fair value are evaluated on a recurring basis. The financial assets and liabilities measured at fair value were as follows:

December 31, 2019				
Assets and liabilities	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Repeatable fair value measurement				
<u>Non-derivative financial assets</u>				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$ 71,711	71,711	-	-
Real estate investment trust beneficiary certificates	334,724	334,724	-	-
Stocks	1,212,823	1,212,823	-	-
Financial assets measured at fair value through other comprehensive income				
Stocks	1,860,294	1,846,770	-	13,524
Assets classified as held-for-sale				
Beneficiary certificates	390	390	-	-
Stocks	7,045	7,045	-	-
December 31, 2018				
Assets and liabilities	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Repeatable fair value measurement				
<u>Non-derivative financial assets</u>				
Financial assets at fair value through profit or loss				
Beneficiary certificate	\$ 36,416	36,416	-	-
Real estate investment trust beneficiary certificates	252,620	252,620	-	-
Stocks	373,483	373,483	-	-
Financial assets measured at fair value through other comprehensive income				
Stocks	987,120	973,470	-	13,650

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

b) Valuation techniques of fair value measurement

The valuation of non-derivative financial instruments are based on transparent offer price as fair value if there is existence of active market. The basic of fair value is the market price announced by stock exchange, OTC, etc., the listed stocks and OTC stocks as equity instruments, and debt instruments in active market.

If obtaining frequently and timely transparent offers from stock exchange, brokers, securities underwriter, industrial union and set price service organization or supervisor organization that means the price is actual and frequent fair market deal that is the transparent offer price as fair value in the active market. If the conditions above mentioned are fail, the market is considered as non active market. Generally, the difference between bid ask is big and significant or with the volume of deal is few would be indicated that non active market. The equity of non transparent offer price shall be evaluated by valuation techniques by using the Market approach public company comparable with the discount of lack equity liquidity.

c) Transfer between Level 1 and Level 2

There is no transfer between Level 1 and Level 2 for the years ended December 31, 2019 and 2018.

d) Movements of financial assets at fair value classified into Level 3

Name	For the year ended December 31, 2019							Balance at the end of the year
	Balance at the beginning of the year	Gains and losses on valuation		Increase		Decrease		
		Recognized in profit or loss	Recognized in other comprehensive income	Purchase or issue	Transferred from Level 3	Sale, disposal or settlement	Transferred from Level 3	
Financial assets measured at fair value through other comprehensive income	\$ 13,650	-	(126)	-	-	-	-	13,524

Name	For the year ended December 31, 2018							Balance at the end of the year
	Balance at the beginning of the year	Gains and losses on valuation		Increase		Decrease		
		Recognized in profit or loss	Recognized in other comprehensive income	Purchase or issue	Transferred from Level 3	Sale, disposal or settlement	Transferred from Level 3	
Financial assets measured at fair value through other comprehensive income	\$ 13,062	-	588	-	-	-	-	13,650

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- e) Quantified information of fair value measurement for significant unobservable inputs (Level 3)

The Group's Level 3 fair value measurements are financial assets at fair value through other comprehensive income – equity instruments investment.

The Group's equity instruments investment without active market include multiple significant unobservable inputs. Those unobservable inputs of equity instrument without active market are independent from each other, thus, they are not correlative. Since the correlation between significant unobservable inputs and fair value cannot be fully measured in practical, the quantified information is not disclosed.

<u>Items</u>	<u>Evaluation</u>	<u>significant unobservable inputs</u>	<u>relationship between significant unobservable inputs and the fair value</u>
Financial assets at fair value through other comprehensive income - equity instruments without an active market	Market method	<ul style="list-style-type: none"> · Price to Book Ratio · Discount for lack of marketability 	<ul style="list-style-type: none"> · The higher price to book ratio is, the higher fair value is. · The higher discount for lack of marketability is, the lower the fair value is.

- f) Fair value measurement to Level 3, and the sensitivity analysis of the substitutable appropriate assumption made on fair value

The fair value measurement that the Group made for the financial instruments is deemed reasonable; however, different valuation models or inputs could result in different valuation results. Specifically, if the valuation input of financial instruments classified in the Level 3 changes by 1%, the effects on other comprehensive income are as follows:

		<u>Change in fair value recognized in other comprehensive income</u>	
		<u>Favorable</u>	<u>Unfavorable</u>
December 31, 2019			
Financial assets fair value through other comprehensive income	\$	<u>135</u>	<u>(135)</u>
December 31, 2018			
Financial assets fair value through other comprehensive income	\$	<u>137</u>	<u>(137)</u>

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Favorable and unfavorable movements of the Group refer to the fluctuation of fair value, and the fair value is calculated through the valuation technique according to the unobservable inputs to different extent. If the fair value of a financial instrument is affected by more than one input, the above table only illustrates the effect as a result of one single input, and the correlation and variance among multiple inputs are not listed here.

(vi) Financial instruments not measured at fair value

1) Fair value information

The carrying amounts of financial instruments not measured at fair value, such as cash and cash equivalents, account receivables, reinsurance contract assets, account payables and other financial liabilities that are approximate to the fair value in the Group does not disclose the fair value, except for below items:

Item	Carrying amount	Fair value
December 31, 2019		
Financial assets		
Financial assets measured at amortized cost (included statutory deposits)	\$ 1,787,347	1,824,509
Investment Property	839,087	1,529,595
December 31, 2018		
Financial assets		
Financial assets measured at amortized cost (included statutory deposits)	1,588,180	1,633,891
Investment Property	847,200	1,547,652

2) Fair value information

Item	Total	December 31, 2019		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets measured at amortized cost (included statutory deposits)	\$ 1,824,509	-	1,824,509	-
Investment Property	1,529,595	-	-	1,529,595

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	December 31, 2018			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets measured at amortized cost (included statutory deposits)	\$ 1,633,891	-	1,633,891	-
Investment Property	1,547,652	-	-	1,547,652

3) Valuation techniques

The valuation assumption and methods of financial instruments not measured at fair value is used by the Group are as follows:

- a) The fair value of short-term financial commodity is estimated by the carrying amount of balance sheet. The carrying amount is the reasonable basis to estimate the fair value, because the maturity date of the commodity is near. The method applied on cash and equivalent cash, accounts receivables and accounts payables.
- b) Financial assets measured at amortized cost (Bond investments without active market)

If investments assets measured at amortized cost have transaction price or quotes of the market makers, use the recent transaction price and quotes as the basis of estimating fair value. If without market value, discounted cash flow method or the quotes of the counterparties are used to calculate fair value or the quoted prices of the counter party.

- c) The refundable deposits and guarantee deposits have no specific maturity date, as a result, using the carrying amount on the balance sheet as the fair value.
- d) The fair value of investment property is assessed by the market practices.

4) Transfer between Level 1 and Level 2

There was no transfer in 2019 and 2018.

(w) Financial risk management

(i) Overview

1) Credit risk

Credit risk is the risk of borrowers' credit ratings declining, borrowers failing to make payments, and counterparties failing or rejecting to perform their obligation of the contract.

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Liquidity risk

The liquidity risk indicates that the deficiency of trading volume or lack of trading counterparties results in the risk of finished trade out of expecting timing.

3) Market risk

Market risk includes foreign exchange rates and interest rates. The risk of foreign exchange rates comes from the change of price of foreign currency, includes the change of value, and the change of relationship between currencies, and currency depreciation. The risk of interest rates comes from the change of bond's price, i.e. yield curve risk, when the shape of yield curve risk changes, the risk will occur.

(ii) The framework of risk management

Please refer to Note(6)(u)(i)1).

(iii) Credit risk

The company only deals with counterparties whose credit rating is above a certain level. The company evaluates the credit ratings and estimates the recovery situation of payments regularly during the trading period to set different investment limits. So far, there is no loan business. Policyholders and reinsurers and ceding companies are scattered. Therefore, there is no concentration of credit risk.

1) The financial assets are classification of credit risk quantity as an assessment of loss. The Group' internal credit risk is classified as low risk, moderate risk and high risk as definition as follows:

- a) Low risk: The issuers or the counterparties are rated as robust or above to fulfill their obligation of the contracts. Even under various negative news or disadvantageous economic conditions, the companies are capable of dealing with the situations.
- b) Medium risk: The issuers or the counterparties have lower capability of fulfilling their obligation, disadvantage operation, financial and economic conditions, resulting in weaken capability of dealing with the situations.
- c) High risk: The possibility that the issuers or counterparties fulfill their obligation is remote and mainly relies on the business environment. Negative news or disadvantageous economic conditions will lower their ability and willingness to fulfill their obligation.
- d) The impaired items represent the amount of loss allowance provided for financial assets based on the regulations of accounting standards. Under the principle of prudence, the impaired amount is able to reflect the current value of the impaired assets.

2) Determining the credit risk has increased significantly since initial recognition

- a) At each reporting date, the Group assessed all the financial instruments applicable for IFRS 9 to determine whether the credit risk has increased significantly since the initial recognition. In order to make this assessment, the Group considers

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

reasonable and supportable information (including forward looking information) that is indicative of significant increases in credit risk since initial recognition. The criteria include external credit rating, overdue status, credit spreads, and other market information related to the issuers or debtors.

- b) Low credit risk: If it is determined that the credit risk of a financial instrument at the reporting date is low, it can be assumed that the credit risk of the financial instrument has not increased significantly since the date of initial recognition. Judgment criteria: external credit rating above investment grade (Baa3).
- 3) Measuring the expected credit losses
 - a) The methods and assumptions
 - If the credit risk on a financial instrument has not increased significantly since initial recognition, the Group shall measure the allowance for impairment of the financial instrument using the 12 month expected credit losses; if the credit risk on a financial instrument has increased significantly since initial recognition, the Group shall measure the allowance for impairment using the lifetime expected credit losses.
 - In order to measure expected credit losses, the Group considers the default probability (Probability of default, "PD") of financial assets or issuers or debtors, and loss given default rate ("LGD") multiplying the exposure at default ("EAD"), taking into account the time value of money as well evaluate 12 month and lifetime loss.
 - Default probability is the probability that the issuers or the debtors defaults, and the loss given default rate is the rate of loss caused by default by the issuers or debtors. The relevant indicators used by the Group are based on the default rate and loss given default rate published by Moody's.
 - The Group measures the Exposure at default based on the amortized cost of financial instruments plus accrued interest.
- 4) Consideration of forward-looking information

The Group obtains forward-looking information which it takes into consideration when determining whether the credit risk of financial instruments has increased significantly since initial recognition and assessing the expected credit losses. The default probability used for impairment assessment of the Group is based on the information which already includes forward-looking general economic information published by Moody's.

(iv) Liquidity risk

The Group's approach to managing liquidity is to ensure that there is sufficient liquidity to support the liabilities which is going to expire. The investment targets all have an active market. Financial assets are expected to be sold at a price close to fair value and the own operating capital are sufficient to support the demand for funds needed. so there is no liquidity risk due to the inability to make funds.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Market risk

The goal of market risk management is to control the market risk exposure to an acceptable level and optimize investment returns. The Group uses VAR values to measure price risk. Regularly compare the holding of investment targets with market prices and strictly observe the restrictions on stop-loss. The investment targets do not involve emerging market and commodity risks. It's only foreign currency financial assets and liabilities expose to foreign currency risk and Interest rate risk. The Group conducts stress tests and sensitivity analysis for exchange rate and interest rate risk to ensure that the maximum loss does not endanger the Group's operations.

(x) Capital Management

The policy of the board of directors is to maintain robust capital base, and to uphold the confidence of investors, creditors and the market, as well as to support the development of future operations. The capital includes the Group's share capital, capital reserve and undistributed surplus. The board of directors controls the rate of return on capital and controls the level of common stock dividends.

As of December 31, 2019, the method of capital management of the Group remains the same.

(y) Structured entities not included in the consolidated financial statements

- (i) The Group possesses the equities of the following structured entities which are not included in the consolidated financial statements. The fund is from the Group and an outside third party:

<u>Types of structured entity</u>	<u>Characteristic and purpose</u>	<u>Equity owned by the Group</u>
Assets securitization products-REITS	Invests in assets securitization products of commercial real estate.	Asset backed securities issued by the entity

- (ii) The carrying amount of the assets related to the structured entities recognized by the Group but not yet included in the consolidated financial statements on December 31, 2019 and 2018, is as follows:

<u>December 31, 2019</u>		<u>Asset securitization products-REITS</u>
Assets possessed by the Group		
– Financial assets measured at fair value through profit or loss		\$ <u>334,724</u>
Total assets possessed by the Group		\$ <u><u>334,724</u></u>
 <u>December 31, 2018</u>		 <u>Asset securitization products-REITS</u>
Assets possessed by the Group		
– Financial assets measured at fair value through profit or loss		\$ <u>252,620</u>
Total assets possessed by the Group		\$ <u><u>252,620</u></u>

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The maximum exposure of the possible loss from the entity is the carrying amount of the assets possessed.

- (iii) The Group did not provide any financial support for the asset securitization products not included in the consolidated financial statements for the years ended December 31, 2019 and 2018.

(7) Related-party transactions:

- (a) Final controller

Mr. Tsai Yan Ming is the Group final controller.

- (b) Names and relationship of related parties

<u>Name of Related Party</u>	<u>Relationship with the Group</u>
Want Want Co., Ltd.	Material related party
Want Chia Enterprises Co., Ltd.	Material related party
H.Y. Tsai Co., Ltd.	Material related party
Tsai Ho Want Enterprises Co., Ltd.	Material related party
Want Want Constructions Co., Ltd.	Material related party
Digital Commercial Times Inc.	Material related party
Cti Television Incorporation Co., Ltd.	Material related party
China Times Culture Co., Ltd.	Material related party
China Times Travel Service Co., Ltd.	Material related party
China Television Company Co., Ltd.	Material related party
China Times Weekly Co., Ltd.	Material related party
Infotimes Corporation	Material related party
Touche Innovative Media Co., Ltd.	Material related party
China Times Study Services Co., Ltd.	Material related party
Media Sphere Communications Ltd.	Material related party
Commercial Culture Co., Ltd.	Material related party
Cnplus Production, Inc.	Material related party
Want Tai Media Co., Ltd.	Material related party
I Lan Foods Ind. Co., Ltd.	Material related party
Top Want Electronic Co., Ltd.	Material related party
First Family Enterprise Co., Ltd.	Material related party
Want Pu Constructions Co., Ltd.	Material related party
Want Pu Trading Limited, Taiwan Branch (B.V.I)	Material related party

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Name of Related Party</u>	<u>Relationship with the Group</u>
Twitcheer Taiwan Limited, Taiwan Branch (B.V.I)	Material related party
San Want Hotel Co., Ltd.	Material related party
Powerful Media Inc.	Material related party
Shao Yuan Co., Ltd.	Material related party
Jia Peng Development Co., Ltd.	Material related party
Want Want China Holdings Limited	Material related party
Ho Yuan Want Co., Ltd.	Material related party
Eelin Entertainment Co., Ltd.	Material related party
Taiwan Marketing Logistics Co., Ltd.	Material related party
Hao Want Co., Ltd.	Material related party
Wulai Tourism Co., Ltd.	Material related party
Ren Want Co., Ltd.	Material related party
Apollo Survey & Research Co., Ltd.	Material related party
Earth Want Co., Ltd.	Material related party
Waterland Securities Co., Ltd.	Material related party
International Bills Finance Corp.	Material related party
JKO Asset Management Co., Ltd. (Previous Company Name: Paradigm Asset Management Co., Ltd.)	Material related party

All directors, supervisors, managers, chairman of the board, general managers are the Group's related parties.

(c) Compensation of key management personnel

	For the years ended December 31,	
	2019	2018
Short-term employee benefits	\$ 41,408	37,183
Short-term employee benefits-paid leave	740	917
Post-employment benefits	744	664
Total	\$ 42,892	38,764

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
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(d) Significant transactions with related parties are as follows:

(i) The details of written premium, reinsurance commissions, reinsurance claim payments, due from (to) reinsurers and ceding companies, account receivables, and prepaid expenses were as follows:

1) Written premium

	For the years ended December 31,	
	2019	2018
Written premium		
Other related parties	\$ 17,958	19,919
Key management personnel	717	727
Total	\$ 18,675	20,646

2) Account receivables

	December 31, 2019	December 31, 2018
Other related parties	\$ -	35
Premiums receivable:		
Other related parties	\$ 441	717
Key management personnel	2	4
Total	\$ 443	721

The terms of transactions were similar to those of non related parties.

3) Due from (to) reinsurers and ceding companies: None.

4) Prepaid expenses

	December 31, 2019	December 31, 2018
Prepaid expenses:		
Other related parties	\$ 200	-

(Continued)

UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Financial assets:

<u>Type of related parties</u>	<u>Account</u>	<u>December 31, 2018</u>	
		<u>Item</u>	<u>Amount</u>
Other related parties	FVTPL	Paradigm Global High Yield Bond Fund-A	<u>\$ 26,249</u>

(iii) General expense:

<u>Related parties</u>	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Other related parties	<u>\$ 10,791</u>	<u>9,070</u>

(8) Pledged assets:

As of December 31, 2019 and 2018, the assets pledged or guarantee were as follows:

<u>Pledged Assets</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>Purpose of pledge</u>
Assets classified as held-for-sale - Other financial assets	\$ 16,532	-	Guarantee for the insurance business and overseas subsidiary insurance business
Other financial assets - Time deposit	185,322	209,720	Guarantee for the insurance business
Financial assets at amortized cost	<u>349,396</u>	<u>348,836</u>	Guarantee for operating business and suit
Total	<u>\$ 551,250</u>	<u>558,556</u>	

(9) Commitments and contingencies:

- (a) The Company is appointed as the legal director of Asia Pacific Broadband Telecom Co., Ltd in accordance with Article 27 of the Company Law. If the Company and the aforementioned company are damaged due to disobeying operating business practices, they may be liable for damages. On March 14, 2011, the Company received Asia Pacific Telecom Co., Ltd. (formerly known as: Asia Pacific Broadband Telecom Co., Ltd.) to file a criminal incidental civil action with the Criminal Court of the Taiwan High Court. As the other defendants in the original case acted as the legal representative of the director of Asia Pacific Telecom Co., Ltd. (formerly known as Asia Pacific Broadband Telecom Co., Ltd.), the Company was added as the defendant and was requested that the Company should be liable with other defendants. The Taiwan High Court rejected the lawsuit filed by Asia Pacific Telecom Co., Ltd. (formerly known as Asia Pacific Broadband Telecom Co., Ltd.) on April 6, 2017. Later, Asia Pacific Telecom Co., Ltd. filed a third instance appeal on one of the lost (i.e., \$20.2 billion) and the Company obtained the civil judgment confirmation certificate of the Supreme Court of Taiwan on June 28, 2018. In the judgment certificate, it was determined that Asia Pacific Telecom Co., Ltd. withdrew its appeal against the Company on May 15, 2018.
- (b) The Group had several significant insurance lawsuits and was required to pay indemnities of \$25,140, of which approximately \$6,969 were reinsured. The claim of \$14,771 had been accrued. These cases have not been resolved with District Court of Appeal as of December 31, 2019.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (c) In order to improve computer equipments and IT systems, the Group is in contract with several IT companies. As of December 31, 2019, there is \$66,811 unpaid.

(10) Losses Due to Major Disasters:None

(11) Subsequent Events:None

(12) Other:

- (a) A summary of personal expenses, depreciation, depletion and amortization:

Function Characteristics	For the years ended December 31,					
	2019			2018		
	Operating Costs	Operating Expense	Total	Operating Costs	Operating Expense	Total
Personal expenses:						
Salaries	345,009	735,807	1,080,816	340,533	685,429	1,025,962
Labor / Health Insurance	-	75,784	75,784	-	75,104	75,104
Pension	-	42,123	42,123	-	45,631	45,631
Remuneration of directors	-	19,994	19,994	-	18,040	18,040
Other	-	43,231	43,231	-	44,013	44,013
Depreciation	4,366	51,349	55,715	4,774	33,805	38,579
Amortization	-	16,532	16,532	-	12,847	12,847

- (b) Disclosure of earned retention premium by compulsory and non-compulsory insurance

Item	For the year ended December 31, 2019						
	Premium Revenue	Reinsurance Premium	Reinsurance Expense	Net change in unearned premium reserve	Net change in unearned premium reserve	Retention of earned premium	
	(1)	(2)	(3)	(4)=(1)+(2)-(3)	(5)	(6)=(4)-(5)	
Compulsory Insurance	\$ 967,336	290,532	406,885	850,983	(332)	851,315	
Non-Compulsory Insurance	8,865,969	109,849	2,825,032	6,150,786	(32,521)	6,183,307	
Overseas subsidiary	27,004	276	21,650	5,630	1,040	4,590	
Total	\$ 9,860,309	400,657	3,253,567	7,007,399	(31,813)	7,039,212	

Item	For the year ended December 31, 2018						
	Premium Revenue	Reinsurance Premium	Reinsurance Expense	Net change in unearned premium reserve	Net change in unearned premium reserve	Retention of earned premium	
	(1)	(2)	(3)	(4)=(1)+(2)-(3)	(5)	(6)=(4)-(5)	
Compulsory Insurance	\$ 952,664	289,582	398,886	843,360	(10,309)	853,669	
Non-Compulsory Insurance	8,873,058	122,801	2,818,074	6,177,785	180,301	5,997,484	
Overseas subsidiary	22,351	415	18,690	4,076	(885)	4,961	
Total	\$ 9,848,073	412,798	3,235,650	7,025,221	169,107	6,856,114	

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Disclosure of self-claim by compulsory and non-compulsory insurance

For the year ended December 31, 2019				
Item	Claim (included related expenses) (1)	Reinsurance claim (2)	Claims recovered from reinsurers (3)	Retained claim payment (4)=(1)+(2)-(3)
Compulsory Insurance	\$ 833,338	305,711	484,653	654,396
Non-Compulsory insurance	4,788,525	87,026	1,631,129	3,244,422
Overseas subsidiary	2,141	198	1,935	404
Total	<u>\$ 5,624,004</u>	<u>392,935</u>	<u>2,117,717</u>	<u>3,899,222</u>
For the year ended December 31, 2018				
Item	Claim (included related expenses) (1)	Reinsurance claim (2)	Claims recovered from reinsurers (3)	Retained claim payment (4)=(1)+(2)-(3)
Compulsory Insurance	\$ 692,156	295,126	414,171	573,111
Non-Compulsory insurance	4,168,866	111,898	1,314,382	2,966,382
Overseas subsidiary	4,874	6	3,851	1,029
Total	<u>\$ 4,865,896</u>	<u>407,030</u>	<u>1,732,404</u>	<u>3,540,522</u>

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Reserves accrued and recovered for compulsory automobile and motorcycle insurance:

For the years ended December 31, 2019

Type	Beginning	Provision	Recovered	Ending	Note
Unearned premium reserve					
Compulsory automobile liability insurance	\$ 368,856	381,506	368,856	381,506	
Compulsory motorcycle liability insurance	167,859	155,157	167,859	155,157	
Special reserve					
Compulsory automobile liability insurance	(358,655)	-	(29,410)	(329,245)	
Compulsory motorcycle liability insurance	376,599	-	47,354	329,245	
Claim reserve					
Compulsory automobile liability insurance	671,600	663,646	671,600	663,646	
Compulsory motorcycle liability insurance	192,271	196,925	192,271	196,925	
Total	\$ 1,418,530	1,397,234	1,418,530	1,397,234	

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018

Type	Beginning	Provision	Recovered	Ending	Note
Unearned premium reserve					
Compulsory automobile liability insurance	\$ 366,452	368,856	366,452	368,856	
Compulsory motorcycle liability insurance	183,453	167,859	183,453	167,859	
Special reserve					
Compulsory automobile liability insurance	(396,760)	38,105	-	(358,655)	
Compulsory motorcycle liability insurance	412,413	-	35,814	376,599	
Claim reserve					
Compulsory automobile liability insurance	699,856	671,600	699,856	671,600	
Compulsory motorcycle liability insurance	154,360	192,271	154,360	192,271	
Total	\$ 1,419,774	1,438,691	1,439,935	1,418,530	

(e) Balance sheet and operating revenue and cost of compulsory automobile liability insurance:

(i) Balance sheet of compulsory automobile liability insurance:

Items	Amount		Items	Amount	
	December 31, 2019	December 31, 2018		December 31, 2019	December 31, 2018
Asset			Liabilities		
Cash and bank deposit	\$ 727,556	747,861	Claims payable	\$ 2,836	1,203
Notes receivable	5,193	7,835	Reinsurance indemnity payable	71,116	67,216
Premiums receivable	13,302	11,600	Unearned premium reserves	536,663	536,715
Claim recoverable from reinsurers	72,750	68,633	Claims reserves	860,571	863,871
Due from reinsurers and ceding companies	48,445	48,581	Special reserves	-	17,944
Reserve - ceded unearned premiums	224,101	223,821			
Reserve - ceded claim	379,732	378,159			
Temporary payments	107	459			
Total assets	\$ 1,471,186	1,486,949	Total liabilities	\$ 1,471,186	1,486,949

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) operating revenue and cost of compulsory automobile liability insurance:

Item	For the years ended December 31,	
	2019	2018
Operating revenues	562,289	565,963
Direct insurance premium revenues	678,124	664,796
Reinsurance premium inward	290,532	289,582
Premiums revenues	968,656	954,378
Less: Reinsurance premium outward	(406,885)	(398,886)
Net change in unearned premium reserve	332	10,309
Retained earned premium	562,103	565,801
Interest income	186	162
Operating costs	562,289	565,963
Retained claims	833,338	692,156
Reinsurance claims incurred	305,711	295,126
Less: Claim recoverable from reinsurers	(484,653)	(414,171)
Retained claims	654,396	573,111
Net change in claim reserve	(4,873)	(9,439)
Net change in special reserve	(87,234)	2,291

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (f) The amounts of the Group expecting to recover (paid) within (over) 12 months of the balance sheet date were as follows:

Assets	December 31, 2019		
	Within 12 months	Over 12 months	Total
Cash and cash equivalents	\$ 2,117,261	-	2,117,261
Receivables	858,220	-	858,220
Current tax assets	77	-	77
Assets classified as held-for-sale	89,711	-	89,711
Financial assets at fair value through profit or loss	1,619,258	-	1,619,258
Financial assets at fair value through other comprehensive income	-	1,860,294	1,860,294
Financial assets at amortized cost	-	1,437,951	1,437,951
Other financial assets	2,587,570	-	2,587,570
Right-of-use assets	-	19,584	19,584
Investment property	-	839,087	839,087
Reinsurance assets	3,665,690	483,496	4,149,186
Property and equipment	-	1,127,260	1,127,260
Intangible assets	-	133,831	133,831
Other assets	-	745,329	745,329
Total assets	\$ 10,937,787	6,646,832	17,584,619

Liabilities	December 31, 2019		
	Within 12 months	Over 12 months	Total
Accounts payable	\$ 1,279,737	3,491	1,283,228
Current tax liabilities	3,166	-	3,166
Liabilities related to assets classified as held-for-sale	27,071	-	27,071
Insurance liabilities	9,556,818	847,727	10,404,545
Provisions	-	233,432	233,432
Lease liabilities	15,257	4,422	19,679
Deferred tax liabilities	-	63,920	63,920
Other liabilities	100,918	7,257	108,175
Total liabilities	\$ 10,982,967	1,160,249	12,143,216

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Assets</u>	December 31, 2018		
	<u>Within 12 months</u>	<u>Over 12 months</u>	<u>Total</u>
Cash and cash equivalents	\$ 2,272,302	-	2,272,302
Receivables	892,354	-	892,354
Current tax assets	5,395	-	5,395
Financial assets at fair value through profit or loss	662,519	-	662,519
Financial assets at fair value through other comprehensive income	-	987,120	987,120
Financial assets at amortized cost	-	1,239,344	1,239,344
Other financial assets - net	4,063,814	-	4,063,814
Investment property	-	847,200	847,200
Reinsurance assets	4,050,686	477,027	4,527,713
Property and equipment	-	1,038,298	1,038,298
Intangible assets	-	134,610	134,610
Other assets	-	554	554
	-	722,892	722,892
Total assets	\$ <u>11,947,070</u>	<u>5,447,045</u>	<u>17,394,115</u>

<u>Liabilities</u>	December 31, 2018		
	<u>Within 12 months</u>	<u>Over 12 months</u>	<u>Total</u>
Accounts payable	\$ 1,222,763	2,453	1,225,216
Current tax liabilities	13,914	-	13,914
Insurance liabilities	9,990,654	921,884	10,912,538
Provisions	-	276,404	276,404
Deferred tax liabilities	-	63,929	63,929
Other liabilities	33,747	7,170	40,917
Total liabilities	\$ <u>11,261,078</u>	<u>1,271,840</u>	<u>12,532,918</u>

- (g) Other disclosures in accordance with regulations governing the preparation of financial reports by insurance enterprises:
- (i) The details of the market values of investments which were held for investment purpose by the discretionary investment trust fund : Refer to Note 6(f).
 - (ii) Information regarding to discontinued operations: None.
 - (iii) Material revolutions of adjustments of organization and management policy: None.
 - (iv) Material influence because of the regulations changed: None.
 - (v) The Loan because of paying large amount of claims: None.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (h) Disclosure in accordance to "catastrophe special reserve and equalization special reserve", "the special reserve for resident earthquake insurance" and "the special reserve for nuclear insurance":

For the years ended December 31, 2019 and 2018, the influence for not applying the notification on net income before tax, liabilities, and equity of the Group resulted in an increase of \$108,992, an increase of \$82,221, a decrease of \$108,992, a decrease of \$82,221, an increase of \$108,992, an increase of \$82,221, respectively. The influence on the Group for not applying the notification resulted in an increase in the EPS by \$0.51 and \$0.39, respectively.

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(13) Other disclosures:**(a) Information on significant transactions:**

The following is the information on significant transactions required by the “the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises” for the Group:

- (i) Acquisition of individual real estate with amount exceeding the lower of NT\$100 million or 20% of the capital stock: None
- (ii) Disposal of individual real estate with amount exceeding the lower of NT\$100 million or 20% of the capital stock: None
- (iii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None
- (iv) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None
- (v) Trading in derivative instruments: None
- (vi) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	Union InsuranceCO.,LTD.	China Insurance (THAI) publiccompany limited	1	Reinsurance premium	78	As same as general condition	-%
1	China Insurance (THAI) publiccompany limited	Union InsuranceCO.,LTD.	2	Reinsurance expense	78	"	-%
0	Union InsuranceCO.,LTD.	China Insurance (THAI) publiccompany limited	1	Reinsurance commission expense	23	"	-%
1	China Insurance (THAI) publiccompany limited	Union InsuranceCO.,LTD.	2	Reinsurance commission received	23	"	-%
0	Union InsuranceCO.,LTD.	China Insurance (THAI) publiccompany limited	1	Reinsurance claims	4	"	-%
1	China Insurance (THAI) publiccompany limited	Union InsuranceCO.,LTD.	2	Claims recovered from reinsurers	4	"	-%
0	Union InsuranceCO.,LTD.	China Insurance (THAI) publiccompany limited	1	Due to ceding companies	2		-%
1	China Insurance (THAI) publiccompany limited	Union InsuranceCO.,LTD.	2	Due from ceding companies	2		-%

Note 1. The "No." represents as follows:

- 0 represents the parent company.
- 1 represents subsidiary as sequence.

Note 2. The "Nature of relationship" represents as follows:

- 1 represents the parent company.
- 2 represents subsidiary as sequence.

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2019 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2019			Highest Percentage of wnership	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares (thousands)	Percentage of wnership	Carrying value				
Union Insurance CO.,LTD.	China Insurance (THAI) public company limited	Thailand	Property insurance business	53,081	53,081	3,743	62.39 %	39,080	62.39 %	(3,204)	(1,999)	Note 1

Note 1: On December 30, 2019, the Board of Directors of the Company approved to sell China Insurance (THAI) Public Company Ltd., the subsidiary of the Company. All shares would be transferred in January 2020. Thus, the investments accounted for using equity method were reclassified from assets to held-for-sale

(c) Information on investment in mainland China:None

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UNION INSURANCE CO., LTD. AND SUBSIDIARIES
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(14) Segment information:

(a) General information

The Group run their insurance business and provide insurance contract product in accordance with local insurance laws. They distinguish their reporting sectors by areas, including Taiwan and Thailand, which are the main operating regions of the Group. The operating sectors of the Group report their profit or loss based on the net income after tax, the value of which is the foundation of performance evaluation and consistent with the report used by their decision makers. The accounting policies of the operating sectors are the same as significant accounting policies summary in note 4.

(b) Segment information

	For the year ended December 31, 2019			
	Taiwan area	Thailand area	Adjustment and reversal	Totals
Segment revenues	\$ 8,065,998	13,967	1,976	8,081,941
Segment income (loss)	\$ 703,782	(3,204)	1,999	702,577
	For the year ended December 31, 2018			
	Taiwan area	Thailand area	Adjustment and reversal	Totals
Segment revenues	\$ 7,695,690	8,253	3,733	7,707,676
Segment income (loss)	\$ 605,620	(6,216)	3,878	603,282

Note 1: Adjustment and eliminate the entries of intra-companies deal of the preparation of consolidated financial statement

Note 2: The decision-makers do not reference the operating assets and liabilities, thus, do not disclosure the assets and liabilities of operating segment.