

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

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

Consolidated Financial Statements

**December 31, 2017 and 2016
(With Independent Auditors' Report Thereon)**

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

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Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of Fubon Financial Holding Co., Ltd. (“the Company”) and its subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2017 and 2016, and their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2017 and 2016, in accordance with the “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies” and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. The valuation of financial instruments

Please refer to Note 4 (h) “Financial assets and financial liabilities” for related accounting policy, Note 5 for accounting assumptions and estimates, and Note 6 (ag) “Disclosure of financial instruments” for details of valuation of financial instruments.

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

We performed our audit procedures by:

- Inspected the internal control procedures for fair value measurement performed by the management.
- Selected samples to evaluate whether the quoted prices in active markets for financial assets are appropriate.
- Appointed our valuation specialists to assess the reasonableness of valuation techniques and to test the key parameters of financial assets without active market prices, wherein valuation models are used to ensure that the applied valuation techniques are in accordance with IFRS 13 “Fair Value Measurement”.
- Verified whether the presentation and disclosure of financial instruments are in accordance with the International Financial Reporting Standards.

2. The valuation of insurance liabilities

Please refer to Note 4 (s) “Insurance liability” for related accounting policy, Note 5 for accounting assumptions and estimates, and Note 6 (ah) “Insurance contracts” for details of the valuation of insurance liabilities.

The Company and its subsidiaries measure their insurance liabilities in accordance with the “Regulations Governing the Provision of Various Reserves” and related administrative interpretations. The important parameters, which involved the exercise of professional judgments in determining various statutory reserves, such as claim development factors, expected claim rates and discount rate, will affect the amount, recognized as insurance liabilities, and net movements in insurance liabilities. Therefore, the valuation of insurance liabilities has been identified as a key audit matter in our audit.

We performed our audit procedures by:

- Inspected the effectiveness of internal control procedures related to insurance liabilities.
- Adopted the audit on insurance liabilities performed by our actuarial specialists, which included
 - inspecting whether the calculation and applied parameters are in accordance with the related ordinances, administrative interpretations and code of conduct announced by the Actuarial Institute of the Republic of China;

- assessing the appropriateness of actuarial assumptions derived from empirical data and product specification, and conducting liability adequacy test to assess the reasonableness of test scope and assumptions adopted by the management;
- selecting samples to inspect the completeness of data used in the calculation of reserves and independently setting up models to recalculate the amount of the reserves;
- analyzing movements in insurance liabilities, including assessing the reasonableness of the amount of reserves appropriated by the management based on the understanding of the industry and market.

3. The provision of allowance for loans and receivables

Please refer to Note 4 (o) “Assets impairment” for related accounting policy, Note 5 for accounting assumptions and estimates, and Note 6(g) “Receivables” and Note 6 (i) “Discounts and loans” for details of the provision of allowance for loans and receivables, respectively.

To assess collectively the impairment of discounts and loans and receivables, the management makes judgments on whether there are any observable data indicating an impairment. The management then estimates expected future cash flows and assesses the impairment loss based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio.

The methodology and assumptions used for estimating objective evidence of impairment and the amount and timing of future cash flows, such as the expected loss rate and recovery rate, are critical judgments and estimates. Therefore, the allowance for loans and receivables is identified as a key audit matter in our audit.

We performed our audit procedures by:

- Understood and assessed the management’s methodology, assumptions and inputs used in the impairment model to verify whether they appropriately reflect the actual outcome.
- Assessed the consistency of the effective interest rate, the impairment occurrence rate, recovery rate, etc. used in estimating expected future cash flows and evaluating collateral values; performed a sampling of loans and receivable cases to verify their completeness and calculation accuracy.
- Considered related guidelines issued by the authorities and examining whether the allowance for loans and receivables complied with the regulation.

4. The valuation of investment property

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

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

We performed our audit procedures by:

- Inspected the procedure of investment property appraisals performed by professional evaluation agencies and analyzed how they select the appropriate valuation method and adoption of significant assumptions.
- Verified whether the presentation and disclosure of investment property are in accordance with IFRSs and the “Regulations Governing the Preparation of Financial Reports” complied by the subsidiaries.
- Evaluated reasonableness of the management’s assessment on the valuation of investment property based on the evidences obtained from the audit team and the external estate appraisers joint firms, as well as appraisal reports and observable market evidences.

5. The assessment of goodwill impairment

Please refer to Note 4 (o) “Assets impairment” for related accounting policy, Note 5 for accounting assumptions and estimates, and Note 6 (q) “Intangible assets” for details of the assessment of goodwill impairment.

The recoverable amount of goodwill is estimated by using the future cash flows based on the forecast of future operation, which involved the exercise of professional judgments. Therefore, the assessment of goodwill impairment has been identified as a key audit matter in our audit.

We performed our audit procedures by:

- Inspected cash flow forecasts, which include evaluating whether the prediction method and discount rate applied by the management are reasonable, as well as comparing the applied discount rate to external information.
- Assessed whether there is a significant difference between the actual operating performance and the expected performance of the acquired companies and verified whether the disclosure is reasonable.

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

The management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies” and with the IFRSs, IASs, interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as the management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Company and its subsidiaries’ financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are CHUNG, TAN TAN and YU, CHI LUNG.

KPMG

Taipei, Taiwan (Republic of China)
March 22, 2018

Notes to Readers

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

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

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

Consolidated Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

Assets		December 31, 2017		December 31, 2016		Liabilities and Equity		December 31, 2017		December 31, 2016	
		Amount	%	Amount	%			Amount	%	Amount	%
11000	Cash and cash equivalents (notes 6(a) and 8)	\$ 214,049,624	3	176,347,729	3	21000	Deposits from the central bank and banks	\$ 138,707,627	2	80,851,838	1
11500	Due from the central bank and call loans to banks (note 6(b) and 8)	216,514,115	3	280,627,636	4	21500	Due to the central bank and banks	5,386,206	-	7,081,137	-
12000	Financial assets measured at fair value through profit or loss (notes 6(c) and 8)	149,197,867	2	163,910,238	3	22000	Financial liabilities measured at fair value through profit or loss (note 6(s))	40,247,250	1	97,546,186	2
12100	Available-for-sale financial assets, net (notes 6(d) and 8)	1,635,142,008	25	1,631,039,162	26	22300	Derivative financial liabilities for hedging (note 6(e))	2,589,585	-	2,935,500	-
12300	Derivative financial assets for hedging (note 6(e))	2,272,840	-	1,329,276	-	22500	Securities sold under repurchase agreements (note 6(t))	158,316,465	2	122,889,790	2
12500	Securities purchased under resell agreements (note 6(f))	71,832,960	1	94,388,499	1	22600	Commercial paper issued, net (note 6(u))	23,471,870	-	654,787	-
13000	Receivables, net (note 6(g))	170,670,909	2	134,983,628	2	23000	Payables	107,957,284	2	84,255,953	1
13200	Current tax assets	513,005	-	1,618,718	-	23200	Current tax liabilities	11,369,877	-	9,823,469	-
13300	Asset classified as held for sale, net (note 6(h))	45,533	-	49,606	-	23500	Deposits (note 6(v))	2,284,605,939	33	2,121,289,731	33
13500	Discounts and loans, net (note 6(i))	1,758,440,111	25	1,636,622,497	26	24000	Bonds payable (note 6(w))	187,206,734	3	178,601,095	3
13700	Reinsurance contract assets, net (note 6(j))	20,286,770	-	23,804,912	-	24400	Other borrowings (note 6(x) and 8)	5,440,749	-	4,420,000	-
14500	Held-to-maturity financial assets, net (notes 6(k) and 8)	487,150,264	7	377,185,061	6	24600	Provisions (note 6(y))	3,230,051,141	47	2,999,495,105	47
15000	Investments accounted for using equity method, net (note 6(l))	24,626,842	-	23,300,447	-	25500	Other financial liabilities (note 6(z))	191,956,825	3	177,391,307	3
15500	Other financial assets, net (note 6(n))	1,833,092,118	27	1,471,680,907	23	29300	Deferred tax liabilities (note 6(ab))	12,825,534	-	10,794,468	-
18000	Investment property, net (notes 6(o) and 8)	178,327,230	3	175,529,080	3	29500	Other liabilities (note 6(aa))	30,549,552	-	26,122,520	-
18500	Property and equipment, net (notes 6(p) and 8)	57,259,132	1	57,262,849	1		Total liabilities	<u>6,430,682,638</u>	<u>93</u>	<u>5,924,152,886</u>	<u>92</u>
19000	Intangible assets, net (note 6(q))	28,253,774	-	28,900,583	1		Equity attributable to owners of parent (note 6(ac)):				
19300	Deferred tax assets (note 6(ab))	15,671,105	-	9,991,402	-		Share capital:				
19500	Other assets, net (note 6(r))	56,107,779	1	62,686,042	1	31101	Common stock	102,336,040	2	102,336,040	2
						31103	Preferred stock	6,000,000	-	6,000,000	-
							Total share capital	<u>108,336,040</u>	<u>2</u>	<u>108,336,040</u>	<u>2</u>
						31500	Capital surplus	<u>103,674,220</u>	<u>1</u>	<u>102,713,132</u>	<u>2</u>
							Retained earnings:				
						32001	Legal reserve	52,403,066	1	47,560,961	1
						32003	Special reserve	53,069,867	1	50,310,722	1
						32011	Undistributed earnings	<u>165,573,101</u>	<u>2</u>	<u>140,672,624</u>	<u>2</u>
							Total retained earnings	<u>271,046,034</u>	<u>4</u>	<u>238,544,307</u>	<u>4</u>
						32500	Other equity interests	<u>5,375,314</u>	<u>-</u>	<u>(22,773,818)</u>	<u>-</u>
							Total equity attributable to owners of parent	<u>488,431,608</u>	<u>7</u>	<u>426,819,661</u>	<u>8</u>
						39500	Non-controlling interests (note 6(ac))	<u>339,740</u>	<u>-</u>	<u>285,725</u>	<u>-</u>
							Total equity	<u>488,771,348</u>	<u>7</u>	<u>427,105,386</u>	<u>8</u>
							Total liabilities and equity	<u>\$ 6,919,453,986</u>	<u>100</u>	<u>6,351,258,272</u>	<u>100</u>
	Total assets	<u>\$ 6,919,453,986</u>	<u>100</u>	<u>6,351,258,272</u>	<u>100</u>						

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

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

	2017		2016		Change
	Amount	%	Amount	%	
41000 Interest revenue (note 6(af))	\$ 141,314,445	35	129,898,195	30	9
51000 Less: Interest expense (note 6(af))	<u>28,102,375</u>	<u>7</u>	<u>24,121,498</u>	<u>5</u>	17
Net interest revenue	113,212,070	28	105,776,697	25	7
Net non-interest revenue					
49800 Net service charge and commission loss (note 6(af))	(9,720,888)	(2)	(18,420,970)	(4)	47
49810 Net income of insurance operations (note 6(af))	250,969,889	62	294,381,683	67	(15)
49820 Gains on financial assets or liabilities measured at fair value through profit or loss	66,631,953	16	10,414,744	2	540
49825 Gains on investment property	5,359,836	1	4,968,879	1	8
49830 Realized gains on available-for-sale financial assets	65,102,921	16	51,996,172	12	25
49840 Realized gains on held-to-maturity financial assets	7,398	-	15,472	-	(52)
49870 Foreign exchange losses	(91,129,999)	(22)	(24,332,102)	(6)	(275)
49880 Impairment losses on assets	(1,665,330)	-	(212,318)	-	(684)
49890 Share of profit of associates and joint ventures accounted for using equity method (note 6(l))	691,789	-	1,432,329	-	(52)
49900 Net other non-interest revenue	<u>6,685,327</u>	<u>1</u>	<u>12,902,122</u>	<u>3</u>	(48)
Net revenue	<u>406,144,966</u>	<u>100</u>	<u>438,922,708</u>	<u>100</u>	(7)
58100 Bad debt expenses and guarantee liability provisions	<u>(2,913,810)</u>	<u>(1)</u>	<u>(2,608,425)</u>	<u>-</u>	12
58300 Net change in provisions for insurance liabilities (note 6(af))	<u>(289,890,386)</u>	<u>(71)</u>	<u>(324,612,825)</u>	<u>(74)</u>	(11)
Expense:					
58501 Employee benefits expenses (note 6(af))	(29,745,262)	(8)	(29,196,477)	(7)	2
58503 Depreciation and amortization expenses (note 6(af))	(3,503,188)	(1)	(3,650,162)	(1)	(4)
58599 Other general and administrative expenses (note 6(af))	<u>(22,041,743)</u>	<u>(5)</u>	<u>(24,174,802)</u>	<u>(6)</u>	(9)
Total Expenses	<u>(55,290,193)</u>	<u>(14)</u>	<u>(57,021,441)</u>	<u>(14)</u>	(3)
Net income before tax from continuing operations	58,050,577	14	54,680,017	12	6
61003 Income tax expense (note 6(ab))	<u>(4,034,260)</u>	<u>(1)</u>	<u>(6,105,261)</u>	<u>(1)</u>	34
Net income	<u>54,016,317</u>	<u>13</u>	<u>48,574,756</u>	<u>11</u>	11
69500 Other comprehensive income:					
69560 Items not to be reclassified to profit or loss					
69561 Remeasurements of the defined benefit plans	(232,102)	-	(1,232,169)	-	81
69562 Revaluation gains on property	1,193,212	-	296,211	-	303
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	76,987	-	10,942	-	604
69569 Income tax – items not to be reclassified to profit or loss	<u>(215,380)</u>	<u>-</u>	<u>206,803</u>	<u>-</u>	(204)
Subtotal of items not to be reclassified to profit or loss	<u>822,717</u>	<u>-</u>	<u>(718,213)</u>	<u>-</u>	215
69570 Items that may be reclassified subsequently to profit or loss					
69571 Exchange differences on translation of foreign operations	(3,990,484)	(1)	(12,391,145)	(3)	68
69572 Unrealized gains on available-for-sale financial assets	36,161,273	9	15,331,772	3	136
69573 Gains (losses) on effective portion of cash flow hedges	117,463	-	(1,139,304)	-	110
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	557,384	-	(2,623,936)	(1)	121
69579 Income tax – items that may be reclassified subsequently to profit or loss	<u>(5,647,227)</u>	<u>(1)</u>	<u>(2,020,812)</u>	<u>-</u>	(179)
Subtotal of items that may be reclassified subsequently to profit or loss	<u>27,198,409</u>	<u>7</u>	<u>(2,843,425)</u>	<u>(1)</u>	1,057
69500 Other comprehensive income	<u>28,021,126</u>	<u>7</u>	<u>(3,561,638)</u>	<u>(1)</u>	887
Total comprehensive income	<u>\$ 82,037,443</u>	<u>20</u>	<u>45,013,118</u>	<u>10</u>	82
Consolidated net income attributable to:					
Owners of parent	\$ 54,122,463	13	48,421,046	11	12
Non-controlling interests	<u>(106,146)</u>	<u>-</u>	<u>153,710</u>	<u>-</u>	(169)
	<u>\$ 54,016,317</u>	<u>13</u>	<u>48,574,756</u>	<u>11</u>	
Total comprehensive income attributable to:					
Owners of parent	\$ 82,142,395	20	45,412,539	10	81
Non-controlling interests	<u>(104,952)</u>	<u>-</u>	<u>(399,421)</u>	<u>-</u>	74
	<u>\$ 82,037,443</u>	<u>20</u>	<u>45,013,118</u>	<u>10</u>	
Basic earnings per share (in New Taiwan Dollars) (note 6(ad))	<u>\$ 5.19</u>		<u>4.73</u>		

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Equity
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent (note 6(ac))															
	Share capital			Retained earnings					Other equity interests					Total equity attributable owners of parent	Non-controlling interests	Total equity
	Common stock	Preferred stock	Total	Capital surplus	Legal reserve	Special reserve	Undistributed 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			
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	-	-	-	-	-	-	48,421,046	48,421,046	-	-	-	-	-	48,421,046	153,710	48,574,756
Other comprehensive income	-	-	-	-	-	-	(1,012,829)	(1,012,829)	(11,324,497)	9,985,744	(951,541)	294,616	(1,995,678)	(3,008,507)	(553,131)	(3,561,638)
Total comprehensive income	-	-	-	-	-	-	47,408,217	47,408,217	(11,324,497)	9,985,744	(951,541)	294,616	(1,995,678)	45,412,539	(399,421)	45,013,118
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	-	-	-	751,128	-	-	-	-	-	-	-	-	-	751,128	-	751,128
Issuance of preferred stock	-	6,000,000	6,000,000	29,953,645	-	-	-	-	-	-	-	-	-	35,953,645	-	35,953,645
Changes in ownership interests in subsidiaries	-	-	-	(2,452,347)	-	-	-	-	-	-	-	-	-	(2,452,347)	(7,739,441)	(10,191,788)
Share-based payment transaction	-	-	-	177	-	-	-	-	-	-	-	-	-	177	-	177
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(30,219)	(30,219)
Balance at December 31, 2016	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	-	-	-	-	-	-	54,122,463	54,122,463	-	-	-	-	-	54,122,463	(106,146)	54,016,317
Other comprehensive income	-	-	-	-	-	-	(129,200)	(129,200)	(3,660,093)	30,754,855	102,453	951,917	28,149,132	28,019,932	1,194	28,021,126
Total comprehensive income	-	-	-	-	-	-	53,993,263	53,993,263	(3,660,093)	30,754,855	102,453	951,917	28,149,132	82,142,395	(104,952)	82,037,443
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	-	-	-	961,088	-	-	-	-	-	-	-	-	-	961,088	-	961,088
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	158,967	158,967
Balance at December 31, 2017	\$ 102,336,040	6,000,000	108,336,040	103,674,220	52,403,066	53,069,867	165,573,101	271,046,034	(11,286,078)	14,658,087	(299,649)	2,302,954	5,375,314	488,431,608	339,740	488,771,348

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from operating activities :		
Income before income tax	\$ 58,050,577	54,680,017
Adjustments:		
Income of non-cash activities		
Depreciation expenses	2,136,324	1,955,790
Amortization expenses	1,366,864	1,694,372
Allowance on bad debts	2,940,170	2,642,393
Interest expense	28,102,375	24,121,498
Interest income	(141,314,445)	(129,898,195)
Dividend income	(27,537,807)	(25,964,580)
Net change in insurance reserves	278,829,844	262,636,630
Net change in provisions for guarantee reserves	(26,359)	(33,968)
Net change in other reserves	(2,278,125)	(2,734,782)
Share-based payment awards	-	177
Share of profit of associates and joint ventures accounted for using equity method	(691,789)	(1,432,329)
Gain on disposal of investments	(42,294,566)	(24,640,123)
Impairment loss on financial assets	1,653,057	218,667
Impairment loss (reversal gain) on non-financial assets	12,273	(6,349)
Unrealized foreign exchange loss	80,028,670	25,596,368
Loss on fair value adjustment of investment property	368,118	247,559
Other adjustments	55,534	(17,850)
Subtotal of income of non-cash activities	<u>181,350,138</u>	<u>134,385,278</u>
Changes in operating assets and liabilities :		
Changes in operating assets :		
Decrease (increase) in due from the central bank and call loans to banks	56,194,847	(31,027,007)
Decrease in financial assets at fair value through profit or loss	15,616,904	13,394,966
Decrease in available-for-sale financial assets	39,194,580	34,606,678
Increase in derivative financial assets for hedging	(826,101)	(1,312,011)
Decrease (increase) in receivables and current tax assets	(33,839,592)	11,484,507
Decrease (increase) in discounts and loans	(124,962,166)	38,293,802
Increase in reinsurance contract assets	(348,835)	(2,439,975)
Increase in held-to-maturity financial assets	(109,965,203)	(56,677,200)
Increase in other financial assets	(430,738,755)	(371,738,536)
Decrease in other assets	3,715,577	21,295,782
Subtotal of change in operating assets	<u>(585,958,744)</u>	<u>(344,118,994)</u>
Changes in operating liabilities :		
Increase (decrease) in due to the central bank and banks	57,855,789	(60,914,381)
Decrease in financial liabilities at fair value through profit or loss	(57,298,936)	(13,802,526)
Increase (decrease) in derivative financial liabilities for hedging	(345,915)	746,977
Increase in securities sold under repurchase agreement	35,426,675	772,102
Increase in payables and current tax liabilities	21,435,071	11,411,267
Increase in deposits	163,316,208	80,733,281
Decrease in provisions	(536,670)	(1,688,061)
Increase in other financial liabilities	14,565,518	3,669,511
Increase in other liabilities	4,423,428	5,531,434
Subtotal of change in operating liabilities	<u>238,841,168</u>	<u>26,459,604</u>
Subtotal of change in operating assets and liabilities	<u>(347,117,576)</u>	<u>(317,659,390)</u>
Subtotal of all adjustments	<u>(165,767,438)</u>	<u>(183,274,112)</u>
Cash used in operating activities	(107,716,861)	(128,594,095)
Interest received	118,421,433	109,262,317
Dividends received	28,754,303	25,821,535
Interest paid	(26,951,591)	(24,176,945)
Income taxes paid	(9,787,768)	(5,750,315)
Net cash flows provided by (used in) operating activities	<u>2,719,516</u>	<u>(23,437,503)</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows (CONT'D)

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from investing activities :		
Acquisition of investments accounted for using equity method	\$ (392,988)	(617,606)
Acquisition of property and equipment	(3,179,532)	(3,634,478)
Proceeds from disposal of property and equipment	423,361	479,723
Acquisition of intangible assets	(365,785)	(789,321)
Proceeds from disposal of intangible assets	-	11,313
Acquisition of investment properties	(3,097,750)	(13,131,759)
Proceeds from disposal of investment properties	4,201,612	34,700
Net cash flows used in investing activities	(2,411,082)	(17,647,428)
Cash flows from financing activities :		
Increase (decrease) in due to the central bank and banks	(1,694,931)	2,503,526
Increase (decrease) in commercial papers issued	22,816,950	(624,784)
Proceeds from issuing bonds	6,500,000	28,500,000
Repayments of bonds	(9,800,000)	(6,000,000)
Proceeds from issuing bank financial debentures	29,794,088	9,828,168
Repayments of bank notes financial debentures	(19,001,095)	(9,810,675)
Increase in other borrowings	1,020,749	3,170,000
Cash dividends paid	(21,491,536)	(20,467,208)
Cash capital increase	-	35,953,645
Acquisition of ownership interests in subsidiaries	-	(10,191,788)
Changes in non-controlling interests	158,967	(30,219)
Net cash flows provided by financing activities	8,303,192	32,830,665
Effect of exchange rate changes on cash and cash equivalents	(1,383,944)	1,973,397
Net increase (decrease) in cash and cash equivalents	7,227,682	(6,280,869)
Cash and cash equivalents at beginning of period	351,083,488	357,364,357
Cash and cash equivalents at end of period	\$ 358,311,170	351,083,488
Components of cash and cash equivalents :		
Cash and cash equivalents recognized in balance sheets	\$ 214,049,624	176,347,729
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	72,428,586	80,347,260
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	71,832,960	94,388,499
Cash and cash equivalents at end of period	\$ 358,311,170	351,083,488

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

Notes to Consolidated Financial Statements

For the years ended December 31, 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.

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.

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

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.

There were 44,173 and 40,711 employees for the years ended December 31, 2017 and 2016, respectively.

(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.

- (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.

(Continued)

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

- (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 December 31, 2017, Fubon Bank (China) has established its headquarter and 25 branches (or sub-branches and preparatory offices) in the PRC.

(2) Approval date and procedures of the financial statements

On March 22, 2018, the consolidated financial statements were presented to the board of directors and authorized for issuance 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 financial statements. The related new standards, interpretations and amendments are as follows:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Presentation of Financial Statements-Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 "Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets"	January 1, 2014
Amendments to IAS 39 "Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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 believes that the adoption of the above IFRSs do not have any material impact on the consolidated financial statements. The extent and impact of signification changes are as follows:

(i) 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:

- 1) the level of the fair value hierarchy within which the fair value measurement is categorized; and
- 2) 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.

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017. In addition, based on the announcement issued by the FSC on December 12, 2017, the Company and its subsidiaries can, and therefore, elected to early adopt the amendments to IFRS 9 "Prepayment features with negative compensation":

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 "Clarifications of 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
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019
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

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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 financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

1) Classification- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of available for sale, measured at cost, 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 reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

The Insurance subsidiaries will reclassify their financial assets in accordance with the abovementioned IFRS 9 and the "overlay approach" in Amendments to IFRS 4 "Insurance Contracts" ("Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"). Please refer to note 3(b)(ii).

The Company and its subsidiaries estimated that the aforementioned changes resulted in the increase of \$10,867,384 thousand and \$1,016,427 thousand in other equity and retained earnings, respectively, on January 1, 2018.

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

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; besides, the Company and its subsidiaries 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. The Company and its subsidiaries estimated that the adoption of IFRS 9 may result in an increase of \$453,566 thousand in other equity, as well as a decrease of \$1,621,087 thousand in retained earnings on January 1, 2018.

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 plan to apply the new requirements of IFRS 9.

IFRS 9 requires the Company and its subsidiaries to ensure that hedge accounting relationships are aligned with the Group’s risk management objectives and strategy, and to apply a more qualitative and forward-looking approach to assess hedge effectiveness. IFRS 9 also introduces new requirements regarding rebalancing of hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new requirements, it is possible that more risk management strategies, particularly those involving hedging a risk component of a non-financial item, will be likely to qualify for hedge accounting. The Company and its subsidiaries do not currently undertake hedges of such risk components.

(Continued)

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

The types of hedge accounting relationships that the Company and its subsidiaries currently designate meet the requirements of IFRS 9 and are aligned with the risk management strategy and objective.

The Company and its subsidiaries expect that the aforementioned changes will have no impact on other equity and retained earnings on January 1, 2018.

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 included analyzing data gaps 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 generally will be recognized in retained earnings and reserves as at January 1, 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) Amendments to IFRS 4 "Applying IFRS 9 Investments 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.

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

The Company and its subsidiaries' plan to adopt the overlay approach to reduce the impact of the differing effective dates of IFRS 9 and the forthcoming IFRS 17 "Insurance Contracts". Please refer to note 3(b)(i) for the estimated influence on other equity, retained earnings and non-controlling interests.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

- (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 IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	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.

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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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 Financial Statements

Issuance / Release Dates	Standards or Interpretations	Content of amendment
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.

(Continued)

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

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
December 12, 2017	Annual Improvements to IFRS Standards 2015–2017 Cycle: <ul style="list-style-type: none"> • IFRS 3 Business Combinations and IFRS 11 Joint Arrangements • IAS 12 Income Taxes • IAS 23 Borrowing Costs 	<ul style="list-style-type: none"> • Clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. <ul style="list-style-type: none"> – If a party maintain joint control, then the previously held interest is not remeasured. – If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. • Clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits (-i.e. in profit or loss, OCI or equity). • Clarify that the general borrowings pool used to calculate borrowing costs eligible for capitalisation excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.
February 7, 2018	Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	The amendments clarify that: <ul style="list-style-type: none"> • on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the remainder of the reporting period after the change to the plan; and • the effect of the asset ceiling is disregarded when calculating past service cost and the gain or loss on settlement. Any change in that effect is recognised in other comprehensive income.

(Continued)

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

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 financial statements have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies", the IFRSs, IAS and interpretations endorsed by the FSC.

(b) Basis of preparation

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

The consolidated 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 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 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 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.

(Continued)

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

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

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

(Continued)

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

<u>Name of Investor</u>	<u>Subsidiary</u>	<u>Main Activities</u>	<u>Percentage of Ownership (%)</u>	
			<u>December 31, 2017</u>	<u>December 31, 2016</u>
Fubon Life Insurance	Bow Bells House (Jersey) Limited	Real estate investment and management	100.00 %	100.00 %
Fubon Life Insurance	Fubon MTL Property (Jersey) Limited	Real estate investment and management	100.00 %	100.00 %
Fubon Life Insurance	Fubon Ellipse (Belgium) S.A. (Note 3)	Real estate investment and management	100.00 %	100.00 %
Fubon Life Insurance	Fubon Ellipse (Jersey) Limited	Holding company	100.00 %	100.00 %
Fubon Marketing	Fu Sheng Life Insurance Agent	Life insurance agent	100.00 %	100.00 %
Fubon Marketing	Fu Sheng General Insurance Agent	Property and casualty insurance agent	100.00 %	100.00 %
Fubon Financial Holding Venture Capital	Fubon Sports & Entertainment Co., Ltd.	Sports service business	100.00 %	100.00 %
Fubon Financial Holding venture Capital	Fubon Stadium Co., Ltd. (Note 4)	Stadium management	100.00 %	- %
Fubon Bank (HK)	Fubon Nominees (Hong Kong) Limited (Note 5)	Financial sector business	100.00 %	100.00 %
Fubon Bank (HK)	Fubon Credit (Hong Kong) Limited (Note 5)	Financial sector business	100.00 %	100.00 %
Fubon Bank (HK)	FB Securities (Hong Kong) Limited (Note 5)	Securities brokerage	100.00 %	100.00 %
Fubon Bank (HK)	FB Investment Management (Hong Kong) Limited (Note 5)	Capital management	100.00 %	100.00 %
Fubon Bank (HK)	Fubon Insurance Brokers Limited (Note 5)	Insurance agent	100.00 %	100.00 %

Note 1: 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 2: 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 3: 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 4: Fubon Stadium Co., Ltd. became a subsidiary in August 2017.

Note 5: These entities are the major subsidiaries of Fubon Bank (Hong Kong).

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

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.

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

(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.

(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.

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

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.

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.

(Continued)

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

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.

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.

(Continued)

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

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.

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.

(Continued)

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

(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.

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.

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

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.

(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 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.

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.

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

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.

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

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.

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

- (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;

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

- 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.

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.

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

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.

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

(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.

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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(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).

(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.

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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(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).

(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.

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

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.

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

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.

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

(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.

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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.

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

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company and its subsidiaries' net obligation, in respect of the defined benefit pension plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary using the projected unit credit method. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate used in calculating the present value is the market yield at the reporting date on high quality corporate bonds or government bonds that have maturity dates approximating the terms of the Company and its subsidiaries' obligations and that are denominated in the same currency in which the benefits are expected to be paid.

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.

Remeasurements of the net defined benefit liability (asset) include (a) actuarial gains or losses, (b) return on plan assets, excluding net interest, and (c) changes of asset ceiling, excluding net interest. Remeasurements of net defined benefit liability (asset) are recognized in other comprehensive income. The amounts recognized in other comprehensive income are transferred to retained earnings, and will not be reclassified subsequently to profit or loss.

The Company and its subsidiaries recognize the gains or losses on the curtailment or settlement of the defined benefit plans when the curtailment or settlement occurs. The gains or losses on curtailment and settlement comprise: (a) any resulting changes in the present value of the defined benefit obligation and (b) any resulting changes in the fair value of the plan assets.

(Continued)

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

(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.

(Continued)

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

(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.

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”.

(Continued)

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

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.

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.

(Continued)

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

(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

Current income tax includes (a) tax payables or tax refund receivables estimated by using the annual taxable income (loss), multiplied by the statutory tax rate or applicable tax rate at the reporting date, and (b) adjustment to tax payables in prior years.

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.

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

The management continues to monitor 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 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).

(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".

(Continued)

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

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.

(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.

(Continued)

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

(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.

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

(6) Explanation of significant accounts

(a) Cash and Cash Equivalents

	December 31, 2017	December 31, 2016
Cash on hand and petty cash	\$ 6,904,869	7,595,047
Bank deposits	120,817,662	108,341,695
Cash equivalents	499,190	6,864,237
Notes and checks for clearing	4,895,628	4,093,448
Due from banks	81,050,919	49,550,926
Less: Guarantee deposits	<u>118,644</u>	<u>97,624</u>
Total	<u>\$ 214,049,624</u>	<u>176,347,729</u>

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

	December 31, 2017	December 31, 2016
Cash and cash equivalents in consolidated balance sheets	\$ 214,049,624	176,347,729
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	72,428,586	80,347,260
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	<u>71,832,960</u>	<u>94,388,499</u>
Cash and cash equivalents in consolidated statements of cash flows	<u>\$ 358,311,170</u>	<u>351,083,488</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.

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

	December 31, 2017	December 31, 2016
Call loans to banks	\$ 119,541,286	154,032,130
Deposit reserves	85,571,233	78,218,115
Due from the central bank — others	<u>11,401,596</u>	<u>48,377,391</u>
Total	<u>\$ 216,514,115</u>	<u>280,627,636</u>

(Continued)

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

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 December 31, 2017 and 2016, deposit reserves for checking account amounted to \$21,746,374 and \$17,567,640, respectively; required deposit reserves amounted to \$34,658,540 and \$32,236,828, 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>December 31, 2017</u>	<u>December 31, 2016</u>
Held-for-trading financial assets:		
Government bonds	\$ 32,175,209	17,692,846
Commercial papers	7,197,470	5,790,972
Treasury bonds	7,056,894	9,617,322
Convertible corporate bonds	5,715,397	4,507,934
Stocks and beneficiary certificates	8,844,815	4,926,543
Beneficiary securities	353,238	932,016
Corporate and financial bonds	43,895,282	31,265,616
Others	<u>30,647</u>	<u>41,125</u>
	<u>105,268,952</u>	<u>74,774,374</u>
Derivative financial instruments:		
Interest rate contracts	2,947,231	4,164,950
Currency rate contracts	29,805,527	53,131,556
Options contracts	216,235	15,595,858
Others	<u>3,941,858</u>	<u>3,414,726</u>
	<u>36,910,851</u>	<u>76,307,090</u>
Financial assets designated as at fair value through profit or loss at initial recognition:		
Credit structured bonds	1,102,092	1,153,941
Convertible corporate bonds	5,915,972	11,511,540
Others	<u>-</u>	<u>163,293</u>
	<u>7,018,064</u>	<u>12,828,774</u>
Total	<u>\$ 149,197,867</u>	<u>163,910,238</u>

(Continued)

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

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.

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Negotiable certificates of deposits	\$ 32,598,735	22,534,742
Government bonds	242,202,571	300,937,499
Corporate and financial bonds	564,909,584	562,066,047
Stocks	525,212,521	438,952,911
Beneficiary certificates and beneficiary securities	225,178,966	249,906,851
Commercial papers	45,727,555	45,374,817
Treasury bonds	4,487,135	13,546,078
Others	<u>127,575</u>	<u>138,908</u>
Subtotal	1,640,444,642	1,633,457,853
Less: Guarantee deposits	2,494,055	471,023
Accumulated impairment	<u>2,808,579</u>	<u>1,947,668</u>
Net amount	<u><u>\$ 1,635,142,008</u></u>	<u><u>1,631,039,162</u></u>

For the years ended December 31, 2017 and 2016, the Company and its subsidiaries performed an impairment evaluation and recognized the impairment losses on available-for-sale financial assets amounting to \$1,625,938 and \$158,343, 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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
<u>Derivative financial assets for hedging</u>		
Fair value hedge— interest rate swap contracts	<u><u>\$ 2,272,840</u></u>	<u><u>1,329,276</u></u>
<u>Derivative financial liabilities for hedging</u>		
Fair value hedge— interest rate swap contracts	<u><u>\$ 2,589,585</u></u>	<u><u>2,935,500</u></u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated 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>December 31, 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	\$ 34,875,554	(359,865)	2018.01.16~ 2024.08.11	2018.01.16~ 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

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

<u>Item</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Equity adjusted amount	<u>\$ 117,463</u>	<u>(1,139,304)</u>
Non-financial assets (liabilities) transferred from equity (recognized as deferred income tax assets (liabilities))	<u>\$ (19,969)</u>	<u>193,682</u>

(Continued)

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

(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>December 31, 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	\$ 48,328,858	(265,408)
Available-for-sale financial assets — corporate bonds	Interest rate swap contracts	61,471,239	(63,324)
Available-for-sale financial assets — financial bonds	Interest rate swap contracts	3,401,059	7,679
		<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)

(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>December 31, 2017</u>	
<u>Hedged item</u>	<u>Designated hedging instruments</u>	<u>Nominal amount</u>	<u>Fair value</u>
Available-for-sale financial assets	Interest rate swap contracts	\$ 56,988,695	364,174

(Continued)

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

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

(f) Securities Purchased Under Resell Agreements

	December 31, 2017	December 31, 2016
Margin lending amount	\$ 71,832,960	94,388,499

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

(g) Receivables, Net

	December 31, 2017	December 31, 2016
Accounts receivable – credit card	\$ 38,327,675	34,545,256
Accounts receivable – forfeiting	1,719,190	1,039,227
Notes receivable, accounts receivable and acceptance	17,260,614	10,039,847
Accounts receivable – factoring	16,533,543	16,699,708
Interest receivable	35,562,768	32,519,189
Revenues receivable	2,915,826	2,517,205
Premiums receivable	3,111,561	3,225,774
Margin loans receivable	14,419,909	11,142,121
Accounts receivable – settlement	27,342,233	14,552,854
Others	14,634,228	10,053,233
Subtotal	171,827,547	136,334,414
Less: Allowance for doubtful accounts	1,156,638	1,350,786
Total	\$ 170,670,909	134,983,628

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

(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 December 31, 2017 and 2016, assets held for sale amounting to \$45,533 and \$49,606 were recognized at the lower of their carrying amount and fair value less costs to sell.

(Continued)

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

(i) Discounts and Loans, Net

	December 31, 2017	December 31, 2016
Discounts and overdrafts	\$ 23,199,954	31,360,774
Short-term advances	10,973,751	10,370,197
Accounts receivable – financing	2,674,838	3,119,411
Short-term loans	366,207,108	322,288,983
Short-term secured loans	85,916,856	78,282,903
Medium-term loans	262,198,612	250,981,301
Medium-term secured loans	118,257,080	121,203,977
Long-term loans	90,142,012	84,975,955
Long-term secured loans	752,332,955	691,391,597
Insurance policy loans	52,250,315	48,166,793
Import and export bill negotiation	12,867,491	9,474,404
Nonperforming loans	<u>4,569,814</u>	<u>6,365,804</u>
Subtotal	1,781,590,786	1,657,982,099
Less: Allowance for doubtful accounts	22,586,881	20,778,911
Adjustments of premium and discount	<u>563,794</u>	<u>580,691</u>
Total	<u>\$ 1,758,440,111</u>	<u>1,636,622,497</u>

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

Loans

Item		Total loans	
		December 31, 2017	December 31, 2016
There is objective evidence of impairment.	Individual assessment of impairment	8,464,298	12,458,040
	Combined assessment of impairment	2,360,405	2,234,746
There is no objective evidence of impairment.	Combined assessment of impairment	1,770,766,083	1,643,289,313
Total		1,781,590,786	1,657,982,099

Loans

Item		Allowance for doubtful accounts	
		December 31, 2017	December 31, 2016
There is objective evidence of impairment.	Individual assessment of impairment	3,779,079	3,505,957
	Combined assessment of impairment	162,587	144,418
There is no objective evidence of impairment.	Combined assessment of impairment	18,645,215	17,128,536
Total		22,586,881	20,778,911

(Continued)

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

Item		Total receivables	
		December 31, 2017	December 31, 2016
There is objective evidence of impairment.	Individual assessment of impairment	1,135,281	2,360,368
	Combined assessment of impairment	870,524	992,938
There is no objective evidence of impairment.	Combined assessment of impairment	170,375,060	134,613,542
Total		172,380,865	137,966,848

Receivables

Item		Allowance for doubtful accounts	
		December 31, 2017	December 31, 2016
There is objective evidence of impairment.	Individual assessment of impairment	823,472	1,631,042
	Combined assessment of impairment	290,910	305,573
There is no objective evidence of impairment.	Combined assessment of impairment	405,028	396,406
Total		1,519,410	2,333,021

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 years ended December 31, 2017 and 2016, were as follows:

	2017			
	<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	146,837	2,791,768	(34,067)	2,904,538
Write-off	(186,755)	(1,023,354)	(996,733)	(2,206,842)
Recovery from write-off	-	392,340	355,486	747,826
Effects of exchange rate changes and others	(154,230)	(352,784)	55,851	(451,163)
Ending balance	<u>\$ 1,156,638</u>	<u>22,586,881</u>	<u>362,772</u>	<u>24,106,291</u>

(Continued)

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

	2016			
	Receivables	Loans	Other financial assets	Total
Beginning balance	\$ 1,045,917	20,581,317	583,754	22,210,988
Allowance for doubtful accounts	392,324	1,934,891	899,926	3,227,141
Write-off	(102,678)	(1,960,342)	(870,921)	(2,933,941)
Recovery from write-off	24,724	593,062	387,046	1,004,832
Effects of exchange rate changes and others	(9,501)	(370,017)	(17,570)	(397,088)
Ending balance	\$ 1,350,786	20,778,911	982,235	23,111,932

(j) Reinsurance Contract Assets

	December 31, 2017	December 31, 2016
Claims recoverable from reinsurers	\$ 2,864,695	2,750,608
Due from reinsurers and ceding companies	3,703,972	3,469,224
Subtotal	6,568,667	6,219,832
Reinsurance reserve assets:		
Ceded unearned premium reserve	5,627,910	5,154,238
Ceded claim reserve	7,596,099	12,038,969
Ceded premium deficiency reserve	493,301	391,873
Ceded liability reserve	793	-
Subtotal	13,718,103	17,585,080
Total	\$ 20,286,770	23,804,912

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

	December 31, 2017	December 31, 2016
Government bonds	\$ 101,369,272	109,445,233
Corporate bonds	48,420,524	13,163,601
Financial bonds	46,285,951	50,856,713
Negotiable certificates of deposits	298,396,367	209,910,950
Others	3,011,323	4,139,635
Subtotal	497,483,437	387,516,132
Less: Guarantee deposits	10,333,173	10,331,071
Total	\$ 487,150,264	377,185,061

(Continued)

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

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 December 31, 2017 and 2016, the cumulative amounts of disposal and reclassification during the past three years were \$28,204,475 and \$18,493,991, respectively, the cumulative gains on disposal were \$17,333 and \$15,286, respectively; and the cumulative other comprehensive income from reclassification was \$205,938 and \$205,938, respectively. The percentages of the cumulative amounts of disposal and reclassification of held-to-maturity investments were 5.70% and 5.00%, respectively.

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	
			December 31, 2017	December 31, 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 %

Summarized financial information of material associates was as follows:

Xiamen Bank

	December 31, 2017	December 31, 2016
Total assets	\$ 976,390,016	877,083,932
Total liabilities	(919,964,475)	(835,187,187)
Net assets	<u>\$ 56,425,541</u>	<u>41,896,745</u>
	2017	2016
Operating revenue	<u>\$ 20,279,165</u>	<u>18,171,300</u>
Net income	\$ 5,505,510	4,993,410
Other comprehensive income	(923,854)	(1,188,475)
Total comprehensive income	<u>\$ 4,581,656</u>	<u>3,804,935</u>

(Continued)

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

	<u>2017</u>	<u>2016</u>
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	697,355	(7,652)
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	<u>\$ 8,947,205</u>	<u>8,681,918</u>

Since the Company and its subsidiaries did not participate in the capital increase for cash of Xiamen Bank in June and September, 2017, their ownership interest in Xiamen Bank decreased. 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 approximately 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 financial statements of the Company and its subsidiaries.

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Fubon Construction Management Co., Ltd.	\$ 107,775	120,653
Fubon Health Management Co., Ltd.	43,660	-
Founder Fubon Fund Management Co., Ltd.	359,674	447,396
CITIC Capital Holdings Ltd.	9,172,776	8,471,407
Hyundai Life Insurance Co., Ltd.	3,588,688	3,889,223
CITIC FUTONG Financial Leasing Limited	1,515,612	1,401,248
Teng Fu Bo Investment Limited	180,670	288,602
Star River Energy Corporation	342,356	-
Amis Technology Co., Ltd.	17,325	-
Bravelog Sport Technology Co., Ltd.	7,479	-
Star Shining Energy Corporation	329,244	-
Cofit Healthcare Inc.	14,378	-
	<u>\$ 15,679,637</u>	<u>14,618,529</u>
	<u>2017</u>	<u>2016</u>
Attributable to the Company and its subsidiaries :		
Net income	\$ (217,997)	431,814
Other comprehensive income	742,895	(1,969,394)
Total comprehensive income	<u>\$ 524,898</u>	<u>(1,537,580)</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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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

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
	2016	December 31, 2016
Fubon Bank (China)	\$ 300,897	-

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
Total assets	\$ 339,673,743
Total liabilities	(298,212,671)
Equity	\$ 41,461,072
	2016
Net revenue	\$ 5,727,803
Net income	\$ 1,643,657
Other comprehensive income	(3,496,561)
Total comprehensive income	\$ (1,852,904)
Consolidated net income for the period attributable to non-controlling interests	\$ 300,897
Consolidated other comprehensive income attributable to non-controlling interests	\$ (540,918)
	2016
Cash flows	
Operating activities	\$ (5,725,633)
Investing activities	(260,578)
Financing activities	2,988,429

(Continued)

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

(n) Other Financial Assets, Net

	December 31, 2017	December 31, 2016
Financial assets carried at cost, net	\$ 6,248,183	5,813,633
Debt investments without active market, net	1,585,669,386	1,264,099,863
Assets on insurance product—separated account	155,214,816	142,534,021
Linked deposits	19,821,595	28,492,824
Margin deposits paid for borrowed securities	41,654	32,103
Collateral for borrowed securities	46,188	35,540
Overdue receivables	272,277	989,754
Customer margin deposit	20,504,270	15,702,134
Buy remittance	1,234	1,595
Buy nonperforming loan	279,807	641,085
Deposits not qualifying as cash equivalents	45,928,210	16,555,456
Prepayments for investments	<u>1,645,750</u>	<u>-</u>
Subtotal	1,835,673,370	1,474,898,008
Less: Guarantee deposits—others	2,218,480	2,234,866
Allowance for doubtful accounts	<u>362,772</u>	<u>982,235</u>
Total	<u>\$ 1,833,092,118</u>	<u>1,471,680,907</u>

(i) Financial assets carried at cost

	December 31, 2017	December 31, 2016
Investment in unlisted stocks	\$ 6,651,400	6,238,214
Less: Accumulated impairment	<u>403,217</u>	<u>424,581</u>
Total	<u>\$ 6,248,183</u>	<u>5,813,633</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 \$27,119 and \$73,395 for the years ended December 31, 2017 and 2016, respectively.

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

(ii) Separated account — insurance product

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Assets on insurance product — separated account:		
Bank deposits	\$ 9,378,316	8,372,541
Securities	144,366,179	130,945,839
Receivables	<u>1,470,321</u>	<u>3,215,641</u>
Total	<u>\$ 155,214,816</u>	<u>142,534,021</u>
	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Liabilities on insurance product — separated account:		
Reserve — insurance contract	\$ 94,670,174	81,981,447
Reserve — investment contract	60,544,109	60,552,166
Payables	<u>533</u>	<u>408</u>
Total	<u>\$ 155,214,816</u>	<u>142,534,021</u>
	<u>2017</u>	<u>2016</u>
Investment-type insurance policy revenues:		
Insurance revenues	\$ 17,742,092	14,087,294
Interest revenues	966,977	350,937
Unrealized gains (losses) on financial assets measured at fair value through profit and loss	10,052,205	2,171,024
Gains (losses) on foreign exchange	<u>(495,000)</u>	<u>337,392</u>
Total	<u>\$ 28,266,274</u>	<u>\$ 16,946,647</u>
Investment-type insurance policy expense:		
Net insurance separate account value reserve	\$ 13,052,846	3,844,720
Insurance claim payments	12,480,144	10,421,101
Administrative expense	<u>2,733,284</u>	<u>2,680,826</u>
Total	<u>\$ 28,266,274</u>	<u>16,946,647</u>

For the years ended December 31, 2017 and 2016, Fubon Life Insurance and its subsidiaries earned sales commission in investment oriented insurance products from counterparties amounted to \$489,970 and \$448,187, respectively. The rebate was recognized as net service fees and commission income.

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

(iii) Debt investments without active market

	December 31, 2017	December 31, 2016
Government bonds	\$ 97,420,917	29,868,026
Corporate bonds	668,165,038	527,166,026
Financial bonds	277,093,961	229,535,551
Zero-coupon bonds	485,027,715	415,189,710
Real estate mortgage bonds	25,686,633	32,688,848
Securitization of beneficiary certificates	23,309,731	20,180,843
Negotiable certificates of deposit	<u>8,965,391</u>	<u>9,470,859</u>
Total	<u>\$ 1,585,669,386</u>	<u>1,264,099,863</u>

For the years ended December 31, 2017 and 2016, the Company and its subsidiaries conducted an impairment evaluation on debt investments without an 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 and \$13,071, respectively.

(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	1,915,735	714,343	434,663	33,009	-	3,097,750
Reclassification	3,501,761	153,839	(247,229)	(1,242)	-	3,407,129
Disposals	(1,075,491)	(3,126,121)	-	-	-	(4,201,612)
Gains (losses) generated from fair value adjustments	(1,163,213)	795,123	-	-	(28)	(368,118)
Effects of exchange rate changes	255,228	576,108	-	-	31,665	863,001
Balance as of December 31, 2017	<u>\$ 130,725,092</u>	<u>44,318,761</u>	<u>1,478,188</u>	<u>57,868</u>	<u>1,747,321</u>	<u>178,327,230</u>
Balance as of January 1, 2016	\$ 124,640,164	43,580,409	635,510	2,524	2,428,187	171,286,794
Additions	4,554,844	7,895,571	655,244	26,100	-	13,131,759
Reclassification	(1,665,357)	(396,526)	-	(2,523)	-	(2,064,406)
Disposals	(21,606)	(13,094)	-	-	-	(34,700)
Gains (losses) generated from fair value adjustments	2,210,610	(2,412,469)	-	-	(45,700)	(247,559)
Others	-	-	-	-	(203,916)	(203,916)
Effects of exchange rate changes	(2,427,583)	(3,448,422)	-	-	(462,887)	(6,338,892)
Balance as of December 31, 2016	<u>\$ 127,291,072</u>	<u>45,205,469</u>	<u>1,290,754</u>	<u>26,101</u>	<u>1,715,684</u>	<u>175,529,080</u>

Rental revenue incurred for investment property for the years ended December 31, 2017 and 2016, amounted to \$6,019,400 and \$6,100,834, respectively. Direct operation expenses amounted to \$1,007,380 and \$1,168,772 for the years ended December 31, 2017 and 2016, respectively, in which, \$47,781 and \$71,670, respectively, are direct operation expenses belonging to investment property that does not generate rental income.

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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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 December 31, 2017 and 2016, the net carrying amount of leasehold property was \$216,786 and \$212,885, 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 December 31, 2017 and 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 December 31, 2017 and 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
- 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

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

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:

	December 31, 2017	December 31, 2016
	<u>Mainly</u>	<u>Mainly</u>
Income capitalization rate	0.99%~5.19%	0.99%~5.11%
Year-end income capitalization rate	1.33%~6.35%	1.83%~6.35%
Discount rate	1.49%~7.10%	2.30%~8.20%

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.

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.

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

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 December 31, 2017 and 2016.

Valuation agencies as of December 31, 2017 were as follows:

- 1) Zhan-Mao Real Estate Appraisers Firm: Chang Shih-Xian
- 2) Repro International Inc.: Wu Hung-Hsu, Wu Chih-Hao, Shih Fu-Hsue

Valuation agencies as of 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

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:

	December 31, 2017	December 31, 2016
Direct capitalization rate (net)	1.00%~5.30%	0.25%~6.02%
Profit rate	15.00%~20.00%	12.50%~20.00%
Overall capital interest rate	2.00%~4.10%	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.

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

(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.

The fair values of the investment property as of December 31, 2017 and 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, Liu Shih Kai, Chang I Chih and Yeh Yu-Fen from Savills Plc Real Estate Appraiser Office, a member of certified ROC real estate appraisals.

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.

	December 31, 2017	December 31, 2016
Expected future cash inflows	\$ 4,250,831	4,004,305
Expected future cash outflows	<u>(135,521)</u>	<u>(122,972)</u>
Expected future cash inflows, net	<u>\$ 4,115,310</u>	<u>3,881,333</u>
Discount rate	3.845%	4.345%

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 as of December 31, 2017 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 2.0%.

The discount rate as of December 31, 2016 was based on the interest rate of the two-year time deposits of Chunghwa Post Co., Ltd., plus, 0.75%, and any assetspecific risk premiums of 2.5%.

(Continued)

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

The inputs applied are as follows :

	December 31, 2017	December 31, 2016
Discount rate	4.345 %	4.345 %

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.

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

(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 and Zhan Xiu-Ying, Ke Feng-Ru and Gu Jian-Jui from Colliers International Real Estate Appraiser Office, in accordance with the “Regulations on Real Estate Appraisal”, and the valuation dates were December 31, 2017 and 2016.

The fair value of investment property is supported by observable evidences in the market. The main appraising method are comparison approach, direct capitalization method and 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. Considering their characteristics, profile of local property market and reference of similar investment properties, commercial office buildings are generally appraised using the comparison approach and direct capitalization method as primary method.

	December 31, 2017	December 31, 2016
Profit rate	15.00%~18.00%	18.00%
Overall capital interest rate	2.93%~4.77%	1.47%~2.94%
Income capitalization rate	1.53%~2.55%	-

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

(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 years ended December 31, 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	-	93,748	574,437	36,851	1,060,479	1,414,017	3,179,532
Estimated decommissioning cost	-	-	-	-	9,860	-	9,860
Reversal decommissioning cost	-	-	-	-	(2,476)	-	(2,476)
Disposals	(997)	(579,446)	(580,749)	(27,302)	(535,794)	-	(1,724,288)
Reclassification	(192,593)	827,808	225,189	(99,718)	448,900	(1,477,827)	(268,241)
Effects of exchange rates changes	-	(460,172)	(26,665)	(2,155)	(294,718)	(10,952)	(794,662)
Balance as of December 31, 2017	<u>\$ 29,361,819</u>	<u>26,189,321</u>	<u>6,019,256</u>	<u>310,832</u>	<u>9,609,212</u>	<u>1,940,852</u>	<u>73,431,292</u>

(Continued)

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

	Land	Buildings	Machinery and computer equipment	Transportation equipment	Other equipment	Prepayment for purchases of equipment, and construction in progress	Total
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	-	80,875	627,791	16,391	1,387,776	1,521,645	3,634,478
Estimated decommissioning cost	-	-	-	-	12,147	-	12,147
Reversal decommissioning cost	-	-	-	-	(12,263)	-	(12,263)
Disposals	(129,593)	(166,104)	(490,313)	(25,657)	(447,895)	-	(1,259,562)
Reclassification	1,943,237	258,381	340,056	-	382,879	(955,925)	1,968,628
Effects of exchange rates changes	-	(743,731)	(54,293)	(4,066)	(131,289)	(32,293)	(965,672)
Balance as of December 31, 2016	<u>\$ 29,555,409</u>	<u>26,307,383</u>	<u>5,827,044</u>	<u>403,156</u>	<u>8,922,961</u>	<u>2,015,614</u>	<u>73,031,567</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	-	575,781	698,660	22,143	839,598	-	2,136,182
Disposals	-	(102,223)	(563,215)	(26,797)	(515,745)	-	(1,207,980)
Reversal decommissioning cost	-	-	-	-	(2,261)	-	(2,261)
Reclassification	(6,536)	(241,806)	865	(49,034)	45,691	-	(250,820)
Effects of exchange rates changes	-	(87,433)	(18,608)	(1,694)	(183,770)	-	(291,505)
Impairment losses	6,536	13,290	-	-	-	-	19,826
Balance as of December 31, 2017	<u>\$ 1,013,284</u>	<u>4,941,082</u>	<u>3,955,005</u>	<u>228,574</u>	<u>6,034,215</u>	<u>-</u>	<u>16,172,160</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	-	574,577	615,066	34,072	725,390	-	1,949,105
Disposals	-	(49,098)	(487,513)	(16,585)	(440,991)	-	(994,187)
Reversal decommissioning cost	-	-	-	-	(10,251)	-	(10,251)
Reclassification	-	(136,252)	50,712	(465)	18,960	-	(67,045)
Effects of exchange rates changes	-	(80,177)	(27,864)	(3,032)	(72,706)	-	(183,779)
Reversal gains of impairment	(6,446)	-	-	-	-	-	(6,446)
Balance as of December 31, 2016	<u>\$ 1,013,284</u>	<u>4,783,473</u>	<u>3,837,303</u>	<u>283,956</u>	<u>5,850,702</u>	<u>-</u>	<u>15,768,718</u>
Carrying amounts:							
Balance as of December 31, 2017	<u>\$ 28,348,535</u>	<u>21,248,239</u>	<u>2,064,251</u>	<u>82,258</u>	<u>3,574,997</u>	<u>1,940,852</u>	<u>57,259,132</u>
Balance as of January 1, 2016	<u>\$ 26,722,035</u>	<u>22,403,539</u>	<u>1,716,901</u>	<u>146,522</u>	<u>2,101,306</u>	<u>1,482,187</u>	<u>54,572,490</u>
Balance as of December 31, 2016	<u>\$ 28,542,125</u>	<u>21,523,910</u>	<u>1,989,741</u>	<u>119,200</u>	<u>3,072,259</u>	<u>2,015,614</u>	<u>57,262,849</u>

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

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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As of December 31, 2017 and 2016, certain property were pledged as collateral, please refer to note 8 for details.

(q) Intangible Assets, Net

	December 31, 2017	December 31, 2016
Banking license and operating rights	\$ 5,710,086	5,807,579
Core deposits	6,586,330	7,089,714
Goodwill	14,271,271	14,312,255
Computer software	1,330,890	1,327,820
Customer relationship	74,487	84,866
Others	280,710	278,349
	<u>\$ 28,253,774</u>	<u>28,900,583</u>

The movements of intangible assets of the Company and its subsidiaries for the years ended December 31, 2017 and 2016 were as follows:

	Goodwill	Other intangible assets	Total
Cost :			
Balance as of January 1, 2017	\$ 14,312,255	14,588,328	28,900,583
Additions	-	365,785	365,785
Disposals	-	(1,735)	(1,735)
Amortization	-	(1,075,305)	(1,075,305)
Reclassification	-	278,401	278,401
Effects of exchange rates changes	(40,984)	(172,971)	(213,955)
Balance as of December 31, 2017	<u>\$ 14,271,271</u>	<u>13,982,503</u>	<u>28,253,774</u>
Balance as of January 1, 2016	\$ 14,571,186	15,727,435	30,298,621
Additions	9,365	779,951	789,316
Disposal	-	(11,313)	(11,313)
Amortization	-	(1,103,262)	(1,103,262)
Reclassification	-	264,171	264,171
Effects of exchange rates changes	(268,296)	(1,068,654)	(1,336,950)
Balance as of December 31, 2016	<u>\$ 14,312,255</u>	<u>14,588,328</u>	<u>28,900,583</u>

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

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 years ended December 31, 2017 and 2016, after evaluating the carrying amount of goodwill.

(r) Other Assets

	December 31, 2017	December 31, 2016
Refundable deposits	\$ 20,968,134	25,576,832
Foreclosed collaterals and residuals taken over	87,926	2,467,247
Operation guarantee deposits and settlement fund	328,963	338,678
Deferred assets	810,672	587,885
Prepayments	31,153,425	31,426,747
Others	2,758,659	2,288,653
Total	<u>\$ 56,107,779</u>	<u>62,686,042</u>

The Company acquired the superficies by bid, accounted as prepayments. For the years ended December 31, 2017 and 2016, the Company and its subsidiaries recognized impairment loss (reversal gain) on other assets measured at net fair value amounting to \$(6,614) and \$3,139, respectively.

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

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Held-for-trading financial liabilities:		
Stock warrant liabilities	\$ 7,056,881	8,368,658
Stock borrowing and short selling	377,679	253,430
Bonds borrowing and short selling	-	356,598
	<u>7,434,560</u>	<u>8,978,686</u>
Derivative financial instruments:		
Interest rate contracts	2,848,586	3,849,605
Currency rate contracts	21,889,206	58,968,569
Options contracts	2,090,262	18,217,600
Others	3,906,363	3,558,793
	<u>30,734,417</u>	<u>84,594,567</u>
Financial liabilities designated as at fair value through profit or loss at initial recognition:		
Financial bonds	-	1,690,909
Structured products	2,078,273	2,282,024
	<u>2,078,273</u>	<u>3,972,933</u>
Total	<u>\$ 40,247,250</u>	<u>97,546,186</u>

(t) Securities Sold under Repurchase Agreements

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Pecuniary financing	<u>\$ 158,316,465</u>	<u>122,889,790</u>

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

(u) Commercial Paper Issued, Net

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Par value	\$ 23,485,000	655,000
Less: Discount on commercial paper issued	13,130	213
Total	<u>\$ 23,471,870</u>	<u>654,787</u>
Interest rate range	0.39%~0.68%	0.56%~0.62%

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

(v) Deposits

	December 31, 2017	December 31, 2016
Checking accounts	\$ 12,721,159	13,174,102
Public treasury deposits	26,883,971	34,452,576
Demand deposits	506,385,908	426,327,215
Time deposits	794,165,096	743,979,484
Negotiable certificates of deposit	90,929,497	70,959,595
Savings accounts	852,628,783	830,837,261
Remittances	891,525	1,559,498
	<u>\$ 2,284,605,939</u>	<u>2,121,289,731</u>

(w) Bonds Payable

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

	December 31, 2017	December 31, 2016
Unsecured corporate bonds	\$ 54,000,000	63,800,000
Cumulative perpetual subordinated corporate bonds	35,000,000	28,500,000
Financial bonds	98,206,734	86,301,095
Total	<u>\$ 187,206,734</u>	<u>178,601,095</u>

(ii) Unsecured corporate bonds

Name	Issue period		Issue amount	Interest rate	December 31, 2017	December 31, 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	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	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	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	-	-	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	Fixed interest, interest payable annually; pay in full upon five years

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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Name	Issue period		Issue amount	Interest rate	December 31, 2017	December 31, 2016	Note
	Issue date	Maturity date					
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	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	Fixed interest, interest payable annually; pay in full upon five years
First 2013 unsecured domestic corporate bonds-bond B	2013.08.28	2020.08.28	900,000	1.58	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	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	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	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	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	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	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	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	Fixed interest, interest payable annually; pay in full upon seven years
					<u>\$ 54,000,000</u>	<u>63,800,000</u>	

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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(iii) Cumulative perpetual subordinated corporate bonds

Name	Issue Period		Coupon rate (Note 1)	Issue Amount	Unamortized premium (discount) amount	December 31, 2017	December 31, 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>	

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

	December 31, 2017	December 31, 2016
First issuance of subordinated bank debentures in 2010; fixed 2.2%; maturity: January 2017	\$ -	2,250,000
First issuance of subordinated bank debentures in 2010; fixed 2.5%; maturity: January 2020	2,400,000	2,400,000
Second issuance of subordinated bank debentures in 2010; fixed 2.3%; maturity: January 2017	-	600,000
Third issuance of dominant bank debentures in 2010; fixed 1.8%; maturity: March 2017	-	1,500,000
Fourth issuance of subordinated bank debentures in 2010; fixed 2.5%; maturity: March 2020	2,000,000	2,000,000
Fifth issuance of dominant bank debentures in 2010; fixed 1.7%; maturity: May 2017	-	500,000
Sixth issuance of subordinated bank debentures in 2010; fixed 1.95%; maturity: August 2017	-	4,500,000
Sixth issuance of subordinated bank debentures in 2010; fixed 2.05%; maturity: August 2020	1,900,000	1,900,000
Seventh issuance of subordinated bank debentures in 2010; fixed 1.55%; maturity: October 2020	900,000	900,000

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Eighth issuance of subordinated bank debentures in 2010; fixed 1.5%; maturity: November 2017	\$ -	2,550,000
First issuance of subordinated bank debentures in 2011; fixed 1.65%; maturity: March 2018	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
Third issuance of subordinated bank debentures in 2011; fixed 1.65%; maturity: December 2018	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
Second issuance of subordinated bank debentures in 2012; fixed 1.68%; maturity: May 2022	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
First issuance of subordinated bank debentures in 2013; fixed 1.7%; maturity: August 2023	500,000	500,000
First issuance of subordinated bank debentures in 2014; fixed 1.7%; maturity: May 2021	5,500,000	5,500,000
First issuance of subordinated bank debentures in 2014; fixed 1.85%; maturity: May 2024	\$ 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
First issuance of dominant bank debentures in 2015; zero interest rate; maturity: February 2045 (US\$100,000 thousand)	3,357,551	3,486,633
Second issuance of dominant bank debentures in 2015; zero interest rate; maturity: May 2045 (US\$80,000 thousand)	-	2,762,324
First issuance of dominant bank debentures in 2016; zero interest rate; maturity: December 2046 (US\$200,000 thousand)	6,219,879	6,463,320
First issuance of dominant bank debentures in 2017; zero interest rate; maturity: January 2047 (US\$200,000 thousand)	6,199,326	-
First issuance of dominant bank debentures in 2017; zero interest rate; maturity: January 2047 (US\$200,000 thousand)	6,196,537	-

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
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	-
Fourth issuance of subordinated bank debentures in 2017; fixed 1.3%; maturity: October 2024	1,750,000	-
Fifth issuance of subordinated bank debentures in 2017; zero interest rate; maturity: December 2047 (US\$100,000 thousand)	2,994,952	-
Subtotal	<u>75,368,245</u>	<u>65,262,277</u>
Valuation adjustments of bank debentures	(271,289)	(611,074)
Subtotal	<u><u>\$ 75,096,956</u></u>	<u><u>64,651,203</u></u>
2) Fubon Bank (Hong Kong) and its subsidiaries		
	<u>December 31, 2017</u>	<u>December 31, 2016</u>
10-year bonds issued in November 2010; fixed 6.25%; maturity: November 2020	\$ 5,951,256	6,428,783
3-year bonds issued in June 2014; fixed 2.15%; maturity: June 2017	-	417,139
3-year bonds issued in August 2014; fixed 2.40%; maturity: August 2017	-	417,160
3-year bonds issued in December 2014; floating; maturity: December 2017	-	416,290
2-year bonds issued in June 2015; floating; maturity: June 2017	-	832,526
3-year bonds issued in June 2015; floating; maturity: June 2018	382,076	416,169
2-year bonds issued in August 2015; floating; maturity: August 2017	-	957,292
2-year bonds issued in August 2015; fixed 1.85%; maturity: August 2017	-	416,128
1-year bonds issued in April 2016; fixed 1.2%; maturity: April 2017	-	416,290
1-year bonds issued in May 2016; fixed 1.2%; maturity: May 2017	-	457,919

(Continued)

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
9-month bonds issued in May 2016; fixed 1.1%; maturity: February 2017	\$ -	832,580
3-year bonds issued in June 2016; fixed 2.12%; maturity: June 2019	763,907	823,430
2-year bonds issued in July 2016; floating; maturity: July 2018	382,011	416,290
3-year bonds issued in July 2016; fixed 1.9%; maturity: July 2019	382,053	406,878
6-month bonds issued in August 2016; zero interest rate; maturity: February 2017	-	1,663,640
6-month bonds issued in August 2016; fixed 0.91%; maturity: February 2017	-	416,290
9-month bonds issued in August 2016; fixed 1.01%; maturity: May 2017	-	832,580
1-year bonds issued in August 2016; fixed 1.2%; maturity: August 2017	-	416,290
1-year bonds issued in August 2016; fixed 1.18; maturity: August 2017	-	749,322
2-year bonds issued in August 2016; fixed 1.6%; maturity: August 2018	1,030,972	1,109,258
3-year bonds issued in September 2016; fixed 1.6%; maturity: September 2019	381,492	405,907
3-month bonds issued in October 2016; zero interest rate; maturity: January 2017	-	798,209
1-year bonds issued in October 2016; zero interest rate; maturity: October 2017	-	957,898
3-year bonds issued in October 2016; floating; maturity: October 2019	596,650	645,624
3-year bonds issued in February 2017; fixed 2.53%; maturity: February 2020	382,110	-
2-year bonds issued in March 2017; fixed 2.28%; maturity: March 2019	764,132	-
3-year bonds issued in March 2017; fixed 2.5%; maturity: March 2020	458,245	-
3-year bonds issued in April 2017, fixed 2.4%; maturity: April 2020	267,190	-
2-year bonds issued in June 2017; fixed 1.75%; maturity: June 2019	572,366	-

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

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
2-year bonds issued in June 2017; fixed 1.8%; maturity: June 2019	\$ 764,002	-
6-month bonds issued in August 2017; zero interest rate; maturity: February 2018	1,526,743	-
1-year bonds issued in August 2017; fixed 2.11%; maturity: August 2018	895,555	-
2-year bonds issued in August 2017; fixed 1.75%; maturity: August 2019	381,522	-
2-year bonds issued in September 2017; zero interest rate; maturity: September 2019	381,980	-
2-year bonds issued in September 2017; zero interest rate; maturity: September 2019	763,712	-
3-year bonds issued in September 2017; floating; maturity: September 2020	1,145,398	-
6-month bonds issued in October 2017; fixed 2.02%; maturity: April 2018	597,016	-
2-year bonds issued in October 2017; fixed 1.95%; maturity: October 2019	763,953	-
3-month bonds issued in Novmber 2017; zero interest rate; maturity: Feburary 2018	1,489,411	-
3-month bonds issued in Novmber 2017; zero interest rate; maturity: Feburary 2018	1,488,958	-
3-month bonds issued in December 2017; fixed 2%; maturity: Feburary 2018	597,068	-
	<u> </u>	<u> </u>
Subtotal	<u>\$ 23,109,778</u>	<u>21,649,892</u>
Total	<u>\$ 98,206,734</u>	<u>86,301,095</u>
 (x) Other Borrowings		
	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Credit and guarantee loan	<u>\$ 5,440,749</u>	<u>4,420,000</u>
Interest rate range	1.26%~1.87%	0.60%~1.68%

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

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

(y) Provisions

(i) Provisions

	December 31, 2017	December 31, 2016
Unearned premium reserves (Note)	\$ 30,745,610	29,495,609
Claim reserves (Note)	23,105,947	26,804,417
Liability reserves (Note)	3,092,122,751	2,839,412,432
Special reserves (Note)	15,300,467	14,849,567
Premium deficiency reserves (Note)	20,550,557	23,351,943
Reserves for insurance with financial instrument (Note)	3,744,674	18,137,335
Foreign exchange valuation reserves(Note)	2,305,484	4,632,746
Provisions for guarantee liabilities	302,121	329,659
Provisions for employment benefits	11,934,528	12,259,140
Provisions for decommissioning, restoration and rehabilitation costs	181,275	174,490
Others	<u>29,757,727</u>	<u>30,047,767</u>
Total	<u>\$ 3,230,051,141</u>	<u>2,999,495,105</u>

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

(ii) Employee benefits

Provisions for employee benefits were as follows:

	December 31, 2017	December 31, 2016
Defined benefit plans	\$ 10,964,540	11,373,339
Preferential interest rate plan for employees' deposits	647,527	638,283
Other long term employee benefits	322,229	247,250
Others	<u>232</u>	<u>268</u>
	<u>\$ 11,934,528</u>	<u>12,259,140</u>

(Continued)

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

1) Defined benefit plans

Reconciliations between the present value of the defined benefit obligation and the fair value of the plan assets were as follows:

	December 31, 2017	December 31, 2016
Present value of the defined benefit obligation	\$ 19,950,621	19,839,950
Fair value of the plan assets	<u>(9,008,062)</u>	<u>(8,489,762)</u>
Net defined benefit liability	<u>\$ 10,942,559</u>	<u>11,350,188</u>
Employee benefits payable	<u>\$ 10,964,540</u>	<u>11,373,339</u>
Prepaid employee benefits (accounted for other assets) recognized as profit or loss	<u>\$ (21,981)</u>	<u>(23,151)</u>

a) Movements in the present value of the defined benefit obligation

Movements in the present value of the defined benefit obligation for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
Defined benefit obligation on January 1	\$ 19,839,950	18,675,543
Current service cost and interest cost	748,647	834,025
Remeasurements of the net defined benefit liability (asset)		
— Effect of changes in demographic assumptions	228,848	226,707
— Effect of changes in financial assumptions	116,278	254,321
— Effect of experience adjustments	(124,166)	649,012
Past service cost	35,894	62,562
Exchange differences of foreign plan	(70,215)	(431)
Contributions from the plan participants	14,341	15,904
Benefits paid from the defined benefit obligation	(26,524)	(26,039)
Benefits paid from the plan	<u>(812,432)</u>	<u>(851,654)</u>
Defined benefit obligation on December 31	<u>\$ 19,950,621</u>	<u>19,839,950</u>

(Continued)

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

b) Movements in the fair value of the plan assets

Movements in the fair value of the plan assets for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Fair value of the plan assets on January 1	\$ 8,489,762	7,178,666
Interest income	127,297	125,685
Remeasurements of the net defined benefit liability (asset)		
— Return on plan assets (excluding interest income)	(26,830)	(93,714)
Contributions made	1,233,619	2,006,798
Exchange differences of foreign plan	(78,202)	(21,653)
Benefits paid from the plan	(728,457)	(697,109)
Payment of administrative cost	(9,127)	(8,911)
Fair value of the plan assets on December 31	<u>\$ 9,008,062</u>	<u>8,489,762</u>

c) Expense recognized in profit or loss

Expenses recognized in profit or loss for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Current service cost	\$ 455,475	526,541
Net interest on the net defined benefit liability (asset)	165,875	182,211
Past service cost and settlement	35,894	62,562
	<u>\$ 657,244</u>	<u>771,314</u>

d) Remeasurements of the net defined benefit liability (asset) recognized in other comprehensive income

Remeasurements of the net defined benefit liability (asset) recognized in other comprehensive income as of December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Cumulative amount on January 1	\$ 3,645,722	2,413,057
Recognized during the period	256,915	1,232,665
Cumulative amount on December 31	<u>\$ 3,902,637</u>	<u>3,645,722</u>

(Continued)

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

e) Actuarial assumptions

The principal actuarial assumptions at the end of the reporting periods were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Discount rate	0.875%~1.700%	1.00%~1.700%
Future salary increases	2.00%~3.25%	2.00%~3.25%

The Company and its subsidiaries expect to make the contributions of \$856,078 to the defined benefit plans in the following year.

The weighted average duration of the defined benefit obligation at the end of 2017 was 5.7~16.8 years.

f) Sensitivity analysis

When calculating the present value of the defined benefit obligation, the Company and its subsidiaries used judgments and estimations to determine the actuarial assumptions, including discount rate and future salary changes as of the financial statement date. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligation.

The impacts of the actuarial assumptions changes on defined benefit obligation on December 31, 2017 and 2016 were as follows:

	Impacts on the defined benefit obligation	
	<u>Increase 0.5%</u>	<u>Decrease 0.5%</u>
December 31, 2017		
Discount rate	(982,858)	1,018,697
Future salary increase	607,476	(581,651)
December 31, 2016		
Discount rate	(1,002,825)	1,048,914
Future salary increase	639,604	(572,152)

The above sensitivity analysis studied the impact of a single factor when others remained constant. In practice, the changes may be related to each other. The method adopted for sensitivity analysis was consistent with the method used in calculating the net defined benefit liability. The method and assumptions adopted for sensitivity analysis were the same as those with the prior period.

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

g) Defined contribution plans

Pursuant to the ROC Labor Pension Act, the defined contribution plans of the Company and its subsidiaries incorporated in Taiwan make contribution to the Employee's Individual Account of Labor Pension of the Bureau of Labor Insurance by contributing six percent of the worker's monthly wage. Under the defined contribution plans, the Company and its subsidiaries have no legal duty and constructive obligation to pay extra after the appropriated fixed amount to the Bureau of Labor Insurance.

The Company and its subsidiaries provided the pension expenses of \$1,231,575 and \$1,165,899 under the defined contribution pension plan for the years ended December 31, 2017 and 2016, respectively.

2) Preferential interest deposits plan for employees

The obligation arising from the employees' preferential deposits was as follow:

	December 31, 2017	December 31, 2016
Present value of post-employment benefits obligation	\$ 647,527	638,283
Fair value of the plan assets	-	-
Net post-employment benefits liability	<u>\$ 647,527</u>	<u>638,283</u>

a) Movements in the present value of post-employment benefits obligation

Movements in the present value of the defined benefit obligations for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
Post-employment benefits obligation on January 1	\$ 638,283	613,310
Current service cost and interest cost	25,531	24,532
Remeasurements		
— Effect of changes in demographic assumptions	(17,585)	-
— Effect of changes in financial assumptions	-	5,659
— Effect of experience adjustments	1,899	2,757
Past service cost	50,926	42,094
Benefits paid from the plan	(51,527)	(50,069)
Post-employment benefit obligation on December 31	<u>\$ 647,527</u>	<u>638,283</u>

(Continued)

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

b) Expense recognized in profit or loss

Expenses recognized in profit or loss for the years ended December 31, 2017 and 2016 were as follow:

	<u>2017</u>	<u>2016</u>
Interest cost	\$ 25,531	24,532
Past service cost	<u>50,926</u>	<u>42,094</u>
	<u>\$ 76,457</u>	<u>66,626</u>

c) Actuarial gains and losses recognized in other comprehensive income

Actuarial gains and losses recognized in other comprehensive income as of December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Cumulative amount on January 1	\$ 132,177	123,761
Recognized during the period	<u>(15,686)</u>	<u>8,416</u>
Cumulative amount on December 31	<u>\$ 116,491</u>	<u>132,177</u>

d) Actuarial assumptions

The principal actuarial assumptions of post-employment benefit obligation at the end of the reporting periods were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Discount rate	4.00%	4.00%
Expected return on employees' deposits	2.00%	2.00%
Withdrawal percentage of preferential deposits	1.33%	1.00%

The weighted average duration of the post-employment benefit obligation at the end of 2017 is 10 years.

e) Sensitivity analysis

The impacts of the actuarial assumptions changes on the post-employment benefit obligation on December 31, 2017 and 2016 were as follows:

	Impacts on the defined benefit obligation	
	<u>Increase 0.5%</u>	<u>Decrease 0.5%</u>
December 31, 2017		
Discount rate	(29,984)	32,553
Withdrawal percentage of preferential deposits	(25,082)	26,984

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

December 31, 2016

Discount rate	(29,652)	32,187
Withdrawal percentage of preferential deposits	(25,315)	27,236

The above sensitivity analysis studied the impact of single factor when others remained constant. In practice, the changes may be related to each other. The method and assumptions adopted for sensitivity analysis were the same as prior period.

(z) Other Financial Liabilities

	December 31, 2017	December 31, 2016
Principal of structured products	\$ 16,020,717	18,941,631
Liabilities on insurance product—separated account	155,214,816	142,534,021
Future traders' equity	20,504,270	15,702,135
Others	<u>217,022</u>	<u>213,520</u>
Total	<u>\$ 191,956,825</u>	<u>177,391,307</u>

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.

(aa) Other Liabilities

	December 31, 2017	December 31, 2016
Advance receipts	\$ 2,388,020	2,112,293
Temporary receipts	4,265,155	6,253,670
Guarantee deposits received	5,539,460	3,951,751
Advance premiums	6,496,211	4,715,299
Deferred revenue	1,599,243	1,407,829
Deposit-in for borrowed securities	7,196,801	5,565,473
Collections for underwriting stock value	259,009	18,077
Others	<u>2,805,653</u>	<u>2,098,128</u>
Total	<u>\$ 30,549,552</u>	<u>26,122,520</u>

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

(ab) Income Tax

(i) Income tax expenses

The components of income tax expenses (benefits) for the years ended December 31, 2017 and 2016, respectively, were as follows:

	<u>2017</u>	<u>2016</u>
Current tax expense (benefit)		
Current period	\$ 11,980,680	8,528,273
Adjustment for prior periods	(872,363)	28,714
10% surtax on undistributed earnings	1,831,543	1,454,015
Others	<u>593,140</u>	<u>304,875</u>
	<u>13,533,000</u>	<u>10,315,877</u>
Deferred tax benefit		
Incurrence and reversal of temporary differences	(9,498,740)	(4,210,616)
Total income tax expenses	<u><u>\$ 4,034,260</u></u>	<u><u>6,105,261</u></u>

Income tax (expenses) benefits recognized directly in other comprehensive income for the years ended December 31, 2017 and 2016, respectively, were as follows:

	<u>2017</u>	<u>2016</u>
Items not to be reclassified subsequently to profit or loss:		
Remeasurements of the defined benefit plans	\$ 39,271	210,258
Revaluation gains on property	(241,295)	(1,595)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(13,356)	(1,860)
	<u>(215,380)</u>	<u>206,803</u>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	\$ (28,239)	1,225,978
Unrealized gains on available-for-sale financial assets	(5,485,358)	(3,747,326)
Gains on effective portion of cash flow hedge	(19,969)	193,682
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(113,661)	306,854
	<u>(5,647,227)</u>	<u>(2,020,812)</u>
	<u><u>\$ (5,862,607)</u></u>	<u><u>(1,814,009)</u></u>

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

The related reconciliation of tax expense and income before income tax for the years ended December 31, 2017 and 2016, respectively, were as follows:

	<u>2017</u>	<u>2016</u>
Income before income tax	<u>\$ 58,050,577</u>	<u>54,680,017</u>
Income tax using the Company's domestic tax rate	9,868,598	9,295,603
Effect of tax rates in foreign branches	124,152	592,141
Permanent differences	101,548	37,429
Tax-exempt income	(9,232,800)	(7,118,782)
Withholding tax on foreign income	189,967	(347,689)
Amount of basic tax greater than regular income tax	1,111,160	1,596,338
Tax implication on investment properties	(112,943)	(47,628)
Over provision in prior periods	(872,363)	(20,415)
10% surtax on undistributed earnings	1,831,543	1,454,015
Others	<u>1,025,398</u>	<u>664,249</u>
	<u>\$ 4,034,260</u>	<u>6,105,261</u>

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Share of loss of associates under equity method	\$ 46,909	30,198
Tax losses	<u>3,674,550</u>	<u>3,626,141</u>
	<u>\$ 3,721,459</u>	<u>3,656,339</u>

The share of loss of the associates under equity method was derived from the investing foreign associates under equity method, and the losses are not considered probable to reverse in the foreseeable future.

In accordance with the income tax act, tax losses assessed by the tax authorities for the previous 10 years could be deducted from the income of the current period; and the income tax is calculated after the deduction. Those tax losses are not recognized as deferred tax assets for it is not probable that the subsidiary, Taiwan Sport Lottery, Fubon Sports & Entertainment Co., Ltd. and Fubon Stadium Co., Ltd., will have sufficient taxable income in the future for the realization of the temporary differences.

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

As of December 31, 2017, remaining deductible tax losses and expiry years of Taiwan Sport Lottery were as follows:

<u>Loss for the year</u>	<u>Remaining deductible amount</u>	<u>Expiry year</u>
2009 loss that have been approved	\$ 269,476	2019
2010 loss that have been approved	1,251,671	2020
2011 loss that have been approved	<u>2,105,799</u>	2021
	<u><u>\$ 3,626,946</u></u>	

Taiwan Sport Lottery was included in a combined corporate income tax filing starting from 2012, except that losses that have been approved from the year 2008 to 2011 were used solely by Taiwan Sport Lottery.

2) Recognized deferred tax assets and liabilities

The movements of deferred tax assets and liabilities for the years ended December 31, 2017 and 2016 were as follows:

Deferred tax assets:

	Long-term employee benefits	Fair value gains of financial instruments	Impairment loss on financial assets	Overseas branches foreign investment gains	Unrealized foreign exchange gains (losses)	Allowance on bad debts	Others	Total
Balance at January 1, 2017	\$ 1,956,932	5,530,640	81,916	457,930	5,222	448,754	1,510,008	9,991,402
Recognized as comprehensive income	(105,593)	(2,235,795)	270,286	(111,765)	10,772,458	2,558	158,707	8,750,856
Recognized as other comprehensive income	21,104	(3,159,602)	-	-	-	-	50,251	(3,088,247)
Exchange differences arising on translation of foreign operations	-	-	-	(1,277)	-	(5,074)	23,445	17,094
Balance at December 31, 2017	<u>\$ 1,872,443</u>	<u>135,243</u>	<u>352,202</u>	<u>344,888</u>	<u>10,777,680</u>	<u>446,238</u>	<u>1,742,411</u>	<u>15,671,105</u>
Balance at January 1, 2016	\$ 1,754,430	8,631,150	83,212	305,926	136	618,759	317,356	11,710,969
Recognized as comprehensive income	(21,569)	245,037	(1,296)	152,496	5,086	(132,121)	(34,185)	213,448
Recognized as other comprehensive income	224,071	(3,342,701)	-	-	-	-	1,234,129	(1,884,501)
Exchange differences arising on translation of foreign operations	-	(2,846)	-	(492)	-	(37,884)	(7,292)	(48,514)
Balance at December 31, 2016	<u>\$ 1,956,932</u>	<u>5,530,640</u>	<u>81,916</u>	<u>457,930</u>	<u>5,222</u>	<u>448,754</u>	<u>1,510,008</u>	<u>9,991,402</u>

Deferred tax liabilities:

	Long-term employee benefits	Fair value gains of financial instruments	Overseas branches foreign investment gains	Unrealized foreign exchange gains	Land value increment tax on investment properties	Others	Total
Balance at January 1, 2017	\$ (35,523)	125,214	2,636,767	3,526,569	3,463,664	1,077,777	10,794,468
Recognized as comprehensive income	4,326	1,505,756	542,569	(3,150,961)	(235,358)	585,784	(747,884)
Recognized as other comprehensive income	(5,077)	2,522,543	-	-	239,612	17,282	2,774,360
Exchange differences arising on translation of foreign operations	-	-	-	-	-	4,590	4,590
Balance at December 31, 2017	<u>\$ (36,274)</u>	<u>4,153,513</u>	<u>3,179,336</u>	<u>375,608</u>	<u>3,467,918</u>	<u>1,685,433</u>	<u>12,825,534</u>

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

	Long-term employee benefits	Fair value gains of financial instruments	Overseas branches foreign investment gains	Unrealized foreign exchange gains	Land value increment tax on investment properties	Others	Total
Balance at January 1, 2016	\$ (56,082)	316,963	1,905,626	8,252,395	3,061,340	767,276	14,247,518
Recognized as comprehensive income	4,888	(146,219)	731,141	(4,718,877)	400,728	(268,829)	(3,997,168)
Recognized as other comprehensive income	15,671	(45,530)	-	-	1,596	(42,229)	(70,492)
Acquisition of subsidiaries	-	-	-	-	-	659,735	659,735
Exchange differences arising on translation of foreign operations	-	-	-	(6,949)	-	(38,176)	(45,125)
Balance at December 31, 2016	<u>\$ (35,523)</u>	<u>125,214</u>	<u>2,636,767</u>	<u>3,526,569</u>	<u>3,463,664</u>	<u>1,077,777</u>	<u>10,794,468</u>

(iii) 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:

	December 31, 2017
2012	\$ 75,854
2013	44,145
	<u><u>\$ 119,999</u></u>

- 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 2003, which are assessed to the year 2012 by the tax authorities. The assessment issues and current status were as follows:

<u>Taxpayer</u>	<u>Assessment issue</u>	<u>Status</u>
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 2009, as well as application for reassessments for the year 2010, 2011, 2012 and 2013 are still in process.

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 from the year 2009 to 2013.

(Continued)

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

- (iv) 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:

	December 31, 2017		
	Estimate 2017	Filed in previous years	Total
Linked tax receivables from subsidiaries:			
Taipei Fubon Bank	\$ 696,986	65,406	762,392
Fubon Life Insurance	6,395,773	294,263	6,690,036
Fubon Insurance	124,382	23,010	147,392
Fubon Securities	216,488	49,088	265,576
Fubon AMC	15,023	-	15,023
Fubon Financial Holding Venture Capital	-	10,401	10,401
Total	\$ 7,448,652	442,168	7,890,820
	December 31, 2017		
	Estimate 2017	Filed in previous years	Total
Linked tax payables to subsidiaries:			
Taipei Fubon Bank	\$ -	180,345	180,345
Fubon Life Insurance	-	77,051	77,051
Fubon Marketing	171	-	171
Total	\$ 171	257,396	257,567
	December 31, 2016		
	Estimate 2016	Filed in previous years	Total
Linked tax receivables from subsidiaries:			
Taipei Fubon Bank	\$ 1,452,961	121,503	1,574,464
Fubon Life Insurance	3,940,045	125,006	4,065,051
Fubon Insurance	324,717	197,671	522,388
Fubon Securities	-	466,678	466,678
Fubon AMC	24,512	-	24,512
Fubon Financial Holding Venture Capital	28,964	-	28,964
Fubon Marketing	5,583	-	5,583
Total	\$ 5,776,782	910,858	6,687,640

(Continued)

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

	December 31, 2016		
	<u>Estimate 2016</u>	<u>Filed in previous years</u>	<u>Total</u>
Linked tax payables to subsidiaries:			
Taipei Fubon Bank	\$ -	471,803	471,803
Fubon Life Insurance	-	90,119	90,119
Fubon Securities	13,293	-	13,293
Fubon Asset Management	-	28,830	28,830
Taiwan Sport Lottery	<u>25</u>	<u>-</u>	<u>25</u>
Total	\$ <u>13,318</u>	<u>590,752</u>	<u>604,070</u>

- (v) Information related to the imputation credit account (“ICA”) of the Company was summarized below:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Undistributed earnings:		
Earned prior to 1997	(Note)	46,459
Earned in 1998 and thereafter	(Note)	<u>140,626,165</u>
Total	(Note)	<u>140,672,624</u>
ICA balance	(Note)	<u>11,341,860</u>
	2017 (estimated)	2016 (actual)
Creditable ratio for earnings distribution to ROC resident stockholders	(Note)	<u>8.06 %</u>

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

Note: According to the amendments to the “Income Tax Act” released by the office of the President of the Republic of China (Taiwan) on February 7, 2018, with effect from January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system.

(ac) Capital and Other Equity

(i) Share capital

- 1) As of December 31, 2017 and 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.

(Continued)

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

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.

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 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 Financial Statements

(ii) Capital surplus

1) The details of capital surplus were as follows:

The components of capital surplus were as follows:

	December 31, 2017	December 31, 2016
Additional paid-in capital from new share issuance for cash	\$ 63,644,042	63,644,042
Additional paid-in capital from share exchange	36,199,185	36,199,185
Additional paid-in capital from equity-accounted investees	1,962,374	1,001,286
Land revaluation surplus	1,104	1,104
Sale of treasury stock	178,098	178,098
Transfer of treasury stock to employee	23,753	23,753
Cash dividend from the Company's stock held by its subsidiary	27,664	27,664
Additional paid-in capital for employee warrants exercise	1,637,823	1,637,823
Share-based payment	177	177
Total	<u><u>\$ 103,674,220</u></u>	<u><u>102,713,132</u></u>

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

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

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated 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 December 31, 2017 and 2016, the balance of such capital surplus was \$4,343.

(iii) Legal reserve

According to the 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

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

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated 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 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	(4,013,929)	-	-	-	(4,013,929)
Share of exchange differences on translation of the associates accounted for using equity method	353,836	-	-	-	353,836
Unrealized gains (losses) on available-for-sale financial assets	-	64,238,088	-	-	64,238,088
Accumulated gains (losses) from disposal of available-for-sale financial assets losses reclassified to profit and loss	-	(33,563,363)	-	-	(33,563,363)
Share of unrealized gains (losses) on available-for-sale financial assets of the associate accounted for using equity method	-	80,130	-	-	80,130
Gains (losses) on effective portion of cash flow hedges	-	-	97,494	-	97,494
Share of gains (losses) on cash flow hedges of the associate accounted for using equity method	-	-	4,959	-	4,959
Revaluation gains	-	-	-	951,917	951,917
Balance as of December 31, 2017	<u><u>\$ (11,286,078)</u></u>	<u><u>14,658,087</u></u>	<u><u>(299,649)</u></u>	<u><u>2,302,954</u></u>	<u><u>5,375,314</u></u>

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated 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	(10,575,561)	-	-	-	(10,575,561)
Share of exchange differences on translation of associates accounted for using equity method	(748,936)	-	-	-	(748,936)
Unrealized gains on available-for-sale financial assets	-	36,502,585	-	-	36,502,585
Accumulated losses from disposal of available-for-sale financial assets losses reclassified to profit and loss	-	(24,954,614)	-	-	(24,954,614)
Share of unrealized losses on available-for-sale financial assets of the associate accounted for using equity method	-	(1,562,227)	-	-	(1,562,227)
Losses on effective portion of cash flow hedges	-	-	(945,622)	-	(945,622)
Share of losses on cash flow hedges of the associate accounted for using equity method	-	-	(5,919)	-	(5,919)
Revaluation gains	-	-	-	294,616	294,616
Balance as of December 31, 2016	<u>\$ (7,625,985)</u>	<u>(16,096,768)</u>	<u>(402,102)</u>	<u>1,351,037</u>	<u>(22,773,818)</u>

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

(viii) Non-controlling interests

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 285,725	8,454,806
Non-controlling interests along with the acquisition of subsidiaries	168,510	(7,739,441)
Attributable to non-controlling interests		
Net income	(106,146)	153,710
Exchange differences on translation of foreign operations	-	(589,606)
Unrealized gains on available-for-sale financial assets	1,194	52,705
Income tax – unrealized losses on available-for-sale financial assets	-	(16,230)
Others	<u>(9,543)</u>	<u>(30,219)</u>
Ending balance	<u>\$ 339,740</u>	<u>285,725</u>

(ad) Earnings Per Share

The details of earnings per share were as follows:

	<u>2017</u>	<u>2016</u>
Net income of ordinary equity holders (Note)	<u>\$ 53,098,135</u>	<u>48,421,046</u>
Weighted average number of common shares outstanding (thousands)	10,233,604	10,233,604
Dilutive potential common shares	<u>-</u>	<u>-</u>
	<u>\$ 10,233,604</u>	<u>10,233,604</u>
Basic EPS (Dollars)	<u>\$ 5.19</u>	<u>4.73</u>

Note: Declared dividends of preferred stock are deducted.

(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 \$10,000, and the directors' remuneration were \$65,000, for the years ended December 31, 2017. 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.

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

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

	<u>2017</u>	<u>2016</u>
Interest revenue:		
Discounts and loans	\$ 39,887,665	39,294,346
Investment in securities	90,670,853	80,463,204
Others	<u>10,755,927</u>	<u>10,140,645</u>
Subtotal	<u>141,314,445</u>	<u>129,898,195</u>
Interest expense:		
Deposits	20,236,125	18,228,872
Debt securities issued	3,568,491	2,723,248
Call loans from the central Bank and banks	1,362,127	936,569
Securities sold under repurchase agreements	2,213,836	1,529,336
Others	<u>721,796</u>	<u>703,473</u>
Subtotal	<u>28,102,375</u>	<u>24,121,498</u>
Net interest revenue	<u>\$ 113,212,070</u>	<u>105,776,697</u>

(ii) Net service charge and commission loss

	<u>2017</u>	<u>2016</u>
Service fee and commission income:		
Brokerage service fees	\$ 4,016,306	2,879,968
Trust and custody services	3,606,595	2,546,890
Credit card and cash card related fees	1,850,612	2,083,460
Commission income	1,797,215	1,941,427
Loan service fees	1,353,273	1,316,240
Others	<u>5,186,294</u>	<u>4,848,735</u>
Subtotal	<u>17,810,295</u>	<u>15,616,720</u>
Service charge and commission expense:		
Insurance commission expense	24,726,455	31,490,227
Interbank service charge	311,623	300,403
Brokerage service charge	315,254	218,049
Credit card service charge	881,708	855,190
Others	<u>1,296,143</u>	<u>1,173,821</u>
Subtotal	<u>27,531,183</u>	<u>34,037,690</u>
Net service charge and commission loss	<u>\$ (9,720,888)</u>	<u>(18,420,970)</u>

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

(iii) Net income of insurance operations

	<u>2017</u>	<u>2016</u>
Premiums income	\$ 512,068,565	497,895,711
Income on insurance product-separate account	<u>28,266,274</u>	<u>16,946,647</u>
Income from insurance business	<u>540,334,839</u>	<u>514,842,358</u>
Direct business expenses	43,737	38,160
Insurance claims payment	260,227,063	202,681,091
Disbursement on insurance product-separate account	28,266,274	16,946,647
Disbursement toward industry stability	<u>827,876</u>	<u>794,777</u>
Insurance business expenses	<u>289,364,950</u>	<u>220,460,675</u>
Net income of insurance operations	<u><u>\$ 250,969,889</u></u>	<u><u>294,381,683</u></u>

(iv) Net change in insurance provisions

	<u>2017</u>	<u>2016</u>
Net change of claim reserves	758,848	1,262,793
Net change of liability reserves	293,807,166	317,942,606
Net change of special reserves	450,940	643,498
Net change of reserves for premium deficiency	(2,612,394)	6,723,349
Net change of liabilities adequacy reserves	165,521	1,255,161
Others	<u>(2,679,695)</u>	<u>(3,214,582)</u>
	<u><u>\$ 289,890,386</u></u>	<u><u>324,612,825</u></u>

(v) Employee benefit expenses

	<u>2017</u>	<u>2016</u>
Salaries and wages	\$ 23,302,793	23,016,562
Labor insurance, national health insurance, and group insurance for life	2,921,389	2,706,814
Pension	1,869,316	1,878,838
Other employee benefit expenses	<u>1,651,764</u>	<u>1,594,263</u>
	<u><u>\$ 29,745,262</u></u>	<u><u>29,196,477</u></u>

(vi) Depreciation and amortization expenses

	<u>2017</u>	<u>2016</u>
Depreciation expenses	\$ 2,136,324	1,955,790
Amortization expenses	<u>1,366,864</u>	<u>1,694,372</u>
	<u><u>\$ 3,503,188</u></u>	<u><u>3,650,162</u></u>

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

(vii) Other operating expenses

	<u>2017</u>	<u>2016</u>
Taxation and government fee	\$ 3,273,056	3,603,626
Rental	3,637,587	3,623,496
Professional services	2,820,145	2,589,287
Business activities	1,721,772	3,480,129
Selling expense	853,842	1,464,850
Postage	1,176,485	1,101,688
Others	<u>8,558,856</u>	<u>8,311,726</u>
	<u><u>\$ 22,041,743</u></u>	<u><u>24,174,802</u></u>

(ag) Disclosure of financial instruments

(i) Fair value information

1) Summary

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

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.

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

(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	December 31, 2017			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
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	\$ 6,500,546	6,494,012	3,275	3,259
Bond investment	88,866,164	53,910,283	34,396,832	559,049
Others	9,902,242	2,119,199	7,783,043	-
Financial assets designated as at fair value through profit or loss at initial recognition	7,018,064	5,878,304	-	1,139,760
Available-for-sale financial assets				
Stock investment	522,216,169	508,678,928	11,350,543	2,186,698
Bond investment (Note)	818,908,468	527,312,668	258,097,388	33,498,412
Others	296,511,426	160,008,593	71,223,759	65,279,074
Investment property	178,327,230	-	4,885,094	173,442,136
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	7,434,560	7,434,560	-	-
<u>Derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	36,910,852	679,756	33,802,666	2,428,430
Derivative financial assets for hedging	2,272,840	-	2,272,840	-
Liabilities :				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	30,734,417	466,467	27,844,391	2,423,559
Financial liabilities designated as at fair value through profit or loss at initial recognition	2,078,273	-	5,002	2,073,271
Derivative financial liabilities for hedging	2,589,585	-	2,589,585	-
Non-recurring fair value measurement				
Asset classified as held for sale	45,553	-	-	45,553

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Financial instruments measured at fair value	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)
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	\$ 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	-
<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	-
Non-recurring fair value measurement				
Asset classified as held for sale	49,606	-	-	49,606

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

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.

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

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.

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

4) Transfers between Level 1 and Level 2

Transfers between Level 1 and Level 2 for the years ended December 31, 2017 and 2016, are mainly due to the changes of valuation source and the activity.

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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	2017							Ending balance
	Beginning balance	Gains (Losses) on Valuation		Increase		Decrease		
		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	(7,639,205)	-	1,878,944	120,900	2,151,419	1,412,314	2,990,738
Financial assets designated as at fair value through profit or loss at initial recognition	1,638,164	(53,383)	-	-	644,817	424,046	665,792	1,139,760
Available-for-sale financial assets	79,790,956	(248,830)	(216,641)	40,645,928	5,853,280	17,854,817	7,005,692	100,964,184
Investment property	175,092,057	(398,661)	863,002	2,401,410	884,688	4,201,612	1,198,748	173,442,136
Total	<u>\$ 268,715,009</u>	<u>(8,340,079)</u>	<u>646,361</u>	<u>44,926,282</u>	<u>7,503,685</u>	<u>24,631,894</u>	<u>10,282,546</u>	<u>278,536,818</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	2016							Ending balance
	Beginning balance	Gains (Losses) on Valuation		Increase		Decrease		
		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	(8,951,985)	-	2,606,892	163,797	8,657,582	162,245	12,193,832
Financial assets designated as at fair value through profit or loss at initial recognition	2,156,652	45,277	-	2,274,005	1,103,651	2,725,843	1,215,578	1,638,164
Available-for-sale financial assets	71,390,154	(2,508,544)	(567,682)	19,815,723	4,875,417	7,450,781	5,763,331	79,790,956
Investment property	171,271,032	(246,996)	(6,338,894)	12,709,933	-	34,700	2,268,318	175,092,057
Total	<u>\$ 272,012,793</u>	<u>(11,662,248)</u>	<u>(6,906,576)</u>	<u>37,406,553</u>	<u>6,142,865</u>	<u>18,868,906</u>	<u>9,409,472</u>	<u>268,715,009</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.

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

Name	2017						Ending balance
	Beginning balance	Valuation gains (losses) reflected on profit or loss	Increase		Decrease		
			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	(7,765,005)	18,909	-	1,810,585	-	2,423,559
Financial liabilities designated as at fair value through profit or loss at initial recognition	2,251,683	25,346	32,230,517	-	32,434,275	-	2,073,271
Total	<u>\$ 14,231,923</u>	<u>(7,739,659)</u>	<u>32,249,426</u>	<u>-</u>	<u>34,244,860</u>	<u>-</u>	<u>4,496,830</u>

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Name	Beginning balance	Valuation gains (losses) reflected on profit or loss	2016		2017		Ending balance
			Increase	Decrease	Increase	Decrease	
			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	(9,182,268)	44,477	-	5,696,062	-	11,980,240
Financial liabilities designated as at fair value through profit or loss at initial recognition	2,254,100	1,636	23,447,479	-	23,451,532	-	2,251,683
Total	<u>\$ 29,068,193</u>	<u>(9,180,632)</u>	<u>23,491,956</u>	<u>-</u>	<u>29,147,594</u>	<u>-</u>	<u>14,231,923</u>

Transfers into and out of Level 3 for the years ended December 31, 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 losses of \$791,824 and \$1,221,136 as of December 31, 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 \$654,788 and the unrealized losses of \$6,779,835 as of December 31, 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.

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 \$276,922,184 and \$267,148,561 as of December 31, 2017 and 2016.

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

a) Taipei Fubon Bank

Name	December 31, 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) \$	1,102,092	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	137,865	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	21,020	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	16,774	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.

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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	Complicated option model	Recovery rate of transaction object (reconvert rate)	10%~90%	The higher the recovery rate, the lower the fair value.
<u>Derivative financial instrument</u>					
Assets:					
Financial assets measured at fair value through profit or loss					
Complicated FX option	92,102	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	5,754	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.

b) Fubon Securities

Name	December 31, 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 measured at fair value through profit or loss					
Held-for-trading financial assets					
Bond investment \$	302,503	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	2,073,271	Option pricing model	Volatility	1%~80%	The higher the volatility, the higher the fair value.

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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.

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.

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.

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

a) Taipei Fubon Bank

Units : In thousands

December 31, 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				
Financial assets measured at fair value through profit or loss				
Held-for-trading financial assets	\$ 79	(35)	-	-
Financial assets designated as at fair value through profit or loss at initial recognition	27	(31)	-	-
Available-for-sale financial assets	-	-	156	(156)
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	57	(55)	-	-
December 31, 2016	Fair value fluctuation reflected on net income		Fair value fluctuation reflected on other comprehensive income	
Items	Positive change	Negative change	Positive change	Negative change
Assets				
Financial assets measured at fair value through profit or loss				
Held-for-trading financial assets	\$ 27	-	-	-
Financial assets designated at fair value through profit or loss at time of initial recognition	84	(79)	-	-
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	38	(35)	-	-

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b) Fubon Securities

<u>December 31, 2017</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>
Assets				
Held-for-trading financial assets	\$ 30,576	(30,576)	-	-
Available-for-sale financial assets	-	-	3,842	(3,842)
Liabilities				
Financial liabilities designated as at fair value through profit or loss at initial recognition	207,327	(207,327)	-	-

<u>December 31, 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>
Assets				
Held-for-trading financial assets	\$ 29,927	(29,927)	-	-
Available-for-sale financial assets	-	-	3,842	(3,842)
Liabilities				
Financial liabilities designated as at fair value through profit or loss at initial recognition	225,168	(225,168)	-	-

(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.

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Items	Book value	Fair value
December 31, 2017		
Financial assets		
Held-to-maturity financial assets (Note)	\$ 497,483,437	503,104,431
Other financial assets – Debt investments without active market	1,585,669,386	1,625,610,662
Other financial assets – Structured deposits	19,821,595	19,611,378
Financial liabilities		
Bonds payable	187,206,734	189,290,884
December 31, 2016		
Financial assets		
Held-to-maturity financial assets	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	178,601,095	179,789,460

Note: Included government bonds accounted for refundable deposits.

2) Fair value hierarchy

Financial instruments measured at fair value	December 31, 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	\$ 503,104,431	106,966,445	384,269,433	11,868,553
Other financial assets – Debt investments without active market	1,625,610,662	21,727,819	1,282,530,363	321,352,480
Other financial assets – Structured deposits	19,611,378	-	-	19,611,378
Financial liabilities:				
Bonds payable	189,290,884	51,278,692	138,012,192	-

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Financial instruments measured at fair value	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)
Financial assets:				
Held-to-maturity financial assets	\$ 390,448,011	82,581,712	288,726,699	19,139,600
Other financial assets – Debt investment without active markets	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	179,789,460	53,562,923	126,226,537	-

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 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	December 31, 2017			
	Unearned premium reserves		Ceded unearned premium reserves	Retained business
	Direct business	Reinsurance- assumed business	Reinsurance- ceded business	
Fire insurance	\$ 1,326,967	4,981	325,879	1,006,069
Marine cargo insurance	265,948	490	70,868	195,570
Marine hull fishing vessel	238,664	2,749	201,094	40,319
Voluntary moto insurance	6,957,072	188,960	423,199	6,722,833
Compulsory moto TPL insurance	2,023,968	623,142	1,202,988	1,444,122
Liability insurance	1,490,319	394	510,071	980,642
Engineering and nuclear insurance	1,025,687	10,462	407,015	629,134
Surety and credit insurance	116,378	573	86,371	30,580
Other property insurance	52,918	3	35,045	17,876
Accident insurance	2,517,439	10,297	27,259	2,500,477
Typhoon, flood and earthquake insurance	1,608,237	36,135	1,153,548	490,824
Personal and commercial multiple peril insurance	409,444	-	13,768	395,676
Health insurance	272,848	-	2,994	269,854
Overseas reinsurance assumed	-	341,730	17,714	324,016
Overseas subsidiaries	2,461,166	468,374	581,716	2,347,824
Total	<u>\$ 20,767,055</u>	<u>1,688,290</u>	<u>5,059,529</u>	<u>17,395,816</u>

(Continued)

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

<u>Item</u>	<u>December 31, 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	\$ 1,348,382	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

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

<u>Item</u>	<u>December 31, 2017</u>	
	<u>Unearned premium reserves</u>	<u>Ceded unearned premium reserves</u>
Beginning balance	\$ 21,578,864	4,643,505
Provision	22,420,768	4,983,381
Recovered	(21,578,864)	(4,643,505)
Other — effect of change in exchange rates	34,577	76,148
Ending balance	\$ 22,455,345	5,059,529

(Continued)

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

<u>Item</u>	<u>December 31, 2016</u>	
	<u>Reserve for unearned premiums</u>	<u>Reserve for unearned premiums- ceded</u>
Beginning balance	\$ 20,737,940	4,896,704
Provision	21,703,633	4,578,286
Recovered	(20,737,940)	(4,896,705)
Reversal of impairment loss	-	1
Other — effect of change in exchange rates	(124,769)	65,219
Ending balance	<u>\$ 21,578,864</u>	<u>4,643,505</u>

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 according 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 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.

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.

(Continued)

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

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.

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.

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

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.

- 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”.

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

- iv) Movements in special reserve – Compulsory automobile liability insurance

Particular	December 31, 2017	December 31, 2016
Beginning balance	\$ 1,270,428	1,640,922
Provision	41,737	-
Recovered	(17,068)	(370,494)
Ending balance	<u>\$ 1,295,097</u>	<u>1,270,428</u>

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

Particular	December 31, 2017					
	Liability			Special Reserve		
	Catastrophe	Dangerous Change	Total	Catastrophe	Dangerous Change	Total
Beginning balance	\$ 319,398	5,786,493	6,105,891	1,695,249	3,602,198	5,297,447
Provision	-	-	-	359,432	788,400	1,147,832
Recovered	(3,943)	-	(3,943)	(535)	(29,587)	(30,122)
Ending balance	<u>\$ 315,455</u>	<u>5,786,493</u>	<u>6,101,948</u>	<u>2,054,146</u>	<u>4,361,011</u>	<u>6,415,157</u>

Particular	December 31, 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
Provision	-	-	-	325,211	651,972	977,183
Recovered	(447,070)	-	(447,070)	(48,896)	(63,813)	(112,709)
Ending Balance	<u>\$ 319,398</u>	<u>5,786,493</u>	<u>6,105,891</u>	<u>1,695,249</u>	<u>3,602,198</u>	<u>5,297,447</u>

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 Financial Statements

c) Claim reserves

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

December 31, 2017					
Particular	Notes payable	Indemnity Payments Payable	Claim reserves		
	reported and paid	Reported but unpaid	Unreported	Total	
	Fire insurance	\$ -	1,053	1,857,238	35,579
Marine cargo insurance	-	516	1,209,026	189,957	1,398,983
Marine hull fishing vessel	-	178	359,144	215,155	574,299
Voluntary moto insurance	-	34,475	3,298,372	808,422	4,106,794
Compulsory moto TPL insurance	-	628,702	784,523	2,525,108	3,309,631
Liability insurance	-	7,199	1,953,576	744,788	2,698,364
Engineering and nuclear insurance	-	307	1,455,827	63,191	1,519,018
Surety and credit insurance	-	(7)	182,278	61,550	243,828
Other property insurance	-	552	37,138	14,315	51,453
Accident insurance	-	428	233,989	846,971	1,080,960
Typhoon, flood and earthquake insurance	-	9,717	1,089,920	214,257	1,304,177
Personal and commercial multiple peril insurance	-	9,182	18,496	93,730	112,226
Health insurance	-	2,250	7,295	68,426	75,721
Overseas reinsurance assumed	-	-	419,489	56,526	476,015
Overseas subsidiaries	-	17,273	1,182,177	717,211	1,899,388
Total	\$ -	<u>711,825</u>	<u>14,088,488</u>	<u>6,655,186</u>	<u>20,743,674</u>

December 31, 2016					
Particular	Notes payable	Indemnity Payments Payable	Claim reserves		
	reported and paid	Reported but unpaid	Unreported	Total	
	Fire insurance	\$ -	1,978	1,847,041	33,020
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	\$ -	<u>69,583</u>	<u>18,268,234</u>	<u>6,392,902</u>	<u>24,661,136</u>

(Continued)

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

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

Particular	December 31, 2017		
	Reported but unpaid	Unreported	Total
Fire insurance	\$ 807,939	15,578	823,517
Marine cargo insurance	879,253	75,271	954,524
Marine hull fishing vessel	289,104	188,656	477,760
Voluntary moto insurance	171,275	26,309	197,584
Compulsory moto TPL insurance	306,482	1,178,226	1,484,708
Liability insurance	762,533	292,378	1,054,911
Engineering and nuclear insurance	710,846	34,533	745,379
Surety and credit insurance	119,906	48,770	168,676
Other property insurance	2,727	9,373	12,100
Accident insurance	41	4,243	4,284
Typhoon, flood and earthquake insurance	779,647	138,526	918,173
Personal and commercial multiple peril insurance	349	7,011	7,360
Health insurance	-	841	841
Overseas reinsurance assumed	27,635	14,049	41,684
Overseas subsidiaries	398,285	183,510	581,795
Less: Accumulated impairment	(110)	(5)	(115)
Total	\$ 5,255,912	2,217,269	7,473,181

(Continued)

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

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
Overseas reinsurance assumed	71,446	25,447	96,893
Overseas subsidiaries	533,598	177,644	711,242
Less: Accumulated impairment	(877)	(177)	(1,054)
Total	\$ <u>9,673,970</u>	<u>2,294,960</u>	<u>11,968,930</u>

Reserves above were expressed in net amount and its estimated accumulated impairment losses amounted to \$115 and \$1,054 as of December 31, 2017 and 2016, respectively.

(Continued)

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

iii) Movements in claim reserves and ceded claim reserves

<u>Particular</u>	<u>December 31, 2017</u>	
	<u>Claim reserves</u>	<u>Ceded claim reserves</u>
Beginning balance	\$ 24,661,136	11,968,930
Provision	20,725,765	7,442,726
Recovered	(24,661,136)	(11,969,984)
Reversal of impairment loss	-	939
Other — effect of change in exchange rates	17,909	30,570
Ending Balance	<u>\$ 20,743,674</u>	<u>7,473,181</u>

<u>Particular</u>	<u>December 31, 2016</u>	
	<u>Claim reserves</u>	<u>Ceded claim reserves</u>
Beginning balance	\$ 18,024,953	6,382,020
Provision	24,734,651	11,963,445
Recovered	(18,024,953)	(6,386,115)
Reversal of impairment loss	-	3,041
Other — effect of change in exchange rates	(73,515)	6,539
Ending balance	<u>\$ 24,661,136</u>	<u>11,968,930</u>

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

<u>Particular</u>	<u>2017</u>	<u>2016</u>
Fire insurance	\$ 39,301	565
Marine cargo insurance	94,717	38,671
Marine hull fishing vessel	11,656	79,778
Voluntary moto insurance	346,513	291,611
Compulsory moto TPL insurance	179,560	177,664
Liability insurance	21,422	12,370
Engineering and nuclear insurance	97	439
Surety and credit insurance	44,257	48,134
Other property insurance	133	805
Accident insurance	809	4,201
Personal and commercial multiple peril insurance	649	64
Typhoon, flood and earthquake insurance	144	863
Health insurance	900	2
Overseas reinsurance assumed	-	-
Total	<u>\$ 740,158</u>	<u>655,167</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated 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:

<u>Particular</u>	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Liability reserve</u>	<u>Ceded liability reserve</u>	<u>Liability reserve</u>	<u>Ceded liability reserve</u>
Beginning balance	\$ 215,539	-	291,184	-
Provision	848	-	1,884	-
Maturity refund	(72,623)	-	(77,529)	-
Ending balance	<u>\$ 143,764</u>	<u>-</u>	<u>215,539</u>	<u>-</u>

(Continued)

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

- e) Premium deficiency reserve
i) Premium deficiency reserve

<u>Particular</u>	<u>December 31, 2017</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>Direct business</u>	<u>Reinsurance -assumed business</u>	<u>Direct business</u>	<u>Retained business</u>
Fire insurance	\$ 50,620	-	-	50,620
Marine cargo insurance	4,066	-	-	4,066
Marine hull fishing vessel	11,524	65	1,938	9,651
Voluntary moto insurance	-	-	-	-
Compulsory moto TPL insurance	-	-	-	-
Liability insurance	-	-	-	-
Engineering and nuclear insurance	-	-	-	-
Surety and credit insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Typhoon, flood and earthquake insurance	1,816	-	-	1,816
Personal and commercial multiple peril insurance	-	-	-	-
Health insurance	-	-	-	-
Overseas reinsurance assumed	-	53	-	53
Overseas subsidiaries	<u>135,905</u>	<u>408,685</u>	<u>491,363</u>	<u>53,227</u>
Total	<u>\$ 203,931</u>	<u>408,803</u>	<u>493,301</u>	<u>119,433</u>

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

Particular	December 31, 2016			
	Premium deficiency reserve		Ceded premium deficiency reserve	
	Reinsurance		Direct business	Retained business
	Direct business	-assumed business		
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	194,958	207,012	386,679	15,291
Total	\$ 261,528	216,205	391,873	85,860

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

Particular	2017									
	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	\$ 50,620	32,823	-	-	17,797	-	-	-	17,797	
Marine cargo insurance	4,066	5,730	-	-	(1,664)	-	-	-	(1,664)	
Marine hull fishing vessel	11,524	18,026	65	233	(6,670)	1,938	5,194	(3,256)	(3,414)	
Voluntary moto insurance	-	3,144	-	87	(3,231)	-	-	-	(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	-	-	-	-	-	-	-	-	-	
Personal and commercial multiple peril insurance	1,816	6,847	-	-	(5,031)	-	-	-	(5,031)	
Health insurance	-	-	-	-	-	-	-	-	-	
Overseas reinsurance assumed	-	-	53	8,873	(8,820)	-	-	-	(8,820)	
Overseas subsidiaries	134,438	201,031	402,331	216,043	119,695	483,723	401,536	82,187	37,508	
Other — effect of change in exchange rates	1,467	(6,073)	6,354	(9,031)	22,925	6,990	(14,857)	21,847	1,078	
Total	\$ 203,931	261,528	408,803	216,205	135,001	492,651	391,873	100,778	34,223	

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

Particular	2016									
	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	\$ 32,823	7,081	-	-	25,742	-	-	-	25,742	
Marine cargo insurance	5,730	-	-	-	5,730	-	-	-	5,730	
Marine hull fishing vessel	18,026	44,676	233	3,284	(29,701)	5,194	33,228	(28,034)	(1,667)	
Voluntary moto insurance	3,144	3,337	87	82	(188)	-	-	-	(188)	
Compulsory moto TPL insurance	-	-	-	-	-	-	-	-	-	
Liability insurance	-	-	-	-	-	-	-	-	-	
Engineering and nuclear insurance	-	-	-	-	-	-	-	-	-	
Surety and credit insurance	-	141	-	-	(141)	-	-	-	(141)	
Other property insurance	-	-	-	-	-	-	-	-	-	
Accident insurance	-	-	-	-	-	-	-	-	-	
Personal and commercial multiple peril insurance	6,847	-	-	-	6,847	-	-	-	6,847	
Typhoon, flood and earthquake insurance	-	-	-	-	-	-	-	-	-	
Health insurance	-	-	-	-	-	-	-	-	-	
Overseas reinsurance assumed	-	-	8,873	6,968	1,905	-	-	-	1,905	
Overseas subsidiaries	201,031	144,159	216,043	12,086	260,829	401,536	148,772	252,764	8,065	
Other — effect of change in exchange rates	(6,073)	411	(9,031)	(42)	(15,473)	(15,268)	329	(15,597)	124	
Total	<u>\$ 261,528</u>	<u>199,805</u>	<u>216,205</u>	<u>22,378</u>	<u>255,550</u>	<u>391,462</u>	<u>182,329</u>	<u>209,133</u>	<u>46,417</u>	

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

Particular	December 31, 2017	
	Premium deficiency reserve	Ceded premium deficiency reserve
Beginning balance	\$ 477,733	391,873
Provision	604,913	484,830
Recovered	(477,733)	(391,873)
Other — effect of change in exchange rates	7,821	8,471
Ending balance	<u>\$ 612,734</u>	<u>493,301</u>
Particular	December 31, 2016	
	Premium deficiency reserve	Ceded premium deficiency reserve
Beginning balance	\$ 222,183	182,329
Provision	492,837	406,566
Recovered	(222,183)	(182,329)
Other — effect of change in exchange rates	(15,104)	(14,693)
Ending balance	<u>\$ 477,733</u>	<u>391,873</u>

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

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.

- 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.

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

- c. Evaluate the overall effect of the risks, capital required by governmental authorities and related regulations on the capital allocation.
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.

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

- 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.

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

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.

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.

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

b) Insurance risk information

i) The sensitivity test of insurance risk

Test Hypothesis

Change of expected rate of loss	2017			
	Change of income before tax		Change of stockholder's equity	
	Before reinsurance	After reinsurance	Before reinsurance	Compulsory insurance
+1%	\$ (41,445)	(25,547)	(34,399)	(21,204)
- 1%	41,481	25,350	34,429	21,041

Change of expected rate of loss	2016			
	Change of income before tax		Change of stockholder's equity	
	Before reinsurance	After reinsurance	Before reinsurance	Compulsory insurance
+1%	\$ (42,015)	(22,002)	(34,872)	(18,262)
- 1%	41,989	22,278	34,851	18,491

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 December 31, 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 32.0% and 31.4% of all insurances for the years ended December 31, 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.

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

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

Insurance type	2017		2016	
	Amount	%	Amount	%
Fire insurance	\$ 2,062,556	4.7 %	1,917,620	4.7 %
Marine cargo insurance	1,080,916	2.5 %	1,067,157	2.6 %
Marine hull fishing vessel	574,343	1.3 %	589,247	1.4 %
Voluntary moto insurance	13,851,962	32.0 %	12,868,788	31.4 %
Compulsory moto TPL insurance	5,687,697	13.1 %	5,194,137	12.7 %
Liability insurance	3,175,465	7.3 %	2,807,377	6.9 %
Engineering and nuclear insurance	940,430	2.2 %	882,790	2.2 %
Surety and credit insurance	267,169	0.6 %	261,442	0.6 %
Other property insurance	129,409	0.3 %	121,022	0.3 %
Accident insurance	4,961,020	11.4 %	4,565,598	11.1 %
Typhoon, flood and earthquake insurance	3,384,454	7.8 %	2,927,702	7.1 %
Personal and commercial multiple peril insurance	846,496	1.9 %	748,806	1.8 %
Health insurance	664,860	1.5 %	520,826	1.3 %
Foreign business	663,687	1.5 %	1,047,153	2.6 %
Overseas subsidiaries	<u>5,159,873</u>	<u>11.9 %</u>	<u>5,433,704</u>	<u>13.3 %</u>
Total	<u>\$ 43,450,337</u>	<u>100.0 %</u>	<u>40,953,369</u>	<u>100.0 %</u>

2. The proportion of retained business premium

AS of December 31, 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 39.5% and 38.8% for the years ended December 31, 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.

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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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	2017		2016	
	Amount	%	Amount	%
Fire insurance	\$ 1,076,147	3.3 %	979,965	3.2 %
Marine cargo insurance	605,572	1.8 %	582,492	1.9 %
Marine hull fishing vessel	77,202	0.2 %	65,584	0.2 %
Voluntary moto insurance	12,970,251	39.5 %	11,990,787	38.8 %
Compulsory moto TPL insurance	3,662,128	11.1 %	3,361,176	10.9 %
Liability insurance	2,082,773	6.3 %	1,841,792	6.0 %
Engineering and nuclear insurance	410,518	1.2 %	372,682	1.2 %
Surety and credit insurance	67,257	0.2 %	62,946	0.2 %
Other property insurance	42,157	0.1 %	43,539	0.1 %
Accident insurance	4,897,794	14.9 %	4,506,080	14.6 %
Typhoon, flood and earthquake insurance	801,497	2.4 %	672,788	2.2 %
Personal and commercial multiple peril insurance	815,154	2.5 %	694,362	2.2 %
Health insurance	657,756	2.0 %	512,832	1.7 %
Foreign business	566,425	1.7 %	545,806	1.8 %
Overseas subsidiaries	<u>4,222,615</u>	<u>12.8 %</u>	<u>4,628,568</u>	<u>15.0 %</u>
Total	<u>\$ 32,955,246</u>	<u>100.0 %</u>	<u>30,861,399</u>	<u>100.0 %</u>

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

iii) Claim development trend:

1. Sum of accumulated and reported claims

December 31, 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	December 31, 2017				
≤ 2012							626,460		
2013	13,677,656	14,586,487	15,010,377	14,987,645	14,856,387	14,582,841	273,546		
2014		16,847,762	17,941,685	18,361,313	18,308,150	17,450,001	858,149		
2015			18,356,049	19,560,209	20,483,060	19,225,790	1,257,270		
2016				27,234,823	28,658,977	25,239,227	3,419,750		
2017					19,379,361	11,726,048	7,653,313		
Total							<u>14,088,488</u>	<u>6,655,186</u>	<u>20,743,674</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>

2. Sum of accumulated and reported claims, net

December 31, 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	December 31, 2017				
≤ 2012							458,130		
2013	10,789,694	11,308,119	11,644,818	11,654,445	11,610,557	11,429,221	181,336		
2014		12,778,176	13,551,530	13,984,963	13,958,979	13,613,122	345,857		
2015			13,868,588	14,953,759	15,452,584	14,803,583	649,001		
2016				15,334,200	16,741,093	15,416,616	1,324,477		
2017					15,769,557	9,895,892	5,873,665		
Total							<u>8,832,466</u>	<u>4,437,912</u>	<u>13,270,378</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							370,943		
2012	9,894,286	11,342,295	11,282,119	11,270,056	11,227,735	11,019,287	208,448		
2013		10,799,882	11,319,587	11,655,415	11,666,274	11,302,361	363,913		
2014			12,801,818	13,577,947	14,011,107	13,457,375	553,732		
2015				13,889,443	14,977,347	13,793,475	1,183,872		
2016					15,361,117	9,448,638	5,912,479		
Total							<u>8,593,387</u>	<u>4,097,765</u>	<u>12,691,152</u>

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

- 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.

1. As of December 31, 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. LEMMA 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.

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

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.
 - 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 December 31, 2017 and 2016, the unauthorized reinsurance expenses amounted to \$67,946 and \$129,786, respectively.
 4. As of December 31, 2017 and 2016, the reserve for unauthorized reinsurance amounted to \$214,508 and \$1,493,667, respectively. The components of this account include: (a) the unearned premium reserve of \$35,336 and \$64,922, respectively. (b) the claims recoverable from reinsurers of paid claims overdue in nine month amounted to \$33,355 and \$84,217, respectively. (c) the claims recoverable from reinsurers which were reported but unpaid amounted to \$145,817 and \$1,344,528, respectively.
- 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.

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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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
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- 3) Fubon Life Insurance and its subsidiaries
- a) Various reserves
- i) Unearned premium reserves

December 31, 2017			
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance	\$ 1,806	-	1,806
Individual injury insurance	3,134,077	-	3,134,077
Individual health insurance	3,454,290	-	3,454,290
Group insurance	1,619,282	-	1,619,282
Investment-linked insurance	80,810	-	80,810
Gross reserve	<u>8,290,265</u>	<u>-</u>	<u>8,290,265</u>
Deduction of provision for reinsurance ceded			
Individual life insurance	453,419	-	453,419
Individual injury insurance	21,563	-	21,563
Individual health insurance	2,325	-	2,325
Group insurance	79,615	-	79,615
Investment-linked insurance	11,459	-	11,459
Total ceded reserve	<u>568,381</u>	<u>-</u>	<u>568,381</u>
Net reserve	<u>\$ 7,721,884</u>	<u>-</u>	<u>7,721,884</u>
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>

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

The movements in unearned premium reserves were as follows:

	2017		
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 7,916,745	-	7,916,745
Current provisions	8,290,352	-	8,290,352
Current reclaims	(7,916,745)	-	(7,916,745)
Gain and loss on foreign exchange	(87)	-	(87)
Ending balance	<u>8,290,265</u>	<u>-</u>	<u>8,290,265</u>
Deduction of provision for ceded reinsurance			
Beginning balance	510,733	-	510,733
Current provisions	568,423	-	568,423
Current reclaims	(510,733)	-	(510,733)
Gain and loss on foreign exchange	(42)	-	(42)
Ending balance	<u>568,381</u>	<u>-</u>	<u>568,381</u>
Net ending balance	<u>\$ 7,721,884</u>	<u>-</u>	<u>7,721,884</u>
	2016		
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 7,602,907	-	7,602,907
Current provisions	7,916,762	-	7,916,762
Current reclaims	(7,602,907)	-	(7,602,907)
Gain and loss on foreign exchange	(17)	-	(17)
Ending balance	<u>7,916,745</u>	<u>-</u>	<u>7,916,745</u>
Deduction of provision for ceded reinsurance			
Beginning balance	456,599	-	456,599
Current provisions	510,760	-	510,760
Current reclaims	(456,599)	-	(456,599)
Gain and loss on foreign exchange	(27)	-	(27)
Ending balance	<u>510,733</u>	<u>-</u>	<u>510,733</u>
Net ending balance	<u>\$ 7,406,012</u>	<u>-</u>	<u>7,406,012</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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ii) Claim reserves

	December 31, 2017		
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance			
— Reported but not paid	\$ 463,041	2,348	465,389
— Incurred but not reported	4,191	-	4,191
Individual injury insurance			
— Reported but not paid	105,176	-	105,176
— Incurred but not reported	363,874	-	363,874
Individual health insurance			
— Reported but not paid	208,350	-	208,350
— Incurred but not reported	578,424	-	578,424
Group insurance			
— Reported but not paid	74,558	-	74,558
— Incurred but not reported	363,183	-	363,183
Investment-linked insurance			
— Reported but not paid	123,261	-	123,261
— Incurred but not reported	75,867	-	75,867
Total reserve	<u>2,359,925</u>	<u>2,348</u>	<u>2,362,273</u>
Deduction of provision for reinsurance ceded			
Individual life insurance	29,192	-	29,192
Individual injury insurance	43,978	-	43,978
Group insurance	1,377	-	1,377
Investment-linked insurance	48,371	-	48,371
Total ceded reserve	<u>122,918</u>	<u>-</u>	<u>122,918</u>
Net reserve	<u>\$ 2,237,007</u>	<u>2,348</u>	<u>2,239,355</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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	December 31, 2016		
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance			
— Reported but not paid	\$ 406,206	8,163	414,369
— Incurred but not reported	3,238	-	3,238
Individual injury insurance			
— Report but not paid	87,848	-	87,848
— Incurred but not reported	388,149	-	388,149
Individual health insurance			
— Reported but not paid	195,288	-	195,288
— Incurred but not reported	513,070	-	513,070
Group insurance			
— Reported but not paid	62,641	-	62,641
— Incurred but not reported	336,892	-	336,892
Investment-linked insurance			
— Reported but not paid	75,837	-	75,837
— Incurred but not reported	65,949	-	65,949
Total reserve	<u>2,135,118</u>	<u>8,163</u>	<u>2,143,281</u>
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	<u>70,039</u>	<u>-</u>	<u>70,039</u>
Net reserve	<u>\$ 2,065,079</u>	<u>8,163</u>	<u>2,073,242</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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The movements in claims reserve were as follows:

	2017		
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 2,135,118	8,163	2,143,281
Current provisions	2,360,773	2,348	2,363,121
Current reclaims	(2,135,118)	(8,163)	(2,143,281)
Gain and loss on foreign exchange	(848)	-	(848)
Ending balance	<u>2,359,925</u>	<u>2,348</u>	<u>2,362,273</u>
Deduction of provision for ceded reinsurance			
Beginning balance	70,039	-	70,039
Current provisions	122,918	-	122,918
Current reclaims	(70,039)	-	(70,039)
Ending balance	<u>122,918</u>	<u>-</u>	<u>122,918</u>
Net ending balance	<u>\$ 2,237,007</u>	<u>2,348</u>	<u>2,239,355</u>
	2016		
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 2,062,076	4,896	2,066,972
Current provisions	2,135,093	8,163	2,143,256
Current reclaims	(2,062,076)	(4,896)	(2,066,972)
Gain and loss on foreign exchange	25	-	25
Ending balance	<u>2,135,118</u>	<u>8,163</u>	<u>2,143,281</u>
Deduction of provision for ceded reinsurance			
Beginning balance	124,180	-	124,180
Current provisions	70,039	-	70,039
Current reclaims	(124,180)	-	(124,180)
Ending balance	<u>70,039</u>	<u>-</u>	<u>70,039</u>
Net ending balance	<u>\$ 2,065,079</u>	<u>8,163</u>	<u>2,073,242</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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iii) Liability reserve:

	December 31, 2017		
	Insurance contracts	Financial instruments with discretionary participation	Total
Life insurance	\$ 2,697,775,678	-	2,697,775,678
Injury insurance	710,276	-	710,276
Health insurance	245,531,712	-	245,531,712
Annuity insurance	1,239,584	146,615,847	147,855,431
Investment-linked insurance	105,890	-	105,890
Total	<u>2,945,363,140</u>	<u>146,615,847</u>	<u>3,091,978,987</u>
Deduction of liability reserve ceded			
Life insurance	793	-	793
Total	<u>793</u>	<u>-</u>	<u>793</u>
Net reserve	<u>\$ 2,945,362,347</u>	<u>146,615,847</u>	<u>3,091,978,194</u>
	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	<u>\$ 2,685,116,638</u>	<u>154,080,255</u>	<u>2,839,196,893</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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The movements in the liability reserve were as follows:

	2017		
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 2,685,116,638	154,080,255	2,839,196,893
Current provisions	487,935,831	13,685,681	501,621,512
Current reclaims	(186,664,300)	(21,150,089)	(207,814,389)
Gain and loss on foreign exchange	(41,025,029)	-	(41,025,029)
Ending balance	2,945,363,140	146,615,847	3,091,978,987
Deduction of liability reserve ceded			
Current provisions	805	-	805
Gain and loss on foreign exchange	(12)	-	(12)
Ending balance	793	-	793
Net ending balance	<u>\$ 2,945,362,347</u>	<u>146,615,847</u>	<u>3,091,978,194</u>

	2016		
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 2,377,426,666	155,660,242	2,533,086,908
Current provisions	451,683,713	22,908,954	474,592,667
Current reclaims	(132,163,004)	(24,488,941)	(156,651,945)
Gain and loss on foreign exchange	(11,830,737)	-	(11,830,737)
Ending balance	<u>\$ 2,685,116,638</u>	<u>154,080,255</u>	<u>2,839,196,893</u>

iv) Special reserves

	December 31, 2017			
	Insurance contracts	Financial instruments with discretionary participation	Others	Total
Dividend provision for participation policies	\$ 7,251,155	-	-	7,251,155
Valuation surplus gain for investment property	-	-	652,267	652,267
Total	<u>\$ 7,251,155</u>	<u>-</u>	<u>652,267</u>	<u>7,903,422</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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	December 31, 2016			
	Insurance contracts	Financial instruments with 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

The movements in special reserves were as follows:

	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	430,214	-	-	430,214
Gain and loss on foreign exchange	(40)	-	-	(40)
Ending balance	\$ 7,251,155	-	652,267	7,903,422

	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	1,461,062	-	-	1,461,062
Ending balance	\$ 6,820,981	-	652,267	7,473,248

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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v) Premium deficiency reserve

	December 31, 2017		
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance	\$ 19,613,098	-	19,613,098
Individual injury insurance	859	-	859
Individual health insurance	319,194	-	319,194
Group insurance	4,656	-	4,656
Investment-linked product	16	-	16
Total	\$ 19,937,823	-	19,937,823

	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

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

The movements in premium deficiency reserve were as follows:

	2017		
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 22,874,210	-	22,874,210
Current reversal of provision, net	(2,646,617)	-	(2,646,617)
Gain and loss on foreign exchange	(289,770)	-	(289,770)
Ending balance	<u>\$ 19,937,823</u>	<u>-</u>	<u>19,937,823</u>
	2016		
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 16,280,468	-	16,280,468
Current provision, net	6,676,932	-	6,676,932
Gain and loss on foreign exchange	(83,190)	-	(83,190)
Ending balance	<u>\$ 22,874,210</u>	<u>-</u>	<u>22,874,210</u>

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	December 31, 2017	December 31, 2016
Liability reserve	\$ 3,086,606,993	2,837,198,506
Unearned premium reserves	8,288,925	7,916,322
Premium deficiency reserve	19,918,723	22,806,116
Special reserves	7,901,218	7,473,248
Claim reserves	<u>2,362,146</u>	<u>2,142,920</u>
Carrying amount of insurance liabilities	<u>\$ 3,125,078,005</u>	<u>2,877,537,112</u>
Current estimate of future cash flows under its insurance liabilities	<u>\$ 2,384,399,834</u>	<u>2,118,064,047</u>
Total liability adequacy reserve	<u>\$ -</u>	<u>-</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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The liability adequacy test method adopted by Fubon Life Insurance as of December 31, 2017 and 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>December 31, 2017</u>			
	Financial instruments with discretionary participation			
	<u>Insurance contracts</u>	<u>discretionary participation</u>	<u>Others</u>	<u>Total</u>
Catastrophic risk reserve	\$ 3,375,135	-	-	3,375,135
Contingency risk reserve	2,782,027	-	-	2,782,027
Total	<u>\$ 6,157,162</u>	<u>-</u>	<u>-</u>	<u>6,157,162</u>
	<u>December 31, 2016</u>			
	Financial instruments with discretionary participation			
	<u>Insurance contracts</u>	<u>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>

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

	December 31, 2017	December 31, 2016
Life insurance	<u>\$ 3,744,674</u>	<u>18,137,335</u>
	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 18,137,335	83,616,757
Current premiums collected	2,032	585
Current claims payment	(14,560,214)	(66,735,168)
Current net provision for legal reserve	<u>165,521</u>	<u>1,255,161</u>
Ending balance	<u>\$ 3,744,674</u>	<u>18,137,335</u>

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.

- b. The movements in foreign exchange fluctuation reserve were as follows:

	2017	2016
Beginning balance	\$ 4,632,746	7,479,048
Current provision :		
Compulsory provision	2,058,397	2,041,911
Additional provision	<u>669,659</u>	<u>3,759,058</u>
Subtotal	<u>2,728,056</u>	<u>5,800,969</u>
Recovered	<u>(5,055,318)</u>	<u>(8,647,271)</u>
Ending balance	<u>\$ 2,305,484</u>	<u>4,632,746</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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c. Effect of foreign exchange fluctuation reserve

<u>Item</u>	<u>Unapplied amount</u>	<u>Applied amount</u>	<u>Effected amount</u>
December 31, 2017			
Foreign exchange fluctuation reserve	\$ -	2,305,484	(2,305,484)
Owner's equity	273,129,548	272,890,323	239,225

<u>Item</u>	<u>Unapplied amount</u>	<u>Applied amount</u>	<u>Effected amount</u>
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

<u>Item</u>	<u>2017</u>			<u>2016</u>		
	<u>Unapplied amount</u>	<u>Applied amount</u>	<u>Effected amount</u>	<u>Unapplied amount</u>	<u>Applied amount</u>	<u>Effected amount</u>
Net income	\$ 30,556,315	32,487,942	(1,931,627)	26,325,132	28,687,563	(2,362,431)
Earnings per share	3.68	3.92	(0.24)	3.17	3.46	(0.29)

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:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 361,993	361,843
Addition	95,807	61,543
Amortization	(36,366)	(61,393)
Ending balance	<u>\$ 421,434</u>	<u>361,993</u>

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

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 968,245	895,031
Addition	252,206	161,412
Amortization	<u>59,501</u>	<u>88,198</u>
Ending balance	<u>\$ 1,160,950</u>	<u>968,245</u>

x) Premiums

1. Retained earned premiums

	<u>2017</u>		
	<u>Insurance</u>	<u>Financial</u>	<u>Total</u>
	<u>contracts</u>	<u>instruments</u>	
		<u>with</u>	
		<u>discretionary</u>	
		<u>participation</u>	
Direct written premium	\$ 470,755,820	10,820,140	481,575,960
Reinsurance premium	-	-	-
Premium income	<u>470,755,820</u>	<u>10,820,140</u>	<u>481,575,960</u>
Less: Reinsurance premium expenditure	(1,375,027)	-	(1,375,027)
Net change in unearned premium reserve	(315,917)	-	(315,917)
Subtotal	<u>(1,690,944)</u>	<u>-</u>	<u>(1,690,944)</u>
Retained earned premiums	<u>\$ 469,064,876</u>	<u>10,820,140</u>	<u>479,885,016</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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	2016		
	Insurance contracts	Financial instruments with discretionary participation	Total
Direct written premium	\$ 450,092,471	20,030,478	470,122,949
Reinsurance premium	<u>87</u>	<u>-</u>	<u>87</u>
Premium income	<u>450,092,558</u>	<u>20,030,478</u>	<u>470,123,036</u>
Less: Reinsurance premium expenditure	(1,254,891)	-	(1,254,891)
Net change in unearned premium reserve	(259,694)	-	(259,694)
Subtotal	<u>(1,514,585)</u>	<u>-</u>	<u>(1,514,585)</u>
Retained earned premiums	<u><u>\$ 448,577,973</u></u>	<u><u>20,030,478</u></u>	<u><u>468,608,451</u></u>

2. Retained claims payment

	2017		
	Insurance contracts	Financial instruments with discretionary participation	Total
Claims payment incurred	\$ 222,265,216	21,328,112	243,593,328
Reinsurance claims payment incurred	217	-	217
Insurance claims payment	<u>222,265,433</u>	<u>21,328,112</u>	<u>243,593,545</u>
Less: Claims payment recovered from reinsures	(736,105)	-	(736,105)
Retained claims payment	<u><u>\$ 221,529,328</u></u>	<u><u>21,328,112</u></u>	<u><u>242,857,440</u></u>

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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	2016		
	Insurance contracts	Financial instruments with discretionary participation	Total
Claims payment incurred	\$ 162,259,852	24,662,182	186,922,034
Reinsurance claims payment incurred	674	-	674
Insurance claims payment	162,260,526	24,662,182	186,922,708
Less: Claims payment recovered from reinsures	(457,355)	-	(457,355)
Retained claims payment	\$ 161,803,171	24,662,182	186,465,353

- 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.

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

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

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.

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

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.

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

6. Assets and liabilities combination risk
 - a. To enhance the overall assets and liabilities allocation, maintain adequate liquidity, and improve capital performance, 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.

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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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.
- 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:

	2017			
	Change in assumption		Change in income before tax	Change in stockholder's equity
Mortality/Morbidity	Increase	10 %	(2,625,907)	(2,179,503)
Rate of return	Decrease	0.1 %	(3,373,738)	(2,800,203)
Expense (fixed expense)	Increase	5 %	(380,750)	(316,023)
Lapse and surrender rate	Increase	10 %	204,807	169,990

(Continued)

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

	2016		
	Change in assumption	Change in income before tax	Change in stockholder's equity
Mortality/Morbidity	Increase 10 %	(2,403,510)	(1,994,913)
Rate of return	Decrease 0.1 %	(3,091,465)	(2,565,916)
Expense (fixed expense)	Increase 5 %	(361,000)	(299,630)
Lapse and surrender rate	Increase 10 %	220,030	182,625

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.

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

December 31, 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	4,244,596	-
2012	3,534,236	4,263,656	4,330,262	4,347,231	4,351,260	4,358,662	-	-
2013	3,970,050	4,725,262	4,813,040	4,826,369	4,833,979	-	-	-
2014	4,172,446	5,113,019	5,173,291	5,183,758	-	-	-	1,050
2015	4,605,165	5,558,277	5,666,297	-	-	-	-	4,511
2016	5,070,166	6,224,855	-	-	-	-	-	100,453
2017	5,431,814	-	-	-	-	-	-	1,264,702
IBNR Reserve								1,370,716
Plus: RBNA Reserve								976,734
The balance of claim reserve								2,347,450

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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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								835,983
The balance of claim reserve								2,128,253

Note 1: Amount shown above excludes investment contracts

Note 2: As of December 31, 2017 and 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 \$14,823 and \$15,028, respectively.

b. Development trend of retained claims payments

Cumulative claims payments from prior years are as follows:

December 31, 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	4,074,688	-
2012	3,526,249	4,184,487	4,251,072	4,268,016	4,272,044	4,279,432	-	-
2013	3,942,698	4,565,096	4,651,774	4,665,103	4,672,708	-	-	-
2014	4,166,511	4,992,049	5,052,316	5,062,783	-	-	-	991
2015	4,587,144	5,435,512	5,543,341	-	-	-	-	4,272
2016	5,068,488	6,111,210	-	-	-	-	-	98,790
2017	5,412,545	-	-	-	-	-	-	1,257,021
IBNR Reserve								1,361,074
Plus: RBNA Reserve								865,482
The balance of claim reserve								2,226,556

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

Note 1: Amount shown above excludes investment contracts

Note 2: As of December 31, 2017 and 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 \$12,799 and \$13,052, respectively.

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

- 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.

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

December 31, 2017

(in million)

Maturity date	< 1 year	1~3 years	3~5 years	> 5 years	Unable to classify (note)	Total
Provision	119,079	268,476	69,167	2,445,907	230,936	3,133,565
Proportion	3.8 %	8.6 %	2.2 %	78.0 %	7.4 %	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 %

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.

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

(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, 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 operate the its risk management mechanism effectively.

- 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 setting risk management regulations, monitoring risk controls, and submitting risk reports.

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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- 3) Third line of defense –Independent audit units responsible for auditing the compliance and implementation of internal control rules related to risk management.

(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, 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.

(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.

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

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.

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

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

<u>Off-balance sheet items</u>	Maximum exposure amount	
	December 31, 2017	December 31, 2016
Irrevocable loan commitments	\$ 76,409,378	90,031,332
Standby letters of credit	10,407,936	8,893,665
Financial guarantees	<u>29,397,044</u>	<u>32,089,282</u>
Total	<u>\$ 116,214,358</u>	<u>131,014,279</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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Fubon Bank (China)

Units: In thousands of CNY

Off-balance sheet items	Maximum exposure amount	
	December 31, 2017	December 31, 2016
Irrevocable loan commitments	\$ 2,542	140,375
Standby letters of credit	457,960	235,845
Financial guarantees	1,361,133	1,649,110
Total	\$ 1,821,635	2,025,330

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)

December 31, 2017					
Assets	Financial instruments	Properties	Guarantees	Others	
Loans	2.97 %	56.39 %	3.83 %	2.58 %	
Guarantees receivable	3.37 %	5.72 %	0.44 %	0.58 %	
Acceptances	4.04 %	17.19 %	0.09 %	-	
Available-for-sale financial assets	-	-	17.00 %	-	
Held-to-maturity financial assets	-	-	2.15 %	-	
Other financial assets— Debt investments without active markets	-	-	7.82 %	-	
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 %	-	

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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Fubon Bank (China)

December 31, 2017				
<u>Assets</u>	<u>Financial instruments</u>	<u>Properties</u>	<u>Guarantees</u>	<u>Others</u>
Loans	7.53 %	9.22 %	-	1.39 %
Guarantees receivable	71.35 %	26.21 %	1.95 %	-
Acceptances	24.74 %	2.36 %	34.91 %	-
December 31, 2016				
<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 %	-

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

	December 31, 2017		December 31, 2016	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Private	\$ 638,649,436	51.25	572,170,635	49.34
Private enterprise	438,644,180	35.20	409,665,407	35.33
Financial institution	77,239,133	6.20	62,718,472	5.41
Government organization	56,737,571	4.55	60,253,577	5.20
Public enterprise	34,227,556	2.75	54,379,520	4.69
Non-profit organization	578,876	0.05	399,872	0.03
Total	<u>\$ 1,246,076,752</u>	<u>100.00</u>	<u>1,159,587,483</u>	<u>100.00</u>

(Continued)

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

ii) By geographical area

	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Domestic	\$ 1,087,909,696	87.31	1,033,742,174	89.15
Asia	87,018,082	6.98	62,885,190	5.42
America	56,486,297	4.53	49,717,731	4.29
Others	<u>14,662,677</u>	<u>1.18</u>	<u>13,242,388</u>	<u>1.14</u>
Total	<u>\$ 1,246,076,752</u>	<u>100.00</u>	<u>1,159,587,483</u>	<u>100.00</u>

iii) By collateral

	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Unsecured	\$ 444,091,542	35.64	423,747,922	36.55
Secured	801,985,210	64.36	735,839,561	63.45
Properties	686,862,046	55.12	626,202,482	54.00
Guarantees	46,577,211	3.74	45,691,757	3.94
Financial instruments	37,101,176	2.98	31,576,642	2.72
Others	<u>31,444,777</u>	<u>2.52</u>	<u>32,368,680</u>	<u>2.79</u>
Total	<u>\$ 1,246,076,752</u>	<u>100.00</u>	<u>1,159,587,483</u>	<u>100.00</u>

Fubon Bank (China)

i) By industry

	Units: In thousands of CNY			
	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Finance and insurance	\$ 12,417,020	29.99	11,881,305	30.00
Construction	4,701,205	11.35	4,313,653	10.89
Wholesale and retailing	4,193,054	10.13	3,164,941	7.99
Manufacturing	3,320,350	8.02	3,267,854	8.25
Leasing and business service	3,163,784	7.64	3,819,398	9.64
Water conservation and environment	3,116,013	7.53	3,160,997	7.98
Real estate	1,980,333	4.78	2,057,279	5.19
Personal loans	1,266,229	3.06	497,027	1.26
Transportation	699,224	1.69	58,676	0.15
Electricity, gas and water	550,000	1.33	216,050	0.55
Information and computers	370,819	0.89	537,274	1.36
Education	330,625	0.80	127,743	0.32
Agriculture, livestock and fishery	190,000	0.46	55,000	0.14
Health care and welfare	164,310	0.40	33,293	0.08
Research, development and technical services	121,648	0.29	5,040	0.01
Hotel and catering	11,225	0.03	54,689	0.14
Culture, sports and entertainment	39,694	0.10	25,000	0.06
Others	<u>4,767,149</u>	<u>11.51</u>	<u>6,327,381</u>	<u>15.99</u>
Total (Note)	<u>\$ 41,402,682</u>	<u>100.00</u>	<u>39,602,600</u>	<u>100.00</u>

Note : Included only discounts and loans.

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

ii) By geographical area

	Units: In thousands of CNY			
	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
East China	\$ 20,473,610	49.45	18,154,073	45.84
North China	9,116,791	22.02	10,660,688	26.92
South west region	5,985,142	14.45	5,683,492	14.35
South China	3,166,139	7.65	1,640,154	4.14
Other regions	1,394,771	3.37	2,967,166	7.49
Private loans	<u>1,266,229</u>	<u>3.06</u>	<u>497,027</u>	<u>1.26</u>
Total (Note)	<u>\$ 41,402,682</u>	<u>100.00</u>	<u>39,602,600</u>	<u>100.00</u>

Note : Included only discounts and loans.

iii) By collateral

	Units: In thousands of CNY			
	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Credit loans	\$ 33,893,133	81.86	31,292,273	79.01
Guarantees loans	576,691	1.39	612,639	1.55
Collateral loans	6,932,858	16.75	7,697,688	19.44
Pledge loans	3,815,491	9.22	3,642,136	9.20
Mortgage loans	<u>3,117,367</u>	<u>7.53</u>	<u>4,055,552</u>	<u>10.24</u>
Total (Note)	<u>\$ 41,402,682</u>	<u>100.00</u>	<u>39,602,600</u>	<u>100.00</u>

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 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	
December 31, 2017										
Receivables	48,468,265	18,133,729	499,565	67,101,559	197,019	826,972	68,125,550	155,688	334,626	67,635,236
Credit card receivables	30,311,446	5,899,599	450,510	36,661,555	182,856	609,259	37,453,670	52,864	115,427	37,285,379
Accounts receivable and documents against acceptance - forfaiting	94,070	748,066	-	842,136	-	-	842,136	-	8,528	833,608
Accounts receivable - factoring	7,960,563	8,279,274	-	16,239,837	-	-	16,239,837	-	184,419	16,055,418
Acceptances	330,915	2,075,458	-	2,406,373	-	-	2,406,373	-	24,986	2,381,387
Others	9,771,271	1,131,332	49,055	10,951,658	14,163	217,713	11,183,534	102,824	1,266	11,079,444
Bill purchased	92	1,141	-	1,233	-	-	1,233	-	12	1,221
Nonperforming loans transferred from other than loans	-	-	-	-	-	126,413	126,413	106,463	-	19,950
Discounts and loans	607,041,103	568,545,100	27,922,020	1,203,508,223	3,046,005	7,717,194	1,214,271,422	1,938,196	14,203,709	1,198,129,517
Personal finance	495,263,834	52,696,923	26,492,552	574,453,309	3,041,325	1,901,225	579,395,859	91,709	7,739,714	571,564,436
Corporate banking	111,777,269	515,848,177	1,429,468	629,054,914	4,680	5,815,969	634,875,563	1,846,487	6,463,995	626,565,081

Note: Total loan is the original amount without the adjustments of premium or discounts \$563,794.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated 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 receivables	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
Other	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.

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	
December 31, 2017									
<u>On-balance sheet items</u>									
Receivables	3,051,676	-	3,051,676	-	-	3,051,676	-	3,381	3,048,295
Acceptances	2,173,344	-	2,173,344	-	-	2,173,344	-	-	2,173,344
Accounts receivable and documents against acceptance - forfeiting	191,517	-	191,517	-	-	191,517	-	2,681	188,836
Others	686,815	-	686,815	-	-	686,815	-	700	686,115
Discounts and loans	40,816,149	75,590	40,891,739	88,927	422,016	41,402,682	341,837	403,808	40,657,037
Personal finance	1,254,255	-	1,254,255	11,303	671	1,266,229	367	17,581	1,248,281
Corporate banking	39,561,894	75,590	39,637,484	77,624	421,345	40,136,453	341,470	386,227	39,408,756

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									
<u>On-balance sheet items</u>									
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
Continuing involvement in transferred assets	38,849,532	126,588	38,976,120	181,995	444,485	39,602,600	221,584	512,057	38,868,959
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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated 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)

December 31, 2017	Neither past due nor impaired			
	Good	Moderate	Substandard	Total
Personal finance				
Mortgage	466,107,122	42,244,028	14,218,159	522,569,309
Micro credit	-	9,304,885	12,271,721	21,576,606
Others	29,156,712	1,148,010	2,672	30,307,394
Corporate banking				
Secured	1,101,879	195,830,105	1,241,137	198,173,121
Unsecured	110,675,390	320,018,072	188,331	430,881,793
Total	607,041,103	568,545,100	27,922,020	1,203,508,223

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

Fubon Bank (China)

Units: In thousands of CNY

December 31, 2017	Neither past due nor impaired		
	Moderate	Special-mention	Total
Personal finance			
Mortgage	523,852	-	523,852
Others	730,403	-	730,403
Corporate banking			
Secured	4,502,231	75,590	4,577,821
Unsecured	35,059,663	-	35,059,663
Total	40,816,149	75,590	40,891,739

(Continued)

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

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

iii) Credit analysis for securities investment

Taipei Fubon Bank (The Bank)

December 31, 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)
	Good	Moderate	Substandard	Subtotal (A)					
Available-for-sale financial assets									
Bond investments	50,329,805	52,534,658	-	102,864,463	-	-	102,864,463	-	102,864,463
Others	20,649,212	29,561,508	-	50,210,720	-	-	50,210,720	-	50,210,720
Held-to-maturity financial assets									
Bond investments	104,333,490	24,076,384	-	128,409,874	-	-	128,409,874	-	128,409,874
Others	298,030,979	2,779,638	-	300,810,617	-	-	300,810,617	-	300,810,617
Other financial assets									
Bond investments	47,165,047	6,774,213	-	53,939,260	-	-	53,939,260	-	53,939,260

Note 1: Available-for-sale financial assets did not include equity investments and beneficiary securities: Original cost of \$3,285,108, valuation amounting to \$14,422 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.

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)
	Good	Moderate	Substandard	Subtotal (A)					
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.

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

Fubon Bank (China)

Units: In thousands of CNY

December 31, 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)					
Available-for-sale financial assets								
Bond investments	6,003,504	-	6,003,504	-	-	6,003,504	-	6,003,504
Others	4,926,419	-	4,926,419	-	-	4,926,419	-	4,926,419
Held- to-maturity financial assets								
Bond investments	7,777,857	-	7,777,857	-	-	7,777,857	-	7,777,857

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

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.

Aging analysis for overdue but not yet impaired financial assets was as follows:

	<u>December 31, 2017</u>			
	<u>Overdue less than one month</u>	<u>Overdue one to three months</u>	<u>Overdue over three to six months</u>	<u>Total</u>
Accounts receivable				
— Credit card receivables	\$ 127,282	55,574	-	182,856
— Others	11,123	3,040	-	14,163
Discounts and loans				
— Personal finance	2,803,883	237,442	-	3,041,325
— Corporate banking	1,090	2,440	1,150	4,680

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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	December 31, 2016			
	Overdue less than one month	Overdue one to three months	Overdue over three to six months	Total
Accounts receivable				
– Credit card receivables	\$ 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
<u>Fubon Bank (China)</u>				

	Units: In thousands of CNY				
	December 31, 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	\$ 8,672	2,631	-	-	11,303
– Corporate banking	579	18,550	-	58,495	77,624

	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

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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Taipei Fubon Bank and its subsidiaries have assessed whether loans and receivables have objective evidence of impairment. The assessment as of December 31, 2017 and 2016 are as follows:

Discounts and loans

Type of impairment assessment		December 31, 2017		December 31, 2016	
		Discounts and loans	Allowance for credit losses	Discounts and loans	Allowance for credit losses
With objective evidence of impairment	Individually assessed for impairment	8,152,638	3,411,926	11,066,457	2,881,859
	Collectively assessed for impairment	1,901,225	91,709	1,853,308	84,190
With no objective evidence of impairment	Collectively assessed for impairment	1,393,821,140	16,052,948	1,295,592,087	15,104,101

Receivables

Type of impairment assessment		December 31, 2017		December 31, 2016	
		Discounts and loans	Allowance for credit losses	Discounts and loans	Allowance for credit losses
With objective evidence of impairment	Individually assessed for impairment	289,213	161,557	1,000,435	869,502
	Collectively assessed for impairment	664,171	100,594	769,769	117,279
With no objective evidence of impairment	Collectively assessed for impairment	81,002,969	350,122	70,000,869	364,235

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.

k) Foreclosed collaterals management policy

Fubon Bank (China) handles foreclosed collaterals in accordance with “The Administration of Debt-expiated Assets in Banks”.

The foreclosed collaterals of Fubon Bank (China) are houses and buildings. As of December 31, 2017 and 2016, the book value amounted to \$87,926 and \$89,086, respectively. Foreclosed collaterals are accounted for as other assets in the consolidated balance sheet.

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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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>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Industrial enterprise	\$ 76,885,792	3.31	75,070,054	3.57
Public business	96,497,982	4.16	89,415,855	4.25
Diversification	402,987	0.02	381,204	0.02
Mortgage backed securities	25,686,634	1.11	32,688,848	1.55
Financial sector	931,928,231	40.17	827,707,891	39.34
Consumer staples	157,844,508	6.80	142,094,554	6.75
Government	348,318,186	15.02	338,834,075	16.10
Technology	59,239,146	2.55	62,803,043	2.98
Raw material	62,468,284	2.69	60,855,833	2.89
Consumer discretionary	49,748,152	2.14	50,914,484	2.42
Energy	109,924,308	4.74	90,105,965	4.28
Assets backed securities	22,897,927	0.99	19,810,355	0.94
Telecommunication	188,329,319	8.12	148,238,773	7.04
Others	189,690,324	8.18	165,677,368	7.87
Total	<u>\$ 2,319,861,780</u>	<u>100.00</u>	<u>2,104,598,302</u>	<u>100.00</u>

b) Credit risk exposure—by geographic area

<u>Financial assets</u>	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Taiwan	\$ 626,080,402	26.99	643,549,528	30.58
Asia except Taiwan	224,488,288	9.68	178,776,395	8.50
North America	939,995,129	40.52	846,560,534	40.22
Middle and South America	34,428,691	1.48	19,530,197	0.93
Europe	446,034,536	19.23	395,475,237	18.79
Africa/Middle East	48,834,734	2.10	20,706,410	0.98
Total	<u>\$ 2,319,861,780</u>	<u>100.00</u>	<u>2,104,598,301</u>	<u>100.00</u>

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.

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

December 31, 2017						
Low risk	Medium risk	High risk	No credit rating	Overdue but not impaired	Impaired	Accumulated impairment
\$ 1,505,564,168	814,683,888	1,080,426	-	-	3,541,434	4,186,828
December 31, 2016						
Low risk	Medium risk	High risk	No credit rating	Overdue but not impaired	Impaired	Accumulated impairment
\$ 1,437,667,796	663,164,774	5,015,872	-	-	2,950,180	2,987,923

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.

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.

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

- 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.

- 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 ($ECL=EAD \times PD \times LGD$).

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

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.

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

		December 31, 2017				
By area	Taiwan	Asia except Taiwan	North America	Central and South America	Europe	Total
Exposure amount	\$ <u>39,289,653</u>	<u>6,998,206</u>	<u>7,964,656</u>	<u>626,617</u>	<u>8,713,018</u>	<u>63,592,150</u>
Ratio of the total	<u>61.78</u> %	<u>11.00</u> %	<u>12.53</u> %	<u>0.99</u> %	<u>13.70</u> %	<u>100.00</u> %
		December 31, 2016				
By area	Taiwan	Asia except Taiwan	North America	Central and South America	Europe	Total
Exposure amount	\$ <u>37,157,579</u>	<u>5,363,584</u>	<u>9,435,871</u>	-	<u>7,600,706</u>	<u>59,557,740</u>
Ratio of the total	<u>62.39</u> %	<u>9.01</u> %	<u>15.84</u> %	-	<u>12.76</u> %	<u>100.00</u> %

(Continued)

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

	December 31, 2017		December 31, 2016	
	Book value	Maximum exposure	Book value	Maximum exposure
<u>Non-derivative financial instruments</u>				
Financial assets				
Cash and cash equivalents	\$ 8,791,785	8,791,785	9,633,357	9,633,357
Receivables	4,588,562	4,639,854	4,719,612	4,719,612
Financial assets measured at fair value through profit or loss	779,105	779,105	302,129	302,129
Available-for-sale financial assets	40,321,642	40,321,642	40,544,802	40,544,802
Financial assets carried at cost	925,291	925,291	158,330	158,330
Debt investments without active market	6,368,230	6,368,230	3,385,068	3,385,068
Other financial assets	351,314	351,314	502,492	502,492
Reinsurance contract assets — reinsurance recoverable	2,317,845	2,317,845	2,428,523	2,428,523
Reinsurance contract assets — due from other reinsurance	3,318,607	3,318,607	2,993,511	2,993,511
Other assets	2,006,317	2,006,317	1,867,447	1,867,447
Financial liabilities				
Payables	10,848,185	10,848,185	9,565,836	9,565,836
Current tax liabilities	66,565	66,565	471,426	471,426
Other liabilities	768,576	768,576	709,916	709,916
<u>Derivative financial instruments</u>				
Financial assets				
Financial assets measured at fair value through profit or loss	124,793	124,793	17,516	17,516
Financial liabilities				
Financial liabilities measured at fair value through profit or loss	9,573	9,573	251,107	251,107

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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- 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:

Financial assets	December 31, 2017			
	Neither past due nor impaired			
	Low	Moderate	High	Total
Financial assets measured at fair value through profit or loss	\$ 87,523	37,270	-	124,793
Available-for-sale financial assets	11,374,641	7,100,280	-	18,474,921
Debt investments without active market	5,237,875	1,130,355	-	6,368,230
Total	\$ 16,700,039	8,267,905	-	24,967,944

Financial assets	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	\$ 11,515,797	10,033,203	-	21,549,000

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.

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

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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	December 31, 2017					
	Credit risk exposure amount—by region					
	Taiwan	Hong Kong	Asia	Europe	America	Total
Cash and cash equivalents	\$ 12,392,735	246,328	867,524	545	-	13,507,132
Customer margin account	20,504,270	-	-	-	-	20,504,270
Held-for-trading financial assets—current	27,634,540	178,395	5,653,023	-	552,271	34,018,229
Debt securities	26,584,926	178,395	5,653,023	-	552,271	32,968,615
Derivative assets—OTC	96,612	-	-	-	-	96,612
Derivative assets—Futures trading margin	493,030	-	-	-	-	493,030
Other debt securities	459,800	-	-	-	-	459,800
Call option—Futures	172	-	-	-	-	172
Margin deposits for borrowed securities	41,654	-	-	-	-	41,654
Other refundable deposits	1,620,030	-	1,003	-	-	1,621,033
Other current assets	1,406,255	-	-	-	-	1,406,255
Available-for-sale financial assets	971,711	-	644,598	-	19,556	1,635,865
Debt securities	914,450	-	442,832	-	-	1,357,282
Other debt securities	1,995	-	-	-	-	1,995
Open-end funds and money market instruments	55,266	-	201,766	-	19,556	276,588
Total	<u>\$ 64,571,195</u>	<u>424,723</u>	<u>7,166,148</u>	<u>545</u>	<u>571,827</u>	<u>72,734,438</u>
Proportion of the total	<u>88.78 %</u>	<u>0.58 %</u>	<u>9.85 %</u>	<u>- %</u>	<u>0.79 %</u>	<u>100.00 %</u>

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	13,965,033	92,505	1,312,296	-	332,300	15,702,134
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	<u>\$ 54,717,259</u>	<u>485,731</u>	<u>2,613,775</u>	<u>419</u>	<u>1,131,059</u>	<u>58,948,243</u>
Proportion of the total	<u>92.82 %</u>	<u>0.82 %</u>	<u>4.44 %</u>	<u>- %</u>	<u>1.92 %</u>	<u>100.00 %</u>

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December 31, 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	\$ 13,507,132	-	-	-	-	-	-	-	-	-	-	-	13,507,132
Customer margin account	20,504,270	-	-	-	-	-	-	-	-	-	-	-	20,504,270
Held-for-trading financial assets—current	7,753,555	8,375,683	2,720	5,709,218	235,271	663,130	294,610	6,440,895	136,411	89,448	171,529	4,145,759	34,018,229
Debt securities	6,703,941	8,375,683	2,720	5,709,218	235,271	663,130	294,610	6,440,895	136,411	89,448	171,529	4,145,759	32,968,615
Derivative assets—OTC	96,612	-	-	-	-	-	-	-	-	-	-	-	96,612
Derivative assets—futures trading margin	493,030	-	-	-	-	-	-	-	-	-	-	-	493,030
Other debt securities	459,800	-	-	-	-	-	-	-	-	-	-	-	459,800
Call options—Futures	172	-	-	-	-	-	-	-	-	-	-	-	172
Margin deposits for borrowed securities	41,654	-	-	-	-	-	-	-	-	-	-	-	41,654
Other refundable deposits	1,621,033	-	-	-	-	-	-	-	-	-	-	-	1,621,033
Other current assets	691,677	-	-	-	-	-	-	-	-	-	-	714,578	1,406,255
Available-for-sale financial assets	721,415	316,485	-	-	-	-	597,965	-	-	-	-	-	1,635,865
Debt securities	442,832	316,485	-	-	-	-	597,965	-	-	-	-	-	1,357,282
Other debt securities	1,995	-	-	-	-	-	-	-	-	-	-	-	1,995
Open-end funds and money market instruments	276,588	-	-	-	-	-	-	-	-	-	-	-	276,588
Total	\$ 44,840,736	8,692,168	2,720	5,709,218	235,271	663,130	892,575	6,440,895	136,411	89,448	171,529	4,860,337	72,734,438
Proportion of the total	61.65 %	11.95 %	- %	7.85 %	0.32 %	0.91 %	1.23 %	8.86 %	0.19 %	0.12 %	0.24 %	6.68 %	100.00 %

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	Motor vehicle industry	Information services	Culture 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	15,702,134	-	-	-	-	-	-	-	-	-	-	-	-	15,702,134
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—Future	13	-	-	-	-	-	-	-	-	-	-	-	-	13
Margin deposits for borrowed securities	32,103	-	-	-	-	-	-	-	-	-	-	-	-	32,103
Other refundable deposits	1,705,097	-	-	-	-	-	-	-	-	-	-	-	2,580	1,707,677
Other current assets	351,802	-	-	-	-	-	-	-	-	-	-	-	425,056	776,858
Available-for-sale financial assets	194,718	308,443	-	-	-	-	-	-	-	-	-	-	-	503,161
Debt securities	-	308,443	-	-	-	-	-	-	-	-	-	-	-	308,443
Other debt securities	25,946	-	-	-	-	-	-	-	-	-	-	-	-	25,946
Open-end funds and money market instruments	168,772	-	-	-	-	-	-	-	-	-	-	-	-	168,772
Total	\$ 32,719,097	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	58,948,243
Proportion of the total	55.51 %	14.62 %	0.01 %	5.74 %	0.07 %	1.70 %	0.22 %	15.91 %	0.08 %	- %	- %	0.26 %	5.88 %	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.

(Continued)

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

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.

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.

(Continued)

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

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.

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 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.

December 31, 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	\$ 13,465,473	41,659	-	-	-	-	13,507,132
Customer margin account	20,504,270	-	-	-	-	-	20,504,270
Held-for-trading financial assets—current	22,532,344	11,221,435	264,450	-	-	-	34,018,229
Debt securities	21,940,068	10,764,097	264,450	-	-	-	32,968,615
Derivative assets—OTC	11,013	85,599	-	-	-	-	96,612
Derivative assets—Futures trading margin	493,030	-	-	-	-	-	493,030
Other debt securities	88,061	371,739	-	-	-	-	459,800
Call option—Futures	172	-	-	-	-	-	172
Margin deposits for borrowed securities	41,654	-	-	-	-	-	41,654
Other refundable deposits	1,621,033	-	-	-	-	-	1,621,033
Other current assets	1,406,255	-	-	-	-	-	1,406,255
Available-for-sale financial assets	1,426,642	80,011	129,212	-	-	-	1,635,865
Debt securities	1,357,282	-	-	-	-	-	1,357,282
Other debt securities	1,995	-	-	-	-	-	1,995
Open-end funds and money market instruments	67,365	80,011	129,212	-	-	-	276,588
Subtotal	60,997,671	11,343,105	393,662	-	-	-	72,734,438
Proportion of the total	83.86 %	15.60 %	0.54 %	- %	- %	- %	100.00 %
Receivables	23,926,461	8,615,777	566,245	-	-	-	33,108,483
Account receivable	18,688,574	-	-	-	-	-	18,688,574
Receivables from pecuniary finance	5,237,887	8,615,777	566,245	-	-	-	14,419,909
Total	\$ 84,924,132	19,958,882	959,907	-	-	-	105,842,921
Proportion of the total	80.23 %	18.86 %	0.91 %	- %	- %	- %	100.00 %

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

Financial assets	December 31, 2016						
	Financial assets credit quality and classification						
	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	15,702,134	-	-	-	-	-	15,702,134
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>47,615,266</u>	<u>10,774,517</u>	<u>558,460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,948,243</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>\$ 62,485,367</u>	<u>16,630,984</u>	<u>1,264,563</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>80,380,914</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>

As seen in above tables, Fubon Securities and its subsidiaries had no financial assets which were overdue but not impaired. 0.91% 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.

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

iv) Impairment loss

As of December 31, 2017 and 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 December 31, 2017 and 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 December 31, 2017 and 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:

	December 31, 2017		December 31, 2016	
	Total amount	Impairment amount	Total amount	Impairment amount
Overdue 0 to 180 days	\$ 9,064	8,621	107	107
Overdue 181 days to one year	640	640	212	139
Overdue more than one year	<u>5,686</u>	<u>4,725</u>	<u>6,582</u>	<u>5,206</u>
Total	<u>\$ 15,390</u>	<u>13,986</u>	<u>6,901</u>	<u>5,452</u>

The changes in allowance for uncollectible accounts of other receivables and overdue receivables were as follows:

	2017	2016
Beginning balance	\$ 5,452	7,510
Recognized (reversal of) impairment loss	8,534	(2,058)
Ending balance	<u>\$ 13,986</u>	<u>5,452</u>

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

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.

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.

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

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 financial 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.

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

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 FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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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.

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	
	December 31, 2017	December 31, 2016
Irrevocable loan commitments	\$ 2,229,705	1,242,882
Standby letters of credit	734,248	267,169
Financial guarantees	154,342	126,697
Total	\$ 3,118,295	1,636,748

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The maximum exposure of assets and off-balance sheet items pledged as collaterals, general agreement of net amount settlement and other credit enhancement tools are as follows:

	December 31, 2017		
	Collaterals	General agreement of net amount settlement	Other credit enhancement tools
<u>On-balance sheet items</u>			
Discounts and loans	48.88 %	-	36.63 %
Available-for-sale financial assets			
– Bonds investments	-	%	4.61 %
<u>December 31, 2016</u>			
	Collaterals	General agreement of net amount settlement	Other credit enhancement tools
<u>On-balance sheet items</u>			
Discounts and loans	58.33 %	-	43.86 %
Available-for-sale financial assets			
– Bonds investments	-	%	3.00 %

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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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

Industry	Units: In thousands of HKD			
	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Gross advances for use in Hong Kong industrial, commercial and financial				
Property development	\$ 3,542,760	7.27	3,756,167	8.58
Property investment	8,461,107	17.36	9,852,120	22.49
Financial concerns	3,616,993	7.42	1,346,366	3.07
Stockbrokers	2,132,447	4.37	1,561,154	3.56
Wholesale and retail trade	409,307	0.84	342,228	0.78
Manufacturing	1,171,559	2.40	1,244,842	2.84
Transport and transport equipment	113,231	0.23	311,083	0.71
Information technology	557,166	1.14	377,867	0.86
Electricity and gas	20,000	0.04	131,656	0.30
Others	2,903,223	5.96	2,287,477	5.22
Individuals				
Project plan	5,705	0.01	12,135	0.03
Loan for the purchase of other residential properties	9,867,406	20.24	9,663,115	22.06
Credit card advances	964,430	1.98	1,070,172	2.44
Others	4,642,525	9.52	4,665,215	10.65
	38,407,859	78.78	36,621,597	83.59
Trade finance	5,083,536	10.43	3,524,598	8.05
Gross advances for use in Hong Kong	43,491,395	89.21	40,146,195	91.64
Gross advances for use outside Hong Kong	5,261,208	10.79	3,661,537	8.36
Gross advances to customers	<u>\$ 48,752,603</u>	<u>100.00</u>	<u>43,807,732</u>	<u>100.00</u>

ii) By collateral

Collateral	Units: In thousands of HKD			
	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Unsecured	\$ 24,918,857	51.12	18,253,087	41.67
Secured				
– Financial collateral	255,380	0.52	703,412	1.61
– Real estate	21,890,195	44.90	23,648,401	53.98
– Other collateral	1,688,171	3.46	1,202,832	2.74
Total	<u>\$ 48,752,603</u>	<u>100.00</u>	<u>43,807,732</u>	<u>100.00</u>

h) The analysis of credit quality and impairment of financial instruments

i) The credit quality of loans and receivables

	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)		
	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	Net amount (A)+(B)+(C)-(D)
December 31, 2017										
Discounts and loans	47,124,617	193,755	880,255	48,198,627	366,672	187,304	48,752,603	155,963	133,068	48,463,572

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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

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.

- 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
December 31, 2017				
Customer loans				
Mortgage	9,570,429	22,045	-	9,592,474
Micro credit	1,225,292	1,731	-	1,227,023
Corporate loan				
Secured	12,429,352	144,825	-	12,574,177
Unsecured	23,899,544	25,154	880,255	24,804,953
Total	47,124,617	193,755	880,255	48,198,627

Units: In thousands of HKD

	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

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 Financial Statements

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)					
December 31, 2017											
Available-for-sale financial assets											
Bond investment	3,680,994	5,733,925	16,523,957	4,390,793	1,369,581	31,699,250	-	-	31,699,250	-	31,699,250
Equity investment	-	-	-	-	513,671	513,671	-	111,440	625,111	80,701	544,410
Held-to-maturity financial assets											
Bond investment	-	507,835	819,575	-	234,386	1,561,796	-	-	1,561,796	-	1,561,796
Other financial assets											
Bond investment	-	1,846,823	-	-	-	1,846,823	-	-	1,846,823	-	1,846,823

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

i) The aging analysis of past due but not individually impaired financial assets

Units: In thousands of HKD

December 31, 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	\$ 337,732	27,147	-	1,793	366,672

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 Financial Statements

(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.

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.

(Continued)

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

- 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.

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

	December 31, 2017					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
<u>Assets</u>						
Cash and due from/ call loans to banks	\$ 45,883,761	4,258,293	4,760,420	5,404,084	17,177,958	77,484,516
Investment in marketable securities (Note 2)	197,972,829	39,371,317	44,635,826	58,475,521	139,333,528	479,789,021
Securities purchased under resell agreements	5,285,079	-	-	-	-	5,285,079
Loans (included overdue loans)	104,526,252	81,764,313	63,449,650	94,504,089	645,292,735	989,537,039
Deliverable derivative assets	258,891,312	246,809,793	160,252,700	68,532,635	14,745,338	749,231,778
Non-deliverable derivative assets	4,160,124	3,510	-	14,430	253,685	4,431,749
Other capital inflow on maturity	25,814,801	7,912,275	7,394,205	3,662,346	50,423,971	95,207,598
Total assets	\$ 642,534,158	380,119,501	280,492,801	230,593,105	867,227,215	2,400,966,780

(Continued)

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

	December 31, 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	\$ 28,197,958	2,000	845,004	1,700	101,000	29,147,662
Deposits and remittances	176,091,600	147,255,219	95,502,422	186,965,437	593,268,963	1,199,083,641
Securities sold under repurchase agreements	10,148,583	1,613,321	53,225	-	-	11,815,129
Payables	559,496	416,707	518,895	553,656	94,743	2,143,497
Financial bonds payable	-	3,053,510	-	11,464,430	36,153,455	50,671,395
Deliverable derivative liabilities	300,089,590	325,280,180	165,422,960	73,824,014	19,127,340	883,744,084
Non-deliverable derivative liabilities	4,389,378	-	-	-	231	4,389,609
Other capital outflow on maturity	21,479,111	2,813,968	3,849,822	972,242	6,211,230	35,326,373
Total liabilities	\$ 540,955,716	480,434,905	266,192,328	273,781,479	654,956,962	2,216,321,390
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	\$ 579,089,684	314,590,345	186,347,329	239,874,511	798,952,348	2,118,854,217
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	\$ 418,371,569	341,352,026	272,061,255	272,500,783	632,151,733	1,936,437,366

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.

(Continued)

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

ii) The maturity analysis of financial assets and liabilities - USD

Taipei Fubon Bank (The Bank)

		Units: In thousands of USD					
		December 31, 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	\$	1,143,731	1,220,000	365,000	537,000	-	3,265,731
Investment in marketable securities(Note 2)		266,497	89,918	94,940	171,896	5,332,696	5,955,947
Loans (included overdue loans)		1,011,337	344,358	344,001	262,188	1,528,211	3,490,095
Deliverable derivative assets		13,435,055	14,325,734	6,298,301	2,742,573	641,972	37,443,635
Non-deliverable derivative assets		30,829	34	-	190	25,347	56,400
Other capital inflow on maturity		783,975	213,820	66,010	13,113	165,625	1,242,543
Total assets	\$	<u>16,671,424</u>	<u>16,193,864</u>	<u>7,168,252</u>	<u>3,726,960</u>	<u>7,693,851</u>	<u>51,454,351</u>
Liabilities							
Deposits from the central bank and banks	\$	1,618,904	660,000	-	-	-	2,278,904
Deposits and remittances		4,391,619	1,698,566	2,152,537	1,589,876	4,173,021	14,005,619
Securities sold under repurchase agreements		793,569	847,449	-	-	-	1,641,018
Payables		12,833	15,782	7,706	563	-	36,884
Financial bonds payable		-	-	-	-	818,074	818,074
Deliverable derivative liabilities		10,818,659	11,488,512	6,174,357	2,560,544	489,829	31,531,901
Non-deliverable derivative liabilities		37,069	-	209	71	42,980	80,329
Other capital outflow on maturity		419,409	76,521	19,455	8,621	365,228	889,234
Total liabilities	\$	<u>18,092,062</u>	<u>14,786,830</u>	<u>8,354,264</u>	<u>4,159,675</u>	<u>5,889,132</u>	<u>51,281,963</u>
		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	\$	<u>13,948,976</u>	<u>11,428,610</u>	<u>8,335,830</u>	<u>4,890,055</u>	<u>4,874,252</u>	<u>43,477,723</u>

(Continued)

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

	December 31, 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	\$ 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 inflow 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

Note1 : The above amounts include only USD amounts held by headquarter, domestic branches and offshore banking units 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, held-to-maturity financial assets and others financial assets – debt investments without active market.

iii) The maturity analysis of financial assets and liabilities - CNY

Fubon Bank (China)

	December 31, 2017					
	0-30 days	31-90 days	91-365 days	Over 1 year	Undetermined	Total
Assets						
Cash and due from / call loans to banks	\$ 1,359,214	-	-	-	6,151,070	7,510,284
Investment in marketable securities(Note)	3,314,425	489,735	5,898,373	11,506,598	-	21,209,131
Securities purchased under resell agreements	2,218,648	-	-	-	-	2,218,648
Loans (included overdue loans)	8,065,246	7,391,628	18,750,924	9,494,752	-	43,702,550
Deliverable derivative liabilities	2,470,632	1,714,344	4,336,792	-	-	8,521,768
Non-deliverable derivative liabilities	5,335,636	15,016,785	31,050,574	66,335	-	51,469,330
Other capital inflow on maturity	860,480	1,241,645	776,061	-	20,223	2,898,409
Total assets	\$ 23,624,281	25,854,137	60,812,724	21,067,685	6,171,293	137,530,120
Liabilities						
Deposits from the central bank and banks	\$ 1,104,760	3,063,608	4,047,425	-	-	8,215,793
Due to the central bank and banks	201,476	200,855	807,183	-	-	1,209,514
Deposits and remittances	28,661,561	9,257,071	10,816,241	1,013,343	-	49,748,216
Securities sold under repurchase agreements	3,922,492	2,237,032	968,581	-	-	7,128,105
Payables	560,908	1,052,704	776,061	540	-	2,390,213
Deliverable derivatives liabilities	2,496,452	1,715,322	4,309,527	-	-	8,521,301
Non-deliverable derivatives	5,378,016	15,082,265	31,162,563	66,328	-	51,689,172
Other capital outflow	-	-	-	-	3,122	3,122
Total liabilities	\$ 42,325,665	32,608,857	52,887,581	1,080,211	3,122	128,905,436

(Continued)

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

Note: Investment in marketable securities includes financial assets measured at fair value, available-for-sale financial assets and held-to-maturity financial assets.

iv) The maturity analysis of derivatives assets and liabilities - TWD

Taipei Fubon Bank (The Bank)

Units: In thousands of TWD

	December 31, 2017					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Deliverable derivative assets						
— Forward contracts	\$ 1,595,740	1,780,122	684,094	544,880	210,228	4,815,064
— Currency swap	249,103,537	230,638,790	147,306,105	57,890,534	295,250	685,234,216
— Cross currency swap	8,192,035	14,390,881	12,262,501	10,097,221	14,239,860	59,182,498
Subtotal	258,891,312	246,809,793	160,252,700	68,532,635	14,745,338	749,231,778
Non-deliverable derivative assets						
— Foreign exchange derivative instruments	603,009	-	-	-	-	603,009
— Interest rate derivative instruments—hedging	-	3,510	-	14,430	253,685	271,625
— Interest rate derivative instruments—non-hedging	2,439,826	-	-	-	-	2,439,826
— Equity derivative instruments	1,117,289	-	-	-	-	1,117,289
Subtotal	4,160,124	3,510	-	14,430	253,685	4,431,749

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

	December 31, 2017					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Liabilities						
Deliverable derivative liabilities						
– Forward contracts	\$ 1,603,996	1,568,003	71,022	-	-	3,243,021
– Currency swap	293,454,290	302,013,322	152,512,867	67,440,424	3,348,385	818,769,288
– Cross currency swap	5,031,304	21,698,855	12,839,071	6,383,590	15,778,955	61,731,775
Subtotal	<u>300,089,590</u>	<u>325,280,180</u>	<u>165,422,960</u>	<u>73,824,014</u>	<u>19,127,340</u>	<u>883,744,084</u>
Non-deliverable derivative liabilities						
– Foreign exchange derivative instruments	603,009	-	-	-	-	603,009
– Interest rate derivative instrument – hedging	-	-	-	-	231	231
– Interest rate derivative instruments – non-hedging	2,669,080	-	-	-	-	2,669,080
– Equity derivative instruments	1,117,289	-	-	-	-	1,117,289
Subtotal	<u>4,389,378</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>231</u>	<u>4,389,609</u>

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	10,640,263	9,195,070	14,452,770	27,363,950	18,420,885	80,072,938
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	3,830,160	12,644,480	6,934,370	29,469,100	17,281,666	70,159,776
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>

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 Financial Statements

v) The maturity analysis of derivatives assets and liabilities - USD

Taipei Fubon Bank (The Bank)

Units: In thousands of USD

	December 31, 2017					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Deliverable derivative assets						
— Forward contracts	\$ 268,167	429,478	37,764	47,304	700	783,413
— Currency swap	13,004,888	13,306,256	5,845,757	2,476,483	115,000	34,748,384
— Cross currency swap	162,000	590,000	414,780	218,786	526,272	1,911,838
Subtotal	<u>13,435,055</u>	<u>14,325,734</u>	<u>6,298,301</u>	<u>2,742,573</u>	<u>641,972</u>	<u>37,443,635</u>
Non-deliverable derivative assets						
— Foreign exchange derivative instruments	22,780	-	-	-	-	22,780
— Interest rate derivative instruments — hedging	-	34	-	190	25,347	25,571
— Interest rate derivative instruments — non-hedging	7,216	-	-	-	-	7,216
— Equity derivative instruments	576	-	-	-	-	576
— Product derivative instruments	257	-	-	-	-	257
Subtotal	<u>30,829</u>	<u>34</u>	<u>-</u>	<u>190</u>	<u>25,347</u>	<u>56,400</u>
Liabilities						
Deliverable derivative liabilities						
— Forward contracts	\$ 408,746	621,557	137,493	188,668	7,000	1,363,464
— Currency swap	10,149,968	10,403,905	5,636,899	2,028,668	10,000	28,229,440
— Cross currency swap	259,945	463,050	399,965	343,208	472,829	1,938,997
Subtotal	<u>10,818,659</u>	<u>11,488,512</u>	<u>6,174,357</u>	<u>2,560,544</u>	<u>489,829</u>	<u>31,531,901</u>
Non-deliverable derivative liabilities						
— Foreign exchange derivative instruments	23,959	-	-	-	-	23,959
— Interest rate derivative instruments — hedging	-	-	209	71	42,980	43,260
— Interest rate derivative instruments — non-hedging	12,278	-	-	-	-	12,278
— Equity derivative instruments	576	-	-	-	-	576
— Product derivative instruments	256	-	-	-	-	256
Subtotal	<u>37,069</u>	<u>-</u>	<u>209</u>	<u>71</u>	<u>42,980</u>	<u>80,329</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated 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>

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 Financial Statements

vi) The maturity analysis of derivatives assets and liabilities - CNY

Fubon Bank (China)

Units: In thousands of CNY

<u>Asset</u>	December 31, 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	\$ 129,834	68,608	43,304	-	241,746
– Currency swap	1,533,475	1,050,806	3,673,722	-	6,258,003
– Options	792,022	594,325	545,047	-	1,931,394
– Equity exchange	-	-	6,860	-	6,860
– Cross currency swap	15,301	605	67,859	-	83,765
Subtotal	<u>2,470,632</u>	<u>1,714,344</u>	<u>4,336,792</u>	<u>-</u>	<u>8,521,768</u>
Non-deliverable derivatives assets					
– Interest rate derivatives instruments – non-hedging	-	23	-	-	23
– Currency swap	5,036,930	14,754,303	30,784,822	66,335	50,642,390
– Options	128,000	229,434	261,950	-	619,384
– Forward contracts	170,706	32,725	-	-	203,431
– Commodity swap	-	300	3,802	-	4,102
Subtotal	<u>5,335,636</u>	<u>15,016,785</u>	<u>31,050,574</u>	<u>66,335</u>	<u>51,469,330</u>
Liabilities					
Deliverable derivatives liabilities					
– Forward contracts	\$ 130,308	69,074	42,304	-	241,686
– Currency swap	1,559,253	1,053,022	3,667,210	-	6,279,485
– Options	791,590	592,621	525,294	-	1,909,505
– Equity exchange	-	-	6,860	-	6,860
– Cross currency swap	15,301	605	67,859	-	83,765
Subtotal	<u>2,496,452</u>	<u>1,715,322</u>	<u>4,309,527</u>	<u>-</u>	<u>8,521,301</u>
Non-deliverable derivatives assets					
– Interest rate derivatives instruments – non-hedging	-	23	-	-	23
– Currency swap	5,077,200	14,814,395	30,896,911	66,328	50,854,834
– Options	130,743	234,230	261,850	-	626,823
– Forward contracts	170,073	33,317	-	-	203,390
– Commodity swap	-	300	3,802	-	4,102
Subtotal	<u>5,378,016</u>	<u>15,082,265</u>	<u>31,162,563</u>	<u>66,328</u>	<u>51,689,172</u>

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

Units: In thousands of CNY

<u>Asset</u>	December 31, 2016				
	<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	\$ 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	548,456	-	-	-	548,456
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					
– Forward contracts	38	84	497	-	619
– Currency swap	5,913,910	12,567,084	17,982,860	140,179	36,604,033
– Interest rate derivatives instruments – non-hedging	32,793	25,835	-	-	58,628
– Commodity swap	1,435	-	1,968	-	3,403
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	548,404	-	-	-	548,404
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
– Forward contracts	5,899,232	12,472,789	17,934,996	140,136	36,447,153
– Currency swap	33,435	25,027	-	-	58,462
– Commodity swap	1,435	-	1,968	-	3,403
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>

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.

Taipei Fubon Bank (The Bank)

Units: In thousands of TWD

December 31, 2017	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Standby and irrevocable loan commitment	76,409,378	-	-	-	-	76,409,378
Unused letters of credit	10,407,936	-	-	-	-	10,407,936
Other guarantee amounts	10,862,561	343,200	3,085,200	2,737,374	12,368,709	29,397,044
Total	97,679,875	343,200	3,085,200	2,737,374	12,368,709	116,214,358

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

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

Fubon Bank (China)

Units: In thousands of CNY

December 31, 2017	0-30 days	31-90 days	91-365 days	Over 1 year	Total
Standby and irrevocable loan commitment	-	-	-	2,542	2,542
Unused letters of credit	99,278	315,965	42,717	-	457,960
Other guarantee amounts	163,248	229,941	914,022	53,922	1,361,133
Total	262,526	545,906	956,739	56,464	1,821,635

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

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.

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

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.

The maturity structure of non-derivative financial liabilities of Fubon Life Insurance and its subsidiaries is listed below:

	December 31, 2017				
	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Payables	\$ 28,542,775	1,501	71	216,621	28,760,968
Bonds Payables (Note)	<u>1,140,750</u>	<u>2,281,500</u>	<u>2,281,500</u>	<u>39,564,202</u>	<u>45,267,952</u>
Total	<u>\$ 29,683,525</u>	<u>2,283,001</u>	<u>2,281,571</u>	<u>39,780,823</u>	<u>74,028,920</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 Payables (Note)	<u>926,250</u>	<u>1,852,500</u>	<u>1,852,500</u>	<u>33,067,808</u>	<u>37,699,058</u>
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.

The maturity structure of derivative financial liabilities of Fubon Life Insurance and its subsidiaries is listed below:

	December 31, 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	\$ 448,368	-	-	-	448,368
Derivative financial liabilities for hedging	-	-	33,884	747,895	781,779
Total	<u>\$ 448,368</u>	<u>-</u>	<u>33,884</u>	<u>747,895</u>	<u>1,230,147</u>

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

	December 31, 2016				Total
	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	
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	\$ 14,156,699	-	-	760,198	14,916,897

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.

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.

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

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.

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.

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

- 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.

- iv) The maturity analyses of financial assets and liabilities are as follows:

		December 31, 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	\$ 719,380	476,420	2,108,588	7,208,142	2,588,283	5,374,108	-	18,474,921
	Debt investments without active market	551,780	-	-	400,000	267,113	3,249,337	1,900,000	6,368,230
		<u>\$ 1,271,160</u>	<u>476,420</u>	<u>2,108,588</u>	<u>7,608,142</u>	<u>2,855,396</u>	<u>8,623,445</u>	<u>1,900,000</u>	<u>24,843,151</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 investments 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>

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated 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:

		December 31, 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>124,793</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,793</u>
Maturity analysis of financial liabilities	\$	<u>9,573</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,573</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>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,516</u>
Maturity analysis of financial liabilities	\$	<u>251,107</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>251,107</u>

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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a) Capital liquidity risk measurement analysis

	December 31, 2017					
	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	\$ 6,829,344	5,152,484	577,799	905,005	42,500	13,507,132
Customer margin account	20,504,270	-	-	-	-	20,504,270
Held-for-trading financial assets – current	13,425,993	2,353,735	300,727	201,200	24,015,110	40,296,765
Open-end funds, money market instruments and other securities	358,271	190,298	-	-	-	548,569
Operating securities	11,986,204	2,163,437	300,727	201,200	23,558,115	38,209,683
Derivative assets – OTC	96,612	-	-	-	-	96,612
Derivative assets – Futures trading margin	493,030	-	-	-	-	493,030
Other debt securities	-	-	-	-	456,995	456,995
Call option – Futures	172	-	-	-	-	172
Securities invested by brokers	491,704	-	-	-	-	491,704
Available-for-sale financial assets – current and non-current	6,307,129	-	-	-	1,885,137	8,192,266
Receivables from pecuniary finance	11,824,326	1,730,389	576,796	288,398	-	14,419,909
Collateral for borrowed securities	46,188	-	-	-	-	46,188
Margin deposits for borrowed securities	41,654	-	-	-	-	41,654
Receivables	18,670,824	110,950	9,037	4,518	-	18,795,329
Total	\$ 77,649,728	9,347,558	1,464,359	1,399,121	25,942,747	115,803,513
Proportion of the total	67.06 %	8.07 %	1.26 %	1.21 %	22.40 %	100.00 %
	December 31, 2017					
	Cash flow gap					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Financial liabilities						
Short term loans	\$ 2,355,749	-	-	-	-	2,355,749
Commercial papers issued	3,798,891	-	-	-	-	3,798,891
Held-for-trading financial liabilities – current	2,215,370	-	-	-	-	2,215,370
Call (put) warrants	461,755	-	-	-	-	461,755
Derivative liabilities – OTC	1,375,819	-	-	-	-	1,375,819
Liabilities in sale of borrowed securities	178,120	-	-	-	-	178,120
Short covering bonds	199,559	-	-	-	-	199,559
Bonds purchased under resell agreement – Futures	117	-	-	-	-	117
Financial liabilities designated as at fair value through profit or loss at initial recognitions	2,078,273	-	-	-	-	2,078,273
Securities sold under repurchase agreements	25,208,809	-	-	-	-	25,208,809
Securities financing refundable deposits	1,978,773	289,576	96,526	48,263	-	2,413,138
Deposits payable for securities financing	2,165,884	316,959	105,653	52,827	-	2,641,323
Securities lending refundable deposits	7,196,801	-	-	-	-	7,196,801
Futures customers' equity	20,504,270	-	-	-	-	20,504,270
Payables	18,173,424	77	26	13	-	18,173,540
Amounts collected for other parties	1,401,050	160	-	-	-	1,401,210
Total	\$ 87,077,294	606,772	202,205	101,103	-	87,987,374
Proportion of the total	98.97 %	0.69 %	0.23 %	0.11 %	- %	100.00 %
Cash inflow	77,649,728	9,347,558	1,464,359	1,399,121	25,942,747	115,803,513
Cash outflow	87,077,294	606,772	202,205	101,103	-	87,987,374
Net cash flow	(9,427,566)	8,740,786	1,262,154	1,298,018	25,942,747	27,816,139

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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	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	15,702,134	-	-	-	-	15,702,134
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
Bonds 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>\$ 51,516,958</u>	<u>3,697,403</u>	<u>2,518,647</u>	<u>11,455,124</u>	<u>23,532,483</u>	<u>92,720,615</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	203,565	-	-	-	-	203,565
Bonds purchased under resell agreement – Borrowed securities	-	-	-	-	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 initial recognition	2,282,024	-	-	-	-	2,282,024
Securities sold under repurchase agreements	21,231,598	-	-	-	-	21,231,598
Securities financing refundable deposits	1,763,829	255,012	63,753	42,502	-	2,125,096
Deposits payable for securities financing	1,944,138	281,080	70,270	46,847	-	2,342,335
Securities lending refundable deposits	5,565,473	-	-	-	-	5,565,473
Futures traders' equity	15,702,135	-	-	-	-	15,702,135
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	<u>51,516,958</u>	<u>3,697,403</u>	<u>2,518,647</u>	<u>11,455,124</u>	<u>23,532,483</u>	<u>92,720,615</u>
Cash outflow	<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>
Net cash flow	<u>(13,008,736)</u>	<u>3,160,966</u>	<u>2,384,602</u>	<u>11,365,760</u>	<u>23,225,938</u>	<u>27,128,530</u>

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

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

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

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

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.

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

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.

c) The maturity analysis of non-derivative financial liabilities

Units: In thousands of HKD

	December 31, 2017					Total
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	
Non-derivative financial liabilities measured at fair value through profit or loss	\$ 1,000,000	748,500	100,000	-	-	1,848,500
Bonds and securities purchased under resell agreement	118,663	9,106,130	-	-	-	9,224,793
Others	40,032,892	18,644,161	5,350,543	5,150,428	4,107,259	73,285,283

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

d) The maturity analysis of derivative financial liabilities

i) Net settlement derivative instruments

Units: In thousands of HKD

	December 31, 2017					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Derivative financial liabilities measured at fair value through profit or loss						
– Foreign exchange derivative contracts	\$ 15,065,615	1,811,415	460,459	1,661,123	362,516	19,361,128
– Interest rate derivatives contracts	-	-	476,888	-	3,743,254	4,220,142
Derivative financial liabilities for hedging						
– Interest rate derivatives contracts	310,023	78,129	-	465,321	14,060,740	14,914,213
Total	\$ 15,375,638	1,889,544	937,347	2,126,444	18,166,510	38,495,483

Units: In thousands of HKD

	December 31, 2016					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Derivative financial liabilities measured 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 financial liabilities 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

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

ii) The maturity analysis of off-balance sheet items

Units: In thousands of HKD

	December 31, 2017					Total
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	
Standby and irrevocable loan commitment	\$ 1,990	175,381	7,492	333,603	1,711,239	2,229,705
Unused letters of credit	236,137	421,749	76,362	-	-	734,248
Other guarantee amounts	15,209	66,354	4,260	33,922	34,597	154,342
Total	\$ 253,336	663,484	88,114	367,525	1,745,836	3,118,295

Units: In thousands of HKD

	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 guarantee amounts	20,275	18,028	15,236	54,875	18,283	126,697
Total	\$ 92,269	175,220	371,616	118,032	879,611	1,636,748

(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.

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

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

VaR information of trading book is shown below:

<u>Common VaR</u>	<u>2017</u>			<u>End of period</u>
	<u>Highest</u>	<u>Lowest</u>	<u>Average</u>	
Interest rate group	\$ 94,459	42,826	59,745	51,387
Exchange rate group	17,482	3,529	7,979	4,534
Volatility group	6,047	794	2,731	794
Diversification effect	-	-	(11,169)	(7,693)
Common VaR of trading book			<u>\$ 59,286</u>	<u>49,022</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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<u>Common VaR</u>	2016			<u>End of period</u>
	<u>Highest</u>	<u>Lowest</u>	<u>Average</u>	
Interest rate group	\$ 62,229	29,654	39,444	62,229
Exchange rate group	19,905	2,688	7,783	6,794
Volatility group	38,684	1,322	8,626	13,663
Diversification effect	-	-	(13,311)	(16,286)
Common VaR of trading book			<u>\$ 42,542</u>	<u>66,400</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.

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.

(Continued)

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

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 December 31, 2017 and 2016, and all other factors been held constant, the earnings would have decreased/increased by \$5million and \$22 million, respectively.

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 December 31, 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.

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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The sensitivity analysis for equity positions of banking book is listed below:

	December 31, 2017		December 31, 2016	
	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity
Stock prices increased by 10%	\$ 30,036	296,393	35,097	619,855
Stock prices decreased by 10%	(30,036)	(296,393)	(35,097)	(619,855)

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.

	December 31, 2017		December 31, 2016	
	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity
Interest rate increased by 50 basis points	\$ (11,269)	(75,245)	(34,653)	(16,340)
Interest rate decreased by 50 basis points	11,269	77,762	34,653	16,396

Units: In thousands of CNY

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:

	December 31, 2017		December 31, 2016	
	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%	\$ (44,312)	8,351	25,691	8,921
Foreign exchange rate for USD and HKD against CNY decreased by 5%	44,312	8,351	(25,691)	(8,921)

Units: In thousands of CNY

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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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 December 31, 2017 and 2016.

Taipei Fubon Bank (The Bank)

	December 31, 2017			December 31, 2016		
	Original	Rate	TWD	Original	Rate	TWD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 16,245,522	29.8574	485,049,049	11,409,196	32.2815	368,305,961
CNY	16,297,356	4.5795	74,633,742	10,555,074	4.6399	48,974,488
JPY	135,205,202	0.2650	35,829,379	99,685,272	0.2752	27,433,387
HKD	8,337,859	3.8211	31,859,793	6,249,213	4.1629	26,014,849
AUD	1,176,755	23.3123	27,432,866	715,854	23.3073	16,684,624
<u>Non-monetary items</u>						
USD	156,231	29.8574	4,664,651	544,250	32.2815	17,569,206
CNY	1,263,540	4.5795	5,786,381	5,444,211	4.6399	25,260,595
JPY	4,552,980	0.2650	1,206,540	26,093,210	0.2752	7,180,851
HKD	82,782	3.8211	316,318	447,946	4.1629	1,864,754
AUD	523	23.3123	12,192	543	23.3073	12,656
<u>Investments accounted for using equity method</u>						
CNY	4,609,936	4.5795	21,111,200	4,623,970	4.6399	21,454,759
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	23,073,140	29.8574	688,903,970	14,817,085	32.2815	478,317,729
CNY	12,851,572	4.5795	58,853,774	13,868,956	4.6399	64,350,569
JPY	43,752,207	0.2650	11,594,335	25,052,451	0.2752	6,894,435
HKD	4,834,320	3.8211	18,472,420	3,629,200	4.1629	15,107,997
AUD	939,882	23.3123	21,910,811	736,686	23.3073	17,170,162
<u>Non-monetary items</u>						
USD	71,980	29.8574	2,149,136	560,923	32.2815	18,107,436
CNY	1,341,586	4.5795	6,143,793	5,488,958	4.6399	25,468,216
JPY	4,878,441	0.2650	1,292,787	20,112,276	0.2752	5,534,898
HKD	79,543	3.8211	303,942	462,672	4.1629	1,926,057
AUD	635	23.3123	14,803	1,365	23.3073	31,814

Fubon Bank (China)

	December 31, 2017			December 31, 2016		
	Original	Rate	CNY	Original	Rate	CNY
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 520,405	6.5342	3,400,430	636,616	6.9370	4,416,205
JPY	2,743,663	0.0579	155,858	2,435,634	0.0596	145,164
HKD	25,619	0.8359	21,415	163,404	0.8945	146,165
EUR	2,088	7.8023	16,291	819	7.3068	5,984
<u>Non-monetary items</u>						
USD	1,451	6.5342	9,481	126,740	6.9370	879,195

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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	December 31, 2017			December 31, 2016		
	Original	Rate	CNY	Original	Rate	CNY
<u>Financial liability</u>						
<u>Monetary items</u>						
USD	\$ 2,114,746	6.5342	13,818,173	1,533,104	6.9370	10,635,142
JPY	2,095,932	0.0579	121,354	2,218,404	0.0596	132,217
HKD	16,592	0.8536	13,869	42,046	0.8945	37,610
EUR	18,533	7.8023	144,600	12,735	7.3068	93,052
<u>Non-monetary items</u>						
USD	141,494	6.5342	924,550	1,039	6.9370	7,208

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.

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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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

December 31, 2017			
Risk factor	Variation	Change in profit or loss	Change in equity
Equity risk (price)	Price incline by 10%	-	52,472,208
	Price decline by 10%	-	(52,472,208)
Interest rate risk (yield curve)	Yield curve (USD) incline by 50BPS	(4,097)	(15,083,100)
	Yield curve (TWD) incline by 50BPS	2,026	(12,894,440)
	Yield curve (other) incline by 50BPS	-	(848,914)
	Yield curve (USD) decline by 50BPS	4,111	16,326,678
	Yield curve (TWD) decline by 50BPS	(2,044)	13,917,490
	Yield curve (other) decline by 50BPS	-	882,437
Exchange rate risk (currency exchange rate)	TWD to all currency incline by 3%	(4,977,349)	(6,279,385)
	TWD to all currency decline by 3%	4,977,349	6,279,385
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 (TWD) 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

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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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 December 31, 2017 and 2016, while other factors remained constant, the impact of changes in profit or loss and in equity will be \$(41) and \$(598,500), as well as \$(3) and \$(693,176), respectively.

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.

ii) Risk measurement

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

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

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 and approved by proper authorities according to company's authorization table.

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

Units: In thousands of TWD			
December 31, 2017			
<u>Common VaR</u>	<u>Average</u>	<u>Highest</u>	<u>Lowest</u>
Fixed income group	\$ 465,119	566,918	365,373
Equity group	591,885	867,681	423,230
Fund group	85,441	109,808	54,922
Asset securitization group	60,867	79,189	31,051
Total position	770,918	1,338,601	551,407
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

Note 1: VaR was adopted for the years ended December 31, 2017 and 2016.

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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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 market risk events immediately, and for verifying valuation models independently. In addition, the independent Audit Department, which is under the board of directors plays the role of the third line of defense in the market risk management framework.

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

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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Common VaR information of trading book were as follows:

Units: In thousands of TWD

2017			
Common VaR	Highest	Lowest	Average
Foreign exchange rate	\$ 35,791	5,967	17,359
Interest rate	32,446	11,664	14,887
Equity	41,932	18,798	29,003
Volatility	9,087	1,453	4,796
Total	\$ 40,867	25,798	32,372

2016			
Common VaR	Highest	Lowest	Average
Foreign exchange rate	\$ 25,341	7,338	13,580
Interest rate	22,799	634	12,353
Equity	62,906	28,641	41,205
Volatility	4,849	1,284	2,819
Total	\$ 63,924	25,105	41,123

(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.

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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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 (PVBPP): Measure the changing value of the yield rate curve when it moves 1 bp in parallel.
- 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.

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

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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The following table shows the relevant market risk VaR:

Units: In thousands of HKD

December 31, 2017			
VaR	Average	Highest	Lowest
Foreign exchange risk	\$ 111	1,397	51
Interest rate risk	35	300	5
Total risk	172	1,472	49

December 31, 2016			
VaR	Average	High	Low
Foreign exchange risk	\$ 223	2,440	41
Interest rate risk	69	575	3
Total risk	295	2,491	74

e) Sensitivity information of interest rate risk, foreign exchange risk and equity risk

Units: In millions of HKD

December 31, 2017			
Main risk	Variance	Influenced amount	
		Equity	profit or loss
Foreign exchange risk	10% increase in HKD	-	(109.6)
Foreign exchange risk	10% decrease in HKD	-	109.6
Interest rate risk	+100 basis points shift in yield curves	(9.5)	69.0
Interest rate risk	-100 basis points shift in yield curve	9.5	(69.0)
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	-100 basis points shift in yield curves	(61.0)	(17.0)
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 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>December 31, 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	\$ 1,004,618	1,007,092
Discounted note		
Repurchase agreements	6,461,588	6,560,623
Available-for-sale financial assets		
Repurchase agreements	50,953,338	48,079,115
Held-to-maturity financial assets		
Repurchase agreements	41,179,732	37,999,295
Debt Investments without active market		
Repurchase agreements	4,398,597	4,379,450
	<u>December 31, 2016</u>	
<u>Types of financial assets</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 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

December 31, 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	\$ 913,064	-	913,064	-	913,064

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

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.

(Continued)

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

The table below shows the financial assets that are not completely derecognized and the associated liabilities.

December 31, 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	\$ 50,055	-	50,055	-	50,055
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	\$ 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.

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.

(Continued)

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

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.

Types of financial assets	December 31, 2017	
	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	\$ 25,094,339	25,208,809
Convertible bonds transferred to counter parties of asset exchange option	952,010	860,334
Types of financial assets	December 31, 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	\$ 21,319,682	21,231,598
Convertible bonds transferred to counter parties of asset exchange option	646,409	596,147

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

Types of financial assets	December 31, 2017				
	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					
Repurchase agreements	\$ 9,520,768	9,062,267	9,520,768	9,062,267	458,501
Held-to-maturity financial assets					
Repurchase agreements	117,279	118,880	122,612	118,880	3,732

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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Unit: In thousands of HKD

Types of financial assets	December 31, 2016				
	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities	Fair value of the transferred financial assets	Fair value of relevant financial liabilities	Fair value net position
Available-for-sale financial assets					
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

(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:

Financial assets	December 31, 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 instruments (Note 1)	Cash received as collaterals		
Derivative financial instruments (Note 2)	\$ 26,739,448	-	26,739,448	20,148,025	2,272,495	4,318,928
Securities purchased under resell agreements	15,434,688	-	15,434,688	15,376,203	-	58,485
Total	\$ 42,174,136	-	42,174,136	35,524,228	2,272,495	4,377,413

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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December 31, 2017						
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)	\$ 29,440,816	-	29,440,816	17,820,220	3,495,813	8,124,783
Securities sold under repurchase agreements	98,025,575	-	98,025,575	98,008,820	-	16,755
Total	\$ 127,466,391	-	127,466,391	115,829,040	3,495,813	8,141,538

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

December 31, 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)		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

Note 1: Netting settlement agreement and non-cash financial collaterals are included.

Note 2: Derivative financial assets for hedging are included.

(Continued)

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

December 31, 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 and structured deposits	\$ 30,672,986	-	30,672,986	998,636	1,115,420	28,558,930
Securities purchased under resell agreements	55,452,579	-	55,452,579	54,672,600	-	779,979
Securities lending agreements	913,064	-	913,064	913,064	-	-
Total	\$ 87,038,629	-	87,038,629	56,584,300	1,115,420	29,338,909
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	\$ 1,230,147	-	1,230,147	998,636	243,560	(12,049)

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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 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 agreements	\$ 14,916,897	-	14,916,897	6,223,325	-	8,693,572

Note: General agreement of net amount settlement and non-cash collateral are included.

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:

December 31, 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	\$ 124,793	-	124,793	9,573	-	115,220
Securities lending agreements	50,055	-	50,055	50,055	-	-
Total	\$ 174,848	-	174,848	59,628	-	115,220

(Continued)

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

December 31, 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	Pledged cash collaterals	
Derivative financial instruments	\$ 9,573	-	9,573	9,573	-	-

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	-	-

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

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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The offsetting information of financial assets and liabilities is shown below:

December 31, 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	\$ 96,784	-	96,784	-	-	96,784
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	\$ 3,454,209	-	3,454,209	-	-	3,454,209
Repurchase agreements	25,208,809	-	25,208,809	25,208,809	-	-
Total	<u>\$ 28,663,018</u>	<u>-</u>	<u>28,663,018</u>	<u>25,208,809</u>	<u>-</u>	<u>3,454,209</u>
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	<u>\$ 764,480</u>	<u>-</u>	<u>764,480</u>	<u>645,311</u>	<u>-</u>	<u>119,169</u>
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	\$ 3,202,423	-	3,202,423	-	-	3,202,423
Repurchase agreements	21,231,598	-	21,231,598	21,231,598	-	-
Total	<u>\$ 24,434,021</u>	<u>-</u>	<u>24,434,021</u>	<u>21,231,598</u>	<u>-</u>	<u>3,202,423</u>

Note: Netting settlement agreements and non-cash collaterals are included.

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

December 31, 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	\$ 705,165	-	705,165	57,248	-	647,917
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	\$ 228,216	-	228,216	57,248	-	170,968
Securities sold under repurchase agreements	9,181,147	-	9,181,147	-	-	9,181,147
Total	\$ 9,409,363	-	9,409,363	57,248	-	9,352,115

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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

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 Financial Statements

- 2) The carrying amounts of the unconsolidated structured entities recognized by Taipei Fubon Bank and its subsidiaries were as below:

<u>December 31, 2017</u>	<u>Asset securitization products</u>	<u>Trust plans</u>
Assets possessed		
— Available-for-sale financial assets	\$ 463,569	137,385
— Held-to-maturity financial assets	400,659	-
— Financial assets measured at fair value through profit or loss	300,362	-
Total assets possessed	<u>\$ 1,164,590</u>	<u>137,385</u>
<u>December 31, 2016</u>	<u>Asset securitization products</u>	<u>Trust plans</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	350,966	-
Total assets possessed	<u>\$ 1,816,630</u>	<u>-</u>

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

- 3) For the years ended December 31, 2017 and 2016, Taipei Fubon Bank and its subsidiaries did not offer any financial support to those unconsolidated asset securitization products.
- (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 December 31, 2017 and 2016, Fubon Life Insurance and its subsidiaries offered \$23,207,662 and \$22,841,222 of non-contractual obligation loan for the entity, respectively.

(Continued)

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

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:

December 31, 2017	Private fund investment	Asset securitization products
Assets possessed		
– Available-for-sale financial assets	\$ 55,551,417	5,818,886
– Debt investments without active market	-	48,727,013
Total assets possessed	<u>\$ 55,551,417</u>	<u>54,545,899</u>
December 31, 2016	Private fund investment	Asset securitization products
Assets possessed		
– Available-for-sale financial assets	\$ 40,211,311	6,509,526
– Debt investments without active market	-	52,499,203
Total assets possessed	<u>\$ 40,211,311</u>	<u>59,008,729</u>

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

(Continued)

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

- c) For the years ended December 31, 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

- 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:

December 31, 2017	Private equity fund	Asset securitization products
Assets possessed		
— Available-for-sale financial assets	\$ 147,029	1,700,572
— Debt investments without active market	-	269,351
Total assets possessed	<u>\$ 147,029</u>	<u>1,969,923</u>
December 31, 2016	Private equity fund	Asset securitization products
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>

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

(Continued)

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

- 3) For the years ended December 31, 2017 and 2016, Fubon Insurance and its subsidiaries did not offer any financial support to those unconsolidated private investment fund and asset securitization products.
- (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:

December 31, 2017	Asset securitization products
Assets possessed	
– Financial assets measured at fair value through profit or loss - current	\$ 459,800
– Available-for-sale financial assets - current	<u>1,995</u>
Total assets possessed	<u><u>\$ 461,795</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>

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

- 3) For the years ended December 31, 2017 and 2016, Fubon Securities 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 Financial Statements

(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:

December 31, 2017	Private fund investment	Asset securitization products
Assets possessed		
— Available-for-sale financial assets	\$ 13,217	-
— Financial assets measured at fair value through profit or loss	-	52,876
Total assets possessed	<u>\$ 13,217</u>	<u>52,876</u>
December 31, 2016	Private fund investment	Asset securitization products
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>

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

- 3) For the years ended December 31, 2017 and 2016, other 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 Financial Statements

(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.

(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

	December 31, 2017			December 31, 2016		
	Foreign currency (in thousands)	Exchange rate (in dollars)	TWD	Foreign currency (in thousands)	Exchange rate (in dollars)	TWD
Financial assets:						
Monetary items						
USD	\$ 80,580,514	29.8574/ 29.848/ 29.682 /29.857	2,405,376,417	60,093,653	32.779/ 32.263 /32.282	1,939,799,256
HKD	49,905,093	3.8211/3.81864	190,691,962	48,097,190	4.163	200,223,792
CNY	92,478,345	4.5795/ 4.58636/ 4.58129	424,059,883	83,283,130	4.640 /4.631/4.648	387,631,600
Non-Monetary items						
USD	6,498,639	29.8574/29.848	193,977,485	6,817,596	32.282/32.279	220,067,214
HKD	11,585,481	3.8211/3.81864	44,241,727	12,633,745	4.163	52,593,017
CNY	9,914,733	4.5795/ 4.58636 /4.58129	45,439,015	13,595,228	4.640 /4.631 /4.638	63,077,699
Derivatives						
USD	321,835	29.8574 /29.848	9,606,430	31,274	32.282	1,009,504
HKD	-		-	152,217	4.1630	633,664
Investments accounted for using equity method						
CNY	2,402,699	4.580	11,003,161	2,331,767	4.640	10,819,164
HKD	2,400,559	3.821	9,172,776	2,034,977	4.163	8,471,407
KRW	128,167,435	0.028	3,588,688	145,120,263	0.0270	3,889,223

(Continued)

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

	December 31, 2017			December 31, 2016		
	Foreign currency (in thousands)	Exchange rate (in dollars)	TWD	Foreign currency (in thousands)	Exchange rate (in dollars)	TWD
	Financial liabilities:					
Monetary items						
USD	\$ 29,322,831	29.8574 /29.848	875,501,086	16,919,019	32.282	546,170,311
HKD	48,012,351	3.8211 /3.81864	183,460,171	50,444,989	4.163	209,997,445
CNY	67,218,088	4.5795 /4.58636	307,825,207	68,917,953	4.640	319,772,737
Non-Monetary items						
USD	323,357	29.857	9,654,592	561,962	32.282	18,140,987
CNY	1,356,725	4.5795	6,213,120	6,178,048	4.6400	28,665,527
JPY	4,885,208	0.265	1,294,580	20,112,276	0.2750	5,534,898
Derivatives						
USD	58,417	29.8574/29.848	1,743,784	469,903	32.282 /32.279	15,168,015
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		December 31, 2017					
		Non-performing loan (NPL) (Note 1)	Total loans	NPL Ratio (%) (Note 2)	Loan loss reserves (LLP)	Coverage ratio (%) (Note 3)	
Corporate loan	Secured	436,228	148,007,763	0.29	1,882,713	431.59	
	Unsecured	1,086,644	428,430,815	0.25	5,665,294	521.36	
Consumer loan	Mortgage (Note 4)	357,814	407,742,814	0.09	6,089,002	1,701.72	
	Cash card	-	3,425	-	68	-	
	Micro credit (Note 5)	57,911	22,362,155	0.26	265,722	458.85	
	Others (Note 6)	Secured	122,529	171,831,739	0.07	1,864,785	1,521.91
		Unsecured	50,426	35,892,711	0.14	374,321	742.32
Total		2,111,552	1,214,271,422	0.17	16,141,905	764.46	
		Overdue receivable	Account receivable	Delinquency ratio (%)	Allowance for credit losses	Coverage ratio (%)	
Credit card		40,317	37,832,545	0.11	207,904	515.67	
Account receivable factoring with no recourse (Note 7)		-	16,239,837	-	184,419	-	
Excluded NPL as a result of debt consultation and loans agreement (Note 8)		77,260					
Excluded overdue receivables as a result of debt consultation and loans agreements (Note 8)		126,300					
Excluded NPL as a result of debt solvency and restart plan (Note 9)		841,057					
Excluded overdue receivables as a result of debt solvency and restart plan (Note 9)		438,345					

(Continued)

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

		December 31, 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	731,074	147,242,590	0.50	1,939,904	265.35	
	Unsecured	1,008,754	406,433,237	0.25	5,046,186	500.24	
Consumer loan	Mortgage (Note 4)	257,839	370,623,929	0.07	5,519,226	2,140.57	
	Cash card	18	5,083	0.35	99	550.00	
	Micro credit (Note 5)	46,554	16,787,670	0.28	203,341	436.79	
	Others (Note 6)	Secured	149,080	148,537,742	0.10	1,591,995	1,067.88
		Unsecured	55,657	35,129,496	0.16	365,381	656.49
Total		2,248,976	1,124,759,747	0.20	14,666,132	652.12	
		Overdue receivable	Account receivable	Delinquency ratio (%)	Allowance for credit losses	Coverage ratio (%)	
Credit card		46,403	33,957,694	0.14	222,398	479.28	
Account receivable factoring with no recourse (Note 7)		-	16,535,416	-	189,441	-	
Excluded NPL as a result of debt consultation and loans agreement (Note 8)		112,959					
Excluded overdue receivables as a result of debt consultation and loans agreements (Note 8)		172,157					
Excluded NPL as a result of debt solvency and restart plan (Note 9)		789,889					
Excluded overdue receivables as a result of debt solvency and restart plan (Note 9)		486,906					

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. 09510001270).

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).

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

(ii) Concentration of credit extensions

Units: In thousands of TWD, %

December 31, 2017			
Rank (Note 1)	Group name (Note 2)	Credit extensions balance (Note 3)	% of net asset value
1	A group (petrochemicals manufacturing industry)	11,566,839	6.43
2	B group (LCD and its component manufacturing industry)	11,249,797	6.25
3	C group (other electronic parts and components manufacturing not elsewhere classified)	8,300,759	4.61
4	D group (other electronic parts and components manufacturing not elsewhere classified)	8,267,889	4.59
5	E group (electronic passive devices manufacturing industry)	8,240,000	4.58
6	F group (ocean freight industry)	7,272,046	4.04
7	G group (real estate industry)	5,971,397	3.32
8	H group (wire and cable manufacturing industry)	5,746,819	3.19
9	I group (ocean freight industry)	5,494,754	3.05
10	J group (financial industry)	5,397,768	3.00
December 31, 2016			
Rank (Note 1)	Group name (Note 2)	Credit extensions balance (Note 3)	% of net asset value
1	A group (petrochemicals manufacturing industry)	11,294,507	6.47
2	B group (other computer and its peripheral devices)	6,553,803	3.75
3	C group (ocean freight industry)	5,167,344	2.96
4	D group (paper manufacturing industry)	4,710,458	2.70
5	E group (other financial service not elsewhere classified)	4,503,320	2.58
6	F group (LCD and its component manufacturing industry)	4,427,117	2.54
7	G group (integrated circuit manufacturing)	4,047,501	2.32
8	H group (information supply service not elsewhere classified)	3,228,121	1.85
9	I group (computer manufacturing)	3,175,923	1.82
10	J group (shoes and wearing apparel manufacturing)	2,997,746	1.72

(Continued)

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

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.

(iii) Interest rate sensitivity information

Interest Rate Sensitivity (TWD)

Units: In thousands of TWD, %

December 31, 2017					
Items	1-90 days	91-180 days	181-365 days	Over 1 year	Total
Interest rate-sensitive assets	\$ 1,212,634,701	92,061,556	70,599,111	143,463,742	1,518,759,110
Interest rate-sensitive liabilities	479,725,352	663,651,275	84,343,875	52,680,301	1,280,400,803
Interest rate sensitivity gap	732,909,349	(571,589,719)	(13,744,764)	90,783,441	238,358,307
Net worth					172,338,066
Ratio of interest rate-sensitive assets to liabilities (%)					118.62
Ratio of the interest rate sensitivity gap to net worth (%)					138.31

December 31, 2016					
Items	1-90 days	91-180 days	181-365 days	Over 1 year	Total
Interest rate-sensitive assets	\$ 1,166,158,512	79,084,167	48,815,326	110,849,295	1,404,907,300
Interest rate-sensitive liabilities	373,848,380	656,466,966	112,196,760	67,301,036	1,209,813,142
Interest rate sensitivity gap	792,310,132	(577,382,799)	(63,381,434)	43,548,259	195,094,158
Net worth					167,912,869
Ratio of interest rate-sensitive assets to liabilities (%)					116.13
Ratio of the interest rate sensitivity gap to net worth (%)					116.19

Note 1: The above amounts include only New Taiwan Dollar amounts held by the Bank, and exclude contingent assets and contingent liabilities.

(Continued)

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

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).

Interest Rate Sensitivity (USD)

Units: In thousands of USD, %

December 31, 2017					
Items	1-90 days	91-180 days	181-365 days	Over 1 year	Total
Interest rate-sensitive assets	\$ 9,560,776	1,143,929	1,627,018	5,384,161	17,715,884
Interest rate-sensitive liabilities	19,847,063	2,122,642	1,283,277	1,330,223	24,583,205
Interest rate sensitivity gap	(10,286,287)	(978,713)	343,741	4,053,938	(6,867,321)
Net worth					384,740
Ratio of interest rate-sensitive assets to liabilities (%)					72.06
Ratio of the interest rate sensitivity gap to net worth (%)					(1,784.93)
December 31, 2016					
Items	1-90 days	91-180 days	181-365 days	Over 1 year	Total
Interest rate-sensitive assets	\$ 7,458,159	1,250,860	986,432	2,270,625	11,966,076
Interest rate-sensitive liabilities	12,475,276	1,019,490	1,036,493	865,891	15,397,150
Interest rate sensitivity gap	(5,017,117)	231,370	(50,061)	1,404,734	(3,431,074)
New worth					401,492
Ratio of interest rate-sensitive assets to liabilities (%)					77.72
Ratio of the interest rate sensitivity gap to net worth (%)					(854.58)

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).

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

(iv) Profitability

Unit: %

Item		2017	2016
Return on total assets	Before income tax	0.76	0.76
	After income tax	0.67	0.63
Return on net worth	Before income tax	9.83	9.68
	After income tax	8.64	8.07
Profit margin		39.71	37.55

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

December 31, 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	\$ 2,400,966,780	308,622,209	333,911,949	380,119,501	280,492,801	230,593,105	867,227,215
Main capital outflow on maturity	2,798,077,159	245,691,773	324,574,990	539,056,998	354,125,467	449,647,757	884,980,174
Gap	(397,110,379)	62,930,436	9,336,959	(158,937,497)	(73,632,666)	(219,054,652)	(17,752,959)

December 31, 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	\$ 2,118,854,217	239,707,448	339,382,236	314,590,345	186,347,329	239,874,511	798,952,348
Main capital outflow on maturity	2,522,754,666	182,777,679	265,548,314	401,260,875	361,924,529	452,227,331	859,015,938
Gap	(403,900,449)	56,929,769	73,833,922	(86,670,530)	(175,577,200)	(212,352,820)	(60,063,590)

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.

Maturity Analysis of Assets and Liabilities (USD)

Units: In thousands of USD

December 31, 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	\$ 75,993,302	26,533,031	24,294,916	10,087,780	5,803,424	9,274,151
Main capital outflow on maturity	81,201,553	29,806,347	24,151,886	11,836,750	8,181,442	7,225,128
Gap	(5,208,251)	(3,273,316)	143,030	(1,748,970)	(2,378,018)	2,049,023

(Continued)

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

December 31, 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	\$ 79,706,962	25,094,138	23,195,305	14,999,774	10,263,228	6,154,517
Main capital outflow on maturity	86,106,862	28,951,538	24,801,474	12,967,182	14,370,233	5,016,435
Gap	(6,399,900)	(3,857,400)	(1,606,169)	2,032,592	(4,107,005)	1,138,082

Note: The above amounts are book value of assets and liabilities held by Taipei Fubon Bank and denominated in U.S. dollars.

(vi) Statement of capital adequacy

			December 31, 2017		December 31, 2016	
			Consolidated	Bank	Consolidated	Bank
Eligible capital	Common equity Tier 1		174,030,583	161,746,125	168,290,036	157,727,665
	Additional Tier 1 capital		1,776,375	-	1,576,820	-
	Tier 2 capital		39,150,749	24,383,575	37,409,698	22,925,960
	Eligible capital		214,957,707	186,129,700	207,276,554	180,653,625
Risk-weighted assets	Credit risk	Standardized approach	1,489,062,544	1,236,150,633	1,366,774,954	1,151,669,480
		Internal rating-based approach	-	-	-	-
		Securitization	160,367	160,367	2,406,031	2,406,031
	Operational risk	Basic indicator approach	-	-	-	-
		Standardized approach / Alternative standardized approach	74,847,625	64,516,213	75,170,863	64,527,175
		Advance measurement approach	-	-	-	-
	Market risk	Standardized approach	38,235,838	35,271,988	38,500,900	35,948,038
		Internal models approach	-	-	-	-
Total risk-weighted assets		1,602,306,374	1,336,099,201	1,482,852,748	1,254,550,724	
Capital adequacy ration			13.42 %	13.93 %	13.98 %	14.40 %
Common equity-based capital ratio			10.86 %	12.11 %	11.35 %	12.57 %
Tier 1 risk-based capital ratio			10.97 %	12.11 %	11.46 %	12.57 %
Ratio of financial leverage			6.20 %	6.44 %	6.66 %	7.09 %

Note 1: These tables were prepared according to the “Regulations Governing the Capital Adequacy Ratio of Banks” and related calculation tables.

Note 2: The formula:

Eligible capital = Tier 1 capital + Tier 2 capital + Tier 3 capital.

Risk-weighted assets = weighted credit risk assets + (Operational risk + Market risk) x 12.5

Capital adequacy ratio = Eligible capital / Risk-weighted assets.

Ratio of common stockholders' equity to total asset = common stock / Total assets

Tier 1 risk ratio = (Net common equity Tier 1 capital + Net additional Tier 1) / Total risk-weighted assets

Ratio of financial leverage = Tier 1 capital / adjustment average assets (average asset, deduct Goodwill, Unamortization loss on disposal of non-performing loans, and deduction according to “Regulations Government the Capital Adequacy Ratio of Bank”).

(Continued)

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

(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
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
Taipei Exchange (TPEX)	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

(Continued)

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

<u>Name of related party</u>	<u>Relationship with the Company and its subsidiaries</u>
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
Powerchip Technology Corporation (Powerchip Technology)	Related parties in substance
Lion Travel Co., Ltd. (Lion Travel)	Related parties in substance
The Taiwan Insurance Institute	Related parties in substance
The Non-Life Insurance Association of the Republic of China (The Non-Life Insurance Association)	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)
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

(Continued)

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

(b) Significant transactions with related parties

(i) Insurance revenue and insurance receivable:

	<u>Insurance revenue</u>		<u>Insurance receivable</u>	
	<u>2017</u>	<u>2016</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Taiwan Mobile	\$ 583,875	319,821	60,061	61,322
Taiwan High Speed Rail	35,070	96,690	20,961	82,772
Taipei City Government	85,735	39,036	-	-
Taipei New Horizon	15,812	17,390	16,550	17,096
Fubon Multimedia Technology	26,452	21,395	7,937	1,372
Taiwan Pelican Express	20,945	-	1	-
Powerchip Technology	33,388	-	-	-
Related parties in substance (individual)	1,031,059	1,118,727	44	45
Others (not related company or person accounts for more than \$10,000 or 10%)	69,048	29,667	13,545	3,590
Total	<u>\$ 1,901,384</u>	<u>1,642,726</u>	<u>119,099</u>	<u>166,197</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.

(ii) Rental revenue and guarantee deposits:

	<u>2017</u>	<u>2016</u>
Rental revenue:		
Fubon Multimedia Technology	\$ 108,170	106,807
TAROKO Development	115,000	115,000
Kbro Media	51,438	-
Kbro	23,306	-
TFN Media	11,582	11,438
Taiwan Fixed Network	41,695	34,623
Taiwan Mobile	41,365	37,322
Others (not related company or person accounts for more than \$10,000 or 10%)	7,357	8,911
Total	<u>\$ 399,913</u>	<u>314,101</u>

(Continued)

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

All the above leases were operating leases. The leasing term was not materially different from that with unrelated parties.

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Guarantee deposits:		
Fubon Multimedia Technology	\$ 27,219	27,219
TAROKO Development	35,000	35,000
Kbro	6,393	-
TFN Media	2,934	2,914
Taiwan Fixed Network	10,688	10,688
Taiwan Mobile	9,490	9,275
Others (not related company or person accounts for more than \$10,000 or 10%)	1,858	2,883
Total	<u>\$ 93,582</u>	<u>87,979</u>

The aforementioned guarantee deposits are for leasing investment properties. The performance guarantees of Kbro Media amounting to \$52,689 and of Chien Kuo Construction amounting to \$191,280 were also acquired.

(iii) Rental expense and refundable deposits:

	<u>2017</u>	<u>2016</u>
Rental expense:		
Chung Hsing Land Development	\$ 220,612	258,680
Ming-Dong Industrial	25,279	24,391
Taipei City Government	358,801	364,648
Taiwan Fixed Network	22,727	18,290
Related parties in substance (individual)	35,047	34,678
Others (not related company or person accounts for more than \$10,000 or 10%)	19,957	25,024
Total	<u>\$ 682,423</u>	<u>725,711</u>

(Continued)

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

All the above leases were operating leases. The leasing term was not materially different from that with unrelated parties.

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Refundable deposits:		
Chung Hsing Land Development	\$ 37,436	35,354
Ming-Dong Industrial	4,094	4,086
Taipei City Government	4,244	4,243
Related parties in substance (individual)	5,837	5,780
Others (not related company or person accounts for more than \$10,000 or 10%)	1,849	3,320
	<u>\$ 53,460</u>	<u>52,783</u>

(iv) Other deposits

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>Note</u>
Taipei City Government	\$ 1,127,204	1,119,174	Bid Bond / Superficies performance bond
Taiwan Stock Exchange	-	30,000	Margin lending
Others (not related company or person accounts for more than \$10,000 or 10%)	1,051	720	
Total	<u>\$ 1,128,255</u>	<u>1,149,894</u>	

(v) Deposits

<u>Name of related party</u>	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Amount</u>	<u>Interest rate range %</u>	<u>Amount</u>	<u>Interest rate range %</u>
Others	<u>\$ 45,085,459</u>	0~8.00	<u>58,933,684</u>	0~8.00

(vi) Loans

<u>Name of related party</u>	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Amount</u>	<u>Interest rate range %</u>	<u>Amount</u>	<u>Interest rate range %</u>
Others	<u>\$ 3,932,336</u>	0~14.98	<u>5,906,842</u>	0~14.98

(Continued)

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

Units: In thousands of TWD

December 31, 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		
Consumer loans	77	48,719	35,409	✓	-	Deposits are pledged for partial loans as collaterals	None
House mortgages	373	4,014,584	3,249,407	✓	-	Real estate	None
Others	Department of Urban Development, Taipei City Government	771,519	646,424	✓	-	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	458	✓	-	Public treasury guarantees	None
	Fubon Land Development	2,290,800	-	✓	-	Construction, land and domestic listed stocks	None
	Fubon Gehua	137,385	-	✓	-	Standby Letter of Credit	None
	Alltek Technology	39,134	-	✓	-	Clean Credit	None
	Teng Fu Bo Investment	68,693	-	✓	-	Pledged deposits and Standby Letter of Credit	None
	Other loans	752	638	✓	-	Credit Guarantee Fund	None
Total		16,372,399	3,932,336				

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	✓	-	Deposits are pledged for partial loans as collaterals	None
House mortgages	319	3,426,131	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	✓	-	Stand by Letter of Credit	None
	Shanghai Ruidong Hospital	176,780	-	✓	-	Pledged deposits	None
	Other loans	800	752	✓	-	Credit Guarantee Fund	None
Total		11,228,151	5,906,842				

(Continued)

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

(vii) Guarantees

Units: In thousands of TWD

December 31, 2017					
Related party	Highest balance for the period	Ending balance	Provision (Note)	Rates (%)	Type of collateral
Taipei City Government	1,291	1,194	-	1%	Public treasury guarantees
Taipei New Horizon	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

Note: Guarantee provisions are reversed based on all claims.

(viii) Details of financing activities:

1) Secured loans

December 31, 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	51 related parties in substance	\$ 356,741	348,046	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

The transaction terms between related parties are identical to those of other market participants.

(Continued)

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

2) Life insurance loans:

December 31, 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	120 related parties in substance	\$ 49,720	40,842	Normal loans	Policy value	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 nonrelated parties
Life insurance loans	101 related parties in substance	\$ 49,233	35,719	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>2017</u>	<u>2016</u>
Fubon Multimedia Technology	\$ 122,920	124,440
Taiwan Mobile	224,994	221,039
YAHOO! Taiwan Holdings Limited	15,539	17,804
Others (not related company or person accounts for more than \$10,000 or 10%)	40,459	49,634
Total	<u>\$ 403,912</u>	<u>412,917</u>

2) Service fees - stock trading

<u>Name of related party</u>	<u>2017</u>	<u>2016</u>
Others (not related company or person accounts for more than \$10,000 or 10%)	<u>\$ 40,264</u>	<u>34,247</u>

3) Dividend revenue

<u>Name of related party</u>	<u>2017</u>	<u>2016</u>
Taiwan Stock Exchange	\$ 17,439	20,416
Taiwan Futures Exchange	10,536	10,229
Others	6,803	4,632
Total	<u>\$ 34,778</u>	<u>35,277</u>

(Continued)

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

4)	Underwriting business revenue			
	<u>Name of related party</u>	<u>2017</u>	<u>2016</u>	
	Taiwan High Speed Rail	\$ -	15,831	
	Others (not related company or person accounts for more than \$10,000 or 10%)	-	120	
	Total	<u>\$ -</u>	<u>15,951</u>	
5)	Management fees			
	<u>Name of related party</u>	<u>2017</u>	<u>2016</u>	
	Funds managed by Fubon Asset Management and authorization accounts	<u>\$ 882,336</u>	<u>796,786</u>	
6)	Sales commissions			
	<u>Name of related party</u>	<u>2017</u>	<u>2016</u>	
	Funds managed by Fubon Asset Management and authorization accounts	<u>\$ 30,500</u>	<u>30,382</u>	
7)	Service fees - futures trading			
	<u>Name of related party</u>	<u>2017</u>	<u>2016</u>	
	Funds managed by Fubon Asset Management and authorization accounts	<u>\$ 89,565</u>	<u>99,971</u>	
8)	Handling fees			
	<u>Name of related party</u>	<u>2017</u>	<u>2016</u>	
	Others (not related company or person accounts for more the \$10,000 or 10%)	<u>\$ 46,437</u>	<u>36,626</u>	
9)	Other income			
	<u>Name of related party</u>	<u>2017</u>	<u>2016</u>	
	Others (not related company or person accounts for more than \$10,000 or 10%)	<u>\$ 23,729</u>	<u>24,319</u>	
10)	Sponsorship income, sales revenue, royalty income and unearned revenue			
		<u>2017</u>	<u>2016</u>	
	Taiwan Mobile	\$ 34,972	5,000	
	Fubon Multimedia Technology	28,217	52	
	Others (not related company or person accounts for more than \$10,000 or 10%)	3,862	940	
	Total	<u>\$ 67,051</u>	<u>5,992</u>	

(Continued)

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

The details of unearned revenues generated from aforementioned transactions were as follows:

	December 31, 2017	December 31, 2016
Others (not related company or person accounts for more than \$10,000 or 10%)	\$ 417	-

(x) Other expenses

Name of related party	Category	2017	2016
Taiwan Fixed Network	Phone expenses, telecom expenses and network equipment rental expenses and maintenance expenses	\$ 309,672	193,145
Taiwan Mobile	Telecom expenses, marketing fee and service fee	49,633	35,106
Fubon Property Management	Management fees, investment property expenses	182,322	205,190
Fubon Land Development	Consulting fee and service fee	39,237	28,324
Taiwan Stock Exchange	Brokerage commissions, computer information fee, issuing call warrant fee and dealing fee	229,546	173,406
Taiwan Depository & Clearing	Depository and clearing fee	90,673	79,010
Taiwan Futures Exchange	Brokerage commissions, clearing and settlement fee and dealing fee	164,805	163,688
Taipei High Speed Rail	Service fee	17,141	15,794
Easy Card Corporation	Service fee	10,529	16,682
Convoy Financial Service	Commission expenses	30,395	17,583
Lion Travel	Marketing promotion expenses	10,914	13,262
The Taiwan Insurance Institute	Postage expenses, other expenses, research development expenses	17,937	9,965
The Non-Life Insurance Association	Postage expenses, advertising expenses, other expenses	11,700	2,144
Others (not related company or person accounts for more than \$10,000 or 10%)	Service fees, commission expenses, other expenses	54,356	28,924
Total		\$ 1,218,860	982,223

(Continued)

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

(xi) Bond transaction

1) Bonds sold under repurchase agreement

<u>Name of related party</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Directors, supervisors, managers and their relatives up to the second degree, affiliates and the related parties in substance	\$ 4,815,085	2,994,068
Taiwan High Speed Rail	-	2,211,400
Total	<u>\$ 4,815,085</u>	<u>5,205,468</u>

2) Bonds and bills transactions

Bills purchased

<u>Name of related party</u>	<u>2017</u>	<u>2016</u>
Capital Securities	\$ -	<u>299,975</u>

Bonds purchased

<u>Name of related party</u>	<u>2017</u>	<u>2016</u>
Capital Securities	\$ -	56,509
Xiamen Bank	687,990	839,681
Others	-	3,733,008
Total	<u>\$ 687,990</u>	<u>4,629,198</u>

Bonds sold

<u>Name of related party</u>	<u>2017</u>	<u>2016</u>
Others	\$ -	<u>1,573,566</u>

(xii) Donations

Donations to related parties were as follows:

	<u>2017</u>	<u>2016</u>
Taipei Fubon Commercial Bank Charity Foundation	\$ 25,500	22,050
Fubon Art Foundation	53,893	40,161
Fubon Cultural & Education Foundation	96,170	49,931
Fubon Charity Foundation	53,465	57,569
Others (not related company or person accounts for more than \$10,000 or 10%)	8,438	10,370
Total	<u>\$ 237,466</u>	<u>180,081</u>

(Continued)

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

(xiii) Other receivables and payables

<u>Name of related party</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Funds managed by Fubon Asset Management and authorization accounts	\$ 76,004	70,276
Taiwan Depository & Clearing	(7,417)	(5,248)
Taiwan Stock Exchange	-	(7,564)
Taiwan Futures Exchange	(235)	(12,472)
Convoy Financial Service	(11,045)	(10,744)
Chien Kuo Construction	(25,252)	-
Others (not related company or person accounts for more than \$10,000 or 10%)	204	(3,743)
Total	<u>\$ 32,259</u>	<u>30,505</u>

(xiv) Futures traders' equity

<u>Name of related party</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Funds managed by Fubon Asset Management	<u>\$ 10,767,127</u>	<u>6,037,395</u>

(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>December 31, 2017</u>	<u>December 31, 2016</u>
Fubon Chi-Hsiang Money Market Fund	\$ 3,160,939	1,624,439
Fubon Strategic High Income	126,602	88,990
Fubon Fund	131,105	113,560
Fubon Taiwan Technology ETF	220,961	178,074
Fubon MSCI Taiwan ETF	142,305	156,289
Fubon Taiwan Finance ETF	163,393	146,858
Fubon Taiwan Eight Industries ETF	157,920	135,559
Fubon SZSE 100 ETF	169,642	132,166
Fubon China High Yield Bd CNY	123,905	96,888
Fubon China Money Market CNY	30,426	58,481
Fubon China Investment Grade Bond Fund - CNY	48,642	38,751
Fubon China New Balanced Income	90,734	28,130
Fubon China Growth Fund	7,330	11,010
Fubon FTSE TWSE Taiwan 50 ETF	982,110	8,539
Fubon SSE180 ETF	73,102	25,128
Fubon SSE180 Leveraged Inversed 2X Index ETF	115,556	29,583
Fubon SSE180 Inversed Index ETF	1,351	6,687
Fubon Elite Fund	542	380
Fubon Global REIT Fund	5,306	-
Fubon Global Investment Fund	9,744	9,772

(Continued)

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

Name of related party	December 31, 2017	December 31, 2016
Fubon TOPIX ETF	\$ 1,931	22,504
Fubon TOPIX Leveraged 2X Index Fund	18,444	33,492
Fubon TOPIX Inverse-1X Index ETF	2,536	1,161
Fubon NIFTY ETF	1,073	30,418
Fubon NIFTY 2X Leveraged Index ETF	25,425	6,524
Fubon NIFTY -1X Inverse Index ETF	1,154	4,486
Fubon NASDAQ-100 ETF	45,461	71,332
Fubon Hang Seng H-Share 2X Leveraged Index ETF	64,645	73,902
Fubon Hang Seng H-Share -1X Inverse Index ETF	27,784	46,506
Fubon TAIEX Daily 2X Leveraged ETF	1,757	39,056
Fubon TAIEX Daily -1X Inverse ETF	17,185	62,207
Fubon S&P 500 VIX Short-Term Futures ETF	42,124	229,235
Fubon Euro-Asia Silk Road Multi-Asset Fund	56,189	-
Fubon TWSE Corporate Governance 100 ETF	1,046,313	-
Fubon 1-3 Years US Treasury Bond ETF	36,788	-
Fubon 7-10 Years US Treasury Bond ETF	243,706	-
Fubon 20+Years US Treasury Bond ETF	253,549	-
Fubon FTSE Developed Europe ETF	23,077	-
Fubon NASDAQ-100 -1X Inverse Index ETF	867	-
Fubon NASDAQ-100 2X Leveraged Index ETF	18,228	-
Fubon Hang Seng H-Share ETF	43,014	-
Fubon S&P US Preferred Stock ETF	451,086	-
Total	<u>\$ 8,183,951</u>	<u>3,510,107</u>

The Company and its subsidiaries has acquired Fubon REIT I Fund and Fubon REIT II as follows:

Name of related party	December 31, 2017	December 31, 2016
Fubon REIT I Fund	\$ 1,492,251	1,758,387
Fubon REIT II Fund	865,747	1,015,827
Total	<u>\$ 2,357,998</u>	<u>2,774,214</u>

(xvi) Clearing and settlement fund

Name of related party	December 31, 2017	December 31, 2016
Taiwan Stock Exchange	\$ 103,924	103,924
Taiwan Futures Exchange	148,063	163,328
TPEX	56,168	-
Total	<u>\$ 308,155</u>	<u>267,252</u>

(Continued)

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

(xvii) Deal on credit

As of December 31, 2017 and 2016, the Company and its subsidiaries had receivables from other related parties' pecuniary finance amounting to \$247,872 and \$99,235.

(xviii) Customer margin deposit

<u>Name of related party</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Taiwan Futures Exchange	<u>\$ 2,032,930</u>	<u>2,505,585</u>

(xix) Transaction of property

1) Payments of investment and held-for-use property are:

<u>Name of related party</u>	<u>Category</u>	<u>2017</u>	<u>2016</u>
Fubon Land Development	Consultancy fees	\$ 27,860	42,580
Taipei City Government	Public hearing facilities rental expense, construction contracts	17,357	238
Chien Kuo Construction	Construction contracts	240,494	-
		<u>\$ 285,711</u>	<u>42,818</u>

2) For the years ended December 31, 2017 and 2016, the Company and its subsidiaries purchased computer equipment from Taiwan Fixed Network amounting to \$46,336 and \$1,075, respectively.

3) For the years ended December 31, 2017, the Company and its subsidiaries paid leasehold improvements costs of \$34,280 to Taiwan Fixed Network.

(xx) Others

<u>Name of related party</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Principal of structured products	<u>\$ 22,057</u>	<u>16,757</u>
Other financial assets – restricted time deposits	<u>\$ -</u>	<u>6,593</u>

(c) Compensation to executive officers

Executive officers' compensation comprised:

	<u>2017</u>	<u>2016</u>
Short-term employee benefits	\$ 1,972,589	1,815,444
Post-employment benefits	44,152	56,253
Other long-term employee benefits	6,579	5,720
	<u>\$ 2,023,320</u>	<u>1,877,417</u>

(Continued)

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

For share-based payment information please refer to note 6 (ac).

- (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>December 31, 2017</u>	<u>December 31, 2016</u>
Taipei Fubon Bank	\$ <u>1,268,222</u>	<u>1,629,197</u>

- b) Insurance revenue with related party were as follows:

- i) Insurance revenue

<u>Name of related party</u>	<u>2017</u>	<u>2016</u>
Taiwan Mobile	\$ <u>582,227</u>	<u>318,064</u>

- ii) Insurance revenue receivables

<u>Name of related party</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Taiwan Mobile	\$ <u>60,061</u>	<u>61,322</u>

- c) Rental revenue (accounted for gain on rental estate investments)

<u>Name of related party</u>	<u>2017</u>	<u>2016</u>
Taipei Fubon Bank	\$ <u>104,494</u>	<u>113,751</u>

(Continued)

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

- d) Fubon Insurance has acquired Fubon REIT I Fund and Fubon REIT II and recognized as available-for-sale financial assets:

Name of related party	December 31, 2017	December 31, 2016
Fubon REIT I Fund	\$ 731,854	855,156
Fubon REIT II Fund	736,492	867,985
Total	\$ 1,468,346	1,723,141

- (ii) Fubon Life Insurance and its subsidiaries

- 1) Name and relationship of related party

Name of related party	Relationship with the Company
Fubon Securities Co., Ltd. (Fubon Securities)	Company controlled by Fubon Financial Holdings
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
Fubon Property Management Co., Ltd. (Fubon Property Management)	Related parties in substance
Funds managed by Fubon Asset Management	Related parties in substance
Taipei City Government	Related parties in substance
Fubon Multimedia Technology Co., Ltd. (Fubon Multimedia Technology)	Related parties in substance
TAROKO Development Co., Ltd. (TAROKO Development)	Related parties in substance
Chien Kuo Construction Co., Ltd. (Chien Kuo Construction)	Related parties in substance
Taiwan Fixed Network Co., Ltd. (Taiwan Fixed Network)	Related parties in substance
Others	Directors, supervisors, managers and their relatives up to the second degree; affiliates and the related parties in subsidiary

(Continued)

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

2) Significant transactions with related parties

a) Bank deposits

<u>Nature of deposits</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Taipei Fubon Bank:		
Check deposits	\$ 50,173	258,517
Demand deposits	5,471,350	5,604,484
Time deposits	1,360,172	4,179,000
Structured deposits	1,766,861	2,822,978
Fubon Bank (Hong Kong):		
Demand deposits	987,926	1,004,437
Time deposits	-	12,489
	<u>\$ 9,636,482</u>	<u>13,881,905</u>

All deposits exclude assets on insurance products-separate account. The structured deposits were recognized as other financial assets.

b) Interest revenues

<u>Name of related party</u>	<u>2017</u>	<u>2016</u>
Taipei Fubon Bank	<u>\$ 177,893</u>	<u>214,130</u>

c) Interest receivables

<u>Name of related party</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Taipei Fubon Bank	<u>\$ 12,072</u>	<u>329,270</u>

d) Loans

Secured loans

<u>December 31, 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	51 related parties in substance	\$ <u>356,741</u>	<u>348,046</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

(Continued)

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

The transaction terms are identical to those of other market participants.

e) Funds were as follows:

<u>Name of related party</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Fubon Chi-Hsiang Money Market Fund	\$ 2,405,344	1,500,183
Fubon Taiwan Technology ETF	218,165	175,853
Fubon MSCI Taiwan ETF	138,746	118,483
Fubon Taiwan Eight Industries ETF	155,724	133,939
Fubon Taiwan Finance ETF	161,162	138,242
Fubon SZSE 100 ETF	153,729	124,664
Fubon FTSE TWSE Taiwan 50 ETF	979,860	-
Fubon 7-10 Years US Treasury Bond ETF	234,158	-
Fubon 20+Years US Treasury Bond ETF	241,954	-
Fubon S&P US Preferred Stock ETF	410,348	-
Fubon TWSE Corporate Governance 100 ETF	1,042,000	-
Total	<u>\$ 6,141,190</u>	<u>2,191,364</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>December 31, 2017</u>	<u>December 31, 2016</u>
Fubon REIT I Fund	\$ 731,417	854,644
Fubon REIT II Fund	829,043	977,061
Total	<u>\$ 1,560,460</u>	<u>1,831,705</u>

g) Bond transactions

Sales of bonds

<u>Name of related party</u>	<u>2017</u>	<u>2016</u>
Fubon Securities	\$ 1,119,635	1,593,052
Taipei Fubon Bank	22,840,636	19,840,007
Total	<u>\$ 23,960,271</u>	<u>21,433,059</u>

h) Other receivables

<u>Name of related party</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Fubon Insurance	\$ 121,707	97,130

(Continued)

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

i) Premium Revenue:

<u>Name of related party</u>	<u>2017</u>	<u>2016</u>
Related parties in substance	\$ 94,222	137,497
Others (not related company or person accounts for more than \$10,000 or 10%)	971,213	1,011,859
Total	\$ <u>1,065,435</u>	<u>1,149,356</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.

j) Rental revenue

<u>Name of related party</u>	<u>2017</u>	<u>2016</u>
Fubon Multimedia Technology	\$ 108,170	106,807
TAROKO Development	115,000	115,000
Total	\$ <u>223,170</u>	<u>221,807</u>

The performance guarantees of Chien Kuo Construction amounting to \$191,280 were also acquired.

k) Refundable deposits and rental expense:

i) Refundable deposits:

<u>Name of related party</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>Note</u>
Taipei City Government	\$ <u>1,127,204</u>	<u>1,119,124</u>	Bid Bond / Superficies performance Bond

ii) Rental expense:

<u>Name of related party</u>	<u>2017</u>	<u>2016</u>	<u>Note</u>
Taipei City Government	\$ <u>326,604</u>	<u>326,657</u>	Superficies rental expense

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>2017</u>	<u>2016</u>
Fubon Insurance	\$ <u>448,632</u>	<u>400,836</u>

(Continued)

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

m) Transaction of property

Payments of investment property are:

<u>Name of related party</u>	<u>Category</u>	<u>2017</u>	<u>2016</u>
Chien Kuo Construction	Construction contracts	\$ <u>240,494</u>	<u>-</u>

n) Transaction of property

<u>Name of related party</u>	<u>Category</u>	<u>2017</u>	<u>2016</u>
Fubon Property Management	Management fee and investment property expense	\$ 100,909	113,290
Taiwan Fixed Network	Telecom expense and network equipment rental expenses	174,439	67,322
Total		\$ <u>275,348</u>	<u>180,612</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
Fubon Life Insurance Co., Ltd. (Fubon Insurance)	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
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.

(Continued)

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

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>December 31, 2017</u>	<u>December 31, 2016</u>
Demand deposits (excluding settlement accounts)	<u>\$ 1,113,584</u>	<u>881,896</u>
Demand deposits (booked as customer margin accounts)	<u>\$ 258,265</u>	<u>89,361</u>
Checking account	<u>\$ 61,940</u>	<u>31,722</u>
Time deposits	<u>\$ 1,223,013</u>	<u>970,535</u>
Restricted time deposits	<u>\$ 217,521</u>	<u>340,021</u>
Foreign currency deposits (excluding settlement accounts)	<u>\$ 698,741</u>	<u>425,875</u>
Foreign time deposit	<u>\$ 6,945,238</u>	<u>3,454,121</u>

As of December 31, 2017 and 2016, Fubon Securities and its subsidiaries had put foreign currency deposits in Xiamen Bank amounting to \$864,368 and \$0, respectively.

As of December 31, 2017 and 2016, Fubon Securities and its subsidiaries had put time deposits in Taipei Fubon Bank as operating deposits, refundable deposits and warrant deposits amounting to \$970,000 and \$1,012,500, respectively.

Balances of short-term borrowings from Taipei Fubon Bank as of December 31, 2017 and 2016, were all nil. Unused credit facilities from Taipei Fubon Bank were all \$6,000,000. As of December 31, 2017 and 2016, the book value of lands and buildings pledged to Taipei Fubon bank were \$1,556,652 and \$1,577,418, 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 \$2,983,000 and \$1,872,000 to Taipei Fubon Bank as collateral for short-term borrowings (recognized as available-for-sale financial assets – current) as of December 31, 2017 and 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>December 31, 2017</u>	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Taiwan Mobile	<u>\$ 706,319</u>	<u>503,057</u>

(Continued)

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

<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>
2017		
<u>Name of related party</u>	<u>Dividend revenue</u>	<u>Gains (losses) on disposal</u>
Taiwan Mobile	<u>\$ 126,000</u>	<u>495,611</u>
2016		
<u>Name of related party</u>	<u>Dividend revenue</u>	<u>Gains (losses) on disposal</u>
Taiwan Mobile	<u>\$ 126,000</u>	<u>-</u>

c) Futures traders' equity

Related parties engaging in futures trading and deposited in Fubon Futures traders' equity were as follow:

<u>Name of related party</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Fubon SSE 180 ETF	\$ 317,848	528,330
Fubon SZSE 100 ETF	121,335	159,092
Fubon SSE 180 Leveraged 2X index ETF	8,708,332	4,405,768
Fubon new labor fund 102-2	-	112,151
Fubon Hang Seng H-Share Leveraged 2X Index ETF	223,295	115,867
Fubon TAIEX Daily -1X Inverse ETF	-	107,444
Fubon S&P 500 VIX Short-Term Futures ETF	828,859	148,970
Fubon NIFTY 2X Leveraged	136,547	227,800
Fubon TAIEX ETF Umbrella Fund-Fubon Index ETF	198,463	-
	<u>\$ 10,534,679</u>	<u>5,805,422</u>

d) Funds purchased by Fubon Securities were as follow:

<u>Name of related party</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Fubon Chi-Hsiang Money Market Fund	\$ 134,710	124,256
Fubon Chian High Yield Bond Fund CNY	123,905	96,888
Total	<u>\$ 258,615</u>	<u>221,144</u>

(Continued)

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

- e) Funds issued by Fubon securities and its subsidiaries and purchased by related parties:

<u>Name of related party</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Fubon Chi-Hsiang Money Market Fund	\$ 3,160,939	1,624,439
Fubon Taiwan Technology ETF	211,381	178,074
Fubon FTSE TWSE Taiwan 50 ETF	982,110	8,539
Fubon S&P 500 VIX Short-Term Futures ETF	2,724	229,235
Fubon TWSE Corporate Governance 100 ETF	1,046,313	-
Fubon S&P US Preferred Stock ETF	451,086	-
Others (no related company or person accounts for more than 5%)	2,329,398	1,469,820
Total	<u>\$ 8,183,951</u>	<u>3,510,107</u>

- f) Deal on credit

As of December 31, 2017 and 2016, Fubon Securities and its subsidiaries' had receivables from the other related parties' pecuniary finance amounting to \$247,872 and \$99,235, respectively.

- g) Settlement and clearing funds

<u>Name of related party</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Taiwan Stock Exchange	\$ 103,924	103,924
Taiwan Futures Exchange	148,063	163,328
Total	<u>\$ 251,987</u>	<u>267,252</u>

- h) Customer margin deposit

<u>Name of related party</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Taiwan Futures Exchange	<u>\$ 2,032,930</u>	<u>2,505,585</u>

- i) 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>December 31, 2017</u>	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
First 104 secured domestic corporate bonds of Clevo Co.	\$ 204,989	(1,531)
First 106 unsecured domestic corporate bonds of Taiwan Acceptance Corporation	300,000	950
Total	<u>\$ 504,989</u>	<u>(581)</u>

(Continued)

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

<u>Name of securities</u>	<u>December 31, 2016</u>	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Fubon SSE180 Leveraged 2X Index ETF (managed by Fubon Asset Management)	\$ <u>200,040</u>	<u>(700)</u>

<u>Name of related party</u>	<u>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>-</u>	<u>(83,410)</u>

The balance of the trading securities-dealing of the related parties was \$504,989 and \$0 as of December 31, 2017 and 2016.

j) 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>	<u>December 31, 2017</u>	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Third issue of unsecured convertible bonds of Taiwan Mobile	\$ 100,090	1,760
MediaTek	<u>159,809</u>	<u>3,158</u>
Total	\$ <u>259,899</u>	<u>4,918</u>

<u>Name of securities</u>	<u>December 31, 2016</u>	
	<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>	<u>2017</u>	
	<u>Dividend revenue</u>	<u>Gains (losses) on disposal</u>
MediaTek	\$ <u>11,675</u>	<u>65,814</u>

k) Management fee (accounted for other operating revenue)

<u>Name of related party</u>	<u>2017</u>	<u>2016</u>
Fubon SSE 180 ETF	\$ 178,865	163,254
Fubon SSE 180 Leveraged 2X Index ETF	286,588	263,058
Total	\$ <u>465,453</u>	<u>426,312</u>

(Continued)

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

l) Rental revenue (accounted for other profit and loss)

i) Rental revenue

<u>Name of related party</u>	<u>2017</u>	<u>2016</u>
Taipei Fubon Bank	\$ <u>297,195</u>	<u>285,937</u>

ii) Rental receivable

<u>Name of related party</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Taipei Fubon Bank	\$ <u>78,295</u>	<u>49,514</u>

m) Integrate business revenue

i) Integrate business revenue

<u>Name of related party</u>	<u>2017</u>	<u>2016</u>
Fubon Life Insurance	\$ <u>62,149</u>	<u>119,610</u>

ii) Integrate business revenue receivables

<u>Name of related party</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Fubon Life Insurance	\$ <u>39,905</u>	<u>40,050</u>

n) Brokerage service charge

<u>Name of related party</u>	<u>2017</u>	<u>2016</u>
Taiwan Stock Exchange	\$ <u>163,339</u>	<u>100,084</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 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
Fubon Securities Co., Ltd. (Fubon Securities)	Company controlled by Fubon Financial Holdings
Fubon AMC	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

(Continued)

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

<u>Name of related party</u>	<u>Relationship with the Company</u>
Alltek Technology Corp. (Alltek Technolgh)	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

2) Significant transactions with related parties

a) Deposits and loans

<u>Item</u>	<u>December 31, 2017</u>		
	<u>Ending balance</u>	<u>Interest rate/ service fee rate (%)</u>	<u>Interest revenue (expense)</u>
Loans	\$ <u>3,932,336</u>	0~14.98	<u>83,738</u>
Discounts	\$ <u>1,670,161</u>	3.66~6.00	<u>84,661</u>
Due from banks	\$ <u>184,749</u>	0~5.40	<u>2,902</u>
Deposits	\$ <u>63,105,506</u>	0~8.00	<u>(266,955)</u>

(Continued)

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

Units: In thousands of TWD

December 31, 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		
Consumer loans	77	\$ 48,719	35,409	✓	-	Deposits are pledged for partial loans as collaterals	None
House mortgages	373	4,014,584	3,249,407	✓	-	Real estate	None
Others	Department of Urban Development, Taipei City Government	771,519	646,424	✓	-	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	458	✓	-	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	137,385	-	✓	-	Standby letter of credit	None
	Teng Fu Bo Investment	68,693	-	✓	-	Pledged deposits and standby letter of credit	None
	Other loans	752	638	✓	-	Credit Guarantee Fund	None
Total		\$ 16,372,399	3,932,336				

December 31, 2016

Item	Ending balance	Interest rate / service fee rate (%)	Interest revenue (expense)
Loans	\$ <u>5,906,842</u>	0~14.98	<u>98,125</u>
Discounts	\$ <u>1,387,329</u>	3.66~4.00	<u>10,731</u>
Due to banks	\$ <u>177,384</u>	0~5.40	<u>30,248</u>
Deposits	\$ <u>77,624,710</u>	0~8.00	<u>(316,916)</u>

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	✓	-	Deposits are pledged for partial loans as collaterals	None

(Continued)

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

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		
House mortgages	319	3,426,131	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 listed stocks	None
	Fubon Gehua	139,197	63,153	✓	-	Standby letter of credit	None
	Shanghai Ruidong Hospital	176,780	-	✓	-	Pledged deposits	None
	Other loans	800	752	✓	-	Credit Guarantee Fund	None
Total		\$ 11,228,151	5,906,842				

b) Bond transactions were as follows:

<u>Name of related party</u>	<u>Subject</u>	<u>Transaction types</u>	<u>2017</u>	<u>2016</u>
Fubon Life Insurance	Bonds	Bonds purchased	\$ 22,840,636	19,840,007
Fubon Life Insurance	Bonds	Bonds sold	476,876	8,129,544
Capital Securities	Bills	Bills purchased	-	299,975
Xiamen Bank	Bonds	Bonds purchased	687,990	839,681
EnTie Bank	Bonds	Bonds purchased	-	3,733,008
EnTie Bank	Bonds	Bonds sold	-	1,573,566
			December 31,	December 31,
			2017	2016
Fubon Securities	Bonds	Resell agreement	\$ -	200,079
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	4,815,085	2,994,068

c) Fund and stock transactions

<u>Name of related party</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Fubon REIT I Fund	\$ 742,918	868,084

(Continued)

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

d) Derivative financial instruments

Units: In thousands of TWD

December 31, 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	\$ 1,448,084	(49,543)	Valuation adjustment of financial asset at fair value through profit or loss	66,254
Fubon Life Insurance	Interest rate swap contracts	2008.06.02~2018.06.24	1,750,000	68,850	Valuation adjustment of financial liability measured at fair value through profit or loss	33,362

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

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

e) Others

Name of related party	December 31, 2017	December 31, 2016
Receivables – Fubon Life Insurance	\$ 215,395	478,493
Principal of structured products – Fubon Life Insurance	1,750,000	2,750,000
	2017	2016
Service fee – Fubon Life Insurance	\$ 5,585,947	7,246,447
Service fee – Others	540,987	520,640
Service expense – Others	142,070	129,379
Rental fee – Chung Hsing Land Development	175,922	203,129
Operating expenses – Others	255,196	197,755

f) Transaction of property

For the years ended December 31, 2017, Taipei Fubon Bank sold parts of its buildings, which has a book value of \$617,383, to Fubon AMC, with the amount of \$1,310,500, and recognized the gains on disposal amounting to \$693,117. For related information, please refer to Note 13.

The rental expenses of the leasing contracts between Taipei Fubon Bank and its related parties used the quoted price of the neighboring buildings as reference or is appraised by valuation agencies. The rental expenses are calculated based on rental square footage and is received or paid monthly / seasonally.

Under the Banking Law, except for consumer and government loans, credits extended by the Bank to any related party should be fully secured, and the credit terms for related parties should be similar to those of the unrelated parties.

In accordance with Articles 32 and 33 of “The Banking Act of The Republic of China”, no unsecured credit shall be extended by a bank to any interested party except for consumer loans and loans extended to the government. For any secured credit extended by a bank to any interested party, the terms of such extended credit shall not be more favorable than those terms offered to other customers of the same category.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated 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>December 31, 2017</u>	<u>December 31, 2016</u>
Taipei Fubon Bank	HKD <u>36,503</u>	HKD <u>20,608</u>
Fubon Life Insurance (Hong Kong)	HKD <u>259,046</u>	HKD <u>244,282</u>
Fubon Convoy Asset Management (Hong Kong)	HKD <u>49,306</u>	HKD <u>-</u>

3) Significant transactions with related parties—Bank Deposits

<u>Name of related party</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Taipei Fubon Bank	HKD <u>12,993</u>	HKD <u>23,818</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
Fubon Life Insurance Co., Ltd. (Fubon Life Insurance)	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>December 31, 2017</u>	<u>December 31, 2016</u>
Bank deposits	\$ <u>210,404</u>	<u>123,412</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated 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>December 31, 2017</u>	<u>December 31, 2016</u>
Fubon Chi-Hsiang Money Market Fund	\$ <u>500,565</u>	<u>-</u>

- c) Sponsorship income

<u>Name of related party</u>	<u>2017</u>	<u>2016</u>
Fubon Life Insurance	\$ <u>124,791</u>	<u>50,000</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>December 31, 2017</u>	<u>December 31, 2016</u>
Taipei Fubon Bank	\$ <u>284,454</u>	<u>356,820</u>

- b) Operating revenue

<u>Name of related party</u>	<u>2017</u>	<u>2016</u>
Fubon Insurance	\$ 380,730	463,133
Fubon Life Insurance	309,338	345,405
Total	\$ <u>690,068</u>	<u>808,538</u>

The details of account receivables generated from aforementioned transactions were as follows:

<u>Name of related party</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Fubon Insurance	\$ 28,494	41,291
Fubon Life Insurance	62,277	28,427
Total	\$ <u>90,771</u>	<u>69,718</u>

(Continued)

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

(8) Pledged assets

<u>Pledged assets</u>	<u>Purpose of pledge</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Time deposits (accounted for refundable deposits)	Guarantee deposits for Insurance business	\$ 15,720	19,366
Time deposits (accounted for refundable deposits)	Performance bond	1,042,404	1,034,124
Time deposits (accounted for pledged assets)	Full fiduciary discretionary deposits, bank overdraft	-	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
Time deposits (accounted for other financial assets)	Deposits for Operate-Transfer (OT) project	15,000	-
Time deposits (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
Negotiable Certificate 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
Other banks' deposits(accounted for other financial assets)	Note 1	1,649,234	1,662,725
Government bonds (accounted for refundable deposits)	Guarantee deposits for Insurance business, performance bond and margin deposit for trust business	12,827,228	10,802,093
Government bonds (accounted for financial assets measured at fair value through profit or loss)	Note 1	49,888	149,400
Government bonds (accounted for financial assets measured at fair value through profit or loss)	Pledged for short sell	7,056,895	5,669,050
Government bonds (accounted for available-for-sale financial assets)	Note 1	-	365,960
Government bonds (accounted for held-to-maturity financial assets)	Note 1	1,982,095	5,811,816
Corporate bonds (accounted for available-for-sale financial assets)	Pledged for repurchase agreement	12,124,973	1,678,560
Financial liabilities (accounted for available-for-sale financial assets)	Pledged for repurchase agreement	24,254,833	38,244,766
Financial liabilities (accounted for held-to-maturity financial assets)	Pledged for repurchase agreement	468,513	494,016
Investment property – land and buildings	Bank loans	408,280	617,887
Property and equipment – land and buildings	Bank loans	533,006	301,728
Total		<u>\$ 92,707,069</u>	<u>97,165,512</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 Financial Statements

(9) Commitments and contingencies:

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

December 31, 2017	Less than one year	Between one and five years	More than five years	Total
Lease commitments				
Operating lease payments (Lessee)	1,760,764	3,623,218	14,431,226	19,815,208
Operating lease income (Lessor)	5,957,180	20,432,977	32,071,993	58,462,150
Finance lease payments (Lessee)	10,568	40,033	1,209,909	1,260,510
Finance lease income (Lessor)	5,042	15,893	13,212	34,147
Present value of finance lease payments (Lessee)	899	1,431	216,621	218,951
Present value of finance lease income (Lessor)	4,354	14,131	12,532	31,017
Capital expenditure commitments	2,847,744	11,459	-	2,859,203
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

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated 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:

	December 31, 2017	December 31, 2016
Amount of repurchase agreements	\$ 98,521,376	61,604,524
Amount of resell agreements	16,321,038	27,514,522
Unused credit card commitments	256,146,355	244,374,712
Collections for customers	39,701,051	37,251,977
Agency loans payable	20,613,388	24,965,515
Designated deposits	8,164,848	26,070,025
Designated loans	8,164,848	26,070,025
Designated financial management	18,702,541	30,188,953
Travelers' checks consigned-in	407,670	501,269
Marketable securities under custody	290,970,013	267,909,186
Trust assets	378,193,650	337,075,394
Management for book-entry government bonds	125,799,500	160,798,000

- (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.

- (ii) Significant unrecognized contract commitment

- 1) The unrecognized superficies contract of Life Insurance is as follows:

	December 31, 2017	December 31, 2016
Acquisition of superficies	<u>\$ 703,249</u>	<u>718,509</u>

(Continued)

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

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 December 31, 2017, the engineering expense of \$107,251 was recognized.

- 2) The unrecognized new construction contract amount of investment and owner-occupied properties of Fubon Life Insurance and its subsidiaries are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
New construction	<u>\$ 3,639,049</u>	<u>1,348,439</u>

- (iii) The unfunded commitments (ceiling) of Fubon Life Insurance and its subsidiaries' private equity agreements were as follows (in thousands):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
USD	<u>\$ 1,536,449</u>	<u>1,837,940</u>
EUR	<u>\$ 234,560</u>	<u>223,488</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 \$475,476, of which approximately \$386,417 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 December 31, 2017.

- (ii) The unfunded commitments (ceiling) of Fubon Insurance and its subsidiaries' private equity agreements were as follows (in thousands):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
USD	<u>\$ 1,144</u>	<u>888</u>
EUR	<u>\$ 905</u>	<u>538</u>

(Continued)

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

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 December 31, 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:

	December 31, 2017	December 31, 2016
Indemnificatory loss payable	\$ 11,526	11,526

For the years ended December 31, 2017 and 2016, Fubon Securities recognized indemnification loss of \$0 in both periods.

(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 years ended December 31, 2017 and 2016.

(g) Fubon Financial Holding Venture Capital and its subsidiaries

Fubon Stadium Co., Ltd. and Sport Office, New Taipei City Government entered into an agreement regarding the Operate-Transfer (OT) Project on New Taipei City Xinzhuang Baseball Stadium on December 4, 2017. The contract period lasts for 10 years commencing January 1, 2018. Fubon Stadium Co., Ltd. will manage the land, buildings, work items, affiliated facilities and operating assets of Xinzhuang Baseball Stadium.

Fubon Stadium Co., Ltd. plans to invest the amount of \$73,860, including the initial investment of \$43,860, which is no less than \$30,000 according to the contract, and other investments of \$30,000, to improve the stadium's infrastructure, training environment and equipment for the baseball team.

Fubon Stadium Co., Ltd. has deposited a performance bond of \$15,000 before signing the contract as guarantee for performing all contractual obligations during the operation period.

(10) Significant loss of damage:None

(Continued)

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

(11) Significant subsequent events

- (a) According to the amendments to the “Income Tax Act” enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing FY 2018. This increase does not affect the amount of the current or deferred income tax recognized on December 31, 2017. However, it will increase the Company and its subsidiaries' current tax charge accordingly in the future. On the other hand, if the new tax rate is applied in calculating the taxable temporary differences and tax losses recognized on December 31, 2017, the deferred tax assets and deferred tax liabilities would increase by \$2,623,917 and \$1,490,505, respectively.
- (b) In order to purchase non-cumulative subordinated corporate bonds issued by Fubon Life Insurance Co., Ltd., to invest, repay its liabilities and improve its capital and financial structure, as well as working capital, the Company will issue 666,660 thousand preferred shares, with a par value of \$10 per share, at an issuance price of \$60 per share. The issuance has been approved by the FSC, with the subscription date on March 16, 2018. Alteration of the registered amount of capital of the Company has yet to be applied as of the reporting date.
- (c) Fubon Life Insurance Co., Ltd. had been approved by the regulation of Jin Shen Zhi No. 10720710970 letter by MOEA for its additional investment in Fubon Life Insurance (Hong Kong) Co., Ltd. amounting to HKD 775,000 on January 31, 2018, with the subscription date on February 26, 2018.
- (d) Fubon Life Insurance Co., Ltd. acquired the right to development of the 70-year superficies of Kaohsiung City "MRT Aozihdi Station Commercial District Development Project" and other 17 land superficies with a bid price of \$7,807,800 on March 7, 2018. The bid price was based on the appraisal reports by Euro-Asia Real Estate Joint Appraiser Office and those by DTZ Cushman & Wakefield Real Estate Appraiser Office.
- (e) The board of directors of Fubon Securities BVI Co., Ltd. had approved to participate in the capital increased for cash of Fubon Securities HK Ltd. by \$200,000 on December 21, 2017. The investment project had been approved by the FSC, Rule No.1070301889, on February 8, 2018 and was completed on February 22, 2018.
- (f) Because the US stocks had plummeted sharply on February 6, 2018, resulting in the equity of customer margin deposit to be negative. The clients of Fubon Futures Co. Ltd. breach the contract due to their failure to fully pay the additional guarantee deposits within three working days after having been noticed. Therefore, Fubon Futures Co. Ltd. has to recognized the future exchanges margins receivable with the approximate amount of \$185 million. This matter had been reported to the Taiwan Futures Exchange. As of the reporting date, the unpaid amount was \$179,903 thousand. Five clients have completed the negotiation and signed the promissory notes amounting to \$65,502 thousand for the preceding repayments; two clients have been given provisional attachment by the court, and the other three clients are expected to conduct an assumpsit procedure for the recovery amounting to \$114,401 thousand and negotiate continually.

(Continued)

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

- (g) On November 28, 2017, 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 CNY86,580 thousand. The investment project was approved by the Financial Supervisory Commission, Executive Yuan, Jin Guan Jeng Tou No.1060050292 and the Investment Commission, MOEA, Jing Shen (2) Letter No.10700015550 on January 5 and February 7, 2018, respectively. The investment amounting to CNY86,580 thousand was remitted on March 12, 2018.

(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:

	December 31, 2017	December 31, 2016
<u>Held-to-maturity financial assets</u>		
Carrying amounts	\$ 400,660	554,884
Fair value	403,448	554,411

The gains or losses recorded for the reclassified financial assets (excluding those that had been derecognized before December 31, 2017 and 2016) for the years ended December 31, 2017 and 2016, and the pro forma adjustments recognized in other equity assuming no reclassifications had been made were as follows:

	2017	2016
<u>Held-to-maturity financial assets</u>		
Gains recognized	\$ 9,027	18,420
Pro forma adjustments recognized in other equity	1,166	(2,352)

(Continued)

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

(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.

(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:

	<u>2017</u>
Fubon Insurance	\$ 1,303,745
Taipei Fubon Bank	75,332
Fubon Life Insurance	204,893
Fubon Securities	5,357

(Continued)

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

(d) Capital adequacy ratios (Reviewed)

Unit: In millions of TWD, %

December 31, 2017			
Item	Ownership interest	Eligible capital	Legal capital
The Company	100.00 %	488,400	567,551
Taipei Fubon Bank	100.00 %	186,130	123,589
Fubon Bank (Hong Kong)	100.00 %	42,085	24,529
Fubon Bank (China)	49.00 %	12,785	10,596
Fubon Securities	100.00 %	23,008	9,956
Fubon Insurance and Fubon Life Insurance	100.00 %	299,786	179,782
Fubon Financial Holding Venture Capital	53.80 %	3,800	1,916
Taiwan Sport Lottery Corporation	100.00 %	97	49
Others	100.00 %	3,716	3,545
Less: deductible item		(601,332)	(567,465)
Subtotal		458,475	354,048
Consolidated capital adequacy ratio			129.50

Unit: In millions of TWD, %

December 31, 2016			
Item	Ownership interest	Eligible capital	Legal capital
The Company	100.00 %	426,779	493,636
Taipei Fubon Bank	100.00 %	180,654	108,205
Fubon Bank (Hong Kong)	100.00 %	35,845	21,312
Fubon Bank (China)	49.00 %	12,600	8,883
Fubon Securities	100.00 %	22,276	9,066
Fubon Insurance and Fubon Life Insurance	100.00 %	256,767	161,970
Fubon Financial Holding Venture Capital	91.67 %	3,981	2,274
Taiwan Sport Lottery	100.00 %	98	49
Others	100.00 %	3,329	2,638
Less: deductible item		(523,726)	(493,292)
Subtotal		418,603	314,741
Consolidated capital adequacy ratio			133.00

(Continued)

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

(e) Eligible capital (Reviewed)

Unit: In thousands of TWD

Item	Amount	
	December 31, 2017	December 31, 2016
Common stock	102,336,040	102,336,040
Tier 1 Capital Instruments	6,000,000	6,000,000
Advance equity	-	-
Capital surplus	103,674,220	102,713,132
Legal reserve	52,403,066	47,560,961
Special reserve	53,069,867	50,310,722
Accumulated profit and loss	165,573,101	140,672,624
Equity adjustment	5,375,314	(22,773,818)
Less: Goodwill and other intangible assets	5,528	9,729
Less: Deferred assets	26,106	31,272
Less: Treasury stock	-	-
Consolidated eligible capital	488,399,974	426,778,660

(f) Financial information classified by business type:

For the years ended December 31, 2017

Units: In thousands of TWD

Item	Banking	Insurance	Securities	Others	Consolidation
Net interest revenue	28,284,069	84,804,139	875,592	(751,730)	113,212,070
Net non-interest revenue	21,250,088	266,225,281	7,616,430	(2,158,903)	292,932,896
Net revenue	49,534,157	351,029,420	8,492,022	(2,910,633)	406,144,966
Bad debt expenses and provision for insurance reserve	(2,468,544)	(403,033)	(8,694)	(33,539)	(2,913,810)
Net change in provisions for insurance liability	-	(290,242,819)	-	352,433	(289,890,386)
Operating expenses	(24,689,122)	(26,180,353)	(5,466,392)	1,045,674	(55,290,193)
Income from continuing operations before income tax	22,376,491	34,203,215	3,016,936	(1,546,065)	58,050,577
Income tax expense	(2,782,339)	1,623,110	(210,527)	(2,664,504)	(4,034,260)
Net income	19,594,152	35,826,325	2,806,409	(4,210,569)	54,016,317

(Continued)

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

For the years ended December 31, 2016

Units: In thousands of TWD

Item	Banking	Insurance	Securities	Others	Consolidation
Net interest revenue	27,715,253	78,223,665	717,946	(880,167)	105,776,697
Net non-interest revenue	20,891,714	307,631,358	5,976,827	(1,353,888)	333,146,011
Net revenue	48,606,967	385,855,023	6,694,773	(2,234,055)	438,922,708
Bad debt expenses and provision for insurance reserve	(2,305,312)	(291,849)	(5)	(11,259)	(2,608,425)
Net change in provisions for insurance liability	-	(324,981,105)	-	368,280	(324,612,825)
Operating expenses	(24,749,292)	(28,042,052)	(5,101,204)	871,107	(57,021,441)
Income from continuing operations before income tax	21,552,363	32,540,017	1,593,564	(1,005,927)	54,680,017
Income tax expense	(3,353,678)	(1,180,428)	(89,575)	(1,481,580)	(6,105,261)
Net income	18,198,685	31,359,589	1,503,989	(2,487,507)	48,574,756

(Continued)

g) Financial statements of Fubon Financial Holding Co., Ltd.

FUBON FINANCIAL HOLDING CO., LTD.**Balance Sheets****December 31, 2017 and 2016****(Expressed in thousands of New Taiwan Dollars)**

Assets	December 31, 2017		December 31, 2016		Liabilities and Equity	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%		Amount	%	Amount	%
Cash and cash equivalents	\$ 220,473	-	557,252	-	Commercial paper issued, net	\$ 19,488,059	3	-	-
Securities purchased under resell agreements	65,970	-	2,046,975	-	Payables	796,522	-	977,393	-
Receivables, net	833	-	76	-	Current tax liabilities	10,143,645	2	9,115,086	2
Current tax assets	8,010,818	1	7,185,770	1	Bonds payable	54,000,000	9	63,800,000	13
Investments accounted for using equity method, net	561,703,318	98	493,292,372	99	Deferred tax liabilities	3,012,019	1	2,267,573	-
Other financial assets, net	5,774,075	1	11,597	-	Other liabilities	7,704	-	487,255	-
Property and equipment, net	21,547	-	23,273	-	Total liabilities	87,447,949	15	76,647,307	15
Intangible assets, net	5,528	-	9,729	-	Equity:				
Deferred tax assets	5,026	-	2,500	-	Share capital:				
Other assets, net	71,969	-	337,424	-	Common stock	102,336,040	18	102,336,040	20
					Preferred stock	6,000,000	1	6,000,000	1
					Total share capital	108,336,040	19	108,336,040	21
					Capital surplus	103,674,220	18	102,713,132	20
					Retained earnings:				
					Legal reserve	52,403,066	9	47,560,961	10
					Special reserve	53,069,867	9	50,310,722	10
					Undistributed earnings	165,573,101	29	140,672,624	28
					Total retained earnings	271,046,034	47	238,544,307	48
					Other equity interests	5,375,314	1	(22,773,818)	(4)
					Total equity	488,431,608	85	426,819,661	85
Total assets	\$ 575,879,557	100	503,466,968	100	Total liabilities and equity	\$ 575,879,557	100	503,466,968	100

FUBON FINANCIAL HOLDING CO., LTD.
Statement of Comprehensive Income
For the years ended December 31, 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

	2017		2016		Percentage change
	Amount	%	Amount	%	
Revenue :					
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	\$ 58,390,108	100	52,035,702	100	12
Other revenues	32,425	-	117,564	-	(72)
Net revenue	<u>58,422,533</u>	<u>100</u>	<u>52,153,266</u>	<u>100</u>	12
Expense:					
Operating expenses	803,498	1	858,732	1	(6)
Other expenses and losses	929,900	2	1,471,349	3	(37)
Total expenses	<u>1,733,398</u>	<u>3</u>	<u>2,330,081</u>	<u>4</u>	(26)
Net income before tax from continuing operations	56,689,135	97	49,823,185	96	14
Income tax expense	<u>(2,566,672)</u>	<u>(4)</u>	<u>(1,402,139)</u>	<u>(3)</u>	(83)
Net income	<u>\$ 54,122,463</u>	<u>93</u>	<u>48,421,046</u>	<u>93</u>	12
Other comprehensive income:					
Items not to be reclassified to profit or loss					
Remeasurements of the defined benefit plans	\$ (1,597)	-	1,864	-	(186)
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	824,314	1	(720,077)	(1)	214
Income tax – items not to be reclassified to profit or loss	-	-	-	-	-
Subtotal of items not to be reclassified to profit or loss	<u>822,717</u>	<u>1</u>	<u>(718,213)</u>	<u>(1)</u>	215
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	(3,477,453)	(6)	(1,960,676)	(4)	(77)
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	30,674,668	53	(329,618)	(1)	9,406
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>27,197,215</u>	<u>47</u>	<u>(2,290,294)</u>	<u>(5)</u>	1,287
Other comprehensive income, net of income tax	<u>28,019,932</u>	<u>48</u>	<u>(3,008,507)</u>	<u>(6)</u>	1,031
Total comprehensive income	<u>\$ 82,142,395</u>	<u>141</u>	<u>45,412,539</u>	<u>87</u>	81
Basic earnings per share (in New Taiwan Dollars)	<u>\$ 5.19</u>		<u>4.73</u>		

FUBON FINANCIAL HOLDING CO., LTD.
Statement of Changes in Equity
For the years ended December 31, 2017 and 2016
(Expressed in thousands of New Taiwan Dollars)

	Share capital		Capital surplus	Retained earnings				Other equity			Total	Total equity		
	Common stock	Preferred stock		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	
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	-	-	-	-	-	-	48,421,046	48,421,046	-	-	-	-	-	48,421,046
Other comprehensive income	-	-	-	-	-	-	(1,012,829)	(1,012,829)	(11,324,497)	9,985,744	(951,541)	294,616	(1,995,678)	(3,008,507)
Total comprehensive income	-	-	-	-	-	-	47,408,217	47,408,217	(11,324,497)	9,985,744	(951,541)	294,616	(1,995,678)	45,412,539
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	-	-	-	751,128	-	-	-	-	-	-	-	-	-	751,128
Issuance of preferred stock	-	6,000,000	6,000,000	29,953,645	-	-	-	-	-	-	-	-	-	35,953,645
Changes in ownership interests in subsidiaries	-	-	-	(2,452,347)	-	-	-	-	-	-	-	-	-	(2,452,347)
Share-based payment transaction	-	-	-	177	-	-	-	-	-	-	-	-	-	177
Balance at December 31, 2016	<u>102,336,040</u>	<u>6,000,000</u>	<u>108,336,040</u>	<u>102,713,132</u>	<u>47,560,961</u>	<u>50,310,722</u>	<u>140,672,624</u>	<u>238,544,307</u>	<u>(7,625,985)</u>	<u>(16,096,768)</u>	<u>(402,102)</u>	<u>1,351,037</u>	<u>(22,773,818)</u>	<u>426,819,661</u>
Net income	-	-	-	-	-	-	54,122,463	54,122,463	-	-	-	-	-	54,122,463
Other comprehensive income	-	-	-	-	-	-	(129,200)	(129,200)	(3,660,093)	30,754,855	102,453	951,917	28,149,132	28,019,932
Total comprehensive income	-	-	-	-	-	-	53,993,263	53,993,263	(3,660,093)	30,754,855	102,453	951,917	28,149,132	82,142,395
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	-	-	-	961,088	-	-	-	-	-	-	-	-	-	961,088
Balance at December 31, 2017	<u>\$ 102,336,040</u>	<u>6,000,000</u>	<u>108,336,040</u>	<u>103,674,220</u>	<u>52,403,066</u>	<u>53,069,867</u>	<u>165,573,101</u>	<u>271,046,034</u>	<u>(11,286,078)</u>	<u>14,658,087</u>	<u>(299,649)</u>	<u>2,302,954</u>	<u>5,375,314</u>	<u>488,431,608</u>

Note: For the years ended December 31, 2017 and 2016, the recognized directors and supervisors' remuneration were \$65,000 and \$56,000, respectively, and the employees' compensation were \$10,000 and \$10,000, respectively, which have already been deducted from statement of comprehensive income.

FUBON FINANCIAL HOLDING CO., LTD.
Statement of Cash Flows
For the years ended December 31, 2017 and 2016
(Expressed in thousands of New Taiwan Dollars)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Income before income tax	\$ 56,689,135	49,823,185
Adjustments :		
Income of non-cash activities		
Depreciation expenses	11,843	12,641
Amortization expenses	14,151	18,715
Interest expense	904,607	1,141,172
Interest income	(15,719)	(76,053)
Share-based payment awards	-	177
Share of profit of subsidiaries, associates and joint ventures accounted for using equity methods	(58,390,108)	(52,035,702)
Subtotal of income of non-cash activities	<u>(57,475,226)</u>	<u>(50,939,050)</u>
Change in operating assets and liabilities :		
Change in operating assets :		
Increase in receivables and current tax assets	(825,046)	(3,434,041)
Increase in other financial assets	(5,762,478)	-
Decrease in other assets	256,165	19,634
Subtotal of change in operating assets	<u>(6,331,359)</u>	<u>(3,414,407)</u>
Change in operating liabilities :		
Increase (decrease) in payables and current tax liabilities	(128,750)	3,452,166
Increase (decrease) in other liabilities	(479,551)	2,749
Subtotal of change in operating liabilities	<u>(608,301)</u>	<u>3,454,915</u>
Subtotal of change in operating assets and liabilities	<u>(6,939,660)</u>	<u>40,508</u>
Subtotal of all adjustments	<u>(64,414,886)</u>	<u>(50,898,542)</u>
Cash used in operating activities	(7,725,751)	(1,075,357)
Interest received	14,565	76,120
Dividends received	18,961,779	7,380,071
Interest paid	(1,096,671)	(1,150,841)
Income tax paid	(655,855)	(1,703,004)
Net cash provided by operating activities	<u>9,498,067</u>	<u>3,526,989</u>
Cash flows from investing activities :		
Acquisition of property and equipment	(10,306)	(5,281)
Acquisition of intangible assets	(2,068)	(3,677)
Net cash used in investing activities	<u>(12,374)</u>	<u>(8,958)</u>
Cash flows from financing activities:		
Increase (decrease) in commercial papers issued	19,488,059	(749,784)
Repayments of bonds	(9,800,000)	(6,000,000)
Cash dividends paid	(21,491,536)	(20,467,208)
Cash capital increase	-	35,953,645
Acquisition of ownership interests in subsidiaries	-	(10,191,788)
Net cash used in financing activities	<u>(11,803,477)</u>	<u>(1,455,135)</u>
Net increase (decrease) in cash and cash equivalents	(2,317,784)	2,062,896
Cash and cash equivalents at beginning of period	2,604,227	541,331
Cash and cash equivalents at end of period	<u>\$ 286,443</u>	<u>2,604,227</u>
Components of cash and cash equivalents:		
Cash and cash equivalents recognized in balance sheet	\$ 220,473	557,252
Securities purchased under resell agreements qualifying for cash and cash equivalent under the definition of IAS 7	65,970	2,046,975
Cash and cash equivalents at end of period	<u>\$ 286,443</u>	<u>2,604,227</u>

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

(h) Subsidiaries' balance sheets and statements of comprehensive income

(i) Balance sheets

	Taipei Fubon Bank	
	December 31, 2017	December 31, 2016
Cash and cash equivalents	\$ 71,508,456	30,957,966
Due from the central bank and call loans to banks	191,411,622	236,523,548
Financial assets measured at fair value through profit or loss	85,917,970	113,054,973
Available-for-sale financial assets, net	156,039,119	112,664,383
Derivative financial assets for hedging	1,048,870	412,743
Securities purchased under resell agreements	5,285,078	18,689,108
Receivables, net	67,635,236	64,205,109
Current income tax assets	180,788	483,141
Discounts and loans, net	1,197,565,723	1,109,512,924
Held-to-maturity financial assets	429,220,491	313,338,917
Investments accounted for using equity method	21,218,975	21,575,412
Other financial assets, net	105,087,421	47,910,644
Property and equipment, net	12,673,549	12,757,712
Investment property	2,890,900	2,641,500
Intangible assets, net	1,576,840	1,556,005
Deferred tax assets	452,737	419,509
Other assets	5,569,465	12,180,698
Total assets	\$ 2,355,283,240	2,098,884,292

(Continued)

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

	Taipei Fubon Bank	
	December 31,	December 31,
	2017	2016
Deposits to the central bank and banks	\$ 112,947,010	49,161,962
Financial liabilities measured at fair value through profit or loss	23,766,523	65,200,793
Derivative financial liabilities for hedging	1,369,923	1,239,999
Securities sold under repurchase agreements	65,684,428	30,780,979
Payables	24,393,701	24,413,801
Current tax liabilities	1,105,147	2,242,101
Deposits	1,842,777,625	1,655,775,297
Bank Debentures	75,096,956	64,651,203
Other financial liabilities	17,770,717	21,691,631
Provisions	2,700,932	2,409,680
Deferred tax liabilities	982,676	894,890
Other liabilities	<u>6,723,069</u>	<u>5,787,484</u>
Total liabilities	<u>2,175,318,707</u>	<u>1,924,249,820</u>
Common stock	106,518,023	106,518,023
Capital surplus	14,800,927	14,800,927
Retained earnings	58,976,672	52,415,350
Other equity	<u>(331,089)</u>	<u>900,172</u>
Total equity	<u>179,964,533</u>	<u>174,634,472</u>
Total liabilities and equity	<u><u>\$ 2,355,283,240</u></u>	<u><u>2,098,884,292</u></u>

(Continued)

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

	Fubon Insurance	
	December 31, 2017	December 31, 2016
Cash and cash equivalents	\$ 7,087,430	7,772,262
Receivable	4,248,310	4,455,419
Financial assets measured at fair value through profit or loss	124,793	17,516
Available-for-sale financial assets	39,815,471	39,221,490
Financial assets carried at cost	925,291	158,330
Investments accounted for using equity method, net	964,281	1,214,089
Debt investments without active market	5,818,689	3,385,068
Investment property	10,556,206	10,067,697
Reinsurance contract assets	16,053,450	19,924,793
Property and equipment	3,117,625	3,567,539
Intangible assets	79,579	112,907
Deferred tax assets	685,074	718,140
Other assets	937,458	799,977
Total assets	\$ 90,413,657	91,415,227
Payables	\$ 9,585,661	8,606,356
Current tax liabilities	66,565	471,426
Financial liabilities measured at fair value through profit or loss	9,573	251,107
Insurance liabilities	45,979,044	49,111,224
Deferred tax liabilities	1,211,486	1,095,747
Other liabilities	673,776	640,111
Provisions	1,646,805	1,708,738
Total liabilities	59,172,910	61,884,709
Common stock	3,178,396	3,178,396
Capital surplus	5,934,408	5,934,408
Retained earnings	18,074,882	16,619,263
Other equity	4,053,061	3,798,451
Total equity	31,240,747	29,530,518
Total liabilities and equity	\$ 90,413,657	91,415,227

(Continued)

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

	Fubon Life Insurance	
	December 31,	December 31,
	2017	2016
Cash and cash equivalents	\$ 170,335,411	174,044,504
Receivables	45,728,358	34,732,370
Current tax assets	454,788	1,064,146
Financial assets measured at fair value through profit or loss	8,679,477	984,485
Available-for-sale financial assets, net	1,244,614,385	1,296,303,374
Derivative financial assets for hedging	421,914	282,870
Financial assets carried at cost, net	1,044,850	1,157,549
Debt investments without active market, net	1,524,535,218	1,222,686,060
Held-to-maturity financial assets	16,343,302	16,337,553
Investments accounted for using equity method, net	29,963,820	25,882,089
Other financial assets, net	21,681,149	31,278,279
Investment property	136,311,499	139,223,140
Loans	212,895,751	188,517,257
Reinsurance contract assets	1,621,146	1,378,571
Property and equipment	19,635,538	19,052,494
Intangible assets	173,913	205,511
Deferred tax assets	13,554,339	8,059,745
Other assets	46,801,614	43,450,854
Separate account-insurance instrument assets	155,214,816	142,534,021
Total assets	\$ 3,650,011,288	3,347,174,872
Payables	\$ 28,149,443	22,075,723
Current tax liabilities	6,991,303	4,595,354
Financial liabilities measured at fair value through profit or loss	448,368	14,156,699
Derivative financial liabilities for hedging	781,779	760,198
Bonds payable	35,000,000	28,500,000
Insurance liabilities	3,125,078,005	2,877,537,112
Reserve for insurance contracts with financial product futures	3,744,674	18,137,335
Foreign exchange valuation reserve	2,305,484	4,632,746
Provisions	6,980,790	7,537,801
Deferred tax liabilities	6,662,663	6,018,468
Other liabilities	5,763,640	7,215,044
Separate account-insurance instrument liabilities	155,214,816	142,534,021
Total liabilities	3,377,120,965	3,133,700,501
Common stock	82,969,690	69,432,750
Capital surplus	29,460,334	28,405,733
Retained earnings	142,483,759	128,532,434
Other equity	17,976,540	(12,896,546)
Total equity	272,890,323	213,474,371
Total liabilities and equity	\$ 3,650,011,288	3,347,174,872

(Continued)

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

	Fubon Securities	
	December 31, 2017	December 31, 2016
Current assets	\$ 90,719,851	72,964,943
Available-for-sale financial assets – non-current	38,417	38,417
Financial assets carried at cost – non-current	428,655	438,118
Investments accounted for using equity method	7,623,636	6,689,237
Property and equipment	1,753,111	1,657,041
Investment property	1,036,331	1,072,629
Intangible assets	104,955	125,610
Deferred tax assets	207,218	170,851
Other non-current assets	<u>1,358,884</u>	<u>1,473,277</u>
Total assets	<u>\$ 103,271,058</u>	<u>84,630,123</u>
Current liabilities	\$ 68,457,969	51,017,377
Provisions – non-current	973,311	927,752
Deferred tax liabilities	79,871	101,801
Other non-current liabilities	<u>4,782</u>	<u>7,737</u>
Total liabilities	<u>69,515,933</u>	<u>52,054,667</u>
Common stock	16,643,550	16,643,550
Capital surplus	-	7,335
Retained earnings	16,547,835	14,777,274
Other equity	<u>563,740</u>	<u>1,147,297</u>
Total equity	<u>33,755,125</u>	<u>32,575,456</u>
Total liabilities and equity	<u>\$ 103,271,058</u>	<u>84,630,123</u>

(Continued)

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

	Units: In thousands of CNY	
	Fubon Bank (China)	
	December 31,	December 31,
	2017	2016
Cash and cash equivalents	\$ 408,339	1,143,304
Due from the central bank and call loans to banks	7,101,945	6,923,590
Financial assets measured at fair value through profit or loss	751,321	886,825
Available-for-sale financial assets, net	10,929,923	7,525,153
Securities purchased under resell agreements	2,216,314	1,900,000
Receivables, net	3,048,294	1,333,084
Discounts and loans, net	40,657,037	38,868,960
Held-to-maturity financial assets, net	7,780,775	8,862,573
Other financial assets	254,956	609,917
Property and equipment, net	1,224,941	1,277,647
Intangible assets, net	38,916	32,997
Deferred tax assets	143,266	120,350
Other assets, net	66,089	72,802
Total assets	\$ 74,622,116	69,557,202
Deposits from the central bank and banks	\$ 8,033,136	6,046,976
Due to the central bank and banks	1,176,156	1,526,140
Financial liabilities measured at fair value through profit or loss	940,083	696,908
Securities sold under repurchase agreements	7,062,157	6,607,890
Payables	2,821,832	1,519,487
Current tax liabilities	12,077	13,514
Deposits	49,162,674	47,846,369
Other liabilities	4,661	14,074
Total liabilities	69,212,776	64,271,358
Common stock	2,100,000	2,100,000
Capital surplus	93,176	93,176
Retained earnings	3,326,206	3,105,877
Other equity	(110,042)	(13,209)
Total equity	5,409,340	5,285,844
Total liabilities and equity	\$ 74,622,116	69,557,202

(Continued)

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

	Unit: In thousands of HKD	
	Fubon Bank (Hong Kong)	
	December 31,	December 31,
	2017	2016
Cash and cash equivalents	\$ 5,133,533	6,019,614
Due from the central bank and call loans to banks	558,348	3,264,233
Financial assets measured at fair value through profit or loss	2,342,085	2,950,499
Available-for-sale financial assets, net	32,243,660	31,124,545
Investments accounted for using equity method	2,341,526	2,085,546
Held-to-maturity financial assets, net	1,561,796	1,549,884
Derivative financial assets for hedging	209,902	152,217
Receivable, net	1,284,430	941,858
Discounts and loans, net	48,463,573	43,548,974
Current tax asset	-	28,063
Hold for sale asset	11,916	11,916
Property and equipment	1,155,450	1,131,440
Deferred tax assets	6	6
Other assets, net	151,842	125,191
Total assets	\$ 95,458,067	92,933,986
Deposits from the central bank and banks	\$ 2,026,148	1,267,466
Financial liabilities measured at fair value through profit or loss	1,943,100	2,607,702
Payables	1,450,410	614,107
Current tax liabilities	35,823	-
Deposits	62,067,793	63,563,863
Derivative financial liabilities for hedging	131,935	252,492
Bonds and bills sold under repurchase agreements	9,181,147	9,708,939
Bonds payable	6,047,938	5,200,676
Liability reserve	1,507,797	-
Liability reserve	57,301	56,165
Deferred tax liabilities	149,247	53,191
Other liabilities	530,971	506,841
Total liabilities	85,129,610	83,831,442
Common stock	1,641,273	1,641,273
Capital surplus	3,189,175	3,189,175
Retained earnings	5,054,304	4,400,398
Other equity	443,705	(128,302)
Total equity	10,328,457	9,102,544
Total liabilities and equity	\$ 95,458,067	92,933,986

(Continued)

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

Note: The balance sheet of Fubon Bank (Hong Kong) as of December 31, 2017 and 2016, were presented fairly in accordance with the “Regulations Governing the Preparation of Financial Reports by Public Banks” and with the IFRSs (note 4 (3)), which were not prepared in conformity with the Hong Kong Companies Ordinance. Fubon Bank (Hong Kong) has submitted the financial statements as of December 31, 2016 to the Company Registry of Hong Kong, and will submit the financial statements as of December 31, 2017 in accordance with section 3 of Schedule 662 and Form 6 to the Hong Kong Companies Ordinance within the legal term. The independent accountants have issued unqualified audit reports as of December 31, 2017 and 2016 (Any emphasis matters to the user of financial reports and statements made under section 2 of Schedule 406, section 2 or 3 of Schedule 407 to the Hong Kong Companies Ordinance were not included.).

(ii) Statements of comprehensive income

	Taipei Fubon Bank	
	2017	2016
Interest revenue	\$ 34,144,984	30,021,717
Interest expense	(14,695,279)	(12,036,591)
Net interest revenue	19,449,705	17,985,126
Net non-interest revenues	19,338,161	17,798,612
Net revenue	38,787,866	35,783,738
Bad debt expenses and guarantee liability provisions	(2,106,404)	(1,366,794)
Operating expenses	(17,825,389)	(17,450,768)
Income before income tax	18,856,073	16,966,176
Income tax expense	(2,078,493)	(2,499,822)
Net income	16,777,580	14,466,354
Other comprehensive income (net of income tax)	(1,403,914)	(1,894,452)
Total comprehensive income	15,373,666	12,571,902
Earnings per share (In New Taiwan Dollars)	1.58	1.36
	Fubon Insurance	
	2017	2016
Operating income	\$ 31,527,265	28,874,514
Operating cost	(20,231,245)	(18,687,376)
Operating expenses	(6,982,281)	(6,299,171)
Net operating revenue	4,313,739	3,887,967
Non-operating income and expense	(275,934)	(173,893)
Income before income tax	4,037,805	3,714,074
Income tax expense	(406,741)	(594,993)
Net income	3,631,064	3,119,081
Other comprehensive income (net of income tax)	171,379	86,943
Total comprehensive income	3,802,443	3,206,024
Basic earnings per share (In New Taiwan Dollars)	11.42	9.81

(Continued)

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

	Fubon Life Insurance	
	2017	2016
Operating income	\$ 631,702,806	609,891,838
Operating cost	(586,093,033)	(564,300,878)
Operating expenses	(15,432,978)	(16,733,537)
Operating revenue	30,176,795	28,857,423
Non-operating income and expense	300,647	496,691
Income before income tax	30,477,442	29,354,114
Income tax revenue (expense)	(2,010,500)	(666,551)
Net income	32,487,942	28,687,563
Other comprehensive income (net of income tax)	31,080,865	1,253,886
Total comprehensive income	63,568,807	29,941,449
Basic earnings per share (In New Taiwan Dollars)	3.92	3.46

	Fubon Securities	
	2017	2016
Revenue	\$ 7,451,501	5,422,119
Expenses	(5,458,793)	(4,780,195)
Net operating revenue	1,992,708	641,924
Non-operating income and expense	1,005,014	880,366
Income before income tax	2,997,722	1,522,290
Income tax expense	(180,687)	(18,300)
Net income	2,817,035	1,503,990
Other comprehensive income (net of income tax)	(639,449)	313,012
Total comprehensive income	2,177,586	1,817,002
Earnings per share (In New Taiwan Dollars)	1.69	0.90

Units: In thousands of CNY

	Fubon Bank (China)	
	2017	2016
Interest revenue	\$ 2,684,728	2,607,261
Interest expense	(1,785,759)	(1,617,873)
Net interest revenue	898,969	989,388
Net non-interest revenues	51,825	177,338
Net revenue	950,794	1,166,726
Bad debt expenses and guarantee liability provisions	(17,000)	(1,129)
Operating expenses	(657,339)	(640,444)
Income before income tax	276,455	525,153
Income tax expense	(56,125)	(112,973)
Net income	220,330	412,180
Other comprehensive income (net of income tax)	(96,834)	(5,670)
Total comprehensive income	123,496	406,510

(Continued)

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

Unit: In thousands of HKD

	Fubon Bank (Hong Kong)	
	2017	2016
Interest revenue	\$ 2,180,742	1,924,881
Interest expense	(964,563)	(756,322)
Net interest revenue	1,216,179	1,168,559
Net non-interest revenues	557,582	738,810
Net revenue	1,773,761	1,907,369
Bad debt expenses and guarantee liability provisions	(73,382)	(224,291)
Operating expenses	(899,920)	(905,761)
Income before income tax	800,459	777,317
Income tax expense	(115,873)	(73,727)
Net income	684,586	703,590
Other comprehensive income (net of income tax)	565,401	(124,403)
Total comprehensive income	1,249,987	579,187

Note: The statements of comprehensive income of Fubon Bank (Hong Kong) for the years ended December 31, 2017 and 2016, were presented fairly in accordance with the “Regulations Governing the Preparation of Financial Reports by Public Banks” and with the IFRSs (note 4 (3)), which were not prepared in conformity with the Hong Kong Companies Ordinance. Fubon Bank (Hong Kong) has submitted the financial statements as of December 31, 2016 to the Company Registry of Hong Kong, and will submit the financial statements as of December 31, 2017 in accordance with section 3 of Schedule 662 and Form 6 to the Hong Kong Companies Ordinance within the legal term. The independent accountants have issued unqualified audit reports as of December 31, 2017 and 2016 (Any emphasis matters to the user of financial reports and statements made under section 2 of Schedule 406, section 2 or 3 of Schedule 407 to the Hong Kong Companies Ordinance were not included.).

(i) Profitability of the Company and bank, insurance and security subsidiaries

December 31, 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	0.87 %	10.50 %	0.85 %	0.85 %	0.38 %	0.87 %	4.44 %	3.19 %
	After income tax	0.81 %	10.03 %	0.75 %	0.73 %	0.31 %	0.93 %	3.99 %	3.11 %
Return on equity	Before income tax	12.68 %	12.39 %	10.64 %	7.65 %	5.17 %	12.53 %	13.29 %	9.04 %
	After income tax	11.80 %	11.83 %	9.46 %	6.54 %	4.12 %	13.36 %	11.95 %	8.49 %
Profit margin		13.30 %	94.14 %	43.25 %	38.60 %	23.17 %	5.14 %	11.52 %	37.80 %

December 31, 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	0.89 %	10.47 %	0.82 %	0.86 %	0.73 %	0.92 %	4.26 %	1.97 %
	After income tax	0.79 %	10.18 %	0.70 %	0.78 %	0.57 %	0.90 %	3.58 %	1.94 %
Return on equity	Before income tax	13.62 %	12.54 %	9.97 %	8.82 %	0.36 %	14.82 %	12.76 %	4.75 %
	After income tax	12.10 %	12.19 %	8.50 %	7.98 %	8.13 %	14.48 %	10.72 %	4.69 %
Profit margin		11.07 %	95.54 %	40.43 %	36.89 %	35.33 %	4.70 %	10.80 %	28.26 %

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 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 December 31, 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	December 31, 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	25,279	-	25,279	Beneficiary certificates
"	Fubon FTSE Developed Europe ETF	"	"	838	17,179	-	17,179	"
"	Cathay Financial Holding Co., Ltd. Preferred Stock A.	-	"	7,165	449,246	0.86	449,246	Listed stock
"	China Steel Corporation Preferred Stock A.	-	Available-for-sale financial assets	47	1,995	0.12	1,995	"
"	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	12,067	-	12,067	Beneficiary certificates
"	Fubon China Investment Grade Bond Fund - CNY	Fund managed under a subsidiary company's manager of the Company	"	200	10,579	-	10,579	"
"	Fubon R1	-	"	1,391	17,916	-	17,916	Beneficiary securities
"	Fubon R2	-	"	1,380	15,691	-	15,691	"
"	Cathay R1	-	"	500	6,625	-	6,625	"
"	Cathay R2	-	"	950	12,645	-	12,645	"
Fu Sheng Life Insurance Agent	98 Central Government Bond 6	-	Available-for-sale financial assets	-	3,046	-	3,046	Government Bond
Fu Sheng General Insurance Agent	98 Central Government Bond 6	-	"	-	2,030	-	2,030	"
Fubon Asset Management	Eastspring Investments Well Pool Money Market Fund	-	Financial assets measured at fair value through profit or loss	6,664	90,122	-	90,122	Beneficiary certificates
"	Fubon Chi-Hsiang Money Market	Fund managed under Fubon Asset Management	"	8,636	134,710	-	134,710	"
"	Fubon Taiwan Technology ETF	"	"	39	2,059	-	2,059	"
"	Fubon Taiwan Financial ETF	"	"	47	1,898	-	1,898	"
"	Fubon Taiwan Eight Industries ETF	"	"	43	2,003	-	2,003	"
"	Fubon MSCI Taiwan ETF	"	"	56	2,752	-	2,752	"
"	Fubon SSE180 ETF	"	"	49	1,566	-	1,566	"
"	Taiwan FTSE TWSE Taiwan 50 EFT	"	"	14	645	-	645	"

(Continued)

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

Held company name	Held company name securities type and name	securities type and name with the securities issuer	Account	December 31, 2017				Remark
				No. of shares	Carrying amount	Shareholding ratio	Market price	
Fubon Asset Management	Fubon SZSE 100 ETF	Fund managed under Fubon Asset Management	Financial assets measured at fair value through profit or loss	31	357	-	357	Beneficiary certificates
"	Fubon India ETF Umbrella Fund-	"	"	15	353	-	353	"
"	Fubon NIFTY ETF	"	"	16	423	-	423	"
"	Fubon NASDAQ 100 ETF	"	"	14	321	-	321	"
"	Fubon TOPIX ETF	"	"	14	281	-	281	"
"	Fubon FTSE Developed Europe ETF	"	"	12	230	-	230	"
"	Fubon S&P US Preferred Stock ETF	"	"	12	230	-	230	"
"	Fubon China Growth	"	Available-for-sale financial assets	1,031	7,330	-	7,330	"
"	Fubon Strategic High Income C	"	"	2,160	20,092	-	20,092	"
"	Fubon Strategic High Income A	"	"	1,618	20,120	-	20,120	"
"	Fubon China Money Market CNY	"	"	599	30,426	-	30,426	"
"	Fubon China High Yield Bd CNY – A	"	"	501	30,222	-	30,222	"
"	Fubon China High Yield Bd CNY – B	"	"	2,041	93,683	-	93,683	"
"	Fubon China Investment Grade Bd CNY – B	"	"	816	38,062	-	38,062	"
"	Fubon Global Investment Grade Bond B	"	"	1,023	9,744	-	9,744	"
"	Fubon Global REIT Fund	"	"	578	5,306	-	5,306	"
"	Fubon China New Balanced Income TWD – A	"	"	3,724	40,274	-	40,274	"
"	Fubon China New Balanced Income TWD – B	"	"	2,322	22,330	-	22,330	"
"	Fubon 1-3 Years US Treasury Bond ETF	"	"	165	6,506	-	6,506	"
"	Fubon 7-10 Years US Treasury Bond ETF	"	"	165	6,430	-	6,430	"
"	Fubon 20+Years US Treasury Bond ETF	"	"	165	6,620	-	6,620	"
"	Fubon Euro-Asia Silk Road Multi-Asset Fund	"	"	5,001	56,189	-	56,189	"
"	Fubon Hang Seng H-Share ETF	"	"	400	8,268	-	8,268	"
"	Fubon FTSE Developed Europe ETF	"	"	270	5,535	-	5,535	"
"	Fubon S&P US Preferred Stock ETF	"	"	2,050	40,508	-	40,508	"
"	Eastspring Investments India Bond Fund B	"	"	4,040	39,798	-	39,798	"
"	103 Central Government Development Bond 13	-	"	-	316,485	-	316,485	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

(Continued)

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

Held company name	Held company name securities type and name	securities type and name with the securities issuer	Account	December 31, 2017				Remark
				No. of shares	Carrying amount	Shareholding ratio	Market price	
Fubon AMC	Union Bank	-	Available-for-sale financial assets	702	6,501	0.03	6,501	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	7,713	120,320	-	120,320	Beneficiary certificates
Fubon Securities Venture Capital	Applied Bio Code Corporation	-	Available-for-sale financial assets	394	15,362	0.93	15,362	Emerging stock
"	Fusheng Precision Co., Ltd.	-	"	566	81,363	-	81,363	"
"	iBASE GAMING INC.	-	"	53	3,514	-	3,514	Listed stock in TPEX
"	HORNG SHIUE HOLDING Co., Ltd.	-	"	581	26,145	1.57	26,145	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	0.44	41,590	"
"	PocketNet Technology Inc.	-	"	560	49,280	1.55	49,280	"
Fubon Mintou Venture Capital Co., Ltd.	Yuanta De-Li Money Market Fund	-	Financial assets measured at fair value through profit or loss	2,472	40,060	-	40,060	Beneficiary certificates
"	FSITC Taiwan Money Market	-	"	3,293	50,079	-	50,079	"
"	Mega Diamond Money Market Fund	-	"	4,018	50,083	-	50,083	"
"	Capital Money Market Fund	-	"	3,122	50,076	-	50,076	"
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	500,565	-	500,565	"
"	Mega Diamond Money Market Fund	-	"	40,162	500,650	-	500,650	"
"	Chunghwa chemical Synthesis & Biotech Co., Ltd.	-	Available-for-sale financial assets	3,000	73,200	3.87	73,200	Listed stock
"	Fubon Multimedia Technology Co., Ltd.	Related parties in substance	"	2,004	435,870	1.41	435,870	"
"	Tanvex BioPharma, Inc.	-	"	1,890	143,073	0.67	143,073	"
"	Media Asia Group Holdings Ltd.	-	"	99,188	72,011	4.64	72,011	Hong Kong listed stock
"	ConforMIS, Inc.	-	"	100	7,106	0.23	7,106	US listed stock
"	H&Q AP Greater China Growth Fund	-	"	-	13,217	4.00	13,217	Private fund
"	Media Asia Group Holding Limited	-	"	-	127,575	-	127,575	Convertible Bond
"	An Shin Food Service Co., Ltd.	-	"	97	8,653	0.30	8,653	Listed stock in TPEX
"	KD Holding Corporation	-	"	470	77,291	0.70	77,291	"
"	SynCore Biotechnology Co.	-	"	2,695	76,536	3.86	76,536	"
"	One Production Co., Ltd.	Related party in substance	"	3,874	40,018	13.84	40,018	Emerging stock
"	JHL Biotech Inc.	-	"	809	44,868	0.31	44,868	"
"	Fubon Strategic High Income B	Fund managed under a subsidiary company's manager of the Company	"	4,197	41,472	-	41,472	Beneficiary certificates

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

Held company name	Held company name securities type and name	securities type and name with the securities issuer	Account	December 31, 2017				Remark
				No. of shares	Carrying amount	Shareholding ratio	Market price	
Fubon Financial Holding Venture Capital Co., Ltd.	Franklin Templeton Sino Am Global High Yield Bond Fund	-	Available-for-sale financial assets	9,458	75,041	-	75,041	Beneficiary certificates
"	TIPCO International Ltd.	-	Financial assets measured at cost	16	45,545	4.54	45,545	Unlisted stock
"	Jeoutai Technology Co., Ltd.	-	"	2,714	42,000	8.06	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	"
"	Omiad 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	"	42	135,578	6.78	135,578	"
"	TAROKO Development Co., Ltd.	"	"	20,736	317,903	12.71	317,903	"
"	TAROKO MALL Co., Ltd.	"	"	2,304	35,323	12.70	35,323	"
"	Crystal Bright Development Ltd., BVI	-	"	10	305,342	1.91	305,342	"
"	Sunny Pharmtech Inc.	Related party in substance	"	11,239	213,342	10.04	213,342	"
"	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	10.61	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	"

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

Held company name	Held company name securities type and name	securities type and name with the securities issuer	Account	December 31, 2017				Remark
				No. of shares	Carrying amount	Shareholding ratio	Market price	
Fubon Financial Holding Venture Capital Co., Ltd.	Star Shining Energy Corporation	-	Financial assets measured at cost	3,000	30,000	3.00	30,000	Unlisted stock
"	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	2.12	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	1,958,720 (Note)	-	-	-	-	-	116,450	1,958,720
Fubon Life Insurance	Star Shining Energy Corporation	Investments accounted for using equity method, net	Investment accounted for using equity method	-	-	-	30,000	300,000	-	-	-	-	-	30,000	300,000
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	-	22,780	383,808	29,410	429,269 (Note)	-	-	-	-	-	52,190	813,077

Note : The initial investment costs of Fubon Financial Holding Venture Capital entered into by Fubon Life Insurance and Fubon Securities amounting to \$1,979,650 and \$499,970, respectively, have already been included. The remainder were shares of profit or other comprehensive income accounted for using equity method.

- (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	"

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

Note 1: The inter-company transactions have been eliminated.

Note 2: It is the total contract price. Transaction cost is separately calculated. (The Value-Added Tax is included.)

(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)	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.	"
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)	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	2009.09.08	4,690,034 (Note 2)	4,830,700 (Note 3)	Received each payment in accordance with the contract.	488,372	Nice Plaza Co., Ltd.	Not related party	Sold to realize profit and activate the allocation of assets	Referred to market price and appraisal reports.	"
Taipei Fubon Bank	Wanlong Branch (located at No.136, No.136-1 and basement 2, 3 and 4 of No.136 and No.138, Sec. 6, Roosevelt Rd., Wenshan Dist., Taipei City 116, Taiwan (R.O.C.))	2017.06	1994.08.02	272,468	430,000 (Note 1)	None	157,532 (Note 1)	Fubon AMC	Company controlled by Fubon Financial Holdings	Sold its building to avoid it from being idle	Referred to appraisal reports.	"

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated 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
Fubon Bank (China)	Huaxia Bank Tower Room 202	2017.10	2006.05.23	145,631 (Note 4)	412,068	None	266,437 (Note 4)	Pei-Ying Biological Technology (Shanghai) Limited	Not related party	China's authorities stipulate that banks' owner-occupied property can only be self-used and cannot be rented out. Therefore, it was sold to obtain non-operating income.	Referred to appraisal reports.	None

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) The ownership was transferred and derecognized in October 2017.

Note 3: It is the total contract price. Transaction cost is separately counted. (The Value-Added Tax is included.)

Note 4: The carrying amount and disposal gain or loss did not include the impact of the acquisition method used during the acquisition of Fubon Bank (China) by the Company and Taipei Fubon Bank .

(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 accounted for 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	762,392 (Note 1)	-	-	-	-	-
"	Fubon Life Insurance	"	6,690,036 (Note 1)	-	-	-	-	-

Note 1: The tax receivable by tax link mainly of subsidiary of company estimated payment that Company should be paid.

(x) Transactions of financial derivatives: for future information please refer to notes 6(c), 6(e), 6(s) and 6(ag).

(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) 2017.08.21	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

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

(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	6,690,036	Same as non related-party transactions	0.10 %
0	Fubon Financial Holding	Fubon Bank (Hong Kong)	1	Debt investments without active market	5,762,478	Same as non related-party transactions	0.08 %
1	Taipei Fubon Bank	Fubon Life Insurance	3	Deposits	6,851,454	Same as non related-party transactions	0.10 %
1	Taipei Fubon Bank	Fubon Life Insurance	3	Net service fee and commission income	5,532,929	Same as non related-party transactions	1.36 %
1	Taipei Fubon Bank	Fubon Securities	3	Deposits	8,995,917	Same as non related-party transactions	0.13 %
1	Taipei Fubon Bank	Fubon Securities	3	Net service fee and commission loss	312,621	Same as non related-party transactions	0.08 %
2	Fubon Life Insurance	Fubon Financial Holding	2	Income tax payable	6,690,036	Same as non related-party transactions	0.10 %
2	Fubon Life Insurance	Taipei Fubon Bank	3	Cash and cash equivalents	6,851,454	Same as non related-party transactions	0.10 %
2	Fubon Life Insurance	Taipei Fubon Bank	3	Net Service charge and commission loss	4,203,569	Same as non related-party transactions	1.03 %
2	Fubon Life Insurance	Taipei Fubon Bank	3	Other general and administrative expenses	1,338,384	Same as non related-party transactions	0.33 %
2	Fubon Life Insurance	Fubon Insurance	3	Other non-interest income, net	448,765	Same as non related-party transactions	0.11 %
2	Fubon Life Insurance	Fu Sheng Life Insurance Agent	3	Net service charge and commission loss	288,482	Same as non related-party transactions	0.07 %
3	Fubon Insurance	Fubon Life Insurance	3	Other general and administrative expenses	459,755	Same as non related-party transactions	0.11 %
3	Fubon Insurance	Fu Sheng General Insurance Agent	3	Net service charge and commission loss	314,897	Same as non related-party transactions	0.08 %
4	Fubon Securities	Taipei Fubon Bank	3	Cash and cash equivalents	8,150,917	Same as non related-party transactions	0.12 %
4	Fubon Securities	Taipei Fubon Bank	3	Other non-interest revenue, net	308,248	Same as non related-party transactions	0.08 %
5	Fu Sheng General Insurance Agent	Fubon Insurance	3	Net service fee and commission income	307,021	Same as non related-party transactions	0.08 %
6	Fu Sheng Life Insurance Agent	Fubon Life Insurance	3	Net service fee and commission income	287,732	Same as non related-party transactions	0.07 %
7	Fubon Bank (Hong Kong)	Fubon Financial Holding	2	Bonds Payable	5,762,478	Same as non related-ship	0.08 %

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.

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

(xiv) Other significant transactions that may have substantial influence upon the decision made by financial statement user: None

(b) Related information of investees companies:

As of December 31, 2017 were as follow:

(In Thousands of New Taiwan Dollars)

Name of investor company	Name of investee Company	Address	Main business scope	Shareholding ratio	Book Value	Investment gain(loss) recognized	Aggregate shareholding of the Company and its subsidiaries				Note
							Number of shares	Number of proforma shares	Total		
									Number of shares	Shareholding ratio	
Fubon Financial Holding	Fubon Insurance Co., Ltd.	Taipei	Property insurance	100.00%	28,334,242	3,557,961	317,840	-	317,840	100.00%	
	Fubon Life Insurance Co., Ltd.	Taipei	Life insurance	100.00%	252,374,086	32,883,422	8,296,969	-	8,296,969	100.00%	
	Fubon Securities Co., Ltd.	Taipei	Securities	100.00%	33,775,835	2,816,350	1,664,355	-	1,664,355	100.00%	
	Taipei Fubon Bank Co., Ltd.	Taipei	Banking	100.00%	177,589,581	15,956,328	10,651,802	-	10,651,802	100.00%	
	Fubon Marketing Co., Ltd.	Taipei	Marketing and management consult	100.00%	353,107	132,885	14,500	-	14,500	100.00%	
	Fubon Financial Holding Venture Capital Co., Ltd.	Taipei	Venture Capital	53.80%	3,478,151	87,984	250,580	-	465,800	100.00%	
	Fubon Bank (Hong Kong)	Hong Kong	Banking	100.00%	42,653,281	2,598,258	1,641,273	-	1,641,273	100.00%	
	Fubon Asset Management Service Co., Ltd.	Taipei	Creditor's right purchasing	100.00%	3,363,485	203,754	250,000	-	250,000	100.00%	
	Taiwan Sport Lottery Co., Ltd.	Taipei	Information Software Service	100.00%	97,420	46	9,729	-	9,729	100.00%	
	Fubon Financial Holding	Fubon Bank(China) Co., Ltd.	Mainland China	Banking	49.00%	19,684,129	153,120	-	-	-	100.00%
Fubon Insurance	Fubon Brokers (Thailand) Co., Ltd.	Thailand	Insurance brokers	48.97%	17,685	2,937	29	-	29	48.97%	
	Fubon Insurance (Vietnam) Co., Ltd.	Vietnam	Insurance Business	100.00%	599,780	3,499	-	-	-	100.00%	
	Fubon Property and Casualty Insurance Co., Ltd.	Mainland China	Insurance Business	40.00%	336,114	(197,160)	-	-	-	80.00%	
	Fubon Insurance Brokers (Philippines) Co., Ltd.	Philippines	Insurance brokers	99.99%	10,702	(195)	200	-	200	99.99%	
	Teng Fu Bo Investment Limited	Mainland China	Investment advisory	12.44%	72,268	(41,022)	-	-	-	24.88%	

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

Name of investor company	Name of investee Company	Address	Main business scope	Shareholding ratio	Book Value	Investment gain(loss) recognized	Aggregate shareholding of the Company and its subsidiaries				Note	
							Number of shares	Number of proforma shares	Total			
									Number of shares	Shareholding ratio		
Fubon Life Insurance	Fubon Life Insurance (Vietnam) Co.,Ltd.	Vietnam	Life Insurance business	100.00%	1,658,046	15,763	-	-	-	100.00%		
	Fubon Property and Casualty Insurance Co.,Ltd.	Mainland China	Property insurance	40.00%	336,114	(197,160)	-	-	-	80.00%		
	Carter Lane (Guernsey) Limited	Guernsey Island	Investment property leasing	100.00%	2,717,215	107,683	41,515	-	41,515	100.00%		
	Bow Bells House (Jersey) Limited	Jersey Island	Investment property leasing	100.00%	1,744,313	203,409	46,173	-	46,173	100.00%		
	Fubon MTL Property (Jersey) Limited	Jersey Island	Investment property leasing	100.00%	3,823,901	570,023	92,581	-	92,581	100.00%		
	CITIC Capital Holdings Ltd.	Hong Kong	Capital holdings	18.00%	9,172,776	626,620	13,980	-	13,980	18.00%		
	Hyundai Life Insurance Co.,Ltd.	Korea	Life Insurance business	48.62%	3,588,688	(805,564)	37,009	-	37,009	48.62%		
	Fubon Life Insurance (Hong Kong) Ltd.	Hong Kong	Life Insurance business	100.00%	1,681,253	(378,998)	500,000	-	500,000	100.00%		
	Fubon Life Insurance	Fubon Ellipse (Belgium) S.A.	Belgium Brussels	Investment property leasing	100.00%	2,662,563	263,968	1,134	-	1,134	100.00%	
		Fubon Ellipse (Jersey) S.A.	Jersey Island	Capital holdings	100.00%	2,300	(853)	90	-	90	100.00%	
Teng Fu Bo Investment Limited		Mainland China	Investment advisory	12.44%	72,268	(41,022)	-	-	-	24.88%		
Fubon Financial Holding Venture Capital Co., Ltd.		Taipei	Venture Capital	25.00%	1,958,720	16,366	116,450	-	465,800	100.00%		
Star River Energy Corporation		Taipei	Energy Technology Service	20.00%	318,618	7,329	29,600	-	31,800	21.49%		
Star Shining Energy Corporation		Taipei	Energy Technology Service	30.00%	299,313	(687)	30,000	-	33,000	33.00%		
Fubon Securities		Fubon Futures Co., Ltd.	Taipei	Futures	100.00%	1,924,329	146,192	140,000	-	140,000	100.00%	
	Fubon Securities (BVI) Ltd.	British Virgin Islands	Securities	100.00%	70,437	(22,471)	8,164	-	8,164	100.00%		
	Fubon Securities Investment Co., Ltd.	Taipei	Investment consulting	100.00%	306,078	(1,675)	30,000	-	30,000	100.00%		
	Fubon Financial Holding Venture Capital Co., Ltd.	Taipei	Venture Capital	11.20%	813,077	11,380	52,190	-	465,800	100.00%		

(Continued)

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

Name of investor company	Name of investee Company	Address	Main business scope	Shareholding ratio	Book Value	Investment gain(loss) recognized	Aggregate shareholding of the Company and its subsidiaries				Note	
							Number of shares	Number of proforma shares	Total			
									Number of shares	Shareholding ratio		
Fubon Securities	Fubon Asset Management Co., Ltd.	Taipei	Asset management	100.00%	3,224,647	305,850	192,345	-	192,345	100.00%		
	Fubon Securities Venture Capital Co., Ltd.	Taipei	Venture Capital	100.00%	287,576	3,329	30,000	-	30,000	100.00%		
	Founder Fubon Fund Asset Management Co., Ltd.	Mainland China	Fund Management	33.30%	359,674	(88,340)	-	-	-	33.30%		
	Fubon Securities Equity Investment Co., Ltd.	Mainland China	Equity Investment	100.00%	864,017	(62,113)	-	-	-	100.00%		
	Fubon Securities (HK) Ltd.	Hong Kong	Securities	100.00%	52,681	(21,793)	102,911	-	102,911	100.00%		
	Fubon Mintou Venture Capital Co., Ltd.	Taipei	Venture Capital	67.00%	133,475	(525)	13,400	-	13,400	67.00%		
	Fubon Convoy Asset Management (Hong Kong) Limited	Hong Kong	Asset management	49.00%	84,083	(9,960)	24,500	-	24,500	49.00%		
	Amis Technology Co., Ltd.	Taipei	Data Processing Service	24.75%	17,325	(2,675)	43,750	-	43,750	24.75%		
	Taipei Fubon Bank	Fubon Construction Management Co., Ltd.	Taipei	Construction management, real estate valuation	30.00%	107,775	7,896	6,964	-	6,964	30.00%	
		Fubon Bank (China) Co., Ltd	Mainland China	Banking	51.00%	21,111,200	159,370	-	-	-	100.00%	
Fubon Marketing	Fu-Sheng Life Insurance Agent Co., Ltd.	Taipei	Life Insurance Agent	100.00%	82,710	42,618	2,800	-	2,800	100.00%		
	Fu-Sheng General Insurance Agent Co., Ltd.	Taipei	Property and Casualty Insurance Agent	100.00%	133,819	84,585	2,500	-	2,500	100.00%		
FubonAMC	CITIC FUTONG Financial Leasing Co., Ltd.	Mainland China	Financial leasing	25.00%	1,515,612	132,021	-	-	-	25.00%		
Fubon Financial Holding Venture Capital Co., Ltd.	Fubon Sports & Entertainment Co., Ltd	Taipei	Entertainment	100.00%	25,552	(22,422)	4,797	-	4,797	100.00%		
	Fubon Stadium Co., Ltd.	Taipei	Sports and Leisure Sports Stadium	100.00%	49,504	(436)	5,000	-	5,000	100.00%		

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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Name of investor company	Name of investee Company	Address	Main business scope	Shareholding ratio	Book Value	Investment gain(loss) recognized	Aggregate shareholding of the Company and its subsidiaries				Note
							Number of shares	Number of proforma shares	Total		
									Number of shares	Shareholding ratio	
Fubon Financial Holding Venture Capital Co., Ltd.	Fubon Health Management Co., Ltd.	Taipei	Aesthetic medicine	24.27%	43,660	(6,340)	5,000	-	5,000	24.27%	
	Bravelog Sport Technology Co., Ltd.	Taipei	Sport Training	40.00%	7,479	(521)	800	-	800	40.00%	
	Cofit Healthcare Inc.	Taipei	IT Software Service	33.33%	14,378	(609)	275	-	275	33.33%	
Fubon Bank (Hong Kong) (Note)	Fubon Financial (HK) Ltd.	Hong Kong	Deposit service	100.00%	HKD 90,328	HKD 553	65,000	-	65,000	100.00%	
	Fubon Bank Securities Ltd.	Hong Kong	Securities	100.00%	HKD 69,168	HKD 36,980	8,000	-	8,000	100.00%	
	Fubon Bank Investment Management Ltd.	Hong Kong	Fund Investment	100.00%	HKD 19,455	HKD 623	80	-	80	100.00%	
	Fubon Nominees (Hong Kong) Limited	Hong Kong	Nominees service	100.00%	HKD 146	HKD 8	0.002	-	0.002	100.00%	
	Fubon Insurance Broker Limited	Hong Kong	Insurance broker	100.00%	HKD 1,711	HKD 329	100	-	100	100.00%	
	Xiamen Bank Co., Ltd.	Mainland China	Banking	15.78%	8,947,205	909,786	374,855	-	374,855	15.78%	

Note: The details of consolidated entities of Fubon Bank (Hong Kong) are its main subsidiary.

(c) 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 December 31, 2017	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of December 31, 2017	Accumulated inward remittance of earnings as of December 31, 2017
					Outflow	Inflow						
Fubon Bank (China)	Banking	9,616,950 (CNY2,100,000)	Direct investment in Mainland China	42,122,872	-	-	42,122,872	993,312 (CNY\$220,330)	100 %	312,490	40,795,329	168,999

Company	Accumulated investment in Mainland China as of December 31, 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)	293,058,965

(Continued)

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

Company	Accumulated investment in Mainland China as of December 31, 2017	Investment amounts authorized by investment commission, MOEA	Upper limit on investment
Taipei Fubon Bank Co., Ltd.	20,258,298 (CNY4,093,113)	20,258,298 (CNY4,093,113)	107,978,719

Note: The paid-in capital and profit or loss in foreign currencies are converted into TWD using CNY closing exchange rate on December 31, 2017, and the CNY average exchange rate for the years ended December 31, 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 Life Insurance and Fubon Insurance approved in participating in the capital increase for cash in Fubon Property & Casualty Insurance Co., Ltd. in June and July, 2017, respectively. The project was approved by Jin Guan Bao Chan No.10602080481 and No.10602080482 and by the Investment Commission, MOEA, Jing Shen (2) Letter No.1060236350 and No.10600226464 to invest the total amount of CNY 120 million in Fubon Property & Casualty Insurance. The amount of capital increase had not been remitted as of the reporting date. As of December 31, 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 December 31, 2017	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of December 31, 2017	Accumulated inward remittance of earnings as of December 31, 2017
					Outflow	Inflow						
Fubon Property and Casualty Insurance Limited	Property Insurance	4,759,500 (CNY1,000,000)	1	3,878,890	-	-	3,878,890	(492,900)	80.00 %	(394,320)	672,228	-
Teng Fu Bo Investment Limited	Investment advisory	915,900 (CNY200,000)	3	-	-	-	-	(329,762)	24.88 %	(82,044)	144,536	-

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to Consolidated 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 December 31, 2017	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of December 31, 2017	Accumulated inward remittance of earnings as of December 31, 2017
					Outflow	Inflow						
CITIC Fulljoy (Dalian) Limited	Real estate development	1,375,596 (HKD 360,000)	2	-	-	-	-	99,222 (CNY22,009)	18.00 %	17,860 (CNY3,962)	Note 2	-
Shang Hsing Real Estate (Shenyang) Limited	Real estate leasing	1,910,550 (HKD 500,000)	2	-	-	-	-	(158,328) (CNY35,120)	18.00 %	(28,499) (CNY6,322)	Note 2	-
CITIC Capital Holdings (Tianjin) Ltd.	Investment Holdings	20,591,406 (CNY 4,496,431)	2	-	-	-	-	124,171 (CNY27,543)	12.27 %	15,236 (CNY3,379)	Note 2	-
Hui Zhi Ju Xin(Shenzhen) Investment Ltd.	Investment Management	22,898 (CNY 5,000)	2	-	-	-	-	168,064 (CNY37,279)	12.27 %	20,621 (CNY4,574)	Note 2	-
Zhong An Tai Xin (Shenzhen) Equity Investment Fund Management	Investment advisory	45,795 (CNY 10,000)	2	-	-	-	-	217,841 (CNY48,320)	8.82 %	19,214 (CNY4,262)	Note 2	-
CITIC Capital Asset Management (Shenzhen) Ltd.	Investment advisory	45,795 (CNY 10,000)	2	-	-	-	-	161,028 (CNY35,719)	18.00 %	28,985 (CNY6,429)	Note 2	-
CITIC Capital Culture Tourism (Chengdu) Ltd.	Real estate leasing	1,373,850 (CNY 300,000)	2	-	-	-	-	(3,714) (CNY824)	12.84 %	(477) (CNY106)	Note 2	-
Jin Rui Tong Investment Consultancy (Chengdu) Ltd.	Real estate leasing	841,131 (CNY 183,673)	2	-	-	-	-	(135,882) (CNY30,141)	5.63 %	(7,653) (CNY1,697)	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 December 31, 2017 was not available from the audited financial statements of the company in a third region.

Note3: The company also indirectly invested in Peng Yu Investment Consultancy (Shanghai) Ltd., Pudong Branch of Peng Yu Investment Consultancy (Shanghai) Ltd., Beijing Xin He Run Investment Management Ltd., Shenzhen Peng Hua Equity Investment Management Ltd., Shenzhen Xin Peng Yu Investment Management Ltd., Beijing Peng Yu Investment Management Ltd., Empower Ltd., Jia Qiang Equity Investment Management (Shenzhen) Ltd., Shanghai Xun Yi Investment Consultancy Ltd., Pon Wei Investment Consultancy (Shanghai) Co., Ltd., Jingan Branch of Pon Wei Investment Consultancy (Shanghai) Co., Ltd., CITIC Capital (China) Investment Ltd., Beijing Branch of CITIC Capital Holdings (Tianjin) Ltd., Shanghai Branch of CITIC Capital Holdings (Tianjin) Ltd., Beijing Yue Xin Investment Ltd., Shenzhen Jia Qiang Xiao Feng Equity Investment Management Ltd., Shenzhen Jia Qiang Yi Heng Equity Investment Management Ltd., Hui Zhi Ju Xin (Shenzhen) investment Ltd., Shenzhen Yi Xin Management Consultancy Ltd., Ben Yuan Investment (Beijing) Ltd., Shanghai Yuan Long Construction Ltd., Shanghai Long Yu Management Consultancy Ltd., CITIC Capital (Tsingtao) Investment Ltd., Deqin Gaoshan Biezhuang Boutique Hotel Limited, Yunnan Shangri-la High Mountain Resort Limited, Shenzhen Sheng Yin Consultancy Ltd., Shenzhen Sheng Kai Equity Investment Management Ltd., Shenzhen Jia Shih Da Tong Industry Ltd., Shenzhen Yao Sheng Xin Consultancy Ltd., Tianjin Xinze Equity Investment Fund Management Co., Ltd., Shanghai Si Te Fu De Real Estate Ltd., Hui Yi Management Consultancy Ltd., Kang Quan (Nanjing) Warehousing Service Ltd., Shenzhen Xin Long Consultancy Ltd., Shanghai Ling Hui Business Information Consultancy Ltd., Xin Ming Investment Consultancy (Shanghai) Ltd., Kaixin Investment (Beijing) Ltd., Kaixin Investment Ltd., CITIC Kazyna (Beijing) Consultancy Ltd., CITIC Fulljoy (Dalian) Real Estate Development Ltd., CITIC Capital (Shenzhen) Investment Ltd., CITIC Capital (Zhuhai) Asset Management Ltd., Hunan Yue Fang Property Management Ltd., Zhong Yu Rui Xin Asset Management (Beijing) Co., Ltd., Xin Xiao Commercial Management (Shanghai) Ltd., CITIC Cash Asset Management Co., Ltd., Shanghai Ling Xuan Business Information Consultancy Ltd., Fujian Xin Tai Qian Long Investment Ltd., CITIC Capital (Ningbo) Investment Ltd., Shanghai Hang Qiao Investment Management Ltd., Tibet Yi Ze Xin Investment Services Ltd., Tibet Ling Da Xin Investment Management Ltd., Tibet Xin Zhen Investment Services Ltd., Chengdu Rui Te Tourism Resource Development Ltd., Zhejiang Xin Wei Investment Management Ltd., Tibet Ju Li He Xin Investment Management Ltd., Shanghai Zhong Xing Enterprise Management Ltd., CITIC Jiu An (Ningbo) Equity Investment Fund Management Co., Ltd., Zhuhai Zhong Rui Zhi Xin Investment Management Ltd., Ningbo Ding Xin Ning Li Investment Management Ltd., Shanghai Jing Rong Industry Development Co., Ltd., Xin Hua (Shanghai) Asset Management Ltd., Beijing Jian Yuan Tian Di Real Estate Ltd. through CITIC Capital Holdings Ltd.

Note 4: The foreign currency is converted into TWD using CNY closing exchange rate on December 31, 2017 and average exchange rate for the years.

3) Upper limit on investment:

Units: In thousands of TWD

Company	Accumulated investment in Mainland China as of December 31, 2017	Investment amounts authorized by investment commission, MOEA	Upper limit on investment
Fubon Life Insurance Co., Ltd.	19,569,982	26,474,657	163,734,194

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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Company	Accumulated investment in Mainland China as of December 31, 2017	Investment amounts authorized by investment commission, MOEA	Upper limit on investment
Fubon Insurance Co., Ltd.	1,938,874 (CNY400,000)	2,213,644 (CNY400,000)	18,744,448

Note: The limit of Fubon Life Insurance Co., Ltd. and Fubon Insurance Co., Ltd. investment were \$109,156,129, and \$12,496,299 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 December 31, 2017	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of December 31, 2017	Accumulated inward remittance of earnings as of December 31, 2017
					Outflow	Inflow						
Fubon Securities Equity Investment Co., Ltd.	Equity Investment	944,532 (CNY200,000)	(Note 1)	944,532	-	-	944,532	(62,113)	100.00 %	(62,113)	864,017	-

Company	Accumulated investment in Mainland China as of December 31, 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)	20,253,075

Note 1: Direct investment in Mainland China.

Note 2: It was calculated by Fubon Securities' net value as of December 31, 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.

- (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 December 31, 2017	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of December 31, 2017	Accumulated inward remittance of earnings as of December 31, 2017
					Outflow	Inflow						
Xiamen Bank Co., Ltd.	Banking	10,877,297 (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)	5,505,510	15.78 % (indirect)	909,786	8,947,205	-	

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Company	Accumulated investment in Mainland China as of December 31, 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 December 31, 2017	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of December 31, 2017	Accumulated inward remittance of earnings as of December 31, 2017
					Outflow	Inflow						
CITIC FUTONG Financial Leasing Co., Ltd.	Financial leasing	4,677,513 (CNY931,034)	(Note 1)	1,356,479	-	-	1,356,479	352,740	25 %	132,021	1,515,612	-

Company	Accumulated investment in Mainland China as of December 31, 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)	2,018,090

Note 1: Direct investment in Mainland China.

Note2: It was calculated by Fubon AMC's net value as of December 31, 2017.

- (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 FSC and the Investment Commission, MOEA on April 7 and May 31, 2016, respectively. On November 28, 2017, the board of directors of Fubon Asset Management has approved to participate in the capital increased for cash of Founder Fubon Fund Management Co., Ltd. by CNY 86,580 thousand. The investment project had been approved by the Investment Commission, MOEA, and FSC on January 5 and February 7, 2018, respectively. As of December 31, 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 December 31, 2017	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of December 31, 2017	Accumulated inward remittance of earnings as of December 31, 2017
					Outflow	Inflow						
Founder Fubon Fund Management Limited	Fund raising and asset management	1,883,627 (CNY400,000)	(Note 1)	626,522	-	-	626,522	(265,284)	33.30 %	(88,340)	359,674	-

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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Company	Accumulated investment in Mainland China as of December 31, 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)	1,934,788

Note 1: Direct investment in Mainland China.

Note2: It was calculated by Fubon Asset Management's net value as of December 31, 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.

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:

	2017						Total
	Bank business	Insurance business	Insurance business	Securities business	Others	Adjustment and reversal	
Net interest revenue							
Revenue by external customers	\$ 28,573,801	963,620	83,649,561	783,707	(758,619)	-	113,212,070
Revenue between segments	(289,732)	8,320	182,638	91,884	6,890	-	-
Net interest revenue	28,284,069	971,940	83,832,199	875,591	(751,729)	-	113,212,070
Other net revenue							
Revenue by external customers	15,848,110	11,921,214	258,533,588	7,181,923	(551,939)	-	292,932,896
Revenue between segments	5,401,978	35,071	(4,264,592)	434,507	60,066,720	(61,673,684)	-
Other net revenue	21,250,088	11,956,285	254,268,996	7,616,430	59,514,781	(61,673,684)	292,932,896
Net income	49,534,157	12,928,225	338,101,195	8,492,021	58,763,052	(61,673,684)	406,144,966
Bad debt expense and reserve for guarantees	(2,468,544)	(29,487)	(373,546)	(8,694)	(33,539)	-	(2,913,810)
Net change in provision for insurance reserve	-	(647,684)	(289,595,135)	-	-	352,433	(289,890,386)
Operating expenses	(24,689,122)	(8,504,214)	(17,676,139)	(5,466,391)	(1,509,162)	2,554,835	(55,290,193)
Net income (loss) before income tax	\$ 22,376,491	3,746,840	30,456,375	3,016,936	57,220,351	(58,766,416)	58,050,577

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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	2017						
	Bank business	Insurance business	Insurance business	Securities business	Others	Adjustment and reversal	Total
Net income (loss) after income tax	\$ 19,594,152	3,338,383	32,487,942	2,806,409	450,747	(4,661,317)	54,016,316
Assets	\$ 3,036,423,091	97,667,097	3,662,772,135	125,210,131	590,300,887	(592,919,355)	6,919,453,986
Liabilities	\$ 2,792,763,953	65,903,752	3,389,881,812	91,301,750	90,992,233	(160,862)	6,430,682,638
	2016						
	Bank business	Insurance business	Insurance business	Securities business	Others	Adjustment and reversal	Total
Net interest revenue							
Revenue by external customers	\$ 28,017,032	946,151	77,080,923	684,260	(951,669)	-	105,776,697
Revenue between segments	(301,779)	14,431	182,160	33,686	71,502	-	-
Net interest revenue	<u>27,715,253</u>	<u>960,582</u>	<u>77,263,083</u>	<u>717,946</u>	<u>(880,167)</u>	<u>-</u>	<u>105,776,697</u>
Other net revenue							
Revenue by external customers	13,680,637	10,765,702	303,054,313	5,498,754	146,605	-	333,146,011
Revenue between segments	7,211,077	(18,197)	(6,170,460)	478,073	52,967,396	(54,467,889)	-
Other net revenue	<u>20,891,714</u>	<u>10,747,505</u>	<u>296,883,853</u>	<u>5,976,827</u>	<u>53,114,001</u>	<u>(54,467,889)</u>	<u>333,146,011</u>
Net income	48,606,967	11,708,087	374,146,936	6,694,773	52,233,834	(54,467,889)	438,922,708
Bad debt expense and reserve for guarantees	(2,305,312)	39,482	(331,331)	(5)	(11,259)	-	(2,608,425)
Net change in provision for insurance reserve	-	(363,105)	(324,618,000)	-	-	368,280	(324,612,825)
Operating expenses	(24,749,292)	(8,118,148)	(19,923,904)	(5,101,204)	(1,631,485)	2,502,592	(57,021,441)
Net income (loss) before income tax	\$ 21,552,363	3,266,316	29,273,701	1,593,564	50,591,090	(51,597,017)	54,680,017
Net income (loss) after income tax	\$ 18,198,685	2,672,025	28,687,564	1,503,989	647,613	(3,135,120)	48,574,756
Assets	\$ 2,801,100,520	98,469,942	3,353,559,868	101,277,703	513,908,754	(517,058,515)	6,351,258,272
Liabilities	\$ 2,569,799,843	68,112,362	3,140,085,497	68,702,247	79,318,438	(1,865,501)	5,924,152,886

(c) Geographic information

	2017	2016
Taiwan	\$ 382,716,620	416,119,362
Asia	22,313,203	23,685,289
Others	1,115,144	(881,943)
	<u>\$ 406,144,967</u>	<u>438,922,708</u>

(d) Major customer information

There is no revenue from transactions with single external customer amounted to 10% or more of the Company's revenues.