

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

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

Consolidated Interim Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

The auditors' report and the accompanying consolidated interim 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 interim financial statements, the Chinese version shall prevail.

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Independent Auditors' Report

To the Board of Directors
Fubon Securities Co., Ltd.:

Opinion

We have audited the consolidated interim financial statements of Fubon Securities 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, and the consolidated statements of comprehensive income for the three months and six months ended June 30, 2017, and 2016, as well as the consolidated statements of changes in equity and cash flows for the six months ended June 30, 2017 and 2016, and notes to the consolidated interim financial statements, including a summary of significant accounting policies.

In our opinion, accompanying the consolidated interim financial statements present fairly, in all material respects, the consolidated financial position of the Group as of June 30, 2017, December 31 and June 30, 2016, and its consolidated financial performance for the three months and six months ended June 30, 2017 and 2016, as well as its consolidated cash flows for the six months ended June 30, 2017 and 2016, in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Firms”, “Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants”, and with the International Accounting Standard 34, “Interim Financial Reporting” endorsed by the Financial Supervisory Commission of the Republic of China.

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 *Auditors' Responsibilities for the Audit of the Consolidated Interim 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 interim financial statements for the six months ended June 30, 2017. These matters were addressed in the context of our audit of the consolidated interim financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Fair value measurement of financial instruments

Please refer to Note 4 (g) “Financial instruments” and Note 4 (h) “Derivative financial instruments” for related accounting policy, Note 5 (a) for accounting assumptions and estimates, and Note 6 (ag) “Disclosure of financial instruments” for details of valuation on 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 on financial instruments has been identified as a key audit matter in our audit.

We performed our audit procedures by:

- Inspecting the internal control procedures for fair value measurement performed by the management.
- Selecting samples 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”.
- Verifying whether the presentation and disclosure of financial instruments are in accordance with the International Financial Reporting Standards.

2. Valuation of investment property

Please refer to Note 4 (n) “Investment property” for related accounting policy, Note 5 (b) for accounting assumptions and estimates, and Note 6 (m) “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 Reports by Securities Firms”. 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 matters in our audit.

We performed our audit procedures by:

- Inspecting the procedure of investment property appraisals performed by professional evaluation agencies is in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.
- Verifying whether the presentation and disclosure of investment property are in accordance with IFRSs and the “Regulations Governing the Preparation of Financial Reports by Securities Firms”.
- Evaluating the reasonableness of the management’s assessment on the valuation of investment property based on the evidences obtained from the audit team and the external estate appraiser joint firms, as well as appraisal reports and observable market evidences.

Other Matter

Fubon Securities Co., Ltd. has prepared its parent-company-only interim financial statements as of and for the six months ended June 30, 2017 and 2016, on which we have issued an unmodified opinion.

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

The management is responsible for the preparation and fair presentation of the consolidated interim financial statements in accordance with “the Regulations Governing the Preparation of Financial Reports by Securities Firms”, “Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants” and with the International Accounting Standard 34, “Interim Financial Reporting” endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as the management determines is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated interim financial statements, the 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 including supervisors are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Interim Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated interim financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 interim 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 interim 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 the management.
4. Conclude on the appropriateness of the 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 auditors' report to the related disclosures in the consolidated interim 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 auditors' 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 interim financial statements, including the disclosures, and whether the consolidated interim financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated interim 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 interim financial statements for the six months ended June 30, 2017 and are therefore the key audit matters. We describe these matters in our auditors' 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 Fang, Yen Ling and Chung, Tan Tan.

KPMG

Taipei, Taiwan (Republic of China)
August 23, 2017

Notes to Readers

The accompanying consolidated interim 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 interim financial statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying consolidated interim 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 interim financial statements, the Chinese version shall prevail.

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

Consolidated Balance Sheets

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

	June 30, 2017		December 31, 2016		June 30, 2016	
	Amount	%	Amount	%	Amount	%
Assets						
Current assets:						
111100 Cash and cash equivalents (note 6(a),(ah),(ak) and 7)	\$ 11,296,781	10	1,683,796	11	7,394,921	7
112000 Financial assets measured at fair value through profit or loss-current (note 6(b),(v),(ag),(ah),(ai) and 8)	37,680,971	32	33,185,736	33	31,169,282	31
113400 Available-for-sale financial assets - current (note 6(c),(ag),(ah),(ai) and 8)	10,517,801	9	9,927,433	10	11,897,589	12
114010 Securities purchased under resale agreements (note 6(d) and (ah))	883,218	1	645,311	1	197,179	-
114030 Receivables from pecuniary finance (note 6(e) and (ah))	12,576,912	11	11,142,121	11	11,107,824	12
114040 Margin deposits for securities refinance (note 6(e))	4,014	-	16,071	-	19,907	-
114050 Receivables from securities refinance (note 6(e))	3,345	-	13,463	-	17,037	-
114060 Receivables from securities borrowing and lending (note 6(f))	108,405	-	91,131	-	7,458	-
114070 Customer margin account (note 6(g) and (ah))	19,829,844	17	15,702,135	15	15,608,313	16
114090 Collateral for borrowed securities (note 6(h))	10,425	-	35,540	-	33,851	-
114100 Margin deposits for borrowed securities (note 6(h))	689,411	-	32,103	-	30,807	-
114130 Notes and accounts receivable (note 6(h) and (ah))	15,073,197	13	10,290,736	10	12,540,306	13
114140 Accounts receivable-related parties (note 6(h) and 7)	96,976	-	75,890	-	80,272	-
114150 Prepayments	50,861	-	47,182	-	29,325	-
114170 Other receivables	40,379	-	14,355	-	32,895	-
114180 Other receivable-related parties (note 7)	105,661	-	100,551	-	128,430	-
114600 Current tax assets (note 7)	29,058	-	47,744	-	154,042	-
119000 Other current assets (note 6(ah) and 8)	1,226,779	1	1,017,191	1	1,659,329	2
Total current assets	110,224,038	94	94,068,489	92	92,108,767	93
Non-current assets:						
123100 Financial assets carried at cost-non-current (note 6(i))	563,140	-	595,353	1	455,643	-
123400 Available-for-sale financial assets-non-current (note 6(j),(ag) and (ah))	788,185	1	756,112	1	747,512	1
124100 Investments accounted for using the equity method (note 6(k))	725,336	1	831,204	1	870,855	1
125000 Property, plant and equipment (note 6(l) and 8)	1,909,891	1	1,688,175	2	1,716,130	2
126000 Investment property (note 6(m),(ag) and 8)	855,560	1	1,072,629	1	1,075,010	1
127000 Intangible assets (note 6(n))	123,979	-	141,481	-	144,692	-
128000 Deferred tax assets	212,524	-	185,889	-	159,184	-
129000 Other non-current assets (note 6(o),(p),(q) and 8)	2,017,861	2	1,938,371	2	2,187,443	2
Total non-current assets	7,196,476	6	7,209,214	8	7,356,469	7
Total assets	\$ 117,420,514	100	101,277,703	100	99,465,236	100
Liabilities and Equity						
Current liabilities:						
121100 Short-term borrowings (note 6(r) and (ah))	\$ 329,840	-	2,500,000	3	-	-
121200 Commercial paper issued (note 6(s) and (ah))	8,398,704	7	-	-	3,949,411	4
121300 Financial liabilities measured at fair value through profit or loss-current (note 6(t),(v),(ag) and (ah))	5,322,170	5	3,848,441	4	3,803,640	4
121400 Securities sold under repurchase agreements (note 6(u),(ah) and 7)	25,355,520	22	21,231,598	21	21,525,563	21
121500 Securities financing refundable deposits (note 6(e) and (ah))	1,334,644	1	2,125,096	2	1,529,807	2
121600 Deposits payable for securities financing (note 6(e) and (ah))	1,533,149	1	2,342,335	2	1,678,345	2
121700 Securities lending refundable deposits (note 6(ah))	6,105,081	5	5,565,473	6	2,316,772	2
121800 Futures traders' equity (note 6(ah) and 7)	19,829,844	17	15,702,135	16	15,608,313	16
121900 Notes and accounts payable (note 6(v) and (ah))	12,201,583	11	11,546,865	11	11,923,253	11
122000 Notes and accounts payable-related parties (note 6(v),(ah) and 7)	757	-	14,290	-	13,386	-
122100 Other payables (note 6(x))	997,436	1	1,206,700	1	720,181	1
122200 Other payables-related parties (note 6(x) and 7)	50,011	-	32,801	-	30,907	-
122300 Current tax liabilities (note 7)	579,907	-	498,475	-	953,929	1
122400 Other current liabilities (note 6(y) and (ah))	1,405,882	1	979,341	1	1,657,752	2
Total current liabilities	83,444,528	71	67,593,550	67	65,711,259	66
Non-current liabilities:						
123000 Provisions-non-current (note 6(z))	972,203	1	993,274	1	1,003,096	1
123100 Deferred tax liabilities	92,391	-	101,801	-	80,336	-
123200 Other non-current liabilities	11,726	-	13,622	-	14,036	-
Total non-current liabilities	1,076,320	1	1,108,697	1	1,097,468	1
Total liabilities	84,520,848	72	68,702,247	68	66,808,727	67
Equity attributable to shareholders of the company (note 6(ac) and (ad)):						
124000 Capital stock	16,643,550	14	16,643,550	17	16,643,550	17
124100 Capital surplus	7,335	-	7,335	-	7,335	-
124200 Retained earnings:						
124210 Legal reserve	4,408,753	4	4,266,880	4	4,266,880	4
124220 Special reserve	9,392,934	8	9,091,670	9	9,091,670	9
124230 Unappropriated retained earnings	839,023	1	1,418,724	1	790,174	1
124240 Other equity interests	14,640,710	13	14,777,274	14	14,148,724	14
124250 Total equity attributable to shareholders of the company	1,444,225	1	1,147,297	1	1,856,900	2
124300 Non-controlling interests	32,735,820	28	32,575,456	32	32,656,509	33
124400 Total equity	163,846	-	-	-	-	-
124500 Total liabilities and equity	32,809,666	28	32,575,456	32	32,656,509	33
Total liabilities and equity	\$ 117,420,514	100	101,277,703	100	99,465,236	100

See accompanying notes to consolidated interim financial statements.

(English Translation of Consolidated Interim Financial Statements and Report Originally Issued in Chinese)
FUBON SECURITIES 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	%	
Revenue:									
401000	Brokerage handling fee revenue (note 6(af))	\$ 921,406	46	708,168	41	1,758,764	47	1,466,283	44
403000	Income from securities lending	123,757	6	34,294	2	253,415	7	64,995	5
404000	Revenue from underwriting business (note 6(af))	88,372	4	59,719	3	123,349	3	92,646	3
406000	Gains on wealth management	1,974	-	2,292	-	3,675	-	5,436	-
410000	Gains (losses) on sale of trading securities (note 6(af))	456,838	23	(117,770)	(7)	676,816	18	(143,652)	(4)
421100	Revenue from providing agency service for stock affairs	19,646	1	20,138	1	39,465	1	37,443	1
421200	Revenue from interest income (note 6(j) and (af))	290,389	14	275,539	16	572,899	15	525,191	16
421300	Revenue from dividend income	67,081	3	270,825	16	67,628	2	270,899	8
421500	Valuation gains on trading securities measured at fair value through profit or loss (note 6(af))	154,241	8	233,155	13	212,391	5	456,935	14
421600	Gains (losses) on covering of borrowed securities and securities with resale agreements—short sales	202	-	(24,659)	(1)	(4,912)	-	(1,896)	-
421610	Valuation gains (losses) on borrowed securities and securities with resale agreements— short sales measured at fair value through profit or loss	1,184	-	(3,524)	-	(2,590)	-	(23,232)	(1)
422200	Gains (losses) from issuance of call (put) warrants (note 6 (af))	(60,631)	(3)	79,963	5	(81,172)	(2)	155,298	5
424300	Revenue from consignment of clearing and settlement	4,384	-	10,255	1	9,117	-	20,451	1
424400	Losses from derivatives— futures (note 6(v))	(284,209)	(14)	(1,398)	-	(292,504)	(8)	(39,628)	(1)
424500	Gains (losses) from derivatives—OTC (note 6(v))	835	-	(66,518)	(4)	(56,385)	(1)	(82,260)	(2)
428000	Other operating income (note 6(af) and (ak))	254,093	12	243,091	14	479,070	13	531,582	14
	Total Revenue	2,039,562	100	1,723,570	100	3,759,026	100	3,336,491	100
Expenditure and expense:									
501000	Brokerage handling fee expense	69,873	3	53,148	3	128,744	3	110,443	3
502000	Proprietary handling fee expense	3,536	-	2,957	-	6,514	-	6,129	-
503000	Refinancing processing fee expense	361	-	643	-	832	-	1,216	-
504000	Underwriting operation processing fee expense	539	-	1,197	-	866	-	1,983	-
521200	Finance costs (note 6 (af))	42,305	2	31,788	2	82,412	2	66,667	2
524100	Futures commission expense	27,033	1	27,960	2	56,451	2	57,167	2
524300	Expense of clearing and settlement	17,217	1	20,458	1	31,948	1	41,757	1
528000	Other operating expenditure	5,992	-	3,387	-	9,866	-	7,674	-
531000	Employee benefits expense (note 6(aa),(ae),(af) and 12)	803,879	39	717,688	42	1,575,955	42	1,448,090	43
532000	Depreciation and amortization expense (note 6(af) and 12)	57,365	3	58,418	3	113,456	3	115,625	3
533000	Other operating expense (note 6(m) and (af))	599,963	29	520,001	30	1,105,443	29	961,891	29
	Total expenditure and expense	1,628,063	78	1,437,645	83	3,112,487	82	2,818,642	83
	Net operating income	411,499	22	285,925	17	646,539	18	517,849	17
Non operating income and expenses:									
601000	Share of profit of associates and joint ventures accounted for using equity method (note 6(k))	(57,915)	(3)	(4,953)	-	(57,931)	(2)	9,665	-
602000	Other gains and losses (note 6(m) and (af))	206,793	10	160,675	9	383,840	10	313,000	9
	Total non operating income and expenses	148,878	7	155,722	9	325,909	8	322,665	9
	Net income before tax from continuing operations	560,377	29	441,647	26	972,448	26	840,514	26
701000	Income tax expense (note 6(ab))	(68,212)	(3)	(9,658)	(1)	(135,060)	(4)	(50,340)	(2)
	Net income	492,165	26	431,989	25	837,388	22	790,174	24
805000	Other comprehensive income (losses):								
805600	Items that may be subsequently reclassified into profit or loss								
805610	Exchange differences on translation of foreign operations (note 6(ac))	25,071	1	(6,828)	-	(75,344)	(2)	(12,336)	-
805620	Unrealized gains (losses) on available-for-sale financial assets (note 6(ac))	148,771	7	524,982	30	375,277	10	1,148,422	34
805650	Share of other comprehensive income (losses) of associates and joint ventures accounted for using equity method (note 6 (ac))	(11,008)	(2)	(32,252)	(1)	(18,702)	-	(34,249)	(1)
805699	Income Tax— items that may be reclassified into profit or loss (note 6(ab) and (ac))	(1,373)	-	4,646	-	15,697	-	6,044	-
	Subtotal of items that may be subsequently reclassified into profit or loss	161,461	6	490,548	29	296,928	8	1,107,881	33
805000	Other comprehensive income (losses) for the period, net of income tax	161,461	6	490,548	29	296,928	8	1,107,881	33
	Total comprehensive income for the period	\$ 653,626	32	922,537	54	1,134,316	30	1,898,055	57
Consolidated net income attributable to:									
	Owners of parent	\$ 493,800	26	431,989	25	839,023	22	790,174	24
	Non-controlling interest	(1,635)	-	-	-	(1,635)	-	-	-
		\$ 492,165	26	431,989	25	837,388	22	790,174	24
Total comprehensive income attributable to:									
	Owners of parent	\$ 655,261	32	922,537	54	1,135,951	30	1,898,055	57
	Non-controlling interest	(1,635)	-	-	-	(1,635)	-	-	-
		\$ 653,626	32	922,537	54	1,134,316	30	1,898,055	57
	Basic earnings per share (in New Taiwan Dollars) (note 6(ad))	\$ 0.30		0.25		0.50		0.47	
	Diluted earnings per share (in New Taiwan Dollars) (note 6(ad))	\$ 0.30		0.25		0.50		0.47	

See accompanying notes to consolidated interim financial statements.

(English Translation of Consolidated Interim Financial Statements and Report Originally Issued in Chinese)
FUBON SECURITIES 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											
	Retained earnings			Exchange differences on translation of foreign operations		Unrealized gains (losses) on available-for-sale financial assets		Revaluation reserve		Other equity interests		
	Legal reserve	Special reserve	Unappropriated retained earnings	Total					Total	Non-controlling interests	Total	
Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total							
\$ 16,643,550	7,335	4,132,045	8,799,386	1,244,542	14,175,973	(10,306)	752,789	6,536	749,019	31,575,877	-	31,575,877
-	-	-	22,614	(22,614)	-	-	-	-	-	-	-	-
-	-	-	-	790,174	790,174	-	-	-	-	790,174	-	790,174
-	-	-	-	-	-	(18,980)	1,126,861	-	1,107,881	1,107,881	-	1,107,881
-	-	-	-	790,174	790,174	(18,980)	1,126,861	-	1,107,881	1,898,055	-	1,898,055
-	-	134,835	-	(134,835)	-	-	-	-	-	-	-	-
-	-	-	269,670	(269,670)	-	-	-	-	-	-	-	-
-	-	-	-	(817,423)	(817,423)	-	-	-	-	(817,423)	-	(817,423)
\$ 16,643,550	7,335	4,266,880	9,091,670	790,174	14,148,724	(29,286)	1,879,650	6,536	1,856,900	32,656,509	-	32,656,509
\$ 16,643,550	7,335	4,266,880	9,091,670	1,418,724	14,777,274	(47,378)	1,188,139	6,536	1,147,297	32,575,456	-	32,575,456
-	-	-	(7,054)	7,054	-	-	-	-	-	-	-	-
-	-	-	839,023	839,023	839,023	-	-	-	-	839,023	(1,635)	837,388
-	-	-	-	(59,647)	(59,647)	356,575	-	-	296,928	296,928	-	296,928
-	-	-	-	(59,647)	(59,647)	356,575	-	-	296,928	1,135,951	(1,635)	1,134,316
-	-	141,873	-	(141,873)	-	-	-	-	-	-	-	-
-	-	-	308,318	(308,318)	-	-	-	-	-	-	-	-
-	-	-	-	(975,587)	(975,587)	-	-	-	-	(975,587)	-	(975,587)
-	-	-	-	-	-	-	-	-	-	165,481	-	165,481
\$ 16,643,550	7,335	4,408,753	9,392,934	839,023	14,640,710	(107,025)	1,544,714	6,536	1,444,225	32,735,820	163,846	32,899,666

Balance at January 1, 2016

Reversal of special reserve in accordance with Rule No. 103.0008251 issued by the FSC (note 6(ac))

Net income for the period

Other comprehensive income (losses) for the period (note 6(ac))

Total comprehensive income (losses) for the period

Appropriation of retained earnings (note 6(ac)):

Legal reserve

Special reserve

Cash dividend

Balance at June 30, 2016

Balance at January 1, 2017

Reversal of special reserve in accordance with Rule No. 103.0008251 issued by the FSC (note 6(ac))

Net income for the period

Other comprehensive income (losses) for the period (note 6(ac))

Total comprehensive income (losses) for the period

Appropriation of retained earnings (note 6(ac)):

Legal reserve

Special reserve

Cash dividend

Changes in non-controlling interests (note 6(ac))

Balance at June 30, 2017

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

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

	For the six months ended June 30	
	2017	2016
Cash flows generated from (used in) operating activities:		
Income before income tax for the period	\$ 972,448	840,514
Adjustments:		
Income and expense items with no effect on cash flows		
Depreciation expenses	71,918	76,366
Amortization expenses	41,538	39,255
Provision of (reversal of) bad debts expense	(261)	337
Net gain on financial assets or liabilities measured at fair value through profit or loss	(211,207)	(435,120)
Interest expense	82,412	66,667
Interest income (including financial income)	(684,597)	(594,485)
Dividend income	(77,827)	(278,919)
Share of profit (losses) of associates and joint ventures accounted for using the equity method	57,931	(9,665)
Losses on disposal of property, plant and equipment	817	267
Losses on disposal of investments	187,738	9,586
Gains on non-operating financial instruments measured at fair value, net	(912)	(1,272)
Impairment loss on financial assets	2,378	-
Gains on fair value adjustment of investment property	(11,802)	-
Subtotal of income and expense items with no effect on cash flows	<u>(541,874)</u>	<u>(1,126,983)</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Increase in financial assets measured at fair value through profit or loss	(4,274,483)	(4,272,571)
Increase in securities purchased under resale agreements	(237,907)	(197,179)
Decrease (increase) in receivables from pecuniary finance	(1,434,791)	841,959
Decrease in margin deposits for securities refinance	12,057	9,026
Decrease in receivables from securities refinance	10,118	10,824
Increase in receivable from securities borrowing and lending	(17,274)	(3,989)
Increase in customer margin account	(4,127,709)	(2,269,119)
Decrease in collateral for borrowed securities	25,115	56,412
Decrease (increase) in margin deposits for borrowed securities	(657,308)	66,457
Decrease (increase) in notes receivable	(151)	295
Increase in accounts receivable	(4,803,236)	(5,825,666)
Decrease (increase) in accounts receivable – related parties	(21,086)	8,684
Decrease in other prepayments	16,321	8,580
Increase in other receivable	(17,482)	(6,720)
Increase in other receivable – related parties	(231)	(57,161)
Decrease (increase) in other current assets	(197,088)	1,257,917
Decrease (increase) in overdue receivable	438	(231)
Subtotal of change in operating assets	<u>(15,724,697)</u>	<u>(10,372,482)</u>
Changes in operating liabilities:		
Increase in securities sold under repurchased agreements	4,123,922	5,110,293
Increase (decrease) in financial liabilities measured at fair value through profit or loss	1,465,670	(259,009)
Decrease in securities financing refundable deposits	(790,452)	(1,199,507)
Decrease in deposits payable for securities financing	(809,186)	(1,162,578)
Increase in securities lending refundable deposit	539,608	316,912
Increase in futures traders' equity	4,127,709	2,269,119
Increase in notes payable	9	-
Increase in notes payable – related parties	509	-
Increase in accounts payable	655,216	6,485,627
Decrease in accounts payable – related parties	(14,042)	(3,002)
Decrease in other payables	(210,813)	(337,484)
Increase (decrease) in other payables – related parties	17,126	(4,250)
Decrease in provisions	(21,071)	(14,783)
Increase (decrease) in other current liabilities	426,541	(1,206,580)
Increase in deposit-in	-	16
Subtotal of change in operating liabilities	<u>9,510,746</u>	<u>9,994,774</u>
Subtotal of change in operating assets and liabilities	<u>(6,213,951)</u>	<u>(377,708)</u>
Subtotal of all adjustments	<u>(6,755,825)</u>	<u>(1,504,691)</u>
Cash provided by operating activities	<u>(5,783,377)</u>	<u>(664,177)</u>
Cash received from interest income	699,048	569,900
Cash received from dividends	77,827	278,919
Cash paid for interest	(82,002)	(67,460)
Cash paid for income tax	(55,290)	(112,691)
Net cash provided by (used in) operating activities	<u>(5,143,794)</u>	<u>4,491</u>

See accompanying notes to consolidated interim financial statements.

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

	For the six months ended June 30	
	2017	2016
Cash flows generated from (used in) investing activities:		
Acquisition of available-for-sale financial assets	\$ (3,353,603)	(3,498,188)
Proceeds from disposal of available-for-sale financial assets	2,918,100	356,800
Acquisition of financial assets carried at cost	(1,590)	(9,825)
Proceeds from capital reduction of financial assets carried at cost	2,174	6,006
Acquisition of investment accounted for using the equity method	-	(329,004)
Increase in prepayments for investments	(20,000)	-
Acquisition of property and equipment	(66,955)	(45,616)
Decrease (increase) in operation deposits	50,000	(10,000)
Decrease in settlement deposits and clearing funds	5,989	44,684
Increase in refundable deposits	(155,263)	(287,529)
Acquisition of intangible assets	(21,031)	(30,492)
Decrease in other non-current assets	5,910	10,536
Decrease (increase) in prepayments for business facilities	(754)	22,478
Cash received from dividends	15,338	17,441
Net cash used in investing activities	<u>(621,685)</u>	<u>(3,752,709)</u>
Cash flows generated from (used in) financing activities:		
Decrease in short-term borrowings	(2,170,160)	-
Increase in commercial paper payable	8,398,704	3,949,411
Decrease in other non-current liabilities	(1,896)	(592)
Cash paid for dividends	(975,587)	(817,423)
Change in non-controlling interests	165,481	-
Net cash provided by financing activities	<u>5,416,542</u>	<u>3,131,396</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(38,078)</u>	<u>(12,078)</u>
Net increase in cash and cash equivalents	<u>(387,015)</u>	<u>(628,900)</u>
Cash and cash equivalents at the beginning of period	<u>11,683,796</u>	<u>8,023,821</u>
Cash and cash equivalents at the end of period	<u>\$ 11,296,781</u>	<u>7,394,921</u>

See accompanying notes to consolidated interim financial statements.

(English Translation of Consolidated Interim Financial Statements and Report Originally Issued in Chinese)
FUBON SECURITIES 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) Organization

FUBON SECURITIES CO., LTD. (the Company) was incorporated on July 11, 1988, as a company limited by shares and with an integrated securities firm license. The Company's operations include securities underwriting, dealing, brokerage, pecuniary, securities financing and refinancing, securities transfer services, dealing brokerage services related to futures, foreign securities brokerage, securities borrowing and lending service, trust operations, offshore securities unit operations, securities investment consulting operations and other operations approved by the authorities.

On September 9, 2000, the Company merged with Universal Securities Co., Ltd.; Chung Zu Securities Co., Ltd; King Sheng Securities Co., Ltd; Wa Hsing Securities Co., Ltd; Shih Lin Securities Co., Ltd; and Happy Securities Co., Ltd. The continuing company is Fubon Securities Co., Ltd. The exchange ratios of stock of the abovementioned merged companies were 1.43 shares, 1.39 shares, 1.32 shares, 0.90 share, 0.92 share and 1.17 shares, respectively, for 1 share of the Company.

Following the enactment of the Financial Holding Company Act in Taiwan, Fubon Financial Holding Co., Ltd. ("Fubon Financial") was established on December 19, 2001, as the holding entity of four financial services companies, including Fubon Securities Co., Ltd., under the Fubon brand name. Shares of Fubon Securities Co., Ltd., Fubon Commercial Bank Co., Ltd. ("Fubon Bank"), Fubon Life Insurance Co., Ltd. ("Fubon Life Insurance"), and Fubon Insurance Co., Ltd. ("Fubon Insurance") were exchanged for shares in Fubon Financial at the following exchange ratios:

	<u>Exchange ratio per Fubon Financial share</u>
Fubon Securities Co., Ltd.	1.5078
Fubon Bank	1.7053
Fubon Life Insurance	0.7556
Fubon Insurance	1

The Company's parent and ultimate parent is Fubon Financial Holding Co., Ltd. The registered address of the Company is 2F. and 15F., No.169 Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.). As of June 30, 2017, there were 48 branches (including head office) established for operating.

(2) Approval date and procedures of the consolidated interim financial statements

On August 23, 2017, the consolidated interim financial statements were presented to the board of directors and authorized for issuance afterward.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(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
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 do not have any material impact on the 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

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on the 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 Group has yet to revise their accounting processes and internal control related to reporting financial instruments.

1) Classification-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 available for sale, measured at cost and held to maturity. 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 reliably. 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 financial assets in accordance with IFRS 9. However, the Group has yet to determine the impact on the consolidated interim financial statements.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

2) Impairment-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.

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 for those financial assets that have suffered a significant increase in credit risk since initial recognition and 12-month ECL measurement for those who have not. An entity may determine that a financial asset has not suffered a significant increase in credit risk 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.

Impairment losses are likely to increase for assets in the scope of the IFRS 9 impairment model. However, the Group has yet to determine the impairment methodologies that will be applied under IFRS 9.

3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses. The Group’s preliminary assessment includes analyzing data that cannot be identified through current processes, and modifying the system and internal control to obtain the required data.

4) 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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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

- 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 certain financial assets and financial liabilities designated as at fair value through profit or loss.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Loss”

The amendments clarify the recognition of for deferred tax assets for unrealized losses related to debt instruments measured at fair vale.

The Group expects the amendments to change the measurement of deferred tax assets, while the impact requires further analysis.

(iii) Amendments to IAS 40 “transfer of Investment Property”

The amendments clarify that an entity shall transfer a property to, or from, investment property only when there is evidence of a change in use. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. A change in use is evidenced by commencement of development with owner-occupied view. The Company and its subsidiaries expect the amendments to change the transfer timing of investment property, while the impact requires further analysis.

(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 the 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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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
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"> • 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. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

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

The consolidated interim financial statements have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Firms", "Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants" and IAS 34 "Interim Financial Reporting" endorsed by the FSC and do not include all of the information required for full annual consolidated financial statements prepared in accordance with the IFRSs, IAS and interpretations endorsed by the FSC.

(b) Basis of preparation

(i) Basis of measurement

The consolidated interim financial statements have been prepared on a historical cost basis except for the following material items in the consolidated balance sheets:

- 1) Financial instruments at fair value through profit or loss— current (including derivative financial instruments).
- 2) Available-for-sale financial assets, which are measured at fair value.
- 3) Investment property.

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

- 4) The net liability of the defined benefit asset, which is recognized as plan assets at fair value, less, the present value of the defined benefit obligation and the effect of the ceiling.

(ii) Functional and presentation currency

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

(c) Principles of consolidation

(i) Principles of preparation of the consolidated interim financial statements

The consolidated interim financial statements comprise Fubon Securities Co., Ltd. and its subsidiaries.

The financial statements of subsidiaries are included in the consolidated interim financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated interim financial statements.

Changes in ownership interest

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners).

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

Name of investor	Name of subsidiary	Principal activity	Shareholding		
			June 30, 2017	December 31, 2016	June 30, 2016
The Company	Fubon Futures Co., Ltd.	Futures	100 %	100 %	100 %
The Company	Fubon Investment Service Co., Ltd.	Investment Service	100 %	100 %	100 %
The Company	Fubon Securities (BVI) Ltd.	Investment Service	100 %	100 %	100 %
The Company	Fubon Asset Management Co., Ltd.	Investment trust	100 %	100 %	100 %
The Company	Fubon Securities Venture Capital	Venture Capital	100 %	100 %	100 %
The Company	Fubon Equity Investment (Note 1)	Equity Investment	100 %	100 %	- %
The Company	Fubon Mintou Venture Capital Co., Ltd. (Note 2)	Venture Capital	67 %	- %	- %

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

Name of investor	Name of subsidiary	Principal activity	Shareholding		
			June 30, 2017	December 31, 2016	June 30, 2016
Fubon Securities (BVI) Ltd.	Fubon Securities (HK) Ltd.	Securities business	100 %	100 %	100 %
Fubon Asset Management	Fubon Convoy Asset Management (Hong Kong) Limited (Note 3)	Asset management	49 %	- %	- %

Note 1: A subsidiary set up by the Company in September 2016.

Note 2: A subsidiary set up by Taiwan Mintou Economics Development Co., Ltd. and the Company in May 2017.

Note 3: In February 2017, Fubon Asset Management and Convoy Asset Management Limited set up Fubon Convoy Asset Management (HK) Limited. After the evaluation, since Fubon Asset Management has direct existing rights to its financial and operating activities, it is regarded as having control over Fubon Convoy Asset Management (Hong Kong).

(d) Foreign currency transactions

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the individual entities of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was originally determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the original transaction.

Foreign currency differences arising from settlement or retranslation of monetary assets and liabilities are recognized in profit or loss, except for the following differences which are recognized in other comprehensive income:

- 1) Non-monetary available-for-sale equity investment;
- 2) A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- 3) Qualifying cash flow hedges to the extent the hedge is effective.

Translation differences arising from settlement of transactions in foreign currency are recognized in current profit or loss.

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from acquisition, are translated to the Group's functional currency in New Taiwan Dollars at the 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 the average rate. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation adjustments in equity.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the foreign currency translation adjustment related to that foreign operation is reclassified to profit or loss as part of the gains or losses 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 cumulative amount of foreign currency translation adjustments is reattributed proportionately to non-controlling interest. When the Group disposes of only part of investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant foreign currency cumulative amount of translation adjustments is reclassified proportionately 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 as part of a net investment in a foreign operation and are recognized in other comprehensive income, and presented in the foreign currency translation adjustments in equity.

Foreign currency differences arising from financial liabilities for hedging which are designated as a net investment in a foreign operation would be recognized in other comprehensive income within the valid range of hedging, and should be recognized in profit or loss within the invalid range of hedging.

(e) Classification of current and non-current assets and liabilities

The Group shall classify an asset as current in accordance with one of following situations; an entity shall classify all other assets as non-current:

- (i) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- (ii) It holds the asset primarily for the purpose of trading;
- (iii) It expects to realize the asset within twelve months after the reporting period; or
- (iv) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Group shall classify a liability as current in accordance with one of following situations; an entity shall classify all other liabilities as non-current:

- (i) It expects to settle the liability in its normal operating cycle;
- (ii) It holds the liability primarily for the purpose of trading;

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

- (iii) The liability is due to be settled within twelve months after the reporting period; or
- (iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(f) Cash and cash equivalents

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

(g) Financial instruments

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

In accordance with International Accounting Standards 39 Financial Instruments ("IAS 39") as endorsed by the FSC, financial assets are classified into the following categories:

(i) Financial assets

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

1) Financial assets at fair value through profit or loss

In this category, a financial asset is either classified as held for trading or is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if acquired principally for the purpose of selling or repurchasing in the short term. A financial asset is designated 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) A hybrid instrument contains one or more embedded derivatives.

Financial assets are measured at fair value upon initial recognition and are recognized in profit or loss when trading cost is incurred, and subsequently measured at fair value, with any gains or losses arising on remeasurement (including any dividend revenue or interest revenue) recognized in profit or loss.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

2) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise receivables and account receivables. At initial recognition, the costs of the financial assets are valued at their fair value, plus, the direct acquisition costs, and subsequently measured at their amortized cost, minus, impairment loss using the effective interest method, except when interest income from short-term receivables is insignificant.

3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus, any directly attributable transaction cost.

Subsequent to initial recognition, available-for-sale financial assets and changes therein are measured at fair value. Other than impairment losses and foreign exchange gains or losses, gains or losses from the changes in fair value are recognized in adjustment to equity before the assets are derecognized. When an investment is derecognized, the cumulative gains or losses are recognized in profit or loss.

4) Financial assets carried at cost

At initial recognition, 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 a financial asset does not meet both of these conditions, then it should be carried at cost.

5) Impairment of financial assets

At each reporting date, financial assets are assessed for whether there is objective evidence of impairment.

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

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES**Notes to the Consolidated Interim Financial Statements**

For individually significant receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset carried at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

An impairment loss in respect of a financial asset is deducted from the carrying amount except for trade receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

If, in a subsequent period, the amount of the impairment loss of a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(ii) Financial liabilities

1) Financial liabilities at fair value through profit or loss

In this category, a financial liability is classified as held for trading or is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if acquired principally for the purpose of selling or repurchasing in the short term. A financial liability is designated 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 liabilities is evaluated on a fair value basis; or
- c) A hybrid instrument contains one or more embedded derivatives.

Financial liabilities are measured at fair value upon initial recognition, and are recognized in profit or loss when trading cost is incurred, and subsequently measured at fair value, with any profit or loss arising on remeasurement (including any interest expense) recognized in profit or loss.

2) Other financial liabilities

Financial liabilities not classified as held for trading or designated as at fair value through profit or loss, which comprise loans and borrowings, and trade and other payables, are measured at fair value, plus, any directly attributable transaction costs at the time of initial recognition, and subsequently evaluated at amortized cost using the effective interest method. Interest expense that is not capitalized as asset cost shall be recognized in finance cost under non-operating income and expenses.

(iii) Recognition of fair value

Please refer to note 6 (ag) for the details of the fair value and fair value hierarchy of financial instruments.

(iv) Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire, or when all the risks and rewards of ownership of the financial asset are substantially transferred.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

If the Group enters into securities lending transactions or pledges bonds or stocks as security for a 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 enters into a securitization transaction in which the Group keeps a portion of the risks and rewards of ownership.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

When an exchange was made between an existing borrower and lender of financial liabilities with substantially different terms or a substantial modification of the terms of an existing financial liability, the Group recognizes a new financial liability. The differences arising from the exchange or modification mentioned above are recognized in current profit or loss.

(v) Reclassification

Under IAS 39 as endorsed by the FSC, the following principles are adopted concerning reclassification out of financial instruments:

- 1) No reclassification is made out of the fair value measured through profit or loss category while derivative instruments are 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 instruments into the fair value measured through profit or loss category subsequent to initial recognition.

(vi) Offsetting

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

(h) Derivative financial instruments

Derivative financial instruments are measured at fair value at initial recognition and in the subsequent period. 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 shall be classified into a financial asset; otherwise, it shall be classified into 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. Derivative financial instruments are financial assets or liabilities at fair value through profit or loss.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(i) Investment in associates

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

Investments in associates, except for held-for-sale assets, are accounted for using the equity method and are recognized initially at cost. The carrying amount of investment in associates, which includes goodwill arising from business acquisition, is stated at cost, less, any accumulated impairment losses. The consolidated interim 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 investment in equity-accounted investees, the carrying amount of the investment, including any long-term interests that from 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.

When an associate is disposed of such that significant influence is lost, the residual investment is measured at fair value at the date of disposal. The difference between the residual value measured at fair value, plus, consideration received for the disposal of shares of an associate and the carrying amount at the time of losing significant influence is recognized in profit or loss. The associate-related amount initially recognized in other comprehensive income is then reclassified to profit or loss.

When the Group subscribes for additional investee shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee differs from the amount of the Group's share of the investee's equity. The Group records such differences as adjustments to capital surplus and investment accounted for using the equity method, with the corresponding amount charged or credited to capital surplus.

(j) Bonds investment with agreement

Repo and reverse repo bond transactions are the sale or purchase of bonds coupled with an agreement to repurchase or resell the same or substantially identical bonds at a stated price. The securities sold or purchased are treated as collateral for financing transactions and not as the sale or purchase of trading securities. Repo and reverse repo bond transactions are recorded as bonds sold under repurchase agreements and bonds purchased under resale agreements, respectively.

The difference between the selling and the purchase prices during the holding period for repo and reverse repo bond transactions is treated as finance cost or interest income. Repo and reverse repo bonds remain under the original operating account and are unaffected by temporary transfer in or out.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(k) Pecuniary and securities financing and refinancing

Pecuniary finance represents loans extended to securities investors and is accounted for as receivable from pecuniary finance. Such loans are secured by the securities purchased by investors. These securities are not reflected in the financial statements of the Company. These securities are returned to investors when investors terminate pecuniary financing.

Securities finance is affected by lending securities under custody that are received from pecuniary finance or borrowed from securities finance companies to investors. Such securities finance is not reflected in the financial statements of the Company. The investors' deposits for borrowing securities are held by the Company as collateral and are recorded under securities financing refundable deposits. In addition, investors are required to deposit the proceeds from sales of borrowed securities. Such deposits are accounted for as deposits payable for securities financing.

Pecuniary refinancing represents loans from securities finance companies when the Company lacks sufficient funds to perform pecuniary financing. These loans are recorded as refinance borrowings.

Securities refinancing represents borrowing securities from securities finance companies when the Company does not have sufficient securities to perform securities financing. For securities refinancing, the Company pays margin deposits to securities finance companies. These margin deposits are recorded as margin deposits for securities refinance. The Company also provides securities investors' proceeds from selling borrowed securities to securities finance companies as collateral and records them under deposits payable for securities financing and receivables from securities refinance.

(l) Securities lending

The Company lends only the following securities in conducting securities lending business: the securities held for the Company's own account, the securities borrowed through the securities lending system of a securities exchange, and the collateral securities obtained in connection with customer margin purchases when conducting securities trading margin purchase and short sale business.

As the securities held for the Company's own account are for lending to securities borrowers, these securities shall be transferred out from the original account to securities lent for securities financing and measured at fair value. The securities borrowed through the securities lending system of a securities exchange are not reflected in the financial statements of the Company. The collateral securities obtained in connection with customer margin purchases when conducting securities trading margin purchase and short sale business are not reflected in the financial statements of the Company either because these collateral securities are the collateral of the borrowers.

If the collateral from securities lending is other securities, the Company will not have to record them in the financial statements but will have to record them in each borrower's account for each trade. For cash collateral, it will be recognized as securities lending refundable deposits. When the value of the collateral is insufficient, the Company will inform the borrower to make up the difference.

The fee from securities lending business is recognized as income from securities lending.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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(m) Customer margin account

Customer margin account presented under current assets includes trading margins received from customers and the gains (losses) generated from unsettled futures contracts based on daily market values. The following are included in customer margin account:

- (i) Deposits: Futures commission merchants deposit initial margins and premiums of traders in "customer margin account" accounts at banks.
- (ii) Clearing balances of futures clearing house: Futures commission merchants qualified as clearing members appropriate initial margins and premiums of traders to the clearing balance of the clearing house.
- (iii) Clearing balances of other futures commission merchants: Futures dealers not qualified as clearing members appropriate initial margins and premiums of traders to the clearing balance of futures dealers qualified as clearing members.

(n) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, for production or supply of goods or services, or for administrative purposes. Investment property is measured at cost at initial recognition and subsequently at cost. After initial recognition, depreciation expense would be calculated for the amount of depreciation available. The depreciation method, useful life, and residual value of investment property are determined in accordance with the guidance under IAS 16 as endorsed by the FSC. 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 its intended use and capitalized borrowing costs. In accordance with IAS 40, investment property is subsequently measured at fair value, except for those which are classified as held for sale according to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Gains or losses arising from the changes in fair value must be included in the net profit or loss for the period in which they arise.

An investment property should be derecognized upon disposal or when the investment property is permanently withdrawn from use, and no future economic benefits are expected from its disposal.

According to IAS 40, an entity is transferred to, or from, investment property based on its actual use. Transfers between categories should be based on the evaluation of the market prices, and accounting treatment should be conducted properly.

(o) Property and equipment

(i) Recognition and measurement

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

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

The profit or loss arising from the derecognition of an item of property 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) Reclassification to investment property

When transferring from owner-occupied property to investment property, property and equipment should be reclassified as investment property at fair value. Any difference arising between the carrying amount and the fair value at the date of transfer is recognized in profit or loss within the scope of previously accumulated impairment of that property and equipment. The remaining difference is recognized in “Other comprehensive income—gains on revaluation” and accumulated in “Other equity—gains on revaluation”.

(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 are expensed as incurred.

(iv) Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on a systematic basis over its useful life. Items of property 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. Lease assets are depreciated over the shorter of the lease term or their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

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

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

Buildings	25~55 years
Transportation equipment	5 years
Office equipment	1~5 years
Other equipment	1~ 5 years
Leasehold improvement	1~ 5 years

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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(p) Leases

(i) Lessor

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

(ii) Lessee

Leases whose terms require the Group to assume substantially all of the risks and rewards of ownership of a leased asset are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the leased asset is accounted for in accordance with the accounting policy applicable to property and equipment.

Other leases are operating leases and are not recognized in the Group's consolidated balance sheet.

Payments made under an operating lease (excluding insurance and maintenance expenses) are recognized as an expense on a straight-line basis over the term of the lease. Lease incentives received are recognized and amortized on a straight-line basis to decrease lease expenses over the lease term.

(q) Intangible assets

(i) Other intangible assets

Intangible assets that are acquired by the Group are measured at cost, less accumulated amortization and any accumulated impairment losses.

(ii) Amortization

The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible assets with an indefinite useful life, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Operating right	10 years
Computer software	3~5 years

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

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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(r) Impairment of non-financial instruments

The Group assesses the non-financial assets, except for deferred tax assets, assets generated from employee benefits, and non-current assets held for sale, for impairment and estimates the recoverable amounts for any impaired assets at the end of each reporting period. If it is not possible to determine the recoverable amount for an individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit (CGU).

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value, less costs to sell or its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in loss.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount, as a reversal of a previously recognized impairment loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Notwithstanding whether indicators exist, recoverability of goodwill and intangible assets with indefinite useful lives or those not yet in use is required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or group of units. If the carrying amount of the cash-generating units exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss, and the impairment loss shall be allocated to reduce the carrying amount of each asset in the unit.

(s) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as interest cost.

Under IAS 37 as endorsed by the FSC, the Group should estimate the costs of dismantling, relocating and restoring the leased assets at the end of the lease term, and the costs are estimated based on discounted present value.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(t) Futures traders' equity

Payables to customers presented under current liabilities correspond to futures trading margin. The account will be recorded as futures trading margin receivable when it becomes a debit balance.

(u) Revenue recognition

The Group's major revenue and cost recognition principles are as follows:

- (i) Brokerage handling fee revenue, futures commission revenue, profit or loss on disposal of trading securities, and relevant brokerage securities transaction charges are recognized at the trading date.
- (ii) Interest income or expense from margin loans, securities financing and refinancing, and bonds purchased under agreements to resell and sold under agreements to repurchase are recognized on an accrual basis.
- (iii) Recognition of service revenue depends on the degree of service delivered.
- (iv) Management fees are received from providing management services to securities investment trust funds and investors' discretionary managed accounts. Management fees are calculated daily on the net assets of each securities investment trust fund account and investor's discretionary managed account multiplied by the contract rates. Management fees are paid monthly by each securities investment trust fund and investor's discretionary managed account, and selling fees would be received at a certain rate when issuing funds or buying back and reissuing beneficiary certificates.
- (v) Gains or losses on disposal of equity investments of financial assets measured at fair value are recognized at the trading date.
- (vi) Dividend revenue are recognized when the Group have the defined right to receive the payment.
- (vii) Gains or losses on futures and options trade: Trading margin is recognized at cost and measured through mark-to-market valuation. The gains or losses from mark-to-market, reversed futures trading or settled contracts are recognized as gains or losses in the current period; dealing handling fee expenditures are recognized on the date of futures and options transaction.

(v) Employee benefits

(i) Defined contribution plans

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

Pursuant to the ROC Labor Pension Act, the Company and domestic subsidiaries make contribution to the Bureau of Labor Insurance. This contribution is recognized as pension expenses on accrual basis.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

Foreign subsidiaries make contributions based on the regulation of local government, and these contributions are recognized as pension expenses on accrual basis.

(ii) Defined benefit plans

When the benefits of the plan are improved, the portion of the increased benefits related to past service costs are recognized in profit or loss immediately. Net interests of the Group's service cost and net defined benefit asset or liability are recognized as employee benefit expenses when they occurred. All re-measurements arising from the defined benefit plan, including actuarial gains and return of plan assets, minus, interests, are recognized into other comprehensive income, and accounted for as retained earnings, and not subsequently reclassified into profit or loss.

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

(iii) Short-term employee benefits

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

(iv) Other long-term employee benefit

The accounting policy of other long-term employee benefits is the same as the defined retirement benefits plans, whereas, related re-measurement is recognized as profit or loss.

(w) Income tax

(i) Current income tax

The Group estimated and disclosed interim income tax under IAS 34 "Interim Financial Reporting" Appendix B12.

Income tax expense for the interim reporting period is best estimated by multiplying pretax income for the period with the effective annual tax rate as forecasted by the management. This should be recognized fully as tax expense for the current period and allocated to current and deferred taxes based on its proportionate size.

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.

The adjustment of prior year's income tax payable is included in the current income tax.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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(ii) Deferred income tax

Deferred tax is 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 interim 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 for and reversal of employee retirement benefits.

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 to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

The Company and the parent company file a combined corporate income tax return. However, the measurement of income tax follows the above-mentioned principles. The excess or deficit payment of income tax due to a combined corporate income tax filing is charged to current income tax assets or current income tax liabilities.

(x) Business combination

Business combinations of the Group is accounted for using the 'acquisition method. Goodwill is measured as the difference between (a) the aggregate of the value of the consideration transferred at fair value and the amount of any non-controlling interest and (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, which normally measured at fair value. If the difference above is negative, the Group will undertake a review to ensure that the identification of assets and liabilities is complete, and that measurements appropriately reflect consideration of all available information before recognizing bargain purchase gains into profit or loss.

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

In a business combination achieved in stages, the previously held equity interest in the acquiree at its acquisition-date, fair value is remeasured and the resulting gain or loss, if any, is recognized in profit or loss. In prior reporting periods, the Group may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognized in other comprehensive income shall be recognized on the same basis as would be required if the Group had disposed directly of the previously held equity interest. If the disposal of the equity interest required a reclassification to profit or loss, such an amount shall be reclassified to profit or loss.

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

All the transaction costs incurred for the business combination are recognized immediately as expenses when incurred, except for the issuance of debt or equity instruments.

(y) Earnings per share

Earnings per share are calculated by dividing net income after tax by the weighted average number of shares outstanding in each year. The employees' bonuses are regarded as potential common stock. If the potential common stock has dilutive effect; both basic earnings per share and diluted earnings per share are presented; otherwise, only basic earnings per share is disclosed. The consolidated net income and number of common stocks outstanding are adjusted for the effects of all potentially dilutive common stock assuming that all potentially dilutive common stock are outstanding for the entire period. The effect of any increase in outstanding shares due to the issuance of common stock from capitalization of retained earnings or capital surplus approved in the shareholders' meeting is retroactively adjusted.

(z) 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 same entity). The segment's operating results are reviewed regularly by the Group's chief operating decision maker to make decisions pertaining to the allocation of the resources to the segment and to assess its performance for which discrete financial information is available.

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

The preparation of the consolidated interim financial statements in conformity with the IAS 34 "Interim Financial Reporting" 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 will continually review the estimates and basic assumptions. Changes in accounting estimates will be recognized in the period of change and the future period of their impacts.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next one year is included in the following notes:

(a) Fair value of financial instruments

The fair value of non-active-market or non-quoted financial instruments is determined using valuation techniques. Such fair value is based on observable data of similar financial instruments or a valuation model. If there are no observable market parameters, the fair value of financial instruments is evaluated based on appropriate assumptions. If fair value is determined by a valuation model, the model is calibrated to ensure that all output data and the results reflect the actual market price. This valuation model uses only observable data as much as possible. Regarding credit risk of the Group and counterparties, management should estimate the variation and the relevance. Please refer to note 6 (ah) for the analysis of the risk of financial instruments.

(b) Fair value of investment property

Fair value is determined using the valuation techniques, including income-based valuation and market-based valuation. The changes of these valuation assumptions will affect the fair value of investment property in the financial statements. Please refer to note 6 (m) for the valuation assumptions of investment property.

(c) Assessment of financial instruments' impairment

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If the actual future cash flows are less than expected, it may result in a material impairment loss. Please refer to note 6 (i) for the determination of impairment.

(d) Income tax

The Group calculate its income tax in accordance with the local ordinances. The possible difference in tax base and calculation between the Group and the tax authorities leads to the uncertainty of income tax. The Group recognize related income tax and deffered income tax by assessing possible additional income tax pursuant to the transactions and calculations for the tax. If the final tax determined by the authorities differs from the initial recognized amount, the difference will affect the income tax and deferred income tax accounts.

(e) Measurement of defined benefit obligations

Defined benefit costs and net defined benefit liabilities (assets) under defined benefit pension plans are calculated using the Projected Unit Credit Method. The Group determine the appropriate actuarial assumptions, and comprise the discount rate and future salary increase rate. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(6) Explanation of significant accounts

(a) Cash and cash equivalents

	June 30, 2017	December 31, 2016	June 30, 2016
Petty cash	\$ 2,959	2,866	3,343
Demand deposits and checking accounts	2,397,339	2,206,339	1,551,395
Time deposits	2,056,581	2,659,599	2,256,461
Foreign currency deposits	6,240,282	5,950,755	2,989,689
Cash and cash equivalents – commercial paper	599,620	864,237	594,033
Total	<u>\$ 11,296,781</u>	<u>11,683,796</u>	<u>7,394,921</u>

Please refer to note 6 (ah) for the disclosure of the sensitivity analysis and interest rate risk of the financial assets and financial liabilities of the Group.

(b) Financial assets measured at fair value through profit or loss – current

	June 30, 2017	December 31, 2016	June 30, 2016
Financial assets measured at fair value through profit or loss – non-derivative	\$ 36,952,380	32,760,963	30,982,779
Financial assets measured at fair value through profit or loss – derivative	728,591	424,773	186,503
Total	<u>\$ 37,680,971</u>	<u>33,185,736</u>	<u>31,169,282</u>

The related accounts were as follows:

(i) Financial assets measured at fair value through profit or loss – non-derivative

	June 30, 2017	December 31, 2016	June 30, 2016
Securities invested by broker	\$ 480,461	29,895	-
Open-end funds, money market instruments and other securities	227,273	1,483,957	131,119
Securities held for operations – dealing	26,515,013	25,213,862	24,402,203
Securities held for operations – underwriting	1,233,786	232,310	867,013
Securities held for operations – hedging	<u>8,495,847</u>	<u>5,800,939</u>	<u>5,582,444</u>
Total	<u>\$ 36,952,380</u>	<u>32,760,963</u>	<u>30,982,779</u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

1) Details of securities invested by broker

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Securities invested by broker	\$ 473,691	30,000	-
Valuation adjustment	6,770	(105)	-
Total	<u>\$ 480,461</u>	<u>29,895</u>	<u>-</u>

2) Details of open-end funds, money market instruments and other securities

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Open-end funds, money market instruments and other securities	\$ 222,906	1,480,502	128,006
Valuation adjustment	4,367	3,455	3,113
Total	<u>\$ 227,273</u>	<u>1,483,957</u>	<u>131,119</u>

3) Securities held for operations

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Dealing department – domestic:			
Listed stocks and funds – TWSE	\$ 924,643	605,662	592,714
Listed stocks and funds – TPEx	146,949	7,649	137,490
Bonds	21,802,571	22,792,258	19,563,029
Emerging stocks and funds – TPEx	522,087	611,382	675,768
Asset securitization	387,734	387,735	387,734
Others	379,213	38,005	8
Subtotal	<u>24,163,197</u>	<u>24,442,691</u>	<u>21,356,743</u>
Dealing department – overseas:			
Overseas Stocks	42,351	-	-
Overseas Bonds	2,168,534	635,314	2,778,221
Subtotal	<u>2,210,885</u>	<u>635,314</u>	<u>2,778,221</u>
Valuation adjustment	140,931	135,857	267,239
Total	<u>\$ 26,515,013</u>	<u>25,213,862</u>	<u>24,402,203</u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Underwriting department— domestic:			
Listed stocks—TWSE	\$ 117,180	3,450	-
Listed stocks—TPEX	-	27,769	-
Listed corporate bonds—TPEX	<u>1,088,660</u>	<u>92,600</u>	<u>853,989</u>
Subtotal	<u>1,205,840</u>	<u>123,819</u>	<u>853,989</u>
Underwriting department— overseas:			
Overseas bonds	<u>-</u>	<u>103,301</u>	<u>-</u>
Subtotal	-	103,301	-
Valuation adjustment	<u>27,946</u>	<u>5,190</u>	<u>13,024</u>
Total	<u>\$ 1,233,786</u>	<u>232,310</u>	<u>867,013</u>
	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Hedging department—domestic:			
Listed stocks and warrants— TWSE	\$ 3,573,132	1,716,771	1,345,124
Listed stocks and warrants— TPEX	195,192	78,940	110,862
Listed corporate bonds—TPEX	<u>4,490,253</u>	<u>3,952,290</u>	<u>3,970,921</u>
Subtotal	<u>8,258,577</u>	<u>5,748,001</u>	<u>5,426,907</u>
Valuation adjustment	<u>237,270</u>	<u>52,938</u>	<u>155,537</u>
Total	<u>\$ 8,495,847</u>	<u>5,800,939</u>	<u>5,582,444</u>

(ii) Financial assets measured at fair value through profit or loss—derivative

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Futures trading margin—own funds	\$ 630,237	305,604	149,003
Interest rate swap contracts	92,303	104,976	9,591
IRS portion of asset swap contracts	5,814	14,180	26,151
Exchange rate derivative	-	-	1,758
Call options	<u>237</u>	<u>13</u>	<u>-</u>
Total	<u>\$ 728,591</u>	<u>424,773</u>	<u>186,503</u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(c) Available-for-sale financial assets—current

	June 30, 2017	December 31, 2016	June 30, 2016
Domestic dealing listed stocks—TWSE	\$ 8,861,174	8,430,597	9,749,184
Asset securitization	52,982	30,530	30,530
Open-end funds	20,000	-	-
Domestic underwriting listed stocks— TWSE	27,313	330,655	330,655
Domestic listed and emerging stocks	29,303	-	-
Subtotal	8,990,772	8,791,782	10,110,369
Valuation adjustment	1,527,029	1,135,651	1,787,220
Total	<u>\$ 10,517,801</u>	<u>9,927,433</u>	<u>11,897,589</u>

(d) Securities purchased under resell agreements

	June 30, 2017	December 31, 2016	June 30, 2016
Pecuniary financing	<u>\$ 883,218</u>	<u>645,311</u>	<u>197,179</u>
The end date of the holding period	July 5, 2017	January 4, 2017	July 7, 2016
Interest rate range	0.45 %	2.00 %	0.25 %

(e) Pecuniary and securities financing and refinancing

Securities received and lent for pecuniary and securities financing and refinancing were as follows:

	June 30, 2017		
	Shares (thousands)	Face value	Market value
Collateral securities for pecuniary financing	<u>650,380</u>	<u>\$ 6,503,800</u>	<u>21,094,297</u>
Securities lent for securities financing	<u>31,239</u>	<u>\$ 312,390</u>	<u>1,570,168</u>
	December 31, 2016		
	Shares (thousands)	Face value	Market value
Collateral securities for pecuniary financing	<u>625,101</u>	<u>\$ 6,251,010</u>	<u>18,088,822</u>
Securities lent for securities financing	<u>48,547</u>	<u>\$ 485,470</u>	<u>2,420,949</u>
	June 30, 2016		
	Shares (thousands)	Face value	Market value
Collateral securities for pecuniary financing	<u>613,850</u>	<u>\$ 6,138,500</u>	<u>18,154,386</u>
Securities lent for securities financing	<u>32,332</u>	<u>\$ 323,330</u>	<u>1,791,162</u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

Pecuniary finance represents loans extended to securities investors and is accounted for as receivables from pecuniary finance. Such loans are secured by the securities purchased by investors. These securities are not reflected in the financial statements of the Group. These securities will be returned to investors when investors terminate pecuniary financing. As of June 30, 2017, December 31 and June 30, 2016, the Group had receivables from pecuniary finance amounting to \$12,576,912, \$11,142,121 and \$11,107,824, respectively, and allowances for uncollectible accounts were \$0, respectively. Please refer to note 6 (ah) for the estimation of impairment.

Securities finance represents securities lent to securities investors and is affected by lending to securities investors securities in custody that are received from pecuniary finance or borrowed from securities finance companies when necessary. The investors' deposits for borrowing securities are held by the Group as collateral and recorded under securities financing refundable deposits. In addition, investors are required to deposit the proceeds from sales of borrowed securities. Such deposits are accounted for as deposits payable for securities financing. As of June 30, 2017, December 31 and June 30, 2016, securities financing refundable deposits amounted to \$1,334,644, \$2,125,096 and \$1,529,807, respectively, and deposits payable for securities financing amounted to \$1,533,149, \$2,342,335 and \$1,678,345, respectively.

The guarantees provided to securities finance companies (securities borrowed by the Group in refinancing activities) were as follows:

	June 30, 2017		
	Shares (thousands)	Face value	Market value
Securities borrowed in refinancing activities	97	\$ 970	3,345
	December 31, 2016		
	Shares (thousands)	Face value	Market value
Securities borrowed in refinancing activities	357	\$ 3,570	13,463
	June 30, 2016		
	Shares (thousands)	Face value	Market value
Securities borrowed in refinancing activities	91	\$ 910	17,037

Securities refinancing is affected by borrowing securities from securities finance companies when the Group does not have sufficient securities to perform securities financing. For securities refinancing, the Group pays margin deposits to securities finance companies. These margin deposits are recorded as margin deposits for securities refinance. The Group also provides proceeds from selling borrowed securities to securities finance companies as collateral and records them under margin deposits for securities refinance and receivables from securities refinance. As of June 30, 2017, December 31 and June 30, 2016, margin deposits for securities refinance amounted to \$4,014, \$16,071 and \$19,907, respectively, and receivables from securities refinance amounted to \$3,345, \$13,463 and \$17,037, respectively.

As of June 30, 2017, December 31 and June 30, 2016, the Group provided other securities as collateral due to borrowing securities amounting to \$4,367,998, \$5,372,901 and \$3,324,806, respectively.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(f) Receivables from securities borrowings and lending

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Receivables from securities borrowings and lending – secured securities purchased or owned by investors as collateral	\$ 7,308	593	3,548
Receivables from securities borrowings and lending – non restricted	101,097	90,538	3,910
Total	<u>\$ 108,405</u>	<u>91,131</u>	<u>7,458</u>

The Group secures securities purchased or owned by investors as collateral to perform securities borrowing and lending. The calculation of the collateral maintenance ratio should comply with regulations and shouldn't be lower than 130%.

(g) Customer margin account

The details of the Group's customer margin account were as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Bank deposits	\$ 14,989,435	11,459,260	10,946,443
Clearing balance of futures clearing house	2,454,316	2,505,585	1,707,408
Clearing balance of other futures commission merchants	2,385,254	1,737,101	2,953,470
Securities	176	189	992
Others	663	-	-
Total	<u>\$ 19,829,844</u>	<u>15,702,135</u>	<u>15,608,313</u>

(h) Notes and accounts receivable

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Accounts receivable from non-related parties			
Proceeds receivable from customers	\$ 2,500,990	755,483	1,426,482
Accounts receivable – brokering	11,645,671	5,769,569	9,673,670
Clearance	14,825	3,237,004	711,632
Securities financing interest receivable	221,088	235,190	248,791
Bonds interest receivable	138,614	145,662	139,553
Cash dividends receivable	66,674	1,200	270,849
Revenues receivable	190,901	129,127	52,696
Others	294,097	17,315	16,368
	<u>15,072,860</u>	<u>10,290,550</u>	<u>12,540,041</u>
Notes receivable from non-related parties	337	186	265
Notes and accounts receivable	<u>\$ 15,073,197</u>	<u>10,290,736</u>	<u>12,540,306</u>
Accounts receivable from related parties	<u>\$ 96,976</u>	<u>75,890</u>	<u>80,272</u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(i) Financial assets carried at cost—non-current

	June 30, 2017		December 31, 2016		June 30, 2016	
	Percentage of owner- ship (%)	Amount	Percentage of owner- ship (%)	Amount	Percentage of owner- ship (%)	Amount
Taiwan Depository and Clearing Corp.	0.71	\$ 7,589	0.71	7,589	0.71	7,589
Taiwan Futures Exchange	1.79	35,760	1.79	35,760	1.79	35,760
Taiwan Stock Exchange Corp.	2.06	372,054	2.06	372,054	2.06	372,054
Skyvia Corp.	0.25	1,855	0.25	1,855	0.25	1,855
Top Taiwan Venture Capital Co., Ltd.	4.35	10,870	4.35	13,044	4.35	13,044
Huacheng Venture Investment Co., Ltd.	5.00	29,157	5.00	29,157	5.00	32,397
China International Development Consulting Inc.	1.00	225	1.00	225	1.00	225
Hua Liu Venture Capital Co., Ltd.	4.83	1,449	4.83	1,449	4.83	1,449
Vision Venture Capital Corp.	-	-	-	-	2.16	1,831
Fund Rich Securities Co., Ltd.	2.81	9,825	2.81	9,825	2.81	9,825
Apex Flight Academy Inc.	7.01	30,000	6.94	30,000	-	-
WeGames Corp.	-	-	0.66	40,000	-	-
Kaison Green Energy Technology Co., Ltd.	1.30	12,400	1.30	12,400	-	-
Hong Shiue Holding Co., Ltd.	1.57	31,299	1.57	31,299	-	-
Applied Biocode Corporation	-	-	1.57	29,251	-	-
Timing Pharmaceutical Co., Ltd.	1.48	41,590	-	-	-	-
Subtotal		584,073		613,908		476,029
Less: accumulated impairment		(20,933)		(18,555)		(20,386)
Total		\$ 563,140		595,353		455,643

The shareholders' meeting of Huacheng Venture Investment Co., Ltd. held on August 5, 2016, resolved to reduce its capital and refund cash to investors, and the capital reduction ratio was 10% of the issued shares, respectively. The capital decrease was authorized by and registered with the authorities.

The shareholders' meetings of Top Taiwan Venture Capital Co., Ltd. held on June 1, 2017 resolved to reduce its capital and refund cash to investors, and the capital reduction ratio was 16.67%. The capital decreases were authorized by and registered with the authorities.

The shareholder's meeting of Vision Capital Venture Corp. held on March 25, 2016 resolved to liquidate the company and distributed its surplus property. The Group received the allocation of surplus property amounting to \$16 from Vision Capital Corp. on September 23, 2016.

Since Applied Biocode Corporation had been traded on the Emerging Stock Market on February 9, 2017, its ordinary shares held by the Group, which were originally booked as financial assets carried at cost- non current, were reclassified to available-for-sale financial assets - current.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

Management believed that the unlisted equity investments held by the Group, whose fair value cannot be reliably measured due to the range of reasonable fair value estimates, were very significant; therefore, they were measured at cost, less, impairment at the end of the reporting period. After impairment assessment, the Group recognized no impairment loss for the six months ended June 30, 2017 and 2016. The Group used fair value as the recoverable amount in the capital reduction test. The fair value is estimated based on the market prices or net equity value.

(j) Available-for-sale financial assets—non-current

	June 30, 2017		December 31, 2016		June 30, 2016	
	Percentage of owner- ship (%)	Amount	Percentage of owner- ship (%)	Amount	Percentage of owner- ship (%)	Amount
Unlisted stock						
Global Securities Finance Co., Ltd.	0.40	\$ 12,497	0.40	12,497	0.40	12,497
Girand Bills Finance Co., Ltd.	0.54	25,920	0.54	25,920	0.54	25,920
Subtotal		38,417		38,417		38,417
Government bond						
A03113	-	300,241	-	300,254	-	300,274
Add: valuation adjustment	-	15,367	-	8,189	-	20,318
Subtotal		315,608		308,443		320,592
Beneficiary certificates						
Open-end funds	-	427,385	-	379,196	-	357,896
Add: valuation adjustment	-	6,775	-	30,056	-	30,607
Subtotal		434,160		409,252		388,503
Total		<u>\$ 788,185</u>		<u>756,112</u>		<u>747,512</u>

For the six months ended June 30, 2017 and 2016, the interest revenue arising from the available-for-sale bonds investment amounted to \$2,404 and \$2,421, respectively.

(k) Investments accounted for using the equity method

Material associates of the Group were as follows:

Name of associates	Relationship with the Group	Main business office/Country of Registry	Ownership interest and voting right		
			June 30, 2017	December 31, 2016	June 30, 2016
Fubon Financial Holding Venture Capital Co., Ltd.	A subsidiary of the Company's parent company Fubon Financial Holding Co., Ltd. that engages in venture capital.	Taiwan	8.33 %	8.33 %	8.33 %
Founder Fubon Fund Management Co., Ltd.	Engages in fund raising, selling and assets management and plays an important role in developing markets in China for the Group.	Mainland China	33.3 %	33.3 %	33.3 %

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

A summarized financial information of material associates was as follows :

(i) Fubon Financial Holding Venture Capital Co., Ltd.

	June 30, 2017	December 31, 2016	June 30, 2016
Current assets	\$ 1,700,665	1,619,151	1,994,450
Non-current assets	3,913,087	3,342,603	3,032,633
Current liabilities	(350,121)	(125,513)	(101,580)
Non-current liabilities	<u>(1,334,689)</u>	<u>(492,920)</u>	<u>(343,577)</u>
Net assets	<u>\$ 3,928,942</u>	<u>4,343,321</u>	<u>4,581,926</u>
Share of net assets of associates	<u>\$ 3,928,942</u>	<u>4,343,321</u>	<u>4,581,926</u>

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Revenue	<u>\$ 190,817</u>	<u>118,655</u>	<u>285,602</u>	<u>331,893</u>
Net income from continuing operations	\$ 41,861	26,261	39,267	189,665
Other comprehensive income (loss)	<u>(171,752)</u>	<u>(269,158)</u>	<u>(269,588)</u>	<u>(140,673)</u>
Total comprehensive income (loss)	<u>\$ (129,891)</u>	<u>(242,897)</u>	<u>(230,321)</u>	<u>48,992</u>
Share of other comprehensive income (loss) of associates	<u>\$ (129,891)</u>	<u>(242,897)</u>	<u>(230,321)</u>	<u>48,992</u>

	For the six months ended June 30	
	2017	2016
Share of net assets of associates at the beginning of the periods	\$ 361,792	395,028
Total comprehensive income (loss) attributable to the Group for the periods	(19,186)	4,081
Dividends received from associates for the periods	<u>(15,338)</u>	<u>(17,441)</u>
Share of net assets of associates at the end of the periods	327,268	381,668
Add: unamortized premium	<u>22,016</u>	<u>22,016</u>
Book value of equity of associates at the end of the periods	<u>\$ 349,284</u>	<u>403,684</u>

(ii) Founder Fubon Fund Management Co., Ltd.

	June 30, 2017	December 31, 2016	June 30, 2016
Current assets	\$ 275,004	360,456	440,717
Non-current assets	1,307,061	1,379,708	1,278,398
Current liabilities	(337,775)	(335,618)	(285,579)
Non-current liabilities	<u>(115,005)</u>	<u>(61,015)</u>	<u>(30,619)</u>
Net assets	<u>\$ 1,129,285</u>	<u>1,343,531</u>	<u>1,402,917</u>
Share of net assets of associates	<u>\$ 1,129,285</u>	<u>1,343,531</u>	<u>1,402,917</u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Revenue	<u>\$ 150,253</u>	<u>139,742</u>	<u>328,242</u>	<u>293,764</u>
Net loss from continuing operations	\$ (184,388)	(21,442)	(183,788)	(18,421)
Other comprehensive income (loss)	34,348	(29,522)	(30,457)	(67,660)
Total comprehensive loss	<u>\$ (150,040)</u>	<u>(50,964)</u>	<u>(214,245)</u>	<u>(86,081)</u>
Share of other comprehensive loss of associates	<u>\$ (150,040)</u>	<u>(50,964)</u>	<u>(214,245)</u>	<u>(86,081)</u>
			For the six months ended June 30	
			2017	2016
Share of net assets of associates at the beginning of the periods			\$ 447,396	166,832
Issue of shares			-	329,004
Total comprehensive income (loss) attributable to the Group for the periods			(71,344)	(28,665)
Book value of equity of associates at the end of the periods			<u>\$ 376,052</u>	<u>467,171</u>

(I) Property and equipment

Changes in the cost, depreciation, and impairment loss of the property and equipment of the Group for the six months ended June 30, 2017 and 2016 were as follows:

	Land	Buildings	Information Appliance	Communication	Leasehold improvement	Leased equipment	Miscellaneous	Total
Cost or deemed cost:								
Balance at January 1, 2017	\$ 1,140,703	413,310	742,852	138	442,281	6,482	164,580	2,910,346
Additions	-	-	53,360	-	7,588	-	6,007	66,955
Disposals	-	-	(1,707)	-	(17,724)	-	(24,005)	(43,436)
Reclassification	208,381	20,490	-	-	-	-	-	228,871
Effect of change in exchange rates	-	-	(869)	-	(197)	-	(78)	(1,144)
Balance at June 30, 2017	<u>\$ 1,349,084</u>	<u>433,800</u>	<u>793,636</u>	<u>138</u>	<u>431,948</u>	<u>6,482</u>	<u>146,504</u>	<u>3,161,592</u>
Balance at January 1, 2016	\$ 1,140,703	413,310	753,940	138	443,047	6,482	161,860	2,919,480
Additions	-	-	27,824	-	11,268	-	6,524	45,616
Others	-	-	-	-	(25)	-	-	(25)
Disposals	-	-	(8,001)	-	(4,953)	-	(9,603)	(22,557)
Effect of change in exchange rates	-	-	(362)	-	(82)	-	(32)	(476)
Balance at June 30, 2016	<u>\$ 1,140,703</u>	<u>413,310</u>	<u>773,401</u>	<u>138</u>	<u>449,255</u>	<u>6,482</u>	<u>158,749</u>	<u>2,942,038</u>
Depreciation and impairment loss:								
Balance at January 1, 2017	\$ -	149,607	547,116	138	387,452	3,640	134,218	1,222,171
Depreciation	-	4,092	50,848	-	11,796	590	5,752	73,078
Disposals	-	-	(1,701)	-	(16,930)	-	(23,988)	(42,619)
Effect of change in exchange rates	-	-	(714)	-	(145)	-	(70)	(929)
Balance at June 30, 2017	<u>\$ -</u>	<u>153,699</u>	<u>595,549</u>	<u>138</u>	<u>382,173</u>	<u>4,230</u>	<u>115,912</u>	<u>1,251,701</u>
Balance at January 1, 2016	\$ -	141,966	527,306	138	367,269	2,344	133,092	1,172,115
Depreciation	-	3,821	45,109	-	20,962	657	5,817	76,366
Disposals	-	-	(8,001)	-	(4,686)	-	(9,603)	(22,290)
Effect of change in exchange rates	-	-	(228)	-	(31)	-	(24)	(283)
Balance at June 30, 2016	<u>\$ -</u>	<u>145,787</u>	<u>564,186</u>	<u>138</u>	<u>383,514</u>	<u>3,001</u>	<u>129,282</u>	<u>1,225,908</u>
Carrying amounts:								
Balance at January 1, 2017	\$ 1,140,703	263,703	195,736	-	54,829	2,842	30,362	1,688,175
Balance at June 30, 2017	<u>\$ 1,349,084</u>	<u>280,101</u>	<u>198,087</u>	<u>-</u>	<u>49,775</u>	<u>2,252</u>	<u>30,592</u>	<u>1,909,891</u>
Balance at January 1, 2016	\$ 1,140,703	271,344	226,634	-	75,778	4,138	28,768	1,747,365
Balance at June 30, 2016	<u>\$ 1,140,703</u>	<u>267,523</u>	<u>209,215</u>	<u>-</u>	<u>65,741</u>	<u>3,481</u>	<u>29,467</u>	<u>1,716,130</u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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As of June 30, 2017, December 31 and June 30, 2016, certain property were pledged as collateral, please refer to note 8 for detail.

(m) Investment property

	<u>Land and land improvements</u>	<u>Buildings</u>	<u>Total</u>
Cost or deemed cost:			
Balance at January 1, 2017	\$ 964,497	108,132	1,072,629
Gains generated from fair value adjustments	10,352	1,450	11,802
Reclassification	<u>(208,381)</u>	<u>(20,490)</u>	<u>(228,871)</u>
Balance at June 30, 2017	<u>\$ 766,468</u>	<u>89,092</u>	<u>855,560</u>
Balance at January 1, 2016	<u>\$ 963,112</u>	<u>111,898</u>	<u>1,075,010</u>
Balance at June 30, 2016	<u>\$ 963,112</u>	<u>111,898</u>	<u>1,075,010</u>

- (i) Buildings are leased out as operating leases, and the primary terms of the lease agreements are the same as those of the general lease agreement.
- (ii) Investment property of the Group as of December 31, 2016 was evaluated by appraisers CHIH WEI-SIN, WANG SHI-MING, CHI LIANG-AN and TSAI WEN-CHE from Sinyi Real Estate Appraisers Firm, and as of December 31, 2015, was evaluated by appraisers DAI GUANG-PING, CHANG HUNG-KAI, CHANG YI-CHIH and YEH YU-FEN from Savills plc respectively, in accordance with the “Regulations on Real Estate Appraisal”. After consulting with the appraisers, the Group determined that the fair value reported as of December 31, 2016 and 2015 was still effective as of June 30, 2017 and 2016.

The fair value of investment property is supported by observable evidences in the market. Appraising methods mainly include the DCF method of income.

Commercial office buildings and terraced shops are appraised using the DCF method of income approach mostly because of the market liquidity and the comparable sales and rental cases in their neighboring areas.

Reasonable net profit refers to market practices. Total revenue from subject properties are estimated with the assumption that rent level is adjusted within the range of 0.17%~0.25% every year, minus, expected loss due to idled or others reasons and relevant expense raised from operating activities.

In accordance with R.O.C. Real Estate Appraiser Alliance Statement No.5, total assessment of the current value of the house refers to the assessed current value of the house released by the local governments, and is calculated from areas of property right (including public facility). House tax is calculated with total assessment of the current value of the house, and tax rate in accordance with the Regulations of House Tax.

Land tax refers to future publicly announced price of the subject property estimated by changes of publicly announced price in recent year.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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The principle of calculating replacement allowance is to multiply 10%~20% of the building and construction expense and amortized in 10~20 years, in accordance with R.O.C Real Estate Appraiser Alliance Statement No.5.

The inputs applied are as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Discount rate	4.345 %	4.345 %	4.485 %

The decision of discount rate is based on risk premium method, consideration of time deposit rates, government bond rates, risk on real estate investments changes in currency situation, and estate price, etc. Discount rate is based on the two-year time deposit floating rate below ten million of Chunghwa Post Co., Ltd., in consideration of the earning position, liquidity, risk, increment and the difficulty of management, plus, risk premium, in accordance with Rule No.9 of the “Regulations Governing the Preparation of Financial Reports by Securities Firms”. When the discount rate decreases, the fair value will increase, and vice versa.

For the three months and six months ended June 30, 2017 and 2016, rental revenue from investment property amounted to \$6,132, \$6,099, \$12,222 and \$12,198, respectively; direct operating expenses were \$754, \$182, \$1,703 and \$1,053, respectively; while the direct operating expenses of investment property which did not generate rental revenue amounted to \$231, \$18, \$290 and \$233, respectively.

As of June 30, 2017, December 31 and June 30, 2016, certain investment property were pledged as collateral, please refer to note 8 for detail.

(n) Intangible assets

The costs and amortization of intangible assets of the Group for the six months ended June 30, 2017 and 2016, were as follows:

	<u>Operating rights</u>	<u>Computer software</u>	<u>Other intangible assets</u>	<u>Total</u>
Costs:				
Balance at January 1, 2017	\$ 79,742	688,391	1,925	770,058
Acquisitions	-	21,031	-	21,031
Disposals	-	(210)	-	(210)
Effect of change in exchange rates	-	(309)	-	(309)
Balance at June 30, 2017	<u>\$ 79,742</u>	<u>708,903</u>	<u>1,925</u>	<u>790,570</u>
Balance at January 1, 2016	\$ 79,742	649,966	-	729,708
Acquisition	-	29,989	-	29,989
Disposals	-	(21,364)	-	(21,364)
Effect of change in exchange rates	-	(124)	-	(124)
Balance at June 30, 2016	<u>\$ 79,742</u>	<u>658,467</u>	<u>-</u>	<u>738,209</u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

	<u>Operating rights</u>	<u>Computer software</u>	<u>Other intangible assets</u>	<u>Total</u>
Amortization:				
Balance at January 1, 2017	\$ 79,742	548,835	-	628,577
Amortization	-	38,426	-	38,426
Disposals	-	(210)	-	(210)
Effect of change in exchange rates	-	(202)	-	(202)
Balance at June 30, 2017	<u>\$ 79,742</u>	<u>586,849</u>	<u>-</u>	<u>666,591</u>
Balance at January 1, 2016	\$ 79,742	501,477	-	581,219
Amortization	-	33,719	-	33,719
Disposals	-	(21,364)	-	(21,364)
Effect of change in exchange rates	-	(57)	-	(57)
Balance at June 30, 2016	<u>\$ 79,742</u>	<u>513,775</u>	<u>-</u>	<u>593,517</u>
Carrying amount:				
Balance at January 1, 2017	<u>\$ -</u>	<u>139,556</u>	<u>1,925</u>	<u>141,481</u>
Balance at June 30, 2017	<u>\$ -</u>	<u>122,054</u>	<u>1,925</u>	<u>123,979</u>
Balance at January 1, 2016	<u>\$ -</u>	<u>148,489</u>	<u>-</u>	<u>148,489</u>
Balance at June 30, 2016	<u>\$ -</u>	<u>144,692</u>	<u>-</u>	<u>144,692</u>

(o) Operating deposits

As stipulated in the Regulations Governing Securities Firms, the Regulations for Securities Brokers Undertaking Pecuniary and Securities Financing, the Regulations Governing Futures Commission Merchants, and the Securities Investment Trust and Consulting Act, the Group had provided time deposits as operating deposits amounting to \$885,000, \$935,000 and \$980,000 as of June 30, 2017, December 31 and June 30, 2016, respectively, recorded under other non-current assets.

(p) Settlement and clearing funds

As stipulated in the Regulations Governing Securities Firms and the Taiwan Futures Exchange Corporation Criteria for Clearing Membership, the Group had deposited settlement and clearing funds in the TWSE, the Taiwan Futures Exchange, Hong Kong Exchanges and Clearing Limited, and the TPEx as of June 30, 2017, December 31 and June 30, 2016. The details are as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Centralized exchange market	\$ 111,616	104,882	101,882
Taipei Exchange	54,828	56,168	54,668
Taiwan Futures Exchange	151,945	163,328	169,704
Total	<u>\$ 318,389</u>	<u>324,378</u>	<u>326,254</u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(q) Overdue receivables

Some investors failed to settle stock purchases made by pecuniary finance. Therefore, the Group disposed of the securities so purchased by the investors and deducted the proceeds of such sales from receivables from pecuniary finance. In addition, some collateral securities purchased by investors through unsettled pecuniary finance contracts were unable to be disposed of. The Group has persistently tried to settle the aforementioned claims and has recorded the uncollected receivables from such unsettled pecuniary finance contracts and past-maturity corporate bonds as overdue receivables, recorded under other non-current assets.

As of June 30, 2017, December 31 and June 30, 2016, the details of overdue receivables were as follows:

	June 30, 2017	December 31, 2016	June 30, 2016
Receivables from failed pecuniary finance contracts and the related interest	\$ 5,570	6,056	6,651
Other overdue receivables	<u>771</u>	<u>724</u>	<u>2,050</u>
Subtotal	6,341	6,780	8,701
Less: related allowance for uncollectible accounts	5,069	5,330	7,152
Total	<u>\$ 1,272</u>	<u>1,450</u>	<u>1,549</u>

The composition of allowance for doubtful accounts was as follows:

	June 30, 2017	December 31, 2016	June 30, 2016
Beginning balance	\$ 5,330	6,815	6,815
Increase	-	74	337
Write-off	<u>(261)</u>	<u>(1,559)</u>	<u>-</u>
Ending balance	<u>\$ 5,069</u>	<u>5,330</u>	<u>7,152</u>

(r) Short-term borrowings

	June 30, 2017	December 31, 2016	June 30, 2016
Unsecured and secured loans	<u>\$ 329,840</u>	<u>2,500,000</u>	<u>-</u>
Interest rate (%) range	0.60~0.85 %	0.60 %	- %
Unissued short-term borrowings facilities	<u>\$ 26,375,160</u>	<u>23,705,000</u>	<u>22,105,000</u>

For the details of short-term borrowings pledged on June 30, 2017, please refer to note 8.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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(s) Commercial paper issued

	June 30, 2017	December 31, 2016	June 30, 2016
Commercial paper issued, par value	\$ 8,400,000	-	3,950,000
Less: discounts on commercial paper issued	(1,296)	-	(589)
Total	<u>\$ 8,398,704</u>	<u>-</u>	<u>3,949,411</u>
Interest rate (%) range	0.39%~0.52%	-%	0.31%~0.47%
Unissued commercial paper facilities	<u>\$ 10,300,000</u>	<u>16,200,000</u>	<u>11,250,000</u>

All of these commercial paper were underwritten by bills finance corporations and banks.

(t) Financial liabilities measured at fair value through profit or loss – current

	June 30, 2017	December 31, 2016	June 30, 2016
Securities purchased under resell agreements-pecuniary refinancing	\$ 818,367	256,680	197,506
Warrant liabilities	342,906	135,885	333,487
Settlement coverage bonds payable of short sale	149,796	49,865	-
Liabilities on sale of borrowed securities	166,527	203,565	252,194
Derivative liabilities – OTC	1,195,021	920,399	580,448
Financial liabilities designated at fair value through profit or loss at time of initial recognition	2,648,154	2,282,024	2,440,005
Put options-futures	1,399	23	-
Total	<u>\$ 5,322,170</u>	<u>3,848,441</u>	<u>3,803,640</u>

The related accounts were as follows:

(i) Securities purchased under resell agreements-pecuniary refinancing

	June 30, 2017	December 31, 2016	June 30, 2016
Securities purchased under resell agreements-pecuniary refinancing	\$ 821,796	254,686	195,896
Valuation adjustment	(3,429)	1,994	1,610
Total	<u>\$ 818,367</u>	<u>256,680</u>	<u>197,506</u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(ii) Warrant liabilities

The Group was approved by the authorities to issue warrants. As of June 30, 2017, December 31 and June 30, 2016, the details of warrant liabilities were as follows:

	June 30, 2017	December 31, 2016	June 30, 2016
Warrant liabilities	\$ 6,768,902	5,479,914	4,753,138
Less: losses (gains) from change in value of warrant liabilities	654,031	(1,444,566)	(1,230,288)
Market value	<u>7,422,933</u>	<u>4,035,348</u>	<u>3,522,850</u>
Warrants redeemed	6,362,274	4,919,068	3,850,193
Less: gains (losses) from change in value of warrant liabilities	717,753	(1,019,605)	(660,830)
Market value	<u>7,080,027</u>	<u>3,899,463</u>	<u>3,189,363</u>
Warrant liabilities, net	<u><u>\$ 342,906</u></u>	<u><u>135,885</u></u>	<u><u>333,487</u></u>

(iii) Settlement coverage bonds payable of short sale

	June 30, 2017	December 31, 2016	June 30, 2016
Settlement coverage bonds payable of short sale	\$ 149,828	49,832	-
Valuation adjustment	<u>(32)</u>	<u>33</u>	<u>-</u>
Total	<u><u>\$ 149,796</u></u>	<u><u>49,865</u></u>	<u><u>-</u></u>

(iv) Liabilities on sale of borrowed securities

	June 30, 2017	December 31, 2016	June 30, 2016
Hedged:			
Listed stocks – TWSE	\$ 9,206	35,668	34,084
Listed stocks – TPEX	1,250	-	2,345
Valuation adjustment	<u>(486)</u>	<u>(1,782)</u>	<u>1,545</u>
Subtotal	<u>9,970</u>	<u>33,886</u>	<u>37,974</u>
Non-hedged:			
Listed stocks – TWSE	141,297	169,972	183,993
Listed stocks – TPEX	12,941	4,151	27,290
Valuation adjustment	<u>2,319</u>	<u>(4,444)</u>	<u>2,937</u>
Subtotal	<u>156,557</u>	<u>169,679</u>	<u>214,220</u>
Total	<u><u>\$ 166,527</u></u>	<u><u>203,565</u></u>	<u><u>252,194</u></u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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(v) Derivative liabilities—OTC

	June 30, 2017	December 31, 2016	June 30, 2016
Interest rate swap contracts	\$ 58,168	38,613	32,781
IRS portion of asset swap contracts	12,608	19,725	7,559
Asset swap options	1,123,053	859,553	540,108
Exchange rate derivative	1,192	2,508	-
Total	<u>\$ 1,195,021</u>	<u>920,399</u>	<u>580,448</u>

(vi) Financial liabilities designated at fair value through profit or loss at time of initial recognition

	June 30, 2017	December 31, 2016	June 30, 2016
Structured notes	\$ 2,647,793	2,281,546	2,440,162
Valuation adjustment	361	478	(157)
Total	<u>\$ 2,648,154</u>	<u>2,282,024</u>	<u>2,440,005</u>

(vii) Sell options-futures

	June 30, 2017	December 31, 2016	June 30, 2016
Sell options-futures	\$ 1,399	23	-
Valuation adjustment	-	-	-
Total	<u>\$ 1,399</u>	<u>23</u>	<u>-</u>

(u) Securities sold under repurchase agreements

	June 30, 2017	December 31, 2016	June 30, 2016
Government bonds	\$ 8,207,468	6,648,571	5,409,644
Corporate bonds and financial bonds	17,148,052	14,583,027	16,115,919
Total	<u>\$ 25,355,520</u>	<u>21,231,598</u>	<u>21,525,563</u>
Interest rate	0.00%~5.30%	0.33%~8.50%	0.30%~2.50%

As of June 30, 2017, December 31 and June 30, 2016, the bonds sold under the said agreements will be due within a year, and will be repurchased with an interest at a contracted price on a specific date. The total amount of repurchase agreement is \$25,387,242, \$21,238,774 and \$21,536,589, respectively.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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(v) Derivative instruments

As of June 30, 2017, December 31 and June 30, 2016, the derivative instruments for trading were as follows:

	June 30, 2017		December 31, 2016		June 30, 2016	
	Book value	Nominal amount	Book value	Nominal amount	Book value	Nominal amount
Total derivative assets:						
Futures trading margin— own funds	\$ 630,237	-	305,604	-	149,003	-
Call options	237	-	13	-	-	-
Interest rate swap contracts	92,303	15,900,000	104,976	10,300,000	9,591	2,100,000
IRS portion of asset swap contracts	5,814	555,100	14,180	1,267,000	26,151	1,620,900
Exchange rate derivatives	-	-	-	-	1,758	95,742
Total derivative liabilities:						
Interest rate swap contracts	58,168	20,100,000	38,613	10,400,000	32,781	5,100,000
IRS portion of asset swap contracts	12,608	876,900	19,725	614,800	7,559	288,000
Asset swap options	1,123,053	3,733,800	859,553	2,541,700	540,108	2,246,800
Exchange rate derivatives	1,192	199,673	2,508	17,200	-	-
Sell options— futures	1,399	-	23	-	-	-
Financial liabilities designated at fair value through profit or loss at time of initial recognition	2,648,154	2,624,252	2,282,024	2,282,494	2,440,005	2,440,496

The derivative financial assets detailed above were recognized as financial assets measured at fair value through profit or loss— current in the financial statements, whereas the derivative financial liabilities were recognized as financial liabilities measured at fair value through profit or loss— current.

The Group conducted a trading of futures and options for trading purpose, and the details for the six months ended June 30, 2017 and 2016 were as follows:

(i) Futures contracts

- 1) As of June 30, 2017, December 31 and June 30, 2016, the Company's unsettled futures contracts were as follows:

June 30, 2017						
Item	Transaction types	Unsettled part		Contract Value	Fair value	Note
		Buy/Sell	Volume			
Future:	FITX	Buy	19	\$ 38,952	38,958	Non-hedge account
	Stock Futures	Buy	261	94,404	96,457	Non-hedge account

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June 30, 2017						
Item	Transaction types	Unsettled part		Contract Value	Fair value	Note
		Buy/Sell	Volume			
	FITX	Sell	96	\$ (197,946)	(196,838)	Non-hedge account
	Stock Futures	Sell	364	(73,240)	(74,882)	Non-hedge account
	Stock Futures	Buy	439	48,669	48,986	Hedge account
	FITF	Sell	10	(11,285)	(11,274)	Hedge account
	FITX	Sell	109	(223,372)	(223,290)	Hedge account
	Stock Futures	Sell	18,622	(2,395,045)	(2,474,728)	Hedge account
	China A50	Buy	10	3,462	3,459	
	China A50	Sell	454	(156,997)	(157,021)	
	STW	Sell	104	(122,151)	(121,972)	
	JNM	Sell	1	(543)	(545)	
	TJF	Sell	15	(65,393)	(65,749)	
	TJF Mini	Sell	5	(2,188)	(2,192)	
	Nikkei 225	Buy	1	2,713	2,720	
	HHI	Sell	18	(36,188)	(35,777)	
	VIX	Sell	131	(49,475)	(49,732)	
	Soybean	Sell	55	(78,200)	(79,919)	
	Ultra U.S. Treasury Bond Futures	Sell	2	(8,265)	(8,207)	
	2-Year T-Note Futures	Sell	2	(13,165)	(13,156)	
	10-Year T-Note Futures	Sell	296	(1,135,207)	(1,131,025)	
	U.S. Treasury Bond Futures	Sell	14	(65,754)	(65,494)	
	5-Year T-Note Futures	Buy	8	28,723	28,694	
	5-Year T-Note Futures	Sell	30	(107,725)	(107,604)	
	E-MINI NASDAQ100	Sell	26	(89,313)	(89,473)	
	NIFTY 50	Sell	114	(66,103)	(66,059)	
	Total			<u>\$ (4,680,632)</u>	<u>(4,755,663)</u>	

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

December 31, 2016						
Item	Transaction types	Unsettled part		Contract Value	Fair value	Note
		Buy/Sell	Volume			
Future:						
	Stock Futures	Buy	838	\$ 44,795	44,750	Hedge account
	Stock Futures	Sell	7,289	(995,850)	(992,037)	Hedge account
	FITX	Sell	30	(55,476)	(55,572)	Hedge account
	FITX	Sell	7	(7,612)	(7,545)	Hedge account
	Stock Futures	Buy	32	9,447	9,494	Non-hedge account
	Stock Futures	Sell	78	(19,420)	(18,954)	Non-hedge account
	FITX	Sell	9	(16,564)	(16,672)	Non-hedge account
	FITX	Buy	15	27,737	27,786	
	FITX	Sell	15	(27,480)	(27,750)	
	TJF	Sell	12	(50,684)	(50,130)	
	TJF Mini	Sell	37	(15,672)	(15,457)	
	Nikkei 225	Sell	2	(5,273)	(5,248)	
	China A50	Sell	136	(43,862)	(43,738)	
	NIFTY 50	Sell	19	(10,025)	(10,040)	
	E-MINI	Sell	4	(12,607)	(12,561)	
	NASDAQ 100					
	STW	Buy	1	1,109	1,110	
	HHI	Sell	7	(13,515)	(13,678)	
	MCH	Sell	3	(1,173)	(1,172)	
	JNM	Sell	9	(4,783)	(4,731)	
	VIX	Sell	401	(197,623)	(203,093)	
	Total			<u>\$ (1,394,531)</u>	<u>(1,395,238)</u>	

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

June 30, 2016						
Item	Transaction types	Unsettled part		Contract Value	Fair value	Note
		Buy/Sell	Volume			
Future:	Stock Futures	Buy	965	\$ 98,842	100,718	Hedge account
	Stock Futures	Sell	5,110	(568,684)	(587,059)	Hedge account
	FITX	Sell	94	(157,921)	(160,157)	Hedge account
	FITE	Sell	7	(6,600)	(6,500)	Hedge account
	Stock Futures	Sell	3	(499)	(497)	
	Stock Futures	Sell	90	(18,447)	(18,871)	
	FITX	Sell	15	(25,518)	(25,557)	
	FITF	Sell	10	(9,104)	(9,286)	
	TJF	Sell	17	(65,884)	(66,548)	
	Nikkei 225	Sell	13	(31,545)	(31,768)	
	China A50	Sell	219	(64,301)	(65,307)	
	S2SIN	Sell	136	(72,158)	(73,212)	
	E-MINI NASDAQ 100	Sell	8	(22,647)	(22,769)	
	TWA	Sell	98	(98,668)	(100,473)	
	Total			<u>\$ (1,043,134)</u>	<u>(1,067,286)</u>	

- 2) As of June 30, 2017, December 31 and June 30, 2016, the Company subsidiary Fubon Futures' unsettled futures contracts were as follow:

June 30, 2017						
Item	Transaction types	Unsettled part		Contract value	Fair value	Note
		Buy/Sell	Volume			
Future:	Bond Futures	Buy	5	\$ <u>19,264</u>	<u>19,093</u>	

December 31, 2016						
Item	Transaction types	Unsettled part		Contract value	Fair value	Note
		Buy/Sell	Volume			
Future:	Stock Futures	Sell	62	\$ <u>(30,300)</u>	<u>(31,178)</u>	

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

June 30, 2016						
Item	Transaction types	Unsettled part		Contract value	Fair value	Note
		Buy/Sell	Volume			
Future:						
	Stock Futures	Buy	3	\$ 980	975	
	Stock Futures	Sell	3	(990)	(972)	
	FITF	Buy	13	11,975	12,072	
	FITF	Sell	13	(11,785)	(11,861)	
	MTX	Buy	75	125,365	127,785	
	MTX	Sell	135	(229,645)	(230,013)	
	STW	Sell	100	(100,208)	(103,145)	
	Total			<u>\$ (204,308)</u>	<u>(205,159)</u>	

(ii) Option contracts

The Company engaged in market-making business after obtaining approval from the TAIEX and engaged in structured transaction business approved by the TPEX in February 2002 and July 2003, respectively.

- 1) As of June 30, 2017, December 31 and June 30, 2016, the Company's unsettled option contracts were as follow:

June 30, 2017						
Item	Volume	Unsettled part		Contract value	Faie value	Note
		Buy/sell	Volume			
Option:						
	TX1 (put option)	Buy	28	\$ 32	35	Non-hedge account
	TXO (put option)	Buy	168	404	202	Non-hedge account
	TX1 (call option)	Sell	4	(8)	(9)	Non-hedge account
	TX1 (put option)	Sell	24	(129)	(152)	Non-hedge account
	TXO (call option)	Sell	160	(320)	(360)	Non-hedge account
	TXO (put option)	Sell	1,247	(3,868)	(779)	Hedge account
	Total			<u>\$ (3,889)</u>	<u>(1,063)</u>	

December 31, 2016						
Item	Volume	Unsettled part		Contract value	Faie value	Note
		Buy/sell	Volume			
Option:						
	TXO (put option)	Buy	205	\$ 14	9	Hedge account

As of June 30, 2016, there was no unsettled option contracts.

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

- 2) As of June 30, 2017, December 31 and June 30, 2016, the Company subsidiary Fubon Futures' unsettled option contracts were as follow:

December 31, 2016						
Item	Volume	Unsettled part		Contract value	Faie value	Note
		Buy/sell	Volume			
Option	TXO (put option)	Sell	10	\$ <u>(24)</u>	<u>(23)</u>	

As of June 30, 2017, December 31 and June 30, 2016, there was no unsettled option contracts.

The Company deal in futures contracts and options expressed in the statements of income as follows (booked as losses on derivative financial instruments – futures):

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Gains (losses) on futures contracts – realized	\$ (220,618)	24,958	(228,069)	(2,471)
Losses on futures contracts – unrealized	(67,155)	(26,109)	(65,714)	(35,726)
Gains (losses) on options – realized	898	(247)	(1,234)	(1,431)
Gains on options – unrealized	<u>2,666</u>	<u>-</u>	<u>2,513</u>	<u>-</u>
Losses on derivative financial instruments, net – futures	<u>\$ (284,209)</u>	<u>(1,398)</u>	<u>(292,504)</u>	<u>(39,628)</u>

The Company subsidiary Fubon Futures deal in futures contracts and options expressed in the statements of income as follows (booked as non operating gains on derivative financial instruments – futures) :

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Gains on futures contracts – realized	\$ -	11,418	-	9,660
Losses on futures contracts – unrealized	-	(5,252)	-	(5,093)
Gains on derivative financial instruments, net – futures	<u>\$ -</u>	<u>6,166</u>	<u>-</u>	<u>4,567</u>

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

The Company entered into interest rate swaps, asset swaps, and structured notes expressed in the statements of income as follows (booked as gains (losses) on derivative financial instruments – TPEX):

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Losses on valuation exchange	\$ (8,368)	(10,883)	(28,473)	(15,187)
Valuation gains (losses) from asset swap options	10,296	(68,991)	(21,005)	(96,667)
Gains on maturity of asset swap options	12,004	12,443	16,236	14,350
Gains on exercise of asset swap options	266	5,697	11,130	14,537
Valuation gains (losses) from IRS portion of asset swap contracts	(4,550)	2,270	(24,312)	4,967
Gains on equity derivatives	56	-	56	-
Losses on structured notes	(6,249)	(3,282)	(7,690)	(5,693)
Valuation gains (losses) from exchange rate derivatives	(2,620)	(3,772)	(2,327)	1,433
Losses on derivative financial instruments, net – TPEX	<u>\$ 835</u>	<u>(66,518)</u>	<u>(56,385)</u>	<u>(82,260)</u>

(w) Notes and accounts payable

	June 30, 2017	December 31, 2016	June 30, 2016
Accounts payable – non-related parties:			
Account payable of securities sold for customers	\$ 673,788	565,605	560,649
Account payable for settlement	10,039,158	10,876,083	10,968,378
Settlement proceeds	1,299,020	58,853	181,168
Others	189,608	46,324	213,058
Subtotal	<u>12,201,574</u>	<u>11,546,865</u>	<u>11,923,253</u>
Notes payable – non-related parties	9	-	-
Total	<u>\$ 12,201,583</u>	<u>11,546,865</u>	<u>11,923,253</u>
Notes payable – related parties	\$ 509	-	-
Accounts payable – related parties	248	14,290	13,386
Notes and accounts payable – related parties	<u>\$ 757</u>	<u>14,290</u>	<u>13,386</u>

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(x) Other payables

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Other payables — non-related parties:			
Tax payable	\$ 39,987	39,108	35,189
Employee bonuses payable	431,336	676,822	320,462
Pensions payable	21,061	51,051	16,235
Discount on brokerage commission payable	123,709	76,533	83,996
Information technology fees payable	64,932	26,231	49,372
Judicial indemnification payable	11,526	11,526	11,526
Estimated additional tax interest payable	-	-	23,058
Professional service payable	17,410	24,600	19,596
Insurance premium payable	25,575	24,666	27,479
Short-term paid leave payable	128,837	113,475	-
Rents payable	3,980	6,659	13,576
Others (no individual accounts for more than \$10,000)	129,083	156,029	119,692
Other payables	<u>\$ 997,436</u>	<u>1,206,700</u>	<u>720,181</u>
Other payables — related parties	<u>\$ 50,011</u>	<u>32,801</u>	<u>30,907</u>

(y) Other current liabilities

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Advance receipts	\$ 26	282	2,332
Receipts under custody	1,136,150	715,851	1,103,309
Temporary receipts	24,640	22,875	28,092
Customer Accounts	245,066	240,333	524,019
Total	<u>\$ 1,405,882</u>	<u>979,341</u>	<u>1,657,752</u>

(z) Provisions — non-current

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Provision for employee benefits	\$ 939,580	957,022	965,620
Decommissioning costs	32,623	36,252	37,476
Total	<u>\$ 972,203</u>	<u>993,274</u>	<u>1,003,096</u>

Under IAS 37 as endorsed by the FSC, the Group should estimate the costs of dismantling, relocating, and restoring the leased assets at the end of the lease term, and the costs are estimated based on discounted present value. The discount rate was the one-year time deposit rate from Chunghwa Post Co., Ltd.

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(aa) Employee benefits

(i) Defined benefit plans

There was no significant volatility of the market or any significant reimbursement, settlement or other one time event in the prior fiscal year, the Group used December 31, 2016 and 2015 pension cost measured and disclosed the interim pension cost.

The Group's expenses recognized in profit or loss were as follows:

	For the three months ended June 30		For the six months ended June 30	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Pension expense (booked as operating expense)	<u>\$ 6,763</u>	<u>6,989</u>	<u>13,576</u>	<u>14,554</u>

(ii) Defined contribution plans

The Group contributed 6% of each employee's monthly wages to a labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. The Group contributed a fixed amount to the Bureau of Labor Insurance without any additional legal or constructive obligations.

Pension under defined contribution plans has been deposited to Bureau of Labor Insurance. The Group's expenses recognized in profit or loss were as follows:

	For the three months ended June 30		For the six months ended June 30	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Pension expense (booked as operating expense)	<u>\$ 23,259</u>	<u>24,370</u>	<u>46,723</u>	<u>49,491</u>

(ab) Income tax

(i) The components of income tax expense for the three months and six months ended June 30, 2017 and 2016 were as follows:

	For the three months ended June 30		For the six months ended June 30	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current tax expense				
Current period	\$ 138,641	34,440	153,133	65,173
Deferred tax benefit				
Current period	<u>(70,429)</u>	<u>(24,782)</u>	<u>(18,073)</u>	<u>(14,833)</u>
Income tax expense	<u>\$ 68,212</u>	<u>9,658</u>	<u>135,060</u>	<u>50,340</u>

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

- (ii) The details of income tax recognized in other comprehensive income were as follows:

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Items that may be subsequently reclassified into profit or loss:				
Exchange differences on translation of foreign operations	\$ <u>(1,373)</u>	<u>4,646</u>	<u>15,697</u>	<u>6,044</u>

- (iii) The ROC income tax authorities have examined the income tax returns of the Company for all years through 2011. The Company disagreed with the assessment regarding the recognition of warrants taxes and operating right amortization of 2011 and 2010, and filed an appeal. However, the Company has accrued this additional income tax assessment amounting to \$12,717 and \$466,678, respectively. The income tax returns of the Company subsidiaries Fubon Asset Management, Fubon Futures, Fubon Investment Service and Fubon Securities Venture Capital have been examined by the ROC income tax authorities through 2015.
- (iv) Information related to the unappropriated retained earnings and tax deduction

	June 30, 2017	December 31, 2016	June 30, 2016
	Unappropriated retained earnings of 1998 and after	\$ <u>839,023</u>	<u>1,418,724</u>
Balance of imputation credit account	\$ <u>322</u>	<u>161,675</u>	<u>43,250</u>
		2016 (estimated)	2015 (actual)
Tax deduction ratio for earnings distribution to ROC residents stockholders		<u>16.89 %</u>	<u>14.05 %</u>

Intergraded income tax shown in the table above is prepared in accordance with the Ruling Letter No.10204562810 issued by the Ministry of Finance of the Republic of China on October 17, 2013.

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(ac) Capital and other equity

As of June 30, 2017, December 31 and June 30, 2016, the total value of nominal ordinary shares amounted to \$26,000,000. Face value of each share is \$10, so in total there were 2,600,000 ordinary shares, and paid-in capital was \$16,643,550.

(i) Capital surplus

The Company's capital surplus as of June 30, 2017, December 31 and June 30, 2016, was as follows:

	June 30, 2017	December 31, 2016	June 30, 2016
Long-term equity investment adjustments	<u>\$ 7,335</u>	<u>7,335</u>	<u>7,335</u>

According to the new amendment of the ROC Company Act on January, 2012, capital surplus should be used to offset the accumulated deficit first, and could be used to distribute as stock or cash dividends using the realized capital surplus. The aforementioned realized capital surplus includes the amount derived from the issuance of new shares at a premium and the income from endowments received by the Company. The share capital capitalized in any one year may not exceed 10% of the Company's paid-in capital under the Regulations Governing the Offering and Issuance of Securities by Securities Issuers.

(ii) Retained earnings

1) Legal reserve

Following the amendment of the ROC Company Act announced on January, 2012, the Company must retain 10% of its after-tax annual earnings as legal reserve until it is equal to share capital. When the Company incurs no loss, it may, pursuant to a resolution to be adopted by a shareholders' meeting, distribute its legal reserve by issuing new shares or distributing cash. Only the portion of the legal reserve which exceeds 25 percent of the paid-in capital can be distributed.

2) Special reserve

	June 30, 2017	December 31, 2016	June 30, 2016
Appropriation under Regulations Governing Securities Firms	\$ 9,095,090	8,794,292	8,794,292
Appropriation of bad debts loss expense reserve	10,909	10,909	10,909
Appropriation of the adoption of investment property using the fair value model	279,415	286,469	286,469
Appropriation of Fintech development	7,520	-	-
	<u>\$ 9,392,934</u>	<u>9,091,670</u>	<u>9,091,670</u>

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES**Notes to the Consolidated Interim Financial Statements**

According to the Regulations Governing Securities Firms, the Company must retain 20% of its after-tax annual earnings as special reserve until it is equal to share capital. Special Reserve can only be used to offset the accumulated deficit or be converted to share capital when it reaches an amount equals to one-half of paid-in capital.

According to Rule Letter No. 1010032090 of the FSC, reserve for bad debt was transferred to special reserve on January 1, 2013. The special reserve can only be used to offset an accumulated deficit, or be converted to share capital, when it reaches an amount equal to one-half of issued share capital.

In 2014, the Company changed the subsequent measurement of investment property from cost model to fair value model. According to Rule Letter No.1030008251 issued by the FSC on April 11, 2014, the Company recognized the same amount of net increase in fair value as special reserve at the first-time adoption of fair value model. Thus, the net increase of fair value amounted to \$277,894, which was recognized in retained earnings. As of January 1, 2014, the Company retained its special reserve to restrict earning distribution at the first-time adoption of the fair value model. When allocating distributable earnings every year, the Company recognizes special reserve in the following order:

- a) If there is a net increase of fair value generated from the adoption of fair value model in the current period, the Company should recognize the same amount of increase as special reserve from its current profit or loss or prior unappropriated earnings. If there was an accumulated net increase in the prior period, the Company should recognize the same amount of increase from its prior unappropriated earnings as special reserve which could not be distributed. When there was the deduction of accumulated net increase of fair value or disposal of investment property, the Company should reverse and distribute the earnings to cover the deduction or the disposal. The Company decided to appropriate (reverse) its special reserve amounting to \$(7,054) and \$22,614 via the board of directors' meeting on behalf of the shareholders held on April 24, 2017 and April 25, 2016, respectively.
- b) According to Rule Letter No.1010028514 issued by the FSC on June 29, 2012, the difference between the deduction of other equity and the special reserve recognized due to the first-time adoption of IFRSs, the Company should retain its special reserve from the current profit or loss and unappropriated earnings in the prior period. If there was the deduction of accumulation in other equity, the Company should recognize its special reserve from the unappropriated earnings in the prior period which could not be distributed. When reversing the deduction of other equity, the Company can distribute its reversed earnings.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

According to Rule Letter No.10500278285 issued by the FSC on August 5, 2016, for the development of Fintech, the Company should retain 0.5% of its after-tax net income as special reserve upon distributing its annual earnings from 2016 to 2018 in order to guarantee the right of employees. Also, upon distributing the earnings of 2017, the expenditure of staff education training, staff transfer or resettlement arising from the development of Fintech could be reversed from those special reserve. According to this regulation, the Company decided to appropriate its special reserve amounting to \$7,520 via board of directors' meeting on behalf of the shareholders held on April 24, 2017.

3) Unappropriated earnings

According to the Company's revised articles of incorporation on January 29, 2016, 10% of annual earnings after offsetting accumulated deficit (if any) is to be retained as legal reserve and 20% as special reserve. The remaining of the unappropriated earnings together with the prior year unappropriated earnings including the reverse from the special reserve, which is to be distributed as the common stock dividends upon the approval of the shareholders' meeting.

The authority of the shareholders' meeting has been fully executed by the board of directors' meeting since the Company became Fubon Financial's 100%-owned subsidiary.

Earnings distribution for 2016 and 2015 was decided via the board of directors' meeting on behalf of the shareholders held on April 24, 2017 and April 25, 2016, respectively. The relevant earnings distributions were as follows:

	Earnings distribution		Earnings per share (New Taiwan Dollars)	
	2016	2015	2016	2015
Legal reserve	\$ 141,873	134,835	-	-
Special reserve	301,264	292,284	-	-
Cash dividend	<u>975,587</u>	<u>817,423</u>	0.59	0.49
	<u>\$ 1,418,724</u>	<u>1,244,542</u>		

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(iii) Other equity (net of tax)

	Exchange differences on translation of foreign operations	Available- for-sale investments	Revaluation gains on property	Total
January 1, 2017	\$ (47,378)	1,188,139	6,536	1,147,297
Exchange differences on translation of foreign operations	(59,647)	-	-	(59,647)
Unrealized gains on available-for-sale financial assets	-	112,490	-	112,490
Accumulated gains from disposal of available-for-sale financial assets reclassified to profit or loss	-	262,787	-	262,787
Share of unrealized losses of available-for-sale financial assets of the associates accounted for using equity method	-	(18,702)	-	(18,702)
June 30, 2017	<u>\$ (107,025)</u>	<u>1,544,714</u>	<u>6,536</u>	<u>1,444,225</u>
January 1, 2016	\$ (10,306)	752,789	6,536	749,019
Exchange differences on translation of foreign operations	(8,449)	-	-	(8,449)
Share of exchange differences on translation of the associates accounted for using the equity method	(10,531)	-	-	(10,531)
Unrealized gains on available-for-sale financial assets	-	1,159,590	-	1,159,590
Accumulated losses from disposal of available-for-sale financial assets reclassified to profit or loss	-	(11,168)	-	(11,168)
Share of unrealized gains of available-for-sale financial assets of the associates accounted for using equity method	-	(21,561)	-	(21,561)
June 30, 2016	<u>\$ (29,286)</u>	<u>1,879,650</u>	<u>6,536</u>	<u>1,856,900</u>

(iv) Non-controlling interests

	For the six months ended June 30	
	2017	2016
Beginning balance	\$ -	-
Acquisition of the non-controlling interests	168,510	-
Attributable to non-controlling interests		
Net loss	(1,635)	-
Others	(3,029)	-
Ending balance	<u>\$ 163,846</u>	<u>-</u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(ad) Earnings per share

For the three months and six months ended June 30, 2017 and 2016, basic EPS and diluted EPS were calculated as follows:

(i) Basic earnings per share

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Net income attributable to ordinary shareholders of the Company	<u>\$ 493,800</u>	<u>431,989</u>	<u>839,023</u>	<u>790,174</u>
Weighted-average number of ordinary shares outstanding (thousand)	<u>1,664,355</u>	<u>1,664,355</u>	<u>1,664,355</u>	<u>1,664,355</u>
Basic earnings per share	<u>\$ 0.30</u>	<u>0.25</u>	<u>0.50</u>	<u>0.47</u>

(ii) Diluted earnings per share

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Net income attributable to ordinary shareholders of the Company	<u>\$ 493,800</u>	<u>431,989</u>	<u>839,023</u>	<u>790,174</u>
Weighted-average number of ordinary shares outstanding (thousand)	1,664,355	1,664,355	1,664,355	1,664,355
Dilutive potential ordinary shares	<u>26</u>	<u>22</u>	<u>46</u>	<u>41</u>
Weighted-average number of shares outstanding (thousand) for calculating diluted EPS	<u>1,664,381</u>	<u>1,664,377</u>	<u>1,664,401</u>	<u>1,664,396</u>
Diluted earnings per share	<u>\$ 0.30</u>	<u>0.25</u>	<u>0.50</u>	<u>0.47</u>

(ae) Remuneration to employees, directors and supervisors

In accordance with the Articles of Incorporation, 0.1% of the employee remuneration should be distributed if there is profit for the period. However, if the Company has accumulated losses, the earnings shall first be offset against any deficit. Employees entitled to receive shares or cash include the employees of the subsidiaries meeting certain requirements.

For the three months and six months ended June 30, 2017 and 2016, the estimated employee remuneration were \$500, \$430, \$900 and \$810, respectively, and remuneration to directors and supervisors both was \$0 by using the income before tax, minus, employee remuneration and remuneration to directors and supervisors, multiple by the employee remuneration and remuneration to directors and supervisors quotient as the estimation basis; which is to be assigned in the Articles of Incorporation, and recognized as operating expenses for the three months and six months ended June 30, 2017 and 2016. If the actual distribution is different from the estimation, the difference will be dealt as changes in accounting estimates and recognized in profit or loss in the following year.

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For the year ended December 31, 2016 and 2015, the remunerations to employees amounted to \$1,526 and \$1,431, respectively, there are no subsequent adjustments to the actual remuneration amounts after the annual shareholders' meeting. Related information would be available at the Market Observation Post System website.

(af) Revenue and expense

For the three months and six months ended June 30, 2017 and 2016, the details of the revenue and expense of the Group were as follows:

(i) Brokerage handling fee revenue

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Centralized exchange market	\$ 511,678	354,639	963,828	746,909
Taipei Exchange	178,705	145,900	341,810	304,800
Taiwan Futures Exchange	151,490	146,576	285,463	300,067
Handling fees from securities financing	9,873	12,414	18,736	23,439
Income from dealing with securities lending	13,876	3,151	28,229	5,297
Revenues from sub-broker handling fee	<u>55,784</u>	<u>45,488</u>	<u>120,698</u>	<u>85,771</u>
Total	<u><u>\$ 921,406</u></u>	<u><u>708,168</u></u>	<u><u>1,758,764</u></u>	<u><u>1,466,283</u></u>

(ii) Revenue from underwriting business

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Revenues from underwriting securities on a firm commitment basis	\$ 32,576	24,096	48,468	31,947
Handling fee revenues from underwriting operations	4,950	1,562	6,670	3,265
Revenues from underwriting consultation	12,643	7,960	21,153	12,545
Other revenues from underwriting business	38,199	26,097	47,050	44,881
Others	<u>4</u>	<u>4</u>	<u>8</u>	<u>8</u>
Total	<u><u>\$ 88,372</u></u>	<u><u>59,719</u></u>	<u><u>123,349</u></u>	<u><u>92,646</u></u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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(iii) Gains (losses) on sale of trading securities

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Dealing – domestic	\$ 217,171	(46,722)	330,544	(10,795)
Dealing – overseas	4,244	(18,327)	2,782	(24,073)
Underwriting – domestic	59,018	3,987	68,763	10,368
Underwriting – overseas	6	-	3,043	-
Hedging – domestic	176,399	(56,708)	271,684	(119,152)
Total	\$ 456,838	(117,770)	676,816	(143,652)

(iv) Valuation gains on trading securities measured at fair value through profit or loss

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Dealing – domestic	\$ (28,289)	62,021	(202)	190,243
Dealing – overseas	10,950	57,946	5,501	15,003
Underwriting – domestic	22,621	4,480	20,690	31,519
Underwriting – overseas	3	-	2,007	-
Hedging – domestic	149,104	108,708	184,331	220,298
Settlement coverage bonds payable of short sale	(148)	-	64	(128)
Total	\$ 154,241	233,155	212,391	456,935

(v) Gains (losses) from issuance of call (put) warrants

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Gains from changes in fair value of call (put) warrants	\$ 1,762,283	3,342,292	2,691,970	5,657,705
Losses on exercise of call (put) warrants before maturity	(27,827)	(16,650)	(33,256)	(35,035)
Losses on changes in fair value upon redemption of call (put) warrants	(1,780,614)	(3,228,077)	(2,706,580)	(5,431,500)
Expenses arising from issuance of call (put) warrants	(14,473)	(17,602)	(33,306)	(35,872)
Total	\$ (60,631)	79,963	(81,172)	155,298

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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(vi) Revenue from interest income

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Margin purchase / short sales	\$ 185,316	170,342	359,740	341,405
Dividend yield of fund	11,610	14,003	12,817	14,003
Bonds interests	84,524	86,308	170,291	159,857
Others	8,939	4,886	30,051	9,926
Total	\$ 290,389	275,539	572,899	525,191

(vii) Other operating income

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Management fee revenues	\$ 239,228	216,890	453,635	412,431
Foreign exchange gains	(16,154)	1,922	(29,009)	77,746
Others	31,019	24,279	54,444	41,405
Total	\$ 254,093	243,091	479,070	531,582

(viii) Employee benefits expense

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Wages and salaries	\$ 688,545	599,883	1,339,610	1,210,126
Insurance expense	49,467	52,965	110,526	112,823
Pension expense	39,381	38,221	73,719	71,015
Other employee benefits expense	26,486	26,619	52,100	54,126
Total	\$ 803,879	717,688	1,575,955	1,448,090

(ix) Depreciation and amortization expense

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Depreciation	\$ 35,603	38,775	71,918	76,366
Amortization	21,762	19,643	41,538	39,259
Total	\$ 57,365	58,418	113,456	115,625

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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(x) Other operating expense

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Rental expense	\$ 94,455	98,636	181,979	194,071
Taxes	90,615	88,469	173,251	179,328
Information technology expense	56,172	48,178	101,880	103,089
Postage expense	30,397	31,186	59,395	59,393
Commission expense	43,450	28,452	72,137	51,261
Repair and maintenance expense	39,928	31,483	67,025	56,850
Professional service fees	14,989	19,833	33,957	36,869
Stock borrowing fees	87,266	26,494	181,147	49,549
Depository service expense	20,411	16,370	38,827	34,019
Utilities expense	9,776	12,882	18,777	21,996
Entertainment expense	11,781	8,409	18,560	15,322
Advertisement expense	33,334	40,667	40,982	41,510
Traveling expense	5,454	5,547	6,826	6,776
Stationery and printing expense	4,113	3,814	7,113	7,038
Membership fee	3,771	3,767	6,743	7,254
Employee training expense	1,880	2,312	2,530	2,740
Others	52,171	53,502	94,314	94,826
Total	\$ 599,963	520,001	1,105,443	961,891

(xi) Finance costs

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Interest expense of asset swap	\$ 703	2,792	2,216	6,575
Interest expense of securities sold under repurchased agreements	20,760	16,302	44,857	35,025
Interest expense and handling fee of commercial paper	5,076	2,246	7,142	2,700
Interest expense of foreign currency bonds	8,808	6,797	14,078	13,243
Others	6,958	3,651	14,119	9,124
Total	\$ 42,305	31,788	82,412	66,667

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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(xii) Other gains and losses

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Financial income	\$ 60,455	37,071	111,698	69,295
Losses on disposal of property and equipment	(558)	-	(817)	-
Gains (losses) on disposal of investments	25,071	(82)	32,243	3,234
Gains on adjustment of fair value—investment property	-	-	11,802	-
Valuation gains (losses) on non-operating financial instruments measured at fair value through profit or loss	9,406	(5,198)	8,450	(3,886)
Dividend revenue	7,734	5,707	10,199	8,020
Rent revenue	6,132	6,099	12,222	12,198
Rental revenue	76,428	73,988	148,900	147,091
Cross-selling revenue	14,713	29,213	37,800	61,590
Gains on non-operating derivative—Futures	-	11,418	-	9,660
Others	<u>7,412</u>	<u>2,459</u>	<u>11,343</u>	<u>5,798</u>
Total	<u>\$ 206,793</u>	<u>160,675</u>	<u>383,840</u>	<u>313,000</u>

(ag) Disclosure of financial instruments

(i) Fair value information

1) Summary

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

Initially, financial instruments should be measured at fair value, which mostly refers to transaction price. Except for those measured at amortized cost, financial instruments are subsequently measured at fair value. A quoted market in an active market provides the most reliable evidence of fair value. If the market is not active, the Group determine the fair value of financial instruments in accordance with (a) the calculation of valuation techniques, (b) valuation provided by the professional electronic information company and commonly used by market participants, or (c) quoted prices of the counter party.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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2) Definition of fair value hierarchy

a) Level 1

Level 1 means fair value of the financial instruments is based on quoted market prices of identical financial instruments in an active market. The definition of active market refers to a market that satisfies all of the following conditions:

- i) The products traded in the market are homogeneous.
- ii) Willing parties are available anytime in the market.
- iii) Price information is available for the public.

b) Level 2

Level 2 means fair value of the financial instruments is based on inputs other than quoted prices in active markets, including observable input parameters that are obtained directly (i.e., prices) or indirectly (i.e., derived from prices) in active markets. For instance:

- i) Quoted prices of similar financial instruments in active markets. The fair value of financial instruments is inferred from the recent trading price of similar financial instruments. Whether products are similar should be judged based on their characteristics and trading rules. Fair value of financial instruments should be based on observable trading prices adjusted over time, trading conditions, the impact of related parties, and correlation of price with similar financial instruments.
- ii) Quoted prices of similar financial instruments in non-active markets.
- iii) Fair value using valuation models. The inputs of valuation models (i.e., interest rates, yield curve, volatility, etc.) are based on available data in the market and should be observable. Observable inputs are those that can be obtained from the market and reflect the expectations of market participants.
- iv) The majority of the input parameters is derived from observable market data or can be validated by their correlation with observable market data.

c) Level 3

Level 3 means inputs in this level are not based on direct market data. For example, historical volatility used in valuation options is an unobservable input because it cannot represent all market participants' expectations regarding future volatility.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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(ii) Measured at fair value

1) Fair value hierarchy

The Group's financial instruments and investment properties measured at fair value are evaluated on a recurring basis. Information of fair value hierarchy was as follows:

<u>Financial instruments measured at fair value</u>	<u>June 30, 2017</u>			
	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
<u>Recurring fair value measurement</u>				
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss				
Held-for-trading financial assets				
Stock investment	\$ 6,568,748	5,896,505	331,035	341,208
Bond investment	29,638,856	8,740,801	20,898,055	-
Others	744,776	707,735	-	37,041
Available-for-sale financial assets				
Stock investment	10,487,734	10,432,020	17,297	38,417
Bond investment	315,609	315,609	-	-
Others	502,643	502,643	-	-
Investment property	855,560	-	-	855,560
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	1,134,690	1,134,690	-	-
<u>Derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss				
Held-for-trading financial assets	728,591	630,474	98,117	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	1,539,326	344,305	1,195,021	-
Financial liabilities designated at fair value through profit or loss at time of initial recognition	2,648,154	-	25,014	2,623,140
<u>December 31, 2016</u>				
<u>Financial instruments measured at fair value</u>	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
<u>Recurring fair value measurement</u>				
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss				
Held-for-trading financial assets				
Stock investment	\$ 2,553,283	1,931,724	587,319	34,240
Bond investment	27,598,195	12,454,199	14,878,964	265,032
Others	2,609,485	2,606,104	3,381	-
Available-for-sale financial assets				
Stock investment	9,651,687	9,613,270	-	38,417
Bond investment	308,443	308,443	-	-
Others	723,415	723,415	-	-
Investment property	1,072,629	-	-	1,072,629
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	510,110	460,245	49,865	-

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<u>Financial instruments measured at fair value</u>	<u>December 31, 2016</u>			
	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
<u>Derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss				
Held-for-trading financial assets	\$ 424,773	305,616	119,157	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	1,056,307	138,416	917,891	-
Financial liabilities designated at fair value through profit or loss at time of initial recognition	2,282,024	-	30,341	2,251,683
<u>Financial instruments measured at fair value</u>	<u>June 30, 2016</u>			
	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
<u>Recurring fair value measurement</u>				
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss				
Held-for-trading financial assets				
Stock investment	\$ 2,450,397	2,450,397	-	-
Bond investment	27,380,802	7,918,456	18,767,047	695,299
Others	1,151,580	1,151,580	-	-
Available-for-sale financial assets				
Stock investment	11,908,112	11,869,695	-	38,417
Bond investment	320,591	320,591	-	-
Others	416,398	416,398	-	-
Investment property	1,075,010	-	-	1,075,010
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	449,700	449,700	-	-
<u>Derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss				
Held-for-trading financial assets	186,503	149,003	37,500	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	913,935	333,487	580,448	-
Financial liabilities designated at fair value through profit or loss at time of initial recognition	2,440,005	-	37,046	2,402,959

2) Valuation techniques

a) Financial instruments

Financial assets are recognized based on the quoted market price. However, if the market price is unavailable, then the fair value is determined based on certain valuation techniques. The estimates and assumptions of the valuation techniques adopted by the Group are identical to those of other market participants.

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If a market for a derivative financial instrument is not active, an entity shall apply different valuation techniques for different financial instruments. For options on futures, an entity could apply the Black Scholes model, Black 76 model, or Merton model as a valuation basis. For fixed-income securities that do not have an active market, the discount rate for residual cash flow valuation will be used for interest rate swap contracts.

b) Non-financial instruments

Fair value of investment property is determined based on the rules stipulating in the Regulation Governing Preparation of Financial Reports by Securities Firms . The fair value of investment property is based on a valuation set by a professional appraisal agency and supported by market evidences, or appraised by using the income approach of discounted cash flow method. Please refer to note 6 (m) for details.

3) Fair value adjustment

a) Limitation of evaluation models and uncertainty inputs

The output of the evaluation model is a approximate amount, and the valuation techniques may not reflect all relevant elements of the Group's financial instrument and non-financial instrument. Therefore, the estimated value will be adjusted based on others parameters, such as model risk or liquidity risk. According to the Group's policy of the fair value model management and pertinent control procedure, the management believe in order to express the fair value of the financial and non financial instrument in balance sheet, the adjustments are proper and essential. Price information and parameters for measurement are carefully used, and the adjustments are based on the current market conditions.

b) Credit risk valuation adjustment

Credit risk valuation adjustment is the fair value of the over-the-counter (OTC) derivative contracts that reflect the credit risks of the two parties, and it is mainly divided into:

- i) Credit value adjustments (CVA): adjust the valuation on transactions that occurs outside the stock exchange market, which refers to OTC derivative contracts, in order to reflect the possibility of the counter parties' delayed payment and default into fair value.
- ii) Debit value adjustments (DVA): adjust the valuation on transactions that occurs outside the stock exchange market, which refers to OTC derivative contracts, in order to reflect the possibility of the counter parties' delayed payment and default into fair value.

CVA and DVA are both expectation of loss and can be written as PD (probability of default), times, LGD (loss given default), times, EAD (exposure at default). The Group use the over-the-counter derivatives to calculate the exposure at default (EAD).

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Following 'IFRS 13 Guidance on disclosure of CVA and DVA' advised by TWSE, the Group adopts 60% as probability of default.

The Group includes the credit risk valuation adjustment in calculating its fair value in order to reflect the credit risks of its counter party and the credit quality of the Group.

4) Transfers between Level 1 and Level 2

There was no significant transfers between Level 1 and Level 2.

5) Reconciliation for Level 3 of the fair value hierarchy

a) Reconciliation of financial assets measured at fair value in Level 3 of the fair value hierarchy

Name	For the six months ended June 30, 2017							Balance at June 30, 2017
	Balance at January 1 2017	Gains (Losses) on Valuation		Increase		Decrease		
		Profit and Loss	Other Comprehensive Income	Purchased/ Issued	Transferred to Level 3	Disposed/ Sold	Transferred from Level 3	
Held-for-trading financial assets	\$ 299,272	508	-	463,282	-	11,069	373,744	378,249
Available-for-sale financial assets	38,417	-	-	-	-	-	-	38,417
Investment property	1,072,629	-	-	-	-	-	217,069	855,560
Total	\$ 1,410,318	508	-	463,282	-	11,069	590,813	1,272,226

Name	For the six months ended June 30, 2016							Balance at June 30, 2016
	Balance at January 1 2017	Gains (Losses) on Valuation		Increase		Decrease		
		Profit and Loss	Other Comprehensive Income	Purchased/ Issued	Transferred to Level 3	Disposed/ Sold	Transferred from Level 3	
Held-for-trading financial assets	\$ 348,220	4,852	-	514,853	-	172,626	-	695,299
Available-for-sale financial assets	38,417	-	-	-	-	-	-	38,417
Investment property	1,075,010	-	-	-	-	-	-	1,075,010
Total	\$ 1,461,647	4,852	-	514,853	-	172,626	-	1,808,726

b) Reconciliation of financial liabilities measured at fair value in Level 3 of the fair value hierarchy

Name	For the six months ended June 30, 2017							Balance at June 30, 2017
	Balance at January 1 2017	Gains (Losses) on Valuation		Increase		Decrease		
		Profit and Loss	Other Comprehensive Income	Purchased/ Issued	Transferred to Level 3	Disposed/ Sold	Transferred from Level 3	
Financial liabilities designated at fair value through profit or loss at time of initial recognition	\$ 2,251,683	152,240	-	8,266,694	-	8,047,477	-	2,623,140

Name	For the six months ended June 30, 2016							Balance at June 30, 2016
	Balance at January 1 2017	Gains (Losses) on Valuation		Increase		Decrease		
		Profit and Loss	Other Comprehensive Income	Purchased/ Issued	Transferred to Level 3	Disposed/ Sold	Transferred from Level 3	
Financial liabilities designated at fair value through profit or loss at time of initial recognition	\$ 2,254,100	996	-	11,644,826	-	11,496,963	-	2,402,959

For gains or losses on the valuation recognized as profit or loss for the period, the changes in unrealized gains or losses were the gains of \$128 and the losses of \$(203) as of June 30, 2017 and 2016, respectively.

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6) Quantitative information of fair value of significant unobservable inputs (Level 3)

The Group's available-for-sale financial assets-securities, investment property and financial liabilities, designated as fair value through profit or loss at time of initial recognition categorized into Level 3, refer to the valuation commonly used by market participants, and the prices quoted by the counter party due to lack of quoted prices in an active market. The inputs between the valuation commonly used by market participants and the prices quoted by the counter party are not related to each other.

The Group uses unadjusted transaction price or third party pricing information. Therefore, there is no need to disclose quantitative information.

Information of financial assets and liabilities measured at fair value in Level 3 of the fair value hierarchy was as follows:

June 30, 2017					
	Fair value	Valuation techniques	Significant unobservable inputs	Intervals	Relationship between inputs and fair value
<u>Recurring fair value measurements</u>					
<u>Non-derivative financial instruments</u>					
Assets:					
Available-for-sale financial assets					
Stock investment	\$ 38,417	Net asset value method	Net asset value (Note 1)	Not applicable	The higher the net asset value, the higher the fair value.
Investment property	855,560	Note 2	Note 2	Note 2	Note 2
Liabilities:					
Financial liabilities measured at fair value through profit or loss					
Financial liabilities designated at fair value through profit or loss at time of initial recognition	2,623,140	Option pricing model	Volatility	1%~80%	The higher the volatility, the higher the fair value.
December 31, 2016					
	Fair value	Valuation techniques	Significant unobservable inputs	Intervals	Relationship between inputs and fair value
<u>Recurring fair value measurements</u>					
<u>Non-derivative financial instruments</u>					
Assets:					
Financial assets measured at fair value through profit or loss					
Held-for-trading financial assets					
Bond investment	\$ 265,032	BVAL valuation technique of Bloomberg	BVAL scores	Not applicable	The higher the BVAL scores, the higher the fair value.
Available-for-sale financial assets					
Stock investment	38,417	Net asset value method	Net asset value (Note 1)	Not applicable	The higher the net asset value, the higher the fair value.
Investment property	1,072,629	Note 2	Note 2	Note 2	Note 2

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December 31, 2016					
	Fair value	Valuation techniques	Significant unobservable inputs	Intervals	Relationship between inputs and fair value
Liabilities:					
Financial liabilities measured at fair value through profit or loss					
Financial liabilities designated at fair value through profit or loss at time of initial recognition	\$ 2,251,683	Option pricing model	Volatility	1%~80%	The higher the volatility, the higher the fair value.
June 30, 2016					
	Fair value	Valuation techniques	Significant unobservable inputs	Intervals	Relationship between inputs and fair value
Recurring fair value measurements					
Non-derivative financial instruments					
Assets:					
Financial assets measured at fair value through profit or loss					
Held-for-trading financial assets					
Bond investment	\$ 695,299	BVAL valuation technique of Bloomberg	BVAL scores	Not applicable	The higher the BVAL scores, the higher the fair value.
Available-for-sale financial assets					
Stock investment	38,417	Net asset value method	Net asset value (Note 1)	Not applicable	The higher the net asset value, the higher the fair value.
Investment property	1,075,010	Note 2	Note 2	Note 2	Note 2
Liabilities:					
Financial liabilities measured at fair value through profit or loss					
Financial liabilities designated at fair value through profit or loss at time of initial recognition	2,402,959	Option pricing model	Volatility	1%~80%	The higher the volatility, the higher the fair value.

Note 1: Net asset value is the amount of assets, less, liabilities of investment object. Reported net asset value is the ending balance of fair value.

Note 2: The fair value of investment property has been performed by appraisers from professional valuation agencies based on the 'Regulations Governing the Preparation of Financial Reports by Securities Firms'. The main appraising method is the use of the discounted cash flow analysis of the income method. Please refer to note 6 (m) for details.

7) Measurement procedure of Level 3 inputs

The financial instruments valuation team of the Group's risk management department is in charge of examining the fair value by using the independent source data in order to make the valuation results approximate the market condition. The team also confirms that the data source are independent, reliable, and consistent with the other information and can be represented as the exercise price, as well as corrects the valuation model periodically, conducts back testing, updates the inputs and information required for the valuation model, and other essential fair value adjustments, to ensure the consequences of valuation are reasonable.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES

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Investment property is regularly measured by independent qualified professional valuers commissioned by the General Affairs Division in conformity with the Regulations Governing the Preparation of financial Reports by Securities Firms.

The Risk Management department and the General Affairs department make the policies on the fair value valuation of financial instruments and investment properties, respectively. They also valuate the procedures to ensure that their policies comply with the relevant IFRSs.

- 8) Fair value measurements in Level 3 – sensitivity analysis of reasonably possible alternative assumptions

For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions by 10% would have the following effects:

June 30, 2017				
Name	Profit or loss		Other comprehensive income	
	Favorable	Unfavorable	Favorable	Unfavorable
Asset				
Held-for-trading financial assets	37,825	(37,825)	-	-
Available-for-sale financial assets	-	-	3,842	(3,842)
Liabilities				
Financial liabilities designated as at fair value through profit or loss at time of initial recognition	262,314	(262,314)	-	-
December 31, 2016				
Name	Profit or loss		Other comprehensive income	
	Favorable	Unfavorable	Favorable	Unfavorable
Asset				
Held-for-trading financial assets	29,927	(29,927)	-	-
Available-for-sale financial assets	-	-	3,842	(3,842)
Liabilities				
Financial liabilities designated as at fair value through profit or loss at time of initial recognition	225,168	(225,168)	-	-
June 30, 2016				
Name	Profit or loss		Other comprehensive income	
	Favorable	Unfavorable	Favorable	Unfavorable
Asset				
Held-for-trading financial assets	69,530	(69,530)	-	-
Available-for-sale financial assets	-	-	3,842	(3,842)
Liabilities				
Financial liabilities designated as at fair value through profit or loss at time of initial recognition	240,296	(240,296)	-	-

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(iii) Fair value of financial instruments not carried at fair value

1) Fair value information

The Group's financial instruments that are not measured at fair value include cash and cash equivalents, pecuniary finance and securities finance, receivables from securities borrowing and lending, collateral for borrowed securities, margin deposits for borrowed securities, accounts receivable, notes receivable, other receivables, operating deposits, settlement and clearing funds, refundable deposits, short-term borrowings, commercial paper issued, securities sold under repurchase agreement, accounts payable, notes payable, other payables, and other financial assets. Since their book value is a reasonable approximation to the fair value, no fair value disclosure is necessary.

2) Valuation techniques

The methods and hypothesis that the Group used in estimating the financial instruments not measured at fair value are as follows:

- a) The carrying amount of financial instruments are estimated by using the book value. It is considered to be reasonable since the maturity date is short. This method is applied to cash and cash equivalents, pecuniary finance and securities finance, receivables from securities borrowing and lending, collateral for borrowed securities, margin deposits for borrowed securities, accounts receivable, notes receivable, other receivables, short-term borrowings, commercial paper issued, securities sold under repurchase agreement, accounts payable, notes payable and other payables.
- b) Because operating deposits, settlement and clearing funds, and refundable deposits do not have specified maturity date, their fair value are estimated based on their book value on the reporting day.
- c) Since equity investment at cost does not have any quoted price in an active market, and that variance of fair value estimation is significant or cannot be reasonably calculated, its fair value cannot be measured. Therefore, the fair value of equity investment will be its book value.

(ah) Financial risk management

(i) Risk management mechanisms.

1) Risk management objectives

The risk management policy aims to establish an overall risk management policy and management mechanisms of the Group. The risk management policy rules the orientation, process, and procedure so as to identify, measure, monitor and control all matters of risk management. In addition, the objective of the risk management policy is to establish systems to manage the risk exposure of the Group, integrate with international risk management standards, and comply with the regulations of the authorities.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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2) Risk management mechanisms

The Group has formulated and executed a written overall risk management system:

- a) Risk management policy: risk management categories (including risk management culture, risk management organization, risk management process and quantitative risk management); scopes of risk management policy (including market risk, credit risk, liquidity risk, funding liquidity risk and liquidation risk, operational risk, system risk and event risk, and legal risk); modification, amendments and waivers of the policies, regulations, and standards; application procedure for risk limits; risk control of investment; asset and liability management; large credit exposure management.
- b) Implementation standard of risk management system: The Group sets risk management standards for the purpose of establishing risk management mechanisms, ensuring the integrity of the risk management system, and improving the efficiency of risk management. The standards include division of risk responsibility, the scope of risk management, market risk management mechanisms (risk management procedures, management mechanisms of risk limits, valuation management, risk factors management, model testing management), credit risk management mechanisms (management of credit risk rating, credit monitoring after transactions, high-risk-customer supervision, credit enhancement, and credit risk mitigation), liquidity risk management mechanisms (market liquidity risk management and funding liquidity risk management), operational risk management mechanisms (KPI and risk monitoring), legal risk (legal and compliance management), and exceptional management.
- c) Risk management of each business department: The Group sets risk mechanisms on the basis of different features and requirements for the business of different departments, including the equity derivative department, dealing department, and underwriting department, and relevant regulations on risk management. The relevant departments should follow the standards of risk management, including relevant control requirements for market risk, credit risk, operational risk, liquidity risk, and legal risk.

3) Risk management organizational framework

In order to control the overall risk of the Group effectively, the Risk Management Department was established to take responsibility for risk management. The Risk Management Department of the Group functions independently under the board of directors and implements risk management systems. The risk management organization includes the board of directors, risk management review committee, risk management department, risk management implementation departments, and business departments. Through division of responsibilities and specialization, the Group cultivates a compliance and risk management culture to ensure risk management works efficiently.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

4) Risk management procedures

The risk management procedures of the Group include risk identification, risk measurement, risk monitoring, and risk reports. The risk assessments and strategies are as follows:

a) Market risk

i) Strategies and processes

The Group sets complete risk management policies and standards by separating financial instruments positions into interest rate, exchange rate, equity security, and other instruments. The Group sets the overall firewall mechanism between front, middle and back office. Market risk management procedures are controlled independently by the middle office, which engages in risk identification, risk measurement, limit monitoring, profit and loss monitoring, risk reporting, and valuation reporting of fair value.

ii) Risk reporting and information measurement

The Group sets the trading position and profit or loss limit mechanisms and the stop-loss regulations to manage trading positions and the profit or loss situation effectively. In addition, the middle office is responsible for daily monitoring of risk limits (including the analysis of the risk sensitivity factors of Delta, Vega, and DV01) to manage trading positions, management of profit or loss, and management procedures for over-limit exceptions. Cooperating with the Risk Management Division of Fubon Financial and improving market risk and related control measures help the market risk management to be implemented more effectively.

b) Credit risk

i) Strategies and processes

The Group has established credit risk management systems. And to control the credit risk of regulatory capital, the Group has implemented risk monitoring and risk rating policies.

The target of credit risk management of the Group is to reach risk-return optimization and use credit risk management instruments to recognize, measure, manage, and monitor credit risks. Through implementation of the risk management systems and standards, the Group can ensure those functions have been implemented.

ii) Risk reporting and information measurement

The operation of credit risk management of the Group includes:

1. Authorization structure and reporting procedures
2. Credit risk evaluation before transactions

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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3. Management of credit rating
4. Credit monitoring after transactions
5. Control measures for credit risk mitigation
6. Quantitative measurements of credit risk

In addition, the Group monitors the credit status of the counterparty, daily compares it with authorized credit risk limits, and regularly submits risk management reports to the Risk Management Committee. Listed companies are separated into different ratings, and credit ratings are from S&P, Moody's, Fitch, and Taiwan Ratings. If events or situations occur that prejudice the Group's rights, urgent measures would be adopted immediately to assert its claim.

c) Liquidity risk

i) Strategies and processes

Liquidity risk includes market liquidity risk and funding liquidity risk. The Group has established and implemented liquidity risk management policies.

Strategies such as obtaining steady, low interest rates and sufficient capital, increasing assets, repaying matured loans, and lowering the funding liquidity risk were used by the Group as liquidity risk management policies for prevention of a cash flow deficit.

The amount and duration of funding needs of various departments are taken into consideration when the Company implements capital management.

The Group has also drawn up a capital allocation plan to react to abnormal capital flows or cope with emergency events.

ii) Risk reporting and information measurement

The management and monitoring of liquidity risk includes maintaining appropriate funds, capital allocation, and liquidity management on a daily basis, monitoring the indicators and limits of liquidity risk management, and establishing emergency strategies to control liquidity risk effectively and to adopt emergency measures immediately.

5) Hedging strategy

The Group's hedging trading is mainly for the purpose of hedging the risk of underlying stock price fluctuations after warrants are issued. A dynamic hedging strategy is adapted to hedge warrants. This means that traders calculate required hedging positions on the basis of the price fluctuation rate of underlying stocks and Delta, and engage in hedge trading within the market risk limits. After hours, according to actual situations, the Group should establish hedging positions to show the effectiveness of evaluating hedging to relevant authorities and traders.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(ii) Risk analysis

1) Credit risk presentation and disclosure

The Group has exposure to credit risk, including issuer credit risk, counterparty credit risk, and credit risk of underlying assets.

Issuer credit risk is the risk that an issuer of financial debt instruments or a bank will default and be unable to fulfill the repayment obligation, or go into bankruptcy or liquidation, and thereby cause the Group to suffer a financial loss.

Counterparty credit risk is the risk that a counterparty will default on a transaction and fail to pay due to price movement in the underlying securities of the Group's derivatives, and thereby cause the Group to suffer a financial loss.

Credit risk of underlying assets is the risk that an underlying asset of an instrument held by the Company will have its credit quality weakened, its risk premium increased, or its credit rating downgraded, or that the issuer will be unable to meet the contractual obligation, and thereby cause the Group to suffer a financial loss.

The Group faced credit risk arising from financial assets including bank deposits, debt securities, over-the-counter (OTC) derivative transactions, repurchase agreements, reverse sell agreements, securities borrowing and lending, refundable deposits, futures trading margin, other refundable deposits, and receivables.

a) Analysis of concentrations of credit risk

As of June 30, 2017, December 31 and June 30, 2016, the maximum credit risk exposure amount of financial assets by region and industry was as described in the following tables:

Financial assets	June 30, 2017					
	Credit risk exposure amount – by region					
	Taiwan	Hong Kong	Asia	Europe	America	Total
Cash and cash equivalents	\$ 10,341,064	72,078	883,155	484	-	11,296,781
Customer margin account	17,444,590	94,156	1,734,064	-	557,034	19,829,844
Held-for-trading financial assets – current	28,124,378	402,544	1,649,037	-	768,440	30,944,399
Debt securities	26,818,834	402,544	1,649,037	-	768,440	29,638,855
Derivative assets – OTC	98,117	-	-	-	-	98,117
Derivative assets – futures trading margin	630,237	-	-	-	-	630,237
Other debt securities	576,953	-	-	-	-	576,953
Call Option – Futures	237	-	-	-	-	237
Margin deposits for borrowed securities	689,411	-	-	-	-	689,411
Other refundable deposits	1,829,990	2,325	272	-	-	1,832,587
Other current assets	605,724	396,039	-	-	-	1,001,763
Available-for-sale financial assets	408,488	-	130,043	-	19,917	558,448
Debt securities	408,488	-	130,043	-	19,917	558,448
Total	\$ 59,443,645	967,142	4,396,571	484	1,345,391	66,153,233
Proportion of the total	<u>89.86 %</u>	<u>1.46 %</u>	<u>6.65 %</u>	<u>- %</u>	<u>2.03 %</u>	<u>100.00 %</u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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December 31, 2016						
Credit risk exposure amount – by region						
Financial assets	Taiwan	Hong Kong	Asia	Europe	America	Total
Cash and cash equivalents	\$ 10,632,384	71,886	949,233	419	29,874	11,683,796
Customer margin account	13,965,034	92,505	1,312,296	-	332,300	15,702,135
Held-for-trading financial assets – current	27,579,682	-	193,947	-	768,885	28,542,514
Debt securities	26,635,363	-	193,947	-	768,885	27,598,195
Derivative assets - OTC	119,156	-	-	-	-	119,156
Derivative assets – futures trading margin	305,604	-	-	-	-	305,604
Other debt securities	519,546	-	-	-	-	519,546
Call Option-Futures	13	-	-	-	-	13
Margin deposits for borrowed securities	32,103	-	-	-	-	32,103
Other refundable deposits	1,704,962	2,466	249	-	-	1,707,677
Other current assets	457,984	318,874	-	-	-	776,858
Available-for-sale financial assets	345,111	-	158,050	-	-	503,161
Debt securities	308,443	-	-	-	-	308,443
Other debt securities	25,946	-	-	-	-	25,946
Open-end funds and money market instruments	10,722	-	158,050	-	-	168,772
Total	\$ 54,717,260	485,731	2,613,775	419	1,131,059	58,948,244
Proportion of the total	<u>92.82 %</u>	<u>0.82 %</u>	<u>4.44 %</u>	<u>- %</u>	<u>1.92 %</u>	<u>100.00 %</u>

June 30, 2016						
Credit risk exposure amount – by region						
Financial assets	Taiwan	Hong Kong	Asia	Europe	America	Total
Cash and cash equivalents	\$ 7,214,362	82,228	17,091	307	80,933	7,394,921
Customer margin account	12,654,842	31,458	2,868,347	-	53,666	15,608,313
Held-for-trading financial assets – current	25,107,245	293,152	1,085,243	326,592	1,276,793	28,089,025
Debt securities	24,399,022	293,152	1,085,243	326,592	1,276,793	27,380,802
Derivative assets – OTC	37,500	-	-	-	-	37,500
Derivative assets – futures trading margin	125,845	-	-	-	-	125,845
Other debt securities	544,878	-	-	-	-	544,878
Margin deposits for borrowed securities	30,807	-	-	-	-	30,807
Other refundable deposits	2,007,735	2,466	-	-	-	2,010,201
Other current assets	912,839	222,471	-	-	-	1,135,310
Available-for-sale financial assets	359,492	-	166,374	-	-	525,866
Debt securities	320,592	-	-	-	-	320,592
Other debt securities	27,894	-	-	-	-	27,894
Open-end funds and money market instruments	11,006	-	166,374	-	-	177,380
Total	\$ 48,287,322	631,775	4,137,055	326,899	1,411,392	54,794,443
Proportion of the total	<u>88.12 %</u>	<u>1.15 %</u>	<u>7.55 %</u>	<u>0.60 %</u>	<u>2.58 %</u>	<u>100.00 %</u>

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June 30, 2017													
Credit risk exposure amount – by industry													
Financial assets	Financial service	Central and local government agencies	Retail and wholesale	Construction and building materials	Biotechnology industry	Food and travel industry	Shipping industry	Electronic industry	Chemical industry	Motor Vehicle industry	Culture	Other services	Total
Cash and cash equivalents	\$ 11,093,733	-	-	-	-	-	-	-	-	-	-	203,048	11,296,781
Customer margin account	19,829,844	-	-	-	-	-	-	-	-	-	-	-	19,829,844
Held-for-trading financial assets – current	4,743,046	5,830,948	580	7,359,776	33,554	891,609	42,309	8,190,410	42,081	152,418	-	3,657,668	30,944,399
Debt securities	3,437,502	5,830,948	580	7,359,776	33,554	891,609	42,309	8,190,410	42,081	152,418	-	3,657,668	29,638,855
Derivative assets – OTC	98,117	-	-	-	-	-	-	-	-	-	-	-	98,117
Derivative assets – futures trading margin	630,237	-	-	-	-	-	-	-	-	-	-	-	630,237
Other debt securities	576,953	-	-	-	-	-	-	-	-	-	-	-	576,953
Call option – futures	237	-	-	-	-	-	-	-	-	-	-	-	237
Margin deposits for borrowed securities	689,411	-	-	-	-	-	-	-	-	-	-	-	689,411
Other refundable deposits	1,830,147	-	-	-	-	-	-	-	-	-	-	2,440	1,832,587
Other current assets	472,269	-	-	-	-	-	-	-	-	-	-	529,494	1,001,763
Available-for-sale financial assets	242,839	315,609	-	-	-	-	-	-	-	-	-	-	558,448
Debt securities	242,839	315,609	-	-	-	-	-	-	-	-	-	-	558,448
Total	\$ 38,901,289	6,146,557	580	7,359,776	33,554	891,609	42,309	8,190,410	42,081	152,418	-	4,392,650	66,153,233
Proportion of the total	<u>58.81 %</u>	<u>9.29 %</u>	<u>- %</u>	<u>11.13 %</u>	<u>0.05 %</u>	<u>1.35 %</u>	<u>0.06 %</u>	<u>12.38 %</u>	<u>0.06 %</u>	<u>0.23 %</u>	<u>- %</u>	<u>6.64 %</u>	<u>100.00 %</u>

December 31, 2016													
Credit risk exposure amount – by industry													
Financial assets	Financial service	Central and local government agencies	Retail and wholesale	Construction and building materials	Biotechnology industry	Food and travel industry	Shipping industry	Electronic industry	Chemical industry	Culture	Other services	Total	
Cash and cash equivalents	\$ 11,466,120	-	-	-	-	-	-	-	-	-	217,676	11,683,796	
Customer margin account	15,702,135	-	-	-	-	-	-	-	-	-	-	15,702,135	
Held-for-trading financial assets – current	3,267,123	8,308,136	7,217	3,380,629	41,411	1,002,879	132,619	9,378,920	49,213	155,664	2,818,703	28,542,514	
Debt securities	2,322,804	8,308,136	7,217	3,380,629	41,411	1,002,879	132,619	9,378,920	49,213	155,664	2,818,703	27,598,195	
Derivative assets – OTC	119,156	-	-	-	-	-	-	-	-	-	-	119,156	
Derivative assets – futures trading margin	305,604	-	-	-	-	-	-	-	-	-	-	305,604	
Other debt securities	519,546	-	-	-	-	-	-	-	-	-	-	519,546	
Call option – futures	13	-	-	-	-	-	-	-	-	-	-	13	
Margin deposits for borrowed securities	32,103	-	-	-	-	-	-	-	-	-	-	32,103	
Other refundable deposits	1,705,097	-	-	-	-	-	-	-	-	-	2,580	1,707,677	
Other current assets	351,802	-	-	-	-	-	-	-	-	-	425,056	776,858	
Available-for-sale financial assets	194,718	308,443	-	-	-	-	-	-	-	-	-	503,161	
Debt securities	-	308,443	-	-	-	-	-	-	-	-	-	308,443	
Other debt securities	25,946	-	-	-	-	-	-	-	-	-	-	25,946	
Open-end funds and money market instruments	168,772	-	-	-	-	-	-	-	-	-	-	168,772	
Total	\$ 32,719,098	8,616,579	7,217	3,380,629	41,411	1,002,879	132,619	9,378,920	49,213	155,664	3,464,015	58,948,244	
Proportion of the total	<u>55.51 %</u>	<u>14.62 %</u>	<u>0.01 %</u>	<u>5.74 %</u>	<u>0.07 %</u>	<u>1.70 %</u>	<u>0.22 %</u>	<u>15.91 %</u>	<u>0.08 %</u>	<u>0.26 %</u>	<u>5.88 %</u>	<u>100.00 %</u>	

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June 30, 2016														
Credit risk exposure amount — by industry														
	Financial service	Central and local government agencies	Retail and wholesale	Construction and building materials	Biotechnology industry	Food and travel industry	Shipping industry	Electronic industry	Chemical industry	Motor Vehicle Industry	Information services	Culture	Other services	Total
Cash and cash equivalents	\$ 7,001,076	-	-	-	-	-	-	-	-	-	-	-	393,845	7,394,921
Customer margin account	15,608,313	-	-	-	-	-	-	-	-	-	-	-	-	15,608,313
Held-for-trading financial assets — current	4,419,371	5,343,904	203,481	3,578,845	89,939	1,100,300	125,511	8,702,454	95,213	526,461	696,216	2,524	3,204,806	28,089,025
Debt securities	3,711,148	5,343,904	203,481	3,578,845	89,939	1,100,300	125,511	8,702,454	95,213	526,461	696,216	2,524	3,204,806	27,380,802
Derivative assets — OTC	37,500	-	-	-	-	-	-	-	-	-	-	-	-	37,500
Derivative assets — futures trading margin	125,845	-	-	-	-	-	-	-	-	-	-	-	-	125,845
Other debt securities	544,878	-	-	-	-	-	-	-	-	-	-	-	-	544,878
Margin deposits for borrowed securities	30,807	-	-	-	-	-	-	-	-	-	-	-	-	30,807
Other refundable deposits	2,007,620	-	-	-	-	-	-	-	-	-	-	-	2,581	2,010,201
Other current assets	770,509	-	-	-	-	-	-	-	-	-	-	-	364,801	1,135,310
Available-for-sale financial assets	205,274	320,592	-	-	-	-	-	-	-	-	-	-	-	525,866
Debt securities	-	320,592	-	-	-	-	-	-	-	-	-	-	-	320,592
Other debt securities	27,894	-	-	-	-	-	-	-	-	-	-	-	-	27,894
Open-end funds and money market instruments	177,380	-	-	-	-	-	-	-	-	-	-	-	-	177,380
Total	\$ 30,042,970	5,664,496	203,481	3,578,845	89,939	1,100,300	125,511	8,702,454	95,213	526,461	696,216	2,524	3,966,033	54,794,443
Proportion of the total	54.84 %	10.34 %	0.37 %	6.53 %	0.16 %	2.01 %	0.23 %	15.88 %	0.17 %	0.96 %	1.27 %	- %	7.24 %	100.00 %

The Group's exposure to credit risk in Taiwan and financial service was due to the following reasons: (1) the Group deposited cash in financial institutions and held debt securities issued or guaranteed by banks, and (2) all the Group's counterparties of derivative transactions, investments in debt securities, and security lending were financial institutions in Taiwan.

b) Introduction to credit risk of financial assets

i) Cash and cash equivalents

Cash and cash equivalents included time deposits, demand deposits, checking accounts, and short-term bills, with trading counterparties being mainly domestic financial institutions.

ii) Financial assets measured at fair value — current

1. Debt securities

The Group held positions in debt securities, including bonds, convertible bonds, and bond funds, which were issued by domestic companies. The details of debt securities are as follows:

a. Convertible bonds

The convertible bonds held by the Group were primarily issued by domestic companies. To control exposure to credit risk from convertible bonds, the Group and its subsidiaries transferred credit risk to external investors by asset swaps.

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b. Bond funds

The underlying assets of bond funds held by the Group were mainly fixed income securities.

2. Bonds with repurchase/resale agreement (RP/RS) undertaking

The main counterparties of RP/RS were financial institutions. When engaging in RS transactions, the Group provided the underlying bonds as collateral which could reduce the exposure to credit risk of its counterparties.

3. Derivatives—over-the-counter (OTC)

When the Group engaged in OTC derivatives, it would sign an ISDA agreement with each counterparty. This provides the contractual framework within which dealing activity across a full range of over-the-counter (OTC) products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or another pre-agreed termination event occurs. The parties execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties to mitigate the counterparty risk inherent in outstanding positions.

OTC derivatives held by the Group included interest rate swaps, convertible bond asset swaps, and equity options. The counterparties were all from the financial industry and were mainly based in Taiwan.

4. Derivatives—futures trading margin

For trading on the centralized exchange market, the Group deposits futures trading margin into an account designated by the Group as a guarantee of future funding to fulfill a contractual obligation. Fubon Futures and Polaris MF Global Futures Co., Ltd are the Group's futures commission merchants. The Group held 100% of the shares of Fubon Futures. Thus, little potential loss due to credit risk was likely to occur.

5. Other debt securities

Other debt securities were mainly the asset-capitalized beneficiary securities Fubon R1, Fubon R2, and Skbank No. 1 REIT. Because of the good quality of entrusted assets and the above-average quality of renters in the asset pool, the Group had low credit risk.

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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iii) Margin deposits for borrowed securities

This includes relevant disclosures of collateral for borrowed securities and margin deposits for borrowed securities. When borrowing the underlying securities from the holder, the Group should deposit the margin in the designated bank account. Because it holds the underlying securities as collateral, the Group will be able to effectively decrease credit exposure to the holder.

iv) Other refundable deposits

Other refundable deposits mainly include operating deposits, settlement and clearing funds, and refundable deposits. Operating deposits are mainly deposited in credit-worthy banks. Clearing and settlement funds are deposited in the TWSE. They are used as compensation when a market securities trading party does not fulfill delivery obligations. The credit risk of institutions where funds are deposited is minimal. Refundable deposits arise when the Group deposits cash or other assets as guarantees. Because deposits are placed in various financial institutions and each deposit amount is not high, the credit risk is dispersed and the credit exposure of the overall refundable deposits is minimal.

v) Other current assets

Other current assets of the Group were cash provided for pledge or restricted use to domestic financial institutions with good credit.

vi) Customer margin account

Customer margin account of the Group was the bank account that Fubon Futures deposited in its initial margins and its premium of traders. The bank account was at low-credit-risk financial institutions.

c) Quality classification definitions

Low Risk: exposures demonstrate a good capacity to meet financial commitments, with low default risk and/or low levels of expected loss.

Moderate Risk: exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.

High Risk: exposures require varying degrees of special attention, and default risk is of greater concern.

Impaired: the Group or the target did not perform its obligation according to the contracts, and the potential estimated loss of the Group has reached the standard of impairment.

Internal credit risk classification and external credit rating of Group were as follows. There was no direct relations between the internal and the external credit rating in the chart, and they were used to present the similarity of credit quality.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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June 30, 2017							
Financial assets credit quality and classification							
Financial assets	Low risk	Moderate risk	High risk	Overdue but not impaired	Impaired	Impairment reserve	Total
Cash and cash equivalents	\$ 10,025,855	1,270,926	-	-	-	-	11,296,781
Customer margin account	19,829,844	-	-	-	-	-	19,829,844
Held-for-trading financial assets – current	18,157,435	12,777,085	9,879	-	-	-	30,944,399
Debt securities	17,345,421	12,283,555	9,879	-	-	-	29,638,855
Derivative assets – OTC	5,886	92,231	-	-	-	-	98,117
Derivative assets – futures trading margin	630,237	-	-	-	-	-	630,237
Other debt securities	175,654	401,299	-	-	-	-	576,953
Call option – futures	237	-	-	-	-	-	237
Margin deposits for borrowed securities	689,411	-	-	-	-	-	689,411
Other refundable deposits	1,831,165	1,422	-	-	-	-	1,832,587
Other current assets	1,001,763	-	-	-	-	-	1,001,763
Available-for-sale financial assets	430,036	30,743	97,669	-	-	-	558,448
Debt securities	430,036	30,743	97,669	-	-	-	558,448
Subtotal	<u>51,965,509</u>	<u>14,080,176</u>	<u>107,548</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,153,233</u>
Proportion of the total	78.54 %	21.29 %	0.17 %	-	-	-	100.00 %
Receivables	19,705,608	7,501,179	442,985	-	-	-	27,649,772
Accounts receivable	15,072,860	-	-	-	-	-	15,072,860
Receivables from pecuniary finance	4,632,748	7,501,179	442,985	-	-	-	12,576,912
Total	<u>\$ 71,671,117</u>	<u>21,581,355</u>	<u>550,533</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,803,005</u>
Proportion of the total	<u>76.41 %</u>	<u>23.00 %</u>	<u>0.59 %</u>	<u>- %</u>	<u>- %</u>	<u>- %</u>	<u>100.00 %</u>

December 31, 2016							
Financial assets credit quality and classification							
Financial assets	Low risk	Moderate risk	High risk	Overdue but not impaired	Impaired	Impairment reserve	Total
Cash and cash equivalents	\$ 9,621,008	2,062,788	-	-	-	-	11,683,796
Customer margin account	15,702,135	-	-	-	-	-	15,702,135
Held-for-trading financial assets – current	19,394,081	8,709,272	439,161	-	-	-	28,542,514
Debt securities	18,984,863	8,174,171	439,161	-	-	-	27,598,195
Derivative assets – OTC	18,028	101,128	-	-	-	-	119,156
Derivative assets – futures trading margin	305,604	-	-	-	-	-	305,604
Other debt securities	85,573	433,973	-	-	-	-	519,546
Call option – futures	13	-	-	-	-	-	13
Margin deposits for borrowed securities	32,103	-	-	-	-	-	32,103
Other refundable deposits	1,706,170	1,507	-	-	-	-	1,707,677
Other current assets	776,858	-	-	-	-	-	776,858
Available-for-sale financial assets	382,912	950	119,299	-	-	-	503,161
Debt securities	308,443	-	-	-	-	-	308,443
Other debt securities	25,946	-	-	-	-	-	25,946
Open-end funds and money market instruments	48,523	950	119,299	-	-	-	168,772
Subtotal	<u>47,615,267</u>	<u>10,774,517</u>	<u>558,460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,948,244</u>
Proportion of the total	80.77 %	18.28 %	0.95 %	-	-	-	100.00 %
Receivables	14,870,101	5,856,467	706,103	-	-	-	21,432,671
Accounts receivable	10,290,550	-	-	-	-	-	10,290,550
Receivables from pecuniary finance	4,579,551	5,856,467	706,103	-	-	-	11,142,121
Total	<u>\$ 62,485,368</u>	<u>16,630,984</u>	<u>1,264,563</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>80,380,915</u>
Proportion of the total	<u>77.74 %</u>	<u>20.69 %</u>	<u>1.57 %</u>	<u>- %</u>	<u>- %</u>	<u>- %</u>	<u>100.00 %</u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

June 30, 2016							
Financial assets credit quality and classification							
Financial assets	Low risk	Moderate risk	High risk	Overdue but not impaired	Impaired	Impairment reserve	Total
Cash and cash equivalents	\$ 5,172,041	2,222,880	-	-	-	-	7,394,921
Customer margin account	15,608,313	-	-	-	-	-	15,608,313
Held-for-trading financial assets – current	18,016,415	10,072,610	-	-	-	-	28,089,025
Debt securities	17,803,551	9,577,251	-	-	-	-	27,380,802
Derivative assets – OTC	3,631	33,869	-	-	-	-	37,500
Derivative assets – futures trading margin	125,845	-	-	-	-	-	125,845
Other debt securities	83,388	461,490	-	-	-	-	544,878
Margin deposits for borrowed securities	30,807	-	-	-	-	-	30,807
Other refundable deposits	2,008,695	1,506	-	-	-	-	2,010,201
Other current assets	1,135,310	-	-	-	-	-	1,135,310
Available-for-sale financial assets	399,116	928	125,822	-	-	-	525,866
Debt securities	320,592	-	-	-	-	-	320,592
Other debt securities	27,894	-	-	-	-	-	27,894
Open-end funds and money market instruments	50,630	928	125,822	-	-	-	177,380
Subtotal	<u>42,370,697</u>	<u>12,297,924</u>	<u>125,822</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,794,443</u>
Proportion of the total	77.33 %	22.44 %	0.23 %	-	-	-	100.00 %
Receivables	17,086,432	6,051,085	510,348	-	-	-	23,647,865
Accounts receivable	12,540,041	-	-	-	-	-	12,540,041
Receivables from pecuniary finance	<u>4,546,391</u>	<u>6,051,085</u>	<u>510,348</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,107,824</u>
Total	<u>\$ 59,457,129</u>	<u>18,349,009</u>	<u>636,170</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>78,442,308</u>
Proportion of the total	<u>75.80 %</u>	<u>23.39 %</u>	<u>0.81 %</u>	<u>- %</u>	<u>- %</u>	<u>- %</u>	<u>100.00 %</u>

As seen in the above tables, the Group had no financial assets which were overdue but not impaired. 0.58% of normal assets were classified in the high risk category. Those assets mainly were receivables from pecuniary finance. The details of assets classified as high risk were as follows:

- i) Cash and cash equivalents: To fulfill daily settlement payments and remittance operations, a certain amount was required to be deposited to the main delivery banks for the brokerage business and other operations. The management of the Group would periodically review the financial condition, operation, and credit risk.
- ii) Debt securities: To control exposure to credit risk from convertible bonds, the Company and its subsidiaries transferred credit risk to external investors by asset swaps.
- iii) Receivables from pecuniary finance: A risk of financial loss arose from price fluctuation in the underlying securities. To lower credit risk, the Group has closely monitored market volatility of underlying assets and set strict controls over counterparty credit risk.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

iv) Impairment loss

As of June 30, 2017, December 31 and June 30, 2016, the Group's receivables from pecuniary finance recovery periods were principally less than a year or an operating cycle (not more than half a year). Thus, it was assumed that book value approximated fair value without discounting at an appropriate interest rate.

As of June 30, 2017, December 31 and June 30, 2016, in accordance with the Regulations Governing Margin and Stock Loans by Securities Firms, the Group had charged the margin for margin purchases to its customers and held all securities purchased as collateral. The Group set a margin ratio of around 120% to manage receivables from pecuniary finance. If the stock price fluctuates too much to maintain margin ratio of 120%, the Group will inform the customers to repay part of the financing, replenish the deposit margin, or increase the amount of collateral to make up the balance. As of June 30, 2017, December 31 and June 30, 2016, the Group had no impairment loss on receivables from pecuniary finance, taking historical experience and the recoverable amount of collateral into account.

Some investors failed to settle stock purchases made by pecuniary finance. Therefore, the Group disposed of the securities so purchased by the investors and deducted the proceeds of such sales from receivables from pecuniary finance. In addition, some collateral securities purchased by investors through unsettled pecuniary finance contracts were unable to be disposed of.

The Group has persistently tried to settle the aforementioned claims, and recorded the uncollected receivables from such unsettled pecuniary finance contracts and the past-maturity corporate bonds as overdue receivables.

As of June 30, 2017, December 31 and June 30, 2016, the aging analysis of loans and receivables was as follows:

	June 30, 2017		December 31, 2016		June 30, 2016	
	Total amount	Impairment	Total amount	Impairment	Total amount	Impairment
Overdue 0 to 180 days	\$ 800	773	107	107	286	214
Overdue 181 days to one year	80	80	212	139	941	746
Overdue more than one year	6,316	5,044	6,582	5,206	7,760	6,406
Total	\$ 7,196	5,897	6,901	5,452	8,987	7,366

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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The changes in allowance for uncollectible accounts of other receivables and overdue receivables were as follows:

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Beginning amount	\$ 6,109	7,568	5,452	7,510
Recognized (Reversal of) impairment loss	(212)	(202)	445	(144)
Ending amount	<u>\$ 5,897</u>	<u>7,366</u>	<u>5,897</u>	<u>7,366</u>

2) Market risk analyses

Market risk is defined as an unfavorable change in market prices (such as interest rates, exchange rates, stock prices, and commodity prices) which may cause a potential loss on or off the balance sheet. According to the Group's internal administrative policies, the positions in the trading book are for the purpose of market risk measurement and management.

Trading book positions fit the following definitions:

- a) Positions held for earning profits from changes in bid-ask spread or changes in price and interest rate.
- b) Positions held for brokerage business or dealing trading.
- c) Positions held for offsetting risk from other positions (either entirely or partly).
- d) Positions held for trading within approved market risk limits.

Notice that the trading book positions should be either free from any contract terms and constraints on trading or completely hedged to remove the risks.

i) Guidelines and procedures

The Group has enacted comprehensive policies on market risk management and has established mechanisms for deal execution, clearing, and settlement. Based on the risk factors they are exposed to, trading book positions are categorized in the following four groups: interest rate instruments, exchange rate instruments, securities, and commodities. The Group has established management policies and market risk limits that implement the risk management systems to identify, measure, monitor, and control the market risk.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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ii) Organization and framework

Under the supervision of the board of directors, the Risk Management Committee is composed of the senior managers from each department, while the chairman of the board oversees this committee. To improve market risk management, the committee supervises the suitability of market risk exposures and the effectiveness of market risk management.

The Risk Management Department is responsible for formulating policies and procedures on market risk management, for executing market risk limits control, for reporting market risk events immediately, and for verifying valuation models independently. In addition, the independent Audit Department, which is under the board of directors, plays the role of the third line of defense in the market risk management framework.

iii) Procedure for market risk control, reporting and verification

The Risk Management Department is responsible for monitoring the daily risk limit (including the analysis of risk sensitivity factors such as Delta, Vega, DV01, and VaR), notional quota, and profit and loss (P&L). Based on the authorized daily limit, this department controls the quota used and the monthly / yearly P&L. However, a position exceeding the approved limit is treated as an exceptional case to be monitored. The Group has established related mechanisms and procedures for VaR limit management while also applying back-testing to check the VaR model calculation and the effectiveness of the valuation methodology. The Group also keeps upgrading and improving its trading system with a market risk control function. Moreover, the valuation models and VaR models are verified independently by the Risk Management Department to ensure their effectiveness and stability.

iv) Market risk measurement of trading book

The Group's market risk measurement of the trading book includes individual risk measures (such as Greeks) and integrated risk measures (such as VaR and stress-testing). The integrated measures provide consistent and comparable measurement across different trading desks or risk types.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
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Value at Risk (VaR)

VaR is defined as 'the worst expected loss over a target horizon with given level of confidence and normal market environment'. The Group adopts Historical Simulation risk models to evaluate the one-day worst loss on current net positions, with a 99% confidence level. Historical Simulation is used to calculate Common VaR and Stressed VaR, which reflects the impact on positions held by the Group in the historical scenario. To conform to the Basel Committee on Banking Supervision's suggestion after the financial crisis in 2008, a new Stressed VaR used a 12-month period of market turmoil to assess potential losses above the 99% confidence level used in the VaR model. The outcome of the Historical Simulation was easier to explain and understand, and the method could also avoid mistaken risk factor hypotheses being used. To ensure the quality of VaR measures, the Group executes statistical hypothesis testing and back-testing periodically. In addition to Bernoulli trials, the Group has also adopted statistical tests suggested by the Basel Committee after the financial crisis. VaR and Stressed VaR information on the trading book is as follows:

For the three months ended June 30, 2017

VaR (in thousands)	High	Low	Average
Foreign exchange rate	\$ 8,950	8,299	8,615
Interest rate	15,872	12,781	14,692
Equity	40,185	19,860	27,215
Fluctuation	4,890	3,150	4,123
Total	\$ 38,237	25,798	30,183

For the three months ended June 30, 2016

VaR (in thousands)	High	Low	Average
Foreign exchange rate	\$ 22,167	4,967	14,741
Interest rate	11,735	8,404	9,865
Equity	48,054	36,677	43,487
Fluctuation	2,850	2,377	2,561
Total	\$ 52,334	35,721	42,871

For the six months ended June 30, 2017

VaR (in thousands)	High	Low	Average
Foreign exchange rate	\$ 15,266	5,967	9,800
Interest rate	32,446	12,121	17,014
Equity	40,185	18,798	24,136
Fluctuation	4,890	1,453	3,114
Total	\$ 38,237	25,798	28,864

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For the six months ended June 30, 2016			
VaR (in thousands)	High	Low	Average
Foreign exchange rate \$	22,167	4,967	14,551
Interest rate	16,803	7,338	10,967
Equity	62,906	36,677	50,421
Fluctuation	4,849	2,377	3,391
Total	\$ 63,924	35,721	47,768

(The highest and lowest VaR in the table may appear on different dates; therefore, its diversification effect is not significant. Hence, it is not disclosed in the table.)

Stress testing

As described earlier, VaR is the worst loss likely to occur over a holding period with a given confidence level during normal fluctuation. However, VaR cannot be used to predict the loss when an extreme event or systemic risk appears in the market. Therefore, stress testing is introduced to capture the above risk by measuring the potential impact on the trading book portfolio during an abnormal market period, compensating for the insufficiency of Common VaR.

Some techniques can be used when executing stress testing, such as sensitivity analysis, scenario analysis, and maximum loss analysis. The Group selected and implemented stress testing periodically within the scope of market risk set by the Fubon Financial risk control system. The result from the stress testing would be reported to the Risk Management Committee as a reference for management setting each managerial objective and quota.

Sensitivity analysis

Sensitivity analysis is used to measure the impact and effect of the products and portfolios when these are changes in the factors of a specific market. The Group uses the following sensitivities to measure and monitor the risk exposure based on each type of risk.

1. Delta: Measure the changing value of a specific asset whose price changes 1%.
2. Gamma: Measure the changing Delta value of a specific asset whose price changes 1%.
3. Vega: Measure the changing value of a specific asset whose price volatility changes 1%.
4. Price Value of Basis Point (PVBP): Measure the changing value of the yield rate curve when it moves 1 bp in parallel.

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3) Liquidity risk presentation and disclosure

Liquidity risk is the risk that the Group cannot provide sufficient funding for asset size growth or matured liabilities, does not have sufficient cash to meet obligations to counterparties, or cannot raise emergency funding to cover funding gaps.

a) Liquidity risk measurement analysis

Financial assets	June 30, 2017					Total
	Cash flow deficit					
	0-30 days	31-90 days	91-180 days	181-1 year	>1 year	
Cash and cash equivalents	\$ 6,102,802	3,157,001	1,059,172	940,306	37,500	11,296,781
Customer margin account	19,829,844	-	-	-	-	19,829,844
Held-for-trading financial assets – current	13,649,081	551,343	-	402,647	23,077,900	37,680,971
Open-end funds, money market instruments and other securities	227,273	-	-	-	-	227,273
Operating securities	12,693,217	551,343	-	402,647	22,591,089	36,238,296
Derivative assets – OTC	98,117	-	-	-	-	98,117
Derivative assets – futures trading margin	630,237	-	-	-	-	630,237
Other debt securities	-	-	-	-	486,811	486,811
Call option-futures	237	-	-	-	-	237
Available-for-sale financial assets	71,442	-	-	10,399,130	47,229	10,517,801
Securities purchased under resell agreements	883,218	-	-	-	-	883,218
Receivables from pecuniary finance	10,061,530	1,760,768	503,076	251,538	-	12,576,912
Collateral for borrowed securities	10,425	-	-	-	-	10,425
Margin deposits for borrowed securities	689,411	-	-	-	-	689,411
Receivables	15,067,173	120,033	8,844	4,422	-	15,200,472
Total	\$ 66,364,926	5,589,145	1,571,092	11,998,043	23,162,629	108,685,835
Proportion of the total	<u>61.06 %</u>	<u>5.14 %</u>	<u>1.45 %</u>	<u>11.04 %</u>	<u>21.31 %</u>	<u>100.00 %</u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

June 30, 2017						
Financial liabilities	Cash flow deficit					Total
	0-30 days	31-90 days	91-180 days	181-1 year	>1 year	
Short-term borrowings	\$ 329,840	-	-	-	-	329,840
Commercial paper issued	8,398,704	-	-	-	-	8,398,704
Held-for-trading financial assets – current	2,674,017	-	-	-	-	2,674,017
Call (put) warrants	342,906	-	-	-	-	342,906
Derivative liabilities – OTC	1,195,021	-	-	-	-	1,195,021
Liabilities on sale of borrowed securities	166,527	-	-	-	-	166,527
Bond investments under resale agreements	818,367	-	-	-	-	818,367
Short covering bonds	149,797	-	-	-	-	149,797
Put option-futures	1,399	-	-	-	-	1,399
Financial liabilities designated as at fair value through profit or loss at time of initial recognition	2,648,154	-	-	-	-	2,648,154
Securities sold under repurchase agreements	25,355,520	-	-	-	-	25,355,520
Securities financing refundable deposits	1,067,716	186,850	53,386	26,692	-	1,334,644
Deposits payable for securities financing	1,226,519	214,641	61,326	30,663	-	1,533,149
Securities lending refundable deposits	6,105,081	-	-	-	-	6,105,081
Futures traders' equity	19,829,844	-	-	-	-	19,829,844
Accounts payable	12,201,776	32	9	5	-	12,201,822
Temporary receipts	1,135,969	175	-	-	-	1,136,144
Total	\$ 80,973,140	401,698	114,721	57,360	-	81,546,919
Proportion of the total	99.30 %	0.49 %	0.14 %	0.07 %	-	100.00 %
Cash inflow	66,364,926	5,589,145	1,571,092	11,998,043	23,162,629	108,685,835
Cash outflow	80,973,140	401,698	114,721	57,360	-	81,546,919
Net cash inflow	(14,608,214)	5,187,447	1,456,371	11,940,683	23,162,629	27,138,916

December 31, 2016						
Financial assets	Cash flow deficit					Total
	0-30 days	31-90 days	91-180 days	181-1 year	>1 year	
Cash and cash equivalents	\$ 5,883,926	1,967,315	2,228,502	1,559,977	44,076	11,683,796
Customer margin account	15,702,135	-	-	-	-	15,702,135
Held-for-trading financial assets – current	9,474,695	250,322	-	-	23,460,719	33,185,736
Open-end funds, money market instruments and other securities	1,483,957	-	-	-	-	1,483,957
Operating securities	7,536,070	250,322	-	-	22,941,173	30,727,565
Derivative assets – OTC	119,156	-	-	-	-	119,156
Derivative assets – futures trading margin	305,604	-	-	-	-	305,604
Other debt securities	-	-	-	-	519,546	519,546
Call option-futures	13	-	-	-	-	13
Securities invested by securities broker	29,895	-	-	-	-	29,895
Available-for-sale financial assets	361,975	-	-	9,539,512	25,946	9,927,433
Securities purchased under resale agreements	645,311	-	-	-	-	645,311
Receivables from pecuniary finance	9,247,960	1,337,055	334,264	222,842	-	11,142,121
Collateral for borrowed securities	35,540	-	-	-	-	35,540
Margin deposits for borrowed securities	32,103	-	-	-	-	32,103
Receivables	10,133,314	142,711	(44,119)	132,793	1,742	10,366,441
Total	\$ 51,516,959	3,697,403	2,518,647	11,485,124	23,532,483	92,720,616
Proportion of the total	55.56 %	3.99 %	2.72 %	12.35 %	25.38 %	100.00 %

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

December 31, 2016						
Financial liabilities	Cash flow deficit					Total
	0-30 days	31-90 days	91-180 days	181-1 year	>1 year	
Short-term borrowings	\$ 2,500,000	-	-	-	-	2,500,000
Held-for-trading financial liabilities—current	1,259,872	-	-	-	306,545	1,566,417
Call (put) warrants	135,885	-	-	-	-	135,885
Derivative liabilities—OTC	920,399	-	-	-	-	920,399
Liabilities on sale of borrowed securities	203,565	-	-	-	-	203,565
Bond investments under resale agreements	-	-	-	-	256,680	256,680
Short covering bonds	-	-	-	-	49,865	49,865
Put option-futures	23	-	-	-	-	23
Financial liabilities designated as at fair value through profit or loss at time of initial recognition	2,282,024	-	-	-	-	2,282,024
Securities sold under repurchase agreements	21,231,598	-	-	-	-	21,231,598
Securities financing refundable deposits	1,763,829	255,012	63,753	42,502	-	2,125,096
Deposits payable for securities financing	1,944,138	281,080	70,270	46,847	-	2,342,335
Securities lending refundable deposits	5,565,473	-	-	-	-	5,565,473
Futures traders' equity	15,702,135	-	-	-	-	15,702,135
Accounts payable	11,561,030	88	22	15	-	11,561,155
Temporary receipts	715,595	257	-	-	-	715,852
Total	\$ 64,525,694	536,437	134,045	89,364	306,545	65,592,085
Proportion of the total	<u>98.37 %</u>	<u>0.82 %</u>	<u>0.20 %</u>	<u>0.14 %</u>	<u>0.47 %</u>	<u>100.00 %</u>
Cash inflow	51,516,959	3,697,403	2,518,647	11,455,124	23,532,483	92,720,616
Cash outflow	64,525,694	536,437	134,045	89,364	306,545	65,592,085
Net cash inflow	(13,008,735)	3,160,966	2,384,602	11,365,760	23,225,938	27,128,531

June 30, 2016						
Financial assets	Cash flow deficit					Total
	0-30 days	31-90 days	91-180 days	181-1 year	>1 year	
Cash and cash equivalents	\$ 3,799,510	1,706,787	949,643	885,535	53,446	7,394,921
Customer margin account	15,608,313	-	-	-	-	15,608,313
Held-for-trading financial assets—current	8,439,079	-	-	200,954	22,529,249	31,169,282
Open-end funds, money market instruments and other securities	131,119	-	-	-	-	131,119
Operating securities	8,121,457	-	-	200,954	21,984,371	30,306,782
Derivative assets—OTC	37,500	-	-	-	-	37,500
Derivative assets—futures trading margin	149,003	-	-	-	-	149,003
Other debt securities	-	-	-	-	544,878	544,878
Available-for-sale financial assets	-	-	-	11,869,695	27,894	11,897,589
Securities purchased under resell agreement	197,179	-	-	-	-	197,179
Receivables from pecuniary finance	9,330,572	1,221,861	333,235	222,156	-	11,107,824
Collateral for borrowed securities	33,851	-	-	-	-	33,851
Margin deposits for borrowed securities	30,807	-	-	-	-	30,807
Receivables	12,350,097	129,318	134,180	6,718	-	12,620,313
Total	\$ 49,789,408	3,057,966	1,417,058	13,185,058	22,610,589	90,060,079
Proportion of the total	<u>55.28 %</u>	<u>3.40 %</u>	<u>1.57 %</u>	<u>14.64 %</u>	<u>25.11 %</u>	<u>100.00 %</u>

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

Financial liabilities	June 30, 2016					Total
	Cash flow deficit					
	0-30 days	31-90 days	91-180 days	181-1 year	>1 year	
Commercial paper issued	\$ 3,950,000	-	-	-	-	3,950,000
Held-for-trading financial assets – current	1,363,635	-	-	-	-	1,363,635
Call (put) warrants	333,487	-	-	-	-	333,487
Derivative liabilities – OTC	580,448	-	-	-	-	580,448
Liabilities on sale of borrowed securities	252,194	-	-	-	-	252,194
Bond investments under resale agreements	197,506	-	-	-	-	197,506
Financial liabilities designated as at fair value through profit or loss at time of initial recognition	2,440,005	-	-	-	-	2,440,005
Securities sold under repurchase agreements	21,525,563	-	-	-	-	21,525,563
Securities financing refundable deposits	1,285,038	168,279	45,894	30,596	-	1,529,807
Deposits payable for securities financing	1,409,810	184,618	50,350	33,567	-	1,678,345
Securities lending refundable deposits	2,316,772	-	-	-	-	2,316,772
Futures traders' equity	15,608,313	-	-	-	-	15,608,313
Accounts payable	11,936,597	29	8	5	-	11,936,639
Temporary receipts	1,103,146	163	-	-	-	1,103,309
Total	\$ 62,938,879	353,089	96,252	64,168	-	63,452,388
Proportion of the total	99.19 %	0.56 %	0.15 %	0.10 %	- %	100.00 %
Cash inflow	49,789,408	3,057,966	1,417,058	13,185,058	22,610,589	90,060,079
Cash outflow	62,938,879	353,089	96,252	64,168	-	63,452,388
Net cash inflow	(13,149,471)	2,704,877	1,320,806	13,120,890	22,610,589	26,607,691

As of the reporting date, the cash flows of the Group has shown a significant increase in its net cash in-flow in most of the periods. The Group maintained great net cash in-flow to accumulated capital deficit for a long-term period which shows the Group could sustain adequate quality of capital volatility.

b) Capital deficit analysis report

In order to allocate capital effectively, the Group utilizes liquidity risk management mechanisms to evaluate and monitor short-term cash flow requirements for various types of business, and considers local short-term, cross-border, or cross-market demand for capital.

The Financial Settlement Department provides capital requirement evaluation information to the Risk Management Department, and the Risk Management Department provides a capital deficit analysis stress test evaluation report to the Financial Settlement Department every six months to evaluate the Group's related action taken while facing periods of high market volatility. If a stressful situation occurs, the department reports the results to the management and performs the following procedures to prevent the occurrence of a stressful event when necessary.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

In order to increase liquidity reserve, the Group sells the low-risk assets from the Trading Department dealing positions. The Group disposes of high-liquidity stocks, government bonds, and other securities in order to respond to adverse shocks affecting the market. The Group also uses secured loan credit lines and long-term financing credit lines from banks and bills corporations to implement the Group's capital allocation emergency response plan.

(iii) Transfer of financial assets

Transferred financial assets that are not completely derecognized

The transferred financial assets of the Group that are not qualified for de-recognition in the daily operation are mainly debt securities under repurchased agreements. Since the right to receive cash flow is transferred and it reflects the associated liabilities to repurchase transferred financial assets at fixed price in future period, the Group cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, since the Group still bear the interest rate risk and credit risk, transferred financial assets are not completely derecognized.

The Group split the convertible bonds into corporate bonds and option, and sell them to separate investors with varying needs. Because the transactions involved ownership transfer, the entry for disposal of corporate bonds is the same as the normal bond transactions. The agreed exchanged interest payments are recorded as net value and evaluate at the market price as of balance sheet date.

When engaging in convertible bond option transactions, buyers pay premium to obtain the right to purchase or sell a security at a predetermined price on or before a specified day; sellers have the corresponding obligation to sell his options at a predetermined price on or before a specified day. The premium of the options will be shown on the balance sheet.

Notional amounts of the option should be recorded by memorandum entries. When options' owner fulfills his obligation, the Group will sell repurchase bonds to options' owner. Thus, the entry for disposal of corporate bonds is the same as the normal bond transactions. However, the Group still have the right to control the underlying interest; therefore, the financial assets are not derecognized in their entirety. Analysis of financial assets that are not completely derecognized and the associated liabilities are as follows:

<u>Types of financial assets</u>	<u>June 30, 2017</u>	
	<u>Carrying amount of the transferred financial assets</u>	<u>Carrying amount of relevant financial liabilities</u>
Financial assets measured at fair value through profit or loss		
Under repurchase agreements	\$ 24,061,950	25,355,520
Convertible bonds transferred to counter parties of asset exchange option	926,415	865,364
<u>Types of financial assets</u>	<u>December 31, 2016</u>	
	<u>Carrying amount of the transferred financial assets</u>	<u>Carrying amount of relevant financial liabilities</u>
Financial assets measured at fair value through profit or loss		
Under repurchase agreements	\$ 21,319,682	21,231,598
Convertible bonds transferred to counter parties of asset exchange option	646,409	596,147

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

Types of financial assets	June 30, 2016	
	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities
Financial assets measured at fair value through profit or loss		
Under repurchase agreements	\$ 21,855,688	21,525,563
Convertible bonds transferred to counter parties of asset exchange option	292,494	281,225

(iv) Offsetting of financial assets and financial liabilities

The group did not hold any financial instruments contract which meet Section 42 of the FSC endorsed by IAS 32 therefore, the financial assets and financial liabilities will be offset on the balance sheet.

Although the Group do not engage in transactions that meet the offsetting condition in IFRSs, they have signed net settlement contracts of similar agreements with counterparties, such as repurchase agreements and resell agreements. If both parties choose to net settle, the abovementioned executable net settlement contracts or similar agreements will be allowed to be settled in net amount after offsetting the financial assets and financial liabilities. Otherwise, the transaction will be settled in gross amount. However, if one party defaults, the other party could choose to net settle.

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

June 30, 2017						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
Financial assets	Total recognized financial assets	Total recognized financial liabilities offsetting on the balance sheet	Net amount of financial assets on the balance sheets	Relevant amount not offset on the balance sheet (d)		Net amount (e)=(c)-(d)
	(a)	(b)	(c)=(a)-(b)	Financial instrument (note)	Cash received as collaterals	
Derivative financial assets	\$ 98,354	-	98,354	-	-	98,354
Securities purchased under resell agreements	883,218	-	883,218	883,218	-	-
Total	\$ 981,572	-	981,572	883,218	-	98,354

June 30, 2017						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
Financial liabilities	Total recognized financial liabilities	Total recognized financial assets offsetting on the balance sheet	Net amount of financial liabilities on the balance sheets	Relevant amount not offset on the balance sheet (d)		Net amount (e)=(c)-(d)
	(a)	(b)	(c)=(a)-(b)	Financial instrument (note)	Pledged cash Collaterals	
Derivative financial liabilities	\$ 3,844,574	-	3,844,574	-	-	3,844,574
Securities sold under repurchase agreements	25,355,520	-	25,355,520	25,355,520	-	-
Total	\$ 29,200,094	-	29,200,094	25,355,520	-	3,844,574

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

December 31, 2016						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheet (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instrument (note)	Cash received as collaterals	
Derivative financial assets	\$ 119,169	-	119,169	-	-	119,169
Securities purchased under resell agreements	645,311	-	645,311	645,311	-	-
Total	\$ 764,480	-	764,480	645,311	-	119,169

December 31, 2016						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheet (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instrument (note)	Pledged cash Collaterals	
Derivative financial liabilities	\$ 3,202,446	-	3,202,446	-	-	3,202,446
Securities sold under repurchase agreements	21,231,598	-	21,231,598	21,231,598	-	-
Total	\$ 24,434,044	-	24,434,044	21,231,598	-	3,202,446

June 30, 2016						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheet (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instrument (note)	Cash received as collaterals	
Derivative financial assets	\$ 37,500	-	37,500	-	-	37,500
Securities purchased under resell agreements	197,179	-	197,179	197,179	-	-
Total	\$ 234,679	-	234,679	197,179	-	37,500

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

June 30, 2016						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
Financial liabilities	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheet (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheet (d)		Net amount (c)=(c)-(d)
				Financial instrument (note)	Pledged cash Collaterals	
Derivative financial liabilities	\$ 3,020,453	-	3,020,453	-	-	3,020,453
Securities sold under repurchase agreements	21,525,563	-	21,525,563	21,525,563	-	-
Total	<u>\$ 24,546,016</u>	<u>-</u>	<u>24,546,016</u>	<u>21,525,563</u>	<u>-</u>	<u>3,020,453</u>

Note 1: Including netting settlement agreement and non-cash financial collaterals.

(ai) Structured entities

Unconsolidated structured entities

- (i) The Group holds the following types of equity of unconsolidated structured entities. The fund was derived from the Group and an outside third-party.

Types of structured entity	Characteristic and purpose	Equity owned by the Group
Assets securitization products	Invest in assets securitization products to gain profit	Invest in asset-backed securities issued by the entity

- (ii) As of June 30, 2017, December 31 and June 30, 2016, the carrying amounts of the unconsolidated structured entities recognized by the Group were as below:

June 30, 2017		Asset securitization products
Assets possessed		
– Financial assets measured at fair value through profit or loss	\$	486,811
– Available-for-sale financial assets		45,243
Total assets possessed	\$	532,054
December 31, 2016		Asset securitization products
Assets possessed		
– Financial assets measured at fair value through profit or loss	\$	519,546
– Available-for-sale financial assets		25,946
Total assets possessed	\$	545,492

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

June 30, 2016	Asset securitization products
Assets possessed	
– Financial assets measured at fair value through profit or loss	\$ 544,878
– Available-for-sale financial assets	<u>27,894</u>
Total assets possessed	<u><u>\$ 572,772</u></u>

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

- (iii) For the six months ended June 30, 2017 and 2016, the Group did not offer any financial support to those unconsolidated private investment funds and asset securitization products.

(aj) Capital management

(i) Capital adequacy ratio

The Group sets objectives for managing capital to safeguard the capacity to continue to operate, to continue to provide a return to shareholders, and to protect the interests of other related parties, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, reduce the capital for redistribution to shareholders, issue new shares, or sell assets to settle any liabilities. The Group calculates and declares the capital adequacy ratio in accordance with the Regulations Governing Securities Firms.

The capital adequacy ratios that the Group declared to the authorities were as follows (expressed in millions of New Taiwan Dollars):

	June 30, 2017	December 31, 2016	June 30, 2016
Net amount of eligible regulatory capital	<u>\$ 22,494</u>	<u>22,275</u>	<u>22,859</u>
Overall risk equivalent	<u>\$ 7,213</u>	<u>6,044</u>	<u>6,273</u>
Regulatory capital adequacy ratio	<u>312 %</u>	<u>369 %</u>	<u>364 %</u>

- 1) Capital adequacy ratio = Net amount of eligible regulatory capital/Overall risk equivalent
- 2) Net amount of eligible regulatory capital = Tier 1 capital + Tier 2 capital + Tier 3 capital – Deductions.
- 3) Overall risk equivalent = Equivalent amount of market risk + Equivalent amount of credit risk + Equivalent amount of operational risk.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(ii) Capital adequacy ratio management

When executing the stress tests for the capital adequacy ratio, the Market Risk Management Department sets situations and events based on market fluctuations and changes in interest rates, and predictions regarding the financial environment and the overall economy. When the results of the stress tests reach the limit, the Market Risk Management Department will implement the procedures below:

- 1) Evaluate the impact on capital adequacy from the occurrence of the situations and events.
- 2) Identify the factor in the situation or event which has the greatest impact on the capital adequacy ratio.
- 3) Evaluate strategies to cope with the situation or event.
- 4) Report to top management, adjust the allocation of the risk-weighted assets, or execute a capital replenishment plan.

(ak) Others

The significant foreign currency financial assets and financial liabilities were as follows:

	June 30, 2017			December 31, 2016			June 30, 2016		
	Foreign currency (in thousands)	Exchange rate (in dollars)	NTD	Foreign currency (in thousands)	Exchange rate (in dollars)	NTD	Foreign currency (in thousands)	Exchange rate (in dollars)	NTD
Financial assets:									
Monetary items:									
USD	614,090	30.4389	18,692,224	435,675	32.2815	14,064,243	362,297	32.2908	11,698,860
HKD	84,144	3.8992	328,094	96,820	4.1629	403,052	83,478	4.1603	347,294
AUD	350	23.3766	8,182	24	23.3073	559	156	24.0112	3,746
EUR	8,790	34.6813	304,849	21,459	33.9214	727,919	22,095	35.8798	792,764
JPY	605,832	0.2720	164,786	812,603	0.2752	223,628	1,270,881	0.3143	399,438
SGD	536	22.1030	11,847	728	22.3111	16,242	645	23.9103	15,422
GBP	688	39.4937	27,172	220	39.5994	8,712	123	43.4919	5,350
CNY	8,006	4.4867	35,921	20,097	4.6399	93,248	57,860	4.8419	280,152
Non-monetary items:									
USD	71,242	30.4389	2,168,528	2,034	32.2815	65,661	86,579	32.2908	2,795,705
CNY	9,534	4.4867	42,776	35,462	4.6399	164,540	-	-	-
Investment accounted for using the equity method:									
CNY	83,815	4.4867	376,052	96,424	4.6399	447,396	96,485	4.8419	467,171
Financial liabilities:									
Monetary items:									
USD	585,241	30.4389	17,814,092	414,350	32.2815	13,375,840	323,512	32.2908	10,446,461
HKD	43,102	3.8992	168,063	26,869	4.1629	111,853	3,610	4.1603	15,019
EUR	8,438	34.6813	292,641	21,228	33.9214	720,083	21,557	35.8798	773,461
JPY	3,010,071	0.2720	818,739	731,277	0.2752	201,247	1,220,409	0.3143	383,575
SGD	13	22.1030	287	11	22.3111	245	14	23.9103	335
GBP	542	39.4937	21,406	89	39.5994	3,524	-	-	-
CNY	35,758	4.4867	160,435	2,085	4.6399	9,674	540	4.8419	2,615

Because the Group has various kinds of functional currency, it uses the way of summarization to disclose the information on monetary currency's exchange gains or losses. For the three months and six months ended June 30, 2017 and 2016, the exchange gains or losses amounted to \$(16,154), \$1,922, \$(29,009), and \$77,746, respectively.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(7) Related-party transactions

(a) Names and relationships of related parties

<u>Name of related party</u>	<u>Relationship</u>
Fubon Financial Holding Co., Ltd. (Fubon Financial)	Parent company of the Company
Fubon Insurance Co., Ltd. (Fubon Insurance)	Fubon Financial subsidiary
Fubon Life Insurance Co., Ltd. (Fubon Life Insurance)	Fubon Financial subsidiary
Taipei Fubon Commercial Bank Co., Ltd. (Taipei Fubon Bank)	Fubon Financial subsidiary
Fubon Bank (Hong Kong) (Fubon Bank (HK))	Fubon Financial subsidiary
Chung Hsing Construction Co., Ltd. (Chung Hsing Construction)	A major stockholder of Fubon Financial
Taiwan Mobile Co., Ltd. (Taiwan Mobile)	Related party
Xiamen Bank	Related party
Taiwan Depository & Clearing Corporation (TDCC)	Related party
Taiwan Stock Exchange (TWSE)	Related party
Taiwan Futures Exchange Co., Ltd. (Taifex)	Related party
AAEON Technology Inc. (AAEON)	Related party
Vigor Kobo Co., Ltd. (Vigor Kobo)	Related party
Funds managed by Fubon Asset Management	Funds issued by the Group
Others	Fubon group related company or person which does not account for more than \$10,000 of any related-party account

(b) Remuneration for main managers

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Salaries and other short-term employee benefits	\$ 62,161	51,977	115,850	102,453
Termination benefits	1,476	1,387	2,895	2,752
Other long-term benefits	419	355	825	697
	<u>\$ 64,056</u>	<u>53,719</u>	<u>119,570</u>	<u>105,902</u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(c) Significant transactions with related parties

1) Bank deposits, short-term borrowings, and other current assets

As of June 30, 2017, December 31 and June 30, 2016, cash deposited in Taipei Fubon Bank and Fubon Bank (HK) was as follows:

	June 30, 2017		December 31, 2016		June 30, 2016	
	Amount	%	Amount	%	Amount	%
Demand deposits (excluding settlement accounts)	<u>\$ 1,282,243</u>	<u>54.87</u>	<u>881,896</u>	<u>41.65</u>	<u>417,135</u>	<u>34.01</u>
Demand deposits (booked as customer margin accounts)	<u>\$ 438,480</u>	<u>10.85</u>	<u>89,361</u>	<u>1.68</u>	<u>89,077</u>	<u>1.63</u>
Checking account	<u>\$ 18,663</u>	<u>30.89</u>	<u>31,722</u>	<u>35.77</u>	<u>93,520</u>	<u>56.32</u>
Time deposits	<u>\$ 581,645</u>	<u>28.28</u>	<u>970,535</u>	<u>36.49</u>	<u>1,626,315</u>	<u>72.07</u>
Restricted time deposits	<u>\$ 127,521</u>	<u>100.00</u>	<u>340,021</u>	<u>100.00</u>	<u>147,521</u>	<u>100.00</u>
Foreign currency deposits (excluding settlement accounts)	<u>\$ 1,046,851</u>	<u>69.46</u>	<u>425,875</u>	<u>32.16</u>	<u>540,337</u>	<u>65.23</u>
Foreign time deposits	<u>\$ 3,500,474</u>	<u>73.95</u>	<u>3,454,121</u>	<u>74.66</u>	<u>64,582</u>	<u>2.99</u>

As of June 30, 2017, December 31 and June 30, 2016, the Group had foreign currency deposits in Xiamen Bank of \$881,468, \$0 and \$469, respectively. For the three months and six months ended June 30, 2017 and 2016, the interest revenue was recognized in the amount of \$8,224, \$0, \$8,224 and \$0, respectively.

For the three months and six months ended June 30, 2017 and 2016, the Group recognized interest revenue in the amount of \$18,545, \$7,668, \$35,331 and \$14,162, respectively, from deposits in Taipei Fubon Bank and Fubon Bank (HK). And interest receivable amounting to \$2,888, \$4,011 and \$3,083, as of June 30, 2017, December 31 and June 30, 2016. The interest rates for the six months ended June 30, 2017, were 0.170%~1.580% and 0.290%~1.365%.

As of June 30, 2017, December 31 and June 30, 2016, the Group had provided time deposits in Taipei Fubon Bank as operating deposits and warrant deposits amounting to \$972,500, \$1,012,500 and \$1,057,500, respectively.

These were no balances of short-term borrowings from Taipei Fubon Bank as of June 30, 2017, December 31 and June 30, 2016, unused credit facilities from Taipei Fubon Bank amounted to \$6,000,000. As of June 30, 2017, December 31 and June 30, 2016, the book value of land and buildings pledged to Taipei Fubon Bank for short-term borrowings and overdrafts amounted to \$1,552,707, \$1,557,418 and \$1,563,443, respectively. The Group also provided time deposits amounting to \$105,000 and trading securities (booked as available-for-sale financial assets—current) amounting to \$2,061,000, \$1,872,000 and \$2,025,000 to Taipei Fubon Bank as collateral for short-term borrowings and overdrafts as of June 30, 2017, December 31 and June 30, 2016, respectively.

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

2) Funds issued and bought by the Group were as follows:

<u>Name of related party</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Fubon Chi-Hsiang Money Market	\$ 214,601	124,256	124,095
Fubon MSCI Taiwan ETF	2,874	37,764	35,187
Fubon China Growth Fund	12,412	11,010	10,804
Fubon China High Yield Bond RMB	92,582	96,888	101,482
Fubon China Investment Grade Bond RMB	37,461	38,751	40,552
Fubon Strategic High Income	30,744	950	928
Fubon China Market Fund	29,322	29,734	30,653
Fubon TOPIX ETF	23,924	22,504	18,274
Fubon NIFTY ETF	11,051	29,464	46,659
Fubon NASDAQ-100 ETF	14,515	32,947	29,401
Fubon Hang Seng H-Share Leverage Index ETF	25,350	21,390	-
Fubon S&P 500 VIX Short- Term Futures ETF	-	29,895	-
Fubon China New Balanced Income Fund	20,574	-	-
Fubon Euro-Asia Silk Road Multi-Asset Fund	50,578	-	-
Fubon TWSE Corporate Governance 100 ETF	51,524	-	-
Others (no individual related party accounts for more than 10,000)	43,768	16,316	30,042
Total	<u>\$ 661,280</u>	<u>491,869</u>	<u>468,077</u>

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

- 3) Funds issued by the Group and purchased by the Group's related parties were as follows:

<u>Name of related party</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Fubon Chi-Hsiang Money	\$ 1,715,883	1,624,439	3,655,737
Fubon Taiwan Technology ETF	203,993	178,074	165,576
Fubon FTSE TWSE Taiwan 50 ETF	996,078	8,539	7,088
Fubon S&P 500 VIX Short-Term Futures ETF	49,831	229,235	-
Fubon TWSE Corporate Governance 100 ETF	1,235,809	-	-
Others (no individual related party accounts for more than 5%)	1,788,095	1,469,820	1,494,712
Total	<u>\$ 5,989,689</u>	<u>3,510,107</u>	<u>5,323,113</u>

- 4) Current tax assets and current tax liabilities

The Group has designated Fubon Financial as the taxpayer to file a combined corporate income tax return starting from the year 2002. As of June 30, 2017, December 31 and June 30, 2016, current income tax assets of the Group were \$0, \$13,293 and \$32,434, and current income tax liabilities of the Group were \$545,338, \$466,678 and \$922,585, respectively.

Fubon Asset Management Co., Ltd filed the combined corporate income tax returns (with Fubon Financial as the taxpayer) beginning in the year 2003. As of June 30, 2017, December 31 and June 30, 2016, Fubon Asset Management Co., Ltd. recognized the tax refund receivables of \$28,830, \$28,830 and \$115,403. Since 2010, in order to conform with the reorganization of the Group, Fubon Asset Management Co., Ltd. has not been a subsidiary of Fubon Financial anymore, and has no longer designated Fubon Financial as the taxpayer to file its combined corporate income tax return.

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

5) Trading securities—dealing

The cost of related parties' shares held by the Group, dividend revenue, gains (losses) on valuation and disposal were as follows:

<u>Name of securities</u>	<u>June 30, 2017</u>	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Fubon Taiwan Finance ETF (managed by Fubon Asset Management)	\$ 11,126	405
Fubon TOPIX Leveraged 2X Index ETF (managed by Fubon Asset Management)	32,500	3,245
Fubon NIFTY 2X Leveraged Index ETF (managed by Fubon Asset Management)	31,526	3,178
Fubon S&P 500 VIX Short-Term Futures ETF (managed by Fubon Asset Management)	49,631	200
Fubon NASDAQ-100 2X Leveraged Index ETF (managed by Fubon Asset Management)	49,345	273
Fubon NASDAQ-100 -1X Inverse Index ETF (managed by Fubon Asset Management)	15,705	213
Fubon Hang Seng H-Share Leveraged Index ETF (managed by Fubon Asset Management)	33,803	3,842
Fubon Hang Seng H-Share Inverse Index ETF (managed by Fubon Asset Management)	45,310	(5,792)
Fubon TAIEX Daily 2X Leveraged ETF (managed by Fubon Asset Management)	61,089	1,808
Fubon TAIEX Daily -1X Inverse ETF (managed by Fubon Asset Management)	17,874	(2)
Fubon SSE180 Leveraged 2X Index ETF (managed by Fubon Asset Management)	57,515	9,211
Fubon TWSE Corporate Governance 100 ETF (managed by Fubon Asset Management)	139,633	1,652
Fubon 1-3 Years US Treasury Bond ETF (managed by Fubon Asset Management)	15,344	(15)
Fubon 7-10 Years US Treasury Bond ETF (managed by Fubon Asset Management)	19,042	(58)
Fubon 20+ Years US Treasury Bond ETF (managed by Fubon Asset Management)	29,723	(169)
Others (no individual related party accounts for more than \$10,000)	30,620	(143)
Total	<u>\$ 639,786</u>	<u>17,848</u>

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

<u>Name of securities</u>	<u>December 31, 2016</u>	
	<u>Cost</u>	<u>Gain (loss) on valuation</u>
Fubon SSE 180 Leveraged 2X Index ETF (managed by Fubon Asset Management)	\$ 19,043	(307)
Fubon TOPIX Leveraged 2X Index ETF (managed by Fubon Asset Management)	31,934	1,558
Fubon S&P 500 VIX Short-Term Futures ETF (managed by Fubon Asset Management)	200,040	(700)
Fubon NASDAQ-100 ETF (managed by Fubon Asset Management)	10,806	972
Fubon Hang Seng H-share Leveraged Index ETF (managed by Fubon Asset Management)	32,437	(1,314)
Fubon Hang Seng H-share Inverse Index ETF (managed by Fubon Asset Management)	46,085	421
Fubon TAIEX Daily 2X Leveraged ETF (managed by Fubon Asset Management)	38,672	383
Fubon TAIEX Daily-1X Inverse ETF (managed by Fubon Asset Management)	62,699	(492)
AAEON	29,602	11,949
Vigor Kobo	10,885	(55)
Others (no individual related party accounts for more than \$10,000)	39,378	69
Total	<u>\$ 521,581</u>	<u>12,484</u>
<u>Name of securities</u>	<u>June 30, 2016</u>	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Fubon SSE 180 Leveraged 2X Index ETF (managed by Fubon Asset Management)	\$ 114,683	1,812
Fubon TOPIX Leveraged 2X Index ETF (managed by Fubon Asset Management)	33,772	246
Fubon NIFTY ETF (managed by Fubon Asset Management)	42,082	1,640
Fubon NIFTY 2X Leveraged Index ETF (managed by Fubon Asset Management)	20,084	2,086
Fubon NIFTY -1 Inverse Index ETF (managed by Fubon Asset Management)	14,783	(1,012)
Fubon SZSE 100 ETF (managed by Fubon Asset Management)	32,773	534
Fubon NASDAQ -100 ETF (managed by Fubon Asset Management)	23,051	(506)
Others (no individual related party accounts for more than \$10,000)	44,662	(1,712)
Total	<u>\$ 325,890</u>	<u>3,088</u>

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

<u>Name of securities</u>	For the three months ended June 30, 2017	
	<u>Dividend revenue</u>	<u>Gain (loss) on disposal</u>
Fubon S&P 500 VIX Short-Term Futures ETF	\$ -	(20,164)
Others (no individual related party accounts for more than \$10,000)	4	18,242
Total	<u>\$ 4</u>	<u>(1,922)</u>

<u>Name of securities</u>	For the three months ended June 30, 2016	
	<u>Dividend revenue</u>	<u>Gain (loss) on disposal</u>
Others (no individual related party accounts for more than \$10,000)	<u>\$ 123</u>	<u>(9,830)</u>

<u>Name of securities</u>	For the six months ended June 30, 2017	
	<u>Dividend revenue</u>	<u>Gains (losses) on disposal</u>
Fubon S&P 500 VIX Short-Term Futures ETF	\$ -	(74,894)
Others (no individual related party accounts for more than \$10,000)	4	27,465
Total	<u>\$ 4</u>	<u>(47,429)</u>

<u>Name of securities</u>	For the six months ended June 30, 2016	
	<u>Dividend revenue</u>	<u>Gains (losses) on disposal</u>
Others (no individual related party accounts for more than \$10,000)	<u>\$ 123</u>	<u>(15,400)</u>

As of June 30, 2017, December 31 and June 30, 2016 fund redemption receivables to related parties amounted to \$8,846, \$0 and \$0, respectively.

As of June 30, 2017, December 31 and June 30, 2016, the Group held trading securities-bonds which is issued by related parties amounted to \$0, \$0 and \$1,593,052, and the interests receivable amounted to \$0, \$0 and \$13,799, respectively.

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

6) Trading securities – hedging

The cost of related parties' shares held by the Group, dividend revenue, and gains (losses) on valuation and disposal were as follows:

<u>Name of securities</u>	June 30, 2017	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Taiwan Mobile issued the third unsecured convertible bond	\$ 110,090	2,330
Fubon SSE180 ETF (managed by Fubon Asset Management)	53,416	1,880
Fubon SSE180 Leveraged 2X Index ETF (managed by Fubon Asset Management)	12,918	1,948
Others (no individual related party accounts for more than \$10,000)	22,775	552
Total	<u>\$ 199,199</u>	<u>6,710</u>

<u>Name of securities</u>	December 31, 2016	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Taiwan Mobile issued the third unsecured convertible bond	\$ 110,090	185
Fubon SSE180 ETF (managed by Fubon Asset Management)	23,779	(210)
Fubon SSE180 Leveraged 2X Index ETF (managed by Fubon Asset Management)	11,329	(482)
Others (no individual related party accounts for more than \$10,000)	16,112	(369)
Total	<u>\$ 161,310</u>	<u>(876)</u>

<u>Name of securities</u>	June 30, 2016	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Fubon SSE180 Leveraged 2X Index ETF (managed by Fubon Asset Management)	\$ 13,454	320
Others (no individual related party accounts for more than \$10,000)	22,608	40
Total	<u>\$ 36,062</u>	<u>360</u>

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

<u>Name of securities</u>	<u>For the three months ended June 30, 2017</u>	
	<u>Dividend revenue</u>	<u>Gain (loss) on disposal</u>
Others (no individual related party accounts for more than \$10,000)	\$ -	(258)

<u>Name of securities</u>	<u>For the three months ended June 30, 2016</u>	
	<u>Dividend revenue</u>	<u>Gain (loss) on disposal</u>
Others (no individual related party accounts for more than \$10,000)	\$ 91	(3,199)

<u>Name of securities</u>	<u>For the six months ended June 30, 2017</u>	
	<u>Dividend revenue</u>	<u>Gains (losses) on disposal</u>
Others (no individual related party accounts for more than \$10,000)	\$ -	(87)

<u>Name of securities</u>	<u>For the six months ended June 30, 2016</u>	
	<u>Dividend revenue</u>	<u>Gains (losses) on disposal</u>
Others (no individual related party accounts for more than \$10,000)	\$ 91	(3,099)

7) Trading securities – underwriting

The cost of related parties' shares held by the Group and gains (losses) on valuation were as follows:

<u>Name of securities</u>	<u>December 31, 2016</u>	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Taiwan Mobile issued the third unsecured convertible bond	\$ 49,000	123

<u>Name of securities</u>	<u>For the six months ended June 30, 2016</u>	
	<u>Dividend revenue</u>	<u>Gains (losses) on disposal</u>
Others (no individual related party accounts for more than \$10,000)	\$ -	247

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

8) Available-for-sale financial assets – current

The cost of related parties' shares held by the Group, dividend revenue, and gains (losses) on valuation and disposal were as follows:

<u>Name of securities</u>	<u>June 30, 2017</u>		
	<u>Cost</u>	<u>Shares</u>	<u>Gain (loss) on valuation</u>
Taiwan Mobile	\$ 1,412,500	22,500	1,163,750
Fubon SSE180 Leveraged Index ETF (managed by Fubon Asset Management)	30,902	1,175	3,126
Fubon SZSE 100 ETF (managed by Fubon Asset Management)	9,843	1,074	11,176
Total	<u>\$ 1,453,245</u>	<u>24,749</u>	<u>1,178,052</u>

<u>Name of securities</u>	<u>December 31, 2016</u>		
	<u>Cost</u>	<u>Shares</u>	<u>Gain (loss) on valuation</u>
Taiwan Mobile	<u>\$ 1,412,500</u>	<u>22,500</u>	<u>927,500</u>

<u>Name of securities</u>	<u>June 30, 2016</u>		
	<u>Cost</u>	<u>Shares</u>	<u>Gain (loss) on valuation</u>
Taiwan Mobile	<u>\$ 1,412,500</u>	<u>22,500</u>	<u>1,118,750</u>

<u>Name of securities</u>	<u>For the three months ended June 30, 2016</u>	
	<u>Dividend revenue</u>	<u>Gain (loss) on disposal</u>
Taiwan Mobile	<u>\$ 126,000</u>	<u>-</u>

<u>Name of securities</u>	<u>For the six months ended June 30, 2016</u>	
	<u>Dividend revenue</u>	<u>Gain (loss) on disposal</u>
Taiwan Mobile	<u>\$ 126,000</u>	<u>-</u>

9) Refundable deposits

<u>Name of related party</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
	TWSE	\$ 180,000	30,000
Others (no individual related party accounts for more than \$10,000)	21,053	21,027	19,639
Total	<u>\$ 201,053</u>	<u>51,027</u>	<u>299,639</u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

10) Security borrowing deposits

<u>Name of related party</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
TWSE	\$ <u>678,000</u>	<u>-</u>	<u>-</u>

11) Customer margin deposits

<u>Name of related party</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Taifex	\$ <u>2,454,316</u>	<u>2,505,585</u>	<u>1,707,408</u>

12) Futures traders' equity

As of June 30, 2017, December 31 and June 30, 2016, related parties' deposits for initial and maintenance margins for futures trading were as follows:

<u>Name of related party</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Fubon Fund	\$ 37,839	-	73,480
Fubon Supreme Fund	40,960	-	49,669
Fubon Elite Fund	-	18,694	18,693
Fubon SSE 180 ETF	620,864	528,330	488,630
Fubon New Labor Fund 102-2	-	112,151	73,506
Fubon SSE180 Leveraged 2X Index ETF	8,668,909	4,405,768	5,930,534
Fubon Taiwan Phoenix Fund	-	7,919	11,872
Fubon SSE180 Inversed Index ETF	44,784	65,091	78,457
Fubon Taiwan Heart Fund	-	3,443	14,143
Fubon SZSE 100 ETF	140,358	159,092	89,027
Fubon TOPIX Leveraged 2X Index ETF	71,942	92,603	263,585
Fubon NIFTY 2X Leveraged Index ETF	161,005	227,800	109,933
Fubon NIFTY-1 Inverse Index ETF	8,169	28,545	27,073
Fubon Hang Seng H-share Leveraged Index ETF	174,906	115,867	-
Fubon TAIEX Daily-1X Inverse ETF	242,418	107,444	-
Fubon NASDAQ-100 ETF	114,234	-	-
Fubon S&P 500 VIX Short-Term Futures ETF	513,469	148,970	-
Fubon TWSE Corporate Governance 100 ETF	18,083	-	-
Others (no individual related party accounts for more than \$10,000)	15,631	15,678	17,498
Total	\$ <u>10,873,571</u>	<u>6,037,395</u>	<u>7,246,100</u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

13) Deal on credit

As of June 30, 2017, December 31 and June 30, 2016, the Group had receivables from the other related parties' pecuniary finance amounting to \$100,288, \$99,235 and \$102,862, respectively.

14) Settlement and clearing funds

<u>Name of related party</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
TWSE	\$ 110,712	103,924	100,924
Taifex	151,945	163,328	169,704
Total	<u>\$ 262,657</u>	<u>267,252</u>	<u>270,628</u>

15) Securities sold under repurchase agreements

<u>Name of related party</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Fubon Life Insurance	\$ -	-	160,015
Taipei Fubon Bank	-	200,079	-
Total	<u>\$ -</u>	<u>200,079</u>	<u>160,015</u>

16) Revenue from providing agency service for stock affairs

<u>Name of related party</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>
Fubon Financial	\$ 7,592	8,622	16,162	15,333
Others (no individual related party accounts for more than \$10,000)	3,223	1,767	3,236	3,382
Total	<u>\$ 10,815</u>	<u>10,389</u>	<u>19,398</u>	<u>18,715</u>

As of June 30, 2017, December 31 and June 30, 2016, receivable from providing agency service for stock affairs amounted to \$5,949, \$3,919 and \$6,522, respectively.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

17) Management fee revenues (booked as other operating income)

<u>Name of related party</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>
Fubon Chi-Hsiang Money Market Fund	\$ 18,108	10,638	18,108	19,407
Fubon SSE 180 ETF	41,907	40,826	83,671	73,314
Fubon SSE180 Leveraged 2X Index ETF	73,622	68,386	144,319	126,841
Fubon China High Yield Bond RMB	11,625	12,186	22,656	25,289
Fubon China New Balanced Income Fund	7,259	11,535	15,416	24,280
Fubon SZSE 100 ETF	11,514	7,044	23,176	12,605
Fubon Euro-Asia Silk Road Multi-Asset Fund	17,237	-	17,237	-
Others (no individual related party accounts for more than \$10,000)	45,776	52,360	105,834	101,586
Total	<u>\$ 227,048</u>	<u>202,975</u>	<u>430,417</u>	<u>383,322</u>

As of June 30, 2017, December 31 and June 30, 2016, the receivables from management fee revenue amounted to \$74,975, \$68,025 and \$71,787, respectively.

18) Rental revenue (booked as other gains and losses)

<u>Name of related party</u>	<u>Rental revenue</u>				<u>Rental receivable</u>		
	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>		<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>			
Taipei Fubon Bank	\$ <u>72,507</u>	<u>70,013</u>	<u>141,301</u>	<u>139,264</u>	<u>72,060</u>	<u>49,514</u>	<u>69,737</u>

19) Insurance expense

<u>Name of related party</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>
Fubon Life Insurance	\$ 6,287	6,728	12,844	13,506
Others (no individual related party accounts for more than \$10,000)	5,492	5,378	7,669	6,861
Total	<u>\$ 11,779</u>	<u>12,106</u>	<u>20,513</u>	<u>20,367</u>

As of June 30, 2017, December 31 and June 30, 2016, insurance expense payable to related parties amounted to \$2,022, \$1,953 and \$2,016, respectively.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

20) Brokerage commission

<u>Name of related party</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>
Fubon Life Insurance	\$ 17,106	10,891	38,961	22,426
Others (no individual related party accounts for more than \$10,000)	15,759	11,424	27,740	24,255
Total	<u>\$ 32,865</u>	<u>22,315</u>	<u>66,701</u>	<u>46,681</u>

21) Future's service fees

<u>Name of related party</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>
Fubon Asset Management and other funds	<u>\$ 24,687</u>	<u>27,356</u>	<u>46,632</u>	<u>52,827</u>

22) Collective marketing income

<u>Name of related party</u>	<u>Collective marketing income</u>				<u>Collective marketing income receivable</u>		
	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>		<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>			
Fubon Life Insurance	\$ 13,607	28,122	35,498	59,136	27,860	40,050	50,372
Others (no individual related party accounts for more than \$10,000)	1,115	1,098	2,320	2,474	2,000	1,924	1,924
Total	<u>\$ 14,722</u>	<u>29,220</u>	<u>37,818</u>	<u>61,610</u>	<u>29,860</u>	<u>41,974</u>	<u>52,296</u>

23) Commission expense

<u>Name of related party</u>	<u>Commission expense</u>				<u>Commission payable</u>		
	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>		<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>			
Taipei Fubon Bank	\$ 13,661	9,058	20,998	20,212	12,737	6,904	7,223
Others (no individual related party accounts for more than \$10,000)	1,625	1,586	2,779	3,299	2,126	2,434	1,479
Total	<u>\$ 15,286</u>	<u>10,644</u>	<u>23,777</u>	<u>23,511</u>	<u>14,863</u>	<u>9,338</u>	<u>8,702</u>

Brokerage commission was paid to related parties for selling funds managed by the Group. At the end of periods, commission payable was booked as accrued expense.

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

24) Rental expense

<u>Name of related party</u>	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Chung Hsing Construction	\$ 11,024	14,772	22,184	29,426
Taipei Fubon Bank	8,701	8,982	17,265	17,895
Others (no individual related party accounts for more than \$10,000)	12,054	9,376	24,074	18,670
Total	\$ <u>31,779</u>	<u>33,130</u>	<u>63,523</u>	<u>65,991</u>

The calculation of rent between the Group and related parties was based on market price, and paid monthly.

25) Depository service expense

<u>Name of related party</u>	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
TDCC	\$ <u>22,103</u>	<u>15,689</u>	<u>38,654</u>	<u>32,543</u>

As of June 30, 2017, December 31 and June 30, 2016, the depository service expenses payable to related parties amounted to \$6,379, \$5,248 and \$5,206, respectively.

26) Brokerage handling fee expense

<u>Name of related party</u>	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
TWSE	\$ 35,081	22,183	64,834	47,320
Taifex	20,207	19,797	36,783	40,508
Total	\$ <u>55,288</u>	<u>41,980</u>	<u>101,617</u>	<u>87,828</u>

As of June 30, 2017, December 31 and June 30, 2016, the brokerage handling fee expenses payable to related parties amounted to \$23,322, \$14,365 and \$14,878, respectively.

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

27) Settlement service fee expense

<u>Name of related party</u>	<u>Settlement service fee expense</u>				<u>CSttlement service fee payable</u>		
	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>		<u>June 30,</u>	<u>December</u>	<u>June 30,</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>31, 2016</u>	<u>2016</u>
Taifex	\$ 17,113	20,458	31,752	41,757	7,606	5,672	6,727

28) Expenses arising from issuance of call (put) warrants

<u>Name of related party</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>
TWSE	\$ 11,014	13,691	24,745	27,970
Others (no individual related party accounts for more than \$10,000)	658	-	1,456	-
Total	<u>\$ 11,672</u>	<u>13,691</u>	<u>26,201</u>	<u>27,970</u>

29) Revenue from fund sales fees

<u>Name of related party</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>
Others (no individual related party accounts for more than \$10,000)	<u>\$ 8,035</u>	<u>7,312</u>	<u>12,660</u>	<u>17,588</u>

30) Stock borrowing fees

<u>Name of related party</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>
Fubon Life Insurance	\$ 13,862	2,755	22,784	9,149
Others (no individual related party accounts for more than \$10,000)	4	936	185	1,807
Total	<u>\$ 13,866</u>	<u>3,691</u>	<u>22,969</u>	<u>10,956</u>

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

- 31) Other transactions with related parties with amounts not exceeding \$10 million were as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>		
Assets and liabilities:					
Deposits-in	\$ 2,130	2,130	2,130	2,130	
Revenue receivable	5,307	-	-	-	
Service fee revenue receivable	3,666	2,251	1,226	1,226	
Collective market expense payable	1,620	2,675	2,566	2,566	
Temporary payment	6,122	7,130	454	454	
Expense payable	3,223	240	207	207	
Advance money payable	2,104	1,998	69	69	
Information subsidy receivable	3,000	-	-	-	
Others (no individual related party accounts for more than \$2,000)	7,179	4,026	6,997	6,997	
Total	<u>\$ 34,351</u>	<u>20,450</u>	<u>13,649</u>	<u>13,649</u>	
		For the three months ended June 30	For the six months ended June 30		
		<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenue:					
Rental revenue	\$ 3,220	3,181	6,401	6,362	6,362
Financial revenue	190	278	3,876	4,596	4,596
Other revenue from underwriting business	-	3,424	-	3,544	3,544
Divided revenue	3,047	966	3,047	966	966
Revenues from underwriting securities	2,600	-	2,600	-	-
Other revenues from underwriting consultation	1,600	4,000	1,600	4,000	4,000
Other operating revenue	3,280	-	3,473	-	-
Others (no individual related party accounts for more than \$2,000)	916	1,802	1,685	3,345	3,345
Total	<u>\$ 14,853</u>	<u>13,651</u>	<u>22,682</u>	<u>22,813</u>	<u>22,813</u>

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Expense:				
Information technology expense	\$ 3,585	3,946	7,142	7,424
Management fee	3,633	3,277	5,676	5,598
Phone expense	4,154	4,037	8,215	8,061
Proprietary handling fee expense	753	1,827	2,028	3,858
Donation expense	2,720	6,551	5,301	7,035
Advertising expense	9,600	355	9,650	355
Professional services expense	885	1,530	2,612	1,950
Others (no individual related party accounts for more than \$2,000)	6,381	6,622	16,328	16,097
Total	\$ <u>31,711</u>	<u>28,145</u>	<u>56,952</u>	<u>50,378</u>

The price and payment terms of related-party transactions mentioned above are not significantly different from those of non-related parties.

(8) Pledged assets

The carrying values of pledged assets were as follows:

Pledged assets	Pledged object	June 30, 2017	December 31, 2016	June 30, 2016
Time deposits (booked as restricted assets—current)	Bank loan and overdraft	\$ 105,000	105,000	105,000
Time deposits (booked as other restricted assets—non-current)	Discretionary managed deposits	22,521	35,021	42,521
Stocks (booked as available-for-sale financial assets—current)	Bank loan	2,061,000	1,872,000	2,025,000
Bonds (booked as securities held for operations—dealing)	Margin deposit for trust business	-	-	103,364
Property and equipment—land and building	Bank loan	1,629,183	1,404,404	1,408,225
Investment property—land and building	Bank loan	855,560	1,072,629	1,075,010
		\$ <u>4,673,264</u>	<u>4,489,054</u>	<u>4,759,120</u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(9) Commitments and contingencies

(a) Details of the Group's leasing contract commitments to the maturity were as follows:

June 30, 2017	Less than one year	Between one and five years	More than five years	Total
Lease commitments				
Operating lease payments (Lessee)	182,299	150,943	630	333,872
Total finance lease payments (Lessee)	1,187	1,896	-	3,083
Present value of finance lease payments (Lessee)	1,009	1,929	-	2,938
Capital expenditure commitments	167,338	-	-	167,338
Total	351,833	154,768	630	507,231
December 31, 2016	Less than one year	Between one and five years	More than five years	Total
Lease commitments				
Operating lease payments (Lessee)	214,359	73,462	5,670	293,491
Total finance lease payments (Lessee)	1,187	1,896	-	3,083
Present value of finance lease payments (Lessee)	1,009	1,929	-	2,938
Capital expenditure commitments	173,581	-	-	173,581
Total	390,136	77,287	5,670	473,093
June 30, 2016	Less than one year	Between one and five years	More than five years	Total
Lease commitments				
Operating lease payments (Lessee)	232,271	193,606	6,090	431,967
Total finance lease payments (Lessee)	1,271	2,328	-	3,599
Present value of finance lease payments (Lessee)	1,231	2,280	-	3,511
Capital expenditure commitments	282,094	-	-	282,094
Total	516,867	198,214	6,090	721,171

(Continued)

FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

- (b) There were several disputes that former brokers had with clients due to securities brokerage transactions. The clients filed lawsuits against the Company for damages. The High Court has dismissed the client's appeal; therefore the client appealed to the Supreme court. The case is still in progress. Indemnification loss payable (booked as other payables) for the judgments arising from several disputes that former brokers had with clients due to securities brokerage transactions were as follows:

	June 30, 2017	December 31, 2016	June 30, 2016
Indemnification loss payable	\$ 11,526	11,526	11,526

For the six months ended June 30, 2017 and 2016, the Company recognized indemnification loss of \$0 to the customers.

(10) Extraordinary loss: None.

(11) Subsequent events

On May 19, 2017, the board of directors of Fubon Asset Management has approved the capital injection of invested in FundRich Securities Co., Ltd, and subscribed 1,273 thousand shares. The investment amount of \$14,093 and \$5,000 would be remitted on August 3 and August 8, 2017, respectively. The percentage of ownership would be 3.36%.

(12) Others

- (a) A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

By function	For the three months ended June 30, 2017			For the three months ended June 30, 2016		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
By account						
Employee benefits expense:						
Salary	-	688,545	688,545	-	599,883	599,883
Insurance expenses	-	49,467	49,467	-	52,965	52,965
Pension	-	39,381	39,381	-	38,221	38,221
Other employee benefits	-	26,486	26,486	-	26,619	26,619
Depreciation expenses	-	35,603	35,603	-	38,775	38,775
Amortization expenses	-	21,762	21,762	-	19,643	19,643

By function	For the six months ended June 30 2017			For the six months ended June 30 2016		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
By account						
Employee benefits expense:						
Salary	-	1,339,610	1,339,610	-	1,210,126	1,210,126
Insurance expenses	-	110,526	110,526	-	112,823	112,823
Pension	-	73,719	73,719	-	71,015	71,015
Other employee benefits	-	52,100	52,100	-	54,126	54,126
Depreciation expenses	-	71,918	71,918	-	76,366	76,366
Amortization expenses	-	41,538	41,538	-	39,259	39,259

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(b) Legal compliance

- (i) In accordance with an SFB ruling, there are certain standards for financial ratios as prescribed by the RGFCM. The Company's financial ratios were as follows:

Rule	Formula	June 30 2017		June 30 2016		Standard	Within the standard
		Calculation	Ratio	Calculation	Ratio		
No. 17	Stockholders' equity	363,451	130.60	356,179	357.25	≥ 1	Satisfactory
	Total liabilities - futures traders' equity	2,783		997			
No. 17	Current assets	1,018,354	497.24	569,083	2,163.81	≥ 1	Satisfactory
	Current liabilities	2,048		263			
No. 22	Stockholders' equity	363,451	90.86 %	356,179	89.04 %	≥ 60% ≥ 40%	Satisfactory
	Minimum paid-in capital	400,000		400,000			
No. 22	Adjusted net working capital	832,992	216.52 %	526,806	514.40 %	≥ 20% ≥ 15%	Satisfactory
	Customer margin required	384,719		102,411			

- (ii) In accordance with an SFB ruling, there are certain standards for financial ratios as prescribed by the RGFCM. Financial ratios of Fubon Futures Co., Ltd. were as follows:

Rule	Formula	June 30 2017		June 30 2016		Standard	Within the standard
		Calculation	Ratio	Calculation	Ratio		
No. 17	Stockholders' equity	1,829,588	17.00	1,798,347	21.04	≥ 1	Satisfactory
	Total liabilities - futures traders' equity - reserve for default	107,651		85,466			
No. 17	Current assets	22,659,528	1.07	17,590,390	1.09	≥ 1	Satisfactory
	Current liabilities	21,153,737		16,118,948			
No. 22	Stockholders' equity	1,829,588	304.93 %	1,798,347	449.59 %	≥ 60% ≥ 40%	Satisfactory
	Minimum paid-in capital	600,000		400,000			
No. 22	Adjusted net working capital	1,656,518	54.06 %	1,665,729	43.21 %	≥ 20% ≥ 15%	Satisfactory
	Customer margin required	3,063,968		3,855,025			

(c) Special risk of futures brokering business

Future trading with low margins provides greater financial leverage. Although there is potential to produce large profits, it is equally possible to generate huge losses. When the market trend is unfavorable, futures commission merchants (FCMs) can ask customers for extra funds in order to maintain the margin balance. If customers cannot provide extra margins in a given period, FCMs have the right to settle the futures contracts on behalf of the customers. If there are losses after settlement, customers must reimburse the Company for the losses after netting the margin. If the futures market trend deviates from customers' expectations, original margins can be completely lost. On the other hand, the Group has a major risk, market price risk, when engaging in dealing business. That means the market price of futures contracts and options is affected by changes in the index of the investment object. The Group will suffer a loss if the price of the market index changes in reverse of the investment object. However, the Group sets stop-loss points based on risk management to control the risk.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(d) As of June 30, 2017, the deficit yet to be compensated to Fubon Securities HK Ltd. amounting to HKD 87,486 thousands exceeded half of its paid-in capital, which was HKD 102,911 thousands in total. The board of directors of the Company held on December 29, 2014 approved that the Company will unconditionally support the operating capital of Fubon Securities HK.

(e) According to Rule Letter No.1030026386 issued by the Regulations for Securities Brokers Undertaking Pecuniary and Securities Financing, the Group provided the following information:

As of June 30, 2017, December 31 and June 30, 2016, the offshore securities unit, governed by the Company, operated custody accounts on behalf of its customers business. The details of the custody accounts were bank deposits of USD8,055, USD7,438 and USD16,237, securities of USD230,485, USD53,675 and USD13,896, bonds of USD20,079, USD24,321 and USD17,914, funds of USD84, USD40 and USD639, and structured notes of USD8,482, USD9,621 and USD5,441, respectively.

(f) According to Article 17 of Enforcement Rules of the Trust Enterprise Act, the details of trust balance sheet, trust income statement, and trust catalog of property were as follows:

(i) Trust balances sheet

Trust Balances Sheet

June 30, 2017, December 31 and June 30, 2016

(expressed in thousands of New Taiwan Dollars)

Trust assets	June 30, 2017	December 31, 2016	June 30, 2016	Trust liabilities	June 30, 2017	December 31, 2016	June 30, 2016
Cash in banks	\$ 40,826	61,550	70,420	Account payable	\$ 891	1,039	2,576
Short-term investments				Capital	13,020,614	11,103,697	12,511,075
Funds	2,615,275	2,842,510	3,360,251	Net losses	(1,298,198)	(1,887,663)	(2,114,785)
Stocks	3,785,134	2,927,686	3,365,956	Accumulated losses	(3,752,065)	(1,864,402)	(1,864,402)
Borrowed securities	1,504,517	1,505,454	1,676,784				
Account receivable	25,490	15,371	61,038				
Certificate held for settlement	-	100	15				
Total trust assets	\$ 7,971,242	7,352,671	8,534,464	Total trust liabilities	\$ 7,971,242	7,352,671	8,534,464

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(ii) Trust income statement

Trust Income Statement

For the six months ended June 30, 2017 and 2016

(expressed in thousands of New Taiwan Dollars)

	For the six months ended	
	June 30	
	<u>2017</u>	<u>2016</u>
Trust Revenues		
Interest revenue	\$ 5,150	53
Dividend revenue	8,923	17,046
Rental revenue	9,859	15,548
Borrowed securities compansion	904	23,912
Realized gains on investments	7,096	6,856
Unrealized gains on investments	<u>423,432</u>	<u>129,288</u>
Subtotal	<u>455,364</u>	<u>192,703</u>
Trust Expenses		
Management fee	2,079	3,281
Commission expense	122	183
Other expense	-	4
Realized losses on investments	7,202	9,020
Unrealized losses on investments	<u>1,744,158</u>	<u>2,295,000</u>
Subtotal	<u>1,753,561</u>	<u>2,307,488</u>
Losses before tax	(1,298,197)	(2,114,785)
Income tax expense	-	-
Net losses	<u><u>\$ (1,298,197)</u></u>	<u><u>(2,114,785)</u></u>

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(iii) Trust catalog of property

Trust catalog of property

June 30, 2017, December 31 and June 30, 2016

(expressed in thousands of New Taiwan Dollars)

Item	June 30, 2017	December 31, 2016	June 30, 2016
Cash in banks	\$ 40,826	61,550	70,420
Short-term investments			
Funds	2,615,275	2,842,510	3,360,251
Stocks	3,785,134	2,927,686	3,365,956
Borrowed securities	1,504,517	1,505,454	1,676,784
Account receivable	25,490	15,371	61,038
Certificate held for settlement	-	100	15
Total	<u>\$ 7,971,242</u>	<u>7,352,671</u>	<u>8,534,464</u>

(13) Other disclosure items

(a) Related information on material 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) Financing provided to others: None.
- (ii) Endorsements/guarantees provided to others: None.
- (iii) Acquisition of individual real estate at price of at least NT\$300 million or 20% of the paid-in capital: None.
- (iv) Disposal of individual real estate at price of at least NT\$300 million or 20% of the paid-in capital: None.
- (v) Discount on brokerage trading fee to related parties amounting to at least NT\$5 million: None.
- (vi) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(vii) Details of material transactions between parent company and subsidiaries:

Number (Note I)	Name of company	Name of counter-party	Existing relationship with counter-party (Note II)	Year 2016 second-quarter transaction details			
				Account name	Amount	Terms of trading	Percentage of total consolidated revenue or total assets
0	Fubon Securities Co., Ltd.	Fubon Futures Co., Ltd.	1	Futures commission revenue	42,284	Not materially different from the general trading terms.	1.13 %
1	Fubon Futures Co., Ltd.	Fubon Securities Co., Ltd.	2	Futures commission expense	42,284	"	1.13 %
0	Fubon Securities Co., Ltd.	Fubon Futures Co., Ltd.	1	Accounts receivable	14,742	"	- %
0	Fubon Securities Co., Ltd.	Fubon Futures Co., Ltd.	1	Other receivables	7,126	"	- %
1	Fubon Futures Co., Ltd.	Fubon Securities Co., Ltd.	2	Accounts payable	14,742	"	- %
1	Fubon Futures Co., Ltd.	Fubon Securities Co., Ltd.	2	Accrued expenses	7,126	"	- %
0	Fubon Securities Co., Ltd.	Fubon Futures Co., Ltd.	1	Refundable deposits	3,000	"	- %
1	Fubon Futures Co., Ltd.	Fubon Securities Co., Ltd.	2	Deposits-in	3,000	"	- %
2	Fubon Securities Investment Services Co., Ltd.	Fubon Securities Co., Ltd.	2	Revenue from advisory	68,864	"	1.83 %
0	Fubon Securities Co., Ltd.	Fubon Securities Investment Services Co., Ltd.	1	Operating expense	68,864	"	1.83 %
2	Fubon Securities Investment Services Co., Ltd.	Fubon Securities Co., Ltd.	2	Accounts receivable	11,886	"	0.01 %
0	Fubon Securities Co., Ltd.	Fubon Securities Investment Services Co., Ltd.	1	Other payables	1,886	"	0.01 %
0	Fubon Securities Co., Ltd.	Fubon Asset Management Co., Ltd.	1	Revenues from underwriting business	29,867	"	0.79 %
3	Fubon Asset Management Co., Ltd.	Fubon Securities Co., Ltd.	2	Commission expense	29,867	"	0.79 %

Note I: The numbers indicate the following:

1. 0 means the parent.
2. The subsidiaries are sequentially numbered from 1.

Note II: Types of existing relationship with the counter-party are indicated as follows:

1. Parent to subsidiaries.
2. Subsidiaries to parent.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(b) Related information on investee companies (excluding information on investees in Mainland China)

For the six months ended June 30, 2017, the related information on investee companies was as follows (excluding information on investees in Mainland China):

Name of investor	Name of investee	Location	Date of establishment	FSC Rule No.	Major operations	Initial investment (Amount)		Ending balance			Revenue of investee	Net income of investee	Investment income (losses)	Cash dividend	Notes
						Ending balance	Beginning balance	Shares	Ratio of shares	Book value					
Fubon Securities Co., Ltd.	Fubon Futures Co., Ltd.	Taipei City	May 7, 1998		Futures	1,424,128	1,424,128	140,000	100.00 %	1,829,588	310,240	56,714	56,714	65,485	The transaction was eliminated when the Company compiled its consolidated financial report.
"	Fubon Securities (BVI) Ltd.	British Virgin Islands	April 3, 2007	No.40335	Securities business	259,930	259,930	8,164	100.00 %	79,082	-	(15,189)	(15,189)	-	"
"	Fubon Securities Investment Services Co., Ltd.	Taipei City	April 14, 1987		Investment service	300,444	300,444	30,000	100.00 %	310,517	70,882	1,846	1,846	-	"
"	Fubon Asset Management Co., Ltd.	Taipei City	September 18, 1992		Investment trust	2,759,830	2,759,830	192,345	100.00 %	2,652,924	466,602	98,148	91,141	242,827	"
"	Fubon Securities Venture Capital	Taipei City	September 11, 2015		Venture Capital	300,000	300,000	30,000	100.00 %	282,471	11,226	5,589	5,589	-	"
"	Fubon Mintou Venture Capital Co., Ltd.	Taipei City	May 28, 2017		Venture Capital	134,000	-	13,400	67.00 %	133,979	-	(32)	(21)	-	"
"	Fubon Financial Holding Venture Capital Co., Ltd.	Taipei City	October 17, 2003		Venture capital	150,000	150,000	22,780	8.33 %	349,284	285,602	39,267	3,271	15,338	Investments accounted for using the equity method
Fubon Securities (BVI) Ltd.	Fubon Securities (HK) Ltd.	Hong Kong	July 29, 2010	No.0990010266	Securities business	398,242	398,242	102,911	100.00 %	60,583	16,509	(14,913)	(14,913)	-	The transaction was eliminated when the Company compiled its consolidated financial report.
Fubon Asset Management Co., Ltd.	Fubon Convoy Asset Management (HK) Ltd.	Hong Kong	February 23, 2017	NO. 1050051582	Asset management	98,490	-	24,500	49.00 %	94,020	-	(3,187)	(1,562)	-	"

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(c) Related information on overseas branches and representative offices

(In Thousands of New Taiwan Dollars)

Name of overseas branch or representative offices	Nationality and region	Date of establishment	FSC Rule No.	Major operations	Revenue	Income after tax	Allocating operating capital			The end of the period	Important transactions with the Corporation	Note
							The end of the last period	Increasing operating capital	Decreasing operating capital			
Fubon Securities CO., LTD. ShangHai representative office	Mainland China ShangHai	November 23, 2005	No.092103934	Securities business contact	-	(567)	971	2	713	260	None	Note 1
Fubon Securities CO., LTD. Beijing representative office	Mainland China Beijing	April 21, 2011	No.0980049701	Overseas non profit organization	-	(473)	612	17	502	127	None	Note 2

Note1: The increasing operating capital includes the interest revenue amounting to \$0.44 thousand, which was recognized in other revenues.
 Note2: The increasing operating capital includes the interest revenue amounting to \$0.32 thousand, which was recognized in other revenues.

(d) Related information on investee in Mainland China

(i) Information on investment in Mainland China

(In Thousands of New Taiwan Dollars)

Name of the investee in Mainland China	Major operations	Issued capital	Method of investment (note 1)	Beginning remittance balance – Cumulative investment (amount) from Taiwan	Current remittance/recoverable investment (amount)		Ending remittance balance – Cumulative investment (amount) from Taiwan	Net income of investee	Direct/indirect shareholdings (%) in the company	Current investment gains and losses	Book value	Remittance of investment income as of current period
					Remittance amount	Recoverable amount						
Founder Fubon Fund Management Ltd.	Fund raising sale and asset management	1,883,627 (CNY400,000)	(Note 1)	626,522	-	-	626,522	(188,570)	33.30 %	(62,794)	376,052	-
Fubon Securities Venture Capital	Venture Capital	944,532 (CNY200,000)	(Note 1)	944,532	-	-	944,532	(25,667)	100.00 %	(25,667)	881,728	-

(ii) Limitation on investment in Mainland China

Name	Aggregate investment amount remitted from Taiwan to Mainland China at the end of the period	Approved investment (amount) by Ministry of Economic Affairs Investment Commission	Limitation on investment in Mainland China in accordance with regulations of Ministry of Economic Affairs Investment Commission (Note 2)
Fubon Asset Management Co., Ltd.	626,522 (CNY133,200)	627,248 (CNY133,200)	1,591,754
Fubon Securities Co., Ltd.	944,532 (CNY200,000)	1,017,360 (CNY200,000)	19,641,492

Note 1: Direct cash investment to Mainland China.

Note 2: The net value calculated by the Company and the subsidiary Fubon Asset Management on June 30, 2017.

(iii) On November 18, 2014, the board of directors of the Company has approved in participating in the capital increased for cash in Huishang Futures Co., Ltd in Mainland China. The project had been approved by the FSC, Rule No. 1040020971 on May 22, 2015 and by the Investment Commission, MOEA, Rule No. 10400050900 on June 29, 2015. The Project remained to be approved by the authorities of Mainland China, and the expected investment amount is CNY 327 million in cash.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

- (iv) On March 19, 2015, the board of directors of the Company has approved to set up a new subsidiary in Mainland China. The project had been approved by the FSC, Rule No. 1040042628 on November 24, 2015 and by the Investment Commission, MOEA, Rule No. 10430066740 on January 20, 2016. The expected investment amount is CNY 200 millions in cash. The project had been approved by the authorities in Mainland China on June 6, 2016. As of June 30, 2017, the Company has remitted the capital amount of CNY 200 millions.
- (v) The board of directors of Fubon Asset Management had approved to participate in the capital increased for cash of Founder Fubon Fund Management Co., Ltd. on February 1, 2016. The investment project was approved by the Investment Commission, MOEA and FSC on May 31 and June 2, 2016, respectively, for the investment amount of CNY 66.6 millions. As of June 7, 2016, Fubon Asset Management has remitted the amount of \$329,004. As of June 30, 2017, Fubon Asset Management has remitted the accumulated investment amount of \$626,522 in cash.
- (e) Related information on investee companies in other countries which do not have any securities authority:

In accordance with the Rule No. 10400414001 issued by the FSC on November 19, 2015, the Group should disclose the following information on investing in the foreign business in British Virgin Islands (BVI) for the six months ended June 30, 2017.

- (i) Condensed balance sheet and income statement:

- 1) Balance sheet

(In Thousands of United States Dollars)

Items	Fubon Securities (BVI)
Bank deposits and other assets	608
Investment accounted for using the equity method	1,990
Total asset	2,598
Capital stock	8,164
Paid-in capital	43
Retained earnings	(5,146)
Other equity	(463)
Total stockholders' equity	2,598

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

2) Comprehensive income

(In Thousands of United States Dollars)

Items	Fubon Securities (BVI)
Operating expenses	(11)
Non-operating revenue and expenses	(473)
Income before tax	(484)
Income after tax	(484)

(ii) Securities held by the Group as of June 30, 2017, were as follows:

(In Thousands of United States Dollars)

Holding company	Security	Listed name	June 30, 2017	
			Shares	Amounts
Fubon Securities (BVI)	Equity investment: Fubon Securities (HK)	Investment accounted for using the equity method (share holding ratio: 100.00%)	102,911	\$ <u>1,990</u>

(iii) Derivative financial instruments business and source of capital: None.

(iv) Asset management revenue from advisory, service, and litigation: None.

(14) Segment information

(a) Operating segment information

The Group offers different products and services based on the strategies of the Group, the main businesses, and geographical area. The various types of business are administered separately and have different finance and marketing strategies. The following are the segments the Group should report:

- (i) Dealing business: With its own funds, the dealing business engaged in trading securities, futures, options, and related listed stock instruments approved by the authorities, and undertook profit and loss risks.
- (ii) Financial market business: Engaged in warrant liabilities, structured instruments, equity derivative instruments, and related business.
- (iii) Investment bank business: Engaged in helping business enterprises to have an initial public offering or to register on the emerging or listed market, in underwriting and selling securities, in helping business enterprises to raise funds, and related business.
- (iv) Brokerage business: Engaged in brokerage trading, margin trading, and futures brokerage services.

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FUBON SECURITIES CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

- (v) Futures business: Engaged in futures and options trading for hedging or non-hedging purposes in futures and options markets.
- (vi) Fubon Futures Co., Ltd.: Engaged in the business of domestic and international futures brokerage services and futures investment consultancy, accepting appointments to handle futures trading, and assisting in or performing closing for other non-closing futures brokers.
- (vii) Fubon Asset Management Co., Ltd.: Engaged in securities asset management services, etc.
- (viii) Fubon Securities (BVI) Ltd.: Engaged in domestic and international brokerage trades and other related investment activities.
- (ix) Others: Fubon Investment Service Co., Ltd.: Accepted appointments to provide research and analyses related to securities investment advice or recommendations, and other investment advisory services. Fubon Securities Venture Capital: Engaged in venture capital services. Fubon Securities Equity Investment: Engaged in equity investment services. Fubon Mintou Venture Capital Co., Ltd.: Engaged in venture capital services.
- (b) Reportable segment profit or loss

The Group does not allocate tax expenses or extraordinary activity gains or losses to reporting segments. The reportable amount is similar to that in the report used by the chief operating decision maker.

The operating segment accounting policies are similar to those described in note 4 "Significant Accounting Policies". The income of the operating segments is based on income before tax, which also serves as the basis for performance measurement. The sales and transfers between departments are regarded as third-party sales and transfers and are measured by current market value.

(c) The Group's business information and reconciliation

	For the three months ended June 30 2017									
	Dealing business	Equity derivative business	Underwriting business	Brokerage business	Fubon Futures Co., Ltd.	Fubon Asset Management Co., Ltd.	Fubon Securities (BVI) Ltd.	Others	Adjustment and reversal	Total
Revenues										
Revenue from external customers	\$ 175,308	170,515	188,639	1,114,439	161,400	246,340	7,565	35,140	(59,784)	2,039,562
Revenue between segments	-	1,181	235	7,610	-	-	-	-	(9,026)	-
Total revenues	<u>\$ 175,308</u>	<u>171,696</u>	<u>188,874</u>	<u>1,122,049</u>	<u>161,400</u>	<u>246,340</u>	<u>7,565</u>	<u>35,140</u>	<u>(68,810)</u>	<u>2,039,562</u>
Segment income (Note)	<u>\$ 145,039</u>	<u>85,692</u>	<u>104,011</u>	<u>357,330</u>	<u>40,435</u>	<u>42,607</u>	<u>8,453</u>	<u>5,582</u>	<u>(228,772)</u>	<u>560,377</u>
	For the three months ended June 30 2016									
	Dealing business	Equity derivative business	Underwriting business	Brokerage business	Fubon Futures Co., Ltd.	Fubon Asset Management Co., Ltd.	Fubon Securities (BVI) Ltd.	Others	Adjustment and reversal	Total
Revenues										
Revenue from external customers	\$ 225,048	194,385	133,590	790,553	157,524	225,411	5,789	752	(9,482)	1,723,570
Revenue between segments	-	1,535	(1,942)	17,966	357	-	-	33,406	(51,322)	-
Total revenues	<u>\$ 225,048</u>	<u>195,920</u>	<u>131,648</u>	<u>808,519</u>	<u>157,881</u>	<u>225,411</u>	<u>5,789</u>	<u>34,158</u>	<u>(60,804)</u>	<u>1,723,570</u>
Segment income (Note)	<u>\$ 190,307</u>	<u>117,494</u>	<u>44,259</u>	<u>190,099</u>	<u>31,304</u>	<u>74,385</u>	<u>(11,876)</u>	<u>(840)</u>	<u>(193,485)</u>	<u>441,647</u>

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Notes to the Consolidated Interim Financial Statements

	For the six months ended June 30 2017									
	Dealing business	Equity derivative business	Underwriting business	Brokerage business	Fubon Futures Co., Ltd.	Fubon Asset Management Co., Ltd.	Fubon Securities (BVI) Ltd.	Others	Adjustment and reversal	Total
Revenues										
Revenue from external customers	\$ 296,682	298,528	280,976	2,161,411	310,240	466,602	16,509	82,108	(154,030)	3,759,026
Revenue between segments	-	(10,173)	327	12,955	-	-	-	-	(3,109)	-
Total revenues	\$ 296,682	288,355	281,303	2,174,366	310,240	466,602	16,509	82,108	(157,139)	3,759,026
Segment income (Note)	\$ 234,961	118,217	120,240	722,015	66,927	126,283	(15,188)	7,784	(408,791)	972,448
	For the six months ended June 30 2016									
	Dealing business	Equity derivative business	Underwriting business	Brokerage business	Fubon Futures Co., Ltd.	Fubon Asset Management Co., Ltd.	Fubon Securities (BVI) Ltd.	Others	Adjustment and reversal	Total
Revenues										
Revenue from external customers	\$ 246,907	374,629	279,607	1,628,180	321,887	432,741	10,381	1,425	40,734	3,336,491
Revenue between segments	-	1,415	(1,770)	26,655	881	-	-	67,137	(94,318)	-
Total revenues	\$ 246,907	376,044	277,837	1,654,835	322,768	432,741	10,381	68,562	(53,584)	3,336,491
Segment income (Note)	\$ 178,981	287,862	101,028	440,297	56,607	168,546	(24,436)	(1,862)	(366,509)	840,514

Note: Income tax expense information is not included in segments information.

The aforementioned significant reconciliation of reporting segments does not include segment information and the offsetting of transactions between parent and subsidiaries. The decision maker of the Group does not make decisions based on the assets and liabilities of the operating segment, therefore, the Group's business information and reconciliation were not disclosed.