

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD.  
AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017 and 2016**

**(With Independent Auditors' Report Thereon)**

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

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## Independent Auditors' Report

To the Board of Directors of FUBON INSURANCE CO., LTD.:

### Opinion

We have audited the consolidated financial statements of FUBON INSURANCE CO., LTD. and its subsidiaries (“the Group”), which comprise the consolidated statement of financial position as of June 30, 2017, December 31 and June 30, 2016, the consolidated statement of comprehensive income, for the three months and six months ended June 30, 2017 and 2016 and consolidated statement of changes in equity and consolidated statement of cash flows as of June 30, 2017 and 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fubon Insurance Co., Ltd and its subsidiaries as of June 30, 2017 and December 31 and June 30, 2016, and the results of its consolidated operations and cash flows for the three months and six months ended June 30, 2017 and 2016, in conformity with Regulations Governing the Presentation for Financial statements by Insurance Companies and International Accounting Standard No.34 “Interim Financial Reporting”, approved by the Financial Supervisory Commission.

### Basis for Opinion

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the six months ended June 30, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Based on our judgment, the key audit matters that should be communicated in our report are described below:

#### 1. The valuation of financial instruments

Please refer to Note 4 (h) “Financial instruments” for related accounting policy, Note 5 (a) for accounting assumptions and estimates, and Note 6 (v) “Fair value and tiers information” for details of valuation of financial instruments.

The valuation of several financial instruments of the Group are measured using the valuation models, which involved the exercise of professional judgments on valuation techniques and important parameters. Therefore, the valuation of financial instruments has been identified as a key audit matter in our audit.

How the matter was addressed in our audit:

- Inspecting the process of the management decision on fair value measurement and disclosure of financial instruments;
- Sample testing to evaluate whether the quoted prices in active markets for financial assets are appropriate;
- Appointing our valuation specialists to assess the reasonableness of valuation techniques and to test the key parameters of financial assets without active market prices, wherein valuation models are used to ensure that the applied valuation techniques are in accordance with IFRS 13 “Fair Value Measurement” ;
- Assessing whether expression and disclosure of financial instruments are in according with IFRSs.

## 2. Valuation of investment property

Please refer to Note 4 (j) “Investment property” for related accounting policy, Note 5 (b) for accounting assumptions and estimates, and Note 6 (j) “Investment property” for details of the valuation of investment properties.

The Group holds several investment properties. The investment property appraisals are performed by appraisers from professional valuation agencies using the valuation techniques provided by the “Regulations on Real Estate Appraisal” and market evidences in accordance with the “Regulations Governing the Preparation of Financial statements by Insurance Companies”. The selection of appraising methods involved the exercise of significant professional judgments. Therefore, the valuation of investment properties has been identified as a key audit matter in our audit.

How the matter was addressed in our audit:

- Understanding the procedure of investment property appraisals performed by professional agencies, considering whether the professional evaluation agencies select the appropriate valuation method and adoption of significant assumptions or not;
- Ensuring the presentation and disclosure of investment property are in accordance with IFRSs and the “Regulations Governing the Preparation of Financial statements by Insurance Companies”;
- Evaluating whether the management’s assessment on the valuation of investment property is reasonable based on the evidences obtained from the audit team and the external estate appraisers joint firms, as well as appraisal reports.

## 3. Valuation of insurance liability

Please refer to Note 4 (q) “Insurance liability” for related accounting policy, Note 5 (c) for accounting assumptions and estimates, and Note 6 (n) “Insurance liability” for details of the valuation of insurance liability.

The Group measures their insurance liability in accordance with the “Regulations Governing the Provision of Various Reserves” and related administrative interpretations. The important parameters, which involved the exercise of professional judgments in determining various statutory reserves, such as claim development factors, expected claim rates and discount rate adopted by claim reserve; provision factors according to the characteristics of different line adopted by unearned premium reserve, will affect the amount, recognized as insurance liabilities, and net movements in insurance liabilities. Therefore, the valuation of insurance liabilities has been identified as a key audit matter in our audit.

How the matter was addressed in our audit:

- Testing effectiveness of internal control process on insurance liability.
- Adopting the audit of insurance liabilities performed by our actuarial specialists, including following process:
  - Inspecting whether the calculation and applied parameters are in accordance with the related ordinances, administrative interpretations and code of conduct announced by the Actuarial Institute of the Republic of China;
  - Assessing the reasonableness of actuarial assumptions derived from empirical data and product specification;
  - Sampling inspect the calculation of information’s completeness that provision of reserves used, and establishing model to check the amount of provision reserves;
  - Analyzing the movements in insurance liabilities and evaluating whether change in provision adopted by the management are reasonable based on our understanding of industry and market.

#### **Other Matter**

FUBON INSURANCE CO., LTD. has additionally prepared its parent company only financial statements as of and for the six months ended June 30, 2017 and 2016, on which we have issued an unqualified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs 34 “Interim Financial Reporting”, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

#### **Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the six months ended June 30, 2017 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are LEE, FENGHUI and CHUNG, TANTAN.

KPMG

Taipei, Taiwan (Republic of China)  
August 18, 2017

#### **Notes to Readers**

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

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Consolidated Balance Sheets**

**As of June 30, 2017, December 31 and June 30, 2016**  
 (Expressed in, New Taiwan Dollars)

	June 30, 2017		December 31, 2016		June 30, 2016		June 30, 2017		December 31, 2016		June 30, 2016	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>Assets</b>												
11000 Cash and cash equivalents (notes 4, 6(a), 7 and 8)	\$ 9,363,310	10	9,633,357	10	10,174,220	10	10,489,945	11	9,565,836	10	9,428,498	10
12000 Receivables (notes 4, 6(b), (c), (d), (h) and 7)	5,801,143	6	4,719,612	5	5,621,222	6	21,000					
14110 Financial assets at fair value through profit or loss (notes 4, 6(i), (v) and (w))	296,509	-	319,645	-	1,136,876	1	14,866	-	471,426	-	145,225	-
14120 Available-for-sale financial assets (notes 4, 6(i), (v), (w) and 8)	39,514,140	40	40,544,802	41	38,956,318	40	111,605	-	251,107	-	2,686	-
14140 Financial assets at cost (notes 4, 6(i), (v) and (w))	158,330	-	158,330	-	159,450	-	54,902,288	55	54,309,591	55	54,299,130	55
14150 Investments accounted for using equity method, net (notes 4 and 6(i))	262,311	-	288,602	-	-	-	1,252,736	1	1,095,747	1	1,088,322	1
14160 Debts instrument without active market (notes 4 and 6(i))	5,219,684	5	3,385,068	4	4,052,925	4	787,980	1	709,916	1	705,729	1
14180 Other financial assets, net (notes 4 and 6(i))	403,033	-	502,492	-	-	-	1,559,580	2	1,708,738	2	1,465,449	1
14200 Investment property (notes 4, 6(f) and 9)	10,621,352	11	10,067,697	10	9,862,903	10	69,119,000	70	68,112,361	69	67,135,039	68
15000 Reinsurance assets (notes 4, 6(e), (f), (g) and (n))	21,870,918	22	22,426,342	23	21,641,537	22	3,178,396	3	3,178,396	3	3,178,396	4
16000 Properties and equipment (notes 4 and 6(k))	3,194,058	3	3,704,229	4	3,729,139	4	5,934,408	6	5,934,408	6	5,934,408	6
17000 Intangible assets (notes 4 and 6(l))	115,693	-	134,180	-	76,938	-						
17800 Deferred tax assets (notes 4 and 6(q))	680,769	1	718,140	1	500,909	1	3,761,712	4	3,761,712	4	3,761,712	4
18000 Other assets	1,898,149	2	1,867,447	2	1,955,828	2	10,765,337	11	10,792,897	11	9,928,423	10
							1,890,780	2	2,064,654	2	1,593,554	2
							16,417,829	17	16,619,263	17	15,283,689	16
<b>Equity attributable to the parent company (note 6(o))</b>												
Capital stock												
Capital surplus												
<b>Retained earnings:</b>												
Legal reserve												
Special reserve												
Unappropriated retained earnings												
Total retained earnings												
<b>Other equity:</b>												
Exchange differences on translation of foreign financial statements												
Unrealized gains (losses) on available-for-sale financial assets												
Revaluation surplus												
Total other equity												
<b>Total equity attributable to the parent company</b>												
Non-controlling interests												
Total equity												
<b>Total liabilities and equity</b>												
	\$ 99,399,599	100	98,469,943	100	97,868,265	100	\$ 99,399,599	100	98,469,943	100	97,868,265	100

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



(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months and six months ended June 30, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

	For the three months ended June 30				For the six months ended June 30				
	2017		2016		2017		2016		
	Amount	%	Amount	%	Amount	%	Amount	%	
<b>Operating revenue:</b>									
41110	Direct written premiums (note 6(t))	\$ 11,115,701	118	10,329,978	121	21,656,524	120	19,626,986	118
41120	Reinsurance premiums (note 6(t))	<u>652,221</u>	<u>7</u>	<u>810,155</u>	<u>10</u>	<u>1,284,272</u>	<u>7</u>	<u>1,528,627</u>	<u>9</u>
	Premium revenues	11,767,922	125	11,140,133	131	22,940,796	127	21,155,613	127
51100	Less: Reinsurance expense (note 6(t))	<u>3,290,207</u>	<u>35</u>	<u>3,217,531</u>	<u>38</u>	<u>6,016,326</u>	<u>33</u>	<u>5,702,338</u>	<u>34</u>
51310	Net change in unearned premiums reserve (notes 6(n) and (t))	<u>471,015</u>	<u>5</u>	<u>636,464</u>	<u>7</u>	<u>1,034,004</u>	<u>6</u>	<u>937,039</u>	<u>6</u>
	Retention of earned premiums	8,006,700	85	7,286,138	86	15,890,466	88	14,516,236	87
41300	Reinsurance commission income (note 6(t))	347,357	4	360,251	4	686,941	4	682,825	4
	Net income (loss) from investment								
41510	Interest income	231,567	2	232,862	3	459,891	3	479,172	3
41521	Gains on financial assets or liabilities at fair value through profit or loss	(381,100)	(4)	(239,574)	(3)	186,552	1	295,088	2
41522	Realized gains on available-for-sale financial assets	845,000	9	494,151	6	1,136,599	6	762,357	5
41523	Realized gains on financial assets or liabilities at cost	18,358	-	16,364	-	18,358	-	16,364	-
41524	Realized gains on debt instruments without active market	11,637	-	4,212	-	11,747	-	4,367	-
41540	Share of loss of associates and joint ventures accounted for using equity method	(11,030)	-	-	-	(16,688)	-	-	-
41550	Foreign exchange gains (losses), investments	294,073	3	218,383	3	(446,250)	(3)	(409,213)	(2)
41570	Gains (losses) on investment property	71,923	1	95,448	1	141,953	1	170,616	1
41580	Impairment loss on investments	-	-	-	-	(216)	-	-	-
41800	Other operating revenues	<u>16,875</u>	<u>-</u>	<u>29,326</u>	<u>-</u>	<u>35,010</u>	<u>-</u>	<u>51,424</u>	<u>-</u>
	<b>Net Operating Revenue</b>	<b>9,451,360</b>	<b>100</b>	<b>8,497,561</b>	<b>100</b>	<b>18,104,363</b>	<b>100</b>	<b>16,569,236</b>	<b>100</b>
<b>Operating costs:</b>									
51200	Insurance payment (note 6(t))	5,668,602	60	5,321,754	63	12,067,290	66	10,094,148	61
41200	Less: Claims recovered from reinsurers (note 6(t))	<u>1,549,891</u>	<u>16</u>	<u>1,258,742</u>	<u>15</u>	<u>3,673,770</u>	<u>20</u>	<u>2,198,128</u>	<u>13</u>
	Retained insurance payments	4,118,711	44	4,063,012	48	8,393,520	46	7,896,020	48
	Net change in insurance liability reserve (note 6(n))								
51320	Net change in claim reserve (note 6(t))	208,952	2	(131,048)	(2)	315,221	2	514,632	3
51330	Net change in liability reserve (note 6(t))	225	-	701	-	364	-	823	-
51340	Net change in special reserve	84,812	1	(157,530)	(2)	88,310	-	(451,205)	(3)
51350	Net change in premium deficiency reserve	31,298	-	1,342	-	38,236	-	7,155	-
51500	Commission expense (notes 6(s) and (t))	1,457,878	15	1,447,720	17	2,876,092	16	2,775,418	17
51800	Other operating costs	<u>50,220</u>	<u>1</u>	<u>43,609</u>	<u>1</u>	<u>96,894</u>	<u>1</u>	<u>82,230</u>	<u>-</u>
51800	<b>Total operating costs</b>	<b>5,952,096</b>	<b>63</b>	<b>5,267,806</b>	<b>62</b>	<b>11,808,637</b>	<b>65</b>	<b>10,825,073</b>	<b>65</b>
<b>Operating expenses:</b>									
58100	Operating expenses	2,029,518	21	1,871,716	22	3,849,217	21	3,562,258	22
58200	Administrative expenses	62,517	1	103,850	1	319,531	2	350,291	2
58300	Staff training expenses	<u>3,207</u>	<u>-</u>	<u>3,006</u>	<u>-</u>	<u>5,022</u>	<u>-</u>	<u>5,837</u>	<u>-</u>
58300	<b>Total operating expenses</b>	<b>2,095,242</b>	<b>22</b>	<b>1,978,572</b>	<b>23</b>	<b>4,173,770</b>	<b>23</b>	<b>3,918,386</b>	<b>24</b>
	<b>Operating income</b>	<b>1,404,022</b>	<b>15</b>	<b>1,251,183</b>	<b>15</b>	<b>2,121,956</b>	<b>12</b>	<b>1,825,777</b>	<b>11</b>

The accompanying notes are an internal part of the financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months and six months ended June 30, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

	For the three months ended June 30				For the six months ended June 30				
	2017		2016		2017		2016		
	Amount	%	Amount	%	Amount	%	Amount	%	
<b>Non-operating income:</b>									
59100	Gains (losses) on disposals of property and equipment	(2)	-	1,177	-	3,214	-	1,177	-
59200	Reversal of impairment loss on non-financial assets	566	-	2,536	-	566	-	2,536	-
59900	Other non-operating income and expenses	(49,900)	(1)	(35,597)	-	(96,220)	-	(57,660)	-
	<b>Total non-operating income and expenses</b>	<b>(49,336)</b>	<b>(1)</b>	<b>(31,884)</b>	<b>-</b>	<b>(92,440)</b>	<b>-</b>	<b>(53,947)</b>	<b>-</b>
63000	<b>Income before tax of continuing operation department</b>	<b>1,354,686</b>	<b>14</b>	<b>1,219,299</b>	<b>15</b>	<b>2,029,516</b>	<b>12</b>	<b>1,771,830</b>	<b>11</b>
63000	<b>Less: income tax expense (note 6(q))</b>	<b>144,985</b>	<b>2</b>	<b>212,728</b>	<b>3</b>	<b>274,198</b>	<b>2</b>	<b>320,821</b>	<b>2</b>
	<b>Current net income</b>	<b>1,209,701</b>	<b>12</b>	<b>1,006,571</b>	<b>12</b>	<b>1,755,318</b>	<b>10</b>	<b>1,451,009</b>	<b>9</b>
83000	<b>Other comprehensive income:</b>								
83100	<b>Income that will not be reclassified subsequently to profit or loss</b>								
83120	Gains on revaluation	46,000	-	-	-	42,832	-	1,399	-
83180	Income tax related to items that will not be reclassified to profit or loss	-	-	-	-	-	-	-	-
		<u>46,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,832</u>	<u>-</u>	<u>1,399</u>	<u>-</u>
83200	<b>Items that may be reclassified subsequently to profit or loss</b>								
83210	Exchange differences on translation	12,742	-	(43,213)	(1)	(63,806)	-	(41,912)	-
83220	Unrealized gains (losses) on available-for-sale financial assets	(167,017)	(2)	580,982	7	255,605	1	1,651,712	10
83280	Income tax related to items that may be reclassified subsequently	5,875	-	(1,273)	-	53,876	-	(5,553)	-
	<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>(148,400)</b>	<b>(2)</b>	<b>536,496</b>	<b>6</b>	<b>245,675</b>	<b>1</b>	<b>1,604,247</b>	<b>10</b>
83000	<b>Other comprehensive income(net amount after tax)</b>	<b>(102,400)</b>	<b>(2)</b>	<b>536,496</b>	<b>6</b>	<b>288,507</b>	<b>1</b>	<b>1,605,646</b>	<b>10</b>
	<b>Total comprehensive income</b>	<b>\$ 1,107,301</b>	<b>10</b>	<b>1,543,067</b>	<b>18</b>	<b>2,043,825</b>	<b>11</b>	<b>3,056,655</b>	<b>19</b>
	<b>Net income, attributable to:</b>								
	Parent company	\$ 1,256,929	13	1,077,487	13	1,890,780	11	1,593,554	10
	Non-controlling interest	(47,228)	(1)	(70,916)	(1)	(135,462)	(1)	(142,545)	(1)
		<u>\$ 1,209,701</u>	<u>12</u>	<u>1,006,571</u>	<u>12</u>	<u>1,755,318</u>	<u>10</u>	<u>1,451,009</u>	<u>9</u>
	<b>Other comprehensive income attributable to:</b>								
	Party company	\$ 1,150,911	11	1,613,525	19	2,176,039	12	3,217,728	19
	Non-controlling interests	(43,610)	(1)	(70,458)	(1)	(132,214)	(1)	(161,073)	-
		<u>\$ 1,107,301</u>	<u>10</u>	<u>1,543,067</u>	<u>18</u>	<u>2,043,825</u>	<u>11</u>	<u>3,056,655</u>	<u>19</u>
	<b>Earnings per share</b>								
	Basic earnings per share (note 6(r))	<u>\$ 3.96</u>		<u>3.39</u>		<u>5.95</u>		<u>5.01</u>	
	Diluted earnings per share (note 6(r))	<u>\$ 3.96</u>		<u>3.39</u>		<u>5.95</u>		<u>5.01</u>	

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Consolidated Statements of Changes in Equity**

**For the six months ended June 30, 2017 and 2016**  
**(Expressed in Thousands of New Taiwan Dollars)**

	Equity attributable to owners of parent										
	Capital	Retained earnings			Other equity						Total equity
		Capital surplus	Legal reserve	Special reserve	Unassigned retained earnings	Difference of foreign exchange in translating financial statements of foreign operation units	Unrealized valuation gains on available-for-sale financial assets	Revaluation surplus	Equity attributable to the parent company	Non-controlling interests	
<b>Balance at January 1, 2016</b>	\$ 3,178,396	5,934,408	3,761,712	9,990,884	2,290,094	44,720	3,476,835	-	28,677,049	1,400,901	30,077,950
Net income for the six months ended June 30, 2016	-	-	-	-	1,593,554	-	-	-	1,593,554	(142,545)	1,451,009
Other comprehensive income for the six months ended June 30, 2016	-	-	-	-	-	(34,787)	1,657,562	1,399	1,624,174	(18,528)	1,605,646
Total comprehensive income for the six months ended June 30, 2016	-	-	-	-	1,593,554	(34,787)	1,657,562	1,399	3,217,728	(161,073)	3,056,655
Earnings appropriation and distribution:											
Special reserve — Decrease in investment property that measures subsequently at fair value	-	-	-	(62,461)	62,461	-	-	-	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(2,352,555)	-	-	-	(2,352,555)	-	(2,352,555)
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(48,824)	(48,824)
<b>Balance at June 30, 2016</b>	\$ 3,178,396	5,934,408	3,761,712	9,928,423	1,593,554	9,933	5,134,397	1,399	29,542,222	1,191,004	30,733,226
<b>Balance at January 1, 2017</b>	\$ 3,178,396	5,934,408	3,761,712	10,792,897	2,064,654	(21,760)	3,784,110	36,101	29,530,518	827,064	30,357,582
Net income for the six months ended June 30, 2017	-	-	-	-	1,890,780	-	-	-	1,890,780	(135,462)	1,755,318
Other comprehensive income six months ended June 30, 2017	-	-	-	-	-	(52,959)	295,386	42,832	285,259	3,248	288,507
Total comprehensive income six months ended June 30, 2017	-	-	-	-	1,890,780	(52,959)	295,386	42,832	2,176,039	(132,214)	2,043,825
Earnings appropriation and distribution:											
Special reserve — Employee training and Transferring plan	-	-	-	15,600	(15,600)	-	-	-	-	-	-
Special reserve — Decrease in investment property that measures subsequently at fair value	-	-	-	(43,160)	43,160	-	-	-	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(2,092,214)	-	-	-	(2,092,214)	-	(2,092,214)
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(28,594)	(28,594)
<b>Balance at June 30, 2017</b>	\$ 3,178,396	5,934,408	3,761,712	10,765,337	1,890,780	(74,719)	4,079,496	78,933	29,614,343	666,256	30,280,599

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

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**For the three months and six months ended June 30, 2017 and 2016**

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

	<b>For the six months ended June 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Net income before tax	\$ 2,029,516	1,771,830
<b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b>		
Accounts that do not affect cash flow		
Depreciation	81,178	67,288
Amortization	33,177	25,083
Provision (Reversal of) for bad debts expense	25,189	(6,873)
Net gains on financial assets or liabilities at fair value through profit or loss	(5,746)	-
Net gains on available-for-sale financial assets	(973,968)	(348,017)
Net gains on investments in debt instrument without active market	(5,714)	-
Interest expenses	8,133	2,174
Net changes in various insurance liabilities	1,476,135	1,008,444
Share of loss of associates and joint ventures accounted for using equity method	16,688	-
Gains on disposal and retirement of premises and equipments	(3,214)	(1,177)
Reversal of impairment loss on financial assets	(12,821)	(8,512)
Reversal of impairment loss on non-financial assets	(566)	(2,535)
Loss (gain) on unrealized foreign exchange	284,060	(181,149)
Loss on fair value adjustment of investment properties	28,058	1,998
Amortization of premium and discount on financial assets	686,405	245,892
<b>Total adjustments to reconcile profit (loss)</b>	<u>1,636,994</u>	<u>802,616</u>
<b>Changes in operating assets/liabilities:</b>		
<b>Net changes in operating assets:</b>		
Increase in notes receivable	(105,527)	(96,197)
Increase in premium receivable	(1,099,978)	(684,919)
Decrease (Increase) in other receivables	98,785	(185,700)
Decrease in financial assets at fair value through profit or loss	69,548	429,945
Decrease in other financial assets	99,460	-
Increase in reinsurance contracts assets	(168,158)	(1,112,081)
(Increase) decrease in other assets	(29,868)	121,624
<b>Net changes of operating liabilities:</b>		
Increase in claims payable	95,017	383,080
Increase in commission payable	18,219	141,997
Increase in proceeds due to reinsurers and ceding companies	1,020,153	1,565,855
Decrease in other payable	(707,393)	(651,358)
Decrease in financial liabilities at fair value through profit or loss	(180,325)	(268,111)
Recovered other liability reserve	(35,787)	(35,913)
Increase (decrease) in provisions for employee benefit liabilities	17,707	(29,573)
Decrease in other liabilities	(71,093)	(335,179)
Cash inflow from operating activities	2,687,270	1,817,916
Interest paid	(8,133)	(2,186)
Income tax paid	(10,797)	(9,713)
<b>Net Cash flows provided by operating activities</b>	<u>2,668,340</u>	<u>1,806,017</u>

The accompanying notes are an internal part of the financial statements.

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Consolidated Statements of Cash Flows**  
**Consolidated Statements of Comprehensive Income**  
**(Expressed in, New Taiwan Dollars)**

	<b>For the six months ended June 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from investing activities:</b>		
Acquisition of available-for-sale financial assets	\$ (8,557,059)	(5,171,818)
Disposal of available-for-sale financial assets	9,911,739	6,592,545
Acquisition of debts investment without active market	(2,184,250)	(622,480)
Proceeds from repayments of investments in debt instrument without active market	246,896	56,208
Proceeds from capital reduction of financial assets at cost	-	7,872
Acquisition of premises and equipments	(116,020)	(59,623)
Disposal of premises and equipments	5,119	2,811
Acquisition of intangible assets	(15,419)	(16,843)
Acquisition of investment properties	(436)	-
<b>Net cash (used in) provided by investing activities</b>	<u>(709,430)</u>	<u>788,672</u>
<b>Cash flows from financing activities:</b>		
Distribution of cash dividend	(2,092,214)	(2,352,555)
Change in non-controlling interests (consolidated financial statements)	(28,594)	(48,824)
<b>Net cash used in financing activities</b>	<u>(2,120,808)</u>	<u>(2,401,379)</u>
<b>Effect on cash and cash equivalent from foreign exchange fluctuation</b>	(107,949)	(60,856)
<b>(Decrease) Increase in cash and cash equivalents</b>	(269,847)	132,454
<b>Cash and cash equivalents, beginning of the period</b>	<u>9,633,357</u>	<u>10,041,766</u>
<b>Cash and cash equivalents, end of the period</b>	<u>\$ 9,363,510</u>	<u>10,174,220</u>

The accompanying notes are an internal part of the financial statements.

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Interim Financial Statements**

**June 30, 2017 and 2016**

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

**(1) COMPANY HISTORY**

FUBON INSURANCE CO., LTD. (the “Company”) was founded on April 17, 1961 and primarily engaged in the business of property and casualty insurance. The enactment of the Financial Holding Company Act in Taiwan in 2001 provided an opportunity to establish Fubon Group as the holding entity of the main financial services company that had been operating under the Fubon brand. Therefore, a new Fubon Insurance (the Company) was established on December 19, 2001. Substantially, all assets and liabilities and related operations of the Old Fubon were transferred to the New Fubon. The Old Fubon was renamed as Fubon Financial Holding Co., Ltd. As of June 30, 2017, the composition of the financial quarterly report includes the Group (hereafter “the Group”) as well as the equity of the associates. The primary operating business is property insurance.

**(2) APPROVAL DATE AND PROCEDURES OF THE CONSOLIDATED FINANCIAL STATEMENTS**

These consolidated financial reports were approved and announced by the board of directors on August 18, 2017.

**(3) New standards, amendments and interpretations adopted:**

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to IAS 1 “Presentation of Financial Statements-Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendments to IAS 36 “Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets”	January 1, 2014

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<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IAS 39 “Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016
IFRIC 21 “Levies”	January 1, 2014

The Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated interim financial statements.

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 “Classification and Measurement of Share based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

(i) IFRS 9 “Financial Instruments”

IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement” which contains classification and measurement of financial instruments, impairment and hedge accounting. The actual impact of adopting IFRS 9 on the Group’s consolidated financial statements in 2018 can only be determined and reliably estimated depending on the financial instruments that the Group holds and economic conditions at that time, as well as the accounting elections and judgments that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments. However, the Group has performed a preliminary assessment of the potential impact of the adoption of IFRS 9 based on its positions at June 30, 2017 and hedging relationships designated under during the first half of 2017 under IAS 39.

1) Classification and Measurement of Financial Assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale financial assets, financial assets at cost and debts instrument without active market. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

The Group will reclassify the financial assets according to IFRS 9, but has not yet made a decision in this regard.

2) Impairment of Financial Assets and Contract Assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

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Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. However, the Group has not yet finalized the impairment methodologies that it will apply under IFRS 9.

3) Hedge Accounting

When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group's current plan is that it will elect to apply the new requirements of IFRS 9.

4) Disclosure

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Group's preliminary assessment included an analysis to identify data gaps against current processes and the Group plans to implement the system and controls changes that it believes will be necessary to capture the required data.

5) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at 1 January 2018.

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- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
    - The determination of the business model within which a financial asset is held.
    - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
    - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- (ii) Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”

The amendments provide the following optional approaches to reduce the impact of the differing effective dates of IFRS 9 and the forthcoming IFRS 17:

- Provide all companies that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued; and
- Provide companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard—IAS 39.

The Group initially elects to adopt overlap approach to reduce the effect of the different effective date between IFRS 9 “Financial Instrument” and IFRS 17 “Insurance Contract”, but the Group has not yet made decision.

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

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 16 “Leases”	January 1, 2019
IFRS 17 “Insurance Contracts”	January 1, 2021
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019

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

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
January 13, 2016	IFRS 16 “Leases”	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> <li>• For a contract that is, or contains, a lease, the lessee shall recognize a right of use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset during the lease term.</li> <li>• A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.</li> </ul>
May 18, 2016	IFRS 17 “Insurance Contracts”	<p>The new standard of accounting for insurance contracts contain recognition, measurement, presentation and disclosure of insurance contracts issued, and the main amendments are as follows:</p> <ul style="list-style-type: none"> <li>• Recognition: the beginning of the coverage period of the group of contracts, the date when the first payment from a policyholder in the group becomes due and when the group becomes onerous shall recognize a group of insurance contracts it issues from the earliest.</li> <li>• Measurement: on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. For subsequent measurement, the entity shall estimate the cash flows, discount rates and the adjustment for non-financial risk.</li> <li>• Presentation and disclosure: the presentation of insurance revenue is based on the provision of service pattern and investment components excluded from insurance revenue.</li> </ul>

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The Group is evaluating the impact on its consolidated financial position and consolidated financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Group completes its evaluation.

**(4) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Statement of compliance**

These consolidated interim financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Companies (hereinafter referred to as the Regulations) and preparation and guidelines of IAS 34 “Interim Financial Reporting” which are endorsed by FSC and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (hereinafter referred to IFRS endorsed by the FSC) for full annual consolidated financial statements.

**(b) Basis of preparation**

The consolidated financial reports comprise consolidated balance sheets, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows and relevant notes.

The consolidated financial statements have been prepared on a historical cost basis except for the financial instruments measured at fair value through profit or losses (including derivative financial instruments), investment properties, net defined benefit liability (asset) measured at fair value of pension plan assets minus present value of defined benefit obligation, and measurement in the effects of the ceiling which is stated at disclosure 4(R) are measured at fair value. The functional currency of each Group entities is determined based on the primary economic environment in which the entities operate. The Group consolidated financial statements are presented in New Taiwan Dollar, which is the Company’s functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

**(c) Basis of consolidation**

**(i) Principle of preparation of the consolidated financial statements**

The Group has prepared consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies and International Accounting Standards endorsed by the FSC. Under consolidated financial statements, it combines like items of assets, liabilities, equity, income and expenses and offsets the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. The Group has prepared its financial reports with same reporting dates.

A subsidiary is an enterprise controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unless there is evidence indicating that the assets transferred is impaired, the unrealized loss from intra-group transaction are eliminated.

The Group has adopted same accounting policies for like transactions and events in similar circumstances in the preparation of the consolidated financial statements. If the accounting policies adopted by its subsidiaries are different from those adopted by the Group, the Group has properly modified former accounting policies to ensure the consistency of all financial reports.

## (ii) List of subsidiaries in the consolidated financial statements

Name of investor	Name of subsidiary	Business Type	Shareholding		
			June 30, 2017	December 31, 2016	June 30, 2016
The Company	Fubon insurance (Vietnam) Co., Ltd	Insurance	100 %	100 %	100 %
The Company	Fubon P&C Insurance Co., Ltd	Insurance	40 %	40 %	40 %
The Company	Fubon Insurance Broker (Thailand) Co., Ltd	Insurance broker	48.97 %	48.97 %	48.97 %
The Company	Fubon Insurance Broker (Philippines) Co., Ltd	Insurance broker	99.99 %	99.99 %	99.99 %

## (d) Foreign currency

## (i) Foreign currency transaction

The Group translates all foreign currency items, which recorded initially at the rate of exchange at the trade day, into its functional currency. Monetary assets and liabilities are translated at the closing rate at the date of the balance sheet. Exchange differences, which arise when monetary items are translated at rates different from those initially recognized, are reported in profit or loss in the period. Non-monetary assets and liabilities measured at fair value are reported at the rate of exchange at the date of fair value determined. Non-monetary items measured at historical cost are translated at the rate of exchange at the trade day.

Exchange differences arising when they are translated at rates difference from those initially recognized, except those from Non-monetary available-for-sale financial assets, financial liabilities designated as hedge of a net investment in a foreign operation, or qualifies cash flow hedges are recognized in other comprehensive income, are recognized in profit or loss.

## (ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Group's functional currency in New Taiwan Dollars at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Group's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income.

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

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

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

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

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (including time deposits that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value).

(g) Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using Equity Method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill which is arising from the acquisition less any accumulated impairment losses. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in associates, the carrying amount of the investment, including any interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

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When the Group disposes associates and lose the significant influence over the associates, any remaining investments are measured at the fair value. The difference between the fair value of remaining investments in associates plus the proceeds from disposing associates and the carrying amount of remaining investment in associates when the Group loses its significant influence is recognized in profit or loss. The amount related to associates and recognized in other comprehensive income is reclassified as profit or loss from equity.

(h) Financial Instruments

Financial assets and liabilities, including derivative instruments, are recognized in the condensed consolidated balance sheet and measured according to its classification under IFRS.

In accordance with International Accounting Standards 39 Financial instruments (“IAS 39”) as endorsed by FSC, financial assets are classified into the following categories: financial assets measured at fair value through profit or loss, available-for-sale financial assets, financial assets carried at cost, debt instruments in non-active market, held-to-maturity financial assets, and loans and receivables. Financial liabilities are classified into financial liabilities measured at fair value through profit or loss.

(i) Financial assets

1) Regular way purchase or sale

The types and the accounting classifications of all financial assets acquired by the Group are based on trade date accounting.

2) Financial assets measured at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term, for which there is a recent pattern of short-term profit taking, or as derivative financial instruments. This category comprises financial assets classified as held-for-trading and designated as at fair value through profit or loss on initial recognition.

Financial assets are classified as held-for-trading under one of the following situations:

- a) Assets acquired primarily for the purpose of selling in the short term;
- b) A portion of identified financial instruments at initial recognition and for which there is a pattern of short-term profit taking; or
- c) Derivative financial instruments (excluding financial guarantee contracts and those designated effective hedging instruments).

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The Group designates financial assets, other than ones classified as held-for-trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- a) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- b) Performance of the financial asset is evaluated on a fair value basis; or
- c) Hybrid instrument contains one or more embedded derivatives.

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

Financial assets measured at fair value through profit or loss and designated as such at the time of initial recognition are classified as “financial assets measured at fair value through profit or loss” in the condensed consolidated balance sheet. Changes in fair value are recognized in profit or loss as “gain or loss on financial assets and liabilities measured at fair value through profit or loss”.

3) Held-to-maturity financial assets

Financial assets which the Group have the positive intent and ability to hold to maturity are classified as held-to-maturity financial assets. After initially acquired, these assets are measured at amortized cost using the effective interest rate method less impairment losses.

The effective interest method is a method of calculating the amortized cost of the financial instrument and of allocating the interest income over the relevant period. An effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument. The calculation includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate.

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying financial assets as held-to-maturity for the current and the following two financial reporting years.

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4) Available-for-sale financial assets

Available-for-sale financial assets are any non-derivative financial assets designated on initial recognition as available-for-sale or any other instruments that are not classified as loans and receivables, held-to-maturity investments, or financial assets measured at fair value through profit or loss.

Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value and changes therein, other than foreign currency differences on available-for-sale debt instruments, interest income calculated using the effective interest method, and dividend income, are recognized in other comprehensive income. When impairment loss of available-for-sale financial assets is recognized or derecognized, the gain or loss accumulated in the fair value reverse in equity is reclassified to profit or loss.

Dividend income is recognized in profit or loss on the date that an entity's right to receive payment is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are recognized in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets cannot be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in profit or loss or other comprehensive income on financial assets.

5) Loans and receivables

Loans and receivables are prices that are not quoted in an active market and are financial assets with fixed or determinable payments, including accounts receivables and other receivables. Loans and receivables are initially recognized at fair value plus incremental direct transaction cost, and subsequently measured at their amortized cost minus impairment loss using the effective interest method, except that the interest recognition of short-term accounts receivable is excluded because of immateriality. According to transaction practice, when purchasing or selling financial assets, trade date accounting is adopted.

6) Debt instruments without active market

Debt investments without active market are debt investments with fixed or determinable payments that are not quoted in an active market. At initial recognition, debt instruments without active market quote are recognized at fair value plus any directly attributable transaction costs. Disposal gain or loss is recognized in profit or loss upon derecognition. Subsequent to initial recognition, these debt investments without active market are measured at amortized cost using the effective interest rate method.

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## 7) Financial assets carried at cost

At initial recognition, the costs of the equity investments in a non active market are valued at fair value plus the acquisition costs. These assets can be measured at fair value under one of the following conditions:

- a) The variability in the range of reasonable fair value measurements is not significant for that asset.
- b) The probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value. If the range of reasonable estimates when measuring fair value is material, and the Company fails to reasonably assess the probabilities for different estimates. The financial instruments can not be measured at fair value. If a financial asset does not meet both of these conditions, then it is carried at cost.

## (ii) Financial liabilities

Financial liabilities held-for-trading or are designated on initial recognition are classified as financial liabilities at fair value through profit or loss.

Financial liabilities are classified as held for trading under one of the following situations:

- 1) Liabilities acquired primarily for the purpose of selling or repurchasing in the short term;
- 2) 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;
- 3) Derivative financial liabilities, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument; or
- 4) Obligations to deliver financial assets borrowed by a short seller.

Financial liabilities measured at fair value through profit or loss and those designated as such at the time of initial recognition are recognized as “financial liabilities measured at fair value through profit or loss” in the condensed consolidated balance sheet. The changes in fair value are recognized as “gain or loss on financial assets and liabilities measured at fair value through profit or loss” in the condensed consolidated statement of comprehensive income. However, if financial liabilities that are designated as fair value through profit or loss, the changes in fair value generated from credit risk should be recognized in other comprehensive income, except for the case to avoid accounting mismatch and the case that is attributable to loan commitment and financial guarantee contract should be recognized in profit or loss.

## (iii) Derecognition

A financial asset is derecognized when the contractual rights of the cash inflow from the financial asset are terminated, or when all the risks and rewards of ownership of the financial assets are substantially transferred.

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If the Group enter into securities lending transactions or pledge of bonds or stocks as security for repo transaction, the financial assets are not derecognized as substantially all risks and rewards of ownership are still retained by the Group. This accounting treatment is also adopted when the Group enter into securitization transaction in which the Group keep portion of the risk and rewards of ownership.

When the Group derecognize financial assets, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that is recognized in other comprehensive income is recognized in profit or loss.

The Group derecognize a financial liability when its contractual obligations has been discharged, cancelled, or expire.

**(iv) Reclassification**

Under IAS 39 as endorsed by the FSC, the following principles are adopted concerning the non-derivative financial assets:

- 1) no reclassification is made out of the fair value measured through profit or loss category while it is held or issued.
- 2) no reclassification is made of any financial instrument out of the fair value measured through profit or loss category if it was designated as at fair value measured through profit or loss at initial recognition.
- 3) if a financial asset is no longer held for the purpose of selling or repurchasing it in the near term, it is reclassified out of the fair value measured through profit or loss category, but only in rare circumstances.
- 4) no reclassification is made of any financial instrument into the fair value measured through profit or loss category subsequent to initial recognition.
- 5) if, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it is reclassified as available-for-sale and remeasured at fair value, and the difference between its carrying amount and fair value is recorded in other comprehensive income.
- 6) no reclassification is made of any financial assets as held-to-maturity if during the current financial year or during the two preceding financial years, more than an insignificant amount of held-to-maturity investments were sold or reclassified before maturity. Any remaining held-to-maturity investments are reclassified as available-for-sale.

**(v) Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the condensed consolidated balance sheet if, and only if, the Group have legally enforceable right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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(i) Derivative financial instruments

Derivative financial instruments are measured at fair value at initial recognition and in the subsequent period, and attributable transaction costs are recognized in profit or loss as incurred. Fair value is determined using valuation techniques that consider using quoted prices in an active market, recent market price, discounted cash flow models and option pricing models. If the result of its valuation at fair value is positive, a derivative instrument is classified as a financial asset, otherwise, it is classified as a financial liability.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risk of the host contract and the embedded derivatives are not closely related and the host contract is not measured at fair value through profit or loss.

(j) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of raw materials and direct labor, and any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalized borrowing costs.

Subsequent measurement of investment property is measured at fair value. Any gain or loss resulted from the fair value change on an investment property is recognized in profit or loss and is conducted per the regulation of IAS 40 “Investment Property” except those that are classified as held-for-sale (or included in the held-for-sale disposal group) in accordance with IFRS 5 “Non-Current Assets Held for Sale and Discontinued Operations”.

An investment property is derecognized when it is disposed or it is no longer being used and is not going to retrieve any future economic benefit from the disposal. The gain or loss on the disposal is recognized in profit or loss.

The Company based on the actual purpose to determine whether to classify a property into investment property or to classify a property out of investment property. The classification is based on market valuation data of and relevant accounts are dealt with appropriate procedures. Regarding the accounting treatment of the transition of the purpose of the investment property, it is conducted per the regulation of IAS 40 “Investment Property”.

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

The Group engages in trading of bonds sold under repurchase agreements and it is recognized in bonds issued under repurchase agreement. The bonds provided as the guarantees of transactions under repurchase agreements are recognized in financial asset investment accounts and are not affected by the temporary transfer-in or transfer-out of the transactions under repurchase agreements. The financing interest expenses are recognized per the duration of the repurchase agreements on accrual basis.

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(l) Securities lending

The Group lend securities through the Taiwan Stock Exchange Company. Revenue from securities lending is determined based on the formula for calculating the pricing and bidding of securities lending. Under this formula, the daily closing price of target security is used to multiply the amount of guarantee and transaction rate, so that the outcome is the amount of revenue from securities lending. This revenue is paid by the securities firms when the securities are returned.

(m) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprises material, labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that eligible for capitalization. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The cost of the software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

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

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as other gains and losses.

(ii) Reclassifies the property to investment property

When the use of a property changes to investment property, the Group reclassifies the property to investment property based on the carrying amount when the use is changed. The differences between book value and fair value at the date of purpose of change, the investment property should be recognized in profit or loss to the extent of previous accumulated impairment recognition. Other differences should be recognized in “Other comprehensive income—revaluation surplus” and be accumulated in “Other equity—revaluation surplus”.

(iii) Subsequent cost

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

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(iv) Depreciation

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

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

Land is not depreciated.

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

- 1) Buildings and construction 3-55 years
- 2) Transportation and communication equipment 5-6 years
- 3) Miscellaneous equipment 3-8 years

Gain and loss on disposal of premises, plant and equipment is recognized in non-operating profit or loss. Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change is accounted for as a change in an accounting estimate.

(n) Assets impairment

(i) Financial assets impairment

1) Financial assets carried at amortized cost

At each reporting date, a financial asset or a group of financial assets is assessed whether there is objective evidence of impairment. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that a financial asset or a group of financial assets is impaired includes:

- a) significant financial difficulty of the issuer or obligor;

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- b) a breach of contract, such as a default or delinquency in interest or principal payments;
- c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- e) the disappearance of an active market for that financial asset because of the issuer's financial difficulties; or
- f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - i) adverse changes in the payment status of borrowers in the group; or
  - ii) changes in national or local economic conditions that correlate with defaults on the assets in the group

For impairment of financial assets, the Group makes judgments as to whether there is any objective evidence of impairment that a financial asset significantly declines in its fair value below its cost or financial assets that are not individually significant are collectively assessed for impairment by grouping together. Assets that are individually assessed and for which no impairment exists are grouped with financial assets with similar credit risk statistics and collectively assessed for impairment. In contrast, assets that are individually assessed and for which impairment is recognized or continuously recognized are excluded from above group assessment.

Whether the Group may obtain collateral or not, calculating net present value of the estimated future cash flows of the pledged assets reflects the possible cash flows of collateral minus the acquisition costs and costs to sell.

The allowance for the other loans and receivables is provided according to "Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises" and the historical accounts recovery experiences, clients' credits, aging report of non performing loans, and relevant policies. The amount of the allowance for doubtful accounts is decided based on the aforementioned two methods, whichever results in higher allowance for doubtful accounts.

2) Available-for-sale financial assets

When the decrease in the fair value of an available-for-sale financial asset is recognized in other comprehensive income and an available-for-sale financial asset is considered to be impaired, the losses accumulated in the fair value reserve in equity are reclassified to profit or loss, even if the available-for-sale financial asset is not derecognized yet.

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In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of available-for-sale debt securities, impairment loss are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3) Financial assets carried at cost

When there is objective evidence that financial assets carried at cost are impaired, the loss amount is recognized in profit or loss and the impairment loss is non reversible.

(ii) Impairment of non financial assets

In accordance with International Accounting Standards 36 Asset impairment (“IAS 36”) endorsed by the FSC, at each reporting date or as circumstance changes, the Group assess non financial assets for any indication of impairment in which the recoverable amount of an asset is less than its carrying amount. If the recoverable amount of an asset is less than its carrying amount, the difference between the recoverable amount and carrying amount is recognized as impairment loss. Assets are grouped together into the smallest group of identifiable assets (cash-generating unit) that generates cash inflows. Impairment test is also applied to an individual asset when its fair value less selling cost or its value-in-use can be reliably measured. Impairment loss on non financial assets (other than goodwill) recognized in prior periods is assessed at each reporting date for any indications that the loss has decreased.

Impairment loss recognized in prior periods for assets other than goodwill is reversed if there is indication that such impairment loss no longer exists or has decreased. The Group then estimates the recoverable amount of an individual asset or a cash generating unit. If the value of the recoverable amount increases after assessments, the impairment loss could be reversed to increase assets or increase the book value of cash generating units to recoverable amounts. However, the value of an individual asset or a cash generating unit could not exceed the amortized or depreciated amount without recognizing impairment loss.

The recoverable amount of goodwill, an intangible asset with an indefinite useful life, and an intangible asset that are not yet available for use is regularly assessed. If the recoverable amount of any of these assets is lower than its carrying amount, impairment loss is recognized. An impairment loss in respect of goodwill is not reversed in subsequent years.

(o) Intangible assets

(i) Computer software

Computer software is recognized per its cost and amortized in 3-10 years by straight line method.

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(ii) Subsequent Expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

The residual value, the amortization period and the amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each financial year-end. Such change shall be accounted for as changes in accounting estimates.

(p) Leases

(i) Lessor

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

(ii) Lessee

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

(q) Insurance liability

The Group determines reserves for insurance contracts in accordance with to the “Regulations Governing the Provision of Various Reserves”, “Regulations for Management of the Various Reserve of Compulsory Automobile Liability Insurance”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”, “Regulations for the Reserve of Nuclear Insurance”, and “Directions Concerning Enhanced Natural Disaster Reserve of Property Insurance (Commercial Earthquake Insurance, Typhoon Insurance, and Flood Insurance)” methodologies used to determine the reserve are certified by the appointed actuary who is authorized by the Financial Supervisory Commission, Executive Yuan. Except for the reserve for short-term group insurance which is calculated on the actual premiums or the premiums conforming to the rule prescribed in Tai Tsai Bao No 852367814 letter, whichever is higher, the bases for determining other reserves or provision for liabilities are as follows:

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

(i) Unearned premiums reserve:

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

(ii) Claim reserve:

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

(iii) Special reserve

Special reserve comprises two parts, catastrophe reserve and risk-volatility reserve. The provision each year is recognized in special reserve under equity account with the amount deducted by income tax. The amount is calculated based on IAS 12. For the amount which should be written off or reclaimed, the Company writes off and reclaims it via special reserve under equity account with the amount deducted by income tax. From January 1, 2013, the special reserve provided in liability account is reclassified to special reserve in equity account following the regulation of IAS 12. In accordance with “Notice to Reserve Enforcement of Insurance Companies for Natural Disaster Insurance (Commercial Earthquake Insurance and Typhoon and Flood Insurance)”, Property insurance companies, effective from January 1, 2013, should first fill the special catastrophe reserve and risk volatility reserve for commercial earthquake insurance and typhoon and flood insurance to maximum amount with the special catastrophe reserve and risk volatility reserve, which was in liability account and was provided before December 31, 2012, in the equity account. The amount provided is deducted by income tax. The reserves mentioned (before December 31, 2012) exclude the insurances below:

- compulsory automobile liability insurance;
- nuclear insurance;
- governmental residential earthquake insurance;
- commercial earthquake insurance;
- typhoon and flood insurance.

1) Catastrophe special reserve

Catastrophe special reserve for each line of business shall be determined based on ratios regulated by the Authority.

An event is defined as a catastrophe event if, and only if, (a) the event is announced by the Government; and (b) the net losses caused by the event exceed over NT\$ 2 billion dollars for the whole insurance industry; and (c) the losses caused by the event exceed over NT\$ 30 million dollars for the individual company. The portion of the losses over NT\$ 30 million dollars shall be recovered from catastrophe special reserve.

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Catastrophe special reserve can be released after 15 years based on the mechanism decided by the appointed actuary and filed to the Authority.

2) Risk volatility special reserve

If the actual loss, after deducting catastrophe special reserve, is less than the expected loss, an equalization special reserve shall be recognized at 15% of that difference.

If the actual loss, after deducting the catastrophe special reserve recovered for the line of business, exceeds the expected loss, the amount of that difference shall be recovered from the equalization special reserve. If the equalization special reserve is insufficient to deduct for a specific line of business, it can be released from other line of business. The amount released and the line of business from which shall follow the related regulations.

If the cumulative equalization special reserve exceeds 60% of the net earned premium, the equalization special reserve shall be released by that difference.

(iv) Premium deficiency reserve

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

(v) Liability adequacy reserve

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

(r) Employee benefit

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

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

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit loss.

Remeasurement of net defined benefit liability (asset) includes: 1. Actuarial gains and losses. 2. Return on plan assets except net interests of remeasurement of net defined benefit liability (asset) 3. Any changes in the effects of the asset ceiling except net interests of remeasurement of net defined benefit liability (asset).

Remeasurement of net defined benefit liability (asset) is recognized in other comprehensive income, but the Group can choose to transfer the recognized amount to retained earnings or to other equities. If the Group adopts to transfer the amount to other equities, the Group may not reclassify the recognized amount to profit or loss or transfer the recognized amount to retained earnings in subsequent periods. The adoption should be in accordance in future periods. The Group will recognize the remeasurement of net defined benefit plan in retained earnings.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs. The gain or loss on curtailment arises from any change in the fair value of plan assets, any change in the present value of the defined benefit obligation, and any related actuarial gains or losses and past service cost which had not previously been recognized. 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. And adjusted by the significant market volatility, curtailment or settlement of a defined benefit plan or other significant one-time events.

(iii) Other long-term employee benefit

The accounting treatments for both other long-term employee benefit and defined benefit plans are the same. However, the related remeasurement of other long-term employee benefit should be recognized in profit or loss.

(iv) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(s) Income tax

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

(i) Current income tax

Current taxes included tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate. The 10% surtax on undistributed earnings, computed according to the ROC Income Tax Act, is charged to current income tax expense in the year when stockholders decide not to distribute the earnings.

(ii) Deferred income tax

Deferred taxes are measured based on the enacted or substantively enacted tax rate on the reporting date applicable during the year of expected asset realization or debt settlement.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Temporary differences arise primarily from the evaluation of financial instruments (including derivative financial instrument), pension, and the reserve and reversal of retired employees benefit. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences.

Temporary differences arising from investment in subsidiaries, associates, and joint ventures are recognized as deferred income tax assets or liabilities, except when the Company has ability and intention to control the timing of reversal of the temporary differences and it is highly possible that temporary differences are not reversible in the foreseeable future.

Deferred income tax assets and liabilities are not offset if they relate to income taxes levied by different tax authorities.

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(t) Insurance contracts

An insurance contract is a “contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder”. The Group define significant insurance risk as the event which might lead to additional significant payment.

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

(u) Reinsurance ceded business

The Group arranges the reinsurance business based on the business need and the related insurance laws to limit the losses caused by certain events. For reinsurance ceded business, the Company shall not refuse to fulfill its obligation to its insurers even if the reinsurer refuse to fulfill its obligation.

The Group recognized reinsurance charges based on reinsurance contracts. The consideration regarding the duration covered by the financial statements is consistent with the premium income. On the balance sheet date the Company estimates the unpaid reinsurance expense via a reasonable and systematic method. Relevant income (such as reinsurance commission income) is recognized in the same period and related insurance profit or loss is not deferred.

Reinsurance assets, including ceded unearned premium reserve, ceded claim reserve, ceded policy reserve, ceded premium deficiency reserve, and ceded liability adequacy reserve, are determined in accordance with the Regulations for the Various Reserves by Insurance Enterprises amended by Financial Supervisory Commission and reinsurance contract term to the right of reinsurer.

The Group shall recognize the ceded premium for reinsurance ceded business based on reinsurance contracts. The period of the financial report for the ceded premium shall match with that for the premium income.

The Group shall periodically assess the impairment of the reinsurance assets described above, claims recoverable from reinsurers, reinsurance receivable and funds held by ceding companies. If the Group’s reinsurance asset is impaired, the Group shall reduce its carrying amount accordingly and recognize that impairment loss in profit or loss. A reinsurance asset is impaired if, and only if (a) there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract; and (b) that event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

For those statements have not been received, the ceded reinsurance premium shall be estimated by a reasonable and systematic way at the balance sheet date .The related income (such as ceded reinsurance commissions and etc.) shall be recognized at the same period. The related reinsurance gain or loss shall not be deferred.

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The Group evaluates the effects insurance with another insurer to cede risk that it has insured. If a reinsurance contract only cedes the significant insurance risk but not the underwriting risk and time risk, the contract is recognized via deposit accounting. The premium minus the company retained reinsurance premium (or fee) is recognized as deposit asset or liability.

Change in deposit asset is recognized as temporary income. The deposit does not cede risk use effective interest rate calculate interest.

**(v) Coinsurance organization, coinsurance business and guarantee fund agreement.**

The Group signed coinsurance contract of the compulsory automobile liability insurance with all the member companies which approved by the government to operate the compulsory automobile liability coinsurance. It was agreed that all business of compulsory automobile liability insurance should be covered by the coinsurance institution or the Company should pay the penalty and be audited by the auditor of the coinsurance organization. The business of the coinsurance was calculated based on pure premium, and distribute by coinsurance percentage. Any member companies which participate in coinsurance cannot drop out from the coinsurance organization at their own choice except for those that are shut down or liquidated. If the companies stop to operate the compulsory automobile liability insurance, it should drop out from the coinsurance organization at the same time and the responsibility of unearned premiums applies natural expiry.

The Group signed “Contract Fulfillment Guarantee Coinsurance Contract of Tourism Industry” with property insurance companies and reinsurance companies which conduct contract fulfillment guarantee of tourism industry. The contract regulates that all the contract fulfillment guarantee business is covered by the contract. The company which violates the rules is obligated to pay a penalty and the coinsurance team is entitled to audit the company.

Coinsurance business undertaken is calculated based on the coinsurance premium received (Risk premium). Each member company undertakes its respective portion of the responsibility without joint responsibility. The member can drop out from the coinsurance organization three months before next year by sending a written statement. The original undertaken responsibility will cease to exist at the end of the year and the member company which drops out from the coinsurance organization will be held responsible for the unfinished part of the responsibility until its natural expiry.

**(w) Income recognition****(i) Premium income and acquisition costs**

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

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

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

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

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

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

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

(ii) Net investment profit or loss

Net investment profit or loss comprises the interest income, dividend income, reversal of financial asset impairment, net profit or loss from disposition of available-for-sale financial assets, net profit or loss on financial assets (liabilities) carried at cost, net profit or loss from financial assets and liabilities at fair value through profit or loss, net profit or loss from debt instrument without active market, profit or loss from investment under Equity Method, foreign exchange profit or loss-investment, profit or loss from investment property and gains on hedge instrument which is to be recognized in profit or loss. Interest income is recognized in profit or loss on accrued basis via effective interest rate method. Dividend income is recognized on the day the Group is allowed to collect the dividend. If the investment is a security with public quote, then it is recognized on the ex-dividend date.

(x) The cost of insurance claims

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

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

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

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

The loss reserve is not discounted.

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

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

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

(y) Salvage and subrogation

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

(z) Earnings per share

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary equity holders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

(aa) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of independent financial information.

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**(5) SIGNIFICANT ACCOUNTING ASSUMPTIONS AND JUDGMENTS, AND MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

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

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

The relevant information of assumption and estimate uncertainty has material risk that may result material adjustment is as followings:

(a) Fair value of financial instrument

Financial instruments without active market or quoted market prices are measured using the valuation models or counterparty prices. When using the valuation model, all the models measured using the observable factors as inputs as much as possible and the inputs cannot be adjusted manually. In principle, the models used the factors can be long-term stably accessed in the market. To avoid the data source changed causing the gap of the financial report between the difference financial years. The models need to be adjusted and verified repeatedly to ensure the output can be measured the value of financial instruments properly.

Please refer to note 6(w) about financial instrument sensitively analysis.

(b) Fair value of property investment

The fair value of investment property is measured using valuation methods, including the income approach, market approach, and so on. Variations of assumptions used in these models will influence the reporting fair value of property investment.

(c) Insurance liability

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

Unearned premium reserve is estimated based on the exposure of the unexpired period of each business line. The provision of reserves is determined by actuarial specialists in accordance with characteristics each business line.

Claim reserve is estimated in accordance with actuarial principles based on historical claim experiences and expenses. The final claim cost is calculated based on primary assumptions of claim reserve are loss development factors and expected claim ratio. The loss development factors and expected claim ratio of each business line are calculated based on historical claim experience and adjusted by company's policies such as insurance rate and claim management.

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The estimation of liability adequacy reserve is in accordance with the “Statement of Financial Accounting Standards No. 40 of principles of actuarial practice – insurance contracts and liability adequacy test” pronounced by the Actuarial Institute of the Republic of China. The expected present value of the contracts’ future cash flows used in estimated liability adequacy reserve is based on reasonable estimate of future insurance claims, premium revenues and relative expenses.

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

**(6) EXPLANATION OF SIGNIFICANT ACCOUNTS:****(a) Cash and cash equivalents**

	<b>June 30, 2017</b>	<b>December 31, 2016</b>	<b>June 30, 2016</b>
Cash on hand	\$ 95	147	513
Cash in bank	7,929,186	7,987,414	9,404,073
Marketable securities	1,552,873	1,743,420	866,064
Less: Statutory deposits	<u>(118,644)</u>	<u>(97,624)</u>	<u>(96,430)</u>
Total	<b><u>\$ 9,363,510</u></b>	<b><u>9,633,357</u></b>	<b><u>10,174,220</u></b>

The statutory deposit refers to the time deposits that serve as collateral and is recognized as guarantee deposits paid. Please refer to Note 8 for further information.

**(b) Receivables and Payables****(i) Receivables**

	<b>June 30, 2017</b>	<b>December 31, 2016</b>	<b>June 30, 2016</b>
Receivables of insurance contracts (Note 6(c))	\$ 5,142,585	3,973,180	4,863,945
Notes receivable-Not for insurance contracts (Note 6(d))	44,548	33,637	21,975
Other receivables (Note 6(h))	<u>614,010</u>	<u>712,795</u>	<u>735,302</u>
Total	<b><u>\$ 5,801,143</u></b>	<b><u>4,719,612</u></b>	<b><u>5,621,222</u></b>

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## (ii) Payables

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Payables of insurance contracts (Note 6(c))	\$ 941,358	923,138	986,026
Due to reinsures and ceding companies (Note 6(g))	6,864,505	5,844,352	5,902,960
Other payables (Note 6(h))	2,519,482	2,728,763	2,064,337
Indemnity payments payables (Note 6(n))	<u>164,600</u>	<u>69,583</u>	<u>475,175</u>
Total	<u>\$ 10,489,945</u>	<u>9,565,836</u>	<u>9,428,498</u>

## (c) Receivables (payables) of insurance contracts

## (i) Receivables of insurance contracts

Item	<u>June 30, 2017</u>			
	<u>Notes receivable</u>	<u>Premiums receivable</u>	<u>Overdue receivable</u>	<u>Total</u>
Voluntary moto insurance	\$ -	186,456	4,328	190,784
Compulsory auto liability insurance	-	45,309	15,519	60,828
Compulsory motorcycle liability insurance	-	44,555	807	45,362
Fire insurance	-	1,629,220	30,050	1,659,270
Personal insurance	-	1,038,591	621	1,039,212
Marine hull insurance	-	82,000	199	82,199
Fishing vessel insurance	-	31,401	136	31,537
New insurance	-	881,872	101,493	983,365
Marine insurance	-	199,875	4,067	203,942
Other	<u>895,937</u>	<u>-</u>	<u>4,233</u>	<u>900,170</u>
Total	895,937	4,139,279	161,453	5,196,669
Less : Allowance for bad debts	(3,811)	(18,174)	(32,099)	(54,084)
Total (net)	<u>\$ 892,126</u>	<u>4,121,105</u>	<u>129,354</u>	<u>5,142,585</u>

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Item	December 31, 2016			
	Notes receivable	Premiums receivable	Overdue receivable	Total
Voluntary moto insurance	\$ -	200,485	16	200,501
Compulsory auto liability insurance	-	57,098	15	57,113
Compulsory motorcycle liability insurance	-	34,683	-	34,683
Fire insurance	-	635,470	9,942	645,412
Personal insurance	-	936,991	552	937,543
Marine hull insurance	-	44,617	153	44,770
Fishing vessel insurance	-	48,050	81	48,131
New insurance	-	996,748	59,861	1,056,609
Marine insurance	-	157,820	21,078	178,898
Other	798,974	130	1,006	800,110
Total	798,974	3,112,092	92,704	4,003,770
Less : Allowance for bad debts	(1,464)	(16,746)	(12,380)	(30,590)
Total (net)	<u>\$ 797,510</u>	<u>3,095,346</u>	<u>80,324</u>	<u>3,973,180</u>

Item	June 30, 2016			
	Notes receivable	Premiums receivable	Overdue receivable	Total
Voluntary moto insurance	\$ -	277,575	46	277,621
Compulsory auto liability insurance	-	61,254	2	61,256
Compulsory motorcycle liability insurance	-	45,408	-	45,408
Fire insurance	-	1,405,023	2,296	1,407,319
Personal insurance	-	1,023,604	179	1,023,783
Marine hull insurance	-	104,994	637	105,631
Fishing vessel insurance	-	40,076	143	40,219
New insurance	-	783,578	66,805	850,383
Marine insurance	-	222,115	5,702	227,817
Other	847,279	12,682	4,987	864,948
Total	847,279	3,976,309	80,797	4,904,385
Less : Allowance for bad debts	(4,787)	(19,379)	(16,274)	(40,440)
Total (net)	<u>\$ 842,492</u>	<u>3,956,930</u>	<u>64,523</u>	<u>4,863,945</u>

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As of June 30, 2017, December 31 and June 30, 2016, the notes receivable of overdue receivable are amounted to \$3,267, \$39 and \$467, respectively and the premiums receivable amounted to \$158,186, \$92,665 and \$80,330, respectively.

## (ii) Aging of accounts receivable

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Under 90 days	\$ 4,910,400	3,872,441	4,700,778
90~365 days	322,626	160,277	216,105
More than 365 days	8,205	4,724	9,478

## (iii) Payables of insurance contracts

<u>Item</u>	<u>June 30, 2017</u>		<u>Total</u>
	<u>Commission payables</u>	<u>Service charge payables</u>	
Fire insurance	\$ 95,700	-	95,700
New insurance	105,387	-	105,387
Marine insurance	23,565	-	23,565
Fishing vessel insurance	1,577	-	1,577
Marine hull insurance	1,658	-	1,658
Personal insurance	322,314	-	322,314
Voluntary moto insurance	230,988	-	230,988
Compulsory auto liability insurance	-	19,045	19,045
Compulsory motorcycle liability insurance	-	11,987	11,987
Other	129,137	-	129,137
Total	<u>\$ 910,326</u>	<u>31,032</u>	<u>941,358</u>

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Item	December 31, 2016		
	Commission payables	Service charge payables	Total
Fire insurance	\$ 46,869	-	46,869
Fishing vessel insurance	103,127	-	103,127
Marine hull insurance	22,283	-	22,283
Personal insurance	2,006	-	2,006
Marine hull insurance	1,449	-	1,449
Personal insurance	334,261	-	334,261
Voluntary moto insurance	244,507	-	244,507
Compulsory auto liability insurance	-	21,215	21,215
Compulsory motorcycle liability insurance	-	9,761	9,761
Other	133,911	3,749	137,660
Total	<u>\$ 888,413</u>	<u>34,725</u>	<u>923,138</u>

Item	June 30, 2016		
	Commission payables	Service charge payables	Total
Fire insurance	\$ 98,553	-	98,553
New insurance	96,778	-	96,778
Marine insurance	22,122	-	22,122
Fishing vessel insurance	1,635	-	1,635
Marine hull insurance	1,441	-	1,441
Personal insurance	346,071	-	346,071
Voluntary moto insurance	228,749	-	228,749
Compulsory auto liability insurance	-	20,124	20,124
Compulsory motorcycle liability insurance	-	11,148	11,148
Other	159,405	-	159,405
Total	<u>\$ 954,754</u>	<u>31,272</u>	<u>986,026</u>

The counterparties of above payables are usually sales representatives, insurance brokers, insurance agents and policy holders.

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## (d) Notes receivable – not for insurance contracts

	<b>June 30, 2017</b>	<b>December 31, 2016</b>	<b>June 30, 2016</b>
Notes receivable	\$ 44,562	33,672	21,975
Less: Allowance for bad debts	(14)	(35)	-
Net	<u>\$ 44,548</u>	<u>33,637</u>	<u>21,975</u>

## (e) Reinsurance Assets

	<b>June 30, 2017</b>	<b>December 31, 2016</b>	<b>June 30, 2016</b>
Claims and payments recoverable from reinsurers (Note 6(f))	\$ 1,774,024	2,428,523	1,301,935
Due from reinsurers and ceding companies (Note 6(g))	3,816,168	2,993,511	2,890,914
Reinsurance reserve assets (Note 6(n))	<u>16,280,726</u>	<u>17,004,308</u>	<u>17,448,688</u>
Total	<u>\$ 21,870,918</u>	<u>22,426,342</u>	<u>21,641,537</u>

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## (f) Claims and payments recoverable from reinsurers

Reinsurance recovery receivables consisted of receivables from reinsurance loss recovery from other reinsurance companies, and included recoverable cases that insurance loss are paid, are to be paid. As of June 30, 2017, December 31 and June 30, 2016, the details of Claims recoverable from reinsurers are as follows:

Type	June 30, 2017		Total
	Loss are paid	Loss are to be paid	
Fire insurance	\$ 416,792	-	416,792
Marine Cargo insurance	63,942	-	63,942
Marine Hull/Fishing Vessel Aviation insurance	108,129	-	108,129
Voluntary moto insurance	168,780	-	168,780
Compulsory moto TPL insurance	408,112	-	408,112
Liability insurance	92,870	-	92,870
Nuclear insurance	81,722	-	81,722
Surety and Credit insurance	1	-	1
Other property insurance	3,486	-	3,486
Personal accident insurance	949	-	949
Personal and commercial multiple peril insurance	1,513	-	1,513
Typhoon, flood and earth quake insurance	430,772	-	430,772
Health insurance	19	-	19
Foreign business	-	-	-
Total	1,777,087	-	1,777,087
Less : Allowance for bad debts	(3,063)	-	(3,063)
Net	<u>\$ 1,774,024</u>	<u>-</u>	<u>1,774,024</u>

(Continued)

## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

Type	December 31, 2016		
	Loss are paid	Loss are to be paid	Total
Fire insurance	\$ 360,607	-	360,607
Marine Cargo insurance	74,955	-	74,955
Marine Hull/Fishing Vessel Aviation insurance	61,988	-	61,988
Voluntary moto insurance	177,048	-	177,048
Compulsory moto TPL insurance	384,978	-	384,978
Liability insurance	74,217	-	74,217
Nuclear insurance	78,250	-	78,250
Surety and Credit insurance	6,547	-	6,547
Other property insurance	4,084	-	4,084
Personal accident insurance	1,016	-	1,016
Personal and commercial multiple peril insurance	4,153	-	4,153
Typhoon, flood and earth quake insurance	1,203,888	-	1,203,888
Health insurance	41	-	41
Foreign business	-	-	-
Total	2,431,772	-	2,431,772
Less : Allowance for bad debts	(3,249)	-	(3,249)
Net	<u>\$ 2,428,523</u>	<u>-</u>	<u>2,428,523</u>

(Continued)

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

Type	June 30, 2016		
	Loss are paid	Loss are to be paid	Total
Fire insurance	\$ 173,493	-	173,493
Marine Cargo insurance	52,653	-	52,653
Marine Hull/Fishing Vessel Aviation insurance	55,485	-	55,485
Voluntary moto insurance	219,309	-	219,309
Compulsory moto TPL insurance	469,492	-	469,492
Liability insurance	61,833	-	61,833
Nuclear insurance	37,293	-	37,293
Surety and Credit insurance	33,832	-	33,832
Other property insurance	10,388	-	10,388
Personal accident insurance	1,420	-	1,420
Personal and commercial multiple peril insurance	1,606	-	1,606
Typhoon, flood and earth quake insurance	191,638	-	191,638
Health insurance	70	-	70
Foreign business	-	-	-
Total	1,308,512	-	1,308,512
Less : Allowance for bad debts	(6,577)	-	(6,577)
Net	<u>\$ 1,301,935</u>	<u>-</u>	<u>1,301,935</u>

(Continued)

## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

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

(i) Reinsurance receivables

	<b>June 30, 2017</b>
<b>Type</b>	<b>Due from reinsurers and ceding companies</b>
Fire insurance	\$ 109,853
Marine Cargo insurance	6,460
Marine Hull/Fishing Vessel Aviation insurance	13,309
Voluntary moto insurance	74,766
Compulsory moto TPL insurance	165,998
Liability insurance	21,070
Nuclear insurance	263,085
Surety and Credit insurance	884
Other property insurance	1,465
Personal accident insurance	10,388
Personal and commercial multiple peril insurance	3,822
Typhoon, flood and earthquake insurance	14,433
Health insurance	109
Foreign business	<u>687,261</u>
Total	1,372,903
Less : Allowance for bad debts	<u>(1,312)</u>
Net	<u><u>\$ 1,371,591</u></u>

(Continued)

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

Type	December 31, 2016 Due from reinsurers and ceding companies
Fire insurance	\$ 52,321
Marine Cargo insurance	4,211
Marine Hull/Fishing Vessel Aviation insurance	4,689
Voluntary moto insurance	58,325
Compulsory moto TPL insurance	163,961
Liability insurance	12,279
Nuclear insurance	136,219
Surety and Credit insurance	1,988
Other property insurance	19
Personal accident insurance	10,592
Typhoon, flood and earthquake insurance	2,374
Health insurance	52
Foreign business	513,981
Total	961,011
Less : Allowance for bad debts	(566)
Net	\$ 960,445

(Continued)

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

Type	<b>June 30, 2016</b>
	<b>Due from reinsurers and ceding companies</b>
Fire insurance	\$ 49,008
Marine Cargo insurance	7,228
Marine Hull/Fishing Vessel Aviation insurance	5,655
Voluntary moto insurance	47,581
Compulsory moto TPL insurance	163,863
Liability insurance	10,275
Nuclear insurance	124,823
Surety and Credit insurance	832
Other property insurance	646
Personal accident insurance	9,728
Personal and commercial multiple peril insurance	2
Typhoon, flood and earthquake insurance	13,917
Health insurance	-
Foreign business	523,506
Total	957,064
Less : Allowance for bad debts	(1,056)
Net	<b>\$ 956,008</b>

(Continued)

## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (ii) Reinsurance payables

Type	June 30, 2017		
	Due to reinsurers and ceding companies	Other	Total
Fire insurance	\$ 86,966	-	86,966
Marine Cargo insurance	4,079	-	4,079
Marine Hull/Fishing Vessel Aviation insurance	3,306	-	3,306
Voluntary moto insurance	40,252	-	40,252
Compulsory moto TPL insurance	-	-	-
Liability insurance	6,654	-	6,654
Nuclear insurance	119,910	-	119,910
Surety and Credit insurance	347	-	347
Other property insurance	374	-	374
Personal accident insurance	3,505	-	3,505
Personal and commercial multiple peril insurance	2,184	-	2,184
Typhoon, flood and earthquake insurance	-	-	-
Health insurance	-	-	-
Overseas reinsurance assumed	253,076	-	253,076
Total	<u>\$ 520,653</u>	<u>-</u>	<u>520,653</u>

(Continued)

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

Type	December 31, 2016		
	Due to reinsurers and ceding companies	Other	Total
Fire insurance	\$ 68,617	-	68,617
Marine Cargo insurance	4,932	-	4,932
Marine Hull/Fishing Vessel Aviation insurance	13,351	-	13,351
Voluntary moto insurance	25,723	-	25,723
Compulsory moto TPL insurance	-	-	-
Liability insurance	2,715	-	2,715
Nuclear insurance	52,781	-	52,781
Surety and Credit insurance	302	-	302
Other property insurance	376	-	376
Personal accident insurance	3,543	-	3,543
Personal and commercial multiple peril insurance	6	-	6
Typhoon, flood and earthquake insurance	-	-	-
Health insurance	-	-	-
Overseas reinsurance assumed	164,278	-	164,278
Total	<u>\$ 336,624</u>	<u>-</u>	<u>336,624</u>

(Continued)



## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

Type	June 30, 2016		
	Due to reinsurers and ceding companies	Other	Total
Fire insurance	\$ 25,760	-	25,760
Marine Cargo insurance	2,739	-	2,739
Marine Hull/Fishing Vessel Aviation insurance	2,097	-	2,097
Voluntary moto insurance	63,140	-	63,140
Compulsory moto TPL insurance	-	-	-
Liability insurance	5,324	-	5,324
Nuclear insurance	40,665	-	40,665
Surety and Credit insurance	555	-	555
Other property insurance	932	-	932
Personal accident insurance	3,451	-	3,451
Personal and commercial multiple peril insurance	272	-	272
Typhoon, flood and earthquake insurance	7,752	-	7,752
Health insurance	-	-	-
Overseas reinsurance assumed	169,046	-	169,046
Total	<u>\$ 321,733</u>	<u>-</u>	<u>321,733</u>

## (iii) Due from (to) reinsurers and ceding companies – holding reinsurance

Item	June 30, 2017	
	Due from reinsurers and ceding companies	Due to reinsurers and ceding companies
CENTRAL REINSURANCE CORPORATION	\$ 203,353	609,809
ASIA CAPITAL REINSURANCE GROUP PTE LTD. (HONG KONG BRANCH)	108,634	295,326
INSURANCE COMPANY OF NORTH AMERICA, TAIWAN BRANCH	93,595	-
ASIA CAPITAL REINSURANCE GROUP PTE LTD	-	503,173
Other company	2,045,641	4,935,544
Total	2,451,223	<u>6,343,852</u>
Less : Allowance for bad debts	(6,646)	
Net	<u>\$ 2,444,577</u>	

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(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

Item	December 31, 2016	
	Due from reinsurers and ceding companies	Due to reinsurers and ceding companies
CENTRAL REINSURANCE CORPORATION	\$ 236,708	595,191
AIOI NISSAY DOWA INSURANCE CO., LTD.	87,012	-
ASIA CAPITAL REINSURANCE GROUP PTE LTD. (HONG KONG BRANCH)	79,290	-
ASIA CAPITAL REINSURANCE GROUP PTE LTD	-	513,675
Other company	<u>1,633,542</u>	<u>4,398,862</u>
Total	2,036,552	<u><u>5,507,728</u></u>
Less : Allowance for bad debts	<u>(3,486)</u>	
Net	<u><u>\$ 2,033,066</u></u>	
	<b>June 30, 2016</b>	
Item	Due from reinsurers and ceding companies	Due to reinsurers and ceding companies
CENTRAL REINSURANCE CORPORATION	\$ 183,061	597,700
ASIA CAPITAL REINSURANCE GROUP PTE LTD. (HONG KONG BRANCH)	65,237	508,214
ASIA CAPITAL REINSURANCE GROUP PTE LTD.	-	275,201
Other company	<u>1,703,904</u>	<u>4,200,112</u>
Total	1,952,202	<u><u>5,581,227</u></u>
Less : Allowance for bad debts	<u>(17,296)</u>	
Net	<u><u>\$ 1,934,906</u></u>	

As of June 30, 2017, December 31 and June 30, 2016, overdue receivables of due from reinsurers and ceding companies are \$87,505, \$46,153 and \$38,672, respectively, and the allowance for bad debts for above are amounted to \$6,968, \$3,697 and \$17,389.

(Continued)

## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (h) Other accounts receivables (payables)

## (i) Other receivables

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Related parties (Note 7)	\$ 3,169	12,015	18,657
Non-Related parties	<u>610,900</u>	<u>700,839</u>	<u>720,224</u>
Total	614,069	712,854	738,881
Less: Allowance for bad debts	<u>(59)</u>	<u>(59)</u>	<u>(3,579)</u>
Net	<u>\$ 614,010</u>	<u>712,795</u>	<u>735,302</u>

As of June 30, 2017, December 31 and June 30, 2016, overdue receivables of non-related party are \$7,358, \$4,318 and \$3,349, and the allowance for bad debts for above are all amounted to \$59.

## (ii) Other payables

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Related parties (Note 7)	\$ 267,333	299,434	119,197
Non-Related parties	<u>2,252,149</u>	<u>2,429,329</u>	<u>1,945,140</u>
Total	<u>\$ 2,519,482</u>	<u>2,728,763</u>	<u>2,064,337</u>

## (i) Financial assets and liability

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

	<u>June 30, 2017</u>
Financial assets at fair value through profit or loss:	
Financial assets held for trading	
FX forward contract	\$ 58,339
Beneficiary certificate	<u>238,170</u>
Total	<u>\$ 296,509</u>
	<u>June 30, 2017</u>
Financial liabilities at fair value through profit or loss :	
FX forward contract	<u>\$ 111,605</u>

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## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

	<u>December 31, 2016</u>
Financial assets at fair value through profit or loss:	
Financial assets held for trading	
FX forward contract	\$ 17,516
Beneficiary certificate	<u>302,129</u>
Total	<u>\$ 319,645</u>
	<u>December 31, 2016</u>
Financial assets at fair value through profit or loss on initial recognition:	
FX forward contract	<u>\$ 251,107</u>
	<u>June 30, 2016</u>
Financial assets at fair value through profit or loss:	
Financial assets held for trading	
FX forward contract	\$ 103,304
Beneficiary certificate	<u>1,033,572</u>
Total	<u>\$ 1,136,876</u>
	<u>June 30, 2016</u>
Financial liabilities at fair value through profit or loss :	
FX forward contract	<u>\$ 2,686</u>

## Derivative financial instruments not for hedging

Derivative financial instruments are used for hedging foreign exchange risk and interest rate risk arising from operating, financing and investing activities. As of June 30, 2017, December 31 and June 30, 2016, the held-for-trading derivative financial instruments which did not apply to hedge accounting are as follows:

	<u>June 30, 2017</u>		
	<u>Contract amount</u>	<u>Currency</u>	<u>Duration</u>
FX forward contract sold	<u>USD 505,000</u>	USD to NTD	2017.07.05~2018.01.03
FX forward contract sold	<u>EUR 3,122</u>	EUR to USD	2017.07.17
FX forward contract sold	<u>CNY 102,278</u>	CNY to USD	2017.07.19~2017.07.26

(Continued)

## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

	December 31, 2016		
	Contract amount	Currency	Duration
FX forward contract sold	USD <u>490,000</u>	USD to NTD	2017.01.05~2017.05.23
FX forward contract sold	EUR <u>3,338</u>	EUR to USD	2017.01.13
FX forward contract sold	CNY <u>172,552</u>	CNY to USD	2017.01.17~2017.02.07
	June 30, 2016		
	Contract amount	Currency	Duration
FX forward contract sold	USD <u>475,000</u>	USD to NTD	2016.07.11~2016.10.14
FX forward contract sold	EUR <u>3,165</u>	EUR to USD	2016.07.29
FX forward contract sold	CNY <u>166,158</u>	CNY to USD	2016.08.02~2016.09.06
FX forward contract sold	SGD <u>13,499</u>	SGD TO USD	2016.07.11~2016.07.12

## (ii) Available-for-sale financial assets

	December 31,		
	June 30, 2017	2016	June 30, 2016
Stock of listed company	\$ 15,946,998	15,456,148	15,633,338
Beneficiary certificates	6,646,650	7,430,593	6,804,268
Government bonds	3,755,210	4,810,808	4,197,580
Financial bonds	6,595,460	6,473,726	6,001,815
Corporate bonds	<u>7,039,099</u>	<u>6,861,882</u>	<u>6,794,011</u>
Subtotal	39,983,417	41,033,157	39,431,012
Statutory deposits	(467,856)	(467,023)	(466,183)
Accumulated impairment	<u>(1,421)</u>	<u>(21,332)</u>	<u>(8,511)</u>
Total	<u>\$ 39,514,140</u>	<u>40,544,802</u>	<u>38,956,318</u>

Certain Government bonds were pledged as statutory deposits. Please refer to Note 8 for further information.

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## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (iii) Financial assets carried at cost

	<b>June 30, 2017</b>	
	<b>Amount</b>	<b>%</b>
WK Technology Fund Corp.	\$ 30,647	3.07 %
Taiwan Aerospace Corp.	17,000	1.25 %
Pan-Pacific Venture Capital Co., Ltd.	870	5.12 %
Arco Communication Co., Ltd.	9,480	0.25 %
Wua Wei Venture Capital Co., Ltd.	225	1.00 %
Phalanx Biotech Corp.	4,137	0.41 %
Hui Yang Private Equity Fund Co., Ltd.	280	1.03 %
Hsin Yung Enterprise Co., Ltd.	102,600	3.10 %
Hsinchu Golf Club Co., Ltd.	60	0.35 %
Tashee Golf & Country Club Co., Ltd.	10	-
Lin Kou Entertainment Co., Ltd.	40	0.20 %
Total	165,349	
Less: accumulated impairment	(7,019)	
Net Asset	<b>\$ 158,330</b>	

  

	<b>December 31, 2016</b>	
	<b>Amount</b>	<b>%</b>
WK Technology Fund Corp.	\$ 30,647	3.07 %
Taiwan Aerospace Corp.	17,000	1.25 %
Wua Wei Venture Capital Co., Ltd.	870	5.12 %
Phalanx Biotech Corp.	9,480	0.25 %
Tashee Golf & Country Club Co., Ltd.	225	1.00 %
Lin Kou Entertainment Co., Ltd.	4,137	0.41 %
Hui Yang Private Equity Fund Co., Ltd.	280	1.03 %
Hsin Yung Enterprise Co., Ltd.	102,600	3.10 %
Hsinchu Golf Club Co., Ltd.	60	0.35 %
Tashee Golf & Country Club Co., Ltd.	10	-
Lin Kuo Entertainment Co., Ltd.	40	0.20 %
Total	165,349	
Less: accumulated impairment	(7,019)	
Net Asset	<b>\$ 158,330</b>	

(Continued)

## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

	<b>June 30, 2016</b>	
	<b>Amount</b>	<b>%</b>
WK Technology Fund Corp.	\$ 30,647	3.07 %
Taiwan Aerospace Corp.	17,000	1.25 %
Pan-Pacific Venture Capital Co., Ltd.	870	5.12 %
Arco Communication Co., Ltd.	9,480	0.25 %
Wua Wei Venture Capital Co., Ltd	225	1.00 %
Phalanx Biotech Corp.	4,137	0.41 %
Hui Yang Private Equity Fund Co., Ltd.	1,400	1.03 %
Hsin Yung Enterprise Co., Ltd.	102,600	3.10 %
Hsinchu Golf Club Co., Ltd.	60	0.35 %
Tashee Golf & Country Club Co., Ltd.	10	-
Lin Kou Entertainment Co., Ltd.	40	0.20 %
Total	166,469	
Less: accumulated impairment	(7,019)	
Net Asset	<u><u>\$ 159,450</u></u>	

The above investments of the Group are in accordance with “Regulations Governing Use of Insurance Companies' Funds for Special Projects and Public Investments” and approved by Ministry of finance.

Teng Feng Venture Capital Investment Corp. decided to execute liquidation in the shareholder's meeting on June 15, 2015, and the process of liquidation has been completed on September 5, 2016.

WK Technology Fund Corp., Wua Wei Venture Capital Co., Ltd. and Hui Yang Private Equity Fund Co., Ltd. decided to execute capital reduction in the shareholder's meeting on May 3, June 1 and October 21 in 2016, respectively. The refund which amounted to \$7,647, \$225 and \$1,120 has been recovered.

As of June 30, 2017, December 31 and June 30, 2016, the provision for impairment loss were all amounted to \$7,019.

## (iv) Investment under Equity method

The Group's investment under equity method at reporting date:

	<b>June 30, 2017</b>	<b>December 31, 2016</b>	<b>June 30, 2016</b>
	Associates	<u><u>\$ 262,311</u></u>	<u><u>288,602</u></u>

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## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 1) Associates

The information of Associates is as following:

Name of Associate	Relationship with the Group	Registration country	Owner equity and percentage of voting right		
			June 30, 2017	December 31, 2016	June 30, 2016
Shenzhen Teng Fu Bo Investment Limited	Investment consultant	China	31.10 %	31.10 %	- %

The summarized financial information for the associates that are not individually material accounted for using the equity method is as following:

	June 30, 2017	December 31, 2016	June 30, 2016
Shenzhen Teng Fu Bo Investment Limited	\$ 262,311	288,602	-

	Shenzhen Teng Fu Bo Investment Limited			
	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Attributed to the Company:				
Profit and loss of going concern unit	\$ (11,030)	-	(16,688)	-
Other comprehensive income	-	-	-	-
Total comprehensive	\$ (11,030)	-	(16,688)	-

## (v) Debt investment without active markets

	June 30, 2017	December 31, 2016	June 30, 2016
Corporate bonds	\$ 1,900,000	500,000	-
Financial bonds	2,742,028	2,514,580	3,241,549
Bonds securitization	308,454	370,488	424,024
Other fixed income group	269,202	-	387,352
Total	\$ 5,219,684	3,385,068	4,052,925

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## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

## (vi) Other financial asset:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Cash in bank	\$ 1,308,413	1,438,992	968,380
Less: Statutory deposits-other	<u>(905,380)</u>	<u>(936,500)</u>	<u>(968,380)</u>
	<u>\$ 403,033</u>	<u>502,492</u>	<u>-</u>

The statutory deposit refers to the time deposits that serve as collateral and is recognized as guarantee deposits paid. Please refer to Note 8 for further information.

## (j) Investment property

	<u>Land</u>	<u>Buildings and constructions</u>	<u>Total</u>
Balance, January 1, 2017	\$ 7,624,057	2,443,640	10,067,697
Purchase	-	436	436
Transferred from premises and equipment	511,832	116,016	627,848
Transferred to premises and equipment	(27,573)	(18,998)	(46,571)
Net (loss) gain on fair value adjustment	(218,658)	190,600	(28,058)
Balance, June 30, 2017	<u>\$ 7,889,658</u>	<u>2,731,694</u>	<u>10,621,352</u>
Balance, January 1, 2016	\$ 8,013,040	2,952,742	10,965,782
Transferred from premises and equipment	4,195	15,441	19,636
Transferred to premises and equipment	(862,931)	(257,586)	(1,120,517)
Net (loss) gain on fair value adjustment	37,706	(39,704)	(1,998)
Balance, June 30, 2016	<u>\$ 7,192,010</u>	<u>2,670,893</u>	<u>9,862,903</u>

For the three months ended June 30, 2017 and 2016, and the three months and six months ended June 30, 2017 and 2016 the rent revenue from investment property amounted to \$88,542, \$85,834, \$170,012 and \$172,614, respectively; the direct operating expense amounted to \$24,048, \$22,975, \$34,188 and \$24,677 of which \$759, \$1,388, \$1,310 and \$1,586 belong to the investment properties which do not generate rent revenue directly.

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

In accordance with Regulations Governing the Preparation of financial Statements by insurance, the Group applies the following professional real estate appraiser's accreditation result that performs the appraisal in accordance with Regulations on Real Estate Appraisal as the base to evaluate the fair value of real estates. The appraisal date was June 30, 2017, December 31 and June 30, 2016. These appraiser firms are as following:

The appraiser firm on June 30, 2017 and December 31, 2016

- (i) Jin Han Real Estate Appraiser Firm: Wu You Jyun, Hong Ci Siang
- (ii) Affluence Real Estate Appraiser Firm: Chen Pi Yuan, Chou Wen Fang, Liu Ming Chiu

The appraiser firm on June 30, 2016

- (i) REPRO International Real Estate Appraiser Firm: Wu Hung Hsu, Wu Chih Hao, Shih Fu Hsueh
- (ii) Affluence Real Estate Appraiser Firm: Chen Pi Yuan, Chou Wen Fang, Liu Ming Chiu

The fair value of investment properties is determined by professional appraisal institutions based on market evidence. The valuation methods are primarily Sales Comparison Approach, Income Approach (Including direct capitalization method and discounted cash flow method), Cost Approach and Land Development Analysis Method of Cost Approach. The valuation method of office buildings adopts mainly Sales Comparison Approach and Income Approach because they are easier to circulate within the market and it is easier to obtain sales and rental information of similar object in the neighborhood. For townhouse and land, it usually adopts Cost Approach to evaluate. Land cost of townhouse is evaluated by Sales Comparison Approach and Land Development Analysis Method. The cost of building is evaluated by Cost Approach. The cost of townhouse is the combination of the land cost and the cost of buildings.

Primary parameters applied are listed below

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Direct capitalization rate (Net)	0.77%~6.02%	0.25%~6.02%	1.70%~6.00%
Profit rate	12.00%~20.00%	12.50%~20.00%	15.00%~20.00%
Capital interest rate	1.00%~3.00%	1.00%~3.00%	1.00%~3.00%

External appraisers apply market extraction method and collect the information of the transaction in the neighborhood which the objects' characteristics are similar to the target real estate. They also consider the market liquidity and risk premium of future disposal to determine the direct capitalization rate and discount rate.

The primary operation of investment properties is operating lease. Please refer to Note 9 (a). The content of lease contracts is the same as that in general lease.

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As of June 30, 2017, December 31 and June 30, 2016, all investment properties are not pledged.

## (k) Property, plant and equipment

	Land	Buildings and constructions	Machinery, computer and peripheral Equipment	Other equipment	Prepayment for purchases of equipment, and construction in progress	Leasehold improvement	Total
Cost or deemed cost							
Balance, January 1, 2017	\$ 2,329,737	1,445,967	622,881	287,646	131,291	181,957	4,999,479
Purchase	-	5,204	16,593	10,347	80,952	2,924	116,020
Transferred from investment property	27,573	18,998	-	-	-	-	46,571
Transferred from prepayment for purchases of equipment, and construction in progress	-	18,113	2,387	-	-	3,408	23,908
Transferred to investment property	(468,176)	(123,531)	-	-	-	-	(591,707)
Disposal	(997)	(2,955)	(420)	(286)	-	(35)	(4,693)
Reclassified to buildings and construction in progress	-	-	-	-	(18,113)	-	(18,113)
Reclassified to leasehold improvements	-	-	-	-	(3,408)	-	(3,408)
Reclassified to machinery, computer and peripheral equipment	-	-	-	-	(2,387)	-	(2,387)
Effect of change in exchange rates	-	-	(3,056)	(5,456)	-	(3,273)	(11,785)
Balance, June 30, 2017	<u>\$ 1,888,137</u>	<u>1,361,796</u>	<u>638,385</u>	<u>292,251</u>	<u>188,335</u>	<u>184,981</u>	<u>4,553,885</u>
Balance, January 1, 2016	\$ 1,574,013	1,229,765	518,376	252,318	77,545	170,458	3,822,475
Purchase	-	6,237	8,892	9,849	9,966	24,679	59,623
Transferred from investment property	862,931	257,586	-	-	-	-	1,120,517
Transferred from prepayment for purchase of equipment, and construction in progress	-	9,271	939	-	-	2,944	13,154
Transferred to investment property	(2,547)	(17,474)	-	-	-	-	(20,021)
Disposal	-	-	(443)	(5,412)	-	(2,429)	(8,284)
Reclassified to leasehold improvements	-	-	-	-	(2,944)	-	(2,944)
Reclassified to buildings and constructions	-	-	-	-	(9,271)	-	(9,271)
Reclassified to other equipment	-	-	-	-	(939)	-	(939)
Effect of change in exchange rates	-	-	(3,454)	22,545	-	(30,604)	(11,513)
Balance, June 30, 2016	<u>\$ 2,434,397</u>	<u>1,485,385</u>	<u>524,310</u>	<u>279,300</u>	<u>74,357</u>	<u>165,048</u>	<u>4,962,797</u>
<b>Depreciation and impairment loss</b>							
Balance, January 1, 2017	\$ -	587,131	435,512	182,724	-	89,883	1,295,250
Depreciation of current period	-	23,289	33,153	12,063	-	12,673	81,178
Disposal	-	(2,049)	(418)	(286)	-	(35)	(2,788)
Transferred to investment property	-	(6,691)	-	-	-	-	(6,691)
Effect of change in exchange rates	-	-	(1,907)	(3,236)	-	(1,979)	(7,122)
Balance, June 30, 2017	<u>\$ -</u>	<u>601,680</u>	<u>466,340</u>	<u>191,265</u>	<u>-</u>	<u>100,542</u>	<u>1,359,827</u>

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**  
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	<u>Land</u>	<u>Buildings and constructions</u>	<u>Machinery, computer and peripheral Equipment</u>	<u>Other equipment</u>	<u>Prepayment for purchases of equipment, and construction in progress</u>	<u>Leasehold improvement</u>	<u>Total</u>
Balance, January 1, 2016	\$ -	545,648	398,668	143,338	-	92,679	1,180,333
Depreciation of current period	-	22,517	19,105	15,796	-	9,870	67,288
Disposal	-	-	(428)	(5,424)	-	(798)	(6,650)
Transferred to investment property	-	(1,784)	-	-	-	-	(1,784)
Effect of change in exchange rates	-	-	(1,973)	17,465	-	(21,021)	(5,529)
Balance, June 30, 2016	<u>\$ -</u>	<u>566,381</u>	<u>415,372</u>	<u>171,175</u>	<u>-</u>	<u>80,730</u>	<u>1,233,658</u>
Carrying amount:							
Balance, June 30, 2017	<u>\$ 1,888,137</u>	<u>760,116</u>	<u>172,045</u>	<u>100,986</u>	<u>188,335</u>	<u>84,439</u>	<u>3,194,058</u>
Balance, December 31, 2016	<u>\$ 2,329,737</u>	<u>858,836</u>	<u>187,368</u>	<u>104,923</u>	<u>131,291</u>	<u>92,074</u>	<u>3,704,229</u>
Balance, June 30, 2016	<u>\$ 2,434,397</u>	<u>919,004</u>	<u>108,938</u>	<u>108,125</u>	<u>74,357</u>	<u>84,318</u>	<u>3,729,139</u>

The Group elected to apply the previous GAAP revaluation as the deemed cost on the transition date when adopting IFRSs endorsed by FSC. As of June 30, 2017, December 31 and June 30, 2016, the revaluation increment which is included in the cost amounted to \$630,021 on all dates.

## (I) Intangible asset

	<u>Computer software</u>
<b>Cost:</b>	
Balance, January 1, 2017	\$ 502,145
Purchase	15,419
Effect of change in exchange rates	(4,836)
Balance, June 30, 2017	<u>\$ 512,728</u>
Balance, January 1, 2016	\$ 402,224
Purchase	16,843
Effect of change in exchange rates	(3,741)
Balance, June 30, 2016	<u>\$ 415,326</u>
<b>Accumulated amortization:</b>	
Balance, January 1, 2017	\$ 367,965
Amortization of current period	33,177
Effect of change in exchange rates	(4,107)
Balance, June 30, 2017	<u>\$ 397,035</u>
Balance, January 1, 2016	\$ 316,122
Amortization of current period	25,083
Effect of change in exchange rates	(2,817)
Balance, June 30, 2016	<u>\$ 338,388</u>

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**Notes to Consolidated Financial Statements**

	<u>Computer software</u>
Carrying amounts:	
June 30, 2017	\$ <u>115,693</u>
December 31, 2016	\$ <u>134,180</u>
June 30, 2016	\$ <u>76,938</u>

(m) Employee benefit

(i) Defined benefit plans

Because there is no market fluctuation, curtailment, settlement or any material events occurs, the Group use December 31, 2016 and 2015 actuarially determined pension cost to measure and disclose pension cost for an interim period

The expenses recognized in profit or loss for the three months and six months ended June 30, 2017 and 2016 are amounted to \$22,241, \$17,217, \$50,105 and \$38,350, respectively.

(ii) Defined contribution plan

The Group set aside 6% of the contribution rate of the employee's monthly wages to the Labor Pension personal account of the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. The Group set aside a fixed amount to the Bureau of the Labor Insurance without the payment of additional legal or constructive obligations.

The Group set aside \$19,671, \$18,429, \$39,166 and \$36,947 of the pension under the pension plan costs to the Bureau of the Labor Insurance for the three months and six months ended June 30, 2017 and 2016.

(n) Insurance liability

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Reserve for unearned premiums	\$ 23,594,241	21,578,864	22,305,257
Guarantee reserve	180,116	215,539	256,094
Special reserve	7,464,629	7,376,319	7,742,678
Claims reserve	23,053,535	24,661,136	23,777,911
Premium deficiency reserve	<u>609,767</u>	<u>477,733</u>	<u>217,190</u>
	<u>54,902,288</u>	<u>54,309,591</u>	<u>54,299,130</u>
Ceded unearned premiums reserve	5,711,660	4,643,505	5,616,263
Ceded claim reserve	10,082,458	11,968,930	11,662,070
Ceded premium deficiency reserve	<u>486,608</u>	<u>391,873</u>	<u>170,355</u>
Sub-total	<u>16,280,726</u>	<u>17,004,308</u>	<u>17,448,688</u>
Net	<u>\$ 38,621,562</u>	<u>37,305,283</u>	<u>36,850,442</u>

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## (i) Reserve for unearned premiums

## 1) Detail of reserve for unearned premiums and reserve for unearned premiums out

Item	June 30, 2017			
	Reserve for unearned premiums		Reserve for unearned ceded	
	Direct business	Reinsurance assumed business	Reinsurance ceded business	Retained business
Fire insurance	\$ 1,598,759	7,304	457,044	1,149,019
Marine Cargo insurance	329,031	691	112,580	217,142
Marine Hull/Fishing Vessel Aviation insurance	286,754	6,849	239,337	54,266
Voluntary moto insurance	7,042,827	171,958	451,924	6,762,861
Compulsory moto TPL insurance	1,945,270	598,306	1,156,437	1,387,139
Liability insurance	1,514,096	1,866	551,440	964,522
Nuclear insurance	1,166,150	9,610	513,743	662,017
Surety and Credit insurance	136,682	595	102,597	34,680
Other property insurance	64,830	11	43,044	21,797
Personal accident insurance	2,556,498	10,848	29,804	2,537,542
Typhoon, flood and earthquake insurance	2,133,531	40,665	1,394,706	779,490
Personal and commercial multiple peril insurance	397,908	-	24,334	373,574
Health insurance	292,576	-	3,042	289,534
Overseas reinsurance assumed	-	370,092	110,126	259,966
Overseas subsidiaries	2,568,395	342,139	521,502	2,389,032
Total	<u>\$ 22,033,307</u>	<u>1,560,934</u>	<u>5,711,660</u>	<u>17,882,581</u>

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Item	December 31, 2016			
	Reserve for unearned premiums		Reserve for unearned ceded	Retained business
	Direct business	Reinsurance assumed business	Reinsurance ceded business	
Fire insurance	\$ 1,348,382	2,609	284,913	1,066,078
Marine Cargo insurance	289,055	520	78,087	211,488
Marine Hull/Fishing Vessel Aviation insurance	292,338	5,128	255,864	41,602
Voluntary moto insurance	6,543,544	164,903	415,618	6,292,829
Compulsory moto TPL insurance	1,846,878	588,914	1,098,270	1,337,522
Liability insurance	1,419,798	5,087	512,045	912,840
Nuclear insurance	1,114,607	12,080	473,452	653,235
Surety and Credit insurance	112,876	559	83,491	29,944
Other property insurance	48,802	112	30,304	18,610
Personal accident insurance	2,371,494	8,951	29,352	2,351,093
Typhoon, flood and earthquake insurance	1,284,690	30,262	652,849	662,103
Personal and commercial multiple peril insurance	390,925	-	39,996	350,929
Health insurance	220,787	-	3,512	217,275
Overseas reinsurance assumed	-	470,586	233,898	236,688
Overseas subsidiaries	<u>2,717,695</u>	<u>287,282</u>	<u>451,854</u>	<u>2,553,123</u>
Total	<u>\$ 20,001,871</u>	<u>1,576,993</u>	<u>4,643,505</u>	<u>16,935,359</u>

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Item	June 30, 2016			
	Reserve for unearned premiums		Reserve for unearned ceded	
	Direct business	Reinsurance assumed business	Reinsurance ceded business	Retained business
Fire insurance	\$ 1,608,611	2,217	560,259	1,050,569
Marine Cargo insurance	330,799	730	107,687	223,842
Marine Hull/Fishing Vessel Aviation insurance	290,822	16,278	260,911	46,189
Voluntary moto insurance	6,424,408	162,464	449,090	6,137,782
Compulsory moto TPL insurance	1,779,518	560,310	1,044,005	1,295,823
Liability insurance	1,373,369	4,472	424,113	953,728
Nuclear insurance	1,262,245	15,049	570,885	706,409
Surety and Credit insurance	141,413	634	107,540	34,507
Other property insurance	65,188	301	43,829	21,660
Personal accident insurance	2,405,191	8,192	20,048	2,393,335
Typhoon, flood and earthquake insurance	1,840,797	37,768	1,269,526	609,039
Personal and commercial multiple peril insurance	347,875	3	19,845	328,033
Health insurance	215,238	-	3,091	212,147
Overseas reinsurance assumed	-	640,543	297,344	343,199
Overseas subsidiaries	<u>2,516,775</u>	<u>254,047</u>	<u>438,090</u>	<u>2,332,732</u>
Total	<u>\$ 20,602,249</u>	<u>1,703,008</u>	<u>5,616,263</u>	<u>16,688,994</u>

- 2) The movements in reserve for unearned premiums and reserve for unearned premiums ceded were as follows:

Item	June 30, 2017	
	Reserve for unearned premiums	Reserve for unearned premiums ceded
Beginning	\$ 21,578,864	4,643,505
Provision	23,586,369	5,617,006
Recovery	(21,578,864)	(4,643,505)
Other — effect of change in exchange rates	<u>7,872</u>	<u>94,654</u>
Ending	<u>\$ 23,594,241</u>	<u>5,711,660</u>

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Item	June 30, 2016	
	Reserve for unearned premiums	Reserve for unearned premiums ceded
Beginning	\$ 20,737,940	4,896,704
Provision	22,389,302	5,611,028
Recovery	(20,737,940)	(4,896,705)
Reversal of impairment loss	-	1
Other — effect of change in exchange rates	(84,045)	5,235
Ending	<u>\$ 22,305,257</u>	<u>5,616,263</u>

The Company provides the reserve for unearned premiums according to the Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises amended by Financial Supervisory Commission, Executive Yuan, Jin Guan Bao Tsai No.09802513192 on December 28, 2009. Under the Regulations, the unearned premiums of effective insurance contracts which have not matured yet or insurance contracts which are not yet effective is calculated in accordance with the unexpired risk for every type of insurance, and the reserve for unearned premium is also provided accordingly. The method of providing the reserve mentioned above, which is noted in the insurance product application filed with the Authority, is decided by actuaries in according to type of insurance. This method cannot be changed, unless approved by the Authority.

Based on local regulations, reserve for unearned premiums is provided for compulsory automobile liability insurance, nuclear insurance and resident earthquake insurance as follows:

- a) The unearned premiums reserve for compulsory private passenger automobile liability is provided based on the Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance.
- b) The unearned premiums reserve for nuclear insurance is provided based on The Regulations for the Reserve of Nuclear Insurance.
- c) The unearned premiums reserve for resident earthquake insurance is provided according to the Enforcement Rules for the Risk Spreading Mechanism for Resident Earthquake Insurance.

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

## (ii) Special reserve

- 1) Special reserve contains two parts, catastrophe special reserve and equalization special reserve. Special reserve that was recognized before January 1, 2011, is still recognized under liability. Starting with January 1, 2011, the incremental catastrophe special reserve, after deducting income tax determined in accordance with R.O.C. SFAS No.22, shall be recognized as special reserve under equity. After January 1, 2011, any write-off or recovery of catastrophe special reserve shall deduct from the special reserve which has been recognized under liability. Once that special reserve is insufficient to deduct, the difference, after deducting income tax determined in accordance with R.O.C. SFAS No.22, shall be recovered from the special reserve which has been recognized under equity.

## a) Catastrophe special reserve

Catastrophe special reserve for each line of business shall be determined based on ratios regulated by the Authority.

An event is defined as a catastrophe event if, and only if, (a) the event is announced by the Government; and (b) the net losses caused by the event exceed over NT\$ 2 billion dollars for the whole insurance industry; and (c) the losses caused by the event exceed over NT\$ 30 million dollars for the individual company. The portion of the losses over NT\$ 30 million dollars shall be recovered from catastrophe special reserve.

Catastrophe special reserve can be released after 15 years based on the mechanism decided by the appointed actuary and filed to the Authority.

## b) Equalization special reserve

If the actual loss, after deducting catastrophe special reserve, is less than the expected loss, a equalization special reserve shall be recognized at 15% of that difference.

In addition, according to Jin Guan Bao Tsai No 10002509161 on June 16, 2011, for commercial earthquake insurance and typhoon and flood insurance, if the actual claim of the retention, deducted by the balance of the insurance written off by catastrophe special reserve, is lower than the expected claim, then a equalization special reserve shall be provided based on 75% of the difference. The expected claim shall not be less than 60% of the expected rate of loss.

If the actual loss, after deducting the catastrophe special reserve recovered for the line of business, exceeds the expected loss, the amount of that difference shall be recovered from the equalization special reserve. If the equalization special reserve is insufficient to deduct for a specific line of business, it can be released from other line of business. The amount released and the line of business from which shall follow the related regulations.

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**Notes to Consolidated Financial Statements**

If the cumulative equalization special reserve exceeds 60% of the net earned premium, the equalization special reserve shall be released by that difference.

2) Segmentation of specific assets

The Company is engaged in compulsory moto TPL insurance (hereinafter referred to as "this insurance") accounting to Compulsory Automobile Liability Insurance Law has independent operations and accounting.

Accounting to the Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance Article 5 special reserve provided by the insurer, the insurer shall deposit the reserve with a financial institution as a time deposit. Provided that with the approval of the competent authority, the insurer may purchase the following domestic securities:

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

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

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

According to article 6 of the "Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance", except for the special reserve provided as prescribed in the preceding article, funds held by an insurer for this insurance shall be deposited in a financial institution in the form of demand deposits and time deposits, provided that with the approval of the competent authority, an insurer may purchase any of the following domestic securities:

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

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

If the total amount of unearned premium reserve and loss reserve of the insurer with respect to this insurance is less than 40 percent of the retained earned pure premiums of this Insurance for the most recent period as audited or reviewed by a certified public accountant, the funds held by the insurer through its conduct of this Insurance shall be deposited in full with a financial institution in the form of demand deposits.

Accounting to the Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance Article 9 when an insurer suspends business operations or terminates its operation of this Insurance, the various reserves for this Insurance shall be transferred into the various reserves provided for handling of this Insurance by the other insurer that assumes the business.

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

- 3) The special reserve for compulsory private passenger auto liability, compulsory commercial auto liability and compulsory motorcycle liability were provided based on the Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance.
- 4) Special reserve – compulsory moto TPL insurance

<u>Item</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Beginning	\$ 1,270,428	1,640,922
Provision	117,397	16,431
Recovered	(29,087)	(145,467)
Ending	<u>\$ 1,358,738</u>	<u>1,511,886</u>

- 5) Special reserve – non-compulsory auto liability insurance

<u>Item</u>	<u>June 30, 2017</u>					
	<u>Liability</u>			<u>Special reserve</u>		
	<u>Catastrophe</u>	<u>Dangerous change</u>	<u>Total</u>	<u>Catastrophe</u>	<u>Dangerous change</u>	<u>Total</u>
Ending(as beginning)	<u>\$ 319,398</u>	<u>5,786,493</u>	<u>6,105,891</u>	<u>1,695,249</u>	<u>3,602,198</u>	<u>5,297,447</u>

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Item	June 30, 2016					
	Liability			Special reserve		
	Catastrophe	Dangerous change	Total	Catastrophe	Dangerous change	Total
Beginning	\$ 766,468	5,786,493	6,552,961	1,418,934	3,014,039	4,432,973
Recovered	(322,169)	-	(322,169)	-	-	-
Ending	<u>\$ 444,299</u>	<u>5,786,493</u>	<u>6,230,792</u>	<u>1,418,934</u>	<u>3,014,039</u>	<u>4,432,973</u>

Note: The special reserve above covers all the insurances except for the special reserve for compulsory automobile liability insurance, which was recognized before January 1, 2011.

- 6) The special reserve for nuclear insurance was provided based on the Regulations for the Reserve of Nuclear Insurance.
- 7) Resident earthquake insurance was based on the Regulations for danger diversified mechanism for resident earthquake insurance.

## (iii) Claim reserve

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

Item	June 30, 2017				
	Note payable (claims)	Claims payable	Claims reserve		
	Reported to be paid		Reported but unpaid	IBNR	Total
Fire insurance	\$ -	5,405	1,588,891	309,114	1,898,005
Marine Cargo insurance	-	16,248	2,151,522	194,232	2,345,754
Marine Hull/ Fishing Vessel/Aviation insurance	-	(1)	371,313	214,694	586,007
Voluntary moto insurance	-	80,629	3,084,240	775,858	3,860,098
Compulsory moto TPL insurance	-	23,408	745,633	2,670,486	3,416,119
Liability insurance	-	8,335	2,014,610	679,836	2,694,446
Nuclear insurance	-	522	1,366,052	38,415	1,404,467
Surety and Credit insurance	-	(7)	178,747	66,129	244,876
Other property insurance	-	7	48,562	15,979	64,541
Personal accident insurance	-	12,802	216,044	750,430	966,474
Typhoon, flood and earthquake insurance	-	983	3,060,533	235,360	3,295,893
Personal and commercial multiple peril insurance	-	724	15,973	98,551	114,524
Health insurance	-	4,973	3,266	73,034	76,300
Overseas reinsurance assumed	-	-	369,537	72,042	441,579
Overseas subsidiaries	-	10,572	939,198	705,254	1,644,452
Total	<u>\$ -</u>	<u>164,600</u>	<u>16,154,121</u>	<u>6,899,414</u>	<u>23,053,535</u>

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## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

Item	December 31, 2016				
	Note payable (claims)	Claims payable	Reported but unpaid	Claims reserve	
	Reported to be paid			IBNR	Total
Fire insurance	\$ -	1,978	1,847,041	33,020	1,880,061
Marine Cargo insurance	-	174	2,071,972	193,655	2,265,627
Marine Hull/ Fishing Vessel/Aviation insurance	-	(83)	585,391	231,854	817,245
Voluntary moto insurance	-	32,748	2,983,552	743,133	3,726,685
Compulsory moto TPL insurance	-	6,972	774,652	2,564,771	3,339,423
Liability insurance	-	1,121	1,984,025	663,910	2,647,935
Nuclear insurance	-	184	1,043,613	40,035	1,083,648
Surety and Credit insurance	-	(7)	161,395	69,818	231,213
Other property insurance	-	-	58,971	16,022	74,993
Personal accident insurance	-	1,108	278,918	742,156	1,021,074
Typhoon, flood and earthquake insurance	-	289	4,912,602	225,605	5,138,207
Personal and commercial multiple peril insurance	-	48	20,242	90,029	110,271
Health insurance	-	4,488	6,817	65,135	71,952
Overseas reinsurance assumed	-	-	388,109	73,273	461,382
Overseas subsidiaries	-	20,563	1,150,934	640,486	1,791,420
Total	\$ -	69,583	18,268,234	6,392,902	24,661,136

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(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

Item	June 30, 2016				
	Note payable (claims)	Claims payable	Reported but unpaid	Claims reserve	
	Reported to be paid			IBNR	Total
Fire insurance	\$ -	614	2,603,090	44,363	2,647,453
Marine Cargo insurance	-	1,176	475,392	206,829	682,221
Marine Hull/ Fishing Vessel/Aviation insurance	-	6,767	545,317	278,042	823,359
Voluntary moto insurance	-	63,013	2,831,107	747,363	3,578,470
Compulsory moto TPL insurance	-	299,013	736,294	2,279,620	3,015,914
Liability insurance	-	12,478	1,905,357	686,606	2,591,963
Nuclear insurance	-	667	1,091,116	37,668	1,128,784
Surety and Credit insurance	-	300	186,187	75,387	261,574
Other property insurance	-	13,605	66,292	10,182	76,474
Personal accident insurance	-	8,430	164,926	718,205	883,131
Typhoon, flood and earthquake insurance	-	579	5,702,723	209,482	5,912,205
Personal and commercial multiple peril insurance	-	826	20,635	92,552	113,187
Health insurance	-	1,441	2,291	62,041	64,332
Overseas reinsurance assumed	-	-	356,644	48,128	404,772
Overseas subsidiaries	-	66,266	983,662	610,410	1,594,072
<b>Total</b>	<b>\$ -</b>	<b>475,175</b>	<b>17,671,033</b>	<b>6,106,878</b>	<b>23,777,911</b>

(Continued)

## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

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

Item	June 30, 2017		
	Reported but unpaid	IBNR	Total
Fire insurance	\$ 696,957	123,510	820,467
Marine Cargo insurance	1,755,037	82,255	1,837,292
Marine Hull/ Fishing Vessel/ Aviation insurance	304,232	190,036	494,268
Voluntary moto insurance	156,006	23,857	179,863
Compulsory moto TPL insurance	290,974	1,272,654	1,563,628
Liability insurance	754,862	280,014	1,034,876
Nuclear insurance	757,067	21,575	778,642
Surety and Credit insurance	118,215	52,644	170,859
Other property insurance	7,469	10,361	17,830
Personal accident insurance	107	3,047	3,154
Typhoon, flood and earthquake insurance	2,530,396	158,578	2,688,974
Personal and commercial multiple peril insurance	1,937	7,573	9,510
Health insurance	-	999	999
Overseas reinsurance assumed	24,703	24,014	48,717
Overseas subsidiaries	279,922	153,945	433,867
Less: accumulated impairment	(479)	(9)	(488)
Total	<u>\$ 7,677,405</u>	<u>2,405,053</u>	<u>10,082,458</u>

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

Item	December 31, 2016		
	Reported but unpaid	IBNR	Total
Fire insurance	\$ 791,259	18,184	809,443
Marine Cargo insurance	1,770,274	86,455	1,856,729
Marine Hull/ Fishing Vessel/ Aviation insurance	496,886	201,960	698,846
Voluntary moto insurance	161,006	22,380	183,386
Compulsory moto TPL insurance	312,594	1,214,681	1,527,275
Liability insurance	754,391	283,896	1,038,287
Nuclear insurance	417,020	23,320	440,340
Surety and Credit insurance	102,353	55,183	157,536
Other property insurance	9,276	10,220	19,496
Personal accident insurance	146	3,099	3,245
Typhoon, flood and earthquake insurance	4,254,327	164,696	4,419,023
Personal and commercial multiple peril insurance	270	7,207	7,477
Health insurance	1	765	766
Overseas reinsurance assumed	71,446	25,447	96,893
Overseas subsidiaries	533,598	177,644	711,242
Less: accumulated impairment	(877)	(177)	(1,054)
Total	<u>\$ 9,673,970</u>	<u>2,294,960</u>	<u>11,968,930</u>

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(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

Item	June 30, 2016		
	Reported but unpaid	IBNR	Total
Fire insurance	\$ 1,441,999	23,989	1,465,988
Marine Cargo insurance	227,910	102,263	330,173
Marine Hull/ Fishing Vessel/ Aviation insurance	462,609	241,591	704,200
Voluntary moto insurance	136,219	21,036	157,255
Compulsory moto TPL insurance	298,290	1,003,794	1,302,084
Liability insurance	729,285	322,983	1,052,268
Nuclear insurance	446,122	25,878	472,000
Surety and Credit insurance	107,054	68,006	175,060
Other property insurance	5,754	6,380	12,134
Personal accident insurance	3,768	6,933	10,701
Typhoon, flood and earthquake insurance	5,184,060	159,404	5,343,464
Personal and commercial multiple peril insurance	279	6,275	6,554
Health insurance	-	413	413
Overseas reinsurance assumed	18,941	5,724	24,665
Overseas subsidiaries	453,461	153,210	606,671
Less: accumulated impairment	(1,276)	(284)	(1,560)
<b>Total</b>	<b>\$ 9,514,475</b>	<b>2,147,595</b>	<b>11,662,070</b>

Reserves above were expressed in net amount and estimated accumulated impairment losses amounted to \$488, \$1,054 and \$1,560 as of June 30, 2017, December 31 and June 30, 2016, respectively.

## 3) Movements in claim reserve and claim ceded reserve

Item	June 30, 2017	
	Claims reserve	Claims reserve ceded
Beginning	\$ 24,661,136	11,968,930
Provision	23,048,868	10,042,495
Recovered	(24,661,136)	(11,969,984)
Reversal of impairment loss	-	566
Other-effect of change in exchange	4,667	40,451
<b>Ending</b>	<b>\$ 23,053,535</b>	<b>10,082,458</b>

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(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

Item	June 30, 2016	
	Claims reserve	Claims reserve ceded
Beginning	\$ 18,024,953	6,382,020
Provision	23,823,122	11,669,653
Recovered	(18,024,953)	(6,386,117)
Reversal of impairment loss	-	2,535
Other-effect of change in exchange	(45,211)	(6,021)
Ending	\$ 23,777,911	11,662,070

- 4) Acquisition of non insurance assets from exercising the right of retrieve-salvage and subrogation

Item	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Fire insurance	\$ 27,944	532	28,033	532
Marine Cargo insurance	20,887	17,344	70,242	22,712
Marine Hull/ Fishing Vessel/Aviation insurance	11,593	1,030	11,593	79,071
Voluntary moto insurance	97,314	75,537	186,060	155,292
Compulsory moto TPL insurance	43,239	45,920	88,261	74,785
Liability insurance	5,260	2,269	7,581	9,637
Nuclear insurance	7	227	97	427
Surety and Credit insurance	3,211	11,426	36,234	36,983
Other property insurance	24	20	93	155
Personal accident insurance	92	736	130	1,001
Personal and commercial multiple peril insurance	600	2	619	61
Typhoon, flood and earthquake insurance	35	808	35	863
Health insurance	50	2	900	2
Overseas reinsurance assumed	-	-	-	-
Total	\$ 210,256	155,853	429,878	381,521

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## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

The Company provides claims reserve according to the Regulations Governing the Provision of Various Reserves by Insurance Enterprises amended by Financial Supervisory Commission, Executive Yuan, Jin Guan Bao Tsai No.09802513192 on December 28, 2009. Non life insurance companies should calculate the claims reserve divided into reported but unpaid claims and IBNR based on the past claim experience and payments, using the actuary methodology. Regarding to the claims reserve for reported but not paid, it should be estimated based on actual situation by each case. The claim reserve has been provided, return at final accounting in next year, and then provide it according to actual final accounting data in that very year.

The methodology for providing claims reserve is decided by actuaries and reported to the Authority. If there is any change, it should adopt the same procedures as fore-mentioned.

The methodology for providing claims reserve is decided by actuaries and reported to the Authority. If there is any change, it should adopt the same procedures as fore-mentioned.

## (iv) Liability reserve

- 1) The formula for calculating liability reserve is reported to the authority and the current interest rate is used for discounting purposes of calculating the present value of the liability reserve.
- 2) Movements in liability reserve and liability-ceded reserve:

Item	June 30, 2017	
	Liability reserve	Liability reserve ceded
Beginning	\$ 215,539	-
Provision	364	-
Recovered	(35,787)	-
Ending	<u>\$ 180,116</u>	<u>-</u>

  

Item	June 30, 2016	
	Liability reserve	Liability reserve ceded
Beginning	\$ 291,184	-
Provision	823	-
Recovered	(35,913)	-
Ending	<u>\$ 256,094</u>	<u>-</u>

(Continued)

## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (v) Premium deficiency reserve

## 1) Premium deficiency reserve

Item	June 30, 2017			
	Premium deficiency reserve		Premium deficiency reserve ceded	
	Direct business	Reinsurance ceded-in	Reinsurance ceded-out	Retention
Fire insurance	\$ 42,519	-	-	42,519
Marine Cargo insurance	5,933	-	-	5,933
Marine Hull/ Fishing Vessel/Aviation insurance	24,262	453	8,381	16,334
Voluntary moto insurance	3,981	76	-	4,057
Compulsory moto TPL insurance	-	-	-	-
Liability insurance	-	-	-	-
Nuclear insurance	-	-	-	-
Surety and Credit insurance	-	-	-	-
Other property insurance	-	-	-	-
Personal accident insurance	-	-	-	-
Typhoon, flood and earth quake insurance	7,298	-	-	7,298
Personal and commercial multiple peril insurance	-	-	-	-
Health insurance	-	-	-	-
Overseas reinsurance assumed	-	10,596	-	10,596
Overseas subsidiaries	224,130	290,519	478,227	36,422
Total	<u>\$ 308,123</u>	<u>301,644</u>	<u>486,608</u>	<u>123,159</u>

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

Item	December 31, 2016			
	Premium deficiency reserve		Premium deficiency reserve ceded	
	Direct business	Reinsurance ceded-in	Reinsurance ceded-out	Retention
Fire insurance	\$ 32,823	-	-	32,823
Marine Cargo insurance	5,730	-	-	5,730
Marine Hull/ Fishing Vessel/Aviation insurance	18,026	233	5,194	13,065
Voluntary moto insurance	3,144	87	-	3,231
Compulsory moto TPL insurance	-	-	-	-
Liability insurance	-	-	-	-
Nuclear insurance	-	-	-	-
Surety and Credit insurance	-	-	-	-
Other property insurance	-	-	-	-
Personal accident insurance	-	-	-	-
Typhoon, flood and earth quake insurance	6,847	-	-	6,847
Personal and commercial multiple peril insurance	-	-	-	-
Health insurance	-	-	-	-
Overseas reinsurance assumed	-	8,873	-	8,873
Overseas subsidiaries	194,958	207,012	386,679	15,291
Total	<u>\$ 261,528</u>	<u>216,205</u>	<u>391,873</u>	<u>85,860</u>

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

Item	June 30, 2016			
	Premium deficiency reserve		Premium deficiency reserve ceded	Retention
	Direct business	Reinsurance ceded-in	Reinsurance ceded-out	
Fire insurance	\$ 8,761	-	-	8,761
Marine Cargo insurance	-	-	-	-
Marine Hull/ Fishing Vessel/Aviation insurance	31,010	3,137	22,372	11,775
Voluntary moto insurance	3,673	91	-	3,764
Compulsory moto TPL insurance	-	-	-	-
Liability insurance	-	-	-	-
Nuclear insurance	-	-	-	-
Surety and Credit insurance	547	-	-	547
Other property insurance	-	-	-	-
Personal accident insurance	-	-	-	-
Typhoon, flood and earth quake insurance	-	-	-	-
Personal and commercial multiple peril insurance	-	-	-	-
Health insurance	-	-	-	-
Overseas reinsurance assumed	-	10,672	-	10,672
Overseas subsidiaries	140,147	19,152	147,983	11,316
Total	<u>\$ 184,138</u>	<u>33,052</u>	<u>170,355</u>	<u>46,835</u>

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## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

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

For the six months ended June 30, 2017									
Item	Direct underwrite		Reinsurance ceded-in		The net change of premium deficiency	Reinsurance ceded-out		The net change of premium ceded deficiency	Net deposit of premium deficiency reserve
	Provision	Recovered	Provision	Recovered		Provision	Recovered		
Fire insurance	\$ 42,519	32,823	-	-	9,696	-	-	-	9,696
Marine Cargo insurance	5,933	5,730	-	-	203	-	-	-	203
Marine Hull/Fishing Vessel/ Aviation insurance	24,262	18,026	453	233	6,456	8,381	5,194	3,187	3,269
Voluntary moto insurance	3,981	3,144	76	87	826	-	-	-	826
Compulsory moto TPL insurance	-	-	-	-	-	-	-	-	-
Liability insurance	-	-	-	-	-	-	-	-	-
Nuclear insurance	-	-	-	-	-	-	-	-	-
Surety and Credit insurance	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-
Personal accident insurance	-	-	-	-	-	-	-	-	-
Personal and commercial multiple peril insurance	7,298	6,847	-	-	451	-	-	-	451
Typhoon, flood and earth quake insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Overseas reinsurance assumed	-	-	10,596	8,873	1,723	-	-	-	1,723
Overseas subsidiaries	225,086	201,031	289,278	216,043	97,290	477,647	401,536	76,111	21,179
Other — effect of change in exchange rate	(956)	(6,073)	1,241	(9,031)	15,389	(357)	(14,857)	14,500	889
<b>Total</b>	<b>\$ 308,123</b>	<b>261,528</b>	<b>301,644</b>	<b>216,205</b>	<b>132,034</b>	<b>485,671</b>	<b>391,873</b>	<b>93,798</b>	<b>38,236</b>

  

For the six months ended June 30, 2016									
Item	Direct underwrite		Reinsurance ceded-in		The net change of premium deficiency	Reinsurance ceded-out		The net change of premium ceded deficiency	Net deposit of premium deficiency reserve
	Provision	Recovered	Provision	Recovered		Provision	Recovered		
Fire insurance	\$ 8,761	7,081	-	-	1,680	-	-	-	1,680
Marine Cargo insurance	-	-	-	-	-	-	-	-	-
Marine Hull/Fishing Vessel/ Aviation insurance	31,010	44,676	3,137	3,284	(13,813)	22,372	33,228	(10,856)	(2,957)
Voluntary moto insurance	3,673	3,337	91	82	345	-	-	-	345
Compulsory moto TPL insurance	-	-	-	-	-	-	-	-	-
Liability insurance	-	-	-	-	-	-	-	-	-
Nuclear insurance	-	-	-	-	-	-	-	-	-
Surety and Credit insurance	547	141	-	-	406	-	-	-	406
Other property insurance	-	-	-	-	-	-	-	-	-
Personal accident insurance	-	-	-	-	-	-	-	-	-
Personal and commercial multiple peril insurance	-	-	-	-	-	-	-	-	-
Typhoon, flood and earth quake insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Overseas reinsurance assumed	-	-	10,672	6,968	3,704	-	-	-	3,704
Overseas subsidiaries	142,868	144,159	19,714	12,086	6,337	151,095	148,772	2,323	4,014
Other — effect of change in exchange rate	(2,721)	411	(562)	(42)	(3,652)	(3,286)	329	(3,615)	(37)
<b>Total</b>	<b>\$ 184,138</b>	<b>199,805</b>	<b>33,052</b>	<b>22,378</b>	<b>(4,993)</b>	<b>170,181</b>	<b>182,329</b>	<b>(12,148)</b>	<b>7,155</b>

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

- 3) Movements in net premium deficiency reserve net premium deficiency ceded reserve net change

Item	June 30, 2017	
	Premium deficiency reserve	Ceding premium deficiency reserve
Beginning	\$ 477,733	391,873
Provision	609,482	485,386
Recovered	(477,733)	(391,873)
Other — effect of change in exchange rate	285	1,222
Ending	<u>\$ 609,767</u>	<u>486,608</u>

  

Item	June 30, 2016	
	Premium deficiency reserve	Ceding premium deficiency reserve
Beginning	\$ 222,183	182,329
Provision	220,472	173,463
Recovered	(222,183)	(182,329)
Other — effect of change in exchange rate	(3,282)	(3,108)
Ending	<u>\$ 217,190</u>	<u>170,355</u>

The Company provides Premium deficiency reserve according to the Regulations Governing the Provision of Various Reserves by Insurance Enterprises amended by Financial Supervisory Commission, Executive Yuan, Jin Guan Bao Tsai No.09802513192 on December 28, 2009. Non life insurance companies should evaluate the claim payments and expense which will be incurred in the future and compare the fore-mentioned expenditures to the premium based on insurance policy without expiration or the accepting risk which is not terminative. If the expenditures are lower than the premium, non life insurance companies should provide the differences as the premium deficiency reserve. The methodology for providing premium deficiency reserve is decided by actuaries and reported to the Authority. If there is any change, it should adopt the same procedures as the aforementioned. The Company reported its methodology for providing premium deficiency reserve on June 25, 2008 and obtained the approval issued by Financial Supervisory Commission, Executive Yuan, Jin Guan Bao Yi No.09702115350.

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## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (o) Capital and other equity

## (i) Share capital

As of June 30, 2017, December 31 and June 30, 2016, the Company's authorized capital amount is both \$20,000,000 and the face value of each share is \$10, Total shares outstanding amounted to 2,000,000 thousand shares. The paid-in capitals were amounted to \$3,178,396.

## (ii) Capital surplus

The details of this account were as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Additional paid-in capital	\$ 5,818,907	5,818,907	5,818,907
Adjustment of capital increase of the subsidiaries	115,501	115,501	115,501
Total	<u>\$ 5,934,408</u>	<u>5,934,408</u>	<u>5,934,408</u>

Under the amended Company Act on January 2012, capital surplus should be offset a deficit when legal reserve is not sufficient to offset losses, and then be capitalized or issuing cash dividends. According to "Regulations Governing the Offering and Issuance of Securities by Securities Issuers", the amount of additional paid-in capital to be used to increase capital shall not exceed 10% of total paid-in capital.

## (iii) Retained earnings

## 1) Legal reserve

The Company's Articles of Incorporation requires that 20% of the annual income after tax shall be provided as legal reserve until it is equal to the paid in capital. The Company is able to issue new stock or cash dividend from legal reserve if there is no deficit as long as the legal reserve is over 25% of the paid in capital.

## 2) Special reserve

Under the Company's Articles of Incorporation, a special reserve equal to current year shareholders' equity contra account, (i.e. unrealized gain/loss on financial instrument), is provided from current year's net income and prior years' inappropriate retained earnings. If a reversal of shareholders' equity contra account occurs, the reversed portion of the special reserve could be distributed as dividends.

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## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

## 3) Undistributed retained earnings appropriated

Under the Company's Articles of Incorporation, the Company's net income after deduction of income tax and losses (if any), should provide 20% as legal reserve, and then the remaining sum shall be used to provide special reserve according to Insurance Act and regulations of various reserve provision and the special reserve shall be written off or recovered per relevant rules. The remaining balance may be distributed as dividend according to the resolution of the shareholders' meet.

The resolution of the shareholders' meeting held on April 22, 2017 and April 27, 2016 and decided the distribution of retained earnings for the years ended December 31, 2016 and 2015. The details of remuneration paid to directors and supervisors were as follows:

	<b>For the six months ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
Dividend distributed to shareholders		
Cash	\$ <u>2,092,214</u>	<u>2,352,555</u>

The relevant information about the employee bonuses remuneration paid to directors and supervisors, which were approved by the board of directors and under the consent of the shareholders' meeting, can be obtained on the website of Market Observation Post System.

## 4) Other equity items

The movements in other equity items were as follows:

	<b>Difference of foreign exchange in translating financial statements of foreign operating units</b>	<b>Available-for- sale financial assets</b>	<b>Gains on revaluation (after-tax- amount)</b>	<b>Total</b>
January 1, 2017	\$ (21,760)	3,784,110	36,101	3,798,451
Foreign exchange differences (after-tax-amount)	(52,959)	-	-	(52,959)
Unrealized gain of available- for-sale financial assets (after- tax-amount)	-	295,386	-	295,386
Gain on revaluation	-	-	42,832	42,832
June 30, 2017	\$ <u>(74,719)</u>	<u>4,079,496</u>	<u>78,933</u>	<u>4,083,710</u>
January 1, 2016	\$ 44,720	3,476,835	-	3,521,555
Foreign exchange differences (after-tax-amount)	(34,787)	-	-	(34,787)
Unrealized gain of available- for-sale financial assets (after- tax-amount)	-	1,657,562	-	1,657,562
Gain on revaluation	-	-	1,399	1,399
June 30, 2016	\$ <u>9,933</u>	<u>5,134,397</u>	<u>1,399</u>	<u>5,145,729</u>

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

(p) Employee compensation

The Bylaws of the Company that if the Company profits, 0.1% to 5.0% of that profit shall be distributed as employees' compensation. However, the company's accumulated losses shall have been covered. The Company may have the profit distributable as employees' compensation in the preceding paragraph distributed in the form of shares or in cash. Qualification requirements of employees entitled to receive shares or cash, including the employees of subsidiaries of the company should meet certain specific requirements set by the board of directors.

The employee compensation that the Company estimates are \$4,620, \$4,556, \$9,240 and \$9,112 for the three months and six months ended December 31, 2017 and 2016. The estimation of employees' remuneration is based on the net income before tax, before minus employees' compensation, multiply the ratio specified in the Articles of Incorporation, and recognized as operating expenses. The estimated employee compensation represent 51, 50, 99 and 98 thousands shares, which was calculated based on the net assets of June 30, 2017 and 2016, when calculate diluted earnings per share.

The employee compensation that the Company estimated and actual number in 2016 and 2015 more \$18,224 and \$23,310, and related information can be obtained on the website of Market Observation Post System.

(q) Income tax

(i) Income tax expense

The detail of the Group's income tax expense is listed below:

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current income tax expense				
Current	\$ 77,020	85,089	77,028	85,142
Past current tax adjustments	(51,066)	70,050	(51,066)	70,050
	<u>25,954</u>	<u>155,139</u>	<u>25,962</u>	<u>155,192</u>
Deferred income tax expenses				
Short-term reversal differences	119,031	57,589	248,236	165,629
	<u>119,031</u>	<u>57,589</u>	<u>248,236</u>	<u>165,629</u>
Income tax expense	<u>\$ 144,985</u>	<u>212,728</u>	<u>274,198</u>	<u>320,821</u>

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## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

- (ii) The details of income tax (expense) benefit recognized under other comprehensive income for the six months ended June 30, 2017 and 2016 were as follows:

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Items that are or may be reclassified subsequently to profit or loss:				
Difference of foreign exchange in translating financial statements of foreign operating units	\$ (2,166)	7,346	10,847	7,125
Unrealized gain (loss) of Available-for-sale financial assets	8,041	(8,619)	43,029	(12,678)
	<u>\$ 5,875</u>	<u>(1,273)</u>	<u>53,876</u>	<u>(5,553)</u>

- (iii) The Group's income tax returns has been approved by the Tax authority until 2011.
- (iv) Imputed tax information:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Undistributed earnings after 1998	\$ <u>1,890,780</u>	<u>2,064,654</u>	<u>1,593,554</u>
Shareholders' deductible income tax account	\$ <u>41,975</u>	<u>48,464</u>	<u>68,126</u>
Percentage of tax credit		<u>2016(Actual) 3.14 %</u>	<u>2015(Actual) 3.18 %</u>

The above imputation calculation is in accordance with Tax Ruling No. 10204562810 issued by the MOF on October 17, 2013.

- (v) Business income tax administrative remedies

The R.O.C. tax authorities have assessed the parent company's income tax return from 2004 to 2007 and increased the interest income from amortization of discount or premiums on bonds and decreased the tax deduction from the withholding tax for bonds interest which was held by the owner prior to Fubon Insurance. The parent company of the Company disagreed with this assessment and applied for administrative remedy. The Supreme Administrative Court enter a judgment against Fubon on October, 2016 and January, 2017, respectively. The estimated related expense is already recorded. The R.O.C tax authorities decreased the tax deduction from the withholding tax of 2011. The parent company of the Company disagreed with this assessment and applied for recheck within the statutory period.

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## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (r) Earnings per share

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

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Profit attributable to ordinary shareholders of the Company	\$ <u>1,256,929</u>	<u>1,077,487</u>	<u>1,890,780</u>	<u>1,593,554</u>
Weighted average number of ordinary shares (thousands shares)	317,840	317,840	317,840	317,840
Dilutive potential common shares - employee's bonus (thousands shares)	51	50	99	98
	<u>317,891</u>	<u>317,890</u>	<u>317,939</u>	<u>317,938</u>
Basic earnings per share (in dollars)	\$ <u>3.96</u>	<u>3.39</u>	<u>5.95</u>	<u>5.01</u>
Diluted earnings per share (in dollars)	\$ <u>3.96</u>	<u>3.39</u>	<u>5.95</u>	<u>5.01</u>

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**  
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## (s) Disclosure of acquisition cost of insurance contracts

## Acquisition cost of insurance contracts

Item	For the three months ended June 30, 2017					
	Commission expense	Agent fee	Charge	Commission of reinsurance	Other cost	Total
Fire insurance	\$ 56,827	-	1,465	9,041	-	67,333
Marine Cargo insurance	18,434	-	59	471	-	18,964
Marine Hull/Fishing Vessel Aviation insurance	2,922	-	12,198	1,945	-	17,065
Voluntary moto insurance	452,843	-	75	25,805	-	478,723
Compulsory moto TPL insurance	-	-	100,687	-	-	100,687
Liability insurance	73,375	-	18	322	-	73,715
Nuclear insurance	15,185	-	248	746	-	16,179
Surety and Credit insurance	10,248	-	-	72	-	10,320
Other property insurance	(3,110)	-	-	43	-	(3,067)
Personal accident insurance	245,937	-	2	841	-	246,780
Personal and commercial multiple peril insurance	38,144	-	-	2	-	38,146
Typhoon, flood and earthquake insurance	57,634	-	1	919	-	58,554
Health insurance	38,417	-	-	-	-	38,417
Overseas reinsurance assumed	-	-	(7,966)	24,170	-	16,204
Overseas subsidiaries	<u>279,858</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>279,858</u>
Total	<u>\$ 1,286,714</u>	<u>-</u>	<u>106,787</u>	<u>64,377</u>	<u>-</u>	<u>1,457,878</u>

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## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

Item	For the three months ended June 30, 2016					
	Commission expense	Agent fee	Charge	Commission of reinsurance	Other cost	Total
Fire insurance	\$ 53,037	-	(1)	16	-	53,052
Marine Cargo insurance	17,256	-	(8)	81	-	17,329
Marine Hull/Fishing Vessel Aviation insurance	1,988	-	268	163	-	2,419
Voluntary moto insurance	428,320	-	20	25,375	-	453,715
Compulsory moto TPL insurance	-	-	93,780	-	-	93,780
Liability insurance	67,978	-	19	1,037	-	69,034
Nuclear insurance	15,206	-	25	24	-	15,255
Surety and Credit insurance	8,714	-	-	230	-	8,944
Other property insurance	8,743	-	-	223	-	8,966
Personal accident insurance	233,611	-	(13)	119	-	233,717
Personal and commercial multiple peril insurance	40,557	-	-	-	-	40,557
Typhoon, flood and earthquake insurance	64,618	-	(1)	371	-	64,988
Health insurance	34,038	-	-	-	-	34,038
Overseas reinsurance assumed	-	-	28,156	38,321	-	66,477
Overseas subsidiaries	285,449	-	-	-	-	285,449
Total	<u>\$ 1,259,515</u>	<u>-</u>	<u>122,245</u>	<u>65,960</u>	<u>-</u>	<u>1,447,720</u>

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## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

Item	For the six months ended June 30, 2017					Total
	Commission expense	Agent fee	Charge	Commission of reinsurance	Other cost	
Fire insurance	\$ 100,463	-	1,463	9,041	-	110,967
Marine Cargo insurance	37,889	-	124	485	-	38,498
Marine Hull/Fishing Vessel Aviation insurance	5,588	-	12,189	1,895	-	19,672
Voluntary moto insurance	917,976	-	151	50,769	-	968,896
Compulsory moto TPL insurance	-	-	196,173	-	-	196,173
Liability insurance	143,230	-	24	388	-	143,642
Nuclear insurance	33,236	-	3	755	-	33,994
Surety and Credit insurance	13,206	-	-	86	-	13,292
Other property insurance	6,210	-	-	51	-	6,261
Personal accident insurance	484,159	-	4	1,555	-	485,718
Personal and commercial multiple peril insurance	76,200	-	-	1	-	76,201
Typhoon, flood and earthquake insurance	84,115	-	1	977	-	85,093
Health insurance	79,869	-	-	-	-	79,869
Overseas reinsurance assumed	-	-	6,629	50,182	-	56,811
Overseas subsidiaries	561,005	-	-	-	-	561,005
Total	<u>\$ 2,543,146</u>	<u>-</u>	<u>216,761</u>	<u>116,185</u>	<u>-</u>	<u>2,876,092</u>

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## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

Item	For the six months ended June 30, 2016					
	Commission expense	Agent fee	Charge	Commission of reinsurance	Other cost	Total
Fire insurance	\$ 91,286	-	(2)	68	-	91,352
Marine Cargo insurance	37,284	-	30	115	-	37,429
Marine Hull/Fishing Vessel Aviation insurance	4,169	-	448	214	-	4,831
Voluntary moto insurance	841,340	-	41	48,455	-	889,836
Compulsory moto TPL insurance	-	-	182,362	-	-	182,362
Liability insurance	131,185	-	25	1,105	-	132,315
Nuclear insurance	31,383	-	(631)	30	-	30,782
Surety and Credit insurance	12,830	-	-	230	-	13,060
Other property insurance	16,869	-	-	223	-	17,092
Personal accident insurance	468,917	-	(26)	310	-	469,201
Personal and commercial multiple peril insurance	77,587	-	-	2	-	77,589
Typhoon, flood and earthquake insurance	92,420	-	(1)	494	-	92,913
Health insurance	70,810	-	-	-	-	70,810
Overseas reinsurance assumed	-	-	54,714	74,622	-	129,336
Overseas subsidiaries	536,510	-	-	-	-	536,510
<b>Total</b>	<b>\$ 2,412,590</b>	<b>-</b>	<b>236,960</b>	<b>125,868</b>	<b>-</b>	<b>2,775,418</b>

## (t) Disclosure of insurance cost-benefit analysis

## (i) Direct written business cost-benefit analysis

Item	For the three months ended June 30, 2017					
	Premium revenue	The net change of unearned premium	Insurance contract acquisition cost	Claims	The net change of claims reverse	Gain/Loss
Non-compulsory insurance	\$ 9,941,732	1,125,153	1,286,715	4,572,627	(416,116)	1,491,770
Compulsory insurance	1,173,969	53,382	100,687	696,720	(51,261)	41,326
<b>Total</b>	<b>\$ 11,115,701</b>	<b>1,178,535</b>	<b>1,387,402</b>	<b>5,269,347</b>	<b>(467,377)</b>	<b>1,533,096</b>

  

Item	For the three months ended June 30, 2016					
	Premium revenue	The net change of unearned premium	Insurance contract acquisition cost	Claims	The net change of claims reverse	Gain/Loss
Non-compulsory insurance	\$ 9,281,267	1,147,967	1,174,932	4,013,761	1,944,019	(777,042)
Compulsory insurance	1,048,711	16,005	93,781	927,533	(14,139)	(99,757)
<b>Total</b>	<b>\$ 10,329,978</b>	<b>1,163,972</b>	<b>1,268,713</b>	<b>4,941,294</b>	<b>1,929,880</b>	<b>(876,799)</b>

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For the six months ended June 30, 2017						
Item	Premium revenue	The net change of unearned premium	Insurance contract acquisition cost	Claims	The net change of claims reverse	Gain/Loss
Non-compulsory insurance	\$ 19,382,219	2,005,399	2,543,146	10,034,182	(1,454,824)	2,545,519
Compulsory insurance	2,274,305	98,392	196,173	1,320,677	37,435	36,125
Total	<u>\$ 21,656,524</u>	<u>2,103,791</u>	<u>2,739,319</u>	<u>11,354,859</u>	<u>(1,417,389)</u>	<u>2,581,644</u>

  

For the six months ended June 30, 2016						
Item	Premium revenue	The net change of unearned premium	Insurance contract acquisition cost	Claims	The net change of claims reverse	Gain/Loss
Non-compulsory insurance	\$ 17,583,648	1,526,586	2,328,008	7,850,724	5,774,339	(2,962,320)
Compulsory insurance	2,043,338	43,786	182,362	1,535,029	40,501	(78,892)
Total	<u>\$ 19,626,986</u>	<u>1,570,372</u>	<u>2,510,370</u>	<u>9,385,753</u>	<u>5,814,840</u>	<u>(3,041,212)</u>

## (ii) Reinsurance cost-benefit analysis

For the three months ended June 30, 2017						
Item	Premium revenue	The net change of unearned premium	Insurance contract acquisition cost	Claims	The net change of claims reverse	Gain/Loss
Non-compulsory insurance	\$ 385,053	(25,977)	70,476	162,728	119,337	42,704
Compulsory insurance	267,168	1,139	-	236,527	7,290	22,212
Total	<u>\$ 652,221</u>	<u>(24,838)</u>	<u>70,476</u>	<u>399,255</u>	<u>126,627</u>	<u>64,916</u>

  

For the three months ended June 30, 2016						
Item	Premium revenue	The net change of unearned premium	Insurance contract acquisition cost	Claims	The net change of claims reverse	Gain/Loss
Non-compulsory insurance	\$ 546,789	85,217	179,007	147,196	(139,314)	339,390
Compulsory insurance	263,366	13,688	-	233,264	32,901	(16,486)
Total	<u>\$ 810,155</u>	<u>98,905</u>	<u>179,007</u>	<u>380,460</u>	<u>(106,413)</u>	<u>322,904</u>

  

For the six months ended June 30, 2017						
Item	Premium revenue	The net change of unearned premium	Insurance contract acquisition cost	Claims	The net change of claims reverse	Gain/Loss
Non-compulsory insurance	\$ 783,760	(80,308)	136,773	298,141	83,687	314,965
Compulsory insurance	500,512	9,392	-	414,290	39,260	37,569
Total	<u>\$ 1,284,272</u>	<u>(70,916)</u>	<u>136,773</u>	<u>712,431</u>	<u>122,947</u>	<u>352,534</u>

  

For the six months ended June 30, 2016						
Item	Premium revenue	The net change of unearned premium	Insurance contract acquisition cost	Claims	The net change of claims reverse	Gain/Loss
Non-compulsory insurance	\$ 1,044,795	118,644	265,048	389,476	(152,313)	469,738
Compulsory insurance	483,832	36,441	-	318,919	150,392	(21,920)
Total	<u>\$ 1,528,627</u>	<u>155,085</u>	<u>265,048</u>	<u>708,395</u>	<u>(1,921)</u>	<u>447,818</u>

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**  
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## (iii) Gain/Loss on reinsurance contracts

For the three months ended June 30, 2017						
Item	Premium revenue	The net change of unearned premium	Reinsurance commission	Reinsurance Claims	The net change of claims reverse	Gain/Loss
Non-compulsory insurance	\$ 2,775,247	650,962	347,357	1,144,569	(527,748)	1,106,686
Compulsory insurance	514,960	31,495	-	405,322	(21,954)	100,097
<b>Total</b>	<b>\$ 3,290,207</b>	<b>682,457</b>	<b>347,357</b>	<b>1,549,891</b>	<b>(549,702)</b>	<b>1,206,783</b>
For the three months ended June 30, 2016						
Item	Premium revenue	The net change of unearned premium	Reinsurance commission	Reinsurance Claims	The net change of claims reverse	Gain/Loss
Non-compulsory insurance	\$ 2,759,734	610,783	360,251	786,885	1,905,348	(879,532)
Compulsory insurance	457,797	14,929	-	471,857	49,167	(78,155)
<b>Total</b>	<b>\$ 3,217,531</b>	<b>625,712</b>	<b>360,251</b>	<b>1,258,742</b>	<b>1,954,515</b>	<b>(957,687)</b>
For the six months ended June 30, 2017						
Item	Premium revenue	The net change of unearned premium	Reinsurance commission	Reinsurance Claims	The net change of claims reverse	Gain/Loss
Non-compulsory insurance	\$ 5,020,121	940,340	686,941	2,931,647	(1,646,015)	2,001,657
Compulsory insurance	996,205	58,167	-	742,123	36,352	159,563
<b>Total</b>	<b>\$ 6,016,326</b>	<b>998,507</b>	<b>686,941</b>	<b>3,673,770</b>	<b>(1,609,663)</b>	<b>2,161,220</b>
For the six months ended June 30, 2016						
Item	Premium revenue	The net change of unearned premium	Reinsurance commission	Reinsurance Claims	The net change of claims reverse	Gain/Loss
Non-compulsory insurance	\$ 4,810,795	748,204	682,825	1,476,378	5,150,538	(3,249,329)
Compulsory insurance	891,543	39,391	-	721,750	147,749	(17,347)
<b>Total</b>	<b>\$ 5,702,338</b>	<b>787,595</b>	<b>682,825</b>	<b>2,198,128</b>	<b>5,298,287</b>	<b>(3,266,676)</b>

## (u) Insurance contract risk

## (i) Insurance contract risk management

## 1) Risk management policy and target

The Group accounting to the Risk Management Practice Principles for Insurance Enterprises, the Regulations Governing the Implementation of Internal Control and Audit Systems by Insurance Enterprises and Fubon Financial Holding Co., Ltd. Risk Management Policy prescribed risk management policy ensure conservatism operating to pursuit of shareholder value maximization.

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**Notes to Consolidated Financial Statements**

2) Risk management framework organization responsibility and accountability

Risk Management Committee and Independent Risk Management Department are subordinate to the Board. Their related responsibility as followed:

- a) The Board of Directors
  - i) Reviewing the effectiveness of internal control and risk management, bear the ultimate responsibility.
  - ii) Approval risk management policy, establish risk management culture and allocates resources allocates resources.
  - iii) Considerate the summary effects, and should consider capital required by governmental organization and related regulations of capital allocation.
- b) Risk Management Committee
  - i) Setting risk management policies and strategies, risk appetite, structure and organization functions, build up managing standard of quality and quantity, change risk type, risk tolerances and restricted allocation, and the way of bear.
  - ii) Risk Management Committee reports directly to the Board, the general manager should be the Chief of convener, assign vice of convener, executive secretary, conveners and committee. The Risk Management Committee oversees five functional Consolidated Company committees: (1) insurance risk (2) credit risk (3) market risk (including liquidity risk) (4) operational risk (5) risk model (including asset liability matching), and assign high level management to be convener for carrying out of execution.
  - iii) Risk Management Committee operates regularly once a month, and the chief convener serves as the host to monitor the effectiveness of risk management, If the chief convener is not able to attend the meeting, the vice convener can act for the chief convener.
  - iv) Execute directors execute the decision of risk management, evaluating and monitoring the ability of risk bearing, present acceptance risk and the risk in accordance to the strategy.
  - v) Risk Management Committee reports directly to the Board and provide improvement suggestion.

c) Chief Risk Officer

The Group placed a position of Chief Risk Officer to be in charge of risk management, to plan risk management strategy, to supervise the Group to establish and comply with risk management system, to monitor the adequacy of risk exposure and the effectiveness of risk control mechanism, and to supervise the Group's Risk Management Department.

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**Notes to Consolidated Financial Statements**

- d) Risk Management Department
    - i) Risk monitoring, measuring, evaluating of Company daily routine affairs.
    - ii) Assist and execute the Board setting risk management policies and strategies.
    - iii) Accounting the Company risk appetite set risk tolerance
    - iv) Summarize risk information, coordinated and communicated for carrying out policy and quota of each group.
    - v) Risk management report is proposed regularly.
    - vi) Monitor the risk of each operating groups regularly.
    - vii) Assistance of pressure test.
    - viii) Back testing.
    - ix) Others
  - e) Operating segments
    - i) Recognize risk, measure risk and report the risk information to Risk Management Department.
    - ii) Reviewing the effectiveness of the setting risk tolerance.
    - iii) Monitor risk exposure and measure the risk exceed the tolerance.
    - iv) Ensure the effectiveness of internal control.
    - v) Execute risk management independent and help to execute risk management effectively.
- 3) Scope of risk reporting

The Group measures risk considerate each factor: commodity price, underwrite, claims, catastrophic, reinsurance, reserve. Consideration the capability of accept risk set retained risk and risk tolerance avoid total risk exceeds the Company risk appetite. Report risk management to Risk Management Committee every month or every season, reporting on risk managing committee board, summarize management report and risk monitoring indicator in every half year, reviewing the operation of managing risk mechanism and other specific topics of managing risk.

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## 4) Insurance risk process and method

Insurance risk is an act whereby the parties concerned agree that one party pays a premium to the other party, and the other party is liable for pecuniary indemnification for damage caused by unforeseeable events or force majeure.

The Group prescribed risk management policy to measure: underwrite, reinsurance, catastrophic, claims, commodity price and reserve.

The risk management processes include risk identification, risk measurement, risk monitoring and risk responding. To ensure the timeliness, liability and safety of risk management information, except for the tiers disclosure per the regulations, the Company also updates and keeps the relevant risk management documents and reports through tiers authorization.

In addition, the Company manages insurance risk by establishing risk tolerance, risk limit and critical risk indicators and reports to the Risk Management Committee per the reporting frequencies of respective indicators. If the risk tolerance, risk limit or critical risk exceeds the limit of the indicators, the responsible unit shall submit an explanation for the limit breach and a solution of improvement. The explanation and solution shall be reviewed by the insurance risk team then submitted to the Risk Management Committee. Once approved, the Risk Management Department shall keep track of the improvement per the content approved.

## (ii) Insurance risk information

## 1) Insurance risk sensitivity analysis

Test assumptions

Expected loss ratio	For the three months ended June 30, 2017			
	Income change before tax		Change in stockholders' equity	
	Before reinsurance	After reinsurance	Before reinsurance	After reinsurance
Increase in 1%	\$ (289)	(886)	(240)	(736)
Decrease in 1%	345	942	286	783

Expected loss ratio	For the three months ended June 30, 2016			
	Income change before tax		Change in stockholders' equity	
	Before reinsurance	After reinsurance	Before reinsurance	After reinsurance
Increase in 1%	\$ 956	1,030	793	855
Decrease in 1%	(956)	(1,030)	(793)	(855)

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

<b>Expected loss ratio</b>	<b>For the six months ended June 30, 2017</b>			
	<b>Income change before tax</b>		<b>Change in stockholders' equity</b>	
	<b>Before reinsurance</b>	<b>After reinsurance</b>	<b>Before reinsurance</b>	<b>After reinsurance</b>
Increase in 1%	\$ (38,946)	(23,205)	(32,325)	(19,261)
Decrease in 1%	38,998	23,257	32,368	19,304

  

<b>Expected loss ratio</b>	<b>For the six months ended June 30, 2016</b>			
	<b>Income change before tax</b>		<b>Change in stockholders' equity</b>	
	<b>Before reinsurance</b>	<b>After reinsurance</b>	<b>Before reinsurance</b>	<b>After reinsurance</b>
Increase in 1%	\$ (40,720)	(22,917)	(33,798)	(19,021)
Decrease in 1%	40,720	22,917	33,798	19,021

2) Concentration of insurance risk

a) The premium proportion of underwriting and reinsurance.

The insurance contracts which the Company underwrites are separated in various types of insurances and not concentrated in any single type of insurance. As of June 30, 2017, the top 5 insurances in terms of proportion is voluntary moto insurance, compulsory moto TPL insurance, personal accident insurance, typhoon, flood and earthquake insurance and liability insurance. The voluntary moto insurance has the highest proportion accounts for 28.9%, 28.7%, 30.9% and 30.5% for the three months and six months ended June 30, 2017 and 2016, respectively. Although the proportion is slightly higher than other insurances, the loss experience of voluntary moto insurance is stable and the risk variation is low. There is no risk concentration in other insurances.

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

The premium proportion of underwriting insurance and reinsurance:

Type	For the three months ended June 30,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
Fire insurance	\$ 805,760	6.8 %	698,691	6.3 %
Marine Cargo insurance	287,562	2.4 %	277,658	2.5 %
Marine Hull/ Fishing Vessel / Aviation insurance	144,763	1.2 %	167,644	1.5 %
Voluntary moto insurance	3,391,881	28.9 %	3,195,733	28.7 %
Compulsory moto TPL insurance	1,441,137	12.2 %	1,312,077	11.8 %
Liability insurance	806,919	6.9 %	678,186	6.1 %
Nuclear insurance	240,256	2.0 %	218,911	2.0 %
Surety and Credit insurance	102,483	0.9 %	110,359	1.0 %
Other property insurance	34,107	0.3 %	38,693	0.3 %
Personal accident insurance	1,242,115	10.6 %	1,133,859	10.2 %
Typhoon, flood and earthquake insurance	1,461,248	12.4 %	1,344,700	12.1 %
Personal and commercial multiple peril insurance	209,649	1.8 %	182,977	1.6 %
Health insurance	162,177	1.4 %	126,026	1.1 %
Overseas reinsurance assumed	162,062	1.4 %	324,416	2.9 %
Overseas subsidiaries	<u>1,275,803</u>	<u>10.8 %</u>	<u>1,330,203</u>	<u>11.9 %</u>
Total	<u>\$ 11,767,922</u>	<u>100.0 %</u>	<u>11,140,133</u>	<u>100.0 %</u>

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

Type	For the six months ended June 30,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
Fire insurance	\$ 1,298,263	5.7 %	1,102,259	5.2 %
Marine Cargo insurance	605,772	2.6 %	591,119	2.8 %
Marine Hull/ Fishing Vessel / Aviation insurance	289,192	1.3 %	317,013	1.5 %
Voluntary moto insurance	7,109,082	30.9 %	6,456,093	30.5 %
Compulsory moto TPL insurance	2,774,817	12.1 %	2,527,169	11.9 %
Liability insurance	1,578,376	6.9 %	1,361,846	6.5 %
Nuclear insurance	537,311	2.3 %	491,978	2.3 %
Surety and Credit insurance	138,875	0.6 %	154,734	0.7 %
Other property insurance	75,931	0.3 %	74,699	0.4 %
Personal accident insurance	2,475,545	10.8 %	2,272,478	10.8 %
Typhoon, flood and earthquake insurance	2,413,670	10.5 %	1,929,160	9.1 %
Personal and commercial multiple peril insurance	407,304	1.8 %	340,182	1.6 %
Health insurance	334,059	1.5 %	263,290	1.2 %
Overseas reinsurance assumed	360,400	1.6 %	638,722	3.0 %
Overseas subsidiaries	<u>2,542,199</u>	<u>11.1 %</u>	<u>2,634,871</u>	<u>12.5 %</u>
Total	<u>\$ 22,940,796</u>	<u>100.0 %</u>	<u>21,155,613</u>	<u>100.0 %</u>

b) Percentage of retained premium

The top 5 insurances with the highest proportion is voluntary moto insurance, personal accident insurance ,compulsory moto insurance, liability insurance and typhoon, flood and earthquake insurance. The voluntary moto insurance which has the highest proportion accounts for 37.7%, 37.6%, 39.2% and 38.8% for the three months and six months ended June 30, 2017 and 2016 , respectively. The Company considered that the loss experience of voluntary moto insurance is stable and retained all the reinsurance. For other insurances the Company evaluated the possibility of significant accumulated loss and arranged appropriate reinsurance contracts to diversify the risk and there is no risk concentration.

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

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**Notes to Consolidated Financial Statements**

The percentage of retained premium was as follows:

Type	For the three months ended June 30,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
Fire insurance	\$ 460,651	5.4 %	248,393	3.1 %
Marine Cargo insurance	158,267	1.9 %	168,952	2.1 %
Marine Hull/ Fishing Vessel / Aviation insurance	31,579	0.4 %	11,660	0.1 %
Voluntary moto insurance	3,182,858	37.7 %	2,968,500	37.6 %
Compulsory moto TPL insurance	926,177	10.9 %	854,280	10.8 %
Liability insurance	502,696	5.9 %	448,141	5.7 %
Nuclear insurance	83,942	1.0 %	122,514	1.5 %
Surety and Credit insurance	16,718	0.2 %	19,982	0.3 %
Other property insurance	10,856	0.1 %	10,618	0.1 %
Personal accident insurance	1,224,111	14.4 %	1,120,975	14.1 %
Typhoon, flood and earthquake insurance	307,191	3.6 %	288,924	3.6 %
Personal and commercial multiple peril insurance	205,024	2.4 %	181,793	2.3 %
Health insurance	160,610	1.9 %	124,012	1.6 %
Overseas reinsurance assumed	154,943	1.8 %	189,487	2.4 %
Overseas subsidiaries	<u>1,052,092</u>	<u>12.4 %</u>	<u>1,164,371</u>	<u>14.7 %</u>
Total	<u>\$ 8,477,715</u>	<u>100.0 %</u>	<u>7,922,602</u>	<u>100.0 %</u>

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Type	For the six months ended June 30,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
Fire insurance	\$ 627,649	3.7 %	485,177	3.1 %
Marine Cargo insurance	322,813	1.9 %	323,462	2.1 %
Marine Hull/ Fishing Vessel / Aviation insurance	51,608	0.3 %	47,005	0.3 %
Voluntary moto insurance	6,626,268	39.2 %	5,993,143	38.8 %
Compulsory moto TPL insurance	1,778,612	10.5 %	1,635,627	10.6 %
Liability insurance	1,028,928	6.1 %	920,688	6.0 %
Nuclear insurance	218,440	1.3 %	235,767	1.5 %
Surety and Credit insurance	38,177	0.2 %	37,890	0.2 %
Other property insurance	23,903	0.1 %	24,398	0.2 %
Personal accident insurance	2,444,008	14.4 %	2,249,429	14.6 %
Typhoon, flood and earthquake insurance	693,878	4.1 %	269,423	1.7 %
Personal and commercial multiple peril insurance	393,832	2.3 %	329,612	2.1 %
Health insurance	330,539	2.0 %	259,523	1.7 %
Overseas reinsurance assumed	268,816	1.6 %	368,672	2.4 %
Overseas subsidiaries	<u>2,076,999</u>	<u>12.3 %</u>	<u>2,273,459</u>	<u>14.7 %</u>
Total	<u>\$ 16,924,470</u>	<u>100.0 %</u>	<u>15,453,275</u>	<u>100.0 %</u>

## c) Claims trend

## i) Accumulated reported claims - gross

Accident year	Valuation day					Accumulated claims(paid)	Reported but unpaid	IBNR	Claims reserve
	December 31, 2013	December 31, 2014	December 31, 2015	December 31, 2016	June 30, 2017				
≤2012							742,096		
2013	13,665,907	14,574,009	14,996,729	14,973,709	14,870,453	14,515,246	355,207		
2014		16,841,902	17,933,522	18,351,054	18,295,155	17,307,887	987,268		
2015			18,324,565	19,525,240	20,082,295	18,587,118	1,495,177		
2016				27,180,099	28,159,396	20,411,119	7,748,277		
2017					8,754,893	3,928,797	4,826,096		
Total							<u>16,154,121</u>	<u>6,899,414</u>	<u>23,053,535</u>

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## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

December 31, 2016									
Accident year	Valuation day					Accumulated claims(paid)	Reported but unpaid	IBNR	Claims reserve
	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015	December 31, 2016				
≤2011							622,294		
2012	12,986,701	14,758,093	14,679,426	14,590,797	14,520,730	14,240,015	280,715		
2013		13,714,679	14,619,378	15,039,045	15,015,911	14,444,112	571,799		
2014			16,926,330	18,017,253	18,429,792	17,267,758	1,162,034		
2015				18,392,262	19,595,916	17,873,748	1,722,168		
2016					27,285,349	13,376,125	13,909,224		
Total							<u>18,268,234</u>	<u>6,392,902</u>	<u>24,661,136</u>

June 30, 2016									
Accident year	Valuation day					Accumulated claims(paid)	Reported but unpaid	IBNR	Claims reserve
	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015	June 30, 2016				
≤2011							695,012		
2012	13,001,316	14,773,993	14,693,822	14,605,281	14,549,767	14,229,711	320,056		
2013		13,761,868	14,664,765	15,083,310	15,058,121	14,331,427	726,694		
2014			16,994,087	18,086,712	18,363,609	16,804,558	1,559,051		
2015				18,472,362	19,094,430	15,611,538	3,482,892		
2016					14,729,316	3,841,987	10,887,328		
Total							<u>17,671,033</u>	<u>6,106,878</u>	<u>23,777,911</u>

## ii) Accumulated reported claims - net

June 30, 2017									
Accident year	Valuation day					Accumulated claims(paid)	Reported but unpaid	IBNR	Claims reserve
	December 31, 2013	December 31, 2014	December 31, 2015	December 31, 2016	June 30, 2017				
≤2012							473,002		
2013	10,778,884	11,297,360	11,633,709	11,643,642	11,620,758	11,371,154	249,604		
2014		12,761,581	13,533,827	13,967,028	13,945,894	13,516,230	429,664		
2015			13,839,622	14,922,330	15,123,706	14,336,974	786,732		
2016				15,297,767	16,190,942	13,598,635	2,592,307		
2017					7,304,934	3,360,006	3,944,928		
Total							<u>8,476,237</u>	<u>4,494,352</u>	<u>12,970,589</u>

December 31, 2016									
Accident year	Valuation day					Accumulated claims(paid)	Reported but unpaid	IBNR	Claims reserve
	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015	December 31, 2016				
≤2011							370,943		
2012	9,894,286	11,342,295	11,282,119	11,270,056	11,227,735	11,019,287	208,448		
2013		10,799,882	11,319,587	11,655,415	11,666,274	11,302,361	363,913		
2014			12,801,818	13,577,947	14,011,107	13,457,375	553,732		
2015				13,889,443	14,977,347	13,793,475	1,183,872		
2016					15,361,117	9,448,638	5,912,479		
Total							<u>8,593,387</u>	<u>4,097,765</u>	<u>12,691,152</u>

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Accident year	Valuation day					Accumulated claims(paid)	Reported but unpaid	IBNR	Claims reserve
	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015	June 30, 2016				
≤2011							404,158		
2012	9,902,487	11,351,099	11,291,123	11,279,132	11,250,385	11,006,054	244,331		
2013		10,825,732	11,346,293	11,682,073	11,649,871	11,225,845	424,026		
2014			12,847,389	13,627,440	13,884,803	13,112,733	772,070		
2015				13,953,967	14,498,165	12,533,608	1,964,557		
2016					7,435,680	3,089,540	4,346,140		
Total							<u>8,155,282</u>	<u>3,958,999</u>	<u>12,114,281</u>

## (iii) Credit risk, Liquidity risk, Market risk

## 1) Credit risk

The credit risk of insurance contracts comes mainly from reinsurance business (The reinsurers' default or bad financial condition which leads to the incapability of paying the reinsurance claims). The Company arranges its reinsurance contracts in accordance with "Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms". The reinsurers which the Company engages are mostly with certain credit rating and are qualified for the criteria for authorized reinsurer. The Company also established relevant risk control procedures to regularly track and monitor and credit rating change of reinsurers.

Compliance with the "Regulations Governing the Provision of Unauthorized Reinsurance Reserves for Insurance Company" No.5, the transaction with unauthorized reinsurers shall be represented in the notes of financial statements and the content shall include the summary of unauthorized reinsurance contracts and types of reinsurance, the reinsurance premium expense of unauthorized reinsurance contracts and General description of the amount of unauthorized reserve and its components.

a) Until June 30, 2017, the major unauthorized reinsurance companies that the Company had transactions with are as follows:

- i) AIG EUROPE LIMITED : Facultative reinsurance of engineering insurance.
- ii) MILLI REASURANS T.A.S (SINGAPORE BRANCH) : Facultative reinsurance of commercial fire insurance.
- iii) SCHWARZMEER UND OSTSEE VERS-AG SOVAG (UK BRANCH) : Facultative reinsurance of commercial fire insurance.
- iv) GLOBAL INSURANCE COMPANY : Facultative reinsurance of commercial marine insurance.
- v) ALLIANZ C.P. GENERAL INSURANCE COMPANY LIMITED : Facultative reinsurance of new insurance.

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**Notes to Consolidated Financial Statements**

- vi) RIVERSTONE FRANCE S.A. : Facultative reinsurance of engineering insurance.
  - vii) PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED: Facultative reinsurance of individual fire insurance.
- b) Until December 31, 2016, the major unauthorized reinsurance companies that the Company had transactions with are as follows:
- i) AIG EUROPE LIMITED : Facultative reinsurance of engineering insurance.
  - ii) ALLIANZ C.P. GENERAL INSURANCE COMPANY LIMITED : Facultative reinsurance of commercial fire insurance.
  - iii) ROYAL & SUNALLIANCE INSURANCE GLOBAL : Facultative reinsurance of commercial marine insurance.
  - iv) ALLIANZ C.P. GENERAL INSURANCE COMPANY LIMITED : Facultative reinsurance of new insurance.
  - v) AIG EUROPE LIMITED : Facultative reinsurance of engineering insurance.
  - vi) LA MUTUTLLE DU MANS ASSURANCES I.A.R.D. : Facultative reinsurance of new insurance.
  - vii) PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED : Facultative reinsurance of individual fire insurance.
- c) As of June 30, 2016, the major unauthorized reinsurance companies that the Company had transactions with are as follows:
- i) AIG EUROPE LIMITED : Facultative reinsurance of engineering insurance.
  - ii) CORPORATE INSURANCE PARTNER : Facultative reinsurance of commercial fire insurance.
  - iii) GLOBAL INSURANCE COMPANY : Facultative reinsurance of commercial marine insurance.
  - iv) ALLANZ C.P. GENERAL INSURANCE COMPANY LIMITED : Facultative reinsurance of new insurance.
  - v) RIVERSTONE FRANCE S.A. : Facultative reinsurance of engineering insurance.
  - vi) LA MUTUELLE DU MANS ASSURANCES I.A.R.D. : Facultative reinsurance of new insurance.

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- d) As of June 30, 2017, December 31 and June 30, 2016, the expense for reinsurance, which was dealt with unauthorized reinsurance company, amounted to \$9,736, \$129,786 and \$399,983, respectively.
- e) As of June 30, 2017, December 31 and June 30, 2016, the unauthorized reinsurance reserves amounted to \$941,298, \$1,493,667 and \$2,471,509, respectively. The components of this account includes: (a) unearned premium reserve amounted to \$43,044, \$64,922 and \$382,445, respectively. (b) claims recoverable from reinsurers of paid claims overdue in nine month amounted to \$187,475, \$84,217 and \$66,811, respectively. (c) claims recoverable from reinsurers which were reported but unpaid amounted to \$710,779, \$1,344,528 and \$2,022,253, respectively.

## 2) Liquidity risk

The Group's written insurance contract was most for a one-year policy period. Significant claims will lead to insurance contract liquidity risk which may cause funding liquidity risk so the Company evaluated liquidity risk with current ratio. To ensure that the total amount of cash, cash equivalent and assets which can be transferred into cash is larger than the risk limit of capital liquidity in order to prevent insufficient liquidity.

## 3) Market risk

The market risk of insurance contracts comes mainly from the market risk of the various reserves provided for insurance contracts, such as the variation of market interest rate.

According to "Regulations Governing the Provision of Reserves for Insurance Companies", the reserves which the Company provides include unearned premium reserve, claims reserve, special reserve, premium deficiency reserve liability adequacy reserve and liability reserve. None of the reserves is discounted by market interest rate except liability reserve. The variation of market interest rate does not have influence over the estimated reserve.

Liability reserve is provided for long-term return premium fire insurance (this insurance operation has been terminated). Currently it is provided for effective and undue policies. The discount rate which is applied for the provision of liability reserve takes into account the average remaining years and the trend of past market interest rate. Yet the product ceased to exist and the remaining effective policies are not many. After the evaluation the variation of market interest rate does not have significant influence over the provision of liability reserves and the profit or loss of the Company.

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(v) Fair value and tiers information

(i) Fair value information

1) Definition of fair value

Fair value refers to the price which market participants can collect from selling assets or pay from transferring liability on the measurement date in an orderly market.

2) Definition of the 3 tiers of fair value

a) First tier

The input of this tier is the public quote of the same financial instrument in an active market. An active market is a market that meets all the conditions listed below: Products traded in the market is of homogeneity; it is able to reach buyer and seller anytime in the market and the price information can be accessed by the public. The listed stocks and over-the-counter stocks, beneficiary certificates and equity instruments and debt instruments with public quote in an active market possessed by the Group belong to the first tier.

b) Second tier

The input of this tier refers to observable price except public quote in an active market, including direct observable input parameters (such as price) or indirect observable input parameters (derivation from price). The bond instruments without public quotes in an active market and most of the derivative financial instruments of the Group belong to the second tier.

c) Third tier

The input parameter used to measure the fair value of this tier is not based on data that can be obtained in the market. Equity instruments and debt instruments without public quote in an active market and which use the quotes of the counterparties as well as investment properties possessed by the Group belong to the third tier.

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## Notes to Consolidated Financial Statements

## (ii) Measured at fair value

## 1) Tier information of the fair value

The financial instruments measured at fair value and investment properties possessed by the Group are both measured at fair value based on repeatability. The fair value tier information of the Group is as follows:

Assets and liabilities	June 30, 2017			
	Total	1st Tier	2nd Tier	3rd Tier
<b>Repeatable fair value measurement</b>				
<u>Non-derivative financial assets and liabilities</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Other	\$ 238,170	238,170	-	-
Available-for-Sale financial assets				
Security Investment	15,946,998	15,923,721	-	23,277
Bond Investment (Note)	17,389,769	15,729,974	1,474,929	184,866
Other	6,645,229	6,279,335	190,498	175,396
Investment property	10,621,352	-	-	10,621,352
<u>Derivative financial assets and liabilities</u>				
Assets:				
Financial assets at fair value through profit or loss	58,339	-	58,339	-
Liabilities:				
Financial liabilities at fair value through profit or loss	111,605	-	111,605	-
<b>December 31, 2016</b>				
Assets and liabilities	Total	1st Tier	2nd Tier	3rd Tier
<b>Repeatable fair value measurement</b>				
<u>Non-derivative financial assets and liabilities</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Other	\$ 302,129	-	302,129	-
Available-for-Sale financial assets				
Security Investment	15,443,327	15,414,658	-	28,669
Bond Investment (Note)	18,146,416	16,317,986	1,633,205	195,225
Other	7,422,082	6,900,040	341,045	180,997
Investment property	10,067,697	-	-	10,067,697
<u>Derivative financial assets and liabilities</u>				
Assets:				
Financial assets at fair value through profit or loss	17,516	-	17,516	-
Liabilities:				
Financial liabilities at fair value through profit or loss	251,107	-	251,107	-

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## Notes to Consolidated Financial Statements

Assets and liabilities	June 30, 2016			
	Total	1st Tier	2nd Tier	3rd Tier
<b>Repeatable fair value measurement</b>				
<u>Non-derivative financial assets and liabilities</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Other	1,033,572	1,033,572	-	-
Available-for-Sale financial assets				
Security Investment	15,633,338	15,595,090	-	38,248
Bond Investment (Note)	16,993,406	14,956,865	1,604,614	431,927
Other	6,795,757	6,411,060	198,316	186,381
Investment property	9,862,903	-	-	9,862,903
<u>Derivative financial assets and liabilities</u>				
Assets:				
Financial assets at fair value through profit or loss	103,304	-	103,304	-
Liabilities:				
Financial liabilities at fair value through profit or loss	2,686	-	2,686	-

Note: Includes securities serving as government bond of refundable deposits.

## 2) Valuation techniques of fair value measurement

## a) Financial instruments

If there is a public quotes in an active market for the financial instrument (Main exchanges, Bloomberg or Reuters), the market price is regarded as the fair value of the financial instrument. The fair value of some financial instruments is obtained from the quote or model valuation techniques of the trade counterparties. The fair value derived from valuation techniques can be calculated by applying models with reference to the present fair value of other substantially similar financial instruments, Discounted Cash Flow Method or other valuation techniques (including accessible market data on the balance sheet date, such as yield curve of Taipei Exchange). Regarding financial instruments with higher complexity, the Group measures the fair values with the quote of the trade counterparties or by purchased or self-developed valuation models using valuation methods or techniques widely accepted in the industry.

The method and assumptions the Group applies when estimating the fair value of financial instrument are as follows: If there is a quoted price in an active market, the market price is the fair value. The fair value of investments without active market, mainly domestic or foreign financial bonds, corporate bonds, beneficiary certificates and preferred stocks, is determined per the order below (1) OTC yield rate/clean price or the fair value of Bloomberg corporate bonds (2) Quote or model price from the trade counterparties. For the fair value measurement of financial instruments without active market, it is recognized by its amortized cost.

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The fair value of derivative financial instruments is the price which the Group should receive or pay assuming it terminates the contracts on the balance sheet date. Generally it includes the unrealized profit or loss of the unsettled contracts in the period. The derivative financial instruments of the Group all refer to the quotes of the trade counterparties.

b) Non-financial instruments

The determination of the fair value of investment properties is, in accordance with Regulations Governing the Preparation of Financial Reports by Insurance Companies, based on the accreditation of professional appraisal institutions. The appraisal institutions conduct the accreditation with the support of market evidence. Please refer to Note 6(j).

3) Adjustment of fair value

All valuation models have their limits and may not be able to reflect all relevant factors of the financial instruments possessed by the Group. Therefore, the estimates of the valuation models may be adjusted based on additional parameters. Because the fair value valuation models of the Group are equipped with verification procedures, the valuation adjustment is adequate and necessary. The price information and parameters used in the valuation process are assessed with prudence and are adjusted based on current market status.

4) Transfer between the first tier and the second tier

During January 1 to June 30, 2017 and 2016, available-for-sale financial asset with a carrying amount of \$189,249 and \$395,388 were transferred from first tier to second tier because activeness of source is lower than original. There is no financial asset transfers from second tier to first tier during January 1 to June 30, 2017.

5) Changes of the third tier financial assets

Changes of financial assets categorized in the third tier

Name	For the six months ended June 30, 2017							Balance at the end of the year
	Balance at the beginning of the year	Valuation profit or loss		Increase		Decrease		
		Recognized in profit or loss	Recognized in Other comprehensive income	Purchase or issue	Transfer to the 3rd tier from other tiers	Sale, disposal or settlement	Transferring to other tiers from the 3rd tier	
Available-for-sale financial assets	\$ 404,891	6,788	(3,528)	4,224	-	28,836	-	383,539
Investment properties	10,067,697	(28,058)	-	436	627,848	-	46,571	10,621,352
Total	\$ 10,472,588	(21,270)	(3,528)	4,660	627,848	28,836	46,571	11,004,891

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

Name	For the six months ended June 30, 2016							Balance at the end of the year
	Balance at the beginning of the year	Valuation profit or loss		Purchase or issue	Increase		Decrease	
		Recognized in profit or loss	Recognized in Other comprehensive income		Transfer to the 3rd tier from other tiers	Sale, disposal or settlement		
Available-for-sale financial assets	\$ 649,652	(19,863)	18,216	11,992	-	3,441	-	656,556
Investment properties	10,965,782	(1,998)	-	-	19,636	-	1,120,517	9,862,903
Total	\$ 11,615,434	(21,861)	18,216	11,992	19,636	3,441	1,120,517	10,519,459

**For the six months ended June 30,**

	2017	2016
For the valuation profit or loss recognized in current profit or loss, the change of unrealized profit or loss which can be attributed to the assets and liabilities possessed by the Group	\$ -	-
For the valuation profit or loss recognized in other comprehensive income, the changes of unrealized profit or loss which can be attributed to the assets and liabilities possessed by the Group	\$ (3,528)	15,517

For the valuation profit or loss recognized in current profit or loss, the change of unrealized profit or loss which can be attributed to the assets and liabilities possessed by the Group

For the valuation profit or loss recognized in other comprehensive income, the changes of unrealized profit or loss which can be attributed to the assets and liabilities possessed by the Group

- 6) Quantified information of the fair value measurement of significant unobservable inputs (the third tier).

The input parameters for fair value measurement of the third tier are not based on accessible market information and are required to be estimated and adjusted based on the assumptions. If it is not likely to develop a valuation model, the Group would apply the quote of the trade counterparty as the fair value. In accordance with IFRS 13, for the fair value measurement of financial instruments categorized in the third tier, an enterprise should provide quantified information of significant unobservable inputs regarding the fair value measurement. If the quantified unobservable input is not established during the fair value measurement (for example, an enterprise uses unadjusted prices of previous transactions or a third party's pricing information), an enterprise does not have to create quantified information to follow the rules. The Group has no quantified information of significant unobservable inputs. In accordance with the Regulations Governing Preparation of Financial and Operational Reports, investment property is classified as Level 3. The fair value is determined by professional appraisal institutions based on market evidence. (Details in 6(j)). Because the relationship between significant unobservable inputs and the fair value cannot be fully controlled, there is no quantified information disclosed. The fair value of the assets mentioned above is amounted to \$11,004,891 and \$10,519,459 on June 30, 2017 and 2016, respectively.

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7) Valuation process of the third tier financial instruments

Financial instruments using unobservable inputs and observable inputs which require significant adjustments to measure the fair value are categorized in the third tier. There are two sources of the third tier inputs. One is from the price provided by professional electronics information suppliers, and the price does not vary with different people who obtained it and it must be obtained through specific equipment. The other source is the quote of the trade counterparty. The price information of products is updated monthly and preserved with caution. The Group will examine the valuation result subsequently to ensure the consistency with the source of valuation and the rationality of the valuation result.

Investment properties are appraised by outside appraiser according to the valuation methods, parameters and assumptions issued by the Financial Supervisory Commission.

8) Fair value measurement of the third tier financial instruments. Sensitivity analysis of the fair value regarding reasonable and possible alternative assumptions.

(iii) Financial instruments not measured at fair value

1) Fair value information

Except those listed in the table below, for financial instruments not measured at fair value, such as cash and cash equivalents, account receivables, reinsurance contract assets, account payables and other financial liabilities, the carrying amount is a reasonable approximation of the fair value. Therefore, the Group does not disclose the fair value.

<u>Item</u>	<u>Book value</u>	<u>Fair value</u>
<b>June 30, 2017</b>		
Financial assets		
Debt Investments Without Active Market	\$ 5,219,684	5,325,962
<b>December 31, 2016</b>		
Financial assets		
Debt Investments Without Active Market	3,385,068	3,348,858
<b>June 30, 2016</b>		
Financial assets		
Debt Investments Without Active Market	4,052,925	4,062,320

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## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 2) Fair value information

Item	June 30, 2017			
	Total	Tier 1	Tier 2	Tier 3
Financial assets:				
Debt Investments Without Active Market	\$ 5,325,962	913,167	1,269,803	3,142,992

Item	December 31, 2016			
	Total	Tier 1	Tier 2	Tier 3
Financial assets:				
Debt Investments Without Active Market	\$ 3,348,858	645,630	398,955	2,304,273

Item	June 30, 2016			
	Total	Tier 1	Tier 2	Tier 3
Financial assets:				
Debt Investments Without Active Market	\$ 4,062,320	1,162,469	204,046	2,695,805

## 3) Value method

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

- a) The fair value of short-term financial commodity is estimated by the carrying amount of balance sheet. The carrying amount is the reasonable basis to estimate the fair value, because the maturity date of the commodity is near. The method applied on cash and equivalent cash, accounts receivables, current tax asset, guarantee deposits paid, accounts payables, current tax liability and other financial liabilities.
- b) If debt investments without active market value have transaction price or quotes of the market makers, use the recent transaction price and quotes as the basis of estimating fair value. If without market value, discounted cash flow method or the quotes of the counterparties are used to calculate fair value or
- c) The fair value of financial commodity not listed in TWSE or traded in GTSM is the net value provided by consultant management company.

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**  
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(w) Financial risk information

(i) Risk management system

1) The organization structure of risk management

The board of directors is ultimately responsible for the risk management of the Consolidated Group. Other relevant departments include establishment of Risk Management Committee and independent Risk Management Department. The general manager acts as the coordinator in the committee who appoints the vice coordinator, executive secretary and the conveners and members of each group. The difference between the groups of the committee is nature of the risks. In the 18th board meeting taking place on August 22, 2013, the Board resolved to establish a position of Director of Risk Management who is in charge of the risk management of the company and participates in the Company's important decision making to execute risk management.

2) Objectives and policies of the risk management

The risk management policy of the Group includes risk management strategy and objective, risk management organization and responsibility, main types of risk, risk appetite, and risk management operation and documentation. This policy is intended to define the overall organization structure, to ensure that the Company shall maximize shareholder's value, to improve confidence level of the insured, and to ensure the corporate image. The objective of risk management is established to conform to related regulations from authority and to achieve business objectives.

The Risk management procedures include risk identification, risk measurement, risk processing, risk monitoring, risk responding and information, communication and documentation. In addition, the Group established management principles and regulated measurement and assessment methods in terms of primary risks such as market risk, liquidity risk, credit risk, operation risk and insurance risk and provides risk reports to monitor various risks regularly.

With respect to information, communication and documentation, the risk management of the Company ensures the timeliness, reliability and security of the information and discloses information per different tiers to make sure that each competent authority fully understands and complies with relevant regulations. Furthermore, risk management papers and reports are documented, undated and preserved under appropriate delegation.

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**(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)****FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements****(ii) Risk management process, and principles of measurement and control**

Risk management process and principles of measurement and control of market risk, Liquidity risk, and credit risk are listed separately as follows:

**1) Market risk**

Market risk is the risk of losses in the value of assets in a given period resulting from unfavorable changes in the asset's market prices. To prevent the occurrence of market risk, the Company management has set a monitor system on the concentration of daily transactions, limits of investment position and current asset allocation pursuant to internal management policies and relevant regulations. Moreover, The Company also established a sound crisis response mechanism to deal with working capital demand due to emergency or abnormal event.

**a) Management process of market risk****i) Risk identification**

To achieve market risk management goal, the Group identified potential market risk factors encountered during operation process. Positions held by The Group in different financial instruments were classified into four categories, mainly interest, foreign exchange rate, equity security and commodity, according to accounting standards. Each category further divided by different purposes into trading position and non trading position, and market risk management focused on trading position.

**ii) Risk measurement**

1. Establish a risk quantification model, adopting basic statistical measurement, sensitivity analysis and scenario analysis etc., for different risk factors to measure market risk.
2. Analyze outcome from the risk model for better market risk planning, supervision and control.
3. Measure possible losses from the holding position daily under normal market fluctuation and perform stress testing monthly.
4. Evaluate accuracy of the risk model by retroactive testing or other methodologies.

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**Notes to Consolidated Financial Statements**

iii) Risk monitoring

The Group established market risk monitoring procedure to review and monitor utilization of various risk limits monthly. An action would be taken if the risk limit is breached. The Group has established proper monitoring frequency and hierarchical reporting mechanism to ensure proper reporting whenever there is any abnormal situation occurred or any deficiency identified. A specific reporting procedure would be followed to ensure the control of timing in dealing with significant market risk.

iv) Risk responding

As market risk occurs, the head of any related unit being impacted or in charge unit with relevant authority would respond to the event immediately, and report to risk management and related departments based on the established authorization. Afterwards, every related unit would work with risk management department to investigate the underlying reason for the risk event, develop a remediation plan, and risk management department would monitor the progress of the follow up actions.

b) Concentration of market risk

The mainly counterparty and buyer of financial instruments of the Group were financial industry. There were rules about limitation of the government bonds, fixed income bonds, bonds, convertible bonds, funds, stocks, derivative financial instruments, structured notes and bonds securitization to control the risk.

c) Market risk management mechanism

i) Risk tolerance management

Risk tolerance refers to the maximum amount of risk an entity is willing to withstand. Market risk tolerance is submitted to and approved by the risk management committee annually.

ii) Risk limit management

Establishment of risk limits is to put risk tolerance management into practice. Risk limits for different financial products were made by trading position, investment position and hedging position separately. When setting risk limits, various factors were taken into account, such as risk tolerance, business history, expected budget target, market liquidity of a specific product, historical utilization of risk limits, traders' trading experiences, trading system and supports by the operation department. The amended risk limits will be reviewed by the risk management committee. After approved by proper authorities according to company's authorization table, the amended risk limits will be reported to risk management unit and then, submitted to the risk management committee of Fubon Financial Holding for discussion and approval. Risk limits of The Group include risk value limit and position limit under system support.

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

## iii) Valuation management

Commodity was evaluated based on the market value if it is available. If the market value is not readily available, the product value will be calculated by the latest market price, quotation from the counterparty or valuation model.

## d) Risk value model

Risk value is a statistical estimate of probable worst outcome during normal fluctuation. The Group used value at risk (VaR) model to measure the potential maximum loss in value of a investment portfolio at risk over a period of ten day for a 99% confidence interval with respect to different market factors.

The Group applied retroactive testing which provides estimates of the accuracy of VaR model to check whether a VaR methodology is being used appropriately, completely and accurately in measuring the potential maximum loss in value of an investment portfolio. The retroactive testing procedure consists of calculating the number or percentage of times that the actual portfolio returns fall outside the VaR estimate. A VaR was computed over a period of one year with reconciled profit and loss on a daily basis. The Company will periodically monitor the outcome of the aforementioned model and test the accuracy of parameters and assumptions being used.

<b>Common VaR</b>	<b>June 30, 2017</b>		
	<b>Average</b>	<b>High</b>	<b>Low</b>
Fixed income group	\$ 500,408	566,918	429,956
Equity group	685,374	867,681	530,905
Fund group	98,867	109,808	79,502
Asset securitization group	65,961	79,189	31,051
Total position	919,912	1,338,601	649,103
<b>Common VaR</b>	<b>December 31, 2016</b>		
	<b>Average</b>	<b>High</b>	<b>Low</b>
Fixed income group	\$ 586,518	1,357,509	268,607
Equity group	804,658	1,059,646	595,572
Fund group	107,489	187,041	75,193
Asset securitization group	111,536	269,955	39,860
Total position	875,548	1,423,682	647,731

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<u>Common VaR</u>	<u>June 30, 2016</u>		
	<u>Average</u>	<u>High</u>	<u>Low</u>
Fixed income group	\$ 631,664	763,849	379,742
Equity group	842,479	999,854	597,392
Fund group	122,398	187,041	75,193
Asset securitization group	119,358	269,955	56,061
Total position	832,202	1,021,308	647,731

Note 1: VaR was adopted from January 1 to June 30 2017, January 1 to December 31, 2016, and January 1 to June 30, 2016.

Note 2: VaR was computed over a period of ten days.

## 2) Liquidity risk

Liquidity risk is divided into two types: “market liquidity risk” and “funding liquidity risk.” The Group monitored liquidity risk in compliance with its risk management rules. Funding liquidity risk is the risk that the entity cannot provide sufficient funding to meet the needs for the growth of asset level and the settlement of the obligation of matured liabilities, which caused late payment to counterparties or called for an emergency fund raising requirement to cover the funding gaps. Market liquidity risk is the loss incurred as a market participant unable to easily exit a position on a prevailing market price or to liquidate a position immediately while not hitting the best price due to insufficiency of market depth or market transparency, or market failure.

## a) Management process of liquidity risk

## i) Risk identification

To achieve liquidity risk management goal, the Company identified potential liquidity risk factors encountered during operation process. Those risk factors were such as funding liquidity risk factors, market liquidity risk factors and characteristics of products being traded.

## ii) Risk measurement

The Group measured the possibility of occurrence and the degree of negative impact of risk events and risk factors by qualitative or quantitative method, and compared these influences with risk limits set by the management which was used as a basis for the setting of the priority in risk control and the response measures subsequently.

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**Notes to Consolidated Financial Statements**

iii) Risk monitoring

The Group established liquidity risk monitoring procedure to review and monitor utilization of various risk limits monthly. An action would be taken if the risk limits is breached. The Group has established proper monitor frequency and hierarchical reporting mechanism to deal with whenever there is any abnormal situation occurred or deficiency identified. A specific reporting procedure would be followed to ensure the timely response to significant liquidity risk.

iv) Risk responding

As liquidity risk occurs, the head of any related unit being impacted or relevant unit with the authority to deal with the event would respond to the event immediately, and report to risk management and related departments in accordance with the established authorization. Afterwards, every related unit would work with risk management department to investigate the underlying reason for the event, and develop a remediation plan, and risk management department would monitor the progress of the follow up actions.

b) Liquidity risk management mechanism

i) Management strategy of funding liquidity risk in operation and investment were as follows: ensure balance of capital inflow and outflow, examine and predict capital demand at present and in the future in accordance with strategies of operational management and investment activities, establish critical indicators of funding liquidity risk, and make appropriate adjustment with business strategy and market condition.

The Group manages the liquidity risk efficiently in two aspects, short-term and medium long term. Besides setting the percentage of liquid assets in total assets and the net everyday cash flow as standards of measurement and control, the Group has already established the immediate cash using information system, using proper market monetary instruments or foreign exchange instruments to allocate daily cash. Medium-long term liquidity management decreases related risk through annual reviewing on the assessment report of using assets and liabilities and applying the model of cash flow analysis to monitor the using of assets and liabilities.

ii) For the liquidity risk management in the market, consider the transaction volume mainly, the strategy of sales development and the target of budget, according to the market size, dimension and market liquidity of every product, to set the key indicators of the liquidity risk in the market. For lower liquidity products, avoiding the occurrence liquidity risk, the Company controls the transaction amount and the transaction conditions in every transaction.

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## Notes to Consolidated Financial Statements

- iii) The Group established complete risk management system to deal with the mass demand of cash in abnormal or urgent condition. Monitoring daily net cash flow, the Group established immediate cash flow estimation system and preserved proper amount of equivalent cash for future response. Financial department and accounting office provide risk management department with the condition of cash liquidity monthly, while risk management department also regularly reviews the limitation of market liquidity risk and it should inform the risk management committee with the indicators of the market liquidity risk and the management of the limitation. If the management indicator approaches the limitation, it should enhance the intention of the capital variation.

Possessing sufficient operating capital, government bonds and other securities to satisfy the capital demand in investment, pay liabilities matured and execute contracts' obligation, the Group confronts low liquidity in compliance with rules.

- iv) The maturity analysis is as follows:

		June 30, 2017							
		less than one year	1 to 3 year	3 to 5 year	5 to 10 year	10 to 20 year	more than 20 years	no maturity date	Total
The maturity analysis of financial assets									
Available for sale financial assets	\$	1,736,797	333,280	1,430,986	7,208,086	2,198,873	4,481,747	-	17,389,769
Debt instruments in non-active market		277,569	-	-	400,000	300,087	2,342,028	1,900,000	5,219,684
	\$	<u>2,014,366</u>	<u>333,280</u>	<u>1,430,986</u>	<u>7,608,086</u>	<u>2,498,960</u>	<u>6,823,775</u>	<u>1,900,000</u>	<u>22,609,453</u>
		December 31, 2016							
		less than one year	1 to 3 year	3 to 5 year	5 to 10 year	10 to 20 year	more than 20 years	no maturity date	Total
The maturity analysis of financial assets									
Available for sale financial assets	\$	734,952	1,532,482	698,188	8,554,953	2,071,173	4,554,668	-	18,146,416
Non active market bond investment		-	217,626	-	200,000	352,862	2,114,580	500,000	3,385,068
	\$	<u>734,952</u>	<u>1,750,108</u>	<u>698,188</u>	<u>8,754,953</u>	<u>2,424,035</u>	<u>6,669,248</u>	<u>500,000</u>	<u>21,531,484</u>
		June 30, 2016							
		less than one year	1 to 3 year	3 to 5 year	5 to 10 year	10 to 20 year	more than 20 years	no maturity date	Total
The maturity analysis of financial assets									
Available for sale financial assets	\$	503,725	2,189,921	931,575	6,868,026	2,178,942	4,321,217	-	16,993,406
Debt instruments in non-active market		387,352	228,328	-	-	946,455	2,490,790	-	4,052,925
	\$	<u>891,077</u>	<u>2,418,249</u>	<u>931,575</u>	<u>6,868,026</u>	<u>3,125,397</u>	<u>6,812,007</u>	<u>-</u>	<u>21,046,331</u>

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## 3) The maturity analyses of derivative assets and liabilities

All of the forward rate contracts and swap contracts are not held for trading, but mainly for avoiding the foreign exchange rate risk generated from the foreign investment capital. Being high liquidity monetary, whose probability of being unable to sale in the market is extremely small, the liquidity risk of the currency held is low. Matured forward rate contracts and swap contracts almost will be continued and there is enough capital for settlement. Therefore, the liquidity risk of the capital is low. The maturity analysis of derivative financial instruments is as follows:

		June 30, 2017					
		less than one year	1 to 3 year	3 to 5 year	5 to 10 year	no maturity date	Total
The maturity analysis of financial assets	\$	<u>58,339</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,339</u>
The maturity analysis of financial liabilities	\$	<u>111,605</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>111,605</u>
		December 31, 2016					
		less than one year	1 to 3 year	3 to 5 year	5 to 10 year	no maturity date	Total
The maturity analysis of financial assets	\$	<u>17,516</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,516</u>
The maturity analysis of financial liabilities	\$	<u>251,107</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>251,107</u>
		June 30, 2016					
		less than one year	1 to 3 year	3 to 5 year	5 to 10 year	no maturity date	Total
The maturity analysis of financial assets	\$	<u>103,304</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>103,304</u>
The maturity analysis of financial liabilities	\$	<u>2,686</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,686</u>

## 4) Credit risk

Credit risk is the risk the Group would suffered from the loss due to the downgrade of borrower's credit rating or borrower failing to make payments, the counterparty's failure or refusing to meet its obligation. The risk includes but not limited to the following risks: the credit risk of the issuer, the counterparty and the underlying assets.

Credit risk mainly comes from the trading of financial instruments generated from operating activity of the Group. The Group decreases the probability of a larger loss resulting from any single credit risk event due to the over concentration of the portfolios through regular analysis and monitor as follows:

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a) Management process of credit risk

i) Risk identification

The Group's management process of credit risk could identify the existing and potential risk, analyze the source of the major risk of the operation and the product, and plan proper control system.

ii) Risk measurement

When measuring credit risk, the Group considers the factors including the content of contracts, the condition of the market, securities or guarantees, the variation of the future probable risk of the counterparty and evaluating the risk in asset portfolios with credit risk except for individual risk. Also, by collecting related information of credit rating, the Group analyzes and quantitatively measures the credit risk in accordance with the level of business and practical settlement methods and calculates the credit risk capital based on the rules stipulated by the authority. For financial instruments in non-active markets, held to maturity financial assets and other credit position, depending on the practical settlement methods, the Company measures the credit risk by referring to the expected loss formula ( $ECL = EAD \times PD \times LGD$ ).

iii) Risk monitoring

Based on the process of risk monitoring established, the Group reviews and monitors the credit limit and the condition of exceeding the limit regularly with proper disposition. Through proper and monitoring frequent and hierarchical control system, the responsible person could submit the report by related rules when finding mistakes and unusual events. When the relevant unit gets aware of significant credit risk event, it should notify risk management department of the Group by email and deal with the problem according to Fubon Financial Holding's guidelines related to the reporting of significant credit risk event to control the timeliness of the dealing process.

iv) Risk responding

When an event of credit risk occurs, the head of any related unit involved or who has authority to deal with the event would respond to the event immediately, and report to risk management department by following authorization table of the Group. Afterwards, the reason of the event would be investigated, the remediation plan would be developed and the progress of actions would be followed.

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b) Credit risk management mechanism

Credit risk management mechanism includes:

i) Credit risk management before transaction:

Before the Group is engaged in investment and transaction business, a completed evaluation and analysis will be performed on subject of investments and transactions, issuer, credit and financial position information of counterparty and guarantee agency and it also will confirm the legality of the transaction. Meanwhile, the Group will confirm if transaction counterparty, issuer and guarantee agency exceed credit limits. In case of involving in the decision making process of complex structured instrument, the Group should follow the authorization level related to credit risk management, and have proper notification process and operating activities.

ii) Management of credit limit by hierarchy:

Considering the complexity and characteristics of the investment assets, the Group sets credit hierarchical management system and manages them by different hierarchy, including the following:

1. By counterparty, issuer and guarantee agency, set credit limit and manage by different hierarchy.
2. By country, set credit limit and manage hierarchically.

Besides, it will reexamine credit limit when inside or outside economic circumstances have changed severely.

iii) Credit risk management after transaction:

1. Examine credit status periodically: Periodically review the overall credit market conditions to understand trends in the credit markets and get an early warning to credit risk. Also periodically examine credit status of counterparty, issuer and guarantee agency to fully reveal their risk situation.
2. Control credit risk limit by each position: Measure credit exposure amount monthly, compare with authorized credit risk limit and monitor the risk. Classification of the measuring credit exposure amount of the Company includes: counterparty, issuer, guarantee agency, country and commodity. According to different business characteristics, the Company takes individual or portfolio management approach to review the changes in credit status in connection with the transaction balance or position periodically.

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## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

## c) Concentration of credit risk

In order to control the asset concentration risk, there are limits for single transactions and total transaction amounts with each counterparty, to ensure the risk is under control to certain degree.

## i) Concentration of credit risk - district

June 30, 2017						
By area	Taiwan	Rest of Asia	North America	Central and South America	Europe	Total
Exposure amount	\$ 39,400,177	5,788,812	8,741,016	-	7,263,031	61,193,036
Ratio of the total	64.39 %	9.46 %	14.28 %	-	11.87 %	100.00 %

  

December 31, 2016						
By area	Taiwan	Rest of Asia	North America	Central and South America	Europe	Total
Exposure amount	\$ 37,157,579	5,363,584	9,435,871	-	7,600,706	59,557,740
Ratio of the total	62.39 %	9.01 %	15.84 %	-	12.76 %	100.00 %

  

June 30, 2016						
By area	Taiwan	Rest of Asia	North America	Central and South America	Europe	Total
Exposure amount	\$ 36,414,039	5,174,940	9,709,701	-	6,792,385	58,091,065
Ratio of the total	62.68 %	8.91 %	16.72 %	-	11.69 %	100.00 %

(Continued)

## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

## d) Credit risk exposure

Details of maximum credit risk exposure of the Company financial assets (without considering collateral or other credit enhancements instruments), unrecognized carrying amount deducted by the offsetting amount calculated per IAS 32 and the recognized impairment loss amount calculated per IAS 39.

<b>Non-Derivatives Financial Instruments</b>	<b>June 30, 2017</b>	
	<b>Book value</b>	<b>maximum credit risk exposure</b>
Financial assets:		
Cash and cash equivalents	\$ 9,363,510	9,363,510
Receivables	5,801,143	5,801,143
Financial assets measured at fair value through profit or loss	238,170	238,170
Available-for-sale financial assets	39,514,140	39,514,140
Financial assets measured at cost	158,330	158,330
Investment in bonds without active markets	5,219,684	5,219,684
Other financial assets	403,033	403,033
Reinsurance Contract Assets-reinsurance recoverable	1,774,024	1,774,024
Reinsurance Assets-due from other reinsurance	3,816,168	3,816,168
Other assets	1,898,149	1,898,149
Financial liabilities:		
Payables	10,489,945	10,489,945
Current tax liabilities	14,866	14,866
Other liability	787,980	787,980
<b>Derivatives Financial Instruments</b>		
Financial assets:		
Financial assets measured at fair value through profit or loss	58,339	58,339
Financial liabilities:		
Financial liabilities measured at fair value through profit or loss	111,605	111,605

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## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

<b>Non-Derivatives Financial Instruments</b>	<b>December 31, 2016</b>	
	<b>Book value</b>	<b>maximum credit risk exposure</b>
Financial assets:		
Cash and cash equivalents	\$ 9,633,357	9,633,357
Receivables	4,719,612	4,719,612
Financial assets measured at fair value through profit or loss	302,129	302,129
Financial assets measured at fair value through profit or loss	40,544,802	40,544,802
Available-for-sale financial assets	158,330	158,330
Financial assets measured at cost	3,385,068	3,385,068
Investment in bonds without active markets	502,492	502,492
Other financial assets	2,428,523	2,428,523
Reinsurance Contract Assets-reinsurance recoverable	2,993,511	2,993,511
Reinsurance Assets-due from other reinsurance	1,867,447	1,867,447
Financial liabilities:		
Payables	9,565,836	9,565,836
Current tax liabilities	471,426	471,426
Other liability	709,916	709,916
<b>Derivatives Financial Instruments</b>		
Financial assets:		
Financial assets measured at fair value through profit or loss	17,516	17,516
Financial liabilities:		
Financial liabilities measured at fair value through profit or loss	251,107	251,107

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

<b>Non-Derivatives Financial Instruments</b>	<b>June 30, 2016</b>	
	<b>Book value</b>	<b>maximum credit risk exposure</b>
Financial assets:		
Cash and cash equivalents	\$ 10,174,220	10,174,220
Receivables	5,621,222	5,621,222
Available-for-sale financial assets	1,033,572	1,033,572
Financial assets measured at cost	38,956,318	38,956,318
Debt instruments in non-active market	159,450	159,450
Investment in bonds without active markets	4,052,925	4,052,925
Reinsurance Contract Assets-reinsurance recoverable	1,301,935	1,301,935
Reinsurance Assets-due from other reinsurance	2,890,914	2,890,914
Other assets	1,955,828	1,955,828
Financial liabilities:		
Payables	9,428,498	9,428,498
Current tax liabilities	145,225	145,225
Other liability	705,729	705,729
<b>Derivatives Financial Instruments</b>		
Financial assets:		
Financial assets measured at fair value through profit or loss	103,304	103,304
Financial liabilities:		
Financial liabilities measured at fair value through profit or loss	2,686	2,686

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## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

## e) The Group's financial assets quality and impairment condition

For credit quality for neither past due nor impaired normal assets, the Group periodically follow credit rating information issued by credit rating agency, and based on the rating, classified as low risk, moderate risk and high risk as following table:

Financial assets	June 30, 2017			
	Low	Moderate	High	Total
Financial assets measured at fair value through profit or loss	\$ 27,370	30,969	-	58,339
Available-for-sale financial assets	9,211,249	8,178,520	-	17,389,769
Debt instruments is non-active market	3,890,365	1,329,319	-	5,219,684
<b>Total</b>	<b>\$ 13,128,984</b>	<b>9,538,808</b>	<b>-</b>	<b>22,667,792</b>

  

Financial assets	December 31, 2016			
	Low	Moderate	High	Total
Financial assets measured at fair value through profit or loss	\$ 16,947	569	-	17,516
Available-for-sale financial assets	8,813,782	9,332,634	-	18,146,416
Non active market bond investment	2,685,068	700,000	-	3,385,068
<b>Total</b>	<b>\$ 11,515,797</b>	<b>10,033,203</b>	<b>-</b>	<b>21,549,000</b>

  

Financial assets	June 30, 2016			
	Low	Moderate	High	Total
Financial assets measured at fair value through profit or loss	\$ 54,673	48,631	-	103,304
Available-for-sale financial assets	10,691,361	6,302,045	-	16,993,406
Debt instruments is non-active market	3,777,476	275,449	-	4,052,925
<b>Total</b>	<b>\$ 14,523,510</b>	<b>6,626,125</b>	<b>-</b>	<b>21,149,635</b>

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## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

The definition of each level is as follows:

- i) Low risk (A and above): Issuer or counterparty is having ability more than soundness to fulfill contractual commitments, even under variety of negative news or unfavorable economic conditions, they are having good financial condition which is good enough to cope with it.
  - ii) Moderate risk (BBB+ to B+): Issuer or counterparty's ability to fulfill contractual commitments is poor, variety of negative news or unfavorable economic conditions may weaken its financial condition. Triggering concerns of assets impairment or causing loss of the Company further.
  - iii) High risk (B and below): The possibility of issuer or counterparty to fulfill contractual commitments is poor and depends on operating environment, variety of negative news or unfavorable economic conditions will reduce its ability and willingness to fulfill obligations.
- f) Aging analysis of the Group overdue but not impaired financial assets: None
  - g) Impaired financial assets and allowance of losses of the Group

Impaired items represent the Group has been estimated impaired amount to variety financial assets in accordance to accounting principle. Under the principle of conservative estimate, the amount is able to reflect current value appropriately.

## (iii) Transfer of financial assets

Among the routine operational transactions the Group's financial assets that are not derecognized in their entirety are mostly loaned equity securities under securities lending agreement. In such transactions, the contractual rights to the cash flows from the assets has been transferred to other parties and the Group reflects the associated financial liabilities of repurchasing the equity securities loaned at fixed prices in future periods. Since the Group is not allowed to use, sell, or pledge the transferred financial assets during the effective period of the agreement, the financial assets are not derecognized in their entirety, but the Group still bears the risks of interest rates and credit loans. Financial assets that do not qualify for derecognized in their entirety are disclosed as follows:

Type of financial assets	December 31, 2016				
	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities	Fair value of the transferred financial assets	Fair value of relevant financial liabilities	Fair value net position
Available-for-sale financial assets					
Securities lending agreements	\$ 2,338	-	2,338	-	2,338

(Continued)

## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

Type of financial assets	June 30, 2016				
	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities	Fair value of the transferred financial assets	Fair value of relevant financial liabilities	Fair value net position
Available-for-sale financial assets					
Securities lending agreements	\$ 8,498	-	8,498	-	8,498

## (iv) Offsetting financial asset and financial liability

The Group has some offsetting condition not following the Standards, but has signed some commitments or similar protocol specification with counterparty. If it settles on a net basis, financial assets and financial liabilities can be offset to settle. If not, it settles on a total basis. But if anything against commitment occurs, another party of the transaction can choose to settle on a net basis. The details are as follows:

June 30, 2017						
Financial asset which available offset master netting arrangement or similar agreement standard						
	Total recognized financial assets (a)	Total recognized financial liability has offset in financial statement (b)	Net recognized financial assets (c)=(a) (b)	Not offset amount in financial statement (d)		Total (e)=(c) (d)
				Financial instruments	Collateralized cash	
Derivative financial instruments	\$ 58,339	-	58,339	58,339	-	-
June 30, 2017						
Financial liability which available offset master netting arrangement or similar agreement standard						
	Total recognized financial liability (a)	Total recognized financial asset has offset in financial statement (b)	Net recognized financial liability (c)=(a) (b)	Not offset amount in financial statement (d)		Total (e)=(c) (d)
				Financial instruments	Collateralized cash	
Derivative financial instruments	\$ 111,605	-	111,605	58,339	-	53,266
December 31, 2016						
Financial asset which available offset master netting arrangement or similar agreement standard						
	Total recognized financial assets (a)	Total recognized financial liability has offset in financial statement (b)	Net recognized financial assets (c)=(a) (b)	Not offset amount in financial statement (d)		Total (e)=(c) (d)
				Financial instruments	Collateralized cash	
Derivative financial instruments	\$ 17,516	-	17,516	17,516	-	-
Securities lending agreement	2,338	-	2,338	2,338	-	-
Total	\$ 19,854	-	19,854	19,854	-	-
December 31, 2016						
Financial liability which available offset master netting arrangement or similar agreement standard						
	Total recognized financial liability (a)	Total recognized financial asset has offset in financial statement (b)	Net recognized financial liability (c)=(a) (b)	Not offset amount in financial statement (d)		Total (e)=(c) (d)
				Financial instruments	Collateralized cash	
Derivative financial instruments	\$ 251,107	-	251,107	17,516	-	233,591

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

June 30, 2016						
	Financial asset which Available offset Master netting arrangement or similar Agreement standard		Net recognized financial assets (c)=(a) (b)	Not offset amount in financial statement (d)		Total (e)=(c) (d)
	Total recognized financial assets (a)	Total recognized financial liability has offset in financial statement (b)		Financial instruments	Collateralized cash	
	Derivative financial instruments	\$ 103,304		-	103,304	
Securities lending agreement	8,498	-	8,498	8,498	-	-
<b>Total</b>	<b>\$ 111,802</b>	<b>-</b>	<b>111,802</b>	<b>11,184</b>	<b>-</b>	<b>100,618</b>

  

June 30, 2016						
	Financial liability which Available offset Master netting arrangement or similar Agreement standard		Net recognized financial liability (c)=(a) (b)	Not offset amount in financial statement (d)		Total (e)=(c) (d)
	Total recognized financial liability (a)	Total recognized financial asset has offset in financial statement (b)		Financial instruments	Collateralized cash	
	Derivative financial instruments	\$ 2,686		-	2,686	

## (x) Capital Management

The target of capital management of the Group is ensuring the ability of going concern to realize the benefit of shareholders, protect the interests of the other stakeholders, and maintain an optimal capital structure to reduce the cost of funds

In order to maintain or adjust the structure of Capital, the Group may adjust the dividends paid to shareholders, deduct capital by returning cash to stockholders, issue new shares, or sell assets to pay the liabilities.

The Group control the capital based on the liabilities to capital ratio, calculated as the company's net liabilities divided by its total capital. Net liabilities include total liabilities minus cash and Cash and Cash equivalents. Total capital consists of the components of equity, such as Common stock, Capital surplus - additional paid-in capital, Retained earnings, Other equity, and Non-controlling interest, and Net liabilities.

As of June 30, 2017, the method of capital management of the Group remains the same.

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

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

<u>Types of structured entity</u>	<u>Characteristic and purpose</u>	<u>Equity owned by the Group</u>
Private equity fund	Invests in funds that cannot be traded in a public market	Invests in the fund units issued by the funds or limited partnership equity
Assets securitization products	Invests in assets securitization products of commercial real estate.	Asset-backed securities issued by the entity

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## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

- (ii) The carrying amount of the assets related to the structured entities recognized by the Group but not yet included in the consolidated financial statements on June 30, 2017, December 31 and June 30, 2016, is as follows:

<u>June 30, 2017</u>	<u>Private equity fund</u>	<u>Asset securitization products</u>
<b>Assets possessed by the Group</b>		
-Available for sale financial assets	\$ 158,187	1,955,736
-Debts investments in non-active market	-	308,454
Total assets possessed by the Group	<u>\$ 158,187</u>	<u>2,264,190</u>
<u>December 31, 2016</u>	<u>Private equity fund</u>	<u>Asset securitization products</u>
<b>Assets possessed by the Group</b>		
-Available for sale financial assets	\$ 159,838	2,258,897
-Debts investments in non-active market	-	370,488
Total assets possessed by the Group	<u>\$ 159,838</u>	<u>2,629,385</u>
<u>June 30, 2016</u>	<u>Private equity fund</u>	<u>Asset securitization products</u>
<b>Assets possessed by the Group</b>		
-Available for sale financial assets	\$ 160,535	2,333,017
-Debts investments in non-active market	-	424,024
Total assets possessed by the Group	<u>\$ 160,535</u>	<u>2,757,041</u>

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

- (iii) The Group did not provide any financial support for the private equity funds and the asset securitization products not included in the consolidated financial statements for the six months June 30, 2017 and 2016.

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## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (7) RELATED-PARTY TRANSACTIONS:

## (a) Names and relationship of related parties

Name of Related Party	Relationship with the Bank
Fubon Financial Holding Co., Ltd.	Parent company
Fubon Bank (Hong Kong) Limited	The same parent company
Taiwan Sports Lottery	The same parent company
Fubon Life Insurance Co., Ltd.	The same parent company
Taipei Fubon Commercial Bank Co., Ltd.	The same parent company
Fubon Securities Co., Ltd.	The same parent company
Fubon Direct Marketing Consulting Co., Ltd.	The same parent company
Fubon Financial Holding Venture Capital	The same parent company
Fubon Assets Management Co., Ltd.	The same parent company
Fubon Ellipse (Belgium) Limited	The investee recognized under Equity Method
Fubon Ellipse (Jersey) Limited	The investee recognized under Equity Method
Fubon Life Insurance (Vietnam) Co., Ltd.	The investee recognized under Equity Method
Carter Lane (Guernsey) Limited	The investee recognized under Equity Method
Bow Bells House (Jersey) Limited	The investee recognized under Equity Method
Fubon Life Insurance (Hong Kong) Co., Ltd.	The investee recognized under Equity Method
Fubon MTL Property(Jersey) Limited	The investee recognized under Equity Method
Fubon Equity Investment Ltd	The investee recognized under Equity Method
Fubon Bank (China) Co., Ltd.	The investee recognized under Equity Method
Fubon Securities Investment Trust Co., Ltd.	The investee recognized under Equity Method
Fubon Futures Co., Ltd.	The investee recognized under Equity Method
Fubon Securities Investment Consulting Co., Ltd	The investee recognized under Equity Method
Fubon Securities Venture Capital Co., Ltd.	The investee recognized under Equity Method
Fubon Securities (BVI) Ltd.	The investee recognized under Equity Method
Fubon Securities (HK) Ltd.	The investee recognized under Equity Method
Fusheng Life Insurance Agent Co., Ltd.	The investee recognized under Equity Method
Fusheng Insurance Agent Co., Ltd.	The investee recognized under Equity Method
Fubon Sports & Entertainment Co., Ltd.	The investee recognized under Equity Method
Fubon Credit (Hong Kong) Ltd.	The investee recognized under Equity Method
Fubon Securities (Hong Kong) Ltd.	The investee recognized under Equity Method
Fubon Investment Management Limited	The investee recognized under Equity Method

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**(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)****FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

<u>Name of Related Party</u>	<u>Relationship with the Bank</u>
Fubon Nominees (Hong Kong) Limited	The investee recognized under Equity Method
Fubon Insurance Brokers Limited	The investee recognized under Equity Method
Admiralty Finance Company Limited	The investee recognized under Equity Method
Aquarius (Nominees) Limited	The investee recognized under Equity Method
Fubon Convoy Asset Management (HK) Limited	The investee recognized under Equity Method
Shenzhen Teng Fu Bo Investment Limited	The associate of Fubon Insurance Cop under Equity method
Taipei Metro System	Affiliates
StemCyte International, Ltd	Affiliates
International Advisory Board of New York Philharmonic	Affiliates
Convoy Financial Service Ltd	Affiliates
CSL Securities Limited	Affiliates
Convoy Asset Management Limited	Affiliates
Convoy Financial Services Limited	Affiliates
Convoy Capital Hong Kong Limited	Affiliates
Convoy International Property Consulting company Limited	Affiliates
Convoy Global Holdings Limited	Affiliates
Taiwan Pelican Express Co., Ltd.	Affiliates
Stevenson School	Affiliates
Motor Vehicle Accident Compensation Fund	Affiliates
Taiwan Insurance institute	Affiliates
Fund of Fubon	Affiliates
The Non-Life underwriters Society of The Republic of china	Affiliates
Insurance Anti-Fraud Institute	Affiliates
The Nuclear Insurance Association of the R.O.C.	Affiliates
Taroko Development Co., Ltd.	Affiliates
Viewpoint Electronics Co., Ltd.	Affiliates
CR Classification Society	Affiliates
Synovel Sciences Inc.	Affiliates
Fubon Construction Co., Ltd.	Affiliates

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<u>Name of Related Party</u>	<u>Relationship with the Bank</u>
Fubon Property Management Co., Ltd.	Affiliates
Fubon Culture and Education Foundation	Affiliates
Fubon Art Foundation	Affiliates
Fubon Charity Foundation	Affiliates
Taipei Fubon Bank Charity Foundation	Affiliates
Taiwan Fixed Network Co., Ltd.	Affiliates
Taiwan High Speed Railway Co., Ltd.	Affiliates
Taiwan Mobile Co., Ltd.	Affiliates
TFN Media Co., Ltd.	Affiliates
Taiwan Customer Service Technology Co., Ltd.	Affiliates
Easycard corporation	Affiliates
WinTV Broadcasting Co., Ltd.	Affiliates
Ming Tung Investment Co., Ltd.	Affiliates
Chung Hsing Construction Co., Ltd.	Affiliates
Tao Yin Co., Ltd.	Affiliates
Taipei City Government	Affiliates
Taiwan Stock Exchange Corporation	Affiliates
Fubon Real Estate Management Co., Ltd.	Affiliates
Fubon Construction Co., Ltd.	Affiliates
Fubon Realty Inc.	Affiliates
Tai Shin Unites Digital Limited Company	Affiliates
Guo-Ji Investment Co., Ltd.	Affiliates
Da Fu Media Co., Ltd.	Affiliates
Youth Development Foundation	Affiliates
Taiwan Residential Earthquake Insurance Fund	Affiliates
Taiwan Futures Exchange	Affiliates
Taiwan Mobile Fundation	Affiliates
Tai Shin Unites Digital Limited Company	Affiliates
Fusheng Travel Agency Co., Ltd..	Affiliates
Taihsing Den Syun Co., Ltd. (TDS)	Affiliates
Safety and Health Technology Center	Affiliates
Century Development Corporation	Affiliates

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**Notes to Consolidated Financial Statements**

<u>Name of Related Party</u>	<u>Relationship with the Bank</u>
Taiwan Depository & Clearing Corporation.	Affiliates
Hon Fu Investment Co., Ltd.	Affiliates
Fubon Multimedia Technology Co., Ltd.	Affiliates
The Non-Life Insurance Association of the R.O.C.	Affiliates
TCCI Investment & Development Co., Ltd.	Affiliates
TFN Union Investment Co., Ltd.	Affiliates
Taiwan Financial Asset Service Corporation	Affiliates
Good Tv Broadcasting Corp.	Affiliates
The Alumni Foundation of Taipei Municipal Jianguo High School	Affiliates
Straits Exchange Foundation	Affiliates
Commerce Development Research Institute	Affiliates
Chi-Yun Insurance Foundation	Affiliates
Boyu Capital Investment Management Co., Limited	Affiliates
Wua Wei Venture Capital Co., Ltd.	Affiliates
Formosa Laboratories, Inc.	Affiliates
University of Southern California	Affiliates
Xiamen Bank	Affiliates
Founder Fubon Found Management Co.,Ltd.	Affiliates
Fubon Xing-Ji Investment Co., Ltd.	Affiliates
Kbro Media Co., Ltd.	Affiliates
NTU Law Foundation	Affiliates
Taiwan Academy of Banking and Finance	Affiliates
Taiwan Telecommunication Industry Development Association	Affiliates
Formosa Cancer Foundation	Affiliates
One Production Film Co., Ltd.	Affiliates
Ruji Investment Co., Ltd.	Affiliates
Top Taiwan Venture Capital Co.,Ltd.	Affiliates
Hua-Lu Venture Capital Co., Ltd.	Affiliates
StemCyte, Inc	Affiliates
Standard Chartered PLC	Affiliates

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

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<u>Name of Related Party</u>	<u>Relationship with the Bank</u>
Asia Business Council	Affiliates
Fuji Investment Co., Ltd.	Affiliates
Taiwan Digital Communications Co., Ltd.	Affiliates
The Bankers Association Of Taipei	Affiliates
The Bankers Association Of The Republic Of China	Affiliates
The Association of Friends' Police of the R.O.C	Affiliates
Gabriel Broadcasting Foundation.	Affiliates
Taiwan Bio-Development Foundation	Affiliates
CHO PHARMA INC.	Affiliates
Sunny Pharmtech	Affiliates
Taoyuan Metro Corporation.	Affiliates
Cross-Strait CEO Summit	Affiliates
Chien Kuo High School Alumni Association	Affiliates
Taipei New Horizon Co., Ltd.	Affiliates
Dao-Ji Industrial Co., Ltd.	Affiliates
Dao-Ji Investment Co., Ltd.	Affiliates
Chi Le Investment Co., Ltd.	Affiliates
Kbro Co.	Affiliates
Sheng Yen Education Foundation	Affiliates
Life Insurance Management Institute of the Republic of China	Affiliates
Social Enterprise Commitment Foundation	Affiliates
Bo-Han Investment Co., Ltd.	Affiliates
Han-Wen Investment Co., Ltd.	Affiliates
CDB Boyu(Shanghai) Investment Management	Affiliates
Vense Technologist Ltd.	Affiliates
Trend Education Foundation	Affiliates
Centre for Asian Philanthropy and Society Limited	Affiliates
Chinese Taipei Basketball Association	Affiliates
Taipei culture foundation	Affiliates

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

<u>Name of Related Party</u>	<u>Relationship with the Bank</u>
Town Health International Medical Group limited	Affiliates
China Insurance Service Society	Affiliates
Wharton Cultural and Educational Foundation	Affiliates
XiaMen Port Holding Group Co.	Affiliates
China Finance 40 Forum	Affiliates
Small & Medium Enterprise Credit Guarantee Fund of Taiwan	Affiliates
Fubon Hotel Management Consultants Limited	Affiliates
CITIC FUTONG FINANCIAL LEASING CO., LTD.	Affiliates
CITIC Capital Holdings Limited	Affiliates
Dah-der Hospice & Palliative care Foundation	Affiliates
DoDoPal Holdings Limited	Affiliates
3D Global Biotech Inc.	Affiliates
Detekt technology Inc.	Affiliates
Free Universe Education Foundation, Taipei	Affiliates
Sunny Pharma Holdings, Limited	Affiliates
Boyu Taoram (Shanghai) Equity Investment Management Co., Ltd.	Affiliates
Media Tek Inc.	Affiliates
Advance Tek Enterprise Comp.	Affiliates
AVLAB TECHNOLOGY INC.	Affiliates
FULL WANG INTERNATIONAL DEVELOPMENT CO., LTD.	Affiliates
FOREST WATER ENVIRONMENTAL ENG'G CO., LTD	Affiliates
Vense Limited.	Affiliates
Grosi Co., Ltd.	Affiliates
Carnegie Hall Corporation	Affiliates
Academic foundation for Zhang Xingian enterpriser	Affiliates
Citizen Corporation	Affiliates
ALLTEK TECHNOLOGY CORP.	Affiliates(Affiliate before the second quarter of 2017)

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

<u>Name of Related Party</u>	<u>Relationship with the Bank</u>
Alliance Digital Technology Co.	Affiliates(Affiliate before the second quarter of 2017)
NTV Law Alumni	Affiliates(Affiliate before the second quarter of 2017)
Allied Industrial Corp. Ltd.	Affiliates(Affiliate before the ended of 2016)
The Institute of Internal Auditor-Chinese Taiwan	Affiliates(Affiliate before the ended of 2016)
Sheng Yen Education foundation	Affiliates(Affiliate before the ended of 2016)
MasterCard Asia/Pacific Pte. Ltd.	Affiliates(Affiliate before the ended of 2016)
Pan-Yu Foundation	Affiliates(Affiliate before the second of quarter 2016)
Other related parties	Directors, supervisors, managers, chairman of the board, general manager and their close relatives, etc.

(b) Significant transactions with related parties are as follows:

(i) The details of insurance revenue were as follows:

1) Insurance revenue

<u>Names of related parties</u>	<u>For the three months ended June 30,</u>			
	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Taipei Fubon Commercial Bank Co., Ltd.	\$ 3,327	0.03	17,006	0.15
Fubon Life Insurance Co., Ltd.	62,541	0.48	64,594	0.58
Taiwan Mobile Co., Ltd.	162,062	1.24	73,755	0.66
Fubon Multimedia Technology Co., Ltd.	122	-	45	-
Taipei City Government	14,408	0.11	14,397	0.13
Taiwan Fixed Network Co., Ltd.	27,092	0.21	-	-
Taiwan Pelican Express Co., Ltd.	452	-	-	-
Others (accounts with balances of less than \$10,000 thousands)	17,857	0.14	9,956	0.09
	<u>\$ 287,861</u>		<u>179,753</u>	

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

<u>Names of related parties</u>	<u>For the six months ended June 30,</u>			
	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Taipei Fubon Commercial Bank Co., Ltd.	\$ 35,274	0.15	43,404	0.21
Fubon Life Insurance Co., Ltd.	68,036	0.30	64,594	0.31
Taiwan Mobile Co., Ltd.	281,010	1.22	124,290	0.59
Taiwan Fixed Network Co., Ltd.	27,241	0.12	140	-
Taipei City Government	17,806	0.08	36,289	0.17
Fubon Multimedia Technology Co., Ltd.	11,053	0.05	7,631	0.04
Taiwan Pelican Express Co., Ltd.	13,312	0.06	-	-
Others (accounts with balances of less than \$10,000 thousands)	38,592	0.17	24,808	0.15
	<u>\$ 492,324</u>		<u>301,156</u>	

## 2) Insurance revenue receivables

<u>Names of related parties</u>	<u>June 30, 2017</u>	
	<u>Amount</u>	<u>%</u>
Taipei Fubon Commercial Bank Co., Ltd.	\$ 9,669	0.23
Taiwan High Speed Railway Co., Ltd.	1,437	0.03
Fubon Life Insurance Co., Ltd.	61,201	1.43
Taiwan Mobile Co., Ltd.	49,229	1.15
Others (accounts with balances of less than \$10,000 thousands)	8,757	0.21
	<u>\$ 130,293</u>	

<u>Names of related parties</u>	<u>December 31, 2016</u>	
	<u>Amount</u>	<u>%</u>
Taipei Fubon Commercial Bank Co., Ltd.	\$ 21,427	0.67
Taiwan High Speed Railway Co., Ltd.	82,772	2.59
Fubon Life Insurance Co., Ltd.	11,518	0.36
Taiwan Mobile Co., Ltd.	61,322	1.92
Taipei New Horizon Co., Ltd.	17,096	0.53
Others (accounts with balances of less than \$10,000 thousands)	5,007	0.16
	<u>\$ 199,142</u>	

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## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

<u>Names of related parties</u>	<u>June 30, 2016</u>	
	<u>Amount</u>	<u>%</u>
Taipei Fubon Commercial Bank Co., Ltd.	\$ 18,582	0.46
Taiwan High Speed Railway Co., Ltd.	1,161	0.03
Fubon Life Insurance Co., Ltd.	58,003	1.44
Taiwan Mobile Co., Ltd.	29,215	0.73
Others (accounts with balances of less than \$10,000 thousands)	6,161	0.15
	<u>\$ 113,122</u>	

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

## (ii) Rental revenue

<u>Names of related parties</u>	<u>For the three months ended June 30,</u>			
	<u>2017</u>		<u>2016</u>	
	<u>Rental Revenue</u>	<u>%</u>	<u>Rental Revenue</u>	<u>%</u>
Taipei Fubon Commercial Bank Co., Ltd.	\$ 26,455	29.88	28,156	33.07
Fubon Life Insurance Co., Ltd.	21,068	23.79	20,413	23.54
Others (accounts with balances of less than \$10,000 thousands)	16,966	19.16	12,154	14.77
	<u>\$ 64,489</u>		<u>60,723</u>	

<u>Names of related parties</u>	<u>For the six months ended June 30,</u>			
	<u>2017</u>		<u>2016</u>	
	<u>Rental Revenue</u>	<u>%</u>	<u>Rental Revenue</u>	<u>%</u>
Taipei Fubon Commercial Bank Co., Ltd.	\$ 53,340	31.37	57,094	33.07
Fubon Life Insurance Co., Ltd.	41,339	24.32	40,637	23.54
Others (accounts with balances of less than \$10,000 thousands)	29,351	17.26	25,499	14.77
	<u>\$ 124,030</u>		<u>123,230</u>	

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## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

<b>June 30, 2017</b>		
<b>Names of related parties</b>	<b>Guarantee</b>	
	<b>Deposit Received</b>	<b>%</b>
Taipei Fubon Commercial Bank Co., Ltd.	\$ 17,595	24.61
Fubon Life Insurance Co., Ltd.	15,513	21.70
Others (accounts with balances of less than \$10,000 thousands)	14,948	20.91
	<b>\$ 48,056</b>	
<b>December 31, 2016</b>		
<b>Names of related parties</b>	<b>Guarantee</b>	
	<b>Deposit Received</b>	<b>%</b>
Taipei Fubon Commercial Bank Co., Ltd.	\$ 19,021	29.74
Fubon Life Insurance Co., Ltd.	13,893	21.72
Others (accounts with balances of less than \$10,000 thousands)	8,827	13.80
	<b>\$ 41,741</b>	
<b>June 30, 2016</b>		
<b>Names of related parties</b>	<b>Guarantee</b>	
	<b>Deposit Received</b>	<b>%</b>
Taipei Fubon Commercial Bank Co., Ltd.	\$ 19,405	29.85
Fubon Life Insurance Co., Ltd.	13,815	21.25
Others (accounts with balances of less than \$10,000 thousands)	8,320	12.80
	<b>\$ 41,540</b>	

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

(iii) Investments purchased from Fubon Securities Investment Trust Co., Ltd. were as follows:

<b>Names of funds</b>	<b>June 30, 2017</b>	<b>December 31, 2016</b>	
	<b>Amount</b>	<b>Amount</b>	<b>June 30, 2016</b>
Fubon Fund	\$ 64,800	56,520	69,750
Fubon China New Balanced Income	-	28,130	28,368
	<b>\$ 64,800</b>	<b>84,650</b>	<b>98,118</b>

(iv) Other accounts receivable (payable) and prepaid

1) Other accounts receivable and prepaid

	<b>June 30, 2017</b>		<b>December 31, 2016</b>		<b>June 30, 2016</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Others (accounts with balances of less than \$10,000 thousands)	\$ 3,169	0.52	12,015	1.69	18,657	2.54

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(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

## 2) Other accounts payable

	<u>June 30, 2017</u>		<u>December 31, 2016</u>		<u>June 30, 2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Fusheng Insurance Agent Co., Ltd.	\$ 142,783	5.67	182,100	6.67	5,482	0.27
Fubon Life Insurance Co., Ltd.	116,671	4.63	101,327	3.71	93,858	4.55
Fubon Marketing Co., Ltd.	-	-	-	-	13,304	0.64
Others (accounts with balances of less than \$10,000 thousands)	7,879	0.31	16,007	0.59	6,553	0.32
	<u>\$ 267,333</u>	<u>10.61</u>	<u>299,434</u>	<u>10.97</u>	<u>119,197</u>	<u>5.78</u>

## (v) Consolidated Tax Return System

Commencing from 2002, Fubon Financial Holding Company, the parent company of the Group, elected to be the tax payer itself. Tax payable and tax receivable are and current income tax asset, respectively liability recognized in current income tax liability.

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Current income tax liability	\$ <u>67,652</u>	<u>324,718</u>	<u>75,176</u>

## (vi) Deposits with related parties

<u>Names of related parties</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Taipei Fubon Commercial Bank Co., Ltd.	\$ <u>1,164,453</u>	<u>1,629,197</u>	<u>2,052,721</u>

## (vii) Commission expenses

<u>Names of related parties</u>	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Fusheng Insurance Agent Co., Ltd.	\$ 72,124	92,818	144,710	185,612
Taipei Fubon Commercial Bank Co., Ltd.	9,310	5,564	17,832	5,564
	<u>\$ 81,434</u>	<u>98,382</u>	<u>162,542</u>	<u>191,176</u>

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**(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)****FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

## (viii) Marketing expense

Names of related parties	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Fubon Direct Marketing Consulting Co., Ltd.	\$ 3,487	17,151	23,222	34,201
Fubon Life Insurance Co., Ltd.	111,638	90,434	217,274	174,059
Taipei Fubon Commercial Bank Co., Ltd.	84	4,850	86	10,006
Others (accounts with balances of less than \$10,000 thousands)	2,836	2,990	6,291	6,060
	<u>\$ 118,045</u>	<u>115,425</u>	<u>246,873</u>	<u>224,326</u>

## (ix) Details of the administrative service fee with related parties are as follows:

Names of related parties	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Fubon Real Estate Management Co., Ltd.	\$ <u>5,015</u>	<u>5,895</u>	<u>11,017</u>	<u>11,415</u>

## (x) Insurance expenses

Names of related parties	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Fubon Life Insurance Co., Ltd.	\$ 6,951	10,380	17,418	24,320
Others (accounts with balances of less than \$10,000 thousands)	-	-	-	92
	<u>\$ 6,951</u>	<u>10,380</u>	<u>17,418</u>	<u>24,412</u>

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

## (xi) Securities brokerage expenses

Names of related parties	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Fubon Life Insurance Co., Ltd.	\$ 18,606	18,107	39,566	33,805
Others (accounts with balances of less than \$10,000 thousands)	2,656	310	3,066	647
	<u>\$ 21,262</u>	<u>18,417</u>	<u>42,632</u>	<u>34,452</u>

## (xii) Other transactions with related parties (accounts with balances of less than \$10,000)

Names of related parties	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Interest revenues	\$ 3,280	3,407	5,385	6,098
Joint Marketing revenues	872	7,998	8,519	9,607
Guarantee deposits paid	211	1,204	2,816	2,605
Consulting service expenses	1,594	1,411	2,002	1,872
Training expenses	1,680	556	2,331	635
Joint IT equipment	338	99	338	551
Donation	7,676	4,111	7,776	4,231
Entertainment	103	49	161	114
Telecommunication expenses	4,515	5,912	8,646	10,427
Rent expenses	6,987	4,823	16,196	10,766
Government bonds	69	61	143	128
Securities lending revenues	-	139	19	222
Securities borrowing fee	-	-	-	1
Advertising expenses	4,650	413	5,272	467
Printing expenses	-	-	1,625	3
Membership expenses	30	-	689	30
Parking expenses	-	-	-	8
Other expenses	547	-	597	-
Marketing promotion expenses	28	-	55	-

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

Names of related parties	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Policy announcement expenses	-	-	523	-
Research and development expenses	-	-	360	-
Magazine expenses	-	-	3	-

## (c) Major management remuneration information

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Short term employee benefits	\$ 25,283	24,249	49,846	46,848
Retirement benefit	557	568	1,140	1,067
Other long term employee benefits	152	137	253	209
	<u>\$ 25,992</u>	<u>24,954</u>	<u>51,239</u>	<u>48,124</u>

**(8) PLEDGED ASSETS:**

(a) As of December 31, 2016 and 2015, the assets pledged or mortgaged were as follows:

Pledged Assets	Purpose of pledge	June 30, 2017	December 31, 2016	June 30, 2016
Time deposit	Guarantee for the insurance business	\$ 1,024,044	1,034,124	1,064,810
Government bond	Guarantee for the insurance business	467,856	467,023	466,183
Total		<u>\$ 1,491,900</u>	<u>1,501,147</u>	<u>1,530,993</u>

(b) Pursuant to the requirements of Articles No.141 and No.142 of the Insurance Law, government bonds with book value of \$467,856, \$467,023 and \$466,183 as of June 30, 2017, December 31 and June 30, 2016, respectively, were deposited with the Central Bank of the Republic China as guarantee for the insurance business.

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(9) COMMITMENTS AND CONTINGENCIES:**

(a) Due analysis of the Group's lease commitment

<b>Balance, June 30, 2017</b>	<b>within 1 year</b>	<b>1-5 years</b>	<b>over 5 years</b>	<b>total</b>
Lease Commitment				
Operating lease expense (lessee)	144,694	194,137	-	338,831
Operating lease revenue (lessor)	307,444	254,821	30,187	592,452

  

<b>Balance, December 31, 2016</b>	<b>within 1 year</b>	<b>1-5 years</b>	<b>over 5 years</b>	<b>total</b>
Lease Commitment				
Operating lease expense (lessee)	129,666	185,120	-	314,786
Operating lease revenue (lessor)	324,061	276,293	25,709	626,063

  

<b>Balance, June 30, 2016</b>	<b>within 1 year</b>	<b>1-5 years</b>	<b>over 5 years</b>	<b>total</b>
Lease Commitment				
Operating lease expense (lessee)	140,578	270,845	-	411,423
Operating lease revenue (lessor)	321,785	384,374	28,157	734,316

- (b) The Group had several insurance lawsuits and was required to pay indemnities of \$468,792, of which approximately \$386,680 were reinsured. The claim had been accrued. These cases have not been resolved with District Court of Appeal as of June 30, 2017.
- (c) The unfunded commitments for the Group's signed private equity agreements (Unit: thousand dollars):

	<b>June 30, 2017</b>	<b>December 31, 2016</b>	<b>June 30, 2016</b>
USD	\$ <u>1,131</u>	<u>888</u>	<u>830</u>
EUR	\$ <u>524</u>	<u>538</u>	<u>647</u>

Note: The unfunded commitments excluded unsettled trades.

**(10) SIGNIFICANT LOSSES DUE TO MAJOR DISASTERS:None**

**(11) SIGNIFICANT SUBSEQUENT EVENTS:**

FSC approved the acquisition of Fubon Holding Venture Capital Corp's right offering on August 8, 2017. The predetermined amount is \$791,860 thousand dollar. The equity ratio after acquisition is 10%. The subscription record date is August 31, 2017.

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**(12) OTHER:**

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

	For the three months ended June 30,					
	2017			2016		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personal expenses:						
Salaries	-	777,356	777,356	-	765,406	765,406
Insurance	-	63,373	63,373	-	56,380	56,380
Pension	-	44,137	44,137	-	35,644	35,644
Others	-	48,110	48,110	-	44,011	44,011
Depreciation	-	40,872	40,872	-	34,907	34,907
Depletion	-	-	-	-	-	-
Amortization	-	16,607	16,607	-	12,366	12,366

	For the six months ended June 30,					
	2017			2016		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personal expenses:						
Salaries	-	1,588,140	1,588,140	-	1,526,839	1,526,839
Insurance	-	140,473	140,473	-	134,289	134,289
Pension	-	94,146	94,146	-	75,297	75,297
Others	-	95,077	95,077	-	87,475	87,475
Depreciation	-	81,178	81,178	-	67,288	67,288
Depletion	-	-	-	-	-	-
Amortization	-	33,177	33,177	-	25,083	25,083

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## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

For the three months ended June 30, 2017

Item	Premium Revenue (1)	Reinsurance Premium (2)	Reinsurance Expense (3)	Reinsurance Premium ceded (1)+(2)-(3)=(4)	Net change in unearned premium reserve (5)	Net change in other liability reserve (6)	Retention of earned premium (7)=(4)-(5)-(6)	Notes
Non-Compulsory insurance:								
Residential fire insurance	\$ 73,003	-	154	72,849	7,253	-	65,596	
Long-term residential fire insurance	(509)	-	(8)	(501)	(28,708)	191	28,016	
Commercial fire insurance	726,445	6,840	344,963	388,322	201,058	-	187,264	
Long-term commercial fire insurance	(18)	-	-	(18)	(1,217)	34	1,165	
Inland cargo insurance	71,731	97	17,812	54,016	7,428	-	46,588	
Marine cargo insurance	215,182	552	111,482	104,252	(11,570)	-	115,822	
Marine hull insurance	61,290	47	48,451	12,886	3,589	-	9,297	
Fishing vessel insurance	29,504	2,671	17,218	14,957	8,378	-	6,579	
Aviation insurance	47,818	3,431	47,515	3,734	3,040	-	694	
Private passenger auto physical damage insurance	1,418,822	37,950	128,239	1,328,533	(43,197)	-	1,371,730	
Commercial auto physical damage insurance	68,735	794	3,126	66,403	21,670	-	44,733	
Private passenger auto insurance	1,434,162	29,093	74,231	1,389,024	72,401	-	1,316,623	
Commercial passenger auto insurance	397,167	5,160	3,427	398,900	23,685	-	375,215	
Personal liability insurance	709,511	(272)	246,443	462,796	1,326	-	461,470	
Professional liability insurance	97,629	52	57,780	39,901	(10,944)	-	50,845	
Engineering insurance	236,068	962	156,313	80,717	(19,834)	-	100,551	
Nuclear insurance	-	3,225	-	3,225	442	-	2,783	
Fidelity and surety insurance	35,724	152	18,719	17,157	2,665	-	14,492	
Credit insurance	66,607	-	67,046	(439)	(1,702)	-	1,263	
Other property insurance	34,078	29	23,251	10,856	695	-	10,161	
Accident insurance	1,237,002	5,114	18,005	1,224,111	88,816	-	1,135,295	
Commercial earthquake insurance	783,428	6,492	619,604	170,316	48,434	-	121,882	
Personal multiple insurance	202,174	12	3,051	199,135	14,808	-	184,327	
Commercial multiple insurance	7,462	-	1,574	5,888	1,126	-	4,762	
Typhoon and flood insurance	525,936	5,127	410,665	120,398	13,883	-	106,515	
Health insurance	162,177	-	1,567	160,610	38,486	-	122,124	
Foreign reinsurance	-	162,062	7,119	154,943	39,118	-	115,825	
Overseas subsidiaries	1,174,623	101,177	223,712	1,052,088	(35,208)	-	1,087,296	
Sub-total	9,815,751	370,767	2,651,459	7,535,059	445,921	225	7,088,913	
Compulsory third party liability insurance:								
Compulsory private passenger auto liability insurance	422,840	112,085	168,569	366,356	4,062	-	362,294	
Compulsory commercial auto liability insurance	151,469	21,782	81,761	91,490	1,874	-	89,616	
Compulsory motorcycle liability insurance	599,661	133,301	264,630	468,332	17,090	-	451,242	
Governmental earthquake insurance	125,980	14,286	123,788	16,478	2,068	-	14,410	
Sub-total	1,299,950	281,454	638,748	942,656	25,094	-	917,562	
Total	\$ 11,115,701	652,221	3,290,207	8,477,715	471,015	225	8,006,475	

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## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

For the three months ended June 30, 2016

Item	Premium Revenue (1)	Reinsurance Premium (2)	Reinsurance Expense (3)	Reinsurance Premium ceded (1)+(2)-(3)=(4)	Net change in unearned premium reserve (5)	Net change in other liability reserve (6)	Retention of earned premium (7)=(4)-(5)-(6)	Notes
Non-Compulsory insurance:								
Residential fire insurance	\$ 70,539	-	148	70,391	2,421	-	67,970	
Long-term residential fire insurance	(491)	-	(14)	(477)	(34,938)	552	33,909	
Commercial fire insurance	627,900	741	450,163	178,478	48,795	-	129,683	
Long-term commercial fire insurance	2	-	-	2	(1,770)	149	1,623	
Inland cargo insurance	65,152	98	4,388	60,862	12,129	-	48,733	
Marine cargo insurance	211,811	597	104,317	108,091	2,810	-	105,281	
Marine hull insurance	71,010	57	67,973	3,094	(5,182)	-	8,276	
Fishing vessel insurance	35,556	556	29,385	6,727	(4,699)	-	11,426	
Aviation insurance	51,500	8,965	58,625	1,840	(5,756)	-	7,596	
Private passenger auto physical damage insurance	1,458,521	39,360	145,176	1,352,705	86,130	-	1,266,575	
Commercial auto physical damage insurance	57,990	1,069	2,623	56,436	15,703	-	40,733	
Private passenger auto insurance	1,241,814	24,857	76,240	1,190,431	53,256	-	1,137,175	
Commercial passenger auto insurance	367,808	4,314	3,196	368,926	8,330	-	360,596	
Personal liability insurance	584,985	80	181,211	403,854	6,218	-	397,636	
Professional liability insurance	92,821	299	48,834	44,286	(3,175)	-	47,461	
Engineering insurance	215,843	611	96,397	120,057	21,905	-	98,152	
Nuclear insurance	-	2,457	-	2,457	(769)	-	3,226	
Fidelity and surety insurance	34,493	171	17,998	16,666	2,420	-	14,246	
Credit insurance	75,696	-	72,379	3,317	2,842	-	475	
Other property insurance	38,277	416	28,074	10,619	(704)	-	11,323	
Accident insurance	1,130,894	2,965	12,885	1,120,974	29,151	-	1,091,823	
Commercial earthquake insurance	711,781	4,449	551,958	164,272	95,940	-	68,332	
Personal multiple insurance	176,384	-	957	175,427	23,409	-	152,018	
Commercial multiple insurance	6,592	-	228	6,364	1,796	-	4,568	
Typhoon and flood insurance	500,674	2,867	387,749	115,792	53,250	-	62,542	
Health insurance	126,026	-	2,013	124,013	6,981	-	117,032	
Foreign reinsurance	-	324,416	134,929	189,487	49,539	-	139,948	
Overseas subsidiaries	1,211,029	119,174	165,833	1,164,370	155,897	-	1,008,473	
Sub-total	9,164,607	538,519	2,643,665	7,059,461	621,929	701	6,436,831	
Compulsory third party liability insurance:								
Compulsory private passenger auto liability insurance	398,786	110,617	158,620	350,783	5,302	-	345,481	
Compulsory commercial auto liability insurance	140,556	21,910	76,008	86,458	1,194	-	85,264	
Compulsory motorcycle liability insurance	509,370	130,839	223,169	417,040	8,268	-	408,772	
Governmental earthquake insurance	116,659	8,270	116,069	8,860	(229)	-	9,089	
Sub-total	1,165,371	271,636	573,866	863,141	14,535	-	848,606	
Total	\$ 10,329,978	810,155	3,217,531	7,922,602	636,464	701	7,285,437	

(Continued)

## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

For the six months ended June 30, 2017

Item	Premium Revenue (1)	Reinsurance Premium (2)	Reinsurance Expense (3)	Reinsurance Premium ceded (1)-(2)-(3)=(4)	Net change in unearned premium reserve (5)	Net change in other liability reserve (6)	Retention of earned premium (7)=(4)-(5)-(6)	Notes
Non-Compulsory insurance:								
Residential fire insurance	\$ 137,056	-	288	136,768	5,629	-	131,139	
Long-term residential fire insurance	(820)	-	(30)	(790)	(58,671)	305	57,576	
Commercial fire insurance	1,155,215	6,835	670,357	491,693	138,519	-	353,174	
Long-term commercial fire insurance	(22)	-	-	(22)	(2,536)	59	2,455	
Inland cargo insurance	136,156	251	32,373	104,034	3,905	-	100,129	
Marine cargo insurance	468,462	903	250,586	218,779	1,749	-	217,030	
Marine hull insurance	180,513	22	153,479	27,056	7,288	-	19,768	
Fishing vessel insurance	52,809	2,859	36,124	19,544	3,044	-	16,500	
Aviation insurance	49,556	3,431	47,981	5,006	2,331	-	2,675	
Private passenger auto physical damage insurance	2,991,428	74,289	297,753	2,767,964	26,777	-	2,741,187	
Commercial auto physical damage insurance	112,180	1,622	5,296	108,506	21,743	-	86,763	
Private passenger auto insurance	2,894,021	57,332	163,380	2,787,973	203,939	-	2,584,034	
Commercial passenger auto insurance	967,768	10,442	16,384	961,826	217,574	-	744,252	
Personal liability insurance	1,384,333	(260)	451,661	932,412	54,308	-	878,104	
Professional liability insurance	194,101	203	97,787	96,517	(2,625)	-	99,142	
Engineering insurance	532,073	1,061	318,870	214,264	10,544	-	203,720	
Nuclear insurance	-	4,176	-	4,176	(1,762)	-	5,938	
Fidelity and surety insurance	68,415	620	31,770	37,265	8,167	-	29,098	
Credit insurance	69,840	-	68,928	912	(3,431)	-	4,343	
Other property insurance	75,894	37	52,028	23,903	3,186	-	20,717	
Accident insurance	2,465,270	10,275	31,537	2,444,008	186,450	-	2,257,558	
Commercial earthquake insurance	1,303,857	6,492	922,096	388,253	94,884	-	293,369	
Personal multiple insurance	392,676	3	10,469	382,210	21,081	-	361,129	
Commercial multiple insurance	14,624	-	3,003	11,621	1,564	-	10,057	
Typhoon and flood insurance	835,368	5,291	568,359	272,300	17,318	-	254,982	
Health insurance	334,059	-	3,520	330,539	72,259	-	258,280	
Foreign reinsurance	-	360,400	91,585	268,815	23,277	-	245,538	
Overseas subsidiaries	2,334,281	207,918	465,200	2,076,999	(77,309)	-	2,154,308	
Sub-total	19,149,113	754,202	4,790,784	15,112,531	979,202	364	14,132,965	
Compulsory third party liability insurance:								
Compulsory private passenger auto liability insurance	861,389	222,801	344,301	739,889	8,239	-	731,650	
Compulsory commercial auto liability insurance	286,763	40,475	155,249	171,989	3,568	-	168,421	
Compulsory motorcycle liability insurance	1,126,154	237,236	496,655	866,735	37,810	-	828,925	
Governmental earthquake insurance	233,105	29,558	229,337	33,326	5,185	-	28,141	
Sub-total	2,507,411	530,070	1,225,542	1,811,939	54,802	-	1,757,137	
Total	\$ 21,656,524	1,284,272	6,016,326	16,924,470	1,034,004	364	15,890,102	

(Continued)

## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

For the six months ended June 30, 2016

Item	Premium Revenue (1)	Reinsurance Premium (2)	Reinsurance Expense (3)	Reinsurance Premium ceded (1)+(2)-(3)=(4)	Net change in unearned premium reserve (5)	Net change in other liability reserve (6)	Retention of earned premium (7)=(4)-(5)-(6)	Notes
Non-Compulsory insurance:								
Residential fire insurance	\$ 134,852	-	274	134,578	(2,438)	-	137,016	
Long-term residential fire insurance	(949)	-	(42)	(907)	(70,990)	646	69,437	
Commercial fire insurance	966,588	1,793	616,850	351,531	73,016	-	278,515	
Long-term commercial fire insurance	(25)	-	-	(25)	(3,710)	177	3,508	
Inland cargo insurance	125,068	282	13,277	112,073	15,453	-	96,620	
Marine cargo insurance	464,520	1,247	254,380	211,387	16,820	-	194,567	
Marine hull insurance	166,368	94	153,249	13,213	(9,129)	-	22,342	
Fishing vessel insurance	68,424	1,872	48,473	21,823	2,502	-	19,321	
Aviation insurance	67,628	12,627	68,285	11,970	(5,271)	-	17,241	
Private passenger auto physical damage insurance	2,895,333	74,513	286,790	2,683,056	110,844	-	2,572,212	
Commercial auto physical damage insurance	94,154	2,262	4,427	91,989	8,610	-	83,379	
Private passenger auto insurance	2,474,103	47,419	156,428	2,365,094	118,993	-	2,246,101	
Commercial passenger auto insurance	859,771	8,539	15,305	853,005	131,485	-	721,520	
Personal liability insurance	1,154,182	1,667	324,322	831,527	43,914	-	787,613	
Professional liability insurance	205,518	479	116,836	89,161	(7,746)	-	96,907	
Engineering insurance	485,997	638	256,211	230,424	30,293	-	200,131	
Nuclear insurance	-	5,343	-	5,343	(1,074)	-	6,417	
Fidelity and surety insurance	63,376	837	28,466	35,747	6,340	-	29,407	
Credit insurance	90,521	-	88,379	2,142	2,420	-	(278)	
Other property insurance	74,277	422	50,301	24,398	1,947	-	22,451	
Accident insurance	2,267,070	5,409	23,049	2,249,430	97,081	-	2,152,349	
Commercial earthquake insurance	987,934	5,562	840,560	152,936	(43,592)	-	196,528	
Personal multiple insurance	326,368	10	7,163	319,215	27,748	-	291,467	
Commercial multiple insurance	13,804	-	3,407	10,397	1,364	-	9,033	
Typhoon and flood insurance	684,507	3,707	602,081	86,133	(73,023)	-	159,156	
Health insurance	263,290	-	3,767	259,523	34,841	-	224,682	
Foreign reinsurance	-	638,722	270,050	368,672	104,215	-	264,457	
Overseas subsidiaries	2,431,572	203,299	361,412	2,273,459	283,615	-	1,989,844	
Sub-total	17,364,251	1,016,743	4,593,700	13,787,294	894,528	823	12,891,943	
Compulsory third party liability insurance:								
Compulsory private passenger auto liability insurance	812,830	219,581	324,593	707,818	20,309	-	687,509	
Compulsory commercial auto liability insurance	267,432	40,420	144,895	162,957	2,991	-	159,966	
Compulsory motorcycle liability insurance	963,075	223,831	422,055	764,851	17,536	-	747,315	
Governmental earthquake insurance	219,398	28,052	217,095	30,355	1,675	-	28,680	
Sub-total	2,262,735	511,884	1,108,638	1,665,981	42,511	-	1,623,470	
Total	\$ 19,626,986	1,528,627	5,702,338	15,453,275	937,039	823	14,515,413	

(Continued)

## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

For the three months ended June 30, 2017

Item	Claim (included related expenses) (1)	Claim recovered (2)	Reinsurance claim (3)	Reinsurance claim recovered (4)	Net provision for claim reserve (5)	Self-claim (6) = (1)-(2)+(3)-(4)+(5)	Notes
Non-Compulsory insurance:							
Residential fire insurance	\$ 13,484	-	-	-	(7,247)	6,237	
Long-term residential fire insurance	608	-	-	21	(841)	(254)	
Commercial fire insurance	566,733	27,944	12	313,501	26,694	251,994	
Long-term commercial fire insurance	-	-	-	-	(4)	(4)	
Inland cargo insurance	25,430	43	-	1,604	21,606	45,389	
Marine cargo insurance	103,805	20,845	(4,013)	55,262	60,294	83,979	
Marine hull insurance	19,863	-	-	16,852	10,642	13,653	
Fishing vessel insurance	12,805	11,593	2,086	(1,848)	(4,219)	927	
Aviation insurance	7,084	-	-	7,082	(1,690)	(1,688)	
Private passenger auto physical damage insurance	941,794	94,830	20,150	84,713	57,554	839,955	
Commercial auto physical damage insurance	29,233	1,429	723	1,209	10,770	38,088	
Private passenger auto insurance	918,799	202	16,958	51,333	(41,863)	842,359	
Commercial passenger auto insurance	238,751	852	3,436	3,313	(14,975)	223,047	
Personal liability insurance	265,786	5,260	158	66,659	29,994	224,019	
Professional liability insurance	18,534	-	-	7,637	(3,204)	7,693	
Engineering insurance	83,037	7	28,900	44,839	36,320	103,411	
Nuclear insurance	-	-	8	-	(100)	(92)	
Fidelity and surety insurance	1,166	133	86	(231)	6,764	8,114	
Credit insurance	760	3,078	-	378	376	(2,320)	
Other property insurance	2,043	24	-	(426)	1,355	3,800	
Accident insurance	488,869	92	206	797	(17,207)	470,979	
Commercial earthquake insurance	20,326	-	2,321	148,164	129,374	3,857	
Personal multiple insurance	23,397	-	3	1,486	1,924	23,838	
Commercial multiple insurance	407	600	-	8	873	672	
Typhoon and flood insurance	205,506	35	1,270	116,370	(113,533)	(23,162)	
Health insurance	34,443	50	-	19	2,969	37,343	
Foreign reinsurance	-	-	90,424	60,215	24,287	54,496	
Overseas subsidiaries	716,979	-	-	165,612	14,057	565,424	
Sub-total	4,739,642	167,017	162,728	1,144,569	230,970	3,821,754	
Compulsory third party liability insurance:							
Compulsory private passenger auto liability insurance	292,994	16,975	6,112	162,794	63,357	182,694	
Compulsory commercial auto liability insurance	146,433	10,882	(5,824)	80,261	6,288	55,754	
Compulsory motorcycle liability insurance	300,533	15,382	236,240	162,267	(91,663)	267,461	
Sub-total	739,960	43,239	236,528	405,322	(22,018)	505,909	
Total	\$ 5,479,602	210,256	399,256	1,549,891	208,952	4,327,663	

(Continued)

## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

For the three months ended June 30, 2016

Item	Claim (included related expenses) (1)	Claim recovered (2)	Reinsurance claim (3)	Reinsurance claim recovered (4)	Net provision for claim reserve (5)	Self-claim (6) = (1)-(2)+(3)-(4)+(5)	Notes
Non-Compulsory insurance:							
Residential fire insurance	\$ 5,153	-	-	-	(1,838)	3,315	
Long-term residential fire insurance	3,464	275	-	53	(1,990)	1,146	
Commercial fire insurance	265,161	257	-	154,603	(9,862)	100,439	
Long-term commercial fire insurance	-	-	-	-	(4)	(4)	
Inland cargo insurance	19,939	-	-	1,452	(2,133)	16,354	
Marine cargo insurance	105,972	17,344	35	47,184	24,408	65,887	
Marine hull insurance	23,797	-	5,010	24,447	(3,419)	941	
Fishing vessel insurance	6,281	-	40	4,524	(321)	1,476	
Aviation insurance	5,679	1,031	59	4,871	2,370	2,206	
Private passenger auto physical damage insurance	833,156	72,958	18,637	72,967	34,043	739,911	
Commercial auto physical damage insurance	21,936	1,908	561	834	8,456	28,211	
Private passenger auto insurance	790,827	356	17,205	34,172	68,840	842,344	
Commercial passenger auto insurance	241,053	314	2,900	2,652	(22,615)	218,372	
Personal liability insurance	256,804	2,269	73	32,508	(21,521)	200,579	
Professional liability insurance	38,590	-	-	22,633	8,837	24,794	
Engineering insurance	79,443	227	78	19,231	12,333	72,396	
Nuclear insurance	-	-	14	-	54	68	
Fidelity and surety insurance	7,290	90	145	2,614	1,646	6,377	
Credit insurance	43,690	11,336	-	31,303	(7,370)	(6,319)	
Other property insurance	14,686	20	45	10,793	5,604	9,522	
Accident insurance	476,728	736	462	599	(27,398)	448,457	
Commercial earthquake insurance	41,620	-	-	64,522	28,331	5,429	
Personal multiple insurance	16,245	2	7	1,142	7,640	22,748	
Commercial multiple insurance	1,592	-	-	5	(3,425)	(1,838)	
Typhoon and flood insurance	116,559	808	60	51,673	(103,101)	(38,963)	
Health insurance	38,971	2	-	70	189	39,088	
Foreign reinsurance	-	-	94,113	21,503	(118,019)	(45,409)	
Overseas subsidiaries	669,059	-	-	180,530	29,458	517,987	
Sub-total	4,123,695	109,933	139,444	786,885	(90,807)	3,275,514	
Compulsory third party liability insurance:							
Compulsory private passenger auto liability insurance	393,981	19,961	14,760	193,012	(2,150)	193,618	
Compulsory commercial auto liability insurance	171,020	8,028	(10,332)	90,247	(12,069)	50,344	
Compulsory motorcycle liability insurance	408,451	17,931	228,836	188,598	(16,186)	414,572	
Governmental earthquake insurance	-	-	7,752	-	(9,836)	(2,084)	
Sub-total	973,452	45,920	241,016	471,857	(40,241)	656,450	
Total	\$ 5,097,147	155,853	380,460	1,258,742	(131,048)	3,931,964	

(Continued)



## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

For the six months ended June 30, 2017

Item	Claim (included related expenses) (1)	Claim recovered (2)	Reinsurance claim (3)	Reinsurance claim recovered (4)	Net provision for claim reserve (5)	Self-claim (6) = (1)-(2)+(3)-(4)+(5)	Notes
Non-Compulsory insurance:							
Residential fire insurance	\$ 17,260	-	-	32	(7,021)	10,207	
Long-term residential fire insurance	2,375	-	-	40	(340)	1,995	
Commercial fire insurance	788,528	28,033	102	362,059	14,298	412,836	
Long-term commercial fire insurance	-	-	-	-	(16)	(16)	
Inland cargo insurance	48,307	563	-	2,388	32,664	78,020	
Marine cargo insurance	201,833	69,680	(3,782)	46,096	66,899	149,174	
Marine hull insurance	47,422	-	(12,215)	26,207	8,834	17,834	
Fishing vessel insurance	210,337	11,593	2,086	163,879	(30,930)	6,021	
Aviation insurance	24,490	-	-	24,397	(4,563)	(4,470)	
Private passenger auto physical damage insurance	1,856,293	181,144	39,756	158,818	94,222	1,650,309	
Commercial auto physical damage insurance	60,998	3,621	1,324	2,430	(9)	56,262	
Private passenger auto insurance	1,738,407	355	33,713	94,280	41,833	1,719,318	
Commercial passenger auto insurance	520,424	939	6,455	6,763	892	520,069	
Personal liability insurance	531,200	7,581	327	132,534	68,134	459,546	
Professional liability insurance	39,046	-	-	17,393	(18,212)	3,441	
Engineering insurance	200,804	97	28,909	80,828	(16,577)	132,211	
Nuclear insurance	-	-	8	-	(904)	(896)	
Fidelity and surety insurance	5,085	1,148	108	1,117	2,211	5,139	
Credit insurance	16,382	35,086	-	(560)	(1,872)	(20,016)	
Other property insurance	4,162	93	-	445	(8,788)	(5,164)	
Accident insurance	986,127	130	645	5,138	(54,509)	926,995	
Commercial earthquake insurance	1,393,506	-	3,321	1,296,273	19,915	120,469	
Personal multiple insurance	45,487	19	11	3,866	1,980	43,593	
Commercial multiple insurance	2,034	600	-	8	238	1,664	
Typhoon and flood insurance	250,541	35	1,272	130,977	(132,261)	(11,460)	
Health insurance	69,059	900	-	123	4,113	72,149	
Foreign reinsurance	-	-	196,009	112,255	28,374	112,128	
Overseas subsidiaries	<u>1,315,692</u>	<u>-</u>	<u>-</u>	<u>263,861</u>	<u>166,191</u>	<u>1,218,022</u>	
Sub-total	<u>10,375,799</u>	<u>341,617</u>	<u>298,049</u>	<u>2,931,647</u>	<u>274,796</u>	<u>7,675,380</u>	
Compulsory third party liability insurance:							
Compulsory private passenger auto liability insurance	553,367	34,683	107,039	294,232	23,604	355,095	
Compulsory commercial auto liability insurance	263,197	16,727	11,120	139,428	(3,609)	114,553	
Compulsory motorcycle liability insurance	592,374	36,851	296,131	308,463	20,348	563,539	
Governmental earthquake insurance	-	-	92	-	82	174	
Sub-total	<u>1,408,938</u>	<u>88,261</u>	<u>414,382</u>	<u>742,123</u>	<u>40,425</u>	<u>1,033,361</u>	
Total	<u>\$ 11,784,737</u>	<u>429,878</u>	<u>712,431</u>	<u>3,673,770</u>	<u>315,221</u>	<u>8,708,741</u>	

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## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

For the six months ended June 30, 2016

Item	Claim (included related expenses) (1)	Claim recovered (2)	Reinsurance claim (3)	Reinsurance claim recovered (4)	Net provision for claim reserve (5)	Self-claim (6) = (1)-(2)+(3)-(4)+(5)	Notes
Non-Compulsory insurance:							
Residential fire insurance	\$ 10,636	-	-	-	(1,413)	9,223	
Long-term residential fire insurance	4,074	275	-	62	292	4,029	
Commercial fire insurance	607,893	257	50	257,497	43,614	393,803	
Long-term commercial fire insurance	-	-	-	-	(55)	(55)	
Inland cargo insurance	43,397	60	-	4,029	(325)	38,983	
Marine cargo insurance	379,493	22,652	1,864	242,813	(10,489)	105,403	
Marine hull insurance	49,914	-	5,036	40,137	15,548	30,361	
Fishing vessel insurance	12,516	78,040	518	(59,198)	2,147	(3,661)	
Aviation insurance	10,307	1,031	63	6,760	5,244	7,823	
Private passenger auto physical damage insurance	1,623,542	148,722	36,661	145,305	139,441	1,505,617	
Commercial auto physical damage insurance	51,133	4,022	1,135	1,980	6,676	52,942	
Private passenger auto insurance	1,474,524	1,971	33,480	67,673	195,799	1,634,159	
Commercial passenger auto insurance	486,934	577	5,425	5,613	(2,105)	484,064	
Personal liability insurance	482,145	9,337	99	66,320	(66,591)	339,996	
Professional liability insurance	54,287	300	-	25,286	7,057	35,758	
Engineering insurance	151,677	427	240	49,808	7,260	108,942	
Nuclear insurance	-	-	623	-	359	982	
Fidelity and surety insurance	54,109	165	291	13,741	(42,085)	(1,591)	
Credit insurance	47,400	36,818	-	10,801	(1,000)	(1,219)	
Other property insurance	16,908	155	488	12,085	15,947	21,103	
Accident insurance	892,510	1,001	697	2,062	32,677	922,821	
Commercial earthquake insurance	195,434	-	-	181,608	351,101	364,927	
Personal multiple insurance	28,464	61	7	2,111	11,611	37,910	
Commercial multiple insurance	4,538	-	-	5	(10,248)	(5,715)	
Typhoon and flood insurance	188,566	863	66	93,508	(144,943)	(50,682)	
Health insurance	63,824	2	-	80	5,799	69,541	
Foreign reinsurance	-	-	286,101	44,511	(215,082)	26,508	
Overseas subsidiaries	1,209,635	-	-	248,181	124,264	1,085,718	
Sub-total	8,143,860	306,736	372,844	1,462,778	470,500	7,217,690	
Compulsory third party liability insurance:							
Compulsory private passenger auto liability insurance	632,516	29,014	63,800	285,945	51,959	433,316	
Compulsory commercial auto liability insurance	283,949	11,166	(863)	139,596	(15,287)	117,037	
Compulsory motorcycle liability insurance	693,349	34,605	255,982	296,209	6,472	624,989	
Governmental earthquake insurance	13,600	-	16,632	13,600	988	17,620	
Sub-total	1,623,414	74,785	335,551	735,350	44,132	1,192,962	
Total	\$ 9,767,274	381,521	708,395	2,198,128	514,632	8,410,652	

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(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(d) Disclosure of each dangerous unit's retention limit:

The details of each dangerous unit's retention limit were as follows:

(i) Fire insurance: \$1 billion.

(ii) Marine insurance:

1) Fishing vessels insurance: \$1 billion.

2) Marine physical damages insurance: \$1 billion.

3) Inventory insurance: \$1 billion.

(iii) New insurance:

1) Personal liability insurance: \$1 billion.

2) Professional liability insurance: \$1 billion.

3) Other property insurance: \$1 billion.

4) Fidelity and surety insurance: \$1 billion.

5) Accident insurance: \$1 billion.

6) Credit insurance: \$1 billion.

7) Commercial multiple: \$1 billion.

8) Personal multiple insurance: \$ 100 million

(iv) Engineer insurance:

1) Engineer insurance: \$1 billion.

2) Engineer bond insurance: \$1 billion.

3) Nuclear insurance: \$1 billion.

(v) Motor insurance:

1) Physical loss insurance: \$50 million.

2) Third party liability insurance (including twice the insured amount or tenfold of the insured amount): \$ 250 million

(Continued)

## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

## (e) Reserves accrued and recovered for compulsory motor and motorcycle insurance:

For the six months ended June 30, 2017

Type	Beginning	Provision	Recovered	Ending	Note
<b>Unearned premium reserve</b>					
Compulsory auto liability insurance	\$ 557,348	569,157	(557,349)	569,156	
Compulsory motorcycle liability insurance	780,174	817,983	(780,174)	817,983	
<b>Special reserve</b>					
Compulsory auto liability insurance	492,170	117,397	-	609,567	
Compulsory motorcycle liability insurance	778,258	-	(29,087)	749,171	
<b>Claim reserve</b>					
Compulsory auto liability insurance	971,523	991,517	(971,522)	991,518	
Compulsory motorcycle liability insurance	840,625	860,973	(840,625)	860,973	
<b>Total</b>	<b>\$ 4,420,098</b>	<b>3,357,027</b>	<b>(3,178,757)</b>	<b>4,598,368</b>	

For the six months ended June 30, 2016

Type	Beginning	Provision	Recovered	Ending	Note
<b>Unearned premium reserve</b>					
Compulsory auto liability insurance	\$ 515,078	538,378	(515,078)	538,378	
Compulsory motorcycle liability insurance	739,909	757,445	(739,909)	757,445	
<b>Special reserve</b>					
Compulsory auto liability insurance	605,444	16,431	(13,865)	608,010	
Compulsory motorcycle liability insurance	1,035,478	-	(131,602)	903,876	
<b>Claim reserve</b>					
Compulsory auto liability insurance	857,403	894,075	(857,403)	894,075	
Compulsory motorcycle liability insurance	813,283	819,755	(813,283)	819,755	
<b>Total</b>	<b>\$ 4,566,595</b>	<b>3,026,084</b>	<b>(3,071,140)</b>	<b>4,521,539</b>	

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(f) Financial assets and liabilities that have significant influence are listed below:

	<b>June 30, 2017</b>		
	<b>Amount</b>	<b>Rate</b>	<b>NT\$ Amount</b>
<b><u>Financial Assets</u></b>			
<b><u>Monetary Item</u></b>			
USD	\$ 533,853	30.4389	16,249,898
CNY	565,390	4.4867	2,536,735
HKD	4,526	3.8992	17,648
GBP	616	39.4937	24,328
JPY	106,022	0.2720	28,838
CHF	470	31.7329	14,914
EUR	760	34.6813	26,358
CAD	276	23.4451	6,471
AUD	128	23.3766	2,992
SGD	136	22.1030	3,006
DKK	715	4.6662	3,336
PHP	18,039	0.6029	10,876
SEK	173	3.5934	622
THB	34,154	0.8960	30,602
VND	473,269,403	0.0013	634,181
<b><u>Non-Monetary Item</u></b>			
USD	\$ 104,877	30.4389	3,192,341
HKD	230,426	3.8992	898,477
EUR	3,882	34.6813	134,633
CNY	688,935	4.4867	3,091,043
<b><u>Derivative Financial instrument</u></b>			
USD	1,917	30.4389	58,339
<b><u>Long-term equity investment under equity method</u></b>			
CNY	58,464	4.4867	262,311
<b><u>Financial Liabilities</u></b>			
<b>Derivative Financial Instrument</b>			
USD	3,667	30.4389	111,605

(Continued)

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

	<b>December 31, 2016</b>		
	<u>Amount</u>	<u>Rate</u>	<u>NT\$ Amount</u>
<b><u>Financial Assets</u></b>			
<b><u>Monetary Item</u></b>			
USD	\$ 481,134	32.2815	15,531,741
CNY	588,924	4.6399	2,732,550
HKD	11,042	4.1629	45,966
GBP	615	39.5994	24,339
JPY	137,627	0.2752	37,875
CHF	397	31.6038	12,550
EUR	761	33.9214	25,815
CAD	283	23.9229	6,769
AUD	183	23.3073	4,264
SGD	141	22.3111	3,147
DKK	687	4.5694	3,137
PHP	17,882	0.6517	11,654
VND	550,098,976	0.0014	770,139
THB	30,717	0.9010	27,676
<b><u>Non-Monetary Item</u></b>			
USD	\$ 119,696	32.2815	3,863,961
HKD	330,624	4.1629	1,376,354
EUR	3,541	33.9214	120,114
CNY	595,591	4.6399	2,763,484
<b><u>Derivative Financial Instrument</u></b>			
USD	543	32.2815	17,516
<b><u>Long-term equity investment under equity method</u></b>			
CNY	62,200	4.6399	288,602
<b><u>Financial Liabilities</u></b>			
<b><u>Derivative Financial Instrument</u></b>			
USD	7,779	32.2815	251,107

(Continued)

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

	<b>June 30, 2016</b>		
	<u>Amount</u>	<u>Rate</u>	<u>NT\$ Amount</u>
<b><u>Financial Assets</u></b>			
<b><u>Monetary Item</u></b>			
USD	\$ 493,326	32.2908	15,929,902
CNY	539,331	4.8419	2,611,385
HKD	7,953	4.1603	33,089
GBP	572	43.4919	24,893
JPY	48,005	0.3143	15,088
CHF	395	32.9541	13,021
EUR	573	35.8798	20,562
CAD	276	24.9174	6,884
AUD	162	24.0112	3,887
SGD	163	23.9103	3,889
DKK	621	4.8298	2,998
PHP	17,583	0.6858	12,059
VND	532,557,747	0.0014	745,581
THB	32,003	0.9181	29,382
<b><u>Non-Monetary Item</u></b>			
USD	\$ 102,344	32.2908	3,304,760
HKD	295,518	4.1603	1,229,442
EUR	3,068	35.8798	110,082
CNY	764,658	4.8419	3,702,397
<b><u>Derivative Financial Instrument</u></b>			
USD	3,199	32.2908	103,304
<b><u>Financial Liabilities</u></b>			
<b><u>Derivative Financial Instrument</u></b>			
USD	83	32.2908	2,686

(Continued)

## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

- (g) The Group is expected within 12 months of the balance sheet date or exceed the total amount paid or recovered after 12 months is as following:

Assets	June 30, 2017		
	Recovered within 12 months	Recovered after 12 months	Total
Cash and cash equivalents	\$ 9,363,510	-	9,363,510
Receivables	5,801,143	-	5,801,143
Financial assets measured at fair value through profit or loss	296,509	-	296,509
Available-for-sale financial assets	23,861,168	15,652,972	39,514,140
Financial assets measured at cost	-	158,330	158,330
Investment under equity method	-	262,311	262,311
Debts investment without active market	-	5,219,684	5,219,684
Other financial assets	107,092	295,941	403,033
Investment property	-	10,621,352	10,621,352
Reinsurance Assets	21,870,918	-	21,870,918
Premises and Equipment	-	3,194,058	3,194,058
Intangible assets	-	115,693	115,693
Deferred tax assets	39,638	641,131	680,769
Other assets	-	1,898,149	1,898,149
Total assets	<u>\$ 61,339,978</u>	<u>38,059,621</u>	<u>99,399,599</u>

Liability	June 30, 2017		
	Paid within 12 months	Paid after 12 months	Total
Accounts payables	\$ 10,489,945	-	10,489,945
Current income tax liabilities	14,866	-	14,866
Financial liabilities measured at fair value through profit or loss	111,605	-	111,605
Insurance liabilities	54,902,288	-	54,902,288
Deferred tax liabilities	-	1,252,736	1,252,736
Other liabilities	-	787,980	787,980
Reserve for liabilities	-	1,559,580	1,559,580
Total liabilities	<u>\$ 65,518,704</u>	<u>3,600,296</u>	<u>69,119,000</u>

(Continued)



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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

<b>Assets</b>	<b>December 31, 2016</b>		
	<b>Recovered within 12 months</b>	<b>Recovered after 12 months</b>	<b>Total</b>
Cash and cash equivalents	\$ 9,633,357	-	9,633,357
Receivables	4,719,612	-	4,719,612
Financial assets measured at fair value through profit or loss	319,645	-	319,645
Available-for-sale financial assets	23,133,338	17,411,464	40,544,802
Financial assets carried at cost	-	158,330	158,330
Investment under equity method	-	288,602	288,602
Debts investment without active market	-	3,385,068	3,385,068
Other financial assets	201,804	300,688	502,492
Investment property	-	10,067,697	10,067,697
Reinsurance assets	22,426,342	-	22,426,342
Premises and equipment	-	3,704,229	3,704,229
Intangible assets	-	134,180	134,180
Deferred tax assets	52,274	665,866	718,140
Other assets	-	1,867,447	1,867,447
<b>Total assets</b>	<b>\$ 60,486,372</b>	<b>37,983,571</b>	<b>98,469,943</b>

<b>Liability</b>	<b>December 31, 2016</b>		
	<b>Paid within 12 months</b>	<b>Paid after 12 months</b>	<b>Total</b>
Accounts payables	\$ 9,565,836	-	9,565,836
Current income tax liabilities	471,426	-	471,426
Financial liabilities measured at fair value through profit or loss	251,107	-	251,107
Insurance liabilities	54,309,591	-	54,309,591
Deferred tax liabilities	-	1,095,747	1,095,747
Other liabilities	-	709,916	709,916
Reserve for liabilities	-	1,708,738	1,708,738
<b>Total liabilities</b>	<b>\$ 64,597,960</b>	<b>3,514,401</b>	<b>68,112,361</b>

(Continued)

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

<u>Assets</u>	<b>June 30, 2016</b>		
	<b>Recovered within 12 months</b>	<b>Recovered after 12 months</b>	<b>Total</b>
Cash and cash equivalents	\$ 10,174,220	-	10,174,220
Receivables	5,621,222	-	5,621,222
Financial assets measured at fair value through profit or loss	1,136,876	-	1,136,876
Available-for-sale financial assets	22,466,637	16,489,681	38,956,318
Financial assets measured at cost	-	159,450	159,450
Debts investment without active market	387,352	3,665,573	4,052,925
Investment property	-	9,862,903	9,862,903
Reinsurance assets	21,641,537	-	21,641,537
Premises and Equipment	-	3,729,139	3,729,139
Intangible assets	-	76,938	76,938
Deferred tax assets	28,388	472,521	500,909
Other assets	-	1,955,828	1,955,828
<b>Total assets</b>	<b>\$ <u>61,456,232</u></b>	<b><u>36,412,033</u></b>	<b><u>97,868,265</u></b>

  

<u>Liability</u>	<b>June 30, 2016</b>		
	<b>Paid within 12 months</b>	<b>Paid after 12 months</b>	<b>Total</b>
Accounts payables	\$ 9,428,498	-	9,428,498
Current income tax liabilities	145,225	-	145,225
Financial liabilities measured at fair value through profit or loss	2,686	-	2,686
Insurance liabilities	54,299,130	-	54,299,130
Deffered tax liabilities	-	1,088,322	1,088,322
Other liabilities	-	705,729	705,729
Reserve for liabilities	-	1,465,449	1,465,449
<b>Total liabilities</b>	<b>\$ <u>63,875,539</u></b>	<b><u>3,259,500</u></b>	<b><u>67,135,039</u></b>

(Continued)

## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

## (h) Compulsory auto liability insurance

## (i) Compulsory auto liability insurance assets and liability

Item	June 30, 2017	June 30, 2016	Item	June 30, 2017	June 30, 2016
<u>Assets</u>			<u>Liabilities</u>		
Cash and cash in bank	\$ 3,508,014	3,287,089	Notes payables	\$ -	-
Cash equivalents	-	-	Claims payable	23,408	299,013
Premiums receivable	28,442	63,478	Due to reinsurance and ceding companies	514,960	457,685
Claims recoverable from reinsurance	408,112	469,492	Unearned premiums reserve	2,543,575	2,339,828
Due from reinsurers and ceding companies	165,998	163,863	Claims reserve	3,416,119	3,015,914
Available-for-sale financial assets	1,015,196	1,259,545	Temporary receipts and suspense	13,805	9,447
Unearned premiums reserve	1,156,436	1,044,005	Special reserve	1,358,738	1,511,886
Claims reserve ceded	1,563,628	1,302,084			
Temporary payment and suspense	24,779	44,217			
<b>Total Assets</b>	<b>\$ 7,870,605</b>	<b>7,633,773</b>	<b>Total Liabilities</b>	<b>\$ 7,870,605</b>	<b>7,633,773</b>

## (ii) Compulsory auto liability insurance revenues and cost

Item	For the six months ended June 30,	
	2017	2016
Operating revenues	\$ 1,121,497	1,046,306
Pure premium revenues	1,660,233	1,485,295
Reinsurance revenues	500,512	483,832
Premium revenues	2,160,745	1,969,127
Less : reinsurance expense	(996,205)	(891,543)
The net change of unearned premiums	(49,617)	(40,836)
Retained insurance revenues	1,114,923	1,036,748
Interest revenues	6,574	9,558
Operating cost	1,121,497	1,046,306
Claims	1,320,677	1,535,029
Reinsurance claims	414,290	318,919
Less : Claims recovered from reinsurance	(742,123)	(721,750)
Retained insurance claims payments	992,844	1,132,198
The net change of claims reserve	40,343	43,144
The net change of special reserve	88,310	(129,036)

(Continued)

**(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)****FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements**

- (i) When conducting business or transaction, joint business promotion as well as information and facilities sharing with Fubon Financial Holdings Co., Ltd and other associates, the method to split income, cost, expense and profit or loss is to directly attribute them to each counterparties based on the business characteristics.
- (j) The details of the market values of investments which were held for investment purpose by the discretionary investment trust fund: None.
- (k) Information regarding to discontinued operations: None.
- (l) Material revolutions of adjustments of organization and management policy: None.
- (m) Material influence because of the regulations changed: None.
- (n) The Loan because of paying large amount of claims: None.
- (o) Disclosure of catastrophe special reserve and equalization special reserve:

For the six months ended June 30, 2017 and 2016, the influence for not applying the notification on net income before tax, liabilities, and equity of the Company resulted in a decrease of \$0, a decrease of \$5,639,560, an increase of \$3,649,401, a decrease of \$322,169, a decrease of \$5,764,461, and an increase of \$4,189,489, respectively. For the six months ended June 30, 2017 and 2016, the influence on the Company for not applying the notification resulted in a decrease in the EPS by \$0.00 and \$0.84, respectively.

- (p) Disclosure of the special reserve for resident earthquake insurance:

For the six months ended June 30, 2017 and 2016, the influence on the Company for not applying the notification on net income before tax, liabilities, and equity of the Company resulted in a decrease of \$0, a decrease of \$382,237, an increase of \$317,257, a decrease of \$0, a decrease of \$382,237, and an increase of \$317,257. The influence on the Company for not applying the notification both resulted in a decrease in the EPS by \$0.00.

- (q) Disclosure of the special reserve for nuclear insurance:

For the six months ended June 30, 2017 and 2016, the influence on the Company for not applying the notification both resulted in a decrease of liability by \$84,092 and an increase of equity by \$69,797.

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## FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (13) OTHER DISCLOSURES:

## (a) Information on significant transactions:

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

- (i) Acquisition of property and equipment over \$100,000 or 20% of capital:None
- (ii) Disposal of property and equipment over \$100,000 or 20% of capital:None
- (iii) Sales and purchase with related party over \$100,000 or 20% of capital:None
- (iv) Account receivable with related party over \$100,000 or 20% of capital:None
- (v) Information on derivative transactions:Please refer to notes 6 (I)
- (vi) The significant influence on invested company:

For the six months ended June 30, 2017 and 2016

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	Fubon insurance Co., Ltd.	Fubon insurance (Vietnam) Co., Ltd	1	due from other reinsurance	14,824	The same as normal transaction	0.01 %
“	“	“	1	reinsurance revenue	19,147	“	0.11 %
“	“	“	1	reinsurance commissions	(4,117)	“	(0.02)%
“	“	“	1	Claim payment	(38)	“	- %
“	“	Fubon P&C Insurance Co., Ltd.	1	due from other reinsurance	246	“	- %
“	“	“	1	reinsurance revenue	49,380	“	0.27 %
“	“	“	1	reinsurance commissions	(12,400)	“	(0.07)%
“	“	“	1	claim payment	(36,631)	“	(0.20)%
“	Fubon insurance (Vietnam) Co., Ltd	Fubon insurance Co., Ltd.	2	due from other reinsurance	(14,824)	“	(0.01)%
“	“	“	2	reinsurance expense	(19,147)	“	(0.11)%
“	“	“	2	reinsurance commissions	4,117	“	0.02 %
“	“	“	2	claims recovered from reinsurers	38	“	- %
“	Fubon P&C Insurance Co., Ltd.	“	2	due from other reinsurance	(246)	“	- %
“	“	“	2	reinsurance expense	(49,380)	“	(0.27)%
“	“	“	2	reinsurance commissions	12,400	“	0.07 %
“	“	“	2	claims recovered from reinsurers	36,631	“	0.20 %

## (b) Information on investees:

(In Thousands of New Taiwan Dollars)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of June 30, 2017			Net income (losses) of investee	Share of profits/losses of investee	Note
				June 30, 2017	December 31, 2016	Shares (thousands)	Percentage of owner	Carrying value			
Fubon insurance Co., Ltd.	Fubon brokerage (Thailand) Co., Ltd	Thailand	brokerage	2,765	2,765	29,384	48.97 %	14,532	324	159	Write off under consolidated financial statements
Fubon insurance Co., Ltd.	Fubon insurance (Vietnam) Co., Ltd	Vietnam	insurance	841,606	841,606	-	100.00 %	609,311	(715)	(715)	-
Fubon insurance Co., Ltd.	Fubon P&C Insurance Co., Ltd.	Xiamen	insurance	1,938,874	1,938,874	-	40.00 %	434,076	(226,045)	(90,418)	-
Fubon insurance Co., Ltd.	Fubon insurance brokerage (Philippine) Co., Ltd.	Philippine	brokerage	14,260	14,260	199,994	99.99 %	10,487	(496)	(496)	-
Fubon insurance Co., Ltd.	Shenzhen Teng Fu Bo Investment Limited	Shenzhen	investment consultation	288,602	288,602	-	31.10 %	262,311	(53,659)	(16,688)	-

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**FUBON INSURANCE CO., LTD. AND ITS SUBSIDIARIES**  
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## (c) Information on investment in mainland China: None

- (i) The Company planned to invest CNY \$400 million (the Company and Fubon life insurance Co., Ltd. each funded CNY \$200 million) to set up Fubon Property and Casualty Insurance Co., Ltd. in Mainland China for insurance business. The investment project has been approved by the Financial Supervisory Commission, Executive Yuan, Jin Guan Bao San No.09602175710 on December 24, 2007. The investment project has been approved by the China Insurance Regulatory Commission, Bao Jin Guo Jian No. 1352 on December 24, 2009. The investment project has been adopted by the Investment Commission, Ministry of Economics Affairs on January 27, 2010, and approved by the Jing Shen Er No.09800482270 on February 3, 2010. The approved investment amount is CNY 250 million. On September 17 2010, the China Insurance Regulatory Commission approved to issue an insurance corporation permit based on Letter No. 1133. On September 10, 2012, the Group signed a joint investment contract with related parties, Fubon Property & Casualty Insurance Co., Ltd. and Xiamen Port Holding Group. Under this joint venture contract, Fubon Property & Casualty Insurance Co., Ltd. will increase its capital stock of up to 100 million, which will be acquired entirely by Xiamen Port Holding Group. This capital increase was approved by China Insurance Regulatory Commission on August 16, 2013. In addition, Fubon Property & Casualty Insurance Co., Ltd. conducted a capital increase in cash on September 23, 2014 and the Group invested capital in accordance with the proportion of the shares held originally. It is approved and registered by the Financial Supervisory Commission per Gin Guan Bao Chan No. 10402033852 letter on May 5, 2015. In addition, the Investment Commission, Ministry of Economic Affairs approved that the Company is allowed to invest another CNY 150,000,000 in Fubon Property & Casualty Insurance Co., Ltd. per Jing Shen (2) Zhi No. 10400105180 letter on July 28th, 2015, and the Company has remitted the investment amounted to CNY 120,000,000. This investment is approved and registered by the China Insurance Regulatory Commission approval letter No. 989. The Company adopted to join the subsidiaries' cash capital increased case through board resolution on July 3, 2017, but not yet approved by FSC. As of June 30, 2017, the authorized capital of Fubon Property & Casualty Insurance Co., Ltd. is amounted to CNY \$1,000,000,000, and the Company has invested accumulatively CNY \$400,000,000.

## 1) Information about investment in Mainland China:

(In Thousands of New Taiwan Dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of June 30, 2017	Net income (losses) of the investee	Percentage of ownership	Investment income (losses)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow						
Fubon Property Insurance Co., Ltd.	Property Insurance	4,679,289 (CNY1,000,000)	(a)	1,938,874	-	-	1,938,874	(226,045)	40.00%	(90,418)	434,076	-
Shenzhen Teng Fu Bo Investment Ltd.	Investment consultation	926,423 (CNY200,000)	(c)	-	-	-	-	(53,659)	12.44%	(6,675)	104,924	-

Note : Investment method is divided into four categories and is listed as follows:

- (a) Directly invest in a Chinese company.  
(b) Reinvest in the existing company in the third party and use the company to invest in a Chinese company.  
(c) Other methods.

## 2) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of June 30, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
1,938,874 (CNY 400,000)	1,938,874 (CNY 400,000)	17,768,606

Note: The limit of investment is \$11,845,737 according to article 13 of the Regulations Governing Foreign Investments by Insurance Companies.

## 3) Capital status and its profit and loss : No Significant investment:

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- 4) Amount and provision methods of reserves please refer to Note 6 (N)

	<b>June 30, 2017</b>	<b>December 31, 2016</b>	<b>June 30, 2016</b>
Unearned premium reserve	\$ 2,656,501	2,773,054	2,585,703
Claim reserve	1,512,318	1,624,064	1,310,437
Premium deficiency reserve	412,385	317,596	61,167
	<b>\$ 4,581,204</b>	<b>4,714,714</b>	<b>3,957,307</b>

- 5) Ratio accounted for the total premium revenue of the parent company : 11.57%
- 6) Ratio accounted for the total claim payment of the parent company: 11.97%
- 7) The pricing, payment condition, unrealized profit and loss of significant transactions with the investee in China:
- Amount, ratio and the ending balance of relevant receivables and payables of core business items such as the insurance policy which the policy holder is the investee: Please refer to Note 13(A).
  - Amount and profit and loss of property transaction : None.
  - The highest balance, ending balance, interest rate interval and current interest amount of financing: None.
  - Other significant transactions which would influence current profit and loss and other financial condition, such as the provision or receipt of labor service: None.
- 8) Reinsurance transaction with foreign insurance in Mainland China:

<b>Names of companies</b>	<b>Amount</b>
Samsung Insurance Co.,Ltd.	\$ (3,718)
Picc Property And Casualty Company Limited	31,769
China Pacific Insurance (Group) Co., Ltd.	(4,486)
China Reinsurance (Group)	(10,112)
China Property & Casualty Reinsurance Company Ltd.	988
China United Insurance Holding Company	36,078
Taiping Reinsurance Co., Ltd.	(23,459)
Sompo Japan Insurance	(5,756)
Mitsu Sumitomo insurance (China) Company Limited	(1,528)
Anbang Insurance Group	1,773
AXA, Taishan Property & Casualty Insurance Company Ltd.	(31,301)
General Reinsurance Company	(2,216)
Sunshine Insurance Group Corporation Limited	636
Hannover Reinsurance Company	(3,760)
Yanzhao Property Insurance Co., Ltd.	1,644
Qianhai Reinsurance Company Ltd.	(3,399)
Bank of China Insurance Company Limited	(817)
Lloyd's Insurance Company (China) Limited	(26,981)
Hannover Ruckversicherung AG Shanghai Branch	(54)
The People's Insurance Company for China (Hong Kong), Ltd.	(327)
Allianz China General Insurance Company Limited	(2,273)
Cathay Insurance	381
Chubb Insurance (China) Company Limited	(730)
Generali China Insurance Co., Ltd.	(254)
Nipponkoa Insurance (China) Co., Limited	(187)

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<u>Names of companies</u>	<u>Amount</u>
Hyundai Insurance (China) Company Limited	\$ (8,992)
LIG Insurance (China) Company Limited	48
Starr Property and Casualty(China) Co., Limited	(2,230)
Swiss Re Corporate Solutions Insurance China Ltd.	(22,326)
Swiss Reinsurance Company Beijing Branch	(631)
The Tokio Marine&Nichido Fire insurance Company (China) Limited	(2,602)
Liberty Mutua Insurance Company (China) Limited	(77)
MUNICH REINSURANCE COMPANY BEIJING BRANCH	(80)

- 9) Insurance transaction with people, company, or other organization in Mainland China: None.
- (ii) The Company, based on the decision of the board of directors, applied to Insurance Bureau of FSC for a permit to invest in stock shares in China and signed a joint contract with Fubon life insurance Co., Ltd. and Zijin Investment Group (originally named Nanking Zijin Investment Holdings Co., Ltd.) to set up a life insurance company in China. The joint venture company is named Fubon Zijin Life Insurance Company. Until the date of the report, it is already approved by Financial Supervisory Commission based on Letter Gin Guan Bao Li Zi No. 10002542061, dated January 14, 2011. In March, 2011, China Insurance Regulatory Commission disapproved the application of establishing Fubon Zijin Life Insurance. Therefore, Fubon Life Insurance terminated the joint venture agreement with Zijin Investment Group to establish Fubon Zijin Life Insurance on January 30th, 2016.
- (iii) Information on significant transactions of investment in Mainland China: None.

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**(14) Segment information:**

(a) General information

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

Other operating segments of the Group primarily conduct property insurance business and provide relevant products per the regulations of “Insurance Act”. The abovementioned segments did not reach the quantitative threshold of reportable segment for the six months ended June 30, 2017 and 2016.

(b) Segment information

	<b>For the three months ended June 30, 2017</b>			
	<b>Taiwan area</b>	<b>Other area</b>	<b>Adjustment and reversal</b>	<b>Totals</b>
Revenues				
Revenue by external customers	\$ 8,256,797	1,202,255	(7,692)	9,451,360
Revenue between segments	(30,871)	-	30,871	-
Total revenues	<u>\$ 8,225,926</u>	<u>1,202,255</u>	<u>23,179</u>	<u>9,451,360</u>
Segment income	<u>\$ 1,401,624</u>	<u>(77,809)</u>	<u>30,871</u>	<u>1,354,686</u>
	<b>For the three months ended June 30, 2016</b>			
	<b>Taiwan area</b>	<b>Other area</b>	<b>Adjustment and reversal</b>	<b>Totals</b>
Revenues				
Revenue by external customers	\$ 7,366,136	1,134,561	(3,136)	8,497,561
Revenue between segments	(48,529)	-	48,529	-
Total revenues	<u>\$ 7,317,607</u>	<u>1,134,561</u>	<u>45,393</u>	<u>8,497,561</u>
Segment income	<u>\$ 1,290,016</u>	<u>(119,246)</u>	<u>48,529</u>	<u>1,219,299</u>

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	<b>For the six months ended June 30, 2017</b>			
	<b>Taiwan area</b>	<b>Other area</b>	<b>Adjustment and reversal</b>	<b>Totals</b>
Revenues				
Revenue by external customers	\$ 15,731,910	2,388,970	(16,517)	18,104,363
Revenue between segments	(91,470)	-	91,470	-
Total revenues	<u>\$ 15,640,440</u>	<u>2,388,970</u>	<u>74,953</u>	<u>18,104,363</u>
Segment income	<u>\$ 2,164,679</u>	<u>(226,633)</u>	<u>91,470</u>	<u>2,029,516</u>
Segment total assets	<u>\$ 92,547,146</u>	<u>8,042,817</u>	<u>(1,190,364)</u>	<u>99,399,599</u>
Segment total liabilities	<u>\$ 62,932,803</u>	<u>6,308,155</u>	<u>(121,958)</u>	<u>69,119,000</u>
	<b>For the six months ended June 30, 2016</b>			
	<b>Taiwan area</b>	<b>Other area</b>	<b>Adjustment and reversal</b>	<b>Totals</b>
Revenues				
Revenue by external customers	\$ 14,285,893	2,295,163	(11,820)	16,569,236
Revenue between segments	(93,943)	-	93,943	-
Total revenues	<u>\$ 14,191,950</u>	<u>2,295,163</u>	<u>82,123</u>	<u>16,569,236</u>
Segment income	<u>\$ 1,914,122</u>	<u>(236,235)</u>	<u>93,943</u>	<u>1,771,830</u>
Segment total assets	<u>\$ 91,363,493</u>	<u>8,041,755</u>	<u>(1,536,983)</u>	<u>97,868,265</u>
Segment total liabilities	<u>\$ 61,821,271</u>	<u>5,387,208</u>	<u>(73,440)</u>	<u>67,135,039</u>

## (c) Important client information

The Group does not receive premium revenue from any single customer which exceeds 10% of the direct written premiums received and there is no need to disclose major customer information.