

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

**FUBON FINANCIAL HOLDING CO., LTD.
AND ITS SUBSIDIARIES**

Consolidated Interim Financial Statements

September 30, 2017 and 2016

(With Independent Auditors' Review Report Thereon)

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

Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Independent Auditors' Review Report	3
4. Consolidated Balance Sheets	4
5. Consolidated Statements of Comprehensive Income	5
6. Consolidated Statements of Changes in Equity	6
7. Consolidated Statements of Cash Flows	7
8. Notes to Consolidated Interim Financial Statements	
(1) Company history	8~10
(2) Approval date and procedures of the financial statements	10
(3) New standards, amendments and interpretations adopted	10~18
(4) Summary of significant accounting policies	18~50
(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty	50~52
(6) Explanation of significant accounts	53~351
(7) Related-party transactions	351~393
(8) Pledged assets	393~394
(9) Commitments and contingencies	395~399
(10) Significant loss of damage	399
(11) Significant subsequent events	399
(12) Other	400~415
(13) Other disclosures	
(a) Related information of significant transactions	416~424
(b) Information on investment in mainland China	424~429
(14) Segment information	429~430



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Independent Auditors' Review Report

To the Board of Directors
Fubon Financial Holding Co., Ltd.:

We have reviewed the accompanying consolidated balance sheets of Fubon Financial Holding Co., Ltd. (the "Company") and its subsidiaries as of September 30, 2017 and 2016, and the related consolidated statements of comprehensive income for the three months and nine months ended September 30, 2017 and 2016, as well as the consolidated statements of changes in equity and cash flows for the nine months ended September 30, 2017 and 2016. These consolidated interim financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated interim financial statements based on our reviews.

We conducted our reviews in accordance with Statement on Auditing Standard 36, "Engagements to Review Financial Statements". A review consists principally of inquiries of the Company's personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with the generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated interim financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial statements referred to in the first paragraph in order for them to be in conformity with the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies" and the International Accounting Standard 34 "Interim Financial Reporting" endorsed by the Financial Supervisory Commission of the Republic of China.

KPMG

Taipei, Taiwan (Republic of China)
November 28, 2017

Notes to Readers

The accompanying consolidated interim financial statements are intended only to present the consolidated interim 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 review such consolidated interim financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Consolidated Interim Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with the generally accepted auditing standards as of September 30, 2017 and 2016

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2017, December 31 and September 30, 2016

(Expressed in Thousands of New Taiwan Dollars)

Assets		September 30, 2017		December 31, 2016		September 30, 2016				September 30, 2017		December 31, 2016		September 30, 2016	
		Amount	%	Amount	%	Amount	%			Amount	%	Amount	%	Amount	%
11000	Cash and cash equivalents (notes 6(a) and 8)	\$ 158,767,975	2	176,347,729	3	173,985,561	3	21000	Deposits from the central bank and banks	\$ 118,781,187	1	80,851,838	1	81,975,318	1
11500	Due from the central bank and call loans to banks (note 6(b) and 8)	205,213,069	3	280,627,636	4	267,646,337	4	21500	Due to the central bank and banks	5,146,730	-	7,081,137	-	6,899,116	-
12000	Financial assets measured at fair value through profit or loss (notes 6(c) and 8)	138,265,225	2	163,910,238	3	138,683,340	2	22000	Financial liabilities measured at fair value through profit or loss (note 6(s))	51,027,153	1	97,546,186	2	56,359,911	1
12100	Available-for-sale financial assets, net (notes 6(d) and 8)	1,721,897,723	27	1,631,039,162	26	1,620,890,811	26	22300	Derivative financial liabilities for hedging (note 6(e))	3,321,448	-	2,935,500	-	2,699,305	-
12300	Derivative financial assets for hedging (note 6(e))	1,810,465	-	1,329,276	-	1,435,697	-	22500	Securities sold under repurchase agreements (note 6(t))	152,228,667	2	122,889,790	2	120,327,929	2
12500	Securities purchased under resell agreements (note 6(f))	83,459,606	1	94,388,499	1	115,812,435	2	22600	Commercial paper issued, net (note 6(u))	18,904,484	-	654,787	-	3,374,749	-
13000	Receivables, net (note 6(g))	151,899,943	2	134,983,628	2	126,562,258	2	23000	Payables	104,846,741	2	84,255,953	1	86,620,796	1
13200	Current tax assets	1,978,965	-	1,618,718	-	1,472,684	-	23200	Current tax liabilities	11,741,440	-	9,823,469	-	11,157,220	-
13300	Asset classified as held for sale, net (note 6(h))	4,736,266	-	49,606	-	48,207	-	23500	Deposits (note 6(v))	2,191,131,640	33	2,121,289,731	33	2,073,396,587	34
13500	Discounts and loans, net (note 6(i))	1,686,688,344	25	1,636,622,497	26	1,643,483,433	27	24000	Bonds payable (note 6(w))	183,781,592	3	178,601,095	3	154,232,725	3
13700	Reinsurance contract assets, net (note 6(j))	22,371,726	-	23,804,912	-	23,668,302	-	24400	Other borrowings (note 6(x) and 8)	3,297,926	-	4,420,000	-	1,640,000	-
14500	Held-to-maturity financial assets, net (notes 6(k) and 8)	452,055,413	7	377,185,061	6	379,894,538	6	24600	Provisions (note 6(y))	3,178,322,697	47	2,999,495,105	47	2,941,973,593	47
15000	Investments accounted for using equity method, net (note 6(l))	23,834,907	-	23,300,447	-	26,146,351	-	25500	Other financial liabilities (note 6(z))	189,746,291	3	177,391,307	3	175,238,191	3
15500	Other financial assets, net (note 6(n))	1,739,802,060	26	1,471,680,907	23	1,366,148,745	22	29300	Deferred tax liabilities	10,988,816	-	10,794,468	-	10,055,342	-
18000	Investment property, net (notes 6(o) and 8)	176,374,844	3	175,529,080	3	175,903,231	3	29500	Other liabilities (note 6(aa))	32,925,044	-	26,122,520	-	20,119,504	-
18500	Property and equipment, net (notes 6(p) and 8)	57,894,340	1	57,262,849	1	57,096,595	1		Total liabilities	<u>6,256,191,856</u>	<u>92</u>	<u>5,924,152,886</u>	<u>92</u>	<u>5,746,070,286</u>	<u>92</u>
19000	Intangible assets, net (note 6(q))	28,254,600	-	28,900,583	1	28,787,996	1		Equity attributable to owners of parent (note 6(ac)):						
19300	Deferred tax assets	13,083,159	-	9,991,402	-	6,264,465	-		Share capital:						
19500	Other assets, net (note 6(r))	59,629,026	1	62,686,042	1	65,552,159	1	31101	Common stock	102,336,040	2	102,336,040	2	102,336,040	2
								31103	Preferred stock	<u>6,000,000</u>	<u>-</u>	<u>6,000,000</u>	<u>-</u>	<u>6,000,000</u>	<u>-</u>
									Total share capital	<u>108,336,040</u>	<u>2</u>	<u>108,336,040</u>	<u>2</u>	<u>108,336,040</u>	<u>2</u>
								31500	Capital surplus	<u>103,638,570</u>	<u>2</u>	<u>102,713,132</u>	<u>2</u>	<u>105,170,427</u>	<u>2</u>
									Retained earnings:						
								32001	Legal reserve	52,403,066	1	47,560,961	1	47,560,961	1
								32003	Special reserve	53,069,867	1	50,310,722	1	50,310,722	1
								32011	Undistributed earnings	<u>155,871,422</u>	<u>2</u>	<u>140,672,624</u>	<u>2</u>	<u>133,573,751</u>	<u>2</u>
									Total retained earnings	<u>261,344,355</u>	<u>4</u>	<u>238,544,307</u>	<u>4</u>	<u>231,445,434</u>	<u>4</u>
								32500	Other equity interests	<u>(1,863,435)</u>	<u>-</u>	<u>(22,773,818)</u>	<u>-</u>	<u>20,371,514</u>	<u>-</u>
									Total equity attributable to owners of parent	<u>471,455,530</u>	<u>8</u>	<u>426,819,661</u>	<u>8</u>	<u>465,323,415</u>	<u>8</u>
								39500	Non-controlling interests (note 6(ac))	<u>370,270</u>	<u>-</u>	<u>285,725</u>	<u>-</u>	<u>8,089,444</u>	<u>-</u>
									Total equity	<u>471,825,800</u>	<u>8</u>	<u>427,105,386</u>	<u>8</u>	<u>473,412,859</u>	<u>8</u>
									Total liabilities and equity	<u>\$ 6,728,017,656</u>	<u>100</u>	<u>6,351,258,272</u>	<u>100</u>	<u>6,219,483,145</u>	<u>100</u>
Total assets		<u>\$ 6,728,017,656</u>	<u>100</u>	<u>6,351,258,272</u>	<u>100</u>	<u>6,219,483,145</u>	<u>100</u>								

See accompanying notes to consolidated interim financial statements.

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months and nine months ended September 30, 2017 and 2016

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

	For the three months ended September 30				For the nine months ended September 30				
	2017		2016		2017		2016		
	Amount	%	Amount	%	Amount	%	Amount	%	
41000	Interest revenue (note 6(af))	\$ 35,855,167	33	32,046,333	28	103,903,681	33	96,688,271	28
51000	Less: Interest expense (note 6(af))	7,239,767	7	5,766,412	5	20,415,182	7	18,204,942	5
	Net interest revenue	<u>28,615,400</u>	<u>26</u>	<u>26,279,921</u>	<u>23</u>	<u>83,488,499</u>	<u>26</u>	<u>78,483,329</u>	<u>23</u>
	Net non-interest revenue								
49800	Net service charge and commission loss (note 6(af))	(1,878,932)	(2)	(3,810,722)	(3)	(7,769,228)	(2)	(14,548,736)	(4)
49810	Net income of insurance operations (note 6(af))	55,144,263	51	75,703,073	67	201,335,805	63	233,561,960	69
49820	Gains (losses) on financial assets or liabilities measured at fair value through profit or loss	1,812,296	2	20,107,121	18	52,676,121	17	38,658,470	11
49825	Gains (losses) on investment property	1,315,667	1	373,403	-	4,009,127	1	3,689,316	1
49830	Realized gains (losses) on available-for-sale financial assets	26,066,812	24	16,459,694	15	54,312,578	17	42,212,228	13
49840	Realized gains (losses) on held-to-maturity financial assets	(49)	-	699	-	3,183	-	7,510	-
49870	Foreign exchange gains (losses)	(4,560,755)	(4)	(31,124,425)	(28)	(73,413,954)	(23)	(54,664,589)	(16)
49880	Reversal gains (losses) of impairment on assets	(5,146)	-	14,603	-	(1,434,110)	-	56,993	-
49890	Share of profit (loss) of associates and joint ventures accounted for using equity method (note 6(1))	(231,184)	-	618,425	1	231,920	-	965,532	-
49900	Net other non-interest revenue	2,666,762	2	7,586,650	7	4,675,825	1	11,469,300	3
	Net revenue	<u>108,945,134</u>	<u>100</u>	<u>112,208,442</u>	<u>100</u>	<u>318,115,766</u>	<u>100</u>	<u>339,891,313</u>	<u>100</u>
58100	Bad debt expenses and guarantee liability provisions	(482,830)	-	(514,709)	-	(1,628,305)	-	(1,814,570)	(1)
58300	Net change in provisions for insurance liabilities (note 6(af))	(67,118,818)	(62)	(80,732,902)	(72)	(227,938,771)	(72)	(250,887,639)	(74)
	Expense:								
58501	Employee benefits expenses (note 6(af))	(7,293,645)	(7)	(7,131,965)	(7)	(21,839,604)	(7)	(21,086,237)	(6)
58503	Depreciation and amortization expenses (note 6(af))	(838,025)	(1)	(903,434)	(1)	(2,639,602)	(1)	(2,728,907)	(1)
58599	Other general and administrative expenses (note 6(af))	(5,596,466)	(5)	(5,875,585)	(5)	(16,305,717)	(5)	(18,189,312)	(5)
	Total Expenses	<u>(13,728,136)</u>	<u>(13)</u>	<u>(13,910,984)</u>	<u>(13)</u>	<u>(40,784,923)</u>	<u>(13)</u>	<u>(42,004,456)</u>	<u>(12)</u>
	Net income before tax from continuing operations	<u>27,615,350</u>	<u>25</u>	<u>17,049,847</u>	<u>15</u>	<u>47,763,767</u>	<u>15</u>	<u>45,184,648</u>	<u>13</u>
61003	Income tax expense (note 6(ab))	<u>(2,070,532)</u>	<u>(2)</u>	<u>(444,713)</u>	<u>-</u>	<u>(3,575,765)</u>	<u>(1)</u>	<u>(4,687,000)</u>	<u>(1)</u>
	Net income	<u>25,544,818</u>	<u>23</u>	<u>16,605,134</u>	<u>15</u>	<u>44,188,002</u>	<u>14</u>	<u>40,497,648</u>	<u>12</u>
69500	Other comprehensive income:								
69560	Items not to be reclassified to profit or loss								
69562	Revaluation gains on property	-	-	5,780	-	1,191,627	-	174,900	-
69563	Share of other comprehensive income of associates and joint ventures accounted for using equity method – items not to be reclassified to profit or loss	39,077	-	2,287	-	31,571	-	(29,140)	-
69569	Income tax – items not to be reclassified to profit or loss	(6,643)	-	(727)	-	(246,662)	-	4,615	-
	Subtotal of items not to be reclassified to profit or loss	<u>32,434</u>	<u>-</u>	<u>7,340</u>	<u>-</u>	<u>976,536</u>	<u>-</u>	<u>150,375</u>	<u>-</u>
69570	Items that may be reclassified subsequently to profit of loss								
69571	Exchange differences on translation of foreign operations	1,528,818	1	(5,060,663)	(4)	(3,367,487)	(1)	(12,411,605)	(4)
69572	Unrealized gains (losses) on available-for-sale financial assets	(1,007,005)	(1)	16,782,814	15	27,316,954	9	57,355,203	17
69573	Gains (losses) on effective portion of cash flow hedges	(10,090)	-	(176,092)	-	331,314	-	227,333	-
69575	Share of other comprehensive income of associates and joint ventures accounted for using equity method – items that may be reclassified subsequently to profit or loss	55,808	-	1,232,378	1	777,209	-	1,169,626	-
69579	Income tax – items that may be reclassified subsequently to profit or loss	(1,795,772)	(1)	(2,040,181)	(2)	(5,095,441)	(2)	(5,868,640)	(1)
	Subtotal of items that may be reclassified subsequently to profit or loss	<u>(1,228,241)</u>	<u>(1)</u>	<u>10,738,256</u>	<u>10</u>	<u>19,962,549</u>	<u>6</u>	<u>40,471,917</u>	<u>12</u>
69500	Other comprehensive income	<u>(1,195,807)</u>	<u>(1)</u>	<u>10,745,596</u>	<u>10</u>	<u>20,939,085</u>	<u>6</u>	<u>40,622,292</u>	<u>12</u>
	Total comprehensive income	<u>\$ 24,349,011</u>	<u>22</u>	<u>27,350,730</u>	<u>25</u>	<u>65,127,087</u>	<u>20</u>	<u>81,119,940</u>	<u>24</u>
	Consolidated net income attributable to:								
	Owners of parent	\$ 25,575,516	23	16,622,734	15	\$ 44,265,380	14	40,333,530	12
	Non-controlling interests	(30,698)	-	(17,600)	-	(77,378)	-	164,118	-
		<u>\$ 25,544,818</u>	<u>23</u>	<u>16,605,134</u>	<u>15</u>	<u>44,188,002</u>	<u>14</u>	<u>40,497,648</u>	<u>12</u>
	Total comprehensive income attributable to:								
	Owners of parent	\$ 24,378,294	22	27,547,870	25	65,201,967	20	81,458,998	24
	Non-controlling interests	(29,283)	-	(197,140)	-	(74,880)	-	(339,058)	-
		<u>\$ 24,349,011</u>	<u>22</u>	<u>27,350,730</u>	<u>25</u>	<u>65,127,087</u>	<u>20</u>	<u>81,119,940</u>	<u>24</u>
	Basic earnings per share (in New Taiwan Dollars) (note 6(ad))	<u>\$ 2.50</u>		<u>1.62</u>		<u>4.23</u>		<u>3.94</u>	

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity
For the nine months ended September 30, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	Share capital		Equity attributable to owners of parent (note 6(ac))						Other equity interests				Total equity attributable owners of parent	Non-controlling interests	Total equity	
	Common stock	Preferred stock	Total	Retained earnings			Total	Exchange differences on translation of foreign operations	Unrealized gains (losses) on available-for-sale financial instruments	Gains (losses) on effective portion of cash flow hedges	Revaluation gains	Total				
				Capital surplus	Legal reserve	Special reserve										Undistributed earnings
Balance at January 1, 2016	\$ 102,336,040	-	102,336,040	74,460,529	41,201,702	29,121,807	141,279,789	211,603,298	3,698,512	(26,082,512)	549,439	1,056,421	(20,778,140)	367,621,727	8,454,806	376,076,533
Net income	-	-	-	-	-	-	40,333,530	40,333,530	-	-	-	-	-	40,333,530	164,118	40,497,648
Other comprehensive income	-	-	-	-	-	-	(24,186)	(24,186)	(11,084,874)	51,872,455	187,512	174,561	41,149,654	41,125,468	(503,176)	40,622,292
Total comprehensive income	-	-	-	-	-	-	40,309,344	40,309,344	(11,084,874)	51,872,455	187,512	174,561	41,149,654	81,458,998	(339,058)	81,119,940
Appropriation of retained earnings:																
Legal reserve	-	-	-	-	6,359,259	-	(6,359,259)	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	21,188,915	(21,188,915)	-	-	-	-	-	-	-	-	-
Cash dividends of common stock	-	-	-	-	-	-	(20,467,208)	(20,467,208)	-	-	-	-	-	(20,467,208)	-	(20,467,208)
Changes in equity of associates and joint ventures accounted for using equity method	-	-	-	756,076	-	-	-	-	-	-	-	-	-	756,076	-	756,076
Issuance of preferred stock	-	6,000,000	6,000,000	29,953,645	-	-	-	-	-	-	-	-	-	35,953,645	-	35,953,645
Share-based payment transaction	-	-	-	177	-	-	-	-	-	-	-	-	-	177	-	177
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(26,304)	(26,304)
Balance at September 30, 2016	\$ 102,336,040	6,000,000	108,336,040	105,170,427	47,560,961	50,310,722	133,573,751	231,445,434	(7,386,362)	25,789,943	736,951	1,230,982	20,371,514	465,323,415	8,089,444	473,412,859
Balance at January 1, 2017	\$ 102,336,040	6,000,000	108,336,040	102,713,132	47,560,961	50,310,722	140,672,624	238,544,307	(7,625,985)	(16,096,768)	(402,102)	1,351,037	(22,773,818)	426,819,661	285,725	427,105,386
Net income	-	-	-	-	-	-	44,265,380	44,265,380	-	-	-	-	-	44,265,380	(77,378)	44,188,002
Other comprehensive income	-	-	-	-	-	-	26,204	26,204	(3,142,534)	22,826,412	276,173	950,332	20,910,383	20,936,587	2,498	20,939,085
Total comprehensive income	-	-	-	-	-	-	44,291,584	44,291,584	(3,142,534)	22,826,412	276,173	950,332	20,910,383	65,201,967	(74,880)	65,127,087
Appropriation of retained earnings:																
Legal reserve	-	-	-	-	4,842,105	-	(4,842,105)	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	2,759,145	(2,759,145)	-	-	-	-	-	-	-	-	-
Cash dividends of common stock	-	-	-	-	-	-	(20,467,208)	(20,467,208)	-	-	-	-	-	(20,467,208)	-	(20,467,208)
Cash dividends of preferred stock	-	-	-	-	-	-	(1,024,328)	(1,024,328)	-	-	-	-	-	(1,024,328)	-	(1,024,328)
Changes in equity of associates and joint ventures accounted for using equity method	-	-	-	925,438	-	-	-	-	-	-	-	-	-	925,438	-	925,438
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	159,425	159,425
Balance at September 30, 2017	\$ 102,336,040	6,000,000	108,336,040	103,638,570	52,403,066	53,069,867	155,871,422	261,344,355	(10,768,519)	6,729,644	(125,929)	2,301,369	(1,863,435)	471,455,530	370,270	471,825,800

See accompanying notes to consolidated interim financial statements.

(English Translation of Consolidated Interim Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 30	
	2017	2016
Cash flows from operating activities :		
Income before income tax	\$ 47,763,767	45,184,648
Adjustments :		
Income of non-cash activities		
Depreciation expenses	1,574,751	1,451,185
Amortization expenses	1,064,851	1,277,722
Allowance on bad debts	1,638,571	1,868,662
Interest expense	20,415,182	18,204,942
Interest income	(103,903,681)	(96,688,271)
Dividend income	(24,516,760)	(22,688,616)
Net change in insurance reserves	217,553,617	222,859,829
Net change in provisions for guarantee reserves	(10,266)	(54,092)
Net change in other reserves	(3,038,436)	(5,665,431)
Share-based payment awards	-	177
Share of loss of associates and joint ventures accounted for using equity method	(231,920)	(965,532)
Gain on disposal of investments	(32,960,166)	(18,243,244)
Impairment loss (reversal gain) on financial assets	1,431,397	(61,049)
Impairment loss on non-financial assets	2,713	4,056
Unrealized foreign exchange loss	63,596,931	55,142,903
Loss (gain) on fair value adjustment of investment property	(45,794)	294,964
Other adjustments	(3,034)	(23,270)
Subtotal of income of non-cash activities	<u>142,567,956</u>	<u>156,714,935</u>
Changes in operating assets and liabilities :		
Changes in operating assets :		
Decrease (increase) in due from the central bank and call loans to banks	44,253,283	(16,087,872)
Decrease in financial assets at fair value through profit or loss	25,946,559	38,621,864
Decrease (increase) in available-for-sale financial assets	(58,738,401)	69,152,330
Increase in derivative financial assets for hedging	(149,875)	(51,795)
Decrease (increase) in receivables and current tax assets	(19,142,074)	16,522,232
Decrease (increase) in discounts and loans	(51,894,061)	32,805,132
Increase in reinsurance contract assets	(831,711)	(2,136,585)
Increase in held-to-maturity financial assets	(74,870,352)	(59,386,677)
Increase in other financial assets	(323,597,757)	(302,339,494)
Decrease (increase) in other assets	(199,328)	20,277,033
Subtotal of change in operating assets	<u>(459,223,717)</u>	<u>(202,623,832)</u>
Changes in operating liabilities :		
Increase (decrease) in due to the central bank and banks	37,929,349	(59,790,901)
Decrease in financial liabilities at fair value through profit or loss	(46,519,033)	(54,988,801)
Increase in derivative financial liabilities for hedging	385,948	510,782
Increase (decrease) in securities sold under repurchased agreement	29,338,877	(1,789,759)
Increase in payables and current tax liabilities	18,826,488	15,618,940
Increase in deposits	69,841,909	32,840,137
Decrease in provisions	(724,187)	(1,418,018)
Increase in other financial liabilities	12,354,984	1,516,395
Increase (decrease) in other liabilities	6,794,546	(490,053)
Subtotal of change in operating liabilities	<u>128,228,881</u>	<u>(67,991,278)</u>
Subtotal of change in operating assets and liabilities	<u>(330,994,836)</u>	<u>(270,615,110)</u>
Subtotal of all adjustments	<u>(188,426,880)</u>	<u>(113,900,175)</u>
Cash used in operating activities	(140,663,113)	(68,715,527)
Interest received	90,708,356	84,166,392
Dividends received	25,449,676	22,270,930
Interest paid	(18,766,209)	(18,344,577)
Income taxes paid	(10,208,786)	(5,673,004)
Net cash flows provided by (used in) operating activities	<u>(53,480,076)</u>	<u>13,704,214</u>

See accompanying notes to consolidated interim financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING STANDARDS

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows (CONT'D)

For the nine months ended September 30, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 30	
	2017	2016
Cash flows from investing activities :		
Acquisition of investments accounted for using equity method	\$ (78,000)	(329,004)
Acquisition of property and equipment	(2,278,312)	(2,698,654)
Proceeds from disposal of property and equipment	5,655	101,286
Acquisition of intangible assets	(233,505)	(300,558)
Proceeds from disposal of intangible assets	1,080	-
Acquisition of investment properties	(941,546)	(12,611,410)
Net cash flows used in investing activities	<u>(3,524,628)</u>	<u>(15,838,340)</u>
Cash flows from financing activities :		
Increase (decrease) in due to the central bank and banks	(1,934,407)	2,321,505
Increase in commercial papers issued	18,249,566	2,095,066
Proceeds from issuing bonds	6,500,000	-
Repayments of bonds	(9,800,000)	-
Proceeds from issuing bank financial bonds payable	22,464,265	3,634,975
Repayments of bank notes financial bonds payable	(14,886,397)	(5,598,215)
Increase (decrease) in other borrowings	(1,122,074)	390,000
Cash dividends paid	(21,491,536)	(20,467,208)
Cash capital increase	-	35,953,645
Changes in non-controlling interests	159,425	(26,304)
Net cash flows provided by (used in) financing activities	<u>(1,861,158)</u>	<u>18,303,464</u>
Effect of exchange rate changes on cash and cash equivalents	(804,069)	(1,430,603)
Net increase (decrease) in cash and cash equivalents	(59,669,931)	14,738,735
Cash and cash equivalents at beginning of period	<u>351,083,488</u>	<u>357,364,357</u>
Cash and cash equivalents at end of period	<u>\$ 291,413,557</u>	<u>372,103,092</u>
Components of cash and cash equivalents :		
Cash and cash equivalents recognized in balance sheets	\$ 158,767,975	173,985,561
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	49,185,976	82,305,096
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	<u>83,459,606</u>	<u>115,812,435</u>
Cash and cash equivalents at end of period	<u>\$ 291,413,557</u>	<u>372,103,092</u>

(English Translation of Consolidated Interim Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with the generally accepted auditing standards as of September 30, 2017 and 2016

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Interim Financial Statements

September 30, 2017 and 2016

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

(1) Company history

(a) Fubon Financial Holding Co., Ltd.

Fubon Financial Holding Co., Ltd. (the Company) was established in December 2001 pursuant to the Financial Holding Company Act in Taiwan.

In connection with the formation of the Company, substantially all of the assets and liabilities and related operations of Fubon Insurance Co., Ltd. (Fubon Insurance) were transferred to a new wholly owned subsidiary named Fubon Insurance. The name of the “former” Fubon Insurance Co., Ltd. was changed to Fubon Financial Holding Co., Ltd. Furthermore, shares of Fubon Securities Co., Ltd. (Fubon Securities), Fubon Commercial Bank Co., Ltd. (Fubon Bank), and Fubon Life Assurance Co., Ltd. (Fubon Life Assurance) were exchanged for shares in the Company on December 19, 2001.

On August 28, 2002, shares of Fubon Asset Management Co., Ltd. (Fubon Asset Management) were exchanged for shares in the Company. Starting from March 11, 2011, due to the Company’s corporate restructuring, Fubon Asset Management became a wholly owned subsidiary of Fubon Securities.

On December 23, 2002, shares of Taipei Bank Co., Ltd. (Taipei Bank) were exchanged for shares in the Company.

In September 2003, shares of Fubon Marketing Co., Ltd. (Fubon Marketing) were acquired in cash by the Company.

In October 2003, shares of Fubon Financial Holding Venture Capital Co., Ltd. (Fubon Financial Holding Venture Capital) were acquired in cash by the Company.

In March 2004, 75% of the shares of Common Stock of International Bank of Asia, Limited, renamed Fubon Bank Hong Kong, Limited (Fubon Bank (Hong Kong)), were acquired in cash by the Company. On June 13, 2011, 25% of the remaining outstanding shares of Common Stock of Fubon Bank (Hong Kong) were acquired in cash by the Company. On August 16, 2012, Fubon Bank (Hong Kong) redeemed the preferred shares of stock of \$4,004,057 held by the Company. On the same date, the Company subscribed in cash of \$4,004,057 for the ordinary shares of stock of Fubon Bank (Hong Kong).

In August 2004, shares of Fubon Asset Management Service Co., Ltd. (Fubon AMC) and Fubon Investment Management Consulting Co., Ltd. (Fubon IMC) were acquired in cash by the Company. On November 7, 2011, the procedures for the liquidation of Fubon IMC were completed.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

In March 2008, shares of Taiwan Sport Lottery Co., Ltd. (Taiwan Sport Lottery) were acquired in cash by the Company. In September 2008, the Company owned 51% of the shares of Taiwan Sport Lottery. On July 20, 2011, Taiwan Sport Lottery became wholly owned subsidiary of the Company.

On February 11, 2009, all of the equity shares of ING Life Insurance Co., Ltd. (ING Life Insurance) were exchanged for shares in the Company. On June 1, 2009, ING Life Insurance merged with Fubon Life Assurance Co., Ltd., which was renamed Fubon Life Insurance Co., Ltd.

On January 7, 2014, 80% of the shares of First Sino Bank, Limited, which was renamed as Fubon Bank (China) Co., Ltd. from April, 2014, were acquired in cash by the Company and Taipei Fubon Bank. On October 20, 2016, 20% of the remaining outstanding shares of Fubon Bank (China) were acquired by the Company. Fubon Bank (China) became a wholly owned subsidiary of the Company.

The Company is engaged in the financial businesses including banking, financial bills, credit cards, trust, insurance, securities, futures, ventures, investments in foreign financial institutions approved by the government authorities, and investments relevant to other financial services approved by the government authorities.

(b) Business of consolidated subsidiaries:

- (i) Fubon Insurance was incorporated on December 19, 2001, and assumed all rights and liabilities of the former Fubon Insurance Co., Ltd., which was incorporated in 1961. It is engaged in the business of property and casualty insurance.
- (ii) Fubon Securities was incorporated on July 11, 1988, as a company with an integrated securities firm license. Fubon Securities is engaged in brokerage, margin lending, securities financing and refinancing, securities trading, securities transfer services, securities underwriting, and futures.
- (iii) Taipei Bank started as a financial institution of the Taipei City Government (TCG) in 1969. On July 1, 1984, it was reorganized into a limited liability corporation and it was renamed as City Bank of Taipei Co., Ltd. On January 1, 1993, the bank's name was subsequently changed to Taipei Bank Co., Ltd. On August 1, 1991, Fubon Bank was authorized to operate as a commercial bank and commenced its commercial operations on April 20, 1992.

On January 1, 2005, Taipei Bank merged with Fubon Bank to improve operational efficiency and reduce costs. Taipei Bank was the surviving entity from this merger. However, the name Taipei Bank was changed to Taipei Fubon Bank on the same day.

Taipei Fubon Bank is engaged in authorized operations of commercial banks.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- (iv) Fubon Bank (Hong Kong) was founded in 1982. It is engaged in the following operations:
- 1) Retail and consumer banking;
 - 2) Corporate banking;
 - 3) Investment banking;
 - 4) Investment and financial management services; and
 - 5) Properties management and other services.
- (v) Fubon Life Insurance was incorporated on June 3, 1993, under the laws of the Republic of China (ROC). It is engaged in the business of life insurance underwriting.

Fubon Life Insurance merged with ING Life Insurance (Taiwan) effective June 1, 2009, with ING Life Insurance (Taiwan) was the surviving entity and then changed its name to Fubon Life Insurance Co., Ltd. Fubon Life Insurance is engaged in life insurance, accident insurance, health insurance, and any business related to life insurance.

- (vi) Fubon Bank (China) is engaged in foreign currency services and CNY service to customers, in accordance with the "Regulations Governing Foreign Financial Institutions in the People's Republic of China. As of September 30, 2017, Fubon Bank (China) has established its headquarter and 23 branches (or sub-branches and preparatory offices) in the PRC.

(2) Approval date and procedures of the financial statements

On November 28, 2017, the consolidated interim financial statements were presented to the board of directors and issued afterward.

(3) New standards, amendments and interpretations adopted

- (a) The effects on application of new standards and interpretations as accepted by the Financial Supervisory Commission

Starting from 2017, the Company and its subsidiaries have fully adopted the IFRSs which have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017 when preparing the consolidated interim financial statements. The related new standards, interpretations and amendments are as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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 "Recoverable Amount Disclosures for Non-Financial Assets"	January 1, 2014
Amendments to IAS 39 "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

Except for the following items, the Company and its subsidiaries believe that the adoption of the above IFRSs do not have any material impact on the consolidated interim financial statements. The extent and impact of significant changes are as follows:

Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"

Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed. In such cases, the amendments also require that the following be disclosed if the recoverable amount is based on fair value less costs of disposal:

- (i) the level of the fair value hierarchy within which the fair value measurement is categorized; and
- (ii) the valuation technique(s) used for fair value measurements categorized within Levels 2 and 3 of the fair value hierarchy, and the key valuation assumptions made.

Aforementioned amendments are applied retrospectively for annual periods beginning on or after January 1, 2017. Please refer to Note 6 (o) and (p) for details.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

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

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

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

Except for the following items, the Company and its subsidiaries believe that the adoption of the above IFRSs would not have any material impact on the consolidated interim financial statements. The extent and impact of significant 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 Company and its subsidiaries have set up a task force in accordance with the rulings by competent authorities to review their financial assets, build impairment model and assess the impacts by seasons. However, the actual impact of adopting IFRS 9 on their consolidated financial statements in 2018 can only be determined depending on their financial instruments and economic conditions at that time, as well as the accounting elections and judgments that they will make in the future. The Company and its subsidiaries have continued working on operations related to reporting financial instruments and accounting judgments, and performed a preliminary assessment of the potential impact of the adoption of IFRS 9 based on their financial instruments’ positions at September 30, 2017 and hedging relationships designated under IAS 39.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

1) Classification and Measurement- 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 (FVPL). The standard eliminates the existing IAS 39 categories of available for sale, measured at cost, debt investments without active market 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 Company and its subsidiaries will reclassify financial assets in accordance with IFRS 9. However, the Company and its subsidiaries have yet to determine the impact on 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, lease receivables, contract assets, loan commitments, and to financial guarantee contracts.

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.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

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 Company and its subsidiaries have yet to determine the impairment methodologies that will be applied under IFRS 9.

3) Hedge accounting

When initially applying IFRS 9, the Company and its subsidiaries may choose as the accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Company and its subsidiaries have yet to reach the final decision.

4) Disclosures

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

5) Transition

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

- The Company and its subsidiaries plan 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 will be recognized in retained earnings and reserves as at January 1, 2018.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to 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 FVPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) IFRS 4 “Insurance Contracts” (“Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”)

The amendments provide the following optional approaches (including the "overlay approach" and the "deferral approach") to reduce the impact of the differing effective dates of IFRS 9 and the forthcoming IFRS 17 “Insurance Contracts” :

- 1) An option that permits entities that issue insurance contracts to reclassify, from profit or loss to other comprehensive income, when applying IFRS 9.
- 2) An optional temporary exemption from IFRS 9 for entities whose activities are predominantly connected with insurance until 2021. Entities will be permitted to apply IAS 39 “ Financial Instruments: Recognition and Measurements” rather than to apply IFRS 9.

The Company and its subsidiaries’ preliminary assessment is to adopt the overlay approach to reduce the impact of the differing effective dates of IFRS 9 and the forthcoming IFRS 17 “Insurance Contracts”. The Company and its subsidiaries have yet to reach the final decision.

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

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

The Company and its subsidiaries are continually assessing the impact of the amendments which may change the measurement of their deferred tax assets.

(iv) 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 are continually assessing the impact of the amendments which may change the timing on the transfer of their investment property.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(v) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IFRIC 22 clarifies that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the prepayment asset or deferred income liability. The Company and its subsidiaries are continually assessing the impact of the amendments which may change in recognizing their foreign currency transactions.

(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
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019

Those which may be relevant to the Company and its subsidiaries are set out below:

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
January 13, 2016	IFRS 16 “Leases”	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> • 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.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Issuance / Release Dates	Standards or Interpretations	Content of amendment
May 18, 2016	IFRS 17 “Insurance Contracts”	<p>IFRS 17 established the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The main regulations are as follows:</p> <ul style="list-style-type: none"> • Recognition: the entity shall recognize a group of insurance contracts it issues from the earliest of the following: <ul style="list-style-type: none"> (i) the beginning of the coverage period of the group of contracts; (ii) the date when the first payment from a policyholder in the group becomes due; (iii) for a group of onerous contracts, when the group becomes onerous. • Measurement: on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfillment cash flows and the contractual service margin. For subsequent measurement, the entity shall estimate the cash flows, discount rates and the adjustment for non-financial risk. • Presentation and disclosure: the presentation of insurance revenue is based on the provision of service pattern and investment components excluded from insurance revenue.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
June 7, 2017	IFRIC 23 “Uncertainty over Income Tax Treatments”	<ul style="list-style-type: none"> • In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have a full knowledge of all relevant information when making doing so. • If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings. Otherwise, an entity shall use the most likely amount or the expected value of the tax treatment, based on which method better predicts the resolution of the uncertainty.

The Company and its subsidiaries are evaluating the impact on their 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 Company and its subsidiaries complete their 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 Financial Holding Companies" and with the 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.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(b) Basis of preparation

The consolidated interim financial statements comprise the consolidated balance sheets, the consolidated statements of comprehensive income, changes in equity and cash flows and notes to consolidated interim financial statements.

The consolidated interim financial statements have been prepared on a historical cost basis except for the financial assets and liabilities (including derivative financial instruments) and the investment properties, which are measured at fair value. The individual entity of the Company and its subsidiaries based on its primary economic environment operating currency as its functional currency. The consolidated interim financial statements functional currency is TWD unless otherwise specified. All financial information presented in TWD has been rounded to the nearest thousand, unless otherwise noted.

(c) Principles of consolidation

In accordance with the “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies” and TIFRS, similar underlying assets, liabilities, equity, income and expenses of the consolidated entities are summed up and eliminated, if necessary, in the preparation of the consolidated interim financial statements. The Company and its subsidiaries prepare their financial statements at the same reporting date.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commenced until the date that control ceased.

Intra-company balances and transactions, and any unrealized income arising from intra-company transactions, are eliminated in preparing the consolidated interim financial statements. Unless there is evidence that transferred assets are impaired, the intra-company unrealized losses are eliminated.

Subsidiaries’ financial statements are adjusted to align the accounting policies with those of the Company.

The following entities have been included in the consolidated interim financial statements:

<u>Name of Investor</u>	<u>Subsidiary</u>	<u>Main Activities</u>	<u>Percentage of Ownership (%)</u>		
			<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
The Company	Fubon Insurance	Property and casualty insurance	100.00 %	100.00 %	100.00 %
The Company	Taipei Fubon Bank	Banking	100.00 %	100.00 %	100.00 %
The Company	Fubon Life Insurance	Life insurance	100.00 %	100.00 %	100.00 %
The Company	Fubon Securities	Securities business	100.00 %	100.00 %	100.00 %
The Company	Fubon Marketing	Marketing management	100.00 %	100.00 %	100.00 %

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>Name of Investor</u>	<u>Subsidiary</u>	<u>Main Activities</u>	<u>Percentage of Ownership (%)</u>		
			<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
The Company, Fubon Life Insurance, Fubon Insurance and Fubon Securities	Fubon Financial Holding Venture Capital	Venture Capital	100.00 %	100.00 %	100.00 %
The Company	Fubon Bank (Hong Kong)	Banking	100.00 %	100.00 %	100.00 %
The Company	Fubon AMC	Creditor's rights management	100.00 %	100.00 %	100.00 %
The Company	Taiwan Sport Lottery	IT Software service	100.00 %	100.00 %	100.00 %
The Company and Taipei Fubon Bank	Fubon Bank (China) (Note 1)	Banking	100.00 %	100.00 %	80.00 %
Fubon Securities	Fubon Asset Management	Investment trust	100.00 %	100.00 %	100.00 %
Fubon Securities	Fubon Futures	Futures	100.00 %	100.00 %	100.00 %
Fubon Securities	Fubon Investment Service	Investment Service	100.00 %	100.00 %	100.00 %
Fubon Securities	Fubon Securities BVI	Securities business	100.00 %	100.00 %	100.00 %
Fubon Securities	Fubon Securities Venture Capital	Venture Capital	100.00 %	100.00 %	100.00 %
Fubon Securities	Fubon Equity Investment	Equity Investment	100.00 %	100.00 %	100.00 %
Fubon Securities	Fubon Mintou Venture Capital (Note 2)	Venture Capital	67.00 %	-	-
Fubon Securities BVI	Fubon Securities (Hong Kong)	Securities business	100.00 %	100.00 %	100.00 %
Fubon Asset Management	Fubon Convoy Asset Management (Hong Kong) Limited (Note 3)	Asset Management	49.00 %	-	-
Fubon Insurance	Fubon Insurance (Vietnam) Limited	Insurance business	100.00 %	100.00 %	100.00 %
Fubon Insurance	Fubon Insurance Broker (Thailand) Limited	Broker	48.97 %	48.97 %	48.97 %
Fubon Insurance	Fubon Insurance Broker (Philippine) Limited	Broker	99.99 %	99.99 %	99.99 %
Fubon Insurance and Fubon Life Insurance	Fubon Property & Casualty Insurance (Xiamen)	Insurance business	80.00 %	80.00 %	80.00 %
Fubon Life Insurance	Fubon Life Insurance (Vietnam) Limited	Insurance business	100.00 %	100.00 %	100.00 %
Fubon Life Insurance	Fubon Life Insurance (Hong Kong) Limited	Insurance business	100.00 %	100.00 %	100.00 %
Fubon Life Insurance	Carter Lane (Guernsey) Limited	Real estate investment and management	100.00 %	100.00 %	100.00 %
Fubon Life Insurance	Bow Bells House (Jersey) Limited	Real estate investment and management	100.00 %	100.00 %	100.00 %

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>Name of Investor</u>	<u>Subsidiary</u>	<u>Main Activities</u>	<u>Percentage of Ownership (%)</u>		
			<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Fubon Life Insurance	Fubon MTL Property (Jersey) Limited	Real estate investment and management	100.00 %	100.00 %	100.00 %
Fubon Life Insurance	Fubon Ellipse (Belgium) S.A. (Note 4)	Real estate investment and management	100.00 %	100.00 %	100.00 %
Fubon Life Insurance	Fubon Ellipse (Jersey) Limited (Note 5)	Holding company	100.00 %	100.00 %	- %
Fubon Marketing	Fu Sheng Life Insurance Agent	Life insurance agent	100.00 %	100.00 %	100.00 %
Fubon Marketing	Fu Sheng General Insurance Agent	Property and casualty insurance agent	100.00 %	100.00 %	100.00 %
Fubon Financial Holding Venture Capital	Fubon Sports & Entertainment Co., Ltd.	Sports service business	100.00 %	100.00 %	100.00 %
Fubon Financial Holding venture Capital	Fubon Stadium Co., Ltd. (Note 6)	Stadium management	100.00 %	- %	- %
Fubon Bank (HK)	Fubon Nominees (Hong Kong) Limited (Note 7)	Financial sector business	100.00 %	100.00 %	100.00 %
Fubon Bank (HK)	Fubon Credit (Hong Kong) Limited (Note 7)	Financial sector business	100.00 %	100.00 %	100.00 %
Fubon Bank (HK)	FB Securities (Hong Kong) Limited (Note 7)	Securities brokerage	100.00 %	100.00 %	100.00 %
Fubon Bank (HK)	FB Investment Management (Hong Kong) Limited (Note 7)	Capital management	100.00 %	100.00 %	100.00 %
Fubon Bank (HK)	FB Insurance Brokers Limited (Note 8)	Insurance agent	100.00 %	100.00 %	100.00 %

Note 1: The Company acquired 20% of the remaining outstanding shares, and Fubon Bank (China) became a wholly owned subsidiary on October 20, 2016.

Note 2: Fubon Mintou Venture Capital is a subsidiary set up by a joint venture between Fubon Asset Management and Taiwan Mintou Economic Development Co., Ltd. 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).

Note 4: The issued and outstanding shares of Fubon Ellipse (Belgium) S.A. were 1,133,718 shares, while 1 share is held by Fubon Ellipse (Jersey) Limited.

Note 5: Fubon Ellipse (Jersey) Limited became a subsidiary in December 2016.

Note 6: Fubon Stadium Co., Ltd. became a subsidiary in August 2017.

Note 7: These entities are the major subsidiaries of Fubon Bank (Hong Kong).

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(d) Foreign currency

(i) Foreign currency transaction

Transactions in foreign currencies are translated to the respective functional currencies of the individual entities of the Company and its subsidiaries 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 rates at that date. Translation gains and losses are recognized in profit or loss. 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; or
- 3) Qualifying cash flow hedges to the extent the hedge is effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Company's functional currency in New Taiwan dollars at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Company's functional currency at 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 adjustments related to that foreign operation are all reclassified to profit or loss. When the Company 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 Company disposes of only part of investment in an associate or joint venture that includes a foreign operation, the relevant foreign currency cumulative amount of translation adjustments is reclassified proportionately to profit or loss.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

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 foreign operation and are recognized in other comprehensive income, and presented in the foreign currency translation adjustments in equity.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, unrestricted time deposits which may be terminated anytime without impairing the principal and highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

Due from the central bank, call loans to banks and securities purchased under resell agreements which meet the definition as defined in International Accounting Standard 7 ("IAS 7") and form an integral part of the Company and its subsidiaries' cash management are included as components of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(f) Investment in associates

Associates are those entities in which the Company 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 financial statements include the Company'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 Company, from the date that significant influence commences until the date that significant influence ceases. When the Company'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 Company 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 considerations 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.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(g) Repurchase and resell transactions

Securities under agreement to repurchase or to resell are accounted for securities sold under agreements to purchase or securities purchased under agreements to resell. Related interest expenses and interest revenues are accrued over the period between the date of sale and repurchase or the date of purchase and resale.

(h) Financial assets and financial liabilities

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

In accordance with International Accounting Standard 39 Financial instruments (“IAS 39”) as endorsed by the FSC, financial assets are classified into the following categories: financial assets measured at fair value through profit or loss, available-for-sale financial assets, derivative financial assets for hedging, financial assets carried at cost, debt investments without active market, held-to-maturity financial assets, other financial assets, and loans and receivables. Financial liabilities are classified into the following categories: financial liabilities measured at fair value through profit or loss, derivative financial liabilities for hedging, and financial liabilities measured at amortized cost.

The trading of financial assets is recognized by trade-date accounting.

(i) Financial assets

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

A financial asset is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term, placing in an investment portfolio for short-term profit-taking, or holding as derivative instrument. Financial assets measured at fair value through profit or loss include financial assets that are held-for-trading or are designated as at fair value through profit or loss at initial recognition.

Financial assets are 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) Hybrid instrument contains one or more embedded derivatives.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss includes any dividend or interest earned on financial asset, including those earned in the year of investing.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

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

2) Held-to-maturity financial assets

Debt securities which the Company and its subsidiaries have the positive intent and ability to hold to maturity are classified as held-to-maturity financial assets. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

If the Company and its subsidiaries sell a held-to-maturity investment other than in insignificant amounts or as a consequence of a non-recurring, isolated event beyond their control that could not be reasonably anticipated, all of their other held-to-maturity investments must be reclassified as available-for-sale for the current and next two financial reporting years.

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 as loans and receivables, held-to-maturity investment, or financial assets measured at fair value through profit or loss.

Available-for-sale financial assets are recognized initially at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, fair value changes due to gain or loss on foreign exchange, interest income calculated using the effective interest method and dividend income on available-for-sale investment, are recognized in profit or loss. Other fair value changes were recognized in other comprehensive income until the investment was disposed of or impaired, whereupon the cumulative gains and losses previously recognized in other comprehensive income were reclassified to profit or loss as a reclassification adjustment.

Dividend income is recognized in profit or loss when the Company and its subsidiaries became entitled to the dividend.

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

4) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market, including receivables.

Loans and receivables are initially recognized at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, less any impairment losses, except that the recognition of interests from short-term receivables is insignificant.

5) Other financial assets

a) Debt investments without active market

Debt investments without active market are debt investments with fixed or determinable payments that are not quoted in an active market. At initial recognition, the costs of the financial assets are valued at their fair value plus the acquisition costs. Disposal gain or loss is recognized in profit or loss upon derecognition. Debt investments without active market are measured at amortized cost using the effective interest rate method.

b) Financial assets carried at cost

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

- i) The variable interval of reasonable fair value estimates are not significant for that asset.
- ii) The probabilities of the various estimates within the interval can be reasonably assessed and used when measuring fair value.

If a financial asset does not meet both of above conditions, it can not be measured at fair value. Therefore, it is classified as financial asset carried at cost.

c) Investment-linked insurance policy

Fubon Life Insurance is engaged in selling investment-linked insurance policies. The payment of premiums, net of administrative expenses, is recorded in a separate account and is used only in the way agreed to by the insured. The assets in these separate accounts are valued at market price on value date and it adopts related ordinances in determining the net asset value.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

d) Customer margin deposit

Customer margin deposit includes trading margins deposited by customers and the gain or loss generated from unsettled futures contracts based on daily market values.

e) Structured deposits

The structured deposit engaged by Fubon Life Insurance has rights to collect cash or other financial instruments from counterparties through the contracts. Structured deposits are recorded at cost as stated in the contracts, and the interest rates are linked to market rates and other financial benchmarks. Interest income thereon is recognized after holding the structured deposits to maturity. Impairment of principals may occur when investors terminate the contract before the maturity date.

(ii) Financial liabilities

1) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss include held-for-trading and being designated as such at the time of initial recognition.

The Company and its subsidiaries enter into interest rate swaps as hedges. For those which are designated as financial liabilities measured at fair value through profit or loss at the time of initial recognition, the designation cannot be revoked.

Financial liabilities measured at fair value through profit or loss and those designated as such at the time of initial recognition are recognized as “financial liabilities measured at fair value through profit or loss” in the consolidated balance sheet. The changes in fair value are recognized as “gain or loss on financial assets and liabilities measured at fair value through profit or loss” in the consolidated statement of comprehensive income.

The amount of changes in the fair value of financial liabilities designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income and not reclassified subsequently to profit or loss. Only when relative financial liabilities are derecognized will it be reclassified to retained earnings. The remaining amount of changes in the fair value of liability, including interests and dividends paid, shall be presented in profit or loss. If the treatment of the effects of changes in the liability’s credit risk would create or enlarge an accounting mismatch in profit or loss, an entity shall present all gains or losses on that liability in profit or loss.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

2) Financial liabilities carried at amortized cost

Financial liabilities carried at amortized cost include financial liabilities which are not classified as financial liabilities measured at fair value through profit or loss, hedging derivative financial liabilities, financial bonds payable, financial guarantee contracts, loan commitments below market rate, and financial liabilities arising from transfer of financial assets that does not qualify for derecognition to the extent of transferor's continuing involvement.

3) Futures traders' equity

Future traders' equity represents the net balance of each future trader's deposit and royalty after considering the effect of settlement based on daily closing price. Offsetting is not permitted unless there are similar accounts under the same customer. Future traders' equity is recorded under current liabilities and any debit balance thereon is recorded as futures trading margins receivable.

(iii) Derecognition of financial assets and liabilities

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 assets are substantially transferred.

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

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Company and its subsidiaries derecognize a financial liability when its contractual obligations are discharged, cancelled or expired.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(iv) Reclassification of financial assets

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

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

(v) Offsetting of financial instruments

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(i) Derivative financial instruments and hedge accounting

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 is classified as a financial asset, otherwise, it is classified as a financial liability.

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

When a derivative instrument is designated as a hedging instrument, the timing of its recognition to profit or loss is determined based on the nature of hedging relationship. The Company and its subsidiaries designate certain derivatives as hedging instruments in qualifying hedging relationships:

- (i) Fair value of a recognized asset or liability or an unrecognized firm commitment (fair value hedges)
- (ii) Highly probable future cash flow hedges of a recognized asset or liability or a forecast transaction (cash flow hedges)

On initial designation of the hedge, the Company and its subsidiaries formally document the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship.

1) Fair value hedges

Changes in the fair value of (a) hedging instruments designated and qualified as fair value hedges, as well as (b) the hedged asset or liability that are attributable to the hedged risks, are immediately recognized in profit or loss and hedged items in the consolidated statement of comprehensive income.

If the designation is revoked, or the hedging instrument has expired, sold, terminated, exercised, or no longer meets the criteria for hedge accounting, the hedge accounting is discontinued prospectively. Hedged financial instruments using an effective interest rate (with the fair value adjustment attributable to the hedged risk) is amortized to profit or loss when hedge accounting is discontinued over the period to maturity. The amortization is based on a recalculated effective interest rate at the date the amortization begins which could enable the fair value adjustment being fully amortized until it reaches the maturity of the instrument.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

2) Cash flow hedges

Gain or loss from effective hedging is recognized in other comprehensive income. Otherwise, gain or loss from ineffective hedging is recognized as “gain or loss on financial assets and liabilities measured at fair value through profit or loss” in the consolidated statement of comprehensive income.

If financial assets or liabilities are to be recognized due to the forecast transactions, the recognized other comprehensive income (loss) is reclassified to profit or loss in the same period as assets obtained or liabilities borne resulting from the hedged cash flows that affect profit or loss.

When the hedging instrument is expired, sold, or no longer meets the criteria for hedge accounting, the cumulative amount recognized in other comprehensive income during the effective hedging period is listed separately as equity adjustment before the forecast transaction. If the forecast transaction is not expected to occur, the cumulative amount recognized in other comprehensive income during the effective hedging period is reclassified as profit or loss for the period and recognized as “gain or loss on financial assets and liabilities measured at fair value through profit or loss” in the consolidated statement of comprehensive income.

3) Non-qualifying hedging derivatives

When a derivative is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss as “gain or loss on financial assets and liabilities measured at fair value through profit or loss”.

(j) 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 and its subsidiaries. These securities are returned to investors when investors terminate pecuniary financing.

Securities finance is affected by lending securities 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 and its subsidiaries. The investors’ deposits for borrowing securities are held by the Company and its subsidiaries as collateral and are recorded under securities finance margin deposits received. In addition, investors are required to deposit the proceeds from sales of borrowed securities. Such deposits are accounted for as payables to securities financing.

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

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

(k) Securities lending

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

(l) Non-current assets held for sale

Non-current assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale or distribution rather than through continuing use are reclassified as held for sale. This kind of non-current assets or disposal groups must qualify to be sold under the current situation, and likely to be sold within one year.

After being classified as held for sale, the measurement bases of the assets or disposal groups are the sum of their carrying amounts and fair value, less, the cost of sale. Furthermore, this kind of assets would stop depreciating. Before being classified as held for sale, investment properties measured at fair value applies the accounting policies of investment properties.

(m) Investment property

Investment Property applies to the accounting for property held to earn rentals or for capital appreciation or both, instead of property held for use in the production or supply of goods or services or for administrative purposes, including property held under operating lease. At initial recognition, investment property is measured at cost and includes transaction cost of acquiring the asset. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Costs of self-constructed investment property include cost of raw materials and direct labor, and any other costs and capitalized costs directly attributable to bring the investment property to a working condition for their intended use. In accordance with IAS 40, investment property is subsequently measured at fair value, except for those which are classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Gains or losses arising from the changes in fair value must be included in net profit or loss for the period in which they arise.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Any gain or loss arising on derecognition of an investment property is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is included in profit or loss in the period in which the property is derecognized.

The Company and its subsidiaries transfer investment property in or out based on its actual use. Transfers between categories should be based on market values and accounting treatment should be conducted in accordance with IAS 40 “Investment Property”.

(n) Property and equipment

Property and equipment is measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Each part of an item of property and equipment is depreciated separately, unless the useful life and the depreciation method of the significant part of an item of property and equipment having the same useful life and depreciation method of another significant part of the same item. Impairment loss is recognized if there is objective evidence of impairment.

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

Depreciation of property and equipment is calculated on a straight-line basis over the estimated useful lives of the respective assets.

Depreciation methods, useful lives, and residual values are reviewed by the Company and its subsidiaries at the end of the year. If expectations differ from the previous estimates, the change is accounted for as a change in an accounting estimate. Gain or loss from the disposal of fixed assets is determined on the difference between carrying amount and proceeds and is recorded in profit or loss.

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 – gain on revaluation” and accumulated in “Other equity – revaluation gains on property”.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(o) Assets impairment

(i) Financial assets impairment

1) Financial assets carried at amortized cost

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

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

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Evidence of impairment for financial assets is considered at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs to obtain and sell the collateral, regardless of whether or not foreclosure is probable.

Pursuant to “Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises”, allowance is the higher of the abovementioned two calculations. Pursuant to “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Nonaccrual Loans” (the “Regulations”) issued by the authority, the domestic bank subsidiary evaluates credit losses on the basis of the estimated collectability.

In accordance with the Regulations, credit assets are classified as normal assets, assets that require special mentioned, assets with substandard, assets with doubtful collectability, and assets on which there is loss. The Bank evaluates value of collaterals of specified loans and assesses recoverability of nonperforming loans. Under the regulations, the domestic bank subsidiary categorizes the credit assets into Normal, Special Mention, Substandard, Doubtful, and Loss, and then make minimum provisions at 1% of the normal credits (other than those loans to ROC government), 2% of special mention, 10% of substandard, 50% of doubtful, and 100% of loss. Pursuant to Rule No.10300329440 issued by FSC, for the banks to have an enhance risk coverage, the minimum provision for the loan loss reserve is 1.5% of the mortgage and construction loans which are classified as normal assets. Under the “Risk-Based Loan Categorization” issued by the China Banking Regulatory Commission (the “CBRC”), the foreign bank subsidiary, Fubon Bank (China), divided credit assets into Normal, Special Mentioned, Substandard, Doubtful and Loss. Under the “Administrative Measures for the Loan Loss Reserves of Commercial Banks” issued by the CBRC, the basic standard of provision loan and coverage ratios are 2.5% and 150%, respectively; the higher of the two standards shall be used for regulatory standard for the loan loss reserves of commercial bank. Fubon Bank (China) uses the individual and combined assessment of impairment, and the abovementioned standard as its minimum provision standard. Credits deemed uncollectible may be written off if the write-off is approved by the board of directors. Recoveries of amounts previously written off are credited to the allowance account.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

2) Available-for-sale financial assets

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

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

3) Financial assets carried at cost

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

(ii) Impairment of non-financial assets

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

Impairment loss recognized in prior periods for assets other than goodwill is reversed if there is indication that such impairment loss no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(p) Reinsurance

The Company and its subsidiaries arrange the reinsurance business based on the business need and the related insurance laws to limit the losses caused by certain events. For reinsurance ceded business, the Company and its subsidiaries cannot refuse to fulfill their obligations to the insured even if the reinsurer refuses to fulfill its obligation.

Reinsurance assets, claims recoverable from reinsurers, reinsurance receivable and funds held by ceding companies are periodically assessed for impairment. If the reinsurance asset is impaired, its carrying amount is reduced accordingly and impairment loss thereon is recognized in profit or loss. A reinsurance asset is impaired if, and only if there is objective evidence that the Company and its subsidiaries may not collect all receivables under the terms of the contract as a result of an event that occurred after initial recognition of the reinsurance asset; and the impact of that event to the amounts that the Company and its subsidiaries will receive from the reinsurer can be measured reliably.

The Company and its subsidiaries evaluate the effects of reinsurance with another reinsurer to whom insurance risks are ceded. If reinsurance contracts only cede significant insurance risks (excluding the underwriter risk and time risk), the reinsurance contract is accounted for using deposit accounting. Under this deposit accounting, the insurance premium, minus, the Company and its subsidiaries' retained reinsurance premium (or fee) is recognized as a deposit asset or liability.

Changes of the deposit component are recognized as profit or loss for the period. Interests arising from the deposit component for the contracts which does not transfer any risk or transfer the timing risk only are recognized as interest income or expense and calculated based on the effective interest rates which are determined by the estimates of future cash flows.

(q) Goodwill and intangible assets

An intangible asset is measured initially at cost. If an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. Intangible asset with a finite useful life is amortized on a straight-line basis over its useful life. An intangible asset with an indefinite useful life is not amortized. Most identifiable intangible assets have finite useful life, and whose expected future economic benefits are assessed for impairment or any change at each reporting date.

Subsequent to initial recognition, the Company and its subsidiaries opted to account for an intangible asset by using the cost model. An intangible asset with an indefinite useful life is evaluated for impairment annually or whenever there are indications for impairment.

Except goodwill and intangible assets with an indefinite useful life, the Company and its subsidiaries use straight-line basis over the estimated useful life of intangible assets, amortization is recognized in profit or loss. For the estimated useful life, please refer to Note 6(q).

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(r) Leases

(i) Lessor

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

(ii) Lessee

Leases whose terms require the Company and its subsidiaries 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 Company's consolidated balance sheet. Payments made under 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 term of the lease.

Contingent rent is recognized as an expense when the leasing adjustment is confirmed.

If the property held under operating lease are consistent with the definition of investment property, they will be individually accounted for as investment property using the fair value model. Furthermore, the aforementioned leases shall be classified as finance leases, and recognized at the lower of the fair value of the asset and the present value of the minimum lease payments, while the equivalent amount of liability is being recognized.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(s) Insurance liability

The reserve for both the insurance contracts and financial instruments with or without discretionary participation feature of the Company and its subsidiaries is provided in accordance with the “Regulations Governing the Provision of Various Reserves”, “Regulations for Managing the Various Reserve of Compulsory Automobile Liability Insurance”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”, and “Regulations for the Reserve of Nuclear Insurance”. The methodologies used to determine the reserve are certified by the appointed actuary who is authorized by the FSC. Except for the reserve for short-term group insurance which is calculated on the actual premiums or the premiums conforming to the rule prescribed in Tai Tsai Bao No 852367814 letter, whichever is higher, the bases for determining other reserves or provision for liabilities are as follows:

(i) Unearned premium reserves

For Fubon Insurance, unearned premium reserves are determined based on the exposure of the unexpired period for the unexpired policies and the policies that have not been terminated. For Fubon Life Insurance, unearned premium reserves for effective insurance contracts with a term below one year and injury insurance contracts with a term over one year are calculated based on the gross premiums of the insurance contracts which yet to mature on the reporting date.

(ii) Claim reserves

The Company and its subsidiaries calculate their claim reserves including reported but not paid and incurred but not reported (IBNR) based on past claim experience and loss adjustment expenses incurred for each line of insurance according to actuarial principles. Reserves for reported but not paid claims shall be estimated and reserved on a case-by-case basis based on the relevant information. Reserves for incurred but not reported claims are provided as follows:

- 1) Health insurance and life insurance with a term below one year: The reserve is provided based on historical claim experiences and expenses along with the insurance types via the method conforming to actuarial principles (e.g., Loss Development Triangle Method).
- 2) Injury insurance: The reserve is provided based on historical claim experiences and expenses via the method conforming to actuarial principles (e.g., Loss Development Triangle Method).

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(iii) Liability reserve

The provision for future policy benefits is calculated in accordance with both the modified method of article 12 of the “Enforcement Rules of Insurance Law” and the calculation prescribed by the competent authority.

Commencing from 2003, for effective insurance contracts which adopt the dividend calculation formula prescribed under the Tai Tsai Bao No. 800484251 letter, the policy reserve is provided based on the currently reduced amount of dividend caused by the offset between interest margin and mortality margin for long term effective insurance contracts.

Commencing from 2012, in accordance with the Gin Guan Bao Tsai No. 10102500530 letter and Article 11 of “Value-added and Non-value-added Business Tax Act”, a liability reserve based on 3% of sales is provided for purposes of writing off overdue loans or providing allowance for bad debts when the percentage of overdue loans is lower than 1%. Furthermore, in accordance with article 19 of “Enforcement Rules of Insurance Law”, the Company and its subsidiaries should collect the “catastrophe special reserve” and allocate it as “recovered life insurance liability reserve of catastrophe”.

When an insurer chooses to measure its investment property at fair value, the value of its insurance liabilities must also be measured at fair value. If the results of the measurements indicate that the fair value of the insurance liabilities exceeds the book value, the difference should be reserved for insurance liabilities and retained earnings must be reduced. The Company and its subsidiaries have changed the accounting policy for subsequent measurement of investment property from cost model to fair value model starting from 2014. The value of insurance liabilities at the same time is measured at fair value in accordance with the Gin Guan Bao Tsai No.10302501161 letter issued on March 21, 2014. The results of the measurements indicated that the fair value of the insurance liabilities did not exceed its book value, therefore, there was no need to increase the reserves for insurance liabilities.

(iv) Special reserve – special reserves

Special reserve provided for retention business with a term of one year is divided into two categories, which are special catastrophe reserve and special reserves for fluctuation of risks. The new provision of this special reserve, net of income tax, is accounted for under special reserves in equity, in accordance with IAS 12. On January 1, 2013, the special reserve provided prior to December 31, 2012 under liabilities, is transferred, net of income tax, to “Special Reserve” under “Owner's Equity”, in accordance with IAS 12.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

In accordance with the “Guidance for Enhancing Property Insurances On Disasters (commercial earthquake insurance and typhoon and flood insurance)”, other catastrophe special reserves and equalization special reserve (except for compulsory motor TPL insurance, nuclear insurance, governmental earthquake insurance, commercial earthquake insurance, typhoon and flood insurance) recognized under liabilities account before December 31, 2012, are transferred to cover the insufficiencies of catastrophe special reserve and equalization special reserve of commercial earthquake insurance and typhoon and flood insurance until those insufficiencies are fully covered; the excess balance, if any, is recognized, net of income tax, as special reserves in equity in accordance with IAS12.

1) Special reserves – special catastrophe reserve

A special catastrophe reserve covering all types of insurance is provided at a rate prescribed by the competent authority. For the actual catastrophe claim exceeding \$30 million, the excess amount is offset against special catastrophe reserve. For special catastrophe reserve that remains outstanding for over 15 years, it is written off based on the evaluation of an actuary and after being reported to the competent authority for inspection. The balance for write down or reclaim, net of income tax, is offset against the special reserve for catastrophe of equity in accordance with IAS 12.

2) Special reserves – special reserves for fluctuation of risks

If the net amount of actual claim minus the related special catastrophe reserve is lower than the amount of expected claim, special reserves for fluctuation of risks are provided at a rate of 15% of the difference between the net amount of actual claim and the amount of expected claim.

If the net amount of actual claim minus the related special catastrophe reserve is higher than the expected claim amount, the difference is debited to special risk-volatility reserve. However, the amount and type of insurance are reported to the competent authority for inspection. If the total accumulated amount of the special risk-volatility reserve is over 30% of the matured retention premium of the year for Fubon Life Insurance, and the total accumulated amount of the special risk-volatility reserve is over 60% of the matured retention premium of the year for Fubon Insurance, the excess is treated under reclaim rule. The balance for write down or reclaim, net of income tax, is offset against the special reserves for risk-volatility of equity in accordance with IAS 12.

The pre-bonus pre-tax income of participating life insurance policies sold by Fubon Life Insurance is assessed separately at the end of the year, in accordance with the Regulations. The income and expense allocation of participating and non-participating life insurance policies is also assessed according to the guidelines, and is reported to the competent authority. Such income is credited/debited to “special reserve-provision for bonus of participating policy”. This reserve is written off on the date of bonus announcement. If this reserve is insufficient, an additional “special reserve - provision for risk of bonus” is made to cover for the deficiency.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

According to Rule No. 32 of the “Regulations Governing the Preparation of Financial reports by Insurance Companies”, if there are increments after estimating the property at fair value, except for the adverse effects of the first-time adoption of TIFRS on other accounts, the exceeds shall be recognized as special reserve under liabilities. In accordance with the Gin Guan Bao Tsai No.10102515281 letter issued on November 30, 2012, the aforementioned special reserve can be transferred to the “reserve for life insurance liabilities— fair value of insurance contract liabilities” after strengthening the reserve for life insurance liabilities calculated based on the Gin Guan Bao Tsai No.10102515285 letter issued on November 27, 2012. If there is any excess, 80% of it can be recovered in the first year or the next five years and reserved it to special capital reserve under equity. The amount which can be recovered and reserved to special capital reserve under equity each year is limited to \$10 billion.

(v) Premium deficiency reserve

Future losses and expenses for the unexpired policies and the policies that have not been terminated are evaluated. If the expected future losses and expenses exceed the sum of the recognized unearned premium reserve and the expected future premium income, a premium deficiency reserve is recognized for such excess. For life insurance, health insurance, and annuities contracts issued commencing from January 1, 2001, whose contract period is longer than one year, a special premium deficiency reserve is provided based on the unpaid premiums deficiency if the written premiums are less than those used for providing policy reserves.

In addition, for effective insurance contracts with a term below 1 year and insurance contracts against injury with a term over 1 year, a premium deficiency reserve is provided by type of insurance if the aggregate amount of unearned premium retention and expected future premium revenue is less than the estimated potential insurance claims and related future expenses.

(vi) Liability adequacy reserve

Liability adequacy reserve is a reserve that is provided depending on the results of the liability adequacy test prescribed under IFRS 4 endorsed by the FSC.

In accordance with the “Code of Conduct of Actuarial Practice under IFRS 4” as pronounced by the Actuarial Institute of the Republic of China, the liability adequacy is tested by product type group (or on the overall Company contracts). Under this liability adequacy test, the net book value of the insurance liability minus the deferred acquisition costs and relevant intangible asset is compared to the estimated present value of future cash flow of the insurance contracts. If the net book value is less than the estimated present value of future cash flow of the insurance contracts, then the difference is recognized as current loss.

(vii) Reserve for insurance policies with feature of financial instruments

In accordance with the “Regulations Governing the Provision of Various Reserves”, provision for financial instruments without discretionary participation feature is accounted for using deposit accounting.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(t) Foreign exchange fluctuation reserve

Commencing March, 31 2012, life insurance subsidiaries have transferred the partial amounts of special catastrophe reserve and special risk-volatility reserve, covering all types of insurance, into the initial balance of foreign exchange fluctuation reserve. Subsequent provision or write off is made in accordance with the “Guidelines of Foreign Exchange Fluctuation Reserve for Life Insurance Business”. The surplus of hedging cost is reclassified to special reserves. If the earnings for the period are insufficient to be reclassified to special reserves, the provision can be made in the subsequent years with a surplus. The relevant special reserves are reversed only for capital increase or deficit compensation. In accordance with article 9 of “Guidelines of Foreign Exchange Fluctuation Reserve for Life Insurance Business”, if there is net income for the period, a 10% special reserve should be made after the meeting of the stockholders.

(u) Insurance contracts

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

An insurance contract with financial instruments features means the contract is able to transfer significant financial risk. Financial risk refers to a risk from possible changes in one or more specified interest rate, financial instrument price, commodity price, foreign exchange rate, price index, tariff index, credit rating, credit index or other variable in the future. If the previously stated variables are non-financial variables, then no financial variables are involved in the contract.

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

(v) Employee benefits

(i) Defined contribution plans

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

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.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to 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 a plan are improved, the portion of the increased benefits related to past service costs are recognized as profit or loss immediately.

Net interest of the Company and its subsidiaries' service costs and net defined benefit assets or liabilities is recognized as employee benefit expense when it occurred. All re-measurements arising from the defined benefit plan, including actuarial gains and return on plan assets minus interest, are recognized as other comprehensive income, and accounted for as retained earnings, while not being 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, adjusted for significant market fluctuations since prior year end and for significant curtailments, settlements, or other significant one time events.

(iii) Employment benefit - preferential interest on employees' deposits

The bank subsidiary offered preferential interest rate to its current employees and retired employees for their deposits within a prescribed amount. The preferential interest rate in excess of market interest rate is treated as employee benefits.

Under Article 30 of the "Regulations Governing the Preparation of Financial Reports by Public Banks", if the Bank's preferential deposit interest rate for an employee as stated in the employment contract exceeds the market interest rate, the excess will be subject to IAS 19 "Employee Benefits" upon the employees' retirement. The actuarial valuation assumptions and parameters are based on those announced by the authority, if any.

(iv) Termination benefits

Termination benefits are recognized as an expense when the Company and its subsidiaries are committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

(v) Short-term employee benefit

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

(vi) Other long-term employee benefit

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(w) Revenue recognition

(i) Banking subsidiaries

1) Interest income and expense

Except for financial assets and liabilities reported at fair value through profit or loss, all interest-bearing financial assets and interest-bearing financial liabilities are accrued using the effective interest rate method and are accounted for as interest revenue and interest expense in Consolidated Statements of Comprehensive Income.

2) Recognition of commission fee revenue and commission fee expense

Commission fee revenue and expense are recognized when loans or other services are provided. Service fees on significant projects are recognized on project completion, for instance, service fees received when the Bank is the arranger of syndicated loans. Commission revenue and fees relating to loan services are amortized through service periods or included in the effective interest rate for loans and receivables.

(ii) Insurance subsidiaries

1) Property insurance subsidiaries

Premium income from direct insurance business is recognized based on the written policies and endorsement. Assumed reinsurance premiums for reinsurance assumed business is recognized when the reinsurance statement is received by the insured. For those statements which have not been received by the insured, assumed reinsurance premium is estimated in a reasonable and systematic way. The related acquisition costs (such as: commissions, brokerage fees, reinsurance commissions and etc.) are recognized in the same period without being deferred.

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

Unearned premium reserves for the compulsory auto liability, the residential earthquake insurance, and the nuclear insurance are determined in accordance with the regulations and rules.

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

Tax liabilities related to premium income are recognized on accrual basis, in accordance with Value-added and Non-value-added Business Tax Act, the Stamp Tax Act, and other relevant laws and regulations.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

2) Life insurance subsidiaries

a) Fubon Life Insurance

For insurance contracts and financial instruments with discretionary participation, the first and the subsequent period premium is recognized as revenue when the insurance underwriting process is complete and the date for premium payment is due. The policy acquisition costs such as commission expenses are recognized as current expenses when the insurance contract becomes effective.

Premiums on investment-linked insurance which are classified as financial products without discretionary participation feature, are recognized as “provision for insurance contracts with financial product features”. The insurance acquisition costs are offset against “provision for insurance contracts with financial product features” when the insurance contracts become effective.

Premiums on insurance contracts, which belong to investment-linked insurance and which are classified as financial products without discretionary participation feature, are recognized as “Liabilities on Insurance Product-Separate Account”, net of related expenses such as the front-end load and investment administration service charge. The insurance acquisition costs relating to investment administration service, including commission expenses and additional charges for the issuance of new contracts, are recognized as “deferred acquisition costs”.

The service charges normally collected from the policyholder of insurance contracts, which do not belong to investment-linked insurance and which are classified as financial products non-discretionary participation feature, include contract administration charge, investment administration charge, rescinding charge and others. These charges are recognized as revenue upon collection. When Fubon Life Insurance receive certain service charge which makes them obligated to provide future service (ex: front-end load charge), this service charge is initially treated as a deferred revenue and is recognized as revenue when the service is provided, are recognized as “deferred service fee revenue”.

b) Fubon Life Insurance (Vietnam)

The insurance revenues and expenses are recognized under the accounting standards endorsed by the local government. Based on the common practice in the insurance industry, the premium income of direct insurance business is recognized as revenue of the year when conditional receipt is delivered after receiving premiums. The relatively incurred expenses, such as commission and direct business expenses, are recognized when they are paid and estimated on accrual basis at year-end.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

c) Fubon Life Insurance (Hong Kong)

The premium income of direct insurance business is recognized based on the common practice in the insurance industry. The first period premium is recognized when it is received and the insurance underwriting process is complete, while subsequent period premium is recognized on the scheduled payment date. Acquisition costs, such as commission expenses, are recognized as current expenses accompanying the recognition of premium income.

(iii) Securities subsidiaries

The securities subsidiaries' major revenue and cost recognition principles are as follows:

- 1) Brokerage commission, profit or loss on disposal of trading securities, and relevant brokerage securities transaction charges are recognized at the trading date.
- 2) 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 accrual basis.
- 3) Recognition of service revenue depends on the degree of service delivered.
- 4) 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 and are paid monthly by each securities investment trust fund and investor's discretionary managed account.

(x) Income tax

Income tax expense comprises current tax expense and deferred tax expense. Current and deferred tax expense should be recognized in profit or loss except for those related to business combination or those directly recognized in equity or other comprehensive income.

(i) Current income tax

The Company and its subsidiaries 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 the pretax income for the period with the effective annual tax rate as forecasted by the management. This is recognized fully as tax expense for the current period.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Tax expense that is directly recognized in equity or other comprehensive income is estimated by using the temporary difference between the book value of the associated assets and liabilities and their tax base, multiplied by the applicable tax rate for the expected realization or repayment date. The 10% surtax on undistributed earnings, computed to the ROC Income Tax Act, is charged to current income tax expense in the year when stockholders decided not to distribute the earnings.

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

(ii) Deferred income tax

Deferred taxes are measured based on the enacted or substantively enacted tax rate on the reporting date applicable during the year of expected asset realization or debt settlement. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Temporary differences arise primarily from the evaluation of financial instruments (including derivative financial instrument), pension, and the reserve and reversal of post-employment 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, unused loss carry forward and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures 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 Company has ability and intention to control the timing of reversal of the temporary differences and it is highly possible that temporary differences are not reversible in the foreseeable future.

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

The Company and domestic subsidiaries file a combined corporate income tax return. However, the measurement of income tax is treated by following the above mentioned principles. The excess or deficit payment of income tax due to a combined corporate income tax filing is charged to current tax assets or liabilities.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(y) Business combination

Business combinations of the Company and its subsidiaries are accounted for using the acquisition method. Goodwill is measured as the difference between (a) the aggregate of (i) the value of the consideration transferred at fair value, and (ii) 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. If the difference above is negative, the Company and its subsidiaries 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 gain in profit or loss.

Any non-controlling equity interest in the acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets on a transaction by transaction basis.

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 Company and its subsidiaries 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 Company and its subsidiaries 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 or which the accounting is incomplete. During the measurement period, the provisional amounts recognized at the acquisition date are retrospectively 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.

(z) Earnings per share

Earnings per share is 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.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(aa) Operating segments

An operating segment is a component of an entity 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 entity'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) Significant accounting assumptions and judgments, and major sources of estimation uncertainty

The preparation of the consolidated interim financial statements in accordance with the Regulations Governing the Preparation of Financial Reports and 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 continues to monitor its accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in future periods.

Information about critical judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated interim financial statements is as follows:

Classification of financial assets

The classification of financial assets requires management judgment, which will affect the Company and its subsidiaries' financial condition and operating results.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follows:

(a) Fair value of financial instruments

The fair value of non-active market or non-quoted financial instruments is determined using valuation techniques. In this case, the fair value is based on observable data of similar financial instruments or valuation model. If there are no observable market parameters, the fair value of financial instruments is evaluated based on appropriate assumptions. When the fair value are determined by the valuation model, the model shall be calibrated to ensure that all output data and the results reflect the actual market price. The models use only observable data as possible.

Information of major assumptions for determining the fair value of financial instruments and the sensitivity analysis of those assumption, please refer to note 6(ag).

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(b) Insurance liability and provisions for investment-linked insurance contracts

The Company and its subsidiaries measure insurance liabilities in accordance with the “Regulations Governing the Provision of Various Reserves”.

Provision of life insurance liability reserve applies "lock-in" assumption, under which fixed interest rates at the time the policies are issued, instead current interest market rate are used for providing this reserve.

Reserve for unearned premium is calculated according to the risks of respective insurance, and is determined by the actuary based on the characteristic of respective insurance.

Claim reserve is estimated by Loss Development Triangle Method. The final claim cost is calculated using primary assumptions including claim development factor and expected claim rate. The claim development factor and the expected claim rate are calculated based on the historical claim experience and adjusted by the Company and its subsidiaries’ policy factors such as charge rate and claim management.

The estimation of liability adequacy test follows the “Code of Conduct of Actuarial Practice for the Statements of Financial Accounting Standards No 4” pronounced by the Actuarial Institute of the Republic of China. The estimated present value of the future cash flow of insurance contract when Company and its subsidiaries assess liability adequacy reserve is based on the reasonable estimated future insurance payment, premium revenue and relevant expenses.

The professional judgment applied to the abovementioned liability evaluation process will affect the amount recognized for net changes in insurance liability, net changes in investment-linked insurance contract, insurance liability and provision for investment-linked insurance contract.

(c) Estimated impairment loss of loans and receivables and financial assets carried at amortized cost

The Company and its subsidiaries review loan portfolios and receivables to assess impairment periodically. In determining whether an impairment loss should be recognized, the Company and its subsidiaries make judgments as to whether there is any observable data indicating that an impairment loss occurs. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in the portfolio (e.g. payment delinquency or default), national or economic condition that correlates with defaults on the assets in the portfolio. For the purpose of assessing impairment, the management determines the future cash flows in the portfolio using estimates based on historical loss experience for financial assets grouped on the basis of similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to decrease any difference between estimated loss and actual loss.

Impairment assessment of financial assets is effected by inherent risk, which reflects different future expectation from the current market, inconsistency from original estimate and assumption due to changes in market conditions, and uncertain prospective macroeconomic and financial environment that management may decide to sell related assets.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(d) Fair value of investment property

The fair value of investment property is derived from valuation techniques. Assumptions which are used in applying valuation techniques, such as income approach or market approach, will have impacts on the fair value of investment property.

(e) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The calculation of the value in use requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. When the actual future cash flows are less than expected, a material impairment loss may arise.

Furthermore, information about assumptions and estimation uncertainties that may cause adjustments to the carrying amounts of assets and liabilities in the following year is as follows:

(a) Post-employment benefits of the defined benefit plans

The present value of the post-employment benefit obligation is determined by the actuarial result using a number of assumptions. Any changes in these assumptions will affect the carrying amount of the post-employment benefit obligation. The assumptions used in determining the net cost (income) for pensions include the discount rate. The Company and its subsidiaries determine the appropriate discount rate at the end of each year, which is used to determine the present value of estimated future cash outflows expected to be required to settle the post-employment benefit obligation. In determining the appropriate discount rate, the Company and its subsidiaries should consider the interest rates of high quality corporate bonds or government bonds, the currency used of those bonds should be the same as the currency paid by the benefits and the maturity of those bonds should be matched with the maturity of pension liability. Other key assumptions for post-employment benefit obligation are based on current market conditions.

(b) Income taxes and deferred tax assets and liabilities

The Company and its subsidiaries calculate the income tax in accordance with the local ordinances. The possible difference in tax base and calculation between the Company and its subsidiaries and the tax authorities leads to the uncertainty of income tax. The Company and its subsidiaries recognize related income tax and deferred 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.

The assessment of the recoverable of deferred tax assets is based on future profitability estimation. If the estimated assumption of profitability has been changed, the Company and its subsidiaries may adjust the recognized amount of deferred tax assets.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(6) Explanation of significant accounts

(a) Cash and Cash Equivalents

	September 30, 2017	December 31, 2016	September 30, 2016
Cash on hand and petty cash	\$ 6,597,725	7,595,047	7,047,016
Bank deposits	86,629,057	108,341,695	112,479,703
Cash equivalents	5,949,621	6,864,237	3,144,108
Notes and checks for clearing	1,926,962	4,093,448	4,145,896
Due from banks	57,783,254	49,550,926	47,266,442
Less: Guarantee deposits	<u>118,644</u>	<u>97,624</u>	<u>97,604</u>
Total	<u>\$ 158,767,975</u>	<u>176,347,729</u>	<u>173,985,561</u>

For consolidated statements of cash flows, cash and cash equivalents include accounts listed below:

	September 30, 2017	December 31, 2016	September 30, 2016
Cash and cash equivalents in consolidated balance sheets	\$ 158,767,975	176,347,729	173,985,561
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	49,185,976	80,347,260	82,305,096
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	<u>83,459,606</u>	<u>94,388,499</u>	<u>115,812,435</u>
Cash and cash equivalents in consolidated statements of cash flows	<u>\$ 291,413,557</u>	<u>351,083,488</u>	<u>372,103,092</u>

Refer to note 6 (ai) for the disclosure of sensitivity analysis and interest rate risk of the financial assets and liabilities of the Company and its subsidiaries.

The guarantee deposits are time deposits provided as pledged assets. Please refer to note 8 for details.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(b) Due from the Central Bank and Call Loans to Banks

	<u>September 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>September 30,</u> <u>2016</u>
Call loans to banks	\$ 109,742,050	154,032,130	133,111,403
Deposit reserves	82,026,528	78,218,115	80,514,618
Due from the central bank — others	<u>13,444,491</u>	<u>48,377,391</u>	<u>54,020,316</u>
Total	<u>\$ 205,213,069</u>	<u>280,627,636</u>	<u>267,646,337</u>

Under a directive issued by the Central Bank of China, New Taiwan dollar (TWD)-denominated deposit reserves are determined by applying a prescribed percentage to the average monthly balances of customers' TWD-denominated deposits. As of September 30, 2017, December 31 and September 30, 2016, deposit reserves for checking account amounted to \$19,407,761, \$17,567,640 and \$17,534,540, respectively; required deposit reserves amounted to \$34,390,786, \$32,236,828 and \$32,753,044, respectively. The deposit reserves for checking account are not interest bearing and may be withdrawn anytime. The required deposit reserves are subject to withdrawal restrictions. In addition, foreign-currency deposit reserves are determined by applying a prescribed percentage to the balances of foreign-currency deposits. These reserves may be withdrawn anytime but bear no interests.

Fubon Bank (China) uses the month-end balance or average ten-day balance of related deposits as basis for making provisions, as required under the regulation of the People's Bank of China.

The guarantee of due from the central bank and call loans to banks provided as pledged assets, please refer to note 8 for details.

(c) Financial Assets Measured at Fair Value through Profit or Loss

	<u>September 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>September 30,</u> <u>2016</u>
Held-for-trading financial assets:			
Government bonds	\$ 23,256,177	17,692,846	11,094,395
Commercial papers	6,296,738	5,790,972	8,602,420
Treasury bonds	6,823,779	9,617,322	2,022,560
Convertible corporate bonds	5,819,922	4,507,934	5,011,352
Stocks and beneficiary certificates	8,482,190	4,926,543	3,774,635
Beneficiary securities	810,330	932,016	982,551
Corporate and financial bonds	41,682,630	31,265,616	34,907,410
Others	<u>9,373</u>	<u>41,125</u>	<u>109,766</u>
	<u>93,181,139</u>	<u>74,774,374</u>	<u>66,505,089</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	September 30, 2017	December 31, 2016	September 30, 2016
Derivative financial instruments:			
Interest rate contracts	\$ 3,279,163	4,164,950	5,303,677
Currency rate contracts	28,577,587	53,131,556	38,234,325
Options contracts	389,963	15,595,858	11,564,842
Others	4,001,654	3,414,726	4,580,940
	36,248,367	76,307,090	59,683,784
Financial assets designated as at fair value through profit or loss at initial recognition:			
Credit structured bonds	1,117,675	1,153,941	1,126,487
Convertible corporate bonds	7,718,044	11,511,540	11,207,030
Others	-	163,293	160,950
	8,835,719	12,828,774	12,494,467
Total	\$ 138,265,225	163,910,238	138,683,340

The guarantee of financial assets measured at fair value through profit or loss provided as pledged assets, please refer to note 8 for details.

Taipei Fubon Bank and its subsidiaries are engaged in derivative transactions mainly to accommodate customers' needs, to manage their exposure positions, and to accommodate their fund needs in different currencies.

If the assets are hybrid in instruments or the designation was made to eliminate or significantly reduce the inconsistency of the measurement and recognition, the above financial assets shall be designated as financial assets measured at fair value through profit or loss.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(d) Available-for-sale Financial Assets, Net

	September 30, 2017	December 31, 2016	September 30, 2016
Negotiable certificates of deposits	\$ 39,896,074	22,534,742	10,367,473
Government bonds	253,476,554	300,937,499	311,709,462
Corporate and financial bonds	566,357,004	562,066,047	596,960,874
Stocks	539,239,000	438,952,911	419,897,846
Beneficiary certificates and beneficiary securities	264,840,254	249,906,851	253,184,440
Commercial papers	54,085,635	45,374,817	22,518,861
Treasury bonds	8,782,463	13,546,078	17,511,829
Others	<u>129,465</u>	<u>138,908</u>	<u>134,941</u>
Subtotal	1,726,806,449	1,633,457,853	1,632,285,726
Less: Guarantee deposits	2,316,059	471,023	9,717,171
Accumulated impairment	<u>2,592,667</u>	<u>1,947,668</u>	<u>1,677,744</u>
Net amount	<u>\$ 1,721,897,723</u>	<u>1,631,039,162</u>	<u>1,620,890,811</u>

For the three months and nine months ended September 30, 2017 and 2016, the Company and its subsidiaries performed an impairment evaluation and recognized the impairment losses (reversal gains) on available-for-sale financial assets amounting to \$2,945, \$10,099, \$1,404,278 and \$(103,808), respectively.

For the guarantee of available-for-sale financial assets provided as pledged assets, please refer to note 8 for details.

(e) Derivative Financial Instruments for Hedging

	September 30, 2017	December 31, 2016	September 30, 2016
<u>Derivative financial assets for hedging</u>			
Fair value hedge — interest rate swap contracts	<u>\$ 1,810,465</u>	<u>1,329,276</u>	<u>1,435,697</u>
<u>Derivative financial liabilities for hedging</u>			
Fair value hedge — interest rate swap contracts	<u>\$ 3,321,448</u>	<u>2,935,500</u>	<u>2,699,305</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(i) Fubon Life Insurance and its subsidiaries

1) Cash flow hedge

The assets of Fubon Life Insurance and its subsidiaries bear floating interest rate. This exposes Fubon Life Insurance and its subsidiaries to the risk that the future outflow of those assets will fluctuate due to the change in market's interest rate. As Fubon Life Insurance and its subsidiaries assessed that the potential risks could be significant in the future, interest rate swaps were contracted for hedging purposes.

Details of hedged items designated as cash flow hedges and their respective hedging derivative financial instruments were as follows:

		<u>September 30, 2017</u>			
<u>Hedged items</u>	<u>Designated hedging instruments</u>	<u>Nominal amount</u>	<u>Fair value of hedging instruments</u>	<u>Expected period of cash flows</u>	<u>Expected period of recognition in profit or loss</u>
Floating bonds and floating collateral loans	Interest rate swap contracts	\$ 22,330,147	(146,014)	2017.10.16~ 2024.08.11	2017.10.16~ 2024.08.11
		<u>December 31, 2016</u>			
<u>Hedged items</u>	<u>Designated hedging instruments</u>	<u>Nominal amount</u>	<u>Fair value of hedging instruments</u>	<u>Expected period of cash flows</u>	<u>Expected period of recognition in profit or loss</u>
Floating bonds and floating collateral loans	Interest rate swap contracts	\$ 37,977,923	(477,328)	2017.01.16~ 2024.06.26	2017.01.16~ 2024.06.26
		<u>September 30, 2016</u>			
<u>Hedged items</u>	<u>Designated hedging instruments</u>	<u>Nominal amount</u>	<u>Fair value of hedging instruments</u>	<u>Expected period of cash flows</u>	<u>Expected period of recognition in profit or loss</u>
Floating bonds and floating collateral loans	Interest rate swap contracts	\$ 34,468,580	889,309	2016.10.17~ 2024.06.26	2016.10.17~ 2024.06.26

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- 2) Gain or loss arising from the cash flow hedging recognized as an adjustment of equity were as follows:

<u>Item</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Equity adjusted amount	\$ <u>331,314</u>	<u>(1,139,304)</u>	<u>227,333</u>
Non-financial assets (liabilities) transferred from equity (recognized as deferred income tax assets (liabilities))	\$ <u>(56,323)</u>	<u>193,682</u>	<u>(38,647)</u>

- (ii) Taipei Fubon Bank and its subsidiaries

Fair value hedge

Taipei Fubon Bank and its subsidiaries are exposed to the risk of fair value fluctuation due to the change of interest rate on the corporate bonds and bank debentures included in available-for-sale financial assets and bank debentures issued. Since the risk is considered to be material, the Bank and its subsidiary enter into interest rate swap contracts to hedge against this risk.

		<u>September 30, 2017</u>	
<u>Hedged items</u>	<u>Designated hedging instruments</u>	<u>Nominal amount</u>	<u>Fair value</u>
Financial bonds payable	Interest rate swap contracts	\$ 43,220,483	(542,657)
Available-for-sale financial assets — corporate bonds	Interest rate swap contracts	61,150,460	(733,186)
Available-for-sale financial assets — financial bonds	Interest rate swap contracts	5,424,447	(5,031)
		<u>December 31, 2016</u>	
<u>Hedged items</u>	<u>Designated hedging instruments</u>	<u>Nominal amount</u>	<u>Fair value</u>
Financial bonds payable	Interest rate swap contracts	\$ 34,161,018	(609,639)
Available-for-sale financial assets — corporate bonds	Interest rate swap contracts	13,622,793	(129,030)
Available-for-sale financial assets — financial bonds	Interest rate swap contracts	12,992,144	(88,587)

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>Hedged items</u>	<u>Designated hedging instruments</u>	<u>September 30, 2016</u>	
		<u>Nominal amount</u>	<u>Fair value</u>
Financial bonds payable	Interest rate swap contracts	\$ 27,883,251	444,562
Available-for-sale financial assets — corporate bonds	Interest rate swap contracts	11,794,105	(527,975)
Availed-for-sale financial assets — financial bonds	Interest rate swap contracts	12,955,100	(351,935)

(iii) Fubon Bank (Hong Kong) and its subsidiaries

Fair value hedge

Bonds payable and available-for-sale financial assets bearing fixed interest rate may be exposed to the risk of fluctuation in fair value because of the changes in interest rates. Therefore, Fubon Bank (Hong Kong) and its subsidiaries entered into interest rate swap contracts to hedge such interest rate risks.

<u>Hedged item</u>	<u>Designated hedging instruments</u>	<u>September 30, 2017</u>	
		<u>Nominal amount</u>	<u>Fair value</u>
Available-for-sale financial assets	Interest rate swap contracts	\$ 57,243,336	(84,095)

<u>Hedged item</u>	<u>Designated hedging instruments</u>	<u>December 31, 2016</u>	
		<u>Nominal amount</u>	<u>Fair value</u>
Available-for-sale financial assets	Interest rate swap contracts	\$ 50,435,750	(301,640)

<u>Hedged item</u>	<u>Designated hedging instruments</u>	<u>September 30, 2016</u>	
		<u>Nominal amount</u>	<u>Fair value</u>
Available-for-sale financial assets	Interest rate swap contracts	\$ 46,338,995	(1,717,569)

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(f) Securities Purchased Under Resell Agreements

	September 30, 2017	December 31, 2016	September 30, 2016
Margin lending amount	\$ <u><u>83,459,606</u></u>	<u><u>94,388,499</u></u>	<u><u>115,812,435</u></u>

The maturity of abovementioned securities purchased under resell agreements were all within one year as of September 30, 2017, December 31 and September 30, 2016.

(g) Receivables, Net

	September 30, 2017	December 31, 2016	September 30, 2016
Accounts receivable – credit card	\$ 35,272,248	34,545,256	31,012,736
Accounts receivable – forfeiting	1,957,792	1,039,227	1,112,327
Notes receivable, accounts receivable and acceptance	16,457,295	10,039,847	10,710,843
Accounts receivable – factoring	15,553,623	16,699,708	12,965,762
Interest receivable	31,069,669	32,519,189	28,815,301
Revenues receivable	3,124,105	2,517,205	2,476,576
Premiums receivable	3,367,995	3,225,774	3,566,902
Margin loans receivable	13,753,576	11,142,121	11,662,747
Accounts receivable – settlement	24,705,192	14,552,854	16,875,270
Others	<u>8,009,304</u>	<u>10,053,233</u>	<u>8,699,334</u>
Subtotal	153,270,799	136,334,414	127,897,798
Less: Allowance for doubtful accounts	<u>1,370,856</u>	<u>1,350,786</u>	<u>1,335,540</u>
Total	<u><u>\$ 151,899,943</u></u>	<u><u>134,983,628</u></u>	<u><u>126,562,258</u></u>

The receivables provided as pledged assets, please refer to note 8 for details.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(h) Assets Classified as Held for Sale, Net

On May 13, 2014, the board of directors of Fubon Bank (Hong Kong) approved the selling plan for two owned properties, and has already started working on the said plan. The properties were expected to sell after November 2014, therefore, they have been classified to assets held for sale. As of September 30, 2017, December 31 and September 30, 2016, assets held for sale amounting to \$46,232, \$49,606 and \$48,207 were recognized at the lower of their carrying amount and fair value less costs to sell.

On September 29, 2017, the board of directors of Fubon Life Insurance approved the sale of its investment property, Chiayi Nice Plaza. As of September 30, 2017, the fair value of the asset held for sale was \$4,690,034. The transfer procedure had been completed in October 2017.

(i) Discounts and Loans, Net

	September 30, 2017	December 31, 2016	September 30, 2016
Discounts and overdrafts	\$ 25,646,165	31,360,774	44,611,530
Short-term advances	10,716,916	10,370,197	10,231,979
Accounts receivable – financing	2,852,962	3,119,411	5,047,830
Short-term loans	325,589,467	322,288,983	331,210,052
Short-term secured loans	89,353,129	78,282,903	80,206,640
Medium-term loans	248,987,887	250,981,301	246,456,933
Medium-term secured loans	114,671,579	121,203,977	118,205,872
Long-term loans	82,513,096	84,975,955	83,199,391
Long-term secured loans	740,975,317	691,391,597	679,491,102
Insurance policy loans	50,315,166	48,166,793	47,194,672
Import and export bill negotiation	12,837,678	9,474,404	11,873,414
Nonperforming loans	<u>4,535,175</u>	<u>6,365,804</u>	<u>7,279,448</u>
Subtotal	1,708,994,537	1,657,982,099	1,665,008,863
Less: Allowance for doubtful accounts	21,703,767	20,778,911	20,896,949
Adjustments of premium and discount	602,426	580,691	628,481
Total	<u><u>\$ 1,686,688,344</u></u>	<u><u>1,636,622,497</u></u>	<u><u>1,643,483,433</u></u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Evaluation tables of allowance for doubtful accounts of loans and receivables were as follows:

Loans

Item		Total loans		
		September 30, 2017	December 31, 2016	September 30, 2016
There is objective evidence of impairment.	Individual assessment of impairment	9,023,360	12,458,040	11,154,313
	Combined assessment of impairment	2,316,444	2,234,746	2,155,994
There is no objective evidence of impairment.	Combined assessment of impairment	1,697,654,733	1,643,289,313	1,651,698,556
Total		1,708,994,537	1,657,982,099	1,665,008,863

Loans

Item		Allowance for doubtful accounts		
		September 30, 2017	December 31, 2016	September 30, 2016
There is objective evidence of impairment.	Individual assessment of impairment	3,583,747	3,505,957	3,331,719
	Combined assessment of impairment	155,322	144,418	148,472
There is no objective evidence of impairment.	Combined assessment of impairment	17,964,698	17,128,536	17,416,758
Total		21,703,767	20,778,911	20,896,949

Receivables

Item		Total receivables		
		September 30, 2017	December 31, 2016	September 30, 2016
There is objective evidence of impairment.	Individual assessment of impairment	1,753,368	2,360,368	2,569,849
	Combined assessment of impairment	892,913	992,938	1,052,652
There is no objective evidence of impairment.	Combined assessment of impairment	151,597,794	134,613,542	126,398,886
Total		154,244,075	137,966,848	130,021,387

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Receivables

Item		Allowance for doubtful accounts		
		September 30, 2017	December 31, 2016	September 30, 2016
There is objective evidence of impairment.	Individual assessment of impairment	1,345,504	1,631,042	1,818,853
	Combined assessment of impairment	284,888	305,573	334,720
There is no objective evidence of impairment.	Combined assessment of impairment	409,917	396,406	372,934
Total		2,040,309	2,333,021	2,526,507

Note 1: Receivable could be presented separately by various natures. Gross receivables represent amount initially recognized but do not deduct allowance for doubtful accounts or deduct (or add) discount (or premium) adjustment.

Note 2: Abovementioned gross receivables and allowance for doubtful accounts include non-accrual loans, buying remittance, buying claims receivable and continuing involvement in transferred assets.

The movement of the allowance for doubtful accounts of loans and receivables for the nine months ended September 30, 2017 and 2016, were as follows:

	<u>For the nine months ended September 30, 2017</u>			
	<u>Receivables</u>	<u>Loans</u>	<u>Other financial assets</u>	<u>Total</u>
Beginning balance	\$ 1,350,786	20,778,911	982,235	23,111,932
Allowance for (reversal of) doubtful accounts	124,325	1,525,449	(45,276)	1,604,498
Write-off	(62,029)	(610,535)	(498,555)	(1,171,119)
Recovery from write-off	-	312,707	274,420	587,127
Effects of exchange rate changes and others	(42,226)	(302,765)	(43,371)	(388,362)
Ending balance	<u>\$ 1,370,856</u>	<u>21,703,767</u>	<u>669,453</u>	<u>23,744,076</u>
	<u>For the nine months ended September 30, 2016</u>			
	<u>Receivables</u>	<u>Loans</u>	<u>Other financial assets</u>	<u>Total</u>
Beginning balance	\$ 1,045,917	20,581,317	583,754	22,210,988
Allowance for doubtful accounts	357,668	1,390,283	678,412	2,426,363
Write-off	(64,270)	(1,096,852)	(322,435)	(1,483,557)
Recovery from write-off	24,716	479,844	295,070	799,630
Effects of exchange rate changes and others	(28,491)	(457,643)	(43,834)	(529,968)
Ending balance	<u>\$ 1,335,540</u>	<u>20,896,949</u>	<u>1,190,967</u>	<u>23,423,456</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(j) Reinsurance Contract Assets

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Claims recoverable from reinsurers	\$ 3,087,876	2,750,608	2,549,458
Due from reinsurers and ceding companies	3,963,667	3,469,224	3,366,985
Subtotal	<u>7,051,543</u>	<u>6,219,832</u>	<u>5,916,443</u>
Reinsurance reserve assets:			
Ceded unearned premium reserve	5,918,802	5,154,238	5,719,269
Ceded claim reserve	8,868,927	12,038,969	11,845,465
Ceded premium deficiency reserve	531,941	391,873	187,125
Ceded liability reserve	513	-	-
Subtotal	<u>15,320,183</u>	<u>17,585,080</u>	<u>17,751,859</u>
Total	<u>\$ 22,371,726</u>	<u>23,804,912</u>	<u>23,668,302</u>

(k) Held-to-maturity Financial Assets, Net

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Government bonds	\$ 105,010,477	109,445,233	106,386,949
Corporate bonds	21,047,901	13,163,601	15,448,333
Financial bonds	46,706,524	50,856,713	51,932,854
Negotiable certificates of deposits	280,789,078	209,910,950	197,358,494
Others	<u>8,834,072</u>	<u>4,139,635</u>	<u>10,577,559</u>
Subtotal	462,388,052	387,516,132	381,704,189
Less: Guarantee deposits	<u>10,332,639</u>	<u>10,331,071</u>	<u>1,809,651</u>
Total	<u>\$ 452,055,413</u>	<u>377,185,061</u>	<u>379,894,538</u>

Due to the cost of capital, Taipei Fubon Bank and its subsidiaries have successively disposed of or reclassified the bond investments because of closeness to maturity or deterioration of credit risk. As of September 30, 2017, December 31 and September 30, 2016, the cumulative amounts of disposal and reclassification during the past three years were \$22,505,823, \$18,493,991 and \$13,555,788, respectively, the cumulative gains on disposal were \$18,683, \$15,286 and \$13,448, respectively; and the cumulative other comprehensive income from reclassification was \$205,938, \$205,938 and \$208,821 as of September 30, 2017, December 31 and September 30, 2016. The percentages of the cumulative amounts of disposal and reclassification of held-to-maturity investments were 4.98%, 5% and 3.70%, respectively.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

The guarantee of held-to-maturity financial assets provided as pledged assets, please refer to note 8 for details.

(l) Investments Accounted for Using Equity Method, Net

(i) Material associates of the Company were as follows:

Name of associate	Relationship with the Company and its subsidiaries	Main business office/Country of Registry	Ownership interest and voting right		
			September 30, 2017	December 31, 2016	September 30, 2016
Xiamen Bank	Engages in deposits and loans to commercial bank and plays an important role in developing markets in China for the Company and its subsidiaries	Mainland China	15.78 %	19.99 %	19.99 %

Summarized financial information of material associates was as follows:

Xiamen Bank

	September 30, 2017	December 31, 2016	September 30, 2016	
	Total assets	\$ 914,777,443	877,083,932	848,006,314
Total liabilities	(859,498,872)	(835,187,187)	(805,724,026)	
Net assets	<u>\$ 55,278,571</u>	<u>41,896,745</u>	<u>42,282,288</u>	
	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Operating revenue	<u>\$ 5,282,016</u>	<u>4,303,997</u>	<u>14,481,112</u>	<u>13,654,143</u>
Net income	\$ 1,238,782	1,549,600	3,953,700	3,896,408
Other comprehensive income	(49,661)	209,114	(158,474)	(144,239)
Total comprehensive income	<u>\$ 1,189,121</u>	<u>1,758,714</u>	<u>3,795,226</u>	<u>3,752,169</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	For the nine months ended	
	September 30	
	2017	2016
Share of net assets of associates at the beginning of the periods	\$ 8,681,918	8,689,570
Total comprehensive income attributable to the Company and its subsidiaries for the period	523,615	58,596
Dividends received from associates	(338,555)	-
Capital surplus arising from changes in ownership interest	(93,513)	-
Book value of equity of associates at the end of the periods	\$ 8,773,465	8,748,166

Since the Company and its subsidiaries did not participate in the capital increase for cash of Xiamen Bank in June and September, 2017, resulting in a decrease of their ownership interest in Xiamen Bank. In August 2017, the board of directors of the Company and Fubon Bank (Hong Kong) have approved in acquiring the ordinary shares of Xiamen Bank to maintain their 19.99% ownership interest. The project is yet to be approved by the authority.

(ii) Individually immaterial associates

Summarized financial information of the individually immaterial associates accounted for using equity method was as follows. The financial information was included in the consolidated interim financial statements of the Company and its subsidiaries.

	September 30,	December 31,	September 30,
	2017	2016	2016
Fubon Construction Management Co., Ltd.	\$ 105,971	120,653	121,795
Fubon Health Management Co., Ltd.	48,396	-	-
Founder Fubon Fund Management Co., Ltd.	375,719	447,396	450,385
CITIC Capital Holdings Ltd.	8,792,064	8,471,407	8,049,343
Hyundai Life Insurance Co., Ltd.	3,656,669	3,889,223	7,376,299
CITIC FUTONG Financial Leasing Limited	1,472,559	1,401,248	1,400,363
Teng Fu Bo Investment Limited	244,367	288,602	-
Star River Energy Corporation	339,006	-	-
Amis Technology Co., Ltd.	18,691	-	-
Bravelog Sport Technology Co., Ltd.	8,000	-	-
	\$ 15,061,442	14,618,529	17,398,185

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Attributable to the Company and its subsidiaries :				
Net income	\$ (392,056)	308,660	(434,699)	186,641
Other comprehensive income	<u>112,444</u>	<u>1,098,657</u>	<u>781,403</u>	<u>1,262,926</u>
Total comprehensive income	<u>\$ (279,612)</u>	<u>1,407,317</u>	<u>346,704</u>	<u>1,449,567</u>

Since Fubon Financial Holding Venture Capital did not participate in the capital increase for cash of Fubon Hospitality Management Co., Ltd. in June 2016, its ownership interest to Fubon Hospitality Management Co., Ltd. decreased and its significant influence was lost. Thus, the investment was reclassified as financial assets carried at cost.

(m) Non-controlling interest of materiality

Information of non-controlling interests of materiality was as follows:

Name of subsidiary	Main business office / Country of registry	Ownership interest and voting right of non-controlling interest	
		December 31, 2016	September 30, 2016
Fubon Bank (China)	Mainland China	-	20 %

On October 20, 2016, 20% of the remaining outstanding shares of Fubon Bank (China) were acquired by the Company. Fubon Bank (China) became a wholly owned subsidiary of the Company.

Name of subsidiary	Profit attributable to non- controlling interests		Non-controlling interests	
	For the three months ended September 30, 2016	For the nine months ended September 30, 2016	December 31, 2016	September 30, 2016
Fubon Bank (China)	<u>\$ 47,585</u>	<u>276,868</u>	<u>-</u>	<u>7,755,813</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Summarized financial information of the aforementioned subsidiaries was as follows, in which the presenting amounts were eliminated before the intra-company transactions between the Company and its subsidiaries, and the influence of the acquisition method occurred by the time the Company acquired aforementioned subsidiaries:

Summarized financial information of Fubon Bank (China):

	December 31, 2016	September 30, 2016
Total assets	\$ 339,673,743	353,146,575
Total liabilities	<u>(298,212,671)</u>	<u>(311,181,007)</u>
Equity	<u>\$ 41,461,072</u>	<u>41,965,568</u>
Equity attributable to non-controlling interest	<u>\$ -</u>	<u>7,755,813</u>
	For the three months ended September 30, 2016	For the nine months ended September 30, 2016
Net revenue	<u>\$ 1,071,750</u>	<u>4,421,422</u>
Net income	\$ 237,921	1,384,338
Other comprehensive income	<u>(1,014,211)</u>	<u>(2,732,747)</u>
Total comprehensive income	<u>\$ (776,290)</u>	<u>(1,348,409)</u>
Consolidated net income for the period attributable to non-controlling interests	<u>\$ 47,585</u>	<u>276,868</u>
Consolidated other comprehensive income attributable to non-controlling interests	<u>\$ (135,471)</u>	<u>(223,649)</u>
	For the three months ended September 30, 2016	For the nine months ended September 30, 2016
Cash flows		
Operating activities	\$ (843,098)	(17,556,685)
Investing activities	(67,592)	(182,988)
Financing activities	48,636	2,750,219

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(n) Other Financial Assets, Net

	September 30, 2017	December 31, 2016	September 30, 2016
Financial assets carried at cost, net	\$ 6,225,028	5,813,633	5,777,545
Debt investments without active market, net	1,496,467,783	1,264,099,863	1,158,631,828
Assets on insurance product— separated account	152,261,081	142,534,021	139,391,165
Continuing involvement in transferred assets	-	-	238,856
Linked deposits	27,234,036	28,492,824	29,313,090
Margin deposits paid for borrowed securities	295,565	32,103	25,694
Collateral for borrowed securities	34,321	35,540	28,361
Overdue receivables	673,512	989,754	1,221,783
Customer margin deposit	21,108,361	15,702,134	16,593,355
Buy remittance	297	1,595	3,544
Buy nonperforming loan	299,467	641,085	659,406
Deposits not qualifying as cash equivalents	38,087,322	16,555,456	17,631,471
Prepayments for investments	-	-	60,670
Subtotal	1,742,686,773	1,474,898,008	1,369,576,768
Less: Guarantee deposits— others	2,215,260	2,234,866	2,237,056
Allowance for doubtful accounts	669,453	982,235	1,190,967
Total	<u>\$ 1,739,802,060</u>	<u>1,471,680,907</u>	<u>1,366,148,745</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(i) Financial assets carried at cost

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Investment in unlisted stocks	\$ 6,636,761	6,238,214	6,183,103
Less: Accumulated impairment	<u>411,733</u>	<u>424,581</u>	<u>405,558</u>
Total	<u>\$ 6,225,028</u>	<u>5,813,633</u>	<u>5,777,545</u>

The unlisted stocks held by the Company and its subsidiaries are measured by the cost method because they are not quoted in an active market and the fair value is not reliably measurable.

Due to objective evidence of impairment, the Company and its subsidiaries provided impairment losses on financial assets carried at cost amounting to \$4,732, \$0, \$27,119 and \$55,831 for the three months and nine months ended September 30, 2017 and 2016, respectively.

(ii) Separated account—insurance product

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Assets on insurance product— separated account:			
Bank deposits	\$ 8,973,449	8,372,541	8,664,293
Securities	141,786,946	130,945,839	129,054,712
Receivables	<u>1,500,686</u>	<u>3,215,641</u>	<u>1,672,160</u>
Total	<u>\$ 152,261,081</u>	<u>142,534,021</u>	<u>139,391,165</u>
	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Liabilities on insurance product— separated account:			
Reserve—insurance contract	\$ 92,547,975	81,981,447	81,385,046
Reserve—investment contract	59,711,993	60,552,166	58,005,453
Payables	<u>1,113</u>	<u>408</u>	<u>666</u>
Total	<u>\$ 152,261,081</u>	<u>142,534,021</u>	<u>139,391,165</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Investment-type insurance policy revenues:				
Insurance revenues	\$ 4,115,244	3,077,156	12,982,356	9,715,447
Interest revenues	273,662	204,975	706,353	555,582
Unrealized gains (losses) on financial assets measured at fair value through profit and loss	4,094,451	2,968,993	8,557,990	2,337,002
Gains (losses) on foreign exchange	(147,140)	13,099	(360,418)	302,611
Total	<u>\$ 8,336,217</u>	<u>6,264,223</u>	<u>21,886,281</u>	<u>12,910,642</u>
Investment-type insurance policy expense:				
Net insurance separate account value reserve	\$ 3,869,001	2,741,137	10,810,728	3,342,397
Insurance claim payments	3,773,529	2,862,723	9,027,420	7,554,441
Administrative expense	693,687	660,363	2,048,133	2,013,804
Total	<u>\$ 8,336,217</u>	<u>6,264,223</u>	<u>21,886,281</u>	<u>12,910,642</u>

For the three months and nine months ended September 30, 2017 and 2016, Fubon Life Insurance and its subsidiaries earned sales commission in investment oriented insurance products from counterparties amounted to \$127,585, \$113,103, \$360,947 and \$330,113, respectively. The rebate was recognized as net service fees and commission income.

(iii) Debt investments without active market

	September 30, 2017	December 31, 2016	September 30, 2016
Government bonds	\$ 77,530,206	29,868,026	20,009,095
Corporate bonds	620,667,482	527,166,026	455,672,401
Financial bonds	260,210,179	229,535,551	213,191,312
Zero-coupon bonds	478,046,768	415,189,710	411,317,736
Real estate mortgage bonds	27,091,171	32,688,848	33,252,843
Securitization of beneficiary certificates	23,852,645	20,180,843	15,846,272
Negotiable certificates of deposit	9,069,332	9,470,859	9,342,169
Total	<u>\$ 1,496,467,783</u>	<u>1,264,099,863</u>	<u>1,158,631,828</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

For the three months and nine months ended September 30, 2017 and 2016, the Company and its subsidiaries performed impairment evaluation in debt investments without active market. Based on the objective evidence of impairment, the Company and its subsidiaries recognized the net reversal gains on the investment which amounted to \$0, \$0, \$0 and \$13,071, respectively.

(iv) Continuing involvement in transferred assets

Fubon Bank (China) has sold its nonperforming loans and issued a commitment letter, which guaranteed to continually involve in the transferred assets to the buyer. Under this transaction, Fubon Bank (China) neither transferred nor retained substantially all the risks and returns of the ownership of the financial assets. Therefore, Fubon Bank (China) continually recognizes the transferred asset to the extent of its involvement and also recognizes the related liabilities required for possible settlement as the other financial liabilities. Please refer to note 6 (z) for details.

(o) Investment Property

	Land and improvements	Buildings	Investment property under construction	Prepayment for investment property	Others	Total
Balance as of January 1, 2017	\$ 127,291,072	45,205,469	1,290,754	26,101	1,715,684	175,529,080
Additions	-	528,619	331,396	81,531	-	941,546
Reclassification	3,748,788	113,094	(366,706)	(1,235)	-	3,493,941
Disposals	-	-	-	-	-	-
Held-for-sale classification	(1,876,000)	(2,814,034)	-	-	-	(4,690,034)
Gains (losses) generated from fair value adjustments	(77,504)	123,319	-	-	(21)	45,794
Effects of exchange rate changes	327,990	683,129	-	-	43,398	1,054,517
Balance as of September 30, 2017	<u>\$ 129,414,346</u>	<u>43,839,596</u>	<u>1,255,444</u>	<u>106,397</u>	<u>1,759,061</u>	<u>176,374,844</u>
Balance as of January 1, 2016	\$ 124,640,164	43,580,409	635,510	2,524	2,428,187	171,286,794
Additions	4,278,788	7,860,025	468,258	4,339	-	12,611,410
Reclassification	(1,776,465)	(392,900)	-	(2,456)	-	(2,171,821)
Gains (losses) generated from fair value adjustments	1,464,730	(1,692,354)	-	-	(67,340)	(294,964)
Others	-	-	-	-	(7,507)	(7,507)
Effects of exchange rate changes	(2,119,512)	(2,993,926)	-	-	(407,243)	(5,520,681)
Balance as of September 30, 2016	<u>\$ 126,487,705</u>	<u>46,361,254</u>	<u>1,103,768</u>	<u>4,407</u>	<u>1,946,097</u>	<u>175,903,231</u>

Rental revenue incurred for investment property for the nine months ended September 30, 2017 and 2016, amounted to \$4,523,719 and \$4,568,053, respectively. Direct operation expenses amounted to \$724,614 and \$843,231 for the nine months ended September 30, 2017 and 2016, respectively, in which, \$34,492 and \$56,444, respectively, are direct operation expenses belonging to investment property that does not generate rental income.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Property interests which are held under operating lease, in which the Company and its subsidiaries chose to classify as investment property, shall be accounted for as finance leases. As of September 30, 2017, December 31 and September 30, 2016, the net carrying amount of leasehold property was \$218,249, \$212,885 and \$421,226, respectively.

Investment properties are primary for rental purposes and all of which are operating leases. Please refer to note 9 (a) for details. Main content of such contracts are the same as general lease contracts.

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

Major contents of investment property of subsidiaries are listed separately as follows:

(i) Fubon Life Insurance and its subsidiaries

Fubon Life Insurance and its subsidiaries' investment property appraisal has been performed by appraisers from professional valuation agencies based on the "Regulations on Real Estate Appraisal" in accordance with the "Regulations Governing the Preparation of Financial Reports by Insurance Companies", and the valuation dates were September 30, 2017, December 31 and September 30, 2016.

- 1) DTZ: Yang Chang-Da, Li Gen-Yuan, Tsai Jia-He, Hu Chuen-Chuen
- 2) Savills Plc: Dai Guang-Ping, Chang Hung-Kai, Chang I-Chih, Yeh Yu-Fen
- 3) Repro International Inc.: Wu Hung-Hsu, Wu Chih-Hao, Shih Fu-Hsue
- 4) Jin Han Real Estate Appraisers Joint Firm: Wu Yu-Chun, Hung Chi-Hsiang
- 5) G-Bean Real Estate Appraisers Firms: Chang Neng-Cheng, Li Fang-Chend
- 6) Colliers International Valuation Taiwan LLP: Ke Feng-Ru, Zhan Xiu-Ying, Gu Jian-Hui
- 7) Zheng Da Real Estate Appraisers Firms: Hsiao Li-Min, Liu Shih-Kai
- 8) Kao Yuan Real Estate Appraisers Firms: Chen Bi-Yuan
- 9) Colliers International Valuation Taiwan LLP & Colliers International Valuation UK LLP: Gu Jian-Hui, PC Willis, Patrick Kearon
- 10) Jones Lang LaSalle Real Estate Appraiser Firm and Jones Lang LaSalle Limited: Chao Cheng-Yi, Andrew Pirie, Elizabeth Levingston, James Mc Tighe, David Holt, Roger Meeds
- 11) Repro International Inc. and Knight Frank LLP: Wu Hung-Hsu, Matthew Cripps

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- 12) DTZ and Winssinger & Associates S.A (Subsidiary of Cushman & Wakefield Group) :
 Yang Chang-Da, Emeric Inghels, Christophe Ackermans
- 13) Jones Lang LaSalle Limited and Jones Lang LaSalle BVBA: Chao Cheng-Yi, Roderick Scrivener

The fair value of investment property is based on a valuation by professional evaluation agency and supported by market evidences. Appraising methods include the comparison approach, income approach (including direct capitalization method, DCF method and lease interest residual value method), cost approach and land development analysis of cost approach.

Commercial office buildings are appraised using the comparison approach and income approach mostly because of the market liquidity, comparable sales and rental cases in the neighboring areas. Marketplaces, hotels and department stores, depending on their characteristics, terms of rental contracts and reference of similar investment properties are generally appraised using the comparison approach as a primary method as well as direct capitalization method and DCF method. Special real estates, such as combinative marketplaces with hotels or hospitals, are appraised mainly by cost approach, as well as direct capitalization method and DCF method of income approach. Superficies development projects are appraised by the abovementioned approaches and lease interest residual value method.

Vacant land with building permission and under construction is appraised using the comparison approach and land development analysis of cost approach. Factories planned for urban renewal are appraised by comparison approach, cost approach and land development analysis approach. Vacant land and superficies are appraised by abovementioned approaches according to nature of the completed building.

The inputs applied are as follows:

	September 30, 2017	December 31, 2016	September 30, 2016
	<u>Mainly</u>	<u>Mainly</u>	<u>Mainly</u>
Income capitalization rate	0.98%~5.19%	0.99%~5.11%	0.59%~5.11%
Year-end income capitalization rate	1.81%~6.35%	1.83%~6.35%	1.78%~6.35%
Discount rate	2.30%~7.50%	2.30%~8.20%	3.08%~6.50%

Professional valuation agencies use the market extraction method, search several comparable properties similar to the subject property, and consider the liquidity risk and future disposal risk premium to decide on the income capitalization rate and discount rate.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

In 2014, the land of Fubon Life Insurance, located at Wenxin Rd., Taichung, was accounted for by using the fair value method. During the construction of the building, the professional valuation agencies appraised the land by using the comparison approach and land development analysis approach, and the value of the building was accounted for by using the actual construction costs (construction in progress). In June 2017, after completing the building construction, obtaining the occupation permit, and completing the registration procedure of the building ownership, the investment property, instead of previously consisting only the land, is now being appraised together with the building. Therefore, the investment property was appraised by using the comparison approach and direct capitalization method of income approach. The difference between the overall fair value and the value of construction in progress is not material.

The investment properties held by Fubon Life Insurance and its subsidiaries are subsequently measured at fair value model, and categorized into Level 3. The appraising methods adopted by professional valuation agencies are: (a) direct capitalization of income approach: when the main input, direct capitalization rate increases, the fair value will decrease, and vice versa; (b) discounted cash flow analysis of income approach: when the main inputs, discount rate and year-end income capitalization rate increase, the fair value will decrease, and vice versa.

(ii) Fubon Insurance and its subsidiaries

Fubon Insurance and its subsidiaries' investment property appraisals were performed by appraisers from professional valuation agencies based on the "Regulations on Real Estate Appraisal" in accordance with the "Regulations Governing the Preparation of Financial reports by Insurance Companies", and valuation dates were September 30, 2017, December 31 and September 30, 2016.

Valuation agencies as of September 30, 2017 and December 31, 2016 were as follows:

- 1) Jin Han Real Estate Appraisers Joint Firm: Wu Yu-Chun, Hung Chi-Hsiang
- 2) Kao Yuan Real Estate Appraisers Firms: Chen Bi-Yuan, Chou Wen-Fang, Liu Ming-Chiu

Valuation agencies as of September 30, 2016 were as follows:

- 1) Repro International Inc.: Wu Hung-Hsu, Wu Chih-Hao, Shih Fu-Hsue
- 2) Kao Yuan Real Estate Appraisers Firms: Chen Bi-Yuan, Chou Wen-Fang, Liu Ming-Chiu

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

The fair value of investment property is based on a valuation performed by professional evaluation agency and supported by external market evidences. Appraising methods include the comparison approach, income approach, cost approach and land development analysis of cost approach. Commercial office buildings are appraised using the comparison approach and income approach mostly because of the market liquidity, comparable sales and rental cases in the neighboring areas. Townhouses and land are appraised using the cost method because rare cases of income generated from land and big income gap resulted from different building structure lead to poor accuracy and degree of confidence. The developing land is appraised using comparison approach and land development analysis approach.

The inputs applied are as follows:

	September 30, 2017	December 31, 2016	September 30, 2016
Direct capitalization rate (net)	0.77%~6.02%	0.25%~6.02%	1.70%~6.00%
Profit rate	12.00%~20.00%	12.50%~20.00%	15.00%~20.00%
Overall capital interest rate	1.00%~3.00%	1.00%~3.00%	1.00%~3.00%

External appraisers use the market extraction method, search several comparable properties similar to the subject property, and consider the liquidity risk and future disposal risk premium to decide on the direct capitalization rate and discount rate.

(iii) Taipei Fubon Bank

Investment properties are leased out as operating leases with terms of three to ten years. Some of lease contracts included contingent rent clauses. Taipei Fubon Bank can adjust the rent price on a fixed ratio every year.

Since there were changes in the rental rates of certain investment properties of Taipei Fubon Bank, their fair value were revalued by the following independent qualified professional valuers from Savills Plc Real Estate Appraiser Office (a member of certified ROC real estate appraisals) based on their valuation conducted on June 30, 2017: Dai Kuang Ping, Chang Hung Kai, Chang I Chih and Yeh Yu-Fen.

The fair values of the investment property as of December 31, 2016, were based on the valuations carried out at these dates performed by the following independent qualified professional valuers: Dai Kuang Ping, Chang Hung Kai, Chang I Chih and Yeh Yu-Fen from Savills Plc Real Estate Appraiser Office, a member of certified ROC real estate appraisals.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

The fair values of the investment property as of December 31, 2015, were based on the valuations carried out at these dates performed by the following independent qualified professional valuers: Dai Kuang Ping, Chang Hung Kai, ChaInvestment properties are leased out as operating leases with terms of three to ten years.

After consulting with the appraisers for effectiveness of their previous appraisal reports, Taipei Fubon Bank determined that the fair value reported as of December 31, 2016 and 2015 were still deemed valid as of September 30, 2017 and 2016, except for the investment properties which were reevaluated on June 30, 2017 because of the rental rate changes.

The fair value of investment properties was measured using the income approach. The significant assumptions used were as follows. Fair value will increase when expected future cash inflows increases or discount rate decreases.

	September 30, 2017	December 31, 2016	September 30, 2016
Expected future cash inflows	\$ 4,302,090	4,004,305	4,107,481
Expected future cash outflows	<u>(127,331)</u>	<u>(122,972)</u>	<u>(138,178)</u>
Expected future cash inflows, net	<u>\$ 4,174,759</u>	<u>3,881,333</u>	<u>3,969,303</u>
Discount rate	4.345%	4.345%	4.485%

The market rentals in the area where the investment property is located were between \$1 and \$20 per ping (i.e. 1 ping = 3.3 square meters).

The expected future cash inflows generated by investment property included rental income, interest income on rental deposits and disposal value. The rental income was extrapolated using the Taipei Fubon Bank's current rental rate and market rent price, taking into account the annual rental growth rate; and the income analysis covers a 10-year period. The interest income on rental deposits was extrapolated using the interest rate for one-year time deposit, and the disposal value was determined using the direct capitalization method under the income approach. The expected future cash outflows incurred by investment property included expenditures such as land value taxes, house taxes, insurance premium and maintenance costs. These expenditures were extrapolated on the basis of the current level of expenditures, taking into account the future adjustment to the government-announced land value and the tax rate promulgated under the House Tax Act and building and construction expense.

The discount rate was based on the interest rate of the two-year time deposits of Chunghwa Post Co., Ltd., plus, 0.75%, and any asset-specific risk premiums of 2.5%.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(iv) Fubon Securities and its subsidiaries

Investment property of Fubon Securities was evaluated by appraisers Chih Wei Hsin, Wang Shih Ming, Chi Liang An and Tsai Wen Che from Xinyi Real Estate Appraisers Firm, in accordance with the "Regulations on Real Estate Appraisal", and the valuation date was December 31, 2016. Furthermore, investment property of Fubon Securities was evaluated by appraisers Dai Kuang-Ping, Chang Hung-Kai, Chang I-Chih and Yeh Yu-Fen from Savills Plc Real Estate Appraiser Office, and the valuation date was December 31, 2015. After consulting with the appraisers, Fubon Securities and its subsidiaries determined that the fair value reported as of December 31, 2016 and 2015 were still deemed valid as of September 30, 2017 and 2016.

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

Commercial office buildings and terraced shops are appraised using the DCF method of income approach mostly due to the market liquidity, comparable sales and rental cases in the 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 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 the 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 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 value tax refers to future publicly announced price of the subject property estimated by the changes of publicly announced price in recent year.

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

The inputs applied are as follows :

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

The decision of discount rate is based on risk premium method, the consideration on time deposit rates, government bond rates, risk of real estate investment, changes of currencies, changes in real estate prices, 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.

(v) Fubon AMC

Investment property of Fubon AMC was evaluated by appraisers Chang Hung-Kai and Yeh Yu-Fen from Savills Plc Real Estate Appraiser Office, in accordance with the “Regulations on Real Estate Appraisal”, and the valuation dates were December 31, 2016 and 2015. After consulting with the appraisers, Fubon AMC determined that the fair value reported as of December 31, 2016 and 2015 were still deemed valid as of September 30, 2017 and 2016.

The fair value of investment property is supported by observable evidences in the market. The main appraising method is land development analysis of cost approach.

Land foreclosures, idle commercial office buildings and undeveloped vacant land, as well as costs of vacant land, are appraised using the comparison approach and land development analysis. Selling price which is extrapolated using land development analysis is determined according to examples of market transaction.

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Profit rate	3.00%~18.00%	18.00%	18.00%
Overall capital interest rate	1.47%~5.02%	1.47%~2.94%	1.66%~3.22%

When the rate of return and an overall capital interest rate decrease, the fair value will increase, and vice versa.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(p) Property and Equipment, Net

Changes in the cost, depreciation, and impairment loss of the property, plant and equipment of the Company and its subsidiaries for the nine months ended September 30, 2017 and 2016, were as follows:

	Land	Buildings	Machinery and computer equipment	Transportation equipment	Other equipment	Prepayment for purchases of equipment, and construction in progress	Total
Cost or deemed cost:							
Balance as of January 1, 2017	\$ 29,555,409	26,307,383	5,827,044	403,156	8,922,961	2,015,614	73,031,567
Additions	-	68,264	420,986	16,309	689,285	1,083,468	2,278,312
Estimated decommissioning cost	-	-	-	-	17,227	-	17,227
Reversal decommissioning cost	-	-	-	-	(6,091)	-	(6,091)
Disposals	(997)	(2,955)	(427,168)	(25,048)	(397,591)	-	(853,759)
Reclassification	39,413	984,217	191,181	(104,072)	358,103	(1,243,467)	225,375
Effects of exchange rates changes	-	(418,102)	(25,399)	(2,028)	(248,953)	(12,247)	(706,729)
Balance as of September 30, 2017	<u>\$ 29,593,825</u>	<u>26,938,807</u>	<u>5,986,644</u>	<u>288,317</u>	<u>9,334,941</u>	<u>1,843,368</u>	<u>73,985,902</u>
Balance as of January 1, 2016	\$ 27,741,765	26,877,962	5,403,803	416,488	7,731,606	1,482,187	69,653,811
Additions	-	4,934	233,785	21,126	999,984	1,430,334	2,690,163
Estimated decommissioning cost	-	-	-	-	8,491	-	8,491
Reversal decommissioning cost	-	-	-	-	(11,790)	-	(11,790)
Disposals	(14,706)	(79,997)	(145,700)	(13,908)	(355,474)	-	(609,785)
Reclassification	2,081,538	149,370	103,252	-	272,043	(483,204)	2,122,999
Effects of exchange rates changes	-	(777,542)	(55,140)	(11,396)	(196,154)	(27,660)	(1,067,892)
Balance as of September 30, 2016	<u>\$ 29,808,597</u>	<u>26,174,727</u>	<u>5,540,000</u>	<u>412,310</u>	<u>8,448,706</u>	<u>2,401,657</u>	<u>72,785,997</u>
Depreciation and impairment loss:							
Balance as of January 1, 2017	\$ 1,013,284	4,783,473	3,837,303	283,956	5,850,702	-	15,768,718
Depreciations	-	428,622	515,232	16,637	615,313	-	1,575,804
Disposals	-	(2,049)	(418,571)	(24,583)	(389,954)	-	(835,157)
Reversal decommissioning cost	-	-	-	-	(5,076)	-	(5,076)
Reclassification	-	(172,060)	(5)	(48,331)	45,854	-	(174,542)
Effects of exchange rates changes	-	(75,699)	(16,796)	(1,579)	(151,687)	-	(245,761)
Losses of impairment	-	7,576	-	-	-	-	7,576
Balance as of September 30, 2017	<u>\$ 1,013,284</u>	<u>4,969,863</u>	<u>3,917,163</u>	<u>226,100</u>	<u>5,965,152</u>	<u>-</u>	<u>16,091,562</u>
Balance as of January 1, 2016	\$ 1,019,730	4,474,423	3,686,902	269,966	5,630,300	-	15,081,321
Depreciations	-	431,247	451,079	32,591	529,824	-	1,444,741
Disposals	-	(27,408)	(144,692)	(13,671)	(345,648)	-	(531,419)
Reversal decommissioning cost	-	-	-	-	(10,092)	-	(10,092)
Reclassification	-	(105,219)	-	(466)	69,686	-	(35,999)
Effects of exchange rates changes	-	(98,093)	(36,213)	(5,342)	(119,502)	-	(259,150)
Balance as of September 30, 2016	<u>\$ 1,019,730</u>	<u>4,674,950</u>	<u>3,957,076</u>	<u>283,078</u>	<u>5,754,568</u>	<u>-</u>	<u>15,689,402</u>
Carrying amounts:							
Balance as of January 1, 2017	\$ 28,542,125	21,523,910	1,989,741	119,200	3,072,259	2,015,614	57,262,849
Balance as of September 30, 2017	<u>\$ 28,580,541</u>	<u>21,968,944</u>	<u>2,069,481</u>	<u>62,217</u>	<u>3,369,789</u>	<u>1,843,368</u>	<u>57,894,340</u>
Balance as of January 1, 2016	\$ 26,722,035	22,403,539	1,716,901	146,522	2,101,306	1,482,187	54,572,490
Balance as of September 30, 2016	<u>\$ 28,788,867</u>	<u>21,499,777</u>	<u>1,582,924</u>	<u>129,232</u>	<u>2,694,138</u>	<u>2,401,657</u>	<u>57,096,595</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Since the Company and its subsidiaries had transferred parts of their private properties to investment properties measured at fair value, the properties were reevaluated on the transferred date. The Company and its subsidiaries determined the recoverable amount at fair value, less, cost of disposal; and the related fair value was determined by using income approach, which is classified under level 3 fair value category. For valuation techniques and key assumptions of fair value measurements, please refer to Note 6 (o) for details.

The property and equipment of the Company are depreciated on a straight-line basis based on the following estimated useful life:

Buildings	3 to 61 years
Machinery and computer equipment	3 to 16 years
Transportation equipment	3 to 10 years
Other equipment	1 to 47 years

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

(q) Intangible Assets, Net

	September 30, 2017	December 31, 2016	September 30, 2016
Banking license and operating rights	\$ 5,697,177	5,807,579	5,875,381
Core deposits	6,659,749	7,089,714	7,283,984
Goodwill	14,259,125	14,312,255	14,341,024
Computer software	1,281,293	1,327,820	1,197,322
Customer relationship	76,503	84,866	88,285
Others	280,753	278,349	2,000
	<u>\$ 28,254,600</u>	<u>28,900,583</u>	<u>28,787,996</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

The movements of intangible assets of the Company and its subsidiaries for the nine months ended September 30, 2017 and 2016 were as follows:

	Goodwill	Other intangible assets	Total
Balance as of January 1, 2017	\$ 14,312,255	14,588,328	28,900,583
Additions	-	233,505	233,505
Disposals	-	(1,080)	(1,080)
Amortization	-	(808,761)	(808,761)
Reclassification	-	203,318	203,318
Effects of exchange rates changes	(53,130)	(219,835)	(272,965)
Balance as of September 30, 2017	<u>\$ 14,259,125</u>	<u>13,995,475</u>	<u>28,254,600</u>
Balance as of January 1, 2016	\$ 14,571,186	15,727,435	30,298,621
Additions	-	300,558	300,558
Amortization	-	(828,857)	(828,857)
Reclassification	-	166,828	166,828
Effects of exchange rates changes	(230,162)	(918,992)	(1,149,154)
Balance as of September 30, 2016	<u>\$ 14,341,024</u>	<u>14,446,972</u>	<u>28,787,996</u>

The above banking license and operating rights, core deposits, customer relationships and goodwill arised from the Company and its subsidiaries' acquisition of the Hanoi branch and Ho Chi Minh City subbranch of Chinfon Bank, which were monitored by the Financial Restructuring Fund, and from the acquisition of ING Life Insurance (Taiwan), Fubon Bank (Hong Kong), Fubon Bank (China) and EDA Rhinos professional baseball team (which was renamed as Fubon Guardians).

The above intangible assets, except for banking license and others with an indefinite useful life which is not amortized, are amortized on a straight-line basis and recognized as profit or loss based on the following estimated useful life:

Core deposits	10 to 23 years
Operating rights	97 years
Computer software	3 to 10 years
Customer relationship	7 to 14 years

No significant impairment was incurred for the nine months ended September 30, 2017 and 2016, after evaluating the carrying amount of goodwill.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(r) Other Assets

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Refundable deposits	\$ 23,125,248	25,576,832	23,668,142
Foreclosed collaterals and residuals taken over	87,583	2,467,247	2,378,161
Operation guarantee deposits and settlement fund	330,182	338,678	334,527
Deferred assets	769,219	587,885	529,751
Prepayments	31,531,642	31,426,747	35,238,319
Others	<u>3,785,152</u>	<u>2,288,653</u>	<u>3,403,259</u>
Total	<u>\$ 59,629,026</u>	<u>62,686,042</u>	<u>65,552,159</u>

The Company acquired the superficies by bid, accounted as prepayments. For the three months and nine months ended September 30, 2017 and 2016, the Company and its subsidiaries recognized impairment loss (reversal gain) on other assets measured at net fair value were \$(2,531), \$(24,701), \$(4,297) and \$6,592, respectively.

(s) Financial Liabilities Measured at Fair Value through Profit or Loss

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Held-for-trading financial liabilities:			
Stock warrant liabilities	\$ 6,824,350	8,368,658	687,721
Stock borrowing and short selling	584,676	253,430	211,695
Bonds borrowing and short selling	<u>1,353,970</u>	<u>356,598</u>	<u>1,384,716</u>
	<u>8,762,996</u>	<u>8,978,686</u>	<u>2,284,132</u>
Derivative financial instruments:			
Interest rate contracts	3,086,245	3,849,605	5,094,584
Currency rate contracts	29,579,441	58,968,569	27,330,605
Options contracts	2,493,060	18,217,600	13,813,962
Others	<u>4,061,704</u>	<u>3,558,793</u>	<u>3,781,236</u>
	<u>39,220,450</u>	<u>84,594,567</u>	<u>50,020,387</u>
Financial liabilities designated as at fair value through profit or loss at initial recognition:			
Financial bonds	-	1,690,909	1,639,381
Structured products	<u>3,043,707</u>	<u>2,282,024</u>	<u>2,416,011</u>
	<u>3,043,707</u>	<u>3,972,933</u>	<u>4,055,392</u>
Total	<u>\$ 51,027,153</u>	<u>97,546,186</u>	<u>56,359,911</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(t) Securities Sold under Repurchase Agreements

	September 30, 2017	December 31, 2016	September 30, 2016
Pecuniary financing	\$ <u><u>152,228,667</u></u>	<u><u>122,889,790</u></u>	<u><u>120,327,929</u></u>

The maturity of abovementioned securities sold under repurchase agreement were all within one year as of September 30, 2017, December 31 and September 30, 2016.

(u) Commercial Paper Issued, Net

	September 30, 2017	December 31, 2016	September 30, 2016
Par value	\$ 18,910,000	655,000	3,375,000
Less: Discount on commercial paper issued	<u>5,516</u>	<u>213</u>	<u>251</u>
Total	\$ <u><u>18,904,484</u></u>	<u><u>654,787</u></u>	<u><u>3,374,749</u></u>
Interest rate range	0.38%~0.98%	0.56%~0.62%	0.29%~0.60%

(v) Deposits

	September 30, 2017	December 31, 2016	September 30, 2016
Checking accounts	\$ 10,713,153	13,174,102	13,286,407
Public treasury deposits	18,957,545	34,452,576	41,015,487
Demand deposits	443,005,801	426,327,215	421,806,446
Time deposits	763,172,601	743,979,484	700,511,146
Negotiable certificates of deposit	98,343,966	70,959,595	68,272,284
Savings accounts	856,363,422	830,837,261	827,113,200
Remittances	<u>575,152</u>	<u>1,559,498</u>	<u>1,391,617</u>
	\$ <u><u>2,191,131,640</u></u>	<u><u>2,121,289,731</u></u>	<u><u>2,073,396,587</u></u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(w) Bonds Payable

- (i) The bonds payable as of September 30, 2017, December 31 and September 30, 2016 were as follows:

	September 30, 2017	December 31, 2016	September 30, 2016
Unsecured corporate bonds	\$ 54,000,000	63,800,000	69,800,000
Cumulative perpetual subordinated corporate bonds	35,000,000	28,500,000	-
Financial bonds	<u>94,781,592</u>	<u>86,301,095</u>	<u>84,432,725</u>
Total	<u><u>\$ 183,781,592</u></u>	<u><u>178,601,095</u></u>	<u><u>154,232,725</u></u>

- (ii) Unsecured corporate bonds

Name	Issue period		Issue amount	Interest rate	September 30, 2017	December 31, 2016	September 30, 2016	Note
	Issue date	Maturity date						
First 2009 unsecured domestic corporate bonds	2010.01.27	2017.01.27	\$ 6,000,000	2.60	\$ -	6,000,000	6,000,000	Fixed interest, interest payable annually; pay in full upon seven years
Second 2009 unsecured domestic corporate bonds-bond B	2010.01.28	2017.01.28	1,000,000	1.90	-	1,000,000	1,000,000	Fixed interest, interest payable annually; pay in full upon seven years
Second 2009 unsecured domestic corporate bonds-bond C	2010.01.28	2017.01.28	800,000	2.60	-	800,000	800,000	Fixed interest, interest payable annually; pay in full upon seven years
First 2011 unsecured domestic corporate bonds	2011.11.15	2016.11.15	6,000,000	1.40	-	-	6,000,000	Fixed interest, interest payable annually; pay in full upon five years
First 2012 unsecured domestic corporate bonds-bond A	2012.08.15	2017.08.15	2,000,000	1.35	-	2,000,000	2,000,000	Fixed interest, interest payable annually; pay in full upon five years
First 2012 unsecured domestic corporate bonds-bond B	2012.08.15	2019.08.15	5,000,000	1.45	5,000,000	5,000,000	5,000,000	Fixed interest, interest payable annually; pay in full upon seven years
First 2013 unsecured domestic corporate bonds-bond A	2013.08.28	2018.08.28	5,450,000	1.45	5,450,000	5,450,000	5,450,000	Fixed interest, interest payable annually; pay in full upon five years

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Name	Issue period		Issue amount	Interest rate	September 30, 2017	December 31, 2016	September 30, 2016	Note
	Issue date	Maturity date						
First 2013 unsecured domestic corporate bonds-bond B	2013.08.28	2020.08.28	900,000	1.58	900,000	900,000	900,000	Fixed interest, interest payable annually; pay in full upon seven years
Second 2013 unsecured domestic corporate bonds-bond A	2013.12.18	2018.12.18	100,000	1.42	100,000	100,000	100,000	Fixed interest, interest payable annually; pay in full upon five years
Second 2013 unsecured domestic corporate bonds-bond B	2013.12.18	2020.12.18	2,550,000	1.60	2,550,000	2,550,000	2,550,000	Fixed interest, interest payable annually; pay in full upon seven years
First 2014 unsecured domestic corporate bonds	2014.07.21	2021.07.21	15,000,000	1.72	15,000,000	15,000,000	15,000,000	Fixed interest, interest payable annually; pay in full upon seven years
First 2015 unsecured domestic corporate bonds-bond A	2015.03.30	2020.03.30	6,100,000	1.38	6,100,000	6,100,000	6,100,000	Fixed interest, interest payable annually; pay in full upon five years
First 2015 unsecured domestic corporate bonds-bond B	2015.03.30	2022.03.30	3,900,000	1.65	3,900,000	3,900,000	3,900,000	Fixed interest, interest payable annually; pay in full upon seven years
Second 2015 unsecured domestic corporate bonds-bond A	2015.07.15	2018.07.15	2,100,000	1.15	2,100,000	2,100,000	2,100,000	Fixed interest, interest payable annually; pay in full upon three years
Second 2015 unsecured domestic corporate bonds-bond B	2015.07.15	2020.07.15	3,500,000	1.35	3,500,000	3,500,000	3,500,000	Fixed interest, interest payable annually; pay in full upon five years
Second 2015 unsecured domestic corporate bonds-bond C	2015.07.15	2022.07.15	9,400,000	1.65	9,400,000	9,400,000	9,400,000	Fixed interest, interest payable annually; pay in full upon seven years
					<u>\$ 54,000,000</u>	<u>63,800,000</u>	<u>69,800,000</u>	

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(iii) Cumulative perpetual subordinated corporate bonds

Name	Issue Period		Coupon rate (Note 1)	Issue Amount	Unamortized premium (discount) amount	September 30, 2017	December 31, 2016	September 30, 2016	Note
	Issue Date	Maturity Date							
1st Issue of 2016 Perpetual Cumulative Subordinated Corporate Bonds	2016.12.07	Indefinite	3.25 %	\$ 28,500,000	-	\$ 28,500,000	28,500,000	-	Note 2
1st Issue of 2017 Perpetual Cumulative Subordinated Corporate Bonds	2017.04.21	Indefinite	3.30 %	6,500,000	-	6,500,000	-	-	Note 2
Total						<u>\$ 35,000,000</u>	<u>28,500,000</u>	<u>-</u>	

Note 1: The coupon rate will plus 1% if Fubon Life Insurance does not redeem the bond in 10 years from the date of issuance.

Note 2: The corporate bond has no maturity date. However, if the Fubon Life Insurance's risk based capital ratio is greater than twice the minimum risk based capital ratio for insurance companies, with the approval from the authority, Fubon Life Insurance will redeem the corporate bond in whole at a redemption price equal to 100% of the principal amount of the bond, plus accrued and unpaid interest to the date of redemption.

(iv) Financial Bonds Payable

1) Taipei Fubon Bank and its subsidiaries

	September 30, 2017	December 31, 2016	September 30, 2016
First issuance of subordinated bank debentures in 2009; fixed 2.2%; maturity: November 2016	\$ -	-	2,000,000
Second issuance of subordinated bank debentures in 2009; fixed 2.2%; maturity: December 2016	-	-	2,050,000
First issuance of subordinated bank debentures in 2010; fixed 2.2%; maturity: January 2017	-	2,250,000	2,250,000

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	September 30, 2017	December 31, 2016	September 30, 2016
First issuance of subordinated bank debentures in 2010; fixed 2.5%; maturity: January 2020	\$ 2,400,000	2,400,000	2,400,000
Second issuance of subordinated bank debentures in 2010; fixed 2.3%; maturity: January 2017	-	600,000	600,000
Third issuance of dominant bank debentures in 2010; fixed 1.8%; maturity: March 2017	-	1,500,000	1,500,000
Fourth issuance of subordinated bank debentures in 2010; fixed 2.5%; maturity: March 2020	2,000,000	2,000,000	2,000,000
Fifth issuance of dominant bank debentures in 2010; fixed 1.7%; maturity: May 2017	-	500,000	500,000
Sixth issuance of subordinated bank debentures in 2010; fixed 1.95%; maturity: August 2017	-	4,500,000	4,500,000
Sixth issuance of subordinated bank debentures in 2010; fixed 2.05%; maturity: August 2020	1,900,000	1,900,000	1,900,000
Seventh issuance of subordinated bank debentures in 2010; fixed 1.55%; maturity: October 2020	900,000	900,000	900,000

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	September 30, 2017	December 31, 2016	September 30, 2016
Eighth issuance of subordinated bank debentures in 2010; fixed 1.5%; maturity: November 2017	\$ 2,550,000	2,550,000	2,550,000
First issuance of subordinated bank debentures in 2011; fixed 1.65%; maturity: March 2018	3,050,000	3,050,000	3,050,000
Second issuance of subordinated bank debentures in 2011; fixed 1.7%; maturity: August 2018	2,450,000	2,450,000	2,450,000
Third issuance of subordinated bank debentures in 2011; fixed 1.65%; maturity: December 2018	4,000,000	4,000,000	4,000,000
First issuance of subordinated bank debentures in 2012; fixed 1.48%; maturity: in April 2019	1,300,000	1,300,000	1,300,000
Second issuance of subordinated bank debentures in 2012; fixed 1.68%; maturity: May 2022	4,700,000	4,700,000	4,700,000
First issuance of subordinated bank debentures in 2013; fixed 1.52%; maturity: August 2020	3,750,000	3,750,000	3,750,000
First issuance of subordinated bank debentures in 2013; fixed 1.7%; maturity: August 2023	500,000	500,000	500,000
First issuance of subordinated bank debentures in 2014; fixed 1.7%; maturity: May 2021	5,500,000	5,500,000	5,500,000

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	September 30, 2017	December 31, 2016	September 30, 2016
First issuance of subordinated bank debentures in 2014; fixed 1.85%; maturity: May 2024	\$ 4,500,000	4,500,000	4,500,000
Second issuance of subordinated bank debentures in 2014; fixed 1.98%; maturity: September 2024	3,700,000	3,700,000	3,700,000
First issuance of dominant bank debentures in 2015; zero interest rate; maturity: February 2045 (US\$100,000 thousand)	3,373,746	3,486,633	3,353,622
Second issuance of dominant bank debentures in 2015; zero interest rate; maturity: May 2045 (US\$80,000 thousand)	-	2,762,324	2,655,786
First issuance of dominant bank debentures in 2016; zero interest rate; maturity: December 2046 (US\$200,000 thousand)	6,250,933	6,463,320	-
First issuance of dominant bank debentures in 2017; zero interest rate; maturity: January 2047 (US\$200,000 thousand)	6,229,814	-	-
First issuance of dominant bank debentures in 2017; zero interest rate; maturity: January 2047 (US\$200,000 thousand)	6,227,765	-	-

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	September 30, 2017	December 31, 2016	September 30, 2016
Second issuance of subordinated bank debentures in 2017; fixed 1.33%; maturity: September 2024	\$ 3,000,000	-	-
Third issuance of dominant bank debentures in 2017; fixed 0.56%; maturity: Septmeber 2018	5,000,000	-	-
Subtotal	<u>73,282,258</u>	<u>65,262,277</u>	<u>62,609,408</u>
Valuation adjustments of bank debentures	(545,483)	(611,074)	443,536
Subtotal	<u>\$ 72,736,775</u>	<u>64,651,203</u>	<u>63,052,944</u>
2) Fubon Bank (Hong Kong) and its subsidiaries			
	September 30, 2017	December 31, 2016	September 30, 2016
10-year bonds issued in November 2010; fixed 6.25%; maturity: November 2020	\$ 6,039,250	6,428,783	6,245,710
3-year bonds issued in June 2014; fixed 2.15%; maturity: June 2017	-	417,139	405,735
3-year bonds issued in August 2014; fixed 2.40%; maturity: August 2017	-	417,160	406,603
3-year bonds issued in December 2014; floating; maturity: December 2017	387,970	416,290	404,550
2-year bonds issued in June 2015; floating; maturity: June 2017	-	832,526	809,017

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	September 30, 2017	December 31, 2016	September 30, 2016
3-year bonds issued in June 2015; floating; maturity: June 2018	\$ 387,916	416,169	404,413
2-year bonds issued in August 2015; floating; maturity: August 2017	-	957,292	930,223
2-year bonds issued in August 2015; fixed 1.85%; maturity: August 2017	-	416,128	404,330
9-month bonds issued in March 2016; fixed 0.94%; maturity: December 2016	-	-	606,811
1-year bonds issued in April 2016; fixed 1.2%; maturity: April 2017	-	416,290	404,550
1-year bonds issued in May 2016; fixed 1.2%; maturity: May 2017	-	457,919	445,005
9-month bonds issued in May 2016; fixed 1.1%; maturity: February 2017	-	832,580	809,100
3-year bonds issued in June 2016; fixed 2.12%; maturity: June 2019	775,567	823,430	817,911
3-month bonds issued in July 2016; zero interest rate; maturity: October 2016	-	-	2,022,028
2-year bonds issued in July 2016; floating; maturity: July 2018	387,823	416,290	404,550
3-year bonds issued in July 2016; fixed 1.9%; maturity: July 2019	387,904	406,878	404,696

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	<u>September 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>September 30,</u> <u>2016</u>
6-month bonds issued in August 2016; zero interest rate; maturity: February 2017	\$ -	1,663,640	1,612,947
6-month bonds issued in August 2016; fixed 0.91%; maturity: February 2017	-	416,290	404,550
9-month bonds issued in August 2016; fixed 1.01%; maturity: May 2017	-	832,580	809,100
1-year bonds issued in August 2016; fixed 1.2%; maturity: August 2017	-	416,290	404,550
1-year bonds issued in August 2016; fixed 1.18; maturity: August 2017	-	749,322	728,190
2-year bonds issued in August 2016; fixed 1.6%; maturity: August 2018	1,046,485	1,109,258	1,090,875
3-year bonds issued in September 2016; fixed 1.6%; maturity: September 2019	387,250	405,907	404,337
3-month bonds issued in October 2016; zero interest rate; maturity: January 2017	757,212	798,209	-
1-year bonds issued in October 2016; zero interest rate; maturity: October 2017	908,424	957,898	-
3-year bonds issued in October 2016; floating; maturity: October 2019	605,567	645,624	-

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	September 30, 2017	December 31, 2016	September 30, 2016
3-year bonds issued in February 2017; fixed 2.53%; maturity: February 2020	\$ 387,970	-	-
2-year bonds issued in March 2017; fixed 2.28%; maturity: March 2019	775,834	-	-
3-year bonds issued in March 2017; fixed 2.5%; maturity: March 2020	465,238	-	-
3-year bonds issued in April 2017, fixed 2.4%; maturity: April 2020	271,255	-	-
2-year bonds issued in June 2017; fixed 1.75%; maturity: June 2019	581,004	-	-
2-year bonds issued in June 2017; fixed 1.8%; maturity: June 2019	775,680	-	-
6-month bonds issued in August 2017; zero interest rate; maturity: February 2018	1,545,758	-	-
1-year bonds issued in August 2017; fixed 2.11%; maturity: August 2018	909,006	-	-
2-year bonds issued in August 2017; fixed 1.75%; maturity: August 2019	387,276	-	-
3-month bonds issued in September 2017; zero interest rate; maturity: December 2017	181,260	-	-

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	September 30, 2017	December 31, 2016	September 30, 2016
3-month bonds issued in September 2017; zero interest rate; maturity: December 2017	\$ 155,013	-	-
3-month bonds issued in September 2017; fixed rate 1.66%; maturity: December 2017	606,052	-	-
2-year bonds issued in September 2017; floating; maturity: September 2019	387,819	-	-
2-year bonds issued in September 2017; fixed 1.8%; maturity: September 2019	775,350	-	-
3-year bonds issued in September 2017; floating; maturity: September 2020	1,162,878	-	-
6-month bonds issued in June 2017; fixed 2.02%; maturity: April 2018	606,056	-	-
Subtotal	<u>\$ 22,044,817</u>	<u>21,649,892</u>	<u>21,379,781</u>
Total	<u>\$ 94,781,592</u>	<u>86,301,095</u>	<u>84,432,725</u>
 (x) Other Borrowings			
	September 30, 2017	December 31, 2016	September 30, 2016
Credit and guarantee loan	<u>\$ 3,297,926</u>	<u>4,420,000</u>	<u>1,640,000</u>
Interest rate range	0.98%~1.68%	0.60%~1.68%	1.3%~1.625%

As of September 30, 2017, December 31 and September 30, 2016, other borrowings were pledged as collateral, please refer to note 8 for details.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(y) Provisions

(i) Provisions

	<u>September 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>September 30,</u> <u>2016</u>
Unearned premium reserves (Note)	\$ 31,217,814	29,495,609	29,710,876
Claim reserves (Note)	24,083,841	26,804,417	26,284,408
Liability reserves (Note)	3,038,555,190	2,839,412,432	2,756,917,147
Special reserves (Note)	15,221,736	14,849,567	14,515,871
Premium deficiency reserves (Note)	22,039,426	23,351,943	21,355,246
Reserves for insurance with financial instrument (Note)	3,744,298	18,137,335	49,575,200
Foreign exchange valuation reserves (Note)	1,718,632	4,632,746	1,829,278
Provisions for guarantee liabilities	318,554	329,659	309,414
Provisions for employment benefits	11,532,957	12,259,140	11,284,573
Provisions for decommissioning, restoration and rehabilitation costs	181,055	174,490	134,212
Others	<u>29,709,194</u>	<u>30,047,767</u>	<u>30,057,368</u>
Total	<u>\$ 3,178,322,697</u>	<u>2,999,495,105</u>	<u>2,941,973,593</u>

Note: For further information of insurance contracts, please refer to note 6 (ah) for details.

(ii) Employee benefits

1) 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. Therefore, the Company and its subsidiaries used the pension cost as of December 31, 2016 and 2015 to measure and disclose the interim pension cost.

The Company and its subsidiaries' expenses recognized in profit or loss were as follows:

	<u>For the three months</u> <u>ended September 30</u>		<u>For the nine months</u> <u>ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Pension expense	<u>\$ 170,655</u>	<u>229,568</u>	<u>532,952</u>	<u>634,771</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

2) Defined contribution plans

The Company and its subsidiaries contribute 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 Company and its subsidiaries contribute 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 Company and its subsidiaries' expenses recognized in profit or loss were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Pension expense	\$ 296,096	297,467	930,169	853,226

(z) Other Financial Liabilities

	September 30, 2017	December 31, 2016	September 30, 2016
Principal of structured products	\$ 16,157,695	18,941,631	18,593,207
Liabilities on insurance product— separated account	152,261,081	142,534,021	139,391,165
Future traders' equity	21,108,930	15,702,135	16,593,356
Continuing involvement in transferred liabilities	-	-	238,856
Others	218,585	213,520	421,607
Total	\$ 189,746,291	177,391,307	175,238,191

For related revenue and expenses of insurance separate account instrument regarding liabilities and continuing involvement in transferred liabilities, please refer to note 6 (n), "Other financial assets", for details.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(aa) Other Liabilities

	September 30, 2017	December 31, 2016	September 30, 2016
Advance receipts	\$ 2,957,000	2,112,293	1,735,798
Temporary receipts	3,848,083	6,253,670	4,124,751
Guarantee deposits received	6,756,424	3,951,751	3,415,908
Advance premiums	5,572,001	4,715,299	2,225,608
Deferred revenue	1,586,068	1,407,829	1,421,478
Deposit-in for borrowed securities	8,934,372	5,565,473	5,306,609
Collections for underwriting stock value	578,564	18,077	128,819
Others	<u>2,692,532</u>	<u>2,098,128</u>	<u>1,760,533</u>
	<u>\$ 32,925,044</u>	<u>26,122,520</u>	<u>20,119,504</u>

(ab) Income Tax

(i) Income tax expenses

The components of income tax expenses (benefits) were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Current tax expense (benefit)				
Current period	\$ 1,518,476	4,317,363	10,220,221	8,518,599
Adjustment for prior periods	(23,802)	41,690	(816,469)	(30,205)
10% surtax on undistributed earnings	-	-	1,831,543	1,454,015
Others	<u>233,361</u>	<u>221,770</u>	<u>455,278</u>	<u>40,286</u>
	<u>1,728,035</u>	<u>4,580,823</u>	<u>11,690,573</u>	<u>9,982,695</u>
Deferred tax expense (benefit)				
Incurrence and reversal of temporary differences	342,497	(4,136,110)	(8,114,808)	(5,295,695)
Total income tax expenses	<u>\$ 2,070,532</u>	<u>444,713</u>	<u>3,575,765</u>	<u>4,687,000</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Income tax (expenses) benefits recognized directly in other comprehensive income were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Items not to be reclassified subsequently to profit or loss:				
Revaluation gains on property	\$ -	(339)	(241,295)	(339)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(6,643)	(388)	(5,367)	4,954
	<u>\$ (6,643)</u>	<u>(727)</u>	<u>(246,662)</u>	<u>4,615</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations	\$ (158,507)	383,764	(40,678)	1,052,815
Unrealized gains (losses) on available-for-sale financial assets	(1,631,068)	(2,244,726)	(4,864,311)	(6,638,390)
Gains (losses) on effective portion of cash flow hedge	1,715	29,935	(56,324)	(38,646)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(7,912)	(209,154)	(134,128)	(244,419)
	<u>\$ (1,795,772)</u>	<u>(2,040,181)</u>	<u>(5,095,441)</u>	<u>(5,868,640)</u>
	<u>\$ (1,802,415)</u>	<u>(2,040,908)</u>	<u>(5,342,103)</u>	<u>(5,864,025)</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(ii) Income tax assessment situation

- 1) In accordance with the Financial Holding Company Act, Article 49, the domestic companies, which are held directly by the Company for over 90% of their equity shares, appointed the Company as the taxpayer to file a combined corporate income tax return. The recognized amount of income tax receivable, accounted as current tax assets were as follows:

	September 30, 2017
2006	\$ 396,863
2007	28,830
2008	72,435
2011	28,315
2012	161,832
2013	67,250
	\$ 755,525

- 2) Under a combined corporate income tax return filing, the income tax and 10% surtax on undistributed earnings paid to the tax authorities amounted to \$7,409,766 (actual) and \$3,749,644 (actual) for the years ended December 31, 2016 and 2015, respectively.
- 3) The Company and its major subsidiaries have filed consolidated income tax returns since 2002, which are assessed to the year 2012 by the tax authorities. The assessment issues and current status were as follows:

Taxpayer	Assessment issue	Status
Taipei Fubon Bank	Appropriation of retained earnings for Taiwan Sport Lottery was decreased and related delayed interests	The application for reassessments for the year 2010 and 2011 is still in process.
Fubon Securities	The tax issue on call warrants and amortization of operating rights	The administrative litigation for the year 2007 and 2009, as well as application for reassessments for the year 2010 and 2011 are still in process. The reassessment for the year 2012 will be applied recently.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

The Company is the taxpayer of the combined corporate income tax return. The Company has applied for administrative procedures for assessment of income tax returns for the year 2007, 2009, 2010 and 2011. The Company will applied for reassessment of income tax returns for the year 2012 recently.

- (iii) The Company and its subsidiaries' have filed a combined corporate income tax return since 2002 in accordance with the Financial Holding Company Act, Article 49. Details of the Company's receivables from and payables to subsidiaries resulting from combined corporate income tax return filings were as follows:

	<u>September 30, 2017</u>		
	Estimate for the nine months ended September 30, 2017	Filed in previous years	Total
Linked tax receivables from subsidiaries:			
Taipei Fubon Bank	\$ 438,735	65,406	504,141
Fubon Life Insurance	5,750,529	320,620	6,071,149
Fubon Insurance	4,828	197,671	202,499
Fubon Securities	106,650	482,441	589,091
Fubon AMC	17,719	-	17,719
Fubon Marketing	151	-	151
Total	<u>\$ 6,318,612</u>	<u>1,066,138</u>	<u>7,384,750</u>

	<u>September 30, 2017</u>		
	Estimate for the nine months ended September 30, 2017	Filed in previous years	Total
Linked tax payables to subsidiaries:			
Taipei Fubon Bank	\$ -	538,357	538,357
Fubon Life Insurance	-	167,171	167,171
Fubon Asset Management	-	28,830	28,830
Total	<u>\$ -</u>	<u>734,358</u>	<u>734,358</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- (iv) Information related to the imputation credit account ("ICA") of the Company was summarized below:

	September 30, 2017	December 31, 2016	September 30, 2016
Undistributed earnings:			
Earned prior to 1997	\$ 46,459	46,459	46,459
Earned in 1998 and thereafter	<u>155,824,963</u>	<u>140,626,165</u>	<u>133,527,292</u>
Total	<u><u>\$ 155,871,422</u></u>	<u><u>140,672,624</u></u>	<u><u>133,573,751</u></u>
ICA balance	<u><u>\$ 15,480,224</u></u>	<u><u>11,341,860</u></u>	<u><u>10,690,822</u></u>
		2016	2015
		(estimated)	(actual)
Creditable ratio for earnings distribution to ROC resident stockholders		<u><u>13.80 %</u></u>	<u><u>11.04 %</u></u>

The information related to the imputation credit account ("ICA") mentioned above is in accordance with Tai Tsai No.10204562810 on October 17, 2013.

Actual creditable amount is based on the ICA balance of the dividend distribution date. Therefore, the estimated creditable ratio for earning distribution may be different from the actual ratio.

(ac) Capital and Other Equity

(i) Share capital

- 1) As of September 30, 2017, December 31 and September 30, 2016, the authorized and paid-in capital all amounted to \$150,000,000 thousand, with a par value of \$10 per share. Share capital includes common stock and preferred stock. Issued common shares amounted to 10,233,604 thousand shares. Issued irredeemable non-cumulative preferred shares amounted to 600,000 thousand shares. All issued shares were fully paid, and the non-cumulative preferred shares were recognized as equity.

- 2) Issuance of preferred stock

The shareholders' meeting has approved the amended Articles of Incorporation on rights and obligations of Series A Preferred Shares on June 12, 2015. The board of directors approved the details of issuing Series A Preferred Shares on June 12, 2015 and January 28, 2016. The Company issued 600,000 thousand preferred shares for cash totaled \$6,000,000 thousand, with a par value of \$10 per share, at an issuance price of \$60 per share. The capital increase project was approved by the Financial Supervisory Commission. The subscription date was April 22, 2016. All issued shares were fully paid, registered and recognized as equity.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Rights and Obligations of Issuer's Series A Preferred Shares Issuance for Cash

- a) Due Date: Perpetual
- b) Dividend: 4.10% per annum for Series A Preferred Shares (7-year IRS 0.885%+3.215%) calculated pursuant to issue price per share. Interest rate per annum will be reset on the day after the 7th anniversary of the issue date ("Issue Date") and the day after each subsequent 7-year period hereafter. Reset interest rate is calculated as 7-year IRS + 3.215%. Record date for interest reset shall be the second previous business day for financial institutions in Taipei. The 7-year IRS rate shall be the arithmetic mean of 7-year IRS quotations as published by Reuter, PYTDWFIX and COSMOS3 at 11:00 a.m. of the day of reset record date (must be a business day for Taipei's financial institutions). If the above quotations cannot be obtained on reset record date, interest rate shall be decided by Issuer in good faith and taken into account of reasonable market rate.
- c) Dividend Issuance: Issuer has sole discretion on dividend issuance of Series A Preferred Shares, including but not limited to its discretion to not declare dividends when no profit is recorded, or insufficient profit is recorded for Preferred Share dividends, or preferred share dividend declaration would render the Issuer's RBC ratio below level required by law or relevant authorities. The Issuer's cancellation of preferred share dividend declaration shall not be deemed an event of default. Undeclared or underdeclared dividends are not cumulative, and are not paid in subsequent years with profit. In the year with profit, before Issuer can distribute dividends for Series A Preferred Shares, Issuer shall set aside out of Issuer's profits: (i) a settlement for payment of tax for the relevant financial year; (ii) an offset of its losses in previous years that have not been previously offset; (iii) a statutory reserve ("Legal Reserve"); and (iv) reserve special reserve pursuant to legal requirement or actual need. Dividends for Series A Preferred Shares are declared once per year in cash. After shareholders' approval of Issuer's financial statements at its annual shareholders meeting, the board may set record date for distribution of available dividends from the previous year. Dividend distribution for the years of issuance and redemption shall be calculated pursuant to actual issued days of the given year. Dividends distributed shall be included in the dividend certificate.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- d) Excessive Dividend Distribution: Except for receipt of dividends at the aforementioned dividend rate, holders Series A Preferred Shares cannot participate in distribution of cash or stock dividends to holders of common shares from profit or additional paid-in capital.
- e) Redemption of Series A Preferred Shares: On the day after the 7th anniversary of the Issue Date, Issuer may redeem all or part of outstanding Series A Preferred Shares at issue price. Rights and obligations of the unredeemed Series A Preferred Shares shall remain the same as mentioned above.
- f) Priority of Claims in Liquidation: Holders of Series A Preferred Shares shall have the same priority as holders of all subsequently issued preferred share in liquidation, which are prior to holders of common shares but subordinated to general creditors, to the extent of the amount equaling to the multiplication of (i) then issued and outstanding Series A Preferred shares and (ii) per share issue price of such preferred shares.
- g) Voting Right and Election Right: Holders of Series A Preferred Shares have no voting right at the annual shareholders meeting, and cannot elect directors. Said holders, however, are eligible as director candidates. Holders of Series A Preferred Shares have voting rights at shareholders meeting of Series A Preferred Shares, and at annual shareholders meeting on items relating to rights of Series A Preferred Shares holders.
- h) Conversion Right: Holders of Series A Preferred Shares cannot convert said preferred shares to common shares, and have no right to request for redemption of Series A Preferred Shares.
- i) When Issuer conduct rights issue for cash, holders of Series A Preferred Shares have the same subscription right as holders of common shares.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(ii) Capital surplus

1) The details of capital surplus were as follows:

The components of capital surplus were as follows:

	September 30, 2017	December 31, 2016	September 30, 2016
Additional paid-in capital from new share issuance for cash	\$ 63,644,042	63,644,042	63,644,042
Additional paid-in capital from share exchange	36,199,185	36,199,185	38,651,532
Additional paid-in capital from equity-accounted investees	1,926,724	1,001,286	1,006,234
Land revaluation surplus	1,104	1,104	1,104
Sale of treasury stock	178,098	178,098	178,098
Transfer of treasury stock to employee	23,753	23,753	23,753
Cash dividend from the Company's stock held by its subsidiary	27,664	27,664	27,664
Additional paid-in capital for employee warrants exercise	1,637,823	1,637,823	1,637,823
Share-based payment	<u>177</u>	<u>177</u>	<u>177</u>
Total	<u>\$ 103,638,570</u>	<u>102,713,132</u>	<u>105,170,427</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

2) The details of additional paid in capital from share exchange were as follows:

<u>Date of share exchange</u>	<u>Participants of share exchange and description</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
December 19, 2001	Fubon Securities, Fubon Bank, and Fubon Life Insurance	\$ 42,040,134	42,040,134	42,040,134
August 28, 2002	Fubon Asset Management	(124,882)	(124,882)	(124,882)
December 23, 2002	Taipei Bank	3,384,059	3,384,059	3,384,059
February 11, 2009	ING Life Insurance	4,825,587	4,825,587	4,825,587
	Subtotal	<u>50,124,898</u>	<u>50,124,898</u>	<u>50,124,898</u>
February 11, 2009	Cash dividend	(3,912,569)	(3,912,569)	(3,912,569)
	Subsidiaries' employee bonus and remuneration to directors and supervisors	(46,600)	(46,600)	(46,600)
December 19, 2004	Common stock held by Fubon Securities and Fubon Insurance to be cancelled	(2,982,647)	(2,982,647)	(2,982,647)
April 29, 2005	Retirement of treasury stock	(313,789)	(313,789)	(313,789)
December 23, 2005	Retirement of treasury stock	(2,287,988)	(2,287,988)	(2,287,988)
June 2006	Cash dividend	<u>(1,929,773)</u>	<u>(1,929,773)</u>	<u>(1,929,773)</u>
		<u>(11,473,366)</u>	<u>(11,473,366)</u>	<u>(11,473,366)</u>
October 2016	Acquisition of the non- controlling interests of Fubon Bank (China)	(2,452,347)	(2,452,347)	-
		<u>\$ 36,199,185</u>	<u>36,199,185</u>	<u>38,651,532</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

According to the Ruling Letter No.10200017220 of the Banking Bureau, Financial Supervisory Commission, ROC., dated March 7, 2013, the undistributed earnings of financial institutions which are converted into financial holding companies, could be either distributed as cash dividends or accounted for as capital surplus of the financial holding companies, on the converting year, pursuant to Article 47, Paragraph 4 of Financial Holding Company Act. The amount of capital surplus used to increase capital is not subject to restriction under Securities 1 of Article 72 of Regulations Governing the Offering and Issuance of Securities by Securities Issuers. As of September 30, 2017 and 2016, the balance of such capital surplus was \$4,343.

(iii) Legal reserve

According to the newly amended ROC Company Act, where the Company incurs no loss, it may, pursuant to a resolution to be adopted by a shareholders' meeting, distribute legal reserve by issuing new shares or by cash. However, only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed.

(iv) Special reserve

	September 30, 2017	December 31, 2016	September 30, 2016
Share exchange	\$ 1,669,704	1,669,704	1,669,704
First adoption of IFRSs	1,315,662	1,315,662	1,315,662
Adoption of fair value model of investment property	27,310,683	26,547,216	26,547,216
Deduction from others equity, net	<u>22,773,818</u>	<u>20,778,140</u>	<u>20,778,140</u>
	<u>\$ 53,069,867</u>	<u>50,310,722</u>	<u>50,310,722</u>

According to the regulation stipulated by the Securities and Futures Bureau, in addition to legal reserve, the Company is also required to provide a special reserve equal to the net amount of the current year equity contra accounts, from the current year's earnings after tax or prior years' undistributed earnings. If an equity contra account is reversed, the reversed portion of special reserve could be distributed as dividends.

In 2014, the Company and its subsidiaries changed the subsequent measurement of investment property from cost model to fair value model. In accordance with Rule No.10310000140 issued by the Financial Supervisory Commission, subsequent measurement for investment property of the financial holding companies shall use the fair value model based on the "Principles for Compiling the Financial Statements of Financial Holding Companies". In order to maintain a stable financial structure, the Company and its subsidiaries shall appropriate a special reserve from retained earnings which amount is equivalent to the incremental retained earnings due to fair value model.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(v) Distribution of earnings

According to the Company's Articles of Incorporation, if after the annual closing of books there is a profit, the Company shall, after having provided for taxes and offset the accumulated losses of previous years, appropriate the legal reserve in accordance with laws and regulations and appropriate the special reserve in accordance with laws and regulations or in light of practical need, and may distribute preferred share dividends. The balance, together with the undistributed profits in the previous year, including the reversals of special reserves prescribed by laws, are available for distribution as dividends for common shares. The board shall present a proposal on the allocation of profit at a shareholders' meeting for resolution.

According to the amended ROC Company Act in May 2015, employees' compensation, and directors and supervisors' remuneration are no longer subject to earnings distribution. The amendment had been approved in the board meeting on January 28, 2016, and resolved in the shareholders' meeting on June 8, 2016.

The Company paid cash dividends of \$2.0 per common share and of \$1.707 per preferred share in 2017 and a cash dividend of \$2.0 per common share in 2016 from its 2016 and 2015 retained earnings, respectively. The distribution of earnings approved in the shareholders' meeting is the same as the resolution of the board meeting in 2017 and 2016. The relevant information could be accessed from the website of the Market Observation Post System.

(vi) Dividend policy

The Company shall distribute its dividends according to the principle of stability and balance, taking into account the shareholders' profits, accumulation of the Company's capital, and impact on the Company's operations. The distribution of dividends for common shares shall not be less than 20% of the distributable profits for the current year (which does not include the preferred share dividends, the undistributed profits in the previous years and the reversals of special reserves prescribed by laws). Pursuant to the Company's operation planning, stock dividends may be declared as reserve for necessary funds, and the remainder may be distributed in cash, provided that cash dividend shall not be less than 10% of the total dividend. Subject to practical need, the above principles of distribution of dividend may be adjusted by resolution at a shareholders' meeting. The stock dividend policy set forth above is a general principle guideline.

The Company may decide upon the most appropriate dividend policy taking into account the actual operating condition of the current year and capital budgeting for the following year.

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(vii) Other equity (net of tax)

	Exchange differences on translation of foreign operations	Unrealized gains (losses) on available- for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Revaluation reserve	Total
Balance as of January 1, 2017	\$ (7,625,985)	(16,096,768)	(402,102)	1,351,037	(22,773,818)
Exchange differences on translation of foreign operations	(3,408,165)	-	-	-	(3,408,165)
Share of exchange differences on translation of the associates accounted for using equity method	265,631	-	-	-	265,631
Unrealized gains (losses) on available-for-sale financial assets	-	51,254,457	-	-	51,254,457
Accumulated gains (losses) from disposal of available-for-sale financial assets losses reclassified to profit and loss	-	(28,804,312)	-	-	(28,804,312)
Share of unrealized gains (losses) on available-for-sale financial assets of the associate accounted for using equity method	-	376,267	-	-	376,267
Gains (losses) on effective portion of cash flow hedges	-	-	274,990	-	274,990
Share of gains (losses) on cash flow hedges of the associate accounted for using equity method	-	-	1,183	-	1,183
Revaluation gains	-	-	-	950,332	950,332
Balance as of September 30, 2017	<u><u>\$ (10,768,519)</u></u>	<u><u>6,729,644</u></u>	<u><u>(125,929)</u></u>	<u><u>2,301,369</u></u>	<u><u>(1,863,435)</u></u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	Exchange differences on translation of foreign operations	Unrealized gains (losses) on available- for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Revaluation reserve	Total
Balance as of January 1, 2016	\$ 3,698,512	(26,082,512)	549,439	1,056,421	(20,778,140)
Exchange differences on translation of foreign operations	(10,806,659)	-	-	-	(10,806,659)
Share of exchange differences on translation of associates accounted for using equity method	(278,215)	-	-	-	(278,215)
Unrealized gains (losses) on available-for-sale financial assets	-	68,769,163	-	-	68,769,163
Accumulated gains (losses) from disposal of available-for-sale financial assets losses reclassified to profit and loss	-	(18,101,305)	-	-	(18,101,305)
Share of unrealized gains (losses) on available-for-sale financial assets of the associate accounted for using equity method	-	1,204,597	-	-	1,204,597
Gains (losses) on effective portion of cash flow hedges	-	-	188,687	-	188,687
	-	-	(1,175)	-	(1,175)
Revaluation gains	-	-	-	174,561	174,561
Balance as of September 30, 2016	<u>\$ (7,386,362)</u>	<u>25,789,943</u>	<u>736,951</u>	<u>1,230,982</u>	<u>20,371,514</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(viii) Non-controlling interests

	For the nine months ended September 30	
	2017	2016
Beginning balance	\$ 285,725	8,454,806
Non-controlling interests along with the acquisition of subsidiaries	168,510	-
Attributable to non-controlling interests		
Net income	(77,378)	164,118
Exchange differences on translation of foreign operations	-	(552,131)
Unrealized gains (losses) on available-for-sale financial assets	2,498	66,160
Income tax — unrealized gains (losses) on available-for-sale financial assets	-	(17,205)
Others	(9,085)	(26,304)
Ending balance	\$ 370,270	8,089,444

(ad) Earnings Per Share

The details of earnings per share were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Net income of ordinary equity holders (Note)	\$ 25,575,516	16,622,734	43,241,052	40,333,530
Weighted average number of common shares outstanding (thousands)	10,233,604	10,233,604	10,233,604	10,233,604
Dilutive potential common shares	-	-	-	-
	\$ 10,233,604	10,233,604	10,233,604	10,233,604
Basic EPS (Dollars)	\$ 2.50	1.62	4.23	3.94

Note: Declared dividends of preferred stock are deducted.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(ae) Employees' compensation and directors' remuneration

In accordance with the Articles of Incorporation, 0.01% to 0.05% of employees' compensation and less than 0.30% of directors' 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.

The recognized employees' compensation were \$9,200 and \$7,500, and the directors' remuneration were \$58,000 and \$55,500, respectively, for the nine months ended September 30, 2017 and 2016. The amounts were calculated in accordance with the Articles of Incorporation and approved by the board of directors. If the actual distribution is different from the estimation, the difference will be accounted for as changes in accounting estimates and recognized in profit or loss in the following year. The shares of stock dividend, if any, would be calculated based on the closing price of the date before the board meeting, with considering the effects of ex dividend and ex right.

For the year ended December 31, 2016, the recognized employees' compensation and directors' remuneration were \$10,000 and \$56,000, respectively, which were the same as the amounts for actual distribution. The relevant information could be accessed from the website of the Market Observation Post System.

(af) Income and Expenses

(i) Net interest revenue

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Interest revenue:				
Discounts and loans	\$ 10,175,389	9,625,093	29,302,689	29,812,000
Investment in securities	22,987,591	19,812,721	66,342,086	59,284,391
Others	<u>2,692,187</u>	<u>2,608,519</u>	<u>8,258,906</u>	<u>7,591,880</u>
Subtotal	<u>35,855,167</u>	<u>32,046,333</u>	<u>103,903,681</u>	<u>96,688,271</u>
Interest expense:				
Deposits	5,339,819	4,333,461	15,130,597	13,863,648
Debt securities issued	813,959	664,584	2,305,793	1,984,721
Call loans from the central Bank and banks	389,740	223,734	945,721	712,535
Securities sold under repurchase agreements	538,715	362,195	1,521,782	1,129,546
Others	<u>157,534</u>	<u>182,438</u>	<u>511,289</u>	<u>514,492</u>
Subtotal	<u>7,239,767</u>	<u>5,766,412</u>	<u>20,415,182</u>	<u>18,204,942</u>
Net interest revenue	<u>\$ 28,615,400</u>	<u>26,279,921</u>	<u>83,488,499</u>	<u>78,483,329</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(ii) Net service charge and commission loss

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Service fee and commission income:				
Brokerage service fees	\$ 1,156,300	751,468	2,869,101	2,189,357
Trust and custody services	1,046,002	729,620	2,805,650	1,986,250
Credit card and cash card related fees	459,871	519,380	1,411,181	1,515,105
Commission income	340,778	342,786	1,124,470	1,144,106
Loan service fees	369,493	309,487	1,130,313	1,048,107
Others	<u>1,357,059</u>	<u>1,119,528</u>	<u>3,934,025</u>	<u>3,686,450</u>
Subtotal	<u>4,729,503</u>	<u>3,772,269</u>	<u>13,274,740</u>	<u>11,569,375</u>
Service charge and commission expense:				
Insurance commission expense	5,877,896	6,928,806	18,972,166	24,216,381
Interbank service charge	79,766	75,294	227,397	219,174
Brokerage service charge	90,636	57,098	219,380	167,540
Credit card service charge	223,600	229,372	669,790	639,001
Others	<u>336,537</u>	<u>292,421</u>	<u>955,235</u>	<u>876,015</u>
Subtotal	<u>6,608,435</u>	<u>7,582,991</u>	<u>21,043,968</u>	<u>26,118,111</u>
Net service charge and commission loss	<u>\$ (1,878,932)</u>	<u>(3,810,722)</u>	<u>(7,769,228)</u>	<u>(14,548,736)</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(iii) Net income of insurance operations

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Premiums income	\$ 130,253,886	121,847,804	389,325,881	379,766,993
Income on insurance product-separate account	<u>8,336,217</u>	<u>6,264,223</u>	<u>21,886,281</u>	<u>12,910,642</u>
Income from insurance business	<u>138,590,103</u>	<u>128,112,027</u>	<u>411,212,162</u>	<u>392,677,635</u>
Direct business expenses	11,519	11,480	29,437	28,713
Insurance claims payment	74,899,906	45,918,152	187,317,062	145,557,205
Disbursement on insurance product-separate account	8,336,217	6,264,223	21,886,281	12,910,642
Disbursement toward industry stability	<u>198,198</u>	<u>215,099</u>	<u>643,577</u>	<u>619,115</u>
Insurance business expenses	<u>83,445,840</u>	<u>52,408,954</u>	<u>209,876,357</u>	<u>159,115,675</u>
Net income of insurance operations	<u>\$ 55,144,263</u>	<u>75,703,073</u>	<u>201,335,805</u>	<u>233,561,960</u>

(iv) Net change in insurance provisions

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Net change of claim reserves	\$ 117,925	427,771	466,790	925,591
Net change of liability reserves	66,597,942	81,585,216	231,322,697	249,477,677
Net change of special reserves	1,057,909	668,895	372,168	309,802
Net change of reserves for premium deficiency	(1,199,479)	1,510,244	(1,220,988)	5,020,354
Net change of liabilities adequacy reserves	36,105	418,592	121,898	1,076,054
Others	<u>508,416</u>	<u>(3,877,816)</u>	<u>(3,123,794)</u>	<u>(5,921,839)</u>
	<u>\$ 67,118,818</u>	<u>80,732,902</u>	<u>227,938,771</u>	<u>250,887,639</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(v) Employee benefit expenses

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Salaries and wages	\$ 5,739,450	5,584,083	17,022,080	16,481,259
Labor insurance, national health insurance, and group insurance for life	678,621	658,880	2,220,040	2,032,396
Pension	460,564	482,684	1,415,055	1,388,122
Other employee benefit expenses	<u>415,010</u>	<u>406,318</u>	<u>1,182,429</u>	<u>1,184,460</u>
	<u>\$ 7,293,645</u>	<u>7,131,965</u>	<u>21,839,604</u>	<u>21,086,237</u>

(vi) Depreciation and amortization expenses

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Depreciation expenses	\$ 543,223	480,512	1,574,751	1,451,185
Amortization expenses	<u>294,802</u>	<u>422,922</u>	<u>1,064,851</u>	<u>1,277,722</u>
	<u>\$ 838,025</u>	<u>903,434</u>	<u>2,639,602</u>	<u>2,728,907</u>

(vii) Other operating expenses

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Taxation and government fee	\$ 795,307	913,855	2,436,435	2,903,248
Rental	917,085	924,807	2,705,621	2,677,949
Professional services	745,558	630,776	1,972,085	1,763,243
Business activities	531,656	844,967	1,593,908	3,087,626
Selling expense	180,376	264,745	649,511	1,168,619
Postage	290,738	259,496	818,407	757,476
Others	<u>2,135,746</u>	<u>2,036,939</u>	<u>6,129,750</u>	<u>5,831,151</u>
	<u>\$ 5,596,466</u>	<u>5,875,585</u>	<u>16,305,717</u>	<u>18,189,312</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(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.

Financial instrument are measured at fair value at initial recognition, which mostly refers to transaction price. Except for those measured at amortized cost, financial instruments are measured at fair value on a recurring basis. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities. If the market is not active, the fair value of financial instruments is determined in accordance with (a) valuation techniques, (b) valuation provided by the professional information providers which are commonly used by market participants, or (c) quoted prices of the counter party.

2) Definition of fair value hierarchy

a) Level 1 inputs

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Taiwan government bonds, listed equity and debt instruments with active market prices are categorized in Level 1.

b) Level 2 inputs

Level 2 inputs are inputs other than quoted market prices included within level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices). Preference stocks, bonds, most derivatives instruments without active market price and assets held for sale are categorized in Level 2.

c) Level 3 inputs

Level 3 inputs are valuation parameters which are not based on the information available in the market or the quoted price from the counter party. The investment in equity and debt instruments and some derivatives without active market prices but based on counter party as well as most investment property are categorized in Level 3.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(ii) Fair value measurement

1) Fair value hierarchy

The following tables present for each of the fair value hierarchy levels the Company and its subsidiaries' assets and liabilities that are measured at fair value on a recurring basis.

Financial instruments - instruments measured at fair value	September 30, 2017			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<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	\$ 6,886,632	6,880,444	3,372	2,816
Bond investment	77,582,507	33,896,172	43,335,383	350,952
Others	8,712,000	2,415,262	6,296,738	-
Financial assets designated as at fair value through profit or loss at initial recognition	8,835,719	7,642,415	-	1,193,304
Available-for-sale financial assets				
Stock investment	537,605,771	524,295,109	11,080,333	2,230,329
Bond investment (Note)	835,320,900	557,017,942	247,101,534	31,201,424
Others	351,287,111	199,412,444	87,033,258	64,841,409
Investment property	176,374,843	-	4,463,701	171,911,142
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	8,762,996	8,762,996	-	-
Financial bonds payable	43,286,775	22,035,801	21,250,974	-
<u>Derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	36,248,365	750,497	32,882,813	2,615,055
Derivative financial assets for hedging	1,810,465	-	1,810,465	-
Liabilities :				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	39,220,450	480,541	36,130,217	2,609,692
Financial liabilities designated as at fair value through profit or loss at initial recognition	3,043,707	-	5,001	3,038,706
Derivative financial liabilities for hedging	3,321,448	-	3,321,448	-
<u>Non-recurring fair value measurement</u>				
Asset classified as held for sale	4,736,266	-	4,690,034	46,232

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>Financial instrument measured at fair value</u>	December 31, 2016			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<u>Recurring fair value measurement</u>				
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets designated at fair value through profit or loss at time of initial recognition				
Held-for-trading financial assets				
Stock investment	\$ 2,553,283	1,931,724	587,319	34,240
Bond investment	63,083,719	36,662,634	26,156,053	265,032
Others	9,137,372	3,040,890	6,096,482	-
Financial assets designated as at fair value through profit or loss at initial recognition	12,828,774	10,603,811	586,799	1,638,164
Available-for-sale financial assets				
Stock investment	437,810,148	425,451,682	11,265,973	1,092,493
Bond investment (Note)	881,824,575	521,620,068	323,163,747	37,040,760
Others	311,875,462	207,376,692	62,841,067	41,657,703
Investment property	175,529,080	-	437,023	175,092,057
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Held-for- trading financial liabilities	8,978,686	8,928,822	49,864	-
Financial liabilities designated as at fair value through profit or loss at initial recognition	1,690,909	-	1,690,909	-
Financial bonds payable	33,751,203	21,841,910	11,909,293	-
<u>Derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	76,307,090	496,068	63,916,462	11,894,560
Derivative financial assets for hedging	1,329,276	-	1,329,276	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	84,594,567	138,413	72,475,914	11,980,240
Financial liabilities designated as at fair value through profit or loss at initial recognition	2,282,024	-	30,341	2,251,683
Derivative financial liabilities for hedging	2,935,500	-	2,935,500	-
<u>Non-recurring fair value measurement</u>				
Asset classified as held for sale	49,606	-	-	49,606

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	September 30, 2016			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial instruments measured at fair value				
Recurring fair value measurement				
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss				
Held-for- trading financial assets				
Stock investment	\$ 1,879,334	1,879,334	-	-
Bond investment	53,142,365	17,369,029	35,659,222	114,114
Others	11,483,390	2,880,970	8,602,420	-
Financial assets designated as at fair value through profit or loss at initial recognition	12,494,467	10,483,987	-	2,010,480
Available-for-sale financial assets				
Stock investment	418,868,652	406,610,926	11,131,400	1,126,326
Bond investment (Note)	929,198,821	657,777,572	229,473,736	41,947,513
Others	282,540,509	215,525,125	30,340,201	36,675,183
Investment property	175,903,231	-	15,762	175,887,469
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	2,284,132	2,284,132	-	-
Financial liabilities designated as at fair value through profit or loss at initial recognition	1,639,381	-	1,639,381	-
Financial bonds payable	28,402,944	22,384,858	6,018,086	-
<u>Derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	59,683,784	342,382	49,526,932	9,814,470
Derivative financial assets for hedging	1,435,697	-	1,435,697	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	50,020,387	231,126	40,182,454	9,606,807
Financial liabilities designated as at fair value through profit or loss at initial recognition	2,416,011	-	56,937	2,359,074
Derivative financial liabilities for hedging	2,699,305	-	2,699,305	-
Non-recurring fair value measurement				
Asset classified as held for sale	48,207	-	-	48,207

Note: Guarantee deposits for government bonds as pledged assets were included.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

2) Valuation techniques

a) Financial instruments

If a financial instrument has a quoted price in an active market, the quoted price is used as fair value. Quoted prices of major stock exchanges and Taipei Exchange, theoretical prices of government bonds, and net asset value of mutual funds, are all basis for measuring the fair value of listed-stocks in exchange, listed stocks in OTC and debt instruments with quoted prices in the active markets.

If the quoted prices from stock exchanges, brokers, underwriters, industry associations, pricing agencies or authorities are timely and frequently, and that the price fairly presents market transaction, the financial instrument is regarded to have a quoted price in an active market. If the aforementioned conditions are not fulfilled, the market is regarded as inactive. Generally, large or significantly widen bid-ask spread, or significantly low trading volume are indications of an inactive market.

Except for financial instruments in the active markets, fair value of others financial instruments is determined by valuation techniques, valuation provided by professional finance information providers which are commonly used by market participants, or quoted prices of the counter party. Necessary inputs required for valuation techniques are from available market information like yield curve of Taipei Exchange.

The Company and its subsidiaries use the valuation techniques commonly accepted by market participants for nonstandard and less complicated financial instruments, such as debt investment in inactive market. Parameters of valuation models are usually from the observable market information.

Valuation of derivatives instruments is based on valuation models commonly accepted by market participants such as discounted cash flow method. Valuation of forward foreign exchange contracts is based on the discounted cash flow models using the quoted forward rate. Valuation of Interest rate derivatives is based on discounted cash flow models, with inputs from observable market information.

b) Non-financial instruments

Fair value of investment property is determined based on the rules stipulating in the “Regulations Governing the Preparation of Financial Reports”. The fair value of investment property is based on a valuation by professional appraisal agency and supported by market evidences. Please refer to Note 6 (o) for details.

The fair value of assets held for sale is based on the transaction price negotiated by both buyer and seller after referring to the market price and appraisal reports.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

3) Fair value adjustment

a) Limitations of valuation models and inputs

Limitations of valuation models may lead to insufficient reflection of all relevant elements of the financial and non-financial instruments. Therefore, the estimated value will be adjusted based on others parameters when necessary. The model validation process is required before the Company and its subsidiaries adopt the model price. Therefore, the adjustments are considered to be 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

The Company and its subsidiaries incorporate credit risk valuation adjustment into fair value calculations in order to reflect the credit risks of counter party and the credit quality of the Company and its subsidiaries.

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 which includes:

- i) Credit value adjustments (CVA): adjust the valuation on transactions that occurs outside the exchange market, which refers to OTC derivative contracts, 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 exchange market, which refers to OTC derivative contracts, to reflect the possibility of the Company and its subsidiaries' delayed payment and default into fair value.

CVA and DVA are loss expectation and can be measured at the products of PD (probability of default), LGD (loss given default), EAD (exposure at default).

For counterparties with credit ratings from external rating agencies, the PD is based on the corresponded credit ratings. For counterparties without credit ratings from external rating agencies, the PD is estimated on their average probability of impairment from loans and receivables. For counterparties undesirable close position, the PD is 100%.

The Company and its subsidiaries use the fair value of the OTC derivatives as exposure at default (EAD).

60% of LGD is adopted per the "Disclosure guidance of CVA and DVA" under IFRS13 by TWSE.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

4) Transfers between Level 1 and Level 2

Transfers between Level 1 and Level 2 for the nine months ended September 30, 2017 and 2016, are mainly due to the changes of valuation source and the activity.

5) Changes in Level 3 Fair Value Category

The reconciliations of the beginning and ending balances for Level 3 assets are as follows.

Units: In thousands of TWD

Name	For the nine months ended September 30, 2017							
	Beginning balance	Gains (Losses) on Valuation		Increase		Decrease		Ending balance
		Profit and Loss	Other Comprehensive Income	Purchased/ Issued	Transferred to Level 3 (a)(b)	Sold/ Disposed/ Settled	Transferred from Level 3 (b)(c)	
Financial assets measured at fair value through profit or loss								
Held-for-trading financial assets	\$ 12,193,832	(7,548,386)	-	1,554,689	-	2,032,262	1,199,050	2,968,823
Financial assets designated as at fair value through profit or loss at initial recognition	1,638,164	(30,147)	-	-	644,817	393,738	665,792	1,193,304
Available-for-sale financial assets	79,790,956	268,841	176,333	34,789,925	3,377,912	12,148,216	7,982,589	98,273,162
Investment property	175,092,057	34,095	1,054,518	956,625	863,720	-	6,089,873	171,911,142
Total	<u>\$ 268,715,009</u>	<u>(7,275,597)</u>	<u>1,230,851</u>	<u>37,301,239</u>	<u>4,886,449</u>	<u>14,574,216</u>	<u>15,937,304</u>	<u>274,346,431</u>

(a) Transferred from level 2 to level 3 due to lack of observable market data that resulted from the decreasing market activities.

(b) The Company and its subsidiaries' policy is to recognize the transfer in and transfer out of Level 3 inputs when the item is transferred or the condition changes. Otherwise, they would have to be recognized as of the beginning or ending of the reporting date.

(c) Transferred from level 3 to level 2 because the observable market data became acquirable.

Name	For the nine months ended September 30, 2016							
	Beginning balance	Gains (Losses) on Valuation		Increase		Decrease		Ending balance
		Profit and Loss	Other Comprehensive Income	Purchased/ Issued	Transferred to Level 3 (a)(b)	Sold/ Disposed/ Settled	Transferred from Level 3 (b)(c)(d)	
Financial assets measured at fair value through profit or loss								
Held-for-trading financial assets	\$ 27,194,955	(11,419,627)	-	2,430,197	-	8,114,696	162,245	9,928,584
Financial assets designated as at fair value through profit or loss at initial recognition	2,156,652	5,663	-	2,114,546	1,103,651	2,567,938	802,094	2,010,480
Available-for-sale financial assets	71,390,154	(1,412,273)	(659,096)	14,552,349	3,694,566	2,699,706	5,116,972	79,749,022
Investment property	171,271,032	(302,471)	(5,520,681)	12,611,410	-	-	2,171,821	175,887,469
Total	<u>\$ 272,012,793</u>	<u>(13,128,708)</u>	<u>(6,179,777)</u>	<u>31,708,502</u>	<u>4,798,217</u>	<u>13,382,340</u>	<u>8,253,132</u>	<u>267,575,555</u>

(a) Transfer from level 2 to level 3 due to lack of observable market data that resulted from the decreasing of market activities.

(b) The Company and its subsidiaries' policy is to recognize the transfer in and transfer out of Level 3 inputs when the item is transferred or the condition changes. Otherwise, they would have to be recognized as of the beginning or ending of the reporting date.

(c) Transfer from level 3 to level 2 because the observable market data became acquirable.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

The reconciliations of the beginning and ending balances for Level 3 liabilities are as follows.

Name	For the nine months ended September 30, 2017						
	Beginning balance	Valuation gains/ losses reflected on profit or loss	Increase		Decrease		Ending balance
			Purchased/ Issued	Transferred to Level 3	Sold/ Disposed/ Settled	Transferred from Level 3	
Financial liabilities measured at fair value through profit or loss							
Held-for-trading financial liabilities	\$ 11,980,240	(7,696,400)	16,666	-	1,690,814	-	2,609,692
Financial liabilities designated as at fair value through profit or loss at initial recognition	2,251,683	6,667	24,365,618	-	23,585,262	-	3,038,706
Total	\$ 14,231,923	(7,689,733)	24,382,284	-	25,276,076	-	5,648,398

Name	For the nine months ended September 30, 2016						
	Beginning balance	Valuation gains/ losses reflected on profit or loss	Increase		Decrease		Ending balance
			Purchased/ Issued	Transferred to Level 3	Sold/ Disposed/ Settled	Transferred from Level 3	
Financial liabilities measured at fair value through profit or loss							
Held-for-trading financial liabilities	\$ 26,814,093	(11,826,956)	37,707	-	5,418,037	-	9,606,807
Financial liabilities designated as at fair value through profit or loss at initial recognition	2,254,100	1,735	17,519,755	-	17,416,516	-	2,359,074
Total	\$ 29,068,193	(11,825,221)	17,557,462	-	22,834,553	-	11,965,881

Transfers into and out of Level 3 for the nine months ended September 30, 2017 and 2016, are mainly due to the change of input parameters.

For gains or losses on the valuation recognized as profit or loss, the changes in unrealized gains or losses were the unrealized gains of \$219,420 and the unrealized losses of \$700,615 as of September 30, 2017 and 2016, respectively.

For gains or losses on the valuation recognized as other comprehensive income, the changes in unrealized gains or losses were the unrealized gains of \$1,199,920 and the unrealized losses of \$6,204,083 as of September 30, 2017 and 2016, respectively.

6) Valuation Techniques and Inputs for Level 3 Fair Value Measurements

Financial assets and liabilities measured at fair value through profit or loss, available-for-sale financial assets and investment property of the Company and its subsidiaries are categorized into Level 3.

The Company and its subsidiaries' available-for-sale financial assets categorized into Level 3 refer to the valuation provided by the professional information providers which are commonly used by market participants, and quoted prices of the counter party, because they lack quoted prices in an active market.

Investment property categorized into Level 3 is determined based on the rule stipulating in the "Regulations Governing the Preparation of Financial Reports" and evaluated by the professional appraisal agency with the support of market evidences. Please refer to note 6 (o) for details.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Because of the inability to measure the fair value reliably due to the significant unobservable inputs, quantitative information is not disclosed. The fair value of the aforementioned assets and liabilities amounted to \$272,758,282, \$267,148,561 and \$264,577,131 as of September 30, 2017, December 31 and September 30, 2016.

Quantitative information of Level 3 inputs of subsidiaries are as follows:

a) Taipei Fubon Bank

Name	September 30, 2017				Relationship between inputs and fair value
	Fair value	Valuation techniques	Significant unobservable inputs	Intervals	
<u>Recurring fair value measurement</u>					
<u>Non-derivative financial instruments</u>					
Assets:					
Financial assets designated as at fair value through profit or loss at initial recognition					
Credit linked note (CLN) \$	1,117,675	Exotic option model	Recovery rate of transaction object	10%~90%	The higher the recovery rate, the lower the fair value.
Available-for-sale financial assets					
Trust plans	136,848	Discounted cash flow	Real interest rate	5.9%	The lower the real interest rate, the higher the fair value.
<u>Derivative financial instruments</u>					
Assets:					
Financial assets measured at fair value through profit or loss					
Exotic FX option	69,258	Exotic FX option model	Scaling parameter	10%~90%	The higher the scaling parameter, the closer it is to stochastic volatility model. The inputs should be inspected regularly to ensure reasonable fair value.
Liabilities:					
Financial liabilities measured at fair value through profit or loss					
Exotic FX option	60,995	Exotic FX option model	Scaling parameter	10%~90%	The higher the scaling parameter, the closer it is to stochastic volatility model. The inputs should be inspected regularly to ensure reasonable fair value.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Name	December 31, 2016				Relationship between inputs and fair value
	Fair value	Valuation techniques	Significant unobservable inputs	Intervals	
<u>Recurring fair value measurement</u>					
<u>Non-derivative financial instruments</u>					
Assets:					
Financial assets designated as at fair value through profit or loss at initial recognition					
Credit linked note (CLN) \$	1,153,941	Exotic option model	Recovery rate of transaction object	10%~90%	The higher the recovery rate, the lower the fair value.
<u>Derivative financial instruments</u>					
Assets:					
Financial assets measured at fair value through profit or loss					
Exotic FX option	92,102	Exotic FX option model	Scaling parameter	10%~90%	The higher the scaling parameter, the closer it is to stochastic volatility model. The inputs should be inspected regularly to ensure reasonable fair value.
Liabilities:					
Financial liabilities measured at fair value through profit or loss					
Exotic FX option	5,754	Exotic FX option model	Scaling parameter	10%~90%	The higher the scaling parameter, the closer it is to stochastic volatility model. The inputs should be inspected regularly to ensure reasonable fair value.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Name	September 30, 2016				Relationship between inputs and fair value
	Fair value	Valuation techniques	Significant unobservable inputs	Intervals	
<u>Recurring fair value measurement</u>					
<u>Non-derivative financial instruments</u>					
Assets:					
Financial assets designated as at fair value through profit or loss at initial recognition					
Credit linked note (CLN) \$	1,126,487	Complicated option model	Recovery rate of transaction object	10%~90%	The higher the recovery rate, the lower the fair value.
Available-for-sale financial assets					
Trust plans	469,610	Discounted cash flow	Real interest rate	4.40%	The lower the real interest rate, the higher the fair value.
<u>Derivative financial instrument</u>					
Assets:					
Financial assets measured at fair value through profit or loss					
Complicated FX option	239,260	Complicated FX option model	Scaling parameter	10%~90%	The higher the scaling parameter, the closer it is to random fluctuation model. Shall check the inputs regularly to make sure the reasonability of the fair value.
Liabilities:					
Financial liabilities measured at fair value through profit or loss					
Complicated FX option	34,126	Complicated FX option model	Scaling parameter	10%~90%	The higher the scaling parameter, the closer it is to random fluctuation model. Shall check the inputs regularly to make sure the reasonability of the fair value.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

b) Fubon Securities

September 30, 2017					
<u>Recurring fair value measurement</u>	<u>Fair value</u>	<u>Valuation techniques</u>	<u>Significant unobservable inputs</u>	<u>Intervals</u>	<u>Relationship between inputs and fair value</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	\$ 212,675	Bloomberg BVAL valuation method	BVAL valuation score	Not applicable	The higher the BVAL score, the higher the fair value.
Available-for-sale financial assets					
Stock investment	38,417	Net asset value method	Net asset value (note)	Not applicable	The higher the net asset value, the higher the fair value.
Liabilities:					
Financial liabilities measured at fair value through profit or loss					
Financial liabilities designated as at fair value through profit or loss at initial recognition	3,038,706	Option pricing model	Volatility	1%~80%	The higher the volatility, the higher the fair value.
December 31, 2016					
<u>Recurring fair value measurement</u>	<u>Fair value</u>	<u>Valuation techniques</u>	<u>Significant unobservable inputs</u>	<u>Intervals</u>	<u>Relationship between inputs and fair value</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	Bloomberg BVAL valuation method	BVAL valuation score	Not applicable	The higher the BVAL score, the higher the fair value.
Available-for-sale financial assets					
Stock investment	38,417	Net asset value method	Net asset value (note)	Not applicable	The higher the net asset value, the higher the fair value.
Liabilities:					
Financial liabilities measured at fair value through profit or loss					
Financial liabilities designated as at fair value through profit or loss at initial recognition	2,251,683	Option pricing model	Volatility	1%~80%	The higher the volatility, the higher the fair value.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

		September 30, 2016				
		Fair value	Valuation techniques	Significant unobservable inputs	Intervals	Relationship between inputs and fair value
Recurring fair value measurement						
Non-derivative financial instruments						
Assets:						
Financial assets measured at fair value through profit or loss						
Held-for-trading financial assets						
	Bond Investment	\$ 114,114	Bloomberg BVAL valuation method	BVAL valuation score	Not applicable	The higher the BVAL score, the higher the fair value.
Available-for-sale financial assets						
	Stock investment	38,417	Net asset value method	Net asset value (note)	Not applicable	The higher the net asset value, the higher the fair value.
Liabilities:						
Financial liabilities measured at fair value through profit or loss						
	Financial liabilities designated as at fair value through profit or loss at initial recognition	2,359,074	Option pricing model	Volatility	1%~80%	The higher the volatility, the higher the fair value.

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

7) Valuation procedure of Level 3 inputs

When the Company and its subsidiaries' fair value measurement uses both unobservable inputs and observable inputs which need a significant adjustment based on the parameters of unobservable inputs, the asset or liability is categorized into Level 3. Level 3 inputs come from:

- a) Prices referring from the professional finance information providers, which are not different for each acquirer and which shall be acquired by specific facility.
- b) Prices referring from quoted prices of the counter party. Price information is provided on a monthly basis and shall be kept properly.

Valuation shall be reviewed regularly to ensure the consistency with reference pricing source and the reasonability of the valuation.

Investment property is appraised by professional appraisers in accordance with the valuation techniques announced by the FSC.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- 8) Sensitivity analysis of Level 3 fair value if reasonably possible alternative assumptions used

While under different models or using different parameters may lead to different results, fair value measurement for financial instruments and investment properties of the Company and its subsidiaries is reasonable.

The following tables shows the valuation impacts from 10% input parameters changes on Level 3 financial instruments.

- a) Taipei Fubon Bank

Units : In thousands

September 30, 2017	Fair value fluctuation reflected on net income		Fair value fluctuation reflected on other comprehensive income	
	Positive change	Negative change	Positive change	Negative change
Assets				
Financial assets measured at fair value through profit or loss				
Held-for-trading financial assets	\$ 78	(34)	-	-
Financial assets designated as at fair value through profit or loss at initial recognition	32	(37)	-	-
Available-for-sale financial assets	-	-	6	(6)
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	58	(56)	-	-

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

September 30, 2016	Fair value fluctuation reflected on net income		Fair value fluctuation reflected on other comprehensive income	
	Positive change	Negative change	Positive change	Negative change
Items				
Assets				
Financial assets measured at fair value through profit or loss				
Held-for-trading financial assets	\$ 46	-	-	-
Financial assets designated at fair value through profit or loss at time of initial recognition	80	(75)	-	-
Available-for-sale financial assets	-	-	1,519	(1,519)
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	87	(84)	-	-

b) Fubon Securities

September 30, 2017	Fair value fluctuation reflected on net income		Fair value fluctuation reflected on other comprehensive income	
	Positive change	Negative change	Positive change	Negative change
Items				
Assets				
Held-for-trading financial assets	\$ 21,549	(21,549)	-	-
Available-for-sale financial assets	-	-	3,842	(3,842)
Liabilities				
Held-for-trading financial liabilities	373	(373)	-	-
Financial liabilities designated as at fair value through profit or loss at initial recognition	303,871	(303,871)	-	-

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>September 30, 2016</u>	<u>Fair value fluctuation reflected on net income</u>		<u>Fair value fluctuation reflected on other comprehensive income</u>		
	<u>Items</u>	<u>Positive change</u>	<u>Negative change</u>	<u>Positive change</u>	<u>Negative change</u>
Assets					
Held-for-trading financial assets	\$ 11,411	(11,411)	-	-	
Available-for-sale financial assets	-	-	3,842	(3,842)	
Liabilities					
Financial liabilities designated as at fair value through profit or loss at initial recognition	235,907	(235,907)	-	-	

(iii) Estimated Fair Value of Financial Instruments Not Carried at Fair Value

1) Fair value information

In addition to the following items, the Company and its subsidiaries' financial instruments that are not measured at fair value include cash and cash equivalents, due from the central bank and call loans to banks, securities purchased under resale agreements, receivables, other financial assets, discounts and loans, deposit from and due to the central bank and banks, securities sold under repurchase agreements, commercial papers issued, payables, deposits, other borrowings and other financial liabilities. Since their book value is a reasonable approximation to fair value, there is no fair value disclosure.

<u>Items</u>	<u>Book value</u>	<u>Fair value</u>
September 30, 2017		
Financial assets		
Held-to-maturity financial assets (Note)	\$ 462,388,052	466,330,635
Other financial assets – Debt investments without active market	1,496,467,783	1,520,044,696
Other financial assets – Structured deposits	27,234,036	29,286,311
Financial liabilities		
Bonds payable	140,494,817	143,266,287

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Items	Book value	Fair value
December 31, 2016		
Financial assets		
Held-to-maturity financial assets (Note)	\$ 387,516,132	390,448,011
Other financial assets – Debt investments without active market	1,264,099,863	1,257,499,212
Other financial assets – Structured deposits	28,492,824	28,011,401
Financial liabilities		
Bonds payable	144,849,892	146,038,257
September 30, 2016		
Financial assets		
Held-to-maturity financial assets	381,704,189	390,008,781
Other financial assets – Debt investments without active market	1,158,631,828	1,207,184,666
Other financial assets – Structured deposits	29,313,090	29,509,209
Financial liabilities		
Bonds payable	125,829,781	128,096,338

Note: Included government bonds accounted for refundable deposits.

2) Fair value hierarchy

Financial instruments measured at fair value	September 30, 2017			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets:				
Held-to-maturity financial assets	\$ 466,330,635	61,044,016	392,746,420	12,540,199
Other financial assets – Debt investments without active market	1,520,044,696	20,652,100	1,177,041,500	322,351,096
Other financial assets – Structured deposits	29,286,311	-	-	29,286,311
Financial liabilities:				
Bonds payable	143,266,287	30,131,641	113,134,646	-

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

December 31, 2016				
Financial instrument measured at fair value	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets:				
Held-to-maturity financial assets	\$ 390,448,011	82,581,712	288,726,699	19,139,600
Other financial assets – Debt investments without active market	1,257,499,212	38,163,350	876,094,012	343,241,850
Other financial assets – Structured deposits	28,011,401	-	-	28,011,401
Financial liabilities:				
Bonds payable	146,038,257	31,721,013	114,317,244	-
September 30, 2016				
Financial instruments measured at fair value	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets:				
Held-to-maturity financial assets	\$ 390,008,781	77,960,071	294,836,720	17,211,990
Other financial assets – Debt investment without active markets	1,207,184,666	131,299,936	713,530,141	362,354,589
Other financial assets – Structured deposits	29,509,209	-	-	29,509,209
Financial liabilities:				
Bonds payable	128,096,338	35,790,891	92,305,447	-

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

3) Valuation techniques

The methods and hypothesis that the Company and its subsidiaries used in estimating the financial instrument not measured at fair value are as follows:

- a) Fair value of the financial instrument of which the maturity date is short or the future price is closed to the book value is estimated by using its book value. This method is applied to cash and cash equivalents, due from the central bank and call loans to banks, securities purchased under resell agreements, receivables, other financial assets, discounts and loans, deposit from and due to the central bank and banks, securities sold under repurchase agreements, commercial papers issued, payables, deposits, other borrowings and other financial liabilities.
- b) Since discounts and loans, deposits and principal of structured product are all interest-bearing financial assets or liabilities, their book value is proximate to fair value. Book value of overdue receivables is the estimated recoverable amount after deducting allowances for bad debts. Therefore, the fair value of the above financial assets and liabilities is its book value.
- c) If held-to-maturity financial instrument, debt investments without active market and bonds payable have quoted prices in active market, its fair value will be market price. If there is no market price for reference, the fair value will be estimated by using the valuation technique; or refer to the quoted prices of the counter party.
- d) Since equity investment at cost does not have 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 is not disclosed.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(ah) Insurance Contracts

(i) Fubon Insurance and its subsidiaries

1) Various reserves

a) Unearned premium reserves

i) Detail of unearned premium reserves and ceded unearned premium reserves

Item	September 30, 2017			
	Unearned premium reserves		Ceded unearned premium reserves	Retained business
	Direct business	Reinsurance-assumed business	Reinsurance-ceded business	
Fire insurance	\$ 1,466,467	5,679	392,772	1,079,374
Marine cargo insurance	328,799	681	114,775	214,705
Marine hull fishing vessel	258,994	4,098	215,729	47,363
Voluntary moto insurance	6,940,175	184,952	427,820	6,697,307
Compulsory moto TPL insurance	1,997,128	609,211	1,187,259	1,419,080
Liability insurance	1,517,780	1,085	585,005	933,860
Engineering and nuclear insurance	1,091,034	7,990	435,261	663,763
Surety and credit insurance	139,818	572	111,569	28,821
Other property insurance	52,572	-	34,149	18,423
Accident insurance	2,536,244	10,069	24,472	2,521,841
Typhoon, flood and earthquake insurance	1,762,777	38,181	1,174,176	626,782
Personal and commercial multiple peril insurance	407,468	-	18,284	389,184
Health insurance	279,890	-	3,055	276,835
Overseas reinsurance assumed	-	353,282	54,768	298,514
Overseas subsidiaries	2,624,317	385,397	563,253	2,446,461
Total	\$ 21,403,463	1,601,197	5,342,347	17,662,313

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>Item</u>	<u>September 30, 2016</u>			
	<u>Unearned premium reserves</u>		<u>Ceded unearned premium reserves</u>	
	<u>Direct business</u>	<u>Reinsurance-assumed business</u>	<u>Reinsurance-ceded business</u>	<u>Retained business</u>
Fire insurance	\$ 1,505,325	1,523	461,113	1,045,735
Marine cargo insurance	345,505	489	118,869	227,125
Marine hull fishing vessel	260,895	8,333	227,755	41,473
Voluntary moto insurance	6,302,167	166,889	449,145	6,019,911
Compulsory moto TPL insurance	1,819,275	577,968	1,075,261	1,321,982
Liability insurance	1,432,072	2,573	512,802	921,843
Engineering and nuclear insurance	1,134,850	12,529	492,744	654,635
Security and credit insurance	131,812	593	101,404	31,001
Other property insurance	53,780	206	34,962	19,024
Accident insurance	2,401,988	8,525	23,236	2,387,277
Typhoon, flood and earthquake insurance	1,584,196	35,284	943,910	675,570
Personal and commercial multiple peril insurance	365,916	2	14,816	351,102
Health insurance	231,959	-	3,461	228,498
Overseas reinsurance assumed	-	631,032	286,910	344,122
Overseas subsidiaries	<u>2,648,383</u>	<u>300,119</u>	<u>480,720</u>	<u>2,467,782</u>
Total	<u>\$ 20,218,123</u>	<u>1,746,065</u>	<u>5,227,108</u>	<u>16,737,080</u>

- ii) The movements in unearned premium reserves and ceded unearned premium reserves were as follows:

<u>Item</u>	<u>September 30, 2017</u>	
	<u>Unearned premium reserves</u>	<u>Ceded unearned premium reserves</u>
Beginning balance	\$ 21,578,864	4,643,505
Provision	22,967,793	5,257,158
Recovered	(21,578,864)	(4,643,505)
Other — effect of change in exchange rates	36,867	85,189
Ending balance	<u>\$ 23,004,660</u>	<u>5,342,347</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Item	September 30, 2016	
	Reserve for unearned premiums	Reserve for unearned premiums- ceded
Beginning balance	\$ 20,737,940	4,896,704
Provision	22,096,812	5,195,819
Recovered	(20,737,940)	(4,896,705)
Reversal of impairment loss	-	1
Other—effect of change in exchange rates	(132,624)	31,289
Ending balance	\$ 21,964,188	5,227,108

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

Based on local regulations, unearned premium reserves are provided for compulsory automobile liability insurance, nuclear insurance and resident earthquake insurance as follows:

1. The unearned premiums reserves for compulsory private passenger automobile liability are provided based on the “Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance”.
2. The unearned premiums reserves for nuclear insurance are provided based on the “Regulations for the Reserve of Nuclear Insurance”.
3. The unearned premiums reserves for resident earthquake insurance are provided according to the “Enforcement Rules for the Risk Spreading Mechanism for Resident Earthquake Insurance”.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

b) Special reserve

- i) Special reserve is divided into “catastrophe special reserve” and “special reserves for fluctuation of risks”. The provision, after deducting income tax in accordance with IAS 12, should be accounted for as special reserve under equity. The offset or recovered amount, after deducting income tax in accordance with IAS 12, could be recognized as special reserve under equity. Commencing from January 1, 2013, special reserve which was initially accounted for under liability should be recognized under equity. Furthermore, in accordance with “Directions for Non-Life Insurance Enterprises Strengthening Reserves for Natural Disaster (Commercial Earthquake, Typhoon and Flood Insurance)”, except for compulsory moto TPL insurance, nuclear insurance, residential earthquake insurance and commercial earthquake, typhoon and flood insurance, all catastrophe special reserve and equalization special reserve recognized under liability before December 31, 2012 should first replenish the reserves of commercial earthquake, typhoon and flood insurance before deducting the income tax in accordance with IAS 12, accounted for as special reserve under equity as of January 1, 2013.

1. Catastrophe special reserve

A catastrophe special reserve is provided for all types of insurance based on a rate prescribed by the competent authority.

For the actual catastrophe claim exceeding \$30 million, and in the total property insurance industry, the insurance category of the whole compensation exceeding to \$2,000 million, the excess amount is offset against special catastrophe reserve.

For special catastrophe reserve that remains outstanding for over 15 years, it is written off based on the evaluation of an actuary and after being reported to the competent authority for inspection.

2. Special reserves for fluctuation of risks

If the actual insurance claim and loss adjustment expenses for a particular type of insurance are less than the expected amount determined by the FSC, an additional special reserve equal to 15% of the amount of the different is provided.

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

In accordance with the letter Jin Guan Bao Tsai No.10002509161 issued by Financial Supervisory Commission, Executive Yuan, R.O.C on June 16, 2011, if the net balance of the actual claims for earthquake, typhoon and flood damages from commercial and personal accident insurance after deducting the special catastrophe reserve is less than the expected claims determined by the FSC, an additional special reserve equal to 75% of the amount of the difference is provided. Expected claims are calculated at no less than 60% of expected loss.

The excess amount of actual claims over the expected claims, after deducting the special catastrophe reserve, is offset against variation special reserve. If the variation special reserve of the insurance mentioned above is insufficient, the deficiency is offset against the variation special reserve of other kind of insurance. The type and amount of deduction should be reported to the FSC.

In the event that the accumulated amount of special reserves for fluctuation of risks exceeds 60% of the retained earned premium, the amount in excess shall be subject to recovery under the applicable rules.

ii) The segment requirements of special assets

Fubon Insurance and its subsidiaries provides independent accounting and disclosures for Compulsory Automobile Liability Insurance activities (the Insurance) according to the “ Regulations of Compulsory Automobile Liability Insurance”.

Under article 5 of the “ Regulations for Deposits and Management of the Reserve for Compulsory Automobile Liability Insurance”, the special reserve for compulsory automobile liability insurance should be deposited with financial institutions in the form of time deposits. In lieu of these time deposits, however, Fubon Insurance can purchase other domestic negotiable securities mentioned below, but subject to approval by the Authority.

1. Government bonds and treasury bonds excluding exchangeable bonds.
2. Financial bonds, negotiable certificates of deposits, bank’s acceptance bill, and financial institution guaranteed commercial paper. Yet financial bonds are restricted to normal financial bonds.

The amount of the time deposits listed above shall not be less than 30% of the matured retention insurance premium, and the authority can increase such time deposits beyond the prescribed minimum percentage depending on the operating circumstances of Fubon Insurance and its subsidiaries.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

The balance of special reserve that is less than 30% of the matured retention insurance in a recent year shall all be put in time deposits.

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

1. Treasury bills.
2. Negotiable certificates of deposits, bank’s acceptance bill, and financial institution guaranteed commercial paper.
3. Bonds sold under repurchase agreements.

The amount of the demand deposits listed above shall not be less than (i) 45% of the capital held by the Fubon Insurance and its subsidiaries after deducting the special reserve, and (ii) 30% of the recent audited or reviewed matured retention insurance premium. The authority can increase such demand deposits beyond the prescribed minimum percentage depending on the operating circumstances of Fubon Insurance and its subsidiaries.

If the amount of the unearned premium and claims reserve does not exceed 40% of the recent audited or reviewed matured retention insurance premium, all of the insurance capital of the insurance shall all be put in demand deposits.

Under article 9 of the “Regulations for Deposits and Management of the Reserve of Compulsory Automobile Liability Insurance”, the related reserves are transferred to the successor in the event that the property insurance company decides to discontinue its operations or suspend its insurance activity.

If the property insurance company is officially forced to discontinue operating and liquidate, or ordered to dismiss, and there is no successor to handle over, the related reserves are transferred to the Legal Foundation of Traffic Accidents Special Compensation Fund.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- iii) The special reserve for compulsory private use, commercial use, and motorcycle liability insurance are in accordance with the “Regulations for Deposits and Management of the Reserve for Compulsory Automobile Liability Insurance”.
- iv) Movements in special reserve – Compulsory automobile liability insurance

Particular	September 30, 2017	September 30, 2016
Beginning balance	\$ 1,270,428	1,640,922
Provision	150,868	-
Recovered	-	(151,613)
Ending balance	<u>\$ 1,421,296</u>	<u>1,489,309</u>

- v) Movements in special reserve – Non-compulsory automobile liability insurance

Particular	September 30, 2017					
	Liability			Special Reserve		
	Catastrophe	Dangerous Change	Total	Catastrophe	Dangerous Change	Total
Ending balance (equal to beginning balance)	\$ 319,398	5,786,493	6,105,891	1,695,249	3,602,198	5,297,447

Particular	September 30, 2016					
	Liability			Special Reserve		
	Catastrophe	Dangerous Change	Total	Catastrophe	Dangerous Change	Total
Beginning balance	\$ 766,468	5,786,493	6,552,961	1,418,934	3,014,039	4,432,973
Recovered	(322,126)	-	(322,126)	-	-	-
Ending Balance	<u>\$ 444,342</u>	<u>5,786,493</u>	<u>6,230,835</u>	<u>1,418,934</u>	<u>3,014,039</u>	<u>4,432,973</u>

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

- vi) The special reserve for nuclear insurance was provided in accordance with the “Regulations for the Reserve of Nuclear Insurance”.
- vii) The special reserve for resident earthquake insurance was provided in accordance with the “Regulations for danger diversified mechanism for Resident earthquake insurance”.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

c) Claim reserves

- i) The debt for policy holder of claims reported and paid, reported and unpaid, and unreported.

September 30, 2017					
Particular	Notes payable	Indemnity Payments Payable	Claim reserves		
	reported and paid	Reported but unpaid	Unreported	Total	
Fire insurance	\$ -	18,471	2,019,804	83,606	2,103,410
Marine cargo insurance	-	768	1,263,725	195,810	1,459,535
Marine hull fishing vessel	-	(43)	355,203	215,305	570,508
Voluntary moto insurance	-	90,080	3,131,659	793,394	3,925,053
Compulsory moto TPL insurance	-	32,967	722,537	2,740,662	3,463,199
Liability insurance	-	3,554	1,982,582	689,549	2,672,131
Engineering and nuclear insurance	-	764	1,367,229	37,961	1,405,190
Surety and credit insurance	-	721	178,698	67,061	245,759
Other property insurance	-	106	46,977	15,966	62,943
Accident insurance	-	21,488	222,862	805,688	1,028,550
Typhoon, flood and earthquake insurance	-	1,547	2,180,788	239,360	2,420,148
Personal and commercial multiple peril insurance	-	387	13,269	103,148	116,417
Health insurance	-	1,034	1,957	78,125	80,082
Overseas reinsurance assumed	-	-	366,878	66,442	433,320
Overseas subsidiaries	-	7,577	1,201,584	705,558	1,907,142
Total	\$ -	179,421	15,055,752	6,837,635	21,893,387

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

September 30, 2016					
Particular	Notes payable	Indemnity Payments Payable	Claim reserves		
	reported and paid		Reported but unpaid	Unreported	Total
Fire insurance	\$ -	102	2,098,900	46,590	2,145,490
Marine cargo insurance	-	5,496	419,996	203,457	623,453
Marine hull fishing vessel	-	(35)	473,782	289,269	763,051
Voluntary moto insurance	-	89,182	2,903,987	769,616	3,673,603
Compulsory moto TPL insurance	-	22,916	792,348	2,338,500	3,130,848
Liability insurance	-	3,992	1,990,804	704,437	2,695,241
Engineering and nuclear insurance	-	73	1,036,671	88,217	1,124,888
Surety and credit insurance	-	(1)	166,461	68,108	234,569
Other property insurance	-	1,252	74,031	10,424	84,455
Accident insurance	-	19,449	237,830	765,409	1,003,239
Typhoon, flood and earthquake insurance	-	694	5,459,844	359,418	5,819,262
Personal and commercial multiple peril insurance	-	7	29,526	92,276	121,802
Health insurance	-	1,586	1,659	66,030	67,689
Overseas reinsurance assumed	-	-	378,169	51,454	429,623
Overseas subsidiaries	-	8,244	1,682,653	645,902	2,328,555
Total	<u>\$ -</u>	<u>152,957</u>	<u>17,746,661</u>	<u>6,499,107</u>	<u>24,245,768</u>

- ii) Reinsurance assets – the ceded insurance business for the policy holders with reported but unpaid and unreported ceded claim reserves.

September 30, 2017			
Particular	Reported but unpaid	Unreported	Total
Fire insurance	\$ 960,282	21,643	981,925
Marine cargo insurance	934,407	83,126	1,017,533
Marine hull fishing vessel	303,113	188,020	491,133
Voluntary moto insurance	158,879	25,275	184,154
Compulsory moto TPL insurance	270,774	1,310,289	1,581,063
Liability insurance	738,859	279,445	1,018,304
Engineering and nuclear insurance	686,399	21,629	708,028
Surety and credit insurance	120,859	53,206	174,065
Other property insurance	7,483	10,366	17,849
Accident insurance	427	3,191	3,618
Typhoon, flood and earthquake insurance	1,809,317	159,287	1,968,604

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Particular	September 30, 2017		
	Reported but unpaid	Unreported	Total
Personal and commercial multiple peril insurance	\$ 150	7,685	7,835
Health insurance	-	1,010	1,010
Overseas reinsurance assumed	22,336	20,028	42,364
Overseas subsidiaries	431,482	157,592	589,074
Less: Accumulated impairment	(479)	(9)	(488)
Total	\$ 6,444,288	2,341,783	8,786,071
Particular	December 31, 2016		
	Reported but unpaid	Unreported	Total
Fire insurance	\$ 791,259	18,184	809,443
Marine cargo insurance	1,770,274	86,455	1,856,729
Marine hull fishing vessel	496,886	201,960	698,846
Voluntary moto insurance	161,006	22,380	183,386
Compulsory moto TPL insurance	312,594	1,214,681	1,527,275
Liability insurance	754,391	283,896	1,038,287
Engineering and Nuclear insurance	417,020	23,320	440,340
Surety and credit insurance	102,353	55,183	157,536
Other property insurance	9,276	10,220	19,496
Accident insurance	146	3,099	3,245
Typhoon, flood and earthquake insurance	4,254,327	164,696	4,419,023
Personal and commercial multiple peril insurance	270	7,207	7,477
Health insurance	1	765	766

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Particular	December 31, 2016		
	Reported but unpaid	Unreported	Total
Overseas reinsurance assumed	\$ 71,446	25,447	96,893
Overseas subsidiaries	533,598	177,644	711,242
Less: Accumulated impairment	(877)	(177)	(1,054)
Total	\$ 9,673,970	2,294,960	11,968,930
Particular	September 30, 2016		
	Reported but unpaid	Unreported	Total
Fire insurance	\$ 1,070,378	27,926	1,098,304
Marine cargo insurance	178,282	98,060	276,342
Marine hull fishing vessel	395,276	249,654	644,930
Voluntary moto insurance	142,752	21,963	164,715
Compulsory moto TPL insurance	303,810	1,059,797	1,363,607
Liability insurance	754,262	332,336	1,086,598
Engineering and nuclear insurance	402,666	46,768	449,434
Surety and credit insurance	105,532	60,734	166,266
Other property insurance	10,563	6,588	17,151
Accident insurance	1,742	7,377	9,119
Typhoon, flood and earthquake insurance	4,887,926	228,077	5,116,003
Personal and commercial multiple peril insurance	112	5,547	5,659
Health insurance	1	629	630
Overseas reinsurance assumed	99,049	6,982	106,031
Overseas subsidiaries	1,096,018	171,537	1,267,555
Less: Accumulated impairment	(1,276)	(284)	(1,560)
Total	\$ 9,447,093	2,323,691	11,770,784

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

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

iii) Movements in claim reserves and ceded claim reserves

Particular	September 30, 2017	
	Claim reserves	Ceded claim reserves
Beginning balance	\$ 24,661,136	11,968,930
Provision	21,872,379	8,749,566
Recovered	(24,661,136)	(11,969,984)
Reversal of impairment loss	-	566
Other — effect of change in exchange rates	21,008	36,993
Ending Balance	\$ 21,893,387	8,786,071

Particular	September 30, 2016	
	Claim reserves	Ceded claim reserves
Beginning balance	\$ 18,024,953	6,382,020
Provision	24,350,832	11,807,662
Recovered	(18,024,953)	(6,386,116)
Reversal of impairment loss	-	2,535
Other — effect of change in exchange rates	(105,064)	(35,317)
Ending balance	\$ 24,245,768	11,770,784

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- iv) Non-insurance assets acquired from exercising the rights of retrieve salvage and subrogation

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Fire insurance	\$ 10,918	33	38,951	565
Marine cargo insurance	21,710	8,343	91,952	31,055
Marine hull fishing vessel	-	707	11,593	79,778
Voluntary moto insurance	92,038	85,303	278,098	240,595
Compulsory moto TPL insurance	39,597	46,526	127,858	121,311
Liability insurance	7,979	933	15,560	10,570
Engineering and nuclear insurance	-	10	97	437
Surety and credit insurance	4,573	1,183	40,807	38,166
Other property insurance	20	10	113	165
Accident insurance	33	140	163	1,141
Personal and commercial multiple peril insurance	30	3	649	64
Typhoon, flood and earthquake insurance	109	-	144	863
Health insurance	-	-	900	2
Overseas reinsurance assumed	-	-	-	-
Total	\$ 177,007	143,191	606,885	524,712

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Claim reserves are provided to conform the “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” amended by Financial Supervisory Commission, Executive Yuan, Jin Guan Bao Tsai No.09802513192 on December 28, 2009. Property insurance business shall calculate claim reserves including reported but not paid and incurred but not reported (IBNR) based on past claim experience and loss adjustment expenses incurred for each line of insurance according to actuarial principles. Reserves for reported but not paid claims shall be estimated and reserved on a case-by-case basis based on relevant information. The claim reserves in the preceding paragraph should be released in the following year and then calculated and reserved again based on the current-year information.

The method of reserving mentioned in the preceding paragraph will be evaluated and determined by the appointed actuary, and reported to the competent authority for recordation. The preceding provision applies to any subsequent changes thereto.

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

Particular	September 30, 2017		September 30, 2016	
	Liability reserve	Ceded liability reserve	Liability reserve	Ceded liability reserve
Beginning balance	\$ 215,539	-	291,184	-
Provision	375	-	1,369	-
Maturity refund	(54,599)	-	(54,058)	-
Ending balance	<u>\$ 161,315</u>	<u>-</u>	<u>238,495</u>	<u>-</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- e) Premium deficiency reserve
i) Premium deficiency reserve

<u>Particular</u>	<u>September 30, 2017</u>			
	<u>Premium deficiency reserve</u>		<u>Ceded premium deficiency reserve</u>	<u>Retained business</u>
	<u>Direct business</u>	<u>Reinsurance -assumed business</u>	<u>Direct business</u>	
Fire insurance	\$ 39,710	-	-	39,710
Marine cargo insurance	5,733	-	-	5,733
Marine hull fishing vessel	23,655	186	9,344	14,497
Voluntary moto insurance	3,968	74	-	4,042
Compulsory moto TPL insurance	-	-	-	-
Liability insurance	-	-	-	-
Engineering and nuclear insurance	-	-	-	-
Surety and credit insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Typhoon, flood and earthquake insurance	5,641	-	-	5,641
Personal and commercial multiple peril insurance	-	-	-	-
Health insurance	-	-	-	-
Overseas reinsurance assumed	-	12,132	-	12,132
Overseas subsidiaries	<u>243,972</u>	<u>315,268</u>	<u>522,597</u>	<u>36,643</u>
Total	<u>\$ 322,679</u>	<u>327,660</u>	<u>531,941</u>	<u>118,398</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>Particular</u>	<u>December 31, 2016</u>			
	<u>Premium deficiency reserve</u>		<u>Ceded premium deficiency reserve</u>	
	<u>Direct business</u>	<u>Reinsurance -assumed business</u>	<u>Direct business</u>	<u>Retained business</u>
	<u>\$</u>			
Fire insurance	32,823	-	-	32,823
Marine cargo insurance	5,730	-	-	5,730
Marine hull fishing vessel	18,026	233	5,194	13,065
Voluntary moto insurance	3,144	87	-	3,231
Compulsory moto TPL insurance	-	-	-	-
Liability insurance	-	-	-	-
Engineering and Nuclear insurance	-	-	-	-
Surety and credit insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Typhoon, flood and earthquake insurance	6,847	-	-	6,847
Personal and commercial multiple peril insurance	-	-	-	-
Health insurance	-	-	-	-
Overseas reinsurance assumed	-	8,873	-	8,873
Overseas subsidiaries	<u>194,958</u>	<u>207,012</u>	<u>386,679</u>	<u>15,291</u>
Total	<u>\$ 261,528</u>	<u>216,205</u>	<u>391,873</u>	<u>85,860</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>Particular</u>	<u>September 30, 2016</u>			
	<u>Premium deficiency reserve</u>		<u>Ceded premium deficiency reserve</u>	
	<u>Direct business</u>	<u>Reinsurance -assumed business</u>	<u>Direct business</u>	<u>Retained business</u>
Fire insurance	\$ 9,532	-	-	9,532
Marine cargo insurance	-	-	-	-
Marine hull fishing vessel	22,447	1,539	13,664	10,322
Voluntary moto insurance	3,482	86	-	3,568
Compulsory moto TPL insurance	-	-	-	-
Liability insurance	-	-	-	-
Engineering and nuclear insurance	-	-	-	-
Surety and credit insurance	408	-	-	408
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Typhoon, flood and earthquake insurance	-	-	-	-
Personal and commercial multiple peril insurance	-	-	-	-
Health insurance	-	-	-	-
Overseas reinsurance assumed	-	11,472	-	11,472
Overseas subsidiaries	<u>170,228</u>	<u>16,335</u>	<u>173,461</u>	<u>13,102</u>
Total	<u>\$ 206,097</u>	<u>29,432</u>	<u>187,125</u>	<u>48,404</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

ii) Loss recognized due to premium deficiency reserve provision — net change of premium deficiency reserve and ceded premium deficiency reserve

For the nine months ended September 30, 2017									
Particular	Direct underwrite		Reinsurance ceded-in		Net change of premium deficiency	Reinsurance ceded-out		Net change of premium deficiency	Net provision of premium deficiency reserve
	Provision	Recovered	Provision	Recovered		Provision	Recovered		
Fire insurance	\$ 39,710	32,823	-	-	6,887	-	-	-	6,887
Marine cargo insurance	5,733	5,730	-	-	3	-	-	-	3
Marine hull fishing vessel	23,655	18,026	186	233	5,582	9,344	5,194	4,150	1,432
Voluntary moto insurance	3,968	3,144	74	87	811	-	-	-	811
Compulsory moto TPL insurance	-	-	-	-	-	-	-	-	-
Liability insurance	-	-	-	-	-	-	-	-	-
Engineering and nuclear insurance	-	-	-	-	-	-	-	-	-
Surety and credit insurance	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Typhoon, flood and earthquake insurance	-	-	-	-	-	-	-	-	-
Personal and commercial multiple peril insurance	5,641	6,847	-	-	(1,206)	-	-	-	(1,206)
Health insurance	-	-	-	-	-	-	-	-	-
Overseas reinsurance assumed	-	-	12,132	8,873	3,259	-	-	-	3,259
Overseas subsidiaries	243,900	201,031	310,532	216,043	137,358	517,605	401,536	116,069	21,289
Other — effect of change in exchange rates	72	(6,073)	4,736	(9,031)	19,912	4,074	(14,857)	18,931	981
Total	\$ 322,679	261,528	327,660	216,205	172,606	531,023	391,873	139,150	33,456

For the nine months ended September 30, 2016									
Particular	Direct underwrite		Reinsurance ceded-in		Net change of premium deficiency	Reinsurance ceded-out		Net change of premium deficiency	Net provision of premium deficiency reserve
	Provision	Recovered	Provision	Recovered		Provision	Recovered		
Fire insurance	\$ 9,532	7,081	-	-	2,451	-	-	-	2,451
Marine cargo insurance	-	-	-	-	-	-	-	-	-
Marine hull fishing vessel	22,447	44,676	1,539	3,284	(23,974)	13,664	33,228	(19,564)	(4,410)
Voluntary moto insurance	3,482	3,337	86	82	149	-	-	-	149
Compulsory moto TPL insurance	-	-	-	-	-	-	-	-	-
Liability insurance	-	-	-	-	-	-	-	-	-
Engineering and nuclear insurance	-	-	-	-	-	-	-	-	-
Surety and credit insurance	408	141	-	-	267	-	-	-	267
Accident insurance	-	-	-	-	-	-	-	-	-
Personal and commercial multiple peril insurance	-	-	-	-	-	-	-	-	-
Typhoon, flood and earthquake insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Overseas reinsurance assumed	-	-	11,472	6,968	4,504	-	-	-	4,504
Overseas subsidiaries	176,821	144,159	17,055	12,086	37,631	180,300	148,772	31,528	6,103
Other — effect of change in exchange rates	(6,593)	411	(720)	(42)	(7,682)	(7,375)	329	(7,704)	22
Total	\$ 206,097	199,805	29,432	22,378	13,346	186,589	182,329	4,260	9,086

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- iii) Movements in premium deficiency reserve and ceded premium deficiency reserve

Particular	September 30, 2017	
	Premium deficiency reserve	Ceded premium deficiency reserve
Beginning balance	\$ 477,733	391,873
Provision	645,530	526,214
Recovered	(477,733)	(391,873)
Other — effect of change in exchange rates	4,809	5,727
Ending balance	\$ 650,339	531,941

Particular	September 30, 2016	
	Premium deficiency reserve	Ceded premium deficiency reserve
Beginning balance	\$ 222,183	182,329
Provision	242,842	193,902
Recovered	(222,183)	(182,329)
Other — effect of change in exchange rates	(7,313)	(6,777)
Ending balance	\$ 235,529	187,125

Premium deficiency reserve is provided to conform to the Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises amended by Financial Supervisory Commission, Executive Yuan, Jin Guan Bao Tsai No.09802513192 on December 28, 2009. Non-life insurance companies are required to estimate future claim payments and related expenses by evaluating the insurance contracts which have not matured and the risks covered by those contracts. If the expenditures are lower than the premium, non-life insurance companies are required to provide the premium deficiency reserve. The methodology for providing premium deficiency reserve or change in the said methodology is decided by actuaries and reported to the Authority. On June 25, 2008, Fubon Insurance and its subsidiaries reported their methodology for providing premium deficiency reserve and obtained approval thereof from Financial Supervisory Commission, Executive Yuan, through its letter Jin Guan Bao Yi No.09702115350.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- 2) Nature and extent of the insurance contract risk
- a) Objectives, policies, procedures and methods for the insurance contract risk management
- i) Objectives and policies of the risk management

Risk management policy is established to conform to “The Code of Conduct of Risk Management Practice for Insurance Companies” , “ The Implementation of Internal Control and Audit System for Insurance Companies” and “Risk Management Policy of Fubon Financial Co., Ltd”, which is regarded as the top guiding principle. This policy is intended to define the overall organization structure, provide risk management guidance and fit the relevant principals into the daily process for every unit to form a culture of risk management and to ensure that Fubon Insurance shall maximize shareholder's value under stable operation.

- ii) Structure, organization and responsibility

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

1. Board of Directors

- a. Identify all potential risks in the operations of insurance industry, ensure the effectiveness of the overall risk management of Fubon Insurance and take the ultimate responsibilities.
- b. Ensure that Fubon Insurance has established proper risk management functions and cultures, authorize proper risk management policy and allocate resources efficiently.
- c. Evaluate the overall effect of the risks, capital required by governmental authorities and related regulations on the capital allocation.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

2. Risk Management Committee

- a. Set up overall risk management policy, risk appetite, structure and organization functions, establish qualitative or quantitative management standard and adjust risk types, risk tolerance, allocation limit and methods to overcome risks.
- b. Report directly to the board of directors. This committee is headed by a CEO who is responsible for appointing the members, including the deputy convener, executive secretary, each risk division heads and others. Establish five risk management divisions by risk characteristics, which are mainly as follows: (1) Insurance risk, (2) Credit Risk, (3) Market Risk (including liquidity risk), (4) Operational Risk, (5) Risk Models (including ALM risk). Each division is led by a senior executive to ensure that each division operates according to its functions.
- c. Risk Management Committee operates once a month, and the chief convener serves as the host to monitor the effectiveness of risk management, If the chief convener is not able to attend the meeting, the vice convener can act for the chief convener.
- d. Executive directors execute the decision of risk management, evaluate and monitor the capability to overcome risks, current acceptance risk and the strategy to address the risks.
- e. Regularly meet with the Board of Directors to report the current progress of risk management decisions on time and offer advises for any improvements.

3. Chief Risk Officer

Fubon Insurance and its subsidiaries set up a position “Chief Risk Officer” (CRO) to deal with risk management matters, including strategy planning, supervising Fubon Insurance and its subsidiaries to create and to follow the risk management system, monitoring the appropriateness of risk exposure and the effectiveness of risk management, supervising Fubon Insurance and its subsidiaries' Risk Management Department.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

4. Risk Management Department
 - a. Responsible for monitoring, measuring, and revaluing daily risks.
 - b. Assist the execution/implementation of risk management policies approved by the Board of directors.
 - c. Set up the risk tolerance level and the limitations based on the risk appetite.
 - d. Summarize the relative information provided by each unit, and help each unit follow the policies and the limits.
 - e. Regular propose risk management related reports.
 - f. Regularly monitor the risk limits and the utilization of risk limits of respective business unit.
 - g. Assist in carrying out the stress test.
 - h. If necessary, proceed the back testing.
 - i. Other risk management related duties.
5. Business Units
 - a. Recognize the potential risks and measure it. Report risk management information and risk exposure to the risk management department regularly.
 - b. Regularly examine each kind of business risk and limitations to ensure that the risk limitation is under control.
 - c. Monitor risk exposure and report any situation when the exposure exceeds the limitation and take the necessary procedures.
 - d. Make sure all business units are properly enforced under internal control and follow the rules and standards.
 - e. Each business unit should assign an operation risk manager to help the unit to conduct risk management effectively.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

iii) Scope of risk reporting

Fubon Insurance and its subsidiaries measured insurance risk in consideration of factors including: Commodity pricing, check and ratify insurance, claims processing, catastrophe, reinsurance and reserves. This is in accordance to a standard for monitoring key risk indicator.

Considering risk appetite and tolerance, Fubon Insurance set up the limitation by single reserved and single accident to control it. In the meantime, Fubon Insurance set up the risk tolerance for all major risks (including insurance risk, market risk, credit risk and operation risk) by each scenarios to avoid the overall risk exposures exceed the tolerance.

All business units report their situations to the committee monthly or quarterly. The Risk Management department collects all risk management reports and risk monitoring indicators semiannually and reports the overall situation to the Risk Management Committee and the board of directors. The report explains the risk exposure, how the policies worked and other related issues.

iv) The procedures and methods of the insurance risk management

Insurance risk refers to the risk resulting from unexpected changes from benefit payments, related charges after collecting insurance premiums and undertaking the risk transferred from the insurant.

Fubon Insurance and its subsidiaries set up the code of conduct for insurance risk management to serve as a guideline of insurance risk management. It also establishes relevant risk management methods for the scope of insurance risk management in terms of the risk elements such as underwriting, reinsurance, catastrophe, claim, product design and pricing and provision.

Insurance risk management procedures such as risk reorganization, risk measurement, risk monitoring and risk responding to ensure the timeliness, reliability and security of risk management information, except for different tiers disclosure per regulation, Fubon Insurance also updates and archives relevant documents properly via the responsibility of each tiers.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Fubon Insurance and its subsidiaries set up another risk tolerance, risk limit and critical risk indicators to facilitate management and reports to the Risk Management Committee based on the frequency for each management indicators. If any risk tolerance, risk limit or critical risk management indicators over the limits, the proper authority shall provide the explanation of the excess risk and the improvement reviewed by the insurance risk team. The explanation will be submitted to the Insurance Risk Committee for approval. After approval, the risk management department shall track the improvement process based on the conditions of the approval.

- b) Insurance risk information
 i) The sensitivity test of insurance risk

Test Hypothesis

Change of expected rate of loss	For the three months ended September 30, 2017			
	Change of income before tax		Change of stockholder's equity	
	Before reinsurance	After reinsurance	Before reinsurance	Compulsory insurance
+1%	\$ (1,397)	(1,461)	(1,160)	(1,212)
-1%	1,460	1,470	1,167	1,219

Change of expected rate of loss	For the three months ended September 30, 2016			
	Change of income before tax		Change of stockholder's equity	
	Before reinsurance	After reinsurance	Before reinsurance	Compulsory insurance
+1%	\$ (596)	(365)	(495)	(303)
- 1%	596	365	495	303

Change of expected rate of loss	For the nine months ended September 30, 2017			
	Change of income before tax		Change of stockholder's equity	
	Before reinsurance	After reinsurance	Before reinsurance	Compulsory insurance
+1%	\$ (40,343)	(24,666)	(33,485)	(20,473)
- 1%	40,404	24,727	33,535	20,523

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Change of expected rate of loss	For the nine months ended September 30, 2016			
	Change of income before tax		Change of stockholder's equity	
	Before reinsurance	After reinsurance	Before reinsurance	Compulsory insurance
+1%	\$ (41,316)	(23,282)	(34,293)	(19,324)
- 1%	41,316	23,282	34,293	19,324

ii) Explanation of the risk concentration

1. Underwriting and inward reinsurance premiums

The insurance contracts which Fubon Insurance and its subsidiaries underwrite are categorized into different types of insurances and are not concentrated in a single type of insurance. AS of September 30, 2017, the top 5 types of insurance are: voluntary motor insurance, compulsory motor TPL insurance, accident insurance, typhoon, flood and earthquake insurance and liability insurance. The proportion of voluntary motor insurance represents 31.8%, 30.3%, 31.2% and 30.5% of all insurances for the three months and nine months ended September 30, 2017 and 2016, respectively. Although its proportion is higher than the others, its loss experience is stable and the variance is small. There is no risk concentration in other types of insurance.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

The proportion of underwriting and inward reinsurance premiums is as follows:

Insurance type	For the three months ended September 30, 2017		For the three months ended September 30, 2016	
	Amount	%	Amount	%
Fire insurance	\$ 400,720	3.9 %	463,088	4.7 %
Marine cargo insurance	275,520	2.7 %	279,882	2.8 %
Marine hull fishing vessel	136,474	1.3 %	120,707	1.2 %
Voluntary moto insurance	3,312,844	31.8 %	2,997,088	30.3 %
Compulsory moto TPL insurance	1,495,762	14.4 %	1,346,817	13.6 %
Liability insurance	817,292	7.9 %	738,650	7.5 %
Engineering and nuclear insurance	182,163	1.8 %	142,025	1.4 %
Surety and credit insurance	80,727	0.8 %	64,956	0.7 %
Other property insurance	19,803	0.2 %	20,678	0.2 %
Accident insurance	1,270,007	12.2 %	1,148,348	11.6 %
Typhoon, flood and earthquake insurance	451,179	4.3 %	519,879	5.3 %
Personal and commercial multiple peril insurance	223,086	2.1 %	198,064	2.0 %
Health insurance	172,905	1.7 %	140,584	1.4 %
Foreign business	157,297	1.5 %	282,310	2.9 %
Overseas subsidiaries	<u>1,391,236</u>	<u>13.4 %</u>	<u>1,429,156</u>	<u>14.4 %</u>
Total	<u>\$ 10,387,015</u>	<u>100.0 %</u>	<u>9,892,232</u>	<u>100.0 %</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Insurance type	For the nine months ended September 30, 2017		For the nine months ended September 30, 2016	
	Amount	%	Amount	%
Fire insurance	\$ 1,698,983	5.1 %	1,565,347	5.0 %
Marine cargo insurance	881,292	2.6 %	871,001	2.8 %
Marine hull fishing vessel	425,666	1.3 %	437,720	1.4 %
Voluntary moto insurance	10,421,926	31.2 %	9,453,181	30.5 %
Compulsory moto TPL insurance	4,270,579	12.8 %	3,873,986	12.5 %
Liability insurance	2,395,668	7.2 %	2,100,496	6.8 %
Engineering and nuclear insurance	719,474	2.2 %	634,003	2.0 %
Surety and credit insurance	219,602	0.7 %	219,690	0.7 %
Other property insurance	95,734	0.3 %	95,377	0.3 %
Accident insurance	3,745,552	11.2 %	3,420,826	11.0 %
Typhoon, flood and earthquake insurance	2,864,849	8.6 %	2,449,039	7.9 %
Personal and commercial multiple peril insurance	630,390	1.9 %	538,246	1.7 %
Health insurance	506,964	1.5 %	403,874	1.3 %
Foreign business	517,697	1.6 %	921,032	3.0 %
Overseas subsidiaries	<u>3,933,435</u>	<u>11.8 %</u>	<u>4,064,027</u>	<u>13.1 %</u>
Total	<u>\$ 33,327,811</u>	<u>100.0 %</u>	<u>31,047,845</u>	<u>100.0 %</u>

2. The proportion of retained business premium

AS of September 30, 2017, the top 5 types of insurances with the highest proportion is voluntary motor insurance, accident insurance, compulsory motor TPL insurance, liability insurance and fire insurance. The voluntary insurance which has the highest proportion accounted for 38.5%, 36.8%, 39.0% and 38.0% for the three months and nine months ended September 30, 2017 and 2016, respectively. Fubon Insurance and its subsidiaries consider the loss of voluntary motor insurance to be stable, and therefore, retain all the reinsurance.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

For other insurances, Fubon Insurance and its subsidiaries evaluate the possibility of significant accumulated losses and arrange the appropriate reinsurance contracts to diversify the risk. Therefore, there is no risk concentration.

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

Insurance type	For the three months ended September 30, 2017		For the three months ended September 30, 2016	
	Amount	%	Amount	%
Fire insurance	\$ 234,898	2.9 %	230,012	3.0 %
Marine cargo insurance	151,151	1.9 %	153,681	2.0 %
Marine hull fishing vessel	18,871	0.2 %	15,022	0.2 %
Voluntary moto insurance	3,116,631	38.5 %	2,777,878	36.8 %
Compulsory moto TPL insurance	968,167	11.9 %	875,143	11.6 %
Liability insurance	504,368	6.2 %	454,459	6.0 %
Engineering and nuclear insurance	94,449	1.2 %	54,610	0.7 %
Surety and credit insurance	10,367	0.1 %	11,483	0.2 %
Other property insurance	7,690	0.1 %	8,576	0.1 %
Accident insurance	1,258,254	15.5 %	1,131,933	14.9 %
Typhoon, flood and earthquake insurance	39,070	0.5 %	215,456	2.8 %
Personal and commercial multiple peril insurance	215,392	2.7 %	190,907	2.5 %
Health insurance	171,148	2.1 %	138,356	1.8 %
Foreign business	150,625	1.9 %	144,366	1.9 %
Overseas subsidiaries	<u>1,162,120</u>	<u>14.3 %</u>	<u>1,171,903</u>	<u>15.5 %</u>
Total	<u><u>\$ 8,103,201</u></u>	<u><u>100.0 %</u></u>	<u><u>7,573,785</u></u>	<u><u>100.0 %</u></u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>Insurance type</u>	<u>For the nine months ended September 30, 2017</u>		<u>For the nine months ended September 30, 2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Fire insurance	\$ 862,547	3.4 %	715,189	3.1 %
Marine cargo insurance	473,964	1.9 %	477,143	2.1 %
Marine hull fishing vessel	70,479	0.3 %	62,027	0.3 %
Voluntary moto insurance	9,742,899	39.0 %	8,771,021	38.0 %
Compulsory moto TPL insurance	2,746,779	11.0 %	2,510,770	10.9 %
Liability insurance	1,533,296	6.1 %	1,375,147	6.0 %
Engineering and nuclear insurance	312,889	1.3 %	290,377	1.3 %
Surety and credit insurance	48,544	0.2 %	49,373	0.2 %
Other property insurance	31,593	0.1 %	32,974	0.1 %
Accident insurance	3,702,262	14.8 %	3,381,362	14.7 %
Typhoon, flood and earthquake insurance	732,948	2.9 %	484,879	2.1 %
Personal and commercial multiple peril insurance	609,224	2.4 %	520,519	2.3 %
Health insurance	501,687	2.0 %	397,879	1.7 %
Foreign business	419,441	1.7 %	513,038	2.2 %
Overseas subsidiaries	<u>3,239,119</u>	<u>12.9 %</u>	<u>3,445,362</u>	<u>15.0 %</u>
Total	<u>\$ 25,027,671</u>	<u>100.0 %</u>	<u>23,027,060</u>	<u>100.0 %</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

iii) Claim development trend:

1. Sum of accumulated and reported claims

September 30, 2017									
Occurrence year	Evaluation date					Accumulated claim paid	Reported but unpaid	Reported and unpaid	Claim Provision
	December 31, 2013	December 31, 2014	December 31, 2015	December 31, 2016	September 30, 2017				
≤2012							627,106		
2013	13,678,613	14,586,798	15,009,916	14,987,064	14,889,859	14,581,426	308,433		
2014		16,854,835	17,947,820	18,366,116	18,297,926	17,380,067	917,859		
2015			18,351,701	19,554,885	20,168,338	18,814,006	1,354,332		
2016				27,225,903	28,220,695	23,163,747	5,056,948		
2017					14,476,273	7,685,199	6,791,074		
Total							<u>15,055,752</u>	<u>6,837,635</u>	<u>21,893,387</u>

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

September 30, 2016									
Occurrence year	Evaluation date					Accumulated claim paid	Reported but unpaid	Reported and unpaid	Claim Provision
	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015	September 30, 2016				
≤2011							637,646		
2012	12,987,811	14,759,052	14,680,932	14,592,336	14,519,341	14,227,957	291,384		
2013		13,723,647	14,628,497	15,048,558	15,017,180	14,418,488	598,692		
2014			16,934,593	18,026,626	18,414,894	17,047,016	1,367,878		
2015				18,412,321	19,513,440	17,127,132	2,386,308		
2016					20,491,159	8,026,406	12,464,753		
Total							<u>17,746,661</u>	<u>6,499,107</u>	<u>24,245,768</u>

2. Sum of accumulated and reported claims, net

September 30, 2017									
Occurrence year	Evaluation date					Accumulated claim paid	Reported but unpaid	Reported and unpaid	Claim Provision
	December 31, 2013	December 31, 2014	December 31, 2015	December 31, 2016	September 30, 2017				
≤2012							430,071		
2013	10,787,954	11,306,534	11,643,045	11,652,888	11,639,996	11,424,835	215,161		
2014		12,776,384	13,549,749	13,983,091	13,974,763	13,577,601	397,162		
2015			13,863,220	14,948,040	15,296,483	14,577,094	719,389		
2016				15,327,524	16,366,500	14,677,943	1,688,557		
2017					11,694,714	6,534,069	5,160,645		
Total							<u>8,610,985</u>	<u>4,495,843</u>	<u>13,106,828</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

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

September 30, 2016									
Occurrence year	Evaluation date					Accumulated claim paid	Reported but unpaid	Reported and unpaid	Claim Provision
	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015	September 30, 2016				
≤2011							366,846		
2012	9,896,128	11,344,191	11,283,970	11,271,927	11,229,679	11,006,910	222,769		
2013		10,806,627	11,326,385	11,662,355	11,657,943	11,277,325	380,618		
2014			12,812,678	13,589,607	13,960,210	13,279,970	680,240		
2015				13,907,111	14,712,695	13,272,927	1,439,768		
2016					11,150,550	5,942,499	5,208,051		
Total							<u>8,298,292</u>	<u>4,175,132</u>	<u>12,473,424</u>

c) Credit risk, liquidity risk and market risk

i) Credit risk

The credit risk of insurance contracts comes mainly from reinsurance business. That is, the reinsurers' default or bad financial condition which leads to the inability to pay the reinsurance claims. Reinsurance contracts are arranged in accordance with the "Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms". The reinsurers with whom Fubon Insurance and its subsidiaries reinsure are mostly reinsurers with better credit rating and qualify as authorized reinsurers. Relevant risk control procedures are also established to regularly keep track and monitor changes in the credit rating of reinsurers.

In compliance with article 5 of the "Regulations Governing the Provision of Unauthorized Reinsurance Reserves for Insurance Company", transactions with unauthorized reinsurers are disclosed in the notes of financial statements which include summary of unauthorized reinsurance contracts and types of reinsurance, reinsurance premium expense of unauthorized reinsurance contracts, as well as general description of the amount of unauthorized reserve and its components.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

1. As of September 30, 2017, the major unqualified reinsurance counterparties are listed below:
 - a. AIG EUROPE LIMITED : The facultative reinsurance of engineering insurance.
 - b. MILLI REASURANS T.A.S. (SINGAPORE BRANCH): The facultative reinsurance of fire insurance.
 - c. SCHWARZMEER UND OSTSEE VERS-AG SOVAG (UK BRANCH): The facultative reinsurance of commercial fire insurance.
 - d. GLOBAL INSURANCE COMPANY: The facultative reinsurance of marine insurance.
 - e. ALLIANZ C.P. GENERAL INSURANCE COMPANY LIMITED: The facultative reinsurance of new types of insurance.
 - f. RIVERSTONE FRANCE S.A.: The facultative reinsurance of engineering insurance.
 - g. PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED : The facultative reinsurance of personal fire insurance.

2. As of December 31, 2016, the major unqualified reinsurance counterparties are listed below:
 - a. AIG EUROPE LIMITED: The facultative reinsurance of engineering insurance.
 - b. ALLIANZ C.P. GENERAL INSURANCE COMPANY LIMITED: The facultative reinsurance of commercial fire insurance.
 - c. ROYAL & SUNALLIANCE INSURANCE GLOBAL: The facultative reinsurance of marine insurance.
 - d. ALLIANZ C.P. GENERAL INSURANCE COMPANY LIMITED: The facultative reinsurance of new type of insurance.
 - e. AIG EUROPE LIMITED: The facultative reinsurance of engineering insurance.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- f. LA MUTUELLE DU MANS ASSURANCES I.A.R.D: The facultative reinsurance of new types of insurance.
 - g. PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED: The facultative reinsurance of personal fire insurance.
3. As of September 30, 2016, the major unqualified reinsurance counterparties are listed below:
- a. AIG EUROPE LIMITED : The facultative reinsurance of engineering insurance.
 - b. CORPORATE INSURANCE PARTNER: The facultative reinsurance of commercial fire insurance.
 - c. LEMMA INSURANCE COMPANY: The facultative reinsurance of marine insurance.
 - d. ALLIANZ C.P. GENERAL INSURANCE COMPANY LIMITED: The facultative reinsurance of new types of insurance.
 - e. RIVERSTONE FRANCE S.A.: The facultative reinsurance of engineering insurance.
 - f. LA MUTUELLE DU MANS ASSURANCES I.A.R.D.: The facultative reinsurance of engineering insurance.
 - g. PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED: The facultative reinsurance of personal fire insurance.
4. As of September 30, 2017, December 31 and September 30, 2016, the unauthorized reinsurance expenses amounted to \$66,005, \$129,786 and \$440,496, respectively.
5. As of September 30, 2017, December 31 and September 30, 2016, the reserve for unauthorized reinsurance amounted to \$260,876, \$1,493,667 and \$2,116,610, respectively. The components of this account include: (a) the unearned premium reserve of \$45,121, \$64,922 and \$361,526, respectively. (b) the claims recoverable from reinsurers of paid claims overdue in nine month amounted to \$2,842, \$84,217 and \$4,507, respectively. (c) the claims recoverable from reinsurers which were reported but unpaid amounted to \$212,913, \$1,344,528 and \$1,750,577, respectively.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

ii) Liquidity risk

Insurance contracts which Fubon Insurance and its subsidiaries undertake are mostly policies that expire within 1 year. The liquidity risk from insurance contracts depends on whether Fubon Insurance's assets are able to cover significant claims in time when material claims occur. That is the liquidity risk of insurance contracts is mainly capital liquidity risk. Therefore, Fubon Insurance adopts the current asset ratio to evaluate the liquidity risk from insurance contracts.

iii) Market risk

The market risk of insurance contracts arises mainly from the reserves provided for these insurance contracts, such as fluctuation of market interest rate.

According to the "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprise", the provisions which Fubon Insurance provided consist of the unearned premium reserve, claims reserve, special reserve, premium deficiency reserve, liability adequacy reserve and liability reserves. Unearned premium reserve of 3-year accident insurance are discounted with the interest rates set by competent authorities. Unearned premium reserve, claims reserve, special reserve, premium deficiency reserve, liability adequacy reserve and liability reserves of other insurance contracts are not discounted at the market rate. Therefore, changes in market interest rate do not have an impact on the estimated reserves.

Liability reserve is provided for long-term fire insurance. Although this type of insurance product is not for sale anymore the liability reserve is still provided for the effective insurance policies. Provision of liability reserve is determined by future repayments and the discount rate refers to unexpired average terms and previous markets rate trends. Since the product is not for sale anymore and only few are still effective, fluctuations of market rate do not have significant impact on provision of liability reserve and income of Fubon Insurance.

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- 3) Fubon Life Insurance and its subsidiaries
- a) Various reserves
- i) Unearned premium reserves

	<u>September 30, 2017</u>		
	Insurance	Financial	
	contracts	instruments with	Total
		discretionary	
		participation	
Individual life insurance	\$ 1,786	-	1,786
Individual injury insurance	3,068,395	-	3,068,395
Individual health insurance	3,448,152	-	3,448,152
Group insurance	1,607,125	-	1,607,125
Investment-linked insurance	<u>87,696</u>	<u>-</u>	<u>87,696</u>
Gross reserve	<u>8,213,154</u>	<u>-</u>	<u>8,213,154</u>
Deduction of provision for reinsurance ceded			
Individual life insurance	461,423	-	461,423
Individual injury insurance	22,133	-	22,133
Individual health insurance	2,271	-	2,271
Group insurance	79,505	-	79,505
Investment-linked insurance	<u>11,123</u>	<u>-</u>	<u>11,123</u>
Total ceded reserve	<u>576,455</u>	<u>-</u>	<u>576,455</u>
Net reserve	<u>\$ 7,636,699</u>	<u>-</u>	<u>7,636,699</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	December 31, 2016		
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance	\$ 1,654	-	1,654
Individual injury insurance	2,893,934	-	2,893,934
Individual health insurance	3,375,856	-	3,375,856
Group insurance	1,561,332	-	1,561,332
Investment-linked insurance	83,969	-	83,969
Gross reserve	<u>7,916,745</u>	<u>-</u>	<u>7,916,745</u>
Deduction of provision for reinsurance ceded			
Individual life insurance	405,044	-	405,044
Individual injury insurance	20,726	-	20,726
Individual health insurance	2,048	-	2,048
Group insurance	72,021	-	72,021
Investment-linked insurance	10,894	-	10,894
Total ceded reserve	<u>510,733</u>	<u>-</u>	<u>510,733</u>
Net reserve	<u>\$ 7,406,012</u>	<u>-</u>	<u>7,406,012</u>
	September 30, 2016		
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance	\$ 1,665	-	1,665
Individual injury insurance	2,781,202	-	2,781,202
Individual health insurance	3,324,618	-	3,324,618
Group insurance	1,554,244	-	1,554,244
Investment-linked insurance	84,959	-	84,959
Gross reserve	<u>7,746,688</u>	<u>-</u>	<u>7,746,688</u>
Deduction of provision for reinsurance ceded			
Individual life insurance	390,184	-	390,184
Individual injury insurance	20,582	-	20,582
Individual health insurance	1,858	-	1,858
Group insurance	68,676	-	68,676
Investment-linked insurance	10,861	-	10,861
Total ceded reserve	<u>492,161</u>	<u>-</u>	<u>492,161</u>
Net reserve	<u>\$ 7,254,527</u>	<u>-</u>	<u>7,254,527</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

ii) Claim reserves

	September 30, 2017		
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance			
– Reported but not paid	\$ 438,021	15,511	453,532
– Incurred but not reported	3,830	-	3,830
Individual injury insurance			
– Reported but not paid	91,740	-	91,740
– Incurred but not reported	394,275	-	394,275
Individual health insurance			
– Reported but not paid	175,220	-	175,220
– Incurred but not reported	524,077	-	524,077
Group insurance			
– Reported but not paid	69,051	-	69,051
– Incurred but not reported	340,262	-	340,262
Investment-linked insurance			
– Reported but not paid	69,174	-	69,174
– Incurred but not reported	69,293	-	69,293
Total reserve	<u>2,174,943</u>	<u>15,511</u>	<u>2,190,454</u>
Deduction of provision for reinsurance ceded			
Individual life insurance	20,045	-	20,045
Individual injury insurance	39,762	-	39,762
Group insurance	4,169	-	4,169
Investment-linked insurance	18,880	-	18,880
Total ceded reserve	<u>82,856</u>	<u>-</u>	<u>82,856</u>
Net reserve	<u>\$ 2,092,087</u>	<u>15,511</u>	<u>2,107,598</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	December 31, 2016		
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance			
— Reported but unpaid	\$ 406,206	8,163	414,369
— Incurred but not reported	3,238	-	3,238
Individual injury insurance			
— Report but unpaid	87,848	-	87,848
— Incurred but not reported	388,149	-	388,149
Individual health insurance			
— Reported but unpaid	195,288	-	195,288
— Incurred but not reported	513,070	-	513,070
Group insurance			
— Reported but unpaid	62,641	-	62,641
— Incurred but not reported	336,892	-	336,892
Investment-linked insurance			
— Reported but unpaid	75,837	-	75,837
— Incurred but not reported	65,949	-	65,949
Total reserve	2,135,118	8,163	2,143,281
Deduction of provision for reinsurance ceded			
Individual life insurance	23,030	-	23,030
Individual injury insurance	31,983	-	31,983
Group insurance	1,689	-	1,689
Investment-linked insurance	13,337	-	13,337
Total ceded reserve	70,039	-	70,039
Net reserve	\$ 2,065,079	8,163	2,073,242

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	September 30, 2016		
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance			
— Reported but not paid	\$ 433,641	6,872	440,513
— Incurred but not reported	2,124	-	2,124
Individual injury insurance			
— Report but not paid	114,650	-	114,650
— Incurred but not reported	312,246	-	312,246
Individual health insurance			
— Reported but not paid	226,803	-	226,803
— Incurred but not reported	482,762	-	482,762
Group insurance			
— Reported but not paid	47,577	-	47,577
— Incurred but not reported	294,377	-	294,377
Investment-linked insurance			
— Reported but not paid	70,016	-	70,016
— Incurred but not reported	47,572	-	47,572
Total reserve	<u>2,031,768</u>	<u>6,872</u>	<u>2,038,640</u>
Deduction of provision for reinsurance ceded			
Individual life insurance	21,978	-	21,978
Individual injury insurance	33,248	-	33,248
Individual health insurance	1	-	1
Group insurance	3,674	-	3,674
Investment-linked insurance	15,780	-	15,780
Total ceded reserve	<u>74,681</u>	<u>-</u>	<u>74,681</u>
Net reserve	<u>\$ 1,957,087</u>	<u>6,872</u>	<u>1,963,959</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

iii) Liability reserve:

	September 30, 2017		
	Insurance contracts	Financial instruments with discretionary participation	Total
Life insurance	\$ 2,648,426,166	-	2,648,426,166
Injury insurance	716,763	-	716,763
Health insurance	239,736,159	-	239,736,159
Annuity insurance	1,242,984	148,165,029	149,408,013
Investment-linked insurance	106,774	-	106,774
Total	2,890,228,846	148,165,029	3,038,393,875
Deduction of liability reserve ceded			
Life insurance	513	-	513
Total	513	-	513
Net reserve	\$ 2,890,228,333	148,165,029	3,038,393,362
	December 31, 2016		
	Insurance contracts	Financial instruments with discretionary participation	Total
Life insurance	\$ 2,459,634,713	-	2,459,634,713
Injury insurance	734,263	-	734,263
Health insurance	223,469,105	-	223,469,105
Annuity insurance	1,245,971	154,080,255	155,326,226
Investment-linked insurance	32,586	-	32,586
Net reserve	\$ 2,685,116,638	154,080,255	2,839,196,893

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	September 30, 2016		
	Insurance contracts	Financial instruments with discretionary participation	Total
Life insurance	\$ 2,378,365,193	-	2,378,365,193
Injury insurance	739,931	-	739,931
Health insurance	217,742,060	-	217,742,060
Annuity insurance	1,240,358	158,555,609	159,795,967
Investment-linked insurance	35,501	-	35,501
Net reserve	\$ 2,598,123,043	158,555,609	2,756,678,652

The movements in the liability reserve were as follows:

	For the nine months ended September 30, 2017		
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 2,685,116,638	154,080,255	2,839,196,893
Current provisions	369,452,525	10,392,436	379,844,961
Current reclaims	(132,214,463)	(16,307,662)	(148,522,125)
Gain and loss on foreign exchange	(32,125,854)	-	(32,125,854)
Ending balance	2,890,228,846	148,165,029	3,038,393,875
Deduction of liability reserve ceded			
Current provisions	514	-	514
Gain and loss on foreign exchange	(1)	-	(1)
Ending balance	513	-	513
Net ending balance	\$ 2,890,228,333	148,165,029	3,038,393,362

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

For the nine months ended September 30, 2016			
Financial instruments with			
	Insurance contracts	discretionary participation	Total
Beginning balance	\$ 2,377,426,666	155,660,242	2,533,086,908
Current provisions	341,139,323	20,494,738	361,634,061
Current reclaims	(94,558,382)	(17,599,371)	(112,157,753)
Gain and loss on foreign exchange	(25,884,564)	-	(25,884,564)
Ending balance	\$ 2,598,123,043	158,555,609	2,756,678,652

iv) Special reserves

September 30, 2017				
Financial instruments with				
	Insurance contracts	discretionary participation	Others	Total
Dividend provision for participation policies	\$ 7,042,282	-	-	7,042,282
Valuation surplus gain for investment property	-	-	652,267	652,267
Total	\$ 7,042,282	-	652,267	7,694,549

December 31, 2016				
Financial instruments with				
	Insurance contracts	discretionary participation	Others	Total
Dividend provision for participation policies	\$ 6,820,981	-	-	6,820,981
Valuation surplus gain for investment property	-	-	652,267	652,267
Total	\$ 6,820,981	-	652,267	7,473,248

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	September 30, 2016			
	Insurance contracts	Financial instruments with discretionary participation	Others	Total
Dividend provision for participation policies	\$ 6,143,460	-	-	6,143,460
Valuation surplus gain for investment property	-	-	652,267	652,267
Total	\$ 6,143,460	-	652,267	6,795,727

The movements in special reserves were as follows:

	For the nine months ended September 30, 2017			
	Insurance contracts	Financial instruments with discretionary participation	Others	Total
Beginning balance	\$ 6,820,981	-	652,267	7,473,248
Provision for dividend provision for participating policies	221,301	-	-	221,301
Ending balance	\$ 7,042,282	-	652,267	7,694,549

	For the nine months ended September 30, 2016			
	Insurance contracts	Financial instruments with discretionary participation	Others	Total
Beginning balance	\$ 5,359,919	-	652,267	6,012,186
Provision for dividend provision for participating policies	783,541	-	-	783,541
Ending balance	\$ 6,143,460	-	652,267	6,795,727

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

v) Premium deficiency reserve

	September 30, 2017		
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance	\$ 21,044,884	-	21,044,884
Individual injury insurance	883	-	883
Individual health insurance	335,917	-	335,917
Group insurance	7,387	-	7,387
Investment-linked product	16	-	16
Total	\$ 21,389,087	-	21,389,087
	December 31, 2016		
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance	\$ 22,461,575	-	22,461,575
Individual injury insurance	8,576	-	8,576
Individual health insurance	380,388	-	380,388
Group insurance	23,653	-	23,653
Investment-linked product	18	-	18
Total	\$ 22,874,210	-	22,874,210

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	September 30, 2016		
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance	\$ 20,694,041	-	20,694,041
Individual injury insurance	8,773	-	8,773
Individual health insurance	396,909	-	396,909
Group insurance	19,976	-	19,976
Investment-linked product	18	-	18
Total	\$ 21,119,717	-	21,119,717

The movements in premium deficiency reserve were as follows:

	For the nine months ended September 30, 2017		
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 22,874,210	-	22,874,210
Current reversal of provision, net	(1,254,444)	-	(1,254,444)
Gain and loss on foreign exchange	(230,679)	-	(230,679)
Ending balance	\$ 21,389,087	-	21,389,087

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	For the nine months ended September 30, 2016		
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 16,280,468	-	16,280,468
Current provision, net	5,011,268	-	5,011,268
Gain and loss on foreign exchange	(172,019)	-	(172,019)
Ending balance	\$ 21,119,717	-	21,119,717

vi) Liability adequacy reserve

Based on the actuary's liability adequacy test report, the results of reserve testing were as follows:

Financial instruments with discretionary participation	September 30, 2017	December 31, 2016	September 30, 2016
Liability reserve	\$ 3,033,630,579	2,837,198,506	2,755,029,821
Unearned premium reserves	8,212,135	7,916,322	7,746,417
Premium deficiency reserve	21,372,329	22,806,116	21,119,713
Special reserves	7,694,549	7,473,248	6,795,727
Claim reserves	2,190,347	2,142,920	2,038,127
Carrying amount of insurance liabilities	\$ 3,073,099,939	2,877,537,112	2,792,729,805
Current estimate of future cash flows under its insurance liabilities	\$ 2,297,413,712	2,118,064,047	2,100,538,355
Total liability adequacy reserve	\$ -	-	-

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

The liability adequacy test method adopted by Fubon Life Insurance as of September 30, 2017, December 31 and September 30, 2016, was as the following:

Test method	Gross Premium Valuation (GPV)
Group	All insurance contracts
Significant assumption	The discount rate assumption for future years was set up based on the assets allocation and the weighted average return on investments of Fubon Life Insurance.

The abovementioned liability adequacy test excludes the provision of Fubon Life Insurance's subsidiaries. Such exclusion is due to the fact that they only account for very little portion and it is not expected to affect the result of the sensitivity analysis.

- vii) Special reserve (catastrophic risk reserve and special reserves for fluctuation of risks):

	<u>September 30, 2017</u>			
	<u>Insurance contracts</u>	<u>Financial instruments with discretionary participation</u>	<u>Others</u>	<u>Total</u>
Catastrophic risk reserve	\$ 3,109,067	-	-	3,109,067
Contingency risk reserve	2,788,060	-	-	2,788,060
Total	<u>\$ 5,897,127</u>	<u>-</u>	<u>-</u>	<u>5,897,127</u>

	<u>December 31, 2016</u>			
	<u>Insurance contracts</u>	<u>Financial instruments with discretionary participation</u>	<u>Others</u>	<u>Total</u>
Catastrophic risk reserve	\$ 3,109,067	-	-	3,109,067
Contingency risk reserve	2,788,060	-	-	2,788,060
Total	<u>\$ 5,897,127</u>	<u>-</u>	<u>-</u>	<u>5,897,127</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	September 30, 2016			
	Insurance contracts	Financial instruments with discretionary participation	Others	Total
Catastrophic risk reserve	\$ 2,838,083	-	-	2,838,083
Contingency risk reserve	2,717,198	-	-	2,717,198
Total	\$ 5,555,281	-	-	5,555,281

viii) Other reserves

1. Reserve for financial instruments without discretionary participation features

Financial instruments without discretionary participation features and the movements in the related reserve were as follows:

	September 30, 2017	December 31, 2016	September 30, 2016
Life insurance	\$ 3,744,298	18,137,335	49,575,200

	For the nine months ended September 30	
	2017	2016
Beginning balance	\$ 18,137,335	83,616,757
Current premiums collected	369	514
Current claims payment	(14,515,304)	(35,118,125)
Current net provision for legal reserve	121,898	1,076,054
Ending balance	\$ 3,744,298	49,575,200

2. Foreign exchange fluctuation reserve

- a. Hedging strategy and risk exposure

The hedging strategy is primarily perfect hedge, together with currency proxy hedge and natural hedge. To ensure the effectiveness and appropriateness of hedging, the rationality of the hedging cost is considered and the hedging strategy and hedging proportion are vigorously adjusted. The frequency and level of foreign exchange hedge considers the foreign exchange fluctuation risk.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- b. The movements in foreign exchange fluctuation reserve were as follows:

	For the nine months ended September 30	
	2017	2016
Beginning balance	\$ 4,632,746	7,479,048
Current provision :		
Compulsory provision	1,503,727	1,549,665
Additional provision	<u>186,731</u>	<u>1,447,836</u>
Subtotal	<u>1,690,458</u>	<u>2,997,501</u>
Recovered	<u>(4,604,572)</u>	<u>(8,647,271)</u>
Ending balance	<u><u>\$ 1,718,632</u></u>	<u><u>1,829,278</u></u>

- c. Effect of foreign exchange fluctuation reserve

<u>Item</u>	<u>Unapplied amount</u>	<u>Applied amount</u>	<u>Effectuated amount</u>
September 30, 2017			
Foreign exchange fluctuation reserve	\$ -	1,718,632	(1,718,632)
Owner's equity	258,490,748	258,738,611	(247,863)
December 31, 2016			
Foreign exchange fluctuation reserve	\$ -	4,632,746	(4,632,746)
Owner's equity	215,645,223	213,474,371	2,170,852

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>Item</u>	<u>Unapplied amount</u>	<u>Applied amount</u>	<u>Effectuated amount</u>			
September 30, 2016						
Foreign exchange fluctuation reserve	\$ -	1,829,278	(1,829,278)			
Owner's equity	249,006,667	249,162,693	(156,026)			
For the nine months ended September 30						
	2017		2016			
<u>Item</u>	<u>Unapplied amount</u>	<u>Applied amount</u>	<u>Effectuated amount</u>	<u>Unapplied amount</u>	<u>Applied amount</u>	<u>Effectuated amount</u>
Net income	\$ 24,848,496	27,267,211	(2,418,715)	18,768,419	23,457,728	(4,689,309)
Earnings per share	2.99	3.29	(0.30)	2.26	2.83	(0.57)

ix) Deferred acquisition cost and deferred handling fees

1. Deferred acquisition cost

The additional transaction costs incurred on investment administrative work were deferred in connection with the sales of investment-linked insurance policies, classified as financial instrument without discretionary participation features. The movements in these deferred acquisition costs, were as follows:

	For the nine months ended September 30	
	2017	2016
Beginning balance	\$ 361,993	361,843
Addition	67,950	42,914
Amortization	(31,289)	(48,935)
Ending balance	<u>\$ 398,654</u>	<u>355,822</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

2. Deferred service fees

The service fees incurred on investment management service were deferred in connection with the sales of investment-linked insurance policies, which are classified as financial instrument without discretionary participation features. The movements in deferred service fees were as follows:

	For the nine months ended September 30	
	2017	2016
Beginning balance	\$ 968,245	895,031
Addition	179,868	114,012
Amortization	(47,659)	(68,596)
Ending balance	<u>\$ 1,100,454</u>	<u>940,447</u>

x) Premiums

1. Retained earned premiums

	For the three months ended September 30, 2017		
	Insurance contracts	Financial instruments with discretionary participation	Total
Direct written premiums	\$ 119,505,880	2,805,764	122,311,644
Reinsurance premium	-	-	-
Premium revenue	<u>119,505,880</u>	<u>2,805,764</u>	<u>122,311,644</u>
Less: Reinsurance premium expenditure	(330,782)	-	(330,782)
Net change in unearned premium reserve	(26,034)	-	(26,034)
Subtotal	<u>(356,816)</u>	<u>-</u>	<u>(356,816)</u>
Retained earned premiums	<u>\$ 119,149,064</u>	<u>2,805,764</u>	<u>121,954,828</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	<u>For the nine months ended September 30, 2016</u>		
	<u>Insurance contracts</u>	<u>Financial instruments with discretionary participation</u>	<u>Total</u>
Direct written premium	\$ 340,627,244	18,347,242	358,974,486
Reinsurance premium	<u>87</u>	<u>-</u>	<u>87</u>
Premium income	<u>340,627,331</u>	<u>18,347,242</u>	<u>358,974,573</u>
Less: Reinsurance premium expenditure	(852,812)	-	(852,812)
Net change in unearned premium reserve	(108,204)	-	(108,204)
Subtotal	<u>(961,016)</u>	<u>-</u>	<u>(961,016)</u>
Retained earned premiums	<u>\$ 339,666,315</u>	<u>18,347,242</u>	<u>358,013,557</u>

2. Retained claims payment

	<u>For the three months ended September 30, 2017</u>		
	<u>Insurance contracts</u>	<u>Financial instruments with discretionary participation</u>	<u>Total</u>
Claims payment incurred	\$ 64,977,924	5,565,364	70,543,288
Reinsurance claims payment incurred	19	-	19
Insurance claims payment	<u>64,977,943</u>	<u>5,565,364</u>	<u>70,543,307</u>
Less: Claims payment recovered from reinsures	(204,313)	-	(204,313)
Retained claims payment	<u>\$ 64,773,630</u>	<u>5,565,364</u>	<u>70,338,994</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	<u>For the nine months ended September 30, 2016</u>		
	<u>Insurance</u>	<u>Financial</u>	
	<u>contracts</u>	<u>instruments</u>	
		<u>with</u>	
		<u>discretionary</u>	<u>Total</u>
		<u>participation</u>	
Claims payment incurred	\$ 116,254,184	17,710,145	133,964,329
Reinsurance claims payment incurred	645	-	645
Insurance claims payment	116,254,829	17,710,145	133,964,974
Less: Claims payment recovered from reinsures	(297,721)	-	(297,721)
Retained claims payment	<u>\$ 115,957,108</u>	<u>17,710,145</u>	<u>133,667,253</u>

- a) Nature and extent of insurance contract risk
- i) Objectives, policies procedures and methods for the insurance contract risk management.
1. The organization of risk management
- Risk Management Committee, subordinated to the Board, supervises the overall risk management of Fubon Life Insurance and reports to the Board regularly. In order to effectively review the risk management operation, specific committees are set up.
- a. Assets and Liabilities Management Committee: The chairman of Fubon Life Insurance serves as the chairman of the committee. As part of its oversight responsibility, the committee considers the balance between assets and liabilities, set up strategic target of assets and liabilities and supervise the execution process.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- b. Operational Risk Management Committee: It is convened by the president to supervise and manage the operational risk of Fubon Life Insurance in order to ensure that management adopts appropriate risk management procedures within its authority. Furthermore, in order to assist all business units to carry out risk control and to coordinate other risk control affairs, Fubon Life Insurance's board of directors designates a chief risk officer to handle a risk management department which is independent of all business units. This risk management department executes or assists to execute risk control in accordance with the risk management policy, organization rules governing the risk management committee and organization rules governing the risk related committee. Fubon Life Insurance has established diverse risk management policy, stop-loss limit order, internal tiers authorization system and criteria for assessment to facilitate effective risk management.

2. Risk management strategy

A Risk Management Policy was announced with the consent of the board of directors. This policy regulates the strategy and target as well as the mechanism of risk management. The risk management strategy is in line with the regulation on overall operation target, management strategy and risk management. It aims to establish appropriate risk management system and management procedures purposely to identify, evaluate, measure, supervise, respond to and report potential risk.

ii) Insurance risk management

1. Underwriting risk management

Underwriting risk refers to the unexpected risk arising from soliciting new insurance policies, and relevant expenditure disbursement. In order to control underwriting risk, Fubon Life Insurance has classified it into the following types to facilitate the control process, which consists of evaluating information and resources to determine how an individual will be classified.

- a. Risk of policyholder concealment
- b. Risk of insurance content

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- c. Occupational and financial risk
- d. Risk of health conditions
- e. Risk of the lack of experience of the underwriter
- f. Risk of retention
- g. Risk of operation quality.

Aside from establishing “Underwriting Systems and Procedures” based on the “Regulations Governing new insurance Policy Soliciting, Underwriting and Claim Settlement of Insurance Enterprises”, a code of conduct for underwriting operation is also established to serve as a guide for underwriting risk control. Considering the experience and professional skills of the underwriters, different levels of authorization are established and the underwriting amount for each underwriter personnel is regulated to control the appropriateness of underwriting assessment and to supervise the correctness and timeliness of underwriting operation.

2. Claim risk management

Claim risk refers to the risk arising from adopting inappropriate or negligent procedures on claims settlement procedure. In order to control claim risk, claim risk is categorized into four management interfaces, such as reason of occurrence, frequency of occurrence of risk, classification of risk and effect of the risk. The property of the claim risk is assessed through the multiple-dimension table and risk tolerance level to control the claim risk. Aside from establishing the “Claim Settlement System and Procedures” based on the “Regulations Governing new insurance policy Soliciting, Underwriting and Claim Settlement of Insurance Enterprises” to enhance professional training and morality of claims personnel as well as the control procedures to lessen operational negligence, Fubon Life Insurance also monitors the correctness, timeliness, policy holder complaint ratio and actual loss ratio through the tiers authorization management of the claims personnel.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

3. Product design and pricing risk management

Product design and pricing risk refers to the risk arising from the impropriety, inconsistency or unexpected change of the data related to the product content, clauses and rates. To insure risk control at the point of the pre and after sales of insurance products, internal code of conduct and control procedure were established based on “Regulation governing the procedure before the sales of insurance product” issued by authorities for the insurance product design, inspection, sales preparation to control the risk related to each phases and procedure of product development. In terms of product design, feasibility analysis of new product is conducted and a conference is held to confirm before relevant issue submission. A pre-market meeting is also convened before product launch to ensure that the related activities are completed. In terms of product pricing, aside from certain quantitative risk control mechanism such as risk control procedure, profit test and sensitivity analysis, an assets allocation plan is also set up. Fubon Life Insurance takes into consideration of the characteristics of asset and liabilities for asset allocation and conforms to sales review meeting regularly after sales.

4. Reserve risk management

Reserve-related risk refers to the risk arising from underestimating the liabilities from insufficient written premium provision to cover future obligation. In order to control the reserve-risk, the reserve-risk is categorized into the legality of reserve provision and completeness of operating procedures. To ensure the legality of reserves provision, the Regulatory self-Inspection Compliance manual has been established and audit procedures are executed regularly to ensure that all sorts of reserves conform to what is required by law. Also “Standard Operating Procedures” manual is established. The provisions of this manual maybe updated regularly as the law changes. The operating procedures manual covers ranges from system administration, data access and report generation. Furthermore, several controls are established within the framework to ensure the accuracy of the calculation.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

5. Catastrophe risk and reinsurance risk

To avoid risk concentration and catastrophe compensation, the following controls are established.

a. Catastrophe risk

Based on Fubon Insurance's experience, the retention and reinsurance limits are set up and are regularly reviewed. These limits are also applicable to insurance for calamities like earthquakes, typhoons, and air-crash by using scenario analysis and take into account the inter-insurance accumulated losses derived from Risk Accumulation.

b. Reinsurance risk

An annual reinsurance risk management plan is established in conformity with the "Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms" as part of Fubon Life Insurance's annual reinsurance policy. This plan includes retention risk management, ceded insurance risk management, assumed insurance risk management, intra-group in conjunction with reinsurance risk management.

The credit rating of the reinsurers is also monitored monthly. The credit rating is evaluated based on article 8 of "Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms". Under these regulations, reinsurers or insurance organizations with a credit rating above a certain level from an international credit rating agency (ie. BBB- or higher by Standard & Poor's Corporation or its equivalent credit rating from agencies endorsed by the authority) are eligible as reinsurers to whom an insurance enterprise may cede its business. Fubon Life Insurance currently adopts Standard and Poor's A- or above as its guideline regarding newly incorporated reinsurers.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

6. Assets and liabilities combination risk
 - a. To enhance the overall assets and liabilities allocation, maintain adequate liquidity, and improve capital performance for the purpose of maximizing the risk management reward, management monitor compliance of Fubon Life Insurance and its subsidiaries with the relevant government regulations. In addition, through the establishment of Assets and Liabilities Management Committee, management keep track of the issues related to the cash flow allocation of assets and liabilities, and to establish assets and liabilities management related regulation which enable Fubon Life Insurance and its subsidiaries to sustain adequate capital to cover the potential risk from business operation.
 - b. The Assets and Liabilities Management Committee holds meetings monthly and the responsible department in Fubon Life Insurance and its subsidiaries performs the cash flow test using the spot interest rate and estimates the earnings at the end of each year to test Fubon Life Insurance and its subsidiaries' liquidity. In addition, the Risk-Based Capital ratio is examined and simulated via important elements to execute sensitivity analysis which serves as the reference for capital adequacy decision. Furthermore, the change between Venture Capital and equity fund is analyzed to identify the reason for such changes and capital liquidity risk analysis is performed by using the accumulated net cash flow in a year and the accumulated net cash flow in 5 years as the benchmark for risk management.
7. Risk management report
 - a. A Risk Management Committee is set up under the supervision of the Board of Directors. The independent directors acting as the conveners, and hold a meeting quarterly. According to its organization rules, the major duties of the committee are to:
 - i. Set up and modify policy and structure of risk management.
 - ii. Set up and modify the quantitative and qualitative criteria for risk measurement.
 - iii. Adjust risk types as environment change.
 - iv. Set up risk limit allocation and the way of undertaking risk.
 - v. Submit risk management report to the board of directors regularly and authorize to competent departments.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- b. The committee also reviews the overall risk management. Aside from supervising the implementation of risk management policies to ensure that Fubon Life Insurance meets the strategic target, the committee reviews the effectiveness and feasibility of risk management mechanism. It also submits reports to the board of directors to ensure that the risk management is enforced effectively.
- iii) Information of insurance risk
1. Sensitivity of insurance risk – Insurance contracts and financial instruments with discretionary feature:

	For the nine months ended September 30, 2017		
	Change in assumption	Change in income before tax	Change in stockholder's equity
Mortality/Morbidity	Increase 10 %	(1,948,911)	(1,617,596)
Rate of return	Decrease 0.1 %	(2,505,532)	(2,079,592)
Expense (fixed expense)	Increase 5 %	(257,446)	(213,680)
Lapse and surrender rate	Increase 10 %	152,939	126,939

	For the nine months ended September 30, 2016		
	Change in assumption	Change in income before tax	Change in stockholder's equity
Mortality/Morbidity	Increase 10 %	(1,768,689)	(1,468,012)
Rate of return	Decrease 0.1 %	(2,223,413)	(1,845,433)
Expense (fixed expense)	Increase 5 %	(242,950)	(201,649)
Lapse and surrender rate	Increase 10 %	162,822	135,142

The sensitivity analysis requires evaluating the impact to the profit before tax/ equity under the circumstance in which only one element changes and the others remain constant.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Fubon Life Insurance uses a pre-tax rate of 17% and other factors, including mortality, morbidity, rate of return, expense rate and lapse rate, in evaluating the impact on equity. The sensitivity analysis does not include the information of the subsidiaries of Fubon Life Insurance. Such exclusion is due to the fact that the retention of earned premiums accounted for very little proportion of the consolidated retention of earned premiums and is not expected to affect the result of the sensitivity analysis.

2. Insurance risk concentration

Fubon Life Insurance and its subsidiaries sell insurances, which include life insurance, annuity insurance, accident insurance and health insurance. Since insurance contracts are mainly issued in Taiwan, the insurance risk is concentrated in Taiwan.

3. Claim development trend

a. Development trend of claims payment incurred

September 30, 2017

Occurrence year	Development year							Claim provision
	1	2	3	4	5	6	7	
2011	3,500,731	4,151,270	4,214,277	4,225,892	4,232,924	4,242,225	4,243,173	-
2012	3,534,236	4,263,656	4,330,262	4,347,231	4,351,260	4,355,750	-	1,981
2013	3,970,050	4,725,262	4,813,040	4,826,369	4,831,223	-	-	7,668
2014	4,172,446	5,113,019	5,173,291	5,182,056	-	-	-	11,593
2015	4,605,165	5,558,277	5,656,471	-	-	-	-	45,942
2016	5,070,166	6,137,730	-	-	-	-	-	397,102
2017	3,795,479	-	-	-	-	-	-	852,618
IBNR Reserve								1,316,904
Plus: RBNA Reserve (reported and unpaid claims)								858,717
The balance of claim reserve								2,175,621

December 31, 2016

Occurrence year	Development year							Claim provision
	1	2	3	4	5	6	7	
2010	3,426,842	3,989,417	4,044,102	4,059,304	4,062,735	4,066,811	4,069,076	-
2011	3,500,731	4,151,270	4,214,277	4,225,892	4,232,924	4,242,225	-	-
2012	3,534,236	4,263,656	4,330,262	4,347,231	4,351,260	-	-	7,965
2013	3,970,050	4,725,262	4,813,040	4,826,369	-	-	-	8,813
2014	4,172,446	5,113,019	5,173,291	-	-	-	-	19,598
2015	4,605,165	5,558,277	-	-	-	-	-	109,511
2016	5,070,166	-	-	-	-	-	-	1,146,383
IBNR Reserve								1,292,270
Plus: RBNA Reserve (reported and unpaid claims)								835,983
The balance of claim reserve								2,128,253

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

September 30, 2016

Occurrence year	Development year							Claim provision
	1	2	3	4	5	6	7	
2010	3,426,842	3,989,417	4,044,102	4,059,304	4,062,735	4,066,811	4,068,305	-
2011	3,500,731	4,151,270	4,214,277	4,225,892	4,232,924	4,236,497	-	-
2012	3,534,236	4,263,656	4,330,262	4,347,231	4,357,224	-	-	-
2013	3,970,050	4,725,262	4,813,040	4,828,866	-	-	-	2,739
2014	4,172,446	5,113,019	5,190,288	-	-	-	-	29,361
2015	4,605,165	5,498,780	-	-	-	-	-	336,019
2016	3,514,781	-	-	-	-	-	-	755,766
IBNR Reserve								1,123,885
Plus: RBNA Reserve (reported and unpaid claims)								899,559
The balance of claim reserve								2,023,444

Note 1: Amount shown above excludes investment contracts

Note 2: As of September 30, 2017, December 31 and September 30, 2016, except for the IBNR reserve of investment-linked products, and IBNR claim reserves from Fubon Life Insurance (Vietnam) that are not estimated based on claim development trend, the IBNR claim reserves from direct businesses amounted to \$14,833, \$15,028 and \$15,196, respectively.

b. Development trend of retained claims payments

Cumulative claims payments from prior years are as follows:

September 30, 2017

Occurrence year	Development year							Claim provision
	1	2	3	4	5	6	7	
2011	3,437,890	3,981,026	4,044,397	4,056,011	4,063,016	4,072,317	4,073,265	-
2012	3,526,249	4,184,487	4,251,072	4,268,016	4,272,044	4,276,520	-	1,965
2013	3,942,698	4,565,096	4,651,774	4,665,103	4,669,952	-	-	7,577
2014	4,166,511	4,992,049	5,052,316	5,061,081	-	-	-	11,419
2015	4,587,144	5,435,512	5,533,544	-	-	-	-	45,044
2016	5,068,488	6,057,888	-	-	-	-	-	392,311
2017	3,782,473	-	-	-	-	-	-	847,685
IBNR Reserve								1,306,001
Plus: RBNA Reserve								788,779
The balance of claim reserve								2,094,780

December 31, 2016

Occurrence year	Development year							Claim provision
	1	2	3	4	5	6	7	
2010	3,262,624	3,703,188	3,757,543	3,772,737	3,776,169	3,780,233	3,782,497	-
2011	3,437,890	3,981,026	4,044,397	4,056,011	4,063,016	4,072,317	-	-
2012	3,526,249	4,184,487	4,251,072	4,268,016	4,272,044	-	-	7,903
2013	3,942,698	4,565,096	4,651,774	4,665,103	-	-	-	8,523
2014	4,166,511	4,992,049	5,052,316	-	-	-	-	19,290
2015	4,587,144	5,435,512	-	-	-	-	-	107,090
2016	5,068,488	-	-	-	-	-	-	1,145,739
IBNR Reserve								1,288,545
Plus: RBNA Reserve								771,645
The balance of claim reserve								2,060,190

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

September 30, 2016

Occurrence year	Development year							Claim provision
	1	2	3	4	5	6	7	
2010	3,262,624	3,703,188	3,757,543	3,772,737	3,776,169	3,780,233	3,781,726	-
2011	3,437,890	3,981,026	4,044,397	4,056,011	4,063,016	4,066,589	-	-
2012	3,526,249	4,184,487	4,251,072	4,268,016	4,278,008	-	-	-
2013	3,942,698	4,565,096	4,651,774	4,667,600	-	-	-	2,697
2014	4,166,511	4,992,049	5,069,314	-	-	-	-	28,764
2015	4,587,144	5,410,506	-	-	-	-	-	330,736
2016	3,514,116	-	-	-	-	-	-	755,520
IBNR Reserve								1,117,717
Plus: RBNA Reserve								833,001
The balance of claim reserve								1,950,718

Note 1: Amount shown above excludes investment contracts

Note 2: As of September 30, 2017, December 31 and September 30, 2016, except for the IBNR reserve of investment-linked products and the IBNR reserve from Fubon Life Insurance (Vietnam) that are not estimated based on claim development trend, the IBNR reserve from retained business amounted to \$12,818, \$13,052 and \$13,241, respectively.

Claim reserves are provided based on the expected claims payment and relevant handling fee of RBNA and IBNR claims. Such provisions involve vast uncertainty, estimates and judgments which are highly complicated. Any change of estimate or judgment is regarded as a change in accounting estimate and the amount of change is recognized as a current gain or loss. For some claims, notifications to Fubon Life Insurance and its subsidiaries may be delayed. In addition, estimating the potential IBNR claims involves vast past loss experience and subjective judgment, therefore, it is difficult to confirm whether the estimated claims reserve on the balance sheet date will equal to the final claim compensation amount. The estimate of claims reserve is based on the information currently available. However, the final result may deviate from the original estimate due to the subsequent development.

The table above demonstrates the development trend of claims (excluding those claims that need confirmation within one year). The vertical shaft represents the year in which the claim event occurred, and the horizontal shaft represents the development years. Each slash represents the accumulated compensation amount at the end of each year. The compensation amount refers to the claims whether they are finalized or not. It explains how Fubon Life Insurance and its subsidiaries estimate the compensation amount of each year as time passed. The scenario and trend which affect the provision of claims reserve may not be the same as they will be in the future. Therefore, the estimated future compensation amount cannot be determined by the claim development trend.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

iv) The credit risk, liquidity risk and market risk of insurance contracts

1. Credit risk

The credit risk of insurance contracts arise mainly from the inability of the reinsurers to fulfill its obligation from the reinsurance contracts which will result in financial losses. Fubon Life Insurance and its subsidiaries monitor the credit rating of its reinsurers monthly to ensure that they meet the minimum regulatory requirements. It also selects reinsurers prudently to reduce the potential loss.

2. Liquidity risk

The liquidity risk of insurance contract arises mainly from the inability of Fubon Life Insurance to obtain sufficient funds or turn assets into cash in order to fulfill payment of financial obligations as they are due. Aside from regularly reviewing the maturity analysis of Insurance Contracts, Fubon Life Insurance also reviews short-term and mid-term liquidity risk benchmark through the Assets and Liabilities Management Committee to lower the relevant risk by using Asset Liability Matching (ALM). The Committee also sets the response strategy in advance for potential payments in order to ensure timeliness of liquidity risk management and to avoid inadequate liquidity.

The maturity analysis of Insurance Contracts of Fubon Life Insurance and its subsidiary is shown below:

September 30, 2017

(in million)

Maturity date	< 1 year	1~3 years	3~5 years	> 5 years	Unable to classify (note)	Total
Provision	118,106	274,230	98,783	2,355,585	234,269	3,080,973
Proportion	3.8 %	8.9 %	3.2 %	76.5 %	7.6 %	100.0 %

December 31, 2016

(in million)

Maturity date	< 1 year	1~3 years	3~5 years	> 5 years	Unable to classify (note)	Total
Provision	131,764	262,763	186,440	2,071,208	244,914	2,897,089
Proportion	4.5 %	9.1 %	6.4 %	71.5 %	8.5 %	100.0 %

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

September 30, 2016

(in million)

Maturity date	< 1 year	1~3 years	3~5 years	> 5 years	Unable to classify (note)	Total
Provision	145,386	276,240	202,273	1,968,332	251,071	2,843,302
Proportion	5.1 %	9.7 %	7.1 %	69.3 %	8.8 %	100.0 %

Note1: Reserve for insurance with financial instrument is included.

Note2: The “Unable to classify” includes interest-linked product, authorized additional provision and provision for bad debt allowance. The amounts above exclude provision for separate account, foreign exchange fluctuation reserve and appraisal increment of real estate.

3. Market risk

Market risk refers to the risk caused by the adverse changes in market prices in terms of interest rates, foreign exchange rates, stock prices, and commodity prices. Fubon Life Insurance and its subsidiaries measure market risk from insurance contract according to discount rate assumption prescribed by the authorities. This assumption may not be consistent with changes in market interest rates. Unless the liability adequacy test disclosed the need to provide more reserve, management is not expecting that the change in market risk factors would have a significant effect on income and equity of Fubon Life Insurance and its subsidiaries.

Guided by Assets and Liabilities Management Committee, Fubon Life Insurance and its subsidiaries take into account financial environment, all the economic indicators, liability properties and ALM, to choose appropriate investment target through risk control mechanism. Under the consent of regulatory framework and market environment, choosing and acquisition of long-term assets is monitored by the Assets and Liabilities Management Committee. This is to allow assets and liabilities to match better in terms of payment terms and profits, to pursue long term business and protect the rights of policyholders. This will also reduce the influence on insurance contract caused by market risk and eventually lower the potential loss to Fubon Life Insurance and its subsidiaries.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(ai) Financial risk management

(i) Risk management structure

The Company has established a sound risk management organization framework. The Board of Directors is responsible for overseeing the Company's governance in building solid risk management system and control mechanism to ensure the effectiveness of risk management operations, approving the Company's risk management policies and regulations, and reviewing important risk management reports. The Audit Committee assists the Board of Directors in overseeing the Company's risk management and control issues. The Risk Management Committee, which is subordinate to the Chairman of the Board of Directors, reviews the Company's risk management strategy, structure, systems and policies, approves risk limits, and oversees the group's overall risks including credit risk, market risk, operational risk, insurance risk, liquidity risk, asset liability risk and capital adequacy.

The Company adopts three lines of defense risk management system to ensure the effectiveness of its risk management mechanism.

- 1) First line of defense – All units including business, operational and administrative units required to conduct their respective duties in full compliance with the risk management policies and procedures.
- 2) Second line of defense – Independent risk management units responsible for designing risk management systems, monitoring risk controls, and submitting risk reports.
- 3) Third line of defense – Independent audit units responsible for auditing the compliance and implementation of internal control rules.

(ii) Risk management policies

The Company has employed comprehensive risk management policies and procedures in respect of credit risk, market risk, operational risk, capital adequacy, asset liability risk, liquidity risk, insurance risk, country risk, etc., implemented by all units and subsidiaries across the group to effectively identify, evaluate, response, monitor and report various risks respectively.

A full set of risk limits, loss limits and trading delegation limits, risk exposure evaluation and monitoring measurements by quantitative and qualitative methods as well as early warning systems have been all in place in line with risk attributes to proactively monitor and manage various major risks.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(iii) Credit Risk

Major subsidiaries are listed separately as follows:

1) Taipei Fubon Bank (The Bank) and its subsidiary

a) Credit risk definitions and sources

Taipei Fubon Bank (The Bank)

Credit risk refers to the risk of losses caused by borrowers, debtors, or counterparties' failure to fulfill their contractual obligations due to deteriorating financial position or other factors. It arises principally from business like discounts and loans, credit card business, due from and call loan to banks, debt investment and derivatives etc., and also from off-balance sheet products such as guarantee, acceptance, letters of credit and other commitments.

Fubon Bank (China)

Credit risk faced by Fubon Bank (China) mainly comes from commercial lending (including mortgage, discounts, negotiations, credits, acceptance bills, issued letters of credit, standby letters of credit, bank guarantees, etc.), financial derivative contracts, and bond investments.

b) Strategy, objectives, policies and procedures

Taipei Fubon Bank (The Bank)

The Bank has established solid credit risk policies and procedures. A robust credit risk strategy taking into account of economic environment, industry sector and financial sector as well as corporate business plan is in place. The Bank pursues the optimization of risks and rewards. Comprehensive credit risk management systems and tools have been deployed effectively to identify, evaluate, monitor and report credit risks including default, counterparty and concentration risks.

Fubon Bank (China)

Under the board's risk management guidance, the credit risk management strategy of Fubon Bank (China) effectively conducts risk control through a comprehensive credit risk management (CRMS) system, taking into consideration the international economic development and regional industry trends. The CRMS system covers the implementation of risk management policies on credit management regulation, credit approvals, post-loan policies, etc. The bank's risk management goal is toward credit asset protection, realization of the optimal ratio of risk and revenue by using credit risk management tools to manage expected losses effectively. The credit risk management procedures include identification, measurement, monitor and control of credit risk.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

c) Credit risk management framework

Taipei Fubon Bank (The Bank)

To strengthen risk management function, under the supervision of the Board of Directors, the Bank has established the Credit Risk Management Committee which is composed of senior management and chaired by the President to examine credit risk policies and quota and to monitor the bank's credit risk and country risk control, credit risk acceptance and management strategy in respect of credit business, securities investment and transaction and derivatives.

To enhance the independency of credit risk management, the Bank has established Risk Management Division, under which, there is Credit Risk Management Departments, responsible for measuring the Bank's risk exposures, monitoring risk limits, reporting, coordinating to develop the mechanism for managing credit risk and validating risk models.

Credit management divisions under the Corporate Finance Department and Personal Financial Department are responsible of credit investigation, examination, post disbursement management, overdue receivables and debt management.

The Bank has established an Institutional Credit Review Committee, and a Retail Credit Review Committee respectively to review credit above a certain limit to strengthen control over cases involving large credit amounts.

The audit department, which is under the supervision of the Board of Directors, conducts the third defense line examining the effectiveness of internal control functions independently.

Fubon Bank (China)

Fubon Bank (China)'s current credit risk management is based on its comprehensive risk management system. Credit Policy & Planning Department、Post Disbursement Risk Management Department、Credit Approval & Administration Department and Risk Control Department, which belong to Fubon Bank's Risk Management Department, are responsible for managing credit risk.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

d) Credit risk measurement, control and reporting

Taipei Fubon Bank (The Bank)

The Bank has established credit risk measurements and control procedures including underwriting, risk rating, limit control, account maintenance, pre-settlement limit control and collection management systems, which enable the Bank to manage limit controls on country risk, single legal entity and group exposure risk and industry concentration risk effectively. Other than aforementioned control procedure, the Bank has established vigorous review and early warning mechanism to ensure the Bank to undertake proper courses of actions on credit risk management.

The Bank regularly performs the credit risk stress testing based on the guideline issued by Financial Supervisory Commission, and continues to develop scenario analysis and stress test approaches to provide senior management with an assessment of risk tolerance, as well as to provide the reference of credit portfolio management.

The Bank has completed risk data warehousing system, risk-weighted assets calculation system and internal risk rating system. The development and revise of score card and rating models are validated independently by Risk Management Division to monitor the model performance and stability.

Fubon Bank (China)

The credit risk control process includes credit policy development, credit approval, early warning and collection. Credit risk supervision includes the regular follow-up of high-risk cases, exposure limit control of country risk, and customer credit grading management; the real-estate loan monitoring and other monthly monitoring include the industry concentration and the concentration of a single client/group clients and their affiliated parties.

Fubon Bank (China) makes a regular credit portfolio stress test for industry, products, regions, and customers based on the actual status of the credit portfolio. The stress test results, including changes in results due to differences in risk triggers, will be reported at the board meeting and serve as the reference for risk management and decision-making.

The credit management system of Fubon Bank (China) has modules for credit approval, loan ledger management, collateral information maintenance, customer grading management and five-category asset classification for bank loans. The system can support credit risk management effectively.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

e) Credit risk mitigation

Taipei Fubon Bank (The Bank)

The Bank has established sophisticated limits in controlling concentration risks on credit, securities investment and counterparty exposures. Risk rating is assessed for each borrower based on stringent evaluation of obligor risk and facility risk. Furthermore, the Bank has set a centralized approval process with documented guidelines and dual authorizations. Appropriate collaterals are required based on borrowers' financials and debt service capabilities to mitigate credit risk.

Fubon Bank (China)

Fubon Bank (China) set up the credit and approval authority limitation based on customer risk grading and loan classification, guarantee and sub-guarantee criteria, and investment portfolio management based on the "Institutional Banking Credit Risk Management Policy". Fubon Bank (China) strengthens the risk identification according to the customer's risk grading and the CB's customer selection criteria and classification. The credit quality control is done through strict and through due diligent and approval procedure and counter sign of credit officers from both sales department and risk department. Fubon Bank (China) will require suitable collateral in order to enhance the risk mitigation due to the loan risk. In addition, there is post-loan management, which includes continual loan monitoring and taking note of any early risk-warning signals.

f) Maximum exposure to credit risk

The maximum exposure to credit risks is represented by the carrying amount of each financial asset in the balance sheet without taking into consideration any collateral held or other credit enhancements. The maximum credit exposures of the off-balance sheet financial instruments (before taking account of any collateral held or other credit enhancements) are summarized as follows:

Taipei Fubon Bank (The Bank)

Off-balance sheet items	Maximum exposure amount		
	September 30, 2017	December 31, 2016	September 30, 2016
Irrevocable loan commitments	\$ 76,366,213	90,031,332	81,692,565
Standby letters of credit	9,145,046	8,893,665	8,537,139
Financial guarantees	30,942,417	32,089,282	30,415,287
Total	\$ 116,453,676	131,014,279	120,644,991

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Fubon Bank (China)

Units: In thousands of CNY

Off-balance sheet items	Maximum exposure amount		
	September 30, 2017	December 31, 2016	September 30, 2016
Irrevocable loan commitments	\$ 207,894	140,375	349,183
Standby letters of credit	514,659	235,845	210,462
Financial guarantees	1,509,731	1,649,110	1,529,052
Total	\$ 2,232,284	2,025,330	2,088,697

The maximum exposures of assets and off-balance sheet items pledged as collaterals or other credit enhancements are as follows:

Taipei Fubon Bank (The Bank)

September 30, 2017					
Assets	Financial instruments	Properties	Guarantees	Others	
Loans	3.27 %	57.95 %	3.97 %	2.77 %	
Guarantees receivable	3.34 %	5.49 %	0.45 %	0.73 %	
Acceptances	12.58 %	12.10 %	0.15 %	-	%
Available-for-sale financial assets	-	%	16.86 %	-	%
Held-to-maturity financial assets	-	%	0.56 %	-	%
Other financial assets— Debt investments without active markets	-	%	7.60 %	-	%
December 31, 2016					
Assets	Financial instruments	Properties	Guarantees	Others	
Loans	2.67 %	55.49 %	4.04 %	2.86 %	
Guarantees receivable	3.88 %	5.89 %	0.66 %	0.51 %	
Acceptances	11.57 %	4.99 %	0.41 %	0.42 %	
Available-for-sale financial assets	-	%	15.24 %	-	%
Held-to-maturity financial assets	-	%	0.99 %	-	%
Other financial assets— Debt investments without active markets	-	%	5.47 %	-	%

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>September 30, 2016</u>				
<u>Assets</u>	<u>Financial instruments</u>	<u>Properties</u>	<u>Guarantees</u>	<u>Others</u>
Loans	2.83 %	54.27 %	4.26 %	2.97 %
Guarantees receivable	2.78 %	7.18 %	0.70 %	0.53 %
Acceptances	10.81 %	10.03 %	0.08 %	0.31 %
Available-for-sale financial assets	- %	- %	10.77 %	- %
Held-to-maturity financial assets	- %	- %	1.39 %	- %
Other financial assets— Debt investments without active markets	- %	- %	6.35 %	- %

Fubon Bank (China)

<u>September 30, 2017</u>				
<u>Assets</u>	<u>Financial instruments</u>	<u>Properties</u>	<u>Guarantees</u>	<u>Others</u>
Loans	8.48 %	7.36 %	- %	1.32 %
Guarantees receivable	74.16 %	23.45 %	2.15 %	- %
Acceptances	31.27 %	3.07 %	36.26 %	- %

<u>December 31, 2016</u>				
<u>Assets</u>	<u>Financial instruments</u>	<u>Properties</u>	<u>Guarantees</u>	<u>Others</u>
Loans	10.24 %	9.20 %	- %	1.55 %
Guarantees receivable	70.50 %	25.76 %	3.50 %	- %
Acceptances	54.02 %	6.14 %	20.04 %	- %

<u>September 30, 2016</u>				
<u>Assets</u>	<u>Financial instruments</u>	<u>Properties</u>	<u>Guarantees</u>	<u>Others</u>
Loans	8.74 %	9.90 %	- %	1.44 %
Guarantees receivable	67.71 %	27.62 %	3.11 %	- %
Acceptances	60.76 %	6.74 %	16.74 %	- %

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

g) Concentrations of credit risk exposure

Concentrations of credit risk arise when a number of counterparties or exposure have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic or other conditions.

Credit risk concentrations can arise in Taipei Fubon Bank and its subsidiaries' assets, liabilities, or off-balance sheet items, through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories. It includes credits, loans and deposits, call loans to banks, investments, receivables and derivatives. Taipei Fubon Bank and its subsidiaries maintain a diversified portfolio, limit their exposure to any one geographic region, country or individual creditor and monitor the exposure continually in order to manage credit risk. Taipei Fubon Bank and its subsidiaries' most significant concentrations of credit risk are summarized as follows:

Taipei Fubon Bank (The Bank)

i) By industry

	<u>September 30, 2017</u>		<u>December 31, 2016</u>		<u>September 30, 2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Private	\$ 622,006,585	52.30	572,170,635	49.34	562,505,654	48.37
Private enterprise	406,930,640	34.21	409,665,407	35.33	427,431,345	36.76
Financial institution	73,732,734	6.20	62,718,472	5.41	53,129,904	4.57
Government organization	48,530,398	4.08	60,253,577	5.20	62,841,894	5.40
Public enterprise	37,522,556	3.16	54,379,520	4.69	56,640,019	4.87
Non-profit organization	624,552	0.05	399,872	0.03	370,625	0.03
Total	<u>\$ 1,189,347,465</u>	<u>100.00</u>	<u>1,159,587,483</u>	<u>100.00</u>	<u>1,162,919,441</u>	<u>100.00</u>

ii) By geographical area

	<u>September 30, 2017</u>		<u>December 31, 2016</u>		<u>September 30, 2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Domestic	\$ 1,051,272,820	88.39	1,033,742,174	89.15	1,040,456,095	89.47
Asia	73,271,501	6.16	62,885,190	5.42	64,118,939	5.51
America	52,163,345	4.39	49,717,731	4.29	47,245,528	4.06
Others	12,639,799	1.06	13,242,388	1.14	11,098,879	0.96
Total	<u>\$ 1,189,347,465</u>	<u>100.00</u>	<u>1,159,587,483</u>	<u>100.00</u>	<u>1,162,919,441</u>	<u>100.00</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

iii) By collateral

	<u>September 30, 2017</u>		<u>December 31, 2016</u>		<u>September 30, 2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Unsecured	\$ 400,245,597	33.65	423,747,922	36.55	431,871,522	37.14
Secured	789,101,868	66.35	735,839,561	63.45	731,047,919	62.86
Properties	671,664,572	56.47	626,202,482	54.00	615,748,156	52.95
Guarantees	45,995,734	3.87	45,691,757	3.94	48,408,769	4.16
Financial instruments	39,204,421	3.30	31,576,642	2.72	33,102,757	2.85
Others	32,237,141	2.71	32,368,680	2.79	33,788,237	2.90
Total	<u>\$ 1,189,347,465</u>	<u>100.00</u>	<u>1,159,587,483</u>	<u>100.00</u>	<u>1,162,919,441</u>	<u>100.00</u>

Fubon Bank (China)

i) By industry

	<u>September 30, 2017</u>		<u>December 31, 2016</u>		<u>September 30, 2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Finance and insurance	\$ 11,592,345	28.58	11,881,305	30.00	15,256,881	34.90
Construction	5,118,994	12.62	4,313,653	10.89	4,034,256	9.23
Wholesale and retailing	3,956,468	9.75	3,164,941	7.99	2,797,668	6.40
Manufacturing	3,323,546	8.19	3,267,854	8.25	2,943,210	6.73
Leasing and business service	3,281,289	8.09	3,819,398	9.64	2,392,963	5.47
Water conservation and environment	3,127,684	7.71	3,160,997	7.98	3,124,197	7.15
Real estate	1,332,636	3.29	2,057,279	5.19	2,337,262	5.35
Personal loans	885,778	2.19	497,027	1.26	434,114	0.99
Transportation	659,887	1.63	58,676	0.15	163,996	0.37
Electricity, gas and water	551,000	1.36	216,050	0.55	285,910	0.65
Information and computers	399,199	0.98	537,274	1.36	353,882	0.81
Education	332,140	0.82	127,743	0.32	128,789	0.29
Agriculture, livestock and fishery	190,000	0.47	55,000	0.14	55,000	0.13
Health care and welfare	166,781	0.41	33,293	0.08	33,293	0.07
Research, development and technical services	131,308	0.32	5,040	0.01	38,000	0.09
Hotel and catering	19,378	0.05	54,689	0.14	70,750	0.16
Culture, sports and entertainment	13,261	0.03	25,000	0.06	143,269	0.33
Others	5,479,102	13.51	6,327,381	15.99	9,127,661	20.88
Total (Note)	<u>\$ 40,560,796</u>	<u>100.00</u>	<u>39,602,600</u>	<u>100.00</u>	<u>43,721,101</u>	<u>100.00</u>

Note : Included only discounts and loans.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

ii) By geographical area

Units: In thousands of CNY

	September 30, 2017		December 31, 2016		September 30, 2016	
	Amount	%	Amount	%	Amount	%
East China	\$ 18,114,733	44.66	18,154,073	45.84	18,855,616	43.13
North China	7,866,568	19.39	10,660,688	26.92	13,838,783	31.65
South west region	6,018,582	14.84	5,683,492	14.35	5,609,188	12.83
South China	2,288,315	5.64	1,640,154	4.14	1,259,754	2.88
Other regions	5,386,820	13.28	2,967,166	7.49	3,723,646	8.52
Private loans	885,778	2.19	497,027	1.26	434,114	0.99
Total (Note)	\$ 40,560,796	100.00	39,602,600	100.00	43,721,101	100.00

Note : Included only discounts and loans.

iii) By collateral

Units: In thousands of CNY

	September 30, 2017		December 31, 2016		September 30, 2016	
	Amount	%	Amount	%	Amount	%
Credit loans	\$ 33,597,010	82.83	31,292,273	79.01	34,941,174	79.92
Guarantees loans	536,699	1.32	612,639	1.55	628,930	1.44
Collateral loans	6,427,087	15.85	7,697,688	19.44	8,150,997	18.64
Pledge loans	3,441,466	8.49	4,055,552	10.24	3,822,800	8.74
Mortgage loans	2,985,621	7.36	3,642,136	9.20	4,328,197	9.90
Total (Note)	\$ 40,560,796	100.00	39,602,600	100.00	43,721,101	100.00

Note : Included only discounts and loans.

h) Credit quality and impairment assessment

Some financial assets like cash and cash equivalents, due from the central bank and call loan to banks, financial asset measured at fair value through profit or loss, securities purchased under resell agreements, refundable guarantees, guaranty bond and clearing and settlement fund are regarded as very low credit risk owing to the good credit rating of counterparties.

Besides the aforementioned financial assets, the credit quality of discounts, loans, receivables and investments are divided into three classifications. The credit quality classifications defined below each encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending business, as well as the external ratings attributed by external agencies to investment.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Quality classification definitions:

Taipei Fubon Bank (The Bank)

- i) Good: Exposures demonstrate a good capacity to meet financial commitments, with low default risk and/or low levels of expected loss.
- ii) Moderate: Exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.
- iii) Substandard: Exposures require varying degrees of special attention and default risk is of greater concern.

Fubon Bank (China)

- i) Moderate: Borrower can fulfill the loan contract. There is no convincing reason to doubt the repayment capacity of borrowers.
- ii) Special-mention: Some negative factors may affect the completion of a borrower's repayment, even though the borrower has the capacity to make regular repayments up till now.

Credit risk analysis of financial assets

- i) Credit analysis for receivables and discounts and loans :

Taipei Fubon Bank (The Bank)

	Neither past due nor impaired				Overdue but not impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss recognized (D)		Net total (A)+(B)+(C)-(D)
	Good	Moderate	Substandard	Subtotal (A)				With objective evidence of impairment	With no objective evidence of impairment	
September 30, 2017										
Receivables	54,088,293	17,720,938	501,888	72,311,119	164,592	915,055	73,390,766	159,252	324,970	72,906,544
Credit card business	27,459,211	6,014,051	454,119	33,927,381	154,152	634,047	34,715,580	55,138	109,381	34,551,061
Accounts receivable and documents against acceptance - forfeiting	360,571	697,647	-	1,058,218	-	-	1,058,218	-	10,875	1,047,343
Accounts receivable - factoring	7,347,152	8,053,102	-	15,400,254	-	-	15,400,254	-	173,521	15,226,733
Acceptances	736,461	2,040,176	319	2,776,956	-	-	2,776,956	-	28,719	2,748,237
Others	18,184,898	915,962	47,450	19,148,310	10,440	281,008	19,439,758	104,114	2,474	19,333,170
Bill purchased	-	297	-	297	-	-	297	-	3	294
Nonperforming loans transferred from other than loans	-	-	-	-	-	551,465	551,465	531,028	-	20,437
Discounts and loans	578,089,918	537,633,462	29,296,778	1,145,020,158	2,523,307	8,061,540	1,155,605,005	1,712,815	13,656,802	1,140,235,388
Personal finance	475,222,538	58,327,189	26,797,356	560,347,083	2,336,096	1,878,403	564,561,582	86,303	7,553,063	556,922,216
Corporate banking	102,867,380	479,306,273	2,499,422	584,673,075	187,211	6,183,137	591,043,423	1,626,512	6,103,739	583,313,172

Note: Total loan is the original amount without the adjustments of premium or discounts \$602,426.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	Neither past due nor impaired				Overdue but not impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss recognized (D)		Net total (A)+(B)+(C)-(D)
	Good	Moderate	Substandard	Subtotal (A)				With objective evidence of impairment	With no objective evidence of impairment	
December 31, 2016										
Receivables	41,110,625	21,998,025	517,023	63,625,673	188,252	902,503	64,716,428	147,808	363,511	64,205,109
Credit card business	25,152,207	7,212,587	456,550	32,821,344	174,295	710,592	33,706,231	63,975	113,342	33,528,914
Accounts receivable and documents against acceptance - forfeiting	580,329	420,657	-	1,000,986	-	-	1,000,986	-	10,967	990,019
Accounts receivable - factoring	5,349,974	11,185,442	-	16,535,416	-	-	16,535,416	-	189,441	16,345,975
Acceptances	218,322	2,497,046	-	2,715,368	-	-	2,715,368	-	28,285	2,687,083
Others	9,809,793	682,293	60,473	10,552,559	13,957	191,911	10,758,427	83,833	21,476	10,653,118
Bill purchased	-	1,596	-	1,596	-	-	1,596	-	16	1,580
Nonperforming loans transferred from other than loans	-	-	-	-	-	867,701	867,701	838,973	-	28,728
Discounts and loans	538,199,309	535,082,023	37,664,712	1,110,946,044	2,956,305	10,857,398	1,124,759,747	1,937,925	12,728,207	1,110,093,615
Personal finance	418,742,013	61,508,600	34,594,988	514,845,601	2,890,829	1,853,308	519,589,738	84,190	6,957,579	512,547,969
Corporate banking	119,457,296	473,573,423	3,069,724	596,100,443	65,476	9,004,090	605,170,009	1,853,735	5,770,628	597,545,646

Note: Total loan is the original amount without the adjustments of premium or discounts 580,691.

	Neither past due nor impaired				Overdue but not impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss recognized (D)		Net total (A)+(B)+(C)-(D)
	Good	Moderate	Substandard	Subtotal (A)				With objective evidence of impairment	With no objective evidence of impairment	
September 30, 2016										
Receivables	35,515,964	21,499,995	520,868	57,536,827	204,578	902,145	58,643,550	169,045	294,951	58,179,554
Credit card business	22,565,423	6,653,772	460,592	29,679,787	187,560	734,624	30,601,971	65,836	103,259	30,432,876
Accounts receivable and documents against acceptance - forfeiting	238,811	785,758	-	1,024,569	-	-	1,024,569	-	13,211	1,011,358
Accounts receivable - factoring	1,417,749	11,373,379	-	12,791,128	-	-	12,791,128	-	155,016	12,636,112
Acceptances	444,143	1,794,939	-	2,239,082	-	-	2,239,082	-	23,272	2,215,810
Other	10,849,838	892,147	60,276	11,802,261	17,018	167,521	11,986,800	103,209	193	11,883,398
Bill purchased	-	3,544	-	3,544	-	-	3,544	-	35	3,509
Nonperforming loans transferred from other than loans	-	-	-	-	-	1,084,270	1,084,270	1,036,239	-	48,031
Discounts and loans	527,232,080	558,356,146	32,668,392	1,118,256,618	3,106,514	8,900,028	1,130,263,160	1,440,778	12,890,532	1,115,931,850
Personal finance	425,069,312	52,588,537	29,583,955	507,241,804	3,021,006	1,796,455	512,059,265	91,036	6,866,566	505,101,663
Corporate banking	102,162,768	505,767,609	3,084,437	611,014,814	85,508	7,103,573	618,203,895	1,349,742	6,023,966	610,830,187

Note: Total loan is the original amount without the adjustments of premium or discounts 5628,482.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Fubon Bank (China)

Units: In thousands of CNY

	Neither past due nor impaired			Overdue but not impaired (B)	Impaired Amount(C)	Total (A)+(B) +(C)	Loss recognized(D)		Net total (A)+(B) +(C)-(D)
	Moderate	Special-mention	Subtotal(A)				With objective evidence of impairment	With no objective evidence of impairment	
September 30, 2017									
Receivables	2,518,911	-	2,518,911	-	-	2,518,911	-	2,804	2,516,107
Acceptances	1,887,290	-	1,887,290	-	-	1,887,290	-	-	1,887,290
Accounts receivable and documents against acceptance - forfeiting	197,206	-	197,206	-	-	197,206	-	2,804	194,402
Others	434,415	-	434,415	-	-	434,415	-	-	434,415
Discounts and loans	39,958,748	66,935	40,025,683	102,502	432,611	40,560,796	297,191	432,482	39,831,123
Personal finance	879,996	-	879,996	5,111	671	885,778	367	12,585	872,826
Corporate banking	39,078,752	66,935	39,145,687	97,391	431,940	39,675,018	296,824	419,897	38,958,297

Units: In thousands of CNY

	Neither past due nor impaired			Overdue but not impaired (B)	Impaired Amount(C)	Total (A)+(B) +(C)	Loss recognized(D)		Net total (A)+(B) +(C)-(D)
	Moderate	Special-mention	Subtotal(A)				With objective evidence of impairment	With no objective evidence of impairment	
December 31, 2016									
Receivables	1,333,236	-	1,333,236	-	-	1,333,236	-	153	1,333,083
Acceptances	867,162	-	867,162	-	-	867,162	-	-	867,162
Accounts receivable and documents against acceptance - forfeiting	8,242	-	8,242	-	-	8,242	-	153	8,089
Others	457,832	-	457,832	-	-	457,832	-	-	457,832
Discounts and loans	38,849,532	126,588	38,976,120	181,995	444,485	39,602,600	221,584	512,057	38,868,959
Personal finance	491,823	4,520	496,343	13	671	497,027	205	9,229	487,593
Corporate banking	38,357,709	122,068	38,479,777	181,982	443,814	39,105,573	221,379	502,828	38,381,366

Units: In thousands of CNY

	Neither past due nor impaired			Overdue but not impaired (B)	Impaired Amount(C)	Total (A)+(B) +(C)	Loss recognized(D)		Net total (A)+(B) +(C)-(D)
	Moderate	Special-mention	Subtotal(A)				With objective evidence of impairment	With no objective evidence of impairment	
September 30, 2016									
Receivables	1,391,232	-	1,391,232	-	-	1,391,232	-	385	1,390,847
Acceptances	932,112	-	932,112	-	-	932,112	-	-	932,112
Accounts receivable and documents against acceptance - forfeiting	18,688	-	18,688	-	-	18,688	-	385	18,303
Others	440,432	-	440,432	-	-	440,432	-	-	440,432
Continuing involvement in transferred assets	50,863	-	50,863	-	-	50,863	-	1,129	49,734
Discounts and loans	42,444,861	92,773	42,537,634	630,457	553,010	43,721,101	312,204	573,071	42,835,826
Personal finance	428,863	4,580	433,443	671	-	434,114	-	8,877	425,237
Corporate banking	42,015,998	88,193	42,104,191	629,786	553,010	43,286,987	312,204	564,194	42,410,589

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- ii) Credit analysis for non-overdue and non-impaired amount discounts and loans according to internal rating standards is as follows:

Taipei Fubon Bank (The Bank)

September 30, 2017	Neither past due nor impaired			
	Good	Moderate	Substandard	Total
Personal finance				
Mortgage	447,025,471	49,047,152	14,730,303	510,802,926
Micro credit	-	8,115,964	12,063,943	20,179,907
Others	28,197,067	1,164,073	3,110	29,364,250
Corporate banking				
Secured	1,221,645	198,113,034	1,682,187	201,016,866
Unsecured	101,645,735	281,193,239	817,235	383,656,209
Total	578,089,918	537,633,462	29,296,778	1,145,020,158

December 31, 2016	Neither past due nor impaired			
	Good	Moderate	Substandard	Total
Personal finance				
Mortgage	389,671,354	56,011,110	23,031,129	468,713,593
Micro credit	-	4,500,175	11,560,841	16,061,016
Others	29,070,659	997,315	3,018	30,070,992
Corporate banking				
Secured	1,744,407	187,123,027	1,580,817	190,448,251
Unsecured	117,712,889	286,450,396	1,488,907	405,652,192
Total	538,199,309	535,082,023	37,664,712	1,110,946,044

September 30, 2016	Neither past due nor impaired			
	Good	Moderate	Substandard	Total
Personal finance				
Mortgage	397,139,212	47,815,317	18,029,423	462,983,952
Micro credit	-	3,766,669	11,551,316	15,317,985
Others	27,930,100	1,006,551	3,216	28,939,867
Corporate banking				
Secured	5,707,639	183,299,591	1,428,723	190,435,953
Unsecured	96,455,129	322,468,018	1,655,714	420,578,861
Total	527,232,080	558,356,146	32,668,392	1,118,256,618

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Fubon Bank (China)

Units: In thousands of CNY

September 30, 2017	Neither past due nor impaired		
	Moderate	Special-mention	Total
Personal finance			
Mortgage	492,067	-	492,067
Others	387,929	-	387,929
Corporate banking			
Secured	4,622,517	37,201	4,659,718
Unsecured	34,456,235	29,734	34,485,969
Total	39,958,748	66,935	40,025,683

Units: In thousands of CNY

December 31, 2016	Neither past due nor impaired		
	Moderate	Special-mention	Total
Personal finance			
Mortgage	316,292	4,520	320,812
Others	175,531	-	175,531
Corporate banking			
Secured	6,129,092	122,068	6,251,160
Unsecured	32,228,617	-	32,228,617
Total	38,849,532	126,588	38,976,120

Units: In thousands of CNY

September 30, 2016	Neither past due nor impaired		
	Moderate	Special-mention	Total
Personal finance			
Mortgage	428,863	4,580	433,443
Corporate banking			
Secured	6,926,720	78,200	7,004,920
Unsecured	35,089,278	9,993	35,099,271
Total	42,444,861	92,773	42,537,634

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

iii) Credit analysis for securities investment

Taipei Fubon Bank (The Bank)

	Neither past due nor impaired				Overdue but not impaired (B)	Impaired amount (C)	Total (A)+(B)+(C)	Impaired loss recognized (D)	Net total (A)+(B)+(C)-(D)
	Good	Moderate	Substandard	Subtotal (A)					
September 30, 2017									
Available-for-sale financial assets									
Bond investments	49,817,380	53,871,271	-	103,688,651	-	-	103,688,651	-	103,688,651
Others	22,787,266	39,061,185	-	61,848,451	-	-	61,848,451	-	61,848,451
Held-to-maturity financial assets									
Bond investments	96,713,529	8,266,469	-	104,979,998	-	-	104,979,998	-	104,979,998
Others	286,829,669	3,546,985	-	290,376,654	-	-	290,376,654	-	290,376,654
Other financial assets									
Bond investments	42,174,486	2,893,468	-	45,067,954	-	-	45,067,954	-	45,067,954

Note 1: Available-for-sale financial assets did not include equity investments and beneficiary securities: Original cost of \$5,104,564, valuation amounting to \$320,435 and cumulative impairment amounting to \$335,594.

Note 2: Other financial assets did not include equity investment of financial assets carried at cost: Original cost was \$1,057,635 and accumulated impairment amounted to \$30,989.

	Neither past due nor impaired				Overdue but not impaired (B)	Impaired amount (C)	Total (A)+(B)+(C)	Impaired loss recognized (D)	Net total (A)+(B)+(C)-(D)
	Good	Moderate	Substandard	Subtotal (A)					
December 31, 2016									
Available-for-sale financial assets									
Bond investments	36,741,827	15,521,574	-	52,263,401	-	-	52,263,401	-	52,263,401
Others	15,008,687	39,193,746	-	54,202,433	-	-	54,202,433	-	54,202,433
Held-to-maturity financial assets									
Bond investments	98,232,416	4,835,732	315,408	103,383,556	-	-	103,383,556	-	103,383,556
Others	209,955,361	-	-	209,955,361	-	-	209,955,361	-	209,955,361
Other financial assets									
Bond investments	33,668,610	3,463,918	-	37,132,528	-	-	37,132,528	-	37,132,528

Note 1: Available-for-sale financial assets did not include equity investments and beneficiary securities: Original cost of \$5,398,016, valuation amounting to \$1,136,127 and cumulative impairment amounting to \$335,594.

Note 2: Other financial assets did not include equity investment of financial assets carried at cost: Original cost was \$581,607 and accumulated impairment amounted to \$26,686.

	Neither past due nor impaired				Overdue but not impaired (B)	Impaired amount (C)	Total (A)+(B)+(C)	Impaired loss recognized (D)	Net total (A)+(B)+(C)-(D)
	Good	Moderate	Substandard	Subtotal (A)					
September 30, 2016									
Available-for-sale financial assets									
Bond investments	45,679,706	15,450,704	-	61,130,410	-	-	61,130,410	-	61,130,410
Others	11,596,363	16,727,903	-	28,324,266	-	-	28,324,266	-	28,324,266
Held-to-maturity financial assets									
Bond investments	96,292,582	5,896,809	305,600	102,494,991	-	-	102,494,991	-	102,494,991
Others	207,485,446	-	-	207,485,446	-	-	207,485,446	-	207,485,446
Other financial assets									
Bond investments	28,198,685	3,126,007	-	31,324,692	-	-	31,324,692	-	31,324,692

Note 1: Available-for-sale financial assets did not include equity investments and beneficiary securities: Original cost of \$5,398,016, valuation amounting to \$1,619,030 and cumulative impairment amounting to \$335,594.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Note 2: Other financial assets did not include equity investment of financial assets carried at cost: Original cost was \$581,607 and accumulated impairment amounted to \$26,686.

Fubon Bank (China)

Units: In thousands of CNY

September 30, 2017	Neither past due nor impaired			Overdue but not impaired (B)	Impaired amount(C)	Total (A)+(B)+(C)	Impaired loss recognized (D)	Net total (A)+(B)+(C)-(D)
	Moderate	Special-mention	Subtotal(A)					
Financial assets measured at fair value through profit or loss								
Bond investments	296,891	-	296,891	-	-	296,891	-	296,891
Available-for-sale financial assets								
Bond investments	5,555,715	-	5,555,715	-	-	5,555,715	-	5,555,715
Others	5,752,727	-	5,752,727	-	-	5,752,727	-	5,752,727
Held- to-maturity financial assets								
Bond investments	7,817,250	-	7,817,250	-	-	7,817,250	-	7,817,250

Units: In thousands of CNY

December 31, 2016	Neither past due nor impaired			Overdue but not impaired (B)	Impaired amount(C)	Total (A)+(B)+(C)	Impaired loss recognized (D)	Net total (A)+(B)+(C)-(D)
	Moderate	Special-mention	Subtotal(A)					
Available-for-sale financial assets								
Bond investments	5,647,194	-	5,647,194	-	-	5,647,194	-	5,647,194
Others	1,877,959	-	1,877,959	-	-	1,877,959	-	1,877,959
Held- to-maturity financial assets								
Bond investments	8,105,127	-	8,105,127	-	-	8,105,127	-	8,105,127
Others	743,464	-	743,464	-	-	743,464	-	743,464

Units: In thousands of CNY

September 30, 2016	Neither past due nor impaired			Overdue but not impaired (B)	Impaired amount(C)	Total (A)+(B)+(C)	Impaired loss recognized (D)	Net total (A)+(B)+(C)-(D)
	Moderate	Special-mention	Subtotal(A)					
Financial assets measured at fair value through profit or loss								
Available-for-sale financial assets								
Bond investments	7,610,771	-	7,610,771	-	-	7,610,771	-	7,610,771
Others	487,579	-	487,579	-	-	487,579	-	487,579
Held- to-maturity financial assets								
Bond investments	8,229,446	-	8,229,446	-	-	8,229,446	-	8,229,446
Others	347,708	-	347,708	-	-	347,708	-	347,708

i) **Aging analysis for overdue but not yet impaired financial assets**

Taipei Fubon Bank (The Bank)

Delays in processing payments by borrowers and other administrative reasons could result in unimpaired financial assets becoming overdue. According to Taipei Fubon Bank and its subsidiaries' internal risk management policies, financial assets overdue within 90 days are not considered impairment, unless evidences show otherwise.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Aging analysis for overdue but not yet impaired financial assets was as follows:

	September 30, 2017			Total
	Overdue less than one month	Overdue one to three months	Overdue over three to six months	
Accounts receivable				
— Credit card	\$ 100,501	53,651	-	154,152
— Others	8,110	2,330	-	10,440
Discounts and loans				
— Personal finance	2,190,586	145,510	-	2,336,096
— Corporate banking	176,874	9,973	364	187,211
	December 31, 2016			Total
	Overdue less than one month	Overdue one to three months	Overdue over three to six months	
Accounts receivable				
— Credit card	\$ 116,775	57,520	-	174,295
— Others	11,137	2,820	-	13,957
Discounts and loans				
— Personal finance	2,714,900	175,929	-	2,890,829
— Corporate banking	59,181	5,964	331	65,476
	September 30, 2016			Total
	Overdue less than one month	Overdue one to three months	Overdue over three to six months	
Accounts receivable				
— Credit card	\$ 134,564	52,996	-	187,560
— Others	12,147	4,871	-	17,018
Discounts and loans				
— Personal finance	2,722,103	298,903	-	3,021,006
— Corporate banking	51,025	5,083	29,400	85,508

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Fubon Bank (China)

Units: In thousands of CNY

September 30, 2017

	Overdue less than one month	Overdue one to three months	Overdue over three to six months	Overdue more than six months	Total
Discounts and loans					
— Personal finance	\$ 5,111	-	-	-	5,111
— Corporate banking	38,896	-	58,495	-	97,391

Units: In thousands of CNY

December 31, 2016

	Overdue less than one month	Overdue one to three months	Overdue over three to six months	Overdue more than six months	Total
Discounts and loans					
— Personal finance	\$ 13	-	-	-	13
— Corporate banking	3,800	5,109	15,948	157,125	181,982

Units: In thousands of CNY

September 30, 2016

	Overdue less than one month	Overdue one to three months	Overdue over three to six months	Overdue more than six months	Total
Discounts and loans					
— Personal finance	\$ -	-	-	671	671
— Corporate banking	18,425	199,284	99,903	312,174	629,786

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

j) Analysis of impairment for financial assets

A part of Taipei Fubon Bank and its subsidiaries' investments in available-for-sale financial assets and financial assets carried at cost were considered impaired because there were some objective evidences of impairment loss provided by investee companies.

Taipei Fubon Bank and its subsidiaries have assessed whether loans and receivables have objective evidence of impairment. The assessment as of September 30, 2017, December 31 and September 30, 2016 are as follows:

Discounts and loans

Type of impairment assessment		September 30, 2017		December 31, 2016		September 30, 2016	
		Discounts and loans	Allowance for credit losses	Discounts and loans	Allowance for credit losses	Discounts and loans	Allowance for credit losses
With objective evidence of impairment	Individually assessed for impairment	8,156,534	2,982,176	11,066,457	2,881,859	9,700,563	2,815,881
	Collectively assessed for impairment	1,878,403	86,303	1,853,308	84,190	1,796,454	91,036
With no objective evidence of impairment	Collectively assessed for impairment	1,303,592,194	15,629,611	1,295,592,087	15,104,101	1,324,084,804	15,581,732

Receivables

Type of impairment assessment		September 30, 2017		December 31, 2016		September 30, 2016	
		Discounts and loans	Allowance for credit losses	Discounts and loans	Allowance for credit losses	Discounts and loans	Allowance for credit losses
With objective evidence of impairment	Individually assessed for impairment	776,487	586,481	1,000,435	869,502	1,187,647	1,083,850
	Collectively assessed for impairment	690,034	103,799	769,769	117,279	798,768	121,434
With no objective evidence of impairment	Collectively assessed for impairment	83,795,968	337,764	70,000,869	364,235	64,517,170	302,095

Note 1: The receivables are those originated by Taipei Fubon Bank and its subsidiaries, and not net of the allowance for credit losses and adjustments for discount (premium).

Note 2: The above receivables and allowances include nonperforming loans reclassified from other than loans and bills purchased and continuing involvement in transferred assets.

2) Fubon Life Insurance and its subsidiaries

Credit risk refers to the risk resulted from the deterioration of the credit status of the investment, the descending of credit rating, the credit risk event which can be attributed to the default of contracts, and the default of the trading instrument issuers or counterparties for fulfilling their obligation. Fubon Life Insurance and its subsidiaries may suffer losses from these events.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

The credit risk of Fubon Life Insurance and its subsidiaries is mainly from the financial instrument transactions resulted from operating activities, including securities investments and loans. Details are as follows:

a) Credit risk exposure—by industry

<u>Financial assets</u>	<u>September 30, 2017</u>		<u>December 31, 2016</u>		<u>September 30, 2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Industrial enterprise	\$ 76,845,419	3.42	75,070,054	3.57	64,664,759	3.17
Public business	91,744,316	4.08	89,415,855	4.25	75,339,492	3.70
Diversification	396,215	0.02	381,204	0.02	376,479	0.02
Mortgage backed securities	27,091,171	1.21	32,688,848	1.55	33,252,843	1.63
Financial sector	909,996,847	40.50	828,469,280	39.35	828,670,091	40.65
Consumer staples	152,775,312	6.80	142,094,554	6.75	131,539,627	6.45
Government	335,170,957	14.92	338,834,075	16.09	336,785,343	16.52
Technology	57,979,163	2.58	62,803,043	2.98	59,395,908	2.91
Raw material	60,182,605	2.68	60,855,833	2.89	60,368,172	2.96
Consumer discretionary	51,148,716	2.28	50,914,484	2.42	46,189,311	2.27
Energy	94,245,540	4.19	90,105,965	4.28	84,218,108	4.13
Assets backed securities	23,418,599	1.04	19,810,355	0.94	15,462,926	0.76
Telecommunication	182,093,642	8.10	148,238,773	7.04	146,113,720	7.17
Others	183,723,941	8.18	165,677,368	7.87	156,183,640	7.66
Total	<u>\$ 2,246,812,443</u>	<u>100.00</u>	<u>2,105,359,691</u>	<u>100.00</u>	<u>2,038,560,419</u>	<u>100.00</u>

b) Credit risk exposure—by geographic area

<u>Financial assets</u>	<u>September 30, 2017</u>		<u>December 31, 2016</u>		<u>September 30, 2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Taiwan	\$ 626,257,597	27.87	643,549,528	30.57	659,626,279	32.36
Asia except Taiwan	198,448,717	8.83	179,537,785	8.53	181,594,038	8.91
North America	920,938,020	40.99	846,560,534	40.21	791,842,817	38.84
Middle and South America	28,895,191	1.29	19,530,197	0.93	18,156,386	0.89
Europe	425,991,784	18.96	395,475,237	18.78	373,936,000	18.34
Africa/Middle East	46,281,134	2.06	20,706,410	0.98	13,404,899	0.66
Total	<u>\$ 2,246,812,443</u>	<u>100.00</u>	<u>2,105,359,691</u>	<u>100.00</u>	<u>2,038,560,419</u>	<u>100.00</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

In terms of credit quality, Fubon Life Insurance and its subsidiaries trace the credit rating data of various credit rating institutions regularly for normal assets which are not overdue and not impaired and categorize the quality into three levels, which are low risk, medium risk and high risk based on the credit rating. The definition of each level is as follows:

Low risk: The issuers or the counterparties are rated as robust or above to fulfill their obligation of the contracts. Even under various negative news or disadvantageous economic conditions, the companies are capable of dealing with the situations.

Medium risk: The issuers or the counterparties have lower capability of fulfilling their obligation. Negative news or disadvantageous economic conditions may weaken their financial statuses and result in the doubt of asset impairment or the loss of Fubon Life Insurance and its subsidiaries.

High risk: The possibility that the issuers or counterparties fulfill their obligation is remote and mainly relies on the business environment. Negative news or disadvantageous economic conditions will lower their ability and willingness to fulfill their obligation.

The impaired amount refers to the amount provided for all financial assets based on the regulations of accounting standards. Under the principle of prudence, the amount is able to reflect the current value of the impairment and includes overdue but not impaired financial assets and the accumulated impairment loss.

September 30, 2017						
Low risk	Medium risk	High risk	No credit rating	Overdue but not impaired	Impaired	Accumulated impairment
\$ 1,448,397,479	798,983,912	861,414	-	-	3,545,016	3,908,678
December 31, 2016						
Low risk	Medium risk	High risk	No credit rating	Overdue but not impaired	Impaired	Accumulated impairment
\$ 1,437,667,796	663,926,164	5,015,872	-	-	2,950,180	2,987,923
September 30, 2016						
Low risk	Medium risk	High risk	No credit rating	Overdue but not impaired	Impaired	Accumulated impairment
\$ 1,394,428,187	640,301,052	4,975,556	-	-	2,830,746	2,614,276

Note1: Normal assets include debt assets but not funds and stocks. Impaired and accumulated impairment include debt assets and equity assets.

Note2: Based on the credit ratings of the issuers or the guarantee agencies to tier.

Note3: Adopt S&P, Moody's, Fitch and Taiwan Ratings, whichever is lower.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

c) Policies to hedge or mitigate credit risk

i) Collateral

Fubon Life Insurance and its subsidiaries require full collateral from the borrowers and set up lending policies to decrease credit risk. The amount of loan is evaluated based on borrower's ability to pay back, the type of collateral and the difficulty of its liquidation to ensure collection. Lender preserves the right to decrease line amount, accelerate the loan rendering all loan amount due immediately upon specific credit incidents with articles on debt security, collateral, liquidation in loan agreements.

ii) Enhancement of other credits

Fubon Life Insurance and its subsidiaries regulates offsetting terms of loan contracts to define that when a credit default event occurs, Fubon Life Insurance and its subsidiaries are entitled to use the client's money payment to offset the debt in order to mitigate the risk of loans.

For the clients whom Fubon Life Insurance and its subsidiaries consider to be incompetent to repay the loans, Fubon Life Insurance and its subsidiaries would request one or more joint guarantors to enhance the guarantee for the creditor's right.

d) The maximum credit risk exposure of Fubon Life Insurance and its subsidiaries

The maximum credit risk exposure of the assets on the consolidated balance sheet, excluding collaterals or other credit enhancement tools, is the carrying amount of the assets.

The maximum exposure of assets used as collaterals, general agreement of net amount settlement and other credit enhancement tools is the carrying amount on the consolidated balance sheet.

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

3) Fubon Insurance and its subsidiaries

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

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

a) Management process of credit risk

i) Risk identification

Fubon Insurance and its subsidiaries' management process of credit risk could identify the existing and potential risk, analyze the source of the major risk of the operation and the product, and plan proper control system.

ii) Risk measurement

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

iii) Risk monitoring

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

iv) Risk responding

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

b) Credit risk management mechanism

Credit risk management mechanism includes:

i) Credit risk management before transaction:

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

ii) Management of credit limit by hierarchy:

Considering the complexity and characteristics of the investment assets, Fubon Insurance and its subsidiaries set credit hierarchical management system and manages them by different hierarchy, including the following:

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

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

iii) Credit risk management after transaction:

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

c) Credit risk management after transaction:

To control credit concentration risk, Fubon Insurance confirms that a loss resulting from any single credit risk event won't exceed credit risk limit through regular statistic and monitor concentration as follows:

By area	September 30, 2017					
	Taiwan	Asia except Taiwan	North America	Central and South America	Europe	Total
Exposure amount	\$ <u>40,055,508</u>	<u>6,231,651</u>	<u>8,266,942</u>	-	<u>8,458,783</u>	<u>63,012,884</u>
Ratio of the total	<u>63.57</u> %	<u>9.89</u> %	<u>13.12</u> %	-	<u>13.42</u> %	<u>100.00</u> %

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

December 31, 2016						
By area	Taiwan	Asia except Taiwan	North America	Central and South America	Europe	Total
Exposure amount	\$ 37,157,579	5,363,584	9,435,871	-	7,600,706	59,557,740
Ratio of the total	62.39 %	9.01 %	15.84 %	-	12.76 %	100.00 %
September 30, 2016						
By area	Taiwan	Asia except Taiwan	North America	Central and South America	Europe	Total
Exposure amount	\$ 37,566,132	5,217,770	9,543,916	-	6,824,271	59,152,089
Ratio of the total	63.51 %	8.82 %	16.13 %	-	11.54 %	100.00 %

d) Credit risk exposure

Details of maximum credit risk exposure of Fubon Insurance's financial assets (without considering collateral or other credit enhancements instruments), the net amount of book values less the offset amount recognized in accordance with IAS 32 and the impairment loss recognized in accordance with IAS 39 are as follows:

	September 30, 2017		December 31, 2016		September 30, 2016	
	Book value	Maximum exposure	Book value	Maximum exposure	Book value	Maximum exposure
<u>Non-derivative financial instruments</u>						
Financial assets						
Cash and cash equivalents	\$ 9,496,794	9,496,794	9,633,357	9,633,357	10,895,639	10,895,639
Receivables	4,639,854	4,639,854	4,719,612	4,719,612	4,728,399	4,728,399
Financial assets measured at fair value through profit or loss	517,892	517,892	302,129	302,129	1,155,410	1,155,410
Available-for-sale financial assets	39,495,819	39,495,819	40,544,802	40,544,802	39,529,623	39,529,623
Financial assets carried at cost	921,365	921,365	158,330	158,330	159,450	159,450
Debt investments without active market	5,827,670	5,827,670	3,385,068	3,385,068	3,861,966	3,861,966
Other financial assets	405,965	405,965	502,492	502,492	-	-
Reinsurance contract assets — reinsurance recoverable	2,645,012	2,645,012	2,428,523	2,428,523	2,339,765	2,339,765
Reinsurance contract assets — due from other reinsurance	3,683,790	3,683,790	2,993,511	2,993,511	3,288,613	3,288,613
Other assets	2,004,289	2,004,289	1,867,447	1,867,447	1,865,837	1,865,837
Financial liabilities						
Payables	11,032,070	11,032,070	9,565,836	9,565,836	9,776,463	9,776,463
Current tax liabilities	67,457	67,457	471,426	471,426	357,771	357,771
Other liabilities	845,213	845,213	709,916	709,916	797,569	797,569

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	September 30, 2017		December 31, 2016		September 30, 2016	
	Book value	Maximum exposure	Book value	Maximum exposure	Book value	Maximum exposure
<u>Derivative financial instruments</u>						
Financial assets						
Financial assets measured at \$ fair value through profit or loss	15,228	15,228	17,516	17,516	188,320	188,320
Financial liabilities						
Financial liabilities measured at fair value through profit or loss	64,611	64,611	251,107	251,107	9,442	9,442

- e) Fubon Insurance and its subsidiaries' financial assets quality and impairment condition

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

	September 30, 2017			
	Neither past due nor impaired			
Financial assets	Low	Moderate	High	Total
Financial assets measured at fair value through profit or loss	\$ 9,883	5,345	-	15,228
Available-for-sale financial assets	9,813,525	7,888,414	-	17,701,939
Debt investments without active market	4,494,464	1,333,206	-	5,827,670
Total	\$ 14,317,872	9,226,965	-	23,544,837

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>Financial assets</u>	December 31, 2016			
	Neither past due nor impaired			
	Low	Moderate	High	Total
Financial assets measured at fair value through profit or loss	\$ 16,947	569	-	17,516
Available-for-sale financial assets	8,813,782	9,332,634	-	18,146,416
Debt investments without active market	2,685,068	700,000	-	3,385,068
Total	\$ <u>11,515,797</u>	<u>10,033,203</u>	<u>-</u>	<u>21,549,000</u>

<u>Financial assets</u>	September 30, 2016			
	Neither past due nor impaired			
	Low	Moderate	High	Total
Financial assets measured at fair value through profit or loss	\$ 110,582	77,738	-	188,320
Available-for-sale financial assets	11,502,787	5,986,430	-	17,489,217
Debt investments without active market	3,391,693	470,273	-	3,861,966
Total	\$ <u>15,005,062</u>	<u>6,534,441</u>	<u>-</u>	<u>21,539,503</u>

The definition of each level is as follow:

- i) Low risk: Issuer or counterparty is capable of fulfilling contractual commitments. Even under variable negative news or unfavorable economic conditions, their financial condition is good enough to cope with it.
- ii) Moderate risk: Issuer or counterparty has poor ability to fulfill contractual commitments. Variable negative news or unfavorable economic conditions may weaken its financial condition, and trigger concerns of assets impairment or cause loss to Fubon Insurance.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- iii) High risk: The possibility of issuer or counterparty to fulfill contractual commitments is poor and depends on operating environment, variable negative news or unfavorable economic conditions will reduce its ability and willingness to fulfill obligations.
- f) Aging analysis of Fubon Insurance and its subsidiaries' overdue but not impaired financial assets: None.
- g) Impaired financial assets and allowance of losses of Fubon Insurance and its subsidiaries

Impaired items represent that Fubon Insurance has estimated impaired amount of financial assets in accordance with accounting standard. Under the conservatism principle, the amount is able to reflect current value appropriately.

4) Fubon Securities and its subsidiaries

Fubon Securities and its subsidiaries have 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 Fubon Securities and its subsidiaries 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 Fubon Securities and its subsidiaries to suffer a financial loss.

Credit risk of underlying assets is the risk that an underlying asset of an instrument held by Fubon Securities 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 Fubon Securities and its subsidiaries to suffer a financial loss.

Fubon Securities and its subsidiaries 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.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

a) Analysis of concentrations of credit risk

The maximum credit risk exposure amount of financial assets by region and by industry was as described in the following tables:

Financial assets	September 30, 2017					
	Credit risk exposure amount – by region					
	Taiwan	Hong Kong	Asia	Europe	America	Total
Cash and cash equivalents	\$ 13,328,287	61,893	881,814	452	-	14,272,446
Customer margin account	18,559,953	868,540	1,586,795	-	93,073	21,108,361
Held-for-trading financial assets – current	24,004,384	275,764	4,123,527	-	751,030	29,154,705
Debt securities	22,888,985	275,764	4,123,527	-	751,030	28,039,306
Derivative assets – OTC	97,791	-	-	-	-	97,791
Derivative assets – Futures trading margin	559,120	-	-	-	-	559,120
Other debt securities	456,995	-	-	-	-	456,995
Call option – Futures	1,493	-	-	-	-	1,493
Margin deposits for borrowed securities	295,565	-	-	-	-	295,565
Other refundable deposits	1,613,050	2,491	309	-	-	1,615,850
Other current assets	1,672,637	891,480	-	-	-	2,564,117
Available-for-sale financial assets	315,288	-	178,310	-	19,917	513,515
Debt securities	315,288	-	-	-	-	315,288
Open-end funds and money market instruments	-	-	178,310	-	19,917	198,227
Total	<u>\$ 59,789,164</u>	<u>2,100,168</u>	<u>6,770,755</u>	<u>452</u>	<u>864,020</u>	<u>69,524,559</u>
Proportion of the total	<u>86.00 %</u>	<u>3.02 %</u>	<u>9.74 %</u>	<u>- %</u>	<u>1.24 %</u>	<u>100.00 %</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Financial assets	December 31, 2016					
	Credit risk exposure amount—by region					
	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	92.82 %	0.82 %	4.44 %	- %	1.92 %	100.00 %

Financial assets	September 30, 2016					
	Credit risk exposure amount—by region					
	Taiwan	Hong Kong	Asia	Europe	America	Total
Cash and cash equivalents	\$ 10,755,012	94,635	107,172	308	27,902	10,985,029
Customer margin account	14,663,451	100,664	1,738,934	-	90,306	16,593,355
Held-for-trading financial assets—current	21,794,589	286,220	773,375	158,948	613,806	23,626,938
Debt securities	21,101,867	286,220	773,375	158,948	613,806	22,934,216
Call option—futures	145	-	-	-	-	145
Derivative assets—OTC	21,487	-	-	-	-	21,487
Derivative assets—Futures trading margin	126,347	-	-	-	-	126,347
Other debt securities	544,743	-	-	-	-	544,743
Margin deposits for borrowed securities	25,694	-	-	-	-	25,694
Other refundable deposits	2,256,382	2,396	-	-	-	2,258,778
Other current assets	839,202	303,090	-	-	-	1,142,292
Available-for-sale financial assets	358,338	-	162,498	-	-	520,836
Debt securities	319,808	-	-	-	-	319,808
Other debt securities	27,584	-	-	-	-	27,584
Open-end funds and money market instruments	10,946	-	162,498	-	-	173,444
Total	\$ 50,692,668	787,005	2,781,979	159,256	732,014	55,152,922
Proportion of the total	91.91 %	1.43 %	5.04 %	0.29 %	1.33 %	100.00 %

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

September 30, 2017													
Credit risk exposure amount—by industry													
Financial assets	Central and local		Retail and wholesale	Building and material	Biotechnology industry	Food and travel industry	Shipping industry	Electronic industry	Chemical industry	Motor vehicle industry	Culture and creative industry	Other services	Total
	Financial service	government agencies											
Cash and cash equivalents	\$ 14,190,020	-	-	-	-	-	-	-	-	-	-	82,426	14,272,446
Customer margin account	21,108,361	-	-	-	-	-	-	-	-	-	-	-	21,108,361
Held-for-trading financial assets—current	6,507,215	3,063,366	20,168	7,169,674	204,767	866,717	49,463	6,987,559	251,093	107,751	168,681	3,758,251	29,154,705
Debt securities	5,391,816	3,063,366	20,168	7,169,674	204,767	866,717	49,463	6,987,559	251,093	107,751	168,681	3,758,251	28,039,306
Derivative assets—OTC	97,791	-	-	-	-	-	-	-	-	-	-	-	97,791
Derivative assets—futures trading margin	559,120	-	-	-	-	-	-	-	-	-	-	-	559,120
Other debt securities	456,995	-	-	-	-	-	-	-	-	-	-	-	456,995
Call options—Futures	1,493	-	-	-	-	-	-	-	-	-	-	-	1,493
Margin deposits for borrowed securities	295,565	-	-	-	-	-	-	-	-	-	-	-	295,565
Other refundable deposits	1,613,342	-	-	-	-	-	-	-	-	-	-	2,508	1,615,850
Other current assets	1,478,749	-	-	-	-	-	-	-	-	-	-	1,085,368	2,564,117
Available-for-sale financial assets	198,227	315,288	-	-	-	-	-	-	-	-	-	-	513,515
Debt securities	-	315,288	-	-	-	-	-	-	-	-	-	-	315,288
Open-end funds and money market instruments	198,227	-	-	-	-	-	-	-	-	-	-	-	198,227
Total	\$ 45,391,479	3,378,654	20,168	7,169,674	204,767	866,717	49,463	6,987,559	251,093	107,751	168,681	4,928,553	69,524,559
Proportion of the total	<u>65.29 %</u>	<u>4.86 %</u>	<u>0.03 %</u>	<u>10.31 %</u>	<u>0.29 %</u>	<u>1.25 %</u>	<u>0.07 %</u>	<u>10.05 %</u>	<u>0.36 %</u>	<u>0.16 %</u>	<u>0.24 %</u>	<u>7.09 %</u>	<u>100.00 %</u>

December 31, 2016													
Credit risk exposure amount—by industry													
Financial assets	Central and local		Retail and wholesale	Building and material	Biotechnology industry	Food and travel industry	Shipping industry	Electronic industry	Chemical industry	Cultural and creative industry	Other services	Total	
	Financial service	government agencies											
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
Open 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>	

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

September 30, 2016														
Credit risk exposure amount—by industry														
Financial assets	Central and local		Retail and wholesale	Building and material	Biotechnology industry	Food and travel industry	Shipping industry	Electronic industry	Chemical industry	Motor vehicle industry	Information services	Culture and creative industry	Other services	Total
	Financial service	government agencies												
Cash and cash equivalents	\$ 10,713,499	-	-	-	-	-	-	-	-	-	-	-	271,530	10,985,029
Customer margin account	16,593,355	-	-	-	-	-	-	-	-	-	-	-	-	16,593,355
Held-for-trading financial assets—current	3,798,142	1,591,038	7,525	3,980,250	40,948	1,196,758	179,403	8,974,123	90,600	388,641	193,408	166,751	3,019,351	23,626,938
Debt securities	3,105,420	1,591,038	7,525	3,980,250	40,948	1,196,758	179,403	8,974,123	90,600	388,641	193,408	166,751	3,019,351	22,934,216
Call options—future	145	-	-	-	-	-	-	-	-	-	-	-	-	145
Derivative assets—OTC	21,487	-	-	-	-	-	-	-	-	-	-	-	-	21,487
Derivative assets—futures trading margin	126,347	-	-	-	-	-	-	-	-	-	-	-	-	126,347
Other debt securities	544,743	-	-	-	-	-	-	-	-	-	-	-	-	544,743
Margin deposits for borrowed securities	25,694	-	-	-	-	-	-	-	-	-	-	-	-	25,694
Other refundable deposits	2,256,382	-	-	-	-	-	-	-	-	-	-	-	2,396	2,258,778
Other current assets	1,142,292	-	-	-	-	-	-	-	-	-	-	-	-	1,142,292
Available-for-sale financial assets	201,028	319,808	-	-	-	-	-	-	-	-	-	-	-	520,836
Debt securities	-	319,808	-	-	-	-	-	-	-	-	-	-	-	319,808
Open debt securities	27,584	-	-	-	-	-	-	-	-	-	-	-	-	27,584
Open-end funds and money market instruments	173,444	-	-	-	-	-	-	-	-	-	-	-	-	173,444
Total	\$ 34,730,392	1,910,846	7,525	3,980,250	40,948	1,196,758	179,403	8,974,123	90,600	388,641	193,408	166,751	3,293,277	55,152,922
Proportion of the total	62.97 %	3.46 %	0.01 %	7.22 %	0.08 %	2.17 %	0.33 %	16.27 %	0.17 %	0.70 %	0.35 %	0.30 %	5.97 %	100.00 %

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

b) 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.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

ii) Financial assets measured at fair value—current

1. Debt securities

Fubon Securities and its subsidiaries 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

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

b. Bond funds

The underlying assets of bond funds held by Fubon Securities and its subsidiaries were mainly fixed income securities.

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

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

3. Derivatives—Over-the-Counter (OTC)

When Fubon Securities and its subsidiaries 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 Fubon Securities and its subsidiaries included interest rate swap, convertible bond asset swaps and equity options. The counterparties were all from the financial industry and were mainly based in Taiwan.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

4. Derivatives— futures trading margin

For trading on the centralized exchange market, Fubon Securities and its subsidiaries deposits futures trading margin into an account designated by Fubon Securities and its subsidiaries as a guarantee of future funding to fulfill a contractual obligation. Fubon Futures and Polaris MF Global Futures are Fubon Securities and its subsidiaries' futures commission merchants. Fubon Securities and its subsidiaries 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 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, Fubon Securities and its subsidiaries had low credit risk.

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, Fubon Securities and its subsidiaries should deposit the margin in the designated bank account. Because it holds the underlying securities as collateral, Fubon Securities and its subsidiaries will be able to effectively decrease credit exposure to the holder.

iv) Other refundable deposits

Other refundable deposits mainly include operating deposits, clearing and settlement 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 Fubon Securities and its subsidiaries' deposit 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 deposit is minimal.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

v) Other current assets

Other current assets of Fubon Securities and its subsidiaries were cash provided for pledge or restricted use to domestic financial institutions with good credit.

vi) Customer margin account

Customer margin account of Fubon Securities and its subsidiaries 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: Fubon Securities and its subsidiaries or the target did not perform its obligation according to the contracts and the potential estimated loss has reached the standard of impairment.

Internal credit risk classification and external credit rating of Fubon Securities and its subsidiaries were as follows. There were 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.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

September 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	\$ 13,759,933	512,513	-	-	-	-	14,272,446
Customer margin account	21,108,361	-	-	-	-	-	21,108,361
Held-for-trading financial assets – current	18,198,718	10,847,694	108,293	-	-	-	29,154,705
Debt securities	17,175,515	10,755,498	108,293	-	-	-	28,039,306
Derivative assets – OTC	5,595	92,196	-	-	-	-	97,791
Derivative assets – Futures trading margin	559,120	-	-	-	-	-	559,120
Other debt securities	456,995	-	-	-	-	-	456,995
Call option – Futures	1,493	-	-	-	-	-	1,493
Margin deposits for borrowed securities	295,565	-	-	-	-	-	295,565
Other refundable deposits	1,614,434	1,416	-	-	-	-	1,615,850
Other current assets	2,564,117	-	-	-	-	-	2,564,117
Available-for-sale financial assets	383,168	30,648	99,699	-	-	-	513,515
Debt securities	315,288	-	-	-	-	-	315,288
Open-end funds and money market instruments	67,880	30,648	99,699	-	-	-	198,227
Subtotal	<u>57,924,296</u>	<u>11,392,271</u>	<u>207,992</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,524,559</u>
Proportion of the total	78.54 %	21.29 %	0.17 %	- %	- %	- %	100.00 %
Receivables	19,380,594	8,207,817	702,571	-	-	-	28,290,982
Account receivable	14,537,406	-	-	-	-	-	14,537,406
Receivables from pecuniary finance	4,843,188	8,207,817	702,571	-	-	-	13,753,576
Total	<u>\$ 77,304,890</u>	<u>19,600,088</u>	<u>910,563</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,815,541</u>
Proportion of the total	<u>76.07 %</u>	<u>23.00 %</u>	<u>0.93 %</u>	<u>- %</u>	<u>- %</u>	<u>- %</u>	<u>100.00 %</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

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
Account 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>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

September 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	\$ 9,109,055	1,875,974	-	-	-	-	10,985,029
Customer margin account	16,593,355	-	-	-	-	-	16,593,355
Held-for-trading financial assets—current	13,435,187	9,701,005	490,746	-	-	-	23,626,938
Debt securities	13,221,807	9,221,663	490,746	-	-	-	22,934,216
Call option—Futures	145	-	-	-	-	-	145
Derivative assets—OTC	1,861	19,626	-	-	-	-	21,487
Derivative assets—Futures trading margin	126,347	-	-	-	-	-	126,347
Other debt securities	85,027	459,716	-	-	-	-	544,743
Margin deposits for borrowed securities	25,694	-	-	-	-	-	25,694
Other refundable deposits	2,257,199	1,579	-	-	-	-	2,258,778
Other current assets	1,142,292	-	-	-	-	-	1,142,292
Available-for-sale financial assets	396,928	943	122,965	-	-	-	520,836
Debt securities	319,808	-	-	-	-	-	319,808
Other debt securities	27,584	-	-	-	-	-	27,584
Open-end funds and money market instruments	49,536	943	122,965	-	-	-	173,444
Subtotal	<u>42,959,710</u>	<u>11,579,501</u>	<u>613,711</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,152,922</u>
Proportion of the total	77.89 %	21.00 %	1.11 %	-	-	-	100.00 %
Receivables	15,758,249	5,865,232	783,532	-	-	-	22,407,013
Account receivable	10,744,266	-	-	-	-	-	10,744,266
Receivables from pecuniary finance	5,013,983	5,865,232	783,532	-	-	-	11,662,747
Total	<u>\$ 58,717,959</u>	<u>17,444,733</u>	<u>1,397,243</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>77,559,935</u>
Proportion of the total	<u>75.71 %</u>	<u>22.49 %</u>	<u>1.80 %</u>	<u>- %</u>	<u>- %</u>	<u>- %</u>	<u>100.00 %</u>

As seen in above tables, Fubon Securities and its subsidiaries had no financial assets which were overdue but not impaired. 0.93% of normal assets were classified under 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, it was required to deposit a certain amount to the main delivery lines for the brokerage business and other operations. The management of Fubon Securities and its subsidiaries would periodically review the financial condition, operation and credit risk.
- ii) Debt securities: To control exposure to credit risk from convertible bonds, Fubon Securities and its subsidiaries transferred credit risk to external investors by asset swaps.
- iii) Receivables from pecuniary finance: The risk of financial loss arose from price movement in the underlying securities. To lower credit risk, Fubon Securities and its subsidiaries has closely monitored market volatility of underlying assets and set strict control over counterparty credit risk.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

iv) Impairment loss

As of September 30, 2017, December 31 and September 30, 2016, Fubon Securities and its subsidiaries' receivables from pecuniary finance recovery period 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 September 30, 2017, December 31 and September 30, 2016, in accordance with the Regulations Governing Margin and Stock Loans by Securities Firms, Fubon Securities and its subsidiaries had charged the margin for margin purchases to their customers, and held all securities purchased as collaterals. Fubon Securities 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%, Fubon Securities and its subsidiaries will inform the customers to repay part of the financing, replenish the deposit margin, or increase the amount of collaterals to make up the balance. As of September 30, 2017, December 31 and September 30, 2016, Fubon Securities and its subsidiaries 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, Fubon Securities and its subsidiaries disposed of the securities so purchased by the investors and deducted the proceeds of such sales from receivables due to pecuniary finance. In addition, some collateral securities purchased by investors through unsettled pecuniary finance contracts were unable to be disposed of.

Fubon Securities and its subsidiaries 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.

The aging analysis of loans and receivables were as follows:

	<u>September 30, 2017</u>		<u>December 31, 2016</u>		<u>September 30, 2016</u>	
	<u>Total amount</u>	<u>Impairment amount</u>	<u>Total amount</u>	<u>Impairment amount</u>	<u>Total amount</u>	<u>Impairment amount</u>
Overdue 0 to 180 days	\$ 1,161	688	107	107	89	89
Overdue 181 days to one year	675	675	212	139	944	682
Overdue more than one year	6,050	4,885	6,582	5,206	6,147	4,882
Total	<u>\$ 7,886</u>	<u>6,248</u>	<u>6,901</u>	<u>5,452</u>	<u>7,180</u>	<u>5,653</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

The changes in allowance for uncollectible accounts of other receivables and overdue receivables were as follows:

	For the nine months ended	
	September 30	
	2017	2016
Beginning balance	\$ 5,452	7,510
Recognized (reversal of) impairment loss	796	(1,857)
Ending balance	\$ 6,248	5,653

5) Fubon Bank (Hong Kong) and its subsidiaries

The following disclosure related to Fubon Bank Hong Kong is all expressed in thousands of HKD, unless otherwise stated.

a) Sources and definition of credit risk

Credit risk is the risk of suffering financial loss in the event that any of Fubon Bank (Hong Kong) and its subsidiaries' borrowers or market counterparties fail to fulfill their obligation to Fubon Bank (Hong Kong) and its subsidiaries. It arises mainly from loans and advances, debt securities held, and counterparty credit risk arising from derivative contracts entered into with customer. It can also arise from trading and treasury activities.

b) Strategy, objectives, policies and procedures

Fubon Bank (Hong Kong) and its subsidiaries manage credit risk through a framework of controls to ensure credit risk taking activities are based on sound principles and in line with the overall business objectives of Fubon Bank (Hong Kong) and its subsidiaries. It has established a set of credit policies and procedures, which define the credit risk taking criteria, the credit approval authorities delegated from the Board of Directors, the credit monitoring processes, the credit rating system, and the loan impairment policy.

c) Credit risk management framework

The Board of Directors has delegated credit approval authorities to the following in descending order of authority: the Executive Credit Committee, the Credit Committee and the Wholesale Credit Committee. The Executive Credit Committee serves as the Credit Committee of the Board of Directors to review and approve credits that require the approval from the Board of Directors. In addition, it approves Fubon Bank (Hong Kong) and its subsidiaries' credit policies and overall credit risk profile, taking into consideration relevant law and regulations.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

The Credit Committee is a management level committee that provides management oversight of Fubon Bank (Hong Kong) and its subsidiaries' credit risk management. It ensures that Fubon Bank (Hong Kong) and its subsidiaries have in place an effective credit risk management framework and that its credit risks are within the credit policies and credit risk profile as specified by the Board of Directors or its delegated committees. The Credit Committee reviews and endorses all credit policies and the overall credit risk profile for the Executive Credit Committee's approval, and reviews and approves credit related guidelines. It also conducts on-going review of the market environment and makes necessary policy recommendations to the Executive Credit Committee to ensure that the credit risk profile of Fubon Bank (Hong Kong) and its subsidiaries is within the established risk appetite of Fubon Bank (Hong Kong) and its subsidiaries. The Credit Committee also reviews and approves credits that are within the authority as delegated by the Board of Directors.

The Wholesale Credit Committee reviews and approves wholesale credits that are within its authority as delegated by the Board of Directors.

d) Risk report and evaluation system

Specific policies and measures to address different kinds of credit related activities are set out below:

i) Corporate lending

Credit risk from corporate lending is managed by conducting thorough credit evaluation, credit mitigation through collateral and guarantee, internal credit rating system and post-approval monitoring system. Subject to the size of the credit and the internal credit rating of the borrower, different levels of credit approval are required. Credit decision takes into account facility structure, tenor, the repayment ability of the obligor and credit mitigation through collateral and guarantee.

Fubon Bank (Hong Kong) and its subsidiaries have established limits for exposures to individual industries and for borrowers and groups of borrowers, regardless of whether the credit exposure is in the form of loans or non-funded exposures. Fubon Bank (Hong Kong) and its subsidiaries also undertake ongoing credit review and monitoring at several levels. The relevant policies and procedures also take into account the rules under the Hong Kong Banking Ordinance, regulatory requirements of the HKMA and best market practices.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

The credit risk management procedures are designed to promote early detection of counterparty, industry or product exposures that require special monitoring. Overall portfolio risk is monitored by the Control and Risk Management Division on an on-going basis. Regular management reports are submitted to the Credit Committee regularly for review. The loan portfolio reports cover information on large exposures, country exposures, industry exposures, loan quality and loan impairment level.

ii) Consumer credit risk

Consumer credit risk is product driven, arising from consumer loan products such as credit cards, unsecured personal loans and mortgage loans. Because of the homogeneous nature of these products, credit risk management procedures are primarily based on statistical analyses of risks with respect to different products and types of customers. Fubon Bank (Hong Kong) and its subsidiaries determine product terms and desired customer profiles on a regular basis by developing, validating and fine-tuning of internal scorecards and stress testing models. The relevant credit risk management procedures also include on-going product portfolio analysis and review, clear rules for loan classification and impairment, and regular reporting to Credit Committee.

iii) Counterparty credit risk

Unlike the on-balance sheet instruments, where the credit risk is generally represented by the principal value or the notional amount, credit risk for derivatives is the positive replacement cost together with an estimate for the potential future exposure from changes in market value. These credit exposures are managed as part of the overall credit limits to the counterparties. Fubon Bank (Hong Kong) and its subsidiaries use the current exposure method for the purpose of providing capital for such counterparty exposures.

Wrong way risk occurs when the credit exposure to a counterparty is strongly correlated with collateral held and any market risk factors impacting the transaction. Credit exposures and potential losses may increase as a result of adverse change in market conditions. Fubon Bank (Hong Kong) and its subsidiaries have various policies and procedures to control wrong-way risk, and undertaking of wrong way risk transaction would require prior approval.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

iv) Credit-related commitments

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio management and collateral requirements as for loan transactions.

v) Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of borrowers or market counterparties whose aggregate credit exposure is material in relation to Fubon Bank (Hong Kong) and its subsidiaries' total exposures. Fubon Bank (Hong Kong) and its subsidiaries' financial risk exposure are diversified by obligor group, industry and product, but are concentrated in Hong Kong.

e) Mitigation or hedging policy, and monitoring strategy and procedure

Fubon Bank (Hong Kong) and its subsidiaries' credit evaluation focuses primarily on the borrower's repayment ability from its cash flow and financial condition. In addition, Fubon Bank (Hong Kong) and its subsidiaries employ various credit risk mitigation techniques such as appropriate facility structuring, posting of collateral and/or third party support as well as transfer of risk to other third parties, which form an integral part of the credit risk management process. The most commonly used credit risk mitigation measures are provided below:

Collateral

Fubon Bank (Hong Kong) and its subsidiaries hold collateral against loans and advances to customers mainly in the form of cash deposits, marketable securities, and mortgage interest over property and guarantees. Fubon Bank (Hong Kong) and its subsidiaries have in place policies and procedures that govern the assessment, acceptance and the periodic valuation of the collateral. Collateral taken to secure corporate and retail loans is revalued periodically ranging from daily to semi-annually depending on the type of collateral. For treasury operations, collateral taken is marked to market on a periodic basis that is mutually agreed with the counterparty.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Master netting agreements

Collateral generally is not held over loans and advances extended to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. However, where applicable, Fubon Bank (Hong Kong) and its subsidiaries manage its credit exposure to banks by entering into master netting arrangements whenever it is appropriate and feasible to do so. The netting arrangement results in the settlement of counterparty exposure on a net basis in the event a default occurs.

Fubon Bank (Hong Kong) and its subsidiaries' preferred agreement for documenting derivatives activity is the ISDA Master Agreement which covers the contractual framework within which dealing activity across a full range of over-the-counter 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 following other pre-agreed termination events.

It is also common for Fubon Bank (Hong Kong) and its subsidiaries to execute a Credit Support Annex in conjunction with the ISDA Master Agreement with the counterparty under which collateral is passed between the parties to mitigate the market contingent counterparty risk inherent in outstanding positions.

f) The maximum exposure to credit risk

The balance sheet is not considering the maximum exposure to credit risk of the guarantees and other credit instruments being the same as their book value. The maximum exposure to credit risk of financial instruments off balance sheet is as follows (not considering the guarantees or other credit instruments):

Off-balance sheet items	Units: In thousands of HKD		
	Maximum exposure to credit risk		
	September 30, 2017	December 31, 2016	September 30, 2016
Irrevocable loan commitments	\$ 2,049,846	1,242,882	1,316,470
Standby letters of credit	276,650	267,169	270,909
Financial guarantees	139,145	126,697	130,895
Total	\$ 2,465,641	1,636,748	1,718,274

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

g) The significant concentrations of the credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of borrowers or market counterparties whose aggregate credit exposure is material in relation to Fubon Bank (Hong Kong) and its subsidiaries' total exposures. Fubon Bank (Hong Kong) and its subsidiaries' financial risk exposure are diversified by obligor group, industry and product, but are concentrated in Hong Kong.

Information of loans and nonperforming loans in different industries, areas and guarantees with significant concentration of credit risk is as follow:

i) By industry and by area

<u>Industry</u>	<u>September 30, 2017</u>		<u>December 31, 2016</u>		<u>September 30, 2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Units: In thousands of HKD						
Gross advances for use in Hong Kong industrial, commercial and financial						
Property development	\$ 3,355,620	7.12	3,756,167	8.58	3,742,183	8.80
Property investment	8,388,510	17.79	9,852,120	22.49	9,355,006	22.02
Financial concerns	3,248,232	6.89	1,346,366	3.07	807,639	1.90
Stockbrokers	1,680,194	3.56	1,561,154	3.56	1,126,166	2.65
Wholesale and retail trade	396,403	0.84	342,228	0.78	333,090	0.78
Manufacturing	1,303,423	2.76	1,244,842	2.84	1,272,591	2.99
Transport and transport equipment	113,474	0.24	311,083	0.71	218,233	0.51
Information technology	380,672	0.81	377,867	0.86	287,550	0.68
Electricity and gas	-	-	131,656	0.30	186,872	0.44
Others	2,550,037	5.41	2,287,477	5.22	2,031,133	4.78
Individuals						
Project plan	6,293	0.01	12,135	0.03	5,379	0.01
Loan for the purchase of other residential properties	9,850,559	20.89	9,663,115	22.06	9,650,139	22.71
Credit card advances	929,667	1.97	1,070,172	2.44	1,034,629	2.43
Others	<u>4,632,577</u>	<u>9.82</u>	<u>4,665,215</u>	<u>10.65</u>	<u>4,598,220</u>	<u>10.82</u>
	36,835,661	78.11	36,621,597	83.59	34,648,830	81.52
Trade finance	<u>4,825,113</u>	<u>10.23</u>	<u>3,524,598</u>	<u>8.05</u>	<u>3,725,725</u>	<u>8.77</u>
Gross advances for use in Hong Kong	41,660,774	88.34	40,146,195	91.64	38,374,555	90.29
Gross advances for use outside Hong Kong	<u>5,499,306</u>	<u>11.66</u>	<u>3,661,537</u>	<u>8.36</u>	<u>4,126,888</u>	<u>9.71</u>
Gross advances to customers	<u>\$ 47,160,080</u>	<u>100.00</u>	<u>43,807,732</u>	<u>100.00</u>	<u>42,501,443</u>	<u>100.00</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

ii) By collateral

Units: In thousands of HKD

Collateral	September 30, 2017		December 31, 2016		September 30, 2016	
	Amount	%	Amount	%	Amount	%
Unsecured	\$ 22,787,691	48.32	18,253,087	41.67	19,183,135	45.00
Secured						
– Financial collateral	461,895	0.98	703,412	1.61	223,548	1.00
– Real estate	22,264,693	47.21	23,648,401	53.98	22,465,539	53.00
– Other collateral	1,645,801	3.49	1,202,832	2.74	629,221	1.00
Total	<u>\$ 47,160,080</u>	<u>100.00</u>	<u>43,807,732</u>	<u>100.00</u>	<u>42,501,443</u>	<u>100.00</u>

h) The analysis of credit quality and impairment of financial instruments

i) The credit quality of loans and receivables

Units: In thousands of HKD

	Neither past due nor impaired				The amount of the part overdue (B)	The amount of the part impaired (C)	Total (A)+(B)+(C)	The loss amount recognized (D)		Net amount (A)+(B)+(C)-(D)
	Grade 1 (Note)	Grade 2 (Note)	Items not subject to grading system	Subtotal (A)				There is objective evidence of impairment on individual asset	Items with no grading system	
September 30, 2017										
Discounts and loans	45,330,967	181,972	780,030	46,292,969	643,685	223,426	47,160,080	155,056	138,078	46,866,946

Units: In thousands of HKD

	Neither past due nor impaired				The amount of the part overdue (B)	The amount of the part impaired (C)	Total (A)+(B)+(C)	The loss amount recognized (D)		Net amount (A)+(B)+(C)-(D)
	Grade 1 (Note)	Grade 2 (Note)	Items not subject to grading system	Subtotal (A)				There is objective evidence of impairment on individual asset	Items with no grading system	
December 31, 2016										
Discounts and loans	42,310,564	401,086	230,135	42,941,785	531,665	334,282	43,807,732	149,919	108,839	43,548,974

Units: In thousands of HKD

	Neither past due nor impaired				The amount of the part overdue (B)	The amount of the part impaired (C)	Total (A)+(B)+(C)	The loss amount recognized (D)		Net amount (A)+(B)+(C)-(D)
	Grade 1 (Note)	Grade 2 (Note)	Items not subject to grading system	Subtotal (A)				There is objective evidence of impairment on individual asset	Items with no grading system	
September 30, 2016										
Discounts and loans	40,733,696	250,941	738,536	41,723,173	418,920	359,350	42,501,443	127,509	96,045	42,277,889

Note: Description of credit risk

Grade 1 (Normal): The borrower is fulfilling its repayment responsibility. There is no doubt that the borrower can repay the capital and interest.

Grade 2 (Special-mention): The borrower is facing a negative circumstance which may affect the repayment of capital and interest.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- ii) The analysis of credit quality of discounts and loans not overdue and not impaired by customer:

Units: In thousands of HKD

	Neither overdue nor impaired			
	Grade 1 (Note)	Grade 2 (Note)	Not subjective to internal grading system	Total
September 30, 2017				
Customer loans				
Mortgage	9,534,779	10,579	-	9,545,358
Credit card	900,841	13,763	-	914,604
Micro credit	4,602,110	1,510	-	4,603,620
Corporate loan				
Secured	12,973,826	133,052	-	13,106,878
Unsecured	17,319,411	23,068	780,030	18,122,509
Total	45,330,967	181,972	780,030	46,292,969

	Neither overdue nor impaired			
	Grade 1 (Note)	Grade 2 (Note)	Not subjective to internal grading system	Total
December 31, 2016				
Customer loans:				
Mortgage	9,324,146	22,380	-	9,346,526
Credit card	1,043,037	10,935	-	1,053,972
Micro credit	4,640,245	1,033	-	4,641,278
Corporate loan:				
Secured	13,997,328	342,976	-	14,340,304
Unsecured	13,305,808	23,762	230,135	13,559,705
Total	42,310,564	401,086	230,135	42,941,785

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Units: In thousands of HKD

September 30, 2016	Neither overdue nor impaired			Total
	Grade 1 (Note)	Grade 2 (Note)	Not subjective to internal grading system	
Customer loans				
Mortgage	9,399,431	17,993	-	9,417,424
Credit card	1,008,951	10,972	-	1,019,923
Micro credit	4,570,249	523	-	4,570,772
Corporate loan				
Secured	12,078,033	59,492	-	12,137,525
Unsecured	13,677,032	161,961	738,536	14,577,529
Total	40,733,696	250,941	738,536	41,723,173

Note: Description of credit risk

Grade 1 (Normal): The borrower is fulfilling its repayment responsibility. There is no doubt that the borrower can repay the capital and interest.

Grade 2 (Special-mention): The borrower is facing a negative circumstance which may affect the repayment of capital and interest.

iii) The credit quality of securities and bonds

Units: In thousands of HKD

	The amount of the part not overdue and not impaired						The amount of the part overdue but not impaired (B)	The amount of the part impaired (C)	Total (A)+(B)+(C)	The impairment amount (D)	Net amount (A)+(B) +(C)-(D)
	AAA	AA- to AA+	A- to A+	Lower than A-	Unrated	Subtotal (A)					
September 30, 2017											
Available-for-sale financial assets											
Bond investment	3,569,283	6,890,533	16,814,096	4,807,356	1,278,159	33,359,427	-	-	33,359,427	-	33,359,427
Equity investment	-	-	-	-	512,695	512,695	-	114,576	627,271	80,443	546,828
Held-to-maturity financial assets											
Bond investment	-	507,689	819,276	-	234,318	1,561,283	-	-	1,561,283	-	1,561,283
Other financial assets											
Bond investment	-	1,758,842	-	-	-	1,758,842	-	-	1,758,842	-	1,758,842

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Units: In thousands of HKD

	The amount of the part not overdue and not impaired						The amount of the part overdue but not impaired (B)	The amount of the part impaired (C)	Total (A)+(B)+(C)	The impairment amount (D)	Net amount (A)+(B)+(C)-(D)
	AAA	AA- to AA+	A- to A+	Lower than A-	Unrated	Subtotal (A)					
December 31, 2016											
Available-for-sale financial assets											
Bond investment	3,115,903	9,327,794	13,233,673	4,597,349	617,218	30,891,937	-	-	30,891,937	-	30,891,937
Equity investment	-	-	-	-	191,675	191,675	-	120,348	312,023	79,415	232,608
Held-to-maturity financial assets											
Bond investment	-	659,133	735,661	155,090	-	1,549,884	-	-	1,549,884	-	1,549,884
Other financial assets											
Bond investment	-	2,310,245	-	39,226	-	2,349,471	-	-	2,349,471	-	2,349,471

Units: In thousands of HKD

	The amount of the part not overdue and not impaired						The amount of the part overdue but not impaired (B)	The amount of the part impaired (C)	Total (A)+(B)+(C)	The impairment amount (D)	Net amount (A)+(B)+(C)-(D)
	AAA	AA- to AA+	A- to A+	Lower than A-	Unrated	Subtotal (A)					
September 30, 2016											
Available-for-sale financial assets											
Bond investment	3,183,900	9,341,923	13,513,354	5,060,894	350,333	31,450,404	-	-	31,450,404	-	31,450,404
Equity investment	-	-	-	-	195,759	195,759	-	126,878	322,637	78,698	243,939
Held-to-maturity financial assets											
Bond investment	-	659,102	735,562	155,083	-	1,549,747	-	-	1,549,747	-	1,549,747
Other financial assets											
Bond investment	-	499,953	-	39,785	-	539,738	-	-	539,738	-	539,738

i) The aging analysis of past due but not individually impaired financial assets

Units: In thousands of HKD

September 30, 2017

Items	Overdue in 1 month	Overdue in 1-3 months	Overdue in 3-6 months	Overdue in 6-12 months	Total
Discount and loans					
— Others	\$ 367,447	270,161	-	6,077	643,685

Units: In thousands of HKD

December 31, 2016

Items	Overdue in 1 month	Overdue in 1-3 months	Overdue in 3-6 months	Overdue in 6-12 months	Total
Discount and loans					
— Others	\$ 501,767	24,169	-	5,729	531,665

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Units: In thousands of HKD

September 30, 2016

<u>Items</u>	<u>Overdue in 1 month</u>	<u>Overdue in 1-3 months</u>	<u>Overdue in 3-6 months</u>	<u>Overdue in 6-12 months</u>	<u>Total</u>
Discount and loans					
— Others	\$ 342,625	17,373	58,922	-	418,920

(iv) Liquidity risk

Major subsidiaries are listed separately as follows:

1) Taipei Fubon Bank (The Bank) and its subsidiary

a) Source and definition of liquidity risk

Liquidity risk means banks can not provide sufficient funding for asset size growth and meeting obligation on matured liabilities, or that banks have to delay payments to counterparties or raise funds to cover funding gaps.

b) Management strategy and principles

Taipei Fubon Bank (The Bank)

i) The Bank's strategy is to lower liquidity risk by acquiring stable, low interest rate, sufficient funding to cover asset size growth and meet obligation on matured liabilities and to escape gaps from between funding availability and demand.

ii) The principle is to harmonize fund availability with the Bank's deposit, loan and financial transaction growth. The Bank adjusts its funding strategy depending on market fund change and the Central bank's policies to increase fund use and lower liquidity risk. The Bank not only pays attention to maturities of long-term and short-term securities to match the timing of large-amount loan drawdown and repayment, but also analyzes the stability and percentages of various types of deposits to manage funding liquidity.

iii) The Bank has set funding liquidity management indicators to monitor and manage the liquidity risk of the Bank.

1. Funding liquidity management indicators (limited to the Board of Directors), related analyses, and explanations are subject to be reported to the Asset/Liability and Risk Management Committee for discussion, as well as to the Board of Directors (Managing Directors) for reference.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

2. Funding liquidity management indicators (limited to Asset/Liability and Risk Management Committee), related analyses, and explanations are subject to be reported to the Asset/Liability and Risk Management Committee for discussion, as well as to the chairman for reference.

Fubon Bank (China)

- i) The liquidity risk management strategy of Fubon Bank (China) aims not only at meeting compliance and regulatory requirements but also finding sound balance between business performance and adequate liquidity position. By adjusting its short-term and long-term assets allocation and dispersing sources of funds base on market conditions, Fubon Bank (China) manages its liquidity risk exposure at an acceptable level to ensure its sustainable business operations and sound reputation.
- ii) Fubon Bank (China) maintains a stable risk appetite for its liquidity management. Daily liquidity management is centralized given the size and complexity of its current business scope with an organizational structure suitable for its liquidity exposure. The Board of Directors take the ultimate responsibility of the bank's liquidity risk management. The senior management is in charge of implementations of liquidity management, authoring the Asset & Liability Management Committee (ALCO) to implement daily management duties. Liquidity risk assessment reports are submitted via ALCO to the Risk & Related Party Transaction Committee and Board of Directors on a quarterly basis.
- iii) The liquidity risk management of Fubon Bank (China) involves the full participation of staff in the dynamic prevention, scientific quantification and prudent management of risk to ensure that Fubon Bank (China) has sufficient funding for its capital growth and various obligations
- c) Maturity analysis

The Bank's management policy is to match the maturities and interest rates of assets and liabilities, and to control the un-matched gap. Because of uncertain terms and different conditions, the maturities and interest rates of assets and liabilities usually do not match perfectly, and may result in a potential gain or loss. To maintain proper liquidity, the Bank uses appropriate ways to group assets and liabilities in order to evaluate liquidity and to monitor the ratios of short-term negative funding gap to total asset in major currencies.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Cash inflow and outflow in assets and liabilities held for liquidity risk was listed by the remaining periods from the reporting date to the contractual maturity dates. The maturity analysis of financial assets and liabilities, derivatives assets and liabilities, and off balance sheet items in main currencies was as follows (except for non-deliverable derivatives, all were non-discounted contractual cash flow):

i) The maturity analysis of financial assets and liabilities - TWD

Taipei Fubon Bank (The Bank)

Units: In thousands of TWD

	September 30, 2017					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Cash and due from / call loans to banks	\$ 34,703,132	6,582,398	5,945,852	7,402,997	17,445,634	72,080,013
Investment in marketable securities (Note 2)	212,660,088	29,750,412	23,137,455	73,802,027	138,025,100	477,375,082
Securities purchased under resell agreements	19,481,797	499,372	-	-	-	19,981,169
Loans (included overdue loans)	91,540,535	87,394,204	63,386,306	72,019,321	642,348,367	956,688,733
Deliverable derivative assets	178,884,144	227,145,718	169,531,397	75,025,355	15,528,642	666,115,256
Non-deliverable derivative assets	4,442,642	2,665	7,609	5,867	270,717	4,729,500
Other capital inflow on maturity	23,145,725	7,923,887	7,035,776	3,751,869	51,278,205	93,135,462
Total assets	\$ 564,858,063	359,298,656	269,044,395	232,007,436	864,896,665	2,290,105,215
Liabilities						
Deposits from the central bank and banks	\$ 22,340,485	1,000	-	846,704	101,000	23,289,189
Deposits and remittances	152,180,951	119,918,994	115,380,390	180,913,176	583,142,571	1,151,536,082
Securities sold under repurchase agreements	15,032,276	220,096	10,884	-	-	15,263,256
Payables	475,798	704,408	380,476	598,010	93,136	2,251,828
Financial bonds payable	-	2,552,665	3,057,609	7,455,867	38,419,660	51,485,801
Deliverable derivative liabilities	271,304,423	293,506,440	180,729,482	72,641,643	15,328,310	833,510,298
Non-deliverable derivative liabilities	4,777,084	-	-	-	1,058	4,778,142
Other capital outflow on maturity	12,188,639	648,026	1,948,446	4,459,703	6,729,034	25,973,848
Total liabilities	\$ 478,299,656	417,551,629	301,507,287	266,915,103	643,814,769	2,108,088,444

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

		December 31, 2016					
		0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets							
Cash and due from / call loans to banks	\$	44,997,323	19,839,940	15,347,358	19,524,138	20,520,426	120,229,185
Investment in marketable securities(Note 2)		186,545,217	26,091,793	20,880,297	26,030,315	104,389,208	363,936,830
Securities purchased under resell agreements		17,441,044	1,248,065	-	-	-	18,689,109
Loans (included overdue loans)		92,358,485	80,346,499	70,976,182	90,226,262	599,953,086	933,860,514
Deliverable derivative assets		213,349,496	183,458,815	73,386,798	94,461,250	18,879,146	583,535,505
Non-deliverable derivative assets		6,432,977	1,196	1,833	17,609	170,761	6,624,376
Other capital inflow on maturity		17,965,142	3,604,037	5,754,861	9,614,937	55,039,721	91,978,698
Total assets	\$	<u>579,089,684</u>	<u>314,590,345</u>	<u>186,347,329</u>	<u>239,874,511</u>	<u>798,952,348</u>	<u>2,118,854,217</u>
Liabilities							
Deposits from the central bank and banks	\$	17,845,109	5,009	1,241,826	5,000	101,000	19,197,944
Deposits and remittances		140,482,624	135,742,327	106,012,167	191,313,266	566,618,981	1,140,169,365
Securities sold under repurchase agreements		2,859,193	3,221,427	105,035	-	-	6,185,655
Payables		497,768	376,756	507,761	516,546	88,306	1,987,137
Financial bonds payable		2,850,511	1,501,196	501,833	7,067,609	40,820,761	52,741,910
Deliverable derivative liabilities		235,202,904	196,287,465	160,153,734	71,303,282	17,281,666	680,229,051
Non-deliverable derivative liabilities		6,784,994	-	-	-	-	6,784,994
Other capital outflow on maturity		11,848,466	4,217,846	3,538,899	2,295,080	7,241,019	29,141,310
Total liabilities	\$	<u>418,371,569</u>	<u>341,352,026</u>	<u>272,061,255</u>	<u>272,500,783</u>	<u>632,151,733</u>	<u>1,936,437,366</u>
		September 30, 2016					
		0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets							
Cash and due from / call loans to banks	\$	37,991,931	8,752,958	14,500,091	28,770,842	24,231,297	114,247,119
Investment in marketable securities(Note 2)		193,345,928	19,840,075	19,348,836	29,774,070	82,905,178	345,214,087
Securities purchased under resell agreements		19,925,480	-	-	-	-	19,925,480
Loans (included overdue loans)		93,943,561	71,407,765	85,620,114	68,273,571	605,801,249	925,046,260
Deliverable derivative assets		121,519,194	176,495,195	126,850,165	51,547,449	29,576,406	505,988,409
Non-deliverable derivative assets		6,687,295	2,225	5,414	3,098	424,121	7,122,153
Other capital inflow on maturity		14,311,626	3,700,642	5,286,237	9,291,927	55,870,409	88,460,841
Total assets	\$	<u>487,725,015</u>	<u>280,198,860</u>	<u>251,610,857</u>	<u>187,660,957</u>	<u>798,808,660</u>	<u>2,006,004,349</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	September 30, 2016					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Liabilities						
Deposits from the central bank and banks	\$ 5,758,824	2,000	3,009	1,246,826	101,000	7,111,659
Deposits and remittances	97,275,492	148,164,058	119,052,496	180,473,558	569,100,314	1,114,065,918
Securities sold under repurchase agreements	7,180,002	2,547,686	10,855	30,611	-	9,769,154
Payables	298,471	764,770	396,200	517,468	83,102	2,060,011
Financial bonds payable	-	4,052,225	4,355,415	5,003,097	43,624,121	57,034,858
Deliverable derivative liabilities	183,860,310	198,020,036	129,014,655	61,720,141	27,282,998	599,898,140
Non-deliverable derivative liabilities	7,156,142	-	-	-	-	7,156,142
Other capital outflow on maturity	10,843,575	873,399	3,405,962	3,727,964	8,622,800	27,473,700
Total liabilities	\$ 312,372,816	354,424,174	256,238,592	252,719,665	648,814,335	1,824,569,582

Note1: The above amounts include only New Taiwan dollar amounts (exclude foreign currencies) held by the headquarter and domestic branches of Taipei Fubon Bank.

Note2: Investment in marketable securities includes financial assets measured at fair value through profit or loss, available-for-sale financial assets, and held-to-maturity financial assets.

ii) The maturity analysis of financial assets and liabilities - USD

Taipei Fubon Bank (The Bank)

	September 30, 2017					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Units: In thousands of USD						
Assets						
Cash and due from / call loans to banks	\$ 722,470	545,000	260,000	405,000	-	1,932,470
Investment in marketable securities(Note 2)	394,611	65,035	97,000	190,276	4,041,820	4,788,742
Loans (included overdue loans)	818,055	501,432	201,086	238,728	1,525,589	3,284,890
Deliverable derivative assets	13,242,613	14,655,220	7,923,496	2,693,791	537,835	39,052,955
Non-deliverable derivative assets	40,192	21	54	214	16,632	57,113
Other capital inflow on maturity	774,691	345,815	76,377	7,189	254,760	1,458,832
Total assets	\$ 15,992,632	16,112,523	8,558,013	3,535,198	6,376,636	50,575,002

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	September 30, 2017					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Liabilities						
Deposits from the central bank and banks	\$ 1,090,844	227,000	20,000	-	-	1,337,844
Deposits and remittances	3,985,131	1,442,000	2,145,522	1,350,752	3,407,343	12,330,748
Securities sold under repurchase agreements	397,753	1,135,328	-	-	-	1,533,081
Payables	11,910	11,761	7,084	614	-	31,369
Financial bonds payable	-	-	-	-	701,167	701,167
Deliverable derivative liabilities	9,904,861	12,148,838	7,637,761	2,786,273	543,645	33,021,378
Non-deliverable derivative liabilities	48,729	-	-	363	65,166	114,258
Other capital outflow on maturity	698,920	95,218	24,806	5,101	458,023	1,282,068
Total liabilities	\$ 16,138,148	15,060,145	9,835,173	4,143,103	5,175,344	50,351,913

Units: In thousands of USD

	December 31, 2016					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Cash and due from / call loans to banks	\$ 966,860	364,000	558,000	265,000	-	2,153,860
Investment in marketable securities(Note 2)	207,249	36,615	97,705	289,978	2,147,672	2,779,219
Loans (included overdue loans)	692,399	329,205	268,000	220,793	1,718,761	3,229,158
Deliverable derivative assets	11,453,371	10,429,655	7,261,663	4,001,814	570,438	33,716,941
Non-deliverable derivative assets	263,065	-	-	72	6,769	269,906
Other capital inflow on maturity	366,032	269,135	150,462	112,398	430,612	1,328,639
Total assets	\$ 13,948,976	11,428,610	8,335,830	4,890,055	4,874,252	43,477,723
Liabilities						
Deposits from the central bank and banks	\$ 558,781	205,400	-	-	-	764,181
Deposits and remittances	3,570,183	1,560,201	1,329,903	1,444,082	1,888,851	9,793,220
Securities sold under repurchase agreements	423,032	338,869	-	-	-	761,901
Payables	3,858	5,274	3,029	95	-	12,256
Financial bonds payable	-	-	-	-	368,920	368,920
Deliverable derivative liabilities	10,397,118	10,022,628	4,499,360	4,598,696	616,331	30,134,133
Non-deliverable derivative liabilities	281,445	18	259	229	36,917	318,868
Other capital outflow on maturity	246,211	114,803	111,895	120,891	472,902	1,066,702
Total liabilities	\$ 15,480,628	12,247,193	5,944,446	6,163,993	3,383,921	43,220,181

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Units: In thousands of USD

	September 30, 2016					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Cash and due from / call loans to banks	\$ 712,371	150,000	245,000	377,000	-	1,484,371
Investment in marketable securities(Note 2)	135,254	10,071	116,952	208,184	2,029,446	2,499,907
Loans (included overdue loans)	1,147,406	518,056	211,033	223,015	1,724,375	3,823,885
Deliverable derivative assets	9,602,858	10,551,062	6,897,937	3,944,175	908,853	31,904,885
Non-deliverable derivative assets	212,015	-	-	-	1,385	213,400
Other capital inflow on maturity	400,462	227,938	68,568	158,792	378,567	1,234,327
Total assets	<u>\$ 12,210,366</u>	<u>11,457,127</u>	<u>7,539,490</u>	<u>4,911,166</u>	<u>5,042,626</u>	<u>41,160,775</u>
Liabilities						
Deposits from the central bank and banks	\$ 990,503	204,000	-	-	-	1,194,503
Deposits and remittances	3,018,611	1,417,608	2,006,501	1,159,725	1,864,811	9,467,256
Securities sold under repurchase agreements	497,471	385,657	-	-	-	883,128
Payables	3,970	5,578	2,281	104	-	11,933
Financial bonds payable	-	-	-	-	191,859	191,859
Deliverable derivative liabilities	7,069,394	9,587,845	6,463,385	3,564,595	978,479	27,663,698
Non-deliverable derivative liabilities	227,572	46	255	683	26,631	255,187
Other capital inflow on maturity	393,920	92,416	40,225	155,781	448,874	1,131,216
Total liabilities	<u>\$ 12,201,441</u>	<u>11,693,150</u>	<u>8,512,647</u>	<u>4,880,888</u>	<u>3,510,654</u>	<u>40,798,780</u>

Note 1 : The above amounts include only USD amounts held by headquarter, domestic branches and offshore banking units of Taipei Fubon Bank.

Note 2 : Investment in marketable securities includes financial assets measured at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets and others financial assets— debt investments without active market.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

iii) The maturity analysis of financial assets and liabilities - CNY

Fubon Bank (China)

Units: In thousands of CNY

	September 30, 2017					
	0-30 days	31-90 days	91-365 days	Over 1 year	Undetermined	Total
Assets						
Cash and due from / call loans to banks	\$ 2,700,926	-	-	-	5,929,439	8,630,365
Investment in marketable securities(Note)	3,333,180	560,183	6,121,391	11,618,773	-	21,633,527
Securities purchased under resell agreements	1,552,240	-	-	-	-	1,552,240
Loans (included overdue loans)	6,581,767	9,137,435	18,147,163	8,648,490	-	42,514,855
Deliverable derivative liabilities	1,163,560	2,089,328	3,052,203	-	-	6,305,091
Non-deliverable derivative liabilities	5,643,610	13,883,801	31,452,100	-	-	50,979,511
Other capital inflow on maturity	566,494	757,420	1,088,702	-	20,369	2,432,985
Total assets	\$ 21,541,777	26,428,167	59,861,559	20,267,263	5,949,808	134,048,574
Liabilities						
Deposits from the central bank and banks	\$ 1,082,679	3,698,469	3,761,857	-	-	8,543,005
Due to the central bank and banks	-	133,742	1,023,358	-	-	1,157,100
Deposits and remittances	23,449,764	15,713,356	10,555,163	1,345,747	-	51,064,030
Securities sold under repurchase agreements	5,554,758	156,741	-	-	-	5,711,499
Payables	381,236	749,545	898,311	542	-	2,029,634
Deliverable derivatives liabilities	1,174,761	2,084,242	3,065,674	-	-	6,324,677
Non-deliverable derivatives	5,644,368	13,941,430	31,520,090	-	-	51,105,888
Other capital outflow	-	-	-	-	3,122	3,122
Total liabilities	\$ 37,287,566	36,477,525	50,824,453	1,346,289	3,122	125,938,955

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Units: In thousands of CNY

	December 31, 2016					
	0-30 days	31-90 days	91-365 days	Over 1 year	Undetermined	Total
Assets						
Cash and due from / call loans to banks	\$ 1,870,593	458,389	-	-	5,937,258	8,266,240
Investments in marketable securities (Note)	1,397,100	930,319	3,836,314	12,163,806	-	18,327,539
Securities purchased under resell agreements	1,900,708	-	-	-	-	1,900,708
Loans (included overdue loans)	8,747,313	7,036,051	18,075,838	7,250,281	-	41,109,483
Deliverable derivative assets	2,918,815	3,751,590	5,022,714	139,940	-	11,833,059
Non-deliverable derivative assets	5,948,176	12,593,003	17,985,325	140,179	-	36,666,683
Other capital inflow on maturity	365,838	154,168	721,116	298,324	17,971	1,557,417
Total assets	\$ 23,148,543	24,923,520	45,641,307	19,992,530	5,955,229	119,661,129
Liabilities						
Deposits from the central bank and banks	\$ 1,143,218	3,304,953	1,444,995	223,467	-	6,116,633
Due to the central bank and banks	-	10,197	1,558,511	-	-	1,568,708
Deposits and remittances	22,097,256	12,050,859	12,447,886	1,984,997	-	48,580,998
Securities sold under repurchase agreements	5,318,394	309,477	1,003,638	-	-	6,631,509
Payables	436,681	146,950	534,276	548	-	1,118,455
Deliverable derivatives liabilities	2,885,155	3,750,400	5,014,955	140,356	-	11,790,866
Non-deliverable derivatives liabilities	5,934,140	12,497,900	17,937,461	140,136	-	36,509,637
Other capital outflow	-	-	-	-	13,989	13,989
Total liabilities	\$ 37,814,844	32,070,736	39,941,722	2,489,504	13,989	112,330,795

Units: In thousands of CNY

	September 30, 2016					
	0-30 days	31-90 days	91-365 days	Over 1 year	Undetermined	Total
Assets						
Cash and due from / call loans to banks	\$ 1,596,722	96,821	-	-	6,187,562	7,881,105
Investments in marketable securities (Note)	504,349	281,766	3,803,576	13,821,511	-	18,411,202
Loans (included overdue loans)	9,419,158	9,666,344	18,088,743	8,002,623	-	45,176,868
Deliverable derivative assets	2,874,002	5,844,162	9,368,369	-	-	18,086,533
Non deliverable derivative assets	5,526,271	10,369,611	22,220,499	67,388	-	38,183,769
Other capital inflow on maturity	524,723	422,468	559,179	298,717	17,979	1,823,066
Total assets	\$ 20,445,225	26,681,172	54,040,366	22,190,239	6,205,541	129,562,543
Liabilities						
Deposits from the central bank and banks	\$ 1,212,143	2,083,729	2,714,381	-	-	6,010,253
Due to the central bank and banks	-	10,083	30,248	1,477,790	-	1,518,121
Deposits and remittances	20,156,095	13,397,358	16,243,284	1,988,356	-	51,785,093
Securities sold under repurchase agreements	5,946,324	-	-	-	-	5,946,324
Payables	398,372	377,528	347,444	547	-	1,123,891
Deliverable derivatives liabilities	2,871,862	5,844,492	9,354,199	-	-	18,070,553
Non-deliverable derivatives liabilities	5,517,548	10,361,575	22,196,588	67,306	-	38,143,017
Other capital outflow	-	26,063	24,800	-	10,020	60,883
Total liabilities	\$ 36,102,344	32,100,828	50,910,944	3,533,999	10,020	122,658,135

Note: Investment in marketable securities includes financial assets measured at fair value, available-for-sale financial assets and held-to-maturity financial assets.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

iv) The maturity analysis of derivatives assets and liabilities - TWD

Taipei Fubon Bank (The Bank)

Units: In thousands of TWD

	September 30, 2017					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Deliverable derivative assets						
– Forward contracts	\$ 633,719	1,100,964	1,576,427	488,531	354,177	4,153,818
– Currency swap	170,607,797	201,349,827	149,754,397	63,566,584	2,084,190	587,362,795
– Cross currency swap	<u>7,642,628</u>	<u>24,694,927</u>	<u>18,200,573</u>	<u>10,970,240</u>	<u>13,090,275</u>	<u>74,598,643</u>
Subtotal	<u>178,884,144</u>	<u>227,145,718</u>	<u>169,531,397</u>	<u>75,025,355</u>	<u>15,528,642</u>	<u>666,115,256</u>
Non-deliverable derivative assets						
– Foreign exchange derivative instruments	894,330	-	-	-	-	894,330
– Interest rate derivative instruments – hedging	-	2,665	7,609	5,867	270,717	286,858
– Interest rate derivative instruments – non-hedging	2,667,585	-	-	-	-	2,667,585
– Equity derivative instruments	880,727	-	-	-	-	880,727
Subtotal	<u>4,442,642</u>	<u>2,665</u>	<u>7,609</u>	<u>5,867</u>	<u>270,717</u>	<u>4,729,500</u>
Liabilities						
Deliverable derivative liabilities						
– Forward contracts	\$ 1,531,181	1,287,526	59,995	-	-	2,878,702
– Currency swap	261,307,149	284,964,504	159,327,693	63,723,821	1,898,785	771,221,952
– Cross currency swap	<u>8,466,093</u>	<u>7,254,410</u>	<u>21,341,794</u>	<u>8,917,822</u>	<u>13,429,525</u>	<u>59,409,644</u>
Subtotal	<u>271,304,423</u>	<u>293,506,440</u>	<u>180,729,482</u>	<u>72,641,643</u>	<u>15,328,310</u>	<u>833,510,298</u>
Non-deliverable derivative liabilities						
– Foreign exchange derivative instruments	894,330	-	-	-	-	894,330
– Interest rate derivative instrument – hedging	-	-	-	-	1,058	1,058
– Interest rate derivative instruments – non-hedging	3,002,027	-	-	-	-	3,002,027
– Equity derivative instruments	880,727	-	-	-	-	880,727
Subtotal	<u>4,777,084</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,058</u>	<u>4,778,142</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Units: In thousands of TWD

	December 31, 2016					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Deliverable derivative assets						
– Forward contracts	\$ 634,114	1,216,469	1,105,036	1,021,967	442,959	4,420,545
– Currency swap	202,075,119	173,047,276	57,828,992	66,075,333	15,302	499,042,022
– Cross currency swap	<u>10,640,263</u>	<u>9,195,070</u>	<u>14,452,770</u>	<u>27,363,950</u>	<u>18,420,885</u>	<u>80,072,938</u>
Subtotal	<u>213,349,496</u>	<u>183,458,815</u>	<u>73,386,798</u>	<u>94,461,250</u>	<u>18,879,146</u>	<u>583,535,505</u>
Non-deliverable derivative assets						
– Foreign exchange	2,435,737	-	-	-	-	2,435,737
– Interest rate derivative instruments – hedging	511	1,196	1,833	17,609	170,761	191,910
– Interest rate derivative instruments – non-hedging	3,247,554	-	-	-	-	3,247,554
– Equity derivative instruments	749,175	-	-	-	-	749,175
Subtotal	<u>6,432,977</u>	<u>1,196</u>	<u>1,833</u>	<u>17,609</u>	<u>170,761</u>	<u>6,624,376</u>
Liabilities						
Deliverable derivative liabilities						
– Forward contracts	\$ 2,970,417	1,734,317	186,612	-	-	4,891,346
– Currency swap	228,402,327	181,908,668	153,032,752	41,834,182	-	605,177,929
– Cross currency swap	<u>3,830,160</u>	<u>12,644,480</u>	<u>6,934,370</u>	<u>29,469,100</u>	<u>17,281,666</u>	<u>70,159,776</u>
Subtotal	<u>235,202,904</u>	<u>196,287,465</u>	<u>160,153,734</u>	<u>71,303,282</u>	<u>17,281,666</u>	<u>680,229,051</u>
Non-deliverable derivative liabilities						
– Foreign exchange derivative instruments	2,445,103	-	-	-	-	2,445,103
– Interest rate derivative instruments – non-hedging	3,590,872	-	-	-	-	3,590,872
– Equity derivative instruments	749,019	-	-	-	-	749,019
Subtotal	<u>6,784,994</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,784,994</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Units: In thousands of TWD

	September 30, 2016					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Deliverable derivative assets						
– Forward contracts	\$ 321,851	1,807,092	970,756	1,333,424	452,437	4,885,560
– Currency swap	116,631,498	166,744,474	104,451,484	27,721,339	2,021,149	417,569,944
– Cross currency swap	<u>4,565,845</u>	<u>7,943,629</u>	<u>21,427,925</u>	<u>22,492,686</u>	<u>27,102,820</u>	<u>83,532,905</u>
Subtotal	<u>121,519,194</u>	<u>176,495,195</u>	<u>126,850,165</u>	<u>51,547,449</u>	<u>29,576,406</u>	<u>505,988,409</u>
Non-deliverable derivative assets						
– Foreign exchange	1,899,654	-	-	-	-	1,899,654
– Interest rate derivative instruments – hedging	-	2,225	5,414	3,098	424,121	434,858
– Interest rate derivative instruments – non-hedging	4,283,696	-	-	-	-	4,283,696
– Equity derivative instruments	503,945	-	-	-	-	503,945
Subtotal	<u>6,687,295</u>	<u>2,225</u>	<u>5,414</u>	<u>3,098</u>	<u>424,121</u>	<u>7,122,153</u>
Liabilities						
Deliverable derivative liabilities						
– Forward contracts	\$ 2,332,197	2,231,848	149,545	-	-	4,713,590
– Currency swap	173,093,453	187,044,888	113,940,470	41,037,173	-	515,115,984
– Cross currency swap	<u>8,434,660</u>	<u>8,743,300</u>	<u>14,924,640</u>	<u>20,682,968</u>	<u>27,282,998</u>	<u>80,068,566</u>
Subtotal	<u>183,860,310</u>	<u>198,020,036</u>	<u>129,014,655</u>	<u>61,720,141</u>	<u>27,282,998</u>	<u>599,898,140</u>
Non-deliverable derivative liabilities						
– Foreign exchange derivative instruments	1,902,183	-	-	-	-	1,902,183
– Interest rate derivative instruments – non-hedging	4,750,114	-	-	-	-	4,750,114
– Equity derivative instruments	503,845	-	-	-	-	503,845
Subtotal	<u>7,156,142</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,156,142</u>

Note: The above amounts include only New Taiwan dollar amounts (exclude foreign currencies) held by headquarter and domestic branches of Taipei Fubon Bank.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

v) The maturity analysis of derivatives assets and liabilities - USD

Taipei Fubon Bank (The Bank)

Units: In thousands of USD

	September 30, 2017					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Deliverable derivative assets						
– Forward contracts	\$ 310,995	231,243	93,316	32,887	860	669,301
– Currency swap	12,673,704	14,193,977	7,158,180	2,376,124	81,917	36,483,902
– Cross currency swap	257,914	230,000	672,000	284,780	455,058	1,899,752
Subtotal	<u>13,242,613</u>	<u>14,655,220</u>	<u>7,923,496</u>	<u>2,693,791</u>	<u>537,835</u>	<u>39,052,955</u>
Non-deliverable derivative assets						
– Foreign exchange derivative instruments	29,751	-	-	-	-	29,751
– Interest rate derivative instruments – hedging	2	21	54	214	16,632	16,923
– Interest rate derivative instruments – non-hedging	9,863	-	-	-	-	9,863
– Equity derivative instruments	385	-	-	-	-	385
– Product derivative instruments	191	-	-	-	-	191
Subtotal	<u>40,192</u>	<u>21</u>	<u>54</u>	<u>214</u>	<u>16,632</u>	<u>57,113</u>
Liabilities						
Deliverable derivative liabilities						
– Forward contracts	\$ 283,809	417,521	258,740	186,882	18,655	1,165,607
– Currency swap	9,382,685	10,932,692	6,799,603	2,240,602	84,865	29,440,447
– Cross currency swap	238,367	798,625	579,418	358,789	440,125	2,415,324
Subtotal	<u>9,904,861</u>	<u>12,148,838</u>	<u>7,637,761</u>	<u>2,786,273</u>	<u>543,645</u>	<u>33,021,378</u>
Non-deliverable derivative liabilities						
– Foreign exchange derivative instruments	32,090	-	-	-	-	32,090
– Interest rate derivative instruments – hedging	3	-	-	363	65,166	65,532
– Interest rate derivative instruments – non-hedging	16,064	-	-	-	-	16,064
– Equity derivative instruments	385	-	-	-	-	385
– Product derivative instruments	187	-	-	-	-	187
Subtotal	<u>48,729</u>	<u>-</u>	<u>-</u>	<u>363</u>	<u>65,166</u>	<u>114,258</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Units: In thousands of USD

	December 31, 2016					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Deliverable derivative assets						
– Forward contracts	\$ 289,094	313,698	71,343	34,528	8,600	717,263
– Currency swap	11,046,188	9,921,957	6,956,609	3,030,490	15,000	30,970,244
– Cross currency swap	118,089	194,000	233,711	936,796	546,838	2,029,434
Subtotal	<u>11,453,371</u>	<u>10,429,655</u>	<u>7,261,663</u>	<u>4,001,814</u>	<u>570,438</u>	<u>33,716,941</u>
Non-deliverable derivative assets						
– Foreign exchange derivative instruments	246,716	-	-	-	-	246,716
– Interest rate derivative instruments – hedging	-	-	-	72	6,769	6,841
– Interest rate derivative instruments – non-hedging	15,025	-	-	-	-	15,025
– Equity derivative instruments	551	-	-	-	-	551
– Product derivative instruments	773	-	-	-	-	773
Subtotal	<u>263,065</u>	<u>-</u>	<u>-</u>	<u>72</u>	<u>6,769</u>	<u>269,906</u>
Liabilities						
Deliverable derivative liabilities						
– Forward contracts	\$ 378,688	535,962	154,681	87,288	14,000	1,170,619
– Currency swap	9,693,430	9,006,559	3,852,781	3,652,303	15,480	26,220,553
– Cross currency swap	325,000	480,107	491,898	859,105	586,851	2,742,961
Subtotal	<u>10,397,118</u>	<u>10,022,628</u>	<u>4,499,360</u>	<u>4,598,696</u>	<u>616,331</u>	<u>30,134,133</u>
Non-deliverable derivative liabilities						
– Foreign exchange derivative instruments	258,061	-	-	-	-	258,061
– Interest rate derivative instruments – hedging	30	18	259	229	36,917	37,453
– Interest rate derivative instruments – non-hedging	22,032	-	-	-	-	22,032
– Equity derivative instruments	551	-	-	-	-	551
– Product derivative instruments	771	-	-	-	-	771
Subtotal	<u>281,445</u>	<u>18</u>	<u>259</u>	<u>229</u>	<u>36,917</u>	<u>318,868</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Units: In thousands of USD

	September 30, 2016					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Deliverable derivative assets						
— Forward contracts	\$ 309,591	284,463	94,137	43,074	9,100	740,365
— Currency swap	9,211,865	10,096,772	6,539,800	3,218,509	45,000	29,111,946
— Cross currency swap	81,402	169,827	264,000	682,592	854,753	2,052,574
Subtotal	<u>9,602,858</u>	<u>10,551,062</u>	<u>6,897,937</u>	<u>3,944,175</u>	<u>908,853</u>	<u>31,904,885</u>
Non-deliverable derivative assets						
— Foreign exchange derivative instruments	197,984	-	-	-	-	197,984
— Interest rate derivative instruments—hedging	-	-	-	-	1,385	1,385
— Interest rate derivative instruments—non-hedging	13,334	-	-	-	-	13,334
— Equity derivative instruments	358	-	-	-	-	358
— Product derivative instruments	339	-	-	-	-	339
Subtotal	<u>212,015</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,385</u>	<u>213,400</u>
Liabilities						
Deliverable derivative liabilities						
— Forward contracts	\$ 483,847	651,267	214,999	89,392	14,000	1,453,505
— Currency swap	6,436,321	8,671,213	5,414,279	2,723,927	110,200	23,355,940
— Cross currency swap	149,226	265,365	834,107	751,276	854,279	2,854,253
Subtotal	<u>7,069,394</u>	<u>9,587,845</u>	<u>6,463,385</u>	<u>3,564,595</u>	<u>978,479</u>	<u>27,663,698</u>
Non-deliverable derivative liabilities						
— Foreign exchange derivative instruments	202,683	-	-	-	-	202,683
— Interest rate derivative instruments—hedging	28	46	255	683	26,631	27,643
— Interest rate derivative instruments—non-hedging	24,170	-	-	-	-	24,170
— Equity derivative instruments	358	-	-	-	-	358
— Product derivative instruments	333	-	-	-	-	333
Subtotal	<u>227,572</u>	<u>46</u>	<u>255</u>	<u>683</u>	<u>26,631</u>	<u>255,187</u>

Note: The above amounts include only USD amounts held by headquarter, domestic branches and offshore banking units of Taipei Fubon Bank.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

vi) The maturity analysis of derivatives assets and liabilities - CNY

Fubon Bank (China)

Units: In thousands of CNY

<u>Asset</u>	September 30, 2017				
	<u>0~30 days</u>	<u>31~90 days</u>	<u>91~365 days</u>	<u>Over 1 year</u>	<u>Total</u>
Deliverable derivatives assets					
– Forward contracts	\$ 119,318	250,654	36,103	-	406,075
– Currency swap	678,976	1,770,711	2,937,217	-	5,386,904
– Options	365,266	66,806	6,860	-	438,932
– Equity exchange	-	-	2,935	-	2,935
– Cross currency swap	-	1,157	69,088	-	70,245
Subtotal	<u>1,163,560</u>	<u>2,089,328</u>	<u>3,052,203</u>	<u>-</u>	<u>6,305,091</u>
Non-deliverable derivatives assets					
– Interest rate derivatives instruments – non-hedging	59	421	-	-	480
– Currency swap	5,441,626	13,882,763	31,450,422	-	50,774,811
– Options	201,925	-	-	-	201,925
– Commodity swap	-	617	1,678	-	2,295
Subtotal	<u>5,643,610</u>	<u>13,883,801</u>	<u>31,452,100</u>	<u>-</u>	<u>50,979,511</u>
<u>Liabilities</u>	September 30, 2017				
	<u>0~30 days</u>	<u>31~90 days</u>	<u>91~365 days</u>	<u>Over 365 days</u>	<u>Total</u>
Deliverable derivatives liabilities					
– Forward contracts	\$ 116,728	239,554	33,914	-	390,196
– Currency swap	690,744	1,774,031	2,953,067	-	5,417,842
– Options	367,289	69,500	6,670	-	443,459
– Equity exchange	-	-	2,935	-	2,935
– Cross currency swap	-	1,157	69,088	-	70,245
Subtotal	<u>1,174,761</u>	<u>2,084,242</u>	<u>3,065,674</u>	<u>-</u>	<u>6,324,677</u>
Non-deliverable derivatives assets					
– Interest rate derivatives instruments – non-hedging	59	421	-	-	480
– Currency swap	5,445,002	13,940,392	31,518,412	-	50,903,806
– Options	199,307	-	-	-	199,307
– Commodity swap	-	617	1,678	-	2,295
Subtotal	<u>5,644,368</u>	<u>13,941,430</u>	<u>31,520,090</u>	<u>-</u>	<u>51,105,888</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Units: In thousands of CNY

<u>Asset</u>	December 31, 2016				
	0~30 days	31~90 days	91~365 days	Over 1 year	Total
Deliverable derivatives assets					
– Forward contracts	\$ 143,370	133,097	510,024	-	786,491
– Currency swap	2,226,989	3,618,493	4,512,690	139,940	10,498,112
– Options	<u>548,456</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>548,456</u>
Subtotal	<u>2,918,815</u>	<u>3,751,590</u>	<u>5,022,714</u>	<u>139,940</u>	<u>11,833,059</u>
Non-deliverable derivatives assets					
– Interest rate derivatives instruments- non-hedging	38	84	497	-	619
– Currency swap	5,913,910	12,567,084	17,982,860	140,179	36,604,033
– Forward contracts	32,793	25,835	-	-	58,628
– Commodity swap	<u>1,435</u>	<u>-</u>	<u>1,968</u>	<u>-</u>	<u>3,403</u>
Subtotal	<u>5,948,176</u>	<u>12,593,003</u>	<u>17,985,325</u>	<u>140,179</u>	<u>36,666,683</u>
Liabilities					
Deliverable derivatives liabilities					
– Forward contracts	\$ 146,065	135,865	528,648	-	810,578
– Currency swap	2,190,686	3,614,535	4,486,307	140,356	10,431,884
– Options	<u>548,404</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>548,404</u>
Subtotal	<u>2,885,155</u>	<u>3,750,400</u>	<u>5,014,955</u>	<u>140,356</u>	<u>11,790,866</u>
Non-deliverable derivatives assets					
– Interest rate derivatives instruments- non-hedging	38	84	497	-	619
– Currency swap	5,899,232	12,472,789	17,934,996	140,136	36,447,153
– Forward contracts	33,435	25,027	-	-	58,462
– Commodity swap	<u>1,435</u>	<u>-</u>	<u>1,968</u>	<u>-</u>	<u>3,403</u>
Subtotal	<u>5,934,140</u>	<u>12,497,900</u>	<u>17,937,461</u>	<u>140,136</u>	<u>36,509,637</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Units: In thousands of CNY

<u>Asset</u>	September 30, 2016				
	0~30 days	31~90 days	91~365 days	Over 1 year	Total
Deliverable derivatives assets					
– Forward contracts	\$ 182,624	374,923	609,452	-	1,166,999
– Currency swap	2,691,378	4,868,207	8,222,760	-	15,782,345
– Options	-	598,512	536,157	-	1,134,669
– Equity exchange	-	2,520	-	-	2,520
Subtotal	<u>2,874,002</u>	<u>5,844,162</u>	<u>9,368,369</u>	<u>-</u>	<u>18,086,533</u>
Non-deliverable derivatives assets					
– Forward contracts	42,545	110,313	20,114	-	172,972
– Currency swap	5,483,676	10,259,200	22,198,545	67,388	38,008,809
– Interest rate derivatives instruments – non-hedging	50	98	149	-	297
– Commodity swap	-	-	1,691	-	1,691
Subtotal	<u>5,526,271</u>	<u>10,369,611</u>	<u>22,220,499</u>	<u>67,388</u>	<u>38,183,769</u>
Liabilities					
Deliverable derivatives liabilities					
– Forward contracts	\$ 182,202	377,081	611,291	-	1,170,574
– Currency swap	2,689,660	4,866,379	8,206,750	-	15,762,789
– Options	-	598,512	536,158	-	1,134,670
– Equity exchange	-	2,520	-	-	2,520
Subtotal	<u>2,871,862</u>	<u>5,844,492</u>	<u>9,354,199</u>	<u>-</u>	<u>18,070,553</u>
Non-deliverable derivatives assets					
– Commodity swap	-	-	1,691	-	1,691
– Forward contracts	43,424	108,588	20,056	-	172,068
– Currency swap	5,474,074	10,252,889	22,174,692	67,306	37,968,961
– Interest rate derivatives instruments – non-hedging	50	98	149	-	297
Subtotal	<u>5,517,548</u>	<u>10,361,575</u>	<u>22,196,588</u>	<u>67,306</u>	<u>38,143,017</u>

vii) The maturity analysis of off-balance sheet items

The maturity analysis of off-balance sheet items shows the remaining balance from the balance sheet date to the maturity date. For the sent financial guarantee contracts, the maximum amounts are possibly asked for settlement in the earliest period. The amounts in the table below were on cash flow basis; therefore, some disclosed amounts will not match with the consolidated balance sheet.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Taipei Fubon Bank (The Bank)

Units: In thousands of TWD

September 30, 2017	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Standby and irrevocable loan commitment	76,366,213	-	-	-	-	76,366,213
Unused letters of credit	9,145,046	-	-	-	-	9,145,046
Other guarantee amounts	12,254,740	487,800	-	5,520,174	12,679,703	30,942,417
Total	97,765,999	487,800	-	5,520,174	12,679,703	116,453,676

December 31, 2016	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Standby and irrevocable loan commitment	90,031,332	-	-	-	-	90,031,332
Unused letters of credit	8,893,665	-	-	-	-	8,893,665
Other guarantee amounts	10,407,972	100,000	1,526,250	1,852,495	18,202,565	32,089,282
Total	109,332,969	100,000	1,526,250	1,852,495	18,202,565	131,014,279

September 30, 2016	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Standby and irrevocable loan commitment	81,692,565	-	-	-	-	81,692,565
Unused letters of credit	8,537,139	-	-	-	-	8,537,139
Other guarantee amounts	7,688,222	907,142	-	3,378,745	18,441,178	30,415,287
Total	97,917,926	907,142	-	3,378,745	18,441,178	120,644,991

Fubon Bank (China)

Units: In thousands of CNY

September 30, 2017	0-30 days	31-90 days	91-365 days	Over 1 year	Total
Standby and irrevocable loan commitment	-	-	93,000	114,894	207,894
Unused letters of credit	161,505	168,721	184,433	-	514,659
Other guarantee amounts	89,849	272,341	1,085,719	61,822	1,509,731
Total	251,354	441,062	1,363,152	176,716	2,232,284

Units: In thousands of CNY

December 31, 2016	0-30 days	31-90 days	91-365 days	Over 1 year	Total
Standby and irrevocable loan commitment	-	-	50,000	90,375	140,375
Unused letters of credit	93,464	126,003	16,378	-	235,845
Other guarantee amounts	102,354	231,476	1,266,926	48,354	1,649,110
Total	195,818	357,479	1,333,304	138,729	2,025,330

Units: In thousands of CNY

September 30, 2016	0-30 days	31-90 days	91-365 days	Over 1 year	Total
Standby and irrevocable loan commitment	-	-	50,000	299,183	349,183
Unused letters of credit	41,601	159,197	9,664	-	210,462
Other guarantee amounts	60,548	202,442	1,078,833	187,229	1,529,052
Total	102,149	361,639	1,138,497	486,412	2,088,697

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

2) Fubon Life Insurance and its subsidiaries

The liquidity risk of financial instruments is divided into capital liquidity risk and market liquidity risk. Capital liquidity risk refers to the risk that Fubon Life Insurance does not possess sufficient cash and is not able to raise funds in time and finally failed to fulfill the obligation (debt repayment). Market liquidity risk refers to the risk that Fubon Life Insurance is not able to settle or offset current position with reasonable market price due to the shallow market depth or market disorder or the oversized possession of the investment position and finally Fubon Life Insurance may suffer from losses.

In terms of capital liquidity risk, Fubon Life Insurance and its subsidiaries manage it in two aspects, short term and mid-to-long term. Except for the capital liquidity ratio set up for the index of measurement and control of short-term liquidity, relevant departments have established prompt capital report mechanism and apply proper currency market instruments or foreign exchange derivative instruments for daily capital movement. Mid-to-long term capital liquidity management is reviewed by the Assets and Liabilities Management Committee. The Company applies cash flow analysis model to monitor the coordination of assets and liabilities in order to lower related risks.

Regarding the market liquidity risk, the risk management department of Fubon Life Insurance and its subsidiaries established monitoring mechanism in terms of daily transaction concentration, investment position limit and current assets deployment in order to avoid market liquidity risk.

In addition, Fubon Life Insurance and its subsidiaries established complete crisis management and responding mechanism to cope with significant capital demand of unusual or emergent situations.

Fubon Life Insurance and its subsidiaries possess sufficient operating funds, including cash and cash equivalent and securities with excellent liquidity such as government bond, to cover the investments and debt repayments. Therefore, the liquidity risk of Fubon Life Insurance and its subsidiaries is extremely low. In addition, the derivative financial instruments Fubon Life Insurance and its subsidiaries engages in, such as delivery forward contracts, currency swap contracts, cross currency swap contracts, are all of highly liquid currencies. The possibility that they are not able to be sold at reasonable prices in the market is minimum, and therefore the market liquidity risk is low. Furthermore, the delivery forward contracts, currency swap contracts and cross currency swap contracts which matured are mostly extended and the capital to pay for the settlements is sufficient. Thus, the capital liquidity risk is low.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

The maturity structure of non-derivative financial liabilities of Fubon Life Insurance and its subsidiaries is listed below:

	September 30, 2017				
	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Payables	\$ 23,364,293	1,772	62	224,169	23,590,296
Short-term debts	283,238	-	-	-	283,238
Bonds Payables (Note)	1,140,750	2,281,500	2,281,500	39,851,734	45,555,484
Total	<u>\$ 24,788,281</u>	<u>2,283,272</u>	<u>2,281,562</u>	<u>40,075,903</u>	<u>69,429,018</u>

	December 31, 2016				
	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Payables	\$ 22,327,381	812	66	212,731	22,540,990
Bonds payable (Note)	926,250	1,852,500	1,852,500	33,067,808	37,699,058
Total	<u>\$ 23,253,631</u>	<u>1,853,312</u>	<u>1,852,566</u>	<u>33,280,539</u>	<u>60,240,048</u>

Note: Interest payables are included, therefore, disclosed amounts cannot be matched with the related accounts on the balance sheet. In addition, the bonds payables do not have maturity dates; therefore, the remaining period used for the calculation of the contract cash flow is 10 years.

	September 30, 2016				
	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Payables	\$ 24,443,757	37,192	34,812	336,727	24,852,488
Short-term debts	197,642	-	-	-	197,642
Total	<u>\$ 24,641,399</u>	<u>37,192</u>	<u>34,812</u>	<u>336,727</u>	<u>25,050,130</u>

The maturity structure of derivative financial liabilities of Fubon Life Insurance and its subsidiaries is listed below:

	September 30, 2017				
	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Financial liabilities measured at fair value through profit or loss	\$ 4,039,087	-	-	-	4,039,087
Derivative financial liabilities for hedging	-	-	15,265	594,791	610,056
Total	<u>\$ 4,039,087</u>	<u>-</u>	<u>15,265</u>	<u>594,791</u>	<u>4,649,143</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	December 31, 2016				
	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Financial liabilities measured at fair value through profit or loss	\$ 14,156,699	-	-	-	14,156,699
Derivative financial liabilities for hedging	-	-	-	760,198	760,198
Total	<u>\$ 14,156,699</u>	<u>-</u>	<u>-</u>	<u>760,198</u>	<u>14,916,897</u>

	September 30, 2016				
	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Financial liabilities measured at fair value through profit or loss	\$ 2,167,700	-	-	-	2,167,700
Derivative financial liabilities for hedging	-	-	-	25,329	25,329
Total	<u>\$ 2,167,700</u>	<u>-</u>	<u>-</u>	<u>25,329</u>	<u>2,193,029</u>

Note: The statistics of the table is based on the maturity date specified in the contracts (year=Act/365) and the amount is the book value.

3) Fubon Insurance and its subsidiaries

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

a) Management process of liquidity risk

i) Risk identification

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

ii) Risk measurement

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

iii) Risk monitoring

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

iv) Risk responding

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

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

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

- ii) For the liquidity risk management in the market, consider the transaction volume mainly, the strategy of sales development and the target of budget, according to the market size, dimension and market liquidity of every product, to set the key indicators of the liquidity risk in the market. In order to avoid market liquidity risk, Fubon Insurance and its subsidiaries establish control mechanism to concentrate for daily transactions and investment position limits.
- iii) Fubon Insurance and its subsidiaries established complete risk management system to deal with the mass demand of cash in abnormal or urgent condition. Monitoring daily net cash flow, Fubon Insurance and its subsidiaries established immediate cash flow estimation system and preserved proper amount of equivalent cash for future response. Financial department and accounting office provide risk management department with the condition of cash liquidity monthly, while risk management department also regularly reviews the limitation of market liquidity risk and it should inform the risk management committee with the indicators of the market liquidity risk and the management of the limitation. If the management indicator approaches the limitation, it should enhance the intention of the capital variation.

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

iv) The maturity analyses of financial assets and liabilities are as follows:

		September 30, 2017							
		Less than one year	1 to 3 year	3 to 5 year	5 to 10 year	10 to 20 year	More than 20 year	No maturity date	Total
The maturity analysis of financial assets									
	Available-for-sale financial assets	\$ 1,350,977	328,772	1,986,501	7,078,062	2,451,964	4,505,663	-	17,701,939
	Debt investments without active market	278,642	-	-	400,000	284,498	2,964,530	1,900,000	5,827,670
		<u>\$ 1,629,619</u>	<u>328,772</u>	<u>1,986,501</u>	<u>7,478,062</u>	<u>2,736,462</u>	<u>7,470,193</u>	<u>1,900,000</u>	<u>23,529,609</u>
		December 31, 2016							
		Less than one year	1 to 3 year	3 to 5 year	5 to 10 year	10 to 20 year	More than 20 year	No maturity date	Total
The maturity analysis of financial assets									
	Available-for-sale financial assets	\$ 734,952	1,532,482	698,188	8,554,953	2,071,173	4,554,668	-	18,146,416
	Debt investment without active market	-	217,626	-	200,000	352,862	2,114,580	500,000	3,385,068
		<u>\$ 734,952</u>	<u>1,750,108</u>	<u>698,188</u>	<u>8,754,953</u>	<u>2,424,035</u>	<u>6,669,248</u>	<u>500,000</u>	<u>21,531,484</u>
		September 30, 2016							
		Less than one year	1 to 3 year	3 to 5 year	5 to 10 year	10 to 20 year	More than 20 year	No maturity date	Total
The maturity analysis of financial assets									
	Available-for-sale financial assets	\$ 392,894	1,642,081	907,027	8,276,938	2,183,543	4,086,734	-	17,489,217
	Debt investments without active market	93,922	221,992	-	200,000	901,854	2,444,198	-	3,861,966
		<u>\$ 486,816</u>	<u>1,864,073</u>	<u>907,027</u>	<u>8,476,938</u>	<u>3,085,397</u>	<u>6,530,932</u>	<u>-</u>	<u>21,351,183</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

c) The maturity analyses of derivative assets and liabilities

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

		September 30, 2017					
		Less than 1 year	1 to 3 year	3 to 5 year	5 to 10 year	No maturity date	Total
Maturity analysis of financial assets	\$	<u>15,228</u>	-	-	-	-	<u>15,228</u>
Maturity analysis of financial liabilities	\$	<u>64,611</u>	-	-	-	-	<u>64,611</u>
		December 31, 2016					
		Less than 1 year	1 to 3 year	3 to 5 year	5 to 10 year	No maturity date	Total
Maturity analysis of financial assets	\$	<u>17,516</u>	-	-	-	-	<u>17,516</u>
Maturity analysis of financial liabilities	\$	<u>251,107</u>	-	-	-	-	<u>251,107</u>
		September 30, 2016					
		Less than 1 year	1 to 3 year	3 to 5 year	5 to 10 year	No maturity date	Total
Maturity analysis of financial assets	\$	<u>188,320</u>	-	-	-	-	<u>188,320</u>
Maturity analysis of financial liabilities	\$	<u>9,442</u>	-	-	-	-	<u>9,442</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

4) Fubon Securities and its subsidiaries

Liquidity risk is the risk that Fubon Securities and its subsidiaries 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 raise to cover funding gaps.

a) Capital liquidity risk measurement analysis

	September 30, 2017					
	Cash flow gap					
Financial assets	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Cash and cash equivalents	\$ 7,367,998	5,492,716	386,670	982,562	42,500	14,272,446
Customer margin account	21,108,361	-	-	-	-	21,108,361
Held-for-trading financial assets – current	13,239,088	190,098	100,911	758,700	21,536,401	35,825,198
Open-end funds, money market instruments and other securities	331,126	190,098	-	-	-	521,224
Operating securities	11,744,446	-	100,911	758,700	21,079,406	33,683,463
Derivative assets – OTC	97,791	-	-	-	-	97,791
Derivative assets – Futures trading margin	559,120	-	-	-	-	559,120
Other debt securities	-	-	-	-	456,995	456,995
Call option – Futures	1,493	-	-	-	-	1,493
Securities invested by brokers	505,112	-	-	-	-	505,112
Available-for-sale financial assets – current and non-current	46,730	-	-	9,892,228	830,513	10,769,471
Bond purchased under resell agreement	921,987	-	-	-	-	921,987
Receivables from pecuniary finance	11,140,396	1,787,965	550,143	275,072	-	13,753,576
Collateral for borrowed securities	34,321	-	-	-	-	34,321
Margin deposits for borrowed securities	295,565	-	-	-	-	295,565
Receivables	<u>14,496,781</u>	<u>115,498</u>	<u>7,873</u>	<u>3,937</u>	<u>-</u>	<u>14,624,089</u>
Total	<u>\$ 68,651,227</u>	<u>7,586,277</u>	<u>1,045,597</u>	<u>11,912,499</u>	<u>22,409,414</u>	<u>111,605,014</u>
Proportion of the total	<u>61.51 %</u>	<u>6.80 %</u>	<u>0.94 %</u>	<u>10.67 %</u>	<u>20.08 %</u>	<u>100.00 %</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Financial liabilities	September 30, 2017					
	Cash flow gap					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Short term loans	\$ 292,926	-	-	-	-	292,926
Commercial papers issued	6,099,186	-	-	-	-	6,099,186
Held-for-trading financial liabilities – current	3,341,083	-	-	-	-	3,341,083
Call (put) warrants	480,484	-	-	-	-	480,484
Derivative liabilities – OTC	1,369,306	-	-	-	-	1,369,306
Liabilities in sale of borrowed securities	186,945	-	-	-	-	186,945
Bonds purchased under resell agreement – Borrowed securities	906,560	-	-	-	-	906,560
Short covering bonds	397,731	-	-	-	-	397,731
Bonds purchased under resell agreement – Futures	57	-	-	-	-	57
Financial liabilities designated as at fair value through profit or loss at initial recognitions	3,043,707	-	-	-	-	3,043,707
Securities sold under repurchase agreements	21,129,696	-	-	-	-	21,129,696
Securities financing refundable deposits	1,685,309	270,482	83,225	41,613	-	2,080,629
Deposits payable for securities financing	1,852,188	297,265	91,466	45,733	-	2,286,652
Securities lending refundable deposits	8,934,372	-	-	-	-	8,934,372
Futures customers' equity	21,108,930	-	-	-	-	21,108,930
Payables	14,199,499	51	16	8	-	14,199,574
Amounts collected for other parties	2,034,880	162	-	-	-	2,035,042
Total	\$ 83,721,776	567,960	174,707	87,354	-	84,551,797
Proportion of the total	99.02 %	0.67 %	0.21 %	0.10 %	- %	100.00 %
Cash inflow	68,651,227	78,586,277	1,045,597	11,912,499	22,409,414	182,605,014
Cash outflow	83,721,776	567,960	174,707	87,354	-	84,551,797
Net cash flow	(15,070,549)	7,018,317	870,890	11,825,145	22,409,414	27,053,217

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	December 31, 2016					
	Cash flow gap					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Financial assets						
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 brokers	29,895	-	-	-	-	29,895
Available-for-sale financial assets – current	361,975	-	-	9,539,512	25,946	9,927,433
Bond purchased under resell agreement	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	<u>\$ 51,516,959</u>	<u>3,697,403</u>	<u>2,518,647</u>	<u>11,455,124</u>	<u>23,532,483</u>	<u>92,720,616</u>
Proportion of the total	<u>55.56 %</u>	<u>3.99 %</u>	<u>2.72 %</u>	<u>12.35 %</u>	<u>25.38 %</u>	<u>100.00 %</u>
Financial liabilities						
Short term loans	\$ 2,500,000	-	-	-	-	2,500,000
Held for trading financial liabilities – current	1,259,872	-	-	-	306,545	1,566,417
Call (put) warrant	135,885	-	-	-	-	135,885
Derivative liabilities – OTC	920,399	-	-	-	-	920,399
Liabilities on sale of borrowed securities and buyback of liabilities on sale of borrowed securities	203,565	-	-	-	-	203,565
Bonds purchased under resell agreement – Borrowed	-	-	-	-	256,680	256,680
Short covering bonds	-	-	-	-	49,865	49,865
Bonds purchased under resell agreement – 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 customers' equity	15,702,135	-	-	-	-	15,702,135
Payables	11,561,030	88	22	15	-	11,561,155
Amounts collected for other parties	715,595	257	-	-	-	715,852
Total	<u>\$ 64,525,694</u>	<u>536,437</u>	<u>134,045</u>	<u>89,364</u>	<u>306,545</u>	<u>65,592,085</u>
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 flow	(13,008,735)	3,160,966	2,384,602	11,365,760	23,225,938	27,128,531

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

September 30, 2016						
Cash flow gap						
Financial assets	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Cash and cash equivalents	\$ 5,751,420	3,095,586	1,279,374	742,704	115,945	10,985,029
Customer margin account	16,593,355	-	-	-	-	16,593,355
Held-for-trading financial assets – current	7,857,770	-	-	-	18,360,958	26,218,728
Open-end funds, money market instruments and other securities	156,215	-	-	-	-	156,215
Operating securities	7,553,576	-	-	-	17,816,215	25,369,791
Derivative assets – OTC	21,487	-	-	-	-	21,487
Derivative assets – Futures trading margin	126,347	-	-	-	-	126,347
Other debt securities	-	-	-	-	544,743	544,743
Call option – Futures	145	-	-	-	-	145
Available-for-sale financial assets – current	-	-	-	10,918,374	27,584	10,945,958
Bonds purchased under resell agreement	1,287,999	-	-	-	-	1,287,999
Receivables from pecuniary finance	9,796,708	1,282,902	349,882	233,255	-	11,662,747
Collateral for borrowed securities	28,361	-	-	-	-	28,361
Margin deposits for borrowed securities	25,694	-	-	-	-	25,694
Receivables	10,620,173	66,748	10,173	132,568	-	10,829,662
Total	<u>\$ 51,961,480</u>	<u>4,445,236</u>	<u>1,639,429</u>	<u>12,026,901</u>	<u>18,504,487</u>	<u>88,577,533</u>
Proportion of the total	<u>58.66 %</u>	<u>5.02 %</u>	<u>1.85 %</u>	<u>13.58 %</u>	<u>20.89 %</u>	<u>100.00 %</u>
Financial liabilities						
Commercial papers issued	\$ 3,099,850	-	-	-	-	3,099,850
Held-for-trading financial liabilities – current	2,697,362	-	-	-	-	2,697,362
Call (put) warrant	231,127	-	-	-	-	231,127
Derivative liabilities – OTC	869,825	-	-	-	-	869,825
Liabilities on sale of borrowed securities	211,695	-	-	-	-	211,695
Bonds purchased under resell agreement – Borrowed securities	1,384,715	-	-	-	-	1,384,715
Financial liabilities designated as at fair value through profit or loss at initial recognition	2,416,012	-	-	-	-	2,416,012
Securities sold under repurchase agreements	16,617,319	-	-	-	-	16,617,319
Securities financing refundable deposits	1,691,313	221,481	60,404	40,269	-	2,013,467
Deposits payable for securities financing	1,889,121	247,385	67,469	44,979	-	2,248,954
Securities lending refundable deposits	5,306,609	-	-	-	-	5,306,609
Payables	10,176,345	44	12	8	-	10,176,409
Amounts collected for other parties	1,057,434	162	-	-	-	1,057,596
Total	<u>\$ 44,951,365</u>	<u>469,072</u>	<u>127,885</u>	<u>85,256</u>	<u>-</u>	<u>45,633,578</u>
Proportion of the total	<u>98.50 %</u>	<u>1.03 %</u>	<u>0.28 %</u>	<u>0.19 %</u>	<u>- %</u>	<u>100.00 %</u>
Cash inflow	51,961,480	4,445,236	1,639,429	12,026,901	18,504,487	88,577,533
Cash outflow	44,951,365	469,072	127,885	85,256	-	45,633,578
Net cash flow	7,010,115	3,976,164	1,511,544	11,941,645	18,504,487	42,943,955

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

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

b) Capital liquidity risk management

In order to allocate capital effectively, Fubon Securities and its subsidiaries utilize liquidity risk management mechanisms to evaluate and monitor short-term cash flow requirements for various types of business, and consider local short-term, cross-border, or cross-market demand for capital.

The Financial settlement Department provides capital requirement evaluating 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 Fubon Securities and its subsidiaries' related action taken while facing periods of high market volatility. If a stressful situation occurs, the department reports the result to the management and performs the following procedures to prevent the occurrence of a stressful event when necessary.

In order to increase liquidity reserve, Fubon Securities and its subsidiaries sell the low-risk assets from the Trading Department dealing positions. Fubon Securities and its subsidiaries dispose of high-liquidity stocks, government bonds, and other securities in order to respond to adverse shocks affecting the market. Fubon Securities and its subsidiaries also use secured loan credit lines and long-term financing credit lines from banks and bills corporations to implement Fubon Securities and its subsidiaries' capital allocation emergency response plan.

5) Fubon Bank (Hong Kong) and its subsidiaries

The following disclosures related to Fubon Bank (Hong Kong) are all expressed in thousands of HKD, unless otherwise stated.

a) Management strategy and principles

The purpose of liquidity management is to ensure sufficient cash flows to meet all financial commitment needs and to capitalize on opportunities for business expansion. This includes Fubon Bank (Hong Kong) and its subsidiaries' ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity ratio, and to make new loans and investments as opportunities arise. Fubon Bank (Hong Kong) and its subsidiaries maintain a stable and diversified funding base of core retail and corporate customer deposits as well as portfolios of highly liquid assets.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

It is the responsibility of Fubon Bank (Hong Kong) and its subsidiaries' management to ensure compliance with local regulatory requirements and limits set by Risk Committee of the Board (Risk Committee). Liquidity is managed on a daily basis by Fubon Bank (Hong Kong)'s Funding Desk Department. The Funding Desk Department is responsible for ensuring that Fubon Bank (Hong Kong) and its subsidiaries have adequate liquidity for all operations, ensuring that the funding mix is appropriate so as to avoid maturity mismatches and to minimize price and reinvestment rate risk in the case of a maturity gap, and monitoring relevant markets for the adequacy of funding and liquidity.

Compliance with liquidity and funding requirements is monitored by the Asset and Liability Committee ("ALCO") and is reported to the Risk Committee of the Board on a regular basis. This process includes:

- i) Maintaining balances within relevant regulatory requirements;
- ii) Projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- iii) Monitoring balance sheet liquidity and loan to deposit ratios against internal requirements;
- iv) Maintaining a diverse range of funding sources with adequate back-up facilities;
- v) Managing the concentration and profile of debt maturities;
- vi) Managing lending commitment to customers within predetermined limits;
- vii) Managing debt financing plans;
- viii) Monitoring of depositor concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix;
- ix) Maintaining funding contingency plans, which identify early indicators of stress conditions and describe actions to be taken in the event of systematic or other crises, while minimizing adverse long-term implications for the business; and
- x) Managing liquidity on a legal entity and on a group basis. Intragroup funding transactions are carried out at arm's length, treated in the same way as transactions with non-related third parties within predetermined limits.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

b) Qualitative explanation

i) The management of funding and liquidity risk

As part of its liquidity risk management, Fubon Bank (Hong Kong) and its subsidiaries focus on a number of components, including maintaining sufficient liquid assets, reserving necessary funding capacity and contingent planning. Fubon Bank (Hong Kong) and its subsidiaries manage liquidity risk by holding sufficient liquid assets (e.g. cash and short term funds and securities) of appropriate quality to ensure that short term funding requirements are covered within prudential limits. Debt securities held are marked to the market on daily basis to ensure their market liquidity. Fubon Bank (Hong Kong) and its subsidiaries also adopt a funding strategy that is to achieve diversification of funding by controlling the concentration of top depositors, wholesale funding and reliance of foreign exchange swap markets. Moreover, adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business.

In addition to observing the statutory liquidity ratio, Fubon Bank (Hong Kong) and its subsidiaries have established different liquidity risk metrics, including but not limited to the liquidity ratio, loan-to-deposit ratio, cumulative cash flow gap, concentration of funding sources and medium-term funding ratio to measure and analyze its liquidity risks. Financial management Division is responsible for measurement and monitoring of these liquidity metrics and reporting to the ALCO regularly.

ii) Core deposits

Fubon Bank (Hong Kong) and its subsidiaries monitor the stability of customer deposits by means of the core deposit ratio, which is the ratio of core deposits to total customer deposits. Fubon Bank (Hong Kong) and its subsidiaries categorize customer deposits into core deposits after taking into consideration of nature of deposits, relationship history with customers and stability of customer's total balance. An alert trigger level is set on the core deposits ratio which is monitored by the ALCO.

iii) Loan to deposit ratio

Fubon Bank (Hong Kong) and its subsidiaries emphasize the importance of customer deposits as a source of funds to finance lending to customers, and mitigate against reliance on short-term interbank funding. A limit on the loan to deposit ratio is established and approved by the Risk Committee of the Board of Directors and monitored by the ALCO.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

iv) Cash flow projection and stress testing

Fubon Bank (Hong Kong) and its subsidiaries conduct cash flow analysis and cash flow projection arising from on-and off-balance sheet items over a set of time horizons on a regular basis to identify funding needs in specific time buckets. Fubon Bank (Hong Kong) and its subsidiaries also regularly perform stress tests on its liquidity position. In the stress test, both on-and off-balance sheet items with a cash flow impact are considered, with applicable hypothetical and historical assumptions. Three stressed scenarios, namely an institution-specific crisis scenario, a general market crisis scenario, and a combined scenario are adopted with minimum survival period defined pursuant to HKMA's Supervisory Policy Manual "Sound Systems and controls for Liquidity Risk Management". Stress testing assumptions are reviewed and approved by ALCO regularly to ensure their continued appropriateness.

v) Liquidity Cushion

Fubon Bank (Hong Kong) and its subsidiaries maintain a stock of high-quality readily liquefiable assets as a liquidity cushion against a range of stressed scenarios. The eligible assets are unencumbered, low credit risk and low market risk. The liquidity cushion is segregated from debt securities held for trading purposes. A certain portion of the liquidity cushion is made up of the most liquid and readily marketable assets (such as debt securities issued by government or multinational development banks) that can be easily liquidated to meet funding needs in the initial phase of liquidity stress.

The size of the liquidity cushion shall be adequate to meet Fubon Bank (Hong Kong) and its subsidiaries' day-to-day liquidity needs and also emergency funding needs under both normal and stress market conditions. The minimum required size of the liquidity cushion is determined with reference to the funding gap generated from the Fubon Bank (Hong Kong) and its subsidiaries' regular liquidity stress testing results. Management alert triggers are established by the ALCO to ensure sufficient size of liquidity cushion is maintained and appropriate diversification among the liquidity cushion is achieved. The size and combination of the liquidity cushion is reviewed by the ALCO regularly.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

vi) Contingent liquidity risk

Fubon Bank (Hong Kong) and its subsidiaries provide customers with committed and standby facilities. These facilities increase the funding requirements of Fubon Bank (Hong Kong) and its subsidiaries when customers drawdown. The liquidity risk associated with the potential drawdown on non-cancellable committed facilities is factored into our stressed scenarios and a management alert trigger is set for these facilities.

vii) Contingency funding plan

Fubon Bank (Hong Kong) and its subsidiaries have formulated a Contingency Funding Plan (“CFP”) that describes Fubon Bank (Hong Kong) and its subsidiaries’ strategy for dealing with any liquidity problem and the procedures for making up cash flow deficits in emergency situations. The CFP is designed to be pro-active and pre-emptive. Fubon Bank (Hong Kong) and its subsidiaries utilize early warning indicators, which cover both qualitative and quantitative measures, monitoring both internal and external factors. Should there be any early signs of significant impact on Fubon Bank (Hong Kong) and its subsidiaries’ liquidity position, the management would be informed for their consideration. Once the CFP is triggered, a Crisis Management Team, which is led by the senior management, is formed to handle the crisis. Strategy and procedures in obtaining contingency funding, as well as roles and responsibilities of parties concerned are clearly stated. The CFP also includes the analysis of cash flow projections to estimate potential liquidity needs under stress scenarios.

The CFP is subject to regular testing to ensure its effectiveness and operational feasibility, particularly in respect of the availability of the contingency sources of funding listed in it. The CFP is also subject to a review and an update on a regular basis to ensure it remains robust over time. Any changes to the CFP would be approved by the Board.

Moreover, in accordance with the HKMA’s Supervisory Policy Manual guideline “Recovery Planning”, Fubon Bank (Hong Kong) and its subsidiaries have established a Recovery Plan, which has been approved by the Board. The Recovery Plan helps ensure that Fubon Bank (Hong Kong) and its subsidiaries are able to recover quickly from period of severe stress and preserve or restore its liquidity level. The Recovery Plan is subject to a regular review and update, at least annually.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

c) The maturity analysis of non-derivative financial liabilities

Units: In thousands of HKD

	September 30, 2017					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Non-derivative financial liabilities measured at fair value through profit or loss	\$ -	1,760,000	-	-	-	1,760,000
Bonds and securities purchased under resell agreement	1,232,544	9,303,392	-	-	-	10,535,936
Others	39,298,955	22,902,657	6,470,995	3,974,710	3,958,978	76,606,295

Units: In thousands of HKD

	December 31, 2016					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Non-derivative financial liabilities held at fair value through profit or loss	\$ 200,120	1,712,000	100,978	1,988	537,851	2,552,937
Bonds and securities purchased under resell agreement	1,442,667	8,306,988	-	-	-	9,749,655
Others	41,778,660	18,259,065	4,868,930	4,360,082	2,903,704	72,170,441

Units: In thousands of HKD

	September 30, 2016					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Non-derivative financial liabilities measured at fair value through profit or loss	\$ 170,113	-	944	1,857	537,801	710,715
Bonds and securities purchased under resell agreement	2,654,266	7,077,965	-	-	-	9,732,231
Others	40,137,567	16,505,495	4,881,413	4,380,529	2,896,149	68,801,153

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

d) The maturity analysis of derivative financial liabilities

i) Net settlement derivative instruments

Units: In thousands of HKD

	September 30, 2017					Total
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	
Derivative financial liabilities measured at fair value through profit or loss						
– Foreign exchange derivative contracts	\$ 18,046,921	5,835,970	260,587	436,440	493,630	25,073,548
– Interest rate derivatives contracts	-	-	-	492,424	4,238,935	4,731,359
Derivative financial liabilities for hedging						
– Interest rate derivatives contracts	-	468,636	388,258	465,265	13,432,420	14,754,579
Total	\$ 18,046,921	6,304,606	648,845	1,394,129	18,164,985	44,559,486

Units: In thousands of HKD

	December 31, 2016					Total
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	
Derivative financial liabilities held at fair value through profit or loss						
– Foreign exchange derivative contracts	\$ 18,677,261	1,042,571	1,797,220	3,682,495	206,270	25,405,817
– Interest rate derivatives contracts	-	-	62,036	-	6,293,797	6,355,833
Derivatives designated for hedging						
– Interest rate derivatives contracts	116,318	726,286	390,018	783,984	10,098,926	12,115,532
Total	\$ 18,793,579	1,768,857	2,249,274	4,466,479	16,598,993	43,877,182

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Units: In thousands of HKD

	September 30, 2016					Total
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	
Derivative financial liabilities measured at fair value through profit or loss						
– Foreign exchange derivative contracts	\$ 22,532,941	2,828,782	1,799,430	2,952,027	719,585	30,832,765
– Interest rate derivatives contracts	-	-	-	62,033	6,729,953	6,791,986
Derivatives financial liabilities for hedging						
– Interest rate derivatives contracts	77,542	116,312	842,566	717,079	9,700,955	11,454,454
Total	<u>\$ 22,610,483</u>	<u>2,945,094</u>	<u>2,641,996</u>	<u>3,731,139</u>	<u>17,150,493</u>	<u>49,079,205</u>

ii) The maturity analysis of off-balance sheet items

Units: In thousands of HKD

	September 30, 2017					Total
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	
Standby and irrevocable loan commitment	\$ 4,887	69,909	560	98,590	1,875,900	2,049,846
Unused letters of credit	67,534	127,196	81,920	-	-	276,650
Other guarantee amounts	5,643	45,140	39,822	22,254	26,286	139,145
Total	<u>\$ 78,064</u>	<u>242,245</u>	<u>122,302</u>	<u>120,844</u>	<u>1,902,186</u>	<u>2,465,641</u>

	December 31, 2016					Total
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	
Standby and irrevocable loan commitment	\$ 25,356	231	293,424	62,543	861,328	1,242,882
Unused letters of credit	46,638	156,961	62,956	614	-	267,169
Other guarantees amounts	20,275	18,028	15,236	54,875	18,283	126,697
Total	<u>\$ 92,269</u>	<u>175,220</u>	<u>371,616</u>	<u>118,032</u>	<u>879,611</u>	<u>1,636,748</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Units: In thousands of HKD

	September 30, 2016					Total
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	
Standby and irrevocable loan commitment	\$ 48	129,881	20,144	257,032	909,365	1,316,470
Unused letters of credit	19,530	130,955	69,373	51,051	-	270,909
Other guarantee amounts	1,241	42,913	44,530	25,780	16,431	130,895
Total	\$ 20,819	303,749	134,047	333,863	925,796	1,718,274

(v) Market risk

Major subsidiaries are listed separately as follows:

1) Taipei Fubon Bank (The Bank) and its subsidiaries

a) The definition and classification of market risk

Market risk refers to unfavorable changes in the market (such as changes in interest rates, exchange rates, stock prices and commodity prices), which may cause a potential loss on or off the balance sheet. Based on the Bank and its subsidiaries' policies on risk measurement and management, financial instruments are recorded in either the trading book or the banking book, and the Bank performs risk measurement and management accordingly.

Trading book positions follow the definitions below:

- i) Positions held for earning profits from changes in bid-ask spread or changes in price and interest rate;
- ii) Positions held for the brokerage business or proprietary trading;
- iii) Positions held for full or partial offsetting risk from other positions; and
- iv) Positions held for trading within approved market risk limits.

Trading book positions should not be under any restrictive trading contract and should be completely hedged against risks. Positions that do not qualify for recording in the trading book are recorded in the banking book.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

b) Market risk strategy and procedures

Taipei Fubon Bank (The Bank)

The Bank has comprehensive policies on market risk management and has a systematic mechanism for deal execution, clearing and settlement. The trading book instruments, which are exposed to risk factors, are as follows: interest rate-related instruments, exchange rate-related instruments, securities and commodities. The risk management systems apply the Bank's management policies and market risk limits to identify, measure, monitor and control market risks.

Fubon Bank (China)

Pursuant to the guidance of relevant laws and regulations, a series of policies and procedures regarding market risk management policies and procedure control are stipulated to regulate internal control of market risks as well as trading strategies and limits. IT systems are also established to identify, quantify, monitor and control market risks, ensuring the market risk exposures of Fubon Bank (China) are managed strongly and effectively.

c) Organization and framework

Taipei Fubon Bank (The Bank)

Under the supervision of the Board of Directors, the Bank has established the Market Risk Management Committee, which is composed of senior management and chaired by the President to monitor the Bank's market risk control, risk acceptance and management strategies for the trading business, securities investments and transactions, and derivatives.

The Risk Management Department under the Chief Risk Officer is responsible for formulating policies on and procedures for market risk management, enforcing market risk limits, reporting market risk events timely and validating valuation models independently. The independent audit department under the Board of Directors is an added support for the market risk management framework.

Fubon Bank (China)

The Board of Directors, acting as the highest supervisor of market risk management, approves the market risk strategies and trading limits of Fubon Bank (China). The Risk & Related Party Transaction Committee under the board is responsible for supervising the implementation of market risk policies. Market risk assessment reports are submitted by Market Risk Department to senior management, the Risk & Related Party Transaction Committee and Board of Directors on a quarterly basis.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

The Market Risk Department under Risk Control Division, independent of front trading desk and back settlement desk, is responsible for implementing market risk policies authorized by the Board and the senior management. Internal Audit Department is responsible for reviewing and evaluating the effectiveness and independence of the risk management system. Compliance Department, on the other hand, is accountable for monitoring compliance risk and reports to the Board and senior management.

d) Market risk management, control and reporting

The Corporate Financial Credit Management Department of Taipei Fubon Bank is responsible for monitoring compliance with the daily market risk limit (including the analysis of risk sensitivity factors such as Delta, Vega, DV01, and VaR) and loss control. The valuation and VaR models are evaluated independently by the Market Risk Management Department to ensure their stability and effectiveness. The Bank has established a market risk management system and related market risk management procedures to be able to observe the VaR limit. In addition, the Bank does back testing periodically to check the effectiveness of the VaR calculation module and establishes financial trading system.

e) Measurement of trading book market risk

Taipei Fubon Bank (The Bank)

The Bank's measurement of trading book market risk includes methods for determining degrees (known as the "Greeks") of sensitivity to risk and measures (such as VaR and stress testing) of the risk of loss on specific portfolios of financial assets. These measures provide consistent and comparable measurement of various types of risks across different trading desks.

i) VaR (Value at Risk)

VaR is a tool that measures "the worst expected loss over a given time horizon under normal market conditions at a given level of confidence." The Bank adopts various risk models to evaluate the worst loss on current net positions within one day, with a 99% confidence level. The Bank adopts the historical simulation to calculate current VaR and stressed VaR, covering most market risk scenarios. To ensure the VaR's quality, the Bank performs back-testing and statistical tests regularly.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

VaR information of trading book is shown below:

<u>Common VaR</u>	<u>For the nine months ended September 30, 2017</u>			
	<u>Highest</u>	<u>Lowest</u>	<u>Average</u>	<u>End of period</u>
Interest rate group	\$ 94,459	45,539	63,819	68,548
Exchange rate group	17,482	3,917	8,625	3,917
Volatility group	6,047	1,255	3,293	1,349
Diversification effect	-	-	(12,052)	(5,528)
Common VaR of trading book			<u>\$ 63,685</u>	<u>68,286</u>

<u>Common VaR</u>	<u>For the nine months ended September 30, 2016</u>			
	<u>Highest</u>	<u>Lowest</u>	<u>Average</u>	<u>End of period</u>
Interest rate group	\$ 43,718	22,400	34,224	22,400
Exchange rate group	19,905	3,329	8,492	3,329
Volatility group	13,824	1,372	5,538	2,020
Diversification effect	-	-	(15,136)	(4,835)
Common VaR of trading book			<u>\$ 33,118</u>	<u>22,914</u>

Note: The highest and lowest VaRs may occur on different dates; the related diversification effects were not disclosed in the above table because it has no significant meaning.

The above VaRs are calculated on the basis of changes in risk factors. If one product includes several risk factors, it will be classified under different risk factors. For example, forward contracts are exposed to interest rate risk and exchange rate risk; foreign exchange option is exposed to exchange rate risk and volatility risk.

ii) 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 losses when an extreme event or the systematic risk appears in the market. Therefore, stress testing is introduced to compensate the insufficiency of VaR, and capture the above risk by measuring the potential impact on trading book portfolio during the abnormal market period.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Fubon Bank (China)

To manage the trading book market risks, Fubon Bank (China) has set appropriate market risk measurements and relevant risk limits based on its trading products and the features and complexity of its risk exposures, including position limits on notional amounts, net exposures of foreign currencies, stop-loss limits of various products, and sensitivity limits. Fubon bank (China)'s main currency businesses of trading book are spot trade and options, interest rate businesses of trading book are bonds, currency swap and CNY interest rate swap. The market risk level is normal.

The Market Risk Department also performs stress tests on derivative trading of trading book on a quarterly basis to evaluate Fubon Bank (China)'s ability to sustain loss of market value of its trading book when main market risk factors such as interest rates and exchange rates move adversely.

f) Banking Book Market Risk

Taipei Fubon Bank (The Bank)

i) Interest rate risk

Interest rate risk refers to the possible loss on investment portfolio value due to interest rate changes. The interest rate-sensitive assets/liabilities include banking book debt securities. The characteristics of banking book debt securities differ from those of trading book securities, which are for short-term trading. The valuation basis of banking book debt securities includes fair value and accrued interest.

Banking book interest rate risk refers to possible loss due to unfavorable changes in interest rates for the banking book portfolio. One of the methods used to determine exposure to interest rate risks is earnings analysis, which focuses on the effects interest rate changes on the earnings of the banking book portfolio, especially earnings in the short term. Had the interest rate increased/decreased 100bps (basis points) as of September 30, 2017, December 31 and September 30, 2016, and all other factors been held constant, the earnings would have decreased/increased by \$10 million, \$22 million and \$24 million, respectively.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

ii) Exchange rate risk

Banking book exchange rate risk refers to the risk of loss due to unfavorable changes in exchange rates for the Bank's foreign currency operating funds to be used for the launch of a foreign exchange business, the establishment of overseas branches or overseas subsidiaries branch's investment accounted for using the equity method. These exchange rate differences are reflected under either the statement of comprehensive income or "exchange differences on translation of foreign operations under equity.

The Bank has a foreign exchange business, overseas branches, overseas subsidiaries branch's investment accounted for using the equity method. As of September 30, 2017, the percentage of the exchange differences on translation of foreign operation is immaterial when compared with the Bank's entire foreign currency position.

iii) Equity securities risk

The Bank's equity instruments as shown in the banking book have two groups. The first consists of investments in accordance with Article 74 of the Banking Act. The second group refers to investments in promising companies with a higher cash dividend payout ratio. For the second group, even though changes in equity prices may influence the stockholder's equity, the Bank holds these investments for a long term and has strict regulations on buying or selling these investments.

The sensitivity analysis for equity positions of banking book is listed below:

	September 30, 2017		December 31, 2016		September 30, 2016	
	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity
Stock prices increased by 10%	\$ 30,083	508,941	35,097	619,855	37,312	668,145
Stock prices decreased by 10%	(30,083)	(508,941)	(35,097)	(619,855)	(37,312)	(668,145)

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Fubon Bank (China)

i) Interest rate risk

The interest rate risk of Fubon Bank (China) is mainly from the risk of interest repricing. The measure of monitoring account interest rate risk is to compute the repricing gap of risk-sensitive assets/liabilities and to develop risk standards as the monitoring benchmark. Its measure is to set the interest rate, which increases or decreases 50 basis points to evaluate risk.

	September 30, 2017		December 31, 2016		Units: In thousands of CNY September 30, 2016	
	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity
Interest rate increased by \$ 50 basis points	(16,996)	(63,517)	(34,653)	(16,340)	(35,294)	(15,484)
Interest rate decreased by 50 basis points	16,996	65,291	34,653	16,396	35,294	15,532

ii) Exchange rate risk

Fubon Bank (China) uses CNY to perform the loan/deposit and inter-bank borrowing and foreign currency is composed of USD. In order to effectively control the exchange rate risk, Fubon Bank (China) establishes the foreign exchange gap controlling conditions and simultaneously conducts the foreign currency sensitivity analysis on assets/liabilities, based on its risk-taking ability and operating strategy. Assuming CNY appreciates or depreciates 5% compared to all foreign currency spot rate and forward rate, the outcome is as follows:

	September 30, 2017		December 31, 2016		Units: In thousands of CNY September 30, 2016	
	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity
Foreign exchange rate for USD and HKD against CNY increased by 5%	\$ (22,313)	8,535	25,691	8,921	3,852	9,438
Foreign exchange rate for USD and HKD against CNY decreased by 5%	22,313	(8,535)	(25,691)	(8,921)	(3,852)	(9,438)

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

g) Foreign currency rate risk information

The table below shows the Bank and its subsidiary's foreign currency risk information for financial assets and liabilities denominated in foreign currency at carrying value as of September 30, 2017, December 31 and September 30, 2016.

Taipei Fubon Bank (The Bank)

	September 30, 2017			December 31, 2016			September 30, 2016		
	Original	Rate	TWD	Original	Rate	TWD	Original	Rate	TWD
<u>Financial assets</u>									
<u>Monetary items</u>									
USD	\$ 13,684,248	30.3080	414,742,188	8,903,227	32.2815	287,409,522	11,211,841	31.3673	351,685,180
CNY	16,435,124	4.5616	74,970,462	10,555,074	4.6399	48,974,488	12,020,668	4.6961	56,450,259
JPY	77,968,080	0.2693	20,996,804	99,685,272	0.2752	27,433,387	116,327,250	0.3103	36,096,346
HKD	8,036,719	3.8797	31,180,059	6,249,213	4.1629	26,014,849	5,449,302	4.0455	22,045,151
AUD	855,725	23.7441	20,318,420	715,854	23.3073	16,684,624	648,269	23.8772	15,478,849
<u>Non-monetary items</u>									
USD	211,174	30.3080	6,400,262	544,250	32.2815	17,569,206	207,491	31.3673	6,508,432
CNY	1,664,264	4.5616	7,591,707	5,444,211	4.6399	25,260,595	1,673,496	4.6961	7,858,905
JPY	11,084,117	0.2693	2,984,953	26,093,210	0.2752	7,180,851	9,852,008	0.3103	3,057,078
HKD	80,693	3.8797	313,065	447,946	4.1629	1,864,754	384,368	4.0455	1,554,961
AUD	523	23.7441	12,418	543	23.3073	12,656	525	23.8772	12,536
<u>Investments accounted for using equity method</u>									
CNY	4,651,866	4.5616	21,219,950	4,623,970	4.6399	21,454,759	4,624,221	4.6961	21,715,802
<u>Financial liabilities</u>									
<u>Monetary items</u>									
USD	20,105,431	30.3080	609,355,403	12,311,116	32.2815	397,421,291	14,998,526	31.3673	470,463,265
CNY	12,900,906	4.5616	58,848,773	13,868,956	4.6399	64,350,569	13,428,036	4.6961	63,059,400
JPY	32,340,259	0.2693	8,709,232	25,052,451	0.2752	6,894,435	20,443,640	0.3103	6,343,661
HKD	5,620,234	3.8797	21,804,822	3,629,200	4.1629	15,107,997	5,668,415	4.0455	22,931,573
AUD	788,095	23.7441	18,712,606	736,686	23.3073	17,170,162	738,982	23.8772	17,644,821
<u>Non-monetary items</u>									
USD	286,881	30.3080	8,694,789	560,923	32.2815	18,107,436	346,373	31.3673	10,864,786
CNY	1,659,286	4.5616	7,568,999	5,488,958	4.6399	25,468,216	1,707,950	4.6961	8,020,704
JPY	11,080,425	0.2693	2,983,958	20,112,276	0.2752	5,534,898	14,960,309	0.3103	4,642,184
HKD	77,746	3.8797	301,631	462,672	4.1629	1,926,057	386,172	4.0455	1,562,259
AUD	821	23.7441	19,494	1,365	23.3073	31,814	1,956	23.8772	46,704

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Fubon Bank (China)

	September 30, 2017			December 31, 2016			September 30, 2016		
	Original	Rate	CNY	Original	Rate	CNY	Original	Rate	CNY
<u>Financial assets</u>									
<u>Monetary items</u>									
USD	\$ 769,668	6.6369	5,108,210	636,616	6.9370	4,416,205	559,126	6.6778	3,733,732
JPY	2,876,128	0.0591	169,979	2,435,634	0.0596	145,164	2,301,813	0.0660	151,920
HKD	157,161	0.8497	133,540	163,404	0.8945	146,165	31,586	0.8610	27,196
EUR	5,167	7.8233	40,423	819	7.3068	5,984	987	7.4880	7,391
<u>Non-monetary items</u>									
USD	12,560	6.6369	83,359	126,740	6.9370	879,195	47,944	6.6778	320,160
<u>Financial liability</u>									
<u>Monetary items</u>									
USD	1,887,943	6.6369	12,530,089	1,533,104	6.9370	10,635,142	1,418,449	6.6778	9,472,119
JPY	2,229,645	0.0591	131,772	2,218,404	0.0596	132,217	1,823,323	0.0660	120,339
HKD	44,442	0.8497	37,762	42,046	0.8945	37,610	29,797	0.8610	25,655
EUR	13,539	7.8233	105,920	12,735	7.3068	93,052	7,243	7.4880	54,236
<u>Non-monetary items</u>									
USD	108,362	6.6369	719,188	1,039	6.9370	7,208	1,899	6.6778	12,681

2) Fubon Life Insurance and its subsidiaries

Market risk refers to the risk that the value of assets decreases due to disadvantageous movement of the market price and this may result in a revenue reduction to Fubon Life Insurance and its subsidiaries. The risk factors of the market price fluctuation include interest rates, foreign exchange rates, stock prices, and commodity prices.

Guided by Assets and Liabilities Management Committee, Fubon Life Insurance takes financial environment, all the economic indicators, liability risk properties and ALM into account, to choose appropriate investment target through risk control mechanism. Under the consent of regulatory framework and market environment, choosing and acquisition of long-term assets is monitored by the Assets and Liabilities Management Committee. This is to allow assets and liabilities to coordinate better in terms of payment terms and profits, to pursue long term business and protect the rights of policyholders. This will also reduce the influence on insurance contract caused by market risk and eventually lower the potential loss to Fubon Life Insurance and its subsidiaries.

Fubon Life Insurance widely applies various risk management instruments to measure market risk. The primary methods adopted are Value at Risk (VaR) and Sensitivity Analysis. By using these two instruments, Fubon Life Insurance is able to measure, monitor and manage market risk completely and effectively.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

a) Value at Risk

Value at Risk is to apply statistical techniques to measure the extreme potential loss of the investment portfolio resulted from market risk factor variation in a given period of time and under certain confidence interval. Fubon Life Insurance applies 99% as the confidence interval to predict the VaR in the next 10 days.

The VaR model applied to manage risk shall be examined retrospectively and continuously to ensure that Fubon Life Insurance is able to measure the maximum potential risk of the portfolios reasonably, completely and accurately.

b) Sensitivity analysis

Except for using VaR to manage market risk, Fubon Life Insurance adopts sensitivity analysis to serve as a basis for corporate risk analysis, risk alert and operation management. Sensitivity analysis is to measure the amount changed in the portfolio value resulted from the variation of single risk factor. This will facilitate Fubon Life Insurance to understand how each variation of risk factors may influence the portfolios in certain extreme scenarios.

Sensitivity analysis

Units: In thousands of TWD

September 30, 2017			
Risk factor	Variation	Change in profit or loss	Change in equity
Equity risk (price)	Price incline by 10%	-	55,476,689
	Price decline by 10%	-	(55,476,689)
Interest rate risk (yield curve)	Yield curve (USD) incline by 50BPS	607	(15,794,502)
	Yield curve (TWD) incline by 50BPS	(1,507)	(12,821,677)
	Yield curve (other) incline by 50BPS	-	(897,907)
	Yield curve (USD) decline by 50BPS	(597)	17,059,089
	Yield curve (TWD) decline by 50BPS	1,514	13,792,898
	Yield curve (other) decline by 50BPS	-	933,084
Exchange rate risk (currency exchange rate)	TWD to all currency incline by 3%	(4,393,006)	(7,192,761)
	TWD to all currency decline by 3%	4,393,006	7,192,761

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

December 31, 2016			
Risk factor	Variation	Change in profit or loss	Change in equity
Equity risk (price)	Price incline by 10%	-	41,422,938
	Price decline by 10%	-	(41,422,938)
Interest rate risk (yield curve)	Yield curve (USD) incline by 50BPS	41	(18,710,276)
	Yield curve (NTD) incline by 50BPS	(182)	(13,782,745)
	Yield curve (other) incline by 50BPS	-	(967,449)
	Yield curve (USD) decline by 50BPS	(39)	20,239,515
	Yield curve (TWD) decline by 50BPS	184	14,757,162
	Yield curve (other) decline by 50BPS	-	1,006,175
Exchange rate risk (currency exchange rate)	TWD to all currency incline by 3%	(5,163,400)	(6,120,357)
	TWD to all currency decline by 3%	5,163,400	6,120,357
September 30, 2016			
Risk factor	Variation	Change in profit or loss	Change in equity
Equity risk (price)	Price incline by 10%	-	39,342,706
	Price decline by 10%	-	(39,342,706)
Interest rate risk (yield curve)	Yield curve (USD) incline by 50BPS	39	(20,067,914)
	Yield curve (TWD) incline by 50BPS	(288)	(14,537,477)
	Yield curve (other) incline by 50BPS	-	(1,076,678)
	Yield curve (USD) decline by 50BPS	(33)	21,805,328
	Yield curve (TWD) decline by 50BPS	290	15,477,612
	Yield curve (other) decline by 50BPS	-	1,118,766
Exchange rate risk (currency exchange rate)	TWD to all currency incline by 3%	(2,709,932)	(5,724,363)
	TWD to all currency decline by 3%	2,709,932	5,724,363

Note1: Equity risk and Interest rate risk of the sensitivity analysis mainly include financial assets measured at fair value through profit or loss and available-for-sale financial assets. For the scenario of Equity risk include Stock and Fund (excluding Money Funds and Bond Funds), for the scenario of Interest rate risk include Bonds and Bond Funds. Exchange rate variation of the sensitivity analysis exclude foreign insurance policy assets and OIU assets.

Note2: The abovementioned sensitivity analysis is a scenario assumed that the impact of changes in risk factor on fair value is based on other factors which remained constant.

Note3: Assuming an individual interest rate curve inclined by 1 BPS as of September 30, 2017, December 31 and September 30, 2016, while other factors remained constant, the impact of changes in profit or loss and in equity will be \$(18) and \$(611,998), \$(3) and \$(693,176), as well as \$(5) and \$(740,616), respectively.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Hong Kong and Vietnam subsidiary are considered not significant to the consolidated disclosures after Fubon Life Insurance and its subsidiaries' assessment; therefore, the data of Hong Kong and Vietnam subsidiary are not disclosed.

3) Fubon Insurance and its subsidiaries

Market risk is the risk of losses in the value of assets in a given period resulting from unfavorable changes in the asset's market prices. Fubon Insurance and its subsidiaries management has set a monitor system on the concentration of daily transactions, established a sound crisis response mechanism to deal with working capital demand due to emergency or abnormal event.

a) Management process of market risk

i) Risk identification

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

ii) Risk measurement

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

iii) Risk monitoring

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

iv) Risk responding

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

b) Concentration of market risk

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

c) Market risk management mechanism

i) Risk tolerance management

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

ii) Risk limit management

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

iii) Valuation management

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

d) Risk value model

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

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

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Units: In thousands of TWD

September 30, 2017			
<u>Common VaR</u>	<u>Average</u>	<u>Highest</u>	<u>Lowest</u>
Fixed income group	\$ 469,993	566,918	365,373
Equity group	630,343	867,681	423,230
Fund group	92,183	109,808	62,770
Asset securitization group	62,910	79,189	31,051
Total position	823,208	1,338,601	562,772

December 31, 2016			
<u>Common VaR</u>	<u>Average</u>	<u>Highest</u>	<u>Lowest</u>
Fixed income group	\$ 586,518	1,357,509	268,607
Equity group	804,658	1,059,646	595,572
Fund group	107,489	187,041	75,193
Asset securitization group	111,536	269,955	39,860
Total position	875,548	1,423,682	647,731

September 30, 2016			
<u>Common VaR</u>	<u>Average</u>	<u>Highest</u>	<u>Lowest</u>
Fixed income group	\$ 521,158	763,849	268,607
Equity group	790,995	999,854	597,392
Fund group	113,089	187,041	75,193
Asset securitization group	114,786	269,955	41,191
Total position	814,979	1,021,308	647,731

Note 1: VaR was adopted for the nine months ended September 30, 2017 and 2016 and for the year ended December 31, 2016.

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

4) Fubon Securities and its subsidiaries

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 Fubon Securities and its subsidiaries' 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.

Trading book positions should not be under any restrictive trading contract and should be completely hedged against risks.

i) Guidelines and Procedures

Fubon Securities and its subsidiaries have enacted comprehensive policies of market risk management and have established mechanism 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 rates instruments, exchange rates instruments, securities and commodities. Fubon Securities and its subsidiaries have established management policies and market risk limits that implement the risk management systems to identify, measure, monitor and control the market risk.

ii) Organization and Framework

Under the supervision of the board of directors, 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 mark 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.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

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 etc), 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. Fubon Securities and its subsidiaries have established related mechanism and procedures for VaR limit management while also applying back-testing to check the VaR model calculation and the effectiveness of the valuation methodology. Fubon Securities and its subsidiaries also keep 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

Fubon Securities and its subsidiaries' 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.

Value at Risk (VaR)

VaR is defined as 'the worst expected loss over a target horizon with a given level of confidence and normal market environment'. Fubon Securities and its subsidiaries adopt 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 position held by Fubon Securities and its subsidiaries in the historical scenario. To conform to 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 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, Fubon Securities and its subsidiaries execute statistical hypothesis testing and back-testing periodically. In addition to Bernoulli trials, Fubon Securities and its subsidiaries has also adopted statistical tests suggested by the Basel Committee after the financial crisis.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Common VaR information of trading book were as follows:

Units: In thousands of TWD

For the three months ended September 30, 2017

Common VaR	Highest	Lowest	Average
Interest rate	\$ 23,043	10,106	18,193
Foreign exchange rate	12,288	11,664	12,002
Equity	37,279	30,607	34,776
Fluctuation	9,087	2,112	5,111
Total	\$ 35,842	30,078	33,198

For the three months ended September 30, 2016

Common VaR	Highest	Lowest	Average
Interest rate	\$ 13,967	10,776	12,511
Foreign exchange rate	22,799	5,623	16,922
Equity	39,304	28,835	34,091
Fluctuation	2,333	1,932	2,138
Total	\$ 33,793	25,105	29,749

For the nine months ended September 30, 2017

Common VaR	Highest	Lowest	Average
Foreign exchange rate	\$ 23,043	5,967	12,597
Interest rate	32,446	11,664	15,343
Equity	40,185	18,798	27,683
Volatility	9,087	1,453	3,780
Total	\$ 38,237	25,798	30,309

For the nine months ended September 30, 2016

Common VaR	Highest	Lowest	Average
Foreign exchange rate	\$ 16,803	7,338	11,481
Interest rate	22,799	4,967	15,341
Equity	62,906	28,835	44,977
Volatility	4,849	1,932	2,903
Total	\$ 63,924	25,105	41,762

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(The highest and lowest VaR in the table may appear on different dates, so its diversification effect is not significant. Therefore, 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 the systematic 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 the abnormal market period, compensating the insufficiency of VaR.

Some techniques can be used when executing stress testing, such as sensitivity analysis, scenario analysis, and maximum loss analysis. Fubon Securities and its subsidiaries 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. Fubon Securities and its subsidiaries use 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.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

5) Fubon Bank (Hong Kong) and its subsidiaries

The following disclosures related to Fubon Bank (Hong Kong) are all expressed in thousands of HKD, unless otherwise stated.

a) The definition and classification of market risk

Market risk arises on all market risk sensitive financial instruments, including securities, foreign exchange contracts, equity and other derivative instruments, as well as from balance sheet or structural positions. Fubon Bank (Hong Kong) and its subsidiaries transact in the money market, foreign exchange market, equity market and capital market giving rise to market risk exposures. Positions are taken as a result of the execution of customers' orders, market making activities, and offsetting transactions in order to hedge Fubon Bank (Hong Kong) and subsidiaries' open position. Fubon Bank (Hong Kong) and its subsidiaries do not engage in significant proprietary trading.

b) Guidelines and procedures

The objective of market risk management is to avoid excessive exposure of earnings and equity to loss and to reduce Fubon Bank (Hong Kong) and its subsidiaries' exposure to the volatility inherent in financial instruments.

Fubon Bank (Hong Kong) and its subsidiaries has also established clear market risk policies, including limits, reporting lines and control procedures, which are reviewed regularly and approved by the Board of Directors. Market risk is managed within various limits approved by the Board of Directors. These limits are determined for each financial instrument and include limits on product volume, gross and net positions, position concentrations, mark to market limits, stop loss limits and risk position limits.

The sale of derivatives to customers as risk management products and the subsequent use of derivatives to manage the resulting position is an integral part of Fubon Bank (Hong Kong) and its subsidiaries' business activities. These instruments are also used to manage Fubon Bank (Hong Kong) and its subsidiaries' own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by Fubon Bank (Hong Kong) and its subsidiaries are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives. Fubon Bank (Hong Kong) and its subsidiaries also purchases exchange traded derivatives. Most of Fubon Bank (Hong Kong) and its subsidiaries' derivatives positions have been entered into to meet customer demand and to hedge these and other positions.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

One of the tools used by Fubon Bank (Hong Kong) and its subsidiaries to monitor and limit market risk exposure is Value-at-risk (VaR). VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The calculation uses the historical simulation method as the means to estimate the statistical confidence level.

The VaR technique is only effective for potential loss events which are not correlated. Fubon Bank (Hong Kong) and its subsidiaries therefore augment its VaR limits with other positions and sensitivity limit structures. Additionally, Fubon Bank (Hong Kong) and its subsidiaries apply a wide range of sensitivity analysis, both on individual portfolios and on Fubon Bank (Hong Kong) and its subsidiaries' consolidated positions to assess the potential impact on Fubon Bank (Hong Kong) and its subsidiaries' earnings as a result of extreme movements in market prices.

c) Organization and framework

The Board of Directors reviews and approves policies for the management of market risks including dealing authorities and limits. The Board of Directors has delegated the responsibility for ongoing general market risk management to the Asset and Liability Committee. This committee articulates the interest rate view of Fubon Bank (Hong Kong) and its subsidiaries and decides on future business strategy with respect to interest rates. It also reviews and sets funding policy and ensures adherence to risk management objectives.

d) Evaluation technique of market risk: Value at risk (VaR). Fubon Bank (Hong Kong) adopts various risk models to evaluate the worst loss on current net positions within one day, with a 99% confidence level.

The following table shows the relevant market risk VaR:

Units: In thousands of HKD			
September 30, 2017			
VaR	Average	Highest	Lowest
Foreign exchange risk	\$ 117	1,397	51
Interest rate risk	40	235	5
Total risk	174	1,472	57
December 31, 2016			
VaR	Average	Highest	Lowest
Foreign exchange risk	\$ 223	2,440	41
Interest rate risk	69	575	3
Total risk	295	2,491	74

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

VaR	September 30, 2016		
	Average	High	Low
Foreign exchange risk	\$ 262	2,440	54
Interest rate risk	81	575	16
Total risk	340	2,491	91

e) Sensitivity information of interest rate risk, foreign exchange risk and equity risk

Units: In millions of HKD

September 30, 2017			
Main risk	Variance	Influenced amount	
		Equity	profit or loss
Foreign exchange risk	10% increase in HKD	-	(15.8)
Foreign exchange risk	10% decrease in HKD	-	15.8
Interest rate risk	+100 basis points shift in yield curves	54.5	46.0
Interest rate risk	-100 basis points shift in yield curve	(54.5)	(46.0)
Equity risk	10% increase in equity prices	-	-
Equity risk	10% decrease in equity prices	-	-

December 31, 2016			
Main risk	Variance	Influenced amount	
		Equity	profit or loss
Foreign exchange risk	10% increase in HKD	-	(11.2)
Foreign exchange risk	10% decrease in HKD	-	11.2
Interest rate risk	+100 basis points shift in yield curves	61.0	17.0
Interest rate risk	-100basis points shift in yield curve	(61.0)	(17.0)
Equity risk	10% increase in equity prices	-	-
Equity risk	10% decrease in equity prices	-	-

September 30, 2016			
Main risk	Variance	Influenced amount	
		Equity	profit or loss
Foreign exchange risk	10% increase in HKD	-	(11.8)
Foreign exchange risk	10% decrease in HKD	-	11.8
Interest rate risk	+100 basis points shift in yield curves	81.5	20.0
Interest rate risk	-100 basis points shift in yield curves	(81.5)	(20.0)
Equity risk	10% increase in equity prices	-	-
Equity risk	10% decrease in equity prices	-	-

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(vi) Transfer of financial assets

1) Taipei Fubon Bank and its subsidiaries

a) Transferred financial assets that are not completely derecognized

The transferred financial assets of Taipei Fubon Bank and its subsidiaries that are not qualified for de-recognition in the daily operation are mainly debt securities under repurchase agreements or equity securities under lending 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, Taipei Fubon Bank and its subsidiaries cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, since Taipei Fubon Bank and its subsidiaries still bear the interest rate risk and credit risk, transferred financial assets are not completely derecognized.

Analysis of financial assets that are not completely derecognized and the associated liabilities are shown in following table:

<u>Types of financial assets</u>	<u>September 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		
Repurchase agreements	\$ 8,662,643	8,798,339
Available-for-sale financial assets		
Repurchase agreements	37,669,339	35,201,920
Held-to-maturity financial assets		
Repurchase agreements	46,123,816	42,578,980
Debt Investments without active market		
Repurchase agreements	4,106,639	3,835,727
<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		
Repurchase agreements	\$ 47,433	47,463
Discounted note		
Repurchase agreements	6,550,421	6,676,308
Available-for-sale financial assets		
Repurchase agreements	26,610,104	25,244,269
Held-to-maturity financial assets		
Repurchase agreements	27,074,593	24,932,105
Debt Investments without active market		
Repurchase agreements	5,037,786	4,540,784

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Types of financial assets	September 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		
Repurchase agreements	\$ 992,542	992,526
Available-for-sale financial assets		
Repurchase agreements	32,577,187	30,543,424
Held-to-maturity financial assets		
Repurchase agreements	31,471,662	29,104,847
Debt Investments without active market		
Repurchase agreements	5,037,757	4,720,694

b) Transferred financial assets that are completely derecognized

In 2014, Fubon Bank (China) sold a buyer nonperforming loans of \$2,303,249, which had a carrying amount of \$2,029,649; the loan selling price was \$2,051,174 and issued a commitment letter as a credit enhancement guarantee within the amount of the loan selling price for its continuing involvement in the transferred assets. Under this transaction, Fubon Bank (China) neither transferred nor retained substantially all the risks and rewards of ownership of the financial assets. Thus, Fubon Bank (China) continued to recognize the transferred asset to the extent of its continuing involvement, and recognized the associated liabilities it could be required to repay in other financial liabilities. Since the buyer had transferred the nonperforming loans to a third-party in 2016, Fubon Bank (China) no longer provide guarantees on its involvement in the transferred assets. Therefore, Fubon Bank (China) ceased to recognize the continuing involvement in the transfer of its financial assets and associated financial liabilities.

The tables below show the potential financial implication of such continuing involvement:

Continuing involvement	Cash flow of repurchasing transferred (derecognized) financial assets	September 30, 2016				
		Carrying amount of continuing involvement in the balance sheet		Fair Value of continuing involvement		
		Other financial assets	Other financial liabilities	Assets	Liabilities	Maximum exposure of loss
Issued a commitment letter	\$ -	233,554	238,856	238,856	238,856	233,554

Continuing involvement	September 30, 2016				
	Maturity of continuing involvement				
	Less than 1 month	1 to 3 months	3 months to an year	1 to 5 years	Over 5 years
Issued a commitment letter	\$ -	116,463	122,393	-	-

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

2) Fubon Life Insurance and its subsidiaries

The transferred financial assets of Fubon Life Insurance and its subsidiaries that are not qualified for de-recognition in the daily operation are mainly debt securities under repurchase agreements or equity securities under lending 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, Fubon Life Insurance and its subsidiaries cannot use, sell or pledge these transferred financial assets during the valid transaction period. Therefore, Fubon Life Insurance and its subsidiaries do not completely derecognize the transferred assets. The table below discloses the information of financial assets that are not completely derecognized and the associated financial liabilities:

Units: In thousands of TWD					
September 30, 2017					
Types of financial assets	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities	Fair value of the transferred financial assets	Fair value of relevant financial liabilities	Fair value net position
Available-for-sale financial assets					
Security lending agreements	\$ 2,319,968	-	2,319,968	-	2,319,968
Debt Investments without active market					
Repurchase agreements	260,369	283,238	303,564	283,238	20,326
Units: In thousands of TWD					
December 31, 2016					
Types of financial assets	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities	Fair value of the transferred financial assets	Fair value of relevant financial liabilities	Fair value net position
Available-for-sale financial assets					
Security lending agreements	\$ 1,328,390	-	1,328,390	-	1,328,390
Units: In thousands of TWD					
September 30, 2016					
Types of financial assets	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities	Fair value of the transferred financial assets	Fair value of relevant financial liabilities	Fair value net position
Available-for-sale financial assets					
Security lending agreements	\$ 398,874	-	398,874	-	398,874
Debt Investments without active market					
Repurchase agreements	203,507	197,642	212,007	197,642	14,365

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

3) Fubon Insurance and its subsidiaries

Transferred financial assets that are completely derecognized

The transferred financial assets of Fubon Insurance and its subsidiaries that are not qualified for de-recognition in the daily operation are mainly debt securities under repurchase agreements or equity securities under lending 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, Fubon Insurance and its subsidiaries cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, since Fubon Insurance and its subsidiaries still bear the interest rate risk and credit risk, transferred financial assets are not completely derecognized.

The table below shows the financial assets that are not completely derecognized and the associated liabilities.

<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>	<u>Fair value of the transferred financial assets</u>	<u>Fair value of relevant financial liabilities</u>	<u>Fair value net position</u>
Available-for-sale financial assets					
Security lending agreements	\$ 2,338	-	2,338	-	2,338

4) Fubon Securities and its subsidiaries

Transferred financial assets that are not completely derecognized

The transferred financial assets of Fubon Securities and its subsidiaries that are not qualified for de-recognition in the daily operation are mainly debt securities under repurchase 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, Fubon Securities and its subsidiaries cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, since Fubon Securities and its subsidiaries still bear the interest rate risk and credit risk, transferred financial assets are not completely derecognized.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Fubon Securities and its subsidiaries 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, Fubon Securities and its subsidiaries will sell repurchased bonds to options' owner. Thus, the entry for disposal of corporate bonds is the same as the normal bond transactions. However, Fubon Securities and its subsidiaries 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>September 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		
Repurchase agreements	\$ 21,736,748	21,129,696
Convertible bonds transferred to counter parties of asset exchange option	973,636	903,852
<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		
Repurchase agreements	\$ 21,319,682	21,231,598
Convertible bonds transferred to counter parties of asset exchange option	646,409	596,147
<u>Types of financial assets</u>	<u>September 30, 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		
Repurchase agreements	\$ 16,920,645	16,617,319
Convertible bonds transferred to counter parties of asset exchange option	534,779	475,786

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

5) Fubon Bank (Hong Kong) and its subsidiaries

Transferred financial assets that are not completely derecognized

The transferred financial assets of Fubon Bank (Hong Kong) and its subsidiaries that are not qualified for de-recognition in the daily operation are mainly debt securities under repurchase agreements or equity securities under lending 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, Fubon Bank (Hong Kong) and its subsidiaries cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, since Fubon Bank (Hong Kong) and its subsidiaries still bear the interest rate risk and credit risk, transferred financial assets are not completely derecognized. The table below shows the financial assets that are not completely derecognized and the associated liabilities.

Unit: In thousands of HKD

September 30, 2017					
<u>Types of financial assets</u>	<u>Carrying amount of the transferred financial assets</u>	<u>Carrying amount of relevant financial liabilities</u>	<u>Fair value of the transferred financial assets</u>	<u>Fair value of relevant financial liabilities</u>	<u>Fair value net position</u>
Available-for-sale financial assets					
Repurchase agreements	\$ 10,887,309	10,371,700	10,887,309	10,371,700	515,609
Held-to-maturity financial assets					
Repurchase agreements	124,145	119,054	124,145	119,054	5,091

Unit: In thousands of HKD

December 31, 2016					
<u>Types of financial assets</u>	<u>Carrying amount of the transferred financial assets</u>	<u>Carrying amount of relevant financial liabilities</u>	<u>Fair value of the transferred financial assets</u>	<u>Fair value of relevant financial liabilities</u>	<u>Fair value net position</u>
Available-for-sale financial assets					
Repurchase agreements	\$ 10,018,330	9,590,268	10,018,330	9,590,268	428,062
Held-to-maturity financial assets					
Repurchase agreements	122,561	118,671	122,561	118,671	3,890

Unit: In thousands of HKD

September 30, 2016					
<u>Types of financial assets</u>	<u>Carrying amount of the transferred financial assets</u>	<u>Carrying amount of relevant financial liabilities</u>	<u>Fair value of the transferred financial assets</u>	<u>Fair value of relevant financial liabilities</u>	<u>Fair value net position</u>
Available-for-sale financial assets					
Repurchase agreements	\$ 10,042,817	9,582,337	10,042,817	9,582,337	460,480
Held-to-maturity financial assets					
Repurchase agreements	125,613	120,174	125,613	120,174	5,439

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(vii) Offsetting financial assets and financial liabilities

1) Taipei Fubon Bank and its subsidiaries

Taipei Fubon Bank and its subsidiaries did not hold any financial instruments which meet Section 42 of the IAS 32 endorsed by the FSC. Therefore, the financial instrument will be offset on the balance sheet.

Although Taipei Fubon Bank and its subsidiaries do not engage in any transactions that meet the offsetting condition in IFRSs, they have signed net settlement contracts of similar agreements with counterparties, such as global master repurchase agreement, global securities lending agreement and similar repurchase agreement or reverse-repurchase agreement. 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 financial liabilities is shown below:

September 30, 2017						
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 sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
Financial assets				Financial instruments (Note 1)	Cash received as collaterals	
Derivative financial instruments (Note 2)	\$ 32,953,467	-	32,953,467	25,519,469	3,792,925	3,641,073
Securities purchased under resell agreements	26,634,399	-	26,634,399	26,590,256	-	44,143
Total	\$ 59,587,866	-	59,587,866	52,109,725	3,792,925	3,685,216
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 sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
Financial liabilities				Financial instruments (Note 1)	Pledged cash Collaterals	
Derivative financial instruments (Note 2)	\$ 34,937,723	-	34,937,723	23,154,908	4,742,781	7,040,034
Securities sold under repurchase agreements	90,414,966	-	90,414,966	90,398,706	-	16,260
Total	\$ 125,352,689	-	125,352,689	113,553,614	4,742,781	7,056,294

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

December 31, 2016						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
Financial assets	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note 1)	Cash collaterals	
Derivative financial instruments (Note 2)	\$ 72,906,877	-	72,906,877	54,607,129	2,140,649	16,159,099
Securities purchased under resell agreements	27,504,918	-	27,504,918	27,419,041	-	85,877
Total	\$ 100,411,795	-	100,411,795	82,026,170	2,140,649	16,244,976
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 sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note 1)	Pledged cash Collaterals	
Derivative financial instruments (Note 2)	\$ 69,574,457	-	69,574,457	49,865,604	10,506,872	9,201,981
Securities sold under repurchase agreements	61,440,929	-	61,440,929	61,430,623	-	10,306
Total	\$ 131,015,386	-	131,015,386	111,296,227	10,506,872	9,212,287
September 30, 2016						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
Financial assets	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note 1)	Cash collaterals	
Derivative financial instruments (Note 2)	\$ 44,743,240	-	44,743,240	33,838,727	1,718,530	9,185,983
Securities purchased under resell agreements	19,925,480	-	19,925,480	19,737,338	-	188,142
Total	\$ 64,668,720	-	64,668,720	53,576,065	1,718,530	9,374,125

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

September 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 sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		
				Financial instruments (Note 1)	Pledged cash Collaterals	Net amount (e)=(c)-(d)
Derivative financial instruments (Note 2)	\$ 46,932,908	-	46,932,908	31,075,625	6,415,590	9,441,693
Securities sold under repurchase agreements	65,361,491	-	65,361,491	65,360,150	-	1,341
Total	\$ 112,294,399	-	112,294,399	96,435,775	6,415,590	9,443,034

Note 1: Netting settlement agreement and non-cash financial collaterals are included.

Note 2: Derivative financial assets for hedging are included.

2) Fubon Life Insurance and its subsidiaries

Although Fubon Life Insurance and its subsidiaries do not engage in transactions that meet the offsetting condition in IFRSs, they have signed net settlement contracts of similar agreements with counterparties. 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. Relevant information is shown as follows:

September 30, 2017						
Financial assets under general agreement of net amount settlement or similar norms						
	Total Recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		
				Financial instruments (Note)	Cash collaterals	Net amount (e)=(c)-(d)
Derivative financial instruments and structured deposits	\$ 31,315,571	-	31,315,571	2,710,698	64,853	28,540,020
Securities purchased under resell agreements	54,850,515	-	54,850,515	54,188,400	-	662,115
Securities lending agreements	2,319,968	-	2,319,968	2,319,968	-	-
Total	\$ 88,486,054	-	88,486,054	59,219,066	64,853	29,202,135

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

September 30, 2017						
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total Recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Pledged cash Collaterals	
Derivative financial instruments	\$ 4,649,143	-	4,649,143	2,710,698	1,098,556	839,889
Securities purchased under repurchase agreements	283,238	-	283,238	260,369	-	22,869
Total	\$ 4,932,381	-	4,932,381	2,971,067	1,098,556	862,758

December 31, 2016						
Financial assets under general agreement of net amount settlement or similar norms						
	Total Recognized financial assets (a)	Total recognized liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collaterals	
Derivative financial instruments and structured deposits	\$ 32,510,179	-	32,510,179	6,223,325	-	26,286,854
Securities purchased under resell agreements	62,647,954	-	62,647,954	61,719,500	-	928,454
Securities lending agreements	1,328,390	-	1,328,390	1,328,390	-	-
Total	\$ 96,486,523	-	96,486,523	69,271,215	-	27,215,308

Financial liabilities under general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Pledged cash collaterals	
Derivative financial instruments	\$ 14,916,897	-	14,916,897	6,223,325	-	8,693,572

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

September 30, 2016						
Financial assets under general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collaterals	
Derivative financial instruments and structured deposits	\$ 45,826,256	-	45,826,256	914,683	-	44,911,573
Securities purchased under resell agreements	88,739,827	-	88,739,827	86,270,900	-	2,468,927
Securities lending agreements	398,874	-	398,874	398,874	-	-
Total	\$ 134,964,957	-	134,964,957	87,584,457	-	47,380,500
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Pledged cash collaterals	
Derivative financial instruments	\$ 2,193,029	-	2,193,029	914,683	-	1,278,346
Securities sold under repurchase agreements	197,642	-	197,642	197,642	-	-
Total	\$ 2,390,671	-	2,390,671	1,112,325	-	1,278,346

Note: General agreement of net amount settlement and non-cash collateral are included.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

3) Fubon Insurance and its subsidiaries

Although Fubon Insurance and its subsidiaries do not engage in transactions that meet the offsetting condition in IFRSs, they have signed net settlement contracts of similar agreements with counterparties. 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. Relevant information is shown as follows:

September 30, 2017						
Financial assets under general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments	Cash collaterals	
Derivative financial instruments	\$ 15,228	-	15,228	15,228	-	-
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments	Pledged cash collaterals	
Derivative financial instruments	\$ 64,611	-	64,611	15,228	-	49,383
December 31, 2016						
Financial assets under general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments	Cash collaterals	
Derivative financial instruments	\$ 17,516	-	17,516	17,516	-	-
Securities lending agreements	2,338	-	2,338	2,338	-	-
Total	\$ 19,854	-	19,854	19,854	-	-

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

December 31, 2016						
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments	Pledged cash collaterals	
Derivative financial instruments	\$ 251,107	-	251,107	17,516	-	233,591
September 30, 2016						
Financial assets under general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments	Cash collaterals	
Derivative financial instruments	\$ 188,320	-	188,320	9,442	-	178,878
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments	Pledged cash collaterals	
Derivative financial instruments	\$ 9,442	-	9,442	9,442	-	-

4) Fubon Securities and its subsidiaries

Fubon Securities and its subsidiaries did not hold any financial instruments contract which meets Section 42 of IAS 32 endorsed by the FSC. Therefore, the financial assets and financial liabilities will be offset on the balance sheet.

Although Fubon Securities and its subsidiaries do not engage in transactions that meet the offsetting condition in IFRSs, they have signed net settlement contracts of similar agreements with counterparties. 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.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

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

September 30, 2017						
Financial assets under general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (note)	Cash collaterals	
Derivative financial assets	\$ 99,284	-	99,284	-	-	99,284
Resell agreements	921,987	-	921,987	921,987	-	-
Total	\$ 1,021,271	-	1,021,271	921,987	-	99,284
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (note)	Pledged cash collaterals	
Derivative financial liabilities	\$ 4,416,801	-	4,416,801	-	-	4,416,801
Repurchase agreements	21,129,696	-	21,129,696	21,129,696	-	-
Total	\$ 25,546,497	-	25,546,497	21,129,696	-	4,416,801
December 31, 2016						
Financial assets under general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (note)	Cash collaterals	
Derivative financial assets	\$ 119,169	-	119,169	-	-	119,169
Resell agreements	645,311	-	645,311	645,311	-	-
Total	\$ 764,480	-	764,480	645,311	-	119,169

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

December 31, 2016						
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (note)	Pledged cash collaterals	
Derivative financial liabilities	\$ 3,202,446	-	3,202,446	-	-	3,202,446
Repurchase agreements	21,231,598	-	21,231,598	21,231,598	-	-
Total	\$ 24,434,044	-	24,434,044	21,231,598	-	3,202,446
September 30, 2016						
Financial assets under general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (note)	Cash collaterals	
Derivative financial assets	\$ 21,632	-	21,632	-	-	21,632
Resell agreements	1,287,999	-	1,287,999	1,287,999	-	-
Total	\$ 1,309,631	-	1,309,631	1,287,999	-	21,632
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (note)	Pledged cash collaterals	
Derivative financial liabilities	\$ 3,285,837	-	3,285,837	-	-	3,285,837
Repurchase agreements	16,617,319	-	16,617,319	16,617,319	-	-
Total	\$ 19,903,156	-	19,903,156	16,617,319	-	3,285,837

Note: Netting settlement agreements and non-cash collaterals are included.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

5) Fubon Bank (HK) and its subsidiaries

Fubon Bank (HK) and its subsidiaries hold financial instruments contracts which meet Section 42 of IAS 32 endorsed by the FSC. Therefore, the financial assets and financial liabilities will be offset on the balance sheet.

Although Fubon Bank (HK) and its subsidiaries 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 global master repurchase agreement, global securities lending agreement and similar repurchase agreement or reverse-repurchase agreement. 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. Relevant information is shown as follows:

Units: In thousands of HKD

September 30, 2017						
Financial assets under general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (note)	Cash collaterals	
Derivative financial instruments	\$ 689,037	-	689,037	93,359	-	595,678
Financial liabilities under 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 sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (note)	Pledged cash collaterals	
Derivative financial instruments	\$ 314,836	-	314,836	93,359	-	221,477
Securities sold under repurchase agreements	10,490,754	-	10,490,754	-	-	10,490,754
Total	\$ 10,805,590	-	10,805,590	93,359	-	10,712,231

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Units: In thousands of HKD

December 31, 2016						
Financial assets under general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (note)	Cash collaterals	
Derivative financial instruments	\$ 753,244	-	753,244	98,601	-	654,643
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (note)	Pledged cash collaterals	
Derivative financial instruments	\$ 443,714	-	443,714	98,601	-	345,113
Securities sold under repurchase agreements	9,708,939	-	9,708,939	-	-	9,708,939
Total	\$ 10,152,653	-	10,152,653	98,601	-	10,054,052

Units: In thousands of HKD

September 30, 2016						
Financial assets under general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (note)	Cash collaterals	
Derivative financial instruments	\$ 599,018	-	599,018	42,904	-	556,114

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

September 30, 2016						
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (note)	Pledged cash collaterals	
Derivative financial instruments	\$ 650,083	-	650,083	42,904	-	607,179
Securities sold under repurchase agreements	9,702,511	-	9,702,511	-	-	9,702,511
Total	\$ 10,352,594	-	10,352,594	42,904	-	10,309,690

Note: Netting settlement agreements and non-cash collaterals are included.

(aj) Structured entities

(i) Taipei Fubon Bank and its subsidiaries

- 1) Taipei Fubon Bank and its subsidiaries hold the following types equity of unconsolidated structured entities. The fund is from Taipei Fubon Bank and its subsidiaries and an external third-party.

Types of structured entity	Characteristic and purpose	Equity owned by Taipei Fubon Bank and its subsidiaries
Assets securitization products	Invest in assets securitization products to gain profit	Invest in asset backed securities issued by unconsolidated structured entities
Trust plans	Invest in trust scheme to gain profit	Invest in income right of trust issued by unconsolidated structured entities

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- 2) The carrying amounts of the unconsolidated structured entities recognized by Taipei Fubon Bank and its subsidiaries were as below:

<u>September 30, 2017</u>	<u>Asset securitization products</u>	<u>Trust plans</u>
Assets possessed		
— Available-for-sale financial assets	\$ 687,874	136,848
— Held-to-maturity financial assets	433,613	-
— Financial assets measured at fair value through profit or loss	300,828	-
Total assets possessed	<u>\$ 1,422,315</u>	<u>136,848</u>
<u>December 31, 2016</u>	<u>Asset securitization products</u>	
Assets possessed		
— Available-for-sale financial assets		\$ 910,780
— Held-to-maturity financial assets		554,884
— Financial assets measured at fair value through profit or loss		<u>350,966</u>
Total assets possessed		<u>\$ 1,816,630</u>
<u>September 30, 2016</u>	<u>Asset securitization products</u>	<u>Trust plans</u>
Assets possessed		
— Available-for-sale financial assets	\$ 951,346	469,610
— Held-to-maturity financial assets	567,031	-
— Financial assets measured at fair value through profit or loss	373,120	-
Total assets possessed	<u>\$ 1,891,497</u>	<u>469,610</u>

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

- 3) For the nine months ended September 30, 2017 and 2016, Taipei Fubon Bank and its subsidiaries did not offer any financial support to those unconsolidated asset securitization products.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(ii) Fubon Life Insurance and its subsidiaries

1) Consolidated structured entities

The consolidated structured entity of Fubon Life Insurance and its subsidiaries is the real estate investment and management entity. The structured entity is consolidated because the involvement in it exposes Fubon Life Insurance and its subsidiaries to variability of returns from performance and their influence over it. As of September 30, 2017, December 31 and September 30, 2016, Fubon Life Insurance and its subsidiaries offered \$23,342,003, \$22,841,222 and \$23,486,077 of non-contractual obligation loan for the entity, respectively.

2) Unconsolidated structured entities

a) Fubon Life Insurance and its subsidiaries hold the following types equity of unconsolidated structured entities. The fund is from Fubon Life Insurance and its subsidiaries and an external third-party.

Types of structured entity	Characteristic and purpose	Equity owned by Fubon Life Insurance and its subsidiaries
Private fund investment	Invest in private fund issued by outside fund manager to gain profit	Invest in the fund units issued by the funds or limited partnership equity
Assets securitization products	Invest in assets securitization products to gain profit	Invest in asset-backed securities issued by the entity

b) The carrying amounts of the unconsolidated structured entities recognized by Fubon Life Insurance and its subsidiaries were as below:

September 30, 2017	Private fund investment	Asset securitization products
Assets possessed		
– Available-for-sale financial assets	\$ 53,623,478	5,718,949
– Debt investments without active market	-	50,654,372
Total assets possessed	<u>\$ 53,623,478</u>	<u>56,373,321</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>December 31, 2016</u>	<u>Private fund investment</u>	<u>Asset securitization products</u>
Assets possessed		
– Available-for-sale financial assets	\$ 40,211,311	6,509,526
– Debt investments without active market	-	<u>52,499,203</u>
Total assets possessed	<u>\$ 40,211,311</u>	<u>59,008,729</u>
<u>September 30, 2016</u>	<u>Private fund investment</u>	<u>Asset securitization products</u>
Assets possessed		
– Available-for-sale financial assets	\$ 35,090,886	7,314,572
– Debt investments without active market	-	<u>48,715,769</u>
Total assets possessed	<u>\$ 35,090,886</u>	<u>56,030,341</u>

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

- c) For the nine months ended September 30, 2017 and 2016, Fubon Life Insurance and its subsidiaries did not offer any financial support to those unconsolidated private fund investment and asset securitization products.

(iii) Fubon Insurance and its subsidiaries

- 1) Structured entities not included in the consolidated financial statements

Fubon Insurance and its subsidiaries possess the equities of the following structured entities which are not included in the consolidated financial statements. The fund is from Fubon Insurance and its subsidiaries and an external third party:

Types of structured entity	Characteristic and purpose	Equity owned by Fubon Insurance and its subsidiaries
Private equity fund	Invest in funds that can not be traded in a public market	Invest in the fund units issued by the funds or limited partnership equity
Assets securitization products	Invest in assets securitization products of commercial real estate	Invest in asset-backed securities issued by the entity

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- 2) The carrying amount of the assets related to the structured entities recognized by Fubon Insurance and its subsidiaries but not yet included in the consolidated financial statements were as follows:

<u>September 30, 2017</u>	<u>Private equity fund</u>	<u>Asset securitization products</u>
Assets possessed		
– Available-for-sale financial assets	\$ 166,689	1,796,666
– Debt investments without active market	-	289,444
Total assets possessed	<u>\$ 166,689</u>	<u>2,086,110</u>
<u>December 31, 2016</u>	<u>Private equity fund</u>	<u>Asset securitization products</u>
Assets possessed		
– Available-for-sale financial assets	\$ 159,838	2,258,897
– Debt investments without active market	-	370,488
Total assets possessed	<u>\$ 159,838</u>	<u>2,629,385</u>
<u>September 30, 2016</u>	<u>Private equity fund</u>	<u>Asset securitization products</u>
Assets possessed		
– Available-for-sale financial assets	\$ 167,789	2,351,191
– Debt investments without active market	-	383,346
Total assets possessed	<u>\$ 167,789</u>	<u>2,734,537</u>

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

- 3) For the nine months ended September 30, 2017 and 2016, Fubon Insurance and its subsidiaries did not offer any financial support to those unconsolidated private investment fund and asset securitization products.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(iv) Fubon Securities and its subsidiaries

- 1) Fubon Securities and its subsidiaries hold the following types equity of unconsolidated structured entities. The fund is from Fubon Securities and its subsidiaries and an external third-party.

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

- 2) The carrying amounts of the unconsolidated structured entities recognized by Fubon Securities and its subsidiaries were as below:

September 30, 2017	Asset securitization products
Assets possessed	
— Financial assets measured at fair value through profit or loss - current	\$ 456,995
— Available-for-sale financial assets - current	<u>41,557</u>
Total assets possessed	<u><u>\$ 498,552</u></u>
December 31, 2016	Asset securitization products
Assets possessed	
— Financial assets measured at fair value through profit or loss - current	\$ 519,546
— Available-for-sale financial assets - current	<u>25,946</u>
Total assets possessed	<u><u>\$ 545,492</u></u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

September 30, 2016	Asset securitization products
Assets possessed	
— Financial assets measured at fair value through profit or loss - current	\$ 544,743
— Available-for-sale financial assets - current	27,584
Total assets possessed	<u>\$ 572,327</u>

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

- 3) For the nine months ended September 30, 2017 and 2016, Fubon Securities and its subsidiaries did not offer any financial support to those unconsolidated asset securitization products.

(v) Other subsidiaries

- 1) Other subsidiaries hold the following types equity of unconsolidated structured entities. The fund is from the subsidiaries and an external third-party.

Types of structured entity	Characteristic and purpose	Equity owned by other subsidiaries
Private equity fund	Invest in private investment fund issued by outside fund manager to gain profit	Invest in the fund units issued by the funds or limited partnership equity
Assets securitization products	Invest in assets securitization products to gain profit	Invest in asset backed securities issued by the entity

- 2) The carrying amounts of the unconsolidated structured entities recognized by other subsidiaries were as below:

September 30, 2017	Private fund investment	Asset securitization products
Assets possessed		
— Available-for-sale financial assets	\$ 13,276	-
— Financial assets measured at fair value through profit or loss	-	52,507
Total assets possessed	<u>\$ 13,276</u>	<u>52,507</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>December 31, 2016</u>	<u>Private fund investment</u>	<u>Asset securitization products</u>
Assets possessed		
— Available-for-sale financial assets	\$ 16,956	-
— Financial assets measured at fair value through profit or loss	-	61,505
Total assets possessed	<u>\$ 16,956</u>	<u>61,505</u>
<u>September 30, 2016</u>	<u>Private fund investment</u>	<u>Asset securitization products</u>
Assets possessed		
— Available-for-sale financial assets	\$ 15,828	-
— Financial assets measured at fair value through profit or loss	-	64,688
Total assets possessed	<u>\$ 15,828</u>	<u>64,688</u>

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

- 3) For the nine months ended September 30, 2017 and 2016, other subsidiaries did not offer any financial support to those unconsolidated private investment fund and asset securitization products.

(ak) Capital Management

(i) General information

Objectives for managing capital are as follows:

- 1) The Company's basic objective of capital management shall be in compliance with the capital requirements of FSC and achieve the minimum statutory capital adequacy ratio. The qualified capital calculation is in accordance with regulation by competent authorities.
- 2) Maintain an optimal capital structure to respond to possible operational or economic risks, to sustain future development of the business, and to make appropriate and effective capital allocation.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(ii) Procedure for capital management

The Company maintained capital adequacy ratio to meet the requirements of the authority and report to the authority every quarter.

The Company complies with the “Regulations Governing the Consolidated Capital Adequacy of Financial Holding Companies”. The subsidiaries shall comply with the related capital adequacy norms, and overseas subsidiaries shall comply with local ordinances.

The Capital is managed by the authority of the Company according to the Company Capital Adequacy Monitoring Standard.

(al) Significant impact of related foreign currency information

	September 30, 2017			December 31, 2016			September 30, 2016		
	Foreign currency (in thousands)	Exchange rate (in dollars)	TWD	Foreign currency (in thousands)	Exchange rate (in dollars)	TWD	Foreign currency (in thousands)	Exchange rate (in dollars)	TWD
Financial assets:									
Monetary items									
USD	\$ 74,438,695	30.308/ 30.305/ 30.164/ 30.308	2,255,924,528	60,093,653	32.779/ 32.263/ 32.282	1,939,799,256	61,012,556	31.3673/ 31.366/ 31.3821/ 31.3673	1,913,741,358
HKD	51,321,529	3.8797/ 3.88003	199,112,210	48,097,190	4.163	200,223,792	44,832,851	4.0455/ 4.04524	181,371,230
CNY	90,652,288	4.5616/ 4.5542/ 4.55934	414,218,657	83,283,130	4.640/4.631 /4.648	387,631,600	90,101,122	4.6961/ 4.70114/ 4.69973	423,955,613
Non-Monetary items									
USD	7,211,442	30.308/ 30.305	218,544,295	6,817,596	32.282/32.279	220,067,214	6,340,769	31.3673/ 31.366	198,885,103
EUR	577,784	35.7964/ 35.7993	20,684,237	495,000	33.9214/ 34.04466	16,851,486	419,390	35.0633/ 35.02014	14,687,356
HKD	13,520,745	3.8797/ 3.88003	52,460,768	12,633,745	4.163	52,593,017	10,820,766	4.0455/ 4.04524	43,772,773
CNY	10,251,431	4.5616/ 4.5542/ 4.55934	46,725,027	13,595,228	4.640/4.631 /4.638	63,077,699	10,007,508	4.6961/ 4.70114/ 4.69973	47,029,300
Derivatives									
USD	63,146	30.308/ 30.305	1,913,695	31,274	32.282	1,009,504	421,979	31.3673/ 31.366	13,235,799
HKD	-	-	-	152,217	4.1630	633,664	10,569	4.0460	42,757
Investments accounted for using equity method									
CNY	2,382,083	4.562	10,866,110	2,331,767	4.640	10,819,164	2,256,961	4.6961	10,598,914
HKD	2,266,171	3.880	8,792,064	2,034,977	4.163	8,471,407	1,989,703	4.045	8,049,343
KRW	137,987,501	0.027	3,656,669	145,120,263	0.0270	3,889,223	258,817,523	0.0290	7,376,299
Financial liabilities:									
Monetary items									
USD	25,984,790	30.308/ 30.305	787,546,693	16,919,019	32.282	546,170,311	19,439,653	31.3673/ 31.366	609,772,662
HKD	51,607,810	3.8797/ 3.88003	200,222,748	50,444,989	4.163	209,997,445	50,896,145	4.0455/ 4.04524	205,900,581
CNY	68,458,454	4.5616/ 4.5542	312,280,057	68,917,953	4.640	319,772,737	72,227,338	4.6961/ 4.70114	339,188,225
Non-Monetary items									
USD	395,243	30.308	11,979,031	561,962	32.282	18,140,987	348,278	31.367	10,924,541
HKD	77,835	3.880	301,976	462,672	4.1630	1,926,057	387,079	4.0455	1,565,927
CNY	1,719,205	4.5616	7,842,327	6,178,048	4.640	28,665,527	1,966,809	4.6961	9,236,331
JPY	11,082,085	0.269	2,984,406	20,112,276	0.2750	5,534,898	14,961,140	0.3103	4,642,442

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	September 30, 2017			December 31, 2016			September 30, 2016		
	Foreign currency (in thousands)	Exchange rate (in dollars)	TWD	Foreign currency (in thousands)	Exchange rate (in dollars)	TWD	Foreign currency (in thousands)	Exchange rate (in dollars)	TWD
Derivatives									
USD	\$ 181,683	30.308/ 30.305	5,505,980	469,903	32.282/32.279	15,168,015	70,218	31.3673/ 31.366	2,202,472
HKD	-		-	252,492	4.1630	1,051,099	-	-	-

Note: Each balance listed is greater than 5% of total monetary items.

(am) The following disclosures are only applicable to Taipei Fubon Bank, in accordance with relevant regulations

(i) Asset quality of overdue loans and overdue receivables

Units: In thousands of TWD, %

Item		September 30, 2017				
		Non-performing loan (NPL) (Note 1)	Total loans	NPL Ratio (%) (Note 2)	Loan loss reserves (LLP)	Coverage ratio (%) (Note 3)
Corporate loan	Secured	405,548	153,430,237	0.26	1,943,839	479.31
	Unsecured	973,333	381,090,898	0.26	5,087,507	522.69
Consumer loan	Mortgage (Note 4)	332,127	399,812,835	0.08	5,959,196	1,794.25
	Cash card	-	3,713	-	73	-
	Micro credit (Note 5)	55,589	20,878,040	0.27	246,081	442.68
	Others (Note 6)					
	Secured	120,810	164,929,218	0.07	1,762,210	1,458.66
	Unsecured	40,102	35,460,064	0.11	370,711	924.42
Total		1,927,509	1,155,605,005	0.17	15,369,617	797.38
		Overdue receivable	Account receivable	Delinquency ratio (%)	Allowance for credit losses	Coverage ratio (%)
Credit card		42,273	34,977,373	0.12	205,864	486.99
Account receivable factoring with no recourse (Note 7)		-	15,400,254	-	173,520	-
Excluded NPL as a result of debt consultation and loans agreement (Note 8)		84,889				
Excluded overdue receivables as a result of debt consultation and loans agreements (Note 8)		136,209				
Excluded NPL as a result of debt solvency and restart plan (Note 9)		300,525				
Excluded overdue receivables as a result of debt solvency and restart plan (Note 9)		451,294				

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

		September 30, 2016					
Item		Non-performing loan (NPL) (Note 1)	Total loans	NPL Ratio (%) (Note 2)	Loan loss reserves (LLP)	Coverage ratio (%) (Note 3)	
Corporate loan	Secured	849,859	149,527,025	0.57	1,920,508	225.98	
	Unsecured	871,487	419,610,181	0.21	4,849,441	556.46	
Consumer loan	Mortgage (Note 4)	208,297	367,403,209	0.06	5,468,163	2,625.18	
	Cash card	87	5,631	1.55	110	126.44	
	Micro credit (Note 5)	54,717	16,075,629	0.34	203,934	372.71	
	Others (Note 6)	Secured	133,768	143,352,670	0.09	1,532,252	1,145.45
		Unsecured	42,853	34,288,815	0.12	356,902	832.85
Total		2,161,068	1,130,263,160	0.19	14,331,310	663.16	
		Overdue receivable	Account receivable	Delinquency ratio (%)	Allowance for credit losses	Coverage ratio (%)	
Credit card		49,996	31,041,764	0.16	216,997	434.03	
Account receivable factoring with no recourse (Note 7)		-	12,791,128	-	155,016	-	
Excluded NPL as a result of debt consultation and loans agreement (Note 8)		125,589					
Excluded overdue receivables as a result of debt consultation and loans agreements (Note 8)		189,000					
Excluded NPL as a result of debt solvency and restart plan (Note 9)		293,858					
Excluded overdue receivables as a result of debt solvency and restart plan (Note 9)		496,334					

Note 1: For loan business: Overdue loans represent the amounts of reported overdue loans pursuant to the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Nonaccrual Loans” issued by the MoF.

For credit card business: Overdue receivables are regulated by the Banking Bureau letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: For loan business: NPL Ratio = NPL/Total Loans.

For credit card business: Delinquency Ratio = Overdue receivable/Account receivable.

Note 3: For loan business: Coverage Ratio = LLR/NPL

For credit card business: Coverage Ratio = Allowance for credit losses/Overdue receivables.

Note 4: Household mortgage means the purpose of financing is to purchase, build, or fix up the dwelling, and the dwelling owned by the borrower, spouse, or children fully secures the loan.

Note 5: Micro credit is regulated by the Banking Bureau letter dated December 19, 2005 (Ref. No. 09440010950).

Note 6: Others in consumer loan refer to secured or non-secured loans excluding mortgage, cash card, micro credit, and credit card.

Note 7: Account receivable – factoring with no recourse: As required by the Banking Bureau letter dated July 19, 2005 (Ref. No. 094000494), provision for bad debt is recognized once no compensation is received from the factoring or insurance company.

Note 8: The amounts of excluded NPL and excluded overdue receivables through financial debt negotiation and loan agreement were disclosed based on the interpretation issued by the Banking Bureau dated April 25, 2006 (Ref. 19510001270).

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Note 9: The amounts of excluded NPL and excluded overdue receivables through debt solvency and restart plan were disclosed based on the interpretation issued by the Banking Bureau dated September 15, 2008 (Ref. 09700318940) and September 20, 2016 (Ref. 10500134790).

(ii) Concentration of credit extensions

Units: In thousands of TWD, %

September 30, 2017			
Rank (Note 1)	Group name (Note 2)	Credit extensions balance (Note 3)	% of net asset value
1	A group (petrochemicals manufacturing industry)	11,074,648	6.25
2	B group (LCD and its component manufacturing industry)	8,148,015	4.60
3	C group (other electronic parts and components manufacturing not elsewhere classified)	7,840,000	4.42
4	D group (other electronic parts and components manufacturing not elsewhere classified)	7,461,403	4.21
5	E group (electronic passive devices manufacturing industry)	6,105,446	3.44
6	F group (ocean freight industry)	5,523,798	3.12
7	G group (real estate industry)	5,494,754	3.10
8	H group (wire and cable manufacturing industry)	5,384,056	3.04
9	I group (ocean freight industry)	4,933,792	2.78
10	J group (financial industry)	4,655,088	2.63

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

September 30, 2016			
Rank (Note 1)	Group name (Note 2)	Credit extensions balance (Note 3)	% of net asset value
1	A group (petrochemicals manufacturing industry)	10,014,278	5.77
2	B group (LCD and its component manufacturing industry)	9,341,729	5.38
3	C group (ocean freight industry)	7,252,812	4.18
4	D group (wire and cable manufacturing industry)	7,129,671	4.11
5	E group (other electronic parts and components manufacturing not elsewhere classified)	6,708,021	3.87
6	F group (wired telecommunications industry)	6,436,146	3.71
7	G group (iron and steel manufacturing industry)	6,249,637	3.60
8	H group (real estate industry)	5,780,000	3.33
9	I group (cement manufacturing industry)	5,773,396	3.33
10	J group (real estate industry)	5,489,178	3.16

Note 1: The list shows ranking by total amounts of credit, endorsement or other transactions (excluding those of government-owned or state-run enterprises). If the borrower is a member of a group enterprise, the total amount of credit, endorsement or other transactions of the entire group enterprise must be listed and disclosed by code and line of industry. The industry of the group enterprise should be presented as the industry of the member firm with the highest risk exposure. The lines of industry should be described in accordance with the Standard Industrial Classification System of the Republic of China published by the Directorate-General of Budget, Accounting and Statistics under the Executive Yuan.

Note 2: Groups enterprise refers to a group of corporate entities as defined by Article 6 of the Supplementary Provisions to the Taiwan Stock Exchange Corporation Criteria for Review of Securities Listings.

Note 3: The total amount of credits, endorsements or other transactions is the sum of various loans (including import and export negotiations, discounted, overdrafts, unsecured and secured short-term loans, margin loans receivable, unsecured and secured medium-term loans, unsecured and secured long-term loans and overdue loans), exchange bills negotiated, accounts receivable factored without recourse, acceptances and guarantees.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(iii) Interest rate sensitivity information

Interest Rate Sensitivity (TWD)

Units: In thousands of TWD, %

September 30, 2017					
Items	1-90 days	91-180 days	181-365 days	Over 1 year	Total
Interest rate-sensitive assets	\$ 1,200,393,256	71,971,907	84,324,472	140,318,544	1,497,008,179
Interest rate-sensitive liabilities	424,480,435	672,938,546	81,352,339	55,058,828	1,233,830,148
Interest rate sensitivity gap	775,912,821	(600,966,639)	2,972,133	85,259,716	263,178,031
Net worth					171,222,877
Ratio of interest rate-sensitive assets to liabilities (%)					121.33
Ratio of the interest rate sensitivity gap to net worth (%)					153.70

September 30, 2016					
Items	1-90 days	91-180 days	181-365 days	Over 1 year	Total
Interest rate-sensitive assets	\$ 1,138,461,206	81,846,677	61,690,919	92,482,241	1,374,481,043
Interest rate-sensitive liabilities	328,862,190	673,211,607	107,219,007	71,923,698	1,181,216,502
Interest rate sensitivity gap	809,599,016	(591,364,930)	(45,528,088)	20,558,543	193,264,541
Net worth					168,004,761
Ratio of interest rate-sensitive assets to liabilities (%)					116.36
Ratio of the interest rate sensitivity gap to net worth (%)					115.04

Note 1: The above amounts include only New Taiwan Dollar amounts held by the Bank, and exclude contingent assets and contingent liabilities.

Note 2: Interest-rate sensitive assets and liabilities mean the revenues or costs of interest-earnings assets and interest-bearing liabilities affected by interest-rate changes.

Note 3: Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.

Note 4: Ratio of interest-rate sensitive assets to liabilities = Interest-rate sensitive assets/Interest-rate sensitive liabilities (New Taiwan dollars).

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Interest Rate Sensitivity (USD)

Units: In thousands of USD, %

September 30, 2017					
Items	1-90 days	91-180 days	181-365 days	Over 1 year	Total
Interest rate-sensitive assets	\$ 7,949,991	955,607	1,396,646	4,173,245	14,475,489
Interest rate-sensitive liabilities	16,347,367	2,234,387	1,139,540	1,235,061	20,956,355
Interest rate sensitivity gap	(8,397,376)	(1,278,780)	257,106	2,938,184	(6,480,866)
Net worth					334,300
Ratio of interest rate-sensitive assets to liabilities (%)					69.07
Ratio of the interest rate sensitivity gap to net worth (%)					(1,938.64)

September 30, 2016					
Items	1-90 days	91-180 days	181-365 days	Over 1 year	Total
Interest rate-sensitive assets	\$ 7,998,152	657,111	1,109,410	2,152,893	11,917,566
Interest rate-sensitive liabilities	12,562,039	1,679,885	786,518	683,950	15,712,392
Interest rate sensitivity gap	(4,563,887)	(1,022,774)	322,892	1,468,943	(3,794,826)
New worth					393,913
Ratio of interest rate-sensitive assets to liabilities (%)					75.85
Ratio of the interest rate sensitivity gap to net worth (%)					(963.37)

Note 1: The above amounts include only USD amounts held by the Bank, and exclude contingent assets and contingent liabilities.

Note 2: Interest-rate sensitive assets and liabilities mean the revenues or costs of interest-earnings assets and interest-bearing liabilities affected by interest-rate changes.

Note 3: Interest-rate sensitive gap = Interest-rate sensitive assets - Interest-rate sensitive liabilities.

Note 4: Ratio of interest-rate sensitive assets to liabilities = Interest-rate sensitive assets/Interest-rate sensitive liabilities (U.S. dollars).

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(iv) Profitability

Unit: %

		For the nine months ended September 30	
Item		2017	2016
Return on total assets	Before income tax	0.64	0.65
	After income tax	0.56	0.56
Return on net worth	Before income tax	8.11	8.28
	After income tax	7.13	7.05
Profit margin		42.75	41.64

Note 1: Return on total assets = Income before (after) income tax/Average total assets.

Note 2: Return on net worth = Income before (after) income tax/Average net worth.

Note 3: Profit margin = Income after income tax/Total operating revenues.

Note 4: Income before (after) income tax represents income for the nine months ended September 30, 2017 and 2016.

(v) Maturity analysis

Maturity Analysis of Assets and Liabilities (TWD)

Units: In thousands of TWD

September 30, 2017							
	The amount for the remaining period to maturity						
	Total	0-10 days	11-30 days	31-90 days	91-180 days	181-365 days	Over 1 year
Main capital inflow on maturity	\$ 2,290,105,215	228,314,499	336,543,564	359,298,656	269,044,395	232,007,436	864,896,665
Main capital outflow on maturity	2,699,629,685	179,600,138	328,790,965	477,734,523	391,781,628	447,463,784	874,258,647
Gap	(409,524,470)	48,714,361	7,752,599	(118,435,867)	(122,737,233)	(215,456,348)	(9,361,982)

September 30, 2016							
	The amount for the remaining period to maturity						
	Total	0-10 days	11-30 days	31-90 days	91-180 days	181-365 days	Over 1 year
Main capital inflow on maturity	\$ 2,006,004,349	197,096,871	290,628,144	280,198,860	251,610,857	187,660,957	798,808,660
Main capital outflow on maturity	2,392,941,474	131,087,025	209,948,889	411,750,369	342,227,885	424,698,250	873,229,056
Gap	(386,937,125)	66,009,846	80,679,255	(131,551,509)	(90,617,028)	(237,037,293)	(74,420,396)

Note: The above amounts are book value of assets and liabilities held by headquarter and domestic branches of Taipei Fubon Bank and denominated is New Taiwan dollars.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Maturity Analysis of Assets and Liabilities (USD)

Units: In thousands of USD

September 30, 2017						
	The amount for the remaining period to maturity					
	Total	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year
Main capital inflow on maturity	\$ 82,525,179	29,252,428	25,770,878	13,257,893	6,745,880	7,498,100
Main capital outflow on maturity	88,286,185	31,867,847	25,231,822	15,342,159	9,272,546	6,571,811
Gap	(5,761,006)	(2,615,419)	539,056	(2,084,266)	(2,526,666)	926,289

September 30, 2016						
	The amount for the remaining period to maturity					
	Total	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year
Main capital inflow on maturity	\$ 83,697,596	24,541,616	25,084,506	15,978,728	11,853,515	6,239,231
Main capital outflow on maturity	89,749,943	27,274,722	24,942,777	18,268,862	13,773,770	5,489,812
Gap	(6,052,347)	(2,733,106)	141,729	(2,290,134)	(1,920,255)	749,419

Note: The above amounts are book value of assets and liabilities held by Taipei Fubon Bank and denominated in U.S. dollars.

(7) Related-party transactions:

- (a) Names and relationships of related parties

<u>Name of related party</u>	<u>Relationship with the Company and its subsidiaries</u>
Fubon Property Management Co., Ltd. (Fubon Property Management)	Related parties in substance
Taiwan Stock Exchange Corporation (Taiwan Stock Exchange)	Related parties in substance
Taiwan Futures Exchange Corporation (Taiwan Futures Exchange)	Related parties in substance
Fubon Multimedia Technology Co., Ltd. (Fubon Multimedia Technology)	Related parties in substance
Fubon Land Development Co., Ltd. (Fubon Land Development)	Related parties in substance
Taipei Fubon Commercial Bank Charity Foundation	Related parties in substance
Fubon Art Foundation	Related parties in substance
Fubon Cultural & Education Foundation	Related parties in substance
Fubon Charity Foundation	Related parties in substance

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>Name of related party</u>	<u>Relationship with the Company and its subsidiaries</u>
Funds Managed by Fubon Asset Management	Related parties in substance
Taiwan Fixed Network Co., Ltd. (Taiwan Fixed Network)	Related parties in substance
TFN Media Co., Ltd. (TFN Media)	Related parties in substance
Taiwan High Speed Rail Corporation (Taiwan High Speed Rail)	Related parties in substance
Taiwan Mobile Co., Ltd. (Taiwan Mobile)	Related parties in substance
Taipei New Horizon Co., Ltd. (Taipei New Horizon)	Related parties in substance
Taiwan Depository & Clearing Corporation (Taiwan Depository & Clearing)	Related parties in substance
Taiwan Pelican Express Co., LTD. (Taiwan Pelican Express)	Related parties in substance
YAHOO! Taiwan Holdings Limited	Related parties in substance
Kbro Media Co., Ltd. (Kbro Media)	Related parties in substance
Kbro Co., Ltd. (Kbro)	Related parties in substance
Chien Kuo Construction Co., Ltd. (Chien Kuo Construction)	Related parties in substance
TAROKO Development Co., Ltd. (TAROKO Development)	Related parties in substance
Xiamen Bank Co., Ltd. (Xiamen Bank)	Related parties in substance
Fubon Gehua (Beijing) Enterprise Ltd. (Fubon Gehua)	Related parties in substance
Teng Fu Bo Investment Limited (Teng Fu Bo Investment)	Related parties in substance
Convoy Financial Service Limited (Convoy Financial Service)	Related parties in substance
EasyCard Corporation	Related parties in substance
Chung Hsing Land Development Co., Ltd. (Chung Hsing Land Development)	A major stockholder of the Company
Ming-Dong Industrial Co., Ltd. (Ming-Dong Industrial)	A major stockholder of the Company
Taipei City Government	A major stockholder of the Company
Alltek Technology Corporation (Alltek Technology)	Related parties in substance (not related parties in substance from second quarter of 2017)
Capital Securities Co., Ltd. (Capital Securities)	Related parties in substance (not related parties in substance from third quarter of 2016)

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>Name of related party</u>	<u>Relationship with the Company and its subsidiaries</u>
Shanghai Ruidong Hospital	Related parties in substance (not related parties in substance from fourth quarter of 2016)
Others	Directors, supervisors, managers and their relatives up to the second degree, affiliates and the related parties in substance

(b) Significant transactions with related parties

(i) Insurance revenue and insurance receivable:

	<u>Insurance revenue</u>				<u>Insurance receivable</u>		
	<u>For the three month ended September 30</u>		<u>For the nine months ended September 30</u>		<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>			
Taiwan Mobile	\$ 159,034	108,217	441,009	233,305	45,873	61,322	62,040
Taiwan High Speed Rail	5,173	4,561	12,921	11,859	965	82,772	2,178
Taipei City Government	1,487	848	19,521	37,268	-	-	-
Taipei New Horizon	264	9	264	283	-	17,096	-
Fubon Multimedia Technology	5,780	5,050	21,847	18,174	2,329	1,372	2,373
Taiwan Pelican Express	1,682	-	17,595	-	18	-	-
Related parties in substance (individual)	252,263	285,816	823,474	938,132	171	45	-
Others (not related company or person accounts for more than \$10,000 or 10%)	14,408	5,626	37,224	29,113	7,245	3,590	1,358
Total	\$ 440,091	410,127	1,373,855	1,268,134	56,601	166,197	67,949

Premium rates were calculated in accordance with the relevant provisions of the Insurance Act, and were not materially different from the general trading terms.

(ii) Rental revenue and guarantee deposits:

	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Rental revenue:				
Fubon Multimedia Technology	\$ 27,243	26,699	80,660	80,101
TAROKO Development	28,750	28,750	86,250	86,250
Kbro Media	12,649	-	38,339	-
Kbro	6,396	-	16,848	-
Taiwan Fixed Network	10,400	10,104	30,952	23,746
Taiwan Mobile	9,803	9,212	30,430	23,828
Others (not related company or person accounts for more than \$10,000 or 10%)	4,872	6,013	14,501	19,068
Total	\$ 100,113	80,778	\$ 297,980	232,993

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

All the above leases were operating leases. The leasing term was not materially different from that with unrelated parties.

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Advanced real estate receipts:			
Kbro Media	\$ 12,648	-	-
Others (not related company or person accounts for more than \$10,000 or 10%)	8,011	1,119	-
Total	<u>\$ 20,659</u>	<u>1,119</u>	<u>-</u>
	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Guarantee deposits:			
Fubon Multimedia Technology	\$ 27,219	27,219	27,219
TAROKO Development	35,000	35,000	35,000
Taiwan Fixed Network	10,708	10,708	10,688
Taiwan Mobile	9,297	9,445	9,275
Others (not related company or person accounts for more than \$10,000 or 10%)	4,775	4,726	4,915
Total	<u>\$ 86,999</u>	<u>87,098</u>	<u>87,097</u>

The aforementioned guarantee deposits are for leasing investment properties. The performance guarantees of Kbro Media amounting to \$26,345 and of Chien Kuo Construction amounting to \$27,757 were also acquired.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(iii) Rental expense and refundable deposits:

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Rental expense:				
Chung Hsing Land Development	\$ 64,238	65,010	192,380	194,540
Ming-Dong Industrial	6,281	6,256	18,932	18,060
Taipei City Government	85,102	85,681	263,492	271,757
Taiwan Fixed Network	5,655	6,520	16,210	12,761
Fubon Charity Foundation	4,012	3,974	11,943	11,789
Related parties in substance (individual)	8,903	8,817	26,709	26,450
Others (not related company or person accounts for more than \$10,000 or 10%)	3,971	1,841	9,801	5,969
Total	<u>\$ 178,162</u>	<u>178,099</u>	<u>539,467</u>	<u>541,326</u>

All the above leases were operating leases. The leasing term was not materially different from that with unrelated parties.

	September 30, 2017	December 31, 2016	September 30, 2016
Refundable deposits:			
Chung Hsing Land Development	\$ 35,431	35,354	37,359
Ming-Dong Industrial	4,094	4,086	4,086
Taipei City Government	4,244	4,243	4,243
Fubon Charity Foundation	2,468	2,468	2,467
Related parties in substance (individual)	5,837	5,780	5,780
Others (not related company or person accounts for more than \$10,000 or 10%)	852	852	843
Total	<u>\$ 52,926</u>	<u>52,783</u>	<u>54,778</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(iv) Other deposits

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>	<u>Note</u>
Taipei City Government	\$ 1,127,254	1,119,174	1,119,174	Bid Bond / Superficies performance bond Margin lending
Taiwan Stock Exchange	266,281	30,000	550,000	
Others (not related company or person accounts for more than \$10,000 or 10%)	720	720	720	
Total	<u>\$ 1,394,255</u>	<u>1,149,894</u>	<u>1,669,894</u>	

(v) Deposits

<u>Name of related party</u>	<u>September 30, 2017</u>		<u>December 31, 2016</u>		<u>September 30, 2016</u>	
	<u>Amount</u>	<u>Interest rate range %</u>	<u>Amount</u>	<u>Interest rate range %</u>	<u>Amount</u>	<u>Interest rate range %</u>
Others	<u>\$ 41,574,177</u>	0~8.00	<u>58,933,684</u>	0~8.00	<u>65,691,990</u>	0~8.00

(vi) Loans

<u>Name of related party</u>	<u>September 30, 2017</u>		<u>December 31, 2016</u>		<u>September 30, 2016</u>	
	<u>Amount</u>	<u>Interest rate range %</u>	<u>Amount</u>	<u>Interest rate range %</u>	<u>Amount</u>	<u>Interest rate range %</u>
Others	<u>\$ 3,693,658</u>	0~14.98	<u>5,906,842</u>	0~14.98	<u>9,905,988</u>	0~14.98

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Units: In thousands of TWD

September 30, 2017							
Category	Amount or name of related party	Highest balance	Ending balance	Compliance Situation		Type of collateral	Differences in transaction terms between related and non related parties
				Normal	Overdue		
Employee consumer loans	63	35,123	24,386	✓	-	None	None
House mortgages	322	3,383,538	2,865,379	✓	-	Real estate	None
Others	Department of Urban Development, Taipei City Government	771,519	672,168	✓	-	Public treasury guarantees	None
	Department of Rapid Transit systems, Taipei City Government	8,000,000	-	✓	-	Public treasury guarantees	None
	Department of Sports, Taipei City Government	1,000,000	-	✓	-	Public treasury guarantees	None
	Taipei Municipal Secured Small Loans Service	813	547	✓	-	Public treasury guarantees	None
	Fubon Land Development	2,290,800	-	✓	-	Construction, land and domestic listed stocks	None
	Fubon Gehua	136,848	62,087	✓	-	Standby Letter of Credit	None
	Alltek Technology	39,134	-	✓	-	Clean Credit	None
	Teng Fu Bo Investment	68,424	68,424	✓	-	Pledged deposits and Standby Letter of Credit	None
	Other loans	752	667	✓	-	Credit Guarantee Fund	None
Total		15,726,951	3,693,658				

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Units: In thousands of TWD

December 31, 2016							
Category	Amount or name of related party	Highest balance	Ending balance	Compliance Situation		Type of collateral	Differences in transaction terms between related and non related parties
				Normal	Overdue		
Consumer loans	59	38,749	21,552	✓	-	Partially provide deposits as collateral	None
House mortgages	318	3,414,729	2,759,315	✓	-	Real estate	None
Others	Department of Urban Development, Taipei City Government	905,331	770,457	✓	-	Public treasury guarantees	None
	Department of Rapid Transit systems, Taipei City Government	1,000,000	-	✓	-	Public treasury guarantees	None
	Department of Sports, Taipei City Government	3,000,000	-	✓	-	Public treasury guarantees	None
	Taipei Municipal Secured Small Loans Service	1,163	813	✓	-	Public treasury guarantees	None
	Fubon Land Development	2,540,000	2,290,800	✓	-	Construction, land and domestic listed stocks	None
	Fubon Gehua	139,197	63,153	✓	-	Standby Letter of Credit	None
	Other loans	800	752	✓	-	Credit Guarantee Fund	None
Total		11,039,969	5,906,842				

Units: In thousands of TWD

September 30, 2016							
Category	Amount or name of related party	Highest balance	Ending balance	Compliance Situation		Type of collateral	Differences in transaction terms between related and non related parties
				Normal	Overdue		
Employee consumer loans	60	38,140	24,618	✓	-	None	None
House mortgages	321	3,199,615	2,631,946	✓	-	Real estate	None
Others	Department of Urban Development, Taipei City Government	905,331	800,594	✓	-	Public treasury guarantees	None
	Department of Rapid Transit systems, Taipei City Government	1,000,000	1,000,000	✓	-	Public treasury guarantees	None
	Taipei Municipal Secured Small Loans Service	1,163	901	✓	-	Public treasury guarantees	None
	Fubon Land Development	2,540,000	2,290,800	✓	-	Construction, land and domestic listed stocks	None
	Department of Sports, Taipei City Government	3,000,000	3,000,000	✓	-	Public treasury guarantees	None
	Shanghai Ruidong Hospital	178,921	156,348	✓	-	Pledged deposits	None
	Other loans	800	781	✓	-	Credit Guarantee Fund	None
Total		10,863,970	9,905,988				

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(vii) Guarantees

Units: In thousands of TWD

September 30, 2017					
Related party	Highest balance for the period	Ending balance	Provision (Note)	Rates (%)	Type of collateral
Taipei City Government	1,291	1,212	-	1%	Public treasury guarantees
Taipei New Horizon	16,250	16,250	-	0.85%	Buildings, excluding land
December 31, 2016					
Related party	Highest balance for the period	Ending balance	Provision (Note)	Rates (%)	Type of collateral
Taipei City Government	1,346	1,291	-	1%	Public treasury guarantees
Taipei New Horizon	32,500	16,250	-	0.85%	Buildings, excluding land
September 30, 2016					
Related party	Highest balance for the period	Ending balance	Provision (Note)	Rates (%)	Type of collateral
Taipei City Government	1,346	1,255	-	1%	Public treasury guarantees
Taipei New Horizon	32,500	32,500	-	0.85%	Buildings, excluding land

Note: Guarantee provisions are reversed based on all claims.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(viii) Details of financing activities:

1) Secured loans

September 30, 2017						
Category	Numbers or name of related party	Highest balance	Ending balance	Compliance situation	Type of collateral	Difference in transaction terms between related and unrelated parties
Residential mortgage loans	44 related parties in substance	\$ 291,987	285,071	Normal loans	Real estate	None

December 31, 2016						
Category	Numbers or name of related party	Highest balance	Ending balance	Compliance situation	Type of collateral	Difference in transaction terms between related and unrelated parties
Residential mortgage loans	39 related parties in substance	\$ 287,572	278,727	Normal loans	Real estate	None

September 30, 2016						
Category	Numbers or name of related party	Highest balance	Ending balance	Compliance situation	Type of collateral	Difference in transaction terms between related and unrelated parties
Residential mortgage loans	41 related parties in substance	\$ 302,429	296,207	Normal loans	Real estate	None

The transaction terms between related parties are identical to those of other market participants.

2) Life insurance loans:

September 30, 2017						
Category	Numbers or name of related party	Highest balance	Ending balance	Compliance situation	Type of collateral	Difference in transaction terms between related and nonrelated parties
Life insurance loans	98 related parties in substance	\$ 39,737	32,800	Normal loans	Policy value	None

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

December 31, 2016						
Category	Numbers or name of related party	Highest balance	Ending balance	Compliance situation	Type of collateral	Difference in transaction terms between related and nonrelated parties
Life insurance loans	101 related parties in substance	\$ 49,233	35,719	Normal loans	Policy value	None

September 30, 2016						
Category	Numbers or name of related party	Highest balance	Ending balance	Compliance situation	Type of collateral	Difference in transaction terms between related and nonrelated parties
Life insurance loans	97 related parties in substance	\$ 43,636	31,467	Normal loans	Policy value	None

The transaction terms between related parties are identical to those of other market participants.

(ix) Other income

1) Service fees

<u>Name of related party</u>	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Fubon Multimedia Technology	\$ 28,044	31,186	91,193	89,805
Taiwan Mobile	56,548	55,215	166,400	162,931
YAHOO! Taiwan Holdings Limited	3,637	4,105	11,668	12,221
Others (not related company or person accounts for more than \$10,000 or 10%)	9,862	6,685	28,266	29,257
Total	<u>\$ 98,091</u>	<u>97,191</u>	<u>297,527</u>	<u>294,214</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

2) Dividend revenue

Name of related party	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Taiwan Stock Exchange	\$ 17,439	20,416	17,439	20,416
Taiwan Futures Exchange	10,536	10,229	10,536	10,229
Others	<u>3,757</u>	<u>3,666</u>	<u>6,804</u>	<u>4,632</u>
Total	\$ <u>31,732</u>	<u>34,311</u>	<u>34,779</u>	<u>35,277</u>

3) Management fees

Name of related party	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Funds managed by Fubon Asset Management and authorization accounts	\$ <u>227,041</u>	<u>211,371</u>	<u>657,458</u>	<u>600,938</u>

4) Sales commissions

Name of related party	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Funds managed by Fubon Asset Management and authorization accounts	\$ <u>10,352</u>	<u>7,078</u>	<u>23,012</u>	<u>24,666</u>

5) Service fees - futures trading

Name of related party	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Funds managed by Fubon Asset Management and authorization accounts	\$ <u>23,230</u>	<u>21,886</u>	<u>69,862</u>	<u>74,713</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

6) Handling fees

<u>Name of related party</u>	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Others (not related company or person accounts for more the \$10,000 or 10%)	\$ <u>28,051</u>	<u>7,078</u>	<u>46,473</u>	<u>24,666</u>

7) Other income

<u>Name of related party</u>	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Others (not related company or person accounts for more than \$10,000 or 10%)	\$ <u>3,970</u>	<u>5,071</u>	<u>11,339</u>	<u>10,229</u>

8) Sponsorship income, sales revenue, royalty income and unearned revenue

	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Taiwan Mobile	\$ 9,179	1,250	27,175	3,750
Fubon Multimedia Technology	5,222	-	22,009	-
Others (not related company or person accounts for more than \$10,000 or 10%)	499	-	595	-
Total	\$ <u>14,900</u>	<u>1,250</u>	<u>49,779</u>	<u>3,750</u>

The details of unearned revenues generated from aforementioned transactions were as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Taiwan Mobile	\$ 8,369	-	1,250
Fubon Multimedia Technology	4,000	-	-
Others (not related company or person accounts for more than \$10,000 or 10%)	238	-	-
Total	\$ <u>12,607</u>	<u>-</u>	<u>1,250</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(x) Other expenses

Name of related party	Category	For the three months ended September 30		For the nine months ended September 30	
		2017	2016	2017	2016
Taiwan Fixed Network	Phone expenses, telecom expenses and network equipment rental expenses	\$ 68,188	52,037	213,686	141,793
Taiwan Mobile	Telecom expenses, marketing fee and service fee	8,310	3,639	32,474	19,295
Fubon Property Management	Management fees, investment property expenses	36,552	54,618	133,068	147,295
Fubon Land Development	Consulting fee and service fee	13,072	1,547	31,646	11,353
Taiwan Stock Exchange	Brokerage commissions, computer information fee, issuing call warrant fee and dealing fee	61,485	42,676	157,815	127,548
Taiwan Depository & Clearing	Depository and clearing fee	37,594	19,775	76,552	60,888
Taiwan Futures Exchange	Brokerage commissions, clearing and settlement fee and dealing fee	44,668	42,579	115,489	126,429
Taipei High Speed Rail	Service fee	5,271	4,365	13,163	11,140
Easy Card Corporation	Service fee	962	6,284	9,441	15,180
Convoy Financial Service	Commission expenses	13,518	-	30,596	-
Others (not related company or person accounts for more than \$10,000 or 10%)	Service fees, commission expenses, other expenses	9,878	8,745	34,211	26,730
Total		<u>\$ 299,498</u>	<u>236,265</u>	<u>848,141</u>	<u>687,651</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(xi) Bond transaction

1) Bonds sold under repurchase agreement

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Directors, supervisors, managers and their relatives up to the second degree, affiliates and the related parties in substance	\$ 5,490,242	2,994,068	3,212,142
Taiwan High Speed Rail	-	2,211,400	-
Others	-	-	99,900
Total	<u>\$ 5,490,242</u>	<u>5,205,468</u>	<u>3,312,042</u>

2) Bonds purchased under resell agreement

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Others	<u>\$ -</u>	<u>-</u>	<u>600,000</u>

3) Bonds and bills transactions

Bills purchased

<u>Name of related party</u>	For the nine months ended September 30	
	<u>2017</u>	<u>2016</u>
Capital Securities	<u>\$ -</u>	<u>299,975</u>

Bonds purchased

<u>Name of related party</u>	For the nine months ended September 30	
	<u>2017</u>	<u>2016</u>
Capital Securities	\$ -	56,509
Xiamen Bank	685,579	140,880
Others	-	3,733,008
Total	<u>\$ 685,579</u>	<u>3,930,397</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(xii) Donations

Donations to related parties were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Taipei Fubon Commercial Bank Charity Foundation	\$ 9,158	12,460	25,500	22,050
Fubon Art Foundation	24,847	19,586	49,557	39,439
Fubon Cultural & Education Foundation	68,378	20,402	94,267	49,297
Fubon Charity Foundation	20,734	15,510	53,845	56,299
Others (not related company or person accounts for more than \$10,000 or 10%)	104	2,770	8,404	8,950
Total	\$ 123,221	70,728	231,573	176,035

(xiii) Other receivables and payables

Name of related party	September 30, 2017	December 31, 2016	September 30, 2016
Funds managed by Fubon Asset Management and authorization accounts	\$ 80,239	70,276	69,122
Taiwan Fixed Network	(10,876)	(49)	-
Taiwan Depository & Clearing	(7,728)	(5,248)	(4,960)
Taiwan Stock Exchange	-	(7,564)	(8,622)
Taiwan Futures Exchange	(7,854)	(12,472)	(13,867)
Convoy Financial Service	(1,083)	(10,744)	-
Chien Kuo Construction	(22,207)	-	-
Others (not related company or person accounts for more than \$10,000 or 10%)	(1,925)	(3,694)	(2,486)
Total	\$ 28,566	30,505	39,187

(xiv) Futures traders' equity

Name of related party	September 30, 2017	December 31, 2016	September 30, 2016
Funds managed by Fubon Asset Management	\$ 12,096,349	6,144,839	5,746,260

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- (xv) Funds purchased by the Company's related party and managed by Fubon Asset Management Co., Ltd. were as follows:

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Fubon Chi-Hsiang Money Market Fund	\$ 3,028,017	1,624,439	2,036,981
Fubon Strategic High Income Fund	118,278	88,990	107,293
Fubon Taiwan Technology ETF	211,381	178,074	186,336
Fubon MSCI Taiwan ETF	141,009	156,289	157,859
Fubon Taiwan Finance ETF	155,339	146,858	138,288
Fubon Taiwan Eight Industries ETF	158,090	135,559	136,405
Fubon SZSE 100 ETF	173,362	132,166	139,355
Fubon China High Yield Bd CNY	94,497	96,888	98,673
Fubon China Money Market CNY	30,063	58,481	58,834
Fubon China Investment Grade Bond Fund - CNY	48,676	38,751	50,110
Fubon China New Balanced Income	21,479	28,130	28,770
Fubon China Growth Fund	13,711	11,010	11,340
Fubon FTSE TWSE Taiwan 50 ETF	1,001,778	8,539	8,311
Fubon SSE180 ETF	100,717	25,128	20,086
Fubon SSE180 Leveraged Inversed 2X Index ETF	90,312	29,583	56,326
Fubon SSE180 Inversed Index ETF	1,605	6,687	4,050
Fubon Elite Fund	330	380	288
Fubon Global REIT Fund	5,202	-	-
Fubon Global Investment Fund	9,810	9,772	10,003
Fubon TOPIX ETF	26,046	22,504	26,797
Fubon TOPIX Leveraged 2X Index Fund	17,390	33,492	42,506
Fubon TOPIX Inverse-1X Index ETF	1,152	1,161	6,932
Fubon NIFTY ETF	12,406	30,418	53,221
Fubon NIFTY 2X Leveraged Index ETF	4,834	6,524	11,530
Fubon NIFTY -1X Inverse Index ETF	3,248	4,486	4,327
Fubon NASDAQ-100 ETF	43,230	71,332	84,987

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Fubon Hang Seng H-Share 2X Leveraged Index ETF	\$ 77,141	73,902	122,598
Fubon Hang Seng H-Share -1X Inverse Index ETF	30,285	46,506	-
Fubon TAIEX Daily 2X Leveraged ETF	12,795	39,056	-
Fubon TAIEX Daily -1X Inverse ETF	10,693	62,207	-
Fubon S&P 500 VIX Short-Term Futures ETF	2,724	229,235	-
Fubon Euro-Asia Silk Road Multi-Asset Fund	52,239	-	-
Fubon TWSE Corporate Governance 100 ETF	1,120,684	-	-
Fubon 1-3 Years US Treasury Bond ETF	21,477	-	-
Fubon 7-10 Years US Treasury Bond ETF	23,515	-	-
Fubon 20+Years US Treasury Bond ETF	17,180	-	-
Fubon FTSE Developed Europe ETF	23,351	-	-
Total	\$ <u>6,986,144</u>	<u>3,510,107</u>	<u>3,723,228</u>

The Company and its subsidiaries has acquired Fubon REIT I Fund and Fubon REIT II as follows:

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Fubon REIT I Fund	\$ 1,528,598	1,758,387	1,881,312
Fubon REIT II Fund	863,379	1,015,827	1,064,479
Total	\$ <u>2,391,977</u>	<u>2,774,214</u>	<u>2,945,791</u>

(xvi) Clearing and settlement fund

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Taiwan Stock Exchange	\$ 110,712	103,924	100,924
Taiwan Futures Exchange	149,266	163,328	163,703
Total	\$ <u>259,978</u>	<u>267,252</u>	<u>264,627</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(xvii) Deal on credit

As of September 30, 2017, December 31 and September 30, 2016, the Company and its subsidiaries had receivables from other related parties' pecuniary finance amounting to \$159,755, \$99,235 and \$111,835.

(xviii) Customer margin deposit

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Taiwan Futures Exchange	\$ <u>2,454,316</u>	<u>2,505,585</u>	<u>2,950,824</u>

(xix) Transaction of property

Payments of investment and held-for-use property are:

<u>Name of related party</u>	<u>Category</u>	For the nine months ended	
		<u>September 30</u>	<u>September 30</u>
		<u>2017</u>	<u>2016</u>
Fubon Land Development	Consultancy fees	\$ 23,496	22,574
Taipei City Government	Public hearing facilities rental expense	17,357	45
Chien Kuo Construction	Reserch and developoment expenses	211,491	-
		<u>\$ 252,344</u>	<u>22,619</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(xx) Prepayments

<u>Name of related party</u>	<u>Category</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Taipei City Government	Prepaid rental expense-superficies, temporary payment	\$ 82,322	1,249	109,787
Taiwan Fix Network	Prepayment for business facilities	80,616	-	-
Others (not related company or person accounts for more than \$10,000 or 10%)		4,712	2,933	3,419
Total		<u>\$ 167,650</u>	<u>4,182</u>	<u>113,206</u>

(xxi) Others

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Principal of structured products	<u>\$ 20,880</u>	<u>16,757</u>	<u>11,517</u>
Other financial assets—restricted time deposits	<u>\$ -</u>	<u>6,593</u>	<u>10,401</u>

(c) Compensation to executive officers

Executive officers' compensation comprised:

	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Short-term employee benefits	\$ 392,028	326,112	1,168,600	1,051,431
Post-employment benefits	10,632	11,678	30,442	32,037
Other long-term employee benefits	1,622	3,564	4,669	10,782
	<u>\$ 404,282</u>	<u>341,354</u>	<u>1,203,711</u>	<u>1,094,250</u>

For share-based payment information please refer to note 6 (ac).

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(d) Information on related party transactions amounting to more than \$100,000

If a transaction occurs between two subsidiaries, only one subsidiary needs to disclose its related party information, and the inter-company transaction is eliminated in the consolidated financial statements.

(i) Fubon Insurance and its subsidiaries

1) Name and relationship of related party

<u>Name of related party</u>	<u>Relationship with the Company</u>
Taipei Fubon Bank Co., Ltd. (Taipei Fubon Bank)	Company controlled by Fubon Financial Holdings
Taiwan Mobile Co., Ltd. (Taiwan Mobile)	Related parties in substance

2) Significant transactions with related parties were as follows:

a) Bank deposit with related party

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Taipei Fubon Bank	\$ <u>1,627,844</u>	<u>1,629,197</u>	<u>2,290,209</u>

b) Insurance revenue with related party were as follows:

i) Insurance revenue

<u>Name of related party</u>	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Taiwan Mobile	\$ <u>158,746</u>	<u>107,585</u>	<u>439,756</u>	<u>231,875</u>

ii) Insurance revenue receivables

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Taiwan Mobile	\$ <u>45,873</u>	<u>61,322</u>	<u>62,040</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(ii) Fubon Life Insurance and its subsidiaries

1) Name and relationship of related party

<u>Name of related party</u>	<u>Relationship with the Company</u>
Taipei Fubon Bank Co., Ltd. (Taipei Fubon Bank)	Company controlled by Fubon Financial Holdings
Fubon Insurance Co., Ltd. (Fubon Insurance)	Company controlled by Fubon Financial Holdings
Fubon Bank (Hong Kong) Limited (Fubon Bank (Hong Kong))	Company controlled by Fubon Financial Holdings
Funds managed by Fubon Asset Management	Related parties in substance
Taipei City Government	Related parties in substance
Chien Kuo Construction Co., Ltd. (Chien Kuo Construction)	Related parties in substance
Others	Directors, supervisors, managers and their relatives up to the second degree; affiliates and the related parties in subsidiary

2) Significant transactions with related parties

a) Bank deposits

<u>Nature of deposits</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Taipei Fubon Bank:			
Check deposits	\$ 49,608	258,517	136,725
Demand deposits	3,745,818	5,604,484	3,318,335
Time deposits	1,279,000	4,179,000	2,479,000
Structured deposits	2,276,849	2,822,978	2,838,413
Fubon Bank (Hong Kong):			
Demand deposits	852,003	1,004,437	286,685
Time deposits	-	12,489	48,546
	<u>\$ 8,203,278</u>	<u>13,881,905</u>	<u>9,107,704</u>

All deposits exclude assets on insurance products-separate account. The structured deposits were recognized as other financial assets.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

b) Interest revenues

<u>Name of related party</u>	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Taipei Fubon Bank	\$ <u>45,499</u>	<u>55,707</u>	<u>141,954</u>	<u>166,342</u>

c) Interest receivables

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Taipei Fubon Bank	\$ <u>21,373</u>	<u>329,270</u>	<u>333,388</u>

d) Loans

Secured loans

<u>September 30, 2017</u>						
<u>Category</u>	<u>Numbers or name of related party</u>	<u>Highest Balance</u>	<u>Ending Balance</u>	<u>Compliance situation</u>	<u>Type of Collateral</u>	<u>Differences in transaction terms between related and non related parties</u>
Residential mortgage loans	44 related parties in substance	\$ <u>291,987</u>	<u>285,071</u>	Normal loan	Real Estate	None
<u>December 31, 2016</u>						
<u>Category</u>	<u>Numbers or name of related party</u>	<u>Highest Balance</u>	<u>Ending Balance</u>	<u>Compliance situation</u>	<u>Type of Collateral</u>	<u>Differences in transaction terms between related and non related parties</u>
Residential mortgage loans	39 related parties in substance	\$ <u>287,572</u>	<u>278,727</u>	Normal loan	Real Estate	None
<u>September 30, 2016</u>						
<u>Category</u>	<u>Numbers or name of related party</u>	<u>Highest Balance</u>	<u>Ending Balance</u>	<u>Compliance situation</u>	<u>Type of Collateral</u>	<u>Differences in transaction terms between related and non related parties</u>
Residential mortgage loans	41 related parties in substance	\$ <u>302,429</u>	<u>296,207</u>	Normal loan	Real Estate	None

The transaction terms are identical to those of other market participants.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

e) Funds were as follows:

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Fubon Chi-Hsiang Money Market Fund	\$ 2,303,136	1,500,183	1,904,747
Fubon Taiwan Technology ETF	208,670	175,853	183,201
Fubon MSCI Taiwan ETF	136,786	118,483	119,506
Fubon Taiwan Eight Industries ETF	154,545	133,939	134,074
Fubon Taiwan Finance ETF	152,050	138,242	129,733
Fubon SZSE 100 ETF	147,863	124,664	131,863
Fubon FTSE TWSE Taiwan 50 ETF	996,660	-	-
Fubon TWSE Corporate Governance 100 ETF	1,064,500	-	-
Total	\$ <u>5,164,210</u>	<u>2,191,364</u>	<u>2,603,124</u>

f) Fubon Life Insurance has acquired Fubon REIT I and Fubon REIT II and recognized as available-for-sale financial assets:

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Fubon REIT I Fund	\$ 732,552	854,644	908,592
Fubon REIT II Fund	819,565	977,061	1,019,352
Total	\$ <u>1,552,117</u>	<u>1,831,705</u>	<u>1,927,944</u>

g) Bond transactions

Sales of bonds

<u>Name of related party</u>	<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>
Fubon Securities	\$ 1,119,635	1,593,052
Taipei Fubon Bank	20,534,844	18,918,628
	\$ <u>21,654,479</u>	<u>20,511,680</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

h) Other receivables

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Fubon Insurance	<u>\$ 119,519</u>	<u>97,130</u>	<u>94,425</u>

i) Prepayment

<u>Name of related party</u>	<u>Category</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Taipei City Government	Prepaid rental expense- superficies, temporary payment	<u>\$ 82,322</u>	<u>1,249</u>	<u>109,787</u>

j) Premium Revenue:

<u>Name of related party</u>	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Related parties in substance	\$ -	85,892	30,529	167,302
Others (no individual accounts for more than \$10,000 or 10%)	266,231	210,472	827,749	802,859
Total	<u>\$ 266,231</u>	<u>296,364</u>	<u>858,278</u>	<u>970,161</u>

Premium rates were calculated in accordance with the relevant provisions of the Insurance Act, and were not materially different from the general trading terms.

k) Refundable deposits and rental expense:

i) Refundable deposits:

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>	<u>Note</u>
Taipei City Government	<u>\$ 1,127,254</u>	<u>1,119,124</u>	<u>1,119,174</u>	Bid Bond / Superficies performance Bond

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

ii) Rental expense:

<u>Name of related party</u>	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	2017	2016	2017	2016
Taipei City Government	\$ <u>82,322</u>	<u>82,110</u>	<u>244,282</u>	<u>244,546</u>

All the above leases were operating leases. The leasing term was not materially different from that with unrelated parties.

l) Integrate business revenue and cross-selling commission:

<u>Name of related party</u>	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	2017	2016	2017	2016
Fubon Insurance	\$ <u>117,474</u>	<u>128,844</u>	<u>329,339</u>	<u>304,060</u>

m) Transaction of property

Payments of investment property are:

<u>Name of related party</u>	<u>Category</u>	<u>For the nine months ended September 30</u>	
		2017	2016
Chien Kuo Construction	Reserch and development expenses	\$ <u>211,491</u>	<u>-</u>

(iii) Fubon Securities and its subsidiaries

1) Name and relationship with related party

<u>Name of related party</u>	<u>Relationship with the Company</u>
Taipei Fubon Bank Co., Ltd. (Taipei Fubon Bank)	Company controlled by Fubon Financial Holdings
Fubon Bank (Hong Kong) Limited (Fubon Bank (Hong Kong))	Company controlled by Fubon Financial Holdings
Xiamen Bank Co., Ltd. (Xiamen Bank)	Related parties in substance
Taiwan Mobile Co., Ltd. (Taiwan Mobile)	Related parties in substance
Funds managed by Fubon Asset Management	Related parties in substance
Taiwan Stock Exchange Corporation (Taiwan Stock Exchange)	Related parties in substance

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>Name of related party</u>	<u>Relationship with the Company</u>
Taiwan Futures Exchange Corporation (Taiwan Futures Exchange)	Related parties in substance
MediaTek Inc. (MediaTek)	Related parties in substance
Others	Organization or Related parties in substance that have amount less than \$10,000 in account.

2) Significant transactions with related parties

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

Cash deposits in Taipei Fubon Bank and Fubon Bank (Hong Kong) were as follows :

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Demand deposits (excluding settlement accounts)	\$ <u>920,011</u>	<u>881,896</u>	<u>1,528,070</u>
Demand deposits (booked as customer margin accounts)	\$ <u>340,690</u>	<u>89,361</u>	<u>89,890</u>
Checking account	\$ <u>30,513</u>	<u>31,722</u>	<u>23,183</u>
Time deposits	\$ <u>371,526</u>	<u>970,535</u>	<u>1,510,115</u>
Time deposits (booked as customer margin accounts)	\$ <u>-</u>	<u>-</u>	<u>627,200</u>
Restricted time deposits	\$ <u>217,521</u>	<u>340,021</u>	<u>151,597</u>
Foreign currency deposits (excluding settlement accounts)	\$ <u>362,531</u>	<u>425,875</u>	<u>495,759</u>
Foreign time deposit	\$ <u>7,698,232</u>	<u>3,454,121</u>	<u>2,791,690</u>

As of September 30, 2017, December 31 and September 30, 2016, Fubon Securities and its subsidiaries had put foreign currency deposits in Xiamen Bank amounting to \$877,343, \$0 and \$210, respectively. Further, for the three months and nine months ended September 30, 2017 and 2016, the interest revenues from foreign currency deposits of Xiamen Bank were \$855, \$2, \$1,677 and \$2, respectively.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

For the three months and nine months ended September 30, 2017 and 2016, interest revenues from bank deposits of Taipei Fubon Bank and Fubon Bank (Hong Kong) were \$24,650, \$8,263, \$59,981 and \$22,425, respectively. Further, interest receivables from Taipei Fubon Bank and Fubon Bank (Hong Kong) were \$4,560, \$4,011, and \$2,888 as of September 30, 2017, December 31 and September 30, 2016, respectively. For the nine months ended September 30, 2017 and 2016, interests rate intervals were 0.170%~1.650% and 0.170%~1.275%, respectively.

As of September 30, 2017, December 31 and September 30, 2016, Fubon Securities and its subsidiaries had put time deposits in Taipei Fubon Bank as operating deposits, refundable deposits and warrant deposits amounting to \$965,000, \$1,012,500 and \$1,042,500, respectively.

Balances of short-term borrowings from Taipei Fubon Bank as of September 30, 2017, December 31 and September 30, 2016, were all nil. Unused credit facilities from Taipei Fubon Bank were all \$6,000,000. As of September 30, 2017, December 31 and September 30, 2016, the book value of lands and buildings pledged to Taipei Fubon bank were \$1,551,178, \$1,557,418 and \$1,561,915, respectively, and time deposits pledged to Taipei Fubon Bank for short-term borrowing were all \$105,000. Fubon Securities also provided stock investments amounting to \$3,834,000, \$1,872,000 and \$2,025,000 to Taipei Fubon Bank as collateral for short-term borrowings (recognized as available-for-sale financial assets – current) as of September 30, 2017, December 31 and September 30, 2016, respectively.

b) Available-for-sale financial assets – current

The balance of related parties' shares held by Fubon Securities and its subsidiaries and the gain or loss on disposal were as follows:

<u>Name of related party</u>	<u>September 30, 2017</u>	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Taiwan Mobile	\$ <u>1,412,500</u>	<u>1,028,750</u>
<u>Name of related party</u>	<u>December 31, 2016</u>	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Taiwan Mobile	\$ <u>1,412,500</u>	<u>927,500</u>
<u>Name of related party</u>	<u>September 30, 2016</u>	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Taiwan Mobile	\$ <u>1,412,500</u>	<u>1,118,750</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Name of related party	For the nine months ended September 30, 2017	
	Dividend revenue	Gains (losses) on valuation
Taiwan Mobile	\$ 126,000	-

Name of related party	For the nine months ended September 30, 2016	
	Dividend revenue	Gains (losses) on valuation
Taiwan Mobile	\$ 126,000	-

c) Futures traders' equity

Related parties engaging in futures trading and deposited in Fubon Futures traders' equity were as follow:

Name of related party	September 30, 2017	December 31, 2016	September 30, 2016
Fubon SSE 180 ETF	\$ 518,998	528,330	510,987
Fubon SZSE 100 ETF	157,972	159,092	137,749
Fubon SSE 180 Leveraged 2X index ETF	9,529,609	4,405,768	4,419,254
Fubon new labor fund 102-2	-	112,151	101,434
Fubon Hang Seng H-Share Leveraged 2X Index ETF	195,714	115,867	78,630
Fubon TAIEX Daily -1X Inverse ETF	-	107,444	70,000
Fubon S&P 500 VIX Short- Term Futures ETF	816,432	148,970	-
Fubon NIFTY 2X Leveraged	110,497	227,800	113,102
Fubon TAIEX ETF Umbrella Fund-Fubon Index ETF	424,381	107,444	1,385
	\$ 11,753,603	5,912,866	5,432,541

d) Funds purchased by Fubon Securities were as follow:

Name of related party	September 30, 2017	December 31, 2016	September 30, 2016
Fubon Chi-Hsiang Money Market Fund	\$ 134,579	124,256	124,177

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- e) Funds issued by Fubon securities and its subsidiaries and purchased by related parties:

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Fubon Chi-Hsiang Money Market Fund	\$ 3,028,017	1,624,439	2,306,981
Fubon Taiwan Technology ETF	211,381	178,074	186,336
Fubon FTSE TWSE Taiwan 50 ETF	1,001,778	8,539	8,311
Fubon S&P 500 VIX Short-Term Futures ETF	2,724	229,235	-
Fubon TWSE Corporate Governance 100 ETF	1,120,684	-	-
Others (no related company or person accounts for more than 5%)	1,621,560	1,469,820	1,221,600
Total	\$ <u>6,986,144</u>	<u>3,510,107</u>	<u>3,723,228</u>

- f) Deal on credit

As of September 30, 2017, December 31 and September 30, 2016, Fubon Securities and its subsidiaries' had receivables from the other related parties' pecuniary finance amounting to \$159,755, \$99,235 and \$111,835, respectively.

- g) Settlement and clearing funds

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Taiwan Stock Exchange	\$ 110,712	103,924	100,924
Taiwan Futures Exchange	149,266	163,328	163,703
Total	\$ <u>259,978</u>	<u>267,252</u>	<u>264,627</u>

- h) Margin lending deposits

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Taiwan Stock Exchange	\$ <u>266,281</u>	<u>-</u>	<u>-</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

i) Refundable deposits

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Taiwan Stock Exchange	\$ -	30,000	550,000

j) Customer margin deposit

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Taiwan Futures Exchange	\$ 2,454,316	2,505,585	2,950,824

k) Trading securities-dealing

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

<u>Name of securities</u>	<u>September 30, 2017</u>	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
First 104 secured domestic corporate bonds of Clevo Co.	\$ 204,989	(1,459)
First 106 unsecured domestic corporate bonds of Taiwan Acceptance Corporation	300,000	683
Total	\$ <u>504,989</u>	<u>(776)</u>

<u>Name of securities</u>	<u>December 31, 2016</u>	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Fubon S&P 500 VIX Short-Term Futures ETF (managed by Fubon Asset Management)	\$ <u>200,040</u>	<u>(700)</u>

<u>Name of related party</u>	<u>For the three months ended September 30, 2017</u>	
	<u>Dividend revenue</u>	<u>Gains (losses) on valuation</u>
Fubon S&P 500 VIX Short-Term Futures ETF (managed by Fubon Asset Management)	\$ -	<u>(7,827)</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>Name of related party</u>	For the nine months ended September 30, 2017	
	<u>Dividend revenue</u>	<u>Gains (losses) on valuation</u>
Fubon S&P 500 VIX Short-Term Futures ETF (managed by Fubon Asset Management)	\$ <u>-</u>	<u>(82,721)</u>

The balance of the trading securities-dealing of the related parties was \$504,989, \$0 and \$0 as of September 30, 2017, December 31 and September 30, 2016.

l) Trading securities-hedging

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

<u>Name of securities</u>	September 30, 2017	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Third issue of unsecured convertible bonds of Taiwan Mobile	\$ 110,090	1,860
MediaTek	<u>269,181</u>	<u>15,996</u>
Total	\$ <u>379,271</u>	<u>17,856</u>

<u>Name of securities</u>	December 31, 2016	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Third issue of unsecured convertible bonds of Taiwan Mobile	\$ <u>110,090</u>	<u>185</u>

<u>Name of related party</u>	For the three months ended September 30, 2017	
	<u>Dividend revenue</u>	<u>Gains (losses) on disposal</u>
MediaTek	\$ <u>11,675</u>	<u>46,136</u>

<u>Name of related party</u>	For the nine months ended September 30, 2017	
	<u>Dividend revenue</u>	<u>Gains (losses) on disposal</u>
MediaTek	\$ <u>11,675</u>	<u>46,136</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

m) Management fee (accounted for other operating revenue)

<u>Name of related party</u>	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Fubon SSE 180 ETF	\$ 48,041	44,950	\$ 131,712	118,264
Fubon SSE 180 Leveraged 2X Index ETF	68,190	67,119	212,509	193,960
Total	<u>\$ 116,231</u>	<u>112,069</u>	<u>344,221</u>	<u>312,224</u>

n) Rental revenue (accounted for other profit and loss)

i) Rental revenue

<u>Name of related party</u>	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Taipei Fubon Bank	\$ <u>76,934</u>	<u>70,758</u>	<u>218,235</u>	<u>210,022</u>

ii) Rental receivable

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Taipei Fubon Bank	\$ <u>76,835</u>	<u>49,514</u>	<u>71,384</u>

o) Brokerage service charge

<u>Name of related party</u>	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Taiwan Stock Exchange	\$ <u>45,471</u>	<u>25,347</u>	<u>110,305</u>	<u>72,667</u>

(iv) Taipei Fubon Bank and its subsidiaries

1) Name and relationship with related party

<u>Name of related party</u>	<u>Relationship with the Company</u>
Fubon Financial Holding Co., Ltd. (Fubon Financial Holding)	Parent Company
Fubon Life Insurance Co., Ltd. (Fubon Life Insurance)	Company controlled by Fubon Financial Holdings
Fubon Bank (Hong Kong) Limited (Fubon Bank (Hong Kong))	Company controlled by Fubon Financial Holdings

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>Name of related party</u>	<u>Relationship with the Company</u>
Fubon Securities Co., Ltd. (Fubon Securities)	Company controlled by Fubon Financial Holdings
Fubon Asset Management Co., Ltd. (Fubon Asset Management)	Company controlled by Fubon Financial Holdings
Taipei City Government	A major shareholder of Fubon Financial Holdings
Chung Hsing Land Development Co., Ltd. (Chung Hsing Land Development)	A major shareholder of Fubon Financial Holdings
Fubon Land Development Co., Ltd. (Fubon Land Development)	Related parties in substance
Alltek Technology Corp. (Alltek Technologh)	Related parties in substance (not related parties in substance on second quarter of 2017)
Capital Securities Co., Ltd. (Capital Securities)	Related parties in substance (not related parties in substance from third quarter of 2016)
EnTie Commercial Bank, Ltd. (EnTie Bank)	Related parties in substance (not related parties in substance from fourth quarter of 2016)
Xiamen Bank Co., Ltd. (Xiamen Bank)	Related parties in substance
Taiwan High Speed Rail Co., Ltd. (Taiwan High Speed Rail)	Related parties in substance
Fubon Gehua (Beijing) Enterprise Ltd. (Fubon Gehua)	Related parties in substance
Teng Fu Bo Investment Limited (Teng Fu Bo Investment)	Related parties in substance
Shanghai Rudong Hospital	Related parties in substance (not related parties in substance from fourth quarter of 2016)
Others	Directors, supervisors, managers and their relatives up to the second degree; affiliated and the related parties in substance

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- 2) Significant transactions with related parties
 a) Deposits and loans

Item	For the nine months ended September 30, 2017		
	Ending balance	Interest rate/ service fee rate (%)	Interest revenue (expense)
Loans	\$ 3,693,658	0~14.98	71,095
Discounts	\$ 1,744,362	3.66~6.00	59,072
Due from banks	\$ 274,814	0~5.40	2,902
Deposits	\$ 58,191,215	0~8.00	(195,859)

Units: In thousands of TWD

September 30, 2017							
Category	Amount or name of related party	Highest balance	Ending balance	Compliance Situation		Type of collateral	Differences in transaction terms between related and non related parties
				Normal	Overdue		
Employee consumer loans	63	\$ 35,123	24,386	✓	-	None	None
House mortgages	322	3,383,538	2,865,379	✓	-	Real estate	None
Others	Department of Urban Development, Taipei City Government	771,519	672,168	✓	-	Public treasury guarantees	None
	Department of Rapid Transit systems, Taipei City Government	8,000,000	-	✓	-	Public treasury guarantees	None
	Department of Sports, Taipei City Government	1,000,000	-	✓	-	Public treasury guarantees	None
	Taipei Municipal Secured Small Loans Service	813	547	✓	-	Public treasury guarantees	None
	Fubon Land Development	2,290,800	-	✓	-	Construction, land and listed stocks	None
	Alltek Technology	39,134	-	✓	-	Clean credit	None
	Fubon Gehua	136,848	62,087	✓	-	Standby letter of credit	None
	Teng Fu Bo Investment	68,424	68,424	✓	-	Pledged deposits and credit guarantees	None
	Other loans	752	667	✓	-	Credit Guarantee Fund	None
Total		\$ 15,726,951	3,693,658				

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Item	December 31, 2016
Loans	\$ 5,906,842
Discounts	\$ 1,387,329
Due from banks	\$ 177,384
Deposits	\$ 77,624,710

Units: In thousands of TWD

December 31, 2016							
Category	Amount or name of related party	Highest balance	Ending balance	Normal	Overdue	Type of collateral	Differences in transaction terms between related and non related parties
Consumer loans	59	\$ 38,749	21,552	✓	-	Partially provide deposits as collateral	None
House mortgages	318	3,414,729	2,759,315	✓	-	Real estate	None
Others	Department of Urban Development, Taipei City Government	905,331	770,457	✓	-	Public treasury guarantees	None
	Department of Rapid Transit systems, Taipei City Government	1,000,000	-	✓	-	Public treasury guarantees	None
	Department of Sports, Taipei City Government	3,000,000	-	✓	-	Public treasury guarantees	None
	Taipei Municipal Secured Small Loans Service	1,163	813	✓	-	Public treasury guarantees	None
	Fubon Land Development	2,540,000	2,290,800	✓	-	Construction, land and domestic listed stocks	None
	Fubon Gehua	139,197	63,153	✓	-	Standby Letter of Credit	None
	Other loans	800	752	✓	-	Credit Guarantee Fund	None
Total		\$ 11,039,969	5,906,842				

For the nine months ended September 30, 2016

Item	Ending balance	Interest rate / service fee rate (%)	Interest revenue (expense)
Loans	\$ 9,905,988	0~14.98	82,614
Due to banks	\$ 239,938	0~5.40	29,702
Deposits	\$ 91,601,295	0~8.00	(249,587)

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Units: In thousands of TWD

September 30, 2016							
Category	Amount or name of related party	Highest balance	Ending balance	Compliance Situation		Type of collateral	Differences in transaction terms between related and non related parties
				Normal	Overdue		
Employee Consumer loans	60	\$ 38,140	24,618	✓	-	None	None
House mortgages	321	3,199,615	2,631,946	✓	-	Real estate	None
Others	Department of Urban Development, Taipei City Government	905,331	800,594	✓	-	Public treasury guarantees	None
	Department of Rapid Transit systems, Taipei City Government	1,000,000	1,000,000	✓	-	Public treasury guarantees	None
	Department of Sports, Taipei City Government	3,000,000	3,000,000	✓	-	Public treasury guarantees	None
	Taipei Municipal Secured Small Loans Service	1,163	901	✓	-	Public treasury guarantees	None
	Fubon Land Development	2,540,000	2,290,800	✓	-	Construction, land and listed stocks	None
	Shanghai Ruidong Hospital	178,921	156,348	✓	-	Pledged deposits	None
	Other loans	800	781	✓	-	Credit Guarantee Fund	None
Total		\$ 10,863,970	9,905,988				

b) Bond transactions were as follows:

Name of related party	Subject	Transaction types	For the nine months ended September 30	
			2017	2016
Fubon Life Insurance	Bonds	Bonds purchased	\$ 20,534,844	18,918,628
Fubon Life Insurance	Bonds	Bonds sold	476,876	6,703,253
Capital Securities	Bills	Bills purchased	-	299,975
Xiamen Bank	Bonds	Bonds purchased	685,579	140,880
EnTie Bank	Bonds	Bonds purchased	-	3,733,008
EnTie Bank	Bonds	Bonds sold	-	1,573,566

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>Name of related party</u>	<u>Subject</u>	<u>Transaction types</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Fubon Securities	Bonds	Resell agreement	\$ 300,210	200,079	1,100,034
EnTie Bank	Bonds	Resell agreement	-	-	600,000
Taiwan High Speed Rail	Bonds	Repurchase agreement	-	2,211,400	-
Directors, supervisors, managers and their relatives up to the second degree; affiliated and the related parties in substance	Bonds	Repurchase agreement	5,490,242	2,994,068	3,212,142

c) Fund and stock transactions

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Fubon REIT I Fund	<u>\$ 744,072</u>	<u>868,084</u>	<u>922,880</u>

d) Derivative financial instruments

Units: In thousands of TWD

September 30, 2017						
Name of Related party	Derivative instruments	Contract period	Contract (notional) amount	Gains (losses) on valuation	Balance Sheet	
					Account	Balance
Fubon Bank (Hong Kong)	Interest rate swap contracts	2010.11.26~2020.03.19	\$ 1,469,938	(35,165)	Valuation adjustment of financial asset at fair value through profit or loss	80,632
Fubon Life Insurance	Interest rate swap contracts	2007.09.27~2018.06.24	2,250,000	58,031	Valuation adjustment of financial liability measured at fair value through profit or loss	63,778

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Units: In thousands of TWD

December 31, 2016						
Name of Related party	Derivative instruments	Contract period	Contract (notional) amount	Gains (losses) on valuation	Balance Sheet	
					Account	Balance
Fubon Bank (Hong Kong)	Interest rate swap contracts	2010.11.26~2020.03.19	\$ 1,565,653	(53,225)	Valuation adjustment of financial asset measured at fair value through profit or loss	115,797
Fubon Life Insurance	Interest rate swap contracts	2007.09.27~2018.06.24	2,750,000	105,428	Valuation adjustment of financial liability measured at fair value through profit or loss	464,216

Units: In thousands of TWD

September 30, 2016						
Name of Related party	Derivative instruments	Contract period	Contract (notional) amount	Gains (losses) on valuation	Balance Sheet	
					Account	Balance
Fubon Bank (Hong Kong)	Interest rate swap contracts	2010.11.26~2020.03.19	\$ 1,521,314	(22,509)	Valuation adjustment of financial asset at fair value through profit or loss	146,513
Fubon Life Insurance	Interest rate swap contracts	2007.09.27~2018.06.24	2,750,000	59,833	Valuation adjustment of financial liability at fair value through profit or loss	509,811

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(v) Fubon Bank (Hong Kong)

1) Name and relationship with related party

<u>Name of related party</u>	<u>Relationship with the Company</u>
Taipei Fubon Bank Co., Ltd. (Taipei Fubon Bank)	Company controlled by Fubon Financial Holdings
Fubon Life Insurance (Hong Kong) Limited	Company controlled by Fubon Financial Holdings
Fubon Convoy Asset Management (Hong Kong)	Company controlled by Fubon Financial Holdings

2) Significant transactions with related parties – Deposits

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Taipei Fubon Bank	HKD <u>30,886</u>	HKD <u>20,608</u>	HKD <u>18,569</u>
Fubon Life Insurance (Hong Kong)	HKD <u>357,332</u>	HKD <u>244,282</u>	HKD <u>86,784</u>
Fubon Convoy Asset Management (Hong Kong)	HKD <u>49,441</u>	HKD <u>-</u>	HKD <u>-</u>

3) Significant transactions with related parties – Bank Deposits

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Taipei Fubon Bank	HKD <u>34,393</u>	HKD <u>23,818</u>	HKD <u>17,774</u>

(vi) Fubon Financial Holding Venture Capital

1) Name and relationship with related party

<u>Name of related party</u>	<u>Relationship with the Company</u>
Taipei Fubon Bank Co., Ltd. (Taipei Fubon Bank)	Company controlled by Fubon Financial Holdings
Funds managed by Fubon Asset Management	Related parties in substance

2) Significant transactions with related parties

a) Bank deposits

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Bank deposits	\$ <u>137,716</u>	\$ <u>123,412</u>	\$ <u>113,498</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- b) The details of the fund's balances purchased from related parties Fubon Asset Management were as follow:

<u>Name of related party</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Fubon Chi-Hsiang Money Market Fund	\$ <u>500,077</u>	<u>-</u>	<u>-</u>

- (vii) Fubon Marketing and its subsidiaries

- 1) Name and relationship with related party

<u>Name of related party</u>	<u>Relationship with the Company</u>
Fubon Insurance Co., Ltd. (Fubon Insurance)	Company controlled by Fubon Financial Holdings
Fubon Life Insurance Co., Ltd. (Fubon Life Insurance)	Company controlled by Fubon Financial Holdings
Taipei Fubon Bank Co., Ltd. (Taipei Fubon Bank)	Company controlled by Fubon Financial Holdings

- 2) Significant transactions with related parties

- a) Deposit

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Taipei Fubon Bank	\$ <u>276,064</u>	<u>356,820</u>	<u>246,114</u>

- b) Operating revenue

<u>Name of related party</u>	<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>
Fubon Insurance	\$ 275,455	344,040
Fubon Life Insurance	238,982	263,745
Total	\$ <u>514,437</u>	<u>607,785</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

The details of account receivables generated from aforementioned transactions were as follows:

Name of related party	September 30, 2017	December 31, 2016	September 30, 2016
Fubon Insurance	\$ 29,986	41,291	45,423
Fubon Life Insurance	31,791	28,427	48,136
Total	\$ 61,777	69,718	93,559

(8) Pledged assets

Pledged assets	Purpose of pledge	September 30, 2017	December 31, 2016	September 30, 2016
Time deposits (accounted for refundable deposits)	Guarantee deposits for Insurance business	\$ 15,960	19,366	18,836
Time deposits (accounted for refundable deposits)	Performance bond	1,038,944	1,034,124	1,036,824
Time deposits (accounted for pledged assets)	Full fiduciary discretionary deposits, bank overdraft	12,521	35,021	35,021
Time deposits (accounted for due from the central bank and call loans to banks)	Deposits for leases and others	1,279,000	1,279,000	1,279,000
Certificates of deposit (accounted for due from the central bank and call loans to banks)	Collaterals for day term overdraft as liquidity reserve, collaterals for call loans of foreign currency and USD clearing transaction warranty	4,400,000	18,500,000	24,000,000
Negotiable Certificates of Deposit (accounted for held-to-maturity financial assets)	Collaterals for day term overdraft as liquidity reserve, collaterals for call loans of foreign currency and USD clearing transaction warranty	24,600,000	10,500,000	5,000,000
Other banks' deposits (accounted for other financial assets)	Note 1	1,644,759	1,662,725	1,676,775
Government bonds (accounted for refundable deposits)	Guarantee deposits for Insurance business, performance bond and margin deposit for trust business	12,648,698	10,802,093	11,526,822
Government bonds (accounted for bonds investment without active market)	Pledged for repurchase agreement	260,369	-	203,507
Government bonds (accounted for financial assets measured at fair value through profit or loss)	Note 1	150,777	149,400	152,798

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>Pledged assets</u>	<u>Purpose of pledge</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Government bonds (accounted for available-for-sale financial assets)	Pledged for short sell	\$ -	-	689,709
Government bonds (accounted for financial assets measured at fair value through profit or loss)	Pledged for short sell	5,893,776	5,669,050	-
Government bonds (accounted for available-for-sale financial assets)	Note 1	1,022,469	365,960	154,935
Government bonds (accounted for held-to-maturity financial assets)	Note 1	2,004,791	5,811,816	7,385,935
Corporate bonds (accounted for available-for-sale financial assets)	Pledged for repurchase agreement	6,300,800	1,678,560	1,494,100
Financial liabilities (accounted for available-for-sale financial assets)	Pledged for repurchase agreement	33,021,000	38,244,766	37,271,244
Financial liabilities (accounted for held-to-maturity financial assets)	Pledged for repurchase agreement	461,894	494,016	486,164
Investment property – land and buildings	Bank loans	402,472	617,887	617,300
Property and equipment – land and buildings	Bank loans	529,047	301,728	302,111
Account receivable (Account receivable transferred from matured bonds)	Note 1	12,400	-	-
Total		\$ <u>95,699,677</u>	<u>97,165,512</u>	<u>93,331,081</u>

Note 1: Those pledged assets had been placed with (a) courts for meeting requirements for judiciary provisional seizure of debtors' property, (b) the National Credit Card Center for the Bank's potential obligations on credit card activities, (c) the Central Bank for the Bank's potential obligations on its trust activities, (d) foreign governments for the Bank's potential obligations on its overseas operations, (e) transactions for bonds business, and (f) collaterals for derivatives transactions.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(9) Commitments and contingencies:

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

September 30, 2017	Less than one year	Between one and five years	More than five years	Total
Lease commitments				
Operating lease payments (Lessee)	1,693,197	3,219,640	14,461,289	19,374,126
Operating lease income (Lessor)	5,826,033	20,192,061	33,834,016	59,852,110
Finance lease payments (Lessee)	11,128	41,101	1,220,469	1,272,698
Finance lease income (Lessor)	5,957	18,769	17,734	42,460
Present value of finance lease payments (Lessee)	1,188	2,250	218,085	221,523
Present value of finance lease income (Lessor)	5,117	16,515	16,714	38,346
Capital expenditure commitments	3,398,378	1,133	-	3,399,511

December 31, 2016	Less than one year	Between one and five years	More than five years	Total
Lease commitments				
Operating lease payments (Lessee)	1,805,724	3,133,166	14,813,724	19,752,614
Operating lease income (Lessor)	6,026,367	20,580,666	33,814,584	60,421,617
Finance lease payments (Lessee)	11,167	40,246	1,197,486	1,248,899
Finance lease income (Lessor)	8,166	24,577	22,601	55,344
Present value of finance lease payments (Lessee)	1,416	2,311	212,731	216,458
Present value of finance lease income (Lessor)	7,043	21,640	21,174	49,857
Capital expenditure commitments	3,349,467	8,183	-	3,357,650

September 30, 2016	Less than one year	Between one and five years	More than five years	Total
Lease commitments				
Operating lease payments (Lessee)	1,877,919	3,306,798	14,859,548	20,044,265
Operating lease income (Lessor)	5,980,213	20,522,748	34,790,072	61,293,033
Finance lease payments (Lessee)	16,311	93,661	3,176,781	3,286,753
Finance lease income (Lessor)	8,233	25,462	23,905	57,600
Present value of finance lease payments (Lessee)	14,659	73,527	336,727	424,913
Present value of finance lease income (Lessor)	7,060	22,381	22,344	51,785
Capital expenditure commitments	3,215,107	3,280	-	3,218,387

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(b) Taipei Fubon Bank

- (i) Except for disclosed in other notes of consolidated financial statements, Taipei Fubon Bank and its subsidiary had commitments as follows:

	<u>September 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>September 30,</u> <u>2016</u>
Amount of repurchase agreements	\$ 90,600,162	61,604,524	65,426,232
Amount of resell agreements	26,653,557	27,514,522	19,928,511
Unused credit card commitments	255,353,234	244,374,712	241,972,918
Collections for customers	44,094,646	37,251,977	41,614,016
Agency loans payable	21,331,592	24,965,515	25,169,100
Designated deposits	10,351,627	26,070,025	29,117,703
Designated loans	10,351,627	26,070,025	29,117,703
Designated financial management	26,389,312	30,188,953	33,694,518
Travelers' checks consigned-in	461,792	501,269	529,631
Marketable securities under custody	277,319,341	267,909,186	250,006,088
Trust assets	381,196,204	337,075,394	329,127,201
Management for book-entry government bonds	124,213,900	160,798,000	164,901,700

- (ii) On March 24, 2006, Taipei Fubon Bank sold its Fubon Neihu building to Taiwan Land Bank Co., Ltd., the trust company of Fubon No. 2 REITs, and then leased back the building. The disposal gain of \$295,819 was recognized over the three-year lease term.

However, at the end of the lease term in April 2009, Taipei Fubon Bank renewed the lease, thereby extending the lease term to another 10 years. Consequently, the unrealized profit on the sale and leaseback transaction was recognized over 124 months commencing from January 1, 2009.

(c) Fubon Life Insurance and its subsidiaries

- (i) Fubon Life Insurance and its subsidiaries had contingent liability of lawsuits arising from operating activities. Other than cases which have already made provision, several lawsuits are still in process and appointed to lawyers. Fubon Life Insurance and its subsidiaries will recognize relevant losses when professional opinions and reasonable estimated loss are available.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(ii) Significant unrecognized contract commitment

1) The unrecognized contract commitment of Life Insurance is as follows:

	September 30, 2017	December 31, 2016	September 30, 2016
Acquisition of superficies	\$ <u>703,249</u>	<u>718,509</u>	<u>718,509</u>

Note: Fubon Life Insurance and its subsidiaries acquired the superficies of No.472 Xinmin Rd., Beitou District, in July 2014 by bid. The total contract value amounted to \$1,401,000. As of the reporting date, the contract has not yet been signed. However, the commission contract of implementation of urban renewal business was signed in October, 2014 and \$700,500 royalty was paid.

Fubon Life Insurance and its subsidiaries acquired the superficies of No.6 Xinyi Rd., Xinyi District in June, 2014 by bid. The total contract value amounted to \$17,288,000 by referencing to the appraisal report of Repro International Inc. and Colliers internationals. The contract has been signed in August 2014 and the superficies began to be amortized in November, 2014. In accordance with the contract, except for those that Taipei City Government agrees not to implement, Fubon Life Insurance and its subsidiaries must finish removing and undergrounding water pumping stations and gas pressure regulator stations within the area before acquiring building use permit. The budget for engineering is limited to \$110,000. As of September 30, 2017, the engineering expense of \$107,251 was recognized.

2) The unrecognized new construction contract amount of investment and owner-occupied properties and the contract amount of purchased investment property of Fubon Life Insurance and its subsidiaries are as follows:

	September 30, 2017	December 31, 2016	September 30, 2016
New construction	\$ 1,798,717	1,348,439	1,437,894
Purchase of investment property	1,300,000	-	-
Total	<u>\$ 3,098,717</u>	<u>1,348,439</u>	<u>1,437,894</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- (iii) The unfunded commitments (ceiling) of Fubon Life Insurance and its subsidiaries' private equity agreements were as follows (in thousands):

	September 30, 2017	December 31, 2016	September 30, 2016
USD	<u>\$ 1,500,782</u>	<u>1,837,940</u>	<u>1,815,467</u>
EUR	<u>\$ 244,818</u>	<u>223,488</u>	<u>223,815</u>

Note: The unfunded commitments does not include the commitments which have been traded but not settled.

- (d) Fubon Insurance and its subsidiaries

- (i) Fubon Insurance had several insurance disputes and was requested to pay indemnities amounting to approximately \$467,995, of which approximately \$386,282 was reinsured. The difference not covered by reinsurance related to these claims had been accrued. These cases were still pending with the district court and had not been resolved as of September 30, 2017.
- (ii) The unfunded commitments (ceiling) of Fubon Insurance and its subsidiaries' private equity agreements were as follows (in thousands):

	September 30, 2017	December 31, 2016	September 30, 2016
USD	<u>\$ 1,131</u>	<u>888</u>	<u>705</u>
EUR	<u>\$ 531</u>	<u>538</u>	<u>518</u>

Note: The unfunded commitments does not include the commitments which have been traded but not settled.

- (e) Fubon Securities and its subsidiaries

There were several disputes that former brokers have had with their clients due to securities brokerage transactions. Taiwan High Court has remanded the case and rejected the appeal of Mr. Chou. Mr. Chou disagreed with the court decision and appealed to the Taiwan Supreme Court. As of September 30, 2017, the case is still in progress. Based on the adjudication, the balances of indemnificatory loss payable, resulting from the litigation with customers for stock business were as follows:

	September 30, 2017	December 31, 2016	September 30, 2016
Indemnificatory loss payable	<u>\$ 11,526</u>	<u>11,526</u>	<u>11,526</u>

For the nine months ended September 30, 2017 and 2016, Fubon Securities recognized indemnification loss of \$0 in both periods.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(f) Fubon Bank (Hong Kong) and its subsidiaries

Fubon Bank (Hong Kong) lost the legal case that was filed against it in 2016, the related compensation and court expense were estimated at HKD100,000 thousand in total, which had already been recognized in 2015. However, both the plaintiff and the bank were not satisfied with the verdict; therefore, they both appealed to the court. Based on legal opinions, The board of directors of Fubon Bank (Hong Kong) believed that no further compensation will incur in the future. Therefore, no provision was recognized as of for the nine months ended September 30, 2017 and 2016.

(10) Significant loss of damage:None

(11) Significant subsequent events

- (a) In order to increase the capital adequacy ratio of Fubon Bank (Hong Kong), the board of directors of the Company has approved the subscription of the non-cumulative subordinated securities issued by Fubon Bank (Hong Kong) on November 28, 2017. The amount will not exceed USD193 million (equivalent to HKD1.5 billion). The issuance of securities has yet to be approved by the authorities of Hong Kong.
- (b) In order to invest, repay the liabilities and improve working capital, as well as capital and financial structure, the board of directors of the Company has approved the capital increase for cash on November 28, 2017. The Company will issue 666,660 thousand Series B Preferred Shares, at a par value of \$10 per share, with the provisional issuance price of \$60. The transaction has yet to be approved by the authorities.
- (c) In order to adjust the Company's investment structure, the board of directors of the Company has approved the acquisition of Xiamen Bank's common shares held by Fubon Bank (Hong Kong). The acquisition price of equity will be the latest net book value of Xiamen Bank disclosed in the independent auditors' review report of Fubon Bank (Hong Kong) before the settlement date. The transaction has yet to be approved by the authorities.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(12) Other**(a) Reclassification**

On January 1, 2012, Taipei Fubon Bank reclassified its financial assets. The fair values at the reclassification date were as follows:

	Before Reclassification	After Reclassification
Available-for-sale financial assets	\$ 12,052,604	-
Held-to-maturity financial assets	-	12,052,604
	\$ 12,052,604	12,052,604

The effective interest rates for the available-for-sale financial assets that have been reclassified to held-to-maturity financial assets ranged from 0.52% to 9.95%. The estimated recoverable cash flows amounted to \$13,966,953.

The carrying amounts and fair values of the reclassified financial assets (excluding those that had been derecognized) were as follows:

	September 30, 2017	December 31, 2016	September 30, 2016
<u>Held-to-maturity financial assets</u>			
Carrying amounts	\$ 433,613	554,884	786,078
Fair value	435,707	554,411	787,651

The gains or losses recorded for the reclassified financial assets (excluding those that had been derecognized before September 30, 2017 and 2016) for the nine months ended September 30, 2017 and 2016, and the pro forma adjustments recognized in other equity assuming no reclassifications had been made were as follows:

	For the nine months ended September 30	
	2017	2016
<u>Held-to-maturity financial assets</u>		
Gains recognized	\$ 6,766	15,192
Pro forma adjustments recognized in other equity	415	18,220

(b) Operation of Taiwan Sport Lottery

Taiwan Sport Lottery was established to operate a sport lottery business entrusted by Taipei Fubon Bank. Ministry of Finance assigned Fubon Taipei Bank to handle the issuance of sport lottery operations. In accordance with the provisions, the right of sport lottery operations was expired on December 31, 2013. Taiwan Sport Lottery (hold by CTBC Bank) is the new issuer after January 1, 2014. On March 17, 2017, the board of directors has approved not to liquidate Taiwan Sport Lottery and to maintain its basic operations.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(c) Business or trading behaviors within subsidiaries:

(i) Business or trading behaviors:

Please refer to note 7 for related-party transactions.

(ii) Integrate business activities:

Subsidiaries operating in cross-selling, under the Company, included Taipei Fubon Bank Co. Ltd., Fubon Insurance Co. Ltd., Fubon Life Insurance Co. Ltd., Fubon Securities Co. Ltd., Fubon Futures Co. Ltd., Fu Sheng General Insurance Agent Co. Ltd. and Fu Sheng Life Insurance Agent Co. Ltd. The cooperation among the subsidiaries, from planning their products and advocating different channels to training their personnel on cross-selling, makes their relationship much closer and brings multi-business benefits.

(iii) Cross utilization of information:

In accordance with Financial Holding Company Act, Marketing Collaboration Agreement with Financial Holdings Company and its subsidiaries, and the self-discipline standard for financial holding company and its subsidiaries, the Company and its subsidiaries which joined the cross-selling business signed the “Agreement of Privacy Exchange” to keep the customers' data confidential or to limit the use of the data. In addition, they also announced the “Jointly Privacy Statement” and disclosed the statement in each subsidiary's website and the Company's website, as well as facilitate customers to online searching and browsing.

(iv) Locations and business utilities:

The Company has been approved to conduct integrate business activities in “operation place” by the authorities. Thus, the customers can directly handle their relevant businesses in banking, securities and futures operation places.

(v) Allocation on revenues, costs, expenses, profits and losses:

Allocation of Revenue, Cost and Expense is calculated based on the proportion of actual sales among subsidiaries. The estimated amount was as follows:

	For the nine months ended September 30, 2017
Fubon Insurance	\$ 960,166
Taipei Fubon Bank	62,317
Fubon Life Insurance	167,738
Fubon Securities	3,405

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(d) Financial information classified by business type:

For the nine months ended September 30, 2017

Units: In thousands of TWD

Item	Banking	Insurance	Securities	Others	Consolidation
Net interest revenue	20,760,228	62,652,130	615,749	(539,608)	83,488,499
Net non-interest revenue	16,861,884	214,231,231	5,263,893	(1,729,741)	234,627,267
Net revenue	37,622,112	276,883,361	5,879,642	(2,269,349)	318,115,766
Bad debt expenses and provision for insurance reserve	(1,297,215)	(310,021)	(956)	(20,113)	(1,628,305)
Net change in provisions for insurance liability	-	(228,148,451)	-	209,680	(227,938,771)
Operating expenses	(18,244,879)	(19,474,943)	(3,952,543)	887,442	(40,784,923)
Income from continuing operations before income tax	18,080,018	28,949,946	1,926,143	(1,192,340)	47,763,767
Income tax expense	(2,262,717)	1,000,767	(214,417)	(2,099,398)	(3,575,765)
Net income	15,817,301	29,950,713	1,711,726	(3,291,738)	44,188,002

For the nine months ended September 30, 2016

Units: In thousands of TWD

Item	Banking	Insurance	Securities	Others	Consolidation
Net interest revenue	20,941,479	57,648,655	530,113	(636,918)	78,483,329
Net non-interest revenue	16,813,294	240,737,725	4,879,743	(1,022,778)	261,407,984
Net revenue	37,754,773	298,386,380	5,409,856	(1,659,696)	339,891,313
Bad debt expenses and provision for insurance reserve	(1,593,763)	(210,755)	(59)	(9,993)	(1,814,570)
Net change in provisions for insurance liability	-	(251,159,709)	-	272,070	(250,887,639)
Operating expenses	(18,314,563)	(20,796,750)	(3,716,344)	823,201	(42,004,456)
Income from continuing operations before income tax	17,846,447	26,219,166	1,693,453	(574,418)	45,184,648
Income tax expense	(2,623,998)	(501,757)	(71,465)	(1,489,780)	(4,687,000)
Net income	15,222,449	25,717,409	1,621,988	(2,064,198)	40,497,648

(Continued)

e) Financial statements of Fubon Financial Holding Co., Ltd.

September 30, 2017 and 2016 reviewed only, not audited in accordance with the generally accepted auditing standards

FUBON FINANCIAL HOLDING CO., LTD.

Balance Sheets

September 30, 2017, December 31 and September 30, 2016

(Expressed in thousands of New Taiwan Dollars)

Assets	September 30, 2017		December 31, 2016		September 30, 2016			September 30, 2017		December 31, 2016		September 30, 2016	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
Cash and cash equivalents	\$ 216,908	-	557,252	-	11,805,337	2	Commercial paper issued, net	\$ 12,545,380	2	-	-	-	-
Securities purchased under resell agreements	159,872	-	2,046,975	-	5,597,830	1	Payables	492,922	-	977,393	-	649,565	-
Receivables, net	1,112	-	76	-	3,052	-	Current tax liabilities	10,750,146	2	9,115,086	2	11,502,997	2
Current tax assets	8,140,275	1	7,185,770	1	7,767,163	1	Bonds payable	54,000,000	10	63,800,000	13	69,800,000	13
Investments accounted for using equity method, net	543,671,950	99	493,292,372	99	521,087,592	95	Deferred tax liabilities	2,941,712	1	2,267,573	-	2,079,736	-
Other financial assets, net	11,597	-	11,597	-	11,597	-	Other liabilities	321,795	-	487,255	-	488,072	-
Property and equipment, net	21,695	-	23,273	-	24,650	-	Total liabilities	<u>81,051,955</u>	<u>15</u>	<u>76,647,307</u>	<u>15</u>	<u>84,520,370</u>	<u>15</u>
Intangible assets, net	6,655	-	9,729	-	11,082	-	Equity:						
Deferred tax assets	2,979	-	2,500	-	34,049	-	Share capital:						
Other assets, net	274,442	-	337,424	-	3,501,433	1	Common stock	102,336,040	18	102,336,040	20	102,336,040	19
							Preferred stock	6,000,000	1	6,000,000	1	6,000,000	1
							Total share capital	<u>108,336,040</u>	<u>19</u>	<u>108,336,040</u>	<u>21</u>	<u>108,336,040</u>	<u>20</u>
							Capital surplus	<u>103,638,570</u>	<u>19</u>	<u>102,713,132</u>	<u>20</u>	<u>105,170,427</u>	<u>19</u>
							Retained earnings:						
							Legal reserve	52,403,066	9	47,560,961	10	47,560,961	9
							Special reserve	53,069,867	10	50,310,722	10	50,310,722	9
							Undistributed earnings	<u>155,871,422</u>	<u>28</u>	<u>140,672,624</u>	<u>28</u>	<u>133,573,751</u>	<u>24</u>
							Total retained earnings	<u>261,344,355</u>	<u>47</u>	<u>238,544,307</u>	<u>48</u>	<u>231,445,434</u>	<u>42</u>
							Other equity interests	<u>(1,863,435)</u>	<u>-</u>	<u>(22,773,818)</u>	<u>(4)</u>	<u>20,371,514</u>	<u>4</u>
							Total equity	<u>471,455,530</u>	<u>85</u>	<u>426,819,661</u>	<u>85</u>	<u>465,323,415</u>	<u>85</u>
Total assets	<u>\$ 552,507,485</u>	<u>100</u>	<u>503,466,968</u>	<u>100</u>	<u>549,843,785</u>	<u>100</u>	Total liabilities and equity	<u>\$ 552,507,485</u>	<u>100</u>	<u>503,466,968</u>	<u>100</u>	<u>549,843,785</u>	<u>100</u>

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

FUBON FINANCIAL HOLDING CO., LTD.

Statement of Comprehensive Income

For the three months and nine months ended September 30, 2017 and 2016

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

	For the three months ended September 30				For the nine months ended September 30			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
Revenue :								
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	\$ 26,115,905	100	17,343,851	100	47,479,332	100	43,429,577	100
Other revenues	4,638	-	42,170	-	15,462	-	78,530	-
Net revenue	<u>26,120,543</u>	<u>100</u>	<u>17,386,021</u>	<u>100</u>	<u>47,494,794</u>	<u>100</u>	<u>43,508,107</u>	<u>100</u>
Expense:								
Operating expenses	201,582	1	191,621	1	532,822	1	554,320	1
Other expenses and losses	225,624	1	482,272	3	686,351	2	1,185,710	3
Total expenses	<u>427,206</u>	<u>2</u>	<u>673,893</u>	<u>4</u>	<u>1,219,173</u>	<u>3</u>	<u>1,740,030</u>	<u>4</u>
Net income before tax from continuing operations	25,693,337	98	16,712,128	96	46,275,621	97	41,768,077	96
Income tax expense	(117,821)	-	(89,394)	(1)	(2,010,241)	(4)	(1,434,547)	(3)
Net income	<u>\$ 25,575,516</u>	<u>98</u>	<u>16,622,734</u>	<u>95</u>	<u>44,265,380</u>	<u>93</u>	<u>40,333,530</u>	<u>93</u>
Other comprehensive income:								
Items not to be reclassified to profit or loss								
Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method— items not to be reclassified to profit or loss	\$ 32,434	-	7,340	-	976,536	2	150,375	-
Income tax— items not to be reclassified to profit or loss	-	-	-	-	-	-	-	-
Subtotal of items not to be reclassified to profit or loss	<u>32,434</u>	<u>-</u>	<u>7,340</u>	<u>-</u>	<u>976,536</u>	<u>2</u>	<u>150,375</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss								
Exchange differences on translation of foreign operations	135,776	1	(1,385,481)	(8)	(2,962,421)	(6)	(2,806,136)	(6)
Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method— items that may be reclassified subsequently to profit or loss	(1,365,432)	(5)	12,303,277	71	22,922,472	48	43,781,229	100
Income tax— items that may be reclassified subsequently to profit or loss	-	-	-	-	-	-	-	-
Subtotal of items that may be reclassified subsequently to profit or loss	<u>(1,229,656)</u>	<u>(4)</u>	<u>10,917,796</u>	<u>63</u>	<u>19,960,051</u>	<u>42</u>	<u>40,975,093</u>	<u>94</u>
Other comprehensive income, net of income tax	<u>(1,197,222)</u>	<u>(4)</u>	<u>10,925,136</u>	<u>63</u>	<u>20,936,587</u>	<u>44</u>	<u>41,125,468</u>	<u>94</u>
Total comprehensive income	<u>\$ 24,378,294</u>	<u>94</u>	<u>27,547,870</u>	<u>158</u>	<u>65,201,967</u>	<u>137</u>	<u>81,458,998</u>	<u>187</u>
Basic earnings per share (in New Taiwan Dollars)	<u>\$ 2.50</u>		<u>1.62</u>		<u>4.23</u>		<u>3.94</u>	

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

FUBON FINANCIAL HOLDING CO., LTD.

Statement of Changes in Equity

For the nine months ended September 30, 2017 and 2016

(Expressed in thousands of New Taiwan Dollars)

	Share capital		Capital surplus	Retained earnings				Other equity					Total equity	
	Common stock	Preferred stock		Total	Legal reserve	Special reserve	Undistributed earnings	Total	Exchange differences on translation of foreign operations	Unrealized gains (losses) on available-for-sale financial instruments	Effective portion of unrealized gains (losses) on cash flow hedges	Revaluation gains		Total
Balance at January 1, 2016	\$ 102,336,040	-	102,336,040	74,460,529	41,201,702	29,121,807	141,279,789	211,603,298	3,698,512	(26,082,512)	549,439	1,056,421	(20,778,140)	367,621,727
Net income	-	-	-	-	-	-	40,333,530	40,333,530	-	-	-	-	-	40,333,530
Other comprehensive income	-	-	-	-	-	-	(24,186)	(24,186)	(11,084,874)	51,872,455	187,512	174,561	41,149,654	41,125,468
Total comprehensive income	-	-	-	-	-	-	40,309,344	40,309,344	(11,084,874)	51,872,455	187,512	174,561	41,149,654	81,458,998
Legal reserve	-	-	-	-	6,359,259	-	(6,359,259)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	21,188,915	(21,188,915)	-	-	-	-	-	-	-
Cash dividends of common stock	-	-	-	-	-	-	(20,467,208)	(20,467,208)	-	-	-	-	-	(20,467,208)
Changes in associates and joint ventures accounted for using equity method	-	-	-	756,076	-	-	-	-	-	-	-	-	-	756,076
Issuance of preferred stock	-	6,000,000	6,000,000	29,953,645	-	-	-	-	-	-	-	-	-	35,953,645
Share-based payment transaction	-	-	-	177	-	-	-	-	-	-	-	-	-	177
Balance at September 30, 2016	\$ 102,336,040	6,000,000	108,336,040	105,170,427	47,560,961	50,310,722	133,573,751	231,445,434	(7,386,362)	25,789,943	736,951	1,230,982	20,371,514	465,323,415
Balance at January 1, 2017	\$ 102,336,040	6,000,000	108,336,040	102,713,132	47,560,961	50,310,722	140,672,624	238,544,307	(7,625,985)	(16,096,768)	(402,102)	1,351,037	(22,773,818)	426,819,661
Net income	-	-	-	-	-	-	44,265,380	44,265,380	-	-	-	-	-	44,265,380
Other comprehensive income	-	-	-	-	-	-	26,204	26,204	(3,142,534)	22,826,412	276,173	950,332	20,910,383	20,936,587
Total comprehensive income	-	-	-	-	-	-	44,291,584	44,291,584	(3,142,534)	22,826,412	276,173	950,332	20,910,383	65,201,967
Legal reserve	-	-	-	-	4,842,105	-	(4,842,105)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	2,759,145	(2,759,145)	-	-	-	-	-	-	-
Cash dividends of common stock	-	-	-	-	-	-	(20,467,208)	(20,467,208)	-	-	-	-	-	(20,467,208)
Cash dividends of preferred stock	-	-	-	-	-	-	(1,024,328)	(1,024,328)	-	-	-	-	-	(1,024,328)
Changes in associates and joint ventures accounted for using equity method	-	-	-	925,438	-	-	-	-	-	-	-	-	-	925,438
Balance at September 30, 2017	\$ 102,336,040	6,000,000	108,336,040	103,638,570	52,403,066	53,069,867	155,871,422	261,344,355	(10,768,519)	6,729,644	(125,929)	2,301,369	(1,863,435)	471,455,530

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

FUBON FINANCIAL HOLDING CO., LTD.

Statement of Cash Flows

For the nine months ended September 30, 2017 and 2016

(Expressed in thousands of New Taiwan Dollars)

	For the nine months ended September 30	
	2017	2016
Cash flows from operating activities:		
Income before income tax	\$ 46,275,621	41,768,077
Adjustments :		
Income of non-cash activities		
Depreciation expenses	9,417	9,369
Amortization expenses	10,826	14,818
Interest expense	676,831	862,454
Interest income	(14,343)	(66,859)
Share-based payment awards	-	177
Share of profit of subsidiaries, associates and joint ventures accounted for using equity methods	(47,479,332)	(43,429,577)
Subtotal of income of non-cash activities	<u>(46,796,601)</u>	<u>(42,609,618)</u>
Change in operating assets and liabilities :		
Change in operating assets :		
Increase in receivables and current tax assets	(954,505)	(4,015,914)
Decrease in other assets	57,168	42,559
Subtotal of change in operating assets	<u>(897,337)</u>	<u>(3,973,355)</u>
Change in operating liabilities :		
Increase in payables and current tax liabilities	831,855	5,410,563
Increase (decrease) in other liabilities	(165,460)	3,566
Subtotal of change in operating liabilities	<u>666,395</u>	<u>5,414,129</u>
Subtotal of change in operating assets and liabilities	<u>(230,942)</u>	<u>1,440,774</u>
Subtotal of all adjustments	<u>(47,027,543)</u>	<u>(41,168,844)</u>
Cash provided by (used in) operating activities	(751,922)	599,233
Interest received	13,402	64,430
Dividends received	18,961,289	7,380,071
Interest paid	(1,038,652)	(1,024,206)
Income tax paid	(655,631)	(1,701,028)
Net cash provided by operating activities	<u>16,528,486</u>	<u>5,318,500</u>
Cash flows from investing activities :		
Prepayments for investment	-	(3,186,655)
Acquisition of property and equipment	(7,979)	(3,323)
Acquisition of intangible assets	(1,798)	(3,339)
Net cash used in investing activities	<u>(9,777)</u>	<u>(3,193,317)</u>
Cash flows from financing activities:		
Increase (decrease) in commercial papers issued	12,545,380	(749,784)
Repayments of bonds	(9,800,000)	-
Cash dividends paid	(21,491,536)	(20,467,208)
Cash capital increase	-	35,953,645
Net cash provided by (used in) financing activities	<u>(18,746,156)</u>	<u>14,736,653</u>
Net increase (decrease) in cash and cash equivalents	(2,227,447)	16,861,836
Cash and cash equivalents at beginning of period	<u>2,604,227</u>	<u>541,331</u>
Cash and cash equivalents at end of period	<u>\$ 376,780</u>	<u>17,403,167</u>
Components of cash and cash equivalents:		
Cash and cash equivalents recognized in balance sheet	\$ 216,908	11,805,337
Securities purchased under resell agreements qualifying for cash and cash equivalent under the definition of IAS 7	<u>159,872</u>	<u>5,597,830</u>
Cash and cash equivalents at end of period	<u>\$ 376,780</u>	<u>17,403,167</u>

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(f) Subsidiaries' balance sheets and statements of comprehensive income

(i) Balance sheets

	Taipei Fubon Bank	
	September 30, 2017	September 30, 2016
Cash and cash equivalents	\$ 39,807,844	38,995,473
Due from the central bank and call loans to banks	165,170,673	223,119,833
Financial assets measured at fair value through profit or loss	86,313,785	91,617,157
Available-for-sale financial assets, net	170,626,507	96,136,128
Derivative financial assets for hedging	804,933	478,304
Securities purchased under resell agreements	19,981,169	19,925,480
Receivables, net	72,906,544	58,179,554
Current income tax assets	538,817	483,228
Discounts and loans, net	1,139,632,962	1,115,303,369
Held-to-maturity financial assets	395,356,652	309,980,437
Investments accounted for using equity method	21,325,921	21,837,596
Other financial assets, net	88,586,410	43,083,232
Property and equipment, net	12,709,440	12,734,129
Investment property	2,864,900	2,746,700
Intangible assets, net	1,571,694	1,515,828
Deferred tax assets	416,449	395,444
Other assets	7,173,898	9,245,133
Total assets	\$ 2,225,788,598	2,045,777,025

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	Taipei Fubon Bank	
	September 30,	September 30,
	2017	2016
Deposits to the central bank and banks	\$ 82,820,910	47,675,397
Financial liabilities measured at fair value through profit or loss	29,741,980	44,744,292
Derivative financial liabilities for hedging	2,085,807	913,652
Securities sold under repurchase agreements	64,413,009	37,470,508
Payables	32,283,645	26,756,040
Current tax liabilities	1,130,409	2,098,817
Deposits	1,733,405,181	1,619,821,596
Bank Debentures	72,736,775	63,052,944
Other financial liabilities	18,407,695	21,343,207
Provisions	2,283,094	2,437,890
Deferred tax liabilities	1,019,148	897,811
Other liabilities	8,164,099	5,028,198
Total liabilities	<u>2,048,491,752</u>	<u>1,872,240,352</u>
Common stock	106,518,023	106,518,023
Capital surplus	14,800,927	14,800,927
Retained earnings	56,057,417	50,678,448
Other equity	(79,521)	1,539,275
Total equity	<u>177,296,846</u>	<u>173,536,673</u>
Total liabilities and equity	<u>\$ 2,225,788,598</u>	<u>2,045,777,025</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	Fubon Insurance	
	September 30,	September 30,
	2017	2016
Cash and cash equivalents	\$ 7,921,177	8,613,305
Receivable	4,208,353	4,391,712
Financial assets measured at fair value through profit or loss	15,228	188,320
Available-for-sale financial assets	38,303,389	38,380,695
Financial assets carried at cost	921,366	159,450
Investments accounted for using equity method, net	1,017,481	1,314,013
Debt investments without active market	5,553,974	3,768,044
Investment property	10,618,221	9,862,903
Reinsurance contract assets	18,356,364	20,352,354
Property and equipment	3,038,130	3,625,801
Intangible assets	84,552	114,610
Deferred tax assets	689,765	635,719
Other assets	909,853	797,726
Total assets	\$ 91,637,853	92,204,652
Payables	\$ 9,724,947	8,891,077
Current tax liabilities	67,457	357,771
Financial liabilities measured at fair value through profit or loss	64,611	9,442
Insurance liabilities	47,760,791	48,940,503
Deferred tax liabilities	1,282,724	1,160,808
Other liabilities	738,262	727,751
Provisions	1,563,349	1,471,445
Total liabilities	61,202,141	61,558,797
Common stock	3,178,396	3,178,396
Capital surplus	5,934,408	5,934,408
Retained earnings	17,429,041	16,157,483
Other equity	3,893,867	5,375,568
Total equity	30,435,712	30,645,855
Total liabilities and equity	\$ 91,637,853	92,204,652

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	Fubon Life Insurance	
	September 30,	September 30,
	2017	2016
Cash and cash equivalents	\$ 137,787,702	195,407,142
Receivables	29,451,082	30,524,166
Current tax assets	1,313,926	2,498,924
Asset classified as held for sale, net	4,690,034	-
Financial assets measured at fair value through profit or loss	1,367,493	12,848,528
Available-for-sale financial assets, net	1,307,406,985	1,302,020,381
Derivative financial assets for hedging	464,042	914,638
Financial assets carried at cost, net	1,145,075	1,162,029
Debt investments without active market, net	1,444,732,832	1,122,555,249
Held-to-maturity financial assets	16,341,845	23,365,428
Investments accounted for using equity method, net	28,718,258	29,271,094
Other financial assets, net	29,512,199	32,100,478
Investment property	134,829,486	139,004,065
Loans	207,064,014	179,668,774
Reinsurance contract assets	1,382,053	854,907
Property and equipment	19,570,645	18,951,681
Intangible assets	154,879	168,380
Deferred tax assets	11,207,761	4,419,603
Other assets	45,917,675	44,968,144
Separate account-insurance instrument assets	152,261,081	139,391,165
Total assets	\$ 3,575,319,067	3,280,094,776
Payables	\$ 22,968,847	24,183,518
Current tax liabilities	6,490,952	5,394,548
Financial liabilities measured at fair value through profit or loss	4,039,087	2,167,700
Derivative financial liabilities for hedging	610,056	25,329
Bonds payable	35,000,000	-
Insurance liabilities	3,073,099,938	2,792,729,806
Reserve for insurance contracts with financial product futures	3,744,298	49,575,200
Foreign exchange valuation reserve	1,718,632	1,829,278
Provisions	7,037,634	6,535,501
Deferred tax liabilities	4,584,295	5,292,016
Other liabilities	5,025,636	3,808,022
Separate account-insurance instrument liabilities	152,261,081	139,391,165
Total liabilities	3,316,580,456	3,030,932,083
Common stock	82,969,690	69,432,750
Capital surplus	29,424,683	28,410,681
Retained earnings	137,081,453	124,005,987
Other equity	9,262,785	27,313,275
Total equity	258,738,611	249,162,693
Total liabilities and equity	\$ 3,575,319,067	3,280,094,776

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	Fubon Securities	
	September 30,	September 30,
	2017	2016
Current assets	\$ 86,549,915	69,431,519
Available-for-sale financial assets – non-current	38,417	38,416
Financial assets carried at cost – non-current	428,655	438,118
Investments accounted for using equity method	7,118,197	5,832,148
Property and equipment	1,930,497	1,654,295
Investment property	855,560	1,075,010
Intangible assets	106,211	118,854
Deferred tax assets	193,925	148,022
Other non-current assets	<u>1,355,776</u>	<u>2,014,078</u>
Total assets	<u>\$ 98,577,153</u>	<u>80,750,460</u>
Current liabilities	\$ 64,269,521	46,544,482
Provisions – non-current	881,858	923,585
Deferred tax liabilities	92,082	72,653
Other non-current liabilities	<u>5,584</u>	<u>9,736</u>
Total liabilities	<u>65,249,045</u>	<u>47,550,456</u>
Common stock	16,643,550	16,643,550
Capital surplus	-	7,335
Retained earnings	15,503,882	14,980,537
Other equity	<u>1,180,676</u>	<u>1,568,582</u>
Total equity	<u>33,328,108</u>	<u>33,200,004</u>
Total liabilities and equity	<u>\$ 98,577,153</u>	<u>80,750,460</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	Units: In thousands of CNY	
	Fubon Bank (China)	
	September 30,	September 30,
	2017	2016
Cash and cash equivalents	\$ 556,842	640,875
Due from the central bank and call loans to banks	8,072,907	7,237,646
Financial assets measured at fair value through profit or loss	935,598	456,214
Available-for-sale financial assets, net	11,308,442	8,098,349
Securities purchased under resell agreements	1,458,530	-
Receivables, net	2,516,107	1,390,847
Current tax assets	14,681	-
Discounts and loans, net	39,831,123	42,835,826
Held-to-maturity financial assets, net	7,822,841	8,594,143
Other financial assets	214,118	786,849
Property and equipment, net	1,262,633	1,285,822
Intangible assets, net	34,620	25,491
Deferred tax assets	104,204	121,947
Other assets, net	67,910	56,863
Total assets	\$ 74,200,556	71,530,872
Deposits from the central bank and banks	\$ 8,335,335	5,942,928
Due to the central bank and banks	1,128,273	1,469,116
Financial liabilities measured at fair value through profit or loss	779,846	271,494
Securities sold under repurchase agreements	5,700,184	5,939,180
Payables	2,424,191	1,508,508
Current tax liabilities	-	16,213
Deposits	50,427,132	51,040,313
Other financial liabilities	-	50,863
Deferred tax liabilities	143	14,924
Other liabilities	6,755	10,171
Total liabilities	68,801,859	66,263,710
Common stock	2,100,000	2,100,000
Capital surplus	93,176	93,176
Retained earnings	3,251,551	3,029,215
Other equity	(46,030)	44,771
Total equity	5,398,697	5,267,162
Total liabilities and equity	\$ 74,200,556	71,530,872

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(ii) Statements of comprehensive income

	Taipei Fubon Bank	
	For the nine months ended	
	September 30	
	2017	2016
Interest revenue	\$ 24,925,022	22,539,267
Interest expense	(10,609,717)	(9,045,543)
Net interest revenue	14,315,305	13,493,724
Net non-interest revenues	15,419,415	14,773,789
Net revenue	29,734,720	28,267,513
Bad debt expenses and guarantee liability provisions	(1,044,657)	(682,879)
Operating expenses	(13,245,754)	(13,072,190)
Income before income tax	15,444,309	14,512,444
Income tax expense	(1,758,637)	(1,872,841)
Net income	13,685,672	12,639,603
Other comprehensive income (net of income tax)	(979,693)	(1,165,500)
Total comprehensive income	12,705,979	11,474,103
Earnings per share (In New Taiwan Dollars)	1.28	1.19
	Fubon Insurance	
	For the nine months ended	
	September 30	
	2017	2016
Operating income	\$ 23,852,728	21,622,561
Operating cost	(15,265,274)	(13,961,087)
Operating expenses	(5,069,211)	(4,597,314)
Net operating revenue	3,518,243	3,064,160
Non-operating income and expense	(151,555)	(121,898)
Income before income tax	3,366,688	2,942,262
Income tax expense	(464,696)	(474,914)
Net income	2,901,992	2,467,348
Other comprehensive income (net of income tax)	95,416	1,854,013
Total comprehensive income	2,997,408	4,321,361
Basic earnings per share (In New Taiwan Dollars)	9.13	7.76

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

	Fubon Life Insurance	
	For the nine months ended	
	September 30	
	2017	2016
Operating income	\$ 481,614,691	464,575,908
Operating cost	(444,565,889)	(428,971,994)
Operating expenses	(11,519,152)	(12,376,105)
Operating revenue	25,529,650	23,227,809
Non-operating income and expense	179,605	400,115
Income before income tax	25,709,255	23,627,924
Income tax revenue (expense)	1,557,956	(170,196)
Net income	27,267,211	23,457,728
Other comprehensive income (net of income tax)	22,185,535	42,167,095
Total comprehensive income	49,452,746	65,624,823
Basic earnings per share (In New Taiwan Dollars)	3.29	2.83
	Fubon Securities	
	For the nine months ended	
	September 30	
	2017	2016
Revenue	\$ 5,100,300	4,316,805
Expenses	(3,926,819)	(3,471,721)
Net operating revenue	1,183,481	845,084
Non-operating income and expense	676,035	790,545
Income before income tax	1,859,516	1,635,629
Income tax expense	(142,326)	(13,642)
Net income	1,717,190	1,621,987
Other comprehensive income (net of income tax)	33,379	819,563
Total comprehensive income	1,750,569	2,441,550
Earnings per share (In New Taiwan Dollars)	1.03	0.97

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Units: In thousands of CNY

		Fubon Bank (China)	
		For the nine months ended	
		September 30	
		2017	2016
Interest revenue	\$	1,938,045	2,002,954
Interest expense		(1,295,527)	(1,235,516)
Net interest revenue		642,518	767,438
Net non-interest revenues		1,335	119,958
Net revenue		643,853	887,396
Bad debt expenses and guarantee liability provisions		-	(31,560)
Operating expenses		(463,349)	(428,278)
Income before income tax		180,504	427,558
Income tax expense		(34,830)	(92,041)
Net income		145,674	335,517
Other comprehensive income (net of income tax)		(32,821)	52,310
Total comprehensive income		112,853	387,827

(g) Profitability of the Company and bank, insurance and security subsidiaries

September 30, 2017

Unit: %

Item		Consolidation	The Company	Taipei Fubon Bank	Fubon Bank (Hong Kong)	Fubon Bank (China)	Fubon Life Insurance	Fubon Insurance	Fubon Securities
Return on total assets	Before income tax	0.97 %	11.69 %	0.95 %	0.82 %	0.33 %	0.99 %	4.90 %	2.71 %
	After income tax	0.90 %	11.18 %	0.84 %	0.69 %	0.27 %	1.05 %	4.23 %	2.50 %
Return on equity	Before income tax	14.17 %	13.74 %	11.70 %	8.11 %	4.51 %	14.52 %	14.97 %	7.52 %
	After income tax	13.11 %	13.14 %	10.37 %	6.87 %	3.64 %	15.40 %	12.91 %	6.95 %
Profit margin		13.89 %	94.57 %	46.03 %	37.59 %	22.63 %	5.66 %	12.17 %	33.60 %

September 30, 2016

Unit: %

Item		Consolidation	The Company	Taipei Fubon Bank	Fubon Bank (Hong Kong)	Fubon Bank (China)	Fubon Life Insurance	Fubon Insurance	Fubon Securities
Return on total assets	Before income tax	0.99 %	11.16 %	0.95 %	0.80 %	0.78 %	1.00 %	4.48 %	2.89 %
	After income tax	0.88 %	10.78 %	0.82 %	0.69 %	0.61 %	0.99 %	3.76 %	2.87 %
Return on equity	Before income tax	14.18 %	13.37 %	11.41 %	7.99 %	11.24 %	14.59 %	13.23 %	6.73 %
	After income tax	12.71 %	12.91 %	9.94 %	6.91 %	8.82 %	14.48 %	11.09 %	6.68 %
Profit margin		11.91 %	95.30 %	44.71 %	32.99 %	37.81 %	5.05 %	11.41 %	37.57 %

Note 1: Return on total assets = Income before (after) income tax/Average total assets.

Note 2: Return on equity = Income before (after) income tax/Average net worth of equity.

Note 3: Profit margin = Income after income tax/Total operating revenues.

Note 4: Income before (after) income tax is the income in the for the nine months ended September 30, 2017 and 2016.

Note 5: The return on assets and return on equity are presented annualized ratios.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(13) Other disclosures

- (a) Related information of significant transactions:
- (i) Loans to others: None
- (ii) Endorsement and guarantees for others: None
- (iii) Marketable securities held as of September 30, 2017:

Units: In thousands of TWD / Thousands shares

Held company name	Held company name securities type and name	securities type and name with the securities issuer	Account	September 30, 2017				Remark
				No. of shares	Carrying amount	Shareholding ratio	Market price	
Fubon Futures Co. Ltd.	Fubon Hang Seng H-Share ETF	Fund managed under a subsidiary company's manager of the Company	Financial assets measured at fair value through profit or loss	1,223	24,558	-	24,558	Beneficiary certificates
"	Fubon FTSE Developed Europe ETF	"	"	838	17,355	-	17,355	"
"	Yuanta Daily U.S. Treasury 7-10 Year Bond Bear 1X ETF	-	"	1,000	19,970	-	19,970	"
"	Cathay Financial Holding Co., Ltd. Preferred Stock A.	-	"	7,172	443,230	0.86	443,230	Listed stock
"	Fubon R1	-	Available-for-sale financial assets	2,638	34,030	-	34,030	Beneficiary securities
"	Fubon R2	-	"	670	7,531	-	7,531	"
"	China Steel Corporation Preferred Stock A.	-	"	47	1,981	0.12	1,981	Listed stock
"	Taiwan Futures Exchange Co., Ltd.	Related parties in substance	Financial assets carried at cost	703	4,460	0.22	4,460	Unlisted Stock
Fubon Marketing	Allianz G1b1 Inv All Seasons Ret of Bd	-	Financial assets measured at fair value through profit or loss	785	12,123	-	12,123	Beneficiary certificates
"	Fubon China Investment Grade Bond Fund - CNY	Fund managed under a subsidiary company's manager of the Company	"	200	10,523	-	10,523	"
"	Fubon R1	-	"	1,391	17,944	-	17,944	Beneficiary securities
"	Fubon R2	-	"	1,380	15,511	-	15,511	"
"	Cathay R1	-	"	500	6,550	-	6,550	"
"	Cathay R2	-	"	950	12,502	-	12,502	"
Fu Sheng Life Insurance Agent	98 Central Government Bond 6	-	Available-for-sale financial assets	-	3,052	-	3,052	Government Bond
Fu Sheng General Insurance Agent	98 Central Government Bond 6	-	"	-	2,035	-	2,035	"
Fubon Asset Management	Eastspring Investments Well Pool Money Market Fund	-	Financial assets measured at fair value through profit or loss	6,664	90,026	-	90,026	Beneficiary certificates
"	Fubon Chi-Hsiang Money Market	Fund managed under Fubon Asset Management	"	8,636	134,579	-	134,579	"

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Held company name	Held company name securities type and name	securities type and name with the securities issuer	Account	September 30, 2017				Remark
				No. of shares	Carrying amount	Shareholding ratio	Market price	
Fubon Asset Management	Fubon Taiwan Technology ETF	Fund managed under Fubon Asset Management	Financial assets measured at fair value through profit or loss	36	1,796	-	1,796	Beneficiary certificates
"	Fubon Taiwan Financial ETF	"	"	75	2,838	-	2,838	"
"	Fubon Taiwan Eight Industries ETF	"	"	70	3,215	-	3,215	"
"	Fubon MSCI Taiwan ETF	"	"	67	3,235	-	3,235	"
"	Fubon SSE180 ETF	"	"	70	2,179	-	2,179	"
"	Taiwan FTSE TWSE Taiwan 50 EFT	"	"	16	780	-	780	"
"	Fubon SZSE 100 ETF	"	"	46	509	-	509	"
"	Fubon India ETF Umbrella Fund-Fubon NIFTY ETF	"	"	23	506	-	506	"
"	Fubon NASDAQ 100 ETF	"	"	23	565	-	565	"
"	Fubon TOPIX ETF	"	"	20	426	-	426	"
"	Fubon FTSE Developed Europe ETF	"	"	6	114	-	114	"
"	Fubon China Growth	"	Available-for-sale financial assets	2,062	13,711	-	13,711	"
"	Fubon Strategic High Income C	"	"	2,160	20,499	-	20,499	"
"	Fubon Strategic High Income A	"	"	812	10,149	-	10,149	"
"	Fubon China Money Market CNY	"	"	599	30,063	-	30,063	"
"	Fubon China High Yield Bd CNY – B	"	"	2,041	94,497	-	94,497	"
"	Fubon China Investment Grade Bd CNY – B	"	"	816	38,153	-	38,153	"
"	Fubon TOPIX ETF	"	"	1,150	24,507	-	24,507	"
"	Fubon India ETF Umbrella Fund-Fubon NIFTY ETF	"	"	500	11,205	-	11,205	"
"	Fubon NASDAQ 100 ETF	"	"	150	3,712	-	3,712	"
"	Fubon Hang Seng H-Share 2X Leveraged Index ETF	"	"	340	9,897	-	9,897	"
"	Fubon Global Investment Grade Bond B	"	"	1,023	9,810	-	9,810	"
"	Fubon Global REIT Fund	"	"	578	5,202	-	5,202	"
"	Fubon China New Balanced Income TWD – B	"	"	2,322	21,479	-	21,479	"
"	Fubon TWSE Corporate Governance 100 ETF	"	"	2,470	52,586	-	52,586	"
"	Fubon 1-3 Years US Treasury Bond ETF	"	"	165	6,661	-	6,661	"
"	Fubon 7-10 Years US Treasury Bond ETF	"	"	165	6,610	-	6,610	"

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Held company name	Held company name securities type and name	securities type and name with the securities issuer	Account	September 30, 2017				Remark
				No. of shares	Carrying amount	Shareholding ratio	Market price	
Fubon Asset Management	Fubon 20+Years US Treasury Bond ETF	Fund managed under Fubon Asset Management	Available-for-sale financial assets	165	6,654	-	6,654	Beneficiary certificates
"	Fubon Euro-Asia Silk Road Multi-Asset Fund	"	"	5,001	52,239	-	52,239	"
"	Fubon Hang Seng H-Share ETF	"	"	500	10,040	-	10,040	"
"	Fubon FTSE Developed Europe ETF	"	"	270	5,592	-	5,592	"
"	103 Central Government Development Bond 13	-	"	-	315,288	-	315,288	Government Bond
"	FundRich Securities Co., Ltd.	Related parties in substance	Financial assets carried at cost	2,018	26,540	3.36	26,540	Unlisted stock
Fubon AMC	Union Bank	-	Available-for-sale financial assets	702	6,277	0.03	6,277	Listed stock
Fubon Investment Service	Fubon Chi-Hsiang Money Market	Fund managed under a subsidiary company's manager of the Company	Financial assets measured at fair value through profit or loss	5,790	90,225	-	90,225	Beneficiary certificates
Fubon Securities Venture Capital	Applied Bio Code Corporation	-	Available-for-sale financial assets	438	14,870	0.93	14,870	Emerging stock
"	KGET	-	"	103	3,365	1.30	3,365	"
"	iBASE GAMING INC.	-	"	10	665	-	665	Listed stock in TPEX
"	HORNG SHIUE HOLDING Co., Ltd.	-	"	581	27,830	1.57	27,830	Listed stock
"	APEX Flight Academy	-	Financial assets carried at cost	1,875	30,000	7.01	30,000	Unlisted stock
"	Timing Pharmaceutical Co., Ltd.	-	"	1,300	41,590	1.51	41,590	"
"	PocketNet Technology Inc.	-	"	560	49,280	1.71	49,280	"
"	Fusheng Precision Co., Ltd.	-	"	600	73,500	0.51	73,500	"
Fubon Mintou Venture Capital Co., Ltd.	Yuanta De-Li Money Market Fund	-	Financial assets measured at fair value through profit or loss	2,472	40,019	-	40,019	Beneficiary certificates
"	FSITC Taiwan Money Market	-	"	3,293	50,026	-	50,026	"
"	Mega Diamond Money Market Fund	-	"	4,018	50,027	-	50,027	"
"	Capital Money Market Fund	-	"	3,122	50,025	-	50,025	"
Fubon Financial Holding Venture Capital Co., Ltd.	Fubon Chi-Hsiang Money Market Fund	Fund managed under a subsidiary company's manager of the Company	"	32,089	500,077	-	500,077	"
"	Mega Diamond Money Market Fund	-	"	40,162	500,088	-	500,088	"
"	Chunghwa chemical Synthesis & Biotech Co., Ltd.	-	Available-for-sale financial assets	3,000	65,700	3.87	65,700	Listed stock
"	Fubon Multimedia Technology Co., Ltd.	Related parties in substance	"	1,864	400,760	1.31	400,760	"
"	ACER Inc.	-	"	1,000	15,200	0.03	15,200	"

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Held company name	Held company name securities type and name	securities type and name with the securities issuer	Account	September 30, 2017				Remark
				No. of shares	Carrying amount	Shareholding ratio	Market price	
Fubon Financial Holding Venture Capital Co., Ltd.	Media Asia Group Holdings Ltd.	-	Available-for-sale financial assets	99,188	86,199	4.64	86,199	Hong Kong listed stock
"	ConforMIS, Inc.	-	"	100	10,668	0.23	10,668	US listed stock
"	H&Q AP Greater China Growth Fund	-	"	-	13,276	4.00	13,276	Private fund
"	Media Asia Group Holding Limited	-	"	-	129,465	-	129,465	Convertible Bond
"	An Shin Food Service Co., Ltd.	-	"	97	8,025	0.30	8,025	Listed stock in TPEX
"	KD Holding Corporation	-	"	470	77,526	0.71	77,526	"
"	SynCore Biotechnology Co.	-	"	2,695	72,089	3.86	72,089	"
"	One Production Co., Ltd.	Related party in substance	"	3,874	50,827	13.84	50,827	Emerging stock
"	JHL Biotech Inc.	-	"	2,269	128,707	1.19	128,707	"
"	Tanvex BioPharma' Inc.	-	"	1,290	120,744	0.67	120,744	"
"	Taiwan SyneuRx Corp.	-	"	495	32,164	0.48	32,164	"
"	Fubon Strategic High Income B	Fund managed under a subsidiary company's manager of the Company	"	4,197	42,067	-	42,067	Beneficiary certificates
"	Franklin Templeton Sino Am Global High Yield Bond Fund	-	"	9,458	76,795	-	76,795	"
"	TIPCO International Ltd.	-	Financial assets measured at cost	1	147,202	6.22	147,202	Unlisted stock
"	Jeoutai Technology Co., Ltd.	-	"	2,403	42,000	7.13	42,000	"
"	Century Development Corporation	Related party in substance	"	3,183	31,204	1.00	31,204	"
"	Yuan-tai Foreign Exchange Broker Co., Ltd.	-	"	240	4,800	2.00	4,800	"
"	Omnid Media Incorporation	-	"	7,675	-	10.21	-	"
"	Kuokuang Petrochemical Technology Co.	-	"	2,389	-	4.37	-	"
"	Phalanx Biotech Group	-	"	95	913	0.18	913	"
"	StemCyte Inc.	Related party in substance	"	9,426	270,427	10.56	270,427	"
"	Tai Yai Petrochemical Corp.	"	"	4,500	33,165	3.00	33,165	"
"	Kbro Media Co., Ltd.	"	"	13,050	129,797	14.50	129,797	"
"	Diamond Bioventure	"	"	22,500	225,000	5.00	225,000	"
"	LoneStar Heart Inc.	-	"	294	60,640	4.01	60,640	"
"	UUPON Inc.	-	"	1,900	21,000	5.29	21,000	"
"	DoDoPal Holdings Ltd.	Related party in substance	"	28	133,040	6.31	133,040	"
"	TAROKO Development Co., Ltd.	"	"	23,040	353,226	12.71	353,226	"
"	Crystal Bright Development Ltd., BVI	-	"	10	305,342	1.91	305,342	"

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Held company name	Held company name securities type and name	securities type and name with the securities issuer	Account	September 30, 2017				Remark
				No. of shares	Carrying amount	Shareholding ratio	Market price	
Fubon Financial Holding Venture Capital Co., Ltd.	Sunny Pharmtech Inc.	Related party in substance	Financial assets measured at cost	11,239	213,342	10.05	213,342	Unlisted stock
"	Asian Crown International Co., Ltd.	"	"	3,300	17,564	9.50	17,564	"
"	Dragon Tiger Capital Partners Ltd. B class	-	"	1	22	7.00	22	"
"	Dragon Tiger Capital Partners Ltd. C class	-	"	-	7,429	35.00	7,429	"
"	Alliance Digital Tech Co., Ltd.	Related party in substance	"	900	9,000	2.16	9,000	"
"	EcoNet Inc.	-	"	312	61,878	1.90	61,878	"
"	DETKET Technology Inc.	Related party in substance	"	2,200	26,400	17.12	26,400	"
"	SANITAS Health Management Co., Ltd.	"	"	4,105	48,000	9.90	48,000	"
"	Eva Technologies Co., Ltd.	-	"	1,340	11,927	6.50	11,927	"
"	ABG II-WX Limited	-	"	2	653,760	9.30	653,760	"
"	Yesin Electronics Technology Co., Ltd.	Related party in substance	"	4,026	49,000	11.18	49,000	"
"	Xin-Yao Bioventure Co., Ltd.	-	"	17,500	175,000	5.00	175,000	"
"	A.T.Holding Ltd.	-	"	280	270,660	2.35	270,660	"
"	Star River Energy Corporation	Related party in substance	"	2,200	22,000	1.49	22,000	"
"	Fubon Hospitality Management Co., Ltd.	"	"	5,000	38,285	17.86	38,285	"
"	Allianz Pharmaceuticals	-	"	2,000	30,000	6.85	30,000	"
"	tixCraft Inc.	-	"	990	19,800	15.97	19,800	"
"	Grand Academy Investment, L.P.	-	"	-	122,305	4.17	122,305	Private fund
"	Starview Heights Investment, L.P.	-	"	-	31,986	4.17	31,986	"
Fubon Sports & Entertainment Co., Ltd.	CHOXUE INC. (Cayman)	-	"	298	3,330	2.38	3,330	Unlisted stock

(iv) Cumulative purchase or sales of the same investee's capital stock up to \$300,000 or 10% of paid-in capital:

Units: In Thousands of TWD / Thousands shares

Purchase or sale company	Marketable securities type and name	Account	Counter-party	Relation-ship	January 1 2017		Purchase		Sale				September 30 2017	
					No. of shares	Amounts	No. of shares	Accounts	No. of shares	Sales price	Book value	Disposal gain or loss	No. of shares	Accounts
Taipei Fubon Bank	Nutmeg Saving and Investment Limited	Financial assets carried at cost	Nutmeg Saving and Investment Limited	-	-	-	1,140,045	476,028	-	-	-	-	1,140,045	476,028
Fubon Life Insurance	Fubon Financial Holding Venture Capital Co., Ltd.	Investments accounted for using equity method, net	Investment accounted for using equity method	-	-	-	116,450	1,969,836	-	-	-	-	116,450	1,969,836
Fubon Insurance	Fubon Financial Holding Venture Capital Co., Ltd.	Financial assets carried at cost	Fubon Financial Holding Venture Capital Co., Ltd.	-	-	-	46,580	791,860	-	-	-	-	46,580	791,860
Fubon Securities	Fubon Financial Holding Venture Capital Co., Ltd.	Investments accounted for using equity method, net	Investment accounted for using equity method	-	-	-	29,410	499,970	-	-	-	-	29,410	499,970

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(v) Acquisition of the same securities up to \$300,000 or 10% of paid-in capital: None

(vi) Obtain of real estate up to \$300,000 or 10% of paid-in capital

(In Thousands of TWD)

Company	Property Name	Occurrence Date	Amount	Amount Paid	Counterparty	Relationship	Previous transfer information, as the counterparty is a related party,				Reference for price	Purpose and usage	Others
							Owner	Relations with the issuer	Transfer Date	Amount			
Fubon AMC	Taipei Changchun Rd. section	2017.03	588,000 (Note 1)	Paid in accordance with the contract	Taipei Fubon Bank	Related party	Division of Public Housing, Taipei City Government	Not stakeholder	1987.06.06 and 1990.04.28	70,944	Referred to appraisal reports.	Real estate investment	None
Fubon AMC	Taipei Shuanglian section	2017.06	270,000 (Note 1)	Paid in accordance with the contract	Taipei Fubon Bank	Related party	Sing Yi Enterprise Co., Ltd. and individual	Not stakeholder	1991.06.22	223,984	Referred to appraisal reports.	Real estate investment	"
Fubon AMC	Taipei Huajiang section	2017.06	22,500 (Note 1)	Paid in accordance with the contract	Taipei Fubon Bank	Related party	Individual	Not stakeholder	1975.07.18	496	Referred to appraisal reports.	Real estate investment	"
Fubon Life Insurance	Land in Taipei Neihu Wende subsection 5; and the whole building located at No.60, Ln. 321, Yangguang St., Neihu Dist., Taipei City.	2017.09	1,300,000 (Note 2)	Paid in accordance with the contract	Les Enphants Co., Ltd.	Not related party	-	-	-	-	Referred to appraisal reports.	Real estate investment	"

Note 1: The inter-company transactions have been eliminated.

Note 2: It is the total contract price. Transaction cost is separately calculated.

(vii) Disposal of real estate up to \$300,000 or 10% of paid-in capital:

(In Thousands of TWD)

Disposed company	Property Name	Transaction date	Acquisition date	Book value	Transaction amount	Balance due	Disposal gain or loss	Counter-party	Relationship	Disposal purpose	Price reference	Others
Taipei Fubon Bank	Fuxing Branch (located at the following addresses: 1F and 3F-2 of No.234, Fuxing N. Rd.; as well as 3 other separate places along Minsheng E. Rd., Sec 3, which are as follows: basement of No.6, lane 88; 2F-2 of No.90; and basement of No.92. All the above addresses belong to Zhongshan Dist., Taipei City.)	2017.03	1987.06.06 and 1990.04.28	158,175	588,000 (Note 1)	None	429,825 (Note 1)	Fubon AMC	Company controlled by Fubon Financial Holdings	Sold its building to avoid it from being idle	Referred to appraisal reports.	None
Taipei Fubon Bank	Chengde Branch (located at No.142, 2F of No.142, and basement 1 and 2 of No.142, Sec. 2, Chengde Rd., Datong Dist., Taipei City.)	2017.06	1991.06.22	186,513	270,000 (Note 1)	As of July 28, 2017, none.	83,487 (Note 1)	Fubon AMC	Company controlled by Fubon Financial Holdings	Sold its building to avoid it from being idle	Referred to appraisal reports.	"

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Disposed company	Property Name	Transaction date	Acquisition date	Book value	Transaction amount	Balance due	Disposal gain or loss	Counter-party	Relationship	Disposal purpose	Price reference	Others
Taipei Fubon Bank	Huajiang Branch (located at No.162, Sec. 2, Huanhe S. Rd., Wanhua Dist., Taipei City.)	2017.06	1975.07.18	227	22,500 (Note 1)	As of August 27, 2017, none.	22,273 (Note 1)	Fubon AMC	Company controlled by Fubon Financial Holdings	Sold its building to avoid it from being idle	Referred to appraisal reports.	"
Fubon Life Insurance	Land in Chiayi Zhongzhuang section; and the whole building located at the following addresses: No.600, Zhongxiao Rd., East Dist., Chiayi City; and No.836, Xinsheng Rd., East Dist., Chiayi City.	2017.09	2009.08.21	4,690,034 (Note 2)	4,690,000 (Note 3)	Received each payment in accordance with the contract.	488,372 (Note 4)	Nice Plaza Co., Ltd.	Not related party	Sold to realize profit and activate the allocation of assets	Referred to market price and appraisal reports.	"

Note 1: The inter-company transactions have been eliminated.

Note 2: It has reflected the total contract price (including the cumulative fair value valuation of \$488,422) and was transferred to hold for sale asset.

Note 3: It is the total contract price. (The Value-Added Tax is excluded.)

Note 4: It is the disposal gain during the holding period. The disposal gain will be recognized when the transfer of ownership is completed, net of land value increment tax.

(viii) Discount of commission fees for transaction with related parties up to \$5,000: None

(ix) Receivables from related parties up to \$300,000 or 10% of paid-in capital:

Unit: In thousands of TWD

Company of receivable	Counter-party	Relation-ship	Balance of receivables from related party	Turnover rate	Post-due receivables – related parties		Subsequently received amount of receivables from related party	Allowance for doubtful accounts
					Amount	Resolution		
The Company	Taipei Fubon Bank	Subsidiary of the Company	504,141 (Note 1)	-	-	-	-	-
"	Fubon Life Insurance	"	6,071,149 (Note 1)	-	-	-	-	-
"	Fubon Securities	"	589,091 (Note 1)	-	-	-	-	-
Taipei Fubon Bank	Fubon Financial Holding	Parent Company	538,357 (Note 2)	-	-	-	-	-
Taipei Fubon Bank	Fubon Life Insurance	Subsidiary of the Company	374,816	-	-	-	-	-

Note 1: The tax receivable by tax link mainly of subsidiary of company estimated payment that Company should be paid.

Note 2: The tax receivables to the subsidiaries, which derived from tax receivable of the Company as a result of combined income tax declaration starting from 2002.

(x) Transactions of financial derivatives: for future information please refer to notes 6(c), 6(e), 6(s) and 6(ag).

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(xi) Transaction information of NPL disposition:

1) Summary of transaction information of NPL disposition:

Unit: In Thousands of TWD

Trade date	Counterparty	Debt component	Book value (Note)	Sale price	Gains on disposal	Additional term	Relationship
Fubon Bank (China)106.08.21	Shanghai Qu Xin Environmental Technology Limited	Real estate mortgage loan	40,447	53,371	12,924	None	None

Note: The book value is the NPL amount, less, allowance for doubtful accounts.

2) The information of a transaction of NPL disposition up to \$1,000,000 should be disclosed: None

(xii) Types of securitization instruments and other relevant information approved to issue pursuant to financial assets securitization rules or real estate securitization rules: None

(xiii) Business relationships and significant inter-company transactions

Unit: In thousands of TWD

No.	Company	Counter-party	Relationship	Transaction details			Rates of operation income/total asset
				Accounts	Amounts	Transaction terms	
0	Fubon Financial Holding	Fubon Life Insurance	1	Income tax refund receivables	6,071,149	Same as non related-party transactions	0.09 %
1	Taipei Fubon Bank	Fubon Life Insurance	3	Deposits	5,052,621	Same as non related-party transactions	0.08 %
1	Taipei Fubon Bank	Fubon Life Insurance	3	Net service fee and commission income	4,451,110	Same as non related-party transactions	1.40 %
1	Taipei Fubon Bank	Fubon Securities	3	Deposits	9,722,895	Same as non related-party transactions	0.14 %
1	Taipei Fubon Bank	Fubon Securities	3	Net service fee and commission loss	227,871	Same as non related-party transactions	0.07 %
2	Fubon Life Insurance	Fubon Financial Holding	2	Income tax payable	6,071,149	Same as non related-party transactions	0.09 %
2	Fubon Life Insurance	Taipei Fubon Bank	3	Cash and cash equivalents	5,052,621	Same as non related-party transactions	0.08 %
2	Fubon Life Insurance	Taipei Fubon Bank	3	Net Service charge and commission loss	3,404,971	Same as non related-party transactions	1.07 %
2	Fubon Life Insurance	Taipei Fubon Bank	3	Other general and administrative expenses	1,052,855	Same as non related-party transactions	0.33 %
2	Fubon Life Insurance	Fubon Insurance	3	Other non-interest income, net	329,351	Same as non related-party transactions	0.10 %
2	Fubon Life Insurance	Fu Sheng Life Insurance Agent	3	Net service charge and commission loss	222,818	Same as non related-party transactions	0.07 %
3	Fubon Insurance	Fubon Life Insurance	3	Other general and administrative expenses	337,428	Same as non related-party transactions	0.11 %
3	Fubon Insurance	Fu Sheng General Insurance Agent	3	Net service charge and commission loss	222,591	Same as non related-party transactions	0.07 %
4	Fubon Securities	Taipei Fubon Bank	3	Cash and cash equivalents	8,882,895	Same as non related-party transactions	0.13 %

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

No.	Company	Counter-party	Relationship	Transaction details			Rates of operation income/total asset
				Accounts	Amounts	Transaction terms	
4	Fubon Securities	Taipei Fubon Bank	3	Other non-interest revenue, net	225,174	Same as non related-party transactions	0.07 %
5	Fu Sheng General Insurance Agent	Fubon Insurance	3	Net service fee and commission income	228,361	Same as non related-party transactions	0.07 %
6	Fu Sheng Life Insurance Agent	Fubon Life Insurance	3	Net service fee and commission income	223,318	Same as non related-party transactions	0.07 %

Note 1: Serial number is determined as follows:

1. 0 represents parent company.
2. Subsidiaries are numbered in a sequence of Arabic numerals from 1 based on the companies' category.

Note 2: The relation category among traders is determined as follows:

1. Parent to subsidiary.
2. Subsidiary to parent.
3. Subsidiary to subsidiary.

Note 3: Above listed are the significant transactions that comprised over 0.05% of the consolidated revenue or total assets.

(xiv) Other significant transactions that may have substantial influence upon the decision made by financial statement user: None

(b) Information on investment in mainland China:

(i) Information of the Company and Fubon Taipei Bank's investee in Mainland China:

The Company was approved by the Investment Commission, MOEA, Jing Shen (2) Ruling No. 10400267060 to invest in 20% shares of Fubon Bank (China) on February 4, 2016. The Company has remitted 30% of the investment amount of CNY 639,850 thousand on May 12, 2016, and finished the transfer of equity on October 20, 2016, with a remitted investment amount of CNY 2,132,845 in total.

Units: In thousands of TWD / CNY

Investee Company	Main Business	Total Amount of Paid-in Capital (thousand)	Investment types	Accumulated outflow of Investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of September 30, 2017	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of September 30, 2017	Accumulated inward remittance of earnings as of September 30, 2017
					Outflow	Inflow						
Fubon Bank (China)	Banking	9,579,360 (CNY2,100,000)	Direct investment in Mainland China	42,122,872	-	-	42,122,872	654,443 (CNY\$145,674)	100 %	393,175	41,010,907	168,999

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Company	Accumulated investment in Mainland China as of September 30, 2017	Investment amounts authorized by investment commission, MOEA	Upper limit on investment
Fubon Financial Holding Co., Ltd.	21,864,574 (CNY4,491,338)	21,864,574 (CNY4,491,338)	282,873,318
Taipei Fubon Bank Co., Ltd.	20,258,298 (CNY4,093,113)	20,258,298 (CNY4,093,113)	106,378,106

Note: The paid-in capital and profit or loss in foreign currencies are converted into TWD using CNY closing exchange rate on September 30, 2017, and the CNY average exchange rate for the nine months ended September 30, 2017.

- (ii) Fubon Life Insurance and Fubon Insurance invested CNY 400 million (with each company funding CNY 200 million) to set up Fubon Property and Casualty Insurance Co., Ltd. for insurance business in Mainland China. Fubon Life Insurance and Fubon Insurance signed a joint investment contract with Xiamen Port Holding Group on September 10, 2012. The board of directors of Fubon Insurance approved in participating in the capital increase for cash in Fubon Property & Casualty Insurance Co., Ltd. on July 3, 2017. The project was approved by Jin Guan Bao Chan No.10602080482 and Fubon Insurance was approved by the Investment Commission, MOEA, Jing Shen (2) Letter No.10600226460 to invest the amount of CNY 60 million in Fubon Property & Casualty Insurance. The project remained to be approved by China Insurance Regulatory Commission as of the reporting date. As of September 30, 2017, the paid-in capital of Fubon Property & Casualty Insurance was CNY 1 billion. The total investment of Fubon Life Insurance and Fubon Insurance amounted to CNY 800 million.

Fubon Life Insurance and Fubon Insurance had signed a joint investment contract with Nanjing Zijin Investment Co., Ltd. to establish a life insurance company in Mainland China. The project had been approved by the Financial Supervisory Commission in January, 2011. However, the board of directors of Fubon Life Insurance and Fubon Insurance had approved to terminate the joint investment agreement in January, 2016, respectively.

Fubon Life Insurance remitted the amount of HKD 1,800 million to acquire the ownership of Hong Kong CITIC Capital Holdings Ltd. in June, 2015, and therefore, indirectly acquiring ownership of CITIC Fulljoy (Dalian) Co., Ltd. and other 7 companies.

1) Information of Fubon Insurance and Fubon Life Insurance's investees in Mainland China

Units: In thousands of TWD / CNY

Investee Company	Main Business	Total Amount of Paid-in Capital	Investment types (Note 1)	Accumulated outflow of Investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of September 30, 2017	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of September 30, 2017	Accumulated inward remittance of earnings as of September 30, 2017
					Outflow	Inflow						
Fubon Property and Casualty Insurance Limited	Property insurance	4,561,600 (CNY1,000,000)	1	3,878,890	-	-	3,878,890	(366,440)	80.00 %	(293,152)	775,982	-
Teng Fu Bo Investment Limited	Investment advisory	912,320 (CNY200,000)	3	-	-	-	-	(124,655)	24.88 %	(31,014)	195,494	-

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

2) Information of Fubon Life Insurance's investees in Mainland China:

Units: In thousands

Investee Company	Main Business	Total Amount of Paid-in Capital	Investment types (Note 1)	Accumulated outflow of Investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of September 30, 2017	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of September 30, 2017	Accumulated inward remittance of earnings as of September 30, 2017
					Outflow	Inflow						
CITIC Fulljoy (Dalian) Limited	Real estate development	1,396,692 (HKD 360,000)	2	-	-	-	-	133,442 (CNY29,703)	18.00 %	24,020 (CNY5,347)	Note 2	-
Shang Hsing Real Estate (Shenyang) Limited	Real estate leasing	1,939,850 (HKD 500,000)	2	-	-	-	-	(159,089) (CNY(35,412))	18.00 %	(28,636) (CNY(6,374))	Note 2	-
CITIC Capital Holdings (Tianjin) Ltd.	Investment Holdings	20,510,920 (CNY 4,496,431)	2	-	-	-	-	181,983 (CNY40,508)	12.27 %	22,329 (CNY4,970)	Note 2	-
Hui Zhi Ju Xin(Shenzhen) Investment Ltd.	Investment Management	22,808 (CNY 5,000)	2	-	-	-	-	172,711 (CNY38,444)	12.27 %	21,191 (CNY4,717)	Note 2	-
Zhong An Tai Xin (Shenzhen) Equity Investment Fund Management	Investment advisory	45,616 (CNY 10,000)	2	-	-	-	-	223,863 (CNY49,830)	8.82 %	19,745 (CNY4,395)	Note 2	-
CITIC Capital Asset Management (Shenzhen) Ltd.	Investment advisory	45,616 (CNY 10,000)	2	-	-	-	-	165,482 (CNY36,835)	18.00 %	29,787 (CNY6,630)	Note 2	-
CITIC Capital Culture Tourism (Chengdu) Ltd.	Real estate leasing	1,368,480 (CNY 300,000)	2	-	-	-	-	(1,797) (CNY(400))	11.04 %	(198) (CNY(44))	Note 2	-
Jin Rui Tong Investment Consultancy (Chengdu) Ltd.	Real estate leasing	837,843 (CNY 183,673)	2	-	-	-	-	(107,380) (CNY(23,902))	5.63 %	(6,048) (CNY(1,346))	Note 2	-

Note 1: Investment types are as follows.

1. Direct investment in Mainland China.
2. Investment in Mainland China companies through CITIC Capital Holdings Ltd., a company established in a third region.
3. Others.

Note2: Carrying value for investment in Mainland China as of September 30, 2017 was not available from the financial statements prepared by the company in a third region.

Note3: The company also indirectly invested in CITIC Capital (China) Investment Ltd., Empower Ltd., CITIC Jin Xiu Capital Management Ltd., Kaixin Investment Ltd., Kaixin Investment (Beijing) Ltd., Shenzhen Sheng Yin Consultancy Ltd., CITIC Capital (Shenzhen) Investment Ltd., Shenzhen Sheng Kai Equity Investment Management Ltd., Jia Qiang Equity Investment Management (Shenzhen) Ltd., Shanghai Xun Yi Investment Consultancy Ltd., CITIC Kazyna (Beijing) Consultancy Ltd., Ben Yuan Investment (Beijing) Ltd., Shanghai Yuan Long Construction Ltd., Shanghai Long Yu Management Consultancy Ltd., Shenzhen Yao Sheng Xin Consultancy Ltd., Tianjin Xinze Equity Investment Fund Management Co., Ltd., Zhong Yu Rui Xin Asset Management (Beijing) Co., Ltd., CITIC Capital (Zhuhai) Asset Management Ltd., Xin Xiao Commercial Management (Shanghai) Ltd., Shenzhen Xin Long Consultancy Ltd., CITIC Fulljoy (Dalian) Real Estate Development Ltd., Xin Ming Investment Consultancy (Shanghai) Ltd., Shanghai Si Te Fu De Real Estate Ltd., CITIC Capital (Tsingtao) Investment Ltd., Hui Yi Management Consultancy Ltd., CITIC Cash Asset Management Co., Ltd., Beijing Yue Xin Investment Ltd., Shenzhen Jia Qiang Xiao Feng Equity Investment Management Ltd., Shenzhen Jia Qiang Yi Heng Equity Investment Management Ltd., Shenzhen Yi Xin Management Consultancy Ltd. through CITIC Capital Holdings Ltd.

Note 4: The foreign currency is converted into TWD using CNY closing exchange rate on September 30, 2017 and average exchange rate for the nine months ended September 30, 2017.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

3) Upper limit on investment:

Units: In thousands of TWD

Company	Accumulated investment in Mainland China as of September 30, 2017	Investment amounts authorized by investment commission, MOEA	Upper limit on investment
Fubon Life Insurance Co., Ltd.	18,033,518	18,187,174	155,243,167
Fubon Insurance Co., Ltd.	1,938,874 (CNY400,000)	1,938,874 (CNY400,000)	18,261,427

Note: The limit of Fubon Life Insurance Co., Ltd. and Fubon Insurance Co., Ltd. investment were \$103,495,444, and \$12,174,285 according to the Regulations Governing Foreign Investments by Insurance Companies.

- (iii) On March 19, 2015, the board of directors of Fubon Securities has approved the establishment of a new subsidiary in Mainland China. The project was approved by FSC Gin Guan Securities No. 1040042628 on November 24, 2015 and by the Investment Commission, MOEA, with letter No. 10430066740 on January 20, 2016. The investment amount was CNY200 million. The subsidiary was set up in Xiamen on June 6, 2016. Fubon Securities has remitted CNY200 million for investment.

Units: In thousands of TWD / CNY

Investee Company	Main Business	Total Amount of Paid-in Capital	Investment types	Accumulated outflow of Investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of September 30, 2017	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of September 30, 2017	Accumulated inward remittance of earnings as of September 30, 2017
					Outflow	Inflow						
Fubon Securities Equity Investment Co., Ltd.	Equity Investment	944,532 (CNY200,000)	(Note 1)	944,532	-	-	944,532	(44,776)	100.00 %	(44,776)	877,711	-

Company	Accumulated investment in Mainland China as of September 30, 2017	Investment amounts authorized by investment commission, MOEA	Upper limit on investment (Note 2)
Fubon Securities Co., Ltd.	944,532 (CNY200,000)	1,017,360 (CNY200,000)	19,996,864

Note 1: Direct investment in Mainland China.

Note 2: It was calculated by Fubon Securities' net value as of September 30, 2017

- (iv) On November 18, 2014, the board of directors of Fubon Securities has approved in participating in the capital increased for cash in Huishang Futures Co., Ltd. in Mainland China. The project was approved by FSC Gin Guan Securities No. 1040020971 on May 22, 2015 and by the Investment Commission, MOEA, with letter No. 10400050900 on June 29, 2015. The project remained to be approved by the authorities in Mainland China, and the expected investment amount is CNY327 million.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(v) Information of Fubon Bank (Hong Kong)'s investee in Mainland China:

Units: In thousands of TWD / CNY

Investee Company	Main Business	Total Amount of Paid-in Capital	Investment types	Accumulated outflow of Investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of September 30, 2017	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of September 30, 2017	Accumulated inward remittance of earnings as of September 30, 2017
					Outflow	Inflow						
Xiamen Bank Co., Ltd.	Banking	10,834,781 (CNY2,375,215)	Investment of Fubon Bank (Hong Kong) (100% of the shares held by the Company)	N/A, Investment of Fubon Bank (Hong Kong)	N/A, Investment of Fubon Bank (Hong Kong)	N/A, Investment of Fubon Bank (Hong Kong)	N/A, Investment of Fubon Bank (Hong Kong)	3,953,700	15.78 % (indirect)	666,619	8,773,465	-

Company	Accumulated investment in Mainland China as of September 30, 2017	Investment amounts authorized by investment commission, MOEA	Upper limit on investment
Fubon Bank Hong Kong Limited	N/A, Investment of Fubon Bank (Hong Kong)	N/A, Investment of Fubon Bank (Hong Kong)	N/A, Investment of Fubon Bank (Hong Kong)

(vi) Fubon AMC acquired 25% ownership of CITIC FUTONG Financial Leasing Co., Ltd. on May 8, 2015. The investment amounted to CNY270,000 thousand.

Units: In thousands of TWD / CNY

Investee Company	Main Business	Total Amount of Paid-in Capital	Investment types	Accumulated outflow of Investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of September 30, 2017	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of September 30, 2017	Accumulated inward remittance of earnings as of September 30, 2017
					Outflow	Inflow						
CITIC FUTONG Financial Leasing Co., Ltd.	Financial leasing	4,677,513 (CNY931,034)	(Note 1)	1,356,479	-	-	1,356,479	248,690	25 %	95,049	1,472,559	-

Company	Accumulated investment in Mainland China as of September 30, 2017	Investment amounts authorized by investment commission, MOEA	Upper limit on investment (Note 2)
Fubon Assets Management Service Co., Ltd.	1,356,479 (CNY270,000)	1,356,479 (CNY270,000)	2,003,428

Note 1: Direct investment in Mainland China.

Note2: It was calculated by Fubon AMC's net value as of September 30, 2017.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- (vii) Fubon Asset Management and Founder Securities Co. co-invested in a fund management company. The investment amounted to CNY200,000 thousand, with Fubon Asset Management contributing the amount of CNY66,600 thousand. 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. by CNY 66,600 thousands. The investment project was approved by the Investment Commission, MOEA, and FSC on May 31 and June 2, 2016, respectively. As of September 30, 2017, the paid-in capital of Founder Fubon Fund Management Co., Ltd. amounted to CNY400,000 thousand, with Fubon Asset Management contributing the amount of 626,522 thousand.

Units: In thousands of TWD / CNY

Investee Company	Main Business	Total Amount of Paid-in Capital	Investment types	Accumulated outflow of Investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of September 30, 2017	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of September 30, 2017	Accumulated inward remittance of earnings as of September 30, 2017
					Outflow	Inflow						
Founder Fubon Fund Management Limited	Fund raising and asset management	1,883,627 (CNY400,000)	(Note 1)	626,522	-	-	626,522	(217,417)	33.30 %	(72,400)	375,719	-

Company	Accumulated investment in Mainland China as of September 30, 2017	Investment amounts authorized by investment commission, MOEA	Upper limit on investment (Note 2)
Fubon Asset Management Co, Ltd.	626,522 (CNY133,200)	627,248 (CNY133,200)	1,651,572

Note 1: Direct investment in Mainland China.

Note2: It was calculated by Fubon Asset Management's net value as of September 30, 2017.

(14) Segment and Geographic Information:

(a) Operating segment information

The reportable segments of the Company are as follows:

- (i) Bank business: Engaged in banking business.
- (ii) Insurance business: Providing a variety of life and property insurance services.
- (iii) Life insurance business: Providing a variety of life and property insurance services.
- (iv) Securities business: Engaged in securities business.
- (v) Others: Engaged in financial holding venture capital and asset management business, etc.

The Company reports segments information by business type to offer different business and services. All of these business types are administered separately and have different finance and marketing strategies.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

The Company does not allocate tax expenses to reporting segments. The accounting policies of the operating segments are the same as those described in Note 2. The income of the operating segments is based on income before tax, which also serves as the basis for the performance measurement. The sales and transfer between the departments are regarded as third party sales and transfer, and are measured at current market value.

(b) Business information

Operating Segments information was as follows:

For the three months ended September 30, 2017							
	Bank business	Property insurance business	Life insurance business	Securities Business	Others	Adjustment and elimination	Total
Net revenues							
Revenue by external customers	\$ 11,686,226	3,393,002	92,022,340	2,240,138	(396,572)	-	108,945,134
Revenue between segments	1,257,710	10,381	(996,857)	125,486	26,586,536	(26,983,256)	-
Total	<u>\$ 12,943,936</u>	<u>3,403,383</u>	<u>91,025,483</u>	<u>2,365,624</u>	<u>26,189,964</u>	<u>(26,983,256)</u>	<u>108,945,134</u>
Segment income (Note)	<u>\$ 6,407,627</u>	<u>1,119,597</u>	<u>19,613,975</u>	<u>953,695</u>	<u>25,816,311</u>	<u>(26,295,855)</u>	<u>27,615,350</u>
For the three months ended September 30, 2016							
	Bank business	Property insurance business	Life insurance business	Securities Business	Others	Adjustment and elimination	Total
Net revenues							
Revenue by external customers	\$ 10,480,907	3,229,089	96,801,076	2,008,990	(311,620)	-	112,208,442
Revenue between segments	1,829,449	(54,977)	(1,722,419)	135,555	17,569,795	(17,757,403)	-
Total	<u>\$ 12,310,356</u>	<u>3,174,112</u>	<u>95,078,657</u>	<u>2,144,545</u>	<u>17,258,175</u>	<u>(17,757,403)</u>	<u>112,208,442</u>
Segment income (Note)	<u>\$ 5,781,243</u>	<u>830,896</u>	<u>9,767,753</u>	<u>852,938</u>	<u>16,893,718</u>	<u>(17,076,701)</u>	<u>17,049,847</u>
For the nine months ended September 30, 2017							
	Bank business	Property insurance business	Life insurance business	Securities business	Others	Adjustment and elimination	Total
Net revenues							
Revenue by external customers	\$ 33,377,118	10,006,622	270,180,892	5,511,310	(960,176)	-	318,115,766
Revenue between segments	4,244,994	42,176	(3,346,329)	368,332	48,732,982	(50,042,155)	-
Total	<u>\$ 37,622,112</u>	<u>10,048,798</u>	<u>266,834,563</u>	<u>5,879,642</u>	<u>47,772,806</u>	<u>(50,042,155)</u>	<u>318,115,766</u>
Segment income (Note)	<u>\$ 18,080,019</u>	<u>3,149,113</u>	<u>25,800,832</u>	<u>1,926,143</u>	<u>46,691,252</u>	<u>(47,883,592)</u>	<u>47,763,767</u>
Segment assets	<u>\$ 2,922,697,513</u>	<u>99,126,629</u>	<u>3,586,931,740</u>	<u>121,354,931</u>	<u>567,013,387</u>	<u>(569,106,544)</u>	<u>6,728,017,656</u>
For the nine months ended September 30, 2016							
	Bank business	Property insurance business	Life insurance business	Securities business	Others	Adjustment and elimination	Total
Net revenues							
Revenue by external customers	\$ 32,053,028	8,927,397	294,262,405	5,059,029	(410,546)	-	339,891,313
Revenue between segments	5,701,745	8,336	(4,944,464)	350,827	44,032,398	(45,148,842)	-
Total	<u>\$ 37,754,773</u>	<u>8,935,733</u>	<u>289,317,941</u>	<u>5,409,856</u>	<u>43,621,852</u>	<u>(45,148,842)</u>	<u>339,891,313</u>
Segment income (Note)	<u>\$ 17,846,447</u>	<u>2,602,726</u>	<u>23,483,733</u>	<u>1,693,452</u>	<u>42,487,767</u>	<u>(42,929,477)</u>	<u>45,184,648</u>
Segment assets	<u>\$ 2,731,570,417</u>	<u>99,597,477</u>	<u>3,285,094,186</u>	<u>98,325,929</u>	<u>559,918,187</u>	<u>(555,023,051)</u>	<u>6,219,483,145</u>

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