

Stock Code : 6025

2015 Annual Report

Life Insurance



Bank Taiwan Life Insurance

2015 Annual Report

Bank Taiwan Life Insurance



August 2016



www.twfhlife.com.tw

Date of Publication: August 2016

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Annual Report of BankTaiwan Life Insurance

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I . Letter to Shareholders

Reviewing the business of 2015, we find that the global economic growth was not as good as expected, with the International Monetary Fund (IMF) lowering the expected growth rate of global economy, especially for those of emerging markets. In addition, with the plummeting of crude oil price and an ever-fluctuating financial market, the financial forecasts and economic outlook for the Eurozone, the United States, China and other regions remain gloomy. The same could be said of Taiwan, which had a disappointing economic growth rate of 0.75%.

In 2015, domestic insurance companies were adversely impacted by the sluggish stock market. Therefore, the overall performance was below expectation. Overall revenue of the insurance industry amounted to NTD 3,459,665 million, an increase of up to 4.51% compared to 2014. The investment-linked and interest-saving insurance products were the key drivers. The growth rate of instalment premium income was up to 15.2% compared to 2014.

BankTaiwan Life Insurance Co., Ltd. ("the company") launched its business transformation program in 2013. With regard to business operations, our goal is "To Adjust Liability Structure and Lower Capital Costs", which will focus on the development and sale of long-term instalment products. In terms of the company financials, our goal is "To Improve Asset Quality and Pursue Long-Term Profit". Moreover, we will follow the 12-Year Roadmap of the company. According to Phase I (2015-2018) of the Roadmap, we have since 2015 focused on the development and sale of long-term instalment products, as well as the expansion in both breadth and depth of our sales channels, to make sure the company would meet the solvency requirements under IFRS 4 before 2018.

Due to excellent marketing of long-term instalment products, the company's First-Year Premium income increased by 134% from 2014 to NTD 8,985 million in 2015, which surpasses not only the overall growth rate of the life insurance industry but also the budgeted figure of NTD 4,925 million, an increase of 82%. At the same time, First-Year Premium Equivalent (FYPE) income accounted for 63% of the First-Year Premium income compared to 33% in 2014, which meets the 50% goal stipulated by the Financial Supervisory Commission. On the other hand, according to analysis of the First-Year Premium income, in 2015 the company's premium of instalment products accounted for 59.1%, compared to 25.5% in the previous year, which was the first time that the First-year Premium income had exceeded 10%. All these demonstrate what a great success our business transformation program has been and how the program will help the company

build its competitive edge in the long run.

As of the end of 2015, the company's total assets reached NTD 357,342 million; the revenue was NTD 41,040 million; the operating expenses was NTD 43,544 million; the company's current-term net loss was NTD 2,510 million; the earnings per share (EPS) was NTD -1.36. The main causes for the loss are as follows. On the one hand, in order to comply with government regulations and to manage the liability structure of the company, the sales team of the company had been focusing on the sale of long-term instalment insurance products, which yielded higher commissions in the first year and required a higher premium deficiency reserve, which in turn ate away at the profit of the company. On the other hand, our profit was negatively impacted by the stock market crash in China, which created loss as a result of the disposition of certain stocks pursuant to our stop-loss mechanism. Although the company is operating at a loss, due to the success of the business transformation program launched in 2013, our liability structure and solvency have shown marked improvement. This will alleviate the financial pressure of the company going forward, and put it on the road to financial health.

In September 2015, the Taiwan Ratings Company once again gave the company a "twAAA" rating for its long-term issuer credit and financial strength, and a credit outlook of "stable". Standard & Poor's in the US also gave the company an "A+" rating for long-term credit and a "cnAAA" rating for our long-term credit in the Greater China region, and a credit outlook of "stable". Our rating is ranked No. 1 among domestic insurance companies, which means that we are a robust and solvent company with an extremely strong financial outlook.

In response to the government's policy of increasing insurance security and to an aging population with a low birth rate, the company has developed long-term instalment, foreign currency, and health insurance-related products, which were recognized as "The Most Innovative Product In the Insurance Industry" in 2015's Faith, Hope & Love Awards of Insurance. In addition, we were the only company to obtain more than 98% persistency for long-term life insurance in 13-month and 25-month insurance policies at the end of 2015. This shows that the company is able to provide considerate and reliable services and has built trust and credibility with our customers. The company won "Best Sustainable Management of Insurance Company" in 2015 given out by Excellence Magazine.

According to *Global Insurance Review 2015 and Outlook 2016/17* published by Swiss Reinsurance Company Ltd ("Swiss Re"), the global economy faces three main headwinds: slower growth in China, lower commodity prices and a potential rate increase by the Federal Reserve. Although the economy is expected to gradually recover in 2016, the

insurance industry will continue to be challenged by low interest rates until next year. Swiss Re predicted that growth of premium income in advanced markets in 2016 and 2017 is expected to be a subdued 2.4% due to low interest rates and uncertainty created by regulatory changes. In emerging markets where regulatory oversight is not as stringent or where there is improved use of available technologies, premiums will grow by 10% or more, especially Asia, which is expected to have a growth of about 13%. A key issue in many emerging markets, however, will be the implementation of risk-based solvency regimes.

In 2016, the company, with its glorious and long history, and as the most trusted and the only state-owned insurance company in Taiwan, will continue to support government policies with the aim of protecting the middle class. We will follow the 12-Year Roadmap to meet the budgeted goal of NT\$ 8,995 million for First-Year Premium income and NT\$ 27,914 millions for total premium income in the hope of outperforming ourselves. On the other hand, we will continue to enhance our risk management mechanism, follow government policies, improve business structure and working capital performance, enhance employee development programs, upgrade our information system and instill in the minds of employees the importance of regulatory compliance. Leveraging on our achievements in 2015, we will continue to follow the "12-Year Roadmap of BankTaiwan Life Insurance" and improve the operational efficiency of the company. At the same time, we aim to become a "Learning Organization" that will "Re-engineer the Organizational Structure". With all these steps, we hope to further develop our soft power and to continue our restructuring by adoption of organizational change and new management ideas. Although resources are limited, we do believe that the company will become another powerful engine for growth and profit for our holding company.

Chairperson



President



II. Company Introduction

A. Date of Incorporation: January 2008.

B. Company History

This company succeeded to the Department of Life Insurance, Central Trust of China, which was founded in October, 1935 and underwrote fire insurance, flood insurance and life insurance at that time. Afterward it established the Department of Life Insurance for underwriting life insurance. After the migration to Taiwan in 1949, it started military insurance on June 1, 1950. The former company originally focused on the policy-oriented group life insurance and then had transferred to underwriting self and group commercial life insurance since 1961. On July 1, 2007, Central Trust of China was merged into Bank of Taiwan and its Department of Life Insurance was renamed to the Department of Life Insurance, Bank of Taiwan. To comply with national banking policy, BankTaiwan Life Insurance Co. Ltd., a subsidiary company of insurance under the Taiwan Financial Holding Co. Ltd., was established on January 2, 2008 by spinning out of Life Insurance, Bank of Taiwan. Its business covers life insurance, accident insurance, health insurance, annuity insurance and international insurance business, as well as being the agent of military insurance, substitute service insurance and holding real estate loan.

This company is a national life insurance company and has rated an extremely excellent performance of financial integration and scale economy under the developing strategy of Taiwan Financial Holding Co. Ltd. Its business ideas are "professionalism, innovation, passion and service". We will integrate all the resources of the financial holding company to develop niche products, expand sales, improve financial status, promote performance of information systems, promote operation efficiency and promote customer satisfaction to create a superior national insurance company earning customers' trust and satisfaction.

- October, 1935: Central Trust of China was established and its insurance department (the former of BankTaiwan Life Insurance) underwrote flood insurance, fire insurance and life insurance.

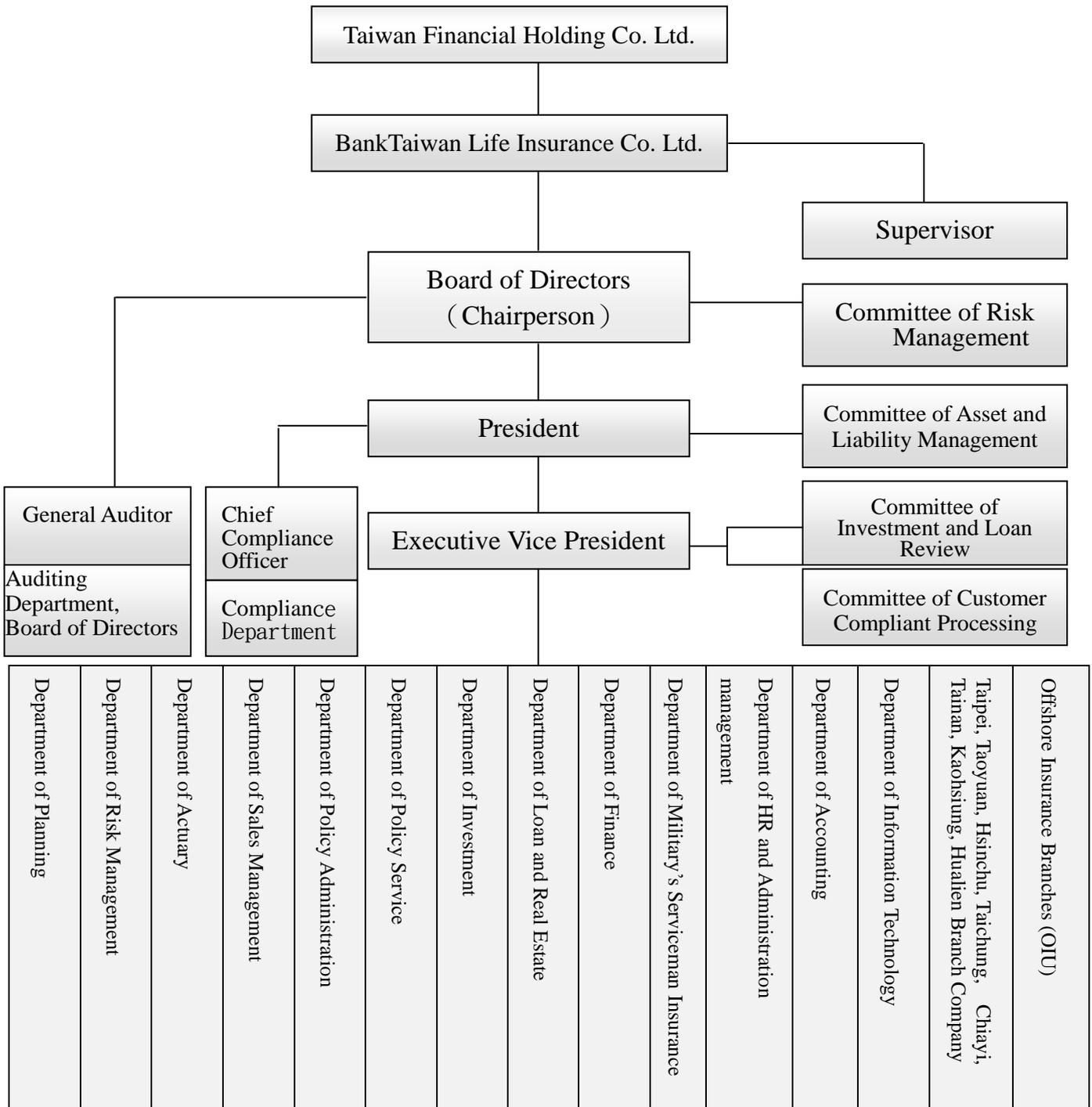
- March, 1941: The insurance division of Central Trust of China was expanded to two departments: property insurance department (for flood and fire insurance) and life insurance department (for life insurance).
- June, 1950: Military insurance was started on behalf of Ministry of National Defense.
- March, 1983: "Central Life Insurance" was registered as a trademark.
- November, 1983: Life Insurance Section in Kaohsiung was established.
- September, 1984: Life Insurance Section in Taichung was established.
- July, 1988: Life Insurance Section in Taichung and in Kaohsiung were reinstated to Service Division.
- June, 1990: Office in Hualien was established.
- May, 1991: Service Division in Taichung and in Kaohsiung and Office in Hualien were reinstated to Contact Office.
- February, 1993: Contact Office in Taoyuan and in Hsinchu were established.
- July, 1993: Contact Office in Tainan was established.
- August, 1993: Contact Office in Chiayi was established.
- June, 1998: Contact Office in Taoyuan and in Taichung and in Tainan and in Kaohsiung were reinstated to Branch Office.
- October, 1998: Branch Office in Taipei was established and Contact Office in Hsinchu and in Chiayi and in Hualien were reinstated to Branch Office.
- July, 2003: Department of Life Insurance, Central Trust of China was reinstated to Department of Life Insurance, Central Trust of China Co. Ltd.
- July, 2007: Central Trust of China was merged into Bank of Taiwan and the Department of Life Insurance, Central Trust of China Co. Ltd. was renamed to the Department of Life Insurance, Bank of Taiwan Co. Ltd. The business of military insurance was also transferred. Branch Office in Taipei and in Taoyuan and in Hsinchu and in Taichung and in Chiayi and in Tainan and in Kaohsiung and in Hualien were renamed to Branch Department. The trademark was changed to "BankTaiwan Life Insurance".

- January, 2008: BankTaiwan Life Insurance Co. Ltd., a subsidiary company of insurance under the Taiwan Financial Holding Co. Ltd., was established from the Department of Life Insurance, Bank of Taiwan Co. Ltd. The business of military insurance was still in business. Branch Department in Taipei and in Taoyuan and in Hsinchu and in Taichung and in Chiayi and in Tainan and in Kaohsiung and in Hualien were renamed to Branch Company. The trademark was still "BankTaiwan Life Insurance".
- March, 2016: Offshore Insurance Branches (OIU) was established.

III. Corporate Governance Report

A. Organization

1. Organization Chart



2. Job Description of All Units

Unit	Job Description
Auditing Department, Board of Directors	<ol style="list-style-type: none"> 1. Planning and administrating the internal auditing in this company. 2. Reviewing and tracking the evaluation of all unites in this company. 3. Drafting and amending the protocols of all operations and managements. 4. Supervising the self-checking of all units. 5. Tracking the improvement on the suggestions from evaluations made by financial supervisory authority, accountants, internal auditing unit and business units and reporting the improvement to the board of directors and supervisors on a regular basis. 6. Drafting and amending the relevant protocols. 7. Administrating other business related to auditing.
Department of Planning	<ol style="list-style-type: none"> 1. Planning and drafting the operation and business policy of this company. 2. Drafting, amending, administrating and analyzing the annual plans of this company. 3. Drafting and amending the constitutions and organization regulations of this company. 4. Coordinating, planning, administrating, tracking and managing the specially designated projects of this company. 5. Drafting and administrating the annual performance evaluations of this company. 6. Taking charge of the organization development and job assignment of this company. 7. Planning and administrating the credibility evaluation of the this company. 8. Administrating other affairs related to planning.
Department of Risk Management	<ol style="list-style-type: none"> 1. Drafting and amending the policy of risk management, and drafting and coordinating the regulations of risk management. 2. Warning, evaluating, and supervising the assets and liabilities. 3. Managing capital adequacy. 4. Assessing, evaluating, monitoring, managing, revealing and reporting the overall risk. 5. Taking charge of the Committee of Risk Management and the Committee of Assets and Liabilities Management. 6. Planning and establishing the systems of risk management. 7. Assisting other units in administrating the regulations of risk management. 8. Supervising other units to manage risk.

Unit	Job Description
	9. Administrating other affairs related to risk management.
Department of Actuary	<ol style="list-style-type: none"> 1. Developing, analyzing and evaluating the products of personal insurance. 2. Formulating and amending the new product specification, insurance policy, and all actuarial numbers. 3. Formulating and amending the sales commissions for the products of personal insurance. 4. Taking charge of the reports to the supervisory authority for the products of personal insurance. 5. Calculating and evaluating all kinds of reserve funds. 6. Analyzing the empirical statistics of insurance business and the actuarial assessments. 7. Analyzing the source of business profits. 8. Taking charge of the actuarial certification. 9. Signing, terminating and amending the reinsurance policies of personal insurance. 10. Administrating all kinds of reinsurance business of personal insurance and taking charge of the relevant accounting. 11. Administrating other affairs related to actuary and reinsurance.
Department of Sales Management	<ol style="list-style-type: none"> 1. Studying, drafting and signing the contracts for the sales in cooperation with banks. 2. Signing the contracts for the products in cooperation with banks. 3. Contacting, counselling, promoting, training and managing the sales in cooperation with banks. 4. Studying, drafting and signing the contracts for the agents and brokers. 5. Recruiting, counselling, promoting, supervising and evaluating the agents and brokers. 6. Conducting the annual evaluations and relevant statistics for the agents and brokers. 7. Studying the business strategies and plans for the service organizations of this company. 8. Planning the establishment and operation of contact offices for the service organizations of this company. 9. Contract signing, counselling, promoting and evaluating the salesmen of the service organizations of this company. 10. Drafting the business regulations of group insurance and corporate annuity. 11. Drafting the business strategies and plans of group insurance and corporate annuity. 12. Drafting and signing the business contracts of group insurance and corporate annuity.

Unit	Job Description
	<ol style="list-style-type: none"> 13. Drafting the regulations, business strategies and marketing plans for direct sale. 14. Drafting the contracts of direct sale and the introduction of products. 15. Mailing the the booklets of direct sale, collecting the reply mails, analyzing the replying ratio and mailing thank-you letters. 16. Taking charge of the salesman qualification tests, registration, disciplinary policy, educational training notification and certification renewing. 17. Formulating the transaction fees, sale commissions, service pays and other bonuses for all sale channels. 18. Providing the product introduction, posters and supplementary material. 19. Administrating other affairs related to personal insurance.
Department of Policy Administration	<ol style="list-style-type: none"> 1. Underwriting the personal insurances. 2. Issuing the personal insurance policies. 3. Taking charge of the payment notification for personal insurance and loan interest, payment receiving, registration and receipt management. 4. Notifying the customers of the unpaid payment of personal insurance. 5. Assigning jobs for service staff, supervising and deciding bonuses. 6. Taking charge of the contract amendment of the personal insurance policies. 7. Terminating and resuming the personal insurance policies. 8. Administrating other affairs related to contract administration.
Department of Policy Service	<ol style="list-style-type: none"> 1. Accepting and tacking the complaints from customers. 2. Accepting, referring and counselling the cases at the counter. 3. Investigating, reviewing, calculating and paying the insurance benefits of death, disability and medical treatments for the personal insurances. 4. Reviewing, calculating and paying the survival benefits, due benefits and surrendering refund for the personal insurances. 5. Examining, calculating and paying the policy loan. 6. Administrating other affairs related to contract service.
Department of Investment	<ol style="list-style-type: none"> 1. Investing securities. 2. Investing and trading financial derivatives. 3. Trading Certificate Deposits. 4. Loaning securities. 5. Controlling transactions other than real estates and loans not to exceed the limitation of transaction quota.

Unit	Job Description
	<ol style="list-style-type: none"> 6. Collecting and analyzing the investment information and research reports of domestic and overseas industries and listed companies. 7. Managing the entrusted investment. 8. Planning and administrating risk strategies. 9. Taking charge of investment-linked insurance policies. 10. Taking charge of investments other than real estates, loans and insurance loans.
Department of Loan and Real Estate	<ol style="list-style-type: none"> 1. Acquiring, trading and exploiting real estate. 2. Renting, maintaining and managing real estate. 3. Marketing, planning and operating real estate. 4. Loaning on the certification by qualified organizations, assets, real estate or securities. 5. Managing debts, collecting non-accrual loans, handling secured items. 6. Safekeeping certificates of real estate and secured assets. 7. Controlling transactions of real estates and loans not to exceed the limitation of transaction quota. 8. Taking charge of accounting of real estate and loans. 9. Administrating other affairs related to real estate and loans.
Department of Finance	<ol style="list-style-type: none"> 1. Planning and managing capital. 2. Making arrangement for capital. 3. Taking charge of accounting of financial investment and trading. 4. Evaluating financial assets. 5. Managing the investment-linked insurance policies. 6. Completing and safekeeping securities, financial derivatives and Certificate Deposit. 7. Receiving/disbursing money, managing notes, and checking saving accounts. 8. Administrating other affairs related to financial management and cashier.
Department of Military's Serviceman Insurance	<ol style="list-style-type: none"> 1. Underwriting the military insurance and substitute service insurance. 2. Updating all information of military insurance and substitute service insurance. 3. Paying the insurance benefits of discharge, death, disability and refund for the military insurance, and death and disability for the substitute service insurance. 4. Receiving the payments for the military insurance and the substitute service insurance. 5. Analyzing all the statistics about the military insurance and the substitute service insurance. 6. Managing the files of the military insurance and the substitute service insurance. 7. Administrating other affairs related to the military

Unit	Job Description
	insurance and the substitute service insurance.
Department of Human Resources and Administration Management	<ol style="list-style-type: none"> 1. Taking charge of manpower planning, training and utilization. 2. Taking charge of recruiting, employment, transferring, evaluation. rewards and punishments. 3. Taking charge of attendance, salary, bonus, educational training, annuity, retirement, compensation and severance. 4. Managing documents, files and seals. 5. Taking charge of budget expenditure and general affairs. 6. Taking charge of financial procurement and service procurement. 7. Advocating ethics and law compliance and suggesting necessary improvement on ethics. 8. Taking charge of ethics evolution and confidentiality on business secrets. 9. Preventing, investigating and handling illegal/corruption acts. 10. Ensuring the security of company facility and assisting appeals and complaints. 11. Receiving and reviewing property declaration of public servants. 12. Administrating other affairs related to management.
Department of Accounting	<ol style="list-style-type: none"> 1. Paling, reviewing, compiling, and administrating annual budgets of this company. 2. Reviewing, compiling and analyzing the monthly reports, quarterly reports, and final reports. 3. Planning and drafting the accounting systems of this company. 4. Drafting, amending and administrating the accounting protocols and operations of this company. 5. Analyzing and comparing the financial statistics of this company. 6. Reviewing the accounting affairs of this company. 7. Assisting the review of important procurements, construction contracts and investments of this company. 8. Formulating and reporting the financial statements required by authorities. 9. Managing the accounting files of this company. 10. Administrating other affairs related to accounting.

Unit	Job Description
Department of Information Technology	<ol style="list-style-type: none"> 1. Studying, analyzing and planning the information operations. 2. Evaluating and adjusting the performance of information operations. 3. Compiling and controlling the budget of information operations. 4. Developing, designing and maintaining the systems of information operations. 5. Operating, managing, and maintaining the information equipment. 6. Completing the requests of information operations from other units. 7. Administrating other affairs related to information technology.
Department of Compliance	<ol style="list-style-type: none"> 1. Planning, managing and administrating the systems law compliance in this company. 2. Assisting other units in all kinds of business protocols and contracts. 3. Assisting, counselling and studying the lawsuit cases of this company. 4. Assisting other units in the lawsuit case of this company and contacting the lawyers about the lawsuit cases. 5. Administrating other affairs related to law compliance and lawsuit cases.
Branch	<ol style="list-style-type: none"> 1. Selling and promoting the personal insurance policies. 2. Underwriting the personal insurance policies. 3. Securing the personal insurance policies. 4. Receiving the premium of the personal insurance policies. 5. Taking charge of the customer service. 6. Disbursing the benefits of the personal insurance policies. 7. Taking charge of the business of real estate. 8. Taking charge of the business of loans 9. Taking charge of the affairs of cashier. 10. Taking charge of the general affairs.

Unit	Job Description
	11. Taking charge of the accounting. 12. Taking charge of the affairs requested the headquarter.

B. Profile of Directors, Supervisors and Management Team

1. Directors and Supervisors:

Profile of Directors and Supervisors (1)

March 31, 2016

Title	Name	Date of Employment	Shares Held	Education and Career	Other Positions Held in This Company or Other Company
Chairperson	Su-Tien Chen	January 2, 2014	Taiwan Financial Holdings owns 100% of the shares of this company (2.25 billions of shares).	M.A. in Public Finance, NCCU SVP & General Manager, Department of Financial Management, Taiwan Financial Holding Co., Ltd. Director, Bank of Taiwan Co., Ltd. General Manager of International Banking Department, Bank of Taiwan Co., Ltd. General Manager of Treasury, Bank of Taiwan Co., Ltd. General Manager of Offshore Banking Branch, Bank of Taiwan Co., Ltd.	Chairperson, BankTaiwan Life Insurance Co., Ltd. Director, Life Insurance Management Institute of R.O.C. Director, Life Insurance Association of R.O.C.
Independent Managing Director	Chung-Jen Ho	January 2, 2014		Ph. D. of Economics, University of Illinois Committee Member of National Annuity Management, Ministry of the Interior Committee Member of Personal Insurance Policy Review, IB, FSC Administrative specialist of Cathay Life Insurance Co., Ltd.	Associate Professor, Department of Insurance Tamkang, University
Independent Managing Director	Robin K. Chou (Note)	December 30, 2015		Ph. D. of Finance, University of Iowa Associate Professor, Professor, Director, Department of Finance, University of National Central Professor & Director, Department of Finance, NCCU	Professor, Department of Finance, NCCU

Title	Name	Date of Employment	Shares Held	Education and Career	Other Positions Held in This Company or Other Company
Director	Chi-Sheng Tsai	January 2, 2014		EMBA, NCCU Vice President, BTLI General Manager, Department of Life Insurance, BTLI Manager, Assistant General Manager, Deputy General Manager, General Manager, Senior Vice President, Department of Life Insurance of Central Trust of China	President, BankTaiwan Life Insurance Co., Ltd. Director, Life Insurance Management Institute of R.O.C.
Director	Man-Yi Chu	January 2, 2014		M.A in Business Administration, NTU SVP & Chief Information Officer, TFH SVP & General Manager, Administrative Department, TFH Supervisor, BankTaiwan Securities Co., Ltd. SVP & Deputy General Manager, Information Management Office, Bank of Taiwan Co., Ltd. SVP & General Manager, Department of Information Management, Central Trust of China	Chief Strategy Officer, Department of Business Development, TFH
Director	Mei-Kuei Shih (Note)	January 2, 2014		M.A in Business Administration, NTU College of Management General Manager of Songshan Branch, Da'an Branch and Shinan Branch, Bank of Taiwan Co., Ltd. General Manager of Shinyi Branch, Central Trust of China Manager, Department of Life Insurance, Central Trust of China	General Manager, Department of Wealth Management, Bank of Taiwan Co., Ltd.

Title	Name	Date of Employment	Shares Held	Education and Career	Other Positions Held in This Company or Other Company
Director	Yung-Ming Hsu	September 24, 2014		Ph. D. of Edinburgh University, UK Independent Managing Director, BTLI Independent Managing Director, Bank of Taiwan Co., Ltd. Independent Managing Director, TFH Professor, Department of Risk Management and Insurance, NCCU Professor, Associate Professor and Assistant Professor, Department of Business Administration and Institute of International Business, NCKU	Professor and Director, Department of Risk Management and Insurance, NCCU
Director	Jen-Jie Pan (Note)	March 2, 2015		Department of Accounting, National Chung Hsing University, Director of China Development Financial Holding Co., Ltd.; Director of Taiyi Real-Estate Management Co., Ltd.; Supervisor of First Financial Holding Co., Ltd.; Manager of Secretarial Department; Researcher of Office of General Manager of Bank of Taiwan; Researcher of Taiwan Business Bank; Manager of Department of Finance of Shin Kong Bank	General Manager, Department of Accounting, Bank of Taiwan Co., Ltd. Chief Finance Officer, TFH
Director	Pei-An Lo	January 2, 2014		EMBA, Tamkang University, Director of Labor Union of BTLI Senior Assistant Life Operation Clerk, BTLI & Central Trust of China	Assistant Executive Officer of Life Insurance of Bank Taiwan Life Insurance

Title	Name	Date of Employment	Shares Held	Education and Career	Other Positions Held in This Company or Other Company
Director	Tsung-Cheng Lu	March 3, 2014		M.A in Information Management, Tatung University Managing director of Labor Union of BTLI IT Specialist, Department of Information Technology, BTLI IT Specialist of Information Technology, Bank of Taiwan & Central Trust of China	IT Specialist of BankTaiwan Life Insurance
Supervisor	Chi-Tung Hsieh	January 2, 2014		Department of Public Affairs, Tunghai University Commissioner and Deputy Section Chief of National Treasury Administration, Ministry of Finance; Commissioner of Department of Finance, Taiwan Province Government	Tobacco and Alcohol Section, National Treasury Administration, Ministry of Finance
Supervisor	Cheng-Yin Huang	January 2, 2014		International Business, Department of College Management, NTU Deputy General Manager, Department of Consumer Finance, Bank of Taiwan Co., Ltd. Vice President, Guanquin Branch of Bank of Taiwan Deputy General Manager, Department of Foreign Exchange, Research, Planning and Secretariat of Central Trust of China	General Manager, Department of Government Employees Insurance, Bank of Taiwan Co., Ltd.

Note : Director Mei-Kuei Shih was discharged on March 2, 2015. Director Jen-Jie Pan took position on March 2, 2015. Independent Managing Director Robin K. Chou took position on December 30, 2015.

Table 1: Major Shareholders of Institutional Shareholders March 31 2016

Name of Institutional Shareholders	Major Shareholders of Institutional Shareholders
Taiwan Financial Holdings Co., Ltd	Ministry of Finance (100%)

Information of Directors and Supervisors (2)

March 31, 2016

Name (Note 1)	Meet One of the Following Professional Qualification			Independence Criteria(Note 2)										number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent	
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of	1	2	3	4	5	6	7	8	9	10		
Su-Tien Chen			V	V		V	V	V	V	V	V	V	V	V	0
Chung-Jen Ho	V			V		V	V	V	V	V	V	V	V	V	0
Robin K. Chou	V			V		V	V	V	V	V	V	V	V	V	0
Yung-Ming Hsu	V			V		V	V	V	V	V	V	V	V	V	0
Chi-Sheng Tsai			V	V		V	V	V	V	V	V	V	V	V	0
Man-Yi Zhu			V			V	V	V	V	V	V	V	V	V	0
Mei-Kuei Shih			V			V	V	V	V	V	V	V	V	V	0
Jen-Jie Pan			V			V	V	V	V	V	V	V	V	V	0
Pei-An Lo			V			V	V	V	V	V	V	V	V	V	0
Tsung-Cheng Lu			V			V	V	V	V	V	V	V	V	V	0
Chi-Tung Hsieh			V	V		V	V	V	V	V	V	V	V	V	0
Cheng-Yin Huang			V			V	V	V	V	V	V	V	V	V	0

Note 1 : Adjust correspondingly.

Note 2 : Please check the corresponding boxes that apply to the directors or supervisors during the two years prior to being elected or during the term of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.

5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.
7. Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the remuneration committee who exercises powers pursuant to Article 7 of the “Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEX“.
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

2. Management Team:

Profile of Management Team:

March 31, 2016

Title (Note 1)	Name	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Education and Business Experience	Other Position	Managers who are Spouses or Within Two Degrees of Kinship		
			Shares	%	Shares	%	Shares	%			Title	Name	Relationship
President	Chi-Sheng Tsai	2013/02	-	-	-	-	-	-	EMBA, NCCU	-	-	-	-
Executive Vice President (Chief Compliance Officer)	Chia-Ming Chen	2014/07 (2015/02)	-	-	-	-	-	-	M.A in Law School, Soochow University	-	-	-	-
Executive Vice President (Chief of Risk Management)	Shao-Wen Chiang	2015/03	-	-	-	-	-	-	Department of Mathematical Sciences, NCCU	-	-	-	-
General Auditor	Yuan-Yi Chou	2016/02	-	-	-	-	-	-	Department of Insurance, Tamkang University	-	-	-	-
Chief Secretary (Manager)	Chi-Sheng Liu	2015/05 (2014/04)	-	-	-	-	-	-	M.A in Actuarial Mathematics, University of Connecticut, USA	-	-	-	-
General Manager	Yi-Ching Lin	2015/10	-	-	-	-	-	-	EMBA, NCCU	-	-	-	-
General Manager	Fang-Chi Wu	2015/10	-	-	-	-	-	-	MBA, University of Memphis	-	-	-	-
General Manager	Su-Miao Huang	2015/10	-	-	-	-	-	-	Department of Banking and Insurance, National Taichung College of Business	-	-	-	-
General Manager	Cui Lee	2015/08	-	-	-	-	-	-	M.A in Insurance, Fengchia University	-	-	-	-
General Manager	Ji-Chiang Chiang	2015/10	-	-	-	-	-	-	Department of Business Management, Tunghai University	-	-	-	-
General Manager	Cui-Ching Ding	2015/10	-	-	-	-	-	-	Department of Land Administration, NCHU	-	-	-	-
General	Su-Zhen	2014/05	-	-	-	-	-	-	M.A in Insurance, Tamkang	-	-	-	-

IV. Capital Overview

A. Capital and Shares

1. Source of Capital

Unit: In Millions

Time		Issuing Price	Approved Capital		Paid-in Capital		Remarks		
			Shares	Amount (NTD)	Shares	Amount (NTD)	Source of Capital	Paid by assets other than cash	Others
2008	January	NTD 10	500	5,000	500	5,000	By Division	N.A.	—
2009	June	NTD 10	700	7,000	700	7,000	Capital Increase of Cash NTD 2 billion	N.A.	Note 1
2010	June	NTD 10	1,100	11,000	1,100	11,000	Capital Increase of Cash NTD 4 billion	N.A.	Note 2
2013	June	NTD 10	1,700	17,000	1,700	17,000	Capital Increase of Cash NTD 6 billion	N.A.	Note 3
2015	September	NTD 10	2,250	22,500	2,250	22,500	Capital Increase of Cash NTD 5.5 billion	N.A.	Note 4

Note 1: Approved by Financial Supervisory Commission (No. 09802112540 of Jin Guan Bao Chai, June 25, 2009)

Note 2: Approved by Financial Supervisory Commission (No. 09902108110 of Jin Guan Bao Chai, June 23, 2010)

Note 3: Approved by Financial Supervisory Commission (No. 10200072310 of Jin Guan Bao Shou, June 25, 2013)

Note 4: Approved by Financial Supervisory Commission (No. 10400082700 of Jin Guan Bao Shou, August 31, 2015)

Unit: Stock Share

Stock Type	Approved Capital			Remarks
	Issued Shares	Unissued	Total	
Registered Common Stock	2,250,000,000	0	2,250,000,000	TESC-unlisted/OTC-unlisted

2. Profile of Shareholder

March 31, 2016

Share holder Amount	Government	Financial Institution	Other Institution	Citizen	Foreign Institution and Person	Total
Number	1	0	0	0	0	1
Shareholding	2,250,000,000	0	0	0	0	2,250,000,000
%	100%	0	0	0	0	100%

3. Distribution of Shares (Par Value: NTD 10)

March 31, 2016

Range	Number of Shareholders	Shares	%
1 to 1,000,000	—	—	—
Above 1,000,001	1	2,250,000,000	100%
Total	1	2,250,000,000	100%

4. List of Major Shareholders:

Shares	Shares	%
Name of Major Shareholders		
Taiwan Financial Holding Co.,Ltd.	2,250,000,000	100%

5. Market Price, Net Worth, Earnings, Dividend and Relevant Information

Year		2015	2014	Current Number On March 31, 2016	
Market Price per Share	Highest	-	-	-	
	Lowest	-	-	-	
	Average	-	-	-	
Net Worth per Share	Before Distribution	5.26	7.91	5.46	
	After Distribution	5.26	7.91	-	
Earnings per Share	Weighted Average Shares	1,840,137,000	1,700,000,000	2,250,000	
	Earnings Per Share	-1.36	-0.48	-0.29	
Dividends per Share	Cash Dividends		-	-	-
	Stock Dividends	Dividends from Earnings	-	-	-
		Dividends from Capital Surplus	-	-	-
	Accumulated Undistributed Dividends		-	-	-
Return on Investment	Price/Earnings Ratio		-	-	-
	Price/Dividends Ratio		-	-	-
	Cash Dividend Yield Rate		-	-	-

Note 1: This company is a TESC-unlisted/OTC-unlisted company, so there is no information of market price, return on investment, etc.

Note 2: Surplus distribution is calculated by years

Note 3: This is based on the financial statements of the latest quarter audited and approved by accountants, i.e. the first quarter of 2016.

6. Dividends Policy and Implementation

1) Dividend Policy

If there are earnings in the final financial statements, after offsetting any loss from prior year(s) and paying all taxes and dues, they shall be set aside as legal reserve and appropriated in accordance with the Securities Exchange Law. The remaining net earnings can be distributed along with prior accumulated unappropriated retained earnings.

2) Implementation

Implementation: this company is a government-owned company, so the

final earnings in the financial statements should be approved by Ministry of Audit based on the Clause 51 of Audit Law.

7. Impact of the stock dividends proposed in the shareholder meeting on the operating performance and earnings per share: N.A.

8. Employee Bonus and Directors' and Supervisors' Remuneration

- 1) Information of employee bonus and directors' and supervisors' remuneration listed in the articles of incorporation: N.A.
- 2) The estimated basis for calculating the employee bonus and directors' and supervisors' remuneration on, the estimated basis for calculating stock bonus and the accounting principles for handling the disagreement between the estimated distribution and the actual distribution: N.A.
- 3) Information of earnings distribution for employee bonus approved in board of director meeting:
 - (i) For the employee cash/stock bonus and directors' and supervisors' remuneration on, if there are disagreements between the estimated distribution and the actual distribution, the differences, causes and handling should be disclosed: N.A.
 - (ii) The Ration of the estimated employee stock bonus to the earnings after tax and to the total employee bonus: N.A.
- 4) For the actual distribution of employee bonus and directors' and supervisors' remuneration on for the previous year, if there are disagreements between the estimated distribution and the actual distribution, the differences, causes and handling should be disclosed: N.A.

9. Buyback of treasury stock: N.A.

B. Issuance of Corporate Bonds: N.A.

C. Issuance of Preferred Stocks: N.A.

D. Issuance of Global Depository Receipts: N.A.

E. Issuance of Employee Stock Options: N.A.

F. Issuance of New Shares in Connection with Mergers and Acquisitions: N.A.

V. Operation Overview

A. Business Activities

1. Business Scope

1) Main Areas of Business Operation and Their Percentages

Order	Item	Year	2015	
			Premium Income(Expressed in Millions of NT Dollars)	%
1	Personal Life Insurance		24,077	76.63%
2	Personal Accident Insurance		122	0.39%
3	Personal Health Insurance		832	2.65%
4	Personal Annuity Insurance		6,217	19.78%
5	Group Life Insurance		33	0.10%
6	Group Accident Insurance		109	0.35%
7	Group Health Insurance		28	0.09%
8	Reinsurance		2	0.01%
Total			31,420	100.00%

Note: this table of premium income does not include the investment profit of the investment-type insurance policies.

2) Main Areas of Business Operations

(i) Business Scope

A. Life Insurance

B. Military Insurance and Substitute Service Insurance on Behalf of the Government

C. Other Business Activities Approved by the Authority

(ii) Current Products:

(A) Personal Life Insurance

- . One-Year Term Life Insurance
- . Term Non-Par Insurance (101)
- . Term Non-Par Insurance Rider (101)
- . New Wan-Chang Non-Par Whole Life Insurance (101)
- . Chun-Jia-Fu Participation Endowment Insurance (101)
- . Decreasing Term Insurance (102)
- . New YongBao-AnKang Non-Participating Whole Life with Endowment Insurance (101)
- . ShouHu-DaRen Non-Participating Coupon Whole Life with Endowment Insurance (101)
- . TungTung-PingAn Non-Par Whole Life Insurance (101)
- . ChihFu-GinA Non-Participating Coupon Whole Life with Endowment Insurance (101)
- . MeiLi-JuiJui Non-Par Whole Life Endowment Insurance (102)
- . Mei-Meng Increasing Whole Life Insurance
- . FuGui-RenSheng Increasing Whole Life Insurance
- . Huan-Le Nian-Nian Whole Life With Endowment
- . MeiMan-JenSheng Non-Par Whole Life with Endowment Insurance
- . Zeng Shun Li Increasing Whole Life Insurance
- . Jyun An Sin Increasing Whole Life Insurance
- . Nian Nian Fa Whole Life with Endowment Insurance
- . Tuei Siou Yuan Meng Increasing Whole Life Insurance
- . Jin Fu Guei Increasing Whole Life with Endowment Insurance
- . Mei Nian Fa USD Whole Life with Endowment Insurance
- . Endorsement of Extension of Rider Coverage
- . Endorsement to forfeit the right to change beneficiary of death benefit within the loan limit

(B) Personal Accident Insurance

- . New Personal Accident Insurance
- . Personal Travel Accident Insurance
- . Special Travel Accident Insurance for Guests of the Government
- . Simple Love Accident Microinsurance
- . Jin An Kang Medical Reimbursement For PA Rider
- . New Accidental Death And Disability Rider (99)
- . Multiple Protection PA Rider

- . Government employee Travel Accident Insurance
- . International Technical Co-operation Personnel Comprehensive Insurance
- . Endorsement for Insurance Act Article 107
- (C) Personal Health Insurance
 - . New Kuan-Huai Cancer Insurance (101)
 - . Jian Kang Ren Sheng Comprehensive Hospital and Surgical Rider
 - . Jin An Sin Hospital Indemnity Health Rider
 - . Terminal Benefit Rider
 - . Disability Grade 2nd to 6th Living Benefit Endorsement
 - . Travel Accident Insurance for Emergent Diseases Abroad Endorsement
- (D) Annuity Insurance
 - . Tian Fu Ren Sheng Interest Sensitive Annuity Insurance
- (E) Comprehensive Insurance
 - . AnHsin-HuChao Personal Accident With Endowment Insurance (101)
 - . Jia-Bei Protection Term Insurance (Type A) (102)
 - . Zhen-Ai Ren Sheng Disability Long Term Care Whole Life Insurance
 - . LeHuo-RenSheng Long Term Care Whole Life Insurance
 - . Song Bo Chang Cing Whole Life Health Insurance
 - . Zhen Fang Sin Premium Waiver Rider
 - . Shou Hu Jiou Jiou Surgery Whole Life Health Insurance
 - . Chang Cing Shou Hu Ten-Year Cancer Insurance
- (F) Group Life Insurance
 - . Group One-Year Life Insurance
- (G) Group Accident Insurance
 - . Group One-Year Personal Accident Insurance
 - . Sports Group Accident Insurance
 - . Group Accident Health Rider
 - . Group Accident Medical Daily Reimbursement Rider
 - . Group One-Year Medical Reimbursement for Accidental Injury Rider
 - . Group One-Year Accident Insurance for Major Burn Endorsement
 - . Group One-Year Accident Insurance for Classification of Major Burn Endorsement
 - . Group One-Year Accident Insurance for Specific Injury

- Endorsement
- . Group One-Year Accident Insurance for Air Transportation Endorsement
- . Group One-Year Accident Insurance for Air and Ground Transportation Endorsement
- . Group One-Year Hospital Indemnity Health Insurance for Bone Injury without Hospitalization
- (H) Group Health Insurance
 - . Group One-Year Cancer Rider
 - . Group One-Year Life Insurance for Disability Grade 2nd to 11th Rider
 - . Group One-Year Hospital Indemnity Health Rider
 - . Group One-Year Daily Hospital Indemnity Health Rider
 - . New Group One-Year Cancer Rider
 - . Group One-Year Intensive Care Health Endorsement
 - . Group One-Year Burn Centre Health Endorsement
 - . Group One-Year Outpatient Surgery Health Endorsement
 - . Group One-Year Emergency Service Health Endorsement
 - . Group One-Year Outpatient Before and After Hospitalization Health Endorsement

3) New Products in the Future

- (i) Disability Long Term Care Health Insurance is one of the most acceptable health insurances in the market. We will design the second-generation products to meet customers' needs, expand the product line of health insurances and promote the sales of health insurances.
- (ii) We will meet the needs of foreign currency insurance products for banca channels to provide more choices for the customers with USD assets. We will design the Single Premium USD Increasing Life Insurance for those maturity policies which are mostly USD life insurances.
- (iii) In coordination with the policy of health and medical insurances for aging society, we will design the second-generation long-term care insurances to cover the expenses of medication, care and daily living for senior citizens.
- (iv) To expand the product line of health insurances and meet the medical

needs under a senior and less-children society, we will design dread disease insurance products based on the new definition of critical diseases of 2016 by the authority.

2. Industry Overview

- 1) To respond with the aging society, Financial Supervisory Commission proposed the report of "Business Development of Financial Industry Responsive to Aging Society", encouraging financial institutions to develop financial products which meet the needs of the elderly and integrate the medical and nursing resources to provide the elderly the necessary money and care service for ensuring good quality of life after retirement.
- 2) Financial Supervisory Commission continued to implement the important measures for the financial development. To respond with the energy-saving and carbon-reducing by going paperless and alleviate the impact of global warming, reviewing product by paper documents is abolished; promoting insurance policy activation, group annuity insurance and other types of insurance for the elderly and in-kind benefit insurance, and cutting taxes for the products for the elderly.
- 3) To encourage insurance companies to promote the development capability and create the differentiated products, Financial Supervisory Commission continued to implement new regulations which encourage financial innovation, such as new procedures of reviewing products, for the companies to facilitate innovation.
- 4) To take care of the economically disadvantaged groups, the government promoted the microinsurances to improve social security and complete insurance market.
- 5) Recently Financial Supervisory Commission announced several supervisory policies to encourage insurance companies to sell long-term installment premium and guaranteed products, which affected the premium income. According to the data collected by the insurance association, the premium income of the initial year was 1,022,956 million NT dollars in 2015, a 2.2% decrease compared to 1,046,122 million NT dollars in 2014.

Premium Income in Insurance Industry in 2015

Unit: In Millions of NTD

Item	2015	2014	Growth Rate (%)
Initial Year	1,022,956	1,046,122	-2.2
Following Year	1,723,062	1,571,401	9.7
Total	2,746,018	2,617,523	4.9

Data Source: Insurance Association

Premium Income of the Initial Year in Insurance Industry in 2015

Unit: In Millions of NTD

Insurance Type	2015	2014	Growth Rate (%)
Life Insurance	862,590	923,510	-6.6
Accident Insurance	11,475	10,577	8.5
Health Insurance	33,598	34,125	-1.5
Annuity Insurance	115,292	77,911	48.0
Total	1,022,956	1,046,122	-2.2

Data Source: Insurance Association

3. Product Development Overview

To respond with the business environment, market trend, customers' needs and government policies, we developed and launched 9 new products, which are "Song Bo Chang Cing Whole Life Health Insurance", "Jyun An Sin Increasing Whole Life Insurance", "Jin An Kang Medical Reimbursement For PA Rider", "Zhen Fang Sin Premium Waiver Rider", "Shou Hu Jiou Jiou Surgery Whole Life Health Insurance", "Nian Nian Fa Whole Life with Endowment Insurance", "Chang Cing Shou Hu Ten-Year Cancer Insurance", "Tuei Siou Yuan Meng Increasing Whole Life Insurance" and "Jin Fu Guei Increasing Whole Life with Endowment

Insurance".

4. Long-term and Short-term Business Development Plans

1) Short-term Business Development Plans

- (i) To respond with the business environment, social trend, customers' needs, channel features and government policies, we developed niche products, such as guaranteed, long-term installment, foreign currency and health insurance, to promote the balance of the product sales structure and improve the business of this company.
- (ii) We specially promote the sales of long-term installment and guaranteed insurances to return back to the protection function of insurance and improve the business. In addition, we actively improved the service quality and administration efficiency, the cooperation relationship with banks and excellent traditional channels, satisfaction of channels and the sales of strategic products.

2) Long-term Business Development Plans

We formulated a 12-year road map for BankTaiwan Life Insurance. In the first period (from 2015 to 2018), we continued to improve the stability, profit, finance and operation to introduce the International Financial Reporting Standard (IFRS) 4 Phase II; in the second period ("International Standard, Local Implementation", from 2019 to 2022), we will secure the domestic insurance market and train personnel for international insurance business and evaluate the opportunities to develop international business under the international strategies of the financial holdings group; in the third period ("Fast Advance, International Advance", from 2022 to 2026), we will promote the international business by establishing overseas business offices or by mergers or by strategically cooperating with allies to advance to international insurance market.

B. Market and Sales Overview

1. Market Analysis

1) Area analysis on selling main products (services)

We mainly sell products in the 8 branch offices, 4 contact offices, 15 financial institutions and 81 agents of domestic. We actively cooperate with

the subsidiary company Bank of Taiwan to bring the sales of products into full play and expand the scope of sales by cooperating with financial institutions and agents to a greater extent.

2) Market Share and Future Growth

We brought the financial performance of financial holding group into full a play and expand the scope of sales by cooperating with financial institutions and agents. The premium income of the initial year was 15.2 billion NT dollars (not including investment-type insurances) with a market share of 1.28%, ranking at 15th; total premium income was 31.4 billions of NT dollars with a market share of 1.07%, ranking at 15th (mid-sized insurance company). To respond with the government policy, we continued to promote installment premium products and decrease the sale of whole sale products (similar to Certificate Deposit). The sales of installment premium products continuously increased in 2015 and it was good for asset/liability agreement and business operation.

3) Business Goal in 2016

Unit: In Millions of NTD

Main Business	Business Goal in 2016 (in Budget)
Premium Income of the Initial Year	8,995
Premium Income of the Following Year	18,919
Total Premium	27,914

4) Advantage, Disadvantages and Responsive Strategies in the Market Analysis for Competitiveness and Future Growth

(i) Advantages:

- a. We are the only government-owned insurance company. Our finance status is stable and customers deeply trust us.
- b. We have many supreme customers who are military, public and teaching personnel. By the integrated sales platform of the financial holding group, we can bring the sales performance to full play.

(ii) Disadvantages:

- a. The personnel administration and budget formulation are under the control of relevant laws and regulations, which lacks flexibility.
- b. Due to the personnel and salary system, it is difficult to hire staff

with actuarial and financial background.

(iii) Responsive strategies:

- a. By the advantages of the Taiwan Financial Holding Group and the sales channels, we can promote the sales of strategic products and the non-price competitiveness to improve business operation and profit.
- b. By sharing the resources, information and manpower inside the group, we can promote the business performance.

2. Sales of the latest two years

Unit: In Millions of NTD

Items	2015	2014
Premium Income of the Initial Year	15,212	15,029
Premium Income of the Following Year	16,202	19,955
Total Premium Income	31,414	34,984

C. Employee Profile

March 31, 2016

Year		2014	2015	Current Number on March 31, 2016
Employee Number	In-service	481	496	500
	Out-service	0	0	0
	Total	481	496	500
Average Age		41.19	41.19	43.93
Average Seniority		13.78	13.78	14.2
Percentage of Education Level	Ph. D.	0.21%	0.2%	0.2%
	Master	27.37%	29.44%	29.6%
	College	63.58%	62.3%	62.2%
	Senior High School	9.05%	8.06%	8%
	Below Senior High School	1.05%	0%	0%

D. Corporate Social Responsibility

Item	System, Action and Implementation
Environment Protection	<p>To respond with the policy of environment protection and energy-saving/carbon-reducing, this company implements the actions of environment protection. The implementation and the effects of energy-saving/carbon-reducing are listed as follow:</p> <ol style="list-style-type: none"> 1. Replacement and energy-saving actions <ol style="list-style-type: none"> (1) All of the old lighting devices in the offices were replaced by T5 electricity-saving tubes. (2) During meetings and educational trainings, Employees are encouraged to use water glasses cups and their own mugs. Disposable paper cups were not provided. (3) Environment Protection Fungus-proofing Paint is used as much as possible. The material of the ceilings is certified as green building material. 2. Electricity Saving <ol style="list-style-type: none"> (1) During lunch time, all lighting devices are turned off unless they are needed for special operations. (2) Computers and copy machines are set up to automatically enter the energy-saving mode to save electricity.

	<p>(3) The temperature of the air conditioning is set above 26 degrees. The fully covered curtains are used to lower the radiated heat to decrease the loading of air conditioning.</p> <p>(4) The power chords of the electrical equipment are regularly checked for broken and leaked flaws to secure the electricity safety.</p> <p>(5) Walling is highly encouraged. Going up or down within 3 floors should be done by walking as much as possible.</p> <p>3. Paper Saving</p> <p>(1) Employees are encouraged to lower the unnecessary printing or make the double-sided printing.</p> <p>(2) Meeting documents are sent by e-mails and presented on screen (paperless meeting).</p> <p>(3) Attachments are sent by e-mails or posted on the website.</p> <p>4. Gasoline Saving: official vehicles are maintained and checked tire pressure, water and engine oil on a regular basis to save gasoline.</p>
Community Participation	<p>The Hualien Branch Office with "Hualien Elder and Family Care Association" held a "Close to Love, Warm for You - Disadvantaged Elder Care Fair" on May 30, 2015. Through this fair, we appealed for respecting the elderly and provided the disadvantaged and living-alone elderly good care. In addition, the local people gave BankTaiwan Life Insurance a big applause for caring disadvantaged group and fulfilling corporate social responsibility.</p>
Society Contribution	<p>The Taoyuan Branch Office held an activity of "Cleaning the Hiking Path of Hu Tou Shan" on November 7, 2015. The employee of this branch office worked as one-day volunteers to clean the hiking path of Hu Tou Shan. This activity focused both on health and environment protection to recover the scenery of Hu Tou Shan and created an image of responsible corporate.</p>
Social Service	<ol style="list-style-type: none"> 1. To fulfill the goal of "Low Carbon Community", The Tainan Branch Office responded with the activity of "Cleaning the Beach on World Earth Day and World Environment Day" held by Tainan City Government. We participated in this activity on April 11, 2015 to clean our community, protect our environment and fulfill our social responsibility. 2. Hsinchu Branch Office participated in an activity held by Hsinchu City Government on April 18, 2015 to clean the beach. This activity appealed for protecting the environment, recovering the clean beach and getting close to nature. BankTaiwan Life Insurance told people our determination to protect environment and promoted our corporate image. 3. To protect environment, land and beach, the Kaohsiung Branch Office held a charity activity of "Hand in Hand - Clean the Beach" on March 7, 2015 to clean our community, protect environment and fulfill social responsibility.

Social Charity	<ol style="list-style-type: none"> 1. The Taipei Branch Office held an activity of broadcasting the documentary film "Attabu II" at Spot Cinema on November 14, 2015. We invited visually-impaired friends to watch this film and promoted our corporate image of "Love, Passion and Access-free". 2. We participated the activity of "Beauty of Taiwan, Spread of Love" held by Taiwan Financial Holding Group on May 16 2015 to celebrate its 69th anniversary. The activity of charity sale and fair was held on a weekend to invite people to participate. All of the income in the charity sale was donated to Eden Social Welfare Foundation and Sunshine Social Welfare Foundation. By this activity, we reused the old items and protected our environment, as well as helping disadvantaged people and spreading our love to every corner of our community.
Consumers' Rights	<ol style="list-style-type: none"> 1. The insurance business are truly implemented based on the relevant regulations, such as Consumer Protection Act, and Personal Data Protection Law, to check on the customer information and identity and avoid data leaking. 2. We post all the information of our products, customer service messages and other important information on the website to customers to browse. 3. To truly implement the system of customer protection and complaint handling, we amended our protocols, such as "Protocol of Complaint Handling" and " Principles of Complaint Handling and Counselling ", based on the letter order of Jin Guan Fa Zi No. 1040054727 (May 25, 2015) from Financial Supervisory Commission to improve the efficiency and quality of complaint handling and complete the system of complaint handling. 4. We have built a platform of knowledge management and introduce a "Customer First" service system, which established a counter with all functions and provided the "one-stop" supreme service, as well as establishing "Dedicated Windows for Insurance Benefits" and "E-mail Service for Insurance Benefits" to provide a more convenient service.
Human Rights	<ol style="list-style-type: none"> 1. We hire many mental and physical disabled employee and indigenous employee, which meets the requirements of relevant laws, such as Person with Disabilities Rights Protection Act and Indigenous Peoples Employment Rights Protection Act. 2. To protect the work rights of all sexes, eliminate the discrimination of sexes and fulfill the sex equality, we have formulated all kinds of measures to fulfill sex equality, prevent sex harassment, etc.
Safety and health	<p>To ensure the health of employee and safety of working environment, we have formulated the plans of safety and health to implement safety and health trainings, physical examinations, office environment inspections, etc.</p>

<p>Other Social Responsibility</p>	<ol style="list-style-type: none"> <li data-bbox="491 302 1321 589">1. We participated in the activity of "No Worry on Elderly, Micro, House and Car Insurance" held by Financial Supervisory Commission on October, 17, 2015. This activity focused on the elderly insurance, micro insurance, car insurance and earthquake insurance to promote the correct ideas about insurances by playing games. We established a booth of interactive games to promote the ideas and fulfill social responsibilities. <li data-bbox="491 589 1321 875">2. We joined the Taiwan Financial Holdings Group to participate in the "Fair of Social Care from Financial Service in 2015 (in Nantou)", held by Taiwan Financial Service Association on July 18, 2015. By this fair, we express our love to the disadvantaged groups and introduce correct ideas about finance to people. We established a booth of interactive games to actively participate in this event. <li data-bbox="491 875 1321 1171">3. All of the branch offices participated in the activity of "Hand in Hand with TFH, Express Our Love - Care for Elder and Children in 2015", held by Taiwan Financial Holding Group. We donated to children's homes all over the country and assisted them on specific holidays, such as Children Day, Mid-Autumn Festival, Christmas, etc. Our activities of caring disadvantaged groups made the society more peaceful and warmer.
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VI. Financial Overview

A. Summary of Five-Year Balance Sheets and Income Statements

1. Simplified Five-Year Balance Sheer

1) From 2012 to 2015

Unit: In Thousands of NTD

Item	Year	Five-Year Financial Information (Note 1)			
		2015	2014	2013	2012
Cash and cash equivalents		33,595,006	38,564,185	22,859,656	40,147,289
Receivables		3,894,709	2,351,669	3,282,052	4,139,681
Available-for-sale assets		-	-	-	-
Financial assets and loans		311,509,169	347,912,416	369,351,755	327,568,632
Assets of reinsurance contracts		12,023	12,528	16,588	22,133
Property and equipment		1,010,475	1,080,136	770,660	776,259
Intangible assets		9,837	12,324	10,950	11,674
Other assets		7,310,692	6,800,231	7,945,187	9,969,214
Total assets		357,341,911	396,733,489	404,236,848	382,634,882
Payables		19,136,265	22,835,523	23,196,712	27,387,192
Liabilities relevant to avail-to-sale assets		-	-	-	-
Financial liabilities		1,059,280	3,190,594	566,702	35,267
Insurance liabilities and reserve for insurance contracts with features of financial instruments		322,683,571	353,328,002	363,607,014	338,722,137
Provisions		775,512	666,433	572,029	600,594
Other liabilities		1,887,564	3,267,390	3,334,344	8,561,650
Total liabilities	Before distribution	345,542,192	383,287,942	391,276,801	375,306,840
	After distribution	Note 2	383,287,942	391,276,801	375,317,020
Ordinary shares		22,500,000	17,000,000	17,000,000	11,000,000
Capital surplus		360,000	369,713	366,463	360,000
Retained earnings	Before distribution	(3,319,872)	(776,496)	79,308	372,802
	After distribution	Note 2	(776,496)	79,308	362,622

Other equity		(7,740,409)	(3,147,670)	(4,485,724)	(4,404,760)
Total Equity	Before distribution	11,799,719	13,445,547	12,960,047	7,328,042
	After distribution	Note 2	13,445,547	12,960,047	7,317,862

Note 1: The simplified balance sheet of 2015 and 2014 were formulated based on the Principle of Financial Statement Formulation by the Jin Guan Bao Chai Zi No. 10302507621 from Financial Supervisory Commission. The simplified balance sheet of 2013 were formulated based on the Principle of Financial Statement Formulation by the Jin Guan Bao Chai Zi No. 10202513451 from Financial Supervisory Commission. The simplified balance sheet of 2012 were formulated based on the Principle of Financial Statement Formulation by the JinGuan Bao Chai Zi No. 9802506492 from Financial Supervisory Commission.

Note 2: The Earnings Distribution of 2015 have not been approved by Ministry of Audit on March 31, 2016.

2) 2011

Unit: In Thousands of NTD

Item	Year	Five-Year Financial Information (Note)	
		2011	
Cash and cash equivalents		24,868,033	
Receivables		2,334,985	
Available-for-sale assets		-	
Financial assets and loans		294,434,072	
Assets of reinsurance contracts		22,773	
Property and equipment		773,316	
Intangible assets		7,751	
Other assets		9,290,939	
Total assets		331,731,869	
Payables		30,072,432	
Liabilities relevant to avail-to-sale assets		-	
Financial liabilities		915,132	
Insurance liabilities and reserve for insurance contracts with features of financial instruments		288,294,844	
Provisions		530,987	
Other liabilities		6,744,449	
Total liabilities	Before distribution	326,557,844	
	After distribution	326,557,844	
Ordinary share		11,000,000	
Capital surplus		360,000	

Retained earnings	Before distribution	244,861
	After distribution	244,861
Other equity		(6,430,836)
Total equity	Before distribution	5,174,025
	After distribution	5,174,025

Note: The simplified balance sheet of 2011 were formulated based on the Principle of Financial Statement Formulation by the Jin Guan Bao Chai Zi No. 9802506492 from Financial Supervisory Commission.

2. Five-Year Simplified Income Sheet

1) From 2013 to 2015

Unit: In Thousands of NTD

Item	Year	Five-Year Financial Information (Note)		
		2015	2014	2013
Operating revenue		41,040,339	46,604,658	58,996,644
Operating costs		42,543,564	46,522,525	58,517,759
Operating expenses		1,000,140	872,041	874,248
Non-operating income and expense		(25,501)	(50,890)	(15,801)
Net income (loss) before income taxes		(2,528,866)	(840,792)	(411,164)
Net income (loss) after income taxes		(2,510,177)	(817,020)	(327,706)
Other comprehensive income		(4,625,938)	1,299,431	(36,572)
Earnings(loss) per share (NT dollar)		(1.36)	(0.48)	(0.23)

Note: The simplified income sheet of 2015 and 2014 were formulated based on the Principle of Financial Statement Formulation by the Bao Chai Zi No. 10302507621 from Financial Supervisory Commission. The comprehensive income sheet of 2013 were formulated based on the Principle of Financial Statement Formulation by the Bao Chai Zi No. 10202513451 from Financial Supervisory Commission.

2) From 2011 to 2012

Unit: In Thousands of NTD

Item (Note)	Five-Year Financial Information (Note)	
	2012	2011
Operating revenue	67,392,599	62,771,485
Operating costs	66,616,061	61,619,108
Operating expenses	826,323	871,158
Non-operating income and expense	21,445	4,333
Net income (loss) before income taxes	(28,340)	285,552
Net income (loss) after income taxes	175,250	352,628
Other comprehensive income	1,978,768	-
Earnings(loss) per share (NT dollar)	0.16	0.32

Note: The simplified income sheet of 2011 and 2012 were formulated based on the Principle of Financial Statement Formulation by the Jin Guan Bao Chai Zi No. 09802506492 from Financial Supervisory Commission.

3. Name of the Audit Accountant for the Certified Five-Year Financial Statements

Year	Accounting Firm	Accountant	Opinion
2011	KPMG in Taiwan	Yen-Ling Fang	An unqualified opinion with explanatory paragraph
2012	KPMG in Taiwan	Yen-Ling Fang, Yu-Feng Hsu	An unqualified opinion with explanatory paragraph
2013	KPMG in Taiwan	Yen-Ling Fang, Yu-Feng Hsu	An unqualified opinion with explanatory paragraph
2014	KPMG in Taiwan	Yen-Ling Fang, Yu-Feng Hsu	An unqualified opinion with explanatory paragraph
2015	KPMG in Taiwan	Yen-Ling Fang, Feng-Hui Lee	An unqualified opinion with explanatory paragraph

B. Five-Year Financial Analysis
1. From 2013 to 2015

Item		Year	Five-Year Financial Analysis (Note)		
			2015	2014	2013
Financial structure (%)	Debt Ratio		96.70	96.61	96.79
	Insurance Debt Ratio		90.30	89.06	89.95
	Ratio of Insurance Debt Variation		(8.67)	(2.83)	7.35
	Ratio of Insurance Debt Net Increase to Premium Income		(97.55)	(29.38)	51.82
Solvency (%)	Ratio of Investment on Associated Companies to Equity		49.81	44.07	42.70
	Initial Year Premium Ratio		101.23	54.43	74.28
	Following Year Premium Ratio		81.19	97.75	104.47
Operating performance (%)	Ratio of New Contract Expense		15.48	11.86	6.69
	Ratio of Premium Income Variation		(10.21)	(27.15)	(15.31)
	Ratio of Equity Variation		(12.24)	3.75	76.86
	Ratio of Net Profit Variation		(207.24)	(149.31)	(286.99)
	Ratio of Capital Operation		98.81	99.57	98.97
	Persistency (13 months)		98.75	98.71	99.38
	Persistency (25 months)		98.21	99.42	98.60
Profitability	Return on total assets (%)		(0.62)	(0.16)	(0.03)
	Return on equity (%)		(19.89)	(6.19)	(3.23)
	Return on capital operation(%)		2.63	2.94	2.88
	Return on investments (%)		2.59	2.89	2.82
	Ratio of operating profit to operating income (%)		(6.10)	(1.69)	(0.67)
	Ratio of pre-tax net profit to total income (%)		(6.15)	(1.80)	(0.70)
	Net Profit Ratio(%)		(6.12)	(1.75)	(0.55)
	Earnings per share (NT dollar)		(1.36)	(0.48)	(0.23)
	Ratio of real estate investments and real estate mortgages to assets (%)		3.59	3.36	2.95
Cash flow	Cash flow ratio		-	-	-
	Cash flow adequacy ratio		0.34	1.04	1.59
	Cash reinvestment ratio		-	-	-
Leverage	Operating leverage		0.67	0.15	(0.65)
	Financial leverage		0.93	0.78	0.67

Note: The simplified balance sheet of 2015 and 2014 were formulated based on the Principle of Financial Statement Formulation by the Bao Chai Zi No. 10302507621 from Financial Supervisory Commission. The simplified balance sheet of 2013 were formulated based on the Principle of Financial Statement Formulation by the Bao Chai Zi No. 10202513451 from Financial Supervisory Commission.

2. From 2011 to 2012

Item	Year	Five-Year Financial Analysis (Note)	
		2012	2011
Financial structure (%)	Debt Ratio	98.08	98.29
	Insurance Debt Ratio	88.56	86.96
	Ratio of Insurance Debt Variation	17.49	19.71
	Ratio of Insurance Debt Net Increase to Premium Income	88.94	93.30
Solvency (%)	Ratio of Investment on Associated Companies to Equity	74.05	89.19
	Initial Year Premium Ratio	118.48	86.17
	Following Year Premium Ratio	100.06	99.10
Operating performance (%)	Ratio of New Contract Expense	4.97	5.13
	Ratio of Premium Income Variation	11.42	(9.29)
	Ratio of Equity Variation	41.63	(47.51)
	Ratio of Net Profit Variation	(50.30)	8.23
	Ratio of Capital Operation	95.09	99.32
	Persistency (13 months)	99.05	99.63
	Persistency (25 months)	99.47	99.00
Profitability	Return on total assets (%)	0.10	0.17
	Return on equity (%)	2.80	4.28
	Return on capital operation(%)	3.22	3.12
	Return on investments (%)	2.88	3.03
	Ratio of operating profit to operating income (%)	(0.07)	0.45
	Ratio of pre-tax net profit to total income (%)	(0.04)	0.45
	Net Profit Ratio (%)	0.26	0.56
	Earnings per share (NT dollar)	0.16	0.32
	Ratio of real estate investments and real estate mortgages to assets (%)	2.72	2.71

Cash flow	Cash flow ratio	-	-
	Cash flow adequacy ratio	2.43	3.98
	Cash reinvestment ratio	-	-
Leverage	Operating leverage	(21.06)	9.48
	Financial leverage	0.19	3.62

Note : The simplified balance sheet of 2011 and 2012 were formulated based on the Principle of Financial Statement Formulation by the Bao Chai Zi No. 09802506492 from Financial Supervisory Commission.

For the numbers varied by more than 20% in the latest two years, the statements are listed as follows:

1. The insurance liabilities variations and the insurance liabilities net increase were lowered. This is mainly caused by the increase of insurance benefits so that the insurance liability net deposit was lowered.
2. The initial year premium ratio increased. This is mainly caused by the fact that the Nian Nian Fa Whole Life with Endowment Insurance, Zeng Shun Li Increasing Whole Life Insurance and FuGui-RenSheng Increasing Whole Life Insurance sold well in 2015.
3. The premium income variation increased. This is mainly caused by the fact that there was only one variation-type (single payment) annuity insurance sold in 2014, leading to the great decrease of initial year premium income in 2014 was much lower than that in 2013. We sold many new products in 2015, so the initial premium income increased. leading to a smaller premium income net variation.
4. The Equity variation decreased. This is main caused by the fact that the payments/benefits and the loss due to the financial asset evaluation increased, leading to a smaller equity.
5. The decrease of ratio of net profit variation, return on assets, return on equity, ratio of operating profit to operating income, ratio of net profit to total income, net profit ratio and earnings per share were caused by the increase of payments/benefits., leading to a smaller net profit.

Note 1 : the equations used in the analysis are listed as follow

1. Financial structure

- (1) Debt ratio = total liabilities / total assets
- (2) Ratio of reserves to assets = reserves / total assets
- (3) Reserve variation = (remained reserves - the initial amount of reserves) / the initial amount of reserves
- (4) Ratio of reserve net increase to premium income = reserve net increase / premium income

2. Solvency

- (1) Ratio of investment on associated companies to equity = investments of associated companies/ equity
- (2) Initial year premium ratio = initial year premium of this year / initial year premium of last year
- (3) Initial year premium ratio = following year premium of this year / following year premium of last year

3. Operating performance

- (1) Ratio of new contract expense = new contract expense / new contract income

- (2) Ratio of premium income variation = (accumulated premium income of this year - accumulated premium income of last year) / accumulated premium income of last year
- (3) Ratio of equity variation = (equity of this year - equity of last year) / equity of last year
- (4) Ratio of Net Profit Variation = (profit(loss) of this year - profit(loss) of last year) / profit(loss) of last year
- (5) Ratio of capital operation = total capital operations / (reserves + equities)
- (6) Persistency(13 months and 25 months) = $PR_y = B F_x + y / N B' x * 100\%$

4. Profitability

- (1) Return on total assets = [profit(loss) after tax + interest expenses * (1 - tax rate)] / average total assets
- (2) Return on equity = profit(loss) after tax / average net equity
- (3) Return on capital operation = net investment profit of this year / [(available capital at the beginning + available capital at last - net investment profit of this year) / 2]
- (4) Return on investments = 2 * net investment income / (total assets at the beginning + total assets at last - net investment profit)
- (5) Ratio of operating profit to operating income = operating profit / operating income
- (6) Ratio of pre-tax net profit to total income = pre-tax net profit / (operating income + non-operating income)
- (7) Net Profit Ratio = profit(loss) after tax / total operating income
- (8) Earnings per share = profit(loss) after tax / weighted average issued shares
- (9) Ratio of real estate investments and real estate mortgages to assets = real estate investments and real estate mortgages / average total assets

5. Cash flow

- (1) Cash flow ratio = net cash flow from operating activities / flow liabilities
- (2) Cash flow adequacy ratio = net cash flow of the latest 5 years / (capital expense + inventory increase + cash dividends) of latest 5 years
- (3) Cash reinvestment ratio = (net cash flow from operating activities - cash dividends) / (gross amount of real estate, factory and equipment + long-term investment + other non-flow assets + operating capital)

6. Leverage

- (1) Operating leverage = (net operating income - variated operating cost and expense) / operating profit
- (2) Financial leverage = operating profit / (operating profit - interest expense)

Note 2 : for the above equations for earnings per share, we should specially pay attention to the followings:

- 1. Use the weighted average common stock shares, not the issued shares at the end of the year.
- 2. If there is a cash investment increase, take the valid period into consideration when calculating the weighted average shares.

Note 3 : when analyzing the cash flow, we should specially pay attention to the followings:

- 1. Net cash flow from operating activities means the net cash in-flow from operating activities in the cash flow sheet.

2. Capital expense means the cash out-flow of the capital investment every year.

3. There is no distinction between flow and non-flow for cash flow ratio and cash investment ratio based on the Principle of Financial Statement Formulation. So this principle does not apply.

Note 4: this company should classify all operating costs and operating expenses into fixed category or varied category. If this is done by estimation or subjective judgement, it should be justified and consistent.

C. Latest Annual Financial Statements



安侯建業聯合會計師事務所

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Independent Accountants' Review Report

The Board of Directors

BANKTAIWAN LIFE INSURANCE CO., LTD.

We have audited the financial statements of BankTaiwan Life Insurance Co., Ltd. (the Company), which comprise the balance sheet as of December 31, 2015 and 2014, the related statements of comprehensive income, statements of changes in equity, and statements of cash flows for the years then ended. The management of the Company is responsible for the preparation of these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of investments accounted for using equity method of the Company amounting to NT\$5,877,804 thousand and NT\$5,527,240 thousand as of December 31, 2015 and 2014, respectively, constituting 1.64% and 1.39% of the related total assets; nor the related shares of investment profit accounted for using equity method of NT\$540,845 thousand and NT\$504,400 thousand for the years then ended, respectively, constituting (21.39)% and (59.99)% of the related net losses before tax. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included above, is based solely on the report of the other auditors.

We conducted our audits in accordance with the "Regulation Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and the generally accepted auditing standards of the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statement. We believe that our audits and the audit performed by the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the audit of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial performance of the Company as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in conformity with the "Regulations Governing the Preparation of Financial Reports by Insurance Companies" and the International Financial Reporting Standards, the International Accounting Standards and IFRS interpretation endorsed by the Financial Supervisory Commission.



In accordance with the auditing regulation in Taiwan, the financial statements of BankTaiwan Life Insurance Co., Ltd. are required to be audited by the Ministry of Audit (the "MoA"). The financial statement for the financial year ended 2014 have been audited and approved by the MoA. No further adjustments should be made to the prior-year financial statement. For further information, please see note 37 (3) of the financial statements.

KPMG

March 18, 2016

The accompanying financial statements are intended only to present the financial position, result 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 jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

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

BANKTAIWAN LIFE INSURANCE CO., LTD.
Statements of Comprehensive Income
For the years ended December 31, 2015 and 2014
(expressed in thousands of New Taiwan Dollars)

	2015		2014	
	Amount	%	Amount	%
Operating revenue :				
Written premium (note 29)	\$ 31,411,104	77	34,980,085	75
Reinsurance premium (note 29)	<u>2,436</u>	-	<u>3,908</u>	-
Premium	31,413,540	77	34,983,993	75
Less : Reinsurance expense (note 29)	81,444	-	68,931	-
Net change in unearned premiums reserve (notes 18 & 29)	<u>3,453</u>	-	<u>(3,818)</u>	-
Retained earned premium (note 29)	31,328,643	77	34,918,880	75
Reinsurance commission received	23,145	-	24,458	-
Fee income (note 26)	84,558	-	85,377	-
Net income (loss) from investments				
Interest income (notes 26 & 32)	9,220,180	23	9,938,838	22
Gains on financial assets and liabilities at fair value through profit or loss (notes 26 & 32)	(3,246,728)	(8)	(5,947,823)	(13)
Realized gains on available-for-sale financial assets (note 26)	766,195	2	1,329,813	3
Realized gains on debt investments without active market	91,425	-	-	-
Realized gains on held-to-maturity financial assets	37,168	-	-	-
Share of profit of associates and joint venture accounted for using equity method (note 9)	730,754	2	547,840	1
Foreign exchange gain or loss, investment (note 32)	1,355,531	3	6,350,767	14
Net change in reserve for foreign exchange valuation (note 19)	506,832	1	(936,354)	(2)
Gain or loss on investment property (notes 10 & 32)	168,543	-	136,319	-
Other operating income	1,065	-	11,354	-
Income on insurance product, separated account (note 16)	<u>(26,972)</u>	-	<u>145,195</u>	-
Total operating revenue	41,040,339	100	46,604,664	100
Operating costs :				
Insurance claim payment (note 29)	71,497,665	174	55,700,173	120
Less : Claims recovered from reinsurers (note 29)	<u>28,756</u>	-	<u>15,156</u>	-
Retained claim payment (note 29)	71,468,909	174	55,685,017	120
Net change in other insurance liability (note 18)				
Net change in claim reserve	634	-	988	-
Net change in liability reserve	(33,183,535)	(81)	(11,844,335)	(25)
Net change in special reserve	(88,906)	-	49,510	-
Net change in premium deficiency reserve	1,689,611	4	287,197	1
Acquisition expense	1,093	-	469	-
Commission expense (notes 32 & 37)	2,364,169	6	1,858,226	4
Other operating costs (notes 32 & 37)	118,877	-	116,957	-
Interest expense	199,684	-	223,301	-
Disbursements on insurance product, separated account (note 16)	<u>(26,972)</u>	-	<u>145,195</u>	-
Total operating costs	42,543,564	103	46,522,525	100
Operating expenses:				
General expense (notes 21, 32 & 37)	851,664	2	740,816	2
Administration expense (note 21 & 32)	145,047	-	127,938	-
Employee training expense	<u>3,429</u>	-	<u>3,287</u>	-
Total operating expenses	1,000,140	2	872,041	2
Net operating Loss	(2,503,365)	(5)	(789,902)	(2)
Non-operating income and expense:				
Non-operating income and expense	<u>(25,501)</u>	-	<u>(50,890)</u>	-
Net income (loss) before income taxes	(2,528,866)	(5)	(840,792)	(2)
Less : Income tax expense (benefit)	<u>(18,689)</u>	-	<u>(23,772)</u>	-
Net income (loss)	(2,510,177)	(5)	(817,020)	(2)
Other comprehensive income :				
Items that will not be reclassified to profit or loss				
Gains (losses) on remeasurements of the defined benefit plans (note 21)	(19,713)	-	(24,206)	-
Shares of other comprehensive income of associates and joint ventures accounted for using equity method (note 9)	(21,314)	-	(9,976)	-
Income tax related to items that will not be reclassified to profit or loss (note 22)	<u>3,351</u>	-	<u>4,115</u>	-
Subtotal	(37,676)	-	(30,067)	-
Items that may be subsequently reclassified to profit or loss				
Unrealized gains (losses) on valuation of available-for-sale financial assets	(4,911,177)	(12)	1,301,138	3
Shares of other comprehensive income of associates and joint ventures accounted for using equity method (note 9)	183,160	-	94,376	-
Income tax related to items that may be subsequently reclassified to profit or loss (note 22)	<u>139,755</u>	-	<u>(66,016)</u>	-
Subtotal	(4,588,262)	(12)	1,329,498	3
Other comprehensive income (net amount after tax)	(4,625,938)	(12)	1,299,431	3
Total comprehensive income	\$ (7,136,115)	(17)	482,411	1
Basic earnings per share (in NT dollar)(note 25)				
	\$ (1.36)		0.48	

See accompanying notes to financial statements.

BANKTAIWAN LIFE INSURANCE CO., LTD.

Statements of Equity Change

For the years ended December 31, 2015 and 2014

(expressed in thousands of New Taiwan Dollars)

	Retained earnings				Other equity interest			Total equity
	Capital surplus	Legal reserve	Special reserve	Deficit yet to be compensated	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Changes in fair value due to credit risk of financial liability	
Balance at January 1, 2014								
Effects of retrospective application and retrospective restatement								
Equity at beginning of period after adjustments	17,000,000	96,537	549,661	(566,910)	2,134	(4,487,858)	-	12,960,047
Appropriation and distribution of retained earnings:				(161)				(161)
Provision for the reversal of special risk-volatility reserve			47,137	(47,137)				
Return of reserve for foreign exchange valuation initial amount			27,725	(27,725)				
Changes in equity of associates and joint ventures accounted for using equity method								
Provision for special catastrophe and special risk-volatility reserve			3,250					3,250
Provision for negative amount of the insurance profit-testing			28,541	(28,541)				
Net loss for the period			96	(96)				
Other comprehensive income for the period				(817,020)				(817,020)
Total comprehensive income for the period				(30,067)	34,497	1,295,001		1,299,431
Balance at December 31, 2014	17,000,000	96,537	653,160	(847,087)	34,497	1,295,001		13,445,547
Effects of retrospective application and retrospective restatement				(1,317,657)	36,631	(3,192,857)		
Equity at beginning of period after adjustments	17,000,000	96,537	653,160	(8,556)				13,445,547
Appropriation and distribution of retained earnings:				(8,556)				
Provision for the reversal of special risk-volatility reserve			36,623	(36,623)				
Return of reserve for foreign exchange valuation initial amount			27,669	(27,669)				
Provision for special catastrophe and special risk-volatility reserve			16,793	(16,793)				
Provision for negative amount of the insurance profit-testing			30	(30)				
Net loss for the period				(2,510,177)				(2,510,177)
Other comprehensive income for the period				(33,199)	48,970	(4,637,232)	(4,477)	(4,625,938)
Total comprehensive income for the period				(2,543,376)	48,970	(4,637,232)	(4,477)	(7,136,115)
Issuance of shares	5,500,000							5,500,000
Disposal of investments accounted for using equity method								
Balance at December 31, 2015	22,500,000	96,537	734,275	(4,150,704)	85,661	(7,830,089)	4,079	11,799,219

See accompanying notes to financial statements.

BANKTAIWAN LIFE INSURANCE CO., LTD.
Statements of Cash Flows
For the years ended December 31, 2015 and 2014
(expressed in thousands of New Taiwan Dollars)

	2015	2014
Cash flows from (used in) operating activities:		
Net loss before income tax	\$ (2,528,866)	(840,792)
Adjustments:		
Accounts that do not affect cash flow		
Depreciation expenses	98,883	86,513
Amortization expenses	3,919	4,865
Provision of bad debt expenses	10,497	52,022
Net loss (gain) on financial assets and liabilities at fair value through profit or loss	(2,107,914)	5,948,564
Net gain on available-for-sale financial assets	(766,195)	(1,329,813)
Net gain on debt investments without active market	(91,425)	-
Net gain on held-to-maturity financial assets	(37,168)	-
Interest expenses	199,684	223,301
Interest revenues	(9,220,180)	(9,938,838)
Net decrease in insurance liabilities	(31,578,743)	(11,510,458)
Net change in reserve for foreign exchange valuation	(506,833)	936,354
Share of profit of associates and ventures accounted for using equity method	156,663	(547,840)
Losses on disposal and retirements of property and equipment	668	-
Others	934,314	1,231,446
Total adjustments to reconcile profit (loss)	<u>(42,903,830)</u>	<u>(14,843,884)</u>
Changes in operating assets and liabilities:		
Net change in operating assets:		
Decrease in notes receivables	7,992	246,194
Decrease (increase) in other receivables	(1,238,777)	9,389
Increase in financial assets at fair value through profit or loss	(2,535,510)	(3,160,531)
Decrease in reinsurance assets	729	4,060
Decrease (increase) in other assets	276,624	(310,532)
Total change in operating assets	<u>(3,488,942)</u>	<u>(3,211,420)</u>
Net change in operating liabilities:		
Decrease in other payables	(3,418,204)	(597,175)
Increase in provision for employee benefits	92,717	74,313
Increase (decrease) in other liabilities	(453,368)	764,826
Total change in operating liabilities	<u>(3,778,855)</u>	<u>241,964</u>
Total change in operating assets and liabilities	<u>(7,267,797)</u>	<u>(2,969,456)</u>
Total adjustments	<u>(50,171,627)</u>	<u>(17,813,340)</u>
Cash outflow generated from operations	(52,700,493)	(18,654,132)
Interests received	3,169,816	4,619,944
Dividends received	2,373,559	1,507,553
Interests paid	(234,838)	(199,450)
Income taxes received	(215,455)	(348,232)
Net cash flows used in operating activities	<u>(47,607,411)</u>	<u>(13,074,317)</u>
Cash flows from (used in) investing activities:		
Acquisition of available-for-sale financial assets	(61,684,156)	(39,755,932)
Disposal of available-for-sale financial assets	65,140,645	38,869,277
Acquisition of debt investment without active market	(16,819,065)	(6,310,578)
Disposal of debt investment without active market	10,262,944	2,283,505
Maturity of debt investment without active market	14,012,523	5,928,005
Acquisition of held-to-maturity financial assets	(33,085,753)	(15,518,561)
Disposal of held-to-maturity financial assets	18,105,710	-
Maturity of held-to-maturity financial assets	23,021,149	22,787,897
Acquisition of property and equipment	(8,585)	(23,657)
Disposal of property and equipment	-	581
Increase in guarantee deposits paid	(2,994)	(9,559)
Acquisition of intangible assets	(1,432)	(6,239)
Decrease (increase) in loans	1,811,740	(2,031,067)
Acquisition of investment property	(1,561,500)	(337,610)
Decrease in other financial assets	17,939,471	22,900,080
Net cash flows from investing activities	<u>37,130,697</u>	<u>28,776,142</u>
Cash flows from (used in) financing activities:		
Increase in guarantee deposits and margins received	7,535	2,704
Issuance of shares	5,500,000	-
Net cash flows from financing activities	<u>5,507,535</u>	<u>2,704</u>
Net (decrease) increase in cash and cash equivalents	(4,969,179)	15,704,529
Cash and cash equivalents, at the beginning of the period	38,564,185	22,859,656
Cash and cash equivalents, at the end of the period	<u>\$ 33,595,006</u>	<u>38,564,185</u>

See accompanying notes to consolidated statements.

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to financial statements

December 31, 2015 and 2014

(expressed in thousands of New Taiwan Dollars unless otherwise stated)

(1) Company history

BankTaiwan Life Insurance CO., LTD. (the Company) was established on March 1, 1941 as the Life Insurance Dept. of Central Trust of China. As Central Trust of China merged with Bank of Taiwan on July 1, 2007, the Life Insurance Dept. of Central Trust of China was renamed as the life insurance department of Bank of Taiwan. On January 1, 2008, Bank of Taiwan became part of the Taiwan Financial Holding Co., Ltd (Taiwan Financial Holdings) in accordance with the Financial Holding Company Act. On January 2, 2008, Bank of Taiwan split its Insurance Department to establish BankTaiwan Life Insurance Co., Ltd. as a subsidiary of Taiwan Financial Holdings.

The Company was established in the Republic of China, and the address of its main operational site is 8F No.69 Sec. 2 Dunhua S. Rd., Taipei, Taiwan, R.O.C.. Its main businesses are life insurance and related businesses. So far, except for the Headquarter in Taipei, the Company founded 8 branches in Taipei, Taoyuan, Hsinchu, Taichung, Chiayi, Tainan, Kaohsiung and Hualien. On September 28, 2015, the Company was authorized by Beijing Administration for Industry and Commerce to cancel the registration of the representative office in Beijing. The Company obtained the permission to set up an offshore insurance unit on July 9, 2015, and this unit opened on March 1, 2016.

(2) Financial statements authorization date and authorization process

These financial statements were approved by the Company's Board of Directors on March 18, 2016.

(3) Application of new standards and interpretations

- 1) The effect of new adopted standards and interpretation which have been adopted, endorsed by the Financial Supervisory Commissions R.O.C. ("FSC")

Since the FSC announced a full adoption of updated IFRS, the Company adopted the 2013 IFRSs endorsed by the FSC starting from 2015 (except for IFRS 9 "Financial Instruments") to prepare its financial statements. Relevant accounting standards, interpretations and amendments are summarized below:

The new issuance, amendments, and revisions of standards and interpretations	Effective date per IASB
Amendment to IFRS 1 (Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters)	July 1, 2010
Amendment to IFRS 1 (Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters)	July 1, 2011
Amendment to IFRS 1 (Government Loans)	January 1, 2013
Amendment to IFRS 7 (Disclosures – Transfers of Financial Assets)	July 1, 2011
Amendment to IFRS 7 (Disclosures – Offsetting Financial Assets and Financial Liabilities)	January 1, 2013

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BANKTAIWAN LIFE INSURANCE CO., LTD.

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The new issuance, amendments, and revisions of standards and interpretations	Effective date per IASB
IFRS 10 (Consolidated Financial Statements)	January 1, 2013 (Becomes effective for investment entity starting January 1, 2014)
IFRS 11 (Joint Arrangements)	January 1, 2013
IFRS 12 (Disclosure of Interests in other Entities)	January 1, 2013
IFRS 13 (Fair Value Measurement)	January 1, 2013
Amendment to IAS 1 (Presentation of Items of Other Comprehensive Income)	July 1, 2012
Amendment to IAS 12 (Deferred Tax: Recovery of Underlying Assets)	January 1, 2012
Amendment to IAS 19 (Employee Benefits)	January 1, 2013
Amendment to IAS 27 (Separate Financial Statements)	January 1, 2013
Amendment to IAS 32 (Offsetting Financial Assets and Financial Liabilities)	January 1, 2014
IFRIC 20 (Stripping Costs in the Production Phase of a Surface Mine)	January 1, 2013

Except for the following listed items, the adoption of the IFRS (2013) by the Company would have no significant impacts on the financial statements:

1. IFRS 12 "Disclosure of Interests in Other Entities"

The Company disclosed additional information regarding its associates (please see note 9) according to this standard.

2. IFRS 13 "Fair Value Measurement"

The standard redefines the definition of fair value, establishes a single framework for measuring fair value and requires disclosures about fair value measurements. The standard is applied prospectively at the beginning of 2015 in which it is initially applied, and additional information about fair value measurements is disclosed in accordance with new requirements (please see note 27). However, there is no significant impact on how the Company measures the fair values of its assets and liabilities

3. IAS 1 "Presentation of Financial Statements"

The amendments to IAS 1 may result in changes with the presentation of other comprehensive income. An entity should split other comprehensive income between those items that will and will not be subsequently reclassified to profit or loss, and present in aggregate as single line items within these two groups. The amended standard has been applied by the Company and the information of current and comparative period was adjusted accordingly.

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Due to the retrospective adoption of the IFRS (2013), the Company's investments (accounted for using the equity method) and deficit yet to be compensated decreased by \$161 thousand as of January 1, 2014; the share of profit or loss of associates accounted for using the equity method increased by \$6 thousand; and the share of other comprehensive income of associates accounted for using the equity method increased by \$12 thousand for the year ended 2014. Moreover, following the amendment of the "Regulation of Governing the preparation of financial reports by insurance companies" (hereinafter referred to as the "Regulations"), the changes in fair value due to credit risk of investees' financial liabilities at fair value through profit or loss should be recognized in other equity. As it was retrospectively applied on January 1, 2014, the Company reclassified the deficit yet to be compensated to other equity at the amount of \$8,556 thousand as of December 31, 2014.

2) New and amended standards and interpretations not yet endorsed by the FSC:

Summary of the new standards and interpretations issued by the International Accounting Standards Board (the "IASB") but not yet endorsed as the IFRS (2013) by the FSC:

New issuances, amendments, and revisions of standards and interpretations	Effective date per IASB
IFRS 9 (Financial Instruments)	January 1, 2018
Amendments to IFRS 10 and IAS 28 (Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture)	Not yet decided
Amendments to IFRS 10, IFRS 12 and IAS 28 (Investing Entities: Applying the Consolidation Exception)	January 1, 2016
Amendment to IFRS 11 (Acquisition of an Interest in a Joint Operation)	January 1, 2016
IFRS 14 (Regulatory Deferral Accounts)	January 1, 2016
IFRS 15 (Revenue from Contracts with Customers)	January 1, 2018
IFRS 16 (Leases)	January 1, 2019
Amendment to IAS 1 (Disclosure Initiative)	January 1, 2016
Amendment to IAS 7 (Disclosure Initiative)	January 1, 2017
Amendment to IAS 12 (Recognition of Deferred Tax Assets for Unrealized Losses)	January 1, 2017
Amendment to IAS 16 and IAS 38 (Clarification of Acceptable Methods of Depreciation and Amortization)	January 1, 2016
Amendment to IAS 16 and IAS 41 (Bearer Plant)	January 1, 2016
Amendment to IAS 19 (Defined Benefit Plans: Employee Contributions)	July 1, 2014

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

New issuances, amendments, and revisions of standards and interpretations	Effective date per IASB
Amendment to IAS 27 (Equity Method in Separate Financial Statements)	January 1, 2016
Amendment to IAS 36 (Recoverable Amount Disclosures for Non-Financial Assets)	January 1, 2014
Amendment to IAS 39 (Novations of derivatives and continuing hedge)	January 1, 2014
Annual Improvements to IFRSs 2010-2012 & 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016
IFRIC 21 (Levies)	January 1, 2014

The Company is evaluating the effect on financial position and operating performance as a result of the adoption of the abovementioned standards and interpretations. Relevant influence will be disclosed when the evaluation is completed.

(4) Significant accounting policies

1) Statement of compliance

The financial statements have been prepared in accordance with the "Regulations" and the international financial reporting standards, international accounting standards and interpretations (hereinafter referred to as the "IFRS endorsed by the FSC").

As described in note 3(1), the Company adopted the IFRS (2013) endorsed by the FSC starting from 2015 (except for IFRS 9 "Financial Instruments") to prepare its financial statements.

Since the Company is a government-owned enterprise, its accounting treatments shall also follow the Budget Law, Budget Settlement Law, Audit Act and other relevant regulations. The Company's annual financial statements will not be finalized until they are audited by the MoA. For the differences between the Company's 2014 financial statements approved by the MoA and those audited by the auditors, please see note 37(3).

2) Basis of preparation

1. Basis of Measurement

These financial statements have been prepared on the historical cost basis, except for the following material items:

- (a) Financial instruments measured at fair value through profit or loss (including derivative financial instruments);
- (b) Available-for-sale financial assets measured at fair value;
- (c) The deemed cost of property and equipment and investment property derived from the revaluation pursuant to the R.O.C GAAP;

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

- (d) Defined benefit assets, determined by plan assets plus unrecognized past service cost as well as unrecognized actuarial loss, less unrecognized actuarial gain and the present value of the defined benefit obligation;
- (e) Reinsurance reserve assets, insurance liabilities and reserve for foreign exchange valuation are accounted in accordance with the "Regulations Governing Insurance Enterprises for Setting Aside Various Reserves".

2. The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized as well as assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the financial statements, please see note 5.

3. The Company's financial statements are individual financial statements composed of balance sheets, related statements of comprehensive income, changes in equity, and cash flows and the relevant notes as it does not have any subsidiary.

4. Functional and presentation currency

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

3) Foreign currency transactions

- 1. The Company's functional and reporting currency is the New Taiwan Dollar. Transactions in foreign currencies are translated to New Taiwan Dollar at exchange rates at the dates of the transactions. The difference between initial recognition and subsequent receipts or payments is recognized in profit or loss in the period incurred.
- 2. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate on the reporting date. Exchange differences are recognized in profit or loss in current period.
- 3. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value through profit or loss are retranslated to the functional currency at the exchange rate on the date that the fair value determined. Exchange differences are reported in profit or loss in the period; those measured at fair value through comprehensive income are reported at the exchange rate on the date that the fair value determined. Exchange differences are reported in other comprehensive income. Non-monetary items which are not measured at fair value are reported at the historical exchange rates at the date of transaction.
- 4. Foreign exchange gains or losses arising from the principals and interests of monetary investments are reported under the net investment gain or loss of the statement of comprehensive income. The rest of foreign exchange gains or losses not arising from the investment activities are reported under other operating revenue or cost.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

4) Classification of current and non-current assets and liabilities

The Company primarily engages in providing supplemental insurance for individuals. In the insurance industry, there is no clear standard distinction for the length of operating cycle due to varieties of insurance contracts and claim durations. Therefore, the Company does not classify the assets and liabilities into current or non-current assets, but instead presents them in order by liquidity. In addition, the Company discloses the amounts expected to be recovered or settled within or more than twelve months after the reporting date for each asset and liability.

5) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitment rather than for investment or other purposes should be recognized as cash equivalents.

6) Financial instruments

Financial assets and liabilities are initially recognized when the Company becomes a contracting party to the financial instrument agreement.

1. Financial asset

(a) Initial recognition and subsequent measurement

The Company classifies financial assets into the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets, loans and receivables. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable, using trade date accounting.

a) Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is classified as held for trading or is designated as such on initial recognition. Financial assets are classified as held for trading if they are acquired principally for the purpose of selling in the short term. The derivative financial instruments held by the Company, except for those designated as effective hedging derivative instruments, should be classified into this category.

An embedded derivative in a hybrid instrument held by the Company should be separated from the host contract and accounted for as a derivative if, and only if:

(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Even so, the Company still can designate the entire hybrid contract as a financial asset at fair value through profit or loss.

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Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss.

A financial asset at fair value through profit or loss (excluding derivatives and financial assets initially designated at fair value through profit or loss) may be reclassified out of the fair value through profit or loss category only in rare circumstances if that would have met the definition of loans and receivables and the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity, or that is no longer held for the purpose of selling or repurchasing in the near term. The fair value of the financial asset 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.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the unrealized (losses) gains on available-for-sale financial assets in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in the net investment gain or loss of the statement of comprehensive income.

A financial asset classified as available for sale 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 Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity. The Company shall reclassify the financial asset at its fair value on the date of reclassification which has become its new cost or amortized cost, as applicable. Any previous gain or loss on the asset that has been recognized in other equity shall be accounted for as follows:

(a) in the case of a financial asset with a fixed maturity, the gain or loss shall be amortized to profit or loss over the remaining life.

(b) in the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in other comprehensive income until the date of disposal.

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

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

c) Held-to-maturity financial assets

Financial assets which the Company has the positive intention and the ability to hold debt securities to maturity, such financial assets are classified as held-to-maturity. Held to maturity financial assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less, any impairment losses.

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 must be reclassified as available-for-sale and remeasured at fair value at the date of transfer. The difference between the investments' carrying amount and fair value at the date of transfer shall be accounted for in other equity. The cumulative net gain or loss shall be transferred to the statement of comprehensive income upon disposal of the investment.

d) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise account receivables, loans, other financial assets, and debt investments without active market. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less, any impairment losses other than insignificant interest on short-term receivables.

Loans include policy loans, premium loans, and secured loans. Policy loans are secured by insurance policies; premium loans are advanced granted to insured for overdue premium in accordance with the contracts; secured loans are loans secured by real estate and non-accrual receivables. Loans are recognized initially at the outstanding principal without unearned revenue. The amortized cost and the interest revenue are calculated using the effective interest method.

Non-performing loans refer to those loans for which interest and principal payments has been in arrears for three months or more, and those loans which the principal or interest has not yet been in arrears for more than three months, but with regards to which the creditor has sought payment from primary/subordinate debtors or has disposed of collateral.

Non-performing loans are classified as non-accrual loans when they are more than six months past due or there is direct evidence indicating insolvency of the debtors. When the principal and the related interest receivable are transferred to non-accrual loans, the Company stops recognizing interests on account but externally continues to collect interests as per term of contract and are recorded as a notation. Unrecognized interests shall be recorded as revenue when received.

Overdue premiums receivables, accrued revenue and other receivables are classified as non-accrual receivables within three months when they past due. Claims recoverable from the reinsurers and reinsurance receivables are classified as non-accrual receivables when they are more than nine months past due.

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Notes to Financial Statements

(b) Impairment of financial assets

The financial assets which are not measured at fair value through profit or loss shall be assessed for impairment at each reporting date. A financial asset is impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

In assessing the impairment of held to maturity measured at amortized cost and loans and receivables, the Company first considers if objective evidence of an impairment loss exists. All individually significant financial assets are assessed for specific impairment. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, then the financial asset shall be collectively assessed by grouping assets with similar credit risk characteristics. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are no longer to be included in a collective assessment of impairment. If there is any objective evidence of impairment, the Company shall recognize impairment losses or bad debt expenses. An impairment loss of a financial asset is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and are reflected in an allowance account against assets. In determining the amount of impairment losses, the Company shall also take the recoverable value of its collateral in to consideration when estimating the expected future cash flow. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

According to the "Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises", the amount of the allowance for bad debts cannot be lower than the amount as follow:

- a) the sum of 0.5% of the first category (other than insurance loans, premium loans and loans to ROC government), 2% of the second category, 10% of the third category, 50% of the forth category and 100% of the fifth category.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

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- b) 1% of the sum of all credit loans, less, insurance loans, premium loans and loans to ROC government.
- c) the total unsecured portions of nonperforming loans and non-accrual receivables.

The aforementioned standards are the basic level of assessing the allowance for bad debts. The Company shall set aside related allowance for bad debts according to the aforementioned standards if the assessed amount of impairment loss in accordance with the IAS No. 39 "Financial Instrument: Recognition and Measurement" is lower than the sum of the allowance for bad debts mentioned above.

In accordance with the "Accounting Guidelines for The Delinquent Debt Legal Right Urges to Accept The Payment and The Delinquent Debt Processing" issued by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the Company will write off the loans and credit when those are authorized and are in conformity with the regulations.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. Any subsequent loss (including those due from changing in foreign exchange rate) of available-for-sale equity security is reclassified in profit or loss from equity before the asset derecognized. Impairment losses recognized on available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

2. Financial liabilities

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

This type of financial liabilities refer to the held for trading financial liabilities or the financial liabilities designated as fair value through profit or loss. The held for trading financial liabilities are acquired or incur principally for the purpose of selling or repurchasing in a short term. The derivative financial instruments held by the Company, except for those designated as effective hedging derivative instruments, are classified into this category. These liabilities are recognized initially at fair value with transaction costs taken directly to profit to loss, and are subsequently remeasured at fair value. Gains and losses from the remeasurement of such liabilities are reported in profit or loss.

(b) Other financial liabilities

The financial liabilities not belong to the financial liabilities at fair value through profit or loss (like payables) shall be measured at fair value, plus, direct attributable transaction costs upon initial recognition, and they are subsequently measured at amortized cost using effective interest method.

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(c) The derecognition of financial assets and liabilities

The derecognition of a financial asset takes place if either the contractual rights to the cash flows associated with the financial instrument expire or almost all the risks and rewards have been transferred to another party.

On derecognition of a financial asset, the difference between its carrying amount and the sum of (1) the consideration received or receivable and (2) any cumulative gain or loss that had been recognized directly in equity (other equity- unrealized gain or loss on available-for-sale financial assets) is to be recognized in profit or loss under the net investment gain or loss in the statement of comprehensive income.

The derecognition of a financial liability takes place when the contractual obligations associated with the financial instrument are performed, cancelled or expired. On derecognition of a financial liability, the difference between its carrying amount and the amount of the consideration paid or payable (including any transferred non-cash assets or assumed liabilities) is to be recognized in profit or loss under the net investment gain or loss in the statement of comprehensive income.

(d) Offsetting financial assets and liabilities

This requires an entity to offset a financial asset and financial liability in the statement of financial position only when the entity currently has a legally enforceable right of setoff and intends either to settle the asset and liability on a net basis or to realize the asset and settle the liability simultaneously.

7) Investments in associates

Associates are those entities in which Taiwan Financial Holding Co., Ltd. (hereinafter referred to as the TFH) and its subsidiaries have significant influence, but not control, over their financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting right of another entity.

Investments in associates are accounted for using the equity method, and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition, less, any accumulated impairment losses.

Unrealized profits resulting from the transactions between the Company and an associate are eliminated to the extent of the Company's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Company's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except for the extent that the Company has an obligation or has made payments on behalf of the investee.

When the Company subscribes for additional shares of the associates at a percentage different from its existing ownership percentage, the resulting carrying amount of investment in associates differs from the amount of the Company's share of the associates' equity. The Company records such difference as an adjustment to investment in associates with the corresponding amount charged or credited to the extent of the available additional paid-in capital, with the balance charged to retained earnings.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

8) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently. The depreciation is computed along with the depreciable amount. The method, the useful life and the residual amount are the same with those of property and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

When the use of a property changes such that it is reclassified as property and equipment, the carrying amount at the date of reclassification becomes its cost for subsequent accounting.

9) Reinsurance assets

To limit the potential damage of the exposure events, the Company follows Insurance Act to process reinsurance contract. Even the reinsurer not perform obligation, the Company can't reject to fulfill the contract obligation for the insured.

The Company has the following rights over reinsurer: ceded unearned premium reserve, ceded claim reserve, claims recoverable from reinsurers and due from reinsurers and ceding companies, net. The method used for estimating claims recoverable from reinsurers should be the same as the method used for estimating the claim reserve liabilities.

The Company should not offset reinsurance assets against the related insurance liabilities, or income or expense from reinsurance contracts against the expense or income from the related insurance contracts.

If there is evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts regulated under the terms of the contract, and that event has a measurable amounts in terms of the influence of the event, the Company shall recognize the difference between the recoverable amount and the carrying amount of the previously stated right as impairment loss.

In addition, in determining the classification of a reinsurance contract, the Company considers whether a significant insurance risk should be transferred to the reinsurer. If there is no significant risk that are being transferred, the contract shall be recognized and measured in accordance with deposit accounting and the consideration received or paid for reinsurance contracts shall be treated as a financial liability or a financial asset, rather than as revenue or expense.

If a reinsurance contract on the ceded date or balance sheet date is deemed unqualified ceded reinsurance under the "Regulation Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms", the Company utilizes "The Provision of Unqualified Reinsurance Reserve" to evaluate the effect of unqualified reinsurance in supervision reports, and the results are disclosed in its financial statements. The Company has no unqualified reinsurance so far.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

10) Insurance contract

The Company classifies a contract as an insurance contract is when the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. The insurance risks refer to the risks that policyholder transfer to the contract issuer excluding financial risks. Financial risks refer to the risk resulting from possible changes in specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable in the future. If the previously stated variables are non-financial variables, then the variables do not belong to any specific side of the contract. Insurance contract may possibly transfer part of the financial risks.

The Company identifies the significant insurance risk if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario but excluding the situation of lack of commercial substance. A contract that qualified as an "insurance contract" remains an "insurance contract" until all rights and obligations are extinguished or expired. The insurance contract of which the significant insurance risks are not transferred are classified as insurance contract with financial instrument features. However, if an insurance contract with financial instrument features transfers significant insurance risk to the Company in subsequent periods, it will be reclassified as "insurance contract".

Insurance contracts and insurance contracts with financial instrument features can be further divided into 2 categories, which are insurance with discretionary participation feature or without discretionary participation feature.

A discretionary participation feature is a contractual right to receive both the guaranteed benefits and also the additional benefits:

1. that is likely to be a significant portion of the total contractual benefits;
2. whose amount or timing of distribution of additional benefit is contractually at the discretion of the company; and
3. the additional benefit is contractually based on:
 - (a) the performance of a specified pool of the contracts or a specified type contract;
 - (b) the rate of return of a specific asset portfolio, or
 - (c) the profit or loss of the company, fund or other entity that issues the contract.

If the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, it is required to be separated from the host contract and the value embedded derivate shall be measured at fair value through profit or loss, and the change shall be recognized as current gains or losses. If the embedded derivate is itself an insurance contract or in the case of an insurer need not separate it and is able to measure it at fair value through profit or loss, the company does not need to separate the embedded derivate and the insurance contract in terms of recognition.

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

11) Property and equipment

1. Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property and equipment shall be determined by the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as other non-operating income or expense in the statement of the comprehensive income.

2. Reclassification to investment property

When there is a change in use, the Company treats the owner-occupied property as investment property; the property shall be reclassified to investment property at carrying amount from then on.

3. Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

4. Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on straight-line basis over its useful life. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life and therefore is not depreciated.

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

Buildings	55 years
Transportation equipment	3 to 15 years
Machinery equipment	2 to 15 years
Miscellaneous equipment	3 to 15 years
Leasehold improvements	5 years

Depreciation methods, useful lives, and residual values should be reviewed at each reporting date. If expectations differ from the previous estimates, the changes are accounted for as changes in an accounting estimate.

12) Lease

1. Lessor

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

2. Lessee

Leasing asset refers to an operating lease which is not reported in the balance sheet of the Company.

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in expense on a straight-line basis over the lease term. Lease incentives received from lessors are divided over the lease term on a straight-line basis so that the lease expense is reduced accordingly.

13) Intangible assets

The Company measures the computer software at cost less accumulated amortization and accumulated impairment loss.

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

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

Computer software	5 years
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The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any change shall be accounted for as changes in accounting estimates.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

14) Impairment—Non financial assets

The Company assesses at each reporting period whether there is any indication that an asset may have impaired. If any such indication exists, the Company shall estimate the recoverable amount of the asset. Impairment loss is recognized if the recoverable amount is less than the carrying amount. The Company reverses an accumulated impairment loss of an asset, other than goodwill, recognized in prior periods if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying amount of the assets shall be increase to its recoverable amount, but the increased carrying amount of the assets shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the assets in prior years.

15) Insurance product, separated account

The Company is engaged in selling investment-linked products. The payment of premiums (net of administrative expense) is recorded in a separate account which shall only be used in a way agreed by the proposer. The assets of separate accounts are valued at market price on the valuation date, and the Company follows the related rules and financial accounting standards in the IFRS to determine the net asset value.

In accordance with the "Regulations Governing the Preparation of Financial Reports by Insurance Companies", the assets and liabilities are recorded as "Assets on insurance product, separated account" and "Liabilities on insurance product, separated account", no matter it is caused by a insurance contract or the insurance contract with financial instrument feature. The revenue and expenses in accordance with the definition of IFRS No.4 (including insurance products, separated account with discretionary participating features) are recorded as "Income on insurance product, separated account" and "Disbursements on insurance product, separated account", respectively.

16) Insurance liability

Reserves for insurance contracts are provided in accordance with the "Regulations Governing Insurance Enterprises for Setting Aside Various Reserves" and are also certified by an appointed actuary approved by the Financial Supervisory Commission, Executive Yuan, R.O.C. (FSC). Except the reserves for short-term group insurance, the reserve basis shall be based on the greater amount of actual premium income or the premium income as calculated under the Tai Tsai Pao No. 852367814 and other reserve basis listed below.

In addition, partial insurance contracts contain a discretionary participation feature as well as a guaranteed element; the Company classifies the whole contract as a liability rather than recording them separately.

1. Unearned premium reserve

The unearned premium reserve should be provided based on the unexpired risk for the in-force policies with an insurance term of less than one-year, the accident insurance with an insurance term of more than one-year, and the investment-linked insurance and universal insurance agreed to collecting fees periodically based on the calculation in accordance with one-year term insurance cost method.

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

2. Claim reserve:

- (a) Claim reserves for businesses with less than one year insurance term and for accident insurance with more than one year insurance term shall be provided as follows:

Claim reserves provided for health and life insurance which became effective after January 1, 2010, and accident insurance are set aside using the loss development triangle method based on the previous claim experience. The reserves are respectively provided for "Reported but Not Paid Claims" and "Not Reported and Not Paid". For "Reported but Not Paid Claims", a reserve has been provided on a per-policy-claim-report basis for each type of insurance.

- (b) Claim reserves provided for "Reported but Not Paid claims" derived from investment-linked insurance, universal insurance, and life insurance, health insurance, and annuity insurance with insurance terms more than one year are determined in accordance with actual information on a per-policy-claim-report basis and are respectively set aside for each type of insurance.

3. Policy reserve

The provision for policy reserves is based on mortality tables and prescribed interest rates approved by the FSC and calculated based on the modified reserve method in accordance with the Article 12 of the "Regulations Governing Insurance Enterprises for Setting Aside Various Reserves" and other regulations and approved calculation instructions filed with the FSC.

Since 2003, if the dividends of in-force policies are calculated in accordance with Tai Tsai Pao No. 800484251, then the reduction in dividends resulting from the offsetting of mortality margin and interest loss should be provided as long-term policy reserve.

Starting from 2012, the Company should provide the provision of policy reserve for in-force policies to comply with Jin Guan Pao Tsai No. 10102500530 on January 19, 2012. Calculated based on the terms of the "Regulations Governing Insurance Enterprises for Setting Aside Various Reserves", the recovery of the special catastrophe reserve should be provided as policy reserve of life insurance-reversed catastrophe reserve. However, to comply with Jin Guan Pao Tsai No. 10202124790 on November 21, 2013, the Company no longer has to provide the new reserve since 2013.

Starting from 2012, in accordance with the Gin Guan Bao Tsai No. 10102500530 on January 19, 2012 and Article 11 of Value-added and Non-value-added Business Tax Act, a liability reserve based on 3% of sales is provided for purposes of writing off overdue loans or providing allowance for bad debts when the percentage of overdue loans is lower than 1%.

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Notes to Financial Statements

4. Special reserve

(a) For retained business with an insurance period of one year or less, the Company shall set aside the following catastrophe reserve and special risk-volatility reserve in accordance with the following provisions:

a) Special catastrophe reserve:

- a. a special catastrophe reserve shall be set aside at the reserve ratio prescribed by the competent authority.
- b. upon the occurrence of a catastrophic event, actual retained losses in excess of NT\$30 million may be withdrawn from special catastrophe reserve and shall be reported to the competent authority for recordation.
- c. a special catastrophe reserve that has been set aside for more than 15 years can be released based on the evaluation by actuary and calculation methodology approved by the competent authority.

b) Special risk-volatility reserve:

- a. For each type of insurance, when the balance of actual losses minus the amount reversed from a special catastrophe reserve is lower than expected losses, a special risk-volatility reserve shall be provided at 15 percent of the difference.
- b. When the balance of actual losses minus the amount reversed from a special catastrophe reserve is greater than expected losses, the amount in excess of expected losses may be reversed from the special risk-volatility reserve previously provided. If the reserve for special risk-volatility reserve for a particular type of insurance is insufficient to cover losses, the losses may be reversed from the special risk-volatility reserve previously provided for another type of insurance and shall be reported to the competent authority.
- c. When cumulative provisions for the special risk-volatility reserve exceed 30 percent of the amount of retained earned premiums for the current year, that portion in excess shall be released and treated as income.

Special reserves shall be set aside every year while the newly provided special reserves (net of taxes determined in accordance with IAS 12 – "Income Taxes") shall be recognized as special reserve under shareholders' equity each year. Also, the withdrawal or the released amount of special reserve (net of taxes determined in accordance with IAS 12 – "Income Taxes") based on the above-mentioned regulations shall offset with special reserves of Special surplus recorded under shareholders' equity.

In addition, according to the Tai Cai Bao No.0910074195, the Company should provide the special reserve for the withdrawal amount of special risk-volatility reserve (net of taxes), and should be authorized by the competent authority before distributing or using those reserve for other purpose.

(b) According to the Tai Cai Bao No.0910712459, the Company should recognize the special reserves for the participating insurance policy and write off the reserves when the bonuses are declared.

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Notes to Financial Statements

- (c) According to the Jin Guan Bao Shou No.10302125060, if the result of the insurance profit testing is negative, the Company should recognize the special reserves according to the related operating principles.

5. Premium deficiency reserve

For life insurance, health insurance, or annuities with an insurance term over one year, and policies issued after January 1, 2001, a deficiency reserve is provided when the actual premium written is less than the premium on the policy reserve prescribed by the competent authority.

In addition, the Company shall evaluate expected future claims and expenses for in-force contracts with contract term less than one year and for accident insurance contracts with terms over one year, and if the amount exceeds unearned premium reserve and expected future premium income, a premium deficiency reserve should be provided for the difference.

6. Liability adequacy reserve

The Company shall assess at the end of each reporting period whether the insurance liabilities recognized by the Company are adequate, using current estimates of future cash flows under its insurance contracts. The Company's liability adequacy test is based on all insurance contracts that the Company issues and adheres to Actuarial Practice Guidance of IFRS 4 "Contracts Classification and Liability Adequacy Test" and its related regulations issued by The Actuarial Institute of the Republic of China. The test is conducted on each balance sheet date by comparing the net carrying amount of its insurance liabilities less related acquisition costs and intangible assets and current estimates of future cash flows under its insurance contracts. If the assessment shows that the net carrying amount is inadequate in the light of the estimated future cash flows, the entire deficiency shall be recognized in loss as liability adequacy reserve.

Policy reserve and premium deficiency reserve are discounted using the pre-decided rate, liability adequacy reserve are discounted using the best-estimate for the return on investment, based on current information. However, unearned premium reserve, claim reserve and special reserve are not discounted.

17) Reserve for foreign exchange valuation

In accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises", starting on March 1, 2012, the Company should set up a reserve for foreign exchange valuation under liabilities for their foreign investments. In addition, the Company transfers some of the special reserve to the reserve for foreign exchange valuation as the opening balance. The maximum amount may not exceed half of the special reserve for significant incidents and the special reserve for risk volatility of various insurance types recorded under the liabilities as of December 31, 2011.

The accumulated limit, provision, and offsetting of the reserve are as follows:

1. Limit of provision: the total amount of its foreign investment assets in the current month times the exposure ratio times 4.2% equals the provision. If any, the foreign exchange gain from the non-hedged foreign currency assets times 50% equals the additional provision.
2. Limit of offsetting: If any, the foreign exchange loss from the non-hedged foreign currency assets times 50% equals the reverse amount of this reserve. The balance of this reserve at the end of each month shall not be less than the 20% of the accumulated balance of this reserve last year.

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3. If the accumulated balance of the reserve decreases to 20% of its accumulated balance at the end of the previous year and lasts for 3 months, the rate of the provision for foreign exchange gain from the non-hedged foreign currency assets shall be raised to 60%, and the accumulated balance shall be restored at least up to 2 times of the lower limit of offsetting.
4. The definition mentioned above regarding the total amount of foreign investment, exposure rate, non-hedge foreign exchange assets and hedge cost are in accordance with Article 2 and 3 of the "Instructions of reserve for foreign exchange valuation of life insurance enterprises".
5. The Company shall provide the same amount as the reduction of hedging cost attributable to the application of this rule as special earnings reserve each year. If the Company does not have enough retained earnings for the reserve in the current year, the Company shall compensate for the insufficient amount in the following year when it has earnings. The amounts provided as the special earnings reserve shall only be used to increase the capital or to offset the accumulated deficit in the subsequent periods.
6. If there are earnings after tax in the current year, 10% of the earnings amount should be provided as special surplus reserves. However, the Company may not provide such reserves if the regulatory authority approves.

18) Revenue recognition

1. Premium revenue recognition and policy acquisition costs

First-year and renewal premiums of insurance contract and financial instruments with discretionary participation features are respectively recognized as income when premiums are received and the policies are approved or due. Acquisition costs, including commissions and other costs related to acquiring new business, are recognized as expenses as incurred.

Premiums collected from the financial instruments without discretionary participation features under insurance product, separated account shall be recognized as premium income to the extent of insurance component. The remaining, after being subtracted by other revenues, including upfront fee or investment management service fee income, shall be fully recognized as "Liabilities on insurance product, separated account" on the balance sheet.

Investment management service fee income is recognized as revenue when received. However, under the circumstance that the Company is obligated to provide future services for the service fee received (such as up-front fee) the revenue recognition shall be deferred as "unearned revenue liability" until the services are provided and amortized using the straight-line method over the passage of service period as "fee income". Furthermore, the incremental transaction cost paid due to investment management services provided for these insurance contracts (including commission fee and overriding) shall be deferred to match its corresponding unearned revenue liability as "deferred acquisition cost" and amortized using the straight-line method over the passage of service period as other operating costs.

In accordance with the recognition and calculation principles provided in the "Life Insurance Industry Accounting System Guidance", the Company determines whether to recognize the unearned revenue liability and the deferred acquisition cost based on the design of the insurance products and the comparison of service revenue received and service cost incurred.

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Notes to Financial Statements

2. Interest revenue

The interest revenue derived from bank deposit, loans, and bonds investments are accounted on an accrual basis. For the over-due receivables, the interest will not be recognized as revenue until they are received.

3. Lease income

Lease income from investment property is recognized in profit or loss on a straight basis over lease term. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

19) Employee benefits

1. Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the period during which services are rendered by employees.

2. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on bonds (market yields of high quality corporate bonds or government bonds) that are denominated in the same currency in which the benefits are expected to be paid.

The Company's net obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to any unrecognized past service costs, and the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

Remeasurements of the net defined benefit liability or asset comprise:

- (a) actuarial gains and losses;
- (b) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and
- (c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

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The remeasurements of the net defined benefit liability or asset are recognized under other comprehensive income. The Company can elect to transfer the recognized amount in other comprehensive income to retained earnings or other equity. The subsequent reclassification of the amount recognized in other equity to profit or loss is prohibited. The Company has elected to transfer the other comprehensive income to retained earnings.

Gains or losses on curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains or losses and past service cost that had not been recognized previously.

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

3. Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are recognized as expenses when the related services are provided.

4. Preferential interest deposits

(a) The Company provides the preferential interest deposits for the employees employed before January 1, 2008. The types of preferential interest deposits include fixed deposits provided for current employees and for retired employees. The differences between the preferential interest rate and the market rate are the employee benefit.

(b) For the preferential interest deposits paid to current employees, the Company shall calculate the interest monthly on accrual basis. The differences between the preferential interest rate and the market interest rate are recognized in profit or loss in the period incurred. In accordance with the "Regulations Governing the Preparation of Financial Reports by Insurance Companies", if the preferential interest rate for retired employees exceeds the market rate, the Company shall apply the accounting treatments required by IAS 19 to estimate the future obligations. Furthermore, the actuarial assumptions shall follow the Jin Guan Yin Fa Zi No. 10110000850. The Company considers the differences between the estimated and actual payments as changes in accounting estimates and recognizes them in profit or loss in the period of change.

5. Civil servant and teacher insurance excess annuity benefit plans

According to the "Civil Servant and Teacher Insurance Act" (the CSTI Act) that took effect on May 29, 2015 and Tui Yi Zi No. 10440257582 issued by the Ministry of Finance, the Company's employees who are not qualified for preferential interest deposits are entitled to receive annuity when retiring or getting laid off if they meet the requirements prescribed in Article 16 and 18 of the CSTI Act. The sum of the monthly payments from this annuity and the total amount of the defined benefit plan shall not exceed 80% of twice the amount of the employee's salary at the time of retirement. Moreover, if the payment rate of the annuity is lower than the basic rate of annuity (0.75%), the annuity will be calculated using the latter rate. However, if the payment rate is higher than the upper limit (1.3%), the annuity is calculated based on 1.3%.

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The Company is responsible for the portion of the annuity payments that exceeds 0.75% and the calculation is reviewed by the insurance carrier (Department of Government Employees' Insurance, Bank of Taiwan) on a monthly basis in accordance with the CSTI Act.

6. Other employee's retirement benefits

(a) Include three Chinese festival gifts.

(b) It belongs to the definite benefit plan, and the independent actuary uses the projected unit credit method to calculate the present value of the defined benefit obligation and the current service cost. The present value of the defined benefit obligation is the projected future cash flow discounted by the market yields at the end of the reporting period on the bonds that have maturity dates approximating the terms of the obligation and that are denominated in the same currency in which the benefits are expected to be paid.

20) Income Tax

In accordance with the Article 49 of the Financial Holding Company Act and the Income Tax Act, the TFH has elected to jointly file a profit-seeking enterprise income tax return since 2009. To file a joint return, each domestic subsidiary shall separately handle its own tax matters and then report the results to its parent company. Therefore, the Company measures its income tax liabilities separately according to the IAS 12 "Income Tax" and then report them to the TFH for tax filing.

The Company is a government-owned enterprise by the Ministry of Finance, so its income tax liabilities shall be calculated based on the amount audited by the Minister of Audit. In addition, according to the Tai Cai Shui No. 910456521 issued by Ministry of Finance on October 30, 2002, the Company and its parent company, the TFH, who file a consolidated tax return are 100% owned by the government and hence it is not required to calculate and file the tax on the undistributed earnings or profits.

Income tax expenses include both current and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences; deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carryforward of unused tax losses and the carryforward of unused tax credits.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

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Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

1. The entity has the legal right to settle tax assets and liabilities on a net basis; and
2. the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
 - (a) levied by the same taxing authority; or
 - (b) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset should be recognized for the carry-forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

21) Earnings per share

The Company discloses the Company's basic earnings per share attributable to ordinary equity holders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding.

22) Operating segments

The information of the Company's operating segments is reported on the same basis as is used internally by the chief operating decision maker. The chief operating decision maker is responsible for evaluating operating segment performance and deciding how to allocate resources to operating segments.

23) Due from Representative Organization

According to Military Insurance Act, the Company engages in the military insurance business and the related transactions are recorded in due from representative organization based on military insurance accounting requirement. Charges from military insurance business are recorded as fee income, and the agent fee from other institutions on behalf of the company to collect premiums and to release of benefit payments are recorded as expenses. Moreover, funding for military insurance is kept by the Company, and the interest is paid and recorded as interest expense.

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

The preparation of the financial statements in conformity with the IFRSs requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Management continues to monitor the accounting assumptions, estimates and judgments. Management recognizes the changes in the accounting estimates during the period and the impact of the changes in the accounting estimates in the next period.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

Determination of the book value of the assets and the liabilities as the following that significant impact on amounts recognized in the financial statements are influenced by accounting assumptions and judgments. Actual results may significantly differ from the followings due to the changes in accounting assumptions and judgments.

1) Fair value and impairment of financial instruments

1. Fair value

The Company holds certain financial instruments without active markets, including financial instruments lacking of active market quotes and financial instruments that turned out to be inactive due to market conditions (ex: low market liquidity). When a market is inactive, it is usually only a few or no observable market data available to measure the fair value of financial instruments. Determination of the existence of an active market for a financial instrument requires management's judgments.

If the market of an investment held by the Company is not active, the fair value of the instrument is determined with valuation techniques. The Company applies quotes from independent third parties (such as brokers or valuation service providers) or valuation model internally developed to determine the fair value of those financial instruments. When the fair value may be publicly obtained from independent sources, it shall be adopted. Overall, the Company would decide a source and / or a valuation technique as a fair value determination method that can reflect the price achieved between market participants through regular trading as of the balance sheet date. Valuation techniques include adoption of recent arm's length transactions, reference to other instruments with substantially identical basis, application of discounted cash flow analysis, etc., which may also include a number of assumptions related to each variable (such as credit risk and interest rate). Adoption of different valuation techniques or assumptions may lead to significant discrepancies in fair value determination results.

The Company is measuring its assets and liabilities based on available and observable market inputs. A fair value hierarchy is categorized in accordance with the inputs to the valuation techniques used. Please see the note 27 for the description about fair value hierarchy.

If there is a shift occurred within the levels of fair value classification, the Company will recognize it at the end of the reporting period. Please see following notes for the related information of the assumptions used for fair value measurement:

- (a) Note 10 Investment property
- (b) Note 27 Fair value hierarchy

2. Impairment

(a) Available-for-sale securities

The Company is required to assess whether there is any objective evidence of impairment. The objective evidence includes a significant or prolonged decline in its fair value, a significant financial difficulty of an issuer or debtor, default, indications that a debtor or issuer will enter bankruptcy or financial reorganization and so on.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

(b) Financial assets carried at amortized cost

If any such evidence exists, the Company is required to determine whether an impairment loss should be recognized. The aforementioned evidence is usually as below:

- a) Significant financial difficulty of the issuer/obligor
- b) Default or breach of contract such as a default or delinquency in interest or principal payments.
- c) Granting of a concession by the lender.
- d) Bankruptcy or financial reorganization of the borrower
- e) Disappearance of an active market for the assets concerned
- f) Adverse effects of changes in technological, market, economic or legal environment, in which the issuer operates.
- g) Significant or prolonged decline in the fair value of an investment in the equity instrument.

The management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly in order to decrease the difference between estimated loss and actual loss.

The inherent risks of the impairment evaluation for any financial assets include the following.

- (a) The actual result in the market may differ from the expectation,
- (b) The event and the condition may change in the future and differ from the original estimations and assumptions, or
- (c) The Company may decide to sell the related assets due to the changes in condition in the future.

2) Classification of insurance policy and significant risk transfer test

The Company is required to recognize insurance risks, other risks and other elements of the issued insurance policies, and determine whether the elements of these contracts can be split and separately calculated and whether the results will affect the classification of insurance contracts.

In addition, the Company shall determine whether the insurance transfer insurance risk exists and contains a nature of business, as well as whether the transfer of insurance risk is materially significant. The Company also makes a significant insurance risk transfer test and the judgments of the test results will affect the classification of insurance contracts.

Identification and separation of the insurance contracts elements and the classification of the insurance contracts will affect the Company's revenue recognition, liabilities measurements and presentation of the financial statements.

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

3) Insurance liability and reserve of insurance policy with financial instrument nature

The Company measures insurance liabilities based on the "Regulations Governing Insurance Enterprises for Setting Aside Various Reserves".

Reserves for life insurance are accrued using the lock-in interest rate assumptions at issue for reserves provision instead of the current market rate.

Unearned premium reserves are calculated by each insurance unexpired risk. The methods of reserve provision are determined by actuaries about each insurance characteristic.

Claims reserve is estimated based on the loss of accrued triangle method. The major assumptions are loss development factors and expected claims rate; hence, it results in ultimate claims costs. The loss development factors and expected loss rates are based on the Company's historical claims experiences, and it also considers expense rates, claims management and other corporation's policy adjustments.

Liability Adequacy Test is estimated based on "Code of Conduct of Actuarial Practice Under the Statements of Financial Accounting Standards No 40 — Contracts Classification and Liability Adequacy Test" announced by the Actuarial Institute of the Republic of China. The Company evaluates liability adequacy test using future insurance benefits, premiums, related fees and other reasonable estimates for the current estimates of future cash flows under its insurance contracts. Please see note 18 for further information.

During the assessment process of liabilities, the use of professional judgment will affect the financial statements regarding the net change in claim liability, insurance contract reserves net change with the nature of financial, and the recognized amounts of the aforementioned.

4) Reinsurance reserves

Reinsurance reserve assets include ceded unearned premium reserve, ceded Claims reserve, ceded Premium deficiency reserve and ceded Liability adequacy reserve. They shall be estimated according to the "Regulations Governing Insurance Enterprises for Setting Aside Various Reserves" and the "Directions Concerning Compliance with Application of Reinsurance Business" with Over One Year by Life Insurance Enterprises which Recognize Receded Liability Reserves at the Balance Sheet".

The actuary uses the actuarial principles and related assumptions to estimate the reinsurance reserves. The actuarial assumptions include the characteristics of insurances, the historical claims, the loss development factors, the expected claim rate and the estimated future cash flow. The actuary's professional judgments will affect the recognized amount of the net change of insurance liabilities and reinsurance reserves.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

5) Payments to defined contribution retirement benefit plans

The present value of retirement benefit obligation is based on several actuarial assumptions (including the decisions made by Financial Supervisory Commission, R.O.C.). Any changes on these assumptions will influence the fair value of the retirement benefit obligations.

One of the assumptions used to determine net pension cost (income) is the discount rate. The Company determined the appropriate discount rate at the end of each year, and used the rate to calculate the present value of future cash flows on estimated payment of retirement benefit obligation. To determine the appropriate discount rate, the Company should consider the followings: (1) interest rate of high-quality corporate bonds or government bonds, (2) the currency used for the corporate bonds or government bonds should be inconsistent with the currency used for retirement benefit payments, (3) and the maturity period should be inconsistent with related pension liability periods.

Other significant assumptions used to determine the retirement benefit obligation are based on current market conditions. Please see note 21.

6) Income tax expense and deferred tax assets and liabilities

The Company is subject to the review of the taxation authority and actual results may differ from these estimates due to different opinions on certain transactions or calculations. Income tax expenses for the year and related tax assets or liabilities are best estimated and recognized by multiplying pretax income for the period by the effective annual tax rate that is enacted. If final outcomes are different from amounts originally recognized, such differences will have an impact on the recognition of income tax and deferred income tax.

The probability of realization of deferred tax asset is based on the assessment of its future taxable profit. If the estimation of profitability changes in future periods, the Company shall adjust the respective deferred tax asset.

(6) Cash and cash equivalents

	December 31, 2015	December 31, 2014
Petty cash and revolving fund	\$ -	2,550
Checking account	522,349	463,305
Saving account	11,813,794	11,839,228
Time deposit	1,500,000	11,338,120
Foreign currencies deposit	9,563,263	9,461,598
Securities purchased under resell agreements	10,195,600	5,459,384
Total	<u>\$ 33,595,006</u>	<u>38,564,185</u>

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

(7) Receivables

	December 31, 2015	December 31, 2014
Notes receivable	\$ 40,309	48,301
Interest receivable	2,130,359	2,057,199
Accrued incomes	814	-
Receivables of securities	369,003	131,177
Other receivables	1,354,294	115,031
Less: Allowance for bad debts	(70)	(39)
	<u>\$ 3,894,709</u>	<u>2,351,669</u>

(8) Financial instruments

1) Investment

As of December 31, 2015 and 2014, the financial assets held by the Company were as follows:

1. Financial assets at fair value through profit or loss

	December 31, 2015	December 31, 2014
TSEC and OTC stocks	\$ -	2,527
Mutual funds	2,500,000	-
Add: valuation adjustment		
TSEC and OTC stocks	-	(130)
Mutual funds	88	-
Forward foreign exchanges	40,076	7,411
Currency swap contracts	3,839	22,085
Total	<u>\$ 2,544,003</u>	<u>31,893</u>

The Company's financial assets at fair value through profit or loss neither served as a guarantee or collateral, nor were they pledged.

2. Financial liabilities at fair value through profit or loss

	December 31, 2015	December 31, 2014
Forward foreign exchange	\$ 117,458	206,151
Currency swap contracts	907,000	2,887,527
Cross-currency swaps	34,822	96,916
Total	<u>\$ 1,059,280</u>	<u>3,190,594</u>

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

3. Available-for-sale financial assets—net

	December 31, 2015	December 31, 2014
TSEC and OTC stocks	\$ 22,654,075	22,324,187
Exchange traded funds	3,112,468	1,710,277
Beneficiary certificates	6,067,571	5,597,770
Foreign stocks	1,397,442	519,063
Foreign exchange traded funds	4,719,702	3,650,531
Foreign mutual funds	5,667,885	6,185,343
Real estate securitization	865,101	865,101
Government bonds	-	1,146,907
Corporate bonds	1,361,340	2,472,523
Financial bonds	3,301,107	7,709,413
Foreign bonds	<u>3,207,086</u>	<u>3,430,840</u>
	52,353,777	55,611,955
Add: valuation adjustment	<u>(8,174,777)</u>	<u>(3,094,070)</u>
Total	<u>\$ 44,179,000</u>	<u>52,517,885</u>

The Company's available-for-sale financial assets neither served as a guarantee or collateral, nor were they pledged.

4. Debt investments without active market

	December 31, 2015	December 31, 2014
Investments in bonds—Corporate bonds	\$ 200,000	200,000
Investments in bonds—Foreign bonds	<u>48,390,962</u>	<u>54,656,557</u>
Total	<u>\$ 48,590,962</u>	<u>54,856,557</u>

The Company's debt investments without active market neither served as a guarantee or collateral, nor were they pledged.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

5. Held-to-maturity financial assets – net

	December 31, 2015	December 31, 2014
Corporate bonds	\$ 25,223,739	34,490,968
Financial bonds	28,523,733	38,488,077
Government bonds	40,935,418	42,861,111
Foreign bonds	<u>92,494,198</u>	<u>77,378,778</u>
	187,177,088	193,218,934
Less: accumulated impairment	-	-
Total	<u>\$ 187,177,088</u>	<u>193,218,934</u>

- (a) The Company's held-to-maturity financial assets neither served as a guarantee or collateral, nor were they pledged.
- (b) The Company recognizes impairment loss for the held-to-maturity financial assets having an objective evidence of impairment. As of December 31, 2015 and 2014, no impairment loss was recognized.

Changes in the accumulated impairment in 2015 and 2014 were as follows:

	2015	2014
Balance at January 1	\$ -	5,474
Reversal of impairment loss	-	(5,529)
Foreign exchange gains	<u>-</u>	<u>55</u>
Balance at December 31	<u>\$ -</u>	<u>-</u>

- (c) The Company disposed its held-to-maturity financial assets due to the early repayments of the issuers, the upper investment limit provided by the "Regulations Governing Foreign Investments by Insurance Companies", and the adjusted portfolio of foreign assets resolved by the board of directors. The amounts of disposals and the gains (losses) on disposals of the held-to-maturity financial assets during 2015 and 2014, respectively, were as follows:

	2015	2014
Carrying amount	\$ 18,068,542	-
Gains (losses) on disposals	37,168	-

The amount of disposals of held-to-maturity financial assets was 9.65% of its ending balance as of December 31, 2015.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

6. Other financial assets – net

	December 31, 2015	December 31, 2014
Time deposit	<u>\$ 3,746,150</u>	<u>21,685,621</u>

2) Non-hedge derivative financial instruments

The Company engages in transactions of derivatives to avoid foreign exchange rate risk and interest rate risk arising from operating, financing and investing activities. As of December 31, 2015 and 2014, the details of derivatives of financial assets (liabilities) held for trading, which were not qualified for hedge accounting, were as below:

Financial assets(liabilities)	December 31, 2015		December 31, 2014	
	Book value	Notional amount	Book value	Notional amount
Foreign exchange forward contracts	\$ (77,382)	8,441,462	(198,740)	7,343,781
Currency swap contracts	(903,161)	86,589,959	(2,865,442)	80,175,631
Cross currency swap contracts	<u>(34,822)</u>	<u>625,000</u>	<u>(96,916)</u>	<u>1,495,600</u>
Total	<u>\$ (1,015,365)</u>	<u>95,656,421</u>	<u>(3,161,098)</u>	<u>89,015,012</u>

3) Please see notes 27 & 28 for fair value hierarchy and market risk, credit risk and liquidity risk of financial instruments.

(9) Investments accounted for using equity method

Details of investment accounted for using equity method of the Company at the reporting date were as follows:

	December 31, 2015	December 31, 2014
Associates	<u>\$ 5,877,804</u>	<u>5,925,323</u>

1) Associates

A summary of investment in associates which is individually insignificant of the Company was as below:

Name of the investee company	December 31, 2015	December 31, 2014
Hua Nan Financial Holdings Co., Ltd.	\$ 5,877,804	5,527,240
Taiwan Life Insurance Co., Ltd.	<u>-</u>	<u>398,083</u>
	<u>\$ 5,877,804</u>	<u>5,925,323</u>

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

	2015	2014
Attributable to the Company:		
Profit (loss) from continuing operations	\$ 730,754	547,840
Other comprehensive income	<u>161,846</u>	<u>84,400</u>
Total comprehensive income	<u><u>\$ 892,600</u></u>	<u><u>632,240</u></u>

Taiwan Life Insurance Co., Ltd. issued new shares on March 6, 2014 due to the maturity of its unsecured subordinated convertible bonds conducted in a private placement. The shareholding of the Company dropped from 2.52% to 2.49% as the Company did not recognize new shares proportionally by original shareholding percentage.

The financial statements of the Hua Nan Financial Holdings Co., Ltd. (the investee company applied to equity method by the Company) were audited by other CPA. As of 2015 and 2014, the gains or losses on investment were amounted to \$540,845 thousand and \$504,400 thousand respectively.

Taiwan Life Insurance Co., Ltd. agreed to be acquired as a subsidiary of Chinatrust Commercial Financial Holding Co., Ltd. ("CTBC") through swapping shares and both of these two companies have obtained approval from their board of directors for the deal on June 29, 2015. Under the agreement, the baseline date was set on October 15, 2015 and every 1 equity share of Taiwan Life Insurance Co., Ltd. can be exchanged for 1.6129 equity shares of CTBC.

On the base date, the Company held 172,012 thousand shares of Taiwan Life Insurance Co., Ltd. and could be exchanged for 277,437 thousands of CTBC. After the exchange, the shareholding of the Company dropped to 1.54%, which makes Taiwan Life Insurance Co., Ltd. no longer an associate accounted for using the equity method of the Company due to lack of significant influence. As such, the Company reclassified the investment to available-for-sale financial assets amounting to \$708,175 thousand and recognized gain on disposal amounting to \$207,155 thousand as the CTBC's stock price was \$18.2 per share on the base date.

2) Pledged

At the end of December 31, 2015 and 2014, the Company's investments accounted for using equity method neither served as a guarantee or collateral, nor were they pledged.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

(10) Investment property

- 1) A summary of the Company's changes in cost, depreciations and impairments of investment properties was as follows:

	Land and improvements	Buildings	Total
Cost or deemed cost:			
Balance at January 1, 2015	\$ 3,861,184	2,487,598	6,348,782
Additions	1,180,567	380,933	1,561,500
Transferred from property and equipment	31,176	23,767	54,943
Balance at December 31, 2015	<u><u>\$ 5,072,927</u></u>	<u><u>2,892,298</u></u>	<u><u>7,965,225</u></u>
Balance at January 1, 2014	\$ 3,903,434	2,426,662	6,330,096
Additions	209,140	128,470	337,610
Transferred to property and equipment	(251,390)	(67,534)	(318,924)
Balance at December 31, 2014	<u><u>\$ 3,861,184</u></u>	<u><u>2,487,598</u></u>	<u><u>6,348,782</u></u>
Accumulated depreciation and impairment loss:			
Balance at January 1, 2015	\$ -	272,399	272,399
Depreciation	-	70,430	70,430
Transferred from property and equipment	-	5,818	5,818
Balance at December 31, 2015	<u><u>\$ -</u></u>	<u><u>348,647</u></u>	<u><u>348,647</u></u>
Balance at January 1, 2014	\$ -	218,410	218,410
Depreciation	-	59,183	59,183
Transferred to property and equipment	-	(5,194)	(5,194)
Balance at December 31, 2014	<u><u>\$ -</u></u>	<u><u>272,399</u></u>	<u><u>272,399</u></u>
Carrying amounts:			
December 31, 2015	<u><u>\$ 5,072,927</u></u>	<u><u>2,543,651</u></u>	<u><u>7,616,578</u></u>
January 1, 2014	<u><u>\$ 3,903,434</u></u>	<u><u>2,208,252</u></u>	<u><u>6,111,686</u></u>
December 31, 2014	<u><u>\$ 3,861,184</u></u>	<u><u>2,215,199</u></u>	<u><u>6,076,383</u></u>

- 2) Details of operating lease of the Company were as follows:

Location	2015	2014
Rental revenue	<u><u>\$ 274,372</u></u>	<u><u>226,487</u></u>
Direct operating cost of the investment property for the period (comprise maintenance fee)	<u><u>\$ 105,829</u></u>	<u><u>90,168</u></u>

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

- 3) The fair values of the investment properties of the Company were as follows:

	December 31, 2015	December 31, 2014
Fair value of investment properties	<u>\$ 10,390,774</u>	<u>8,774,190</u>

The fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent appraiser who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The range of yields applied to the net annual rentals to determine fair value of property for which current prices in an active market are unavailable was as follows:

	December 31, 2015	December 31, 2014
Range of yields	1.80%~3.18%	0.30%~2.95%

- 4) As of December 31, 2015 and 2014, the Company's investment properties neither served as a guarantee or collateral, nor were they pledged.

(11) Loans

	December 31, 2015	December 31, 2014
Life insurance loans	\$ 4,854,101	5,212,680
Premium loans	1,002,010	1,003,310
Secured loans	<u>6,013,458</u>	<u>7,465,348</u>
Subtotal	11,869,569	13,681,338
Less: allowance for bad debts	<u>(91,985)</u>	<u>(81,518)</u>
	<u>\$ 11,777,584</u>	<u>13,599,820</u>

- Life insurance loans refer to loans secured by life insurance policies issued by the Company.
- Premium loans are automatic loans made by the Company when an insurance policyholder may not be able to pay the due premium. The cash surrender value on the policy shall serve as the security. (If there is already a policy loan, its principal and interest shall be deducted from the balance of the cash surrender value). A policyholder can make a statement in writing to the Company before a premium reaches its due or the grace period expires to request an automatic premium loan to prevent the contract from being suspended. The policyholder can inform the Company to cease the loan before the next premium becomes due.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

3) Secured loans

	December 31, 2015	December 31, 2014
Short-term secured loans	\$ -	80,000
Middle-term secured loans	2,436,194	3,350,747
Long-term secured loans	3,553,140	4,026,997
Less: allowance for bad debts	<u>(89,063)</u>	<u>(74,539)</u>
Subtotal	<u>5,900,271</u>	<u>7,383,205</u>
Non-accrual loans	24,124	7,604
Less: allowance for bad debts	<u>(2,922)</u>	<u>(6,979)</u>
Subtotal	<u>21,202</u>	<u>625</u>
	<u>\$ 5,921,473</u>	<u>7,383,830</u>

Secured loans refer to the loans secured by real estate.

The Company participated in the syndicated loan to Wintek Corporation. Since the application for reorganization was filed to the court by the debtor, the Company reclassified the secured loans to non-accrual loans and recognized the allowance for bad debts pursuant to the "Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises" in May 2015. As of December 22, 2015, the Company wrote off an allowance for bad debts amounting to \$107,355 thousand with the approval of the board of directors.

(12) Allowance for bad debts

A summary of bad debts due from receivables, secured loans and non-accrual loans impaired was as follows:

	2015			
	Receivables	Secured loans	Non-accru al loans	Total
Balance at January 1	\$ 39	74,539	6,979	81,557
Allowance, net	31	14,524	107,925	122,480
Bad debts collected	-	-	2,196	2,196
Bad debts written-off	-	-	(114,178)	(114,178)
Balance at December 31	<u>\$ 70</u>	<u>89,063</u>	<u>2,922</u>	<u>92,055</u>

	2014			
	Receivables	Secured loans	Non-accru al loans	Total
Balance at January 1	\$ 32	28,007	1,495	29,534
Allowance, net	7	46,532	5,484	52,023
Balance at December 31	<u>\$ 39</u>	<u>74,539</u>	<u>6,979</u>	<u>81,557</u>

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

Details of allowance for bad debts at the end of the years were as follows:

	December 31, 2015	December 31, 2014
Receivables	\$ 70	39
Secured loans	91,985	81,518
Total	<u>\$ 92,055</u>	<u>81,557</u>

(13) Reinsurance assets

As of December 31, 2015 and 2014, a summary of reinsurance assets was as follows:

	December 31, 2015	December 31, 2014
Claims recoverable from reinsurers	\$ 389	1,404
Due from reinsurers and ceding companies	224	-
Subtotal	<u>613</u>	<u>1,404</u>
Reinsurance assets:		
Unearned premium reserve	9,356	9,736
Ceded claim reserve	2,054	1,388
Subtotal	<u>11,410</u>	<u>11,124</u>
Total	<u>\$ 12,023</u>	<u>12,528</u>

(14) Property and Equipment, Net

Changes in the cost, depreciation, and impairment loss of the properties and equipments of the Company for the year ended 2015 and 2014 were as follows:

	Land and Land improvements	Buildings	Transportation equipment	Machinery equipment	Miscellaneous equipment	Leasehold improvements	Total
Cost or deemed cost:							
Balance at January 1, 2015	\$ 624,067	487,980	17,366	80,061	24,166	3,611	1,237,251
Additions	-	-	195	6,239	385	1,766	8,585
Retirements	-	-	(292)	(5,751)	(138)	-	(6,181)
Transferred to investment properties	(31,176)	(23,767)	-	-	-	-	(54,943)
Balance at December 31, 2015	<u>\$ 592,891</u>	<u>464,213</u>	<u>17,269</u>	<u>80,549</u>	<u>24,413</u>	<u>5,377</u>	<u>1,184,712</u>
Balance at January 1, 2014	\$ 372,677	407,580	17,120	75,360	22,129	3,611	898,477
Additions	-	12,866	246	8,398	2,147	-	23,657
Retirements	-	-	-	(3,697)	(110)	-	(3,807)
Transferred from investment properties	251,390	67,534	-	-	-	-	318,924
Balance at December 31, 2014	<u>\$ 624,067</u>	<u>487,980</u>	<u>17,366</u>	<u>80,061</u>	<u>24,166</u>	<u>3,611</u>	<u>1,237,251</u>

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

	Land and Land improvements	Buildings	Transportation equipment	Machinery equipment	Miscellaneous equipment	Leasehold improvements	Total
Accumulated depreciation:							
Balance at January 1, 2015	\$ -	87,068	9,682	40,261	16,493	3,611	157,115
Depreciation	-	14,559	1,552	9,179	1,397	1,766	28,453
Retirements	-	-	(285)	(5,107)	(121)	-	(5,513)
Transferred to investment properties	-	(5,818)	-	-	-	-	(5,818)
Balance at December 31, 2015	<u>\$ -</u>	<u>95,809</u>	<u>10,949</u>	<u>44,333</u>	<u>17,769</u>	<u>5,377</u>	<u>174,237</u>
Balance at January 1, 2014	\$ -	67,545	7,895	34,335	14,832	3,210	127,817
Depreciation	-	14,329	1,787	9,060	1,753	401	27,330
Disposal	-	-	-	(3,134)	(92)	-	(3,226)
Transferred from investment properties	-	5,194	-	-	-	-	5,194
Balance at December 31, 2014	<u>\$ -</u>	<u>87,068</u>	<u>9,682</u>	<u>40,261</u>	<u>16,493</u>	<u>3,611</u>	<u>157,115</u>
Carrying amounts:							
December 31, 2015	<u>\$ 592,891</u>	<u>368,404</u>	<u>6,320</u>	<u>36,216</u>	<u>6,644</u>	<u>-</u>	<u>1,010,475</u>
January 1, 2014	<u>\$ 372,677</u>	<u>340,035</u>	<u>9,225</u>	<u>41,025</u>	<u>7,297</u>	<u>401</u>	<u>770,660</u>
December 31, 2014	<u>\$ 624,067</u>	<u>400,912</u>	<u>7,684</u>	<u>39,800</u>	<u>7,673</u>	<u>-</u>	<u>1,080,136</u>

(15) Intangible Assets

Changes in the costs, amortization, and impairment loss of intangible assets of the Company for the year ended 2015 and 2014 were as follows:

	Computer software
Costs:	
Balance at January 1, 2015	\$ 35,984
Additions	1,432
Reclassification	(70)
Balance at December 31, 2015	<u>\$ 37,346</u>
Balance at January 1, 2014	\$ 29,745
Additions	6,239
Balance at December 31, 2014	<u>\$ 35,984</u>
Amortization and Impairment loss:	
Balance at January 1, 2015	\$ 23,660
Amortization for the year	3,919
Reclassification	(70)
Balance at December 31, 2015	<u>\$ 27,509</u>
Balance at January 1, 2014	\$ 18,795
Amortization for the year	4,865
Balance at December 31, 2014	<u>\$ 23,660</u>

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

**Computer
software**

Carrying value:

Balance at December 31, 2015	\$ 9,837
Balance at January 1, 2014	\$ 10,950
Balance at December 31, 2014	\$ 12,324

(16) Insurance product, separated account

As of December 31, 2015 and 2014, a summary of balance in the account related to investment-linked products sold by the Company was as follows:

	December 31, 2015	December 31, 2014
Assets on insurance product, separated account:		
Bank deposits	\$ 5	1,026
Financial assets at fair value through profit or loss	12,812	549,217
Other receivables	192	71,416
Total	\$ 13,009	621,659
	December 31, 2015	December 31, 2014
Liabilities on insurance product, separated account:		
Separate account value reserve	\$ 12,812	549,218
Other payables	197	72,441
Total	\$ 13,009	621,659
	2015	2014
Income on insurance product, separated account:		
Premium	\$ 6,253	7,334
Foreign exchange gains	70,985	62,747
Gains on financial assets or liabilities at fair value through profit or loss	(104,210)	58,752
Interest income	-	16,362
Others	-	-
Total	\$ (26,972)	145,195

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

	2015	2014
Expense on insurance product, separated account:		
Insurance claim payment	\$ 509,536	2,061,153
Net changes in separate account value reserve	(536,652)	(1,916,077)
Administrative expenses	144	119
Total	<u><u>\$ (26,972)</u></u>	<u><u>145,195</u></u>

(17) Payables

	December 31, 2015	December 31, 2014
Accrued expenses	\$ 224,744	229,135
Accrued interest	170,405	205,559
Commission payable	313,963	310,929
Claims and reinsurance indemnity payable	162,945	148,115
Due to reinsurers and ceding companies	4,054	6,044
Payables to representative organizations	17,370,638	20,532,970
Collections for others	109,192	129,938
Other payables	780,324	1,272,833
Total	<u><u>\$ 19,136,265</u></u>	<u><u>22,835,523</u></u>

(18) Insurance liabilities

	December 31, 2015	December 31, 2014
Unearned premium reserve	\$ 420,430	417,355
Claim reserve	77,337	76,037
Liability reserve	319,274,456	351,525,857
Special claim reserve	228,097	317,003
Premium insufficient reserve	2,683,251	991,750
Total	<u><u>\$ 322,683,571</u></u>	<u><u>353,328,002</u></u>

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

1) A summary of unearned premium reserve and ceded unearned premium reserve:

1. A summary of unearned premium reserve and ceded unearned premium reserve of the Company, as of December 31, 2015 and 2014 was as follows:

	December 31, 2015		
	Insurance	Financial	
	Contract	products with	Total
		discretionary	
		participation	
		feature	
Personal life insurance	\$ 15,516	2,235	17,751
Personal accident insurance	68,696	-	68,696
Personal health insurance	121,555	-	121,555
Group insurance	212,370	-	212,370
Investment-linked insurance	58	-	58
Total	418,195	2,235	420,430
Less: Ceded unearned premium:			
Personal life insurance	832	62	894
Personal accident insurance	4,430	-	4,430
Group insurance	4,032	-	4,032
Investment-linked insurance	1	-	1
Total	9,295	62	9,357
Net	\$ 408,900	2,173	411,073

	December 31, 2014		
	Insurance	Financial	
	Contract	products with	Total
		discretionary	
		participation	
		feature	
Personal life insurance	\$ 14,743	3,732	18,475
Personal accident insurance	69,085	-	69,085
Personal health insurance	121,041	-	121,041
Group insurance	208,703	-	208,703
Investment-linked insurance	51	-	51
Total	413,623	3,732	417,355
Less: Ceded unearned premium:			
Personal life insurance	\$ 644	84	728
Personal accident insurance	4,385	-	4,385
Group insurance	4,623	-	4,623
Investment-linked insurance	-	-	-
Total	9,652	84	9,736
Net	\$ 403,971	3,648	407,619

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

2. The reconciliations of unearned premium reserve and ceded unearned premium reserve were listed below:

	Insurance Contract	2015 Financial products with discretionary participation feature	Total
Balance at January 1, 2015	\$ 413,623	3,732	417,355
Provision	413,480	2,235	415,715
Recovery	(408,899)	(3,732)	(412,631)
Other	(9)	-	(9)
Balance at December 31, 2015	<u>418,195</u>	<u>2,235</u>	<u>420,430</u>
Less: ceded unearned premium:			
Balance at January 1, 2015, net	9,652	84	9,736
Increase	9,295	62	9,357
Decrease	(9,652)	(84)	(9,736)
Balance at December 31, 2015, net	<u>9,295</u>	<u>62</u>	<u>9,357</u>
Total	<u>\$ 408,900</u>	<u>2,173</u>	<u>411,073</u>

	Insurance Contract	2014 Financial products with discretionary participation feature	Total
Balance at January 1, 2014	\$ 417,432	5,735	423,167
Provision	411,071	3,732	414,803
Recovery	(414,821)	(5,735)	(420,556)
Other	(59)	-	(59)
Balance at December 31, 2014	<u>413,623</u>	<u>3,732</u>	<u>417,355</u>
Less: ceded unearned premium:			
Balance at January 1, 2014, net	11,621	109	11,730
Increase	9,652	84	9,736
Decrease	(11,621)	(109)	(11,730)
Balance at December 31, 2014, net	<u>9,652</u>	<u>84</u>	<u>9,736</u>
Total	<u>\$ 403,971</u>	<u>3,648</u>	<u>407,619</u>

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

2) Details of claim reserve:

1. A summary of claim reserve and ceded claim reserve of the Company, as of December 31, 2015 and 2014 was as follows:

		December 31, 2015		
	Insurance Contract	Financial products with discretionary participation feature	Total	
Personal life Insurance				
Reported but not paid	\$ 7,832	3,137	10,969	
Not reported and not paid	622	564	1,186	
Personal accident insurance				
Reported but not paid	26	-	26	
Not reported and not paid	7,101	-	7,101	
Personal health insurance				
Reported but not paid	1,387	-	1,387	
Not reported and not paid	17,384	-	17,384	
Group insurance				
Reported but not paid	5,137	-	5,137	
Not reported and not paid	34,147	-	34,147	
Total	73,636	3,701	77,337	
Less: ceded claim reserve				
Personal life Insurance	\$ 1,046	1	1,047	
Personal accident insurance	248	-	248	
Personal health insurance	2	-	2	
Group insurance	757	-	757	
Total	2,053	1	2,054	
Net	\$ 71,583	3,700	75,283	

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

	December 31, 2014		
	Insurance	Financial	
	Contract	products with	Total
		discretionary	
		participation	
		feature	
Personal life Insurance			
Reported but not paid	\$ 4,573	1,103	5,676
Not reported and not paid	476	734	1,210
Personal accident insurance			
Reported but not paid	1,012	-	1,012
Not reported and not paid	7,455	-	7,455
Personal health insurance			
Reported but not paid	1,660	-	1,660
Not reported and not paid	17,623	-	17,623
Group insurance			
Reported but not paid	1,588	-	1,588
Not reported and not paid	39,813	-	39,813
Total	<u>74,200</u>	<u>1,837</u>	<u>76,037</u>
Less: Ceded claim reserve			
Personal life Insurance	35	5	40
Personal accident insurance	701	-	701
Personal health insurance	14	-	14
Group insurance	<u>633</u>	<u>-</u>	<u>633</u>
Total	<u>1,383</u>	<u>5</u>	<u>1,388</u>
Net	<u>\$ 72,817</u>	<u>1,832</u>	<u>74,649</u>

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

2. The reconciliations of claim reserve were listed below:

	Insurance Contract	2015 Financial products with discretionary participation feature	Total
Balance at January 1, 2015	\$ 74,200	1,837	76,037
Provision	278,018	5,486	283,504
Recovery	<u>(278,582)</u>	<u>(3,622)</u>	<u>(282,204)</u>
Balance at December 31, 2015	<u>73,636</u>	<u>3,701</u>	<u>77,337</u>
Less: ceded claim reserve			
Balance at January 1, 2015, net	1,383	5	1,388
Provision	6,363	2	6,365
Recovery	<u>(5,693)</u>	<u>(6)</u>	<u>(5,699)</u>
Balance at December 31, 2015, net	<u>2,053</u>	<u>1</u>	<u>2,054</u>
Closing balance	<u>\$ 71,583</u>	<u>3,700</u>	<u>75,283</u>

	Insurance Contract	2014 Financial products with discretionary participation feature	Total
Balance at January 1, 2014	\$ 73,203	3,827	77,030
Provision	261,129	4,430	265,559
Recovery	<u>(260,132)</u>	<u>(6,420)</u>	<u>(266,552)</u>
Balance at December 31, 2014	<u>74,200</u>	<u>1,837</u>	<u>76,037</u>
Less: ceded claim reserve			
Balance at January 1, 2014, net	3,362	7	3,369
Provision	6,847	22	6,869
Recovery	<u>(8,826)</u>	<u>(24)</u>	<u>(8,850)</u>
Balance at December 31, 2014, net	<u>1,383</u>	<u>5</u>	<u>1,388</u>
Closing balance	<u>\$ 72,817</u>	<u>1,832</u>	<u>74,649</u>

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

3) Details of liability reserve :

1. A summary of liability reserve of the Company, as of December 31, 2015 and 2014 was as follows:

	December 31, 2015		
	Insurance	Financial	
	Contract	products with	
		discretionary	
		participation	
		feature	Total
Life insurance	\$ 219,252,240	50,618,229	269,870,469
Health insurance	5,897,354	-	5,897,354
Annuity insurance	42,161	42,546,402	42,588,563
Recovery of special catastrophe reserve	2,429	-	2,429
Strengthen increasing reserve	770,000	-	770,000
Reserve for life insurance – reduce value-added business tax (the accumulated unwritten-off allocation of 3% of sales)	145,641	-	145,641
Total	\$ 226,109,825	93,164,631	319,274,456

	December 31, 2014		
	Insurance	Financial	
	Contract	products with	
		discretionary	
		participation	
		feature	Total
Life insurance	\$ 240,619,075	67,993,779	308,612,854
Health insurance	5,263,533	-	5,263,533
Annuity insurance	32,637	37,088,520	37,121,157
Investment-linked insurance	243	-	243
Recovery of special catastrophe reserve	2,429	-	2,429
Strengthen increasing reserve	380,000	-	380,000
Reserve for life insurance – reduce value-added business tax (the accumulated unwritten-off allocation of 3% of sales)	145,641	-	145,641
Total	\$ 246,443,558	105,082,299	351,525,857

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

2. The reconciliation of the above mentioned changes in liability reserve is listed below:

	Insurance Contract	2015 Financial products with discretionary participation feature	Total
Balance at January 1, 2015	\$ 246,443,558	105,082,299	351,525,857
Provision	29,647,951	8,212,204	37,860,155
Recovery	(50,856,471)	(20,106,067)	(70,962,538)
Withdrawal profit	(57,347)	(23,805)	(81,152)
Foreign exchange gains (losses)	932,134	-	932,134
Balance at December 31, 2015	<u>\$ 226,109,825</u>	<u>93,164,631</u>	<u>319,274,456</u>

	Insurance Contract	2014 Financial products with discretionary participation feature	Total
Balance at January 1, 2014	\$ 240,235,191	121,901,525	362,136,716
Provision	29,846,011	13,508,232	43,354,243
Recovery	(24,839,244)	(30,310,435)	(55,149,679)
Withdrawal profit	(31,876)	(17,023)	(48,899)
Foreign exchange gains (losses)	1,233,476	-	1,233,476
Balance at December 31, 2014	<u>\$ 246,443,558</u>	<u>105,082,299</u>	<u>351,525,857</u>

- 4) Details of special claim reserve:

1. A summary of special claim reserve of the Company, as of December 31, 2015 and 2014, was as follows:

	Insurance Contract	December 31, 2015 Financial products with discretionary participation feature	Total
Reserve for policy dividend	<u>\$ 228,097</u>	-	<u>228,097</u>

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

		December 31, 2014	
	Insurance	Financial	
	Contract	products with	
		discretionary	
		participation	
		feature	Total
Reserve for policy dividend	\$ <u>317,003</u>	-	<u>317,003</u>

2. The movements of special claim reserve were listed below:

		2015	
	Insurance	Financial	
	Contract	products with	
		discretionary	
		participation	
		feature	Total
Balance at January 1, 2015	\$ 317,003	-	317,003
Provision of reserve for policy dividend	4,639	-	4,639
Recovery of reserve for policy dividend	<u>(93,545)</u>	-	<u>(93,545)</u>
Balance at December 31, 2015	\$ <u>228,097</u>	-	<u>228,097</u>

		2014	
	Insurance	Financial	
	Contract	products with	
		discretionary	
		participation	
		feature	Total
Balance at January 1, 2014	\$ 267,493	-	267,493
Provision of reserve for policy dividend	150,629	-	150,629
Recovery of reserve for policy dividend	<u>(101,119)</u>	-	<u>(101,119)</u>
Balance at December 31, 2014	\$ <u>317,003</u>	-	<u>317,003</u>

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

5) Detail of premium insufficient reserve:

1. A summary of premium insufficient reserve of the Company, as of December 31, 2015 and 2014 was as follows:

	December 31, 2015		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	\$ 2,682,579	-	2,682,579
Personal health insurance	672	-	672
Total	\$ 2,683,251	-	2,683,251

	December 31, 2014		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	\$ 991,598	-	991,598
Personal health insurance	152	-	152
Total	\$ 991,750	-	991,750

2. The reconciliations of premium insufficient reserve were listed as below:

	Insurance Contract	2015 Financial products with discretionary participation feature	Total
Balance at January 1, 2015	\$ 991,750	-	991,750
Provision	1,740,125	-	1,740,125
Recovery	(50,514)	-	(50,514)
Foreign exchange gains (losses)	1,890	-	1,890
Balance at December 31, 2015	\$ 2,683,251	-	2,683,251

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

	Insurance Contract	2014 Financial products with discretionary participation feature	Total
Balance at January 1, 2014	\$ 702,608	-	702,608
Provision	640,585	-	640,585
Recovery	(353,388)	-	(353,388)
Foreign exchange gains (losses)	1,945	-	1,945
Balance at December 31, 2014	<u><u>\$ 991,750</u></u>	<u><u>-</u></u>	<u><u>991,750</u></u>

6) Details of liability adequacy reserve:

1. A summary of liability adequacy reserve for long-term insurance of the Company, as of December 31, 2015 and 2014, was as follows:

	December 31, 2015	December 31, 2014
Liability reserve	\$ 319,163,286	351,409,802
Unearned premium reserve	189,628	12,957
Special claim reserve for life insurance	228,097	317,003
Premium insufficient reserve	2,683,251	991,750
Carrying amount of insurance liability	<u><u>\$ 322,264,262</u></u>	<u><u>352,731,512</u></u>
Estimate of present cash flow	<u><u>\$ 290,677,124</u></u>	<u><u>345,375,042</u></u>

The carrying amount of insurance liabilities is adequate compared with the amount calculated by using current estimates of future cash flows under insurance contracts. As a result, the Company does not have to set aside the liability adequacy reserve.

2. As of December 31, 2015 and 2014, the short-term insurance of liability adequacy reserve of the Company is summarized as follows:

	December 31, 2015	December 31, 2014
Claim and reserve within a year	\$ 92,090	218,320
Less: premium not received within a year	3,138	56,917
Subtotal	<u><u>\$ 88,952</u></u>	<u><u>161,403</u></u>
Unearned premium reserve	<u><u>\$ 229,584</u></u>	<u><u>402,444</u></u>
Liability adequacy reserve	<u><u>\$ -</u></u>	<u><u>-</u></u>

The amount of claim and reserve within a year, deducted by the current unpaid premium, were lower than the amount of unearned premium reserve; and therefore, the liability adequacy was sufficient.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

Inward reinsurance: Starting 2015, the Central Reinsurance Corporation ceased to continue to transfer its reinsurance business to the Company due to its reinsurance policy adjustment. It is not required to conduct a liability adequacy test for inward reinsurance.

3. The liability adequacy test methods used by the Company were listed below:

	December 31, 2015	January 1, 2014
Test Method	Long term insurance : gross premium evaluation method: Short term insurance (including inward reinsurance) : loss evaluation method	Long term insurance : gross premium evaluation method: Short term insurance (including inward reinsurance) : loss evaluation method
Group	Test long and short term insurance separately	Test long and short term insurance separately
Significant assumption	Based on the newest composed of asset on the time of evaluating and the level of risk-free interest rate, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2014 (with steady state assumption for discount rates after 30 year).	Based on the newest composed of asset on the time of evaluating and the level of risk-free interest rate, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2013 (with steady state assumption for discount rates after 30 year).

(19) Reserve for foreign exchange valuation

- 1) Hedging strategy and risk exposure:

The Company has hedged its foreign exchanges by considering the market situation and the hedging cost.

As of December 31, 2015 and 2014, the primary foreign exchange exposures were USD assets, amounted to \$27,800,944 thousand and \$40,071,903 thousand, respectively.

- 2) The movements in reserve for foreign exchange valuation were as follows:

	2015	2014
Balance at January 1	\$ 1,376,324	439,970
Current provision:		
Compulsory provision	159,627	213,090
Additional provision	924,088	1,172,821
Subtotal	<u>1,083,715</u>	<u>1,385,911</u>
Current recovery	<u>(1,590,547)</u>	<u>(449,557)</u>
Balance at December 31	<u><u>\$ 869,492</u></u>	<u><u>1,376,324</u></u>

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

- 3) Comparisons table shows the effects on profit/loss, liability, equity and earnings per share due to not applying this rule was as follow:

Items	Amount not applied	Amount applied	Changes
Liability and equity			
December 31, 2015			
Reserve for foreign exchange valuation	\$ -	869,492	(869,492)
Equity	12,521,397	11,799,719	721,678
December 31, 2014			
Reserve for foreign exchange valuation	-	1,376,324	(1,376,324)
Equity	14,587,896	13,445,547	1,142,349

Items	Amount not applied	Amount applied	Changes
Income (loss) after tax and earnings (loss) per share			
2015			
Income (loss) after tax earnings (loss) per share	\$ (2,930,848) (1.59)	(2,510,177) (1.36)	(420,671) (0.23)
2014			
Income (loss) after tax earnings (loss) per share	(39,846) (0.02)	(817,020) (0.48)	777,174 0.46

(20) Nature and scope of risks arising from insurance contracts

- 1) The objectives, strategies, procedures and methods of risk management for insurance contract:

1. The structure, organization and the responsibility of the risk management

The risk management structure of the Company is composed of the Board of Directors, the risk management committee, the director of the heads of risk management, the internal audit department, the risk management department and all the operational units. Their responsibilities are described as follows:

- (a) Board of Directors

The Board of Directors is responsible for the oversight of the Company's risks. They should identify risks in business operations and ensure the effectiveness of risk management.

- (b) Risk Management Committee

The Risk Management Committee is responsible for formulating risk the management policies and organization functions: (i) establish qualified and quantified management standards, structure; (ii) regularly report the performance and provide advice to the Board of Directors.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

(c) The Chief Risk Officer

The Chief Risk Officer is responsible for overseeing the overall risk management.

(d) Risk Management Department

The Risk Management Department is responsible for monitoring, measuring and evaluating the implementation of the risk management on a daily basis. The Risk Management Department shall remain independent of other operational units.

(e) All the operational units

Each department shall identify, measure, response and monitor the risk of implementation.

(f) The Internal Audit Department

The Internal Audit Department shall audit the risk management performance of each department in accordance with the applicable regulations and legislations.

2. Risk management procedures and protocols

(a) Risk management procedures include risk identification, risk measurement, risk response, risk monitoring, data communication and documentation. Moreover, integrating risk management procedures to an operational level is helpful to reflect the impact on risk arising from changing in business environment.

(b) The Company establishes the relevant risk indicators for the risks in business operations concerning the procedures, period and frequency of identification, measurement and evaluation of risk as means of decision making. It also includes performance evaluation and resource allocation.

(c) After the evaluation and compilation of risks, the appropriate responding procedure from the Company shall include the followings:

a) Risk averse: to exclude any involvement or terminate the operations and activities.

b) Risk transfer: to reinsure or transfer all or partial risks to a third party.

c) Risk control: to adopt risk controlling procedures in order to minimize any impact.

d) Risk tolerance: to tolerate any possible impact of risk by not initiating procedures as means of changing the probabilities of outcome.

(d) The Company establishes a risk monitoring system, timely scrutinize and monitor all the risks. If a risk is higher than expected or the tolerant limit, the Company should report and respond accordingly.

(e) The aforementioned risk monitoring and reporting system shall change along with the adjustment of operating objectives, risk exposure and external conditions of the Company, including the effectiveness of the risk management system and the appropriateness of risk elements.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

2) Information of insurance risk

1. Sensitivity of insurance risk – Insurance contracts and financial instruments with discretionary feature:

		December 31, 2015	
	Change in assumption	Changes in profit or loss before tax	Changes in shareholder's equity
Death rate	X1.1	(9,951)	(8,259)
Morbidity	X1.1	(25,011)	(20,759)
Contract default rate	X0.9	(26,347)	(21,868)
Expense	X1.1	(344,962)	(286,318)
Ratio of return on investment	(0.25)%	(824,696)	(684,497)

		December 31, 2014	
	Change in assumption	Changes in profit or loss before tax	Changes in shareholder's equity
Death rate	X1.1	(12,701)	(10,542)
Morbidity	X1.1	(21,643)	(17,964)
Contract default rate	X0.9	(33,276)	(27,619)
Expense	X1.1	(287,018)	(238,225)
Ratio of return on investment	(0.25)%	(870,963)	(722,899)

2. The interpretation for the concentration of insurance risk

The Company does not target its insurance product at any group, age or gender. Insurance service area includes the whole Taiwan. In order to increase its management in insurance risk, the Company established "BankTaiwan Life Insurance reinsurance management plan" to further implement all sorts of risk managing strategies. As a result, the concentration risks are minimal.

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

3. Claim development trend

(a) Development trend of direct business loss

The development trends of the accumulated claims for the past 10 years on December 31, 2015 and 2014 are as follows:

December 31, 2015

Occurrence year	Development year										Claim Provision
	1	2	3	4	5	6	7	8	9	10	
2006	168,989	210,053	217,422	218,071	218,164	218,466	218,522	218,550	218,629	218,631	-
2007	425,676	532,759	547,878	549,554	550,644	550,647	550,672	550,673	550,681	550,687	6
2008	165,310	213,533	216,353	221,841	221,880	221,881	221,909	221,918	221,935	221,937	19
2009	160,616	202,266	207,255	208,577	208,657	208,739	208,739	208,748	208,763	208,764	25
2010	150,536	200,284	207,399	208,700	208,778	208,888	208,912	208,921	208,938	208,940	52
2011	158,363	203,032	210,554	211,065	211,106	211,191	211,216	211,226	211,242	211,243	137
2012	174,121	224,805	228,749	229,003	229,154	229,261	229,289	229,299	229,315	229,317	314
2013	184,516	240,433	246,756	248,077	248,273	248,362	248,390	248,400	248,422	248,423	1,667
2014	194,838	237,694	242,559	244,352	244,507	244,636	244,665	244,676	244,691	244,693	6,999
2015	194,813	243,742	248,740	250,598	250,756	250,889	250,919	250,930	250,946	250,948	56,135

Provision for unreported and within 1 year unpaid claims	65,354
Add: over 1 year reported but unpaid claims	11,983
Unreported provision claims	<u>77,337</u>

December 31, 2014

Occurrence year	Development year										Claim Provision
	1	2	3	4	5	6	7	8	9	10	
2005	182,965	245,770	248,116	253,655	253,839	254,146	254,200	254,206	254,207	254,218	-
2006	168,989	210,053	217,422	218,071	218,164	218,466	218,522	218,550	218,551	218,559	8
2007	425,676	532,759	547,878	549,554	550,644	550,647	550,672	550,673	550,674	550,712	39
2008	165,310	213,533	216,353	221,841	221,880	221,881	221,908	221,916	221,917	221,925	17
2009	160,616	202,266	207,255	208,577	208,657	208,739	208,767	208,775	208,776	208,783	44
2010	150,536	200,284	207,399	208,700	208,776	208,870	208,899	208,906	208,907	208,915	139
2011	158,363	203,032	210,554	211,064	211,221	211,317	211,347	211,354	211,355	211,362	298
2012	174,121	224,805	228,736	230,679	230,838	230,955	230,988	230,996	230,997	231,004	2,268
2013	184,516	240,199	245,950	247,879	248,086	248,195	248,230	248,238	248,239	248,249	8,050
2014	194,581	245,503	250,132	252,566	252,726	252,874	252,908	252,917	252,918	252,926	58,345

Provision for unreported and within 1 year unpaid claims	69,208
Add: over 1 year reported but unpaid claims	6,829
Unreported provision claims	<u>76,037</u>

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

(b) Development trend of retained business loss

The development trends of the accumulated claims for the past 10 years on December 31, 2015 and 2014 are as follows:

December 31, 2015

Occurrence year	Development year										Claim Provision
	1	2	3	4	5	6	7	8	9	10	
2006	159,622	198,715	205,620	206,227	206,320	206,622	206,678	206,706	206,785	206,787	-
2007	281,376	355,445	364,533	365,509	366,428	366,431	366,456	366,457	366,465	366,469	4
2008	151,816	196,181	198,907	203,895	203,934	203,935	203,963	203,972	203,986	203,989	17
2009	153,588	193,488	198,157	199,358	199,438	199,521	199,521	199,530	199,543	199,545	24
2010	143,101	189,407	196,245	197,440	197,518	197,628	197,651	197,660	197,676	197,677	49
2011	152,753	195,787	202,928	203,439	203,480	203,562	203,587	203,596	203,611	203,612	132
2012	166,896	216,798	220,742	220,995	221,138	221,239	221,267	221,277	221,292	221,293	298
2013	177,367	230,284	236,207	237,471	237,652	237,740	237,767	237,777	237,797	237,798	1,591
2014	192,337	232,779	237,417	239,189	239,336	239,465	239,494	239,504	239,519	239,521	6,742
2015	193,219	241,612	246,512	248,361	248,516	248,649	248,679	248,690	248,705	248,708	55,489

December 31, 2014

Occurrence year	Development year										Claim Provision
	1	2	3	4	5	6	7	8	9	10	
2005	171,933	229,310	231,639	235,718	235,902	236,210	236,264	236,270	236,271	236,281	-
2006	159,622	198,715	205,620	206,227	206,320	206,622	206,678	206,706	206,706	206,713	7
2007	281,376	355,445	364,533	365,509	366,428	366,431	366,456	366,457	366,458	366,480	23
2008	151,816	196,181	198,907	203,895	203,934	203,935	203,962	203,969	203,970	203,977	15
2009	153,588	193,488	198,157	199,358	199,438	199,520	199,548	199,555	199,556	199,562	42
2010	143,101	189,407	196,245	197,440	197,516	197,604	197,632	197,639	197,639	197,647	131
2011	152,753	195,787	202,928	203,439	203,585	203,676	203,706	203,713	203,713	203,720	281
2012	166,896	216,798	220,729	222,531	222,680	222,790	222,822	222,830	222,831	222,838	2,109
2013	177,367	230,050	235,398	237,216	237,406	237,510	237,545	237,552	237,553	237,563	7,513
2014	193,080	243,479	248,024	250,438	250,596	250,742	250,776	250,785	250,787	250,793	57,713

The Company provides claim reserve based on the expected future payments and relevant compensation processing cost of reported and unreported claims. In computation of such provision involves vast uncertainty, estimates and judgments, and is highly complicated. Any changes of estimation and judgment are regarded as changes in accounting estimates and the amount of changes is recognized in profit or loss. Some customers may be delayed to inform the claims to the Company. In addition, when estimating the potential compensation of unreported claims, it involves vast past experience and subjective judgment; therefore, it is not able to confirm that the estimated reserve for claims on the balance sheet date will be the same as the actual compensation. The estimate of reserve for claims is based on the information currently available; however, the final result may be different from the original estimation due to the subsequent development.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

The above table shows the development trend of claims (excluding the claims of which the compensation will be confirmed in a year). The vertical shaft represents the year when the claim event occurred, and the horizontal shaft represents the development years. Every slash represents the accumulated compensation at the end of each year. The compensation refers to the claims whether they are ruled or not. It explains how the Company estimates the compensation of each year as time passes by. The scenario and trend which affect the amount of reserve for claims may not be consistent in the future; therefore, the estimated future compensation cannot be determined by the claim development trend revealed in the above table.

3) Credit risk, liquidity risk and market risk of insurance contracts

1. Credit risk

December 31, 2015			
Name	Credit rating agent	Credit rating	Date of rating
Central Re	S&P	A	102.06.10
Munich Re	S&P	AA-	95.12.22
Swiss Re	S&P	AA-	100.10.28
Cologne Re	S&P	AA+	99.02.04
Gibraltar Re	S&P	A+	104.09.17
Dai-ichi Mutual Life	S&P	A+	103.11.26

December 31, 2014			
Name	Credit rating agent	Credit rating	Date of rating
Central Re	S&P	A	102.06.10
Munich Re	S&P	AA-	95.12.22
Swiss Re	S&P	AA-	100.10.28
Cologne Re	S&P	AA+	99.02.04
Gibraltar Re	S&P	AA-	98.02.26
Dai-ichi Mutual Life	S&P	A+	103.11.26

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

2. Liquidity risk

Formulating relative actuarial assumption including death rate, contract default rate, expense, commission expense, morbidity and declared interest rate, by the actual rate of occurrence and valid insurance contract, without considering premium income from new contracts and beginning cash equivalent, of Conventional Insurance Product, Universal Life Insurance Product, Interest Sensitive Annuity Insurance Product, Participating Policy and Foreign Currency Policy up to December 31, 2015, the Company estimate future cash flow of provisions found that there will be negative value of net cash flow from assets and liabilities in next 10 years. However, after considering premium income from new contracts and beginning cash equivalent, the circumstance of cash flow from assets and liabilities mismatching may not occur.

The maturity analysis of insurance and investment contract liabilities liquidity risk on December 31, 2015 and 2014 are as follows:

Units: In Millions of NTD				
Undiscounted expected cash outflow (inflow) on December 31, 2015				
	< 12 months	1~5 years	>5 years	Total
\$	26,712	78,808	716,112	821,632
Undiscounted expected cash outflow (inflow) on December 31, 2014				
	< 12 months	1~5 years	> 5 years	Total
\$	57,668	126,378	588,013	772,059

3. Market risk

Market risk in insurance contracts refers to the adverse changes in the market resulting in the returns on investment lower than the forecasted interest rate. As a result, insurers are subjected to financial losses. Considering the Company's forecasted interest rate with the return on investment for the year ended December 31, 2015, the undertaken risk is within the acceptable level.

- 4) Information regarding risk exposure for embedded insurance contracts without being measured at fair value: None.

(21) Provisions — Employee benefits

As of December 31, 2015 and 2014, the balance of reserve for employee benefit obligation of the Company was as follows:

	December 31, 2015	December 31, 2014
Recognized on the balance sheet		
Defined benefit plan	\$ 604,909	569,235
Civil servant and teacher insurance excess annuity benefit plans	29,298	-
Three Chinese festival bonus	16,907	1,935
Employees preferential interest deposits	124,398	95,263
Total	<u>\$ 775,512</u>	<u>666,433</u>

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

1) Defined benefit plans

The reconciliations of the present value of the defined benefit obligations and fair value of the plan assets for the Company were as follows:

	2015	2014
Present value of defined benefit obligation	\$ 868,618	754,036
Fair value of plan assets	<u>(93,106)</u>	<u>(87,603)</u>
Net defined benefit liability(asset)	<u>\$ 775,512</u>	<u>666,433</u>

The retirement, indemnity and severance of the Company certified staff are complied with the "Guideline of Indemnity and Severance of Financial and Insurance Enterprise Employees". Pension payments to staffs that the year of service before designated to apply to "Labor Standards Act" (as of May 1, 1997) are complied with the Article 41-1 and are separately appropriated wages of 4%~8.5% into mandatory pension contribution (defined contribution), according to the different monthly salary grade regulated by the Article 9. However, it is stopped contributing to mandatory pension contribution and the contributed part shall be retained after applying to "Labor Standards Act"; pension payments to labors that the year of service after applying to "Labor Standards Act" is calculated by the related regulations of "Labor Standards Act". In addition, the employers appropriate 3% of total salary as retained payment reserve for year of service settlement (the reserve) into "Labor Retirement Fund Supervisory Committee" to manage and utilize. When employees retired, they were paid by the pension fund, mandatory pension contribution and the reserve. Pension payments to labors that the year of service before designated to apply to "Labor Standards Act" (as of April 30, 1997) are complied with the "Regulation Governing Affairs of Executive Yuan"; pension payments to labors that the year of service after applying to "Labor Standards Act" are calculated by the related regulations of "Labor Standards Act". Moreover, the employers monthly appropriate certain percentage of labors' salary into "Labor Pension Reserve Account" which is used to pay for the labor's pension.

According to "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund", with regard to utilization of the Labor Retirement 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. For information on the utilization of the labor pension fund assets including appropriation and rate of return of the fund provided by Bank of Taiwan Co., Ltd. and the asset allocation of the fund provided by the Bureau of Labor Funds, Ministry of Labor, please see the website of the Bureau of Labor Funds, Ministry of Labor.

According to the "Civil Servant and Teacher Insurance Act" (the CSTI Act) effect on May 29, 2015 and Tui Yi Zi No. 10440257582 amended by Ministry of Finance, the Company's employees who are not qualified for preferential interest deposits are entitled to company-provided retirement annuity when retiring or getting laid off if they meet the requirements of Article 16 and 18 of the CSTI Act. The sum of monthly receipts from this and other benefit plans shall not exceed 80% of two times of the wages used to calculated premiums for the very last time in service (the upper limit of retirement annuity payment). If the payment rate of annuity after each year employment is lower than the basic rate of annuity (0.75%), the annuity is calculated based on the rate of basic annuity (0.75%), but if the payment rate is higher than the upper limit rate of annuity (1.3%), the annuity is calculated based on the upper limit rate of annuity.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

The underwriter (Department of Government Employees' Insurance, Bank of Taiwan) will review the annuity in excess of the amounts calculated based on the basic rate of annuity, called excess annuity, in accordance with the CSTI and then inform the company who is responsible for the payments to pay excess annuity to the insured monthly.

1. Composition of plan assets

The Company's Bank of Taiwan labor pension reserve consigned to "Labor Retirement Fund Supervisory Committee" amounted to \$94,391 thousand at the end of the reporting period. For the information on the utilization of the labor pension fund assets, including the portfolios and yield of the fund, please see the website of the Bureau of Labor Funds, the Ministry of Labor.

2. Movements in present value of the defined benefit obligations

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

	2015	2014
Defined benefit obligation at January 1	\$ 754,036	672,568
Current service and interest costs	79,187	46,914
Remeasurements of the net defined liability (asset)		
— Actuarial (gains) or losses due to financial assumption changes	62,847	89,727
Past service cost	14,212	-
Benefits paid by the plan	<u>(41,664)</u>	<u>(55,173)</u>
Defined benefit obligation at December 31	<u>\$ 868,618</u>	<u>754,036</u>

3. Movement in fair value of plan assets

The movements in fair value of the defined benefit plan assets for the Company were as follows:

	2015	2014
Fair value of plan assets at January 1	\$ 87,603	100,539
Interest income	1,982	2,217
Remeasurements of the net defined liabilities (asset)		
— Return on assets, excluding interest income	113	(13)
Amount contributed to the plan	17,241	12,590
Contributions made by the Company	27,831	27,443
Benefits paid by the plan	<u>(41,664)</u>	<u>(55,173)</u>
Fair value of plan assets at December 31	<u>\$ 93,106</u>	<u>87,603</u>

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

4. Expense recognized in profit or loss

The expenses of the Company recognized in profit or loss were as follows:

	2015	2014
Current service costs	\$ 62,008	32,774
Net interest of net defined benefit liability (asset)	15,197	11,923
Past service costs	14,212	-
Remeasurements of the net defined benefit liability (asset)	43,021	65,534
	<u>\$ 134,438</u>	<u>110,231</u>
	2015	2014
General expense	\$ 39,968	34,372
Administration expense	9,544	8,766
Other non-operating expense	84,926	67,093
	<u>\$ 134,438</u>	<u>110,231</u>

5. Actuarial gains and losses recognized in other comprehensive income

The Company's remeasurement of the net defined liability or asset recognized accumulatively in other comprehensive income in 2015 and 2014 was as follows:

	2015	2014
Cumulative amount at January 1	\$ 14,820	(9,386)
Recognized during the year	19,713	24,206
Cumulative amount at December 31	<u>\$ 34,533</u>	<u>14,820</u>

6. Actuarial assumptions

The major actuarial assumptions used by the Company at the end of reporting period were as follows:

(a) Actuarial assumptions used to determine the present value of the defined benefit obligation as of December 31, 2015 and 2014:

	December 31, 2015	December 31, 2014
Discount rate	1.60%	2.00%
Rate of salary increase	2.00%	2.00%

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

- (b) Actuarial assumptions used to determine the defined benefit cost for the year ended December 31, 2015 and 2014:

	2015	2014
Discount rate	2.00%	2.00%
Rate of salary increase	2.00%	2.00%

The expected payment made by the Company to the defined benefit plans within one year after the reporting date is \$63,963 thousand.

The weighted average duration of the defined benefit obligation is 14.4 years.

7. Sensitive analysis

When calculating the present value of the defined benefit obligations, the Company uses judgments and estimations to determine the actuarial assumptions, including discount rates and future salary changes, as of the balance sheet date. Any changes in the actuarial assumptions may significantly impact the amounts of the defined benefit obligations.

The followings would be the impacts on the present value of defined benefit obligations as of December 31, 2015 if the actuarial assumptions had changed:

	Impact on the defined benefit obligation	
	Increase 2.5%	Decrease 2.5%
December 31, 2015		
Discount rate	(31,523)	33,225
Rate of salary increase	26,953	(25,769)

The sensitive analysis is used to analyze the impact when one assumption changes and other assumptions unchanged. In practice, however, changes of assumptions might be correlative. The method used to conduct the sensitive analysis is the same as that the Company used to calculate the amount of net accrued pension liabilities on its balance sheet.

The methods and assumptions used in preparation of the sensitive analysis are consistent to the prior fiscal year.

- 2) The actuarial assumptions used by the Company to estimate for provision for preferential interest deposits of retired employees were as follows:

	2015	2014
Discount rate of preferential interest deposits	4.00%	4.00%
Expected rate of return of deposits	- %	- %
Rate of account balance decreasing per year	1.00%	1.00%
Possibility of change (cancellation) in preferential interest deposits in the future	50.00%	50.00%

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

3) Defined contribution plans

The Company contributed 6% of each employee's monthly salaries to a personal labor pension account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. The Company and its subsidiaries contributed a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The Company's pension costs under the defined contribution method were \$2,416 thousand and \$2,611 thousand for the years ended December 31, 2015 and 2014, respectively. Payment was made to the Bureau of Labor Insurance.

(22) Income taxes

1) Tax expense (income)

The amount of income tax for the years ended 2015 and 2014 were as follows:

	2015	2014
Current tax expense		
Current period	\$ 813	4,855
	<u>813</u>	<u>4,855</u>
Deferred tax expense		
Recognition and reversal of temporary difference	(117,897)	(178,045)
Deduction of deferred tax assets	98,395	149,418
	<u>(19,502)</u>	<u>(28,627)</u>
Income tax expenses	<u>\$ (18,689)</u>	<u>(23,772)</u>

There were no income tax expense recognized directly in equity in the Company for the year ended 2015 and 2014.

The amount of expense (income) tax recognized in other comprehensive income for the year ended 2015 and 2014 were as follows:

	2015	2014
Items that may be reclassified subsequently to profit or loss:		
Unrealized gains (losses) on available-for-sale financial assets	\$ 139,755	(66,016)
Defined benefit plan actuarial gains (losses)	<u>3,351</u>	<u>4,115</u>
	<u>\$ 143,106</u>	<u>(61,901)</u>

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

Reconciliations of income tax expense (income) and profit before tax for the year ended 2015 and 2014 were as follows:

	2015	2014
Profit before tax	<u>\$ (2,528,866)</u>	<u>(840,792)</u>
Income tax based on domestic tax rate	\$ (429,907)	(142,934)
Tax-exempt of securities transaction income	198,240	(7,370)
Gains or losses on financial assets	-	22
Share of profit (loss) of associates accounted for equity method	(344,599)	(182,457)
Effect of tax carry-forward	306,052	154,490
Allowance for valuation	98,395	149,418
Effect of temporary difference items	151,739	-
Others	<u>1,391</u>	<u>5,059</u>
Total	<u>\$ (18,689)</u>	<u>(23,772)</u>

2) Deferred tax assets and liabilities

1. Changes in deferred tax assets and liabilities of the Company were as follows:

		2015	Recognized in other comprehensive income	Total
	Beginning balance	Recognized in profit or loss		
Temporary difference				
Financial assets (liabilities) at fair value through profit or loss	\$ 537,389	(364,774)	-	172,615
Available-for-sale financial assets	81,479	-	139,755	221,234
Investment property	(20,220)	-	-	(20,220)
Property and equipment	(9,726)	-	-	(9,726)
Provisions for employee benefits	39,320	15,248	3,351	57,919
Unrealized foreign exchange gains (losses)	(88,511)	(200,803)	-	(289,314)
Deduction of deficit	<u>1,190,638</u>	<u>569,831</u>	<u>-</u>	<u>1,760,469</u>
Deferred tax assets (liabilities), net	<u>\$ 1,730,369</u>	<u>19,502</u>	<u>143,106</u>	<u>1,892,977</u>
Presentation on the balance sheet:				
Deferred tax assets	\$ 1,852,844			2,212,903
Deferred tax liabilities	<u>(122,475)</u>			<u>(319,926)</u>
	<u>\$ 1,730,369</u>			<u>1,892,977</u>

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

	Beginning balance	2014 Recognized in profit or loss	Recognized in other comprehensive income	Total
Temporary difference				
Financial assets (liabilities) at fair value through profit or loss	\$ 41,577	495,812	-	537,389
Available-for-sale financial assets	147,495	-	(66,016)	81,479
Impairment loss on held-to-maturity financial assets	931	(931)	-	-
Investment property	(20,220)	-	-	(20,220)
Property and equipment	(9,726)	-	-	(9,726)
Provisions for employee benefits	23,215	11,990	4,115	39,320
Unrealized foreign exchange gains (losses)	1,073,655	(1,162,166)	-	(88,511)
Deduction of deficit	506,716	683,922	-	1,190,638
Deferred tax assets (liabilities), net	<u>\$ 1,763,643</u>	<u>28,627</u>	<u>(61,901)</u>	<u>1,730,369</u>
Presentation on the balance sheet:				
Deferred tax assets	\$ 1,801,722			1,852,844
Deferred tax liabilities	<u>(38,079)</u>			<u>(122,475)</u>
	<u>\$ 1,763,643</u>			<u>1,730,369</u>

2. Unrecognized deferred assets

Items of unrecognized deferred tax assets were as follows:

	December 31, 2015	December 31, 2014
Tax loss	<u>\$ 283,307</u>	<u>184,912</u>

3. The Company's profit-seeking enterprise income tax of annual income tax return has approved by the collection authority till 2010. According to the "Income Tax Act", taxation may be made on its net income after deduction of losses incurred in the preceding ten years as verified and determined by the local collection authority-in-charge. As of December 31, 2015, losses not yet deducted and the deduction period was as follows:

Year of losses	Losses yet to be deducted	Last deductible year
2009	\$ 1,350,594	2019
2013	819,447	2023
2014	5,028,852	2024
2015	<u>4,823,320</u>	2025
	<u>\$ 12,022,213</u>	

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

3) Information related to the unappropriated earnings and deduction tax account

Information related to the unappropriated earnings and deduction tax account was as below:

	December 31, 2015	December 31, 2014
Unappropriated earnings (deficit yet to be compensated) of 1998 and after	<u>\$ (4,198,135)</u>	<u>(1,526,213)</u>
	December 31, 2015	December 31, 2014
Balance of deduction tax account	<u>\$ 1,184,981</u>	<u>1,027,037</u>
	2015(projected)	2014(Actual)
Imputed tax creditable ratio for appropriating net income	<u>- %</u>	<u>- %</u>

The integrated income tax is calculated according to the Tai Cai Shui No. 10204562810 (as of October 17, 2013).

(23) Operating lease

1) Lessee

The payments of rent payable of non-cancellable operating leases

	December 31, 2015	December 31, 2014
Within one year	\$ 4,873	4,873
One to five years	16,604	17,891
More than five years	<u>3,912</u>	<u>3,586</u>
	<u>\$ 25,389</u>	<u>26,350</u>

The Company leases a number of offices, warehouses and equipments under operating leases. The leases typically run for a period of 2 to 5 years, with an option to renew the lease after that date. Lease payments are adjusted periodically to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

The expenses in respect of operating leases recognized in profit or loss were amounted to \$10,408 thousand and \$13,080 thousand during 2015 and 2014, respectively.

The warehouse and factory leases were entered into many years ago as combined leases of land and buildings. The Company determined that the land and building elements of the warehouse and factory leases are operating leases. The rent paid to the landlord is increased to market rent at regular intervals, and the Company does not participate in the residual value of the land and buildings. As a result, it was determined that substantially all the risks and rewards of the land and buildings are with the landlord.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

2) Lessor

Investment property of the Company is leased under operating lease. Please see note 10. The future minimum rent receivables were as follows:

	December 31, 2015	December 31, 2014
Within one year	\$ 230,368	185,932
One to five years	338,588	253,771
More than five years	5,827	-
	\$ 574,783	439,703

For further information of the rental revenue and direct operating cost yield by the investment property in 2015 and 2014, please see note 10.

(24) Equity

1) Capital stock

The reconciliations of the outstanding shares were as follows:

	Common Stock (thousand shares)	
	2015	2014
Shares at beginning of period	\$ 1,700,000	1,700,000
Issue of shares	550,000	-
Shares at end of period	\$ 2,250,000	1,700,000

According to the resolution of the Company's board of directors on September 25, 2015, the Company issued 550,000 thousand common shares for \$5,500,000 thousand (at a par value of \$10 per share) through a non-public offering. The share issuance was approved by the FSC, and the amended registration was completed on August 31, 2015. As of December 31, 2015, the authorized and outstanding common stocks of the Company, with a total shares of 2,250,000 thousand (at a par value of \$10 per share), amounted to \$22,500,000 thousand.

2) Capital surplus

	December 31, 2015	December 31, 2014
Equity premium	\$ 360,000	360,000
Changes in capital surplus-associates and joint ventures accounted using equity method	-	9,713
Total	\$ 360,000	369,713

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According to new amendment to the ROC Company Act on January, 2012, capital surplus can only be used to increase share capital or distribute cash dividends by using the realized capital surplus after making good the deficit. The aforementioned realized capital surplus includes the income derived from the issuance of new shares at a premium and the income from endowments received by the Company. The share capital capitalized each year may not exceed 10% of the Company's paid-in capital under the "Regulations Governing the Offering and Issuance of Securities by Securities Issuers".

3) Legal reserve

In accordance with the Company Act as amended in January 2012, 10 percent of net income after tax should be set aside as legal reserve, until it is equal to authorized capital. If the Company experienced profit for the year, the distribution of the statutory earnings reserve, either by new shares or by cash, shall be decided at the board of directors' meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25 percent of the paid-in capital.

4) Special reserve

As of December 31, 2015 and 2014, details of special reserve were as follows:

	December 31, 2015	December 31, 2014
Provision for equity deduction	\$ 63,031	63,031
Reversal of special risk-volatility reverse	124,859	88,236
Provision for special catastrophe and special risk-volatility reserve	330,086	313,293
Return of reserve for foreign exchange valuation	97,386	69,717
Provision for hedge cost saved	289	289
Provision for foreign exchange volatility reserve	21,942	21,942
Provision for the Company's articles of incorporation	96,556	96,556
Provision for negative amount of the insurance profit testing	126	96
	<u>\$ 734,275</u>	<u>653,160</u>

1. The Company is required to provide a special reserve that equals to the total amount of the negative components of the stockholders' equity from the current year's earnings (net of tax) or the prior year's unappropriated earnings. The reserve can be distributed as dividends if the negative components subsequently become positive.
2. According to the "Regulations Governing Insurance Enterprises for Setting Aside Various Reserves", the Company is also required to provide a special catastrophe and special risk-volatility reserve, and recognize them as special earnings reserve.
3. In accordance with Tai Tsai Pao Zi No. 0910074195, the Company shall reclassify the reversal of the special catastrophe reserve and special risk-volatility reserve as special earnings reserve (net of tax), regardless of whether the Company operates at a profit or loss.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

4. Details of special reserve applied to the rule of reserve for foreign exchange valuation were as follows. Please see note 4(17) for related regulations.

	December 31, 2015	December 31, 2014
Return of reserve for foreign exchange valuation initial amount	\$ 97,386	69,717
Hedging cost saved	289	289
10% of income after tax	21,942	21,942
	<u>\$ 119,617</u>	<u>91,948</u>

In addition, as disclosed in note 4(17), the Company shall set aside a special earnings reserve for the hedging cost saved each year attributable to the application of the “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises”. If the Company does not have enough retained earnings for the reserve in the current year, the Company shall compensate for the insufficiency in the following year when it has earnings. The Company was not required provide a special reserve for the hedging cost saved during 2015 since it had a net loss for the year ended December 31, 2015. The amounts of the special reserve that need to be compensated were as follows:

	December 31, 2015	December 31, 2014
Provision for hedge cost saved	\$ 8,187	100,999
Changes arising from income tax	(1,392)	(17,170)
Special reserve shall be set aside	6,795	83,829
Special reserve has been set aside	-	-
Special reserve shall be compensated at the end of year	<u>\$ 6,795</u>	<u>83,829</u>

5. As of December 31, 2015, provision for negative amount of the insurance profit testing amounted to \$126 thousands. Please see note 4(16) for related regulation.

5) Distribution of earnings

1. The articles of incorporation of the Company stipulate that net income should be distributed in the following order:
 - (a) to settle all outstanding tax payable;
 - (b) to offset prior years losses;
 - (c) to appropriate 20% as legal reserve;
 - (d) to set aside special reserve in accordance with authorities.
 - (e) the remaining balance would be appropriated, combining accumulated retained earnings, in accordance with related laws and regulations.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

According to the Company's policy, when the amount of the legal reserve below the authorized capital, the amount of cash dividend distributions cannot exceed 15% of the authorized capital.

2. The order and timing of the provision for special reserve were as follows:

(a) To set aside in current year

The special reserve with nature of the reserve fund including provision for special catastrophe and special risk-volatility reserve and for negative amount of the insurance profit testing according to "Regulations Governing Insurance Enterprises for Setting Aside Various Reserves" shall be set aside.

(b) To set aside next year

Regardless of profit or loss in current year, the special reserve shall be set aside by full amount, and that including return of reserve for foreign exchange valuation according to Article 23 -2 of "Regulations Governing Insurance Enterprises for Setting Aside Various Reserves" regulated by administrative orders of other authorities shall be set aside.

(c) To set aside next year, when having income after tax in current year

According to Point 9 of "Instructions of reserve for foreign exchange valuation of life insurance industries", the special reserve shall be set aside by 10% of income after tax when the Company having profits in current year.

(d) To set aside in current year when having appropriated earnings

a) When the Company has appropriated earnings, the special reserve including the hedging cost saved due to applied to reserve regulation in accordance with Point 8 of "Instructions of reserve for foreign exchange valuation of life insurance industries" shall be set aside. If the Company does not have enough amounts to set aside in current year, the special reserve shall be set aside at the time the Company has earnings in the future.

b) In accordance with "Jin Guan Zheng Fa Zi No.1010012865", when appropriating appropriated earnings, the Company shall set aside the special reserve from current income and prior unappropriated earnings at the same amount of the current net deduction of other equity including exchange differences on translation and unrealized gains (losses) on valuation of available-for-sale financial assets.

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

6) Other equity

	Exchange differences on translation	Unrealized gains (losses) on valuation of available-fo r-sale financial assets	Change in fair value of financial liability attributable to change in credit risk of liability	Total
Balance at January 1, 2015	\$ 36,631	(3,192,857)	8,556	(3,147,670)
Share of exchange difference on translation of gain (loss) of associates and joint ventures accounted for using equity method	48,970	-	-	48,970
Unrealized gains (losses) on available-for-sale financial assets	-	(6,154,237)	-	(6,154,237)
Accumulated gains (losses) reclassifying to profit or loss due to disposal of available-for-sale financial assets	-	1,382,815	-	1,382,815
Share of unrealized gains (losses) on available-for-sale financial assets of associates and joint ventures accounted for using equity method	-	134,190	-	134,190
Change in fair value of financial liability attributable to change in credit risk of liability of associates and joint ventures accounted for using equity method	-	-	(4,477)	(4,477)
Balance at December 31, 2015	<u>\$ 85,601</u>	<u>(7,830,089)</u>	<u>4,079</u>	<u>(7,740,409)</u>
Balance at January 1, 2014	\$ 2,134	(4,487,858)	-	(4,485,724)
Share of exchange difference on translation of gain (loss) of associates and joint ventures accounted for using equity method	34,497	-	-	34,497
Unrealized gains (losses) on available-for-sale financial assets	-	1,302,296	-	1,302,296
Accumulated gains (losses) reclassifying to profit or loss due to disposal of available-for-sale financial assets	-	(67,174)	-	(67,174)
Share of unrealized gains (losses) on available-for-sale financial assets of associates and joint ventures accounted for using equity method	-	59,879	-	59,879
Effects of retrospective application and retrospective restatement	-	-	8,556	8,556
Balance at December 31, 2014	<u>\$ 36,631</u>	<u>(3,192,857)</u>	<u>8,556</u>	<u>(3,147,670)</u>

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Notes to Financial Statements

(25) Earnings per share

The calculations of basic earnings per share in 2015 and 2014 were as follows:

	2015		2014	
	Before tax	After tax	Before tax	After tax
Net loss	<u>\$ (2,528,866)</u>	<u>(2,510,177)</u>	<u>(840,792)</u>	<u>(817,020)</u>
Weighted average number of common stock shares outstanding (in thousands)	<u>1,840,137</u>	<u>1,840,137</u>	<u>1,700,000</u>	<u>1,700,000</u>
Basic earnings (losses) per shares (in dollars)	<u>\$ (1.37)</u>	<u>(1.36)</u>	<u>(0.49)</u>	<u>(0.48)</u>

(26) Revenue and expenditure

Details of other income and expenses in 2015 and 2014 were as follows:

- 1) Details of gains (losses) on financial assets and liabilities at fair value through profit or loss were as follows

	2015	2014
Net gains (losses) from disposal of financial assets and liabilities	\$ (5,380,414)	(3,136,109)
Net gains (losses) from valuation of financial assets and liabilities	2,145,821	(2,789,819)
Interest expense of financial liabilities	(12,137)	(22,636)
Dividend revenue of financial assets	<u>2</u>	<u>741</u>
Total	<u>\$ (3,246,728)</u>	<u>(5,947,823)</u>

- 2) Details of realized gains (losses) on available-for-sale financial assets were as follows:

	2015	2014
Dividend revenue of financial assets	\$ 2,149,010	1,262,639
Net gains from disposal of financial assets	<u>(1,382,815)</u>	<u>67,174</u>
Total	<u>\$ 766,195</u>	<u>1,329,813</u>

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Notes to Financial Statements

3) Details of interest income were as follows:

	2015	2014
Deposits	\$ 227,278	672,957
Loans	445,939	441,310
Investments in notes with resale agreement	28,559	44,859
Available-for-sale financial assets	256,959	351,621
Debt investments without active market	2,233,904	2,555,387
Held-to-maturity financial assets	6,027,292	5,872,413
Others	249	291
Total	<u>\$ 9,220,180</u>	<u>9,938,838</u>

4) Details of interest expense were as follows:

	2015	2014
Interests due from representative organizations	\$ 199,586	223,241
Others	98	60
Total	<u>\$ 199,684</u>	<u>223,301</u>

5) Details of fee income were as follows:

	2015	2014
Fee income from insurance	\$ 4,958	48
Fee income from others		
Representative organizations	68,211	73,736
Substitute service insurance	2,463	2,520
Others	8,926	9,073
Total	<u>\$ 84,558</u>	<u>85,377</u>

(27) Fair value hierarchy

1) Valuation techniques used in fair value determination

The management of the Company uses the following methods in determining the fair value of its financial assets and liabilities:

1. The fair value of short-term financial instruments is determined by using the carrying amount on the balance sheet. The carrying amount is a reasonable basis of fair value since these certain instruments will be matured soon. These financial instruments include cash and cash equivalents, accounts receivables, accounts payables, other financial assets, guarantee deposits paid, guarantee deposits and margins received.

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2. The fair value of loans is determined by using the interest rate (floating rate) as an input. The method considering carrying amount as the expected recoverable probability is a reasonable basis of fair value since the floating rate can reflect the market rate; the fair value of loans with fixed rates is determined by expected discounted cash flow. However, the method considering carrying amount as the expected recoverable probability is a reasonable basis of fair value since such loans are a minor part of loans.
3. The fair value of financial assets and liabilities with standard contract terms and conditions and traded in active market, is determined on quoted market price. Such financial assets and liabilities include redeemable corporate bonds, TSEC and OTC stock, bill of exchange and corporate bonds.
4. The fair value of derivative instruments is based on quoted prices. When quoted prices are unavailable, the fair value of non-option derivative instruments is determined using a discounted cash flow analysis calculated based on the applicable yield curve through the expected life of the derivative instruments. The fair value of option derivatives is determined using option pricing models
5. The fair value of financial guarantee contracts is determined using option pricing models. Significant assumptions made include the probability of default based on credit risk information, and the amount of loss at the time of default.
6. For all other financial assets and financial liabilities, the fair value is determined using a discounted cash flow analysis based on expected future cash flows.
7. Please see note 10 for the determination of investment property fair value.

2) Fair value hierarchy

The table below analyses financial instruments carried at fair value by the levels in the fair value hierarchy. The different levels have been defined as follows:

1. Level 1—It refers to the quoted price of similar financial instruments in an active market. An active market indicates the market that is in conformity with all the following conditions: (i) the products in the market are identical; (ii) it is easy to find a willing party; (iii) the price information is attainable for the public.
2. Level 2—The observable prices include directly (such as prices) or indirectly (such as those inferred from the prices) observable input parameters attained from an active market except the quoted prices in an active market. For example:
 - (a) The quoted price of a similar financial instrument in an active market. The fair value of held financial instruments is inferred from the recent trading price of similar financial instruments. Similar financial instruments are judged according to their characteristics and trading conditions. Fair value of financial instruments should be priced using the observable prices adjusted over time, trading conditions, and the impact of related parties and its observable trading prices and associated nature of the product.
 - (b) Quoted prices of similar financial instruments in a non-active market.

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- (c) Fair value price using valuation models. The input parameters of the valuation model (i.e., interest rates, yield curves and volatility...etc) are based on the available date in the market, such as input parameters, which is an estimated figure derived from public data. The price of financial instruments is estimated by using the parameters which could reflect the expectation of the market participants.
- (d) The majority of the input parameters are derived from observable market data or its relevance can be validated by the observable market data.
3. Level 3—The input parameters used are not based on observable market data. (Unobservable input parameters such as option pricing model using historical volatility which cannot represent expected value of all the market participators)
4. The carrying amount and fair value of financial assets and liabilities (disclosures of fair value are not required when the carrying amount is a reasonable approximation of fair value; for an investment in equity instruments that do not have a quoted market price in an active market and its fair value cannot be measured reliably) were as follows:

	Carrying amount	December 31, 2015 Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Financial assets at fair value through profit or loss					
Derivative financial assets	\$ 43,915	-	43,915	-	43,915
Non-derivative financial assets held for trading	2,500,088	2,500,088	-	-	2,500,088
Subtotal	<u>2,544,003</u>	<u>2,500,088</u>	<u>43,915</u>	<u>-</u>	<u>2,544,003</u>
Available-for-sale financial assets					
TSEC and OTC stock (including foreign investment)	18,003,733	18,003,733	-	-	18,003,733
Bond investments	7,927,128	3,518,581	4,408,547	-	7,927,128
Quoted equity instruments at fair value	18,248,139	18,248,139	-	-	18,248,139
Subtotal	<u>44,179,000</u>	<u>39,770,453</u>	<u>4,408,547</u>	<u>-</u>	<u>44,179,000</u>
Held-to-maturity investments	<u>187,177,088</u>	<u>49,279,692</u>	<u>135,448,549</u>	<u>-</u>	<u>184,728,241</u>
Bond investments without active market	48,590,962	1,483,716	46,860,563	-	48,344,279
Total	<u>\$ 282,491,053</u>	<u>93,033,949</u>	<u>186,761,574</u>	<u>-</u>	<u>279,795,523</u>
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	<u>\$ 1,059,280</u>	<u>-</u>	<u>1,059,280</u>	<u>-</u>	<u>1,059,280</u>

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	Carrying amount	December 31, 2014 Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Derivative financial assets	\$ 29,496	-	29,496	-	29,496
Non-derivative financial assets held for trading	2,397	2,397	-	-	2,397
Subtotal	31,893	2,397	29,496	-	31,893
Available-for-sale financial assets					
Equity investments	27,845,240	27,845,240	-	-	27,845,240
Bond investments	14,951,822	2,952,401	11,999,421	-	14,951,822
Foreign equity investments	9,720,823	9,720,823	-	-	9,720,823
Subtotal	52,517,885	40,518,464	11,999,421	-	52,517,885
Total	\$ 52,549,778	40,520,861	12,028,917	-	52,549,778
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	\$ 3,190,594	-	3,190,594	-	3,190,594

5. There were no transfers from Level 2 to Level 1 (no transfers in either direction) regulated by IFRS 7.

(28) Financial Risk Information

1) Risk management system

1. Risk management structure

The risk management structure of the Company is composed of Board of Directors, risk management committee, internal audit department and authorities in charge of all business units.

2. Credit risk management

Set credit limits for each rating and continuous credit risk mechanism for the credit risk management of securities investment. Performs strict credit analysis based on the different characteristics of financial instruments in order to control the credit risk exposure by investment instrument, issuer, counterparty, nation and industry, and to set the credit limits for each rating. Also prepares its related reports periodically to ensure it abides by the law.

Perform strict credit analysis before undertaking mortgage loans and insurance loans. The mortgage loan policy not only limits the Loan-to-Value but also requests the evaluation of personal financial ranking to decide whether or not to undertake the loan. For the insurance loans, the loan amount shall be under the policy value reserves of the insurance product.

Use the Probability of Default (PD) and Loss Given Default (LGD) to measure the credit risk of risk related instruments, including the investments without quoted price in active market and the held-to-maturity investments. Also performs pressure tests to evaluate the effect of abnormal credit changes on investment portfolio as a reference for making corresponding countermeasures.

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3. Liquidity risk management

Manage sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows.

4. Market risk management

Perform evaluations before any financial instruments investment. Furthermore, the Company uses VaR model, scenario analysis, stress test, back test, position limit, risk limit, and stop-loss system to manage market risk derived from financial investments.

2) Credit risk

1. The Credit risk exposure

After deducting the government bonds and treasury bills, the maximum exposure of the credit risk were as follows:

	December 31, 2015	
Item	Carrying amount	Maximum credit exposure
<u>Financial assets</u>		
Cash and cash equivalents	\$ 33,595,006	33,595,006
Receivables	3,894,709	3,894,709
Financial assets measured at fair value through profit or loss	2,544,003	2,544,003
Available-for-sale financial assets	44,179,000	44,179,000
Debt investments without quoted price in active market	48,590,962	48,590,962
Held-to-maturity financial assets	187,177,088	146,241,670
Other financial assets	3,746,150	3,746,150
Loans	11,777,584	11,777,584
Refundable deposits	3,568,127	49,443
Total	<u>\$ 339,072,629</u>	<u>294,618,527</u>

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Item	December 31, 2014	
	Carrying amount	Maximum credit exposure
<u>Financial assets</u>		
Cash and cash equivalents	\$ 38,564,185	38,564,185
Receivables	2,351,669	2,351,669
Financial assets measured at fair value through profit or loss	31,893	31,893
Available-for-sale financial assets	52,517,885	51,399,141
Debt investments without quoted price in active market	54,856,557	54,347,029
Held-to-maturity financial assets	193,218,934	150,157,854
Other financial assets	21,685,621	21,685,621
Loans	13,599,820	13,599,820
Refundable deposits	2,739,751	46,450
Total	<u>\$ 379,566,315</u>	<u>332,183,662</u>

2. Concentration of credit risk

When the transaction of financial instruments is concentrated in a single industry or region, the ability to oblige the contract would be impacted by similar factors, thereby causing concentration of credit risk.

The Company maintains a diversified portfolio, limits its exposure to any one geographic region, country or individual creditor and monitors the exposure continuously. The Company's most significant concentrations of credit risk are summarized as follows:

(a) Industry

Item	Finance	Government	Petrochemical			Electricity	Other
			Industry	Manufacturing			
December 31, 2015							
<u>Financial assets</u>							
Cash and cash equivalents	\$ 33,595,006	-	-	-	-	-	-
Receivables	2,550,521	653,717	-	22,895	18,880	643,696	
Financial assets at fair value through profit or loss	43,915	-	-	-	-	-	
Available-for-sale financial assets - debt instruments	4,940,650	-	-	-	-	2,986,478	
Debt investments without active market-debt instruments	24,597,292	22,545,700	-	-	-	1,447,970	
Held-to-maturity financial assets - debt instruments	114,917,196	53,304,415	-	3,969,202	2,596,383	12,189,892	
Other financial assets-net	3,746,150	-	-	-	-	-	
Loans	-	-	1,440,563	234,824	647,195	9,455,002	
Guarantee deposits paid	47,343	3,518,684	-	-	-	2,100	

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Item	Finance	Government	Petrochemical Industry	Manufacturing	Electricity	Other
December 31, 2014						
<u>Financial assets</u>						
Cash and cash equivalents	\$ 38,564,185	-	-	-	-	-
Receivables	901,330	667,724	-	20,636	55,173	706,806
Financial assets at fair value through profit or loss	29,496	-	-	-	-	-
Available-for-sale financial assets - debt instruments	11,265,304	1,118,744	100,399	100,413	251,429	2,115,533
Debt investments without active market - debt instruments	32,127,604	21,250,242	-	-	-	1,478,711
Held-to-maturity financial assets - debt instruments	111,641,147	60,156,724	279,838	9,042,781	2,596,350	9,502,094
Other financial assets-net	21,685,621	-	-	-	-	-
Loans	-	-	1,592,213	633,355	1,029,422	1,081,830
Guarantee deposits paid	42,926	2,693,301	-	-	-	3,524

(b) Region

Item	Taiwan	America	Europe	Asia	Oceania	Other
December 31, 2015						
<u>Financial assets</u>						
Cash and cash equivalents	\$ 33,595,006	-	-	-	-	-
Receivables	1,891,382	1,264,415	389,729	272,241	54,797	22,145
Financial assets at fair value through profit or loss	43,915	-	-	-	-	-
Available-for-sale financial assets - debt instruments	4,709,876	2,355,691	-	861,561	-	-
Debt investments without active market - debt instruments	200,000	22,573,364	11,536,190	10,298,108	3,983,300	-
Held-to-maturity financial assets - debt instruments	95,031,735	31,610,326	32,298,185	19,524,662	8,087,345	624,835
Other financial assets-net	3,746,150	-	-	-	-	-
Loans	11,777,584	-	-	-	-	-
Guarantee deposits paid	3,568,127	-	-	-	-	-

Item	Taiwan	America	Europe	Asia	Oceania	Other
December 31, 2014						
<u>Financial assets</u>						
Cash and cash equivalents	\$ 38,564,185	-	-	-	-	-
Receivables	1,946,617	102,422	110,789	138,274	24,946	28,621
Financial assets at fair value through profit or loss	25,973	2,151	-	1,372	-	-
Available-for-sale financial assets - debt instruments	11,366,157	1,208,774	-	1,743,627	633,264	-
Debt investments without active market - debt instruments	200,000	21,090,395	13,938,702	12,709,135	6,918,325	-
Held-to-maturity financial assets - debt instruments	116,161,694	19,233,901	35,823,368	11,985,455	9,223,688	790,828
Other financial assets- net	21,175,721	-	-	509,900	-	-
Loans	13,599,820	-	-	-	-	-
Guarantee deposits paid	2,739,751	-	-	-	-	-

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

3. Credit quality analysis of the Company:

(a) Credit quality analysis for securities investment

December 31, 2015	Non-overdue nor non-impaired amount						NPL but not impair amount (B)	Impairment Amount (C)	Total (A)+(B)+(C)	Recognized		Net (A)+(B)+(C)-(D)
	Very Good	Good	Medium	Weak	Non-evaluate	Subtotal (A)				Impairment Amount (D)		
Available-for-sale financial assets												
Bonds	961,524	4,444,158	2,521,446	-	-	7,927,128	-	-	7,927,128	-	7,927,128	
Held-to-maturity financial assets												
Bonds	30,998,494	121,777,022	34,401,572	-	-	187,177,088	-	-	187,177,088	-	187,177,088	
Debt investments without active market												
Bonds	25,849,736	20,744,026	1,997,200	-	-	48,590,962	-	-	48,590,962	-	48,590,962	
Guarantee deposits paid	-	3,518,684	-	-	-	3,518,684	-	-	3,518,684	-	3,518,684	

December 31, 2014	Non-overdue nor non-impaired amount						NPL but not impair amount (B)	Impairment Amount (C)	Total (A)+(B)+(C)	Recognized		Net (A)+(B)+(C)-(D)
	Very Good	Good	Medium	Weak	Non-evaluate	Subtotal (A)				Impairment Amount (D)		
Available-for-sale financial assets												
Debt investments	1,689,440	10,985,224	2,277,158	-	-	14,951,822	-	-	14,951,822	-	14,951,822	
Held-to-maturity financial assets												
Debt investments	37,484,062	120,388,623	32,671,276	2,674,973	-	193,218,934	-	-	193,218,934	-	193,218,934	
Debt investments without a quoted price in active market												
Debt investments	24,538,789	20,363,349	9,954,419	-	-	54,856,557	-	-	54,856,557	-	54,856,557	
Guarantee deposits paid	-	2,693,301	-	-	-	2,693,301	-	-	2,693,301	-	2,693,301	

Internal Credit Risk Grades of The Company

Very Good
Good
Medium
Weak
Non-evaluate

Credit Rating of Taiwan Ratings

twAAA~twAA+
twAA~twA+
twA~BBB+
twBBB以下

(b) Credit quality analysis for discounts and loans (other than insurance loans and premium loans) and receivables

December 31, 2015	Non-overdue nor non-impaired amount						NPL but not impair amount (B)	Impairment Amount (C)	Total (A)+(B)+(C)	Recognized Impairment Amount		Net (A)+(B)+(C)-(D)
	Very Good	Good	Medium	Weak	Non-evaluate	Subtotal (A)				With objective	No objective	
Receivables	\$ -	-	-	-	3,894,683	3,894,683	81	15	3,894,779	-	70	3,894,709
Loans	\$ -	-	-	-	5,966,584	5,966,584	20,975	25,332	6,012,891	534	90,884	5,921,473

December 31, 2014	Non-overdue nor non-impaired amount						NPL but not impair amount (B)	Impairment Amount (C)	Total (A)+(B)+(C)	Recognized Impairment Amount		Net (A)+(B)+(C)-(D)
	Very Good	Good	Medium	Weak	Non-evaluate	Subtotal (A)				With objective	No objective	
Receivables	\$ -	-	-	-	2,351,195	2,351,195	513	-	2,351,708	-	39	2,351,669
Loans	\$ -	-	-	-	7,323,007	7,323,007	135,432	6,909	7,465,348	496	81,022	7,383,830

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

- (c) Aging analysis of discounts and loans (other than insurance loans and premium loans) and receivables which overdue but not impaired

	December 31, 2015	December 31, 2014
Overdue 1 to 3 months	\$ 21,056	133,384
Overdue more than 3 months	-	2,561
Total	<u>\$ 21,056</u>	<u>135,945</u>

3) Liquidity risk

The followings are the contractual maturities of financial liabilities, including estimated interest payments but excluding the impact of netting agreements.

Derivatives settled in net

	December 31, 2015							
	0-30 days	31-90 days	91-181 days	181 days -1 year	1-2 years	2-5 years	Over 5 years	Total
Financial liabilities measured at fair value through profit or loss								
Foreign exchange derivatives	\$ (16,563)	(3,020)	-	-	-	-	-	(19,583)

Derivatives settled in total

	December 31, 2015							
	0-30 days	31-90 days	91-181 days	181 days -1 year	1-2 years	2-5 years	Over 5 years	Total
Financial liabilities measured at fair value through profit or loss								
Foreign exchange derivatives								
- Foreign exchange outflow	\$ (12,583,910)	(44,981,214)	(23,450,210)	(3,147,360)	-	-	-	(84,162,694)
- Foreign exchange inflow	12,562,978	44,882,320	23,385,525	3,127,776	-	-	-	83,958,599
Foreign exchange derivatives								
- Foreign exchange outflow	-	-	(2,875)	(2,875)	(627,859)	-	-	(633,609)
- Foreign exchange inflow	-	-	-	-	625,000	-	-	625,000
Subtotal of outflows	<u>\$ (12,583,910)</u>	<u>(44,981,214)</u>	<u>(23,453,085)</u>	<u>(3,150,235)</u>	<u>(627,859)</u>	<u>-</u>	<u>-</u>	<u>(84,796,303)</u>
Subtotal of inflows	<u>\$ 12,562,978</u>	<u>44,882,320</u>	<u>23,385,525</u>	<u>3,127,776</u>	<u>625,000</u>	<u>-</u>	<u>-</u>	<u>84,583,599</u>
Net cash flows	<u>\$ (20,932)</u>	<u>(98,894)</u>	<u>(67,560)</u>	<u>(22,459)</u>	<u>(2,859)</u>	<u>-</u>	<u>-</u>	<u>(212,704)</u>

Derivatives settled in net

	December 31, 2014							
	0-30 days	31-90 days	91-181 days	181 days -1 year	1-2 years	2-5 years	Over 5 years	Total
Financial liabilities measured at fair value through profit or loss								
Foreign exchange derivatives	\$ (5,274)	(11,400)	-	-	-	-	-	(16,674)

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

Derivatives settled in total

	December 31, 2014							Total
	0-30 days	31-90 days	91-181 days	181 days ~1 year	1-2 years	2-5 years	Over 5 years	
Financial liabilities measured at fair value through profit or loss								
Foreign exchange derivatives								
– Foreign exchange outflow	\$ (8,848,075)	(45,526,783)	(19,685,110)	-	-	-	-	(74,059,968)
– Foreign exchange inflow	8,826,359	45,420,689	19,581,360	-	-	-	-	73,828,408
Foreign exchange derivatives								
– Foreign exchange outflow	(4,299)	(2,736)	-	(1,502,543)	-	-	-	(1,509,578)
– Foreign exchange inflow	-	-	-	1,495,600	-	-	-	1,495,600
Subtotal of outflows	<u>\$ (8,852,374)</u>	<u>(45,529,519)</u>	<u>(19,685,110)</u>	<u>(1,502,543)</u>	-	-	-	<u>(75,569,546)</u>
Subtotal of inflows	<u>\$ 8,826,359</u>	<u>45,420,689</u>	<u>19,581,360</u>	<u>1,495,600</u>	-	-	-	<u>75,324,008</u>
Net cash flows	<u>\$ (26,015)</u>	<u>(108,830)</u>	<u>(103,750)</u>	<u>(6,943)</u>	-	-	-	<u>(245,538)</u>

Maturity analysis of non-derivative:

Assets	December 31, 2015							Total
	0-30 days	31-90 days	91-181 days	181 days ~1 year	1-2 years	2-5 years	Over 5 years	
Cash and cash equivalents	\$ 31,493,224	2,111,854	-	-	-	-	-	33,605,078
Available-for-sale financial assets	165,164	8,582	361,818	1,054,599	1,177,243	2,872,721	5,307,034	10,947,161
Held-to-maturity financial assets	639,694	4,663,254	5,098,749	19,403,116	16,672,298	48,329,756	246,043,754	340,850,621
Debt investments without active market	642,964	3,021,269	13,096,024	2,436,323	3,707,936	8,037,381	50,918,891	81,860,788
Other financial assets - net	761,583	970	2,283,404	775,148	-	-	-	3,821,105
Guarantee deposits paid	-	24,750	-	62,564	87,314	640,192	3,838,646	4,653,466
Total	<u>\$ 33,702,629</u>	<u>9,830,679</u>	<u>20,839,995</u>	<u>23,731,750</u>	<u>21,644,791</u>	<u>59,880,050</u>	<u>306,108,325</u>	<u>475,738,219</u>

Assets	December 31, 2014							Total
	0-30 days	31-90 days	91-181 days	181 days ~1 year	1-2 years	2-5 years	Over 5 years	
Cash and cash equivalents	\$ 38,578,491	-	-	-	-	-	-	38,578,491
Available-for-sale financial assets	492,295	353,817	42,674	1,182,349	1,649,464	7,441,507	6,687,103	17,849,209
Held-to-maturity financial assets	341,382	5,436,185	14,835,139	15,404,086	23,841,805	45,675,968	227,799,306	333,333,871
Debt investments without in active market	183,759	2,126,470	1,999,481	3,509,393	18,442,677	6,859,051	64,660,073	97,780,904
Other financial assets - net	20,578,492	-	-	1,179,760	-	-	-	21,758,252
Guarantee deposits paid	-	24,750	-	46,626	71,376	615,753	2,701,949	3,460,454
Total	<u>\$ 60,174,419</u>	<u>7,941,222</u>	<u>16,877,294</u>	<u>21,322,214</u>	<u>44,005,322</u>	<u>60,592,279</u>	<u>301,848,431</u>	<u>512,761,181</u>

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

4) Market Risk

1. Exchange rate risk

(a) The significant exchange rate risk exposure of the financial assets and liabilities are as follows:

	December 31, 2015			December 31, 2014		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
AUD	\$ 451,076	23.9750	10,814,551	429,938	26.0250	11,189,147
CAD	90,703	23.7200	2,151,464	115,585	27.3200	3,157,772
EUR	19,222	35.9200	690,467	13,447	38.5400	518,234
HKD	538,056	4.2420	2,282,435	370,064	4.0820	1,510,599
JPY	33	0.2730	9	33	0.2656	9
NZD	18	22.5000	404	40,760	24.8500	1,012,894
USD	3,819,840	32.8800	125,596,347	3,725,300	31.6700	117,980,238
CNY	5,041,324	4.9930	25,171,329	4,096,694	5.0990	20,889,042
ZAR	428,354	2.1200	908,110	398,018	2.7400	1,090,570
SGD	67,559	23.2500	1,570,753	25,123	24.0000	602,941
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	807,124	32.8800	26,538,250	721,159	31.6700	22,839,094

(b) The concentration of the exchange rate risk is as follows:

	December 31, 2015										
	USD	AUD	HKD	EUR	CAD	NZD	CNY	JPY	ZAR	SGD	Total
Foreign financial assets											
Cash and cash equivalents	\$ 4,973,832	404,214	529,181	85,773	103,310	404	904,400	9	58,574	22	7,059,719
Financial assets at fair value through profit or loss	3,839	-	132	-	39,944	-	-	-	-	-	43,915
Available-for-sale financial assets	3,901,461	-	1,753,246	604,694	-	-	1,139,894	-	-	-	7,399,295
Loans and receivables	176,165	369,963	8	-	12,060	-	372,605	-	22,530	-	953,331
Held-to-maturity financial assets	65,718,852	7,954,549	-	-	1,077,575	-	14,559,997	-	624,835	1,570,730	91,506,538
Debt investments without active market	23,311,730	2,085,825	-	-	958,519	-	5,448,284	-	202,172	-	32,006,530
Other financial assets-	-	-	-	-	-	-	2,746,150	-	-	-	2,746,150
Total	<u>\$ 98,085,879</u>	<u>10,814,551</u>	<u>2,282,567</u>	<u>690,467</u>	<u>2,191,408</u>	<u>404</u>	<u>25,171,330</u>	<u>9</u>	<u>908,111</u>	<u>1,570,752</u>	<u>141,715,478</u>

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

	December 31, 2015										Total
	USD	AUD	HKD	EUR	CAD	NZD	CNY	JPY	ZAR	SGD	
Foreign financial liabilities											
Financial liabilities at fair value through profit or loss	\$ 941,822	117,458	-	-	-	-	-	-	-	-	1,059,280
Payables	1,461	-	-	-	-	-	-	-	-	-	1,461
Insurance liability	25,748,397	-	-	-	-	-	-	-	-	-	25,748,397
Total	\$ 26,691,680	117,458	-	26,809,138							

Note: December 31, 2015: 1 USD = 32.880 NTD; 1 AUD = 23.975 NTD; 1 HKD = 4.242 NTD; 1 EUR = 35.92 NTD; 1 CAD = 23.72 NTD; 1 NZD = 22.50 NTD; 1 CNY = 4.993 NTD; 1 JPY = 0.2730 NTD; 1 ZAR = 2.12 NTD; 1 SGD = 23.25 NTD

	December 31, 2014										Total
	USD	AUD	HKD	EUR	CAD	NZD	CNY	JPY	ZAR	SGD	
Foreign financial assets											
Cash and cash equivalents	\$ 1,916,990	156,226	827,435	1,816	95,259	4,552	3,266,644	9	11,256	5	6,280,192
Financial assets at fair value through profit or loss	22,085	7,411	-	-	-	-	-	-	-	-	29,496
Available-for-sale financial assets	5,189,673	-	683,152	516,418	-	-	574,030	-	-	-	6,963,273
Held-to-maturity financial assets	59,021,811	7,788,913	-	-	1,328,382	1,002,408	5,892,164	-	790,828	602,936	76,427,442
Debt investments without active market	28,302,912	3,135,828	-	-	1,714,621	-	8,314,704	-	259,453	-	41,727,518
Other financial assets-net	-	-	-	-	-	-	2,667,620	-	-	-	2,667,620
Total	\$ 94,453,471	11,088,378	1,510,587	518,234	3,138,262	1,006,960	20,715,162	9	1,061,537	602,941	134,095,541

Foreign financial liabilities											
Financial liabilities at fair value through profit or loss	\$ 3,184,818	5,776	-	-	-	-	-	-	-	-	3,190,594
Payables	1,058,259	-	-	-	-	-	-	-	-	-	1,058,259
Insurance liability	21,760,140	-	-	-	-	-	-	-	-	-	21,760,140
Total	\$ 26,003,217	5,776	-	26,008,993							

Note: December 31, 2014: 1 USD = 31.670 NTD; 1 AUD = 26.025 NTD; 1 HKD = 4.082 NTD; 1 EUR = 38.54 NTD; 1 CAD = 27.32 NTD; 1 NZD = 24.85 NTD; 1 CNY = 5.099 NTD; 1 JPY = 0.2656 NTD; 1 ZAR = 2.74 NTD; 1 SGD = 24.00 NTD

2. Interest rate risk

The changes in the interest rates of financial assets and financial liabilities were addressed in the notes of liquidity risk management of the Company.

The sensitivity analysis represents the interest rate risk exposure of the derivatives and non-derivatives at the reporting date. The risk of interest rate is mainly derived from the risk of interest repricing. The measurement of monitoring account interest rate risk is to compute the repricing gap of risk-sensitive assets/ liabilities and to develop risk standard as the monitoring benchmark. Its measurements are to set the interest rate, which increases or decreases 50 basis points to evaluate the risk.

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

3. Sensitivity analysis

The Company uses risk value analysis and sensitivity analysis to manage the market risk. The sensitivity analysis is used to measure the effects of each risk factor.

Units: In Millions of NTD

December 31, 2015			
Main risk	Range	Amount Influence	
		Equity	Gain or loss
Exchange rate risk	Other foreign currencies / NTD rise 5%	6.76	32.26
Exchange rate risk	Other foreign currencies / NTD fall 5%	(6.76)	(32.26)
Interest rate risk	Interest rate curve rises 50BPS	(3.20)	-
Interest rate risk	Interest rate curve falls 50BPS	3.46	-
Price of equity stock risk	Price of equity stock rises 10%	36.25	0.50
Price of equity stock risk	Price of equity stock falls 10%	(36.25)	(0.50)

Note: the analysis timing is on December 31, 2015.

December 31, 2014			
Main risk	Range	Amount Influence	
		Equity	Gain or loss
Exchange rate risk	Other foreign currencies / NTD rise 5%	6.65	26.16
Exchange rate risk	Other foreign currencies / NTD fall 5%	(6.65)	(26.16)
Interest rate risk	Interest rate curve rises 50BPS	(4.14)	-
Interest rate risk	Interest rate curve falls 50BPS	4.41	-
Price of equity stock risk	Price of equity stock rises 10%	37.57	0.02
Price of equity stock risk	Price of equity stock falls 10%	(37.57)	(0.02)

Note: the analysis timing is on December 31, 2014.

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BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

5) Operational Risk

Operational risk is the risk of loss arising from fraud, unauthorized authorities, error, omission, inefficiency system failure or external events. The Company manages the risk through a control-based environment in which processes are documented, authorization is independent and transactions are reviewed and monitored.

The Company sets up operation regulations and internal control system for each product and operating activity. The Company also sets emergency management and recovery plan (Business Continuity Plan) with respect to some events caused by nature or human, such as the regional disasters, significant infectious diseases, employee's strikes, system interruptions and so on. In doing so, the Company can ensure operations can continue even if a material incident occurs.

The risk management department monitors the operation risk exposure periodically and offers suggestions on topics regarding operational risk management. If a significant operation risk event happens, the risk management department should immediately prepare a risk management report.

6) Offsetting financial assets and financial liabilities

The Company engages in the transactions of financial instruments that meet the offsetting conditions set forth in paragraph 42 of IAS 32 endorsed by the FSC. Those transactions are presented at the net amount on the balance sheet.

The Company also engages in the transactions on repurchase agreement or reversed repurchase agreement that do not meets the offsetting condition. Such transactions include global master repurchase agreement, global securities lending agreement and related agreements. If both parties agree to settle the transactions on a net basis, the Company can settle the transactions by netting the assets and liabilities. If there are no such agreements, the Company shall settle the transaction on a gross basis. However, one party can choose to settle a transaction on a net basis if the other party defaults.

The offsetting information of financial assets and liabilities is shown as below:

December 31, 2015						
Financial assets subject to offsetting, enforceable master netting arrangement or similar agreement						
Description	Recognized			Related amount not offset in		
	Recognized	financial	Net financial	the balance sheet (d)		Net
(a)	liabilities offset	assets reported	Financial	Cash collateral	(e)=(c)-(d)	
(b)	in the balance	in the balance	instruments	received		
(c)=(a)-(b)	sheet	sheet	(Note)	(Note)		
Derivative financial assets	<u>\$ 43,915</u>	<u>-</u>	<u>43,915</u>	<u>158,510</u>	<u>-</u>	<u>(114,595)</u>

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

Financial liabilities subject to offsetting, enforceable master netting arrangement or similar agreement						
Description	Recognized financial liabilities (a)	Recognized financial assets offset in the balance sheet (b)	Net financial	Related amount not offset in the balance sheet (d)		Net (e)=(c)-(d)
			liabilities reported in the balance sheet (c)=(a)-(b)	Financial instruments (Note)	Cash collateral received	
Derivative financial liabilities	\$ <u>1,059,280</u>	<u>-</u>	<u>1,059,280</u>	<u>43,915</u>	<u>-</u>	<u>1,015,365</u>

(Note) Include master netting arrangement and non-cash collateral.

December 31, 2014						
Financial assets subject to offsetting, enforceable master netting arrangement or similar agreement						
Description	Recognized financial assets (a)	Recognized financial liabilities offset in the balance sheet (b)	Net financial	Related amount not offset in the balance sheet (d)		Net (e)=(c)-(d)
			assets reported in the balance sheet (c)=(a)-(b)	Financial instruments (Note)	Cash collateral received	
Derivative financial assets	\$ <u>29,496</u>	<u>-</u>	<u>29,496</u>	<u>983,414</u>	<u>-</u>	<u>(953,918)</u>

Financial liabilities subject to offsetting, enforceable master netting arrangement or similar agreement						
Description	Recognized financial liabilities (a)	Recognized financial assets offset in the balance sheet (b)	Net financial	Related amount not offset in the balance sheet (d)		Net (e)=(c)-(d)
			liabilities reported in the balance sheet (c)=(a)-(b)	Financial instruments (Note)	Cash collateral received	
Derivative financial liabilities	\$ <u>3,190,594</u>	<u>-</u>	<u>3,190,594</u>	<u>29,496</u>	<u>-</u>	<u>3,161,098</u>

(Note) Include master netting arrangement and non-cash collateral.

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

(29) Retained earned premium and retained claim payment

1) Retained earned premium

A summary of retained earned premiums of the Company for the year ended 2015 and 2014 was as follows:

	Insurance Contract	2015 Financial products with discretionary participation feature	Total
Direct written premium	\$ 25,194,845	6,216,259	31,411,104
Reinsurance premium	2,436	-	2,436
Premium income	<u>25,197,281</u>	<u>6,216,259</u>	<u>31,413,540</u>
Less: Reinsurance premium ceded	81,321	123	81,444
Net change in unearned premium reserve	4,928	(1,475)	3,453
	<u>86,249</u>	<u>(1,352)</u>	<u>84,897</u>
Retained earned premium	<u>\$ 25,111,032</u>	<u>6,217,611</u>	<u>31,328,643</u>

	Insurance Contract	2014 Financial products with discretionary participation feature	Total
Direct written premium	\$ 23,775,155	11,204,930	34,980,085
Reinsurance premium	3,908	-	3,908
Premium income	<u>23,779,063</u>	<u>11,204,930</u>	<u>34,983,993</u>
Less: Reinsurance premium ceded	68,764	167	68,931
Net change in unearned premium reserve	(1,840)	(1,978)	(3,818)
	<u>66,924</u>	<u>(1,811)</u>	<u>65,113</u>
Retained earned premium	<u>\$ 23,712,139</u>	<u>11,206,741</u>	<u>34,918,880</u>

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

2) Retained claim payment

A summary of retained claim payments of the Company for the year ended 2015 and 2014 was as follows:

	Insurance Contract	2015 Financial products with discretionary participation feature	Total
Claims payment incurred	\$ 51,389,232	20,107,143	71,496,375
Reinsurance claims	1,290	-	1,290
Insurance claims payment	51,390,522	20,107,143	71,497,665
Less: Claims recovered from reinsures	28,756	-	28,756
Retained claim payment	<u>\$ 51,361,766</u>	<u>20,107,143</u>	<u>71,468,909</u>

	Insurance Contract	2014 Financial products with discretionary participation feature	Total
Claims payment incurred	\$ 25,381,380	30,317,606	55,698,986
Reinsurance claims	1,187	-	1,187
Insurance claims payment	25,382,567	30,317,606	55,700,173
Less: Claims recovered from reinsures	15,156	-	15,156
Retained claim payment	<u>\$ 25,367,411</u>	<u>30,317,606</u>	<u>55,685,017</u>

(30) Capital management

The objectives of the Company are to safeguard the interests of the policy holders, to support the sustainable development of the Company, and to protect the interests of the shareholders and stakeholders. The Company is also subject to external capital requirement, such as setting aside legal reserve or special reserve.

In accordance with Article 143-4 "Insurance Act", the ratio of the risk-based capital, divided by the total adjusted net capital of the Company, shall not be lower than 200%. Besides, according to the "Regulations Governing Capital Adequacy of Insurance Companies" and other requirements from the authorities, the Company shall calculate its capital adequacy ratio and evaluate the future level of its capital adequacy at least once every semi-annually to ensure that the Company is able to continually comply with the regulations.

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

(31) The reclassifying adjustment of other comprehensive income composition

	2015	2014
Available-for-sale financial assets		
Net change in fair value in the period	\$ (6,154,237)	1,302,296
Net change in fair value reclassified to profit or loss	<u>1,382,815</u>	<u>(67,174)</u>
Net change in fair value under other comprehensive income	<u>\$ (4,771,422)</u>	<u>1,235,122</u>

(32) Related party transactions

1) Name of related party and relationship

Name	Relationship
Taiwan Financial Holding Co., Ltd.	Holding company of the Company
Bank of Taiwan Co., Ltd.	Wholly-owned subsidiary of Taiwan Financial Holdings
BankTaiwan Securities Co., Ltd.	Wholly-owned subsidiary of Taiwan Financial Holdings
BankTaiwan Insurance Brokers Co., Ltd	Wholly-owned subsidiary of BOT
Hua Nan Financial Holdings Co., Ltd. and its subsidiaries	Investee company of BOT and the Company under the equity method
Taiwan Life Insurance Co., Ltd.	Investee company of BOT and the Company under the equity method (Not a related party after October 15, 2015)
Others	Directors, supervisors, managers and their relatives up to the second degree, affiliates and so on

2) Parent company and ultimate company

Taiwan Financial Holding Co., Ltd. is both the parent company of the consolidated entity and the ultimate controlling party of the Company. It owns 100 percent of all shares outstanding of the Company, and has issued the consolidated financial statements available for public use.

3) Significant related party transactions

1. Key Management Personnel Compensation

The related information about the salaries and bonus for the Company's key management personnel in 2015 and 2014 were as follows:

	December 31, 2015	December 31, 2014
Short-term employee benefits	<u>\$ 12,611</u>	<u>12,349</u>

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

2. Secured loans

The real estate secured loans to the directors, supervisors, general manager, vice general manager, employees with credit amounts, their spouses and their first or second degree relatives on December 31, 2015 and 2014 are as follows:

Name	December 31, 2015	December 31, 2014
Real estate secured loans	<u>\$ 307,596</u>	<u>368,080</u>
Interest receivables	<u>\$ 264</u>	<u>312</u>

All interest rate collars on December 31, 2015 and 2014 are 0.960%~1.867% and 1.10%~1.94%, respectively.

4) Significant related party transaction with parent company and its associates

1. Bank deposits

The bank deposits in the related banks and the relevant interest revenues on December 31, 2015 and 2014 were as follows:

Name	Summary	December 31, 2015		December 31, 2014	
		Amount	Percentage of account balance	Amount	Percentage of account balance
Bank of Taiwan Co., Ltd	Bank deposits	\$ 10,674,411	31.77	13,168,831	34.15
	Other financial assets	-	-	3,027,900	13.96
Hua Nan Financial Holdings Co., Ltd	Bank deposits	18,632	0.06	9,316	0.02
Total	Total	<u>\$ 10,693,043</u>		<u>16,206,047</u>	

The relevant interest revenues of the Company in 2015 and 2014 were \$32,722 thousand dollars and \$130,748 thousand dollars, respectively.

2. Receivables

Name	Summary	December 31, 2015	December 31, 2014
Bank of Taiwan Co., Ltd.	Interest revenue	\$ 1,063	13,073
Taiwan Financial Holding Co., Ltd.	Other receivables reclassified from prepaid dividends	-	24,910
Total		<u>\$ 1,063</u>	<u>37,983</u>

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

3. Current income tax assets

Name	Summary	December 31, 2015	December 31, 2014
Taiwan Financial Holding Co., Ltd.	Income tax refund	\$ <u>1,458,837</u>	<u>1,247,634</u>

4. Available-for-sale financial assets

Name	Summary	Transactions	December 31, 2015	December 31, 2014
Hua Nan Financial Holdings Co., Ltd.	Financial bonds (recorded in the available-for-sale financial assets)	Cost	\$ 900,000	900,000
		Valuation adjustment	13,577	1,280
		Carrying amount	\$ <u>913,577</u>	<u>901,280</u>
		Interest receivable	\$ <u>1,582</u>	<u>1,587</u>

Both of the interest revenues from the aforementioned financial bonds in 2015 and 2014 were \$14,846 thousand and \$14,850 thousand, respectively.

5. Derivatives

December 31, 2015						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
Bank of Taiwan Co., Ltd.	Swap agreement		USD -	28,590	Valuation adjustment of financial liabilities at fair value through profit or loss -current-held for trading- swap	-
		2015.08.18~ 2016.05.04	USD 858,000	(6,936)	Valuation adjustment of financial liabilities at fair value through profit or loss - -current- held for trading-swap	(367,895)

December 31, 2014						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
Bank of Taiwan Co., Ltd.	Swap agreement		USD -	(8,888)	Valuation adjustment of financial liabilities at fair value through profit or loss -current-held for trading- swap	-
		2014.06.27~ 2015.05.04	USD 863,000	(54,558)	Valuation adjustment of financial liabilities at fair value through profit or loss - -current- held for trading-swap	(1,058,994)

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

6. Commissions payable (under the Payables)

Name	Summary	December 31, 2015	December 31, 2014
BankTaiwan Insurance Brokers Co., Ltd.	Agent fee	\$ 111,330	93,300
Hua Nan Financial Holdings Co., Ltd.	Agent fee	3,389	1,369
Total		<u>\$ 114,719</u>	<u>94,669</u>

7. Other payables (under the Payables)

Name	Summary	December 31, 2015	December 31, 2014
Bank of Taiwan Co., Ltd	Trust custody fee and sales charge	<u>\$ 25,121</u>	<u>30,014</u>

8. Guarantee deposits and margins received (under Other Liabilities)

Name	Summary	December 31, 2015	December 31, 2014
Bank of Taiwan Co., Ltd	Housing deposits	<u>\$ 6,780</u>	<u>6,425</u>

9. Gain (loss) on disposal of investments

Name	Summary	2015	2014
Bank of Taiwan Co., Ltd	Gain (loss) on disposal of investment	<u>\$ (1,828,637)</u>	<u>(835,795)</u>

10. Gains on investment property

Name	Summary	2015	2014
Bank of Taiwan Co., Ltd	Gains on investment property	<u>\$ 40,087</u>	<u>38,603</u>

The rent payment pricing between the Company and its associates is determined by the market quotation. In addition, the rent payment is in accordance with the contract term and is determined before contract renewal.

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

11. Commission fees expense

Name	Summary	2015	2014
Bank of Taiwan Co., Ltd	Sales charge	\$ 76,939	95,567
BankTaiwan Insurance Brokers Co., Ltd	Agent fee	877,966	499,144
Hua Nan Financial Holdings Co., Ltd.	Agent fee	74,483	2,801
Total		<u><u>\$ 1,029,388</u></u>	<u><u>597,512</u></u>

12. Fee expenses

Name	Summary	2015	2014
Bank of Taiwan Co., Ltd	Custody and insurance fee	\$ 37,025	37,458
BankTaiwan Securities Co., Ltd.	Securities and insurance fee	1,287	4,039
Hua Nan Financial Holdings Co., Ltd.	Remittance and insurance fee	57	28
Total		<u><u>\$ 38,369</u></u>	<u><u>41,525</u></u>

In 2015 and 2014, the fee expense for BankTaiwan Securities Co., Ltd. arising from investment in financial assets was \$42,668 thousands and \$33,952 thousands, respectively, and the cost of available-for-sale financial assets was \$41,381 thousands and \$29,913 thousands, respectively.

13. Exchange loss (gain)

Name	Summary	2015	2014
Bank of Taiwan Co., Ltd	Foreign investments and channel fee and forward and swap	\$ 1,769,971	(655,964)
BankTaiwan Insurance Brokers Co., Ltd.	Commission	345	(232)
Total		<u><u>\$ 1,770,316</u></u>	<u><u>(656,196)</u></u>

In 2015 and 2014, the exchange gains (losses) arising from holding foreign currency assets or liabilities was \$1,355,531 thousands and \$6,350,767 thousands, and the exchange gains (losses) arising from related party transaction was \$1,770,316 thousands and \$(656,196) thousands. Please see note 28 for the description of exposure to foreign exchange risk.

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

14. Operating expense

Name	Summary	2015	2014
Bank of Taiwan Co., Ltd	General expenses	\$ 40,508	38,822
Bank of Taiwan Co., Ltd	Staff training expenses	65	-
Taiwan Financial Holding Co., Ltd.	Administrative expenses	576	576
Hua Nan Financial Holdings Co., Ltd.	General expenses	961	961
Total		<u>\$ 42,110</u>	<u>40,359</u>

(33) Pledged assets

The carrying values of pledged assets were as follow:

Pledged assets	Object	December 31, 2015	December 31, 2014
Corporate bonds (under guarantee deposits paid)	Operating guarantee	\$ 3,518,684	2,696,301
Cash (under guarantee deposits paid)	Lease and futures exchange guarantee	49,443	46,450
		<u>\$ 3,568,127</u>	<u>2,742,751</u>

(34) Commitments and contingencies

As of December 31, 2015 and 2014, the Company had a performance guarantee amounted \$225 thousand and \$1,580 thousand, respectively.

(35) Losses due to major disasters: None.

(36) Subsequent events: None.

(37) Other

1) The employee benefit expenses, depreciation, depletion and amortization, categorized by function, were as follows:

By function	December 31, , 2015			December 31, , 2014		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
By nature						
Employee benefits						
Salary	-	477,751	477,751	-	485,513	485,513
Labor and health insurance	-	25,749	25,749	-	29,314	29,314
Pension	-	83,064	83,064	-	47,745	47,745
Others	-	23,606	23,606	-	255,157	255,157
Depreciation	70,430	28,453	98,883	59,183	27,330	86,513
Depletion	-	-	-	-	-	-
Amortization	-	3,919	3,919	-	4,865	4,865

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

In 2015 and 2014, the number of certified staff was 238 and 226, respectively and the number of contract-based employee was 269 and 275, respectively.

2) Liquidity analysis of assets and liabilities

The following was the liquidity analysis of current assets and liabilities:

		December 31, 2015		
		Expected to recover or settle within 12 months	Expected to recover or settle more than 12 months	Total
Assets				
Cash and equivalents	\$	33,595,006	-	33,595,006
Receivables		3,894,709	-	3,894,709
Current income tax assets		-	1,458,837	1,458,837
Financial assets at fair value through profit or loss		2,544,003	-	2,544,003
Available-for-sale financial assets		43,521,409	657,591	44,179,000
Bond investments without active market		2,226,227	46,364,735	48,590,962
Held-to-maturity financial assets		16,282,008	170,895,080	187,177,088
Other financial assets, net		3,746,150	-	3,746,150
Investment property		-	7,616,578	7,616,578
Loans (note)		1,141,965	4,847,369	5,989,334
Property and equipment		-	1,010,475	1,010,475
Intangible assets		-	9,837	9,837
Deferred tax assets		-	2,212,903	2,212,903
Other assets		30,373	3,595,570	3,625,943
Liabilities				
Payables		1,659,598	17,476,667	19,136,265
Financial liabilities at fair value through profit or loss		1,059,280	-	1,059,280
Deferred tax liabilities		-	319,926	319,926
Other liabilities		-	685,137	685,137

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

December 31, 2014

	Expected to recover or settle within 12 months	Expected to recover or settle more than 12 months	Total
Assets			
Cash and equivalents	\$ 38,564,185	-	38,564,185
Receivables	2,351,669	-	2,351,669
Current income tax assets	-	1,247,634	1,247,634
Financial assets at fair value through profit or loss	31,893	-	31,893
Available-for-sale financial assets	52,517,885	-	52,517,885
Bond investments without active market	3,069,063	51,787,494	54,856,557
Held-to-maturity financial assets	21,448,175	171,770,759	193,218,934
Other financial assets, net	21,685,621	-	21,685,621
Investment property	-	6,076,383	6,076,383
Loans (note)	1,527,957	5,855,248	7,383,205
Property and equipment	-	1,080,136	1,080,136
Intangible assets	-	12,324	12,324
Deferred tax assets	-	1,852,844	1,852,844
Other assets	338,995	2,739,099	3,078,094
Liabilities			
Payables	2,182,670	20,652,853	22,835,523
Current income tax liabilities	-	89	89
Financial liabilities at fair value through profit or loss	3,190,594	-	3,190,594
Deferred tax liabilities	-	122,475	122,475
Other liabilities	1,102,436	44,407	1,146,843

Note: Exclude life insurance loans, premium loans and non-accrual receivables.

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

3) Adjustment for financial statements after audited

The financial statements have been prepared in accordance with the "International financial reporting guidelines recognized by FSC" and have been audited by the MoA for the year ended 2014. The Company shall adjust its financial statements by the amount of resulting adjustment.

For the year ended 2014, there was no need for the financial statements adjustment due to no difference between the financial statements and the result after audited.

(38) Other disclosures

1) Information on significant transactions:

The followings are the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Insurance Companies" for the Company from January 1, 2015 to December 31, 2015:

1. Fund financing to other parties: N/A.
2. Guarantees and endorsements for other parties: N/A.
3. Information regarding securities held at balance sheet date (excluding investments in subsidiaries, associates and joint ventures): N/A.
4. Information regarding securities where the accumulated purchase or sale amounts for the period exceed NT\$100 million or 20% of the paid in capital: None.
5. Information on the acquisition of real estate which exceeds NT\$100 million or 20% of the paid in capital:

(In NTD thousands)

Name of Company	Name of property	Transaction Occurrence date	Transaction amount	Conditions of payment	Counter-party	Relationship	If the counter-party is a related party, disclose the previous transfer information				References for determining price	Purpose for obtaining and usage status	Notes
							Owner	Relationship with the Company	Transfer date	Amount			
BankTaiwan Life Insurance Co., Ltd.	Han Wei Information Building	January 21, 2015	1,561,500	1,561,500	Mega International Commercial Bank Co., Ltd.	Non-related party				-	Appraisal report	Investment property	

Note: Please see note 6 (5).

6. Information on the disposal of real estate which exceeds NT\$100 million or 20% of the paid in capital: None.

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

7. Information regarding related-party purchase and sale transactions which exceed NT\$100 million or 20% of the paid in capital:

(In NTD thousands)

Name of Company	Counter-party	Relationship	Transaction details				Reasons why and description of how the transaction conditions differ from general transactions		Account/note receivable (payable)		Notes
			Categories	Amount	Percentage of total purchases /sales	Credit period	Unit price	Credit period	Balance	Percentage of total accounts/notes receivable (payable)	
BankTaiwan Life Insurance Co., Ltd	Bank of Taiwan	Wholly owned subsidiary of Taiwan Financial Holdings	Bank deposits	10,674,382	- %		-		-	-%	
BankTaiwan Life Insurance Co., Ltd	Bank of Taiwan	Wholly owned subsidiary of Taiwan Financial Holdings	Financial liabilities at fair value through profit or loss	367,895	- %		-		-	-%	
BankTaiwan Life Insurance Co., Ltd	Bank of Taiwan	Wholly owned subsidiary of Taiwan Financial Holdings	Loss on disposal of investment	1,828,637	4.46 %		-		-	-%	
BankTaiwan Life Insurance Co., Ltd	Bank of Taiwan	Wholly owned subsidiary of Taiwan Financial Holdings	Foreign exchange gains	1,769,971	4.31 %		-		-	-%	
BankTaiwan Life Insurance Co., Ltd	BankTaiwan Insurance Brokers Co., Ltd.	Wholly owned subsidiary of BOT	Commission expense	877,966	2.14 %		-		-	-%	
BankTaiwan Life Insurance Co., Ltd	Hua Nan Financial Holdings Co., Ltd.	Investee company of BOT and the Company under the equity method	Available-for-sale financial assets	913,577	- %		-		-	-%	

8. Information regarding receivables from related parties which exceed NT\$100 million or 20% of the paid in capital: None.

9. Trading in derivative instruments: Please see note 8 & 28.

(Continued)

BANKTAIWAN LIFE INSURANCE CO., LTD.

Notes to Financial Statements

2) Information on investees:

The followings are the information on investees (excluding information on investment in Mainland China):

(In NTD thousands : Thousand shares)

Name of the investor	Name of investee	Location	Major operations	Initial investment (Amount)		Ending balance			Net income of investee	Investment income (losses)	Notes
				Ending balance	Beginning balance	Shares	Ratio of shares	Book value			
The Company	Hua Nan Financial Holdings Co., Ltd.	Taipei City	Investment in enterprise like Banking, bills finance and insurance according to the "Financial Holding Company Act"	1,242,146	1,242,146	380,660	3.84%	5,877,804	14,080,583	540,845	
"	BankTaiwan Life Insurance Co., Ltd.	Taipei City	Insurance of the person industry	-	99,916	-	- %	-	-	189,909	

The Company classified its initial investments accounted for using equity as available-for-sale financial assets due to the merger between Taiwan Life Insurance Co., Ltd. and Chinatrust Commercial Financial Holdings Co., Ltd. in October, 2015.

3) Information on investment in mainland China :

1. Information on investment in Mainland China: None.
2. Limitation on investment in Mainland China: None.
3. Significant transactions: None.

(39) Segment information

The Company engages in life insurance business according to the "Insurance Act". In addition, in accordance with IFRS 8, the whole company is an operating segment because the Company only provides insurance products and the chief operating decision maker decides how to allocate resources to operating segments on a whole-company basis.

VII. Financial Status, Review of Operation Results and Risk Management Affairs

A. Financial Status

Unit: In Thousands of NTD

Item \ Year	2015	2014	Difference	
			Amount	%
Cash and cash equivalents	33,595,006	38,564,185	(4,969,179)	(12.89)
Receivables	3,894,709	2,351,669	1,543,040	65.61
Available-for-sale assets	-	-	-	-
Financial assets and loans	311,509,169	347,912,416	(36,403,247)	(10.46)
Assets of reinsurance contracts	12,023	12,528	(505)	(4.03)
Property and equipment	1,010,475	1,080,136	(69,661)	(6.45)
Intangible assets	9,837	12,324	(2,487)	(20.18)
Other assets	7,310,692	6,800,231	510,461	7.51
Total assets	357,341,911	396,733,489	(39,391,578)	(9.93)
Payables	19,136,265	22,835,523	(3,699,258)	(16.20)
Liabilities relevant to avail-to-sale assets	-	-	-	-
Financial liabilities	1,059,280	3,190,594	(2,131,314)	(66.80)
Insurance liabilities and reserve for insurance contracts with features of financial instruments	322,683,571	353,328,002	(30,644,431)	(8.67)
Provisions	775,512	666,433	109,079	16.37
Other liabilities	1,887,564	3,267,390	(1,379,826)	(42.23)
Total liabilities	345,542,192	383,287,942	(37,745,750)	(9.85)
Ordinary share	22,500,000	17,000,000	5,500,000	32.35
Capital surplus	360,000	369,713	(9,713)	(2.63)
Retained earnings	(3,319,872)	(776,496)	(2,543,376)	(327.55)
Other equity	(7,740,409)	(3,147,670)	(4,592,739)	(145.91)
Total equity	11,799,719	13,445,547	(1,645,828)	(12.24)

Statements of significant differences (more than 20% and 10 million NT dollars):

1. The amount of receivables increased compared to the same period of last year. This is caused by the facts that many overseas funds and securities were due and the issuers decided to pay off at the end of 2015.

2. Financial liabilities decreased compared to the same period of last year. This is caused by the fact that the value of NTD against USD at the end of 2015 was more stabilized, while the value of NTD against USD at the end of 2014 depreciated to a greater extent so that financial liabilities increased greatly.
3. Other liabilities decreased compared to the same period of last year. This is caused by the fact that the temporary and non-closing receivables were at a higher level at the end of the fourth quarter of 2014.
4. Capital stock increased compared to the same period of last year. This is caused by the fact that 5.5 billion NT dollars of capital increase was implemented in 2015.

B. Financial Performance:

Unit: In Thousands of NTD

Item \ Year	2015	2014	Difference	
			Amount	%
Operating income	41,040,339	46,604,664	(5,564,325)	(11.94)
Operating cost	42,543,564	46,522,525	(3,978,961)	(8.55)
Operating expense	1,000,140	872,041	128,099	14.69
Operating loss	(2,503,365)	(789,902)	(1,713,463)	(216.92)
Non-operating income and expense	(25,501)	(50,890)	25,389	49.89
Income(loss) of continuing operations before tax	(2,528,866)	(840,792)	(1,688,074)	(200.77)
Income tax expense(profit)	(18,689)	(23,772)	5,083	21.38
Net income(loss) of continuing operations	(2,510,177)	(817,020)	(1,693,157)	(207.24)

Statements of differences (more than 10%):

1. Decrease of operating income: this is mainly caused by the fact that some of the Jin Shun Li Insurance policies were due in 2014 so that the premium income decreased.
2. Decrease of operating expense: this is caused by the bad debt of the Wintek Corporation.
3. Decrease of non-operating income and expense: this caused by the decrease of savings interest expense.
4. Decrease of income tax profit: this is caused by the higher non-closing exchange loss at the end of this period.
5. To sum up, the net loss after tax increased compared to the last period.

C. Cash Flow

1. Analysis of the cash flow for last year

Unit: In Thousands of NTD

Item \ Year	2015	2014	Difference	
			Amount	%
Net cash provided by(used in) operations	(47,607,411)	(13,074,317)	(34,533,094)	-
Net cash provided by(used in) investments	37,130,697	28,776,142	8,354,555	29.03
Net cash provided by(used in) financial activities	5,507,535	2,704	5,504,831	203,581.03

Statements of differences:

The increase of net cash used in operations was mainly caused by the increase of insurance benefits.

The increase of net cash provided by investment was mainly caused by the decrease of financial assets.

The increase of net cash provided by financial activities was mainly caused by the capital increase of 5.5 billion NT dollars.

2. Analysis of cash flow for next year

The amount of cash and cash equivalents was 33,595,006,000 NT dollars at the end of 2015. It is estimated that the cash flow is sufficient for next year.

D. Effects of Major Capital Expenditures in the Latest Year on Financial Status:

This company used 1,556,712,000 NT dollars in buying land and buildings on it (located at parcel number of 164, Anbang area, Zhonghe Dist., New Taipei City; some of the floors of HanWei Information Building). The major purpose of this capital expenditure was for real estate investment and rent income. The money used in buying was from the available capital of this company. This bid of real estate was closed on November 4, 2014 and this company has won the bidding.

E. Investment Policy in the Latest Year, Main Causes of Profits or Losses, Improvement Plans and the Investment Plans for in the Next Year: N.A.

F. Analysis of Risk Management

1. The impacts of exchange rate change, interest rate change and inflation on the profit or loss of this company and the future responsive plans for these impacts.

1) Interest rate change:

Most of persons in the market anticipated that US may increase the interest rate in the second half of the year. However, the increase rate, magnitude and timeline are

uncertain. Most of investors believes that the US government bond yield rate will be on the rise in the mid-term and long term. There is sufficient capital in the market and the bound interest rate in some of the EU areas decreases to be negative, so the US government bond is more attractive compared to EU bonds. Because the EU Central Bank will continue the policy of QE, the impact of interest rate rise on the bond market may be alleviated. Based on interest rate trend, in order to ensure the security, fluidity and earning, we will promote the capital performance and risk management. In addition, we will adjust the property portfolio whenever necessary in coordination with the asset/liability management strategy to increase the earning rate of investments.

2) Exchange rate change:

Except for US, the global economics is still weak. In is anticipated that US will maintain the policy of increasing interest rate and the exchange rate of USD will be on the rise. It is highly likely that the value of NTD will depreciate because Central Bank of R.O.C. will try to maintain the competitiveness of Taiwan economics on exports. Base on the global economics change and the money policies of other countries, we will adjust the hedging strategies of foreign currency exchange and promote the risk management of foreign currency exchange whenever necessary to decrease the cost and expense.

3) Inflation:

Currently there is no global inflation and most of the indexes shows that the prosperity is still good, making the economics moderate optimistic. It is anticipated that Central Bank of R.O.C. will take moderate money policy to stabilize the domestic inflation. Therefore, the inflation will not impact the profit/loss of this company to a greater extent.

2. High risk investments, high leverage investments, capital loan, endorsement, derivative financial products, the causes for profit/loss and the responsive action in the future

1) The transactions of derivative products made by this company are all based on the "Management Regulations of Derivative Financial Product Transactions Made by Insurance Company" and the protocols of this company. These transactions are for

hedging purpose to alleviate the impact of market change on the investment profit of this company.

- 2) The capital investments of this company are all based on the relevant regulations. These investment decisions were reasonably evaluated and based on the principle of conservation and stability. High risk and high leverage investments are not allowed.

3. Research and Development Plans

- 1) Disability Care Health Insurance is one of the most acceptable health insurances. We will design the second-generation products to meet customers' needs, expand the product line of health insurances and promote the sales of health insurances.
- 2) We will meet the needs of foreign currency insurances for banks to provide more choices for the customers with USD assets. We will provide products for the due insurance policies of foreign currency and design the Single Premium USD Increasing Life Insurance.
- 3) In coordination with the policy of health and medical insurances for aging society, we will design the second-generation long-term care insurances to cover the expenses of medication, care and daily livening for senior citizens.
- 4) To expand the product line of health insurances and meet the needs for medical insurances under a senior and less-children society, we will design critical disease insurance based on the new definition of critical diseases of 2016 by the authority to promote our capability of product design and innovation.

4. Impact of domestic and overseas law/policy change on the finance of this company and responsive actions

- 1) Base on the Clause 3 of the amended "Notice on the Reserve for Foreign Currency Exchange Rate Change for Insurance Companies" (No. 10402507871 of Jin Guan Bao Chai Zi, Financial Supervisory Commission) on December 10, 2105, We will increase the reserve for foreign currency exchange rate by deposit and offset. When the reserve decreases to below 20% of the accumulated reserve at the end of last year and this decrease has continued for 3 months, the profit deposit ratio of foreign currency asset without hedging should be increased to 60% and the

accumulated reserve should be more than twice of the lower limit. This may affect the profit/loss of that year but alleviate the variation of the profit/loss of foreign currency exchange.

Responsive actions: we will continuously monitor the deposit and offset of the reserve for foreign currency exchange rate change to avoid the significant change of the profit/loss because of the additional reserve deposit.

2) If US increase its interest rate again in the future, we will review our current investments of fixed profit and select appropriate investment products based on the asset portfolio and available capital and interest rate on the market.

Responsive actions: based on the previous factors, we will adjust the bond investment portfolio and lower the impact of interest rate change by buying bonds of floating interest rate.

5. Impact of technology and industry changes on the financial status and responsive actions: N.A.

6. Expected profit, potential risks and responsive actions: N.A.

7. Impacts, risks and responsive actions of significant stock shares transferring to/from directors, supervisors and major shareholders on the company: N.A.

8. Impacts, risks and responsive actions of operation power change on the company: N.A.

9. Lawsuit or other event: N.A.

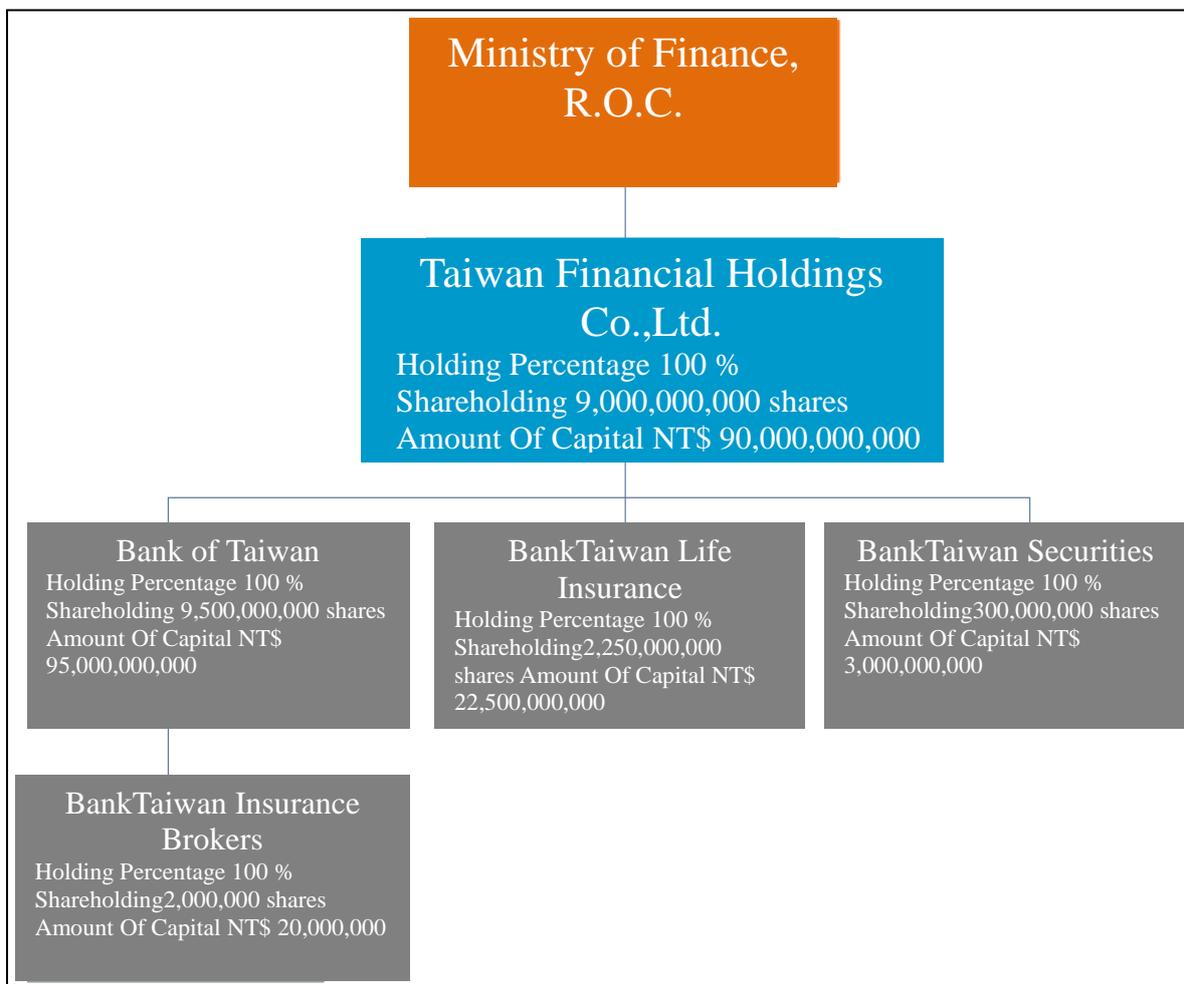
G. Crisis Management Mechanism

This company has formulated the protocols of operating crises and emergency events for corresponding units to take necessary actions to handle all kinds of operation crises, which alleviates the impact and affected extent of the crises.

VIII. Special Disclosure

A. Information of Affiliated Companies

1. Organization Chart



2. Relationship Between Subsidiary Company and Holding Company

December 31, 2015

Name of Holding Company	Relationship	Shareholding and Pledged Shareholding			Directors, Supervisors and Management Team from Holding Company	
		Shareholding	%	Pledged Shareholding	Title	Name
Taiwan Financial Holdings Co., Ltd	100% of Shareholding	2,250,000,000 Shares	100%	N.A.	Chairperson	Su-Tien Chen
					Director and General Manager	Chi-Shen Tsai
					Independent Director	Chung-Jen Ho
					Independent Director	Robin K. Chou
					Director	Yung-Min Hsu
					Director	Man-Yi Zhu
					Director	Mei-Kuei Shih
					Director	Jen-Jie Pan
					Director	Pei-An Lo
					Director	Tsung-Cheng Lu
					Supervisor	Chi-Tung Hsieh
Supervisor	Cheng-Yin Huang					

3. Transactions Between Subsidiary Company and Holding Company:

- 1) Transaction of Products: N.A.
- 2) Transaction of Property: N.A.
- 3) Loan of Capital: N.A.
- 4) Loan of Assets: N.A.
- 5) Other Important Transaction:

(Expressed in Thousands of NT Dollars).

(i) Income Tax of the Current Year

<u>Interested Party</u>		<u>Summary</u>	<u>2015</u>
Taiwan	Financial	Tax Refund	1,458,837
Holdings			

(ii) Operation Expenditure

<u>Interested Party</u>		<u>Summary</u>	<u>2015</u>
Taiwan	Financial	Management	576
Holdings		Expenditure	
		Business	961
		Expenditure	

4. Endorsement Between Subsidiary Company and Holding Company: N.A.

B. Business Locations of Branches

1. Taipei Branch Company: 2F., 69, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)

Telephone: (02)2784-9151

2. Taoyuan Branch Company: 11F., 110, Fuxing Rd., Taoyuan Dist., Taoyuan City 330, Taiwan (R.O.C.)

Telephone: (03)336-6787

3. Hsinchu Branch Company: 3F-1, 9, Sanmin Rd., East Dist., Hsinchu City 300, Taiwan (R.O.C.)

Telephone: (03)535-2950

4. Taichung Branch Company: 11F., 17, Taiping Rd., North Dist., Taichung City 404, Taiwan (R.O.C.)

Telephone: (04)2224-2921

5. Chiayi Branch Company: 4F-1, 762, Xinmin Rd., West Dist., Chiayi City 600, Taiwan (R.O.C.)

Telephone: (05)236-1663

6. Tainan Branch Company: 17F., 1-113, Zhonghua Rd., Yongkang Dist., Tainan City 710, Taiwan (R.O.C.)

Telephone: (06)312-3778

7. Kaohsiung Branch Company: 19F-5, 211, Zhongzheng 4th Rd., Xinxing Dist., Kaohsiung City 800, Taiwan (R.O.C.)

Telephone: (07)241-9182

8. Hualien Branch Company: 7F., 78, Zhongshan Rd., Hualien City, Hualien County 970, Taiwan (R.O.C.)

Telephone: (03)834-5040

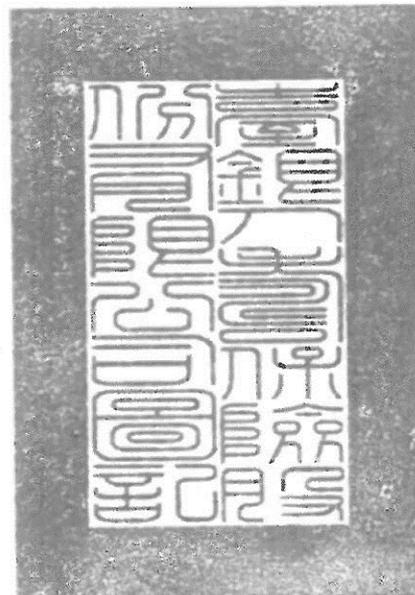
9. Offshore Insurance Branches (OIU): 2F., 69, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)

Telephone: (02)2784-9151

BankTaiwan Life Insurance

A stylized, handwritten signature in black ink, consisting of several fluid, overlapping strokes.

Chairperson





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GPN : 2010500874
Cost of Production: NTD 780