

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

CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2015 and 2014
(With Independent Accountants' Audit Report Thereon)**

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Representation Letter

The entities that are required to be included in the consolidated financial statements of affiliated enterprises of Fubon Life Insurance Co., Ltd as of and for the year ended December 31, 2015, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements of Fubon Life Insurance Co., Ltd and Subsidiaries prepared in conformity with the International Financial Reporting Standard 10, "Consolidated Financial Statements" endorsed by Financial Supervisory Commission. In addition, the information required to be disclosed in the consolidated financial statements of affiliated enterprises is included in the consolidated financial statements of Fubon Life Insurance Co., Ltd and Subsidiaries. Consequently, Fubon Life Insurance Co., Ltd and Subsidiaries do not prepare the consolidated financial statements of affiliated enterprises.

We hereby certify that the above is true and faithful.

Company Name:Fubon Life Insurance Co., Ltd.
Chairman of the Board: Cheng, Ben-Yuan
Date: March 25, 2016

Independent Accountants' Audit Report

The Board of Directors of Fubon Life Insurance Co., Ltd.,

We have audited the accompanying consolidated balance sheets of Fubon Life Insurance Co., Ltd. (the "Company") and its subsidiaries (the "Subsidiaries") as of December 31, 2015 and December 31, 2014, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China ("R.O.C."). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2015 and December 31, 2014, and the results of its operations and its cash flows for the years then ended in conformity with requirements of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprise and International Financial Reporting Standards, International Accounting Standards, and Interpretations endorsed by the Financial Supervisory Commission of the Republic of China.

We have also audited the financial statements as of and for the year ended December 31, 2015 and 2014 for Fubon Life Insurance Co., Ltd., and have expressed thereon an unqualified audit opinion as for reference.

KPMG

Taipei, Taiwan, R.O.C.

March 25, 2016

The accompanying consolidated financial statements are intended only to present the consolidated financial position, results of operations and cash flows in accordance with the IFRSs endorsed by the Financial Supervisory Commission of 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 independent accountants' 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 independent accountants' report and consolidated financial statements, the Chinese version shall prevail.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2015 and 2014

(Expressed In Thousands of New Taiwan Dollars)

Assets	December 31, 2015		December 31, 2014		Liabilities and equity Liabilities	December 31, 2015		December 31, 2014	
	Amount	%	Amount	%		Amount	%	Amount	%
11000 Cash and cash equivalents(Notes 6(A))	\$ 176,627,971	6	112,183,142	4	21000 Accounts payable (Note 6(L))	\$ 20,367,804	1	41,149,846	2
12000 Receivables	34,315,311	1	39,908,727	1	21700 Current tax liabilities	700,081	-	570,531	-
12600 Current tax assets	2,429,232	-	3,058,599	-	23100 Short-term debts (Note 6(M))	-	-	206,916	-
14110 Financial assets at fair value through profit or loss (Note 6(B))	4,016,158	-	3,686,276	-	23200 Financial liabilities at fair value through profit or loss (Note 6(B))	13,162,301	-	19,358,420	1
14120 Available-for-sale financial assets (Note 6(B))	1,350,978,028	45	1,613,371,524	58	23300 Hedging derivatives liabilities (Note 6(B))	16,581	-	32,057	-
14130 Hedging derivatives assets (Note 6(B))	678,556	-	208,468	-	24000 Insurance liabilities (Note 6(S))	2,565,049,441	85	2,257,098,692	81
14140 Financial assets at cost (Note 6(B))	1,030,424	-	1,047,707	-	24800 Reserve for insurance with nature of financial instrument (Note 6(T))	83,616,757	3	86,147,768	3
14150 Investments accounted for using equity method, net (Note 6(D))	14,560,874	-	576,919	-	24900 Reserve for foreign exchange fluctuation (Note 6(U))	7,479,048	-	3,475,289	-
14160 Bond investments without active market (Note 6(B))	881,393,782	29	544,186,113	20	27000 Liabilities reserve (Note 6(O))	7,671,582	-	6,794,214	-
14170 Held-to-maturity financial assets (Note 6(B))	25,169,487	1	-	-	28000 Deferred tax liabilities (Note 6(Q))	10,824,316	-	10,310,252	-
14180 Other financial assets, net (Note 6(B))	29,459,525	1	44,833,623	2	25000 Other liabilities	8,530,943	-	4,458,771	-
14200 Investment property (Note 6(E))	166,905,951	5	113,946,178	4	26000 Liabilities on insurance product, separated account (Note 6(K))	<u>135,362,035</u>	<u>4</u>	<u>137,227,645</u>	<u>5</u>
14300 Loans (Note 6(B))	141,513,927	5	122,088,381	4		<u>2,852,780,889</u>	<u>93</u>	<u>2,566,830,401</u>	<u>92</u>
15000 Reinsurance assets (Note 6(G))	1,279,869	-	1,330,191	-	Total liabilities				
16000 Property, plant and equipment (Note 6(H))	17,520,527	1	8,025,552	-	Equity attributable to owners of parent				
17000 Intangible assets (Note 6(I))	255,271	-	228,343	-	Share capital (Note 6(P)):				
17800 Deferred tax assets (Note 6(Q))	9,917,951	-	4,438,680	-	Ordinary share	<u>57,320,950</u>	<u>2</u>	<u>43,982,150</u>	<u>2</u>
18000 Other assets (Note 6(J))	42,147,804	2	40,080,837	2	Capital surplus (Note 6(P)):				
18900 Assets on insurance product, separated account (Note 6(K))	135,362,035	4	137,227,645	5	Capital surplus, additional paid-in capital	7,052,235	-	7,052,235	-
					Capital surplus, employee share options	134,778	-	134,778	-
					Capital surplus, others	<u>20,467,592</u>	<u>1</u>	<u>20,454,045</u>	<u>1</u>
					Total capital surplus	<u>27,654,605</u>	<u>1</u>	<u>27,641,058</u>	<u>1</u>
					Retained earnings(Note 6(P)):				
					33100 Legal reserve	20,226,317	1	13,152,893	-
					33200 Special reserve	45,255,942	2	39,025,270	1
					33300 Unassigned retained earnings	<u>47,201,986</u>	<u>2</u>	<u>41,963,178</u>	<u>2</u>
					Total retained earnings	<u>112,684,245</u>	<u>5</u>	<u>94,141,341</u>	<u>3</u>
					Other equity interest (Note 6(P)):				
					34100 Exchange differences on translation of foreign financial statements	115,613	-	(53,164)	-
					34250 Unrealized gains (losses) on available-for-sale financial assets	(15,558,995)	(1)	57,722,762	2
					34300 Gains (losses) on effective portion of cash flow hedges	549,439	-	146,420	-
					34600 Unrealized revaluation surplus	<u>15,937</u>	<u>-</u>	<u>15,937</u>	<u>-</u>
					Total other equity interest	<u>(14,878,006)</u>	<u>(1)</u>	<u>57,831,955</u>	<u>2</u>
					Total equity	<u>182,781,794</u>	<u>7</u>	<u>223,596,504</u>	<u>8</u>
Total assets	<u>\$ 3,035,562,683</u>	<u>100</u>	<u>2,790,426,905</u>	<u>100</u>	Total liability and equity	<u>\$ 3,035,562,683</u>	<u>100</u>	<u>2,790,426,905</u>	<u>100</u>

(See accompany notes to the consolidated financial statements))

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Expressed In Thousands of New Taiwan Dollars)

	For the year ended December 31,					
	2015		2014		Change%	
	Amount	%	Amount	%		
Operating Revenues:						
41110	Written premium	\$ 441,781,550	76	395,974,059	77	12
41120	Reinsurance premium	3,363	-	5,128	-	(34)
	Total premium	441,784,913	76	395,979,187	77	
51100	Less: Reinsurance expense	1,174,934	-	5,595,693	1	(79)
51310	Net change in unearned premiums reserve	312,852	-	306,338	-	2
	Retained earned premium (Note (6)(W))	440,297,127	76	390,077,156	76	
41300	Reinsurance commission received	504,491	-	1,619,998	-	(69)
41400	Fee income	2,068,688	-	1,823,846	-	13
	Net income(loss) from investments					
41510	Revenue from interest	66,585,804	11	62,398,379	12	7
41521	Gains (losses) on financial assets or liabilities at fair value through profit or loss	(32,537,405)	(6)	(39,205,700)	(8)	17
41522	Realized gains on available-for-sale financial assets	63,263,022	11	49,539,406	10	28
41523	Realized gains on financial assets or liabilities at cost	64,901	-	65,436	-	(1)
41524	Realized gains on debt investments without active market	176,695	-	-	-	-
41540	Share of loss of associates and joint ventures accounted for using equity method	(155,519)	-	(265,346)	-	41
41550	Foreign exchange gains (losses), investments	33,078,603	6	35,618,667	7	(7)
41560	Net change in reserve for foreign exchange fluctuation (Note (6)(U))	(4,003,759)	(1)	(2,650,030)	(1)	(51)
41570	Gains on investment property	4,399,248	1	4,541,061	1	(3)
41580	(Reversal of) impairment loss on investments (Note (6)(B))	(591,391)	-	114,733	-	(615)
41590	Other net income (losses) from investments	(24,649)	-	(280,510)	-	91
41800	Other operating income	89,888	-	182,585	-	(51)
41900	Income on insurance product, separated account (Note (6)(K))	12,189,696	2	13,506,988	3	(10)
	Total operating revenue	585,405,440	100	517,086,669	100	
Operating Costs:						
51200	Insurance claim payment	188,515,215	32	173,515,388	34	9
41200	Less: Claims recovered from reinsurers	409,984	-	3,646,603	1	(89)
	Retained claim payment (Note (6)(W))	188,105,231	32	169,868,785	33	
51300	Net change in insurance liability	291,149,989	50	253,157,296	49	15
51380	Net change in reserve for insurance with nature of financial instrument	1,514,809	-	1,533,318	-	(1)
51400	Acquisition expense	41,738	-	35,501	-	18
51500	Commission expense	26,092,935	5	23,215,185	4	12
51600	Fee expenses	134	-	205	-	(35)
51800	Other operating costs	1,889,856	-	1,042,118	-	81
51900	Disbursements on insurance product, separate account (Note (6)(K))	12,189,696	2	13,506,988	3	(10)
	Total operating costs	520,984,388	89	462,359,396	89	
Operating expenses:						
58100	General expenses	12,143,201	2	10,612,111	2	14
58200	Administrative expenses	3,313,393	1	2,972,220	1	11
58300	Staff training expenses	68,906	-	68,165	-	1
	Total Operating Expenses	15,525,500	3	13,652,496	3	
	Net Operating Income	48,895,552	8	41,074,777	8	19
59000	Total non-operating income and expenses (Note (6)(X))	517,723	-	221,547	-	134
	Profit from continuing operations before income tax	49,413,275	8	41,296,324	8	20
63000	Income tax expense (Note (6)(Q))	8,395,142	1	5,929,203	1	42
	Net profit	\$ 41,018,133	7	35,367,121	7	16
Other comprehensive income:						
Items not classified into profit and loss						
83110	Remeasurement of defined benefit plans	\$ (399,873)	-	152,892	-	(362)
83120	Revaluation of real estate property	-	-	16,505	-	(100)
83130	Share of other comprehensive income of associates and joint ventures accounted for using equity method -Items that are not or may not be reclassified subsequently to profit or loss	(9,765)	-	-	-	-
83180	No reclassification of items related to income taxes	69,639	-	(26,560)	-	362
		(339,999)	-	142,837	-	(338)
Items may be classified into profit and loss						
83210	Exchange differences on translation, before tax	353,234	-	67,798	-	421
83220	Unrealized gains or losses on available-for-sale financial assets, before tax	(84,978,500)	(15)	25,072,103	5	(439)
83230	Gains or losses on effective instruments of cash flow hedges, before tax	485,565	-	(4,402)	-	11,131
83240	Share of other comprehensive income of associates and joint ventures accounted for using equity method -Items that are or may be reclassified subsequently to profit or loss	(116,321)	-	-	-	-
83280	Reclassification of items related to income taxes	11,546,061	2	(5,417,039)	(1)	313
		(72,709,961)	(13)	19,718,460	4	(469)
	Other comprehensive income (after tax)	(73,049,960)	(13)	19,861,297	4	(468)
85000	Comprehensive income	\$ (32,031,827)	(6)	55,228,418	11	(158)
Net profit attributable to :						
86100	Owners of parent	\$ 41,018,133	7	35,367,121	7	16
Comprehensive income attributable to:						
87100	Owners of parent	\$ (32,031,827)	(6)	55,228,418	11	(158)
97500	Basic earnings per share (expressed in dollars) (Note (6)(R))	\$ 7.16		6.17		

(See accompany notes to the consolidated financial statements))

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY CHANGE
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Expressed In Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent						Other equity items					Total Equity
	Retained earnings					Total	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available for sale financial assets	Gains or losses on effective portion of cash flow hedge	Unrealized revaluation surplus	Total	
	Ordinary share	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings							
Balance, January 1, 2014	\$ 36,481,480	27,641,058	9,322,877	33,036,563	25,612,624	67,972,064	(109,436)	38,056,920	150,074	-	38,097,558	170,192,160
Net income, January 1 to December 31, 2014	-	-	-	-	35,367,121	35,367,121	-	-	-	-	-	35,367,121
Other comprehensive income, January 1 to December 31, 2014	-	-	-	-	126,900	126,900	56,272	19,665,842	(3,654)	15,937	19,734,397	19,861,297
Total comprehensive income, January 1 to December 31, 2014	-	-	-	-	35,494,021	35,494,021	56,272	19,665,842	(3,654)	15,937	19,734,397	55,228,418
Appropriation and distribution :												
Legal reserve	-	-	3,830,016	-	(3,830,016)	-	-	-	-	-	-	-
Special reserve	-	-	-	1,915,008	(1,915,008)	-	-	-	-	-	-	-
Common stock cash dividend	-	-	-	-	(1,824,074)	(1,824,074)	-	-	-	-	-	(1,824,074)
Common stock dividend	7,500,670	-	-	-	(7,500,670)	(7,500,670)	-	-	-	-	-	-
Special reserve— Transferred from recovered contingency risk reserves	-	-	-	401,188	(401,188)	-	-	-	-	-	-	-
Special reserve— Return of the initial balance of foreign exchange fluctuation reserve	-	-	-	558,109	(558,109)	-	-	-	-	-	-	-
Special reserve— the cost saved from hedging	-	-	-	127,811	(127,811)	-	-	-	-	-	-	-
Special reserve— major accidents and reserves of fluctuation of risks	-	-	-	842,738	(842,738)	-	-	-	-	-	-	-
Special reserve— Real estate incrementation recovered	-	-	-	2,609,068	(2,609,068)	-	-	-	-	-	-	-
Written-down recovery of major accidents and reserves of fluctuation of risks	-	-	-	(5,683)	5,683	-	-	-	-	-	-	-
Recovered special reserve— major accidents and reserves of fluctuation of risks	-	-	-	(459,532)	459,532	-	-	-	-	-	-	-
Balance, December 31, 2014	43,982,150	27,641,058	13,152,893	39,025,270	41,963,178	94,141,341	(53,164)	57,722,762	146,420	15,937	57,831,955	223,596,504
Net income, January 1 to December 31, 2015	-	-	-	-	41,018,133	41,018,133	-	-	-	-	-	41,018,133
Other comprehensive income, January 1 to December 31, 2015	-	-	-	-	(339,999)	(339,999)	168,777	(73,281,757)	403,019	-	(72,709,961)	(73,049,960)
Total comprehensive income, January 1 to December 31, 2015	-	-	-	-	40,678,134	40,678,134	168,777	(73,281,757)	403,019	-	(72,709,961)	(32,031,827)
Appropriation and distribution :												
Legal reserve	-	-	7,073,424	-	(7,073,424)	-	-	-	-	-	-	-
Special reserve	-	-	-	3,536,712	(3,536,712)	-	-	-	-	-	-	-
Common stock cash dividend	-	-	-	-	(8,796,430)	(8,796,430)	-	-	-	-	-	(8,796,430)
Common stock dividend	13,338,800	-	-	-	(13,338,800)	(13,338,800)	-	-	-	-	-	-
Special reserve— Transferred from recovered contingency risk reserves	-	-	-	448,526	(448,526)	-	-	-	-	-	-	-
Special reserve— Return of the initial balance of foreign exchange fluctuation reserve	-	-	-	558,109	(558,109)	-	-	-	-	-	-	-
Special reserve— the cost saved from hedging	-	-	-	536,742	(536,742)	-	-	-	-	-	-	-
Special reserve— Gains from the fluctuation of subsequent fair value measurement of investment property	-	-	-	893,537	(893,537)	-	-	-	-	-	-	-
Special reserve- major accidents and reserves of fluctuation of risks	-	-	-	839,086	(839,086)	-	-	-	-	-	-	-
Recovered special reserve— major accidents and reserves of fluctuation of risks	-	-	-	(516,258)	516,258	-	-	-	-	-	-	-
Recovered special reserve— the cost saved from hedging	-	-	-	(65,782)	65,782	-	-	-	-	-	-	-
Changes in investments in associates and joint ventures for using equity method	-	13,547	-	-	-	-	-	-	-	-	-	13,547
Balance, December 31, 2015	\$ 57,320,950	27,654,605	20,226,317	45,255,942	47,201,986	112,684,245	115,613	(15,558,995)	549,439	15,937	(14,878,006)	182,781,794

(See accompany notes to the consolidated financial statements))

FUBON LIFE INSURANCE CO., LTD.AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Expressed In Thousands of New Taiwan Dollars)

	For the year ended December 31,	
	2015	2014
Cash flows from operating activities:		
Profit before tax	\$ 49,413,275	41,296,324
Adjustments:		
Adjustments to reconcile profit (loss)		
Depreciation expense	246,957	266,165
Amortization expense	682,308	306,050
Provision for bad debt expense	586,353	508,330
Net (gain)loss on financial assets or liabilities at fair value through profit or loss	(6,779,534)	13,700,131
Net gain on available-for-sale financial assets	(47,274,168)	(20,083,504)
Net loss(gain) on financial assets or liabilities at cost	1,669	(10)
Net gain on non-active market debt instruments	(176,695)	-
Interest expense	313,581	24,573
Interest revenue	(66,591,157)	(62,378,428)
Dividend revenue	(31,054,342)	(23,456,486)
Net change in insurance liabilities	291,462,841	253,463,634
Net change in reserve for insurance with nature of financial instrument	(2,531,011)	(5,855,736)
Net change in reserve for foreign exchange fluctuation	4,003,759	2,650,030
Profit share of loss of associates and joint ventures under equity method	155,519	265,346
Loss on disposal of property, plant and equipment	7,607	2,399
Property, plant and equipment transferred to (income)expense	(4,823)	2,786
Loss on disposal of investment property	543	-
Impairment loss on financial assets	636,034	4,151
Reversal of impairment loss on financial assets	(44,643)	(118,884)
Reversal of impairment loss on non-financial assets	-	178,665
Gain arising from adjusting fair value of investment property	(352,529)	(1,445,790)
Unrealized foreign exchange gain	(10,006,461)	(26,375,882)
Total adjustments to reconcile profit	<u>133,281,808</u>	<u>131,657,540</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease(Increase) in financial assets at fair value through profit or loss	298,816	(1,986,407)
Decrease(Increase) in available-for-sale financial assets	219,848,455	(91,398,953)
Increase in financial assets and liabilities at cost	(14,644)	(45,492)
Increase in debt investments without active market	(291,344,913)	(140,296,989)
Increase in held-to-maturity financial assets	(25,164,086)	-
Decrease(Increase) in accounts receivable	7,571,163	(13,206,598)
Decrease in reinsurance assets	58,498	2,613,618
Decrease(Increase) in other financial assets	15,284,852	(4,496,327)
Decrease(Increase) in other assets	134,050	(25,944,899)
Total changes in operating assets	<u>(73,327,809)</u>	<u>(274,762,047)</u>
Changes in operating liabilities:		
(Decrease)Increase in accounts payable	(21,534,020)	19,422,734
Increase in liabilities reserve	533,703	552,484
Increase(Decrease) in other liabilities	4,072,178	(3,028,357)
Total changes in operating liabilities	<u>(16,928,139)</u>	<u>16,946,861</u>
Total changes in operating assets and liabilities	<u>(90,255,948)</u>	<u>(257,815,186)</u>
Total adjustments	43,025,860	(126,157,646)
Cash inflow(out) generated from operations	92,439,135	(84,861,322)
Interest received	47,072,727	38,860,787
Dividends received	31,054,342	23,456,486
Interest paid	(327,629)	(24,184)
Dividends paid	(8,796,430)	(1,824,074)
Income taxes paid	(986,226)	(2,267,990)
Net cash flows provided by (used in) operating activities	<u>160,455,919</u>	<u>(26,660,297)</u>
Cash flows from investing activities:		
Acquisition of investment under equity method	(13,818,344)	(391,298)
Acquisition of property, plant and equipment	(806,087)	(222,858)
Proceeds from disposal of property, plant and equipment	1,772	75
Increase in guarantee deposits paid	(12,480)	(1,214,435)
Acquisition of intangible assets	(44,989)	(48,567)
Increase in loans	(20,085,780)	(19,330,574)
Acquisition of investment property	(60,852,431)	(3,348,366)
Disposal of investment property	619	-
Cash flows used in investing activities	<u>(95,617,720)</u>	<u>(24,556,023)</u>
Cash flows from financing activities:		
Decrease in short-term debts	(205,518)	-
Net cash flows used in financing activities	<u>(205,518)</u>	<u>-</u>
Effect of exchange rate changes on cash and cash equivalents	(187,852)	40,108
Net Increase(Decrease) in cash and cash equivalents	64,444,829	(51,176,212)
Cash and cash equivalents at beginning of period	112,183,142	163,359,354
Cash and cash equivalents at end of period	<u>\$ 176,627,971</u>	<u>112,183,142</u>

(See accompany notes to the consolidated financial statements))

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

1. ORGANIZATION AND BUSINESS ACTIVITY

Fubon Life Insurance Co., Ltd. (“Fubon Life Insurance” or “Company”), formerly ING Life Insurance Co., Ltd. (“ING Life Insurance”) was established in March, 2006. The Company primarily conducts life insurance business.

Originally, the Company is one of the ING group members. On October 20, 2008, the Company’s former parent company, ING Group, announced that it has reached a cooperation agreement with Fubon Financial Holding Co., Ltd. (“Fubon Financial Holding”) to sell the Company effectively on February 11, 2009.

ING Life Insurance swapped shares with Fubon Life Assurance Co. Ltd (“Fubon Life Assurance”). Fubon Life Assurance ceased to legally exist, and the former ING Life Insurance, which was a surviving entity, changed its name to “Fubon Life Insurance Co., Ltd.”. The corporate restructuring was permitted by the Financial Supervisory Commission, Executive Yuan through its letter Jin Guan Bao Li No.09802091401 issued on June 1, 2009.

The consolidated financial statements as of December 31, 2015 and 2014 comprise the Company and its subsidiaries, refer to Note 4(C) for further information. The parent and ultimate parent company of the Group is Fubon Financial Holding.

2. APPROVAL DATE AND PROCEDURES OF THE CONSOLIDATED FINANCIAL STATEMENTS

On March 25, 2016, the consolidated financial statements were resolved by the board of directors and authorized for issuance afterward.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

(A) The impact on the new standards, amendments and interpretations endorsed by the Financial Supervisory Commission:

The Group adopted the 2013 IFRSs (excluding IFRS 9 Financial Instruments) endorsed by the Financial Supervisory Commission(the "FSC") from 2015. The new standards, amendments, and interpretations are as follows:

<u>The new issuance, amendments, and revisions of standards and interpretations</u>	<u>Effective date per IASB</u>
The amendment to IFRS 1 「 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters 」	July 1, 2010
The amendment to IFRS 1 「 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters issued 」	July 1, 2011
The amendment to IFRS 1 「 Government loans 」	January 1, 2013
The amendment to IFRS 7 「 Disclosures – Transfers of Financial Assets 」	July 1, 2011
The amendment to IFRS 7 「 Disclosures - Offsetting Financial Assets and Financial Liabilities 」	January 1, 2013
IFRS 10 「 Consolidated Financial Statements 」	January 1, 2013 (Effective on January 1, 2014 for investees)
IFRS 11 「 Joint Arrangements 」	January 1, 2013
IFRS 12 「 Disclosure of Interest in Other Entities 」	January 1, 2013
IFRS 13 「 Fair Value measurement 」	January 1, 2013
Amendment to IAS 1 「 Changes to the presentation of other comprehensive income 」	July 1, 2012
Amendment to IAS 12 「 Deferred Tax Recovery of Underlying Assets 」	January 1, 2012
Amendment to IAS 19 「 Employee Benefits 」	January 1, 2013
Amendment to IAS 27 「 Separate Financial Statement 」	January 1, 2013
Amendment to IAS 32 「 Offsetting Financial Assets and Financial Liabilities 」	January 1, 2014
IFRIC 20 「 Stripping Costs in the Production Phase of a Surface Mine 」	January 1, 2013

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

After assessment the Group believed that except for the statement below, the adoption of 2013 version IFRS will not cause significant changes in the consolidated financial statements.

(a) IFRS 10 「Consolidated Financial Statements」

IFRS 10 「Consolidated Financial Statements」 superseded the regulations of consolidated financial reports under IAS 27 「Consolidated and Separate Financial Statements」, which was superseded by IAS 27 Separated Financial Statements, and withdrew the regulations of SIC 12 Consolidation-Special Purpose Entities and redefined control that an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Group has adopted the above regulations to determine whether it controls the investee which should be included in the consolidated financial statements.

(b) IAS 19 「Employee Benefits」

The standard primarily amended and determined that net interest on the net defined benefit liability or asset, determined using the discount rate at the beginning of the period and the previous method before the amendment which applied interest costs and plan asset expected returns is replaced. The Group is no longer able to elect to use corridor method or recognize actuarial gains or losses in profit or loss and the standard specified that the actuarial gains and losses should be recognized in other comprehensive income. Prior service cost is recognized in profit or loss and is no longer amortized as expense per straight line method during the vesting period. In addition, an entity can no longer recognize termination benefit at the earlier of the dates to withdraw the offer of those benefits or when the entity recognizes costs for a restructuring under IAS 37 Provisions, Contingent Liabilities and Contingent Assets which involves the payment of termination benefits. This is not only to recognize termination benefits as liabilities and expenses when the termination event is committed. In addition, the Group increased the disclosure requirements of defined benefit plans.

The Group has changed relevant accounting policies for net defined benefit liability, pension costs, and actuarial gain (loss) per the above-mentioned regulations.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(c) IAS 1 「Presentation of Financial Statements」

The standard amended the presentation of the other comprehensive income section. The other comprehensive income section is required to present line items which are classified by their nature into two sub-groups respectively will or will not be reclassified to profit and loss items in subsequent periods. The amendment also regulated that line items presented in pre-tax amount should separately include their relevant tax amounts in each above-mentioned category. The Group is going to modify the presentation of the statement of the consolidated comprehensive income. Comparative figures have been restated.

(d) IFRS 12 「Disclosure of Interests in Other Entities」

In accordance to the standard, the Group has increased the disclosure of joint agreements and associates (Please refer to disclosure Note 6(D)) and the disclosure of structured entity excluded from the consolidated financial statements (Please refer to disclosure Note 6(AB)).

(e) IFRS 13 「Fair Value Measurement」

The Standard redefines fair value and provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. The Group has increased relevant disclosures regarding fair value measurement per the standard (Please refer to disclosure Note 6(AB)) and has followed the transitional rules of IFRS 13 to postpone applying the new standard on fair value measurement and for the newly added disclosure rules, the Group do not need to provide the information for the comparable period. Despite the postponement of the Standard since 2013, there is no material influence on fair value measurement of the assets and the liabilities for the Group.

(f) Amendments to IFRS 7 「Disclosures – Offsetting Financial Assets and Financial Liabilities」

The amendments require the disclosure of information about the right of set-off and the relative agreements of financial instruments subject to enforceable master netting agreements and similar agreements. Please refer to Note 6(AA) for details.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(B) IFRSs issued by IASB, but not yet authorized by FSC

The new issuance, amendments, and revisions of standards and interpretations, issued by IASB but not yet authorized as the IFRSs (2013 Edition) by FSC, are listed as follows:

<u>The new issuance, amendments, and revisions of standards and interpretations</u>	<u>Effective date per IASB</u>
IFRS 9 「Financial Instruments」	January 1, 2018
Amendment to IFRS 10 and IAS 28 「Sale or Contribution of Assets between an Investor and its Associate or Joint Venture」	Pending resolution by the IASB
Amendment to IFRS 10, IFRS12 and IAS 28 「Investment Entities: Applying the Consolidation Exception」	January 1, 2016
Amendment to IFRS 11 「Acquisition of an Interest in a Joint Operation」	January 1, 2016
IFRS 14 「Regulatory Deferral Accounts」	January 1, 2016
IFRS 15 「Revenue from Contracts with Customers」	January 1, 2018
IFRS 16 「Leases」	January 1, 2019
Amendment to IAS 1 「Disclosure Initiative」	January 1, 2016
Amendment to IAS 7 「Disclosure Initiative」	January 1, 2017
Amendment to IAS 12 「Recognition of Deferred Tax Assets for Unrealized Losses」	January 1, 2017
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
Amendment to IAS 19 「Defined Benefit Plans: Employee Contributions」	July 1, 2014
Amendment to IAS 27 「Equity Method in Separate Financial Statements」	January 1, 2016
Amendment to IAS 36 「Recoverable Amount Disclosures for Non-Financial Assets」	January 1, 2014
Amendments to IAS 39 「Financial Instruments: Recognition and Measurement」	January 1, 2014
2010 2012 and 2011 2013 Annual cycle improvement	July 1, 2014
2012 2014 Annual improvement of International Financial Reporting Standards	January 1, 2016
IFRIC 21 「Levies」	January 1, 2014

Except for the statement below, the adoption of the above-mentioned new/modified/amended standards and interpretations is not going to result in significant changes of the Group's accounting policies.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(a) IFRS 9 「Financial Instruments」

(1) The Recognition and measurement of financial assets

In terms of financial assets, all the subsequent measurement of the financial assets defined in IAS 39 “Financial Instruments: Recognition and Measurement” is at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below:

The Group’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- 1) If the debt instruments are held within a business model whose objective is to collect the contractual cash flows, the financial assets are to be measured at amortized cost and assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;
- 2) If the debt instruments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the financial assets are to be measured at fair value through other comprehensive income (FVTOCI) and assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. Any cumulative gain or loss recorded in other comprehensive income would be reclassified to profit and loss if the financial assets are derecognized or reclassified.

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment that is not held for trading in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and neither the reclassification of cumulative gain or loss recorded in other comprehensive income.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) Impairment of financial assets

IFRS 9 requires that impairment loss on financial assets is recognized by using the “Expected Credit Losses Model”. The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12 month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

(3) Hedge Accounting

The major change in IFRS 9 in terms of hedge accounting is to modify the conditions to apply hedge accounting in order to make the financial statements applying hedge accounting reflect the actual risk management activities which companies conduct. Compared to IAS 39, the major amendment includes (1) increase trade patterns applicable to hedge accounting, such as loosening the terms for non-financial risk applying hedge accounting; (2) modify the recognition method of profit or loss of hedging derivative financial instruments to mitigate the variation of profit or loss; and (3) regarding hedging effectiveness, replace the actual effectiveness test with the economical relationship between the hedging instruments and the hedged items.

(b) Amendments to IAS 36 「Disclosure of Recoverable Amount for Non-Financial Assets」

When IASB published IFRS 13 “Fair Value Measurement”, it modified the disclosure requirements of IAS 36 “Impairment of Assets” at the same time, and this resulted in an increase of the Group’s disclosures of the recoverable amount of assets or cash generating units in every reporting period. This modification of IAS 36 is to clarify that the Group only needs to disclose the recoverable amount in the period of recognizing or reversing impairment losses. In addition, if the recoverable amount is calculated based on the present value after deducting the disposition cost, the Group should also disclose the discount rate applied.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(c) IFRS 16 「Lease」

All leases signed by lessees are required to recognize lease assets and lease liabilities in the balance sheet. A lessee is required to measure lease expenses during lease period by recognizing depreciation of lease assets plus interest on lease liabilities in the income statement.

IFRS 16 carries forward the lessor accounting requirements in IAS 17. A lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group is continuously evaluating the influence on financial position and performance which resulted from the adoption of the above-mentioned standards and interpretations. Relevant influence will be disclosed when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out as below. Unless otherwise stated, the significant accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

(A) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Companies (hereinafter referred to as the Regulations) and the international financial reporting standards, international accounting standards and interpretations (hereinafter referred to as "International financial reporting guidelines recognized by FSC").

(B) Basis of preparation

The consolidated financial statements comprise consolidated balance sheets, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity, consolidated statements of cash flows, and related notes.

The consolidated financial statements have been prepared on a historical cost basis, except for the financial instruments (including derivative financial instruments) and investment property which are measured at fair value. The financial statements are presented in New Taiwan Dollar, the functional currency of the Company, and rounded to the nearest thousand, except where otherwise indicated.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(C) Basis of consolidation

In accordance with the “Regulations Governing the Preparation of Financial Reports by Insurance 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 prepares its consolidated 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.

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

Investor Company	Subsidiary	Business Type	Stockholder’s equity (Holding %)	
			December 31, 2015	December 31, 2014
The Company	Fubon Life Insurance (Vietnam) Co., Ltd.	Life insurance	100 %	100 %
The Company	Carter Lane (Guernsey) Ltd. (Note 1)	Investment property and management	100 %	-
The Company	Bow Bells House (Jersey) Ltd. (Note 2)	Investment property and management	100 %	-
The Company	Fubon MTL Property (Jersey) Ltd. (Note 3)	Investment property and management	100 %	-
The Company	Fubon Life Insurance (Hong Kong) Co., Ltd. (Note 4)	Life insurance	100 %	-

Note 1: Turned into a subsidiary in January 2015.

Note 2: Turned into a subsidiary in February 2015.

Note 3: Turned into a subsidiary in August 2015.

Note 4: Turned into a subsidiary in September 2015.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(D) Foreign exchange

(a) Foreign currency transaction

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

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

(b) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from 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 exchange differences on translation of foreign financial statements in equity.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the exchange differences on translation of foreign financial statements related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant cumulative amount of exchange differences on translation of foreign financial statements is reattributed proportionately to non-controlling interest. When the Group disposes of only part of investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant exchange differences on translation of foreign financial statements are 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 exchange differences on translation of foreign financial statements in equity

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(E) Principles of classifying assets and liabilities as current and non-current

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

(F) Cash and cash equivalents

Cash comprises cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to cash at the known amounts and subject to insignificant risk of value changes. Time deposits that fit the definition above and are used by the Group in the management of its short-term commitments are comprised in cash equivalents.

(G) Financial instruments

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

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

(a) Financial assets

(1) Daily transactions

All financial assets possessed by the Group are recognized and derecognized using trade date accounting.

(2) Loans and receivables

Loans include short-term advances receivable, policy loans, and collateral loans. The insured is automatically granted a cash advance and the loan proceeds are offset against the overdue insurance premium in accordance with the insurance contract. Policy loans are secured by insurance policies issued by the Group. Collateral loans are secured by real estate properties and are approved by the competent authority for special projects.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, excluding:

- 1) Financial assets and liabilities, which are classified as held for trading as they have been acquired principally for the purpose of selling or repurchasing in the near term.
- 2) Financial assets, which were classified as financial assets at fair value through profit or loss at initial recognition.
- 3) Financial assets, which were classified as available-for-sale financial assets at initial recognition.
- 4) Financial assets other than because of credit deterioration, for which the holder may not recover all of the initial investment.

In subsequent measurement, except for insignificant discounted amounts, loan and receivables are measured at amortized cost using the effective interest rate method and the amount of any gain or loss from the measurement shall be recognized in profit or loss upon disposal, impairment or amortization.

(3) Financial assets at fair value through profit or loss

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

The financial asset is classified as held-for-trading under one of the following situations:

- 1) Acquired primarily for the purpose of selling in the short term
- 2) A portion of identified financial instruments at initial recognition and for which there is a pattern of short-term profit-taking.
- 3) Derivative financial instruments (excluding financial guarantee contracts and those designated effective hedging instruments).

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

- 1) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.
- 2) Performance of the financial asset is evaluated on a fair value basis.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

3) Hybrid instrument contains one or more embedded derivatives.

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

Financial assets 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”.

(4) Held-to-maturity financial assets

Financial assets in which an entity has positive intention and ability to hold to maturity are classified as hold-to-maturity financial asset. After initially acquired, these assets are measured at amortized cost using the effective interest rate method less impairment.

The effective interest rate method is a method calculating the amortize cost and interest revenue of these assets. An effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial instruments.

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

(5) Available-for-sale financial assets

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

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

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

For investments in equity instruments that do not have a quoted market price in an active market and which fair value cannot be reliably measured, as well as for derivatives that are linked to investments in equity instruments and must be settled by delivery of such an unquoted equity instruments, those assets are measured at amortized cost and included in financial assets measured at cost. Investments which fair value can be reliably measured in subsequent periods are remeasured at fair value and the differences between their carrying amounts and fair values are recorded in other comprehensive income.

(6) Financial assets carried at cost

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

- 1) The variability in the range of reasonable fair value measurements is not significant for that asset.
- 2) The probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value.

If a financial asset does not meet both above conditions, then it is carried at cost.

(7) Debt investments without active market

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

(8) Other financial assets

These are structured deposits, for which the Group 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 would occur when investors of structured deposits redeem structured deposits before maturity date.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Financial liabilities

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

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

- (1) Liabilities acquired primarily for the purpose of selling or repurchasing in the short term;
- (2) Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking;
- (3) Derivative financial liabilities, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument; or
- (4) Obligations to deliver financial assets borrowed by a short seller.

Financial liabilities measured at fair value through profit or loss and those designated as such at the time of initial recognition are recognized as “financial liabilities measured at fair value through profit or loss” in the 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 profit or loss. However, the changes in fair value are due to credit risk and the financial liabilities are measured at fair value through profit or loss. Such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss.

Bonds issued under repurchase agreement as financing activities are recorded to short-term debts-notes and bonds issued under repurchase agreement at trading date. When the bonds are repurchased, the difference between the repurchase price and original sale price is recognized interest expenses.

(c) Determination of fair value

Please refer to Note 6 for the fair value of financial instruments and information of fair value hierarchy.

(d) Derecognition of financial assets and liabilities

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

When the Group conducts security lending or borrowing or uses bonds or stocks as collateral for transactions under repurchase agreement, it does not decommission the financial instruments because almost all the risk and reward of the ownership remain with the Group. When the Group executes securitization and part of the risk remains with the Group, the financial assets are not decommissioned either.

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

The Group derecognizes a financial liability when its contractual obligation has been discharged, cancelled, or expires.

(e) Reclassification of financial assets

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

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

(f) Offsetting of financial instruments

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

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(g) Interest income

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest revenue is recognized using the interest rate to discount the future cash flows for the purpose of assessing impairment.

(h) Impairment of financial assets

(1) Financial assets carried at amortized cost, loans and receivables

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:

- 1) Significant financial difficulty of the issuer or obligor;
- 2) A breach of contract, such as a default or delinquency in interest or principal payments;
- 3) 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;
- 4) It becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- 5) The disappearance of an active market for that financial asset because of the issuer's financial difficulties; or
- 6) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - (I) Adverse changes in the payment status of borrowers in the group; or
 - (II) Changes in national or local economic conditions that correlate with defaults on the assets in the group

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

Except for estimating the allowance for bad debts arising from the impairment loss above, the allowance for doubtful accounts should be complied with the regulations under the “Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises”. The amount of the allowance for doubtful accounts is decided based on the aforementioned two methods, whichever results in higher allowance for doubtful accounts.

(2) Available-for-sale financial assets

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

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is 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 is 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.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(4) Investments accounted for using the equity method

In accordance with IAS 39 Financial Instruments: Recognition and Measurement, the Company and Subsidiaries determine at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company and Subsidiaries calculate the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognize the amount in the share of profit or loss of an associate in the statement of comprehensive income as required by IAS 36 Impairment of Assets. If using the investment's value in use as the recoverable amount, the Company and Subsidiaries determine the value in use based on the following estimates:

- 1) Future cash flows that the Company and Subsidiaries expect to derive from the investment in the associate, including cash flows from the operation of the associate and from the ultimate disposal of such investment, or
- 2) present value of the future cash flows from dividends expected to be received from the associate and from the disposal of the investment.

Because goodwill included as part of the carrying amount of an investment in an associate is not separately recognized, it is not tested for impairment separately by applying the requirements for goodwill impairment testing in IAS 36 Impairment of Assets.

(i) Derivative financial instruments, including hedge accounting

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

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

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 Group designated certain derivative financial instruments as hedging instrument for future cash flows of recorded assets and liabilities or expected transaction.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(1) Cash flow hedges

When a derivative is designated as a cash flow hedge, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognized as “gain or loss on financial assets and liabilities measured at fair value through profit or loss” in the consolidated statement of comprehensive income.

If financial assets or liabilities are to be recognized due to the forecast transactions, the amount recognized in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period as assets obtained or liabilities beared resulting from the hedged cash flows affect profit or loss, and in the same line item in the consolidated statement of comprehensive income.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction, the cumulative amount recognized in other comprehensive income from the period when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified as “gain or loss on financial assets and liabilities measured at fair value through profit or loss” in the consolidated statement of comprehensive income.

(2) Derivative financial instruments which do not conform to the criteria for hedge accounting

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

(H) Securities lending

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

(I) Investment in associates

An associate refers to an entity in which the Group has significant influence over its finance or operation policies but has no control over it. Generally, a holding of 20% or more voting power (directly or through subsidiaries) will indicate significant influence. The Group applies equity method to associates and recognize the investment amount by its cost when acquiring the investment. The cost of investment includes transaction cost.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The carrying amount of investment in associates includes the goodwill identified in initial investment less any accumulated impairment loss. The consolidated financial statements include the profit or loss and other comprehensive income recognized based on the equity holding ratio of the invested associates from the date that the Group has significant influence over the investees until the date that the Group loses the significant influence. The accounting policies of the investees and the Group shall reconcile before the amount is presented in the financial statements.

The unrealized gains occurring from the transactions between the Group and the associates have been eliminated within the scope of the share holding of the investees. The method to eliminate the unrealized losses is the same as that for the unrealized gains but the elimination is limited to the extent that there is no evidence of impairment.

When the loss which the Group recognizes for the associates equals or is above the equity share it possesses, the Group ceases to recognize the loss and it only recognizes addition loss or relevant liability within the scope of the legal obligation, constructive obligation or the payment that it paid on behalf of the investees.

(J) Joint venture

Jointly controlled entity is an entity which is established as a result of a contractual arrangement between the Group and other ventures to jointly control over its financial policy and operating policy. Consensus for all decisions must be obtained from the ventures. The Group uses equity method to account for the jointly controlled entity.

(K) Lease

(a) Lessor

A lease, of which the Group has not transferred substantially all the risks and rewards incidental to ownership, is classified as an operating lease. The original direct costs, generated due to negotiation and arrangement of operating leases, are recognized as an addition of the book value of leasing assets, and are accrued as expense in their tenancies, applying the straight-line method.

Lease income from an operating lease ought to be recognized in profit or loss on a straight-line basis over the lease term unless another method can better represent the time mode of the decreasing effectiveness for the usage of assets. 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 adjusted accordingly.

Contingent rent is recognized as revenue in the period in which it is incurred.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Lessee

According to the condition of leasing, when the group covers substantially all the risks and rewards incidental to ownership, a lease would be classified as a finance lease. The finance lease, at the beginning, would be valued by its fair value together with the lowest present value of lease payment. After that, the finance lease would be recognized in accordance with the related accounting policies.

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

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

Contingent rent is recognized as expense in the period in which it is incurred.

As the operating lease holds the rights and interests of the property, if the criteria of the operating lease meets the definition of an investment property, they are allow to classify as investment property on item by item basis based on fair value measurement. The investment property is recognized according to lowest fair value or present value of the minimum lease payments and the same amount of liabilities will be recognized.

(L) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services, or for administrative purposes including the rights of the operating lease property. Investment property is measured at cost on initial recognition, including transaction costs. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of raw materials and direct labor, and any other costs directly attributable to bringing the investment property to a working condition for its intended use and capitalized borrowing costs. Investment property is subsequently measured at fair value, with any change therein recognized in profit or loss. Except the property that meet the criteria to be classified as held for sale (or disposal groups) in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, investment property is accounted for in accordance with IAS 40 “Investment property”.

Investment property should be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal and recognized in profit or loss.

A transfer to or from investment property is decided by the use of a property changes and should be assessed based on market values. Its accounting is in accordance with IAS 40 “Investment property”.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(M) Property, plant and equipment

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

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

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

Land is not depreciated. Other assets are depreciated using straight line method. The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

(a) Buildings	5-50 years
(b) Transportation and communication equipment	3-5 years
(c) Computer and other equipment	3-10 years

The residual value and useful lives of depreciable fixed assets are reviewed at each reporting date. If expectations differ from the previous estimates, the change is accounted for as a change in an accounting estimate. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined on the difference between the net disposal proceeds, if any, and carrying amount of the item, and is recognized in profit or loss.

The property is reclassified to investment property at its fair value when the use of the property changes from owner-occupied to investment property. The difference between the carrying amount as at the date of changed and its fair value, are recognized within the accumulated depreciation recognized previously. The remaining difference is recognized under “Other comprehensive income – gain on property revaluation” and accumulated under “Other equity interest – unrealized revaluation surplus”.

(N) Superficies

Superficies are classified and account for finance leases or operating leases in accordance to IAS 17. After evaluating to recognize the superficies as operating leases, those contract value and necessary expenditures, at the beginning, as on the completion day of registration, should recognized as prepaid expenses and amortized during subsequent periods. For the change of operating lease to finance lease, the detailed lease accounting policies will applies (see Note 4(J) for details)

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(O) Reinsurance

The Group arranges the reinsurance business based on the business need and the related insurance laws to limit the losses caused by certain events. For reinsurance ceded business, the Group cannot refuse to fulfill their obligations to 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 Group may not receive all amounts due them 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 Group will receive from the reinsurer can be measured reliably.

The Group evaluates the effects of reinsurance with another insurer 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 Group's retained reinsurance premium (or fee) is recognized as a deposit asset or liability.

Changes in amount of the deposit component are charged to profit or loss. Interests arising from the deposit component for the contracts which does not transfer any risk or transfers 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.

(P) Intangible assets

Intangible assets meeting the relevant recognition criteria are initially measured at cost. The cost of intangible assets acquired in business combinations is the fair value at the acquisition date. Intangible assets with finite lives are amortized on a straight-line basis over their useful lives; intangible assets with indefinite useful lives are not amortized. Most of the Group's identifiable intangible assets are with finite lives and they are reviewed each reporting period to assess whether future economic benefits have impaired or changed.

The Group selects the cost model to measure subsequent to acquisition. Intangible assets with indefinite useful life are assessed for impairment when they are reviewed each reporting period or when there is an indication of impairment of an asset.

(a) Goodwill

Goodwill is not amortized, but it should be tested for impairment annually or when there is an indication of impairment of goodwill. In terms of investments under equity method, the carrying amount of good is included in the carrying amount of the investments and the impairment losses of such investments are not distributed to goodwill and any other assets. The impairment losses are part of the carrying amount of the investments.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Computer software

Computer software is either software acquired or cost incurred for business purposes. The cost of computer software purchased is capitalized and amortized using straight-line method over its useful life. The estimated useful life of computer software is 3 to 5 years.

(Q) Impairment – Non financial assets

At each reporting date or as circumstance changes, the Group assesses 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.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset.

An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount, as a reversal of a previously recognized impairment loss.

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

(R) Statutory deposits

In accordance with the ROC Insurance Law, Fubon Life Insurance deposits with the Central Bank of China an amount equal to 15% of its issued capital as guarantee for its insurance business. Fubon Life Insurance made these deposits in the form of government bonds which were approved by the Ministry of Finance.

In accordance with the regulations of Vietnam, an insurance company shall deposit operation guarantee to a local bank at an amount equal to 2% of its paid in capital and accrue interest income thereon at negotiated interest rate. This guarantee deposit can only be utilized when the liquidity is insufficient and is not refundable until the insurance company discontinues its operation and its liquidation is completed.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(S) Separate account insurance product

The Group 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 this separate account are measured at market value on valuation date. Net assets value is determined in accordance with related government regulations and TIFRS.

Regardless of whether or not the assets and liabilities arise from insurance contracts or investment contracts, such assets and liabilities are recorded as “Assets on insurance product, separate account” and “Liabilities on insurance product, separate account, respectively.

The income and disbursements recorded in the separate account for the insurance product are the total income and expense amount of insurance product which conform to the definition of the insurance contract under IFRS 4 endorsed by the FSC and are recorded as ” Income on Insurance Product, Separate Account and Disbursements on Insurance Product, Separate Account, respectively. Therefore, the net amount of premium of insurance product which is classified as insurance contract minus the preliminary charge and account management fee is recognized as income. The difference between the proceeds from the disposal and the original cost of financial assets or the change in the fair value thereof is recognized in profit or loss.

The financial assets and liabilities arising from the insurance products, separate account which are classified as investment contracts, are evaluated based on IAS39. Therefore, the amount collected or received is recognized as financial liabilities and assets in separate account, instead of revenue or expense, respectively. The difference between the proceeds from the disposal and the original cost of investment contracts or the change in the fair value thereof is charged to “Reserve-Investment contract”, instead of profit or loss.

(T) Insurance liability

The reserve for both the insurance contracts and the investment contracts with or without discretionary participation feature of the Group determines reserves for insurance contracts in accordance with the Regulations Governing the Provision of Various Reserve. The methodologies used to determine the reserve are certified by the appointed actuary who is authorized by the Financial Supervisory Commission Executive Yuan. Except for the reserve for short-term group insurance which shall be 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:

(a) Unearned Premiums Reserve

Unearned premium reserves for effective insurance contracts with a term below 1 year and injury insurance contracts with a term over 1 year are calculated based on the gross premiums of the insurance contracts which do not matured yet on the balance sheet date.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Claim reserve

Claim reserve is provided based on the incurred but not reported claims and reported but unpaid claims. For reported but unpaid cases, the claim reserves are provided based on the actual claim case by case. For incurred but not reported cases, the reserves are provided as follows.

(1) Health insurance and life insurance with a term below 1 year:

Before December 31 2009, the reserve is provided based on the insurance type at the rate of 1% of the maturity premium. Commencing from January 1 2010, it is provided based on historical claim experiences and expenses along with the insurance types via the method conforming to actuarial principles (eg: 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 (eg: Loss Development Triangle Method).

(c) 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.

Starting 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.

Starting 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%.

When the Group chooses to adopt the fair value model for investment property, fair value assessment for insurance liability should also be adopted. If fair value of insurance liability exceeds book value, liability reserve should be provided by the difference and adjust retained earnings. Starting from 2014, the Group changed the measurement subsequent to initial recognition of investment property from a cost model to fair value model. Assessed in accordance with the Gin Guan Bao Tsai No. 10302501161 order issued on March 21, 2014, the fair value of insurance liability does not exceed book value; therefore, additional liability reserve is not provided.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(d) Special reserve

- (1) The special reserve provided for retention business with a term within 1 year is divided into 2 categories, which are special catastrophic reserve and special contingency risk reserve. The methods for providing these reserves are as follows:

1) Special catastrophic reserve

A special catastrophic reserve covering all types of insurance is provided at a rate prescribed by the competent authority. For the actual catastrophic claim exceeding \$30,000, the excess amount is offset against special catastrophic reserve. For special catastrophic 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 above-mentioned new provision of special catastrophic reserve, net of income tax pursuant to IAS 12, is accounted for under special reserve of stockholders' equity.

2) Special contingency risk reserve

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

The above-mentioned new provision of special reserve for contingency risk, net of income tax pursuant to IAS 12, is accounted for under special reserve of stockholders' equity.

- (2) The pre-bonus pre-tax income of participating life insurance policies sold by the Group 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.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) In accordance with the provision of article 32 item of 4 of “Regulations Governing the Preparation of Financial reports by Insurance Companies”, except the excess amount of fixed assets measured at fair value is offset against the adverse impacts of other reserves caused by first adoption of TIFRSs, the difference generated from the revaluation surplus of fixed assets is accounted for under special reserve of liability. Additionally, commencing from January 1, 2013, the excess amount of the enhancement of liability reserve, calculated in accordance with November 27, 2012 Gin Guan Bao Tsai Order No. 10102515285, could transfer to “liability reserve-Insurance contract liability measured at fair value” in accordance with November 30, 2012 Gin Guan Bao Tsai Order No. 10102515281. For remaining outstanding reserve, it is accounted for under special reserve of stockholders’ equity, either recognized by 80% of which at first year or recovered by 5 years with the restriction up to \$10 billion dollars each year.

(e) Premium deficiency reserve

For life insurance, health insurance, and annuities contracts issued commencing from January 1, 2001, whose contract period is longer than one year, a special premium deficiency reserve is provided based on the unpaid premiums deficiency if the written premiums are less than those used for providing policy reserves.

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

(f) 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.

(U) Reserve for insurance with nature of financial instrument

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.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(V) Reserve for foreign exchange fluctuation

Commencing from March 1, 2012, part of the special catastrophic reserve and contingency risk reserve covering all types of insurance is transferred to serve as the initial balance of foreign exchange fluctuation reserve. Subsequent provision or write off of this reserve is made in conformity with the “Guidelines of Foreign Exchange Fluctuation Reserve for Life Insurance Business”. Additional provision for special reserve in stockholders’ equity is made for the cost saved from hedging, after providing for foreign exchange fluctuation reserve. If the earnings of the year are not sufficient to allow provision of this reserve, then it is provided in subsequent years when there are sufficient earnings. The related special reserve is used for capital increase or for covering accumulated deficit. In conformity with Article 9 of the “Guidelines of Foreign Exchange Fluctuation Reserve for Life Insurance Business”, a special reserve in stockholders’ equity is required to provide in the amount of 10% of current annual net income (deducts losses of prior years).

(W) Insurance contracts

An insurance contract is a “contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder”. The Group defines 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 is the risk resulting 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 the variables do not belong to any specific side of the contract.

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

Insurance contracts and insurance contracts with financial instruments features can be further classified as to whether they are insurance with discretionary participation feature or not. Except for guaranteed benefits, a discretionary participation feature is a contractual right to receive. This right also has the following features as shown below:

- (a) Likely to be a significant portion of the total contractual benefits;
- (b) The additional payments or timing of distribution belong to the Group’s discretionary participation and

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (c) The additional payments are contractually based on:
- (1) The performance of a specified pool of contracts or a specified type of contract;
 - (2) Return on investment of specific asset portfolio, or
 - (3) The profit or loss of the Group, fund or other entity.

An embedded derivative is accounted for separately from the host contract when it is not closely related to the host contract, and the contract is measured at fair value through profit or loss. If the embedded derivative conforms to definition of an insurance contract, the Group need not recognize it separately, except when the entire contract is measured at fair value through profit or loss.

(X) Revenue recognition

(a) Premium income and policy acquisition cost

For insurance contracts and financial products with discretionary participation feature, 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 insurance contracts, which do not belong to investment-linked insurance and 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”.

(b) Accounting for service charge on investment-linked insurance contracts classified as financial products without discretionary participation feature.

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 administrative charge, investment administrative charge, rescinding charge and others. These charges are recognized as revenue upon collection. When the Group receive certain service charge which makes them obligated to provide future service (ex: front-end load), this service charge is initially treated as a deferred revenue and is recognized as revenue when the service is provided.

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(Y) Employee benefits

(a) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the period during which services are rendered by employees. Overseas subsidiaries have implemented defined benefit plans which are subject to local laws to make contributions on a regular basis and recognize as an employee benefit expense in the current period.

(b) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated, performed annually by a qualified actuary using the projected unit credit method, separately for each plan by discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost. The fair value of any plan assets from the present value of the defined benefit obligation should be deducted.

The discount rate should be reflected the estimated timing of benefit payments, and it also shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds or government bonds. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

When the benefits of a plan are improved, any related costs added in current period due to the employees' past service should be recognized in profit and loss immediately.

Determining the re-measurements of the net defined benefit liability (asset), to be recognized in other comprehensive income, comprising: (1) actuarial gains and losses; (2) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and (3) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). The group transfers the amount reorganized in other comprehensive income to the retained earnings.

Gains or losses on curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting the change in the fair value of plan assets and the change in the present value of defined benefit obligation.

(c) Termination benefits

Termination benefits are recognized as an expense when the Group is 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.

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(d) Short term employee benefits

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

(Z) Income Tax

Income tax expense is the aggregate amount in respect of current tax and deferred tax. Current and deferred tax is recognized in profit or loss for the period, unless the tax arises from a business combination or a transaction or event that is recognized outside profit or loss, either in other comprehensive income or directly in equity.

(a) Current income tax

Current income tax is the amount of income taxes payable (receivable) in respect of the taxable profit (tax loss) for the current period and any adjustments recognized in the period for income taxes payable of prior periods.

Current income tax for the current period is measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

The 10% income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved at the shareholders' meeting.

(b) Deferred Tax

The measurement of deferred tax assets and liabilities should be based upon realized or expected future tax assets and liabilities at the consolidated balance sheet date or the date where the tax legislation has been established.

Deferred tax is recognized as the Temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profits. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that the taxable profits will be available against which those deductible temporary difference can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than a business combination) of assets and liabilities in a transaction that neither affects the taxable profit nor accounting profit. In addition, deferred tax liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Deferred tax liabilities are recognized for taxable temporary difference associated with investment in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in foreseeable future. Deferred tax assets arising from deductible temporary difference associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Under article 49 governing financial institutions, the holding company is stipulated to be the tax payer. According to the income tax act, the holding company is to submit the business income tax reporting for any undistributed profits at a 10% tax rate.

(AA) Earning per share

Earnings per share (EPS) is computed based on net income (or loss) divided by the weighted-average number of common shares outstanding during the period. The number of units in circulation as a result of retained earnings or capital surplus transferred to capital is calculated by retroactive adjustments.

(AB) Segment information

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

5. MAJOR SOURCES OF ACCOUNTING ASSUMPTIONS, JUDGMENTS AND ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements 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.

(A) Significant accounting judgements adopted by the entity when applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below (B)), that the management has made in the process of applying the accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Classification of financial assets

The management is required to apply judgements when classifying financial assets, and different classification will have effect on methods of accounting calculation and the Group's financial position and operating results.

(B) Key sources of assumption and estimation uncertainty

The information below is related to major sources of underlying assumption and estimation uncertainty of future forecast, the assumption and estimation uncertainty may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Impairment losses on loans, account receivables, and financial assets measured at amortized cost

The Group will assess the loans and account receivables to determine if there is any impairment loss on a routine basis. In determining whether an impairment loss should be recorded in the income statement, the Group make judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers (e.g. payment delinquency or default), or economic conditions that correlate with defaults on assets. The management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly in order to decrease the difference between estimated loss and actual loss.

The inherent risks when assessing impairment of any financial instruments include: the actual market result can be different from the previously held expectation; changes in future facts and situations can be inconsistent with the previous held assumptions and estimation; or the Group might sell relevant assets according to future changes.

(b) Goodwill impairment

When assessing whether a goodwill may be impaired, the estimate amount should be allocated to the goodwill's cash-generating units (CGU) or groups of CGUs. When calculating the fair value of the goodwill, the management should estimate the future cash flows of CGUs and determine the present value using an appropriate discount rate. If actual cash flows are significantly less than forecast, it may result in material impairment loss.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(c) Fair value of financial instruments

Pricing of non-active market or no open market financial instruments are based on pricing model and pricing quoted from counter parties. If pricing model were used to determine the fair value, the data input into the model should be based on observable information and not human inputs. The observable information is based on long-term stability of the market parameters to avoid differences caused by the changed in source data. Testing and verification has to be done repeatedly to achieve the adequate results.

Note (6) (AA) for the sensitivity analysis of financial instruments.

(d) Fair value of investment property

Fair value is determined using valuation techniques that include Income Approach, Market Approach and so on. Changes in the assumption of these techniques will affect the fair value of reported investment property.

(e) Income tax

The Group calculates the income tax per the tax law of R.O.C in which it operates. Because the assessment of transactions and related calculations by the R.O.C. tax authority and the Group may differ, there may be uncertainty in income taxes. The Group recognizes income taxes and deferred income taxes based on its evaluation of possible additional income tax liability. If the originally recognized amount differs with the final tax payment, the difference may impact current income tax and deferred tax items.

Differed tax assets are subject to the extent that it is probable that the temporary difference will reverse in the foreseeable future and that taxable profit will be available against which the temporary difference will be utilized. If such estimate assumption of probable profit changes, the Group will adjust its amount of deferred tax asset related to this change.

(f) Retirement benefit

When calculating the present value of the defined benefit obligation, the Group must make judgments and estimates to determine actuarial assumptions of the end of the reporting period, such as discount rate and expected return on plan assets. If any actuarial assumptions changes, it may significantly affect the amount of define benefit obligation.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(g) Classification of insurance contract and the test of transferring significant insurance risk

The Group shall identify whether the policies it issued undertake insurance risk and other risks and judge whether the risks can be separated and calculated respectively. The judgment will affect the classification of insurance contracts. In addition, the Group shall make significant judgment about whether the insurance risks are transferred by the policies issued, whether there is commercial substance of the transfer of risk and whether the insurance risk transferred is material. Test of transferring significant insurance risk is then executed. The result of the judgment will affect the classification of insurance contracts.

The identification of insurance contract components and the classification of insurance contracts will affect the revenue recognition, liability measurement and presentation of the financial statements of the Group.

(h) Insurance liability and provision for investment-linked insurance contracts

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

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

Reserve for unearned premium is calculated according to the risk of respective insurance, and is decided 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 based on the historical claim experience and adjusted by the Group 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 the Group assesses liability adequacy reserve is based on the reasonable estimate of future insurance payment, premium revenue and relevant expenses. Please refer to Note 6(S).

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

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
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(i) Reinsurance reserve assets

Reinsurance reserve assets include unearned premium reserve, provision for reinsurance ceded, liability reserve ceded, premium deficiency reserve ceded and liability adequacy reserve ceded. The above-mentioned reinsurance assets are calculated in accordance with the rules of “Regulations Governing the Provision of Various Reserves” and “Notice for the Recognition of Liability Reserve on the Balance Sheet for Ceded Insurance over 1 year For Life Insurance Business”.

The authorities are concern and continue evaluating the method of estimation and fundamental assumption. The movement of the estimation would be recognized in the variation period as well as in the affected future.

6. DETAILS OF MAJOR ACCOUNTS

(A) Cash and cash equivalents

The details of this account are as follows:

	December 31, 2015	December 31, 2014
Cash on hand	\$ 27,613	25,728
Cash in bank	98,461,930	86,336,280
Cash equivalents	79,437,729	27,120,049
Less: Statutory deposit	<u>(1,299,301)</u>	<u>(1,298,915)</u>
	<u>\$ 176,627,971</u>	<u>112,183,142</u>

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

(B) Financial assets and liabilities

(a) The details of the financial assets are as follows:

(1) Financial assets at fair value through profit or loss:

	December 31, 2015	December 31, 2014
Domestic government bonds	\$ 1,959,664	2,228,700
Cross currency swaps	-	67,428
Forward exchange contracts	607,966	288,381
Foreign exchange swaps	-	60,607
Preferred Stocks	<u>1,448,528</u>	<u>1,041,160</u>
Total	<u>\$ 4,016,158</u>	<u>3,686,276</u>

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(2) Available-for-sale financial assets:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Domestic investments		
Stock of listed companies	\$ 218,621,447	263,811,573
Government bonds	308,071,435	389,949,408
Corporate bonds	56,376,457	63,274,698
Financial bonds	47,434,292	52,219,659
Emerging stocks	2,080,885	2,185,184
Beneficiary certificate	45,851,806	45,158,991
Asset securitization beneficiary certificate	-	475,467
Foreign investments		
Stocks	122,126,686	133,005,321
Government bonds	21,004,176	51,174,666
Government bonds	227,124,801	287,230,220
Financial bonds	59,874,760	77,281,149
Beneficiary certificate	234,142,600	237,318,861
Asset securitization beneficiary certificate	163,588	173,287
Preferred Stock	<u>17,662,915</u>	<u>16,828,783</u>
Sub-total	1,360,535,848	1,620,087,267
Less: Accumulated impairment	(1,007,115)	(1,007,115)
Statutory deposits	<u>(8,550,705)</u>	<u>(5,708,628)</u>
Total	<u><u>\$ 1,350,978,028</u></u>	<u><u>1,613,371,524</u></u>

(3) Hedging derivatives assets:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Interest rate swaps	<u><u>\$ 678,556</u></u>	<u><u>208,468</u></u>

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(4) Financial assets at cost:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Stock investments	\$ 1,133,671	1,144,983
Less: Accumulated impairment	<u>(103,247)</u>	<u>(97,276)</u>
Total	<u>\$ 1,030,424</u>	<u>1,047,707</u>

Stock investments held by the Group with no quoted market price and which fair value cannot be reliably measured, are stated at cost.

(5) Bond investments without active market:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Domestic investments		
Financial bonds	\$ 17,119,921	13,605,733
Preferred stock	-	1,000,000
Foreign investments		
Government bonds	13,565,528	4,283,725
Corporate bonds	302,643,688	21,497,939
Financial bonds	102,882,570	32,959,970
Zero-coupon bonds	380,347,216	408,771,694
Real estate mortgage bonds	39,763,858	42,942,982
Assets-backed securities	6,753,274	1,793,372
Negotiable certificates of deposit	<u>18,330,560</u>	<u>17,388,838</u>
Sub-total	881,406,615	544,244,253
Less: Accumulated impairment	<u>(12,833)</u>	<u>(58,140)</u>
Total	<u>\$ 881,393,782</u>	<u>544,186,113</u>

The bond investments held by the Group with repurchase agreements in an inactive market:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Foreign investment – government bonds	<u>\$ -</u>	<u>203,621</u>

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If there is objective evidence that the estimated future cash flow of the principal-protected structured notes would decrease, the Group recognizes impairment loss. When the interests, received from which added up the value over time, are recognized as gains on reversal of impairment losses.

	For the year ended December 31,	
	2015	2014
Foreign investment – government bonds	\$ 44,643	40,351
 (6) Held to maturity financial assets:		
	December 31,	December 31,
	2015	2014
Domestic investments		
Government bonds	\$ 25,169,487	-
 (7) Other financial assets:		
	December 31,	December 31,
	2015	2014
Structured deposits	\$ 28,929,122	44,818,068
Deposit Reservation for settlement	40,471	15,555
Time deposit	489,932	-
Total	\$ 29,459,525	44,833,623

The deposit contracts are recorded at principal, and the interest revenue thereof is calculated at the normal market rate plus finance index (TAIBOR, and Constant Maturity Swap (CMS).

(8) Financial liabilities at fair value through profit or loss:

	December 31,	December 31,
	2015	2014
Derivatives		
Forward exchange contracts	\$ 497,338	561,051
Cross currency swaps	-	70,652
Foreign exchange swaps	12,664,963	18,726,717
Total	\$ 13,162,301	19,358,420

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(9) Hedging Derivative Liabilities:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Interest rate swaps	\$ <u>16,581</u>	<u>32,057</u>

(10) Loans:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Life insurance loans	\$ 45,539,583	42,880,702
Premium loans	9,585,659	8,455,481
Secured loans	87,704,249	71,465,354
Overdue receivables	-	1,513
Less: Allowance for bad debts	<u>(1,315,564)</u>	<u>(714,669)</u>
Total	<u>\$ 141,513,927</u>	<u>122,088,381</u>

(11) The change in allowance for doubtful debts of accounts receivable and loans are as follows:

	<u>For the year ended December 31,</u>			
	<u>2015</u>		<u>2014</u>	
	<u>Accounts receivable</u>	<u>Loans</u>	<u>Accounts receivable</u>	<u>Loans</u>
Beginning balance	\$ 65,334	714,669	12,049	276,166
Add: Current bad debt expense	45,055	600,895	69,827	438,503
Less: Current year written off	<u>(16,759)</u>	<u>-</u>	<u>(16,542)</u>	<u>-</u>
Ending balance	<u>\$ 93,630</u>	<u>1,315,564</u>	<u>65,334</u>	<u>714,669</u>

The impairment on assessment analysis details of accounts receivable and loans are as follows:

<u>Item</u>	<u>Accounts receivable</u>		<u>Allowance for doubtful debts</u>	
	<u>December 31, 2015</u>	<u>December 31, 2014</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Exist objective evidence of impairment				
Impairment of portfolio assessment	\$ 129,387	80,600	92,305	64,540
Not exist objective evidence of impairment				
Impairment of portfolio assessment	<u>34,279,554</u>	<u>39,893,461</u>	<u>1,325</u>	<u>794</u>
Total	<u>\$ 34,408,941</u>	<u>39,974,061</u>	<u>93,630</u>	<u>65,334</u>

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<u>Item</u>	<u>Loans</u>		<u>Allowance for doubtful debts</u>	
	<u>December 31, 2015</u>	<u>December 31, 2014</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Exist objective evidence of impairment				
Impairment of portfolio assessment	\$ 322,780	352,178	47,929	59,881
Not exist objective evidence of impairment				
Impairment of portfolio assessment	<u>142,506,711</u>	<u>122,450,872</u>	<u>1,267,635</u>	<u>654,788</u>
Total	<u>\$ 142,829,491</u>	<u>122,803,050</u>	<u>1,315,564</u>	<u>714,669</u>

- (b) The details of the market values of investments which were held for investment purpose by the discretionary investment trust fund are as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Cash and cash equivalents	\$ 11,412,749	5,965,731
Stock of listed companies	2,012,498	2,924,168
Foreign stocks	30,828,910	17,385,111
Foreign financial bonds	6,751,525	6,795,723
Foreign corporate bonds	107,827,306	112,283,756
Foreign beneficiary certificates	<u>2,176,678</u>	<u>62,232</u>
	<u>\$ 161,009,666</u>	<u>145,416,721</u>

The limit of other discretionary investment agreements:

(Unit: thousands dollar)

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
NTD	<u>4,000,000</u>	<u>4,000,000</u>
USD	<u>5,200,000</u>	<u>4,000,000</u>

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- (c) Available-for-sale financial assets, financial assets at cost, debt investments without active market, and held-to-maturity financial assets are regularly evaluated for impairment by reviewing the investee companies with or without objective evidence of impairment losses. The situation of regular impairment evaluation resulted in the recognition and reversal of impairment loss as follows:

	For the year ended December 31,	
	2015	2014
Impairment loss of the period:		
Available for sale financial assets	\$ (605,776)	-
Financial assets measured at cost	(30,258)	(4,151)
Reversal of impairment losses:		
Debt investments without active market	44,643	40,351
Available for sale financial assets	-	78,533
Total	\$ (591,391)	114,733
	December 31,	December 31,
	2015	2014
Accumulated impairment losses	\$ 1,123,195	1,162,531

(C) Derivatives and hedging accounting

(a) Derivatives

- (1) The details of the derivatives are as follows:

	December 31, 2015		December 31, 2014	
	Book Value	Principal	Book Value	Principal
Derivative assets(liabilities)				
Forward Exchange Contracts	\$ 110,628	107,383,130	(272,670)	64,925,900
Foreign Exchange Swaps	(12,664,963)	751,210,286	(18,666,110)	640,053,731
Cross Currency Swaps	-	-	(3,224)	3,226,805
Interest Rate Swaps	661,975	24,791,791	176,411	17,900,000
Total	\$ (11,892,360)	883,385,207	(18,765,593)	726,106,436

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(2) Derivatives are accounted for as follows:

	December 31, 2015				
	Forward Exchange Contract	Foreign Exchange Swaps	Cross Currency Swaps	Interest Rate Swaps	Total
Financial assets at fair value through profit or loss	\$ 607,966	-	-	-	607,966
Financial liabilities at fair value through profit or loss	(497,338)	(12,664,963)	-	-	(13,162,301)
Hedging derivatives assets	-	-	-	678,556	678,556
Hedging derivatives liabilities	-	-	-	(16,581)	(16,581)
Total	\$ 110,628	(12,664,963)	-	661,975	(11,892,360)
	December 31, 2014				
	Forward Exchange Contract	Foreign Exchange Swaps	Cross Currency Swaps	Interest Rate Swaps	Total
Financial assets at fair value through profit or loss	\$ 288,381	60,607	67,428	-	416,416
Financial liabilities at fair value through profit or loss	(561,051)	(18,726,717)	(70,652)	-	(19,358,420)
Hedging derivatives assets	-	-	-	208,468	208,468
Hedging derivatives liabilities	-	-	-	(32,057)	(32,057)
Total	\$ (272,670)	(18,666,110)	(3,224)	176,411	(18,765,593)

As of December 31, 2015, and 2014, derivative financial instruments did not belong to discretionary investment.

- (3) Forward exchange contracts, foreign exchange swaps, interest rate swaps, and cross currency swaps are contracted primarily to hedge against exchange risk from foreign-currency denominated investments and avoid interest rate fluctuation risk from bond investments.
- (4) The unrealized gain or loss, due to the change in fair value, is recognized in gain (loss) on financial assets or liabilities at fair value through profit or loss:

	For the year ended December 31,	
	2015	2014
\$	6,401,748	(13,711,505)

(b) Hedge accounting

Cash flow hedge

The assets with floating interest rate may expose the risk of cash flow fluctuation due to change in market interest rate, the Group signed the contracts of interest rate swaps to hedge the risk.

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As of December 31, 2015, and 2014, the cash flow hedged items and derivative financial instruments for hedging purposes were as follows:

December 31, 2015				
Hedged Item	Hedging Instrument	Fair value of instrument	The forecast period when related cash flows occur	The forecast period when related income/loss recognized in the income statement
Floating corporate bonds	Interest rate swap	\$ 661,975	2016.01.15~	2016.01.15~
and floating secured loans	contracts		2024.06.26	2024.06.26

December 31, 2014				
Hedged Item	Hedging Instrument	Fair value of instrument	The forecast period when related cash flows occur	The forecast period when related income/loss recognized in the income statement
Floating corporate bonds	Interest rate swap	\$ 176,411	2015.01.16~	2015.01.16~
and floating secured loans	contracts		2024.06.26	2024.06.26

The gains or losses arising from the cash flow hedging was recognized as an adjustment of equity is listed as follows:

Item	December 31, 2015	December 31, 2014
Current adjustment for Shareholders' equity	<u>\$ 485,565</u>	<u>(4,402)</u>
Transferred from shareholders' equity (recognized as deferred income tax liabilities)	<u>\$ 82,546</u>	<u>(748)</u>

(D) Investments accounted for using equity method

The investment under equity method of the Group on the balance sheet date is as follows:

	December 31, 2015	December 31, 2014
Associates	\$ -	-
Joint ventures	13,635,317	-
Total	<u>925,557</u>	<u>576,919</u>
	<u>\$ 14,560,874</u>	<u>576,919</u>

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(a) Associates

The Group acquired 20% share of CITIC Capital Holdings Limited and 48.62% share of Hyundai Life Insurance Co., Ltd. by cash on June 30, 2015 and December 8, 2015, respectively. The Group has a significant influence in the both companies. Relevant information is as follows:

Name of associate	Relationship with the Group	Primary operating location /Country the company registered	Ownership equity and voting right percentage	
			December 31, 2015	December 31, 2014
CITIC Capital Holdings Limited	Main business is capital holding, for the purpose of expanding the investment business and increasing revenue of the Group	Hong Kong	20.00 %	- %
Hyundai Life Insurance Co., Ltd.	Main business is to provide life insurance, retirement annuity funds and insurance, for the purpose of expanding the investment business and increasing revenue of the Group	Korea	48.62 %	- %

The Affiliated companies in the Group belong to individual insignificant entities using equity method. The summarized financial information as followed (in addition to the information included the amount has been reported in the consolidated financial statements of the Group):

	December 31, 2015	December 31, 2014
CITIC Capital Holdings Limited	\$ 7,574,984	-
Hyundai Life Insurance Co., Ltd.	6,060,333	-
Total	<u>\$ 13,635,317</u>	<u>-</u>
	CITIC Capital Holdings Limited	
	For the year ended December 31,	
	2015	2014
Attributable to the Group (Note)		
Profit or loss after tax from continuing operations	\$ 247,028	-
Other comprehensive income	(149,888)	-
Comprehensive income	<u>\$ 97,140</u>	<u>-</u>

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	<u>Hyundai Life Insurance Co., Ltd.</u>	
	<u>For the year ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Attributable to the Group (Note)		
Profit or loss after tax from continuing operations	\$ (150,717)	-
Other comprehensive income	<u>21,657</u>	<u>-</u>
Comprehensive income	<u>\$ (129,060)</u>	<u>-</u>

Note: The acquisition dates of the insignificant individual affiliated companies in the Group were June 30, 2015 and December 8, 2015, respectively. While the counting dates of the profit or loss attributable to the Group have started from July and December, 2015, respectively.

(b) Joint venture interest:

The Group and its affiliate company, Fubon Insurance Co., Ltd, have jointly invested in the set-up of Fubon Property and Casualty Insurance Co., Ltd in 2010 for its insurance business operation in Mainland China with the registered capital CNY 400 million(USD 59 million). The Group signed a joint investment contract with Fubon Insurance Co., Ltd, and Xiamen Port Holding Group in September, 2012. Under this joint venture contract, Fubon Property & Casualty Insurance Co., Ltd. was to increase its capital stock by CNY100 million, which to be acquired entirely by Xiamen Port Holding Group. This capital increase was approved by China Insurance Regulatory Commission on August 7, 2013. and the record date for the capital increase was August 16, 2013. In addition, the capital increase of Fubon Property and Casualty Insurance Co., Ltd. was approved by China Insurance Regulatory Commission as of September 23, 2014. The Group subscribed to the capital increase on a pro rata basis. Additionally, the board of directors of the Group on March 18, 2015 agreed on participating in the capital increase for cash in Fubon Property & Casualty Insurance Co., Ltd. The Group was approved by the Investment Commission, MOEA, Jing Shen (2) Letter No. 10400108050 to invest CNY 150 million in Fubon Property & Casualty Insurance, and remitted CNY 120 million on August 10, 2015. The investment project had been approved by the China Insurance Regulatory Commission on October 9, 2015 and the record date for the capital increase was October 20, 2015. The proportion of the Group holding Fubon Property and Casualty Insurance Co., Ltd on December 31, 2015 and December 31, 2014 was 40%.

The following summarized Fubon Property & Casualty Insurance Co., Ltd. financial adjustment information of the rights and the carrying amount within the financial report of the Group.

	<u>December 31,</u>	<u>December 31,</u>
	<u>2015</u>	<u>2014</u>
Proportion of ownership interest	<u>40 %</u>	<u>40 %</u>
Assets	<u>\$ 6,586,135</u>	<u>4,984,983</u>
Liabilities	<u>\$ 4,272,241</u>	<u>3,542,684</u>
Net assets of the Group (carrying amount of joint venture)	<u>\$ 925,557</u>	<u>576,919</u>

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	For the year ended December 31,	
	2015	2014
Operating revenue	\$ 3,836,024	2,479,297
Profit or loss after tax from continuing operations	\$ (629,575)	(620,891)
Other comprehensive income	5,364	-
Comprehensive income	\$ (624,211)	(620,891)

(c) Guarantee

The Group applies equity method in investment, hence, there is no pledge guarantee.

(E) Investment property

	Prepayments for building, land and equipment					Total
	Land	Buildings and other facilities	Construction in progress	Others	Total	
Balance of January 1, 2015	\$ 87,786,921	24,610,911	1,548,223	123	-	113,946,178
Purchase	38,107,440	20,448,975	579,678	15,699	2,212,239	61,364,031
Gains (losses) on fair value adjustments	2,289,602	(2,096,361)	-	-	159,288	352,529
Disposal	-	(1,162)	-	-	-	(1,162)
Reclassification	(7,066,311)	(362,506)	(1,492,391)	(13,298)	-	(8,934,506)
Other changes	-	-	-	-	(10,918)	(10,918)
Movement due to exchange rate differences	4,153	118,068	-	-	67,578	189,799
Balance of December 31, 2015	\$ 121,121,805	42,717,925	635,510	2,524	2,428,187	166,905,951
Balance of January 1, 2015	\$ 84,684,122	24,580,445	1,026,063	21,064	-	110,311,694
Purchase	1,143,643	1,656,748	528,447	19,528	-	3,348,366
Gains (losses) on fair value adjustments	2,548,349	(1,102,559)	-	-	-	1,445,790
Reclassification	(589,193)	(523,723)	(6,287)	(40,469)	-	(1,159,672)
Balance of December 31, 2014	\$ 87,786,921	24,610,911	1,548,223	123	-	113,946,178

The Group classified property interest held under an operating lease as an investment property, that operating lease was accounted for as if it were a finance lease. The net worth of the leases of the investment property is \$516,079 as of December 31, 2015 (Please refer to Note 6(N) - Finance lease liabilities).

In accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Companies, the Group engaged with appraisers of real estate consulting firms listed below, the valuation of investment property is based on fair values in accordance with the Regulations on Real Estate Appraisal, and its appraised dates are December 31, 2015 and December 31, 2014:

(a) DTZ Real Estate Appraisers Joint Firm: Yang Chang Da, Li Gen Yuan, Tsai Jia ho

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- (b) Savills Plc Real Estate Appraisers Joint Firm: Dai Guang Ping, Jang Hung Kai, Jang Yi Zhi
- (c) Repro International Real Estate Appraisers Joint Firm: Wu Hong Shiu, Wu Zhi Hao, Shr Fu Shiue
- (d) Jin Han Real Estate Appraisers Joint Firm: Wu You Jun, Hong Qi Xiang
- (e) G-Bean Real Estate Appraisers Firms: Jang Neng Zheng, Li Fang Zheng
- (f) Colliers International Valuation UK LLP: Gu Jian Hui, P C Willis, L Lee Bapty
- (g) Jones Lang LaSalle Limited: Zhao Zheng Yi, Andrew Pirie, James McTighe, Paul Tarrant
- (h) Knight Frank LLP: Wu Hong Shiu, Matthew Cripps

Fair value of investment property is determined by the appraisal that the real estate consulting firms valued, supported by market evidence. Appraising methods primarily used are Sales Comparison Approach, Income Approach (including direct capitalization method and discounted cash flow method), Cost Approach, and Cost Approach -Land Development Analysis, and so on. For commercial properties, which have more market liquidity and more easily obtain comparable properties and rents in the neighborhood area which possess same or similar use purpose of the properties, Sales Comparison Approach and Income Approach are primarily used. For shopping malls and department stores, etc, depending on the characteristics of respective investment property and the length of rents as well as the similarity of comparable properties, Sales Comparison Approach is primarily used and direct capitalization method and discounted cash flow method of Income Approach are supportively used. Special investment property such as combination of shopping malls and hotels or hospitals as current used, Cost Approach is primarily used and the direct capitalization method and discounted cash flow method of Income Approach are supportively used. Lands that already obtained building licenses but in the process of development, Sales Comparison Approach and Cost Approach -Land Development Analysis are used. For plants with the purpose of future urban renewal, Sales Comparison Approach, Cost Approach, and Cost Approach -Land Development Analysis are used.

Parameters primarily used are as below:

	December 31, 2015	December 31, 2014
	approx	approx
Ratios of Capitalization of Earnings	0.65%~5.50%	0.92%~3.26%
Capitalization rate of Earnings	1.90%~6.35%	1.90%~6.35%
Ratios of Discounted Cash Flow	3.18%~6.50%	3.20%~6.50%

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Appraisers use market extraction method to select several comparable properties, which are identical with or similar to the subject property, considered which liquidity and future risk premium of disposition to determine quotients the capitalization rate and discounted rates.

Investment property are primary for rental purposes and all of which are operating leases. Please refer to Note 6(F). Main content of such contracts is the same as normal lease contracts.

As of December 31, 2015 and December 31, 2014, investment properties owned by the Group were not pledged.

(F) Operating lease

(a) Lessee lease

The situation of rents payable from operating lease is as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Within 1 year	\$ 485,266	350,765
1-5 years	<u>368,198</u>	<u>169,145</u>
Total	<u>\$ 853,464</u>	<u>519,910</u>

The Group leases a number of offices under operating leases. The leases typically run for a period of 1 to 5 years, with an option to renew the lease after that date. Lease payments are increased every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

For the year ended December 31, 2015 and 2014, the Group's rent expense for operating leases amounted to \$985,028 and \$908,044, respectively.

(b) Lessor lease

The Group leases out investment property as operating leases, please refer to Note 6(E). The situation of future minimum rents receivables is as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Within 1 year	\$ 5,302,622	3,417,289
1-5 years	19,214,031	12,138,146
5 years and above	<u>39,864,976</u>	<u>14,441,797</u>
Total	<u>\$ 64,381,629</u>	<u>29,997,232</u>

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	For the year ended December 31,	
	2015	2014
Rent income of investment property	\$ 4,624,491	3,683,795
Total operating expenses occurred directly by investment property	\$ 848,910	701,381
The direct operating expenses belong to the investment property which did not generate rental income	\$ 51,908	47,014

(G) Reinsurance assets

	December 31, 2015	December 31, 2014
Claims recoverable from reinsurers	\$ 213,110	418,324
Due from reinsurers and ceding companies	485,980	339,263
Subtotal	699,090	757,587
Reinsurance assets:		
Ceded reinsurance unearned premiums reserve	456,599	441,015
Ceded reinsurance claim reserve	124,180	131,589
Subtotal	580,779	572,604
Total	\$ 1,279,869	1,330,191

(H) Property, plant and equipment- net

Assets	December 31, 2015			
	Cost	Accumulated Depreciation	Accumulated impairment loss	Book value
Land	\$ 13,931,468	-	1,019,730	12,911,738
Buildings	4,574,732	468,493	45,259	4,060,980
Computer equipment	934,410	666,915	-	267,495
Transportation equipment	6,018	6,006	-	12
Other equipment	765,083	647,977	-	117,106
Leasehold improvements	1,019,096	900,570	-	118,526
Construction in progress	1,108	-	-	1,108
Prepayments for equipment	43,562	-	-	43,562
Total	\$ 21,275,477	2,689,961	1,064,989	17,520,527

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December 31, 2014				
Assets	Cost	Accumulated Depreciation	Accumulated impairment loss	Book value
Land	\$ 6,338,161	-	1,019,730	5,318,431
Buildings	2,672,512	405,270	45,259	2,221,983
Computer equipment	990,039	767,983	-	222,056
Transportation equipment	8,968	8,596	-	372
Other equipment	723,400	647,491	-	75,909
Leasehold improvements	983,601	872,106	-	111,495
Prepayments for equipment	75,306	-	-	75,306
Total	\$ 11,791,987	2,701,446	1,064,989	8,025,552

The changes in the investment property, plant and equipment of the Group are as follows:

	Land	Buildings	Computer equipment	Transportation equipment	Other equipment	Leasehold improvements	Construction in progress	Prepayments for equipment	Total
Cost									
Balance of January 1, 2015	\$ 6,338,161	2,672,512	990,039	8,968	723,400	983,601	-	75,306	11,791,987
Purchase and acquisition	337,744	226,545	48,388	-	63,867	32,506	-	97,037	806,087
Estimated decommissioning cost	-	-	-	-	-	9,350	-	-	9,350
Disposals	-	-	(204,745)	(2,950)	(26,826)	(28,005)	-	-	(262,526)
Written down decommissioning cost	-	-	-	-	-	(5,738)	-	-	(5,738)
Reclassification	7,255,563	1,675,675	100,802	-	4,696	27,439	1,108	(128,781)	8,936,502
Exchange influence	-	-	(74)	-	(54)	(57)	-	-	(185)
Balance of December 31, 2015	<u>13,931,468</u>	<u>4,574,732</u>	<u>934,410</u>	<u>6,018</u>	<u>765,083</u>	<u>1,019,096</u>	<u>1,108</u>	<u>43,562</u>	<u>21,275,477</u>
Accumulated depreciation									
Balance of January 1, 2015	-	405,270	767,983	8,596	647,491	872,106	-	-	2,701,446
Depreciation	-	63,223	101,563	360	25,405	56,406	-	-	246,957
Disposals	-	-	(202,612)	(2,950)	(24,908)	(22,677)	-	-	(253,147)
Written down decommissioning cost	-	-	-	-	-	(5,230)	-	-	(5,230)
Exchange influence	-	-	(19)	-	(11)	(35)	-	-	(65)
Balance of December 31, 2015	<u>-</u>	<u>468,493</u>	<u>666,915</u>	<u>6,006</u>	<u>647,977</u>	<u>900,570</u>	<u>-</u>	<u>-</u>	<u>2,689,961</u>
Accumulated impairment loss									
Balance of January 1, 2015	<u>\$ 1,019,730</u>	<u>45,259</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,064,989</u>
Balance of December 31, 2015	<u>\$ 1,019,730</u>	<u>45,259</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,064,989</u>

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Cost	<u>Land</u>	<u>Buildings</u>	<u>Computer equipment</u>	<u>Transportation equipment</u>	<u>Other equipment</u>	<u>Leasehold improvements</u>	<u>Construction in progress</u>	<u>Prepayments for equipment</u>	<u>Total</u>
Balance of January 1, 2014	\$ 5,732,818	2,357,724	984,403	17,268	709,869	925,740	-	20,302	10,748,124
Purchase and acquisition	-	-	42,104	-	28,661	29,296	-	122,797	222,858
Estimated decommissioning cost	-	-	-	-	-	1,379	-	-	1,379
Disposals	-	-	(71,688)	(8,300)	(18,395)	(904)	-	-	(99,287)
Reclassification	605,343	314,788	34,727	-	2,896	27,701	-	(67,793)	917,662
Exchange influence	-	-	493	-	369	389	-	-	1,251
Balance of December 31, 2014	<u>6,338,161</u>	<u>2,672,512</u>	<u>990,039</u>	<u>8,968</u>	<u>723,400</u>	<u>983,601</u>	<u>-</u>	<u>75,306</u>	<u>11,791,987</u>
Accumulated depreciation									
Balance of January 1, 2014	-	350,909	745,407	14,984	641,795	780,907	-	-	2,534,002
Depreciation	-	56,829	92,607	1,082	23,853	91,794	-	-	266,165
Disposals	-	-	(70,185)	(7,470)	(18,267)	(891)	-	-	(96,813)
Reclassification	-	(2,468)	(22)	-	-	-	-	-	(2,490)
Exchange influence	-	-	176	-	110	296	-	-	582
Balance of December 31, 2014	<u>-</u>	<u>405,270</u>	<u>767,983</u>	<u>8,596</u>	<u>647,491</u>	<u>872,106</u>	<u>-</u>	<u>-</u>	<u>2,701,446</u>
Accumulated impairment loss									
Balance of January 1, 2014	1,030,732	45,259	-	-	-	-	-	-	1,075,991
Reclassification	(11,002)	-	-	-	-	-	-	-	(11,002)
Balance of December 31, 2014	<u>\$ 1,019,730</u>	<u>45,259</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,064,989</u>
Net									
Balance of December 31, 2015	<u>\$ 12,911,738</u>	<u>4,060,980</u>	<u>267,495</u>	<u>12</u>	<u>117,106</u>	<u>118,526</u>	<u>1,108</u>	<u>43,562</u>	<u>17,520,527</u>
Balance of December 31, 2014	<u>\$ 5,318,431</u>	<u>2,221,983</u>	<u>222,056</u>	<u>372</u>	<u>75,909</u>	<u>111,495</u>	<u>-</u>	<u>75,306</u>	<u>8,025,552</u>

Major components of buildings include architecture constructions, engineering constructions, elevator equipment constructions, air conditioner constructions, and fire-prevention constructions. These are depreciated based on major useful lives of 50, 10, 15, 8, and 5 years, respectively

The Group leases office equipment under a number of finance lease agreements. As of December 31, 2015, and December 31, 2014, the net carrying amount of leased office equipment was \$465 and \$718, respectively.

(I) Intangible assets

<u>Asset</u>	<u>December 31, 2015</u>		
	<u>Original cost</u>	<u>Accumulated amortization</u>	<u>Book value</u>
Computer software	<u>\$ 909,480</u>	<u>654,209</u>	<u>255,271</u>
<u>Asset</u>	<u>December 31, 2014</u>		
	<u>Original cost</u>	<u>Accumulated amortization</u>	<u>Book value</u>
Computer software	<u>\$ 771,692</u>	<u>543,349</u>	<u>228,343</u>

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The changes of the computer software are as follows:

	<u>Computer Software</u>
Cost:	
Balance of January 1, 2015	\$ 771,692
Purchase and acquisition	44,989
Disposal	(831)
Reclassification	94,211
Exchange influence	<u>(581)</u>
Balance of December 31, 2015	<u><u>\$ 909,480</u></u>
Balance of January 1, 2014	\$ 655,009
Purchase and acquisition	48,567
Disposal	(18,047)
Reclassification	82,804
Exchange influence	<u>3,359</u>
Balance of December 31, 2014	<u><u>\$ 771,692</u></u>
Accumulated amortization:	
Balance of January 1, 2015	\$ 543,349
Amortization	111,792
Disposal	(831)
Exchange influence	<u>(101)</u>
Balance of December 31, 2015	<u><u>\$ 654,209</u></u>
Balance of January 1, 2014	\$ 479,615
Amortization	80,692
Disposal	(18,047)
Reclassification	22
Exchange influence	<u>1,067</u>
Balance of December 31, 2014	<u><u>\$ 543,349</u></u>

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Note: On July 19, 2000, Fubon Life Insurance entered into a “Assets and Business Transfer Agreement” (the “Agreement”) with Citicorp Life Insurance Ltd., Taiwan Branch (“CitiLife”). Under this Agreement, the Group acquired the business and related assets and liabilities of CitiLife. The agreement was approved by the Ministry of Finance on November 14, 2000 and executed on January 1, 2001. It resulted in goodwill of \$764,102. The Group assessed goodwill for impairment. Likewise, the estimated value in use of the remaining effective policies was also assessed based on the present value of the future cash flow of the insurance policies across the insurance underwriting channel. The estimated cash inflow included premium revenue and investment profits and the estimated cash outflow included various benefits, expenses, reinsurance costs, reserve provisions and tax. The results of such evaluation disclosed that the estimated discounted future cash flow was less than the carrying amount of goodwill. The results of such evaluation disclosed that the estimated discounted future cash flow was less than the carrying amount of goodwill. Therefore, all the remaining residual value of \$189,667 was recognized as impairment loss as at the end of 2014.

(J) Other assets

	December 31, 2015	December 31, 2014
Prepayments	\$ 1,035,210	1,326,600
Prepayments- superficies	30,428,858	30,990,095
Deferred acquisition cost	361,843	360,324
Guarantee deposits paid	10,089,761	7,221,880
Other assets-other	<u>232,132</u>	<u>181,938</u>
Total	<u>\$ 42,147,804</u>	<u>40,080,837</u>

Articles 141 and 142 of the Insurance Act require insurance industry to place a government statutory deposit equal to 15% of its paid-in capital. Such deposits will not be returned until cessation of business and liquidation has been completed. In accordance with the regulations of the competent authority in Vietnam, insurance companies shall deposit 2% of total paid in capital in local banks in Vietnam as operating guarantee deposits. The Group used government bonds and time deposits for the operating guarantee deposits, the details of which were as follows:

	December 31, 2015	December 31, 2014
Government bonds(Book value)	<u>\$ 8,550,705</u>	<u>5,708,628</u>
Cash in bank	<u>\$ 19,801</u>	<u>18,985</u>

The Group bid and obtained the superficies of No 472 subsection 2, Xinmin Road in Beitou District and 4 other superficies amounted to \$1,401,000, referred to the appraisal report of DTZ and Repro International Inc. , and had paid \$700,500 upon the designated contract of urban renewal business implementation. As of the financial report finalized, the contract process has not been completed.

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The Group bid and obtained the superficies of No 354 subsection 2, Linyi Road in Zhongzheng District in August, 2014 amounted to \$688,000, referred to the appraisal report of DTZ and Repro International Inc. The contract was signed in September, 2014.

The Group bid and obtained the superficies of No 6 subsection 3, Xinyi Road in Xinyi District in June, 2014 amounted to \$17,288,000, referred to the appraisal report of Repro International Inc and Colliers International. The contract was signed in August, 2014.

The Group bid and obtained the superficies of No 782 subsection 1, Changchun Road in Zhongshan District and 5 other superficies on February 25, 2014 amounted to \$6,588,800, referred to the appraisal report of DTZ and Jin Han Real Estate Appraisers Joint Firm. The contract was signed in April, 2014.

(K) Insurance product-separate account

	December 31, 2015	December 31, 2014
Assets on insurance product, separated account:		
Cash in bank	\$ 8,981,561	8,308,458
Securities	125,054,472	127,374,152
Accounts receivable	1,326,002	1,545,035
Total	\$ 135,362,035	137,227,645
Liabilities on insurance product, separate account:		
Reserve-Insurance contract	\$ 78,175,870	80,871,322
Reserve-Investment contract	57,185,649	56,355,946
Accounts payable	516	377
Total	\$ 135,362,035	137,227,645
For the year ended December 31,		
	2015	2014
Investment-linked insurance policy revenues:		
Premiums income	\$ 16,283,615	12,153,549
Interest income	335,207	271,370
Gains or losses on financial assets and liabilities at fair value through profit or loss	(4,946,910)	1,210,375
Gains or losses on foreign exchange	517,784	(128,306)
Total	\$ 12,189,696	13,506,988

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	<u>For the year ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Investment-linked insurance policy expenses:		
Net changes in reserve, Insurance contract	\$ (2,714,239)	(2,962,369)
Insurance claims and payment	12,174,462	13,697,882
Administrative expenses	<u>2,729,473</u>	<u>2,771,475</u>
Total	<u>\$ 12,189,696</u>	<u>13,506,988</u>

The Group earned sales rebate of \$457,515 and \$442,827 from the counterparty for promoting investment-linked insurance policy for the years ended December 31, 2015 and December 31, 2014, respectively. The rebate was recognized as handling fee revenue.

(L) Accounts payable

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Notes Payable	\$ 14,982	5
Expense Payable	4,297,230	14,544,666
Commissions payable	906,888	931,105
Insurance and reinsurance claims payable	4,006,486	3,536,883
Due to reinsurers and ceding companies	683,197	1,023,513
Other payable	<u>10,459,021</u>	<u>21,113,674</u>
	<u>\$ 20,367,804</u>	<u>41,149,846</u>

(M) Short-term debts-notes and bonds issued under repurchase agreement

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Notes and bonds issued under repurchase agreement	\$ -	<u>206,916</u>
Repurchase price	<u>-</u>	<u>209,185</u>
Repurchase interest	<u>-</u>	<u>3.98%~4.68%</u>

(N) Financial lease liabilities

The Group's financial lease liabilities are as follows:

	<u>December 31, 2015</u>		<u>Present value of minimum lease payments</u>
	<u>Future minimum lease payments</u>	<u>Interest</u>	
Less than one year	\$ 12,859	1,078	11,781
Between one and five years	103,586	20,006	83,580
More than five years	<u>3,851,676</u>	<u>3,430,369</u>	<u>421,307</u>
	<u>\$ 3,968,121</u>	<u>3,451,453</u>	<u>516,668</u>

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	December 31, 2014		
	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	\$ 369	157	212
Between one and five years	738	145	593
	\$ 1,107	302	805

(O) Liabilities reserve

	December 31, 2015	December 31, 2014
Decommissioning liability	\$ 52,977	49,590
Employee benefits liabilities	7,618,605	6,685,027
Other liabilities reserve	-	59,597
	\$ 7,671,582	6,794,214

(a) Decommissioning liability

	Decommissioning liability
Balance of January 1, 2015	\$ 49,590
Increase of liabilities reserves	9,350
Reversal of liabilities reserves	(5,738)
Discounting and amortization of liabilities reserves	190
Reclassification to other income	(415)
Balance of December 31, 2015	\$ 52,977
Balance of January 1, 2014	\$ 47,822
Increase of liabilities reserves	1,379
Discounting and amortization of liabilities reserves	389
Balance of December 31, 2014	\$ 49,590

For part of the real estate, the Group bears the obligation to dismantle, remove or restore the location. Therefore, the Group applies the present value of the expected cost of the locations that are going to be dismantled, removed or restored and recognized it as a liability reserve.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Employee benefit

(1) Provisions for employee benefits

The employee benefit liabilities recognized by the Group were as follows:

	December 31, 2015	December 31, 2014
Defined benefit plan	\$ 7,512,052	6,595,940
Pension plan	106,553	89,087
Total	<u>\$ 7,618,605</u>	<u>6,685,027</u>

1) Defined benefit plan

	December 31, 2015	December 31, 2014
Present value of defined benefit obligation	\$ 10,838,984	10,135,426
Plan assets at fair value	<u>(3,326,932)</u>	<u>(3,539,486)</u>
Net defined benefit liability	<u>\$ 7,512,052</u>	<u>6,595,940</u>

(I) Components of plan assets

According to Regulations for Revenues, Expenditures Safeguard and Utilization of the Labor Retirement Fund, with regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statement shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks.

Please refer to the website of Council of Labor Affairs for information on labor pension fund assets utilization including fund asset allocation provided by Council of Labor Affairs.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(II) Changes in present value of the defined benefit obligation for the Group for the year ended December 31, 2015 and 2014 were as follows:

	<u>For the year ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Defined benefit obligation on January 1	\$ 10,135,426	9,876,130
Benefits paid	(312,484)	(201,608)
Payments by liabilities for defined obligations	(17,169)	(7,074)
Current service cost and interest cost	639,479	627,605
Net gains (losses) on remeasurements of defined benefit liability		
-Actuarial gains (losses) from experience adjustments	278,434	16,192
-Actuarial gains (losses) from changes in assumption	115,298	(175,819)
Defined benefit obligation on December 31	<u>\$ 10,838,984</u>	<u>10,135,426</u>

(III) Changes in fair value of plan assets for the Group for the year ended December 31, 2015 and 2014 were as follows:

	<u>For the year ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Plan assets, at fair value on January 1	\$ 3,539,486	3,621,972
Contribution by employer	39,969	23,357
Benefits paid	(312,484)	(201,608)
Interest income	66,103	102,500
Net gains (losses) on remeasurements of defined benefit asset		
-Expected return on plan assets (Excluded current interest)	(6,142)	(6,735)
Plan assets, at fair value on December 31	<u>\$ 3,326,932</u>	<u>3,539,486</u>

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(IV) The expense under the defined benefit plans recognized in profit or loss

The benefit expense under the defined benefit plans recognized in profit or loss for the Group for the year ended December 31, 2015 and 2014 were as follows:

	<u>For the year ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Current service costs	\$ 444,986	448,911
Interest from net defined benefit liability	128,390	76,194
	<u>\$ 573,376</u>	<u>525,105</u>

(V) Net gains (losses) on remeasurements of defined benefit liability recognized in other comprehensive income for the Group for the year ended December 31, 2015 and 2014 were as follows:

	<u>For the year ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Cumulative amount as of January 1	\$ 158,656	311,548
Recognized during the period	399,873	(152,892)
Cumulative amount as of December 31	<u>\$ 558,529</u>	<u>158,656</u>

(VI) Primary actuarial assumptions

The primary assumptions used in determining the Company's defined benefit plan are shown below:

	<u>For the year ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Discount rate	1.85 %	1.95 %
Future salary increases	3.00 %	3.00 %

The Group expects to contribute an amount of \$521,835 to the defined benefit plan within one year after the report date for the year ended December 31, 2015.

The weighted average duration of the defined benefit plan is 10.38 years.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(VII) Sensitivity analysis

The effect of a 0.5 percentage point change in discount rate on defined benefit obligation is as follows:

	The influence on defined benefit obligation	
	Increase 0.5%	Decrease 0.5%
As of December 31, 2015		
Discount rate	\$ (537,352)	622,231
Future salary increases	250,551	(193,464)
As of December 31, 2014		
Discount rate	\$ (556,803)	573,026
Future salary increases	116,851	(182,876)

The sensitivity analysis above allows for only one assumption change at a time. In real practice, a change in one assumption may lead to changes in other assumptions. The method used in sensitivity analysis is consistent with the method used in calculating net pension liability in the balance sheet.

2) Pension plan

Reconciliations of liability (asset) of the pension plan for the Group were as follows:

	December 31, 2015	December 31, 2014
Present value of pension plan obligation	\$ 106,553	89,087
Plan assets at fair value	-	-
Net pension plan liability	\$ 106,553	89,087

(I) Changes in present value of the pension plan obligation for the Group for the year ended December 31, 2015 and 2014 were as follows:

	For the year ended December 31,	
	2015	2014
Pension plan obligation on January 1	\$ 89,087	90,874
Payments by liabilities for pension plan obligation	(4,324)	(4,040)
Current service cost and interest cost	8,656	9,619
Net gains (losses) on remeasurements of pension plan liability	13,134	(7,366)
Defined benefit obligation on December 31	\$ 106,553	89,087

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(II) The benefit expense under the pension plan recognized in profit or loss for the Group for the year ended December 31, 2015 and 2014 were as follows:

	<u>For the year ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Current service costs	\$ 6,972	7,984
Interest from net defined benefit liability	1,684	1,635
Net gains (losses) on remeasurements of pension plan liability	13,134	(7,366)
	<u>\$ 21,790</u>	<u>2,253</u>

(III) Primary actuarial assumptions

The primary assumptions used in determining the Company's pension plan are shown below:

	<u>For the year ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Discount rate	1.85 %	1.95 %
Future salary increases	3.00 %	3.00 %

The Group expects to contribute an amount of 6,666 to the defined benefit plan within one year after the report date for the year ended December 31, 2015. The weighted average duration of the defined benefit plan is 9.37 years.

(IV) Sensitivity analysis

The effect of a 0.5 percentage point change in discount rate on pension plan obligation is as follows:

	<u>The influence on pension plan obligation</u>	
	<u>Increase 0.5%</u>	<u>Decrease 0.5%</u>
As of December 31, 2015		
Discount rate	\$ (4,779)	5,138
Future salary increases	10,275	(9,380)
As of December 31, 2014		
Discount rate	(4,039)	4,346
Future salary increases	9,104	(8,217)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The sensitivity analysis above allows for only one assumption change at a time. In real practice, a change in one assumption may lead to changes in other assumptions. The method used in sensitivity analysis is consistent with the method used in calculating net pension liability in the balance sheet.

(2) Defined contribution plans

The Group's defined contribution plan follows the Labor Pension Act of the R.O.C. and makes monthly cash contributions to the employees' individual pension accounts at the Bureau of Labor Insurance at the rate of 6% of the employees' monthly salary. Under this plan, the Group has no legal or constructive obligation to make other payments after the Group makes the fixed amount of contribution to the Bureau of Labor Insurance.

For the years ended December 31, 2015 and 2014, the pension expense under defined contribution plan of the Group amounted \$573,496 and \$534,798, respectively, and were contributed to the Bureau of Labor Insurance.

Followed Mandatory Provident Fund Schemes, the oversea subsidiary, Fubon Life Insurance (Hong Kong) Ltd., has recognized \$260 of Pension expense in the financial year 2015.

(P) Shareholders' equity

(a) Common stock

As of December 31, 2015 and December 31, 2014, the Group had authorized capital of \$60,000,000 issued common stock of \$57,320,950 and \$43,982,150, respectively, with \$10 par value per share.

Resolved by the board of directors on behalf of the shareholders, the cash dividend and stock dividend of \$1,824,074 and \$7,500,670 would be distributed, respectively. The stock dividend would then be reinvested in the new rights issue of \$7,500,670 or 750,067 thousands shares. The capital increase was approved by Financial Supervisory Commission on September 9, 2014 and was effective on October 8, 2014.

Resolved by the board of directors on behalf of the shareholders, the cash dividend and stock dividend of \$8,796,730 and \$1,333,880 would be distributed, respectively. The stock dividend would then be reinvested in the new rights issue of \$1,333,880 or 133,388 thousands shares. The capital increase was approved by Financial Supervisory Commission on November 23, 2015 and was effective on December 10, 2015.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Capital surplus

The capital surplus arising from shares issued in excess of par and donations may be used to offset a deficit; in addition, when the company has no deficit, the capital surplus may be distributed as cash dividends, or transferred to capital (limited to 10% of the paid-in capital and once a year).

(c) Retained earnings and earnings appropriation

(1) Legal reserve

Pursuant to the Insurance Laws, the company, when appropriating its earnings, should set aside 20% of its after-tax earnings as legal reserve. Legal reserve should be appropriated until it equals the paid-in capital. If the company has no deficit and the legal reserve exceeds 25% of paid-in capital, the excess may be transferred to capital or distributed in cash.

(2) Special reserve

	December 31, 2015	December 31, 2014
Special Reserve from Profit after tax	\$ 6,749,054	3,212,341
Foreign exchange fluctuation reserve	664,546	193,587
Major accidents and reserves of fluctuation of risk	11,936,379	10,606,916
Real estate incrementation recovered	2,609,068	2,609,068
Gains from the fluctuation of subsequent fair value measurement of investment property	23,296,895	22,403,358
Total	<u>\$ 45,255,942</u>	<u>39,025,270</u>

In accordance with Tai Tsai Pao No.0920700594 issued by the Ministry of Finance, recovered special contingency risk reserves can be transferred to special reserve regardless of whether or not the Group has earnings next year, pursuant to the resolution of the shareholders. Under the "Regulations Governing the Provision of Various Reserves", commencing from January 1, 2011, the special catastrophic reserve and contingency risk reserve for net of reinsurance business with the term below 1 year are provided annually. These reserves, net of income tax, are classified as special reserve under retained earnings. For the special reserve provided for foreign exchange fluctuation, please refer to Note 4(V).

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In 2014, the Group changed its accounting policy for investment property from a cost model to fair value model. In accordance with the Gin Guan Bao Tsai No. 10302501001 letter, in order to maintain financial strength and stability of insurance companies, the Group should recognized special reserve restricted distributed earnings, as of January 1, 2014, by the balance of \$22,403,358, which is the net amount of the effects of first adoption of investment property subsequently measured at fair value model deducting incremental amounts of liability reserve, evaluated the effective insurance contracts by fair values approved by authorities.

The “Net gains from the fluctuation of subsequent fair value measurement of investment property” of investment property adopted subsequent fair value measurement, which is required by the Gin Guan Bao Tsai No. 10402501001 published in January 23, 2015, appropriated the reserve to special reserve for limiting the earnings distribution.

(3) Distribution of earnings

Distributions of stock dividend and bonus are limited to shareholders, employees are not subject to those distributions in accordance with the Company Act amended in May 2015. The Company’s board of directors approved an amendment to the Company’s article on January 29, 2016 in response to the amended Company Act. Under the Company’s amendment, the annual earnings are first used to pay taxes, cover prior years’ losses, appropriate reserves in accordance with relevant laws, and appropriate special reserves in accordance with laws or with a resolution of shareholders if necessary. The remaining of earnings can be distributed with a resolution of board of directors and shareholders’ approval. If the Company has profits, the Company should allocate an amount ranged from 0.01% to 0.05% of the profits as employee compensation. The Company has appropriated \$6,000 of employee compensation for the year ended December 31, 2015. If there is any difference between the actual distribution and the estimated amount, the difference should be recognized in the profit or loss in the current period.

Under the Company’s article before the amendment on January 29, 2016, the annual earnings are first used to pay taxes, cover prior years’ losses, appropriate reserves and special reserves. If there is any remaining earning, 0.0001%~0.01% of the remaining balance can be appropriated as employee compensation. Employee compensation for the year ended December 31, 2014 has been appropriated an amount of 22 as employee compensation in accordance with relevant rules. There is no difference between the actual distribution and the estimated amount.

The Company executed the resolution approved by board of directors on behalf of the shareholders on June 18, 2014 to distribute cash dividends which amounted to \$1,824,074 from the earnings of 2013. The base date is June 19, 2014.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
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The Company executed the resolution approved by board of directors on behalf of the shareholders on June 17, 2015 to distribute cash dividends which amounted to \$8,796,430 from the earnings of 2014. The base date is June 22, 2015.

The information of the resolutions for distribution of earnings and employee compensation approved by board of directors on behalf of shareholders can be found on Market Observation Post System.

(d) Other equity items

	<u>Exchange differences on translation of foreign financial assets</u>	<u>Unrealized gains (losses) on available-for-sale financial assets</u>	<u>Gains (losses) on effective portion of cash flow hedges</u>	<u>Unrealized Revaluation surplus</u>	<u>Total</u>
Balance, January 1, 2015	\$ (53,164)	57,722,762	146,420	15,937	57,831,955
Foreign exchange translation difference (net-after tax):					
Current exchange difference	293,184	-	-	-	293,184
The translation difference in affiliated companies share for using equity method	(124,407)	-	-	-	(124,407)
Effective portion of cash flow hedges (net-after tax):					
Current adjustments	-	-	403,019	-	403,019
Unrealized gains (losses) on available-for-sale financial assets (net-after tax):					
Current adjustments	-	(41,001,651)	-	-	(41,001,651)
Realized losses	-	(32,307,967)	-	-	(32,307,967)
Unrealized gains (losses) on available-for-sale financial assets in the share of affiliated companies and joint ventures share for using equity method	-	27,861	-	-	27,861
Balance, December 31, 2015	<u>\$ 115,613</u>	<u>(15,558,995)</u>	<u>549,439</u>	<u>15,937</u>	<u>(14,878,006)</u>

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	<u>Exchange differences on translation of foreign financial assets</u>	<u>Unrealized gains (losses) on available-for-sale financial assets</u>	<u>Gains (losses) on effective portion of cash flow hedges</u>	<u>Unrealized Revaluation surplus</u>	<u>Total</u>
Balance, January 1, 2014	\$ (109,436)	38,056,920	150,074	-	38,097,558
Foreign exchange translation difference (net-after tax):					
Current exchange difference	56,272	-	-	-	56,272
Effective portion of cash flow hedges (net-after tax):					
Current adjustments	-	-	(3,654)	-	(3,654)
Unrealized gains (losses) on available-for-sale financial assets (net-after tax):					
Current adjustments	-	45,822,050	-	-	45,822,050
Realized losses	-	(26,156,208)	-	-	(26,156,208)
Revaluation surplus (net-after tax)					
Current increase	-	-	-	15,937	15,937
Balance, December 31, 2014	<u>\$ (53,164)</u>	<u>57,722,762</u>	<u>146,420</u>	<u>15,937</u>	<u>57,831,955</u>

(Q) Income taxes

(a) Income tax expense:

	<u>For the year ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Current expense tax		
Current period	\$ 126,177	675,156
Adjustments for prior period	(688,931)	(45,779)
Foreign expense tax	<u>2,307,809</u>	<u>1,185,431</u>
Subtotal	<u>1,745,055</u>	<u>1,814,808</u>
Deferred expense tax		
(Reversal) recognition of temporary differences	<u>6,650,087</u>	<u>4,114,395</u>
Income tax expense	<u>\$ 8,395,142</u>	<u>5,929,203</u>

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The details of income tax expense (income) recognized in other comprehensive profit or loss was as follows:

	<u>For the year ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Items that will not be reclassified subsequently to profit or loss:		
Revaluation of real estate property	\$ -	(568)
Remeasurement of defined benefit plans	67,979	(25,992)
Remeasurement of defined benefit plans of affiliates and joint ventures using equity method	1,660	-
Items that are or may be reclassified subsequently to profit or loss:		
Foreign exchange difference in translating financial statements of foreign	(60,050)	(11,526)
Unrealized losses (gains) on valuation of available-for-sale financial assets	11,668,883	(5,406,261)
Losses (gains) on effective portion of cash flow hedges	(82,546)	748
Losses (gains) on effective portion of cash flow hedges of affiliates and joint ventures using equity method	19,774	-
	<u>\$ 11,615,700</u>	<u>(5,443,599)</u>

The reconciliation between tax expense (income) and profit before tax for the year ended December 31, 2015 and 2014 was as follows:

	<u>For the year ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Profit before tax	\$ 49,413,275	41,296,324
Income tax calculated based on the local tax rate	8,334,066	7,020,375
Domestic stock trading income	(1,718,655)	(1,908,195)
Domestic dividend revenue	(1,944,214)	(1,761,584)
Withholding foreign income tax	2,307,809	1,185,431
Impairment loss (reversal) of domestic securities	(39,696)	(22,233)
Additional tax bill from alternative minimum tax	147,474	652,493
Income tax deduction from the net operating loss carryforwards	1,509,649	983,744
Income tax expense in the previous year	(688,931)	(324,135)
Gains on the valuation surplus of investment property -Land value increment tax	312,623	144,101
Additional surtax for undistributed earnings	-	22,663
The change in unrecognized temporary differences	83,884	-
Other	91,133	(63,457)
Income tax expense	<u>\$ 8,395,142</u>	<u>5,929,203</u>

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
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(b) Deferred income tax asset and liability

The movements of deferred tax assets and liabilities for the year ended December 31, 2015 and 2014 were as follows:

	For the year ended December 31, 2015				
	Beginning balance	Recognized in profit and loss	Recognized in other comprehensive income or loss	Recognized in equity	Ending balance
Temporary difference					
Unrealized losses recognized on foreign exchange	\$ (3,099,932)	(4,893,351)	-	-	(7,993,283)
Amortization and impairment losses on goodwill	38,969	(6,495)	-	-	32,474
Losses on other liability reserve	10,131	(10,131)	-	-	-
Unappropriated pension fund reserve	655,287	33,920	-	-	689,207
Valuation losses of financial assets and liabilities	3,207,466	(1,152,167)	-	-	2,055,299
Impairment losses of financial assets	19,366	(5,161)	-	-	14,205
Cumulative translation adjustments	10,889	-	(34,569)	-	(23,680)
Unrealized (gains) losses from available - for-sale financial assets	(5,016,952)	-	11,580,630	-	6,563,678
Decommissioning costs	7,773	(449)	-	-	7,324
Long term employee benefit- pension funds- old system	368,524	2,968	69,639	-	441,131
Short term employee benefit- accumulating compensated absences	21,205	3,014	-	-	24,219
Investment property-fair values as opening entries	(97,243)	48,861	-	-	(48,382)
Differences between financial and tax depreciation of properties	(477,216)	(153,239)	-	-	(630,455)
Gains on the valuation surplus of investment property -Land value increment tax	(1,493,602)	(563,237)	-	-	(2,056,839)
Recognizing lease revenues on a straight-line basis	(53,082)	22	-	-	(53,060)
The foreign unrealized loss on investment using equity method	-	42,387	-	-	42,387
Exchange influence	(22)	(407)	-	-	(429)
Others	26,867	2,972	-	-	29,839
Deferred tax assets (liabilities)-net	\$ (5,871,572)	(6,650,493)	11,615,700	-	(906,365)

Information presenting below the balance sheet was as follows:

Deferred tax assets	\$ 4,438,680	9,917,951
Deferred tax liabilities	(10,310,252)	(10,824,316)
Total	\$ (5,871,572)	(906,365)

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	For the year ended December 31, 2014				
	Beginning balance	Recognized in profit and loss	Recognized in other comprehensive income or loss	Recognized in equity	Ending balance
Temporary difference					
Unrealized losses recognized on foreign exchange	\$ 2,879,110	(5,979,042)	-	-	(3,099,932)
Amortization and impairment losses on goodwill	-	38,969	-	-	38,969
Losses on other liability reserve	-	10,131	-	-	10,131
Unappropriated pension fund reserve	619,398	35,889	-	-	655,287
Valuation losses of financial assets and liabilities	877,425	2,330,041	-	-	3,207,466
Impairment losses of financial assets	290,394	(271,028)	-	-	19,366
Cumulative translation adjustments	22,415	-	(11,526)	-	10,889
Unrealized (gains) losses from available - for-sale financial assets	419,299	-	(5,406,261)	-	(4,986,962)
Unrealized (gains) losses from cash flow hedge transaction	(30,738)	-	748	-	(29,990)
Decommissioning costs	6,897	876	-	-	7,773
Long term employee benefit- pension funds- old system	394,820	(304)	(25,992)	-	368,524
Short term employee benefit- accumulating compensated absences	14,457	6,748	-	-	21,205
Investment property-fair values as opening entries	(284,132)	186,949	(60)	-	(97,243)
Differences between financial and tax depreciation of properties	(322,601)	(154,615)	-	-	(477,216)
Gains on the valuation surplus of investment property -Land value increment tax	(915,775)	(577,319)	(508)	-	(1,493,602)
Recognizing lease revenues on a straight-line basis	(267,238)	267,238	-	-	-
Recognizing lease revenues on a straight-line basis	(53,161)	79	-	-	(53,082)
Exchange influence	-	-	-	(22)	(22)
Others	35,874	(9,007)	-	-	26,867
Deferred tax assets (liabilities)-net	\$ 3,686,444	(4,114,395)	(5,443,599)	(22)	(5,871,572)
Information presenting below the balance sheet was as follows:					
Deferred tax assets	\$ 5,646,421				4,438,680
Deferred tax liabilities	(1,959,977)				(10,310,252)
Total	\$ 3,686,444				(5,871,572)

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (c) Fubon Financial Holding Company, the parent company of the Group, appointed to be the taxpayer itself; therefore, commencing from 2010, income tax return and undistributed retained earnings based on the income tax return has been filed a combined income tax return with Fubon Financial Holding Company and its qualifying subsidiaries.
- (d) The R.O.C. tax authority has assessed income tax returns of the Group and Fubon Life Assurance through 2009. In its income tax returns for the years 2004, 2005, and 2006, the R.O.C. tax authority disallowed the amortization of bond discount and premium which was held by Fubon Life Assurance; however, the difference between the reported number and the approved number has been applied to the tax authority for re-examination and administrative remedy.
- (e) The information about imputation system is as follows:

	December 31, 2015	December 31, 2014
Undistributed earnings:		
In 1998 and thereafter	\$ 47,201,986	41,963,178
Balance of imputed credit	\$ 858,381	1,459,163

The undistributed earnings disclosed above, which are included the comparative information of different periods, are disclosed under IFRSs as endorsed by the Financial Supervisory Commission R.O.C.

	For the year ended December 31,	
	2015	2014
Tax credit percentage for cash dividend	(estimated) 1.82%	(actual) 3.36%
Tax credit percentage for stock dividend	(estimated) 1.82%	(actual) 11.61%

(R) Earnings per share

The Group's earnings per share calculated based on simple capital structure are as follows:

	For the year ended December 31,	
	2015	2014
Profit attributable to ordinary shareholders of the Company	\$ 41,018,133	35,367,121
Weighted average number of ordinary shares (thousands shares)	5,732,095	5,732,095
Basic earnings per share (dollar)	\$ 7.16	6.17

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(S) Insurance liabilities

	December 31, 2015	December 31, 2014
Unearned premium reserve	\$ 7,602,907	7,274,503
Claim reserve	2,066,972	1,707,554
Liability reserve	2,533,086,908	2,229,866,073
Special reserve	6,012,186	4,103,652
Premium deficiency reserve	<u>16,280,468</u>	<u>14,146,910</u>
	<u>\$ 2,565,049,441</u>	<u>2,257,098,692</u>

The details of provision for insurance contracts and financial instruments with discretionary participation feature for this account balance and reconciliation were as follows:

(a) The unearned premium reserves for these insurance products are as follows:

	December 31, 2015		
	Insurance Contracts	Financial instruments with discretionary participation	Total
Individual life insurance	\$ 2,896	-	2,896
Individual injury insurance	2,610,624	-	2,610,624
Individual health insurance	3,342,557	-	3,342,557
Group insurance	1,556,182	-	1,556,182
Investment-linked insurance	<u>90,648</u>	-	<u>90,648</u>
Gross reserve	<u>7,602,907</u>	-	<u>7,602,907</u>
Deduction of provision for reinsurance ceded			
Individual life insurance	348,961	-	348,961
Individual injury insurance	23,623	-	23,623
Individual health insurance	1,920	-	1,920
Group insurance	71,571	-	71,571
Investment-linked insurance	<u>10,524</u>	-	<u>10,524</u>
Total ceded reserve	<u>456,599</u>	-	<u>456,599</u>
Net reserve	<u>\$ 7,146,308</u>	<u>-</u>	<u>7,146,308</u>

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	December 31, 2014		
	Insurance Contracts	Financial instruments with discretionary participation	Total
Individual life insurance	\$ 3,174	-	3,174
Individual injury insurance	2,355,710	-	2,355,710
Individual health insurance	3,031,358	-	3,031,358
Group insurance	1,783,897	-	1,783,897
Investment-linked insurance	<u>100,364</u>	-	<u>100,364</u>
Gross reserve	<u>7,274,503</u>	-	<u>7,274,503</u>
Deduction of provision for reinsurance ceded			
Individual life insurance	321,412	-	321,412
Individual injury insurance	25,553	-	25,553
Individual health insurance	1,801	-	1,801
Group insurance	80,462	-	80,462
Investment-linked insurance	<u>11,787</u>	-	<u>11,787</u>
Total ceded reserve	<u>441,015</u>	-	<u>441,015</u>
Net reserve	<u><u>\$ 6,833,488</u></u>	<u><u>-</u></u>	<u><u>6,833,488</u></u>

The changes in unearned premium reserves for these insurance products are as follows:

	For the year ended December 31, 2015		
	Insurance Contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 7,274,503	-	7,274,503
Current provisions	7,602,907	-	7,602,907
Current reclaims	<u>(7,274,503)</u>	-	<u>(7,274,503)</u>
Ending balance	<u>7,602,907</u>	-	<u>7,602,907</u>
Less: Provision for ceded reinsurance			
Beginning balance	441,015	-	441,015
Current provision	456,567	-	456,567
Current reclaim	(441,015)	-	(441,015)
Gain and loss on foreign exchange	32	-	32
Ending balance	<u>456,599</u>	-	<u>456,599</u>
Net ending balance	<u><u>\$ 7,146,308</u></u>	<u><u>-</u></u>	<u><u>7,146,308</u></u>

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	For the year ended December 31, 2014		
	Insurance Contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 6,914,139	-	6,914,139
Current provisions	7,274,498	-	7,274,498
Current reclaims	(6,914,139)	-	(6,914,139)
Gain and loss on foreign exchange	5	-	5
Ending balance	7,274,503	-	7,274,503
Less: Provision for ceded reinsurance			
Beginning balance	386,972	-	386,972
Current provision	440,993	-	440,993
Current reclaim	(386,972)	-	(386,972)
Gain and loss on foreign exchange	22	-	22
Ending balance	441,015	-	441,015
Net ending balance	\$ 6,833,488	-	6,833,488

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) The components of claim reserves are as follows:

	<u>December 31, 2015</u>		
	<u>Insurance Contracts</u>	<u>Financial instruments with discretionary participation</u>	<u>Total</u>
Individual life insurance			
-reported but not paid	\$ 459,302	4,896	464,198
-incurred but not reported	4,403	-	4,403
Individual injury insurance			
-reported but not paid	153,543	-	153,543
-incurred but not reported	315,628	-	315,628
Individual health insurance			
-reported but not paid	196,211	-	196,211
-incurred but not reported	470,388	-	470,388
Group insurance			
-reported but not paid	62,151	-	62,151
-incurred but not reported	277,011	-	277,011
Investment-linked insurance			
-reported but not paid	80,424	-	80,424
-incurred but not reported	<u>43,015</u>	<u>-</u>	<u>43,015</u>
Gross reserve	<u>2,062,076</u>	<u>4,896</u>	<u>2,066,972</u>
Deduction of provision for reinsurance ceded:			
Individual life insurance	47,598	-	47,598
Individual injury insurance	56,654	-	56,654
Group insurance	1,559	-	1,559
Investment-linked insurance	<u>18,369</u>	<u>-</u>	<u>18,369</u>
Total ceded reserve	<u>124,180</u>	<u>-</u>	<u>124,180</u>
Net reserve	<u>\$ 1,937,896</u>	<u>4,896</u>	<u>1,942,792</u>

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	December 31, 2014		
	Insurance Contracts	Financial instruments with discretionary participation	Total
Individual life insurance			
-reported but not paid	\$ 355,462	899	356,361
-incurred but not reported	2,107	-	2,107
Individual injury insurance			
-reported but not paid	114,925	-	114,925
-incurred but not reported	185,364	-	185,364
Individual health insurance			
-reported but not paid	171,620	-	171,620
-incurred but not reported	395,639	-	395,639
Group insurance			
-reported but not paid	63,626	-	63,626
-incurred but not reported	253,780	-	253,780
Investment-linked insurance			
-reported but not paid	131,722	-	131,722
-incurred but not reported	32,410	-	32,410
Gross reserve	1,706,655	899	1,707,554
Deduction of provision for reinsurance ceded:			
Individual life insurance	23,245	-	23,245
Individual injury insurance	55,065	-	55,065
Individual health insurance	210	-	210
Group insurance	2,710	-	2,710
Investment-linked insurance	50,359	-	50,359
Total ceded reserve	131,589	-	131,589
Net reserve	\$ 1,575,066	899	1,575,965

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The movements in claim reserves are as follows:

	For the year ended December 31, 2015		
	Insurance Contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 1,706,655	899	1,707,554
Current provisions	2,061,503	4,896	2,066,399
Current reclaims	(1,706,655)	(899)	(1,707,554)
Gain and loss on foreign exchange	573	-	573
Ending balance	<u>2,062,076</u>	<u>4,896</u>	<u>2,066,972</u>
Less: Provision for ceded reinsurance			
Beginning balance	131,589	-	131,589
Current provision	124,180	-	124,180
Current reclaim	(131,589)	-	(131,589)
Ending balance	<u>124,180</u>	<u>-</u>	<u>124,180</u>
Net ending balance	<u>\$ 1,937,896</u>	<u>4,896</u>	<u>1,942,792</u>
	For the year ended December 31, 2014		
	Insurance Contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 1,855,917	9,196	1,865,113
Current provisions	1,706,338	899	1,707,237
Current reclaims	(1,855,917)	(9,196)	(1,865,113)
Gain and loss on foreign exchange	317	-	317
Ending balance	<u>1,706,655</u>	<u>899</u>	<u>1,707,554</u>
Less: Provision for ceded reinsurance			
Beginning balance	132,734	-	132,734
Current provision	131,589	-	131,589
Current reclaim	(132,734)	-	(132,734)
Ending balance	<u>131,589</u>	<u>-</u>	<u>131,589</u>
Net ending balance	<u>\$ 1,575,066</u>	<u>899</u>	<u>1,575,965</u>

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(c) The components of liability reserves are as follows:

	December 31, 2015		
	Insurance Contracts	Financial instruments with discretionary participation	Total
Individual life insurance	\$ 2,173,370,825	-	2,173,370,825
Individual injury insurance	752,732	-	752,732
Individual health insurance	202,019,155	-	202,019,155
Individual annuity insurance	1,260,880	155,660,242	156,921,122
Investment-linked insurance	23,074	-	23,074
Total	\$ 2,377,426,666	155,660,242	2,533,086,908

	December 31, 2014		
	Insurance Contracts	Financial instruments with discretionary participation	Total
Individual life insurance	\$ 1,893,108,859	-	1,893,108,859
Individual injury insurance	775,439	-	775,439
Individual health insurance	181,373,442	-	181,373,442
Individual annuity insurance	1,320,121	153,267,225	154,587,346
Investment-linked insurance	20,987	-	20,987
Total	\$ 2,076,598,848	153,267,225	2,229,866,073

The movements in the liability reserves are as follows

	For the year ended December 31, 2015		
	Insurance Contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 2,076,598,848	153,267,225	2,229,866,073
Current provisions	422,257,418	26,508,858	448,766,276
Current reclaims	(137,770,112)	(24,115,841)	(161,885,953)
Gain and loss on foreign exchange	16,340,512	-	16,340,512
Ending balance	\$ 2,377,426,666	155,660,242	2,533,086,908

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	For the year ended December 31, 2014		
	Insurance Contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 1,798,404,378	165,728,562	1,964,132,940
Current provisions	377,386,301	18,092,918	395,479,219
Current reclaims	(116,251,812)	(30,554,255)	(146,806,067)
Gain and loss on foreign exchange	17,059,981	-	17,059,981
Ending balance	\$ 2,076,598,848	153,267,225	2,229,866,073

(d) The components of special reserves for these insurance products are as follows:

	December 31, 2015			
	Insurance Contracts	Financial instruments with discretionary participation	Others	Total
Dividend provision for participating policies	\$ 5,359,919	-	-	5,359,919
Valuation surplus gain for investment property	652,267	-	-	652,267
Total	\$ 6,012,186	-	-	6,012,186

	December 31, 2014			
	Insurance Contracts	Financial instruments with discretionary participation	Others	Total
Dividend provision for participating policies	\$ 3,451,385	-	-	3,451,385
Valuation surplus gain for investment property	652,267	-	-	652,267
Total	\$ 4,103,652	-	-	4,103,652

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The movements in special reserves are as follows:

	For the year ended December 31, 2015			
	Insurance Contracts	Financial instruments with discretionary participation	Others	Total
Beginning balance	\$ 4,103,652			4,103,652
Provision for dividend provision for participating policies	1,908,534	-	-	1,908,534
Ending balance	\$ 6,012,186	-	-	6,012,186
	For the year ended December 31, 2014			
	Insurance Contracts	Financial instruments with discretionary participation	Others	Total
Beginning balance	\$ 3,260,602			3,260,602
Provision for dividend provision for participating policies	1,945,594	-	-	1,945,594
Provision for participating policy bonus written off	(1,102,544)	-	-	(1,102,544)
Ending balance	\$ 4,103,652	-	-	4,103,652

(e) The components of premium deficiency reserves are as follows:

	December 31, 2015		
	Insurance Contracts	Financial instruments with discretionary participation	Total
Individual life insurance	\$ 15,821,363	-	15,821,363
Individual injury insurance	33	-	33
Individual health insurance	441,139	-	441,139
Group insurance	17,933	-	17,933
Total	\$ 16,280,468	-	16,280,468

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	December 31, 2014		
	Insurance Contracts	Financial instruments with discretionary participation	Total
Individual life insurance	\$ 13,637,506	-	13,637,506
Individual health insurance	500,999	-	500,999
Group insurance	8,405	-	8,405
Total	\$ 14,146,910	-	14,146,910

The movements in premium deficiency reserve are as follows:

	For the year ended December 31, 2015		
	Insurance Contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 14,146,910	-	14,146,910
Current provision, net	1,994,878	-	1,994,878
Loss on foreign exchange	138,680	-	138,680
Ending balance	\$ 16,280,468	-	16,280,468

	For the year ended December 31, 2014		
	Insurance Contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 10,135,851	-	10,135,851
Current provision, net	3,797,825	-	3,797,825
Loss on foreign exchange	213,234	-	213,234
Ending balance	\$ 14,146,910	-	14,146,910

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(f) Liability adequacy reserve:

Based on the actuary's liability adequacy test report, the results of reserve testing are as follows:

Insurance contracts	December 31, 2015	December 31, 2014
Liability reserve	\$ 2,532,988,623	2,229,815,895
Unearned premium reserve	7,602,706	7,274,370
Premium deficiency reserve	16,280,465	14,146,910
Special reserve	6,012,186	4,103,652
Claim reserve	<u>2,066,823</u>	<u>1,707,544</u>
The carrying amount of the related insurance liabilities	<u>\$ 2,564,950,803</u>	<u>2,257,048,371</u>
Current estimate of future cash flows under its insurance liabilities	<u>\$ 1,982,100,956</u>	<u>1,799,362,320</u>
Total liability adequacy reserve	<u>\$ -</u>	<u>-</u>

The liability adequacy test method adopted by the Group for the year ended December 31, 2015 and December 31, 2014:

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 best estimate assumptions to predict future return on investment.

The above-mentioned liability adequacy test excludes the provisions of the subsidiaries. The omission of such provisions is due primarily to the fact that they only account for tiny proportion of the total provisions which will not affect the result of the liability adequacy test. For provision of revaluation surplus of fixed assets, since the amount of such provision \$652,267 will not recoverable, it is included to the liability adequacy test from the second quarter of 2014.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(g) Special reserve (Catastrophic risk and contingency risk reserve):

December 31, 2015				
	Insurance Contracts	Financial instruments with discretionary participation	Others	Total
Catastrophic risk reserve	\$ 2,838,083	-	-	2,838,083
Contingency risk reserve	9,098,296	-	-	9,098,296
Total	<u>\$ 11,936,379</u>	<u>-</u>	<u>-</u>	<u>11,936,379</u>
December 31, 2014				
	Insurance Contracts	Financial instruments with discretionary participation	Others	Total
Catastrophic risk reserve	\$ 2,015,348	-	-	2,015,348
Contingency risk reserve	8,591,568	-	-	8,591,568
Total	<u>\$ 10,606,916</u>	<u>-</u>	<u>-</u>	<u>10,606,916</u>

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(T) Reserve for insurance with nature of financial instrument

Financial instruments without discretionary participation features, and the movements in the related reserve are as follows:

	December 31, 2015	December 31, 2014
Life insurance	<u>\$ 83,616,757</u>	<u>86,147,768</u>
	<u>For the year ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 86,147,768	92,003,504
Current premiums collected	910	354
Current claims payment	(4,046,730)	(7,389,408)
Current net provision for legal reserve	<u>1,514,809</u>	<u>1,533,318</u>
Ending balance	<u>\$ 83,616,757</u>	<u>86,147,768</u>

(U) Reserve for foreign exchange fluctuation

(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 reserve for foreign exchange fluctuation are as follows:

	<u>For the year ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 3,475,289	825,259
Current provision:		
Compulsory provision	1,831,919	1,317,776
Additional provision	<u>6,236,255</u>	<u>2,966,525</u>
Subtotal	8,068,174	4,284,301
Recovered	<u>(4,064,415)</u>	<u>(1,634,271)</u>
Ending balance	<u>\$ 7,479,048</u>	<u>3,475,289</u>

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(c) Effect of the reserve for foreign exchange fluctuation

Item	<u>Not applied</u> amount	Applied amount	Effect			
December 31, 2015						
Foreign exchange fluctuation reserve	\$ -	7,479,048	(7,479,048)			
Shareholders' equity	187,315,077	182,781,794	4,533,283			
December 31, 2014						
Foreign exchange fluctuation reserve	-	3,475,289	(3,475,289)			
Shareholders' equity	224,806,667	223,596,504	1,210,163			
	For the year ended December 31, 2015		For the year ended December 31, 2014			
Item	Not applied amount	Applied amount	Effect	Not applied amount	Applied amount	Effect
Income after tax	\$ 44,341,253	41,018,133	3,323,120	37,566,646	35,367,121	2,199,525
Earnings per share	7.74	7.16	0.58	6.55	6.17	0.38

(V) Deferred acquisition cost and deferred handling fee

(a) 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 are as follows:

	For the year ended December 31,	
	2015	2014
Beginning balance	\$ 360,324	455,797
Addition	85,699	92,204
Amortization	(84,180)	(187,677)
Ending balance	\$ 361,843	360,324

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Deferred handling fees

The handling fees incurred on investment administrative work were likewise deferred in connection with the sales of investment-linked insurance policies, classified as financial instrument without discretionary participation features. The movements in these deferred handling fees are as follows:

	For the year ended December 31,	
	2015	2014
Beginning balance	\$ 769,655	699,591
Addition	232,845	272,958
Amortization	(107,469)	(202,894)
Ending balance	\$ 895,031	769,655

(W) Premium

(a) Retained earned premium

	For the year ended December 31, 2015		
	Insurance Contracts	Financial instruments with discretionary participation	Total
Direct written premiums	\$ 418,121,599	\$ 23,659,951	441,781,550
Reinsurance premiums	3,363	-	3,363
Premium income	418,124,962	23,659,951	441,784,913
Less: reinsurance premium ceded	1,174,934	-	1,174,934
Net change in unearned premium reserves	312,852	-	312,852
Subtotal	1,487,786	-	1,487,786
Retained earned premiums	\$ 416,637,176	23,659,951	440,297,127

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	For the year ended December 31, 2014		
	Insurance Contracts	Financial instruments with discretionary participation	Total
Direct written premiums	\$ 380,940,626	15,033,433	395,974,059
Reinsurance premiums	5,128	-	5,128
Premium income	380,945,754	15,033,433	395,979,187
Less: reinsurance premium ceded	5,595,693	-	5,595,693
Net change in unearned premium reserves	306,338	-	306,338
Subtotal	5,902,031	-	5,902,031
Retained earned premiums	<u>\$ 375,043,723</u>	<u>15,033,433</u>	<u>390,077,156</u>

(b) Retained claims payment

	For the year ended December 31, 2015		
	Insurance Contracts	Financial instruments with discretionary participation	Total
Claims payment incurred	\$ 164,150,961	24,361,726	188,512,687
Reinsurance claims payment incurred	2,528	-	2,528
Insurance claims payment	164,153,489	24,361,726	188,515,215
Less: Claims payment recovered from reinsurers	409,984	-	409,984
Retained claims payment	<u>\$ 163,743,505</u>	<u>24,361,726</u>	<u>188,105,231</u>

	For the year ended December 31, 2014		
	Insurance Contracts	Financial instruments with discretionary participation	Total
Claims payment incurred	\$ 142,706,595	30,806,547	173,513,142
Reinsurance claims payment incurred	2,246	-	2,246
Insurance claims payment	142,708,841	30,806,547	173,515,388
Less: Claims payment recovered from reinsurers	3,646,603	-	3,646,603
Retained claims payment	<u>\$ 139,062,238</u>	<u>30,806,547</u>	<u>169,868,785</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(X) Non-operating income and expenses

	For the year ended December 31,	
	2015	2014
Losses on disposal of fixed assets and equipment	\$ (7,607)	(2,399)
Impairment loss on assets	-	(189,667)
Other non-operating income and expenses	525,330	413,613
Total	\$ 517,723	221,547

(Y) The nature and extent of risks arising from insurance contracts

(a) The objectives, policies, processes and methods used for managing risks arising from insurance contracts.

(1) The organization of risk management

A risk management committee has been set up under the jurisdiction of the board of directors and is convened by independent directors. This committee supervises the overall risk control of the Group and its subsidiary and reports to the board of directors regularly. In order to effectively handle the risk management operation, two special committees were established as follows:

- 1) **Assets and Liabilities Management Committee:** The chairman of the Group serves as the chairman of the committee. As part of its oversight responsibility, the committees consider the balance between assets and liabilities, set up strategic target of assets and liabilities and supervise the execution process.
- 2) **Operational Risk Management Committee:** This is convened by the Group president to supervise and manage the operational risk of the Group 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, the Group'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, rules governing the organization of risk management committee and rules governing the organization of risk related committee. The Group has established diverse risk management policy, stop-loss limit order, internal tiers authorization system and criteria for assessment to facilitate effective risk management.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(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.

(b) Insurance risk management

(1) Underwriting risk management

Underwriting risk refers to the unexpected risk arising from soliciting new insurance policies, and relevant expenditures. In order to manage underwriting risk, the Group has classified underwriting risk into the following types:

- 1) Risk of policyholder concealment
- 2) Risk of insurance content
- 3) Occupational and financial risk
- 4) Risk of health conditions
- 5) Risk of the lack of experience of the underwriter
- 6) Risk of retention
- 7) Risk of operation quality

Aside from establishing “Underwriting Systems and Procedures” based on the “Regulations Governing New Insurance Solicitation Policy, 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 propriety of underwriting assessment and to monitor the accuracy and timeliness of underwriting operation.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) Claim risk management

Claim risk refers to the risk arising from adopting inappropriate or negligent procedures on claims settlement procedure. In order to manage 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, the Group also monitors the accuracy, timeliness, policy holder complaint ratio and actual loss ratio through the levels of authority set for 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 of new product is analyzed and an internal meeting is held before a new product is launched. 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. They also set assets allocation plans, which take into the characteristics of the requirement of asset and liabilities management, and conform to sales review meeting regularly after sales.

(4) Reserve-risk management

Reserve-related risk refers to the risk arising from underestimating the liabilities from insufficient written premium provision to cover future obligation. In order to control the reserve-risk, the reserve-risk is categorized into the statutory compliance 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 control points are established within the framework to ensure the accuracy of the calculation.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(5) Catastrophic risk and reinsurance risk

To avoid risk concentration and catastrophic compensation, the following controls are established.

1) Catastrophic risk

Based on the Group'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. The catastrophic losses that may arise from life insurance and accident insurance are likewise considered in evaluation of catastrophic risk.

2) 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 the Group's annual reinsurance policy. This plan includes retention risk management, ceded insurance risk management, assumed insurance risk management, intergroup reinsurance risk management.

The credit rating of the reinsurers is also monitored monthly. Such credit rating is based on Article 8 of "Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms". Under this Article, reinsurers or insurance organizations with a credit rating above a certain level from an international credit rating agency (BBB or higher from Standard & Poor's Corporation) are eligible as reinsurers to whom an insurance enterprise may cede it business. The Group currently adopts Standard and Poor's A- or above as its guideline.

(6) Assets and liabilities combination risk

- 1) To enhance the overall assets and liabilities allocation, maintain adequate liquidity, and improve capital performance for the purpose of maximizing the risk management reward, management monitor compliance of the Group 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 the Group to sustain adequate capital to cover the potential risk from business operation.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
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- 2) The Assets and Liabilities Management Committee holds meetings monthly and the responsible department in the Group performs the cash flow test using the spot interest rate and estimates the earnings at the end of each year to test the Group's liquidity. In addition, the Risk-Based Capital ratio is examined and simulated via important elements to execute sensitivity analysis which serves as the reference for capital adequacy decision. Furthermore, the change between Venture Capital and equity fund is analyzed to identify the reason for such changes and capital liquidity risk analysis is performed by using the accumulated net cash flow in a year and the accumulated net cash flow in 5 years as the benchmark for risk management.

(7) Risk management report

- 1) A Risk Management Committee is set up under the supervision of the Board of Directors. Except for the independent directors acting as the conveners, all other independent directors are members of the committee, which holds 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.
- 2) The committee also reviews the overall risk management. Aside from supervising the implementation of risk management policies to ensure that the Group 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.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(c) Information of insurance risk

(1) Sensitivity of insurance risk—Insurance contracts and financial instrument with discretionary feature

For the year ended December 31, 2015			
	<u>Change of assumption</u>	<u>Change of income before tax</u>	<u>Change of stockholder's equity</u>
Mortality/Morbidity	Increase 10 %	(2,200,372)	(1,826,309)
Rate of return	Decrease 0.1 %	(2,703,401)	(2,243,823)
Expense (fixed expense)	Increase 5 %	(343,700)	(285,271)
Lapse and surrender rate	Increase 10 %	227,034	188,438

For the year ended December 31, 2014			
	<u>Change of assumption</u>	<u>Change of income before tax</u>	<u>Change of stockholder's equity</u>
Mortality/Morbidity	Increase 10 %	(2,119,010)	(1,758,778)
Rate of return	Decrease 0.1 %	(2,397,454)	(1,989,887)
Expense (fixed expense)	Increase 5 %	(383,850)	(318,596)
Lapse and surrender rate	Increase 10 %	184,813	153,395

The sensitivity analysis requires evaluating the impact to income before tax/stockholders' equity in which only one element changes and the others remain constant. The influence on stockholder's equity evaluating the impact to income before tax/stockholders' equity in which only one element changes and the others remain on Mortality, Morbidity, Rate of return, Expense rate and Lapse rate, assuming that the tax rate was 17%. The sensitivity analysis does not include the information of the subsidiaries, such the exclusion is due to the fact that the retention of earned premiums accounted for only minimum of the consolidated retention of earned premiums and is not expected to affect the result of the sensitivity analysis.

(2) Insurance risk concentration

The Group sells insurances, which includes life insurance, annuity insurance, accident insurance and health insurance. As all of these insurance contracts are issued from Taiwan, the insurance risk is concentrated in Taiwan.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) Claim development trend

1) Development trend of claims payment incurred

Cumulative claims payment and adjustment to the consolidated balance sheet are as follows:

December 31, 2015								
Occurrence Year	Development year							Claim Reserve
	1	2	3	4	5	6	7	
2009	3,002,570	3,389,116	3,429,856	3,438,866	3,442,739	3,446,788	3,450,942	-
2010	3,426,842	3,989,417	4,044,102	4,059,304	4,062,735	4,066,811	-	-
2011	3,500,731	4,151,270	4,214,277	4,225,892	4,232,924	-	-	-
2012	3,534,236	4,263,656	4,330,262	4,347,231	-	-	-	-
2013	3,970,050	4,725,262	4,813,040	-	-	-	-	10,934
2014	4,172,446	5,113,019	-	-	-	-	-	84,353
2015	4,605,165	-	-	-	-	-	-	999,192
IBNR Reserve								1,094,479
Plus: RBNA Reserve								956,527
The balance of claim reserve								2,051,006

December 31, 2014								
Occurrence Year	Development year							Claim Reserve
	1	2	3	4	5	6	7	
2008	3,020,586	3,528,026	3,560,745	3,564,356	3,571,232	3,574,204	3,576,578	-
2009	3,002,570	3,389,116	3,429,856	3,438,866	3,442,739	3,446,788	-	-
2010	3,426,842	3,989,417	4,044,102	4,059,304	4,062,735	-	-	-
2011	3,500,731	4,151,270	4,214,277	4,225,892	-	-	-	-
2012	3,534,236	4,263,656	4,330,262	-	-	-	-	4,022
2013	3,970,050	4,725,262	-	-	-	-	-	75,006
2014	4,172,446	-	-	-	-	-	-	774,015
IBNR Reserve								853,043
Plus: RBNA Reserve								838,254
The balance of claim reserve								1,691,297

Note 1 : Amount shown above excludes investment contracts.

Note 2 : As of December 31, 2015, and December 31, 2014, except for the IBNR Reserve of Investment-linked products and the IBNR of the subsidiary, from claims payment incurred are not estimated based on claim development trend amounts to \$15,966 and \$16,256, respectively.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

2) Development trend of retained claims payments

Cumulative claims payments from prior years are as follows:

December 31, 2015								
Occurrence Year	Development year							Claim Reserve
	1	2	3	4	5	6	7	
2009	2,692,917	3,000,037	3,038,956	3,047,944	3,052,342	3,056,391	3,060,545	-
2010	3,262,624	3,703,188	3,757,543	3,772,737	3,776,169	3,780,233	-	-
2011	3,437,890	3,981,026	4,044,397	4,056,011	4,063,016	-	-	-
2012	3,526,249	4,184,487	4,251,072	4,268,016	-	-	-	-
2013	3,942,698	4,565,096	4,651,774	-	-	-	-	10,764
2014	4,166,511	4,992,049	-	-	-	-	-	82,482
2015	4,587,144	-	-	-	-	-	-	993,815
IBNR Reserve								1,087,061
Plus: RBNA Reserve								841,977
The balance of claim reserve								1,929,038

December 31, 2014								
Occurrence Year	Development year							Claim Reserve
	1	2	3	4	5	6	7	
2008	2,546,849	2,972,473	3,001,734	3,006,979	3,013,816	3,016,784	3,019,159	-
2009	2,692,917	3,000,037	3,038,956	3,047,944	3,052,342	3,056,391	-	-
2010	3,262,624	3,703,188	3,757,543	3,772,737	3,776,169	-	-	-
2011	3,437,890	3,981,026	4,044,397	4,056,011	-	-	-	-
2012	3,526,249	4,184,487	4,251,072	-	-	-	-	3,915
2013	3,942,698	4,565,096	-	-	-	-	-	72,403
2014	4,166,511	-	-	-	-	-	-	772,126
IBNR Reserve								848,444
Plus: RBNA Reserve								713,494
The balance of claim reserve								1,561,938

Note 1 : Amount shown above excludes investment contracts.

Note 2 : As of December 31, 2015, and December 31, 2014, except for the IBNR Reserve of Investment-linked products and the IBNR of the subsidiary, from claims payment incurred are not estimated based on claim development trend amounts to \$13,754 and \$14,028, respectively.

Claims 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 the Group 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.

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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 the Group estimate the compensation amount of each year as time passes by. 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.

(d) The credit risk, liquidity risk and market risk of insurance contracts

(1) Credit risk

The credit risk from Insurance Contract arises mainly from the inability of reinsurers to fulfill the obligation of reinsurance contracts which result in financial losses. The Group monitors the credit rating of reinsurers monthly to ensure that they meet the minimum regulatory requirements. It also selects reinsurers prudently to reduce the potential loss.

Compliance with the “Regulations Governing the Provision of Unauthorized Reinsurance Reserves for Insurance Company” No.5, the transaction with unauthorized reinsurers shall be represented in the notes of financial statements and the content shall include the following items:

1) The summary of unauthorized reinsurance contracts and types of reinsurance:

As of December 31, 2014, the major unauthorized reinsurer is Generali R?ckversicherung AG, which takes proportional reinsurance of specified group life insurance, group accident insurance, and group health insurance.

2) The reinsurance premium expense of unauthorized reinsurance contracts:

As of December 31, 2014, the reinsurance premium expense of unauthorized reinsurance contracts was \$43,632.

3) General description of the amount of unauthorized reserve and its components:

As of December 31, 2014, the amount of unauthorized reserve was \$42,775, the sum of \$21,816 of unearned premium reserve, \$20,959 of paid claims recoverable from reinsurers, which is not overdue more than 9 months, and \$0 of reported but unpaid ceded reinsurance claim reserve.

4) No unauthorized reinsurance contracts for the year ended December 31, 2015.

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(2) Liquidity risk

The liquidity risk of insurance contract arises mainly from the inability of the Group 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, the Group 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 sets in advance the response strategy for potential payments in order to enhance timely liquidity risk management and to avoid the situation of inadequate liquidity.

The maturity analysis of Insurance Contracts of the Group is shown below:

(Unit: NT\$ million)

December 31, 2015						
Maturity date	<1 year	1~3 years	3~5 years	>5 years	Unable to classify(note)	Total
Provision	133,834	240,872	275,324	1,743,597	254,387	2,648,014
Proportion	5.1 %	9.1 %	10.4 %	65.8 %	9.6 %	100.0 %

December 31, 2014						
Maturity date	<1 year	1~3 years	3~5 years	>5 years	Unable to classify(note)	Total
Provision	69,037	254,945	271,508	1,481,483	265,621	2,342,594
Proportion	3.0 %	10.9 %	11.6 %	63.2 %	11.3 %	100.0 %

Note: The "Unable to classify" includes interest-linked product, authorized additional provision, and the reserve of allowance for doubtful accounts recognized by business tax saving benefits. The amounts above exclude provision for separate account, foreign exchange fluctuation reserve and revaluation surplus of fixed assets.

(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.

The Group 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 the Group.

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Guided by Assets and Liabilities Management Committee, the Group takes 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 the Group.

(Z) Fair value and fair value hierarchy

(a) Fair value information

(1) General description

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

The financial instruments are record as fair value when original recognizing, usually refer to the transaction price in many circumstances. Except some amortized cost financial instruments, the financial instruments are measured in fair value. A quoted market price in an active market provides the most reliable evidence of fair value. If financial instruments are without active market, the Group adopted the value technique, reference to fair value of the financial instruments used by the electronic and information firms and widely used by market participants to evaluate or measure the financial instruments.

(2) The definition of fair value hierarchy

1) Level 1 inputs

Level 1 inputs are quoted prices in active markets for identical financial instruments. The active market: A market in which transactions for the homogenous assets or liabilities take place with sufficient frequency and volume to provide pricing information. Taiwan government bonds, the equity and debt instruments with active market invested by the Group are Level 1 inputs.

2) 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., as prices) or indirectly (i.e. derived from prices). Domestic preferred stocks, bond investments and major derivative instruments with no active market invested by the Group are Level 2 inputs.

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3) Level 3 inputs

Level 3 inputs are unobservable inputs for the asset or liability in market. Unobservable inputs like: Option pricing model using the historical volatility. Because the historical volatility cannot represent the future volatility expected value of whole market participants. Equity and bond instruments, partial derivatives according to counter-parties pricing which are with no active market and investment property are Level 3 inputs.

(b) Based on fair value measurement

(1) The fair value hierarchy information

The financial instruments and investment property which are recorded as fair value measure on an ongoing basis, the fair value hierarchy of information are as follows:

Assets and liabilities items	December 31, 2015			
	Total	Quoted prices in active markets for identical financial instruments Level 1	Significant quoted prices that are observable inputs Level 2	Significant quoted prices that are unobservable inputs Level 3
Financial products measured at fair value through profit or loss:				
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Held-for-trading				
Bond investment	\$ 1,959,664	1,959,664	-	-
Financial assets measured at fair value on initial recognition	1,448,528	-	1,448,528	-
Available-for-sale financial assets				
Security investment	359,496,188	359,406,070	-	90,118
Bond investment (Note)	720,049,509	554,481,717	124,660,826	40,906,966
Others	279,983,036	252,616,067	-	27,366,969
Investment property	166,905,951	-	-	166,905,951
Derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss	\$ 607,966	-	607,966	-
Hedging derivative assets	678,556	-	678,556	-
Liabilities:				
Financial liabilities at fair value through profit or loss	13,162,301	-	13,162,301	-
Hedging derivative liabilities	16,581	-	16,581	-

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Assets and liabilities items	December 31, 2014			
	Total	Quoted prices in active markets for identical financial instruments Level 1	Significant quoted prices that are observable inputs Level 2	Significant quoted prices that are unobservable inputs Level 3
Financial products measured at fair value through profit or loss:				
loss:				
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Held-for-trading				
Bond investment	\$ 2,228,700	2,228,700	-	-
Financial assets measured at fair value on initial recognition	1,041,160	1,041,160	-	-
Available-for-sale financial assets				
Security investment	414,835,115	414,727,925	-	107,190
Bond investment (Note)	921,303,088	729,742,176	141,332,633	50,228,279
Others	282,941,949	265,218,359	475,467	17,248,123
Derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss	\$ 416,416	-	348,988	67,428
Hedging derivative assets	208,468	-	208,468	-
Liabilities:				
Financial liabilities at fair value through profit or loss	19,358,420	-	19,287,768	70,652
Hedging derivative liabilities	32,057	-	32,057	-

Note: Including the government bonds recognized in guarantee deposits paid.

(2) Valuation techniques used in estimating the fair values of financial instruments

1) Financial Instruments

If the financial instruments has quoted price in an active market, the quoted price is regarded as its fair value. Market OTC bulletin, the central government bonds and net investment adviser, investment trust fund Association, are among the basic listing have active equity instruments and debt instruments of the fair market value of publicly quoted

The financial instruments of quoted price ask (bid) from Exchange, Brokers, Pricing service agencies or Government timely and consistently, with transaction taking place actually and frequently. Thus the financial instruments has quoted price in an active market. If the above conditions are not fulfilled, the market is inactive. Normally if the bid-ask spread is huge, a significant increase in bid-ask spread or trading volume reduce, are all indicators of the market is not active.

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Except for the above financial instruments of quoted price in an active market, there is no quoted price in an active market for the financial asset, its fair value is estimated on the basis of the result of a valuation technique that refers to quoted prices considered the identical financial instrument with same characteristics and essential terms of transaction, including the required parameters of market information that can be obtained, such as the trade center of the interest rate yield curve.

The Group applied the public active market participants' pricing techniques if the pricing standards of financial instruments, such as non-active market bonds, are not complex and not based on standard pricing models. Such pricing models of financial instruments are usually based on market observable information.

Derivatives financial instruments adopted the pricing model used by active market participants such as Discounted Cash Flow model. Forward foreign exchange contracts are based on forward exchange rate system based on the current evaluation, the evaluation model applies the simple discounted cash flow analysis. Interest rate derivative financial instruments used the parameters of the market which can be directly observed, and the evaluation model applies the simple discounted cash flow analysis.

2) Non-financial instruments

Determining the fair value of investment property, financial statements prepared in accordance to the guidelines of Department of Insurance regulations, commissioned by a professional appraisal agencies to evaluate the value. Refer to Note 6(E) for details.

(3) Adjustment for fair value

The restraint of evaluation model and uncertain inputs. Evaluation model has its limitation and hence may not reflect all the relevant factors in both the financial and non-financial instruments of the Group.

The estimates of output based value using the evaluation model, which may not reflect the Group's all related factors. Therefore the estimated value of the evaluation model will be appropriately adjusted according to the extra parameters such as model risk or liquidity risk. Information and price parameters used in the evaluation process after careful assessment, and appropriately adjusted according to the current market situation.

(4) Transfer between Level 1 and Level 2

The transfer between Level 1 and Level 2 is due to change in evaluation source for the year ended December 31, 2015 and 2014.

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(5) Level 3 movement details

Movements in fair value measurement of financial assets classified under Level 3 are as follows:

Name	For the year ended December 31, 2015							Ending balance
	Beginning balance	Valuation profit or loss		Increase		Decrease		
		Recognized in profit or loss	Recognized in other comprehensive income	Purchase or issuance	Transfer to Level 3 from other tiers	Sale, disposal or settlement	Transferring to other tiers from Level 3	
Financial assets at fair value through profit or loss								
Held for trading	\$ 67,428	(67,428)	-	-	-	-	-	-
Available-for-sale financial assets	67,583,592	(2,278,282)	84,355	12,618,780	1,669,354	4,667,774	6,645,972	68,364,053
Investment property	113,946,178	341,611	189,799	61,364,031	-	1,162	8,934,506	166,905,951
Total	\$ 181,597,198	(2,004,099)	274,154	73,982,811	1,669,354	4,668,936	15,580,478	235,270,004

- (a) Due to lack of observable market data (on such securities due to reduction in market activity) which caused the transfer from Level 2 to Level 3.
- (b) The Group policy leads to changes in the date of transfer of matter or the situation (or during the reporting period start date or end date of reporting) which result in the transfer in and out of Level 3.
- (c) Due to observable market data hence results in a transfer from Level 3 to Level 2.

Name	For the year ended December 31, 2014							Ending balance
	Beginning balance	Valuation profit or loss		Increase		Decrease		
		Recognized in profit or loss	Recognized in other comprehensive income	Purchase or issuance	Transfer to Level 3 from other tiers	Sale, disposal or settlement	Transferring to other tiers from Level 3	
Financial assets at fair value through profit or loss								
Held for trading	\$ 178,709	(111,281)	-	-	-	-	-	67,428
Available-for-sale financial assets	57,941,674	(726,803)	5,180,527	9,698,916	6,898,923	2,955,283	8,454,362	67,583,592
Total	\$ 58,120,383	(838,084)	5,180,527	9,698,916	6,898,923	2,955,283	8,454,362	67,651,020

- (a) Due to lack of observable market data (on such securities due to reduction in market activity) which caused the transfer from Level 2 to Level 3.
- (b) The Group policy leads to changes in the date of transfer of matter or the situation (or during the reporting period start date or end date of reporting) which result in the transfer in and out of Level 3.
- (c) Due to observable market data hence results in a transfer from Level 3 to Level 2.

Movement of financial liabilities measured at fair value classified to Level 3

Name	For the year ended December 31, 2015						Ending balance
	Beginning balance	Valuation recognized in profit or loss	Increase		Decrease		
			Purchase or issuance	Transfer to Level 3 from other tiers	Sale, disposal or settlement	Transferring to other tiers from Level 3	
Financial liabilities measured by fair value through profit and loss							
Held-for-trading financial liabilities	\$ 70,652	(70,652)	-	-	-	-	-

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Name	Beginning balance	Valuation recognized in profit or loss	For the year ended December 31, 2014				Ending balance
			Increase		Decrease		
			Purchase or issuance	Transfer to Level 3 from other tiers	Sale, disposal or settlement	Transferring to other tiers from Level 3	
Financial liabilities measured by fair value through profit and loss							
Held-for-trading financial liabilities	\$ -	70,652	-	-	-	-	70,652

	<u>For the year ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Amount recognized in profit or loss for the above-mentioned unrealized gains (losses)	\$ <u>(1,931,154)</u>	<u>(405,599)</u>
Amount recognized in other comprehensive income for the above-mentioned unrealized gains (losses)	\$ <u>455,091</u>	<u>5,252,316</u>

(6) Significant unobservable fair value (Level 3)

The fair value measurements of the Group is classified as Level 3 and are mainly attributed from financial assets designated as at fair value through profit or loss on initial recognition, available-for-sale financial assets and investment property.

Due to the lack of available open market pricing to determine the fair value of available-for-sale financial assets, the Group obtains the market quotation based on public active market participants' pricing techniques or counter-parties pricing. In accordance to the insurance industry's financial reporting system, fair value of investment property are classified as Level 3. The value of the professional appraisal institution obtained the support of market evidence to determine the fair value. Refer to Note 6(E) for details.

As of December 31, 2015, the amount of assets amounted to \$235,270,004 are not disclosed due to the lack of significant observable information.

(7) Valuation process of fair value classified in Level 3

The fair value of the Group measured using unobservable input value shall be based on both observable and unobservable parameters to make significant adjustments of fair value. Such classifications are based on two sources which are, first, pricing provided by professional electronic information company and there should not be any differences in pricing due to different personnel as it requires specified settings to obtain; second, pricing obtained from counter-parties where product pricing are based on monthly reports and a copy of backup will be saved. Subsequent pricing assessment will be done to ensure the consistency and accuracy.

In accordance to the valuation methods and parameters as set up by FSC, the pricing of investment property is determined by external appraisers.

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(8) Sensitivity and reasonableness of fair value of Level 3 investments

The fair value pricing of financial investments and investment property of the Group are reasonable as no self-assessment pricing model was applied and hence, no alternative or sensitivity test will be performed.

(c) Non-fair value measurement

(1) Fair value information

Other than the following financial investments as stated in the table below, such as cash and cash equivalents, receivables and other financial assets - certificates of deposit and futures margin and settlement, loans, short-term debts and other payable are disclosed based on amount similar to fair value and hence fair value is not disclosed due to no major differences. Due to the lack of reliable open active market available price and hence, those financial investments are measured at cost.

Items	Carrying amount	Fair value
December 31, 2015		
Financial assets		
Non-active market of debt instruments	\$ 881,393,782	881,620,944
Held-to-maturity of financial assets	25,169,487	28,546,080
Other financial assets	28,929,122	29,198,400
December 31, 2014		
Financial assets		
Non-active market of debt instruments	544,186,113	553,946,174
Other financial assets	44,818,068	44,810,298

For fair value adjustments detailed information, refer to Note 6(X)(b)(3).

(2) The fair value hierarchy information

Assets and liabilities items	Total	December 31, 2015		
		Quoted prices in active markets for identical financial instruments Level 1	Significant quoted prices that are observable inputs Level 2	Significant quoted prices that are unobservable inputs Level 3
Financial assets:				
Non-active market financial instruments	\$ 881,620,944	66,800,104	465,303,192	349,517,648
Held-to-maturity of financial assets	28,546,080	28,546,080	-	-
Other financial assets	29,198,400	-	-	29,198,400

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) Valuation techniques

The methods and assumptions used by the Group to determine the fair value of the financial instruments are as follows:

- 1) The carrying value of its short-term financial instruments on the balance sheet shows the estimate of fair value; for such items with short-term maturity, the reasonable basis can be determined based on the carrying amount. These apply to cash and cash equivalent, other financial assets –time deposit and futures margin and settlement provisions, loans, short-term debts and account payable.
- 2) If the financial assets are based on a public offer active market, then the market price will be the fair value. If there is no active market pricing as reference, the price quoted in pricing model or from counter-parties are used as reference. This applies to held-to-maturity financial assets and other financial assets.
- 3) Non-active market debt instruments comprise of local government bonds, financial bonds, corporate bonds and investment-linked bonds, beneficiary certificate, and preferred stocks. Fair value assessment of no active market are based on cost and relevant disclosure are based on valuation techniques or pricing from counter-parties. Valuation techniques are based on discounted cash flow to calculate fair value.

(AA) Financial risk management

(a) Risk management system

(1) The organization structure of risk management

The Company is management committee which is under the jurisdiction of the board of directors and was convened by independent directors. It is to supervise the overall risk control of the Company and report to the board of directors regularly. In order to effectively examine the Company's risk management operation, two special committees were established.

- 1) Assets and Liabilities Management Committee: The chairman of the Company serves as the chairman of the committee. The committee is to consider the balance between assets and liabilities, set up the strategic target of assets and liabilities and supervise the execution progress.
- 2) Operational Risk Management Committee: It is convened by the president to supervise and manage the operational risk of the Company in order to assure the management adopts appropriate risk management procedures within its authority. Furthermore, in order to assist all business units to carry out the risk control and to facilitate the coordination of other risk control affairs, the Company's board of directors designates a chief risk officer to be in charge of a risk management department which is independent of all business units. The

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risk management department executes or assists to execute risk control duty following the regulation of risk management policy, organization rules governing the risk management committee and organization rules governing the risk related committee. The Company has established diverse risk management policy, stop-loss limit order, internal tiers authorization system and criteria for assessment in order to facilitate effective risk management.

The risk management mechanism of the subsidiaries is conducted per the relevant regulations of local authority and the risk management rules of the Company. It is to control certain risks such as market, credit and liquidity risk and measure and evaluate the overall investment position regularly. The risk management staff prepares management and evaluation internal monitoring reports for various risks.

(2) Risk management policies

The Company pronounced Risk Management Policy under the consent of the board of directors. The policy regulates the strategy and target as well as the mechanism of risk management. The risk management strategy is based on the regulation of overall operation target, management strategy and risk management. It is to establish appropriate risk management system and management procedure so as to identify, evaluate, measure, supervise, respond and report potential risk. Through the announcement of the risk management policies, the Company established clear management targets, controlling methods and the responsibilities for respective departments to ensure the operating capital is adequate and to create profit for shareholders.

(3) Risk management process

The process of the Company's risk management includes: Risk identification, risk measurement, risk monitoring and risk report.

- 1) Risk identification: Risk factors refer to the internal and external factors which may subject the Company to certain risks during the operating process; risk identification is to confirm various risk factors and the sources of the risks from investing activities.
- 2) Risk measurement: To set up quantitative and qualitative risk management methods、Index and models and generate relevant risk management reports to effectively identify, measure and monitor risk exposure and to adopt effective procedures to diminish, transfer and control the risks under an acceptable extent.
- 3) Risk monitoring: Through risk management methods, mechanism and reports to continuously monitor various risk exposure in order to control and respond in time.

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- 4) Risk report: Except for the regular report during the monitoring process, the risk management staff shall report immediately when abnormal or other special situation occurs and take appropriate actions (including the diminishing, control, transfer and tolerating of risk) to minimize the possible impact to the Company.

In accordance with the risk management policies of the Company, the Company control risks such as market risk, credit risk, liquidity risk, operation risk, insurance risk, assets and liabilities coordination risk. In addition to the arrangement regulated by the authorities, the Company also established measurement and evaluation management mechanism to regularly prepare management and evaluation monitoring report for various risks.

(4) Risk hedging and diminishing strategy

The Company takes capital scale and risk tolerance into consideration and review capital adequacy regularly to ensure the capital is adequate. Furthermore, by combining several business aspects such as the understanding of the market status, the Company operating strategy, product characteristics and risk control, the Company also analyzes the risk structure and risk level of the overall position and constrains the Company's risk within the pre-approved extent or adjusts the Company's risk to a tolerable extent. The execution of risk hedging and diminishing strategy is adjusted based on the risk tolerance of the Company.

(b) Credit risk analysis

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. The Group may suffer losses from these incidents.

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The credit risk of the Group is mainly from the financial instrument transactions resulted from operating activities. The primary transactions are security investments and loans. Details based on industry and geographic area details are as follows:

(1) Credit risk exposure- industry

<u>Financial assets</u>	<u>December 31, 2015</u>		<u>December 31, 2014</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Industrial enterprise	\$ 54,809,297	3.04 %	26,498,639	1.62 %
Public business	70,134,609	3.89 %	60,484,972	3.70 %
Diversification	343,424	0.02 %	307,308	0.02 %
Mortgage backed securities	39,763,858	2.21 %	42,942,982	2.62 %
Financial sector	693,891,101	38.53 %	669,370,583	40.91 %
Consumer staples	99,204,886	5.51 %	48,177,119	2.94 %
Government	374,092,237	20.77 %	457,765,064	27.98 %
Technology	45,119,402	2.51 %	13,580,501	0.83 %
Raw material	50,700,178	2.82 %	49,295,159	3.01 %
Consumer discretionary	47,437,117	2.63 %	18,605,440	1.14 %
Energy	68,121,360	3.78 %	67,647,683	4.13 %
Assets backed securities	6,740,441	0.37 %	2,210,698	0.14 %
Telecommunication	108,920,108	6.05 %	57,353,786	3.51 %
Other	141,513,927	7.87 %	122,088,381	7.45 %
Total	<u>\$ 1,800,791,945</u>	<u>100.00 %</u>	<u>1,636,328,315</u>	<u>100.00 %</u>

(2) Credit risk exposure-geographic area

<u>Financial assets</u>	<u>December 31, 2015</u>		<u>December 31, 2014</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Taiwan	\$ 661,760,485	36.75 %	714,542,264	43.67 %
Asia except Taiwan	189,940,330	10.55 %	182,265,236	11.14 %
North America	642,546,160	35.68 %	404,415,331	24.71 %
Middle and South America	15,113,391	0.84 %	26,433,911	1.62 %
Europe	282,128,846	15.67 %	296,389,269	18.11 %
Africa/Middle East	9,302,733	0.51 %	12,282,304	0.75 %
Total	<u>\$ 1,800,791,945</u>	<u>100.00 %</u>	<u>1,636,328,315</u>	<u>100.00 %</u>

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In terms of credit quality, the Group traces the credit rating data of various credit rating institutions regularly for normal assets which are not overdue and not impaired and categories the quality into three levels, which are low risk, medium risk and high risk based on the credit rating. The definition of each level is as follows:

Low risk: The issuers or the counterparties are rated as robust or above to fulfill their obligation of the contracts. Even under various negative news or disadvantageous economic conditions, the companies are capable of dealing with the situations.

Medium risk: The issuers or the counterparties have lower capability of fulfilling their obligation. Negative news or disadvantageous economic conditions may weaken their financial statuses and result in the doubt of asset impairment or the loss of the Group.

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.

Credit analysis of financial assets

		December 31, 2015						
		Low risk	Medium risk	High risk	No credit rating	Overdue but not impaired	Impaired	Accumulated impairment
Total	\$	<u>1,282,025,803</u>	<u>518,288,688</u>	<u>557,462</u>	-	-	<u>3,093,657</u>	<u>2,438,759</u>
		December 31, 2014						
		Low risk	Medium risk	High risk	No credit rating	Overdue but not impaired	Impaired	Accumulated impairment
Total	\$	<u>1,184,713,418</u>	<u>449,485,729</u>	<u>660,391</u>	<u>1,000,000</u>	-	<u>3,067,279</u>	<u>1,877,200</u>

Note1: Normal assets include debt assets but not funds and stocks. Impaired and accumulated impairment include debt assets and security 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.

Note4: No credit rating includes the preferred stock of Taiwan High Speed Rail Corporation and is classified as debt instrument without active market.

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(3) Credit risk hedging or mitigation policies

1) Collateral

The Group requests loan customers to provide sufficient collaterals and regulates relevant loan policies to mitigate credit risk. The examination and calculation of loan amount of the Group takes into consideration the solvency of client, type of collateral and whether it is easy or hard to dispose the collateral to ensure the creditor's right. In addition, it is regulated in the loan contracts regarding debt preservation, collateral terms and offsetting terms to define that when a credit default event occurs, the Group is entitled to reduce the loan amount and repayment term, or to deem the loan as matured at once so as to ensure risk of loans.

2) Enhancement of other credits

The Group regulates offsetting terms of loan contracts to define that when a credit default event occurs, the Group is entitled to use the client's money payment to offset the debt in order to mitigate the risk of loans.

For the clients whom the Group considers to be incompetent to repay the loans, the Group would request one or more joint guarantors to enhance the guarantee for the creditor's right.

(4) The maximum credit risk exposure of the Group

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.

(c) Liquidity risk analysis

The liquidity risk of financial instruments is divided into capital liquidity risk and market liquidity risk. Capital liquidity risk refers to the risk that the Group 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 the Group 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 the Group may suffer from losses.

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In terms of capital liquidity risk, the Group manages it in 2 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 Group 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 the Group 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, the Group established complete crisis management and responding mechanism to cope with significant capital demand of unusual or emergent situations.

The Group possesses sufficient operating funds, including cash can cash equivalent and securities with excellent liquidity such as government bond, to cover the investments and debt repayments. Therefore, the liquidity risk of the Group is extremely low. In addition, the derivative financial instruments the Group 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 insignificant.

The maturity structure of the non-derivative financial liabilities of the Group is listed below:

	December 31, 2015				
	<u><1 year</u>	<u>1~3 years</u>	<u>3~5 years</u>	<u>>5 years</u>	<u>Total</u>
Accounts payable	<u>\$ 19,861,798</u>	<u>41,855</u>	<u>42,844</u>	<u>421,307</u>	<u>20,367,804</u>
	December 31, 2014				
	<u><1 year</u>	<u>1~3 years</u>	<u>3~5 years</u>	<u>>5 years</u>	<u>Total</u>
Accounts payable	\$ 41,149,253	593	-	-	41,149,846
Short-term debts	<u>206,916</u>	-	-	-	<u>206,916</u>
Total	<u>\$ 41,356,169</u>	<u>593</u>	<u>-</u>	<u>-</u>	<u>41,356,762</u>

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The maturity structure of the derivative financial liabilities of the Group is listed below:

	December 31, 2015				Total
	<1 year	1~3 years	3~5 years	>5 years	
Financial liabilities at fair value through profit or loss	\$ 13,162,301	-	-	-	13,162,301
Hedging derivatives liabilities	-	-	-	16,581	16,581
Total	\$ 13,162,301	-	-	16,581	13,178,882
	December 31, 2014				Total
	<1 year	1~3 years	3~5 years	>5 years	
Financial liabilities at fair value through profit or loss	\$ 19,284,320	74,100	-	-	19,358,420
Hedging derivatives liabilities	-	168	-	31,889	32,057
Total	\$ 19,284,320	74,268	-	31,889	19,390,477

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.

(d) Market risk analysis

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 assets decrease to the Company. 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, the Company 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 the Company.

The Company widely applies various risk management instruments to measure market risk. The primary methods adopted would be Value at Risk (VaR) and Sensitivity Analysis. By using these 2 instruments, the Company is able to measure, monitor and manage market risk completely and effectively.

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(1) Value at Risk

Value at Risk is to apply statistical techniques to measure the maximum potential loss of the investment portfolio resulted from market risk factor variation in a given period of time and under certain confidence interval. The Company 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 the Company is able to measure the maximum potential risk of the portfolios reasonably, completely and accurately.

(2) Sensitivity analysis

Except for using VaR to manage market risk, the Company 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 the Company to understand how each variation of risk factors may influence the portfolios in certain extreme scenarios.

Sensitivity analysis

Units: NT\$'000

December 31, 2015			
Risk factor	Variation	Change in profit or loss	Change in Equity
Equity risk (Price)	Price incline by 10%	144,853	36,067,629
	Price decline by 10%	(144,853)	(36,067,629)
Interest rate risk (Yield curve)	Interest rate curve(USD) incline by 100BPS	188	(40,350,651)
	Interest rate curve(NTD) incline by 100BPS	(173,162)	(35,558,030)
	Interest rate curve(Other currency) incline by 100BPS	-	(2,301,134)
	Interest rate curve(USD) decline by 100BPS	(181)	46,874,527
	Interest rate curve(NTD) decline by 100BPS	189,781	38,848,024
	Interest rate curve(Other currency) decline by 100BPS	-	2,495,665
Exchange rate risk (Currency exchange rate)	NT\$ to all currency incline by 3%	(4,212,989)	(6,204,036)
	NT\$ to all currency decline by 3%	4,212,989	6,204,036

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December 31, 2015			
Risk factor	Variation	Change in profit or loss	Change in Equity
Interest rate risk (Yield curve)	Interest rate curve(USD) incline by 50BPS	96	(20,902,256)
	Interest rate curve(NTD) incline by 50BPS	(88,735)	(18,376,542)
	Interest rate curve(Other currency) incline by 50BPS	-	(1,173,551)
	Interest rate curve(USD) decline by 50BPS	(89)	22,531,910
	Interest rate curve(NTD) decline by 50BPS	93,263	19,678,729
	Interest rate curve(Other currency) decline by 50BPS	-	1,222,168
December 31, 2014			
Risk factor	Variation	Change in profit or loss	Change in Equity
Equity risk (Price)	Price incline by 10%	104,116	37,805,345
	Price decline by 10%	(104,116)	(37,805,345)
Interest rate risk (Yield curve)	Interest rate curve(USD) incline by 100BPS	258	(52,778,727)
	Interest rate curve(NTD) incline by 100BPS	(168,584)	(41,219,087)
	Interest rate curve(Other currency) incline by 100BPS	-	(3,710,451)
	Interest rate curve(USD) decline by 100BPS	(155)	62,420,912
	Interest rate curve(NTD) decline by 100BPS	183,158	46,659,898
	Interest rate curve(Other currency) decline by 100BPS	-	3,996,324
Exchange rate risk (Currency exchange rate)	NT\$ to all currency incline by 3%	(3,315,526)	(6,286,177)
	NT\$ to all currency decline by 3%	3,315,526	6,286,177

Note1: Positions of sensitivity analysis of equity risk and interest rate variation mainly include financial assets at fair value through profit or loss and available-for-sale financial assets. The positions of equity risk include stocks and funds (excluding currency funds and debt funds); the scenario of interest rate variation includes debts and debt funds. The positions of sensitivity analysis of exchange rate variation exclude foreign insurance policy assets.

Note2: The sensitivity analysis above changed only one risk factor at a time when evaluating the impact of changes in fair value.

Note3: Assuming other factors remain the same, an upward parallel shift in the yield curve for individual currency of 1 bps will cause of a decrease of \$1,817 in profit or loss and a decrease of \$837,539 in equity on December 31, 2015.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Most investments of the subsidiary in Vietnam are conducted with equity funds and the proportion of funds from loans is insignificant. Considering the unique financial environment and risk characteristics of Vietnam, the operating funds are all saved in local financial institutions as time deposits. Therefore, the market risk the subsidiary faces is insignificant.

In the future, the subsidiary is going to choose appropriate investment targets based on the investment environment in Vietnam and the coordination between assets and liabilities. In addition, the subsidiary will pursue long-term and robust operation and protect the right of the insured as well as to mitigate the possible loss resulted from market risk.

(e) Transfer of financial assets

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

Units: NT\$'000

December 31, 2015					
Type 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	448,159	-	448,159	-	448,159
– Securities lending agreements					

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(f) The offsetting of financial assets and financial liabilities

The transactions which the Group conducts do not in conformity with the financial standards, but the Group signs general agreement of net amount settlement or similar norms with the counterparties that when both sides choose to settle in net amount, it is allowed to settle in the net amount of financial assets offsetting financial liabilities. If not agreed on both sides, then the transaction is settled in gross amount. If one party defaults on the transaction, the other party can choose to settle in net amount. Relevant information is as follows:

December 31, 2015						
Financial assets under general agreement of net amount settlement or similar norms						
	Total financial assets recognized (a)	Total financial liabilities recognized after offsetting (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative financial instruments and structured deposits	\$ 30,215,644	-	30,215,644	5,363,255	-	24,852,389
Repurchase agreements	79,437,729	-	79,437,729	78,690,400	-	747,329
Security lending agreement	448,159	-	448,159	448,159	-	-
Total	\$ 110,101,532	-	110,101,532	84,501,814	-	25,599,718

December 31, 2015						
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total financial assets recognized (a)	Total financial liabilities recognized after offsetting (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative financial instruments	\$ 13,178,882	-	13,178,882	5,363,255	-	7,815,627

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

December 31, 2014						
Financial assets under general agreement of net amount settlement or similar norms						
	Total financial assets recognized (a)	Total financial liabilities recognized after offsetting (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative	\$ 45,442,952	-	45,442,952	8,257,387	-	37,185,565
financial						
instruments and						
structured						
deposits						
Repurchase	22,720,049	-	22,720,049	22,664,400	-	55,649
agreements						
Security lending	1,519,119	-	1,519,119	1,519,119	-	-
agreement						
Total	\$ 69,682,120	-	69,682,120	32,440,906	-	37,241,214

December 31, 2014						
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total financial assets recognized (a)	Total financial liabilities recognized after offsetting (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative	\$ 19,390,477	-	19,390,477	8,257,387	-	11,133,090
financial						
instruments and						
structured						
deposits						
Repurchase	206,916	-	206,916	203,621	-	3,295
agreements						
Total	\$ 19,597,393	-	19,597,393	8,461,008	-	11,136,385

(Note) Inclusive of master-netting arrangement and non-cash financial guarantee.

(AB) Structured entities

(a) Structured entities of consolidated statements

The structured entities disclosed in the consolidated financial statements are investment property and management organization. The structured entities are consolidated because the Group is exposed to their variability of returns from their performance due to its involvement and the Group has the right to influence their returns. As of December 31, 2015, the Group has provided a non-contractual obligation loan of \$ 22,590,099 to the entities.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Structured entities not included in the consolidated financial statements

- (1) The following are the structured entities and rights disclosed in the consolidated financial statements. The funds obtained from the Group or external third parties are not included in the consolidated structured entities and rights:

Type of structural entity	Nature and purpose	Rights of the Group
Private equity fund investment	Invest in private equity fund issued by third-party Companies to obtain	Investment fund issued or limited partnership rights
Asset securitization items	Invest in asset securitization items to obtain investment interests.	Investment in asset securitization issued by individual

- (2) The rights of structured entity and related balance sheet amount recognized but not included in consolidated financial statements as of December 31, 2015 are as follows:

<u>December 31, 2015</u>	<u>Private equity funds</u>	<u>Assets securitization items</u>
Assets held by the Group		
-Available-for-sale financial assets	\$ 26,214,621	8,275,731
-No active market bonds	-	46,504,299
Total assets of the Group	<u>\$ 26,214,621</u>	<u>54,780,030</u>

The maximum losses from the entities are the carrying amount held by the Group.

- (3) No financial support is provided for those private equity investments and asset securitization items for the year ended December 31, 2015.

(AC) Capital management

The targets of capital management of the Group, per the regulations of Insurance Bureau, FSC, are to maintain minimum regulatory capital, monitor the adequacy of the ability of discharging, prevent possible risk from operation, protect the interests of the insured and realize the benefit of shareholders and other stakeholders.

Meanwhile, the capital management of the Group is restricted to other domestic regulations such as the operating deposit paid to the National Treasury Administration, legal reserve and special reserve. Please refer to Note 6(J) and (P).

The Group manages capital through monitoring the annual and semi-annual liability adequacy reports and the annual dynamic capital adequacy forecast in order to ensure that the Group is equipped with adequate ability of discharging and rate of return.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

In accordance with “Regulations Governing Capital Adequacy of Insurance Companies”, capital adequacy refers to ration of the adjusted net capital versus the risk-based capital. When the capital adequacy of an insurance Group is lower than 200% or the ratio regulated by the competent authority, the Group is not allowed to purchase its outstanding shares or to distribute the earnings of the year reported. When the capital adequacy is within 150% to 200% or below 150%, the competent authority may take certain supervisory procedures which include but not limited to: To request the people in charge of the insurance Group to execute capital increase in a given period of time or to submit other proposal for financial improvements, to request the insurance Group to stop selling insurance products or to limit the start of new insurance products, to limit the use of its capital, to dispatch officers to supervise its operation or conduct other necessary procedures.

the capital adequacy of the Group is located over 200% for the last two years and is above the minimum ratio requested by the competent authority.

As of December 31, 2015, the method of capital management for the year of the Group remains the same.

(AD) Other

(a) The Group’s significant foreign financial assets and financial liabilities are as follows:

	December 31, 2015			December 31, 2014		
	Foreign Currency	Rate (Note 2)	NTD	Foreign Currency	Rate (Note 2)	NTD
Financial Assets						
Monetary items (Note 1)						
USD	\$ 34,941,195	33.066/32.254	1,155,344,013	28,615,287	31.655/31.718	907,619,642
Non-monetary items (Note 1)						
USD	7,211,537	33.066	238,456,694	8,610,457	31.718	273,106,474
HKD	9,825,141	4.266	41,914,936	8,269,950	4.090	33,826,328
CNY	4,770,203	5.097	24,313,154	-	-	-
Derivatives Financial Instruments (Note 1)						
USD	-	33.066	637,112	-	31.718	416,416
Equity investment under equity method						
CNY	183,814	5.035	925,557	113,084	5.102	576,919
HKD	1,784,438	-	7,574,984	-	-	-
KRW	215,438,638	-	6,060,333	-	-	-
Financial Liabilities						
Monetary items (Note 1)						
USD	17,331	33.066	570,433	169,181	31.718	5,364,748
EUR	4,825	36.075	174,009	-	-	-
NZD	26,596	22.663	602,764	-	-	-
HKD	-	-	-	80,155	4.090	327,856
CNY	35,631	5.097	181,627	-	-	-
Derivatives Financial Instruments (Note 1)						
USD	-	33.066	13,178,882	-	31.718	19,358,420

Note 1: Each balance listed is greater than 5% of total monetary items.

Note 2: The adopted currency is based on the nature of the asset and liability.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (b) The amounts of total assets and liabilities which will be recovered or settled within or more than 12 months of the balance sheet date are as follows:

Asset	December 31, 2015		
	Recovery within 12 months	Recovery beyond than 12 months	Total
Cash and cash equivalents	\$ 176,627,971	-	176,627,971
Receivables	33,484,162	831,149	34,315,311
Current tax assets	-	2,429,232	2,429,232
Financial assets at fair value through profit or loss	630,335	3,385,823	4,016,158
Available-for-sale financial assets	13,968,445	1,337,009,583	1,350,978,028
Hedging derivatives assets	-	678,556	678,556
Financial assets at cost	-	1,030,424	1,030,424
Investments accounted for using equity method, net	-	14,560,874	14,560,874
Bond investments without active market	1,226,561	880,167,221	881,393,782
Held-to-maturity financial assets	-	25,169,487	25,169,487
Other financial assets, net	4,308,548	25,150,977	29,459,525
Investment property	-	166,905,951	166,905,951
Loans	2,684,558	138,829,369	141,513,927
Reinsurance assets	699,089	580,780	1,279,869
Property, plant and equipment	-	17,520,527	17,520,527
Intangible assets	-	255,271	255,271
Deferred tax assets	-	9,917,951	9,917,951
Other assets	3,137,955	39,009,849	42,147,804
Assets on insurance product, separated account	<u>1,326,002</u>	<u>134,036,033</u>	<u>135,362,035</u>
Total assets	<u>\$ 238,093,626</u>	<u>2,797,469,057</u>	<u>3,035,562,683</u>

Liabilities	December 31, 2015		
	Recovery within 12 months	Recovery beyond than 12 months	Total
Accounts payable	\$ 19,861,798	506,006	20,367,804
Current tax liabilities	17,551	682,530	700,081
Financial liabilities at fair value through profit or loss	13,162,301	-	13,162,301
Hedging derivatives liabilities	-	16,581	16,581
Insurance liabilities	68,860,244	2,496,189,197	2,565,049,441
Reserve for insurance with nature of financial instrument	64,973,681	18,643,076	83,616,757
Reserve for foreign exchange fluctuation	-	7,479,048	7,479,048
Liabilities reserve	-	7,671,582	7,671,582
Deferred tax liabilities	-	10,824,316	10,824,316
Other liabilities	6,658,456	1,872,487	8,530,943
Liabilities on insurance product, separated account	<u>-</u>	<u>135,362,035</u>	<u>135,362,035</u>
Total liabilities	<u>\$ 173,534,031</u>	<u>2,679,246,858</u>	<u>2,852,780,889</u>

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

<u>Asset</u>	December 31, 2014		
	<u>Recovery within 12 months</u>	<u>Recovery beyond than 12 months</u>	<u>Total</u>
Cash and cash equivalents	\$ 111,579,529	603,613	112,183,142
Receivables	39,179,121	729,606	39,908,727
Current tax assets	-	3,058,599	3,058,599
Financial assets at fair value through profit or loss	416,416	3,269,860	3,686,276
Available-for-sale financial assets	20,639,063	1,592,732,461	1,613,371,524
Hedging derivatives assets	-	208,468	208,468
Financial assets at cost	-	1,047,707	1,047,707
Investments accounted for using equity method, net	-	576,919	576,919
Bond investments without active market	-	544,186,113	544,186,113
Other financial assets, net	1,500,000	43,333,623	44,833,623
Investment property	-	113,946,178	113,946,178
Loans	2,588,242	119,500,139	122,088,381
Reinsurance assets	757,586	572,605	1,330,191
Property, plant and equipment	-	8,025,552	8,025,552
Intangible assets	-	228,343	228,343
Deferred tax assets	-	4,438,680	4,438,680
Other assets	3,347,268	36,733,569	40,080,837
Assets on insurance product, separated account	<u>1,545,035</u>	<u>135,682,610</u>	<u>137,227,645</u>
Total assets	<u>\$ 181,552,260</u>	<u>2,608,874,645</u>	<u>2,790,426,905</u>

<u>Liabilities</u>	December 31, 2014		
	<u>Recovery within 12 months</u>	<u>Recovery beyond than 12 months</u>	<u>Total</u>
Accounts payable	\$ 41,149,253	593	41,149,846
Current tax liabilities	-	570,531	570,531
Short-term debts	206,916	-	206,916
Financial liabilities at fair value through profit or loss	19,284,320	74,100	19,358,420
Hedging derivatives liabilities	-	32,057	32,057
Insurance liabilities	69,037,386	2,188,061,306	2,257,098,692
Reserve for insurance with nature of financial instrument	115	86,147,653	86,147,768
Reserve for foreign exchange fluctuation	-	3,475,289	3,475,289
Liabilities reserve	-	6,794,214	6,794,214
Deferred tax liabilities	-	10,310,252	10,310,252
Other liabilities	2,741,264	1,717,507	4,458,771
Liabilities on insurance product, separated account	<u>-</u>	<u>137,227,645</u>	<u>137,227,645</u>
Total liabilities	<u>\$ 132,419,254</u>	<u>2,434,411,147</u>	<u>2,566,830,401</u>

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

7. RELATED PARTY TRANSACTIONS

(A) Names and relationships of related parties

<u>Name of related party</u>	<u>Relationship with the Bank and its subsidiaries</u>
Fubon Financial Holding Co., Ltd.	Parent company
Fubon Property & Casualty Insurance Co., Ltd.	The Group which held 40%
CITIC Capital Holdings Ltd.	The associate
Hyundai Life Insurance Co., Ltd.	The associate
Fubon Insurance Co., Ltd.	The same parent company
Taipei Fubon Commercial Bank Co., Ltd.	The same parent company
Fubon Securities Co., Ltd.	The same parent company
Fubon Financial Holding Venture Capital	The same parent company
Fubon Assets Management Co., Ltd.	The same parent company
Fubon Direct Marketing Consulting Co., Ltd.	The same parent company
Fubon Bank (Hong Kong) Limited and subsidiaries	The same parent company
Taiwan Sports Lottery	The same parent company
Fubon Securities Investment Trust Co., Ltd.	The same parent company and investee company under equity method
Fubon Futures Co., Ltd.	The same parent company and investee company under equity method
Fubon Securities Investment Consulting Co., Ltd.	The same parent company and investee company under equity method
Taipei Fubon Bank Insurance Agency Co., Ltd.	The same parent company and investee company under equity method
Fusheng Insurance Agent Co., Ltd.	The same parent company and investee company under equity method
Fubon Sports & Entertainment Co., Ltd.	The same parent company and investee company under equity method
Fusheng Life Insurance Agent Co., Ltd.	The same parent company and investee company under equity method
Fulee Life Insurance Agent Co., Ltd.	Affiliates
Fubon Property Management Co., Ltd.	Affiliates
Fubon Construction Co., Ltd.	Affiliates
Fubon Real Estate Management Co., Ltd.	Affiliates
Fubon Multimedia Technology Co., Ltd.	Affiliates
Taipei City Government	Affiliates
TFN Media Co., Ltd.	Affiliates

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

<u>Name of related party</u>	<u>Relationship with the Bank and its subsidiaries</u>
Taiwan Mobile Co., Ltd.	Affiliates
Taiwan Fixed Network Co., Ltd.	Affiliates
Taiwan Customer Service Technology Co., Ltd.	Affiliates
Taiwan High Speed Railway Co., Ltd.	Affiliates
World Vision Taiwan	Affiliates
Fubon Culture and Education Foundation	Affiliates
Fubon Charity Foundation	Affiliates
Fubon Art Foundation	Affiliates
Cable-Giant Co., Ltd.	Affiliates (Note1)
Ping Nan Cable TV Co., Ltd.	Affiliates (Note1)
Taipei Institute of Pathology	Affiliates (Note2)
Broadcasting Corporation of China	Affiliates (Note3)
Chung Hsing Construction Co., Ltd.	Affiliates
Ming Tung Investment Co., Ltd.	Affiliates
WinTV Broadcasting Co., Ltd.	Affiliates
Free Universe Education Foundation, Taipei	Affiliates
Taiwan Academy of Banking and Finance	Affiliates
Taipei New Horizon Co., Ltd.	Affiliates
The Non-Life Insurance Association of the R.O.C.	Affiliates
One Production Film Co., Ltd.	Affiliates
Safety and health technology center	Affiliates
Taiwan Digital Communications Co., Ltd.	Affiliates
PHYCOS International Co., Ltd.	Affiliates
Formosa cancer foundation	Affiliates
Easycard corporation	Affiliates
Taiwan Corporate Governance Association	Affiliates (Note3)
China Evangelical Seminary	Affiliates
Taiwan Cogeneration Corporation	Affiliates
China University of Technology	Affiliates
Kbro Media Co., Ltd.	Affiliates
Taiwan Telecommunication Industry Development Association	Affiliates
Taiwan Bio-Development Foundation	Affiliates
Taiwan Private Equity Association	Affiliates
Life Insurance Management Institute of the Republic of China	Affiliates
Capital Securities Corporation	Affiliates

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

<u>Name of related party</u>	<u>Relationship with the Bank and its subsidiaries</u>
Formosa Plastics Corporation	Affiliates
Chinese National Association of Industry and Commerce	Affiliates (Note4)
Danen Technology Corporation	Affiliates (Note2)
The Institute of Internal Auditors	Affiliates
Chinese Insurance Service Association	Affiliates
Taishin International Bank Co., Ltd.	Affiliates (Note5)
Taipei Fubon Commercial Bank Charity Foundation	Affiliates
Straits Exchange Foundation	Affiliates
Taiwan Arts & Culture Television Co., Ltd.	Affiliates
Taroko Development Co., Ltd.	Affiliates
Fupen Construction Co., Ltd	Affiliates
Fubon Hotels Management Co., Ltd	Affiliates
DETEKT Technology Inc.	Affiliates
Sunny Pharmtech Inc	Affiliates
Life Insurance Educational Foundation	Affiliates
HiTi Digital, Inc.	Affiliates
Viewpoint Electronics Co., Ltd.	Affiliates
Chinese Chirstian Relief Association	Affiliates
Classification Society	Affiliates
YAHOO! Taiwan Holdings Limited	Affiliates
Lion Travel Service CO., LTD	Affiliates
Chinese Taipei Basketball Association	Affiliates
Taipei Young Women's Christian Association	Affiliates
The Association of Police's Friends of the Republic of China	Affiliates
Fubon Securities Venture Investment Co., Ltd.	Affiliates
Sheng Yen Education Foundation	Affiliates
Other related parties	Directors, supervisors, managers and their close relatives, etc

Note1: No longer a related party commencing from the second quarter of 2015.

Note2: No longer a related party commencing from the first quarter of 2015.

Note3: No longer a related party commencing from the fourth quarter of 2014.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Note4: No longer a related party commencing from the third quarter of 2014.

Note5: No longer a related party commencing from the second quarter of 2014.

(B) Significant related party transactions

(a) Gross Written Premiums

	For the year ended December 31,	
	2015	2014
Fubon Insurance Co., Ltd.	\$ 41,549	44,530
Fubon Securities Co., Ltd.	38,182	37,204
Taipei Fubon Commercial Bank Co., Ltd.	92,061	107,771
Fubon Multimedia Technology Co., Ltd.	10,435	10,301
Taiwan High Speed Railway Co., Ltd.	10,953	10,580
Affiliates	124,902	187,117
Others (accounts with balance of less than \$10,000)	<u>851,116</u>	<u>830,854</u>
Total	<u>\$ 1,169,198</u>	<u>1,228,357</u>

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

(b) Refundable deposits and rental revenue and unearned rental revenue

	December 31,	December 31,
	2015	2014
Guarantee deposits received		
Fubon Multimedia Technology Co., Ltd.	\$ 27,219	27,219
Taroko Development Co., Ltd	34,700	-
Taiwan Fixed Network Co., Ltd.	10,597	45
Others (accounts with balance of less than \$10,000)	<u>17,734</u>	<u>12,255</u>
Total	<u>\$ 90,250</u>	<u>39,519</u>

	For the year ended December 31,	
	2015	2014
Rental revenue		
Fubon Multimedia Technology Co., Ltd.	\$ 104,989	103,788
Taipei Fubon Commercial Bank Co., Ltd	21,536	16,951
Taroko Development Co., Ltd	57,500	-
TFN Media Co., Ltd.	11,241	11,101
Taiwan Mobile Co., Ltd.	10,622	8,628
Others (accounts with balance of less than \$10,000)	<u>15,753</u>	<u>12,805</u>
Total	<u>\$ 221,641</u>	<u>153,273</u>

Guarantee deposits amounted to \$90,250 and \$39,519 as of December 31, 2015 and 2014, respectively. Also, rental revenues from real estate investments amounted to

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

\$219,947 and \$148,703 for the year ended December 31, 2015 and 2014, respectively. Rental revenues and refundable deposits from real estate investment are accounted for gain on real estate investments and guarantee deposits received, respectively.

Unearned rental revenue, accounted for other liabilities, amounted to \$1,068 and \$67 as of December 31, 2015 and 2014, respectively.

(c) Rental expense and refundable deposits

The details of rental expenses and guarantee deposit paid to the related parties for the year ended December 31, 2015 and 2014 are as follows:

Guarantee deposit paid

<u>Name of related party</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>	<u>Note</u>
Fubon Insurance Co., Ltd.	\$ 13,762	11,667	Office rent
Taipei City Government	1,119,071	1,119,005	Bid Bond /Superficies performance bond
Others (accounts with balance of less than \$10,000)	8,039	6,557	Office rent
Total	<u>\$ 1,140,872</u>	<u>1,137,229</u>	

Rental expense

<u>Name of related party</u>	<u>For the year ended December 31,</u>		<u>Note</u>
	<u>2015</u>	<u>2014</u>	
Fubon Insurance Co., Ltd.	\$ 79,417	69,718	Office rent
Taipei City Government	239,183	71,507	Superficies rent
Affiliates	34,234	31,203	Office rent
Others (accounts with balance of less than \$10,000)	4,667	5,143	Office rent
Total	<u>\$ 357,501</u>	<u>177,571</u>	

The above-mentioned leases were operating leases and the terms of transactions were similar to those with non-related parties.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(d) Marketing revenue

Name of related party	For the year ended December 31,	
	2015	2014
Fubon Insurance Co., Ltd.	\$ 319,376	242,419
Taipei Fubon Commercial Bank Co., Ltd.	18,157	20,115
Fubon Securities Co., Ltd.	1,439	1,533
Fubon Securities Investment Trust Co., Ltd.	782	-
Total	<u>\$ 339,754</u>	<u>264,067</u>

(e) Marketing expense

Name of related party	For the year ended December 31,	
	2015	2014
Fubon Insurance Co., Ltd.	\$ 13,487	14,164
Fubon Securities Co., Ltd.	35,203	40,756
Other (accounts with balance of less than \$10,000)	238	484
Total	<u>\$ 48,928</u>	<u>55,404</u>

(f) Commission expense

Name of related party	For the year ended December 31,	
	2015	2014
Taipei Fubon Bank Insurance Agency Co., Ltd.	\$ 9,600	11,987
Taipei Fubon Commercial Bank Co., Ltd.	5,323,021	4,014,871
Fusheng Life Insurance Agency Co., Ltd.	395,028	442,602
Fulee Life Insurance Agency Co., Ltd.	1,628	1,824
Total	<u>\$ 5,729,277</u>	<u>4,471,284</u>

The above commission does not include deferred commission, the details of which are as follows:

Name of related party	December 31,	December 31,
	2015	2014
Taipei Fubon Commercial Bank Co., Ltd.	\$ 26,288	18,756
Fusheng Life Insurance Agency Co., Ltd.	139,238	167,795
Total	<u>\$ 165,526</u>	<u>186,551</u>

(g) Commission revenues from investment-linked insurance policy

Name of related party	For the year ended December 31,	
	2015	2014
Fubon Securities Investment Trust Co., Ltd.	\$ 5,497	7,976

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(h) Interest revenue with related parties

Name of related party	For the year ended December 31,	
	2015	2014
Taipei Fubon Commercial Bank Co., Ltd.	\$ 208,982	213,245
Taishin International Commercial Bank Co., Ltd.	-	17,867
Fubon Life Insurance (Hong Kong) Co., Ltd.	38	-
Total	<u>\$ 209,020</u>	<u>231,112</u>

(i) Interest receivable with related parties

Name of related party	December 31, 2015	December 31, 2014
Taipei Fubon Commercial Bank Co., Ltd.	<u>\$ 306,713</u>	<u>270,749</u>

(j) Loans to related parties are as follows:

(1) Secured loans

December 31, 2015							
Category	Name of related party	Maximum Amount	Ending Balance	Performing situation	Collateral	Collateral terms are the same with other regular clients	
Residence mortgage loans	32 affiliates	<u>\$ 301,127</u>	<u>291,366</u>	Normal	Real estate	NO	

December 31, 2014							
Category	Name of related party	Maximum Amount	Ending Balance	Performing situation	Collateral	Collateral terms are the same with other regular clients	
Residence mortgage loans	34 affiliates	<u>\$ 417,490</u>	<u>338,317</u>	Normal	Real estate	NO	

No significant difference on the above-mentioned related party transactions on residence mortgage loan and trade conditions with a non-related party.

(2) Life insurance loans:

December 31, 2015							
Category	Name of related party	Maximum Amount	Ending Balance	Performing situation	Collateral	Collateral terms are the same with other regular clients	
Life insurance loans	92 affiliates	<u>\$ 38,730</u>	<u>30,928</u>	Normal	Policy value	NO	

December 31, 2014							
Category	Name of related party	Maximum Amount	Ending Balance	Performing situation	Collateral	Collateral terms are the same with other regular clients	
Life insurance loans	98 affiliates	<u>\$ 40,672</u>	<u>25,606</u>	Normal	Policy value	NO	

No significant difference on the above-mentioned related party transactions on life insurance loan and trade conditions with a non-related party.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(k) Bonds transactions

(1) Purchases

<u>Name of related party</u>	<u>For the year ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Taipei Fubon Commercial Bank Co., Ltd	\$ <u>902,168</u>	<u>3,605,838</u>

(2) Sales

<u>Name of related party</u>	<u>For the year ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Taipei Fubon Commercial Bank Co., Ltd	\$ 32,846,419	10,765,710
Capital Securities Corporation	<u>98,546</u>	-
Total	<u>\$ 32,944,965</u>	<u>10,765,710</u>

(3) Bonds purchased under resell agreements

<u>Name of related party</u>	<u>For the year ended</u> <u>December 31, 2015</u>	<u>As of December 31,</u> <u>2015</u>
	<u>Interest Revenue</u>	<u>Repo of</u> <u>Government Bonds</u>
Capital Securities Corporation	\$ <u>6,588</u>	<u>1,087,000</u>
Fubon Securities Co., Ltd.	<u>476</u>	-

<u>Name of related party</u>	<u>For the year ended</u> <u>December 31, 2014</u>	<u>As of December 31,</u> <u>2014</u>
	<u>Interest Revenue</u>	<u>Repo of</u> <u>Government Bonds</u>
Taishin International Bank Co., Ltd.	\$ <u>6,119</u>	-
Fubon Securities Co., Ltd.	<u>-</u>	<u>1,000,000</u>

- (l) Fubon Life Insurance purchased financial bonds and corporate bonds from Fubon Securities Investment Trust Co., Ltd. totaling \$16,116,457 for the year ended December 31, 2006. Fubon Securities commits to pay interest thereon on a quarterly basis to Fubon Life Insurance at a 90 day CP+20BP interest rate, the maturity date of securities were on April 2014. For the year ended December 31, 2014, the Group received the interest income of \$693.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(m) Other expenses

<u>Names of related parties</u>	<u>Nature</u>	<u>For the year ended December 31,</u>	
		<u>2015</u>	<u>2014</u>
Fubon Securities Co., Ltd.	Entrusted with the sale of fee and consignment trading handling fee, etc	\$ 70,184	69,203
Fubon Real Estate Management Co., Ltd.	Building management fee 、 investment property fees and etc	92,990	110,710
Fubon Insurance Co., Ltd.	Property insurance, parking fee	39,397	23,701
Taiwan Fixed Network Co., Ltd.	Telephone fee /telecommunication fees, exchange board rental, etc	66,129	55,309
Taipei Fubon Commercial Bank Co., Ltd.	Bank charge, custodian fee 、 exhibition cost and etc	554,899	461,949
Fubon Culture and Education Foundation	Donation fee and advertisement expense	32,977	22,161
Fubon Charity Foundation	Donation fee	22,013	16,975
Fubon Art Foundation	Donation fee and advertisement expense	28,294	21,003
Fubon Sports & Entertainment Co Ltd	Advertisement expense	57,297	17,500
Others (accounts with balance of less than \$10,000)		28,287	16,761
Total		<u>\$ 992,467</u>	<u>815,272</u>

(n) The details of security lending charge between the Group and the related party are as follows:

<u>Name of related party</u>	<u>Nature</u>	<u>For the year ended December 31,</u>	
		<u>2015</u>	<u>2014</u>
Fubon Securities Co., Ltd.	Security lending handling fee income	\$ 5,319	6,257
Fubon Insurance Co., Ltd.	Miscellaneous income	66	-
Total		<u>\$ 5,385</u>	<u>6,257</u>

(o) Deposits with related party

<u>Nature</u>	<u>December 31,</u>	<u>December 31,</u>
	<u>2015</u>	<u>2014</u>
Taipei Fubon Commercial Bank Co., Ltd.		
Check deposits	\$ 95,429	41,139
Demand deposits	3,302,073	2,646,893
Time deposits	9,779,500	1,279,930
Structured deposits	2,883,805	2,943,443
Total	<u>\$ 16,060,807</u>	<u>6,911,405</u>

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Deposits mentioned above exclude investment-linked insurance policy assets. Otherwise, structured deposits were accounted for other financial assets.

(p) Jointly declaration of tax

The Company and its parent company as well as its subsidiaries adopted the policy of jointly declaration of tax for declaring income tax and undistributed earnings.

	December 31,	December 31,
	2015	2014
Jointly declaration of tax-receivables (current income tax assets)	\$ 1,608,909	3,054,000
Jointly declaration of tax-payable (current income tax liabilities)	682,530	570,531

(q) Certain investment funds purchased from Fubon Securities Investment Trust Co., Ltd. are as follows:

Name of funds	December 31,	December 31,
	2015	2014
Fubon Fund	\$ 95,172	194,135
Fubon Chi-Hsiang Money Market Fund	1,500,197	1,002,210
Fubon China Money Market Fund	50,813	-
Fubon Emerging Asia Growth Equity Fund	-	20,193
Fubon Technology ETF Fund	156,864	155,832
Fubon Morgan ETF Fund	106,092	111,435
Fubon Taiwan Eight Industries ETF Fund	117,677	127,071
Fubon Taiwan Finance ETF Fund	122,226	132,462
Fubon SSE 180 ETF	-	779,220
Fubon Strategic High Income-Type A	47,575	49,401
Fubon Strategic High Income-Type B	42,724	46,306
Fubon Japan ETF Fund	19,730	-
Fubon SZSE 100 ETF	160,663	-
Total	\$ 2,419,733	2,618,265

(r) Other receivable (payable)

Names of related parties	December 31,	December 31,
	2015	2014
Taipei Fubon Commercial Bank Co., Ltd.	\$ (714,587)	(417,772)
Fubon Insurance Co., Ltd.	56,257	45,278
Fusheng Life Insurance Agency Co., Ltd.	(53,288)	(58,176)
Taiwan High Speed Railway Co., Ltd.	429,315	-
Other (accounts with balance of less than \$10,000)	(17,184)	(11,446)
Total	\$ (299,487)	(442,116)

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(s) Prepayment

<u>Names of related parties</u>	<u>Nature</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Taipei Fubon Commercial Bank Co., Ltd.	Incentives and employee welfares	\$ 59,029	1,984
Fubon Insurance Co., Ltd.	Insurance fee and prepaid guarantee deposit	15,106	13,814
Other (accounts with balance of less than \$10,000)		3,613	2,597
		-	-
Total		<u>\$ 77,748</u>	<u>18,395</u>

(t) Property transactions

(1) Payments of investment property are as follows:

<u>Names of related parties</u>	<u>Nature</u>	<u>For the year ended December 31,</u>	
		<u>2015</u>	<u>2014</u>
Fubon Construction Co., Ltd.	Management fees and etc.	\$ 8,233	1,782
Taipei City Government	Rental of public hearing venue and etc.	169	3,774
China University of Technology	Technical research fees	242	-
Total		<u>\$ 8,644</u>	<u>5,556</u>

(2) The royalty resulted from the acquisition of surface right from Taipei City Government amounted to \$24,446,448 for the year ended December 31, 2014.

(3) The Group sold fix assets to Fubon Insurance Company Ltd. For the year ended December 31, 2015. The proceeds amounted to \$1,778 and the Group recognized a loss on asset disposal which amounted to \$85.

(4) The Group purchased miscellaneous equipment from Taipei Fubon Commercial Bank for the year ended December 31, 2015 and the proceeds amounted to \$29.

(u) The Group invested in Fubon No. 1 Real Estate Investment Trust and Fubon No. 2 Real Estate Investment Trust they were recognized as available-for-sale financial assets.

<u>Names of related parties</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Fubon No.1 Real Estate Investment Trust	\$ 908,592	911,431
Fubon No.2 Real Estate Investment Trust	931,124	938,416
	<u>\$ 1,839,716</u>	<u>1,849,847</u>

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(C) Major management remuneration information

	For the year ended December 31,	
	2015	2014
Remuneration and other short-term contract employees	\$ 396,187	404,619
Other long-term contract employees	1,939	1,922
Post-employment benefits	11,691	11,941
Total	\$ 409,817	418,482

8. PLEDGED ASSETS

Pledged assets are as follows:

Name of related party	December 31, 2015	December 31, 2014
Government bonds (Statutory deposits)	\$ 8,550,705	5,708,628
Time deposit (Statutory deposits)	19,801	18,985
Time deposit (Leasing deposits)	500	930
Time deposit (Guarantee deposits)	1,279,000	1,279,000
Government bonds (Bond investments without active market)	-	203,621
Total	\$ 9,850,006	7,211,164

Pursuant to the requirements of Articles 141 and 142 of the Insurance Law, government bonds and time deposit were deposited in the Central Bank of China as guarantee for Fubon Life Insurance's insurance business. Fubon Life Insurance (Vietnam) Co., Ltd. deposited time deposit in the local bank which was authorized by the Vietnam government.

9. SIGNIFICANT CONTINGENT LIABILITY AND UNRECOGNIZED CONTRACT COMMITMENT

(A) In addition to recognized liability reserve, the Group's contingent liabilities which are pending claims from daily operation and have not been recognized are being assessed by qualified lawyers. Once the Group obtains the lawyers' opinion and probable and reasonably estimable amounts of the liabilities, the Group will make adjustments and recognize relevant losses.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(B) Significant unrecognized contract commitment

The unrecognized contract commitment of the Group is as follows:

	December 31, 2015	December 31, 2014
Acquisition of investment property	\$ 810,500	810,500

Note: The Group acquired the superficies of No 472 subsection 2, Xinmin Road in Beitou District and 4 other superficies by bid. The total contract value referred to the appraisal report of DTZ and Repro International Inc amounted to \$1,401,000. The Group had not completed the signing process yet before the date on which the Group submitted the financial report, but signed the urban renewal business implementation of designated contract in October 2014 and paid the contract value amounted to \$700,500.

The Group acquired the superficies of No 6 subsection 3, Xinyi Road in Xinyi District in June 2014 by bid. The total contract value referred to the appraisal report of Repro International Inc and Colliers International amounted to \$17,288,000 and the Group signed the contract in August 2014. Starting from November 2014, the Group has amortized the superficies. In accordance with the contract, except for those exempted from Taipei City government, the Group shall be responsible for moving the water pressure booster station and gas pressure control station and their underground construction, with constructed expense limited to \$110,000, before its usage license is granted.

(C)

As of December 31, 2015 and 2014, the unfunded commitments for the Group's signed private equity agreements amounted to USD 1,563,207 thousands and EUR 201,450 thousands and USD 959,870 thousands and EUR 107,806 thousands, respectively.

10. SIGNIFICANT DISASTER LOSS: None.

11. SIGNIFICANT SUBSEQUENT EVENT

The Group signed a joint venture agreement with Fubon Property & Casualty Co., Ltd and Grand Holdings to set up a life insurance company in China under the approval by the Financial Supervisory Commission, Executive Yuan, per the letter Jin Guan Bao Li No.10002542061 on January 14, 2011. The agreement has been terminated under the approval by the Group's board of directors on January 29, 2016.

The Group has remitted HKD 475,000 thousands for the additional investment in Fubon Life Insurance (Hong Kong) Co., Ltd on February 22, 2016. The cumulative investment is of HKD 500,000 thousands.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The Group, under the approval of Investment Commission, MOEA and per the regulation of JinShen (2) Zhi No. 10400296670 letter, acquire 100% share of Access S.A. in Belgian and undertake 50% of property right and 50% of surface right of Ellipse Building in Belgian, Brussels. Access S.A, the subsidiary, then acquired the rest of property right and surface right of the building and use the building as collateral to secure a loan from the Group. The Ellipse Building has three parts with a single common entrance hall. The Group closed the deal on January 28, 2016 and has remitted EUR 207, 512 thousands for the investment.

12. OTHER

- (A) Personnel expenses, depreciation and amortization for the year ended December 31, 2015 and 2014 are categorized by function as follows:

Function Nature	For the year ended December 31,					
	2015			2014		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Employees Benefits						
Salaries and wages	10,583,141	3,981,220	14,564,361	9,998,800	3,956,820	13,955,620
Insurance	-	1,325,045	1,325,045	-	1,251,878	1,251,878
Pension	384,444	762,468	1,146,912	363,866	697,474	1,061,340
Other	-	443,741	443,741	-	377,985	377,985
Depreciation	-	246,957	246,957	-	266,165	266,165
Amortization	570,516	111,792	682,308	225,358	80,692	306,050

- (B) When conducting business or transaction, joint business promotion as well as information and facilities sharing with Fubon Financial Holdings Co., Ltd. and other associates, the method to split income, cost, expense and profit or loss is to directly contribute them to each counterparties based on the business characteristic.
- (C) The borrowing that meets cash flow arising from payment of major insurance claims: None.
- (D) The details of the market values of investments which were held for investment purpose by the discretionary investment trust fund, refer to Note 6(B)(b).
- (E) The information of discontinued operations: None.
- (F) The adjustment of significant units and significant reform of management regulation: None.
- (G) The significant impact due to variation of government rules: None

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

13. NOTES TO DISCLOSURE EVENTS

(A) Information on Significant Transactions:

In accordance with the “Principles of Preparing Financial Reports for Insurance Companies”, the Group disclosed the information on significant transactions for the year ended December 31, 2015 is as follows:

(a) Acquisition of property and equipment over \$100,000 or 20% of capital :

Units:\$'000

Company	Property Name	Occurrence Date	Amount	Amount Paid	Counterparty	Relationship	Previous transfer information, as counterparty is a related party.				Reference for price	Purpose and usage	other
							Owner	Relations with the issuer	Transfer Date	Amount			
Carter Lane (Guernsey) Limited	1 Carter Lane and 2 Old Change Court, London	104.01	GBP 122,965	Paid in accordance with the contract	London & Stamford Property Ltd.	Not related party	-	-	-	-	Referred to appraisal reports	Investment Property	
Bow Bells House (Jersey) Limited	Bow Bells House, 1 Bread Street, London	104.02	GBP 194,136	Paid in accordance with the contract	Global Property Finance Ltd.	Not related party	-	-	-	-	Referred to appraisal reports	Investment Property	
Fubon Life Insurance Co., Ltd.	Land of Taipei Daan Fuxing subsection 2 and 5 constructions	104.04	674,000	Paid in accordance with the contract	Individual	Not related party	-	-	-	-	Referred to appraisal reports	Investment Property	
Fubon MTL Property (Jersey) Limited	Madame Tussauds London	104.08	GBP 347,036	Paid in accordance with the contract	SIR MTL Limited	Not related party	-	-	-	-	Referred to appraisal reports	Investment Property	
Fubon Life Insurance Co., Ltd.	6 constructions and land of Taoyuan Tong De subsection 8 in Taoyuan City	104.10	560,000	Paid in accordance with the contract	Individual and Chungyuet Group	Not related party	-	-	-	-	Referred to appraisal reports	Property	
Fubon Life Insurance Co., Ltd.	Constructions and Land of No. 12, Xinyi subsection 4, Xiyin Taipei	104.12	27,034,000	Paid in accordance with the contract	Shin Kong Life Insurance Co., Ltd.	Not related party	-	-	-	-	Referred to appraisal reports	Investment Property	

(b) Disposal of property and equipment over \$100,000 or 20% of capital: None.

(c) Sales and purchase with related party over \$100,000 or 20% of capital : Note 7 and 13(A)(f).

(d) Accounts receivable with related party over \$100,000 or 20% of capital :

Units:NT\$'000

Company	Counterparty	Relationship	Amount	Turnover	Overdue receivables		Recovered amount	Allowance for bad debts
					Amount	Method		
Fubon Life Insurance Co., Ltd.	Fubon Financial Holding Co., Ltd.	The parent company	1,608,909	- %	-	-	-	-

Because Fubon Financial Holding Company, the parent company of the Group, elected to be the tax payer itself; it accounted for the Company’s taxation. Thus, the above amount included the tax refund receivable and income tax benefits arising from the carry forward benefit of its loss of the Company.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(e) Information on derivative transactions : Please refer to Note 6(C) and (Z).

(f) Business relationship and significant transactions with the subsidiaries:

Units:NTS'000

No	Trader Name	Counterparty trade	Trade Relationship	Transaction details			Percentage ratio against total operating income or total assets
				Subject	Amount	Trading terms	
0	Fubon Life Insurance Co., Ltd.	Carter Lane (Guernsey) Limited	1	Loan	3,028,993	General transactions	0.10 %
0	Fubon Life Insurance Co., Ltd.	Carter Lane (Guernsey) Limited	1	Receivables	34,819	General transactions	- %
0	Fubon Life Insurance Co., Ltd.	Carter Lane (Guernsey) Limited	1	Interest income	131,675	General transactions	0.02 %
0	Fubon Life Insurance Co., Ltd.	Bow Bells House (Jersey) Limited	1	Loan	7,334,649	General transactions	0.24 %
0	Fubon Life Insurance Co., Ltd.	Bow Bells House (Jersey) Limited	1	Receivables	84,376	General transactions	- %
0	Fubon Life Insurance Co., Ltd.	Bow Bells House (Jersey) Limited	1	Interest income	295,673	General transactions	0.05 %
0	Fubon Life Insurance Co., Ltd.	Fubon MTL Property (Jersey) Limited	1	Loan	12,226,457	General transactions	0.40 %
0	Fubon Life Insurance Co., Ltd.	Fubon MTL Property (Jersey) Limited	1	Receivables	141,760	General transactions	- %
0	Fubon Life Insurance Co., Ltd.	Fubon MTL Property (Jersey) Limited	1	Interest income	201,798	General transactions	0.03 %
1	Carter Lane (Guernsey) Limited	Fubon Life Insurance Co., Ltd.	1	Other financial liabilities	3,028,993	General transactions	0.10 %
1	Carter Lane (Guernsey) Limited	Fubon Life Insurance Co., Ltd.	0	Other operating expenses – interest expenses	131,675	General transactions	0.02 %
1	Carter Lane (Guernsey) Limited	Fubon Life Insurance Co., Ltd.	0	Accounts payable	34,819	General transactions	- %
2	Bow Bells House (Jersey) Limited	Fubon Life Insurance Co., Ltd.	0	Other financial liabilities	7,334,649	General transactions	0.24 %
2	Bow Bells House (Jersey) Limited	Fubon Life Insurance Co., Ltd.	0	Accounts payable	84,376	General transactions	- %
2	Bow Bells House (Jersey) Limited	Fubon Life Insurance Co., Ltd.	0	Other operating expenses – interest expenses	295,673	General transactions	0.05 %
3	Fubon MTL Property (Jersey) Limited	Fubon Life Insurance Co., Ltd.	0	Other financial liabilities	12,226,457	General transactions	0.40 %
3	Fubon MTL Property (Jersey) Limited	Fubon Life Insurance Co., Ltd.	0	Other operating expenses – interest expenses	201,798	General transactions	0.03 %
3	Fubon MTL Property (Jersey) Limited	Fubon Life Insurance Co., Ltd.	0	Accounts payable	141,760	General transactions	- %

Note1: Each number represents the following definitions:

- (1) Zero stands for the parent company
- (2) Subsidiaries are coded from No 1 per respective companies.

Note2: Transaction relationship is as follows:

- (1) Parent company to subsidiary company
- (2) Subsidiary company to parent company
- (3) Subsidiary company with subsidiary company

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(B) Disclosure on Business Investments:

Disclosure on business investments as follows:

Units:NTS'000

Investor Company	Investee Company	Address	Major Business	Original Investment		Held by the Company			Income (losses) of investee company	Income (losses) recognized from investee company	Note
				Period-end	End of prior year	Shares	Percentage (%)	Book Value			
Fubon Life Insurance Co., Ltd.	Fubon Property and Casualty Insurance Co., Ltd.	Xiamen, China	Property and casualty insurance business	1,940,016	1,325,393	-	40.00 %	925,557	(629,575)	(251,830)	
Fubon Life Insurance Co., Ltd.	Fubon Life Insurance (Vietnam) Co., Ltd.	Hanoi Vietnam	Life insurance business	2,153,217	1,289,217	-	100.00 %	1,846,241	(44,257)	(44,257)	Note 1
Fubon Life Insurance Co., Ltd.	Carter Lane (Guernsey) Limited	Guernsey	Investment property lease	3,301,196	-	40,514,743	100.00 %	3,416,063	100,038	100,038	Note 1 Note 2
Fubon Life Insurance Co., Ltd.	Bow Bells House (Jersey) Limited	Jersey	Investment property lease	2,186,556	-	46,172,931	100.00 %	2,479,850	214,970	214,970	Note 1 Note 2
Fubon Life Insurance Co., Ltd.	Fubon MTL Property (Jersey) Limited	Jersey	Investment property lease	4,936,196	-	98,181,000	100.00 %	4,149,635	(660,657)	(660,657)	Note 1 Note 2
Fubon Life Insurance Co., Ltd.	Hyundai Life Insurance Co., Ltd.	Korea	Life insurance business	6,168,561	-	37,009,000	48.62 %	6,060,333	(1,365,819)	(150,717)	
Fubon Life Insurance Co., Ltd.	CITIC Capital Holdings Co., Ltd.	Hong Kong	Holding Company	7,046,304	-	13,979,798	20.00 %	7,574,984	2,305,642	247,028	
Fubon Life Insurance Co., Ltd.	Fubon Life Insurance (Hong Kong) Co., Ltd.	Hong Kong	Life insurance business	105,593	-	25,000,000	100.00 %	67,352	(39,179)	(39,179)	Note 1

Note 1 : Write off under consolidated financial statements

Note 2 : Investment properties are located in London, England

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(C) Disclosure on Investments in Mainland China :

(a) Information regarding investment in Mainland China as follows :

Units: \$'000

Investee company	Main business	Paid-in capital	method of investment	Accumulated outward fund of Investment from Taiwan at the beginning	Outward remittance or inward recovery		Accumulated Outward Fund of Investment from Taiwan at the balance sheet date	Investee Company Gains/(Losses) in current period	Directly or indirectly holding percentage Share holdin percentage	Income(losses) recognized from investee company	Book value of investment at period end Value	Recovery investment profit
					Outward	Inward						
Fubon Property & Casualty Insurance Co., Ltd.	Property Insurance	5,035,300 (CNY 1,000,000)	(a)	1,325,393	614,623	-	1,940,016	(629,575) CNY(124,240)	40.00 %	(251,830) Note2	925,557	-
CITIC Full Joy (Da Lian) Co., Ltd.	Real estate investment	1,535,904 (HKD 360,000)	(b)	-	-	-	-	(23,766) CNY (5,765)	20.00 %	(24,149) (5,762)	Note3	-
Shang Hsing Real Estate (Shen Yang) Co., Ltd.	Real estate investment	2,133,200 (HKD 500,000)	(b)	-	-	-	-	(39,061) CNY (9,475)	20.00 %	(4,769) (1,138)	Note3	-
Empower Co., Ltd.	Investment Consultancy	4,629 (USD 140)	(b)	-	-	-	-	528 CNY 128)	20.00 %	327 (CNY 78)	Note3	-
Pon Wei Investment Consultancy (Shanghai) Co., Ltd.	Investment Consultancy	18,186 (USD 550)	(b)	-	-	-	-	(37,387) CNY (9,069)	10.20 %	(3,755) (896)	Note3	-
CITIC Jin Xiu Capital Management Co., Ltd.	Investment Management	251,765 CNY 50,000)	(b)	-	-	-	-	14,618 CNY 3,546)	6.00 %	687 (CNY 164)	Note3	-
Kaixin Investment Co., Ltd.	Manage the investment business of Venture Capital Enterprises	100,706 (CNY 20,000)	(b)	-	-	-	-	3,533 CNY 857)	10.00 %	1,232 (CNY 294)	Note3	-

Note 1: The method of investment is defined based on the following three methods, indicating in the following categories:

- (a) Direct investments in Mainland China.
- (b) Re-invest in Mainland China through the third regional companies (please specify this third regional investment company).

Note 2: The recognition of investment gains or losses is based on the financial statements audited by certified public accountant.

Note 3: The financial statements prepared by the third area which the Group acquired cannot distinguish the carrying amount of the investments at the end of each period.

Note 4: There are some more investees the Group invested through CITIC Capital Holdings, which are CITIC Capital Holdings (Tianjin) Ltd., Hai Te Real Estate Development (Liao Ning) Co., Ltd., Xin Ming Investment Consultancy (Shanghai) Co., Ltd., and Xin Shang Property Management (Shanghai) Co., Ltd.

Note 5: For the part of the table which involves foreign currencies, it is calculated based on the spot rate on December 31 2015 or the average exchange rate for the period from January 1 2015 to December 31 2015.

The Group and its affiliate company, Fubon Insurance Co., Ltd, have jointly invested in the set-up of Fubon Property and Casualty Insurance Co., Ltd in 2010 for its insurance business operation in Mainland China with the registered capital CNY 400 million. In order to develop regional markets, raise working capital, enhance solvency, and attract strategic investors, the Group signed a joint investment contract with Fubon Insurance Co., Ltd, and Xiamen Port Holding Group on September 10, 2012. Under this joint venture contract, Fubon Property & Casualty Insurance Co., Ltd. was to increase its capital stock by CNY100 million, which to be acquired entirely by Xiamen Port Holding Group. This capital increase was approved by China Insurance Regulatory Commission on August 7, 2013. and the record date for the capital increase was August 16, 2013. In addition, the capital increase of Fubon Property and Casualty Insurance Co., Ltd. was approved by China Insurance Regulatory Commission as of September 23, 2014. The Group subscribed to the capital increase on a pro rata basis.

FUBON LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Additionally, the board of directors of the Group on March 18, 2015 agreed on participating in the capital increase by cash in Fubon Property & Casualty Insurance Co., Ltd. The Group was approved by the Investment Commission, MOEA, Jing Shen (2) Letter No. 10400108050 to invest CNY 150 million in Fubon Property & Casualty Insurance, and remitted CNY 120 million on August 10, 2015. The investment project had been approved by the China Insurance Regulatory Commission on October 9, 2015 and the record date for the capital increase was October 20, 2015. As of December 31, 2015, the paid-in capital of Fubon Property & Casualty Insurance Co., Ltd was CNY 1 billion. The investment of the Group amounted to CNY 400 million.

The Group and Fubon Insurance Co., Ltd had signed a joint investment contract with Nanjing Zijin Investment Co., Ltd. to set up a life insurance company in Mainland China. The project had been approved by the Financial Supervisory Commission, Executive Yuan, per the letter Jin Guan Bao Li No.10002542061 on January 14, 2011. However, the board of directors of the Group had approved to terminate the joint investment agreement on January 29, 2016.

The Group, under the approval of Investment Commission, MOEA and per the regulation of JinShen (2) Zhi No. 10400036470 letter, remitted HKD 1,800 million to undertake 20% share of CITIC Capital Holdings Co., Ltd. which was possessed by Kompass Investment LLC. The Group indirectly acquired the share equity of CITIC Full Joy (Da Lian) Co., Ltd., Shang Hsing Real Estate (Shen Yang) Co., Ltd., Empower Co., Ltd., Pon Wei Investment Consultancy (Shanghai) Co., Ltd., CITIC Jin Xiu Capital Management Co., Ltd., and Kaixin Investment Co., Ltd. The percentage of share acquired ranged from 6% to 20%.

- (b) Fubon Property & Casualty Insurance Co., Ltd is a property insurance company, the information for its cash management and profitability is disclosed as follows:
- (1) Capital status and its profit and loss : No significant investment.
 - (2) The Fubon Property & Casualty Insurance Co., Ltd. provides premium deficiency reserve according to the Regulations Governing the Provision of Various Reserves by Insurance Enterprises amended by Financial Supervisory Commission, Executive Yuan, Jin Guan Bao Tsai No.09802513192 on December 28, 2009. Non life insurance companies should evaluate the claim payments and expense which will be incurred in the future and compare the fore-mentioned expenditures to the premium based on insurance policy without expiration or the accepting risk which is not terminative. If the expenditures are lower than the premium, non life insurance companies should provide the differences as the premium deficiency reserve. The methodology for providing premium deficiency reserve is decided by actuaries and reported to the authority. If there is any change, it should adopt the same procedures as for mentioned.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	December 31, 2015	December 31, 2014
Unearned premium reserve	\$ 2,448,635	2,057,273
Claim reserve	1,099,789	888,182
Premium deficiency reserve	52,728	43,315
Total	\$ 3,601,152	2,988,770

- (3) Ratio accounted for the total premium revenue of the Group: 0.96%
- (4) Ratio accounted for the total claim payment of the Group: 1.09%
- (5) The pricing, payment condition, unrealized profit and loss of significant transactions with the investee in China:
- 1) Amount, ratio and the ending balance of relevant receivables and payable of core business items such as the insurance policy which the policy holder is the investee: None.
 - 2) Amount and profit and loss of property transaction: None.
 - 3) The highest balance, ending balance, interest rate interval and current interest amount of financing: None.
 - 4) Other significant transactions which would influence current profit and loss and other financial condition, such as the provision or receipt of labor service: None.
- (6) The name and premium revenue (expense) from the reinsurance business counterparties which are the branches of foreign insurance companies located in China or the branch of Chinese insurance companies: None.
- (7) Name and premium revenue of significant insurance business with Chinese people, legal entities and groups located overseas: None.

(c) Limit of investment in China :

Unit:NTD\$'000			
Name of Company	Accumulated amount transferred from Taiwan, end of the period	Investment amount approved by Ministry of Finance	Limit of investment regulated by Investment Audit Committee of Ministry of Finance.
Fubon Life Insurance Co., Ltd.	9,055,781	9,209,437	109,669,076

Note: The limit of investment is \$73,112,718 according to the Regulations Governing Foreign Investments by the Group.

(d) Significant transactions with the investee in China : None

