Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For The Years Ended
31 December 2015 and 2014
With Independent Auditors' Report

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

Address: 296, Jen Ai Road, Sec. 4, Taipei, Taiwan, R.O.C.
Telephone: 886-2-2755-1399

Index to consolidated financial statements

Independent Auditors' Report

English Translation of a Report Originally Issued in Chinese

The Board of Directors and Shareholders

Cathay Life Insurance Co., Ltd.

We have audited the accompanying consolidated balance sheets of Cathay Life Insurance Co., Ltd. (the "Company") and its subsidiaries (the "Subsidiaries") as of 31 December 2015, 31 December 2014, and 1 January 2014, the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended 31 December 2015 and 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Rules Governing Auditing and Certification of Financial Statement by Certified Public Accountants and auditing standards generally accepted in the Republic of China ("R.O.C."). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of 31 December 2015, 31 December 2014 and 1 January 2014, and the consolidated financial performance and cash flows for the years ended 31 December 2015 and 2014, in conformity with requirements of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprise and International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by the FSC.

As described in Note 3 to the consolidated financial statements, the Company and its subsidiaries prepared the financial reports in accordance with the International Financial Reporting Standards ("IFRS"), International Accounting Standards, and interpretations issued, revised or amended (excluding IFRS 9), which are recognized by the Financial Supervisory Commission and would be applicable for annual periods beginning on or after 1 January 2015. The consolidated financial statements for the year ended 31 December 2014, and the related consolidated balance sheets as of 1 January 2014 and 31 December 2014 were restated retrospectively.

In addition, we have also audited the financial statements of the Company as of and for the years ended 31 December 2015 and 2014, on which we have expressed a modified unqualified opinion for both periods, respectively.

Ernst & Young
Certified Public Accountants
Taipei, Taiwan, R.O.C.
17 March 2016

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Audited consolidated balance sheets

As at 31 December 2015, 31 December 2014 and 1 January 2014

(Expressed in thousands of New Taiwan Dollars)

Assets	Notes	31 December 2015	31 December 2014 (Adjusted)	1 January 2014 (Adjusted)
Cash and cash equivalents	4,6,50,51	$140,897,419	$333,112,783	$282,058,256
Receivables	4,7,50,51	60,358,163	54,561,215	47,633,306
Financial assets at fair value through profit or loss	4,5,8,15,50,51	35,904,243	62,218,866	73,892,698
Available-for-sale financial assets	4,5,9,15,50	1,340,363,856	1,306,108,517	1,277,352,123
Derivative financial assets for hedging	4,5,10,50	447,326	212,898	453,713
Investments accounted for using the equity method – Net	3,4,5,11,50	23,494,040	3,057,444	1,432,360
Debt instrument investments for which no active market exists	4,5,12,15,50,51	1,842,960,278	1,256,567,547	1,023,349,976
Held-to-maturity financial assets	4,5,13,50	24,727,582	25,940,630	1,619,138
Other financial assets – Net	4,5,14,50	18,000,000	39,200,000	40,900,000
Investment property	4,5,16,50,51	453,296,483	397,812,602	345,459,505
Investment property under construction	4,5,16,50,51	3,308,553	12,437,283	15,570,122
Prepayments for buildings and land – Investments	4,5,16,50,51	2,758,288	1,795,276	5,173,152
Loans	4,17,50,51	638,302,971	693,095,163	635,863,840
Reinsurance assets	4,18,50,51	664,054	287,641	683,457
Property and equipment	4,19,50,51	27,342,746	26,793,682	36,669,572
Intangible assets	4,20,50	47,605,978	157,619	184,090
Deferred tax assets	3,4,5,39,50	11,519,847	13,002,962	11,691,034
Other assets	21,22,50,51,52	27,560,320	16,347,581	18,459,723
Separate account product assets	4,41,50	480,568,361	462,266,776	376,252,736
Total assets		$5,180,080,508	$4,704,976,485	$4,194,698,801

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Audited consolidated balance sheets - (continued)

As at 31 December 2015, 31 December 2014 and 1 January 2014

(Expressed in thousands of New Taiwan Dollars)

Liabilities and equity	Notes	31 December 2015	31 December 2014 (Adjusted)	1 January 2014 (Adjusted)
Short-term debts	50	$61,104	$232,616	$-
Payables	23,50,51	20,143,339	23,998,403	19,025,676
Financial liabilities at fair value through profit or loss	4,5,24,50	38,859,128	49,783,588	16,148,024
Derivative financial liabilities for hedging	4,5	-	-	5,148
Preferred stock liability	25,50,51	15,000,000	30,000,000	30,000,000
Insurance liabilities	4,5,26,50	4,158,087,987	3,698,737,657	3,380,579,907
Reserve for insurance contracts with feature of financial instruments	4,5,26,50	54,002,965	55,094,699	57,596,449
Foreign exchange volatility reserve	4,5,26,50	16,026,449	16,846,406	10,482,181
Provisions	3,4,5,28,50	4,399,449	2,088,438	800,503
Deferred tax liabilities	4,5,39,50	36,980,408	28,851,307	21,281,632
Other liabilities	29,30,50,51	7,716,565	8,694,699	8,632,437
Separate account product liabilities	4,41,50	480,568,361	462,266,776	376,252,736
Total liabilities		4,831,845,755	4,376,594,589	3,920,804,693
Equity attributable to equity holders of the parent				
Capital stock				
Common stock	31	53,065,274	53,065,274	53,065,274
Capital surplus	32	13,028,012	13,029,142	13,038,791
Retained earnings	3,33			
Legal capital reserve		19,560,283	13,038,968	9,897,228
Special capital reserve		227,412,391	174,704,226	38,050,593
Unappropriated retained earnings		36,498,070	30,848,081	121,881,448
Other equity	3	(3,656,933)	41,729,672	37,219,519
Non-controlling interests	33	2,327,656	1,966,533	741,255
Total equity		348,234,753	328,381,896	273,894,108
Total liabilities and equity		$5,180,080,508	$4,704,976,485	$4,194,698,801

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

Cathay Life Insurance Co., Ltd. and Subsidiaries

Audited consolidated statements of comprehensive income

For the years ended 31 December 2015 and 2014

(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	Notes	1 January – 31 December 2015	1 January – 31 December 2014 (Adjusted)
Operating revenue	3,4,51		
Direct premium income	34	$519,852,819	$482,386,644
Reinsurance premium income	34	198,735	200,487
Premium income	34	520,051,554	482,587,131
Deduct: Premiums ceded to reinsurers	34	(1,038,018)	(9,957,496)
Changes in unearned premium reserve	26,34	(763,914)	(780,453)
Retained earned premium	34	518,249,622	471,849,182
Reinsurance commission earned		200,494	4,739,687
Handling fees earned	41	5,762,002	5,942,669
Net investment profits and losses			
Interest income		113,789,284	99,826,116
Losses from financial assets and liabilities at fair value through profit or loss		(63,772,592)	(52,327,274)
Realized gains from available-for-sale financial assets		51,057,581	41,176,081
Realized gains from debt instrument investments for which no active market exists		11,865,939	8,911,444
Realized gains from held-to-maturity financial assets		5	-
Share of the gains (losses) of associates and joint ventures accounted for using the equity method		610,835	(44,855)
Foreign exchange gains		48,901,669	51,960,775
Changes in foreign exchange volatility reserve	26	1,068,276	(6,364,225)
Gains from investment property		20,364,228	26,612,041
Impairment losses on investments and gains on reversal of impairment losses		(8,636)	-
Losses from other investments – Net		(49,962)	(2)
Other operating revenue		914,417	9,258
Separate account product revenue	4,41	17,303,325	115,040,386
Subtotal		726,256,487	767,331,283
Operating costs	4,51		
Insurance claim payments	35	(298,486,061)	(279,980,026)
Deduct: Claims recovered from reinsures	35	384,365	4,785,384
Retained claim payments	35	(298,101,696)	(275,194,642)
Changes in insurance liabilities	26	(305,523,352)	(289,647,685)
Changes in reserve for insurance contracts with feature of financial instruments	26	(340,469)	(461,788)
Brokerage expenses	36	(17,403,743)	(16,240,573)
Commission expenses	36	(15,834,502)	(16,164,680)
Other operating costs		(5,540,802)	(4,544,299)
Finance costs		(295,749)	(105,830)
Separate account product expenses	4,41	(17,303,325)	(115,040,386)
Subtotal		(660,343,638)	(717,399,883)
Operating expenses	3,4,36,51		
Business expenses		(11,481,312)	(8,113,743)
Administrative and general expenses		(11,495,887)	(8,706,094)
Employee training expenses		(43,365)	(49,466)
Subtotal		(23,020,564)	(16,869,303)
Operating income		42,892,285	33,062,097
Non-operating income and expenses	4,37,51	1,264,940	1,481,876
Income from continuing operations before income tax		44,157,225	34,543,973
Income tax expense	3,4,5,39	(5,709,845)	(2,809,797)
Net income from continuing operations		38,447,380	31,734,176
Net income		38,447,380	31,734,176
Other comprehensive income	38		
Not to be reclassified to profit or loss in subsequent periods			
Remeasurements of defined benefit plans	3	(2,140,250)	(1,302,049)
Revaluation surplus		-	902,335
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – not to be reclassified to profit or loss in subsequent periods	3	(163,018)	(961)
Income taxes relating to not to be reclassified to profit or loss in subsequent periods	3	391,276	146,622
To be reclassified to profit or loss in subsequent periods			
Exchange differences resulting from translating the financial statements of foreign operations		358,762	12,177
Unrealized valuation (losses) gains from available-for-sale financial assets		(46,431,841)	24,452,391
Effective portion of gains (losses) on hedging instruments in cash flow hedges		234,720	(235,636)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – to be reclassified to profit or loss in subsequent periods		293,781	89,659
Income taxes relating to be reclassified to profit or loss in subsequent periods		2,147,437	(2,268,097)
Other comprehensive (losses) income, net of tax		(45,309,133)	21,796,441
Total comprehensive (losses) income		$(6,861,753)	$53,530,617
Net income attributable to:			
Equity holders of the parent		$38,242,639	$31,658,643
Non-controlling interests		$204,741	$75,533
Total comprehensive income attributable to:			
Equity holders of the parent		$(7,143,966)	$53,272,159
Non-controlling interests		$282,213	$258,458
Basic earnings per share (in dollars)	3,40		
Net income from continuing operations		$7.21	$5.97

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Audited consolidated statements of changes in equity
For the years ended 31 December 2015 and 2014
(Expressed in thousands of New Taiwan Dollars)

		Equity attributable to equity holders of the parent												
				Retained earnings			Other equity							
Items	Notes	Capital stock	Capital surplus	Legal capital reserve	Special capital reserve	Unappropriated retained earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized valuation gains (losses) from available-for-sale financial assets	Effective portion of (losses) gains on hedging instruments in cash flow hedges	Remeasurements of defined benefit plans	Revaluation surplus	Total	Non-controlling interests	Total
Balance on 1 January 2014		$53,065,274	$13,038,791	$9,897,228	$38,050,593	$121,889,246	$(189,809)	$18,165,426	$372,284	$-	$16,275,754	$270,564,787	$741,255	$271,306,042
Effects on retrospective application and restatement		-	-	-	-	(7,798)	-	-	-	2,595,864	-	2,588,066	-	2,588,066
Balance on 1 January 2014 (Adjusted)	3	53,065,274	13,038,791	9,897,228	38,050,593	121,881,448	(189,809)	18,165,426	372,284	2,595,864	16,275,754	273,152,853	741,255	273,894,108
Special capital reserve recognized in accordance with Order No. Financial-Supervisory-Insurance-Corporate-10302501001		-	-	-	124,002,466	(107,726,712)	-	-	-	-	(16,275,754)	-	-	-
Appropriation and distribution of earnings for the year 2013	33													
Legal capital reserve		-	-	3,141,740	-	(3,141,740)	-	-	-	-	-	-	-	-
Special capital reserve		-	-	-	12,705,121	(12,705,121)	-	-	-	-	-	-	-	-
Special capital reserve used to cover accumulated deficits		-	-	-	(1,684,327)	1,684,327	-	-	-	-	-	-	-	-
Changes in special reserve (Note1)		-	-	-	1,630,373	(1,630,373)	-	-	-	-	-	-	-	-
Changes in other capital surplus														
Changes in amount of associates and joint ventures accounted for using the equity method		-	(9,649)	-	-	-	-	-	-	-	-	(9,649)	-	(9,649)
Net income for the year ended 31 December 2014 (Adjusted)	3	-	-	-	-	31,658,643	-	-	-	-	-	31,658,643	75,533	31,734,176
Other comprehensive income for the year ended 31 December 2014 (Adjusted)	38	-	-	-	-	-	(24,493)	22,087,640	(195,578)	(1,081,662)	827,609	21,613,516	182,925	21,796,441
Total comprehensive income for the year ended 31 December 2014 (Adjusted)		-	-	-	-	31,658,643	(24,493)	22,087,640	(195,578)	(1,081,662)	827,609	53,272,159	258,458	53,530,617
Other		-	-	-	-	827,609	-	-	-	-	(827,609)	-	-	-
Changes in non-controlling interests	33	-	-	-	-	-	-	-	-	-	-	-	966,820	966,820
Balance on 31 December 2014 (Adjusted)	3	53,065,274	13,029,142	13,038,968	174,704,226	30,848,081	(214,302)	40,253,066	176,706	1,514,202	-	326,415,363	1,966,533	328,381,896
Special capital reserve recovered in accordance with Order No. Financial-Supervisory-Insurance-Corporate-10402029580		-	-	-	(10,000,000)	10,000,000	-	-	-	-	-	-	-	-
Special capital reserve recognized in accordance with Order No. Financial-Supervisory-Insurance-Corporate-10402029590	33	-	-	-	34,764,311	-	-	-	-	-	-	34,764,311	-	34,764,311
Appropriation and distribution of earnings for the year 2014	33													
Legal capital reserve		-	-	6,521,315	-	(6,521,315)	-	-	-	-	-	-	-	-
Special capital reserve		-	-	-	26,327,403	(26,327,403)	-	-	-	-	-	-	-	-
Cash dividends on common stock		-	-	-	-	(8,127,481)	-	-	-	-	-	(8,127,481)	-	(8,127,481)
Changes in special reserve (Note1)		-	-	-	1,616,451	(1,616,451)	-	-	-	-	-	-	-	-
Changes in other capital surplus														
Changes in amount of associates and joint ventures accounted for using the equity method		-	(1,130)	-	-	-	-	-	-	-	-	(1,130)	-	(1,130)
Net income for the year ended 31 December 2015		-	-	-	-	38,242,639	-	-	-	-	-	38,242,639	204,741	38,447,380
Other comprehensive income for the year ended 31 December 2015	38	-	-	-	-	-	467,486	(44,136,916)	194,817	(1,911,992)	-	(45,386,605)	77,472	(45,309,133)
Total comprehensive income for the year ended 31 December 2015		-	-	-	-	38,242,639	467,486	(44,136,916)	194,817	(1,911,992)	-	(7,143,966)	282,213	(6,861,753)
Changes in non-controlling interests	33	-	-	-	-	-	-	-	-	-	-	-	78,910	78,910
Balance on 31 December 2015		$53,065,274	$13,028,012	$19,560,283	$227,412,391	$36,498,070	$253,184	$(3,883,850)	$371,523	$(397,790)	$-	$345,907,097	$2,327,656	$348,234,753

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

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Audited consolidated statements of cash flows
For the years ended 31 December 2015 and 2014
(Expressed in thousands of New Taiwan Dollars)

Items	Notes	1 January – 31 December 2015	1 January – 31 December 2014 (Adjusted)
Cash flows from operating activities			
Net income, before tax	3	$44,157,225	$34,543,973
Adjustments:			
Revenue and expense items			
Depreciation	36	720,841	696,204
Amortization	36	1,173,827	70,126
Provision for bad debt expenses		739,951	435,068
Net losses from financial assets and liabilities at fair value through profit or loss		64,202,881	52,534,809
Net gains from available-for-sale financial assets		(31,048,173)	(26,114,989)
Net gains from debt instrument investments for which no active market exists		(11,865,939)	(8,911,444)
Net gains from held-to-maturity financial assets		(5)	-
Interest expenses		51,538	59,078
Interest income		(113,789,284)	(99,826,116)
Dividend income		(20,439,697)	(15,268,626)
Changes in insurance liabilities		334,585,784	318,157,750
Changes in reserve for insurance contracts with feature of financial instruments		(1,091,734)	(2,501,750)
Changes in foreign exchange volatility reserve		(1,068,276)	6,364,225
Share of the gains of associates and joint ventures accounted for using the equity method		(610,835)	44,855
Losses (gains) on disposal or scrapping of property and equipment		582	(222)
Losses on disposal of investments accounted for using the equity method		-	2
Losses (gains) on disposal of investment property		174,281	(2,022,983)
Impairment loss on financial assets		8,636	-
Gains on valuation of investment property		(11,093,687)	(16,578,788)
Subtotal		210,650,691	207,137,199
Changes in operating assets and liabilities			
Decrease in financial assets at fair value through profit or loss		74,741,540	70,874,910
Decrease in derivative financial assets for hedging		292	5,178
(Increase) decrease in available-for-sale financial assets		(40,868,431)	21,810,986
Increase in debt instrument investments for which no active market exists		(519,722,305)	(224,306,128)
Decrease (increase) in held-to-maturity financial assets		1,213,053	(24,321,492)
Increase in premiums receivable		(27,661)	(1,015)
Decrease in notes receivable		234,625	321,240
Decrease (increase) in other accounts receivable		438,999	(4,574,438)
(Increase) decrease in prepaid expenses and other prepayments		(189,063)	65,417
(Increase) decrease in guarantee deposits paid		(19,895,235)	31,419
(Increase) decrease in reinsurance assets		(245,436)	395,816
Decrease in other financial assets		21,200,000	1,700,000
(Increase) decrease in other assets		(1,904,958)	715,260
Decrease in financial liabilities at fair value through profit or loss		(109,210,847)	(76,800,277)
Decrease in derivative financial liabilities for hedging		-	(5,148)
Decrease in notes payable		(26,370)	(13)
Increase in life insurance proceeds payable		112,428	101,472
(Decrease) increase in other payables		(5,620,014)	4,770,806
Increase (decrease) in due to reinsurers and ceding companies		280,088	(396,592)
Decrease in reinsurance proceeds payable		-	(8,952)
(Decrease) increase in commissions payable		(325,450)	457,347
Increase in accounts collected in advance		63,321	95,326
Increase in guarantee deposits received		80,389	464,006
Decrease in provisions		(16,427)	(140,227)
Decrease in deferred handling fees		(11,877)	(14,512)
Decrease in other liabilities		(1,588,587)	(440,993)
Increase in provision for employee benefits		116,934	126,112
Subtotal		(601,170,992)	(229,074,492)
Cash (used in) generated from operating activities		(346,363,076)	12,606,680
Interest received		108,061,817	98,518,867
Dividends received		20,684,711	15,367,352
Interest paid		(54,827)	(59,666)
Income taxes received (paid)		232,068	(3,848)
Net cash (used in) provided by operating activities		(217,439,307)	126,429,385
Cash flows from investing activities			
Acquisition of investments accounted for using the equity method		(19,997,622)	(1,745,120)
Disposal of investments accounted for using the equity method		-	39,706
Acquisition of subsidiaries (net of cash received)	42	(6,994,994)	-
Disinvestment of investments accounted for using the equity method		56,248	15,356
Acquisition of property and equipment		(319,234)	(269,035)
Disposal of property and equipment		1,198	4,720
Acquisition of intangible assets		(91,825)	(41,567)
Net cash proceeds from acquiring other company	42	16,157,186	-
Net compensation received from acquiring other company	42	30,300,000	-
Decrease (increase) in loans		63,851,369	(57,636,055)
Acquisition of investment property		(34,643,780)	(29,496,225)
Disposal of investment property		101,200	12,587,000
Net cash provided by (used in) investing activities		48,419,746	(76,541,220)
Cash flows from financing activities			
(Decrease) increase in notes and bonds with repurchase agreement		(171,511)	232,616
Redemption of preferred stock liability		(15,000,000)	-
Cash dividends paid		(8,127,481)	-
Proceeds from issuance of common stock		-	966,820
Net cash (used in) provided by financing activities		(23,298,992)	1,199,436
Effects of exchange rate changes on cash and cash equivalents		103,189	(33,074)
(Decrease) increase in cash and cash equivalents		(192,215,364)	51,054,527
Cash and cash equivalents at the beginning of the periods		333,112,783	282,058,256
Cash and cash equivalents at the end of the periods		$140,897,419	$333,112,783

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

1. Organizations and business scope

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

The Company has participated and won the public auction, which is held by Taiwan Insurance Guaranty Fund, for assets, liabilities and operations of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. The Company entered into the acquisition contract on 27 March 2015. The Company assumed all assets, liabilities and operations of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd., except for their reserved assets and liabilities on 1 July 2015.

The parent company and ultimate parent company of the Company is Cathay Financial Holdings.

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

The consolidated financial statements of the Company and its subsidiaries ("the Company and Subsidiaries") for the years ended 31 December 2015 and 2014 were authorized to issue in accordance with resolution of the Company's board of directors on 17 March 2016.

3. Newly issued or revised standards and interpretations

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

The Company and Subsidiaries applied for the first time the International Financial Reporting Standards, International Accounting Standards, and interpretations issued, revised or amended which are recognized by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after 1 January 2015. The nature and the impact of each new standard and amendment that has a material effect on the Company and Subsidiaries is described below:

A. IAS 19 *Employee Benefits*

The revised IAS 19 brought about the following changes to defined benefit plans which are summarized below:

a. The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net-interest amount under the revised IAS 19, which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period.

b. In the previous version of IAS 19, past service cost is recognized as an expense immediately to the extent that the benefits are already vested or on a straight-line basis over the average period until the benefits become vested. Under the revised IAS 19, all past service costs are recognized at the earlier of when the amendment or curtailment occurs or when the related restructuring or termination costs are recognized. Therefore unvested past service cost is no longer deferred over future vesting periods.

c. The revised IAS 19 required more disclosure, please refer to Note 27.

d. The Company and Subsidiaries applied the revised IAS 19 Employee Benefits retrospectively in the current period in accordance with the transitional provisions set out in the revised standard except that the carrying amount of assets was not adjusted for changes in employee benefit cost that were included in the carrying amount before 1 January 2014. The figures of the earliest comparative period presented and the comparative period have been accordingly restated.

e. In the previous version of IAS 19, the Company and Subsidiaries amortize the amount that net cumulative unrecognized actuarial gains and losses exceed 10% of the greater of the present value of the defined benefit obligation and the fair value of the plan assets over the expected remaining working lives of employees participating in the plan. Under the amended standard, the remeasurement of net defined benefit liability (asset) will be recognized in other comprehensive income and other equity immediately when occur.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Adjusted items and amount influenced during each period:

	For the years ended 31 December	
	2015	2014
Impact on statement of comprehensive income		
Increase in operating revenue	$22	$28
Increase in operating expenses	(31,045)	(144,997)
Decrease in income tax expense	5,278	24,649
Decrease in net income	(25,745)	(120,320)
Other comprehensive income		
Remeasurements of defined benefit plans	(2,140,250)	(1,302,049)
Share of the other comprehensive income of subsidiaries, associates and joint ventures accounted for using the equity method – not to be reclassified to profit or loss in subsequent periods	(163,018)	(961)
Income taxes relating to not to be reclassified to profit or loss in subsequent periods	391,276	221,348
Decrease in earnings per share (in dollars)	-	(0.02)

	31 December 2015	31 December 2014	1 January 2014
Impact on balance sheet			
Decrease in investments accounted for using the equity method – Net	$(164,401)	$(1,405)	$(472)
Increase (decrease) in deferred tax assets	112,369	(284,185)	(530,182)
Increase (decrease) in provisions	499,621	(1,671,674)	(3,118,720)
Decrease in retained earnings	(153,863)	(128,118)	(7,798)
(Decrease) increase in other equity	(397,790)	1,514,202	2,595,864

B. IFRS 7 *Financial Instruments Disclosures – Transfers of Financial Assets*

The amendments require that additional quantitative and qualitative disclosure on financial assets that have been transferred but not derecognized at reporting date and that have been derecognized but for which the entity retains continuing involvement.

C. IFRS 7 *Financial Instruments Disclosures – Offsetting Financial Assets and Financial Liabilities*

The amendments require the entity disclose more information about offsetting of financial instrument. The disclosure shall enable users to evaluate the effect of offsetting on the entity's financial position. Financial instruments that offset in accordance with IAS 32 *Financial Instruments: Presentation* and that do not offset but subject to enforceable master netting arrangement or other similar agreements but not offset are included in the disclosure.

D. IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 *Disclosure of Interests in Other Entities* sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements, for example, summarized financial information about the associate or disclosure on subsidiaries with material non-controlling interests. Please refer to Note 11 for more details.

E. IFRS 13 *Fair Value Measurements*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. The Company and Subsidiaries re-assessed its policies for measuring fair values. Application of IFRS 13 has not materially impacted the fair value measurements of the Company and Subsidiaries.

Additional disclosures which are required under IFRS 13 are provided in the individual notes related to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 48. According to the transitional provisions of IFRS 13, IFRS 13 is applied prospectively as of 1 January 2015; the disclosure requirements of IFRS 13 need not be applied in comparative information before 1 January 2015.

F. IAS 1 *Presentation of Financial Statements – Presentation of items of other comprehensive income*

Beginning 1 January 2014, the Company and Subsidiaries presented its items of other comprehensive income that will be reclassified to profit or loss separately from items that will not be reclassified in accordance with the amendments to IAS 1. The amendments affect presentation of statement of comprehensive income only and have no impact on the Company and Subsidiaries' financial position or performance.

G. IAS 1 *Presentation of Financial Statements* – Clarification of the requirement for comparative information

Beginning 1 January 2014, according to the amendments to IAS 1, when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements, the opening statement of financial position does not have to be accompanied by comparative information in the related notes. The amendments affect notes accompanying the financial statements only and have no impact on the Company and Subsidiaries' financial position or performance.

(2) Standards or interpretations issued by IASB but not yet endorsed by FSC at the date when the Company and Subsidiaries' financial statements were authorized for issue are listed below:

A. IAS 36 *Impairment of Assets (Amendment)*

This amendment relates to the amendment issued in May 2011 and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendment also requires detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement. The amendment is effective for annual periods beginning on or after 1 January 2014.

B. IFRIC 21 *Levies*

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government (both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain). The interpretation is effective for annual periods beginning on or after 1 January 2014.

C. IAS 39 *Financial Instruments: Recognition and Measurement (Amendment)*

Under the amendment, there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The interpretation is effective for annual periods beginning on or after 1 January 2014.

D. IAS 19 *Employee Benefits (Defined benefit plans: employee contributions)*

The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to provide a policy choice for a simplified accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendment is effective for annual periods beginning on or after 1 July 2014.

E. *Improvements to International Financial Reporting Standards (2010–2012 cycle)*

IFRS 2 *Share-based Payment*

The annual improvements amend the definitions of “vesting condition” and “market condition” and add definitions for “performance condition” and “service condition” (which were previously part of the definition of “vesting condition”). The amendment prospectively applies to share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 *Business Combinations*

The amendments include: a. deleting the reference to "other applicable IFRSs" in the classification requirements; b. deleting the reference to "IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or other IFRSs as appropriate", other contingent consideration that is not within the scope of IFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognized in profit or loss; c. amending the classification requirements of IFRS 9 *Financial Instruments* to clarify that contingent consideration that is a financial asset or financial liability can only be measured at fair value, with changes in fair value being presented in profit or loss depending on the requirements of IFRS 9. The amendments apply prospectively to business combinations for which the acquisition date is on or after 1 July 2014.

IFRS 8 *Operating Segments*

The amendments require an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments. The amendments also clarify that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. The amendment is effective for annual periods beginning on or after 1 July 2014.

IFRS 13 *Fair Value Measurement*

The amendment to the Basis for Conclusions of IFRS 13 clarifies that when deleting paragraph B5.4.12 of IFRS 9 *Financial Instruments* and paragraph AG79 of IAS 39 *Financial Instruments: Recognition and Measurement* as consequential amendments from IFRS 13 *Fair Value Measurement*, the IASB did not intend to change the measurement requirements for short-term receivables and payables.

IAS 16 *Property, Plant and Equipment*

The amendment clarifies that when an item of property, plant and equipment is revalued, the accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the net carrying amount of the asset. The amendment is effective for annual periods beginning on or after 1 July 2014.

IAS 24 *Related Party Disclosures*

The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. The amendment is effective for annual periods beginning on or after 1 July 2014.

IAS 38 *Intangible Assets*

The amendment clarifies that when an intangible asset is revalued, the accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the net carrying amount of the asset. The amendment is effective for annual periods beginning on or after 1 July 2014.

F. *Improvements to International Financial Reporting Standards (2011–2013 cycle)*

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

The amendment clarifies that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application.

IFRS 3 *Business Combinations*

This amendment clarifies that paragraph 2(a) of IFRS 3 *Business Combinations* excludes the formation of all types of joint arrangements as defined in IFRS 11 *Joint Arrangements* from the scope of IFRS 3; and the scope exception only applies to the financial statements of the joint venture or the joint operation itself. The amendment is effective for annual periods beginning on or after 1 July 2014.

IFRS 13 *Fair Value Measurement*

The amendment clarifies that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of this amendment is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 *Financial Instruments: Presentation*. The amendment is effective for annual periods beginning on or after 1 July 2014.

IAS 40 *Investment Property*

The amendment clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property; in determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 *Business Combinations* and investment property as defined in IAS 40 *Investment Property*, separate application of both standards independently of each other is required. The amendment is effective for annual periods beginning on or after 1 July 2014.

G. IFRS 14 *Regulatory Deferral Accounts*

IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the Standard requires that the effect of rate regulation must be presented separately from other items. IFRS 14 is effective for annual periods beginning on or after 1 January 2016.

H. IFRS 11 *Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)*

The amendments provide new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments require the entity to apply all of the principles on business combinations accounting in IFRS 3 *"Business Combinations"*, and other IFRS (that do not conflict with the guidance in IFRS 11), to the extent of its share in a joint operation acquired. The amendment also requires certain disclosure. The amendment is effective for annual periods beginning on or after 1 January 2016.

I. IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization*

The amendment clarified that the use of revenue-based methods to calculate depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, such as selling activities and change in sales volumes or prices. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The amendment is effective for annual periods beginning on or after 1 January 2016.

J. IFRS 15 *Revenue from Contracts with Customers*

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

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

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

K. IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture – Agriculture: Bearer Plants*

The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 *Property, Plant and Equipment*, because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, and the produce growing on bearer plants will remain within the scope of IAS 41. The amendment is effective for annual periods beginning on or after 1 January 2016.

L. IFRS 9 *Financial Instruments*

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

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

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

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

The new standard is effective for annual periods beginning on or after 1 January 2018.

M. IAS 27 *Separate Financial Statements – Equity Method in Separate Financial Statements*

The IASB restored the option to use the equity method under IAS 28 for an entity to account for investments in subsidiaries and associates in the entity's separate financial statements. In 2003, the equity method was removed from the options. This amendment removes the only difference between the separate financial statements prepared in accordance with IFRS and those prepared in accordance with the local regulations in certain jurisdictions. The amendment is effective for annual periods beginning on or after 1 January 2016.

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

The amendments address the inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 2*8 Investments in Associates and Joint Ventures*, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gains or losses resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

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

The effective date of this amendment has been postponed indefinitely, but early adoption is allowed.

O. *Improvements to International Financial Reporting Standards (2012–2014 cycle)*

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

The amendment clarifies that a change of disposal method of assets (or disposal groups) from disposal through sale or through distribution to owners (or vice versa) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. The amendment also requires identical accounting treatment for an asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners. The amendment is effective for annual periods beginning on or after 1 January 2016.

IFRS 7 *Financial Instruments: Disclosures*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset and therefore the disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety under IFRS 7 *Financial Instruments: Disclosures* is required. The amendment also clarifies that whether the IFRS 7 disclosure related to the offsetting of financial assets and financial liabilities are required to be included in the condensed interim financial report would depend on the requirements under IAS 34 *Interim Financial Reporting.* The amendment is effective for annual periods beginning on or after 1 January 2016.

IAS 19 *Employee Benefits*

The amendment clarifies the requirement under IAS 19.83, that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. The amendment is effective for annual periods beginning on or after 1 January 2016.

IAS 34 *Interim Financial Reporting*

The amendment clarifies what is meant by "elsewhere in the interim financial report" under IAS 34; the amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment is effective for annual periods beginning on or after 1 January 2016.

P. Disclosure Initiative – Amendment to IAS 1 *Presentation of Financial Statements*

The amendments contain a. clarifying that an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments reemphasize that, when a standard requires a specific disclosure, the information must be assessed to determine whether it is material and, consequently, whether presentation or disclosure of that information is warranted, b. clarifying that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated, and how an entity shall present additional subtotals, c. clarifying that entities have flexibility as to the order in which they present the notes to financial statements, but also emphasize that understandability and comparability should be considered by an entity when deciding on that order, d. removing the examples of the income taxes accounting policy and the foreign currency accounting policy, as these were considered unhelpful in illustrating what significant accounting policies could be, and e. clarifying that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 January 2016.

Q. IFRS 10 *Consolidated Financial Statements,* IFRS 12 *Disclosure of Interests in Other Entities,* and IAS 28 *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*

The amendments contain a. clarifying that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity when the investment entity measures all of its subsidiary at fair value, b. clarifying that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated when all other subsidiaries of an investment entity are measured at fair value, and c. allowing the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendment is effective for annual periods beginning on or after 1 January 2016.

R. IFRS 16 *Leases*

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease. The Standard is effective for annual periods beginning on or after 1 January 2019.

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

The amendment clarifies how to account for deferred tax assets for unrealized losses. The amendment is effective for annual periods beginning on or after 1 January 2017.

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

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

The abovementioned standards and interpretations issued by IASB have not yet been endorsed by FSC at the date of issuance of the Company and Subsidiaries' financial statements, the local effective dates are to be determined by FSC. The Company and Subsidiaries are currently determining the potential impact of the standards and interpretations.

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Company and Subsidiaries for the years ended 31 December 2015 and 2014 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises ("the Regulations") and International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by the FSC.

(2) Basis of preparation

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

(3) Basis of consolidation

Preparation principle of consolidated financial statement

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

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

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

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

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

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

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

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

If the Company loses control of a subsidiary, it:

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

The consolidated entities are listed as follows:

Investors	Investees	Business	Ownership interest 2015.12.31	Ownership interest 2014.12.31
The Company	Cathay Lujiazui Life Insurance Co., Ltd. ("Cathay Lujiazui Life")	Life insurance	50.00	50.00
The Company	Cathay Life Insurance (Vietnam) Co., Ltd. ("Cathay Life (Vietnam)")	Life insurance	100.00	100.00
The Company	Lin Yuan (Shanghai) Real Estate Co., Ltd. ("Lin Yuan")	Office equipment leasing	100.00	100.00
The Company	Cathay Woolgate Exchange Holding 1 Limited	Real estate investment and management	100.00	100.00
The Company	Cathay Woolgate Exchange Holding 2 Limited	Real estate investment and management	100.00	100.00
The Company	Cathay Walbrook Holding 1 Limited	Real estate investment and management	100.00	-
The Company	Cathay Walbrook Holding 2 Limited	Real estate investment and management	100.00	-
The Company	Conning Holdings Limited	Holding company	100.00	-
Conning Holdings Limited	Conning U.S. Holdings, Inc.	Holding company	100.00	-
Conning Holdings Limited	Conning Asset Management Ltd.	Asset management services	100.00	-
Conning Holdings Limited	Conning (Germany) GmbH	Risk management software services	100.00	-
Conning Holdings Limited	Cathay Conning Asset Management Ltd.	Asset management services	50.00	-
Conning Holdings Limited	Conning Japan Ltd.	Asset management services	100.00	-
Conning U.S. Holdings, Inc.	Conning Holdings Corp.	Holding company	100.00	-
Conning Holdings Corp.	Conning Holdco (UK) Ltd.	Holding company	100.00	-
Conning Holdings Corp.	Conning & Company	Holding company	100.00	-
Conning & Company	Conning Inc.	Asset management services	100.00	-
Conning & Company	Goodwin Capital Advisers, Inc.	Asset management services	100.00	-
Conning & Company	Conning Investment Products, Inc.	Securities services	100.00	-

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

The consolidated financial statements exclude the following:

			Ownership interest		
Investors	Investees	Business	2015.12.31	2014.12.31	Notes
The Company	Cathay Insurance (Bermuda) Co., Ltd.	Class 3 general business insurers and Class C long-term insurer	100.00	100.00	The consolidated financial statements do not include Cathay Insurance (Bermuda) because its total assets and operating revenue were insignificant to the total assets and operating revenue of the Company.
The Company	Cathay Securities Investment Consulting Co., Ltd.	Securities investment consulting	100.00	100.00	The consolidated financial statements do not include Cathay Securities Investment Consulting because its total assets and operating revenue were insignificant to the total assets and operating revenue of the Company.
The Company	Cathay Insurance Company Limited (China)	Properties insurance	50.00	50.00	Cathay Insurance (China) acquired an operation license of an enterprise as a juristic person on 26 August 2008. Due to the lack of actual ability of controlling, the Company does not include Cathay Insurance (China) in the consolidated financial statements.

(4) Foreign currency transactions

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

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

(5) Translation of financial statements in foreign currency

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

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

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

(6) Cash and cash equivalents

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

(7) Financial assets and liabilities

Initial recognition and subsequent measurement

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

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

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

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

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

Financial assets and liabilities at fair value through profit or loss include financial assets or liabilities held for trading and financial assets or liabilities designated upon initial recognition as at fair value through profit or loss. Such assets or liabilities are subsequently measured at fair value with changes in fair value recognized in profit or loss.

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

a. Financial asset that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

b. Financial instruments that would not have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category only in rare circumstances.

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

B. Available-for-sale financial assets

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

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

C. Derivative financial assets and liabilities for hedging

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

D. Held-to-maturity financial assets

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

E. Loans and receivables

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

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

b. Those that the Company and Subsidiaries upon initial recognition designate as available for sale; or

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

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

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

F. Financial liabilities

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

Derecognition of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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

Reclassification of financial assets

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

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

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

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

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

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

Offsetting of financial instruments

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

Impairment of financial assets

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

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

Other loss events may include:

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

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

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

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

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

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

C. Total unsecured portion of loans overdue and receivable on demand.

The minimum amounts should be recorded within three years starting on January 2014.

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

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

Derivative financial instruments and hedge accounting

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

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

Hedging relationships consist of three types:

A. Fair value hedges: a hedge of the exposure to changes in fair value of a recognized asset or liability, an unrecognized firm commitment.

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

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

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

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

A. Fair value hedges

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

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

B. Cash flow hedges

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

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

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

C. Hedges of a net investment in a foreign operation

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

(8) Fair value measurement

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

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

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

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

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

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

(9) Investments accounted for using the equity method

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

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

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

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

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

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

A. Future cash flows that the Company and Subsidiaries expect to derive from the investment in the associate, including cash flows from the operation of the associate and from the ultimate disposal of such investment, or

B. Present value of the future cash flows from dividends expected to be received from the associate and from the disposal of the investment.

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

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

(10) Property and equipment

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

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

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

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

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

(11) Investment property

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

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

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

(12) Leases

The Company and Subsidiaries as a lessee

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

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

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

The Company and Subsidiaries as a lessor

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

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

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

(13) Intangible assets

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

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

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

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

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

Franchises

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

Customer relationships

Customer relationships were acquired in business combination and are amortized on a straight-line basis over the useful life (5 to 14 years).

Computer software

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

Other intangible assets

Other intangible assets were acquired in business combination and are amortized on a straight-line basis over the useful life (3 to 8 years).

(14) Impairment of non-financial assets

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

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

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

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

(15) Guaranteed depository insurance payment

A. The Company

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

B. Cathay Lujiazui Life

As provided by the China Insurance Regulatory Commission, an amount equal to 20% of the capital must be deposited in the form of time deposits.

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

A. The Company

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

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

a. Unearned premium reserve

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

b. Reserve for claims

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

c. Reserve for life insurance liabilities

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

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

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

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

d. Special reserve

(A) For the retained businesses with policy period within 1 year and injury insurance with policy period longer than 1 year, the special reserve is classified into 2 categories, “Special Capital Reserve – Special Reserve for Major Incidents” and “Special Capital Reserve – Special Reserve for Fluctuation of Risks.” The dollar amount of reserve required is addressed as follows:

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

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

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

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

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

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

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

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

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

e. Premium deficiency reserve

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

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

f. Other reserve

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

g. Liability adequacy reserve

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

h. Reserves for insurance contract with feature of financial instruments

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

i. Foreign exchange volatility reserve

The beginning balance of foreign exchange volatility reserve is $4,511,406 thousand which was appropriated in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and “Direction for foreign exchange volatility reserve by Life Insurance Enterprises”. As of 31 December 2015, the amount set aside was $16,026,449 thousand.

j. Liability adequacy test

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

B. Cathay Lujiazui Life

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

(17) Insurance premium income and expenses

A. The Company

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

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

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

B. Cathay Lujiazui Life

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

(18) Product categories

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

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

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

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

A. Additional payments as a percentage of total contractual payments may be more significant and take up a bigger portion.

B. In accordance with the contract, the amount and date of payment for additional payments are at the Company and Subsidiaries' discretion.

C. In accordance with the contract, additional payments are handed out based on one of the following matters:

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

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

(19) Reinsurance

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

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

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

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

(20) Provisions

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

(21) Post-employment benefits

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

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

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

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

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

(22) Income taxes

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

A. Current income tax

Current income tax is the amount of current income tax liabilities (assets) in respect of the taxable profit (tax loss) for the current period and any adjustments recognized in the period for income taxes payable of prior periods.

Current income tax for the current period is measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

The 10% surtax on undistributed retained earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved at the shareholders' meeting.

B. Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the balance sheets.

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

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

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

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

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

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

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

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

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

(23) Separate account products

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

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

(24)Business combinations and goodwill

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

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

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

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

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

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

5. Significant accounting judgments, estimates and assumptions

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

(1) Judgment

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

A. Categories of financial assets

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

B. Investment property

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

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

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

(2) Estimates and assumptions

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

A. Fair value of financial instruments

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

B. Fair value of investment property

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

C. Impairment of non-financial assets

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

D. Post-employment benefits

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

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

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

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

F. Income taxes

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

6. Cash and cash equivalents

	31 December 2015	31 December 2014
Cash on hand and revolving funds	$212,510	$205,601
Cash in banks	81,012,500	109,724,749
Time deposits	50,258,153	185,189,456
Cash equivalents	9,414,256	37,992,977
Total	$140,897,419	$333,112,783

7. Receivables

	31 December 2015	31 December 2014
Notes receivable – Net	$2,070,591	$2,133,174
Premium receivable – Net	81,392	53,731
Other receivable – Net		
Other receivable	58,212,211	52,382,388
Less: Allowance for bad debts – Other receivable	(6,031)	(8,078)
Overdue receivable	74,464	69,155
Less: Allowance for bad debts – Overdue receivable	(74,464)	(69,155)
Total	$60,358,163	$54,561,215

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

	Individually impaired	Collectively impaired	Total
1 January 2015	$77,004	$229	$77,233
Charge for the current period	13,103	1,295	14,398
Write off	(11,136)	-	(11,136)
31 December 2015	$78,971	$1,524	$80,495

	Individually impaired	Collectively impaired	Total
1 January 2014	$46,897	$1	$46,898
Charge for the current period	53,002	228	53,230
Write off	(22,895)	-	(22,895)
31 December 2014	$77,004	$229	$77,233

8. Financial assets at fair value through profit or loss

	31 December 2015	31 December 2014
Designated at fair value through profit or loss at initial recognition		
Corporate bonds	$1,969,360	$3,649,136
Held for trading		
Listed stocks	5,174,833	8,616,796
Beneficiary certificates	12,972,566	29,825,104
Overseas bonds	349,821	73,584
Government bonds	154,478	-
Derivative financial instruments	12,799,700	17,754,496
Structured time deposits	2,483,485	2,299,750
Subtotal	33,934,883	58,569,730
Total	$35,904,243	$62,218,866

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

9. Available-for-sale financial assets

	31 December 2015	31 December 2014
Domestic stocks	$306,852,065	$292,129,840
Overseas stocks	215,475,381	187,760,657
Beneficiary certificates	267,380,457	191,867,569
Asset-backed securities	-	3,649,507
Exchange traded funds	2,665,701	1,616,743
Real estate investment trust	12,203,888	11,343,312
Financial debentures	67,768,552	107,402,955
Corporate bonds	18,419,869	41,047,679
Government bonds	173,894,351	184,042,406
Overseas bonds	278,198,408	293,918,835
Subtotal	1,342,858,672	1,314,779,503
Less: Litigation deposits	(541,163)	(35,719)
Less: Securities serving as deposits paid-bonds	(1,953,653)	(8,635,267)
Total	$1,340,363,856	$1,306,108,517

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with domestic stocks, beneficiary certificates and asset-backed securities held by the Company and Subsidiaries. As of 31 December 2015 and 2014, the Company and Subsidiaries recognized impairment losses amounting to $153,884 thousand and $1,669,430 thousand, respectively.

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

10. Derivative financial assets for hedging

	31 December 2015	31 December 2014
IRS	$447,326	$212,898

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

11. Investments accounted for using the equity method

(1) Investments in unconsolidated subsidiaries:

Investees	31 December 2015	31 December 2014
Cathay Insurance (Bermuda) Co., Ltd.	$129,945	$126,123
Cathay Securities Investment Consulting Co., Ltd.	225,526	214,996
Total	$355,471	$341,119

(2) Investments in associates:

Investees	31 December 2015	31 December 2014
WK Technology Fund VI Co., Ltd.	$217,290	$279,946
IBT Venture Capital Corp.	4,061	7,485
Da Sheng Venture Inc.	1,490,706	1,273,596
Symphox Information Co., Ltd.	455,088	450,352
Cathay Insurance Company Limited (China)	325,384	704,946
Rizal Commercial Banking Corporation	13,459,290	-
PT Bank Mayapada Internasional Tbk	5,822,498	-
CMG International One Co., Ltd.	675,371	-
CMG International Two Co., Ltd.	675,381	-
CM Energy Co., Ltd.	13,500	-
Total	$23,138,569	$2,716,325

The Company and Subsidiaries' investments in associates are not significant. As of 31 December 2015 and 2014, the carrying amount of investments in associates accounted for using the equity method amounted to $23,138,569 thousand and $2,716,325 thousand, respectively. The aggregate amount of the Company and Subsidiaries' share of the investments in associates is as follows:

	For the years ended 31 December	
	2015	2014
Net profit (loss) from continuing operations	$517,527	$(141,299)
Other comprehensive income, net of tax	126,876	82,899
Total comprehensive income	$644,403	$(58,400)

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

The carrying amount of investments accounted for under the equity method in investees whose financial statements were unaudited amounted to $19,299,349 thousand and $7,485 thousand, as at 31 December 2015 and 2014, respectively. The share of the (losses) gains of these associates accounted for using the equity method amounted to $834,120 thousand and $(9,660) thousand for the years ended 31 December 2015 and 2014, respectively. The Company and Subsidiaries believe that no significant influence would arise from the abovementioned unaudited investments accounted for using the equity method.

The aforementioned investments accounted for using the equity method had no pledge as of 31 December 2015 and 2014.

12. Debt instrument investments for which no active market exists

	31 December 2015	31 December 2014
Domestic stocks	$6,034,287	$7,034,287
Overseas stocks	3,330	-
Corporate bonds	9,514,114	6,800,248
Financial debentures	38,015,157	32,649,819
Overseas bonds	1,783,892,289	1,204,416,068
Time deposits	3,713,528	4,081,125
Beneficial right of real estate	300,000	200,000
Asset-backed securities	1,487,573	1,386,000
Total	$1,842,960,278	$1,256,567,547

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with overseas bonds held by the Company and Subsidiaries. As of 31 December 2015 and 2014, the Company and Subsidiaries recognized impairment losses amounting to $429,858 thousand and $412,334 thousand, respectively.

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

13. Held-to-maturity financial assets

	31 December 2015	31 December 2014
Corporate bonds	$2,696,862	$2,696,541
Government bonds	30,865,680	22,021,562
Overseas bonds	1,248,772	1,847,955
Subtotal	34,811,314	26,566,058
Less: Litigation deposits	(2,924,198)	-
Less: Securities serving as deposits paid-bonds	(7,159,534)	(625,428)
Total	$24,727,582	$25,940,630

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

14. Other financial assets

	31 December 2015	31 December 2014
Structured time deposits	$18,000,000	$39,200,000

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

15. Structured notes

The financial asset investment portfolio belonging to structured notes amounted to $65,703,575 thousand and $26,270,253 thousand as of 31 December 2015 and 2014, respectively. The details of structured notes are listed below:

	31 December 2015		
Items	Cost	Adjustment of valuation	Book value
Financial assets at fair value through profit or loss	$9	$2	$11
Available-for-sale financial assets	1,653,300	34,488	1,687,788
Debt instrument investments for which no active market exists	64,015,776	-	64,015,776
Total	$65,669,085	$34,490	$65,703,575

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	31 December 2014		
Items	Cost	Adjustment of valuation	Book value
Financial assets at fair value through profit or loss	$48,461	$25,123	$73,584
Available-for-sale financial assets	5,867,830	156,191	6,024,021
Debt instrument investments for which no active market exists	20,172,648	-	20,172,648
Total	$26,088,939	$181,314	$26,270,253

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

	Investment property			Investment property under construction	Prepayments for buildings and land – Investments
	Land	Buildings	Total		
1 January 2015	$311,836,494	$85,976,108	$397,812,602	$12,437,283	$1,795,276
Additions from acquisitions	10,770,599	15,790,681	26,561,280	6,691,373	946,873
Additions from subsequent expenditure	1,373	2,214	3,587	440,667	-
Acquisitions through business combinations	2,472,177	112,347	2,584,524	-	25,021
Transfers from (to) property and equipment	-	(771,721)	(771,721)	-	-
Transfers from (to) investment property under construction and prepayments for buildings and land	-	16,269,652	16,269,652	(16,260,770)	(8,882)
Gains (losses) generated from fair value adjustments	14,160,254	(3,066,567)	11,093,687	-	-
Disposals	(43,557)	(231,924)	(275,481)	-	-
Exchange differences	23,580	(5,227)	18,353	-	-
31 December 2015	$339,220,920	$114,075,563	$453,296,483	$3,308,553	$2,758,288

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	Investment property			Investment property under construction	Prepayments for buildings and land – Investments
	Land	Buildings	Total		
1 January 2014	$277,804,325	$67,655,180	$345,459,505	$15,570,122	$5,173,152
Additions from acquisitions	5,210,205	10,338,006	15,548,211	5,183,491	7,723,413
Additions from subsequent expenditure	-	-	-	1,041,111	-
Transfers from (to) property and equipment	9,495,616	874,934	10,370,550	-	-
Transfers from (to) investment property under construction and prepayments for buildings and land	7,036,238	13,361,784	20,398,022	(9,357,441)	(11,100,995)
Gains (losses) generated from fair value adjustments	22,054,284	(5,475,496)	16,578,788	-	-
Disposals	(9,694,699)	(869,317)	(10,564,016)	-	-
Exchange differences	(69,475)	91,017	21,542	-	(294)
31 December 2014	$311,836,494	$85,976,108	$397,812,602	$12,437,283	$1,795,276

	For the years ended 31 December	
	2015	2014
Rental income from investment property	$9,233,098	$7,979,895
Less:		
Direct operating expenses from investment property generating rental income	(326,325)	(337,454)
Direct operating expenses from investment property without generating rental income	(116,050)	(93,508)
Total	$8,790,723	$7,548,933

Valuation has been performed by appraisers from professional valuation agencies based on Regulations on Real Estate Appraisal, and valuation dates are 31 December 2015 and 31 December 2014. Please refer to original financial report for detail information of the appraisers and agencies.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Fair value has been supported by observable evidences in the market. The appraisal approaches used are mainly the comparison approach, income approach, cost approach and land development analysis of cost approach. Commercial office buildings and residences are valued using comparison approach and income approach mostly because of the market liquidity and comparable sales and rental cases in neighboring areas. Hotels, department stores, and marketplaces are valued using income approach mostly because of the stable rental income in the long run. Industrial factory buildings for rental are valued using comparison approach and direct capitalization method, and wholesale stores located in industrial and commercial integrated district are valued using cost approach since land is industrial land and buildings are constructed for specific purposes so that seldom similar transactions can be referred in the market. Vacant land that building permission obtained and under construction are valued using comparison approach and land development analysis of cost approach. Urban renewal land that building permission obtained and under construction are value based on rental long-held buildings, hotels, etc. which is received from urban renewal scheme.

The inputs used are as follows:

	31 December 2015	31 December 2014
Direct capitalization rate (Net)	Mainly 1.5%~4.8%	Mainly 1.5%~4.8%
Discount rate	3.3%~4.2%	3.3%~4.2%

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

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

(1) The investment property are held mainly for lease business.

(2) All the lease agreements of the Company’s lease business are operating leases. The primary terms of lease agreements are the same with general lease agreement.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(3) Rents from investment property are received annually, semi-annually, quarterly, monthly or in lump sum.

(4) As at 31 December 2015 and 2014, no investment property were pledged as collateral.

17. Loans

	31 December 2015	31 December 2014
Policy loans	$162,085,507	$159,707,042
Automatic premium loans	9,746,986	7,982,476
Secured loans	466,470,478	525,405,645
Total	$638,302,971	$693,095,163

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

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

(3) Secured loans

	31 December 2015	31 December 2014
Secured loans	$470,139,232	$525,807,918
Secured loans – Related parties	967,009	3,552,926
Less:Allowance for bad debts	(4,819,812)	(4,127,745)
Subtotal	466,286,429	525,233,099
Overdue receivables	408,708	288,022
Less:Allowance for bad debts	(224,659)	(115,476)
Subtotal	184,049	172,546
Total	$466,470,478	$525,405,645

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

The Company participated in the $57 billion loan tender of Taiwan Insurance Guaranty Fund and won line of credit $15 billion in 2013. The loan has been repaid in 2015.

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

	Individually impaired	Collectively impaired	Total
1 January 2015	$1,049,697	$3,193,524	$4,243,221
Reversal for the current period	(949,003)	(2,478)	(951,481)
Write off	(40,147)	(531)	(40,678)
Minimum of statutory reserve	123,986	1,669,423	1,793,409
31 December 2015	$184,533	$4,859,938	$5,044,471

	Individually impaired	Collectively impaired	Total
1 January 2014	$1,518,673	$2,319,817	$3,838,490
Reversal for the current period	(402,187)	(22,479)	(424,666)
Write off	(274,798)	(5,941)	(280,739)
Minimum of statutory reserve	208,009	902,127	1,110,136
31 December 2014	$1,049,697	$3,193,524	$4,243,221

18. Reinsurance assets

(1)

	31 December 2015	31 December 2014
Claims recoverable from reinsurers	$45,612	$4,140
Due from reinsurers and ceding companies	234,533	53,670
Reinsurance reserve assets		
Ceded unearned premium reserve	182,325	137,914
Ceded reserve for claims	38,633	17,456
Ceded reserve for life insurance liabilities	162,951	74,461
Subtotal	383,909	229,831
Total	$664,054	$287,641

Above reinsurance assets were not impaired.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(2) CNY co-reinsurance business

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

A. Purpose, rationalization and expected benefit

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

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

	For the year ended 31 December 2015
Premiums ceded to reinsurers	$91,373
Claims recovered from reinsures	1,202
Reinsurance commission earned	10,080

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

Reinsurance income of $8,010 thousand has occurred in the year ended 31 December 2015 from CNY co-reinsurance business. The amount is calculated as follows: Reinsurance commission earned $10,080 thousand + Claims recovered from reinsurers $1,202 thousand + Net change of reinsurance reserve assets $88,490 thousand － Foreign exchange losses $389 thousand － Premiums ceded to reinsurers $91,373 thousand.

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

E. Accounting treatment for ceded CNY co-reinsurance business

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

F. Other notes designated by authorities: None.

19. Property and equipment

	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
Cost:									
1 January 2015	$15,912,593	$20,468,172	$2,473,388	$16,229	$3,482,051	$156,309	$275,652	$195,913	$42,980,307
Additions from acquisitions	-	-	161,967	1,379	74,093	39,177	511	210	277,337
Additions from subsequent expenditure	-	-	-	-	-	-	-	41,897	41,897
Acquisitions through business combinations	36,190	7,535	91,127	800	11,710	38,841	-	-	186,203
Transfers	-	999,680	390	-	533	-	-	(229,146)	771,457
Disposals	-	-	(441,882)	(5,591)	(19,822)	-	-	-	(467,295)
Exchange differences	-	(7,599)	(406)	(17)	(105)	(632)	3	(9)	(8,765)
31 December 2015	$15,948,783	$21,467,788	$2,284,584	$12,800	$3,548,460	$233,695	$276,166	$8,865	$43,781,141

	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
Cost:									
1 January 2014	$24,266,695	$21,594,487	$2,566,133	$16,097	$3,390,310	$149,039	$275,652	$254,369	$52,512,782
Additions from acquisitions	-	-	79,223	-	120,180	2,212	-	5,841	207,456
Additions from subsequent expenditure	-	-	-	-	-	-	-	61,579	61,579
Transfers	(8,354,102)	(1,149,471)	-	-	-	-	-	(125,890)	(9,629,463)
Disposals	-	-	(182,925)	-	(28,863)	-	-	-	(211,788)
Exchange differences	-	23,156	10,957	132	424	5,058	-	14	39,741
31 December 2014	$15,912,593	$20,468,172	$2,473,388	$16,229	$3,482,051	$156,309	$275,652	$195,913	$42,980,307

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
Depreciation and impairment:									
1 January 2015	$(105,610)	$(10,498,537)	$(2,234,413)	$(12,277)	$(3,036,149)	$(133,100)	$(166,539)	$-	$(16,186,625)
Depreciation	-	(416,724)	(116,592)	(1,115)	(101,672)	(15,808)	(68,930)	-	(720,841)
Disposals	-	-	441,057	5,464	18,994	-	-	-	465,515
Exchange differences	-	426	2,173	8	203	746	-	-	3,556
31 December 2015	$(105,610)	$(10,914,835)	$(1,907,775)	$(7,920)	$(3,118,624)	$(148,162)	$(235,469)	$-	$(16,438,395)

	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
Depreciation and impairment:									
1 January 2014	$(105,610)	$(10,233,389)	$(2,315,718)	$(11,213)	$(2,962,060)	$(117,593)	$(97,627)	$-	$(15,843,210)
Depreciation	-	(423,754)	(89,683)	(945)	(101,764)	(11,146)	(68,912)	-	(696,204)
Transfers	-	160,066	-	-	-	-	-	-	160,066
Disposals	-	-	178,589	-	28,054	-	-	-	206,643
Other	-	-	-	-	-	(39)	-	-	(39)
Exchange differences	-	(1,460)	(7,601)	(119)	(379)	(4,322)	-	-	(13,881)
31 December 2014	$(105,610)	$(10,498,537)	$(2,234,413)	$(12,277)	$(3,036,149)	$(133,100)	$(166,539)	$-	$(16,186,625)

	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
Net carrying amount as at:									
31 December 2015	$15,843,173	$10,552,953	$376,809	$4,880	$429,836	$85,533	$40,697	$8,865	$27,342,746
31 December 2014	$15,806,983	$9,969,635	$238,975	$3,952	$445,902	$23,209	$109,113	$195,913	$26,793,682

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

Components of building that have different useful lives are the main building structures, air conditioning units and elevators, which are depreciated over 60 years, 8 years and 15 years, respectively.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

20. Intangible assets

	Franchises	Trademarks	Goodwill	Customer relationships	Computer software	Other intangible assets	Total
Cost:							
1 January 2015	$-	$-	$-	$-	$1,781,423	$-	$1,781,423
Addition – Acquired separately	-	-	-	-	91,825	-	91,825
Acquisitions through business combinations	37,659,600	212,051	8,106,232	2,029,968	52,250	223,456	48,283,557
Transfers	-	-	-	-	264	-	264
Disposals	-	-	-	-	(140,475)	-	(140,475)
Exchange differences	-	6,813	166,693	65,226	(165)	7,180	245,747
31 December 2015	$37,659,600	$218,864	$8,272,925	$2,095,194	$1,785,122	$230,636	$50,262,341

	Franchises	Trademarks	Goodwill	Customer relationships	Computer software	Other intangible assets	Total
Cost:							
1 January 2014	$-	$-	$-	$-	$1,732,150	$-	$1,732,150
Addition – Acquired separately	-	-	-	-	41,567	-	41,567
Exchange differences	-	-	-	-	7,706	-	7,706
31 December 2014	$-	$-	$-	$-	$1,781,423	$-	$1,781,423

	Franchises	Trademarks	Goodwill	Customer relationships	Computer software	Other intangible assets	Total
Amortization and impairment:							
1 January 2015	$-	$-	$-	$-	$(1,623,804)	$-	$(1,623,804)
Amortization	(1,039,692)	-	-	(45,366)	(73,013)	(15,756)	(1,173,827)
Disposals	-	-	-	-	140,475	-	140,475
Exchange differences	-	-	-	(268)	1,153	(92)	793
31 December 2015	$(1,039,692)	$-	$-	$(45,634)	$(1,555,189)	$(15,848)	$(2,656,363)

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	Franchises	Trademarks	Goodwill	Customer relationships	Computer software	Other intangible assets	Total
Amortization and impairment:							
1 January 2014	$-	$-	$-	$-	$(1,548,060)	$-	$(1,548,060)
Amortization	-	-	-	-	(70,126)	-	(70,126)
Exchange differences	-	-	-	-	(5,618)	-	(5,618)
31 December 2014	$-	$-	$-	$-	$(1,623,804)	$-	$(1,623,804)

	Franchises	Trademarks	Goodwill	Customer relationships	Computer software	Other intangible assets	Total
Net carrying amount as at:							
31 December 2015	$36,619,908	$218,864	$8,272,925	$2,049,560	$229,933	$214,788	$47,605,978
31 December 2014	$-	$-	$-	$-	$157,619	$-	$157,619

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

	For the years ended 31 December	
	2015	2014
Operating expenses – Business expenses	$51,314	$51,693
Operating expenses – Administrative and general expenses	$1,122,513	$18,433

As of 31 December 2015, the book value of goodwill is $8,272,925. The goodwill arose from the acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015 and the acquisition of 100% of Conning Holdings Limited on 18 September 2015. An annual impairment test for goodwill is performed regularly. The Company and Subsidiaries estimated the recoverable amount of the cash-generating unit that the goodwill is allocated to for purpose of impairment test. The recoverable amount is calculated by applying a proper discount rate. Considering that the recoverable amount is higher than the book value of the cash-generating unit that the goodwill was allocated to, no impairment recognition is necessary for goodwill.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

21. Other assets

	31 December 2015	31 December 2014
Prepayment	$517,204	$398,620
Deferred acquisition costs	33,565	36,352
Guarantee deposits paid	23,550,504	15,383,461
Other assets – Other	3,459,047	529,148
Total	$27,560,320	$16,347,581

22. Deferred acquisition costs

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

	For the years ended 31 December	
	2015	2014
Beginning balance	$36,352	$44,005
Addition	5,599	-
Amortization	(8,386)	(7,653)
Ending balance	$33,565	$36,352

23. Payables

	31 December 2015	31 December 2014
Notes payable	$2,609	$1,066
Life insurance proceeds payable	502,714	390,286
Commissions payable	2,129,706	2,374,215
Due to reinsurers and ceding companies	626,843	251,015
Other payables	16,881,467	20,981,821
Total	$20,143,339	$23,998,403

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

24. Financial liabilities at fair value through profit or loss

	31 December 2015	31 December 2014
Held for trading		
Derivatives that are not designated hedging		
Forward	$3,475,583	$6,769,518
CS	35,203,334	42,989,311
IRS	150,562	24,759
Option	29,649	-
Total	$38,859,128	$49,783,588

25. Preferred stock liabilities

(1) In accordance with the resolution made at the board of directors' meeting held on 6 November 2008, acting on behalf of the shareholders, the Company issued 300,000 thousand shares of Class A preferred stocks at par value of $10 per share through private offerings. The offering was approved by Insurance Bureau of Financial Supervisory Commission, Executive Yuan ("Insurance Bureau") on 18 November 2008.

Key terms and conditions of the privately offered Class A preferred stocks are listed as follows:

A. Issuance period covers from 25 December 2008, the issue date, to 25 December 2015, seven years in total.

B. Dividend yield is 3.50% per year based on the actual issue price of $50 per share. Unpaid dividends will accumulate and shall be paid in full with priority in the year with earnings.

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

D. The preference shares are not entitled to be sold back. With the approval from the competent authorities, the Company redeemed all the Class A preferred stocks on 24 December 2015.

(2) In accordance with the resolution made at the board of directors' meeting held on 29 October 2009, acting on behalf of the shareholders, the Company issued 200,000 thousand shares of Class B preferred stocks at par value of $10 per share through private offerings. The offering was approved by Insurance Bureau of Financial Supervisory Commission, Executive Yuan ("Insurance Bureau") on 14 December 2009.

Key terms and conditions of the privately offered Class B preferred stocks are listed as follows:

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

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

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

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

(3) In accordance with the resolution made at the board of directors' meeting held on 7 October 2011, acting on behalf of the shareholders, the Company issued 125,000 thousand shares of Class C preferred stocks at par value of $10 per share through private offerings. The offering was approved by Insurance Bureau of Financial Supervisory Commission, Executive Yuan ("Insurance Bureau") on 26 October 2011.

Key terms and conditions of the privately offered Class C preferred stocks are listed as follows:

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

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

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

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

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

26. Insurance contract and reserve for insurance contract with discretionary participation feature of financial instruments

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(1) The Company

A. Reserve for life insurance liabilities

	31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance (Note 1)	$3,559,917,176	$5,913,047	$3,565,830,223
Injury insurance	7,781,512	-	7,781,512
Health insurance	459,328,845	-	459,328,845
Annuity insurance	1,375,262	47,592,078	48,967,340
Investment-linked insurance	834,571	-	834,571
Total	4,029,237,366	53,505,125	4,082,742,491
Less ceded reserve for life insurance liabilities:			
Life insurance	162,951	-	162,951
Net	$4,029,074,415	$53,505,125	$4,082,579,540

	31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$3,175,453,642	$6,423,897	$3,181,877,539
Injury insurance	7,962,275	-	7,962,275
Health insurance	367,435,224	-	367,435,224
Annuity insurance	1,329,511	63,532,669	64,862,180
Investment-linked insurance	1,030,061	-	1,030,061
Total	3,553,210,713	69,956,566	3,623,167,279
Less ceded reserve for life insurance liabilities:			
Life insurance	74,461	-	74,461
Net	$3,553,136,252	$69,956,566	$3,623,092,818

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Reserve for life insurance liabilities is summarized below:

	For the year ended 31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$3,553,210,713	$69,956,566	$3,623,167,279
Reserve	565,099,966	636,248	565,736,214
Recover	(231,628,799)	(18,555,105)	(250,183,904)
Losses (gains) on foreign exchange	28,481,110	(454,086)	28,027,024
Other (Note 2)	114,074,376	1,921,502	115,995,878
Ending balance	4,029,237,366	53,505,125	4,082,742,491
Less ceded reserve for life insurance liabilities:			
Beginning balance – Net	74,461	-	74,461
Increase	88,879	-	88,879
Gains (losses) on foreign exchange	(389)	-	(389)
Ending balance – Net	162,951	-	162,951
Total	$4,029,074,415	$53,505,125	$4,082,579,540

	For the year ended 31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$3,154,423,483	$139,787,775	$3,294,211,258
Reserve	507,940,855	2,235,574	510,176,429
Recover	(136,507,230)	(71,884,429)	(208,391,659)
Losses (gains) on foreign exchange	27,353,605	(182,354)	27,171,251
Ending balance	3,553,210,713	69,956,566	3,623,167,279
Less ceded reserve for life insurance liabilities:			
Beginning balance – Net	-	-	-
Increase	74,461	-	74,461
Ending balance – Net	74,461	-	74,461
Total	$3,553,136,252	$69,956,566	$3,623,092,818

Note 1: Allowance for doubtful account pertinent to 3% of business tax cut and recovery from major incident reserve are included.

Note 2: The amount is generated from acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

B. Unearned premium reserve

	31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$504,234	$-	$504,234
Individual injury insurance	5,235,287	-	5,235,287
Individual health insurance	7,448,531	-	7,448,531
Group insurance	798,542	-	798,542
Investment-linked insurance	108,783	-	108,783
Total	14,095,377	-	14,095,377
Less ceded unearned premium reserve:			
Individual life insurance	153,817	-	153,817
Individual injury insurance	6,454	-	6,454
Individual health insurance	1,258	-	1,258
Group insurance	4,165	-	4,165
Total	165,694	-	165,694
Net	$13,929,683	$-	$13,929,683

	31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$425,156	$-	$425,156
Individual injury insurance	4,858,892	-	4,858,892
Individual health insurance	6,797,526	-	6,797,526
Group insurance	737,792	-	737,792
Investment-linked insurance	111,399	-	111,399
Total	12,930,765	-	12,930,765
Less ceded unearned premium reserve:			
Individual life insurance	126,920	-	126,920
Individual injury insurance	3,324	-	3,324
Total	130,244	-	130,244
Net	$12,800,521	$-	$12,800,521

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Unearned premium reserve is summarized below:

	For the year ended 31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$12,930,765	$-	$12,930,765
Reserve	13,694,067	-	13,694,067
Recover	(12,930,765)	-	(12,930,765)
Losses (gains) on foreign exchange	(1)	-	(1)
Other (Note)	401,311	-	401,311
Ending balance	14,095,377	-	14,095,377
Less ceded unearned premium reserve:			
Beginning balance – Net	130,244	-	130,244
Decrease	(7,868)	-	(7,868)
Other (Note)	43,318	-	43,318
Ending balance – Net	165,694	-	165,694
Total	$13,929,683	$-	$13,929,683

	For the year ended 31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$12,302,905	$-	$12,302,905
Reserve	12,930,765	-	12,930,765
Recover	(12,302,905)	-	(12,302,905)
Ending balance	12,930,765	-	12,930,765
Less ceded unearned premium reserve:			
Beginning balance – Net	283,044	-	283,044
Decrease	(152,800)	-	(152,800)
Ending balance – Net	130,244	-	130,244
Total	$12,800,521	$-	$12,800,521

Note: The amount is generated from acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

C. Reserve for claims

	31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance			
－Reported but not paid claim	$144,342	$1,056	$145,398
－Unreported claim	60,815	-	60,815
Individual injury insurance			
－Reported but not paid claim	106,402	-	106,402
－Unreported claim	1,333,113	-	1,333,113
Individual health insurance			
－Reported but not paid claim	185,587	-	185,587
－Unreported claim	2,077,209	-	2,077,209
Group insurance			
－Reported but not paid claim	26,199	-	26,199
－Unreported claim	857,071	-	857,071
Investment-linked insurance			
－Reported but not paid claim	4,519	-	4,519
Total	4,795,257	1,056	4,796,313
Less ceded reserve for claims:			
Individual life insurance	14,632	-	14,632
Individual injury insurance	5	-	5
Individual health insurance	6,603	-	6,603
Group insurance	13,707	-	13,707
Total	34,947	-	34,947
Net	$4,760,310	$1,056	$4,761,366

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance			
－Reported but not paid claim	$108,918	$797	$109,715
－Unreported claim	56,449	-	56,449
Individual injury insurance			
－Reported but not paid claim	97,056	-	97,056
－Unreported claim	1,216,604	-	1,216,604
Individual health insurance			
－Reported but not paid claim	140,552	-	140,552
－Unreported claim	1,837,114	-	1,837,114
Group insurance			
－Reported but not paid claim	13,882	-	13,882
－Unreported claim	825,580	-	825,580
Investment-linked insurance			
－Reported but not paid claim	5,820	-	5,820
Total	$4,301,975	$797	$4,302,772

Reserve for claims is summarized below:

	For the year ended 31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$4,301,975	$797	$4,302,772
Reserve	4,334,397	1,056	4,335,453
Recover	(4,301,975)	(797)	(4,302,772)
Losses (gains) on foreign exchange	499	-	499
Other (Note)	460,361	-	460,361
Ending balance	4,795,257	1,056	4,796,313
Less ceded reserve for claims:			
Beginning balance – Net	-	-	-
Decrease	(34,641)	-	(34,641)
Other (Note)	69,588	-	69,588
Ending balance – Net	34,947	-	34,947
Total	$4,760,310	$1,056	$4,761,366

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	For the year ended 31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$4,168,697	$1,091	$4,169,788
Reserve	4,301,848	797	4,302,645
Recover	(4,168,697)	(1,091)	(4,169,788)
Losses (gains) on foreign exchange	127	-	127
Ending balance	$4,301,975	$797	$4,302,772

Note: The amount is generated from acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015.

D. Special reserve

	31 December 2015			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Participating policies dividends reserve	$(36,387)	$-	$-	$(36,387)
Provision for risk of bonus	37,741	-	-	37,741
Special reserve for revaluation increments of property	-	-	25,416,619	25,416,619
Total	$1,354	$-	$25,416,619	$25,417,973

	31 December 2014			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Participating policies dividends reserve	$1,631	$-	$-	$1,631
Special reserve for revaluation increments of property	-	-	35,416,619	35,416,619
Total	$1,631	$-	$35,416,619	$35,418,250

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Special reserve is summarized below:

	For the year ended 31 December 2015			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	$1,631	$-	$35,416,619	$35,418,250
Reserve for participating policies dividends reserve	26,220	-	-	26,220
Recover from participating policies dividends reserve	(1,122)	-	-	(1,122)
Recover from provision for risk of bonus	(25,375)	-	-	(25,375)
Recover from special reserve for revaluation increments of property (Note 1)	-	-	(10,000,000)	(10,000,000)
Other – Participating policies dividends reserve (Note 2)	(63,116)	-	-	(63,116)
Other – Provision for risk of bonus (Note 2)	63,116	-	-	63,116
Ending balance	$1,354	$-	$25,416,619	$25,417,973

	For the year ended 31 December 2014			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	$1,931	$-	$45,416,619	$45,418,550
Reserve for participating policies dividends reserve	1,017	-	-	1,017
Recover from participating policies dividends reserve	(1,317)	-	-	(1,317)
Recover from special reserve for revaluation increments of property (Note 1)	-	-	(10,000,000)	(10,000,000)
Ending balance	$1,631	$-	$35,416,619	$35,418,250

Note 1: According to the regulations authorized by the FSC on 30 January 2015 and 29 January 2014, the Company can recover special reserve for revaluation increments of property by month, and the total recovered amount in 2015 and 2014 are both $10 billion.

Note 2: The amount is generated from acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

	31 December 2015			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Individual life insurance	$140,928	$-	$-	$140,928
Individual injury insurance	3,873,019	-	-	3,873,019
Individual health insurance	5,376,802	-	-	5,376,802
Group insurance	3,738,294	-	-	3,738,294
Total	$13,129,043	$-	$-	$13,129,043

	31 December 2014			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Individual life insurance	$124,236	$-	$-	$124,236
Individual injury insurance	2,922,343	-	-	2,922,343
Individual health insurance	4,395,734	-	-	4,395,734
Group insurance	3,283,263	-	-	3,283,263
Total	$10,725,576	$-	$-	$10,725,576

F. Premium deficiency reserve

	31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$20,333,625	$-	$20,333,625
Individual health insurance	1,908,526	-	1,908,526
Group insurance	426	-	426
Total	$22,242,577	$-	$22,242,577

	31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$16,583,715	$-	$16,583,715
Individual health insurance	710,087	-	710,087
Group insurance	762	-	762
Total	$17,294,564	$-	$17,294,564

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Premium deficiency reserve is summarized below:

	For the year ended 31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$17,294,564	$-	$17,294,564
Reserve	3,651,472	-	3,651,472
Recover	(1,296,226)	-	(1,296,226)
Losses (gains) on foreign exchange	270,545	-	270,545
Other (Note)	2,322,222	-	2,322,222
Ending balance	$22,242,577	$-	$22,242,577

	For the year ended 31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$19,629,253	$-	$19,629,253
Reserve	632,928	-	632,928
Recover	(3,450,567)	-	(3,450,567)
Losses (gains) on foreign exchange	482,950	-	482,950
Ending balance	$17,294,564	$-	$17,294,564

Note: The amount is generated from acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015.

G. Other reserve

	31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Other	$1,967,824	$-	$1,967,824

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Other reserve is summarized below:

	For the year ended 31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$-	$-	$-
Recover	(55,869)	-	(55,869)
Other (Note)	2,023,693	-	2,023,693
Ending balance	$1,967,824	$-	$1,967,824

Note: The amount is generated from acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015.

H. Liability adequacy reserve

	Insurance contract and financial instruments with discretionary participation feature	
	31 December 2015	31 December 2014
Reserve for life insurance liabilities	$4,082,742,491	$3,623,167,279
Unearned premium reserve	14,095,377	12,930,765
Premium deficiency reserve	22,242,577	17,294,564
Other reserve	1,967,824	-
Total	$4,121,048,269	$3,653,392,608
Book value of insurance liabilities	$4,121,048,269	$3,653,392,608
Estimated present value of cash flows	$3,058,199,323	$2,936,336,508
Balance of liability adequacy reserve	$-	$-

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

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

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Liability adequacy testing methodology is listed as follows:

	31 December 2015
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2015. (2) Discount rate: Under assets allocation plan on 30 September 2015, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2014, with neutral assumption for discount rates after 30 years.

	31 December 2014
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2014. (2) Discount rate: Under assets allocation plan on 30 September 2014, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2013, with neutral assumption for discount rates after 30 years.

I. Reserve for insurance contracts with feature of financial instruments

The Company issues financial instruments without discretionary participation feature. As of 31 December 2015 and 2014, reserve for insurance contracts with feature of financial instruments is summarized below:

	31 December 2015	31 December 2014
Life insurance	$49,099,874	$50,135,996
Investment-linked insurance	23,228	4,037
Total	$49,123,102	$50,140,033

	For the years ended 31 December	
	2015	2014
Beginning balance	$50,140,033	$52,911,209
Insurance claim payments	(1,892,145)	(3,611,938)
Net provision of statutory reserve	875,123	840,737
Losses (gains) on foreign exchange	91	25
Ending balance	$49,123,102	$50,140,033

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

J. Foreign exchange volatility reserve

a. The hedge strategy and risk exposure

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

b. Adjustment in foreign exchange volatility reserve

	For the years ended 31 December	
	2015	2014
Beginning balance	$16,846,406	$10,482,181
Reserve		
Compulsory reserve	3,674,064	2,963,064
Extra reserve	5,783,112	6,779,064
Subtotal	9,457,176	9,742,128
Recover	(10,525,451)	(3,377,903)
Acquisitions through business combinations	248,318	-
Ending balance	$16,026,449	$16,846,406

c. Effects due to foreign exchange volatility reserve

	For the year ended 31 December 2015		
Items	Inapplicable amount (1)	Applicable amount (2)	Effects (2) - (1)
Net income attributable to equity holders of the parent	$37,355,970	$38,242,639	$886,669
Earnings per share	7.04	7.21	0.17
Foreign exchange volatility reserve	-	16,026,449	16,026,449
Equity attributable to equity holders of the parent	355,258,478	345,907,097	(9,351,381)

	For the year ended 31 December 2014		
Items	Inapplicable amount (1)	Applicable amount (2)	Effects (2) - (1)
Net income attributable to equity holders of the parent	$36,940,950	$31,658,643	$(5,282,307)
Earnings per share	6.96	5.97	(0.99)
Foreign exchange volatility reserve	-	16,846,406	16,846,406
Equity attributable to equity holders of the parent	336,653,413	326,415,363	(10,238,050)

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(2) Cathay Lujiazui Life

A. Reserve for life insurance liabilities

	31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$4,998,271	$-	$4,998,271
Health insurance	386,105	-	386,105
Investment-linked insurance	4,740	-	4,740
Total	$5,389,116	$-	$5,389,116

	31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$4,228,315	$-	$4,228,315
Health insurance	276,260	-	276,260
Investment-linked insurance	7,508	-	7,508
Total	$4,512,083	$-	$4,512,083

Reserve for life insurance liabilities is summarized below:

	For the year ended 31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$4,512,083	$-	$4,512,083
Reserve	1,808,904	-	1,808,904
Recover	(908,330)	-	(908,330)
Losses (gains) on foreign exchange	(23,541)	-	(23,541)
Ending balance	$5,389,116	$-	$5,389,116

	For the year ended 31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$3,736,906	$-	$3,736,906
Reserve	1,059,789	-	1,059,789
Recover	(431,542)	-	(431,542)
Losses (gains) on foreign exchange	146,930	-	146,930
Ending balance	$4,512,083	$-	$4,512,083

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

B. Unearned premium reserve

	31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	$14,152	$-	$14,152
Individual health insurance	592	-	592
Group insurance	249,413	-	249,413
Total	264,157	-	264,157
Less ceded unearned premium reserve:			
Individual life insurance	2,806	-	2,806
Individual injury insurance	243	-	243
Individual health insurance	5,615	-	5,615
Group insurance	7,967	-	7,967
Total	16,631	-	16,631
Net	$247,526	$-	$247,526

	31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	$8,861	$-	$8,861
Individual health insurance	806	-	806
Group insurance	258,853	-	258,853
Total	268,520	-	268,520
Less ceded unearned premium reserve:			
Individual life insurance	65	-	65
Individual injury insurance	71	-	71
Individual health insurance	3,066	-	3,066
Group insurance	4,468	-	4,468
Total	7,670	-	7,670
Net	$260,850	$-	$260,850

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Unearned premium reserve is summarized below:

	For the year ended 31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$268,520	$-	$268,520
Reserve	265,791	-	265,791
Recover	(269,103)	-	(269,103)
Losses (gains) on foreign exchange	(1,051)	-	(1,051)
Ending balance	264,157	-	264,157
Less ceded unearned premium reserve:			
Beginning balance – Net	7,670	-	7,670
Increase	9,047	-	9,047
Gains (losses) on foreign exchange	(86)	-	(86)
Ending balance – Net	16,631	-	16,631
Total	$247,526	$-	$247,526

	For the year ended 31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$260,335	$-	$260,335
Reserve	327,325	-	327,325
Recover	(327,821)	-	(327,821)
Losses (gains) on foreign exchange	8,681	-	8,681
Ending balance	268,520	-	268,520
Less ceded unearned premium reserve:			
Beginning balance – Net	38,938	-	38,938
Decrease	(31,464)	-	(31,464)
Gains (losses) on foreign exchange	196	-	196
Ending balance – Net	7,670	-	7,670
Total	$260,850	$-	$260,850

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

C. Reserve for claims

	31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance			
－Reported but not paid claim	$19	$-	$19
－Unreported claim	1,919	-	1,919
Individual injury insurance			
－Reported but not paid claim	29	-	29
－Unreported claim	2,916	-	2,916
Individual health insurance			
－Reported but not paid claim	6,450	-	6,450
－Unreported claim	10,471	-	10,471
Group insurance			
－Reported but not paid claim	80,099	-	80,099
－Unreported claim	277,636	-	277,636
Total	379,539	-	379,539
Less ceded reserve for claims:			
Individual health insurance	3,686	-	3,686
Net	$375,853	$-	$375,853

	31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance			
－Reported but not paid claim	$2,748	$-	$2,748
－Unreported claim	2,206	-	2,206
Individual injury insurance			
－Reported but not paid claim	3,406	-	3,406
－Unreported claim	2,825	-	2,825
Individual health insurance			
－Reported but not paid claim	3,096	-	3,096
－Unreported claim	6,928	-	6,928
Group insurance			
－Reported but not paid claim	62,311	-	62,311
－Unreported claim	303,503	-	303,503
Total	387,023	-	387,023
Less ceded reserve for claims:			
Individual health insurance	17,456	-	17,456
Net	$369,567	$-	$369,567

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Reserve for claims is summarized below:

	For the year ended 31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$387,023	$-	$387,023
Reserve	248,022	-	248,022
Recover	(253,999)	-	(253,999)
Losses (gains) on foreign exchange	(1,507)	-	(1,507)
Ending balance	379,539	-	379,539
Less ceded reserve for claims:			
Beginning balance – Net	17,456	-	17,456
Decrease	(13,785)	-	(13,785)
Gains (losses) on foreign exchange	15	-	15
Ending balance – Net	3,686	-	3,686
Total	$375,853	$-	$375,853

	For the year ended 31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$470,395	$-	$470,395
Reserve	344,954	-	344,954
Recover	(440,680)	-	(440,680)
Losses (gains) on foreign exchange	12,354	-	12,354
Ending balance	387,023	-	387,023
Less ceded reserve for claims:			
Beginning balance – Net	16,875	-	16,875
Increase	17	-	17
Gains (losses) on foreign exchange	564	-	564
Ending balance – Net	17,456	-	17,456
Total	$369,567	$-	$369,567

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

D. Liability adequacy reserve

	Insurance contract and financial instruments with discretionary participation feature	
	31 December 2015	31 December 2014
Reserve for life insurance liabilities	$5,389,116	$4,512,083
Unearned premium reserve	264,157	268,520
Total	$5,653,273	$4,780,603
Book value of insurance liabilities	$5,653,273	$4,780,603
Estimated present value of cash flows	$4,522,619	$3,824,483
Balance of liability adequacy reserve	$-	$-

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

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

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

Liability adequacy testing methodology is listed as follows:

	31 December 2015
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2015. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2014, with neutral assumption for discount rates after 30 years.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	31 December 2014
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2014. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2013, with neutral assumption for discount rates after 30 years.

E. Reserve for insurance contracts with feature of financial instruments

Cathay Lujiazui Life issues financial instruments without discretionary participation feature. As of 31 December 2015 and 2014, reserve for insurance contracts with feature of financial instruments is summarized below:

	31 December 2015	31 December 2014
Life insurance	$4,879,863	$4,954,666

	For the years ended 31 December	
	2015	2014
Beginning balance	$4,954,666	$4,685,240
Premiums received	594,906	1,005,419
Insurance claim payments	(115,625)	(268,911)
Net recovery of statutory reserve	(534,654)	(627,459)
Losses (gains) on foreign exchange	(19,430)	160,377
Ending balance	$4,879,863	$4,954,666

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(3) Cathay Life (Vietnam)

A. Reserve for life insurance liabilities

	31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$786,415	$-	$786,415
Investment-linked insurance	580	-	580
Total	$786,995	$-	$786,995

	31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$447,699	$-	$447,699
Investment-linked insurance	269	-	269
Total	$447,968	$-	$447,968

Reserve for life insurance liabilities is summarized below:

	For the year ended 31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$447,968	$-	$447,968
Reserve	343,594	-	343,594
Losses (gains) on foreign exchange	(4,567)	-	(4,567)
Ending balance	$786,995	$-	$786,995

	For the year ended 31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$374,898	$-	$374,898
Reserve	56,269	-	56,269
Losses (gains) on foreign exchange	16,801	-	16,801
Ending balance	$447,968	$-	$447,968

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

B. Unearned premium reserve

	31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	$2,283	$-	$2,283
Individual health insurance	2,097	-	2,097
Total	$4,380	$-	$4,380

	31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	$1,917	$-	$1,917
Individual health insurance	1,665	-	1,665
Total	$3,582	$-	$3,582

Unearned premium reserve is summarized below:

	For the year ended 31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$3,582	$-	$3,582
Reserve	844	-	844
Losses (gains) on foreign exchange	(46)	-	(46)
Ending balance	$4,380	$-	$4,380

	For the year ended 31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$2,967	$-	$2,967
Reserve	481	-	481
Losses (gains) on foreign exchange	134	-	134
Ending balance	$3,582	$-	$3,582

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

C. Reserve for claims

	31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance			
－Reported but not paid claim	$390	$-	$390
Individual injury insurance			
－Reported but not paid claim	291	-	291
－Unreported claim	244	-	244
Individual health insurance			
－Reported but not paid claim	91	-	91
－Unreported claim	229	-	229
Total	$1,245	$-	$1,245

	31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance			
－Reported but not paid claim	$334	$-	$334
Individual injury insurance			
－Reported but not paid claim	3	-	3
－Unreported claim	214	-	214
Individual health insurance			
－Reported but not paid claim	99	-	99
－Unreported claim	193	-	193
Total	$843	$-	$843

Reserve for claims is summarized below:

	For the year ended 31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$843	$-	$843
Reserve	412	-	412
Losses (gains) on foreign exchange	(10)	-	(10)
Ending balance	$1,245	$-	$1,245

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	For the year ended 31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$901	$-	$901
Recover	(91)	-	(91)
Losses (gains) on foreign exchange	33	-	33
Ending balance	$843	$-	$843

D. Special reserve

	31 December 2015			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Other	$-	$-	$-	$-

	31 December 2014			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Other	$4,008	$-	$-	$4,008

Special reserve is summarized below:

	For the year ended 31 December 2015			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	$4,008	$-	$-	$4,008
Recover	(3,932)	-	-	(3,932)
Losses (gains) on foreign exchange	(76)	-	-	(76)
Ending balance	$-	$-	$-	$-

	For the year ended 31 December 2014			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	$1,751	$-	$-	$1,751
Reserve	2,121	-	-	2,121
Losses (gains) on foreign exchange	136	-	-	136
Ending balance	$4,008	$-	$-	$4,008

E. Liability adequacy reserve

	Insurance contract and financial instruments with discretionary participation feature	
	31 December 2015	31 December 2014
Reserve for life insurance liabilities	$786,995	$447,968
Unearned premium reserve	4,380	3,582
Total	$791,375	$451,550
Book value of insurance liabilities	$791,375	$451,550
Estimated present value of cash flows	$99,032	$37,724
Balance of liability adequacy reserve	$-	$-

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

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

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

27. Post-employment benefits

Defined contribution plan

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

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

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

Expenses under the defined contribution plan for the years ended 31 December 2015 and 2014 were $1,020,902 thousand and $987,147 thousand, respectively.

Defined benefit plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the six months of the service year at the time of employee's application for retirement approved. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company contributes an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Company assesses the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Company will make up the difference in one appropriation before the end of March the following year.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandation, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Company expects to contribute $192,465 thousand to its defined benefit plan during the 12 months beginning after 31 December 2015.

As of 31 December 2015 and 2014, the Company expects its defined benefits plan obligation to become due in 2025 and 2024, respectively.

Pension costs recognized in profit or loss are as follows:

	For the years ended 31 December	
	2015	2014
Current service cost	$277,468	$310,770
Interest income or expense	32,318	8,060
Total	$309,786	$318,830

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

	31 December 2015	31 December 2014	1 January 2014
Defined benefit obligation	$13,247,213	$12,796,827	$12,357,465
Fair value of plan assets	(9,046,860)	(10,853,834)	(11,842,634)
Benefit liability recognized on the balance sheets	$4,200,353	$1,942,993	$514,831

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

	Defined benefit obligation	Fair value of plan assets	Benefit liability
1 January 2014	$12,357,465	$(11,842,634)	$514,831
Current service cost	310,770	-	310,770
Interest expense (income)	228,935	(220,875)	8,060
Subtotal	539,705	(220,875)	318,830
Remeasurements of the defined benefit liability (asset)			
Actuarial gains and losses arising from changes in demographic assumptions	142,563	-	142,563
Actuarial gains and losses arising from changes in financial assumptions	234,950	-	234,950
Experience adjustments	463,829	-	463,829
Return on plan assets	-	460,707	460,707
Subtotal	841,342	460,707	1,302,049
Benefits paid	(941,685)	941,685	-
Contributions by employer	-	(192,717)	(192,717)
31 December 2014	12,796,827	(10,853,834)	1,942,993
Current service cost	277,468	-	277,468
Interest expense (income)	215,698	(183,380)	32,318
Subtotal	493,166	(183,380)	309,786
Remeasurements of the defined benefit liability (asset)			
Actuarial gains and losses arising from changes in financial assumptions	111,542	-	111,542
Experience adjustments	866,260	-	866,260
Return on plan assets	-	1,162,448	1,162,448
Subtotal	977,802	1,162,448	2,140,250
Benefits paid	(1,020,582)	1,020,582	-
Contributions by employer	-	(192,676)	(192,676)
31 December 2015	$13,247,213	$(9,046,860)	$4,200,353

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

	31 December 2015	31 December 2014
Discount rate	1.18%	1.75%
Expected rate of salary increases	1.00%	1.50%

A sensitivity analysis for significant assumption is shown below:

	For the years ended 31 December			
	2015		2014	
	Increase (decrease) defined benefit obligation		Increase (decrease) defined benefit obligation	
Discount rate decrease (increase) by 0.5%	$728,597	$(675,608)	$716,622	$(665,435)
Future salary increase (decrease) by 0.5%	715,349	(662,361)	703,825	(652,638)

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

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

28. Provisions

	Litigation liability	Employee benefit liability	Contingent liability	Total
1 January 2015	$145,445	$1,942,993	$-	$2,088,438
Reserve	-	2,257,360	-	2,257,360
Reserve – Acquisitions through business combinations	-	5,220	65,034	70,254
Utilized	-	(176)	(18,408)	(18,584)
Losses on foreign exchange	-	-	1,981	1,981
31 December 2015	$145,445	$4,205,397	$48,607	$4,399,449

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

29. Other liabilities

	31 December 2015	31 December 2014
Accounts collected in advance	$526,026	$210,504
Deferred handling fees	61,347	73,224
Guarantee deposits received	2,757,733	2,675,245
Other liabilities – Other	4,371,459	5,735,726
Total	$7,716,565	$8,694,699

30. Deferred handling fees

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

	For the years ended 31 December	
	2015	2014
Beginning balance	$73,224	$87,737
Addition	10,032	-
Amortization	(15,032)	(15,605)
(Gains) losses on foreign exchange	(6,877)	1,092
Ending balance	$61,347	$73,224

31. Common stock

As of 31 December 2015 and 2014, the total authorized thousand shares were all 5,306,527 at par value of $10.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

32. Capital surplus

	31 December 2015	31 December 2014
Additional paid-in capital	$13,000,000	$13,000,000
Differences between share price and book value from acquisition or disposal of subsidiaries	29,142	29,142
Changes in amount of associates and joint ventures accounted for using the equity method	(1,130)	-
Total	$13,028,012	$13,029,142

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

33. Retained earnings

(1) Legal capital reserve

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

On 20 May 2015, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of $6,521,315 thousand. On 21 April 2014, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of $3,141,740 thousand.

(2) Special capital reserve

Pursuant to the regulations established by the R.O.C. Financial Supervisory Commission, the after-tax amount of released provision from the special claim reserves for contingency according to “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” are appropriated as special capital reserve when approved by stockholders’ meeting in the following year.

Special reserve for major incidents and for fluctuation of risks in accordance with Section 18 of “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” is placed in the special capital reserve under retained earnings.

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

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

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

The Company changes its accounting policy for subsequent measurement of investment property from cost to fair value starting from year of 2014. In order to ensure the soundness and stability of the financial structure, the FSC as of 23 January 2015 requires insurance companies to set aside special capital reserve equal to the amount of the increase in retained earnings net of the increase in reserve for life insurance liabilities resulting from valid contracts' fair value approved by the authority. The amount set aside by the Company is $124,002,466 thousand. The amount could only be used as a surplus to reserve for life insurance liability accessed and approved by authorities as inadequate and the surplus to reserve when the Company applies Phase II of IFRS 4 *Insurance Contract* to stabilize financial structure. On 20 May 2015, the Company's board of directors, acting on behalf of the shareholders, recognized special capital reserve of $13,886,329 thousand, which is from the gain from fair value change in 2014.

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

On 20 May 2015, the Company's board of directors, acting on behalf of the shareholders, recognized special capital reserves of $27,957,776 thousand, among which special reserves for major incidents and special reserves for fluctuation of risks in the amount of $1,630,373 thousand had been recognized at the end of 2014 in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises." The rest of the special capital reserve will be recognized in year 2015.

(3) Undistributed retained earnings

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

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

C. According to the addition of Article 235-1 of the Company Act announced on 20 May, 2015, the Company shall provide a fixed amount or percentage of the actual profit for a year to be distributed as "employee remuneration", after deducting and setting aside an amount equal to the cumulative losses (if any). The aforementioned employee remuneration may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders' meeting. Furthermore the Articles of Incorporation may stipulate that the employee remuneration could be distributed to employees of affiliated enterprises meeting certain criteria.

The Company plans to amend the pertinent Company's Articles of Incorporation in accordance with the abovementioned article in the 2016 annual meeting of shareholders.

D. The Company's distribution of 2015 retained earnings has not been approved by the shareholders as of the independent auditors' opinion date. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

E. Special reserves for major incidents and special reserves for fluctuation of risks are recorded as special capital reserve under equity at the end of this year. The reserved amount was $1,616,451 thousand for the year ended 31 December 2015.

(4) Non-controlling interests

	For the years ended 31 December	
	2015	2014
Beginning balance	$1,966,533	$741,255
Net income attributable to non-controlling interests	204,741	75,533
Other comprehensive income attributable to non-controlling interests		
Exchange differences resulting from translating the financial statements of foreign operations	(8,952)	85,244
Unrealized valuation gains from available-for-sale financial assets	86,424	97,681
Capital increase by cash from non-controlling interests	-	966,820
Non-controlling interests from acquisition of subsidiaries	78,910	-
Ending balance	$2,327,656	$1,966,533

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

34. Retained earned premium

(1) The Company

	For the year ended 31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$516,356,489	$92,564	$516,449,053
Reinsurance premium income	198,735	-	198,735
Premium income	516,555,224	92,564	516,647,788
Less:			
Premiums ceded to reinsurers	(992,376)	-	(992,376)
Changes in unearned premium reserve	(771,170)	-	(771,170)
Subtotal	(1,763,546)	-	(1,763,546)
Retained earned premium	$514,791,678	$92,564	$514,884,242

	For the year ended 31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$478,986,178	$881,035	$479,867,213
Reinsurance premium income	200,487	-	200,487
Premium income	479,186,665	881,035	480,067,700
Less:			
Premiums ceded to reinsurers	(9,896,021)	-	(9,896,021)
Changes in unearned premium reserve	(780,660)	-	(780,660)
Subtotal	(10,676,681)	-	(10,676,681)
Retained earned premium	$468,509,984	$881,035	$469,391,019

(2) Cathay Lujiazui Life

	For the year ended 31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$3,116,402	$-	$3,116,402
Reinsurance premium income	-	-	-
Premium income	3,116,402	-	3,116,402
Less:			
Premiums ceded to reinsurers	(45,642)	-	(45,642)
Changes in unearned premium reserve	8,100	-	8,100
Subtotal	(37,542)	-	(37,542)
Retained earned premium	$3,078,860	$-	$3,078,860

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	For the year ended 31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$2,335,415	$-	$2,335,415
Reinsurance premium income	-	-	-
Premium income	2,335,415	-	2,335,415
Less:			
Premiums ceded to reinsurers	(61,475)	-	(61,475)
Changes in unearned premium reserve	688	-	688
Subtotal	(60,787)	-	(60,787)
Retained earned premium	$2,274,628	$-	$2,274,628

(3) Cathay Life (Vietnam)

	For the year ended 31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$287,364	$-	$287,364
Reinsurance premium income	-	-	-
Premium income	287,364	-	287,364
Less:			
Premiums ceded to reinsurers	-	-	-
Changes in unearned premium reserve	(844)	-	(844)
Subtotal	(844)	-	(844)
Retained earned premium	$286,520	$-	$286,520

	For the year ended 31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$184,016	$-	$184,016
Reinsurance premium income	-	-	-
Premium income	184,016	-	184,016
Less:			
Premiums ceded to reinsurers	-	-	-
Changes in unearned premium reserve	(481)	-	(481)
Subtotal	(481)	-	(481)
Retained earned premium	$183,535	$-	$183,535

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

35. Retained claim payments

(1) The Company

	For the year ended 31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$278,109,990	$18,884,712	$296,994,702
Reinsurance claim payments	152,146	-	152,146
Insurance claim payments	278,262,136	18,884,712	297,146,848
Less:			
Claims recovered from reinsures	(368,408)	-	(368,408)
Retained claim payments	$277,893,728	$18,884,712	$296,778,440

	For the year ended 31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$206,552,621	$72,183,904	$278,736,525
Reinsurance claim payments	140,227	-	140,227
Insurance claim payments	206,692,848	72,183,904	278,876,752
Less:			
Claims recovered from reinsures	(4,734,747)	-	(4,734,747)
Retained claim payments	$201,958,101	$72,183,904	$274,142,005

(2) Cathay Lujiazui Life

	For the year ended 31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$1,304,366	$-	$1,304,366
Reinsurance claim payments	-	-	-
Insurance claim payments	1,304,366	-	1,304,366
Less:			
Claims recovered from reinsures	(15,957)	-	(15,957)
Retained claim payments	$1,288,409	$-	$1,288,409

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	For the year ended 31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$1,079,982	$-	$1,079,982
Reinsurance claim payments	-	-	-
Insurance claim payments	1,079,982	-	1,079,982
Less:			
Claims recovered from reinsures	(50,637)	-	(50,637)
Retained claim payments	$1,029,345	$-	$1,029,345

(3) Cathay Life (Vietnam)

	For the year ended 31 December 2015		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$34,847	$-	$34,847
Reinsurance claim payments	-	-	-
Insurance claim payments	34,847	-	34,847
Less:			
Claims recovered from reinsures	-	-	-
Retained claim payments	$34,847	$-	$34,847

	For the year ended 31 December 2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$23,292	$-	$23,292
Reinsurance claim payments	-	-	-
Insurance claim payments	23,292	-	23,292
Less:			
Claims recovered from reinsures	-	-	-
Retained claim payments	$23,292	$-	$23,292

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

Items	For the year ended 31 December 2015			For the year ended 31 December 2014		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$27,757,070	$4,262,215	$32,019,285	$26,640,098	$3,071,967	$29,712,065
Labor and health insurance expenses	1,807,386	520,039	2,327,425	1,799,003	407,180	2,206,183
Pension expenses	1,086,949	243,739	1,330,688	961,772	344,205	1,305,977
Other expenses	1,353,126	813,482	2,166,608	1,318,805	420,277	1,739,082
Depreciation	6,239	714,602	720,841	5,109	691,095	696,204
Amortization	-	1,173,827	1,173,827	-	70,126	70,126

A resolution was passed at a Board of Directors meeting of the Company held on 17 March 2016 to amend the Articles of Incorporation of the Company. According to the resolution, 0.01% to 0.1% of profit of the current year is distributable as employees' compensation and no more than 0.1% of profit of the current year is distributable as remuneration to directors and supervisors. However, the company's accumulated losses shall have been covered. The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. The Articles of Incorporation are to be amended in the shareholders' meeting in 2016. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

Based on profit of current year, the Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended 31 December 2015 to be 0.01% to 0.1% of profit of current year and no more than 0.1% of profit of current year, respectively. The employees' compensation and remuneration to directors and supervisors recognized as employee benefits expense this year were $4,373 thousand and $7,200 thousand, respectively. A resolution was passed at a Board of Directors meeting held on 17 March 2016 to distribute $4,373 thousand and $7,200 thousand in cash as employees' compensation and remuneration to directors and supervisors, respectively. Both amounts distributed were the same as the amount recognized as expense in 2015.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

The Company estimated the amounts of the employee bonuses and remunerations to directors and supervisors for the year ended 31 December 2014 based on post-tax net income of the year and the Company's Articles of Incorporation, and considered factors such as appropriation to legal reserve etc. The estimated employee bonuses and remunerations to directors and supervisors are recognized as salary and wages expenses for the year. If the board of directors modified the estimates significantly in the subsequent periods, the Company will recognize the change as an adjustment to current income. The difference between the estimation and the resolution of shareholders' meeting will be recognized in profit or loss of the subsequent year. The number of shares distributed as share dividends was calculated based on the closing price one day earlier than the date of shareholders' meeting and considered the impacts of ex-right/ex-dividend. The Company estimated the amounts of the employee bonuses and remuneration to directors and supervisors for the year ended 31 December 2014 to be $166,032 thousand and $8,100 thousand, respectively. No material differences exist between the estimated amount and the actual distribution of the employee bonuses and remuneration to directors and supervisors for the year ended 31 December 2014.

As of 31 December 2015 and 2014, total numbers of employees in the Company and Subsidiaries were 32,296 and 31,239, respectively.

37. Non-operating income and expenses

	For the years ended 31 December	
	2015	2014
(Losses) gains on disposal of property and equipment	$(582)	$222
Dividend on preferred stock liabilities	(897,932)	(908,000)
Other	2,163,454	2,389,654
Total	$1,264,940	$1,481,876

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

38. Components of other comprehensive income

	For the year ended 31 December 2015				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods					
Remeasurements of defined benefit plans	$(2,140,250)	$-	$(2,140,250)	$363,843	$(1,776,407)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – not to be reclassified to profit or loss in subsequent periods	(163,018)	-	(163,018)	27,433	(135,585)
To be reclassified to profit or loss in subsequent periods					
Exchange differences resulting from translating the financial statements of foreign operations	358,762	-	358,762	-	358,762
Unrealized valuation losses from available-for-sale financial assets	(15,723,100)	(30,708,741)	(46,431,841)	2,202,831	(44,229,010)
Effective portion of gains on hedging instruments in cash flow hedges	385,225	(150,505)	234,720	(39,902)	194,818
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – to be reclassified to profit or loss in subsequent periods	293,781	-	293,781	(15,492)	278,289
Total	$(16,988,600)	$(30,859,246)	$(47,847,846)	$2,538,713	$(45,309,133)

	For the year ended 31 December 2014				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax expense	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods					
Remeasurements of defined benefit plans	$(1,302,049)	$-	$(1,302,049)	$221,348	$(1,080,701)
Revaluation surplus	902,335	-	902,335	(74,726)	827,609
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – not to be reclassified to profit or loss in subsequent periods	(961)	-	(961)	-	(961)
To be reclassified to profit or loss in subsequent periods					
Exchange differences resulting from translating the financial statements of foreign operations	12,177	-	12,177	-	12,177
Unrealized valuation gains from available-for-sale financial assets	50,067,769	(25,615,378)	24,452,391	(2,308,155)	22,144,236
Effective portion of losses on hedging instruments in cash flow hedges	203,356	(438,992)	(235,636)	40,058	(195,578)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – to be reclassified to profit or loss in subsequent periods	89,672	(13)	89,659	-	89,659
Total	$49,972,299	$(26,054,383)	$23,917,916	$(2,121,475)	$21,796,441

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

39. Income taxes

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

Income tax expense (benefit) recognized in profit or loss

	For the years ended 31 December	
	2015	2014
Current income tax expense (benefit)		
Current income tax charge	$(5,568,721)	$988,438
Adjustments in respect of current income tax of prior periods	257,111	(65,947)
Deferred tax expense (benefit)		
Deferred tax expense relating to origination and reversal of temporary differences	11,492,255	8,124,418
Deferred tax benefit relating to origination and reversal of tax loss and tax credit	-	(6,354,940)
Other		
Tax effect under basic tax systems	206,712	-
Tax effect under consolidated income tax systems	(677,512)	117,828
Total income tax expense	$5,709,845	$2,809,797

Income taxes relating to components of other comprehensive income

	For the years ended 31 December	
	2015	2014
Current income tax expense (benefit)		
Current income tax charge	$-	$74,726
Deferred tax expense (benefit)		
Unrealized valuation (losses) gains from available-for-sale financial assets	(2,202,831)	2,308,155
Effective portion of gains (losses) on hedging instruments in cash flow hedges	39,902	(40,058)
Remeasurements of defined benefit plans	(363,843)	(221,348)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	(11,941)	-
Income taxes relating to components of other comprehensive income	$(2,538,713)	$2,121,475

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Income taxes charged to equity

	For the years ended 31 December	
	2015	2014
Deferred tax expense (benefit)		
Capital surplus	$(231)	$-
Income taxes relating to components of equity	$(231)	$-

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

	For the years ended 31 December	
	2015	2014
Accounting profit before tax from continuing operations	$44,157,225	$34,543,973
Tax at the domestic rates applicable to profits in the country concerned	$7,555,916	$5,987,051
Tax effect of revenue exempt from taxation	(8,523,135)	(9,679,705)
Tax effect of expenses not deductible for tax purposes	161,894	175,596
Add back of cash dividends received	1,565,842	1,818,514
Unrecognized tax loss of deferred tax assets	7,441	31,961
Tax effect of deferred tax assets/liabilities	(62,895)	(19,625)
Withholding tax for overseas investments	1,303,940	776,334
Land value increment tax	3,711,129	3,674,248
China corporate income tax	591	587
Tax effect of the rates applicable to profits in the other jurisdictions	(19,313)	-
Adjustments in respect of current income tax of prior periods	257,111	(65,947)
Other tax effect from adjustments in respect of tax laws	212,417	-
Other		
Investment gains (losses)	9,707	(7,045)
Tax effect under basic tax systems	206,712	-
Tax effect under consolidated income tax systems	(677,512)	117,828
Total income tax expense recognized in profit or loss	$5,709,845	$2,809,797

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Deferred tax assets (liabilities) relate to the following:

	For the year ended 31 December 2015						
	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Deferred tax assets (liabilities) acquired in business combinations	Foreign exchange (losses) gains	Ending balance
Temporary differences							
Property and equipment	$285,523	$(7,491)	$-	$-	$(479)	$(13)	$277,540
Investment property	(19,600,087)	(3,631,206)	-	-	-	682	(23,230,611)
Financial assets at fair value through profit or loss	(2,893,644)	791,701	-	-	-	-	(2,101,943)
Available-for-sale financial assets	(4,326,269)	(123,979)	4,088,601	-	-	-	(361,647)
Derivative financial assets for hedging	(36,193)	-	(39,902)	-	-	-	(76,095)
Investments accounted for using the equity method – Net	-	(142,233)	11,941	231	16	-	(130,045)
Debt instrument investments for which no active market exists	(283,450)	75,863	-	-	-	-	(207,587)
Guarantee deposits paid	(4,626)	4,626	-	-	-	-	-
Financial liabilities at fair value through profit or loss	8,468,614	(1,883,647)	-	-	-	-	6,584,967
Other receivables	(70,442)	(13,874)	-	-	-	-	(84,316)
Other payables	-	23,148	-	-	127,661	4,239	155,048
Defined benefit liability	330,309	19,908	363,843	-	-	-	714,060
Deferred revenue	-	(1,784)	-	-	7,539	231	5,986
Contribution in aid of construction costs	2	(1)	-	-	-	-	1
Office supplies	1,837	1,279	-	-	-	-	3,116
Foreign exchange losses (gains)	(1,636,596)	(6,665,425)	(1,885,770)	-	-	-	(10,187,791)
Goodwill and franchises	-	4,291	-	-	-	-	4,291
Allowance for bad debts recognition in excess of limitation	-	37,116	-	-	-	-	37,116
Fair value adjustments made on a business combination	-	14,804	-	-	(774,437)	(24,796)	(784,429)
Other	-	277	-	-	-	-	277
Unused tax credits	-	4,372	-	-	-	26	4,398
Unused tax losses	3,916,677	(18,333)	-	-	18,176	583	3,917,103
Deferred tax benefit (expenses)		$(11,510,588)	$2,538,713	$231	$(621,524)	$(19,048)	
Deferred tax assets/(liabilities) – Net	$(15,848,345)						$(25,460,561)
Reflected in balance sheet as follows:							
Deferred tax assets	$13,002,962						$11,519,847
Deferred tax liabilities	$(28,851,307)						$(36,980,408)

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	For the year ended 31 December 2014				
	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Foreign exchange losses	Ending balance
Temporary differences					
Property and equipment	$227,640	$57,883	$-	$-	$285,523
Investment property	(16,476,663)	(3,120,167)	-	(3,257)	(19,600,087)
Financial assets at fair value through profit or loss	(543,847)	(2,349,797)	-	-	(2,893,644)
Available-for-sale financial assets	(4,029,100)	-	(297,169)	-	(4,326,269)
Derivative financial assets for hedging	(77,126)	-	40,933	-	(36,193)
Debt instrument investments for which no active market exists	209,570	(493,020)	-	-	(283,450)
Guarantee deposits paid	(100,104)	95,478	-	-	(4,626)
Financial liabilities at fair value through profit or loss	2,750,568	5,718,046	-	-	8,468,614
Derivative financial liabilities for hedging	875	-	(875)	-	-
Other receivables	(54,792)	(15,650)	-	-	(70,442)
Defined benefit liability	87,522	21,439	221,348	-	330,309
Contribution in aid of construction costs	10	(8)	-	-	2
Office supplies	2,813	(976)	-	-	1,837
Foreign exchange losses (gains)	8,412,036	(8,037,646)	(2,010,986)	-	(1,636,596)
Unused tax losses	-	3,916,677	-	-	3,916,677
Deferred tax benefit (expenses)		$(4,207,741)	$(2,046,749)	$(3,257)	
Deferred tax assets/(liabilities) – Net	$(9,590,598)				$(15,848,345)
Reflected in balance sheet as follows:					
Deferred tax assets	$11,691,034				$13,002,962
Deferred tax liabilities	$(21,281,632)				$(28,851,307)

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

		Unused tax losses		
Year	Tax losses	31 December 2015	31 December 2014	Expiration year
2006	$8,251,573	$6,902,325	$6,902,325	2016
2008	3,927,234	3,927,234	3,927,234	2018
2009	12,173,664	12,173,664	12,173,664	2019
2013	1,908,009	1,908,009	1,908,009	2023
2014	22,931,435	22,931,435	23,039,281	2024
		$47,842,667	$47,950,513	

Unrecognized deferred tax assets

As of 31 December 2015 and 2014, deferred tax assets that have not been recognized amounting to $5,353,669 thousand and $5,259,876 thousand, respectively.

Unrecognized deferred tax liabilities relating to the investment in subsidiaries

The Company did not recognize any deferred tax liability for taxes that would be payable on the unremitted earnings of the Company's overseas subsidiaries, as the Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As of 31 December 2015 and 2014, the taxable temporary differences associated with investment in subsidiaries, for which deferred tax liability has not been recognized, aggregated to $192,892 thousand and $123,265 thousand, respectively.

Imputation credit information

	31 December 2015	31 December 2014
Balances of imputation credit amounts	$1,972,883	$4,197,119

The actual creditable ratio for 2014 and 2013 were 13.99% and 20.48%, respectively.

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

The assessment of income tax returns

As of 31 December 2015, the assessment of the income tax returns of the Company is as follows:

	The assessment of income tax returns
The Company	Assessed and approved up to 2009

The Company has filed administrative remedial due to disagreements on assessment of premiums on bonds investment amortized to interest revenue and assessment of investment losses for fiscal years 2007 and 2009, respectively. The abovementioned assessment amounts filed for reinvestigation and appeal have no material impact on the Company as the amounts in dispute did not exceed tax losses reported for the years.

40. Earnings per share

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

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

	For the years ended 31 December	
	2015	2014(Adjusted)
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company	$38,242,639	$31,658,643
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	5,306,527	5,306,527
Basic earnings per share (in dollars)	$7.21	$5.97

If foreign exchange volatility reserve was not applied, basic earnings per share would be $7.04 and $6.96 for the years ended 31 December 2015 and 2014, respectively. If gains from recovery of special reserve for revaluation increment of property was not included, basic earnings per share would be $5.32 and $4.08 for the years ended 31 December 2015 and 2014, respectively.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

41. Separate account insurance products

(1) The Company

A. Separate account insurance products – Assets and liabilities

	Assets	
Items	31 December 2015	31 December 2014
Cash in bank	$1,561,053	$1,141,076
Financial assets at fair value through profit or loss	474,500,459	454,525,369
Other receivables	4,304,610	6,272,327
Total	$480,366,122	$461,938,772

	Liabilities	
Items	31 December 2015	31 December 2014
Other payables	$1,084,812	$409,870
Reserve for separate account – Insurance contracts	308,374,625	365,651,055
Reserve for separate account – Investment contracts	170,906,685	95,877,847
Total	$480,366,122	$461,938,772

B. Separate account insurance products – Revenue and expenses

	Expenses	
	For the years ended 31 December	
Items	2015	2014
Insurance claim payments	$29,746,695	$23,923,465
Cash surrender value	40,841,037	50,821,002
Dividends	235	535
(Recovery of) provision for separate account reserve	(57,709,847)	35,616,299
Administrative expenses	4,403,445	4,728,255
Non-operating income and expenses	(124,722)	(127,867)
Total	$17,156,843	$114,961,689

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Items	Revenue For the years ended 31 December 2015	Revenue For the years ended 31 December 2014
Premium income	$27,803,794	$99,208,616
Interest income	2,194	10,419
(Losses) gains from financial assets and liabilities at fair value through profit or loss	(11,249,661)	6,193,616
Foreign exchange gains	600,516	9,549,038
Total	$17,156,843	$114,961,689

C. The commission earned for the sales of separate account insurance products from counterparties for the years ended 31 December 2015 and 2014 were $1,368,989 thousand and $2,316,148 thousand, respectively.

(2) Cathay Lujiazui Life

A. Separate account insurance products – Assets and liabilities

Items	Assets 31 December 2015	Assets 31 December 2014
Cash in bank	$18,048	$20,799
Financial assets at fair value through profit or loss	183,631	307,026
Interest receivable	10	179
Other	550	-
Total	$202,239	$328,004

Items	Liabilities 31 December 2015	Liabilities 31 December 2014
Other payables	$786	$411
Reserve for separate account	186,269	312,349
Other	15,184	15,244
Total	$202,239	$328,004

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

B. Separate account insurance products – Revenue and expenses

	Expenses	
	For the years ended 31 December	
Items	2015	2014
Cash surrender value	$266,067	$108,413
Administrative expenses	3,851	4,463
Tax expenses	762	1,262
Interest expense	-	7
Recovery of separate account reserve	(124,198)	(35,448)
Total	$146,482	$78,697

	Revenue	
	For the years ended 31 December	
Items	2015	2014
Premium income	$16,007	$14,722
Interest income	144	230
Gains from financial assets and liabilities at fair value through profit or loss	130,331	63,745
Total	$146,482	$78,697

42. Business combinations

(1) Approved by the board of directors, the Company has participated and won the public auction for assets, liabilities and operations of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. The public auction holder, Taiwan Insurance Guaranty Fund, provided compensation of $30,300,000 thousand for the takeover. The price for acquiring the assets, liabilities and operations of the target firms is adjusted based on the effect on the equity resulted from the amount changes in the designated accounts on 1 July 2015. Pursuant to IFRS 3 *Business Combinations*, the Company recognized goodwill at the excess of fair value of the identifiable net assets and the aggregation of the consideration transferred.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

The assumed assets, liabilities and goodwill generated from the business combination on 1 July 2015 are disclosed as follows (reserved assets and liabilities are not assumed and thus are excluded):

	Fair value recognized on the acquisition date	
Purchase consideration (Compensation received)		$(30,300,000)
Cash and cash equivalents	$16,157,186	
Receivables	1,026,998	
Financial assets at fair value through profit or loss	463,179	
Available-for-sale financial assets	8,779,212	
Debt instrument investments for which no active market exists	54,801,260	
Investment property	2,609,545	
Loans	9,795,866	
Reinsurance assets	130,977	
Property and equipment	57,038	
Intangible assets (Franchises and computer software)	37,676,033	
Other assets	3,032,899	
Separate account product assets	431,208	
Payables	(503,929)	
Financial liabilities at fair value through profit or loss	(126,168)	
Insurance liabilities	(166,649,257)	
Foreign exchange volatility reserve	(248,318)	
Provisions	(5,220)	
Other liabilities	(215,691)	
Separate account product liabilities	(431,208)	
Identifiable net assets acquired at fair value	$(33,218,390)	
Acquisition ratio	100%	
Intangible assets (Goodwill)		$2,918,390

The fair value of the abovementioned receivables is $10,822,864 thousand. The Company and Subsidiaries expect that the assumed investments from business combination would be recovered from settlement or repayment when due.

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

The goodwill of $2,918,390 thousand comprises the value of expected synergies arising from the acquisition and a customer list, which is not separately recognized. Due to the contractual terms imposed on acquisition, the customer list is not separable and therefore does not meet the criteria for recognition as an intangible asset under IAS 38 *Intangible Assets*. The goodwill recognized is expected to be fully deductible for income tax purposes.

From the acquisition date, the acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. has no effect on the revenue from the continuing operations or income from continuing operations before income tax of the Company and Subsidiaries. If the combination had taken place at the beginning of the year, revenue from the continuing operations would have been $735,289,981 thousand and income from continuing operations before income tax for the Company and Subsidiaries would have been $41,767,965 thousand.

(2) Acquisition of subsidiary

On 18 September 2015, the Company and Subsidiaries acquired 100% of the equity of Conning Holdings Limited with $7,839,676 thousand cash and have obtained control of Conning Holdings Limited. The Company and Subsidiaries have acquired Conning Holdings Limited because the acquisition accomplished the Company and Subsidiaries' vision for developing global asset management business to improve the efficiency of insurance fund allocation.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

	Fair value recognized on the acquisition date	
Purchase consideration		$7,839,676
Cash and cash equivalents	$844,682	
Receivables	854,722	
Debt instrument investments for which no active market exists	3,226	
Property and equipment	129,165	
Intangible assets (Except for goodwill)	2,501,292	
Other assets	196,983	
Payables	(852,321)	
Provisions	(65,034)	
Deferred tax liabilities	(621,524)	
Other liabilities	(262,929)	
Non-controlling interests	(76,428)	
Identifiable net assets acquired at fair value	$2,651,834	
Acquisition ratio	100%	
Intangible assets (Goodwill)		$5,187,842

From the acquisition date, the acquisition of Conning Holdings Limited has no effect on the revenue from the continuing operations or income from continuing operations before income tax of the Company and Subsidiaries. If the combination had taken place at the beginning of the year, revenue from the continuing operations would have been $728,698,465 thousand and the income from continuing operations before income tax for the Company and Subsidiaries would have been $44,212,059 thousand.

At the date of approval and issuance of the consolidated financial statements, the market value and pertinent amount have not yet been determined; therefore, the abovementioned amount are disclosed at managements' best estimate.

43. Risk management for insurance contracts and financial instruments

Risk management objectives, policies, procedures and methods:

(1) Objectives of risk management

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

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

A. Board of directors

a. The board of directors should establish appropriate risk management framework and culture, ratify appropriate risk management policy and allocate resources in the most effective manner.

b. The board of directors together with senior management should promote and execute risk management policies and standards. Furthermore, they should keep the policies and standards in line with the Company's operational objective and strategy.

c. The board of directors should be aware of the risk arising from daily operations, ensure the effectiveness of risk management and bear the ultimate responsibility for risk management.

d. The board of directors should delegate authority to risk management department to deal with violation of risk limits by other departments.

B. Risk management committee

a. The committee should develop the risk management policies, framework and organizational function and establish quantitative and qualitative risk management standards. The committee is also responsible for reporting the results of implementing such policies and standards to the board regularly and making necessary suggestions for improvement.

b. The committee should execute the risk management decisions made by the board of directors and evaluate the results of developing and executing risk management mechanisms.

c. The committee should assist and monitor the risk management activities.

d. The committee should adjust the risk category, risk limits and risk taking tendency according to the change of the environment.

e. The committee should enhance cross-department interaction and communication.

C. Chief Risk Officer

a. The Chief Risk Officer should maintain independence and should not concurrently play a business or financial role nor hold a position in any profit center of the Company.

b. The Chief Risk Officer should be able to access any and all information which may have an impact on risk overview of the Company.

c. The Chief Risk Officer should be in charge of overall risk management of the Company.

d. The Chief Risk Officer should participate in the company’s important decision-making process and express opinions from a risk management perspective.

D. Risk management department

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

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

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

E. Business Units

a. Identify and measure risks and report risk exposure and potential influence against the Company on time.

b. Regularly review the risk limits and in the event of any excess of such limits, the designated person shall report such excess along with what actions have been taken against it.

c. Assist to develop the risk model and to ensure that risk measurement, application of the model and the parameter settings are reasonable and consistent.

d. Ensure that internal control procedures are executed effectively to comply with applicable laws and regulations and the Company's risk management policies.

e. Assist to collect operational risk related data.

f. Manager(s) of each business unit shall be responsible for daily risk management and risk reporting of such unit if necessary and take necessary measures in response to such risks.

g. Manager(s) of each business unit shall procure such unit to disclose risk management related information regularly to the risk management department.

F. Audit department

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

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

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

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

A. Market risk

This risk can be defined as the risk of losses in value of the Company's financial assets arising from adverse movements in market prices of financial instruments. The Company applies one-week 95% and 99% value-at-risk (VaR) to measuring market risk. The Company also use back testing regularly to ensure the accuracy of the market risk model. Furthermore, the Company applies scenario analysis and stress testing to evaluating the change in value of certain asset groups due to significant domestic and/or international events. In response to the enforcement of foreign exchange volatility reserve, the Company determines the ceiling of foreign exchange risk, implements early warning system and also monitors foreign exchange risk regularly.

B. Credit risk

This risk refers to the Company's losses due to the default of debtors. The measurements that the Company uses include credit rating, concentration and annual value-at-risk (VaR) under 95% confidence level. Furthermore, the Company applies scenario analysis and stress testing to evaluating the change in value of the asset groups due to significant domestic and/or international events.

C. Sovereign risk

Sovereign risk is the risk that the Company suffers losses from investment in a specific country as a consequence of market price fluctuation or government's default stemming from local political and/or economic situations. The Company measures the risk by certain ratio. The ratio could be calculated as follows: the total investment amount of certain country or specific area divided by total foreign investment amount or net asset. The Company reviews and adjusts the indicator on a regular basis.

D. Liquidity risk

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

E. Operational risk

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

F. Insurance risk

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

G. Asset and liability matching risk

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

H. Risk-based capital (RBC) ratio

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

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

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

a. Promulgate the Company's risk management standards including the definitions and range of risks, management structure, risk management indexes and other risk management measures.

b. Establish methods to evaluate insurance risks.

c. Regularly provide the insurance risk management report to be reviewed by the risk management committee and as a reference to developing insurance risk management strategies.

d. When an exceptional risk event occurs, the affected departments should propose possible solutions to the risk management committee in the Company and that in the Cathay Financial Holdings.

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

a. Underwriters should, at all times, comply with certain relevant rules of financial underwriting which includes checking insurance notification database for exceptional cases and consider the amount insured, type of insurance, age, family status, reason for insurance, employment status, financial situation etc. to determine whether an insurance policy is suitable and affordable for the potential policyholder.

b. The Company has an underwriting team dealing with controversial cases with regard to new contracts and changes of the terms and conditions and having the right to interpret relevant underwriting standards.

c. The Company has a special panel for major insurance projects to enhance risk management over such projects and avoid adverse selection and moral hazard.

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

A. Insurance risk assessment covers the following topics:

a. Product design and pricing risk: This risk arises from improper design of products, terms and conditions and pricing attributable to using the unsuitable and/or inconsistent information and/or facing unexpected changes.

b. Underwriting risk: Unexpected losses arise from soliciting business, underwriting activities and approval, other expenditure activities, etc.

c. Reinsurance risk: This risk occurs when a company fails to reinsure the excess risk or a reinsurer fails to fulfill its responsibility that results in losses in premium, claims or non-reimbursed expenses.

d. Catastrophe risk: This risk arises from accidents which lead to considerable losses in one or more categories of insurance and the aggregate amount of such losses is huge enough to affect the Company’s credit rating and solvency.

e. Claim risk: This risk arises from mishandling claims.

f. Risk of insufficient reserve: It happens when the Company does not have sufficient reserves to fulfill its obligations owing to underestimating its liabilities.

B. The scope of management of insurance risk

a. Build up a top-down framework of the Company’s insurance risk management and empower relevant parties to execute risk management.

b. Establish the Company’s insurance risk management standards including the definitions and types of risks, management of the structure, risk management indexes and other risk management measures.

c. Develop action plans in consideration of the Company's growth strategy and the global financial environment.

d. Determine methods to measure insurance risks.

e. Regularly provide insurance risk management report for supervision and as a reference to initiate insurance management strategy.

f. Manage other risk management issues.

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

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

(7) Asset/liability management

A. The Company has an asset/liability management committee to establish management structure, to ensure full application of the management policy, to integrate human capital and resources, to review the strategy and practice regularly and, furthermore, to reduce all types of risks.

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

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

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

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

A. Capital adequacy management

a. Regularly provide capital adequacy management reports and analysis to the finance department of the Cathay Financial Holdings.

b. Regularly provide the risk management committee the capital adequacy management analysis report.

c. Conduct scenario analysis to figure out how the use of funding, the changes of the financial environment or the amendments of applicable laws and regulations can affect RBC ratio.

d. Regularly review RBC ratio and related control standards to ensure a solid capital adequacy management.

B. Exception management process

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

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

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

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

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

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

Considering the credit risk factors, the Company has set credit and investment limits by business groups, industries and countries. When such limits has been reached or breached as a result of any increase of the credit line or investment, the Company shall not grant loans or make investment in general. However, if the Company has to undertake the business under certain circumstances, the investments or loans concerned need to be reviewed by the loan review committee or investment decision committee and approved by the risk management department of Cathay Financial Holdings.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

44. Information of insurance risk

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

A. The Company

	For the year ended 31 December 2015		
	Scenarios	Changes in income before tax	Changes in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	2,165,878	1,797,679
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	2,896,302	2,403,930
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	339,184	281,523
Rate of return	+0.1%	Increase 4,142,848	Increase 3,438,564
Rate of return	-0.1%	Decrease 4,146,906	Decrease 3,441,932

	For the year ended 31 December 2014		
	Scenarios	Changes in income before tax	Changes in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	2,051,756	1,702,957
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	2,576,013	2,138,091
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	418,108	347,029
Rate of return	+0.1%	Increase 3,729,020	Increase 3,095,086
Rate of return	-0.1%	Decrease 3,732,670	Decrease 3,098,116

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

B. Cathay Lujiazui Life

	For the year ended 31 December 2015		
	Scenarios	Changes in income before tax	Changes in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.10 (×0.90)	121,834	91,375
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	77,320	57,990
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90)	100,912	75,684
Rate of return	+0.25%	Increase 384,943	Increase 288,707
Rate of return	-0.25%	Decrease 418,237	Decrease 313,678

	For the year ended 31 December 2014		
	Scenarios	Changes in income before tax	Changes in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.10 (×0.90)	102,103	76,577
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	81,431	61,073
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90)	32,488	24,366
Rate of return	+0.25%	Increase 328,383	Increase 246,287
Rate of return	-0.25%	Decrease 372,970	Decrease 279,727

C. Cathay Life (Vietnam)

	For the year ended 31 December 2015		
	Scenarios	Changes in income before tax	Changes in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	221	172
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	12,055	9,403
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	997	778
Rate of return	+0.1%	Increase 3,876	Increase 3,023
Rate of return	-0.1%	Decrease 3,880	Decrease 3,026

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	For the year ended 31 December 2014		
	Scenarios	Changes in income before tax	Changes in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	117	91
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	10,281	8,019
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	534	417
Rate of return	+0.1%	Increase 3,510	Increase 2,738
Rate of return	-0.1%	Decrease 3,513	Decrease 2,740

a. Changes in income before tax listed above refer to the effects of income before tax arising from the assumption for the years ended 31 December 2015 and 2014. The influence on equities of the Company, Cathay Lujiazui Life and Cathay Life (Vietnam) is assumed that the income tax is calculated on pre-tax income at rates of 17%, 25% and 22% individually.

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

c. Sensitivity Test

(A) Mortality/Morbidity test is executed by multiplying mortality, morbidity and the occurrence rate of injury insurance by the changes of assumptions and results in the corresponding changes in income before tax.

(B) Expense sensitivity is executed by multiplying all expense items listed in statements of comprehensive income (Note 1) by the changes of assumptions and results in the corresponding changes in income before tax.

(C) Surrender rate sensitivity test is executed by multiplying surrender rate by the changes of assumptions and results in the corresponding changes in income before tax.

(D) The rate of returns sensitivity test is executed by multiplying the rate of returns (Note 2) increases (decreases) by the changes of assumptions and results in the corresponding changes in income before tax.

Note 1: Expense items includes underwriting expenses, commission expenses, other operating expenses included in operating costs as well as business expenses, administration expenses and training expenses included in operating expenses.

Note 2: The rate of returns is measured by 2 x (net profits or losses on investment – finance costs) / (the beginning balance of usable capital + the ending balance of usable capital – net profits or losses on investment + finance costs) and it needs to be annualized.

(2) Interpretation of concentration of insurance risks

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

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

(3) Claim development trend

A. The Company

a. Direct business development trend

Accident year	Development year								Reserve for unreported claim
	1	2	3	4	5	6	7	Unreported claim	
2009	14,852,729	17,850,467	18,102,724	18,159,423	18,206,254	18,227,775	18,245,733	-	-
2010	14,610,802	17,698,967	18,003,548	18,074,980	18,133,928	18,163,522	18,180,525	17,003	17,037
2011	15,466,682	18,940,951	19,286,961	19,361,431	19,417,890	19,445,906	19,463,948	46,058	46,150
2012	15,166,460	18,319,737	18,627,566	18,692,840	18,740,647	18,764,066	18,780,673	87,833	88,009
2013	14,442,425	17,662,901	17,964,282	18,018,566	18,056,773	18,075,804	18,091,127	126,845	127,099
2014	14,671,864	17,803,568	18,088,384	18,140,502	18,176,087	18,194,271	18,210,060	406,492	407,305
2015	15,349,060	18,515,167	18,807,073	18,860,279	18,896,524	18,915,241	18,931,487	3,582,427	3,589,592

Expected future payment	$4,275,192
Add: Assumed reserve for incurred but not reported claim	53,016
Reserve for unreported claim	4,328,208
Add: Reported but not paid claim	468,105
Claims reserve balance	$4,796,313

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

b. Retained business development trend

Accident year	Development year 1	2	3	4	5	6	7	Unreported claim	Reserve for unreported claim
2009	13,952,040	16,484,975	16,691,199	16,735,212	16,772,186	16,793,900	16,812,262	-	-
2010	12,751,674	15,157,087	15,384,774	15,437,891	15,497,155	15,527,084	15,544,406	17,322	17,357
2011	13,515,228	16,311,353	16,559,916	16,636,313	16,693,350	16,721,605	16,739,976	46,626	46,719
2012	13,364,947	15,905,901	16,213,038	16,279,164	16,327,592	16,351,347	16,368,415	89,251	89,430
2013	13,476,781	16,704,672	17,010,792	17,066,016	17,104,736	17,124,043	17,139,745	128,953	129,211
2014	14,738,192	17,888,486	18,176,040	18,228,987	18,265,034	18,283,465	18,299,596	411,110	411,932
2015	15,436,264	18,629,750	18,925,163	18,979,320	19,016,075	19,035,067	19,051,691	3,615,427	3,622,658

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

Expected future payment	$4,317,307
Add: Reported but not paid claim	458,659
Retained claims reserve balance	$4,775,966

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

B. Cathay Lujiazui Life

a. Direct business development trend

	Development year							Expected future payment
Accident year	1	2	3	4	5	6	7	
2009	154,727	286,341	299,090	299,090	299,090	299,095	299,095	-
2010	254,829	471,592	492,590	492,590	492,657	492,657	492,657	-
2011	263,484	487,608	516,738	516,738	534,237	534,237	534,237	-
2012	280,637	548,070	592,339	596,846	596,846	596,846	596,846	-
2013	414,930	667,028	708,847	709,704	709,704	709,704	709,704	857
2014	243,526	455,787	483,380	486,994	486,994	486,994	486,994	31,207
2015	288,974	522,767	554,415	589,075	589,075	589,075	589,075	300,101

Expected future payment	$332,165
Less: Expected reported but not paid claim	(39,223)
Add: Assumed reserve for incurred but not reported claim	-
Reserve for unreported claim	292,942
Add: Reported but not paid claim	86,597
Claims reserve balance	$379,539

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

b. Retained business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2009	152,016	286,131	299,083	299,090	299,090	299,090	299,090	-
2010	250,364	471,245	492,577	492,590	492,590	492,590	492,590	-
2011	258,845	487,210	516,738	516,738	524,602	524,602	524,602	-
2012	274,325	546,682	592,314	596,821	596,821	596,821	596,821	-
2013	352,344	657,319	699,091	699,940	699,940	699,940	699,940	849
2014	218,242	430,030	456,587	460,962	460,962	460,962	460,962	30,932
2015	286,059	546,733	580,497	582,757	582,757	582,757	582,757	296,698

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

Expected future payment	$328,479
Less: Expected reported but not paid claim	(39,223)
Add: Reported but not paid claim	86,597
Retained claims reserve balance	$375,853

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

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

C. Cathay Life (Vietnam)

Direct business development trend (and retained business development trend)

	Development year				
Accident year	1	2	3	4	5
2011	338	579	579	579	579
2012	1,163	1,434	1,434	1,434	1,434
2013	584	728	728	728	728
2014	663	722	722	722	722
2015	1,307	1,628	1,628	1,628	1,628

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

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

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

(1) Credit risk

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

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

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

(2) Liquidity risk

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

Unit: Billion

31 December 2015	Within 1 year	1 to 5 years	Over 5 years
Insurance contracts and financial instruments with discretionary participation features	$(117)	$4.6	$15,446.5

Note: Separate account products are not included.

(3) Market risk

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

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

(1) Credit risk analysis

A. Sources of credit risk

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

a. Issuer credit risk represents a risk that the Company may suffer financial losses for holding debt instruments or bank savings because the issuers (guarantors) or banks are not able to repay due to default, bankruptcy, liquidation or any other similar circumstances.

b. Counterparty credit risk refers to the risk that the counterparty will not meet its obligations to perform or pay as and when due and, as a result, the Company will bear financial losses.

c. Underlying asset credit risk means the risk that the Company may suffer losses arising from deterioration of the credit quality and/or credit rating, increase of credit risk premium or breach of any contract terms of any underlying assets to certain financial instruments.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

B. Concentration risk

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

31 December 2015

Financial assets	Taiwan	Asia	Europe	North America	Emerging markets and others	Total
Cash and cash equivalents	$64,853,928	$2,147,370	$56,256	$64,773,482	$5,106,030	$136,937,066
Financial assets at fair value through profit or loss	9,495,723	414,072	4,397,284	3,449,765	-	17,756,844
Available-for-sale financial assets	257,587,956	25,905,623	53,160,015	135,352,201	58,186,751	530,192,546
Derivative financial assets for hedging	163,545	-	21,009	262,772	-	447,326
Debt instrument investments for which no active market exists	96,324,443	121,222,038	351,900,002	824,204,673	442,381,303	1,836,032,459
Held-to-maturity financial assets	23,478,810	-	-	-	-	23,478,810
Other financial assets	14,500,000	-	3,500,000	-	-	18,000,000
Total	$466,404,405	$149,689,103	$413,034,566	$1,028,042,893	$505,674,084	$2,562,845,051
Proportion	18.2%	5.9%	16.1%	40.1%	19.7%	100.0%

31 December 2014

Financial assets	Taiwan	Asia	Europe	North America	Emerging markets and others	Total
Cash and cash equivalents	$155,570,924	$65,064	$15,377,951	$81,151,066	$78,106,409	$330,271,414
Financial assets at fair value through profit or loss	6,057,829	148,380	12,036,445	5,534,312	-	23,776,966
Available-for-sale financial assets	327,471,560	25,955,362	72,891,378	141,313,916	47,748,463	615,380,679
Derivative financial assets for hedging	67,020	-	60,579	85,299	-	212,898
Debt instrument investments for which no active market exists	74,913,829	85,686,191	252,923,226	508,886,440	330,452,150	1,252,861,836
Held-to-maturity financial assets	24,092,675	-	-	-	-	24,092,675
Other financial assets	35,700,000	-	3,500,000	-	-	39,200,000
Total	$623,873,837	$111,854,997	$356,789,579	$736,971,033	$456,307,022	$2,285,796,468
Proportion	27.3%	4.9%	15.6%	32.2%	20.0%	100.0%

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

C. Credit Quality

Classification of credit quality for financial assets of the Company:

31 December 2015

Financial assets	Normal assets: Investment grade	Normal assets: Non-investment grade or unrated	Past due but not impaired	Impaired	Provision for impairment	Total
Cash and cash equivalents	$136,937,066	$-	$-	$-	$-	$136,937,066
Financial assets at fair value through profit or loss	16,288,641	1,468,203	-	-	-	17,756,844
Available-for-sale financial assets	513,509,125	16,683,421	-	-	-	530,192,546
Derivative financial assets for hedging	447,326	-	-	-	-	447,326
Debt instrument investments for which no active market exists	1,790,495,682	45,536,777	-	429,858	(429,858)	1,836,032,459
Held-to-maturity financial assets	23,478,810	-	-	-	-	23,478,810
Other financial assets	18,000,000	-	-	-	-	18,000,000
Total	$2,499,156,650	$63,688,401	$-	$429,858	$(429,858)	$2,562,845,051
Proportion	97.5%	2.5%	-	-	-	100.0%

31 December 2014

Financial assets	Normal assets: Investment grade	Normal assets: Non-investment grade or unrated	Past due but not impaired	Impaired	Provision for impairment	Total
Cash and cash equivalents	$330,271,414	$-	$-	$-	$-	$330,271,414
Financial assets at fair value through profit or loss	21,699,393	2,077,573	-	-	-	23,776,966
Available-for-sale financial assets	613,929,204	1,451,475	-	735,000	(735,000)	615,380,679
Derivative financial assets for hedging	212,898	-	-	-	-	212,898
Debt instrument investments for which no active market exists	1,244,093,897	8,767,939	-	412,334	(412,334)	1,252,861,836
Held-to-maturity financial assets	24,092,675	-	-	-	-	24,092,675
Other financial assets	39,200,000	-	-	-	-	39,200,000
Total	$2,273,499,481	$12,296,987	$-	$1,147,334	$(1,147,334)	$2,285,796,468
Proportion	99.5%	0.5%	-	0.1%	(0.1)%	100.0%

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

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

31 December 2015

Location	Northern and eastern areas	Central area	Southern area	Overseas	Total
Secured loans	$335,318,324	$53,377,019	$82,410,898	$16,920,004	$488,026,245
Overdue receivables	222,445	104,417	81,846	-	408,708
Total	$335,540,769	$53,481,436	$82,492,744	$16,920,004	$488,434,953
Proportion	69%	11%	17%	3%	100%

31 December 2014

Location	Northern and eastern areas	Central area	Southern area	Overseas	Total
Secured loans	$377,723,395	$58,012,016	$93,625,433	$-	$529,360,844
Overdue receivables	146,055	102,032	39,935	-	288,022
Total	$377,869,450	$58,114,048	$93,665,368	$-	$529,648,866
Proportion	71%	11%	18%	-	100%

E. Secured loans and overdue receivables

31 December 2015

Secured loans and overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	$230,933,600	$160,649,461	$44,964,387	$153,819	$4,685,286	$441,386,553	$4,717,185	$436,669,368
Corporate finance	41,645,215	4,176,027	997,061	-	230,097	47,048,400	327,286	46,721,114
Total	$272,578,815	$164,825,488	$45,961,448	$153,819	$4,915,383	$488,434,953	$5,044,471	$483,390,482

31 December 2014

Secured loans and overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	$248,751,904	$173,044,802	$48,433,735	$110,559	$4,146,863	$474,487,863	$2,937,298	$471,550,565
Corporate finance	45,860,895	4,087,364	1,296,959	-	3,915,785	55,161,003	1,305,923	53,855,080
Total	$294,612,799	$177,132,166	$49,730,694	$110,559	$8,062,648	$529,648,866	$4,243,221	$525,405,645

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

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

	Past due but not impaired		
	Due in 1~2 months	Due in 2~3 months	Total
31 December 2015	$114,996	$38,823	$153,819
31 December 2014	67,555	43,004	110,559

(2) Liquidity risk analysis

A. Sources of liquidity risk

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

B. Liquidity risk management

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

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

C. Maturity analysis of non-derivative financial liabilities:

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

31 December 2015	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Short-term debts	$61,104	$-	$-	$-	$-	$61,104
Payables	19,720,148	383,000	40,191	-	-	20,143,339
Preferred stock liability	-	10,277,322	-	5,266,005	-	15,543,327

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

31 December 2014	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Short-term debts	$232,616	$-	$-	$-	$-	$232,616
Payables	19,631,268	4,366,995	140	-	-	23,998,403
Preferred stock liability	-	15,514,932	10,660,322	5,266,005	-	31,441,259

D. Maturity analysis of derivative financial liability:

31 December 2015	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	$25,644	$27,691	$53,552	$45,216	$-	$152,103
Forward	2,591,911	511,500	-	-	-	3,103,411
CS	36,097,075	-	-	-	-	36,097,075
Option	29,649	-	-	-	-	29,649

31 December 2014	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	$19,020	$11,683	$17,492	$(28,827)	$-	$19,368
Forward	6,212,446	668,956	-	-	-	6,881,402
CS	35,156,563	9,210,915	69,380	-	-	44,436,858

(3) Market risk analysis

A. Sources of market risk

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

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

a. Value at Risk

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

b. Stress testing

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

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

(A) Simple Sensitivity

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

(B) Scenario Analysis

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

(a) Historical scenario

In consideration of the fluctuation of risk factors when a specific historical event happened, the Company simulates what the dollar amount of losses for the current investment portfolio would be in the same period of time.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(b) Hypothetical scenario

The Company makes hypothesis with rational expectations from the extreme market movements to assess the dollar amount of losses for the investment position by taking into consideration the movement of relevant risk factors.

Risk management department performs the stress testing with historical and hypothetical scenarios regularly. The Company's risk analysis, early warning, and business management are in accordance with the stress testing report.

Table of Stress Testing

For the year ended 31 December 2015

Risk Factors	Changes (+/-)	Gain (loss)
Equity risk (Price)	Price decreases by 10%	$(51,057,745)
Interest rate risk (Yield curve)	The main yield curve shifts up by 100 bps	(39,180,072)
Exchange risk (Foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(6,896,040)

Table of Stress Testing

For the year ended 31 December 2014

Risk Factors	Changes (+/-)	Gain (loss)
Equity risk (Price)	Price decreases by 10%	$(48,138,539)
Interest rate risk (Yield curve)	The main yield curve shifts up by 100 bps	(39,335,692)
Exchange risk (Foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(6,003,467)

Note 1: Impacts of credit spread changes are not included.

Note 2: Effects of hedging are considered.

Note 3: Information of subsidiaries is excluded considering the insignificant impact from subsidiaries.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

c. Sensitivity Analysis

Summarization of Sensitivity Analysis
For the year ended 31 December 2015

Risk Factors	Variables (+/-)		Changes in Income	Changes in Equity
Foreign currency risk	USD	appreciates 1%	$2,529,303	$4,435,698
	CNY/CNH	appreciates 1%	1,278,609	309,379
	HKD	appreciates 1%	56,460	647,550
	EUR	appreciates 1%	172,580	155,707
	GBP	appreciates 1%	255,252	36,945
Interest rate risk	Yield curve (USD)	parallelly shifts up 1 bp	-	(135,283)
	Yield curve (AUD)	parallelly shifts up 1 bp	(52)	(2,554)
	Yield curve (EUR)	parallelly shifts up 1 bp	-	(5,100)
	Yield curve (NTD)	parallelly shifts up 1 bp	3,226	(238,614)
Equity price risk	Equity price increases 1%		69,987	5,029,558

Summarization of Sensitivity Analysis
For the year ended 31 December 2014

Risk Factors	Variables (+/-)		Changes in Income	Changes in Equity
Foreign currency risk	USD	appreciates 1%	$2,820,706	$3,242,795
	CNY/CNH	appreciates 1%	2,050,506	189,403
	HKD	appreciates 1%	29,968	473,829
	EUR	appreciates 1%	243,457	75,768
	GBP	appreciates 1%	164,023	32,050
Interest rate risk	Yield curve (USD)	parallelly shifts up 1 bp	-	(123,884)
	Yield curve (AUD)	parallelly shifts up 1 bp	-	(303)
	Yield curve (EUR)	parallelly shifts up 1 bp	-	(12,218)
	Yield curve (NTD)	parallelly shifts up 1 bp	5,108	(247,919)
Equity price risk	Equity price increases 1%		56,827	4,757,027

Note 1: Impacts of credit changes are not included.

Note 2: Effects of hedging are considered.

Note 3: Impacts of change in income are not included in the calculation of change in equity.

Note 4: Profit and loss on the changes in foreign currency risk sensitivity does not consider the impact from reserving or reversing foreign exchange volatility reserve.

Note 5: Information of subsidiaries is excluded considering the insignificant impact from subsidiaries.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

47. Information of financial instruments

(1) Categories of financial instruments

Financial assets

Items	31 December 2015	31 December 2014
Financial assets at fair value through profit or loss		
Designated at fair value through profit or loss at initial recognition	$1,969,360	$3,649,136
Held for trading	33,934,883	58,569,730
Subtotal	35,904,243	62,218,866
Available-for-sale financial assets	1,340,363,856	1,306,108,517
Derivative financial assets for hedging	447,326	212,898
Held-to-maturity financial assets	24,727,582	25,940,630
Loans and receivables		
Cash and cash equivalents (Note)	140,684,909	332,907,182
Receivables	60,358,163	54,561,215
Debt instrument investments for which no active market exists	1,842,960,278	1,256,567,547
Other financial assets	18,000,000	39,200,000
Loans	638,302,971	693,095,163
Guarantee deposits paid	23,550,504	15,383,461
Subtotal	2,723,856,825	2,391,714,568
Total	$4,125,299,832	$3,786,195,479

Note: Exclude cash on hand and revolving funds.

Financial liabilities

Items	31 December 2015	31 December 2014
Financial liabilities at fair value through profit or loss		
Held for trading	$38,859,128	$49,783,588
Financial liabilities at amortized cost		
Short-term debts	61,104	232,616
Payables	20,143,339	23,998,403
Preferred stock liability	15,000,000	30,000,000
Guarantee deposits received	2,757,733	2,675,245
Subtotal	37,962,176	56,906,264
Total	$76,821,304	$106,689,852

(2) Fair value of financial instruments

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

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

a. The carrying amount of cash and cash equivalents, accounts receivables, short-term debts and accounts payable approximate their fair value due to their short maturities.

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

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

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

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

f. The Company evaluates the credit risk of the derivative contract traded over-the-counter through the following calculation. Under the assumption that the Company will not default, the Company determines its credit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Company calculates its debit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the Company. The Company decides estimated probability of default by referring to the probability of default announced by external credit rating agencies. The Company sets estimated loss given default at 60% by considering the experience of Jon Gregory, a scholar, and foreign financial institutions. The estimated exposure at default for current period is evaluated by considering the fair value of the derivative instruments traded at Taipei Exchange.

B. Fair value of financial instruments measured at amortized cost

Other than cash and cash equivalents, accounts receivables and accounts payable whose carrying amount approximate their fair value, the fair value of the Company and Subsidiaries' financial assets and financial liabilities measured at amortized cost is listed in the table below:

	Carrying amount	
	31 December 2015	31 December 2014
Financial assets		
Debt instrument investments for which no active market exists	$1,842,960,278	$1,256,567,547
Held-to-maturity financial assets	24,727,582	25,940,630
Other financial assets	18,000,000	39,200,000

	Fair value	
	31 December 2015	31 December 2014
Financial assets		
Debt instrument investments for which no active market exists	$1,805,098,708	$1,281,147,449
Held-to-maturity financial assets	27,356,563	25,656,769
Other financial assets	17,857,932	39,200,000

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(3) Hedge accounting disclosures

Cash flow hedges

The following table summarizes the terms of the Company and Subsidiaries' interest rate swaps for bonds used as hedging instruments as of 31 December 2015 and 2014:

31 December 2015

Hedged item	Hedging instrument	Fair Value	Expected period of cash flow	Expected period of profit and loss recognized in the statement of comprehensive income
Floating rate bonds	IRS	$447,326	25 January 2016 ~ 26 May 2024	25 January 2016 ~ 26 May 2024

31 December 2014

Hedged item	Hedging instrument	Fair Value	Expected period of cash flow	Expected period of profit and loss recognized in the statement of comprehensive income
Floating rate bonds	IRS	$212,898	23 January 2015 ~ 26 May 2024	23 January 2015 ~ 26 May 2024

The terms of interest rate swap agreements are established based on the terms of the bonds hedged.

The Company and Subsidiaries' interest rate swap agreements are considered to be highly effective cash flow hedges. Amount of effective hedging instrument in cash flow hedges is as follows:

	For the years ended 31 December	
	2015	2014
Amount recognized in other comprehensive income	$234,720	$(235,636)
Amount reclassified from equity to profit or loss	(292)	(30)

(4) Offsetting of financial assets and financial liabilities

The Company and Subsidiaries own financial instruments that do not offset in accordance with IAS 32 but it executed enforceable master netting arrangement or other similar agreements with counterparties. Financial instruments subject to enforceable master netting arrangement or other similar agreements could be settled at net amount as chosen by the counterparties, or the financial instruments could be settled at gross amount if not. However, if one of the counterparty defaults, the other party could choose to settle the transaction at net amount.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Information related to offsetting financial assets and financial liabilities is disclosed as follows:

31 December 2015

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement

Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet: Financial instruments (Note)	Relevant amount that has not been offset on balance sheet: Cash collateral received	Net amount
Derivative financial instrument	$13,206,554	$-	$13,206,554	$(13,206,554)	$-	$-

31 December 2015

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement

Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet: Financial instruments (Note)	Relevant amount that has not been offset on balance sheet: Cash collateral pledged	Net amount
Derivative financial instrument	$38,829,479	$-	$38,829,479	$(13,206,554)	$-	$25,622,925

31 December 2014

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement

Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet: Financial instruments (Note)	Relevant amount that has not been offset on balance sheet: Cash collateral received	Net amount
Derivative financial instrument	$17,855,720	$-	$17,855,720	$(17,855,720)	$-	$-

31 December 2014

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement

Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet: Financial instruments (Note)	Relevant amount that has not been offset on balance sheet: Cash collateral pledged	Net amount
Derivative financial instrument	$49,783,588	$-	$49,783,588	$(17,855,720)	$-	$31,927,868

Note: Master netting arrangement and non-cash collateral are included.

48. Fair value measurement hierarchy

(1) Fair value measurement hierarchy

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(2) Fair value measurement hierarchy of the Company and Subsidiaries' assets and liabilities

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

	31 December 2015			
Items	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Designated at fair value through profit or loss at initial recognition	$1,969,360	$1,969,360	$-	$-
Held for trading				
Stocks	5,174,833	5,174,833	-	-
Bonds	504,299	-	504,299	-
Other	15,456,051	12,972,566	2,483,485	-
Available-for-sale financial assets				
Stocks	522,327,446	512,403,834	2,155,165	7,768,447
Bonds	535,786,364	13,227,738	522,558,626	-
Other	282,250,046	232,221,537	17,077,869	32,950,640
Investment property (Note)	448,801,078	-	-	448,801,078
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	12,799,700	8,450	12,791,250	-
Derivative financial assets for hedging	447,326	-	447,326	-
Liabilities				
Financial liabilities at fair value through profit or loss	38,859,128	-	38,859,128	-

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	31 December 2014			
Items	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Designated at fair value through profit or loss at initial recognition	$3,649,136	$3,649,136	$-	$-
Held for trading				
Stocks	8,616,796	8,616,796	-	-
Bonds	73,584	-	73,584	-
Other	32,124,854	29,825,104	2,299,750	-
Available-for-sale financial assets				
Stocks	479,890,497	469,234,658	1,804,071	8,851,768
Bonds	617,740,889	10,151,309	607,589,580	-
Other	208,477,131	164,742,971	21,139,679	22,594,481
Investment property (Note)	394,969,260	-	-	394,969,260
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	17,754,496	15,658	17,738,838	-
Derivative financial assets for hedging	212,898	-	212,898	-
Liabilities				
Financial liabilities at fair value through profit or loss	49,783,588	-	49,783,588	-

Note: Amount of investment property excludes the parts which were measured at cost.

A. Transfers between Level 1 and Level 2

For the year ended 31 December 2015, the Company and Subsidiaries transferred stocks which were measured at fair value on a recurring basis, from Level 2 to Level 1. A total of $3,079,933 thousand was transferred as its market price was obtainable. For the year ended 31 December 2014, there were no assets transfers between Level 1 and Level 2 fair value measurements.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

B. Reconciliation for fair value measurements in Level 3 for movements

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

	Available-for-sale financial assets	Investment property
1 January 2015	$31,446,249	$394,969,260
Total gains (losses) recognized		
Amount recognized in profit or loss		
Realized gains from available-for-sale financial assets	2,755,860	-
Gains from investment property	-	11,093,687
Amount recognized in other comprehensive income		
Unrealized valuation gains from available-for-sale financial assets	1,114,180	-
Exchange differences resulting from translating the financial statements of foreign operations	-	18,353
Acquisitions or issuances	13,551,568	27,497,328
Transfers to property and equipment	-	(771,721)
Transfers from investment property under construction	-	16,260,770
Transfers from prepayments for buildings and land – Investments	-	8,882
Disposals or settlements	(6,999,391)	(275,481)
Transfers to Level 3	19,440	-
Transfers out of Level 3	(1,168,819)	-
31 December 2015	$40,719,087	$448,801,078

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	Available-for-sale financial assets	Investment property
1 January 2014	$18,519,776	$340,085,420
Total gains (losses) recognized		
Amount recognized in profit or loss		
Realized gains from available-for-sale financial assets	822,161	-
Gains from investment property	-	16,578,788
Amount recognized in other comprehensive income		
Unrealized valuation gains from available-for-sale financial assets	1,224,627	-
Exchange differences resulting from translating the financial statements of foreign operations	-	21,542
Acquisitions or issuances	14,451,007	15,548,211
Transfers from property and equipment	-	10,370,550
Transfers from investment property under construction	-	9,358,621
Transfers from prepayments for buildings and land – Investments	-	11,039,401
Transfers from investment property measured at cost	-	2,333,448
Disposals or settlements	(3,161,213)	(10,366,721)
Transfers out of Level 3	(410,109)	-
31 December 2014	$31,446,249	$394,969,260

Total gains (losses) recognized in profit or loss in the table above contain unrealized gains and losses related to assets on hand as of 31 December 2015 and 2014 in the amount of $11,093,687 thousand and $16,578,788 thousand, respectively.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

C. Information on significant unobservable inputs to valuation

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

	31 December 2015			
	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Available-for-sale financial assets	Market approach	discount for lack of marketability	11%~30%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Income approach	discount for lack of marketability	15%~20%	The higher the discount for lack of marketability, the lower the fair value of the stocks
		growth rate of adjusted net profit after tax	-65%~163%	The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks
		dividend payout ratio	0%~90%	The higher the dividend payout ratio, the higher the fair value of the stocks
Investment property	Refer to Note 16			

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

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(3) Fair value measurement hierarchy of the Company and Subsidiaries' assets and liabilities not measured at fair value but for which the fair value is disclosed

	31 December 2015			
	Total	Level 1	Level 2	Level 3
Financial assets not measured at fair value for which only the fair value is disclosed				
Debt instrument investments for which no active market exists	$1,805,098,708	$3,713,528	$1,801,381,850	$3,330
Held-to-maturity financial assets	27,356,563	151,100	27,205,463	-
Other financial assets	17,857,932	-	17,857,932	-

49. Exchange rates used to translate material financial assets and liabilities denominated in foreign currencies are disclosed as follows:

	31 December 2015		
	Foreign Currency	Exchange Rate	NTD
Financial Assets			
Monetary Items			
USD	58,713,920	33.066000	1,941,434,470
AUD	1,342,350	24.171246	32,446,260
EUR	(Note)	(Note)	(Note)
GBP	(Note)	(Note)	(Note)
CNH	22,728,479	5.032647	114,384,408
Non-Monetary Items			
USD	9,827,120	33.066000	324,943,549
HKD	15,177,855	4.266415	64,755,035

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	31 December 2015		
	Foreign Currency	Exchange Rate	NTD
Investments accounted for using the equity method			
CNY	63,900	5.092100	325,384
USD	3,930	33.066000	129,945
PHP	19,093,900	0.704900	13,459,290
IDR	2,428,064,220	0.002398	5,822,498

	31 December 2014		
	Foreign Currency	Exchange Rate	NTD
Financial Assets			
Monetary Items			
USD	43,706,336	31.718000	1,386,277,565
AUD	975,407	25.959597	25,321,162
EUR	645,638	38.550057	24,889,392
GBP	(Note)	(Note)	(Note)
CNH	37,971,921	5.103418	193,786,595
Non-Monetary Items			
USD	7,870,375	31.718000	249,632,544
HKD	11,662,606	4.089716	47,696,751
Investments accounted for using the equity method			
CNY	137,887	5.112500	704,946
USD	3,976	31.718000	126,123

Note: The amount did not have significant influence.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

Items	31 December 2015 Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	$140,897,419	$-	$140,897,419
Receivables	60,017,517	340,646	60,358,163
Financial assets at fair value through profit or loss	1,276,369	34,627,874	35,904,243
Available-for-sale financial assets	64,174,516	1,276,189,340	1,340,363,856
Derivative financial assets for hedging	-	447,326	447,326
Investments accounted for using the equity method – Net	-	23,494,040	23,494,040
Debt instrument investments for which no active market exists	21,325,924	1,821,634,354	1,842,960,278
Held-to-maturity financial assets	-	24,727,582	24,727,582
Other financial assets – Net	-	18,000,000	18,000,000
Investment property	-	453,296,483	453,296,483
Investment property under construction	-	3,308,553	3,308,553
Prepayments for buildings and land – Investments	-	2,758,288	2,758,288
Loans	75,069	638,227,902	638,302,971
Reinsurance assets	-	664,054	664,054
Property and equipment	-	27,342,746	27,342,746
Intangible assets	-	47,605,978	47,605,978
Deferred tax assets	-	11,519,847	11,519,847
Other assets	768,101	26,792,219	27,560,320
Separate account product assets	5,883,721	474,684,640	480,568,361
Total assets			$5,180,080,508

Items	31 December 2015 Settlement within 12 months	Settlement more than 12 months	Total
Short-term debts	$61,104	$-	$61,104
Payables	20,103,148	40,191	20,143,339
Financial liabilities at fair value through profit or loss	2,268	38,856,860	38,859,128
Preferred stock liability	10,000,000	5,000,000	15,000,000
Insurance liabilities	-	4,158,087,987	4,158,087,987
Reserve for insurance contracts with feature of financial instruments	-	54,002,965	54,002,965
Foreign exchange volatility reserve	-	16,026,449	16,026,449
Provisions	27,776	4,371,673	4,399,449
Deferred tax liabilities	-	36,980,408	36,980,408
Other liabilities	330,966	7,385,599	7,716,565
Separate account product liabilities	1,085,598	479,482,763	480,568,361
Total liabilities			$4,831,845,755

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	31 December 2014		
Items	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	$333,112,783	$-	$333,112,783
Receivables	54,286,327	274,888	54,561,215
Financial assets at fair value through profit or loss	662,160	61,556,706	62,218,866
Available-for-sale financial assets	83,466,066	1,222,642,451	1,306,108,517
Derivative financial assets for hedging	5,399	207,499	212,898
Investments accounted for using the equity method – Net	-	3,057,444	3,057,444
Debt instrument investments for which no active market exists	43,299,643	1,213,267,904	1,256,567,547
Held-to-maturity financial assets	-	25,940,630	25,940,630
Other financial assets – Net	-	39,200,000	39,200,000
Investment property	-	397,812,602	397,812,602
Investment property under construction	-	12,437,283	12,437,283
Prepayments for buildings and land – Investments	-	1,795,276	1,795,276
Loans	45,080	693,050,083	693,095,163
Reinsurance assets	-	287,641	287,641
Property and equipment	-	26,793,682	26,793,682
Intangible assets	-	157,619	157,619
Deferred tax assets	-	13,002,962	13,002,962
Other assets	444,877	15,902,704	16,347,581
Separate account product assets	7,434,381	454,832,395	462,266,776
Total assets			$4,704,976,485

	31 December 2014		
Items	Settlement within 12 months	Settlement more than 12 months	Total
Short-term debts	$232,616	$-	$232,616
Payables	23,998,263	140	23,998,403
Financial liabilities at fair value through profit or loss	5,796	49,777,792	49,783,588
Preferred stock liability	15,000,000	15,000,000	30,000,000
Insurance liabilities	-	3,698,737,657	3,698,737,657
Reserve for insurance contracts with feature of financial instruments	-	55,094,699	55,094,699
Foreign exchange volatility reserve	-	16,846,406	16,846,406
Provisions	-	2,088,438	2,088,438
Deferred tax liabilities	-	28,851,307	28,851,307
Other liabilities	25,734	8,668,965	8,694,699
Separate account product liabilities	410,281	461,856,495	462,266,776
Total liabilities			$4,376,594,589

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

51. Related party transactions

Significant transactions with related parties

(1) Property transactions

Property transactions between the Company and Subsidiaries and related parties are in the nature of undertaking contracted projects, trade, and lease transactions. The terms of such transactions are based on market surveys, the contracted terms of both parties and public bidding.

A. Significant transactions of undertaking contracted projects with related parties are listed below:

	For the year ended 31 December 2015	
Name	Items	Amount
Other related party		
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	$35,994
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	1,743,405
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	236,038
Ally Logistic Property Co., Ltd.	Jui-Fang Logistic Park, etc.	1,532,672
Total		$3,548,109

	For the year ended 31 December 2014	
Name	Items	Amount
Other related party		
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	$81,429
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	937,306
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	10,965
Ally Logistic Property Co., Ltd.	Jui-Fang Logistic Park, etc.	986,137
Total		$2,015,837

The total amounts of contracted projects for real estate as of 31 December 2015 and 2014 between the Company and Subsidiaries and Lin Yuan Property Management Co., Ltd. were $19,778 thousand and $42,443 thousand, respectively.

The total amounts of contracted projects for real estate as of 31 December 2015 and 2014 between the Company and Subsidiaries and San Ching Engineering Co., Ltd. were $8,222,939 thousand and $5,575,823 thousand, respectively.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

The total amounts of contracted projects for real estate as of 31 December 2015 and 2014 between the Company and Subsidiaries and Cathay Real Estate Development Co., Ltd. were $1,728,876 thousand and $49,306 thousand, respectively.

The total amounts of contracted projects for real estate as of 31 December 2015 and 2014 between the Company and Subsidiaries and Ally Logistic Property Co., Ltd. were $4,647,704 thousand and $2,248,932 thousand, respectively.

B. Real-estate rental income (from related parties)

	Rental income	
	For the years ended 31 December	
Name	2015	2014
Parent company		
Cathay Financial Holding Co., Ltd.	$36,585	$35,513
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	8,842	8,844
Associate		
Symphox Information Co., Ltd.	34,404	28,604
Cathay Insurance Company Limited (China)	20,689	19,840
Subtotal	55,093	48,444
Other related party		
Cathay United Bank	426,474	399,485
Cathay Century Insurance Co., Ltd.	101,034	102,006
Cathay Securities Investment Trust Co., Ltd.	41,609	40,820
Cathay Securities Co., Ltd.	29,996	27,571
San Ching Engineering Co., Ltd.	4,762	5,580
Cathay General Hospital	178,137	178,043
Cathay Real Estate Development Co., Ltd.	15,943	17,932
Cathay Healthcare Inc.	52,864	48,540
Cathay Venture Inc.	3,727	3,548
Cathay Hospitality Management Co., Ltd.	187,908	135,540
Cathay Futures Co., Ltd.	3,677	2,962
Liang-Ting Co., Ltd.	3,088	1,544
Ally Logistic Property Co., Ltd.	94,398	38,596
Subtotal	1,143,617	1,002,167
Total	$1,244,137	$1,094,968

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	Guarantee deposits received	
Name	31 December 2015	31 December 2014
Parent company		
Cathay Financial Holding Co., Ltd.	$8,046	$8,046
Associate		
Symphox Information Co., Ltd.	8,343	8,343
Cathay Insurance Company Limited (China)	5,444	5,466
Subtotal	13,787	13,809
Other related party		
Cathay United Bank	101,838	99,771
Cathay Century Insurance Co., Ltd.	24,014	22,465
Cathay Securities Investment Trust Co., Ltd.	19,123	9,270
Cathay Securities Co., Ltd.	7,157	6,744
Cathay General Hospital	10,566	10,166
Cathay Real Estate Development Co., Ltd.	3,751	4,028
Cathay Healthcare Inc.	12,289	12,192
Cathay Hospitality Management Co., Ltd.	212,511	159,960
Ally Logistic Property Co., Ltd.	18,650	650
Subtotal	409,899	325,246
Total	$431,732	$347,101

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

C. Real-estate rental expenses (to related parties)

	Rental expense	
	For the years ended 31 December	
Name	2015	2014
Other related party		
Cathay Real Estate Development Co., Ltd.	$7,706	$7,852
Cathay United Bank	60,858	59,185
Total	$68,564	$67,037

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	Guarantee deposits paid	
Name	31 December 2015	31 December 2014
Other related party		
Cathay United Bank	$15,910	$15,293

According to contracts, leasing periods are generally 1 to 2 years, and rentals are usually paid on a monthly basis.

(2) Cash in banks

Name	Items	31 December 2015	31 December 2014
Other related party			
Cathay United Bank	Time deposit	$9,961	$4,482
	Cash in bank	19,520,322	29,939,658
Indovina Bank Limited	Cash in bank	9,241	9,086
Total		$19,539,524	$29,953,226

Interest income from Cathay United Bank for the years ended 31 December 2015 and 2014 were $24,106 thousand and $21,682 thousand, respectively.

Interest income from Indovina Bank Limited for the years ended 31 December 2015 and 2014 were $226 thousand and $171 thousand, respectively.

As of 31 December 2015 and 2014, time deposit pledged were $4,482 thousand and $4,482 thousand, respectively.

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

Name	31 December 2015	31 December 2014
Parent company		
Cathay Financial Holding Co., Ltd.	$100,000	$-
Other related party		
Cathay United Bank	-	3,000
Total	$100,000	$3,000

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(4) Secured loans

	For the year ended 31 December 2015		
Name	Maximum amount	Rate	Ending balance
Other related party			
Cathay General Hospital	$2,634,550	2.01%~2.55%	$-
Other	981,268	1.32%~3.71%	967,009
Total			$967,009

	For the year ended 31 December 2014		
Name	Maximum amount	Rate	Ending balance
Other related party			
Cathay General Hospital	$2,926,691	2.01%~2.55%	$2,634,550
Other	1,005,309	1.34%~3.78%	918,376
Total			$3,552,926

Interest income from Cathay General Hospital for the years ended 31 December 2015 and 2014 were $19,895 thousand and $61,584 thousand, respectively.

Interest income from Other for the years ended 31 December 2015 and 2014 were $17,385 thousand and $14,551 thousand, respectively.

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

Name		31 December 2015	31 December 2014
Other related party			
Cathay Securities Investment	Market value	$1,776,158	$3,031,486
Trust Co., Ltd. managed funds	Cost	$1,738,698	$2,871,270

(6) Discretionary account management balance

Name	31 December 2015	31 December 2014
Other related party		
Cathay Securities Investment Trust Co., Ltd.	$174,054,401	$210,144,489

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(7) Other receivables

Name	31 December 2015	31 December 2014
Parent company		
Cathay Financial Holding Co., Ltd. (Note)	$7,748,130	$8,926,622
Other related party		
Cathay Century Insurance Co., Ltd.	240,495	264,638
Cathay Securities Investment Trust Co., Ltd.	28,199	23,758
Subtotal	268,694	288,396
Total	$8,016,824	$9,215,018

Note: Receivables are refundable tax under the consolidated income tax system.

(8) Reinsurance assets

Name	31 December 2015	31 December 2014
Subsidiary		
Cathay Insurance (Bermuda) Co., Ltd.	$1,035	$25,206

(9) Guarantee deposits paid

Name	31 December 2015	31 December 2014
Other related party		
Cathay Futures Co., Ltd.	$1,180,845	$515,748

For the years ended 31 December 2015 and 2014, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were $1,209 thousand and $1,014 thousand, respectively.

(10) Guarantee deposits received

Name	31 December 2015	31 December 2014
Other related party		
Lin Yuan Property Management Co., Ltd.	$5,000	$5,000
San Ching Engineering Co., Ltd.	275,286	771,570
Cathay Hospitality Management Co., Ltd.	120,257	145,409
Ally Logistic Property Co., Ltd.	382,705	308,950
Total	$783,248	$1,230,929

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(11) Other payables

Name	31 December 2015	31 December 2014
Parent company		
Cathay Financial Holding Co., Ltd. (Note)	$383,000	$4,366,995
Associate		
Symphox Information Co., Ltd.	15,080	3,520
Other related party		
Cathay United Bank	362,393	455,244
Cathay Century Insurance Co., Ltd.	8,338	3,084
Cathay Securities Investment Trust Co., Ltd.	9,602	15,336
Lin Yuan Property Management Co., Ltd.	5,594	1,984
San Ching Engineering Co., Ltd.	-	7,479
Subtotal	385,927	483,127
Total	$784,007	$4,853,642

Note: The payables consist of interest expenses accrued from preferred stock liability.

(12) Preferred stock liability

Name	31 December 2015	31 December 2014
Parent company		
Cathay Financial Holding Co., Ltd.	$15,000,000	$30,000,000

(13) Premium income

	For the years ended 31 December	
Name	2015	2014
Other related party		
Cathay United Bank	$82,007	$66,907
Cathay Century Insurance Co., Ltd.	18,523	19,295
Cathay Securities Investment Trust Co., Ltd.	3,269	2,840
Cathay General Hospital	41,487	40,813
Cathay Securities Co., Ltd.	6,379	6,473
Ling Yuan Property Management Co., Ltd.	3,295	2,525
Shanghai Lujiazui Finance & Trade Zone Development Company Limited	323	7,686
Other	159,628	139,680
Total	$314,911	$286,219

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(14) Handling fees earned

Name	For the years ended 31 December 2015	2014
Other related party		
Cathay Securities Investment Trust Co., Ltd.	$96,499	$124,015

(15) Insurance expenses

Name	For the years ended 31 December 2015	2014
Other related party		
Cathay Century Insurance Co., Ltd.	$148,130	$160,401

(16) Indemnity income

Name	For the years ended 31 December 2015	2014
Other related party		
Cathay Century Insurance Co., Ltd.	$926	$7,836

(17) Reinsurance income

Name	For the years ended 31 December 2015	2014
Subsidiary		
Cathay Insurance (Bermuda) Co., Ltd.	$129,789	$133,295

On 1 April 2000, Cathay Insurance (Bermuda) Co., Ltd. engaged in the reinsurance business providing reinsurance for RGA Global Reinsurance Company and Central Reinsurance Corporation's accidental insurance. For the years ended 31 December 2015 and 2014, the Company assumed 90% of the reinsurance business from Cathay Insurance (Bermuda) Co., Ltd.

(18) Reinsurance service expenses

Name	For the years ended 31 December 2015	2014
Subsidiary		
Cathay Insurance (Bermuda) Co., Ltd.	$8,867	$9,406

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(19) Reinsurance claim payments

	For the years ended 31 December	
Name	2015	2014
Subsidiary		
Cathay Insurance (Bermuda) Co., Ltd.	$130,238	$112,979

(20) Reinsurance commission expenses

	For the years ended 31 December	
Name	2015	2014
Subsidiary		
Cathay Insurance (Bermuda) Co., Ltd.	$3,091	$4,334

(21) Other operating costs

	For the years ended 31 December	
Name	2015	2014
Other related party		
Cathay United Bank	$598,622	$456,206
Cathay Securities Investment Trust Co., Ltd.	124,013	173,806
Total	$722,635	$630,012

(22) Operating expenses

	For the years ended 31 December	
Name	2015	2014
Associate		
Symphox Information Co., Ltd.	$276,010	$259,002
Other related party		
Seaward Card Co., Ltd.	92,814	98,340
Cathay United Bank	6,161,228	3,911,084
Cathay Venture Inc.	-	9,223
Lin Yuan Property Management Co., Ltd.	696,826	718,026
Cathay Real Estate Development Co., Ltd.	11,195	15,610
Cathay Futures Co., Ltd.	3,766	2,714
Cathay Healthcare Inc.	9,248	7,726
San Ching Engineering Co., Ltd.	3,906	8,622
Subtotal	6,978,983	4,771,345
Total	$7,254,993	$5,030,347

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(23) Non-operating income

Name	For the years ended 31 December 2015	2014
Parent company		
Cathay Financial Holding Co., Ltd.	$4,658	$4,575
Other related party		
Cathay Century Insurance Co., Ltd.	1,447,140	1,378,655
Cathay United Bank	136,484	152,080
Cathay Securities Investment Trust Co., Ltd.	23,432	21,090
Cathay Healthcare Inc.	4,294	3,992
Cathay General Hospital	5,766	5,533
Cathay Securities Co., Ltd.	3,096	2,402
Subtotal	1,620,212	1,563,752
Total	$1,624,870	$1,568,327

Non-operating income is mainly generated from the Company and Subsidiaries' integrated marketing activities.

(24) Non-operating expense

Name	For the years ended 31 December 2015	2014
Parent company		
Cathay Financial Holding Co., Ltd.	$897,932	$908,000

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

(25) Purchase of securities

Name	Securities	For the year ended 31 December 2015 Shares	Amount
Parent company			
Cathay Financial Holding Co., Ltd.	Conning Holdings Corp.	100,695	$705,548

There was no significant transaction of securities with related parties for the year ended 31 December 2014.

(26) Other

As of 31 December 2015 and 2014, the nominal amounts of the financial instruments transactions with Cathay United Bank are summarized as below (USD in thousands):

Item	31 December 2015	31 December 2014
CS contracts	USD 2,893,000	USD 250,000

(27) Key management personnel compensation

	For the years ended 31 December	
	2015	2014
Short-term employee benefits	$132,289	$121,582
Post-employment benefits	1,756	1,782
Total	$134,045	$123,364

The management of the Company includes directors, senior vice general managers and the above.

52. Pledged assets

(1) The Company

As of 31 December 2015 and 2014, the Company provided cash, time deposits and government bonds to its lessees as guarantees for the guarantee deposits received and bonds pledged with courts in legal as guarantee of litigations. Moreover, pursuant to Article 141 of the Insurance Act, the Company deposited 15% of its capital in the Central Bank as the "Guaranteed Depository Insurance". Details are as follows:

	31 December 2015	31 December 2014
Guarantee deposits paid – Government bonds	$12,578,548	$9,296,415
Guarantee deposits paid – Time deposits	608,582	512,482
Guarantee deposits paid – Others	31,304	25,836
Total	$13,218,434	$9,834,733

Pledged assets are summarized based on the net carrying amounts.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(2) Cathay Lujiazui Life

	31 December 2015	31 December 2014
Guarantee deposits paid	$1,629,472	$1,636,000

According to the requirement of the China Insurance Regulatory Commission, the guaranteed deposit is 20% of the registered capital. The guaranteed deposits of Cathay Lujiazui Life are time deposits.

53. Commitment and Contingencies

(1) Legal claim contingency

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

(2) Investment commitment for private equity fund

As of 31 December 2015, the maximum remaining capital commitment for the contracted private equity fund of the Company was US$873,373 thousand, EUR$92,379 thousand and GBP$1,148 thousand.

54. Significant disaster damages

None.

55. Significant subsequent events

None.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

56. Other matters

(1) Discretionary account management

A. As of 31 December 2015 and 2014, the Company contracts with securities investment trust business for discretionary investments management. The investment details are disclosed as follows:

	31 December 2015	
Items	Carrying amount	Fair value
Listed stocks	$108,750,029	$108,750,029
Overseas stocks	46,578,040	46,578,040
Repurchase bonds	4,348,000	4,348,000
Cash in banks	12,738,482	12,738,482
Beneficiary certificates	2,233,839	2,233,839
Futures and options	1,157,650	1,157,650
Total	$175,806,040	$175,806,040

	31 December 2014	
Items	Carrying amount	Fair value
Listed stocks	$125,190,176	$125,190,176
Overseas stocks	44,606,537	44,606,537
Repurchase bonds	14,093,000	14,093,000
Cash in banks	23,123,022	23,123,022
Beneficiary certificates	5,615,021	5,615,021
Futures and options	746,019	746,019
Total	$213,373,775	$213,373,775

B. As of 31 December 2015, the Company entered into discretionary account management contracts in the amounts of NT$97,000,000 thousand, US$1,237,000 thousand, and HK$1,780,000 thousand. As of 31 December 2014, the Company entered into discretionary account management contracts in the amounts of NT$130,000,000 thousand, US$1,175,000 thousand and HK$1,550,000 thousand.

(2) Revenue and expenses arising from business transactions, promotion activities and information sharing between parent company and other subsidiaries are directly recognized or allocated to the Company and its affiliates by using reasonable allocation method based on the attribution of the transactions.

(3) Capital management

A. Objectives

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

B. Policies

In order to assume all types of risks, the Company applies capital adequacy ratio as the indicator for capital adequacy. The Company calculates capital adequacy ratio periodically and aperiodically to monitor the status of capital adequacy in the short and mid-term. The Company sets business objectives and plans asset allocation based on the ratio.

C. Procedures

a. Periodically

The Company regularly reviews the capital adequacy ratio. The Company uses assets and liabilities model based on cash flow of current contracts and assets, expected new contracts, and the best estimated scenario to estimate the capital adequacy ratio in the future year and analyzes solvency. If the expected ratio deviates from related control standards, the Company decreases the risk exposures or increases capital.

b. Aperiodically

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

D. Capital adequacy ratio

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

(4) Structured entities

A. Consolidated structured entities

The Company owns real estate investment and management organizations as consolidated structured entities. As of 31 December 2015, the Company and Subsidiaries provided loans amounting to GBP$345,000 thousand to the consolidated structured entities.

B. Unconsolidated structured entities

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

Types of structured entity	Nature and purpose	Interests owned
Private equity fund	Investment in private equity funds to receive returns	Investment in shares or limited partnership interests issued by the fund
Securitization vehicle	Investment in asset-backed security to receive returns	Investment in securitization vehicles issued by the entity

b. As of 31 December 2015, the carrying amount of assets recognized by the Company and Subsidiaries relating to their interests in unconsolidated structured entities is disclosed as follows:

	Private equity funds	Asset-backed securities
Available-for-sale financial assets	$32,950,640	$120,360,084
Debt instrument investments for which no active market exists	-	185,055,820
Total	$32,950,640	$305,415,904

57. Information regarding investment in Mainland China

On 25 December 2002 and 24 July 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US$22,850 thousand and US$27,150 thousand, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from US$50,000 thousand to US$48,330 thousand approved by MOEAIC on 20 December 2010. Also, MOEAIC authorized the Company to remit US$59,000 thousand as the registered capital again on 16 May 2008. MOEAIC authorized the Company to remit US$3,400 thousand as the registered capital again on 2 April 2012. MOEAIC also authorized the revision of the amount of US$32,520 thousand of unexecuted project to CNY$200,000 thousand to avoid currency risk on 14 September 2013. The total registered capital was US$110,730 thousand. On 25 September 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. The Company’s subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on 29 December 2004 and changed its name to Cathay Lujiazui Life Insurance Company Ltd. following approval by the China Insurance Regulatory Commission on 12 August 2014. The Company has remitted US$48,330 thousand to the subsidiary as of 31 December 2009. The Company injected additional US$29,880 thousand on 29 September 2010 and CNY$200,000 thousand on 8 May 2014. As of 31 December 2015, the Company’s remittances to the subsidiary totaled approximately CNY$200,000 thousand and US$78,210 thousand.

On 17 October 2007, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US$26,390 thousand as the registered capital to establish a China-based general insurance subsidiary (in the form of a joint venture with Cathay Century Insurance) of which was also approved by China Insurance Regulatory Commission on 8 October 2007. On 6 March 2008, MOEAIC authorized the Company to increase the remittances from US$26,390 thousand to US$28,960 thousand. On 15 August 2008, MOEAIC further authorized the Company to revise the remittance from US$28,960 thousand to US$28,140 thousand. The joint venture company named Cathay Insurance Company Ltd. (China) established by the Company and Cathay Century Insurance in Shanghai has acquired a business license of an enterprise as legal person on 26 August 2008. On 28 May 2013, MOEAIC authorized the Company to remit CNY$200,000 thousand to increase the share capital. As of 31 December 2015, the Company’s remittances to this general insurance company totaled approximately CNY$200,000 thousand and US$28,140 thousand.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

On 1 November 2011 and 11 April 2012, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit CNY$300,000 (US$47,000) thousand and CNY$500,000 (US$80,000) thousand, respectively. A total of US$127,000 thousand was used as the registered capital to establish a China-based company named Lin Yuan (Shanghai) Real Estate Co., Ltd. The Company's subsidiary, Lin Yuan (Shanghai) Real Estate Co., Ltd. has acquired a business license of an enterprise as legal person on 15 August 2012. On 1 April 2013, MOEAIC authorized the Company to remit CNY$700,000 (US$111,000) thousand to increase the share capital. As of 31 December 2015, the Company's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately CNY$1,500,000 thousand.

58. Segment information

(1) General information

The Company and Subsidiaries abide by the provisions of insurance law for insurance business operations. In accordance with IFRS 8, the Company and Subsidiaries provide insurance policy products and the overall business decision-makers make decisions based on resource allocation of the Company as a whole, making the entire company one functioning entity.

(2) Information of operating revenue by territory

The Company and Subsidiaries' operating revenues are primarily from premium income and investment income in both domestic and foreign area. The relevant operating revenue information is disclosed as follows:

	For the years ended 31 December	
	2015	2014
Domestic	$584,962,900	$649,667,041
Foreign	141,293,587	117,664,242
Total	$726,256,487	$767,331,283