

**China Life Insurance Co., Ltd.**  
**Financial Statements**  
**For The Nine-month Periods Ended**  
**30 September 2019 and 2018**  
**With Independent Auditors' Review Report**

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

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## **Review Report of Independent Auditors**

### English Translation of a Report Originally Issued in Chinese

To China Life Insurance Co., Ltd.

#### **Introduction**

We have reviewed the accompanying balance sheets of China Life Insurance Co., Ltd. (the “Company”) as of 30 September 2019 and 2018, and the related statements of comprehensive income for the three-month and nine-month periods ended 30 September 2019 and 2018, changes in equity and cash flows for the nine-month periods ended 30 September 2019 and 2018, and notes to the financial statements, including the summary of significant accounting policies (together “the financial statements”). Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and International Accounting Standard 34, “Interim Financial Reporting” as endorsed and become effective by Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on these financial statements based on our reviews.

#### **Scope of Review**

We conducted our reviews in accordance with Statement of Auditing Standards No. 65, “Review of Financial Information Performed by the Independent Auditor of the Entity” of the Republic of China. A review of financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying financial statements do not present fairly, in all material respects, the financial position of the Company as at 30 September 2019 and 2018, and their financial performance and cash flows for the three-month and the nine-month periods ended 30 September 2019 and 2018, in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and International Accounting Standard 34, “Interim Financial Reporting” as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

/s/ FUH, WEN-FUN

/s/ CHANG, CHENG-TAO

Ernst & Young, Taiwan

24 October 2019

### Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

**China Life Insurance Co., Ltd.**

**Balance sheets**

**As at 30 September 2019, 31 December 2018, and 30 September 2018**

**(30 September 2019 and 2018 reviewed only, not audited in accordance with the generally accepted auditing standards)**

**(Expressed in Thousands of New Taiwan Dollars)**

Assets	Notes	2019/9/30		2018/12/31		2018/9/30	
		Amount	%	Amount	%	Amount	%
Cash and cash equivalents	VI.1	\$45,151,196	2	\$42,947,426	2	\$55,310,394	3
Receivables	VI.2	24,142,810	1	17,549,054	1	22,956,254	1
Current tax assets		594,400	0	499,407	0	512,143	0
Financial assets at fair value through profit or loss	VI.3	319,868,622	16	215,549,254	13	222,643,560	13
Financial assets at fair value through other comprehensive income	VI.4	386,099,832	20	323,006,735	19	301,274,929	18
Financial assets at amortized cost	VI.5	1,011,007,074	52	950,482,240	55	908,066,326	54
Investment property	VI.7	23,143,515	1	23,143,854	1	23,150,961	2
Loans	VI.6	33,321,584	2	33,379,965	2	32,942,231	2
Reinsurance assets	VI.8	657,324	0	534,353	0	657,758	0
Property and equipment	VI.9	12,980,362	1	10,722,338	1	10,183,273	1
Right-of-use assets	VI.10	15,257,006	1	-	-	-	-
Intangible assets		199,950	0	230,128	0	175,377	0
Deferred tax assets	VI.27	5,300,944	0	9,949,639	1	7,582,133	1
Other assets	VI.11	7,446,821	0	19,859,278	1	22,403,493	1
Separate account product assets	VI.29	77,020,488	4	63,501,665	4	67,045,065	4
<b>Total assets</b>		<b>\$1,962,191,928</b>	<b>100</b>	<b>\$1,711,355,336</b>	<b>100</b>	<b>\$1,674,903,897</b>	<b>100</b>

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

English Translation of Financial Statements Originally Issued in Chinese

**China Life Insurance Co., Ltd.**

**Balance sheets - (continued)**

**As at 30 September 2019, 31 December 2018, and 30 September 2018**

**(30 September 2019 and 2018 reviewed only, not audited in accordance with the generally accepted auditing standards)**

**(Expressed in Thousands of New Taiwan Dollars)**

Liabilities and equity	Notes	2019/9/30		2018/12/31		2018/9/30	
		Amount	%	Amount	%	Amount	%
Payables	VI.12	\$23,714,509	1	\$10,727,086	1	\$9,488,619	1
Current tax liabilities		1,765	0	-	-	-	-
Financial liabilities at fair value through profit or loss	VI.13	3,120,040	0	2,469,127	0	5,377,078	1
Lease liabilities	VI.10	2,229,202	0	-	-	-	-
Insurance liabilities	VI.14	1,703,127,101	88	1,552,528,196	91	1,495,044,855	89
Foreign exchange valuation reserve	VI.15	5,540,748	0	3,169,331	0	2,756,433	0
Provisions	VI.16	115,697	0	134,940	0	114,442	0
Deferred tax liabilities	VI.27	6,018,463	0	1,342,297	0	1,006,469	0
Other liabilities		4,482,860	0	4,388,310	0	3,089,107	0
Separate account product liabilities	VI.29	77,020,488	4	63,501,665	4	67,045,065	4
<b>Total liabilities</b>		<b>1,825,370,873</b>	<b>93</b>	<b>1,638,260,952</b>	<b>96</b>	<b>1,583,922,068</b>	<b>95</b>
Capital stock	VI.18						
Common stock		44,635,823	2	40,135,823	2	40,135,823	2
Capital surplus	VI.19	7,214,523	0	2,289,273	0	2,289,273	0
Retained earnings	VI.20						
Legal capital reserve		13,663,689	1	11,628,092	1	11,628,092	1
Special capital reserve		34,579,820	2	25,738,277	1	25,332,152	1
Unappropriated retained earnings		12,876,041	1	10,877,140	1	11,523,384	1
Other equity	VI.21	23,851,159	1	(17,574,221)	(1)	73,105	0
<b>Total equity</b>		<b>136,821,055</b>	<b>7</b>	<b>73,094,384</b>	<b>4</b>	<b>90,981,829</b>	<b>5</b>
<b>Total liabilities and equity</b>		<b>\$1,962,191,928</b>	<b>100</b>	<b>\$1,711,355,336</b>	<b>100</b>	<b>\$1,674,903,897</b>	<b>100</b>

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

## China Life Insurance Co., Ltd.

## Statements of comprehensive income

For the three-month periods ended 30 September 2019 and 2018

(Reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in Thousands of New Taiwan Dollars)

Item	Notes	1 July-30 September 2019		1 July-30 September 2018	
		Amount	%	Amount	%
Operating revenue					
Direct premium income		\$61,600,434	74	\$74,376,913	81
Premium income		61,600,434	74	74,376,913	81
Deduct: Premiums ceded to reinsurers		(326,869)	(0)	(304,373)	(0)
Net changes in unearned premium reserve	VI.14	125,153	0	146,292	0
Retained premium earned	VI.24	61,398,718	74	74,218,832	81
Reinsurance commission earned		39,538	0	59,921	0
Handling fees earned		282,746	0	254,624	0
Net investment profits and losses					
Interest income	VI.22	14,135,849	17	12,427,825	14
Gains on financial assets and liabilities at fair value through profit or loss		4,605,709	5	7,473,693	8
Net losses on derecognised Financial assets at amortized cost	VI.5	71,179	0	-	-
Realized gains on financial assets at fair value through other comprehensive income		1,837,785	2	1,127,389	1
Foreign exchange gains		(4,584,301)	(5)	(1,355,250)	(1)
Net changes in foreign exchange valuation reserve	VI.15	(348,869)	(0)	313,913	0
Gains on investment property		121,132	0	118,788	0
Expected credit impairment losses and gains on reversal of investments	VI.23	(1,321)	(0)	(1,041)	(0)
Net investment profits and losses on other investments		440	0	-	-
Gains (losses) from adoption of overlay approach	VI.3	4,947,071	6	(4,091,576)	(4)
Other operating revenue		(42)	(0)	(1)	(0)
Separate account product revenue	VI.29	1,213,416	1	1,052,538	1
Subtotal		83,719,050	100	91,599,655	100
Operating costs					
Insurance claim payments		(23,286,564)	(28)	(22,559,712)	(25)
Deduct: Claims recovered from reinsurers		181,025	0	158,892	0
Retained claim payments	VI.25	(23,105,539)	(28)	(22,400,820)	(25)
Net changes in insurance liabilities	VI.14	(48,293,995)	(57)	(59,034,592)	(64)
Brokerage expenses		(3,771)	(0)	(2,271)	(0)
Commission expenses		(2,986,495)	(4)	(3,217,671)	(4)
Finance costs		(2,398)	(0)	(1,883)	(0)
Other operating costs		(117,041)	(0)	(111,574)	(0)
Separate account product expenses	VI.29	(1,213,416)	(1)	(1,052,538)	(1)
Subtotal		(75,722,655)	(90)	(85,821,349)	(94)
Operating expenses	VI.26				
Business expenses		(890,717)	(1)	(774,987)	(1)
Administrative and general expenses		(707,534)	(1)	(428,631)	(0)
Employee training expenses		(7,876)	(0)	(7,710)	(0)
Expected credit impairment losses and gains on reversal of non-investments	VI.23	(1)	(0)	120	0
Subtotal		(1,606,128)	(2)	(1,211,208)	(1)
Operating income		6,390,267	8	4,567,098	5
Non-operating income and expenses		2,923	0	(7,876)	(0)
Income from continuing operations before income tax		6,393,190	8	4,559,222	5
Income tax expenses	VI.27	(892,630)	(1)	(322,034)	(0)
Net income from continuing operations		5,500,560	7	4,237,188	5
Net income		5,500,560	7	4,237,188	5
Other comprehensive income, net of tax	VI.21				
Items that will not be reclassified subsequently to profit or loss					
Gains on property revaluation surplus		-	-	50,414	0
Losses on equity instruments at fair value through other comprehensive income		(2,773,471)	(3)	(133,824)	(0)
Income taxes relating to items that will not be reclassified to profit or loss		469,583	0	32,080	0
Items that may be reclassified subsequently to profit or loss					
Gains on debt instruments at fair value through other comprehensive income		10,401,988	12	1,919,218	2
Other comprehensive (loss) income from adoption of overlay approach	VI.3	(4,947,071)	(6)	4,091,576	4
Income taxes relating to items that may be reclassified to profit or loss		(1,764,401)	(2)	(288,097)	(0)
Other comprehensive income (loss), net of tax		1,386,628	1	5,671,367	6
Total comprehensive income (loss)		\$6,887,188	8	\$9,908,555	11
Earnings per share (In New Taiwan Dollars)	VI.28				
Basic earnings per share		\$1.23		\$1.06	

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

## Statements of comprehensive income - (continued)

For the nine-month periods ended 30 September 2019 and 2018

(Reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in Thousands of New Taiwan Dollars)

Item	Notes	1 January-30 September 2019		1 January-30 September 2018	
		Amount	%	Amount	%
Operating revenue					
Direct premium income		\$200,021,838	77	\$201,876,665	81
Premium income		200,021,838	77	201,876,665	81
Deduct: Premiums ceded to reinsurers		(987,899)	(0)	(910,651)	(0)
Net changes in unearned premium reserve	VI.14	(110,735)	(0)	(274,508)	(0)
Retained premium earned	VI.24	198,923,204	77	200,691,506	81
Reinsurance commission earned		158,110	0	183,347	0
Handling fees earned		797,551	0	714,515	0
Net investment profits and losses					
Interest income	VI.22	41,104,665	16	34,848,272	14
Gains on financial assets and liabilities at fair value through profit or loss		15,870,807	6	(13,533,802)	(5)
Net losses on derecognised Financial assets at amortized cost	VI.5	636,237	0	-	-
Realized gains on financial assets at fair value through other comprehensive income		5,978,419	2	4,859,520	2
Foreign exchange gains		4,667,107	2	12,963,316	5
Net changes in foreign exchange valuation reserve	VI.15	(2,371,418)	(1)	(52,671)	(0)
Gains on investment property		357,681	0	308,368	0
Expected credit impairment losses and gains on reversal of investments	VI.23	(21,283)	(0)	(11,595)	(0)
Net investment profits and losses on other investments		440	0	-	-
Gains (losses) from adoption of overlay approach	VI.3	(12,901,208)	(5)	2,303,520	1
Other operating revenue		275	0	-	-
Separate account product revenue	VI.29	7,508,175	3	4,512,848	2
Subtotal		260,708,762	100	247,787,144	100
Operating costs					
Insurance claim payments		(75,703,707)	(29)	(64,744,252)	(26)
Deduct: Claims recovered from reinsurers		535,136	0	551,070	0
Retained claim payments	VI.25	(75,168,571)	(29)	(64,193,182)	(26)
Net changes in insurance liabilities	VI.14	(148,789,486)	(57)	(156,267,699)	(63)
Brokerage expenses		(8,569)	(0)	(5,726)	(0)
Commission expenses		(9,569,312)	(3)	(8,948,333)	(4)
Finance costs		(7,760)	(0)	(33,334)	(0)
Other operating costs		(324,673)	(0)	(353,823)	(0)
Separate account product expenses	VI.29	(7,508,175)	(3)	(4,512,848)	(2)
Subtotal		(241,376,546)	(92)	(234,314,945)	(95)
Operating expenses	VI.26				
Business expenses		(2,626,191)	(1)	(2,186,591)	(1)
Administrative and general expenses		(1,953,967)	(1)	(1,548,005)	(0)
Employee training expenses		(21,294)	(0)	(18,545)	(0)
Expected credit impairment losses and gains on reversal of non-investments	VI.23	69	0	(3,183)	(0)
Subtotal		(4,601,383)	(2)	(3,756,324)	(1)
Operating income		14,730,833	6	9,715,875	4
Non-operating income and expenses		7,249	0	545,199	0
Income from continuing operations before income tax		14,738,082	6	10,261,074	4
Income tax expenses	VI.27	(1,787,895)	(1)	234,741	0
Net income from continuing operations		12,950,187	5	10,495,815	4
Net income		12,950,187	5	10,495,815	4
Other comprehensive income, net of tax	VI.21				
Items that will not be reclassified subsequently to profit or loss					
Gains on property revaluation surplus		-	-	50,414	0
Gains (losses) on equity instruments at fair value through other comprehensive income		200,048	0	(2,677,381)	(1)
Income taxes relating to items that will not be reclassified to profit or loss		(20,034)	(0)	609,236	0
Items that may be reclassified subsequently to profit or loss					
Gains on debt instruments at fair value through other comprehensive income		36,286,666	14	(17,373,436)	(7)
Other comprehensive (loss) income from adoption of overlay approach	VI.3	12,901,208	5	(2,303,520)	(1)
Income taxes relating to items that may be reclassified subsequently to profit or loss		(8,005,633)	(3)	3,804,498	2
Other comprehensive income (loss), net of tax		41,362,255	16	(17,890,189)	(7)
Total comprehensive income (loss)		\$54,312,442	21	\$(7,394,374)	(3)
Earnings per share (In New Taiwan Dollars)	VI.28				
Basic earnings per share		\$3.10		\$2.62	

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



English Translation of Financial Statements Originally Issued in Chinese

China Life Insurance Co., Ltd.

Statements of changes in equity

For the nine-month periods ended 30 September 2019 and 2018

(Reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in Thousands of New Taiwan Dollars)

Summary	Notes	Retained earnings					Other equity					Total
		Common stock	Capital surplus	Legal capital reserve	Special capital reserve	Unappropriated retained earnings	Unrealized valuation gains (losses) on financial assets at fair value through other comprehensive income	Unrealized valuation gains (losses) on available-for-sale financial assets	Revaluation surplus	Other comprehensive income from adoption of overlay approach		
Balance on 1 January 2018		\$37,863,984	\$2,289,273	\$9,811,298	\$23,458,101	\$10,807,840	\$-	\$10,825,857	\$281,394	\$-	\$95,337,747	
The effects on retrospective application and retrospective restatement		-	-	-	-	(63,878)	18,913,045	(10,825,857)	-	(2,092,193)	5,931,117	
Balance on 1 January 2018 (adjusted)		37,863,984	2,289,273	9,811,298	23,458,101	10,743,962	18,913,045	-	281,394	(2,092,193)	101,268,864	
Appropriation and distribution of earnings for the year 2017												
Legal capital reserve		-	-	1,816,794	-	(1,816,794)	-	-	-	-	-	
Special capital reserve		-	-	-	1,874,051	(1,874,051)	-	-	-	-	-	
Cash dividends		-	-	-	-	(3,029,119)	-	-	-	-	(3,029,119)	
Stock dividends		2,271,839	-	-	-	(2,271,839)	-	-	-	-	-	
Net income for the nine-month period ended 30 September 2018		-	-	-	-	10,495,815	-	-	-	-	10,495,815	
Other comprehensive income for the nine-month period ended 30 September 2018	VI.21	-	-	-	-	(127)	(16,646,599)	-	42,415	(1,285,878)	(17,890,189)	
Total comprehensive income for the nine-month period ended 30 September 2018		-	-	-	-	10,495,688	(16,646,599)	-	42,415	(1,285,878)	(7,394,374)	
Disposal of equity instruments at fair value through other comprehensive income		-	-	-	-	(860,921)	860,921	-	-	-	-	
Net changes in special reserve		-	-	-	-	136,458	-	-	-	-	136,458	
Balance on 30 September 2018		\$40,135,823	\$2,289,273	\$11,628,092	\$25,332,152	\$11,523,384	\$3,127,367	\$-	\$323,809	(\$3,378,071)	\$90,981,829	
Balance on 1 January 2019		\$40,135,823	\$2,289,273	\$11,628,092	\$25,738,277	\$10,877,140	\$(2,601,895)	\$-	\$323,809	\$(15,296,135)	\$73,094,384	
Appropriation and distribution of earnings for the year 2018												
Legal capital reserve		-	-	2,035,597	-	(2,035,597)	-	-	-	-	-	
Special capital reserve		-	-	-	8,841,543	(8,841,543)	-	-	-	-	-	
Net income for the nine-month period ended 30 September 2019		-	-	-	-	12,950,187	-	-	-	-	12,950,187	
Other comprehensive income for the nine-month period ended 30 September 2019	VI.21	-	-	-	-	-	29,300,513	-	-	12,061,742	41,362,255	
Total comprehensive income for the nine-month period ended 30 September 2019		-	-	-	-	12,950,187	29,300,513	-	-	12,061,742	54,312,442	
Changes in other capital surplus												
Issuance of common stock reserved for employee share options in capital surplus		-	155,250	-	-	-	-	-	-	-	155,250	
Issuance of common stock by cash		4,500,000	4,770,000	-	-	-	-	-	-	-	9,270,000	
Disposal of equity instruments at fair value through other comprehensive income		-	-	-	-	(63,125)	63,125	-	-	-	-	
Net changes in special reserve		-	-	-	-	(11,021)	-	-	-	-	(11,021)	
Balance on 30 September 2019		\$44,635,823	\$7,214,523	\$13,663,689	\$34,579,820	\$12,876,041	\$26,761,743	\$-	\$323,809	(\$3,234,393)	\$136,821,055	

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

English Translation of Financial Statements Originally Issued in Chinese

China Life Insurance Co., Ltd.

Statements of cash flows

For the nine-month periods ended 30 September 2019 and 2018

(Reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in Thousands of New Taiwan Dollars)

	1 January-30 September 2019	1 January-30 September 2018
Cash flows from operating activities		
Net income before tax	\$14,738,082	\$10,261,074
Adjustments:		
Adjustments to reconcile profit (loss)		
Depreciation expense	175,499	115,669
Amortization expense	80,936	70,871
Net losses (gains) on financial assets and liabilities at fair value through profit or loss	(7,773,461)	19,750,297
Net losses (gains) on financial assets at fair value through other comprehensive income	(5,219,321)	(4,143,400)
Net losses (gains) on financial assets at amortized cost	(636,237)	-
Interest expenses	7,760	33,334
Interest income	(41,104,665)	(34,848,272)
Dividend income	(8,856,444)	(6,932,615)
Net changes in insurance liabilities	150,584,750	160,682,255
Net changes in foreign exchange valuation reserve	2,371,418	52,671
Net changes in provisions	648	34
Expected credit impairment losses (reversal gains) of investments	21,283	11,595
Expected credit impairment losses of (reversal gains) non-investments	(69)	3,183
Share-based payments	155,250	-
(Gains) losses from adoption of overlay approach	12,901,208	(2,303,520)
(Gains) losses on disposal or scrapping of property and equipment	6	31
Property and equipment transfers into expense	7,837	-
(Gains) losses on disposal of investment property	-	(2,392)
Unrealized foreign exchange losses (gains)	(8,284,010)	(15,685,906)
(Gains) losses on valuation of investment property	339	50,804
(Gains) from bargain purchase	-	(568,891)
Changes in operating assets and liabilities		
Decrease (increase) in financial assets at fair value through profit or loss	(97,656,655)	(70,834,217)
Decrease (increase) in notes receivable	164,687	164,179
Decrease (increase) in other receivables	(7,173,569)	(9,746,571)
Decrease (increase) in prepaid expenses and other prepayments	(14,064)	(175,728)
Decrease (increase) in refundable deposits	(7,921)	(2,853,136)
Decrease (increase) in reinsurance assets	(115,331)	(343,783)
Decrease (increase) in other assets	(2,918)	3,480
Increase (decrease) in notes payable	(6,860)	104,343
Increase (decrease) in life insurance proceeds payable	1,333	26,495
Increase (decrease) in other payables	13,324,878	652,683
Increase (decrease) in due to reinsurers and ceding companies	175,188	372,063
Increase (decrease) in commissions payable	(470,398)	(118,670)
Increase (decrease) in accounts collected in advance	(1,109,347)	376,748
Increase (decrease) in guarantee deposits received	1,491,678	(2,244,288)
Increase (decrease) in other liabilities	(287,781)	(21,866)
Increase (decrease) in provision for employee benefits	(19,891)	(5,676)
Cash generated from operations activities	17,463,838	41,902,878
Interest received	33,814,675	24,619,756
Dividends received	8,588,500	6,891,280
Interest paid	(7,233)	(33,334)
Income taxes refunded (paid)	(578,109)	(5,502,616)
Net cash provided by (used in) operating activities	59,281,671	67,877,964
Cash flows from investing activities		
Cash acquired from acquisition of insurance business	-	49,856,478
Acquisition of financial assets at fair value through other comprehensive income	(130,851,098)	(97,226,007)
Disposal of financial assets at fair value through other comprehensive income	110,460,726	77,876,786
Return of capital from financial assets at fair value through other comprehensive income	55,202	45,582
Acquisition of financial assets at amortized cost	(114,151,668)	(106,334,549)
Disposal of financial assets at amortized cost	47,925,179	6,540,249
Maturity principal from financial assets at amortized cost	22,540,753	16,511,665
Acquisition of property and equipment	(2,227,818)	(831,729)
Acquisition of right-of-use assets	(40)	-
Acquisition of intangible assets	(47,049)	(24,565)
Decrease (increase) in loans	58,378	(707,314)
Disposal of investment property	-	37,340
Net cash provided by (used in) investing activities	(66,237,435)	(54,256,064)
Cash flows from financing activities		
Principle repayment of lease liabilities	(110,466)	-
Issuance of common stock by cash	9,270,000	-
Cash dividend paid	-	(3,029,119)
Net cash provided by (used in) financing activities	9,159,534	(3,029,119)
Increase (decrease) in cash and cash equivalents	2,203,770	10,592,781
Cash and cash equivalents at the beginning of the period	42,947,426	44,717,613
Cash and cash equivalents at the end of the period	\$45,151,196	\$55,310,394

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

**English Translation of Financial Statements Originally Issued in Chinese**

**China Life Insurance Co., Ltd.**

**Notes to financial statements**

**For the nine-month periods ended 30 September 2019 and 2018**

**(30 September 2019 and 2018 reviewed only, not audited in accordance with the generally accepted auditing standards)**

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

**I. Organizations and business scope**

China Life Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on 25 April 1963, previously known as Overseas Life Corp. The Company was renamed China Life Insurance Co., Ltd. and authorized by Ministry of Finance, R.O.C. and Ministry of Economic Affairs, R.O.C. in January 1981. The registered office address of the Company is 5F., No.122, Dunhua N. Rd., Songshan Dist., Taipei City, Taiwan (R.O.C.). The Company’s shares were listed on the Taiwan Stock Exchange. The Company mainly engages in the business of life insurance. The Company is headquartered in Taipei City, and has branches in Taoyuan City, Taichung City, Chiayi City, Tainan City, Kaohsiung City, Pingtung County, Hualien County and Penghu County.

To enhance operation synergy, the Company accomplished the acquisition of major assets and liabilities from Prudential Corporation Asia Life Taiwan on 19 June 2009. The deal was approved by Financial Supervisory Commission (“FSC”) under Order No. Financial-Supervisory-Securities-Corporate-09802552211 on 16 June 2009.

The Company established an offshore insurance unit (OIU) on 14 September 2015 following resolution of the board of directors and receiving approval from FSC.

The Company was informed by China Development Financial Holding Corp. (CDF), about the tender offer of the Company’s ordinary shares and the Public Tender Offer Report on 16 August 2017. CDF started the tender offer from 17 August 2017 to 6 September 2017. CDF completed the tender to acquire 25.33% of the Company’s common shares, totaling 880,000,000 shares, on 13 September 2017. The Company became a subsidiary of CDF as defined in the “Financial Holding Company Act”. As of 30 September 2019, CDF and its subsidiary, KGI Securities (excluding KGI Securities’ hedge positions of derivative products), jointly held 34.82% of the Company’s common shares.

On 19 October 2017, the Board has resolved to pay \$1 to acquire the traditional policies and riders spun off from Allianz Taiwan Life. The transaction is approved by FSC on 27 February 2018 and settled on 18 May 2018.

**II. Date and procedures of authorization of financial statements for issue**

The financial statements of the Company were authorized to issue in accordance with a resolution of the Company’s board of directors on 24 October 2019.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

III. Newly issued or revised standards and interpretations

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

The Company applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after 1 January 2019. The nature and the impact of each new standard and amendment that has a material effect on the Company is described below:

(1) *IFRS 16 “Leases”*

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

The Company followed the transition provision in IFRS 16 and the date of initial application was 1 January 2019. The impacts arising from the adoption of IFRS 16 are summarized as follows:

- A. Please refer to Note IV for the accounting policies before or after 1 January 2019.
- B. For the definition of a lease, the Company elected not to reassess whether a contract was, or contained, a lease on 1 January 2019. The Company was permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. That is, for contracts entered into (or changed) on or after 1 January 2019, the Company need to assess whether contracts are, or contain, leases applying IFRS 16. In comparing to IAS 17, IFRS 16 provides that a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assessed most of the contracts are, or contain, leases and has no significant impact arised.
- C. The Company is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

(a) Leases previously classified as operating leases

For leases that were previously classified as operating leases applying IAS 17, the Company measured and recognized those leases as lease liability on 1 January 2019 at the present value of the remaining lease payments, and; the Company chose, on a lease-by-lease basis, to measure the right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before 1 January 2019.

On 1 January 2019, the Company's right-of-use asset and lease liability increased by \$15,358,793 thousand and \$2,178,892 thousand, respectively. Prepayments decreased by \$13,179,901 thousand.

In accordance with the transition provision in IFRS 16, the Company used the following practical expedients on a lease-by-lease basis to leases previously classified as operating leases:

- i. Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- ii. Rely on its assessment of whether leases are onerous immediately before 1 January 2019 as an alternative to performing an impairment review.
- iii. Elect to account in the same way as short-term leases to leases for which the lease term ends within 12 months of 1 January 2019.
- iv. Exclude initial direct costs from the measurement of the right-of-use asset on 1 January 2019.
- v. Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

(b) Leases previously classified as finance leases

For leases that were previously classified as finance leases applying IAS 17, the Company reclassified the lease asset of \$85,505 thousand and the payables of \$44,819 thousand as measured by IAS 17 to the right-of-use asset and the lease liability, respectively, on 1 January 2019.

(c) Please refer to Note IV and Note VI for additional disclosure of lessee and lessor which required by IFRS 16.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

(d) As at 1 January 2019, the impacts arising from the adoption of IFRS 16 are summarized as follows:

- i. The average weighted interest rate applied by the Company to lease liabilities measured and recognized by the present value of the remaining lease payments on 1 January 2019 was 3.3%.
- ii. The explanation for the difference between: 1) operating lease commitments disclosed applying IAS 17 as at 31 December 2018, discounted using the applicable rate on 1 January 2019; and 2) lease liabilities recognized in the balance sheet as at 1 January 2019 is summarized as follows:

Operating lease commitments disclosed applying IAS 17 as at 31 December 2018	\$5,384,983
Discounted using the applicable rate on 1 January 2019	\$2,153,639
Less: adjustment to leases that meet and elect to account in the same way as short-term leases	(11,563)
Add/(less): others	36,816
The carrying value of lease liabilities recognized as at 1 January 2019	\$2,178,892

D. The Company is a lessor and has not made any adjustments. Please refer to Note IV and Note VI for the information relating to the lessor.

2. Standards or interpretations issued, revised or amended by International Accounting Standards Board (“IASB”) which are endorsed by FSC but not yet adopted by the Company as at the end of the reporting period are listed below.

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB (Note 1)
1	Definition of a Business (Amendments to IFRS 3)	1 January 2020
2	Definition of Material (Amendments to IAS 1 and 8)	1 January 2020

The abovementioned standards and interpretations were issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after 1 January 2020. Since the Company is still currently assessing the potential impact of the standards and interpretations listed below, temporarily their impact on the Company can’t be reasonably estimated.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

*Definition of a Business* (Amendments to IFRS 3)

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

IFRS 3 continues to adopt a market participant’s perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

*Definition of a Material* (Amendments to IAS 1 and 8)

The main amendment is to clarify new definition of material. It states that “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendment clarifies that materiality shall depend on the nature or size of the information. The business shall view the information individually or in conjunction with other information in the financial statements to determine if it is material.

3. Standards or interpretations issued, revised or amended by International Accounting Standards Board (“IASB”) which are not yet endorsed by FSC and adopted by the Company as at the end of the reporting period are listed below.

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB (Note 1)
1	IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
2	IFRS 17 “Insurance Contracts”	1 January 2021
3	Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Company’s financial statements were authorized for issue, the local effective dates are to be determined by FSC. As the Company is still currently determining the potential impact of the standards and interpretations listed below, it is not practicable to estimate their impact on the Company at this point of time. The remaining standards and interpretations have no material impact on the Company.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

*IFRS 17 “Insurance contracts”*

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

1. estimates of future cash flows;
2. Discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and
3. a risk adjustment for non-financial risk.

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Regard to liability for remaining coverage, other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

**IV. Summary of significant accounting policies**

**1. Statement of compliance**

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises (“the Regulations”) and IAS 34 “*Interim Financial Reporting*” as endorsed and become effective by the FSC.

**2. Basis of preparation**

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

**3. Foreign currency transactions**

The Company’s financial statements are presented in its functional currency, NT\$. Foreign currency transactions are translated into the functional currency using the exchange rates at



## China Life Insurance Co., Ltd.

### Notes to financial statements (Continued)

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

the dates of the transactions. Monetary items denominated in foreign currencies are translated using the closing rate of exchange at the reporting date. Non-monetary items measured at fair value in foreign currencies are translated using the exchange rates at the date when the fair value is measured. Non-monetary items measured at historical cost in foreign currencies are translated using the exchange rates at the date of initial transactions.

Apart from the items mentioned below, the exchange differences due to settlement or translation are recognized in profit or loss for the period.

- (1) The foreign currency items which are applicable to IFRS 9 *Financial Instrument* should be dealt with the accounting policy of financial instruments.
- (2) Exchange differences of monetary items arising from the translation of the net investment in foreign operations are recognized in other comprehensive income. When the investment is disposed of or sold, exchange differences are reclassified from other comprehensive income into profit or loss.

If a gain or loss on a non-monetary item is recognized in other comprehensive income, any foreign exchange component of that gain or loss is also recognized in other comprehensive income. If a gain or loss on a non-monetary item is recognized in profit or loss, any foreign exchange component of that gain or loss is also recognized in profit or loss.

#### 4. Product categories

Insurance contract means the insurer accepts the transfer of significant insurance risk from insurance policyholder, and agrees to compensate the policyholder for any damages when a particular uncertain event (insured event) occurs in the future. The definition of a significant insurance risk means any insured event occurs and causes the Company to pay additional significant fees.

Insurance contract with features of financial instruments is the contract that transfers the significant financial risk. The definition of the financial risk refers to one or more specific interest rates, product prices, exchange rates, price index, rate index, credit ratings and indicators, and other variables related to risks of possible changes in the future. If the above variables are non-financial variables, then the variables exist in both sides under the contract.

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

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

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

These contractual rights have the following characteristics:

- (1) Additional payments as a percentage of total contractual payments may be more significant and take up a bigger portion.
- (2) In accordance with the contract, the amount and date of additional payments are at the Company's discretion.
- (3) In accordance with the contract, additional payments are handed out based on one of the following matters:
  - a. Performance of a specific combination of contracts or specific type of contract
  - b. The investment return of a specific asset portfolio the Company holds
  - c. Profit and loss from the Company, funds, or other entities

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

5. Cash and cash equivalents

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

6. Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provision of financial instrument.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

(1) Initial recognition and subsequent measurement

The Company accounts for regular way purchase or sales of financial assets measured at fair value on the trade date, and of financial assets measured at amortized cost at the settlement date.

The Company categorized financial assets as financial assets measured at amortized cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss based on both of the followings:

- A. the Company's business model for managing the financial assets
- B. the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, receivables, financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

- A. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- B. the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is recognized in profit or loss by calculating via the effective interest method (by applying the effective interest rate to the gross carrying amount) or the followings:

- A. For those financial assets that are purchased or originated credit-impaired, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

- B. For those financial assets that are not purchased or originated credit-impaired but subsequently have become credit-impaired, the Company applies the effective interest rate to the amortized cost of the financial asset.

Financial asset measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met and presented as financial asset at fair value through other comprehensive income on balance sheet as at the reporting date:

- A. the financial assets are held within a business model whose objective is achieved by collecting contractual cash flows and for sale.
- B. the contractual terms of the financial assets give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The recognition of gain or loss on a financial asset measured at fair value through other comprehensive income is described as below:

- A. A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- B. When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
- C. Interest revenue is recognized in profit or loss by calculating via the effective interest method (by applying the effective interest rate to the gross carrying amount) or the followings:
  - (a) For those financial assets that are purchased or originated credit-impaired, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset.
  - (b) For those financial assets that are not purchased or originated credit-impaired but subsequently have become credit-impaired, the Company applies the effective interest rate to the amortized cost of the financial asset.

In addition, upon initial recognition, for those equity instruments within the scope of IFRS 9 but neither categorized as held-for-trading nor applying to contingent consideration recognized by acquirers in IFRS 3 “*Business Combination*”, the Company elects irrevocably to report the subsequent measurement at fair value in other comprehensive income. Amounts reported in other comprehensive income cannot be subsequently transferred to profit or loss (when disposing of such equity instruments,

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

the Company transfers the accumulated amounts in other equity directly into retained earnings) and are presented as financial assets at fair value through other comprehensive income on the balance sheets. Dividends on investments are recognized in profit or loss, except when the dividends clearly represent certain recovery of investment cost.

Financial assets at fair value through profit or loss

Except for those financial assets qualified for aforementioned conditions and classified as financial assets measured at amortized cost and financial assets at fair value through other comprehensive income, the other financial assets are measured at fair value through profit or loss and presented as financial assets at fair value through profit or loss on the balance sheets as at the reporting date.

Such assets are subsequently measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss.

(2) Impairment of financial assets

The Company recognizes expected credit losses and measures loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and does not reduce the carrying amount in the statement of financial position.

The Company measures expected credit losses of a financial instrument in a way that reflects:

- A. an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- B. the time value of money;
- C. reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measured as follows:

- A. at an amount equal to 12-month expected credit losses: including the financial asset whose credit risk has not increased significantly since initial recognition or the financial asset determined to have low credit risk at the reporting date; and, additionally, the financial assets which the Company measured the loss allowance

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.

- B. at an amount equal to the lifetime expected credit losses: including the financial asset whose credit risk has increased significantly since initial recognition or the financial asset that is purchased or originated credit-impaired.

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

1. Total amount of 0.5% of the ending balance for the first category of loan assets excluding life insurance loans, automatic premium loans and holding government debts, 2% of the ending balance for the second category of loan assets that should be paid attention, 10% of the ending balance for the third category of loan assets that are expected to recover, 50% of the ending balance for the fourth category of loan assets that are difficult to recover and 100% of the ending balance for the fifth category of loan assets that are not expected to recover are aggregated .
2. 1% of the ending balance for all the five categories of loan assets excluding life insurance loans, automatic premium loans and holding government debts.
3. Total unsecured portion of loans overdue and receivable on demand.
4. If total amount of minimum allowance of uncollectible accounts measured from the categories above are less than the amount in accordance with GAAP, it should refer to the amount in accordance with GAAP as minimum allowance of uncollectible accounts.

To strengthen the ability to bear the loss of specific loan assets, the authority may, if necessary, require the Company to raise loan loss provision for specific loan assets in specified criteria and deadlines.

As at each reporting date, the Company assesses whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note IX for further details on credit risk.

**(3) Financial liabilities**

Financial liabilities within the scope of IFRS 9 “*Financial Instruments*” are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at fair value through profit or loss.

A financial liability is classified as held for trading if:

- A. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- B. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- C. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- A. it eliminates or significantly reduces a measurement or recognition inconsistency; or
- B. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

(4) Derecognition of financial assets and liabilities

Financial assets

The Company derecognizes all or part of the financial assets when the contractual rights to the cash flows from the assets expire or when it transfers the financial assets and substantially all the risks and rewards of ownership of the asset or when it loses its controls to the assets.

When the Company transfers all or part of the financial assets and abandons its controls to the assets, it is regarded as sale within the scope of charging in exchange.

Financial liabilities

The Company derecognizes all or part of the financial liabilities when the obligation specified in the contract is discharged or cancelled or expires.

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

(5) Offsetting financial instruments

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

(6) Derivative instruments and hedging transactions

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



**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
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(7) Adoption of overlay approach on financial assets

The Company chose to express profit or loss of the designated financial assets in overlay approach in accordance with IFRS 4 “*Insurance Contract*” since the application of IFRS 9. To those designated financial assets, the Company classifies the amount from profit or loss to other comprehensive income, thus making the profit or loss of the designated financial assets as at the reporting date equal to as if they would have been accounted for under IAS 39. Accordingly, the reclassification amount is the difference of the following items:

- A. The amount of profit or loss of the designated financial assets in accordance with IFRS 9; and
- B. The amount of profit or loss of the designated financial assets as if applied to IAS 39.

A financial asset is eligible for designation under overlay approach if qualifying for the following conditions:

- A. In accordance with IFRS 9, the financial asset is measured at fair value through profit or loss. However, if the Company applies to IAS 39, the financial asset is not measured at fair value through profit or loss collectively; and
- B. The financial asset is not held in respect of activities that is unconnected with contracts within the scope of IFRS 4 “*Insurance Contract*”.

A Financial asset is eligible for the overlay approach if either of the following conditions is met:

- A. The asset is accounted for on initial recognition; or
- B. The asset now meets the criteria of which is held in respect of activities other than contracts within the scope of IFRS 4 “*Insurance Contract*” but previously did not.

The Company shall continuously adopt overlay approach to those designated financial assets until derecognition. However, the Company shall remove the designated status when the financial assets held in respect of activities other than contracts within the scope of IFRS 4 “*Insurance Contract*”. In addition, at the beginning date of any annual reporting year, the Company is permitted to stop applying overlay approach to all designated financial assets; If it does, the change in the accounting policy is accounted for under IFRS 8 “*Accounting Policies, Changes in Accounting Estimates and Errors*”.

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7. Loans

Loans include automatic premium loans, policy loans and secured loans. Among them, automatic premium loans are premiums paid on behalf of the insured in accordance with the insurance contract, policy loans are secured by policies issued by the Company, and secured loans are secured by stocks, chattel, real estate and other loans and overdue receivables approved by the authority.

Loan principal or interest arrears more than three months after the settlement period, or less than three months but has executed recourse to the primary and secondary debtor or disposed the collateral, listing under overdue loans.

Collateral received from the overdue loans by actively dunning is recorded at the fair value listed in the related account depending on the nature of the collateral, and measured in the applicable method of that account.

8. Fair value measurement

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

- (1) in the principal market for the asset or liability, or
- (2) in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible for the Company.

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

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

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

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9. Property and equipment

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

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

Buildings and construction	15~60 years
Computer equipment	3~15 years
Communication and transportation equipment	5~10 years
Other equipment	3~5 years
Leased assets	Depend on the age or the durable life of lease, whichever is shorter

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

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

10. Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

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The Company's investment properties are measured at fair value, and gains or losses are recognized in profit or loss in accordance with the requirements of IAS 40 "*Investment Property*", other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 "*Non-current Assets Held for Sale and Discontinued Operations*" and paragraph 53 of IAS 40 "*Investment Property*".

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

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

When the property meets or do not meet the definition of investment property and there is evidence showing change of use, the Company recognizes the property as investment property or transfers the property out of investment property.

## 11. Leases

The accounting policy from 1 January 2019 as follow:

For contracts entered on or after 1 January 2019, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether, throughout the period of use, has both of the following:

- (1) the right to obtain substantially all of the economic benefits from use of the identified asset; and
- (2) the right to direct the use of the identified asset.

The Company elected not to reassess whether a contract is, or contains, a lease on 1 January 2019. The Company is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

For a contract that is, or contains, a lease, the Company accounts for each lease component

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within the contract as a lease separately from non-lease components of the contract. For a contract that contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge the Company for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Company estimates the stand-alone price, maximising the use of observable information.

Company as a lessee

Except for leases that meet and elect short-term leases or leases of low-value assets, the Company recognizes right-of-use asset and lease liability for all leases which the Company is the lessee of those lease contracts.

At the commencement date, the Company measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- (1) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- (2) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- (3) amounts expected to be payable by the lessee under residual value guarantees;
- (4) the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- (5) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Company measures the lease liability on an amortised cost basis, which increases the carrying amount to reflect interest on the lease liability by using an effective interest method; and reduces the carrying amount to reflect the lease payments made.

At the commencement date, the Company measures the right-of-use asset at cost. The cost of the right-of-use asset comprises:

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- (1) the amount of the initial measurement of the lease liability;
- (2) any lease payments made at or before the commencement date, less any lease incentives received;
- (3) any initial direct costs incurred by the lessee; and
- (4) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

For subsequent measurement of the right-of-use asset, the Company measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses. That is, the Company measures the right-of-use applying a cost model.

If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Company depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Company applies IAS 36 “*Impairment of Assets*” to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Except for those leases that the Company accounted for as short-term leases or leases of low-value assets, the Company presents right-of-use assets and lease liabilities in the balance sheet and separately presents lease-related interest expense and depreciation charge in the statements comprehensive income.

For short-term leases or leases of low-value assets, the Company elects to recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.

Company as a lessor

At inception of a contract, the Company classifies each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. At the commencement date, the Company recognizes assets held under a finance lease in its balance sheet and present them as a receivable at an amount equal to the net investment in the lease.

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The Company recognizes lease payments from operating leases as rental income on either a straight-line basis or another systematic basis. Variable lease payments for operating leases that do not depend on an index or a rate are recognized as rental income when incurred.

The accounting policy before 1 January 2019 as follow:

Company as a lessee

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

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

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

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental incomes incurred from the operating leases are recognized over the lease term under straight-line method. Contingent rents are recognized as revenue in the period in which they are earned.

12. Intangible assets

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

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

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

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

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

Other intangible assets are computer software and are amortized on a straight-line basis over the estimated useful life (1 to 5 years).

13. Impairment of non-financial assets

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

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



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The cash generating unit or group which belongs to goodwill should periodically make an impairment test whether it has a sign of impairment. If the impairment test result suggests recognizing an impairment loss, then first deducting goodwill and the remaining deficiencies should be amortized to other assets depending on the relative proportions of the carrying amount of the asset. Impairment losses relating to goodwill cannot be reversed in the future periods for any reason.

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

14. Investment-linked insurance products

The Company sells investment-linked insurance products, of which the applicant pays the premium according to the agreed amount less the expenses incurred by the insurer. In addition, the investment distribution is approved by the applicant and then transferred to specific accounts as requested by the applicant. The value of these specific accounts is determined based on their fair value on the applicable date and the net worth is computed in accordance with the relevant regulations and the IFRSs.

In accordance with Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, assets and liabilities representing the rights and obligations of the applicants, whether arising from an insurance contract or insurance policy with features of financial instruments, are recognized separately as “separate account product assets” and “separate account product liabilities”. The revenues and expenses of separate account insurance products in accordance with IFRS 4 “*Insurance Contracts*”, separately recognized as “separate account product revenues” and “separate account product expenses.”

15. Post-employment benefits

The Company set up a pension plan and an independently administered pension fund committee according to Labor Standards Act. The Company deposits retirement reserve according to a certain percentage of wages to the specific account of Bank of Taiwan every month. Before the end of each year, the Company assesses the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the following year, the Company will make up the difference in one appropriation before the

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end of March of the following year. As the retirement reserves are deposited under the committee's name in the specific bank account, the reserves are not associated with the Company. Therefore, retirement reserve is not included in the Company's financial statements.

After the Labor Pension Act became effective, employees can choose to be subject to the pension mechanism under Labor Standards Act or Labor Pension Act. The seniority prior to the enforcement of Labor Pension Act shall be maintained and the Company deposits 6% of the monthly allocated wage based on the monthly wage allocation classification schedule to employees' personal pension accounts in Bureau of Labor Insurance if employees choose to be subject to the pension mechanism under Labor Pension Act.

In case that an employee's monthly wage exceeds the upper limit of monthly wage allocation classification schedule, the Company may set aside monthly 6% of the excess portion as retirement reserve. Upon meeting the requirements of the pension plan, the employees are entitled to receive this kind of the retirement reserve.

For the defined contribution plan, the Company recognizes expenses in the period in which the contribution becomes due. The defined benefit plan is recognized based on the actuarial report at the end of the annual reporting period. Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset), is recognized as other comprehensive income with a corresponding debit or credit to retained earnings when it occurs. Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment, and recognized as an expense at the earlier of the following dates:

- (1) the date of the plan amendment or curtailment occurs; and
- (2) the date that the Company recognizes related restructuring costs or termination benefits.

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

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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 the prior financial year, adjusted and disclosed for significant market fluctuations, significant curtailments, settlements, or other significant one-off events after the end of the prior financial year.

16. Provisions

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

17. Insurance liabilities and reserve for insurance contracts with feature of financial instruments

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

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

(1) Unearned premium reserve

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

(2) Reserve for claims

It is a reserve mainly for the reported but not paid claims and unreported claims. The reported but not paid claims reserve is assessed based on relevant information of each case and the amount deposited is further classified by the type of insurance. Unreported claims reserve is calculated and deposited based on the past experiences and expenses occurred and in accordance with the actuarial principles.

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(3) Reserve for life insurance liabilities

Based on the life table and projected interest rates in the manual provided by the authority for each type of insurance, the dollar amount of life insurance reserve is calculated and deposited according to the calculation method listing on Article 12 of “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and the manual published by each authority of insurance products.

Starting from policy year of 2003, for valid insurance contract whose dividend calculation is stipulated by the regulations established by the authorities, the downward adjustments of dividend due to the offset between mortality saving (loss) and loss (gain) from difference of interest rates should be recognized and recorded as the increase of reserve for long-term valid contract.

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

(4) Special reserve

① For the retained businesses with policy period within 1 year, the special reserve is classified into 2 categories, “Special Catastrophe Reserve” and “Special Reserve for Fluctuation of Risks.” The dollar amount of reserve required is addressed as follows:

A. Special catastrophe reserve

All types of insurance should follow the special catastrophe reserve rates set by authorities. Upon occurrence of the catastrophic events, actual claims on retained business in excess of \$30,000 thousand can be withdrawn from the reserve. If the reserve has been set aside for over 15 years, the Company could have its plan of the recovering process of the reserve assessed by certified actuaries and submit the plan to the authority for reference.

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B. Special reserve for fluctuation of risks

When the actual amount paid for indemnity minus the offsetting amount from special reserve for major incidents is less than the anticipated dollar amount need to be paid, the 15% of this difference should be reserved in special reserve for fluctuation of risks. When the actual amount paid for indemnity minus the offsetting amount from special reserve for major incidents is greater than the anticipated dollar amount need to be paid, the exceeded amount can be used to write down the special reserve for fluctuation of risks. If the special reserve for fluctuation of risks for specified type of insurance is not enough to be written down, special reserve for fluctuation of risks for other types of insurance can be used. Also, the type of insurance and total dollar amount written-down should be reported to the authority for inspection purpose. When accumulative dollar amount of special reserve for fluctuation of risks exceeds 30% of self-retention earned premium within one year, the exceeded amount will be recovered.

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

- ② The Company sells participating life insurance policy. According to the “Rule Governing application of revenue and expenses related to participating / non-participating policy”, the Company is required to set aside special reserve for dividend participation based on income before tax and dividend. On the date of declaration, dividend should be withdrawn from this account. Additionally, the effects of the gain or loss from disposal of participating life insurance policy approved as equity instrument investments at fair value through other comprehensive income shall transfer directly into special reserve based on income before tax and dividend. If the special reserve is a negative amount, the Company shall set aside the same amount of special reserve.
- ③ The net impact from first adoption of fair value in subsequent measurement has been appropriated into dividend reserve for participating policy which relates to investment property. That reserve shall be used only to cover the insufficiency of life insurance liabilities resulting from valid contract’s fair value approved by the authority and to set aside additional liabilities for the soundness of financial structure when complying with IFRS 17 “*Insurance Contract*” in the future implementation. By the time the related assets dispose, the reserve which comes from the changes of fair value due to the cumulative net value-added benefits can be processed according to the related distribution provision of participating policy.

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(5) Premium deficiency reserve

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

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

(6) Other reserve

Pursuant to IFRS 3 “*Business Combination*”, the Company shall set aside other reserve for identifiable assets required and liabilities assumed recorded at fair value in order to reflect the fair value of the insurance contract assumed.

(7) Liability adequacy reserve

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

Liability adequacy test is based on integrated insurance contract and related regulations. This test compares net of reserve for insurance contract, deferred acquisition cost and related intangible assets with anticipated present value of insurance contract cash flow at each reporting date. If net book value is insufficient, recognize all insufficient amounts as liability adequacy reserve.

(8) Reserves for insurance contracts with feature of financial instruments

Financial products without discretionary participation features follows “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and Depository Accounting.

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18. Foreign exchange valuation reserve

Foreign exchange valuation reserve was appropriated or written-down from the foreign investment assets (do not include foreign currency non-investment-linked life insurance product assets) in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and “Directions for Foreign Exchange Valuation Reserve by Life Insurance Enterprises”. The beginning balance of foreign exchange valuation reserve is \$1,745,679 thousand which has to recognize special capital reserve within three years since 2012 according to the provision. The recognized amount should not be less than one third of the beginning balance net of tax for the first year. The cumulative recognized amount of the first two years should not be less than two thirds of the beginning balance net of tax. In addition, the saving of hedging costs is transferred to special capital reserve each year. If the annual earning is not enough for transfer, then replenish in the later year. The related special reserve is only used for capital increase or offset deficit. According to “Directions for Foreign Exchange Valuation Reserve by Life Insurance Enterprises” Article 9, if the Insurance Company has annual net tax earning, then it should appropriate 10% of that earning to special reserve after shareholders' meeting.

19. Insurance premium income and expenses

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

For non-separate account insurance product that is also classified as financial products without discretionary participation features, the insurance revenue collected is recognized on the balance sheet as “reserves for insurance contracts with feature of financial instruments.” The related acquisition costs will be written-down in that period after commencement of the insurance contract under “reserves for insurance contracts with feature of financial instruments.”

20. Reinsurance

The Company limits exposure to some events that may cause a certain amount of loss by arranging reinsurance in accordance with business needs and the insurance laws and regulations. For reinsurance ceded, the Company may not refuse to fulfill its obligations to the insured even if the reinsurer fails to fulfill their responsibility.

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Premiums ceded to reinsurers and reinsurance commission income generated from ceded reinsurance business and due to reinsurers and ceding companies are recognized in the same period with income or expense of the related insurance contract. As the net right of holding reinsurance contract includes reinsurance reserve assets, claims recoverable from reinsurers and due from reinsurers and ceding companies, they are recognized according to the method of signed reinsurance contract and related insurance contract liabilities. The assets, liabilities, income and expense of reinsurance contract cannot offset with the income and expense of related insurance liabilities and insurance contract.

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

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

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

21. Share-based payment transactions

For the equity-settled transactions between the Company and its employees is recognized based on the fair value of the equity instruments granted. The Company has determined the date of the subscription price and the number of shares as the grant-date and recognized the fair value of the equity instruments granted as expenses, with a corresponding increase in equity.



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**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

22. Income taxes

Income tax expense (benefit) is the aggregate amount in respect of current tax and deferred tax which included in profit or loss for the period.

Current income tax

Current income tax liability (asset) for the current and prior period is measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax and the tax relating to items recognized in other comprehensive income or directly in equity shall be recognized in other comprehensive income or directly in equity rather than the profit and loss.

The income tax for unappropriated earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved at the shareholders' meeting.

Deferred tax

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and liabilities reflect the tax consequences generated from expected recovery of assets or settlement of liabilities at the end of reporting date. Deferred tax is not recognized in the profit and loss if the related item is not recognized in the profit and loss. Rather, it is recognized in other comprehensive income or directly in equity according to their transaction. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

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

Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period. The estimated average annual effective income tax rate only includes current income tax. The recognition and measurement of deferred tax follows annual financial reporting requirements in accordance with IAS 12. The Company recognizes the effect of change in tax rate for deferred taxes in full if the new tax rate is enacted by the end of the interim reporting period, by charging to profit or loss, other comprehensive income, or directly to equity.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
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23. Unconsolidated structured entities

Securitization vehicles such as real estate investment trust and beneficiary certificates of financial asset securitization, asset-backed financings and some investment funds such as private funds are unconsolidated structured entities, and the related information should be disclosed in accordance with IFRS 12 “*Disclosure of Interests in Other Entities*”.

24. Business Combination

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts and additional assets or liabilities recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The measurement period cannot exceed one year from the acquisition date.

V. Significant accounting judgments, estimates and assumptions

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

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
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1. Judgment

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

(1) Categories of financial assets

The management has to use its judgment to categorize financial assets. Different categories applied will affect measurements of the financial assets, which could have a significant impact on the Company's financial position and performance.

(2) Categories of insurance contracts

The Company identifies the composition of the issued insurance product contracts, decides whether it can be measured individually and determines whether the contract should be separately recognized. In addition, the Company examines whether the insurance contract has a significant insurance risk through review of the effective period of additional payment ratio, to decide the category of insurance products. If the additional payment ratio reach the pre-set significant standard at any policy period, such contract should be considered having a significant insurance risk. If a single contract provides payment of multiple different insurance events, additional payment will be calculated by the greatest difference between the payment of each insurance event if occurs and the payment of each insurance event if not occurs.

(3) Operating lease commitment — the Company as the lessor

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

2. Estimates and assumptions

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

(1) Fair value of financial instruments

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Where the fair value of the financial instruments recognized in the balance sheet cannot be derived from an active market or a quoted price, it is determined using a valuation technique. In applying valuation techniques, the Company adopts pricing models in accordance with its procedure for valuation, and uses observable market data as possible. The changes in assumptions of these models will affect the fair value of reported financial instruments. Please refer to Note VIII.

(2) Fair value of investment property

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

(3) Impairment assessment of financial assets

The Company adopts expected credit loss model to assess impairment on debt instrument investments not measured at fair value through profit or loss. The measurement of expected credit losses is to multiply the future 12-month and the lifetime Probability of default (PD), and Loss given default (LGD) and Exposure at default (EAD). The Company also considers the effect of the time value of money to calculate 12-month expected credit losses and the lifetime expected credit losses respectively. The Company has taken historical experiences, market conditions and forward-looking adjustment into account to decide on the assumption and inputs of expected credit loss calculation.

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

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

The best estimates of future investment income from the assets are based on current market returns, as well as expectation about future economic development. Assumptions on future expense are based on current expense level, adjusted for expected expense inflation, if appropriate. Surrender rates are based on the Company's historical experience.

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**Notes to financial statements (Continued)**  
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(5) Income taxes

Uncertainty of income taxes exists on interpretation of complex tax regulations and the amount and timing of future taxable income. The differences between the actual results and the assumptions, or future changes to such assumptions could necessitate future adjustments to tax income and expense already recorded. The Company establishes provision, based on reasonable estimates, for possible consequence of audits by the tax authorities at the each county where it operates. The amount of provision is based on various factors, such as experience of previous tax audits and different interpretation of tax regulations by the taxable entity and the responsible tax authority.

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

VI. Description of significant accounting items

1. Cash and cash equivalents

	2019.9.30	2018.12.31	2018.9.30
Cash on hand	\$753	\$1,012	\$1,280
Revolving funds	1,162	1,242	1,242
Cash in banks	31,968,365	23,326,967	37,318,828
Time deposits	6,213,300	14,461,185	14,036,205
Cash equivalents – bond with resale agreement	6,967,616	5,157,020	3,952,839
Total	\$45,151,196	\$42,947,426	\$55,310,394

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
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2. Receivables

	2019.9.30	2018.12.31	2018.9.30
Notes receivable	\$120,659	\$285,347	\$156,717
Other receivables			
Interest receivable	11,936,838	12,407,320	10,844,692
Financial instruments settlement receivable	10,695,871	3,265,048	10,341,960
Separate account receivable	816,605	910,661	1,195,155
Others	573,951	681,695	418,842
Overdue receivable	7,835	7,942	3,890
Less: Allowance for bad debts – Other receivables	(8,949)	(8,959)	(5,002)
Subtotal	24,022,151	17,263,707	22,799,537
Total	\$24,142,810	\$17,549,054	\$22,956,254

The Company adopted IFRS 9 for impairment assessment. Please refer to Note VI.23 for more details on impairment of receivables. Please refer to Note IX for more details on credit risk management.

3. Financial assets at fair value through profit or loss

	2019.9.30	2018.12.31	2018.9.30
Mandatorily measured at fair value through profit or loss:			
Derivatives not designated as hedging instruments	\$5,609,149	\$3,132,902	\$3,690,714
Domestic convertible corporate bonds	-	191,943	190,393
Domestic financial debentures	14,597,083	13,990,343	12,594,820
Domestic listed stocks	100,827,303	79,654,586	104,416,712
Domestic unlisted stocks	183,813	133,172	457,335
Domestic beneficiary certificates	103,553,628	33,313,742	19,972,773
Domestic real estate investment	1,877,491	1,513,893	1,527,290
Overseas corporate bonds	17,709,355	12,961,579	13,288,552
Overseas listed stocks	21,229,130	18,115,148	20,464,336
Overseas preferred stocks	1,397,239	3,924,291	4,041,897
Overseas financial debentures	25,382,053	38,924,136	31,302,266
Overseas beneficiary certificates	26,555,183	9,456,252	9,644,349
Overseas real estate investment trust	947,195	237,267	1,052,123
Total	\$319,868,622	\$215,549,254	\$222,643,560

Financial assets at fair value through profit or loss were not pledged.

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**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

The Company elected to express profit or loss of the designated financial assets in overlay approach under IFRS 4 "Insurance Contracts" since its application of IFRS 9. Financial assets designated to apply overlay approach by the Company for investing activities relating to insurance contracts are as follows:

	2019.9.30	2018.12.31	2018.9.30
Financial assets at fair value through profit or loss :			
Domestic financial debentures	\$14,597,083	\$13,990,343	\$12,594,820
Domestic listed stocks	100,827,303	79,654,586	104,416,712
Domestic unlisted stocks	183,813	133,172	457,335
Domestic beneficiary certificates	103,553,628	33,313,742	19,972,773
Domestic real estate investment trust	1,877,491	1,513,893	1,527,290
Overseas corporate bonds	17,709,355	12,961,579	13,288,552
Overseas listed stocks	21,229,130	18,115,148	20,464,336
Overseas preferred stocks	1,397,239	3,924,291	4,041,897
Overseas financial debentures	25,382,053	38,924,136	31,302,266
Overseas beneficiary certificates	26,555,183	9,456,252	9,644,349
Overseas real estate investment trust	947,195	237,267	1,052,123
<b>Total</b>	<b>\$314,259,473</b>	<b>\$212,224,409</b>	<b>\$218,762,453</b>

Reclassification of the financial assets designated to apply overlay approach from profit or loss to other comprehensive income for the three-month periods and the nine-month periods ended 30 September 2019 and 2018 are as follows:

	For the three-month periods ended 30 September	
	2019	2018
Gains (losses) due to applying IFRS 9 to profit or loss	\$3,690,985	\$11,354,791
Less: (Gains) losses if applying IAS 39 to profit or loss	(8,638,056)	(7,263,215)
Gains (losses) from adoption of overlay approach	\$(4,947,071)	\$4,091,576
	For the nine-month periods ended 30 September	
	2019	2018
Gains (losses) due to applying IFRS 9 to profit or loss	\$29,886,776	\$12,143,624
Less: (Gains) losses if applying IAS 39 to profit or loss	(16,985,568)	(14,447,144)
Gains (losses) from adoption of overlay approach	\$12,901,208	\$(2,303,520)

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**Notes to financial statements (Continued)**

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Due to the adoption of overlay approach, profits from financial assets at fair value through profit or loss increased from \$4,605,709 thousand to \$9,552,780 thousand and profits are reduced from \$7,473,693 thousand to \$3,382,117 thousand for the three-month periods ended 30 September 2019 and 2018 respectively; profits from financial assets at fair value through profit or loss reduced from \$15,870,807 thousand to \$2,969,599 thousand and losses are reduced from \$13,533,802 thousand to \$11,230,282 thousand for the nine-month periods ended 30 September 2019 and 2018 respectively.

4. Financial assets at fair value through other comprehensive income

	<u>2019.9.30</u>	<u>2018.12.31</u>	<u>2018.9.30</u>
Debt instrument investments at fair value through other comprehensive income:			
Domestic government bonds	\$75,051,503	\$95,598,398	\$84,053,885
Overseas government bonds	49,828,991	28,100,704	23,265,670
Overseas corporate bonds	105,452,738	82,352,450	77,335,984
Overseas financial debentures	116,961,812	85,359,785	85,571,388
Less: Refundable deposits	(9,833)	(9,861)	(10,770)
Subtotal	<u>347,285,211</u>	<u>291,401,476</u>	<u>270,216,157</u>
Equity instrument investments at fair value through other comprehensive income:			
Domestic listed stocks	9,443,769	8,252,306	9,641,685
Domestic unlisted stocks	2,423,870	2,518,947	2,476,561
Domestic preferred stocks	11,903,973	11,534,853	8,206,066
Overseas listed stocks	1,043,346	1,105,564	1,122,361
Overseas unlisted stocks	13,999,663	8,193,589	9,612,099
Subtotal	<u>38,814,621</u>	<u>31,605,259</u>	<u>31,058,772</u>
Total	<u>\$386,099,832</u>	<u>\$323,006,735</u>	<u>\$301,274,929</u>

Please refer to Note XIII for more details on financial assets at fair value through other comprehensive income under pledge.

Please refer to Note VI.23 for more details on gross carrying amount and accumulated impairment of debt instrument investments measured at fair value through other comprehensive income. Please refer to Note IX for more details on credit risk management.



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**Notes to financial statements (Continued)**  
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The Company's dividend income related to equity instrument investments measured at fair value through other comprehensive income for the three-month periods and the nine-month periods ended 30 September 2019 and 2018 are as follows:

	For the three-month periods ended 30 September	
	2019	2018
	Related to investments held at the end of the reporting period	\$700,731
Dividends recognized during the period	707,228	582,704
	For the nine-month periods ended 30 September	
	2019	2018
Related to investments held at the end of the reporting period	\$752,600	\$666,447
Dividends recognized during the period	759,097	716,120

Given the investment strategy, the Company disposed and derecognized partial equity instrument investments measured at fair value through other comprehensive income. Details on derecognition of such investments for the three-month periods and the nine-month periods ended 30 September 2019 and 2018 are as follow:

	For the three-month periods ended 30 September	
	2019	2018
	The fair value of the investments at the date of derecognition	\$117,938
The cumulative unrealized valuation gain (loss) on disposal reclassified from other equity to retained earnings	(88,237)	(488,532)
	For the nine-month periods ended 30 September	
	2019	2018
The fair value of the investments at the date of derecognition	\$1,949,948	\$3,628,715
The cumulative unrealized valuation gain (loss) on disposal reclassified from other equity to retained earnings	(63,125)	(860,921)

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**Notes to financial statements (Continued)**  
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5. Financial assets measured at amortized cost

	2019.9.30	2018.12.31	2018.9.30
Domestic government bonds	\$61,676,773	\$53,728,956	\$41,563,198
Domestic corporate bonds	50,290,670	55,313,130	54,712,620
Domestic financial debentures	17,050,000	18,350,000	19,550,000
Overseas real estate mortgage bonds	58,639,055	60,399,545	59,198,590
Overseas government bonds	38,597,928	41,972,073	41,409,011
Overseas corporate bonds	242,464,888	208,677,329	192,425,459
Overseas financial debentures	549,082,726	518,083,750	505,235,832
Less: Refundable deposits	(6,698,470)	(5,955,901)	(5,955,342)
Less: Loss allowance	(96,496)	(86,642)	(73,042)
Total	<u>\$1,011,007,074</u>	<u>\$950,482,240</u>	<u>\$908,066,326</u>

The Company derecognized certain financial assets measured at amortized cost for the three-month period the nine-month period ended 30 September 2019 with the following carrying amount at the date of dercognition and the recognized gain (loss) during the period:

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	The carrying amount at the date of dercognition	Recognized gain(loss) during the period	The carrying amount at the date of dercognition	Recognized gain(loss) during the period
Domestic corporate bonds	\$3,000,000	\$71,179	\$3,500,000	\$78,850
Overseas government bonds	-	-	3,658,405	129,541
Overseas coporate bonds	-	-	4,887,847	341,011
Overseas financial debentures	-	-	3,705,097	86,835
Total	<u>\$3,000,000</u>	<u>\$71,179</u>	<u>\$15,751,349</u>	<u>\$636,237</u>

The Company did not dispose and derocognize the financial assets measured at amortized cost for the three-month and the nine-month ended 30 September 2018.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

The Company sold abovementioned certain financial assets measured at amortized cost on the grounds such as that the sales are infrequent (even if significant in value) or insignificant in value both individually and in aggregate (even if frequent), and derecognized the financial assets measured at amortized cost.

Please refer to Note XIII for more details on financial assets measured at amortized cost under pledge.

Please refer to Note VI.23 for more details on gross carrying amount and accumulated impairment on financial assets measured at amortized cost. Please refer to Note IX for more details on credit risk management.

6. Loans

	2019.9.30	2018.12.31	2018.9.30
Policy loans	\$26,598,214	\$26,403,907	\$25,749,206
Automatic premium loans	5,828,190	5,822,457	5,972,675
Secured loans – net	895,180	1,151,119	1,219,859
Secured loans	913,185	1,169,030	1,265,586
Less: Allowance for bad debts – secured loans	(18,005)	(17,911)	(45,727)
Overdue loans – net	-	2,482	491
Overdue loans	-	2,574	501
Less: Allowance for bad debts – overdue loans	-	(92)	(10)
Total	<u>\$33,321,584</u>	<u>\$33,379,965</u>	<u>\$32,942,231</u>

The Company adopted IFRS 9 for impairment assessment. Please refer to Note VI.23 for more details on loss allowance.

7. Investment property

The reconciliations from the beginning book value balances to the ending book value balances for investment property measured at fair value model in subsequent period are as follows:

	For the nine-month period ended 30 September 2019			
	Land	Buildings	Prepayment for buildings	Total
Beginning balance	\$15,601,189	\$5,022,055	\$-	\$20,623,244
Gains (Losses) generated from adjustment fair value	197,546	(197,885)	-	(339)
Ending balance	<u>\$15,798,735</u>	<u>\$4,824,170</u>	<u>\$-</u>	<u>\$20,622,905</u>

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

	For the nine-month period ended 30 September 2018			
	Land	Buildings	Prepayment for buildings	Total
Beginning balance	\$15,478,427	\$5,150,851	\$-	\$20,629,278
Gains (Losses) generated				
from adjustment fair value	90,686	(141,490)	-	(50,804)
Disposals	(23,949)	(10,999)	-	(34,948)
Transfer in from property and equipment	67,938	18,923	-	86,861
Ending balance	\$15,613,102	\$5,017,285	\$-	\$20,630,387

Development of the vacant land and prepayment for buildings without construction license is measured at cost because its fair value cannot be reliably determined. The reconciliations from the beginning book value balances to the ending book value balances are as follows:

	For the nine-month period ended 30 September 2019			
	Land	Buildings	Prepayment for buildings	Total
Costs:				
Beginning balance	\$3,654,175	\$-	\$-	\$3,654,175
Ending balance	\$3,654,175	\$-	\$-	\$3,654,175
Accumulated impairment:				
Beginning balance	\$1,133,565	\$-	\$-	\$1,133,565
Ending balance	\$1,133,565	\$-	\$-	\$1,133,565

	For the nine-month period ended 30 September 2018			
	Land	Buildings	Prepayment for buildings	Total
Costs:				
Beginning balance	\$3,654,175	\$-	\$-	\$3,654,175
Ending balance	\$3,654,175	\$-	\$-	\$3,654,175
Accumulated impairment:				
Beginning balance	\$1,133,601	\$-	\$-	\$1,133,601
Ending balance	\$1,133,601	\$-	\$-	\$1,133,601

Net carrying amount :				
2019.9.30	\$18,319,345	\$4,824,170	\$-	\$23,143,515
2018.12.31	\$18,121,799	\$5,022,055	\$-	\$23,143,854
2018.9.30	\$18,133,676	\$5,017,285	\$-	\$23,150,961

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A major part of the Company's buildings includes main plants, air conditioning, electrical and elevator equipment.

Valuation has been performed by appraisers from professional valuation agencies based on Regulations on Real Estate Appraisal. Valuation reports are issued every six months and evaluated the effectiveness of the fair value at the balance sheet date quarterly to determine whether to issue new valuation reports. The valuation date of the valuation reports for the reporting period is 30 June 2019, 31 December 2018 and 30 June 2018, and review reports on 30 September 2019 and 2018 are also acquired.

30 September 2019 and 31 December 2018:

- (1) Hwan Yu Real Estate Appraisers Joint Firm: Lin Hsueh Chin
- (2) Home Ban Appraisers Joint Firm: Lin Jui Ming, Huang Yu Sheng

30 September 2018:

- (1) Hwan Yu Real Estate Appraisers Joint Firm: Lin Hsueh Chin
- (2) Home Ban Appraisers Joint Firm: Chen Jin An

The decision of fair value is supported by observable evidence in the market. The appraisal approaches mainly used are the comparison approach, income approach, cost approach and land development analysis of cost approach. Commercial office buildings and residences are valued mainly by comparison approach and income approach because of the market liquidity and comparable sales and rental cases in neighboring areas. Income approach does not use discounted cash flow analysis, so no inputs of the discount rate.

The inputs mainly used are as follows:

	2019.9.30	2018.12.31	2018.9.30
	Mainly	Mainly	Mainly
Income capitalization rate	0.84%~3.70%	0.73%~3.78%	0.745%~4.06%

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

The investment properties are held mainly for lease business. All the lease agreements are operating leases. The primary terms of lease agreements are the same as general lease agreements. Rents from property investment are received annually, semi-annually, quarterly, monthly or in lump sum.

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**Notes to financial statements (Continued)**

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Rents from investment properties were \$121,132 thousand and \$117,882 thousand for the three-month periods ended 30 September 2019 and 2018. Related direct operating expenses were \$13,839 thousand and \$16,559 thousand. The direct operating expenses of investment properties generating no rents were \$1,413 thousand and \$982 thousand. Rents from investment properties were \$358,020 thousand and \$356,780 thousand for the nine-month periods ended 30 September 2019 and 2018. Related direct operating expenses were \$43,979 thousand and \$51,174 thousand. The direct operating expenses of investment properties generating no rents were \$4,772 thousand and \$3,639 thousand.

As at 30 September 2019, 31 December 2018 and 30 September 2018, no investment properties were pledged as collateral.

**8. Reinsurance assets**

	2019.9.30	2018.12.31	2018.9.30
Claims recoverable from reinsurers	\$554,662	\$456,849	\$571,461
Due from reinsurers and ceding companies	17,694	175	12,064
Reinsurance reserve assets			
Ceded unearned premium reserve	55,015	50,125	51,001
Ceded reserve for claims	29,953	27,204	23,232
Subtotal	84,968	77,329	74,233
Total	<u>\$657,324</u>	<u>\$534,353</u>	<u>\$657,758</u>

The above reinsurance assets are not impaired.

**9. Property and equipment**

For the nine-month period ended 30 September 2019

	Land	Buildings	Computer equipment (Note)	Transportation equipment	Other equipment	Leased assets	Prepayment for buildings and construction in progress	Total
Cost:								
1 January 2019	\$6,617,371	\$1,848,625	\$343,092	\$9,751	\$427,595	\$21,794	\$3,176,367	\$12,444,595
Additions	-	-	46,889	82	66,886	1,432	2,112,530	2,227,819
Disposals	-	-	(22,047)	(54)	(957)	-	-	(23,058)
Transfers	-	-	24,321	-	38,059	-	145,116	207,496
30 September 2019	<u>\$6,617,371</u>	<u>\$1,848,625</u>	<u>\$392,255</u>	<u>\$9,779</u>	<u>\$531,583</u>	<u>\$23,226</u>	<u>\$5,434,013</u>	<u>\$14,856,852</u>
Accumulated Depreciation:								
1 January 2019	\$-	\$518,458	\$181,803	\$6,168	\$323,723	\$21,348	\$-	\$1,051,500
Depreciation	-	33,541	38,708	1,229	29,536	870	-	103,884
Disposals	-	-	(22,045)	(53)	(954)	-	-	(23,052)
30 September 2019	<u>\$-</u>	<u>\$551,999</u>	<u>\$198,466</u>	<u>\$7,344</u>	<u>\$352,305</u>	<u>\$22,218</u>	<u>\$-</u>	<u>\$1,132,332</u>
Accumulated impairment:								
1 January 2019	\$740,630	\$3,528	\$-	\$-	\$-	\$-	\$-	\$744,158
30 September 2019	<u>\$740,630</u>	<u>\$3,528</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$744,158</u>

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Note: The Company adopted IFRS16 since 1 January 2019. The company elected not to restate prior periods in accordance with the transition provision in IFRS16. The beginning balance of computer equipment is transferred to right-of-use assets for the leased assets.

	For the nine-month period ended 30 September 2018							
	Land	Buildings	Computer equipment	Transportation equipment	Other equipment	Leased assets	Prepayment for buildings and construction in progress	Total
<b>Cost:</b>								
1 January 2018	\$6,643,656	\$1,864,393	\$573,182	\$17,664	\$406,094	\$21,174	\$1,702,442	\$11,228,605
Additions	-	-	14,077	303	15,429	128	801,792	831,729
Disposals	-	-	(109,799)	(8,376)	(1,261)	-	-	(119,436)
Transfers to investment property	(26,285)	(15,768)	-	-	-	-	-	(42,053)
Transfers	-	-	2,090	-	76	-	114,380	116,546
30 September 2018	<u>\$6,617,371</u>	<u>\$1,848,625</u>	<u>\$479,550</u>	<u>\$9,591</u>	<u>\$420,338</u>	<u>\$21,302</u>	<u>\$2,618,614</u>	<u>\$12,015,391</u>
<b>Accumulated Depreciation:</b>								
1 January 2018	\$-	\$479,196	\$294,119	\$12,901	\$289,767	\$21,121	\$-	\$1,097,104
Depreciation	-	33,689	53,226	1,235	27,442	77	-	115,669
Disposals	-	-	(109,775)	(8,376)	(1,254)	-	-	(119,405)
Transfers to investment property	-	(5,606)	-	-	-	-	-	(5,606)
30 September 2018	<u>\$-</u>	<u>\$507,279</u>	<u>\$237,570</u>	<u>\$5,760</u>	<u>\$315,955</u>	<u>\$21,198</u>	<u>\$-</u>	<u>\$1,087,762</u>
<b>Accumulated impairment:</b>								
1 January 2018	\$740,783	\$3,573	\$-	\$-	\$-	\$-	\$-	\$744,356
30 September 2018	<u>\$740,783</u>	<u>\$3,573</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$744,356</u>
<b>Net carrying amount</b>								
2019.9.30	<u>\$5,876,741</u>	<u>\$1,293,098</u>	<u>\$193,789</u>	<u>\$2,435</u>	<u>\$179,278</u>	<u>\$1,008</u>	<u>\$5,434,013</u>	<u>\$12,980,362</u>
2018.12.31	<u>\$5,876,741</u>	<u>\$1,326,639</u>	<u>\$234,690</u>	<u>\$3,583</u>	<u>\$103,872</u>	<u>\$446</u>	<u>\$3,176,367</u>	<u>\$10,722,338</u>
2018.9.30	<u>\$5,876,588</u>	<u>\$1,337,773</u>	<u>\$241,980</u>	<u>\$3,831</u>	<u>\$104,383</u>	<u>\$104</u>	<u>\$2,618,614</u>	<u>\$10,183,273</u>

Property and equipment held by the Company are not pledged.

## 10. Leases

### (1) Company as a lessee (applicable to the disclosure requirement under IFRS 16)

The commercial lease contracts for offices, vehicles and equipment signed by the Company are within one to three years on average without renewal option. There is no restriction on the Company in these contracts. Furthermore, the Company leases the land for 70 years by creating surface right and the agreement is a non-cancellable operating lease.

The Company's leases effect on the financial position, financial performance and cash flows are as follow:

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A. Amounts of right-of-use assets recognized in the balance sheet and the statements of comprehensive income

For the nine-month period ended 30 September 2019							
	Land	Royalty- surface rights	Buildings	Computer equipment	Transportation equipment	Other equipment	Total
Cost:							
1 January 2019	\$2,098,517	\$13,179,623	\$45,577	\$94,957	\$11,841	\$13,783	\$15,444,298
Additions	-	-	48,081	-	-	12,377	60,458
30 September 2019	<u>\$2,098,517</u>	<u>\$13,179,623</u>	<u>\$93,658</u>	<u>\$94,957</u>	<u>\$11,841</u>	<u>\$26,160</u>	<u>\$15,504,756</u>
Accumulated Depreciation:							
1 January 2019	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Depreciation	24,183	151,953	21,809	38,845	2,676	8,284	247,750
30 September 2019	<u>\$24,183</u>	<u>\$151,953</u>	<u>\$21,809</u>	<u>\$38,845</u>	<u>\$2,676</u>	<u>\$8,284</u>	<u>\$247,750</u>
Net carrying amount:							
2019.9.30	<u>\$2,074,334</u>	<u>\$13,027,670</u>	<u>\$71,849</u>	<u>\$56,112</u>	<u>\$9,165</u>	<u>\$17,876</u>	<u>\$15,257,006</u>
2018.12.31 (Note)							
2018.9.30 (Note)							

Depreciation expense of \$26,924 thousand and \$71,615 thousand on the right-of-use assets are recognized respectively in profit or loss for the three-month period and the nine-month period ended 30 September 2019.

Depreciation on the right-of-use assets is calculated through a straight-line basis over 1 to 70 years.

B. Amounts of lease liabilities recognized in the balance sheet and the statements of comprehensive income

	2019.9.30	2018.12.31(Note)	2018.9.30(Note)
Land	\$2,092,122		
Buildings	72,028		
Computer equipment	34,227		
Transportation equipment	9,195		
Other office equipment	21,630		
Total	<u>\$2,229,202</u>		

The interest on lease liabilities recognized during the three-month period and the nine-month period ended 30 September 2019 are \$215 thousand and \$527 thousand. Please refer to Note IX.2 Liquidity Risk Management for the maturity analysis for lease liabilities as at 30 September 2019.



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Note: The Company adopted IFRS 16 since 1 January 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

C. Income and costs relating to leasing activities

	For the three-month periods ended 30 September	
	2019	2018(Note)
The expenses relating to short-term leases	\$1,632	
The expenses relating to leases of low-value assets (Not including the expenses relating to short-term leases of low-value assets)	79	
	For the nine-month periods ended 30 September	
	2019	2018(Note)
The expenses relating to short-term leases	\$12,052	
The expenses relating to leases of low-value assets (Not including the expenses relating to short-term leases of low-value assets)	120	

Note: The Company adopted IFRS 16 since 1 January 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

D. Cash outflow relating to leasing activities

During the nine-month period ended 30 September 2019, the Company's total cash outflows for leases amounting to \$122,668 thousand.

E. Other information relating to leasing activities

(a) Variable lease payments

Some of the Company's machine equipment lease agreements contain variable lease payment terms that exceed the standard quota. As such variable lease payments do not meet the definition of lease payments, those payments are not included in the measurement of the assets and liabilities.

(b) Extension and termination options

Some of the Company's rental agreement contain extension and termination options. In determining the lease terms, the non-cancellable period for which the

**China Life Insurance Co., Ltd.**

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Company has the right to use an underlying asset, together with both periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option. These options are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Company. After the commencement date, the Company reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within the control of the lessee and affects whether the Company is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

- (2) Operating lease commitments – Company as a lessee (applicable to the disclosure requirement in IAS17)

The Company has entered into commercial leases on offices, certain motor vehicles and items of machinery. These leases have an average life of one to four years with no renewal option included in the contracts. There are no restrictions placed upon the Company by entering into these leases. In addition, the lease term of the land leased by the Company for the purpose of setting up the land is 70 years and is also an unremovable operating lease agreement.

In accordance with the non-cancellable operating lease, the total amount of the minimum lease payment as at 30 September 2019, 31 December 2018 and 30 September 2018 are as follows:

	<u>2019.9.30(Note)</u>	<u>2018.12.31</u>	<u>2018.9.30</u>
Less than one year		\$111,219	\$110,894
More than one year and but less than five years		438,883	434,285
More than five years		4,834,881	4,855,350
Total		<u>\$5,384,983</u>	<u>\$5,400,529</u>

Operating lease expenses recognized are as follows:

	<u>For the three-month period ended 30 September 2018.7.1(Note)</u>	<u>For the nine-month period ended 30 September 2018.1.1</u>
Minimum lease payments	<u>\$15,674</u>	<u>\$47,215</u>

Note: The Company adopted IFRS 16 since 1 January 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

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(3) Company as a lessor (applicable to the disclosure requirement in IFRS16)

Please refer to Note VI.7 for details on the Company's owned investment properties. Leases of owned investment properties are classified as operating leases as they do not transfer substantially all the risks and rewards incidental to ownership of underlying assets.

	For the three-month periods ended 30 September	
	2019	2018 (Note)
Lease income for operating leases		
Income relating to fixed lease payments and variable lease payments that depend on an index or a rate	\$118,839	
Income relating to variable lease payments that do not depend on an index or a rate	<u>2,293</u>	
Total	<u><u>\$121,132</u></u>	
	For the nine-month periods ended 30 September	
	2019	2018 (Note)
Lease income for operating leases		
Income relating to fixed lease payments and variable lease payments that depend on an index or a rate	\$351,632	
Income relating to variable lease payments that do not depend on an index or a rate	<u>6,388</u>	
Total	<u><u>\$358,020</u></u>	

Note: The Company adopted IFRS 16 since 1 January 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

Please refer to Note VI.7 for relevant disclosure of property for operating leases under IFRS 16. The remaining period of commercial property lease contracts the Company signed are within one year to ten years, and most of these lease contracts contain terms about adjusting rents according to market environment annually. The undiscounted lease payments to be received and a total of the amounts for the remaining years as at 30 September 2019 are as follow:

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	As at		
	2019.9.30	2018.12.31 (Note)	2018.9.30 (Note)
Less than one year	\$410,101		
More than one year but less than two years	380,077		
More than two years but less than three years	223,632		
More than three years but less than four years	134,110		
More than four years but less than five years	122,490		
More than five years	190,829		
Total	<u>\$1,461,239</u>		

Note: The Company adopted IFRS 16 since 1 January 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

- (4) Operating lease commitments – Company as a lessor (applicable to the disclosure requirement in IAS17)

The remaining period of commercial property lease contracts the Company signed are within one year to fifteen years, and most of these lease contracts contain terms about adjusting rents according to market environment annually.

In accordance with the non-cancellable operating lease, the total amount of the minimum lease payment as at 31 December 2018 and 30 September 2018 are as follows:

	2019.9.30(Note)	2018.12.31	2018.9.30
Less than one year		\$407,686	\$408,467
More than one year and less than five years		873,984	904,419
More than five years		223,248	219,205
Total		<u>\$1,504,918</u>	<u>\$1,532,091</u>

Note: The Company adopted IFRS 16 since 1 January 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

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11. Other assets

	2019.9.30	2018.12.31	2018.9.30
Prepayments			
Prepayment – surface rights (Note)	\$-	\$13,179,623	\$13,230,274
Other prepayments	43,343	29,557	263,492
Subtotal	43,343	13,209,180	13,493,766
Refundable deposits	7,394,349	6,643,887	8,904,281
Other assets – others	9,129	6,211	5,446
Total	<u>\$7,446,821</u>	<u>\$19,859,278</u>	<u>\$22,403,493</u>

Note: The Company adopted IFRS16 since 1 January 2019. The company elected not to restate prior periods in accordance with the transition provision in IFRS16.

Prepayment – surface rights are land use rights for 13 government properties, including Taipei Academy and ZHONG-LUN Housing that were acquired on 28 November 2013. The execution date of the contract was 20 January 2014 for a term of 70 years. The expiration date is 19 January 2084.

12. Payables

	2019.9.30	2018.12.31	2018.9.30
Notes payable	\$4,958	\$11,817	\$145,233
Life insurance proceeds payable	78,928	71,587	80,403
Commissions payable	1,160,041	1,630,439	1,156,385
Due to reinsurers and ceding companies	700,493	525,306	655,041
Other payables			
Salary payable	1,039,279	758,677	694,252
Tax payable	88,175	86,202	87,154
Collection payable	42,898	40,882	40,981
Payable on investments	12,585,307	783,105	-
Accrued expense and payable on insurance policies	7,757,636	6,452,555	6,484,159
Others	256,794	366,516	145,011
Subtotal	21,770,089	8,487,937	7,451,557
Total	<u>\$23,714,509</u>	<u>\$10,727,086</u>	<u>\$9,488,619</u>

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**Notes to financial statements (Continued)**  
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13. Financial liabilities at fair value through profit or loss

	2019.9.30	2018.12.31	2018.9.30
Held for trading:			
Derivatives not designated as hedging instruments			
Swaps and forward foreign exchange contracts	\$3,120,040	\$2,469,127	\$5,377,078
Total	<u>\$3,120,040</u>	<u>\$2,469,127</u>	<u>\$5,377,078</u>

14. Insurance contracts and provision for financial instruments with discretionary participation feature

As at 30 September 2019, 31 December 2018 and 30 September 2018, movement in reserves of insurance contracts and financial instruments with discretionary participation feature is as follows.

(1) Reserve for life insurance liabilities:

	2019.9.30		
	Financial instruments with discretionary participation feature		Total
	Insurance contract	participation feature	Total
Life insurance	\$1,307,042,411	\$56,347,579	\$1,363,389,990
Health insurance	130,049,150	-	130,049,150
Annuity insurance	686,390	167,417,178	168,103,568
Investment-linked insurance	1,783,621	-	1,783,621
Total (Note)	<u>\$1,439,561,572</u>	<u>\$223,764,757</u>	<u>\$1,663,326,329</u>

Note: Total of reserve for life insurance liabilities after including “Reserve for life insurance liabilities – payables for the insured” amounted to \$1,663,479,991 thousand as of 30 September 2019.

	2018.12.31		
	Financial instruments with discretionary participation feature		Total
	Insurance contract	participation feature	Total
Life insurance	\$1,173,394,667	\$56,735,343	\$1,230,130,010
Health insurance	122,642,721	-	122,642,721
Annuity insurance	647,909	157,700,581	158,348,490
Investment-linked insurance	1,834,656	-	1,834,656
Total (Note)	<u>\$1,298,519,953</u>	<u>\$214,435,924</u>	<u>\$1,512,955,877</u>

Note: Total of reserve for life insurance liabilities after including “Reserve for life insurance liabilities – payables for the insured” amounted to \$1,513,115,547 thousand As of 31 December 2018.

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	2018.9.30		
	Financial instruments		
	with discretionary		
	Insurance contract	participation feature	Total
Life insurance	\$1,116,910,127	\$57,443,453	\$1,174,353,580
Health insurance	119,492,569	-	119,492,569
Annuity insurance	645,638	157,549,234	158,194,872
Investment-linked insurance	1,842,082	-	1,842,082
Total (Note)	\$1,238,890,416	\$214,992,687	\$1,453,883,103

Note: Total of reserve for life insurance liabilities after including “Reserve for life insurance liabilities – payables for the insured” amounted to \$1,453,984,838 thousand as of 30 September 2018.

There is no ceded liability reserve for the above insurance contracts.

Movement in reserve for life insurance liabilities is summarized below:

	For the nine-month period ended 30 September 2019		
	Financial instruments		
	with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$1,298,519,952	\$214,435,925	\$1,512,955,877
Reserve	189,968,705	22,395,951	212,364,656
Recover	(50,347,109)	(13,322,753)	(63,669,862)
Losses (gains) on foreign exchange	1,418,780	255,634	1,674,414
Other (Note 1)	1,244	-	1,244
Ending balance (Note)	\$1,439,561,572	\$223,764,757	\$1,663,326,329

Note: Total of reserve for life insurance liabilities after including “Reserve for life insurance liabilities – payables for the insured” amounted to \$1,663,479,991 thousand as of 30 September 2019.

Note 1: The amount is the insufficient consideration covered during the replenishment period based on the contract of the acquisition of the traditional insurance policies from Allianz Taiwan Life.

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	For the nine-month period ended 30 September 2018		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$1,048,113,729	\$215,730,420	\$1,263,844,149
Reserve	196,727,728	14,065,486	210,793,214
Recover	(37,978,403)	(15,412,244)	(53,390,647)
Losses (gains) on foreign exchange	3,509,408	609,025	4,118,433
Other (Note 1)	28,517,954	-	28,517,954
Ending balance (Note)	\$1,238,890,416	\$214,992,687	\$1,453,883,103

Note: Total of reserve for life insurance liabilities after including “Reserve for life insurance liabilities – payables for the insured” amounted to \$1,453,984,838 thousand as of 30 September 2018.

Note 1: The amount is generated from the acquisition of the traditional insurance policies from Allianz Taiwan Life on 18 May 2018.

(2) Unearned premium reserve:

	2019.9.30		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$980	\$-	\$980
Individual injury insurance	1,230,180	-	1,230,180
Individual health insurance	1,854,726	-	1,854,726
Group insurance	824,221	-	824,221
Investment-linked insurance	60,195	-	60,195
Annuity insurance	-	114	114
Total	3,970,302	114	3,970,416
Less ceded unearned premium reserve:			
Individual life insurance	15,724	-	15,724
Individual injury insurance	1,034	-	1,034
Individual health insurance	29,985	-	29,985
Group insurance	3,134	-	3,134
Investment-linked insurance	5,138	-	5,138
Total	55,015	-	55,015
Net amount	\$3,915,287	\$114	\$3,915,401



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	2018.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$1,160	\$-	\$1,160
Individual injury insurance	1,237,170	-	1,237,170
Individual health insurance	2,011,560	-	2,011,560
Group insurance	555,939	-	555,939
Investment-linked insurance	48,909	-	48,909
Annuity insurance	-	53	53
Total	3,854,738	53	3,854,791
Less ceded unearned premium reserve:			
Individual life insurance	10,712	-	10,712
Individual injury insurance	1,513	-	1,513
Individual health insurance	27,559	-	27,559
Group insurance	5,267	-	5,267
Investment-linked insurance	5,074	-	5,074
Total	50,125	-	50,125
Net amount	\$3,804,613	\$53	\$3,804,666

	2018.9.30		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$1,075	\$1	\$1,076
Individual injury insurance	1,095,571	-	1,095,571
Individual health insurance	1,743,680	-	1,743,680
Group insurance	799,587	-	799,587
Investment-linked insurance	56,755	-	56,755
Annuity insurance	-	53	53
Total	3,696,668	54	3,696,722
Less ceded unearned premium reserve:			
Individual life insurance	15,105	-	15,105
Individual injury insurance	976	-	976
Individual health insurance	27,306	-	27,306
Group insurance	2,606	-	2,606
Investment-linked insurance	5,008	-	5,008
Total	51,001	-	51,001
Net amount	\$3,645,667	\$54	\$3,645,721

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**Notes to financial statements (Continued)**  
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Movement in unearned premium reserve is summarized below:

	For the nine-month period ended 30 September 2019		
	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
Beginning balance	\$3,854,738	\$53	\$3,854,791
Reserve	3,006,618	114	3,006,732
Recover	(2,891,054)	(53)	(2,891,107)
Losses (gains) on foreign exchange	-	-	-
Ending balance	3,970,302	114	3,970,416
Less ceded unearned premium reserve:			
Beginning balance	50,125	-	50,125
Increase	43,259	-	43,259
Decrease	(38,369)	-	(38,369)
Ending balance	55,015	-	55,015
Net amount	\$3,915,287	\$114	\$3,915,401

  

	For the nine-month period ended 30 September 2018		
	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
Beginning balance	\$3,384,833	\$57	\$3,384,890
Reserve	2,835,978	54	2,836,032
Recover	(2,560,345)	(57)	(2,560,402)
Losses (gains) on foreign exchange	1	-	1
Others (Note 1)	36,201	-	36,201
Ending balance	3,696,668	54	3,696,722
Less ceded unearned premium reserve:			
Beginning balance	49,879	-	49,879
Increase	38,543	-	38,543
Decrease	(37,421)	-	(37,421)
Ending balance	51,001	-	51,001
Net amount	\$3,645,667	\$54	\$3,645,721

Note 1: The amount is generated from the acquisition of the traditional insurance policies from Allianz Taiwan Life on 18 May 2018.

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(3) Reserve for claims:

	2019.9.30		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance			
— Reported but not paid claim	\$222,575	\$91,673	\$314,248
— Unreported claim	1,852	-	1,852
Individual injury insurance			
— Reported but not paid claim	35,909	-	35,909
— Unreported claim	371,963	-	371,963
Individual health insurance			
— Reported but not paid claim	53,303	-	53,303
— Unreported claim	663,814	-	663,814
Group insurance			
— Reported but not paid claim	98,752	-	98,752
— Unreported claim	426,406	-	426,406
Investment-linked insurance			
— Reported but not paid claim	32,498	-	32,498
— Unreported claim	-	-	-
Annuity insurance			
— Reported but not paid claim	-	48,964	48,964
— Unreported claim	-	131	131
<b>Total</b>	<b>1,907,072</b>	<b>140,768</b>	<b>2,047,840</b>
Less ceded reserve for claims:			
Individual life insurance	19,250	-	19,250
Individual injury insurance	-	-	-
Individual health insurance	2,903	-	2,903
Group insurance	7,800	-	7,800
<b>Total</b>	<b>29,953</b>	<b>-</b>	<b>29,953</b>
<b>Net amount</b>	<b>\$1,877,119</b>	<b>\$140,768</b>	<b>\$2,017,887</b>

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

	2018.12.31		
	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
Individual life insurance			
— Reported but not paid claim	\$260,846	\$81,393	\$342,239
— Unreported claim	1,497	-	1,497
Individual injury insurance			
— Reported but not paid claim	52,370	-	52,370
— Unreported claim	207,078	-	207,078
Individual health insurance			
— Reported but not paid claim	93,733	-	93,733
— Unreported claim	508,774	-	508,774
Group insurance			
— Reported but not paid claim	56,073	-	56,073
— Unreported claim	397,937	-	397,937
Investment-linked insurance			
— Reported but not paid claim	11,657	-	11,657
— Unreported claim	-	-	-
Annuity insurance			
— Reported but not paid claim	-	15,299	15,299
— Unreported claim	-	85	85
<b>Total</b>	<b>1,589,965</b>	<b>96,777</b>	<b>1,686,742</b>
Less ceded reserve for claims:			
Individual life insurance	5,654	-	5,654
Individual injury insurance	4,687	-	4,687
Individual health insurance	13,863	-	13,863
Group insurance	3,000	-	3,000
<b>Total</b>	<b>27,204</b>	<b>-</b>	<b>27,204</b>
<b>Net amount</b>	<b>\$1,562,761</b>	<b>\$96,777</b>	<b>\$1,659,538</b>

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

	2018.9.30		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance			
— Reported but not paid claim	\$242,112	\$79,169	\$321,281
— Unreported claim	520	-	520
Individual injury insurance			
— Reported but not paid claim	63,251	-	63,251
— Unreported claim	172,523	-	172,523
Individual health insurance			
— Reported but not paid claim	95,344	-	95,344
— Unreported claim	478,527	-	478,527
Group insurance			
— Reported but not paid claim	83,053	-	83,053
— Unreported claim	326,362	-	326,362
Investment-linked insurance			
— Reported but not paid claim	7,550	-	7,550
— Unreported claim	-	-	-
Annuity insurance			
— Reported but not paid claim	-	37,648	37,648
— Unreported claim	-	51	51
<b>Total</b>	<b>1,469,242</b>	<b>116,868</b>	<b>1,586,110</b>
Less ceded reserve for claims:			
Individual life insurance	7,140	-	7,140
Individual injury insurance	10,383	-	10,383
Individual health insurance	4,377	-	4,377
Group insurance	1,332	-	1,332
<b>Total</b>	<b>23,232</b>	<b>-</b>	<b>23,232</b>
<b>Net amount</b>	<b>\$1,446,010</b>	<b>\$116,868</b>	<b>\$1,562,878</b>

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Movement in reserve for claims is summarized below:

	For the nine-month period ended 30 September 2019		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$1,589,965	\$96,777	\$1,686,742
Reserve	1,906,658	140,603	2,047,261
Recover	(1,589,965)	(96,777)	(1,686,742)
Losses (gains) on foreign exchange	414	165	579
Ending balance	1,907,072	140,768	2,047,840
Less ceded unearned premium reserve:			
Beginning balance	27,204	-	27,204
Increase	29,953	-	29,953
Decrease	(27,204)	-	(27,204)
Ending balance	29,953	-	29,953
Net amount	\$1,877,119	\$140,768	\$2,017,887

  

	For the nine-month period ended 30 September 2018		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$1,437,951	\$106,826	\$1,544,777
Reserve	1,469,625	117,078	1,586,703
Recover	(1,446,997)	(106,826)	(1,553,823)
Losses (gains) on foreign exchange	(383)	(210)	(593)
Others (Note 1)	9,046	-	9,046
Ending balance	1,469,242	116,868	1,586,110
Less ceded unearned premium reserve:			
Beginning balance	12,484	-	12,484
Increase	23,232	-	23,232
Decrease	(12,484)	-	(12,484)
Ending balance	23,232	-	23,232
Net amount	\$1,446,010	\$116,868	\$1,562,878

Note 1: The amount is generated from the acquisition of the traditional insurance policies from Allianz Taiwan Life on 18 May 2018.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Reported but not paid claims are reserved according to insurance type and claims department's estimates based on each individual case's related information without exceeding promised insurance amount for covered accidents. Those reported but not paid reserve is reasonably assessed, sufficient to reflect actual claims paid. In addition, some types of claims are not expected to close shortly because these claims usually depend on court judgments before the closure. The legal department tracks the development of these claims and reasonably estimates claims reserve. The actuarial department assesses final unreported claims based on past claims experience with consideration of claims development trends for past closed cases, and then develop the final claims based on homogeneous features of each insurance through Bornhuetter-Ferguson Method. Reserve for unreported and unclosed claims changes according to external environment. For example, actual loss rate will lead to fluctuations of claims. The actuarial department will evaluate periodically to make reasonable estimate of claims reserve.

(4)Special reserve:

	2019.9.30		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Participating policies dividend reserve	\$6,958,064	\$-	\$6,958,064
Dividend risk reserve	-	-	-
<b>Total</b>	<b>\$6,958,064</b>	<b>\$-</b>	<b>\$6,958,064</b>
	2018.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Participating policies dividend reserve	\$6,364,597	\$-	\$6,364,597
Dividend risk reserve	-	-	-
<b>Total</b>	<b>\$6,364,597</b>	<b>\$-</b>	<b>\$6,364,597</b>
	2018.9.30		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Participating policies dividend reserve	\$6,372,188	\$-	\$6,372,188
Dividend risk reserve	-	-	-
<b>Total</b>	<b>\$6,372,188</b>	<b>\$-</b>	<b>\$6,372,188</b>

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Movement in special reserve is summarized below:

	For the nine-month periods ended 30	
	September	
	2019	2018
	Insurance contract	Insurance contract
Beginning balance	\$6,364,597	\$6,259,742
Transition adjustment for IFRS9	-	(6,676)
Adjusted beginning balance	6,364,597	6,253,066
Reserve for participating policies dividend reserve	2,314,329	1,976,188
Recover for participating policies dividend reserve	(1,733,386)	(1,720,408)
Disposal gains (losses) of participating policies on equity instruments at fair value through other comprehensive income	12,524	(136,658)
Ending balance	<u>\$6,958,064</u>	<u>\$6,372,188</u>

(5) Special reserve for catastrophe and fluctuation of risks:

	2019.9.30		
	Financial instruments with discretionary participation feature		
	Insurance contract	participation feature	Total
Individual life insurance	\$1,578	\$-	\$1,578
Individual injury insurance	871,147	-	871,147
Individual health insurance	2,435,161	-	2,435,161
Group insurance	3,090,678	-	3,090,678
Annuity insurance	-	539	539
Total	<u>\$6,398,564</u>	<u>\$539</u>	<u>\$6,399,103</u>

	2018.12.31		
	Financial instruments with discretionary participation feature		
	Insurance contract	participation feature	Total
Individual life insurance	\$1,578	\$-	\$1,578
Individual injury insurance	871,147	-	871,147
Individual health insurance	2,435,161	-	2,435,161
Group insurance	3,090,678	-	3,090,678
Annuity insurance	-	539	539
Total	<u>\$6,398,564</u>	<u>\$539</u>	<u>\$6,399,103</u>



**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

	2018.9.30		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$1,893	\$-	\$1,893
Individual injury insurance	846,176	-	846,176
Individual health insurance	2,286,647	-	2,286,647
Group insurance	2,857,669	-	2,857,669
Annuity insurance	-	593	593
Total	\$5,992,385	\$593	\$5,992,978

(6) Premium deficiency reserve:

	2019.9.30		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$6,944,312	\$-	\$6,944,312
Individual health insurance	125,416	-	125,416
Total	\$7,069,728	\$-	\$7,069,728

	2018.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$7,376,763	\$-	\$7,376,763
Individual health insurance	127,382	-	127,382
Total	\$7,504,145	\$-	\$7,504,145

	2018.9.30		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$7,954,172	\$-	\$7,954,172
Individual health insurance	127,108	-	127,108
Total	\$8,081,280	\$-	\$8,081,280

Premium deficiency reserve was not ceded in the above insurance contracts.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Movement in premium deficiency reserve is summarized below:

	For the nine-month period ended 30 September 2019		
	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
Beginning balance	\$7,504,145	\$-	\$7,504,145
Reserve	1,828,915	-	1,828,915
Recover	(2,271,624)	-	(2,271,624)
Losses (gains) on foreign exchange	8,292	-	8,292
Ending balance	\$7,069,728	\$-	\$7,069,728

	For the nine-month period ended 30 September 2018		
	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
Beginning balance	\$9,164,460	\$-	\$9,164,460
Reserve	975,663	-	975,663
Recover	(2,081,051)	-	(2,081,051)
Losses (gains) on foreign exchange	22,207	-	22,207
Others (Note 1)	1	-	1
Ending balance	\$8,081,280	\$-	\$8,081,280

Note 1: The amount is generated from the acquisition of the traditional insurance policies from Allianz Taiwan Life on 18 May 2018.

(7) Other reserve:

	2019.9.30		
	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
Other	\$19,601,062	\$-	\$19,601,062

  

	2018.12.31		
	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
Other	\$20,002,374	\$-	\$20,002,374

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

	2018.9.30		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Other	\$21,323,717	\$-	\$21,323,717

Movement in other reserve is summarized below:

	For the nine-month period ended 30 September 2019		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$20,002,374	\$-	\$20,002,374
Recover	(401,312)	-	(401,312)
Ending balance	\$19,601,062	\$-	\$19,601,062

	For the nine-month period ended 30 September 2018		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$-	\$-	\$-
Recover	(307,392)	-	(307,392)
Other ( Note 1)	21,631,109	-	21,631,109
Ending balance	\$21,323,717	\$-	\$21,323,717

Note 1: The amount of other reserve is generated from the acquisition of the traditional insurance policies from Allianz Taiwan Life on 18 May 2018.

(8) Liability adequacy reserve:

	Insurance contract and financial instruments with discretionary participation feature		
	2019.9.30	2018.12.31	2018.9.30
Reserve for life insurance liabilities	\$1,663,326,329	\$1,512,955,877	\$1,453,883,103
Unearned premium reserve	3,970,416	3,854,791	3,696,722
Premium deficiency reserve	7,069,728	7,504,145	8,081,280
Special reserve	6,958,064	6,364,597	6,372,188
Other reserve	19,601,062	20,002,374	21,323,717
Book value of insurance liabilities	\$1,700,925,599	\$1,550,681,784	\$1,493,357,010
Estimated present value of cash flows	\$1,273,389,849	\$1,256,360,366	\$1,135,728,005
Balance of liability adequacy reserve	\$-	\$-	\$-

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Liability adequacy testing methodology is as follows:

	2019.9.30	2018.12.31 and 2018.9.30
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing
Assumptions	Adopt the best estimated scenario investment return on the most recent actuary report (the report of 2018) , and discount rate was evaluated with consideration of current information.	Adopt the best estimated scenario investment return on the most recent actuary report (the actuary report of 2017), and discount rate was evaluated with consideration of current information.

15. Foreign exchange valuation reserve

(1) The hedge strategy and risk exposure

The Company consistently adjusts the hedge ratios to establish an adequate risk exposure planning based on the new foreign exchange valuation exposure principle by integrating the exchange rate and interest rate trends of domestic and foreign financial markets. However, changes in the hedge and risk exposure ratios should follow the internal risk control to alert and adjust hedge strategy in advance to meet the optimal hedge considerations.

(2) Adjustment in foreign exchange valuation reserve:

	For the nine-month periods ended 30 September	
	2019	2018
Beginning balance	\$3,169,331	\$2,703,763
Reserve		
Compulsory reserve	1,330,311	807,985
Extra reserve	3,568,202	1,629,553
Subtotal	4,898,513	2,437,538
Recover	(2,527,096)	(2,384,868)
Ending balance	\$5,540,748	\$2,756,433

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

(3) Effects due to foreign exchange valuation reserve:

Item	For the nine-month period ended 30 September 2019		
	Inapplicable amount (1)	Applicable amount (2)	Effects (2) - (1)
Net income	\$14,847,321	\$12,950,187	\$(1,897,134)
Earnings per share (dollar)	3.56	3.10	(0.46)
Foreign exchange valuation reserve	-	5,540,748	5,540,748
Equity	139,910,591	136,821,055	(3,089,536)

Item	For the nine-month period ended 30 September 2018		
	Inapplicable amount (1)	Applicable amount (2)	Effects (2) - (1)
Net income	\$10,537,951	\$10,495,815	\$(42,136)
Earnings per share (dollar)	2.63	2.62	(0.01)
Foreign exchange valuation reserve	-	2,756,433	2,756,433
Equity	91,843,913	90,981,829	(862,084)

16. Provisions

	2019.9.30	2018.12.31	2018.9.30
Provisions for employee benefits	\$113,309	\$133,200	\$112,447
Litigation liabilities	2,388	1,740	1,995
Total	\$115,697	\$134,940	\$114,442

The Company has an official policy to control and manage litigations. When a professional advice has been made and the loss can be reasonably estimated, the Company will make adjustments to recognize losses and any negative effects arising out of any financial claims. As at 30 September 2019, the Company has 39 unresolved legal suits.

17. Post-employment benefits

Defined contribution plan

Expenses under the defined contribution plans for the three-month periods ended 30 September 2019 and 2018 were \$59,773 thousand and \$56,569 thousand, respectively, and for the nine-month periods ended 30 September 2019 and 2018 were \$178,053 thousand and \$172,023 thousand, respectively.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Defined benefit plans

Expenses under the defined benefit plans for the three-month periods ended 30 September 2019 and 2018 were \$474 thousand and \$501 thousand, respectively, and for the nine-month periods ended 30 September 2019 and 2018 were \$1,421 thousand and \$1,503 thousand, respectively.

18. Common stock

- (1) As of 30 September 2019, 31 December 2018, and 30 September 2018, the Company's authorized and issued capital were \$44,635,823 thousand, \$40,135,823 thousand and \$40,135,823 thousand, divided into 4,463,582,304, 4,013,582,304 and 4,013,582,304 common shares at \$10 par value.
- (2) On 29 May 2018, the Company decided to appropriate \$2,271,839 thousand from 2017 distributable earnings to increase capital in shareholders' meeting, issuing 227,183,904 common shares at \$10 par value. The capital increase was documented by the authorities on 19 June 2018 and approved to set 11 August 2018 as subscription base date by board of directors.
- (3) On 21 March 2019, the Company's board of directors approved the capital raising plan to issue 450,000,000 shares of \$10 par value at \$20.6 per share, totaling \$9,270,000 thousand. The capital raising plan has been approved by the Financial Supervisory Commission, with 25 June 2019 being the record date of the cash capital increase. The registration of change has also been completed.

19. Capital surplus

	2019.9.30	2018.12.31	2018.9.30
Additional paid-in capital	\$7,179,692	\$2,254,442	\$2,254,442
Treasury stock transactions	34,831	34,831	34,831
Total	\$7,214,523	\$2,289,273	\$2,289,273

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

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
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20. Retained earnings

(1) Legal capital reserve

Pursuant to the Insurance Act, 20% of the Company's after-tax net income in the current year must be appropriated as legal capital reserve until the total amount of the legal capital reserve equals the issued share capital. Legal capital reserve shall not be used except for making good the deficit of the company. When the Company incurs no loss, the Company's board of directors may distribute the portion of its legal capital reserve which exceeds 25% of the issued share capital by issuing new shares or by cash to its original shareholders.

(2) Special capital reserve

Pursuant to "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" established by the R.O.C. Financial Supervisory Commission, the after-tax amount of released provision from the special reserves for fluctuation of risks are appropriated as special capital reserve in accordance with Order No. Financial-Supervisory-Insurance-Corporate-0910074195, after obtaining approval at the stockholders' meeting in the following year. The after-tax amount of released provision from the special reserves for contingency appropriated as special capital reserve for the year ended in 2018 and 2017 was \$449,838 thousand and \$229,707 thousand, resolved in the stockholders' meeting in 2019 and 2018.

The Company set aside special reserves for catastrophe and fluctuation of risks for the retained businesses with policy period within 1 year in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises". Please refer to Note IV.17 for the set-aside and release calculation. The after-tax amount of reserve and release for the special reserve is converted to special capital reserve at the end of current year. Special capital reserves for the year of 2018 and 2017 were set aside \$992,806 thousand and \$943,709 thousand, respectively, and released \$586,681 thousand and \$365,793 thousand, respectively.

The Company adopts foreign exchange reserve mechanism and hence be required by law to provide special capital reserve. Please refer to Note IV.18. The Company set aside \$754,844 thousand and \$908,397 thousand of special capital reserve based on hedging costs saved and 10% of after-tax earnings for 2017. The Company set aside \$1,177,376 thousand and \$1,017,799 thousand of special capital reserve based on hedging costs saved and 10% of after-tax earnings for 2018. The abovementioned amounts were resolved in the shareholders' meeting in 2018 and 2019.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

The Company changed its accounting policy for subsequent measurement of investment property from cost to fair value starting from 2014. In order to ensure the soundness and stability of the financial structure, the Order No. Financial-Supervisory-Securities-Corporate-10402501001 issued by the FSC on 23 January 2015 requires insurance companies to set aside special capital reserve equal to the amount of the increase in retained earnings net of the increase in reserve for life insurance liabilities resulting from valid contracts' fair value approved by the authority. Hence, the amount set aside by the Company as special capital reserve was \$8,394,443 thousand. The special capital reserve shall be used only to cover the insufficiency of life insurance liabilities resulting from valid contracts' fair value approved by the authority and to set aside additional liabilities for the soundness of financial structure when complying with IFRS 17 "*Insurance Contracts*" in the future implementation. The net loss from changes in fair value for 2017 was \$32,196 thousand and the reversal from sale was \$1,499 thousand. The net loss from changes in fair value for 2018 was \$59,242 thousand and the reversal from sale was \$875 thousand. The abovementioned amounts were resolved in the shareholders' meeting in 2018 and 2019.

Pursuant to the Company Act, when distributing distributable profits, the Company shall set aside special reserve equal to the net deductions of other shareholders' equity at the reporting date for the current year. For any subsequent reversal of net deductions of other shareholders' equity, the amount reversed may be distributed. The Company sets aside \$4,904,181 thousand of special capital reserve based on the net deductions of other shareholders' equity for 2018. The abovementioned amounts were resolved in the shareholders' meeting in 2019.

In order to cope with the rapid development in finance technology, to assist the transformation of employees in insurance industry and to protect the employees' rights, the Company has acted in accordance with the Order No. Financial-Supervisory-Securities-Corporate-10502066461 issued by the FSC on 13 July 2016 that companies shall set aside special capital reserve between the ranges from 0.5% to 1% of after-tax earnings while distributing earnings from 2016 to 2018. The Company set aside special capital reserve \$45,420 thousand based on 0.5% of 2017 after-tax earnings and reversed special capital reserve \$30,622 thousand based on actual payment of related expense. The abovementioned amounts were resolved in the shareholders' meeting in 2018. The Company incurred \$32,685 thousand of actual related expense payment for 2018. The abovementioned amounts were resolved in the shareholders' meeting in 2019.

In accordance with the Order No. Financial Supervisory-Securities-Corporate-10302153881 issued by the FSC on 10 February 2015, the insurance industry shall set aside special reserve an equal amount as the increase of retained earnings resulted from



**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

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recognizing gain from bargain purchase through acquisition, and the amount cannot be reversed within one year. After one year expires, other than making good the deficit of the Company, the special reserve may be capitalized if the value of acquired assets through evaluation is equivalent to the value when the acquisition occurred and is not yet subject to unexpected significant impairment. The Company recognized gain on bargain purchase of \$1,731,438 thousand generated from the acquisition of the traditional insurance policies from Allianz Taiwan Life in 2018. The Company set aside special capital reserve of \$1,385,151 thousand upon the resolution of the shareholders' meeting in 2019.

- (3) According to the Articles of Incorporation of the Company, the information about earnings distribution is as follows:

The Company adopts residual dividend policy in order to keep expanding the business scale, meet the demands for capital and long-term financial plan of the Company, and pursue sustainable and stable development.

Where the Company has surplus earnings after the settlement of account at the end of fiscal year, it shall first cover the losses in the previous fiscal years and pay the taxes by laws. After setting aside legal reserve and special reserve as provided in laws or reversing special reserve and may distribute preferred stock dividends thereafter, the balance, if applicable, shall be added to beginning retained earnings as the unappropriated retained earnings, thirty to one hundred percent of which shall be distributed as dividends for common shares. The proposal of surplus earnings distribution shall be submitted by the Board of Directors to the shareholders' meeting for approval. In case the unappropriated retained earnings is less than NT \$0.5 each share, it may be reserved and not distributed on the basis of canon of economy.

According to the Company's business plans, the surplus earnings distribution shall be based on the capital required and retained for distributing stock dividends, but it may reserve a proportion for distribution in the form of cash dividends. Where cash dividends are distributed in that year, the total amount of cash dividends shall not be less than ten percent of the total amount of dividends. The proportion of the preceding stock dividends and cash dividends may be adjusted appropriately, depending on that year's actual profits and capital condition. The Board of Directors shall draw up the proposal and submit to the shareholders' meeting for deciding the most appropriate dividend policy.

- (4) Pursuant to the Order No. Financial-Supervisory-Securities-Corporate-10202501992 issued by the FSC on 8 February 2013, if the life insurance industry appropriates earnings by distributing cash dividends (not including preferred stocks in liability type), it should report to the FSC and the FSC will review the plan based on the soundness of individual company's finance and business.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
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For related information about earnings appropriation approved and resolved by the Board of Directors' meeting and shareholders' meeting, please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

(5) Earnings appropriation for the years of 2018 and 2017 is as follows:

	<u>Appropriation of earnings</u>		<u>Dividends per share(NT\$)</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Set aside Legal capital reserve	\$2,035,597	\$1,816,794	\$-	\$-
Set aside( reverse) Special capital reserve	9,247,668	2,451,967	-	-
Common stock-cash dividend	-	3,029,119	-	0.80
Common stock-stock dividend	-	2,271,839	-	0.60

Earnings appropriation for the year of 2018 and 2017 was resolved by shareholder's meeting on 31 May 2019 and 29 May 2018.

Please refer to Note VI.26 for more details on employees' compensation and remuneration to directors.

21. Components of other comprehensive income

	<u>For the three-month period ended 30 September 2019</u>			
	<u>Arising during the period</u>	<u>Reclassification adjustments during the period</u>	<u>Income tax benefit (expense)</u>	<u>Other comprehensive income, net of tax</u>
Not to be reclassified to profit or loss in subsequent periods:				
Unrealized valuation gains (losses) on equity instrument investments at fair value through other comprehensive income	\$(2,773,471)	\$-	\$469,583	\$(2,303,888)
To be reclassified to profit or loss in subsequent periods:				
Unrealized valuation gains (losses) on debt instrument investments at fair value through other comprehensive income	11,532,544	(1,130,556)	(2,030,034)	8,371,954
Other comprehensive income from adoption of overlay approach	(2,768,073)	(2,178,998)	265,633	(4,681,438)
Total	\$5,991,000	\$(3,309,554)	\$(1,294,818)	\$1,386,628

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	For the three-month period ended 30 September 2018			
	Arising during the period	Reclassification adjustments during the period	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:				
Property revaluation surplus	\$50,414	\$-	\$(4,784)	\$45,630
Unrealized valuation gains (losses) on equity instrument investments at fair value through other comprehensive income	(133,824)	-	36,864	(96,960)
To be reclassified to profit or loss in subsequent periods:				
Unrealized valuation gains (losses) on debt instrument investments at fair value through other comprehensive income	2,463,902	(544,684)	(203,583)	1,715,635
Other comprehensive income from adoption of overlay approach	5,711,858	(1,620,282)	(84,514)	4,007,062
<b>Total</b>	<b>\$8,092,350</b>	<b>\$(2,164,966)</b>	<b>\$(256,017)</b>	<b>\$5,671,367</b>
	For the nine-month period ended 30 September 2019			
	Arising during the period	Reclassification adjustments during the period	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:				
Unrealized valuation gains (losses) on equity instrument investments at fair value through other comprehensive income	\$200,048	\$-	\$(20,034)	\$180,014
To be reclassified to profit or loss in subsequent periods:				
Unrealized valuation gains (losses) on debt instrument investments at fair value through other comprehensive income	41,505,987	(5,219,321)	(7,166,167)	29,120,499
Other comprehensive income from adoption of overlay approach	19,526,762	(6,625,554)	(839,466)	12,061,742
<b>Total</b>	<b>\$61,232,797</b>	<b>\$(11,844,875)</b>	<b>\$(8,025,667)</b>	<b>\$41,362,255</b>

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	For the nine-month period ended 30 September 2018			
	Arising during the period	Reclassification adjustments during the period	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:				
Remeasurements on defined benefit plans	\$-	\$-	\$(127)	\$(127)
Property revaluation surplus	50,414	-	(7,999)	42,415
Unrealized valuation gains (losses) on equity instruments investments at fair value through other comprehensive income	(2,677,381)	-	617,362	(2,060,019)
To be reclassified to profit or loss in subsequent periods:				
Unrealized valuation gains (losses) on debt instruments investments at fair value through other comprehensive income	(13,230,036)	(4,143,400)	2,786,856	(14,586,580)
Other comprehensive income from adoption of overlay approach	4,359,192	(6,662,712)	1,017,642	(1,285,878)
Total	\$(11,497,811)	\$(10,806,112)	\$4,413,734	\$(17,890,189)

**22. Interest income**

	For the three-month periods ended 30 September	
	2019	2018
Interest income		
Financial assets at fair value through other comprehensive income	\$3,056,977	\$2,587,088
Financial assets measured at amortized cost	10,592,949	9,296,033
Loans	395,405	460,168
Other	90,518	84,536
Total	\$14,135,849	\$12,427,825
	For the nine-month periods ended 30 September	
	2019	2018
Interest income		
Financial assets at fair value through other comprehensive income	\$8,699,869	\$6,940,977
Financial assets measured at amortized cost	30,794,742	26,338,805
Loans	1,298,285	1,327,569
Other	311,769	240,921
Total	\$41,104,665	\$34,848,272

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23. Expected credit impairment losses and gains on reversal of investments and non-investments

	For the three-month periods ended 30 September	
	2019	2018
Operating revenue — expected credit losses and gains on reversal of investment		
Financial assets at fair value through other comprehensive income	\$3,383	\$1,328
Financial assets measured at amortized cost	(1,936)	(665)
Other receivables	(130)	378
Loans	4	-
Subtotal	<u>1,321</u>	<u>1,041</u>
Operating expenses — expected credit impairment losses and gains on reversal of non-investment		
Other receivables	1	(120)
Total	<u>\$1,322</u>	<u>\$921</u>
	For the nine-month periods ended 30 September	
	2019	2018
Operating revenue — expected credit losses and gains on reversal of investment		
Financial assets at fair value through other comprehensive income	\$11,369	\$4,212
Financial assets measured at amortized cost	9,854	3,258
Other receivables	58	338
Loans	2	3,787
Subtotal	<u>21,283</u>	<u>11,595</u>
Operating expenses — expected credit impairment losses and gains on reversal of non-investment		
Other receivables	(69)	3,183
Total	<u>\$21,214</u>	<u>\$14,778</u>

Please refer to Note IX for more detail on credit risk management.

The Company's financial assets measured at fair value through other comprehensive income and measured at amortized cost along with related other receivable are assessed to have low credit risk at 30 September 2019 and 2018, 31 December 2018. Therefore, the loss allowance is measured at an amount equal to 12-month expected credit losses (loss ratio of 0.00% to 0.17% , 0.00 % to 0.18 % and 0.00 % to 0.16%).

The gross carrying amounts of the Company's debt instrument investments measured at fair value through other comprehensive income and measured at amortized cost along with related other receivable as of 30 September 2019, 31 December 2018 and 30 September 2018 are as follows:

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**Notes to financial statements (Continued)**  
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	Measured at fair value through other comprehensive income	Measured at amortized cost	Other receivables
Gross carrying amount			
30 September 2019	\$314,391,511	\$1,017,802,040	\$9,725,494
31 December 2018	294,783,102	956,524,783	11,073,170
30 September 2018	269,216,755	914,094,710	14,835,345

Note: The balance includes refundable deposits.

Movement of the loss allowances of debt instrument investments measured at fair value through other comprehensive income and measured at amortized cost along with related other receivable for the nine-month periods ended 30 September 2019 and 2018 are as follow:

	Measured at fair value through other comprehensive income	Measured at amortized cost	Other receivables
1 January 2019	\$27,070	\$86,642	\$1,044
Financial instruments derecognized during the period	(7,319)	(5,952)	(582)
Financial instruments originated or acquired during the period	17,994	13,502	627
Changes in models/risk parameters	609	1,761	12
Foreign exchange and other movements	84	543	1
30 September 2019	<u>\$38,438</u>	<u>\$96,496</u>	<u>\$1,102</u>
1 January 2018	<u>\$18,150</u>	<u>\$69,784</u>	<u>\$757</u>
Financial instruments derecognized during the period	(3,332)	(1,482)	(379)
Financial instruments originated or acquired during the period	9,524	10,906	765
Changes in models/risk parameters	(2,190)	(7,169)	(51)
Foreign exchange and other movements	210	1,003	3
30 September 2018	<u>\$22,362</u>	<u>\$73,042</u>	<u>\$1,095</u>

For the nine-month periods ended 30 September 2019 and 2018, the Company has increased the debt instrument investments measured at fair value through other comprehensive income

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
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and measured at amortized cost, thus raising the relating loss allowance measured at 12-month expected credit losses.

The gross carrying amounts of the Company's secured loans and related other receivable under credit risk rating as of 30 September 2019, 31 December 2018 and 30 September 2018 are as follows:

As at 30 September 2019:

Credit risk rating	Measurement method for expected credit losses	Secured loans	Other receivables
Low credit risk	12-month expected credit losses	\$899,849	\$857
Credit risk significantly increased	Lifetime expected credit losses	2,794	18
Credit-impaired	Lifetime expected credit losses	10,542	11
Gross carrying amount		<u>\$913,185</u>	<u>\$886</u>

As at 31 December 2018:

Credit risk rating	Measurement method for expected credit losses	Secured loans	Other receivables
Low credit risk	12-month expected credit losses	\$1,150,280	\$1,146
Credit risk significantly increased	Lifetime expected credit losses	5,074	26
Credit-impaired	Lifetime expected credit losses	16,250	66
Gross carrying amount		<u>\$1,171,604</u>	<u>\$1,238</u>

As at 30 September 2018:

Credit risk rating	Measurement method for expected credit losses	Secured loans	Other receivables
Low credit risk	12-month expected credit losses	\$1,244,134	\$1,160
Credit risk significantly increased	Lifetime expected credit losses	4,562	29
Credit-impaired	Lifetime expected credit losses	17,391	78
Gross carrying amount		<u>\$1,266,087</u>	<u>\$1,267</u>

Movement of the loss allowance of secured loans for the nine-month periods ended 30 September 2019 and 2018 is summarized as below:

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**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

	12-month expected credit losses	Lifetime expected credit losses- Collectively assessed	Lifetime expected credit losses- Individually assessed	Subtotal of impairment charged in accordance with IFRS 9	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises.	Total
1 January 2019	\$73	\$342	\$1,256	\$1,671	\$16,332	\$18,003
Changes due to financial instruments recognized as at 1 January:						
Transfer to Lifetime expected credit losses	-	-	-	-	-	-
Transfer to 12-month expected credit losses	2	-	(2)	-	-	-
Financial assets derecognized during the period	(8)	-	(332)	(340)	-	(340)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises.	-	-	-	-	(3,488)	(3,488)
Foreign exchange and other movements	(10)	3,951	(111)	3,830	-	3,830
30 September 2019	\$57	\$4,293	\$811	\$5,161	\$12,844	\$18,005



**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

	12-month expected credit losses	Lifetime expected credit losses- Collectively assessed	Lifetime expected credit losses- Individually assessed	Subtotal of impairment charged in accordance with IFRS 9	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises.	Total
1 January 2018	\$1,012	\$16,815	\$351	\$18,178	\$23,772	\$41,950
Changes due to financial instruments recognized as at 1 January:						
Transfer to Lifetime expected credit losses	(2)	-	2	-	-	-
Transfer to 12-month expected credit losses	33	-	(33)	-	-	-
Financial assets derecognized during the period	(932)	-	(26)	(958)	-	(958)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises.	-	-	-	-	(6,158)	(6,158)
Foreign exchange and other movements	(32)	9,886	1,049	10,903	-	10,903
30 September 2018	\$79	\$26,701	\$1,343	\$28,123	\$17,614	\$45,737

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

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For account receivables arising from other transactions, the Company measures the loss allowance at an amount equal to lifetime expected credit losses. The movement of loss allowance of receivables for the nine-month periods ended 30 September 2019 and 2018 is as follows:

	For the nine-month periods ended 30 September	
	2019	2018
Beginning balance	\$7,915	\$724
Charge (reversal) for the current period	(69)	3,183
Write off	-	-
Ending balance	\$7,846	\$3,907

24. Retained earned premium

	For the three-month period ended 30 September 2019		
	Insurance contract	Investment contracts with discretionary	
		participation feature	Total
Direct premium income	\$54,912,540	\$6,687,894	\$61,600,434
Reinsurance premium income	-	-	-
Premium income	54,912,540	6,687,894	61,600,434
Less:			
Premiums ceded to reinsurers	326,869	-	326,869
Changes in unearned premium reserve	(125,160)	7	(125,153)
Subtotal	201,709	7	201,716
Retained earned premium	\$54,710,831	\$6,687,887	\$61,398,718

	For the three-month period ended 30 September 2018		
	Insurance contract	Investment contracts with discretionary	
		participation feature	Total
Direct premium income	\$70,547,392	\$3,829,521	\$74,376,913
Reinsurance premium income	-	-	-
Premium income	70,547,392	3,829,521	\$74,376,913
Less:			
Premiums ceded to reinsurers	304,373	-	304,373
Changes in unearned premium reserve	(146,286)	(6)	(146,292)
Subtotal	158,087	(6)	158,081
Retained earned premium	\$70,389,305	\$3,829,527	\$74,218,832

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**Notes to financial statements (Continued)**  
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	For the nine-month period ended 30 September 2019		
	Investment contracts with discretionary		Total
	Insurance contract	participation feature	
Direct premium income	\$180,888,184	\$19,133,654	\$200,021,838
Reinsurance premium income	-	-	-
Premium income	180,888,184	19,133,654	200,021,838
Less:			
Premiums ceded to reinsurers	987,899	-	987,899
Changes in unearned premium reserve	110,674	61	110,735
Subtotal	1,098,573	61	1,098,634
Retained earned premium	\$179,789,611	\$19,133,593	\$198,923,204

	For the nine-month period ended 30 September 2018		
	Investment contracts with discretionary		Total
	Insurance contract	participation feature	
Direct premium income	\$191,171,371	\$10,705,294	\$201,876,665
Reinsurance premium income	-	-	-
Premium income	191,171,371	10,705,294	201,876,665
Less:			
Premiums ceded to reinsurers	910,651	-	910,651
Changes in unearned premium reserve	274,512	(4)	274,508
Subtotal	1,185,163	(4)	1,185,159
Retained earned premium	\$189,986,208	\$10,705,298	\$200,691,506

25. Retained claim payments

	For the three-month period ended 30 September 2019		
	Investment contracts with discretionary		Total
	Insurance contract	participation feature	
Direct insurance claim payments	\$20,396,221	\$2,890,331	\$23,286,552
Reinsurance claim payments	12	-	12
Insurance claim payments	20,396,233	2,890,331	23,286,564
Less:			
Claims recovered from reinsures	181,025	-	181,025
Retained claim payments	\$20,215,208	\$2,890,331	\$23,105,539

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	For the three-month period ended 30 September 2018		
	Investment contracts with discretionary		Total
	Insurance contract	participation feature	
Direct insurance claim payments	\$17,329,124	\$5,230,563	\$22,559,687
Reinsurance claim payments	25	-	25
Insurance claim payments	17,329,149	5,230,563	22,559,712
Less:			
Claims recovered from reinsures	158,892	-	158,892
Retained claim payments	\$17,170,257	\$5,230,563	\$22,400,820

	For the nine-month period ended 30 September 2019		
	Investment contracts with discretionary		Total
	Insurance contract	participation feature	
Direct insurance claim payments	\$62,408,083	\$13,295,600	\$75,703,683
Reinsurance claim payments	24	-	24
Insurance claim payments	62,408,107	13,295,600	75,703,707
Less:			
Claims recovered from reinsures	535,136	-	535,136
Retained claim payments	\$61,872,971	\$13,295,600	\$75,168,571

	For the nine-month period ended 30 September 2018		
	Investment contracts with discretionary		Total
	Insurance contract	participation feature	
Direct insurance claim payments	\$49,335,773	\$15,408,454	\$64,744,227
Reinsurance claim payments	25	-	25
Insurance claim payments	49,335,798	15,408,454	64,744,252
Less:			
Claims recovered from reinsures	551,070	-	551,070
Retained claim payments	\$48,784,728	\$15,408,454	\$64,193,182

26. Employee benefits, depreciation and amortization

- (1) Summary statement of employee benefits, depreciation and amortization expenses breakdown:

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	For the three-month periods ended 30 September					
	2019			2018		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense	\$965,493	\$961,801	\$1,927,294	\$864,053	\$713,891	\$1,577,944
Payroll expense	965,493	723,616	1,689,109	864,053	463,043	1,327,096
Labor and health insurance	-	107,625	107,625	-	100,035	100,035
Pension	-	60,247	60,247	-	57,070	57,070
Remuneration to directors	-	16,350	16,350	-	44,390	44,390
Other employee benefits expense	-	53,963	53,963	-	49,353	49,353
Depreciation	-	63,586	63,586	-	38,474	38,474
Amortization	-	27,042	27,042	-	24,179	24,179

	For the nine-month periods ended 30 September					
	2019			2018		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense	\$2,592,730	\$2,854,707	\$5,447,437	\$2,599,531	\$2,214,372	\$4,813,903
Payroll expense	2,592,730	2,080,759	4,673,489	2,599,531	1,494,319	4,093,850
Labor and health insurance	-	331,629	331,629	-	316,557	316,557
Pension	-	179,474	179,474	-	173,526	173,526
Remuneration to directors	-	104,859	104,859	-	91,306	91,306
Other employee benefits expense	-	157,986	157,986	-	138,664	138,664
Depreciation	-	172,823	172,823	-	115,669	115,669
Amortization	-	80,936	80,936	-	70,871	70,871

Note: Other employee benefits expenses consist of meals, group insurance, training and employee benefits, etc.

The average number of employees for the nine-month periods ended 30 September 2019 and 2018 were 5,708 and 5,515 respectively. The number of directors who do not serve concurrently as employees was 3 and 4 for 30 September 2019 and 2018, respectively.

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- (2) The information regarding employees' compensation and remuneration to directors within the Articles of Incorporation of the Company is as follows:

Where the Company makes profits, it shall allocate no less than 0.5 percent of the profits to be the remuneration of employees, and no more than 3 percent to be the remuneration of directors. But the Company shall reserve the amount of money to be used to cover its losses if it still has accumulated losses, and later it shall allocate the remuneration in proportion for employees and directors. The preceding remuneration of employees may be given in the form of share certificates or cash. The remuneration of directors shall only be given to non-independent directors.

For related information on employees' compensation and remuneration to directors approved by the Board of Directors meeting, please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

Based on profits for the nine-month period ended 30 September 2019, the Company estimated the amounts of the employees' compensation to be \$98,000 thousand, and remuneration to directors to be \$98,000, recognized as operating expense. Based on profit for the nine-month period ended 30 September 2018, the Company estimated the amounts of the employees' compensation to be \$84,000 thousand, and remuneration to directors to be \$84,000 thousand, recognized as operating expense.

On 21 February 2019, the Board of Directors meeting resolved to distribute \$84,000 thousand and \$84,000 thousand of employees' compensation and remuneration to directors for the year ended 31 December 2018. No differences exist between the estimated amount and the actual amount for the year ended 31 December 2018.

27. Income taxes

Amendment of Income Tax Act has been promulgated by the President on 7 February 2018. In accordance with the newly amended Income Tax Act, business income tax rate shall be raised from 17% to 20% and additional surtax on undistributed retained earnings shall be declined from 10% to 5% beginning in 2018.

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

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Income tax expense recognized in profit or loss

	For the three-month periods ended 30 September	
	2019	2018
Current income tax expense (benefit):		
Current income tax payable	\$100,486	\$(870,825)
Adjustment from prior year income tax expense to current year	(20,360)	-
Deferred income tax expense (benefit):		
Deferred tax expense (benefit) relating to origination and reversal of temporary differences	162,592	2,825,130
Deferred tax expense (benefit) relating to origination and reversal of tax loss and tax credit	657,558	(1,622,037)
Others	(7,646)	(10,234)
Total income tax expense (benefit)	<u>\$892,630</u>	<u>\$322,034</u>

	For the nine-month periods ended 30 September	
	2019	2018
Current income tax expense (benefit):		
Current income tax payable	\$523,163	\$164,735
Adjustment from prior year income tax expense to current year	(27,947)	(108,606)
Deferred income tax expense (benefit):		
Deferred tax expense (benefit) relating to origination and reversal of temporary differences	1,156,339	2,223,674
Deferred tax expense (benefit) relating to origination and reversal of tax loss and tax credit	161,894	(1,622,037)
Deferred tax relating to the change of tax rate	-	(837,344)
Others	(25,554)	(55,163)
Total income tax expense (benefit)	<u>\$1,787,895</u>	<u>\$(234,741)</u>

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**Notes to financial statements (Continued)**  
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Income tax expense recognized in other comprehensive income

	For the three-month periods ended 30 September	
	2019	2018
Deferred tax expense (benefit):		
Unrealized gains (losses) of equity instrument investments at fair value through other comprehensive income	\$(469,583)	\$(36,863)
Unrealized gains (losses) of debt instrument investments at fair value through other comprehensive income	2,030,034	203,582
Other comprehensive income from adoption of overlay approach	(265,633)	84,514
Unrealized property revaluation surplus	-	4,784
Income tax expense (benefit) relating to components of other comprehensive income	<u>\$1,294,818</u>	<u>\$256,017</u>
	For the nine-month periods ended 30 September	
	2019	2018
Deferred tax expense (benefit):		
Unrealized gains (losses) of equity instrument investments at fair value through other comprehensive income	\$20,034	\$(789,091)
Unrealized gains (losses) of debt instrument investments at fair value through other comprehensive income	7,166,167	(3,055,753)
Other comprehensive income from adoption of overlay approach	839,466	(985,976)
Unrealized property revaluation surplus	-	4,784
Deferred tax relating to the change of tax rate	-	412,302
Income tax expense (benefit) relating to components of other comprehensive income	<u>\$8,025,667</u>	<u>\$(4,413,734)</u>



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Income tax charged directly to equity

	For the three-month periods ended 30 September	
	2019	2018
Current income tax expense (benefit):		
Derecognition of equity instrument investments at fair value through other comprehensive income	\$(10,364)	\$28,795
Income tax of participating policy recognized as equity	(1,503)	-
Deferred tax expense (benefit):		
Unrealized gains (losses) of equity instrument investments at fair value through other comprehensive income	10,364	(28,795)
Deferred tax expense (benefit) relating to origination and reversal of tax loss	2,505	-
Income tax charged directly to equity	<u>\$1,002</u>	<u>\$-</u>

	For the nine-month periods ended 30 September	
	2019	2018
Current income tax expense (benefit):		
Derecognition of equity instrument investments at fair value through other comprehensive income	\$(8,608)	\$-
Income tax of participating policy recognized as equity	(1,503)	-
Deferred tax expense (benefit):		
Unrealized gains (losses) of equity instrument investments at fair value through other comprehensive income	8,608	-
Income tax charged directly to equity	<u>\$(1,503)</u>	<u>\$-</u>

(2) The assessment of income tax returns

As of 30 September 2019, the income tax returns of the Company have been assessed and approved up to the year of 2017.

28. Earnings per share

Basic earnings per share amounts are calculated by dividing net income for the year by the weighted average number of shares outstanding during the year.

As the Company has not issued any potential common shares with dilutive effect, the Company would no need to adjust to basic earnings per share.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

	For the three-month periods ended 30 September	
	2019	2018
	<u>Basic earnings per share</u>	
Profit attributable to ordinary equity holders of the Company	\$5,500,560	\$4,237,188
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	4,463,582	4,013,582
Basic earnings per share (in dollars)	\$1.23	\$1.06

	For the nine-month periods ended 30 September	
	2019	2018
	<u>Basic earnings per share</u>	
Profit attributable to ordinary equity holders of the Company	\$12,950,187	\$10,495,815
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	4,175,121	4,013,582
Basic earnings per share (in dollars)	\$3.10	\$2.62

There have no other transactions involving ordinary shares or potential ordinary shares between that reporting date and the date of completion of the financial statements.

29. Separate account insurance products

(1) Separate account insurance products — assets and liabilities

Items	Assets		
	2019.9.30	2018.12.31	2018.9.30
Cash in bank	\$6,480,375	\$387,402	\$533,310
Financial assets at fair value through profit or loss	70,496,557	63,050,586	66,450,269
Other receivables	43,556	63,677	61,486
Total	\$77,020,488	\$63,501,665	\$67,045,065

  

Items	Liabilities		
	2019.9.30	2018.12.31	2018.9.30
Reserve for separate account	\$76,962,818	\$63,353,697	\$66,742,905
Other payables	57,670	147,968	302,160
Total	\$77,020,488	\$63,501,665	\$67,045,065

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

(2) Separate account insurance products — revenues and expenses:

Items	Revenues	
	For the three-month periods ended 30 September	
	2019	2018
Premium income	\$1,457,861	\$1,448,562
Gains (losses) from financial assets and liabilities at fair value through profit or loss	(225,670)	(463,407)
Interest income	380	601
Other revenues	43,987	45,228
Foreign exchange gains (losses)	(63,142)	21,554
<b>Total</b>	<b>\$1,213,416</b>	<b>\$1,052,538</b>

Items	Expenses	
	For the three-month periods ended 30 September	
	2019	2018
Insurance claim payments	\$1,162,704	\$1,343,151
Net change in separate account reserve	(504,628)	(790,117)
Custodian fee	555,340	499,504
<b>Total</b>	<b>\$1,213,416</b>	<b>\$1,052,538</b>

Items	Revenues	
	For the nine-month periods ended 30 September	
	2019	2018
Premium income	\$4,081,270	\$4,760,994
Gains (losses) from financial assets and liabilities at fair value through profit or loss	3,104,849	(677,979)
Interest income	582	744
Other revenues	132,964	138,283
Foreign exchange gains (losses)	188,510	290,806
<b>Total</b>	<b>\$7,508,175</b>	<b>\$4,512,848</b>

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
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Items	Expenses	
	For the nine-month periods ended 30 September	
	2019	2018
Insurance claim payments	\$3,596,009	\$4,569,465
Net change in separate account reserve	2,457,167	(1,501,507)
Custodian fee	1,454,999	1,444,890
Total	<u>\$7,508,175</u>	<u>\$4,512,848</u>

(3) The rebate earned for engaging in investment-linked insurance business from counterparties for the three-month periods and the nine-month periods ended 30 September 2019 and 2018 were \$108,106 thousand, \$110,583 thousand, \$325,433 and \$286,710 thousand, respectively.

30. Business Combination

The Company has set 18 May 2018 as the acquisition date to pay \$1 as acquisition consideration and acquired assets and liabilities related to partial traditional policies from Allianz Taiwan Life.

The fair value of the identifiable assets and liabilities as at the date of acquisition were:

Assets	
Cash and cash equivalents	\$49,856,478
Receivables	161,318
Loans	748,331
Subtotal	<u>50,766,127</u>
Liabilities	
Insurance liabilities	50,194,310
Payables	2,569
Other liabilities	357
Subtotal	<u>50,197,236</u>
Identifiable net assets	<u>\$568,891</u>
Gain on bargain purchase is as follows:	
Purchase consideration	\$0.001
Less: identifiable net assets at fair value	(568,891)
Gain on bargain purchase	<u>\$(568,891)</u>

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**Notes to financial statements (Continued)**  
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The fair value of loans and receivables amounts to \$909,649 thousand. The Company expected that the cash flow to be collected is equivalent to the abovementioned amount.

If the combination had taken place on 1 January 2018, the operating revenue for the nine-month period ended 30 September 2018 for the Company would have been \$248,578,439 thousand and the income before income tax would have been \$10,595,297 thousand.

**VII. Information of insurance contracts**

**1. Objectives, policies, procedures and methods of insurance contracts risk management**

**(1) Framework of risk management, organization structure and responsibilities:**

The board of directors should ensure the effectiveness of risk management and bear the ultimate responsibility for risk management, responsible for formulating the company's overall risk appetite and risk tolerance, review and approve the Company's risk management objectives and strategies. "Risk Management Committee" is set under the board of directors. Various risk management report and related issues are first report to risk management committee and made the final approval by the board of directors. Besides the risk management committee, the Company set up an asset and liability management unit to strengthen the risk management organization and structure.

In addition, the Company establishes the risk management department independent to the business units, which is responsible for the implementation of various risk management measures and the fulfillment of each risk management system, including monitoring the daily risks, measuring and evaluating related issues, assisting the board to develop Company's risk appetite, executing the risk management policies approved by the board of directors. Moreover, the business units should be responsible for the risks identification, report the risk exposure, measure the impact of risks, review the various risks and limits regularly, and make sure that the internal control procedures of each unit are implemented effectively in accordance with related regulations and the Company's risk management policy.

**(2) Risk management policies, procedures and methods:**

According to risk management policies, the Company sets an effective mechanism to proceed identification, measurement, monitoring, reporting and response to risk, establishes clear objectives for risk management, controls approaches and attribution of responsibility to make sure that each operational risk is controlled under the tolerable range, making the largest surplus and profits for shareholders.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Pursuant to “China Life Insurance Company Limited Risk Management Policy”, approved by the board of directors, the Company follows the principle of centralized management and specialization, and assigns responsible department to manage various risks, including market, credit, operation, liquidity, underwriting, claim reserve, insurance product development and pricing, asset-liability management, reinsurance and catastrophe risk based on the sources of risk. In addition, the Company develops management guidelines for various types of risk, standardizes measurement and evaluation methods, and regularly issues risk reports to monitor the various risks.

- (3) Risk management policies, procedures and methods related to reserves:

Reserve-related risks refer to risks that various reserves are unable to deal with future obligations due to understatement of liability for premium business. The Company sets and implements the appropriate risk management system for the insurance business reserves and related risks.

- (4) Risk management policies, procedures and methods related to matching assets and liabilities:

Risks related to matching assets and liabilities indicate risks arising from inconsistent movement of assets and liabilities. The Company sets appropriate asset-liability management system based on the attributes and complexity of insurance liability risks. The system allows the Company to form, implement, monitor and correct related strategies within the tolerable range. The contents include the following items:

- ① Risk identification related to matching of assets and liabilities
- ② Risk measurement related to matching of assets and liabilities
- ③ Risk responses related to matching of assets and liabilities

**2. Information of insurance risks**

- (1) Sensitivity of insurance risks — Insurance contracts and financial instruments with discretionary participation features:

Insurance companies set aside various reserves according to the legal requirements and regularly conduct adequacy test of liability to assess the adequacy of insurance liabilities of the company as a whole.

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For the insurance contracts and financial instruments with discretionary participation features underwritten by the Company, the main risks include mortality, morbidity, surrender, expense and investment returns rate. When doing the liability adequacy test, various actuarial assumptions are made based on available information at assessment point for all insurance contracts and financial instruments with discretionary participation feature, to assess whether the insurance liability of the Company is adequate. If the test result indicates the insurance liability is not adequate, then set aside the insufficient amount as liability adequacy reserve according to the provision. The reserve will affect current profit and loss.

As at 30 September 2019, assuming a 5% change in mortality, morbidity, surrender and expenses, and a decrease in investment return of 0.1%, all insurance contracts and financial instruments with discretionary participation feature will not cause the Company's insurance liability inadequate.

(2) Interpretation for concentration of insurance risks

- ① The Company's insurance business is mainly in Taiwan, Republic of China and there is no significant difference in insurance risk between each region. The Company had set tolerable cumulative risk limits for each risk unit and incident. Insurance risks that exceed the limits will be transferred through reinsurance. Please refer to Note VI.14 for concentration of risk before and after the reinsurance for the Company.
- ② Furthermore, according to "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises", the annual increased special capital reserve, excluding taxes, for catastrophe and fluctuation of risks for abnormal changes in loss ratio and claims of each type of insurance needs to be recognized in special capital reserve under equity in accordance with IAS 12.

(3) Claim development trend

- ① Direct business loss development trend

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**Notes to financial statements (Continued)**  
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Accident year	Development year												Reserve for claims
	1	2	3	4	5	6	7	8	9	10	11	12	
2008	\$2,170,100	\$2,736,556	\$2,776,542	\$2,781,989	\$2,786,399	\$2,792,187	\$2,798,032	\$2,798,807	\$2,799,546	\$2,800,435	\$2,802,449	\$2,802,952	
2009	2,243,111	2,870,648	2,924,110	2,934,461	2,936,046	2,939,451	2,940,095	2,940,209	2,940,748	2,941,322	2,941,834		
2010	2,574,879	3,071,401	3,132,443	3,137,874	3,143,299	3,143,963	3,144,299	3,144,902	3,145,167	3,145,367			
2011	2,610,108	3,276,928	3,328,279	3,342,075	3,346,106	3,350,438	3,351,824	3,354,243	3,354,412				
2012	2,345,575	2,953,776	3,029,335	3,045,381	3,048,828	3,051,256	3,054,748	3,055,906					
2013	2,267,213	2,964,954	3,028,400	3,040,442	3,045,355	3,053,040	3,054,694						
2014	3,448,229	4,203,186	4,284,682	4,298,217	4,303,753	4,308,327							
2015	3,530,448	4,420,482	4,498,438	4,510,113	4,515,428								
2016	3,721,820	4,648,280	4,743,133	4,755,331									
2017	4,320,234	5,400,952	5,513,693										
2018	4,775,948	5,884,331											
2019	3,596,308												\$1,500,926

Note: This table does not include long term life insurance

Add : Long term insurance claims	423,384
Claim reserve for discount on no claim	123,530
Reserve for claims balance	<u>\$2,047,840</u>

② Retained business loss development trend

Accident year	Development year												Reserve for claims
	1	2	3	4	5	6	7	8	9	10	11	12	
2008	\$2,128,556	\$2,682,784	\$2,721,905	\$2,719,002	\$2,723,312	\$2,728,970	\$2,734,682	\$2,735,440	\$2,736,162	\$2,737,031	\$2,739,000	\$2,739,491	
2009	2,204,858	2,820,114	2,862,350	2,868,022	2,869,572	2,872,900	2,873,529	2,873,640	2,874,167	2,874,728	2,875,229		
2010	2,535,358	3,010,157	3,068,543	3,066,830	3,072,133	3,072,782	3,073,109	3,073,699	3,073,958	3,074,153			
2011	2,561,841	3,214,455	3,260,383	3,266,408	3,270,348	3,274,581	3,275,936	3,278,301	3,278,466				
2012	2,304,504	2,897,464	2,967,538	2,976,431	2,979,800	2,982,173	2,985,586	2,986,718					
2013	2,227,515	2,908,429	2,966,622	2,971,604	2,976,405	2,983,916	2,985,533						
2014	3,387,852	4,123,055	4,197,276	4,200,902	4,206,313	4,210,783							
2015	3,468,881	4,336,525	4,407,051	4,408,435	4,413,195								
2016	3,657,093	4,560,257	4,647,033	4,647,723									
2017	4,244,930	5,298,470	5,401,352										
2018	4,692,869	5,772,319											
2019	3,533,460												\$1,493,126

Note: This table does not include long term life insurance

Add : Long term insurance claims	401,231
Claim reserve for discount on no claim	123,530
Reserve for claims balance	<u>\$2,017,887</u>



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The Company recognizes claim reserve for reported claims (reported but not paid) and unreported claims (incurred but not reported). Due to uncertainty, estimation, and judgment involved in recognition, there is a high degree of complexity in claim reserves. Any changes of the estimation or judgment are treated as the changes of the accounting estimates and can be recognized as profit and loss in current year. The Company was not notified of some claims in time. Also, the expected payment for unreported claims involves major subjective judgment and estimation on the past experience. Thus, it is uncertain that the estimated claim reserve on the balance sheet date will be equal to the final settled amount of claim payments. The claim reserve recorded on the book is estimated based on the current available information. However, the final amount probably will differ from the original estimates because of the follow-up development of the claim events.

The charts above show the development trend of claim payments (not including cases whose payment and time will be confirmed within a year). The accident year is the actual year for the occurrence of the insurance claim events; the x-axis is the year of the development for the settlement cases. Each slash represents the cumulative amount of compensation for each accident event at the end of the year. The occurred claims include decided and undecided claims which represent the accumulated estimated dollar amounts need to be paid for each accident year as time passes. It is possible that the circumstances and trends affecting dollar amount of recognition for claim reserve in the current year will be different from those in the future. Thus, the expected future payment amount for the settlement cases cannot be determined by the charts above.

(4) Credit risk:

For insurance contracts undertaken by the Company, the credit risk comes from reinsurers who fail to fulfill their obligation of reinsurance contracts, causing the Company to be exposed to the risk of financial loss. If the Company disputes with the reinsurers, then it may lead to impairment of reinsurance assets. In addition, the account receivables of insurance brokers and agents also have credit risk.

The Company's highest risk exposure for the reinsurance contracts are the carrying amount of reinsurance assets. In order to manage that risk and avoid credit losses, the Company decides to deal with reinsurance companies that have good credits. The Company sets related selection standard, makes regular assessment and monitors the reinsurers' financial business condition, credit status and rating. Also, it will adjust the business scope and scale based on the circumstances to prevent from over concentration of credit risk.

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(5) Liquidity risk:

As at 30 September 2019, 31 December 2018, and 30 September 2018, the maturity analysis of liquidity risk for insurance contract liabilities are as follows:

30 September 2019	Within 1 year	1 to 3 years	3 to 5 years	5 to 15 years	Over 15 years
Insurance liabilities of investment contracts with discretionary participation features	\$(52,955,977)	\$67,592,280	\$151,387,797	\$621,362,500	\$3,553,624,308
Reserve for insurance contracts with feature of financial instruments	-	-	-	-	-
31 December 2018	Within 1 year	1 to 3 years	3 to 5 years	5 to 15 years	Over 15 years
Insurance liabilities of investment contracts with discretionary participation features	\$(33,630,030)	\$39,944,163	\$129,971,782	\$558,939,147	\$3,349,786,380
Reserve for insurance contracts with feature of financial instruments	-	-	-	-	-
30 September 2018	Within 1 year	1 to 3 years	3 to 5 years	5 to 15 years	Over 15 years
Insurance liabilities of investment contracts with discretionary participation features	\$(27,083,173)	\$35,945,017	\$115,395,800	\$536,929,171	\$3,278,614,663
Reserve for insurance contracts with feature of financial instruments	-	-	-	-	-

Note:

1. This table estimates net cash flow of all related insurance liabilities at its starting point.
2. The actual maturity date will change according to the exercise of termination right by the policyholders.
3. The table cannot match with the liabilities of balance sheet because the above contracts use the undiscounted contractual cash flow analysis. In addition, it includes the cash inflows of future renewal premiums.
4. In addition to the analysis of the above table, the Company uses both the estimated of the expected less and more than 12 months to analyze assets and liabilities. Please refer to Note X.

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(6) Market risk:

Pursuant to the “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises”, when the Company measures insurance liabilities, it sets aside the reserve by using the discount rate required by the authorities. Since the discount rate assumption does not move in the same direction with the interest rate, changes in market risks have no significant influence on the Company’s profit or loss and equity for insurance contracts. However, changes in market risks may have influence on liability adequacy test evaluated based on available information. But, it has little influence on the adequacy of current recognized insurance liabilities.

**VIII. Financial instruments**

**1. Categories of financial instruments**

**Financial assets**

	<u>2019.9.30</u>	<u>2018.12.31</u>	<u>2018.9.30</u>
Financial assets at fair value through profit or loss:			
Mandatorily measured at fair value through profit and loss	\$319,868,622	\$215,549,254	\$222,643,560
Financial assets at fair value through other comprehensive income	386,099,832	323,006,735	301,274,929
Financial assets measured at amortized cost:			
Cash and cash equivalents (exclude cash on hand and revolving funds)	45,149,281	42,945,172	55,307,872
Financial assets measured at amortized cost	1,011,007,074	950,482,240	908,066,326
Receivables	24,142,810	17,549,054	22,956,254
Loans	33,321,584	33,379,965	32,942,231
Refundable deposits	7,394,349	6,643,887	8,904,281
Subtotal	<u>1,121,015,098</u>	<u>1,051,000,318</u>	<u>1,028,176,964</u>
Total	<u>\$1,826,983,552</u>	<u>\$1,589,556,307</u>	<u>\$1,552,095,453</u>

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Financial liabilities

	2019.9.30	2018.12.31	2018.9.30
Financial liabilities at fair value through profit or loss:			
Held for trading	\$3,120,040	\$2,469,127	\$5,377,078
Financial liabilities measured at amortized cost:			
Payables	23,714,509	10,727,086	9,488,619
Lease liabilities	2,229,202	(Note)	(Note)
Guarantee deposits received	1,790,971	299,294	166,903
Subtotal	27,734,682	11,026,380	9,655,522
Total	\$30,854,722	\$13,495,507	\$15,032,600

Note: The Company adopted IFRS 16 since 1 January 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

2. Fair value of financial instruments

(1) Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The methods and assumptions used by the Company to measure and disclose fair value of the financial assets and liabilities are as follows:

- ① Fair value of cash and cash equivalents, receivables and payables are approximately equal to the carrying amount due to their short maturity.
- ② For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value are determined based on market quotation price. (Including listed stocks and beneficiary certificates, etc.)
- ③ Fair value of financial instruments with no active market is estimated based on the valuation methods. The estimates and assumptions used are consistent with those made by market participants during the pricing of financial instruments.
- ④ The assessment bases for forward exchange are exchange rates on the Reuters, the NT as the closing price, and the purchase price of the other currency. Fair value of each forward exchange contract is calculated based on the exchange rate on each maturity date. Fair value of interest rate swap is the quoted price provided by traded parties.
- ⑤ Fair value of other financial assets and liabilities are determined based on discounted cash flow analysis. The interest rates and discount rates assumptions mainly refer to related information of similar instruments and yield curve for the duration, etc.

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- ⑥ The adjustments of credit risk valuation for the derivative instrument contracts traded over-the-counter are classified as Credit value adjustments (CVA) and Debit value adjustments (DVA), to reflect the probability of default of the counterparty (CVA) and the Company (DVA).

Under the assumption that the Company will not default, the Company determines its credit value adjustment (CVA) by multiplying three factors, probability of default (PD), loss given default (LGD), and exposure at default (EAD) of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Company calculates its debit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default of the Company. The Company estimates probability of default through internal rating, estimates loss given default at 60% by considering suggestions by scholars and foreign financial institutions, and estimates exposure at default through market approach for derivative instruments, to reflect credit risk of the counterparty and the credit quality of the Company.

(2) Fair value of financial instruments measured at amortized cost

Other than cash and cash equivalents, receivables, loans, payables, lease liabilities and guarantee deposits received whose carrying amount approximates their fair value, the fair value of financial assets and financial liabilities measured at amortized cost is as follows:

	Carrying amount		
	2019.9.30	2018.12.31	2018.9.30
Financial assets			
Financial assets measured at amortized cost	\$1,011,007,074	\$950,482,240	\$908,066,326
Refundable deposits - Bonds	6,698,470	5,955,901	5,955,342
	Fair value		
	2019.9.30	2018.12.31	2018.9.30
Financial assets			
Financial assets measured at amortized cost	\$1,071,479,469	\$933,628,822	\$886,190,415
Refundable deposits - Bonds	7,938,709	6,790,767	6,725,901

**3. Fair value measurement hierarchy**

(1) Fair value measurement hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

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Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly or indirectly.

Level 3 – Unobservable inputs for assets or liabilities.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

(2) Fair value measurement hierarchy of the Company's assets and liabilities

The Company does not have assets that are measured at fair value on a non-recurring basis. Fair value hierarchy of the Company's assets and liabilities measured at fair value on a recurring basis is as follows:

	2019.9.30			
	Total	Level 1	Level 2	Level 3
Financial assets measured at fair value:				
Financial assets at fair value through				
profit or loss				
Stocks	\$123,637,485	\$123,453,672	\$-	\$183,813
Bonds	57,688,491	24,237,587	33,450,904	-
Swaps and forward foreign				
exchange contracts	5,609,149	-	5,609,149	-
Others	132,933,497	129,493,279	-	3,440,218
Financial assets at fair value through				
other comprehensive income				
Stocks	38,814,621	22,391,088	9,452	16,414,081
Bonds	347,285,211	239,402,720	107,882,491	-
Refundable deposits				
Bonds	9,833	-	9,833	-
Investment property	20,622,905	-	-	20,622,905



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	2018.9.30			
	Total	Level 1	Level 2	Level 3
Financial assets measured at fair value:				
Financial assets at fair value through profit or loss				
Stocks	\$129,380,280	\$128,922,945	\$320,500	\$136,835
Bonds	57,376,031	21,808,993	35,376,645	190,393
Swaps and forward foreign exchange contracts	3,690,714	-	3,690,714	-
Others	32,196,535	30,695,327	-	1,501,208
Financial assets at fair value through other comprehensive income				
Stocks	31,058,772	18,970,112	13,208	12,075,452
Bonds	270,216,157	179,218,222	90,997,935	-
Refundable deposits				
Bonds	10,770	-	10,770	-
Investment property	20,630,387	-	-	20,630,387
Liabilities measured at fair value:				
Financial liabilities at fair value through profit and loss				
Swaps and forward foreign exchange contracts	5,377,078	-	5,377,078	-

**A. Transfers between Level 1 and Level 2 during the period**

During the nine-month period ended 30 September 2019, the Company's debt instruments measured at fair value through other comprehensive income, amounted to \$5,263,626 thousand, transferred from Level 2 to Level 1 because the Company can access quoted market prices. Debt instruments measured at fair value through other comprehensive income amounted to \$9,667,084 thousand, transferred from Level 1 to Level 2 because the Company can't access quoted market prices.

During the nine-month period ended 30 September 2018, the Company's debt instruments measured at fair value through other comprehensive income on a recurring basis, amounted to \$14,928,473 thousand, transferred from Level 2 to Level 1 because the Company can access quoted market prices.

**B. Reconciliation for Level 3 of the fair value hierarchy**

Reconciliation for recurring fair value measurements categorized within Level 3 of the fair value hierarchy for movements during the period is as follows:



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For the nine-month period ended 30 September 2019:

	Total gains and losses recognized			Acquisition or issue	Disposal, settlement or forced conversion	Transfer in (out) of Level 3 (Note 3)	Ending balance
	Beginning balance	Recognized in profit or loss (Note 1)	Recognized in OCI (Note 2)				
Assets							
Financial assets at fair value through profit or loss							
Stock	\$133,172	\$-	\$(3,517)	\$54,240	\$(82)	\$-	\$183,813
Others	1,675,969	1,227	63,716	1,764,885	(65,579)	-	3,440,218
Convertible bonds	191,943	(35,753)	-	-	(156,190)	-	-
Financial assets at fair value through other comprehensive income							
Stock	10,700,220	-	389,714	5,379,349	(55,202)	-	16,414,081
Investment property	20,623,244	(339)	-	-	-	-	20,622,905

For the nine-month period ended 30 September 2018:

	Total gains and losses recognized			Acquisition or issue	Disposal, settlement or forced conversion	Transfer in (out) of Level 3 (Note 3)	Ending balance
	Beginning balance	Recognized in profit or loss (Note 1)	Recognized in OCI (Note 2)				
Assets							
Financial assets at fair value through profit or loss							
Stock	\$95,561	\$-	\$10,710	\$48,028	\$(17,464)	\$-	\$136,835
Others	1,199,719	(639)	93,641	255,521	(47,034)	-	1,501,208
Convertible bonds	244,566	(54,173)	-	-	-	-	190,393
Financial assets at fair value through other comprehensive income							
Stock	16,399,191	-	(4,282,846)	42,000	(82,893)	-	12,075,452
Investment property	20,629,278	(48,412)	50,414	-	(37,340)	36,447	20,630,387

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Note1: presented in “Gains (losses) on financial assets and liabilities at fair value through profit or loss/ Gains (losses) from adoption of overlay approach/ Gains (losses) on investment property” in the comprehensive income statement.

Note2: presented in “Gains (losses) from adoption of overlay approach/ Gains (losses) on equity instruments at fair value through other comprehensive income/ property revaluation surplus” in the comprehensive income statement.

Note3: The amount of investment property is related to transfer between property and equipment, no transfer in (out) for fair value level.

Total gains (losses) recognized in profit or loss above contains gains (losses) related to assets on hand as of 30 September 2019 and 2018 is as follows:

	For the nine-month periods ended 30 September	
	2019	2018
Total gains and losses		
Recognized in profit or loss	\$ (339)	\$ (104,977)
Recognized in other comprehensive income	449,913	(4,128,081)

**C. Information on significant unobservable inputs to valuation**

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

2019.9.30				
Item	Valuation techniques	Significant unobservable inputs	Quantification Information	Relationship between inputs and fair value
Financial assets at fair value through profit or loss	Asset approach	Discount for liquidity and minor interests	0%~10%	The higher the discount for liquidity and minor interests, the lower the estimated fair value
Financial assets at fair value through other comprehensive income	Market approach	Discount for liquidity	10%~30%	The higher the discount for liquidity, the lower the estimated fair value
		Control premium	0%~10%	The higher the control premium, the higher the estimated fair value
	Income approach	Cost of capital	6.03%	The higher the cost of capital, the lower the estimated fair value
		Discount for liquidity	0%~10%	The higher the discount for liquidity, the lower the estimated fair value
	Asset approach	Discount for liquidity and minor interests	0%~10%	The higher the discount for liquidity and minor interests, the lower the estimated fair value
Investment property				Please refer to Note VI.7

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Item	Valuation techniques	Significant unobservable inputs	Quantification Information	Relationship between inputs and fair value
Financial assets at fair value through profit or loss	Option	Volatility in stock price for the three-month period	35.139%	The higher the volatility in stock price for the three-month period, the higher the estimated fair value
	Asset approach	Discount for liquidity and minor interests	0%~10%	The higher the discount for liquidity and minor interests, the lower the estimated fair value
Financial assets at fair value through other comprehensive income	Market approach	Discount for liquidity	10%~30%	The higher the discount for liquidity, the lower the estimated fair value
		Control premium	0%~10%	The higher the control premium, the higher the estimated fair value
	Income approach	Cost of capital	6.18%	The higher the cost of capital, the lower the estimated fair value
		Discount for liquidity	0%~10%	The higher the discount for liquidity, the lower the estimated fair value
	Asset approach	Discount for liquidity and minor interests	0%~10%	The higher the discount for liquidity and minor interests, the lower the estimated fair value
Investment property				Please refer to Note VI.7

2018.9.30

Item	Valuation techniques	Significant unobservable inputs	Quantification Information	Relationship between inputs and fair value
Financial assets at fair value through profit or loss	Option	Volatility in stock price for the three-month period	22.777%	The higher the volatility in stock price for the three-month period, the higher the estimated fair value
	Asset approach	Discount for liquidity and minor interests	0%~10%	The higher the discount for liquidity and minor interests, the lower the estimated fair value
Financial assets at fair value through other comprehensive income	Market approach	Discount for liquidity	10%~30%	The higher the discount for liquidity, the lower the estimated fair value
		Control premium	0%~10%	The higher the control premium, the higher the estimated fair value
	Income approach	Cost of capital	6.36%	The higher the cost of capital, the lower the estimated fair value
		Discount for liquidity	0%~10%	The higher the discount for liquidity, the lower the estimated fair value
	Asset approach	Discount for liquidity and minor interests	0%~10%	The higher the discount for liquidity and minor interests, the lower the estimated fair value
Investment property				Please refer to Note VI.7

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**Notes to financial statements (Continued)**  
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D. Valuation process used for fair value measurements categorized within Level 3 of the fair value hierarchy

The Company is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions and the sources are independent, reliable, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The Company analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed according to the Company's accounting policies at each reporting date. Also, assessment of fair value for investment property are outsourced to appraisers from professional agencies every half year and they evaluates the effectiveness of fair value on the balance sheet date quarterly and decides whether to re-issue reports or issue review report. The Company's real estate department will review the legality, the rationality and correctness of valuation parameters important to results from external reports case-by-case.

(3) Fair value hierarchy of assets and liabilities not measured at fair value but for which the fair value is disclosed.

	2019.9.30			
	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Financial assets at measured amortized cost				
Bonds	\$226,337,523	\$845,141,946	\$-	\$1,071,479,469
Refundable deposits				
Bonds	-	7,938,709	-	7,938,709
	2018.12.31			
	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Financial assets at measured amortized cost				
Bonds	\$155,654,720	\$777,974,102	\$-	\$933,628,822
Refundable deposits				
Bonds	-	6,790,767	-	6,790,767

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	2018.9.30			
	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Financial assets at measured amortized cost				
Bonds	\$147,347,036	\$738,843,379	\$-	\$886,190,415
Refundable deposits				
Bonds	-	6,725,901	-	6,725,901

**4. Offsetting financial assets and financial liabilities**

The Company holds financial instruments in accordance with paragraph 42 of IAS 32 recognized by the FSC and the related assets and liabilities are offset on the balance sheet.

The Company may perform transactions not meeting the requirements of offsetting, but has enforceable master netting arrangement or other similar agreements with the counterparties. When both parties agree to settle in net amount, financial assets and financial liabilities could be offset and settled in net amount, and if not, in total amount. However, if any party in the transaction defaults, the other party can choose net settlement.

Related information about above offsetting financial assets and financial liabilities are as follows:

	2019.9.30					
	Financial assets ruled by offsetting, enforceable master netting arrangement or similar agreement					
	Gross amount of offset financial liabilities recognized on balance sheet (a)	Gross amount of offset financial liabilities recognized on balance sheet (b)	Net financial assets recognized on balance sheet (c)= (a)- (b)	Relevant amount that has not been offset on balance sheet (d)		Net amount (e)= (c)- (d)
				Financial instruments	Cash collateral received	
Derivative financial instrument	\$5,609,149	\$-	\$5,609,149	\$2,349,053	\$1,657,953	\$1,602,143

	2019.9.30					
	Financial liabilities ruled by offsetting, enforceable master netting arrangement or similar agreement					
	Gross amount of offset financial assets recognized on balance sheet (a)	Gross amount of offset financial liabilities recognized on balance sheet (b)	Net financial liabilities recognized on balance sheet (c)= (a)- (b)	Relevant amount that has not been offset on balance sheet (d)		Net amount (e)= (c)- (d)
				Financial instruments	Cash collateral pledged	
Derivative financial instrument	\$3,120,040	\$-	\$3,120,040	\$2,349,053	\$608,423	\$162,564

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2018.12.31							
Financial assets ruled by offsetting, enforceable master netting arrangement or similar agreement							
	Gross amount of offset financial liabilities recognized on balance sheet assets (a)	Gross amount of offset financial liabilities recognized on balance sheet (b)	Net financial assets recognized on balance sheet (c)= (a)- (b)	Relevant amount that has not been offset on balance sheet (d)	Financial instruments	Cash collateral received	Net amount (e)= (c)- (d)
Derivative financial instrument	\$3,132,902	\$-	\$3,132,902	\$1,543,353	\$83,901	\$1,505,648	

2018.12.31							
Financial liabilities ruled by offsetting, enforceable master netting arrangement or similar agreement							
	Gross amount of offset financial assets recognized on balance sheet liabilities (a)	Gross amount of offset financial liabilities recognized on balance sheet (b)	Net financial liabilities recognized on balance sheet (c)= (a)- (b)	Relevant amount that has not been offset on balance sheet (d)	Financial instruments	Cash collateral pledged	Net amount (e)= (c)- (d)
Derivative financial instrument	\$2,469,127	\$-	\$2,469,127	\$1,543,353	\$503,714	\$422,060	

2018.9.30							
Financial assets ruled by offsetting, enforceable master netting arrangement or similar agreement							
	Gross amount of offset financial liabilities recognized on balance sheet assets (a)	Gross amount of offset financial liabilities recognized on balance sheet (b)	Net financial assets recognized on balance sheet (c)= (a)- (b)	Relevant amount that has not been offset on balance sheet (d)	Financial instruments	Cash collateral received	Net amount (e)= (c)- (d)
Derivative financial instrument	\$3,690,714	\$-	\$3,690,714	\$2,386,827	\$33,301	\$1,270,586	

2018.9.30							
Financial liabilities ruled by offsetting, enforceable master netting arrangement or similar agreement							
	Gross amount of offset financial assets recognized on balance sheet liabilities (a)	Gross amount of offset financial liabilities recognized on balance sheet (b)	Net financial liabilities recognized on balance sheet (c)= (a)- (b)	Relevant amount that has not been offset on balance sheet (d)	Financial instruments	Cash collateral pledged	Net amount (e)= (c)- (d)
Derivative financial instrument	\$5,377,078	\$-	\$5,377,078	\$2,386,827	\$2,855,297	\$134,954	

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IX. Financial risk management

The Company's financial risk management objectives are primarily managing risks arising from holding financial assets. According to the Company's risk management policies, the main financial risks is market risk, credit risk and liquidity risk. The Company has established guidelines related to the management of the financial risk. The following is the definition, source, management procedures of the risk and methods used to measure the risk:

1. Credit risk analysis

- (1) Credit risk is the risk that an issuer or a counterparty will not meet its obligations under a contract, leading to a financial loss. The Company is exposed to credit risk from operating activities and financing activities (primarily loans, financial instrument investments and receivables.)

Credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to credit risk management. Credit limits are established for all issuers or counter parties based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Company's internal rating criteria, etc. To lower certain issuers' or counter parties' credit risk, credit enhancing instruments will be taken at the appropriate time.

For financial instrument investments, low credit risk is the premise of initial purchase, and at each reporting date, the Company shall assess if the financial instrument investments still qualify for conditions of low credit risk in order to determine the measurement method for allowance for losses. The Company disposes investments at the appropriate time (e.g., when credit risk significantly increases) to lower credit loss. In addition, the Company has built a credit risk model to assess the maximum possible loss on credit positions resulting from changes of credit rating or default. Moreover, based on issuer's region, industry and credit ratings within portfolios, the Company evaluates credit risk and concentration risk, respectively.

The Company determines risk-influencing factors based on 5P Principles for loans, and according to the extent of influence, each P is given different weight to calculate each

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borrower's credit rating. Credit rating evaluates the reasonableness of loan purpose, the region of collateral, loan-to-value, the customer's credit report, the interest-paying history records, financial conditions and debt-paying ability, etc. and the Company approves the credit rating through multiple layers to control loan risk. Once delay of payment occurs, the Company will actively collect as stated in procedure manual to avoid financial loss.

The Company evaluates expected credit loss in accordance with IFRS 9. Except for those receivables whose allowance for loss is measured at lifetime expected credit loss, the Company shall assess whether the credit risk has increased significantly since initial recognition at each reporting date for other debt instrument investments not measured at fair value through profit or loss whose premise of initial purchase is low credit risk and grouped under different classes of credit risk in order to determine the measurement method of allowance for loss and its loss rate. The primary consideration to determine whether the credit risk increases significantly includes objective evidence such as external credit rating and its change of class interval, overdue situations, occurrence of major financial difficulties or company liquidation or reorganization, etc. Besides, the measurement of expected credit losses is to multiply the future 12-month and the lifetime Probability of default (PD), and Loss given default (LGD) and Exposure at default (EAD). The Company also considers the effect of the time value of money to calculate 12-month expected credit losses and the lifetime expected credit losses respectively.

Default rate is the rate that a default occurs on issuers or counter parties. Loss given default is the loss rate resulted from the default of issuers or counter parties. The Company used the default rate and loss given default published by external credit assessment institutions, and calculated based on adjustments of forward-looking macroeconomics factors.

Exposure at default is measured at the amortized cost of financial assets with accrued interests and receivables. For loans, exposure at default is the total of debtor's outstanding balance at the time of calculation, interest and accrued expense.

Allowance for losses for certain receivables is recognized at lifetime expected credit losses. Past default records and prevailing information are taken into consideration for lifetime expected credit losses. The expected credit loss rate is calculated based on the overdue days of receivables.



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(2) Financial assets credit risk concentration analysis

A. The largest credit risk exposure of the financial debt instrument investments held by the Company or deposit in the bank is listed in accordance with the regional distribution as follows:

Date: 30 September 2019

Financial assets	Taiwan	Asia	Europe	America	Global	Total
Cash and cash equivalents	\$34,726,965	\$5,654,772	\$4,767,544	\$-	\$-	\$ 45,149,281
Financial assets at fair value						
through profit or loss	24,422,493	12,451,615	16,921,111	3,893,272	-	57,688,491
Financial assets at fair value						
through other comprehensive						
income	75,041,669	110,979,313	82,887,956	78,376,273	-	347,285,211
Financial assets measured at						
amortized cost	135,568,870	230,658,106	235,477,905	390,648,790	18,653,403	1,011,007,074
Refundable deposits—Bonds	6,708,303	-	-	-	-	6,708,303
Total	<u>\$276,468,300</u>	<u>\$359,743,806</u>	<u>\$340,054,516</u>	<u>\$472,918,335</u>	<u>\$18,653,403</u>	<u>\$ 1,467,838,360</u>
Proportion	<u>18.83%</u>	<u>24.51%</u>	<u>23.17%</u>	<u>32.22%</u>	<u>1.27%</u>	<u>100.00%</u>

Date: 31 December 2018

Financial assets	Taiwan	Asia	Europe	America	Global	Total
Cash and cash equivalents	\$38,287,834	\$1,919,154	\$2,738,184	\$-	\$-	\$42,945,172
Financial assets at fair value						
through profit or loss	22,768,189	8,226,879	31,346,707	3,726,226	-	66,068,001
Financial assets at fair value						
through other comprehensive						
income	95,588,537	76,002,454	57,546,223	62,264,262	-	291,401,476
Financial assets measured at						
amortized cost	134,174,771	218,562,631	212,259,896	367,500,420	17,984,522	950,482,240
Refundable deposits—Bonds	5,965,762	-	-	-	-	5,965,762
Total	<u>\$296,785,093</u>	<u>\$304,711,118</u>	<u>\$303,891,010</u>	<u>\$433,490,908</u>	<u>\$17,984,522</u>	<u>\$1,356,862,651</u>
Proportion	<u>21.87%</u>	<u>22.46%</u>	<u>22.40%</u>	<u>31.95%</u>	<u>1.32%</u>	<u>100.00%</u>

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Date: 30 September 2018

Financial assets	Taiwan	Asia	Europe	America	Global	Total
Cash and cash equivalents	\$35,067,753	\$15,211,739	\$5,028,380	\$-	\$-	\$55,307,872
Financial assets at fair value						
through profit or loss	21,055,457	8,417,655	26,733,586	1,169,333	-	57,376,031
Financial assets at fair value						
through other comprehensive						
income	84,043,115	69,628,192	57,270,182	59,274,668	-	270,216,157
Financial assets measured at						
amortized cost	122,411,947	214,156,695	201,804,121	351,974,355	17,719,208	908,066,326
Refundable deposits - Bonds	5,966,112	-	-	-	-	5,966,112
<b>Total</b>	<b>\$268,544,384</b>	<b>\$307,414,281</b>	<b>\$290,836,269</b>	<b>\$412,418,356</b>	<b>\$17,719,208</b>	<b>\$1,296,932,498</b>
Proportion	20.71%	23.70%	22.42%	31.80%	1.37%	100.00%

B. Regional distribution of credit risk exposure for secured loans and overdue receivables is as follows:

Date: 30 September 2019

Location	Central area:			Total
	Northern areas: Taipei and eastern counties	Taichung to Changhua and Nantou	Southern area: Counties below Tainan	
Secured loans	\$443,325	\$230,608	\$221,247	\$895,180
Overdue receivables	-	-	-	-
<b>Total</b>	<b>\$443,325</b>	<b>\$230,608</b>	<b>\$221,247</b>	<b>\$895,180</b>
Proportion	49.52%	25.76%	24.72%	100.00%

Date: 31 December 2018

Location	Central area:			Total
	Northern areas: Taipei and eastern counties	Taichung to Changhua and Nantou	Southern area: Counties below Tainan	
Secured loans	\$553,282	\$289,001	\$308,836	\$1,151,119
Overdue receivables	-	2,032	450	2,482
<b>Total</b>	<b>\$553,282</b>	<b>\$291,033</b>	<b>\$309,286</b>	<b>\$1,153,601</b>
Proportion	47.96%	25.23%	26.81%	100.00%

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Date: 30 September 2018

Location	Central area:			Total
	Northern areas: Taipei and eastern counties	Taichung to Changhua and Nantou	Southern area: Counties below Tainan	
Secured loans	\$600,327	\$315,186	\$304,346	\$1,219,859
Overdue receivables	-	-	491	491
Total	\$600,327	\$315,186	\$304,837	\$1,220,350
Proportion	49.19%	25.83%	24.98%	100%

(3) Financial asset credit quality and overdue impairment analysis

The Company's internal credit risk is classified into investment grade and non-investment grade mainly based on rating of the credit rating agencies:

- a. Investment grade means credit rating reaches at least BBB-granted by a credit rating agency.
- b. Non-investment grade means no credit rating or credit rating lower than BBB-granted by a credit rating agency.

Credit quality by classification is listed as follows:

Date: 30 September 2019

Financial assets	Investment grade	Non-investment grade
Cash and cash equivalents	\$45,149,281	\$-
Financial assets at fair value through profit or loss	57,688,491	-
Financial assets at fair value through other comprehensive income	339,935,152	7,350,059
Financial assets measured at amortized cost	1,011,007,074	-
Refundable deposits	6,708,303	-
Total	\$1,460,488,301	\$7,350,059
Proportion	99.50%	0.50%

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**Notes to financial statements (Continued)**  
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Date: 31 December 2018

Financial assets	Investment grade	Non-investment grade
Cash and cash equivalents	\$42,945,172	\$-
Financial assets at fair value through profit or loss	66,068,001	-
Financial assets at fair value through other comprehensive income	291,401,476	-
Financial assets measured at amortized cost	950,482,240	-
Refundable deposits	5,965,762	-
Total	<u>\$1,356,862,651</u>	<u>\$-</u>
Proportion	<u>100.00%</u>	<u>-</u>

Date: 30 September 2018

Financial assets	Investment grade	Non-investment grade
Cash and cash equivalents	\$55,307,872	\$-
Financial assets at fair value through profit or loss	57,376,031	-
Financial assets at fair value through other comprehensive income	270,216,157	-
Financial assets measured at amortized cost	908,066,326	-
Refundable deposits	5,966,112	-
Total	<u>\$1,296,932,498</u>	<u>\$-</u>
Proportion	<u>100.00%</u>	<u>-</u>

## 2. Liquidity risk analysis

- (1) Liquidity risks are classified to “funding liquidity risk” and “market liquidity risk.” “Funding liquidity risk” represents that the Company is not able to obtain sufficient funds at a reasonable funding cost to meet the demands within reasonable time. “Market liquidity risk” represents the risk that the Company sells at loss to meet the demand for cash.

The Company assesses the characteristics of business, monitors short-term cash flows, and constructs the completed mechanism of liquidity risk management. Furthermore, the Company manages market liquidity risk cautiously by considering market trading volumes and adequacy of holding positions with symmetric. To decentralize market risk when investment and to maintain investment each aspect (such as asset category, maturity, region, currency and tools) diversification. Planning emergency financing plan in order to assess how the Company in the long term illiquid environment still regularly operate to pay emergency and major funding requirements.

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The Company regularly monitors market liquidity and formulates plans to use the funds depending on market conditions and funding demand arrangements for liquidity assets portfolio. To deal with possible liquidity risk early, the company reports duration of assets and liabilities quarterly, creates cash flow model and reviews cash flow status regularly.

(2) Financial assets held for managing liquidity risk and maturity analysis of non-derivative financial liabilities

A. Financial assets held for managing liquidity risk

The Company holds cash, highly liquid and superior assets to deal with payment obligation and the potential urgent funds needs to dispatch in the market environment. Financial assets for managing liquidity risk are cash and cash equivalents, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortized cost, etc.

B. Maturity analysis of non-derivative financial liabilities

The analysis of cash outflows to the Company is listed below and based on the residual term from the date of balance sheet to the maturity. The disclosed amount is in accordance with cash flows on contracts, so the partial disclosed items are not the same as related items in the balance sheet.

Non-derivative financial instruments

	In 1 year	1 to 5 years	Over 5 years	Total
2019.9.30				
Payables	\$23,685,597	\$28,912	\$-	\$23,714,509
Lease liabilities(Note)	165,470	379,982	4,855,350	5,400,802
2018.12.31				
Payables	\$10,698,549	\$28,537	\$-	\$10,727,086
2018.9.30				
Payables	\$9,456,235	\$32,384	\$-	\$9,488,619

Note: The Company adopted IFRS 16 since 1 January 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

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C. Maturity analysis of derivative financial liabilities

The Company operates derivatives including foreign exchange derivative instruments (such as currency forward contracts, foreign exchange forward).

The Company has enough operating capital, including cash and cash equivalents, and highly liquid securities, such as government bonds to pay the investment and liabilities at maturity. Therefore, the risk of liquidity is extremely low. The Company enters into forward contracts and swap contracts derivative financial instruments, whose currencies are highly liquid, so the possibility of selling out and the risk of market liquidity are low. The forward contracts and swap contracts will be operated continually and the capital is enough to pay for settlement, so the risk of capital liquidity is low.

Maturity structure of derivative financial liabilities is as follows:

		2019.9.30				
		181 days				
		In 90 days	91-180 days	-1 year	Over 1 year	Total
Financial liabilities at fair						
value through profit or loss		\$2,302,102	\$814,483	\$3,455	\$-	\$3,120,040
		2018.12.31				
		181 days				
		In 90 days	91-180 days	-1 year	Over 1 year	Total
Financial liabilities at fair						
value through profit or loss		\$1,782,682	\$-	\$686,445	\$-	\$2,469,127
		2018.9.30				
		181 days				
		In 90 days	91-180 days	-1 year	Over 1 year	Total
Financial liabilities at fair						
value through profit or loss		\$4,586,288	\$769,318	\$21,472	\$-	\$5,377,078

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3. Market risk analysis

- (1) Market risk refers to financial assets and liabilities due to market risk factors volatility, making the change of the value to cause the risk of loss.

The Company has built Value at Risk (VaR) model. All financial assets involve market risks regularly monitor by risk management system and calculate the VaR. Risk control indices are notional amount and VaR. It will issue risk management reports and execute routine control and process when over limit. We also report VaR, the use of risk limits and the results of backtesting regularly to the board of directors or risk management committee.

- (2) Exchange rate risk

The Company continues to exercise swaps and forward exchange derivative transactions to hedge the value change risk of holding foreign currencies because of changes in exchange rates in accordance with relevant laws and internal control requirements to use the internal mechanism to effectively control this risk.

The Company's exchange rate risk is primarily related to operating activities (the currencies the income or expense used are not the same as the functional currency of the Company).

Some of the Company's accounts receivable and accounts payable are denoted in the same foreign currency. Under such circumstances, the similar positions will naturally generate the hedging effect. Some foreign currency positions use forward exchange contracts to manage foreign exchange risk. As the foregoing natural hedge and foreign exchange forward do not meet the requirements of hedge accounting in terms of managing exchange rate risk, hedge accounting is not adopted.

- (3) Interest rate risk

Interest rate risk refers to the risk resulting from changes in market interest rates which causes fluctuations in the fair value of financial instruments. The Company manages interest rate risk by combinations of fixed and floating interest rate products. Because they do not meet the requirements for hedge accounting, hedge accounting is not adopted.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

(4) Equity price risk

The Company holds equity securities of listed and unlisted companies, and OTC-traded and non-OTC-traded companies. The price of such equity securities will be affected by uncertainties about the future value of the underlying investment. The Company diversified its investment and set investment limits for a single equity security to manage price risk of equity securities. Portfolio information of equity securities is required to be regularly reported to senior executives of the Company. The board of directors should authorize the senior executives to review and approve the equity securities of all investment decisions.

(5) Value at Risk

Value at Risk is the maximum loss on the portfolio with a given probability defined as the confidence level, over a given period of time. The Company uses 99% VaR to measure the market risk over the next ten days.

VaR model must be able to reasonably and appropriately measure the maximum potential risk of financial instruments and investment portfolio. VaR model used to manage risk must perform model validation and backtesting to show that the model can reasonably and effectively measure the maximum potential risks of the financial instruments or investment portfolio.

(6) Stress testing

The Company measures and evaluates potential risks of the occurrence of extreme and abnormal events regularly in addition to VaR model. Stress testing measures the potential impact on the value of the investment portfolio when extreme fluctuations of financial variables occur.

The Company performs stress testing regularly by using “Simple Sensitivity” and “Scenario Analysis” methods. The test is capable of representing the position loss resulted from the movement of a specific risk factor under different kinds of historical scenarios:

A. Simple Sensitivity

Simple Sensitivity measures the dollar amount change for the portfolio value from the movement of specific risk factors.



**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

**B. Scenario Analysis**

Scenario Analysis measures the dollar amount changes for the total value of investment positions if stress scenarios occur. The types of scenario include:

**a. Historical scenario:**

Adding fluctuating risk factors to a specific historical event, the Company simulates what the dollar amount of losses for the current investment portfolio would be in the same period of time.

**b. Hypothetical scenario:**

The Company makes hypothesis with rational expectations from the extreme market movements to assess the dollar amount of losses for the investment position by taking into consideration the movement of relevant risk factors.

Risk management department performs the stress testing with historical and hypothetical scenarios regularly. The Company's risk analysis, early warning, and business management are in accordance with the stress testing report.

Summarization of Simple Sensitivity

Date: 30 September 2019

Risk Factors	Changes (+/-)	Changes in income	Changes in equity
Equity risk (Stock index)	+1%	\$-	\$1,750,373
Interest rate risk (Yield curve)	+1BP	-	(586,077)
Exchange risk (Foreign exchange rate)	+1% (NTD for each currency appreciates 1%)	(2,275,119)	(599,934)

Summarization of Simple Sensitivity

Date: 31 December 2018

Risk Factors	Changes (+/-)	Changes in income	Changes in equity
Equity risk (Stock index)	+1%	\$1,594	\$1,249,417
Interest rate risk (Yield curve)	+1BP	-	(431,567)
Exchange risk (Foreign exchange rate)	+1% (NTD for each currency appreciates 1%)	(1,596,326)	(389,592)

Summarization of Simple Sensitivity

Date: 30 September 2018

Risk Factors	Changes (+/-)	Changes in income	Changes in equity
Equity risk (Stock index)	+1%	\$2,325	\$1,528,569
Interest rate risk (Yield curve)	+1BP	-	(410,647)
Exchange risk (Foreign exchange rate)	+1% (NTD for each currency appreciates 1%)	(1,537,863)	(436,452)

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

X. Assets and liabilities are classified based on expected recovery or settlement within 12 months after the reporting date and more than 12 months after the reporting date:

Item	2019.9.30		Total
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	
<b>Assets</b>			
Cash and cash equivalents	\$45,151,196	\$-	\$45,151,196
Receivables	24,142,810	-	24,142,810
Current tax assets	594,400	-	594,400
Financial assets at fair value through profit or loss	258,556,100	61,312,522	319,868,622
Financial assets at fair value through other comprehensive income	317,287	385,782,545	386,099,832
Financial assets measured at amortized cost	8,133,189	1,002,873,885	1,011,007,074
Investment property	-	23,143,515	23,143,515
Loans	8,496	33,313,088	33,321,584
Reinsurance assets	657,324	-	657,324
Property and equipment	-	12,980,362	12,980,362
Right-of-use assets	-	15,257,006	15,257,006
Intangible assets	-	199,950	199,950
Deferred tax assets	1,736,114	3,564,830	5,300,944
Other assets	651,766	6,795,055	7,446,821
Separate account product assets			77,020,488
Total assets	\$339,948,682	\$1,545,222,758	\$1,962,191,928
<b>Liabilities</b>			
Payables	\$23,685,597	\$28,912	\$23,714,509
Current tax liabilities	1,765	-	1,765
Financial liabilities at fair value through profit or loss	3,120,040	-	3,120,040
Lease liabilities	91,968	2,137,234	2,229,202
Insurance liabilities	30,306,930	1,672,820,171	1,703,127,101
Foreign exchange valuation reserve	-	5,540,748	5,540,748
Provision	-	115,697	115,697
Deferred tax liabilities	(339,220)	6,357,683	6,018,463
Other liabilities	2,202,796	2,280,064	4,482,860
Separate account product liabilities			77,020,488
Total liabilities	\$59,069,876	\$1,689,280,509	\$1,825,370,873

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Item	2018.12.31		Total
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	
<b>Assets</b>			
Cash and cash equivalents	\$42,947,426	\$-	\$42,947,426
Receivables	17,549,054	-	17,549,054
Current tax assets	499,407	-	499,407
Financial assets at fair value through profit or loss	143,939,765	71,609,489	215,549,254
Financial assets at fair value through other comprehensive income	1,303,126	321,703,609	323,006,735
Financial assets measured at amortized cost	9,510,539	940,971,701	950,482,240
Investment property	-	23,143,854	23,143,854
Loans	6,889	33,373,076	33,379,965
Reinsurance assets	534,353	-	534,353
Property and equipment	-	10,722,338	10,722,338
Intangible assets	-	230,128	230,128
Deferred tax assets	2,590,358	7,359,281	9,949,639
Other assets	827,153	19,032,125	19,859,278
Separate account product assets			63,501,665
Total assets	\$219,708,070	\$1,428,145,601	\$1,711,355,336
<b>Liabilities</b>			
Payables	\$10,698,549	\$28,537	\$10,727,086
Financial liabilities at fair value through profit or loss	2,469,127	-	2,469,127
Insurance liabilities	34,999,974	1,517,528,222	1,552,528,196
Foreign exchange valuation reserve	-	3,169,331	3,169,331
Provision	-	134,940	134,940
Deferred tax liabilities	192,778	1,149,519	1,342,297
Other liabilities	1,654,189	2,734,121	4,388,310
Separate account product liabilities			63,501,665
Total liabilities	\$50,014,617	\$1,524,744,670	\$1,638,260,952

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Item	2018.9.30		Total
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	
<b>Assets</b>			
Cash and cash equivalents	\$55,310,394	\$-	\$55,310,394
Receivables	22,956,254	-	22,956,254
Current tax assets	512,143	-	512,143
Financial assets at fair value through profit or loss	159,457,482	63,186,078	222,643,560
Financial assets at fair value through other comprehensive income	1,976,216	299,298,713	301,274,929
Financial assets measured at amortized cost	8,530,824	899,535,502	908,066,326
Investment property	-	23,150,961	23,150,961
Loans	9,728	32,932,503	32,942,231
Reinsurance assets	657,758	-	657,758
Property and equipment	-	10,183,273	10,183,273
Intangible assets	-	175,377	175,377
Deferred tax assets	3,718,581	3,863,552	7,582,133
Other assets	3,321,393	19,082,100	22,403,493
Separate account product assets			67,045,065
Total assets	\$256,450,773	\$1,351,408,059	\$1,674,903,897
<b>Liabilities</b>			
Payables	\$9,456,235	\$32,384	\$9,488,619
Financial liabilities at fair value through profit or loss	5,377,078	-	5,377,078
Insurance liabilities	39,134,635	1,455,910,220	1,495,044,855
Foreign exchange valuation reserve	-	2,756,433	2,756,433
Provision	-	114,442	114,442
Deferred tax liabilities	26,074	980,395	1,006,469
Other liabilities	1,316,730	1,772,377	3,089,107
Separate account product liabilities			67,045,065
Total liabilities	\$55,310,752	\$1,461,566,251	\$1,583,922,068

**XI. Capital management**

The Company's main objective of capital management is to make sure the risk-based capital (RBC) ratio calculated in accordance with "Regulations Governing Capital Adequacy of Insurance Companies" meets the ratio provided by the Insurance Act, to maintain a sound capital structure to protect rights and interests of customers and shareholders.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

The Company implements capital management mainly by monitoring the results of RBC report to ensure its solvency.

**XII. Related party transaction**

Information of the related parties that had transactions with the company during the financial reporting period is as follows:

**1. Name and nature of relationship of the related parties**

Name of the related parties	Nature of relationship of the related parties
China Development Financial Holding Corp. (CDF)	Parent company/Juristic-person director of the Company (Parent company)
Tai li Investment Co., Ltd.	Juristic-person director of the Company (Other related party)
EVER-RICH Co.,Ltd.	Juristic-person director of the Company (Other related party)
CDIB Capital Group	Brother company (Other related party)
KGI Securities Co., Ltd.	Brother company (Other related party)
China Development Asset Management Corp.	Brother company (Other related party)
KGI Bank	Brother company (Other related party)
CDIB Capital Management Inc.	Equity method investee of subsidiary of parent company (Other related party)
CDIB & Partners Investment Holding Corporation	Equity method investee of subsidiary of parent company (Other related party)
CDIB Innovation Advisors Corporation Limited	Equity method investee of subsidiary of parent company (Other related party)
CDIB Capital Growth Partners L.P.	Equity method investee of subsidiary of parent company (Other related party)
CDIB Management Consulting Corporation	Equity method investee of subsidiary of parent company (Other related party)
CDIB CME Fund Ltd.	Equity method investee of subsidiary of parent company (Other related party)
KGI Venture Capital Co., Ltd.	Equity method investee of subsidiary of parent company (Other related party)
CDIB Biomedical Venture Capital Corporation	Equity method investee of subsidiary of parent company (Other related party)
KGI Securities Investment Trust Co., Ltd.	Equity method investee of subsidiary of parent company (Other related party)
Funds managed by KGI Securities Investment Trust Co.,Ltd	Funds and designated accounts managed by Equity method investee of subsidiary of parent company (Other related party)
KGI Insurance Brokers Co., Ltd.	Equity method investee of subsidiary of parent company (Other related party)
KGI Futures Co., Ltd.	Equity method investee of subsidiary of parent company (Other related party)
CDC Finance & Leasing Corp.	Equity method investee of subsidiary of parent company (Other related party)
KGI Securities Investment Advisory Co., Ltd.	Equity method investee of subsidiary of parent company (Other related party)
CDIB Capital Asia Partners Partners Limited	Equity method investee of subsidiary of parent company (Other related party)
CDIB Capital International Corporation	Equity method investee of subsidiary of parent company (Other related party)
CDIB Capital Global Opportunities Fund L.P.	Equity method investee of subsidiary of parent company (Other related party)
China Development Foundation	Substantial related party
Business Next Media Corp.	Substantial related party
Bank of Taiwan Co., Ltd.	Juristic-person director of parent company (Other related party)(Note 1)
GPPC Chemical Corporation	Juristic-person director of parent company (Other related party)
Others	Directors, the key management personnel with their spouse, the relationship within second degree by consanguinity and CDF's affiliates or substantial related parties (Other related party)(Note 2)

Note 1: Bank of Taiwan Co., Ltd. is no longer related parties of the company from 14 June 2019.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Note 2: Related parties such as parent company, brother company, equity method investee of subsidiary of parent company, juristic-person directors of parent company become related parties of the Company as the result of the tender offer by CDF.

2. Significant transactions with the related parties are as follows:

(1) Cash in banks

Name	2019.9.30	2018.12.31	2018.9.30
KGI Bank	\$374,600	\$6,719,483	\$189,872
Other related parties	-	223,286	41,127
<b>Total</b>	<b>\$374,600</b>	<b>\$6,942,769</b>	<b>\$230,999</b>

(2) Receivables

Name	2019.9.30	2018.12.31	2018.9.30
Other receivables:			
Other related parties	\$8,351	\$18,979	\$1,187,952

(3) Derivative financial instruments

Name	Contract type	Period	Notional Amount	Balance Sheets	
			(In thousands of USD dollars)	(2019.9.30)	
				Items	Balance
Other related parties	Swap contracts	2019/8/7- 2019/11/29	USD 110,000	financial assets at fair value through profit or loss	\$34,187
Other related parties	Swap contracts	2019/3/27- 2019/11/15	USD 275,000	financial liabilities at fair value through profit or loss	55,712
			Notional Amount	Balance Sheets	
			(In thousands of USD dollars)	(2018.12.31)	
				Items	Balance
Other related parties	Swap contracts	2018/10/25- 2019/2/27	USD 250,000	financial assets at fair value through profit or loss	\$12,884
Other related parties	Swap contracts	2018/7/5- 2019/2/15	USD 255,000	financial liabilities at fair value through profit or loss	49,387
Other related parties	Swap contracts	2018/11/16- 2019/2/27	USD 299,000	financial assets at fair value through profit or loss	14,352
Other related parties	Swap contracts	2018/10/8- 2019/2/14	USD 295,000	financial liabilities at fair value through profit or loss	17,414

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Name	Contract type	Period	Notional Amount	Balance Sheets	
			(In thousands of USD dollars)	Items	Balance
		2018/8/16-		financial assets at fair	
Other related parties	Swap contracts	2018/11/14	USD 190,000	value through profit or loss	\$38,115
		2018/7/5-		financial liabilities at	
Other related parties	Swap contracts	2019/1/4	USD 265,000	fair value through profit or loss	44,854
		2018/8/10-		financial assets at fair	
Other related parties	Swap contracts	2018/11/23	USD 449,000	value through profit or loss	59,314
		2018/7/9-		financial liabilities at	
Other related parties	Swap contracts	2018/11/20	USD 195,000	fair value through profit or loss	55,701

(4) Financial assets at fair value through profit and loss

Name	2019.9.30	2018.12.31	2018.9.30
Stocks:			
Other related parties	\$183,813	\$133,172	\$136,835
Beneficiary certificates:			
Other related parties	1,090,586	888,618	907,733
Total	\$1,274,399	\$1,021,790	\$1,044,568

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

Name	2019.9.30	2018.12.31	2018.9.30
Stocks:			
Parent company	\$5,197,207	\$5,467,191	\$6,412,138
Other related parties	241,688	249,605	247,719
Total	\$5,438,895	\$5,716,796	\$6,659,857

(6) Financial assets measured at amortized cost

Name	2019.9.30	2018.12.31	2018.9.30
Other related parties	\$-	\$1,649,930	\$1,623,387

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

(7) Bond transaction

Name	For the three-month period ended 30 September 2019		For the three-month period ended 30 September 2018	
	Purchase	Sell	Purchase	Sell
Other related parties	\$-	\$2,062,215	\$995,025	\$287,743

Name	For the nine-month period ended 30 September 2019		For the nine-month period ended 30 September 2018	
	Purchase	Sell	Purchase	Sell
Other related parties	\$12,850,481	\$2,452,192	\$5,537,247	\$1,990,827

Note: Including purchase and sell of bonds through related parties.

(8) Investment balance appointed to parties' discretionary investment

Name	108.9.30	107.12.31	107.9.30
KGI Securities Investment Trust Co., Ltd.	\$1,732,716	\$-	\$-

(9) Details of the fund balance issued by relationships are as follows

Name	2019.9.30	2018.12.31	2018.9.30
Other related parties	\$10,445,955	\$5,159,700	\$2,483,150

(10) The amount invested by related parties through cash capital increase.

Name	For the three-month periods ended 30 September	
	2019	2018
Parent company	\$-	\$-
Other related parties	744	-
Total	\$744	\$-

Name	For the nine-month periods ended 30 September	
	2019	2018
Parent company	\$3,112,710	\$-
Other related parties	139,531	-
Total	\$3,252,241	\$-



**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

(11) Policy loans

Name	2019.9.30	2018.12.31	2018.9.30
Other related parties	\$12,672	\$4,134	\$1,585

(12) Payables

Name	2019.9.30	2018.12.31	2018.9.30
Commissions payable:			
Other related parties	\$35,100	\$31,322	\$27,331
Other payables:			
Other related parties	8,519	10,750	4,688
<b>Total</b>	<b>\$43,619</b>	<b>\$42,072</b>	<b>\$32,019</b>

(13) Guarantee deposits received

Name	2019.9.30	2018.12.31	2018.9.30
Other related parties	\$2,441	\$2,421	\$2,421

(14) Premium income

Name	For the three-month periods ended 30 September	
	2019	2018
Parent company	\$481	\$338
Other related parties	67,720	108,138
<b>Total</b>	<b>\$68,201</b>	<b>\$108,476</b>

Name	For the nine-month periods ended 30 September	
	2019	2018
Parent company	\$1,210	\$906
Other related parties	220,255	240,565
<b>Total</b>	<b>\$221,465</b>	<b>\$241,471</b>

(15) Handling fees earned

Name	For the three-month periods ended 30 September	
	2019	2018
KGI Securities Investment Trust Co., Ltd.	\$45,347	\$41,187

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Name	For the nine-month periods ended 30 September	
	2019	2018
KGI Securities Investment Trust Co., Ltd.	\$138,967	\$76,301

(16) Interest income

Name	For the three-month periods ended 30 September	
	2019	2018
Other related parties	\$6,952	\$-

Name	For the nine-month periods ended 30 September	
	2019	2018
Other related parties	\$72,850	\$255

(17) Financial assets and liabilities measured at fair value through profit or loss - dividend income

Name	For the three-month periods ended 30 September	
	2019	2018
Other related parties	\$73,165	\$19,230

Name	For the nine-month periods ended 30 September	
	2019	2018
Other related parties	\$129,327	\$22,841

(18) Financial assets and liabilities measured at fair value through other comprehensive income - dividend income

Name	For the three-month periods ended 30 September	
	2019	2018
Parent company	\$168,740	\$337,481

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Name	For the nine-month periods ended 30 September	
	2019	2018
Parent company	\$168,740	\$337,481

(19) Gains on Investment property - rental income

Name	For the three-month periods ended 30 September	
	2019	2018
Other related parties	\$2,504	\$2,490

Name	For the nine-month periods ended 30 September	
	2019	2018
Other related parties	\$7,497	\$7,383

According to contracts, leasing periods are generally 3 to 5 years, and rentals are usually paid on a monthly basis.

(20) Insurance claim payments

Name	For the three-month periods ended 30 September	
	2019	2018
Other related parties	\$455	\$277

Name	For the nine-month periods ended 30 September	
	2019	2018
Other related parties	\$1,209	\$891

(21) Commission expenses

Name	For the three-month periods ended 30 September	
	2019	2018
Other related parties	\$242,329	\$252,010

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Name	For the nine-month periods ended 30 September	
	2019	2018
Other related parties	\$643,681	\$521,155

(22) Professional service fees (recognized in operating expenses)

Name	For the three-month periods ended 30 September	
	2019	2018
Other related parties	\$8,694	\$10,857

Name	For the nine-month periods ended 30 September	
	2019	2018
Other related parties	\$24,173	\$27,519

(23) Employee training fees

Name	For the three-month periods ended 30 September	
	2019	2018
Other related parties	\$-	\$15

Name	For the nine-month periods ended 30 September	
	2019	2018
Other related parties	\$-	\$15

(24) Handling fees earned (recognized in net investment profits and losses or in adjustment for investment cost)

Name	For the three-month periods ended 30 September	
	2019	2018
Other related parties	\$12,798	\$23,402

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Name	For the nine-month periods ended 30 September	
	2019	2018
Other related parties	\$54,882	\$66,972

Other handling fees earned (recognized in operating expenses)

Name	For the three-month periods ended 30 September	
	2019	2018
Other related parties	\$9,652	\$6,572

Name	For the nine-month periods ended 30 September	
	2019	2018
Other related parties	\$22,765	\$19,927

(25) Donation fees (recognized in operating expenses)

Name	For the three-month periods ended 30 September	
	2019	2018
Other related parties	\$10,000	\$-

Name	For the nine-month periods ended 30 September	
	2019	2018
Other related parties	\$10,000	\$-

(26) Finance costs

Name	For the three-month periods ended 30 September	
	2019	2018
Other related parties	\$6	\$6

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Name	For the nine-month periods ended 30 September	
	2019	2018
Other related parties	\$19	\$19

(27) Non-operating income and expenses

Name	For the three-month periods ended 30 September	
	2019	2018
Other related parties	\$1,026	\$112

Name	For the nine-month periods ended 30 September	
	2019	2018
Other related parties	\$2,419	\$613

3. Key management personnel remuneration

Item	For the three-month periods ended 30 September	
	2019	2018
Short-term employee benefits	\$ 72,447	\$108,113
Post-employment benefits	1,153	899
Share-based payment	552	-
Total	\$74,152	\$109,012

Item	For the nine-month periods ended 30 September	
	2019	2018
Short-term employee benefits	\$247,935	\$264,638
Post-employment benefits	3,205	2,629
Share-based payment	18,109	-
Total	\$269,249	\$267,267

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

**XIII. Pledged assets**

Details of pledged and guaranteed assets are as follows:

Item	2019.9.30	2018.12.31	2018.9.30
Government bonds (recognized as refundable deposits)	\$6,708,303	\$5,965,762	\$5,966,112
Cash in bank (recognized as refundable deposits)	608,423	594,991	2,855,297
<b>Total</b>	<b>\$7,316,726</b>	<b>\$6,560,753</b>	<b>\$8,821,409</b>

**XIV. Commitment and Contingencies**

1. Investment commitment not yet contributed

As of 30 September 2019, among the investment contracts signed, the upper limit of the amount not yet contributed were NTD 1,916,304 thousand, USD 335,858 thousand and EUR 93,852 thousand.

2. On 16 December 2016, the Company signed the contract with CHUNG-LU Construction Co., Ltd. for the construction of Taipei Academy. On 1 March 2017, the Company signed the first contract amendment protocol, amending the total amount of contract to be \$5,623,913 thousand. As of 30 September 2019, the actual accumulated payment of construction is \$3,291,290 thousand after deducting 5% of construction reserve, leaving \$2,332,623 thousand unpaid.

**XV. Significant disaster damages**

None.

**XVI. Significant subsequent events**

None.

**XVII. Other matters**

1. Foreign currency financial assets and liabilities with significant influence as of 30 September 2019, 31 December 2018 and 30 September 2018 are as follows:

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

	2019.9.30		
	Foreign currency	Exchange rate (in dollar)	NTD
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$36,266,068	31.0420	\$1,125,769,450
AUD	3,331,729	20.9751	69,883,342
<u>Non-monetary items</u>			
USD	906,768	31.0420	28,147,892
<u>Financial Liabilities</u>			
<u>Monetary items</u>			
USD	236,817	31.0420	7,351,040
	2018.12.31		
	Foreign currency	Exchange rate (in dollar)	NTD
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$32,439,523	30.7330	\$996,964,533
<u>Non-monetary items</u>			
USD	442,376	30.7330	13,595,540
<u>Financial Liabilities</u>			
<u>Monetary items</u>			
USD	15,470	30.7330	475,440
	2018.9.30		
	Foreign currency	Exchange rate (in dollar)	NTD
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$31,515,073	30.5510	\$962,817,004
<u>Non-monetary items</u>			
USD	452,713	30.5510	13,830,849
<u>Financial Liabilities</u>			
<u>Monetary items</u>			
USD	1,090	30.5510	33,301



**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

The above information is disclosed based on the carrying amount of the foreign currencies, which has been translated to the functional currency.

2. Participation of unconsolidated structured entities

As of 30 September 2019, 31 December 2018 and 30 September 2018, interests in unconsolidated entities the Company holds are as follows. The Company does not provide any financial or other support for these structured entities. The estimated maximum exposure amount is the interests the Company holds.

Date: 30 September 2019

	Asset Securitization		Total
	Private Equity Fund	Product	
Assets held by the Company			
Financial assets at fair value through profit and loss	\$3,440,218	\$2,824,686	\$6,264,904
Financial assets measured at amortized cost	-	58,639,055	58,639,055
The maximum exposure amount	3,440,218	61,463,741	64,903,959
Financial or other support provided	None	None	

Date: 31 December 2018

	Asset Securitization		Total
	Private Equity Fund	Product	
Assets held by the Company			
Financial assets at fair value through profit and loss	\$1,675,969	\$1,751,160	\$3,427,129
Financial assets measured at amortized cost	-	60,397,100	60,397,100
The maximum exposure amount	1,675,969	62,148,260	63,824,229
Financial or other support provided	None	None	

Date: 30 September 2018

	Private Equity Fund	Real estate investment trust	Real estate beneficiary certificate
		Real estate investment trust	Real estate beneficiary certificate
Assets held by the Company			
Financial assets at fair value through profit and loss	\$1,501,208	\$2,579,413	\$4,080,621
Financial assets measured at amortized cost	-	59,198,590	59,198,590
The maximum exposure amount	1,501,208	61,778,003	63,279,211
Financial or other support provided	None	None	

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

3. The individual health insurance, individual injury insurance and catastrophe reinsurance contracts between the Company and the reinsurance transaction partner Trust International Insurance and Reinsurance CO. B.S.C. (C) have so far expired. However, the reinsurer still has the responsibility of claims. The credit rating agency canceled the credit rating of the reinsurer in December 2018; therefore, the reinsurer became unqualified. The Company's reinsurance premium of the unqualified for the nine-month period ended 30 September 2019 were \$3,738 thousand. As of 30 September 2019, the unqualified reinsurance reserve was 596 thousand, including ceded reserve for claims reported but not paid of \$0 thousand and claims recoverable from reinsurers of paid claims non-overdue in nine months of \$596 thousand.

4. Discretionary account management

(1) As of 30 September 2019, the Company contracts with securities investment trust business for discretionary investments management. The investment details are disclosed as follows:

Items	2019.9.30	
	Carrying Amount	Fair Value
Domestic listed stocks	\$1,732,716	\$1,732,716
Total	\$1,732,716	\$1,732,716

(2) As of 30 September 2019, the discretionary investments limits were NTD 2,000,000 thousand.

**XVIII. Additional disclosure**

1. Information on significant transactions:

(1) Acquisition of real estate reaching NT\$100 million or 20% of paid-in capital or more:  
None.

(2) Disposal of real estate reaching NT\$100 million or 20% of paid-in capital or more:  
None.

(3) Transactions with related parties involving main business items reaching NT\$100 million or 20% of paid-in capital or more: please refer to Note XII.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

(4) Accounts receivable from related parties reaching NT\$100 million or 20% of paid-in capital or more: None.

(5) Trading in derivative instruments:

As of 30 September 2019, 31 December 2018 and 30 September 2018, the amount (notional amount) that the Company engaged in the contract of derivative instruments transactions is as follows: (Unit: US dollar in thousand)

A. Type of derivative instrument held:

	108.9.30	107.12.31	107.9.30
Swap and forward exchange contracts	\$27,230,546	\$26,171,808	\$24,982,098

2. Information on investees:

(1) Information on investee company that the Company exercises significant influence over: None.

(2) If the Company directly or indirectly exercises control over the investee, it shall disclose information on significant transaction with the investee:

- 1) Loans made to others: None.
- 2) Endorsements/ guarantees for others: None.
- 3) Securities held at the end of the period: None.
- 4) Transactions where the aggregate purchases or sales of the same security reaching NT\$100 million or 20% of paid-in capital or more: None.
- 5) Acquisition of real estate reaching NT\$100 million or 20% of paid-in capital or more: None.
- 6) Disposal of real estate reaching NT\$100 million or 20% of paid-in capital or more: None.
- 7) Transactions with related parties involving main business items reaching NT\$100 million or 20% of paid-in capital or more: None.
- 8) Accounts receivable from related parties reaching NT\$100 million or 20% of paid-in capital or more: None.
- 9) Trading in derivative instruments: None.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

3. Information regarding investment in Mainland China

- (1). The Company set up China Life Insurance Co., Ltd. (Taiwan) Beijing Representative Office in Mainland China, which was approved by FSC on November 2004 and was approved by the China Insurance Regulatory Commission in July 2005. The Beijing representative office was officially established in August 2005.
- (2). The Company participated in the equity investment of Pacific-Antna Life Insurance Company Ltd. in Mainland China authorized by FSC on 30 December 2010, and by the Investment Commission of the Ministry of Economic Affairs (MOEAIC) on 28 January 2011, and by the China Insurance Regulatory Commission on 6 April 2011. The Company remitted US\$58,775 thousand on 24 June 2011, completed settlement on 29 June 2011 and obtained 19.9% ownership. The Company shared 100% equity of Pacific-Antna Life Insurance Company Ltd. with China Construction Bank and other financial investors and used the channel and customer resources of China Construction Bank to develop bank insurance business which is to ensure the Company successfully enters the mainland market and increases the Company's long-term value and shareholders' interests. Pacific-Antna Life Insurance Company Ltd. was renamed to CCB Life Insurance Company Ltd. authorized by the China Insurance Regulatory Commission on 7 June 2011. And CCB Life Insurance Company Ltd. made an announcement to change into a company limited by shares from a limited company on 20 December 2016.

The Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to increase capital of US\$216,000 CCB Life Insurance Company Ltd. on 29 August 2011 and to remit US\$11,844 thousand on 30 August 2011. The increased share capital case was approved by China Insurance Regulatory Commission on 28 September 2011 and by Shanghai Administration for Industry and Commerce on 13 December 2011. Moreover, the Company remitted US\$179,070 thousand to increase share capital in June 2012, and this increased share capital case was approved by China Insurance Regulatory Commission on 27 July 2012 and by Shanghai Administration for Industry and Commerce on 5 November 2012. MOEAIC authorized the Company to revoke the approved case on 29 August 2011 of US\$25,086 thousand not implemented on 2 October 2017.

On 29 December 2016, the Board has resolved to participate CCB Life Insurance Co., Ltd.'s capital raising plan in exact proportion to its current shareholding. The MOEAIC approved the Company's plan to increase capital investment in CCB Life Insurance Company Ltd. on 29 March 2017 and the Company remitted RMB\$1,194,000 in April 2019. As of 25 July 2019, the capital raising plan has yet to be approved by the China Insurance Regulatory Commission and the Shanghai Administration for Industry and Commerce.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

- (3) Information on the investee company, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, shareholding ratio, profit or loss for the period and recognized investment gain or loss, carrying amount of the investment at the end of the period, repatriated investment gains, and limit on the amount of investment in the Mainland Area: Please refer to Table 1.

**XIX. Operating segment information**

**1. Information on products and services**

The Company engaged in life insurance business in accordance with Insurance Act. According to IFRS 8 “*Operating Segments*”, the Company offers only insurance contract products. The operating executives assign resources on a basis of entire company, therefore the entire company is a single operating segment.

**2. Information on the geographical areas in which the business operate**

The Company does not have foreign operating segment, therefore no information shall be disclosed.

**3. Information on major customer**

The Company does not have any one customer whose revenue constitute 10% or more on the income statement, therefore no information shall be disclose.

China Life Insurance Co., Ltd.

Notes to financial statements (continued)

(Expressed in Thousands of New Taiwan Dollars unless otherwise stated)

Table 1: Information on Investment in Mainland China

Investee Company	Principal Business Activities	Paid-in Capital (Note 5)	Method of investment	Accumulated outward remittance from Taiwan for investment purpose at the beginning of the period	Inward or outward remittance for investment purpose for the period		Accumulated outward remittance from Taiwan for investment purpose at the end of the period	Investee Company's profit or loss for the period	Shareholding ratio of direct or indirect investment by the Company	Recognized investment gain or loss for the period	carrying amount of the investment at the end of the period	Accumulated repatriated investment gains up to the period
					Outward	Inward						
CCB Life Insurance Ltd (Note 1)	Life Insurance	\$32,212,967 (CNY 7,120,461 thousand)	Direct investment in Mainland China	\$7,401,464	\$5,479,505	\$-	\$12,880,969	\$2,488,945 (Note 3)	19.90%	\$-	\$13,999,663 (Note 2)	\$71,756 (Note 4)

Accumulated outward remittance from Taiwan for investment in Mainland China at the end of the period	Approved amount of investment in the Mainland China promulgated by the Investment Commission, Ministry of Economic Affairs	Limit on the amount of investment in the Mainland China promulgated by the Investment Commission, Ministry of Economic Affairs
\$12,880,969	\$13,125,687	\$82,092,633

Note 1: The investee company was originally named as Pacific-Antna Life Insurance Company Ltd. On 7 June 2011, the investee company was approved to change the name to CCB Life Insurance Ltd. by China Insurance Regulatory Commission.

On 20 December 2016, the investee company announced to restructure as incorporation.

Note 2: The Company classified the investment in the financial assets at fair value through other comprehensive income. The ending carrying amount includes unrealized gains.

Note 3: Investee Company's profit or loss for the period is the book balance of the investee company, unreviewed by the CPA.

Note 4: Cash dividends received in prior years.

Note 5: The Investee Company raised RMB \$6 billion in cash capital in 2019. The payments of the capital raising plan have been fully collected and the capital verification was completed in April 2019. As of 24 October 2019, the paid-in capital following the capital increase has yet to be approved by the China Insurance Regulatory Commission.