

CENTRAL REINSURANCE CORPORATION
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2017 AND 2016

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

REPORT OF INDEPENDENT ACCOUNTANTS

PWCR17000273

To Central Reinsurance Corporation

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Insurance Enterprises” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

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

Key audit matters

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

Recognition of reinsurance revenue

Description

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

The Company's reinsurance revenue accounts for 99% of its operating revenues. The Company estimates reinsurance revenue based on an accrual basis; that is, once reinsurance contracts are signed, the Company elects the ceding company's annual forecasted reinsurance information and then calculates the revenue proportion to be recognized in each quarter based on previous experience of actual statements. Thereafter, when actual statements are received each quarter, original estimates are reversed and actual statements are accrued. The Company then evaluates the reason for differences between actual statements and estimated amounts to adjust the estimated revenues of remaining period, accordingly. Because reinsurance revenue is material to the financial statements and the recognition of reinsurance revenue involves management's professional judgement, we have thus included the recognition of reinsurance revenue as one of the key audit matters in our audit.

How our audit addressed the matter

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

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

Estimation of claims reserve

Description

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

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

How our audit addressed the matter

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

1. On a sample basis, checked the accuracy and completeness of financial information used in calculating claims reserve.
2. Used the work of actuarial specialists to assist us in assessing the reasonableness of Incurred-But-Not-Reported losses reserve, including:
 - (1) Evaluated whether the rationale of the method for calculating the Incurred-But-Not-Reported losses reserve was justifiable.
 - (2) Developed a range of reasonable estimated Incurred-But-Not-Reported losses reserve with reference to the historical claims information classified by insurance types as of December 31, 2017, assessed that the estimated Incurred-But-Not-Reported fall within our range of estimates. In addition, evaluated the rationale of additional adjustments.
 - (3) Determined whether the expected loss ratio in relation to the estimated claims reserve was reasonable for the three months ended December 31, 2017.
3. Tested a selection of material claims that were Reported-But-Not-Paid and assessed the reasonableness of the claims reserve for such cases.

Impairment evaluation on equity investments

Description

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

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

How our audit addressed the matter

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

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

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

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

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

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

Auditor’s responsibilities for the audit of the financial statements

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

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

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

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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



資誠

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cs-hs Lai

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For and on behalf of PricewaterhouseCoopers, Taiwan

March 21, 2018

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

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

ASSETS		Notes	December 31, 2017		December 31, 2016	
			AMOUNT	%	AMOUNT	%
11000	Cash and cash equivalents	6(1)	\$ 16,772,180	46	\$ 15,588,709	47
12000	Accounts receivable	6(2)	281,681	1	116,044	-
14110	Financial assets at fair value through profit or loss	6(3)	872,011	2	773,557	2
14120	Available-for-sale financial assets	6(4)	5,419,337	15	6,004,823	18
14160	Investments in debt instrument without active market	6(5)	4,532,786	12	4,720,927	14
14170	Held-to-maturity financial assets	6(6)	2,456,248	7	748,490	2
14180	Other financial assets	6(7)	684,362	2	206,259	1
14200	Investment property, net	6(9)	452,411	1	454,638	1
15000	Reinsurance contract assets	6(10)	3,726,066	10	3,624,254	11
16000	Property and equipment, net	6(13)	206,745	1	208,193	1
17000	Intangible assets		922	-	2,480	-
17800	Deferred income tax assets	6(19)	70,832	-	61,140	-
18000	Other assets		1,034,840	3	1,078,718	3
	TOTAL ASSETS		<u>\$ 36,510,421</u>	<u>100</u>	<u>\$ 33,588,232</u>	<u>100</u>
LIABILITIES AND EQUITY						
21000	Accounts payable	6(14)	\$ 409,870	1	\$ 317,140	1
21700	Current income tax liabilities		217,574	1	81,327	-
23200	Financial liabilities at fair value through profit or loss	6(3)	13,290	-	25,879	-
24000	Insurance liabilities	6(10)	24,430,514	67	23,594,638	71
27000	Provisions		21,013	-	3,142	-
28000	Deferred income tax liabilities	6(19)	130,378	-	41,555	-
25000	Other liabilities		36,310	-	25,342	-
	TOTAL LIABILITIES		<u>25,258,949</u>	<u>69</u>	<u>24,089,023</u>	<u>72</u>
30000	EQUITY					
31000	Capital					
31100	Common stock	6(16)	5,622,750	15	5,622,750	17
32000	Capital reserve		300,000	1	300,000	1
33000	Retained earnings					
33100	Legal reserve		1,754,742	5	1,601,584	5
33200	Special reserve	6(18)	1,827,712	5	1,434,161	4
33300	Undistributed earnings		1,360,777	4	798,710	2
34000	Other equity interest		385,491	1	(257,996)	(1)
	TOTAL EQUITY		<u>11,251,472</u>	<u>31</u>	<u>9,499,209</u>	<u>28</u>
	TOTAL LIABILITIES AND EQUITY		<u>\$ 36,510,421</u>	<u>100</u>	<u>\$ 33,588,232</u>	<u>100</u>

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

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

		Year ended December 31				Changes Percentage (%)
		2017		2016		
Items	Notes	AMOUNT	%	AMOUNT	%	
41000	Operating revenues					
41100	Gross premiums written	\$ 14,564,046	99	\$ 14,041,751	105	4
51100	Less: Reinsurance premiums ceded	(907,604)	(6)	(908,830)	(7)	-
51310	Net change in unearned premium reserve	(180,169)	(1)	(143,534)	(1)	26
41130	Retention earned premiums	13,476,273	92	12,989,387	97	4
41300	Reinsurance commission revenue	263,609	2	267,732	2	(2)
41400	Overriding commission revenue	12,550	-	12,758	-	(2)
41500	Net gain from investment					
41510	Interest income	293,074	2	290,349	2	1
41521	Gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss	606,291	4	62,291	1	873
41522	Realized gain or loss on available-for-sale financial assets	217,019	2	56,570	-	284
41524	Realized gain or loss on investments in debt instrument without active market	12,166	-	4,695	-	159
41550	Foreign exchange loss	(300,407)	(2)	(261,249)	(2)	15
41570	Gain on investment property	17,211	-	18,763	-	(8)
	Total net gain from investment	845,354	6	171,419	1	393
41800	Other operating revenues	2,163	-	2,799	-	(23)
	Total operating revenues	14,599,949	100	13,444,095	100	9
51000	Operating costs					
51200	Reinsurance claims paid	(8,109,968)	(56)	(8,311,054)	(62)	(2)
41200	Less: Reinsurance claims recovery	541,161	4	437,881	3	24
51260	Retention reinsurance claims paid	(7,568,807)	(52)	(7,873,173)	(59)	(4)
51300	Net changes in other insurance liabilities	(753,552)	(5)	(115,550)	(1)	552
51500	Reinsurance commission expenses	(4,210,496)	(29)	(4,231,380)	(31)	-
51800	Other operating costs	(256)	-	(45)	-	469
	Total operating costs	(12,533,111)	(86)	(12,220,148)	(91)	3
58000	Operating expenses					
58100	Selling expenses	(214,173)	(1)	(193,798)	(1)	11
58200	Administration expenses	(158,121)	(1)	(114,901)	(1)	38
58300	Training expenses	(1,327)	-	(1,337)	-	(1)
	Total operating expenses	(373,621)	(2)	(310,036)	(2)	21
	Net operating income	1,693,217	12	913,911	7	85
59000	Non-operating income and expenses	940	-	(1,190)	-	(179)
62000	Income from continuing operations before tax	1,694,157	12	912,721	7	86
63000	Income tax expense	(304,698)	(2)	(146,931)	(1)	107
64000	Income from continuing operations after tax	1,389,459	10	765,790	6	81
66000	Net income	\$ 1,389,459	10	\$ 765,790	6	81

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

		Year ended December 31				Changes			
		2017		2016		Percentage			
Items	Notes	AMOUNT	%	AMOUNT	%	(%)			
83000		Other comprehensive income							
83100		Items may not be reclassified to profit or loss subsequently							
83110		Remeasurements of defined benefit plans							
		\$	548	-	\$	3,901	-	(86)	
83180		Income tax relating to the items may not be reclassified to profit or loss subsequently							
		(	93)	-	(	663)	-	(86)	
83200		Items may be reclassified to profit or loss subsequently							
83210		Exchange differences on translation of foreign financial statements							
		(	90,152)	(	1)	(	11,034)	-	717
83220		Unrealized gain or loss on available-for-sale financial assets							
	6(4)		839,410	6	(	243,043)	(	2)	(445)
83280		Income tax relating to the items may be reclassified to profit or loss subsequently							
	6(4)(19)	(	105,771)	(	1)		28,370	-	(473)
		Total other comprehensive income (loss) for the year (after tax)							
			643,942	4	(	222,469)	(	2)	(389)
85000		Total comprehensive income for the year							
		\$	2,033,401	14	\$	543,321	4	274	
Earnings per share									
97500		Basic and Diluted (in NT dollars)							
		\$	2.47	\$	1.36				

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

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

				Retained Earnings			Other Equity Interest		
	Notes	Common Stock	Capital Reserve	Legal Reserve	Special Reserve	Undistributed Earnings	Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gain or Loss on Available-For-Sale Financial Assets	Total Equity
<u>2016</u>									
Balance at January 1, 2016		\$ 5,622,750	\$ 300,000	\$ 1,448,411	\$ 1,194,523	\$ 816,086	\$ -	(\$ 32,289)	\$ 9,349,481
Distributions of 2015 earnings (Note)									
Legal reserve		-	-	153,173	-	(153,173)	-	-	-
Cash dividends	6(18)	-	-	-	-	(393,593)	-	-	(393,593)
Net income for the period		-	-	-	-	765,790	-	-	765,790
Appropriation for equalization reserve for the year		-	-	-	239,638	(239,638)	-	-	-
Other comprehensive income (loss) for the year		-	-	-	-	3,238	(9,158)	(216,549)	(222,469)
Balance at December 31, 2016		<u>\$ 5,622,750</u>	<u>\$ 300,000</u>	<u>\$ 1,601,584</u>	<u>\$ 1,434,161</u>	<u>\$ 798,710</u>	<u>(\$ 9,158)</u>	<u>(\$ 248,838)</u>	<u>\$ 9,499,209</u>
<u>2017</u>									
Balance at January 1, 2017		\$ 5,622,750	\$ 300,000	\$ 1,601,584	\$ 1,434,161	\$ 798,710	(\$ 9,158)	(\$ 248,838)	\$ 9,499,209
Distributions of 2016 earnings									
Legal reserve		-	-	153,158	-	(153,158)	-	-	-
Special reserve	6(18)	-	-	-	135,268	(135,268)	-	-	-
Cash dividends	6(18)	-	-	-	-	(281,138)	-	-	(281,138)
Net income for the year		-	-	-	-	1,389,459	-	-	1,389,459
Appropriation for equalization reserve for the year		-	-	-	258,283	(258,283)	-	-	-
Other comprehensive income (loss) for the year		-	-	-	-	455	(74,826)	718,313	643,942
Balance at December 31, 2017		<u>\$ 5,622,750</u>	<u>\$ 300,000</u>	<u>\$ 1,754,742</u>	<u>\$ 1,827,712</u>	<u>\$ 1,360,777</u>	<u>(\$ 83,984)</u>	<u>\$ 469,475</u>	<u>\$ 11,251,472</u>

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

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	\$ 1,694,157	\$ 912,721
Adjustments		
Adjustments to reconcile profit (loss)		
Depreciation	9,043	8,999
Amortization	1,558	1,601
Net change in reserves	928,356	260,783
Net loss on financial assets and liabilities at fair value through profit or loss	38,829	9,441
Net loss (gain) on available-for-sale financial assets	(118,660)	49,340
Net gain on investments in debt instruments without active market	(12,166)	(4,695)
Interest income	(308,508)	(305,862)
Dividend income	(118,975)	(112,274)
Unrealized foreign exchange loss	148,398	245,009
Changes in operating assets and liabilities		
Changes in operating assets		
Accounts receivable	(139,537)	113,264
Financial assets at fair value through profit or loss	(155,063)	(251,521)
Reinsurance contract assets	(194,292)	(114,241)
Other assets	32,886	27,753
Changes in operating liabilities		
Accounts payable	92,730	(108,052)
Provisions	18,419	(972)
Other liabilities	10,968	(1,670)
Cash inflow generated from operations	1,928,143	729,624
Interest received	320,893	356,852
Dividend received	119,039	112,207
Income tax paid	(195,184)	(103,578)
Net cash flows from operating activities	2,172,891	1,095,105
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through profit or loss	(8,000)	(35,000)
Proceeds from disposal of financial assets at fair value through profit or loss	13,191	35,426
Acquisition of available-for-sale financial assets	(7,840,121)	(16,654,882)
Proceeds from disposal of available-for-sale financial assets	9,344,965	14,577,694
Acquisition of investments in debt instruments without active market	(1,045,007)	(1,112,658)
Proceeds from disposal of investments in debt instrument without active market	-	300,291
Proceeds from repayments of investments in debt instruments without active market	1,069,173	1,339,902
Acquisition of held-to-maturity financial assets	(2,090,006)	(1,706,721)
Proceeds from repayments of held-to-maturity financial assets	325,180	500,000
Acquisition of property and equipment	(5,070)	(1,176)
Acquisition of intangible assets	-	(295)
Acquisition of investment property	(298)	(480)
Decrease (increase) in other financial assets	(478,103)	1,216,673
Net cash flows used in investing activities	(714,096)	(1,541,226)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of cash dividends	(281,138)	(393,593)
Net cash flows used in financing activities	(281,138)	(393,593)
Effects of exchange rate changes	5,814	(33,144)
Net increase (decrease) in cash and cash equivalents	1,183,471	(872,858)
Cash and cash equivalents at beginning of year	15,588,709	16,461,567
Cash and cash equivalents at end of year	\$ 16,772,180	\$ 15,588,709

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

CENTRAL REINSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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

1. HISTORY AND ORGANISATION

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

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

These financial statements were authorized for issuance by the Board of Directors on March 21, 2018.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Amendments to IAS 36, 'Recoverable amount disclosures for non-financial assets'	January 1, 2014
Amendments to IAS 39, 'Novation of derivatives and continuation of hedge accounting'	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Annual improvements to IFRSs 2010-2012 cycle	July 1, 2014
Annual improvements to IFRSs 2011-2013 cycle	July 1, 2014
Annual improvements to IFRSs 2012-2014 cycle	January 1, 2016

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

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

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

A. Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'

To address the concerns about the different effective dates of IFRS 9, 'Financial instruments', and the forthcoming new standard IFRS 17, 'Insurance contract', which may result in different bases for measuring assets and liabilities, this amendment allows insurers who meet specific requirements as set out in IFRS 4, 'Insurance contract' to adopt temporary exemption from IFRS 9, 'Financial instruments', or to use overlay approach under IFRS 9, 'Financial instruments' alternatively.

B. IFRS 9, 'Financial Instruments'

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

When adopting the new standards endorsed by the FSC effective from 2018, the Company will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. The significant effects of applying the standard as of January 1, 2018 are described below:

1. In accordance with IFRS 9, the Company expects to reclassify available-for-sale financial assets in the amount of \$700,188 by increasing financial assets at fair value through profit or loss, increasing other equity interest and decreasing retained earnings in the amount of \$700,188, \$66,332 and \$66,332, respectively.

2. The Company uses overlay approach under IFRS 9 to record \$4,267,210 of available-for-sale financial assets by increasing financial assets at fair value through profit or loss in the amount of \$4,267,210.
3. In accordance with IFRS 9, the Company expects to reclassify available-for-sale financial assets, held-to-maturity financial assets and investments in debt instruments without active market in the amount of \$929,741, \$2,885,915 and \$4,532,786, respectively, by increasing financial assets at amortized cost, decreasing deferred income tax assets and increasing other equity interest in the amount of \$8,361,373, \$3,910 and \$9,021, respectively.
4. In line with the regulations under IFRS 9 on provision for impairment, financial assets at amortized cost will have to be reduced by \$2,783, deferred income tax assets increased by \$169 and retained earnings decreased by \$2,614.

Note: The abovementioned amounts include statutory deposits.

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 16, 'Leases'	January 1, 2019
IFRS 17, 'Insurance contracts'	January 1, 2021
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
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

A. Amendments to IFRS 9, 'Prepayment features with negative compensation'

The amendments introduce changes to certain extent in determining whether the prepayable financial assets fall under contractual cash flows that are solely payments of principal and interest (SPPI). The SPPI condition is satisfied when the prepayment includes reasonable compensation (even if it is negative compensation) for contract termination prior to the expiration date. The amendments further clarify that when a financial liability is modified without this resulting in derecognition, the difference arising between the original contractual cash flows and the modified contractual cash flows discounted at the original effective interest rate is recognized in profit or

loss.

B. IFRS 17, 'Insurance Contracts'

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

These financial statements have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Insurance Enterprises" and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission (collectively referred to herein as "IFRSs").

(2) Basis of preparation

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

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

(a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

(b) Available-for-sale financial assets measured at fair value.

(c) Defined benefit liabilities recognized based on the net amount of pension fund assets less present

value of defined benefit obligation.

(d) Various insurance liabilities and reinsurance reserve assets recognized in accordance with specific statutory requirements and regulations relevant to insurance enterprises.

C. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

(3) Foreign currency translation

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

(a) Transactions denominated in foreign currencies are translated into functional currency at the spot exchange rates prevailing at the transaction date. The translation differences upon actual payment are recognized in current profit or loss.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the reporting date. Exchange differences arising upon re-translation at the reporting date are recognized in current profit or loss.

(c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(d) Except for aforementioned non-monetary assets denominated in foreign currencies held at fair value through profit or loss, foreign exchange gains or losses that arise from investing activities are recognized under net gain (loss) from investment in the statement of comprehensive income. Other foreign exchange gains or losses that do not arise from investing activities are recognized under other operating revenues or other operating costs.

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

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

(b) Income and expenses for each statement of comprehensive income are translated at spot

exchange rates of the trade date ; and

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

(4) Cash equivalents

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

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

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

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

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

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

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

(a) Hybrid (combined) contracts; or

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

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

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

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

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

(6) Available-for-sale financial assets

A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

B. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.

C. Available-for-sale financial assets are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income. The cumulative gain

or loss should be reclassified from equity to profit or loss when financial assets are derecognized.

D. The realized gain or loss on available-for-sale financial assets recognized in the statement of comprehensive income includes gain or loss arising from transactions as well as dividend and bonus except interest income.

(7) Investments in debt instruments without active market

A. Investments in debt instruments without active market are loans and receivables not originated by the entity. They are bond investments with fixed or determinable payments that are not quoted in an active market, and also meet all of the following conditions:

(a) Not designated on initial recognition as at fair value through profit or loss;

(b) Not designated on initial recognition as available-for-sale;

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

B. On a regular way purchase or sale basis, investments in debt instruments without active market are recognized and derecognized using trade date accounting.

C. Investments in debt instruments without active market are initially recognized at fair value on the trade date plus transaction costs and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Amortization of a premium or a discount on such assets is recognized in profit or loss.

D. The realized gain or loss on investments in debt instruments without active market recognized in the statement of comprehensive income includes gain or loss arising from transactions except interest income.

(8) Held-to-maturity financial assets

A. Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Company has the positive intention and ability to hold to maturity other than those that meet the definition of loans and receivables and those that are designated as at fair value through profit or loss or as available-for-sale on initial recognition.

B. On a regular way purchase or sale basis, held-to-maturity financial assets are recognized and derecognized using trade date accounting.

C. Held-to-maturity financial assets are initially recognized at fair value on the trade date plus transaction costs and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Amortization of a premium or a discount on such assets is recognized in profit or loss.

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

(9) Derivative financial instruments

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

valuation of financial assets or financial liabilities at fair value through profit or loss”.

(10) Impairment of financial assets

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

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

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

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

(a) Financial assets measured at amortized cost

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

(b) Available-for-sale financial assets

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

(11) Investment property

- A. An investment property is stated initially at its cost including related transaction costs; measured subsequently using the cost model and stated at cost less accumulated depreciation and accumulated impairment loss. Subsequent costs of major renewals and betterments are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. Repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- B. The Company uses a portion of the property for its own use and another portion to earn rentals or for capital appreciation. When these portions can be sold separately, the own-use portion is accounted for in accordance with IAS 16, "Property, Plant and Equipment". However, property held either to earn rental income or for capital appreciation or for both is subject to IAS 40, "Investment Property". If part of property cannot be individually sold, and owner-occupied property is insignificant, it is accounted for as investment property.
- C. An investment property shall be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. When assets are derecognized, the cost and the accumulated depreciation at the time of sale or retirement are written off. Gain or loss on sale of the investment property, rental income, and relevant payment shall be recognized in gain or loss on investment property under net gain from investment. Except for land, property is depreciated on a straight-line basis over its estimated useful life of 3 to 60 years. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", from the date of the change.

(12) Lease

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

(13) Reinsurance contract assets

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

(14) Impairment on reinsurance contract assets

Regular evaluation on reinsurance assets should be made to evaluate if there is any impairment. When there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract; and that event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer, the Company should reduce its carrying amount accordingly and recognize the provision for impairment loss or allowance for doubtful accounts.

(15) Property and equipment

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

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

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

change in estimate under IAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors”, from the date of the change.

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

(16) Impairment of non-financial assets

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

(17) Allowance for doubtful accounts

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

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

A. Financial liabilities at fair value through profit or loss are financial liabilities held for trading.

Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges.

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

(19) Derecognition of financial assets and financial liabilities

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

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

(b) The contractual rights to receive cash flows from the financial asset have been transferred and

the Company has transferred substantially all risks and rewards of ownership of the financial asset.

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

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

(20) Offsetting financial assets and financial liabilities

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

(21) Classification of reinsurance contracts

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

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

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

(22) Insurance liabilities

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

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

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

According to “Directions for Strengthening Special Reserve by Reinsurance Enterprises”, “Directions for Strengthening Co-insurance Reserve of Residential Earthquake Insurance” and “Regulations for Reserving Nuclear Energy Insurance Reserve by Non-Life Insurance Enterprises”

dated December 28, 2012, subsequent equalization reserve recognized under liabilities by December 31, 2012 should still be recognized under liabilities. Starting from January 1, 2013, the additional provision for equalization reserve less income tax should be recognized as special reserve under equity after annual closing and should not be distributed without approval. The release of the equalization reserve shall be made through equalization reserve under liabilities first. If such reserves are insufficient for release, then the deficiency shall be released through special reserves under equity based on its net amount after tax in accordance with IAS 12.

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

(23) Liability adequacy test

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

(24) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plan

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

(b) Defined benefit plan

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Company uses interest rates of government bonds (at the balance sheet date) instead.

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

C. Employees' compensation and directors' remuneration

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

(25) Income tax

- A. The income tax expense (benefit) for the period comprises current and deferred income tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. Income tax (10%) on undistributed earnings is recorded as expense in the year when the stockholders approve to retain the earnings.
- C. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.
- D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each reporting period, unrecognized and recognized deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current income tax assets against current income tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

(26) Dividends

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

(27) Reinsurance revenues

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

(28) Operating segments

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

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

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

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

Impairment of financial assets - equity investments

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

(2) Critical accounting estimates and assumptions

A. Reinsurance premiums

The Company's estimated reinsurance revenue is based on the ceding company's annual forecasted reinsurance information and then the Company calculates the revenue proportion to be recognized in each quarter based on previous experience of actual statements. Thereafter, when actual

statements are received each quarter, original estimates are reversed and actual statements are accrued. The reason for differences between actual statements and estimated amounts is evaluated to adjust the estimated revenues of remaining period, accordingly.

B. Claims reserve (under insurance liabilities)

Aside from statutorily required insurances, the Company estimates the ultimate loss ratio and provisions claims reserve based on assessment factors such as information provided by the ceding company, claim development factors, contract type, insurance risk characteristics, market information, and judgement for the experience of claims and underwriting. A part of claims reserve is recognized using the case-by-case estimation method for Reported-But-Not-Paid cases while the remaining is provisioned for Incurred-But-Not-Reported claims.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash:		
Petty cash	\$ 123	\$ 141
Checking accounts	13,197	4,382
Demand deposits	5,344,122	5,673,710
Cash equivalents:		
Time deposits	<u>11,414,738</u>	<u>9,910,476</u>
	<u>\$ 16,772,180</u>	<u>\$ 15,588,709</u>

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

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

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Demand deposits	\$ 292,976	\$ 1,215,517
Time deposits	<u>3,625,285</u>	<u>2,830,424</u>
	<u>\$ 3,918,261</u>	<u>\$ 4,045,941</u>

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

(2) Accounts receivable

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Notes receivable	\$ 3,361	\$ 5,288
Other receivables	<u>278,320</u>	<u>110,756</u>
Total	281,681	116,044
Less: Allowance for doubtful accounts	<u>-</u>	<u>-</u>
Net amount	<u>\$ 281,681</u>	<u>\$ 116,044</u>

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Good	\$ 281,681	\$ 115,732
Delayed previously	<u>-</u>	<u>-</u>
	<u>\$ 281,681</u>	<u>\$ 115,732</u>

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

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

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

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

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

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

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

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Financial assets held for trading		
Domestic listed and over-the-counter stocks	\$ 292,038	\$ 114,406
Foreign listed stocks	195,066	175,781
Foreign index funds	-	41,854
Derivatives	41,030	31,192
	<u>528,134</u>	<u>363,233</u>
Valuation adjustment of financial assets held for trading	16,091	(25,857)
	<u>544,225</u>	<u>337,376</u>
Financial assets designated as at fair value through profit or loss on initial recognition		
Domestic convertible corporate bonds	-	4,300
Domestic mandatory convertible corporate bonds	500,000	500,000
	<u>500,000</u>	<u>504,300</u>
Valuation adjustment of financial assets designated as at fair value through profit or loss on initial recognition	(172,214)	(68,119)
	<u>327,786</u>	<u>436,181</u>
	<u>\$ 872,011</u>	<u>\$ 773,557</u>
	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Financial liabilities held for trading		
Derivatives	\$ 13,290	\$ 25,879

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

	<u>Year ended December 31, 2017</u>	<u>Year ended December 31, 2016</u>
Financial instruments held for trading	\$ 694,494	\$ 69,356
Financial instruments designated as at fair value through profit or loss on initial recognition	(88,203)	(7,065)
	<u>\$ 606,291</u>	<u>\$ 62,291</u>

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

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

Derivative instruments	December 31, 2017		December 31, 2016	
	Contract amount (Notional principal)	Contract period	Contract amount (Notional principal)	Contract period
FX swap contracts	\$ 6,329,315	2017.04.25~ 2018.07.05	\$ 5,617,127	2016.06.29~ 2017.04.12
Forward foreign exchange contracts	2,889,910	2017.09.28~ 2018.02.27	967,600	2016.09.19~ 2017.03.06

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

(a)FX swap contracts

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

(b)Forward foreign exchange contracts

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

(c)Futures

As of December 31, 2017 and 2016, all futures contracts were settled, and the related margins were \$49,320 and \$100,030, respectively.

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

(4) Available-for-sale financial assets

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Domestic items:		
Listed and over-the-counter common stocks	\$ 1,449,361	\$ 1,648,020
Listed and over-the-counter preferred stocks	14,232	14,232
Securitized real estate products	408,084	613,948
Government bonds	523,916	531,248
Open-end funds	75,000	90,528
Index funds	-	60,498
Foreign items:		
Listed and over-the-counter common stocks	2,040,766	2,597,809
Open-end funds	181,064	387,527
Government bonds	265,184	286,383
Corporate bonds	153,572	166,620
Index funds	233,678	375,807
	<u>5,344,857</u>	<u>6,772,620</u>
Valuation adjustment of available-for-sale financial assets	552,282 (	287,128)
Less: Statutory deposits	(<u>477,802</u>)	(<u>480,669</u>)
	<u>\$ 5,419,337</u>	<u>\$ 6,004,823</u>

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

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

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

	<u>2017</u>	<u>2016</u>
At January 1	(\$ 248,838)	(\$ 32,289)
Recognized directly in other comprehensive income	958,070 (	292,383)
Reclassified to profit or loss	(118,660)	49,340
Effect of deferred income tax	(<u>121,097</u>)	<u>26,494</u>
At December 31	<u>\$ 469,475</u>	<u>(\$ 248,838)</u>

(5) Investments in debt instruments without active market

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Domestic items:		
Securitized financial asset products	\$ 300,000	\$ 300,000
Corporate bonds	603,427	600,290
Financial bonds	-	503,097
Foreign items:		
Securitized financial asset products	743,642	897,852
Corporate bonds	809,789	808,219
Financial bonds	2,075,928	1,611,469
	<u>\$ 4,532,786</u>	<u>\$ 4,720,927</u>

A.The Company recognized interest income of \$135,206 and \$142,354 from amortization costs through profit or loss for the years ended December 31, 2017 and 2016, respectively.

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

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

(6) Held-to-maturity financial assets

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Domestic items:		
Corporate bonds	\$ 750,376	\$ 250,000
Financial bonds	201,462	-
Government bonds	429,667	437,792
Foreign items:		
Corporate bonds	811,641	-
Financial bonds	604,859	403,608
Government bonds	87,910	94,882
	<u>2,885,915</u>	<u>1,186,282</u>
Less: Statutory deposits	<u>(429,667)</u>	<u>(437,792)</u>
	<u>\$ 2,456,248</u>	<u>\$ 748,490</u>

A.The Company recognized interest income of \$26,887 and \$10,944 from amortization costs through profit or loss for the years ended December 31, 2017 and 2016, respectively.

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

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

(7) Other financial assets

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Time deposits	\$ 684,362	\$ 206,259

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

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

(8) Structured entities

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

December 31, 2017		
Type of structured entities	Book value	Nature
Securitized real estate products	\$ 524,734	The beneficial securities were issued by trustee to provide investor gain on transaction, rent and value increment of real estate market.
Securitized financial asset products	1,043,642	The risks and rewards associated with the assets of the structured entity were passed on to investors through issuing bonds.
Total	<u>\$ 1,568,376</u>	
December 31, 2016		
Type of structured entities	Book value	Nature
Securitized real estate products	\$ 865,854	The beneficial securities were issued by trustee to provide investor gain on transaction, rent and value increment of real estate market.
Securitized financial asset products	1,197,852	The risks and rewards associated with the assets of the structured entity were passed on to investors through issuing bonds.
Total	<u>\$ 2,063,706</u>	

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

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

(9) Investment property

	Land	Building	Total
<u>At January 1, 2017</u>			
Cost	\$ 411,606	\$ 85,590	\$ 497,196
Accumulated depreciation	-	(42,558)	(42,558)
	<u>\$ 411,606</u>	<u>\$ 43,032</u>	<u>\$ 454,638</u>
<u>2017</u>			
At January 1	\$ 411,606	\$ 43,032	\$ 454,638
Additions-from subsequent expenditure	-	298	298
Depreciation	-	(2,525)	(2,525)
At December 31	<u>\$ 411,606</u>	<u>\$ 40,805</u>	<u>\$ 452,411</u>
<u>At December 31, 2017</u>			
Cost	\$ 411,606	\$ 85,888	\$ 497,494
Accumulated depreciation	-	(45,083)	(45,083)
	<u>\$ 411,606</u>	<u>\$ 40,805</u>	<u>\$ 452,411</u>
	Land	Building	Total
<u>At January 1, 2016</u>			
Cost	\$ 411,606	\$ 85,110	\$ 496,716
Accumulated depreciation	-	(39,986)	(39,986)
	<u>\$ 411,606</u>	<u>\$ 45,124</u>	<u>\$ 456,730</u>
<u>2016</u>			
At January 1	\$ 411,606	\$ 45,124	\$ 456,730
Additions-from subsequent expenditure	-	480	480
Depreciation	-	(2,572)	(2,572)
At December 31	<u>\$ 411,606</u>	<u>\$ 43,032</u>	<u>\$ 454,638</u>
<u>At December 31, 2016</u>			
Cost	\$ 411,606	\$ 85,590	\$ 497,196
Accumulated depreciation	-	(42,558)	(42,558)
	<u>\$ 411,606</u>	<u>\$ 43,032</u>	<u>\$ 454,638</u>

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

	Year ended <u>December 31, 2017</u>	Year ended <u>December 31, 2016</u>
Rental revenue from the lease of the investment property	\$ 23,305	\$ 24,555
Direct operating expenses arising from the investment property that generated rental income in the year	6,094	5,792

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Due in one year	\$ 20,081	\$ 18,599
Due after one year through three years	14,780	10,035
	<u>\$ 34,861</u>	<u>\$ 28,634</u>

C. The fair value of investment property held by the Company is estimated by an accredited external independent appraiser under “Regulations on Real Estate Appraisal” using valuation techniques of both the income approach and comparison approach, based on observable active market prices and the characteristics, locations and conditions of each asset on the measurement date - December 31, 2017 and 2016. The fair values of investment property for the aforementioned measurement dates were \$1,215,163 and \$1,220,126, which is categorized as Level 3 within the fair value hierarchy. Key assumptions of income approach are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Capitalization rate	0.96%~1.60%	0.96%~1.60%

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

(10) Reinsurance contract assets and insurance liabilities

A.Details of reinsurance contract assets are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Due from reinsurers and ceding companies	\$ 2,401,351	\$ 2,211,025
Due from reinsurers and ceding companies-overdue	42,722	38,756
Reinsurance reserve assets		
Ceded unearned premium reserve	326,161	357,086
Ceded claims reserve	701,110	837,442
Ceded liability reserve	301,684	229,893
Ceded premium deficiency reserve	<u>5,179</u>	<u>2,193</u>
	3,778,207	3,676,395
Less: Allowance for doubtful accounts	(52,141)	(52,141)
	<u>\$ 3,726,066</u>	<u>\$ 3,624,254</u>

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Group 1	\$ 16,451	\$ 18,045
Group 2	770,207	1,419,942
Group 3	2,496,966	1,450,746
Group 4	96,879	60,358
Group 5	5,700	3,583
Group 6	<u>252,239</u>	<u>600,083</u>
	<u>\$ 3,638,442</u>	<u>\$ 3,552,757</u>

Group 1: S&P AAA or equivalents.

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

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

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

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

Group 6: without credit rating etc.

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

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
31 to 90 days	\$ 92,139	\$ 41,253
91 to 180 days	11,821	48,810
181 to 270 days	154	5,269
Over 271 days	35,651	28,306
	<u>\$ 139,765</u>	<u>\$ 123,638</u>

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

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

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

	<u>2017</u>	<u>2016</u>
At January 1	\$ 52,141	\$ 52,143
Write-off of bad debts	-	(2)
At December 31	<u>\$ 52,141</u>	<u>\$ 52,141</u>

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

B.Details of insurance liabilities are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Unearned premium reserve	\$ 5,270,076	\$ 5,126,197
Claims reserve	14,668,663	14,353,439
Liability reserve	301,684	229,893
Equalization reserve	4,150,282	3,855,222
Premium deficiency reserve	39,809	29,887
	<u>\$ 24,430,514</u>	<u>\$ 23,594,638</u>

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

	<u>2017</u>	<u>2016</u>
Ceded unearned premium reserve		
At January 1	\$ 357,086	\$ 369,344
Provision	326,317	356,880
Recovery	(356,880)	(369,344)
Exchange differences on translation of foreign financial statements	(362)	206
At December 31	<u>\$ 326,161</u>	<u>\$ 357,086</u>

	2017	2016
Unearned premium reserve		
At January 1	\$ 5,126,197	\$ 4,993,221
Provision	5,273,898	5,124,292
Recovery	(5,124,292)	(4,993,221)
Exchange differences on translation of foreign financial statements	(5,727)	1,905
At December 31	<u>\$ 5,270,076</u>	<u>\$ 5,126,197</u>

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

	December 31, 2017	December 31, 2016
Ceded claims reserve		
Outstanding losses	\$ 302,776	\$ 354,340
Incurred but not reported losses	398,334	483,102
	<u>\$ 701,110</u>	<u>\$ 837,442</u>
	December 31, 2017	December 31, 2016
Claims reserve		
Outstanding losses	\$ 4,891,209	\$ 4,900,668
Incurred but not reported losses	9,777,454	9,452,771
	<u>\$ 14,668,663</u>	<u>\$ 14,353,439</u>
	2017	2016
Ceded claims reserve		
At January 1	\$ 837,442	\$ 836,328
Provision	701,110	837,442
Recovery	(837,442)	(836,328)
At December 31	<u>\$ 701,110</u>	<u>\$ 837,442</u>
	2017	2016
Claims reserve		
At January 1	\$ 14,353,439	\$ 14,063,219
Provision	14,668,663	14,353,439
Recovery	(14,353,439)	(14,063,219)
At December 31	<u>\$ 14,668,663</u>	<u>\$ 14,353,439</u>

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

	2017				2016			
	Foreign currency amount	Currency	Exchange rate	NTD (in thousands)	Foreign currency amount	Currency	Exchange rate	NTD (in thousands)
	(in thousands)				(in thousands)			
Ceded liability reserve								
At January 1	\$ 49,496	CNY	4.645	\$ 229,893	\$ 32,379	CNY	5.092	\$ 164,881
Provision	17,352			76,000	17,638			67,592
Recovery	(937)			(4,209)	(521)			(2,580)
At December 31	<u>\$ 65,911</u>	CNY	4.577	<u>\$ 301,684</u>	<u>\$ 49,496</u>	CNY	4.645	<u>\$ 229,893</u>

	2017				2016			
	Foreign currency amount	Currency	Exchange rate	NTD (in thousands)	Foreign currency amount	Currency	Exchange rate	NTD (in thousands)
	(in thousands)				(in thousands)			
Liability reserve								
At January 1	\$ 49,496	CNY	4.645	\$ 229,893	\$ 32,379	CNY	5.092	\$ 164,881
Provision	17,352			76,000	17,638			67,592
Recovery	(937)			(4,209)	(521)			(2,580)
At December 31	<u>\$ 65,911</u>	CNY	4.577	<u>\$ 301,684</u>	<u>\$ 49,496</u>	CNY	4.645	<u>\$ 229,893</u>

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

F.Equalization reserves

(a)Details of equalization reserves are as follows:

	December 31, 2017	December 31, 2016
Equalization reserve for statutory insurance	\$ 1,569,205	\$ 1,274,144
Reserve for fluctuation of risk	2,055,295	2,055,296
Reserve for extraordinary business losses	525,782	525,782
	<u>\$ 4,150,282</u>	<u>\$ 3,855,222</u>

(b)Movement of equalization reserves is as follows:

	2017	2016
At January 1	\$ 3,855,222	\$ 3,973,029
Provision	295,060	(117,807)
Recovery	-	-
At December 31	<u>\$ 4,150,282</u>	<u>\$ 3,855,222</u>

(c) According to Jin-Kuan-Bao-Tsai Order No. 10102517491, “Directions for Strengthening Special Reserve by Reinsurance Enterprises”, Jin-Kuan-Bao-Chan Order No. 10102531541, “Directions for Strengthening Co-insurance Reserve of Residential Earthquake Insurance” and Jin-Kuan-Bao-Tsai Order No. 10102517091, “Regulations for Reserving Nuclear Energy Insurance Reserve by Non-Life Insurance Enterprises” dated December 28, 2012, the Company’s accounts applicable or not applicable for the reserve for the years ended December 31, 2017 and 2016, are as follows:

Year ended December 31,2017				
	Earnings per share			
	Net income	(in dollars)	Total liabilities	Total equity
Applicable	\$ 1,389,459	\$ 2.47	\$ 25,258,949	\$ 11,251,472
Not applicable	1,389,459	2.47	22,958,469	13,551,952
Effect	<u>\$ -</u>	<u>\$ -</u>	<u>(\$ 2,300,480)</u>	<u>\$ 2,300,480</u>
Year ended December 31,2016				
	Earnings per share			
	Net income	(in dollars)	Total liabilities	Total equity
Applicable	\$ 765,790	\$ 1.36	\$ 24,089,023	\$ 9,499,209
Not applicable	765,790	1.36	21,788,543	11,799,689
Effect	<u>\$ -</u>	<u>\$ -</u>	<u>(\$ 2,300,480)</u>	<u>\$ 2,300,480</u>

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

	2017	2016
Ceded premium deficiency reserve		
At January 1	\$ 2,193	\$ 1,832
Provision	5,179	2,193
Recovery	(2,193)	(1,832)
At December 31	<u>\$ 5,179</u>	<u>\$ 2,193</u>
	2017	2016
Premium deficiency reserve		
At January 1	\$ 29,887	\$ 85,275
Provision	39,809	29,887
Recovery	(29,887)	(85,275)
At December 31	<u>\$ 39,809</u>	<u>\$ 29,887</u>

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

<u>December 31, 2017</u>	<u>Due in one year</u>	<u>Due after one year</u>	<u>Total</u>
Insurance liabilities			
Unearned premium reserve	\$ 2,247,556	\$ 1,518,456	\$ 3,766,012
Claims reserve	7,482,088	5,054,923	12,537,011
Liability reserve	-	301,684	301,684
Premium deficiency reserve	23,758	16,051	39,809

Note: Insurance liabilities exclude statutory insurance (total amount of compulsory automobile liability insurance, residential earthquake insurance and nuclear insurance is \$3,635,716).

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

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

(11) Reserves for unqualified reinsurance

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

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

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

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

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

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

C.Reserve for unqualified reinsurance as of December 31, 2017 and 2016 were \$5,567 and \$7,596, respectively.

(12) Offsetting financial assets and financial liabilities

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

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

(a)Financial assets

<u>Description</u>	<u>Gross amounts of recognized financial assets</u>	<u>Financial instruments not set off in the balance sheet</u>	<u>Net amount</u>
<u>December 31, 2017</u>			
Derivatives	\$ <u>41,030</u>	\$ <u>13,290</u>	\$ <u>27,740</u>
<u>December 31, 2016</u>			
Derivatives	\$ <u>31,192</u>	\$ <u>8,340</u>	\$ <u>22,852</u>

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

(b) Financial liabilities

<u>Description</u>	<u>Gross amounts of recognized financial liabilities</u>	<u>Financial instruments not set off in the balance sheet</u>	<u>Net amount</u>
<u>December 31, 2017</u>			
Derivatives	<u>\$ 13,290</u>	<u>\$ 13,290</u>	<u>\$ -</u>
<u>December 31, 2016</u>			
Derivatives	<u>\$ 25,879</u>	<u>\$ 8,340</u>	<u>\$ 17,539</u>

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

(13) Property and equipment

	Land	Building	Computer equipment	Transportation equipment	Miscellaneous equipment	Prepayments for equipment	Total
<u>At January 1, 2017</u>							
Cost	\$ 180,796	\$ 89,414	\$ 17,302	\$ 4,923	\$ 3,689	\$ -	\$ 296,124
Accumulated depreciation	-	(68,973)	(12,224)	(3,791)	(2,943)	-	(87,931)
	<u>\$ 180,796</u>	<u>\$ 20,441</u>	<u>\$ 5,078</u>	<u>\$ 1,132</u>	<u>\$ 746</u>	<u>\$ -</u>	<u>\$ 208,193</u>
<u>2017</u>							
At January 1	\$ 180,796	\$ 20,441	\$ 5,078	\$ 1,132	\$ 746	\$ -	\$ 208,193
Additions	-	691	3,475	-	240	664	5,070
Disposals-cost	-	-	(1,007)	(62)	(273)	-	(1,342)
Disposals-accumulated depreciation	-	-	1,007	62	273	-	1,342
Depreciation	-	(3,251)	(2,740)	(324)	(203)	-	(6,518)
At December 31	<u>\$ 180,796</u>	<u>\$ 17,881</u>	<u>\$ 5,813</u>	<u>\$ 808</u>	<u>\$ 783</u>	<u>\$ 664</u>	<u>\$ 206,745</u>
<u>At December 31, 2017</u>							
Cost	\$ 180,796	\$ 90,105	\$ 19,770	\$ 4,861	\$ 3,656	\$ 664	\$ 299,852
Accumulated depreciation	-	(72,224)	(13,957)	(4,053)	(2,873)	-	(93,107)
	<u>\$ 180,796</u>	<u>\$ 17,881</u>	<u>\$ 5,813</u>	<u>\$ 808</u>	<u>\$ 783</u>	<u>\$ 664</u>	<u>\$ 206,745</u>

	Land	Building	Computer equipment	Transportation equipment	Miscellaneous equipment	Total
<u>At January 1, 2016</u>						
Cost	\$ 180,796	\$ 89,414	\$ 16,971	\$ 6,092	\$ 3,453	\$ 296,726
Accumulated depreciation	-	(65,687)	(10,195)	(4,637)	(2,763)	(83,282)
	<u>\$ 180,796</u>	<u>\$ 23,727</u>	<u>\$ 6,776</u>	<u>\$ 1,455</u>	<u>\$ 690</u>	<u>\$ 213,444</u>
<u>2016</u>						
At January 1	\$ 180,796	\$ 23,727	\$ 6,776	\$ 1,455	\$ 690	\$ 213,444
Additions	-	-	940	-	236	1,176
Disposals-cost	-	-	(609)	(1,169)	-	(1,778)
Disposals-accumulated depreciation	-	-	609	1,169	-	1,778
Depreciation	-	(3,286)	(2,638)	(323)	(180)	(6,427)
At December 31	<u>\$ 180,796</u>	<u>\$ 20,441</u>	<u>\$ 5,078</u>	<u>\$ 1,132</u>	<u>\$ 746</u>	<u>\$ 208,193</u>
<u>At December 31, 2016</u>						
Cost	\$ 180,796	\$ 89,414	\$ 17,302	\$ 4,923	\$ 3,689	\$ 296,124
Accumulated depreciation	-	(68,973)	(12,224)	(3,791)	(2,943)	(87,931)
	<u>\$ 180,796</u>	<u>\$ 20,441</u>	<u>\$ 5,078</u>	<u>\$ 1,132</u>	<u>\$ 746</u>	<u>\$ 208,193</u>

The above assets were not pledged to others as collateral.

(14) Accounts payable

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Due to reinsurers and ceding companies	\$ 197,899	\$ 171,583
Other payables	211,971	145,557
	<u>\$ 409,870</u>	<u>\$ 317,140</u>

(15) Employee benefits

A. Defined benefit obligation

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

(b) The amounts recognized in the balance sheet are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Present value of defined benefit obligations	(\$ 57,768)	(\$ 55,257)
Fair value of plan assets	56,753	52,115
Net defined benefit liability	<u>(\$ 1,015)</u>	<u>(\$ 3,142)</u>

(c) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2017			
Balance at January 1	(\$ 55,257)	\$ 52,115	(\$ 3,142)
Current service cost	(2,495)	-	(2,495)
Interest (expense) income	(663)	625	(38)
	(58,415)	52,740	(5,675)
Remeasurements:			
Change in demographic assumptions	15	-	15
Change in financial assumptions	(502)	-	(502)
Experience adjustments	1,134	(99)	1,035
	647	(99)	548
Pension fund contribution	-	4,112	4,112
Paid pension	-	-	-
Balance at December 31	(\$ 57,768)	\$ 56,753	(\$ 1,015)
	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2016			
Balance at January 1	(\$ 64,102)	\$ 56,087	(\$ 8,015)
Current service cost	(3,136)	-	(3,136)
Interest (expense) income	(801)	701	(100)
	(68,039)	56,788	(11,251)
Remeasurements:			
Change in demographic assumptions	123	-	123
Change in financial assumptions	4,320	-	4,320
Experience adjustments	(215)	(327)	(542)
	4,228	(327)	3,901
Pension fund contribution	-	4,208	4,208
Paid pension	8,554	(8,554)	-
Balance at December 31	(\$ 55,257)	\$ 52,115	(\$ 3,142)

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or

foreign real estate securitization products, etc.). With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. The constitution of fair value of plan assets as of December 31, 2017 and 2016 is given in the Annual Labor Retirement Fund Utilization Report announced by the government. Overall expected return on plan assets is an estimate based on historical return trends, forecasts on the overall obligation return, and the handling status of labor pension funds by the Bureau of Labor Funds, as well as taking into consideration the impact that minimum earnings should be no less than earnings from the interest rates of a two-year time deposits offered by local banks.

(e)The principal actuarial assumptions used are as follows:

	Year ended <u>December 31, 2017</u>	Year ended <u>December 31, 2016</u>
Discount rate	1.07%	1.20%
Salary increment	2.00%	2.00%
Assumptions regarding the mortality and the disability rates are set based on Taiwan Standard Ordinary Experience Mortality Table.		
Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis is as follows:		

	Year ended <u>December 31, 2017</u>	Year ended <u>December 31, 2016</u>
Discount rate increase 0.5%	(\$ 1,677)	(\$ 1,670)
Discount rate decrease 0.5%	2,034	2,216
Salary increment increase 0.5%	2,004	2,187
Salary increment decrease 0.5%	(1,672)	(1,666)

The sensitivity analysis above is based on the condition that only one assumption is changed while all other assumptions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The method and assumption used in preparing the current year sensitivity analysis are identical with those of the prior year.

(f)Expected contributions to the defined benefit pension plans of the Company in the year ending December 31, 2018 amounts to \$4,111.

B. Defined contribution plan

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

(b)The pension costs under the above-mentioned pension plan of the Company for the years ended December 31, 2017 and 2016 were \$6,506 and \$6,350 respectively.

(16) Common stock

As of December 31, 2017 and 2016, the Company's authorized capital were \$6,000,000, and the paid-in capital were \$5,622,750, with a par value of \$10 (in dollars) per share.

(17) Capital reserve

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to

issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient. However, according to Jin-Kuan-Bao-Tsai Letter No. 10202501991, for the purpose of strengthening the solvency and operation, insurance companies having no deficit should submit relevant documents demonstrating the financial soundness and steady operation of their companies to FSC for approval before the stockholders' meeting if they propose to use legal reserve provided under Article 145-1 of Insurance Act and capital surplus to issue cash to shareholders in proportion to their share ownership in accordance with Article 241 of the R.O.C. Company Act.

(18) Retained earnings

A. Limitation on distribution of retained earnings and dividend policy

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

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

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

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

B. Special reserve

	December 31, 2017	December 31, 2016
Equalization reserve	\$ 1,565,887	\$ 1,307,604
Unrealized revaluation increment	126,557	126,557
Deduction of other equity	131,439	-
Employees' education and training	3,829	-
	<u>\$ 1,827,712</u>	<u>\$ 1,434,161</u>

(a) According to regulations, the Company should set aside special reserve equal to the deducted amount of the equity from earnings after tax of the current year and the unappropriated earnings of the prior period. For the deducted amount from the equity accumulated from prior periods, an equal amount of special reserve should be set aside from unappropriated earnings of the

prior period and is not to be distributed. If there is a reversal of deducted amount of equity, earnings may be distributed based on the reversal. For the year 2016, the other equity item of the Company had the debit balance of \$131,439, which has been set aside as special reserve under equity as approved by the stockholders in 2017.

- (b) For the years 2017 and 2016, the provision for equalization reserve amounting to \$258,283 and \$239,638, respectively, had been recognized as special reserve under equity upon annual resolution and is not available for distribution.
 - (c) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Kuan-Zheng-Fa Order No. 1010012865, dated April 6, 2012 and Jin-Kuan-Bao-Tsai Order No. 10102508861, dated June 5, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently. The Company had transferred the amount of \$126,557 of unrealized gain from real estate value-added to special reserve under equity.
 - (d) In accordance with the regulations of Jin-Kuan-Bao-Tsai Order No. 10502066461 promulgated on July 13, 2016, upon appropriating the earnings of 2016 through 2018, the Company shall provision 0.5% of income after tax as special reserve. And starting from the subsequent year of the provision of such special reserve, special reserve as mentioned above may be reversed in an amount equal to expenditures that were for employees' education and training and for the protection of employees' interest. The Company had transferred the amount of \$3,829 for expenditures that were for employees' education and training and for the protection of employees' interest to special reserve under equity as approved by the stockholders in 2016.
- C. On May 31, 2017, the distribution of earnings for 2016 resolved by stockholders was \$281,138 (cash dividend of \$0.5 (in dollars) per share). On March 21, 2018, the Board of Directors proposed that total stock dividends for the distribution of earnings for 2017 was \$281,138 (stock dividend of \$0.5 (in dollars) per share) and total cash dividends was \$562,275 (cash dividend of \$1 (in dollars) per share).
- Earnings appropriation for 2017 has not yet been ratified at the stockholders' meeting as of the reporting date. Detailed information on earnings appropriation resolved by the Board of Directors and ratified at the stockholders' meeting is posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.
- D. For information relating to employees' compensation and directors' remuneration, please see Note 6 (20).

(19) Income tax

A.Components of income tax expense:

	Years ended December 31, 2017	Years ended December 31, 2016
Current income tax:		
Current income tax on profits for the year	\$ 327,605	\$ 187,641
Adjustments in respect of prior years	3,826	(770)
Deferred income tax:		
Origination and reversal of temporary difference	(26,733)	(39,940)
Income tax expense	<u>\$ 304,698</u>	<u>\$ 146,931</u>

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

	Year ended December 31, 2017	Year ended December 31, 2016
Exchange differences on translation of foreign financial statements	(\$ 15,326)	(\$ 1,876)
Changes in fair value of available-for-sale financial assets	121,097	(26,494)
Remeasurement of defined benefit obligations	93	663
	<u>\$ 105,864</u>	<u>(\$ 27,707)</u>

C.Reconciliation between income tax expense and accounting profit:

	Year ended December 31, 2017	Year ended December 31, 2016
Tax calculated based on profit before tax and statutory tax rate	\$ 288,007	\$ 155,163
Impact of tax adjustments by tax regulations	12,865	(7,462)
Prior year income tax (over) underestimation	3,826	(770)
Income tax expense	<u>\$ 304,698</u>	<u>\$ 146,931</u>

D.Amounts of deferred tax assets or liabilities as a result of temporary difference are as follows:

	2017			
	<u>January 1</u>	<u>Recognized in profit or loss</u>	<u>Recognized in other comprehensive income</u>	<u>December 31</u>
Deferred tax assets				
Unrealized loss on valuation of available-for-sale financial assets	\$38,290	\$ -	(\$ 38,290)	\$ -
Allowance for bad debt exceeding limit	7,491	-	-	7,491
Unrealized loss on valuation of financial assets	3,373	(3,373)	-	-
Employee benefits-pension expence	1,227	-	(93)	1,134
Employee benefits-unused compensated absences	1,365	(17)	-	1,348
Unrealized foreign exchange losses	7,518	36,139	-	43,657
Exchange differences on translation of foreign financial statements	<u>1,876</u>	<u>-</u>	<u>15,326</u>	<u>17,202</u>
	<u>\$61,140</u>	<u>\$ 32,749</u>	<u>(\$ 23,057)</u>	<u>\$ 70,832</u>
Deferred tax liabilities				
Gain on revaluation of land	\$41,555	\$ -	\$ -	\$ 41,555
Unrealized profit on valuation of available-for-sale financial assets	-	-	82,807	82,807
Unrealized profit on valuation of financial assets	<u>-</u>	<u>6,016</u>	<u>-</u>	<u>6,016</u>
	<u>\$41,555</u>	<u>\$ 6,016</u>	<u>\$ 82,807</u>	<u>\$ 130,378</u>

	2016			
	<u>January 1</u>	<u>Recognized in profit or loss</u>	<u>Recognized in other comprehensive income</u>	<u>December 31</u>
Deferred tax assets				
Unrealized loss on valuation of available-for-sale financial assets	\$11,796	\$ -	\$ 26,494	\$ 38,290
Allowance for bad debt exceeding limit	7,491	-	-	7,491
Unrealized loss on valuation of financial assets	5,645	(2,272)	-	3,373
Employee benefits-pension expence	1,890	-	(663)	1,227
Employee benefits-unused compensated absences	1,302	63	-	1,365
Unrealized foreign exchange losses	-	7,518	-	7,518
Exchange differences on translation of foreign financial statements	-	-	1,876	1,876
	<u>\$28,124</u>	<u>\$ 5,309</u>	<u>\$ 27,707</u>	<u>\$ 61,140</u>
Deferred tax liabilities				
Gain on revaluation of land	\$41,555	\$ -	\$ -	\$ 41,555
Unrealized foreign exchange gains	34,631	(34,631)	-	-
	<u>\$76,186</u>	<u>(\$ 34,631)</u>	<u>\$ -</u>	<u>\$ 41,555</u>

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

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

G.Under the amendments to the Income Tax Act which were promulgated by the President of the Republic of China on February 7, 2018, the Integrated Income Tax System is abolished, the imputation credit account is no longer applicable and business income tax is raised from 17% to 20% effective January 1, 2018. As of December 31, 2016, the balance of the imputation tax credit account was \$133,900. The creditable tax rate was 27.42% for the year ended December 31, 2016.

(20) Employee benefits expense, depreciation and amortization

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

Expense \ Function	Year ended December 31, 2017		Year ended December 31, 2016	
	Operating Costs	Operating Expenses	Operating Costs	Operating Expenses
Employee benefits expense	\$ -	\$ 251,964	\$ -	\$ 191,337
Salaries	-	198,278	-	162,421
Employees' insurance	-	11,464	-	11,121
Pension	-	33,511	-	9,586
Other employee benefits expense (Note 1)	-	8,711	-	8,209
Depreciation (Note 2)	2,525	6,518	2,572	6,427
Amortisation	-	1,558	-	1,601

As of December 31, 2017 and 2016, the Company had 139 and 136 employees, respectively.

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

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

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

B. The Company's estimated employees' compensation of \$14,304 and \$6,175 for the years ended December 31, 2017 and 2016, respectively, were determined from earnings and the distribution in the past on a pro-rata basis, which fell within the scope of the Company's Articles of Incorporation's requirements. The Company's estimated directors' remuneration for the years ended December 31, 2017 and 2016 were \$3,900 and \$2,700, respectively. The estimates, which fell within the scope of the Company's Articles of Incorporation's requirements, were determined from earnings and the past distribution experiences in the tenure of directors. The aforementioned amounts were recognized in salary expenses.

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

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

(21) Supplemental cash flow information

Investing activities with partial cash payments:

	Year ended December 31, 2017	Year ended December 31, 2016
Increase in investment	(\$ 11,018,042)	(\$ 19,509,793)
Decrease in investment	10,892,069	16,646,532
Add: Ending balance of payable on investment	87,420	52,512
Opening balance of receivable on investment	8,443	115,224
Less: Opening balance of payable on investment	(52,512)	(51,980)
Ending balance of receivable on investment	(148,003)	(8,443)
Net cash flows used in investments	(\$ 230,625)	(\$ 2,755,948)

7. RELATED PARTY TRANSACTIONS

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

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

(2) Significant related party transactions and balances

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

	December 31, 2017	December 31, 2016
Other related parties	\$ 309	\$ 97

B. Other payables (shown under accounts payable)

	December 31, 2017	December 31, 2016
Parent	\$ 1,219	\$ 1,465

C. Operating revenues and operating costs

	Year ended December 31, 2017	Year ended December 31, 2016
Other related parties		
Gross premiums written	\$ 14,135	\$ 26,390
Reinsurance premiums ceded	909	1,057
Reinsurance commission expenses	4,852	6,970
Reinsurance commission revenue	(51)	(54)
Reinsurance claims paid	11,392	26,113
Reinsurance claims recovery	192	(138)

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

D. Operating expenses

	Year ended December 31, 2017	Year ended December 31, 2016
Parent		
System service charge, fees paid to stock transfer agent and printing expenses, etc.	\$ 14,053	\$ 14,341
(3) <u>Key management compensation</u>		
	Year ended December 31, 2017	Year ended December 31, 2016
Salaries and other short-term employee benefits	\$ 37,279	\$ 28,503
Post-employment benefits	25,126	621
	<u>\$ 62,405</u>	<u>\$ 29,124</u>

8. PLEDGED ASSETS

Please see Note 6 (4).

9. COMMITMENTS

None.

10. SIGNIFICANT ACCIDENTAL LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

For information relating to the Amendments on Taiwan Income Tax Act published on February 7, 2018, please see Note 6 (19).

12. OTHERS

(1) Fair value information

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

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

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

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

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

active market and investment property is included in Level 3.

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

<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Non-derivative financial instruments				
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Listed and over-the-counter common stocks	\$ 503,195	\$ -	\$ -	\$ 503,195
Financial assets designated as at fair value through profit or loss on initial recognition				
Mandatory convertible corporate bonds	-	-	327,786	327,786
Available-for-sale financial assets				
Securitized real estate products	524,734	-	-	524,734
Index funds	245,574	-	-	245,574
Government bonds	-	783,984	-	783,984
Listed and over-the-counter common stocks	3,917,715	-	-	3,917,715
Listed and over-the-counter preferred stocks	-	23,348	-	23,348
Open-end funds	256,027	-	-	256,027
Corporate bonds	-	145,757	-	145,757
Derivative financial instruments				
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
FX swap contracts	\$ -	\$ 29,528	\$ -	\$ 29,528
Forward foreign exchange contracts	-	11,502	-	11,502
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
FX swap contracts	-	1,282	-	1,282
Forward foreign exchange contracts	-	12,008	-	12,008

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

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

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

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

- (b)Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques method can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted from Reuters).
- (c)When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market and swap contracts, the Company adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.
- (d)For high-complexity financial instruments, the fair value is measured by using self-developed valuation model based on the valuation method and technique widely used within the same industry. The valuation model is normally applied to derivative financial instruments, debt instruments with embedded derivatives or securitized instruments. Certain inputs used in the valuation model are not observable at market, and the Company must make reasonable estimates based on its assumptions. The effect of unobservable inputs to the valuation of financial instruments is provided in Note 12 (1) I.
- (e)The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques. Forward exchange contracts are usually valued based on the current forward exchange rate.
- (f)The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Company's financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Company's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial instruments at the balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.
- (g)The Company takes into account adjustments for credit risks to measure the fair value of financial instruments to reflect credit risk of the counterparty and the Company's credit quality.

E.For the years ended December 31, 2017 and 2016, there were no transfer between Level 1 and Level 2.

F. The following table presents the changes in level 3 instruments for the years ended December 31, 2017 and 2016:

Year ended December 31, 2017								
		Gain or loss on valuation		Acquired in the period		Disposed of in the period		
		Recognized	Recognized in		Transfers	Sell,	Transfers	
	Opening	in profit or	other	Buy or	into	disposal	out	Ending
	balance	loss	comprehensive	issuance	level 3	or	from	balance
			income			settle	level 3	
Financial assets at fair value through profit or loss								
Financial assets designated as at fair value through profit or loss on initial recognition	\$ 431,568	(\$ 103,782)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 327,786

Year ended December 31, 2016								
		Gain or loss on valuation		Acquired in the period		Disposed of in the period		
		Recognized	Recognized in		Transfers	Sell,	Transfers	
	Opening	in profit or	other	Buy or	into	disposal	out	Ending
	balance	loss	comprehensive	issuance	level 3	or	from	balance
			income			settle	level 3	
Financial assets at fair value through profit or loss								
Financial assets designated as at fair value through profit or loss on initial recognition	\$ 455,027	(\$ 23,459)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 431,568

Gain or loss on valuation recognized in profit or loss arising from the assets held for the years ended December 31, 2017 and 2016 was (\$103,782) and (\$23,459), respectively.

G. For the years ended December 31, 2017 and 2016, there were no transfer into or out from Level 3.

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

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

	<u>Fair value at December 31, 2017</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Hybrid instrument:					
Financial assets at fair value through profit or loss					
Financial assets designated as at fair value through profit or loss on initial recognition					
Domestic mandatory convertible corporate bonds (Note)	\$ 372,786	The binary tree stock discount model of convertible bonds	Liquidity premium	3.19%	Liquidity premium lower, fair value higher

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

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

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

	December 31, 2017		December 31, 2016	
	Change in fair value recognized in profit and loss		Change in fair value recognized in profit and loss	
	Favorable	Unfavorable	Favorable	Unfavorable
Hybrid instrument:				
Financial assets at fair value through profit or loss				
Financial assets designated as at fair value through profit or loss on initial recognition	\$ 1,734	(\$ 1,709)	\$ 4,911	(\$ 4,804)

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

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

	December 31, 2017				December 31, 2016			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Non-derivative financial instruments								
Investments in debt instruments								
without active market	\$4,532,786	\$ -	\$3,325,652	\$1,181,373	\$4,720,927	\$ -	\$3,457,942	\$1,218,754
Held-to-maturity financial assets	2,885,915	-	2,873,146	-	1,186,282	-	1,167,856	-

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

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

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

Assets	December 31, 2017			December 31, 2016		
	Book value	Within 12 months	Over 12 months	Book value	Within 12 months	Over 12 months
Cash and cash equivalents	\$ 16,772,180	\$ 16,772,180	\$ -	\$ 15,588,709	\$ 15,588,709	\$ -
Accounts receivable	281,681	281,681	-	116,044	116,044	-
Financial assets at fair value through profit or loss	872,011	544,225	327,786	773,557	337,376	436,181
Available-for-sale financial assets	5,419,337	4,967,398	451,939	6,004,823	5,525,463	479,360
Investments in debt instruments without active market	4,532,786	897,202	3,635,584	4,720,927	770,803	3,950,124
Held-to-maturity financial assets	2,456,248	501,838	1,954,410	748,490	81,366	667,124
Other financial assets	684,362	639,362	45,000	206,259	206,259	-
Investment property	452,411	-	452,411	454,638	-	454,638
Reinsurance contract assets	3,726,066	3,024,956	701,110	3,624,254	2,786,812	837,442
Property and equipment	206,745	-	206,745	208,193	-	208,193
Intangible assets	922	-	922	2,480	-	2,480
Other assets	1,034,840	8,524	1,026,316	1,078,718	5,217	1,073,501
Liabilities						
Accounts payable	\$ 409,870	\$ 409,869	\$ 1	\$ 317,140	\$ 316,601	\$ 539
Current income tax liabilities	217,574	217,574	-	81,327	81,327	-
Financial liabilities at fair value through profit or loss	13,290	13,290	-	25,879	25,879	-
Insurance liabilities	24,430,514	13,389,118	11,041,396	23,594,638	13,203,787	10,390,851
Provisions	21,013	-	21,013	3,142	-	3,142
Other liabilities	36,310	34,044	2,266	25,342	22,525	2,817

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

Year ended December 31, 2017					
Category of insurance	Gross premiums written (1)	Reinsurance premiums ceded (2)	Retention premiums (3)=(1)-(2)	Net change in unearned premium reserve (4)	Retention earned premiums (5)=(3)-(4)
Non-Compulsory insurance	\$ 12,068,113	\$ 907,604	\$ 11,160,509	\$ 138,719	\$ 11,021,790
Compulsory insurance	2,495,933	-	2,495,933	41,450	2,454,483
	<u>\$ 14,564,046</u>	<u>\$ 907,604</u>	<u>\$ 13,656,442</u>	<u>\$ 180,169</u>	<u>\$ 13,476,273</u>
Year ended December 31, 2016					
Category of insurance	Gross premiums written (1)	Reinsurance premiums ceded (2)	Retention premiums (3)=(1)-(2)	Net change in unearned premium reserve (4)	Retention earned premiums (5)=(3)-(4)
Non-Compulsory insurance	\$ 11,629,757	\$ 908,830	\$ 10,720,927	\$ 107,097	\$ 10,613,830
Compulsory insurance	2,411,994	-	2,411,994	36,437	2,375,557
	<u>\$ 14,041,751</u>	<u>\$ 908,830</u>	<u>\$ 13,132,921</u>	<u>\$ 143,534</u>	<u>\$ 12,989,387</u>

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

Year ended December 31, 2017			
Category of insurance	Reinsurance claims paid (1)	Reinsurance claims recovery (2)	Retention reinsurance claims paid (3)=(1)-(2)
Non-Compulsory insurance	\$ 5,983,716	\$ 541,161	\$ 5,442,555
Compulsory insurance	2,126,252	-	2,126,252
	<u>\$ 8,109,968</u>	<u>\$ 541,161</u>	<u>\$ 7,568,807</u>
Year ended December 31, 2016			
Category of insurance	Reinsurance claims paid (1)	Reinsurance claims recovery (2)	Retention reinsurance claims paid (3)=(1)-(2)
Non-Compulsory insurance	\$ 5,852,774	\$ 437,881	\$ 5,414,893
Compulsory insurance	2,458,280	-	2,458,280
	<u>\$ 8,311,054</u>	<u>\$ 437,881</u>	<u>\$ 7,873,173</u>

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

	December 31, 2017	December 31, 2016
Assets		
Cash and cash equivalents	\$ 4,580,461	\$ 4,213,427
Due from reinsurers and ceding companies	413,678	399,816
	<u>\$ 4,994,139</u>	<u>\$ 4,613,243</u>
Liabilities		
Unearned premium reserve	\$ 1,484,563	\$ 1,443,113
Claims reserve	2,130,957	2,086,571
Equalization reserve	1,378,619	1,083,559
	<u>\$ 4,994,139</u>	<u>\$ 4,613,243</u>

Note: As of December 31, 2017 and 2016, certain time deposits, which amounted to \$662,200 and \$167,486 included above as cash and cash equivalents of compulsory automobile liability insurance did not meet the definition of cash equivalents, consequently they are presented under other financial assets.

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

	Year ended December 31, 2017	Year ended December 31, 2016
Operating revenues		
Reinsurance premiums	\$ 2,495,933	\$ 2,411,994
Net change in unearned premium reserve	(41,450)	(36,437)
Retention earned premiums	2,454,483	2,375,557
Interest income	11,215	13,311
	<u>\$ 2,465,698</u>	<u>\$ 2,388,868</u>
Operating costs		
Reinsurance claims paid	\$ 2,126,252	\$ 2,458,280
Net change in claims reserve	44,386	48,395
Net change in equalization reserve	295,060	(117,807)
	<u>\$ 2,465,698</u>	<u>\$ 2,388,868</u>

13. RISK MANAGEMENT

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

(1) Financial instruments

A. Financial risk management policies

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

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

B. Significant financial risks and degrees of financial risks

(a) Market risk

i. Foreign exchange risk

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

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

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

	December 31, 2017		
	Foreign currency amount (in thousands)	Exchange rate	Book value
Assets			
Monetary items			
CAD	3,301	23.798	\$ 78,563
CNY	524,058	4.577	2,398,689
EUR	3,385	35.707	120,858
HKD	279,306	3.819	1,066,732
JPY	719,723	0.265	190,750
USD	197,601	29.848	5,897,997
Non-monetary items			
CNY	272,864	4.577	1,248,937
HKD	323,226	3.819	1,234,471
USD	20,879	29.848	623,192
Liabilities			
Monetary items			
CNY	124,747	4.577	570,983
HKD	22,497	3.819	85,920
INR	345,460	0.467	161,359
JPY	428,049	0.265	113,447
KRW	4,880,140	0.028	136,467
USD	65,940	29.848	1,968,192

December 31, 2016			
	Foreign currency		
	amount (in thousands)	Exchange rate	Book value
Assets			
Monetary items			
CNY	412,601	4.645	\$ 1,916,392
EUR	4,325	33.928	146,740
HKD	53,793	4.162	223,909
JPY	676,577	0.276	186,533
KRW	1,944,575	0.027	52,054
USD	137,160	32.279	4,427,388
Non-monetary items			
CAD	2,526	23.919	60,415
CNY	205,940	4.645	956,522
HKD	355,328	4.162	1,479,017
JPY	1,411,731	0.276	389,215
USD	14,671	32.279	473,567
Liabilities			
Monetary items			
CNY	110,432	4.645	512,921
IDR	15,732,879	0.002	37,738
INR	130,140	0.475	61,846
JPY	614,704	0.276	169,474
KRW	4,955,964	0.027	132,667
SGD	1,983	22.309	44,235
USD	42,918	32.279	1,385,347

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

	Year ended December 31, 2017	Year ended December 31, 2016
Foreign currencies to NTD appreciate by 1%	\$ 67,431	\$ 44,273
Foreign currencies to NTD depreciate by 1%	(67,431)	(44,273)

ii. Price risk

- a) The values of financial instruments may be changed by economic situations, industrial circumstances, market capital flows and government monetary policies. To hedge market value risk exposures, the Company adopts diversified assets allocation strategy taking into account the current trends of financial markets to flexibly adjust assets portfolio under the provisions of Article 146 (1) ~ (8) of the Insurance Act, regulating the limits of funds utilization ratios and accordingly, disperse the market value risk.
- b) The Company adopts the FX swap contracts and forward foreign exchange contracts to hedge exchange rate fluctuations risk on foreign-currency denominated assets. As the gain (loss) arising from exchange rate changes will mostly offset against the loss (gain) on hedged objectives, the Company estimates no material market value risk would arise. The Company is exposed to price risk because of investments in Taiwan Stock Index Futures, which have fair value in the active market. The Company sets limits to control the transaction volume and stop-loss amount of derivatives to reduce its market risk.
- c) The Company's investments comprise equity securities and REITs, etc. Their fair value would change due to the change of the prices of equity securities. If the prices of these equity securities and REITs had increased/decreased by 1% with all other variables held constant, pre-tax profit for the years ended December 31, 2017 and 2016 would have increased/decreased by \$5,032 and \$3,062, respectively, as a result of gains on equity securities classified as at fair value through profit or loss. Other components of other comprehensive income would have increased/decreased by \$49,674 and \$55,255, respectively, as a result of gains on equity securities classified as available-for-sale.

iii. Interest rate risk

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

December 31, 2017			
	Changes in variables	Changes in profit or loss	Changes in other comprehensive income
Financial assets at fair value through profit or loss	Increase/decrease 50 basis points	Decrease \$1,709/Increase \$1,734	-
Available-for-sale financial assets	Increase/decrease 50 basis points	-	Decrease \$22,838/Increase \$22,838
December 31, 2016			
	Changes in variables	Changes in profit or loss	Changes in other comprehensive income
Financial assets at fair value through profit or loss	Increase/decrease 50 basis points	Decrease \$4,841/Increase \$4,948	-
Available-for-sale financial assets	Increase/decrease 50 basis points	-	Decrease \$28,128/Increase \$28,128

(b)Credit risk

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

Assets are neither past due nor impaired									
Credit rating									
	S&P AAA or equivalents	Over S&P AA- or equivalents	Over S&P A- or equivalents	Over S&P BBB- or equivalents	Over S&P BB- or equivalents	Without credit rating etc. (Note)	Impaired assets	Impairment reserve	Total
<u>December 31, 2017</u>									
Financial assets at fair value through profit or loss	\$ -	\$ -	\$ -	\$ -	\$ 327,786	\$ -	\$ -	\$ -	\$ 327,786
Available-for-sale financial assets	395,753	533,988	-	-	-	-	-	-	929,741
Investments in debt instruments without active market	743,642	1,026,781	2,359,131	403,232	-	-	-	-	4,532,786
Held-to-maturity financial assets	<u>231,338</u>	<u>711,846</u>	<u>1,492,731</u>	<u>450,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,885,915</u>
	<u>\$ 1,370,733</u>	<u>\$ 2,272,615</u>	<u>\$ 3,851,862</u>	<u>\$ 853,232</u>	<u>\$ 327,786</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,676,228</u>
<u>December 31, 2016</u>									
Financial assets at fair value through profit or loss	\$ -	\$ -	\$ -	\$ -	\$ 431,568	\$ 4,613	\$ -	\$ -	\$ 436,181
Available-for-sale financial assets	155,680	804,350	-	-	-	-	-	-	960,030
Investments in debt instruments without active market	897,852	1,246,842	1,973,636	402,597	200,000	-	-	-	4,720,927
Held-to-maturity financial assets	<u>-</u>	<u>936,282</u>	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,186,282</u>
	<u>\$ 1,053,532</u>	<u>\$ 2,987,474</u>	<u>\$ 1,973,636</u>	<u>\$ 652,597</u>	<u>\$ 631,568</u>	<u>\$ 4,613</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,303,420</u>

Note: Domestic convertible corporate bonds.

(c)Liquidity risk

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

a)Non-derivative financial liabilities

December 31, 2017	Due in one year	Due after one year through three years	Total
Accounts payable	\$ 409,869	\$ 1	\$ 409,870
Deposits-in (under other liabilities)	2,586	2,266	4,852
December 31, 2016	Due in one year	Due after one year through three years	Total
Accounts payable	\$ 316,601	\$ 539	\$ 317,140
Deposits-in (under other liabilities)	2,048	2,817	4,865

b)Net-settled derivative financial liabilities

December 31, 2017	Due in three months	Due after three months through one year	Total
FX swap contracts	\$ 976	\$ 306	\$ 1,282
Forward foreign exchange contract	12,008	-	12,008
December 31, 2016	Due in three months	Due after three months through one year	Total
FX swap contracts	\$ 21,559	\$ 361	\$ 21,920
Forward foreign exchange contract	3,959	-	3,959

(2) Risk management of insurance contracts

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

A.Measurement and management of insurance risk:

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

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

(a)Underwriting policy

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

(b)Retrocession strategy

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

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

B.Concentration of insurance risk

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

Type \ Year	Year ended December 31, 2017		Year ended December 31, 2016	
	Reinsurance premiums	Retention premiums	Reinsurance premiums	Retention premiums
Domestic inward property reinsurance business	62.61%	61.93%	62.33%	61.67%
Domestic inward life reinsurance business	25.66%	26.06%	27.66%	28.18%
Subtotal-Domestic inward reinsurance business	88.27%	87.99%	89.99%	89.85%
Foreign inward reinsurance business	11.73%	12.01%	10.01%	10.15%
Total	100.00%	100.00%	100.00%	100.00%

C.Sensitivity analysis of insurance risk

The retention earned premium income of the Company (excluding the compulsory automobile liability insurance business) for the years ended December 31, 2017 and 2016 were \$11,021,790 and \$10,613,830, respectively. If the change of combined ratio of the Company is 1%, the estimated effect on gains and losses of underwriting for the years ended December 31, 2017 and 2016 would be approximately \$110,217 and \$106,138, respectively.

D.Loss development pattern

(a)As of December 31, 2017, the following table indicates the loss development pattern of the Company's inward business:

<u>Year of underwriting</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Non-statutory insurance							
Accumulated estimated claim amount							
At the end of the year	\$ 4,333,245	\$ 5,222,485	\$ 4,482,819	\$ 5,067,741	\$ 4,823,223	\$ 4,676,211	
After the first year	7,341,226	9,666,215	7,292,566	7,521,055	7,371,808		
After the second year	7,077,263	9,033,742	6,837,791	7,049,813			
After the third year	6,703,107	8,812,908	6,618,827				
After the fourth year	6,486,307	8,732,883					
After the fifth year	<u>6,420,054</u>						
Accumulated estimated claim amount	6,420,054	8,732,883	6,618,827	7,049,813	7,371,808	4,676,211	\$ 40,869,596
Accumulated claim payment	(5,895,290)	(8,002,460)	(5,835,729)	(5,564,829)	(4,719,541)	(615,464)	(30,633,313)
Accumulated unpaid claim	524,764	730,423	783,098	1,484,984	2,652,267	4,060,747	10,236,283
Add: accumulated unpaid claim before 2011							<u>2,300,728</u>
Subtotal							<u>12,537,011</u>
Provision for statutory insurance claims reserve (Note)	-	-	39,306	301,981	958,448	831,917	<u>2,131,652</u>
Recognition in balance sheet (under claims reserve of insurance liabilities)							<u>\$ 14,668,663</u>

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

(b)As of December 31, 2017, the following table indicates the loss development pattern of the Company's retention business:

<u>Year of underwriting</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Non-statutory insurance							
Accumulated estimated claim amount							
At the end of the year	\$ 4,062,535	\$ 4,924,699	\$ 4,218,773	\$ 4,796,487	\$ 4,501,311	\$ 4,427,596	
After the first year	6,797,370	9,076,191	6,809,108	7,012,164	6,787,551		
After the second year	6,596,777	8,505,546	6,420,151	6,605,203			
After the third year	6,262,364	8,296,211	6,214,332				
After the fourth year	6,048,963	8,215,613					
After the fifth year	<u>5,984,878</u>						
Accumulated estimated claim amount	5,984,878	8,215,613	6,214,332	6,605,203	6,787,551	4,427,596	\$ 38,235,173
Accumulated claim payment	(5,481,925)	(7,504,053)	(5,462,548)	(5,179,433)	(4,341,019)	(589,692)	(28,558,670)
Accumulated unpaid claim	502,953	711,560	751,784	1,425,770	2,446,532	3,837,904	9,676,503
Add: accumulated unpaid claim before 2011							<u>2,159,398</u>
Subtotal							<u>11,835,901</u>
Provision for statutory insurance claims reserve (Note)	-	-	39,306	301,981	958,448	831,917	<u>2,131,652</u>
Recognition in balance sheet							<u>\$ 13,967,553</u>

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

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

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

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

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

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

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

14. THE OBJECTIVE, POLICY AND PROCEDURE OF CAPITAL MANAGEMENT

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

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

In accordance with "Regulations Governing Capital Adequacy of Insurance Companies", capital adequacy ratio is calculated as self-owned capital divided by risk-based capital. Self-owned capital is the total capital approved by the competent authority, which includes recognized owners' equity and other adjustment items as regulated by the competent authority; risk-based capital is the total capital calculated based on the extent of risk that an insurance enterprise assumes in its actual operations. Capital adequacy ratios of the Company as of December 31, 2017 and 2016 were all above 300% and in compliance with regulation.

15. OTHER DISCLOSURES

(1) Information of significant transactions

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

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

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

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

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

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

(2) Information related to long-term investments

None.

(3) Investments in Mainland China and business transactions

None.

16. SEGMENT INFORMATION

(1) General information

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

(2) Product information

The Company has only one kind of product; therefore, disclosure of financial information by product is not applicable.

(3) Geographical information

Premium income of the Company from domestic and foreign clients for the years ended December 31, 2017 and 2016 are as follows:

	Year ended <u>December 31, 2017</u>	Year ended <u>December 31, 2016</u>
Domestic inward reinsurance	\$ 12,855,008	\$ 12,635,750
Foreign inward reinsurance	<u>1,709,038</u>	<u>1,406,001</u>
	<u>\$ 14,564,046</u>	<u>\$ 14,041,751</u>

(4) Major customer information

There are specific customers of Compulsory Motor Insurance Pool that contributed over 10% of the total revenue stated on the Company's statement of comprehensive income. In 2017 and 2016, the premium income from these customers amounted to \$2,495,933 and \$2,411,994, constituting 17.14% and 17.18% of the related totals, respectively.

17. BORROWINGS RESULTED FROM PAYMENT OF CLAIMS

None.

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

None.

19. IMPORTANT LAWSUITS IN PROGRESS OR ADJUDICATED

None.

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

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

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

None.

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

None.

23. EFFECTS OF SIGNIFICANT CHANGES IN GOVERNMENT LAWS

None.