

Stock Code: 2881

Annual report is available at
Taiwan Stock Exchange Market Observation Post System:
<http://emops.twse.com.tw>
Fubon's Homepage:<https://www.fubon.com>

Fubon Financial Holding Co., Ltd.

2018 Annual Report

Prepared by Fubon Financial Holding Co., Ltd.

Printed on Feb. 28, 2019

Spokesperson and Acting Spokesperson

Spokesperson

Name/Title: Jerry Harn/President

TEL: (02)6636-6636

E-mail: pr@fubon.com; ir@fubon.com

Acting Spokesperson

Name/Title: Joyce Chen/Senior Vice President

Sophia Wang/Vice President

TEL: (02)6636-6636#37266

(02)6636-6636#31025

Address, Phone Number and Website of the Financial Holding Company and Subsidiaries

Fubon Financial Holding Co., Ltd.

Address: No. 237, Section 1, Jianguo South Road, Taipei City

TEL: (02)6636-6636 (main line)

Website: www.fubon.com

Fubon Life Insurance Co, Ltd.

Address: 14F, No. 108, Section 1,

Dunhua South Road,

Taipei City

TEL: (02)8771-6699 (main line)

Website: www.fubon.com/life/home

Taipei Fubon Commercial Bank Co., Ltd.

Address: 1F, 2F, 3F, 5F, 8F and 12F,

No. 50, Section 2,

Zhongshan North Road,

Taipei City

TEL: (02)2771-6699 (main line)

Website: www.fubon.com/banking

Fubon Insurance Co., Ltd.

Address: No. 237, Section 1, Jianguo

South Road, Taipei City

TEL: (02)6636-7890 (main line)

Website: www.fubon.com/insurance

Fubon Securities Co., Ltd.

Address: 15F, No. 169, Section 4,

Renai Road, Taipei City

TEL: (02)8771-6888 (main line)

Website: www.fubon.com/securities

Fubon Bank (Hong Kong) Limited

Address: 38 Des Voeux Road Central,

Hong Kong

TEL: (852)2842-6222 (main line)

Website: www.fubonbank.com.hk

Fubon AMC, Ltd.

Address: 4F, No. 50, Section 2,

Zhongshan North Road, Taipei

City

TEL: (02)6618-0588 (main line)

Website: N/A

Fubon Direct Marketing Consulting Co., Ltd.

Address: 17F, No. 9, Xiangyang

Road, Taipei City

TEL: (02)2370-5199 (main line)

Website:

www.fubon.com/direct/home

Fubon Financial Holding Venture Capital Corporation

Address: 8F, No. 108, Section 1,

Dunhua South Road, Taipei

City

TEL: (02)6606-9088 (main line)

Website: N/A

Taiwan Sport Lottery Corporation

Address: No. 50, Section 2, Zhongshan

North Road, Taipei City

TEL: (02)6636-1918 (main line)

Website: N/A

Share Administration Agency

Name: Fubon Securities Co., Ltd. Share Administration Department

Address: 2F, No. 17, Xuchang Street, Taipei City

TEL: (02)2361-1300 (main line); website: www.fubon.com/securities

Credit Rating Agency

Name: Standard & Poor's Financial Services LLC

Address: Unit 1, Level 69 International Commerce Center, 1 Austin Road West,
Kowloon, Hong Kong

TEL: (852)2533-3500

Name: Moody's Investors Service Hong Kong Limited

Address: 24F, One Pacific Place, 88 Queensway Admiralty, Hong Kong

TEL: (852)3758-1300

Name: Taiwan Ratings Corp.

Address: 49F, No. 7, Section 5, Xiangyang Road, Taipei City

TEL: (02)8722-5800

Latest Financial Statement Auditors

Name: Chung Tan-Tan and Yu Chi-Lung, CPA

Name of accounting firm: KPMG

Address: 68F, No. 7, Section 5, Xiangyang Road, Taipei City

TEL: (02)8101-6666; website: www.kpmg.com.tw

Name of Overseas Exchange Where Securities Are Listed and Method of Inquiry:

Name of overseas exchange where securities are listed: Bourse De Luxembourg

Method of inquiry for overseas securities: www.bourse.lu

Table of Contents

1. Letter to Shareholders	6
2. Company Description.....	16
2.1 Date of establishment	16
2.2 Company history.....	16
3. Corporate Governance Report.....	18
3.1 Organization	18
3.1.1 Organizational structure of the company	18
3.1.2 Departments and responsibilities	19
3.1.3. Organizational chart between the Company and subsidiaries.....	21
3.2 Background information of Directors, the President, Vice Presidents, Assistant Vice Presidents, and heads of departments and branch offices.....	22
3.2.1 Background of Directors	22
3.2.2 Background information of the President, Vice Presidents, Assistant Vice Presidents, and heads of departments and branch offices	32
3.3 Remuneration paid to Directors, President, Vice Presidents, consultants and employees in the last year.....	35
3.3.1 Remuneration to Directors	35
3.3.2 Remuneration to the President and Vice Presidents.....	37
3.3.3 Compensation for retired chairmen and presidents of the Company or related companies re-hired as consultants	39
3.3.4 Names of managers entitled to employee remuneration and amount entitled.....	40
3.3.5 Directors', President's and Vice Presidents' remuneration paid in the last two years as a percentage to after-tax profit, and association with business performance.....	40
3.4 Corporate governance.....	41
3.4.1 Functionality of Board of Directors	41
3.4.2 Functionality of the Audit Committee.....	53
3.4.3 Performance of the Corporate Governance and Sustainability Committee	60
3.4.4 The disclosure items in accordance with the Corporate Governance Best-Practice Principles for Financial Holding Companies.....	62
3.4.5 Corporate Governance Status and Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies.....	63
3.4.6 Functionality of the Remuneration Committee.....	82
3.4.7 Fulfillment of social responsibilities	86
3.4.8 Status on the Implementation of Ethical Corporate Conduct.....	101
3.4.9 Inquiry on corporate governance principles and related regulations of this Company	112
3.4.10 Other information material to the understanding of corporate governance within the Company.....	112
3.4.11 Internal control.....	113
3.4.12 Penalties imposed for violations of laws or regulations and major defects of the Company and its subsidiaries for 2016, 2017, and 2018 up to the issuance date of the annual report and relevant corrective measures.....	127
3.4.13 Major Resolutions of the Annual General Meeting and the Board of Directors(up to the date of the annual report)	145
3.4.14 Documented opinions or declarations made by directors (including independent directors) against the board's resolutions in the last year up to the publication date of this annual report.	147
3.4.15 Resignation or dismissal of personnel related to financial statement preparation (including the chairman, president, head of finance, accounting manager, and chief	

internal auditor) in the last year up to the publication date of this annual report	147
3.5 Disclosure of auditors' remuneration	148
3.6 Change of auditor.....	148
3.7 The Company's Chairman, President, or any manager involved in financial or accounting affairs being employed by the auditor's firm or any of its affiliated company within the last year	148
3.8 Transfer or pledge of shares owned by directors, managers, and all parties subject to reporting under Article 11 of Regulations Governing the Ownership of Financial Holding Company By Single Individuals or Stakeholders.....	148
3.9 Relationships among the top ten shareholders, including spouses and second degree relatives or closer	151
3.10. Shares jointly held by the Company, subsidiaries, the Company's directors, managers, and directly/indirectly controlled entities on any single investee. Calculate shareholding percentage in aggregate of the above parties	153
4. Funding	154
4.1 Capital and shares	154
4.1.1 Source of capital.....	154
4.1.2 Status of Shareholders.....	156
4.1.3 Status Distribution of Ownership.....	156
4.1.4 List of major shareholders:.....	158
4.1.5 Market price, net worth, earnings, and dividends per share for the last 2 years	158
4.1.6 Dividend policy and implementation	159
4.1.7 Impact of proposed stock dividend on the Company's business performance and earnings per share	160
4.1.8 Employees' and directors' remuneration	160
4.1.9 Share buybacks.	160
4.2 Corporate bonds.....	161
4.3 Issuance of preferred shares	167
4.4 Issuance of global depository receipts.....	170
4.5 Employee stock options.....	170
4.6 Employees' restricted shares.....	170
4.7 Merger or acquisition of other financial institutions	171
4.7.1 Financial institutions merged or acquired in the last year:.....	171
4.7.2 Mergers or acquisitions of other financial institutions in the last five years.....	171
4.7.3 Issuance of new shares for merger or acquisition of other financial institutions that the board of directors has approved in the last year, up to publication date of annual report:.....	171
4.8 Capital plans and execution.....	171
5. Business Overview.....	172
5.1 Business overview of the Company	172
5.1.1 Scope of business.....	172
5.1.2 Business plans for the year.....	172
5.1.3 Current and future industry prospects	173
5.1.4 Research & development spending and accomplishments in the last two years.....	174
5.1.5 Future R&D plans	174
5.1.6 Long and short-term business plans.....	174
5.1.7 Market and business overview	175
5.2 Business overview of Fubon Life	175
5.2.1 Scope of business	175
5.2.2 Business plans for the year.....	176

5.2.3	Current and future industry prospects	176
5.2.4	Research & development spending and accomplishments in the last two years.....	177
5.2.5	Future R&D plans	177
5.2.6	Long and short-term business plans.....	178
5.2.7	Market and business overview	178
5.3	Business overview of Taipei Fubon Bank (including subsidiary):	179
5.3.1	Scope of business	179
5.3.2	Business plans for the year.....	180
5.3.3	Current and future industry prospects	181
5.3.4	Research & development spending and accomplishments in the last two years.....	181
5.3.5	Future R&D plans	182
5.3.6	Long and short-term business plans.....	183
5.3.7	Market and business overview	184
5.4	Business overview of Fubon Insurance	187
5.4.1	Scope of business	187
5.4.2	Business plans for the year.....	188
5.4.3	Current and future industry prospects	189
5.4.4	Research & development spending and accomplishments in the last two years.....	190
5.4.6	Long and short-term business plans.....	191
5.4.7	Market and business overview	191
5.5	Business overview of Fubon Securities.....	193
5.5.1	Scope of business	193
5.5.2	Business plans for the year.....	195
5.5.3	Current and future industry prospects	196
5.5.4	Research & development spending and accomplishments in the last two years.....	199
5.5.5	Future R&D plans	200
5.5.6	Long and short-term business plans.....	201
5.5.7	Market and business overview	204
5.6	Business Overview of Fubon Bank (Hong Kong).....	210
5.6.1	Scope of operations	210
5.6.2	Business plans for the year.....	210
5.6.3	Industry overview	211
5.6.4	Research & development spending and accomplishments in the last two years.....	211
5.6.5	Research and development plans in the future.....	211
5.6.6	Long and short-term business development plan.....	211
5.6.7	Market and business overview	212
5.7	Business overview of Fubon AMC.....	212
5.7.1	Scope of business	212
5.7.2	Business plans for the year.....	212
5.7.3	Current and future industry prospects	212
5.7.4	Research & development spending and accomplishments in the last two years.....	213
5.7.5	Future R&D plans	213
5.7.6	Long and short-term business plans.....	213
5.7.7	Market and business overview	213
5.8	Business overview of Fubon Direct Marketing.....	214
5.8.1	Scope of business	214
5.8.2	Business plans for the year.....	215
5.8.3	Current and future industry prospects	215
5.8.4	Research & development spending and accomplishments in the last two years.....	215
5.8.5	Future R&D plans	216
5.8.6	Long and short-term business plans.....	216
5.8.7	Market and business overview	216

5.9	Business overview of Fubon Financial Holding Venture Capital Corp.....	217
5.9.1	Scope of business	217
5.9.2	Business plans for the year.....	218
5.9.3	Current and future industry prospects	218
5.9.4	Research & development spending and accomplishments in the last two years.....	218
5.9.5	Future R&D plans	218
5.9.6	Long and short-term business plans.....	218
5.9.7	Market and business overview	218
5.10	Business overview of Taiwan Sport Lottery Corporation.....	219
5.11	Cross-selling	219
5.12	Employees and Labor-management Relations	220
5.12.1	Employee backgrounds	220
5.12.2	Employee welfare.....	226
5.12.3	Enforcement of labor agreements and employee rights	226
5.12.4	Employees' education, training and career development	227
5.12.5	Actual or estimated losses arising as a result of employment dispute in the last year up to the publication date of this annual report, and any response measures taken.....	228
5.12.6	Work environment and employees' safety	228
5.13	Corporate Responsibilities and Moral Behavior.....	229
5.14	Number of non-managerial staff, amount of employee welfare expenses, and differences from the previous year	232
5.15	IT Equipment	232
5.16	Major Contracts	233
6.	Financial Overview.....	240
6.1	Summary balance sheet and statement of comprehensive income for the last 5 years.....	240
6.2	Financial analysis in the last 5 years and changes in financial ratios in the last 2 years	245
6.3	Key performance indicators.....	249
6.4	Audit Committee's report on the latest financial statements	250
6.5	Financial statements of the latest year	250
6.6	Any financial distress experienced by the company or its affiliated enterprises and impacts on the company's financial position, in the last year up to the publication date of this annual report.....	250
7.	Review and analysis of financial position and business performance, and risk management	251
7.1	Financial position	251
7.2	Financial performance	254
7.3	Cash flow	256
7.4	Material capital expenditures in the last year and impacts on business performance	257
7.5	Causes of profits or losses incurred on investments in the last year, and any improvements or investments planned for the next year	257
7.6	Risk Management.....	258
7.6.1	Risk management framework and policies	258
7.6.2	Methods of risk assessment and control.....	258
7.6.3	Risk Management of subsidiaries	259
7.6.4	Hedging and Risk Mitigation Policies Adopted by Subsidiaries	269
7.6.5	Quantified Risk Exposure	270
7.6.6	Financial and business impacts and responding measures against changes in domestic or foreign laws or major policies	271
7.6.7	Financial impact and response measures in the event of technological or industry changes	272

7.6.8	Impacts, response, and crisis management in the event of change in corporate image of the financial holding company and subsidiaries	272
7.6.9	Potential benefits, risks and response measures of mergers and acquisitions	272
7.6.10	Business concentration risks and response measures:.....	273
7.6.11	Impact, risk and response measures involving significant transfer of shareholding by directors or shareholders with more than 1% ownership interest:	273
7.6.12	Impact, risk and response measures associated with change of management.....	273
7.6.13	Litigation and non-contentious cases	273
7.6.14	Other key risks and response measures.....	273
7.7	Crisis response and handling	275
7.8	Other material issues	275
8.	Special Disclosures	276
8.1	Relationship of affiliated enterprises	276
8.1.1	Consolidated business report.....	276
8.1.2	Consolidated financial statements of affiliated enterprises	296
8.1.3	Affiliation reports.....	296
8.2	Private placement of securities in the last year, up to the publication date of this annual report	297
8.3	Disposal of the Company's shares by subsidiaries in the last year, up to the publication date of this annual report.....	297
8.4	Other supplementary notes, where applicable	297
8.5	Occurrences that are significant to shareholders' equity or securities prices, as defined in Subparagraph 2, Paragraph 2, Article 36 of the Securities and Exchange Act, in the last year up to the publication date of this annual report	297
	Attachment: Consolidated Financial Statements for Fubon Financial Holdings and Subsidiaries as at December 31, 2018.....	298

1. Letter to Shareholders

Dear Shareholders,

The global economy grew steadily in 2018, but Taiwan's financial holding companies saw a slight decline in profitability from a year earlier because of the United States-China trade war, global equity market volatility, a stronger U.S. dollar, and slumping U.S. bond yields. Fubon Financial Holdings reported net profit of NT\$47.73 billion, or NT\$4.52 per share, and led Taiwan's financial services sector in profitability based on EPS for the 10th consecutive year.

Rooted in Taiwan, Fubon Financial Holdings continues to expand regionally, offering banking, insurance, securities and asset management services throughout Greater China and extending its reach into other parts of Asia. In November 2017, our board approved the purchase of Fubon Bank (Hong Kong)'s holdings of common shares in Xiamen Bank, and the acquisition was completed at the end of November 2018. Direct ownership of those shares will give us greater flexibility in managing our investments while also solidifying our strategic positioning in China.

Our banking network in China is built on a dual-track approach featuring a national bank and a commercial city bank. Fubon Bank (China) is the only Taiwanese-invested bank granted a full license to operate in China. With 26 branches and sub-branches spanning the Yangtze River Delta, the Pearl River Delta, the Beijing-Tianjin-Hebei region, and major metropolitan areas in Sichuan, it has the most locations and broadest coverage of any Taiwanese bank in the market. Xiamen Bank has 57 modern outlets and envisions emerging as a leading regional financial services institution focused on serving SMEs from both sides of the Taiwan Strait.

Fubon Financial Holdings has also sought to expand its presence in other parts of Asia. Eyeing the potential of South Korea's pension management market and growth opportunities in its insurance market, Fubon Life acquired a 48% stake in Hyundai Life in December 2015. It then participated in two rights offerings in December 2017 and April 2018 to increase its stake to 62.06%, and formally took management control of the company in September 2018, renaming it Fubon Hyundai Life Insurance Co., Ltd. It was the first time a Taiwanese insurer had entered the Northeast Asia life insurance market, representing a new milestone in Fubon Financial Holdings' Asian expansion. We expect to pursue other strategic partnerships that move us closer to our vision of becoming one of Asia's first-class financial institutions.

Financial Sector Leader in EPS for 10 Years Running

Taiwan's economy grew by more than 3% in the first half of 2018 on robust exports driven by steady global growth. But global prosperity weakened in the second half of the year, hurt by the ongoing U.S.-China trade skirmish, increasing downside risks in major economies, and growing volatility in financial markets. Taiwan's export and consumption momentum stalled, and growth softened in the final two quarters. That resulted in full-year GDP growth of 2.63%, down from 3.08% in 2017.

The profitability of Taiwan's financial sector was also adversely affected by the trade war and market volatility, but Fubon Financial Holdings remained Taiwan's most profitable financial holding company by earnings per share with net profit of NT\$47.73 billion and EPS of NT\$4.52. Nearly 91% of that net profit was contributed by the group's two key profit engines, Fubon Life and Taipei Fubon Bank. Return on assets and return on equity were 0.65% and 9.98%, respectively.

Assets under management reached a new high in 2018, exceeding NT\$7 trillion for the first time. As of the end of year, Fubon Financial Holdings had total assets of NT\$7.72 trillion, up 11% from 2017, to remain Taiwan's second-largest financial holding company by assets.

Fubon Life: Premium Income, Total Assets Set New Highs

Despite headwinds from U.S. interest rate hikes, increasing hedging costs, and the U.S.-China trade war, Fubon Life delivered solid results by maintaining flexible product strategies and diverse distribution channels to help expand its business. It was Fubon Financial Holdings' biggest profit engine, with net profit of NT\$24.93 billion in 2018. Total premium income rose to NT\$543 billion, with renewal-year premium and first-year premium equivalent both ranking second in the industry at NT\$352.6 billion and NT\$49.5 billion, respectively. Total assets set a record high, exceeding NT\$3.9 trillion by the end of the year.

Emerging channels performed particularly well, reflecting Fubon Life's major commitment to its online insurance business. It aggressively strengthened membership management, developed e-commerce platforms with affiliates and third parties, and harnessed the synergies of online and offline channels to satisfy customers' diverse needs. Fubon Life also intensified efforts to direct customers to its online insurance site and interact with them, boosting online insurance sales. Online first-year premium totaled NT\$650 million in 2018, the highest in the industry. Another bright spot was the Offshore Insurance Unit, which topped all insurers with a 34% market share.

Overseas, Fubon Life sent top executives with investment, finance, risk management and actuarial expertise to help Fubon Hyundai Life improve its investment returns and portfolio diversification and strengthen its ability to develop products. By September 2018, Fubon Life's stake in Hyundai Life had reached 62.06%, and it had invested a total of 453.7 billion won in the insurer. Work continues to help it carve out a larger share of the Korean insurance market. Meanwhile, Fubon Life's Hong Kong subsidiary has focused on building bank and broker channels since it opened in April 2016, and it is intent on creating the most appealing products for local customers based on prevailing market trends.

Taipei Fubon Bank: Building Value through Digital Innovation

Backed by steady global economic growth, Taipei Fubon Bank delivered an impressive performance in 2018 and remained a key driver of Fubon Financial Holdings profits. Net profit rose 11% to NT\$18.62 billion, and several core businesses were top performers in their respective

categories. The bank ranked first among private banks for syndicated loans and second among private banks for outstanding mortgages and market share for offshore institutional deposits and loans.

In response to the rapidly changing financial environment, Taipei Fubon Bank has adjusted its strategy to focus more on designing products and experiences tailored to different customer segments based on their distinct needs and pain points. The bank has also invested heavily in digital finance and mobile service innovation, pioneering services such as AI-driven investment simulation platform “Nano Investments”, home-grown payment system “LuckyPAY” and in partnership with National Chengchi University, a blockchain-based payment platform. In 2018, the bank invested in “LINE Pay” and joined in preparations to form online bank “LINE Bank” as part of its ongoing pursuit of a strategic partner ecosystem.

Beyond its commitment to innovation, Taipei Fubon Bank has stressed great “361-degree” service that includes an extra degree of human touch and truly resonates with customers. The bank also set a new benchmark for sustainability in 2018, becoming the first-ever company in the financial sector to earn a Taipei City “Outstanding Healthy Workplace” award.

Fubon Insurance: The Market Leader for 37 Years

Fubon Insurance leveraged the Fubon Group’s strong sales channels to set a new high of NT\$38.6 billion in written premium in 2018. Its 23.4% market share led the sector for the 37th year in a row, and it had net profit of NT\$3.86 billion.

In support of public policy, Fubon Insurance offers various types of agriculture insurance that provide farmers and fishermen additional coverage against losses from natural disasters. Having already launched crop insurance for pears and temperature-indexed aquaculture insurance, Fubon Insurance expanded its aquaculture coverage in 2018 to milkfish farming and also extended agriculture insurance coverage to damage to agricultural facilities from typhoons or flooding. Similar new products will be developed in the future in cooperation with public agencies.

Fubon Insurance operates a growing overseas network that currently consists of subsidiaries in China and Vietnam, insurance brokerage units in Thailand and the Philippines, and representative offices in Beijing, Malaysia and Indonesia. Fubon Insurance (Vietnam), which is headquartered in Ho Chi Minh City and has branches in Hanoi, Binh Duong and Dong Nai, saw premium income grow 18.4% in 2018 to 451.8 billion dong.

Fubon Insurance’s subsidiary in China, Fubon Property & Casualty Insurance, is based in Xiamen and has 64 service outlets spanning Fujian and Sichuan provinces, and Chongqing, Liaoning and Dalian. It has embraced the spirit of localized service in its role as a professional risk consultant, and introduced specialized disaster- and loss-prevention technologies from Taiwan. The unit’s written premium of 1 billion yuan in 2018 ranked eighth among 22 foreign-invested P&C insurers in China, and it had the eighth highest market share in Xiamen among all P&C companies.

Fubon Securities: Building New Businesses

Faced in 2018 with fund outflows into U.S. dollar assets due to U.S. Federal Reserve rate hikes, a pullback in U.S. stock gains, and volatility in Taiwan shares, Fubon Securities shifted its emphasis to wealth management and the promotion of new businesses to drive revenues. It had net profit of NT\$2.09 billion for the year.

The company leaned on its advantages as a brokerage firm in 2018 to create differentiated wealth management services. Regular savings ETF plans were expanded, leading to a 4.5-fold increase in ETF assets, and outstanding general purpose loans rose 2.4-fold. Its retail brokerage share of 5.97% ranked in the top three in the sector, and its securities lending business ranked third with an 18% market share. On the investment banking side, Fubon Securities ranked second in emerging market brokerage and underwriting, while subsidiary Fubon Asset Management's continued focus on ETFs paid off, ranking second in ETF market share.

As uncertainty continues to haunt global equity markets in 2019, Fubon Securities will remain committed to a steady growth approach and sound risk management practices. Its top priorities will be to optimize its retail network, create new revenue streams, and deliver innovative digital experiences to customers through diverse investment platforms and online services. Fubon Securities will also continue to pursue large underwriting opportunities and leverage its status as the only OSU with overseas lead underwriting experience to arrange ECB and GDR listings.

Fubon Bank (Hong Kong): Strengthening Group Collaboration

Fubon Bank (China): No. 1 Retail Network of Taiwanese Banks in China

Fubon Bank (Hong Kong) had net profit of HK\$820 million in 2018. On Dec. 27, 2018, the bank redeemed US\$193 million in undated noncumulative subordinated Additional Tier 1 Capital securities from Fubon Financial Holdings to strengthen its capital efficiency. A month earlier, on Nov. 30, 2018, the bank completed the sale of its 19.95% stake in Xiamen Bank to Fubon Financial Holdings, freeing it to concentrate on the Hong Kong market and support its customers throughout Greater China. Fubon Bank (Hong Kong) remains dedicated to optimizing the quality of its products and services and developing electronic platforms to capitalize on the FinTech wave, while also working closely with Fubon Financial Holdings to pursue regional opportunities.

Fubon Bank (China) is a wholly-owned subsidiary of Fubon Financial Holdings and an important part of the group's efforts to deepen its foothold in China's financial services market. Its network, which consists of 26 branches and sub-branches (including recently approved branches in Guangzhou and Chongqing), spans the Yangtze River and Pearl River deltas, the Bohai Economic Rim, and central and western China. Of all Taiwanese-invested banks in the Chinese market, Fubon Bank (China) has expanded its reach the fastest and set up the most locations.

In 2018, Fubon Bank (China) took advantage of Fubon Group resources across Greater China and its full license domestically to offer a comprehensive range of products and services and position itself as the banking partner of choice for Taiwanese companies in China. That helped cement its reputation among Taiwanese who operate on both sides of the Taiwan Strait as the bank “that is always by your side.” The bank also earned the recognition of local regulators, competitors and media for its unique services and innovative operating models, winning awards for financial inclusion, syndicated loans and social responsibility. Those honors enhanced awareness of the Fubon brand in China.

Robust Risk Management and Balance Sheet Strength

As its business has grown, Fubon Financial Holdings has put a premium on risk management, maintaining a strong capital structure and a level of asset quality that exceeds the market average. Those efforts resulted in a CAR of 119.2% in 2018, well above the minimum capital requirement of 100%.

Taipei Fubon Bank’s BIS capital adequacy ratio was 14.0% as of the end of 2018, an indication of the bank’s strong capital position. Its nonperforming loan ratio was 0.17%, below the industry average of 0.24%, and its coverage ratio of 784.7% far exceeded the industry average of 575.44%.

Taiwan Ratings Corp. maintained its long-term and short-term ratings for Fubon Financial Holdings as “twAA” and “twA-1+” in a report dated Nov. 27, 2018. Moody’s Investors Service maintained the company’s outlook as “stable” in its latest ratings note on Aug. 29, 2018. These ratings reflect Fubon Financial Holdings’ market leadership and strong financial results relative to its competitors. The ratings Fubon Financial Holdings received in 2018 are as follows:

Rating Type	Rating Agency	Credit Rating	Outlook	Effective Date
		Long-term; Short-term		
International	Standard & Poor’s	BBB+ ; A-2	Stable	2018/11/26
	Moody’s	Baa1	Stable	2018/08/29
Domestic	Taiwan Ratings Corp.	twAA ; twA-1+	Stable	2018/11/27

The Benchmark for Corporate Governance

Fubon Financial Holdings’ performance on corporate governance was again widely acclaimed in 2018. Internationally, it was named to the prestigious Fortune 500 for the first time, and earned an “Icon on Corporate Governance” award from Corporate Governance Asia for a 10th year in a row. The Asset honored Fubon Financial Holdings with a Platinum Corporate Award for the eighth straight year and also awarded it for “Best Initiative in Diversity and Inclusion.” These accolades all underscored the company’s commitment to maintaining the highest corporate governance standards.

Fubon Financial Holdings was the first company in Taiwan's financial sector to institute an independent director system and serves as the benchmark for the independence and diversity of board directors. Chairman Richard M. Tsai has been a strong advocate of corporate governance and sustainable development, and he received an Asian Corporate Director Recognition Award from Corporate Governance Asia for a second time in 2018 for his leadership in those areas.

Corporate Governance Asia also honored Fubon Financial Holdings for "Best Investor Relations" for the eighth year running in 2018, reflecting the company's ongoing emphasis on investor relations and transparency as part of its corporate governance strategy.

Domestically, Fubon Financial Holdings received several more accolades in 2018, including being ranked among the top 5% of Taiwan-listed companies in the Taiwan Stock Exchange's annual corporate governance evaluation for a fourth year in a row. It was honored for social responsibility in the Taiwan Banking and Finance Best Practice Awards from Taiwan Academy of Banking and Finance and won a Best CSR award from Wealth Magazine for a fifth straight year. Other highlights were a "Top 50 Corporate Sustainability" award and a "Top 50 Corporate Sustainability Report" award in the finance and insurance category from the Taiwan Institute for Sustainable Energy.

The company also garnered awards in 2018 for its green procurement practices and support for domestic sports events and local athletes. The Environmental Protection Administration again affirmed it as an Outstanding Green Procurement Organization, while the Sports Administration honored it with "Sports Activist Awards" for its sponsorship and promotion of sports. These many honors reflect Fubon Financial Holdings' ongoing commitment to excellence and sustainable development in the future.

Widespread Accolades for Fubon Subsidiaries

Fubon Financial Holdings' subsidiaries reaped countless awards of their own in 2018. Fubon Life was honored as Taiwan's Best Life Insurance Company by World Finance for the seventh straight year and named one of the Top100 Most Valuable Insurance Brands by Brand Finance. It was honored by Risk Management, Insurance & Finance (RMIM) magazine as the Most Admired Insurance Company in the back office and field representative categories for a ninth year in a row, and garnered 10 RMIM Faith, Hope, and Love Awards for insurance and four RMIM Insurance Quality Awards. Wealth Magazine awarded Fubon Life for best image, service and financial technology.

Taipei Fubon Bank was named Best Investment Bank by FinanceAsia and awarded by Global Banking and Finance Review as Taiwan's Best Customer Service Bank, Best Internet Bank, Best Payment Bank, and Best Wealth Management Bank and as having the Best Credit Card Offering. The bank's innovative products and outstanding service also earned considerable recognition at home. Wealth Magazine named it one of Taiwan's best banks for FinTech innovation and as the bank most recommended by clients, while Global Views Monthly honored it for its excellent digital

financial services.

Fubon Insurance was similarly recognized for its innovative agriculture insurance plans, earning both a Council of Agriculture award and a Faith, Hope, and Love award for making outstanding contributions to agriculture insurance. In addition, the insurer was honored by Wealth Magazine for Best FinTech Innovation, was again named by RMIM as the Most Admired P&C Insurance Company, and captured 12 Faith, Hope, and Love Awards.

Fubon Securities' professional expertise earned it several international awards, including Best Equity Capital Market (ECM) House from FinanceAsia and Best Brokerage in Taiwan from The Asset. Domestically, Fubon Securities won top honors in Business Today's annual wealth management survey on banks and brokerage firms for Best Wealth Management Securities Brokerage, Best Wealth Creator, and Best Digital Innovation. It was also honored for Best Brokerage Image, Best Brokerage Service and Best FinTech in the Brokerage category by Wealth Magazine.

Named to DJSI World Index for Robust ESG Practices

In late 2015, Fubon Financial Holdings launched the Fubon ESG Visioning Project, a sustainability initiative founded on the brand spirit of "positive energy" that was guided by five strategies: leading investment, innovative finance, golden practices, honest lending and tender care. Led by the ESG Task Force under the Corporate Governance and Sustainability Committee, the ESG Visioning Project was conceived to address environmental, social and governance issues through core financial competencies. Its goal was to make progress toward achieving 12 U.N. sustainable development goals, including good health and well-being, quality education, climate action, and sustainable cities and communities, to contribute to economic growth, social development and environmental sustainability.

Green finance, which has gained momentum around the world, is part of that initiative and strongly supported by Taipei Fubon Bank in line with government policy. In March 2018, it issued senior unsecured financial debentures worth NT\$1 billion, with the funds raised going to support green energy development. The issuance reflected Fubon's desire to leverage its core financial services to promote industrial innovation, nurture the renewable energy sector and capitalize on green energy opportunities, in the process encouraging the emergence of an eco-friendly circular economy model.

Fubon Financial Holdings' concerted efforts to operate sustainably have earned global recognition. In 2018, the company was named a constituent of the top-flight Dow Jones Sustainability World Index (DJSI World) for a second year in a row and a member of the DJSI Emerging Markets Index for a third year in a row. Its high scores in the economic, environmental and social dimensions evaluated for the DJSI indices in 2018 also ranked it second among companies in the FBN Diversified Financial Services and Capital Markets category.

At the same time, Fubon Financial Holdings was once again selected as a constituent of the MSCI ESG Leaders Indexes and received an “A” MSCI ESG rating, the highest of any Taiwanese firm in the Diversified Financials category. These many honors indicate that Fubon’s ongoing sustainability initiatives have delivered results and are keeping pace with global benchmark companies in the field.

Four Foundations Spreading ‘Positive Energy’ in Society

The late founder of the Fubon Group, Wan-tsai Tsai, championed the idea of “giving back to society what one reaps from society.” That spirit has been carried on by the four foundations supported by Fubon Financial Holdings in harnessing positive energy for social good.

The Fubon Charity Foundation remained a dynamic force for good as it celebrated its 30th anniversary in 2018. The Making Friends with Love campaign raised more than NT\$113 million to help 15,850 students stay in school, and the Emergency Relief Fund provided NT\$25 million in assistance to benefit 19,908 individuals and groups. The Fubon Social Welfare Ambassador program supported 107 nonprofits and social enterprises, while Fubon employees volunteered 4,393 times and contributed 26,966 hours to Fubon Volunteer Association activities.

The Fubon Cultural & Educational Foundation was again active in helping broaden teenagers’ horizons and imagination and strengthening their ability to compete internationally. Another core initiative, the Future Tycoon Outreach Program, conveyed healthy attitudes toward money to 1,736 schoolchildren and created an illustrated booklet to help them understand basic money concepts. The Fubon EDU program, focused on healthy living, connected eco-friendly farms and employee cafeterias for the first time, raising employee awareness of food safety issues. The program’s educational activities drew 2,994 hours of participation.

The Fubon Art Foundation has dedicated itself to bringing aesthetics into daily life in the most accessible ways. In 2018, its “Very Fun Park” invited 10 teams of artists to create works depicting how city spaces converse with each other. The foundation’s hotel partner, the Folio Hotel Taipei Daan, earned a Public Art Award and continued to use art installations to turn guests who experience them into advocates for the hotel. A key foundation initiative, the Fubon Forum series, has held 1,831 classes on topics related to aesthetics during its 18 years, including talks by 841 top speakers, that have been attended by more than 190,000 people.

The Taipei Fubon Bank Charity Foundation maintained its longtime devotion to seniors and people with disabilities in 2018. It organized 153 events attended by 4,216 people to give family caregivers breaks from their regular routines, and held a ping-pong tournament for seniors in the Taipei Railway Station lobby to champion active aging and intergenerational harmony. The All Love Orchestra, consisting of highly talented musicians with disabilities, toured six high schools and four nursing homes in 2018, and a short video of one of their performances won three awards at the Taipei Golden Eagle Micro-movie Festival.

Solidifying Risk Management, Stepping Up FinTech Investment

In the year ahead, the global economic slowdown and uncertainty over U.S.-China trade friction could hurt Taiwan's manufacturing sector and the willingness to invest. Those factors, combined with financial market volatility and a conservative outlook for corporate earnings, will likely hinder the investment climate and consumer confidence and affect Taiwan's domestic consumption and export growth. But increased public investment in infrastructure and policies to lure Taiwanese businesses operating overseas back to Taiwan could provide support for fixed investment.

The key strategies and goals for 2019 for Fubon Financial Holdings' main subsidiaries are as follows:

1. Fubon Life: Plans for 2019 include maintaining a focus on aging and retirement issues; strengthening existing distribution channels; developing insurance products that meet the specific needs of different customer segments and channels; capitalizing on digital trends to tap into new customer groups; and developing online insurance channels. There will also be a renewed emphasis on CSR to better protect policyholders, strengthen employee care, nurture talent, forge a happy workplace and reinforce corporate governance.
2. Taipei Fubon Bank: The main focus will be on five main strategies – expanding financial inclusion, developing smart investing, solidifying services for cross-border customers, creating innovative digital platforms, and strengthening brand awareness – to bolster growth momentum. In support of those objectives, the bank will reinforce its customer-oriented philosophy to forge a more proactive corporate culture founded on great service, signaling its determination to establish itself as the brand customers trust the most.
3. Fubon Insurance: The main goals for the personal insurance business include developing more targeted products geared to customers' daily lives and stepping up FinTech development to create a full-service smart insurance assistant and offer personalized policy recommendations. The corporate insurance business will concentrate on opening multiple channels, including working with the group's banking and life insurance units on business and channel development, to extend its reach. Overseas development will continue to rely on rigorous screenings of potential underwriting cases, more rational fee rates, complete ranges of insurance offerings, and diverse sales channels to drive growth and profitability.
4. Fubon Securities: Solidifying synergies among its own subsidiaries, strengthening cooperation with group affiliates, and maintaining steady growth and leadership positions in its many businesses will be the top priorities. Overseas, the goals will be to expand business in Greater China and build a comprehensive brokerage, futures and asset management platform to serve the region. FinTech development will also be key, as Fubon Securities looks to broaden online services by fortifying robo-advisor and retirement planning services and launching a smart customer-service chatbot for securities.

5. Fubon Bank (Hong Kong): The main goal for 2019 will be to increase return on equity by optimizing the bank's asset mix and improving loan pricing. Developing more diversified products to broaden the fee income base, and rigorously controlling costs will also be priorities. At the same time, the bank plans to strengthen risk management through system automation, simplify work processes, and promote an eco-friendly culture, while also bolstering electronic platform services to attract younger customers.

6. Fubon Bank (China): Working closely with Taipei Fubon Bank, cultivating leading Taiwanese businesses in China, driving institutional and personal banking synergies, pushing innovation in retail banking, adopting customized products and value-added services to attract HNWI's, and leveraging technology will be major directions in 2019. The bank will build underlying architecture to support advances in mobile payments, use multiple platforms to connect with customers, optimize context marketing to appeal to digitally savvy consumers, and create innovative electronic products, all to make retail banking more digital and forge a new online financial services brand.

In the year ahead, Fubon Financial Holdings will continue to deepen its presence in Taiwan and expand regionally while strengthening risk management to secure steady, long-term growth. FinTech innovation will remain a top priority to help establish Fubon as an industry leader in financial technology, and the pursuit of good operating results will be supported by the ongoing promotion of the ESG Visioning Project. These many actions will move the company closer to achieving its vision of standing out as one of Asia's first-class financial institutions.

Richard M. Tsai
Chairman, Fubon Financial Holdings

2. Company Description

2.1 Date of establishment

December 19, 2001.

2.2 Company history

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

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

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

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

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

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

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

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

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

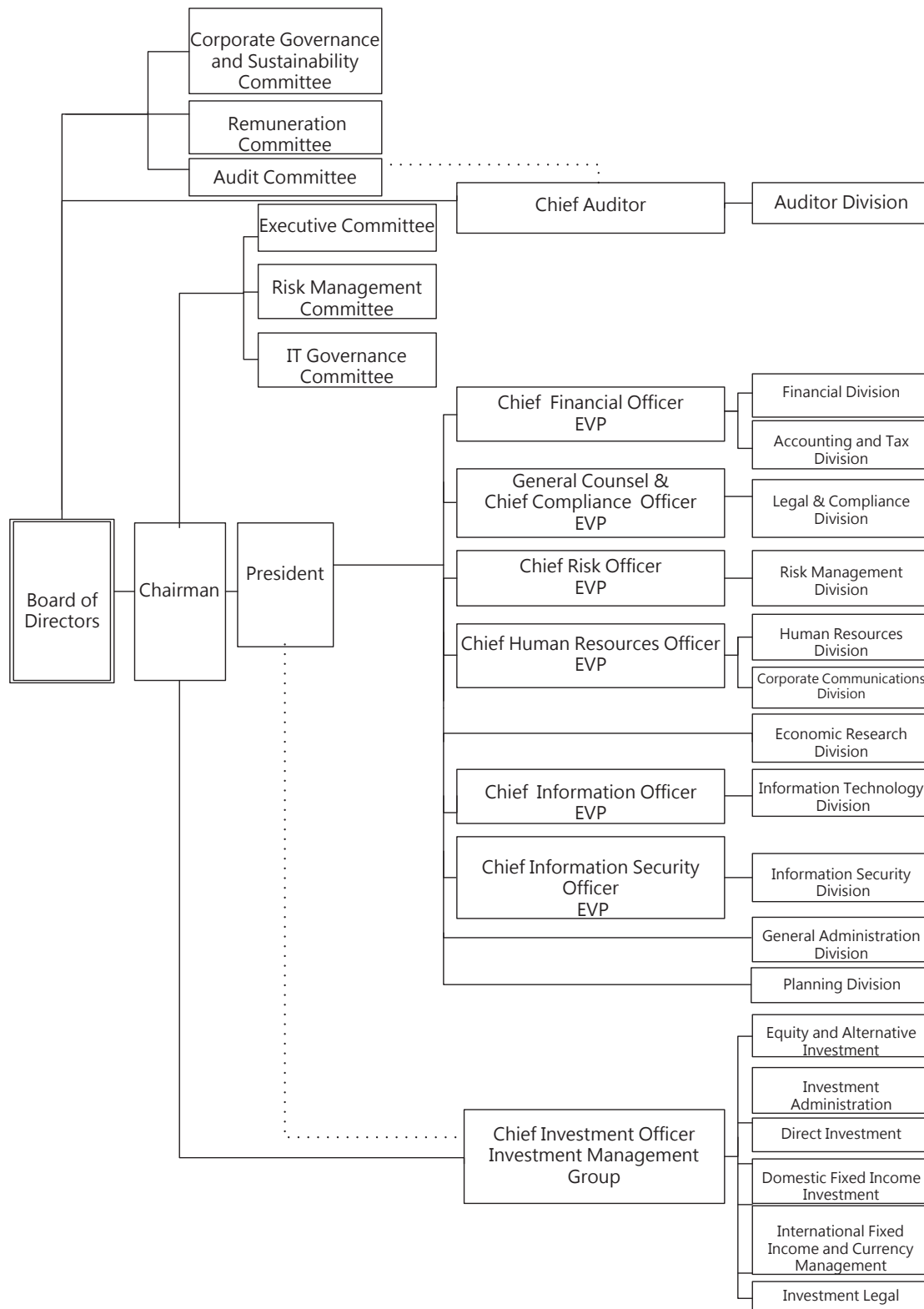
On January 7, 2014, 80% of the shares of First Sino Bank, Limited, which was renamed as Fubon Bank (China) Co., Ltd. from April, 2014, were acquired in cash by the Company and Taipei Fubon Bank. On October 20, 2016, 20% of the remaining outstanding shares of Fubon Bank (China) were acquired by the Company.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

The Company is engaged in the financial businesses including banking, financial bills, credit cards, trust, insurance, securities, futures, ventures, investments in foreign financial institutions approved by the government authorities, investments relevant to other financial services approved by the government authorities and investments, which is excluding the participation in the operation, in the services that are outside the scope of Article 36, Paragraph 2 of Financial Holding Company Act, and approved by the government authorities.

3. Corporate Governance Report

3.1 Organization

3.1.1 Organizational structure of the company



Note: This organizational chart was approved during the 10th regular meeting of the 7th board and has been effected since April 1, 2019.

3.1.2 Departments and responsibilities

(1) Auditor Division:

Audit Division: Responsible for evaluating the effectiveness of internal control policies adopted by all entities under the Company, and offering suggestions whenever deemed appropriate to assist the Board of Directors and the management in fulfilling their duties.

(2) Investment Management Group:

Supervises use of capital among subsidiaries. Coordinates investments in local and foreign fixed income instruments, equity, derivatives, and real estate to deliver optimal returns. Confirms transactions and coordinates back-office operations such as settlement, bookkeeping etc, and verifies terms of investment contracts for the Company's best interests. The department branches out into a number of functional teams including variable income, domestic fixed income, foreign fixed income, foreign currency, investment administration, direct investment, and legal affairs.

(3) Finance Division:

Responsible for group-wide strategic planning, strategic investment evaluation, capital planning, investor relationship management, industry trend and peer performance tracking, credit rating, project support and evaluation, sourcing of working capital, cash management and disbursement, custody, budgeting, monitoring of management indicators, performance evaluation, and analysis of management information.

(4) Accounting and Tax Division:

Responsible for accounting and tax-related affairs, consistency of accounting procedures between the Company and its subsidiaries, evaluating impact of major accounting issues on the Company and subsidiaries, financial statement preparation, review and update of accounting policies, promotion of awareness on financial and tax-related policies, and reporting of material information (including press conference).

(5) Legal & Compliance Division

Responsible for litigations, non-contentious cases, and legal affairs of the financial holding company and the group; plans and implements compliance system on a group level; contacts with and responds to queries of the financial supervisory authority; responsible for the planning, enforcement and execution of AML and CTF practices on a group level; responsible for board meeting and shareholder meeting affairs, commercial registration, overseeing equity ownership of major shareholders and insiders, assisting directors with duty, education, service, compliance and other corporate governance-related matters.

(6) Risk Management Division:

Responsible for setting up the Group's risk management systems and policies; reviews key risk management guidelines and risk limits across subsidiaries; supervises execution of risk management policies; and monitors, analyzes and reports risk exposures of the Group.

(7) Human Resources Division:

Responsible for human resource planning, policy making, determining employee compensation, performance appraisal, employee training, and managing employment relations within the group.

(8) Corporate Communications Division:

Responsible for group-wide brand management, advertising, brand campaign, corporate sponsorship, trademark management, financial education, and the planning, execution and supervision of public relations and media crisis on a group level.

(9) Economic Research Division

Responsible for in-depth research of domestic/foreign economies, financial trends, and market changes; publishes research reports and provides professional consultation.

(10) Information Technology Division:

Responsible for the development and maintenance of operating systems, research and application of new technologies, coordination on information-related tasks across subsidiaries, and improving information-related policies.

(11) Information Security division:

Responsible for the planning and monitoring of information security infrastructure, supervising information security-related tasks across, establishment of information security policies, and organizing awareness seminars and training courses on information security within the Company and subsidiaries.

(12) General Administration Division

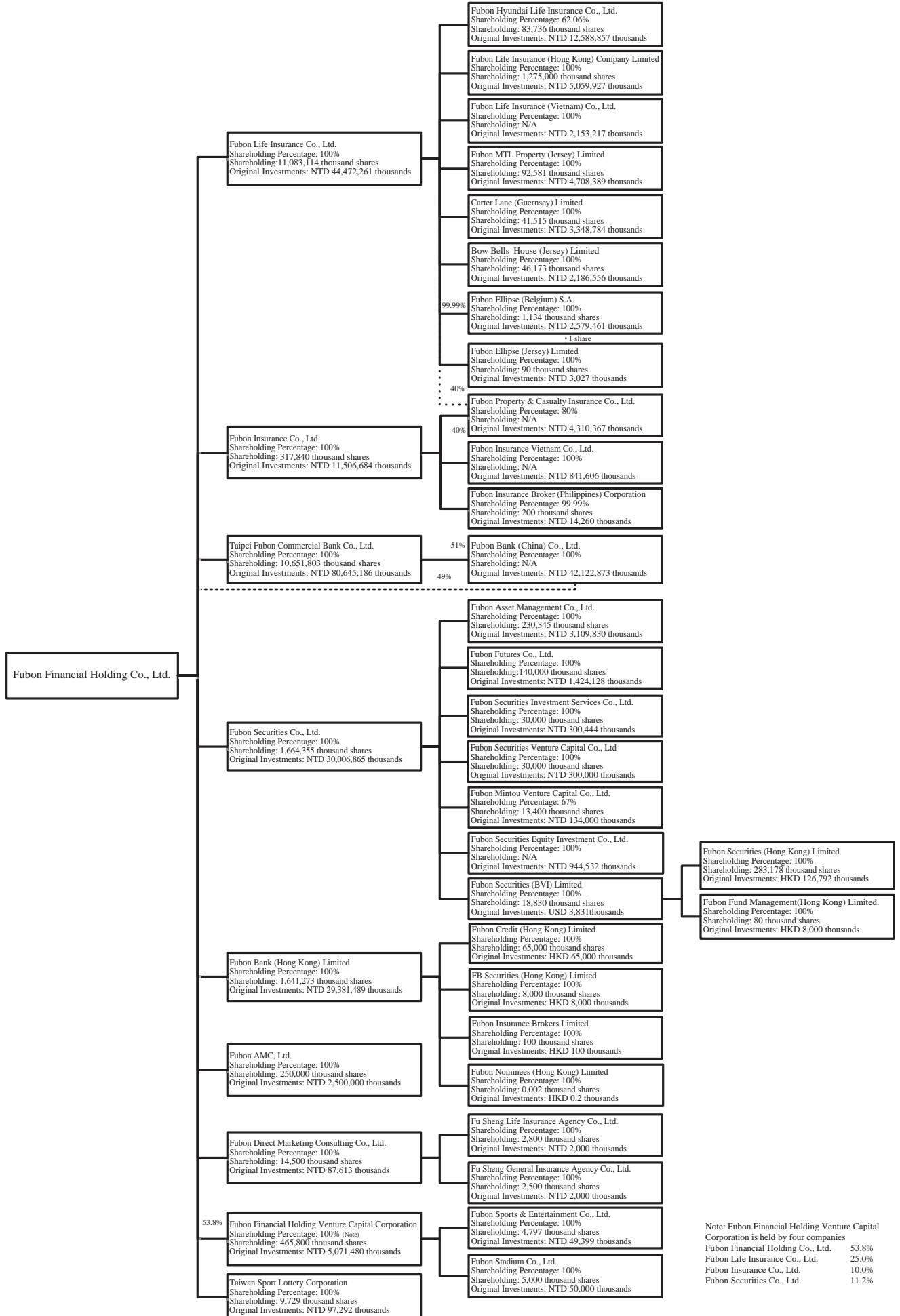
Responsible for sending, receiving, and filing official correspondences; managing, procuring and leasing of business premises and assets; planning and executing major events etc.

(13) Planning Division

Responsible for general affairs such as organization, responsibility planning, service quality enhancement and customer complaint handling, administration of company portal, joint marketing coordination and platform maintenance, supervision of integrated marketing efforts, and analysis of joint marketing performance.

3.1.3. Organizational chart between the Company and subsidiaries
(up to the date of the annual report)

Subsidiaries' Shareholding in the company: None.



3.2 Background information of Directors, the President, Vice Presidents, Assistant Vice Presidents, and heads of departments and branch offices

3.2.1 Background of Directors

February 28, 2019

Unit: shares; %

Title	Name	Gender	Nationality	Date first Elected	On-Board Date	Office Term	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shares held in the Name of Others		Education and Major Past/Current Position	Concurrent positions in other companies	Who are Spouses or a Second-degree Relative of Consanguinity to Each Other		
							Shares held	Ratio of shareholding Percentage	Shares held	Ratio of shareholding	Shares held	Ratio of shareholding Percentage	Shares held	Ratio of shareholding			Title	Name	Relation
Chairman	Ming Dong Co., Ltd. Representative: Richard M. Tsai	- Male	R.O.C	2001.12.19 2001.12.19	2017.06.16 2017.06.16	to 2020.06.15	864,774,989 *25,000,000	8.45 4.17	864,774,989	8.45					<ul style="list-style-type: none"> M.B.A., Stern School of Business, New York University (U.S.) B.B.A, National Taiwan University Fubon Securities Co., Ltd. - Chairman Fubon Life Insurance Co., Ltd. - Chairman Taiwan Mobile Co., Ltd. - Chairman 	<ul style="list-style-type: none"> Fubon Life Insurance Co., Ltd. - Chairman Fubon Bank (Hong Kong) Limited -Vice Chairman Taiwan Mobile Co., Ltd. - Director Ming Dong Co., Ltd.- Director Dao Ying Co., Ltd. - Director Tien Chien Co., Ltd. - Director Ti Kun Co., Ltd. - Director Hsi Po Lai Co., Ltd.. - Director Yi Fu So Co., Ltd. - Director Colossians Co., Ltd - Director Chung Shing Development Co., Ltd. - Director Fubon Realtors Co., Ltd. - Director Kuo Chi Investment Co., Ltd.- Director Taiwan Fixed Network Co., Ltd. - Director TFN Media Co., Ltd. - Director Taiwan Cellular Co., Ltd. - Director Wealth Media Technology Co., Ltd. - Director TCC Investment Co., Ltd. - Director TCCI Investment and Development Co., Ltd. - Director TFN Union Investment Co., Ltd. - Director Fubon Construction Co., Ltd. - Director Good TV Broadcasting Corp. - Director Win TV Broadcasting Co., Ltd. - Director Taiwan Digital Communications Co., Ltd. - Director Taiwan Digital Service Co., Ltd. - Director Cho Pharma, Inc. - Director Lucky Way Limited - Director Rainbow Cheer Limited - Director Key Gain Limited - Director Ultimate Epoch Limited - 	Director	Daniel M. Tsai	Brothers

Title	Name	Gender	Nationality	Date first Elected	On-Board Date	Office Term	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shares held in the Name of Others		Education and Major Past/Current Position	Concurrent positions in other companies	Who are Spouses or a Second-degree Relative of Consanguinity to Each Other		
							Shares held	Ratio of shareholding Percentage	Shares held	Ratio of shareholding	Shares held	Ratio of shareholding Percentage	Shares held	Ratio of shareholding			Title	Name	Relation
																<ul style="list-style-type: none"> Director • Orientland International Limited - Director • Oceana Glory Limited - Director • Eagle Legacy Limited - Director • DRJ Development Limited - Director • Globotex International Limited - Director • Cosgrove Global Limited - Director • Vantage Horizon Global Limited - Director • Star Top Ventures CO LTD - Director • Total Formation INC. - Director • International Advisory Board of the New York Philharmonic - Director • Carnegie Hall Corporation - Director • Castle Lion Investments Limited - Director 			
Director (Note 1)	Ming Dong Co., Ltd. Representative: Daniel M. Tsai	- Male	R.O.C	2001.12.19	2017.06.16	to 2020.06.15	864,774,989 *25,000,000	8.45 4.17	864,774,989	8.45					<ul style="list-style-type: none"> • LL.M., Georgetown University (U.S.) • LL.B., National Taiwan University • Fubon Insurance - Chairman • Taipei Fubon Commercial Bank Co., Ltd. - Chairman • Fubon Financial Holding Co., Ltd. - Chairman • Taiwan Mobile Co., Ltd. - Chairman 	<ul style="list-style-type: none"> • Taipei Fubon Commercial Bank Co., Ltd. - Standing Director • Fubon Bank (Hong Kong) Limited - Chairman • Fubon Bank (China) Co., Ltd. - Director • Fubon Financial Holding Venture Capital Corp. - Director • Fubon Sports & Entertainment Co., Ltd. - Chairman • Taiwan Mobile Co., Ltd. - Chairman • Ming Dong Co., Ltd. - Chairman • Dao Ying Co., Ltd. - Chairman • Tien Chien Co., Ltd. - Chairman • Ti Kun Co., Ltd. - Chairman • Hsi Po Lai Co., Ltd. - Chairman • Yi Fu So Co., Ltd. - Chairman • Chung Shing Development Co., Ltd. - Chairman • Fubon Realtors Co., Ltd. - Chairman • Fubon Construction Co., Ltd. - Director • Kuo Chi Investment Limited - Chairman – Chairman • TCC Investment Co., Ltd. - Chairman • TCCI Investment and Development Co., Ltd. - Chairman • TFN Union Investment Co., Ltd. - Chairman • TFN Media Co., Ltd. - 	Chairman	Richard M. Tsai	Brothers

Title	Name	Gender	Nationality	Date first Elected	On-Board Date	Office Term	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shares held in the Name of Others		Education and Major Past/Current Position	Concurrent positions in other companies	Who are Spouses or a Second-degree Relative of Consanguinity to Each Other		
							Shares held	Ratio of shareholding Percentage	Shares held	Ratio of shareholding	Shares held	Ratio of shareholding Percentage	Shares held	Ratio of shareholding			Title	Name	Relation
																Chairman • Taiwan Cellular Co., Ltd. - Chairman • Win TV Broadcasting Co., Ltd. - Director • Taiwan Fixed Network Co., Ltd. - Chairman • Taiwan Digital Communications Co., Ltd. - Director • Wealth Media Technology Co., Ltd. - Chairman • Taipei New Horizon Co., Ltd. - Chairman • Taiwan Digital Service Co., Ltd. - Director • Taiwan Teleservices & Technologies Co., Ltd. - Director • Taitrust General Insurance Agency Co., Ltd. - Chairman • Dunfu Enterprise Co., Ltd. - Chairman • Lucky Way Limited - Director • Rainbow Cheer Limited - Director • Key Gain Limited - Director • Ultimate Epoch Limited - Director • Orientland International Limited - Director • Oceana Glory Limited - Director • Eagle Legacy Limited - Director • DRJ Development Limited - Director • Globotex International Limited - Director • Cosgrove Global Limited - Director • Vantage Horizon Global Limited - Director • Primerose Development Group Limited - Director • Giver Concept Limited - Director • Star Top Ventures CO LTD - Director			
Director	Ming Dong Co., Ltd. Representative: Jerry Harn	- Male	R.O.C	2002.02.06 2011.01.21	2017.06.16 2017.06.16	to 2020.06.15	864,774,989 *25,000,000 2,400,332	8.45 4.17 0.02	864,774,989 2,430,288	8.45 0.02			- - - -	-	• M.B.A., Ohio State University (U.S.) • Citibank Taiwan Taipei Branch - Vice President • CTBC Bank Co., Ltd. - Senior Vice President • Taipei Fubon Commercial Bank Co., Ltd. - Standing Director and President	• Fubon Direct Marketing Consulting Co., Ltd.- Chairman • Taipei Fubon Commercial Bank Co., Ltd. - Director • Fubon Bank (Hong Kong) Limited - Non-Executive Director • Fubon Bank (China) Co., Ltd. - Director • Xiamen Bank Co., Ltd. - Director • CITIC Futong Financial Leasing	-	-	-

Title	Name	Gender	Nationality	Date first Elected	On-Board Date	Office Term	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shares held in the Name of Others		Education and Major Past/Current Position	Concurrent positions in other companies	Who are Spouses or a Second-degree Relative of Consanguinity to Each Other		
							Shares held	Ratio of shareholding Percentage	Shares held	Ratio of shareholding	Shares held	Ratio of shareholding Percentage	Shares held	Ratio of shareholding			Title	Name	Relation
																<ul style="list-style-type: none"> Co., Ltd. - Director Fubon Sports & Entertainment Co., Ltd. - Supervisor Fubon Stadium Co., Ltd. - Supervisor 			
Director	Ming Dong Co., Ltd. Representative: Eric Chen	- Male	R.O.C	2002.02.06 2016.10.12	2017.06.16 2017.06.16	to 2020.06.15	864,774,989 *25,000,000 -	8.45 4.17 -	864,774,989 -	8.45 -			-	-	<ul style="list-style-type: none"> M.B.A., University of Missouri (U.S.) Zoyi Capital Ltd. - Chairman 	<ul style="list-style-type: none"> Taipei Fubon Commercial Bank Co., Ltd. - Chairman Fubon Bank (Hong Kong) Limited - Non-Executive Director Fubon Bank (China) Co., Ltd. - Director Vigor Kobo Co., Ltd. - Director Lion Travel Services Co., Ltd. - Independent Director Uni-President China Holdings Ltd. - Independent Director China Telecom Corporation - Independent Director 	-	-	-
Director	Ming Dong Co., Ltd. Representative: Howard Lin	- Male	R.O.C	2002.02.06	2017.06.16	to 2020.06.15	864,774,989 *25,000,000	8.45 4.17	864,774,989 -	8.45 -			-	-	<ul style="list-style-type: none"> Ph.D., National Taiwan University Fubon Financial Holdings - CIO 	<ul style="list-style-type: none"> Fubon Financial Holdings - CIO Fubon Life Insurance Co., Ltd. - Vice Chairman Fubon Asset Management Co., Ltd. - Director Taiwan Mobile Co., Ltd. - Director Fuyi Health Management Co., Ltd. - Director Fubon Health Management Corporation - Director 			
Director	Ming Dong Co., Ltd. Representative: Steve T.H. Chen	- Male	R.O.C	2001.12.19 (Note 2) 2001.12.19	2017.06.16 2017.09.01	to 2020.06.15	864,774,989 *25,000,000 1,318,111	8.45 4.17 0.01	864,774,989 1,318,111	8.45 0.01			-	-	<ul style="list-style-type: none"> MBA, Roosevelt University Fubon Insurance Co., Ltd. - President Fubon Property & Casualty Insurance Co., Ltd. - Chairman 	<ul style="list-style-type: none"> Fubon Insurance - Chairman Fubon Direct Marketing Consulting Co., Ltd. - Director Fubon Asset Management Co., Ltd. - Director Fubon Financial Holding Venture Capital Corp. - Director 	-	-	-
Director (Note 3)	Taipei City Government Representative: Chih-Ming Chen	- Male	R.O.C	2003.02.14 2016.05.19	2017.06.16 2017.06.16	to 2019.01.14	1,341,479,793 -	13.11 -	1,341,479,793 -	13.11 -			-	-	<ul style="list-style-type: none"> M.S., National Cheng Kung University Taipei City Government - Commissioner, Department of Finance 	<ul style="list-style-type: none"> Taipei Rapid Transit Corporation - Director EasyCard Investment Holdings Co., Ltd. - Director 	-	-	-
Director (Note 3)	Taipei City Government Representative: Jia-Jen Chen	- Female	R.O.C	2019.01.14	2019.01.14	to 2020.06.15	1,341,479,793 1,155	13.11 0.00	1,341,479,793 1,155	13.11 0.00			-	-	<ul style="list-style-type: none"> EMBA, National Chengchi University B.B.A, National Taiwan University Head of Finance of the preparatory office of Next Bank Bank SinoPac - Head of Treasury Division/Vice 	<ul style="list-style-type: none"> Taipei City Government - Commissioner, Department of Finance 	-	-	-

Title	Name	Gender	Nationality	Date first Elected	On-Board Date	Office Term	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shares held in the Name of Others		Education and Major Past/Current Position	Concurrent positions in other companies	Who are Spouses or a Second-degree Relative of Consanguinity to Each Other		
							Shares held	Ratio of shareholding Percentage	Shares held	Ratio of shareholding	Shares held	Ratio of shareholding Percentage	Shares held	Ratio of shareholding			Title	Name	Relation
															<ul style="list-style-type: none"> President/Head of Finance SinoPac Securities - Chief Finance Officer SinoPac Holding - Head of CFO Office/Vice President SinoPac Holding - Head of CSO Office China Development Financial Holding - CFO Office Manager 				
Director	Taipei City Government Representative: Hsiu-Hui Yuan	- Female	R.O.C	2011.06.24 2016.10.25	2017.06.16 2017.06.16	to 2020.06.15	1,341,479,793 -	13.11 -	1,341,479,793 -	13.11 -	- -	- -	- -	- -	<ul style="list-style-type: none"> M.B.A., National Chiao Tung University Judicial Reform Committee, Taiwan Bar Association - Member 	<ul style="list-style-type: none"> Taipei Fubon Commercial Bank Co., Ltd. - Director Taipei City Government - Commissioner, Department of Legal Affairs 	-	-	-
Director	Taipei City Government Representative: Hsiu-Chu Liang	- Female	R.O.C	2003.02.14 2015.01.08	2017.06.16 2017.06.16	to 2020.06.15	1,341,479,793 -	13.11 -	1,341,479,793 -	13.11 -	- -	- -	- -	- -	<ul style="list-style-type: none"> M.A., National Taiwan University Accounting Office, Department of Rapid Transit Systems, Taipei City Government - Section Assistant, Inspector and Deputy Director Accounting Office, Department of Urban Development, Taipei City Government - Director Accounting and Statistics, Department of Budget, Taipei City Government - Division Chief, Senior Specialist, Chief Secretary, Deputy Commissioner 	<ul style="list-style-type: none"> Taipei City Government - head of Department of Budget, Accounting and Statistics 	-	-	-
Independent Director	Chi-Yan Louis Cheung	Male	Hong Kong UK	2011.06.24	2017.06.16	to 2020.06.15	-	-	-	-	-	-	-	-	<ul style="list-style-type: none"> Ph.D., Engineering, Corpus Christi College, University of Cambridge B.S., University of Cambridge Ping An Insurance (Group) Company of China, Ltd. - President McKinsey & Company Inc. - Director/Partner 	<ul style="list-style-type: none"> Boyu Capital Advisory Co. Ltd. - Managing Partner CDB Boyu (Shanghai) Investment Management Co., Ltd. - Chairman Boyu Taoran (Shanghai) Equity Investment Management Co., Ltd. - Executive Director and General Manager The Friends of Cambridge University in Hong Kong - Director Standard Chartered PLC - Independent Non-Executive Director 	-	-	-

Title	Name	Gender	Nationality	Date first Elected	On-Board Date	Office Term	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shares held in the Name of Others		Education and Major Past/Current Position	Concurrent positions in other companies	Who are Spouses or a Second-degree Relative of Consanguinity to Each Other		
							Shares held	Ratio of shareholding Percentage	Shares held	Ratio of shareholding	Shares held	Ratio of shareholding Percentage	Shares held	Ratio of shareholding			Title	Name	Relation
Independent Director	Ming-Je Tang	Male	R.O.C	2014.06.06	2017.06.16	to 2020.06.15	472	0.00	472	0.00	19	0.00	-	-	<ul style="list-style-type: none"> • Ph.D., Strategy and Policy, Sloan School of Management, Massachusetts Institute of Technology (U.S.) • M.B.A., National Chengchi University • B.S., National Taiwan University • University of Illinois Urbana-Champaign - Associate Professor • Hong Kong University of Science and Technology - Visiting Associate Professor • EMBA program, National Taiwan University - Founding Director • MediaTek Inc. - Independent Director • National Taiwan University - Deputy Principal, head of Financial Affairs and professor 	<ul style="list-style-type: none"> • Fubon Insurance Co., Ltd. - Independent Director • MediaTek Inc. - Independent Director • Vsense Co., Ltd. - Director • Wesync Startup Service and Consulting Co., Ltd. - Director 	-	-	-
Independent Director	Shin-Min Chen	Male	R.O.C	2017.06.16	2017.06.16	to 2020.06.15	-	-	-	-	-	-	-	-	<ul style="list-style-type: none"> • Ph.D. in Law Science, (Dr. jur.), University of Munich, Germany • B.A. Law Science, National Taiwan University, Taipei, Taiwan • The Honorable Justice of the Constitutional Court, Judicial Yuan • Advisory Committee Member, Mainland Affairs Council, Executive Yuan • Member of Central Committee Against Corruption, Executive Yuan • Legal Affairs Committee, Executive Yuan - Member • Institutum Iurisprudentiae, Academia Sinica - Research Professor 	<ul style="list-style-type: none"> • Fubon Securities Co., Ltd. - Independent Director • National Taiwan Normal University - Research Fellow and Professor • Department of Law, Ming Chuan University - Adjunct Professor • Department of Law, Chinese Culture University - Adjunct Professor 	-	-	-
Independent Director	Chan-Jane Lin	Female	R.O.C	2017.06.16	2017.06.16	to 2020.06.15	-	-	-	-	-	-	-	-	<ul style="list-style-type: none"> • Ph.D in Accounting, University of Maryland • Fubon Securities Co., Ltd. - Independent Director • Taiwan Financial Holding Co., Ltd. - Supervisor • College of Management, National Taiwan University - Acting President • Department of 	<ul style="list-style-type: none"> • Fubon Life Insurance Co., Ltd. - Independent Director • FocalTech Systems Co., Ltd. - Independent Director • Department of Accounting, National Taiwan University - Professor • Supervisors of Securities and Futures Investors Protection Center 	-	-	-

Title	Name	Gender	Nationality	Date first Elected	On-Board Date	Office Term	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shares held in the Name of Others		Education and Major Past/Current Position	Concurrent positions in other companies	Who are Spouses or a Second-degree Relative of Consanguinity to Each Other		
							Shares held	Ratio of shareholding Percentage	Shares held	Ratio of shareholding	Shares held	Ratio of shareholding Percentage	Shares held	Ratio of shareholding			Title	Name	Relation
															Accounting, National Taiwan University - Chairperson and Dean				
Independent Director	Jung -Feng Chang	Male	R.O.C	2017.06.16	2017.06.16	to 2020.06.15	-	-	-	-	-	-	-	-	<ul style="list-style-type: none"> Ph.D, Graduate Institution of East Asian Studies, National Chengchi University EMBA, National Taiwan University Master of Economics, National Chengchi University Bachelor of Statistics, National Chengchi University The First Research Division, Chung-Hua Institution for Economic Research - Researcher and Head of Division Chung-Hua Institution for Economic Research - Vice President National Security Council - Deputy Secretary General National Security Council - Advisory Committee Member 	<ul style="list-style-type: none"> Fubon Life Insurance Co., Ltd. - Independent Director The First Research Division, Chung-Hua Institution for Economic Research – Researcher Fellow 	-	-	-
Independent Director	Fan-Chih Wu	Male	R.O.C	2017.06.16	2017.06.16	to 2020.06.15	-	-	-	-	-	-	-	-	<ul style="list-style-type: none"> Bachelor of Law, Chinese Culture University Fubon Life Insurance Co., Ltd. - Independent Director Land Bank Of Taiwan Co., Ltd. - Chairman First Commercial Bank, Ltd. - Standing Director Taiwan Financial Holding Co., Ltd. - President Taiwan Cooperative Bank Co., Ltd. - President Bank of Taiwan Co., Ltd. - Vice President 	<ul style="list-style-type: none"> Taipei Fubon Commercial Bank Co., Ltd. - Standing and Independent Director Forest Water Environmental Engineering Co., Ltd. - Independent Director Advancetek Enterprise Comp. - Director ReiPeng Technology Co., Ltd. - Director 	-	-	-

Note 1: Director Daniel M. Tsai of the Company resigned from the Vice Chairman role on 2018.08.27, but still retained the director title.

Note 2: Director Steve T.H. Chen served as the Company's director from 2001.12.19 to 2002.02.06

Note 3: Corporate director Taipei City Government reappointed Madam Jia-Jen Chen to replace former representative Mr. Chih-Ming Chen on 2019.01.14.

Note 4: “*” denotes Class A Preferred Shares.

Table 1: Corporate shareholder's major owners

February 28, 2019

Name of corporate shareholder (Note 1)	Corporate shareholder's major owners (Note 2)
Taipei City Government	None
Ming Dong Co., Ltd.	Chung Shing Development Co., Ltd. - 11.78%, Fubon Land Development Co., Ltd. - 16.37%, Fubon Construction Co., Ltd. - 13.90%, Fu Chi Investment Co., Ltd. - 12.64%, Ru Chi Investment Co., Ltd. - 12.64%, Dao Chi Investment Co., Ltd. - 12.64%, Dao Ying Co., Ltd. - 9.60%, Fubon Charity Foundation - 3.33%, Fubon Cultural & Educational Foundation - 2.52%, Daniel M. Tsai - 1.82%

Note 1: Where Directors and Supervisors are representatives of corporate shareholders, the names of corporate shareholders are displayed.

Note 2: The above table shows the names and shareholding ratios of major shareholders (top 10 in terms of shareholding percentage) in each of the Company's corporate shareholders. Table 2 below is used if the major shareholder is also a corporate entity.

Table 2: Names of major shareholders of major owners listed in Table 1 above

February 28, 2019

Name of corporate shareholder (Note 1)	Corporate shareholder's major owners (Note 2)
Chung Shing Development Co., Ltd	Ming Dong Co., Ltd. - 43.33%, Dao Ying Co., Ltd. - 43.33%, Daniel M. Tsai - 2.67%, Richard M. Tsai - 2.67%, Ming-Tswn Tsai - 2.67%, Shiang-Shun Tsai Yang - 1.33%, Cheng-Tao Tsai - 4.00%
Fubon Land Development Co., Ltd.	Ming Dong Co., Ltd. - 22.67%, Dao Ying Co., Ltd. - 16.80%, Shiang-Shun Tsai Yang - 4.90%, Daniel M. Tsai - 13.92%, Richard M. Tsai - 13.88%, Ming-Tswn Tsai - 5.99%, Ai-Lin Tsai Chen - 5.62%, Mei-Hui Tsai Ueng - 5.31%, Cheng-Tao Tsai - 10.90%
Fubon Construction Co., Ltd.	Ming Dong Co., Ltd. - 48.61%, Dao Ying Co., Ltd. - 48.61%, Fubon Land Development Co., Ltd. - 0.28%, Shiang-Shun Tsai Yang - 0.14%, Daniel M. Tsai - 0.97%, Richard M. Tsai - 0.97%, Ming-Wen Tsai - 0.14%, Cheng-Tao Tsai - 0.28%
Fu Chi Investment Co., Ltd.	Richard M. Tsai - 50.25%, Mei-Hui Tsai Ueng - 49.75%
Ru Chi Investment Co., Ltd.	Daniel M. Tsai - 24.98%, Richard M. Tsai - 24.97%, Ming-Wen Tsai - 41.40%, Ming-Tswn Tsai - 0.04%, Cheng-Tao Tsai - 8.61%
Dao Chi Investment Co., Ltd.	Daniel M. Tsai - 50.20%, Ai-Lin Tsai Chen - 49.75%, Cheng-Tao Tsai - 0.05%
Dao Ying Co., Ltd.	Fubon Land Development Co., Ltd. - 17.68%, Fubon Construction Co., Ltd. - 17.68%, Fu Chi Investment Co., Ltd. - 13.13%, Ru Chi Investment Co., Ltd. - 13.13%, Dao Chi Investment Co., Ltd. - 13.13%, Ming Dong Co., Ltd. - 9.60%, Chung Shing Development Co., Ltd. - 8.84%, Fubon Charity Foundation - 1.01%, Daniel M. Tsai - 1.52%, Richard M. Tsai - 1.51%
Fubon Charity Foundation	Non-corporate entity (Not applicable)
Fubon Cultural & Educational Foundation	Non-corporate entity (Not applicable)
Hung Fu Investment Co., Ltd. (Note 3)	Ming Dong Co., Ltd. - 40.00%, Dao Ying Co., Ltd. - 40.00%, Shiang-Shun Tsai Yang - 1.25%, Daniel M. Tsai - 6.25%, Richard M. Tsai - 6.25%, Ai-Lin Tsai Chen - 2.50%, Mei-Hui Tsai Ueng - 2.50%, Cheng-Tao Tsai - 1.25%

Note 1: Where major shareholders listed in Table (2) above are corporate entities, the names of the corporate entities are displayed.

Note 2: The above table shows the names and shareholding ratios of major shareholders (top 10 in terms of shareholding percentage) in each of the Company's corporate shareholders.

Note 3: Hung Fu Investment is a major shareholder of the Company, and has disclosed information voluntarily for the purpose of corporate governance and information transparency.

Directors' Professional Knowledge and Independence Information

February 28, 2019

Condition Name	Whether he/she has at least five years of work experience and meet one of the following professional qualifications			Independence Status (Note 1)										Number of public companies also serving as independent directors for (Note 2)
	An instructor at a public or private college, in a department of commerce, law, finance, accounting, or other academic departments related to the business of the Company.	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist, in a profession necessary for the business of the Company, who has passed a national examination and been awarded a certificate.	Have work experience in the area of commerce, law, finance, accounting, or work experience needed by the Company	1	2	3	4	5	6	7	8	9	10	
Richard M. Tsai			✓	✓					✓	✓		✓		0
Daniel M. Tsai			✓	✓					✓	✓		✓		0
Jerry Harn			✓			✓	✓	✓	✓	✓	✓	✓		0
Eric Chen			✓	✓		✓	✓	✓	✓	✓	✓	✓		1
Howard Lin			✓			✓	✓	✓	✓	✓	✓	✓		0
Steve T.H. Chen			✓	✓		✓	✓	✓	✓	✓	✓	✓		0
Chih-Ming Chen (Note 3)			✓	✓	✓	✓	✓		✓	✓	✓	✓		0
Jia-Jen Chen (Note 3)			✓	✓	✓	✓	✓		✓	✓	✓	✓		0
Hsiu-Hui Yuan		✓	✓	✓		✓	✓		✓	✓	✓	✓		0
Hsiu-Chu Liang			✓	✓	✓	✓	✓		✓	✓	✓	✓		0
Chi-Yan Louis Cheung			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Ming-Je Tang	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Shin-Min Chen	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Chan-Jane Lin	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Jung-Feng Chang	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Fan-Chih Wu			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1

Note 1: “✓” is placed in the box below if the member met the following criteria at any time during active duty and two (2) years prior to the date of appointment.

- (1) Not employed by the Company or by any of its affiliated companies.
- (2) The member is not a director or supervisor of the Company or any of its affiliated enterprises. (The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the Securities and Exchange Act or with the laws of the country of the parent or subsidiary.)
- (3) The member is not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the Company or ranking in the top 10 in holdings.
- (4) The member is not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) The member is not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the Company or that holds shares ranking in the top five in holdings.
- (6) The member is not a director, supervisor, officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the Company.
- (7) The member is not a professional individual who, or an owner, partner, director, supervisor, officer, or a spouse thereof, of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliated enterprises of the Company. However, the same does not apply to the Compensation Committee members in Article 7 of Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.
- (8) The member is not a spouse or relative within the second degree of kinship of other directors.
- (9) The member doesn't have any of the circumstances set forth in Article 30 of the Company Act.
- (10) The member is not a government agency or a juristic person or its authorized representative elected as provided under Article 27 of the Company Act.

Note 2: Calculated in accordance with Letter No. Jin-Guan-Zheng-1-0960010070 dated 2007.03.19.

Note 3: Corporate director Taipei City Government re-appointed Madam Jia-Jen Chen to replace former representative Mr. Chih-Ming Chen on 2019.01.14.

3.2.2 Background information of the President, Vice Presidents, Assistant Vice Presidents, and heads of departments and branch offices

February 28, 2019

Title (Note 1)	Nationality	Name	Gender	On-Board Date	Current shareholdings		Shares held by spouse and underage children		Shares held in the Name of Others		Education and Major Past/Current Position (Note 2)	Concurrent positions in other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares held	Ratio of shareholding	Shares held	Ratio of shareholding	Shares held	Ratio of shareholding			Title	Name	Relation
President	R.O.C	Jerry Harn	Male	2017.10.06	2,430,288 *100,000	0.02 *0.01	-	-	-	-	M.B.A., The Ohio State University	Fubon Direct Marketing Consulting Co., Ltd.- Chairman	None	None	None
Senior Executive VP	R.O.C	Hsien-Lung Chiu	Male	2018.08.31	727,001 *48,000	0.01 *0.00	-	-	-	-	Master of Commercial Automation and Administration, National Taipei University of Technology	None	None	None	None
Senior Executive VP	R.O.C	Patrick Chang	Male	2017.11.01	311,938 *36,000	0.00 *0.00	-	-	-	-	Ph.D. in Economics, School of Economics, Xiamen	None	None	None	None
Senior Executive VP	R.O.C	Joyce Chen	Female	2012.05.02	-	-	-	-	-	-	M.B.A., University of California, Berkeley	None	None	None	None
Senior Executive VP	R.O.C	Chung-Ping Liu	Male	2015.07.16	338 *35,520	0.00 *0.00	-	-	-	-	LL.M. in International Banking Studies, Boston University	None	None	None	None
Executive VP	R.O.C	Wei Lo	Male	2015.07.01	*34,320	*0.00	-	-	-	-	Ph.D. in Economics, University of Pittsburgh	None	None	None	None
Executive VP	R.O.C	Sophia Wang	Female	2018.03.22	80,201 *32,760	0.00 *0.00	-	-	-	-	M.A.S., University of Illinois at Urbana- Champaign	Fubon Life - Vice President of Actuarial Division	None	None	None
Executive VP	R.O.C	Wei-Ching Yang	Female	2018.02.05	*11,000	*0.00	-	-	-	-	M.B.A., University of Louisville	Taipei Fubon Bank - Group Compliance Officer	None	None	None
Executive VP	R.O.C	Wen-Yen Chen	Male	2018.08.27	3,123 *19,460	0.00 *0.00	-	-	-	-	MBA, Yokohama National University	Taipei Fubon Bank - Vice President of Capital Management Division	None	None	None
Executive VP	R.O.C	Wen-Cheng Yeh	Male	2018.02.05	209,257 *94,521	0.00 *0.00	-	-	-	-	Bachelor of Business Administration, National Chengchi University	Fubon Direct Marketing - President	None	None	None

Title (Note 1)	Nationality	Name	Gender	On-Board Date	Current shareholdings		Shares held by spouse and underage children		Shares held in the Name of Others		Education and Major Past/Current Position (Note 2)	Concurrent positions in other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares held	Ratio of shareholding	Shares held	Ratio of shareholding	Shares held	Ratio of shareholding			Title	Name	Relation
Senior VP	R.O.C	Amanda Wang	Female	2011.06.01	59,417	0.00	-	-	-	-	- M.S. in Economics and Finance, The University of Warwick	None	None	None	None
Senior VP	R.O.C	Sherry Chiao	Female	2015.04.20	10,387 *8,000	0.00 *0.00	-	-	-	-	- B.B.A., Fu Jen Catholic University	None	None	None	None
Senior VP	R.O.C	Judy (Shutruin) Yang	Female	2012.07.01	*17,322	*0.00	-	-	-	-	- M.A.S., The Ohio State University	None	None	None	None
Senior VP	R.O.C	Jerry W.C. Hsu	Male	2019.07.01	24,123 *28,999	0.00 *0.00	-	-	-	-	- M.S. in Media Studies, in Money, Banking and Finance, National Chengchi University	None	None	None	None
Senior VP	R.O.C	Wenwen Wu	Female	2015.07.01	67,719	0.00	-	-	-	-	- M.A., in Media Studies, National Chengchi University	None	None	None	None
Senior VP	R.O.C	Chin-Wen Lo	Female	2017.07.01	1,155	0.00	-	-	-	-	- Ph.D. in Banking, Xiamen University	None	None	None	None
Senior VP	R.O.C	Yen-Ting Chen	Male	2018.02.05	-	-	-	-	-	-	- M.B.A. in City University of Seattle	Taipei Fubon Bank - Senior Assistant Vice President of Accounting Department	None	None	None
Senior VP	R.O.C	Fleur Tsai	Female	2018.06.01	*11,400	*0.00	-	-	-	-	- Master of Law, National Taipei University	None	None	None	None
Senior VP	R.O.C	Po-Wen Chen	Male	2018.02.05	*14,700	*0.00	1,214 *42,400	0.00 *0.00	-	-	- Master of Economics, National Taiwan University	Taipei Fubon Bank - Acting Head of Operation Support Division, Head of Procurement Department and Head of General Administration Department	Vice President	Mei-Ying Chuang	Spouse
First VP	R.O.C	Christina Chen	Female	2013.06.01	1,007	0.00	-	-	-	-	- M.S. in Computer Science, Oklahoma City University	None	None	None	None

Title (Note 1)	Nationality	Name	Gender	On-Board Date	Current shareholdings		Shares held by spouse and underage children		Shares held in the Name of Others		Education and Major Past/Current Position (Note 2)	Concurrent positions in other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares held	Ratio of shareholding	Shares held	Ratio of shareholding	Shares held	Ratio of shareholding			Title	Name	Relation
First VP	R.O.C	Cheng Chun Hsieh	Male	2013.11.01	883	0.00	-	-	-	-	-EMBA, National Taiwan University of Science and Technology	None	None	None	None
First VP	R.O.C	Shih-Wei Chou	Male	2015.07.01	*9,840	*0.00	-	-	-	-	-M.B.A., National Chengchi University	None	None	None	None
First VP	R.O.C	Wen-Ping Huang	Female	2016.06.01	-	-	-	-	-	-	-EMBA, National Taiwan University	None	None	None	None
First VP	R.O.C	Tung-Yuan Chen	Male	2018.06.01	-	-	7,336	0.00	-	-	-M.S. in San Francisco State University	None	None	None	None
First VP	R.O.C	Miao-Ling Lin	Female	2019.01.01	-	-	-	-	-	-	-Bachelor of Accounting, Soochow University	None	None	None	None
Investment Management Group (CIO)	R.O.C	Howard Lin	Male	2013.10.01	38,437	0.00	-	-	-	-	-Ph.D. in Chemical Engineering, National Taiwan University	Fubon Life Insurance Co., Ltd. - Vice Chairman	None	None	None

Note 1: Include background information of the President, Vice Presidents, Assistant Vice Presidents, heads of various departments and branches, and anyone of equivalent authority to the above, regardless of their job titles.

Note 2: The work experiences of anyone above relating to their current roles, e.g. previous employment in the CPA firm or employment in an affiliated company, must be addressed with detailed job titles and responsibilities.

Note 3: “*” denotes Class A Preferred Shares.

Note 4: Shareholding percentages that amount to less than 0.01 are presented as “0.00,” whereas “-” denotes no shareholding.

3.3 Remuneration paid to Directors, President, Vice Presidents, consultants and employees in the last year

3.3.1 Remuneration to Directors

December 31, 2018

Unit: NTD thousands

Title	Name	Directors' remuneration								The sum of A, B, C and D as a percentage of after-tax profit		Compensation as company employee										The sum of A, B, C, D, E, F, and G as a percentage of after-tax profit		Compensation from investments other than subsidiaries
		Compensation (A)		Pension (B)		Remuneration (C) Note 1		Fees for services rendered (D)				Salaries, bonuses, special allowances etc (E)		Pension (F)		Employee remuneration (G)								
		The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company		All companies included in the financial statements		The Company	All companies included in the financial statements					
Director	Ming Dong Co., Ltd.																							
Representative of corporate director (Chairman)	Richard M. Tsai																							
Representative of corporate director	Daniel M. Tsai																							
Representative of corporate director	Jerry Harn																							
Representative of corporate director	Eric Chen																							
Representative of corporate director	Howard Lin																							
Representative of corporate director	Steve T.H. Chen																							
Director	Taipei City Government																							
Representative of corporate director	Hsiu-Chu Liang																							
Representative of corporate director	Hsiu-Hui Yuan																							
Representative of corporate director	Chih-Ming Chen																							
Independent Director	Chi-Yan Louis Cheung																							
Independent Director	Ming-Je Tang																							
Independent Director	Shin-Min Chen																							
Independent Director	Chan-Jane Lin																							
Independent Director	Jung -Feng Chang																							
Independent Director	Fan-Chih Wu																							
	Total	101,982	217,366	None	1,104	62,000	62,000	8,338	16,611	0.36%	0.62%	26,019	27,142	108	108	168	None	168	None	0.42%	0.68%	None		
* Compensation received by director for providing service to all companies included in the financial statements (e.g. consultancy service without the title of an employee) in the last year, except those disclosed in the above table: None																								

*Compensation received by director for providing service to all companies included in the financial statements (e.g. consultancy service without the title of an employee) in the last year, except those disclosed in the above table: None

Note 1: Represents all directors' and supervisors' remuneration estimated in the year of financial statement.

Note 2: A sum of NT\$3,137 thousands was paid to drivers, but not included as remuneration.

Note 3: The above table shows active directors as at 2018.12.31 and the amount of remuneration paid to them.

Note 4: According to Regulations Governing Information Disclosed in Annual Reports, the Company is not required to disclose individual remunerations of its directors and managers, and hence has disclosed such information in defined ranges.

Directors' remuneration brackets table

December 31, 2018

Ranges of remuneration paid to the Company's directors	Name of director			
	Sum of the first 4 items (A+B+C+D)		Sum of the first 7 items (A+B+C+D+E+F+G)	
	The Company	All companies included in the financial statements	The Company	All companies included in the financial statements
Less than NT\$2,000,000	Jerry Harn, Eric Chen, Howard Lin, Steve T.H. Chen, Hsiu-Chu Liang, Hsiu-Hui Yuan, Chih-Ming Chen	Hsiu-Chu Liang, Hsiu-Hui Yuan, Chih-Ming Chen	Eric Chen, Howard Lin, Steve T.H. Chen, Hsiu-Chu Liang, Hsiu-Hui Yuan, Chih-Ming Chen	Hsiu-Chu Liang, Hsiu-Hui Yuan, Chih-Ming Chen
NT\$2,000,000 (inclusive) ~ NT\$5,000,000 (not inclusive)		Jerry Harn		
NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (not inclusive)	Chi-Yan Louis Cheung, Ming-Je Tang, Shin-Min Chen, Chan-Jane Lin, Jung -Feng Chang, Fan-Chih Wu	Chi-Yan Louis Cheung, Ming-Je Tang, Shin-Min Chen, Chan-Jane Lin, Jung -Feng Chang, Fan-Chih Wu	Chi-Yan Louis Cheung, Ming-Je Tang, Shin-Min Chen, Chan-Jane Lin, Jung -Feng Chang, Fan-Chih Wu	Chi-Yan Louis Cheung, Ming-Je Tang, Shin-Min Chen, Chan-Jane Lin, Jung -Feng Chang, Fan-Chih Wu
NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (not inclusive)	Taipei City Government	Taipei City Government	Taipei City Government	Taipei City Government
NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (not inclusive)	Ming Dong Co., Ltd.	Ming Dong Co., Ltd., Eric Chen, Howard Lin, Steve T.H. Chen	Ming Dong Co., Ltd., Jerry Harn	Ming Dong Co., Ltd., Eric Chen, Howard Lin, Steve T.H. Chen
NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (not inclusive)	Richard M. Tsai		Richard M. Tsai	Jerry Harn
NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (not inclusive)	Daniel M. Tsai	Richard M. Tsai, Daniel M. Tsai	Daniel M. Tsai	Richard M. Tsai, Daniel M. Tsai
NT\$100,000,000 and above				
Total	17	17	17	17

3.3.2 Remuneration to the President and Vice Presidents

December 31, 2018
Unit: NTD thousands

Unit: NTD thousands

Title	Name	Salary (A)		Pension (B)		Bonus and special allowances (C)		Employee remuneration (D)				Sum of A, B, C and D as a percentage of after-tax profit (%)		Compensation from investments other than subsidiaries
		The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company		All companies included in the financial statements		The Company	All companies included in the financial statements	
								Amount paid in cash	Amount paid in shares	Amount paid in cash	Amount paid in shares			
President	Jerry Harn													
Senior Executive VP	Hsien-Lung Chiu													
Senior Executive VP	Tienhsia Chang (Departed)													
Senior Executive VP	Patrick Chang													
Senior Executive VP	Eddie Chen (resigned)													
Senior Executive VP	Joyce Chen													
Senior Executive VP	Chung-Ping Liu													
Senior Executive VP	Jonathan Lee (resigned)													
Senior Executive VP	Eric Lee (resigned)													
Chief Investment Officer	Howard Lin													
Executive VP	Wei Lo													
Executive VP	Wei-Ching Yang													
Executive VP	Sophia Wang													
Executive VP	Wen-Cheng Yeh													
Executive VP	Wen-Yen Chen													
Executive VP	Rita Yang (resigned)													
	Total	44,660	71,091	806	2,409	42,259	84,913	500	None	881	None	0.18%	0.33%	None

Note 1: A sum of NT\$1,595 thousands was paid to drivers, but not included as remuneration.

Note 2: Executive VP Wei-Ching Yang came onboard on February 5, 2018; Executive VP Wen-Cheng Yeh came onboard on February 5, 2018; Executive VP Sophia Wang came onboard on March 22, 2018; Executive VP Wen-Yen Chen came onboard on August 27, 2018; Senior Executive VP Hsien-Lung Chiu came onboard on August 31, 2018; Executive VP Rita Yang resigned on February 1, 2018; Senior Executive VP Jonathan Lee resigned on March 23, 2018; Senior Executive VP Eddie Chen resigned on April 27, 2018; Senior Executive VP Tienhsia Chang departed on August 31, 2018; and Senior Executive VP Eric Lee resigned on November 1, 2018.

Remuneration brackets table for President and Vice Presidents

December 31, 2018

Range of remunerations to the President and Vice Presidents	Names of President and Vice Presidents	
	The Company	All companies included in the financial statements
Less than NT\$2,000,000	Rita Yang (resigned), Jonathan Lee (resigned), Howard Lin, Wei-Ching Yang, Sophia Wang, Wen-Cheng Yeh, Wen-Yen Chen	Rita Yang (resigned), Jonathan Lee (resigned)
NT\$2,000,000 (inclusive) ~ NT\$5,000,000 (not inclusive)	Eddie Chen (resigned), Eric Lee (resigned), Hsien-Lung Chiu	Eddie Chen (resigned), Eric Lee (resigned)
NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (not inclusive)	Tienhsia Chang (Departed), Wei Lo	Hsien-Lung Chiu, Tienhsia Chang (Departed), Wei Lo, Wei-Ching Yang, Wen-Cheng Yeh, Wen-Yen Chen
NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (not inclusive)	Patrick Chang, Joyce Chen, Chung-Ping Liu	Patrick Chang, Joyce Chen, Chung-Ping Liu, Sophia Wang
NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (not inclusive)	Jerry Harn	Howard Lin
NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (not inclusive)		Jerry Harn
NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (not inclusive)		
NT\$100,000,000 and above		
Total	16	16

3.3.3 Compensation for retired chairmen and presidents of the Company or related companies re-hired as consultants

Information of retired chairmen and presidents re-hired as consultants

February 28, 2019

Unit: NTD thousands; %

Title	Nationality	Name	Gender	Position before retirement		Date hired as consultant	Purpose for hiring	Areas of responsibility	Compensation	Compensation as a percentage of after-tax profit
				Institution and title	Date of retirement					
Senior Consultant	R.O.C	Tsan-Ming Shih	Male	Chairman of subsidiary - Fubon Insurance	2013/09/30	2013/11/01	1. Assisting in the maintenance of relationship with overseas insurance authorities and key customers. 2. Assisting in the maintenance of relationship with key local customers. 3. Offering of business strategy, consultation and recommendation.	The consultant's role is to provide consultation and recommendation with respect to the Company's business activities, but does not involve approval authority over the Company's decisions.	NT\$8,175	0.017%
Senior Consultant	R.O.C	Victor Kung	Male	Chairman of subsidiary - Fubon Insurance	2015/06/30	2015/07/01	1. Provide consultation and recommendation with respect to the financial holding company's business strategies in China: including joint venture, acquisition, capital contribution and other investment opportunities. 2. Provide recommendations to management regarding international finance and investment for decision-making.			
Senior Consultant	R.O.C	Thomas Liang	Male	Chairman of subsidiary - Fubon Direct Marketing	2016/08/31	2016/09/01	1. Provide professional consultation for the development of retail banking business. 2. Recommend the improvement of overall business and procedures. 3. Building key relations and sustaining the Company's competitive advantage.			
Senior Consultant	R.O.C	Pen-Yuan Cheng	Male	Chairman of subsidiary - Fubon Life	2016/10/14	2016/10/15	1. Assisting with integrated marketing. 2. Assisting the life insurance subsidiary with channel development. 3. Providing network in the insurance industry. 4. Inspire leadership.			

3.3.4 Names of managers entitled to employee remuneration and amount entitled

Employee remuneration totaling NT\$10,000,000 was proposed by the Board of Directors for the latest year (2018).

December 31, 2018
Unit: thousand Dollars

	Title	Name	Amount paid in shares	Amount paid in cash	Total	Total as a percentage to after-tax profit (%)
Managers	President	Jerry Harn	0	500	500	0.001%
	Senior Executive VP	Hsien-Lung Chiu				
	Senior Executive VP	Patrick Chang				
	Senior Executive VP	Joyce Chen				
	Senior Executive VP	Chung-Ping Liu				
	Executive VP	Wei Lo				

3.3.5 Directors', President's and Vice Presidents' remuneration paid in the last two years as a percentage to after-tax profit, and association with business performance

(1) Directors', President's and Vice Presidents' remuneration paid in the last two years as a percentage to net income

Unit: thousand dollars; %

Item	Total amount		As a percentage of after-tax profit	
	2017	2018	2017	2018
Remuneration to Directors	370,908	324,499	0.69%	0.68%
Remuneration to the President and Vice Presidents	144,091	159,294	0.27%	0.33%

(2) Policies, standards, and procedures through which directors'/President's/Vice Presidents' remuneration was determined, and their association with business performance and potential risks:

a. The Company has a set of "Director Remuneration Policy" (referred to as the Policy below) established in accordance with the Articles of Incorporation. The Policy has been reviewed by the Remuneration Committee and approved by the Board of Directors; they provide a clear outline to the scope of directors' remuneration, including share of profits, compensation, and travel allowances.

(a) Independent director's fixed monthly salaries are specified in the Policy. Salaries of Chairman and Vice Chairman (Note) shall be determined by the Remuneration Committee and the Board of Directors after taking into consideration their participation and contribution to the Company's operations.

(b) Directors' remuneration is allocated according to the terms of the Articles of Incorporation, and is subject to a maximum of 0.3% of current year profit. The percentage and amount of directors' remuneration is subject to special resolution by the Board of Directors, and final approval of shareholders in a shareholder meeting. Amounts will be paid in cash at the percentage prescribed in this policy after the shareholders' meeting.

(c) Travel allowances are paid to the respective Directors on a monthly basis according to the

Policy.

- (d) Remuneration standards for the Company's directors shall take into consideration the following factors comprehensively: director remunerations of competitors in the same industry, directors' participation and contribution to the Company's management, the Company's overall performance, and any anticipated or realized risks.

Note: The Company's Vice Chairman resigned from the Vice Chairman role on August 27, 2018, but retained the director position.

- b. Managers' remuneration is determined mainly based on the Company's overall profitability, target accomplishment by the respective department, and performance of the individual. Managers' remuneration comprises of two portions: regular salary and performance-linked compensation (including employee profit sharing, performance bonus etc.) at a ratio of approximately 51:49.

3.4 Corporate governance

3.4.1 Functionality of Board of Directors

The 7th board of directors (term of service: 2017.06.16 ~ 2020.06.15; of which 2018.01.01 ~ 2018.12.31 was relevant to this report)

A total of 6 meetings (A) were held in the last year (2018); below are the attendance records:

Title	Name	Attendance in Person (B)	Attendance by proxy	Rate of attendance in person (%) [B/A]	Remarks
Chairman	Ming Dong Co., Ltd. Representative Richard M. Tsai	6	0	100%	
Director	Ming Dong Co., Ltd. Representative: Daniel M. Tsai	6	0	100%	
Director	Ming Dong Co., Ltd. Representative: Steve T.H. Chen	6	0	100%	
Director	Ming Dong Co., Ltd. Representative: Eric Chen	5	1	83%	
Director	Ming Dong Co., Ltd. Representative: Howard Lin	6	0	100%	
Director	Ming Dong Co., Ltd. Representative: Jerry Harn	5	1	83%	
Director	Taipei City Government Representative: Chih-Ming Chen	3	3	50%	
Director	Taipei City Government Representative: Hsiu-Hui Yuan	5	1	83%	
Director	Taipei City Government Representative: Hsiu-Chu Liang	5	1	83%	
Independent Director	Chi-Yan Louis Cheung	6	0	100%	
Independent Director	Ming-Je Tang	6	0	100%	
Independent Director	Shin-Min Chen	6	0	100%	

Title	Name	Attendance in Person (B)	Attendance by proxy	Rate of attendance in person (%) [B/A]	Remarks
Independent Director	Chan-Jane Lin	6	0	100%	
Independent Director	Jung-Feng Chang	5	1	83%	
Independent Director	Fan-Chih Wu	6	0	100%	

Other matters that shall be recorded:

- (1) For board of directors meetings that meet any of the following descriptions, state the date, session, the discussed agenda, independent directors' opinions and how the company has responded to such opinions:
 - a. Conditions described in Article 14-3 of the Securities and Exchange Act: Not applicable as the Company has already established an Audit Committee.
 - b. Any other documented objections or qualified opinions raised by independent director against board resolution in relation to matters other than those described above: None.
- (2) Regarding the situation of directors' conflict of interested recusal, the name of the director with potential conflict of interest ("interested director"), subject matter, reason for conflict of interest recusal and deliberation participation shall be recorded: as set forth in the below table.

No.	Date of Meeting	Interested Directors	Subject Matter	Reason for Conflict of Interest Recusal	Participation in Deliberation
1	2018.02.02	Jerry Harn	Personnel arrangement within the Company.	The recused director was the head of Corporate Communications Division being assigned.	The interested director left the room during discussion and voting.
		Jerry Harn Eric Chen Howard Lin Steve T.H. Chen	Payment of 2017 bonus for managers of the Company and Chairman, Vice Chairman and President of various subsidiaries.	The interested director is the proposed director of the subsidiary.	The interested director left the room during discussion and voting.
		Richard M. Tsai Daniel M. Tsai	Payment of 2017 bonus for the Company's Chairman and Vice Chairman.	The interested director is the proposed director of the subsidiary.	The interested director left the room during discussion and voting.
		Richard M. Tsai Daniel M. Tsai	Assignment of director to Fubon Bank (Hong Kong) Limited.	The recused directors were subjects of the discussed topic or were related to the subject.	The interested director left the room during discussion and voting.
		Richard M. Tsai Daniel M. Tsai Fan-Chih Wu Hsiu-Hui Yuan Jerry Harn Eric Chen	Proposal to renew pre-settlement risk and settlement risk limits for Taipei Fubon Bank.	The recused directors were counterparties of the discussed transaction or were related to the counterparty.	The interested director left the room during discussion and voting.

No.	Date of Meeting	Interested Directors	Subject Matter	Reason for Conflict of Interest Recusal	Participation in Deliberation
2	2018.03.22	Fan-Chih Wu	Proposal to renew and adjust short-term financing facility and guarantee-waiver commercial paper limits with financial institution.	The recused director was a related party to the canceled counterparty (Bank of Taiwan)	The interested director left the room during discussion and voting.
3	2018.04.26	Richard M. Tsai Daniel M. Tsai	Release the Company' s Director from Non-Competition Restrictions.	The recused director was the person for whom restrictions on competing business involvement was to be removed or a related party.	The interested director left the room during discussion and voting.
		Richard M. Tsai Daniel M. Tsai Chan-Jane Lin Jung-Feng Chang Howard Lin	Proposal to subscribe to the cash issue of Hyundai Life Insurance Co., Ltd. through Fubon Life.	The recused directors also undertook directorship in Fubon Life or were identified as related parties of the investment.	The interested director left the room during discussion and voting.
4	2018.06.08	Richard M. Tsai Daniel M. Tsai Howard Lin Jerry Harn Eric Chen Steve T.H. Chen	Compensation for Chairman, Vice Chairman and managers of the Company and Chairman, Vice Chairman and President of various subsidiaries.	The recused directors were beneficiaries of the discussed compensation.	The interested director left the room during discussion and voting.
		Richard M. Tsai Daniel M. Tsai Shin-Min Chen Fan-Chih Wu Hsiu-Hui Yuan Jerry Harn Eric Chen	Appointment of underwriter for the 2018 unsecured ordinary corporate bond issue.	The recused director concurrently served as director for Taipei Fubon Bank or Fubon Securities.	The interested director left the room during discussion and voting.
5	2018.08.27	Jerry Harn	Proposal to accept common shares of Xiamen Bank from Fubon Bank (Hong Kong), and have the board of directors make the following commitments for compliance with the China Banking Regulatory Commission.	The recused director was a director of the invested business - Xiamen Bank.	The interested director left the room during discussion and voting.
		Richard M. Tsai Daniel M. Tsai Howard Lin Jerry Harn Steve T.H. Chen	Appointment of directors and supervisors for subsidiaries - Fubon Direct Marketing, Fubon Financial Holding Venture	The interested director himself is the proposed Committee member.	The interested director left the room during discussion and voting.

No.	Date of Meeting	Interested Directors	Subject Matter	Reason for Conflict of Interest Recusal	Participation in Deliberation
			Capital and Fubon AMC.		
6	2018.11.22	Steve T.H. Chen	Appointment of directors and supervisors for subsidiaries - Fubon Financial Holdings Venture Capital and Fubon AMC.	The interested director himself is the proposed Committee member.	The interested director left the room during discussion and voting.
		Richard M. Tsai Daniel M. Tsai Jerry Harn Eric Chen	Proposal to redeem all non-cumulative subordinated securities of Fubon Bank (HK) that the Company had privately subscribed.	The recused director is also a director of Fubon Bank (HK).	The interested director left the room during discussion and voting.
		Jerry Harn	Proposal to sign "Memorandum of Understanding for the Growth of Xiamen Bank" with Xiamen Bank Co., Ltd.	The recused director is also a director of Xiamen Bank.	The interested director left the room during discussion and voting.

(3) The objectives of strengthening the functionality of the Board of Directors for the present year and the most recent year and assessment on the implementation:

a. Enforcement of sustainable operations:

To convey the Company's resolve on civic duties and sustainable operations, the Board of Directors approved a resolution in November 2015 to rename the "Corporate Governance Committee" into "Corporate Governance and Sustainability Committee," which made the committee responsible for monitoring and evaluating corporate social responsibilities and sustainable operations within the group. Meanwhile, an "ESG Task Force" was assembled under the "Corporate Governance and Sustainability Committee" to execute tasks relating to sustainable operations. The ESG Task Force, spearheaded by the group President, is divided into 6 team forces of different specialization including corporate governance, employee care, responsible finance, customers engagement, social commitment, and environmental sustainability. The committee also nominated 2 Independent Directors to supervise operation of the ESG Task Force. The enforcement team convenes quarterly meetings to discuss the progress of each task force as well as the latest sustainability issues. The enforcement team proposes its action plans in the beginning of each year and reports its execution progress every six months; both of which are submitted for discussion by the Corporate Governance and Sustainability Committee and then forwarded to the Board of Directors. In 2018, the "Corporate Governance and Sustainability Committee" made two reviews (on February 2, 2018 and August 27, 2018) on ESG Task Force's action plan and progress, and reported its findings to the Board of Directors.

The unveiling of 2018 Dow Jones Sustainability Indices (DJSI) showed Fubon Financial Holdings having been chosen as a composition of "DJSI World," the most prestigious index, for the 2nd consecutive year. The company also ranks 2nd worldwide in the "FBN Diversified Financial Services and Capital Markets" category, and is the only Taiwanese financial holding company in this category to be selected for DJSI World! Meanwhile, the Company was also chosen as a composition of "DJSI - Emerging Markets" for the 3rd straight year, which shows how the world has recognized the progresses made by Fubon Financial Holdings in corporate governance, social and environmental aspects, and how the organization has emerged to rival the world's top corporations.

b. Regular performance evaluation of the Board of Directors:

2018 board of directors' performance evaluation and progress

1. Basis: "Performance Evaluation Policy for the Board of Directors and Its Functional Committees"
2. Evaluation cycle and frequency
 - (i) Internal evaluation: The Company's board of directors and functional committees are subjected to internal performance evaluation at the end of each year.
 - (ii) External evaluation: The Company's board of directors are subjected to performance evaluation by external, independent professional institutions, experts or scholars at least once every three years, and annual performance evaluation at the end of each year.
3. Evaluation indicators (Internal evaluation)
 - (i) Board of directors' performance is evaluated using 51 indicators of 6 different aspects including board's participation in the Company's operations, improving the quality of board's decisions, the board's composition and structure, election and continuing education of board members, and enforcement of internal control and participation in sustainable management (ESG).
 - (ii) Directors' (individual) performance is assessed using 25 indicators of 6 different aspects including director's awareness towards the Company's goals and missions, their respective duties, level of participation in the Company's operations, maintenance of internal relations and communication, continuing education, and enforcement of internal control system.
 - (iii) Functional committees' performance is evaluated using 23-24 indicators of 5 different aspects including committee's participation in the Company's operations, improving the quality of committee's decisions, the committee's composition and structure, election and continuing education of committee members, and enforcement of internal control.
4. Evaluation procedures (Internal evaluation)
 - (i) At the end of each year, the Company evaluates year's performance using various indicators. Results of internal and external performance assessment are presented for discussion by the Corporate Governance and Sustainability Committee and the board of directors within 3 months of the following financial year.
 - (ii) 2018 performance of the board of directors and functional committee was reported and discussed during the Corporate Governance and Sustainability Committee meetings dated March 2019.
5. Assessment results
 - (i) Internal assessment: The board of directors and functional committees have functioned properly in conformity with corporate governance principles. All committees have duly performed their duties and supported the board.
 - Out of the 51 board performance indicators, 13 of which exhibited improvements while most other indicators remained comparable with the previous year. Average performance scores ranged between 4.8 and 4.9 (out of 5) across all categories.

Area of assessment	Average score
	2018
1. Participation in the Company's operations	4.8
2. Improvement of board's decision quality	4.8
3. Composition and structure of the board of directors	4.9
4. Election and continuing education of directors	4.9
5. Internal control	4.8
6. Participation in sustainable management (ESG)	4.9

- Board members' (self) performance evaluation was measured using 25 indicators, of which 12 exhibited improvement and 13 remained comparable. Average performance scores ranged between 4.7 and 5 (out of 5) across all categories.

Area of assessment	Average score
	2018
1. Comprehension of the Company's targets and missions.	4.8
2. Directors' duty awareness	4.9
3. Participation in the Company's operations	4.7
4. Management and communication of internal relations	4.7
5. Professionalism and continuing education of directors	5.0
6. Internal control	4.8

- Performance of functional committees is measured using 23-24 indicators. Except for one member of the Audit Committee and Remuneration Committee being rated 4 on one particular indicator, all members of the above committees have achieved full scores on other indicators. The Corporate Governance and Sustainability Committee, on the other hand, exhibited improvement in 6 out of 24 indicators, while most other indicators remained comparable.

Committee Area of assessment	Audit Committee 2018	Remuneration Committee 2018	Corporate Governance and Sustainability Committee 2018
1. Participation in the Company's operations	5.0	5.0	4.9
2. Improvement of committee decision quality	5.0	5.0	5.0
3. Composition and structure of the committee	5.0	5.0	5.0
4. Election and continuing education of committee members.	5.0	5.0	5.0
5. Internal control	5.0	5.0	5.0

Note: Scores are assigned using a 5-scale system: "Outstanding (5), Excellent (4), Good (3), Fair (2), Improvement Required (1)." Full score is 5 for all assessments.

- Subsequent follow-up: Indicators of lower score from the above have been escalated to directors for future performance improvement. Furthermore, the Company will also refer to the Stock Exchange's announcement on December 20, 2018 to amend Performance Evaluation Policy for the Board of Directors and Its Functional Committees, and review the revised performance evaluation policy of the Board of Directors and the Functional Committees.

(ii) External evaluation:

- Evaluation of board performance by external professional institution

The Company commissioned the Taiwan Corporate Governance Association to evaluate the performance of its board of directors in December 2018. The external evaluation covered a total of 38 indicators across 8 major aspects, including: board composition, guidance, authorization, supervision, communication, internal control and risk management, self-discipline and others (board meeting, support system etc.), and utilized a combination of questionnaire and field interview to assess the board's performance. The assessment panel of Taiwan Corporate Governance Association comprised Chairman Wen-Cheng Liu, Vice

Chairman Ching-Hsiang Chen, Secretary Huai Wang and specialists Meng-Yu Ko (chief of the Assessment Team) and Yi-Fang Tsai (Assessment Team leader). By engaging a professional institution to review the current operation of the company's board of directors and functional committees, the Company was able to benefit from the guidance, the exchange of knowledge as well as professional and objective checkup of the Company's health. (Taiwan Corporate Governance Association is an independent non-government/non-profit organization that specializes in the evaluation of corporate governance system and assessment of board of directors' performance.)

➤ Independent opinions of external professional institution

● Overall comment:

- I. The Company has a “Corporate Governance and Sustainability Committee” assembled under the board of directors, and an ESG Task Force established under the committee that is led by independent directors with the President serving as the task executor. The Company has also incorporated ESG as part of managers' annual performance indicators. These measures are strong demonstrations of the Company's respect, commitment and duty towards corporate social responsibilities and sustainability.
- II. The Company holds the vision of becoming the “number one financial institution in Asia” and the conviction that transparent and sound corporate governance provide the foundation for corporate sustainability. The Company was selected a composition of DJSI and ranked second in the FBN Diversified Financial Services and Capital Markets.
- III. The Company has a board of directors' performance assessment system in place and performs internal assessments each year in addition to assessments by independent third-party institutions once every three years. These assessments are a demonstration of the board's accountability culture to the stakeholders, and set standards of self-discipline for the management department.
- IV. The board of directors has implemented a “Bonus Deferral Policy” that defers bonus payment for key senior officers of various departments, and thereby aligns their compensations with the Company's long-term performance and overall interest. This policy has effectively inspired senior managers to make decisions in favor of the Company's long-term goals and sustainability and has proven to be helpful in retaining senior talents.

● Recommendation:

- I. The Company has “Audit Committee,” “Remuneration Committee” and “Corporate Governance and Sustainability Committee” established under the board of directors to assist with the board's duties. It is advisable for the Company to review the policies and division of responsibilities between the three functional committees, and include matters such as development of key talents, performance evaluation of Chief Auditor and association between board performance and compensation as part of the committees' duties for stronger board discipline and independence.
- II. The Company selects independent directors based on the recommendation of two major shareholders; the final decisions are made after taking into consideration the Company's industry characteristics and future prospects. It is advisable for the Company to establish independent directors' eligibility criteria in writing so that the major shareholders may use as reference for nomination.
- III. To prevent abuse of the whistleblower system, the Company has specified in its “Whistleblowing Policy” that the Company may reject reports that are submitted without a real name, contact method or specific details. It is advisable for the company to accept anonymous reports of verifiable specifics and thereby encourage uncovering of misconducts.
- IV. Subsequent follow-up:

In response to the recommendation of the independent institution, the Company will reviewed and revised the organization and responsibilities of its functional committees

as well as internal policies including the corporate governance code of conduct as means to improve board performance. As for the suggestion regarding the “Whistleblowing Policy,” the Company currently takes initiative in the investigation of anonymous reports that contain specific details, and actively enforces the whistleblower system so that it may work in favor of uncovering misconducts within the organization.

c. Enactment of Diversity Policy for Member of the Board of Directors:

The Company has adopted a nomination system for director elections since 2014. The Company currently has outside directors making up more than half of its board. To prevent Independent Directors' objectivity from being compromised after prolonged service, no Independent Director has served more than nine years consecutively. In addition, Paragraphs 1 and 2, Article 3 of the Company's “The Procedures for the Election of Directors” and Paragraphs 2 and 3, Article 29 of the “Corporate Governance Best Practice Principles” require diversity in terms of board composition, and the level of diversity is determined based on the operations and needs of the organization. The current board members, for example, offer a complete set of knowledge, skills, and qualities needed to perform their duties, including extensive expertise in banking, finance, commerce, law, and industry. The board has one foreign Independent Director and the rest directors are all native. The board has 4 female directors, which account for 26.67% of board members.

The Company's board diversity policy has been disclosed on the Company's portal and the Market Observation Post System.

Please refer to the below table for the diversity of the Board Members:

Name of director	Main expertise (the 5 most significant skills)										
	Gender	Accounting	Finance	Legal	Commerce	Investment and merger	Financial technology	IT	Risk management	Operational management	E-commerce /Marketing
Richard M. Tsai	Male		✓		✓	✓	✓			✓	
Daniel M. Tsai	Male			✓	✓		✓		✓	✓	
Jerry Harn	Male		✓		✓	✓			✓	✓	
Eric Chen	Male		✓			✓	✓		✓	✓	
Howard Lin	Male		✓		✓	✓			✓	✓	
Steve T.H. Chen	Male		✓		✓				✓	✓	✓
Chih-Ming Chen	Male		✓				✓	✓		✓	✓
Jia-Jen Chen	Female	✓	✓		✓	✓				✓	
Hsiu-Hui Yuan	Female			✓	✓	✓				✓	✓
Hsiu-Chu Liang	Female	✓	✓					✓	✓	✓	
Chi-Yan Louis Cheung	Male		✓			✓	✓	✓			✓
Ming-Je Tang	Male		✓		✓	✓			✓		✓

Name of director	Main expertise (the 5 most significant skills)										
	Gender	Accounting	Finance	Legal	Commerce	Investment and merger	Financial technology	IT	Risk management	Operational management	E-commerce /Marketing
Shin-Min Chen	Male			✓	✓	✓			✓	✓	
Chan-Jane Lin	Female	✓	✓		✓	✓			✓		
Jung-Feng Chang	Male				✓		✓	✓	✓	✓	
Fan-Chih Wu	Male		✓	✓	✓					✓	✓

d. Director succession plan:

The Company has implemented a key role system. All chairmen and presidents of the financial holding company and main subsidiaries and their one-downs are considered key roles, whose annual performance and compensation are determined differently from other managerial positions. Each key role holder shall have annual performance evaluated on several aspects including strategic direction, target accomplishment and leadership quality; all of which are subject to approval by the Chairman of the financial holding company. Furthermore, year-end performance is evaluated individually and on a case-by-case basis by the Chairman of the respective subsidiaries. This system enables the organization to gain insight into the performance and leadership style of each potential individual, and uncover suitable talents for directors' succession. If there is a need to assign new director to the board, the Company would first recommend from the list of key role managers.

e. Refinement of directors' professionalism:

Each year, the Company provides tuition to directors and supervisors within the group on a variety of corporate governance-related topics such as finance, risk management, business and corporate social responsibilities. To provide directors and supervisors with better understanding of competitive trends and advantages in the financial industry, the Company invited Executive Vice President Thomas Wan and Vice President Hsiao-Hsuen Liu of Deloitte Taiwan to host a seminar on “AML and CTF by Directors and Senior Managers” on September 11, 2018, and Director/President Niven Huang of KPMG Sustainability Consulting Co., Ltd. to deliver “Responsible Investment Trends of the International Banking Industry - 2018” on November 27, 2018. The Company also shares information about courses or conferences on topics such as ESG issues, compliance, financial reporting, risk management etc that were being held outside the organization as a means to encourage continuing education among directors. All of the Company's directors had completed their 6-hour minimum training in 2018. The board as a whole completed 160 hours of training in total.

f. Directors and issues subject to escalated reporting:

The Company conducts regular reviews on the appropriateness of its existing policies and systems, and has made amendments to “Guidelines on Reporting of Significant Events to External Directors.” To ensure the consistency of information received by directors, the Company now requires significant events to be reported to all directors of the Company, instead of just external directors. As a result, the policy was renamed “Guidelines on Reporting of Significant Events to Directors” with significant events redefined to include not only major risk incidents, material information and issues of media attention, but also incidents of regulatory violation, downgrade, change in law and major issues concerning financial inspection as well.

Directors' continuing education in 2018:

Title	Name	Date for Attending Continuing Education	Hosted By	Course Title	Hours
Chairman	Ming Dong Co., Ltd. Representative Richard M. Tsai	2018.09.11	Taiwan Corporate Governance Association	AML and CTF by Directors and Senior Managers	3
		2018.11.21	Taiwan Corporate Governance Association	AI, IoT Trends, Operating Strategies and Risks (Part 1)	3
		2018.11.21	Taiwan Corporate Governance Association	AI, IoT Trends, Operating Strategies and Risks (Part 2)	3
Director	Ming Dong Co., Ltd. Representative: Daniel M. Tsai	2018.03.06	Taiwan Corporate Governance Association	Evaluation of Board Performance	3
		2018.09.11	Taiwan Corporate Governance Association	AML and CTF by Directors and Senior Managers	3
		2018.11.21	Taiwan Corporate Governance Association	AI, IoT Trends, Operating Strategies and Risks (Part 1)	3
		2018.11.21	Taiwan Corporate Governance Association	AI, IoT Trends, Operating Strategies and Risks (Part 2)	3
		2018.11.27	Taiwan Corporate Governance Association	Responsible Investment Trends of the International Banking Industry - 2018	3
Director	Ming Dong Co., Ltd. Representative: Jerry Harn	2018.02.07	Taiwan Corporate Governance Association	Corporate Management and News Crisis Management Strategies	3
		2018.09.11	Taiwan Corporate Governance Association	AML and CTF by Directors and Senior Managers	3
Director	Ming Dong Co., Ltd. Representative: Eric Chen	2018.10.04	Securities & Futures Institute	Advanced Practical Workshop for (Independent) Directors and Supervisors - [FIT Global Competitive Strategy]	3
		2018.10.04	Securities & Futures Institute	Advanced Practical Workshop for (Independent) Directors and Supervisors - [Innovative Service Strategy - The Uprise of Line]	3
Director	Ming Dong Co., Ltd. Representative: Howard Lin	2018.09.11	Taiwan Corporate Governance Association	AML and CTF by Directors and Senior Managers	3
		2018.11.21	Taiwan Corporate Governance Association	AI, IoT Trends, Operating Strategies and Risks (Part 1)	3
		2018.11.21	Taiwan Corporate Governance Association	AI, IoT Trends, Operating Strategies and Risks (Part 2)	3
Director	Ming Dong Co., Ltd. Representative: Steve T.H. Chen	2018.09.11	Taiwan Corporate Governance Association	AML and CTF by Directors and Senior Managers	3
		2018.10.24	Taiwan Corporate Governance Association	Director/Supervisor Responsibility Risk Conference	3
		2018.11.27	Taiwan Corporate Governance Association	Responsible Investment Trends of the International Banking Industry - 2018	3

Title	Name	Date for Attending Continuing Education	Hosted By	Course Title	Hours
Director	Taipei City Government Representative: Chih-Ming Chen	2018.01.19	Taiwan Corporate Governance Association	The Company Act Amendments and Trends	3
		2018.03.02	Taiwan Corporate Governance Association	Directors' Corporate Leadership in an Environment of Rapid Technological Changes	2
		2018.03.06	Taiwan Corporate Governance Association	Shareholder Meeting and Equity Management	3
		2018.05.04	Taiwan Corporate Governance Association	Audit Committee Practices	3
		2018.10.23	Taiwan Corporate Governance Association	Share Ownership Planning and Director/Supervisor Election for TWSE/TPEX Listed Companies	3
		2018.10.26	Taiwan Corporate Governance Association	Board Functionality and Responsibilities	3
		2018.11.09	Taiwan Corporate Governance Association	A Lesson for Directors and Supervisors - Corporate Business Risk Analysis	3
		2018.11.27	Taiwan Corporate Governance Association	Responsible Investment Trends of the International Banking Industry - 2018	3
		2018.11.30	Taiwan Corporate Governance Association	Directors' Responsibilities and Risk Management under the Latest Corporate Governance Roadmap	3
		2018.12.04	Taiwan Corporate Governance Association	AML/CTF Trends and Practices - Supervision of Offshore Branches	3
Director	Taipei City Government Representative: Hsiu-Hui Yuan	2018.07.24	Securities & Futures Institute	Compliance Seminar on Share Transfers by Insiders of Listed and Unlisted Companies	3
		2018.10.15	Financial Supervisory Commission	The 12th Taipei Corporate Governance Forum (Morning)	3
		2018.11.27	Taiwan Corporate Governance Association	Responsible Investment Trends of the International Banking Industry - 2018	3
Director	Taipei City Government Representative: Hsiu-Chu Liang	2018.01.26	Taiwan Corporate Governance Association	Analysis of Annual Report Information and Responsibilities: From Directors'/Supervisors' Perspective	3
		2018.08.03	Taiwan Corporate Governance Association	Directors' Corporate Leadership in an Environment of Rapid Technological Changes	2
		2018.11.02	Taiwan Corporate Governance Association	Corporate Internal Control and Risk Management	3
		2018.11.27	Taiwan Corporate Governance Association	Responsible Investment Trends of the International Banking Industry - 2018	3
		2018.12.18	Taiwan Corporate Governance Association	Trends and Challenges of Information Security Governance	3
Independent Director	Chi-Yan Louis Cheung	2018.09.11	Taiwan Corporate Governance Association	AML and CTF by Directors and Senior Managers	3

Title	Name	Date for Attending Continuing Education	Hosted By	Course Title	Hours
		2018.11.27	Taiwan Corporate Governance Association	Responsible Investment Trends of the International Banking Industry - 2018	3
Independent Director	Ming-Je Tang	2018.06.15	Taiwan Corporate Governance Association	Business Secret Protection and Fraud Detection Practices (Part 1)	3
		2018.06.15	Taiwan Corporate Governance Association	Business Secret Protection and Fraud Detection Practices (Part 2)	3
Independent Director	Chan-Jane Lin	2018.01.23	Taiwan Corporate Governance Association	Major Financial Crime - Insider Trading	1
		2018.06.12	Taiwan Corporate Governance Association	3rd Conference of the 6th Corporate Governance System Evaluation Committee	2
		2018.06.26	Taiwan Corporate Governance Association	Introduction to the New Corporate Governance Roadmap	1
		2018.08.21	Taiwan Corporate Governance Association	Directors' Effective Role in Strategic Guidance	1
		2018.09.10	Taiwan Corporate Governance Association	4th Conference of the 6th Corporate Governance System Evaluation Committee	3
		2018.09.11	Taiwan Corporate Governance Association	AML and CTF by Directors and Senior Managers	3
		2018.09.18	Taiwan Corporate Governance Association	Directors' Obligations and Responsibilities	1
		2018.09.19	Taiwan Corporate Governance Association	[Summit] 14th International Corporate Governance Forum - Compliance and Supervision of Directors' Obligations - A Delaware Experience, and Directors' Supervisory Obligation and Independent Directors' Accountability under Taiwan's Prevailing Laws (Morning Session)	3
Independent Director	Shin-Min Chen	2018.09.11	Taiwan Corporate Governance Association	AML and CTF by Directors and Senior Managers	3
		2018.10.24	Taiwan Corporate Governance Association	Director/Supervisor Responsibility Risk Conference	3
Independent Director	Jung-Feng Chang	2018.06.01	Taiwan Corporate Governance Association	The Hidden Critical Messages of Financial Statements	3
		2018.08.10	Taiwan Corporate Governance Association	Business Secrets and Prohibition Against Competing Business Involvements	3
Independent Director	Fan-Chih Wu	2018.01.19	Taiwan Corporate Governance Association	The Company Act Amendments and Trends	3
		2018.05.11	Taiwan Corporate Governance Association	Major "Financial Crime" Case Studies and Legal Responsibilities Analysis	3
		2018.05.29	Taiwan Corporate Governance Association	Avoiding Breach of Trust and Non-arm's Length Transactions in the Directors' Decisions	3

Title	Name	Date for Attending Continuing Education	Hosted By	Course Title	Hours
		2018.09.10	TWSE, Taipei Bar Association	FSC New Corporate Governance Roadmap - Directors' "Responsibilities" and "Authority"	3
		2018.11.27	Taiwan Corporate Governance Association	Responsible Investment Trends of the International Banking Industry - 2018	3

3.4.2 Functionality of the Audit Committee

(1) Composition of the Audit Committee

The Company has assembled an Audit Committee entirely of Independent Directors, which complies with Article 14-4 of the Securities and Exchange Act.

(2) Duties of the Audit Committee

Pursuant to Article 6 of the Company's "Audit Committee Organizational Rules," the Audit Committee has the following Duties:

- To adopt or amend the Company's internal control policy pursuant to Article 14-1 of the Securities and Exchange Act.
- To conduct assessment on the effectiveness of the Company's internal control policy.
- To adopt or amend, pursuant to Article 36-1 of the Securities and Exchange Act, procedures for handling financial or business activities of a material nature, such as acquisition or disposal of assets, derivatives trading, loaning of funds to others, and endorsements or guarantees for others.
- To audit matters in which a director of the Company is an interested party.
- To audit matters of asset transactions or derivatives trading of a material nature.
- To audit matters of loans of funds, endorsements, or provision of guarantees of a material nature.
- To audit The offering or private placement of equity-type securities.
- To audit matters of hiring or dismissal of an auditor and their remuneration.
- To audit matters of appointment or discharge of a financial, accounting, or internal audit officer.
- To audit Annual and semi-annual financial reports.
- To audit the fairness and reasonableness of the Company's M&A projects and transactions.
- To audit matters of distribution of the interest of the special share of the Company.
- To audit other material matters as may be required by this Company or competent authorities.

(3) Attendance of Audit Committee meetings

The 4th Audit Committee (term of service: 2017.06.16~2020.06.15; of which 2018.01.01~2018.12.31 was relevant to this report)

A total of 7 (A) meetings were held by the 4th Audit Committee in the last year (2018); Independent Directors' attendance records are summarized below:

Title	Name	Attendance in person (B)	Attendance by proxy	Rate of attendance in person (%) [B/A]	Remarks
Independent Director (Convener)	Chan-Jane Lin	7	0	100%	

Independent Director	Ming-Je Tang	7	0	100%	
Independent Director	Chi-Yan Louis Cheung	7	0	100%	
Independent Director	Shin-Min Chen	7	0	100%	
Independent Director	Jung-Feng Chang	6	1	86%	
Independent Director	Fan-Chih Wu	7	0	100%	

Other matters that shall be recorded:

- a. For Audit Committee meetings that meet any of the following descriptions, details such as the date and session of board of directors meeting held, the discussed agenda, the Audit Committee's resolution, and how the company has responded to Audit Committee's opinions are disclosed in the following table:

(a) Conditions described in Article 14-5 of the Securities and Exchange Act;

(b) Other than the conditions described above, any resolutions unapproved by the Audit Committee but passed by more than two-thirds of directors.

Board of directors meeting session (the nth board - yth meeting)	Agenda and subsequent actions	Conditions described in Article 14-5 of the Securities and Exchange Act	Resolutions unapproved by the Audit Committee but passed by more than two-thirds of directors
2018.02.02 7-3 regular	Application for the Company's 2018 "risk limits for short-term use of capital."	✓	
	Proposal to renew Pre-settlement Risk (PSR) and Settlement Risk (SR) limits for with Cathay United Bank.	✓	
	Amendments to the Company's "Credit Risk Management Policy" and abolishment of the Company's "County Risk Management Guidelines."	✓	
	Amendments to the Company's "Standards for Reporting Subsidiary's Significant Asset Transaction to Group Board of Directors."	✓	
	Amendments to the Company's organization, foundation principles, organizational chart and responsibility matrix.	✓	
	Proposal to permit stakeholders to subscribe to the Company's current (2018) cash issue of preferred shares.	✓	
	Proposal to renew Pre-settlement Risk (PSR) and Settlement Risk (SR) limits with Taipei Fubon Bank.	✓	
	Date of Audit Committee meeting and resolution (2018.02.02): Motion was passed as proposed by all attending members; to be referred to the Board of Directors for the final resolution.		
	Company's response to Audit Committee's opinions: Agenda was passed as proposed by all attending directors of the board.		
2018.03.22 7-4 regular	Presentation of the Company's 2017 "Declaration of Internal Control System."	✓	
	Presentation of the Company's 2018 budgets and operating	✓	

Board of directors meeting session (the nth board - yth meeting)	Agenda and subsequent actions	Conditions described in Article 14-5 of the Securities and Exchange Act	Resolutions unapproved by the Audit Committee but passed by more than two-thirds of directors
	plans.		
	Presentation of the Company's 2017 financial statements.	✓	
	Assessment of independence for financial statement auditor of the Company, and appointment and remuneration of financial statement auditors in 2018.	✓	
	Amendment of the Company's accounting policy.	✓	
	Personnel arrangement within the Company.	✓	
	Amendments to the Company's organization, “foundation principles” and “responsibility matrix.”	✓	
	Amendment of the Company's and subsidiaries' “Donation Principles.”	✓	
	Amendment of the Company's and subsidiaries' “Firewall Management Policy.”	✓	
	Date of Audit Committee meeting and resolution (2018.03.15): Motion was passed as proposed by all attending members; to be referred to the Board of Directors for the final resolution.		
	Company's response to Audit Committee's opinions: Agenda was passed as proposed by all attending directors of the board.		
2018.04.26 7-5 regular	Proposal of the Company's long-term funding plan.	✓	
	Personnel arrangement within the Company.	✓	
	Amended the Company's “Work Rules.”	✓	
	Release the Companys Director from Non-Competition Restrictions.	✓	
	Proposal to subscribe to the cash issue of Hyundai Life Insurance Co., Ltd. (Hyundai Life) through Fubon Life.	✓	
	Date of Audit Committee meeting and resolution (2018.04.26): Motion was passed as proposed by all attending members; to be referred to the Board of Directors for the final resolution.		
	Company's response to Audit Committee's opinions: Agenda was passed as proposed by all attending directors of the board.		
2018.06.08 7-6 regular	Proposal to issue 2018 unsecured corporate bonds.	✓	
	Amendment to the Company's “Internal Control System.”	✓	
	Personnel arrangement within the Company.	✓	
	Date of Audit Committee meeting and resolution (2018.06.08): Motion was passed as proposed by all attending members; to be referred to the Board of Directors for the final resolution.		
	Company's response to Audit Committee's opinions: Agenda was passed as proposed by all		

Board of directors meeting session (the nth board - yth meeting)	Agenda and subsequent actions	Conditions described in Article 14-5 of the Securities and Exchange Act	Resolutions unapproved by the Audit Committee but passed by more than two-thirds of directors
	attending directors of the board.		
2018.08.27 7-7 regular	Presentation of the Company's 2018 first half consolidated financial statements.	✓	
	Amendments to the Company's "Articles of Incorporation Foundation Principles," chapter rename and implementation of relevant measures.	✓	
	Amendments to "Authority Inspection Report Handling Guidelines" of the Company and subsidiaries.	✓	
	Amendments to the Company's "Compliance System and Management Policy."	✓	
	Acknowledgment of compliance officer training held in 2018.	✓	
	Establishment of the Company's "Group Policy for Anti-Money Laundering and Countering the Financing of Terrorism."	✓	
	Amendment to the Company's "Market Risk Management Policy."	✓	
	Re-organization of the Company's Human Resource Division.	✓	
	Date of Audit Committee meeting and resolution (2018.08.16 and 2018.08.27): Motion was passed as proposed by all attending members; to be referred to the Board of Directors for the final resolution.		
	Company's response to Audit Committee's opinions: Agenda was passed as proposed by all attending directors of the board.		
	Establishment of the Company's "Whistleblowing Policy."	✓	
	Amendment to the Company's "responsibility matrix."	✓	
	Amended and renamed the Company's "Short-term Capital Utilization and Funding Policy," while at the same time abolished "Corporate Bond Issuance Rules."	✓	
	Date of Audit Committee meeting and resolution (2018.08.16): Motion was passed with modification by attending members; to be referred to the Board of Directors for the final resolution.		
	Company's response to Audit Committee's opinions: Agenda was passed as proposed by all attending directors of the board.		
2018.11.22 7-8 regular	Establishment of the Company's 2018 audit plan.	✓	
	Amendment of the Company's "Accounting Policy."	✓	
	Amendment to the Company's "Internal Major Information Processing Procedures."	✓	
	Amendment to the Company's "Capital Adequacy Risk Management Policy" and abolishment of "Capital Adequacy Monitoring Policy."	✓	

Board of directors meeting session (the nth board - yth meeting)	Agenda and subsequent actions	Conditions described in Article 14-5 of the Securities and Exchange Act	Resolutions unapproved by the Audit Committee but passed by more than two-thirds of directors
	Amendment to the Company's "responsibility matrix."	✓	
	Amendment to the Company's "Institutional Investor Relationship Maintenance Policy."	✓	
	Proposal to redeem all non-cumulative subordinated securities of Fubon Bank (HK) that the Company had privately subscribed.	✓	
	Date of Audit Committee meeting and resolution (2018.11.22): Motion was passed as proposed by all attending members; to be referred to the Board of Directors for the final resolution.		
	Company's response to Audit Committee's opinions: Agenda was passed as proposed by all attending directors of the board.		
	Amendment to the Company's "Employee Concurrent Employment Policy."	✓	
	Date of Audit Committee meeting and resolution (2018.11.22): Motion was passed with modification by attending members; to be referred to the Board of Directors for the final resolution.		
	Company's response to Audit Committee's opinions: Agenda was passed as proposed by all attending directors of the board.		

- b. Regarding the implementation of conflicts of interest recusal by the independent directors, the name of the independent director, subject matter of the motion, reason for conflicts of interest recusal and the voting result: None.
- c. Communication between Independent Directors and internal/external auditors (e.g. discussions concerning the Company's financial and business affairs, the method of communication used, and the outcome):
- (a) In addition to submitting various internal audit reports to independent directors from time to time, audit department of the Company periodically arranges seminars with independent directors, and the meeting minutes of such are submitted to the Board of Directors.
- (b) If necessary, audit officers and external auditors may communicate with independent directors via email, telephone, or in person.
- (c) Periodic communication is summarized as follows:

Date	Communication Method	Parties Involved	Matters Discussed	Outcome
2018.02.02	Audit Committee	1. The Company's Chief Auditor 2. Financial statement auditors of the Company and subsidiaries	1. The Audit Division reports the result of "2017 Audit Performance Review" conducted on all subsidiaries with audit units. 2. Hong Kong Monetary Authority's special audit on Fubon Bank (HK). 3. Review of the 2017 audit plan that the CPA had proposed for the Company and subsidiaries. 4. 2017 Key Audit Matters of the	1. Proceeded as recommended. 2. Acknowledged. 3. Proceeded as recommended. 4. Proceeded as recommended.

Date	Communication Method	Parties Involved	Matters Discussed	Outcome
			Company.	
2018.03.15	Audit Committee	1. The Company's Chief Auditor 2. Accounting managers and financial statement auditors of the Company and subsidiaries	1. Auditor Division's 2017 second-half audit progress report. 2. Issuance of the Company's 2017 Declaration of Internal Control System. 3. 2017 Consolidated financial statements of the Company and subsidiaries.	1. Proceeded as recommended. 2. Referred to Board of Directors for final resolution after review. 3. Referred to Board of Directors for final resolution after review.
	Audit symposium	The Company's Chief Auditor, Chief Auditor of Fubon Bank (China), Chief Auditor of Taipei Fubon Bank, and audit personnel of the Company	Local supervisory focus and key internal control defects of Fubon Bank (China).	Proceeded as recommended.
2018.04.26	Audit Committee	1. The Company's Chief Auditor 2. The Company's accounting manager and financial statement auditor	1. Chief Auditors of the Company and main subsidiaries, and audit personnel of the Company 2. The Company's 2018 first quarter financial statements.	1. Acknowledged. 2. Acknowledged.
2018.08.16	Audit Committee	1. The Company's Chief Auditor 2. Accounting managers and financial statement auditors of the Company and subsidiaries	1. Auditor Division's 2018 first-half audit progress report. 2. Amendments to "Authority Inspection Report Handling Guidelines" of the Company and subsidiaries. 3. 2018 first-half consolidated financial statements of the Company and subsidiaries.	1. Proceeded as recommended. 2. Referred to Board of Directors for final resolution after review. 3. Referred to Board of Directors for final resolution after review.
	Audit symposium	The Company's Chief Auditor, Chief Auditor of Fubon Bank (China), Chief Auditor of Taipei Fubon Bank, and audit personnel of the Company	Internal audit report of Fubon Bank (China).	Proceeded as recommended.
2018.11.22	Audit Committee	1. The Company's Chief Auditor 2. The Company's accounting	1. 2019 audit plan. 2. Review and follow up on defects found during general audits. 3. Presentation of Audit Committee's	1. Referred to Board of Directors for final resolution after review.

Date	Communication Method	Parties Involved	Matters Discussed	Outcome
		manager and financial statement auditor	<p>report on defects found in the investment review process of the venture capital subsidiary, as highlighted in “Financial Examination Bureau's 2016 Financial Holding Special Risk Inspection.”</p> <p>4. Abolishment of the Company's “Operational Guidelines for Major Incident Reporting Audit Committee.”</p> <p>5. The Company's 2018 three-quarter consolidated financial statements.</p>	<p>2. Proceeded as recommended.</p> <p>3. Proceeded as recommended.</p> <p>4. Motion was reviewed and passed as proposed without objection.</p> <p>5. Acknowledged.</p>

(4) Audit Committee's implementation results:

The Audit Committee held a total of 7 meetings in 2018. For details regarding discussion of cases described in Article 14-5 of the Securities and Exchange Act, please refer to Section 3.4.2(3) - Attendance of Audit Committee Meetings - Other Remarks of this annual report. Below is a list of other significant motions discussed by the committee:

a. February 2, 2018:

- (a) Report by the Company's Audit Division on the result of “2017 Audit Performance Review” conducted on all subsidiaries with audit units.
- (b) Hong Kong Monetary Authority's special audit on Fubon Bank (HK).
- (c) Report on Taipei Fubon Bank's downgrade by the financial authority and defects found in financial inspections.
- (d) 2017 financial statement auditor suitability evaluation for the Company and subsidiaries.
- (e) Audit of the 2017 audit plan that the CPA had proposed for the Company and subsidiaries.
- (f) 2017 Key Audit Matters of the Company.

b. March 15, 2018:

- (a) Report of 2017 second-half audit progress by the Company's Audit Division.
- (b) Report of the Company's 2017 risk management progress.
- (c) Report of the Company's compliance progress in the second half of 2017.
- (d) Preliminary report on possible impacts of IFRS 16 - “Leases,” which becomes effective on January 1, 2019.

c. April 26, 2018:

- (a) Report on operational review of overseas subsidiaries: Fubon Property & Casualty Insurance, Fubon Bank (HK) and Fubon Bank (China).
- (b) Report of Extraordinary occurrence at Fubon Bank (China) and failure to report to the local authority.
- (c) Review and follow up on defects found during general audits.
- (d) The Company's 2018 first quarter financial statements.

d. August 16, 2018:

- (a) Report of 2018 first-half audit progress by the Company's Audit Division.
- (b) Report of the Company's 2018 first-half risk management progress.

- (c) Report of the Company's 2018 first-half compliance progress.
 - (d) Report on the downgrade of Fubon Bank (China) by the consumer rights protection authority.
 - (e) Report on the review of the Company's existing operational policies and subsidiaries' board meeting procedures.
 - (f) Report on Audit Committee's review of scope of manager appointment/dismissal.
 - (g) Amendment of the Company's "Work Rules."
- e. November 22, 2018:
- (a) Summary report on overseas subsidiaries of the Company.
 - (b) Report of the Company's 2018 three-quarter consolidated financial statements.
 - (c) Review and follow up on defects found during general audits.
 - (d) Presentation of Audit Committee's report on defects found in the investment review process of the venture capital subsidiary, as highlighted in "Financial Examination Bureau's 2016 Financial Holding Special Risk Inspection."
 - (e) Report on improvements made in relation to the separation of banking and commerce.
 - (f) 2018 money laundering and terrorism financing risk evaluation report for the Company.
 - (g) Major penalty imposed by the FSC against subsidiary - Fubon Life Insurance Co., Ltd.
 - (h) Embezzlement of customer's funds involving former employee of Taipei Fubon Bank, and the penalties imposed by FSC.
 - (i) Abolishment of the Company's "Operational Guidelines for Major Incident Reporting Audit Committee."

3.4.3 Performance of the Corporate Governance and Sustainability Committee

(1) Composition of Corporate Governance and Sustainability Committee

The Company's Corporate Governance and Sustainability Committee has been assembled according to the foundation principles, which requires Independent Directors to make up more than half the seats and Directors at least 3 seats. Appointment of committee members is subject to resolution of the Company's Board of Directors. Currently, the committee consists of the Company's entire Independent Directors and representatives from 2 corporate directors.

(2) Duties of the Corporate Governance and Sustainability Committee

Pursuant to Article 5 of the Company's "Corporate Governance and Sustainability Committee Charter," the Corporate Governance and Sustainability Committee has the following Duties:

- a. Evaluate experience, professional skills and independent characteristics of the candidates; enact election criteria for independent directors, and propose to the Board of Directors for resolutions.
- b. Nominate to the Board of Directors the candidates for Company's directors and the subsidiaries' independent directors.
- c. Supervise the implementation of the social corporate responsibility and sustainability matters, and make assessments of the implementation.
- d. Review the Company's Articles of Incorporation and Regulations Governing Procedure for Board of Directors' Meetings, and other important rules and regulations and their enactment and amendment, and propose to the Board of Directors for resolutions.
- e. Discuss the enactment and modification of the charter of Functional Committees, and proposed to the Board of Directors for resolutions.
- f. Recommend to the Board of Directors the committee member candidates for the functional committees (other than this Committee) under the Board of Directors. The composition of the

Audit Committee shall comply with the applicable laws and regulations. The term of the members of each committee shall in principle, match the terms of the directors and supervisors, and members may serve consecutive terms if reelected.

- g. Discuss the plan for next year and evaluate the execution of the annual plan, and respectively proposed to the Board of Directors for resolution and reports.
- h. Evaluate information collection channel of the Board of Directors, as well as quality and timeliness of the information.
- i. Review corporate governance relationship among this Company, its subsidiaries and affiliates.
- j. Any other matters to be conducted by this Committee pursuant to a Board resolution.

(3) Attendance of Corporate Governance and Sustainability Committee meetings

The 6th Corporate Governance and Sustainability Committee (term of service: 2017.06.16 ~ 2020.06.15; of which 2018.01.01 ~ 2018.12.31 was relevant to this report)

A total of 5 (A) Corporate Governance and Sustainability Committee meetings were held in the last year (2018); (Independent) Directors' attendance records are summarized below:

Title	Name	Attendance in person (B)	Attendance by proxy	Rate of attendance in person (%) [B/A]	Remarks
Independent Director (Convener)	Chi-Yan Louis Cheung	5	0	100%	
Independent Director	Ming-Je Tang	5	0	100%	
Independent Director	Chan-Jane Lin	5	0	100%	
Independent Director	Shin-Min Chen	5	0	100%	
Independent Director	Jung-Feng Chang	4	1	80%	
Independent Director	Fan-Chih Wu	5	0	100%	
Director	Richard M. Tsai	5	0	100%	
Director	Chih-Ming Chen	2	3	40%	

(4) Performance of the Corporate Governance and Sustainability Committee

The following motions were discussed and executed during the 5 Corporate Governance and Sustainability Committee meetings held in 2018:

- a. February 2, 2018:
 - (a) Report of the Company's 2017 board of directors and functional committee performance evaluation.
 - (b) ESG Task Force's 2017 action progress and 2018 action plans.
 - (c) Evaluation on the execution of Board of Directors' 2017 annual plan.
- b. March 22, 2018:
 - (a) Recommendation of Independent Directors for subsidiary - Fubon Bank (Hong Kong) Limited.
- c. April 26, 2018:
 - (a) Presentation of the Company's "2017 Corporate Social Responsibility Report" structure.
 - (b) Amendments to the Company's "Rules Governing Procedures for Meeting of Board of

Directors” and “Director Candidate Nomination and Shareholder Proposal Rules.”

d. August 27, 2018:

- (a) Recommended list of directors for the 10th board of Fubon Cultural & Educational Foundation and recommended list of directors/supervisors for the 7th board of Taipei Fubon Bank Charity Foundation.
- (b) Presentation of ESG Task Force’s 2018 first-half action progress and second-half action plans.

e. November 22, 2018:

- (a) Establishment of the Company's 2019 Board of Directors annual plan.
- (b) Amendments to the Company's “Rules Governing Procedures for Meeting of Board of Directors” and “Corporate Governance Best Practices Principles.”

3.4.4 The disclosure items in accordance with the Corporate Governance Best-Practice Principles for Financial Holding Companies

Please refer to the Company's website: <https://www.fubon.com/financialholdings/home/index.html>

3.4.5 Corporate Governance Status and Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies

Items of Evaluation	Implementation Status			Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	NO	Summaries	
1. Shareholding structure and shareholders' rights within the financial holding company				
(1) Has the financial holding company implemented a set of internal procedures to handle shareholders' suggestions, queries, disputes and litigations?	✓		(1) The Company has an “Investor Relations Policy,” a “Shareholder Suggestion, Query, Dispute and Litigation Resolution Policy,” an Investor Relations Department and a Board Affairs Department available to handle shareholders' suggestions, queries and disputes. Shareholders' rights to attend, nominate, propose, vote and complain during shareholder meetings have been clearly outlined in the Company's “Rules Governing the Procedures for Shareholders Meetings,” “The Procedures for the Election of Directors,” “Director Candidate Nomination and Shareholder Motion Proposal Rules” and in relevant laws.	No deviation was found
(2) Is the financial holding company constantly informed of the identities of its major shareholders and the ultimate controller?	✓		(2) The Company makes monthly reports of shareholding by individual parties and aggregate related parties, and is therefore constantly informed of the identities of its major shareholders and the ultimate controller.	No deviation was found
(3) Has the financial holding company established and implemented risk management and firewalls on companies it is affiliated with?	✓		(3) The Company has a Risk Management Committee assembled directly under the Chairman to monitor execution of risk management policies by the Company and its subsidiaries. The Company has robust risk management policies and management guidelines in place, and has an independent risk management unit responsible for monitoring risks within the group. The Company has implemented “Fubon Financial Holdings and Subsidiaries Stakeholders Transaction Guidelines” and “Fubon Financial	No deviation was found

Items of Evaluation	Implementation Status			Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	NO	Summaries	
			Holdings and Subsidiaries Stakeholders Transaction Policy” in accordance with Articles 44 and 45 of the Financial Holding Company Act to ensure consistent treatment of stakeholder transactions across the financial holding company and subsidiaries. Furthermore, the Company has also established “Fubon Holding and Subsidiaries Firewall Management Policy” that governs firewalls for various activities such as use of information, sharing of resource, business transactions, and use of capital.	
<p>2. Composition and Responsibilities of the Board of Directors</p> <p>(1) Apart from the Remuneration Committee and Audit Committee, has the financial holding company assembled other functional committees at its own discretion?</p>	✓		<p>(1) In addition to the “Audit Committee” and “Remuneration Committee,” the Company has also assembled a “Corporate Governance and Sustainability Committee” directly under the Board of Directors to support its management. Purposes of the “Corporate Governance and Sustainability Committee” are to: assist the Board of Directors in nominating, verifying and recruiting director candidates; make recommendations that enhance the board's functions and management; and enforce corporate social responsibility and sustainability actions in ways that enable the Board of Directors to fulfill its duties to the Company, the employees, the shareholders and stakeholders. An ESG Task Force was assembled under the “Corporate Governance and Sustainability Committee” to execute tasks relating to sustainable operations.</p> <p>The ESG Task Force is divided into 6 team of different</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	NO	Summaries	
(2) Does the financial holding company conduct regular assessments regarding the independence of its independent auditors?	✓		<p>specialization including corporate governance, employee care, responsible finance, customers engagement, social commitment, and environmental sustainability.</p> <p>(2) The Company has “Guideline on Performance Review, Appointment and Remuneration of Independent Auditors” in place that requires independent auditors to be appointed once a year. Auditors' performance and independence are reviewed annually by the Audit Committee and Board of Directors; findings of this review are taken as reference for subsequent appointment.</p> <p>Independence of the 2018 financial statement auditors was reviewed by the Audit Committee and the Board of Directors on 2018.03.15 and 2018.3.22, respectively, during which a copy of CPA's personal background (including details of previous and current clients) and a “Declaration of independence” (and compliance to Norm of Professional Ethics for Certified Public Accountants No. 10) were required to be submitted for assessment. Below are the independence criteria used during assessment:</p> <ol style="list-style-type: none"> 1. There exists no material financial interest between the auditors and the Company as to affect the auditors' independence. 2. Auditors have not, in the most recent 2 years, served as directors or supervisors of the Company, or any other position that may materially affect the audit service. 3. There is no circumstance that the Company would defend the auditors' opinions or positions in any way that would 	No deviation was found

Items of Evaluation	Implementation Status			Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	NO	Summaries	
			<p>affect their independence.</p> <p>4. Auditors and their auditing teams have not provided the Company non-audit services that may affect their independence.</p> <p>5. There is no other circumstance as set out in the Bulletin of Norm of Professional Ethics for Certified Public Accountant of the Republic of China that may affect the auditors' independence.</p>	
3. Where the financial holding company is a TWSE/TPEX listed company, has the company designated a department or personnel that specializes (or is involved) in corporate governance affairs (including but not limited to providing directors/supervisors with the information needed to perform their duties, convention of board meetings and shareholder meetings, company registration and changes, preparation of board meeting and shareholder meeting minutes etc.)?	✓		<p>(1) The Board Affairs Department is the internal department responsible for corporate governance affairs. On 2019.3.21, the board of directors appointed Senior Vice President Ruby Yen, the head of department, to serve as the Corporate Governance Officer and oversee corporate governance affairs.</p> <p>1.Scope of authority/responsibility: The Board Affairs Department is responsible for handling matters relating to board meetings and shareholders meetings according to laws, commercial registration, overseeing equity ownership of major shareholders and insiders, assisting directors with duty, education, service, compliance and other corporate governance-related matters.</p> <p>2.Highlight of duties performed during the year: See Section 3.4 - Corporate Governance of this annual report for details.</p> <p>3.Education: The Corporate Governance Officer undergoes training on</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	NO	Summaries	
	✓		<p>legal, financial and professional practices on an ongoing basis. In 2018, the Corporate Governance Officer participated in various courses including FSC's New Corporate Governance Roadmap - Corporate Governance Personnel and Directors' "Responsibilities" and "Authority," and Taiwan Corporate Governance Association's Audit Committee Practices. The Company also assigned the Corporate Governance Officer to participate in corporate governance-related courses organized by the College of Law, National Chengchi University.</p> <p>(2) Progress made by the specialized corporate governance unit in 2018 have been reported during the Corporate Governance and Sustainability Committee meeting dated 2019.01.23 and the board of directors' meeting dated 2019.01.24:</p> <p>(1) Any major announcements made by the Company were notified immediately to the directors, thereby ensuring that all board members were kept up to date on the Company's latest news.</p> <p>(2) Board members were notified regularly of the latest regulations concerning the Company's operations and corporate governance.</p> <p>(3) The division organized tuition courses for board members for a minimum of 6 hours, and surveyed the market for suitable "Director, Supervisor and Key Staff Liabilities Insurance." All findings were reported to the board of directors.</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	NO	Summaries	
	✓		<p>(4) The division organized unscheduled meetings to facilitate communications between CPAs, independent directors and Chief Auditor/Accountant for the purpose of enforcing the internal audit/control system. Meeting proceedings were recorded in the minutes and reported to the board of directors.</p> <p>(5) Board meeting agenda were prepared and notified to all directors at least 7 days before a meeting and attendees were given relevant materials during meetings. Reminders were sent in advance for motions that involved conflict of interest, and minutes were produced within 20 days after each board meeting.</p> <p>(6) For sound corporate governance, the division arranged regular performance evaluation for the board and individual directors according to the Company's "Performance Evaluation Policy for the Board of Directors and its Functional Committees," including evaluation by external parties at least once every three years.</p> <p>(7) The division registered shareholder meeting details in compliance with laws, and produced meeting advices, conference manuals and minutes, updated amendments to Articles of Incorporation, and registered newly elected directors in a timely manner.</p> <p>(3) As a gesture of commitment to the duties of a corporate citizen and towards sustainability, the Company assembled an ESG Task Force under the Corporate Governance and</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	NO	Summaries	
			Sustainability Committee that specializes in matters concerning corporate sustainability. The ESG Task Force is spearheaded by the President and is divided into 6 team of different specialization including corporate governance, employee care, responsible finance, customers engagement, social commitment, and environmental sustainability.	
4. Does the financial holding company have any means to communicate with stakeholders (including but not limited to shareholders, employees, customers etc.)?	✓ ✓ ✓		<p>(1) The Company has spokesperson and acting spokesperson in place to convey messages to the public.</p> <p>(2) The Company has Investor Relations Division available to address shareholders' queries and suggestions. Contact methods have been disclosed on website. In addition, other communication channels such as quarterly earnings conferences, local/overseas investors conferences, roadshows and one-on-one investor meetings are also available. Throughout 2018, the division organized investor seminars to disclose the Company's quarterly performance and arranged for the Company's participation in various investment forums. The division also has an Investor Relations Department available to establish communication with investors.</p> <p>(3) The Company has established a "Stakeholders Engagement" section on its website to respond to stakeholders' concerned issues. A CSR mailbox has also been made available and is being maintained by dedicated personnel from the Corporate Communications Division. The Company has communication channels set up exclusively for the different types of stakeholders. Contact methods for specific personnel</p>	<p>No deviation was found</p> <p>No deviation was found</p> <p>No deviation was found</p>

Items of Evaluation	Implementation Status			Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	NO	Summaries	
	✓		have been disclosed to facilitate timely reply to stakeholders' demands and queries.	No deviation was found
	✓		<p>(4) The Company's website also provides “Independent Directors' Mailbox” as an alternative means of communication for all stakeholders. This mailbox is managed personally by the Audit Committee convener.</p> <p>(5) The Company uses a broad range of communication channels to learn employees' opinions and convey the Company's business philosophy and focus. This communication system ensures an inclusive, open and friendly workplace. The Company provides dedicated hotline, fax line and dedicated mailbox internally and “grievance mailbox” externally to gather stakeholders' opinions. All internal and external complaints are handled by dedicated personnel in the utmost confidentiality. All grievance channels are functioning properly.</p> <p>The Company has been engaging employees in a group agreement to maintain harmony within the workplace, and for which it was commended by the Ministry of Labor. 2018 marked the expiry of the 3-year group agreement, and Taipei Fubon Bank, Fubon Securities and Fubon Futures have begun negotiation with the respective unions to discuss contents of the new agreement, and use them as means to enforce labor-management communication.</p> <p>The Company engages senior managers in direct interactions from time to time to discuss about the Company's current state, future prospects, and employees' expectations and</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	NO	Summaries	
	✓		<p>opinions toward the organization.</p> <p>We have also designed an HR+ APP for employees and included an “Opinion Box” feature that employees may use to reflect opinions. This Opinion Box helps the Company understand and address the needs of its employees.</p> <p>(6) The Company complies with laws and announces material information over the Market Observation Post System. The same information is disclosed simultaneously on the Company's website, thereby keeping shareholders informed. The website also contains full contact information of the Company's share administration agency, which stakeholders may use to establish communication.</p>	No deviation was found
	✓		<p>(7) The Company has provided customers with means to raise complaints. In the event of a major complaint, the Company will communicate and coordinate across subsidiaries to make sure that customers' interests are protected in a professional and efficient manner.</p>	No deviation was found
	✓		<p>(8) The Company has a “Procurement Section” on its portal to disclose information such as “The latest procurement announcements,” “Supplier Corporate Social Responsibility Code of Conduct (in Chinese and English)” “Supplier Penalty, Discipline and Suspension Rules,” and application forms and notes for new suppliers. Contact information of personnel responsible for tenders and supplier reviews has also been disclosed on the website to facilitate proper communication.</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	NO	Summaries	
<p>5. Information disclosure</p> <p>(1) Has the financial holding company established a website that discloses financial, business, and corporate governance-related information?</p>	✓		(1) The Company has a public portal (available in Chinese and English) dedicated to disclosing financial/business information and activities that are relevant to investors' interests. Audited (auditor-reviewed) financial statements of the Company and subsidiaries are disclosed here on a quarterly basis. In addition, the portal has a Corporate Governance section that discloses the Company's corporate governance information and policies.	No deviation was found
<p>(2) Has the financial holding company adopted other means to disclose information (e.g. English website, assignment of specific personnel to collect and disclose corporate information, implementation of a spokesperson system, broadcasting of investor conferences via the company website)?</p>	✓		(2) The Company has created an English version of its portal, and ensures the consistency of information presented in Chinese and English. Materials of investor conferences are kept in Chinese and English as well as audio records. They have been made available on the Company's website and on web pages specified by Taiwan Stock Exchange Corporation (TWSE). After each monthly earnings announcement, the Company summarizes key points and uploads them onto its website. Should any queries arise, the Company would address the public through its spokesperson.	No deviation was found
<p>6. Does the financial holding company have other information that enables a better understanding of the company's corporate governance practices (including but not limited to employee rights, employee care, investor relations, stakeholders' rights, continuing education of directors/supervisors, implementation of risk management policies and risk measurements, implementation</p>	✓		(1) Integrity conduct of employees “Integrity, Sincerity, Professionalism, and Innovation” are the Company's core values. To promote employees' integrity awareness, the Company organized an “Integrity Code of Conduct” training for all employees in 2018, and required employees to sign commitments to integrity conduct, which covers a broad number of topics including anti-bribery, avoidance of conflicting interest, confidentiality, preventing	No deviation was found

Items of Evaluation	Implementation Status			Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	NO	Summaries	
of customer policy, insuring against liabilities of company directors and supervisors, and donation to political parties, stakeholders and charity organizations)?			<p>damage to stakeholders' interest, establishment of honest commercial relationship, and reporting of misconducts. Training for Integrity Code of Conduct will be organized regularly to promote employees' integrity awareness in the future.</p> <p>Employee rights and care</p> <p>The Company has implemented robust employee welfare and leave systems, shareholding trust, emergency and compassionate relief to support employees' rights, health and safety and to create a caring and friendly workplace. Other care packages have also been introduced to address employees' physical and mental health, including:</p> <ol style="list-style-type: none"> 1. The four safety programs - Feminine Health Protection, Ergonomic Hazard Prevention, Anti-workplace Violation, and Stress-related Disease Prevention for total protection of employees' rights and safety. 2. Childbirth, childcare and wedding support policies that are more favorable than what the laws require, including: flexible attendance, discount daycare solution, group insurance without limited number of dependents, extended unpaid parental leave, prenatal screening leave, tocolysis leave, nursery room and wedding subsidy. It is our goal to provide feasible support to the needs of employees' families. 3. Healthy diner that offers bright, comfortable dining environment and serves top-quality, tasty and trail-certified food. 	

Items of Evaluation	Implementation Status			Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	NO	Summaries	
			<p>4. Health check, seminar and hiring of professional nurses: To help employees monitor health and prevent against disease, the Company offers complimentary “regular health check” benefits that are more favorable (in terms of frequency and scope) than what the laws require. These health checks are organized in collaboration with several reputable medical institutions, so that employees can be informed of their health conditions early and make improvements to minimize or avoid chances of disease. The Company has also negotiated with medical institutions to expand this service arrangement to cover employees' dependents and retired employees, and to accept Fubon's group health check package. The Company organizes annual employee health checkups and arranges medical service based on checkup results; the Company also organizes health seminars and invites experts from various fields to share new medical knowledge and offer consultation service. The Company hires full-time nurses as required by law and hires physicians to perform regular inspection of employees' health and address employees' basic medical requirements. Subsidiaries Taipei Fubon Bank and Fubon Life both obtained Healthy Workplace certifications issued by the Health Promotion Administration.</p> <p>5. Complimentary stress relief and counseling: The Company hires visually impaired persons to provide massage service at office locations that have more employees. This service</p>	

Items of Evaluation	Implementation Status			Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	NO	Summaries	
			<p>is offered both as an employee benefit and a means to promote health and relieve stress. Meanwhile, the Company works with “Teacher Chang Foundation” and “Taiwan Institute of Psychotherapy” to provide employees with complimentary mental counseling at its own expense.</p> <p>6. Health promotion programs: In addition to the regular activities of various clubs, Fubon has also been hosting intra-group Sports Day, Family Day and basketball tournaments as a means to promote unity and good exercise habits among employees. The Company continues to set up “express recreation centers” at office locations that are more populated with employees, so that employees may have somewhere close to perform exercises during breaks or after work. The recreation center offers complimentary facilities such as table tennis, hoop games, treadmills, and indoor cycling machines. It has adequate space to house yoga, aerobics and fitness programs, giving employees the opportunity to relax and relieve work stress.</p>	
	✓		<p>(2) Investor relations To ensure consistency and accuracy in all messages conveyed to the public, the Company has implemented a set of “Institutional Investor Relations Policy” that outlines clear rules regarding information disclosure, external communication, and proceeding of investor/analyst conferences.</p>	No deviation was found
	✓		<p>(3) Stakeholders' rights The Company has established a “Stakeholders Engagement”</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	NO	Summaries	
	✓		<p>section on its website to disclose information and practices regarding stakeholders' concerned issues. Stakeholders may raise whatever queries they have at any time using the means provided in the Stakeholders Engagement section. Please refer to “Fubon Financial Holdings 2018 Corporate Social Responsibility Report” for detailed practices.</p> <p>(4) Director' education</p> <p>Each year, the Company provides tuition for directors and supervisors of the financial holding company and subsidiaries. The content of tuition varies depending on the Company's prevailing operational and business focus, and covers corporate governance-related topics including finance, risk management, business, and corporate social responsibilities. To provide directors and supervisors with better understanding of competitive trends and advantages in the financial industry, the Company invited Executive Vice President Thomas Wan and Vice President Hsiao-Hsuen Liu of Deloitte Taiwan to host a seminar on “AML and CTF by Directors and Senior Managers” on 2018.09.11, and Director/President Niven Huang of KPMG Sustainability Consulting Co., Ltd. to deliver “Responsible Investment Trends of the International Banking Industry - 2018” on 2018.11.27. The Company also shares information about courses or conferences on topics such as ESG issues, compliance, financial reporting, risk management etc. that were being held outside the organizations as a means to encourage continuing education among directors. See</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	NO	Summaries	
	✓		<p>“Directors' education 2018” of this annual report for more details.</p> <p>(5) Risk management policies and risk assessment standards The Company has a robust Risk Management Policy in place to manage credit risks, market risks, operational risks, and liquidity risks. This policy has been followed consistently throughout all subsidiaries. The Company has set limits for the various types of risks based on the economic, banking and market environment and its operational goals. Both qualitative and quantitative methods have been adopted to measure, monitor, report and manage risks.</p>	No deviation was found
	✓		<p>(6) Protection of personal information The Company has assembled a Personal Information Protection Supervision Committee that specializes in supervising personal information management, and implementing proper policies to support its purpose. The committee adopts a “Plan - Execute - Check - Act” approach to develop the Company's personal information protection system, and the process involves creating internal rules such as “Fubon Financial Holding Co., Ltd. Personal Information Management Policies” and “Fubon Financial Holding Co., Ltd. Guidelines on Maintaining Personal Information File Security and Handling Information When Customer Relationships No Longer Exist.” The Company devises personal information protection plans in the beginning of each year, and carries them out throughout the year according to schedule.</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	NO	Summaries	
	✓		(7) Customer policy The Company has implemented “Financial Consumer Protection Policy” to ensure the consistency of financial consumer protection practices adopted throughout subsidiaries. All subsidiaries are bound to comply with financial consumer protection requirements imposed by their respective authorities, accept these requirements as part of their internal control and audit system, and carry out financial consumer protection measures properly.	No deviation was found
	✓		(8) Purchase of Liability Insurance for Directors and Supervisors In order to complement the existing corporate governance system and effectively reduce the level of legal and financial risks that directors, supervisors and key staff present to the Company while performing their duties, the Company has made arrangements to acquire “Director, Supervisor and Key Staff Liabilities Insurance” coverage on a yearly basis for all directors, supervisors and key staff within the group.	No deviation was found
	✓		(9) Donation to political parties, stakeholders, and non-profit organizations 1. Giving back to the society has not only become a part of the Company's philosophy, but is deeply etched into the Company's corporate culture. For many years, the Company has dedicated itself to fulfilling its commitments to shareholders, employees, customers, the environment, and the society, and responding to issues that are of highest concern to stakeholders. The Company makes annual donations to Fubon Charitable Foundation, Fubon Cultural	No deviation was found

Items of Evaluation	Implementation Status			Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	NO	Summaries	
			<p>& Educational Foundation, Fubon Art Foundation and Taipei Fubon Bank Charity Foundation, thereby giving them the funding they need to organize different types of charity activities. These 4 organizations provide the foundation of an all-round charity platform. In addition, the Company encourages its employee to care for the socially disadvantaged as well as education, arts and culture for the better of the society. Fubon has been utilizing its expertise to provide financial education for the public in line with international trends, while at the same time develop products and services to address climate and social changes. By sponsoring sports events, we hope to convey our “Positive Energy.”</p> <p>2. The Company extends its compassion to victims of major disasters around the world, and hopes to ease their suffering by making donations to rescue efforts. Fubon also organizes post-disaster assistance programs to suit victims' needs. In February 2018, an earthquake of 6.0 on the Richter scale occurred in Hualien, to which the Company donated a sum of NT\$12 million as disaster relief. In August 2018, parts of southern Taiwan were flooded following a series of heavy rain, causing severe damage to agriculture, fishery and animal husbandry industries as well as residential homes, and the Company donated NT\$30 million to help residents of southern Taiwan recover from the disaster. Apart from making donations, the life insurance and non-life insurance</p>	

Items of Evaluation	Implementation Status			Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	NO	Summaries	
	✓		<p>subsidiaries had also been responsive in helping victims when the disaster occurred, and actively contributed expertise to bring security to the society. Overall, the Company and the 4 subsidiaries donated a sum of NT\$305,635,111 in 2018. The Company and its four subsidiaries made no donation to political party. Please refer to the “Donations” chapter of this annual report for details.</p> <p>(10) The implementation of Anti-money laundering (AML) and counter terrorism financing (CTF) compliance management Fubon Financial Holdings (the Company) has developed and maintained adequate and appropriate policies of " Fubon Financial Holding Co., Ltd. Group Policy for Anti-Money Laundering and Countering the Financing of Terrorism," “Fubon Financial Holding Co., Ltd. and its Subsidiaries Anti-Money Laundering and Countering the Financing of Terrorism Program,” “Fubon Financial Holding Co., Ltd. Regulations Governing the Information Sharing on Customers List and Negative News for Anti-Money Laundering and Countering the Financing of Terrorism” and “Fubon Financial Holding Co., Ltd. Directions Governing Money Laundering and Terrorist Financing Risk Assessment on Countries/Geographic Areas, Occupation and Industry, Products and Services, and Customers”</p> <p>By promoting ML/TF risk awareness on a policy level and assigning dedicated units to AML/CTF, the Company enhances overall control effectiveness of its subsidiaries.</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	NO	Summaries	
			<p>The abovementioned policies require the Company and subsidiaries to adopt a risk-based approach (RBA) toward AML/CTF risk management, perform institutional risk assessment (IRA) on a yearly basis, set risk appetite/limit, supervise AML/CTF control effectiveness of subsidiaries and 2nd-tier subsidiaries, and share AML/CTF information while adopt consistent practices with members of the group. Subsidiaries are also required to design and implement control measures such as “ongoing customer identity review, customer/counterparty name check, ongoing account/transaction monitoring, reporting, record-keeping and confidentiality, new product/service risk assessment, eligibility requirement for AML/CTF officers and personnel, and adequate training programs”to fulfill requirements defined by various financial authorities.</p>	
<p>7. Please explain the improvements made, based on the latest Corporate Governance Evaluation results published by TWSE Corporate Governance Center, and propose enhancement measures for any issues that are yet to be rectified. (Not required if the company is not one of the evaluated subjects)</p> <p>Since Taiwan Stock Exchange Corporation first began its corporate governance evaluation, the Company has been ranked among the top 5% of TWSE-listed companies for four consecutive years, and continues to be selected as a composition of “TWSE Corporate Governance 100 Index.”</p> <p>The Company participates in the Corporate Governance Evaluation organized by TWSE, and addresses shareholders' interests by introducing an electronic voting system and by providing detailed information and descriptions about the agenda to be discussed in shareholder meeting manuals. Fubon was also the first among its peers to actively involve shareholders in corporate governance by voting shareholder meeting agendas on a case-by-case basis. Information is constantly updated and disclosed to stakeholders in annual reports, among other means like website and appropriate avenues. The Company has been preparing English version of its annual reports and providing mode detailed explanations to R&D plans and expenses since 2015. In addition, the Company has taken active steps to participate in international certification systems for environmental and energy management and develop robust dividend policy. Supply chain sustainability management was first introduced into the organization in 2016, and a set of “Supplier Corporate Social Responsibilities Code of Conduct” was established to outline suppliers' commitments and responsibilities toward environmental sustainability, whereas supply partners were invited to sign “Commitment of Supplier's Conduct.” In 2018, the Company</p>				

Items of Evaluation	Implementation Status			Deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	NO	Summaries	
organized its first “Supplier CSR Conference,” during which it published the latest supplier sustainability evaluation results and commended top performers as a way to collaborate with suppliers toward sustainability from economic, social and environmental aspects. All above efforts were intended to refine the Company's corporate governance practices in line with the rest of the world.				

3.4.6 Functionality of the Remuneration Committee

(1) Composition of Remuneration Committee

The Company has assembled a Remuneration Committee in accordance with Article 14-6 of the Securities and Exchange Act, the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter, and the Company's “Remuneration Committee Charter.” Members of the committee are appointed by the Board of Directors; there shall be no lesser than 3 committee members at all times, and Independent Directors must make up more than half of the committee members. Currently, the committee consists entirely of the Company's Independent Directors.

(2) Responsibilities of the Remuneration Committee

Pursuant to Article 4 of the Company's “Remuneration Committee Foundation Principles,” the Remuneration Committee has the following responsibilities:

- a. Prescribing and periodically reviewing the policies, systems, standards, and structures for performance evaluation and remuneration for directors, and managerial officers.
- b. Periodically evaluating and prescribing the remuneration of directors, managerial officers, and for their job positions at the Company's subsidiaries.
- c. Periodically evaluating and prescribing the remuneration of subsidiaries' chairman, vice chairman and president, and their concurrent positions in the Company and in other subsidiaries.
- d. Other discussions assigned by the Board of Directors.

(3) Remuneration Committee members

Identity	Name	Condition	Whether he/she has at least five years of work experience and meet one of the following professional qualifications			Independence Status (Note)								Number of positions as Remuneration Committee member in other public companies	Remarks
			An instructor at a public or private college, in a department of commerce, law, finance, accounting, or other academic departments related to the business of the Company.	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist, in a profession necessary for the business of the Company, who has passed a national examination and been awarded a certificate.	Have work experience in the area of commerce, law, finance, accounting, or work experience needed by the Company	1	2	3	4	5	6	7	8		
Independent Director	Chi-Yan Louis Cheung				✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	Ming-Je Tang	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	Shin-Min Chen	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	Chan-Jane Lin	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Independent Director	Jung-Feng Chang	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	Fan-Chih Wu				✓	✓	✓	✓	✓	✓	✓	✓	✓	0	

Note: A “✓” is placed in the box below if the member met the following criteria at any time during active duty and two years prior to the date of appointment.

- (1) Not employed by the Company or by any of its affiliated companies.
- (2) Not a director or supervisor of the Company or any of its affiliated companies. This restriction does not apply to independent director positions in the Company, its parent company or subsidiary, which have been appointed in accordance with Securities and Exchange Act or laws of the registered country.
- (3) The member is not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the Company or ranking in the top 10 in holdings.
- (4) Not a spouse, a relative of second degree or closer, or a direct kin of third degree or closer to anyone listed in the three preceding criteria.
- (5) The member is not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the Company or that holds shares ranking in the top five in holdings.
- (6) The member is not a director, supervisor, officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the Company.
- (7) Not a professional who provides commercial, legal, financial, accounting, or consulting services to the Company or its affiliate, nor is an owner, partner, director, supervisor, or manager, or the spouse of any of the above, of a sole proprietorship, partnership, company, or organization that provides such services to the Company or its affiliated companies.
- (8) The member doesn't have any of the circumstances set forth in Article 30 of the Company Act.

(4) Attendance of Remuneration Committee meetings

The 3rd Remuneration Committee (term of service: 2017.06.16~2020.06.15; of which 2018.01.01~2018.11.31 were relevant to this report)

A total of 5 meetings (A) were held by the 3rd Remuneration Committee in the last year (2018); members' attendance records are summarized below:

Title	Name	Attendance in person (B)	Attendance by proxy	Rate of attendance in person (%) (B/A) (Note)	Remarks
Independent Director (Convener)	Ming-Je Tang	5	0	100%	
Independent Director	Chan-Jane Lin	5	0	100%	
Independent Director	Chi-Yan Louis Cheung	5	0	100%	
Independent Director	Shin-Min Chen	5	0	100%	
Independent Director	Jung-Feng Chang	4	1	80%	
Independent Director	Fan-Chih Wu	5	0	100%	

Other matters that shall be recorded:

- a. If the Board of Directors does not adopt or decide to revise the recommendation of the Remuneration Committee, the Board shall record the date and term, subject matter of motions, resolution, and measures taken concerning the recommendation of the Remuneration Committee (For example, if the compensation passed by the Board of Directors is higher than the recommendation proposed by the Remuneration Committee, the Board shall explain the differences and reasons): None.
- b. In the resolutions of the Remuneration Committee, if any member expresses objections or has reservations, then the Remuneration Committee shall record the date, term, subject matter of motions, opinions of its members and the measures taken:

(5) The Remuneration Committee's implementation results:

The following motions were discussed and executed during the 5 Remuneration Committee meetings held in 2018:

- a. February 2, 2018:
 - (a) Payment of 2017 bonus for managers of the Company and Chairman, Vice Chairman and President of various subsidiaries.
 - (b) Payment of 2017 bonus for the Company's Chairman and Vice Chairman.
- b. March 15, 2018:
 - (a) Review of the Company's 2017 director remuneration.
 - (b) Review of the Company's 2017 employee remuneration.
- c. June 8, 2018:
 - (a) Compensation for Chairman, Vice Chairman and managers of the Company and Chairman, Vice Chairman and President of various subsidiaries.
- d. August 27, 2018:
 - (a) Compensation for Vice Chairman of Fubon Insurance.
- e. November 22, 2018:
 - (a) Amendment to the Company's "Performance Evaluation Guidelines."

3.4.7 Fulfillment of social responsibilities

Items of Evaluation	Implementation Status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	NO	Summaries	
1. Sound corporate governance				
(1) Does the Company have a corporate social responsibility policy or system in place? Is progress reviewed on a regular basis?	✓		(1) The Company established and published a set of “Corporate Social Responsibility Best Practice Principles” on its website back in 2011. The Best Practice Principles outline four dimensions through which the Company fulfills its corporate social responsibilities, which are: 1. Implement Corporate Governance, 2. Fostering a Sustainable Environment, 3. Preserving Public Welfare, and 4. Enhancing Disclosure of CSR Information. Yearly reports are published as a means of communicating the Company's CSR progress. Furthermore, the Company initiated the “Fubon Financial Holdings ESG Visioning project” and introduced five main strategies targeting: leading investment, innovative finance, golden practices, honest lending and tender care. An “ESG Task Force” under the Corporate Governance and Sustainability Committee in 2015; the team holds regular meetings to discuss issues concerning ESG. The ESG Task Force reports its plans and progress to the board of directors twice a year, and actively participates in sustainability assessments held by institutions around the world, where it learns from the industry's leading role models.	No deviation was found
(2) Does the Company organize social responsibility training on a regular basis?	✓		(2) Each year, the Company provides tuition to directors and supervisors within the group on a variety of topics such as finance, risk management, banking business, corporate governance and corporate social responsibilities. To provide directors and supervisors with better understanding of competitive trends and advantages in the financial industry, the Company invited Executive Vice President Thomas Wan and Vice President Hsiao-Hsuen Liu of Deloitte Taiwan to host a seminar on “AML and CTF by Directors and Senior Managers” on 2018.09.11, and	No deviation was found

Items of Evaluation	Implementation Status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	NO	Summaries	
			<p>Director/President Niven Huang of KPMG Sustainability Consulting Co., Ltd. to deliver “Responsible Investment Trends of the International Banking Industry - 2018” on 2018.11.27.</p> <p>The Company has been organizing trainings on corporate governance, employee skill development and employee care to raise managers' awareness towards social responsibilities. Meanwhile, courses on internal control and ESG policies and trends are being introduced into the group to help managers and employees develop the proper mindset towards risk management, sustainable operations, and better understanding of ESG strategies in ways that contribute to the Company's corporate social responsibility efforts. Furthermore, seminars on financial trends, talent management and other relevant topics are being introduced to help managers build the leadership.</p> <p>To promote employees' awareness towards business integrity, the Company made organization-wide propaganda and pact for the “Ethical Conduct Guidelines” in 2018 that required employees to sign an accompanying ethics pledge. The content covers the ban on offering and accepting bribes, how to avoid conflicts of interest, confidentiality, fiduciary duty to stakeholders, establishing ethical business relationships, and procedures for encouraging the reporting of unethical conduct. Promotion for Ethical Conduct Guidelines will be organized regularly to enforce employees' integrity awareness in the future. In addition, the Company organizes compliance courses on a yearly basis to cover topics including the Money Laundering Control Act, the Personal Information Protection Act and information security, and thereby enhance risk management over personal services.</p> <p>With respect to environmental protection and charity, the Company arranged</p>	

Items of Evaluation	Implementation Status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	NO	Summaries	
(3) Does the Company have a unit that specializes (or is involved) in CSR practices? Is the CSR unit run by senior management and reports its progress to the board of directors?	✓		<p>several online courses and seminars covering topics such as food safety, environmental protection and climate change in 2018 in an attempt to enhance employees' awareness towards social and environmental issues.</p> <p>(3) The Company assembled a “Corporate Governance and Sustainability Committee” in 2015; an ESG Task Force was created directly under the committee with 6 working teams of different specialization: Corporate Governance, Employee Care, Responsible Finance, Customer Engagement, Social Commitment, and Environmental Sustainability.</p> <p>ESG Task Force is the unit that specializes in the promotion of corporate social responsibilities within the Company. The task force is headed by the Company’s President and the CHRO serving as executive secretary and the Planning Division acting as secretary. The task force is supervised by two independent directors, who joins task force members in the discussion of ESG issues and measures during regular meetings. The team reports to the board of directors twice a year about its plans and progress.</p>	No deviation was found
(4) Has the Company implemented a reasonable remuneration system that associates employees' performance appraisals with CSR? Is the remuneration system supported by an effective reward/discipline system?	✓		<p>(4) Fubon Financial Holdings participates in annual market salary surveys, and makes competitive salary adjustments in order to attract and retain talents. Compensation of the management is determined after taking into consideration the peer level, individual performance, and organizational performance. The Company also as a “Remuneration Committee” in place that regularly reviews the rationality of aggregate and individual compensation paid to the management.</p> <p>Employees who exhibit outstanding performance are entitled to promotion and salary adjustment opportunities. By linking rewards with employees'</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	NO	Summaries	
			<p>performance, the organization aims to inspire employees' best potentials. The Company takes into consideration a variety of factors such as internal audit, internal control, regulatory compliance etc in addition to the usual business targets when evaluating employees' performance. Depending on the business activities of each subsidiary, the Company assigns different weights to performance criteria such as regulatory compliance, integrity etc and links them to employees' annual performance targets.</p> <p>To facilitate more active embrace of ESG strategies, the Company amended its existing performance assessment criteria in 2018 and incorporated “positive energy” into performance evaluation for all employees. This new performance evaluation approach not only promotes consensus towards the ESG vision from the top down, but also encourages employees to take practical steps toward enforcing ESG in day-to-day activities. Outcome of performance evaluation is associated with actual compensation according to the “Performance Evaluation Policy,” and in doing so aligns employees' efforts and growth with those of the Company.</p> <p>The Company has a set of “Employee Reward and Disciplinary Guidelines” in place that associates performance evaluation with promotions and salary adjustments.</p>	
2. Fostering a sustainable environment				
(1) Is the Company committed to achieving efficient use of resources, and using renewable	✓		<p>(1) The Company has prohibited the use of disposable dining utensils anywhere within office premises.</p> <p>In 2013, employees were each given one reusable canteen and were encouraged</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	NO	Summaries	
<p>materials that produce less impact on the environment?</p> <p>(2) Has the Company developed an appropriate environmental management system, given its distinctive characteristics?</p>	✓		<p>to make good use of them at work, during customer visits, and in meeting rooms. The Company's environmental protection efforts in 2015 had been focused on the reduction of PET bottles, in an attempt to relieve the environment of problems caused by excessive water containers. In 2016, bottled water was removed from the procurement system and is no longer available for purchase by internal departments.</p> <p>Furthermore, the Company has been procuring publications that are printed on recycled paper, and promoting recycle and reuse of unwanted waste in order to minimize their impact on the environment. In 2018, the Company recycled approximately 569 tonnes of waste in total.</p> <p>From 2018 onwards, lucky draws in year-end banquets have proceeded using electronic tickets instead of printed rickets for the protection and sustainability of the environment.</p> <p>(2) In terms of environmental management, the Company has adopted a number of environmental measures such as building energy management, computerized energy conservation solution, power-efficient servers, reduction and recycling of waste, and green procurement policy. Internally, employees are trained on the topic of environmental protection and are encouraged to apply those values in daily life.</p> <p>The Company adopted the ISO 14001:2015 Environmental Management System in 2016 and has since been using it as a foundation to establish the Company's environmental management framework, policies, and improvement goals, actions and solutions toward sustainable management, and thereby effectively reduce carbon, electricity, water and business waste. This framework was adopted by the Fubon Insurance in 2018.</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	NO	Summaries	
(3) Is the Company aware of how climate changes affect its business activities? Are there any actions taken to measure and reduce greenhouse gas emission and energy use?	✓		<p>To achieve efficient use of energy, Fubon Financial Holdings and Fubon Insurance implemented ISO 50001 - Energy Management System in 2017, and adopted the PDCA cycle to continuously improve and enhance the efficiency of energy management. Both Taipei Fubon Bank, Fubon Life and Fubon Securities followed and implemented ISO 50001 - Energy Management System in 2018 and were certified accordingly. Furthermore, the 3 buildings of the financial holding company headquarter received “2018 Taipei Energy Conservation Leadership Awards - Industrial and Commercial Group A - Award of Excellence.”</p> <p>In 2018, the Company continued its support to CITYFIM's Moonlight campaign and the international Earth Hour initiative, and reminded employees to turn off lights after work, and adopt the use of energy-saving lighting equipment for better power efficiency. In addition, elevator operations were adjusted for working and non-working hours to achieve energy-saving benefits. In response to the energy and carbon reduction efforts of the Energy Bureau, Ministry of Economic Affairs, the Company introduced a policy to keep office indoor temperature at 26~28 degrees Celsius in summers, hoping to exert its influence as a corporate citizen and mobilize employees, customers and the general public to respect the resources we have for the better of the Earth's environment.</p> <p>(3) In response to the conditions of climate change and greenhouse gas reduction, the Company has established the “Climate Change Management Guidelines” . In 2016, the “Fubon Financial Holdings Management Environmental Policy” was established. The Company completed its 2017 Greenhouse Gas Survey Report in 2018, which later passed the certification requirements of British Standards Institution (BSI). Internally, the Company organizes quarterly</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies												
	Yes	NO	Summaries													
			<p>environmental assessments and yearly energy-saving competitions within the main building to help employees develop the right habits.</p> <p>Annual emission as follows: Unit: tCO2e</p> <table> <tr> <th>Year</th> <th>Category 1</th> <th>Category 2</th> <th>Total emission:</th> </tr> <tr> <td>2017</td> <td>4,315.45</td> <td>47,405.80</td> <td>51,721.25</td> </tr> <tr> <td>2018</td> <td>4,634.24</td> <td>47,336.36</td> <td>51,970.60</td> </tr> </table> <p>In recent years, Fubon Financial Holdings has actively implemented a series of measures on energy saving and carbon reduction e.g. attain ISO 14064-1, ISO 50001, ISO 14001 certification, implement waste sorting to facilitate recycling and reuse, promote green procurement, procure green energy, install solar power equipment, replace energy-consuming equipment (including lamps, air conditioners and elevator systems), improve the efficiency of the machinery and equipment room and reduce power consumption, etc.. The above measures have resulted in a 4.73% reduction, 4,195,730 degrees in electricity consumption, from 88,797,285 degrees in 2017 to 84,601,555 degrees in 2018. (Please refer to the Company’s Current Year Corporate Social Responsibility Report for details of each measure mentioned above.)</p> <p>In response to the green energy policy, the Company has, since 2016, begun a phased project to set up solar energy panels, beginning with the Fubon-owned buildings. Installation completed April, 2016:Fubon Life Taipei Dunnan Building; Installation completed end July 2017: Fubon Insurance Pingtung Building; Installation completed January 2018: Fubon Life Taichung Wenxin Convention Centre; Installation completed late July 2018: Taipei Zhongshan Building; Installation completed end 2018: Kaohsiung Zhonghua Building; Installation scheduled to complete June 2019: Fubon Life Taipei Hanover</p>	Year	Category 1	Category 2	Total emission:	2017	4,315.45	47,405.80	51,721.25	2018	4,634.24	47,336.36	51,970.60	
Year	Category 1	Category 2	Total emission:													
2017	4,315.45	47,405.80	51,721.25													
2018	4,634.24	47,336.36	51,970.60													

Items of Evaluation	Implementation Status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies															
	Yes	NO	Summaries																
			<p>Building. Reduce greenhouse emission and implement the Company's policy for a sustainable environment.</p> <p>Total of power generated and carbon reduction from solar energy panels</p> <table border="1"> <thead> <tr> <th>Year</th><th>2016</th><th>2017</th><th>2018</th><th>Total</th></tr> </thead> <tbody> <tr> <td>Power generation (watts)</td><td>7,987</td><td>15,416</td><td>46,956</td><td>70,359</td></tr> <tr> <td>Carbon reduction (KG CO₂e)</td><td>4,425</td><td>8,541</td><td>26,014</td><td>38,979</td></tr> </tbody> </table> <p>The Company has been supporting the government's new energy conservation policies since July 2017 by turning off lights after work hours at certain sections in buildings owned by the Company. In addition, the building administration makes broadcasts from 19:30 until 20:30 to remind employees to turn off lights when leaving their sections. All above efforts have been intended to develop good habits among employees for the protection of Earth.</p>	Year	2016	2017	2018	Total	Power generation (watts)	7,987	15,416	46,956	70,359	Carbon reduction (KG CO ₂ e)	4,425	8,541	26,014	38,979	
Year	2016	2017	2018	Total															
Power generation (watts)	7,987	15,416	46,956	70,359															
Carbon reduction (KG CO ₂ e)	4,425	8,541	26,014	38,979															
<p>3. Enforcement of social justice</p> <p>(1) Has the Company developed its policies and procedures in accordance with laws and International Bill of Human Rights?</p>	✓		<p>(1) The Company has always complied with labor laws and supported UN "Declaration of Human Rights" among other international human rights conventions. A "Human Rights Policy" was therefore established to protect employees' rights, including freedom of discrimination (regardless of gender, age, race or ethnicity, religion or political affiliation; equal employment opportunities are offered to those who have the ability and qualifications needed to accomplish the role), and thereby create a harmonious work environment. The Company conducts full-scale human rights risk assessments regularly within the organization. Its assessments are structured based on "international human rights convention," and the findings are used to implement proper control</p>	No deviation was found															

Items of Evaluation	Implementation Status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	NO	Summaries	
(2) Does the Company have means through which employees may raise complaints? Are employee complaints being handled properly?	✓		and mitigation measures, and thereby ensure human rights protection on all aspects. (2) The Company has “Guidelines for Handling Employee Grievance” and “Sexual Harassment Complaint, Investigation and Disciplinary Policies” in place, and provides dedicated web pages, phone lines, fax lines, and opinion mailbox for employees to file claims. The Company provides a complaint mailbox on its website and launches a mobile App exclusively for employees; both services have dedicated personnel assigned to handle employees’ complaints and opinions. All complaints are handled with the utmost discretion and all of the above channels are functioning properly.	No deviation was found
(3) Does the Company provide employees with a safe and healthy work environment? Are employees trained regularly on safety and health issues?	✓		(3) The Company is committed to reducing safety and health risk factors in the workplace, and continues enforcement of a health promotion and environment safety project. In terms of health promotion, the Company arranges regular health checkups for employees and organizes health seminars based on checkup results. Personnel with professional nurse background are being hired full-time to provide medical consultation and new health knowledge for employees. Fitness centers have been made available at certain business premises, while events such as sports day, family day, basketball competition etc are being organized to promote proper sporting habit. In terms of stress relief, the Company works with professional counseling institutions to set up a broad variety of counseling platforms to provide complimentary counseling for employees. There are also massage stations and social clubs of diverse interests available to help employees maintain a healthy physique and mind. The Company has occupational safety and health measures in place and has assembled an Occupational Safety and Health Commission to enforce them. The	No deviation was found

Items of Evaluation	Implementation Status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	NO	Summaries	
(4) Does the Company have means to communicate with employees on a regular basis, and inform them of operational changes that may be of significant impact?	✓		<p>Company promotes occupational safety awareness regularly to prevent occurrence of occupational hazards. Resources such as training, safety maintenance, rescue equipment and management personnel have been committed, whereas the operating environment is being monitored twice a year for the safety and health of the workplace.</p> <p>(4) The Company maintains close communication with the union and holds regular meetings to strengthen labor-management relations. Any operational changes that are likely to cause significant impact to employees will be announced over the Intranet. Where circumstances require, the management will address employees in a separate letter to explain the situation. Furthermore, in an attempt to develop fairer and more progressive labor-management relations, the Company has been engaging subsidiaries including Taipei Fubon Bank, Fubon Securities, Fubon Insurance, and Fubon Futures since 2015 in a group agreement, for which it was commended by the Ministry of Labor. The year 2018 marked the expiry of the 3-year group agreement, and Taipei Fubon Bank, Fubon Securities and Fubon Futures have begun negotiation with the respective unions to discuss contents of the new agreement, and use them as means to enforce labor-management communication. Each year, senior managers communicate with employees on the Company's business philosophy, strategies and future prospects through the Intranet and in meetings, so that employees may have a better understanding and appreciation of the Company's operations. A mobile App has been launched exclusively for use by employees to constantly update employees on the Company's latest news.</p>	No deviation was found
(5) Has the Company implemented an effective training program that	✓		<p>(5) The Company places great emphasis on talent training, and offers a variety of learning resources, including a mobile learning APP for the needs of the</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	NO	Summaries	
helps employees develop skills over their career?			smartphone generation, that help employees develop self-motivated learning and management while inspiring them to grow in line with their job duties and careers. The Company offers a broad variety of assistance from career planning, specialist training, management skill development to leadership training, and provides resources to support employees' college education, language skill development, and financial certification. Through systematic training, the Company aims to help employees adapt to the changing business environment and develop the professional capacity needed to deliver exceptional financial services.	
(6) Has the Company implemented consumer protection and grievance policies with regards to its research, development, procurement, production, operating and service activities?	✓		(6) The Company has established “Financial Consumer Protection Policy” in accordance with the Financial Consumers Protection Act and demanded compliance from all subsidiaries as a means of protecting consumers' interests. The financial holding company and subsidiaries each has a set of “Fair Customer Treatment Policy” and “Fair Customer Treatment Strategy” in place to serve as guidance for the financial products and services offered. Each subsidiary has its own customer service department available to address consumer queries and needs for the various products and services offered. Should disputes arise, consumers are able to raise their complaints through channels provided by the financial holding company and subsidiaries, and have them resolved in a reasonable, fair and timely manner.	No deviation was found
(7) Has the Company complied with laws and international standards with regards to the marketing and labeling of products and services?	✓		(7) With regards to product/service marketing and labeling, the Company has established “Advertising, Media Procurement and Distribution Guidelines” in accordance with “Regulations Governing Advertising, Media Procurement and Distribution by Financial Service Providers,” “Taiwan Securities Association Members' Policy on Advertising, Business Solicitation and Promotion,” “Notes	No deviation was found

Items of Evaluation	Implementation Status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	NO	Summaries	
(8) Does the Company evaluate suppliers' environmental and social conducts before commencing business relationships?	✓		<p>on Review of Personal Insurance Products,” and “Self-regulatory Rules on Business Solicitation and Advertising for Insurance Industry” to govern the quality of promotional information disseminated to the public, as well as the procedures by which they are distributed. A dedicated unit has been empowered to ensure the authenticity of information conveyed while avoiding messages that may mislead financial consumers.</p> <p>(8) The Company requires all its suppliers to submit proof of establishment, proof of credit and tax assessment records for review, and only when suppliers are free of default concern will the Company accept them as qualified suppliers. In order to help suppliers understand and comply with the Company's safety and ethical standards, Fubon Financial Holdings has posted a “Supplier Corporate Social Responsibilities Code of Conduct” on the Procurement Section of its website that outlines a set of rules concerning employee rights, human rights, workplace health and safety, environmental protection, and prohibition against commissions/kickbacks that suppliers are bound to comply. Furthermore, all supplier partners are required to sign a “Letter of Commitment on Supplier Corporate Social Responsibility Code of Conduct.” The Company has also been a long-time supporter of the government's environmental protection and energy-saving policies, and has therefore responded with its own green procurement practices. For three consecutive years since 2016, the Company has been certified for “Green Purchasing Enterprise Commendation” by the Environmental Protection Administration, Executive Yuan. In 2018, the Company made NT\$340,180,000 of certified green purchase, which was 14% higher than 2017.</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	NO	Summaries	
(9) Is the Company entitled to terminate supply agreement at any time with a major supplier, if the supplier is found to have violated its corporate social responsibilities and caused significant impacts against the environment or the society?	✓		<p>(9)The Company may terminate its contract or collaboration with suppliers at anytime if suppliers are found to have violated terms of the “Letter of Commitment on Supplier Corporate Social Responsibility Code of Conduct,” government laws, or Fubon's “Supplier Corporate Social Responsibility Code of Conduct.” The Company may terminate service agreements with any contracted supplier at any time, if the counterparty is found to have been involved in dishonest conduct.The Company may terminate service agreements with any contracted supplier at any time, if the counterparty is found to have been involved in dishonest conduct.</p> <p>For construction agreements, the Company conducts intensive investigations on contractors' cheque history and requires them to produce letters of commitment on work safety, health, and environmental management. Contractors are also instructed to purchase construction insurance to protect against risks.</p> <p>To ensure service quality, the Company evaluates and records the result of works completed by each supplier, and uses them as reference for supplier selection on a later date. Suppliers that exhibit adverse conducts will receive penalty credits that eventually reduce their performance rating or lead to disqualification.</p> <p>Suppliers that deliver good performance and exhibit a strong commitment to social responsibilities will have performance ratings raised for closer business interaction in the future. The Company will be changing its supplier evaluation matrix to reflect CSR performances such as environment, health and safety; it is our goal to exert influence and direct suppliers' attention towards social responsibilities and environmental protection.</p>	No deviation was found
4. Enhanced information disclosure Has the Company disclosed	✓		A CSR section has been created on website to disclose the Company's philosophy and progress in terms of corporate governance, social commitments, and environmental	No deviation was found

Items of Evaluation	Implementation Status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	NO	Summaries	
relevant and reliable CSR information on its website and at the Market Observation Post System?			protection; the section is further divided into several categories including sustainability strategy, corporate governance, pilot investment, innovation, localization, accountable lending, positive care, and stakeholders engagement. Meanwhile, the Company has uploaded the “2017 Fubon Financial Holdings Corporate Social Responsibility Report” along with greenhouse gas data onto the Market Observation Post System, where stakeholders are able to access at any time.	
<p>5. If the Company has established CSR principles in accordance with “Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies,” please describe its current practices and any deviations from the Best Practice Principles: The Company established its “Corporate Social Responsibility Best Practices Principles” in 2011; it contains no deviations from the “Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies.”</p>				
<p>6. Other information useful to the understanding of corporate social responsibilities:</p> <p>(1) The Company has identified sustainable operations as part of its goals, and utilizes its financial expertise and distinctive resources to execute CSR strategies through innovative programs. Fubon Insurance and Fubon Life have actively supported the government's policies by designing and promoting micro insurance products that offer basic protections for the financially disadvantaged, and thereby provide coverage in areas that the government's social insurance and social welfare program could not reach. Taipei Fubon Bank serves as a trustee for several charitable trusts, and actively invites the public to participate so. By the end of 2018, the Bank had managed 23 charitable trusts for a total asset size of NT\$1.2 billion, up 43% from the end of 2017, including Taiwan's first sports trust. Through the establishment of charitable trusts, the Bank directly as well as indirectly involves itself in charity activities. In light of Taiwan's aging population and social changes that arise as a result, Fubon Life has introduced a series of services that target exclusively the senior policyholders and care for the demented. The company offers suitable products and services to help people adapt to the inevitable, so that they can live a dignified and satisfied life at their old age.</p> <p>Furthermore, in support of the government's policy, Fubon Insurance has been working with the Council of Agriculture to introduce Top-grated Pear Crop Insurance, Rice Insurance and Grouper Insurance since 2015, and plans to launch new Banana Insurance in 2019 while at the same time expand the scope of fish covered under aquaculture insurance. It is our hope to relieve farmers of financial losses caused by natural disasters with the support of both government subsidies and insurance coverage. Fubon Insurance has even launched pollution liability insurance that gas stations may purchase to transfer risks and treat pollution more effectively. Fubon Securities, on the other hand, is the co-underwriter for Taiwan Power Company's 107-1 unsecured corporate bond issue (10-year green bond), and takes the initiative to underwrite securities for companies that offer “products and services with mitigation effects on climate change or environmental risk.” In doing so, the subsidiary</p>				

Items of Evaluation	Implementation Status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	NO	Summaries	
<p>supports customers' environmental sustainability efforts.</p> <p>(2) Refer to the “Corporate Responsibilities and Moral Behavior” chapter of the 2018 annual report.</p> <p>(3) Relevant information has been disclosed on the “CSR section” of the Company's portal.</p>				
<p>7. Describe the criteria undertaken by any institution to certify the Company's CSR report:</p> <p>(1) “Fubon Financial Holdings 2017 Corporate Social Responsibility Report” was prepared in 2018; it was the Company's attempt at explaining input and output of six major capitals using the Integrated Reporting (IR) framework. It was the Company's first report that followed the guidelines published by the Global Sustainability Standards Board (GSSB) in 2016 (i.e, the GRI Standards) and it adopted the Comprehensive Option to disclose the Company's accomplishments in the environmental, social and governance aspects. The report was later awarded full assurance by KPMG based on Statement of Assurance Principles No. 1 of the Republic of China (derived from International Standard on Assurance Engagements - ISAE 3000), which made it the only report in Taiwan's financial holding industry to receive full assurance from an accounting firm.</p> <p>(2) The Company passed certification for ISO14064-1 - Greenhouse Gas Inventory, ISO140001 - Environmental Management System and ISO50001 - Energy Management System in 2018.</p> <p>(3) In June 2018, the organization was chosen as a composition of MSCI ESG Leaders indexes for the second consecutive year and received Grade A from MSCI ESG Rating in the Diversified Financials Category - Taiwan once again.</p> <p>(4) In September 2018, the Company was chosen as a composition of “Dow Jones Sustainability Indices (DJSI) - World,” the most prestigious index, for the 2nd consecutive year. The Company also ranks 2nd worldwide in the “FBN Diversified Financial Services and Capital Markets” category, and is the only Taiwanese financial holding company in this category to be selected for DJSI World! Meanwhile, Fubon Financial Holdings has also been chosen a composition of “DJSI - Emerging Markets” for the 3rd consecutive year. Furthermore, Fubon Financial Holdings' exceptional performance won it the title of Sustainability Leader in The Sustainability Yearbook 2019, along with a Gold Class for that industry.</p> <p>(5) In 2018, the Company was once again chosen by FTSE Russell as a composition of FTSE4Good Emerging Indexes and FTSE4Good TIP Taiwan ESG Index.</p> <p>(6) The Company won the following awards in 2018:</p> <p>Wealth Magazine: 2018 Taiwan Financial Award - Corporate Social Responsibility Awards</p> <p>Corporate Governance Asia: Icon on Corporate Governance, Best Investor Relations by a Taiwan Company, and Best Investor Relations Professional</p> <p>The Asset: Corporate Award – Platinum Award</p> <p>Thomson Reuters: Global Diversity and Inclusion Index Top 100</p>				

Items of Evaluation	Implementation Status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	NO	Summaries	
Environmental Protection Administration, Executive Yuan: Green Purchasing Enterprise Commendation 2018 Taiwan Academy of Banking and Finance: The 9th Taiwan Banking and Finance Best Practice Awards - Excellence in Social Responsibility Taiwan Stock Exchange Corporation: Top 5% ranking in Corporate Governance Evaluation for the 4th consecutive year 2018 Taiwan Corporate Sustainability Awards: Top50 Corporate Sustainability Report Awards, Talent Development Award, Growth through Innovative Awards, and Corporate Sustainability Report Awards – Financial Industry – Platinum Medal				

3.4.8 Status on the Implementation of Ethical Corporate Conduct

Items of Evaluation	Implementation Status			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	NO	Summaries	
1. Establishment of integrity policies and solutions (1) Has the Company stated in its Memorandum or external correspondence about the policies and practices it has to maintain business integrity? Are the board of directors and the management committed in fulfilling this commitment?	✓		(1) The Company has “Ethical Corporate Management Best Practice Principles,” “Codes of Insider Ethical Conduct,” and “Procedures for Ethical Management and Guidelines for Conduct” in place. All above policies have been established and amended by the Corporate Governance and Sustainability Committee with the approval of the Board of Directors, and submitted for acknowledgment in annual general meeting before publishing on Market Observation Post System and the Company's website. These policies outline the integrity principles that directors, managers, employees, agents and all parties possessing material control are bound to comply, and	No deviation was found

Items of Evaluation	Implementation Status			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	NO	Summaries	
(2) Does the company have any measures against dishonest conducts? Are these measures supported by proper procedures, behavioral guidelines, disciplinary actions and complaint systems?	✓		<p>prohibit them from involving in dishonest conducts. These integrity policies are fulfilled not only by the Board of Directors and the management, but are adopted in all aspects of internal management and external commercial activities as well.</p> <p>(2) Both “Procedures for Ethical Management and Guidelines for Conduct” and employee “Work Rules” have clearly outlined the grievance system. Those who violate business integrity will be subjected to disciplinary actions depending on severity; details of employees' conducts and disciplinary actions are posted onto the intranet.</p>	No deviation was found
(3) Has the Company taken steps to prevent occurrences listed in Paragraph 2, Article 7 of “Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies” or business conducts that are prone to integrity risks?	✓		<p>(3) The Company adopts stringent internal control measures, as described below, for business activities that involve higher risk of dishonesty:</p> <p>1. The Company has stated in its “Business Integrity Procedures and Behavioral Guidelines” a number of preventive solutions and measures against conducts such as: offering (acceptance) of bribes, inappropriate gains, illegal political donations, inappropriate donation or sponsorship, infringement of business secret and intellectual property, unfair competition, and offering of products/services against customers' or stakeholders' interests. The “Work Rules” have outlined employees' duty of integrity, which prohibit them from competing for business using inappropriate means such as bribery and</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	NO	Summaries	
			<p>kickbacks. Employees are also prohibited from exploiting their vested authorities and asking vendors for treatments, gifts or accepting commissions, rewards and any inappropriate gains.</p> <p>2. The Company has implemented the “Fubon Financial Holdings and Subsidiaries Donation Policy” that requires all donations to related parties and all substantial donations to non-related parties to be approved by the Board of Directors and disclosed in the form of a major announcement. Before the end of the first quarter each year, the Company would also report the amount of donations made in the previous year to the Board of Directors and disclose such information in the annual report.</p> <p>3. The Company has specifically requested all its contractors to refrain from carrying out service activities in the Company's name. Instead, contractors are required to present themselves as independent contractors commissioned by the Company for specified purposes. Contractors are prohibited from using any displays at their places of business so to avoid causing any third party to mistake them as one of the Company's branches. In addition, it is prohibited for contractors' employees to refer themselves as employees of the Company. For transactions that involve business secrets, trademarks, patents, copyrights or any other intellectual property rights, the Company would require guarantee from the transaction</p>	

Items of Evaluation	Implementation Status			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	NO	Summaries	
			<p>counterparty that there will be no infringement against the patents, copyrights, business secrets or any other rights when fulfilling contractual obligations.</p> <p>4.Subsidiaries have adopted the following preventive measures in regards to products, services and consumers' rights:</p> <p>(1) Fubon Insurance has assembled a Product Review Panel and a Product Management panel in accordance with its foundation principles. Apart from assessing the appropriateness and legitimacy of products offered, the two panels are also responsible for identifying any product descriptions that would be construed as misstatement, fraudulent, or misleading to consumers. Existing insurance products are continually reviewed for their compliance with laws, protection of consumer rights, and pricing rationality. Personal information protection measures have been implemented to ensure the security of consumers' personal information, while communication channels and customer complaint handling procedures are available to facilitate timely response to consumers' queries. The Company has assigned dedicated personnel to resolve problems in a legal, reasonable, timely and pro-active manner. Furthermore, in order to assure persons with disabilities the basic right to fair and convenient insurance service, the Company has also introduced accessibility measures</p>	

Items of Evaluation	Implementation Status			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	NO	Summaries	
			<p>that aim to address the needs of persons with different disabilities. Extensive efforts have been made to ensure that the Company's environment, communication, products, services and information are free of discrimination, and thereby create a friendly banking environment.</p> <p>(2) For the protection of consumers' interests, Fubon Life provides a broad variety of communication channels that customers may use to request for changes in personal information and express opinions at anytime. As for complaints, customers may use the 24-hour service hotline, the portal, online services, email, the grievance hotline and other convenience ways the Company has made available to have their product/service/consumption-related disputes resolved. The Company also has “Fair Customer Treatment Principles” in place, which requires employees to comply with relevant laws and treat customers fairly and reasonably when offering products and services.</p> <p>(3) To protect the interests, health and safety of its consumers and stakeholders, Fubon Securities has established “Financial Consumer Protection Guidelines” and created a customer service department in accordance with the Financial Consumer Protection Act and other laws relevant to the financial service industry. Should any complaint arise in relation to consumers or</p>	

Items of Evaluation	Implementation Status			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	NO	Summaries	
			<p>stakeholders, the customer service department will intervene and seek to resolve the dispute in a reasonable, fair and quick manner.</p> <p>(4) Taipei Fubon Bank has clear customer complaint handling procedures and complaint channels in place to protect consumers' interests, and make sure that every complaint case is handled in the utmost discretion. The Bank values customers' voices as a means to improve satisfaction. Through continuous opinion surveys, the Bank constantly improves its policies and procedures to provide customers with better quality financial services that meet their needs.</p>	
<p>2. Integrity actions</p> <p>(1) Does the Company evaluate the integrity of all counterparties it has business relationships with? Are there any integrity clauses in the agreements it signs with business partners?</p>	✓		<p>(1) The Company requires all its suppliers to submit proof of establishment, proof of credit and tax assessment records for review, and only when suppliers are free of default concern will the Company accept them as qualified suppliers. All suppliers are required to sign the “Letter of Commitment on Supplier Corporate Social Responsibility Code of Conduct.” and the Company may terminate its contract or collaboration with suppliers at anytime if suppliers are found to have exhibited dishonest conduct.</p> <p>All contracts signed between the Company and suppliers have explicitly instructed suppliers to comply strictly with regulations that financial institutions are bound to comply,</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	NO	Summaries	
(2) Does the Company have a unit that specializes (or is involved) in business integrity? Does this unit report its progress to the board of directors on a regular basis?	✓		<p>and refrain from offering commissions, kickbacks or any inappropriate benefits, whether directly, indirectly, voluntarily or involuntarily. Violators will be fined for breach of contract, and may result in the termination of contract at the Company's discretion. For construction agreements, the Company conducts intensive investigations on contractors' cheque history and requires them to produce letters of commitment on work safety, health, and environmental management. Meanwhile, the Company instructs contractors to purchase construction insurance to protect against risks.</p> <p>(2) The Company has a “Corporate Governance and Sustainability Committee” established directly under the Board of Directors to supervise business integrity. Integrity-related tasks are executed by the corporate governance team of the committee's ESG Task Force. Execution progress is reported to the Board of Directors every six months.</p> <p>On March 23, 2017, the Company completed amendment of “Fubon Holding Corporate Social Responsibilities Code of Conduct” to disclose the names of internal departments responsible for CSR matters and the frequency at which CSR issues are reported to the board of directors.</p>	No deviation was found
(3) Does the Company have any policy that prevents conflict of interest, and channels that facilitate the report of conflicting interests?	✓		<p>(3) Avoidance of conflicting interests has been explicitly regulated in the company's “Ethical Corporate Management Best Practice Principles” and “Procedures for Ethical Management and Guidelines for Conduct.” These policies outline the</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	NO	Summaries	
(4) Has the Company implemented effective accounting and internal control systems for the purpose of maintaining business integrity? Are these systems reviewed by internal or external auditors on a regular basis?	✓		<p>procedures that directors, managers and any stakeholders present at board of directors meetings are bound to follow with respect to any agenda discussed in board meetings that present conflicting interests against themselves or against the entities they represent. In addition, there are also procedures to guide employees in situations where they duties may cause inappropriate gains to themselves, their spouse, parent, child or any related party in conflict with the Company's interests. The “Codes of Insider Ethical Conduct” specifically prohibits directors and managers from exploiting their vested authorities for personal gains (or gains of relatives). In addition, it is mandatory for directors and managers to explain conflict of interest if the Company or its subsidiaries are involved in transactions such as lending, guarantee, asset transfer, purchasing or sale with any enterprises that directors or managers are affiliated with.</p> <p>(4) The Company has implemented an accounting system in compliance with laws to more appropriately present its business performance and financial position, and thereby facilitate analyses and comparisons for decision/policy making. All accounting-related affairs are bound to comply with the system. The system is constantly reviewed to ensure that its design remains effective</p> <p>An effective internal control system has been established and timely revised to meet with changes to regulations and internal management needs. The above practices have been included as</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	NO	Summaries	
(5) Does the Company organize internal or external training on a regular basis to maintain business integrity?	✓		<p>part of the Audit Division's audits; any defects found during the audits and any improvements made are regularly reported to the Board of Directors.</p> <p>(5) The Company holds regular seminars and training courses to convey discipline and compliance with new recruits, while all employees are required to undergo training on compliance, integrity, and code of conduct. The Company also arranges annual internal management courses for managerial staff to raise their awareness towards internal control and compliance. In addition to making policies, the Company also adopts full-scale training and promotion to develop integrity and discipline among employees. In 2018, internal and external courses relating to integrity (including integrity code of conduct, legal education, common defects in internal control and related case studies, internal management system for managerial staff etc) received 25,432 enrollments and completed 63,452 man-hours of training in total.</p>	No deviation was found
<p>3. Whistleblowing system</p> <p>(1) Does the Company provide incentives and means for employees to report misconducts? Does the Company assign dedicated personnel to investigate the reported misconducts?</p>	✓		<p>(1) According to the Company's “Whistleblowing Policy,” anyone who discovers crime, fraud or regulatory violation involving any person-in-charge or employee of the Company, the Company's subsidiary or local/foreign branch may report suspicions to the designated handling unit through various reporting channels provided on the Company's website. The Compliance Department of the Company's Compliance and Legal Affairs Division has been designated as the</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	NO	Summaries	
(2) Has the Company implemented any standard procedures or confidentiality measures for handling reported misconducts?	✓		<p>handling unit for reported misconducts. All misconduct reports containing a verifiable name, contact method and case details must be forwarded to the handling unit in the shortest time possible upon receipt.</p> <p>Violators will be subjected to disciplinary review while the informant is rewarded according to the “Employee Discipline Guidelines” if the reported violations are substantiated. All of the Company's existing misconduct reporting channels are functioning properly.</p> <p>(2) According to the Company's “Whistleblowing Policy,” misconduct reports shall be assigned by the Company's President to appropriate departments or to an investigation panel comprising at least 3 independently authorized personnel for investigation, unless the misconduct report is rejected or transferred for any reason.</p> <p>During investigation, the reported person or the related personnel shall be given the opportunity to state their opinions.</p> <p>Investigators are required to submit investigation reports within the designated due date; once approved by the authorized unit/personnel, the investigator shall notify the whistleblower of the outcome in an appropriate manner, provided that the contact method is specified.</p> <p>From the moment a misconduct report is received, any personnel involved or in possession of case details or identity of the person being reported or the whistleblower will be</p>	No deviation was found

Items of Evaluation	Implementation Status			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	NO	Summaries	
(3) Has the Company provided proper whistleblower protection?	✓		<p>required to maintain confidentiality over the information possessed, and shall refrain from revealing any data that can be used to identify the whistleblower, unless otherwise regulated by law or in situations where secrecy of identity is no longer required. Violators will be disciplined according to the Company's internal policies.</p> <p>(3) According to the Company's “Whistleblowing Policy,” the Company, subsidiaries and local/foreign offices shall protect whistleblowers from dismissal, relief of duty, demotion, salary cut, any loss of benefit that they are entitled to under laws, contracts or customary practices, or other adverse treatments because of the reports they raise.</p>	No deviation was found
4. Enhanced information disclosure Has the Company disclosed its integrity principles and progress onto its website and MOPS?	✓		<p>Progress of the Company's business integrity efforts have been disclosed in annual reports and on website. Details of the “Codes of Insider Ethical Conduct ,” “Ethical Corporate Management Best Practice Principles “ and “Procedures for Ethical Management and Guidelines for Conduct “ have also been made available on Market Observation Post System and in the “Major Corporate Regulations” section of the Company's website.</p>	No deviation was found
<p>5. If the Company has established “Ethical Corporate Management Best Practice Principles” in accordance with “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies”, please described the differences between the two: NONE</p>				
<p>6. Other material information that will help to understand the implementation status of the Company's ethical business conduct:</p> <p>(1) The Company has published on the “Procurement Section” of its website the “Supplier Corporate Social Responsibility Code of Conduct” and supplier discipline rules. Both were introduced to ensure suppliers' compliance with the Company's integrity principles.</p>				

Items of Evaluation	Implementation Status			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	NO	Summaries	
(2) The Company considers “integrity” to be the primary value of the business and has therefore included “Integrity” as part of employees' annual performance target. Employees are bound to comply with the Company's ethics and business guidelines, perform their duties in a legitimate and fair manner, and protect customers' privacy while keeping them informed of their rights without omission or deception. Employees' compliance with the integrity principles is evaluated on a regular basis. The Company also has a human rights policy in place that declares the organization's support to international human rights conventions such as the Universal Declaration of Human Rights, the UN Global Compact, ILO Conventions etc. Compliance is being tracked on a regular basis.				
(3) The Company pays constant attention to changes in local and foreign integrity guidelines, and encourages directors, supervisors, managers, and employees to raise suggestions as to how the Company may revise its Integrity Code of Conduct.				

3.4.9 Inquiry on corporate governance principles and related regulations of this Company

The Company has “Corporate Governance Best Practices Principles,” “Code of Ethical Conduct,” “Ethical Corporate Management Best Practice Principles,” “Procedures for Ethical Management and Guidelines for Conduct,” “Policy of Evaluation of Performance of the Board the Directors and Functional Committees” and “Group Policy for Anti-Money Laundering and Countering the Financing of Terrorism” in place to enforce corporate governance. Details of the above policies are available in the “Corporate Governance” section of the Company's website (<https://www.fubon.com/financialholdings/home/index.html>) and on Market Observation Post System under “Enactment of Corporate Governance Related Rules.”

3.4.10 Other information material to the understanding of corporate governance within the Company

- (1) Please visit the Company's website (<https://www.fubon.com/financialholdings/home/index.html>) or MOPS (<http://mops.twse.com.tw/mops/web/index>; company ID 2881).
- (2) Material insider information procedures: The Company has published “Fubon Financial Holdings Insider Material Information Procedures” on the intranet to outline the duty of confidentiality and procedures that directors, managers, employees and any parties in possession of the Company’s material insider information (whether through identity, job role, or controlling interests) are bound to comply with. These procedures exist to prevent leakage and to ensure the consistency and correctness of information disclosed.
- (3) The Company has published the “Fubon Financial Holdings Insider and Employee Shareholding Policy” on its Intranet that outlines all reporting requirements, trading prohibitions, and allocations of short-term trade profits that insiders of the Company and subsidiaries are bound to comply.

Fubon Financial Holding Co., Ltd.

Internal Control System Statement

On behalf of Fubon Financial Holding Co., Ltd., we hereby declare that, between the period January 1 and December 31, 2018, the Company had duly implemented internal control system and exercised risk management in accordance with “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries.” These policies and practices were also inspected by an independent audit department that reported regularly to the Board of Directors and the Audit Committee. These policies and practices were also inspected by an independent audit department that reported regularly to the Board of Directors and the Audit Committee. Following our diligent assessment, we found all units within the Company able to execute internal controls and compliance-related tasks during the year, except for the matters explained in the attachment. This statement forms an integral part of the Company's annual report and prospectus, and shall be duly disclosed to the public. Any illegal misrepresentation or non-disclosure in the public statement above is subject to the legal consequences described in Articles 20, 32, 171, and 174 of the Securities and Exchange Act.

For

Financial Supervisory Commission

Declarers

Chairman:

白明光



(Signature and seal)

President:

林蔚廷



(Signature and seal)

Chief Auditor:

邱顯龍



(Signature and seal)

Chief Compliance Officer:

劉文玉



(Signature and seal)

March 21, 2019

Fubon Financial Holding Co., Ltd.

Areas of Improvement and Rectification of the Internal Control System

(Date: December 31, 2018)

Areas of improvement required	Improvements	Expected time of rectification
<p>[Fubon Financial Holding]</p> <p>Transactions between the venture capital subsidiary and stakeholders were not carried out properly in compliance with relevant procedures. The financial holding company was considered to have exercised inadequate supervision over the subsidiary, for which the FSC has issued an order of rectification.</p>	<ol style="list-style-type: none"> 1 The venture capital subsidiary has revised its “Business Guidelines” and “Stakeholder Information Inquiry and Maintenance Procedures” to prohibit non-arms length transactions. Any one-time transactions in the future shall be reviewed repeatedly before board meeting date, contract signing date and payment date. 2. A new “Investment Stakeholder Transaction Checklist” has been created; furthermore, project managers are explicitly required to check investees' shareholders and potential investors for stakeholders in all of their investment proposals, and retain records of the checks performed. 3. The department responsible for maintaining stakeholders' information has communicated with directors/finance staff on the legal requirements, and regularly verifies the accuracy and completeness of information on hand against public sources such as Joint Credit Information Center (JCIC). 4. The financial holding company has supervised its subsidiaries to distinguish areas of responsibility between the Company's investors/person-in-charge and the businesses in which they hold ownership interest or are concurrently employed. Stakeholders' information is being requested before meeting commences, and the directors have undertaken appropriate control procedures to prevent conflict of interest. 	<p>Improvements have been completed.</p>
<p>[Taipei Fubon Bank]</p> <p>I. A staff of the Bank took the notebook computer allotted by the Bank, which contains downloaded</p>	<ol style="list-style-type: none"> 1.Retention period control was added for “file downloading from customer information database”. 	<p>Improvements have been completed.</p>

Areas of improvement required	Improvements	Expected time of rectification
customer information, out of the Bank and lost it. After checking, it was found that the control toward bringing the notebook computer outside the bank was not complete, and the reporting and review mechanism of downloading customer's personal information was not proper.	<p>2.A control and management mechanism was added for carrying the notebook computer by the bank staffs.</p> <p>3.All notebook computers are affixed with a sticker with the rental number, contact phone number and Fubon logo for identification.</p>	
II. When handling the loan cases of interested parties, the personnel fails to submit the case to the Board of Directors for review in accordance with the provisions, and did not perform the check operation of “transaction terms are not superior to those of similar case objects.”	<p>1. The loan of the interested party has been fully settled.</p> <p>2. “The rules for establishment of Interested Party Advisory Committee” has been added.</p> <p>3. The "Operational policies for granting loans to or conducting other transactions with interested parties” and the “Identification and control mechanisms to prevent interested parties from applying for loans in the name of others” have been revised.</p>	Improvements have been completed.
III. The case of Song O branch staff appropriating the cash in treasury from the personal teller.	<p>1.Relevant control measures for teller deposits, withdrawals and cash random check have been revised.</p> <p>2.The related personnel of the case has been submitted to the Human Affairs Appraisal Committee for review.</p>	Improvements have been completed.
IV. The case of the hardware security module (HSM) works abnormally, causing some transactions to fail.	<p>1.Revise the program design and monitoring mechanism of the Bank's front end processor (FEP) system.</p> <p>2.The hardware security module needs to complete the pressure test before each program release.</p>	Improvements have been completed.
V. The case of failing to report to competent authority to report the closing of “Non-Business Operation Offices” before the sales of Hua Jiang warehouse office.	<p>1.The “Operating procedures for the disposal of real estate and its right-of-use assets” has been added.</p> <p>2.The key risk indicators, self-examination and regulatory compliance self-assessment items have been included, and inspection has been strengthened.</p>	Improvements have been completed.
VI. The due diligence and continuous transaction monitoring of the Bank's anti-money laundering	<p>1.The behavior for unusual account opening has been incorporated in the system, generated the report for confirmation and required that the</p>	Improvements have been completed.

Areas of improvement required	Improvements	Expected time of rectification
operations were not carried out.	<p>reason shall be described in the “Account Opening Process Checklist”.</p> <p>2.In addition, the existing customers shall be adjusted to high risk level, and reports are used to strengthen control.</p> <p>3.It has been strengthened to review the beneficiary owners during credit review.</p> <p>4.In addition, unusual repayment cases that detected by the system, it has been reviewed and the records are retained after case-by-case investigation.</p> <p>5.Beside system monitoring and staff training for the investigation of suspicious transaction, the record retention has also been included in the internal requirements.</p>	
VII. To assess the establishment of systems for assisting overseas branches in the implementation of AML trade finance business management.	The vendor will be re-selected and the system's establishment and online schedules will be set.	June 30, 2019
<p>[Subsidiary Fubon Bank (China)]</p> <p>I. The improvement item of important information system emergencies that should be reported to competent authority but was not reported.</p>	<p>1.A comprehensive information technology risk investigation has been carried out and no other abnormalities have occurred. The responsible personnel have been held accountable.</p> <p>2.The remodeling and upgrade of core system and the Oracle system have been implemented to improve the efficiency of emergency response.</p> <p>3.The core system off-site backup drill has been included in the system disaster recovery drill work plan.</p>	<p>1.and 2.: Improvements have been completed.</p> <p>3.The CBRC recommends that consideration be made on the basis of completing the disaster recovery establishment in the same city.</p>
II. The China Banking Regulatory Commission Shanghai Office had carried out the improvement items of rectifying the market chaos in the banking industry and	<p>1.The Bank has supervised the subsidiary bank to establish relevant control mechanisms.</p> <p>2.The “Management guidelines on related transactions by internal personnel and shareholder”, “Management measures on early</p>	1.~ 3.: Improvements have been completed.

Areas of improvement required	Improvements	Expected time of rectification
comprehensive on-site inspection opinions in 2018.	warning of retail loans”, “The loan entry certification guidelines for supporting local municipal construction”, the “Management measures for mandatory leave and leave rotation for important positions” and other related operating guidelines have been revised, and promotion of above-mentioned revision has been strengthened. 3.Verbal Reprimand, notification, criticism, warning and economic sanctions are imposed on the responsible personnel. 4.Accurately disclose the salary-related information in the 2018 Annual Report.The Bank has supervised the subsidiary bank to establish relevant control mechanisms.	4 .March 31, 2019
III. Regarding the assessment results of 2017 consumer rights protection work of foreign banks in Shanghai, the “dual recording” for the sales of financial management products should be improved.	1.Conspicious risk warning signs have been set up outside the sales area of financial management products. 2.The new “dual recording” system that can perform automatic off-site backup operation has been adopted. 3.It has been clarified that the lead department of the dual recording operation in the system is the Retail Banking Department. The off-site backup operation process and specific requirements have been added.	Improvements have been completed.
[Fubon Bank (HK)] Compensation for an employee fraud : A significant control deficiency is identified in mortgage loan application and loan repayment account opening process, resulting in failure to detect and prevent staff from receiving cash without depositing into customers’ account .	1.Effective from 20 March 2018, a party independent from mortgage business would remind customers about the Bank’s requirement of “mortgage loan applicants should not give any cash or cash cheque to handing staff for loan repayment account opening and our handling staff will not collect any charge or deposit” through a loan confirmation by phone process. The enhanced customer communications about mortgage loan application processing is for protecting customers’ interests. 2.Effective from 30 April 2018, mortgage sales staff should arrange customers to open loan	Improvements have been completed.

Areas of improvement required	Improvements	Expected time of rectification
	repayment account and make initial deposit at branch in person. If the account opening form is completed after office hours of branches or customers cannot show up at branches for opening a repayment account, branch staff should call the customer to confirm the initial deposit amount.	
<p>[Fubon Life]</p> <p>I. The content of training materials for insurance brokers was not properly reviewed, which misled sales representatives into comparing insurance products with time deposit.</p> <p>The Financial Supervisory Commission had issued 1 order of rectification for the above findings.</p>	<p>The company has since enhanced training on sales representatives and introduced additional procedures for the review of training materials. Furthermore, internal auditors have included the review of materials disseminated to channel partners as part of their audit focus.</p>	<p>Improvements have been completed.</p>
<p>II. Embezzlement of customer's fund was a major incident, but the subsidiary did not file report in time according to the "Operational Risk Event Reporting Policy," and therefore failed to comply with FSC's "Scope and Applicability of Major Incident Report for Insurance Industry."</p> <p>The Financial Supervisory Commission had issued 1 order of rectification for the above findings.</p>	<p>A meeting was convened to remind employees that any embezzlement of premiums by sales representative must be reported as an extraordinary event.</p>	<p>Improvements have been completed.</p>
<p>III. When selling insurance product, employees were found to have asked the applicant and the insured for the purpose of insurance (retirement planning) and source of premium (bank deposit), but did not attempt to establish the relationship between the premium payer and the contract principals. Furthermore, no attempt was made to check for</p>	<p>Employees were subjected to enhanced AML training for improved awareness.</p>	<p>Improvements have been completed.</p>

Areas of improvement required	Improvements	Expected time of rectification
authorization of wire transfers. The Financial Supervisory Commission had issued 1 order of rectification for the above findings.		
<p>IV. The following defects were found with respect to the mandate of overseas share trading, general purchase, construction purchase, and real estate/securities investment activities:</p> <p>1. Discretionary investment of overseas shares:</p> <p>(1) During the inspection period, e-mails relating to the inspection were found to have been deleted, which suggested an attempt to conceal misconduct or corrupt files.</p> <p>(2) When choosing the mandate for discretionary trading of overseas shares, the selection process and review of incremental investment were not duly carried out.</p> <p>2. The signing of “Wireless Internet Service Agreement” and processes such as tender invitation, vendor selection and approval were not carried out according to internal procedures.</p> <p>3. Real estate and securities investments:</p> <p>(1) Securities pre-investment evaluation and post-investment</p>	<p>1.</p> <p>(1) To clarify doubts and uncover the truth, the subsidiary engaged Deloitte Taiwan on 2018.8.22 to perform digital forensics. The investigation found that the mails had already existed, and there was no attempt to delete them during the inspection period. As an enhanced management practice, the subsidiary has reviewed its e-mail rules and control measures and imposed new requirements concerning e-mail retrieval and the definition, retention, consolidation and capturing of important e-mails.</p> <p>(2) Operating policies have been amended to enhance the appropriateness and fairness of discretionary trading.</p> <p>2. Enhancements of the procurement practice are being proposed to enable tightened control over stakeholder transactions.</p> <p>3.</p> <p>(1) Mandatory details of overseas share investment reports and related statements</p>	<p>Improvements have been completed.</p> <p>Improvements have been completed.</p> <p>Improvements have been completed.</p> <p>Improvements have been completed.</p>

Areas of improvement required	Improvements	Expected time of rectification
<p>stop loss.</p> <p>(2) Construction contractor review process.</p> <p>(3) Selection of mandate for discretionary trading of overseas bonds.</p> <p>(4) Application, issuance and collection of negotiable instrument for real estate trade contract.</p> <p>The above processes were found to have lacked appropriate or robust controls.</p> <p>The Financial Supervisory Commission had imposed fines totaling NT\$12.6 million and issued 6 orders of rectification for the above findings. In addition, no additional mandate can be engaged for discretionary trading of overseas investment position for 1 year, and the mandate can only resume only when the FSC has approved the improvements made. The following defects were found with respect to the mandate of overseas share trading, general purchase, construction purchase, and real estate/securities investment activities:</p>	<p>have been outlined. Cumulative losses of domestic/foreign share investments are being monitored on a daily basis, and investment units are being required to reply within a specified period.</p> <p>(2) The procurement policy has been amended so that contractors' tax filing or financial statements are obtained for new construction projects above a certain amount.</p> <p>(3) Invitation standards, methods and record retention rules for mandated traders of offshore bond have been outlined.</p> <p>(4) Procedures regarding application, issuance and collection of negotiable instrument for real estate trade contract have been amended.</p>	<p>Improvements have been completed.</p> <p>Improvements have been completed.</p> <p>Improvements have been completed.</p>
<p>V. The subsidiary did not specify the level of approval authority needed to sign a Letter of Intent for the purchase of real estate property. When purchasing departmental</p>	<p>Approval authority for Letter of Intent has been established.</p>	<p>Improvements have been completed.</p>

Areas of improvement required	Improvements	Expected time of rectification
<p>store building A8 located in Xinyi District, Taipei City, the subsidiary treated the Letter of Intent as a confidential document and presented it for approval by the CIO according to the approval matrix. The subsidiary was deemed to have exhibited inadequate internal control over real estate investments.</p> <p>The Financial Supervisory Commission had issued 1 order of rectification for the above findings.</p>		
<p>VI. The following defects were found with respect to AML and CTF:</p> <ol style="list-style-type: none"> 1. The Vietnamese subsidiary's AML/CTF plan does not include intra-group information sharing policies and procedures needed to confirm customers' identity and manage ML/TF risks. This absence does not enable sound confidentiality, security and protection of the exchanged information. 2. No proper validation measure was adopted when identifying beneficial owners. 3. The subsidiary was found to have underwritten insurance coverage to customers who exhibited a significant change of Wealth Declaration details without investigating the underlying cause. 4. There was a mismatch in terms of insurance applicant's occupation, income and premium commitment stated in the insurance application but no documentary proof was 	<ol style="list-style-type: none"> 1. The Vietnamese subsidiary has revised its AML/CTF policy to include intra-group information sharing policies and procedures, as well as rules on the confidentiality, security and protection of exchanged information. 2. Insurance application rules have been amended for corporate customers. Furthermore, the subsidiary has specified the identity verification process and required documents for different customers. 3. Checking mechanisms have been added to system to highlight significant discrepancies in financial position. 4. New system controls have been added to enhance review of payment source and the applicant's occupation, income and premium commitment. 	<p>Improvements have been completed.</p> <p>Improvements have been completed.</p> <p>Improvements have been completed.</p> <p>Improvements have been completed.</p>

Areas of improvement required	Improvements	Expected time of rectification
<p>retained. The subsidiary was found to have exercised inadequate due diligence on high-risk customers.</p> <p>5. Some insurance policies underwritten by the subsidiary were signed with Mainland China residents or had due diligence process completed in Hong Kong.</p> <p>6. The AML practices adopted by overseas subsidiary - Fubon Life Insurance (Vietnam) did not include an annual analysis of suspicious transactions that failed to be identified. Risk mitigation and prevention measures were therefore deemed inadequate.</p> <p>7. Enhanced due diligence on high-risk customers was carried out primarily based on details of the Wealth Declaration. However, there were cases where the amount of deposit stated in the Wealth Declaration did not cover the single premium payable.</p> <p>The Financial Supervisory Commission had imposed fines totaling NT\$2.6 million and issued 5 orders of rectification for the above findings.</p>	<p>5. Announcements have been made to prohibit sales representatives from soliciting business, signing contract or performing due diligence overseas. Furthermore, sales representatives are being instructed to explain in details the purpose of customer's visit to Taiwan and to witness customer's signature personally in Taiwan.</p> <p>6. The Vietnamese subsidiary has amended its AML/CTF policy and completed its "full-scale ML/TF risk assessment report." Meanwhile, the Vietnamese subsidiary is being guided to perform customer risk classification and undertake enhanced due diligence for high-risk customers.</p> <p>7. Additional controls have been implemented to verify the source of premium payment for applications that involve single premium exceeding a certain amount.</p>	<p>Improvements have been completed.</p> <p>Improvements have been completed.</p> <p>Improvements have been completed.</p>
<p>[Fubon Insurance]</p> <p>I. The Financial Supervisory Commission had imposed fines totaling NT\$1.8 million and issued 2 orders of rectification for the following findings:</p> <p>1. When advising customers of unpaid premiums, the company did not take the initiative to notify customers of uncollected proceeds</p>	<p>1. Comparison features have been added to the system and included as part of the regular check and notification.</p>	<p>Improvements have been completed for this defect.</p> <p>However, the financial institution is currently tracing back amounts</p>

Areas of improvement required	Improvements	Expected time of rectification
<p>and other unpaid sums, which may have negatively affected policyholders' interests.</p> <p>2. When engaging insurance agencies for telemarketing, applicants were found to have paid premiums that were charged on a per-household basis, but did not submit a list of insured parties, and hence the insurance only covered the applicant instead of an entire household.</p> <p>3. Insurance agencies did not charge premiums on specially approved cases according to the proposed rates. For travel insurance, sales representatives were found to have underwritten a policy without obtaining signed confirmation that the applicant or insured party had comprehended the terms of insurance, and without meeting the applicant/insured party in person or obtaining their personally signed documents.</p> <p>4. For auto insurance, some policies were effected before premiums were collected, and some outsourced collectors did not hand premiums over to the company within one month of collecting.</p>	<p>2. This product was no longer sold over telemarketing since January 2018.</p> <p>3. Premiums have been recalculated according to the product premium rate sheet. Customers with valid policies were issued renewal advices to notify the change in premium rate, whereas online insurance rules and insurance application procedures have also been revised accordingly.</p> <p>4. System controls have been adjusted to ensure proper billing, whereas employees are being reminded of the proper practices for ongoing improvement towards zero error rate.</p>	<p>payable but unpaid since business first commenced, and continues to report to the authority about its current progress. Improvements have been completed.</p> <p>Improvements have been completed.</p> <p>Improvements have been completed.</p>
II. Employees were found to have	A communication office has been set up at the	Improvements have

Areas of improvement required	Improvements	Expected time of rectification
<p>sold auto insurance at premises not registered under the company or any of its branches; furthermore, discounts on insurance premium were offered at these locations similarly to what the company would offer through direct channels. The FSC had imposed a fine of NT\$600,000 on this inappropriate offering of discount on insurance premium, and demanded rectification within 1 month.</p>	<p>location.</p>	<p>been completed.</p>
<p>III. The Financial Supervisory Commission had issued 3 orders of rectification for the following findings:</p> <ol style="list-style-type: none"> 1. Prior to launching payment service, the subsidiary did not perform ML/TF risk assessment and implement risk management measures. The absence of which does not support proper risk identification and response. 2. Customers characterized as politically exposed persons (PEPs) were merely assigned higher risk values. The company's AML practice does not facilitate transaction monitoring and proper risk assessment. 3. When performing blacklist checks using the AML/CFT system, some employees did not explain reasons not to report suspicious money laundering transaction or failed to retain supporting proof. When processing customers' request for contract change, some employees did not retain record of checks performed for customers' request. 	<ol style="list-style-type: none"> 1. ML/TF risk assessments have been completed for the payment service. These assessments have also been included as part of the internal control procedures and self-audit worksheet, and are being executed when launching new payment services. 2. Risk factors have been amended so that foreign PEPs are directly treated as high-risk customers. 3. The product department has amended its AML/CFT guidelines so that any blacklist name matches are subsequently reviewed with trails and supporting information kept on the system for future reference. System procedures have been amended so that cases involving contract change are assigned contract change serial numbers before importing into the AML/CFT system. This process helps distinguish them from insurance underwriting 	<p>Improvements have been completed.</p> <p>Improvements have been completed.</p> <p>Improvements have been completed.</p>

Areas of improvement required	Improvements	Expected time of rectification
	cases.	
<p>IV. The company's Xiamen subsidiaries exhibited the following defects, for which the Bank of China Quanzhou Sub-branch imposed a fine of RMB 600,000 against the Xiamen subsidiary and a fine totaling RMB 45,000 against 3 concerned employees:</p> <ol style="list-style-type: none"> 1. The subsidiary did not verify identity documents of the insurance applicant and failed to check the annual review information posted on Intranet when the case required it. For some claims that required enhanced review, the subsidiary did not verify the insured person's identity document, record the insured person's and beneficiary's nationality and occupation, or retain photocopy of identity proof. 2. Credit card sales slips were not properly retained, and information such as payment account, account name, etc was not duly kept on record. 	<ol style="list-style-type: none"> 1. Identification process: System functions have been improved while all product departments have amended operating procedures and enhanced internal communication accordingly. Enhanced manual control will be undertaken until the system is fully rectified. 2. Transaction record keeping: The credit card payment system has been upgraded with procedures improved. The improved system and procedures will be expanded to nationwide branches at a faster rate. 	<p>The defect has been raised as part of the full rectification report.</p> <p>Improvements in the system aspect will be completed over several stages.</p>
<p>[Fubon Securities]</p> <p>I. The venture capital subsidiary exhibited the following defects, for which the FSC has issued orders of rectification:</p> <ol style="list-style-type: none"> 1. The investment reports did not address details such as the source of project, communication with investees, source of data and verification, on-site report, and impairment standards. 2. There were no rules to regulate the assignment and review of external 	<ol style="list-style-type: none"> 1. The investment reports now address details such as the source of project, communication with investees, source of data and verification, and include an on-site report. In addition, impairment standards have also been outlined. 2. Rules have been established to regulate members' assignment, review, avoidance of 	<p>Improvements have been completed.</p>

Areas of improvement required	Improvements	Expected time of rectification
<p>experts, or their duties to avoid conflicting interest and maintain confidentiality. Members of the Review Panel mostly comprised directors of the venture capital subsidiary, which affected the directors' ability to monitor performance of the management in an independent manner.</p>	<p>conflicting interest and confidentiality duties. Adjustments have also been made to Review Panel members.</p>	
<p>II. The following defects were discovered during the FSC's AML/CTF inspection dated September 2017, for which the FSC had issued an order of rectification:</p> <ol style="list-style-type: none"> 1. The company did not review and amend its AML/CTF policies according to legal requirements. 2. Results of some indicators used in the ML/TF risk report were not fully disclosed. 3. Corporate customers' identities were not properly reviewed, and customers' risk grades were not duly established. 4. No enhanced control measure was undertaken for high-risk customers. 5. The company did not implement practices for monitoring negative media coverage or assessing/reporting suspicious transactions. 	<ol style="list-style-type: none"> 1. Review and amendment have been completed. 2. Disclosures have been fully made in the 2017 risk assessment report. 3. Improvements have been made and employees are being instructed to enforce the changes accordingly. 4. Enhanced control measures have been undertaken. 5. The company has implemented monitoring systems and procedures for assessing/reporting suspicious transactions. 	<p>Improvements have been completed.</p>
<p>III. The following defects were discovered during the FSC's AML/CTF and anti-proliferation of arms inspection dated April 2018, for which the FSC had imposed a fine of NT\$500,000 and issued an order of rectification:</p>		<p>Improvements have been completed.</p>

Areas of improvement required	Improvements	Expected time of rectification
<p>1. The company did not perform AML/CTF name check for authorized traders of domestic brokerage and sub-brokerage customers.</p> <p>2. No enhanced due diligence was undertaken for continuous monitoring of transactions with high-risk customers.</p>	<p>1. The company has amended its AML/CTF plan so that all authorized traders are subjected to a name check.</p> <p>2. The transaction monitoring program has been modified to apply more rigorous monitoring on high-risk customers.</p>	
<p>[Fubon Futures]</p> <p>The subsidiary had followed the FSC's instructions and conducted reviews on how its premises were used by outside parties for futures-related seminars or conferences. It was found that the subsidiary had engaged non-employees to perform futures-related services and that conference rooms were leased to outsiders in manners that did not conform with the internal control system. These defects were highlighted in a warning letter issued by the FSC, and the subsidiary has since held its employees and line managers accountable and reported to the FSC afterwards.</p>	<p>1. The company has issued reminders to prohibit non-employees from futures trading and solicitation.</p> <p>2. Internal policies have been implemented so that conference rooms are not used to host activities that violate futures regulations or be sub-let for other purposes.</p> <p>3. Violators have been subjected to disciplinary review and reported.</p>	Improvements have been completed.

- (2) Where the competent authority has required the company's internal control policies to be reviewed by a CPA, the CPA review report must be disclosed: None.

3.4.12 Penalties imposed for violations of laws or regulations and major defects of the Company and its subsidiaries for 2016, 2017, and 2018 up to the issuance date of the annual report and relevant corrective measures.

Items	Descriptions and Amounts Involved	Corrective Measures
(1) Prosecution against the person-in-charge or staff for criminal conducts.	Taipei Fubon Bank Beitou Branch employee ○○ Yo was found to have embezzled customer's deposit and payment money when Yo was briefly entrusted with customer's account passbook at a branch and while collecting documents. Yo was prosecuted for document forgery, fraud, embezzlement	<p>(1) All future collection of documents from customers will be handled by dedicated personnel who do not have transaction access rights.</p> <p>(2) A "Branch Operations Quality Assurance Center" was established under the Retail Banking Service</p>

Items	Descriptions and Amounts Involved	Corrective Measures
	and crimes listed in the first section of Paragraph 1, Article 125-2 of the Banking Act, and was sentenced to 2 years imprisonment by the Shilin District Court on September 19, 2018. The sentence included a 4-year probation, during which Yo is subject to protective control, and is required to provide 200 hours of public service within two years from the date of judgment.	Department to enforce standard operating procedures across branches. (3) Key issues and control points of the internal audit/internal control system have been compiled into training materials and taught by department managers.
(2) Fines imposed by the Financial Supervisory Commission (FSC) for violations.	<p>Fubon Life</p> <p>1. Fubon Life had exhibited the following defects and was fined NT\$1,500,000 by the FSC and ordered to make 3 rectifications on 2017.3.17:</p> <p>(1) The company was found to have executed investment decision without seeking approval or duly notifying the board of directors for discussion, when the investment clearly presented a breach of concentration limit to a single financial institution. This practice did not conform with the company's internal policies. (A fine of NT\$600,000 was imposed for this finding)</p> <p>(2) The company did not fully disclose unrealized gains/losses on structured products and interest rate hedging positions when making regular reports to the board of directors regarding derivative investments. (A fine of NT\$900,000 was imposed for this finding)</p> <p>(3) Some of the popular products launched in 2015 were found to have made payouts higher than the maximum premium collectible, and hence resulted in negative premiums. (An order of rectification was issued for this finding)</p> <p>(4) Investments in foreign bond were found to have been handled by the Taiwan office of a foreign bank that</p>	<p>(1) Operating procedures have been amended to introduce a circulation process for investment risk control. Furthermore, relevant checks have been added to the pre-transaction checklist.</p> <p>(2) "Unrealized gains/losses assessed at fair value" has been added to the regular "Derivatives Performance Report" submitted to the board of directors.</p> <p>(3) Products have been suspended from further sale with commission reduced. Existing operating procedures have been amended so that all new products are required to undergo premium adequacy test and have regular checking mechanism in place before submitting for review.</p> <p>(4) Operating policies have been amended to explicitly require</p>

Items	Descriptions and Amounts Involved	Corrective Measures
	<p>was not legally licensed by the FSC to perform such services in Taiwan. In addition, the company did not have controls in place to check whether or not its counterparties are eligible traders. (An order of rectification was issued for this finding)</p> <p>(5) “Fubon Life Criteria for Classifying Domestic and Foreign Bonds as Investments without Active Market” was established in August 2014 to guide accounting classification for domestic and foreign bond investments. However, the criteria was approved by Chairman without being submitted to the board of directors for final approval. (An order of rectification was issued for this finding)</p> <p>2. Fubon Life had exhibited the following defects and was fined NT\$1,2600,000 subjected to capital restrictions, and ordered by FSC to make 6 rectifications on 2018.8.6:</p> <p>(1) During the inspection period, e-mails relating to the inspection were found to have been deleted, which suggested an attempt to conceal a misconduct or corrupt files. (A fine of NT\$9,000,000 was imposed for this finding)</p> <p>(2) When making general purchase, processes such as tender invitation, vendor selection and approval were not carried out according to internal procedures. (A fine of NT\$3,600,000 was imposed for this finding)</p>	<p>relevant service licenses from domestic trade intermediaries and counterparties, and that employees are required to check the counterparty's eligibility before trading foreign bonds. In addition, the counterparty has obtained permit from FSC for the business activity.</p> <p>(5) The “Criteria for Classifying Domestic and Foreign Bonds as Investments without Active Market” was created as an accounting policy, and was reviewed and passed by the board of directors.</p> <p>(1) To clarify doubts and uncover truth, the subsidiary engaged Deloitte Taiwan on 2018.8.22 to perform digital forensics. The investigation found that the mails had already existed, and there was no attempt to delete them during the inspection period. As an enhanced management practice, the subsidiary has reviewed its e-mail rules and control measures, and imposed new requirements concerning e-mail retrieval and the definition, retention, consolidation and capturing of important e-mails.</p> <p>(2) Enhancements of the procurement practice are being proposed to enable tightened control over stakeholder transactions.</p>

Items	Descriptions and Amounts Involved	Corrective Measures
	<p>(3) Securities pre-investment evaluation and post-investment stop loss were not properly carried out. (An order of rectification was issued for this finding)</p> <p>(4) Stop-loss for non-material share investments held available for sale was inadequate and did not facilitate timely control of losses. (An order of rectification was issued for this finding)</p> <p>(5) When choosing the mandate for discretionary trading of overseas shares, the selection process and review of incremental investment were not duly carried out. (The authority issued an order of rectification and imposed restriction that no additional mandate can be engaged for discretionary trading of overseas investment position for 1 year)</p> <p>(6) When seeking a mandate for discretionary offshore bond trading, the subsidiary did not have standard procedures, selection criteria and performance assessment systems in place to evaluate financial consultants and investment institutions. (An order of rectification was issued for this finding)</p> <p>(7) Negotiable instruments were requested, issued and collected for contract signing before the board of directors had reach its solution and determined the final price. (An order of rectification was issued for this finding)</p> <p>(8) Review of construction contractors had proceeded without information such as contractors' tax filing or audited financial statements to determine contractors' financial health. Furthermore, no adequate attempt was made to evaluate the progress of contractors' other concurrent projects. (An order of</p>	<p>(3) (4) Mandatory details of overseas share investment reports and related statements have been outlined. Cumulative losses of domestic/foreign share investments are being monitored on a daily basis, and investment units are being required to reply within a specified period.</p> <p>(5) Operating policies have been amended to enhance the appropriateness and fairness of discretionary trading.</p> <p>(6) Invitation standards, methods and record retention rules for mandated traders of offshore bond have been outlined.</p> <p>(7) Procedures regarding application, issuance and collection of negotiable instrument for real estate trade contract have been amended.</p> <p>(8) The procurement policy has been amended so that contractors' tax filing or financial statements are obtained for new construction projects above a certain amount.</p>

Items	Descriptions and Amounts Involved	Corrective Measures
	<p>rectification was issued for this finding)</p> <p>3. Fubon Life had exhibited the following defects and was fined NT\$2,600,000 by FSC and ordered to make 5 rectifications on 2018.12.6:</p> <p>(1) With regards to customer due diligence, the subsidiary was found to have underwritten insurance coverage for customers who exhibited a significant change of Wealth Declaration details without investigating the underlying cause. (A fine of NT\$600,000 was imposed for this finding)</p> <p>(2) In some insurance policies, the sales representative traveled to Hong Kong to perform due diligence and sign contracts with customers characterized as Mainland China residents. Although the company held the ultimate authority to approve coverage, the due diligence process was deemed inappropriate. (A fine of NT\$2,000,000 was imposed for this finding)</p> <p>(3) The Vietnamese subsidiary's AML/CFT plan does not include intra-group information sharing policies and procedures needed to confirm customers' identity and manage the risks of money laundering and the financing of terrorism, or address issues concerning confidentiality, security and protection of the exchanged information. (An order of rectification was issued for this finding)</p> <p>(4) No proper validation measure was adopted when identifying beneficial owners. (An order of rectification was issued for this finding)</p>	<p>(1) Checking mechanisms have been added to system to highlight significant discrepancies in financial position.</p> <p>(2) Announcements have been made to prohibit sales representatives from soliciting business, signing contract or performing due diligence overseas. Furthermore, sales representatives are being instructed to explain in details the purpose of customer's visit to Taiwan and to witness customer's signature personally in Taiwan.</p> <p>(3) The Vietnamese subsidiary has revised its AML/CFT policy to include intra-group information sharing policies and procedures, as well as rules on the confidentiality, security and protection of exchanged information.</p> <p>(4) Insurance application rules have been amended for corporate customers. Furthermore, the subsidiary has specified the identity verification process and required</p>

Items	Descriptions and Amounts Involved	Corrective Measures
	<p>(5) There was a mismatch in terms of insurance applicant's occupation, income and premium commitment stated in the insurance application but no documentary proof was retained. The subsidiary was found to have exercised inadequate due diligence on high-risk customers. (An order of rectification was issued for this finding)</p> <p>(6) AML practices adopted by the Vietnamese subsidiary exhibited the following defects: (a) High-risk customers were not reviewed at least once a year; (b) The risk assessment did not include an analysis of suspicious transactions that failed to be identified, and lacked robust risk mitigation measures and prevention plans; (c) Customer risk classification has yet to be fully implemented, and therefore does not enable enhanced due diligence on high-risk customers. (An order of rectification was issued for this finding)</p> <p>(7) Enhanced due diligence on high-risk customers was carried out primarily based on details of the Wealth Declaration. However, there were cases where the amount of deposit stated in the Wealth Declaration did not cover the single premium payable. (An order of rectification was issued for this finding)</p> <p>4. Fubon Life had exhibited the following defects and was fined NT\$1,200,000 by FSC and ordered to make 3 rectifications on 2019.1.22:</p> <p>(1) Absence of proper validation measure was found when identifying beneficial owners. This absence was in violation of internal policy and did not facilitate proper identification. (A fine of NT\$600,000 was imposed for</p>	<p>documents for different customers.</p> <p>(5) New system controls have been added to enhance review of payment source and the applicant's occupation, income and premium commitment.</p> <p>(6) The Vietnamese subsidiary has amended its AML/CFT policy and completed its "full-scale risk assessment report of money laundering and the financing of terrorism." Meanwhile, the Vietnamese subsidiary is being guided to perform customer risk classification and undertake enhanced due diligence for high-risk customers.</p> <p>(7) Additional controls have been implemented to verify the source of premium payment for applications that involve single premium exceeding a certain amount.</p> <p>(1) A new review guideline - "Institutional/Group Insurance Applicant Due Diligence Worksheet" has been added to take count of mandatory documents for institutional applicants. The</p>

Items	Descriptions and Amounts Involved	Corrective Measures
	<p>this finding)</p> <p>(2) There were cases where the insurance applicant/insured person matched a name on the blacklist, but was dismissed as a coincidence without obtaining other information for verification. (A fine of NT\$600,000 was imposed for this finding)</p> <p>(3) The “Transaction Monitoring Policy” amended in December 2017 did not cover the new transaction patterns subject to monitoring, and the parameters for suspicious money laundering pattern were incomplete. (An order of rectification was issued for this finding)</p> <p>(4) With regards to the suspicious money laundering pattern: “Customers who incur unusually large payments/repayments that do not conform with their identity, income level or business nature and are unable to provide reasonable explanation to the source of fund,” the subsidiary was unable to provide a comprehensive list of customers that met this condition at the end of the inspection period. The subsidiary was considered to have exercised inadequate control of the risk of money laundering. (An order of rectification was issued for this finding)</p> <p>(5) For online application of insurance products with policy value, the application form specifies applicants' occupation entirely as “Office worker.” However, occupation was displayed blank on the AML system, meaning that applicants' occupation was not correctly matched with the AML/CFT occupation categories for proper risk assessment. (An order of</p>	<p>guideline also introduced enhanced identity verification and review of the insurance applicant, beneficial owner and senior managers.</p> <p>(2) The subsidiary has introduced new operational practices for names that lack the necessary data to proceed with checking. The new practices have been implemented since 2018.9.1, and all ambiguous cases will be re-examined before 2019.3.31.</p> <p>(3) The new transaction patterns subject to monitoring have been added to the Transaction Monitoring Policy. Incomplete parameters of suspicious transaction patterns have been duly adjusted.</p> <p>(4) The subsidiary has undertaken enhanced procedures to investigate suspicious money laundering patterns. Suspicious money laundering patterns are being monitored regularly on an ongoing basis using daily and monthly reports.</p> <p>(5) All cases with blank display of applicants' occupation code have been corrected on the system. The new AML system has also been verified to be able to correctly import data from the database.</p>

Items	Descriptions and Amounts Involved	Corrective Measures
	rectification was issued for this finding).	
	<p>Taipei Fubon Bank</p> <p>1. The system-produced report file had excluded exempt accounts that showed cash outlays above a certain amount, and as a result, certain details were omitted from the reports made to the Investigation Bureau, Ministry of Justice. The Bank was found to have exhibited defect in its account opening and KYC process. The FSC imposed a fine of NT\$1,000,000 and issued an order of rectification on 2017.6.13.</p> <p>2. With regards to the embezzlement of customers' funds involving former employee of Beitou Branch and former financial advisor of Anhe Branch, the FSC had imposed a NT\$4,000,000 fine and issued orders of rectification on 2018.10.25, including instructions to dismiss the 2 employees.</p>	<p>The Bank had made supplementary reports of the omitted information, and completed system amendments along with the addition of daily reports that will be checked manually. Furthermore, the Bank has revised the ways its systems are controlled to ensure the correctness of large-sum transaction reports. The Bank has made improvements to its account opening and KYC processes by enhancing audit trail and account-opening checks. These procedures have also been included as part of the Bank's self-audit and internal audit focuses. Computer systems were amended to require mandatory input of customers' information, while new reports have been added to facilitate tracking and monitoring.</p> <p>Beitou Branch:</p> <p>(1) All future collection of documents from customers will be handled by dedicated personnel who do not have transaction access rights.</p> <p>(2) A "Branch Operations Quality Assurance Center" was established under the Retail Banking Service Department to enforce standard operating procedures across branches.</p> <p>(3) Key issues and control points of the internal audit/internal control system have been compiled into teaching materials and taught by department managers.</p> <p>Anhe Branch:</p> <p>(1) Key points of "Notes on Collection and Delivery of Cash with Customers" were reiterated. Violators will be subjected to disciplinary action depending on severity.</p> <p>(2) "Retrieval of surveillance footage" has been added to the "Self-audit</p>

Items	Descriptions and Amounts Involved	Corrective Measures
		Worksheet,” which means that employees are required to randomly retrieve surveillance footage of the cashier counter during self-audit exercise to check whether financial advisors or sales representatives have collected or delivered cash on behalf of customers. This process should deter similar occurrences in the future.
	<p>Fubon Insurance</p> <p>1. Fubon Insurance had exhibited the following defects and was fined NT\$600,000 by FSC and ordered to make rectification on 2017.2.8:</p> <p>(1) Securities investments were not raised for discussion in monthly investment meetings, as required by the company's internal guidelines.</p> <p>(2) The company was found to have traded overseas bonds through unlicensed intermediaries, which did not comply with FSC's instructions.</p> <p>2. Fubon Insurance had exhibited the following defects and was fined NT\$1,800,000 by FSC and ordered to make 2 rectifications on 2018.1.19:</p> <p>(1) When advising customers of unpaid premiums, the company did not take the initiative to notify customers of uncollected proceeds and other unpaid sums.</p> <p>(2) When engaging insurance agencies for telemarketing, applicants were found to have paid premiums that were charged on a per-household basis, but did not submit a list of insured parties, and hence the insurance only covered the applicant instead of an entire household.</p> <p>(3) Insurance agencies did not charge</p>	<p>(1) A reminder has been added to the assessment reports of all one-time and partial purchases that foreign equity transactions exceeding a certain limit must be reviewed and passed in a monthly investment meeting before commencing transaction.</p> <p>(2) The Trade Intermediary and Counterparty Selection Checklist has been revised to take into consideration whether a trade intermediary or counterparty has obtained valid license.</p> <p>(1) Comparison features have been added to the system and included as part of the regular check and notification.</p> <p>(2) This product was no longer sold over telemarketing since January 2018.</p> <p>(3) Premiums have been recalculated</p>

Items	Descriptions and Amounts Involved	Corrective Measures
	<p>premiums on specially approved cases according to the proposed rates. For travel insurance, sales representatives were found to have underwritten a policy without obtaining signed confirmation that the applicant or insured party had comprehended the terms of insurance, and without meeting the applicant/insured party in person or obtaining their personally signed documents.</p> <p>(4) For auto insurance, some policies were effected before premiums were collected, and some outsourced collectors did not hand premiums over to the company within one month of collecting.</p> <p>3. Employees were found to have sold auto insurance at premises not registered under the company or any of its branches; furthermore, discounts on insurance premium were offered at these locations similarly to what the company would offer through direct channels. The FSC had imposed a fine of NT\$600,000 on this inappropriate offering of discount on insurance premium on 2018.4.3, issued 1 order of rectification and demanded rectification to be made within 1 month.</p>	<p>according to the product premium rate sheet. Customers with valid policies were issued renewal advices to notify the change in premium rate, whereas online insurance rules and insurance application procedures have also been revised accordingly.</p> <p>(4) System controls have been adjusted to ensure proper billing, whereas employees are being reminded of the proper practices for ongoing improvement towards zero error rate.</p> <p>A communication office has been set up at the location.</p>
	<p>Fubon Property & Casualty Insurance Fubon Property & Casualty Insurance exhibited the following defects, for which the Bank of China Quanzhou Sub-branch imposed a fine of RMB 600,000 against the Xiamen subsidiary and a fine totaling RMB 45,000 against 3 concerned employees on 2018.12.20:</p> <p>(1) The subsidiary did not verify identity documents of the insurance applicant and failed to check the annual review information posted on Intranet when the case required</p>	<p>(1) Identification process: System functions have been improved while all product departments have amended operating procedures and enhanced internal communication</p>

Items	Descriptions and Amounts Involved	Corrective Measures
	<p>it. For some claims that required enhanced review, the subsidiary did not verify the insured person's identity document, record the insured person's and beneficiary's nationality and occupation, or retain photocopy of identity proof.</p> <p>(2) Credit card sales slips were not properly retained, and information such as payment account, account name etc was not duly kept on record.</p>	<p>accordingly. Enhanced manual control will be undertaken until the system is fully rectified.</p> <p>(2) Transaction record keeping: The credit card payment system has been upgraded with procedures improved. The improved system and procedures will be expanded to nationwide branches at a faster rate.</p>
	<p>Fubon Securities</p> <p>The company did not perform AML/CFT name check for authorized traders of domestic brokerage and sub-brokerage customers. In addition, no enhanced due diligence was undertaken for continuous monitoring of transactions with high-risk customers. The FSC imposed a fine of NT\$500,000 for the above defects and issued an order of rectification on 2018.12.6.</p>	<p>(1) The company has amended its AML/CFT plan so that all authorized traders are subjected to name check.</p> <p>(2) The transaction monitoring program has been modified to apply more rigorous monitoring on high-risk customers.</p>
	<p>Fubon Futures</p> <p>Some sales representatives were permitted to commence business activities without being properly registered and qualified; the company was found to have used non-employees to perform futures-related service; and conference rooms were not reserved and used in compliance with internal control system. A fine of NT\$360,000 was imposed by FSC on 2017.9.28.</p>	<p>The company has made further announcements to internal staff about the rules involved, and taken disciplinary actions against violators.</p>
	<p>Fu Sheng Life Insurance Agency</p> <p>When conducting telemarketing, sales representative were found to have made inappropriate comparisons between new and old products, for which the Financial Supervisory Commission imposed a fine of NT\$300,000 on 2017.3.17.</p>	<p>The company has implemented enhanced control over its telemarketing procedures and practices, and taken disciplinary actions against violators to prevent recurrences, thereby protecting policyholders' interests.</p>
(3) Rectifications ordered by the FSC.	<p>Fubon Financial Holdings</p> <p>Transactions between the venture capital subsidiary and stakeholders were not</p>	<p>(1) The venture capital subsidiary has revised its "Business Guidelines" and "Stakeholder Information Inquiry and</p>

Items	Descriptions and Amounts Involved	Corrective Measures
	<p>carried out properly in compliance with relevant procedures. The financial holding company was considered to have exercised inadequate supervision over the subsidiary, for which the FSC issued an order of rectification on 2018.12.12.</p>	<p>Maintenance Procedures” to prohibit non-arms length transactions. Any one-time transactions in the future shall be reviewed repeatedly before board meeting date, contract signing date and payment date.</p> <p>(2) A new “Investment Stakeholder Transaction Checklist” has been created; furthermore, project managers are explicitly required to check investees' shareholders and potential investors for stakeholders in all of their investment proposals, and retain records of the checks performed.</p> <p>(3) The department responsible for maintaining stakeholders' information has communicated with directors/finance staff on the legal requirements, and regularly verifies the accuracy and completeness of information on hand against public sources such as Joint Credit Information Center (JCIC).</p> <p>(4) The financial holding company has supervised its subsidiaries to distinguish areas of responsibility between the Company's investors/person-in-charge and the businesses in which they hold ownership interest or are concurrently employed. Stakeholders' information is being requested before meeting commences, and the directors have undertaken appropriate control procedures to prevent conflict of interest.</p>
	<p>Fubon Life</p> <p>1. Risk management units did not actively participate in the overseas investment decision process, and nor did it handle post-investment management properly. An order of rectification was issued by FSC on 2017.7.18.</p>	<p>1. The company has implemented new Overseas Life Insurance Company Investment Decision Circulation Procedures. Annual monitoring report for financial position and earnings of the investee has been completed. A new set of major event reporting guidelines has been</p>

Items	Descriptions and Amounts Involved	Corrective Measures
	<p>2. The content of training materials for insurance brokers was not properly reviewed, which misled sales representatives into comparing insurance products with time deposit. An order of rectification was issued by FSC on 2018.1.3.</p> <p>3. Money dispute between sales representative and customer was not reported in a timely manner according to “Scope and Applicability of Major Incident Report for Insurance Industry.” An order of rectification was issued by FSC on 2018.5.30.</p> <p>4. When selling insurance product, employees were found to have asked the applicant and the insured for the purpose of insurance (retirement planning) and source of premium (bank deposit), but did not attempt to establish the relationship between the premium payer and the contract principals. Furthermore, no attempt was made to check for authorization of wire transfer. An order of rectification was issued by FSC on 2018.6.11.</p> <p>5. The subsidiary did not specify the level of approval authority needed to sign a Letter of Intent for the purchase of real estate property. When purchasing commercial real estate, the subsidiary treated the Letter of Intent as a confidential document and presented it for approval by the ○○ according to the approval matrix. An order of rectification was issued by FSC on 2018.9.25.</p> <p>6. The cash flow model used by the foreign private equity fund did not</p>	<p>established and implemented for the investee.</p> <p>2. The company has since enhanced training on sales representatives and introduced additional procedures for the review of training materials. Furthermore, internal auditors have included the review of materials disseminated to channel partners as part of their audit focus.</p> <p>3. A meeting was convened to remind employees that any embezzlement of premiums by sales representative must be reported as an extraordinary event.</p> <p>4. Employees were subjected to enhanced AML training for improved awareness.</p> <p>5. Approval authority for Letter of Intent has been established.</p> <p>6. Cash flow model used by private</p>

Items	Descriptions and Amounts Involved	Corrective Measures
	take exchange rate risks into account, and the investment limit alert system did not achieve its full function, which caused the private equity fund and hedge fund to report investment sums exceeding the statutory limit in July 2018. An order of rectification was issued by FSC on January 25, 2019.	equity funds has been adjusted; meanwhile, new response measures for triggering of alert indicators and new controls over capital contribution have also been implemented.
	<p>Taipei Fubon Bank</p> <p>1. The Bank did not properly review customers' board of directors meeting minutes when conducting derivative service. An order of rectification was issued by FSC on June 1, 2017.</p> <p>2. The Bank did not properly supervise compliance and internal management of overseas branches. The practices adopted for reviewing correspondence bank account and identifying suspicious money laundering transactions require further enhancement. Credit limit control was not enforced properly, and no internal control procedures existed to govern transactions that involve a domestic branch assisting an overseas branch with deposit and credit affairs. An order of rectification was issued by FSC on June 21, 2017 for the abovementioned defects.</p>	<p>(1) Internal processes have been amended to incorporate product risk review and review standards. Product suitability checklist now needs to be completed only by eligible personnel. More rigorous assessments are being performed to ensure that customers' exposures match their tolerance. In addition, the company is adopting enhanced control over hedging positions and is regularly evaluating the rationality of hedging limits granted to customers.</p> <p>(2) The company has followed procedures to complete the signing of all documents for first-time transactions. Furthermore, a set of standard practices has been created to guide employees' sales talk, which is subject to random inspections.</p> <p>The Bank has completed improvements by establishing a risk-grading and assessment system for correspondence banks; by September 19, 2017, further improvements to the survey and risk grading systems were completed. The Bank has made additional announcements to reiterate rules and procedures concerning "direct credit to China" and "indirect credit to China," and introduced monthly checks on guarantors' ratings to determine whether they continue to satisfy the risk transfer criteria after loan disbursement. To avoid similar violation and operational errors in the future, the Bank has once again reminded employees</p>

Items	Descriptions and Amounts Involved	Corrective Measures
	<p>of the terms of “Group Wholesale Banking Cross-border Outsourcing Guidelines.” Hong Kong Branch held two internal training sessions on the handling of cross-border transactions, and the training covered all sales representatives.</p> <p>3. Bank employees were found to have failed to comply with internal operating procedures, and launched a software program into production without completing the required tests, causing system errors. An order of rectification was issued by FSC on August 21, 2017 for the abovementioned defect.</p> <p>4. An employee of the Retail Banking Division was found to have lost company-issued laptop along with downloaded customer information outside bank premise. The Bank was deemed to have exercised inadequate control over employees' use of laptop outside bank premise, and failed to implement proper record-keeping and approval for download of customers' personal information. The FSC issued an order of rectification on September 10, 2018.</p>	<p>The Internet administration system is now being activated according to the same procedures as application systems, with the addition of appropriate control tools. The system has also been synchronized with date control defects patched to comply with internal operating policies.</p> <p>(1) Control measures have been implemented for bringing laptop outside branch premise. Employees who have a need to bring laptop outside business premise are required to log entries in advance.</p> <p>(2) Control for retention period of personal information was implemented.</p>
	<p>Fubon Insurance</p> <p>Fubon Insurance had exhibited the following defects that posed concern for sound operation, and was order by FSC to make 3 rectifications on July 30, 2018:</p> <p>(1) Prior to launching payment service, the subsidiary did not perform risk assessment of money laundering and the financing of terrorism and implement risk management measures. The absence of which does not support proper risk identification and response.</p> <p>(2) Customers characterized as politically exposed persons (PEPs)</p>	<p>(1) Money laundering and the financing of terrorism risk assessments have been completed for the payment service. These assessments have also been included as part of the internal control procedures and self-audit worksheet, and are being executed when launching new payment services.</p> <p>(2) Risk factors have been amended so that foreign PEPs are directly treated</p>

Items	Descriptions and Amounts Involved	Corrective Measures
	<p>were merely assigned higher risk values. The company's AML practice does not facilitate transaction monitoring and proper risk assessment.</p> <p>(3) When performing blacklist checks using the AML/CFT system, some employees did not explain reasons not to report suspicious money laundering transaction or failed to retain supporting proof. When processing customers' request for contract change, some employees did not retain record of checks performed for customers' request.</p>	<p>as high-risk customers.</p> <p>(3) The product department has amended its AML/CFT guidelines so that any blacklist name matches are subsequently reviewed with trails and supporting information kept on the system for future reference. System procedures have been amended so that cases involving contract change are assigned contract change serial numbers before importing into the AML/CFT system. This process helps distinguish them from insurance underwriting cases.</p>
	<p>Fubon Securities</p> <p>1. When underwriting convertible bond ID: 32341, 32342, 84361 and 52891, the company was found to have collaborated with the issuers and Far Eastern International Bank in a book-building exercise. When performing asset exchange for bond ID: 15061 and 32023, the company was found to have collaborated with options customers and contacted sales representatives of another securities firm to take opposite positions on the convertible bonds involved, which may have affected the fairness of how the transaction securities were priced on the market. When processing customers' requests for the status of professional investor, the company did not duly assess customers' professional qualifications and proof of wealth. The Proprietary Trading Department had purchased shares of Entire Technology without issuing a trade decision report based on the trade analysis report, which contradicted internal policies. A</p>	<p>1. The company will properly enforce Rules Governing Underwriting and Resale of Securities by Securities Firms. Furthermore, the company has emphasized during internal meetings that it is strictly prohibited for employees to fix the price and quantity of securities traded in the open market with specific parties. The sales manager shall be responsible for verifying trade orders for exchanged assets. Violators will be subjected to disciplinary action depending on the severity. Also, employees have been reminded that customers must have professional capacity and proof of wealth assessed when requesting for the status of professional investor, and that such requests are to be handled according to Professional Investor Eligibility Guidelines to avoid similar occurrence. The company will be enhancing the review of investment reports and training traders more intensively on the</p>

Items	Descriptions and Amounts Involved	Corrective Measures
	<p>warning was issued by the FSC on June 14, 2017.</p> <p>2. When providing foreign securities service, employees were found to have: decided the type, quantity or price of traded securities on behalf of a customer; made unlicensed full fiduciary discretionary purchase/sell; held custody of customers' bank account passbook and seal; placed online order on behalf of a customer; performed business activities without proper registration; and failed to provide customers with details of current day transactions made using phone or email when customers had signed consent to waive the delivery of trade statements. An order of rectification was issued by the FSC on July 11, 2017 for the above defects.</p> <p>3. The company was found to have violated securities regulations when serving as the lead underwriter for the 2016 cash issue of Roo Hsing Co., Ltd. An order of rectification was issued by the FSC on September 5, 2017.</p> <p>4. The company's employees were found to have traded securities using customers' accounts, which the branch in question was unable to discover in a self-audit exercise. An order of rectification was issued by the FSC on November 9, 2017 for the above defect.</p> <p>5. The company's AML/CFT practices exhibited the following defects, for which the FSC had issued orders of rectification on March 7, 2018:</p> <p>(1) The company did not review and</p>	<p>proper investment procedures to avoid similar occurrences.</p> <p>2. The company has once again conveyed the implications of Regulations Governing Responsible Persons and Associated Persons of Securities Firms and Regulations Governing Securities Firms Accepting Orders to Trade Foreign Securities to employees; violators were subjected to disciplinary actions by the Personnel Review Committee. The company has adopted customer losses risk management since January 2018. Customers who suffer extensive losses are visited personally by sales representatives or via phone by non-sales personnel to verify the state of loss, and thereby enhance risk management.</p> <p>3. The company has conveyed to employees the implications of the Statement of Valuation Guidelines No. 11 - "Corporate Valuation," last updated April 25, 2015. Shares held by life insurance companies do not carry voting rights for directors and supervisors. Regulatory implications are being communicated during monthly meetings.</p> <p>4. The company has been communicating regulatory implications during monthly morning meetings and via internal compliance training. Improvement and preventive reports have been prepared to address the highlighted defects.</p> <p>(1) Review and amendment have been</p>

Items	Descriptions and Amounts Involved	Corrective Measures
	<p>amend its AML/CFT policies according to legal requirements.</p> <p>(2) Results of some indicators used in the risk report of money laundering and the financing of terrorism were not fully disclosed.</p> <p>(3) Corporate customers' identities were not properly reviewed, and customers' risk grades were not duly established.</p> <p>(4) No enhanced control measure was undertaken for high-risk customers.</p> <p>(5) The company did not implement practices for monitoring negative media coverage or assessing/reporting suspicious transactions.</p>	<p>completed.</p> <p>(2) Disclosures have been fully made in the 2017 risk assessment report.</p> <p>(3) Improvements have been made, and employees are being instructed to enforce accordingly.</p> <p>(4) Enhanced control measures have been undertaken.</p> <p>(5) The company has implemented monitoring systems and procedures for assessing/reporting suspicious transactions.</p>
(4) Penalties imposed by the FSC in accordance with Paragraph 1, Article 54 of the Financial Holding Company Act.	None	
(5) Disclosure of losses exceeding NT\$50 million incurred during the year, whether in one event or aggregately over several events, as a result of extraordinary non-recurring incidents (such as fraud, theft, misappropriation of assets, fictitious transactions, forgery of documents and securities, kickbacks, natural disasters, external forces, hackers' attacks, theft and leakage of confidential information, disclosure of customers' details or other material occurrences), or accidents arising from	<p>Fubon Life</p> <p>Two cases of fraud had occurred in the last 2 years, which amounted to NT\$57.54 million of losses in total.</p> <p>(1) Lin, a sales representative, committed fund investment fraud and caused many customers to fall victim to the scam. Fubon Life was held jointly liable to compensate the victims, and lost a sum of NT\$43.61 million in 2017.</p> <p>(2) Chen, one of the customers, claimed that policy loan was drawn without consent, and therefore suspected Huang, the sales representative and handler, for fraud. After many years of litigation, the court ruled against Fubon Life's favor, causing Fubon Life to pay compensations totaling NT\$13.93 million in 2018.</p>	<p>(1) Sales representatives are no longer permitted to collect premiums</p> <p>(2) More rigorous actions were taken to check the source of remittance</p> <p>(3) More rigorous actions were taken to manage policy risks</p> <p>(4) More rigorous actions were taken to compare records with loan customers</p>

Items	Descriptions and Amounts Involved	Corrective Measures
failure to comply with Safety and Maintenance Guidelines for Financial Institutions:		
(6) Other disclosures mandated by FSC.	None	

3.4.13 Major Resolutions of the Annual General Meeting and the Board of Directors (up to the date of the annual report)

(1) Significant shareholder meeting resolutions: 2018

- a. Approved the Company's 2017 business report and financial statements.

Progress: submitted on June 21, 2018 for acknowledgment of the Banking Bureau, Financial Supervisory Commission.

- b. Approved the 2017 earnings distribution plan.

Progress: a resolution was passed during the Company's 2018 annual general meeting to pay common share cash dividends at NT\$2.3 per share for a total of NT\$23,537,289,189, and preferred share cash dividends totaling NT\$1,476,000,000. Cash dividend was paid on July 23, 2018.

- c. Approved the Company's long-term funding plan.

Progress: no long-term funding has been planned at the moment.

- d. Approved Release the Company's Director from Non-Competition Restrictions

Progress: an announcement was made on June 8, 2018.

(2) Significant board resolutions: 2018 and up till the publication date of this annual report

- a. 3rd regular meeting of the 7th board dated February 2, 2018

※ Approved the date, venue, and agendas for the 2018 annual general meeting.

※ Approved amendments to the Company's "Credit Risk Management Policy" and abolishment of the Company's "County Risk Management Guidelines."

※ Approved amendments to the Company's "Standards for Reporting Subsidiary's Significant Asset Transaction to Group Board of Directors."

※ Approved the proposal to permit stakeholders to subscribe to the Company's current (2018) cash issue of preferred shares.

- b. 4th regular meeting of the 7th board dated March 22, 2018

※ Approved the Company's 2017 business report.

※ Approved the Company's 2017 "Declaration of Internal Control System Statement."

※ Approved the Company's 2017 financial statements.

※ Approved the Company's 2018 budgets and operating plans.

※ Approved amendment of the Company's accounting policy.

※ Approved amendments to the Company's organization, "foundation principles" and "responsibility matrix."

※ Approved amendment of the Company's and subsidiaries' "Donation Principles."

- ※ Approved amendment of the Company's and subsidiaries' "Firewall Management Policy."
- c. 5th regular meeting of the 7th board dated April 26, 2018
 - ※ Approved the Company's 2017 earnings distribution plan.
 - ※ Approved the Company's long-term funding plan.
 - ※ Approved amendments to the Company's "Work Rules."
 - ※ Approved agenda for the Company's 2018 annual general meeting.
 - ※ Approved amendments to the Company's "Rules Governing Procedures for Meeting of Board of Directors" and "Director Candidate Nomination and Shareholder Proposal Rules."
 - ※ Release the Company's Director from Non-Competition Restrictions.
 - ※ Approved proposal to subscribe to the cash issue of Hyundai Life Insurance Co., Ltd. through Fubon Life.
- d. 6th regular meeting of the 7th board dated June 8, 2018
 - ※ Approved the proposal to issue unsecured corporate bonds in 2018.
 - ※ Approved amendment to the Company's "Internal Control System."
 - ※ Approved compensation for Chairman, Vice Chairman and managers of the Company and Chairman, Vice Chairman and President of various subsidiaries
 - ※ Approved appointment of underwriter for the 2018 unsecured ordinary corporate bond issue.
- e. 7th regular meeting of the 7th board dated August 27, 2018
 - ※ Approved the Company's 2018 first half consolidated financial statements.
 - ※ Approved amendments to the Company's "Articles of Incorporation Foundation Principles," chapter rename and implementation of relevant measures.
 - ※ Approved amendments to "Authority Inspection Report Handling Guidelines" of the Company and subsidiaries.
 - ※ Approved amendments to the Company's "Compliance System and Management Policy."
 - ※ Approved acknowledgment of compliance officer training held in 2018.
 - ※ Approved establishment of the Company's "Whistleblowing Policy."
 - ※ Approved establishment of the Company's "Group Policy for Anti-Money Laundering and Countering the Financing of Terrorism."
 - ※ Approved amendment to the Company's "Market Risk Management Policy."
 - ※ Approved amendment to the Company's "responsibility matrix."
 - ※ Approved amendment and rename of the Company's "Short-term Capital Utilization and Funding Policy," while at the same time abolished "Corporate Bond Issuance Rules."
 - ※ Approved the appointment of directors and supervisors for subsidiaries - Fubon Direct Marketing, Fubon Financial Holding Venture Capital and Fubon AMC.
- f. 8th regular meeting of the 7th board dated November 22, 2018
 - ※ Approved the Company's Board of Directors' 2019 annual plan.
 - ※ Approved the Company's 2019 audit plan.
 - ※ Approved amendments to the Company's "Accounting Policy."

- ※ Approved amendments to the Company's "Material Insider Major Information Procedures."
 - ※ Approved amendment to the Company's "Performance Evaluation Guidelines."
 - ※ Approved amendment to the Company's "Employee Concurrent Employment Policy."
 - ※ Approved amendment to the Company's "Capital Adequacy Risk Management Policy" and abolishment of "Capital Adequacy Monitoring Policy."
 - ※ Approved amendment to the Company's "Institutional Investor Relationship Maintenance Policy."
 - ※ Approved to renew and adjust short-term financing facility and guarantee-waiver commercial paper limit with financial institution.
 - ※ Approved amendments to the Company's "Rules Governing Procedures for Meeting of Board of Directors" and "Corporate Governance Best Practices Principles."
 - ※ Approved the appointment of directors and supervisors for subsidiaries - Fubon Financial Holding Venture Capital and Fubon AMC.
 - ※ Approved to redeem all non-cumulative subordinated securities of Fubon Bank (HK) that the Company had privately subscribed.
- g. 9th regular meeting of the 7th board dated January 24, 2019
- ※ Approved the Company's 2019 budgets and operating plans.
 - ※ Approved the date, venue, and shareholders' proposals for the 2019 annual general meeting.
 - ※ Approved amendments to the Company's "Credit Risk Management Policy" and abolishment of the Company's "County Risk Management Guidelines."
 - ※ Approved amendments to the Company's "Standards for Reporting Subsidiary's Significant Asset Transaction to the Board of Directors of Finicial Holdings."
 - ※ Approved the proposal to permit stakeholders to subscribe to the Company's current (2018) cash issue of preferred shares.
 - ※ Approved appointment of director for Fubon Bank (Hong Kong) Limited.

3.4.14 Documented opinions or declarations made by directors (including independent directors) against the board's resolutions in the last year up to the publication date of this annual report: None.

3.4.15 Resignation or dismissal of personnel related to financial statement preparation (including the chairman, president, head of finance, accounting manager, and chief internal auditor) in the last year up to the publication date of this annual report: See the table below

Resignation of personnel relating to the preparation of financial statements

February 28, 2019

Title	Name	Date onboard	Date departed	Reasons for resignation or discharge
Accounting Manager	Jonathan Lee	2015.09.01	2018.03.23	Resigned
Head of Finance	Eddie Chen	2017.01.20	2018.04.27	Resigned
Chief internal auditor	Tienhsia Chang	2019.10.06	2018.08.31	Retired

Note: Personnel relating to the preparation of financial statements shall include Chairman, President, Head of Accounting, Head of Finance, Chief Auditor, etc.

3.5 Disclosure of auditors' remuneration

Name of accounting firm	Name of auditor		Audit period	Remarks
KPMG	Chung Tan-Tan	Yu Chi-Lung	2018.01.01~2018.12.31	

Unit: NTD thousands

Amount range		Fee category	Audit remuneration	Non-audit remuneration	Total
1	Below NT\$ 2,000		-	594	594
2	NT\$2,000 (inclusive) ~ NT\$4,000		-	-	-
3	NT\$4,000 (inclusive) ~ NT\$6,000		-	-	-
4	NT\$6,000 (inclusive) ~ NT\$8,000		-	-	-
5	NT\$8,000 (inclusive) ~ NT\$10,000		-	-	-
6	NT\$10,000 and above		9,126	-	9,126

Name of accounting firm	Name of auditor	Audit remuneration	Non-audit remuneration					Audit period (Note 1)	Remarks
			Policy design	License registration	Human resources	Others (Note 2)	Subtotal		
KPMG	Chung Tan-Tan	9,126	0	60	0	534	594	2018.01.01 ~ 2018.12.31	1. Tax consultation \$316 2. Project consultation and system maintenance expense \$218
	Yu Chi-Lung								

Note 1: If there is any change of auditor or accounting firm during the year, please specify the duration of their services separately and state the reason for making the change in the remarks column. Any audit and non-audit remuneration paid to CPAs should also be disclosed separately: None.

Note 2: Non-audit remuneration should be listed separately by service category. If the "Other" category amounts to 25% of total non-audit remuneration, the details of services rendered must be specified in the remarks column.

Note 3: Any reduction in audit remuneration by more than 15% compared to the previous year; state the amount, the percentage and reason of such variation: None.

3.6 Change of auditor: None.

3.7 The Company's Chairman, President, or any manager involved in financial or accounting affairs being employed by the auditor's firm or any of its affiliated company within the last year: None.

3.8 Transfer or pledge of shares owned by directors, managers, and all parties subject to reporting under Article 11 of Regulations Governing the Ownership of Financial Holding Company By Single Individuals or Stakeholders.

(1) Transfer and pledge of shares owned by directors:

February 28, 2019

Unit: shares

Title	Name	2018		Year-to-date as at February 28	
		Increase (decrease) in shares held	Increase (decrease) in shares pledged	Increase (decrease) in shares held	Increase (decrease) in shares pledged
Director	Ming Dong Co., Ltd.	-	-	-	-
Representative of corporate director (Chairman)	Richard M. Tsai	-	-	-	-
Representative of corporate director	Daniel M. Tsai	*2,500,000	-	-	-
Representative of corporate director	Jerry Harn	*100,000	-	-	-
Representative of corporate director	Eric Chen	*22,800	-	-	-
Representative of corporate director	Howard Lin	-	-	38,437	-
Representative of corporate director	Steve T.H. Chen	-	-	-	-
Director	Taipei City Government	-	-	-	-
Representative of corporate director (Note 3)	Chih-Ming Chen	-	-	-	-
Representative of corporate director (Note 3)	Jia-Jen Chen			-	-
Representative of corporate director	Hsiu-Hui Yuan	-	-	-	-
Representative of corporate director	Hsiu-Chu Liang	-	-	-	-
Independent Director	Chi-Yan Louis Cheung	-	-	-	-
Independent Director	Ming-Je Tang	-	-	-	-
Independent Director	Chan-Jane Lin	-	-	-	-
Independent Director	Jung-Feng Chang	-	-	-	-
Independent Director	Shin-Min Chen	-	-	-	-
Independent Director	Fan-Chih Wu	-	-	-	-

Note 1: use “-” to denote no change.

Note 2: “*” denotes Class A Preferred Shares.

Note 3: Corporate director Taipei City Government reappointed Madam Jia-Jen Chen to replace former representative Mr. Chih-Ming Chen on 2019.01.14.

(2) Transfer and pledge of shares owned by managers:

February 28, 2019

Unit: shares

Title	Name	2018		Year-to-date as at February 28	
		Increase (decrease) in shares held	Increase (decrease) in shares pledged	Increase (decrease) in shares held	Increase (decrease) in shares pledged
President	Jerry Harn	*100,000	-	-	-
Executive VP (Chief Auditor)	Hsien-Lung Chiu (Note 3)	37,986	-	-	-
Executive VP (CRO)	Patrick Chang	*36,000	-	-	-
Executive VP (CHRO)	Joyce Chen	-	-	-	-
Executive VP (CLO)	Chung-Ping Liu	-	-	-	-
Senior V.P.	Wen-Cheng Yeh (Note 3)	*33,000	-	-	-
Senior V.P.	Sophia Wang (Note 3)	-	-	-	-
Senior V.P.	Wei Lo	*20,500	-	-	-
Senior V.P.	Wei-Ching Yang (Note 3)	-	-	-	-
Senior V.P.	Wen-Yen Chen (Note 3)	-	-	-	-
First V.P.	Po-Wen Chen (Note 3)	-	-	-	-
Investment Management Group (CIO)	Howard Lin	-	-	38,437	-

Note 1: use “-” to denote no change.

Note 2: “*” denotes Class A Preferred Shares.

Note 3: The transfer and pledge of shares owned by directors beginning the election (job reporting) date were filled out.

(3) Transfer or pledge of shares owned by all parties subject to reporting under Article 11 of Regulations Governing the Ownership of Financial Holding Company By Single Individuals or Stakeholders:

February 28, 2019

Unit: shares

Title	Name	2018		Year-to-date as at February 28	
		Increase (decrease) in shares held Variation	Increase (decrease) in shares pledged Variation	Increase (decrease) in shares held Variation	Increase (decrease) in shares pledged Variation
Shareholder with 10% or higher ownership interest	Taipei City Government	-	-	-	-
Individual party or aggregate related parties	Richard M. Tsai	-	-	-	-
Individual party or aggregate related parties	Mei-Hui Tsai Ueng	-	-	-	-
Individual party or aggregate related parties	Daniel M. Tsai	-	-	-	-
Individual party or aggregate related parties	Ai-Lin Tsai Chen	-	-	-	-

Individual party or aggregate related parties	Shiang-Shun Tsai Yang	-	-	-	-
Individual party or aggregate related parties	Ming-Wen Tsai	-	-	-	-
Individual party or aggregate related parties	Ming-Tswn Tsai	-	-	-	-
Individual party or aggregate related parties	Cheng-Tao Tsai	-	-	-	-
Individual party or aggregate related parties	Fubon Shing Chi Investment Co., Ltd.	-	-	-	-
Individual party or aggregate related parties	Dao Chi Co., Ltd.	-	-	-	-
Individual party or aggregate related parties	Fu Chi Investment Co., Ltd.	-	-	-	-
Individual party or aggregate related parties	Ru Chi Investment Co., Ltd.	-	-	-	-
Individual party or aggregate related parties	Dao Chi Investment Co., Ltd.	-	-	-	-
Individual party or aggregate related parties	Ming Dong Co., Ltd.	-	-	-	-
Individual party or aggregate related parties	Dao Ying Co., Ltd.	-	-	-	-
Individual party or aggregate related parties	Chung Shing Development Co., Ltd.	-	-	-	-
Individual party or aggregate related parties	Hung Fu Investment Co., Ltd.	-	-	-	-

Note 1: use “-” to denote no change.

Note 2: denotes preferred shares.

(4) Disclosure of share transfer or collateralization where the counterparty is a related party: None.

3.9 Relationships among the top ten shareholders, including spouses and second degree relatives or closer

Unit: shares; %

Name (Note)	Current Shareholding Current shareholdings		Shares held by spouse and underage children		Shares held in the names of others		Spouse, relatives of second degree or closer, and relationships among top 10 shareholders		Remarks
	Shares held	Ratio of shareholding Percentage	Shares held	Ratio of shareholding	Shares held	Ratio of shareholding	Name	Relation	
Taipei City Government Representative: Wen-Je Ko	1,341,479,793	13.11%	0	0	0	0	None	None	
Ming Dong Co., Ltd. Representative: Daniel M. Tsai	864,774,989	8.45%	0	0	0	0	Richard M. Tsai	Brothers	
Dao Ying Co., Ltd. Representative: Daniel M. Tsai	790,676,429	7.73%	0	0	0	0	Richard M. Tsai	Brothers	

Richard M. Tsai	327,125,694	3.20%	29,473,565	0.29%	0	0	Daniel M. Tsai	Brothers	
Daniel M. Tsai	308,507,129	3.01%	28,458,053	0.28%	0	0	Richard M. Tsai	Brothers	
Hung Fu Investment Co., Ltd. Representative: Ming-Tswn Tsai	262,733,553	2.57%	0	0	0	0	Richard M. Tsai	Brother and sister	
New Labor Pension Fund	199,746,421	1.95%	0	0	0	0	None	None	
Citibank (Taiwan) in its capacity as Master Custodian for Investment Account of GIC Pte Ltd. (Singapore) Investment Account	153,699,045	1.50%	0	0	0	0	None	None	
Chung Shing Development Co., Ltd. Representative: Daniel M. Tsai	145,673,128	1.42%	0	0	0	0	Richard M. Tsai	Brothers	
Labor Insurance Fund	138,044,685	1.35%	0	0	0	0	None	None	

Note: Calculated based on common shares held as of the latest book closure date (2019.04.16). Out of the total number of shares held by Daniel M. Tsai, 100,000,000 shares have been entrusted for purposes yet to be determined.

3.10. Shares jointly held by the Company, subsidiaries, the Company's directors, managers, and directly/indirectly controlled entities on any single investee. Calculate shareholding percentage in aggregate of the above parties

December 31, 2018
Unit: thousand shares; %

Invested businesses	Held by the Company		Held by Directors, Supervisors, managers, and directly or indirectly controlled enterprises		Aggregate investment	
	Shares held	Shareholding percentage	Shares held	Shareholding percentage	Shares held	Shareholding percentage
Fubon Insurance Co., Ltd.	317,840	100	0	0	317,840	100
Fubon Life Insurance Co., Ltd.	11,083,114	100	0	0	11,083,114	100
Taipei Fubon Commercial Bank Co., Ltd.	10,651,802	100	0	0	10,651,802	100
Fubon Securities Co., Ltd.	1,664,355	100	0	0	1,664,355	100
Fubon Direct Marketing Consulting Co., Ltd.	14,500	100	0	0	14,500	100
Fubon Financial Holding Venture Capital Corp.	250,580	53.80	215,220	46.20	465,800	100
Fubon Bank (Hong Kong) Limited (Note)	1,641,273	100	0	0	1,641,273	100
Fubon AMC, Ltd.	250,000	100	0	0	250,000	100
Taiwan Sport Lottery Corporation	9,729	100	0	0	9,729	100
Fubon Bank (China) Co., Ltd.	NA	49	NA	51	NA	100
Fubon Insurance Vietnam Co., Ltd.	0	0	NA	100	NA	100
Fubon Property & Casualty Insurance Co., Ltd.	0	0	NA	80	NA	80
Fubon Insurance Broker (Thailand) Co., Ltd.	0	0	29	48.97	29	48.97
Fubon Insurance Broker (Philippines) Corporation	0	0	200	99.99	200	99.99
Fubon Life Insurance (Vietnam) Co., Ltd.	0	0	NA	100	NA	100
Carter Lane (Guernsey) Limited	0	0	41,515	100	41,515	100
Bow Bells House (Jersey) Ltd.	0	0	46,173	100	46,173	100
Fubon MTL Property (Jersey) Limited	0	0	92,581	100	92,581	100
Fubon Life Insurance (Hong Kong) Company Limited	0	0	1,275,000	100	1,275,000	100
Fubon Ellipse (Belgium) S.A.	0	0	1,134	100	1,134	100
Fubon Ellipse (Jersey) Limited	0	0	90	100	90	100
Fubon Hyundai Life Insurance Co., Ltd.	0	0	83,736	62.06	83,736	62.06
Fubon Securities (BVI) Limited	0	0	18,830	100	18,830	100
Fubon Securities (Hong Kong) Limited	0	0	156,386	100	156,386	100
Fubon Futures Co., Ltd.	0	0	140,000	100	140,000	100
Fubon Securities Investment Services Co., Ltd.	0	0	30,000	100	30,000	100
Fubon Asset Management Co., Ltd.	0	0	230,345	100	230,345	100
Fubon Securities Venture Capital Co., Ltd.	0	0	30,000	100	30,000	100
Fubon Securities Equity Investment Co., Ltd.	0	0	NA	100	NA	100
Fubon Mintou Venture Capital Co., Ltd.	0	0	13,400	67	13,400	67
Fubon Convoy Asset Management (HK) Limited	0	0	6,860	49	6,860	49
Fu Sheng General Insurance Agency Co., Ltd.	0	0	2,500	100	2,500	100
Fu Sheng Life Insurance Agency Co., Ltd.	0	0	2,800	100	2,800	100
Fubon Sports & Entertainment Co., Ltd.	0	0	4,797	100	4,797	100
Fubon Stadium Co., Ltd.	0	0	5,000	100	5,000	100
Fubon Securities (Hong Kong) Limited	0	0	8,000	100	8,000	100
FB Investment Management Limited	0	0	80	100	80	100
Fubon Credit (Hong Kong) Limited	0	0	65,000	100	65,000	100
Fubon Nominees (Hong Kong) Ltd.	0	0	0.002	100	0.002	100
Fubon Insurance Brokers Limited	0	0	100	100	100	100

Note: Fubon Bank (HK) includes those of its subsidiaries.

4. Funding

4.1 Capital and shares

4.1.1 Source of capital

Unit: thousand shares; NT\$ thousands

Year/Month	Issue Price	Authorized capital		Total paid-in capital		Remarks	
		Shares held	Amount	Shares held	Amount	Source of share capital	Others
December 2001	\$10	12,000,000	120,000,000	5,464,985	54,649,852	Incorporated via share conversion	
August 2002	\$10	-	-	5,612,147	56,121,475	Note 1	
December 2002	\$10	-	-	8,291,437	82,914,373	Note 2	
January 2003	\$10	-	-	8,254,119	82,541,193	Note 3	
May 2005	\$10	-	-	8,065,297	80,652,974	Note 4	
March 2006	\$10	-	-	7,719,093	77,190,934	Note 5	
February 2009	\$10	-	-	8,125,362	81,253,616	Note 6	
November 2009	\$10	-	-	8,126,187	81,261,866	Note 7	
March 2010	\$10	-	-	8,132,940	81,329,401	Note 8	
June 2010	\$10	-	-	8,138,552	81,385,520	Note 9	
August 2010	\$10	-	-	8,545,482	85,454,819	Note 10	
September 2010	\$10	-	-	8,546,725	85,467,249	Note 11	
November 2010	\$10	-	-	8,558,366	85,583,664	Note 12	
March 2011	\$10	-	-	8,564,039	85,640,394	Note 13	
May 2011	\$10	-	-	8,575,441	85,754,416	Note 14	
September 2011	\$10	-	-	9,004,025	90,040,257	Note 15	
September 2011	\$10	-	-	9,006,269	90,062,692	Note 16	
December 2011	\$10	-	-	9,013,737	90,137,379	Note 17	
March 2012	\$10	-	-	9,024,246	90,242,469	Note 18	
June 2012	\$10	-	-	9,044,706	90,447,067	Note 19	
June 2012	\$10	15,000,000	150,000,000	9,044,706	90,447,067	Articles of Incorporation amended	
August 2012	\$10	-	-	9,497,598	94,975,989	Note 20	
September 2012	\$10	-	-	9,517,154	95,171,547	Note 21	
November 2012	\$10	-	-	9,526,915	95,269,157	Note 22	
March 2013	\$10	-	-	9,535,165	95,351,652	Note 23	
August 2013	\$10	-	-	10,233,604	102,336,040	Note 24	
May 2016	\$60	-	-	10,833,604	108,336,040	Note 25	
April 2018	\$60	-	-	11,500,264	115,002,640	Note 26	

Note 1: Approval sought from Letter No. (91)-Tai-Tsai-Cheng-(1)-0910146203 dated 2002.08.21 to issue 147,162,000 new shares to be exchanged for the acquisition of Fubon Asset Management.

Note 2: Approval sought from Letter No. (91)Tai-Tsai-Cheng-(1)-0910164858 dated 2002.12.06 to issue 2,679,290,000 new shares to be exchanged for the acquisition of Taipei Bank.

Note3: Approval sought from Letter No. Jing-Shou-Shang-09201031230 dated 2003.01.30 to retire 37,318,000 outstanding shares.

- Note 4: Approval sought from Letter No. Jing-Shou-Shang-09401090710 dated 2005.05.23 to retire 188,822,000 outstanding shares.
- Note 5: Approval sought from Letter No. Jing-Shou-Shang-09501056890 dated 2006.03.31 to retire 346,204,000 outstanding shares.
- Note 6: Approval sought from Letter No. Jin-Guan-Zheng-1-0980001832 dated 2009.02.05 to issue 406,268,000 new shares to be exchanged for the acquisition of ING.
- Note 7: Approval sought from Letter No. Jing-Shou-Shang-09801266250 dated 2009.11.18 to convert 825,000 common shares from the exercise of employee warrant.
- Note 8: Approval sought from Letter No. Jing-Shou-Shang-09901041060 dated 2010.03.05 to convert 6,753,500 common shares from the exercise of employee warrant.
- Note 9: Approval sought from Letter No. Jing-Shou-Shang-09901113780 dated 2010.06.03 to convert 5,612,000 common shares from the exercise of employee warrant.
- Note 10: Approval sought from Letter No. Jin-Guan-Zheng-1-09901198240 dated 2010.08.30 to issue 406,930,000 new shares against capitalized retained earnings. Approval sought from Letter No. Jing-Shou-Shang-09901198240 dated 2010.09.02 to update registered capital.
- Note 11: Approval sought from Letter No. Jing-Shou-Shang-09901208520 dated 2010.09.16 to convert 1,243,000 common shares from the exercise of employee warrant.
- Note 12: Approval sought from Letter No. Jing-Shou-Shang-09901266900 dated 2010.11.30 to convert 11,641,500 common shares from the exercise of employee warrant.
- Note 13: Approval sought from Letter No. Jing-Shou-Shang-10001043040 dated 2011.03.04 to convert 5,673,000 common shares from the exercise of employee warrant.
- Note 14: Approval sought from Letter No. Jing-Shou-Shang-10001108190 dated 2011.05.26 to convert 11,402,250 common shares from the exercise of employee warrant.
- Note 15: Approval sought from Letter No. Jin-Guan-Zheng-Fa-1000032789 dated 2011.07.22 to issue 428,584,000 new shares against capitalized retained earnings. Approval sought from Letter No. Jing-Shou-Shang-10001204930 dated 2011.09.09 to update registered capital.
- Note 16: Approval sought from Letter No. Jing-Shou-Shang-10001214970 dated 2011.09.15 to convert 2,243,500 common shares from the exercise of employee warrant.
- Note 17: Approval sought from Letter No. Jing-Shou-Shang-10001274600 dated 2011.12.05 to convert 7,468,750 common shares from the exercise of employee warrant.
- Note 18: Approval sought from Letter No. Jing-Shou-Shang-10101035120 dated 2012.03.02 to convert 10,509,000 common shares from the exercise of employee warrant.
- Note 19: Approval sought from Letter No. Jing-Shou-Shang-10101099620 dated 2012.06.04 to convert 20,459,750 common shares from the exercise of employee warrant.
- Note 20: Approval sought from Letter No. Jin-Guan-Zheng-Fa-1010030742 dated 2012.07.18 to issue 452,892,000 new shares against capitalized retained earnings. Approval sought from Letter No. Jing-Shou-Shang-10101177550 dated 2012.08.29 to update registered capital.
- Note 21: Approval sought from Letter No. Jing-Shou-Shang-10101189160 dated 2012.09.11 to convert 19,557,500 common shares from the exercise of employee warrant.
- Note 22: Approval sought from Letter No. Jing-Shou-Shang-10101247370 dated 2012.11.30 to convert 9,761,000 common shares from the exercise of employee warrant.
- Note 23: Approval sought from Letter No. Jing-Shou-Shang-10201044480 dated 2013.03.12 to convert 8,249,500 common shares from the exercise of employee warrant.
- Note 24: Approval sought from Letter No. Jin-Guan-Zheng-Fa-1020016981 dated 2013.05.17 to issue 698,438,800 new shares against capitalized retained earnings. Approval sought from Letter No. Jing-Shou-Shang-10201148630 dated 2013.08.12 to update registered capital.
- Note 25: Approval sought from Letter No. Jin-Guan-Zheng-Fa-1050006682 dated 2016.03.08 to issue 600,000,000 new shares against capitalized retained earnings. Approval sought from Letter No. Jing-Shou-Shang-10501087100 dated 2016.05.02 to update registered capital.
- Note 26: Approval sought from Letter No. Jin-Guan-Zheng-Fa-1060051435 dated 2018.01.17 to issue 666,660,000 new shares against capitalized retained earnings. Approval sought from Letter No. Jing-Shou-Shang-10701033520 dated 2018.04.09 to update registered capital.

Unit: shares

Share category	Authorized share capital			Remark
	Outstanding shares	Unissued shares	Total	
Common shares	10,233,603,995	3,499,736,005	15,000,000,000	Public-listed shares
Preferred shares	1,266,660,000			

Note: During the shareholders' meeting held on June 15, 2012, amendments were made to the Articles of Incorporation to increase authorized capital from NT\$120 billion to NT\$150 billion. However, this change could not be updated to the Ministry of Economic Affairs because the Company had yet to exceed its existing paid-in capital limit of NT\$ 120 billion as of the cut-off date.

4.1.2 Status of Shareholders

Common Shares

April 16, 2019
Unit: shares; %

Shareholder Structure Quantity	Government agencies	Financial institutions	Other Juridical Persons	Domestic Natural Persons	Foreign institutions and foreign individuals	Total
Number of Shareholders	11	64	945	219,638	1,536	222,194
Shares held	1,903,116,462	557,854,698	2,559,206,499	2,349,806,409	2,863,619,927	10,233,603,995
Shareholding percentage	18.60	5.45	25.01	22.96	27.98	100

Class A Preferred Shares

April 16, 2019
Unit: shares; %

Shareholder Structure Quantity	Government agencies	Financial institutions	Other Juridical Persons	Domestic Natural Persons	Foreign institutions and foreign individuals	Total
Number of Shareholders	2	23	145	27,220	40	27,430
Shares held	31,440,000	356,913,170	153,294,490	55,688,164	2,664,176	600,000,000
Shareholding percentage	5.24	59.49	25.55	9.28	0.44	100

Class B Preferred Shares

April 16, 2019
Unit: shares; %

Shareholder Structure Quantity	Government agencies	Financial institutions	Other Juridical Persons	Domestic Natural Persons	Foreign institutions and foreign individuals	Total
Number of Shareholders	4	19	208	30,332	65	30,628
Shares held	74,763,000	336,785,666	166,765,590	82,293,178	6,052,566	666,660,000
Shareholding percentage	11.21	50.52	25.02	12.34	0.91	100

4.1.3 Status Distribution of Ownership

Common Shares

April 16, 2019
Unit: account; shares; %

Class of Shareholding	Number of shareholders	Shareholding (Shares)	Percentage (%)
1 to 999	68,559	18,703,553	0.18
1,000 to 5,000	104,201	226,414,991	2.21
5,001 to 10,000	23,258	174,916,889	1.70
10,001 to 15,000	9,150	111,596,469	1.09

15,001 to 20,000	4,416	80,415,792	0.78
20,001 to 30,000	4,306	107,216,481	1.04
30,001 to 50,000	3,273	128,870,264	1.25
50,001 to 100,000	2,372	168,774,319	1.64
100,001 to 200,000	1,173	163,706,255	1.60
200,001 to 400,000	603	169,014,969	1.65
400,001 to 600,000	199	97,656,615	0.95
600,001 to 800,000	102	71,002,792	0.69
800,001 to 1,000,000	80	71,284,949	0.69
1,000,001 or over	502	8,644,029,657	84.46
Total	222,194	10,233,603,995	100

Class A Preferred Shares

April 16, 2019

NT\$10 per share

Unit: account; shares; %

Class of Shareholding	Number of shareholders	Shareholding (Shares)	Percentage (%)
1 to 999	16,903	2,769,184	0.46
1,000 to 5,000	8,800	18,589,124	3.09
5,001 to 10,000	922	6,954,416	1.15
10,001 to 15,000	212	2,676,792	0.44
15,001 to 20,000	155	2,871,838	0.47
20,001 to 30,000	107	2,741,232	0.45
30,001 to 50,000	129	5,149,692	0.85
50,001 to 100,000	94	6,815,293	1.13
100,001 to 200,000	31	4,154,263	0.69
200,001 to 400,000	23	6,991,500	1.16
400,001 to 600,000	9	4,226,000	0.70
600,001 to 800,000	7	5,019,000	0.83
800,001 to 1,000,000	3	2,855,000	0.47
1,000,001 or over	35	528,186,666	88.03
Total	27,430	600,000,000	100

Class B Preferred Shares

April 16, 2019

NT\$10 per share

Unit: account; shares; %

Class of Shareholding	Number of shareholders	Shareholding (Shares)	Percentage (%)
1 to 999	20,496	3,201,756	0.48
1,000 to 5,000	8,306	12,825,348	1.92
5,001 to 10,000	813	6,185,453	0.92
10,001 to 15,000	233	2,926,511	0.43
15,001 to 20,000	160	2,881,932	0.43
20,001 to 30,000	151	3,830,612	0.57
30,001 to 50,000	172	7,231,850	1.08
50,001 to 100,000	157	11,630,837	1.74

100,001 to 200,000	49	7,039,696	1.05
200,001 to 400,000	21	6,162,264	0.92
400,001 to 600,000	15	7,719,104	1.15
600,001 to 800,000	10	7,519,260	1.12
800,001 to 1,000,000	5	4,633,000	0.69
1,000,001 or over	40	582,872,377	87.43
Total	30,628	666,660,000	100

4.1.4 List of major shareholders:

April 16, 2019

Name of shareholder	Shareholding position	
	Shareholding (Shares)	Percentage (%)
Taipei City Government	1,341,479,793	13.11
Ming Dong Co., Ltd.	864,774,989	8.45
Dao Ying Co., Ltd.	790,676,429	7.73
Richard M. Tsai	327,125,694	3.20
Daniel M. Tsai	308,507,129	3.01
Hung Fu Investment Co., Ltd.	262,733,553	2.57
New Labor Pension Fund	199,746,421	1.95
Citibank (Taiwan) in its capacity as Master Custodian for Investment Account of GIC Pte Ltd. (Singapore)	153,699,045	1.50
Chung Shing Development Co., Ltd	145,673,128	1.42
Labor Insurance Fund	138,044,685	1.35

Note: The Table discloses shareholders ranking top 10 in percentage of common shares held. Out of the total number of shares held by Daniel M. Tsai, 100,000,000 shares have been entrusted for purposes yet to be determined.

4.1.5 Market price, net worth, earnings, and dividends per share for the last 2 years

Year			2017	2018	Year-to-date as February 28, 2019 (Note 7)
Items					
Market price per share	High		\$53.40	\$55.00	\$47.35
	Low		\$45.70	\$46.10	\$43.75
	Average		\$48.59	\$50.79	\$44.87
Net worth per share	Before distribution		\$45.08	\$ 39.93	\$44.63
	After distribution		Not applicable	Not applicable	Not applicable
Earnings per share (Note 1)	Weighted average outstanding shares (thousand shares)	Before adjustment	10,233,604	10,233,604	10,233,604
		After adjustment	Not applicable	Not applicable	Not applicable
	EPS	Before adjustment	\$5.19	\$ 4.52	0.78
		After adjustment	Not applicable	Not applicable	Not applicable
Dividends per share	Cash dividend		2.3 share	2 dollars/share	Not applicable
	Dividend Stock	From retained earnings	None	None	Not applicable
		From capital surplus	None	None	Not applicable

	Accumulative undistributed dividend (Note 2)	None	None	Not applicable
Investment return analysis	Investment return analysis	9.36	11.24	Not applicable
	Price / Dividend Ratio (Note 4)	21.13	25.40	Not applicable
	Cash Dividend Yield (Note 5)	4.73%	3.94%	Not applicable

Note 1: Disclose earnings per share in amounts before and after adjustment if retrospective adjustments are applicable in the event of a share dividend.

Note 2: Where beneficiary securities are issued with conditions that allow current unpaid dividends to accumulate and be distributed in profitable years, the amount of cumulative unpaid dividends as at the end of each year should be disclosed.

Note 3: Price / Earnings Ratio = Average market price / Earnings per share

Note 4: Price / Dividend Ratio = Average market price / Cash dividends per share

Note 5: Cash Dividend Yield = Cash dividends per share / Average market price

Note 6: 2018 dividends have yet to be resolved in a shareholder meeting.

Note 7: Provide information for the current year up till the publication date of this annual report.

4.1.6 Dividend policy and implementation

(1) Dividend policy

If after the annual closing of books there is a profit, the Company shall, after having provided for taxes and offset the accumulated losses of previous years, appropriate the legal reserve in accordance with laws and regulations and appropriate the special reserve in accordance with laws and regulations or in light of practical need, and may distribute Preferred Share dividends. The balance, together with the undistributed profits in the previous year, including the reversals of special reserves prescribed by laws, are available for distribution as dividends for Common Shares. The Board shall present a proposal on the allocation of profit at a shareholders' meeting for resolution.

The Company will distribute dividends according to the principle of stability and balance taking into account shareholders' profits, accumulation of the Company's capital and impact on the company's operations. The distribution of dividends for Common Shares shall not be less than 20% of the distributable profits for the current year (the distributable profits for the current year has excluded the Preferred Share dividends, the undistributed profits in the previous years and the reversals of special reserves prescribed by laws). And, pursuant to the Company's operation planning, stock dividends may be declared to reserve for necessary funds, and the remainder may be distributed in cash, provided that cash dividend shall not be less than 10 % of the total dividend.

Subject to practical need, the above principles of distribution of dividend may be adjusted by resolution at a shareholders' meeting.

The stock dividend policy set forth above is a general principle guidelines. The Company may decide upon the most appropriate dividend policy taking into account the actual operation of the year and capital budgeting for the following year.

(2) Execution: Dividends proposed for the upcoming shareholder meeting

a. For the annual general meeting dated June 14, 2019, a proposed cash dividend is NT\$20,467,207,990 (NT\$2 per share) for Common Shares. It is ambiguous under current Articles of Incorporation whether preferred share dividends can be distributed out of cumulative undistributed earnings. Therefore, the preferred share dividends are proposed nil for the time being. An amendment of Article of Incorporation is proposed and resolved in the same Board meeting. Subject to the amendment resolved in the AGM, the Company plan to convene an EGM after the AGM. The Company would propose in the EGM regarding dividend payment of preferred share A with the same amount as last year and dividend payment of preferred share B based on issuance period in 2018.

b. Cash dividends per shareholder will be calculated and truncated to the nearest NTD. Fractions that do not amount to a full NT\$1 shall be summed and recognized by the Company as other income. If the Company buys back, transfers, retires, or makes new issues of its shares, or in

any other way causes changes to the number of outstanding shares on a later date, the dividend yield shall be recalculated based on the sum of cash dividends resolved during the shareholder meeting and the actual number of shares outstanding as at the ex-dividend date.

- c. Once resolved at the Annual General Meeting, the Chairman is authorized to set the ex-dividend date, adjust the dividend yield and to handle the dividend distribution matters accordingly.

4.1.7 Impact of proposed stock dividend on the Company's business performance and earnings per share

Not applicable. All dividends proposed for the upcoming shareholder meeting are entirely cash dividends and involve no stock dividends.

4.1.8 Employees' and directors' remuneration

- (1) Percentage or range of employees'/directors' remuneration stated in the Articles of Incorporation:

According to the Articles of Incorporation, profits concluded by the Company during the year are subject to employee remuneration of 0.01%~0.05%, and director remuneration of no more than 0.3%. However, profits must first be taken to offset against cumulative losses if any.

Employee remuneration can be paid in cash or in shares. Payments may also be made to employees of affiliated companies that satisfy the eligibility criteria set forth by the board of directors. However, directors' remuneration can only be paid in cash. The amount, method, beneficiary and percentage of employees'/directors' remuneration shall be resolved by the board of directors and reported to shareholders during a shareholder meeting.

- (2) Basis of calculation for employees'/directors' remuneration and share-based compensation; and accounting treatment for any discrepancies between the amounts estimated and the amounts paid:

The Company's 2018 employee remuneration and director remuneration have been estimated at NT\$10,000,000 and NT\$62,000,000, respectively, according to the Articles of Incorporation and in reference to peer levels and previous distributions. Both amounts will be paid in cash once resolved by the board of directors. If the amount changes after the consolidated financial statements are approved and announced to the public, the difference will be treated as a change in accounting estimate and recognized as a gain or loss in the following year.

- (3) Remuneration approved by the board of directors:

- a. Employees' and directors' remuneration, in cash or in shares:

Employees' remuneration: NT\$ 10,000,000.

Directors' remuneration: NT\$ 62,000,000.

- b. Percentage of employees' remuneration paid in shares, relative to after-tax profit and total employees' remuneration, as shown in standalone financial statements: Not applicable

- (4) Employees' and directors' remuneration paid in the previous year:

The Company's 2017 employee and director remunerations were approved in a special resolution during the 4th regular meeting of the 7th board of directors (2018.03.22) and later acknowledged during the 2018 annual general meeting. The final employee remuneration payment amounted to NT\$10,000,000 and the final director remuneration payment amounted to NT\$65,000,000. Both figures were identical to the amounts proposed by the Board of Directors.

4.1.9 Share buybacks: None.

4.2 Corporate bonds

Corporate bond category		2012 1st unsecured corporate bond Tranche B	2013 1st unsecured corporate bond Tranche B
Issuance date		August 15, 2012	August 28, 2013
Face value		NT\$ 1 million	NT\$ 1 million
Place of issuance and trade		R.O.C	R.O.C
Issuance price		At 100% of face value	At 100% of face value
Total issuance amount		NT\$ 5 billion	NT\$ 0.9 billion
Coupon rate		Fixed at 1.45% per annum	Fixed at 1.58% per annum
Tenor		7 years Maturity date: August 15, 2019	7 years Maturity date: August 28, 2020
Seniority		Senior	Senior
Guarantor		None	None
Trustee		Mega International Commercial Bank - Trust Department	Mega International Commercial Bank - Trust Department
Underwriter		None	None
Certifying lawyer		None	None
Certifying accountant		KPMG	KPMG
Method of repayment		Bullet repayment at maturity	Bullet repayment at maturity
Outstanding balance		NT\$ 5 billion	NT\$ 0.9 billion
Terms and conditions for early redemption or repayment		None	None
Restrictive clauses		None	None
Whether regarded as eligible capital		NO	NO
Ratings agency, date of rating, and rating awarded		Taiwan Ratings Corp.; August 9, 2012; twAA	Taiwan Ratings Corp.; August 20, 2013; twAA
Other rights	Amount of ordinary shares, global depository receipts, or other securities converted (exchanged or subscribed) up to the publication date of this annual report	None	None
	Issuance and conversion (exchange or subscription) terms	None	None
Possible dilution of equity and impact on equity of existing shareholders due to subscription or issuance terms of issuance, conversion and exchange of corporate bonds		None	None
Custodian of exchanged assets		None	None

Corporate bond category		2013 2nd unsecured corporate bond Tranche B	2014 1st unsecured corporate bond
Issuance date		December 18, 2013	July 21, 2014
Face value		NT\$ 1 million	NT\$ 1 million
Place of issuance and trade		R.O.C	R.O.C
Issuance price		At 100% of face value	At 100% of face value
Total issuance amount		NT\$ 2.55 billion	NT\$ 15 billion
Coupon rate		Fixed at 1.60% per annum	Fixed at 1.72% per annum
Tenor		7 years Maturity date: December 18, 2020	7 years Maturity date: July 21, 2021
Seniority		Senior	Senior
Guarantor		None	None
Trustee		Mega International Commercial Bank - Trust Department	Mega International Commercial Bank - Trust Department
Underwriter		None	None
Certifying lawyer		None	None
Certifying accountant		KPMG	KPMG
Method of repayment		Bullet repayment at maturity	Bullet repayment at maturity
Outstanding balance		NT\$ 2.55 billion	NT\$ 15 billion
Terms and conditions for early redemption or repayment		None	None
Restrictive clauses		None	None
Whether regarded as eligible capital		NO	NO
Ratings agency, date of rating, and rating awarded		Taiwan Ratings Corp.; December 10, 2013; twAA	Taiwan Ratings Corp.; July 11, 2014; twAA
Other rights	Amount of ordinary shares, global depository receipts, or other securities converted (exchanged or subscribed) up to the publication date of this annual report	None	None
	Issuance and conversion (exchange or subscription) terms	None	None
Possible dilution of equity and impact on equity of existing shareholders due to subscription or issuance terms of issuance, conversion and exchange of corporate bonds		None	None
Custodian of exchanged assets		None	None

Corporate bond category		2015 1st unsecured corporate bond Tranche A	2015 1st unsecured corporate bond Tranche B
Issuance date		March 30, 2015	March 30, 2015
Face value		NT\$ 1 million	NT\$ 1 million
Place of issuance and trade		R.O.C	R.O.C
Issuance price		At 100% of face value	At 100% of face value
Total issuance amount		NT\$ 6.1 billion	NT\$ 3.9 billion
Coupon rate		Fixed at 1.38% per annum	Fixed at 1.65% per annum
Tenor		5 years Maturity date: March 30, 2020	7 years Maturity date: March 30, 2022
Seniority		Senior	Senior
Guarantor		None	None
Trustee		Mega International Commercial Bank - Trust Department	Mega International Commercial Bank - Trust Department
Underwriter		None	None
Certifying lawyer		None	None
Certifying accountant		KPMG	KPMG
Method of repayment		Bullet repayment at maturity	Bullet repayment at maturity
Outstanding balance		NT\$ 6.1 billion	NT\$ 3.9 billion
Terms and conditions for early redemption or repayment		None	None
Restrictive clauses		None	None
Whether regarded as eligible capital		NO	NO
Ratings agency, date of rating, and rating awarded		Taiwan Ratings Corp.; November 19, 2014; twAA	Taiwan Ratings Corp.; November 19, 2014; twAA (Note)
Other rights	Amount of ordinary shares, global depository receipts, or other securities converted (exchanged or subscribed) up to the publication date of this annual report	None	None
	Issuance and conversion (exchange or subscription) terms	None	None
Possible dilution of equity and impact on equity of existing shareholders due to subscription or issuance terms of issuance, conversion and exchange of corporate bonds		None	None
Custodian of exchanged assets		None	None

Note: This rating is the issuer's (the Company's) credit rating. According to existing "Regulations Governing the Offering and Issuance of Securities by Securities Issuers", issuers are not required to obtain credit ratings for issuing straight bonds.

Corporate bond category		2015 2nd unsecured corporate bond Tranche B	2015 2nd unsecured corporate bond Tranche C
Issuance date		July 15, 2015	July 15, 2015
Face value		NT\$ 1 million	NT\$ 1 million
Place of issuance and trade		R.O.C	R.O.C
Issuance price		At 100% of face value	At 100% of face value
Total issuance amount		NT\$ 3.5 billion	NT\$ 9.4 billion
Coupon rate		Fixed at 1.35% per annum	Fixed at 1.65% per annum
Tenor		5 years Maturity date: July 15, 2020	7 years Maturity date: July 15, 2022
Seniority		Senior	Senior
Guarantor		None	None
Trustee		Mega International Commercial Bank - Trust Department	Mega International Commercial Bank - Trust Department
Underwriter		None	None
Certifying lawyer		None	None
Certifying accountant		KPMG	KPMG
Method of repayment		Bullet repayment at maturity	Bullet repayment at maturity
Outstanding balance		NT\$ 3.5 billion	NT\$ 9.4 billion
Terms and conditions for early redemption or repayment		None	None
Restrictive clauses		None	None
Whether regarded as eligible capital		NO	NO
Ratings agency, date of rating, and rating awarded		Taiwan Ratings Corp.; November 19, 2014; twAA (Note)	Taiwan Ratings Corp.; November 19, 2014; twAA (Note)
Other rights	Amount of ordinary shares, global depository receipts, or other securities converted (exchanged or subscribed) up to the publication date of this annual report	None	None
	Issuance and conversion (exchange or subscription) terms	None	None
Possible dilution of equity and impact on equity of existing shareholders due to subscription or issuance terms of issuance, conversion and exchange of corporate bonds		None	None
Custodian of exchanged assets		None	None

Note: This rating is the issuer's (the Company's) credit rating. According to existing "Regulations Governing the Offering and Issuance of Securities by Securities Issuers", issuers are not required to obtain credit ratings for issuing straight bonds.

Corporate bond category		2018 1st unsecured corporate bond Tranche A	2018 1st unsecured corporate bond Tranche B
Issuance date		September 4, 2018	September 4, 2018
Face value		NT\$ 1 million	NT\$ 1 million
Place of issuance and trade		R.O.C	R.O.C
Issuance price		At 100% of face value	At 100% of face value
Total issuance amount		NT\$ 1.7 billion	NT\$ 8.3 billion
Coupon rate		Fixed at 0.85% per annum	Fixed at 0.95% per annum
Tenor		5 years Maturity date: September 4, 2023	7 years Maturity date: September 4, 2025
Seniority		Senior	Senior
Guarantor		None	None
Trustee		Mega International Commercial Bank - Trust Department	Mega International Commercial Bank - Trust Department
Underwriter		None	None
Certifying lawyer		None	None
Certifying accountant		KPMG	KPMG
Method of repayment		Bullet repayment at maturity	Bullet repayment at maturity
Outstanding balance		NT\$ 1.7 billion	NT\$ 8.3 billion
Terms and conditions for early redemption or repayment		None	None
Restrictive clauses		None	None
Whether regarded as eligible capital		NO	NO
Ratings agency, date of rating, and rating awarded		Taiwan Ratings Corp., November 23, 2017, twAA (Note)	Taiwan Ratings Corp., November 23, 2017, twAA (Note)
Other rights	Amount of ordinary shares, global depository receipts, or other securities converted (exchanged or subscribed) up to the publication date of this annual report	None	None
	Issuance and conversion (exchange or subscription) terms	None	None
Possible dilution of equity and impact on equity of existing shareholders due to subscription or issuance terms of issuance, conversion and exchange of corporate bonds		None	None
Custodian of exchanged assets		None	None

Note: This rating is the issuer's (the Company's) credit rating. According to existing "Regulations Governing the Offering and Issuance of Securities by Securities Issuers", issuers are not required to obtain credit ratings for issuing straight bonds.

Corporate bond category		2018 2nd unsecured corporate bond Tranche A	2018 2nd unsecured corporate bond Tranche B
Issuance date		November 22, 2018	November 22, 2018
Face value		NT\$ 1 million	NT\$ 1 million
Place of issuance and trade		R.O.C	R.O.C
Issuance price		At 100% of face value	At 100% of face value
Total issuance amount		NT\$ 0.7 billion	NT\$ 1.5 billion
Coupon rate		Fixed at 0.85% per annum	Fixed at 0.95% per annum
Tenor		5 years Maturity date: November 22, 2023	7 years Maturity date: November 22, 2025
Seniority		Senior	Senior
Guarantor		None	None
Trustee		Mega International Commercial Bank - Trust Department	Mega International Commercial Bank - Trust Department
Underwriter		None	None
Certifying lawyer		None	None
Certifying accountant		KPMG	KPMG
Method of repayment		Bullet repayment at maturity	Bullet repayment at maturity
Outstanding balance		NT\$ 0.7 billion	NT\$ 1.5 billion
Terms and conditions for early redemption or repayment		None	None
Restrictive clauses		None	None
Whether regarded as eligible capital		NO	NO
Ratings agency, date of rating, and rating awarded		Taiwan Ratings Corp., November 23, 2017, twAA (Note)	Taiwan Ratings Corp., November 23, 2017, twAA (Note)
Other rights	None	None	None
	None	None	None
Possible dilution of equity and impact on equity of existing shareholders due to subscription or issuance terms of issuance, conversion and exchange of corporate bonds		None	None
Custodian of exchanged assets		None	None

Note: This rating is the issuer's (the Company's) credit rating. According to existing "Regulations Governing the Offering and Issuance of Securities by Securities Issuers", issuers are not required to obtain credit ratings for issuing straight bonds.

4.3 Issuance of preferred shares

1. Fubon Financial Holding Class A Preferred Shares

Item \ Issuance (launch) date		April 21, 2016 (Fubon Financial Holdings Class A Preferred Shares)
Face value		NT\$ 10
Issuance price		NT\$60 per share
Shares held		Total 600,000,000 shares
Total issuance amount		NT\$ 36,000,000,000
Rights and obligations	Distribution of dividends and bonus	<p>1. Dividends: 4.10% per annum for Class A Preferred Share (7-year IRS 0.885%+3.215%) calculated pursuant to issue price per share. Interest rate per annum will be reset on the day after the 7th anniversary of the issue date (“Issue Date”) and the day after each subsequent 7-year period hereafter. Reset interest rate is calculated as 7-year IRS + 3.215%. Record date of the interest reset shall be set on the second financial institution business day in Taipei before the actual reset. The 7-year IRS benchmark rate shall be the arithmetic mean of 7-year IRS quotations as published by Reuter for PYTDWFIX and COSMOS3 at 11:00 a.m. on the day of reset record date (must be a financial institution business day in Taipei). If the above quotations cannot be obtained on reset record date, interest rate shall be decided by the Company in good faith and taken into account of reasonable market rate.</p> <p>2. Dividend payment: The Company has sole discretion on dividend issuance of Class A Preferred Share, including but not limited to its discretion to not declare dividends when no profit is recorded, or insufficient profit is recorded for Preferred Share dividends, or preferred share dividend declaration would render the Company’s capital adequacy ratio below level required by law or relevant authorities. The Company’s cancellation of preferred share dividend declaration shall not be deemed an event of default. Undeclared or underdeclared dividends are not cumulative, and are not paid in subsequent years with profit. In the year with profit, before the Company can distribute dividends for Class A Preferred Share, the Company shall set aside out of the Company’s profits:(i) a settlement for payment of tax for the relevant financial year; (ii) an offset of its losses in previous years that have not been previously offset; (iii) a statutory reserve (“Legal Reserve”); and (iv) reserve special reserve pursuant to legal requirement or actual need. Dividends for Class A Preferred Shares are declared once per year in cash. After shareholders’ approval of the Company’s financial statements at its annual shareholders meeting, the board may set record date for distribution of available dividends from the previous year. Dividend distribution for the years of issuance and redemption shall be calculated pursuant to actual issued days of the given year. Dividends distributed shall be included in the dividend certificate.</p> <p>3. Excessive Dividend Distribution: Except for receipt of dividends at the aforementioned dividend rate, Class A Preferred Shares holders cannot participate in distribution of cash or stock dividends to holders of common shares from profit or additional paid-in capital.</p>
	Priority of Claims in Liquidation	In the event of liquidation, holders of Class A Preferred Shares shall have the same priority of claim as holders of all subsequently issued preferred share, which are prior to holders of common share, but subordinated to general creditors. Preferred share holders' claims are limited to an amount equal to the multiplication of (i) the prevailing number of outstanding Class A Preferred shares and (ii) per-share issue price of preferred shares.
	Exercise of voting rights	Class A Preferred Shares holders have no voting right at the annual shareholders meeting, and cannot elect directors but are eligible as director candidates. Holders of Class A Preferred Shares have voting rights at shareholders meeting of Class A Preferred Shares, and at annual shareholders meeting on items relating to rights of Class A Preferred Shares holders.
	Others	When the Company conduct rights issue for cash, holders of Class A Preferred Shares have the same subscription right as holders of common shares.

Outstanding preferred shares			Amount recalled or converted	NT\$ 0
			Balance not yet recalled or converted	NT\$ 36,000,000,000
			Terms of recall/ conversion	1. Class A Preferred Shares cannot be converted to common shares and holders do not have the right to request the company to redeem preferred shares. 2. On the day after the 7th anniversary of the Issue Date, the Company may redeem all or part of outstanding Class A Preferred Shares at issue price. Rights and obligations of the unredeemed Class A Preferred Shares shall remain the same as mentioned above.
Market price per share	2017	High	64.00	
		Low	61.60	
		Average	62.85	
	2018	High	65.90	
		Low	62.30	
		Average	64.44	
	Year-to-date February 28, 2019	High	64.80	
		Low	64.00	
		Average	64.38	
Other rights	Amount converted or subscribed up till the publication of annual report		Class A preferred shares cannot be converted into common shares	
	Issuance and conversion/ subscription rules		None	
Possible dilution of equity and impact on equity of existing shareholders due to issuance of preferred shares				None

2. Fubon Financial Holding Class B Preferred Shares

Issuance (launch) date		January 17, 2018
Item	(Fubon Financial Holding Class B Preferred Shares)	
Face value	NT\$ 10	
Issuance price	NT\$60 per share	
Shares held	Total 666,660,000 shares	
Total issuance amount	NT\$ 39,999,600,000	
Rights and obligations	Distribution of dividends and bonus	<p>1. Dividends: The dividend yield is set at 3.6% per annum (equal to the sum of 7-year IRS 1.17%+2.43%) on the issue price. Interest rate per annum will be reset on the day after the 7th anniversary of the issue date ("Issue Date") and the day after each subsequent 7-year period hereafter. The IRS rate will be reset every 7 years based on the average rate of TAIFXIRS and COSMOS3 at 11:00am on the date which is two business days prior to the interest rate reset date. If no such rate can be obtained, the company will determine the rate based on reasonable market price with good faith.</p> <p>2. Dividend payment: Cash dividends will be distributed annually in arrears. Once the Company's Audited Financial Reports have been acknowledged in the annual general meeting of the shareholders, the Board shall be authorized to set the payment date for the distribution of the payable preferred share dividends for the previous year. In the year of issuance and redemption, the distribution of the payable dividends shall be calculated based on the actual number of days the Preferred Shares remained outstanding in that year. The fiscal year-end earnings of the Company shall be applied in the following order: payments of taxes, making-up of deficit, legal reserve, special reserve by law, and the remaining shall be paid to holders of Class B preferred shares as the current year's dividends. The company has discretion over the dividend distribution of Class B preferred shares. The company may decide not to distribute dividends of Class B preferred shares in the following circumstances: (a) there are no earnings in a fiscal year, (b) the</p>

		earnings are insufficient to distribute dividends of Class B preferred shares, and (c) the distribution of dividends of Class B preferred shares will cause the capital adequacy ratio to be lower than the regulatory requirements. The cancellation of dividend payment should not constitute an event of default. The Class B preferred shares are noncumulative, and the preferred shareholders do not have the right to claim any of the unpaid or omitted dividends in the future.	
		3. Excessive Dividend Distribution: Except for receipt of dividends at the aforementioned dividend rate, Class B Preferred Shares holders cannot participate in distribution of cash or stock dividends to holders of common shares from profit or additional paid-in capital.	
Priority of Claims in Liquidation		The order of claim for distribution of property is prior to ordinary shares, and the claims of all series of preferred shareholders are equal. The repayment shall be capped at the respective issue amount of preferred shares B upon liquidation.	
Exercise of voting rights		Class B Preferred Shares holders have no voting right at the annual shareholders meeting, and cannot elect directors but are eligible as director candidates. Holders of Class B Preferred Shares have voting rights at shareholders meeting of Class B Preferred Shares, and at annual shareholders meeting on items relating to rights of Class B Preferred Shares holders.	
Others		When the Company conduct rights issue for cash, holders of Class B Preferred Shares have the same subscription right as holders of common shares.	
Outstanding preferred shares	Amount recalled or converted		NT\$ 0
	Balance not yet recalled or converted		NT\$ 39,999,600,000
	Terms of recall/ conversion		1. Class B Preferred Shares cannot be converted to common shares and holders do not have the right to request the company to redeem preferred shares. 2. Class B Preferred Shares are perpetual but may be redeemed in whole or in part at issue price any time after seven years of issuance at the option of the Company. Unredeemed preferred shares shall continue to have the rights and obligations of issuance terms prescribed in this Article.
Market price per share	107	High	62.00
		Low	60.40
		Average	61.01
	Year-to-date February 28, 2019	High	62.60
		Low	61.90
		Average	62.24
Other rights	Amount converted or subscribed up till the publication of annual report		Class B preferred shares cannot be converted into common shares
	Issuance and conversion/ subscription rules		None
Possible dilution of equity and impact on equity of existing shareholders due to issuance of preferred shares			None

4.4 Issuance of global depository receipts

Issuance date			July 9, 2013
Items			
Issuance date			July 9, 2013; issuance of Fubon Financial Holding Co., Ltd. Global Depository Receipt (GDR)
Place of issuance and trade			Listing: Bourse De Luxembourg; issuance: Europe, Asia and America
Total sum issued			Eight Hundred and Fifty Million United States Dollars
Issuance price per unit			USD 12.17 per unit (representing ten ordinary shares)
Number of units issued			69,843,879 units of GDR were issued at initiation
Source of underlying securities			All ordinary shares represented by GDR were issued against additional cash capital
Number of securities represented			The GDR represented a total of 698,438,790 ordinary shares of the Company (based on total units issued)
Rights and obligations of GDR holders			Same as ordinary shareholders
Trustee			The Bank of New York Mellon
Depository			The Bank of New York Mellon
Custodian			HSBC Bank (Taiwan)
Outstanding units			There were 1,735,339 GDR units outstanding as of 2019.2.28, which represented 17,353,395 ordinary shares of the Company (including 2,740,201 GDR units transferred from London Stock Exchange on November 5, 2013)
Allocation of expenses incurred at initiation and over the remaining duration			Maintenance cost is borne by the Company for the entire duration
Key terms of the depository and custodian agreement			The rights and obligations of GDR holders are governed by the terms of the depository agreement and the laws of the Republic of China.
Market price per unit	2018	High	USD\$ 18.60
		Low	USD\$ 15.09
		Average	USD\$ 16.87
	Year-to-date as February 28, 2019	High	USD\$ 15.27
		Low	USD\$ 14.26
		Average	USD\$ 14.58

4.5 Employee stock options: None.

4.6 Employees' restricted shares: None.

4.7 Merger or acquisition of other financial institutions

4.7.1 Financial institutions merged or acquired in the last year:

The disclosure of the CPA's opinion on the reasonableness of the conversion ratio: None.

4.7.2 Mergers or acquisitions of other financial institutions in the last five years

Where a financial institution was merged or acquired by way of new share issuance, the lead underwriter's evaluation and opinions must be disclosed: None.

4.7.3 Issuance of new shares for merger or acquisition of other financial institutions that the board of directors has approved in the last year, up to publication date of annual report:

None

4.8 Capital plans and execution

All previous securities issuance plans have been completed. No project had failed to achieve the intended purpose.

5. Business Overview

5.1 Business overview of the Company

5.1.1 Scope of business

(1) Business activities

The Company engages in financial holding business.(H801011).

The Company's principal business activities:

a. The Company may invest into the following business activities:

Financial holding company

Banking business

Bills finance

Credit card business

Trust

Insurance

Securities

Futures

Venture capital

Foreign banking institutions approved by the competent authority

Other banking related business which is approved by the competent authority

b. Management of the above invested business entities.

c. The Company may apply for approval of its investment in businesses other than those listed in a., subject to the approval of the competent authority.

d. Other relevant business approved by the competent authority.

(2)Revenue weight

Unit: thousand dollars; %

Annual revenues		2018		2017	
		Amount	Percentage (%)	Amount	Percentage (%)
Investment gains recognized using the equity method	Fubon Insurance	3,823,064	7	3,557,961	6
	Taipei Fubon Bank	18,497,497	33	15,956,328	27
	Fubon Securities	2,092,719	4	2,816,350	5
	Fubon Life	25,142,841	45	32,883,422	56
	Fubon Bank (HK)	3,589,500	7	2,598,258	5
	Others subsidiaries and equity law investments	864,199	2	577,789	1
	Subtotal	54,009,820	98	58,390,108	100
Interest revenue		36,630	-	15,719	-
Other non-interest net revenues		1,241,855	2	16,706	-
Total net revenue		55,288,305	100	58,422,533	100

New products and services planned for the future: not applicable.

5.1.2 Business plans for the year

Performance of the global economy in 2018 was characterized by a series of mild expansion, with the USA achieving relatively stronger growth compared to the rest of the world due to tax cuts and

improved employment. Meanwhile, growth of the Eurozone weakened due to political risk and impacts of the trade war that undermined business confidence, whereas Japan performed below expectation due to disturbance of natural disaster and the trade war. China, too, exhibited a slowdown in economic growth due to tightened financial supervision and ongoing trade war that undermined consumer and investor confidence, but still managed to achieve its target growth for the year. As economies expanded and inflation recovered, key central banks continued to normalize monetary policies, causing yield curves to flatten. However, stock markets around the world began to exhibit extreme volatility in the fourth quarter, and strengthening of the U.S. dollar resulted in a substantial fall in U.S. bond yields. Subsidiaries of Fubon Financial Holdings have sustained their strong performance, delivering net income totaling NT\$47.73 billion and an EPS of NT\$4.52, thereby making Fubon the most profitable financial holding company in Taiwan in terms of EPS for the 10th consecutive year.

The global economy has already sustained two consecutive years of high growth, and given the ongoing China-USA trade conflict and tightening of monetary policy by main central banks, the world's major economies should exhibit a slowdown in growth in 2019. Due to uncertainties associated with the global trade war, prospects of the U.S. economy, growth of the Chinese economy and outflow of capital from the emerging market, the global market is highly likely to exhibit extreme volatility in the coming year. In the future, Fubon Financial Holdings will continue to enforce risk management and pursue long-term, sustainable growth as the top priority, and aim to become the pioneer in financial technology through active investment. Fubon Life will continue development of innovative products to address customers' diverse needs including retirement planning, asset allocation, heritage, medical, protection and new forms of coverage. Through the use of diverse channels and financial technologies, the subsidiary aims to build a common brand and develop the efficiency needed to grow into overseas markets. Meanwhile, Taipei Fubon Bank will be focusing on customer segment management and development of diverse payments and digital service innovations to bring comprehensive financial services into customers' lives. By introducing intelligent investment and common financial services, the Bank will aim to reach potential customers through LINE and cross-border services in ways that achieve asset growth and enforce its customer-centric philosophy. Fubon Insurance, on the other hand, remains committed in developing new insurance products and delivering best customer experience through cross-selling channels. In terms of insurance technology, Fubon Insurance continues to develop AI-driven digital services and build a complete patent portfolio. While growing the Taiwanese market, Fubon Insurance also targets overseas opportunities as a way to maintain market leadership. Lastly, Fubon Securities adheres to its goal of maintaining consistent growth with a risk management focus. Through introduction of distinguished service features such as diversified investment platform, optimized online service, big data analysis, intelligent customer service, financial advisory robot and smart order placement, Fubon Securities plans to create differentiated customer experience and emerge as the top brokerage house in the Greater China Region.

In addition to strengthening our foothold in Taiwan, Fubon Financial Holdings has also been active in expanding regional presence and building a banking, insurance and asset management service network that stretches across the Taiwan, Hong Kong, China and other parts of Asia. In September 2018, subsidiary - Fubon Life increased its shareholding interest in Hyundai Life to 62%, gaining official control over the latter and renamed it "Fubon Hyundai Life." In the future, Fubon Financial Holdings will continue seeking collaborative opportunities and take progressive steps toward becoming one of Asia's first-class financial institutions.

5.1.3 Current and future industry prospects

The global economy has already sustained two consecutive years of high growth between 2017 and 2018; in comparison, growth of the world's major economies will inevitably slow down in 2019 particularly given the deferred effect of the U.S. tax cut, the ongoing China-USA trade war, and central banks' tightened monetary policies. Economic outlook for 2019 will largely depend on: Fed's interest rate decisions, monetary policies of European/Asian central banks, subsequent development of the China-USA trade war, and political/economic circumstances of European and emerging markets. Fubon Financial Holdings will continue to enforce risk management and direct focus towards quality service and optimal asset allocation, while at the same time observe closely changes in the world's major economies and industries. The Company will also evaluate and embrace business opportunities with discretion.

With the world's major economies expecting to exhibit growth slowdown in 2019, Taiwan's financial

industry will continue to be presented with tough challenges. Meanwhile, the series of policy support and deregulation from FSC are expected to bring more opportunities to the financial industry and inspire innovation to products and services. However, as corporate governance, compliance and AML standards tighten, industry participants are presented with rising operating costs, meaning that financial institutions will have to operate with much greater discretion, thereby enable the local financial industry to develop competitiveness over time.

5.1.4 Research & development spending and accomplishments in the last two years

Today, technology has evolved to a point where it becomes the source of innovation for new products and services in the financial industry. In response to this development, Fubon Financial Holdings combined resources and manpower throughout its subsidiaries and founded an Innovative Technology Office towards the end of 2015 with the goal of turning Fubon into a “one-stop financial supermarket.” The Innovative Technology Office specializes in researching applications of various financial technologies such as digital cash flow, big data analysis, information security etc and introducing innovative services including intelligent robot, financial advisory robot, blockchain payment with Taiwan Taxi, and blockchain-enabled Networked Insurance through Fubon Insurance. Through collaboration with industry participants and the academia, the Innovative Technology Office has been fruitful in the planning and execution of new projects and digital innovations.

5.1.5 Future R&D plans

Fubon Financial Holdings will speed up development efforts in new areas such as big data and AI, and explore innovative applications in products and alternative scenarios. Through registration of financial patents, the Company aims to expand strategic partnership and create a financial ecosystem driven by industry-leading digital technologies. In addition, the organization will continue to host annual FinTech competitions as a means to inspire creativity among employees. Through industry-academia collaboration programs, we hope to recruit quality talents that have the potential to contribute to the organization's overall creative energy.

5.1.6 Long and short-term business plans

(1) Short-term business plans

For the coming year, Fubon Financial Holdings will focus on tightening risk control, developing innovative financial technology, introducing products that meet the needs of the digital era and the aging society, delivering top quality and heartfelt services, and creating an ecosystem of inclusive, lifestyle-inspired services. By coordinating resources across subsidiaries, we shall continue to establish a banking, insurance and asset management service network that stretches across Taiwan, Hong Kong, China and other corners of Asia.

(2) Long-term business plans

Fubon Financial Holding has long positioned itself as a professional financial group offering full range of products. It has the flexibility to adjust growth strategies through internal pacing and external mergers and acquisitions. This growth strategy has contributed to its market dominance today, and will continue to work in its favor towards becoming one of Asia’s first-class financial institutions.

- a. Expand cross-selling synergies between subsidiaries and connections in our overseas operations
- b. Capture opportunities and regulatory changes and to develop niche products
- c. Enhance support for FinTech development, explore new scenarios and applications, and create an ecosystem of strategic partners

5.1.7 Market and business overview

(1) Locations where products (services) are mainly sold (provided)

Locations where products (services) are mainly sold (provided)	Mainly sold/provided in Taiwan
Banking	Mainly sold/provided in Taiwan, and partially in China
Life insurance	Mainly sold/provided in Taiwan
Non-life insurance	Mainly sold/provided in Taiwan, and partially in China
Securities	Mainly sold/provided in Taiwan
Asset management	Mainly sold/provided in Taiwan
Venture capital investment	Mainly sold/provided in Taiwan
Insurance agency	Mainly sold/provided in Taiwan

(2) Future market supply and demand

- a. Supply: The authority's continuous efforts in promoting financial innovation and deregulation will help diversify the supply of financial products and enhance differentiation of financial services. It is within expectation that industry peers will begin investing significant resources to improve customer experience and attachment. Fubon Financial Holdings is one of the largest private financial holding companies in Taiwan. Not only has it delivered the best profit performance among peers, the group continues to bring innovative ideas and broad variety of products and services to win customers' trust, and thereby strengthen its market dominance.
- b. Demand: Due to advancement in financial and information technologies, the public's knowledge towards financial instruments and services have sophisticated and are now demanding for broader product variety and more refined services. Fubon's expansion overseas has further expanded the scope of financial products and services offered, while tightened collaboration with Asian markets is fueling customers' demand for financial products and services across borders and within the Greater China Region. Fubon Financial Holdings is well-positioned in Asia to capitalize on this trend and establish itself as one of Asia's first-class financial institutions.

5.2 Business overview of Fubon Life

5.2.1 Scope of business

(1) Business activities

Sale and service of life insurance products.

(2) Weight of business activities

Unit: in multiples of \$100 million

Items	2017		2018	
	Amount	Percentage	Amount	Percentage
Life insurance	4,372.6	84.8%	4,554.3	83.9%
Health insurance	410.7	8.0%	418.7	7.7%
Accidental insurance	66.2	1.3%	66.7	1.2%
Annuity insurance	304.9	5.9%	390.0	7.2%
Total premium revenues	5,154.4	100.0%	5,429.7	100.0%

(3) New products and services planned for the future

- a. Medical or retirement features will be introduced into product design to accommodate the aging society. The company will also collaborate with partners from different industries to complement its insurance products and services for the public.
- b. Develop innovative insurance technologies and enhance the underwriting/claim/customer service procedures for improved satisfaction and competitiveness.

- c. Expand digital marketing channels and develop innovative products that can be purchased online.
- d. Expand points of contact with customers and provide convenient services for improved experience.

5.2.2 Business plans for the year

- (1) Enrich product line and introduce innovative products to address the needs of different groups.
- (2) Strengthen the proprietary distribution network with a focus on increased production capacity, and enhance collaboration with external distribution networks for secured market position.
- (3) Integrate Fubon group resources and work more closely with affiliated enterprises for additional cross-selling synergy.
- (4) Introduce heartfelt digital technologies and services to create an business ecosystem of health management and exercise, and improve operating efficiency.
- (5) Fulfill ESG values and convey positive energy for building localized brand.

5.2.3 Current and future industry prospects

According to statistics prepared by the Life Insurance Association, Taiwan's life insurance industry earned NT\$3,511.6 billion in premiums in 2018, representing a 2.7% growth over the previous year. Among which, first-year premiums totaled NT\$1,380 billion representing a 9.5% growth year-on-year. In terms of product sales, interest sensitive products delivered the best performance, generating first-year premiums totaling NT\$754.4 billion, which represented a weight of 54.7%; investment-linked products delivered the next best performance, generating NT\$503.4 billion in first-year premiums that represented 36.5% in weight. Meanwhile, traditional products generated NT\$122.2 billion in first-year premiums, representing a weight of 8.9%.

[Statistics on Life Insurance Premiums]

Unit: in multiples of \$100 million

Premium type	2017	2018	Growth rate
First-year premiums	12,607	13,799	9.5%
Renewal premiums	21,595	21,316	-1.3%
Total premium revenues	34,202	35,116	2.7%

Source: Life Insurance Association

[Key Indicators for Taiwan's Life Insurance Market]

Unit: in multiples of \$100 million

Product	2017		2018		
	FYP	Weight	FYP	Weight	Growth rate
Traditional	1,549	12.3%	1,222	8.9%	-21.1%
Interest sensitive	7,063	56.0%	7,544	54.7%	6.8%
Investment-linked	3,996	31.7%	5,034	36.5%	26.0%
Total	12,607	100.0%	13,799	100.0%	9.5%

Source: Life Insurance Association

[Key Indicators for Taiwan's Life Insurance Market]

Year	2014	2015	2016	2017	2018
Population (thousands)	23,434	23,492	23,540	23,571	23,589
Income per capita (in multiples of \$100 million)	140,189	146,299	149,068	152,799	153,323
Total premium revenues (in multiples of \$100 million)	27,711	29,267	31,334	34,202	35,115
Ratio of having insurance coverage (%)	230.61	234.16	240.35	246.04	-
Ratio of prevalence (%)	294.86	287.42	289.29	293.25	-
Total premiums/income per capita (%)	19.77	20.00	21.02	22.38	22.90

Source: Life Insurance Association

5.2.4 Research & development spending and accomplishments in the last two years

(1) Research and development spending in the last 2 years

Unit: NTD thousands

Year	2017	2018
Amount	111,191	90,228

(2) Research and development expenses and outcomes in the last year

a. Product development

Fubon Life continued to develop products for customer needs of different groups and assist customers in structuring comprehensive insurance coverage. The company has been focusing on the development of health promotion products and substandard insurance policies as means to promote health management awareness among policyholders. Significant efforts were committed to promoting awareness towards the four retirement accounts, namely pension, medical, long term care and liability. By covering shortfalls in the four accounts, the company encourages its policyholders to plan for retirement and medical coverage in advance. Fubon Life continues to anticipate and act on the increasing demand and deregulation of online insurance, and was able to grow online insurance service further in 2018.

b. Customer service

The company continues to develop an express claim system (easy Pay) that enables customers to receive claim payment in as little as 0.5 day simply by submitting data, signing and uploading documents online. This system will greatly improve efficiency of the overall claims process. An “Express Hospitalization Claim” service was introduced in 2018 in collaboration with several medical centers including Mackay Memorial Hospital, Taichung Veterans General Hospital and Hualien Tzu Chi Hospital, which enabled patients to offset hospitalization expenses directly against insurance claims. The subsidiary will be expanding this service to other hospitals in 2019, and make optimizations to the operating system for enhanced service efficiency. In terms of system enhancement, several optimizations have been made to “Mobile e-Service,” the policyholder service App, including the use of different visual interfaces based on Target Users' preference. With a refreshing user interface, the APP may help raise policyholders' satisfaction and strengthen brand image.

5.2.5 Future R&D plans

(1) Product development

The company will adjust product strategy according to market dynamics, and develop differentiated products to satisfy the needs of different customers at different life cycles. For digital customers, the subsidiary aims to create an business ecosystem of health management, exercise, and tourism activities, and develop distinguished products and services that can be cross-sold or marketed outside the financial group to new digital customers. Furthermore, retirement plans and medical products will be developed in line with the company's 2019 strategies, for which the company will coordinate resources throughout the group and work with business partners from other industries to structure products and services needed by customers at old age.

(2) Customer service

AI technology will be introduced to insurance as a means to improve service efficiency and address customers' needs, while at the same time simplify and quicken the claims process. By introducing heartfelt digital technologies and services, the company aims to improve its operating efficiency.

Furthermore, to fulfill corporate social responsibilities, the company will continue executing ESG projects and take part in Fubon Group's existing sports programs as a means to exert positive influence.

(3) Expected R&D spending

Unit: NTD thousands

Items	R&D expenses planned over the next year
Amount	159,086

5.2.6 Long and short-term business plans

(1) Short-term business plans

- Enrich product line and introduce innovative products to address the needs of different groups.
- Strengthen the proprietary distribution network with a focus on increased production capacity, and enhance collaboration with external distribution networks for secured market position.
- Introduce heartfelt digital technologies and services to improve operating efficiency.
- Integrate group resources and work more closely with affiliated enterprises for additional cross-selling synergy.

(2) Long-term business plans

- Grow diversified channels and build a popular brand that emphasizes on customer experience and integrated marketing through physical and virtual channels.
- Expand product diversity; promote top revenue contributors to ensure consistent growth.
- Utilize advantages of digital channels to create an business ecosystem of health management and exercise.
- Implement environmental, social and governance (ESG) projects as the means to fulfill social responsibilities and achieve sustainable operations.
- Enhance training of local and overseas talents; develop a robust talent nurturing and management system.
- Enhance regulatory compliance and risk management measures.
- Expand overseas markets and undertake robust management practice.

5.2.7 Market and business overview

(1) Locations where products (services) are mainly sold (provided): Taiwan

(2) Future market supply and demand

An aging society brings new opportunities including retirement planning, long-term care coverage and asset allocation; all of which will become the focus of the insurance industry's product design and promotion efforts. In addition to helping the middle-age population plan for retirement, Fubon Life will also assist the young generation in building their retirement plans and coverage in life, and explore more in-depth penetration in all age groups. Use of insurance technology is the industry's latest trend, one that Fubon Life will continue to exploit by introducing online insurance application channels and enhancing customer experience. With service process optimization, the company will be able to provide customers with better and more efficient services that meet their needs.

[First-year Premiums and Total Premiums Earned by Taiwan's Life Insurance Industry]

Unit: in multiples of \$100 million

Year	First-year premium		Total premium revenues	
	Amount	Growth rate	Amount	Growth rate
2014	11,697	5.7%	27,711	7.3%
2015	11,863	1.4%	29,267	5.6%
2016	12,705	7.1%	31,334	7.1%
2017	12,607	-0.8%	34,202	9.2%
2018	13,799	9.5%	35,116	2.7%

Source: Life Insurance Association

(3) Business targets

[Business Targets]	
	2019 targets
First-year premium	NT\$ 184.45 billion
Total premium revenues	NT\$ 561.81 billion

(4) Opportunities and threats

a. Opportunities

- (a) Taiwan is en route to becoming an aged society, for which the government is actively encouraging life insurance companies to develop products that are relevant to issues.
- (b) Restrictions of online insurance application are being lifted, which provides insurance companies with the opportunity to introduce new identification measures online along with broader service variety and more efficient procedures over the Internet.
- (c) The authority has made plans to shorten review procedures for innovative products and is offering differentiated incentives to encourage development of insurance products in greater variety for broader market opportunities.
- (d) The authority has relaxed restrictions for insurance companies to invest into long-term care businesses and public infrastructures. Plans are also being made to expand the market size of long-term fixed income products, which will open up investment prospects for the insurance industry.

b. Threats

- (a) There is high degree of uncertainty concerning the prospect of the global economy in 2019. The China-USA trade war, stock market movements and exchange rate changes will all affect profitability of a life insurance company.
- (b) Adoption of IFRS17 involves implementation of new systems, risk management practices and internal control procedures. The company will incur additional system installation costs and compliance costs as a result.
- (c) Life insurance companies are actively competing for market share and distribution channels.
- (d) Lack of international talents when venturing abroad.

5.3 Business overview of Taipei Fubon Bank (including subsidiary):

5.3.1 Scope of business

(1) Business activities

The company is a bank. Its primary business activities include institutional banking, retail banking, financial market banking and those of its overseas subsidiary. Institutional banking includes services such as corporate finance, international banking, corporate trust, and public treasury; retail banking includes wealth management, consumer finance, and personal trust services; whereas treasury includes capital management, investment management, treasury transaction and instrument sale services. Business activities of overseas subsidiary refer to those conducted by the Bank's subsidiary - Fubon Bank (China).

(2) Weight of business activities

Business category	Weight of business activities
Institutional banking	28%
Retail banking	47%
Financial market banking	17%
Overseas subsidiary	10%
Others	(2)%

Note:

1. Taipei Fubon Bank underwent a re-organization in 2018 that resulted in the introduction of a new

Financial Market segment

2. The negative revenue weight of other department was primarily due to lower gains on one-time disposal of equity holding and lower gains on disposal of fixed assets compared to 2017
- (3) New products and services planned for the future
 - a. The Bank will integrate internal resources with those of the financial group to satisfy customers' needs for asset allocation and financial consultation, and take progressive steps toward becoming the Total Solution Provider from customers' perspective.
 - b. Expand diversity of trade service for diversified and more stable profits.
 - c. Enhance the financial selling platform with comprehensive overseas financial services. Build complete overseas investment channels that Taiwanese businesses and local customers may utilize to access a broader range of financial products and services.

5.3.2 Business plans for the year

(1) Institutional banking

- a. Identify focus on target markets; offer consultative solutions to large businesses and provide them with comprehensive funding, financial advisory and hedging support for strengthened relationship. Develop fresh business models for domestic SMEs and aim to improve ranking and market share in SME service; enhance cross-industry alliance and introduce blockchain technology for more innovative and convenient products/services.
- b. Grow the green banking portfolio by choosing sound green energy prospects. Coordinate channel, product and credit departments to establish customized financing guidelines. Support the government's energy conservation policies and work with industry participants to grow green banking opportunities.
- c. Grow businesses in the Greater China Region and restructure portfolio for improved margins. Emphasize on growing credit, cash management and high net worth asset management services; capitalize on equity restructuring and listing opportunities in Taiwan/China.
- d. Create an integrated and coordinated overseas platform that supports active venture into Asia Pacific banking services and helps capitalize on the emerging opportunities in Southeast Asia. Operate Hong Kong Branch and Singapore Branch as Southeast Asian hubs; use the Indonesian representative office for gathering business intelligence and make entry into the Indo China Peninsula through Vietnam Branch. By creating an integrated and coordinated overseas platform, the Bank will be able to assist businesses in raising capital overseas and capitalize on the supply chain shift following the China-USA trade war.

(2) Retail banking

- a. Meet the investment and wealth transfer needs of elderly consumers by introducing suitable insurance, investment and trust products/services. Aim to satisfy customers' needs throughout different stages in life and improve service experience during the process.
- b. Consolidate credit facility and interest rate packages to satisfy customers' diverse financing requirements. Optimize online lending service and develop high quality customers within the financial group. Offer credit facilities and interest rates from customers' perspective and apply intelligent marketing to satisfy customers' diverse financing requirements.
- c. Adjust card strategy to align with customers' needs; commit marketing efforts to focus industries and capitalize on consumer opportunities in overseas travel and e-commerce.
- d. Develop AI as a support to investment consultation and asset allocation for improved customer experience. Develop financial advisory robot as an enhancement to the quality of financial advisory service. Increase allocation of low-volatility assets and secure the Bank's leading position in fixed income products.
- e. Promote mobile payment and cooperate actively with peers to build an Open Banking ecosystem.

(3) Overseas subsidiary

- a. Continue expansion of branch network and strengthen IT infrastructures. Grow scale of asset and liability and leverage Fubon's advantage as the first fully licensed Taiwanese bank in China to widen its lead over Taiwanese peers.
- b. Serve SMEs and top-performing private businesses. Shift financing focus towards supply chain, utility and technology companies; source customers through existing business partners.
- c. Support Taiwanese enterprises in business development and explore new active customers through them. Promote coordination between wholesale and retail banking and explore banking relationship with related individuals and businesses. Cooperate with Taipei Fubon Bank on maintaining a robust customer service system that delivers improved service experience.
- d. Attract stable supply of capital while controlling liability to peers for proper matching of loans and investments. Increase holding of highly liquid assets.
- e. Explore high net worth and long-tail customers; inspire innovation and transformation in retail banking. Enhance customer service, product, marketing channel and infrastructure construction; aim to increase the scope of retail banking services delivered over the Internet.

5.3.3 Current and future industry prospects

Escalation of trade war brings challenges to the global economy. Ongoing trade war between China and USA has caused supply chains to shift and the process gave rise to new opportunities. Vietnam is perhaps the greatest beneficiary of this supply chain shift, and being the Taiwanese bank with the highest number of offices and more than 10 years of localized experience, Fubon has the advantage to provide integrated financial services to local corporate customers.

Financial supervision has tightened around the world from FATCA to the Common Reporting Standard. Furthermore, authorities around the world have directed attention towards AML and CTF in recent years, which significantly increased compliance cost for financial institutions. In the future, banking institutions will have to follow regulatory changes very closely and adopt digital trail monitoring systems as an enhanced AML/CTF practice, and therefore achieve comprehensive banking security protection.

In terms of treasury service, banks incur higher commission charges compared to securities firms, and exhibit other weaknesses from less advanced trading platform to lack of basic equity trade volume. Furthermore, competition for high-end customers in Taiwan is highly intensive that only large corporations have the capacity to compete. The market saturation also makes it difficult for businesses to distinguish products and services from others. Through the establishment of overseas branches and an cross-border sales platform, the Bank aims to expand into other markets and maintain customer relationship online. Meanwhile, a greater variety of derivatives will be developed with the support of digital technologies, AI, and big data analysis for more precise marketing, improved operating efficiency, optimized user experience, and broader asset allocation solutions for customers. Given the uncertainties associated with the outlook of the Chinese economy, the Bank expects little improvement in net interest spread as increase of lending interest has leveled whereas competitive pressure has kept the cost of deposit on the high side.

5.3.4 Research & development spending and accomplishments in the last two years

(1) Research and development spending in the last 2 years

Unit: NTD thousands		
Year	2018	2017
Amount	445,566	277,247

(2) R&D progress in the last 2 years

- a. Mobile banking biometrics login: Fingerprint login was already introduced to mobile banking in June 2018 to provide customers with more convenient and faster mobile banking service experience.
- b. Next-gen mobile banking: The Bank launched Mobile Banking 5.0 in November 2018 with a focus on "customization." By allowing users to customize their "screen," "account" and

“household members,” the Bank hopes to become the preferred banking partner for the young generation.

- c. Automated financial advisory robot: In April 2018, the Bank collaborated with Nutmeg, UK's largest financial advisory robot developer, to develop a dialog-based, AI-driven and small-sum investment experience platform. The trial system attracted more than 50,000 users to simulate investment since it was launched online.
- d. Big data application: In 2018, the Bank analyzed customers' data and personal information to generate significant yields, while at the same time using Informatica PDM to mask identifiable data without compromising the accuracy and relevance of the analysis. This accomplishment was awarded Most Innovative Security Project by The Asset in 2019.
- e. Data visualization: In 2018, key financial indicators were successfully visualized and presented on reports, which effectively improved business development efforts.
- f. Online credit application platform: The Bank launched its “Loan Express” service in March 2018 that shortlisted customers of good credit quality and identifiable income. The system then performed automated calculations of customers' limit and interest rate, and invited them to apply for loans online. Loan applications can be submitted, approved and disbursed in as little as 1 hour.
- g. Mortgage calculation: The Bank launched its “Mortgage Calculation” service in October 2018 that enabled customers to check property price, calculate mortgage limit and monthly instalments in seconds online. Users can even make appointments for personalized service through the system. As of the end of 2018, the website accumulated 47,000 visits.

5.3.5 Future R&D plans

(1) Expected R&D spending

Unit: NTD thousands

Items	R&D expenses planned over the next year
Amount	881,418

(2) Future R&D plans

- a. Upgrade of Fubon Business Online (FBO): A new generation FBO offering greater efficiency and convenience will be introduced to provide customers with better quality online service.
- b. New credit factory system: Featuring a cloud infrastructure and AI modules, the new mobile credit factory will provide timely information and suggestion on credit packages, interest rates and limits to deliver whole new interactive customer experience.
- c. A2A payment gateway: In association with banking peers, the Bank offers merchants and other partnered platforms the ability to link bank accounts for payment, and thereby expands cash collection options for merchants and customers.
- d. AI decision-making platform: Enables automated risk-based pricing, automated cross-selling, reduced post-lending review cost, and optimized customer experience.
- e. Facial recognition system: By implementing a bank-wide, all-channel facial recognition system, we hope to realize our concept of “Omni channel, All my face” for a total customer experience upgrade.
- f. Next-gen ATM: A new ATM featuring Fintech applications such as AI, facial recognition, IOT, OCR, QR code etc will be introduced to provide customers with a broad range of convenient services from one-stop account opening, video conference financial advisory, insurance marketplace, express credit card application to express personal loan, and bring customers better ATM service experience.
- g. Big data analysis: Implementing a big data platform using Hadoop and Spark as the data foundation will improve the Bank's capacity and competitiveness in data analysis and processing. This project has the potential to solve problems such as high data storage cost, slow data processing and outdated analysis technology that the Bank has long been experiencing.

- h. Open Banking ecosystem: Depending on users' lifestyle scenarios and needs, the Bank will work with strategic partners to provide users with financial services that are relevant to their lifestyles. Featuring an open structure and use of financial API, the Bank seeks to empower its strategic partners with creativity.

5.3.6 Long and short-term business plans

(1) Short-term

- a. Coordinate with other members of the group and aim to increase limit utilization and SOW. Strengthen relationship and attachment with medium-size customers and expand the SME customer base. Increase the weight of medium/long-term loan under controlled risks and strive to become customers' main banker.
- b. Continue to carry out new location layout and establish an office in Indonesia to expand the local service outreach, assist the branch in Singapore in securing case sources from Southeast Asian markets and cooperate with local enterprises or other banks.
- c. Capitalize on the shifting supply chain by promoting institutional banking and retail banking in Vietnam. Extend banking relationship with Taiwanese enterprises to overseas branches, while at the same time establish relationship with local businesses and multinational customers.
- d. Acquire assets from secondary markets; assemble a specialized asset management team for the search and acquisition of assets. Cooperate with other international banks for growth of foreign currency assets.
- e. Continue development of new payment services. Construct, optimize and promote the use of various service platforms, while at the same time collaborate closely with LINE Pay to provide one-stop payment service for customers.
- f. Develop payment gateway and take initiative to work with peer banks in the creation of a payment ecosystem that facilitates financial services close to customers' lifestyle.
- g. Overseas subsidiary
 - (a) Develop sustainable business foundation and integrate international services offered by Fubon Group with e-commerce partners through the Internet. Explore new sales channels, products and services for competitive advantage.
 - (b) Enhance compliance, internal control, risk assessment and decision-making systems for optimal approval efficiency and risk control capacity. Develop and maintain standardized data extraction procedures and explore big data-driven risk management models to ensure better quality data. Improve data mining and analysis capabilities for improved risk management over small/micro loans.
 - (c) Improve customer experience through introduction of robust and effective consumer protection and comprehensive service packages that address customers' needs, and thereby increase customer attachment. Grow existing relationship with prominent Taiwanese enterprises, and explore relationship with new customers. Refine customer positioning. Promote coordination between wholesale and retail banking and explore banking relationship with related individuals and businesses. Cooperate with Taipei Fubon Bank on maintaining a robust customer service system and promote "customer-centric" process optimization for ongoing service experience improvement.

(2) Long-term

- a. Anticipate changes in the legal and market environment to develop the financial products needed by customers. Establish banking relations with customers' affiliates and supply chain partners by offering integrated financial services; maintain partner relationship and provide comprehensive range of funding and hedging service that builds trust with customers.
- b. Offer distinctive values and differentiated financial services with a customer-centric focus. Enforce compliance and risk management and make efficient allocation of risky assets.
- d. Refine service quality and operating efficiency; recruit top talents and accumulate the capacity

to respond to the changing environment.

- d. Adopt quantitative research and make active trading of index futures, ETF etc depending on changes in the market condition. Aim to deliver consistent profit through non-directional trades.
- e. Expand trading and service scope, and aim to become the No. 1 brand in RMB services among Taiwanese banks.
- f. Leverage the geographic advantage of Singapore and its access to information of the Southeast Asian market; assemble an SEA investment team that coordinates and shares information closely with the Taipei counterpart for more control over the SEA market.
- g. Direct attention to customers' needs and continually expand product and service scope. Analyze customers' characteristics through big data and undertake preemptive management actions for general improvement in sales efficiency.
- h. Overseas subsidiary:
 - (a) Bear in mind the principle of “service for Taiwanese businessmen” and “service for China's real economy”, fully recognize the policy approach of the authorities to promote cross-strait economic integration and the market approach of Taiwan's and China's SME to finance, and actively exercise corporate social responsibility, consolidate the brand image of “a cross-strait liaison communication role”.
 - (b) Create four cooperative platforms including: Cooperation with the parent bank and group partners on the sharing of Taiwanese enterprise customer database, use of research and product resources, offering of total solutions; cooperation with peers on the development of major corporate customers and offering of better financial solutions through syndicated lending; cooperation with non-bank financial institutions on the development of commercial banking customers for syndicated lending; and cooperation with P2P platforms on the development of retail banking customers for online-offline cross-selling. Internal resources will be adjusted where appropriate to provide mid-office and back-office support for the synchronization of institutional banking and retail banking customer database. The configuration of diverse frontline channels united under a giant platform will provide us with better reach to customers of different segments, and realize the true potential of the “four sharing.”

5.3.7 Market and business overview

(1) Locations where products (services) are mainly sold (provided)

The Bank offers deposit, loan, foreign currency, wealth management, trust, credit card and e-banking services for corporate and individual customers primarily located in Taiwan, Hong Kong, China, Singapore and Vietnam.

(2) Future market supply and demand

Growth of corporate profitability and the global economy are expected to slow down in 2019, which, combined with uncertainties associated with the worldwide trade war, changes in the U.S. growth pattern, slowdown of the Chinese economy, escape of capital from emerging markets, excess liquidity in Taiwan and tightened supervision, present tough challenges for the year ahead. However, market changes and shifting customer demands still present growth opportunities in 2019.

a. Institutional banking

- (a) Although businesses are likely to encounter slowdown of profit growth due to global economic issues, adjustments of their regional deployment will give rise to new demands for services such as cash management, cross-border funding, financial consultation, investment advisory and hedging. Demands for diverse cross-border financing solutions within the Greater China Region are especially strong.
- (b) Diverse demands from different customer groups have surfaced, which makes cross-industry alliance and resource integration critical to helping SMEs grow. Meanwhile, services for the public sector, such as lending and tax collection/payment, have seen increased demand.

- (c) As a result of the China-USA trade war, businesses are starting to reduce exposure to China by shifting supply chain to Southeast Asian countries such as Vietnam and Thailand. This shift gives rise to demand for a regionally integrated financial platform.
 - (d) Economic growth of Southeast Asian markets has given rise to demands for infrastructural, industrial and commercial funding, an area that remains less penetrated by banks but highly contended among non-financial institutions to date. This untapped demand presents significant growth potentials to both wholesale banking and retail banking.
- b. Personal banking
- (a) The population of Taiwan is aging at a very fast rate and Taiwan is officially regarded as an aged society. Rising awareness towards retirement planning will prove favorable to the development of insurance service. The more channels consumers have for making mobile insurance applications and premium payments, the easier it is to simplify the insurance application process for higher efficiency.
 - (b) As economic growth and consumer confidence recover in Taiwan, property trade volume is expected to remain comparable with the previous year, and we are likely to see further growth in mortgage balance and personal credit. The Bank will aim to capitalize on this trend by directing focus towards top-performing customers, increasing the weight of non-housing loans, and making further improvements to online loan application service. All of which will help increase revenues.
 - (c) According to the SME White Paper published by the Ministry of Economic Affairs, the number of businesses earning revenues of less than NT\$50 million a year has increased progressively year after year. With fewer competitors in the market, the Bank is able to build advantage on top of its long-term customer relations.
 - (d) Growth of the global economy is slowing down, and the Central Bank may adopt looser money supply or maintain interest rate at low level, which encourages allocation of capital to low-volatility and fixed income products. The Fed has reached the end of its interest rate hikes, and adding USD products into the portfolio may help reduce investment risks.
 - (e) Competition for credit card issuance continues to intensify. Given the increasing frequency of overseas traveling and uprise of e-commerce, there is still much growth to be expected from overseas spending and online purchase.
 - (f) Use of mobile payment service has grown popular especially among the young generation. There is immense potential in account-linked payment services, and service providers are expected to commit more resources into development.
- c. Financial market activities:
- (a) Advancements of financial technology have fueled competition among foreign currency products. As the authority relaxes its restrictions on foreign currency options, market demand should gradually recover. Meanwhile, heightened uncertainties in the domestic and foreign economies reduces the market's demand for risky assets, which helps stimulate investment in bonds. Demand for NTD interest rate-hedging products should grow consistently over the next few years due to wind power investments. To increase the yield of NTD investments, equity derivatives may also be recommended as part of customers' asset allocation due to their growth potentials.
 - (b) Growth of the global economy in 2019 is expected to slow down due to the ongoing China-USA trade war and President Trump's policies, causing a reduction in worldwide trade that affects the need for currency exchange. Although banks may benefit from the transfer of production order or shift of capital in the short term, weakening of the global economy over the long term may pose a greater impact.
- d. Overseas subsidiary
- (a) As a result of policies including the "New Silk Road," Yangtze River Economic Belt and incentives targeted at Taiwanese enterprises, there is immense potential to geographic areas such as Yangtze River Delta, Pearl River Delta, coastal areas of Bohai Sea and Western China where the Bank's branches are concentrated.

- (b) The Chinese government initiated a series of de-leveraging measures since 2017 that resulted in a severe lack of liquidity and presented significant downside risks. Increase of M2 (a measurement for money supply), credit balance and aggregate financing to real economy continued to slow.
- (c) Rapid growth of the Chinese economy has given rise to different financial demands across businesses in various stages of development. The market therefore presents diverse and differentiated needs for financial service.
- (d) Transformation in consumers' spending habits gave rise to new financial demands at the same time. From the product perspective, there is increasing demand for investment and consumption instruments besides loan; from the service perspective, customers have directed attention towards scenario-based and total service solutions.

(3) Business targets

Uncertainties associated with the prospects of the global economy in 2019 present challenges to the business environment. Although development of financial technologies and release of online-only banking license do present immense opportunities, they also bring about a shift of performance in the financial industry. In response, the Bank will continue focusing on customer relationship management and introduce various innovations to support its five main strategies: “Lifestyle Banking, Smart Investment, Greater China Market, Technology, and Branding.” In 2019, Taipei Fubon Bank will continue building a more pro-active service culture based on its customer-centric business philosophy, and strive to become customers' most trusted brand as well as Asia's No. 1 Financial Institution.

(4) Opportunities and threats

a. Opportunities

- (a) Ongoing trade war between China and USA has caused supply chains to shift and given rise to new opportunities. Being the Taiwanese bank with the highest number of offices and more than 10 years of localized experience in Vietnam, Fubon has the advantage to provide integrated financial services to local corporate customers. The Bank operates a feature-rich service platform and a professional marketing team to provide customers with the most complete products and services.
- (b) The strengthening U.S. dollar favors bond sales in the volatile global economy, and makes them suitable instruments to be included in investment packages for target customers.
- (c) Combination of digital technologies, AI, and big data analysis helps achieve precision marketing, improve operating efficiency, and optimize user experience.
- (d) China's private spending has an increasing effect on the growth of the overall economy. Taiwanese enterprises are starting to shift inland from coastal areas, and the introduction of economic incentives targeted at them will bring opportunities to Taiwanese banks.

b. Threats

- (a) Escalation of trade war brings challenges to the global economy, and being able to respond to the rapidly changing markets is one of the greatest challenges.
- (b) Financial supervision has tightened around the world from FATCA to the Common Reporting Standard. Authorities around the world have directed attention towards AML and CTF in recent years, which significantly increased compliance cost for financial institutions.
- (c) Treasury service requires higher level of risk management, and banks not only incur higher commission charges compared to securities firms, but also exhibit other weaknesses from less advanced trading platform to lack of basic equity trade volume.
- (d) Competition for high-end customers in Taiwan is highly intensive that only large corporations have the capacity to compete. The market saturation also makes it difficult for businesses to distinguish products and services from others. Meanwhile, regulations such as CRS and AML present significant challenges to business growth.

- (e) Given the uncertainties associated with the outlook of the Chinese economy, the Bank expects little improvement in net interest spread as increase of lending interest has leveled whereas competitive pressure has kept the cost of deposit on the high side.

c. Responsive strategies to threats

- (a) The Bank shall closely monitor how the global trade dispute affects industries and individual businesses, and assess business risks accordingly.
- (b) The Bank has been following regulatory changes very closely and is adopting digital trail monitoring systems as an enhanced AML/CTF practice, and for comprehensive banking security protection.
- (c) Through the establishment of overseas branches and a cross-border sales platform, the Bank aims to expand into other markets and maintain customer relationship online. Meanwhile, a greater variety of derivatives will be developed to broaden asset allocation solutions for customers.
- (d) Fubon is the only bank in Taiwan to engage an international private bank in a strategic cooperation. This provides the Bank with the advantage to offer high-end solutions to corporate and individual customers on issues such as taxation and law, as well as the ability to satisfy customers' needs both local and overseas.
- (e) Enhance credit management and sales assistance in ways that increase case closure rate for business departments, and thereby expand the size of loan portfolio. In the meantime, the Bank will strive to maintain the size and stability of deposits and increase the depth and breadth of relationship with Taiwanese enterprises and core customers.

5.4 Business overview of Fubon Insurance

5.4.1 Scope of business

- (1) Business Content: The Company falls under the financial insurance industry and engages in various property insurance and relevant sales and service undertakings approved by the competent authority.

- (2) Weight of business activities:

Unit: thousand Dollars

	Total premium revenues		Total re-insurance premium revenues		Re-insurance commission revenues		Re-insurance expenditures		Net change in unexpired premiums		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Fire insurance	2,087,825	4.88	7,997	0.26	139,785	10.51	972,741	8.76	-97,707	-8.94	1,360,573	3.57
Transportation insurance	1,140,554	2.67	1,794	0.06	57,736	4.34	550,193	4.96	-7,062	-0.65	656,953	1.72
Fishing boat insurance	630,309	1.47	-799	-0.03	41,191	3.10	536,617	4.84	4,293	0.39	129,791	0.34
Vehicle insurance	14,240,123	33.29	308,123	10.03	240,931	18.11	760,526	6.85	546,055	49.97	13,482,596	35.39
Compulsory vehicle insurance	4,736,308	11.07	1,131,659	36.85	0	0.00	2,072,954	18.68	85,075	7.78	3,709,938	9.74
Liability insurance	3,435,739	8.03	740	0.02	175,091	13.16	1,199,862	10.81	149,722	13.70	2,261,986	5.94
Engineering and nuclear insurance	1,041,205	2.43	23,599	0.77	99,700	7.50	686,374	6.18	-94,470	-8.64	572,600	1.50
Guarantee and credit insurance	246,667	0.58	1,095	0.04	38,223	2.87	188,456	1.70	-3,097	-0.28	100,626	0.26
Other property insurance	328,566	0.77	333	0.01	76,169	5.73	232,151	2.09	13,356	1.22	159,561	0.42
Injury insurance	5,390,886	12.60	28,559	0.93	13,356	1.00	82,786	0.75	206,194	18.87	5,143,821	13.50
Typhoon, flood and earthquake insurance	3,464,669	8.10	60,893	1.98	21,307	1.60	2,707,971	24.40	90,430	8.27	748,468	1.96
Personal and commercial comprehensive	1,040,358	2.43	50	0.00	184,385	13.86	103,461	0.93	39,812	3.64	1,081,520	2.84

	Total premium revenues		Total re-insurance premium revenues		Re-insurance commission revenues		Re-insurance expenditures		Net change in unexpired premiums		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
insurance												
Health insurance	865,535	2.02	0	0.00	4,123	0.31	10,325	0.09	67,470	6.17	791,863	2.08
Foreign business	0	0.00	430,945	14.03	8,515	0.64	83,079	0.75	-23,469	-2.15	379,850	1.00
Foreign subsidiary	4,131,626	9.66	1,076,379	35.05	229,688	17.27	910,573	8.20	116,218	10.63	4,410,902	11.58
Interest revenue	-	-	-		-	-	-	-	-	-	1,087,051	2.85
Exchange profit and loss	-	-	-		-	-	-	-	-	-	-216,936	-0.57
Investment interest	-	-	-		-	-	-	-	-	-	1,752,724	4.60
Real estate	-	-	-		-	-	-	-	-	-	378,831	0.99
Other businesses	-	-	-		-	-	-	-	-	-	100,339	0.26
Total	42,780,370	100	3,071,367	100.00	1,330,200	100	11,098,069	100.00	1,092,820	100	38,093,057	100

(3) New products and services planned for the future

- a. Through natural semantics identification, an insurance text customer service robotics application system is built.
- b. Using the M + payment platform, sales representatives and customers may pay for premiums directly deducted from the bank account, providing both convenient and time-saving services.
- c. Plan the inclusion of “site handling and immediate damage determination feature in the mobile payment APP; launch the accident site immediate micropayment service.
- d. Continue to promote e-insurance policy and e-notice services in line with environmental protection concepts.
- e. Add over-the-counter satisfaction survey devices, inspect service quality, and enhance customer satisfaction.
- f. In cooperation with social welfare agencies and charity groups, promote micro-insurance, designate a budget to subsidize local disadvantaged groups and plan the launch of group insurance commodities.
- g. Continue to promote agricultural facility insurance and develop green energy innovation and climate related insurance commodities to enhance the coverage of insurance in various fields.

5.4.2 Business plans for the year

(1) Business direction for the year:

- a. Grow digital services.
- b. Hasten development of financial technologies.
- c. Boost group cross-selling synergies.
- d. Optimize service portfolio.
- e. Exploit advantages of diversified channels.
- f. Explore new sales scenarios.
- g. Apply expertise in specialized loss prevention services.
- h. Grow overseas markets.

(2) Sales forecast and basis:

New car sales should remain comparable and given the prolonged renewal cycle, total car ownership is expected to grow by 1.1%. Meanwhile, we expect adjustments to the duration of major commercial fire insurance policies, growth in engineering insurance due to the government's support for green energy and agricultural insurance, saturation in cellphone insurance, and

increased director/supervisor liability insurance and information security insurance as a result of tightened supervision. Overall, the company expects a 5%~5.5% increase in premium revenues.

(3) Important production and sales policies:

- a. Enhance R&D; integrate financial technologies for the introduction of innovative insurance service. Introduce chatbot as a smart insurance assistant. Engage customers in new interactions for better insight into customers' preference and personalized product recommendation. Utilize advantages and resources of the financial group to cross-sell and maximize yields.
- b. Introduce products that suit the lifestyles of different customer groups; develop minimalistic and affordable products to address customers' usage scenarios.
- c. Utilize advantages and resources of the financial group to maximize cross-selling and upselling yields.
- d. Develop and package omnibus products targeted at providing comprehensive coverage for families. Market through a variety of channels and across segments to address customers' needs.
- e. Promote reinsurance of major construction projects similarly to basic fire insurance, and in doing so enable progressive competition that improves the business environment.
- f. Develop diversified loss control model to assess and manage customers' risks. Increase the percentage of profitable coverage assumed and the company's reinsurance capacity.
- g. Collaborate with information security consultants for the offering of total solutions. Introduce package products tailored for large, medium and small-size businesses and improve information security risk management among local businesses.

5.4.3 Current and future industry prospects

- (1) New car sales is estimated to remain at 440,000 in 2019. Imports are expected to grow by 6.5% and exceed 50% in weight. Total car ownership is estimated to increase by 1.1% or 90,000 units.
- (2) In light of the rising cost of auto parts, wages and work hours, the company will continue increasing premiums of third-party liability insurance.
- (3) Rising lending rates have slowed down the growth of loan portfolio, and impacted mortgage and fire insurance services. The new lease regulation will give rise to a wave of lease management service companies and stimulate demand for stigmatized property insurance and coverage for other risks associated with leasing.
- (4) Aging population combined with improving medical technology has resulted in the continuous uprise of medical expenses, and driven the demand for healthcare insurance.
- (5) Uprise of new channels such as online insurance and third-party platform will stimulate growth of travel insurance. Overall, the size of healthcare and accident insurance market is expected to grow by approximately 6%~7%.
- (6) As for commercial fire insurance, adjustment of insurance period will reduce premium revenues by about NT\$700 million market-wide. Due to over-supply of reinsurance service, premiums from facultative reinsurance are expected to fall by 5%.
- (7) Global economic and trade growth is estimated at 3.0%~3.5%, whereas growth of Taiwan's economy is estimated at 2.2%~2.4%. Premiums from marine insurance are expected to grow by 2%~3% in 2019.
- (8) The government's ongoing support for rail transit, water and energy infrastructure projects has stimulated demand for green energy insurance. Premiums growth is estimated at 16~17%.
- (9) Demand for cellphone insurance has peaked, and the company expects to see a slight decrease in premiums in 2019.
- (10) The authority continues to promote director/supervisor liability insurance and information security insurance, and the efforts have been reflected by increased premiums. Growth of new insurance categories is estimated at 5~6%.

5.4.4 Research & development spending and accomplishments in the last two years

(1) Research and development spending in the last 2 years

Unit: NTD thousands

Year	2018	2017
Amount	146,951	135,381

(2) Recent R&D accomplishments

- a. In response to the e-commerce trend, the company has upgraded its existing sales representative platform and APP to support them in various mobile services such as insurance application, payment and sales all at their fingertips. The platform has also been expanded to support different insurance categories and improve operating efficiency, flexibility and customer satisfaction.
- b. The company continued to introduce digital policy and e-notification features into broader insurance categories including auto insurance, travel insurance, accident insurance and cellphone insurance as a more environment-friendly solution. Combined with the use of mobile payment tools and communication software, the company was able to bring personalized, timely and convenient digital service to customers.
- c. The company has developed APP-based sales assistance tool for corporate insurance products. The APP recommends suitable products for SMEs and has the potential to increase product penetration and success rate of the company's sales efforts.
- d. The travel insurance claim process has been improved to the point where the system generates and sends claim reminder to eligible customers. The company is also working with airlines to introduce automated claims for travel delays.
- e. In collaboration with Taiwan Mobile and information security consultant, the company introduced a total package covering services such as information security health check, enhancement, insurance and response to help corporate customers strengthen their level of information security protection.
- f. By adopting Internet of vehicles and big data, the company introduced a fleet damage prevention system and healthcare network that assists customers with risk prevention and insurance customization.
- g. Collaboration was made with Industrial Technology Research Institute to develop a fleet damage prevention system and analyze dangerous driving behaviors. Doing so helps customers manage their fleets and improve drivers' behaviors to reduce loss rate.
- h. Assemble a green energy insurance team that specializes in structuring engineering insurance, property insurance, financial insurance and liability insurance for the green energy industry.
- i. Invest into the development of innovative insurance technologies and patents. The company has so far acquired 4 utility model patents and 4 invention patents.

5.4.5 Future R&D plans

(1) Expected R&D spending

Unit: NTD thousands

Items	R&D expenses planned over the next year
Amount	198,636

(2) Future R&D plans

- a. Introduce integrated medical care service through cross-industry alliance and adoption of AI and big data technologies. Create a health network that addresses social issues such as food safety and health insurance gap and offers customized products/solutions.
- c. Enhance employees' mobile service tools for higher efficiency and flexibility. Perform in-depth analysis of consumers' insurance needs and lifestyles, and extend coverage to an entire family for higher contribution from customers.

- e. Structure simple products and use APP to assist in the marketing of new insurance products, fire insurance and engineering insurance to SMEs.
- f. In view of how global climate changes have increased the risk of agriculture production, the company will actively promote insurance coverage for agricultural production facilities and other related categories. Through introduction of agricultural insurance, we aim to help farmers diversify production risks.
- g. Incorporate AI and big data analysis into the risk assessment and claim system to reduce fraudulent claims while at the same time shorten the claims process for better customer experience.
- h. The company will help corporate customers adopt quantitative means of managing disaster and business risks and develop damage prevention measures. In addition, the company will continue working with international partners to introduce disaster recovery technologies, and promote equipment repair instead of replacement to minimize insurance losses while helping customers recover more quickly from disasters.
- i. The company will make more in-depth use of financial technologies and optimize operating systems and procedures to increase the percentage of auto-approved claims for better service turnaround time and efficiency
- J. Create a Southeast Asian insurance platform to complement the existing service network. Promote policy renewal through insurance brokerage subsidiaries and representative offices in Thailand and The Philippines, and actively engage local insurance companies and banks for broadened business pipeline. Grow local markets by introducing insurance products of high growth potentials.

5.4.6 Long and short-term business plans

(1) Short-term business plans

- a. Develop a diverse product portfolio that satisfies customers' need for coverage, while increase product coverage and penetration rate.
- b. Utilize advantages and resources of the financial group to cross-sell and maximize yields.
- c. Develop and package omnibus products targeted at providing comprehensive coverage for families. Market through a variety of channels and across segments to address customers' needs.
- d. Utilize the advantages of e-commerce to strengthen channel e-operations, optimize the mobile service platform as well as improve quality and efficiency.
- e. Promote online insurance business through enhancements such as website interface, channel partners and cross-industry alliances to generate new business opportunities.
- f. Develop a loss control model to assess and manage customers' risks. Increase the percentage of profitable coverage assumed and the company's reinsurance capacity.

(2) Long-term business plans

- a. Support the regional development strategy of FHH to expand business presence in Asia.
- b. Develop big data, online and AI services to become a leader of digitization and mobility in the financial industry.
- c. Expand the scope of products and services to satisfy customer requirements and boost corporate competitiveness.

5.4.7 Market and business overview

(1) Locations where products (services) are mainly sold (provided):

In addition to the head office located in Taipei City, the company also has 29 branches and 44 offices deployed in major counties and cities across Northern Region 1, Northern Region 2, Eastern Region, Taoyuan/Miaoli, Central Region, Southern Region, and Kaohsiung/Pingtung.

(2) Future market supply, demand and growth

a. Supply

To accommodate the needs of the mobile service era, the authority made escalated its deregulation efforts on online insurance service that not only changed the ways products are sold, but opened up new opportunities as well. Implementation of the new leasing regulation gives rise to lease management service and presents growth opportunities for residential fire insurance. Introduction of mandatory digital insurance certificate will stimulate demand for online auto insurance and digital insurance policies. Lastly, the government's new infrastructure projects and support for agriculture insurance will present growth opportunities for engineering insurance. Furthermore, more rigorous regulations are being introduced by the government to enforce market discipline in ways that benefit the industry.

b. Demand

Climate changes have given rise to new risks and made natural disasters more frequent than before. Coupled with the fact that companies and authorities are becoming more aware of information security risks and risk of directors'/supervisors' liabilities, there will be increasing demand for related solutions and insurance coverage. Given the ongoing digital trend, the prevailing industry practices and regulatory environment, demands for new insurance products should continue to grow in 2019. As citizens' understanding of risk transfer and property protection matures, demand from the general public for property insurance products will continue to increase.

c. Future Growth

Personal fire insurance and H&A insurance are expected to be the main growth contributors for the personal insurance market in 2019. Personal fire insurance and stigmatized property insurance should see an increase in demand following the implementation of the new leasing regulation and uprise of lease management service. Demand for H&A insurance should remain strong given the aging population, improving medical technology and rising medical cost. Meanwhile, uprise of new channels such as online insurance and third-party platform will stimulate growth of travel insurance. With respect to corporate insurance service, much of the growth will be contributed by engineering insurance and new insurance categories in 2019. Engineering insurance has the support of government policies, whereas new insurance categories such as director/supervisor liability insurance and information security insurance are being driven by tightened supervision of the authority.

(3) Business targets:

In 2019, the company expects to earn NT\$40.7 billion of premiums from underwritten policies.

(4) Opportunities and threats

a. Growth

- (a) According to IMF (International Monetary Fund), growth of the global economy in 2019 is estimated at 3.7%; meanwhile, the Directorate-General of Budget, Accounting and Statistics (DGBAS), Executive Yuan, has predicted the local economy to grow by 2.4%.
- (b) Demand for H&A insurance should remain high, implementation of new leasing regulations will increase demand for personal fire insurance, whereas the government's latest policies have the potential to drive demands for engineering insurance, director/supervisor liability insurance and information security insurance. All above products are expected to be the main drivers to the market's growth.
- (c) New innovative products will be launched to meet demands created by technological and social changes, which should in turn boost sales.
- (d) Insurance technologies are speeding up innovation in products and the service process.
- (f) Consumers' growing awareness to claims are posing greater risks to companies, and increasing demands for liability insurance services.
- (c) Increasing frequency of information security incidents and personal data leaks has prompted businesses to direct attention towards risk management.

- b. Threats
 - (a) Global climate change is increasing the risk of and impact of natural disasters.
 - (b) Price competition from peers and major insurance brokers has adversely affected market discipline and stability of premium rates.
- c. Responses
 - (a) Strengthen professionalism in loss prevention and provide customers with consulting services to reduce loss risk in order to increase customer trust and loyalty towards Fubon.
 - (b) The company will utilize the group's cross-selling synergies to develop exclusively products and explore new market opportunities across difference insurance categories. The company will also leverage the advantage of e-commerce to improve the flexibility and competitiveness of its business activities, and aim to increase the size of insurance products applied online.

5.5 Business overview of Fubon Securities

5.5.1 Scope of business

- (1) Business activities
 - a. Consigned trading of securities listed on Taiwan Stock Exchange Corporation (TWSE).
 - b. Proprietary trading of securities listed on TWSE.
 - c. Underwriting of securities.
 - d. Consigned trading of securities listed on Taipei Exchange (TPEX).
 - e. Proprietary trading of securities listed on TPEX.
 - f. Securities administration agency services.
 - g. Margin trading and short-selling services.
 - h. Introducing broker for securities-related futures.
 - i. Consigned trading of foreign securities.
 - j. Proprietary trading of securities-related futures.
 - k. Lending and borrowing in connection with securities services
 - l. Trust services.
 - m. International securities services.
 - n. Securities investment consulting services.
 - o. Other securities-related services approved by the competent authority.
- (2) Current products (services):
 - a. Brokerage services:

Consigned trading of TWSE/TPEX listed securities, margin trading of securities (i.e. financed purchase, short sale, securities-backed lending, and securities lending), futures introducing broker and sub-brokerage of foreign securities.
 - b. Global institutional services

Consigned securities trading, borrowing and lending targeted mainly at foreign institutional investors.
 - c. Integrated marketing

In order to provide customers with the most comprehensive asset allocation solutions and product range, the company has been collaborating with other subsidiaries of Fubon Financial Holdings in a joint marketing effort to sell products from non-life insurance, mutual fund services, including life insurance, industry insurance, bank commodities, brokerage funds ,

thereby providing customers with comprehensive commodity investment services.

d. Proprietary trading

Proprietary trading of local and foreign securities using proprietary capital, or investment into foreign securities via discretionary investment arrangement.

e. Treasury activities

Call (put) options, structured instruments, equity derivatives, fixed income and option parts of convertible bond asset swap, and other derivatives approved by the authority.

f. Underwriting

The company assists local and foreign issuers with funding services such as listing on Emerging Stock Market and IPO on TWSE/TPEX, M&A consultation services including business exploration, evaluation, legal advisory, counseling and case submission and services relating to the underwriting of securities.

g. Securities administration agency services

Part of the company's services is to handle share administration affairs on behalf of securities issuers. The company performs share administration services and handles related affairs according to customer's policy and prevailing regulations.

h. Electronic trading

The company offers a broad variety of electronic trading platforms to bring customers comprehensive services from online account opening, equity trading, futures trading, options trading, warrants trading, Emerging Stock Market shares trading, overseas equity trading, fund trading, regular fixed-sum ETF investment, bilateral securities lending, unrestricted purpose loan application, order history inquiry, account inquiry to profit inquiry.

i. Wealth management

Asset allocation, financial planning, financial consultation, sale of financial instruments, and asset allocation for customers in the form of trust. Main products include domestic/foreign equity, bonds and funds. With regards to trust service, the company currently offers special purpose money trust, single-purpose securities (lending) trust and single-purpose money trust.

j. Investment Consultancy

The company performs research on wealth management products, publishes market commentary and product recommendation, consolidates research reports throughout the financial group, disseminates investment news and recommendation, maintains information platform, product webpage and contents, and executes or assists in various projects.

(3) New products (services) planned for the future

Looking into 2019, Fubon securities shall actively optimize mobile easy trade, smart stock selection and other innovative features through its self-developed trading system "Fubon e+." In addition to the function of integrating securities, futures, options, and sub-brokerage, the "wealth management trust" feature shall be planned to become a good wealth management steward of customers. In addition, wealth management trust and financial management robots are combined to provide customers with automated financial management services and lead the industry in providing customers with various digital financial investment services. In response to the new system "TAIEX trading by transaction" to be implemented by the Taiwan Stock Exchange beginning March 2020, the Company will provide customers with a trading simulation platform starting by the end of March in 2019, thereby connecting TAIEX with the world. The Company's customers may apply for a trading simulation account to be prioritized for downloading the App, join simulated trading, familiarize with the new trading system and trading method, and obtain the priority of the "TAIEX new system trading by transaction competition" to be held in the third quarter of 2019. In view of this, the Company built a new control room in Banchiao in 2018 to enable customers to trade faster. In addition, adhering to the concept of customer service priority, the Company will launch a customer service robot, enhance digital service quality, and provide

customers with a 24-hour, 24/7 service platform.

In response to the opening-up of the policy, the Company commenced a number of businesses in 2018, including two-way borrowing, unlimited-use lending, foreign currency-denominated commodities and wealth management businesses (The Company acting as the trustee with authorization to determine the designation of independently managed money trust officially commenced in October 2018). In addition, the Exchange Traded Note (ETN) is still applying for issuance (to be listed and traded at the end of April, 2019), thereby optimizing service bases and improving the quality of personnel services. Household accounts, stock-linked commodity ELN and lower-value guaranteed foreign currency commodities in the Asian time zone will continue to be developed.

5.5.2 Business plans for the year

The company will aim to maintain consistent growth in 2019 with a focus on risk management. In terms of business development, the company shall emphasize on introducing new service categories, diverse investment platforms, and optimized online services that maximize the synergy between venture capital and investment banking. Below are the business development strategies:

(1) Brokerage and financial advisory services

The company will grow its brokerage service with a focus on stability and risk management given the level of volatility the market has exhibited. Service locations will be optimized to reduce operating cost for overall performance improvement.

As for the financial advisory service, the company will focus on increasing the size and turnover of assets under management. Greater variety of products and services will be introduced to complement customers' asset allocation and increase product penetration.

With respect to digital banking service, the company will take initiative in applying financial technologies to the improvement of customer experience, while at the same time acquire new patents that complement existing financial services. With the deal-by-deal securities matching system scheduled to be implemented in the near future, the company has made the necessary system adjustments and will introduce a simulation platform to help investors familiarize with the new system.

(2) Investment banking

The company will continue to identify leading businesses in emerging industries, support the government's 5+2 industries program and new southbound expansion policy, and capitalize on the opportunities associated with the factory shift following the China-USA trade war by offering IPO, SPO and M&A services to potential customers local and abroad. Being the only local company to lead-arrange an OSU securities offering overseas, the company will continue exploring ECB and GDR opportunities to increase the percentage of fixed income revenues. Meanwhile, the company will strive to take early position in potential investments through the venture capital partner, and introduce banking and non-life insurance resources from Fubon Financial Holdings to enhance customer attachment and satisfaction and create diverse profit channels.

(3) Treasury and bonds service

a.. Derivatives

Given the changes in investors' behaviors and the level of volatility the market has exhibited, the company will be developing a more flexible market making strategy and exploring uses of more diverse hedging tools and strategies to increase market share and profitability. In terms of new services, the authority has given securities firms the permission to issue exchange-traded notes (ETN), and the company has attained the eligibility for "Taiwan Index Plus Apple Return Index" and "Taiwan Index Plus Balanced Income and Growth Equity Return Index" and will be launching related products toward the end of April 2019. In the meantime, the company will continue exploring new ETNs for launch.

b.. Bonds

In terms of debt underwriting, the company expects issuance of NTD corporate bonds to remain strong in 2019; however, issuance of international bonds is expected to decline from 2018 in

terms of case count and volume due to tightened regulations overseas. The company will continue maintaining relationship with domestic and foreign issuers to gain insight into issuers' funding needs, and offer suitable financing suggestions while at the same time strive to lead or assist in bond underwriting. Furthermore, having committed to corporate social responsibilities, the company will fully support the government's green financing policies by offering professional financial services for green bond issuers.

The company has been actively involved in the trading of government bonds and corporate bonds. Given the uncertainties associated with the bond market in 2019, the company will continue searching for investment opportunities and expand the scope of overseas investment to ensure stability of its profits. With regards to fixed income products, the company will continue bringing more choices to investors with the introduction of low-risk varieties such as repurchase agreements and interest rate-linked, principal-protected instruments.

(4) Proprietary trading

The company will adopt a trading strategy that aims to deliver absolute returns, using a combination of yield-based long-term instruments and short-term instruments that focus on capital gains. Short-term investments will primarily comprise Taiwanese equity, for which the company will rely on its research team to shortlist businesses that exhibit positive prospects and strong growth potentials. These recommendations will then be executed based on quantitative analysis and traders' judgments toward share price movement. As for foreign securities investment, the company will engage reputable foreign asset management companies for discretionary investment management. As for long-term investments, the company will continue to focus on industry leaders offering high dividend yields, or medium-size companies having delivered exceptional profit performance in 2018 and are likely to pay high dividends this year. These potential investments will be ranked by industry prospect and dividend yield and have holding position built up before the dividend season.

5.5.3 Current and future industry prospects

(1) Brokerage services

The company's brokerage services mainly include: consigned trading of securities listed on TWSE and TPEX, margin trading and futures introducing brokerage.

a. Stock brokerage service (Taiwan)

Taiwan stock market averaged a daily trade volume of NT\$166 billion in 2018 (TWSE + TPEX); full-year trade volume amounted to NT\$41 trillion, which was NT\$7.1 trillion higher than 2017.

In 2018, the company held a 5.97% market share in stock brokerage services, ranking third in the market.

As at the end of January 2019, the company had 43 branches nationwide. In the future, we will continue to improve service quality and customer satisfaction across all branches.

b. Margin trading service (Taiwan)

In 2018, the company averaged a margin trading balance of \$13.4 billion, representing a market share of approximately 5.89%. The company is financially sound and has adequate supply of capital and securities to give customers the best financial flexibility in their trading activities.

c. Futures introducing brokerage

Taiwan's futures market comprises two types of instrument: futures and options. Taiwan Futures Exchange Corporation has been active in the introduction of new trading systems and new products to improve the market's system, which has proven effective in stimulating market trade volume. Overall, a total of 308 million contracts were traded in 2018, averaging 1.25 million contracts per day and representing a growth of 16% compared to 2017.

In 2018, the company introduced a total of 5.4 million contracts as an introducing broker, which represented a 17% increase over 2017.

(2) Proprietary trading

The company trades securities listed on TWSE, TPEX and Emerging Stock Market. The company adopts a combination of fundamental and technical investment strategies, and regularly monitors news and financial information relating to the invested assets. The company keeps abreast of market movements and is constantly searching for investment prospects that deliver absolute returns. The company generated proprietary trading profit in 2018 mainly in the form of dividend from shares of high dividend yield.

(3) Proprietary futures trading

Purposes of the company's proprietary futures trading activities are capital gains and hedging. The company primarily trades index futures listed on overseas exchanges and on TAIFEX. The company aims to achieve absolute returns from proprietary trading, and adopts several strategies such as futures management, equity hedge, macroeconomic cycle etc using instruments of local and foreign markets. The company makes its investment decisions by taking into account fundamental factors, such as economic and industry prospects, and technical factors such as price movements, trade volume, timing etc.

(4) Proprietary bond trading

Taiwan's bond market was largely affected by the interest rate hike in the U.S., and the widened spread between Taiwanese and U.S. bonds that caused an outward shift of capital.

Taiwan is expected to maintain interest rates unchanged in 2019, but due to the impacts of the China-USA trade conflict, the growth of the global economy may slow down, causing Taiwanese bond yields to fall.

Meanwhile, the Fed may change its monetary policy and end its rate hike. Given the potential slowdown of the global economy, the U.S. bonds still offer more attractive yields compared to bonds from other markets; it is reasonable to expect a rise in preference towards U.S. bonds among global investors, which may further strengthen the price of U.S. bonds.

The company will continue to adopt a conservative trading principle and improve innovative abilities to bring more varied products and services to customers.

(5) Treasury

A total of 36,760 options were issued market-wide in 2018, which was 8,100 more than the previous year and totaled NT\$395.2 billion. Due to increased trade volume in Taiwan's stock market, options also rose in trade volume. The number of listed options and trade volume both reached record-high levels in 2018. The company issued a total of 1,806 options in 2018. In the future, the company will continue to focus on issuing options and improving its trading system to accommodate changes in the market.

(6) Underwriting services

In 2018, there had been a total of 132 SPO cases by TWSE/TPEX-listed companies. The sum of capital raised through SPOs amounted to NT\$75.2 billion, up by 12% from the NT\$67.1 billion in 2017. This increase was mainly associated with a strong performance of the global economy and a general rise in corporate revenues and profitability, which TWSE/TPEX-listed companies sought to exploit by raising capital at a time when trade volume was high and share price performance was strong. Most of the SPOs were intended to re-pay debts, provide additional working capital and expand plants and equipment. Taiwan's stock market underwent significant correction in line with the rest of the world in the fourth quarter, causing some issuers to postpone their SPOs. However, many of them have been re-launched after the market stabilized.

A total of 56 companies had made IPO in Taiwan in 2018, which was 13 more compared to 2017. The size of the IPO averaged NT\$18.8 billion, up by 30% from the NT\$14.5 billion in 2017 and representing a recovery from last year's bottom. During the year, the market saw Foxconn Group's FII being listed in China under a relatively short time, but was followed by a rapid fall in price due to mismatched P/E. By contrast, Taiwan's capital market is more mature and characterized by transparent laws, defined schedules and lower costs, which make SPO relatively easy. This comparison was what made many Taiwanese enterprises to list in Taiwan. IPOs in Taiwan averaged NT\$336 million per case in 2018, which was comparable to the previous year. As the

figure suggests, SMEs still represent the primary source of TWSE/TPEX listing.

(7) Share administration service

In terms of share administration service, the company will aim to introduce innovations while at the same time enforce compliance and internal control to raise service efficiency, quality, and customers' satisfaction. By developing share administration talents, professional knowledge, and integrating resources throughout the financial group, we shall provide customers with broader diversity of financial products and deliver their needs as well as the department's growth targets. At the end of the year, the share administration department represented a total of 146 issuers (including 76 listed on TWSE/TPEX, 18 listed on Emerging Stock Market, and 52 unlisted companies).

(8) Integrated marketing

In order to provide customers with the most comprehensive solutions, the Company has been collaborating with other subsidiaries in a joint marketing effort to sell products from life insurance, property insurance, banking, to mutual funds. It is our hope to assist customers with their investments, retirement plans, and security needs besides share trading services. Below are the results of the company's joint marketing efforts in 2018: 1. Taipei Fubon Bank: credit cards - 7,911 new cards; 2. Fubon Insurance: NT\$107 million of new insurance policies; 3. Fubon Life: NT\$3.397 billion of new insurance policies.

(9) Global institutional investor services

Foreign institutional investors accounted for 23.0% of trade volume in Taiwan's stock market in 2018, up from the 21.7% in 2017. 93.6% of these transactions were brokered by foreign brokerage companies, and only a fraction of which was brokered by local service providers. The company's brokerage service to foreign institutional investors has increased for three consecutive years, representing a compound annual growth rate of 21.8%.

(10) Electronic trading

The percentage of electronic transactions completed by Fubon Securities relative to total trade volume has increased from 68.2% in 2017 to 73.5% in 2018, by a rate of 8% a year. Meanwhile, mobile trading accounted for 39.5% of Fubon Securities' electronic transactions in 2018, which represented the highest percentage among peers.

In addition to delivering excellent business performance, Fubon Securities' digital financial services had won several awards in 2018, including "Best Brokerage House for Fintech Innovation – Gold Winner" in Wealth Magazine's 2018 Taiwan Financial Award, "Best Digital Innovation - 1st Place" in Business Today's Wealth Management Survey on Banks and Brokerage Firms, and "Account Opening Improvement Award - 2nd Place" and "API Promotion Award - 2nd Place" in TWSE's 2018 Securities Firm Electronic Trading Competition.

(11) Securities lending

Average fee rate and income of the securities lending service had declined due to increased source from foreign investors and local trust funds. However, the average balance of securities lent by local securities firms had increased by 25.9% in 2018. Fubon Securities achieved a 35.8% growth in this regard and ranked third with a market share of 18.0%.

(12) Sub-brokerage services

In 2018, sub-brokerage of overseas securities amounted to NT\$2.24 trillion market-wide, representing a 10% growth compared to the NT\$2.04 trillion in 2017.

The company's sub-brokerage service volume amounted to NT\$216.1 billion in 2018, representing a 8.4% growth over the NT\$199.3 billion in 2017. Compared with other Taiwanese securities firms, the company ranked fifth in the market with a market share of approximately 10.7% in 2018.

(13) Wealth management

The list of local securities firms currently involved in wealth management services include: Yuanta, KGI, Sinopac, Capital, Mega, Fubon, Masterlink, JihSun, President, Hua Nan, and Cathay. As at the end of December 2018, the company managed NT\$8.31 billion of assets in the form of trust.

5.5.4 Research & development spending and accomplishments in the last two years

(1) Research and development expenses in the last 2 years

Year	2018	2017
Amount	NT\$73 million	NT\$95 million
Growth rate	-0.23%	4.3%

(2) Recent R&D accomplishments

a. Creation of a multi-purpose electronic trading platform:

- (a) Following the government's de-regulation, the company continued making improvements to online functions for “share lending and unrestricted purpose loan” so that customers may lend securities that are not frequently traded or have yet to break even to the institutions in need. This feature enables lenders to generate income even at times when the market is less active. Furthermore, the new feature brings flexibility to financing as customers in urgent need of liquidity may also borrow against the shares held on hand.
- (b) After regular fixed-sum ETF investment was made available over the electronic trading platform in 2017, the service has helped young people build up investment portfolios that suited their needs. This feature was further improved in 2018 to enable regular selling of ETF holdings for profit-taking. These efforts conform with Fubon Securities' vision towards financial inclusion.
- (c) Offshore fund and domestic fund trading platforms have been integrated to provide customers with comprehensive product line and one-stop shopping experience.

b. Value-adding mobile services:

- (a) Optimization of online services in 2018: Express online account opening was introduced to give customers the ability to open all account categories in much shorter time using the same service.
- (b) The scope of service provided through financial advisory robot was expanded in 2018. Investors who are not existing customers of Fubon Securities may obtain ETF recommendations from the financial advisory robot simply by completing a simple KYC process. Users may then proceed to open an account online and commit to the ETF investment plan upon completion and thereby appreciate the uninterrupted service experience offered by the financial advisory robot.

c. New form of asset planning service:

On October 21, 2016, the company founded its first subsidiary that specializes in wealth management services. Headquartered in seventh phase urban development area of Taichung, the subsidiary targets high-end wealth management and offers new asset planning services to high net worth customers.

d. More rapid trade service for mass market customers:

The company has relocated trade equipment from the Neihu server room to the Banqiao IDC server room, which is closest to Taiwan Stock Exchange Corporation. Furthermore, to ensure “ultra fast” and “low latency” trade experience among program-trading institutions, investors and API customers after implementation of deal-by-deal matching, the company will be adopting a co-location setup for the securities trading server. By shortening the physical distance of TWSE and investors to their respective trade servers, the company is able to provide faster and more competitive trade service.

e. More secured trade service for mass market customers:

With respect to information/communication security, the company has undertaken enhanced defense against DDoS, subscribed packet cleaning service, and adopted protection against APT. Network security and defenses are being monitored on an

ongoing basis to provide customers with a safe investment and trading environment.

5.5.5 Future R&D plans

(1) Expected R&D spending

Unit: NTD thousands

Items	R&D expenses planned over the next year
Amount	116,410

(2) Future R&D plans

In light of the rapid advancement of FinTech, we need to adopt groundbreaking mindset and changes with regards to electronic trading. For this reason, our future R&D efforts will be focused towards “digital mobility” and “smart automation” and a summary of our preliminary plans is explained below:

a. Become the leading brand in digital financial service:

Through continuous introduction of innovative features and services and active exposure using online media, the company will promote itself as the leading brand of digital financial services

b. Improvement of critical digital services:

The company will utilize innovative technologies to provide the digital banking services needed by customers, including the use of mobile financial advisor system to deliver personalized services and thereby eliminate the need for customers to visit branches in person.

c. Development of intelligent research report system:

The company has been engaging National Formosa University in an industry-academe collaboration project to develop an intelligent research report system that provides customers with more comprehensive information and complements the company's investment services.

d. Improvement of online bilateral securities lending function:

The feature allows investors to lend/borrow shares online and thereby increase liquidity and yield.

This transaction enables customers to earn income from lending shares and the company to generate commission fees, which is considered a win-win solution.

e. Optimization of financial advisory robot:

Financial advisory robot and KYC questionnaire have been added to the system with simplified risk grading criteria for more friendly and more intuitive service experience.

f. Development of smart order placement system:

Customers are able to issue conditional orders over the cloud server before and during trading hours. Once the condition is met, the system will place the trade order on customer's behalf.

g. Enhanced website security:

Escalate protection against hackers' attacks by: incorporating biometrics as a form of identification during a service request, login or transaction confirmation process.

h. Development of an intelligent securities customer service system:

This system makes services readily accessible by customers 24 hours a day all year long. It uses programs to answer frequently asked questions, and is a good example of how AI can be integrated with the manual process to improve overall service experience.

i. Development of an electronic trading system for the Greater China Region:

By creating a regionally integrated electronic trading system, we hope to offer customers in China, Hong Kong and Taiwan the most convenient tool for making investments.

j. Development of a foreign exchange system:

Following the Central Bank's de-regulation that allows securities firms to engage in TWD spot foreign exchange and derivative transactions, the company will be creating a full-fledged foreign exchange system to bring broader product diversity to its customers.

k. Optimized derivative trading system:

The system will offer more product variety and better market-making features for proprietary trading, and hence enhance options trading service for customers.

l. Securities financial advisory robot - Phase 2:

The company will continue to improve the scope and quality of products/services offered by the financial advisory robot. The core algorithm will be optimized to produce the best portfolio recommendations, and the service will be linked to wealth management and special-purpose money trust offerings for fully automated financial advisory.

m. Capital management account (sub-account):

The company will continue making improvements to the sub-account system and introduce the use of sub-accounts for products/services such as securities lending, securities-backed borrowing, margin trading, overseas equity and mutual funds, in addition to trading of Taiwan equity, share subscription, and regular fixed-sum ETF investment.

5.5.6 Long and short-term business plans

(1) Brokerage services

The company devotes balanced attention to the growth of brokerage and wealth management service, and considers brokerage to be the core business activity. Faced with a volatile market, the company will adopt more rigorous control of business risks to ensure income stability. Meanwhile, the company will be introducing more variety of products, more refined digital services, and multi-purpose investment platforms to increase the size and turnover of products held by customers and grow sales by complementing customers' asset allocation with more diverse and comprehensive product/service offerings.

In addition to expanding profit source, we will continue finding ways to save costs by making optimum adjustments to our branches. Through adjustment of operating model, we aim to reduce costs while at the same time improve the performance of our operations.

(2) Proprietary trading

The proprietary trading department will aim to deliver absolute profit and medium/long-term returns by adopting medium-term trading strategies that conform with market trends. Due to concerns for stability and liquidity, the company will be seeking to maximize returns out of low-risk investment strategies and dividends income from shares of high dividend yield.

(3) Proprietary futures trading

Aim to deliver reasonable returns by capturing market price changes and exercising risk management. Execute arbitrage strategies and support derivative services by providing hedging and market making functions.

(4) Treasury activities

- a. Increase the number and market share of warrants issued.
- b. Develop asset exchange services to secure revenue sources from convertible and exchangeable bonds.
- c. Improve system trading functions and introduce a hedging module to the existing system.
- d. New product development: Design ETNs that are differentiated from ETFs offered by investment trust companies and issue products of marketable potential.

(5) Proprietary bond trading

Foreign exchange spot is added to provide customers with one-step services, engaging in foreign

currency securities trading and foreign exchange settlement business at the same time.

(6) Underwriting services

a. Short-term

The company will continue to support its IPO/SPO service and maximize corporate value by providing customers with the needed capital market strategy and capital plan. By coordinating resources from other members of the financial group, such as venture capital and banking subsidiaries, the company aims to expand its distribution channels and provide customers the ultimate one-stop financial service shopping experience, and establish itself as customers' long-term strategic partner.

b. Medium/long-term

Being the industry's only OSU with overseas underwriting experience, the company will strive to grow the Greater China market and explore new markets in support of the government's new southbound expansion policy. By capitalizing on cross-border and cross-industry merger opportunities within Asia Pacific, we aim to extend service to potential customers local and abroad and develop a strong reputation in the field of investment banking.

(7) Global institutional investor services

a. Short-term

In terms of trading service, the company will utilize the Algo function of the trading system and regional platform of foreign securities firms to source low-commission customers. Given the implementation of the Markets in Financial Instruments Directive (MiFID II) in the EU, the company will strive to enhance the quality of its research for customers by leveraging Fubon's extensive knowledge in local SMEs and niche segments/industries and thereby differentiate ourselves from foreign securities firms.

b. Long-term

Establish strategic alliance with foreign securities firms to expand service reach into Hong Kong, Singapore, USA and Europe. We target to reach collaborative arrangements with securities firms in Japan, Korea and Malaysia for further Taiwan flows.

(8) Electronic trading

a. Short-term:

- (a). By utilizing cloud technology, we aim to introduce a cloud-based electronic trading services that enable customers to access the latest financial information anytime, anywhere using personal devices (such as smartphones, tablet PCs and computers), and create an electronic trading environment that supports multiple screens.
- (b). Apply big data analysis to match investors with the right financial products, and thereby satisfy customers' investment needs.
- (c). Introduce wealth management functions and integrate with the financial advisory robot to provide investors with exclusive smart investment services.

b. Long-term

- (a). Adopt artificial intelligence for gaining insight into customers' performance and identify investment opportunities.

Adopt machine learning technology and perform calculations by the hundreds of thousands using a multi-factor algorithm to optimize investment portfolio and customers' returns.

- (b). Through the use of a mass database, we aim to create an analytical module specifically for exploring customers' investment needs and thereby allowing value-adding services to be referred to customers through sales representatives for closer interaction with its customers and better user experience.
- (c). For better competitiveness, satisfaction and differentiation of the electronic trading

platform, the company will be developing a proprietary service-oriented APP to provide customers with more complete online securities investment service.

- (d). Apart from making products available for trading over capital management accounts (sub-accounts), the company will continue working with a greater number of banks to introduce an online debit authorization, so that interbank transfers no longer have to go through the usual remittance channel and thereby saving on service charges.

The company will also introduce new interest payment systems to expand the use of sub-accounts.

- (e). Develop digital branch and create a new investment platform that focuses on providing online account opening, electronic trading and electronic services.

(9) Securities lending

a. Short-term

Explore potential securities borrowers; develop two-way securities lending & borrowing services and lend out idle shares held by customers, affiliated subsidiaries and peers to bump up the revenue.

b. Long-term

Develop a digital securities lending platform that is capable of executing complex deals in a fast and effective manner. Aim to achieve automated matching of securities lending transactions.

(10) Sub-brokerage services

In light of recent deregulations on sub-brokerage and local investors' increasing demands for overseas investments, the company has expanded its promotion and marketing efforts to keep customers informed of the latest market news. The company is also introducing offshore bonds to enrich its lineup of overseas investments.

Given the ongoing globalization of the financial market, we will continue enhancing our internal systems to give investors the most complete product information and quotes. Meanwhile, additional efforts will be made to enhance development and marketing of offshore products, and thereby satisfy investors' needs to invest into overseas securities, investment-grade bonds, offshore funds and other financial products.

(11) Overseas service

a. Short-term: Grow securities/futures/venture capital/fund services in China

- (a) Explore opportunities to invest into jointly funded securities subsidiaries in China.
- (b) Grow equity investments in China.
- (c) Form strategic alliances with suitable partners to assist in the development of securities/futures/venture capital service in China.
- (d) Entrust the Hong Kong subsidiary with the task of growing Chinese customers and capitalizing on opportunities following the de-regulation of international futures services in China.

b. Long-term: build a service platform that covers China, Hong Kong and Taiwan; develop cross-border finance and deploy throughout Asian securities markets

- (a) Take advantage of the ongoing deregulation between China, Hong Kong and Taiwan by creating a securities and futures platform that stretches across the Greater China region. Develop collaborative relationships across borders, products and channels to give customers the most complete range of products and services.
- (b) Support the financial holding company's strategies in Asia; launch cross-border products and services and establish presence in Asian emerging markets of the highest potential.

(12) Wealth management

In response to the rising trends of big data analysis and intelligent financial advisory, the company plans to designate money trust business, combining the Company's subsidiary Fubon Trust and Fubon Trust research analysis resources, as well as financial management robot data analysis, providing different customer groups with objective investment financial management allocation solutions. The business was officially launched in October 2018.

(13) Investment consultancy

a. Short-term

The company will be organizing investment workshops and seminars on securities and financial products to help investors develop the proper concepts. By providing investors with comprehensive analysis and consultation on financial instruments and stocks local and abroad, we hope to keep investors informed on product information and price movements. Resources will be spent to enhance system software and hardware, and thereby establish a robust information center and research center to support our services to customers.

b. Long-term

The company will be supporting group strategies by providing customers with adequate information and research. Meanwhile, steps will be taken to raise overall professional and service standards, and optimize the utilization of investment consultation resources.

5.5.7 Market and business overview

(1) Locations where products (services) are mainly sold (provided): Taiwan

(2) Future market supply and demand

a. Brokerage services:

Although TAIEX managed to stay above 10,000 for the longest time in history in 2018, uncertainties around the world began to undermine investors' confidence, causing TAIEX to fall below 10,000 towards the end of the year. Meanwhile, the market has also been exhibiting a decline in daily trade volume since the second half of the year. The market generally expects a slowdown of the global economic growth in 2019 <https://www.moneydj.com/KMDJ/wiki/WikiViewer.aspx?Title=%u7D93%u6FDF%u6210%u9577>, and that performance of TAIEX is still largely affected by international factors including the trade war. A favorable outcome from the trade negotiations will inspire stock market performance worldwide and help recover investors' confidence. Fubon Securities Investment Services places TAIEX within the range of 8500~10500 for the following year.

b. Proprietary trading

Growth of the global economy should slow down somewhat because of the China-USA trade war and concerns about China's slower economic growth, which will inevitably suppress stock market performance worldwide and cause TAIEX to fall below the 10,000 level. Fortunately, given that the Fed may slow down or suspend its rate hike and balance sheet shrinking, the global stock market still offers room for upside gains even without supporting fundamentals. However, it is possible that the China-USA trade war may result in a change to the global supply chain of information and communication products, giving rise to additional uncertainties. Nevertheless, the proprietary trading department will continue maintaining risk control as a means to deliver absolute profits.

c. Bond Business

Due to Taiwan's economic decline forecast and the Sino-US trade conflict triggering an increase in global trade barriers, the global economy is expected to slow down. It is anticipated that Taiwan's Central Bank will continue to maintain its moderately loose monetary policy, which will in turn strengthen bond interest rates in Taiwan. Further interest rate cuts by the Central Bank are not ruled out should Taiwan's economy further weaken. At the Fed's recent meeting, it was concluded that an interest rate increase will be put on hold, and the asset and the balance sheet reduction policy in September this year will help boost investors' confidence in US bonds. Although the global economy decline trend may not lead to a recession, it may

trigger investors' expectation of the Fed's interest rate cuts by the end of the year at the earliest. Moreover, the current higher US bond interest rates compared to those in other mature markets are expected to boost investors' purchase of US bonds, thus maintaining its strength.

d. Treasury activities

In 2018, the company issued a total of 1,806 options for a sum of NT\$20.6 billion, which represented a sizable market share of 5.2%. There are currently 20 issuers in the market creating more than 36,000 options each year, not to mention that Macquarie Group has recently joined the competition. In response to this intense competition, the company will seek to maintain competitiveness by flexibly adjusting its issuance, market making and hedging strategies in line with market conditions, while directing focus towards ETFs launched by Fubon Asset Management for maximum group synergy.

e. Underwriting services

The company's underwriting business in TWSE and TPEX had sustained a balanced growth in 2018, while market share in IPO, SPO and Emerging Stock Market transactions ranked second in the market. During the year, the company was named "Best Investment Bank in Taiwan" by Global Finance, "Best Investment Bank" and "Best ECM House" by Finance Asia, won "Securities Circulation Award - Securities Underwriter," "Economic Stimulation Award - IPO Volume" and "Economic Stimulation Award - IPO Market Capitalization - 2nd Place" from TWSE, and won "TPEX Funding Assistance - 3rd Place" from TPEX.

TWSE/TPEX listing and underwriting should remain active in the following year. In terms of IPO, Taiwan equities currently offer attractive P/E and turnover rate compared to the rest of the world. In addition, the government's new southbound expansion policy combined with aggressive efforts of TWSE and TPEX in the Southeast Asian market have significantly increased the number of IPOs by Taiwanese enterprises in the ASEAN market. The National Development Council, Executive Yuan, recently introduced the "Taiwanese Enterprise Return Investment Action Plan" along with related incentives with the goal of attracting Taiwanese businesses into investing in the home country. In reciprocity, listing on the Taiwanese capital market benefits businesses in terms of fundraising, transformation, business upgrade and sustainability. With respect to SPO, Taiwanese businesses are making active adjustments to production sites and strategies in response to the China-USA trade war, and whether they decide to return to Taiwan or move into Southeast Asia, there will be significant increase in capital demand for the purchase of automated equipment. As a result, demand for SPO should continue to grow. The government's economic policies including the "5+2" industries program (Asian Silicon Valley, green energy, biomedicine, smart machinery, defense aviation, new agriculture, and circular economy), new infrastructure projects and wind power all have the potential to stimulate future economic growth, and give rise to service opportunities such as IPO, SPO and financial consultation to benefit Taiwan's capital market.

f. Overseas service

- (a) Prospects of the Asian Pacific capital market: the Group's deployment overseas will benefit the Company's expansion into Asia Pacific securities markets and bring new opportunities.
- (b) Integration of Greater China capital markets: The Chinese government is speeding up the de-regulation of its capital market with new measures such as: globalization of the CNY currency, Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect, Bond Connect, unilateral approval of Chinese and Hong Kong funds, removal of eligibility restrictions on foreign investment banks for bond market involvement, permission for offshore traders and brokerage houses to engage in the trading of certain futures in China, permission for foreign companies to issue debts in the Chinese capital market, and reducing negative checklist items for foreign investors. These measures should quicken the pace of capital market integration between China, Hong Kong and Taiwan.

g. Electronic trading

The company will actively exploit the Internet for financial services and connect its electronic trading platform with overseas subsidiaries of the Fubon Group to create a secured digital financial service environment where customers may have access to a full range of services

including account opening.

(3) Business targets

a. Brokerage services:

In light of changes in the financial industry, we have taken steps to secure our brokerage service and explore broader profit sources by introducing a more diverse range of investment products and services in line with the government's de-regulation efforts.

In the meantime, we shall direct attention towards customer care and financial innovation, and explore opportunities to optimize online service for existing customers for strengthened relationship. Through the offering of diverse product lines and an improved platform, we hope to help customers capitalize on the latest financial and economic development, and make the optimal asset allocation that enhances overall competitiveness.

Furthermore, the company will continually develop new service models to reduce operating costs and improve service efficiency.

b. Treasury activities

The company will continue issuance of new options and adopt a flexible issuance strategy that keeps offerings in-the-money and maintains growth of offerings over time. The company will also play its role as the market maker and distinguish itself from other issuers by supporting its offerings with sufficient liquidity.

The company will continue to make plans to upgrade its trading system and adjust market making and hedging strategies to accommodate the changing trade rules, and thereby improve the stability and efficiency of its market making activities.

c. Proprietary bond trading

The company will be building bond positions that meet the accounting definition of "Fair Value Through the statement of Other Comprehensive Income (FVTOCI)," and thereby secure fixed income revenues while reduce fluctuation in profits.

d. Underwriting services

(a) Combine resources throughout the group to find prospects for IPO, cross-border underwriting, and M&A service, and hence secure income source.

(b) The company will exercise greater care when selecting underwriting cases, and aim to earn capital gains under controlled risks.

(c) The company will raise employees' awareness towards regulation through means such as internal/external training, case study, and issuance of compliance newsletters.

e. Electronic trading

The new H5 version of online account opening service will be launched to give customers the ability to choose the ETF products they desire on the ETF website before proceeding with account opening. Opening of electronic account will also be made available online, so that existing customers may access electronic trading access quickly without having to visit branch in person.

In addition, an SMS verification system will be introduced as part of the express account opening service, whereas optical character recognition (OCR) is being used to process documents uploaded by customers. By making adjustments to the account opening interface, customers will be able to submit information more accurately in shorter time, while integration with an offline review system makes online account opening more convenient and secured.

f. Overseas service

(a) Introduce investment banking services into China through Chinese subsidiaries, and prepare for future establishment of Chinese securities joint venture.

(b) Support development of Chinese businesses through existing deployments in China; create synergies to counteract size advantage of Chinese securities firms.

- (c) Quickly expand overseas business via strategic alliances, mergers and acquisitions.
- (d) In addition to hiring top talents locally at overseas business locations, the company will also train mid-level and senior-level managers and assign them to managerial roles overseas to reduce personnel cost and mitigate the competition for talents.
- g. Re-consigned trading and integrated marketing
 - (a) Integrate resources within Fubon Financial Holdings to provide customers with more variety and more immediate financial information that helps them profit.
 - (b) Enhance risk management services to customers; provide customers with the ability to manage risks over the course of investment.
 - (c) Expand the breadth of sub-brokerage service to provide customers with more overseas investment channels; reduce non-systematic risk by packaging multiple products into portfolios.

h. Proprietary trading

The company will continue maintaining high trading position of “financial assets at fair value through other comprehensive income (FVTOCI)” for stable dividend income.

(4) Opportunities and threats

Opportunities

a. Brokerage services

The authority has made a series of deregulation in recent years to stimulate liquidity and trade volume in the securities market while at the same time expand the scope of service available to securities firms. New services such as bilateral securities lending, unrestricted purpose loan, regular fixed-sum ETF investment etc not only present industry participants with business opportunities, but also bring fresh liquidity into the share market. Meanwhile, the extension of day-trade tax concessions also stimulates investment momentum in the market. New financial technologies allow investment information to spread faster, which increases the turnover of securities and brings liquidity in favor of the share market.

b. Treasury activities

The competent authority remains supportive of the warrants market.

The Legislative Yuan is likely to approve the reduction of securities transaction tax on options that are used for hedging.

c. Proprietary bond trading

Following the introduction of OSU, the company will progressively shift its focus towards overseas bond markets. Development of the U.S. bond and futures trading platform has been completed, which brings a broader variety of tools to bond trading, for long and short positions. Following the launch of Bond Connect in China, the company has introduced a new Bond Connect Trading Platform to give traders broader regional exposure for risk diversification.

d. Underwriting services

- (a) The company's 2018 market share in IPO, SPO and Emerging Stock Market transactions ranked second in the market. During the year, the company was named “Best Investment Bank in Taiwan” and “Best ECM House” by renowned international financial media, won “Securities Circulation Award - Securities Underwriter,” “Economic Stimulation Award - IPO Volume” and “Economic Stimulation Award - IPO Market Capitalization - 2nd Place” from TWSE, and won “TPEX Funding Assistance - 3rd Place” from TPEX. The company has also been successful in lead-arranging prominent funding cases in recent years, including the largest IPO and SPO of the year (being the secured convertible bond issue of Yang Ming Marine Transport Corporation and the listing of Fusheng Precision Co., Ltd., respectively). These accomplishments are a testament to the market influence and sales capacity of Fubon Securities, which have been well-perceived among local corporations and investors. This competitive advantage shall work in favor of future business

development.

- (b) The company had successfully completed overseas SPOs for KYEC's ECB and Chimei Materials' GDR through OSU, which makes it the only securities firm with practical experience in the underwriting of OSU securities as a lead arranger. This distinctive experience will prove useful in overseas fundraising services in the future.
- (c) Fubon Group possesses abundant financial resources throughout the Greater China Region to support cross-border underwriting.
- (d) Fubon has the support of resources from a financial group to guarantee the underwriting of securities and compete in the market.
- e. Electronic trading
 - (a) The financial authority is actively supporting financial innovations, and has introduced a financial regulatory sandbox that not only facilitates financial service upgrade, but changes the conventional service model as well.
 - (b) The company possesses the advantage to win over customers and business professionals of the new generation, considering the fact that it has established good reputation and attained a leadership position in electronic trading services.
 - (c) Fubon Group has business involvements in banking, communications, and retail. There is immense potential for value-adding services beyond regional restriction if customers from three distinctive sectors are combined and cross-sold.
- f. Overseas service
 - (a) Fubon Securities has completed the establishment of venture capital/equity investment companies in China and Taiwan, which will greatly expand the company's investment banking and private equity fund services in the Greater China Region.
 - (b) Fubon Securities will be increasing the scope of products and services offered through the Hong Kong platform, including securities, futures, proprietary bond trading and asset management. This addition helps improve the company's competitiveness in the Hong Kong market.
 - (c) Fubon Securities has completed deployment of asset management service in the Greater China Region, and will be able to provide customers with a broader range of cross-border investment solutions.
 - (d) The group's long-established presence in China is starting to yield positive results. Its strong local awareness allows it to quickly create synergies when growing businesses in China and overseas regions.
- g. Sub-brokerage and integrated marketing
 - (a) The United States saw strong growth in its economy and corporate profits in 2018, which was why the financial market made substantial gains amidst concerns of the China-USA trade war and a worldwide slowdown. However, the suspension of interest rate hike and balance sheet shrinking by the Fed in early 2019 not only alleviated concerns of a U.S. economic slowdown, but also opened up opportunities for suitable investment products.
 - (b) Deregulation of local financial policies and introduction of new derivatives will work in favor of the financial environment.
- h. Proprietary trading

Corporate profits exhibited high level of growth in the last year, and Taiwan's stock market as a whole should maintain cash dividend yield above 4% in 2019, which helps stabilize investment returns.

Threats:

a. Brokerage services:

- (a) Securities brokerage is a highly matured and competitive service, with service providers

taking higher and higher discounts to compete for business.

- (b) The brokerage segment has been significantly impacted by digital transformation, and securities firms are now being tested for their ability to adapt, innovate, evolve and provide more convenient financial services to investors.
- (c) The authority is actively introducing new deregulations to improve market efficiency and open up new possibilities for securities firms. However, uncertainties associated with the new measures and market responses may cause investors to turn conservative. Success of these deregulations will largely depend on the overall execution and the amount of cost committed.
- b. Treasury activities

The market should remain volatile while the authority seeks to introduce deal-by-deal matching and extend securities transactions tax cut for day-trades. Foreign securities firms are making their entry into the local options market with the support of foreign resources, bringing more intensive competition to the industry.
- c. Proprietary bond trading
 - (a) The Fed's interest rate hikes had resulted in substantial falls in the U.S. bond yield. Uprise of the China-USA trade war and increased volatility of the U.S. stock market undermined investors' confidence further, causing under-performance of USD corporate bonds in the 4th quarter.
 - (b) As interest spread between NTD and USD continued to widen, the NTD money market experienced an outward shift of capital that not only tightened and increased cost of capital, but also reduced potential capital gains.
- d. Underwriting services
 - (a) Aggressive enticements from Hong Kong, Chinese and overseas exchanges have made companies less willing to list on TWSE/TPEX or raise capital in Taiwan. This reluctance affects the company's profits in the underwriting segments.
 - (b) Positions held as part of guaranteed underwriting are susceptible to changes in market and economic performance local and abroad.
 - (c) Underwriting regulations are complicated and constantly changing, which makes it difficult for the company to keep up and comply.
- e. Electronic trading
 - (a) Despite the rapidly growing demand for online account opening, Taiwan currently adopts a T+2 settlement system that makes "Know Your Customer" (KYC) difficult to perform. This shortcoming have increase overall business risk for securities firms.
 - (b) Furthermore, increasing demand for electronic service requires people to make the relevant planning, development and delivery. Talents, as a result, have a significant impact on how far the service may grow.
- f. Overseas service
 - (a) Lack of talent trained specifically for the Chinese/overseas securities market.
 - (b) Chinese financial institutions have grown in size, which poses new entry barriers.
 - (c) Taiwan peers are advancing more quickly overseas, and are considered strong competitors.
- g. Sub-brokerage and integrated marketing

Increased volatility of USD exchange rate, ongoing China-USA trade war and potential slowdown of the global economy may all adversely affect corporate profitability and demands for commodities such as oil and metal. Employment remains strong in the U.S., which presents concern for wage increase and inflationary pressure. Rate hike and balance sheet shrinking by the Fed will adversely affect liquidity of the financial market. The fact that many financial

instruments were no longer under-valued was one of the reasons that caused extreme volatility to the global financial in 2018, and potential slowdown of the global economic growth in 2019 presents even a greater concern.

h. Proprietary trading

The China-USA trade war disrupts the existing supply chain of information and communication products, which makes stock selection more difficult.

5.6 Business Overview of Fubon Bank (Hong Kong)

5.6.1 Scope of operations

(1) Business

Corporate and institutional banking: Corporate banking, Commercial/SME Banking, financial institutions

Retail banking: Deposit products, loan products, credit card products and services, insurance and investment services, Ambassador banking, securities investment services

Others: Treasury-related products, RMB services, electronic banking, mobile banking, e-banking and deposit box services

(2) Business distribution

Unit: HKD thousands, %

Item	2018		Percentage
Operating income	Retail banking	682,084	40%
	Institutional banking	565,116	34%
	Financial markets	426,658	25%
	Others	13,914	1%
	Total	1,687,772	100%

(3) New products and services planned for the future

To meet the needs of the Bank's customers and exceed customer expectations, Fubon Bank (Hong Kong) is always optimizing its banking channels. As there is an apparent trend of digitalization in the global community, the Bank will continue to enhance its digital banking platform this year. In January 2019, the Bank launched its New Foreign Exchange service on digital platforms, which is able to provide real-time exchange rates of a wide variety of foreign currencies during currency transactions. By the end of the first half of 2019, the Bank will make the Fast Payment System and Biometric Software Token available via digital banking platforms, so as to offer more secured, convenient and efficient banking services for its customers.

In Corporate Banking, Fubon Bank (Hong Kong) has already enhanced the existing product features of Fubon Business Online (FBO) in February 2019. In addition to the brand new user-friendly interface, online FX function has been successfully incorporated into the e-channel platform first time. Also, the online FX function will be further enhanced in 3rd quarter of 2019 by offering tiered currency exchange rates for different currencies to selected customers.

5.6.2 Business plans for the year

Despite the challenging operating environment, Fubon Bank (Hong Kong) reported a record-high net profit of HKD823 million for the year ended 31 December 2018, representing a year-on-year increase of 41% as compared with 2017. Net interest income rose 12% to HKD1,356 million, benefiting from the improvement in net interest margin and the growth in average interest-earning assets. The encouraging performance was attributable to its prudent growth strategy with enhanced risk management and effective cost control measures.

Against a backdrop of a rapidly changing market environment, the Bank will continue to pursue its customer-centric and prudent growth strategy to strengthen its local franchise. The Bank understands the diverse financial needs of customers from all walks of life and providing them with the unique "Fubon Experience" which emphasizes its culture of "customer first". The Bank continues to enhance customer engagement by widening its range of products and services, diversify its service delivery channels, and upgrading its service outlets and digital platforms. To align with its customer-centric strategy and in support of the Hong Kong Monetary Authority's Smart Banking initiative, the Bank

remains committed to investing in information technology and infrastructure, aiming to enhance the digital customer experience by launching more secure and convenient financial services.

5.6.3 Industry overview

2018 was another challenging year to the banking industry in Hong Kong. Consecutive interest rate increase by the U.S. Federal Reserve (“FED”) together with its policy to trim size of the balance sheet, led to rising volatility in the financial market over the year. Rising USD LIBOR rates also pushed up USD/HKD exchange rate to the Hong Kong Monetary Authority’s weak-side Convertibility Undertaking of HKD7.85, leading to near HKD100 billion capital outflow from Hong Kong throughout the year. All these factors led to a prime rate increase by the local commercial banks in September 2018, marking the first time in a decade.

Uncertainties over U.S.-China trade relationship and the FED policy outlook also dampened the local property market, business sentiment, and trade performance towards the end of the year.

Looking ahead, there are signs that growth momentum may continue to weaken. Uncertainty in interest rates, trade conflicts between the U.S. and mainland China, and Brexit will probably impact the economic growth and market performance in 2019.

5.6.4 Research & development spending and accomplishments in the last two years

(1) Research and development spending in the last two years

Unit: HKD thousands

Year	2017	2018
Amount	46,898	29,720

(2) Key IT initiatives completed in 2018:

- a. Acquisition of credit card POS terminals
- b. ASCCEND AS400 upgrade and purge of customer record for accounts closed over 7 years

5.6.5 Research and development plans in the future

While effective cost control measures were being exercised, Fubon Bank (Hong Kong) continued to invest in information technology to implement its banking development strategy to improve customer experience and to increase its capacity to support its long term business volume growth objectives.

(1) Future research and development plans

- a. Continue the implementation of Core Banking System Replacement Project
- a. The HKMA is going to launch a Faster Payment System in 2019 to facilitate interbank and peer-to-peer real-time payments. Being one of the participating banks, Fubon Bank (Hong Kong) will carry out system upgrade following HKMA’s schedule
- b. To cope with the HKMA’s requirement and market development to establish Open API for applications of product/ service in 2019, to provide innovative and integrated services that improve customer experience, and to keep up with market development on the delivery of banking services
- c. Windows 10 upgrade, in order to improve operational efficiency and enhance security level

(2) Estimated cost of research and development

Unit: HKD thousands

Item	Estimated cost of research and development for 2019
Amount	337,164

5.6.6 Long and short-term business development plan

(1) Short-term business development plan

In Institutional Banking, Fubon Bank (Hong Kong) will keep focusing on improving customer returns. The Bank will continue to acquire quality small and medium enterprises customers and compete to become a major bank for its customers, as well as to deepen existing customer relationship. In Retail Banking, the Bank will push to enhance digital banking by improving efficiency and introducing new virtual functionalities to enhance customer experience and drive engagement and usage. Financial Planning Manager (FPM) Team will be formed to help in selling process and training of sales staff on products, selling skills and relationship building with

customers in order to provide its customers with high quality services as well as optimize its wealth management fee income. Besides, the Bank will continuously enhance e-platform services to attract more customers from the younger segment.

(2) Long-term business development plan

Fubon Bank (Hong Kong) remains committed to service-oriented approach and pursues to improve its product and service quality. The Bank will continue to expand its online and digital platforms and upgrade its service delivery channels to capitalize on emerging Fintech opportunities and stay abreast of changing market needs. The close collaboration with the Fubon Group as well as further strengthen the cross selling activities within the Group will help the Bank to seize new business opportunities in the Greater China Region, expand the customer base and deepen customer relationship, so as to realize medium and long-term business targets.

5.6.7 Market and business overview

The growth momentum of global economy is seen to be slow in 2019. Despite the optimism over the U.S.-China trade deal, the tariff measures introduced by the U.S. and the Chinese governments over last year will keep impacting the global trade and business sentiment. Nevertheless, Fubon Bank (Hong Kong) will remain its prudent growth strategy to capitalize on new opportunities and maintain sustainable growth. The Bank will also follow our customer-centric approach and provide our customers with reliable and high-quality financial services. The Bank will continue to leverage on the inherent strengths of its parent company, Fubon Financial Holdings, to strengthen its relationships with customers and to capture the business opportunities across the region. The Bank remains committed to become the preferred banking partner of its customers and focus on delivering the exceptional “Fubon Experience”.

5.7 Business overview of Fubon AMC

5.7.1 Scope of business

(1) Business activities

Factoring, management of overdue accounts receivable, leasing, real estate leasing and trading, and urban renewal.

(2) Weight of business activities

The company generated NT\$210 million of operating revenues in 2018, of which NT\$200 million (94%) were from the disposal of non-performing loans while NT\$10 million (6%) were rental income. Non-operating revenues amounted to NT\$460 million, of which NT\$410 million were gains on the disposal of investment property, and NT\$50 million were from bad debt recovery.

(3) New products and services planned for the future

The company will be undergoing a transformation to accommodate FSC’s amendments to the “Principles for Investment of Asset Management Entities by Financial Holding Companies (and Banks)” dated December 29, 2017, and will be supporting the government's urban renewal policy and initiatives to reconstruct old, hazardous buildings while at the same time assist financial institutions in resolving non-performing loans. In doing so, the company hopes to diversify business activities and fulfill its share of social responsibilities.

5.7.2 Business plans for the year

(1) Manage existing non-performing loans.

(2) Explore opportunities in local foreclosures.

(3) Utilize the group's idle assets to expand revenue source.

(4) Develop real estate properties held on hand to derive greater value.

(5) Support government policy by exploring urban renewal projects that serve the public interest.

5.7.3 Current and future industry prospects

(1) Shrinking non-performing loans portfolio

Starting from May 2006, asset management companies were no longer permitted to transfer non-performing consumer loans to third parties in the secondary market. In March 2013, the competent authority stipulated that banks may sell non-performing loans only if overdue loan ratio has exceeded 3% for 4 consecutive quarters. By the end of 2018, average overdue loan ratios across the banking industry had dropped to 0.24%, forcing asset management companies to source business opportunities elsewhere.

(2) Regulatory restrictions against asset management companies:

According to FSC's amendments to "Principles for Investment of Asset Management entities by Financial Holding Companies (and Banks)" dated December 29, 2017, the company:

- a. May invest in companies that provide urban renewal service;
- b. May engage in business activities relating to non-performing loans, including acquisition of non-performing loan, commissioned collection of receivables, commissioned bidding for foreclosed properties, and consultation service on non-performing loans;
- c. May be commissioned to lease, sell or maintain real estate properties owned by the group, and to execute urban renewal projects with respect to the abovementioned properties;
- d. May invest, make value-adding use and sell real estate properties acquired through transfer, foreclosure auction or public tender, and idle assets owned by the financial holding company and its subsidiaries;
- e. May engage in business activities such as urban renewal, reconstruction of old building, rebuild of shoddy construction/hazardous building, debt consolidation, advance payment, and execution of urban renewal project.

5.7.4 Research & development spending and accomplishments in the last two years

R&D expenses (training expenses) amounted to NT\$59,000 in 2017 and NT\$80,000 in 2018; they were spent mainly to improve employees' knowledge and facilitate business activities.

5.7.5 Future R&D plans

None

5.7.6 Long and short-term business plans

(1) Short-term business plans

- a. Participate in the bidding for foreclosed properties; build up asset reserves at profitable prices.
- b. Manage existing properties and aim to derive values from their uses.
- c. Make active use of group assets.

(2) Long-term business plans

The company will continue to explore more value-adding uses of group assets and real estate properties held on hand, while seeking opportunities to participate in urban renewal projects and invest into foreclosed properties at low price as well as finance-related businesses local and abroad, and strive to become a versatile and professional asset management company.

5.7.7 Market and business overview

(1) Locations where products (services) are mainly sold (provided): Taiwan.

(2) Future market supply and demand

Overdue loan ratios have fallen across the local banking industry, and following the FSC's amendment to "Notes on Sale of Non-performing Loans" in March 2013, financial institutions are being required to "manage debts as the first priority and sell debts only under exceptional circumstances." The source of non-performing loans has decreased to an extent that caused most asset management companies to shift focus towards other business activities such as: revitalization of real estate properties, urban renewal, and investment leasing.

(3) Business targets

Evaluate and acquire investment opportunities; increase asset turnover by actively disposing assets held on hand; participate in urban renewal, reconstruction of old/hazardous buildings, bidding of foreclosed properties and make active use of group assets and investments for additional revenues.

(4) Opportunities and threats:

a. Opportunities

- (a) Fubon AMC possesses the experience, the expertise, and time-tested procedures to manage non-performing loans. It will continue to manage existing portfolio positions and maximize performance by applying advanced negotiation skills and streamlined processes, and sharing its techniques with other subsidiaries of the financial holding group or assisting them in debt collection.
- (b) The company will be undergoing transformation to accommodate FSC's new rules stipulated on December 29, 2017, and will be supporting the government's urban renewal policy. There is still growth prospect for asset management companies in the future.

b. Threats

Non-performing loan management is a withering business, while other new business activities are medium and long-term based, meaning that performance yields and earnings can not be realized over a short horizon.

5.8 Business overview of Fubon Direct Marketing

5.8.1 Scope of business

Fubon Direct Marketing is primarily responsible for the development of the group's integrated marketing and non-conventional distribution. Its business activities involve the use of telemarketing, DM marketing, e-commerce etc to introduce Fubon Group's products to customers. Fubon Direct Marketing creates optimal value and customer satisfaction with products offered by the group. By applying market analysis and CRM, the company aims to keep track of customers' changing needs and deliver “enhanced customer service and maximal synergy.”

(1) Business activities

- a. Auto and motorcycle insurance - by Fubon Insurance
- b. Residential fire and earthquake insurance - by Fubon Insurance
- c. Comprehensive family insurance - by Fubon Insurance
- d. Accident insurance - by Fubon Insurance
- e. Health insurance - by Fubon Insurance
- f. Life insurance - by Fubon Life
- g. Health insurance - by Fubon Life
- h. Investment-linked insurance - by Fubon Life
- i. Annuity insurance - by Fubon Life

(2) Operating revenues and weight (including subsidiaries)

Operating revenues and weight (including subsidiaries) -- Consolidated

Unit: thousand Dollars

Items	2018		Percentage
Operating revenues	Property insurance	364,031	56.34%
	Life insurance	279,840	43.31%
	Others	2,273	0.35%
	Total	646,144	100.00%

(3) New products and services planned for the future

Fubon Direct Marketing will keep up with market trends, discover customers' demands, and work

with Fubon Insurance and Fubon Life to develop new products that can be promoted by telemarketing.

R&D expenses in 2019 are estimated at NT\$3,500,000, which will be spent on developing big data analysis and voice database (as detailed in the table below).

Items	Details	Amount
Data analysis platform	The company will be adopting statistical analysis tools to track leads, performance, and support decision-making.	Estimated at NT\$ 500,000
Voice recognition platform	This project involves developing POC for a voice recognition system and a voice data module to assure the quality of automated voice service, which in turn improves performance and professional skills of marketing personnel.	Estimated at NT\$ 1,000,000
Voice database	AI technology will be adopted to perform semantic learning in the massive voice database that the organization has accumulated over time to develop customer profiles. This finding can then be exploited to increase customers' purchase intention.	Estimated at NT\$ 2,000,000

5.8.2 Business plans for the year

(1) Improve recruitment performance and employee retention

The company will aim to achieve greater results from its recruitment efforts in ways that improve overall business performance. Meanwhile, measures will be taken to train the existing workforce and to reduce attrition rate of experienced employees, and thereby secure the foundation for the company's performance improvement.

(2) Develop diversified marketing distribution

By collaborating with participants in other industries, the company will be able to gather new leads and reach a broader range of customers, thereby increasing product market share.

(3) Integrated telemarketing service

Online insurance will become an important trend in the Fintech era, and the integration between online and offline channels is also key to future growth. For this reason, Fubon will be working with third-party platform operators to develop integrated telemarketing services.

(4) Compliance

Compliance is an important part of internal control. Through training and awareness programs, we aim to raise employees' awareness towards compliance and keep them updated on the latest legal news. Meanwhile, employees will be instructed to enforce compliance practices to the satisfaction of the local authority.

5.8.3 Current and future industry prospects

Local banks are generally behind their European and American competitors in terms of telemarketing, TV shopping, and e-commerce. However, they are gradually catching up with more efficient, better quality, and lower cost services. Unfortunately, regulatory changes in the last two years have severely limited the means through which the company obtains its leads for telemarketing, and the average cost per lead has greatly increased as a result. Furthermore, online insurance services and new financial technologies have emerged to compete with telemarketing. To respond to this challenge, the company must enhance its data analysis technology and look for new ways to market its products to the suitable targets.

5.8.4 Research & development spending and accomplishments in the last two years

Data mining technologies have been used to develop a customer segmentation model that helps maintain customer relations and improves business performance.

Unit: NTD

2018	2017
1,750,000	1,100,000

5.8.5 Future R&D plans

Unlike the conventional face-to-face, over-the-counter sales approach, the company relies on well-designed products and advanced data mining techniques to satisfy customers' demands. For this reason, the company's future R&D efforts will continue to focus on the application of financial technologies in ways that support its business activities and long-term growth.

5.8.6 Long and short-term business plans

(1) Short-term business plans

- a. Raise productivity and stability of sales performance.
- b. Enhance sale of top revenue-contributing products for higher profitability.
- c. Explore potential sales leads and maximize the value of each lead.
- d. Optimize administrative procedures to reduce operating costs and improve operating efficiency.
- e. Enhance supervision over compliance and risk management practices, and thereby reduce business risks.

(2) Long-term business plans

- a. Continually train to improve employees' skills; encourage self-development and devise career plans for each employee.
- b. The group's innovative products and packages have provided Fubon Direct Marketing the advantage to compete in the market. Fubon Direct Marketing will continue to make use of resources provided by the group and apply data mining and customer analysis to uncover customers' needs and potential.
- c. Strengthen customer relations by enhancing service to customers.
- d. Anticipate upcoming deregulations regarding insurance brokers'/agencies' ability to offer insurance products online; plan ahead for operational advantage.

5.8.7 Market and business overview

(1) Locations where products (services) are mainly sold (provided)

Products and services are currently

(2) Future market supply and demand

Products offered by Fubon Direct Marketing are entirely sourced from various subsidiaries of the group, which represent a comprehensive range from insurance and retail banking sectors. These products have been primarily designed to offer basic protection, and the company will be exploring the sale of investment-linked products in the future. In the era of new financial technologies, conventional marketing methods such as face-to-face visit, DM and telemarketing will be gradually replaced by digital channels such as the Internet, social network, electronic media etc. The latter presents a distribution solution that better conforms with the needs of the market.

(3) Business targets

Business targets by product line

Unit: thousand Dollars

Insurance category	Written premiums
Property insurance	1,522,600
Life insurance	425,000

(4) Opportunities and threats

a. Opportunities

(a) Shopping habits of the young generation

Given the widespread of communication technologies and uprise of digital marketing tools such as the Internet, social network and electronic media, the young generation is becoming more receptive of direct marketing, which favors the growth of the industry.

(b) Trusted corporate image

Fubon Financial Holdings is the most highly integrated among all financial groups in Taiwan. Its integrity and positivity have won the trust and gained recognition of its customers. As a member of Fubon Group, this trust will prove favorable to the sales efforts of Fubon Direct Marketing.

(c) Diversified distribution and products

Marketing channels have evolved and diversified with trend. Diversified channels enable a company to reach different market segments quickly and acquire new customers at relatively low costs. Meanwhile, the company has access to a full range of products to ensure its growth in Taiwan's insurance market.

b. Threats

(a) Impact of regulations

The new Personal Information Protection Act and Financial Holding Company Act have limited the means through which the company obtains its sales leads. In response to the new changes, Fubon Direct Marketing will strive to keep customers informed to the extent required by law, and hence minimize consumer disputes. In the meantime, the company will pay effort to explore new sales leads and maximize the value of each lead.

(b) Talent training and recruitment

Telemarketing has proven to be a highly efficient channel of distribution, which is why insurance companies have actively expanded their telemarketing teams to maximize profits. This has resulted in an ever-lasting fight for talent among telemarketers, causing a rise in turnover rates and operating costs. Maintaining a stable team of experienced talents and raising their profitability will undoubtedly become the key to sustainable growth.

5.9 Business overview of Fubon Financial Holding Venture Capital Corp

5.9.1 Scope of business

(1) Business activities

- a. Venture investment
- b. Investment consultancy
- c. Management consulting services
- d. Industry and commerce credit bureau services
- e. All business items that are not prohibited or restricted by law, except those that are subject to special approval.

(2) Weight of business activities

As at the end of 2018, 98% of the company's business activities involved providing capital to investees, whereas management consultation accounted for only 2%. As at the end of 2018, the company's investment portfolio amounted to \$7.027 billion; of which \$3.552 billion was invested in medicine and biotech, \$509 million was invested in environmental protection, \$241 million in culture and creativity, \$668 million in media and distribution, \$331 million in food and dining, \$286 million in land development, \$228 million in textile, \$1.033 billion in electronics and e-commerce, and \$179 million in banking-related, recreation, entertainment, and manufacturing

industries.

(3) New products and services planned for the future: not applicable.

5.9.2 Business plans for the year

(1) Direct investment

- a. Build position in smart machinery and smart manufacturing.
- b. Search for high-quality investment opportunities in biotech and medicine.
- c. Search for investment opportunities in new energy and new materials.
- d. Participate in infrastructure projects such as waste treatment, wastewater treatment and environmental protection-related projects.

(2) Other management consultancy services: provide investment-related advisory services such as deal sourcing, assessment, and recommendation.

(3) IFRS 9 valuation service: In response to the adoption of “International Financial Reporting Standards No. 9 - Financial Instruments” (IFRS 9), the company will be assisting group subsidiaries in their “regular valuation of unlisted investments.”

5.9.3 Current and future industry prospects

Between January and December 2018, 17 new venture capital companies were established in Taiwan with total capital of NT\$2.017 billion. Another 32 companies made cash injections, raising NT\$11.212 billion in capital, whereas 55 companies reduced capital by a total of NT\$6.699 billion. Lastly, there were 8 companies that had liquidated or changed names, representing a NT\$551 million reduction in capital. In 2018, the amount of capital held by Taiwanese venture capital companies increased by \$5.979 billion compared to 2017. As at the end of December, the entire industry had approximately NT\$152.718 billion in paid-up capital, and 265 companies were actually in operation.

5.9.4 Research & development spending and accomplishments in the last two years

None

5.9.5 Future R&D plans

None

5.9.6 Long and short-term business plans

(1) Short-term business plan:

Capital will primarily be invested in industries such as biotech, medicine, cloud applications, key materials, information, electronics, optoelectronics, culture, creativity, tourism, green energy, infrastructure, e-commerce, emerging channels, and finance.

(2) Long-term business plan: same as above.

5.9.7 Market and business overview

(1) Locations where products (services) are mainly sold (provided): not applicable

(2) Future market supply and demand

Taiwanese venture capital companies used to allocate a dominant portion of their portfolio in electronics. As electronic manufacturing matured, few venture capital opportunities remained and investors began embracing new industries such as biotech, e-commerce, cloud applications, culture, and creativity. Meanwhile, rising domestic demand in China has also presented venture capital investors with a greater variety of prospects.

(3) Business targets

Aim to profit by investing in biotech, medicine, cloud applications, distribution, e-commerce, government-supported culture and creativity businesses, tourism, infrastructure, new channels, and finance.

(4) Opportunities and threats

- a. Opportunities: stable cross-strait relations and upcoming deregulation will present the Company with a broader range of investment prospects.
- b. Threats: the capital contribution from the Company's shareholders are not entitled to any tax incentives.

5.10 Business overview of Taiwan Sport Lottery Corporation

Fubon's sport lottery license expired on December 31, 2013; there is currently no future business plan related to this.

5.11 Cross-selling

I. Joint marketing synergy

Cooperation between subsidiaries has become an important part of the Company's corporate culture, and the organization has been able to deliver exceptional cross-selling yields through a series of coordinated sales efforts. To further improve the quality of cross-selling, subsidiaries have dedicated themselves to assisting customers with asset allocation and risk planning, and satisfying customers' needs through diverse product offerings. With the support of professional knowledge and digital service tools, we aim to provide customers with differentiated service experience. The following is a summary of Fubon's cross-selling performance in 2018:

- (I) **Non-life insurance:** Fubon Life has an extensive distribution network available to assist in the marketing of non-life insurance, and has been able to deliver sales growth progressively over the years particularly with respect to auto insurance and personal accident insurance. Fubon life plans coverage for individuals as well as families, and combines life and non-life products at its disposal to provide total protection. In return, Fubon Insurance provides safety diagnosis and risk prevention awareness service for corporate customers of Fubon's subsidiaries, which has been well-perceived among customers.
- (II) **Life insurance:** The size of elderly population in Taiwan is increasing rapidly as the society ages. Fubon Life addresses this development by offering pension, annuity, medical, long-term nursing and investment plans to satisfy customers' retirement needs.
- (III) **Banking:** Taipei Fubon Bank has been active in growing relationship with the young generation. Apart from offering more credit card privileges, the Bank has also been successful in attracting the attention of baseball fans with the issuance of Fubon Guardians Easycard Co-branded Card. Through cross-selling, this distinctive product is being marketed to serve a greater number of customers.

II. Innovative win-win- solutions

(I). Customer satisfaction-driven:

The subsidiaries manage customers according to their attributes and demands. Through the use of big data analysis and marketing/product platforms, Fubon is able to gain insight into customers' needs and risk tolerance for various products, which we seek to address by offering innovative solutions and digital services. By giving customers the easiest access to services such as financial consultation, insurance planning, and shopping privileges, we seek to create value for customers and ultimately raise their loyalty towards the brand.

(II). Professional service as a priority:

To maximize cross-selling potential, sales teams from various subsidiaries work together to update each other on the latest product information. Product seminars, training and certification are held regularly while certification training is organized to provide employees with new knowledge and skills, and to help them obtain professional certification in their areas of expertise. Through cross-selling activities, Fubon Financial Holdings aims to develop its professional image as an all-round financial service provider.

5.12 Employees and Labor-management Relations

5.12.1 Employee backgrounds

(1) Fubon Financial Holdings

Year		2017	2018	Year-to-date February 28, 2019
Employee size		160	155	162
Average age		39.59	40.12	40.18
Average years of service		4.63 years	4.94 years	4.86 years
Academic background	Doctoral Degree	3.12%	3.22%	2.47%
	Master's Degree	56.88%	58.71%	58.64%
	Bachelor's Degree	39.38%	37.42%	38.27%
	High school	0.62%	0.65%	0.62%
	Below high school	-	-	-
Professional certificates held by employees	Non-Life insurance representative	29	31	32
	Life insurance representative	38	36	37
	Investment-Linked Insurance Sales Agent	13	13	13
	Securities Specialist (including Senior Securities Specialist)	27	33	33
	Futures Specialist	10	13	13
	Trust Personnel	22	24	24
	Bank Internal Controller and Internal Auditor	38	41	41
	Auditor	-	6	6
	Certified Information Systems Auditor (CISA)	-	2	2
	Financial risk manager (FRM)	-	8	8

(2) Fubon Life

Year		2017	2018	Year-to-date February 28, 2019
Employees Head count	Back office staff	3,446	3,577	3,597
	Sales staff	25,223	24,493	24,274
	Total	28,669	28,070	27,871
Average age of back-end staff		40.90	41.20	41.30
Average age of sales staff		36.92	37.65	37.81
Average years of service - back-end staff		11.81 years	11.94 years	12.02 years
Average years of service - sales staff		5.4 years	5.95 years	6.05 years
Academic background	Doctoral Degree	0.03%	0.05%	0.05%
	Master's Degree	4.59%	4.92%	4.99%

Year		2017	2018	Year-to-date February 28, 2019
	Bachelor Degree	62.10%	62.44%	62.61%
	High school	32.50%	31.75%	31.53%
	Below high school	0.78%	0.84%	0.82%
Professional certificates held by employees	Non-Life insurance representative	24,489	24,346	24,271
	Life insurance representative	27,212	26,565	26,440
	Investment-Linked Insurance Sales Agent	14,671	15,847	15,888
	Auditor	-	40	40
	Certified Information Systems Auditor (CISA)	-	2	2
	Certified internal auditor (CIA)	-	4	4
	Certified Anti-Money Laundering Specialist (CAMS)	-	6	7
	Financial risk manager (FRM)	-	7	7

(3) Taipei Fubon Bank

Year		2017	2018	Year-to-date February 28, 2019
Employees Head count	Staff	6,733	6628	6698
	Worker	104	99	97
	Total	6,837	6727	6795
Average age		39.78	40.41	40.43
Average years of service		10.10 years	10.59 years	10.60 years
Academic background	Doctoral Degree	0.09%	0.09%	0.10%
	Master's Degree	18.14%	18.98%	19.16%
	Bachelor Degree	76.45%	75.83%	75.67%
	High school	5.28%	5.04%	5.01%
	Below high school	0.04%	0.06%	0.06%
Professional certificates held by employees	Life insurance representative	3,742	3,680	3,648
	Non-Life insurance representative	4,015	3,902	3,930
	Personal Insurance Broker	4	6	6
	Property Insurance Broker	3	4	4
	Personal Insurance Agent	5	6	7
	Property Insurance Agent	3	4	4
	Investment-Linked Insurance Sales Agent	1,796	1,731	1,753
	Personal Risk Manager	2	2	2

	Securities Analyst	27	28	30
	Senior Securities Specialist	694	661	662
	Securities Specialist	725	688	689
	Futures Specialist	675	631	632
	Securities Margin Trading Specialist	4	3	3
	Securities Investment Trust (Consulting) Professional	462	434	436
	Proficiency test for Bond Specialist	46	43	43
	Proficiency test for junior credit personnel	1,299	1,271	1,275
	Proficiency test for advanced credit personnel	97	91	91
	Proficiency test for junior foreign exchange personnel	877	844	845
	Bank internal control and internal audit exam	3,822	3,720	3,733
	Proficiency test for Certified Financial Planner	1,069	1,034	1,036
	Trust personnel exam	4,078	3,958	3,995
	Bill Finance Specialist	94	90	90
	Proficiency test for Stock Affairs Specialist	25	26	26
	Level A Technician for Labor Safety Management	0	2	2
	Auditor	-	12	12
	Certified Information Systems Auditor (CISA)	-	1	2
	Certified internal auditor (CIA)	-	3	3
	Certified Anti-Money Laundering Specialist (CAMS)	-	24	32
	Financial risk manager (FRM)	-	23	23

(4) Fubon Insurance

Year		2017	2018	Year-to-date February 28, 2019
Employee size	Head Office	1,037	1057	1063
	Branches	1,665	1711	1718
	Total	2,702	2768	2781
Average age		39.60	39.82	39.89
Average years of service		12.98 years	13 years	13.09 years
Academic background	Doctoral Degree	0.04%	0.04%	0.04%
	Master's Degree	11.25%	11.45%	11.58%

Year		2017	2018	Year-to-date February 28, 2019
Percentage	Bachelor Degree	84.79%	84.79%	84.68%
	High school	3.92%	3.72%	3.70%
	Below high school	-	-	-
held by employees professional certificates Name	Non-Life insurance representative	2,653	2,718	2,725
	Life insurance representative	2,559	2,682	2,690
	Insurance assessor and claim adjuster	809	1,057	1,057
	Investment-Linked Insurance Sales Agent	1,403	1,542	1,550
	Auditor	-	1	1
	Certified Information Systems Auditor (CISA)	-	2	2

(5) Fubon Securities

Year		2017	2018	Year-to-date February 28, 2019
Employees Head count	Back office staff	1,053	898	887
	Sales staff	796	850	840
	Total	1,849	1,748	1,727
Average age		44.63	45.17	45.36
Average years of service		13.52 years	14.11 years	14.28 years
Academic background	Doctoral Degree	0.10%	0.11%	0.12%
	Master's Degree	15.85%	16.19%	16.21%
	Bachelor Degree	69.23%	69.73%	69.77%
	High school	14.82%	13.97%	13.90%
	Below high school	0.00%	0.00%	0.00%
Professional certificates held by employees	Non-Life insurance representative	1,284	1,214	1,214
	Life insurance representative	1,390	1,295	1,297
	Investment-Linked Insurance Sales Agent	870	871	872
	Securities Specialist (including Senior Securities Specialist)	2,198	2,094	2,098
	Futures Specialist	1,336	1,268	1,269
	Trust Personnel	1,132	1,122	1,123
	Bank Internal Controller and Internal Auditor	212	209	209
	Securities Investment Trust (Consulting) Professional	539	516	516
	Securities Investment Analyst	19	23	24

Year		2017	2018	Year-to-date February 28, 2019
	Auditor	-	7	7
	Certified Information Systems Auditor (CISA)	-	3	3
	Certified internal auditor (CIA)	-	3	3
	Certified Anti-Money Laundering Specialist (CAMS)	-	4	9
	Financial risk manager (FRM)	-	1	1

(6) Fubon Bank (HK)

Year		2017	2018	Year-to-date February 28, 2019
Employee size		912	906	899
Average age		43.28	43.48	43.66
Average years of service		6.84 years	6.96 years	7.00 years
Academic background	Doctoral Degree	0.00%	0.00%	0.00%
	Master's Degree	16.45%	15.23%	15.35%
	Bachelor Degree	55.92%	57.40%	57.40%
	High school	27.30%	26.93%	26.81%
	Below high school	0.33%	0.44%	0.44%
Professional certificates held by employees	HKMA Relevant Individual Registration	169	158	161

(7) Fubon AMC

Year		2017	2018	Year-to-date February 28, 2019
Employee size		18	19	19
Average age		43.11	38.53	38.69
Average years of service		5.79 years	5.84 years	6.01 years
Academic background	Doctoral Degree	-	-	-
	Master's Degree	6%	5%	5%
	Bachelor Degree	83%	84%	84%
	High school	11%	11%	11%
	Below high school	-	-	-
Professional certificates held by employees	Securities Specialist	1	1	1
	Life insurance representative	7	5	5
	Bank Internal Controller and Internal Auditor	8	7	7
	First-stage Credit Assessment Personnel	6	5	5

	Trust Personnel	7	7	7
	Non-Life insurance representative	7	5	5

(8) Fubon Direct Marketing

Year		2017	2018	Year-to-date February 28, 2019
Employee size		2	2	1
Average age		53.65	54.65	55.17
Average years of service		7.66 years	8.66 years	8.95 years
Academic background	Doctoral Degree	-	-	-
	Master's Degree	-	-	-
	Bachelor Degree	100%	100%	100%
	High school	-	-	-
	Below high school	-	-	-
Professional certificates held by employees	Non-Life insurance representative	2	1	1
	Life insurance representative	2	1	1
	Investment-Linked Insurance Sales Agent	1	1	1

(9) Fubon Financial Holding Venture Capital

Year		2017	2018	Year-to-date February 28, 2019
Employee size		20	20	19
Average age		41.95	42.78	43.35
Average years of service		5.02 years	5.74 years	5.80 years
Academic background	Doctoral Degree	5%	5%	5.26%
	Master's Degree	60%	60%	63.16%
	Bachelor Degree	35%	35%	31.58%
	High school	-	-	-
	Below high school	-	-	-
Professional certificates held by employees	Securities Specialist (including Senior Securities Specialist)	3	3	3
	Futures Specialist	1	1	1
	Trust Personnel	3	3	3
	Securities Investment Analyst	1	1	1
	Auditor	1	1	1

(10) Taiwan Sport Lottery Corporation: None

(11) Fubon Bank (China)

Year		2017	2018	Year-to-date February 28, 2019
Employee size		1,052	1060	1075
Average age		32	33	33
Average years of service		3.5 years	3.7 years	3.7 years
Academic background	Doctoral Degree	0.38%	0.38%	0.37%
	Master's Degree	22.81%	24.43%	24.74%
	Bachelor's Degree	67.58%	66.89%	66.71%
	Bachelor Degree	8.56%	7.55%	7.44%
	High school	0.67%	0.75%	0.74%
	Below high school	-	0.00%	0.00%
Professional certificates held by employees	Banking Professional Certification	55	86	85
	Accounting Certification	68	122	122
	Securities & Futures Intermediaries Certification	111	129	129
	Insurance Intermediaries Certification	91	97	101
	Wealth Management Intermediaries Certification	380	328	328
	Anti-Counterfeit Certification	55	39	39
	Foreign Exchange Certification	47	66	66

5.12.2 Employee welfare

The company places great emphasis on employees' welfare; it monitors closely the changes in the environment and has devised welfare plans in accordance with regulatory requirements to satisfy employees' needs. The current employee welfare plan covers annual leaves, health insurance, labor insurance, pension contributions, group insurance, wedding/funeral/child subsidies, club activities, recreational activities, festive bonuses, health check-ups, employee share trust, training courses, training incentives, compassionate compensations, incentives for senior employees, and retirement benefits. The Company has also established retirement policies based on Labor Standards Act and Labor Pension Act for all employees who meet the definition of "labor." Managers who exhibit outstanding performance may be entitled to receive performance credits up to 10 additional basis points upon retirement. In 2018, a total of 285 employees had retired from the Company and its subsidiaries.

5.12.3 Enforcement of labor agreements and employee rights

The Company has always complied with labor laws and supported UN "Declaration of Human Rights" among other international human rights conventions. A "Human Rights Policy" was therefore established to protect employees' rights, including freedom of discrimination (regardless of gender, age, race or ethnicity, religion or political affiliation; equal employment opportunities are offered to those who have the ability and qualifications needed to accomplish the role), and thereby create a harmonious work environment.

Employees may raise suggestions or complaints according to the Company's procedures regarding issues that concern the Company's policies, management practices, employment disputes or employees' rights.

5.12.4 Employees' education, training and career development

The Company has devoted much of its efforts in talent development to meet the needs of the changing financial environment and to support its operational strategies. It has created a learning platform that accommodates the different duties and careers of its employees, and supports them with a multitude of learning resources to raise the level of innovation, banking professionalism, risk control, and promote understanding towards changes and best practices of the global banking industry.

The Company organizes leadership programs using internal as well as external resources to enhance leadership and vision among managerial staff. Out of respect for the importance of talent reserves, the Company has implemented a management associate (MA) program and uses a broad diversity of tools to identify top performers and talents of high potential to undergo training and certification for management position in the future. The Company remains active in the development of globalized management talents, and regularly refers top-performing employees to participate in the Financial Leadership Training Program at National University of Singapore and in the one-year business administration course at MIT Sloan School of Management. In response to the digital banking era, the Company has organized a series of seminars to provide employees with the necessary perspectives and mindset to adapt to new financial technologies. The Company places great emphasis on internal transfer of knowledge and experience, and has trained more than 800 certified instructors to date. The Company also provides employees with self-development programs and subsidizes/rewards their diploma studies, language development, and certification exams. Meanwhile, the learning platform is constantly optimized and enriched with learning resources, including the introduction of a mobile learning APP. In 2018, the financial holding company and its subsidiaries spent a total of NT\$137,571,000 on training, and achieved a total of 527,621 enrollments. By implementing a systematic training program and creating a multi-learning environment, the Company aims to raise employees' professional standards and build a team of talents that delivers the best financial services.

(1) Qualification of personnel involved in financial transparency

Personnel involved in financial transparency		Certification	Number of holders
Job nature	Head count		
Financial/Accounting personnel	31	Auditor	5
Internal auditors	13	Bank internal control and internal audit exam	9

(2) Managers' corporate governance training

Name	Title	Course name	Hours
Jerry Harn	President	Corporate Management and News Crisis Management Strategies	3
		AML and CTF by Directors and Senior Managers	3
		AML On-job Training	1
		Financial Holding Company Compliance Training	2
Hsien-Lung Chiu	Senior Executive VP	Trends of Financial Supervision and Technology	3
		AML On-job Training	1
		Audit Manager Workshop	12
		Audit Personnel Workshop	21
Patrick Chang	Senior Executive	AML and CTF by Directors and Senior Managers	3

	VP	Responsible Investment Trends of the International Banking Industry - 2018	3
		Trends of Financial Supervision and Technology	3
		Financial Holding Company Compliance Training	7
		AML On-job Training	1
Chung-Ping Liu	Senior Executive VP	AML and CTF Training	3
		Financial Holding Company Compliance Training	22.5
Joyce Chen	Senior Executive VP	Financial Holding Company Compliance Training	1.5
Wen-Cheng Yeh	Executive VP	Cloud tools and security protection	3
		Financial Holding Company Compliance Training	1.5
Sophia Wang	Executive VP	Trends of Financial Supervision and Technology	3
		Financial Holding Company Compliance Training	2
Wen-Yen Chen	Executive VP	Information Security Trends	3
		Compliance Personnel On-job Workshop	15
Wei-Ching Yang	Executive VP	On-job Workshop for AML/CTF Personnel	12
		Financial Holding Company Compliance Training	4.5
Wei Lo	Executive VP	AML/CTF Seminar	1.5
		Financial Holding Company Compliance Training	5.5
		Cloud tools and security protection	3
Po-Wen Chen	Senior VP	Information Security Trends	3
		Compliance Personnel On-job Workshop	15
		Financial Holding Company Compliance Training	3.5
		AML On-job Training	1

5.12.5 Actual or estimated losses arising as a result of employment dispute in the last year up to the publication date of this annual report, and any response measures taken: The Company has always maintained harmonic employment relations and no major employment dispute has arisen.

5.12.6 Work environment and employees' safety

The following measures have been taken to assure employees a healthy, safe and comfortable working environment, as part of the Company's corporate social responsibilities:

- (1) An "Occupational Safety & Health Committee" comprising department heads, workers' representatives, and employee health and safety officers has been assembled. The committee holds regular meetings to devise policies that minimize risk and ensure the safety of the workplace, thereby reducing damages and losses due to occupational hazards.

- (2) Programs such as “Prevention of Illegal Infringement at Work” and “Ergonomic Hazard Prevention” have been implemented to ensure employees' physical and mental health.
- (3) Operating environment is monitored regularly to protect employees' health.
- (4) Professional nurses are hired to manage the “Fubon Health Station,” where employees may seek medical consultation and assistance.
- (5) Physicians have been commissioned to perform regular “on-site health consultation” for the Company's employees.
- (6) “Health e-Newsletters” are issued from time to time to convey health information and promote employees' awareness towards maintaining health and preventing diseases.
- (7) Health seminars are organized regularly to improve employees' health awareness and behavior.
- (8) Automated external defibrillators (AED) have been installed at building lobbies to serve as emergency aid for employees, customers, and community residents.

5.13 Corporate Responsibilities and Moral Behavior

“Integrity, Sincerity, Professionalism, and Innovation” are the core values of Fubon Financial Holdings. For many years, the Company has remained committed to offering customers the finest and most innovative products and services. Through the use of charity foundations, the group has been able to contribute to its corporate social responsibilities, and encourage employees to engage themselves in social affairs for the greater good.

Fubon Charity Foundation

Fubon Charity Foundation was Fubon Group's first philanthropic organization founded in 1988, and 2018 marked the foundation's 30th anniversary. To celebrate its 30th anniversary, the foundation organized “Dream Project 30” and launched a series of charity events starting from Nantou to extend acts of kindness to far corners of the society.

“Making Friends With Love” Campaign: The campaign raised NT\$113,766,000 during the year, helping more than 15,850 students continue their studies. “Exchanging Points for Love”: The campaign raised NT\$954,350 in donations to the benefit of 13 charity organizations.

“Emergency Relief” (including individual financial assistance, medical fund account, the 921 Education Fund, the 206 Education Fund, the Morakot Orphan Tuition program, the micro insurance project, and Feed the Hungry by Genesis Social Welfare Foundation, and the End Poverty Saving program): A sum of NT\$25,089,098 was contributed to 19,908 beneficiaries.

Fubon Volunteer Association held 35 blood donation events and attracted 1,283,000c.c. of donated blood in 5,132 bags. The association organized 24 service events of various themes including care for volunteers, urban-suburban exchange, environmental education and Fubon Charity Ambassador; a total of 440 volunteers were mobilized to deliver 2,052 hours of service. The “2018 Fubon Charity Ambassador” event assisted 107 charity organizations and provided NT\$30,000 to NT\$50,000 of “Extra Subsidy” to 10 charity organizations. In addition, the Company assisted the foundation in organizing “Dream Project 30” and mobilized 568 volunteers to help 10 remotely located elementary schools, children's homes and homes of the disabled in various activities including hardware maintenance, green environment transformation, donation of children's books and volunteer services. 4,393 registered volunteer services were committed for a total of 26,966 hours in 2018.

Fubon Cultural & Educational Foundation

For more than 20 years, Fubon Cultural & Educational Foundation has continually adjusted its strategies and actions in line with the changing times, and remains devoted in guiding and expanding teenagers' vision and imagination, and helping them connect with the world. The foundation's focuses in 2018 were: “Juvenile Education,” “Cultural Preservation and Image Education,” and “Teamwork.”

In terms of “Juvenile Education,” the foundation held a large exhibition called “Young Voice” in 2018 to facilitate communication between generations. The exhibition received more than 21,000 visits, and was supported by mentorship programs including “Dream School” and “Future Maker” that were aimed to train young talents toward realizing their dreams. In terms of “Cultural Preservation and Image Education,” a course called “Senior High School Filmmaking” was organized to help 249 teenagers develop diverse visions, criticism and independent thinking. It was the first time that Fubon's image education was expanded to cover elementary school students in addition to teenagers; overall, the course enabled a total of 858 students to experience the magic of filmmaking.

As for “Teamwork” projects, the foundation continues to give back and convey an inclusive concept within the society. “Let’s Talk about Media” is an integrated media platform of radio broadcast and online video; having accumulated a daily audience size of 244,000, it has emerged as an important public communication platform. Meanwhile, “Young Financial Talent Seminar” continued its mission of delivering practical education, and published illustrated manuals and educated a total of 1736 elementary school children on the proper wealth perspective while helping them apply knowledge in everyday life. The “Positivity Workshop,” on the other hand, delivered 2,994 hours of learning with an emphasis on “environment friendliness,” and associated the employee diner with agricultural social enterprises as a means to direct employees' awareness towards the issue of food safety while at the same time support environment-friendly agriculture in Taiwan.

Fubon Art Foundation

Culture is a critical form of soft power! And Fubon Art Foundation has adhered to its initial mission of bringing aesthetics into people's lifestyles by promoting “art in everyday life.”

“Very Fun Park” was relocated to Xinyi District in 2018, and the foundation invited 10 artist teams to express their ideas about the city in this “open gallery.” A 2.3km-long sky bridge provides pedestrians with an open walkway uninterrupted by traffic light. Its elevated position cuts through the city's major shopping districts and brings visitors a whole new vision. “Folio Hotel Daan Taipei” won this year's Public Art Awards - Private Category. In addition to art placements, the hotel introduced musical and image elements this year to present a home-like atmosphere that made each guest an active promoter. The hotel also has a dedicated space that collects guests' memories and shares their imaginations about the city.

Heading into its 18th year, the “Fubon Forum” has invited 841 respectable speakers, attracted over 190,000 visits and held 1831 classes on life aesthetics. The forum organized 16 seminars and special programs this year to share knowledge on aesthetics with the artistic crowd, and contributed back to the society by keeping them informed of technological trends. The “Artists' Helmet” project began in 2017 as a way of raising funds to support juvenile baseball. From this year onwards, funds raised from charity auction of Artists' Helmets will be donated to Sheng-Ming Hsu Baseball Development Association over three years. By incorporating art with sports, the foundation hopes to expand influence to benefit a larger group of people.

In the future, Fubon Art Foundation will continue its contribution to arts and create an international platform where cultural and artistic ideas can be exchanged with the rest of the world!

Taipei Fubon Bank Charity Foundation

Since it was first founded, Taipei Fubon Bank Charity Foundation has been a strong force and influence to the care of socially disadvantaged people. Today, the foundation remains actively involved in the care for elders and people with disabilities.

The foundation's 2018 “Chongyang Care for Elders” program was organized in collaboration with local elderly care institutions, which encouraged elders to travel with company and connect with people over 7 seminar sessions. 153 sessions of “Fubon Family Caregivers Respite Tour” was held during the year to the benefit of 4,216 people; the tour helped caregivers recover from helplessness and find support that not only lessened their stress, but improved the quality of care given as well. This year's “Fubon Table Tennis Tournament” was organized at the lobby of Taipei Main Station to advocate more active lifestyle and charity involvement among the elderly population. The tournament

raised a sum of NT\$400,000 comprising enrollment fees and donations, which were later donated to Taiwan Catholic Foundation of Alzheimer's Disease and Related Dementia to finance the construction of indoor and outdoor gardens, and thereby improve the living quality of demented elders. Meanwhile, the foundation continued to host "Music Therapy" and "Dementia Support" programs to serve a total of 4,659 elders.

"All Love Orchestra," a performance group comprising winners of "Fubon Artistic Award for Disabled Talents," made tour performance at 6 high schools and 4 nursing institutions as well as during the International Day of Persons with Disabilities. The two grand concert performances at National Taichung Theater and concert hall of National University of Tainan were highly applauded by the audience, whereas the making of "All Love Orchestra Musical" was produced into a micro-movie and won three major awards during the 2018 Taipei Golden Eagle Micro-movie Festival, including Top Film, Best Social Inclusion, and Best Original Screenplay. At the graduation ceremony of Penghu Government's "Hope Project," the foundation concluded having raised NT\$6,647,749, completed 3,640 hours of courses and delivered 5,959.5 volunteer service hours over 3 years to the benefit of 28 graduating students.

Mr. Wan-Tsai Tsai, the founder of the Fubon Group, had long been a believer of "giving back society what we have gained from it." As we progress into the future, Fubon Financial Holding will carry on this legacy and continue to commit resources into corporate social responsibilities, and spread positive influence through the four foundations.

(1) Donations made by the Company and its subsidiaries

Fubon Financial Holdings and its four subsidiaries donated a sum of NT\$305,635,111 in 2018, which was NT\$50,091,756 higher than the previous year. The Company extends its compassion to victims of major disasters around the world, and hopes to ease their suffering by making donations to rescue efforts. Fubon also organizes post-disaster assistance programs depending on victims' needs. In February 2018, an earthquake of 6.0 on the Richter scale occurred in Hualien, to which the Company donated a sum of NT\$12 million as disaster relief. In August 2018, parts of southern Taiwan were flooded following a series of heavy rain, causing severe damage to agriculture, fishery and animal husbandry industries as well as residential homes, and the Company donated NT\$30 million to help residents of southern Taiwan recover from the disaster. Apart from making donations, the life insurance and non-life insurance subsidiaries had also been responsive in helping victims when the disaster occurred, and actively contributed expertise to bring security to the society. Other than the above, the Company and its four subsidiaries made no donation to any political party.

Below are details of donations made by Fubon Financial Holdings and its four subsidiaries in 2018:

Name of company	Amount	Percentage
Fubon Financial Holdings	1,724,350	0.56%
Taipei Fubon Bank	142,221,166	46.53%
Fubon Life	133,292,631	43.61%
Fubon Insurance	14,466,298	4.74%
Fubon Securities	13,930,666	4.56%
Total of all five entities	305,635,111	100%

Below are the purposes of donations made by Fubon Financial Holdings and its four subsidiaries in 2018:

Purpose of donation	Amount	Percentage
Financing of activities organized by the group's four foundations during the year	173,032,000	56.61%
Donations to non-profit organizations and others (including stakeholders)	132,603,111	43.39%
Total	305,635,111	100%

(2) Please refer to sections 3.4.7 and 3.4.8 of this annual report for more disclosures concerning

corporate social responsibilities and moral behaviors in 2018.

5.14 Number of non-managerial staff, amount of employee welfare expenses, and differences from the previous year

- (1) In 2018, the Company had 16,049 employees in non-managerial duty.
- (2) Employee welfare expenses averaged NT\$1,397,000 per employee, up 4.55% from the previous year. (Excluding sales staff of Fubon Life)

5.15 IT Equipment

- (1) IT system management (hardware, software and maintenance)

The Company assigns globally certified personnel to plan, maintain, integrate and support various systems and networks used for its businesses. Their competency has been certified according to international standards, whereas all systems are constructed using mainstream brands and specifications, and are supported by service level agreements.

- (2) Future developments and acquisitions

- a. Innovative technologies

Cloud computing technologies will be introduced to improve competitive advantage and work efficiency. Combined with big data analysis and AI, the organization will be able to achieve benefits such as precision marketing, integration of internal and external data, improved service quality, reduced implementation/maintenance costs, and enhanced risk management. Further digital transformations will be introduced into the organization for better service experience, stronger customer attachment/loyalty, broader customer reach, and improvement of industry competitiveness.

- b. Risk management

Market risk and credit risk management systems will be integrated across subsidiaries to provide a comprehensive overview of risk exposure. By consolidating information such as customers' credit limits, repayment capabilities, subsidiaries and overseas branches, the system is intended to provide the management with immediate and comprehensive knowledge of value-at-risk among other risk indicators. Given the possibility that the financial market may continue to exhibit high volatility in the future, Fubon will continue making performance adjustments and optimizations to its market risk management system for more timely assessment of market risks.

- c. Information security

The financial holding company is taking steps toward creating an information security sharing and analysis center that detects occurrence of event, analyzes threats, and provides information on the latest security threats. Through continuous analysis and monitoring of information security incidents and by actively blocking abnormal connections and suspicious e-mails, the center helps reduce hacker attack, prevent data leakage and enhance security defense across the organization. The employee web-browsing behavior management system will have data security protection features enhanced continuously for more effective analysis and filtering of data transmission as well as more efficient prevention of data leakage and blocking of malicious websites.

- d. Resource sharing

A unified platform has been developed to consolidate various systems (such as fubon.com, enterprise information portal, human resource management, training management, e-mail, digital correspondence, general affairs management etc) used by subsidiaries, and thereby achieve sharing of hardware and software resources while saving costs. The Company has also developed mobile applications (internal functions such as Fubon AppStore, EIP, HR App, digital correspondence, and Fubon e-wallet have been made available) and is currently making trial runs for cloud service (introduction of Microsoft Office 365 is in progress) to

accommodate the latest technological advancements, and to provide more convenient and useful functions to employees of all subsidiaries.

(3) Disaster recovery, redundancy, and security

a. Disaster recovery and redundancy

Information systems are being supported by high availability on-site or off-site systems and backup routines of varying intensities and risk levels to ensure uninterrupted service. All backup media are securely stored at the off-site. Simulations, tests and drills are being conducted regularly to ensure proper functioning and data security in the event of an emergency. These exercises help avoid unexpected system disruption caused by natural disasters and human errors, and ensure continuity of key business activities.

b. Information security protection

The Company assists subsidiaries in the establishment of dedicated information security function and helps maintain the validity of ISO 27001 - Information Security Certification, and hence comply with regulatory requirements. Further enhancements have been made to the information security monitoring center of the financial holding company and subsidiaries. By applying big data analysis, the monitoring center constantly looks for abnormal incidents and notifies the appropriate response team to facilitate timely response. Regular actions are being taken to renew information security protection equipment, and by organizing regular information security training, social engineering rehearsal and disaster drills, the Company aims to raise employees' awareness towards security protection and optimize the policies and procedures it has in place for security management. Given the uprise of new financial technologies, the Company will be coordinating with participants of other industries to address information security issues. The Company has assisted its subsidiaries in the development of defenses against DDoS, and performed drills, established response measures, and purchased cleaning services in relation to the threat. As a result, Fubon is able to disrupt attacks at the ISP end and receive immediate notification at the first instance.

(4) Financial impact and responsive measures in the event of system failure

By conducting annual business impact analyses on key procedures and supporting systems/services, the Company is able to evaluate risks and quantify impacts in different aspects such as finance, legal, customer and operations. Based on the level of risk identified, the Company will make appropriate plans, designs and upgrades to its software environment, hardware equipment, and operating procedures so that any damages to the information system can be recovered quickly at minimal loss.

5.16 Major Contracts

(1) Fubon Financial Holdings: None

(2) Fubon Life

Nature of Contracts	Parties	Contract beginning and end date	Main contents	Restrictive clauses
Lien over superficies	Southern Region Branch, National Property Administration, Ministry of Finance	2018/05/16-2088/05/15	Lien over superficies (KRTC Aozihdi Station Commercial Development Project)	None

Nature of Contracts	Parties	Contract beginning and end date	Main contents	Restrictive clauses
Lien over superficies	(1) Taipei City Government Department of Finance (2) New Taipei City Government Department of Finance	2018/08/28-2088/08/27	Lien over superficies (for superficies at Hsin Min lot, Beitou)	None
Construction of Real Estate Property	Artech Architects	2015/08/25-2021/10/28	Design and supervisory contract for the construction commercial complex A25	None
Construction of Real Estate Property	Renzo Piano Building Workshop	2015/09/08-2021/10/28	Foreign architect engagement agreement for Project A25	None
Construction of Real Estate Property	Fubon Land Development Co., Ltd.	2015/10/6-2021/10/28	Construction management contract for Project A25	None
Construction of Real Estate Property	Ove Arup and Partners International Ltd.	2017/12/22-2018/01/31	Foreign construction consulting contract for Project A25	None
Construction of Real Estate Property	(1) Chung-Lu Construction Co., Ltd. (2) Continental Engineering Corp.	2017/07/19-2018/12/28	Contract for construction of slurry walls, and top-down construction of foundation pile for Project A25	None
Construction of Real Estate Property	Chien Kuo Construction Co., Ltd.	2017/11/03-2020/09/25	Master contract for construction at Sub-section 1, Changchun Section	None
Construction of Real Estate Property	(1) Mitsubishi Jisho Sekkei Inc. (2) Da-Ju Architects & Associates	2014/11/13-2020/04/30	Construction planning, design and supervision for superficies located at Sub-section 1, Changchun Section	None
Construction of Real Estate Property	Dehwa Construction Co., Ltd.	2018/03/30-2019/12/11	Turnkey contract for hotel construction at Linsen South Road	None
Property leasing	(1) Min-Sheng Healthcare System Co., Ltd. (2) Min-Sheng General Hospital	2007/05/16-2032/05/15	Real estate lease contract (Min-Sheng General Hospital)	None
Property leasing	Shin Kong Mitsukoshi Department Store Co., Ltd.	2013/08/01-2023/07/31	Real estate lease contract(A11)	None
Property leasing	Breeze Property Co., Ltd.	2013/10/16-2029/04/15	Real estate lease contract(A10)	None
Property leasing	Humble House Hotel Co., Ltd	2013/06/14-2023/11/06	Real estate lease contract(A10)	None

Nature of Contracts	Parties	Contract beginning and end date	Main contents	Restrictive clauses
Property leasing	UNIQLO Taiwan Ltd.	2012/09/03-2021/10/31	Real estate lease contract (Galaxy Building)	None
Property leasing	Momo.Com Inc.	2018/08/01-2023/07/31	Real estate lease contract (MOMO Office Complex)	None
Property leasing	Breeze Property Co., Ltd.	2013/09/01-2028/08/31	Real estate lease contract (MOMO Department Building)	None
Property leasing	Taroko Development Co., Ltd.	2018/05/01-2035/06/30	Real estate lease contract (Taroko Mall)	None
Property leasing	Shin Kong Mitsukoshi Department Store Co., Ltd.	2015/12/23-2027/12/31	Real estate lease contract (Shinkong Mitsukoshi Tower A8)	None
Property leasing	Times International Co., Ltd.	20 years from the day after the end of the 7-month period after the development project obtains its building occupation permit.	Property leasing agreement (hotel construction at Linsen South Road)	None
Property leasing	Merlin Attractions Operations Limited(Note 1)	2015/08/25-2042/07/04	Real estate lease contract (Madame Tussauds, London, UK)	None
Property leasing	Bank of Ireland (Note 2)	2015/02/17-2024/09/11	Real estate lease contract (Bow Bells House, London, UK)	None
Property leasing	Vlaamse Gemeenschap (Administrative authority of Flanders District) (Note 3)	2007/1/1-2024/12/31	Real estate lease contract (Ellipse Building, Brussels, Belgium)	None
Share transfer	China Insurance Security Fund Co., Ltd.	2018/01/03	Transfer of shares of China United Insurance Holding Company	None
Equity transaction contract	Hyundai Life Insurance Co., Ltd.	2018/04/30	Subscription to cash issue of Hyundai Life Insurance Co., Ltd.	None

Note 1: The lease arrangement was undertaken by subsidiary - Fubon MTL Property (Jersey) Limited

Note 2: The lease arrangement was undertaken by subsidiary - Bow Bells House (Jersey) Limited

Note 3: The lease arrangement was undertaken by subsidiary - Fubon Ellipse (Belgium) S.A.

(3) Taipei Fubon Bank

Nature of Contracts	Parties	Contract beginning and end date	Main contents	Restrictive clauses
Taipei Fubon Commercial Bank Co., Ltd. Service Agreement for Taipei City Government Treasury	Taipei City Government	2014/11/10-2021/11/09 (renewable for 2 years upon expiry)	To outline the rights and obligations concerning the Bank's treasury services for Taipei City Government.	None
Purchase of equity in LINE Pay Co., Ltd.	LINE Pay Co., Ltd.	Contract date: 2018/08/10	The Bank's purchase for common shares of LINE Pay Co., Ltd.	None
Purchase of beneficiary certificates of MILLERFUL NO.1 REIT	CTBC Securities	Date of purchase: 2018/11/28	The utilization of bank fund according to the Banking Act.	None

(4) Fubon Bank (China)

Nature of Contracts	Parties	Contract beginning and end date	Main contents	Restrictive clauses
Debt transfer agreement	Shanghai Win & Shengjia Asset Management Co., Ltd.	2018/12/07	<p>Fubon Bank (China) Co., Ltd. held legal debt entitlement over World Trade Center (Shanghai) Group, Shenzhen Huahengsheng Import and Export Trade Co., Ltd., Dongguan Huasheng Mingwei Mold Materials Co., Ltd., and Wujiang Communication Cables Factory, and had decided to transfer the abovementioned debt entitlements through an agreement according to the relevant laws and rules of the local government.</p> <p>The transferee, Shanghai Win & Shengjia Asset Management Co., Ltd., had accepted the transfer of debt entitlement for a sum of RMB 26,100,000 according to the agreed terms.</p>	None

(5) Fubon Insurance

Nature of Contracts	Parties	Contract beginning and end date	Main contents	Restrictive clauses
Reinsurance Contract	CENTRAL REINSURANCE CORPORATION (CENTRAL REINSURANCE CORPORATION) (S&P : A)	2018/01/01-2018/12/31	Provides reinsurance for the company's fire insurance, fire insurance riders, disaster insurance, engineering insurance, crop insurance, marine insurance, vessel insurance, fishing vessel insurance, third-party liability insurance, property insurance, and accident insurance policies.	None
Reinsurance Contract	MUNICH REINSURANCE COMPANY (S&P : AA-)	2018/01/01-2018/12/31	Provides reinsurance for the company's disaster insurance, engineering insurance and crop insurance policies.	None
Reinsurance Contract	HANNOVER REINSURANCE COMPANY (S&P : AA-)	2018/01/01-2018/12/31	Provides reinsurance for the company's fire insurance, fire insurance riders, disaster insurance, engineering insurance, crop insurance, third-party liability insurance, other property insurance and accident insurance policies.	None
Reinsurance Contract	KOREAN REINSURANCE COMPANY (S&P : A)	2018/01/01-2018/12/31	Provides re-insurance for the company's fire insurance, fire insurance riders, disaster insurance, engineering insurance, crop insurance, marine insurance, vessel insurance, third-party liability insurance, other property insurance and accident insurance policies.	None

Nature of Contracts	Parties	Contract beginning and end date	Main contents	Restrictive clauses
Reinsurance Contract	ASIA CAPITAL REINSURANCE GROUP PTE LTD. (S&P : A-)	2018/01/01-2018/12/31	Provides re-insurance for the company's fire insurance, fire insurance riders, disaster insurance, engineering insurance, marine insurance, vessel insurance, and third-party liability insurance policies.	None

(6) Fubon Securities

Nature of Contracts	Parties	Contract beginning and end date	Main contents	Restrictive clauses
Medium-term syndicated loan agreement	A total of 8 financial institutions including Mega International Commercial Bank, First Commercial Bank, and Chang Hwa Bank	2015/12/12-2018/12/12 (3 years)	Syndicated loan limit: NT\$5 billion	Financial covenants: 1. Current ratio must not be lower than 100% 2. Leverage ratio must not exceed 250% 3. Tangible net worth must not be lower than NT\$20 billion
Medium-term syndicated loan agreement	A total of 10 financial institutions including First Commercial Bank, Bank Sinopac, Hua Nan Bank, and Land Bank of Taiwan	Contract date: 2018/10/29 Loan tenor: 3 years from the date of initial drawdown.	Syndicated loan limit: NT\$5 billion	Financial covenants: 1. Current ratio must not be lower than 100% 2. Leverage ratio must not exceed 250% 3. Tangible net worth must not be lower than NT\$20 billion

(7) Fubon Bank (HK): None

(8) Fubon AMC

Nature of Contracts	Parties	Contract beginning and end date	Main contents	Restrictive clauses
Capital Contribution Agreement (for investment in CITIC Fortis)	CITIC Asset Management Corporation Ltd. Beijing Guorun Venture Capital Development Co., Ltd.	Since 2014/11/21. (Until all principals have unanimously agreed in writing to terminate the agreement.)	To participate in the cash issue of CITIC Fortis Financial Leasing Co., Ltd. for a sum totaling RMB 270 million or equivalent USD. In return, Fubon Group gained 25% ownership, 2	1. The agreement may be effected only if approved by the Financial Supervisory Commission, the Investment

Nature of Contracts	Parties	Contract beginning and end date	Main contents	Restrictive clauses
Financial Leasing Co., Ltd.)	Oriental Express International Limited CITIC Fortis Financial Leasing Co., Ltd.		directorships, and 1 supervisor position.	Commission and all relevant authorities within 180 working days after it is signed. 2. This agreement may not be transferred to any third party unless consented by all principals.
Real estate Sale agreement	Ying Pao Development Co., Ltd.	2018/04/26	Sale of land lot No. 39-2, 39-12, 39-15 and 39-16, Sub-section 5, Xinyi Section, Xinyi District, Taipei City. Amount: Three Billion Five Hundred and Fifty Million New Taiwan Dollars. Amount: Three Billion Five Hundred and Fifty Million New Taiwan Dollars.	None
Real estate Sale agreement	Taipei Fubon Bank	2018/07/18	Purchase of real estate property located at 2F-1, No. 176, Section 1, Keelung Road, Xinyi District, Taipei City Amount: Three Hundred and Fifty Million New Taiwan Dollars.	None

(9) Fubon Direct Marketing: None

(10) Fubon Financial Holdings Venture Capital: None

(11) Fubon Sports & Entertainment: None

(12) Fubon Stadium

Nature of Contracts	Parties	Contract beginning and end date	Main contents	Restrictive clauses
Operational management contract	Sports Office, New Taipei City Government	2018/01/01-2027/12/31	Operational management contract (Xinzhuang Baseball Stadium)	None

(13) Taiwan Sport Lottery Corporation: None

6. Financial Overview

6.1 Summary balance sheet and statement of comprehensive income for the last 5 years

Financial information for the last 5 years:

(1) Summary consolidated balance sheet

Unit: NTD thousands

Items \ Year	Financial information in the recent 5 years (Note 1)					Year-to-date financial data as at February 28, 2019
	2014	2015	2016	2017	2018	
Cash & cash equivalents, due from the central bank and call loans to banks	335,036,952	424,342,096	456,975,365	430,563,739	455,800,565	(Note 2)
Financial assets measured at fair value through profit or loss	149,723,270	177,305,204	163,910,238	149,197,867	917,327,572	
Available-for-sale financial assets, net	1,845,091,617	1,638,251,176	1,631,039,162	1,635,142,008	-	
Financial assets at fair value through other comprehensive income	-	-	-	-	820,207,183	
Debt instrument investments measured at amortized cost	-	-	-	-	2,564,909,862	
Financial assets for hedging/Derivative financial assets for hedging	440,343	1,156,569	1,329,276	2,272,840	3,776,327	
Securities purchased under resell agreements	45,205,475	102,275,630	94,388,499	71,832,960	69,364,357	
Receivables, net	177,439,710	143,685,104	134,983,628	170,670,909	209,274,405	
Current tax assets	788,887	1,624,664	1,618,718	513,005	4,075,626	
Asset classified as held for sale, net	48,743	50,840	49,606	45,533	48,312	
Discounts and loans, net	1,599,199,048	1,677,221,207	1,636,622,497	1,758,440,111	1,847,793,140	
Reinsurance contract assets, net	14,130,756	15,821,690	23,804,912	20,286,770	20,353,688	
Held-to-maturity financial assets, net	252,985,584	320,507,861	377,185,061	487,150,264	-	
Investments accounted for using equity method, net	5,994,557	24,068,390	23,300,447	24,626,842	28,203,343	
Other financial assets, net	748,221,345	1,108,645,353	1,471,680,907	1,833,092,118	406,782,484	
Investment property, net	118,607,023	171,286,794	175,529,080	178,327,230	179,436,352	
Property and equipment, net	43,580,340	54,572,490	57,262,849	57,259,132	58,481,088	
Intangible assets, net	30,997,123	30,298,621	28,900,583	28,253,774	33,907,733	
Deferred tax assets	6,078,867	11,710,969	9,991,402	15,671,105	19,970,316	
Other assets, net	64,788,124	84,643,156	62,686,042	56,107,779	75,347,455	
Total assets	5,438,357,764	5,987,467,814	6,351,258,272	6,919,453,986	7,715,059,808	
Deposits from the central bank and banks	108,647,208	141,766,219	80,851,838	138,707,627	152,445,771	
Due to the central bank and banks	8,252,630	4,577,611	7,081,137	5,386,206	442,461	

Items \ Year		Financial information in the recent 5 years (Note 1)					Year-to-date financial data as at February 28, 2019
		2014	2015	2016	2017	2018	
Financial liabilities measured at fair value through profit or loss		94,897,733	111,348,712	97,546,186	40,247,250	45,422,901	
Financial liabilities for hedging/Derivative financial liabilities for hedging		2,062,018	2,188,523	2,935,500	2,589,585	3,425,972	
Securities sold under repurchase agreements		107,758,372	122,117,688	122,889,790	158,316,465	178,403,211	
Commercial paper issued, net		4,538,465	1,279,520	654,787	23,471,870	13,535,972	
Payables		91,999,097	73,109,007	84,255,953	107,957,284	166,682,986	
Current tax liabilities		5,194,998	5,718,154	9,823,469	11,369,877	7,144,528	
Deposits		1,807,116,364	2,040,556,450	2,121,289,731	2,284,605,939	2,273,618,639	
Bonds payable		147,303,787	151,622,704	178,601,095	187,206,734	217,754,674	
Other borrowings		45,000	1,250,000	4,420,000	5,440,749	1,482,921	
Other financial liabilities		183,054,013	173,721,796	177,391,307	191,956,825	411,517,835	
Provision		2,433,632,703	2,747,161,664	2,999,495,105	3,230,051,141	3,721,508,656	
Deferred tax liabilities		12,968,302	14,247,518	10,794,468	12,825,534	11,184,801	
Other liabilities		14,726,287	20,725,715	26,122,520	30,549,552	41,662,504	
Total liabilities	Before distribution	5,022,196,977	5,611,391,281	5,924,152,886	6,430,682,638	7,246,233,832	
	After distribution	5,052,897,789	5,631,858,489	5,945,644,422	6,455,695,927	(Note 3)	
Equity attributable to owners of parent		408,057,123	367,621,727	426,819,661	488,431,608	459,243,350	
Share capital	Before distribution	102,336,040	102,336,040	108,336,040	108,336,040	115,002,640	
	After distribution	102,336,040	102,336,040	108,336,040	108,336,040	(Note 3)	
Capital reserve		74,446,982	74,460,529	102,713,132	103,674,220	137,018,872	
Retained earnings	Before distribution	179,748,582	211,603,298	238,544,307	271,046,034	279,677,293	
	After distribution	149,047,770	191,136,090	217,052,771	246,032,745	(Note 3)	
Other equity		51,525,519	(20,778,140)	(22,773,818)	5,375,314	(72,455,455)	
Treasury stocks		-	-	-	-	-	
Non-controlling interests		8,103,664	8,454,806	285,725	339,740	9,582,626	
Total equity	Before distribution	416,160,787	376,076,533	427,105,386	488,771,348	468,825,976	
	After distribution	385,459,975	355,609,325	405,613,850	463,758,059	(Note 3)	

Note 1: The above financial information has been audited by CPAs.

Note 2: As of the publication date of this annual report, no financial information of 2019 had been reviewed by CPAs.

Note 3: The distribution of 2018 earnings had yet to be resolved in a shareholder meeting.

(2) Summary consolidated comprehensive income statement

Unit: NTD thousands

Items \ Year	Financial information in the recent 5 years (Note 1)					Year-to-date financial data as at February 28, 2019
	2014	2015	2016	2017	2018	
Interest revenue	116,163,981	122,654,107	129,898,195	141,314,445	167,217,515	(Note 2)
Less: interest expense	(26,848,652)	(27,689,146)	(24,121,498)	(28,102,375)	(37,269,437)	
Net interest revenue	89,315,329	94,964,961	105,776,697	113,212,070	129,948,078	
Revenue other than net interest revenue	292,519,996	335,277,799	333,146,011	292,932,896	280,985,179	
Net revenue	381,835,325	430,242,760	438,922,708	406,144,966	410,933,257	
Bad debt expenses and guarantee liabilities provisions (reversal gains)	2,988,582	1,212,002	2,608,425	2,913,810	1,462,866	
Net change in provision for insurance liabilities	257,599,143	296,913,117	324,612,825	289,890,386	293,422,795	
Operating expenses	49,304,643	54,300,077	57,021,441	55,290,193	58,432,269	
Net income before tax from continuing operations	71,942,957	77,817,564	54,680,017	58,050,577	57,615,327	
Income tax (expense)benefit	(11,465,175)	(14,011,732)	(6,105,261)	(4,034,260)	(9,894,305)	
Net income from continuing operations	60,477,782	63,805,832	48,574,756	54,016,317	47,721,022	
Net income from discontinued operations	-	-	-	-	-	
Net income (loss)	60,477,782	63,805,832	48,574,756	54,016,317	47,721,022	
Other comprehensive income (losses) (net of tax)	21,765,731	(73,459,217)	(3,561,638)	28,021,126	(100,586,326)	
Total comprehensive income (losses) for the period	82,243,513	(9,653,385)	45,013,118	82,037,443	(52,865,304)	
Net income attributable to owners of parent	60,243,550	63,592,585	48,421,046	54,122,463	47,728,856	
Net income attributable to non-controlling interests	234,232	213,247	153,710	(106,146)	(7,834)	
Total comprehensive income attributable to owners of parent	81,713,471	(9,748,131)	45,412,539	82,142,395	(53,523,483)	
Total comprehensive income attributable to non-controlling interests	530,042	94,746	(399,421)	(104,952)	658,179	
Earnings per share (NTD)	5.89	6.21	4.73	5.19	4.52	

Note 1: The above financial information has been audited by CPAs.

Note 2: As of the publication date of this annual report, no financial information of 2019 had been reviewed by CPAs.

(3) Summary balance sheet

Unit: NTD thousands

Year Items		Financial information in the recent 5 years (Note 1)					Year-to-date financial data as at February 28, 2019
		2014	2015	2016	2017	2018	
Cash and cash equivalents		1,553,501	541,331	557,252	220,473	6,255,724	(Note 2)
Financial assets at fair value through profit and loss		-	-	-	-	20,236,023	
Financial assets at fair value through other comprehensive income		-	-	-	-	52,957	
Securities purchased under resell agreements		-	-	2,046,975	65,970	164,819	
Receivables, net		555	478	76	833	554,202	
Current tax assets		3,793,512	3,751,394	7,185,770	8,010,818	5,645,731	
Investments accounted for using equity method, net		465,231,455	443,156,542	493,292,372	561,703,318	514,717,209	
Other financial assets, net		11,597	11,597	11,597	5,774,075	-	
Property and equipment, net		41,483	34,827	23,273	21,547	20,676	
Intangible assets, net		14,557	11,673	9,729	5,528	2,592	
Deferred tax assets		1,241	22,184	2,500	5,026	7,057	
Other assets, net		296,184	364,094	337,424	71,969	77,498	
Total assets		470,944,085	447,894,120	503,466,968	575,879,557	547,734,488	
Commercial paper issued, net		-	749,784	-	19,488,059	13,535,972	
Payables		773,060	915,504	977,393	796,522	792,963	
Current tax liabilities		7,726,984	6,623,926	9,115,086	10,143,645	11,460,587	
Bonds payable		53,000,000	69,800,000	63,800,000	54,000,000	58,550,000	
Other borrowings		-	-	-	-	-	
Other financial liabilities		-	-	-	-	-	
Deferred tax liabilities		1,206,791	1,698,673	2,267,573	3,012,019	4,145,078	
Other liabilities		180,127	484,506	487,255	7,704	6,538	
Total liabilities	Before distribution	62,886,962	80,272,393	76,647,307	87,447,949	88,491,138	
	After distribution	93,587,774	100,739,601	98,138,843	112,461,238	(Note 3)	
Share capital	Before distribution	102,336,040	102,336,040	108,336,040	108,336,040	115,002,640	
	After distribution	102,336,040	102,336,040	108,336,040	108,336,040	(Note 3)	
Capital reserve		74,446,982	74,460,529	102,713,132	103,674,220	137,018,872	
Retained earnings	Before distribution	179,748,582	211,603,298	238,544,307	271,046,034	279,677,293	
	After distribution	149,047,770	191,136,090	217,052,771	246,032,745	(Note 3)	
Other equity		51,525,519	(20,778,140)	(22,773,818)	5,375,314	(72,455,455)	
Treasury stocks		-	-	-	-	-	
Total equity	Before distribution	408,057,123	367,621,727	426,819,661	488,431,608	459,243,350	
	After distribution	377,356,311	347,154,519	405,328,125	463,418,319	(Note 3)	

Note 1: The above financial information has been audited by CPAs.

Note 2: As of the publication date of this annual report, no financial information of 2019 had been reviewed by CPAs.

Note 3: The distribution of 2018 earnings had yet to be resolved in a shareholder meeting.

(4) Summary comprehensive income statement

Unit: NTD thousands

Items \ Year	Financial information in the recent 5 years (Note 1)					Year-to-date financial data as at February 28, 2019
	2014	2015	2016	2017	2018	
Share of profit of associates and joint ventures accounting for using equity method	62,637,816	66,947,513	52,035,702	58,390,108	54,009,820	(Note 2)
Other revenue	46,439	48,259	117,564	32,425	1,278,485	
Operating expenses	700,333	731,663	858,732	803,498	713,933	
Operating expenses	764,130	1,170,343	1,471,349	929,900	902,952	
Net income before tax from continuing operations	61,219,792	65,093,766	49,823,185	56,689,135	53,671,420	
Income tax (expense)benefit	(976,242)	(1,501,181)	(1,402,139)	(2,566,672)	(5,942,564)	
Net income from continuing operations	60,243,550	63,592,585	48,421,046	54,122,463	47,728,856	
Net income from discontinued operations	-	-	-	-	-	
Net income (loss)	60,243,550	63,592,585	48,421,046	54,122,463	47,728,856	
Other comprehensive income (losses) (net of tax)	21,469,921	(73,340,716)	(3,008,507)	28,019,932	(101,252,339)	
Total comprehensive income (losses) for the period	81,713,471	(9,748,131)	45,412,539	82,142,395	(53,523,483)	
Earnings per share (NTD)	5.89	6.21	4.73	5.19	4.52	

Note 1: The above financial information has been audited by CPAs.

Note 2: As of the publication date of this annual report, no financial information of 2019 had been reviewed by CPAs.

(5) Independent auditors' names and opinions from 2014 to 2018

Year	Name of CPA	Audit opinion
2018	Chung Tan-Tan and Yu Chi-Lung, CPA	Unqualified opinion
2017	Chung Tan-Tan and Yu Chi-Lung, CPA	Unqualified opinion
2016	Chung Tan-Tan and Yu Chi-Lung, CPA	Unqualified opinion
2015	Yu Ann-Tien and Chung Tan-Tan, CPA	Unqualified opinion
2014	Yu Ann-Tien and Chung Tan-Tan, CPA	Modified unqualified opinion

6.2 Financial analysis in the last 5 years and changes in financial ratios in the last 2 years

The following has been prepared using the financial statements presented in 6.1.

Analysis (Note 2) \ Year			Financial analysis in the last 5 years					Year-to-date financial data as at February 28, 2019
			2014	2015	2016	2017	2018	
Operating efficiency	Total asset turnover (times)		0.08	0.08	0.07	0.06	0.06	(Note 1)
	Loan to deposit ratio - domestic subsidiary bank (Note 3)		81.95	75.25	67.96	65.89	69.66	
	NPL ratio - domestic subsidiary bank (Note 3)		0.17	0.15	0.20	0.17	0.17	
	Revenue per employee (in thousand dollars)		11,206	11,621	10,781	9,194	9,097	
	Profit per employee (in thousand dollars)		1,775	1,723	1,193	1,223	1,056	
Profitability	Return on assets (%)		1.65	1.52	1.11	1.17	1.06	
	Return on equity (%)		16.07	16.40	12.19	11.83	9.98	
	Net profit margin (%)		15.84	14.83	11.07	13.30	11.61	
	Earnings per share (NTD)		5.89	6.21	4.73	5.19	4.52	
Financial structure (%)	Debt to assets ratio		92.35	93.72	93.28	92.94	93.92	
	Debt to equity ratio		1,206.79	1,492.09	1387.05	1315.68	1,545.61	
	FHC's double leverage ratio		114.01	120.55	115.58	115.00	112.09	
	Financial holding company ratios required under Article 41 of the Act		Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	
Leverage	Operating leverage ratio		5.31	5.53	8.03	7.00	7.13	
	FHC's financial leverage ratio		1.01	1.02	1.02	1.02	1.02	
Growth rate (%)	Asset growth rate		18.30	10.10	6.08	8.95	11.25	
	Profit growth rate		62.77	8.17	(29.73)	6.16	(0.75)	
Cash flow (%)	Cash flow ratio		(Note 4)	46.96	(Note 4)	0.57	(Note 4)	
	Cash flow adequacy ratio		620.52	417.51	159.56	153.67	102.96	
	Cash flow satisfaction ratio		429.19	(Note 4)	132.81	(Note 4)	75.04	
Business scale (%) (Note 3)	Market share of assets		13.02	13.18	13.22	13.18	13.86	
	Market share of net worth		14.07	11.99	12.67	13.14	12.70	
	Market share of deposits - domestic subsidiary bank		4.45	4.72	4.84	5.19	4.92	
	Market share of loans - domestic subsidiary bank		4.82	4.82	4.47	4.61	4.52	
Capital adequacy	Capital adequacy ratio of each subsidiary calculated according to its own industry regulations (%)	Fubon Insurance	608	591	548	583	554	
		Fubon Securities	442	440	369	347	387	
		Fubon Life	290	256	301	318	278	
		Taipei Fubon Bank	13.11	13.44	14.40	13.93	13.98	
		Fubon Bank (HK)	16.32	15.03	15.56	18.01	19.14	
		Fubon Direct Marketing	93.09	90.71	92.59	95.76	95.18	
		Fubon Financial Holding Venture Capital	97.69	95.34	87.54	99.15	97.09	
		Fubon AMC	83.03	62.27	60.52	50.06	91.58	
		Taiwan Sport Lottery	100.62	98.82	99.93	99.95	99.95	
		Fubon Bank (China) (Note 5)	15.08	13.76	13.76	12.19	14.18	

Analysis (Note 2)			Financial analysis in the last 5 years					Year-to-date financial data as at February 28, 2019
			2014	2015	2016	2017	2018	
Capital adequacy	Eligible capital of each subsidiary (millions)	Fubon Insurance	29,288	30,532	29,500	31,279	30,800	(Note 1)
		Fubon Securities	24,381	23,685	22,276	23,008	24,184	
		Fubon Life	179,069	171,045	227,267	268,507	260,433	
		Taipei Fubon Bank	170,092	176,922	180,654	186,130	196,560	
		Fubon Bank (HK)	33,222	34,245	35,845	42,085	46,561	
		Fubon Direct Marketing	412	363	396	353	347	
		Fubon Financial Holding Venture Capital	4,745	4,742	4,343	7,063	7,607	
		Fubon AMC	3,006	3,012	2,933	3,363	3,218	
		Taiwan Sport Lottery	97	97	98	97	97	
		Fubon Bank (China) (Note 5)	25,001	26,653	25,715	26,091	31,001	
	Group's net eligible capital (millions)		371,306	357,100	418,603	458,475	481,058	
	Statutory capital requirements of each subsidiary (millions)	Fubon Insurance	9,633	10,324	10,760	10,726	11,106	
		Fubon Securities	8,271	8,074	9,066	9,956	9,356	
		Fubon Life	123,449	133,583	151,210	169,056	187,192	
		Taipei Fubon Bank	103,763	105,322	108,205	123,589	138,816	
		Fubon Bank (HK)	16,288	18,222	21,312	24,529	28,576	
		Fubon Direct Marketing	221	200	214	185	182	
		Fubon Financial Holding Venture Capital	2,429	2,487	2,481	3,562	3,918	
		Fubon AMC	1,810	2,418	2,424	3,360	1,757	
		Taiwan Sport Lottery	48	49	49	49	49	
		Fubon Bank (China) (Note 5)	14,757	18,020	18,128	21,624	22,954	
	Group's total statutory capital requirement (millions)		735,536	729,228	808,033	921,513	926,019	
	Group capital adequacy ratio (%)		137.36	124.83	133.00	129.50	119.21	
	The aggregate amount or percentage of credit extension, guarantees or other transactions conducted by all subsidiaries of the financial holding company to the same person, related party or affiliated enterprise that are subject to disclosure under Article 46 of The Act (millions).		5,401,454	5,153,958	5,902,072	6,462,343	7,049,375	

Analysis (Note 2)	Year	Financial analysis in the last 5 years					Year-to-date financial data as at February 28, 2019
		2014	2015	2016	2017	2018	
Reasons for changes in financial ratios in the last 2 years. (not explained if the variation was less than 20%)							
<u>2018</u>							
1. Due to strong performance in business development and consistent growth of total asset, the asset growth rate is increased.							
2. Due to lower investment income caused by volatile capital market, the profit growth rate decreased in 2018 compared to 2017.							
3. The cash flow adequacy ratio decreased in 2018, mainly due to decreased net cash flow from operational activities and increased cash dividends in the last five years.							
<u>2017</u>							
1. Due to the increase in gain on disposal of investment, both pre-tax profit and net income increased, which resulted in the increase of net profit margin and profit growth rate in 2017.							
2. Due to strong performance in business development and consistent growth of total asset, the asset growth rate is increased.							

Note 1: As of the publication date of this annual report, no financial information of 2019 had been reviewed by CPAs.

Note 2: Below are the formulas used in various financial analysis:

1. Operating efficiency
 - (1) Total asset turnover = net revenue / average total assets.
 - (2) Loan to deposit ratio of domestic subsidiary bank = total loans / total deposits by the domestic subsidiary bank
 - (3) NPL ratio of domestic subsidiary bank = non-performing loans / total loans by the domestic subsidiary bank
 - (4) Revenue per employee = net revenue / total employee count
 - (5) Profit per employee = net income / total employee count
2. Profitability
 - (1) Return on assets = (net income + interest expenses x (1- tax rate)) / average assets.
 - (2) Return on equity = net income attributable to owners of parent / average equity attributable to owners of parent
 - (3) Net profit margin = net income / net revenue
 - (4) Earnings per share = (net income attributable to owners of parent - preferred share dividends) / weighted average outstanding shares
3. Financial structure
 - (1) Debt to assets ratio = total liabilities / total assets
 - (2) Debt to equity ratio = total liabilities/ total equity
 - (3) FHC's double leverage ratio = equity investments specified under Paragraph 2, Article 36 and Article 37 of the Financial Holding Company Act / net worth
4. Leverage:
 - (1) Operating leverage ratio = (net revenue - variable costs) / income before tax
 - (2) FHC's financial leverage ratio = (income before tax + interest expenses) / income before tax
5. Growth rate:
 - (1) Asset growth rate = (total assets - total assets of previous year) / total assets of previous year
 - (2) Profit growth rate = (income before tax - income before tax of previous year) / income before tax of previous year
6. Cash flow
 - (1) Cash flow ratio = net cash provided by operating activities / (due to other banks and overdrafts + commercial paper payable + financial liability measured at fair value through profit or loss + securities sold under repurchase agreements + payables within one year)
 - (2) Cash flow adequacy ratio = net cash provided by operating activities in the last 5 years / (capital expenditure + cash dividends) in the last 5 years
 - (3) Cash flow satisfaction ratio = net cash provided by operating activities / net cash provided by investing activities
7. Business scale
 - (1) Market share of assets = total assets/ total assets of all financial holding companies
 - (2) Market share of net worth = net worth/ total net worth of all financial holding companies

- (3) Market share of deposits (domestic subsidiary bank) = total deposit/ total deposit of all financial institutions eligible to perform deposit services
- (4) Market share of loans (domestic subsidiary bank) = total loan/ total loan of all financial institutions eligible to perform loan services

8. Capital adequacy

- (1) Group's net eligible capital = eligible capital of the financial holding company + (ownership percentage in subsidiaries × eligible capital of each subsidiary) - mandatory deductions.
- (2) Group's total statutory capital requirement = statutory capital requirement of the financial holding company + ownership percentage in subsidiaries × statutory capital requirement of each subsidiary.
- (3) Group capital adequacy ratio = Group's net eligible capital / Group's total statutory capital requirement.

Note 3: Based on summary banking statistics published by the Financial Supervisory Commission; these banking statistics were compared to quarterly consolidated results of the financial holding group.

Note 4: Ratio was not disclosed due to negative net cash flow.

Note 5: On January 7, 2014, the Company acquired a 29% ownership stake in First Sino Bank in cash and later renamed it Fubon Bank (China). This new entity has been included in the calculation of group capital adequacy. The Company acquired another 20% ownership stake in Fubon Bank (China) on October 20, 2016 for a total of 49%.

6.3 Key performance indicators

	Items		2018	2017
Fubon Financial Holdings	Profitability indicators	After-tax profit (NT\$ 1,000) - attributable to parent company shareholders	47,728,856	54,122,463
		Earnings per share (NTD)	4.52	5.19
		Return on equity (%)	9.98	11.83
Fubon Life (Standalone)	Profitability indicators	After-tax profit (NT\$ 1,000)	24,929,906	32,487,942
		Return on equity (%)	10.32	13.36
	Operational indicators	Total premiums (NT\$ 1,000)	542,968,085	515,441,654
		13-month persistency rate (%)	96.95	97.96
		25-month persistency rate (%)	96.44	95.09
Taipei Fubon Bank (Standalone)	Profitability indicators	After-tax profit (NT\$ 1,000)	18,618,650	16,777,580
		Return on equity (%)	10.22	9.46
	Operational indicators	Non-performing loan ratio (%)	0.17	0.17
		Loan loss coverage ratio (%)	784.68	764.46
		Loan-to-deposit ratio - domestic subsidiary bank (%)	69.66	65.89
Fubon Insurance (Standalone)	Profitability indicators	After-tax profit (NT\$ 1,000)	3,858,235	3,631,064
		Return on equity (%)	12.56	11.95
	Operational indicators	Direct written premiums (NT\$ 1,000)	38,648,744	36,154,172
		Combined ratio (%)	92.84	91.78
		Expense ratio (%)	36.04	36.58
		Loss ratio (%)	56.80	55.20
Fubon Securities (Standalone)	Profitability indicators	After-tax profit (NT\$ 1,000)	2,090,025	2,817,035
		Return on equity (%)	6.04%	8.49%
	Operational indicators	Profit from brokerage department (NT\$ 1,000)	2,129,258	1,756,373
		Profit from investment banking department (NT\$ 1,000)	70,037	147,524
		Profit from treasury department (NT\$ 1,000)	(1,545)	239,496
		Profit from proprietary trading department (NT\$ 1,000)	540,768	1,196,388
Fubon Bank (HK) (Standalone)	Profitability indicators	After-tax profit (HKD 1,000)	1,019,388	684,587
		After-tax profit (HKD 1,000) - revaluation method	822,828	583,383
		Return on equity (%)	8.79	7.04
		Return on equity (%) - revaluation method	5.61	4.81
	Operational indicators	Loan-to-deposit ratio (%)	66.73	73.25
		Impaired loan ratio (%)	0.49	0.39

6.4 Audit Committee's report on the latest financial statements

Fubon Financial Holding Co., Ltd.

Examination Report of the Audit Committee

The Board of Directors has prepared this Company's 2018 business report, financial statements(including consolidated financial statements) and the earnings distribution plan, among which the financial statements (including consolidated financial statement) have been audited by external auditors Tan-Tan Chung and Chi-Lung Yu of KPMG, who have submitted an audit report. The above statements and reports have been examined by the Audit Committee and no irregularities were found. We hereby report as above in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act. Please kindly approve.

For

Fubon Financial Holding Co., Ltd.
2019 Annual General Meeting

Audit Committee

Convener Chan-Jane Lin



May 2, 2019

6.5 Financial statements of the latest year

For details of the Company's audited consolidated financial statements, please refer to pages 298 to 722

6.6 Any financial distress experienced by the company or its affiliated enterprises and impacts on the company's financial position, in the last year up to the publication date of this annual report: None.

7. Review and analysis of financial position and business performance, and risk management

7.1 Financial position

(1) Consolidated balance sheet

Unit: NTD thousands

Items	2018	2017	Variation	Variation (%)
Cash & cash equivalents, due from the central bank and call loans to banks	455,800,565	430,563,739	25,236,826	5.86
Financial assets measured at fair value through profit or loss	917,327,572	149,197,867	768,129,705	514.84
Available-for-sale financial assets, net	-	1,635,142,008	(1,635,142,008)	(100.00)
Financial assets at fair value through other comprehensive income	820,207,183	-	820,207,183	100.00
Debt investments measured at amortized cost	2,564,909,862	-	2,564,909,862	100.00
Financial assets for hedging/Derivative financial assets for hedging	3,776,327	2,272,840	1,503,487	66.15
Securities purchased under resell agreements	69,364,357	71,832,960	(2,468,603)	(3.44)
Receivables, net	209,274,405	170,670,909	38,603,496	22.62
Current tax assets	4,075,626	513,005	3,562,621	694.46
Asset classified as held for sale, net	48,312	45,533	2,779	6.10
Discounts and loans, net	1,847,793,140	1,758,440,111	89,353,029	5.08
Reinsurance contract assets, net	20,353,688	20,286,770	66,918	0.33
Held-to-maturity financial assets, net	-	487,150,264	(487,150,264)	(100.00)
Investments accounted for using equity method, net	28,203,343	24,626,842	3,576,501	14.52
Other financial assets, net	406,782,484	1,833,092,118	(1,426,309,634)	(77.81)
Investment property, net	179,436,352	178,327,230	1,109,122	0.62
Property and equipment, net	58,481,088	57,259,132	1,221,956	2.13
Intangible assets, net	33,907,733	28,253,774	5,653,959	20.01
Deferred tax assets	19,970,316	15,671,105	4,299,211	27.43
Other assets, net	75,347,455	56,107,779	19,239,676	34.29
Total assets	7,715,059,808	6,919,453,986	795,605,822	11.50
Deposits from the central bank and banks	152,445,771	138,707,627	13,738,144	9.90
Due to the central bank and banks	442,461	5,386,206	(4,943,745)	(91.79)
Financial liabilities measured at fair value through profit or loss	45,422,901	40,247,250	5,175,651	12.86
Financial liabilities for hedging/Derivative financial liabilities for hedging	3,425,972	2,589,585	836,387	32.30
Securities sold under repurchase agreements	178,403,211	158,316,465	20,086,746	12.69
Commercial paper issued, net	13,535,972	23,471,870	(9,935,898)	(42.33)
Payables	166,682,986	107,957,284	58,725,702	54.40
Current tax liabilities	7,144,528	11,369,877	(4,225,349)	(37.16)
Deposits and remittances	2,273,618,639	2,284,605,939	(10,987,300)	(0.48)

Items	2018	2017	Variation	Variation (%)
Bonds payable	217,754,674	187,206,734	30,547,940	16.32
Other borrowings	1,482,921	5,440,749	(3,957,828)	(72.74)
Other financial liabilities	411,517,835	191,956,825	219,561,010	114.38
Provision	3,721,508,656	3,230,051,141	491,457,515	15.22
Deferred tax liabilities	11,184,801	12,825,534	(1,640,733)	(12.79)
Other liabilities	41,662,504	30,549,552	11,112,952	36.38
Total liabilities	7,246,233,832	6,430,682,638	815,551,194	12.68
Share capital	115,002,640	108,336,040	6,666,600	6.15
Capital surplus	137,018,872	103,674,220	33,344,652	32.16
Retained earnings	279,677,293	271,046,034	8,631,259	3.18
Other equity interests	(72,455,455)	5,375,314	(77,830,769)	(1,447.93)
Non-controlling interests	9,582,626	339,740	9,242,886	2,720.58
Total equity	468,825,976	488,771,348	(19,945,372)	(4.08)

- a. Financial assets measured at fair value through profit or loss:
Given the IFRS 9 was implemented in 2018, the financial assets classified as measured at fair value through profit or loss are increased.
- b. Available-for-sale financial assets, net:
Since the IFRS 9 was effective in 2018, this accounting item is no longer available.
- c. Financial assets at fair value through other comprehensive income:
New accounting item of IFRS 9
- d. Debt investments measured at amortized cost:
New accounting item of IFRS 9.
- e. Financial assets for hedging/Derivative financial assets for hedging:
Due to increase in fair value hedge - interest rate swap contracts.
- f. Receivables, net:
Notes receivables, accounts, promissory notes, interest receivables, and other receivables increased.
- g. Current tax assets:
Due mainly to increase in refunds on receivables.
- h. Held-to-maturity financial assets, net:
Since the IFRS 9 was effective in 2018, this accounting item is no longer available.
- i. Other financial assets, net:
Since the IFRS 9 was effective in 2018, debt commodity investments for revitalizing the market and financial assets for measuring costs are no longer available.
Accounting items.
- j. Intangible assets, net:
Due to new subsidiary acquired in 2018, business license and goodwill increased in this period.
- k. Deferred tax assets- net:
The temporary difference in valuation gain of financial assets increased.
- l. Other assets, net:
The deposits and pre-payments increased.
- m. Due to the central bank and banks:
Due to decrease in loans from peer banks.
- n. Financial liabilities for hedging/Derivative financial liabilities for hedging:
Due to increase in fair value hedge - interest rate swap contracts.
- o. Commercial paper issued, net:
The issuance of commercial paper decreased.
- p. Payables
The acceptance payables and other payables increased.
- q. Current tax liabilities:
The income tax payables decreased.

- r. Other borrowings
Due to capital scheduling needs, borrowing decreased.
- s. Other financial liabilities:
Separated account insurance commodity liabilities increased.
- t. Other liabilities
Pre-paid premiums and deposits received increased.x`
- u. Capital surplus
Due to increase in additional paid-in capital incurred from capital injection by cash.
- v. Other equity interests:
Due to the increase in unrealized valuation losses from financial assets, which measured by fair valuethrough other comprehensive income or reclassified by overlay approach.
- W. Non-controlling interests
Mainly because the company acquired new subsidiary Fubon Hyundai Life Insurance by 62.06% shares in 2018.

(2) Standalone balance sheet

Unit: NTD thousands

Items	2018	2017	Variation	Variation (%)
Cash and cash equivalents	6,255,724	220,473	6,035,251	2,737.41
Financial assets measured at fair value through profit or loss	20,236,023	-	20,236,023	100.00
Financial assets at fair value through other comprehensive income	52,957	-	52,957	100.00
Securities purchased under resell agreements	164,819	65,970	98,849	149.84
Receivables, net	554,202	833	553,369	66,430.85
Current tax assets	5,645,731	8,010,818	(2,365,087)	(29.52)
Investments accounted for using equity method, net	514,717,209	561,703,318	(46,986,109)	(8.36)
Other financial assets, net	-	5,774,075	(5,774,075)	(100.00)
Property and equipment, net	20,676	21,547	(871)	(4.04)
Intangible assets, net	2,592	5,528	(2,936)	(53.11)
Deferred tax assets	7,057	5,026	2,031	40.41
Other assets, net	77,498	71,969	5,529	7.68
Total assets	547,734,488	575,879,557	(28,145,069)	(4.89)
Commercial paper issued, net	13,535,972	19,488,059	(5,952,087)	(30.54)
Payables	792,963	796,522	(3,559)	(0.45)
Current tax liabilities	11,460,587	10,143,645	1,316,942	12.98
Bonds payable	58,550,000	54,000,000	4,550,000	8.43
Deferred tax liabilities	4,145,078	3,012,019	1,133,059	37.62
Other liabilities	6,538	7,704	(1,166)	(15.13)
Total liabilities	88,491,138	87,447,949	1,043,189	1.19
Share capital	115,002,640	108,336,040	6,666,600	6.15
Capital surplus	137,018,872	103,674,220	33,344,652	32.16
Retained earnings	279,677,293	271,046,034	8,631,259	3.18
Other equity interests	(72,455,455)	5,375,314	(77,830,769)	(1,447.93)
Total equity	459,243,350	488,431,608	(29,188,258)	(5.98)

Analysis of variations exceeding 20%:

- a. Cash and cash equivalents:
The receipt of financial debt's redemption principal and interest from issuer's.

- b. Financial assets measured at fair value through profit or loss:
The increase in corporate bond investment.
- c. Financial assets at fair value through other comprehensive income:
Since the IFRS 9 was effective in 2018, domestic stocks were classified under this accounting item.
- d. Securities purchased under resell agreements:
The investment of Securities purchased under resell agreements increased.
- e. Receivables, net:
The interest receivables of bond increased.
- f. Current tax assets:
Mainly due to decrease in tax refunds receivable.
- g. Other financial assets, net:
Since the IFRS 9 was effective in 2018, debt commodity investments for revitalizing the market and financial assets for measuring costs are no longer available.
- h. Intangible assets, net:
Mainly due to recognition of amortized expenses.
- j. Deferred tax assets:
Mainly due to increase in temporary difference of unrealized exchange losses.
- j. Commercial paper issued, net:
The issuance of commercial paper decreased.
- k. Deferred tax liabilities:
Mainly due to increased temporary differences arising from estimated gains on foreign investments.
- l. Capital surplus:
Due to increase in additional paid-in capital incurred from capital injection by cash.
- m. Other equity interests:
Due to the increase in unrealized valuation losses from financial assets owned by subsidiaries under equity method, as well as classified as fair value through other comprehensive income or reclassified by overlay approach.

7.2 Financial performance

(1) Consolidated comprehensive income statement

Unit: NTD thousands

Items	2018	2017	Variation	Variation (%)
Interest revenue	167,217,515	141,314,445	25,903,070	18.33
Less: interest expense	(37,269,437)	(28,102,375)	(9,167,062)	32.62
Net interest revenue	129,948,078	113,212,070	16,736,008	14.78
Revenue other than net interest revenue	280,985,179	292,932,896	(11,947,717)	(4.08)
Net revenue	410,933,257	406,144,966	4,788,291	1.18
Bad debt expenses and guarantee liability provisions	1,462,866	2,913,810	(1,450,944)	(49.8)
Net change in provision for insurance liabilities	293,422,795	289,890,386	3,532,409	1.22
Operating expenses	58,432,269	55,290,193	3,142,076	5.68
Net income before tax from continuing operations	57,615,327	58,050,577	(435,250)	(0.75)
Income tax (expense)benefit	(9,894,305)	(4,034,260)	(5,860,045)	145.26
Net income (loss)	47,721,022	54,016,317	(6,295,295)	(11.65)
Other comprehensive income (losses) (net of tax)	(100,586,326)	28,021,126	(128,607,452)	(458.97)
Total comprehensive income (losses) for the period	(52,865,304)	82,037,443	(134,902,747)	(164.44)

Analysis of variations exceeding 20%:

a. Less: interest expense:

The interest expense of deposits, interbank placements and securities under repurchase agreement increased.

b. Bad debt expenses and guarantee liability provisions:

Mainly due to lower bad debts expense.

c. Income tax expense:

The undistributed earnings tax, calculated income tax, and income tax expenses from a temporary difference increased in the current period.

d. Other comprehensive income (losses) (net of tax):

Due to the increase in unrealized valuation losses from financial assets, which measured by fair value through other comprehensive income or reclassified by overlay approach.

(2) Standalone statement of comprehensive income

Unit: NTD thousands

Items	2018	2017	Variation	Variation (%)
Revenue				
Share of profit of associates and joint ventures accounted for using equity method	54,009,820	58,390,108	(4,380,288)	(7.50)
Other revenue	1,278,485	32,425	1,246,060	3,842.9
	55,288,305	58,422,533	(3,134,228)	(5.36)
Expenses				
Operating expenses	713,933	803,498	(89,565)	(11.15)
Operating expenses	902,952	929,900	(26,948)	(2.90)
	1,616,885	1,733,398	(116,513)	(6.72)
Net income before tax from continuing operations	53,671,420	56,689,135	(3,017,715)	(5.32)
Income tax (expense) benefit	(5,942,564)	(2,566,672)	(3,375,892)	131.53
Net income (loss)	47,728,856	54,122,463	(6,393,607)	(11.81)
Other comprehensive income (losses) (net of tax)	(101,252,339)	28,019,932	(129,272,271)	(461.36)
Total comprehensive income (losses) for the period	(53,523,483)	82,142,395	(135,665,878)	(165.16)

Analysis of variations exceeding 20%:

a. Other revenue:

Mainly due to new investment of bond, higher interest incomes and valuation gains in 2018.

b. Income tax expense:

Mainly due to higher undistributed earnings tax and calculated income tax expenses in 2018.

c. Other comprehensive income (losses) (net of tax):

Due to the increase in unrealized valuation gains from financial assets owned by subsidiaries under equity method, as well as classified as fair value through other comprehensive income or reclassified by overlay approach.

7.3 Cash flow

(1) Liquidity analysis for the last 2 years:

a. Consolidated cash flow analysis

Year Items	2018	2017	Variation %
Cash flow ratio (%)	Note	0.57	-
Cash flow adequacy ratio (%)	102.96	153.67	(33.00)
Cash flow reinvestment ratio (%)	75.04	Note	-

Explanation of major variations:

The cash flow adequacy ratio decreased due to decreased net cash flow in the current period from operating activities and increased cash dividends in the recent five years.

Note: Ratio was not disclosed due to negative net cash flow.

b. Standalone cash flow analysis

Year Items	2018	2017	Variation %
Cash flow ratio (%)	37.93	46.82	(18.99)
Cash flow adequacy ratio (%)	34.54	35.84	(3.62)
Cash flow reinvestment ratio (%)	Note	Note	-

Explanation of major variations:

Not acceptable.

Note: Ratio was not disclosed due to negative net cash flow.

(2) Liquidity analysis for the next year

a. Consolidated liquidity analysis for the next year

Unit: NTD thousands

Opening cash balance	Projected net cash flow from operating activities	Projected net cash flow from investing and financing activities	Cash surplus (deficit)	Financing of cash deficits	
				Investment plans	Financing plans
232,234,449	24,945,373	1,420,973	258,600,796	None	None

Note: Projected cash flow may change depending on the actual circumstances.

b. Standalone liquidity analysis for the next year

Unit: NTD thousands

Opening cash balance	Projected net cash flow from operating activities	Projected net cash flow from investing and financing activities	Cash surplus (deficit)	Financing of cash deficits	
				Investment plans	Financing plans
6,420,543	3,943,201	(10,163,470)	200,274	None	None

Note: Projected cash flow may change depending on the actual circumstances.

c. Cash flow analysis for the current year:

Operating activities: this amount mainly comprises projected cash dividends from subsidiaries net of corporate bond interest and operating expenses.

Investing activities: this amount mainly represents long-term assets that the Company expects to acquire in the current year.

Financing activities: this amount represents the net effect of projected capital raising, funding and cash dividend payments.

d. Remedies and analyses for cash deficit:

7.4 Material capital expenditures in the last year and impacts on business performance

(1) Life insurance subsidiary

a. Major capital spending and source of capital:

On March 7, 2018, the subsidiary won a NT\$7,807,800,000 tender for commercial development near Kaohsiung MRT Aozidi Station, in which the subsidiary is licensed to operate the superficies for 70 years. The main purpose of this capital expenditure is real estate investment, and the subsidiary expects to construct a commercial complex comprising shopping malls and office buildings. The project will be funded by the subsidiary's available capital and is intended to be leased for revenues.

b. Expected benefits:

The investment properties provide the company with consistent revenue as well as future development potential, which conform with the company's strategies.

(2) Banking subsidiary

a. Major capital spending and source of capital:

The Bank and subsidiaries incurred capital expenditure totaling NT\$1,967,240,000 in 2018. The expenditure was funded by proprietary capital and was used for the purchase of machinery and computer equipment (including software).

b. Expected benefits:

The acquired machinery and computer equipment may improve the quality of information service, and facilitate new services and digitalization.

(3) Securities subsidiary

a. Major capital spending and source of capital:

Project	Actual or expected source of capital	Actual or expected date of completion	Total capital required	Actual or expected use of capital						
				2015	2016	2017	2018	2019	2020	2021
Replacement of branch office network facilities – Phase II	Proprietary capital	2016/11/30	34,125	-	34,125	-	-	-	-	-
Installation of IT infrastructure facilities at Banqiao data center	Proprietary capital	2016/11/30	106,586	86,066	20,520	-	-	-	-	-
Transformation of Fubon Securities Data Warehouse	Proprietary capital	2016/11/30	14,143	-	-	14,143	-	-	-	-
Information security platform project	Proprietary capital	2018/09/30	18,332	-	-	-	18,332	-	-	-

b. Expected benefits:

Solutions will be developed to address information security issues that arise in relation to the application of new financial technologies. Furthermore, the Company makes plans to adopt the next generation IT platform capable of more robust security, more powerful analysis of big data, and real-time detection and defense against internal as well as external threats.

7.5 Causes of profits or losses incurred on investments in the last year, and any improvements or investments planned for the next year

In addition to subsidiaries accounted for using the equity method, the Company also holds investment interest in “Xiamen Bank Co., Ltd.”. Xiamen Bank Co., Ltd. provides commercial banking services in China, and has delivered consistent performance and profitability throughout the years.

7.6 Risk Management

7.6.1 Risk management framework and policies

(1) Risk management framework

The Company has established a robust risk management framework. The board of directors governs and supervises the Company's risk management and control systems, and ensures effective implementation of the systems. The board approves the Company's risk management policies and reviews key risk management reports. The board of directors has an Audit Committee that assists the board in supervising the Company's risk management practices. A Risk Management Committee has been assembled under the direct supervision of the Chairman to review the Company's overall risk management strategy, framework, system and policy. The Committee is also responsible for supervising credit risk, market risk, operational risk, insurance risk, liquidity risk, assets and liabilities risk and capital adequacy risk management within the Company and subsidiaries. A Personal Information Protection Committee has been assembled under the Risk Management Committee to supervise protection of personal information within the Company and across its subsidiaries.

(2) Risk management policy

The Company has a comprehensive set of risk management policies in place, including credit risk, market risk, operational risk, capital adequacy, assets and liabilities risk, liquidity risk, and insurance risk management policies. All subsidiaries are required to comply with the above policies so that risks can be identified, measured, responded, monitored and reported in an effective manner. The Company also adopts three lines of defense model to ensure full-scale implementation of risk management. Risk limits, loss limits, and trade authorities have been imposed based on risk attributes. Risk exposures are measured regularly to establish points of control, indicators and alerts. The Company adopts a combination of quantitative and qualitative methods to monitor and manage various types of risk associated with its business activities.

7.6.2 Methods of risk assessment and control

The Company's risk management strategy has been developed based on its overall business plan. It involves the use of effective procedures and controls to identify, measure, manage, monitor, mitigate, and report the various types of risk, and thereby maintain the optimal risk-return profile. Risk information is regularly reported to the Company's Risk Management Committee, Audit Committee and the Board of Directors.

(1) Credit risk

By utilizing effective procedures and controls, the Company is able to determine possible impacts given any changes in business characteristic, complexity, or cyclicity of its credit portfolio. This enables the Company to take pro-active measures against credit risks and monitor its overall asset quality.

The scope of credit risk management covers asset quality, obligor credit risk, issuer credit risk, counterparty credit risk, industry credit concentration risk, single-party and single related party credit concentration risk, and country risk. A multitude of credit risk and country risk indicators and limits have been implemented to monitor and control the various types of risk mentioned above.

(2) Market risk

The Company adopts a market risk management system that effectively manages risks associated with interest rates, exchange rates, securities prices, and liquidity. The Company has developed internal risk management practices in accordance with the market risk management policy, and has taken a pro-active attitude towards managing market risks.

The scope of market risk management covers: risk assessment and management for non-hedging derivatives carried at fair value and securities carried at fair value, valuation and VaR calculation for interest rate and exchange rate derivatives, market alerts, tail risk management, market event alert, liquidity risk measurement, stress test etc.

(3) Operational risk

By implementing effective procedures, controls, indicators and self-assessments, the Company is able to identify, measure, control, respond, monitor and report all kinds of operational risks associated with its products, services, processes and systems, and take pro-active measures to mitigate them.

The scope of operational risk management includes regular reviews on the appropriateness of various procedures, controls, indicators and self-assessments that the Company has put in place. By monitoring operational risk incidents, monthly/quarterly self-assessments and risk indicators, the Company is able to quantify existing or potential operational risks and make timely improvements in terms of more robust procedures and enhanced training.

(4) Assets and liabilities risk

By implementing effective systems, indicators and limit controls, the Company is able to manage the various types of risk associated with its assets and liabilities. Indicators such as capital adequacy, double leverage, debt-to-equity etc are reported regularly to the Risk Management Committee where adjustments are made to ensure sustainability of business operations and to maximize shareholders' value.

(5) Liquidity risk

The Company has implemented liquidity indicators to assess and control liquidity risks. Solvency and liquidity indicators are monitored on a regular basis and reported to the Risk Management Committee to ensure that strategic goals are met.

7.6.3 Risk Management of subsidiaries

(1) Fubon Life

a. Risk management framework

Fubon Life has a Risk Management Committee assembled directly under the supervision of the Board of Directors. The role of convener is assumed by an independent director, and the responsibility of this committee is to supervise risk management within the company and report regularly to the Board of Directors. Two committees under the Risk Management Committee have been assembled to oversee the company's risk management practices, they are: 1. The Asset/Liability Management Committee chaired by the Chairman, the committee sets strategic goals with regards to the allocation of assets and liabilities and monitors accordingly; 2. The Operational Risk Management Committee convened by the President, the committee ensures that proper measures have been adopted by all levels of management to address operational risks. To facilitate coordination of risk management practices across different departments, Fubon Life's Board of Directors has appointed a CRO the Head of the Risk Management Division, who functions independently from business units and assists in the management of risks in accordance with the Risk Management Policy, the Risk Management Committee Foundation Principles and other relevant rules. Fubon Life has implemented risk management policies, risk limits, levels of approval authority, and assessment indicators to enable effective management of risks.

b. Risk management strategies and process

Fubon Life's risk management strategies have been developed based on the company's business targets, operating strategies and group risk management guidelines. Its risk management system embodies a set of procedures that enable it to identify, assess, monitor, respond and report on the possible risks it faces.

(a) Credit risk

Credit risk refers to chances of the obligor becoming insolvent or having its credit rating downgraded, and chances of counterparties being unable or refusing to fulfill obligations, to the extent that causes losses to the company. Fubon Life has implemented robust policies and principles to raise the efficiency and value of its risk management efforts. It follows the policies set forth by the financial holding company to develop its own credit risk management systems and guidelines.

(b) Market risk

Market risk refers to the possibility of losses arising from changes in the market price of the underlying asset within a certain timeframe. To ensure the integrity, balance and efficiency of the company's risk efforts, Fubon Life has followed the policies set forth by the financial holding company to develop its own market risk management systems and guidelines.

(c) Operational risk

Operational risk refers to the risk of direct or indirect losses attributed to human errors, flaws in internal processes, system malfunction, or external risk events. It includes legal risks but excludes strategy risks and reputation risks. Fubon Life has followed the policies set forth by Fubon Financial Holding to develop its own operational risk management

systems and guidelines.

(d) Asset liability matching risk

Asset liability risk management monitors the use of funds (assets) and the sources of funds (liabilities), including assets and liabilities' maturities or durations, positions' interest rate sensitivity, and company's capital adequacy. To achieve adequate asset-liability allocation, liquidity, and return, the Asset Liability Management Committee establishes rules and mechanism, in addition to regulations, and monitors the uses and sources of funds.

(e) Insurance risk

Insurance risk refers to the risk of unexpected loss from underwriting insurance policies. Rules and procedures, in addition to regulations, are established to ensure adequacy on product developments, reserving systems, and loss prevention mechanism.

c. Scope and features of the risk reporting/assessment system

(a) Asset risk management

Fubon Life has developed separate control mechanisms for credit, market, and liquidity risks. It has a unit that specializes in preparing risk management reports and controlling investment exposures, thereby giving decision makers up-to-date information about changes in asset values.

(b) Credit risk management

Fubon Life manages credit risk that takes into consideration the company's asset quality and counterparties' credit ratings. It has single financial institution risk limits and country risk limits in place to guide its practices; in addition, asset quality, asset exposures and counterparty credit are monitored and followed up on a regular basis. Using quantitative assessments, the company is able to calculate expected losses and conduct regular stress tests on bonds.

(c) Market risk management

The scope of Fubon Life's market risk management covers interest rate, equity securities, foreign currencies, and commodity. Some of the control measures used include risk limits, valuation, VaR monitoring, stress tests, and liquidity. The company continuously monitors market movements, investment gains/losses, and VaR changes. It regularly discloses market risk information categorized by product, risk factor, investment position, gains/losses, and VaR. Through the use of stress tests, the company is able to account for extreme risk events that VaR alone could not capture, and therefore provides a more complete perspective with regards to risk management. Regular back testing is performed on the VaR model, and any exception will be investigated upon to ensure validity of the VaR model.

(d) Liquidity risk management

Fubon Life's liquidity management covers daily concentration limits, statutory investment limits, and allocation of assets for variable-interest insurance policies. It has implemented relevant policies, indicators and limits to ensure compliance with the above, and imposed stringent credit quality requirements and risk tracking to monitor whether liquidity has been reduced due to a change in credit risks.

(e) Operational risk management

Fubon Life has developed risk management practices in accordance with its own operational risk policies and those policies of Fubon Financial Holding. In order to address identified risks and internal control issues that are concerned by senior management, the company established R&CSA (Risk & Control Self-Assessment) framework to embed control points in workflows and perform self-assessment regularly throughout its standard operating procedures ensuring operating effectiveness. So that operational risks can be identified, assessed, improved upon and mitigated as the earliest time as possible. When operational risk events occurred, the company has a robust reporting and crisis management system available to serve as immediate risk response. The risk management regime of the company is able to control existing and potential operational risks as well as quick response to risk incidents.

(f) Management of asset and liability matching risk and interest rate risk

As a means of enhanced management over assets and liabilities, Fubon Life holds regular meetings to discuss issues concerning the source (liability) and use (asset) of capital, the

duration of assets and liabilities, interest rate risks, adequacy of risk-based capital (RBC), and other topics relating to asset/liability management.

(g) Insurance risk management

All insurance products offered by Fubon Life have been designed in accordance with a set of pricing rules and subjected to verification by authorized managers and signatories to make sure that all details are correct and have complied with laws. Selling may commence only after the product has been approved or filed to the competent authority and the underwriting and solicitation process has been subjected to stringent control. In addition to training professional personnel to perform the tasks, the company conducts risk assessments on every product it offers to prevent moral hazards in customers' choice of insurance and to reject cases that have been characterized as adverse selections. When processing claims, the company has effective monitoring procedures in place to uncover and prevent fraud. Meanwhile, reinsurance plans are reviewed on a yearly basis to ensure the credibility of the company's reinsurance partners and the appropriateness of its risk transfer arrangements. The company has operating procedures, compliance self-audits, and regular tests in place to make sure that reserves have been provided in compliance with laws.

(h) Capital adequacy management

The company manages its capital mainly based on the capital adequacy policy developed by Fubon Financial Holding. This policy requires the company to maintain adequate levels of capital to meet the risks associated with its business activities. A dedicated unit has been assigned the duty to monitor capital adequacy. When managing capital adequacy, the senior management takes into account the external environment and future trends to make sure that the capital is sufficient for adverse events or market change for the sake of the company's sound operations, and that the capital is allocated in the most appropriate way.

(2) Taipei Fubon Bank

a. Risk management framework

Taipei Fubon Bank has implemented a robust risk management framework that operates under the direct supervision of the Board of Directors. The board approves all risk management-related policies and constantly reviews the bank's risk management reports. An "Asset/Liability Management Committee" has been assembled directly under the Chairman to oversee the bank's business strategies, assets & liabilities, capital adequacy, and liquidity. The committee is authorized to actively manage sources and uses of capital to maximize yields, within acceptable levels of risk. The bank has a "Credit Risk Management Committee," a "Market Risk Management Committee," an "Operational Risk Management Committee" and a "Wealth Management Risk Management Committee" in place that hold meetings both on a monthly and ad hoc basis to review and examine all aspects of the risk management system.

To enhance the objectivity of risk management practices, Taipei Fubon Bank has set up an independent Risk Management Group under the direct supervision of the Chief Risk Officer (CRO). An Institutional Credit Approval Committee, Institutional Credit Department, and Retail Credit Approval Committee, Retail Credit Department under the CRO, to oversee credit risks. The Risk Management Department's responsibilities include: planning and managing the bank's risk management system, implementing risk management policies, developing and utilizing effective procedures and controls, performing independent risk monitoring, analysis and reports, validating quantitative models, providing risk management report to senior management and the Board of Directors (managing directors) regularly.

In addition, a Performance Management Department has been established under the Administration Service Division to monitor liquidity risks and capital adequacy.

b. Risk management strategies and process

(a) Credit risk

Taipei Fubon Bank's credit risk strategy takes into consideration a number of factors such as the overall economy, industry developments, global financial markets etc. and based on the bank's business plans to establish concentration limits, exposure cap, risk policies, risk assessment, evaluation, monitoring and reporting procedures to manage credit risk. Taipei Fubon Bank has set the goals of its credit risk management to seek risk and return optimization. For this purpose, a multitude of tools have been adopted to identify, measure, manage and monitor credit risk, including post-approval monitoring program, non-performing assets management, in order to effectively manage expected losses and

maintain the assets quality.

(b) Market risk

Taipei Fubon Bank has implemented a comprehensive market risk system that monitors transaction execution, clearing, settlement, and exposure cap. The bank's market risk strategy is to manage four different types of exposure in its trading books, namely: interest rate, exchange rate, equity, and commodity instruments. Based upon this strategy, a set of market risk guidelines, exposure caps, and systems were implemented to identify, measure, manage and monitor market risks.

(c) Operational risk

Taipei Fubon Bank's operational risk strategies is based on its operating plans to actively identify, assess, measure, monitor and control various types of operational risks imbedded in the products or services or in the processes or systems. In addition, the bank has adequate risk mitigation in place. Taipei Fubon Bank has implemented complete risk management systems and policies by the use of self-assessment, controls and key risk indicators to identify and mitigate existing or potential risks.

(d) Asset, liability and liquidity risk

Taipei Fubon Bank' asset and liability strategy has been formulated to ensure the sustainability and consistency of its business. This strategy takes into consideration a number of factors such as interest rate sensitivity, liquidity, capital adequacy etc. and aims to achieve optimal use of capital within acceptable levels of risk.

With regards to liquidity, the bank adopts a strategy that aims to maintain consistent, low-cost capital sufficient to support its growing assets and meet debt obligations. This strategy works to minimize liquidity risks and avoid capital shortage. Taipei Fubon Bank is able to make flexible adjustments to its deposit, lending, treasury and funding activities in response to circumstantial changes such as capital supply, central bank policies, deposit/loan balance, major loan disbursements/repayments, allocation of long/short-term securities etc. by constantly monitoring the flow of large-sum deposits, adequacy of funding limits, and breaches against liquidity thresholds. Stress tests are conducted on a regular basis to monitor the bank's tolerance to liquidity risks; meanwhile, emergency funding plans have been developed to effectively manage liquidity risk and any possible liquidity shortage.

c . Scope and features of the risk reporting/assessment system

(a) Credit risk management

Taipei Fubon Bank adopts a credit risk management system that embodies procedures including credit assessment, internal credit ratings, limit control, post-approval monitoring program, pre-settlement limit control, and collection. Concentration exposures of country, single name, industry, etc. have all been managed effectively. In addition, Taipei Fubon Bank adopts stringent review and early alert monitoring program to facilitate immediate responses should any major credit event occur.

Taipei Fubon Bank has been conducting stress test on its credit risk tolerance in accordance with the frameworks and methodologies suggested in FSC's "Stress Test Planning for Banks" and "Credit Risk Stress Testing Guidelines for Banks." Furthermore, the bank is exploring more advanced analyses and methods to test how it may withstand losses under stressed scenarios, and using this information as a reference in managing its credit portfolio. For qualitative information on credit risk management, please refer to page 502-504.

(b) Market risk management

Taipei Fubon Bank monitors market risk limits (including sensitivity measures: Delta, Vega, DV01, VaR etc.) and gains/losses on a daily basis. Its financial instrument valuation model is validated regularly to ensure effectiveness and consistency. A VaR system has been implemented along with supporting policies, procedures and limits to facilitate effective management. Back testing is conducted regularly to ensure the validity of the bank's VaR calculation modules and valuation models. The bank is constantly enhancing its treasury and trading system and bringing new financial tools and risk controls in place. In addition to conducting market risk stress tests using the frameworks and methodologies suggested in FSC's "Stress Test Planning for Banks," the bank also takes the initiative in developing more advanced stress test methods to determine its tolerance under stressed scenarios and thereby enabling more robust management over extreme market risk events.

(c) Operational risk management

Taipei Fubon Bank has implemented an operational risk system that incorporates a variety of tools to assist the bank in identifying and managing operational risks. Using a risk matrix that comprises seven loss scenarios for each of the eight main business segments, the bank has identified areas that represent high, medium and low levels of risk and subjects them to regular follow-ups and reviews. Quantitative and qualitative reports are prepared regularly to address operational risk events, exposure levels, trends and improvements.

(d) Asset, liability and liquidity risk management

Taipei Fubon Bank reports loan-to-deposit ratios, liquidity reserve ratios, liquidity-gap-to-asset ratios, liquidity coverage ratio, and stress test results to the Asset/Liability Management Committee regularly, giving the management full control of the bank's liquidity risks.

(e) Capital adequacy management

Taipei Fubon Bank monitors the capital adequacy ratios (CAR) and leverage ratio regularly. In order to assess the bank's capital adequacy status, there are capital adequacy assessments under growth and stressed scenarios, as well as response measures for each of the identified circumstances. Results of capital adequacy assessments are reported to the Asset/Liability Management Committee and Board of Directors (managing directors) regularly.

(3) Fubon Bank (China)

a. Risk management framework

The board of directors is the ultimate decision maker and bears the ultimate responsibility with regards to risk management within Fubon Bank (China). The board of directors is responsible for ascertaining the level of risks tolerable by Fubon Bank (China), as well as supervising risk assessment practices within the entity. A committee has been assembled under the senior management to execute board-approved risk management policies and to set up relevant procedures and guidelines closely monitor risk exposure and take preventive measures where necessary. The risk management department is responsible for identifying, quantifying and monitoring risk factors, as well as the overall management of risk within Fubon Bank (China). The risk management framework of Fubon Bank (China) has satisfied all three layers of supervision, namely: 1. board of directors; 2. the business units; and 3. risk management, compliance and audit departments.

b. Risk management strategies and processes

(a) Credit risk

Fubon Bank (China) adopts a credit risk strategy based on the current economic situation, and characteristics of regional industries. The existence of credit management, credit approval and post-lending policies coupled with the bank's existing risk management framework ensure that credit risks are soundly managed. Fubon Bank (China) has set the goals of its credit risk management to manage expected losses, protect assets, and maintain an optimal risk-return profile. The bank's credit risk procedures embody the identification, quantification, monitoring and control of risks.

(b) Market risk

Under the guidance of laws, Fubon Bank (China) has adopted market risk management policy that outlines the specific strategies, procedures and control standards of risk limits pertaining to market risk management. Through the use of risk management systems, Fubon Bank (China) is able to identify, quantify, monitor and control market risks and ensure that the framework is executed effectively, regulating market risks in sustainable level.

(c) Operational risk

Fubon Bank (China) adopts a "centralized management and divided control" approach to manage operational risks, under the guidance of the board and the senior management. Branches and business departments within the head office are the first lines of defense, and are directly responsible for operational risks associated with their business activities. The Risk Management Division represents the second line of defense against operational risks, and is responsible for the development and implementation of operational risk management within the bank to ensure that operational risks are managed consistently throughout the bank. The Audit Division is responsible for inspecting the bank's risk practices, and

represents the third line of defense against operational risks.

(d) Liquidity risk

Fubon Bank (China) adopts a liquidity management strategy that aims to satisfy regulatory requirements and maintain a sound balance between risks and returns. The bank adjusts between long-term and short-term funding allocation depending on changes in market conditions to diversify its sources of capital to keep liquidity risks within tolerable levels. This provides Fubon Bank (China) with an assured source of capital to support asset growth and meet debt obligation, whether under normal or stressed circumstances.

c. Scope and features of the risk reporting/assessment system

(a) Credit risk management

There are several functions of credit risk management within Fubon Bank (China), including implementation of credit policies, credit approval, portfolio management, early alert and debt collection. Daily monitor activity at Credit Risk includes credit risk concentration monitoring (for various regulatory indicators), early warning monitoring, non-performing loan (NPL)/NPL ratio monitoring, as well as periodical review on client rating and loan rating. Results will be reported to Chief Risk Officer (CRO) weekly or monthly, and will be part of Risk Control Report, in written form, quarterly presented to The Board of Directors and its subcommittees.

Fubon Bank (China) conducts regular stress tests on its credit portfolio using a number of dimensions such as industry exposure, product exposure, regional exposure, and borrower type. Stress test results from uses of different risk drivers are reported regularly to the board of directors and the senior management to support risk management decisions of the bank.

The credit risk management system currently used by Fubon Bank (China) has been built with a full set of functionalities including credit approval, loan account management, collateral maintenance, customer rating, and post-lending management. These functions provide Fubon Bank (China) with adequate support in credit risk management.

(b) Market risk management

Fubon Bank (China) manages banking and trading accounts first by developing a market risk quantification model specifically for the type of instrument, risk attribute and complexity involved. Market risk limits have been set at appropriate levels to serve as a means of control. The bank has set a variety of market risk limits to control: 1. Exposures, such as notional principal etc.; 2. Losses, such as the amount of loss a product may accumulate within a certain period of time; 3. Sensitivity, such as DV01 for interest rate products, Delta, for FX products etc. Market risk limits are daily monitored, ensuring all business is developed under control.

Risk management department conducts quarterly stress tests on all products outstanding within the banking and trading accounts of Fubon Bank (China) separately. The purpose of the stress test is to quantify the amount of losses given a sudden adverse change in interest rates or exchange rates, and to evaluate whether Fubon Bank (China) is able to withstand such losses.

(c) Operational risk management

Fubon Bank (China) prepares regular and irregular risk reports. The regular report is a summary report made to the management after completing risk identification, assessment, monitoring and control, whereas irregular reports are made only under special circumstances such as the rise of new risks, occurrence of losses, failure of control measures etc. The Operational Risk Management policy & procedure has made clear distinctions on the two situations described above. The Risk Management Division is responsible for submitting quarterly reports to the management and to the parent company so that senior management remains well in control of the overall situation.

(d) Liquidity risk management

Given the scope and complexity of its existing business, Fubon Bank (China) has adopted a centralized approach to manage liquidity risks. Fubon Bank (China) has developed an organizational structure that corresponds to its liquidity risk attributes. The board of directors is ultimately responsible for the management of liquidity risks, and it has authorized the Risk and Related Transaction Committee to oversee management of liquidity risks. The senior management is responsible for carrying out actual tasks relating to

liquidity management. It delegates its day-to-day duties to the Asset and Liability Committee. The Asset and Liability Committee submits regular reports to the Risk and Related Transaction Committee about its findings concerning liquidity risk management, and explains in detail how it intends to proceed.

(4) Fubon Bank (HK)

a. Risk management framework

Fubon Bank (HK) adopts a risk management organization that begins with the Board of Directors and stems to subordinate committees including the Risk Committee and Executive Credit Committee, and to other committees under the supervision of the management including the Asset and Liability Committee, the Internal Control Committee, Compliance and Anti-Money Laundering Committee, the Credit Committee, and the Wholesale Credit Committee. It has Enterprise Credit Risk Management Department, Retail Credit Oversight and Data Analytics Team, Market Risk Management Department, Operational Risk Management Department, Special Assets Management Department, Financial Control Division, Legal Department, and Compliance and Anti-Money Laundering Division in place to manage the various risks associated with its business activities.

b. Risk management strategies and process

Fubon Bank (HK) has implemented risk management policies and procedures in accordance with the guidance of the Hong Kong Monetary Authority and based on the characteristics of the Hong Kong market to identify, analyze, monitor and manage credit risks, market risks, operational risks, liquidity risks, and capital adequacy. It produces regular risk monitoring reports that cover everything from risk limit management, concentration risk management, market risk management, operational risk management, liquidity management, and capital management. These reports provide the bank's Board of Directors, Risk Committee, Executive Credit Committee, Asset and Liability Committee, Internal Control and Compliance Committee, and Credit Committee with sufficient information to manage risks, devise strategies, and improve risk management systems to reflect the best practices in Hong Kong and the world.

c. Scope and features of the risk reporting/assessment system

(a) Credit risk management

Fubon Bank (HK) adopts a credit risk strategy that takes into consideration a number of factors such as the overall economy, industry development, global markets etc. The relevant credit policies and guidelines have been established based upon the operating plan along with assessment, monitoring and reporting procedures, whereas concentration limits, large-exposure limits and country limits are set, monitored and reported regularly to the Credit Committee. Fubon Bank (HK) adopts a credit risk system that embodies procedures including credit assessment, risk rating, limit control, post-lending management, and collection. In addition, Fubon Bank (HK) has stringent verification and early warning system in place to facilitate immediate responses should any major credit event occur.

(b) Market risk management

Fubon Bank (HK) has set goals to keep market risks that arise from trading and investing activities within acceptable levels, which also involves controlling impacts of fair value-assessed assets on financial statements. Fubon Bank (HK) has implemented a series of control measures and a market risk management policy that utilize tools such as limit controls, reporting/monitoring systems, sensitivity analyses, stress tests etc to prevent the bank from being over-burdened with market risks.

(c) Operational risk management

Fubon Bank (HK) has established operational risk management policy, internal control systems, new products or services approval process and business continuity plans to enable the bank to identify, assess and mitigate losses arising from operational risks. Operational risk management tools, including "Control Self-assessment," "Key Risk Indicators," and "Operational Risk Event Reports", enable the bank to collect data, monitor risk level continuously and compile various risk management reports and trend analysis reports, all operational risk management tools are reviewed regularly to ensure their effectiveness. Training on operational risk management is provided to staff periodically. Each department is responsible for monitoring and reporting operational risks relating to its daily activities,

and improving internal control system to minimize losses caused by operational risks. An independent department conducts Control Self-assessment for each department to ensure compliance with internal controls standards and regulatory requirements.

(d) Liquidity risk management

Fubon Bank (HK) has set goals to maintain liquidity at a level that adequately supports business expansion and meets financial obligations. To accomplish this purpose, the bank is required to meet deposit withdrawals, to repay borrowings as they mature, to make new loans and investments as opportunities arise, and to comply with the statutory liquidity maintenance ratio and core funding ratio.. Liquidity is managed according to the bank's internal policies and guidelines using a variety of indicators and analyses (including cash flow analysis and regular stress tests). Meanwhile, the bank has a contingency funding plan in place to effectively respond to liquidity risk events.

(e) Capital adequacy management

Fubon Bank (HK) manages its capital to conform to the rules of the Hong Kong Monetary Authority and the overall internal capital targets. The bank undergoes an Internal Capital Adequacy Assessment Process annually to determine internal target and trigger level on its common equity tier 1, tier 1 and total capital ratios. The bank also establishes internal target and trigger level on its leverage ratio. These indicators are monitored on a regular basis to ensure that capital adequacy requirements are met.

(5) Fubon Insurance

a. Risk management framework

Fubon Insurance has assembled a Risk Management Committee directly under the Board of Directors in which the independent director serves as the convener. The committee's main responsibilities are to determine the company's risk management policy, risk appetite, framework and organization before submitting for the Board of Directors' approval. The committee holds meetings on a quarterly basis to assess the company's primary risk exposures and to ensure that the company's goals are achieved as planned. Regular reports are made to the Board of Directors with regards to the progress of the company's risk management efforts.

Five separate risk teams have been assembled under the committee to manage insurance risk, credit risk, market risk, operational risk, and asset/liability matching risk. Each risk team is convened by a senior manager to develop risk management documents and set limits on risk tolerance, exposure, and thresholds to facilitate monitoring. All risk teams are required to make regular reports on risk limits and indicators, whereas the Risk Management Department assists the Risk Management Committee in monitoring risk exposures and following up on risk responses throughout the company.

b. Risk management strategies and processes

Fubon Insurance adopts a risk management strategy that aims not only to achieve the company's business targets, but also to raise shareholders' value, confidence of insurance customers, and corporate image. It has developed a risk management culture that incorporates risk practices into virtually all parts of its daily activities. The company's risk management procedures include: risk identification, risk assessment, risk monitoring and risk responses. To ensure the timeliness, reliability and security of risk management information, the company has complied with policies by making disclosures for different levels of management and updating them on a timely basis.

(a) Credit risk

Credit risk refers to chances of the obligor becoming insolvent or having its credit rating downgraded, and chances of counterparties being unable or refusing to fulfill obligations, to the extent that causes losses to Fubon Insurance.

Fubon Insurance has developed appropriate credit risk management system and constantly keeps track of credit limit utilization and breaches, thereby enabling proper responses to be taken. Upon occurrence of a major credit risk event, the accountable unit is required to inform the Risk Management Department as soon as possible, handle the incident in a timely manner and take actions according to the Major Credit Risk Event Reporting Guidelines of Fubon Financial Holding Company.

(b) Market risk

Market risk refers to the possibility of losses arising from changes in the market price of the

underlying asset within a certain timeframe. Fubon Insurance's Risk Management Department has developed robust policies and crisis management practices in accordance with internal policies and laws. It has implemented market risk management system, regularly reviews limits utilization, and any breach of limits will be handled in appropriate and timely manner.

(c) Operational risk

The company's operational risk system is a combination of risk identification procedures, risk assessment tools, risk controls and mitigation measures.

Some of the operational risk controls that the company has implemented include: division of responsibilities, levels of approval authority, transaction trail records, compliance, contract risk management, outsourcing policies, legal risk management, regulatory risk management, non-contractual rights management, and emergency responses.

Some of the mitigation measures that the company has implemented against operational risks include: gathering historical loss data, developing key risk indicators, and setting up control points.

(d) Asset / liability matching risk

Asset and liability matching risk is aimed to ensure solvency and to achieve sustainable business goals via the extent of cash flows matching between asset and liability. Fubon Insurance uses asset and liability factors to evaluate sensitive analysis and the scenarios of earthquake in stress test. These approaches are supposed to evaluate the impact of investment decision with asset and liability cash flows in different assumptions.

(e) Insurance Risk

In order to achieve entity goals and reach solvency level, insurance risk is aimed to manage retention risk via the written policies. Fubon Insurance establishes the management procedure such as identification of risk factors and risk limits.

c. Scope and features of the risk reporting/assessment system

(a) Asset risk management

Fubon Insurance has developed separate control mechanisms for credit, market, and liquidity risks. The authority specializes in preparing risk management reports and controlling investment exposures, thereby giving supervisors up-to-date information about changes in asset values.

(b) Credit risk management

Fubon Insurance adopts a credit risk management system that spans from pre-trade credit check, credit limit setup, to post-trade credit risk management. It has single-bank risk limits and country risk limits in place to monitor asset quality, asset exposure and counterparty credit to avoid chances of excessive losses caused by a single credit risk event. Expected loss of bond positions is measured quantitatively through stressed test and monitored on a regular basis.

(c) Market risk management

The market risk management system adopted by Fubon Insurance covers instruments from interest rate, exchange rate, equity securities to commodity. Some of the control measures adopted by the company against market risks include: limit control, valuation, Value at Risk (VaR) management, stress testing, and monitoring of market trends, gains/losses and VaR. In addition, the company discloses VaR and conducts back testing on VaR models on a regular basis. Any breaches discovered will be investigated to ensure the validity of the model.

(d) Liquidity risk management

Fubon Insurance has documented procedures on how to avoid defaulting on obligations due to lack of funding or inability to convert assets into cash. It has developed quantitative risk indicators and monitors regularly to assure sufficiency of assets liquidity.

(e) Operational risk management

Fubon Insurance requires all units to conduct self-assessment on the likelihood of suffering direct or indirect losses due to human error, flaws in internal procedures, system malfunction, or external events. Based on the findings of these self-assessments, the company will set up control points and key risk indicators and have them monitored regularly to facilitate early discovery and rectification of operational risks. Meanwhile,

employees are given enhanced training to prevent occurrence of operational risk events.

(f) Management of asset and liability matching risk

To ensure the company's debt servicing capability, Fubon Insurance regularly reviews how expected cash flows from assets are matched with cash flows due on liabilities. In addition, the company's solvency status is assessed using the authority's measurement (RBC) for decision making.

(g) Insurance risk management

Fubon Insurance has established proper mechanisms for managing insurance risks such as product design, pricing, underwriting, reinsurance, disasters, claims, reserves etc. Risk limits and key risk indicators have been set up according to product risk attributes for monitoring purposes.

(h) Capital adequacy management

Fubon Insurance manages capital adequacy risks primarily based on its Capital Adequacy Management Policy. The company publishes regular capital adequacy risk reports that disclose its actual CAR, its planned CAR, and analyses on how CAR is affected by asset risks, underwriting risks, and any other risks deemed relevant.

(6) Fubon Securities

a. Risk management framework

Fubon Securities adopts a risk management structure that comprises of: the Board of Directors, the Risk Management Committee, senior management, risk management implementation units and business units. Authorities and responsibilities have been properly divided along this structure to develop an effective risk management culture that begins from the top down. For effective control over the risks associated with the company's operations, the Risk Management Committee assembled directly under the supervision of the Board of Directors. The role of convener is assumed by Chairman, and the committee holds meetings on a monthly basis to supervise risk management. The Risk Management Department was assembled specifically to handle risk-related affairs and reported regularly to the Board of Directors.

b. Risk management strategies and process

(a) Credit risk

Fubon Securities has developed a credit risk management system for the purpose of monitoring and grading credit risks associated with its proprietary capital, underwritten securities, and asset swaps. Fubon Securities has set the goals of its credit risk management to deliver optimal risk-adjusted returns. It uses a variety of tools to identify, measure, manage and monitor credit risks.

(b) Market risk

Fubon Securities has distinguished its trade instruments into four main categories: interest rate, exchange rate, equity, and commodity; each category is governed by robust risk management policies and guidelines. A mid-office unit has been assigned the task of performing independent risk identification, risk assessment, limit monitoring, risk reporting, and fair value calculation. It is well-segregated from front-office and back-office using firewalls.

(c) Operational risk

Fubon Securities' operational risk strategies have been developed to actively identify, assess, measure, monitor and control various types of operational risks that are prevalent in the products or services it sells or in the processes or systems it adopts. In addition, the company has measures in place to mitigate risks should they arise. Each department has set up key risk indicators and risk triggers based on their risk attributes. These indicators and risk triggers are tested and self-assessed on a quarterly and monthly basis; any existing and potential operational risks that have been reflected during the self-assessment will be rectified, controlled, mitigated or eliminated through a variety of means.

(d) Liquidity risk

Fubon Securities has implemented relevant policies to manage liquidity risks (including market liquidity risk and capital liquidity risk) associated with all its business activities. Fubon Securities adopts a liquidity approach that aims to maintain consistent, low-cost capital sufficient to support its growing assets and meet debt obligations. This approach

works to minimize liquidity risks and avoid capital shortage. The company sources capital for its departments in the amount and at the timing needed. Any funding requirement that arises out of an emergency would be handled according to Fubon Securities' Emergency Funding Guidelines.

c. Scope and features of the risk reporting/assessment system

(a) Business risk management

Business risk refers to the possible losses that Fubon Securities may encounter over the course of business. It is the sum of market risk equivalent, credit risk equivalent, and operational risk equivalent. Fubon Securities applies different measures for different risk attributes and to accommodate changes in future circumstances.

(b) Credit risk management (including counterparty risks)

Fubon Securities adopts a credit risk management system that covers internal processes such as credit approval, pre-trade credit assessment, credit grading, post-trade credit monitoring, credit risk mitigation, and risk measurement. The company monitors counterparty credit and makes daily comparisons with approved credit limits. Risk management reports are raised regularly to the Risk Management Committee. The company applies different levels of credit risk management on TSEC/GTSM listed companies depending on how they are rated by S&P/Moody's/Fitch/Taiwan Ratings. Fubon Securities has emergency measures in place to respond to any major event that threatens the company's interests.

(c) Market risk management

Fubon Securities has imposed limits to manage the amount of gains/losses incurred on trading positions. The mid-office monitors market risk exposures each day including sensitivity measures such as Delta, Vega, DV01 etc. to identify limit breaches. Fubon Securities collaborates with Fubon Financial Holding's Risk Management Division to continually enhance the VaR system, thereby enabling the company to manage market risks more effectively.

(d) Operational risk management

To enhance identification and management of operational risks, Fubon Securities has been conducting training across branches and implementing proper controls in its trading procedures. These controls have been established and executed in accordance with Fubon Securities' Operational Risk Management Principles and Operational Risk Guidelines. Fubon Securities continues to follow up regularly on business activities that present high and medium risks. It prepares quantitative and qualitative risk management reports on a quarterly basis for the purpose of minimizing chances of operational risk events.

(e) Liquidity risk management

Fubon Securities adopts a liquidity management approach that aims to maintain adequate levels of capital and funding limits each day. Liquidity indicators and limits are monitored while stress tests are conducted on a regular basis to facilitate responses in the event of a liquidity emergency.

(f) Capital adequacy management

To enable effective control over business risks, Fubon Securities has developed risk management policies, rules or guidelines for each of the above sources of risk, and specified risk controls applicable to them. Fubon Securities uses BIS as a measure for its overall business risks. What BIS measures is whether the company has adequate capital to cover the possible losses associated with its business activities. Fubon Securities adopts the Delta-Plus approach to provide capital on equity securities positions. Delta-Plus has the advantage to more precisely account for risk factors and calculate options exposure, and hence reduces the amount of capital required to cover such risks.

7.6.4 Hedging and Risk Mitigation Policies Adopted by Subsidiaries

(1) Subsidiary insurance company

a. Credit risk

The company manages credit risks by assigning limits according to counterparties' credit ratings, and by monitoring concentration level, single- issuer/security exposure, country risk exposure, and alert thresholds.

b. Market risk

The company mainly uses forward contracts and foreign exchange swaps to hedge against

exchange rate risks associated with foreign investments. The hedging strategy changes according to market conditions and the trade strategy, in which case the company will flexibly adjust its hedging position to offset the loss in the investment position, and follow up by monitoring limit breaches and VaR movements.

c. Operational risk

To mitigate operational risks, the company relies on making enhancements to internal controls, providing employees with more intensive training, and using insurance arrangements to transfer risks.

d. Insurance risk

The subsidiary insurance company has stringent underwriting and claim procedures in place to control insurance risks. In addition, reinsurance arrangements have been made to further mitigate insurance risks. Fubon Insurance adopts a disaster model to evaluate disaster risks on a regular basis, and makes reinsurance arrangements to further mitigate potential losses.

(2) Subsidiary bank

a. Credit risk

For the purpose of managing concentration risks, the subsidiary bank has set limits on single-customer, single-group, industry, and country exposures to avoid concentration risk to hamper the stability of the company's operations. For more stringent control over credit risks, the subsidiary bank has adopted a strict and centralized credit approval procedure requires double signatory authorizations. An internal credit rating system has been developed to more effectively classify customers among different risk segments. The bank obtains collateral depending on lending terms as a form of credit risk mitigation, and performs post-lending management and credit reviews on an ongoing basis.

b. Market risk

The trading department, risk management department, and settlement department each perform their independent duties under stringent governance and control. To qualify for a hedging transaction, the company's accounting policy requires the necessary documentation and tests are obtained and executed before a deal is made; the effectiveness of the hedging arrangement needs to be reviewed continuously and regularly.

c. Operational risk

Risk mitigation measures include enhanced internal control, implementation of risk control and monitoring tools, employee training program, and risk transfer to third parties through insurance and outsourcing arrangements.

(3) Subsidiary securities company

a. Credit risk

For the purpose of managing concentration risks, the subsidiary securities company has set limits on counterparty and country exposures to warn against placing excessive weight on any type of exposure to the extent that compromises the stability of the company's operations.

b. Market risk

Authorities of the trading department, risk management department, and settlement department have been subjected to stringent governance and control. To qualify a hedging transaction, the company's accounting policy requires the proposal to undergo the necessary documentation and tests before a deal is made; afterwards, the effectiveness of the hedging arrangement also needs to be reviewed regularly. The company's hedging requirements arise mainly because of its issuance of call (put) options. For this purpose, the company adopts a dynamic hedge approach that calculates the hedging position it needs based on the volatility of the underlying stock price and the Delta value. Hedging transactions may then proceed within market risk limits; after the market closes, the company will prepare a valuation report on the hedging position to evaluate the effectiveness of the hedging arrangement.

c. Operational risk

Through enhanced internal controls, operational risk monitoring and employee training and by purchasing integrity insurance, the company seeks to transfer and mitigate operational risks it encounters.

7.6.5 Quantified Risk Exposure

For quantitative information on all types of risk exposure of the Company and its subsidiaries, please refer to pages 501-626 and 633-639. For quantitative information regarding capital adequacy ratios of

the Company and its subsidiaries, please refer to pages 686-687.

7.6.6 Financial and business impacts and responding measures against changes in domestic or foreign laws or major policies

Changes in Laws or Major Policies	Financial and business impact	Responsive measures
<p>Amendment of “The Company Act” dated August 1, 2018:</p> <ol style="list-style-type: none"> Expanded the scope of employees eligible to receive compensation instruments, such as treasury stock, employee warrant, employee remuneration, share subscription rights, and restricted stock for employees, to include employees of parent and subsidiary companies. For non-public companies, notice for the convention of board of directors meeting has to be served to all directors and supervisors 3 days in advance, as opposed to 7 days. Furthermore, non-public companies may amend the Articles of Incorporation to permit that subject to the consent of all directors, all directors can exercise the voting rights in writing for the current board meeting session. 	<ol style="list-style-type: none"> Facilitates talent recruitment and retention for the financial group. Promotes flexibility and independence among non-public subsidiaries of the financial group. 	<p>Articles of Incorporation and relevant internal policies have been (or will be) amended by the Company and the concerned subsidiaries.</p>
<p>FSC's amendment of “Regulations Governing the Investing Activities of a Financial Holding Company” dated November 28, 2018:</p> <ol style="list-style-type: none"> A financial holding company is not required to investigate whether it or its subsidiary has been penalized when making incremental investments to existing subsidiaries that do not amount to more than NT\$50,000,000 per transaction and total. When a financial holding company invests into another financial holding company, bank, insurance company or securities firm, “more than 10% of total voting rights or total capital” must be acquired on the first attempt, as opposed to “controlling interest.” Financial holding companies that exhibit strong capital, management, international growth potentials and corporate social 	<ol style="list-style-type: none"> Enables more timely contribution of capital from the financial holding company to its subsidiary or firms that complement business development. Provides financial holding companies with the option to take a 10% shareholding interest in an investee before exploring merger opportunities, and therefore increases chances of success. Allows financial holding companies that meet 	<p>The Company's internal policies will be amended accordingly.</p>

responsibility performance may acquire/invest in another financial holding company, bank, insurance company or securities firm without obtaining a no-objection resolution from the investee's board of directors, and without obtaining agreements or commitments from insiders or related parties of the investee to sell more than 25% of shares.	certain criteria (including the Company) to proceed with non-consensual acquisition at greater ease.	
--	--	--

7.6.7 Financial impact and response measures in the event of technological or industry changes

Given the rapid development of the financial market and technologies, the Company will take initiative in introducing cloud computing and AI as a means to reduce operating cost while increasing service efficiency and investment returns. Through internal data analysis and use of external resources, the Company hopes to gain better insight into market trends and develop more precise knowledge of customers' needs, and capitalize on the changing trends through introduction of innovative sales channels, scenarios and commercial models. The Company will also undergo digital transformations to provide better service and experience to customers, and in doing so secure corporate profitability.

7.6.8 Impacts, response, and crisis management in the event of change in corporate image of the financial holding company and subsidiaries

Fubon Financial Holdings has long been committed to fulfilling corporate social responsibilities, protecting the interests of investors, shareholders and stakeholders, and pursuing sustainable business and growth.

The Company has “Media Public Relations Management Guidelines of Fubon Financial Holdings” and “Media Crisis Management Guidelines of Fubon Financial Holdings” in place to handle ordinary and emergency PR issues. The “Media Public Relations Management Guidelines of Fubon Financial Holdings” outlines the spokesperson system and introduces principles on public relations affairs to ensure delivery of correct and consistent message without compromising corporate image.

According to the “Media Crisis Management Guidelines of Fubon Financial Holdings,” any occurrence that is likely to have an adverse impact on the Company's image will be escalated internally and trigger the Company's crisis management procedures. Action will then be taken to resolve the crisis in a timely and effective manner, thus preventing adversity from spreading to cause more damage to the Company's reputation.

In the future, the Company will continue its robust risk management practices and enforce both “Media Public Relations Management Guidelines of Fubon Financial Holdings” and “Media Crisis Management Guidelines of Fubon Financial Holdings” to maintain its reputation, and thereby secure the foundation of its growth. Meanwhile, the Company will keep abreast of stakeholders' opinions, protect stakeholders' interests, and pursue the sustainability of business operations.

7.6.9 Potential benefits, risks and response measures of mergers and acquisitions

(1) Expected benefits of mergers and acquisitions

- Economies of scale: Expansion of service area to broaden domestic and international footprint.
- Economies of scope: Enhancement of competitiveness through comprehensive financial services.
- Improvement of managerial performance: Leverage and capitalize on pooling of resources.
- Enhancement of returns on shareholders' equity: Synergies delivery to create shareholder value.

(2) Possible risks of mergers and acquisitions

- Information asymmetry may expose the Company to risks from the acquired financial institution's assets and liabilities.

- b. Profitability and prospects of the acquired company may not meet expectations or the value may be over-estimated.
- c. It may take longer than expected to integrate the culture and organizational structure post-transaction, leading to a delay in achieving synergies.

Fubon Financial Holding is committed to creating corporate value and increasing shareholder value. It possesses professional knowledge and extensive experience in M&A strategies, and has a long history of risk control practices to maximize synergies.

7.6.10 Business concentration risks and response measures:

The Company operates several subsidiaries that cover a broad range of financial expertise from life insurance, non-life insurance, banking to securities. Given the diverse products/services involved, the Company places risk management at the top of its priority in business operations. The Company has also been active in growing overseas markets, which helps reduce risk of concentration to any particular service or region. Information systems are being supported by high availability on-site or off-site systems and backup routines of varying intensities and risk levels to ensure uninterrupted service. All backup media are securely stored at the off-site. Simulations, tests and drills are being conducted regularly to ensure proper functioning and data security in the event of an emergency. These exercises help avoid unexpected system disruption caused by natural disasters and human errors, and ensure continuity of key business activities.

7.6.11 Impact, risk and response measures involving significant transfer of shareholding by directors or shareholders with more than 1% ownership interest:

The Company's directors are dedicated to their duties within the organization; there has been no significant transfer of shares by any director. Transfer of shares among the few major shareholders with more than 1% ownership interest did not impact the Company's operations in any way.

7.6.12 Impact, risk and response measures associated with change of management

As at the end of February 2019, approximately 30% of the Company's shares were held by the Chairman's family, while the Taipei City Government held another 13% in the Company. A concentrated shareholding structure enables the Company to devise and execute strategies over a longer horizon. In addition, the Company has assembled an Audit Committee, a Remuneration Committee and a Corporate Governance and Sustainability Committee as means of enhancing corporate governance.

7.6.13 Litigation and non-contentious cases

Major litigation, non-litigation cases, or administrative litigation involving the company's directors, President, de facto responsible person, any shareholder with a more than 1% ownership interest, or any subsidiary of the company, whether concluded or pending judgment, which may present significant impact on shareholders' interests or securities prices:

- (1) The Company: None.
- (2) The Company's directors, President, de facto responsible person, or any shareholder with more than 10% ownership interest: none.
- (3) Subsidiaries: Please refer to pages 678 to 681

7.6.14 Other key risks and response measures

- (1) The impact of changing financial environment and solution in business development

As at 1H18, the global economy continued to expand and net exports exerted an upward pull on activity. However, US-China trade war intensified through the remainder of 2018 and investors perceived a significant downside economic risk and suffer volatility in the financial market. Under the pressure of the weakened foreign demand, not only exports but also private spending dropped in Taiwan. As the result, Taiwan's economic growth rate in 2018 was 2.63%, which was somewhat lower than 3.08% in 2017.

Looking forward to 2019, along with the weakened global expansion and uncertainties over US-China trade talks, there is expected to be a decline of confidence in investment of private sector and manufacturing industries. Furthermore, during periods of increasing volatility combined

with conservative profit estimates in the financial markets, investor and consumer confidence will look to weaken further, which caused a dip in Taiwan's private spending and exports this year. Although the government has revealed the infrastructure plan and a program to encourage the return of overseas Taiwanese companies, the economy is still expected to be moderate in 2019.

Due to higher volatility and increasing debt burden in global financial markets this year, investment and lending business will bear the brunt of this problem. Therefore, risk management enhancement remains a top priority going forward. With regards to investment business, Fubon will enhance controls of hedging costs and aim to achieve consistent investment gains. In the meanwhile, we will focus on the opportunity from emerging market as Fed's shift to a prolonged pause in its interest-rate hiking cycle. As for recurring business, Fubon will strengthen credit policies and promote wealth management service to satisfy our customers. Also, cross-selling will be carried out via big data analysis to generate more business opportunities. Otherwise, Fubon has supported the The Financial Supervisory Commission (FSC)'s policy on renewable energy industry. For Green Finance Action Plan, Fubon Bank has issued NT\$1 billion of bank debenture in 2018. Regarding overseas markets, Fubon Bank (China) will continue its focus on China's market and take advantage of the newly opened Xian Branch in October 2018 and the newly approved Chongqing Branch in November. Fubon Bank (China) will also participate in the establishment of a retail banking company that specializes in booming online banking opportunities. Branches in Vietnam has successfully expanded service reach from corporate banking to retail banking, and the added diversity will better satisfy the immense demands of the local market. In the field of financial technology, Fubon has completed application for online-only banking license and is committed to incorporate new technologies and digital lifestyle for creating a better customer experience with more personalized and valuable interactions.

(2) Financial impact and responsive measures in the event of system failure

By conducting annual business impact analyses on key procedures and supporting systems/services, the Company is able to evaluate risks and quantify impacts in different aspects such as finance, legal, customer and operations. Based on the level of risk identified, the Company will make appropriate plans, designs and upgrades to its software environment, hardware equipment, and operating procedures so that any damages to the information system can be recovered quickly at minimal loss.

(3) Implementation of information security risk management framework, information security policies and management practices

Information security policies are approved by the board of directors and reviewed on a regular basis to ensure that they remain effective. These policies are also announced to employees as a show of the management's commitment and to serve as guidance for compliance. The Company has established a set of information security policies and procedures with defined areas of responsibility and approval authority to execute various controls. Through practices such as self-audit, internal review and external audit, the Company is able to enforce proper control to the protection of customers' information and rights. The financial holding company and subsidiaries have passed certification for ISO27001, and are subjected to independent external audit and review twice a year to ensure validity of the certification. The organization has an information security risk management framework in place that performs security risk evaluations semiannually for known and potential risks. Stakeholders' feedbacks and issues (from parties such as the authority, peers, industry association, suppliers, customers etc) are gathered and tracked, and analyzed for intensity and probability based on the source of risk and using relevant measurements. These issues are then compared with the level of risk tolerance and followed up continuously. For each risk category identified, Fubon proposes a practical solution and involves senior managers in the discussion to ensure timely resolution of known risks and early response to potential risks.

The Company has identified "data fraud or theft" and "cyber attack" as two emerging risks based on Global Risks Report 2018 prepared by World Economic Forum, and reported its responses and progress to the Risk Management Committee as follows: By adopting advanced persistent threat (APT) protection system, big data analysis, employee web-browsing behavior management system and e-mail data loss prevention system, the Company aims to detect and protect against external threats, and report and block abnormal behaviors to the reduction of "data fraud or theft" risks. As for "cyber attack" risk, the Company has implemented redundant network connections for key

business activities and adopted DDoS detection and cleaning mechanisms so that any detected cyber attacks can be blocked and cleaned in time. These practices are being rehearsed, monitored and analyzed regularly to ensure quick response should an attack occur.

7.7 Crisis response and handling

The Company has developed an effective crisis management mechanism that is comprised of a crisis management team, incident reporting and response procedures, and media communication process system. Should an incident occur, accountable department would notify the crisis management team immediately by the internal procedures. The crisis management team will then take charge to coordinate all departments concerned to respond and manage the crisis in an effective manner, and notify the competent authority accordingly. In addition, an authorized spokesperson will act in accordance with the Company's media communication policy, explain to the public timely of the rectification measures undertaken to assure the interests of customers and stabilization of the Company's operations.

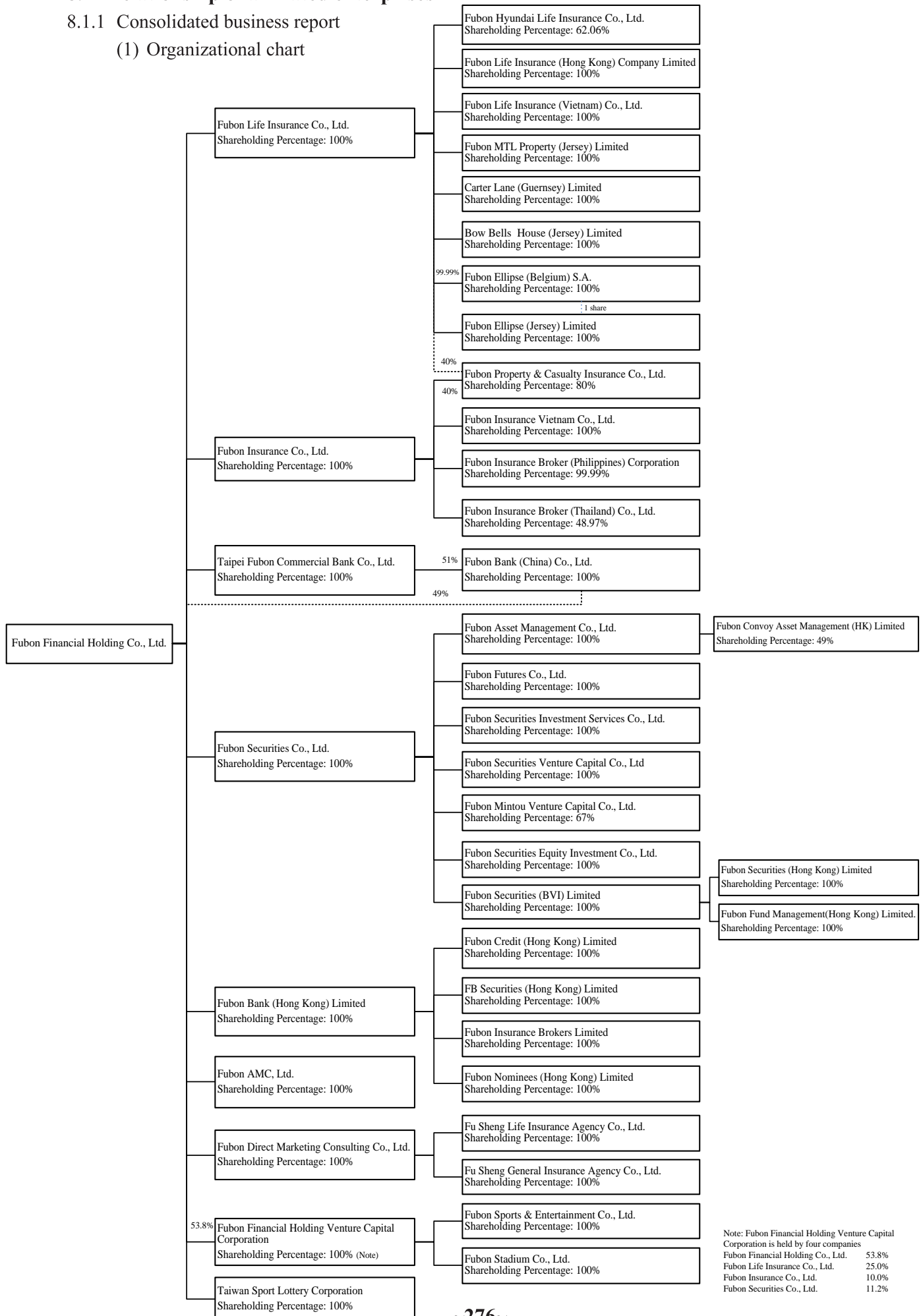
7.8 Other material issues: None

8. Special Disclosures

8.1 Relationship of affiliated enterprises

8.1.1 Consolidated business report

(1) Organizational chart



(2) Backgrounds of affiliated enterprises

February 28, 2019

Unit: NTD thousands, unless elsewhere specified

Name of Company	Established Date	Address	Paid in Capital	Main Business or Products
Fubon Financial Holding Co., Ltd.	2001/12/19	Address: No. 237, Section 1, Jianguo South Road, Taipei City	115,002,640	Finance Holding Business
Fubon Life Insurance Co., Ltd.	2006/03/01	14F, No. 108, Sec. 1, Dunhua S. Road, Taipei, Taiwan	110,831,140	Life Insurance Business
Fubon Hyundai Life Insurance Co., Ltd.	2003/04/17	57, Yeouinaru-ro, Yeongdeungpo-gu, Seoul, Korea	KRW 679,632,470,000	Life Insurance Business
Fubon Life Insurance (Hong Kong) Company Limited	2015/07/17	Suite 301-303, 3/F Cityplaza 4, 12 Taikoo Wan Road Taikoo Shing, Hong Kong	HKD 1,975,000,000	Life Insurance Business
Fubon Life Insurance (Vietnam) Co., Ltd.	2010/12/15	22F, Charmvit Tower, 117 Tran Duy Hung, Cau Giay District, Hanoi, Vietnam	VND 1,400,000,000,000	Life Insurance Business
Fubon MTL Property (Jersey) Limited	2015/08/05	Second Floor, No. 4 The Forum, Grenville Street St Helier Jersey JE2 4UF	GBP92,581,000	Purchase, hold, maintain, manage, operate and dispose real estate and real estate rights.
Carter Lane (Guernsey) Limited	2015/01/16	11 New Street St Peter Port GUERNSEY GY1 2PF	GBP41,514,743	Purchase, hold, maintain, manage, operate and dispose real estate and real estate rights.
Bow Bells House (Jersey) Limited	2015/01/22	4th Floor St Paul's Gate 22-24 New Street St Helier Jersey JE1 4TR	GBP46,172,931	Purchase, hold, maintain, manage, operate and dispose real estate and real estate rights.
Fubon Ellipse (Belgium) S.A.	2016/01/15	Havenlaan 86C, box 204 1000 Brussels, Belgium	EUR15,872,052	Purchase, hold, maintain, manage, operate and dispose real estate and real estate rights.

Name of Company	Established Date	Address	Paid in Capital	Main Business or Products
Fubon Ellipse (Jersey) Limited	2016/12/16	4th Floor St Paul's Gate 22-24 New Street St Helier Jersey JE1 4TR	EUR90,059	Hold 1 share of Fubon Ellipse (Belgium) S.A. in order to maintain the limited liabilities of Fubon Life Insurance Co., Ltd. as the shareholder of Fubon Ellipse (Belgium) S.A.
Taipei Fubon Commercial Bank Co., Ltd.	1969/04/21	1F, 2F, 3F, 5F, 8F, 12F, No.50, Sec. 2, Zhongshan N. Road, Taipei, Taiwan	106,518,023	Banking Business
Fubon Bank (China) Co., Ltd.	1997/03/20	Unit 101, 18F, 19F & 20F, Block A, No. 1168 Century Avenue, Pudong District, Shanghai City	RMB2,100,000,000	Banking Business
Fubon Insurance Co., Ltd.	2001/12/19	No. 237, Section 1, Jianguo South Road, Taipei City	3,178,396	Property Insurance Business
Fubon Property & Casualty Insurance Co., Ltd.	2010/10/08	20th Floor, No.68, Taidong Rd., (Building 18, Guanyinshan International Business Operation Center), Siming District, Xiamen	RMB1,120,000,000	Property Insurance Business
Fubon Insurance Vietnam Co., Ltd.	2008/07/01	15F, No.9 Doan Van Bo Street, District 4, HCM City, Vietnam	VND500,000,000,000	Property Insurance Business
Fubon Insurance Broker (Philippines) Corporation	2013/04/11	2F Pioneer House, 108 Paseo De Roxas, Makati City, Philippines	PHP20,000,000	Insurance Broker Business
Fubon Insurance Broker (Thailand) Co., Ltd.	2006/06/15	65/165 Chamnan Phenjati Business Center 20 FL Rama 9 Rd., Huaykwang Sub-District Huaykwang District Bangkok 10310	THB6,000,000	Insurance Broker Business
Fubon Securities Co., Ltd.	1988/07/11	15F, No. 169, Section 4, Renai Road, Taipei City	16,643,550	Securities Business
Fubon Asset Management Co., Ltd.	1992/09/18	8F, No. 108, Sec. 1, Dunhua S. Road, Taipei, Taiwan	2,303,445	Securities Investment Trust Enterprise
Fubon Convoy Asset Management (HK) Limited	2017/02/23	39/F, @CONVOY, 169 Electric Road, North Point, Hong Kong	HKD14,000,000	Asset management
Fubon Futures Co., Ltd.	1998/08/15	3F&3F-1&21F, No.9, Xiangyang Road, Taipei, Taiwan	1,400,000	Futures Business

Name of Company	Established Date	Address	Paid in Capital	Main Business or Products
Fubon Securities Investment Services Co., Ltd.	1987/04/14	10F, No. 108, Section 1, Dunhua South Road, Taipei City	300,000	Securities Investment Consulting Securities Business
Fubon Securities Venture Capital Co., Ltd.	2015/09/11	9F, No. 111, Section 1, Dunhua South Road, Da'an District, Taipei City	300,000	Venture Capital Business
Fubon Mintou Venture Capital Co., Ltd.	2017/05/26	10F, No. 108, Section 1, Dunhua South Road, Taipei City	200,000	Venture Capital Business
Fubon Securities Equity Investment Co., Ltd.	2016/06/06	05-X unit,8/F Building D, Xiamen International Shipping Center, No.97 Xiangyu Road Xiamen City, Fujian Province, China	RMB200,000,000	Venture Capital Business
Fubon Securities (BVI) Limited	1997/04/03	P.O. Box 957,Offshore Incorporations Centre,RoadTown,Tortola,British Virgin Islands	USD18,830,000	Investment Holdings
Fubon Securities (Hong Kong) Limited	2010/07/29	Unit B, 41F, @CONVOY, 169 Electric Road, North Point, Hong Kong	HKD283,177,853	Securities Business
Fubon Fund Management (Hong Kong) Limited	1979/12/4	Unit D, 19F, @CONVOY, 169 Electric Road, North Point, Hong Kong	HKD8,000,000	Fund Management
Fubon Bank (Hong Kong) Limited	1970/01/27	38 Des Voeux Road Central, Hong Kong	HKD4,830,448,010	Banking Business
Fubon Credit (Hong Kong) Limited	1977/07/05	38 Des Voeux Road Central, Hong Kong	HKD65,000,000	Deposit Taking
FB Securities (Hong Kong) Limited	1980/03/21	38 Des Voeux Road Central, Hong Kong	HKD8,000,000	Securities Brokering
Fubon Insurance Brokers Limited	1984/05/08	38 Des Voeux Road Central, Hong Kong	HKD100,000	Insurance Broker Services
Fubon Nominees (Hong Kong) Limited	1973/09/18	38 Des Voeux Road Central, Hong Kong	HKD200	Nominee Services
Fubon AMC, Ltd.	2004/08/17	4F, No. 50, Sec. 2, Zhongshan N. Road, Taipei, Taiwan	2,500,000	NPL Business and leasing Business

Name of Company	Established Date	Address	Paid in Capital	Main Business or Products
Fubon Direct Marketing Consulting Co., Ltd.	1997/08/18	17F, No. 9, Xiangyang Road, Taipei, Taiwan	145,000	Marketing Consultant Business
Fu Sheng Life Insurance Agency Co., Ltd.	2003/04/23	5F, No. 9, Xiangyang Road, Taipei, Taiwan	28,000	Life Insurance agency
Fu Sheng General Insurance Agency Co., Ltd.	2003/04/24	14F, No. 9, Xiangyang Road, Taipei, Taiwan	25,000	General Insurance agency
Fubon Financial Holding Venture Capital Corp.	2003/10/17	8F, No. 108, Sec. 1, Dunhua S. Road, Taipei, Taiwan	4,658,000	Venture Capital Business
Fubon Sports & Entertainment Co., Ltd.	2007/09/21	8F, No. 108, Sec. 1, Dunhua S. Road, Taipei, Taiwan	47,975	Sports & Entertainment
Fubon Stadium Co., Ltd.	2017/08/25	2F, No. 19, Lane 39, Bashi 1st Street, New Taipei City	50,000	Athletics and Recreational Sports Stadium
Taiwan Sport Lottery Corporation	2007/08/15	No. 50, Section 2, Zhongshan North Road, Taipei City	97,292	Public Welfare Lottery Agency Business

Affiliate enterprises' foreign currency amount is expressed in dollars.

(3) Common shareholders in controlling and controlled companies: None

(4) Performance of affiliated enterprises

December 31, 2018

Unit: NTD thousands, unless elsewhere specified

Name of Company	Common Stock	Total assets	Total liabilities	Net worth	Operating revenues	Operating profits	Net income (after-tax)	Earnings per share (NTD) (after-tax)
Fubon Financial Holding Co., Ltd.	115,002,640	547,734,488	88,491,138	459,243,350	54,009,820	55,288,305	47,728,856	4.52
Taipei Fubon Commercial Bank Co., Ltd.	106,518,023	2,394,935,312	2,209,049,289	185,886,023	41,404,706(Note)	21,712,928(Note)	18,618,650	1.75
Fubon Insurance Co., Ltd.	3,178,396	90,243,845	60,028,151	30,215,694	33,755,185	4,897,189	3,858,235	12.14
Fubon Securities Co., Ltd.	16,643,550	105,818,455	70,391,330	35,427,125	7,255,751	1,331,233	2,090,025	1.26
Fubon Life Insurance Co., Ltd.	110,831,140	3,894,480,444	3,693,621,343	200,859,101	638,034,108	23,406,205	24,929,906	2.25
Fubon Direct Marketing Consulting Co., Ltd.	145,000	364,438	17,743	346,695	2,272	(9,050)	115,890	7.99
Fubon Financial Holding Venture Capital Corp.	4,658,000	7,835,358	228,566	7,606,792	2,641,341	959,127	730,978	1.57
Fubon AMC, Ltd.	2,500,000	3,513,962	295,999	3,217,963	214,037	73,443	53,746	0.21
Taiwan Sport Lottery Corporation	97,292	97,510	47	97,463	0	(76)	85	0.01
Fubon Bank (Hong Kong) Limited	HKD4,830,448,010	HKD102,899,376,000	HKD88,999,127,000	HKD13,900,249,000	HKD1,700,544,000	HKD738,883,000	HKD1,868,810,000	HKD0.39
Fubon Bank (China) Co., Ltd.	RMB2,100,000,000	RMB70,792,979,292	RMB65,029,844,424	RMB5,763,134,868	RMB1,008,720,275	RMB217,684,026	RMB180,198,910	-
Fubon Insurance Vietnam Co., Ltd.	VND 500,000,000,000	VND1,144,427,666,113	VND657,636,882,451	VND486,790,783,662	VND200,021,651,160	VND36,938,811,601	VND37,656,812,741	-
Fubon Insurance Broker (Thailand) Co., Ltd.	THB 6,000,000	THB 52,939,274.52	THB 5,047,907.68	THB 47,891,366.84	THB 23,975,874.52	THB 11,124,309.60	THB 8,777,316.13	THB146.29
Fubon Insurance Broker (Philippine) Corporation	PHP 20,000,000	PHP 25,298,677	PHP 7,182,487	PHP 18,116,190	PHP 13,420,522	PHP 1,592,730	PHP917,157	PHP4.59
Fubon Property & Casualty Insurance Co., Ltd.	RMB 1,000,000,000	RMB 1,453,541,398	RMB 1,278,915,833	RMB 174,625,565	RMB 841,265,386	RMB(53,872,083)	RMB(55,930,956)	-
Fubon Life Insurance (Vietnam) Co., Ltd.	VND1,400,000,000,000	VND1,492,467,427,488	VND217,004,341,957	VND1,275,463,085,531	VND197,989,868,850	VND14,705,917,783	VND14,678,200,112	-
Carter Lane (Guernsey) Limited	GBP41,514,743	GBP139,369,903	GBP69,217,187	GBP70,152,716	GBP6,317,934	GBP3,161,748	GBP2,778,676	GBP0.07
Bow Bells House (Jersey) Ltd.	GBP46,172,931	GBP196,803,429	GBP149,387,981	GBP47,415,448	GBP11,288,121	GBP4,521,632	GBP4,164,772	GBP0.09
Fubon Life Insurance (Hong Kong) Company Limited	HKD1,275,000,000	HKD5,854,270,162	HKD5,171,745,196	HKD682,524,965	HKD1,571,433,113	HKD(133,212,800)	HKD(133,212,800)	HKD(0.12)
Fubon MTL Property (Jersey) Limited	GBP92,581,000	GBP377,280,061	GBP 255,159,170	GBP122,120,891	GBP39,683,006	GBP28,212,933	GBP27,306,286	GBP0.29
Fubon Ellipse (Belgium) S.A.	EUR15,872,052	EUR217,055,450	EUR140,844,094	EUR76,211,356	EUR6,875,376	EUR2,419,783	EUR1,676,691	EUR1.48
Fubon Ellipse (Jersey) Limited	EUR 90,059	EUR59,399	EUR17,955	EUR41,444	EUR7	EUR(22,953)	EUR(22,953)	EUR(0.25)
Fubon Hyundai Life Insurance Co., Ltd.	KRW679,632,470,000	KRW7,205,519,268,646	KRW16,496,741,495,154	KRW708,777,773,492	KRW1,267,420,644,136	KRW64,577,006,839	KRW59,175,677,468	KRW 634.45
Fubon Asset Management Co., Ltd.	2,303,445	3,439,034	297,841	3,141,193	1,018,825	363,295	200,114	0.87
Fubon Futures Co., Ltd.	1,400,000	19,251,851	17,304,433	1,947,418	841,645	(101,568)	73,424	0.52
Fubon Securities Investment Services Co., Ltd.	300,000	384,012	71,463	312,549	153,967	5,842	5,660	0.19

Name of Company	Common Stock	Total assets	Total liabilities	Net worth	Operating revenues	Operating profits	Net income (after-tax)	Earnings per share (NTD) (after-tax)
Fubon Securities (BVI) Limited	USD18,830,000	USD\$4,398,012	USD0	USD\$4,398,012	USD0	USD\$(305,742)	USD\$(305,742)	USD(0.02)
Fubon Securities (Hong Kong) Limited	HKD156,386,000	HKD\$224,733,443	HKD\$159,735,813	HKD\$64,997,630	HKD\$10,996,280	HKD(10,554,989)	HKD(10,554,989)	HKD(0.10)
Fubon Securities Venture Capital Co., Ltd.	300,000	312,528	1,853	310,675	17,315	10,834	9,875	0.33
Fubon Securities Equity Investment Co., Ltd.	RMB200,000,000	RMB\$199,706,397	RMB\$660,634	RMB\$199,045,763	RMB\$(579)	RMB\$5,272,521	RMB\$10,375,203	RMB -
Fubon Mintou Venture Capital Co., Ltd.	200,000	203,208	680	202,528	4,539	2,640	3,312	0.17
Fubon Convoy Asset Management (HK) Limited	HKD14,000,000	HKD 3,862,869	HKD 819,008	HKD 3,043,861	HKD 380.736	HKD (6,717,060)	HKD (6,343,811)	HKD -
Fu Sheng life Insurance Agency Co., Ltd.	28,000	127,340	55,437	71,903	279,840	33,863	27,457	9.81
Fu Sheng General Insurance Agency Co., Ltd.	25,000	215,098	67,367	147,731	364,031	112,037	90,496	36.20
Fubon Sports & Entertainment Co., Ltd.	47,975	431,744	368,646	63,098	549,204	44,347	40,210	8.38
Fubon Stadium Co., Ltd.	50,000	215,044	155,696	59,348	61,619	12,658	9,784	1.96
Fubon Credit (Hong Kong) Limited	HKD65,000,000	HKD97,000,000	HKD5,831,000	HKD91,169,000	HKD280,000	HKD1,024,000	HKD855,000	HKD0.01
Fubon Securities (Hong Kong) Limited	HKD8,000,000	HKD172,289,000	HKD68,332,000	HKD103,957,000	HKD47,816,000	HKD41,658,000	HKD34,789,000	HKD4.35
FB Investment Management Limited	HKD8,000,000	HKD11,135,326	HKD2,491,156	HKD8,644,170	HKD966,233	HKD643,656	HKD643,656	HKD0.08
Fubon Nominees (Hong Kong) Ltd.	HKD200	HKD4,081,304	HKD3,936,978	HKD144,326	HKD2	HKD(1,727)	HKD(1,727)	HKD(8.64)
Fubon Insurance Brokers Limited	HKD100,000	HKD3,219,441	HKD1,690,369	HKD1,529,072	HKD3,808,391	HKD182,078	HKD182,078	HKD1.82

Note: According to the Regulations Governing the Preparation of Financial Reports by Public Banks, Taipei Fubon Bank disclosed the information of net revenues and income before income tax, instead of operating revenue and operating profits.

(5) Backgrounds of directors, supervisors and presidents of affiliated enterprises: as of the publication date of annual report.

Unit: shares, \$; %

Name of Company	Title	Name or Representative	Name or Representative	
			Number of shares/ contributed capital	Shareholding / investment percentage
Fubon Financial Holding Co., Ltd.	Chairman	Richard M. Tsai (Representative of Ming Dong Co., Ltd.)	864,774,989 share	8.45%
	Director	Daniel M. Tsai (Representative of Ming Dong Co., Ltd.)	864,774,989 share	8.45%
	Director	Eric Chen (Representative of Ming Dong Co., Ltd.)	864,774,989 share	8.45%
	Director	Howard Lin (Representative of Ming Dong Co., Ltd.)	864,774,989 share	8.45%
	Director	Jerry Harn (Representative of Ming Dong Co., Ltd.)	864,774,989 share	8.45%
	Director	Steve T.H. Chen (Representative of Ming Dong Co., Ltd.)	864,774,989 share	8.45%
	Director	Jia-Jen Chen (Representative of Taipei City Government)	1,341,479,793 share	13.11%
	Director	Hsiu-Hui Yuan (Representative of Taipei City Government)	1,341,479,793 share	13.11%
	Director	Hsiu-Chu Liang (Representative of Taipei City Government)	1,341,479,793 share	13.11%
	Independent Director	Ming-Je Tang	472 share	0.00%
	Independent Director	Chi-Yan Louis Cheung	-	-
	Independent Director	Shin-Min Chen	-	-
	Independent Director	Chan-Jane Lin	-	-
	Independent Director	Jung-Feng Chang	-	-
	Independent Director	Fan-Chih Wu	-	-
	President	Jerry Harn	2,430,288 share	0.02%
Fubon Life Insurance Co., Ltd.	Chairman	Richard M. Tsai (Representative of Fubon Financial Holding Co., Ltd.)	11,083,11 4,000 share	100%
	Vice Chairman	Howard Lin (Representative of Fubon Financial Holding Co., Ltd.)	11,083,11 4,000 share	100%
	Director	Oliver Cheng (Representative of Fubon Financial Holding Co., Ltd.)	11,083,11 4,000 share	100%
	Director	Chun-Pan Chen (Representative of Fubon Financial Holding Co., Ltd.)	11,083,11 4,000 share	100%

Name of Company	Title	Name or Representative	Name or Representative	
			Number of shares/ contributed capital	Shareholding / investment percentage
	Director	Tsai-Ling Chao (Representative of Fubon Financial Holding Co., Ltd.)	11,083,11 4,000 share	100%
	Independent Director	Jung-Feng Chang (Representative of Fubon Financial Holding Co., Ltd.)	11,083,11 4,000 share	100%
	Independent Director	Chan-Jane Lin (Representative of Fubon Financial Holding Co., Ltd.)	11,083,11 4,000 share	100%
	Independent Director	Chung-Chie Chou (Representative of Fubon Financial Holding Co., Ltd.)	11,083,11 4,000 share	100%
	Independent Director	Andrew Lin (Representative of Fubon Financial Holding Co., Ltd.)	11,083,11 4,000 share	100%
	Supervisor	Shih-Tsun Huang (Representative of Fubon Financial Holding Co., Ltd.)	11,083,11 4,000 share	100%
	Supervisor	Shih-Pin Chen (Representative of Fubon Financial Holding Co., Ltd.)	11,083,11 4,000 share	100%
	President	Chun-Pan Chen	-	-
Fubon Hyundai Life Insurance Co., Ltd.	Chairman	In Sub Yoon	-	-
	Director	Chun-Pan Chen	-	-
	President	Jae Won Lee	-	-
	Director	Byeong Ku Jeon	-	-
	Director	Hyun Joo Kim	-	-
	Outside Director	Robert John Wylie	-	-
	Outside Director	Jung Hoe Kim	-	-
	Outside Director	Won Jong Sang	-	-
	Outside Director	Che-Hung Chen	-	-
	Outside Director	Tsung-Ming Chung	-	-
	Outside Director	Kang Tsai	-	-
Fubon Life Insurance (Hong Kong) Company Limited	Chairman	Chun-Pan Chen (Representative of Fubon Life Insurance Co., Ltd.)	1,975,000,000 share	100%
	Director	Tsai-Ling Tung (Representative of Fubon Life Insurance Co., Ltd.)	1,975,000,000 share	100%
	Director	Raymond Wing Hung Lee	-	-
	Independent Director	Rory McLaughlin Carson	-	-
	Independent Director	Hung Shih	-	-
	President	Tzu-Wei Chou	-	-
Fubon Life Insurance (Vietnam) Co., Ltd.	Chairman	Chun-Pan Chen (Representative of Fubon Life Insurance Co., Ltd.)	VND1,400,000,000,000	100%

Name of Company	Title	Name or Representative	Name or Representative	
			Number of shares/ contributed capital	Shareholding / investment percentage
	Director	Tsai-Ling Tung (Representative of Fubon Life Insurance Co., Ltd.)	VND1,400,000,000,000	100%
	Director	Chih-Chun Chou (Representative of Fubon Life Insurance Co., Ltd.))	VND1,400,000,000,000	100%
	Director	Ming -Yen Chiang (Representative of Fubon Life Insurance Co., Ltd.)	VND1,400,000,000,000	100%
	Supervisor	Ming-Hua Wang (Representative of Fubon Life Insurance Co., Ltd.)	VND1,400,000,000,000	100%
	President	Ming -Yen Chiang	-	-
Fubon MTL Property (Jersey) Limited Ltd.	Director	Chun-Ju Lin (Representative of Fubon Life Insurance Co., Ltd.)	92,581,000 share	100%
	Director	Kuan-Ning Kao (Representative of Fubon Life Insurance Co., Ltd.)	92,581,000 share	100%
	Director	Jennifer Ann Ekedahl (Representative of Fubon Life Insurance Co., Ltd.)	92,581,000 share	100%
	Director	Charles Millard-Beer (Representative of Fubon Life Insurance Co., Ltd.)	92,581,000 share	100%
	Director	Maria Renault (Representative of Fubon Life Insurance Co., Ltd.)	92,581,000 share	100%
Carter Lane (Guernsey) Limited	Director	Chun-Ju Lin (Representative of Fubon Life Insurance Co., Ltd.)	41,514,743 share	100%
	Director	Cherng-Ru Tsai (Representative of Fubon Life Insurance Co., Ltd.)	41,514,743 share	100%
	Director	Anna Charlotte Mary Cayzer (Representative of Fubon Life Insurance Co., Ltd.)	41,514,743 share	100%
	Director	Deeya Jugurnauth (Representative of Fubon Life Insurance Co., Ltd.)	41,514,743 share	100%
	Director	Sunil Masson (Representative of Fubon Life Insurance Co., Ltd.)	41,514,743 share	100%
Bow Bells House (Jersey) Limited	Director	Chun-Ju Lin (Representative of Fubon Life Insurance Co., Ltd.)	46,172,931 share	100%
	Director	Cherng-Ru Tsai (Representative of Fubon Life Insurance Co., Ltd.)	46,172,931 share	100%
	Director	Paul Antony Le Marquand (Representative of Fubon Life Insurance Co., Ltd.)	46,172,931 share	100%
	Director	Timothy Harry Hutchins (Representative of Fubon Life Insurance Co., Ltd.)	46,172,931 share	100%

Name of Company	Title	Name or Representative	Name or Representative	
			Number of shares/ contributed capital	Shareholding / investment percentage
	Director	Marc Walter Harris (Representative of Fubon Life Insurance Co., Ltd.)	46,172,931 share	100%
Fubon Ellipse (Belgium) S.A.	Director	Cherng-Ru Tsai (Representative of Fubon Life Insurance Co., Ltd.)	1,133,717 share	99.9999%
	Director	Chun-Ju Lin (Representative of Fubon Life Insurance Co., Ltd.)	1,133,717 share	99.9999%
	Director	Mathieu Loquet (Representative of Fubon Life Insurance Co., Ltd.)	1,133,717 share	99.9999%
	Director	Gitte de Brabander (Representative of Fubon Life Insurance Co., Ltd.)	1,133,717 share	99.9999%
	Director	Olga Ossotchenko (Representative of Fubon Life Insurance Co., Ltd.)	1,133,717 share	99.9999%
Fubon Ellipse (Jersey) Limited	Director	Cherng-Ru Tsai (Representative of Fubon Life Insurance Co., Ltd.)	90,059 share	100%
	Director	Chun-Ju Lin (Representative of Fubon Life Insurance Co., Ltd.)	90,059 share	100%
	Director	Paul Antony Le Marquand (Representative of Fubon Life Insurance Co., Ltd.)	90,059 share	100%
	Director	Marc Walter Harris (Representative of Fubon Life Insurance Co., Ltd.)	90,059 share	100%
	Director	Timothy Harry Hutchins (Representative of Fubon Life Insurance Co., Ltd.)	90,059 share	100%
Taipei Fubon Commercial Bank Co., Ltd.	Chairman	Eric Chen (Representative of Fubon Financial Holding Co., Ltd.)	10,651,802,268 share	100%
	Standing Director	Daniel M. Tsai (Representative of Fubon Financial Holding Co., Ltd.)	10,651,802,268 share	100%
	Standing Director	Roman Cheng (Representative of Fubon Financial Holding Co., Ltd.)	10,651,802,268 share	100%
	Standing and Independent Director	Fan-Chih Wu (Representative of Fubon Financial Holding Co., Ltd.)	10,651,802,268 share	100%
	Standing and Independent Director	Cheng-Chuan Fan (Representative of Fubon Financial Holding Co., Ltd.)	10,651,802,268 share	100%
	Director	Hsiu-Hui Yuan (Representative of Fubon Financial Holding Co., Ltd.)	10,651,802,268 share	100%
	Director	Jerry Harn (Representative of Fubon Financial Holding Co., Ltd.)	10,651,802,268 share	100%
	Director	Patrick Chang (Representative of Fubon Financial Holding Co., Ltd.)	10,651,802,268 share	100%

Name of Company	Title	Name or Representative	Name or Representative	
			Number of shares/ contributed capital	Shareholding / investment percentage
	Director	En-Kuang Chen (Representative of Fubon Financial Holding Co., Ltd.)	10,651,802,268 share	100%
	Director	Tim Kuo (Representative of Fubon Financial Holding Co., Ltd.)	10,651,802,268 share	100%
	Director	Sheila Chuang (Representative of Fubon Financial Holding Co., Ltd.)	10,651,802,268 share	100%
	Director	Eric Wu (Representative of Fubon Financial Holding Co., Ltd.)	10,651,802,268 share	100%
	Independent Director	Terry King (Representative of Fubon Financial Holding Co., Ltd.)	10,651,802,268 share	100%
	Independent Director	Ming-Ren Chien (Representative of Fubon Financial Holding Co., Ltd.)	10,651,802,268 share	100%
	Independent Director	Yuan-Chi Chao (Representative of Fubon Financial Holding Co., Ltd.)	10,651,802,268 share	100%
	Supervisor	Tsan-Ming Shih (Representative of Fubon Financial Holding Co., Ltd.)	10,651,802,268 share	100%
	Supervisor	Thomas Liang (Representative of Fubon Financial Holding Co., Ltd.)	10,651,802,268 share	100%
	Supervisor	Kun-San Lin (Representative of Fubon Financial Holding Co., Ltd.)	10,651,802,268 share	100%
	President	Roman Cheng	-	-
Fubon Bank (China) Co., Ltd.	Chairman	Pei-Li Hong (Representative of Taipei Fubon Commercial Bank Co., Ltd.)	RMB1,071,000,000	51.00%
	Vice Chairman	Dennis W. Chan (Representative of Taipei Fubon Commercial Bank Co., Ltd.)	RMB1,071,000,000	51.00%
	Director	Roman Cheng (Representative of Taipei Fubon Commercial Bank Co., Ltd.)	RMB1,071,000,000	51.00%
	Director	Feng Chen (Representative of Taipei Fubon Commercial Bank Co., Ltd.)	RMB1,071,000,000	51.00%
	Director	Daniel M. Tsai (Representative of Fubon Financial Holding Co., Ltd.)	RMB1,029,000,000	49.00%
	Director	Eric Chen (Representative of Fubon Financial Holding Co., Ltd.)	RMB1,029,000,000	49.00%
	Director	Jerry Harn (Representative of Fubon Financial Holding Co., Ltd.)	RMB1,029,000,000	49.00%
	Independent Director	Chang-Pang Chang (Representative of Taipei Fubon Commercial Bank Co., Ltd.)	RMB1,071,000,000	51.00%

	VP	Responsible Investment Trends of the International Banking Industry - 2018	3
		Trends of Financial Supervision and Technology	3
		Financial Holding Company Compliance Training	7
		AML On-job Training	1
Chung-Ping Liu	Senior Executive VP	AML and CTF Training	3
		Financial Holding Company Compliance Training	22.5
Joyce Chen	Senior Executive VP	Financial Holding Company Compliance Training	1.5
Wen-Cheng Yeh	Executive VP	Cloud tools and security protection	3
		Financial Holding Company Compliance Training	1.5
Sophia Wang	Executive VP	Trends of Financial Supervision and Technology	3
		Financial Holding Company Compliance Training	2
Wen-Yen Chen	Executive VP	Information Security Trends	3
		Compliance Personnel On-job Workshop	15
Wei-Ching Yang	Executive VP	On-job Workshop for AML/CTF Personnel	12
		Financial Holding Company Compliance Training	4.5
Wei Lo	Executive VP	AML/CTF Seminar	1.5
		Financial Holding Company Compliance Training	5.5
		Cloud tools and security protection	3
Po-Wen Chen	Senior VP	Information Security Trends	3
		Compliance Personnel On-job Workshop	15
		Financial Holding Company Compliance Training	3.5
		AML On-job Training	1

5.12.5 Actual or estimated losses arising as a result of employment dispute in the last year up to the publication date of this annual report, and any response measures taken: The Company has always maintained harmonic employment relations and no major employment dispute has arisen.

5.12.6 Work environment and employees' safety

The following measures have been taken to assure employees a healthy, safe and comfortable working environment, as part of the Company's corporate social responsibilities:

- (1) An "Occupational Safety & Health Committee" comprising department heads, workers' representatives, and employee health and safety officers has been assembled. The committee holds regular meetings to devise policies that minimize risk and ensure the safety of the workplace, thereby reducing damages and losses due to occupational hazards.

Name of Company	Title	Name or Representative	Name or Representative	
			Number of shares/ contributed capital	Shareholding / investment percentage
	Independent Director	Ming-Lai Zhu (Representative of Fubon Life Insurance Co., Ltd.)	RMB400,000,000	40%
	Supervisor	Biing-Hwa Liu (Representative of Fubon Life Insurance Co., Ltd.)	RMB400,000,000	40%
	Supervisor	Ming-Yen Wu (Labor representative of Fubon Property and Casualty Insurance Co., Ltd.)	-	-
	Supervisor	Gui-xian Zhang (Representative of Xiamen International Port)	RMB200,000,000	20%
	President	Chin-Chuan Hsu	-	-
Fubon Insurance Vietnam Co., Ltd.	Chairman	Ben Chen (Representative of Fubon Insurance Co., Ltd.)	VND500,000,000	100%
	Director	Chin-Sui Lin (Representative of Fubon Insurance Co., Ltd.)	VND500,000,000	100%
	Director	Cheng-Chiu Chen (Representative of Fubon Insurance Co., Ltd.)	VND500,000,000	100%
	Supervisor	Chien-Ming Lo (Representative of Fubon Insurance Co., Ltd.)	VND500,000,000	100%
	President	Cheng-Chiu Chen	-	-
Fubon Insurance Broker (Philippines) Co., Ltd.	Chairman	Shun-Chih Yen	1 share	0.0005%
	Director	Hong-Ming Chen	1 share	0.0005%
	Director	Ping-Liang Yang	1 share	0.0005%
	Director	Evelyn Tan Uy	2 share	0.001%
	Director	Jay Nacorda	1 share	0.0005%
	President	Hong-Ming Chen	-	-
Fubon Insurance Broker (Thailand) Co., Ltd.	Director	Ming-Kai Wu	16 share	0.0267%
	Director	Wallaya Wan	-	-
	Director	Chalisa Charelisar	-	-
	Director	Somphan Auangkaew	-	-
	Supervisor	Shun-Chih Yen	-	-
	Managing Director	Ming-Kai Wu	-	-
Fubon Securities Co., Ltd.	Chairman	Gang Shyy (Representative of Fubon Financial Holding Co., Ltd.)	1,664,355,000 share	100%
	Director	Ming-Chien Cheng (Representative of Fubon Financial Holding Co., Ltd.)	1,664,355,000 share	100%
	Director	Hoang-Ting Kuo (Representative of Fubon Financial Holding Co., Ltd.)	1 664,355,000 share	100%
	Director	Ko-Ho Chen (Representative of Fubon Financial Holding Co., Ltd.)	1,664,355,000 share	100%
	Director	Chun-Min Wu (Representative of Fubon Financial Holding Co., Ltd.)	1,664,355,000 share	100%

Name of Company	Title	Name or Representative	Name or Representative	
			Number of shares/ contributed capital	Shareholding / investment percentage
	Independent Director	Rong-I Wu (Representative of Fubon Financial Holding Co., Ltd.)	1,664,355,000 share	100%
	Independent Director	Shin-Min Chen (Representative of Fubon Financial Holding Co., Ltd.)	1,664,355,000 share	100%
	Supervisor	Chi-Nan Cheng (Representative of Fubon Financial Holding Co., Ltd.)	1,664,355,000 share	100%
	Supervisor	Thomas Liang (Representative of Fubon Financial Holding Co., Ltd.)	1,664,355,000 share	100%
	President	Ming-Chien Cheng	-	-
Fubon Asset Management Co., Ltd.	Chairman	Philip Hu (Representative of Fubon Securities Co., Ltd.)	230,344,506 share	100%
	Director	Ming M. C. Lee (Representative of Fubon Securities Co., Ltd.)	230,344,506 share	100%
	Director	Steve T.H. Chen (Representative of Fubon Securities Co., Ltd.)	230,344,506 share	100%
	Director	Howard Lin (Representative of Fubon Securities Co., Ltd.)	230,344,506 share	100%
	Director	June-Hong Yang (Representative of Fubon Securities Co., Ltd.)	230,344,506 share	100%
	Supervisor	Pao-Lin Ma (Representative of Fubon Securities Co., Ltd.)	230,344,506 share	100%
	Supervisor	Oliver Cheng (Representative of Fubon Securities Co., Ltd.)	230,344,506 share	100%
	President	Ming M. C. Lee	-	-
Fubon Convoy Asset Management (HK) Limited	Chairman	Philip Hu (Representative of Fubon Asset Management Co. Ltd)	HKD 6,860,000	49.00%
	Director	Chen Johnny (Representative of Convoy Asset Management Co. Ltd)	HKD 7,140,000	51.00%
Fubon Futures Co., Ltd.	Chairman	June-Hong Yang (Representative of Fubon Securities Co., Ltd.)	140,000,000 share	100%
	Director	Gang Shyy (Representative of Fubon Securities Co., Ltd.)	140,000,000 share	100%
	Director	Ming-Chien Cheng (Representative of Fubon Securities Co., Ltd.)	140,000,000 share	100%
	Director	Hoang-Ting Kuo (Representative of Fubon Securities Co., Ltd.)	140,000,000 share	100%
	Director	Ya-Fei Chang (Representative of Fubon Securities Co., Ltd.)	140,000,000 share	100%
	Supervisor	Ko-Ho Chen (Representative of Fubon Securities Co., Ltd.)	140,000,000 share	100%
	President	Ya-Fei Chang	-	-

Name of Company	Title	Name or Representative	Name or Representative	
			Number of shares/ contributed capital	Shareholding / investment percentage
Fubon Securities Investment Services Co., Ltd.	Chairman	Chien-Hsiang Shiao (Representative of Fubon Securities Co., Ltd.)	30,000,000 share	100%
	Director	Wei Lo (Representative of Fubon Securities Co., Ltd.)	30,000,000 share	100%
	Director	Ting-Kuo Chen (Representative of Fubon Securities Co., Ltd.)	30,000,000 share	100%
	Supervisor	Ya-Fei Chang (Representative of Fubon Securities Co., Ltd.)	30,000,000 share	100%
	President	Ting-Kuo Chen	-	-
Fubon Mintou Venture Capital Co., Ltd.	Chairman	Gang Shyy (Representative of Fubon Securities Co., Ltd.)	13,400,000 share	67%
	Director	Ming-Chien Cheng (Representative of Fubon Securities Co., Ltd.)	13,400,000 share	67%
	Director	Huei Lo (Representative of Taiwan Mintou Co., Ltd.)	6,600,000 share	33%
	Supervisor	Ko-Ho Chen	-	-
	President	Ming-Chien Cheng	-	-
Fubon Securities Venture Capital Co., Ltd.	Chairman	Gang Shyy (Representative of Fubon Securities Co., Ltd.)	30,000,000 share	100%
	Director	Ming-Chien Cheng (Representative of Fubon Securities Co., Ltd.)	30,000,000 share	100%
	Director	Ko-Ho Chen (Representative of Fubon Securities Co., Ltd.)	30,000,000 share	100%
	Director	Chun-Min Wu (Representative of Fubon Securities Co., Ltd.)	30,000,000 share	100%
	Director	Hoang-Ting Kuo (Representative of Fubon Securities Co., Ltd.)	30,000,000 share	100%
	Supervisor	Sheng-Pin Lin (Representative of Fubon Securities Co., Ltd.)	30,000,000 share	100%
	President	Ming-Chien Cheng	-	-
Fubon Securities (BVI) Limited	Director	Gang Shyy (Representative of Fubon Securities Co., Ltd.)	35,045,865.6 share	100%
	Director	Ming-Chien Cheng (Representative of Fubon Securities Co., Ltd.)	35,045,865.6 share	100%
	Director	Ching-Ching Chao (Representative of Fubon Securities Co., Ltd.)	35,045,865.6 share	100%
	Director	June-Hong Yang (Representative of Fubon Securities Co., Ltd.)	35,045,865.6 share	100%
	Director	Ko-Ho Chen (Representative of Fubon Securities Co., Ltd.)	35,045,865.6 share	100%
Fubon Securities	Chairman	Gang Shyy (Representative of Fubon Securities (BVI) Ltd.)	283,177,853 share	100%

Name of Company	Title	Name or Representative	Name or Representative	
			Number of shares/ contributed capital	Shareholding / investment percentage
(Hong Kong) Limited	Director	Ming-Chien Cheng (Representative of Fubon Securities (BVI) Ltd.)	283,177,853 share	100%
	Director	June-Hong Yang (Representative of Fubon Securities (BVI) Ltd.)	283,177,853 share	100%
	Director	Huang-Ting Kuo (Representative of Fubon Securities (BVI) Ltd.)	283,177,853 share	100%
	Director	Ko-Ho Chen (Representative of Fubon Securities (BVI) Ltd.)	283,177,853 share	100%
	Director	Wen-Chun Peng (Representative of Fubon Securities (BVI) Ltd.)	283,177,853 share	100%
	Director	Chun-Wang Chien (Representative of Fubon Securities (BVI) Ltd.)	283,177,853 share	100%
	President	Wen-Chun Peng	-	-
Fubon Fund Management (Hong Kong) Limited	Chairman	Gang Shyy (Representative of Fubon Securities (BVI) Ltd.)	80,000 share	100%
	Director	Ming-Chien Cheng (Representative of Fubon Securities (BVI) Ltd.)	80,000 share	100%
	Director	Philip Hu (Representative of Fubon Securities (BVI) Ltd.)	80,000 share	100%
	Director	Ko-Ho Chen (Representative of Fubon Securities (BVI) Ltd.)	80,000 share	100%
	Director	Fong Chun Ng (Representative of Fubon Securities (BVI) Ltd.)	80,000 share	100%
	Director	Yue Yuen Chan (Representative of Fubon Securities (BVI) Ltd.)	80,000 share	100%
	President	Fong Chun Ng		
Fubon Securities Equity Investment Co., Ltd.	Chairman	Gang Shyy (Representative of Fubon Securities Co., Ltd.)	RMB200,000,000	100%
	Director	Tun-Yuan Lin (Representative of Fubon Securities Co., Ltd.)	RMB200,000,000	100%
	Director	Chun-Min Wu (Representative of Fubon Securities Co., Ltd.)	RMB200,000,000	100%
	Supervisor	Ko-Ho Chen (Representative of Fubon Securities Co., Ltd.)	RMB200,000,000	100%
	President	Tun-Yuan Lin	-	-
Fubon Bank (Hong Kong) Limited	Chairman	Daniel M. Tsai (Representative of Fubon Financial Holding Co., Ltd.)	1,641,273,089 share	100%
	Vice Chairman	Richard M. Tsai (Representative of Fubon Financial Holding Co., Ltd.)	1,641,273,089 share	100%
	Executive Director (Managing Director)	Raymond Wing Hung Lee	-	-

Name of Company	Title	Name or Representative	Name or Representative	
			Number of shares/ contributed capital	Shareholding / investment percentage
	Non-Executive Director	Eric Chen (Representative of Fubon Financial Holding Co., Ltd.)	1,641,273,089 share	100%
	Non-Executive Director	Jerry Harn (Representative of Fubon Financial Holding Co., Ltd.)	1,641,273,089 share	100%
	Non-Executive Director	Roman Cheng (Representative of Fubon Financial Holding Co., Ltd.)	1,641,273,089 share	100%
	Independent Non-Executive Director	Robert James Kenrick	-	-
	Independent Non-Executive Director	Peter Pang Sing Tong	-	-
	Independent Non-Executive Director	Hung Shih	-	-
	Chief Executive Officer	Raymond Wing Hung Lee	-	-
Fubon Credit (Hong Kong) Limited	Director	Wang Hao Jen, Henry (Representative of Fubon Bank (Hong Kong) Limited)	65,000,000 share	100%
	Director	Chan Tin Ching, Patrick (Representative of Fubon Bank (Hong Kong) Limited)	65,000,000 share	100%
	Chief Executive Officer	Wang Hao Jen, Henry	-	-
FB Securities (Hong Kong) Limited	Director	Yip Ka Man, Carmen (Representative of Fubon Bank (Hong Kong) Limited)	8,000,000 share	100%
	Director	Wang Hao Jen, Henry (Representative of Fubon Bank (Hong Kong) Limited)	8,000,000 share	100%
	Director	Cheung Yue Kiu, Fabian (Representative of Fubon Bank (Hong Kong) Limited)	8,000,000 share	100%
	Director	Ng Yin Tsang, Tony (Representative of Fubon Bank (Hong Kong) Limited)	8,000,000 share	100%
Fubon Insurance Brokers Limited	Director	Yip Ka Man, Carmen (Representative of Fubon Bank (Hong Kong) Limited)	100,000 share	100%
	Director	Ha Yiu Fai, Dennis (Representative of Fubon Bank (Hong Kong) Limited)	100,000 share	100%

Name of Company	Title	Name or Representative	Name or Representative	
			Number of shares/ contributed capital	Shareholding / investment percentage
Fubon Nominees (Hong Kong) Limited	Director	Wang Hao Jen, Henry (Representative of Fubon Bank (Hong Kong) Limited)	2 share	100%
	Director	Ha Yiu Fai, Dennis (Representative of Fubon Bank (Hong Kong) Limited)	2 share	100%
Fubon AMC, Ltd.	Chairman	Roman Cheng (Representative of Fubon Financial Holding Co., Ltd)	250,000,000 share	100%
	Director	Colin Chen (Representative of Fubon Financial Holding Co., Ltd)	250,000,000 share	100%
	Director	Wenshing Hung (Representative of Fubon Financial Holding Co., Ltd.)	250,000,000 share	100%
	Director	Gang Shyy (Representative of Fubon Financial Holding Co., Ltd.)	250,000,000 share	100%
	Supervisor	Eric Wu (Representative of Fubon Financial Holding Co., Ltd.)	250,000,000 share	100%
	President	Wenshing Hung	-	-
Fubon Direct Marketing Consulting Co., Ltd.	Chairman	Jerry Harn (Representative of Fubon Financial Holding Co., Ltd.)	14,500,000 share	100%
	Director	Wen-Cheng Yeh (Representative of Fubon Financial Holding Co., Ltd.)	14,500,000 share	100%
	Director	Oliver Cheng (Representative of Fubon Financial Holding Co., Ltd.)	14,500,000 share	100%
	Director	Tim Kuo (Representative of Fubon Financial Holding Co., Ltd.)	14,500,000 share	100%
	Director	Steve T.H. Chen (Representative of Fubon Financial Holding Co., Ltd.)	14,500,000 share	100%
	Supervisor	Tsan-Ming Shih (Representative of Fubon Financial Holding Co., Ltd.)	14,500,000 share	100%
	Supervisor	Thomas Chen (Representative of Fubon Financial Holding Co., Ltd.)	14,500,000 share	100%
	President	Wen-Cheng Yeh	-	-
Fu Sheng Life Insurance Agency Co., Ltd.	Chairman	Yun-Ching Chou (Representative of Fubon Direct Marketing Consulting Co., Ltd.)	2,800,000 share	100%
	Director	Lily Fang (Representative of Fubon Direct Marketing Consulting Co., Ltd.)	2,800,000 share	100%
	Director	Tim Kuo (Representative of Fubon Direct Marketing Consulting Co., Ltd.)	2,800,000 share	100%
	Supervisor	Ming-Chien Cheng (Representative of Fubon Direct Marketing	2,800,000 share	100%

Name of Company	Title	Name or Representative	Name or Representative	
			Number of shares/ contributed capital	Shareholding / investment percentage
		Consulting Co., Ltd.)		
	President	Lily Fang	-	-
Fu Sheng General Insurance Agency Co., Ltd.	Chairman	Chi-Nan Cheng (Representative of Fubon Direct Marketing Consulting Co., Ltd.)	2,500,000 share	100%
	Director	Eric Wu (Representative of Fubon Direct Marketing Consulting Co., Ltd.)	2,500,000 share	100%
	Director	Hong-Yu Tsao (Representative of Fubon Direct Marketing Co., Ltd.)	2,500,000 share	100%
	Supervisor	C.F. Lin (Representative of Fubon Direct Marketing Consulting Co., Ltd.)	2,500,000 share	100%
	President	Hong -Yu Tsao	-	-
Fubon Financial Holding Venture Capital Corp.	Chairman	Pao-Lin Ma (Representative of Fubon Financial Holding Co., Ltd.)	250,580,000 share	53.80%
	Director	Daniel M. Tsai (Representative of Fubon Financial Holding Co., Ltd.)	250,580,000 share	53.80%
	Director	Cherng-Ru Tsai (Representative of Fubon Financial Holding Co., Ltd.)	250,580,000 share	53.80%
	Director	Hsing-Hao Hsu (Representative of Fubon Financial Holding Co., Ltd.)	250,580,000 share	53.80%
	Director	Steve T.H. Chen (Representative of Fubon Financial Holding Co., Ltd.)	250,580,000 share	53.80%
	Director	Mike Lin (Representative of Fubon Financial Holding Co., Ltd.)	250,580,000 share	53.80%
	Director	Mei-Ann Liu (Representative of Fubon Financial Holding Co., Ltd.)	250,580,000 share	53.80%
	Supervisor	Chien-Hsiang Shiao (Representative of Fubon Securities Co., Ltd.)	52,190,000 share	11.20%
	President	Mike Lin	-	-
Fubon Sports & Entertainment Co., Ltd.	Chairman	Daniel M. Tsai (Representative of Fubon Financial Holding Venture Capital Corp.)	4,797,480 share	100%
	Director	Chun-Pan Chen (Representative of Fubon Financial Holding Venture Capital Corp.)	4,797,480 share	100%
	Director	Cherng-Ru Tsai (Representative of Fubon Financial Holding Venture Capital Corp.)	4,797,480 share	100%

Name of Company	Title	Name or Representative	Name or Representative	
			Number of shares/ contributed capital	Shareholding / investment percentage
	Supervisor	Jerry Harn (Representative of Fubon Financial Holding Venture Capital Corp.)	4,797,480 share	100%
	President	Cherng-Ru Tsai	-	-
Fubon Stadium Co., Ltd.	Chairman	Mike Lin (Representative of Fubon Financial Holding Venture Capital Corp.)	5,000,000 share	100%
	Director	Cherng-Ru Tsai (Representative of Fubon Financial Holding Venture Capital Corp.)	5,000,000 share	100%
	Director	Joyce Chen (Representative of Fubon Financial Holding Venture Capital)	5,000,000 share	100%
	Supervisor	Jerry Harn (Representative of Fubon Financial Holding Venture Capital Corp.)	5,000,000 share	100%
	President	Cherng-Ru Tsai	-	-
Taiwan Sport Lottery Corporation	Chairman	Thomas Liang (Representative of Fubon Financial Holding Co., Ltd.)	9,729,200 share	100%
	Director	Ming-Fan Liu (Representative of Fubon Financial Holdings)	9,729,200 share	100%
	Director	Patrick Chang (Representative of Fubon Financial Holding Co., Ltd.)	9,729,200 share	100%
	Supervisor	Philip Chao (Representative of Fubon Financial Holding Co., Ltd.)	9,729,200 share	100%
	President	Thomas Liang	-	-

Note 1: If affiliated enterprise is a foreign company, list the equivalent title.

Note 2: If the invested company is a company limited by shares, please fill in the share number and shareholding ratio. For others, please indicate so, and fill in invested amount and invested percentage.

Note 3: When the director or supervisor is a legal person, please disclose related information of its representative.

Note 4: The cut-off date on the information disclosed on the director and supervisor is on the publication date of this report or February 28, 2018.

8.1.2 Consolidated financial statements of affiliated enterprises

The list of companies required to be included in the consolidated financial statements of affiliated enterprises under “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” is identical to the list of companies already included in the consolidated financial statements, prepared in accordance with FSC-approved IFRS 10. Since all information required above has already been disclosed in the consolidated financial statements, the Company would not prepare separate consolidated financial statements for affiliated enterprises.

8.1.3 Affiliation reports

The Company is not a subsidiary of any corporate entity as defined in the Affiliated Enterprises Chapter of the Company Act; therefore it is not necessary to prepare such report.

- 8.2 Private placement of securities in the last year, up to the publication date of this annual report:**
None.
- 8.3 Disposal of the Company's shares by subsidiaries in the last year, up to the publication date of this annual report:** None.
- 8.4 Other supplementary notes, where applicable:** None.
- 8.5 Occurrences that are significant to shareholders' equity or securities prices, as defined in Subparagraph 2, Paragraph 2, Article 36 of the Securities and Exchange Act, in the last year up to the publication date of this annual report:** None.



安侯建業聯合會計師事務所
KPMG

台北市11049信義路5段7號68樓(台北101大樓)
68F., TAIPEI 101 TOWER, No. 7, Sec. 5,
Xinyi Road, Taipei City 11049, Taiwan (R.O.C.)

Telephone 電話 + 886 (2) 8101 6666
Fax 傳真 + 886 (2) 8101 6667
Internet 網址 kpmg.com/tw

Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of Fubon Financial Holding Co., Ltd. (“the Company”) and its subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2018 and 2017, and their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2018 and 2017, in accordance with the “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies” and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), Interpretations developed by the International Financial Reporting Interpretations Committee (“IFRIC”) or the former Standing Interpretations Committee (“SIC”) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. The valuation of financial instruments

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

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

We performed our audit procedures by:

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

2. The valuation of insurance liabilities

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

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

We performed our audit procedures by:

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

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

3. Impairment of Credit Assets

Please refer to Note 4 (q) “Assets impairment” for related accounting policy, Note 5 for accounting assumptions and estimates, and Note 6(i) “Receivables”, Note 6 (k) “Discounts and loans” and Note 6 (ak) “Financial risk management” for details of the impairment of credit assets, respectively.

The management assesses the impairment of credit assets based on the assumptions about the probability of default and the expected loss rate which are based on historical experience, existing market conditions, forward-looking estimates, etc. Assessing evidence of the probability of default and impairment on credit assets, and determining whether the credit risk on credit asset has increased significantly since initial recognition are critical judgments and estimates. Therefore, the impairment of credit assets has been identified as a key audit matter in our audit.

We performed our audit procedures by:

- Understood whether the management’s methodology, assumptions and inputs used in the impairment model in IFRS 9 appropriately reflect the actual outcome of credit assets.
- Assessed the rationality and consistency of significant increase in credit assets judged by the management, the definition of default and impairment of credit assets, the exposure at default, the probability of default, the loss given default, the forward-looking estimates, etc. used in estimating expected credit loss, as well as selected samples of credit asset cases, and verified their completeness and calculation accuracy.
- Considered related guidelines issued by the authorities and examined whether the allowance for loans and receivables complied with the regulation.

4. The valuation of investment property

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

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

We performed our audit procedures by:

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

5. The assessment of goodwill impairment

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

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

We performed our audit procedures by:

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG

Taipei, Taiwan (Republic of China)
March 21, 2019

Notes to Readers

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

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

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

Consolidated Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

Assets		December 31, 2018		December 31, 2017				Liabilities and Equity		December 31, 2018		December 31, 2017	
		Amount	%	Amount	%					Amount	%	Amount	%
11000	Cash and cash equivalents (notes 6(a) and 8)	\$ 232,234,449	3	214,049,624	3	21000		Deposits from the central bank and banks		\$ 152,445,771	2	138,707,627	2
11500	Due from the central bank and call loans to banks (notes 6(b) and 8)	223,566,116	3	216,514,115	3	21500		Due to the central bank and banks		442,461	-	5,386,206	-
12000	Financial assets measured at fair value through profit or loss (notes 6(c) and 8)	917,327,572	12	149,197,867	2	22000		Financial liabilities measured at fair value through profit or loss (note 6(u))		45,422,901	1	40,247,250	1
12100	Available-for-sale financial assets, net (notes 6(e) and 8)	-	-	1,635,142,008	25	22300		Financial liabilities for hedging / Derivative financial liabilities for hedging (note 6(g))		3,425,972	-	2,589,585	-
12150	Financial assets measured at fair value through other comprehensive income (notes 6(d) and 8)	820,207,183	11	-	-	22500		Securities sold under repurchase agreements (note 6(v))		178,403,211	2	158,316,465	2
12200	Debt investments measured at amortized cost (notes 6(f) and 8)	2,564,909,862	33	-	-	22600		Commercial papers issued, net (note 6(w))		13,535,972	-	23,471,870	-
12300	Financial assets for hedging / Derivative financial assets for hedging (note 6(g))	3,776,327	-	2,272,840	-	23000		Payables		166,682,986	2	107,957,284	2
12500	Securities purchased under resell agreements (note 6(h))	69,364,357	1	71,832,960	1	23200		Current tax liabilities		7,144,528	-	11,369,877	-
13000	Receivables, net (note 6(i))	209,274,405	3	170,670,909	2	23500		Deposits and remittances (note 6(x))		2,273,618,639	30	2,284,605,939	33
13200	Current tax assets	4,075,626	-	513,005	-	24000		Bonds payable(note 6 (y))		217,754,674	3	187,206,734	3
13300	Assets classified as held for sale, net (note 6(j))	48,312	-	45,533	-	24400		Other borrowings (note 6(z) and 8)		1,482,921	-	5,440,749	-
13500	Discounts and loans, net (note 6(k))	1,847,793,140	24	1,758,440,111	25	24600		Provisions (note 6(aa))		3,721,508,656	48	3,230,051,141	47
13700	Reinsurance contract assets, net (note 6(l))	20,353,688	-	20,286,770	-	25500		Other financial liabilities (note 6 (p) and (ab))		411,517,835	5	191,956,825	3
14500	Held-to-maturity financial assets, net (notes 6(m) and 8)	-	-	487,150,264	7	29300		Deferred tax liabilities (note 6(ad))		11,184,801	-	12,825,534	-
15000	Investments accounted for using equity method, net (note 6(n))	28,203,343	-	24,626,842	-	29500		Other liabilities (note 6 (j) and (ac))		<u>41,662,504</u>	<u>1</u>	<u>30,549,552</u>	<u>-</u>
15500	Other financial assets, net (note 6(p))	406,782,484	5	1,833,092,118	27			Total liabilities		<u>7,246,233,832</u>	<u>94</u>	<u>6,430,682,638</u>	<u>93</u>
18000	Investment property, net (notes 6(q) and 8)	179,436,352	2	178,327,230	3			Equity attributable to owners of parent (note 6(ae)):					
18500	Property and equipment, net (notes 6(r) and 8)	58,481,088	1	57,259,132	1			Share capital:					
19000	Intangible assets, net (note 6(s))	33,907,733	1	28,253,774	-	31101		Common stock		102,336,040	2	102,336,040	2
19300	Deferred tax assets (note 6(ad))	19,970,316	-	15,671,105	-	31103		Preferred stock		<u>12,666,600</u>	<u>-</u>	<u>6,000,000</u>	<u>-</u>
19500	Other assets, net (note 6(t))	75,347,455	1	56,107,779	1			Total share capital		<u>115,002,640</u>	<u>2</u>	<u>108,336,040</u>	<u>2</u>
						31500		Capital surplus		<u>137,018,872</u>	<u>2</u>	<u>103,674,220</u>	<u>1</u>
								Retained earnings:					
						32001		Legal reserve		57,815,312	1	52,403,066	1
						32003		Special reserve		30,008,647	-	53,069,867	1
						32011		Undistributed earnings		<u>191,853,334</u>	<u>2</u>	<u>165,573,101</u>	<u>2</u>
								Total retained earnings		<u>279,677,293</u>	<u>3</u>	<u>271,046,034</u>	<u>4</u>
						32500		Total other equity interest		<u>(72,455,455)</u>	<u>(1)</u>	<u>5,375,314</u>	<u>-</u>
								Total equity attributable to owners of parent		<u>459,243,350</u>	<u>6</u>	<u>488,431,608</u>	<u>7</u>
						39500		Non-controlling interests (note 6(ae))		<u>9,582,626</u>	<u>-</u>	<u>339,740</u>	<u>-</u>
								Total equity		<u>468,825,976</u>	<u>6</u>	<u>488,771,348</u>	<u>7</u>
Total assets		<u><u>\$ 7,715,059,808</u></u>	<u><u>100</u></u>	<u><u>6,919,453,986</u></u>	<u><u>100</u></u>			Total liabilities and equity		<u><u>\$ 7,715,059,808</u></u>	<u><u>100</u></u>	<u><u>6,919,453,986</u></u>	<u><u>100</u></u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

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

		<u>2018</u>		<u>2017</u>		Change
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>%</u>
41000	Interest revenue (note 6(ah))	\$ 167,217,515	41	141,314,445	35	18
51000	Less: Interest expenses (note 6(ah))	<u>37,269,437</u>	<u>9</u>	<u>28,102,375</u>	<u>7</u>	33
	Net interest revenue	129,948,078	32	113,212,070	28	15
	Net non-interest revenue					
49800	Net service charge and commissions loss (note 6(ah))	(8,892,133)	(2)	(9,720,888)	(2)	9
49810	Net income of insurance operations (note 6(ah))	235,827,649	57	250,969,889	62	(6)
49820	Gains (losses) on financial assets or liabilities measured at fair value through profit or loss (note 6(c))	(89,508,634)	(22)	66,631,953	16	(234)
49825	Gains on investment property	6,421,814	2	5,359,836	1	20
49830	Realized gains on available-for-sale financial assets	-	-	65,102,921	16	(100)
49835	Realized gains on financial assets measured at fair value through other comprehensive income (note 6 (d))	12,679,019	3	-	-	-
49840	Realized gains on held-to-maturity financial assets	-	-	7,398	-	(100)
49850	Gains arising from derecognition of financial assets measured at amortized cost (note 6(f))	1,007,814	-	-	-	-
49870	Foreign exchange gains (losses)	42,827,252	11	(91,129,999)	(22)	147
49880	Reversal gains (impairment losses) on assets	(38,675)	-	(1,665,330)	-	98
49890	Share of profit of associates and joint ventures accounted for using equity method (note 6(n))	1,761,555	-	691,789	-	155
49898	Profits or losses reclassified by applying overlay approach (note 6(c))	77,367,269	19	-	-	-
49900	Net other non-interest revenue	<u>1,532,249</u>	<u>-</u>	<u>6,685,327</u>	<u>1</u>	(77)
	Net revenue	<u>410,933,257</u>	<u>100</u>	<u>406,144,966</u>	<u>100</u>	1
58100	Bad debt expenses and guarantee liability provisions	<u>(1,462,866)</u>	<u>-</u>	<u>(2,913,810)</u>	<u>(1)</u>	(50)
58300	Net change in provisions for insurance liabilities (note 6(ah))	<u>(293,422,795)</u>	<u>(72)</u>	<u>(289,890,386)</u>	<u>(71)</u>	1
	Expense:					
58501	Employee benefits expenses (note 6(ah))	(31,138,664)	(7)	(29,745,262)	(8)	5
58503	Depreciation and amortization expenses (note 6(ah))	(3,679,052)	(1)	(3,503,188)	(1)	5
58599	Other general and administrative expenses (note 6(ah))	<u>(23,614,553)</u>	<u>(6)</u>	<u>(22,041,743)</u>	<u>(5)</u>	7
	Total Expenses	<u>(58,432,269)</u>	<u>(14)</u>	<u>(55,290,193)</u>	<u>(14)</u>	6
	Net income before tax from continuing operations	57,615,327	14	58,050,577	14	(1)
61003	Income tax revenue (expense) (note 6(ad))	<u>(9,894,305)</u>	<u>(2)</u>	<u>(4,034,260)</u>	<u>(1)</u>	145
	Net income	<u><u>47,721,022</u></u>	<u><u>12</u></u>	<u><u>54,016,317</u></u>	<u><u>13</u></u>	(12)
	Other comprehensive income:					
69560	Items not be reclassified to profit or loss					
69561	Remeasurements of the defined benefit plans	(722,289)	-	(232,102)	-	(211)
69562	Revaluation gains on property	475,199	-	1,193,212	-	(60)
69567	Losses on equity instruments measured at fair value through other comprehensive income	(6,167,388)	(1)	-	-	-
69563	Share of other comprehensive income of associates and joint ventures accounted for using equity method - items not to be reclassified to profit or loss	(281)	-	76,987	-	(100)
69569	Income tax - items not to be reclassified to profit or loss (note 6 (ad))	<u>1,620,738</u>	<u>-</u>	<u>(215,380)</u>	<u>-</u>	853
	Subtotal of items not to be reclassified to profit or loss	<u>(4,794,021)</u>	<u>(1)</u>	<u>822,717</u>	<u>-</u>	(683)
69570	Items that may be subsequently reclassified to profit or loss					
69571	Exchange differences on translation of foreign operations	(709,332)	-	(3,990,484)	(1)	82
69572	Unrealized gains on available-for-sale financial assets	-	-	36,161,273	9	(100)
69573	Gains on financial instruments for hedging / effective portion of cash flow hedges	88,138	-	117,463	-	(25)
69585	Losses on debt instruments measured at fair value through other comprehensive income	(27,898,142)	(7)	-	-	-
69587	Reversal gains (impairment losses) on debt instruments measured at fair value through other comprehensive income	(47,039)	-	-	-	-
69575	Share of other comprehensive income of associates and joint ventures accounted for using equity method - items that may be reclassified to profit or loss	1,335,905	-	557,384	-	140
69590	Other comprehensive income reclassified by applying overlay approach	(77,367,269)	(19)	-	-	-
69579	Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note 6 (ad))	<u>8,805,434</u>	<u>2</u>	<u>(5,647,227)</u>	<u>(1)</u>	256
	Subtotal of items that may be subsequently reclassified to profit or loss	<u>(95,792,305)</u>	<u>(24)</u>	<u>27,198,409</u>	<u>7</u>	(452)
69500	Other comprehensive income	<u>(100,586,326)</u>	<u>(25)</u>	<u>28,021,126</u>	<u>7</u>	(459)
	Total comprehensive income	<u><u>\$ (52,865,304)</u></u>	<u><u>(13)</u></u>	<u><u>82,037,443</u></u>	<u><u>20</u></u>	(164)
	Consolidated net income attributable to:					
69901	Owners of parent	\$ 47,728,856	12	54,122,463	13	(12)
69903	Non-controlling interests	<u>(7,834)</u>	<u>-</u>	<u>(106,146)</u>	<u>-</u>	93
	Total comprehensive income attributable to:	<u><u>\$ 47,721,022</u></u>	<u><u>12</u></u>	<u><u>54,016,317</u></u>	<u><u>13</u></u>	
69951	Owners of parent	\$ (53,523,483)	(13)	82,142,395	20	(165)
69953	Non-controlling interests	<u>658,179</u>	<u>-</u>	<u>(104,952)</u>	<u>-</u>	727
	Basic earnings per share (in New Taiwan Dollars) (note 6(af))	<u><u>\$ 4.52</u></u>		<u><u>5.19</u></u>		

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent																			Total other equity interest			
	Share capital				Retained earnings				Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income														
	Common stock	Preferred stock	Total	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Total	Exchange differences on translation of foreign operations	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Gains (losses) on financial instruments for hedging	Revaluation gains	Other comprehensive income reclassified by applying overlay approach	Total	Total equity attributable to owners of parent	Non-controlling interests	Total equity					
Balance at January 1, 2017	\$ 102,336,040	6,000,000	108,336,040	102,713,132	47,560,961	50,310,722	140,672,624	238,544,307	(7,625,985)	-	(16,096,768)	(402,102)	-	1,351,037	-	(22,773,818)	426,819,661	285,725	427,105,386				
Net income	-	-	-	-	-	-	54,122,463	54,122,463	-	-	-	-	-	-	-	-	54,122,463	(106,146)	54,016,317				
Other comprehensive income	-	-	-	-	-	-	(129,200)	(129,200)	(3,660,093)	-	30,754,855	102,453	-	951,917	-	28,149,132	28,019,932	1,194	28,021,126				
Total comprehensive income	-	-	-	-	-	-	53,993,263	53,993,263	(3,660,093)	-	30,754,855	102,453	-	951,917	-	28,149,132	82,142,395	(104,952)	82,037,443				
Appropriation and distribution of retained earnings:																							
Legal reserve appropriated	-	-	-	-	4,842,105	-	(4,842,105)	-	-	-	-	-	-	-	-	-	-	-	-				
Special reserve appropriated	-	-	-	-	-	2,759,145	(2,759,145)	-	-	-	-	-	-	-	-	-	-	-	-				
Cash dividends of common stock	-	-	-	-	-	-	(20,467,208)	(20,467,208)	-	-	-	-	-	-	-	-	(20,467,208)	-	(20,467,208)				
Cash dividends of preferred stock	-	-	-	-	-	-	(1,024,328)	(1,024,328)	-	-	-	-	-	-	-	-	(1,024,328)	-	(1,024,328)				
Changes in equity of associates and joint ventures accounted for using equity method	-	-	-	961,088	-	-	-	-	-	-	-	-	-	-	-	-	961,088	-	961,088				
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	158,967	158,967				
Balance at December 31, 2017	102,336,040	6,000,000	108,336,040	103,674,220	52,403,066	53,069,867	165,573,101	271,046,034	(11,286,078)	-	14,658,087	(299,649)	-	2,302,954	-	5,375,314	488,431,608	339,740	488,771,348				
Effects of retrospective application	-	-	-	-	-	-	(800,008)	(800,008)	-	(2,143,826)	(14,658,087)	299,649	(299,649)	-	26,725,621	9,923,708	9,123,700	-	9,123,700				
Equity at beginning of period after adjustments	102,336,040	6,000,000	108,336,040	103,674,220	52,403,066	53,069,867	164,773,093	270,246,026	(11,286,078)	(2,143,826)	-	-	(299,649)	2,302,954	26,725,621	15,299,022	497,555,308	339,740	497,895,048				
Net income	-	-	-	-	-	-	47,728,856	47,728,856	-	-	-	-	-	-	-	-	47,728,856	(7,834)	47,721,022				
Other comprehensive income	-	-	-	-	-	-	(460,825)	(460,825)	(622,845)	(27,509,236)	-	-	82,268	472,156	(73,213,857)	(100,791,514)	(101,252,339)	666,013	(100,586,326)				
Total comprehensive income	-	-	-	-	-	-	47,268,031	47,268,031	(622,845)	(27,509,236)	-	-	82,268	472,156	(73,213,857)	(100,791,514)	(53,523,483)	658,179	(52,865,304)				
Appropriation and distribution of retained earnings:																							
Legal reserve appropriated	-	-	-	-	5,412,246	-	(5,412,246)	-	-	-	-	-	-	-	-	-	-	-	-				
Cash dividends of common stock	-	-	-	-	-	-	(23,537,289)	(23,537,289)	-	-	-	-	-	-	-	-	(23,537,289)	-	(23,537,289)				
Cash dividends of preferred stock	-	-	-	-	-	-	(1,476,000)	(1,476,000)	-	-	-	-	-	-	-	-	(1,476,000)	-	(1,476,000)				
Reversal of special reserve	-	-	-	-	-	(23,061,220)	23,061,220	-	-	-	-	-	-	-	-	-	-	-	-				
Changes in equity of associates and joint ventures accounted for using equity method	-	-	-	73,682	-	-	-	-	-	-	-	-	-	-	-	-	73,682	-	73,682				
Issuance of preferred stock	-	6,666,600	6,666,600	33,270,970	-	-	-	-	-	-	-	-	-	-	-	-	39,937,570	-	39,937,570				
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,584,707	8,584,707				
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	(13,573,476)	(13,573,476)	-	13,573,476	-	-	-	-	-	13,573,476	-	-	-				
Disposal of special reserves transferred from investments in equity instruments measured at fair value through other comprehensive income of participating policies from subsidiaries	-	-	-	-	-	-	213,562	213,562	-	-	-	-	-	-	-	-	213,562	-	213,562				
Disposal of investment properties	-	-	-	-	-	-	536,439	536,439	-	-	-	-	-	(536,439)	-	(536,439)	-	-	-				
Balance at December 31, 2018	\$ 102,336,040	12,666,600	115,002,640	137,018,872	57,815,312	30,008,647	191,853,334	279,677,293	(11,908,923)	(16,079,586)	-	-	(217,381)	2,238,671	(46,488,236)	(72,455,455)	459,243,350	9,582,626	468,825,976				

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash flows from (used in) operating activities:		
Income before income tax	\$ 57,615,327	58,050,577
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expenses	2,328,419	2,136,324
Amortization expenses	1,350,632	1,366,864
Allowance on bad debts	1,465,717	2,940,170
Interest expense	37,269,437	28,102,375
Interest income	(167,217,515)	(141,314,445)
Dividend income	(27,318,202)	(27,537,807)
Net change in insurance reserves	288,882,359	278,829,844
Net change in provisions for guarantee reserves	(13,111)	(26,359)
Net change in other reserves	6,319,333	(2,278,125)
Share of profit of associates and joint ventures accounted for using equity method	(1,476,409)	(691,789)
Profit reclassified by applying overlay approach	(77,367,269)	-
Gain on disposal of investment properties	(414,385)	-
Gain on disposal of investments	(34,641,250)	(42,294,566)
Gain on disposal of investments accounted for using equity method	(285,146)	-
Impairment loss (reversal gain) on financial assets	(49,987)	1,653,057
Impairment loss on non-financial assets	88,662	12,273
Unrealized foreign exchange (gain) loss	(47,146,050)	80,028,670
Loss (gain) on fair value adjustment of investment property	(833,279)	368,118
Other adjustments	241	55,534
Subtotal of income of non-cash activities	<u>(19,057,803)</u>	<u>181,350,138</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease (increase) in due from the central bank and call loans to banks	(10,427,059)	56,194,847
Decrease (increase) in financial assets for hedging and measured at fair value through profit or loss	(45,915,864)	14,790,803
Decrease in financial assets measured at fair value through other comprehensive income	115,531,637	-
Increase in investments in debt instruments measured at amortized cost	(241,442,787)	-
Decrease in available-for-sale financial assets	-	39,194,580
Increase in receivables and current tax assets	(32,155,221)	(33,839,592)
Increase in discounts and loans	(61,880,596)	(124,962,166)
Increase in reinsurance assets	(216,496)	(348,835)
Increase in held-to-maturity financial assets	-	(109,965,203)
Increase in other financial assets	(34,476,947)	(430,738,755)
Decrease (increase) in other assets	(10,118,729)	3,715,577
Subtotal of changes in operating assets	<u>(321,102,062)</u>	<u>(585,958,744)</u>
Changes in operating liabilities:		
Increase in due to the central bank and banks	13,738,144	57,855,789
Increase (decrease) in financial liabilities for hedging and measured at fair value through profit or loss	6,012,038	(57,644,851)
Increase in securities sold under repurchase agreement	20,086,746	35,426,675
Increase in payable and current tax liabilities	54,102,824	21,435,071
Increase (decrease) in deposits and remittances	(10,987,300)	163,316,208
Decrease in provisions	(179,750)	(536,670)
Increase in other financial liabilities	66,892,529	14,565,518
Increase in other liabilities	9,515,387	4,423,428
Subtotal of changes in operating liabilities	<u>159,180,618</u>	<u>238,841,168</u>
Subtotal of all adjustments	<u>(180,979,247)</u>	<u>(165,767,438)</u>
Cash outflow generated from operations	(123,363,920)	(107,716,861)
Interest received	141,250,007	118,421,433
Dividends received	27,707,496	28,754,303
Interest paid	(35,202,421)	(26,951,591)
Income taxes paid	(13,558,066)	(9,787,768)
Net Cash flows from (used in) operating activities	<u>(3,166,904)</u>	<u>2,719,516</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows (CONT'D)

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	<u>2018</u>	<u>2017</u>
Cash flows from (used in) investing activities:		
Acquisition of investments accounted for using equity method	\$ (6,914,575)	(392,988)
Proceeds from capital reduction of investments accounted for using equity method	63,600	-
Acquisition of property and equipment	(3,155,897)	(3,179,532)
Proceeds from disposal of property and equipment	2,088	423,361
Acquisition of intangible assets	(752,267)	(365,785)
Net cash inflows from business combination	4,904,598	-
Acquisition of investment properties	(1,917,918)	(3,097,750)
Proceeds from disposal of investment properties	<u>3,550,000</u>	<u>4,201,612</u>
Net cash flows used in investing activities	<u>(4,220,371)</u>	<u>(2,411,082)</u>
Cash flows from (used in) financing activities:		
Decrease in due to the central bank and banks	(4,904,506)	(1,694,931)
Increase (decrease) in commercial papers issued	(9,935,978)	22,816,950
Proceeds from issuing bonds	12,200,000	6,500,000
Repayments of bonds	(7,650,000)	(9,800,000)
Proceeds from issuing bank financial debentures	57,155,359	29,794,088
Repayments of bank financial debentures	(40,851,994)	(19,001,095)
Decrease (increase) in other borrowings	(3,957,828)	1,020,749
Cash dividends paid	(25,013,289)	(21,491,536)
Cash capital increase	39,937,570	-
Change in non-controlling interests	<u>(72,116)</u>	<u>158,967</u>
Net cash flows from financing activities	<u>16,907,218</u>	<u>8,303,192</u>
Effect of exchange rate changes on cash and cash equivalents	2,821,697	(1,383,944)
Net increase in cash and cash equivalents	12,341,640	7,227,682
Cash and cash equivalents at beginning of period	<u>358,310,694</u>	<u>351,083,488</u>
Cash and cash equivalents at end of period	<u>\$ 370,652,334</u>	<u>358,311,170</u>
Composition of cash and cash equivalents:		
Cash and cash equivalents reported in the statement of financial position	\$ 232,234,449	214,049,624
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	69,053,528	72,428,586
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	<u>69,364,357</u>	<u>71,832,960</u>
Cash and cash equivalents at end of period	<u>\$ 370,652,334</u>	<u>358,311,170</u>

See accompanying notes to consolidated financial statements.

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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

(1) Company history

(a) Fubon Financial Holding Co., Ltd.

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

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

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

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

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

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

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

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

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

(Continued)

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

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

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

The Company is engaged in the financial businesses including banking, financial bills, credit cards, trust, insurance, securities, futures, ventures, investments in foreign financial institutions approved by the government authorities, investments relevant to other financial services approved by the government authorities and investments, which is excluding the participation in the operation, in the services that are outside the scope of Article 36, Paragraph 2 of Financial Holding Company Act, and approved by the government authorities.

(b) Business of consolidated subsidiaries:

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

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

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

- (iv) Fubon Bank (Hong Kong) was founded in 1982. It is engaged in the following operations:
 - 1) Retail and consumer banking;
 - 2) Corporate banking;
 - 3) Investment banking;
 - 4) Investment and financial management services; and
 - 5) Properties management and other services.

(Continued)

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

- (v) Fubon Life Insurance was incorporated on June 3, 1993, under the laws of the Republic of China (ROC). It is engaged in the business of life insurance underwriting.

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

- (vi) Fubon Bank (China) is engaged in foreign currency services and CNY service to customers, in accordance with the "Regulations Governing Foreign Financial Institutions in the People's Republic of China. As of December 31, 2018, Fubon Bank (China) has established its headquarter and 24 branches (or sub-branches and preparatory offices) in the PRC.

(2) Approval date and procedures of the financial statements

On March 21, 2019, the consolidated financial statements were presented to the board of directors and authorized for issuance afterward.

(3) New standards, amendments and interpretations adopted:

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

The Company and its subsidiaries have fully adopted the IFRSs endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018. In addition, based on the announcement issued by the FSC on December 12, 2017, the Company and its subsidiaries can, and therefore, elected to early adopt the amendments to IFRS 9 "Prepayment features with negative compensation":

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018

(Continued)

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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

(i) IFRS 9 “Financial Instruments”

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

As a result of the adoption of IFRS 9, the Company and its subsidiaries adopt the amended IAS 1 “Presentation of Financial Statements” which requires impairment of financial assets to be presented in a separate line item in the statement of comprehensive income and the Company and its subsidiaries have already included the impairment of trade receivables in bad debt expenses and guarantee liability provisions. Additionally, the Company and its subsidiaries apply the amended IFRS 7 “Financial Instruments: Disclosures” to the disclosure for year 2018. The above amendments generally do not applied to comparative information.

The significant changes of accounting policies are as follows:

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of available for sale, measured at cost, debt investments without active market and held to maturity. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. Please refer to note 4 (h) for how the Company and its subsidiaries classify and measure financial assets and account for related gains and losses under IFRS 9.

The adoption of IFRS 9 did not have any significant impact on accounting policies of financial liabilities.

(Continued)

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

2) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, FVOCI, except for investments in equity instruments, lease receivables, contract assets, loan commitments, and to financial guarantee contracts. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39. Please refer to note 4 (h) for details.

3) Hedge accounting

The Company and its subsidiaries have elected to adopt the new general hedge accounting model in IFRS 9, which requires the Company and its subsidiaries to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy, and to apply a more qualitative and forward-looking approach to assess hedge effectiveness.

Please refer to note 4 (i) for how the Company and its subsidiaries apply hedge accounting under IFRS 9.

4) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below.

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves on January 1, 2018. Accordingly, the information presented for year 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for year 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Company and its subsidiaries assumed that the credit risk did not increase significantly since its initial recognition.

(Continued)

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

- All hedging relationships designated under IAS 39 on December 31, 2017 met the criteria for hedge accounting under IFRS 9 on January 1, 2018, and are therefore, regarded as continuing hedging relationships.

5) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of financial assets on January 1, 2018.

	IAS 39		IFRS 9	
	Measurement categories	Carrying amount	Measurement categories	Carrying amount
Financial assets				
Cash and cash equivalents	Amortized cost	214,049,624	Amortized cost	214,049,148
Financial assets measured at fair value through profit or loss	Fair value through profit or loss	148,897,505	Fair value through profit or loss	148,897,505
	Fair value through profit or loss	300,362	Fair value through other comprehensive income	300,362
Derivative financial assets for hedging	Fair value through profit or loss	2,272,840	Fair value through profit or loss	2,272,840
Securities purchased under resell agreements	Amortized cost	71,832,960	Amortized cost	71,832,960
Receivables, net	Amortized cost	170,670,909	Amortized cost	170,519,335
Discounts and loans, net	Amortized cost	1,758,440,111	Amortized cost	1,741,885,937
			Fair value through other comprehensive income	16,860,939
Available-for-sale financial assets, net	Fair value through other comprehensive income	1,635,142,008	Fair value through profit or loss	643,404,720
			Fair value through other comprehensive income	653,711,533
			Amortized cost	326,480,231
Investments accounted for using equity method, net	Share of equity based on ownership interest	17,325	Fair value through profit or loss (note 4)	70,000
			Amortized cost	470,647,867
Held-to-maturity financial assets, net	Amortized cost	487,150,264	Fair value through other comprehensive income	18,846,907
			Amortized cost (Financial assets measured at cost)	3,317,927
Other financial assets, net	Amortized cost (Debt investments without active market)	6,248,183	Fair value through other comprehensive income	4,642,322
			Fair value through profit or loss	21,012,249
	Amortized cost (Other financial assets- others)	1,585,669,386	Fair value through other comprehensive income	222,793,712
			Amortized cost	1,357,103,471
	Amortized cost (Refundable deposits)	241,174,549	Fair value through profit or loss	1,625,922
			Amortized cost	239,645,314
Other assets, net	Amortized cost (Refundable deposits)	20,968,134	Amortized cost	23,251,433

(Continued)

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

Note1: The Company and its subsidiaries have elected to irrevocably designate certain equity investment portfolios, which are not held for trading, as at FVOCI. The equity investments were previously classified as financial asset measured at fair value and available-for-sale and when they are sold in the future, the fair value changes will not be reclassified to profit or loss.

Note2: The reason that the following debt investments have been reclassified in accordance with IFRS 9 is because the original investment categories under IAS 39 no longer exist under IFRS 9, not the valuation basis has been changed.

- (1) Those that have been classified as available-for-sale are classified as FVOCI now.
- (2) Those that have been classified as available-for-sale are classified as FVTPL now.
- (3) Those that have been classified as held-to-maturity financial assets are classified as financial assets measure at amortized cost now.
- (4) Those that have been classified as other financial assets, such as debt investments without an active market and others, are classified as financial assets measure at amortized cost now.

Note3: The following debt investments are reclassified to new investment categories based on the assessment that whether the contractual terms to cash flows are solely payments of principal and interest on the principal amount outstanding, and the assessment of business model:

- (1) Those that have been classified as other financial assets (debt investments without an active market) are classified as FVTPL now.
- (2) Those that have been classified as other financial assets (debt investments without an active market) are classified as FVOCI now.
- (3) Those that have been classified as held-to-maturity financial assets are classified as FVOCI now.

Note4: After evaluating the business model of the financial asset, it was reclassified as FVTPL on the initial application of IFRS 9.

Note5: In accordance with the IFRS FAQ “REITs” issued by the Accounting Research and Development Foundation, REITs are the equity instruments under IAS 32. Therefore, REITs that have been classified as financial assets measured at fair value and available-for-sale are elected to designate as at fair value through other comprehensive income since they are not held-for-trading by the Company and its subsidiaries. The adoption resulted in an increase of \$155,893 in other equity-unrealized gains on financial assets measured at fair value through other comprehensive income, as well as a decrease of \$155,893 in retained earnings on January 1, 2018.

(Continued)

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

The following table reconciles the carrying amount of financial assets under IAS39 to the carrying amount under IFRS 9 upon transition to IFRS 9 on January 1, 2018.

	2017.12.31 IAS39			2018.1.1 IFRS9	2018.1.1	2018.1.1	
	Carrying amount	Reclassification	Remeasurement	Carrying amount	Retained earnings	Other equity	Note
Fair value through profit or loss							
From FVTPL (IAS39)	\$ 149,197,867	-	-	149,197,867	-	-	
Additions :							
From available-for-sale (IAS39)	-	643,407,620	(2,900)	643,404,720	(337,251)	360,286	
From amortized cost (IAS39)- required reclassification	-	22,024,029	614,142	22,638,171	-	614,142	
From financial assets measured at cost	3,357,914	-	(39,987)	3,317,927	(88,576)	75,674	
Subtractions :							
To FVOCI- equity instrument(IFRS9)	-	(300,362)	-	(300,362)	-	-	
Subtotal	3,357,914	665,131,287	571,255	669,060,456	(425,827)	1,050,102	
Fair value through other comprehensive income							
Additions – debt instruments:							
From available-for-sale (IAS39)	889,213,296	-	-	889,213,296	(198,563)	204,220	
From amortized cost (IAS39)	-	223,864,164	17,776,455	241,640,619	(65,719)	20,129,397	
Additions – equity instruments:							
From available-for-sale (IAS39)	745,928,712	-	99,638	746,028,350	931,514	(831,876)	
From FVTPL (Fair value option under IAS39)- measured at fair value through other comprehensive income on January 1, 2018	-	300,362	-	300,362	(67,162)	67,162	
From amortized cost (IAS39) measured at fair value through other comprehensive income	-	16,629,206	231,733	16,860,939	-	118,184	
From measured at cost (IAS39)	2,890,269	-	1,752,053	4,642,322	188,907	1,564,366	
Subtractions – debt investments and equity instruments:							
Available-for-sale (IAS39)to FVTPL (IFRS9)- required reclassification according to classification conditions	-	(643,407,620)	-	(643,407,620)	-	-	
Available-for-sale (IAS39) to amortized cost (IFRS9)	-	(338,122,493)	-	(338,122,493)	-	-	
Subtotal	1,638,032,277	(740,736,381)	19,859,879	917,155,775	788,977	21,251,453	

(Continued)

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

	2017.12.31			2018.1.1			
	IAS39			IFRS9			
	Carrying amount	Reclassification	Remeasurement	Carrying amount	Retained earnings	Other equity	Note
Amortized cost							
From held-to-maturity financial assets (IAS39)	\$ 487,150,264	-	(159,097)	486,991,167	(139,879)	-	
From other financial assets (Debt investments without active market) (IAS39)	1,585,669,386	-	(32,330)	1,585,637,056	(32,330)	-	
From other financial assets- others (IAS39)	241,174,549	504,428	(517,885)	241,161,092	(500,721)	-	
Additions:							
From available-for-sale (IAS39)	-	339,872,493	(12,146,690)	327,725,803	(347,044)	(11,797,489)	
Subtractions:							
To FVOCI (IFRS 9)	-	(223,864,164)	-	(223,864,164)	-	-	
To FVTPL (IFRS9)- required reclassification according to classification conditions	-	(23,774,029)	-	(23,774,029)	-	-	
Subtotal	-	92,234,300	(12,146,690)	80,087,610	(347,044)	(11,797,489)	
Total	<u>\$ 4,104,582,257</u>	<u>17,133,634</u>	<u>7,575,132</u>	<u>4,129,291,023</u>	<u>(656,824)</u>	<u>10,504,066</u>	

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

The following table reconciles the loss allowance from the “incurred loss” model under IAS39 to the “expected credit loss” model under IFRS9 on January 1, 2018.

	Loss allowance under IAS39 and provision under IAS37	Reclassification /remeasuremen	Loss allowance under IFRS9
Loans and receivables (IAS39)/ FVOCI (IFRS9)			
Discounts and loans	\$ -	18,478	18,478
Provision in accordance with the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Nonaccrual Loans”	-	217,635	217,635
	<u>-</u>	<u>236,113</u>	<u>236,113</u>
Loans and receivables(IAS39)/ Financial assets measured at amortized cost (IFRS9)			
Due from the central bank and call loans to banks	-	11,620	11,620
Receivables	977,589	174,084	1,151,673
Discounts and loans	11,504,225	(954,854)	10,549,371
Provision in accordance with the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Nonaccrual Loans”	11,261,705	621,199	11,882,904
	<u>23,743,519</u>	<u>(147,951)</u>	<u>23,595,568</u>
Other financial assets(IAS39)/ Financial assets measured at amortized cost (IFRS9)			
Other financial assets	362,772	150	362,922
Available-for-sale financial instruments (IAS39)/ FVTPL (IFRS9)			
Available-for-sale financial assets	2,164,619	(2,164,619)	-
Available-for-sale financial instruments (IAS39)/ FVOCI (IFRS9)			
Available-for-sale financial assets	643,961	(118,826)	525,135
Available-for-sale financial assets (IAS39)/Financial assets measured at amortized cost (IFRS9)			
Available-for-sale financial assets	-	349,201	349,201
Held to maturity (IAS39)/Financial assets measured at amortized cost (IFRS9)			
Held-to-maturity financial assets	-	159,097	159,097
Held to maturity (IAS39)/FVOCI (IFRS9)			
Held-to-maturity financial assets	-	5,815	5,815
Financial assets measured at cost (Other financial assets)(IAS39)/ FVTPL			
Financial assets measured at cost	171,783	(171,783)	-
Financial assets measured at cost (Other financial assets)(IAS39)/FVOCI (IFRS9)			
Financial assets measured at cost	191,717	(191,717)	-

(Continued)

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

	Loss allowance under IAS39 and provision under IAS37	Reclassification /remeasuremen	Loss allowance under IFRS9
Debt investments without active market (IAS39)/FVOCI (IFRS9)			
Bonds investments without active market	\$ -	63,828	63,828
Debt investments without active market (IAS39)/Financial assets measured at amortized cost (IFRS9)			
Bonds investments without active market	-	550,110	550,110
Loan commitments and guarantee liability			
Loans (loan commitments)	-	49,082	49,082
Credit cards (loan commitments)	-	120,575	120,575
Guarantees receivable	33,578	13,346	46,924
Accounts receivable-forfeiting	6,343	2,452	8,795
Provision in accordance with the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Nonaccrual Loans”	262,200	4,245	266,445
	<u>3,836,973</u>	<u>(1,329,044)</u>	<u>2,507,929</u>
Total	<u><u>\$ 27,580,492</u></u>	<u><u>(1,240,882)</u></u>	<u><u>26,339,610</u></u>

(ii) Amendments to IFRS 4 "Applying IFRS 9 Investments with IFRS 4 Insurance Contracts"

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

- An option that permits entities that issue insurance contracts to reclassify, from profit or loss to other comprehensive income, when applying IFRS 9.
- An optional temporary exemption from IFRS 9 for entities whose activities are predominantly connected with insurance until IFRS 17 “Insurance Contracts” is effective. Entities will be permitted to apply IAS 39 “ Financial Instruments: Recognition and Measurements” rather than to apply IFRS 9.

Insurance subsidiaries have elected to adopt the overlay approach to reduce the impact of the differing effective dates of IFRS 9 and the forthcoming IFRS 17 “Insurance Contracts”.

Please refer to note 4 (h) for the accounting policies of overlay approach.

(Continued)

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

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

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

- (i) IFRS 16 “Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

- 1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Company and its subsidiaries can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Company and its subsidiaries plan to apply the practical expedient to grandfather the definition of a lease upon transition. This means that they will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

(Continued)

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

2) Transition

As a lessee, the Company and its subsidiaries can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

On January 1, 2019, the Company and its subsidiaries plan to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Company and its subsidiaries will use these practical expedients after assessment as follows:

- lease portfolio with similar characteristics use a single discount rate.
- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Company and its subsidiaries are not required to make any adjustments for leases in which the Company and its subsidiaries are the lessor except where the Company and its subsidiaries are the intermediate lessor in a sub-lease.

- 3) So far, the most significant impact identified is that the Company and its subsidiaries will have to recognize the right-of-use assets and liabilities for their operating leases of offices and superficieses. The Company and its subsidiaries estimated that assets and liabilities to increase by \$25,283,188 and \$23,349,900, respectively, as well as retained earnings to increase by \$1,933,288 on January 1, 2019. No significant impact is expected for the Company and its subsidiaries' finance leases. The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

(Continued)

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

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

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021 (Note)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

Note: The Board of IASB voted unanimously to propose a delay of the mandatory effective date of IFRS 17 by one year to January 1, 2022.

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
September 11, 2014	Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

(Continued)

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
May 18, 2017	IFRS 17 “Insurance Contracts”	<p>The new standard of accounting for insurance contracts contain recognition, measurement, presentation and disclosure of insurance contracts issued, and the main amendments are as follows:</p> <ul style="list-style-type: none"> · Recognition: the beginning of the coverage period of the group of contracts, the date when the first payment from a policyholder in the group becomes due and when the group becomes onerous shall recognize a group of insurance contracts it issues from the earliest. · Measurement: on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. For subsequent measurement, the entity shall estimate the cash flows, discount rates and the adjustment for non-financial risk. · Presentation and disclosure: the presentation of insurance revenue is based on the provision of service pattern and investment components excluded from insurance revenue and insurance service fee.
October 22, 2018	Amendments to IFRS 3 “Definition of a Business”	<p>The IASB has issued narrow-scope amendments to IFRS 3 to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets.</p> <p>The amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the IASB has provided supplementary guidance.</p>

(Continued)

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
October 31, 2018	Amendments to IAS 1 and IAS 8 "Definition of Material"	The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

The Company and its subsidiaries are evaluating the impact on their consolidated financial position and consolidated financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Company and its subsidiaries complete the evaluation.

(4) Summary of significant accounting policies:

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies" and with the IFRSs, IASs, IFRIC, SIC endorsed and issued into effect by the FSC.

(b) Basis of preparation

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

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

(c) Principles of consolidation

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

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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:

Name of Investor	Subsidiary	Main Activities	Percentage of Ownership (%)	
			December 31, 2018	December 31, 2017
The Company	Fubon Insurance	Property and casualty insurance	100.00 %	100.00 %
The Company	Taipei Fubon Bank	Banking	100.00 %	100.00 %
The Company	Fubon Life Insurance	Life insurance	100.00 %	100.00 %
The Company	Fubon Securities	Securities business	100.00 %	100.00 %
The Company	Fubon Marketing	Marketing management	100.00 %	100.00 %
The Company, Fubon Life Insurance, Fubon Insurance and Fubon Securities	Fubon Financial Holding Venture Capital	Venture Capital	100.00 %	100.00 %
The Company	Fubon Bank (Hong Kong)	Banking	100.00 %	100.00 %
The Company	Fubon AMC	Creditor's rights management	100.00 %	100.00 %
The Company	Taiwan Sport Lottery	IT Software service	100.00 %	100.00 %
The Company and Taipei Fubon Bank	Fubon Bank (China)	Banking	100.00 %	100.00 %
Fubon Securities	Fubon Asset Management	Investment trust	100.00 %	100.00 %
Fubon Securities	Fubon Futures	Futures	100.00 %	100.00 %
Fubon Securities	Fubon Investment Service	Investment Service	100.00 %	100.00 %
Fubon Securities	Fubon Securities BVI	Securities business	100.00 %	100.00 %
Fubon Securities	Fubon Securities Venture Capital	Venture Capital	100.00 %	100.00 %
Fubon Securities	Fubon Equity Investment	Equity Investment	100.00 %	100.00 %
Fubon Securities	Fubon Mintou Venture Capital	Venture Capital	67.00 %	67.00 %
Fubon Securities BVI	Fubon Securities (Hong Kong)	Securities business	100.00 %	100.00 %
Fubon Asset Management	Fubon Convoy Asset Management (Hong Kong) Limited (Note 1)	Asset Management	49.00 %	49.00 %
Fubon Insurance	Fubon Insurance (Vietnam) Limited	Insurance business	100.00 %	100.00 %
Fubon Insurance	Fubon Insurance Broker (Thailand) Limited (Note 1)	Broker	48.97 %	48.97 %
Fubon Insurance	Fubon Insurance Broker (Philippines) Limited	Broker	99.99 %	99.99 %
Fubon Insurance and Fubon Life Insurance	Fubon Property & Casualty Insurance (Xiamen)	Insurance business	80.00 %	80.00 %
Fubon Life Insurance	Fubon Life Insurance (Vietnam) Limited	Insurance business	100.00 %	100.00 %

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Name of Investor	Subsidiary	Main Activities	Percentage of Ownership (%)	
			December 31, 2018	December 31, 2017
Fubon Life Insurance	Fubon Life Insurance (Hong Kong) Limited	Insurance business	100.00 %	100.00 %
Fubon Life Insurance	Fubon Hyundai Life Insurance Co., Ltd.(Note 2)	Insurance business	62.06 %	- %
Fubon Life Insurance	Carter Lane (Guernsey) Limited	Real estate investment and management	100.00 %	100.00 %
Fubon Life Insurance	Bow Bells House (Jersey) Limited	Real estate investment and management	100.00 %	100.00 %
Fubon Life Insurance	Fubon MTL Property (Jersey) Limited	Real estate investment and management	100.00 %	100.00 %
Fubon Life Insurance	Fubon Ellipse (Belgium) S.A. (Note 3)	Real estate investment and management	100.00 %	100.00 %
Fubon Life Insurance	Fubon Ellipse (Jersey) Limited	Holding company	100.00 %	100.00 %
Fubon Marketing	Fu Sheng Life Insurance Agent	Life insurance agent	100.00 %	100.00 %
Fubon Marketing	Fu Sheng General Insurance Agent	Property and casualty insurance agent	100.00 %	100.00 %
Fubon Financial Holding Venture Capital	Fubon Sports & Entertainment Co., Ltd.	Sports service business	100.00 %	100.00 %
Fubon Financial Holding venture Capital	Fubon Stadium Co., Ltd.	Stadium management	100.00 %	100.00 %
Fubon Bank (Hong Kong)	Fubon Nominees (Hong Kong) Limited (Note 4)	Financial sector business	100.00 %	100.00 %
Fubon Bank (Hong Kong)	Fubon Credit (Hong Kong) Limited (Note 4)	Financial sector business	100.00 %	100.00 %
Fubon Bank (Hong Kong)	FB Securities (Hong Kong) Limited (Note 4)	Securities brokerage	100.00 %	100.00 %
Fubon Bank (Hong Kong)	FB Investment Management (Hong Kong) Limited (Note 4)	Capital management	100.00 %	100.00 %
Fubon Bank (Hong Kong)	Fubon Insurance Brokers Limited (Note 4)	Insurance agent	100.00 %	100.00 %

Note 1: In February 2017, Fubon Asset Management and Convoy Asset Management Limited set up Fubon Convoy Asset Management (HK) Limited. After the evaluation, since Fubon Asset Management has direct existing rights to its financial and operating activities, it is regarded as having control over Fubon Convoy Asset Management (Hong Kong). Fubon Insurance Broker (Thailand) Limited is set up by a joint venture between Fubon Insurance Co., Ltd. and Futai Holding Co., Ltd. etc.. Since Fubon Insurance Co., Ltd. has subscribed for the shares of Fubon Insurance Broker (Thailand) Limited on November 5, 2013 and has control over operating activities, Fubon Insurance Broker (Thailand) Limited is regarded as a subsidiary.

Note 2: Fubon Hyundai Life Insurance Co., Ltd. became a subsidiary in September 2018. Fubon Life Insurance owned 48.62% of the shares of Fubon Hyundai Life Insurance Co., Ltd. before it became a subsidiary, and recognized using equity method.

Note 3: The issued and outstanding shares of Fubon Ellipse (Belgium) S.A. were 1,133,718 shares, while 1 share is held by Fubon Ellipse (Jersey) Limited.

Note 4: These entities are the major subsidiaries of Fubon Bank (Hong Kong).

(Continued)

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

(d) Foreign currency

(i) Foreign currency transaction

Transactions in foreign currencies are translated to the respective functional currencies of the individual entities of the Company and its subsidiaries at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rates at that date. Translation gains and losses are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was originally determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the original transaction.

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

- 1) Non-monetary equity investment measured at fair value through other comprehensive income (which is available-for-sale equity investment before January 1, 2018);
- 2) A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- 3) Qualifying cash flow hedges to the extent the hedge is effective.

(ii) Foreign operations

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

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the foreign currency translation adjustments related to that foreign operation are all reclassified to profit or loss. When the Company disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant cumulative amount of foreign currency translation adjustments is reattributed proportionately to non-controlling interest. When the Company disposes of only part of investment in an associate or joint venture that includes a foreign operation, the relevant foreign currency cumulative amount of translation adjustments is reclassified proportionately to profit or loss.

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(e) Cash and cash equivalents

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

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

(f) Investment in associates

An associate is an entity in which the Company and its subsidiaries have significant influence over its financial and operating policies but have no control over it. Investments in associates are accounted for using the equity method and are recognized at cost on acquisition. The cost of investment includes transaction cost.

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 Company and its subsidiaries have significant influence over the investees until the date that the Company and its subsidiaries lose the significant influence. The accounting policies of the investees and the Company and its subsidiaries shall be reconciled before the amount is presented in the financial statements.

Unrealized gains resulting from transactions between the Company and its subsidiaries and their associates are eliminated to the extent of the Company and its subsidiaries' interest in the associates. 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 Company and its subsidiaries' share of losses exceeds its investment in equity-accounted investees, the carrying amount of the investment, including any long-term interests that from part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Company and its subsidiaries have an obligation or has made payments on behalf of the investee.

(Continued)

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

Since the goodwill that forms part of the carrying amount of investment in associates or joint venture is not separately recognized, it is not tested for impairment by applying the requirements for impairment testing goodwill in IAS 36. The Company and its subsidiaries have to determine whether there is any objective evidence that the net investment in the associate or joint venture is impaired at each reporting date in accordance with IAS 28. If there is an objective evidence of impairment, the investment is tested for impairment in accordance with IAS 36 by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. When recoverable amount is determined by the value in use of the net investment, the Company and its subsidiaries estimate:

- (i) the share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate or joint venture and the proceeds from the ultimate disposal of the investment; or
- (ii) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

(g) Repurchase and resell transactions

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

(h) Financial instruments

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

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

(i) Financial assets (applicable since January 1, 2018)

According to IFRS 9, the Company and its subsidiaries classify financial assets in consolidated balance sheet by fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) and amortized cost in the consolidated balance sheet.

1) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI are measured at FVTPL, including derivative financial assets and accounts receivables (except for those presented as accounts receivables but measured at FVTPL). On initial recognition, the Company and its subsidiaries may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent valuation is measured at fair value. The revaluation gains and losses (including dividend and interest income) are recognized in profit or loss.

(Continued)

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

2) Fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company and its subsidiaries may irrevocably select to present subsequent fair value changes in other comprehensive income. This selection is made on an instrument-by-instrument basis.

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, deriving from debt investments are recognized in profit or loss; whereas dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of equity investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of debt investments are reclassified to retain earnings instead of profit or loss.

Dividend income derived from equity investments is recognized on the date that the Company and its subsidiaries' right to receive payment is established, which in the case of quoted securities is normally the ex dividend date.

3) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Gain or loss are recognized in profit or loss as asset is disposed.

(Continued)

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

4) Other financial assets

a) Investment-linked insurance policy

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

Fubon Life Insurance and its subsidiaries are engaged in labor pension insurance. Separate accounts should be established to record the value of invested assets. The assets, liabilities, and profit or loss related to the insurance are recorded in these separate accounts, respectively, and should be managed separately from other life insurance assets. The establishment, record, and accounting treatment should be in accordance with regulations announced by local competent authority where the Company and its subsidiaries locate.

b) Customer margin deposit

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

5) Reclassification of financial assets

In accordance with IFRS 9, the Company and its subsidiaries can only reclassify all the affected financial assets when they change the business model in which assets are managed.

6) Overlay approach

The Insurance subsidiaries have applied IFRS 9 since January 1, 2018.

In order to reduce the impact and discrepancy arising from the adoption of IFRS 9 earlier than IFRS 17 (Insurance Contracts), the overlay approach of IFRS 4 "Insurance Contracts" has also been adopted to express the profit or loss of designated financial assets.

(ii) Financial assets (applicable before January 1, 2018)

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

(Continued)

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

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

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

Financial assets are designated as at fair value through profit or loss at initial recognition under one of the following situations:

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

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

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

2) Held-to-maturity financial assets

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

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

3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investment, or financial assets measured at fair value through profit or loss.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

4) Loans and receivables

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

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

5) Other financial assets

a) Debt investments without active market

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

b) Financial assets carried at cost

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

- i) The variable interval of reasonable fair value estimates are not significant for that asset.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- ii) The probabilities of the various estimates within the interval can be reasonably assessed and used when measuring fair value.

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

- c) Investment-linked insurance policy

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

- d) Customer margin deposit

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

- e) Structured deposits

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

- 6) Reclassifications of financial assets

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

- a) No reclassification is made out of the fair value measured through profit or loss category while it is held or issued.
- b) 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.
- c) 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.
- d) No reclassification is made of any financial instrument into the fair value measured through profit or loss category subsequent to initial recognition.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- e) 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 to available-for-sale and remeasured at fair value, and the difference between its carrying amount and fair value is recorded in other comprehensive income.
- f) No reclassification is made of any financial assets as held-to-maturity if during the current financial year or during the prior two financial years, more than an insignificant amount of held-to-maturity investments were sold or reclassified before maturity. Any remaining held-to-maturity investments are reclassified to available-for-sale.

(iii) Financial liabilities

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

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

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

Financial liabilities measured at fair value through profit or loss are measured at fair value. The amount of changes in the fair value of financial liabilities designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income. If the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss, the Company and its subsidiaries shall present all gains or losses on that liability in profit or loss.

2) Financial liabilities carried at amortized cost

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

3) Bonds payable

Financial liabilities measured at amortized cost are recognized initially at fair value, less, any directly attributable transaction costs and subsequently measured at their amortized cost using the effective interest method during the outstanding period of the bonds.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

4) Financial guarantee contracts (applicable since January 1, 2018)

Financial guarantee contracts which are not measured at fair value through profit or loss are measured at the higher of the loss allowance reflected the expected credit loss or amortized cost after initial recognition.

5) Financial guarantee contracts (applicable before January 1, 2018)

Financial guarantee contracts which are not measured at fair value through profit or loss are measured at amortized cost after initial recognition. However, if the Company and its subsidiaries assess that it is very likely to pay obligation amount of contracts, these liabilities are subsequently measured at the higher of the best estimate obligation amount of contracts or amortized cost.

6) Futures traders' equity

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

(iv) Derecognition of financial assets (applicable since January 1, 2018)

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Company and its subsidiaries transfer substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a debt instrument in its entirety, the Company and its subsidiaries recognize the difference between its carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in "other equity – unrealized gains (losses) on financial assets measured at fair value through other comprehensive income", in profit or loss.

On derecognition of a debt instrument other than in its entirety, the Company and its subsidiaries allocate the previous carrying amount of the financial asset between the part they continues to recognize under continuing involvement, and the part they no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

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

(Continued)

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

(v) Derecognition of financial assets and liabilities (applicable before January 1, 2018)

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

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

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

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

(vi) Determination of fair value

For the fair value information of financial instrument, please refer to Note 6 (ai) for details.

(vii) Offsetting of financial instruments

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

(i) Derivative financial instruments and hedge accounting (applicable since January 1, 2018)

Derivatives are initially measured at fair value. Any attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and revaluation gains or losses are recognized in profit or loss. When a derivative is designated as, and effective for, a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, whereas when the fair value is negative, it is classified as a financial liability.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the non-financial asset's host contract are not closely related to the embedded derivatives and the host contract is not measured at FVTPL.

At initial designated hedging relationships, the Company and its subsidiaries document the risk management objectives and strategy for undertaking the hedge including the identification of the nature of the hedging instrument, the hedged item and the hedged risk, as well as the manner to assess whether the hedging relationship meets the requirements of hedge effectiveness.

(Continued)

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

The Company and its subsidiaries shall discontinue hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised.

(i) Fair value hedges

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

The Company and its subsidiaries shall discontinue hedge accounting prospectively only when the hedging relationship ceases to meet the qualifying criteria. This includes instances when the hedging instrument is expired, sold, terminated or exercised.

Hedged financial instruments using an effective interest rate (with the fair value adjustment attributable to the hedged risk) is amortized to profit or loss when hedge accounting is discontinued over the period to maturity. The amortization is based on a recalculated effective interest rate at the date the amortization begins which could enable the fair value adjustment being fully amortized until it reaches the maturity of the instrument.

(ii) Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in “other equity — gains (losses) on financial instruments for hedging”. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

When the hedged item is recognized in profit or loss, the amount accumulated in equity and retained in other comprehensive income is reclassified to profit or loss in the same period or in the periods during which the hedged item affects the profit or loss, and is presented in the same accounting item with the hedged item recognized in the consolidated statement of comprehensive income. However, for a cash flow hedge of a forecast transaction recognized as a non-financial asset or liability, the amount accumulated in “other equity — gains (losses) on financial instruments for hedging” and retained in other comprehensive income is reclassified as the initial cost of the non-financial asset or liability. In addition, if that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in future periods, it shall immediately reclassify the amount in profit or loss.

(Continued)

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

When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the cash flow hedge reserve (and costs of hedging) remains in equity until the hedged future cash flows are no longer expected to occur. Otherwise, that amount would be adjusted within the carrying amount of the non-financial item. For other cash flow hedges, it is reclassified to profit or loss in the same period or in the periods as the hedged expected future cash flows affect the profit or loss. However, if the hedged future cash flows are no longer expected to occur, the amount shall immediately be reclassified from cash flow reserve (and the cost of hedging reserve) to profit or loss.

(j) Derivative financial instruments and hedge accounting (applicable before January 1, 2018)

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

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

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

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

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

(i) Fair value hedges

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(ii) Cash flow hedges

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

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

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

(iii) Non-qualifying hedging derivatives

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

(k) Pecuniary and securities financing and refinancing

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

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

(Continued)

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

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

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

(l) Securities lending

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

(m) Non-current assets held for sale

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

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

(n) Investment property

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

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.

(Continued)

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

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

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

(o) Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes any cost directly attributable to the asset and the initial estimated of the cost of dismantlement, removal or restoration.

As the Company and its subsidiaries have obligations for dismantling, removing and restoring the site on which an item of property and equipment is located, the present value of the cost of the obligation should be recognized as provision.

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.

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

Land is not depreciated. Other assets are depreciated on a straight line basis over the estimated useful lives. For the lease asset, if there is reasonable certainty that the Company and its subsidiaries will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise the asset is depreciated over the shorter of the lease term and its useful life.

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

When the holding purpose has changed from own use to investment, the real estate should be reclassified as investment property at fair value. Any resulting increase in the carrying amount due to the fair value at the date of transfer is recognized in profit or loss to the extent of previously accumulated impairment of that property and equipment. The remaining part of the increase is recognized in “Other comprehensive income—Revaluation gains on property” and accumulated in “Other equity items—Revaluation gains.” Any resulting decrease in the carrying amount should be recognized in profit or loss.

(Continued)

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

(p) Other assets – Superficies

Superficies should be classified as financial lease or operating lease in accordance with the IAS 17. According to the abovementioned article, after being assessed and determined to be classified as operating lease, the royalty and related necessary expenses should be recognized as prepaid expenses since the beginning of the expected life of the superficies (e.g. the date that the recordation of the superficies is completed), and be amortized over its expected life. If the purpose of the development is invested or owner-occupied, the royalty which is amortized during the construction period should be included in the cost of the buildings. Please refer to Note 4 (t) "Lease" for related accounting policy of the case that the superficies be held as operating lease are changed as financial lease.

(q) Assets impairment

(i) Financial assets impairment (applicable since January 1, 2018)

The principles for recognition of the expected credit loss are within the scope of IFRS 9:

The Company and its subsidiaries assess that whether the credit risk of financial instruments has increased significantly since initial recognition. An entity may determine that a financial asset has not suffered a significant increase in credit risk if the asset has low credit risk at each reporting date. To measure loss allowance, lifetime ECL measurement applies for those financial assets that have suffered a significant increase in credit risk since initial recognition and 12-month ECL measurement for those have not at each reporting date.

1) General approach of measuring expected credit loss:

The Company and its subsidiaries adopt the general approach to recognize expected credit loss on bond instruments and loans classified as financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income and other receivables. The Company and its subsidiaries assess that whether the credit risk of financial instruments has increased significantly since initial recognition and recognize the loss allowance. For financial assets measured at fair value through other comprehensive income, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

2) Simplified approach of measuring expected credit loss:

The Company and its subsidiaries adopt the simplified approach, 12-month ECL, to measure expected credit loss and recognize loss allowance on lease receivables and account receivables which is in the scope of IFRS 15. Considering historical experience, the Company and its subsidiaries adopt the simplified approach due to the loss rate of non-mentioned receivables and loans from investment-link product is very little.

3) The loss allowance of loans and receivables of the Insurance subsidiaries should pursuant to “Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises”. The higher of the loss allowance of loans and receivables and abovementioned assessment of expected credit loss is the minimum standard for determining the balance of loss allowance.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 4) Pursuant to “ Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Nonaccrual

Loans” (the “ Regulations”) issued by the authority, the domestic bank subsidiary evaluates credit losses on the basis of the estimated collectability.

In accordance with the Regulations, credit assets are classified as normal assets, assets that require special mentioned, assets with substandard, assets with doubtful collectability, and assets on which there is loss. The Bank evaluates value of collaterals of specified loans and assesses recoverability of nonperforming loans. Under the regulations, the domestic bank subsidiary categorizes the credit assets into Normal, Special Mention, Substandard, Doubtful, and Loss, and then make minimum provisions at 1% of the normal credits (other than those loans to ROC government), 2% of special mention, 10% of substandard, 50% of doubtful, and 100% of loss. According to the Ruling Letter No.10010006830 of the Banking Bureau, Financial Supervisory Commission, ROC., the target ratio of the bad debts allowance to total loans should be set for more than 1%. Pursuant to Rule No.10300329440 issued by FSC, for the banks to have an enhance risk coverage, the minimum provision for the loan loss reserve is 1.5% of the mortgage and construction loans which are classified as normal assets. Based on Rule No. 10410001840 issued by the FSC, for the Bank to have an enhanced control of the exposure to risk in mainland China, the minimum provision for the loan loss reserve is 1.5% of the loans that were granted to companies based in mainland China and classified as normal assets. Under the “ Risk-Based Loan Categorization” issued by the China Banking and Insurance Regulatory Commission (the “CBIRC”), the foreign bank subsidiary, Fubon Bank (China), divides credit assets into Normal, Special Mentioned, Substandard, Doubtful and Loss. Under the “Notice of 2018 Regulatory Requirements for the Loan Loss Reserves of Fubon Bank (China)” issued by the CBRC Shanghai Office, the lowest standard of loan provision and coverage ratios are 1.8% and 130%, respectively. Fubon Bank (China) uses the individual and combined assessment of impairment, and the abovementioned standard as its minimum provision standard. Credits deemed uncollectible may be written off if the write-off is approved by the board of directors. Recoveries of amounts previously written off are credited to the allowance account.

- (ii) Financial assets impairment (applicable before January 1, 2018)

- 1) Financial assets carried at amortized cost

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

(Continued)

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

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

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

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

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

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

(Continued)

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

In accordance with the Regulations, credit assets are classified as normal assets, assets that require special mentioned, assets with substandard, assets with doubtful collectability, and assets on which there is loss. The Bank evaluates value of collaterals of specified loans and assesses recoverability of nonperforming loans. Under the regulations, the domestic bank subsidiary categorizes the credit assets into Normal, Special Mention, Substandard, Doubtful, and Loss, and then make minimum provisions at 1% of the normal credits (other than those loans to ROC government), 2% of special mention, 10% of substandard, 50% of doubtful, and 100% of loss. According to the Ruling Letter No.10010006830 of the Banking Bureau, Financial Supervisory Commission, ROC., the target ratio of the bad debts allowance to total loans should be set for more than 1%. Pursuant to Rule No.10300329440 issued by FSC, for the banks to have an enhance risk coverage, the minimum provision for the loan loss reserve is 1.5% of the mortgage and construction loans which are classified as normal assets. Based on Rule No. 10410001840 issued by the FSC, for the Bank to have an enhanced control of the exposure to risk in mainland China, the minimum provision for the loan loss reserve is 1.5% of the loans that were granted to companies based in mainland China and classified as normal assets. Under the “Risk-Based Loan Categorization” issued by the China Banking Regulatory Commission (the “CBRC”), the foreign bank subsidiary, Fubon Bank (China), divided credit assets into Normal, Special Mentioned, Substandard, Doubtful and Loss. Under the “Administrative Measures for the Loan Loss Reserves of Commercial Banks” issued by the CBRC, the basic standard of provision loan and coverage ratios are 2.5% and 150%, respectively; the higher of the two standards shall be used for regulatory standard for the loan loss reserves of commercial bank. Fubon Bank (China) uses the individual and combined assessment of impairment, and the abovementioned standard as its minimum provision standard. Credits deemed uncollectible may be written off if the write-off is approved by the board of directors. Recoveries of amounts previously written off are credited to the allowance account.

2) Available-for-sale financial assets

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

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

3) Financial assets carried at cost

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

(Continued)

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

(iii) Impairment of non-financial assets

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

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 are not yet available for use is regularly assessed. If the recoverable amount of any of these assets is lower than its carrying amount, impairment loss is recognized. An impairment loss in respect of goodwill is not reversible in subsequent years.

(r) Reinsurance

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

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

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

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

(Continued)

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

Reinsurance shall arrange the impairment losses recognized and/or reversed in accordance with IFRS 4.

(s) Goodwill and 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. Goodwill resulting from acquisition has been included in intangible assets.

The Company and its subsidiaries select the cost model to measure subsequent to acquisition. An intangible asset with finite useful life is amortized on a straight-line basis over its useful life, and whose expected future economic benefits are assessed for impairment or any change at each reporting date.

An intangible asset with indefinite useful life is not amortized. An intangible asset with indefinite useful life and goodwill are evaluated for impairment annually or whenever there are indications for impairment. In terms of investments under equity method, the carrying amount of goodwill 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.

Except goodwill, most identifiable intangible assets that the Company and its subsidiaries identified have finite useful life use straight-line basis over the estimated useful life of intangible assets. Amortization is recognized in profit or loss. For the estimated useful life, please refer to Note 6(s).

(t) Leases

(i) Lessor

A lease, of which the Company and its subsidiaries have not transferred substantially all the risks and rewards incidental to ownership, is classified as an operating lease. Initial direct costs incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

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

(ii) Lessee

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

(Continued)

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

Other leases are operating leases and are not recognized in the Company's consolidated balance sheet. Payments made under operating lease (excluding insurance and maintenance expenses) are recognized as an expense on a straight-line basis over the term of the lease. Lease incentives received are recognized and amortized on a straight-line basis to decrease lease expenses over the term of the lease.

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

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

(u) Insurance liability

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

(i) Unearned premium reserves

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

(ii) Claim reserves

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

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

(Continued)

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

(iii) Liability reserve

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

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

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

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

(iv) Special reserve – special reserves

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

(Continued)

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

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

1) Special reserves – special catastrophe reserve

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

2) Special reserves – special reserves for fluctuation of risks

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

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

The pre-bonus pre-tax income of participating life insurance policies sold by Fubon Life Insurance is assessed separately at the end of the year, in accordance with the Regulations. The income/loss and the amount of reclassification to retained earnings of the gains/losses on disposal of investments in equity instruments designated at fair value through other comprehensive income, allocation of participating and nonparticipating life insurance policies are also assessed according to the guidelines, and is reported to the competent authority. Such income is credited/debited to “special reserve-provision for bonus of participating policy”. This reserve is written off on the date of bonus announcement. If this reserve is insufficient, an additional “special reserve - provision for risk of bonus” is made to cover for the deficiency.

(Continued)

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

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

(v) Premium deficiency reserve

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

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

(vi) Liability adequacy reserve

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

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

(vii) Reserve for insurance contract 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.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(viii) Insurance liabilities of subsidiaries are life insurance liabilities reserves, unearned premium reserves and claims reserves that are in accordance with the insurance rules where the subsidiaries reside. The amount of these reserves are based on actuarial report issued by local government certified actuaries.

(v) Foreign exchange fluctuation reserve

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

(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 Company and its subsidiaries define significant insurance risk as the event which might lead to additional significant payment.

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

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

(x) Employee benefits

(i) Defined contribution plans

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

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

(Continued)

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

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

(ii) Defined benefit plans

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

When the benefits of a plan are improved, the portion of the increased benefits related to past service costs are recognized as profit or loss immediately.

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

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

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

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

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

(iv) Termination benefits

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

(Continued)

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

(v) Short-term employee benefit

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

(vi) Other long-term employee benefit

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

(y) Revenue recognition

(i) Banking subsidiaries

1) Interest income and expense

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

2) Recognition of commission fee revenue and commission fee expense

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

(ii) Insurance subsidiaries

1) Property insurance subsidiaries

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

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

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

(Continued)

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

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

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

2) Life insurance subsidiaries

a) Fubon Life Insurance

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

Premiums on insurance contracts, which do not belong to investment-linked insurance and which are classified as financial products without discretionary participation feature, are recognized as “reserve for insurance contract with nature of financial instrument”. The insurance acquisition costs are offset against “reserve for insurance contract with nature of financial instrument” when the insurance contracts become effective.

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

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

(Continued)

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

b) Fubon Life Insurance (Vietnam)

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

c) Fubon Life Insurance (Hong Kong)

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

d) Fubon Hyundai Life Insurance Co., Ltd.

The premium income of direct insurance business is recognized based on the common practice in the insurance industry. The first and the subsequent period premium are recognized as revenue when the insurance underwriting process is completed, and when the premium payment is due, respectively. Acquisition costs, according to local authorities, are recognized as deferred costs.

(iii) Securities subsidiaries

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

- 1) Brokerage commission, profit or loss on disposal of trading securities, and relevant brokerage securities transaction charges are recognized at the trading date.
- 2) Interest income or expense from margin loans, securities financing and refinancing, and bonds purchased under agreements to resell and sold under agreements to repurchase are recognized on accrual basis.
- 3) Recognition of service revenue depends on the degree of service delivered.
- 4) Management fees are received from providing management services to securities investment trust funds and investors' discretionary managed accounts. Management fees are calculated daily on the net assets of each securities investment trust fund account and investor's discretionary managed account multiplied by the contract rates and are paid monthly by each securities investment trust fund and investor's discretionary managed account.

(Continued)

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

(z) Income tax

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

(i) Current income tax

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

The 10% surtax on undistributed earnings, computed to the ROC Income Tax Act by the Company and domestic subsidiaries before January 1, 2018, is charged to current income tax expense in the year when the distribution proposal is approved in the shareholders' meeting. According to the amendments to the "Income Tax Act" enacted by the Office of the President of the Republic of China (Taiwan) on February 7, 2018, the Company will calculate the 5% surtax on undistributed earnings of the year 2018, and charge to current income tax expense in the year when the distribution proposal is approved in the shareholders' meeting.

(ii) Deferred income tax

Deferred taxes are measured based on the enacted or substantively enacted tax rate on the reporting date applicable during the year of expected asset realization or debt settlement. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Temporary differences arise primarily from the evaluation of financial instruments (including derivative financial instrument), pension, and the reserve and reversal of post-employment benefits. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

(Continued)

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

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

(aa) Business combination

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

For each business combination, the acquirer shall measure at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either;

- (a) fair value; or
- (b) the present ownership instruments' proportionate share in the recognized amounts of the acquiree's identifiable net assets.

All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs.

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

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

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

(Continued)

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

(ab) Earnings per share

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

(ac) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The segment's operating results are reviewed regularly by the entity's chief operating decision maker to make decisions pertaining to the allocation of the resources to the segment and to assess its performance for which discrete financial information is available.

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

The preparation of the consolidated financial statements in accordance with the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies" endorsed by the FSC requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

Classification of financial assets

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

(Continued)

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

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

(a) Fair value of financial instruments

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

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

(b) Insurance liability and reserve for insurance contract with nature of financial instrument

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

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

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

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

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

The professional judgment applied to the abovementioned liability evaluation process will affect the amount recognized for net changes in insurance liability, net changes in insurance contract with nature of financial instrument, insurance liability and reserve for insurance contract with nature of financial instrument.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (c) Debt investments and loans classified as financial assets measured at amortized cost or fair value through other comprehensive income, and expected credit loss of its receivables (applicable since January 1, 2018)

The Company and its subsidiaries' financial assets impairment which applies Lifetime ECL measurement or 12-month ECL measurement is determined by whether the credit risk has increased significantly since initial recognition. Lifetime ECL measurement applies for those financial assets that have suffered a significant increase in credit risk since initial recognition and 12-month ECL measurement for those have not. To measure expected credit losses, the Company and its subsidiaries consider PD (probability of default) of the financial asset or the issuer or counterparty, which is included in LGD (loss given default). Then LGD is multiplied by EAD (exposure at default). The Company and its subsidiaries consider the impact of the time value of money and estimate the expected credit losses of twelve months and the duration, respectively. The Company and its subsidiaries have considered historical experience, current economic conditions and forward-looking information at the reporting date to determine the assumptions and the selected inputs to be used in calculating the impairments.

- (d) Estimated impairment loss of loans and receivables and financial assets carried at amortized cost (applicable before January 1, 2018)

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

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

- (e) Fair value of investment property

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

(Continued)

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

(f) Impairment of goodwill

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

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

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

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

(b) Income taxes and deferred tax assets and liabilities

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

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

(Continued)

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

(6) Explanation of significant accounts

(a) Cash and Cash Equivalents

	December 31, 2018	December 31, 2017
Cash on hand and petty cash	\$ 7,078,268	6,904,869
Bank deposits	129,453,300	120,817,662
Cash equivalents	22,454,367	499,190
Notes and checks for clearing	7,334,967	4,895,628
Due from banks	65,992,043	81,050,919
Less: Guarantee deposits	<u>78,496</u>	<u>118,644</u>
Total	<u>\$ 232,234,449</u>	<u>214,049,624</u>

For consolidated statements of cash flows, cash and cash equivalents include accounts as of December 31, 2018 and 2017, listed below:

	December 31, 2018	December 31, 2017
Cash and cash equivalents in consolidated balance sheets	\$ 232,234,449	214,049,624
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	69,053,528	72,428,586
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	<u>69,364,357</u>	<u>71,832,960</u>
Cash and cash equivalents in consolidated statements of cash flows	<u>\$ 370,652,334</u>	<u>358,311,170</u>

The Company and its subsidiaries assess the loss allowance for cash and cash equivalents by using the expected credit loss model, which is also used to evaluate debt investments. Due to the low credit risk of cash and cash equivalents, loss allowance is recognized based on 12-month expected credit loss. As of December 31, 2018, the Company and its subsidiaries recognized the loss allowance for cash and cash equivalents amounting to \$10,890.

For credit risk, the assessment of impairment and the change of loss allowance, please refer to note 6 (ak) for details.

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

(Continued)

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

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

	December 31, 2018	December 31, 2017
Call loans to banks	\$ 139,819,789	119,541,286
Deposit reserves	73,627,393	85,571,233
Due from the central bank — others	10,118,934	11,401,596
Total	<u><u>\$ 223,566,116</u></u>	<u><u>216,514,115</u></u>

Under a directive issued by the Central Bank of China, New Taiwan dollar (TWD)-denominated deposit reserves are determined by applying a prescribed percentage to the average monthly balances of customers' TWD-denominated deposits. As of December 31, 2018 and 2017, deposit reserves for checking account amounted to \$16,937,378 and \$21,746,374, respectively; required deposit reserves amounted to \$34,386,173 and \$34,658,540, respectively. The deposit reserves for checking account are not interest bearing and may be withdrawn anytime. The required deposit reserves are subject to withdrawal restrictions. In addition, foreign-currency deposit reserves are determined by applying a prescribed percentage to the balances of foreign-currency deposits. These reserves may be withdrawn anytime but bear no interests.

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

As of December 31, 2018, the Company and its subsidiaries recognized the loss allowance amounting to \$10,779.

For credit risk, the assessment of impairment and the change of loss allowance, please refer to note 6 (ak) for details.

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

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

	December 31, 2018	December 31, 2017
Financial assets mandatorily measured at fair value through profit or loss:		
Non-hedge derivative instruments		
Interest rate contracts	\$ 3,281,997	-
Currency rate contracts	25,207,439	-
Options contracts	813,380	-
Others	3,100,706	-
	<u><u>32,403,522</u></u>	<u><u>-</u></u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	December 31, 2018	December 31, 2017
Non-derivative financial assets		
Government bonds	\$ 30,877,022	-
Commercial papers	32,888,551	-
Corporate and financial bonds	75,344,794	-
Stocks and beneficiary certificates	708,462,910	-
Beneficiary securities	9,706,536	-
Others	<u>15,997,155</u>	<u>-</u>
	<u>873,276,968</u>	<u>-</u>
Hybrid financial assets		
Convertible corporate bonds	10,192,705	-
Structured products	<u>1,454,377</u>	<u>-</u>
	<u>11,647,082</u>	<u>-</u>
Held-for-trading financial assets:		
Non-hedge derivative instruments		
Interest rate contracts	-	2,947,231
Currency rate contracts	-	29,805,527
Options contracts	-	216,235
Others	<u>-</u>	<u>3,941,858</u>
	<u>-</u>	<u>36,910,851</u>
Non-derivative financial assets		
Government bonds	-	32,175,209
Commercial papers	-	7,197,470
Treasury bonds	-	7,056,894
Convertible corporate bonds	-	5,715,397
Stocks and beneficiary certificates	-	8,844,815
Beneficiary securities	-	353,238
Corporate and financial bonds	-	43,895,282
Others	<u>-</u>	<u>30,647</u>
	<u>-</u>	<u>105,268,952</u>
Financial assets designated as at fair value through profit or loss at initial recognition:		
Credit structured bonds	-	1,102,092
Convertible corporate bonds	<u>-</u>	<u>5,915,972</u>
	<u>-</u>	<u>7,018,064</u>
Total	<u>\$ 917,327,572</u>	<u>149,197,867</u>

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (ii) If the assets are hybrid in instruments, the above financial assets shall be designated as financial assets measured at fair value through profit or loss. The hybrid contract are originally designated as financial assets measured at fair value through profit or loss under IAS 39. Since the host contracts embedded in the hybrid contract are the financial assets in the scope of IFRS 9, the hybrid contract should be mandatorily classified as financial assets measured at fair value through profit or loss based on the assessment of the whole hybrid contract after adopting IFRS 9.
- (iii) Taipei Fubon Bank and its subsidiaries are engaged in derivative transactions mainly to accommodate customers' needs, to manage their exposure positions, and to accommodate their fund needs in different currencies.
- (iv) The Insurance subsidiaries have selected to apply the overlay approach of IFRS 4 "Insurance Contracts" to express the profit or loss of designated financial assets when applying IFRS 9 on January 1, 2018.
- 1) The financial assets related to investing activities of issuing insurance contracts and designated to apply the overlay approach were as follows:

	December 31, 2018
Financial assets measured at fair value through profit or loss:	
Stocks	\$ 359,650,904
Corporate and financial bonds	26,196,813
Beneficiary certificates	346,642,043
Others	<u>5,610,754</u>
Total	<u>\$ 738,100,514</u>

For the year ended December 31, 2018, the reclassified amount from profit or loss to other comprehensive income of the financial assets designated to apply the overlay approach was as follows:

	2018
Losses reported as profit or loss under IFRS 9	\$ (25,482,242)
Less: Gains reported as profit or loss if applied IAS 39	<u>(51,885,027)</u>
Losses reclassified by applying overlay approach	<u>\$ (77,367,269)</u>

The changes in gain (loss) on financial assets measured at fair value through other comprehensive income due to the adjustment of the overlay approach were as follows:

	2018
Losses of financial assets before adjustment	<u>\$ (89,508,634)</u>
Losses of financial assets after adjustment	<u>\$ (12,141,365)</u>

(Continued)

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

- 2) For the year ended December 31, 2018, none of financial assets held by the Insurance subsidiaries has changed conditions and released designation.
- 3) For the year ended December 31, 2018, none of financial assets held by the Insurance subsidiaries has been terminated.

(d) Financial Assets Measured at Fair Value through Other Comprehensive Income

	December 31, 2018
Debt investments measured at fair value through other comprehensive income:	
Government bonds	\$ 215,730,081
Financial bonds	216,941,835
Corporate bonds	213,571,317
Commercial papers	24,664,294
Negotiable certificates of deposits	16,016,515
Beneficiary securities	26,038,080
Discount notes and loans	27,741,408
Others	839,364
Less: Guarantee deposits	<u>17,046,443</u>
Subtotal	<u>724,496,451</u>
Equity investments measured at fair value through other comprehensive income:	
Stocks	92,829,128
Others	<u>2,881,604</u>
Subtotal	<u>95,710,732</u>
Total	<u>\$ 820,207,183</u>

(i) Debt investments measured at fair value through other comprehensive income

The Company and its subsidiaries have assessed that the securities are held within a business model whose objective is achieved by both collecting the contractual cash flows and selling securities; therefore, they have been classified as at fair value through other comprehensive income since January 1, 2018.

(ii) Equity investments measured at fair value through other comprehensive income

Dividend income from abovementioned financial assets measured at fair value through other comprehensive income were as follows:

	2018
Dividend income	<u>\$ 4,518,420</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, dividend income from disposed financial assets measured at fair value through other comprehensive income within the same period amounting to \$543,454.

For the year ended December 31, 2018, the Company and its subsidiaries have sold the stocks designated as at fair value through other comprehensive income for the consideration of assets allocation, management and reconciliation of the portfolios. The sold stocks had a fair value of \$38,235,669 and the Company and its subsidiaries recognized accumulated loss of \$13,573,476. The accumulated loss has been transferred from other equity to retained earnings.

- (iii) Information of credit risk (including the impairment assessment of debt investments and the change of the loss allowance) and market risk, please refer to note 6 (ak) for details.
- (iv) The guarantee of the financial assets measured at fair value through other comprehensive income provided as pledged assets, please refer to note 8 for details.

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

	December 31, 2017
Negotiable certificates of deposits	\$ 32,598,735
Government bonds	242,202,571
Corporate and financial bonds	564,909,584
Stocks	525,212,521
Beneficiary certificates and beneficiary securities	225,178,966
Commercial papers	45,727,555
Treasury bonds	4,487,135
Others	<u>127,575</u>
Subtotal	1,640,444,642
Less: Guarantee deposits	2,494,055
Accumulated impairment	<u>2,808,579</u>
Net amount	<u>\$ 1,635,142,008</u>

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

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

(Continued)

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

(f) Debt Investments Measured at Amortized Cost

	December 31, 2018
Government bonds	\$ 212,882,729
Corporate bonds	1,048,171,983
Financial bonds	916,880,880
Negotiable certificates of deposits	296,332,471
Linked deposits	26,629,910
Beneficiary securities	40,228,117
Others	<u>24,743,792</u>
Subtotal	2,565,869,882
Less: Loss allowance	<u>960,020</u>
Total	<u>\$ 2,564,909,862</u>

- (i) The Company and its subsidiaries have assessed that these financial assets are held to maturity to collect contractual cash flows, which consist solely of payments of principal and interest on principal amount outstanding. Therefore, these investments were classified as debt investments measured at amortized cost since January 1, 2018.
- (ii) For the year ended December 31, 2018, the current gain or loss on disposal of financial assets measured at amortized cost and the carrying amount of derecognition were as follows:

2018	
Carrying amount of derecognition	Current gain or loss recognized
<u>\$ 67,324,893</u>	<u>998,214</u>

- (iii) The reasons for the Company and its subsidiaries to sell the abovementioned financial assets:
- The Company and its subsidiaries sold partial financial assets measured at amortized costs because the credit risk of the bond issuer increases, the bond issuer mandatorily redeem, and because the sale is not frequent (even if the amount is significant) or both the individual and aggregate amount are insignificant (even if frequent).
- (iv) For credit risk, the assessment of impairment and the change of loss allowance, please refer to note 6 (ak) for details.
- (v) The guarantee of the debt investments measured at amortized cost provided as pledged assets, please refer to note 8 for details.

(Continued)

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

(g) Financial Instruments for Hedging

	December 31, 2018	December 31, 2017
<u>Financial assets for hedging</u>		
Interest rate swap contracts	\$ 3,409,428	2,272,840
Currency swap contracts	364,663	-
Forward exchange contracts	2,236	-
	<u>\$ 3,776,327</u>	<u>2,272,840</u>
	December 31, 2018	December 31, 2017
<u>Financial liabilities for hedging</u>		
Interest rate swap contracts	\$ 3,393,195	2,589,585
Currency swap contracts	32,706	-
Forward exchange contracts	71	-
	<u>\$ 3,425,972</u>	<u>2,589,585</u>

(i) Fubon Life Insurance and its subsidiaries

1) Fair value hedge

Fubon Life Insurance and its subsidiaries hold foreign currency assets. This exposes Fubon Life Insurance and its subsidiaries to the risk that future fair value will fluctuate due to the change in the exchange rate. As Fubon Life Insurance and its subsidiaries assessed that the potential risks could be significant in the future, forward exchange contracts and foreign exchange swap contracts were contracted for hedging purposes.

2) Cash flow hedge

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

(Continued)

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

The amount of future cash flow, timing and uncertainty:

		Maturity				
		Less than one month	Between one and three months	Between three months and one year	Between one and five years	More than five years
December 31, 2018						
Fair value hedge						
Forward exchange						
Nominal amount	\$	162,374	188,375	-	-	-
Average exchange rate (KRW/USD)		1,125.35	1,122.59	-	-	-
Foreign exchange swap						
Nominal amount		309,932	-	-	-	-
Average exchange rate (KRW/TWD)		36.63	-	-	-	-
Nominal amount		18,238,193	34,880,035	3,560,797	-	-
Average exchange rate (KRW/USD)		1,124.99	1,122.15	1,119.24	-	-
Cash flow hedge						
Interest rate swap						
Nominal amount	\$	-	-	-	16,568,490	14,599,912
Average exchange rate (KRW/USD)		- %	- %	- %	1.33 %	1.94 %

The hedging instruments used in hedging strategies were as follows:

	Nominal amount of hedging instruments	Carrying amount of hedging instruments		The line item of hedging instruments in Balance Sheet	Fair value changes used to calculate the hedge ineffectiveness 2018
		Assets	Liabilities		
December 31, 2018					
Fair value hedge					
Exchange rate risk					
— Forward exchange contracts	\$ 350,749	2,235	(71)	Financial assets / liabilities for hedging	(337)
— Foreign exchange swap contracts	\$ 56,988,957	364,663	(32,705)	Financial assets / liabilities for hedging	(619,444)
Cash flow hedge					
— Interest rate swap contract	\$ 31,168,402	468,635	(738,769)	Financial assets / liabilities for hedging	(97,781)

(Continued)

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

The information of designated hedged items were as follows:

Fair value hedge

	Carrying amount of items designated as hedged		Accumulated adjustment of fair value		Fair value changes used to calculate the hedge ineffectiveness 2018	Items designated as hedged which stop adjusting profit or loss, but still classified as accumulated adjustment of fair value on balance sheet	Ineffective portion of fair value hedge recognized in profit or loss	The line item of hedge ineffectiveness included in profit or loss
	Assets	Liabilities	Assets	Liabilities				
December 31, 2018								
Items designated as hedged								
Financial assets measured at fair value through profit or loss- TWD dominated bonds	\$ 214,049	-	(167)	-	(57)	None	20	Gains (losses) on financial assets or liabilities measured at fair value through profit or loss
Financial assets measured at fair value through other comprehensive income- foreign currency dominated bonds	2,457,526	-	(127,960)	-	31,535	None	(11,130)	Gains (losses) on financial assets or liabilities measured at fair value through profit or loss
Financial assets measured at amortized cost- foreign currency dominated bonds and deposits	52,292,105	-	(748,083)	-	340,686	None	(236,508)	Gains (losses) on financial assets or liabilities measured at fair value through profit or loss

Cash flow hedge

	Fair value changes used to calculate the hedge ineffectiveness 2018		Provisions for cash flow hedge	The residual amount of provisions for cash flow that hedge no longer applies the hedging relation of hedging accounting	Changes in the value of the hedging instruments recognized in other comprehensive income	Ineffective portion of cash flow hedge recognized in profit or loss	The line item of hedge ineffectiveness included in profit or loss	The amount be reclassified from cash flow hedge to profit or loss	The line item affected by reclassification in profit or loss
	Assets	Liabilities							
December 31, 2018									
Items designated as hedged									
Floating bonds	\$ 120,120	(271,727)		Not applicable	96,875	1,593	Gains (losses) on financial assets or liabilities measured at fair value through profit or loss	(8,737)	Interest revenue

(Continued)

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

The reconciliation of each component of equity applying hedging accounting and an analysis of other comprehensive income were as follows:

	Provisions for cash flow hedge
January 1, 2018	\$ (359,865)
Total amount recognized in other comprehensive income:	
Cash flow hedge - Interest risk	
Changes in the value of the hedging instruments recognized in other comprehensive income	96,875
The amount be reclassified from provision for cash flow hedge to profit or loss	(8,737)
December 31, 2018	<u><u>\$ (271,727)</u></u>

Details of hedged items designated as cash flow hedges and their respective hedging derivative financial instruments before January 1, 2018 were as follows:

Hedged items	Designated hedging instruments	December 31, 2017		Expected period of cash flows	Expected period of recognition in profit or loss
		Nominal amount	Fair value of hedging instruments		
Floating bonds and floating collateral loans	Interest rate swap contracts	\$ 34,875,554	(359,865)	2018.1.16~ 2024.08.11	2018.1.16~ 2024.08.11

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

Item	December 31, 2017
Equity adjusted amount	<u><u>117,463</u></u>
Non-financial assets (liabilities) transferred from equity (recognized as deferred income tax assets (liabilities))	<u><u>(19,969)</u></u>

(ii) Taipei Fubon Bank and its subsidiaries

Fair value hedge

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

(Continued)

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

The information of interest rate risk hedge were as follows:

	Nominal amount of hedging instruments	Carrying amount of hedging instruments		The line item of hedging instruments in Balance Sheet	Fair value changes used to calculate the hedge ineffectiveness 2018
December 31, 2018		Assets	Liabilities		
Fair value hedge					
— Interest rate swap contract	\$ 126,199,673	1,816,774	(2,411,422)	Financial assets / liabilities for hedging	(381,333)
	Carrying amount		Accumulated adjustment of fair value		Fair value changes used to calculate the hedge ineffectiveness 2018
	Assets	Liabilities	Assets	Liabilities	
December 31, 2018					
Hedged items					
Financial bonds payable	\$ -	(61,480,595)	-	1,600,785	1,329,496
Financial assets measured at amortized cost— corporate bonds	60,438,556	-	(999,269)	-	(956,978)
Financial assets measured at amortized cost— financial bonds	2,866,636	-	931	-	10,732
2018					
		Gains (losses) on ineffective portion of interest risk hedge recognized in comprehensive income		The line item in the Statement of Comprehensive Income for ineffective portion	
Impact of comprehensive income					
Fair value hedge					
Financial bonds payable	\$	1,917		Gains (losses) on financial assets or liabilities measured at fair value through profit or loss	
December 31, 2017					
Hedged items	Designated hedging instruments	Nominal amount		Fair value	
Financial bonds payable	Interest rate swap contracts	\$	48,328,858		(265,408)
Available-for-sale financial assets— corporate bonds	Interest rate swap contracts		61,471,239		(63,324)
Availed-for-sale financial assets— financial bonds	Interest rate swap contracts		3,401,059		7,679

(Continued)

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

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

Fair value hedge

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

The amount of future cash flow, timing and uncertainty:

		Maturity				
		Less than one month	Between one and three months	Between three months and one year	Between one and five years	More than five years
December 31, 2018						
Fair value hedge						
Interest rate swap						
Nominal amount	\$	-	1,247,010	11,723,642	46,337,008	13,682,199
Average fixed interest rate		- %	3.43 %	4.35 %	3.86 %	3.99 %

The hedging instruments used in hedging strategies were as follows:

	<u>Nominal amount of hedging instruments</u>	<u>Carrying amount of hedging instruments</u>		<u>The line item of hedging instruments in Balance Sheet</u>	<u>Fair value changes used to calculate the hedge ineffectiveness 2018</u>
		<u>Assets</u>	<u>Liabilities</u>		
December 31, 2018					
Fair value hedge					
— Interest rate swap contract	\$ 72,989,860	1,124,020	(267,392)	Financial assets / liabilities for hedging	-

The information of designated hedged items were as follows:

					Fair value changes used to calculate the hedge ineffectiveness 2018
Carrying amount		Accumulated adjustment of fair value			
Assets	Liabilities	Assets	Liabilities		
December 31, 2018					
Hedged items					
Financial bonds payable	\$ -	(8,639,530)	-	(36,836)	-
Financial assets measured at amortized cost— financial bonds	64,524,992	-	702,332	-	-

(Continued)

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

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

(h) Securities Purchased Under Resell Agreements

	December 31, 2018	December 31, 2017
Margin lending amount	<u>\$ 69,364,357</u>	<u>71,832,960</u>

The maturity of abovementioned securities purchased under resell agreements were all within one year as of December 31, 2018 and 2017.

(i) Receivables, Net

	December 31, 2018	December 31, 2017
Accounts receivable – credit card	\$ 39,644,510	38,327,675
Accounts receivable – forfeiting	538,578	1,719,190
Notes receivable, accounts receivable and acceptance	23,923,187	17,260,614
Accounts receivable – factoring	19,518,633	16,533,543
Interest receivable	42,713,847	35,562,768
Revenues receivable	2,979,817	2,915,826
Premiums receivable	3,403,232	3,111,561
Margin loans receivable	9,948,857	14,419,909
Accounts receivable – settlement	15,759,544	27,342,233
Others	<u>52,281,169</u>	<u>14,634,228</u>
Subtotal	210,711,374	171,827,547
Less: Allowance for doubtful accounts	<u>1,436,969</u>	<u>1,156,638</u>
Total	<u>\$ 209,274,405</u>	<u>170,670,909</u>

For credit risk, the assessment of impairment and the change of allowance for loss, please refer to Note 6(ak) for details.

(j) Assets Classified as Held for Sale, Net

On May 13, 2014, the board of directors of Fubon Bank (Hong Kong) approved the selling plan for two owned properties, and reclassified the properties to assets held for sale. Fubon Bank (Hong Kong) has sold one of the properties in December, 2014 and will continue to sell the remaining property. As of December 31, 2018 and 2017, net book value of assets held for sale are \$46,804 and \$45,533 were recognized at the lower of the carrying amount and fair value less costs of sale.

(Continued)

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

In May 2018, the board of directors of Fubon Bank (Hong Kong) approved the selling plan for FB Investment Management Limited and the contract was signed. Therefore Fubon Bank (Hong Kong) reclassified the assets to assets held for sale and liabilities to liabilities directly related to the assets held for sale. As of December 31, 2018, assets held for sale and liabilities directly related to the assets held for sale amounted to \$1,508 and \$100, respectively.

(k) Discounts and Loans, Net

	December 31, 2018	December 31, 2017
Discounts and overdrafts	\$ 6,763,228	23,199,954
Short-term advances	11,718,446	10,973,751
Accounts receivable – financing	3,726,273	2,674,838
Short-term loans	320,583,292	366,207,108
Short-term secured loans	92,872,668	85,916,856
Medium-term loans	253,095,513	262,198,612
Medium-term secured loans	145,595,673	118,257,080
Long-term loans	103,884,338	90,142,012
Long-term secured loans	843,738,028	752,332,955
Insurance policy loans	71,392,396	52,250,315
Import and export bill negotiation	13,409,261	12,867,491
Nonperforming loans	<u>4,300,320</u>	<u>4,569,814</u>
Subtotal	1,871,079,436	1,781,590,786
Less: Allowance for doubtful accounts	22,681,311	22,586,881
Adjustments of premium and discount	<u>604,985</u>	<u>563,794</u>
Total	<u><u>\$ 1,847,793,140</u></u>	<u><u>1,758,440,111</u></u>

For credit risk, the assessment of impairment and the change of allowance for loss, please refer to Note 6 (ak) for details.

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

Loans

Item		Total loans
		December 31, 2017
There is objective evidence of impairment.	Individual assessment of impairment	8,464,298
	Combined assessment of impairment	2,360,405
There is no objective evidence of impairment.	Combined assessment of impairment	1,770,766,083
Total		1,781,590,786

(Continued)

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

Loans

Item		Allowance for doubtful accounts
		December 31, 2017
There is objective evidence of impairment.	Individual assessment of impairment	3,779,079
	Combined assessment of impairment	162,587
There is no objective evidence of impairment.	Combined assessment of impairment	18,645,215
Total		22,586,881

Receivables

Item		Total receivables
		December 31, 2017
There is objective evidence of impairment.	Individual assessment of impairment	1,135,281
	Combined assessment of impairment	870,524
There is no objective evidence of impairment.	Combined assessment of impairment	170,375,060
Total		172,380,865

Receivables

Item		Allowance for doubtful accounts
		December 31, 2017
There is objective evidence of impairment.	Individual assessment of impairment	823,472
	Combined assessment of impairment	290,910
There is no objective evidence of impairment.	Combined assessment of impairment	405,028
Total		1,519,410

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

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

(Continued)

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

The movement of the allowance for doubtful accounts of loans and receivables for the years ended December 31, 2018 and 2017, were as follows:

	2018			
	Receivables	Loans	Other financial assets	Total
Beginning balance	\$ 1,156,638	22,586,881	362,772	24,106,291
Effects of retrospective application	<u>151,574</u>	<u>(311,145)</u>	<u>150</u>	<u>(159,421)</u>
Beginning balance after restating	1,308,212	22,275,736	362,922	23,946,870
Allowance for doubtful accounts (reversal)	169,309	1,195,675	(75,634)	1,289,350
Write-off	(167,203)	(1,471,050)	(293,363)	(1,931,616)
Recovery from write-off	-	480,513	345,517	826,030
Acquisition through business combination	120,108	133,694	-	253,802
Effects of exchange rate changes and others	6,543	66,743	780	74,066
Ending balance	<u><u>\$ 1,436,969</u></u>	<u><u>22,681,311</u></u>	<u><u>340,222</u></u>	<u><u>24,458,502</u></u>

	2017			
	Receivables	Loans	Other financial assets	Total
Beginning balance	\$ 1,350,786	20,778,911	982,235	23,111,932
Allowance for doubtful accounts	146,837	2,791,768	(34,067)	2,904,538
Write-off	(186,755)	(1,023,354)	(996,733)	(2,206,842)
Recovery from write-off	-	392,340	355,486	747,826
Effects of exchange rate changes and others	(154,230)	(352,784)	55,851	(451,163)
Ending balance	<u><u>\$ 1,156,638</u></u>	<u><u>22,586,881</u></u>	<u><u>362,772</u></u>	<u><u>24,106,291</u></u>

(Continued)

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

(l) Reinsurance Contract Assets

	December 31, 2018	December 31, 2017
Claims recoverable from reinsurers	\$ 2,695,265	2,864,695
Due from reinsurers and ceding companies	4,089,957	3,703,972
	<u>6,785,222</u>	<u>6,568,667</u>
Subtotal		
Reinsurance reserve assets:		
Ceded unearned premium reserve	5,884,864	5,627,910
Ceded claim reserve	7,030,424	7,596,099
Ceded premium deficiency reserve	651,387	493,301
Ceded liability reserve	<u>1,791</u>	<u>793</u>
Subtotal	<u>13,568,466</u>	<u>13,718,103</u>
Total	<u><u>\$ 20,353,688</u></u>	<u><u>20,286,770</u></u>

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

	December 31, 2017
Government bonds	\$ 101,369,272
Corporate bonds	48,420,524
Financial bonds	46,285,951
Negotiable certificates of deposits	298,396,367
Others	<u>3,011,323</u>
Subtotal	497,483,437
Less: Guarantee deposits	<u>10,333,173</u>
Total	<u><u>\$ 487,150,264</u></u>

Due to the cost of capital, Taipei Fubon Bank and its subsidiaries have successively disposed of or reclassified the bond investments because of closeness to maturity or deterioration of credit risk. As of December 31, 2017, the cumulative amounts of disposal and reclassification during the past three years were \$28,204,475, the cumulative gains on disposal were \$17,333; and the cumulative other comprehensive income from reclassification was \$205,938. The percentages of the cumulative amounts of disposal and reclassification of held-to-maturity investments were 5.70%.

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

(Continued)

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

(n) Investments Accounted for Using Equity Method, Net

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

Name of associate	Relationship with the Company and its subsidiaries	Main business office / Country of Registry	Ownership interest and voting right	
			December 31, 2018	December 31, 2017
Xiamen Bank	Engages in deposits and loans to commercial bank and plays an important role in developing markets in China for the Company and its subsidiaries	Mainland China	19.95 %	15.78 %

Summarized financial information of material associates was as follows:

Xiamen Bank

	December 31, 2018	December 31, 2017
Total assets	\$ 1,038,617,565	976,390,016
Total liabilities	(975,971,944)	(919,964,475)
Net assets	<u>\$ 62,645,621</u>	<u>56,425,541</u>
	2018	2017
Operating revenue	<u>\$ 19,218,435</u>	<u>20,279,165</u>
Net income	\$ 6,577,852	5,505,510
Other comprehensive income	2,385,020	(923,854)
Total comprehensive income	<u>\$ 8,962,872</u>	<u>4,581,656</u>
	2018	2017
Share of net assets of associates at the beginning of the periods	\$ 8,947,205	8,681,918
Total comprehensive income attributable to the Company and its subsidiaries for the period	1,210,035	697,355
Dividends received from associates	(172,480)	(338,555)
Bargain purchase gain	265,248	-
Acquisition of shares	2,235,703	-
Capital surplus arising from changes in ownership interest	1,083	(93,513)
Book value of equity of associates at the end of the periods	<u>\$ 12,486,794</u>	<u>8,947,205</u>

Since the Company and its subsidiaries do not participate in the capital increase for cash of Xiamen Bank in June and September, 2017, their ownership interest in Xiamen Bank decreased. In June 2018, Fubon Bank (Hong Kong) has acquired the ordinary shares of Xiamen Bank to increase their ownership interest to 19.95%.

(Continued)

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

In order to adjust the Group's investment structure, the Company acquired 19.95% ownership interest of Xiamen Bank from Fubon Bank (Hong Kong) on November 30, 2018.

(ii) Individually immaterial associates

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

	December 31, 2018	December 31, 2017
Fubon Construction Management Co., Ltd.	\$ 115,338	107,775
Line Biz+ Taiwan Co., Ltd.	3,139,671	-
Fubon Health Management Co., Ltd.	30,556	43,660
Founder Fubon Fund Management Co., Ltd.	682,065	359,674
CITIC Capital Holdings Ltd.	8,804,540	9,172,776
Hyundai Life Insurance Co., Ltd.	-	3,588,688
CITIC FUTONG Financial Leasing Limited	915,547	1,515,612
Teng Fu Bo Investment Limited	274,643	180,670
Star River Energy Corporation	278,581	342,356
Amis Technology Co., Ltd.	-	17,325
Bravelog Sport Technology Co., Ltd.	4,617	7,479
Star Shining Energy Corporation	1,123,932	329,244
Cofit Healthcare Inc.	9,564	14,378
Wholox Max Green Power Co., Ltd.	337,495	-
	\$ 15,716,549	15,679,637
	2018	2017
Attributable to the Company and its subsidiaries :		
Net income	\$ 39,182	(217,997)
Other comprehensive income	231,153	742,895
Total comprehensive income	\$ 270,335	524,898

Fubon Life Insurance acquired 48.62% of ownership interest of Hyundai Life Insurance Co., Ltd. on December 3, 2015, using equity method. By participating in the capital increase for cash by \$6,420,296, Fubon Life Insurance acquired an additional 13.44% of ownership interest on September 15, 2018 and made Hyundai Life Insurance Co., Ltd. a 62.06% owned subsidiary. Hyundai Life Insurance Co., Ltd. is renamed as "Fubon Hyundai Life Insurance Co., Ltd.", which is a life insurance company.

(Continued)

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

(o) Non-controlling interest of materiality

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

Name of subsidiary	Main business office / Country of registry	Ownership interest and voting right of non-controlling interest December 31, 2018
Fubon Hyundai Life Insurance Co., Ltd.	South Korea	37.94 %

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

Summarized financial information of Fubon Hyundai Life Insurance Co., Ltd.:

	December 31, 2018
Total assets	\$ 481,787,324
Total liabilities	(459,696,772)
Non-common equity	(2,775,114)
Net assets	<u>\$ 19,315,438</u>
Equity attributable to non-controlling interest	<u>\$ 9,389,182</u>
	2018.9.15 ~2018.12.31
Net revenue	<u>\$ 8,211,569</u>
Net income	129,660
Other comprehensive income	1,798,737
Total comprehensive income	<u>\$ 1,928,397</u>
Consolidated net income for the period attributable to non-controlling interests	<u>\$ 49,192</u>
Consolidated other comprehensive income attributable to non-controlling interests	<u>\$ 732,539</u>
	2018.9.15 ~2018.12.31
Cash flows	
Operating activities	\$ 18,983,139
Investing activities	260,023
Net increase (decrease) in cash and cash equivalents	<u>19,243,162</u>

(Continued)

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

(p) Other Financial Assets, Net

	December 31, 2018	December 31, 2017
Financial assets carried at cost, net	\$ -	6,248,183
Debt investments without active market, net	-	1,585,669,386
Assets on insurance product—separated account	369,434,448	155,214,816
Linked deposits	-	19,821,595
Margin deposits paid for borrowed securities	4,425,851	41,654
Collateral for borrowed securities	207,172	46,188
Overdue receivables	297,785	272,277
Customer margin deposit	16,250,349	20,504,270
Buy remittance	231	1,234
Buy nonperforming loan	253,911	279,807
Deposits not qualifying as cash equivalents	18,549,111	45,928,210
Prepayments for investments	<u>-</u>	<u>1,645,750</u>
Subtotal	409,418,858	1,835,673,370
Less: Guarantee deposits—others	2,296,152	2,218,480
Allowance for doubtful accounts	<u>340,222</u>	<u>362,772</u>
Total	<u>\$ 406,782,484</u>	<u>1,833,092,118</u>

For credit risk, the assessment of impairment and the change of allowance for loss, please refer to Note 6 (ak) for details.

(i) Financial assets carried at cost

	December 31, 2017
Investment in unlisted stocks	\$ 6,651,400
Less: Accumulated impairment	<u>403,217</u>
Total	<u>\$ 6,248,183</u>

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

Due to objective evidence of impairment, the Company and its subsidiaries provided impairment losses on financial assets carried at cost amounting to \$27,119 for the year ended December 31, 2017.

(Continued)

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

(ii) Separated account — insurance product

Fubon Life Insurance and its subsidiaries

	December 31, 2018	December 31, 2017
Assets on insurance product — separated account:		
Bank deposits	\$ 9,420,408	9,378,316
Securities	148,498,922	144,366,179
Receivables	<u>1,895,424</u>	<u>1,470,321</u>
Total	<u>\$ 159,814,754</u>	<u>155,214,816</u>
	December 31, 2018	December 31, 2017
Liabilities on insurance product — separated account:		
Reserve — insurance contract	\$ 93,025,937	94,670,174
Reserve — investment contract	66,692,806	60,544,109
Payables	<u>96,011</u>	<u>533</u>
Total	<u>\$ 159,814,754</u>	<u>155,214,816</u>
	2018	2017
Separate account products revenues:		
Insurance revenues	\$ 21,122,429	17,742,092
Interest revenues	1,570,176	966,977
Gains (losses) on financial assets or liabilities measured at fair value through profit and loss	(9,541,503)	10,052,205
Gains (losses) on foreign exchange	<u>(380,897)</u>	<u>(495,000)</u>
Total	<u>\$ 12,770,205</u>	<u>28,266,274</u>
Separate account products expenses:		
Net insurance separate account value reserve	\$ (2,511,678)	13,052,846
Insurance claim payments	12,303,367	12,480,144
Administrative expense	2,977,678	2,733,284
Other expenses	<u>838</u>	<u>-</u>
Total	<u>\$ 12,770,205</u>	<u>28,266,274</u>

For the years ended December 31, 2018 and 2017, Fubon Life Insurance earned sales commission in investment oriented insurance products from counterparties amounted to \$527,993 and \$489,970, respectively. The rebate was recognized as net service charge and commissions loss.

(Continued)

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

Balances of corporate and individual annuity insurance products of Fubon Life Insurance's subsidiary are as follows:

	December 31, 2018
Assets on corporate and individual annuity insurance products - seperated account :	
Bank deposits-seperated account	\$ 4,778,265
Financial assets measured at fair value through profit or loss	6,251,761
Financial assets measured at fair value through other comprehensive income	107,012,055
Financial assets measured at amortized cost	30,742,114
Interest receivables	11,522
Other receivables	<u>60,823,977</u>
Total	<u>\$ 209,619,694</u>
	December 31, 2018
Liabilities on corporate and individual annuity insurance products - seperated account :	
Financial liabilities for hedging	\$ 20,827
Other payables	44,476,263
Insurance seperate account value reserve	<u>165,533,843</u>
Total	<u>\$ 210,030,933</u>
	2018.10.1 ~2018.12.31
Revenues on corporate and individual annuity insurance products - separated account:	
Interest revenue	1,093,615
Reversal of insurance value reserve provisions - seperated account	-
Gains (losses) on financial assets or liabilities measured at fair value through profit and loss	167,203
Gains on foreign exchange	206,636
Other revenues	<u>32,469</u>
Total	<u>\$ 1,499,923</u>

(Continued)

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

	2018.10.1 ~2018.12.31
Expenses on corporate and individual annuity insurance products - separated account:	
Insurance claim payments	\$ 178
Insurance value reserve provisions - separated account	585,309
Gains (losses) on financial assets or liabilities measured at fair value through profit and loss	231,266
Losses on foreign exchange	65,592
Administrative expenses	<u>617,578</u>
Total	<u><u>\$ 1,499,923</u></u>

(iii) Debt investments without active market

	December 31, 2017
Government bonds	\$ 97,420,917
Corporate bonds	668,165,038
Financial bonds	277,093,961
Zero-coupon bonds	485,027,715
Real estate mortgage bonds	25,686,633
Securitization of beneficiary certificates	23,309,731
Negotiable certificates of deposit	<u>8,965,391</u>
Total	<u><u>\$ 1,585,669,386</u></u>

For the year ended December 31, 2017, there was no objective evidence of impairment. Therefore, the Company and its subsidiaries did not recognize any impairment loss on debt investments without active market.

(q) Investment Property

	Land and improvements	Buildings	Investment property under construction	Prepayment for investment property	Others	Total
Balance as of January 1, 2018	\$ 130,725,092	44,318,761	1,478,188	57,868	1,747,321	178,327,230
Additions	122,872	94,169	1,692,461	8,416	-	1,917,918
Acquisition through business combination	888,181	1,300,541	-	-	-	2,188,722
Reclassification	38,127	(108,399)	477,912	(12,646)	-	394,994
Disposals	(3,135,615)	-	-	-	-	(3,135,615)
Gains (losses) generated from fair value adjustments	(723,577)	1,972,467	-	-	(415,611)	833,279
Effects of exchange rate changes	(302,634)	(738,037)	-	-	(49,505)	(1,090,176)
Balance as of December 31, 2018	<u><u>\$ 127,612,446</u></u>	<u><u>46,839,502</u></u>	<u><u>3,648,561</u></u>	<u><u>53,638</u></u>	<u><u>1,282,205</u></u>	<u><u>179,436,352</u></u>

(Continued)

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

	Land and improvements	Buildings	Investment property under construction	Prepayment for investment property	Others	Total
Balance as of January 1, 2017	\$ 127,291,072	45,205,469	1,290,754	26,101	1,715,684	175,529,080
Additions	1,915,735	714,343	434,663	33,009	-	3,097,750
Reclassification	3,501,761	153,839	(247,229)	(1,242)	-	3,407,129
Classified as held for sale	(1,075,491)	(3,126,121)	-	-	-	(4,201,612)
Gains (losses) generated from fair value adjustments	(1,163,213)	795,123	-	-	(28)	(368,118)
Effects of exchange rate changes	255,228	576,108	-	-	31,665	863,001
Balance as of December 31, 2017	<u>\$ 130,725,092</u>	<u>44,318,761</u>	<u>1,478,188</u>	<u>57,868</u>	<u>1,747,321</u>	<u>178,327,230</u>

Rental revenue incurred for investment property for the years ended December 31, 2018 and 2017, amounted to \$5,941,983 and \$6,019,400, respectively. Direct operation expenses amounted to \$1,161,759 and \$1,007,380 for the years ended December 31, 2018 and 2017, respectively, in which, \$49,061 and \$47,781, respectively, are direct operation expenses belonging to investment property that does not generate rental income.

Property interests which are held under operating lease, in which the Company and its subsidiaries chose to classify as investment property, shall be accounted for as finance leases. As of December 31, 2018 and 2017, the net carrying amount of leasehold property was \$208,986 and \$216,786, respectively.

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

As of December 31, 2018 and 2017, certain property were pledged as collateral, please refer to note 8 for details.

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

(i) Fubon Life Insurance and its subsidiaries

Fubon Life Insurance and its subsidiaries' investment property appraisal has been performed by appraisers from professional valuation agencies based on the "Regulations on Real Estate Appraisal" in accordance with the "Regulations Governing the Preparation of Financial Reports by Insurance Companies", and the valuation dates were December 31, 2018 and 2017.

- 1) DTZ: Yang Chang-Da, Li Gen-Yuan, Tsai Jia-He, Hu Chuen-Chuen
- 2) Savills Plc: Dai Guang-Ping, Chang Hung-Kai, Chang I-Chih, Yeh Yu-Fen
- 3) Repro International Inc.: Wu Hung-Hsu, Wu Chih-Hao, Shih Fu-Hsue
- 4) Jin Han Real Estate Appraisers Joint Firm: Wu Yu-Chun, Hung Chi-Hsiang
- 5) G-Bean Real Estate Appraisers Firms: Chang Neng-Cheng, Li Fang-Chend
- 6) Colliers International Valuation Taiwan LLP: Ke Feng-Ru, Zhan Xiu-Ying, Gu Jian-Hui
- 7) Zheng Da Real Estate Appraisers Firms: Hsiao Li-Min, Liu Shih-Kai
- 8) Kao Yuan Real Estate Appraisers Firms: Chen Bi-Yuan

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 9) Colliers International Valuation Taiwan LLP & Colliers International Valuation UK LLP: Gu Jian-Hui, PC Willis, Patrick Kearon, Mark White
- 10) DTZ & Cushman & Wakefield Debenham Tie Leuag Limited: Yang Chang-Da, John Bareham, Charles Smith
- 11) Jones Lang LaSalle Real Estate Appraiser Firm and Jones Lang LaSalle Limited: Chao Cheng-Yi, Andrew Pirie, Elizabeth Levingston, James Mc Tighe, David Holt, Roger Meeds
- 12) Repro International Inc. and Knight Frank LLP: Wu Hung-Hsu, Matthew Cripps, Simon Gillespie
- 13) DTZ and Cushman & Wakefield Belgium SA : Yang Chang-Da, Emeric Inghels, Christophe Ackermans
- 14) Jones Lang LaSalle Limited and Jones Lang LaSalle BVBA: Chao Cheng-Yi, Roderick Scrivener
- 15) Jones Lang LaSalle Limited and Jones Lang LaSalle BVBA: Hsu Kuo-Chun, Andrew Dolan
- 16) Savills Plc and Savills Korea Co., Ltd.: Chang Hung-Kai, Chang I-Chih, Youngsu Hwang

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

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

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

(Continued)

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

The inputs applied are as follows:

	December 31, 2018	December 31, 2017
	<u>Mainly</u>	<u>Mainly</u>
Income capitalization rate	0.90%~8.00%	0.99%~5.19%
Year-end income capitalization rate	1.28%~7.00%	1.33%~6.35%
Discount rate	1.44%~8.25%	1.49%~7.10%

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

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

(ii) Fubon Insurance and its subsidiaries

Fubon Insurance and its subsidiaries' investment property appraisals were performed by appraisers from professional valuation agencies based on the "Regulations on Real Estate Appraisal" in accordance with the "Regulations Governing the Preparation of Financial reports by Insurance Companies", and valuation dates were December 31, 2018 and 2017.

Valuation agencies as of December 31, 2018 and December 31, 2017 were as follows:

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

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

The inputs applied are as follows:

	December 31, 2018	December 31, 2017
Direct capitalization rate (net)	1.00%~5.40%	1.00%~5.30%
Profit rate	15.00%~21.00%	15.00%~20.00%
Overall capital interest rate	1.50%~4.10%	2.00%~4.10%

(Continued)

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

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

(iii) Taipei Fubon Bank

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

The fair values of the investment property as of December 31, 2018 and 2017, were based on the valuations carried out at these dates performed by the following independent qualified professional valuers: Dai Kuang Ping, Chang Hung Kai, Chang I Chih and Yeh Yu-Fen from Savills Plc Real Estate Appraiser Office, a member of certified ROC real estate appraisals.

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

	December 31, 2018	December 31, 2017
Expected future cash inflows	\$ 4,054,750	4,250,831
Expected future cash outflows	(126,909)	(135,521)
Expected future cash inflows, net	<u>\$ 3,927,841</u>	<u>4,115,310</u>
Discount rate	3.845%	3.845%

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

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

As of December 31, 2018 and 2017, the discount rate was based on the interest rate of the two-year time deposits of Chunghwa Post Co., Ltd., plus, 0.75%, and the investment asset-specific risk premiums of 2%.

(Continued)

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

(iv) Fubon Securities

Investment property of Fubon securities was evaluated by appraisers from professional valuation agencies, in accordance with the “Regulations on Real Estate Appraisal”, and the valuation dates were December 31, 2018 and 2017. The appraisals were performed by following valuation agencies:

The appraiser was Chang Shih-Xian from Zhan-Mao Real Estate Appraisers Firm on December 31, 2018.

The appraisers were Chih Wei Hsin, Wang Shih Ming, Chi Liang An and Tsai Wen Che from Xinyi Real Estate Appraisers Firm on December 31, 2017.

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

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

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

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

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

The replacement allowance is calculated in accordance with the R.O.C Real Estate Appraiser Alliance Statement No.5. It is calculated based on construction cost unit price multiplied by building area and the replacement allowance rate. In principle, on December 31, 2018, the replacement allowance rate is 0.5%. On December 31, 2017, it is amortized over 10 to 20 years at the rate of 10%~20% of the building and construction expenses.

The inputs applied are as follows :

	December 31, 2018	December 31, 2017
Discount rate	2.095%~5.345%	4.345%

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(v) Fubon AMC

Investment property of Fubon AMC was evaluated by appraisers Chang Hung-Kai and Yeh Yu-Fen from Savills Plc Real Estate Appraiser Office and Zhan Xiu-Ying, Ke Feng-Ru and Ku Chien Hui from Colliers International Real Estate Appraiser Office, in accordance with the “Regulations on Real Estate Appraisal”, and the valuation dates were December 31, 2018 and 2017, respectively.

The fair value of investment property is supported by observable evidence in the market. The main appraising method are comparison approach, direct capitalization method and land development analysis of cost approach.

Land foreclosures and undeveloped vacant land, as well as costs of vacant land, are appraised using the comparison approach and land development analysis. Selling price which is extrapolated using land development analysis is determined according to examples of market transaction. Considering their characteristics, profile of local property market and reference of similar investment properties, commercial office buildings are generally appraised using the comparison approach and direct capitalization method as primary method.

	December 31, 2018	December 31, 2017
Profit rate	14.00%~18.00%	15.00%~18.00%
Overall capital interest rate	2.92%~3.16%	2.93%~4.77%
Income capitalization rate	1.49%~2.55%	1.53%~2.55%

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

(Continued)

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

(r) Property and Equipment, Net

Changes in the cost, depreciation, and impairment loss of the property, plant and equipment of the Company and its subsidiaries for the years ended December 31, 2018 and 2017, were as follows:

	Land	Buildings	Machinery and computer equipment	Transportation equipment	Other equipment	Prepayment for purchases of equipment, and construction in progress	Total
Cost or deemed cost:							
Balance as of January 1, 2018	\$ 29,361,819	26,189,321	6,019,256	310,832	9,609,212	1,940,852	73,431,292
Acquisition through business combinations	46,940	96,479	513,481	-	451,953	-	1,108,853
Additions	29,261	466,755	504,553	41,256	923,016	1,191,055	3,155,896
Estimated decommissioning cost	-	-	-	-	43,126	-	43,126
Reversal decommissioning cost	-	-	-	-	(10,289)	-	(10,289)
Disposals	-	-	(83,874)	(15,476)	(311,227)	-	(410,577)
Reclassification	(300,736)	831,335	181,171	103,190	374,001	(1,184,260)	4,701
Effects of exchange rates changes	34	(73,197)	(10,092)	(314)	77,516	(106)	(6,159)
Balance as of December 31, 2018	<u>\$ 29,137,318</u>	<u>27,510,693</u>	<u>7,124,495</u>	<u>439,488</u>	<u>11,157,308</u>	<u>1,947,541</u>	<u>77,316,843</u>
Balance as of January 1, 2017	\$ 29,555,409	26,307,383	5,827,044	403,156	8,922,961	2,015,614	73,031,567
Additions	-	93,748	574,437	36,851	1,060,479	1,414,017	3,179,532
Estimated decommissioning cost	-	-	-	-	9,860	-	9,860
Reversal decommissioning cost	-	-	-	-	(2,476)	-	(2,476)
Disposals	(997)	(579,446)	(580,749)	(27,302)	(535,794)	-	(1,724,288)
Reclassification	(192,593)	827,808	225,189	(99,718)	448,900	(1,477,827)	(268,241)
Effects of exchange rates changes	-	(460,172)	(26,665)	(2,155)	(294,718)	(10,952)	(794,662)
Balance as of December 31, 2017	<u>\$ 29,361,819</u>	<u>26,189,321</u>	<u>6,019,256</u>	<u>310,832</u>	<u>9,609,212</u>	<u>1,940,852</u>	<u>73,431,292</u>
Depreciation and impairment loss:							
Balance as of January 1, 2018	\$ 1,013,284	4,941,082	3,955,005	228,574	6,034,215	-	16,172,160
Acquisition through business combinations	-	18,438	445,469	-	417,632	-	881,539
Depreciations	-	602,559	735,799	21,812	968,249	-	2,328,419
Disposals	-	-	(83,281)	(15,206)	(311,552)	-	(410,039)
Reversal decommissioning cost	-	-	-	-	(2,222)	-	(2,222)
Reclassification	(4,962)	(227,584)	2	73,328	(68,187)	-	(227,403)
Effects of exchange rates changes	-	2,056	(5,007)	(381)	52,909	-	49,577
Impairment losses	4,962	38,762	-	-	-	-	43,724
Balance as of December 31, 2018	<u>\$ 1,013,284</u>	<u>5,375,313</u>	<u>5,047,987</u>	<u>308,127</u>	<u>7,091,044</u>	<u>-</u>	<u>18,835,755</u>
Balance as of January 1, 2017	\$ 1,013,284	4,783,473	3,837,303	283,956	5,850,702	-	15,768,718
Depreciations	-	575,781	698,660	22,143	839,598	-	2,136,182
Disposals	-	(102,223)	(563,215)	(26,797)	(515,745)	-	(1,207,980)
Reversal decommissioning cost	-	-	-	-	(2,261)	-	(2,261)
Reclassification	(6,536)	(241,806)	865	(49,034)	45,691	-	(250,820)
Effects of exchange rates changes	-	(87,433)	(18,608)	(1,694)	(183,770)	-	(291,505)
Impairment loss	6,536	13,290	-	-	-	-	19,826
Balance as of December 31, 2017	<u>\$ 1,013,284</u>	<u>4,941,082</u>	<u>3,955,005</u>	<u>228,574</u>	<u>6,034,215</u>	<u>-</u>	<u>16,172,160</u>
Carrying amounts:							
Balance as of December 31, 2018	<u>\$ 28,124,034</u>	<u>22,135,380</u>	<u>2,076,508</u>	<u>131,361</u>	<u>4,066,264</u>	<u>1,947,541</u>	<u>58,481,088</u>
Balance as of January 1, 2017	<u>\$ 28,542,125</u>	<u>21,523,910</u>	<u>1,989,741</u>	<u>119,200</u>	<u>3,072,259</u>	<u>2,015,614</u>	<u>57,262,849</u>
Balance as of December 31, 2017	<u>\$ 28,348,535</u>	<u>21,248,239</u>	<u>2,064,251</u>	<u>82,258</u>	<u>3,574,997</u>	<u>1,940,852</u>	<u>57,259,132</u>

(Continued)

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

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

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

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

As of December 31, 2018 and 2017, certain property were pledged as collateral, please refer to note 8 for details.

(s) Intangible Assets, Net

	December 31, 2018	December 31, 2017
License and operating rights	\$ 9,315,823	5,710,086
Core deposits	6,038,562	6,586,330
Goodwill	16,076,566	14,271,271
Computer software	1,728,912	1,330,890
Customer relationship	63,609	74,487
Others	684,261	280,710
	<u><u>\$ 33,907,733</u></u>	<u><u>28,253,774</u></u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The movements of intangible assets of the Company and its subsidiaries for the years ended December 31, 2018 and 2017 were as follows:

	Goodwill	Other intangible assets	Total
Cost :			
Balance as of January 1, 2018	\$ 14,271,271	13,982,503	28,253,774
Acquisition through business combinations	1,880,874	4,111,266	5,992,140
Additions	-	752,267	752,267
Amortization	-	(1,140,297)	(1,140,297)
Reclassification	-	407,891	407,891
Effects of exchange rates changes	(75,579)	(282,463)	(358,042)
Balance as of December 31, 2018	<u>\$ 16,076,566</u>	<u>17,831,167</u>	<u>33,907,733</u>
Balance as of January 1, 2017	\$ 14,312,255	14,588,328	28,900,583
Additions	-	365,785	365,785
Disposal	-	(1,735)	(1,735)
Amortization	-	(1,075,305)	(1,075,305)
Reclassification	-	278,401	278,401
Effects of exchange rates changes	(40,984)	(172,971)	(213,955)
Balance as of December 31, 2017	<u>\$ 14,271,271</u>	<u>13,982,503</u>	<u>28,253,774</u>

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

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

Core deposits	10 to 23 years
Operating rights	32 to 97 years
Computer software	3 to 10 years
Customer relationship	7 to 14 years
Concession	10 years

No significant impairment was incurred for the years ended December 31, 2018 and 2017, after evaluating the carrying amount of goodwill.

(Continued)

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

(t) Other Assets

	December 31, 2018	December 31, 2017
Refundable deposits	\$ 31,059,950	20,968,134
Foreclosed collaterals and residuals taken over	53,593	87,926
Operation guarantee deposits and settlement fund	360,579	328,963
Deferred assets	849,505	810,672
Prepayments	33,334,216	31,153,425
Others	<u>9,689,612</u>	<u>2,758,659</u>
Total	<u><u>\$ 75,347,455</u></u>	<u><u>56,107,779</u></u>

The Company acquired the superficies by bid, accounted as prepayments. For the years ended December 31, 2018 and 2017, the Company and its subsidiaries recognized impairment loss (reversal gain) on other assets measured at net fair value amounting to \$28,551 and \$(6,614), respectively.

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

	December 31, 2018	December 31, 2017
Financial liabilities designated as at fair value through profit or loss:		
Structured products	\$ <u>2,455,857</u>	<u>-</u>
Held-for-trading financial liabilities:		
Non-hedge derivative instruments		
Interest rate contracts	3,131,147	2,848,586
Currency rate contracts	27,863,488	21,889,206
Options contracts	1,736,927	2,090,262
Others	<u>2,420,811</u>	<u>3,906,363</u>
	<u>35,152,373</u>	<u>30,734,417</u>
Non-derivative financial liabilities		
Exchange fund bills and notes	-	7,056,881
Stock borrowing and short selling	358,056	377,679
Bonds borrowing and short selling	<u>7,456,615</u>	<u>-</u>
	<u>7,814,671</u>	<u>7,434,560</u>
Financial liabilities designated as at fair value through profit or loss at initial recognition:		
Structured products	<u>-</u>	<u>2,078,273</u>
	<u>-</u>	<u>2,078,273</u>
Total	<u><u>\$ 45,422,901</u></u>	<u><u>40,247,250</u></u>

(Continued)

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

(v) Securities Sold under Repurchase Agreements

	December 31, 2018	December 31, 2017
Pecuniary financing	<u>\$ 178,403,211</u>	<u>158,316,465</u>

The maturity of abovementioned securities sold under repurchase agreement were all within one year as of December 31, 2018 and 2017.

(w) Commercial Paper Issued, Net

	December 31, 2018	December 31, 2017
Par value	\$ 13,540,000	23,485,000
Less: Discount on commercial paper issued	4,028	13,130
Total	<u>\$ 13,535,972</u>	<u>23,471,870</u>
Interest rate range	0.68%~0.76%	0.39%~0.68%

(x) Deposits and Remittances

	December 31, 2018	December 31, 2017
Checking accounts	\$ 11,226,153	12,721,159
Public treasury deposits	64,455,592	26,883,971
Demand deposits	490,391,281	506,385,908
Time deposits	759,758,537	794,165,096
Negotiable certificates of deposit	70,171,153	90,929,497
Savings accounts	876,479,829	852,628,783
Remittances	1,136,094	891,525
Total	<u>\$ 2,273,618,639</u>	<u>2,284,605,939</u>

(y) Bonds Payable

(i) The bonds payable as of December 31, 2018 and 2017 were as follows:

	December 31, 2018	December 31, 2017
Unsecured corporate bonds	\$ 58,550,000	54,000,000
Subordinated corporate bonds	43,115,172	35,000,000
Financial bonds	116,089,502	98,206,734
Total	<u>\$ 217,754,674</u>	<u>187,206,734</u>

(Continued)

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

(ii) Unsecured corporate bonds

Name	Issue period		Issue amount	Interest rate	December 31, 2018	December 31, 2017	Note
	Issue date	Maturity date					
First 2012 unsecured domestic corporate bonds-bond B	2012.08.15	2019.08.15	\$ 5,000,000	\$ 1.45	\$ 5,000,000	5,000,000	Fixed interest, interest payable annually; pay in full upon seven years
First 2013 unsecured domestic corporate bonds-bond A	2013.08.28	2018.08.28	5,450,000	1.45	-	5,450,000	Fixed interest, interest payable annually; pay in full upon five years
First 2013 unsecured domestic corporate bonds-bond B	2013.08.28	2020.08.28	900,000	1.58	900,000	900,000	Fixed interest, interest payable annually; pay in full upon seven years
Second 2013 unsecured domestic corporate bonds-bond A	2013.12.18	2018.12.18	100,000	1.42	-	100,000	Fixed interest, interest payable annually; pay in full upon five years
Second 2013 unsecured domestic corporate bonds-bond B	2013.12.18	2020.12.18	2,550,000	1.60	2,550,000	2,550,000	Fixed interest, interest payable annually; pay in full upon seven years
First 2014 unsecured domestic corporate bonds	2014.07.21	2021.07.21	15,000,000	1.72	15,000,000	15,000,000	Fixed interest, interest payable annually; pay in full upon seven years
First 2015 unsecured domestic corporate bonds-bond A	2015.03.30	2020.03.30	6,100,000	1.38	6,100,000	6,100,000	Fixed interest, interest payable annually; pay in full upon five years
First 2015 unsecured domestic corporate bonds-bond B	2015.03.30	2022.03.30	3,900,000	1.65	3,900,000	3,900,000	Fixed interest, interest payable annually; pay in full upon seven years
Second 2015 unsecured domestic corporate bonds-bond A	2015.07.15	2018.07.15	2,100,000	1.15	-	2,100,000	Fixed interest, interest payable annually; pay in full upon three years
Second 2015 unsecured domestic corporate bonds-bond B	2015.07.15	2020.07.15	3,500,000	1.35	3,500,000	3,500,000	Fixed interest, interest payable annually; pay in full upon five years
Second 2015 unsecured domestic corporate bonds-bond C	2015.07.15	2022.07.15	9,400,000	1.65	9,400,000	9,400,000	Fixed interest, interest payable annually; pay in full upon seven years
First 2018 unsecured domestic corporate bonds-bond A	2018.09.04	2023.09.04	1,700,000	0.85	1,700,000	-	Fixed interest, interest payable annually; pay in full upon five years
First 2018 unsecured domestic corporate bonds-bond B	2018.09.04	2025.09.04	8,300,000	0.95	8,300,000	-	Fixed interest, interest payable annually; pay in full upon seven years
Second 2018 unsecured domestic corporate bonds-bond A	2018.11.22	2025.11.22		0.85	700,000	-	Fixed interest, interest payable annually; pay in full upon seven years
Second 2018 unsecured domestic corporate bonds-bond B	2018.11.22	2025.11.22		0.95	1,500,000	-	Fixed interest, interest payable annually; pay in full upon seven years
					<u>\$ 58,550,000</u>	<u>54,000,000</u>	

(Continued)

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

(iii) Subordinated corporate bonds

Name	Issue Period		Coupon rate	Issue Amount	Unamortized premium (discount) amount	December 31, 2018	December 31, 2017	Note
	Issue Date	Maturity Date						
1st Issue of 2016 Perpetual Cumulative Subordinated Corporate Bonds	2016.12.07	Indefinite	3.25 % (Note 1)	\$ 28,500,000	-	\$ 28,500,000	28,500,000	Note 2
1st Issue of 2017 Perpetual Cumulative Subordinated Corporate Bonds	2017.04.21	Indefinite	3.30 % (Note 1)	6,500,000	-	6,500,000	6,500,000	Note 2
Hyundailife Insurance 2 (private placement)	2013.06.28	2019.01.28	4.91 %	825,000	1,401	826,401	-	Note 3
Hyundailife Insurance 2-2 (private placement)	2013.08.27	2019.03.27	4.98 %	825,000	5,873	830,873	-	Note 3
Hyundailife Insurance 3 (private placement)	2013.12.06	2019.07.06	5.25 %	550,000	7,947	557,947	-	Note 3
Hyundailife Insurance 4 (private placement)	2014.10.30	2020.04.30	5.30 %	1,375,000	37,414	1,412,414	-	Note 3
Hyundailife Insurance 5 (private placement)	2015.12.11	2021.06.11	4.65 %	550,000	11,232	561,232	-	Note 3
Hyundailife Insurance 5-2 (private placement)	2015.12.30	2021.06.30	4.65 %	82,500	2,240	84,740	-	Note 3
Hyundailife Insurance 6 (private placement)	2016.04.28	2022.04.28	4.60 %	1,100,000	16,734	1,116,734	-	Note 3
Hyundailife Insurance 7 (private placement)	2016.12.28	2022.07.28	4.75 %	550,000	6,539	556,539	-	Note 3
Hyundailife Insurance 8 (private placement)	2017.06.26	2023.01.26	4.90 %	247,500	2,900	250,400	-	Note 3
Hyundailife Insurance 9 (private placement)	2017.07.20	2023.01.20	4.90 %	220,000	4,729	224,729	-	Note 3
Hyundailife Insurance 11 (private placement)	2017.12.28	2023.06.28	5.60 %	1,650,000	43,163	1,693,163	-	Note 3
Total					\$ <u>140,172</u>	<u>43,115,172</u>	<u>35,000,000</u>	

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

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

Note 3: The corporate bond that Fubon Life Insurance bears is because of the acquisition of the subsidiary on September 15, 2018.

(Continued)

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

(iv) Financial Bonds Payable

1) Taipei Fubon Bank and its subsidiaries

	December 31, 2018	December 31, 2017
First issuance of subordinated bank debentures in 2010; fixed 2.5%; maturity: January 25, 2020	\$ 2,400,000	2,400,000
Fourth issuance of subordinated bank debentures in 2010; fixed 2.5%; maturity: March 2, 2020	2,000,000	2,000,000
Sixth issuance of subordinated bank debentures in 2010; fixed 2.05%; maturity: August 20, 2020	1,900,000	1,900,000
Seventh issuance of subordinated bank debentures in 2010; fixed 1.55%; maturity: October 15, 2020	900,000	900,000
First issuance of subordinated bank debentures in 2011; fixed 1.65%; maturity: March 18, 2018	-	3,050,000
Second issuance of subordinated bank debentures in 2011; fixed 1.7%; maturity: August 5, 2018	-	2,450,000
Third issuance of subordinated bank debentures in 2011; fixed 1.65%; maturity: December 1, 2018	-	4,000,000
First issuance of subordinated bank debentures in 2012; fixed 1.48%; maturity: in April 5, 2019	1,300,000	1,300,000
Second issuance of subordinated bank debentures in 2012; fixed 1.68%; maturity: May 25, 2022	4,700,000	4,700,000
First issuance of subordinated bank debentures in 2013; fixed 1.52%; maturity: August 1, 2020	3,750,000	3,750,000
First issuance of subordinated bank debentures in 2013; fixed 1.7%; maturity: August 1, 2023	500,000	500,000
First issuance of subordinated bank debentures in 2014; fixed 1.7%; maturity: May 15, 2021	5,500,000	5,500,000
First issuance of subordinated bank debentures in 2014; fixed 1.85%; maturity: May 15, 2024	4,500,000	4,500,000
Second issuance of subordinated bank debentures in 2014; fixed 1.98%; maturity: September 25, 2024	3,700,000	3,700,000
First issuance of dominant bank debentures in 2015; zero interest rate; maturity: February 4, 2045 (US\$100,000 thousand)	3,599,137	3,357,551
First issuance of dominant bank debentures in 2016; zero interest rate; maturity: December 22, 2046 (US\$200,000 thousand)	6,662,962	6,219,879
First issuance of dominant bank debentures in 2017; zero interest rate; maturity: January 24, 2047 (US\$200,000 thousand)	6,642,908	6,199,326

(Continued)

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

	December 31, 2018	December 31, 2017
First issuance of dominant bank debentures in 2017; zero interest rate; maturity: January 24, 2047 (US\$200,000 thousand)	\$ 6,636,732	6,196,537
Second issuance of subordinated bank debentures in 2017; fixed 1.33%; maturity: September 22, 2024	3,000,000	3,000,000
Third issuance of dominant bank debentures in 2017; fixed 0.56%; maturity: September 28, 2018	-	5,000,000
Fourth issuance of subordinated bank debentures in 2017; fixed 1.3%; maturity: October 18, 2024	1,750,000	1,750,000
Fifth issuance of subordinated bank debentures in 2017; zero interest rate; maturity: December 4, 2047 (US\$100,000 thousand)	3,209,866	2,994,952
First issuance of dominant bank debentures in 2018; fixed 0.67%; maturity: March 1, 2020	1,000,000	-
Second issuance of subordinated bank debentures in 2018; zero interest rate; maturity: March 28, 2048 (US\$195,000 thousand)	6,206,979	-
Third issuance of subordinated bank debentures in 2018; fixed 1.15%; maturity: September 25, 2025	1,200,000	-
Third issuance of subordinated bank debentures in 2018; fixed 1.3%; maturity: September 25, 2028	1,800,000	-
Fourth issuance of dominant bank debentures in 2018; fixed 0.6%; maturity: November 5, 2019	2,150,000	-
Fifth issuance of dominant bank debentures in 2018; zero interest rate; maturity: November 20, 2048 (US\$80,000 thousand)	2,472,796	-
Sixth issuance of dominant bank debentures in 2018; fixed 1.1%; maturity: November 28, 2028	3,700,000	-
Seventh issuance of subordinated bank debentures in 2018; fixed 2.15%; perpetual	6,500,000	-
Subtotal	87,681,380	75,368,245
Valuation adjustments of bank debentures	(1,600,785)	(271,289)
Subtotal	86,080,595	75,096,956
Tier 2 capital ; fixed 5.43% ; maturity: December 6, 2028	4,466,100	-
Total	<u><u>\$ 90,546,695</u></u>	<u><u>75,096,956</u></u>

(Continued)

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

2) Fubon Bank (Hong Kong) and its subsidiaries

	December 31, 2018	December 31, 2017
10-year bonds issued in November 2010; fixed 6.125%; maturity: November 2020	\$ 6,138,797	5,951,256
3-year bonds issued in June 2015; floating; maturity: June 2018	-	382,076
3-year bonds issued in June 2016; fixed 2.12%; maturity: June 2019	781,511	763,907
2-year bonds issued in July 2016; floating; maturity: July 2018	-	382,011
3-year bonds issued in July 2016; fixed 1.9%; maturity: July 2019	389,691	382,053
2-year bonds issued in August 2016; fixed 1.6%; maturity: August 2018	-	1,030,972
3-year bonds issued in September 2016; fixed 1.6%; maturity: September 2019	389,019	381,492
3-year bonds issued in October 2016; floating; maturity: October 2019	615,038	596,650
3-year bonds issued in February 2017; fixed 2.53%; maturity: February 2020	390,802	382,110
2-year bonds issued in March 2017; fixed 2.28%; maturity: March 2019	784,193	764,132
3-year bonds issued in March 2017; fixed 2.5%; maturity: March 2020	468,386	458,245
3-year bonds issued in April 2017; fixed 2.4%; maturity: April 2020	272,852	267,190
2-year bonds issued in June 2017; fixed 1.75%; maturity: June 2019	585,756	572,366
2-year bonds issued in June 2017; fixed 1.8%; maturity: June 2019	780,678	764,002
6-month bonds issued in August 2017; zero interest rate; maturity: February 2018	-	1,526,743
1-year bonds issued in August 2017; fixed 2.11%; maturity: August 2018	-	895,555
2-year bonds issued in August 2017; fixed 1.75%; maturity: August 2019	389,993	381,522
2-year bonds issued in September 2017; floating; maturity: September 2019	392,735	381,980
2-year bonds issued in September 2017; fixed 1.8%; maturity: September 2019	778,887	763,712
3-year bonds issued in September 2017; floating; maturity: September 2020	1,177,761	1,145,398

(Continued)

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

	December 31, 2018	December 31, 2017
6-month bonds issued in October 2017; fixed 2.02%; maturity: April 2018	\$ -	597,016
2-year bonds issued in October 2017; fixed 1.95%; maturity: October 2019	780,148	763,953
3-month bonds issued in November 2017; zero interest rate; maturity: February 2018	-	1,489,411
3-month bonds issued in November 2017; zero interest rate; maturity: February 2018	-	1,488,958
3-month bonds issued in December 2017; fixed 2%; maturity: February 2018	-	597,068
3-year bonds issued in February 2018; fixed 2.55%; maturity: February 2021	390,484	-
2-year bonds issued in March 2018; fixed 2.6%; maturity: March 2020	587,410	-
6-month bonds issued in July 2018; fixed 2.86%; maturity: January 2019	1,538,095	-
2-year bonds issued in July 2018; floating; maturity: July 2020	785,085	-
3-year bonds issued in August 2018; floating; maturity: August 2021	785,376	-
3-month bonds issued in October 2018; zero interest rate; maturity: January 2019	615,101	-
3-year bonds issued in October 2018; floating; maturity: October 2021	1,021,111	-
3-month bonds issued in October 2018; fixed 2.70%; maturity: January 2019	615,207	-
3-month bonds issued in October 2018; fixed 2.70%; maturity: January 2019	1,538,017	-
6-month bonds issued in November 2018; fixed 3.15%; maturity: May 2019	768,985	-
3-month bonds issued in December 2018; zero interest rate; maturity: February 2019	306,781	-
2-year bonds issued in December 2018; fixed 3.3%; maturity: December 2020	593,331	-
3-year bonds issued in December 2018; fixed 3.25%; maturity: December 2020	276,394	-
6-month bonds issued in December 2018; zero interest rate; maturity: June 2019	605,183	-
Subtotal	<u>\$ 25,542,807</u>	<u>23,109,778</u>
Total	<u>\$ 116,089,502</u>	<u>98,206,734</u>

(Continued)

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

(z) Other Borrowings

	December 31, 2018	December 31, 2017
Credit and guarantee loan	\$ 1,482,921	5,440,749
Interest rate range	1.25%~2.93%	1.26%~1.87%

As of December 31, 2018 and 2017, other borrowings were pledged as collateral, please refer to note 8 for details.

(aa) Provisions

(i) Provisions

	December 31, 2018	December 31, 2017
Unearned premium reserves (Note)	\$ 32,258,606	30,745,610
Claim reserves (Note)	26,014,338	23,105,947
Liability reserves (Note)	3,570,534,145	3,092,122,751
Special reserves (Note)	15,820,199	15,300,467
Premium deficiency reserves (Note)	16,075,356	20,550,557
Reserves for insurance contract with nature of financial instrument (Note)	3,523,635	3,744,674
Foreign exchange valuation reserves(Note)	8,337,666	2,305,484
Provisions for guarantee liabilities	301,774	302,121
Provisions for financing commitment	138,127	-
Provisions for employment benefits	12,865,827	11,934,528
Provisions for decommissioning, restoration and rehabilitation costs	229,887	181,275
Others	35,409,096	29,757,727
Total	\$ 3,721,508,656	3,230,051,141

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

(ii) Employee benefits

Provisions for employee benefits were as follows:

	December 31, 2018	December 31, 2017
Defined benefit plans	\$ 11,772,246	10,964,540
Preferential interest rate plan for employees' deposits	703,435	647,527
Other long term employee benefits	389,956	322,229
Others	190	232
	\$ 12,865,827	11,934,528

(Continued)

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

1) Defined benefit plans

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

	December 31, 2018	December 31, 2017
Present value of the defined benefit obligation	\$ 20,818,433	19,950,621
Fair value of the plan assets	(9,100,129)	(9,008,062)
Net defined benefit liability	<u>\$ 11,718,304</u>	<u>10,942,559</u>
Employee benefits payable	<u>\$ 11,772,246</u>	<u>10,964,540</u>
Prepaid employee benefits (accounted for other assets) recognized as profit or loss	<u>\$ (53,942)</u>	<u>(21,981)</u>

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

Movements in the present value of the defined benefit obligation for the years ended December 31, 2018 and 2017 were as follows:

	2018	2017
Defined benefit obligation on January 1	\$ 19,950,621	19,839,950
Acquisition through business combination	310,512	-
Current service cost and interest cost	808,688	748,647
Remeasurements of the net defined benefit liability (asset)		
— Effect of changes in demographic assumptions	171,176	228,848
— Effect of changes in financial assumptions	357,342	116,278
— Effect of experience adjustments	315,433	(124,166)
Past service cost	16,256	35,894
Exchange differences of foreign plan	60,166	(70,215)
Contributions from the plan participants	(34,868)	14,341
Benefits paid from the defined benefit obligation	(186,906)	(26,524)
Benefits paid from the plan	(949,987)	(812,432)
Defined benefit obligation on December 31	<u>\$ 20,818,433</u>	<u>19,950,621</u>

(Continued)

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

b) Movements in the fair value of the plan assets

Movements in the fair value of the plan assets for the years ended December 31, 2018 and 2017 were as follows:

	2018	2017
Fair value of the plan assets on January 1	\$ 9,008,062	8,489,762
Acquisition through business combination	230,934	-
Interest income	134,442	127,297
Remeasurements of the net defined benefit liability (asset)		
— Return on plan assets (excluding interest income)	123,471	(26,830)
Contributions made	459,312	1,233,619
Exchange differences of foreign plan	26,350	(78,202)
Benefits paid from the plan	(873,138)	(728,457)
Payment of administrative cost	(9,304)	(9,127)
Fair value of the plan assets on December 31	<u><u>\$ 9,100,129</u></u>	<u><u>9,008,062</u></u>

c) Expense recognized in profit or loss

Expenses recognized in profit or loss for the years ended December 31, 2018 and 2017 were as follows:

	2018	2017
Current service cost	\$ 511,824	455,475
Net interest on the net defined benefit liability (asset)	162,169	165,875
Past service cost and settlement	16,510	35,894
	<u><u>\$ 690,503</u></u>	<u><u>657,244</u></u>

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

Remeasurements of the net defined benefit liability (asset) recognized in other comprehensive income as of December 31, 2018 and 2017 were as follows:

	2018	2017
Cumulative amount on January 1	\$ 3,902,637	3,645,722
Recognized during the period	720,480	256,915
Cumulative amount on December 31	<u><u>\$ 4,623,117</u></u>	<u><u>3,902,637</u></u>

(Continued)

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

e) Actuarial assumptions

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

	December 31, 2018	December 31, 2017
Discount rate	0.875%~2.270%	0.875%~1.70%
Future salary increases	2.00%~3.25%	2.00%~3.25%

The Company and its subsidiaries expect to make the contributions of \$439,383 to the defined benefit plans in the following year.

The weighted average duration of the defined benefit obligation at the end of 2018 was 4.7~16.2 years.

f) Sensitivity analysis

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

The impacts of the actuarial assumptions changes on defined benefit obligation as of December 31, 2018 and 2017 were as follows:

i) The Company and its subsidiaries, excluding Fubon Hyundai Life Insurance

	Impacts on the defined benefit obligation	
	Increase 0.5%	Decrease 0.5%
December 31, 2018		
Discount rate	\$ (874,580)	935,264
Future salary increase	636,964	(572,667)
December 31, 2017		
Discount rate	(982,858)	1,018,697
Future salary increase	607,476	(581,651)

(Continued)

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

ii) Fubon Hyundai Life Insurance

	Impacts on the defined benefit obligation	
	Increase 1%	Decrease 1%
December 31, 2018		
Discount rate	\$ (7,871)	8,641
Future salary increase	8,594	(7,977)

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

g) Defined contribution plans

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

The Company and its subsidiaries provided the pension expenses of \$1,189,465 and \$1,231,575 under the defined contribution pension plan for the years ended December 31, 2018 and 2017, respectively.

2) Preferential interest deposits plan for employees

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

	December 31, 2018	December 31, 2017
Present value of post-employment benefits obligation	\$ 703,435	647,527
Fair value of the plan assets	-	-
Net post-employment benefits liability	<u><u>\$ 703,435</u></u>	<u><u>647,527</u></u>

(Continued)

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

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

Movements in the present value of the defined benefit obligations for the years ended December 31, 2018 and 2017 were as follows:

	2018	2017
Post-employment benefits obligation on January 1	\$ 647,527	638,283
Current service cost and interest cost	25,901	25,531
Remeasurements		
— Effect of changes in demographic assumptions	17,734	(17,585)
— Effect of experience adjustments	(7,332)	1,899
Past service cost	71,922	50,926
Benefits paid from the plan	(52,317)	(51,527)
Post-employment benefit obligation on December 31	<u><u>\$ 703,435</u></u>	<u><u>647,527</u></u>

b) Expense recognized in profit or loss

Expenses recognized in profit or loss for the years ended December 31, 2018 and 2017 were as follow:

	2018	2017
Interest cost	\$ 25,901	25,531
Past service cost	71,922	50,926
	<u><u>\$ 97,823</u></u>	<u><u>76,457</u></u>

c) Actuarial gains and losses recognized in other comprehensive income

Actuarial gains and losses recognized in other comprehensive income as of December 31, 2018 and 2017 were as follows:

	2018	2017
Cumulative amount on January 1	\$ 116,491	132,177
Recognized during the period	10,402	(15,686)
Cumulative amount on December 31	<u><u>\$ 126,893</u></u>	<u><u>116,491</u></u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

d) Actuarial assumptions

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

	December 31, 2018	December 31, 2017
Discount rate	4.00 %	4.00 %
Expected return on employees' deposits	2.00 %	2.00 %
Withdrawal percentage of preferential deposits	1.00 %	1.33 %

The weighted average duration of the post-employment benefit obligation at the end of 2018 is 11 years.

e) Sensitivity analysis

The impacts of the actuarial assumptions changes on the post-employment benefit obligation on December 31, 2018 and 2017 were as follows:

	Impacts on the defined benefit obligation	
	Increase 0.5%	Decrease 0.5%
December 31, 2018		
Discount rate	\$ (34,014)	37,084
Withdrawal percentage of preferential deposits	(26,540)	28,585
December 31, 2017		
Discount rate	(29,984)	32,553
Withdrawal percentage of preferential deposits	(25,082)	26,984

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

(ab) Other Financial Liabilities

	December 31, 2018	December 31, 2017
Principal of structured products	\$ 25,140,505	16,020,717
Liabilities on insurance product—separated account	369,845,687	155,214,816
Future traders' equity	16,250,349	20,504,270
Others	281,294	217,022
Total	\$ 411,517,835	191,956,825

(Continued)

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

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

(ac) Other Liabilities

	December 31, 2018	December 31, 2017
Advance receipts	\$ 3,465,846	2,388,020
Temporary receipts	4,519,847	4,265,155
Guarantee deposits received	4,852,199	5,539,460
Advance premiums	10,860,718	6,496,211
Deferred revenue	1,820,700	1,599,243
Deposit-in for borrowed securities	13,473,433	7,196,801
Collections for underwriting stock value	33,569	259,009
Others	<u>2,636,192</u>	<u>2,805,653</u>
Total	<u><u>\$ 41,662,504</u></u>	<u><u>30,549,552</u></u>

(ad) Income Tax

According to the amendments to the “Income Tax Act” enacted by the Office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing from year 2018.

(i) Income tax expenses

The components of income tax expenses (revenue) for the years ended December 31, 2018 and 2017, respectively, were as follows:

	2018	2017
Current tax expense (revenue)		
Current period	\$ (1,516,975)	11,980,680
Adjustment for prior periods	(1,282,151)	(872,363)
10% surtax on undistributed earnings	4,662,895	1,831,543
Others	<u>647,281</u>	<u>593,140</u>
	<u>2,511,050</u>	<u>13,533,000</u>
Deferred tax expense (revenue)		
Incurrence and reversal of temporary differences	8,621,296	(9,498,740)
Changes of the corporate income tax rate	<u>(1,238,041)</u>	<u>-</u>
Total income tax expenses	<u><u>\$ 9,894,305</u></u>	<u><u>4,034,260</u></u>

(Continued)

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

Income tax (expenses) revenue recognized directly in other comprehensive income for the years ended December 31, 2018 and 2017, respectively, were as follows:

	<u>2018</u>	<u>2017</u>
Items not to be reclassified subsequently to profit or loss:		
Remeasurements of the defined benefit plans	\$ 265,174	39,271
Revaluation gains on property	(3,042)	(241,295)
Losses on valuation of equity instruments measured at fair value through other comprehensive income	1,360,895	-
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(2,289)	(13,356)
Other items not to be reclassified subsequently to profit or loss	-	-
	<u><u>\$ 1,620,738</u></u>	<u><u>(215,380)</u></u>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	\$ 358,268	(28,239)
Unrealized gains on available-for-sale financial assets	-	(5,485,358)
Gains on effective portion of cash flow hedge	-	(19,969)
Gains on financial instruments for hedging / effective portion of cash flow hedges	(6,832)	-
Losses on valuation of debt instruments measured at fair value through other comprehensive income	4,469,959	-
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(140,323)	(113,661)
Other comprehensive income reclassified by applying overlay approach	4,124,362	-
	<u><u>\$ 8,805,434</u></u>	<u><u>(5,647,227)</u></u>
	<u><u>\$ 10,426,172</u></u>	<u><u>(5,862,607)</u></u>

(Continued)

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

The related reconciliation of tax expense and income before income tax for the years ended December 31, 2018 and 2017, respectively, were as follows:

	2018	2017
Income before income tax	\$ 57,615,327	58,050,577
Income tax using the Company's domestic tax rate (20%, 17% in 2017)	\$ 11,523,065	9,868,598
Effect of tax rates in foreign branches	(85,720)	124,152
Permanent differences	2,118,671	101,548
Tax-exempt income	(8,624,083)	(9,232,800)
Withholding tax on foreign income	647,281	189,967
Amount of basic tax greater than regular income tax	188	1,111,160
Tax implication on investment properties	(481,411)	(112,943)
Over provision in prior periods	(1,282,151)	(872,363)
10% surtax on undistributed earnings	4,662,895	1,831,543
Others	1,415,570	1,025,398
Total	\$ 9,894,305	4,034,260

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets

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

	December 31, 2018	December 31, 2017
Share of loss of associates under equity method	\$ 64,411	46,909
Tax losses	3,845,206	3,674,550
	\$ 3,909,617	3,721,459

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

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

(Continued)

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

As of December 31, 2018, remaining deductible tax losses and expiry years of Taiwan Sport Lottery were as follows:

<u>Loss for the year</u>	<u>Remaining deductible amount</u>	<u>Expiry year</u>
2009 loss that have been approved	\$ 269,391	2019
2010 loss that have been approved	1,251,671	2020
2011 loss that have been approved	<u>2,105,799</u>	2021
	<u><u>\$ 3,626,861</u></u>	

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

2) Recognized deferred tax assets and liabilities

The movements of deferred tax assets and liabilities for the years ended December 31, 2018 and 2017 were as follows:

Deferred tax assets:

	Long-term employee benefits	Fair value gains of financial instruments	Impairment loss on financial assets	Overseas branches foreign investment gains	Unrealized foreign exchange gains (losses)	Allowance on bad debts	Others	Total
Balance at January 1, 2018	\$ 1,872,443	135,243	352,202	344,888	10,777,680	446,238	1,742,411	15,671,105
Recognized as profit and loss	195,246	280,569	78,116	120,192	(7,488,265)	(98,781)	5,666,327	(1,246,596)
Recognized as other comprehensive income	279,374	8,373,794	-	-	-	-	109,830	8,762,998
Recognized as equity	-	(3,213,898)	(973)	21,968	-	100,831	(66,171)	(3,158,243)
Exchange differences arising on translation of foreign operations	-	(38,768)	(5,250)	-	-	(9,762)	(5,168)	(58,948)
Balance at December 31, 2018	<u>\$ 2,347,063</u>	<u>5,536,940</u>	<u>424,095</u>	<u>487,048</u>	<u>3,289,415</u>	<u>438,526</u>	<u>7,447,229</u>	<u>19,970,316</u>
Balance at January 1, 2017	\$ 1,956,932	5,530,640	81,916	457,930	5,222	448,754	1,510,008	9,991,402
Recognized as profit and loss	(105,593)	(2,235,795)	270,286	(111,765)	10,772,458	2,558	158,707	8,750,856
Recognized as other comprehensive income	21,104	(3,159,602)	-	-	-	-	50,251	(3,088,247)
Exchange differences arising on translation of foreign operations	-	-	-	(1,277)	-	(5,074)	23,445	17,094
Balance at December 31, 2017	<u>\$ 1,872,443</u>	<u>135,243</u>	<u>352,202</u>	<u>344,888</u>	<u>10,777,680</u>	<u>446,238</u>	<u>1,742,411</u>	<u>15,671,105</u>

(Continued)

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

Deferred tax liabilities:

	Long-term employee benefits	Fair value gains of financial instruments	Overseas branches foreign investment gains	Unrealized foreign exchange gains	Land value increment tax on investment properties	Others	Total
Balance at January 1, 2018	\$ (36,274)	4,153,513	3,179,336	375,608	3,467,918	1,685,433	12,825,534
Recognized as profit and loss	6,202	(1,248,733)	1,762,192	151,041	(323,643)	112,596	459,655
Recognized as other comprehensive income	16,488	171,646	206,460	-	2,186	(83,288)	313,492
Recognized as equity	-	(2,433,582)	(326,905)	-	-	84,031	(2,676,456)
Acquisition through business combinations	-	-	-	-	-	260,460	260,460
Exchange differences arising on translation of foreign operations	-	-	-	-	-	2,116	2,116
Balance at December 31, 2018	<u>\$ (13,584)</u>	<u>642,844</u>	<u>4,821,083</u>	<u>526,649</u>	<u>3,146,461</u>	<u>2,061,348</u>	<u>11,184,801</u>
Balance at January 1, 2017	\$ (35,523)	125,214	2,636,767	3,526,569	3,463,664	1,077,777	10,794,468
Recognized as profit and loss	4,326	1,505,756	542,569	(3,150,961)	(235,358)	585,784	(747,884)
Recognized as other comprehensive income	(5,077)	2,522,543	-	-	239,612	17,282	2,774,360
Exchange differences arising on translation of foreign operations	-	-	-	-	-	4,590	4,590
Balance at December 31, 2017	<u>\$ (36,274)</u>	<u>4,153,513</u>	<u>3,179,336</u>	<u>375,608</u>	<u>3,467,918</u>	<u>1,685,433</u>	<u>12,825,534</u>

(iii) Income tax assessment situation

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

	December 31, 2018
2012	\$ 102,072
2013	124,612
	<u>\$ 226,684</u>

- 2) Under a combined corporate income tax return filing, the income tax and 10% surtax on undistributed earnings paid to the tax authorities amounted to \$12,262,682 (actual) and \$7,409,766 (actual) for the years ended December 31, 2017 and 2016, respectively.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 3) The Company and its major subsidiaries have filed consolidated income tax returns since 2002, which are assessed to the year 2014 by the tax authorities. The assessment issues and current status were as follows:

<u>Taxpayer</u>	<u>Assessment issue</u>	<u>Status</u>
Taipei Fubon Bank	Appropriation of retained earnings for Taiwan Sport Lottery	The application for reassessments for the year 2010 and 2013 is still in process.
Fubon Securities	The tax issue on call warrants, amortization of operating rights, and allocation of expenses on tax-exempt income	The administrative litigation for the year 2009, as well as application for reassessments for the year 2010 and 2013 are still in process.

The Company is the taxpayer of the combined corporate income tax return. The Company has applied for administrative procedures for assessment of income tax returns from the year 2009 to 2014.

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

	<u>December 31, 2018</u>		
	<u>Estimate 2018</u>	<u>Filed in previous years</u>	<u>Total</u>
Linked tax receivables from subsidiaries:			
Taipei Fubon Bank	\$ 1,384,064	65,406	1,449,470
Fubon Life Insurance	-	232,325	232,325
Fubon Insurance	207,547	20,010	227,557
Fubon Securities	231,731	45,896	277,627
Fubon AMC	1,433	-	1,433
Total	<u>\$ 1,824,775</u>	<u>363,637</u>	<u>2,188,412</u>
	<u>December 31, 2018</u>		
	<u>Estimate 2018</u>	<u>Filed in previous years</u>	<u>Total</u>
Linked tax payables to subsidiaries:			
Taipei Fubon Bank	\$ -	205,467	205,467
Fubon Life Insurance	5,849,832	186,338	6,036,170
Fubon Marketing	172	-	172
Total	<u>\$ 5,850,004</u>	<u>391,805</u>	<u>6,241,809</u>

(Continued)

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

December 31, 2017			
	Estimate 2017	Filed in previous years	Total
Linked tax receivables from subsidiaries:			
Taipei Fubon Bank	\$ 696,986	65,406	762,392
Fubon Life Insurance	6,395,773	294,263	6,690,036
Fubon Insurance	124,382	23,010	147,392
Fubon Securities	216,488	49,088	265,576
Fubon AMC	15,023	-	15,023
Fubon Financial Holding Venture Capital	-	10,401	10,401
Total	\$ 7,448,652	442,168	7,890,820

December 31, 2017			
	Estimate 2017	Filed in previous years	Total
Linked tax payables to subsidiaries:			
Taipei Fubon Bank	\$ -	180,345	180,345
Fubon Life Insurance	-	77,051	77,051
Fubon Marketing	171	-	171
Total	\$ 171	257,396	257,567

(ae) Capital and Other Equity

(i) Share capital

- 1) As of December 31, 2018 and 2017, the authorized and paid-in capital all amounted to \$150,000,000 thousand, with a par value of \$10 per share. Share capital includes common stock and preferred stock. Issued common shares amounted to 10,233,604 thousand shares. Issued irredeemable non-cumulative preferred shares amounted to 1,266,660 thousand and 600,000 thousand shares. All issued shares were fully paid, and the non-cumulative preferred shares were recognized as equity.

- 2) Issuance of Series A Preferred Stock

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

(Continued)

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

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

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- f) **Priority of Claims in Liquidation:** Holders of Series A Preferred Shares shall have the same priority as holders of all subsequently issued preferred share in liquidation, which are prior to holders of common shares but subordinated to general creditors, to the extent of the amount equaling to the multiplication of (i) then issued and outstanding Series A Preferred shares and (ii) per share issue price of such preferred shares.
 - g) **Voting Right and Election Right:** Holders of Series A Preferred Shares have no voting right at the annual shareholders meeting, and cannot elect directors. Said holders, however, are eligible as director candidates. Holders of Series A Preferred Shares have voting rights at shareholders meeting of Series A. Preferred Shares, and at annual shareholders meeting on items relating to rights of Series A Preferred Shares holders.
 - h) **Conversion Right:** Holders of Series A Preferred Shares cannot convert said preferred shares to common shares, and have no right to request for redemption of Series A Preferred Shares.
 - i) **When Issuer conduct rights issue for cash,** holders of Series A Preferred Shares have the same subscription right as holders of common shares.
- 3) **Issuance of Series B Preferred Stock**

The board of directors approved the details of issuing Series B Preferred Shares on November 28, 2017. The Company issued 666,660 thousand preferred shares for cash totaled \$6,666,600 thousand, with a par value of \$10 per share, at an issuance price of \$60 per share. The capital increase project was approved by the Financial Supervisory Commission. The subscription date was March 16, 2018. All issued shares were fully paid, registered and recognized as equity.

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

- a) **Due Date:** Perpetual
- b) **Dividend:** 3.60% per annum for Series B Preferred Shares (7-year IRS 1.17%+2.43%) calculated pursuant to issue price per share. 7-year IRS rate will be reset on the day after the 7th anniversary of the issue date ("Issue Date") and the business day after each subsequent 7-year period hereafter. Reset interest rate is calculated as 7-year IRS. Record date for interest reset shall be the second previous business day for financial institutions in Taipei. The 7-year IRS rate shall be the arithmetic mean of 7-year IRS quotations as published by Reuter, TAIFXIRS and COSMOS3 at 11:00 a.m. of the day of reset record date (must be a business day for Taipei's financial institutions). If the above quotations cannot be obtained on reset record date, interest rate shall be decided by the Company in good faith and taken into account of reasonable market rate.

(Continued)

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

- c) **Dividend Issuance:** Dividends for Series B Preferred Shares are declared once per year in cash. After shareholders' approval of Issuer's financial statements at its annual shareholders meeting, the board may set record date for distribution of available dividends from the previous year. Dividend distribution for the years of issuance and redemption shall be calculated pursuant to actual issued days of the given year. Dividends distributed shall be included in the dividend certificate. In the year with profit, before Issuer can distribute dividends for Series B Preferred Shares, Issuer shall set aside out of Issuer's profits: (i) a settlement for payment of tax for the relevant financial year; (ii) an offset of its losses in previous years that have not been previously offset; (iii) a statutory reserve ("Legal Reserve"); and (iv) reserve special reserve pursuant to legal requirement or actual need. Issuer has sole discretion on dividend issuance of Series B Preferred Shares, including its discretion to not declare dividends when no profit is recorded, or insufficient profit is recorded for Series B Preferred Share dividends, or preferred share dividend declaration would render the Issuer's RBC ratio below level required by law or relevant authorities. The Issuer's cancellation of preferred share dividend declaration shall not be deemed an event of default. Undeclared or under-declared dividends are not cumulative, and are not paid in subsequent years with profit.
- d) **Excessive Dividend Distribution:** Except for receipt of dividends at the dividend rate according to (b), holders Series B Preferred Shares cannot participate in distribution of cash or stock dividends to holders of common shares from profit or additional paid-in capital.
- e) **Redemption of Series B Preferred Shares:** Series B Preferred Shares are perpetual. On the day after the 7th anniversary of the Issue Date, Issuer may redeem all or part of outstanding Series B Preferred Shares at issue price. Rights and obligations of the unredeemed Series B Preferred Shares shall remain the same as mentioned above.
- f) **Priority of Claims in Liquidation:** Holders of Series B Preferred Shares shall have the same priority as holders of all subsequently issued preferred share in liquidation, which are prior to holders of common shares but subordinated to general creditors, to the extent of the amount equaling to the multiplication of (i) then issued and outstanding Series B Preferred shares and (ii) per share issue price of such preferred shares.
- g) **Voting Right and Election Right:** Holders of Series B Preferred Shares have no voting right at the annual shareholders meeting, and cannot elect directors. Said holders, however, are eligible as director candidates. Holders of Series B Preferred Shares have voting rights at shareholders meeting of Series B. Preferred Shares, and at annual shareholders meeting on items relating to rights of Series B Preferred Shares holders.

(Continued)

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

- h) Conversion Right: Holders of Series B Preferred Shares cannot convert said preferred shares to common shares, and have no right to request for redemption of Series B Preferred Shares.
- i) When Issuer conduct rights issue for cash, holders of Series B Preferred Shares have the same subscription right as holders of common shares.

(ii) Capital surplus

- 1) The details of capital surplus were as follows:

	December 31, 2018	December 31, 2017
Additional paid-in capital from new share issuance for cash	\$ 96,915,012	63,644,042
Additional paid-in capital from share exchange	36,199,185	36,199,185
Additional paid-in capital from equity-accounted investees	2,036,056	1,962,374
Land revaluation surplus	1,104	1,104
Sale of treasury stock	178,098	178,098
Transfer of treasury stock to employee	23,753	23,753
Cash dividend from the Company's stock held by its subsidiary	27,664	27,664
Additional paid-in capital for employee warrants exercise	1,637,823	1,637,823
Share-based payment	177	177
Total	<u><u>\$ 137,018,872</u></u>	<u><u>103,674,220</u></u>

(Continued)

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

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

Date of share exchange	Participants of share exchange and description	Additional paid in capital from share exchange	
		December 31, 2018	December 31, 2017
December 19, 2001	Fubon Securities, Fubon Bank, and Fubon Life Insurance	\$ 42,040,134	42,040,134
August 28, 2002	Fubon Asset Management	(124,882)	(124,882)
December 23, 2002	Taipei Bank	3,384,059	3,384,059
February 11, 2009	ING Life Insurance	4,825,587	4,825,587
		<u>50,124,898</u>	<u>50,124,898</u>
February 11, 2009	Cash dividend	(3,912,569)	(3,912,569)
	Subsidiaries' employee bonus and remuneration to directors and supervisors	(46,600)	(46,600)
December 19, 2004	Common stock held by Fubon Securities and Fubon Insurance to be cancelled	(2,982,647)	(2,982,647)
April 29, 2005	Retirement of treasury stock	(313,789)	(313,789)
December 23, 2005	Retirement of treasury stock	(2,287,988)	(2,287,988)
June 2006	Cash dividend	<u>(1,929,773)</u>	<u>(1,929,773)</u>
		<u>(11,473,366)</u>	<u>(11,473,366)</u>
October 2016	Acquisition of the non-controlling interests of Fubon Bank (China)	(2,452,347)	(2,452,347)
		<u>\$ 36,199,185</u>	<u>36,199,185</u>

According to the Ruling Letter No.10200017220 of the Banking Bureau, Financial Supervisory Commission, ROC., dated March 7, 2013, the undistributed earnings of financial institutions which are converted into financial holding companies, could be either distributed as cash dividends or accounted for as capital surplus of the financial holding companies, on the converting year, pursuant to Article 47, Paragraph 4 of Financial Holding Company Act. The amount of capital surplus used to increase capital is not subject to restriction under Securities 1 of Article 72 of Regulations Governing the Offering and Issuance of Securities by Securities Issuers. As of December 31, 2018 the balance of such capital surplus was \$4,343.

(iii) Legal reserve

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

(Continued)

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

(iv) Special reserve

	December 31, 2018	December 31, 2017
Share exchange	\$ 1,669,704	1,669,704
First adoption of IFRSs	1,315,662	1,315,662
Adoption of fair value model of investment property	27,023,281	27,310,683
Deduction from others equity, net	<u>-</u>	<u>22,773,818</u>
	<u>\$ 30,008,647</u>	<u>53,069,867</u>

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

In 2014, the Company and its subsidiaries changed the subsequent measurement of investment property from cost model to fair value model. In accordance with Rule No.10310000140 issued by the Financial Supervisory Commission on February 19, 2014, subsequent measurement for investment property of the financial holding companies shall use the fair value model based on the "Principles for Compiling the Financial Statements of Financial Holding Companies". In order to maintain a stable financial structure, the Company and its subsidiaries shall appropriate a special reserve from retained earnings which amount is equivalent to the incremental retained earnings due to fair value model.

(v) Distribution of earnings

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

The Company paid cash dividends of \$2.3 per common share and of \$2.46 per preferred share in 2018 and a cash dividend of \$2.0 per common share and of \$1.707 per preferred share in 2017 from its 2017 and 2016 retained earnings, respectively. The distribution of earnings approved in the shareholders' meeting is the same as the resolution of the board meeting in 2018 and 2017. The relevant information could be accessed from the website of the Market Observation Post System.

(Continued)

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

(vi) Dividend policy

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

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

(vii) Other equity (net of tax)

	Exchange differences on translation of foreign operations	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Gains (losses) on financial instruments for hedging	Revaluation reserve	Other comprehensive income reclassified by applying overlay approach	Total
Balance as of January 1, 2018	\$ (11,286,078)	-	14,658,087	(299,649)	-	2,302,954	-	5,375,314
Effects of retrospective application	-	(2,143,826)	(14,658,087)	299,649	(299,649)	-	26,725,621	9,923,708
Equity at beginning of period after adjustments	(11,286,078)	(2,143,826)	-	-	(299,649)	2,302,954	26,725,621	15,299,022
Exchange differences on translation of foreign operations	(356,210)	-	-	-	-	-	-	(356,210)
Share of exchange differences on translation of the associates accounted for using equity method	(266,635)	-	-	-	-	-	-	(266,635)
Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	-	(20,687,793)	-	-	-	-	-	(20,687,793)
Accumulated gains (losses) reclassified to profit or loss on disposal of debt investments measured at fair value through other comprehensive income	-	(8,096,662)	-	-	-	-	-	(8,096,662)
Disposal of equity instruments measured at fair value through other comprehensive income	-	13,573,476	-	-	-	-	-	13,573,476
Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income of the associates accounted for using equity method	-	1,275,219	-	-	-	-	-	1,275,219
Fair value changes of financial instruments for hedging	-	-	-	-	81,307	-	-	81,307
Fair value changes of financial instruments for hedging of the associates accounted for using equity method	-	-	-	-	961	-	-	961
Revaluation gains	-	-	-	-	-	472,156	-	472,156
Revaluation reserve from disposal of investment properties	-	-	-	-	-	(536,439)	-	(536,439)
Other comprehensive income reclassified by applying overlay approach	-	-	-	-	-	-	(73,179,960)	(73,179,960)
Other comprehensive income reclassified by applying overlay approach of the associates accounted for using equity method	-	-	-	-	-	-	(33,897)	(33,897)
Balance as of December 31, 2018	<u>\$ (11,908,923)</u>	<u>(16,079,586)</u>	<u>-</u>	<u>-</u>	<u>(217,381)</u>	<u>2,238,671</u>	<u>(46,488,236)</u>	<u>(72,455,455)</u>

(Continued)

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

	Exchange differences on translation of foreign operations	Unrealized gains (losses) on available- for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Revaluation reserve	Total
Balance as of January 1, 2017	\$ (7,625,985)	(16,096,768)	(402,102)	1,351,037	(22,773,818)
Exchange differences on translation of foreign operations	(4,013,929)	-	-	-	(4,013,929)
Share of exchange differences on translation of the associates accounted for using equity method	353,836	-	-	-	353,836
Unrealized gains (losses) on available-for-sale financial assets	-	64,238,088	-	-	64,238,088
Accumulated gains (losses) from disposal of available-for-sale financial assets losses reclassified to profit and loss	-	(33,563,363)	-	-	(33,563,363)
Share of unrealized gains (losses) on available-for-sale financial assets of the associate accounted for using equity method	-	80,130	-	-	80,130
Gains (losses) on effective portion of cash flow hedges	-	-	97,494	-	97,494
Share of gains (losses) on cash flow hedges of the associate accounted for using equity method	-	-	4,959	-	4,959
Revaluation gains	-	-	-	951,917	951,917
Balance as of December 31, 2017	<u>\$ (11,286,078)</u>	<u>14,658,087</u>	<u>(299,649)</u>	<u>2,302,954</u>	<u>5,375,314</u>

(Continued)

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

(viii) Non-controlling interests

	2018	2017
Beginning balance	\$ 339,740	285,725
Non-controlling interests along with the acquisition of subsidiaries	8,656,823	168,510
Attributable to non-controlling interests		
Net loss	(7,834)	(106,146)
Exchange differences on translation of foreign operations	4,576	-
Unrealized gains (losses) on available-for-sale financial assets	-	1,194
Gains (losses) on financial assets measured at fair value through other comprehensive income	609,269	-
Other comprehensive income reclassified by applying overlay approach	48,772	-
Others	(68,720)	(9,543)
Ending balance	<u><u>\$ 9,582,626</u></u>	<u><u>339,740</u></u>

(af) Earnings Per Share

The details of earnings per share were as follows:

	2018	2017
Net income of ordinary equity holders (Note)	<u><u>\$ 46,252,856</u></u>	<u><u>53,098,135</u></u>
Weighted average number of common shares outstanding (thousands)	10,233,604	10,233,604
Dilutive potential common shares	<u><u>-</u></u>	<u><u>-</u></u>
	<u><u>10,233,604</u></u>	<u><u>10,233,604</u></u>
Basic EPS (Dollars)	<u><u>\$ 4.52</u></u>	<u><u>5.19</u></u>

Note: Declared dividends of preferred stock are deducted.

(ag) Employees' compensation and directors' remuneration

In accordance with the Articles of Incorporation, 0.01% to 0.05% of employees' compensation and less than 0.30% of directors' remuneration should be distributed if there is profit for the period. However, if the Company has accumulated losses, the earnings shall first be offset against any deficit. Employees entitled to receive shares or cash include the employees of the subsidiaries meeting certain requirements.

(Continued)

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

The recognized employees' compensation were both \$10,000, and the directors' remuneration were \$62,000 and \$65,000, for the years ended December 31, 2018 and 2017, respectively. The amounts were calculated in accordance with the Articles of Incorporation and approved by the board of directors. If the actual distribution is different from the estimation, the difference will be accounted for as changes in accounting estimates and recognized in profit or loss in the following year. The shares of stock dividend, if any, would be calculated based on the closing price of the date before the board meeting, with considering the effects of ex dividend and ex right.

For the year ended December 31, 2017, the recognized employees' compensation and directors' remuneration were \$10,000 and \$65,000, respectively, which were the same as the amounts for actual distribution. The relevant information could be accessed from the website of the Market Observation Post System.

(ah) Income and Expenses

(i) Net interest revenue

	<u>2018</u>	<u>2017</u>
Interest revenue:		
Discounts and loans	\$ 46,397,717	39,887,665
Investment in securities	107,605,778	90,670,853
Others	<u>13,214,020</u>	<u>10,755,927</u>
Subtotal	<u>167,217,515</u>	<u>141,314,445</u>
Interest expense:		
Deposits	25,185,916	20,236,125
Debt securities issued	4,316,215	3,568,491
Call loans from the central Bank and banks	3,175,330	1,362,127
Securities sold under repurchase agreements	3,401,229	2,213,836
Others	<u>1,190,747</u>	<u>721,796</u>
Subtotal	<u>37,269,437</u>	<u>28,102,375</u>
Net interest revenue	<u><u>\$ 129,948,078</u></u>	<u><u>113,212,070</u></u>

(Continued)

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

(ii) Net service charge and commissions loss

	<u>2018</u>	<u>2017</u>
Service fee and commission income:		
Brokerage service fees	\$ 4,441,472	4,016,306
Trust and custody services	3,453,343	3,606,595
Credit card and cash card related fees	1,579,556	1,850,612
Commission income	1,969,302	1,797,215
Loan service fees	1,418,415	1,353,273
Others	<u>5,462,441</u>	<u>5,186,294</u>
Subtotal	<u>18,324,529</u>	<u>17,810,295</u>
Service charge and commission expense:		
Insurance commission expense	24,169,590	24,726,455
Interbank service charge	345,553	311,623
Brokerage service charge	371,398	315,254
Credit card service charge	888,425	881,708
Others	<u>1,441,696</u>	<u>1,296,143</u>
Subtotal	<u>27,216,662</u>	<u>27,531,183</u>
Net service charge and commission loss	<u><u>\$ (8,892,133)</u></u>	<u><u>(9,720,888)</u></u>

(iii) Net income of insurance operations

	<u>2018</u>	<u>2017</u>
Premiums income	\$ 538,218,650	512,068,565
Separate account products revenues	<u>14,270,128</u>	<u>28,266,274</u>
Income from insurance business	<u>552,488,778</u>	<u>540,334,839</u>
Direct business expenses	49,292	43,737
Insurance claims payment	301,423,107	260,227,063
Separate account products expenses	14,270,128	28,266,274
Disbursement toward industry stability	<u>918,602</u>	<u>827,876</u>
Insurance business expenses	<u>316,661,129</u>	<u>289,364,950</u>
Net income of insurance operations	<u><u>\$ 235,827,649</u></u>	<u><u>250,969,889</u></u>

(iv) Net change in provisions for insurance liabilities

	<u>2018</u>	<u>2017</u>
Net change of claim reserves	\$ 723,728	758,848
Net change of liability reserves	291,189,214	293,807,166
Net change of special reserves	560,490	450,940
Net change of reserves for premium deficiency	(4,687,615)	(2,612,394)
Net change of reserves for insurance contract with nature of financial instrument	136,741	165,521
Others	<u>5,500,237</u>	<u>(2,679,695)</u>
	<u><u>\$ 293,422,795</u></u>	<u><u>289,890,386</u></u>

(Continued)

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

(v) Employee benefits expenses

	2018	2017
Salaries and wages	\$ 24,386,027	23,208,718
Labor insurance, national health insurance, and group insurance for life	2,926,074	2,921,276
Director's remuneration	333,562	354,880
Pension	1,858,164	1,868,940
Other employee benefit expenses	1,634,837	1,391,448
	\$ 31,138,664	29,745,262

(vi) Depreciation and amortization expenses

	2018	2017
Depreciation expenses	\$ 2,328,419	2,136,324
Amortization expenses	1,350,633	1,366,864
	\$ 3,679,052	3,503,188

(vii) Other general and administrative expenses

	2018	2017
Taxation and government fee	\$ 3,510,370	3,273,056
Rental	3,763,869	3,637,587
Professional services	3,294,509	2,820,145
Business activities	1,914,239	1,721,772
Selling expense	816,548	853,842
Postage	1,280,646	1,176,485
Others	9,034,372	8,558,856
	\$ 23,614,553	22,041,743

(Continued)

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

(ai) Disclosure of financial instruments

(i) Fair value information

1) Summary

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

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

2) Definition of fair value hierarchy

a) Level 1 inputs

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

b) Level 2 inputs

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

c) Level 3 inputs

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

When evaluating a financial instrument, if the direct market parameters cannot be obtained, the value of the financial instrument is accessed by the public parameters of other comparable companies. However, the public parameters of other comparable companies are indirectly related; therefore, the financial instrument is within the scope of Level 3. The investments in unlisted stocks are categorized in Level 3.

(Continued)

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

(ii) Fair value measurement

1) Fair value hierarchy

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

	December 31, 2018			
Financial instruments - instruments measured at fair value	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<u>Recurring fair value measurement</u>				
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss				
Financial assets mandatorily measured at fair value through profit or loss				
Stock investment	\$ 367,894,568	363,111,251	-	4,783,317
Bond investment	129,814,693	63,780,026	61,847,138	4,187,529
Others	387,214,789	273,309,671	33,483,687	80,421,431
Financial assets measured at fair value through other comprehensive income				
Stock investment	93,432,553	65,767,001	1,330,560	26,334,992
Bond investment (Note)	672,590,748	444,244,407	195,743,872	32,602,469
Others	71,230,325	2,528,913	58,934,010	9,767,402
Investment property	179,436,352	-	2,181,694	177,254,658
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	7,814,671	7,814,671	-	-
<u>Derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	32,403,522	394,631	29,084,733	2,924,158
Financial assets for hedging	3,776,327	-	3,776,327	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Financial liabilities designated as at fair value through profit or loss	2,455,857	-	-	2,455,857
Held-for-trading financial liabilities	35,152,373	170,948	32,078,604	2,902,821
Financial liabilities for hedging	3,425,972	-	3,425,972	-
<u>Non-recurring fair value measurement</u>				
Asset classified as held for sale	48,312	-	-	48,312

(Continued)

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

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

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

2) Valuation techniques

a) Financial instruments

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

b) Non-financial instruments

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

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

3) Fair value adjustment

a) Limitations of valuation models and inputs

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Credit risk valuation adjustment

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

Credit risk valuation adjustment is the fair value of the over-the-counter (OTC) derivative contracts that reflect the credit risks of the two parties which includes:

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

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

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

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

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

4) Transfers between Level 1 and Level 2

There is no significant transfer between Level 1 and Level 2 for the years ended December 31, 2018 and 2017.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

5) Changes in Level 3 Fair Value Category

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

Units: In thousands of TWD

Name	Beginning balance	Acquisition through business combinations	Gains (Losses) on Valuation		2018		Increase		Decrease		Ending balance
			Profit and Loss	Other Comprehens ive (Note)	Purchased/ Issued	Transferred to Level 3 (a)(b)	Sold/ Disposed/ Settled	Transferred from Level 3 (b)(c)			
Financial assets measured at fair value through profit or loss											
Financial assets mandatorily measured at fair value through profit or loss	\$ 74,840,793	6,837,407	2,111,250	5,070,762	26,263,981	1,434,993	23,051,172	1,191,579	92,316,435		
Financial assets measured at fair value through other comprehensive income	44,158,344	10,850,313	1,211,469	696,238	2,607,999	22,223,177	8,483,291	4,559,386	68,704,863		
Investment property	173,442,136	2,188,722	846,581	(1,090,176)	1,758,605	875,192	94,082	672,320	177,254,658		
Total	\$ 292,441,273	19,876,442	4,169,300	4,676,824	30,630,585	24,533,362	31,628,545	6,423,285	338,275,956		

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

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

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

Note: Valuation of financial assets measured at fair value through profit or loss that recognized as other comprehensive income is the gain or loss reclassified by applying overlay approach.

Name	2017							
	Beginning balance	Gains (Losses) on Valuation		Increase		Decrease		Ending balance
		Profit and Loss	Other Comprehensive Income	Purchased/ Issued	Transferred to Level 3 (a)(b)	Sold/ Disposed/ Settled	Transferred from Level 3 (b)(c)(d)	
Financial assets measured at fair value through profit or loss								
Held-for-trading financial assets	\$ 12,193,832	(7,639,205)	-	1,878,944	120,900	2,151,419	1,412,314	2,990,738
Financial assets designated as at fair value through profit or loss at initial recognition	1,638,164	(53,383)	-	-	644,817	424,046	665,792	1,139,760
Available-for-sale financial assets	79,790,956	(248,830)	(216,641)	40,645,928	5,853,280	17,854,817	7,005,692	100,964,184
Investment property	175,092,057	(398,661)	863,002	2,401,410	884,688	4,201,612	1,198,748	173,442,136
Total	\$ 268,715,009	(8,340,079)	646,361	44,926,282	7,503,685	24,631,894	10,282,546	278,536,818

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

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

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

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

Name	2018						
	Beginning balance	Valuation gains (losses) reflected on profit or loss	Increase		Decrease		Ending balance
			Purchased/ Issued	Transferred to Level 3	Sold/ Disposed/ Settled	Transferred from Level 3	
Financial liabilities measured at fair value through profit or loss							
Financial liabilities designated as at fair value through profit or loss	\$ 2,073,271	18,743	32,682,161	-	32,318,318	-	2,455,857
Held-for-trading financial liabilities	2,423,559	826,151	3,936	-	350,825	-	2,902,821
Total	\$ 4,496,830	844,894	32,686,097	-	32,669,143	-	5,358,678

(Continued)

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

Name	2017						
	Beginning balance	Valuation gains (losses) reflected on profit or loss	Increase		Decrease		Ending balance
			Purchased/ Issued	Transferred to Level 3	Sold/ Disposed/ Settled	Transferred from Level 3	
Financial liabilities measured at fair value through profit or loss							
Held-for-trading financial liabilities	\$ 11,980,240	(7,765,005)	18,909	-	1,810,585	-	2,423,559
Financial liabilities designated as at fair value through profit or loss at initial recognition	2,251,683	25,346	32,230,517	-	32,434,275	-	2,073,271
Total	<u>\$ 14,231,923</u>	<u>(7,739,659)</u>	<u>32,249,426</u>	<u>-</u>	<u>34,244,860</u>	<u>-</u>	<u>4,496,830</u>

Transfers into and out of Level 3 for the years ended December 31, 2018 and 2017 are mainly due to the change of input parameters.

For gains or losses on the valuation recognized as profit or loss, the changes in unrealized gains or losses were the unrealized gains of \$4,806,710 and the unrealized losses \$791,824 as of December 31, 2018 and 2017, respectively.

For gains or losses on the valuation recognized as other comprehensive income, the changes in unrealized gains or losses were the unrealized gains of \$4,963,635 and \$654,788 as of December 31, 2018 and 2017, respectively.

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

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

The Company and its subsidiaries' financial assets and liabilities measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and available-for-sale financial assets categorized into Level 3 refer to the valuation provided by the professional information providers which are commonly used by market participants, and quoted prices of the counter party, because they lack quoted prices in an active market.

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

Because of the inability to measure the fair value reliably due to the significant unobservable inputs, quantitative information is not disclosed. The fair value of the aforementioned assets amounted to \$293,189,086 and \$276,922,184 as of December 31, 2018 and 2017.

(Continued)

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

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

a) Taipei Fubon Bank

December 31, 2018					
Name	Fair value	Valuation techniques	Significant unobservable inputs	Intervals	Relationship between inputs and fair value
<u>Recurring fair value measurement</u>					
<u>Non-derivative financial instruments</u>					
Assets:					
Financial assets measured at fair value through profit or loss					
Credit linked note (CLN) \$	1,413,866	Exotic option model	Recovery rate of transaction object	10%~90%	The higher the recovery rate, the lower the fair value.
Financial assets measured at fair value through other comprehensive income					
Trust plans	133,983	Discounted cash flow	Real interest rate	5.9%	The lower the real interest rate, the higher the fair value.
<u>Derivative financial instruments</u>					
Assets:					
Financial assets measured at fair value through profit or loss					
Exotic FX option \$	22,279	Exotic FX option model	Scaling parameter	10%~90%	The higher the scaling parameter, the closer it is to stochastic volatility model. The inputs should be inspected regularly to ensure reasonable fair value.
Liabilities:					
Financial liabilities measured at fair value through profit or loss					
Exotic FX option	(1,740)	Exotic FX option model	Scaling parameter	10%~90%	The higher the scaling parameter, the closer it is to stochastic volatility model. The inputs should be inspected regularly to ensure reasonable fair value.

(Continued)

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

December 31, 2017					
Name	Fair value	Valuation techniques	Significant unobservable inputs	Intervals	Relationship between inputs and fair value
<u>Recurring fair value measurement</u>					
<u>Non-derivative financial instruments</u>					
Assets:					
Financial assets designated as at fair value through profit or loss at initial recognition					
Credit linked note (CLN) \$	1,102,092	Complicated option model	Recovery rate of transaction object	10%~90%	The higher the recovery rate, the lower the fair value.
Trust plans	137,385	Discounted cash flow	Real interest rate	5.9%	The lower the real interest rate, the higher the fair value.
<u>Derivative financial instrument</u>					
Assets:					
Financial assets measured at fair value through profit or loss					
Complicated FX option \$	21,020	Complicated FX option model	Scaling parameter	10%~90%	The higher the scaling parameter, the closer it is to random fluctuation model. Shall check the inputs regularly to make sure the reasonability of the fair value.
Liabilities:					
Financial liabilities measured at fair value through profit or loss					
Complicated FX option	16,774	Complicated FX option model	Scaling parameter	10%~90%	The higher the scaling parameter, the closer it is to random fluctuation model. Shall check the inputs regularly to make sure the reasonability of the fair value.

(Continued)

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

b) Fubon Life Insurance

December 31, 2018					
Name	Fair value	Valuation techniques	Significant unobservable inputs	Intervals	Relationship between inputs and fair value
Financial assets measured at fair value\$ through profit or loss	7,669,123	Asset-based Approach	Discount for lack of marketability	5%	The higher the discount for lack of marketability, the lower the fair value.
			Non-controlling interest discount	5%	
		Market approach – comparable company	Discount for lack of marketability	25%	The higher the discount for lack of marketability, the lower the fair value.
			Income multiplier	1%	
			P/E ratio	14%~16.2% (15.1%)	
Financial assets measured at fair value through other comprehensive income	28,089,189	Asset-based Approach	P/B ratio	1.7%~3.5% (2.6%)	The higher the income multiplier, the higher the fair value.
		Black Derman Toy Model/Net asset value method	Discount rate	9.38%~16.51%	The higher the discount rate, the lower the fair value.
		Asset-based Approach	Discount for lack of marketability	5.9%~70% (12.33%)	The higher the discount for lack of marketability, the lower the fair value.
			Non-controlling interest discount	5%~29.7% (19.17%)	
		Market approach – comparable company	Discount for lack of marketability	22%~28% (25%)	The higher the discount for lack of marketability, the lower the fair value.
			P/B ratio	2.2%~2.5% (2.35%)	
		Discounted cash flow	Discount rate	Not applicable	The higher the discount rate, the lower the fair value.
			Credit spread	Not applicable	
			Prepayment rate	Not applicable	

(Continued)

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

c) Fubon Securities

December 31, 2018					
	Fair value	Valuation techniques	Significant unobservable inputs	Intervals	Relationship between inputs and fair value
<u>Recurring fair value measurement</u>					
<u>Non-derivative financial instruments</u>					
Assets:					
Financial assets measured at fair value through profit or loss					
Financial assets mandatorily measured at fair value through profit or loss					
Bond investment	\$ 206,478	Bloomberg BVAL valuation method	BVAL valuation score	Not applicable	The higher the BVAL score, the higher the fair value.
Securities invested by brokers	241,983	Evaluation methods of unlisted stock	The selection of the model is based on the evaluation methods of unlisted stock.	Not applicable	The selection of the model is based on the evaluation methods of unlisted stock.
Financial assets measured at fair value through other comprehensive income					
Stock investment	2,096,358	Evaluation methods of unlisted stock	The selection of the model is based on the evaluation methods of unlisted stock.	Not applicable	The selection of the model is based on the evaluation methods of unlisted stock.
Liabilities:					
Financial liabilities measured at fair value through profit or loss					
Financial liabilities designated as at fair value through profit or loss	2,455,857	Option pricing model	Volatility	1%~80%	The higher the volatility, the higher the fair value.
December 31, 2017					
	Fair value	Valuation techniques	Significant unobservable inputs	Intervals	Relationship between inputs and fair value
<u>Recurring fair value measurement</u>					
<u>Non-derivative financial instruments</u>					
Assets:					
Financial assets measured at fair value through profit or loss					
Bond Investment	\$ 302,503	Bloomberg BVAL valuation method	BVAL valuation score	Not applicable	The higher the BVAL score, the higher the fair value.
Available-for-sale financial assets					
Stock investment	38,417	Net asset value method	Net asset value (note)	Not applicable	The higher the net asset value, the higher the fair value.
Liabilities:					
Financial liabilities measured at fair value through profit or loss					
Financial liabilities designated as at fair value through profit or loss at initial recognition	2,073,271	Option pricing model	Volatility	1%~80%	The higher the volatility, the higher the fair value.

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

(Continued)

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

7) Valuation procedure of Level 3 inputs

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

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

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

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

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

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

(Continued)

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

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

a) Taipei Fubon Bank

Units : In thousands

December 31, 2018	Fair value fluctuation reflected on net income		Fair value fluctuation reflected on other comprehensive income	
	Positive change	Negative change	Positive change	Negative change
Assets				
Financial assets measured at fair value through profit or loss				
Financial assets mandatorily \$ measured at fair value through profit or loss	110	(68)	-	-
Financial assets measured at fair value through other comprehensive income	-	-	779	(778)
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	60	(58)	-	-

December 31, 2017	Fair value fluctuation reflected on net income		Fair value fluctuation reflected on other comprehensive income	
	Positive change	Negative change	Positive change	Negative change
Assets				
Financial assets measured at fair value through profit or loss				
Held-for-trading financial assets	\$ 79	(35)	-	-
Financial assets designated as at fair value through profit or loss at initial recognition	27	(31)	-	-
Available-for-sale financial assets	-	-	156	(156)
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	57	(55)	-	-

(Continued)

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

b) Fubon Life Insurance

<u>December 31, 2018</u>	<u>Fair value fluctuation reflected on other comprehensive income (Note)</u>	
<u>Items</u>	<u>Positive change</u>	<u>Negative change</u>
Assets		
Financial assets measured at fair value through profit or loss	32,448	(32,036)
Financial assets measured at fair value through other comprehensive income	103,100	(103,030)

Note: Fair value fluctuation reflected on other comprehensive income of financial assets measured at fair value through profit or loss is the reclassification by applying overlay approach.

c) Fubon Securities

<u>December 31, 2018</u>	<u>Fair value fluctuation reflected on net income</u>		<u>Fair value fluctuation reflected on other comprehensive income</u>	
<u>Items</u>	<u>Positive change</u>	<u>Negative change</u>	<u>Positive change</u>	<u>Negative change</u>
Assets				
Financial assets mandatorily measured at fair value through profit or loss	\$ 44,846	(44,846)	-	-
Financial assets measured at fair value through other comprehensive income	-	-	209,636	(209,636)
Liabilities				
Financial liabilities designated as at fair value through profit or loss	245,586	(245,586)	-	-

<u>December 31, 2017</u>	<u>Fair value fluctuation reflected on net income</u>		<u>Fair value fluctuation reflected on other comprehensive income</u>	
<u>Items</u>	<u>Positive change</u>	<u>Negative change</u>	<u>Positive change</u>	<u>Negative change</u>
Assets				
Held-for-trading financial assets	\$ 30,576	(30,576)	-	-
Available-for-sale financial assets	-	-	3,842	(3,842)
Liabilities				
Financial liabilities designated as at fair value through profit or loss at initial recognition	207,327	(207,327)	-	-

(Continued)

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

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

1) Fair value information

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

Items	Book value	Fair value
December 31, 2018		
Financial assets		
Debt investments measured at amortized cost	\$ 2,564,909,862	2,489,026,141
Financial liabilities		
Bonds payable	217,754,674	219,426,681
December 31, 2017		
Financial assets		
Held-to-maturity financial assets (Note)	\$ 497,483,437	503,104,431
Other financial assets – Debt investments without active market	1,585,669,386	1,625,610,662
Other financial assets – Linked deposits	19,821,595	19,611,378
Financial liabilities		
Bonds payable	187,206,734	189,290,884

Note: Included government bonds accounted for refundable deposits.

2) Fair value hierarchy

Financial instruments measured at fair value	Total	December 31, 2018		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets:				
Debt investments measured at amortized cost	\$ 2,489,026,141	940,277,898	1,180,762,492	367,985,751
Financial liabilities:				
Bonds payable	219,426,681	53,138,671	166,288,010	-

(Continued)

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

	December 31, 2017			
Financial instruments measured at fair value	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets:				
Held-to-maturity financial assets	\$ 503,104,431	106,966,445	384,269,433	11,868,553
Other financial assets – Debt investment without active markets	1,625,610,662	21,727,819	1,282,530,363	321,352,480
Other financial assets – Linked deposits	19,611,378	-	-	19,611,378
Financial liabilities:				
Bonds payable	189,290,884	51,278,692	138,012,192	-

3) Valuation techniques

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

- a) Fair value of the financial instrument of which the maturity date is short or the future price is closed to the book value is estimated by using its book value. This method is applied to cash and cash equivalents, due from the central bank and call loans to banks, securities purchased under resell agreements, receivables, partial other financial assets, discounts and loans, deposit from and due to the central bank and banks, securities sold under repurchase agreements, commercial papers issued, payables, deposits and remittances, other borrowings and other financial liabilities.
- b) Since discounts and loans, deposits and principal of structured product are all interest-bearing financial assets or liabilities, their book value is proximate to fair value. Book value of overdue receivables is the estimated recoverable amount after deducting allowances for bad debts. Therefore, the fair value of the above financial assets and liabilities is its book value.
- c) If debt investments measured at amortized cost (applicable since January 1, 2018), held-to-maturity financial instrument (applicable before January 1, 2018), debt investments without active market (applicable before January 1, 2018) and bonds payable have quoted prices in active market, its fair value will be market price. If there is no market price for reference, the fair value will be estimated by using the valuation technique. The estimates and assumptions used by the Company and its subsidiaries in the evaluation technique are consistent with the information used by the market participants when pricing the financial instruments, and the information is available to the Company and its subsidiaries.
- d) Since equity investment at cost (applicable before January 1, 2018) does not have quoted price in an active market, and that variance of fair value estimation is significant or cannot be reasonably calculated, its fair value cannot be measured. Therefore, the fair value of equity investment is not disclosed.

(Continued)

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

(aj) Insurance Contracts

(i) Fubon Insurance and its subsidiaries

1) Various reserves

a) Unearned premium reserves

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

Particular	December 31, 2018			
	Unearned premium reserves		Ceded unearned premium reserves	Retained business
	Direct business	Reinsurance-assumed business	Reinsurance-ceded business	
Fire insurance	\$ 1,241,042	5,000	337,679	908,363
Marine cargo insurance	279,943	603	92,038	188,508
Marine hull fishing vessel	226,385	3,388	185,160	44,613
Voluntary motor insurance	7,458,705	181,737	371,553	7,268,889
Compulsory motor TPL insurance	2,090,322	686,926	1,248,051	1,529,197
Liability insurance	1,653,735	524	523,895	1,130,364
Engineering and nuclear insurance	942,570	16,456	424,362	534,664
Surety and credit insurance	109,267	570	82,355	27,482
Other property insurance	93,356	10	62,134	31,232
Accident insurance	2,721,027	19,099	33,456	2,706,670
Typhoon, flood and earthquake insurance	1,604,613	31,531	1,054,890	581,254
Personal and commercial multiple peril insurance	486,978	26	51,517	435,487
Health insurance	341,603	-	4,279	337,324
Overseas reinsurance assumed	-	235,957	39,096	196,861
Overseas subsidiaries	2,283,274	774,437	547,023	2,510,688
Total	<u>\$ 21,532,820</u>	<u>1,956,264</u>	<u>5,057,488</u>	<u>18,431,596</u>

(Continued)

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

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

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

Particular	2018	
	Unearned premium reserves	Ceded unearned premium reserves
Beginning balance	\$ 22,455,345	5,059,529
Provision	23,538,991	5,050,355
Recovered	(22,455,345)	(5,059,529)
Other — effect of change in exchange rates	(49,907)	7,133
Ending balance	<u>\$ 23,489,084</u>	<u>5,057,488</u>

(Continued)

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

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

Fubon Insurance provides unearned premium reserves according to the Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises amended by Financial Supervisory Commission, Executive Yuan, Jin Guan Bao Tsai No.10102501561 on February 7, 2012. Under the Regulations, the unearned premium of effective insurance contracts which have not matured yet or insurance contracts which are not yet effective is calculated in accordance with the unexpired risk for every type of insurance, and unearned premium reserves are also provided accordingly. The method of providing the reserve mentioned above, which is noted in the insurance product application filed with the Authority, is decided by actuaries in according to type of insurance. This method cannot be changed, unless approved by the Authority.

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

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

(Continued)

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

b) Special reserve

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

1. Catastrophe special reserve

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

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

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

2. Special reserves for fluctuation of risks

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

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

(Continued)

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

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

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

ii) The segment requirements of special assets

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

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

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

The amount of the treasury bonds and time deposits listed above shall not be less than 30% of the recent audited or reviewed matured retention insurance premium, and the authority can increase the percentage depending on the operating circumstances of Fubon Insurance and its subsidiaries.

The balance of special reserve that is less than 30% of the recent audited or reviewed matured retention insurance premium shall all be use to purchase treasury bonds or be put in time deposits.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

If the amount of the unearned premium and claims reserve does not exceed 30% of the recent audited or reviewed matured retention insurance premium, all of the insurance capital of the insurance shall all be put in deposits.

Under article 11 of the “Regulations for Deposits and Management of the Reserve of Compulsory Automobile Liability Insurance”, the related reserves are transferred to the successor in the event that the property insurance company decides to discontinue its operations or suspend its insurance activity.

The property insurance company is officially forced to discontinue operating and liquidate, ordered to dissolve, or abolish the license of the insurance business, while no other insurer undertake the insurance business. After the insurance reserves are settled, and the special reserve balance is positive, the related reserves should be transferred to the Legal Foundation of Traffic Accidents Special Compensation Fund.

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

(Continued)

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

iv) Movements in special reserve – Compulsory automobile liability insurance

Particular	December 31, 2018	December 31, 2017
Beginning balance	\$ 1,295,097	1,270,428
Provision	36,948	41,737
Recovered	(188,675)	(17,068)
Ending balance	<u><u>\$ 1,143,370</u></u>	<u><u>1,295,097</u></u>

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

2018						
Particular	Liability			Special Reserve		
	Catastrophe	Dangerous Change	Total	Catastrophe	Dangerous Change	Total
Beginning balance	\$ 315,455	5,786,493	6,101,948	2,054,146	4,361,011	6,415,157
Provision	-	-	-	349,382	699,134	1,048,516
Recovered	-	(298,306)	(298,306)	(46)	(104,675)	(104,721)
Beginning balance (same as ending balance)	<u><u>\$ 315,455</u></u>	<u><u>5,488,187</u></u>	<u><u>5,803,642</u></u>	<u><u>2,403,482</u></u>	<u><u>4,955,470</u></u>	<u><u>7,358,952</u></u>

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

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

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

(Continued)

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

c) Claim reserves

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

December 31, 2018					
Particular	Notes payable	Indemnity payments payable	Claim reserves		
			Reported but unpaid	Unreported	Total
Fire insurance	\$ -	5,968	1,939,557	40,362	1,979,919
Marine cargo insurance	-	1,377	627,770	171,529	799,299
Marine hull fishing vessel	-	245	357,742	182,934	540,676
Voluntary motor insurance	-	9,171	3,515,545	863,167	4,378,712
Compulsory motor TPL insurance	-	12,324	731,751	2,894,550	3,626,301
Liability insurance	-	2,377	1,543,559	788,744	2,332,303
Engineering and Nuclear insurance	-	433	2,072,153	100,590	2,172,743
Surety and credit insurance	-	778	168,024	55,850	223,874
Other property insurance	-	-	48,173	30,943	79,116
Accident insurance	-	10,820	182,296	967,526	1,149,822
Typhoon, flood and earthquake insurance	-	5,416	531,511	225,293	756,804
Personal and commercial multiple peril insurance	-	187	26,226	102,500	128,726
Health insurance	-	1,375	15,497	89,660	105,157
Overseas reinsurance assumed	-	-	462,742	43,378	506,120
Overseas subsidiaries	-	6,420	985,274	677,102	1,662,376
Total	\$ -	<u>56,891</u>	<u>13,207,820</u>	<u>7,234,128</u>	<u>20,441,948</u>

December 31, 2017					
Particular	Notes payable	Indemnity payments payable	Claim reserves		
			Reported but unpaid	Unreported	Total
Fire insurance	\$ -	1,053	1,857,238	35,579	1,892,817
Marine cargo insurance	-	516	1,209,026	189,957	1,398,983
Marine hull fishing vessel	-	178	359,144	215,155	574,299
Voluntary motor insurance	-	34,475	3,298,372	808,422	4,106,794
Compulsory motor TPL insurance	-	628,702	784,523	2,525,108	3,309,631
Liability insurance	-	7,199	1,953,576	744,788	2,698,364
Engineering and Nuclear insurance	-	307	1,455,827	63,191	1,519,018
Surety and credit insurance	-	(7)	182,278	61,550	243,828
Other property insurance	-	552	37,138	14,315	51,453
Accident insurance	-	428	233,989	846,971	1,080,960
Typhoon, flood and earthquake insurance	-	9,717	1,089,920	214,257	1,304,177
Personal and commercial multiple peril insurance	-	9,182	18,496	93,730	112,226
Health insurance	-	2,250	7,295	68,426	75,721
Overseas reinsurance assumed	-	-	419,489	56,526	476,015
Overseas subsidiaries	-	17,273	1,182,177	717,211	1,899,388
Total	\$ -	<u>711,825</u>	<u>14,088,488</u>	<u>6,655,186</u>	<u>20,743,674</u>

(Continued)

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

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

Particular	December 31, 2018		
	Reported but unpaid	Unreported	Total
Fire insurance	\$ 799,543	15,717	815,260
Marine cargo insurance	246,582	71,889	318,471
Marine hull fishing vessel	303,278	158,437	461,715
Voluntary motor insurance	161,904	28,340	190,244
Compulsory motor TPL insurance	235,366	1,378,789	1,614,155
Liability insurance	567,699	287,143	854,842
Engineering and Nuclear insurance	1,294,230	53,463	1,347,693
Surety and credit insurance	105,495	44,681	150,176
Other property insurance	5,269	21,851	27,120
Accident insurance	132	4,397	4,529
Typhoon, flood and earthquake insurance	387,924	171,526	559,450
Personal and commercial multiple peril insurance	343	7,258	7,601
Health insurance	1	1,020	1,021
Overseas reinsurance assumed	26,693	3,367	30,060
Overseas subsidiaries	225,796	177,859	403,655
Less: Accumulated impairment	(99)	-	(99)
Total	\$ 4,360,156	2,425,737	6,785,893

(Continued)

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

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

Reserves above were expressed in net amount and the estimated accumulated impairment losses amounted to \$99 and \$115 as of December 31, 2018 and 2017, respectively.

iii) Movements in claim reserves and ceded claim reserves

Particular	2018	
	Claim reserves	Ceded claim reserves
Beginning balance	\$ 20,743,674	7,473,181
Provision	20,466,456	6,782,189
Recovered	(20,743,674)	(7,473,296)
Recognized impairment loss	-	16
Other — effect of change in exchange rates	(24,508)	3,803
Ending Balance	\$ 20,441,948	6,785,893

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Particular	2018	2017
Fire insurance	\$ 2,295	39,301
Marine cargo insurance	48,454	94,717
Marine hull fishing vessel	8,226	11,656
Voluntary motor insurance	420,997	346,513
Compulsory motor TPL insurance	182,961	179,560
Liability insurance	28,742	21,422
Engineering and Nuclear insurance	274	97
Surety and credit insurance	22,055	44,257
Other property insurance	110	133
Accident insurance	1,174	809
Personal and commercial multiple peril insurance	697	649
Typhoon, flood and earthquake insurance	707	144
Health insurance	132	900
Overseas reinsurance assumed	-	-
Overseas subsidiaries	10,475	-
Total	<u>\$ 727,299</u>	<u>740,158</u>

Claim reserves are provided to conform the “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” amended by Financial Supervisory Commission, Executive Yuan, Jin Guan Bao Tsai No.10102501561 on February 7, 2012. Property insurance business shall calculate claim reserves including reported but not paid and incurred but not reported (IBNR) based on past claim experience and loss adjustment expenses incurred for each line of insurance according to actuarial principles. Reserves for reported but not paid claims shall be estimated and reserved on a case-by-case basis based on relevant information. The claim reserves in the preceding paragraph should be released in the following year and then calculated and reserved again based on the current-year information.

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

(Continued)

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

d) Liability reserve

i) The formula for calculating reserve is reported to the authority and the current interest rate is used for discounting purposes to calculate the present value of the reserve.

ii) Movements in liability reserve and ceded liability reserve:

Particular	2018		2017	
	Liability reserve	Ceded liability reserve	Liability reserve	Ceded liability reserve
Beginning balance	\$ 143,764	-	215,539	-
Provision	593	-	848	-
Maturity refund	(67,308)	-	(72,623)	-
Ending balance	<u>\$ 77,049</u>	<u>-</u>	<u>143,764</u>	<u>-</u>

e) Premium deficiency reserve

i) Premium deficiency reserve

Particular	December 31, 2018			
	Premium deficiency reserve		Ceded premium deficiency reserve	Retained business
	Direct business	Reinsurance -assumed business	Reinsurance e-ceded business	
Fire insurance	\$ 54,961	-	-	54,961
Marine cargo insurance	4,142	-	-	4,142
Marine hull fishing vessel	7,809	32	-	7,841
Voluntary motor insurance	-	-	-	-
Compulsory motor TPL insurance	-	-	-	-
Liability insurance	-	-	-	-
Engineering and Nuclear insurance	24,418	-	-	24,418
Surety and credit insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Typhoon, flood and earthquake insurance	-	-	-	-
Personal and commercial multiple peril insurance	-	-	-	-
Health insurance	-	-	-	-
Overseas reinsurance assumed	-	-	-	-
Overseas subsidiaries	136,297	586,011	651,387	70,921
Total	<u>\$ 227,627</u>	<u>586,043</u>	<u>651,387</u>	<u>162,283</u>

(Continued)

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

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

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

2018									
Particular	Direct underwrite		Reinsurance-assumed		Net change of premium reserve deficiency	Reinsurance-ceded		Net change of ceded premium deficiency reserve	Net provision of premium deficiency reserve
	Provision	Recovered	Provision	Recovered		Provision	Recovered		
Fire insurance	\$ 54,961	50,620	-	-	4,341	-	-	-	4,341
Marine cargo insurance	4,142	4,066	-	-	76	-	-	-	76
Marine hull fishing vessel	7,809	11,524	32	65	(3,748)	-	1,938	(1,938)	(1,810)
Voluntary motor insurance	-	-	-	-	-	-	-	-	-
Compulsory motor TPL insurance	-	-	-	-	-	-	-	-	-
Liability insurance	-	-	-	-	-	-	-	-	-
Engineering and Nuclear insurance	24,418	-	-	-	24,418	-	-	-	24,418
Surety and credit insurance	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Personal and commercial multiple peril insurance	-	-	-	-	-	-	-	-	-
Typhoon, flood and earthquake insurance	-	1,816	-	-	(1,816)	-	-	-	(1,816)
Health insurance	-	-	-	-	-	-	-	-	-
Overseas reinsurance assumed	-	-	-	53	(53)	-	-	-	(53)
Overseas subsidiaries	138,162	134,438	597,478	402,331	198,871	664,134	483,723	180,411	18,460
Other — effect of change in exchange rates	(1,865)	1,467	(11,467)	6,354	(21,153)	(13,539)	7,640	(21,179)	26
Total	\$ 227,627	203,931	586,043	408,803	200,936	650,595	493,301	157,294	43,642

(Continued)

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

Particular	2017									
	Direct underwrite		Reinsurance-assumed		Net change of premium deficiency reserve	Reinsurance-ceded		Net change of ceded premium deficiency reserve	Net provision of premium deficiency reserve	
	Provision	Recovered	Provision	Recovered		Provision	Recovered			
Fire insurance	\$ 50,620	32,823	-	-	17,797	-	-	-	-	17,797
Marine cargo insurance	4,066	5,730	-	-	(1,664)	-	-	-	-	(1,664)
Marine hull fishing vessel	11,524	18,026	65	233	(6,670)	1,938	5,194	(3,256)	-	(3,414)
Voluntary motor insurance	-	3,144	-	87	(3,231)	-	-	-	-	(3,231)
Compulsory motor TPL insurance	-	-	-	-	-	-	-	-	-	-
Liability insurance	-	-	-	-	-	-	-	-	-	-
Engineering and Nuclear insurance	-	-	-	-	-	-	-	-	-	-
Surety and credit insurance	-	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-	-
Personal and commercial multiple peril insurance	-	-	-	-	-	-	-	-	-	-
Typhoon, flood and earthquake insurance	1,816	6,847	-	-	(5,031)	-	-	-	-	(5,031)
Health insurance	-	-	-	-	-	-	-	-	-	-
Overseas reinsurance assumed	-	-	53	8,873	(8,820)	-	-	-	-	(8,820)
Overseas subsidiaries	134,438	201,031	402,331	216,043	119,695	483,723	401,536	82,187	-	37,508
Other — effect of change in exchange rates	1,467	(6,073)	6,354	(9,031)	22,925	6,990	(14,857)	21,847	-	1,078
Total	<u>\$ 203,931</u>	<u>261,528</u>	<u>408,803</u>	<u>216,205</u>	<u>135,001</u>	<u>492,651</u>	<u>391,873</u>	<u>100,778</u>	-	<u>34,223</u>

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

Particular	2018	
	Premium deficiency reserve	Ceded premium deficiency reserve
Beginning balance	\$ 612,734	493,301
Provision	827,002	663,927
Recovered	(612,734)	(493,301)
Other — effect of change in exchange rates	(13,332)	(12,540)
Ending balance	<u>\$ 813,670</u>	<u>651,387</u>

Particular	2017	
	Premium deficiency reserve	Ceded premium deficiency reserve
Beginning balance	\$ 477,733	391,873
Provision	604,913	484,830
Recovered	(477,733)	(391,873)
Other — effect of change in exchange rates	7,821	8,471
Ending balance	<u>\$ 612,734</u>	<u>493,301</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Premium deficiency reserve is provided to conform to the “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” amended by Financial Supervisory Commission, Executive Yuan, Jin Guan Bao Tsai No.10102501561 on February 7, 2012. Non-life insurance companies are required to estimate future claim payments and related expenses by evaluating the insurance contracts which have not matured and the risks covered by those contracts. If the expenditures are lower than the premium, non-life insurance companies are required to provide the premium deficiency reserve. The methodology for providing premium deficiency reserve or change in the said methodology is decided by actuaries and reported to the Authority. On June 25, 2008, Fubon Insurance and its subsidiaries reported their methodology for providing premium deficiency reserve and obtained approval thereof from Financial Supervisory Commission, Executive Yuan, through its letter Jin Guan Bao Yi No.09702115350.

2) Nature and extent of the insurance contract risk

a) Objectives, policies, procedures and methods for the insurance contract risk management

i) Objectives and policies of the risk management

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

ii) Structure, organization and responsibility

The board of directors are responsible for effectively integrating the risk management system of Fubon Insurance and its subsidiaries, and developing the audit and monitor function. The organization and scope are as follows:

1. Board of Directors

- a. Identify all potential risks in the operations of insurance industry, ensure the effectiveness of the overall risk management of Fubon Insurance and take the ultimate responsibilities.
- b. Ensure that Fubon Insurance has established proper risk management functions and cultures, authorize proper risk management policy and allocate resources efficiently.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Establish and convene Risk Management Committee in accordance with Fubon Insurance's organization rules governing the Risk Management Committee. Develop risk management policies, structures, and organizational functions according to their responsibilities, Risk Management Committee implements risk management decisions of the board of directors and regularly reviews the development, construction and execution effectiveness of the Company's overall risk management mechanism. Risk Management Committee meet with the board of directors to report the current progress of risk management decisions on time and offer necessary advices for improvement.
3. Chief Risk Officer

Fubon Insurance and its subsidiaries set up a position “Chief Risk Officer” (CRO) to deal with risk management matters, including strategy planning, supervising Fubon Insurance and its subsidiaries to create and to follow the risk management system, monitoring the appropriateness of risk exposure and the effectiveness of risk management, supervising Fubon Insurance and its subsidiaries' Risk Management Department.
4. Risk Management Department
 - a. Responsible for monitoring, measuring, and revaluing daily risks.
 - b. Assist the execution / implementation of risk management policies approved by the Board of Directors.
 - c. Set up the risk tolerance level and the limitations based on the risk appetite.
 - d. Summarize the relative information provided by each unit, and help each unit follow the policies and the limits.
 - e. Regular propose risk management related reports.
 - f. Regularly monitor the risk limits and the utilization of risk limits of respective business unit.
 - g. Assist in carrying out the stress test.
 - h. If necessary, proceed the back testing.
 - i. Other risk management related duties.

(Continued)

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

5. Business Units

- a. Each business unit shall assign risk management personnel to effectively assist the unit in executing risk management related to operations.
 - b. The supervisors of business units are responsible for the daily risk's management and report of the affiliation units and take necessary countermeasures. In addition, supervisors should oversee the regularly communicating the relevant information about risk management to the risk management department.
 - c. The responsibilities of business units to execute risk management operations are as follows:
 - i. Recognize the potential risks and measure it. Report risk management information and risk exposure to the risk management department regularly.
 - ii. Regularly examine each kind of business risk and limitations to ensure that the risk limitation is under control.
 - iii. Monitor risk exposure and report any situation when the exposure exceeds the limitation and take the necessary procedures.
 - iv. Make sure all business units are properly enforced under internal control and follow the rules and standards.
 - v. Assist in the related data collection of the operation risk.
- iii) Scope and nature of risk reporting or measurement system

Fubon Insurance and its subsidiaries measure insurance risk in consideration of factors including: commodity pricing, check and ratify insurance, claims processing, catastrophe, reinsurance and reserves. Fubon Insurance and its subsidiaries establish the key risk indicator for monitoring key risks.

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

(Continued)

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

Each responsible department of Fubon Insurance and its subsidiaries' monitor relevant risk benchmark is on a monthly or quarterly basis, and provides the monitoring results to the risk management department for reporting to Risk Management Committee. The Risk Management department collects all risk management reports and risk monitoring indicators semiannually and reports the overall situation to the Risk Management Committee and the board of directors. The report explains the risk exposure, how the policies worked and other related issues.

iv) The procedures and methods of the insurance risk management

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

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

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

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

(Continued)

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

b) Insurance risk information

i) The sensitivity test of insurance risk

Test Hypothesis

2018						
Particular	Insurance revenue	Expected rate of loss	Change of 1% expected rate of loss			
			Change of income before tax		Change of equity	
			Before reinsurance	After reinsurance	Before reinsurance	After reinsurance
Fire insurance	\$ 2,095,822	62.9%	26,488	12,208	21,190	9,766
Marine cargo insurance	1,142,348	61.6%	11,367	5,992	9,094	4,794
Marine hull fishing vessel	629,510	72.1%	6,997	886	5,598	709
Voluntary motor insurance	14,548,246	66.6%	137,392	132,417	109,914	105,934
Compulsory motor TPL insurance	5,867,967	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Liability insurance	3,436,479	68.2%	32,946	20,869	26,357	16,695
Engineering and Nuclear insurance	1,064,804	60.7%	11,401	4,729	9,121	3,783
Surety and credit insurance	247,762	68.4%	2,545	624	2,036	499
Other property insurance	328,899	66.3%	2,884	834	2,307	667
Accident insurance	5,419,445	70.6%	51,879	51,305	41,503	41,044
Typhoon, flood and earthquake insurance	3,525,562	74.2%	35,472	7,272	28,378	5,818
Personal and commercial multiple peril insurance	1,040,408	68.2%	9,628	8,971	7,702	7,177
Health insurance	865,535	63.8%	7,968	7,877	6,374	6,302
Overseas reinsurance assumed	430,945	65.2%	5,382	4,765	4,306	3,812
Overseas subsidiaries	5,208,005	65.7%	50,149	40,760	40,119	32,608

2017						
Particular	Insurance revenue	Expected rate of loss	Change of 1% expected rate of loss			
			Change of income before tax		Change of equity	
			Before reinsurance	After reinsurance	Before reinsurance	After reinsurance
Fire insurance	\$ 2,062,556	62.6%	24,949	11,362	20,708	9,430
Marine cargo insurance	1,080,916	61.6%	11,106	6,215	9,218	5,158
Marine hull fishing vessel	574,343	71.9%	9,471	785	7,861	651
Voluntary motor insurance	13,851,962	66.3%	131,350	125,402	109,020	104,084
Compulsory motor TPL insurance	5,687,697	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Liability insurance	3,175,465	68.2%	31,172	20,150	25,873	16,724
Engineering and Nuclear insurance	940,430	60.6%	10,280	4,346	8,532	3,607
Surety and credit insurance	267,169	68.3%	2,630	666	2,183	553
Other property insurance	129,409	66.7%	1,253	429	1,040	356
Accident insurance	4,961,020	71.0%	47,972	47,484	39,817	39,412
Typhoon, flood and earthquake insurance	3,384,454	73.4%	30,043	9,728	24,936	8,074
Personal and commercial multiple peril insurance	846,496	68.2%	8,280	7,704	6,872	6,394
Health insurance	664,860	63.5%	6,128	6,052	5,086	5,023
Overseas reinsurance assumed	663,687	65.5%	7,925	4,791	6,578	3,977
Overseas subsidiaries	5,159,872	65.7%	51,782	43,863	42,979	36,407

(Continued)

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

ii) Explanation of the risk concentration

1. Proportion of underwriting and reinsurance-assumed premiums

The insurance contracts which Fubon Insurance and its subsidiaries underwrite are categorized into different types of insurances and are not concentrated in a single type of insurance. The top 5 types of insurance are: voluntary motor insurance, compulsory motor TPL insurance, accident insurance, typhoon, flood and earthquake insurance as well as liability insurance. The proportion of voluntary motor insurance represents 31.7% and 32.0% of all insurances for the years ended December 31, 2018 and 2017, respectively. Although its proportion is higher than the others, its loss experience is stable and the variance is small. There is no risk concentration in other types of insurance.

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

Insurance type	2018		2017	
	Amount	%	Amount	%
Fire insurance	\$ 2,095,822	4.6 %	2,062,556	4.7 %
Marine cargo insurance	1,142,348	2.5 %	1,080,916	2.5 %
Marine hull fishing vessel	629,510	1.4 %	574,343	1.3 %
Voluntary motor insurance	14,548,246	31.7 %	13,851,962	32.0 %
Compulsory motor TPL insurance	5,867,967	12.8 %	5,687,697	13.1 %
Liability insurance	3,436,479	7.5 %	3,175,465	7.3 %
Engineering and nuclear insurance	1,064,804	2.3 %	940,430	2.2 %
Surety and credit insurance	247,762	0.5 %	267,169	0.6 %
Other property insurance	328,899	0.7 %	129,409	0.3 %
Accident insurance	5,419,445	11.8 %	4,961,020	11.4 %
Typhoon, flood and earthquake insurance	3,525,562	7.7 %	3,384,454	7.8 %
Personal and commercial multiple peril insurance	1,040,408	2.3 %	846,496	1.9 %
Health insurance	865,535	1.9 %	664,860	1.5 %
Foreign business	430,945	0.9 %	663,687	1.5 %
Overseas subsidiaries	5,208,005	11.4 %	5,159,873	11.9 %
Total	<u>\$ 45,851,737</u>	<u>100.0 %</u>	<u>43,450,337</u>	<u>100.0 %</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2. The proportion of retained business premium

Fubon Insurance and its subsidiaries use retained business to assess the proportion of retained business premium. The top 5 types of insurances with the highest proportion are voluntary motor insurance, accident insurance, compulsory motor TPL insurance, liability insurance and fire insurance. The voluntary insurance which has the highest proportion accounted for 39.6% and 39.5% for the years ended December 31, 2018 and 2017, respectively. Fubon Insurance and its subsidiaries consider the loss of voluntary motor insurance to be stable, and therefore, retain all the reinsurance. For other insurances, Fubon Insurance and its subsidiaries evaluate the possibility of significant accumulated losses and arrange the appropriate reinsurance contracts to diversify the risk. Therefore, there is no risk concentration.

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

Insurance type	2018		2017	
	Amount	%	Amount	%
Fire insurance	\$ 1,123,081	3.2 %	1,076,147	3.3 %
Marine cargo insurance	592,155	1.7 %	605,572	1.8 %
Marine hull fishing vessel	92,893	0.3 %	77,202	0.2 %
Voluntary motor insurance	13,787,720	39.6 %	12,970,251	39.5 %
Compulsory motor TPL insurance	3,795,013	10.9 %	3,662,128	11.1 %
Liability insurance	2,236,617	6.4 %	2,082,773	6.3 %
Engineering and nuclear insurance	378,430	1.1 %	410,518	1.2 %
Surety and credit insurance	59,306	0.2 %	67,257	0.2 %
Other property insurance	96,748	0.3 %	42,157	0.1 %
Accident insurance	5,336,659	15.3 %	4,897,794	14.9 %
Typhoon, flood and earthquake insurance	817,591	2.4 %	801,497	2.4 %
Personal and commercial multiple peril insurance	936,947	2.7 %	815,154	2.5 %
Health insurance	855,210	2.5 %	657,756	2.0 %
Foreign business	347,866	1.0 %	566,425	1.7 %
Overseas subsidiaries	4,297,432	12.4 %	4,222,615	12.8 %
Total	<u>\$ 34,753,668</u>	<u>100.0 %</u>	<u>32,955,246</u>	<u>100.0 %</u>

(Continued)

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

iii) Claim development trend:

1. Sum of accumulated and reported claims

Occurrence year	December 31, 2018					
	≤2013	2014	2015	2016	2017	2018
At the end of occurrence year	-	20,868,234	22,552,161	31,870,143	24,415,651	25,661,983
The first year	-	18,752,095	20,575,076	29,592,112	22,637,619	-
The second year	-	18,558,197	20,608,742	29,147,807	-	-
The third year	-	18,365,021	20,482,542	-	-	-
The forth year	-	18,230,311	-	-	-	-
Estimation of accumulated claims	-	18,230,311	20,482,542	29,147,807	22,637,619	25,661,983
Accumulated claims paid	-	17,565,610	19,478,526	27,744,472	18,734,217	13,069,424
Subtotal	642,197	664,701	1,004,016	1,403,335	3,903,402	12,592,559
Reconciliations (Note)						351,775
Consolidated write-offs						(120,037)
Total amount recognized in balance sheet						20,441,948

Occurrence year	December 31, 2017					
	≤2012	2013	2014	2015	2016	2017
At the end of occurrence year	-	16,104,234	20,897,216	22,603,754	31,953,909	24,484,971
The first year	-	15,274,660	18,776,530	20,620,472	29,664,521	-
The second year	-	15,240,948	18,583,453	20,654,809	-	-
The third year	-	15,085,450	18,390,498	-	-	-
The forth year	-	14,856,443	-	-	-	-
Estimation of accumulated claims	-	14,856,443	18,390,498	20,654,809	29,664,521	24,484,971
Accumulated claims paid	-	14,582,841	17,450,001	19,225,790	25,239,227	11,726,048
Subtotal	625,945	273,602	940,497	1,429,019	4,425,294	12,758,923
Reconciliations (Note)						290,394
Total amount recognized in balance sheet						20,743,674

Note: Reconciliations are indistributable paid off claims.

(Continued)

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

2. Sum of accumulated and reported claims, net

Occurrence year	December 31, 2018					
	≤2013	2014	2015	2016	2017	2018
At the end of occurrence year	-	15,491,526	16,602,093	18,285,579	19,052,171	19,955,358
The first year	-	14,058,371	15,572,648	17,344,652	17,836,776	-
The second year	-	14,078,684	15,534,336	17,297,652	-	-
The third year	-	13,959,088	15,454,640	-	-	-
The forth year	-	13,908,222	-	-	-	-
Estimation of accumulated claims	-	13,908,222	15,454,640	17,297,652	17,836,776	19,955,358
Accumulated claims paid	-	13,698,841	14,978,906	16,451,466	15,472,493	11,039,931
Subtotal	493,170	209,381	475,734	846,186	2,364,283	8,915,427
Reconciliations (Note)						351,874
Total amount recognized in balance sheet						13,656,055

Occurrence year	December 31, 2017					
	≤2012	2013	2014	2015	2016	2017
At the end of occurrence year	-	12,404,511	15,519,935	16,646,288	18,341,648	19,113,837
The first year	-	11,764,241	14,083,069	15,611,697	17,393,837	-
The second year	-	11,764,999	14,103,579	15,574,071	-	-
The third year	-	11,680,921	13,984,011	-	-	-
The forth year	-	11,614,588	-	-	-	-
Estimate of cumulative claims incurred	-	11,614,588	13,984,011	15,574,071	17,393,837	19,113,837
Accumulated claims paid	-	11,429,221	13,613,122	14,803,583	15,416,616	9,895,892
Subtotal	458,074	185,367	370,889	770,488	1,977,221	9,217,945
Reconciliations (Note)						290,509
Total amount recognized in balance sheet						13,270,493

Note: The adjustment item is undistributed claims paid and accumulated impairment.

c) Credit risk, liquidity risk and market risk

i) Credit risk

The credit risk of insurance contracts comes mainly from reinsurance business. That is, the reinsurers' default or bad financial condition which leads to the inability to pay the reinsurance claims. Reinsurance contracts are arranged in accordance with the "Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms". The reinsurers with whom Fubon Insurance and its subsidiaries reinsure are mostly reinsurers with better credit rating and qualify as authorized reinsurers. Relevant risk control procedures are also established to regularly keep track and monitor changes in the credit rating of reinsurers.

(Continued)

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

In compliance with article 5 of the “Regulations Governing the Provision of Unauthorized Reinsurance Reserves for Insurance Company”, transactions with unauthorized reinsurers are disclosed in the notes of financial statements which include summary of unauthorized reinsurance contracts and types of reinsurance, reinsurance premium expense of unauthorized reinsurance contracts, as well as general description of the amount of unauthorized reserve and its components.

1. As of December 31, 2018, the major unqualified reinsurance counterparties are listed below:
 - a. TRUST INTERNATIONAL INSURANCE AND REINSURANCE CO.B.S.C (C)TRUST RE, LABUAN: The facultative reinsurance of engineering insurance.
 - b. MILLI REASURANS T.A.S. (SINGAPORE BRANCH): The facultative reinsurance of fire insurance.
 - c. ALLIANZ C.P. GENERAL INSURANCE COMPANY LIMITED: The facultative reinsurance of commercial fire insurance.
 - d. TUGU INSURANCE CO., LTD: The facultative reinsurance of marine insurance.
 - e. TRUST INTERNATIONAL INSURANCE AND REINSURANCE CO. B.S.C. (C)TRUST RE: The facultative reinsurance of marine insurance contracts.
 - f. BRIGHTSTAR RE. LTD.: The facultative reinsurance of new types of insurance.
 - g. EMIRATES RETAKAFUL LIMITED: The facultative reinsurance of engineering insurance.
 - h. PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED: The facultative reinsurance of personal fire insurance.
2. As of December 31, 2017, the major unqualified reinsurance counterparties are listed below:
 - a. AIG EUROPE LIMITED: The facultative reinsurance of engineering insurance.
 - b. MILLI REASURANS T.A.S. (SINGAPORE BRANCH): The facultative reinsurance of fire insurance.

(Continued)

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

- c. SCHWARZMEER UND OSTSEE VERS-AG SOVAG (UK BRANCH): The facultative reinsurance of commercial fire insurance.
 - d. LEMMA INSURANCE COMPANY: The facultative reinsurance of marine insurance.
 - e. ALLIANZ C.P. GENERAL INSURANCE COMPANY LIMITED: The facultative reinsurance of new type of insurance.
 - f. RIVERSTONE FRANCE S.A.: The facultative reinsurance of engineering insurance.
 - g. PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED : The facultative reinsurance of personal fire insurance.
3. As of December 31, 2018 and 2017, the unauthorized reinsurance expenses amounted to \$143,431 and \$67,946, respectively.
4. As of December 31, 2018 and 2017, the reserve for unauthorized reinsurance amounted to \$301,880 and \$214,555, respectively. The components of this account include: (a) the unearned premium reserve of \$77,262 and \$35,336, respectively. (b) the claims recoverable from reinsurers of paid claims overdue in nine month amounted to \$123,953 and \$33,402, respectively. (c) the claims recoverable from reinsurers which were reported but unpaid amounted to \$100,665 and \$145,817, respectively.
- ii) Liquidity risk
- Insurance contracts which Fubon Insurance and its subsidiaries undertake are mostly policies that expire within 1 year. The liquidity risk from insurance contracts depends on whether Fubon Insurance and its subsidiaries assets are able to cover significant claims in time when material claims occur. That is the liquidity risk of insurance contracts is mainly capital liquidity risk. Therefore, Fubon Insurance and its subsidiaries currently regularly review the liquidity risk management indicators to ensure that cash and cash equivalents, and realizable assets are greater than the liquidity risk limit to avoid liquidity shortages.
- iii) Market risk
- The market risk of insurance contracts arises mainly from the reserves provided for these insurance contracts, such as fluctuation of market interest rate.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

According to the “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprise”, the provisions which Fubon Insurance and its subsidiaries provided consist of the unearned premium reserve, claims reserve, special reserve, premium deficiency reserve, liability adequacy reserve and liability reserves. Unearned premium reserve of 3-year accident insurance are discounted with the interest rates set by competent authorities. Unearned premium reserve, claims reserve, special reserve, premium deficiency reserve and liability adequacy reserve of other insurance contracts are not discounted at the market rate. Therefore, changes in market interest rate do not have an impact on the estimated reserves.

Liability reserve is the repaid liability reserves provided for long-term fire insurance. Although this type of insurance product is not for sale anymore the liability reserve is still provided for the effective but unexpired insurance policies. Provision of liability reserve is determined by future repayments and the discount rate refers to unexpired average terms and previous markets rate trends. Since the product is not for sale anymore and only few are still effective, fluctuations of market rate do not have significant impact on provision of liability reserve and income of Fubon Insurance and its subsidiaries.

(ii) Fubon Life Insurance and its subsidiaries

1) Various reserves

a) Unearned premium reserves

December 31, 2018			
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance	\$ 4,700	-	4,700
Individual injury insurance	3,490,603	-	3,490,603
Individual health insurance	3,417,756	-	3,417,756
Group insurance	1,773,793	-	1,773,793
Investment-linked insurance	82,670	-	82,670
Gross reserve	<u>8,769,522</u>	<u>-</u>	<u>8,769,522</u>
Deduction of provision for reinsurance ceded			
Individual life insurance	679,109	-	679,109
Individual injury insurance	19,594	-	19,594
Individual health insurance	19,763	-	19,763
Group insurance	98,227	-	98,227
Investment-linked insurance	10,683	-	10,683
Total ceded reserve	<u>827,376</u>	<u>-</u>	<u>827,376</u>
Net reserve	<u>\$ 7,942,146</u>	<u>-</u>	<u>7,942,146</u>

(Continued)

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

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

The movements in unearned premium reserves were as follows:

2018			
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 8,290,265	-	8,290,265
Current provisions	8,739,026	-	8,739,026
Current reclaims	(8,290,265)	-	(8,290,265)
Gain and loss on foreign exchange	132	-	132
Acquisition through business combinations	30,364	-	30,364
Ending balance	8,769,522	-	8,769,522
Deduction of provision for ceded reinsurance			
Beginning balance	568,381	-	568,381
Current provisions	792,493	-	792,493
Current reclaims	(568,381)	-	(568,381)
Gain and loss on foreign exchange	46	-	46
Acquisition through business combinations	34,837	-	34,837
Ending balance	827,376	-	827,376
Net ending balance	<u>\$ 7,942,146</u>	<u>-</u>	<u>7,942,146</u>

(Continued)

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

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

(Continued)

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

b) Claim reserves

	December 31, 2018		
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance			
— Reported but not paid	\$ 2,511,767	1,353	2,513,120
— Incurred but not reported	299,982	-	299,982
Individual injury insurance			
— Reported but not paid	155,415	-	155,415
— Incurred but not reported	504,174	-	504,174
Individual health insurance			
— Reported but not paid	473,151	-	473,151
— Incurred but not reported	985,558	-	985,558
Group insurance			
— Reported but not paid	77,457	-	77,457
— Incurred but not reported	437,664	-	437,664
Investment-linked insurance			
— Reported but not paid	77,631	-	77,631
— Incurred but not reported	48,238	-	48,238
Total reserve	<u>5,571,037</u>	<u>1,353</u>	<u>5,572,390</u>
Deduction of provision for reinsurance ceded			
Individual life insurance	148,570	-	148,570
Individual injury insurance	33,992	-	33,992
Individual health insurance	52,219	-	52,219
Group insurance	1,939	-	1,939
Investment-linked insurance	7,812	-	7,812
Total ceded reserve	<u>244,532</u>	<u>-</u>	<u>244,532</u>
Net reserve	<u><u>\$ 5,326,505</u></u>	<u><u>1,353</u></u>	<u><u>5,327,858</u></u>

(Continued)

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

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

(Continued)

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

The movements in claims reserve were as follows:

	2018		
	Insurance	Financial	
	contracts	instruments	
		with	
		discretionary	Total
		participation	
Beginning balance	\$ 2,359,925	2,348	2,362,273
Current provisions	2,610,484	1,353	2,611,837
Current reclaims	(2,359,925)	(2,348)	(2,362,273)
Gain and loss on foreign exchange	2,310	-	2,310
Acquisition through business combinations	2,958,243	-	2,958,243
Ending balance	<u>5,571,037</u>	<u>1,353</u>	<u>5,572,390</u>
Deduction of provision for ceded reinsurance			
Beginning balance	122,918	-	122,918
Current provisions	65,420	-	65,420
Current reclaims	(122,918)	-	(122,918)
Gain and loss on foreign exchange	(74,841)	-	(74,841)
Acquisition through business combinations	253,953	-	253,953
Ending balance	<u>244,532</u>	<u>-</u>	<u>244,532</u>
Net ending balance	<u><u>\$ 5,326,505</u></u>	<u><u>1,353</u></u>	<u><u>5,327,858</u></u>

(Continued)

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

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

c) Liability reserve:

	December 31, 2018		
	Financial instruments with discretionary participation		
	Insurance contracts		Total
Life insurance	\$ 3,072,984,578	-	3,072,984,578
Injury insurance	1,556,740	-	1,556,740
Health insurance	285,630,348	-	285,630,348
Annuity insurance	70,998,972	138,958,769	209,957,741
Investment-linked insurance	117,295	-	117,295
Total (Note 1)	<u>3,431,287,933</u>	<u>138,958,769</u>	<u>3,570,246,702</u>
Deduction of liability reserve ceded			
Life insurance	<u>1,791</u>	<u>-</u>	<u>1,791</u>
Net reserve (Note 1)	<u><u>\$ 3,431,286,142</u></u>	<u><u>138,958,769</u></u>	<u><u>3,570,244,911</u></u>

Note 1: As of December 31, 2018, liability reserve amounted to \$3,570,457,096 after adding the “liability reserve—payment for pending policyholders”.

(Continued)

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

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

The movements in the liability reserve were as follows:

	2018		
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 2,945,363,140	146,615,847	3,091,978,987
Current provisions	513,094,925	12,026,796	525,121,721
Current reclaims	(214,248,269)	(19,683,874)	(233,932,143)
Gain and loss on foreign exchange	15,829,227	-	15,829,227
Acquisition through business combinations	171,248,910	-	171,248,910
Ending balance	<u>3,431,287,933</u>	<u>138,958,769</u>	<u>3,570,246,702</u>
Deduction of liability reserve ceded			
Beginning balance	793	-	793
Current provisions	956	-	956
Gain and loss on foreign exchange	42	-	42
Ending balance	<u>1,791</u>	<u>-</u>	<u>1,791</u>
Net ending balance	<u>\$ 3,431,286,142</u>	<u>138,958,769</u>	<u>3,570,244,911</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

d) Special reserves

	December 31, 2018			
	Financial instruments with discretionary participation			
	Insurance contracts	Financial instruments with discretionary participation	Others	Total
Dividend provision for participation policies	\$ 8,220,920	-	-	8,220,920
Valuation surplus gain for investment property	-	-	652,267	652,267
Total	<u><u>\$ 8,220,920</u></u>	<u><u>-</u></u>	<u><u>652,267</u></u>	<u><u>8,873,187</u></u>

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

(Continued)

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

The movements in special reserves were as follows:

2018				
	Insurance contracts	Financial instruments with discretionary participation	Others	Total
Beginning balance	\$ 7,251,155	-	652,267	7,903,422
Provision for dividend provision for participating policies	714,524	-	-	714,524
Gain and loss on foreign exchange	1,288	-	-	1,288
Acquisition through business combinations	253,953	-	-	253,953
Ending balance	<u>\$ 8,220,920</u>	<u>-</u>	<u>652,267</u>	<u>8,873,187</u>

2017				
	Insurance contracts	Financial instruments with discretionary participation	Others	Total
Beginning balance	\$ 6,820,981	-	652,267	7,473,248
Provision for dividend provision for participating policies	430,214	-	-	430,214
Gain and loss on foreign exchange	(40)	-	-	(40)
Ending balance	<u>\$ 7,251,155</u>	<u>-</u>	<u>652,267</u>	<u>7,903,422</u>

(Continued)

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

e) Premium deficiency reserve

December 31, 2018			
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance	\$ 14,990,055	-	14,990,055
Individual injury insurance	775	-	775
Individual health insurance	258,743	-	258,743
Group insurance	11,429	-	11,429
Investment-linked product	685	-	685
Total	\$ 15,261,687	-	15,261,687

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

(Continued)

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

The movements in premium deficiency reserve were as follows:

	2018		
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 19,937,823	-	19,937,823
Current reversal of provision, net	(4,731,257)	-	(4,731,257)
Gain and loss on foreign exchange	55,121	-	55,121
Ending balance	<u>\$ 15,261,687</u>	<u>-</u>	<u>15,261,687</u>

	2017		
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 22,874,210	-	22,874,210
Current provision, net	(2,646,617)	-	(2,646,617)
Gain and loss on foreign exchange	(289,770)	-	(289,770)
Ending balance	<u>\$ 19,937,823</u>	<u>-</u>	<u>19,937,823</u>

f) Liability adequacy reserve

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

Financial instruments with discretionary participation	December 31, 2018	December 31, 2017
Liability reserve	\$ 3,542,522,896	3,086,606,993
Unearned premium reserves	8,766,935	8,288,925
Premium deficiency reserve	15,048,129	19,918,723
Special reserves	8,546,098	7,901,218
Claim reserves	<u>2,437,711</u>	<u>2,362,146</u>
Carrying amount of insurance liabilities	<u>\$ 3,577,321,769</u>	<u>3,125,078,005</u>
Current estimate of future cash flows under its insurance liabilities	<u>\$ 2,778,770,182</u>	<u>2,384,399,834</u>
Total liability adequacy reserve	<u>\$ -</u>	<u>-</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The liability adequacy test method adopted by Fubon Life Insurance as of December 31, 2018 and 2017, was as the following:

Test method	Gross Premium Valuation (GPV)
Group	All insurance contracts
Significant assumption	The discount rate assumption for future years was set up based on the assets allocation and the weighted average return on investments of Fubon Life Insurance.

The liability adequacy test has included the results of Fubon Hyundai Life Insurance Co., Ltd.. The provision of Fubon Life Insurance's other subsidiaries are excluded due to the fact that they only account for very little portion and it is not expected to affect the result of the sensitivity analysis.

- g) Special reserve (catastrophic risk reserve and special reserves for fluctuation of risks):

December 31, 2018				
	Insurance contracts	Financial instruments with discretionary participation	Others	Total
Catastrophic risk reserve	\$ 3,647,385	-	-	3,647,385
Contingency risk reserve	2,789,051	-	-	2,789,051
Total	<u>\$ 6,436,436</u>	<u>-</u>	<u>-</u>	<u>6,436,436</u>

December 31, 2017				
	Insurance contracts	Financial instruments with discretionary participation	Others	Total
Catastrophic risk reserve	\$ 3,375,135	-	-	3,375,135
Contingency risk reserve	2,782,027	-	-	2,782,027
Total	<u>\$ 6,157,162</u>	<u>-</u>	<u>-</u>	<u>6,157,162</u>

- h) Other reserves

- i) Reserve for insurance contract with nature of financial instruments

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

	December 31, 2018	December 31, 2017
Life insurance	<u>\$ 3,523,635</u>	<u>3,744,674</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	2018	2017
Beginning balance	\$ 3,744,674	18,137,335
Current premiums collected	2,493	2,032
Current claims payment	(360,273)	(14,560,214)
Current net provision for legal reserve	136,741	165,521
Ending balance	<u><u>\$ 3,523,635</u></u>	<u><u>3,744,674</u></u>

ii) Foreign exchange fluctuation reserve

1. Hedging strategy and risk exposure

The foreign exchange hedging strategy is primarily perfect hedge, together with natural hedge and currency proxy 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. In addition, in order to increase the foreign exchange risk taking abilities and reduce the hedging costs, Fubon Life Insurance and its subsidiaries had applied to the Financial Supervisory Commission for a provision of foreign exchange fluctuation reserve of \$3,000,000, and was approved by Jin Guan Bao. Letter No. 10704973880 on December 21, 2018.

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

	2018	2017
Beginning balance	\$ 2,305,484	4,632,746
Current provision :		
Compulsory provision	2,650,167	2,058,397
Additional provision	6,022,073	669,659
Subtotal	8,672,240	2,728,056
Recovered	(2,640,058)	(5,055,318)
Ending balance	<u><u>\$ 8,337,666</u></u>	<u><u>2,305,484</u></u>

3. Effect of foreign exchange fluctuation reserve

Item	Unapplied amount	Applied amount	Effected amount
December 31, 2018			
Foreign exchange fluctuation reserve	\$ -	8,337,666	(8,337,666)
Owner's equity	205,924,071	200,859,101	5,064,970

(Continued)

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

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

Item	2018			2017		
	Unapplied amount	Applied amount	Effectuated amount	Unapplied amount	Applied amount	Effectuated amount
Net income	\$ 29,755,651	24,929,906	4,825,745	30,556,315	32,487,942	(1,931,627)
Earnings per share	2.68	2.25	0.43	2.76	2.93	(0.17)

i) Deferred acquisition cost and deferred handling fees

i) Deferred acquisition cost

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

	2018	2017
Beginning balance	\$ 421,434	361,993
Addition	120,133	95,807
Amortization	(21,543)	(36,366)
Ending balance	<u>\$ 520,024</u>	<u>421,434</u>

ii) Deferred service fees

The service fees incurred on investment management service were deferred in connection with the sales of investment-linked insurance policies, which are classified as financial instrument without discretionary participation features. The movements in deferred service fees were as follows:

	2018	2017
Beginning balance	\$ 1,160,950	968,245
Addition	315,615	252,206
Amortization	(52,700)	(59,501)
Ending balance	<u>\$ 1,423,865</u>	<u>1,160,950</u>

(Continued)

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

j) Retained earned premiums and retained claims payment.

i) Retained earned premiums

	2018		
	Financial instruments with discretionary participation		
	Insurance contracts	Financial instruments with discretionary participation	Total
Direct written premium	\$ 497,590,618	9,476,639	507,067,257
Reinsurance premium	-	-	-
Premium income	497,590,618	9,476,639	507,067,257
Less: Reinsurance premium expenditure	(2,021,087)	-	(2,021,087)
Net change in unearned premium reserve	(224,762)	-	(224,762)
Subtotal	(2,245,849)	-	(2,245,849)
Retained earned premiums	<u>\$ 495,344,769</u>	<u>9,476,639</u>	<u>504,821,408</u>

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

(Continued)

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

ii) Retained claims payment

	2018		
	Insurance contracts	Financial instruments with discretionary participation	Total
Claims payment incurred	\$ 264,107,544	19,911,772	284,019,316
Reinsurance claims payment incurred	59	-	59
Insurance claims payment	264,107,603	19,911,772	284,019,375
Less: Claims payment recovered from reinsures	(1,117,611)	-	(1,117,611)
Retained claims payment	<u><u>\$ 262,989,992</u></u>	<u><u>19,911,772</u></u>	<u><u>282,901,764</u></u>
	2017		
	Insurance contracts	Financial instruments with discretionary participation	Total
Claims payment incurred	\$ 222,265,216	21,328,112	243,593,328
Reinsurance claims payment incurred	217	-	217
Insurance claims payment	222,265,433	21,328,112	243,593,545
Less: Claims payment recovered from reinsures	(736,105)	-	(736,105)
Retained claims payment	<u><u>\$ 221,529,328</u></u>	<u><u>21,328,112</u></u>	<u><u>242,857,440</u></u>

(Continued)

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

2) Nature and extent of insurance contract risk

a) Objectives, policies procedures and methods for the insurance contract risk management.

i) The organization of risk management

Risk Management Committee, convened by independent directors and subordinated to the Board, supervises the overall risk management of Fubon Life Insurance and reports the recent progress of risk management to the Board regularly. In order to effectively review the risk management operation, specific committees are set up:

1. Assets and Liabilities Management Committee: The chairman of Fubon Life Insurance serves as the chairman of the committee. As part of its oversight responsibility, the committee considers the balance between assets and liabilities, set up strategic target of assets and liabilities and supervise the execution process.
2. Operational Risk Management Committee: It is convened by the president to supervise and manage the operational risk of Fubon Life Insurance in order to ensure that management adopts appropriate risk management procedures within its authority. Furthermore, in order to assist all business units to carry out risk control and to coordinate other risk control affairs, Fubon Life Insurance's board of directors designates a chief risk officer to handle a risk management department which is independent of all business units. This risk management department executes or assists to execute risk control in accordance with the risk management policy, organization rules governing the Risk Management Committee and organization rules governing the risk related committee. Fubon Life Insurance has established diverse risk management policy and regulation, stop-loss limit mechanism, internal tiers authorization system and criteria for risk measurement to facilitate effective risk management.

The risk management mechanism of Fubon Life Insurance's subsidiaries is handled in accordance with relevant government regulations and Fubon Life Insurance's risk management regulations. It manages and controls risks such as market, credit and liquidity and regularly measures and evaluates the overall investment position as well as issues internal control reports for managing and evaluating various risks.

(Continued)

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

ii) 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. Through the establishment of risk management policies, clear risk management objectives, control methods and responsibilities, to ensure that the Company's operating capital is adequate and create shareholder profits.

Subsidiaries of Fubon Life Insurance also have established the risk management policies or procedures as the basis for risk management.

b) Insurance risk management

i) Underwriting risk management

Underwriting risk refers to the unexpected risk arising from soliciting new insurance policies, reviewing underwriting business, and relevant expenditure disbursement. In order to control underwriting risk, Fubon Life Insurance has classified it into the following types to facilitate the control process, which consists of evaluating information and resources to determine how an individual will be classified.

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 Policy Soliciting, Underwriting and Claim Settlement of Insurance Enterprises", a code of conduct for underwriting operation is also established to serve as a guide for underwriting risk control. Considering the experience and professional skills of the underwriters, different levels of authorization are established and the underwriting amount for each underwriter personnel is regulated to control the appropriateness of underwriting assessment and to supervise the correctness and timeliness of underwriting operation.

(Continued)

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

ii) Claim risk management

Claim risk refers to the risk arising from adopting inappropriate or negligent procedures on claims settlement procedure. In order to control claim risk, claim risk is categorized into four management interfaces, such as reason of occurrence, frequency of occurrence of risk, classification of risk and effect of the risk. The property of the claim risk is assessed through the multiple-dimension table and risk tolerance level to control the claim risk. Aside from establishing the “Claim Settlement System and Procedures” based on the “Regulations Governing new insurance policy Soliciting, Underwriting and Claim Settlement of Insurance Enterprises” to enhance professional training and morality of claims personnel as well as the control procedures to lessen operational negligence, Fubon Life Insurance also monitors the correctness, timeliness, policy holder complaint ratio and actual loss ratio through the tiers authorization management of the claims personnel.

iii) Product design and pricing risk management

Product design and pricing risk refers to the risk arising from the impropriety, inconsistency or unexpected change of the data related to the product content, clauses and rates. To insure risk control at the point of the pre and after sales of insurance products, internal code of conduct and control procedure were established based on “Regulation governing the procedure before the sales of insurance product” issued by authorities for the insurance product design, inspection, sales preparation to control the risk related to each phases and procedure of product development. In terms of product design, feasibility analysis of new product is conducted and a conference is held to confirm before relevant issue submission. A pre-market meeting is also convened before product launch to ensure that the related activities are completed. In terms of product pricing, aside from certain quantitative risk control mechanism such as risk control procedure, profit test and sensitivity analysis, an assets allocation plan is also set up. Fubon Life Insurance takes into consideration of the characteristics of asset and liabilities for asset allocation and conforms to sales review meeting regularly after sales.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iv) Reserve risk management

Reserve-related risk refers to the risk arising from underestimating the liabilities from insufficient written premium provision to cover future obligation. In order to control the reserve-risk, the reserve-risk is categorized into the legality of reserve provision and completeness of operating procedures. To ensure the legality of reserves provision, the Regulatory self-Inspection Compliance manual has been established and audit procedures are executed regularly to ensure that all sorts of reserves conform to what is required by law. Also “Standard Operating Procedures” manual is established. The provisions of this manual maybe updated regularly as the law changes. The operating procedures manual covers ranges from system administration, data access and report generation. Furthermore, several controls are established within the framework to ensure the accuracy of the calculation.

v) Catastrophe risk and reinsurance risk

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

1. Catastrophe risk

Based on Fubon Life Insurance’s experience, the retention and reinsurance limits are set up and are regularly reviewed. These limits are also applicable to insurance for calamities like earthquakes, typhoons, and air-crash by using scenario analysis and take into account the inter-insurance accumulated losses derived from risk accumulation.

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 Fubon Life Insurance’s annual reinsurance policy. This plan includes retention risk management, ceded insurance risk management, assumed insurance risk management, intra-group in conjunction with reinsurance risk management.

The credit rating of the reinsurers is also monitored monthly. The credit rating is evaluated based on article 8 of “Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms”. Under these regulations, reinsurers or insurance organizations with a credit rating above a certain level from an international credit rating agency (ie. BBB- or higher by Standard & Poor’s Corporation or its equivalent credit rating from agencies endorsed by the authority) are eligible as reinsurers to whom an insurance enterprise may cede it business. Fubon Life Insurance currently adopts Standard and Poor’s A- or above as its guideline regarding newly incorporated reinsurers.

(Continued)

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

vi) Assets and liabilities combination risk

1. To enhance the overall assets and liabilities allocation, maintain adequate liquidity, and improve capital performance, management monitor compliance of Fubon Life Insurance and its subsidiaries with the relevant government regulations. In addition, through the establishment of Assets and Liabilities Management Committee, management keep track of the issues related to the cash flow allocation of assets and liabilities, and to establish assets and liabilities management related regulation which enable Fubon Life Insurance and its subsidiaries to sustain adequate capital to cover the potential risk from business operation.
2. The Assets and Liabilities Management Committee holds meetings monthly and the responsible department in Fubon Life Insurance and its subsidiaries performs the cash flow test using the spot interest rate and estimates the earnings at the end of each year to ensure that the spot interest rate is adequate. 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.

vii) Risk management report

1. A Risk Management Committee is set up under the supervision of the Board of Directors. The independent directors acting as the conveners, and hold a meeting quarterly. According to its organization rules, the major duties of the committee are to:
 - a. Set up and modify policy and structure of risk management.
 - b. Set up and modify the quantitative and qualitative criteria for risk measurement.
 - c. Adjust risk types as environment change.
 - d. Set up risk limit allocation and the way of undertaking risk.
 - e. Submit risk management report to the board of directors regularly and authorize to competent departments.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2. The committee also reviews the overall risk management. Aside from supervising the implementation of risk management policies to ensure that Fubon Life Insurance meets the strategic target, the committee reviews the effectiveness and feasibility of risk management mechanism. It also submits reports to the board of directors to ensure that the risk management is enforced effectively.
- c) Information of insurance risk
- i) Sensitivity of insurance risk – insurance contracts and financial instruments with discretionary feature:

			2018	
	Change in assumption		Change in income before tax	Change in stockholder's equity
Mortality/Morbidity	Increase	10 %	(2,934,765)	(2,346,773)
Rate of return	Decrease	0.1 %	(3,567,148)	(2,852,740)
Expense (fixed expense)	Increase	5 %	(435,656)	(348,050)
Lapse and surrender rate	Increase	10 %	248,734	198,952

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

The sensitivity analysis requires evaluating the impact to the profit before tax/ equity under the circumstance in which only one factor changes and the others remain constant.

Fubon Life Insurance uses a pre-tax rate of 20%, which is of 17% before year 2018, and and Fubon Hyundai Life Insurance Co., Ltd. uses a pre-tax rate of 22%, respectively, as well as other factors, including mortality, morbidity, rate of return, expense rate and lapse rate, in evaluating the impact on equity. The sensitivity analysis does not include the information of Vietnam Fubon Life Insurance and Fubon Life Insurance (Hong Kong). Such exclusion is due to the fact that the retention of earned premiums accounted for very little proportion of the consolidated retention of earned premiums and is not expected to affect the result of the sensitivity analysis.

(Continued)

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

ii) Insurance risk concentration

Fubon Life Insurance and its subsidiaries sell insurances, which include life insurance, annuity insurance, accident insurance and health insurance. Since insurance contracts are mainly issued in Taiwan, the insurance risk is concentrated in Taiwan.

iii) Claim development trend

1. Development trend of claims payment incurred

Cumulative claims payments from prior years and the balance adjusted to Fubon Life and its subsidiaries' balance sheets are as follows:

December 31, 2018 (Fubon Life Insurance)

Occurrence year	Development year							Claim provision
	1	2	3	4	5	6	7	
2012	3,534,236	4,263,656	4,330,262	4,347,231	4,351,260	4,358,662	4,365,445	-
2013	3,970,050	4,725,262	4,813,040	4,826,369	4,833,979	4,836,819	-	-
2014	4,172,446	5,113,019	5,173,291	5,183,758	5,193,828	-	-	-
2015	4,605,165	5,558,277	5,666,297	5,694,273	-	-	-	10,078
2016	5,070,166	6,224,855	6,352,169	-	-	-	-	25,559
2017	5,431,814	6,649,814	-	-	-	-	-	137,276
2018	5,723,578	-	-	-	-	-	-	1,387,826
IBNR Reserve								1,560,739
Plus: RBNA Reserve								862,025
The balance of claim reserve								2,422,764

December 31, 2018 (Fubon Hyundai Life Insurance)

Occurrence year	Development year					Claim provision
	1	2	3	4	5	
2014	1,607,307	1,933,407	1,979,411	1,987,058	1,991,804	-
2015	1,575,812	1,915,941	1,952,238	1,971,945	-	8,366
2016	1,673,049	2,017,219	2,080,642	-	-	28,371
2017	1,704,213	2,068,251	-	-	-	97,514
2018	1,666,375	-	-	-	-	565,293
IBNR Reserve						699,544
Plus: RBNA Reserve						2,434,749
The balance of claim reserve						3,134,293

December 31, 2017 (Fubon Life Insurance)

Occurrence year	Development year							Claim provision
	1	2	3	4	5	6	7	
2011	3,500,731	4,151,270	4,214,277	4,225,892	4,232,924	4,242,225	4,244,596	-
2012	3,534,236	4,263,656	4,330,262	4,347,231	4,351,260	4,358,662	-	-
2013	3,970,050	4,725,262	4,813,040	4,826,369	4,833,979	-	-	-
2014	4,172,446	5,113,019	5,173,291	5,183,758	-	-	-	1,050
2015	4,605,165	5,558,277	5,666,297	-	-	-	-	4,511
2016	5,070,166	6,224,855	-	-	-	-	-	100,453
2017	5,431,814	-	-	-	-	-	-	1,264,702
IBNR Reserve								1,370,716
Plus: RBNA Reserve								976,734
The balance of claim reserve								2,347,450

Note 1: Amount shown above excludes investment contracts.

Note 2: As of December 31, 2018 and 2017, except for the IBNR reserve of investment-linked products that are not estimated based on claim development trend, the IBNR claim reserves from direct businesses amounted to \$15,333 and \$14,823, respectively.

(Continued)

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

2. Development trend of retained claims payments

Cumulative claims payments from prior years are as follows:

December 31, 2018 (Fubon Life Insurance)

Occurrence year	Development year							Claim provision
	1	2	3	4	5	6	7	
2012	3,526,249	4,184,487	4,251,072	4,268,016	4,272,044	4,279,432	4,286,215	-
2013	3,942,698	4,565,096	4,651,774	4,665,103	4,672,708	4,675,548	-	-
2014	4,166,511	4,992,049	5,052,316	5,062,783	5,072,770	-	-	-
2015	4,587,144	5,435,512	5,543,341	5,571,173	-	-	-	9,997
2016	5,068,488	6,111,210	6,238,474	-	-	-	-	25,288
2017	5,412,545	6,505,146	-	-	-	-	-	134,669
2018	5,708,571	-	-	-	-	-	-	1,382,713
IBNR Reserve								1,552,667
Plus: RBNA Reserve								809,525
The balance of claim reserve								2,362,192

December 31, 2018 (Fubon Hyundai Life Insurance)

Occurrence year	Development year					Claim provision
	1	2	3	4	5	
2014	1,175,169	1,406,053	1,436,062	1,437,158	1,438,773	-
2015	1,138,137	1,367,555	1,389,137	1,400,914	-	6,941
2016	1,190,135	1,446,409	1,494,233	-	-	23,540
2017	1,260,184	1,535,826	-	-	-	80,908
2018	1,268,209	-	-	-	-	469,027
IBNR Reserve						580,416
Plus: RBNA Reserve						2,371,990
The balance of claim reserve						2,952,406

December 31, 2017 (Fubon Life Insurance)

Occurrence year	Development year							Claim provision
	1	2	3	4	5	6	7	
2011	3,437,890	3,981,026	4,044,397	4,056,011	4,063,016	4,072,317	4,074,688	-
2012	3,526,249	4,184,487	4,251,072	4,268,016	4,272,044	4,279,432	-	-
2013	3,942,698	4,565,096	4,651,774	4,665,103	4,672,708	-	-	-
2014	4,166,511	4,992,049	5,052,316	5,062,783	-	-	-	991
2015	4,587,144	5,435,512	5,543,341	-	-	-	-	4,272
2016	5,068,488	6,111,210	-	-	-	-	-	98,790
2017	5,412,545	-	-	-	-	-	-	1,257,021
IBNR Reserve								1,361,074
Plus: RBNA Reserve								865,482
The balance of claim reserve								2,226,556

Note 1: Amount shown above excludes investment contracts.

Note 2: As of December 31, 2018 and 2017 except for the IBNR reserve of investment-linked products that are not estimated based on claim development trend, the IBNR reserve from retained business amounted to \$13,260 and \$12,799, respectively.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Claim reserves are provided based on the expected claims payment and relevant handling fee of RBNA and IBNR claims. Such provisions involve vast uncertainty, estimates and judgments which are highly complicated. Any change of estimate or judgment is regarded as a change in accounting estimate and the amount of change is recognized as a current gain or loss. For some claims, notifications to Fubon Life Insurance and its subsidiaries may be delayed. In addition, estimating the potential IBNR claims involves vast past loss experience and subjective judgment, therefore, it is difficult to confirm whether the estimated claims reserve on the balance sheet date will equal to the final claim compensation amount. The estimate of claims reserve is based on the information currently available. However, the final result may deviate from the original estimate due to the subsequent development.

The table above demonstrates the development trend of claims (excluding those claims that need confirmation within one year). The vertical shaft represents the year in which the claim event occurred, and the horizontal shaft represents the development years. Each slash represents the accumulated compensation amount at the end of each year. The compensation amount refers to the claims whether they are finalized or not. It explains how Fubon Life Insurance and its subsidiaries estimate the compensation amount of each year as time passed. The scenario and trend which affect the provision of claims reserve may not be the same as they will be in the future. Therefore, the estimated future compensation amount cannot be determined by the claim development trend.

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

i) Credit risk

The credit risk of insurance contracts arises mainly from the inability of the reinsurers to fulfill its obligation from the reinsurance contracts which will result in financial losses. Fubon Life Insurance and its subsidiaries monitor the credit rating of its reinsurers monthly to ensure that they meet the minimum regulatory requirements. It also selects reinsurers prudently to reduce the potential loss.

In compliance with article 5 of the “Regulations Governing the Provision of Unauthorized Reinsurance Reserves for Insurance Company”, transactions with unauthorized reinsurers are disclosed in the notes of financial statements

1. Summary of the unauthorized reinsurance contracts and types of reinsurance:

As of December 31, 2018, the major unqualified reinsurance counterparties of Fubon Life Insurance and its subsidiaries is Trust International Insurance and Reinsurance B.S.C, which mainly undertakes the reinsurance of catastrophe overpayment.

(Continued)

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

2. Unqualified reinsurance expenses:

As of December 31, 2018 the unauthorized reinsurance expenses amounted to \$1,789.

3. Summaries of the unauthorized reinsurance reserve and its components were as follows:

As of December 31, 2018, Fubon Life Insurance and its subsidiaries had no unauthorized reinsurance reserves, as explained below:

Fubon Life Insurance and its subsidiaries signed a contract with the company for the catastrophe reinsurance contract of 2018. The reinsurance period was one year, with the expiration date on December 31, 2018. After calculating using the item-by-item deposit method, there was no unearned premium reserve. Since no catastrophe claims had happened during the reinsurance period, there were no claims recoverable from reinsurers of paid claims overdue in nine month and claims recoverable from reinsurers which were reported but unpaid.

4. Fubon Life Insurance and its subsidiaries had no unauthorized reinsurance contracts in 2017.

ii) Liquidity risk

The liquidity risk of insurance contract arises mainly from the inability to obtain sufficient funds or turn assets into cash in order to fulfill payment of financial obligations as they are due. Aside from regularly reviewing the maturity analysis of insurance contracts, Fubon Life Insurance and its subsidiaries also review short-term and mid-term liquidity risk benchmark through the Assets and Liabilities Management Committee to lower the relevant risk by using Asset Liability Matching (ALM). The Committee also sets the response strategy in advance for potential payments in order to ensure timeliness of liquidity risk management and to avoid inadequate liquidity.

The maturity analysis of insurance contracts of Fubon Life Insurance and its subsidiaries were as below:

December 31, 2018

Units: In million

Maturity date	< 1 year	1~3 years	3~5 years	> 5 years	Unable to classify (note)	Total
Provision	171,956	194,000	25,237	2,921,187	299,425	3,611,805
Proportion	4.8 %	5.4 %	0.7 %	80.8 %	8.3 %	100.0 %

(Continued)

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

December 31, 2017

Units: In million

Maturity date	< 1 year	1~3 years	3~5 years	> 5 years	Unable to classify (note)	Total
Provision	119,079	268,476	69,167	2,445,907	230,936	3,133,565
Proportion	3.8 %	8.6 %	2.2 %	78.0 %	7.4 %	100.0 %

Note1: Reserve for insurance contract with nature of financial instrument is included.

Note2: The “Unable to classify” includes interest-linked product, authorized additional provision and provision for bad debt allowance. The amounts above exclude provision for separate account, foreign exchange fluctuation reserve and appraisal increment of real estate.

iii) **Market risk**

Market risk refers to the risk caused by the adverse changes in market prices in terms of interest rates, foreign exchange rates, stock prices, and commodity prices. Fubon Life Insurance and its subsidiaries measure market risk from insurance contract according to discount rate assumption prescribed by the authorities. This assumption may not be consistent with changes in market interest rates. Unless the liability adequacy test disclosed the need to provide more reserve, the change in market risk factors would not have significant impact on profit or loss and equity.

Guided by Assets and Liabilities Management Committee, Fubon Life Insurance and its subsidiaries take into account the financial environment, 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 management and to protect the rights of policyholders; as well as to reduce the potential losses arising from the impact of the market risk on insurance contract.

(Continued)

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

(ak) Financial risk management

(i) Risk management organization structure

The Company has established a sound risk management organization framework. The Board of Directors is responsible for overseeing the Company's governance in building solid risk management system and control mechanism to ensure the effectiveness of risk management operations, approving the Company's risk management policies and regulations, and reviewing important risk management reports. The Audit Committee assists the Board of Directors in overseeing the Company's risk management and control issues. The Risk Management Committee, which is subordinate to the Chairman of the Board of Directors, reviews the Company's risk management strategy, structure, systems and policies, and oversees the group's overall risks including credit risk, market risk, operational risk, insurance risk, liquidity risk, asset liability risk and capital adequacy. Personal Data Protection Committee, which is subordinate to the Risk Management Committee, oversees the Company and its subsidiaries's protection of important personal information to strengthen the management of personal information protection.

(ii) Risk management policies

The Company has employed comprehensive risk management policies in respect of credit risk, market risk, operational risk, capital adequacy risk management policy, asset liability risk, liquidity risk, insurance risk, etc., implemented by all units and subsidiaries across the group to effectively identify, evaluate, response, monitor and report various risks respectively. The Company adopts three lines of defense risk management system to implement comprehensive risk management.

A full set of risk limits, loss limits and trading delegation limits, risk exposure evaluation and monitoring measurements by quantitative and qualitative methods as well as early warning systems have been all in place in line with risk attributes to proactively monitor and manage various major risks.

(iii) Credit Risk

Major subsidiaries are listed separately as follows:

1) Taipei Fubon Bank (The Bank) and its subsidiary

a) Credit risk definitions and sources

Taipei Fubon Bank (The Bank)

Credit risk refers to the risk of losses caused by borrowers, debtors, or counterparties' failure to fulfill their contractual obligations due to deteriorating financial position or other factors. It arises principally from business like discounts and loans, credit card business, due from and call loan to banks, debt investment and derivatives etc., and also from off-balance sheet products such as guarantee, acceptance, letters of credit and other commitments.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fubon Bank (China)

Credit risk faced by Fubon Bank (China) mainly comes from commercial lending (including mortgage, discounts, negotiations, credits, acceptance bills, issued letters of credit, standby letters of credit, bank guarantees, etc.), financial derivative contracts, and securities investments.

b) Strategy, objectives, policies and procedures

Taipei Fubon Bank (The Bank)

The Bank has established solid credit risk policies and procedures. A robust credit risk strategy taking into account of economic environment, industry sector and financial sector as well as corporate business plan is in place. The Bank pursues the optimization of risks and rewards. Comprehensive credit risk management systems and tools have been deployed effectively to identify, evaluate, monitor and report credit risks including default, counterparty and concentration risks.

Fubon Bank (China)

The credit risk management strategy of Fubon Bank (China) effectively conducts risk control through a comprehensive credit risk management (CRMS) system under the guidance of the Board's risk appetite, taking into consideration the international economic development and regional industry trends. The CRMS system covers the implementation of risk management policies on credit management regulation, credit approvals, post-loan policies, etc. The bank's risk management goal is toward credit asset protection, realization of the optimal ratio of risk and revenue by using credit risk management tools to manage expected losses effectively. The credit risk management procedures include identification, measurement, monitor and control of credit risk.

c) Credit risk management framework

Taipei Fubon Bank (The Bank)

- i) To strengthen risk management function, under the supervision of the Board of Directors, the Bank has established the Credit Risk Management Committee which is composed of senior management and chaired by the President to examine credit risk policies and quota and to monitor the bank's credit risk and country risk control, credit risk acceptance and management strategy in respect of credit business, securities investment and transaction and derivatives.
- ii) To enhance the independency of credit risk management, the Bank has established Risk Management Division, under which, there is Credit Risk Management Departments, responsible for measuring the Bank's risk exposures, monitoring risk limits, reporting, coordinating to develop the mechanism for managing credit risk and validating risk models.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- iii) Credit risk management divisions of corporate finance and personal finance under the chief risk officer are responsible of credit investigation, examination, post disbursement management, overdue receivables and debt management.
- iv) The Bank has established an Institutional Credit Review Committee, and a Retail Credit Review Committee respectively to review credit above a certain limit to strengthen control over cases involving large credit amounts.
- v) The audit department, which is under the supervision of the Board of Directors, conducts the third defense line examining the effectiveness of internal control functions independently.

Fubon Bank (China)

Fubon Bank (China)'s current credit risk management is based on its comprehensive risk management system. Credit Policy & Planning Department, Post Disbursement Risk Management Department, Credit Approval & Administration Department and Risk Control Department, which belong to Fubon Bank's Risk Management Department, are responsible for managing credit risk.

- d) Credit risk measurement, control and reporting

Taipei Fubon Bank (The Bank)

The Bank has established credit risk measurements and control procedures including underwriting, risk rating, limit control, account maintenance, pre-settlement limit control and collection management systems, which enable the Bank to manage limit controls on country risk, single legal entity and group concentration risk and industry concentration risk effectively. Other than aforementioned control procedure, the Bank has established vigorous review and early warning mechanism to ensure the Bank to undertake proper courses of actions on credit risk management.

The Bank regularly performs the credit risk stress testing based on the guideline issued by Financial Supervisory Commission, and continues to develop scenario analysis and stress test approaches to provide senior management with an assessment of risk tolerance, as well as to provide the reference of credit portfolio management.

The Bank has completed risk data warehousing system, risk-weighted assets calculation system and internal risk rating system. The development and revise of score card and rating models are validated independently by Risk Management Division to monitor the model performance and stability.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fubon Bank (China)

The credit risk control process includes credit policy development, credit approval, early warning and collection. Credit risk supervision includes the regular follow-up of high-risk cases, exposure limit control of country risk, and customer credit grading management; the real-estate loan monitoring and other monthly monitoring include the industry concentration and the concentration of a single client / group clients and their affiliated parties.

Fubon Bank (China) regularly performs portfolio stress test based on the actual status of the credit portfolio. The stress test results, including changes in results due to differences in risk triggers, will be reported at the board meeting and serve as the reference for risk management and decision-making.

The credit management system of Fubon Bank (China) has modules for credit approval, loan ledger management, collateral information maintenance, customer grading management and five-category asset classification for bank loans. The system can support credit risk management effectively.

- e) Control mechanism for credit risk hedging or risk reduction

Taipei Fubon Bank (The Bank)

The Bank has established sophisticated limits in controlling concentration risks on credit, securities investment and counterparty exposures. Risk rating is assessed for each borrower based on stringent evaluation of obligor risk and facility risk. Furthermore, the Bank has set a centralized approval process with documented guidelines and dual authorizations. Appropriate collaterals are required based on borrowers' financials and debt service capabilities to mitigate credit risk.

Fubon Bank (China)

Fubon Bank (China) sets up the approval authority limitation based on customer risk grading and loan classification, guarantee and sub-guarantee criteria, and investment portfolio management based on the "Institutional Banking Credit Risk Management Policy". Fubon Bank (China) strengthens the risk identification according to the customer's risk grading and the criteria of business customer entry. The credit quality control is done through strict and through due diligent and approval procedure and counter sign of credit officers from both sales department and risk department. Fubon Bank (China) will require suitable collateral in order to enhance the risk mitigation due to the loan risk. In addition, there is post-loan management, which includes continual loan monitoring and taking note of any early risk-warning signals.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- f) Determinations on whether the credit risk has increased significantly since initial recognition (applicable since January 1, 2018)

i) Credit assets

On each reporting date, the Bank and its subsidiary assess the change in the default risk of discounts and loans, receivables, loan commitments, as well as other credit assets during existing period to determine whether the credit risk has increased significantly since initial recognition. To make this assessment, the Bank and its subsidiary, based on the internal credit risk management objectives, make risk segments by classifying financial assets according to the debtors' internal ratings, overdue conditions, and the region where the collateral is located, as well as considering reasonable and corroborative information that shows the credit risk has increased significantly since initial recognition (including forward-looking information). The main indicators are as follows:

1. The financial assets are overdue for more than 30 days;
2. The debtor's internal or external rating is significantly degraded;
3. The credit risk of any product held by the same debtor has increased significantly;
4. The existing or expected adverse changes in the operating, financial or economic conditions that are expected to result in a significant change in the borrower's ability to perform obligations;
5. Actual or expected significant changes in the borrower's operating results.

ii) Debt investments

On each reporting date, the Bank and its subsidiary assess the change in the default risk of debt investments measured at amortized cost and debt investments measured at fair value through other comprehensive income during existing period to determine whether the credit risk has increased significantly since initial recognition. To make this assessment, the Bank and its subsidiary consider each reasonable and corroborative information that shows the credit risk has increased significantly since initial recognition (including forward-looking information). The main indicators are as follows:

1. Significant changes in both the internal and external ratings of the financial assets or the debtor;
2. The fair value of financial asset is significantly lower than its amortized cost;

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

3. The existing or expected adverse changes in the operating, financial or economic conditions that are expected to result in a significant change in the borrower's ability to perform obligations;
4. Actual or expected significant changes in the borrower's operating results;
5. The credit risk of other financial instruments of the same borrower has increased significantly.

If it is unable to identify whether the credit risk of financial assets has increased significantly after the initial recognition, except for those with low credit risk on the reporting date, lifetime ECLs is applied .

If the financial instrument is rated investment grade and the default risk is low, it is considered to have low credit risk on the reporting date.

- g) Definitions for default and credit impairment of financial assets (applicable since January 1, 2018)

- i) Credit assets

The Bank and its subsidiary use the same definitions for default and credit impairment of financial assets. If one or more of the following conditions are met, The Bank and its subsidiary determine that the financial assets are defaulted and credit-impaired:

1. Financial assets are overdue for more than 90 days;
2. Financial assets are recognized as overdue loans or bad debts;
3. The debtor or the issuer occurs financial difficulties;
4. The debt contract terms are modified due to the debtor's financial difficulties;
5. The debtor has filed for bankruptcy or is likely to file for bankruptcy;
6. The debtor has reorganized or is likely to reorganize;
7. The financial assets are originated credit-impaired.

The aforementioned definitions apply to the credit assets held by the Bank and its subsidiary, and are consistent with the definitions used for internal credit risk management of relevant financial assets and applied to related impairment assessment models

If a financial asset no longer meets the definitions for default and credit impairment on the reporting date, it is deemed to return to the state of compliance and is no longer considered defaulted and credit-impaired.

(Continued)

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

ii) Debt investments

If one or more of the following conditions are met, the Bank and its subsidiary determined that the financial assets are defaulted and credit-impaired:

1. Principal and interest repayment of the financial assets is not in accordance with the issuing conditions;
2. The issuer occurs financial difficulties;
3. The issuer has filed for bankruptcy or is likely to file for bankruptcy;
4. The issuer has reorganized or is likely to reorganize;
5. The financial assets are originated credit-impaired.

The aforementioned definitions apply to the debt investments held by the Bank and its subsidiary, and are consistent with the definitions used for internal credit risk management of relevant financial assets and applied to related impairment assessment models

If a financial asset no longer meets the definitions for default and credit impairment on the reporting date, it is deemed to return to the state of compliance and is no longer considered defaulted and credit-impaired.

h) Write-off policies (applicable since January 1, 2018)

If one the following events occurs, non-performing loans, overdue receivables, and credit-impaired financial assets shall be recognized as bad debts after deducting the recoverable portion.

- i) The loan cannot be recovered in full or in part because the debtor has dissolved, gone into hiding, reached a settlement, declared bankruptcy, or for other reasons
- ii) The collateral and the property of the primary/subordinate debtor have been appraised at a very low value or become insufficient to repay the loan after the subtraction of senior mortgages; or the execution cost approaches or possibly exceeds the amount that the bank might collect where there is no financial benefit in execution.
- iii) The primary/subordinate debtor's collateral has failed to sell at successive auctions where the price of such collateral has been successively lowered, and there is no financial benefit to be derived from the bank's taking possession of such collateral
- iv) Non-performing loans and overdue receivables are yet to be recovered for two years after over the expired date.

(Continued)

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

Write-off financial assets held by the Bank and its subsidiary might have recourse activities in progress and continually conduct recourse procedures in accordance with related policies.

i) Assessment of expected credit loss (applicable since January 1, 2018)

i) Credit assets

For the assessment of expected credit loss, the Bank and its subsidiary divide credit assets into different groups by the borrower's credit risk characteristics, including industry, credit risk rating, overdue status and collaterals, to correspond with different risk parameters.

The Bank and its subsidiary adopt the 12-months ECLs to evaluate the loss allowance of financial instruments whose credit risk do not increase significantly since initial recognition, and adopt the lifetime ECLs to evaluate the loss allowance of financial instruments whose credit risk has increased significantly since initial recognition or of that are credit-impaired.

The Bank and its subsidiary consider both the 12-month and lifetime probability of default ("PD") of the borrower with the Loss given default ("LGD"), multiplying, the Exposure at default ("EAD"), as well as the impact of time value, to calculate the 12-month ECLs and lifetime ECLs, respectively.

"PD" refers to the borrower's probability to default and "LGD" refers to losses caused by the default. The Bank and its subsidiary apply the "PD" and "LGD" to the credit business according to each group's historical information (such as credit loss experience) from internal statistical data, and adjust historical data based on current observable and forward-looking macroeconomic information.

The Bank takes into account the forward-looking information, such as the industry prospect, estimated financial status, and corporate potential, for each case's internal rating when reviewing the credit business. One of the abovementioned indicators that shows the credit risk of credit assets has increased significantly is the internal rating change. In addition, the assessment of expected credit loss is based on the credit risk group and related parameters.

Fubon Bank (China) assesses the domestic and foreign macroeconomic environment, and the related external banking environment and calculates the weighted scores as the forward-looking information for the PD calculation.

(Continued)

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

The Bank and its subsidiary evaluate “EAD” with the carrying amount and interest receivables of financial assets. Estimations of the 12-month ECLs and lifetime ECLs of loan commitments are based on the “Guidelines for IFRS9 Impairment Assessment Methodology” issued by the Bank’s Association. The off-balance sheet exposure items adopt the standard of credit conversion factor from “Guidelines for the calculation of bank’s regulatory capital and risk weighted assets— Credit Risk Standardized Approach”. The credit conversion factor is used to calculate the portion of the loan commitments expected to be used within 12 months after the reporting date and within expected lifetime, in order to determine the amount of “EAD” for calculating expected credit losses.

ii) Debt investments

The Bank and its subsidiary adopt the 12-months ECLs to evaluate the loss allowance of financial instruments whose credit risk do not increase significantly since initial recognition, and adopt the lifetime ECLs to evaluate the loss allowance of financial instruments whose credit risk has increased significantly since initial recognition or of that are credit-impaired.

The Bank and its subsidiary consider both the 12-month and lifetime Probability of default (“PD”) of the issuer with the Loss given default (“LGD”), multiplying, the Exposure at default (“EAD”), as well as the impact of time value, to calculate the 12-month ECLs and lifetime ECLs, respectively.

Probability of default and recovery rate are calculated based on probability of default and loss given default regularly announced by external credit rating agencies. As the international credit rating agencies have considered the forward-looking information when assessing credit ratings. The Bank considers the forward-looking information to be appropriate and also observes and periodically updates the changes in parameters. “EAD” is evaluated by the carrying amount and interest receivables of financial assets. Amortized cost of each future period is calculated by lifetime exposure on straight-line basis.

(Continued)

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

j) Assessment of expected credit loss (applicable since January 1, 2018)

i) Cash and cash equivalents

Expected credit losses

	2018						
	12-month ECLs	Lifetime ECLs (collective assessment)	Lifetime ECLs (individual assessment)	Lifetime ECLs (neither purchased nor originated credit-impaired financial assets)	Lifetime ECLs (purchased or originated credit-impaired financial assets)	Amount of impairment recorded in accordance with IFRS 9	Total
Beginning balance	\$ 476	-	-	-	-	476	476
Changes due to recognition of financial instruments at beginning:							
— Derecognition of financial assets at current period	(56)	-	-	-	-	(56)	(56)
Originated or purchased new financial assets	2,463	-	-	-	-	2,463	2,463
Effects of exchange rate changes and others	(58)	-	-	-	-	(58)	(58)
Ending balance	<u>\$ 2,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,825</u>	<u>2,825</u>

ii) Financial assets measured at fair value through other comprehensive income

Total book value

	2018						
	12-month ECLs	Lifetime ECLs (collective assessment)	Lifetime ECLs (individual assessment)	Lifetime ECLs (neither purchased nor originated credit-impaired financial assets)	Lifetime ECLs (purchased or originated credit-impaired financial assets)		Total
Beginning balance	\$ 154,292,706	-	-	-	-		154,292,706
Changes due to recognition of financial instruments at beginning:							
— Derecognition of financial assets at current period	(111,200,026)	-	-	-	-		(111,200,026)
Originated or purchased new financial assets	109,999,339	-	-	-	-		109,999,339
Effects of exchange rate changes and others	(1,418,155)	-	-	-	-		(1,418,155)
Ending balance	<u>\$ 151,673,864</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		<u>151,673,864</u>

Expected credit losses

	2018							
	12-month ECLs	Lifetime ECLs (collective assessment)	Lifetime ECLs (individual assessment)	Lifetime ECLs (neither purchased nor originated credit-impaired financial assets)	Lifetime ECLs (purchased or originated credit-impaired financial assets)	Amount of impairment recorded in accordance with IFRS 9	Impairment difference recognized in accordance with the regulations	Total
Beginning balance	\$ 69,071	-	-	-	-	69,071	217,635	286,706
Changes due to recognition of financial instruments at beginning:								
— Derecognition of financial assets at current period	(43,679)	-	-	-	-	(43,679)	-	(43,679)
Originated or purchased new financial assets	51,024	-	-	-	-	51,024	-	51,024
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Nonaccrual Loans"	-	-	-	-	-	-	839	839
Effects of exchange rate changes and others	(2,150)	-	-	-	-	(2,150)	(1,236)	(3,386)
Ending balance	<u>\$ 74,266</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,266</u>	<u>217,238</u>	<u>291,504</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii) Debt investments measured at amortized cost

Total book value

	2018					Total
	12-month ECLs	Lifetime ECLs (collective assessment)	Lifetime ECLs (individual assessment)	Lifetime ECLs (neither purchased nor originated credit-impaired financial assets)	Lifetime ECLs (purchased or originated credit-impaired financial assets)	
Beginning balance	\$ 582,918,544	-	1,231,421	-	-	584,149,965
Changes due to recognition of financial instruments at beginning:						
— Transfer to lifetime ECLs	(149,717)	-	149,717	-	-	-
— Transfer to 12-month ECLs	298,574	-	(298,574)	-	-	-
— Derecognition of financial assets at current period	(287,164,043)	-	(743,161)	-	-	(287,907,204)
Originated or purchased new financial assets	307,084,068	-	307,921	-	-	307,391,989
Effects of exchange rate changes and others	3,680,549	-	14,346	-	-	3,694,895
Ending balance	<u>\$ 606,667,975</u>	<u>-</u>	<u>661,670</u>	<u>-</u>	<u>-</u>	<u>607,329,645</u>

Expected credit losses

	2018						Total
	12-month ECLs	Lifetime ECLs (collective assessment)	Lifetime ECLs (individual assessment)	Lifetime ECLs (neither purchased nor originated credit-impaired financial assets)	Lifetime ECLs (purchased or originated credit-impaired financial assets)	Amount of impairment recorded in accordance with IFRS 9	
Beginning balance	\$ 240,003	-	33,534	-	-	273,537	273,537
Changes due to recognition of financial instruments at beginning:							
— Transfer to lifetime ECLs	(226)	-	226	-	-	-	-
— Transfer to 12-month ECLs	280	-	(280)	-	-	-	-
— Derecognition of financial assets at current period	(85,896)	-	(6,872)	-	-	(92,768)	(92,768)
Originated or purchased new financial assets	59,429	-	295	-	-	59,724	59,724
Effects of exchange rate changes and others	3,495	-	598	-	-	4,093	4,093
Ending balance	<u>\$ 217,085</u>	<u>-</u>	<u>27,501</u>	<u>-</u>	<u>-</u>	<u>244,586</u>	<u>244,586</u>

iv) Receivables

Total book value

	2018					Total
	12-month ECLs	Lifetime ECLs (collective assessment)	Lifetime ECLs (individual assessment)	Lifetime ECLs (neither purchased nor originated credit-impaired financial assets)	Lifetime ECLs (purchased or originated credit-impaired financial assets)	
Beginning balance	\$ 66,233,160	880,876	-	657,861	-	67,771,897
Changes due to recognition of financial instruments at beginning:						
— Transfer to lifetime ECLs	(354,432)	354,689	-	(257)	-	-
— Transfer to credit-impaired financial assets	(155,855)	(62,164)	-	218,019	-	-
— Transfer to 12-month ECLs	360,518	(360,312)	-	(206)	-	-
— Derecognition of financial assets at current period	(42,940,917)	(373,138)	-	(341,199)	-	(43,655,254)
Originated or purchased new financial assets	54,920,251	322,507	-	14,071	-	55,256,829
Write-off	-	-	-	(19,231)	-	(19,231)
Effects of exchange rate changes and others	(370,195)	2,637	-	7,288	-	(360,270)
Ending balance	<u>\$ 77,692,530</u>	<u>765,095</u>	<u>-</u>	<u>536,346</u>	<u>-</u>	<u>78,993,971</u>

Note: Included only acceptances, accounts receivable—factoring and credit card receivables.

(Continued)

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

Expected credit losses

	2018							Total
	12-month ECLs	Lifetime ECLs (collective assessment)	Lifetime ECLs (individual assessment)	Lifetime ECLs (neither purchased nor originated credit- impaired financial assets)	Lifetime ECLs (purchased or originated credit- impaired financial assets)	Amount of impairment recorded in accordance with IFRS 9	Impairment difference recognized in accordance with the regulations	
Beginning balance	\$ 255,621	73,990	293	160,228	-	490,132	156,540	646,672
Changes due to recognition of financial instruments at beginning:								
— Transfer to lifetime ECLs	(3,803)	4,053	2	(252)	-	-	-	-
— Transfer to credit-impaired financial assets	(2,879)	(17,117)	-	19,996	-	-	-	-
— Transfer to 12-month ECLs	31,914	(31,707)	(2)	(205)	-	-	-	-
— Derecognition of financial assets at current period	(184,661)	(16,077)	(44)	(48,359)	-	(249,141)	-	(249,141)
Originated or purchased new financial assets	396,316	21,987	-	59,758	-	478,061	-	478,061
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Nonaccrual Loans"	-	-	-	-	-	-	(156,540)	(156,540)
Write-off	-	-	-	(24,746)	-	(24,746)	-	(24,746)
Effects of exchange rate changes and others	(19,120)	26,977	(26)	59,198	-	67,029	-	67,029
Ending balance	<u>\$ 473,388</u>	<u>62,106</u>	<u>223</u>	<u>225,618</u>	<u>-</u>	<u>761,335</u>	<u>-</u>	<u>761,335</u>

v) Discounts and loans

Total book value

	2018					Total
	12-month ECLs	Lifetime ECLs (collective assessment)	Lifetime ECLs (individual assessment)	Lifetime ECLs (neither purchased nor originated credit- impaired financial assets)	Lifetime ECLs (purchased or originated credit- impaired financial assets)	
Beginning balance	\$ 1,337,438,503	39,123,598	-	9,883,788	-	1,386,445,889
Changes due to recognition of financial instruments at beginning:						
— Transfer to lifetime ECLs	(11,305,821)	11,336,182	-	(30,361)	-	-
— Transfer to credit-impaired financial assets	(1,058,956)	(320,961)	-	1,379,917	-	-
— Transfer to 12-month ECLs	12,755,836	(12,743,567)	-	(12,269)	-	-
— Derecognition of financial assets at current period	(652,231,223)	(11,464,192)	-	(3,638,094)	-	(667,333,509)
Originated or purchased new financial assets	693,168,293	8,910,166	-	2,118,328	-	704,196,787
Write-off	-	-	-	(1,018,148)	-	(1,018,148)
Effects of exchange rate changes and others	(4,863,237)	22,011	-	(9,342)	-	(4,850,568)
Ending balance	<u>\$ 1,373,903,395</u>	<u>34,863,237</u>	<u>-</u>	<u>8,673,819</u>	<u>-</u>	<u>1,417,440,451</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Expected credit losses

	2018							
	12-month ECLs	Lifetime ECLs (collective assessment)	Lifetime ECLs (individual assessment)	Lifetime ECLs (neither purchased nor originated credit-impaired financial assets)	Lifetime ECLs (purchased or originated credit-impaired financial assets)	Amount of impairment recorded in accordance with IFRS 9	Impairment difference recognized in accordance with the regulations	Total
Beginning balance	\$ 3,853,592	726,935	-	3,262,128	-	7,842,655	11,726,364	19,569,019
Changes due to recognition of financial instruments at beginning:								
— Transfer to lifetime ECLs	(18,693)	26,401	-	(7,708)	-	-	-	-
— Transfer to credit-impaired financial assets	(15,139)	(39,355)	-	54,494	-	-	-	-
— Transfer to 12-month ECLs	390,915	(388,506)	-	(2,409)	-	-	-	-
— Derecognition of financial assets at current period	(2,849,266)	(130,518)	-	(1,047,606)	-	(4,027,390)	-	(4,027,390)
Originated or purchased new financial assets	2,464,656	182,598	-	502,643	-	3,149,897	-	3,149,897
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Nonaccrual Loans"	-	-	-	-	-	-	752,563	752,563
Write-off	-	-	-	(1,018,148)	-	(1,018,148)	-	(1,018,148)
Recovery from write-off	-	-	-	453,771	-	453,771	-	453,771
Effects of exchange rate changes and others	(554,670)	56,686	-	1,063,862	-	565,878	-	565,878
Ending balance	\$ 3,271,395	434,241	-	3,261,027	-	6,966,663	12,478,927	19,445,590

vi) Other financial assets

Total book value

	2018					
	12-month ECLs	Lifetime ECLs (collective assessment)	Lifetime ECLs (individual assessment)	Lifetime ECLs (neither purchased nor originated credit-impaired financial assets)	Lifetime ECLs (purchased or originated credit-impaired financial assets)	Total
Beginning balance	\$ 1,233	-	-	126,413	-	127,646
Changes due to recognition of financial instruments at beginning:						
— Derecognition of financial assets at current period	(1,002)	-	-	(45,786)	-	(46,788)
Originated or purchased new financial assets	-	-	-	295,755	-	295,755
Write-off	-	-	-	(284,891)	-	(284,891)
Effects of exchange rate changes and others	-	-	-	1,264	-	1,264
Ending balance	\$ 231	-	-	92,755	-	92,986

Expected credit losses

	2018							
	12-month ECLs	Lifetime ECLs (collective assessment)	Lifetime ECLs (collective assessment)	Lifetime ECLs (neither purchased nor originated credit-impaired financial assets)	Lifetime ECLs (purchased or originated credit-impaired financial assets)	Amount of impairment recorded in accordance with IFRS 9	Impairment difference recognized in accordance with the regulations	Total
Beginning balance	\$ -	-	-	106,581	-	106,581	-	106,581
Changes due to recognition of financial instruments at beginning:								
— Derecognition of financial assets at current period	-	-	-	(1,513)	-	(1,513)	-	(1,513)
Originated or purchased new financial assets	-	-	-	47,293	-	47,293	-	47,293
Write-off	-	-	-	(284,891)	-	(284,891)	-	(284,891)
Recovery from write-off	-	-	-	345,517	-	345,517	-	345,517
Effects of exchange rate changes and others	-	-	-	(139,146)	-	(139,146)	-	(139,146)
Ending balance	\$ -	-	-	73,841	-	73,841	-	73,841

(Continued)

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

- vii) Provisions for guarantee liabilities, loan commitments and other— letter of credit

Expected credit losses

	2018						
	12-month ECLs	Lifetime ECLs (collective assessment)	Lifetime ECLs (individual assessment)	Lifetime ECLs (neither purchased nor originated credit-impaired financial assets)	Lifetime ECLs (purchased or originated credit-impaired financial assets)	Amount of impairment recorded in accordance with IFRS 9	Impairment difference recognized in accordance with the regulations
Beginning balance	\$ 135,311	36,591	-	15,014	-	186,916	266,445
Changes due to recognition of financial instruments at beginning:							
— Transfer to lifetime ECLs	(991)	1,040	-	(49)	-	-	-
— Transfer to credit-impaired financial assets	(238)	(1,141)	-	1,379	-	-	-
— Transfer to 12-month ECLs	15,320	(15,240)	-	(80)	-	-	-
— Derecognition of financial assets at current period	(47,023)	(6,932)	-	(14,448)	-	(68,403)	-
Originated or purchased new financial assets	90,219	6,606	-	68	-	96,893	-
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Nonaccrual Loans"	-	-	-	-	-	-	(26,068)
Effects of exchange rate changes and others	(6,617)	5,128	-	(1,079)	-	(2,568)	-
Ending balance	<u>\$ 185,981</u>	<u>26,052</u>	<u>-</u>	<u>805</u>	<u>-</u>	<u>212,838</u>	<u>240,377</u>
							<u>453,215</u>

- k) Maximum exposure to credit risk

The maximum exposure to credit risks is equivalent to the carrying amount of each financial asset in the balance sheet without taking into consideration any collateral held or other credit enhancements. The maximum credit exposures of the off-balance sheet financial instruments (before taking account of any collateral held or other credit enhancements) are summarized as follows:

Taipei Fubon Bank (The Bank)

Off-balance sheet items	Maximum exposure amount	
	December 31, 2018	December 31, 2017
Irrevocable loan commitments	\$ 112,580,654	76,409,378
Standby letters of credit	8,295,749	10,407,936
Financial guarantees	27,845,774	29,397,044
Total	<u>\$ 148,722,177</u>	<u>116,214,358</u>

Fubon Bank (China)

Off-balance sheet items	Maximum exposure amount	
	December 31, 2018	December 31, 2017
Standby letters of credit	\$ 312,512	457,960
Financial guarantees	965,035	1,361,133
Total	<u>\$ 1,277,547</u>	<u>1,819,093</u>

Units: In thousands of CNY

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The maximum exposures of assets and off-balance sheet items pledged as collaterals or other credit enhancements are as follows:

Taipei Fubon Bank (The Bank)

<u>December 31, 2018</u>					
<u>Assets</u>	<u>Financial instruments</u>	<u>Properties</u>	<u>Guarantees</u>	<u>Others</u>	
Loans	3.23 %	58.64 %	6.02 %	2.36 %	
Guarantees receivable	3.68 %	7.43 %	0.63 %	1.45 %	
Acceptances and other credits	0.46 %	1.24 %	- %	-	
Financial assets measured at fair value through profit or loss—Debt investments	- %	- %	6.60 %	-	
Financial assets measured at fair value through other comprehensive income—Debt investments	- %	- %	8.66 %	-	
Debt investments measured at amortized cost	- %	- %	9.07 %	-	

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

Fubon Bank (China)

<u>December 31, 2018</u>					
<u>Assets</u>	<u>Financial instruments</u>	<u>Properties</u>	<u>Guarantees</u>	<u>Others</u>	
Loans	7.89 %	15.63 %	- %	1.32 %	
Guarantees receivable	63.36 %	27.42 %	9.00 %	-	
Acceptances	21.81 %	1.24 %	43.58 %	-	

(Continued)

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

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

1) Concentrations of credit risk exposure

Concentrations of credit risk arise when a number of counterparties or exposure have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic or other conditions.

Credit risk concentrations can arise in Taipei Fubon Bank and its subsidiaries' assets, liabilities, or off-balance sheet items, through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories. It includes credits, loans and deposits, call loans to banks, investments, receivables and derivatives. Taipei Fubon Bank and its subsidiaries maintain a diversified portfolio, limit their exposure to any one geographic region, country or individual creditor and monitor the exposure continually in order to manage credit risk.

Taipei Fubon Bank and its subsidiaries' most significant concentrations of credit risk are summarized as follows:

Taipei Fubon Bank (The Bank)

i) By industry

	<u>December 31, 2018</u>		<u>December 31, 2017</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Private	\$ 681,387,936	52.43	638,649,436	51.25
Private enterprise	466,443,553	35.89	438,644,180	35.20
Government institution	62,059,416	4.78	56,737,571	4.55
Financial organization	57,554,699	4.43	77,239,133	6.20
Public enterprise	31,055,954	2.39	34,227,556	2.75
Non-profit organization	991,959	0.08	578,876	0.05
Total (Note)	<u>\$ 1,299,493,517</u>	<u>100.00</u>	<u>1,246,076,752</u>	<u>100.00</u>

Note: The amount as of December 31, 2018 includes accounts receivable— factoring, bill purchased and non-performing loan transferred from other than loans.

(Continued)

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

ii) By geographical area

	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
Domestic	\$ 1,123,966,924	86.49	1,087,909,696	87.31
Asia	88,622,271	6.82	87,018,082	6.98
America	68,490,647	5.27	56,486,297	4.53
Others	18,413,675	1.42	14,662,677	1.18
Total (Note)	\$ 1,299,493,517	100.00	1,246,076,752	100.00

Note: The amount as of December 31, 2018 includes accounts receivable— factoring, bill purchased and non-performing loan transferred from other than loans.

iii) By collateral

	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
Unsecured	\$ 416,669,591	32.06	444,091,542	35.64
Secured	882,823,926	67.94	801,985,210	64.36
Properties	735,785,045	56.62	686,862,046	55.12
Guarantees	75,511,380	5.81	46,577,211	3.74
Financial instruments	41,550,277	3.20	37,101,176	2.98
Others	29,977,224	2.31	31,444,777	2.52
Total (Note)	\$ 1,299,493,517	100.00	1,246,076,752	100.00

Note: The amount as of December 31, 2018 includes accounts receivable— factoring, bill purchased and non-performing loan transferred from other than loans.

(Continued)

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

iv) Credit risk rating grades (applicable since January 1, 2018)

The definition of credit risk is as follow:

1. Low Risk: Exposures demonstrate a good capacity to meet financial commitments, with low default risk and/or low levels of expected loss.
2. Moderate Risk: Exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.
3. High Risk: Exposures require varying degrees of special attention and default risk is of greater concern.

December 31, 2018	Financial assets measured by 12-month ECLs				Financial assets whose credit risk has increased significantly since initial recognition				Credit-impaired financial assets	Purchased or originated credit-impaired financial assets	Loss allowance	
	Low risk	Moderate risk	High risk	Total	Low risk	Moderate risk	High risk	Total			allowance	Total
Financial assets measured at fair value through other comprehensive income – debt instruments	\$ 81,620,571	1,560,450	-	83,181,021	-	-	-	-	-	-	23,714	83,157,307
Debt investments measured at amortized cost	569,989,243	872,100	-	570,861,343	-	661,670	-	661,670	-	-	221,095	571,301,918
Receivables												
Credit card receivables	27,681,826	10,155,342	149,583	37,986,751	-	217,104	299,246	516,350	536,346	-	207,031	38,832,416
Accounts receivable -factoring	17,471,990	1,910,536	-	19,382,526	6,166	242,579	-	248,745	-	-	222,730	19,408,541
Acceptances	436,025	835,630	-	1,271,655	-	-	-	-	-	-	13,265	1,258,390
Loans												
Corporate banking	350,954,964	262,557,577	579,868	614,092,409	-	15,725,810	771,562	16,497,372	4,554,448	-	8,404,757	626,739,472
Personal finance	528,595,912	65,639,631	252,830	594,488,373	-	17,329,772	919,871	18,249,643	2,241,687	-	8,227,544	606,752,159
Other financial assets (bill purchased and nonperforming loans transferred from other than loans)	231	-	-	231	-	-	-	-	92,755	-	73,841	19,145
Off-balance sheet assets												
Financing commitments	333,108,753	37,309,099	131,316	370,549,168	-	619,366	249,686	869,052	41,515	-	138,127	371,321,608
Guarantees receivable	21,073,299	5,856,134	-	26,929,433	-	891,269	-	891,269	25,072	-	281,382	27,564,392
Accounts receivable -forfaiting	3,797,316	4,015,625	438,558	8,251,499	-	44,250	-	44,250	-	-	7,141	8,288,608

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

Fubon Bank (China)

i) By industry

	Units: In thousands of CNY			
	December 31, 2018		December 31, 2017	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Finance and insurance	\$ 14,222,447	37.96	12,417,020	29.99
Wholesale and retailing	4,865,995	12.99	4,193,054	10.13
Manufacturing	3,671,232	9.80	3,320,350	8.02
Construction	2,648,112	7.07	4,701,205	11.35
Water conservation and environment	2,497,750	6.67	3,116,013	7.53
Personal loans	2,522,757	6.73	1,266,229	3.06
Real estate	2,144,199	5.72	1,980,333	4.78
Leasing and business service	1,489,787	3.98	3,163,784	7.64
Information and computers	576,975	1.54	370,819	0.89
Electricity, gas and water	413,000	1.10	550,000	1.33
Health care and welfare	482,043	1.29	164,310	0.40
Transportation	397,399	1.06	699,224	1.69
Research, development and technical services	164,979	0.44	121,648	0.29
Agriculture, livestock and fishery	205,563	0.55	190,000	0.46
Culture, sports and entertainmen	167,640	0.45	39,694	0.10
Education	414,434	1.11	330,625	0.80
Hotel and catering	50,933	0.14	11,225	0.03
Others	<u>528,430</u>	<u>1.40</u>	<u>4,767,149</u>	<u>11.51</u>
Total (Note)	<u>\$ 37,463,675</u>	<u>100.00</u>	<u>41,402,682</u>	<u>100.00</u>

Note: Included only discounts and loans.

(Continued)

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

ii) By geographical area

	Units: In thousands of CNY			
	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
East China	\$ 13,456,906	35.92	20,473,610	49.45
North China	7,853,423	20.96	9,116,791	22.02
South west region	4,070,298	10.87	5,985,142	14.45
South China	3,222,171	8.60	3,166,139	7.65
Other regions	6,334,705	16.91	1,394,771	3.37
Private loans	<u>2,526,172</u>	<u>6.74</u>	<u>1,266,229</u>	<u>3.06</u>
Total (Note)	<u><u>\$ 37,463,675</u></u>	<u><u>100.00</u></u>	<u><u>41,402,682</u></u>	<u><u>100.00</u></u>

Note: Included only discounts and loans.

iii) By collateral

	Units: In thousands of CNY			
	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
Credit loans	\$ 28,154,859	75.15	33,893,133	81.86
Guarantees loans	495,538	1.32	576,691	1.39
Collateral loans	8,813,278	23.53	6,932,858	16.75
Pledge loans	5,857,003	15.64	3,815,491	9.22
Mortgage loans	<u>2,956,275</u>	<u>7.89</u>	<u>3,117,367</u>	<u>7.53</u>
Total (Note)	<u><u>\$ 37,463,675</u></u>	<u><u>100.00</u></u>	<u><u>41,402,682</u></u>	<u><u>100.00</u></u>

Note: Included only discounts and loans.

(Continued)

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

iv) Credit risk rating grades (applicable since January 1, 2018)

The definition of credit risk is as follow:

1. Low risk: Exposures demonstrate a good capacity to meet financial commitments, with low default risk and/or low levels of expected loss.
2. Moderate risk: Exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.
3. High risk: Exposures require varying degrees of special attention and default risk is of greater concern.

December 31, 2018	Financial assets measured by 12-month ECLs				Financial assets whose credit risk has increased significantly since initial recognition				Credit-impaired financial assets	Purchased or originated credit-impaired financial assets	Loss allowance	Total
	Low risk	Moderate risk	High risk	Total	Low risk	Moderate risk	High risk	Total				
Financial assets measured at fair value through other comprehensive income – debt instruments	\$ 15,336,164	-	-	15,336,164	-	-	-	-	-	-	58,810	15,277,354
Debt investments measured at amortized cost	8,017,427	-	-	8,017,427	-	-	-	-	-	-	5,259	8,012,168
Receivables												
Acceptances	4,244,049	-	-	4,244,049	-	-	-	-	-	-	29,913	4,214,136
Accounts receivable – factoring	21,774	-	-	21,774	-	-	-	-	-	-	261	21,513
Loans												
Personal finance	2,473,539	-	47,946	2,521,485	46	-	305	351	4,336	-	31,332	2,494,840
Corporate banking	29,070,022	5,272,809	152,905	34,495,736	-	25,673	-	25,673	416,094	-	598,589	34,338,914
Off-balance sheet assets												
Guarantees receivable	965,035	-	-	965,035	-	-	-	-	-	-	4,566	960,469
Accounts receivable -forfaiting	312,512	-	-	312,512	-	-	-	-	-	-	1,382	311,130

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

- m) The financial effects of credit risk mitigation policies (applicable since January 1, 2018)
 - i) Collaterals and other credit enhancement

In order to effectively manage collaterals, The Bank and its subsidiary establish strict collateral management system and control procedures, which specify the acceptable types of collaterals, suitable quantity, correspond exposure, collect/disposal regulations, appraisal, and revaluation methods, etc.. The main collaterals for financial assets are as follows:

1. Real estate
2. Personal property
3. Deposits
4. Securities
5. Rights and Guarantees

The related collateral documents shall be obtained and the information of collateral shall be described in loan contract and transaction contract before issuing and transacting.

The collateral must be legally enforceable and its guarantee value can be realized within a reasonable time. To make an objective and fair assessment on the guarantee capacity and value of the collateral, and to ensure that the collateral has operational benefits.

The nature of collaterals and the impact of changes in market and economic on the value of object should be considered, and the value of collaterals should be reviewed appropriately.

Regular and occasional inspections or field inspections of collaterals are used to understand their use, storage, and maintenance, so as to avoid situations in which collateral may be sold, leased, pledged, relocated, or disposed.

(Continued)

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

ii) The amount of collaterals of impaired financial assets

The Bank and its subsidiary actively clean up the impaired financial assets, observe its collateral closely and recognized impairment loss. The impact of collaterals on the carrying amount of credit-impaired financial assets are as follows:

Taipei Fubon Bank (The Bank)

December 31, 2018	Financial instruments	Properties	Guarantees	Other
<u>Assets</u>				
Receivables	0.04 %	0.91 %	0.11 %	0.11 %
Loans	1.19 %	63.00 %	6.05 %	5.40 %
Other financial assets	-	9.17 %	-	-
Off-balance sheet assets	-	- %	-	22.52 %

Fubon Bank (China)

December 31, 2018	Financial instruments	Properties	Guarantees	Other
<u>Assets</u>				
Loans	- %	71.23 %	- %	13.91 %

iii) Outstanding contract amount of the financial assets that have been written off, and there are recourse activities on them.

As of December 31, 2018, outstanding contract of the financial assets that have been written off and still have recourse activities, amounting to \$420,865, was held by The Bank.

iv) The nature, policy and carrying amount of the obtained collaterals (Foreclosed collaterals and residuals taken over)

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

The foreclosed collaterals of Fubon Bank (China) are houses and buildings. As of December 31, 2018 and 2017, the book value amounted to \$53,593 and \$87,926, respectively. Foreclosed collaterals are accounted for as other assets in the consolidated balance sheet.

n) Credit quality and impairment assessment (Applicable before January 1, 2018)

Some financial assets like cash and cash equivalents, due from the central bank and call loan to banks, financial asset measured at fair value through profit or loss, securities purchased under resell agreements, refundable guarantees, guaranty bond and clearing and settlement fund are regarded as very low credit risk owing to the good credit rating of counterparties.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Besides the aforementioned financial assets, the credit quality of discounts, loans, receivables and investments are divided into three classifications. The credit quality classifications defined below each encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending business, as well as the external ratings attributed by external agencies to investment.

Quality classification definitions:

Taipei Fubon Bank (The Bank)

- i) Good: Exposures demonstrate a good capacity to meet financial commitments, with low default risk and/or low levels of expected loss.
- ii) Moderate: Exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.
- iii) Substandard: Exposures require varying degrees of special attention and default risk is of greater concern.

Fubon Bank (China)

- i) Moderate: Borrower can fulfill the loan contract. There is no convincing reason to doubt the repayment capacity of borrowers.
- ii) Special-mention: Some negative factors may affect the completion of a borrower's repayment, even though the borrower has the capacity to make regular repayments up till now.

Credit risk analysis of financial assets

- i) Credit analysis for receivables and discounts and loans :

Taipei Fubon Bank (The Bank)

	Neither past due nor impaired				Overdue but not impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss recognized (D)		Net total (A)+(B)+(C)-(D)
	Good	Moderate	Substandard	Subtotal (A)				With objective evidence of impairment	With no objective evidence of impairment	
December 31, 2017										
<u>On-balance sheet items</u>	-	-	-	-	-	-	-	-	-	-
Receivables	48,468,265	18,133,729	499,565	67,101,559	197,019	826,972	68,125,550	155,688	334,626	67,635,236
Credit card receivables	30,311,446	5,899,599	450,510	36,661,555	182,856	609,259	37,453,670	52,864	115,427	37,285,379
Accounts receivable - factoring	8,054,633	9,027,340	-	17,081,973	-	-	17,081,973	-	192,947	16,889,026
Acceptances	330,915	2,075,458	-	2,406,373	-	-	2,406,373	-	24,986	2,381,387
Other	9,771,271	1,131,332	49,055	10,951,658	14,163	217,713	11,183,534	102,824	1,266	11,079,444
Bill purchased	92	1,141	-	1,233	-	-	1,233	-	12	1,221
Nonperforming loans transferred from other than loans	-	-	-	-	-	126,413	126,413	106,463	-	19,950
Discounts and loans	607,041,103	568,545,100	27,922,020	1,203,508,223	3,046,005	7,717,194	1,214,271,422	1,938,196	14,203,709	1,198,129,517
Personal finance	495,263,834	52,696,923	26,492,552	574,453,309	3,041,325	1,901,225	579,395,859	91,709	7,739,714	571,564,436
Corporate banking	111,777,269	515,848,177	1,429,468	629,054,914	4,680	5,815,969	634,875,563	1,846,487	6,463,995	626,565,081

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

(Continued)

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

Fubon Bank (China)

Units: In thousands of CNY

	Neither past due nor impaired			Overdue but not impaired (B)	Impaired Amount(C)	Total (A)+(B) +(C)	Loss recognized(D)		Net total (A)+(B) +(C)-(D)
	Moderate	Special-mention	Subtotal(A)				With objective evidence of impairment	With no objective evidence of impairment	
December 31, 2017									
<u>On-balance sheet items</u>									
Receivables	3,051,676	-	3,051,676	-	-	3,051,676	-	3,381	3,048,295
Acceptances	2,173,344	-	2,173,344	-	-	2,173,344	-	-	2,173,344
Accounts receivable-factoring	191,517	-	191,517	-	-	191,517	-	2,681	188,836
Others	686,815	-	686,815	-	-	686,815	-	700	686,115
Discounts and loans	40,816,149	75,590	40,891,739	88,927	422,016	41,402,682	341,837	403,808	40,657,037
Personal finance	1,254,255	-	1,254,255	11,303	671	1,266,229	367	17,581	1,248,281
Corporate banking	39,561,894	75,590	39,637,484	77,624	421,345	40,136,453	341,470	386,227	39,408,756

- ii) Credit analysis for non-overdue and non-impaired amount discounts and loans according to internal rating standards is as follows:

Taipei Fubon Bank (The Bank)

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

Fubon Bank (China)

Units: In thousands of CNY

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

(Continued)

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

iii) Credit analysis for securities investment

Taipei Fubon Bank (The Bank)

December 31, 2017	Neither past due nor impaired				Overdue but not impaired (B)	Impaired amount (C)	Total (A)+(B)+(C)	Impaired loss recognized (D)	Net total (A)+(B)+(C)-(D)
	Good	Moderate	Substandard	Subtotal (A)					
Available-for-sale financial assets									
Bond investments	50,329,805	52,534,658	-	102,864,463	-	-	102,864,463	-	102,864,463
Others	20,649,212	29,561,508	-	50,210,720	-	-	50,210,720	-	50,210,720
Held-to-maturity financial assets									
Bond investments	104,333,490	24,076,384	-	128,409,874	-	-	128,409,874	-	128,409,874
Others	298,030,979	2,779,638	-	300,810,617	-	-	300,810,617	-	300,810,617
Other financial assets									
Bond investments	47,165,047	6,774,213	-	53,939,260	-	-	53,939,260	-	53,939,260

Note 1: Available-for-sale financial assets did not include equity investments and beneficiary securities: Original cost of \$3,285,108, valuation amounting to \$14,422 and cumulative impairment amounting to \$335,594.

Note 2: Other financial assets did not include equity investment of financial assets carried at cost: Original cost was \$1,057,635 and accumulated impairment amounted to \$30,989.

Fubon Bank (China)

Units: In thousands of CNY

December 31, 2017	Neither past due nor impaired			Overdue but not impaired (B)	Impaired amount (C)	Total (A)+(B)+(C)	Impaired loss recognized (D)	Net total (A)+(B)+(C)-(D)
	Moderate	Special-mention	Subtotal (A)					
Available-for-sale financial assets								
Bond investments	6,003,504	-	6,003,504	-	-	6,003,504	-	6,003,504
Others	4,926,419	-	4,926,419	-	-	4,926,419	-	4,926,419
Held- to-maturity financial assets								
Bond investments	7,777,857	-	7,777,857	-	-	7,777,857	-	7,777,857

o) Aging analysis for overdue but not yet impaired financial assets (Applicable before January 1, 2018)

Taipei Fubon Bank (The Bank)

Delays in processing payments by borrowers and other administrative reasons could result in unimpaired financial assets becoming overdue. According to Taipei Fubon Bank and its subsidiaries' internal risk management policies, financial assets overdue within 90 days are not considered impairment, unless evidence show otherwise.

(Continued)

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

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

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

Fubon Bank (China)

Units: In thousands of CNY					
December 31, 2017					
	Overdue less than one month	Overdue one to three months	Overdue over three to six months	Overdue more than six months	Total
Discounts and loans					
— Personal finance	\$ 8,672	2,631	-	-	11,303
— Corporate banking	579	18,550	-	58,495	77,624

p) **Analysis of impairment for financial assets (Applicable before January 1, 2018)**

A part of The Bank and its subsidiary's investments in available-for-sale financial assets and financial assets carried at cost were considered impaired because there were some objective evidence of impairment loss provided by investee companies.

The Bank and its subsidiary have assessed whether loans and receivables have objective evidence of impairment. The assessment as of December 31, 2017 are as follows:

Discounts and loans

		December 31, 2017	
		Discounts and loans	Allowance for credit losses
With objective evidence of impairment	Individually assessed for impairment	8,152,638	3,411,926
	Collectively assessed for impairment	1,901,225	91,709
With no objective evidence of impairment	Collectively assessed for impairment	1,393,821,140	16,052,948

(Continued)

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

Receivables

Type of impairment assessment		December 31, 2017	
		Receivables	Allowance for credit losses
With objective evidence of impairment	Individually assessed for impairment	289,213	161,557
	Collectively assessed for impairment	664,171	100,594
With no objective evidence of impairment	Collectively assessed for impairment	81,002,969	350,122

Note 1: The receivables are those originated by Taipei Fubon Bank and its subsidiaries, and not net of the allowance for credit losses and adjustments for discount (premium).

Note 2: The above receivables and allowances include nonperforming loans reclassified from other than loans and bills purchased.

2) Fubon Life Insurance and its subsidiaries

Credit risk refers to the risk resulted from the deterioration of the credit status of the investment, the descending of credit rating, the credit risk event which can be attributed to the default of contracts, and the default of the issuers or counterparties for fulfilling their obligation. Fubon Life Insurance and its subsidiaries may suffer losses from these incidents.

a) Analysis of concentrations of credit risk

The following are credit risk exposure of Fubon Life Insurance and its subsidiaries' debt instruments, derivative instruments and loans distributed by industry and geographic area.

Credit risk exposure — by industry

Financial assets	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
Industrial enterprise	\$ 91,168,389	3.39	76,885,792	3.31
Public business	107,477,560	4.00	96,497,982	4.16
Diversification	-	-	402,987	0.02
Mortgage backed securities	43,149,178	1.61	25,686,634	1.11
Financial sector	1,116,538,215	41.54	931,928,231	40.17
Consumer staples	183,590,158	6.83	157,844,508	6.80
Government	373,060,322	13.88	348,318,186	15.02
Technology	67,824,115	2.52	59,239,146	2.55
Raw material	54,185,252	2.02	62,468,284	2.69
Consumer discretionary	54,972,579	2.04	49,748,152	2.14
Energy	136,624,644	5.08	109,924,308	4.74
Assets backed securities	19,538,584	0.73	22,897,927	0.99
Telecommunication	209,840,363	7.81	188,329,319	8.12
Others	229,851,159	8.55	189,690,324	8.18
Subtotal	2,687,820,518	100.00	2,319,861,780	100.00
Fair value adjustment from business combinations	(567,614)	-	-	-
Total	<u>\$ 2,687,252,904</u>	<u>100.00</u>	<u>2,319,861,780</u>	<u>100.00</u>

(Continued)

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

Credit risk exposure — by geographic area

Financial assets	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
Taiwan	\$ 616,510,966	22.94	626,080,402	26.99
Asia except Taiwan	404,543,931	15.05	224,488,288	9.68
North America	1,045,728,759	38.91	939,995,129	40.52
Middle and South America	46,228,783	1.72	34,428,691	1.48
Europe	504,533,583	18.77	446,034,536	19.23
Africa/Middle East	70,274,496	2.61	48,834,734	2.10
Subtotal	2,687,820,518	100.00	2,319,861,780	100.00
Fair value adjustment from business combinations	(567,614)	-	-	-
Total	<u>\$ 2,687,252,904</u>	<u>100.00</u>	<u>2,319,861,780</u>	<u>100.00</u>

b) Credit risk quality classification definitions

In terms of credit risk quality, Fubon Life Insurance and its subsidiaries categorize the quality into three levels, which are low risk, medium risk and high risk based on the credit rating. The definition of each level is as follows:

- i) 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.
- ii) Medium risk: The issuers or the counterparties have lower capability of fulfilling their obligation. Negative news or disadvantageous economic conditions may weaken their financial statuses and result in the doubt of asset impairment or the loss of Fubon Life Insurance and its subsidiaries.
- iii) 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.

(Continued)

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

- iv) The impaired items represent the amount of loss allowance provided for financial assets based on the regulations of accounting standards. Under the principle of prudence, the impaired amount is able to reflect the current value of the impaired assets. The credit quality information is shown below:

Credit analysis of financial assets

	December 31, 2018											
	stage1				stage2				stage3			
	Low risk	Medium risk	High risk	Total	Low risk	Medium risk	High risk	Total	Credit-impaired financial assets	Purchased or originated credit-impaired financial assets	Total	Loss allowance
Financial assets measured at fair value through other comprehensive income—debt instruments	\$ 550,756,668	8,172,543	-	558,929,211	1,353,218	17,365	-	1,370,583	1,394,288	-	1,394,288	(Note 1)
Financial assets measured at amortized cost (note 2)	1,770,510,820	38,514,974	-	1,809,025,794	-	-	-	-	2,328,159	-	2,328,159	625,082
Loans (note 2)	203,460,735	53,619,081	632,102	257,711,918	271,224	2,679,829	10,450	2,961,503	807,645	1,092	808,737	2,329,528
Total	<u>\$ 2,524,728,223</u>	<u>100,306,598</u>	<u>632,102</u>	<u>2,625,666,923</u>	<u>1,624,442</u>	<u>2,697,194</u>	<u>10,450</u>	<u>4,332,086</u>	<u>4,530,092</u>	<u>1,092</u>	<u>4,531,184</u>	<u>2,954,610</u>
												<u>2,631,575,583</u>

Note 1: For loss allowance of financial assets measured at fair value through other comprehensive income - debt investments, please refer to note 6 (ak) (iii) 2) h).

Note 2: Fair value adjustments from business combinations of financial assets measured at amortized cost and loans were \$(483,306) and \$(84,308), respectively.

December 31, 2017						
Low risk	Medium risk	High risk	No credit rating	Overdue but not impaired	Impaired	Accumulated impairment
<u>\$ 1,505,564,168</u>	<u>814,683,888</u>	<u>1,080,426</u>	<u>-</u>	<u>-</u>	<u>3,541,434</u>	<u>4,186,828</u>

(Continued)

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

- c) Determination on the credit risk that has increased significantly since initial recognition
- i) Fubon Life Insurance and its subsidiaries determine whether the credit risk of financial instruments applying the impairment requirements in IFRS 9 increased significantly since the initial recognition on each reporting date. For this assessment, Fubon Life Insurance and its subsidiaries consider the reasonable and supportable information that shows the credit risk increased significantly since initial recognition (including forward-looking information). The main considerations include: external credit rating, market price decline, credit spreads, quantitative and qualitative information.
 - ii) Low credit risk: It may be assumed that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

- d) The definition of default and credit-impaired financial assets

Fubon Life Insurance and its subsidiaries' definition of default on financial assets is as follows. If one or more conditions are met, it is determined that the financial asset has defaulted. However it is not limited to this, all obviously objective evidences as a result of the inability of the debt or its credit-linked company to be repaid are treated as a breach of contract and the impairment procedure will be proceeded.

- i) Bankruptcy:

Enter bankruptcy procedures in accordance with the "Bankruptcy Law", resolution for dissolution or takeover by the government, recognition of failure to pay loans on maturity date etc.

- ii) Failure to pay:

After the expiration of the grace period, the principal or interest could not be paid on contract.

- iii) Debt restructuring:

Due to financial difficulties, after renegotiating with creditors for debt reduction, extension or re-planning, impairment on creditors' rights and interests arise from the debtor's application for debt restructuring.

- iv) Repudiation or moratorium:

Unilaterally refuses or denies any legality or validity of debt, and refuses or defers payment.

(Continued)

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

v) Cross default or accelerated expiry:

A credit default of a credit-linked company or related institution's other debts or similar events that caused the early repayment of debt or breach of contract.

vi) The company completely suspended its operations because of local government orders.

e) Measurement of expected credit loss

i) The methodology and assumption applied

Expected credit loss is a probability weighted estimate of credit losses for a specific period, and the period is based on whether the credit risk of the financial instruments have increased significantly since initial recognition. If the financial assets are determined to have low credit risk or no significant increase in credit risk, an amount equal to 12-month expected credit losses will be recognized. The impairment requirement is to recognize lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition or credit impaired. In order to measure expected credit losses, Fubon Life Insurance and its subsidiaries adopt Probability of default ("PD"), and include Loss given default ("LGD") and Exposure at default ("EAD"), and consider the impact of the time value of money, to calculate the expected credit losses for 12-month and lifetime, respectively.

ii) Forward-looking information considerations

The default probability and loss given default, which Fubon Life Insurance and its subsidiaries used in debt instruments, are based on the information released by Moody's, an international credit rating agency. The default rate is based on the macroeconomic status and forward-looking PDs with market data implicated, the loss given default is based on the recovery rate of bonds by Moody's. The amount of exposure is measured by the amortized cost of the financial assets plus accrued interest. The default probability and loss given default used by Fubon Life Insurance and its subsidiaries for loans are internal historical information (such as credit loss experience) which is adjusted based on current observable data and forward-looking macroeconomic information (eg. consumer price index and the unemployment rate, etc.). The amount of exposure is measured by the amortized cost (including accrued interest).

The estimation techniques or material assumptions made by Fubon Life Insurance and its subsidiaries to assess expected credit losses have no significant changes during the year.

(Continued)

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

f) Policies to hedge or mitigate credit risk

i) Collateral

Fubon Life Insurance and its subsidiaries require full collateral from the borrowers and set up lending policies to decrease credit risk. The amount of loan is evaluated based on borrower's ability to pay back, the type of collateral and the difficulty of its liquidation to ensure collection. Besides, creditor protection, collateral terms and offsetting terms are all addressed in the credit contract in case of any occurrence of credit event, of which the amount may be deductible, loan repayment schedule may be shortened or deemed as matured, in order to mitigate credit risks.

ii) Enhancement of other credits

Fubon Life Insurance and its subsidiaries have offsetting terms within credit contracts, which clearly define that all cash payments from debtors may be offset against their liabilities upon a credit event, in order to mitigate credit risk.

For the clients whom Fubon Life Insurance and its subsidiaries consider to be incompetent to repay the loans, Fubon Life Insurance and its subsidiaries would request one or more joint guarantors to enhance the guarantee for the creditor's right.

g) The maximum credit risk exposure of Fubon Life Insurance and its subsidiaries

The maximum credit risk exposure of the assets on the consolidated balance sheet, excluding collaterals or other credit enhancement tools, is the carrying amount of the assets.

The maximum exposure of assets used as collaterals, master netting agreement and other credit enhancements is the carrying amount on the consolidated balance sheet.

(Continued)

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

h) Changes in the loss allowance

The reconciliations in loss allowance of loans for the year ended December 31, 2018 are as follows:

	12-month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (neither purchased nor originated credit-impaired financial assets)	Lifetime ECLs (purchased or originated credit-impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Non performing/ Nonaccrual Loans"	Total
Beginning balance	\$ 1,306	-	257	28,326	-	29,889	1,895,993	1,925,882
Changes due to financial instruments recognized as at beginning:								
— Transfer to lifetime ECLs	(510)	504	3,226	(3,220)	-	-	-	-
— Transfer to credit-impaired financial assets	(93)	(1,775)	-	1,868	-	-	-	-
— Transfer to 12-month ECLs	11,181	(1,661)	(58)	(9,462)	-	-	-	-
— Derecognition of financial assets at current period	(600)	(3,443)	(52)	(12,888)	-	(16,983)	-	(16,983)
Originated or purchased new financial assets	775	794	3	111	80	1,763	-	1,763
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Non-performing/Nonaccrual Loans"	-	-	-	-	-	-	284,375	284,375
Changes in models/risk parameters	(9,449)	-	(2,941)	610	-	(11,780)	-	(11,780)
Effects of exchange rate changes and others	778	10,012	-	1,787	-	12,577	-	12,577
Acquisition through business combinations	16,745	37,823	-	79,126	-	133,694	-	133,694
Ending balance	<u>\$ 20,133</u>	<u>42,254</u>	<u>435</u>	<u>86,258</u>	<u>80</u>	<u>149,160</u>	<u>2,180,368</u>	<u>2,329,528</u>

(Continued)

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

The reconciliations in loss allowance of financial assets measured at fair value through other comprehensive income for the year ended December 31, 2018 are as follows:

	12-month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (neither purchased nor originated credit- impaired financial assets)	Lifetime ECLs (purchased or originated credit- impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Total
Beginning balance	\$ 226,992	-	-	-	-	226,992	226,992
Changes due to financial instruments recognized as at beginning:							
— Transfer to lifetime ECLs	(15,764)	15,490	-	274	-	-	-
— Transfer to credit-impaired financial assets	(1,170)	(22,228)	-	23,398	-	-	-
— Transfer to 12-month ECLs	14,227	(14,227)	-	-	-	-	-
— Derecognition of financial assets at current period	(91,119)	(49,907)	-	(43,156)	-	(184,182)	(184,182)
Originated or purchased new financial assets	10,444	-	-	78	-	10,522	10,522
Changes in models/risk parameters	(91,008)	-	-	158,113	-	67,105	67,105
Effects of exchange rate changes and others	14,011	24,450	-	27,886	-	66,347	66,347
Current reclaims	(155)	(2,006)	-	(10,352)	-	(12,513)	(12,513)
Ending balance	<u>\$ 66,458</u>	<u>(48,428)</u>	<u>-</u>	<u>156,241</u>	<u>-</u>	<u>174,271</u>	<u>174,271</u>

(Continued)

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

The reconciliations loss allowance of financial assets measured at amortized cost for the year ended December 31, 2018 are as follows:

	12-month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (neither purchased nor originated credit- impaired financial assets)	Lifetime ECLs (purchased or originated credit- impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Total
Beginning balance	\$ 633,513	-	-	-	-	633,513	633,513
Changes due to financial instruments recognized as at beginning:							
— Transfer to lifetime ECLs	(461)	-	-	461	-	-	-
— Derecognition of financial assets at current period	(51,184)	-	-	-	-	(51,184)	(51,184)
Originated or purchased new financial assets	66,718	-	-	65,802	-	132,520	132,520
Changes in models/risk parameters	(271,365)	-	-	161,744	-	(109,621)	(109,621)
Effects of exchange rate changes and others	8,647	-	-	4,809	-	13,456	13,456
Acquisition through business combinations	6,398	-	-	-	-	6,398	6,398
Ending balance	<u>\$ 392,266</u>	<u>-</u>	<u>-</u>	<u>232,816</u>	<u>-</u>	<u>625,082</u>	<u>625,082</u>

Significant changes that led to changes in loss allowances in 2018 were described as follow:

Since some bond issuers were continually downgraded by international credit rating agencies, Fubon Life insurance and its subsidiaries assessed that the credit risk had significantly increased at the reporting date. Therefore, the net increase of lifetime ECLs amounted to \$396,081.

(Continued)

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

3) Fubon Insurance and its subsidiaries

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

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

a) Management process of credit risk

i) Risk identification

Fubon Insurance and its subsidiaries' management process of credit risk could identify the existing and potential risk, analyze the source of the major risk of the operation and the product, and plan proper control system.

ii) Risk measurement

When measuring credit risk, Fubon Insurance and its subsidiaries consider the factors including the content of contracts, the condition of the market, securities or guarantees, the variation of the future probable risk of the counterparty and evaluating the risk in asset portfolios with credit risk except for individual risk. Also, by collecting related information of credit rating, Fubon Insurance and its subsidiaries analyze and quantitatively measure the credit risk in accordance with the level of business and practical settlement methods and calculates the credit risk capital based on the rules stipulated by the authority. For financial assets at amortized cost and at fair value through other comprehensive income or other credit position, depending on the practical settlement methods, Fubon Insurance and its subsidiaries measure the credit risk by referring to the expected loss formula ($ECL=EAD \times PD \times LGD$).

iii) Risk monitoring

Based on the process of risk monitoring established, Fubon Insurance and its subsidiaries review and monitor the credit limit usage and over-limit circumstances regularly with proper disposition. Through proper and frequent monitoring and hierarchical control system, the responsible person could submit the report by related rules when finding mistakes and unusual events. When the relevant unit gets aware of significant credit risk event, it should notify risk management department of Fubon Insurance and its subsidiaries by email and deal with the problem according to the Company's guidelines related to the reporting of significant credit risk event to control the timeliness of the dealing process.

(Continued)

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

iv) Risk responding

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

b) Credit risk management mechanism

Credit risk management mechanism includes:

i) Credit risk management before transaction:

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

ii) Management of credit limit by hierarchy:

Considering the complexity and characteristics of the investment assets, Fubon Insurance and its subsidiaries set credit hierarchical management system and manages them by different hierarchy, including the following:

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

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

iii) Credit risk management after transaction:

1. Examine credit status periodically: Periodically review the overall credit market conditions to understand trends in the credit markets and get an early warning to credit risk. Meanwhile, periodically examine credit status of counterparty, issuer and guarantee agency to fully disclose their risk situation.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2. Control credit risk limit by each position: Measure credit exposure amount monthly, compare with authorized credit risk limit and monitor the risk. Classification of the measuring credit exposure amount of Fubon Insurance and its subsidiaries includes: counterparty, issuer, guarantee agency, country and commodity. According to different business characteristics, Fubon Insurance and its subsidiaries take individual or portfolio management approach to review the changes in credit status in connection with the transaction balance or position periodically.

c) Concentrations of credit risk

To control credit concentration risk, Fubon Insurance confirms that a loss resulting from any single credit risk event won't exceed credit risk limit through regular statistic and monitor concentration as follows:

i) Concentrations of credit risk—by geographical area

December 31, 2018						
By area	Taiwan	Asia except Taiwan	North America	Central and South America	Europe	Total
Exposure amount	\$ <u>41,354,011</u>	<u>6,283,361</u>	<u>7,553,424</u>	<u>580,828</u>	<u>8,063,812</u>	<u>63,835,436</u>
Ratio of the total	<u>64.78</u> %	<u>9.85</u> %	<u>11.83</u> %	<u>0.91</u> %	<u>12.63</u> %	<u>100.00</u> %

December 31, 2017						
By area	Taiwan	Asia except Taiwan	North America	Central and South America	Europe	Total
Exposure amount	\$ <u>39,289,653</u>	<u>6,998,206</u>	<u>7,964,656</u>	<u>626,617</u>	<u>8,713,018</u>	<u>63,592,150</u>
Ratio of the total	<u>61.78</u> %	<u>11.00</u> %	<u>12.53</u> %	<u>0.99</u> %	<u>13.70</u> %	<u>100.00</u> %

d) Credit risk exposure

Maximum credit risk exposure of Fubon Insurance's financial assets (without considering collateral or other credit enhancements instruments) is the net amount of book values less the offset amount recognized in accordance with IAS 32 and the net expected credit-impaired recognized in accordance with IFRS 9 since January 1, 2018.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Maximum credit risk exposure of Fubon Insurance's financial assets (without considering collateral or other credit enhancements instruments) is the net amount of book values less the offset amount recognized in accordance with IAS 32 and the net expected credit-impaired recognized in accordance with IAS 39 before January 1, 2018.

	December 31, 2018		December 31, 2017	
	Book value	Maximum exposure	Book value	Maximum exposure
<u>Non-derivative financial instruments</u>				
Financial assets				
Cash and cash equivalents	\$ 8,477,179	8,477,179	8,791,785	8,791,785
Receivables	4,857,637	4,857,637	4,588,562	4,588,562
Financial assets measured at fair value through profit or loss	21,873,641	21,873,641	779,105	779,105
Financial assets measured at amortized cost	3,678,259	3,678,259	-	-
Financial assets measured at fair value through other comprehensive income	21,901,101	21,901,101	-	-
Available-for-sale financial assets	-	-	40,321,642	40,321,642
Financial assets carried at cost	-	-	925,291	925,291
Debt investments without active market	-	-	6,368,230	6,368,230
Other financial assets	1,000,621	1,000,621	351,314	351,314
Reinsurance contract assets — reinsurance recoverable	1,966,425	1,966,425	2,317,845	2,317,845
Reinsurance contract assets — due from other reinsurance	3,641,063	3,641,063	3,318,607	3,318,607
Other assets	1,961,815	1,961,815	2,006,317	2,006,317
Financial liabilities				
Payables	10,978,591	10,978,591	10,848,185	10,848,185
Current tax liabilities	207,547	207,547	66,565	66,565
Other liabilities	1,246,575	1,246,575	768,576	768,576
<u>Derivative financial instruments</u>				
Financial assets				
Financial assets measured at fair value through profit or loss	29,021	29,021	124,793	124,793
Financial liabilities				
Financial liabilities measured at fair value through profit or loss	66,889	66,889	9,573	9,573

e) Credit quality analysis

For credit quality, Fubon Insurance and its subsidiaries periodically follow credit rating information issued by credit rating agency, and based on the rating, classified as low risk, medium risk and high risk as follows:

- i) Low risk: Issuer or counterparty is capable of fulfilling contractual commitments. Even under variable negative news or unfavorable economic conditions, their financial condition is good enough to cope with it.
- ii) Medium risk: Issuer or counterparty has poor ability to fulfill contractual commitments. Variable negative news or unfavorable economic conditions may weaken its financial condition, and trigger concerns of assets impairment or cause loss to Fubon Insurance.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- iii) High risk: The possibility of issuer or counterparty to fulfill contractual commitments is poor and depends on operating environment, variable negative news or unfavorable economic conditions will reduce its ability and willingness to fulfill obligations.
- iv) The impaired amount refers to the amount provided for all financial assets based on the regulations of accounting standards. Under the principle of conservations, the amount is able to reflect the current value of the impairment. The information of credit quality is shown as follows:

December 31, 2018											
	Financial assets measured by amount of 12-month ECLs				Lifetime ECLs—not credit-impaired financial assets				Lifetime ECLs—credit-impaired financial assets	Impairment allowance	Total
	Low risk	Medium risk	High risk	Total	Low risk	Medium risk	High risk	Total			
Financial assets measured at fair value through other comprehensive income—debt instruments	\$ 10,940,852	8,308,479	-	19,249,331	-	-	-	-	-	-	19,249,331
Financial assets measured at amortized cost	3,002,825	676,992	-	3,679,817	-	-	-	-	-	1,558	3,678,259
Total	<u>\$ 13,943,677</u>	<u>8,985,471</u>	<u>-</u>	<u>22,929,148</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,558</u>	<u>22,927,590</u>

December 31, 2017											
	Neither past due nor impaired				Overdue but not impaired				Impaired	Impairment allowance	Total
	Low risk	Medium risk	High risk	Total	Low risk	Medium risk	High risk	Total			
Financial assets measured at fair value through profit or loss	\$ 87,523	37,270	-	124,793	-	-	-	-	-	-	124,793
Available for sale financial assets	11,374,641	7,100,280	-	18,474,921	-	-	-	-	-	-	18,474,921
Debt investments without active markets	5,237,875	1,130,355	-	6,368,230	-	-	-	-	-	-	6,368,230
Total	<u>\$ 16,700,039</u>	<u>8,267,905</u>	<u>-</u>	<u>24,967,944</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,967,944</u>

Note: There is no purchased or originated credit impaired financial assets in the above financial assets.

For all notes receivable, accounts receivable and repayable receivable, Fubon Insurance and its subsidiaries apply the simplified approach to estimate the expected credit impairment, the analysis is as follows:

	December 31, 2018				
	Not overdue	30 days overdue	90 days overdue	90 days and above overdue	Total
	0%	2%~5%	10%~25%	25%~100%	
Rate of expected credit-impaired					
Carry amount	\$ 5,556,199	1,585,415	287,853	450,728	7,880,195
Expected credit-impaired	-	14,115	10,024	30,036	54,175

- f) Determination on the credit risk that has increased significantly since initial recognition
- i) It may be assumed that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. Judgment criteria: External credit rating above investment grade (BBB-)

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- ii) Fubon Insurance and its subsidiaries determine whether the credit risk of financial instruments applying the impairment requirements in IFRS 9 increased significantly since the initial recognition on each reporting date. For this assessment, Fubon Insurance and its subsidiaries consider the reasonable and supportable information that shows the credit risk increased significantly since initial recognition (including forward-looking information). The main considerations include: external credit rating, overdue situation, credit spreads, and other market information related to the issuer or debtor, etc.

- g) **Definitions for default and credit impairment of financial assets**

Fubon Insurance and its subsidiaries use the same definitions for default and credit impairment of financial assets. If one or more of the following conditions are met, Fubon Insurance and its subsidiaries determine that the financial assets are defaulted and credit-impaired:

- i) Quantitative indicators: When financial assets-receivables are overdue for more than 90 days, it is determined that the financial assets have been breached and the credit is impaired.
- ii) Qualitative indicators: If there is evidence that the issuer or the debtor will be unable to pay the contract, or show that the issuer or the debtor has significant financial difficulties, such as:
 - 1. The issuer or the debtor has filed for bankruptcy or is likely to file a bankruptcy.
 - 2. The financial instrument's contract of the issuer's or debtor's has defaulted.
 - 3. The financial market of the financial asset disappeared due to the financial difficulties of the issuer or the debtor.
 - 4. Purchase or originate financial assets at a substantial discount that reflects the credit losses have occurred.
- iii) The aforementioned definition of breach of contract and credit impairment applies to all financial assets held by Fubon Insurance and its subsidiaries, and is consistent with the definition used for the purpose of internal credit risk management for financial assets, and is also applied to the relevant impairment assessment model.
- iv) If a financial asset no longer meets the definition of default and credit impairment for six consecutive months, it is deemed to return to the state of compliance and is no longer considered defaulted and credit-impaired.

(Continued)

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

h) Assessment of expected credit loss

i) Adopted methods and assumptions

For Fubon Insurance and its subsidiaries, if the financial assets are of low credit risk or no significant increase in credit risk, the 12-month expected credit losses will be recognized. If the financial assets are significantly increased in credit risk or the credits have been impaired, the expected credit losses for a lifetime will be recognized.

In order to measure expected credit losses, Fubon Insurance and its subsidiaries adopt Probability of default ("PD"), and include Loss given default ("LGD") and Exposure at default ("EAD"), and consider the impact of the time value of money, to calculate the expected credit losses for 12 months and lifetime, respectively.

Default probability is how likely the issuer or debtor breaches the contract, and the loss given default is the rate of loss due to default by the issuer or debtor. The default probability and loss given default used by Fubon Insurance and its subsidiaries, related impairment assessments are based on information on the default rate and loss given default regularly announced by Moody's.

Fubon Insurance and its subsidiaries measure its exposure to breach of contract by the total amount of the amortized cost of financial instruments and interest receivable.

In order to determine if the credit risk has increased significantly since the initial recognition, Fubon Insurance and its subsidiaries assess the expected default risk during the existence of financial instruments on the reporting day, the rules for determination are as follows:

The financial instrument has the original rating, and is non-investment grade on the reporting date, and it falls at least one notch than the original score.

ii) Forward-looking information considerations

Fubon Insurance and its subsidiaries take forward-looking information into account when judging whether the credit risk of a financial instrument has increased significantly since its initial recognition and when the expected credit loss is measured. The default probability used by Fubon Insurance and its subsidiaries in relation to the impairment assessment is based on the default probability information published by Moody's on a regular basis and contains forward-looking general economic information.

iii) The estimation techniques or material assumptions made by Fubon Insurance and its subsidiaries to assess expected credit losses have no significant changes during the reporting period.

(Continued)

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

iv) Changes in loss allowance

1. Changes in financial assets measured at fair value through other comprehensive income of debt instrument—loss allowance

	2018			
	12-month ECLs	Lifetime ECLs (collective assessment)	Lifetime ECLs (individual assessment)	Impairment recognized due to IFRS 9
Beginning balance	\$ 10,626	-	-	10,626
Changes due to recognition of financial instruments at beginning:				
— Derecognition of financial assets at current period	(338)	-	-	(338)
Purchased or originated financial assets	238	-	-	238
Effects of exchange rate changes and others	738	-	-	738
Ending balance	<u>\$ 11,264</u>	<u>-</u>	<u>-</u>	<u>11,264</u>

2. Changes in financial assets measured at amortized cost—loss allowance

	2018			
	12-month ECLs	Lifetime ECLs (collective assessment)	Lifetime ECLs (individual assessment)	Impairment recognized due to IFRS 9
Beginning balance	\$ 1,452	-	-	1,452
Effects of exchange rate changes and others	106	-	-	106
Ending balance	<u>\$ 1,558</u>	<u>-</u>	<u>-</u>	<u>1,558</u>

4) Fubon Securities and its subsidiaries

Fubon Securities and its subsidiaries have exposure to credit risk, including issuer credit risk, counterparty credit risk and credit risk of underlying assets.

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

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

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fubon Securities and its subsidiaries face credit risk arising from financial assets including bank deposits, debt securities, over the counter (OTC) derivative transactions, repurchase agreements, reverse sell agreements, securities borrowing and lending, refundable deposits, futures trading margin, other refundable deposits, and receivables.

a) Analysis of concentrations of credit risk

The maximum credit risk exposure amount of financial assets by region and by industry was as described in the following tables:

Financial assets	December 31, 2018					
	Credit risk exposure amount—by region					
	Taiwan	Hong Kong	Asia	Europe	America	Total
Cash and cash equivalents	\$ 14,994,549	114,548	887,066	416	-	15,996,579
Customer margin account	12,497,047	73,902	3,029,911	3,072	646,417	16,250,349
Financial assets mandatorily measured at fair value through profit or loss — current	29,514,537	237,765	3,747,318	-	618,045	34,117,665
Debt securities	28,677,134	237,765	3,747,318	-	618,045	33,280,262
Derivative assets — OTC	222,734	-	-	-	-	222,734
Derivative assets — Futures trading margin	89,219	-	-	-	-	89,219
Other debt securities	525,259	-	-	-	-	525,259
Call option — Futures	191	-	-	-	-	191
Margin deposits for borrowed securities	4,425,851	-	-	-	-	4,425,851
Other refundable deposits	1,346,196	2,322	982	-	-	1,349,500
Other current assets	590,434	333,782	-	-	-	924,216
Financial assets measured at fair value through other comprehensive income	4,483,124	-	2,754,400	602,350	651,461	8,491,335
Debt securities	4,483,124	-	2,754,400	602,350	651,461	8,491,335
Total	<u>\$ 67,851,738</u>	<u>762,319</u>	<u>10,419,677</u>	<u>605,838</u>	<u>1,915,923</u>	<u>81,555,495</u>
Proportion of the total	<u>83.20 %</u>	<u>0.93 %</u>	<u>12.78 %</u>	<u>0.74 %</u>	<u>2.35 %</u>	<u>100.00 %</u>

(Continued)

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

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

Financial assets	December 31, 2018											
	Credit risk exposure amount—by industry											
	Central and local government agencies	Retail and wholesale	Building and material	Biotechnology industry	Food and travel industry	Shipping industry	Electronic industry	Chemical industry	Motor vehicle industry	Culture and creative industry	Other services	Total
Cash and cash equivalents	\$ 15,996,579	-	-	-	-	-	-	-	-	-	-	15,996,579
Customer margin account	16,250,349	-	-	-	-	-	-	-	-	-	-	16,250,349
Financial assets mandatorily measured at fair value through profit or loss—current	8,790,930	8,482,787	-	8,707,692	263,826	726,408	1,384,696	4,124,006	135,483	44,730	21,900	34,117,665
Debt securities	7,953,527	8,482,787	-	8,707,692	263,826	726,408	1,384,696	4,124,006	135,483	44,730	21,900	33,280,262
Derivative assets—OTC	222,734	-	-	-	-	-	-	-	-	-	-	222,734
Derivative assets—futures trading margin	89,219	-	-	-	-	-	-	-	-	-	-	89,219
Other debt securities	525,259	-	-	-	-	-	-	-	-	-	-	525,259
Call options—Futures	191	-	-	-	-	-	-	-	-	-	-	191
Margin deposits for borrowed securities	4,425,851	-	-	-	-	-	-	-	-	-	-	4,425,851
Other refundable deposits	1,310,701	-	-	-	-	-	-	-	-	-	38,799	1,349,500
Other current assets	312,878	-	-	-	-	-	-	-	-	-	611,338	924,216
Financial assets measured at fair value through other comprehensive income	3,980,889	314,466	-	-	-	149,476	754,227	1,023,763	-	-	2,268,514	8,491,335
Debt securities	3,980,889	314,466	-	-	-	149,476	754,227	1,023,763	-	-	2,268,514	8,491,335
Total	<u>\$ 51,068,177</u>	<u>8,797,253</u>	<u>-</u>	<u>8,707,692</u>	<u>263,826</u>	<u>875,884</u>	<u>2,138,923</u>	<u>5,147,769</u>	<u>135,483</u>	<u>44,730</u>	<u>21,900</u>	<u>81,555,495</u>
Proportion of the total	<u>62.62 %</u>	<u>10.79 %</u>	<u>- %</u>	<u>10.68 %</u>	<u>0.32 %</u>	<u>1.07 %</u>	<u>2.62 %</u>	<u>6.31 %</u>	<u>0.17 %</u>	<u>0.05 %</u>	<u>0.03 %</u>	<u>100.00 %</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	December 31, 2017												
	Credit risk exposure amount—by industry												
	Central and local government agencies												Total
Financial assets	Financial service	Retail and wholesale	Building and material	Biotechnology industry	Food and travel industry	Shipping industry	Electronic industry	Chemical industry	Motor vehicle industry	Culture and creative industry	Other services		
Cash and cash equivalents	\$ 13,507,132	-	-	-	-	-	-	-	-	-	-	13,507,132	
Customer margin account	20,504,270	-	-	-	-	-	-	-	-	-	-	20,504,270	
Held-for-trading financial assets—current	7,753,555	8,375,683	2,720	5,709,218	235,271	663,130	294,610	6,440,895	136,411	89,448	171,529	34,018,229	
Debt securities	6,703,941	8,375,683	2,720	5,709,218	235,271	663,130	294,610	6,440,895	136,411	89,448	171,529	32,968,615	
Derivative assets—OTC	96,612	-	-	-	-	-	-	-	-	-	-	96,612	
Derivative assets—futures trading margin	493,030	-	-	-	-	-	-	-	-	-	-	493,030	
Other debt securities	459,800	-	-	-	-	-	-	-	-	-	-	459,800	
Call option—Future	172	-	-	-	-	-	-	-	-	-	-	172	
Margin deposits for borrowed securities	41,654	-	-	-	-	-	-	-	-	-	-	41,654	
Other refundable deposits	1,621,033	-	-	-	-	-	-	-	-	-	-	1,621,033	
Other current assets	691,677	-	-	-	-	-	-	-	-	-	714,578	1,406,255	
Available-for-sale financial assets	721,415	316,485	-	-	-	-	597,965	-	-	-	-	1,635,865	
Debt securities	442,832	316,485	-	-	-	-	597,965	-	-	-	-	1,357,282	
Other debt securities	1,995	-	-	-	-	-	-	-	-	-	-	1,995	
Open-end funds and money market instruments	276,588	-	-	-	-	-	-	-	-	-	-	276,588	
Total	\$ 44,840,736	8,692,168	2,720	5,709,218	235,271	663,130	892,575	6,440,895	136,411	89,448	171,529	72,734,438	
Proportion of the total	61.65 %	11.95 %	- %	7.85 %	0.32 %	0.91 %	1.23 %	8.86 %	0.19 %	0.12 %	0.24 %	100.00 %	

Fubon Securities and its subsidiaries' exposure to credit risk in Taiwan and financial service is due to the following reasons: (1) Fubon Securities and its subsidiaries deposit cash in financial institutions and hold debt securities issued or guaranteed by banks, and (2) all the counterparties of derivative transactions, investments in debt securities, and security lending are financial institutions in Taiwan.

b) Credit risk of financial assets

i) Cash and cash equivalents

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

ii) Financial assets measured at fair value—current

1. Debt securities

Fubon Securities and its subsidiaries hold positions in debt securities, including bonds, convertible bonds and bond funds, which are issued by domestic companies. The details of debt securities are as follows:

a. Convertible bonds

Convertible bonds held by Fubon Securities and its subsidiaries are primarily issued by domestic companies. To control exposure to credit risk from convertible bonds, Fubon Securities and its subsidiaries transfer credit risk to external investors by asset swaps.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b. Bond funds

The underlying assets of bond funds held by Fubon Securities and its subsidiaries are mainly fixed income securities.

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

The main counterparties of RP/RS are financial institutions. When engaging in RS transactions, Fubon Securities and its subsidiaries provide the underlying bonds as collateral which could reduce the exposure to credit risk of its counterparties.

3. Derivatives—Over-the-Counter (OTC)

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

OTC derivatives held by Fubon Securities and its subsidiaries include interest rate swap, convertible bond asset swaps and equity options. The counterparties are all from the financial industry and are mainly based in Taiwan.

4. Derivatives—futures trading margin

For trading on the centralized futures market, Fubon Securities and its subsidiaries deposit futures trading margin into an account designated by Fubon Securities and its subsidiaries as a guarantee of future funding to fulfill a contractual obligation. Fubon Futures and Polaris MF Global Futures are futures commission merchants. Fubon Securities hold 100% of the shares of Fubon futures. Thus little potential loss due to credit risk was likely to occur.

(Continued)

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

5. Other debt securities

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

iii) Margin deposits for borrowed securities

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

iv) Other refundable deposits

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

v) Other current assets

Other current assets of Fubon Securities and its subsidiaries are cash provided for pledge or restricted use to domestic financial institutions with good credit.

vi) Customer margin account

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

c) Credit risk quality classification definitions

i) Credit Risk quality classification definitions

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Impaired: Fubon Securities and its subsidiaries or the target do not perform its obligation according to the contracts and the potential estimated loss has reached the standard of impairment. The information of credit risk quality were as follow:

December 31, 2018										
Financial assets measured by 12-month ECLs				Lifetime ECLs – not credit-impaired financial assets				Lifetime ECLs – credit-impaired financial assets	Loss allowance	Total
Low risk	Medium risk	High risk	Subtotal	Low risk	Medium risk	High risk	Subtotal			
7,544,673	952,204	-	8,496,877	-	-	-	-	-	5,542	8,491,335

Financial assets measured fair value through other comprehensive income — debt instruments

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

December 31, 2018							
Financial assets credit quality and classification							
Financial assets	Low risk	Medium risk	High risk	Overdue but not impaired	Impaired	Loss allowance	Total
Cash and cash equivalents	\$ 14,431,991	1,564,588	-	-	-	-	15,996,579
Customer margin account	16,250,349	-	-	-	-	-	16,250,349
Financial assets mandatorily measured at fair value through profit or loss – current	23,431,684	10,216,421	469,560	-	-	-	34,117,665
Debt securities	22,726,973	10,083,729	469,560	-	-	-	33,280,262
Derivative assets – OTC	90,042	132,692	-	-	-	-	222,734
Derivative assets – Futures trading margin	89,219	-	-	-	-	-	89,219
Other debt securities	525,259	-	-	-	-	-	525,259
Call option – Futures	191	-	-	-	-	-	191
Margin deposits for borrowed securities	4,425,851	-	-	-	-	-	4,425,851
Other refundable deposits	1,349,500	-	-	-	-	-	1,349,500
Other current assets	924,216	-	-	-	-	-	924,216
Financial assets measured at fair value through other comprehensive income	7,544,673	952,204	-	-	-	5,542	8,491,335
Debt securities	7,544,673	952,204	-	-	-	5,542	8,491,335
Subtotal	68,358,264	12,733,213	469,560	-	-	5,542	81,555,495
Proportion of the total	83.82 %	15.61 %	0.58 %	- %	- %	0.01 %	100.00 %
Receivables	13,855,763	5,229,180	536,790	-	159,725	159,725	19,621,733
Account receivable	9,660,563	12,313	-	-	159,725	159,725	9,672,876
Receivables from pecuniary finance	4,195,200	5,216,867	536,790	-	-	-	9,948,857
Total	\$ 82,214,027	17,962,393	1,006,350	-	159,725	165,267	101,177,228
Proportion of the total	81.26 %	17.75 %	0.99 %	- %	0.16 %	0.16 %	100.00 %

Note: There is no purchased or originated credit-impaired financial in the above financial assets.

(Continued)

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

December 31, 2017							
Financial assets credit quality and classification							
Financial assets	Low risk	Medium risk	High risk	Overdue but not impaired	Impaired	Impairment reserve	Total
Cash and cash equivalents	\$ 13,465,473	41,659	-	-	-	-	13,507,132
Customer margin account	20,504,270	-	-	-	-	-	20,504,270
Held-for-trading financial assets – current	22,532,344	11,221,435	264,450	-	-	-	34,018,229
Debt securities	21,940,068	10,764,097	264,450	-	-	-	32,968,615
Derivative assets – OTC	11,013	85,599	-	-	-	-	96,612
Derivative assets – Futures trading margin	493,030	-	-	-	-	-	493,030
Other debt securities	88,061	371,739	-	-	-	-	459,800
Call option – Futures	172	-	-	-	-	-	172
Margin deposits for borrowed securities	41,654	-	-	-	-	-	41,654
Other refundable deposits	1,621,033	-	-	-	-	-	1,621,033
Other current assets	1,406,255	-	-	-	-	-	1,406,255
Available-for-sale financial assets	1,426,642	80,011	129,212	-	-	-	1,635,865
Debt securities	1,357,282	-	-	-	-	-	1,357,282
Other debt securities	1,995	-	-	-	-	-	1,995
Open-end funds and money market instruments	67,365	80,011	129,212	-	-	-	276,588
Subtotal	<u>60,997,671</u>	<u>11,343,105</u>	<u>393,662</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>72,734,438</u>
Proportion of the total	83.86 %	15.60 %	0.54 %	- %	- %	- %	100.00 %
Receivables	23,926,461	8,615,777	566,245	-	-	-	33,108,483
Account receivable	18,688,574	-	-	-	-	-	18,688,574
Receivables from pecuniary finance	5,237,887	8,615,777	566,245	-	-	-	14,419,909
Total	<u>\$ 84,924,132</u>	<u>19,958,882</u>	<u>959,907</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,842,921</u>
Proportion of the total	<u>80.23 %</u>	<u>18.86 %</u>	<u>0.91 %</u>	<u>- %</u>	<u>- %</u>	<u>- %</u>	<u>100.00 %</u>

Note: There is no purchased or originated credit-impaired financial in the above financial assets.

As seen in above tables, Fubon Securities and its subsidiaries has no financial assets which are overdue but not impaired. 0.99% of normal assets are classified under high risk category. Those assets mainly are receivables from pecuniary finance. The details of assets classified as high risk are as follows:

1. Cash and cash equivalents: To fulfill daily settlement payments and remittance operations, it is required to deposit a certain amount to the main delivery lines for the brokerage business and other operations. The management of Fubon Securities and its subsidiaries periodically review the financial condition, operation and credit risk.
2. Debt securities: To control exposure to credit risk from convertible bonds, Fubon Securities and its subsidiaries transfer credit risk to external investors by asset swaps.
3. Receivables from pecuniary finance: The risk of financial loss arise from price movement in the underlying securities. To lower credit risk, Fubon Securities and its subsidiaries closely monitor market volatility of underlying assets and set strict control over counterparty credit risk.

(Continued)

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

- ii) Determination on the credit risk that has increased significantly since initial recognition

Fubon Securities and its subsidiaries determine whether the credit risk of financial instruments applying the impairment requirements in IFRS 9 increased significantly since the initial recognition on each reporting date. For this assessment, Fubon Securities and its subsidiaries consider the reasonable and supportable information that shows the credit risk increased significantly since initial recognition (including forward-looking information). The main considerations include: internal/external credit rating, overdue situation, credit spreads, quantitative and qualitative information.

- iii) Definitions for default and credit impairment of financial assets

Fubon Securities and its subsidiaries use the same definitions for default and credit impairment of financial assets. If one or more of the following conditions are met, Fubon Securities and its subsidiaries determine that the financial assets has been defaulted and credit-impaired:

1. Quantitative indicators

When financial assets-receivables are overdue for more than 90 days.

2. Qualitative indicators

If there is evidence that the borrower or the issuer will be unable to pay the contract, or show that the borrower or the issuer has significant financial difficulties, such as:

- The borrower / issuer has filed for bankruptcy or is likely to file a bankruptcy.
- The borrower / issuer has died or the company is dissolved.
- The financial instrument's contract of the borrower's or issuer's has defaulted.
- The financial market of the financial asset disappeared due to the financial difficulties of the borrower or the issuer.
- Due to financial or contractual reasons related to the financial difficulties of the borrower / issuer, the creditor of the borrower / issuer gives the borrower a concession that would not have been considered.
- Purchase or originate financial assets at a substantial discount that reflects the credit losses have occurred.

(Continued)

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

The aforementioned definition of breach of contract and credit impairment applies to all financial assets held by Fubon Securities and its subsidiaries, and is consistent with the definition used for the purpose of internal credit risk management for financial assets, and is also applied to the relevant impairment assessment model.

If a financial asset no longer meets the definition of default and credit impairment for a period of time, it is deemed to return to the state of compliance and is no longer considered defaulted and credit-impaired.

iv) Expected credit loss measurement

1. Adopted methods and assumptions

For Fubon Securities and its subsidiaries, if the financial assets are of low credit risk or no significant increase in credit risk, the 12-month expected credit losses will be recognized. If the financial assets are significantly increased in credit risk or the credits have been impaired, the expected credit losses for a lifetime will be recognized.

In order to measure expected credit losses, Fubon Securities and its subsidiaries adopt Probability of default ("PD"), and include Loss given default ("LGD") and Exposure at default ("EAD"), and consider the impact of the time value of money, to calculate the expected credit losses for 12 months and for a lifetime, respectively.

Default probability is how likely the issuer or the counterparty breaches the contract, and the loss given default is the rate of loss due to default by the issuer or the counterparty. The default probability and loss given default used by Fubon Securities and its subsidiaries, related impairment assessments are based on international credit rating agencies (Moody's), regularly publish information on default rate and loss given default, or internal historical information (such as credit losses experience, etc.) and calculate based on current observable data and forward-looking general economic information (such as gross domestic production) after adjusting historical data.

The estimation techniques or material assumptions made by Fubon Securities and its subsidiaries to assess expected credit losses have no significant changes for the year ended December 31, 2018.

(Continued)

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

v) Forward-looking information considerations

Fubon Securities and its subsidiaries take forward-looking information into account when judging whether the credit risk of a financial instrument has increased significantly since its initial recognition, and when the expected credit loss is measured. Fubon Securities and its subsidiaries use historical data to analyze and identify the economic factors that affect the credit risk and expected credit losses of various asset portfolios. Regarding the economic factors and its impact on expected credit losses vary according to the types of financial instruments.

One of the determinations of whether the credit risk of debt investments measured at fair value through other comprehensive income held by Fubon Securities and its subsidiaries has increased significantly, is based on the external ratings from international credit rating agencies (Moody's). The expected credit losses calculation is referred to the external rating scale and Moody's regularly published default rate and loss given default information. The forward-looking macroeconomic condition is considered, and are appropriately adjusted .

(Continued)

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

vi) Changes in loss allowance

1. Changes in loss allowance of debt instruments measured at fair value through other comprehensive income

As of December 31, 2018, the reconciliations of the beginning and ending balances for loss allowance of debt instruments measured at fair value through other comprehensive income were as follows:

	12-month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit- impaired financial assets)	Lifetime ECLs (purchased or originated credit- impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Total
Beginning balance	1,799	-	-	-	-	1,799	1,799
Originated or purchased new financial assets	3,611	-	-	-	-	3,611	3,611
Effects of exchange rate changes and others	132	-	-	-	-	132	132
Ending balance	<u>\$ 5,542</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,542</u>	<u>5,542</u>

For the year ended December 31, 2018, there was no significant change in the allowance loss resulting from significant changes in the total carrying amount.

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

2. Changes in loss allowance of other receivables and overdue receivables

As of December 31, 2018, the reconciliations of the beginning and ending balances for loss allowance of other receivables and overdue receivables were as follows:

	12-month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit- impaired financial assets)	Lifetime ECLs (purchased or originated credit- impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Total
Beginning balance	-	-	1,080	12,906	-	13,986	13,986
Originated or purchased new financial assets	-	-	160,782	30,965	-	191,747	191,747
Effects of exchange rate changes and others	-	-	(744)	(4,808)	-	(5,552)	(5,552)
Ending balance	<u>\$ -</u>	<u>-</u>	<u>161,118</u>	<u>39,063</u>	<u>-</u>	<u>200,181</u>	<u>200,181</u>

Affected by the sharp plummet in US stocks, Fubon Futures had the unpaid amount of future exchanges margins receivable amounting to \$172,038 which has yet to be recovered, and recorded loss allowance amounting to \$159,725 after considering the actual recovery.

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

vii) Impairment loss

As of December 31, 2018 and 2017, Fubon Securities and its subsidiaries' receivables from pecuniary finance recovery period were principally less than a year or an operating cycle (not more than a year and a half). Thus, it was assumed that book value approximated fair value without discounting at an appropriate interest rate.

As of December 31, 2018 and 2017, in accordance with the Regulations Governing Margin and Stock Loans by Securities Firms, Fubon Securities and its subsidiaries had charged the margin for margin purchases to their customers, and held all securities purchased as collaterals. Fubon Securities set a margin ratio of around 120% to manage receivables from pecuniary finance. If the stock price fluctuates too much to maintain margin ratio of 120%, Fubon Securities and its subsidiaries will inform the customers to repay part of the financing, replenish the deposit margin, or increase the amount of collaterals to make up the balance. As of December 31, 2018 and 2017, Fubon Securities and its subsidiaries had no impairment loss on receivables from pecuniary finance, taking historical experience and the recoverable amount of collateral into account.

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

Fubon Securities and its subsidiaries have persistently tried to settle the aforementioned claims, and recorded the uncollected receivables from such unsettled pecuniary finance contracts and the past-maturity corporate bonds as overdue receivables.

The aging analysis of loans and overdue receivables were as follows:

	December 31, 2017	
	Total amount	Impairment amount
Non-overdue	-	-
Overdue 0 to 180 days	9,064	8,621
Overdue 181 days to one year	640	640
Overdue more than one year	5,686	4,725
Total	<u>15,390</u>	<u>13,986</u>

(Continued)

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

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

	2018	2017
Beginning balance	\$ 13,986	5,452
Recognized (reversal of) impairment loss	26,470	8,534
Ending balance	<u><u>\$ 40,456</u></u>	<u><u>13,986</u></u>

5) Fubon Bank (Hong Kong) and its subsidiaries

The following disclosure related to Fubon Bank (Hong Kong) and its subsidiaries is all expressed in thousands of HKD, unless otherwise stated.

a) Sources and definition of credit risk

Credit risk is the risk of suffering financial loss in the event that any of Fubon Bank (Hong Kong) and its subsidiaries' customers or counterparties fail to fulfill their obligation to Fubon Bank (Hong Kong) and its subsidiaries. It arises mainly from loans and advances, debt securities held, and counterparty credit risk arising from derivative contracts entered into with customer. It also arises from trading and treasury activities.

b) Strategy, objectives, policies and procedures

Fubon Bank (Hong Kong) and its subsidiaries manage credit risk through a framework of controls to ensure credit risk taking activities are based on sound principles and in line with the overall business objectives of Fubon Bank (Hong Kong) and its subsidiaries. It has established a set of credit policies and procedures, which define the credit risk taking criteria, the credit approval upper limit delegated from the Board of Directors, credit monitoring processes, credit rating and sorting systems, and loan impairment criteria.

The credit risk management process is designed to facilitate early detection of customer, industry, or product risk exposures that require special monitoring. The overall portfolio risk is subject to continuous monitoring. The general risk management report covers information including large-scale risk assumptions, national risk assumptions, industry risk assumptions, loan quality, and loan depreciation, then it is submitted to the Credit Committee, the Executive Credit Committee, and the Risk Committee.

(Continued)

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

c) Credit risk management framework

The Board of Directors delegate credit approval authorities to the following in descending order of authority: the Executive Credit Committee, the Credit Committee and the Wholesale Credit Committee. The Executive Credit Committee serves as the Credit Committee of the Board of Directors to review and approve credits that require the approval from the Board of Directors. In addition, it approves Fubon Bank (Hong Kong) and its subsidiaries' credit policies and credit risk profile, taking into consideration relevant law and regulations.

The Credit Committee is a management level committee that provides management oversight of Fubon Bank (Hong Kong) and its subsidiaries' credit risk management. It ensures that Fubon Bank (Hong Kong) and its subsidiaries have in place an effective credit risk management framework and that its credit risks are within the credit policies and credit risk profile as specified by the Board of Directors or its delegated committees. The Credit Committee reviews and endorses credit policies and the credit risk profile for the Executive Credit Committee's approval, and reviews and approves credit related guidelines. It also conducts on-going review of the market environment and makes necessary policy recommendations to the Executive Credit Committee to ensure that the credit risk profile of Fubon Bank (Hong Kong) and its subsidiaries is within the established risk appetite of Fubon Bank (Hong Kong) and its subsidiaries. The Credit Committee also reviews and approves credits that are within the authority as delegated by the Board of Directors.

The Wholesale Credit Committee reviews and approves wholesale credits that are within its authority as delegated by the Board of Directors.

The credit department (corporate credit risk management and consumer credit risk monitoring) conducts unified credit risk management on corporate credits and retail credits, and is responsible for the following duties:

- i) Independent review of corporate credit applications
- ii) Monitor loan portfolios and conduct regular analysis
- iii) Manage problematic corporate credits to achieve the highest recovery amount
- iv) Proposed loan classification, individual impairment and write-off
- v) Regularly report the loan portfolio to the Credit Committee and the Executive Credit Committee.

Compliance reviews are conducted by independent entities on an ongoing basis to ensure compliance with applicable laws and regulations, standards, guidelines and codes of practice. The internal audit units of Fubon Bank (Hong Kong) and its subsidiaries are independent evaluation units, and they assess the internal control system and adhere to the laws, regulatory guidelines and internal control policies.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The credit risk limit is based on various factors such as market conditions, capital requirements, and returns, which are considered at different levels, including portfolio and individual customer levels.

d) Risk report and evaluation system

Specific policies and measures to address different kinds of credit related activities are set out below:

i) Institutional bank

Credit risk from institutional bank is managed by conducting thorough credit evaluation, credit risk mitigation through collateral and guarantee, internal credit rating system and post-approval monitoring system. Subject to the size of the credit, the value of collateral and the internal credit rating of the client, different levels of credit approval agencies are required. Credit decision takes into account facility structure, tenor, the repayment ability of the obligor and credit mitigation through collateral and guarantee.

Fubon Bank (Hong Kong) and its subsidiaries have established limits for exposures to individual industries and client groups, regardless of whether the credit exposure is in the form of financing or non-financing exposures. Fubon Bank (Hong Kong) and its subsidiaries also undertake ongoing credit review and monitoring at several levels. The relevant policies and procedures also take into account the rules under the Hong Kong Banking Ordinance, regulatory requirements of the HKMA and best market practices.

ii) Consumer credit risk

Consumer credit risk is product driven, arising from consumer loan products such as credit cards, unsecured personal loans, commercial account receivable loans, mortgage loans and mortgage loans with wealth management products. Because of the homogeneous nature of these products, credit risk managements are primarily based on statistical analyses of risks with respect to different products, collaterals and types of customers. Fubon Bank (Hong Kong) and its subsidiaries determine product terms and ideal customer profiles on a regular basis by developing, validating and fine-tuning of internal scorecards and stress testing models.

iii) Counterparty credit risk

Unlike the on-balance sheet instruments, where the credit risk is generally represented by the principal of loans or other financial instruments, credit risk of counterparty for derivatives is the positive replacement cost together with an estimate for the potential future exposure from changes in market value. These credit exposures are managed as part of the overall credit limits to the counterparties. Fubon Bank (Hong Kong) and its subsidiaries use the current exposure method for the purpose of providing capital for such counterparty exposures.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Wrong way risk occurs when the credit exposure and credit quality of the counterparty have an adverse effect on each other. Credit exposures and potential losses may increase as a result of adverse change in market conditions. Fubon Bank (Hong Kong) and its subsidiaries have established policies and procedures to control wrong-way risk.

iv) Credit-related commitments

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio management and collateral requirements as for loan transactions.

v) Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of clients or counterparties whose aggregate credit exposure is material in relation to Fubon Bank (Hong Kong) and its subsidiaries' total exposures. Fubon Bank (Hong Kong) and its subsidiaries' financial risk exposure are diversified by client group, industry and product, but are concentrated in Hong Kong.

e) Mitigation or hedging policy, and monitoring strategy and procedure

Fubon Bank (Hong Kong) and its subsidiaries' credit evaluation focuses primarily on the borrower's repayment ability from its cash flow and financial condition. In addition, Fubon Bank (Hong Kong) and its subsidiaries employ various credit risk mitigation measures such as appropriate facility structuring, posting of collateral and/or third party support as well as transfer of risk to other third parties, which form an integral part of the credit risk management process. Credit and market concentration risks of credit risk reduction measures used by Fubon Bank (Hong Kong) and its subsidiaries are minimal. The most commonly used credit risk mitigation measures are provided below:

Collateral

Fubon Bank (Hong Kong) and its subsidiaries hold collateral against taking credit risk mainly in the form of cash deposits, marketable securities, and mortgage interest over property and guarantees. Fubon Bank (Hong Kong) and its subsidiaries have in place policies and procedures that govern the assessment, acceptance and the periodic valuation of the collateral. Collateral taken to secure credit risk is revalued periodically ranging from daily to annually depending on the type of collateral. For treasury operations, collateral taken is marked to market daily.

(Continued)

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

Master netting agreements

Collateral generally is not held over credit risk extended to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. However, where applicable, Fubon Bank (Hong Kong) and its subsidiaries manage credit exposure to banks by entering into master netting arrangements whenever it is appropriate and feasible to do so. The netting arrangement results in the settlement of counterparty exposure on a net basis in the event a default occurs.

Fubon Bank (Hong Kong) and its subsidiaries' preferred agreement for documenting derivatives activity is the ISDA Master Agreement which covers the contractual framework within which dealing activity across a full range of over-the-counter derivative instruments is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or following other pre-agreed termination events.

It is also common for Fubon Bank (Hong Kong) and its subsidiaries to execute a Credit Support Annex in conjunction with the ISDA Master Agreement with the counterparty to mitigate the inherent market risk of derivative instruments.

f) Determination on credit risk significantly increase

Fubon Bank (Hong Kong) reviews the credit risk of financial assets at the reporting date to determine if the credit risk of individual financial assets have increased significantly since the initial recognition. Fubon Bank (Hong Kong) mainly considers the following in order to make a decision:

- i) The financial asset is overdue for 30 days or more
- ii) The debtor's internal credit rating declined significantly
- iii) The debtor's external credit rating dropped significantly
- iv) The debtor's industry was identified as a high-risk industry and its internal credit rating was low or individual indicators reached an early warning level
- v) Debtor was classified at the category of extra attention by the Bank

g) The definition of breach of contract

Fubon Bank (Hong Kong) uses the same definitions for default and credit impairment of financial assets. If one or more of the following conditions are met, Fubon Bank (Hong Kong) determines that the financial assets have been defaulted and credit-impaired:

- i) Quantitative indicators

When financial assets-receivables are overdue for more than 90 days.

(Continued)

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

ii) Qualitative indicators

If there is evidence that the borrower will be unable to pay the contract, or show that the borrower has significant financial difficulties, such as:

1. The borrower has filed for bankruptcy or is likely to file a bankruptcy.
2. The borrower has died or the company is dissolved.
3. The financial instrument's contract of the borrower's has been breached.
4. The financial market of the financial asset disappeared due to the financial difficulties of the borrower.
5. Due to financial or contractual reasons related to the financial difficulties of the borrower, the creditor of the borrower gives the borrower a concession that would not have been considered.
6. Purchase or originate financial assets at a substantial discount that reflects the credit losses have occurred.

h) Expected credit losses measurement

Fubon Bank (Hong Kong) classifies different types of financial assets into different groups based on their product categories and debtor identities, so that expected credit losses can be calculated to correspond to different risk parameters.

For Fubon Bank (Hong Kong), if there is no significant increase in credit risk of financial assets, the 12-month expected credit losses will be recognized. If the financial assets are significantly increase in credit risk, the expected credit losses for a lifetime will be recognized.

When Fubon Bank (Hong Kong) provides expected credit losses, it will consider the debtor's probability of default, and include loss given default and exposure at default, and consider the impact of the time value of money to calculate the corresponding expected credit loss.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Default probability is how likely the issuer or debtor breaches the contract, and the loss given default is the rate of loss due to default by the issuer or debtor. The default probability and loss given default used by Fubon Bank (Hong Kong) are based on the historical information of internal credit losses of each combination and makes corresponding adjustments based on the current observable data and forward-looking general economic information. If individual portfolios do not have a history of credit losses, Fubon Bank (Hong Kong) will use similar combinations of credit loss history or external credit loss histories for the portfolio. In terms of loss given default, Fubon Bank (Hong Kong) mainly bases on the market value of individual collateral, and makes corresponding adjustments based on the relevant forward-looking general economic information. In determining the amount of breach of contract, Fubon Bank (Hong Kong) will consider historical data and will make an estimate of its future withdrawal amount for the amount of commitment not yet withdrawn on the statement date, to be included in the amount of breach of contractual risk.

i) Financial assets measured at amortized cost

Units: In thousands of HKD

	2018						
	12-month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit- impaired financial assets)	Lifetime ECLs (purchased or originated credit- impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Total
Beginning balance	\$ 41,468	-	804	-	-	42,272	42,272
Changes due to financial instruments recognized as at beginning:							
— Derecognition of financial assets at current period	(6,362)	-	-	-	-	(6,362)	(6,362)
Originated or purchased new financial assets	12,140	-	-	-	-	12,140	12,140
Effects of exchange rate changes and others	(20,867)	-	220	-	-	(20,647)	(20,647)
Ending balance	<u>\$ 26,379</u>	<u>-</u>	<u>1,024</u>	<u>-</u>	<u>-</u>	<u>27,403</u>	<u>27,403</u>

ii) Discount and Loans

Units: In thousands of HKD

	2018						
	12-month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit- impaired financial assets)	Lifetime ECLs (purchased or originated credit- impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Total
Beginning balance	\$ 37,783	-	166,582	-	-	204,365	204,365
Changes due to financial instruments recognized as at beginning:							
— Transfer to lifetime ECLs	(147)	-	147	-	-	-	-
— Transfer to 12-month ECLs	4,642	-	(4,642)	-	-	-	-
— Derecognition of financial assets at current period	(13,878)	-	(2,625)	-	-	(16,503)	(16,503)
Originated or purchased new financial assets	15,602	-	3,980	-	-	19,582	19,582
Write-off	-	-	(29,207)	-	-	(29,207)	(29,207)
Effects of exchange rate changes and others	(17,096)	-	69,565	-	-	52,469	52,469
Ending balance	<u>\$ 26,906</u>	<u>-</u>	<u>203,800</u>	<u>-</u>	<u>-</u>	<u>230,706</u>	<u>230,706</u>

(Continued)

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

iii) Off-balance sheet guarantees and commitments

Units: In thousands of HKD

For the years ended December 31, 2018						
	12-month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit- impaired financial assets)	Lifetime ECLs (purchased or originated credit- impaired financial assets)	The loss allowances measured in accordance with IFRS 9
Beginning balance	\$ 9,365	-	700	-	-	10,065
Changes due to financial instruments recognized as at beginning:						
Effects of exchange rate changes and others	(4,284)	-	(516)	-	-	(4,800)
Ending balance	<u>\$ 5,081</u>	<u>-</u>	<u>184</u>	<u>-</u>	<u>-</u>	<u>5,265</u>

i) The maximum exposure to credit risk

The balance sheet is not considering the maximum exposure to credit risk of the guarantees and other credit instruments being the same as their book value. The maximum exposure to credit risk of financial instruments off balance sheet is as follows (not considering the guarantees or other credit instruments):

Units: In thousands of HKD

Off-balance sheet items	Maximum exposure to credit risk	
	December 31, 2018	December 31, 2017
Irrevocable loan commitments	\$ 2,280,666	2,229,705
Standby letters of credit	192,471	734,248
Financial guarantees	907,588	154,342
Total	<u>\$ 3,380,725</u>	<u>3,118,295</u>

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

On-balance sheet items	December 31, 2018		
	Collaterals	General agreement of net amount settlement	Other credit enhancement tools
Discounts and loans	45.97 %	- %	40.36 %
Financial assets measured at amortized cost			
— Bonds investments	- %	- %	4.43 %

(Continued)

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

	December 31, 2017		
	Collaterals	General agreement of net amount settlement	Other credit enhancement tools
On-balance sheet items			
Discounts and loans	48.88 %	- %	36.63 %
Available-for-sale financial assets			
— Bonds investments	- %	- %	4.61 %

j) The significant concentrations of the credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of borrowers or market counterparties whose aggregate credit exposure is material in relation to Fubon Bank (Hong Kong) and its subsidiaries' total exposures. Fubon Bank (Hong Kong) and its subsidiaries' financial risk exposure are diversified by obligor group, industry and product, but are concentrated in Hong Kong.

Information of loans and nonperforming loans in different industries, areas and guarantees with significant concentration of credit risk is as follow:

i) By industry and by area

Industry	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
Units: In thousands of HKD				
Gross advances for use in Hong Kong industrial, commercial and financial				
Property development	\$ 4,311,798	8.83	3,542,760	7.27
Property investment	8,230,920	16.85	8,461,107	17.36
Financial concerns	2,734,051	5.60	3,616,993	7.42
Stockbrokers	1,051,310	2.15	2,132,447	4.37
Wholesale and retail trade	501,723	1.03	409,307	0.84
Manufacturing	1,582,124	3.24	1,171,559	2.40
Transport and transport equipment	154,633	0.32	113,231	0.23
Information technology	615,749	1.26	557,166	1.14
Electricity and gas	356,792	0.73	20,000	0.04
Others	3,651,717	7.48	2,903,223	5.96
Individuals				
Project plan	4,635	0.01	5,705	0.01
Loan for the purchase of other residential properties	9,376,721	19.20	9,867,406	20.24
Credit card advances	872,000	1.78	964,430	1.98
Others	4,491,341	9.20	4,642,525	9.52
	37,935,514	77.68	38,407,859	78.78
Trade finance	5,653,600	11.57	5,083,536	10.43
Gross advances for use in Hong Kong	43,589,114	89.25	43,491,395	89.21
Gross advances for use outside Hong Kong	5,248,797	10.75	5,261,208	10.79
Gross advances to customers	<u>\$ 48,837,911</u>	<u>100.00</u>	<u>48,752,603</u>	<u>100.00</u>

(Continued)

ii) By collateral

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

The definition of credit risk is as follow:

- On-balance sheet items:

Off-balance sheet items:

(Continued)

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

ii) The credit quality of loans and receivables

Units: In thousands of HKD

	Neither past due nor impaired				The amount of the part overdue (B)	The amount of the part impaired (C)	Total (A)+(B)+(C)	The loss amount recognized (D)		Net amount (A)+(B)+(C)-(D)
	Grade 1 (Note)	Grade 2 (Note)	Items not subject to grading system	Subtotal (A)				There is objective evidence of impairment on individual asset	Items with no grading system	
December 31, 2017										
Discounts and loans	46,994,434	143,792	908,041	48,046,267	558,413	233,231	48,837,911	196,876	33,831	48,607,204

Note: Description of credit risk

Grade 1 (Normal): The borrower is fulfilling its repayment responsibility. There is no doubt that the borrower can repay the capital and interest.

Grade 2 (Special-mention): The borrower is facing a negative circumstance which may affect the repayment of capital and interest.

iii) The analysis of credit quality of discounts and loans not overdue and not impaired by customer:

Units: In thousands of HKD

	Neither overdue nor impaired			
	Grade 1 (Note)	Grade 2 (Note)	Not subject to internal grading system	Total
December 31, 2017				
Customer loans				
Mortgage	9,570,429	22,045	-	9,592,474
Micro credit	1,225,292	1,731	-	1,227,023
Corporate loan				
Secured	12,429,352	144,825	-	12,574,177
Unsecured	23,899,544	25,154	880,255	24,804,953
Total	47,124,617	193,755	880,255	48,198,627

Note: Description of credit risk

Grade 1 (Normal): The borrower is fulfilling its repayment responsibility. There is no doubt that the borrower can repay the capital and interest.

Grade 2 (Special-mention): The borrower is facing a negative circumstance which may affect the repayment of capital and interest.

iv) The credit quality of securities and bonds

Units: In thousands of HKD

	The amount of the part not overdue and not impaired						The amount of the part overdue but not impaired (B)	The amount of the part impaired (C)	Total (A)+(B)+(C)	The impairment amount (D)	Net amount (A)+(B)+(C)-(D)
	AAA	AA- to AA+	A- to A+	Lower than A-	Unrated	Subtotal (A)					
December 31, 2017											
Available-for-sale financial assets											
Bond investment	3,680,994	5,733,925	16,523,957	4,390,793	1,369,581	31,699,250	-	-	31,699,250	-	31,699,250
Equity investment	-	-	-	-	513,671	513,671	-	111,440	625,111	80,701	544,410
Held-to-maturity financial assets											
Bond investment	-	507,835	819,575	-	234,386	1,561,796	-	-	1,561,796	-	1,561,796
Other financial assets											
Bond investment	-	1,846,823	-	-	-	1,846,823	-	-	1,846,823	-	1,846,823

(Continued)

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

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

Units: In thousands of HKD

December 31, 2017					
Items	Overdue in 1 month	Overdue in 1-3 months	Overdue in 3-6 months	Overdue in 6-12 months	Total
Discount and loans					
— Others	\$ 337,732	27,147	-	1,793	366,672

(iv) Liquidity risk

Major subsidiaries are listed separately as follows:

- 1) Taipei Fubon Bank (The Bank) and its subsidiary

- a) Source and definition of liquidity risk

Liquidity risk means banks can not provide sufficient funding for asset size growth and meeting obligation on matured liabilities, or that banks have to delay payments to counterparties or raise funds to cover funding gaps.

- b) Management strategy and principles

Taipei Fubon Bank (The Bank)

- i) The Bank's strategy is to lower liquidity risk by acquiring stable, low interest rate, sufficient funding to cover asset size growth and meet obligation on matured liabilities and to escape gaps from between funding availability and demand.
- ii) The principle is to harmonize fund availability with the Bank's deposit, loan and financial transaction growth. The Bank adjusts its funding strategy depending on market fund change and the Central bank's policies to increase fund use and lower liquidity risk. The Bank not only pays attention to maturities of long-term and short-term securities to match the timing of large-amount loan drawdown and repayment, but also analyzes the stability and percentages of various types of deposits to manage funding liquidity.
- iii) The Bank has set funding liquidity risk limit indicators to monitor and manage the liquidity risk of the Bank. The general manager is authorized to set up the funding liquidity risk limit within the scope of regulations and risk appetite and regularly reports to Assets and Liabilities Management Committee and the Board of Directors (Managing Directors).

(Continued)

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

Fubon Bank (China)

- i) The liquidity risk management strategy of Fubon Bank (China) aims not only at meeting compliance and regulatory requirements but also finding sound balance between business performance and adequate liquidity position. By adjusting its short-term and long-term assets allocation and dispersing sources of funds on the basis of market conditions, Fubon Bank (China) manages its liquidity risk exposure at an acceptable level to ensure its sustainable business operations and sound reputation.
 - ii) The liquidity risk management of Fubon Bank (China) is centralized given the size and complexity of its current business scope with an organizational structure suitable for its liquidity exposure. The Board of Directors take the ultimate responsibility of the bank's liquidity risk management. The senior management is in charge of implementations of liquidity management, authoring the Asset & Liability Management Committee (ALCO) to implement daily management duties. Liquidity risk assessment reports are submitted via ALCO to the Risk & Related Party Transaction Committee and Board of Directors on a quarterly basis.
 - iii) The liquidity risk management of Fubon Bank (China) involves the full participation of staff in the dynamic prevention, scientific quantification and prudent management of risk to ensure that Fubon Bank (China) has sufficient funding for its capital growth and various obligations
- c) Maturity analysis

The Bank's management policy is to match the maturities and interest rates of assets and liabilities, and to control the un-matched gap. Because of uncertain terms and different conditions, the maturities and interest rates of assets and liabilities usually do not match perfectly, and may result in a potential gain or loss. To maintain proper liquidity, the Bank uses appropriate ways to group assets and liabilities in order to evaluate liquidity and to monitor the ratios of short-term negative funding gap to total asset in major currencies.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Cash inflow and outflow in assets and liabilities held for liquidity risk was based on the remaining periods from the reporting date to the contractual maturity dates. The maturity analysis of financial assets and liabilities, derivatives assets and liabilities, and off balance sheet items in main currencies was as follows (except for non-deliverable derivatives, all were non-discounted contractual cash flow):

i) The maturity analysis of financial assets and liabilities - TWD

Taipei Fubon Bank (The Bank)

Units: In thousands of TWD

	December 31, 2018					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Cash and due from / call loans to banks	\$ 40,841,055	3,433,424	2,718,327	5,483,620	19,257,870	71,734,296
Investment in marketable securities (Note 2)	190,800,373	17,647,379	51,951,745	44,937,765	140,948,335	446,285,597
Securities purchased under resell agreements	10,891,270	-	-	-	-	10,891,270
Loans (included overdue loans)	68,656,903	68,680,154	73,257,584	69,687,920	750,644,677	1,030,927,238
Deliverable derivative assets	322,877,292	197,352,278	161,782,111	113,441,476	19,331,060	814,784,217
Non-deliverable derivative assets	4,143,393	-	1,921	-	354,325	4,499,639
Other capital inflow on maturity	24,046,573	7,074,164	8,767,415	4,874,133	53,685,879	98,448,164
Total assets	\$ 662,256,859	294,187,399	298,479,103	238,424,914	984,222,146	2,477,570,421
Liabilities						
Deposits from the central bank and banks	\$ 13,473,447	1,000	549,909	-	103,000	14,127,356
Deposits and remittances	121,286,099	118,136,574	93,558,908	188,734,316	661,781,540	1,183,497,437
Securities sold under repurchase agreements	2,383,670	7,392,822	22,584	-	-	9,799,076
Payables	501,111	389,311	642,871	705,152	106,280	2,344,725
Financial bonds payable	-	-	1,301,986	2,150,000	49,155,616	52,607,602
Deliverable derivative liabilities	313,354,989	329,648,202	225,560,881	91,209,577	30,791,880	990,565,529
Non-deliverable derivative liabilities	4,213,223	-	-	-	-	4,213,223
Other capital outflow on maturity	18,714,729	3,719,246	2,678,891	107,402	6,761,832	31,982,100
Total liabilities	\$ 473,927,268	459,287,155	324,316,030	282,906,447	748,700,148	2,289,137,048

(Continued)

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

Units: In thousands of TWD

	December 31, 2017					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Cash and due from / call loans to banks	\$ 45,883,761	4,258,293	4,760,420	5,404,084	17,177,958	77,484,516
Investment in marketable securities(Note 2)	197,972,829	39,371,317	44,635,826	58,475,521	139,333,528	479,789,021
Securities purchased under resell agreements	5,285,079	-	-	-	-	5,285,079
Loans (included overdue loans)	104,526,252	81,764,313	63,449,650	94,504,089	645,292,735	989,537,039
Deliverable derivative assets	258,891,312	246,809,793	160,252,700	68,532,635	14,745,338	749,231,778
Non-deliverable derivative assets	4,160,124	3,510	-	14,430	253,685	4,431,749
Other capital inflow on maturity	25,814,801	7,912,275	7,394,205	3,662,346	50,423,971	95,207,598
Total assets	\$ 642,534,158	380,119,501	280,492,801	230,593,105	867,227,215	2,400,966,780
Liabilities						
Deposits from the central bank and banks	\$ 28,197,958	2,000	845,004	1,700	101,000	29,147,662
Deposits and remittances	176,091,600	147,255,219	95,502,422	186,965,437	593,268,963	1,199,083,641
Securities sold under repurchase agreements	10,148,583	1,613,321	53,225	-	-	11,815,129
Payables	559,496	416,707	518,895	553,656	94,743	2,143,497
Financial bonds payable	-	3,053,510	-	11,464,430	36,153,455	50,671,395
Deliverable derivative liabilities	300,089,590	325,280,180	165,422,960	73,824,014	19,127,340	883,744,084
Non-deliverable derivative liabilities	4,389,378	-	-	-	231	4,389,609
Other capital outflow on maturity	21,479,111	2,813,968	3,849,822	972,242	6,211,230	35,326,373
Total liabilities	\$ 540,955,716	480,434,905	266,192,328	273,781,479	654,956,962	2,216,321,390

Note1: The above amounts include only New Taiwan dollar amounts (exclude foreign currencies) held by the headquarter and domestic branches of Taipei Fubon Bank.

Note2: Investment in marketable securities includes financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income (applicable since January 1, 2018), debt investments measured at amortized cost (applicable since January 1, 2018), available-for-sale financial assets (applicable before January 1, 2018), and held-to-maturity financial assets (applicable before January 1, 2018).

(Continued)

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

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

Taipei Fubon Bank (The Bank)

Units: In thousands of USD

	December 31, 2018					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Cash and due from / call loans to banks	\$ 888,556	1,407,000	228,000	330,000	-	2,853,556
Investment in marketable securities(Note 2)	564,542	45,037	70,132	39,756	6,130,102	6,849,569
Loans (included overdue loans)	669,562	363,888	345,367	245,325	1,489,633	3,113,775
Deliverable derivative assets	11,667,328	12,020,165	7,763,624	3,238,784	1,048,549	35,738,450
Non-deliverable derivative assets	36,210	-	11	268	46,105	82,594
Other capital inflow on maturity	1,036,115	304,646	55,607	13,232	359,359	1,768,959
Total assets	<u>\$ 14,862,313</u>	<u>14,140,736</u>	<u>8,462,741</u>	<u>3,867,365</u>	<u>9,073,748</u>	<u>50,406,903</u>
Liabilities						
Deposits from the central bank and banks	\$ 1,457,447	206,500	35,000	-	-	1,698,947
Deposits and remittances	3,191,024	2,276,208	1,494,073	1,331,798	3,776,798	12,069,901
Securities sold under repurchase agreements	2,059,991	844,790	-	-	-	2,904,781
Payables	29,521	18,697	7,323	1,616	169	57,326
Financial bonds payable	-	-	-	-	1,088,893	1,088,893
Deliverable derivative liabilities	12,436,483	7,980,826	5,618,162	3,974,241	671,170	30,680,882
Non-deliverable derivative liabilities	36,741	-	182	-	76,524	113,447
Other capital outflow on maturity	578,416	76,652	27,458	14,504	677,199	1,374,229
Total liabilities	<u>\$ 19,789,623</u>	<u>11,403,673</u>	<u>7,182,198</u>	<u>5,322,159</u>	<u>6,290,753</u>	<u>49,988,406</u>

(Continued)

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

Units: In thousands of USD

	December 31, 2017					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Cash and due from / call loans to banks	\$ 1,143,731	1,220,000	365,000	537,000	-	3,265,731
Investment in marketable securities(Note 2)	266,497	89,918	94,940	171,896	5,332,696	5,955,947
Loans (included overdue loans)	1,011,337	344,358	344,001	262,188	1,528,211	3,490,095
Deliverable derivative assets	13,435,055	14,325,734	6,298,301	2,742,573	641,972	37,443,635
Non-deliverable derivative assets	30,829	34	-	190	25,347	56,400
Other capital inflow on maturity	783,975	213,820	66,010	13,113	165,625	1,242,543
Total assets	<u>\$ 16,671,424</u>	<u>16,193,864</u>	<u>7,168,252</u>	<u>3,726,960</u>	<u>7,693,851</u>	<u>51,454,351</u>
Liabilities						
Deposits from the central bank and banks	\$ 1,618,904	660,000	-	-	-	2,278,904
Deposits and remittances	4,391,619	1,698,566	2,152,537	1,589,876	4,173,021	14,005,619
Securities sold under repurchase agreements	793,569	847,449	-	-	-	1,641,018
Payables	12,833	15,782	7,706	563	-	36,884
Financial bonds payable	-	-	-	-	818,074	818,074
Deliverable derivative liabilities	10,818,659	11,488,512	6,174,357	2,560,544	489,829	31,531,901
Non-deliverable derivative liabilities	37,069	-	209	71	42,980	80,329
Other capital inflow on maturity	419,409	76,521	19,455	8,621	365,228	889,234
Total liabilities	<u>\$ 18,092,062</u>	<u>14,786,830</u>	<u>8,354,264</u>	<u>4,159,675</u>	<u>5,889,132</u>	<u>51,281,963</u>

Note1 : The above amounts include only USD amounts held by headquarter, domestic branches and offshore banking units of Taipei Fubon Bank.

Note2 : Investment in marketable securities includes financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income (applicable since January 1, 2018), debt investments measured at amortized cost (applicable since January 1, 2018), available-for-sale financial assets (applicable before January 1, 2018), held-to-maturity financial assets (applicable before January 1, 2018) and other financial assets-debt investments without active market (applicable before January 1, 2018).

(Continued)

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

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

Fubon Bank (China)

Units: In thousands of CNY

	December 31, 2018					
	0-30 days	31-90 days	91-365 days	Over 1 year	Undetermined	Total
Assets						
Cash and due from / call loans to banks	\$ 3,172,193	-	-	-	4,784,298	7,956,491
Investment in marketable securities(Note)	7,155,994	1,127,997	2,115,633	15,864,461	-	26,264,085
Securities purchased under resell agreements	196,158	-	-	-	-	196,158
Loans (included overdue loans)	5,492,388	7,426,986	19,175,576	8,842,269	-	40,937,219
Deliverable derivative liabilities	4,097,729	2,882,187	7,336,783	682,450	-	14,999,149
Non-deliverable derivative liabilities	8,968,340	9,896,167	26,001,762	-	-	44,866,269
Other capital inflow on maturity	1,393,594	1,161,734	2,089,324	-	18,239	4,662,891
Total assets	<u>\$ 30,476,396</u>	<u>22,495,071</u>	<u>56,719,078</u>	<u>25,389,180</u>	<u>4,802,537</u>	<u>139,882,262</u>
Liabilities						
Deposits from the central bank and banks	\$ 869,023	2,492,634	3,319,554	-	-	6,681,211
Due to the central bank and banks	-	-	100,639	-	-	100,639
Deposits and remittances	26,138,887	12,773,843	10,009,302	5,044,665	-	53,966,697
Securities sold under repurchase agreements	2,782,812	479,237	30,661	-	-	3,292,710
Payables	1,730,268	1,144,718	2,089,324	542	-	4,964,852
Deliverable derivatives liabilities	-	-	54,300	1,488,700	-	1,543,000
Non-deliverable derivatives	4,118,721	2,933,752	7,437,064	680,097	-	15,169,634
Other capital outflow	8,938,974	9,849,401	25,854,254	-	-	44,642,629
	-	-	-	-	3,122	3,122
Total liabilities	<u>\$ 44,578,685</u>	<u>29,673,585</u>	<u>48,895,098</u>	<u>7,214,004</u>	<u>3,122</u>	<u>130,364,494</u>

(Continued)

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

Units: In thousands of CNY

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

Note: Investment in marketable securities includes financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income (applicable since January 1, 2018), debt investments measured at amortized cost (applicable since January 1, 2018), available-for-sale financial assets (applicable before January 1, 2018) and held-to-maturity financial assets (applicable before January 1, 2018).

(Continued)

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

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

Taipei Fubon Bank (The Bank)

Units: In thousands of TWD

	December 31, 2018					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Deliverable derivative assets						
— Forward contracts	\$ 452,798	470,960	309,833	219,369	-	1,452,960
— Currency swap	312,640,145	181,414,227	156,297,294	95,683,182	2,086,700	748,121,548
— Cross currency swap	9,784,349	15,467,091	5,174,984	17,538,925	17,244,360	65,209,709
Subtotal	322,877,292	197,352,278	161,782,111	113,441,476	19,331,060	814,784,217
Non-deliverable derivative assets						
— Foreign exchange derivative instruments	1,022,811	-	-	-	-	1,022,811
— Interest rate derivative instruments—hedging	-	-	1,921	-	354,325	356,246
— Interest rate derivative instruments—non-hedging	2,570,508	-	-	-	-	2,570,508
— Equity derivative instruments	550,074	-	-	-	-	550,074
Subtotal	4,143,393	-	1,921	-	354,325	4,499,639
Liabilities						
Deliverable derivative liabilities						
— Forward contracts	\$ 1,920,115	891,208	51,595	2,599	-	2,865,517
— Currency swap	307,885,649	320,733,094	209,860,176	82,798,038	1,459,200	922,736,157
— Cross currency swap	3,549,225	8,023,900	15,649,110	8,408,940	29,332,680	64,963,855
Subtotal	313,354,989	329,648,202	225,560,881	91,209,577	30,791,880	990,565,529
Non-deliverable derivative liabilities						
— Foreign exchange derivative instruments	1,022,811	-	-	-	-	1,022,811
— Interest rate derivative instruments—non-hedging	2,639,244	-	-	-	-	2,639,244
— Equity derivative instruments	551,168	-	-	-	-	551,168
Subtotal	4,213,223	-	-	-	-	4,213,223

(Continued)

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

Units: In thousands of TWD

	December 31, 2017					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Deliverable derivative assets						
— Forward contracts	\$ 1,595,740	1,780,122	684,094	544,880	210,228	4,815,064
— Currency swap	249,103,537	230,638,790	147,306,105	57,890,534	295,250	685,234,216
— Cross currency swap	8,192,035	14,390,881	12,262,501	10,097,221	14,239,860	59,182,498
Subtotal	258,891,312	246,809,793	160,252,700	68,532,635	14,745,338	749,231,778
Non-deliverable derivative assets						
— Foreign exchange derivative instruments	603,009	-	-	-	-	603,009
— Interest rate derivative instruments — hedging	-	3,510	-	14,430	253,685	271,625
— Interest rate derivative instruments — non-hedging	2,439,826	-	-	-	-	2,439,826
— Equity derivative instruments	1,117,289	-	-	-	-	1,117,289
Subtotal	4,160,124	3,510	-	14,430	253,685	4,431,749
Liabilities						
Deliverable derivative liabilities						
— Forward contracts	\$ 1,603,996	1,568,003	71,022	-	-	3,243,021
— Currency swap	293,454,290	302,013,322	152,512,867	67,440,424	3,348,385	818,769,288
— Cross currency swap	5,031,304	21,698,855	12,839,071	6,383,590	15,778,955	61,731,775
Subtotal	300,089,590	325,280,180	165,422,960	73,824,014	19,127,340	883,744,084
Non-deliverable derivative liabilities						
— Foreign exchange derivative instruments	603,009	-	-	-	-	603,009
— Interest rate derivative instrument-hedging	-	-	-	-	231	231
— Interest rate derivative instruments — non-hedging	2,669,080	-	-	-	-	2,669,080
— Equity derivative instruments	1,117,289	-	-	-	-	1,117,289
Subtotal	4,389,378	-	-	-	231	4,389,609

Note: The above amounts include only New Taiwan dollar amounts (exclude foreign currencies) held by headquarter and domestic branches of Taipei Fubon Bank.

(Continued)

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

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

Taipei Fubon Bank (The Bank)

Units: In thousands of USD

	December 31, 2018					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Deliverable derivative assets						
— Forward contracts	\$ 547,395	400,780	169,596	73,170	-	1,190,941
— Currency swap	11,004,933	11,354,385	7,069,028	2,890,614	50,000	32,368,960
— Cross currency swap	115,000	265,000	525,000	275,000	998,549	2,178,549
Subtotal	11,667,328	12,020,165	7,763,624	3,238,784	1,048,549	35,738,450
Non-deliverable derivative assets						
— Foreign exchange derivative instruments	27,360	-	-	-	-	27,360
— Interest rate derivative instruments — hedging	-	-	11	268	46,105	46,384
— Interest rate derivative instruments — non-hedging	8,371	-	-	-	-	8,371
— Equity derivative instruments	278	-	-	-	-	278
— Product derivative instruments	201	-	-	-	-	201
Subtotal	36,210	-	11	268	46,105	82,594
Liabilities						
Deliverable derivative liabilities						
— Forward contracts	\$ 236,341	408,978	150,582	103,391	-	899,292
— Currency swap	11,873,005	7,065,751	5,297,303	3,312,294	70,000	27,618,353
— Cross currency swap	327,137	506,097	170,277	558,556	601,170	2,163,237
Subtotal	12,436,483	7,980,826	5,618,162	3,974,241	671,170	30,680,882
Non-deliverable derivative liabilities						
— Foreign exchange derivative instruments	28,583	-	-	-	-	28,583
— Interest rate derivative instruments — hedging	-	-	182	-	76,524	76,706
— Interest rate derivative instruments — non-hedging	7,680	-	-	-	-	7,680
— Equity derivative instruments	278	-	-	-	-	278
— Product derivative instruments	200	-	-	-	-	200
Subtotal	36,741	-	182	-	76,524	113,447

(Continued)

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

Units: In thousands of USD

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

Note: The above amounts include only USD amounts held by headquarter, domestic branches and offshore banking units of Taipei Fubon Bank.

(Continued)

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

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

Fubon Bank (China)

Units: In thousands of CNY

	December 31, 2018				
	0~30 days	31~90 days	91~365 days	Over 1 year	Total
Assets					
Deliverable derivative assets					
— Forward contracts	\$ 509,004	156,421	593,777	340,728	1,599,930
— Currency swap	1,885,692	528,049	2,399,961	341,722	5,155,424
— Options	1,700,728	1,759,433	4,343,044	-	7,803,205
— Equity exchange	2,305	-	-	-	2,305
— Cross currency swap	-	438,285	-	-	438,285
Subtotal	<u>4,097,729</u>	<u>2,882,188</u>	<u>7,336,782</u>	<u>682,450</u>	<u>14,999,149</u>
Non-deliverable derivative assets					
— Interest rate derivative instruments — non-hedging	53	2,989	1,952	-	4,994
— Currency swap	7,608,651	9,066,794	24,416,476	-	41,091,921
— Options	1,236,575	792,028	1,478,542	-	3,507,145
— Forward contracts	<u>123,061</u>	<u>34,356</u>	<u>104,792</u>	<u>-</u>	<u>262,209</u>
Subtotal	<u>8,968,340</u>	<u>9,896,167</u>	<u>26,001,762</u>	<u>-</u>	<u>44,866,269</u>
Liabilities					
Deliverable derivative liabilities					
— Forward contracts	\$ 514,452	156,468	592,511	341,721	1,605,152
— Currency swap	1,894,583	521,690	2,467,236	338,375	5,221,884
— Options	1,707,381	1,797,646	4,377,317	-	7,882,344
— Equity exchange	2,305	-	-	-	2,305
— Cross currency swap	-	457,949	-	-	457,949
Subtotal	<u>4,118,721</u>	<u>2,933,753</u>	<u>7,437,064</u>	<u>680,096</u>	<u>15,169,634</u>
Non-deliverable derivative assets					
— Interest rate derivative instruments — non-hedging	150	3,429	3,167	-	6,746
— Currency swap	7,577,656	9,023,431	24,260,526	-	40,861,613
— Options	1,238,742	788,231	1,485,868	-	3,512,841
— Forward contracts	<u>122,426</u>	<u>34,310</u>	<u>104,693</u>	<u>-</u>	<u>261,429</u>
Subtotal	<u>8,938,974</u>	<u>9,849,401</u>	<u>25,854,254</u>	<u>-</u>	<u>44,642,629</u>

(Continued)

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

Units: In thousands of CNY

	December 31, 2017				
	0~30 days	31~90 days	91~365 days	Over 1 year	Total
Assets					
Deliverable derivative assets					
— Forward contracts	\$ 129,834	68,608	43,304	-	241,746
— Currency swap	1,533,475	1,050,806	3,673,722	-	6,258,003
— Options	792,022	594,325	545,047	-	1,931,394
— Equity exchange	-	-	6,860	-	6,860
— Cross currency swap	15,301	605	67,859	-	83,765
Subtotal	2,470,632	1,714,344	4,336,792	-	8,521,768
Non-deliverable derivative assets					
— Interest rate derivative instruments — non-hedging	-	23	-	-	23
— Currency swap	5,036,930	14,754,303	30,784,822	66,335	50,642,390
—	170,706	32,725	-	-	203,431
— Options	128,000	229,434	261,950	-	619,384
— Commodity swap	-	300	3,802	-	4,102
Subtotal	5,335,636	15,016,785	31,050,574	66,335	51,469,330
Liabilities					
Deliverable derivative liabilities					
— Forward contracts	\$ 130,308	69,074	42,304	-	241,686
— Currency swap	1,559,253	1,053,022	3,667,210	-	6,279,485
— Options	791,590	592,621	525,294	-	1,909,505
— Equity exchange	-	-	6,860	-	6,860
— Cross currency swap	15,301	605	67,859	-	83,765
Subtotal	2,496,452	1,715,322	4,309,527	-	8,521,301
Non-deliverable derivative assets					
— Interest rate derivative instruments — non-hedging	-	23	-	-	23
— Currency swap	5,077,200	14,814,395	30,896,911	66,328	50,854,834
— Forward contracts	170,073	33,317	-	-	203,390
— Commodity swap	-	300	3,802	-	4,102
— Options	130,743	234,230	261,850	-	626,823
Subtotal	5,378,016	15,082,265	31,162,563	66,328	51,689,172

vii) The maturity analysis of off-balance sheet items

The maturity analysis of off-balance sheet items shows the remaining balance from the balance sheet date to the maturity date. For the sent financial guarantee contracts, the maximum amounts are possibly asked for settlement in the earliest period. The amounts in the table below were on cash flow basis; therefore, some disclosed amounts will not match with the consolidated balance sheet.

Taipei Fubon Bank (The Bank)

Units: In thousands of TWD

December 31, 2018	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Standby and irrevocable loan commitment	112,580,654	-	-	-	-	112,580,654
Unused letters of credit	8,295,749	-	-	-	-	8,295,749
Other guarantee amounts	14,289,053	1,595,177	91,812	2,570,495	9,299,237	27,845,774
Total	135,165,456	1,595,177	91,812	2,570,495	9,299,237	148,722,177

(Continued)

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

Units: In thousands of TWD

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

Fubon Bank (China)

Units: In thousands of CNY

December 31, 2018	0-30 days	31-90 days	91-365 days	Over 1 year	Total
Unused letters of credit	110,409	134,048	68,055	-	312,512
Other guarantee amounts	123,090	233,480	596,868	11,597	965,035
Total	233,499	367,528	664,923	11,597	1,277,547

Units: In thousands of CNY

December 31, 2017	0-30 days	31-90 days	91-365 days	Over 1 year	Total
Unused letters of credit	99,278	315,965	42,717	-	457,960
Other guarantee amounts	163,248	229,941	914,022	53,922	1,361,133
Total	262,526	545,906	956,739	53,922	1,819,093

2) Fubon Life Insurance and its subsidiaries

The liquidity risk of financial instruments is divided into capital liquidity risk and market liquidity risk. Capital liquidity risk refers to the risk that Fubon Life Insurance does not possess sufficient cash and is not able to raise funds in time and finally failed to fulfill the obligation (debt repayment). Market liquidity risk refers to the risk that Fubon Life Insurance is not able to settle or offset current position with reasonable market price due to the shallow market depth or market disorder or the oversized possession of the investment position and finally Fubon Life Insurance may suffer from losses.

In terms of capital liquidity risk, Fubon Life Insurance and its subsidiaries manage it in two aspects, short term and mid-to-long term. In addition to 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 for daily capital movement. Mid-to-long term capital liquidity management is reviewed by the Assets and Liabilities Management Committee. The Company applies cash flow analysis model to monitor the coordination of assets and liabilities in order to lower related risks.

Regarding the market liquidity risk, the risk management department of Fubon Life Insurance and its subsidiaries establishes monitoring mechanism in terms of daily transaction concentration, investment position limit and current assets deployment in order to avoid market liquidity risk.

In addition, Fubon Life Insurance and its subsidiaries establish complete crisis management and responding mechanism to cope with significant capital demand of unusual or emergent situations.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fubon Life Insurance and its subsidiaries possess sufficient operating funds, including cash and cash equivalent and securities with excellent liquidity such as government bond, to cover the investments and debt repayments. Therefore, the liquidity risk of Fubon Life Insurance and its subsidiaries is extremely low. In addition, the derivative financial instruments Fubon Life Insurance and its subsidiaries engage in, such as delivery forward exchange contracts and foreign exchange swaps, 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, forward exchange contracts and foreign exchange swaps, which matured are mostly rolled forward 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 Fubon Life Insurance and its subsidiaries is listed below:

December 31, 2018					
	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Accounts payable	\$ 81,880,891	175,721	1,183	208,820	82,266,615
Bonds payables (Note)	4,103,553	5,949,076	8,333,083	61,471,123	79,856,835
Total	<u>\$ 85,984,444</u>	<u>6,124,797</u>	<u>8,334,266</u>	<u>61,679,943</u>	<u>162,123,450</u>

December 31, 2017					
	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Accounts payable	\$ 28,542,775	1,501	71	216,621	28,760,968
Bonds payables (Note)	1,140,750	2,281,500	2,281,500	39,564,202	45,267,952
Total	<u>\$ 29,683,525</u>	<u>2,283,001</u>	<u>2,281,571</u>	<u>39,780,823</u>	<u>74,028,920</u>

Note: The disclosed amounts include estimated interests and thus cannot be equal to the relevant accounts in the financial statements. In addition, the bonds payable has no maturity date, the contractual cash flows are calculated based on a remaining maturity of 10 years.

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

December 31, 2018					
	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Financial liabilities measured at fair value through profit or loss	\$ 3,445,100	-	-	-	3,445,100
Financial liabilities for hedging	32,776	-	623,580	115,189	771,545
Total	<u>\$ 3,477,876</u>	<u>-</u>	<u>623,580</u>	<u>115,189</u>	<u>4,216,645</u>

(Continued)

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

	December 31, 2017				
	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Financial liabilities measured at fair value through profit or loss	\$ 448,368	-	-	-	448,368
Financial liabilities for hedging	-	-	33,884	747,895	781,779
Total	\$ 448,368	-	33,884	747,895	1,230,147

3) Fubon Insurance and its subsidiaries

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

a) Management process of liquidity risk

i) Risk identification

To achieve liquidity risk management goal, Fubon Insurance and its subsidiaries identify potential liquidity risk factors encountered during operation process. Those risk factors are such as funding liquidity risk factors, market liquidity risk factors and characteristics of products being traded.

ii) Risk measurement

Fubon Insurance and its subsidiaries measure the possibility of occurrence and the degree of negative impact of risk events and risk factors by qualitative or quantitative method, and compare these influences with risk limits set by the management which is used as a basis for the setting of the priority in risk control and the response measures subsequently.

iii) Risk monitoring

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

(Continued)

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

iv) Risk responding

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

b) Liquidity risk management mechanism

- i) Management strategies of funding liquidity risk in operation and investment are as follows: ensuring balance of capital inflow and outflow, examining and predicting capital demand at present and in the future in accordance with strategies of operational management and investment activities, establishing critical indicators of funding liquidity risk, and making appropriate adjustment with business strategy and market condition.

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

- ii) For the liquidity risk management in the market, consider the transaction volume mainly, the strategy of sales development and the target of budget, according to the market size, dimension and market liquidity of every product, to set the key indicators of the liquidity risk in the market. In order to avoid market liquidity risk, Fubon Insurance and its subsidiaries establish control mechanism to concentrate for daily transactions and investment position limits.
- iii) Fubon Insurance and its subsidiaries establish complete risk management system to deal with the mass demand of cash in abnormal or urgent condition. To monitor daily net cash flow, Fubon Insurance and its subsidiaries have established immediate cash flow estimation system and preserved proper amount of equivalent cash for future response. Financial department and accounting office provide risk management department with the condition of cash liquidity monthly, while risk management department also regularly reviews the limitation of market liquidity risk and it should inform the Risk Management Committee with the indicators of the market liquidity risk and the management of the limitation. If the management indicator approaches the limitation, it should enhance the intention of the capital variation.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fubon Insurance and its subsidiaries possess sufficient operating capital, government bonds and other securities to satisfy the capital demand in investment, pay liabilities matured and execute contracts' obligation. Therefore, the liquidity risk is low and in compliance with rules.

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

		December 31, 2018							
		Less than one year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	More than 20 years	No maturity date	Total
The maturity analysis of financial assets									
Financial assets measured at fair value through profit or loss	\$	312,627	-	-	-	40,511	-	-	353,138
Financial assets measured at fair value through other comprehensive income		156,936	634,275	3,014,121	5,968,741	2,376,368	4,998,890	2,100,000	19,249,331
Financial assets measured at amortized cost		-	-	-	-	197,379	3,480,880	-	3,678,259
		<u>\$ 469,563</u>	<u>634,275</u>	<u>3,014,121</u>	<u>5,968,741</u>	<u>2,614,258</u>	<u>8,479,770</u>	<u>2,100,000</u>	<u>23,280,728</u>
		December 31, 2017							
		Less than one year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	More than 20 years	No maturity date	Total
The maturity analysis of financial assets									
Available-for-sale financial assets	\$	719,380	476,420	2,108,588	7,208,142	2,588,283	5,374,108	-	18,474,921
Debt investments without active market		551,780	-	-	400,000	267,113	3,249,337	1,900,000	6,368,230
		<u>\$ 1,271,160</u>	<u>476,420</u>	<u>2,108,588</u>	<u>7,608,142</u>	<u>2,855,396</u>	<u>8,623,445</u>	<u>1,900,000</u>	<u>24,843,151</u>

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

December 31, 2017					
	Less than 1 year	1 to 3 years	3 to 5 years	5 to 10 years	No maturity date
	<u>Total</u>				
Maturity analysis of financial assets	\$ <u>124,793</u>	-	-	-	-
Maturity analysis of financial liabilities	\$ <u>9,573</u>	-	-	-	-
	<u>124,793</u>				<u>9,573</u>

4) Fubon Securities and its subsidiaries

Liquidity risk is the risk that Fubon Securities and its subsidiaries cannot provide sufficient funding for asset size growth or matured liabilities, do not have sufficient cash to meet obligations to counterparties, or cannot raise emergency funding to cover funding gaps.

a) Capital liquidity risk measurement analysis

December 31, 2018						
Cash flow gap						
Financial assets	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Cash and cash equivalents	\$ 7,312,144	4,387,710	3,628,091	533,380	135,254	15,996,579
Customer margin account	16,250,349	-	-	-	-	16,250,349
Financial assets mandatorily measured at fair value through profit or loss — current	12,462,270	3,135,919	100,428	854,849	22,818,783	39,372,249
Open-end funds, money market instruments and other securities	3,514,155	186,123	-	-	-	3,700,278
Operating securities	7,897,443	2,949,796	100,428	854,849	22,280,662	34,083,178
Derivative assets — OTC	222,734	-	-	-	-	222,734
Derivative assets — Futures trading margin	89,219	-	-	-	-	89,219
Other debt securities	-	-	-	-	525,259	525,259
Call option — Futures	191	-	-	-	-	191
Securities invested by brokers	738,528	-	-	-	12,862	751,390
Financial assets measured at fair value through other comprehensive income — current and non-current	832,255	2,419,845	-	6,229,358	7,337,632	16,819,090
Receivables from pecuniary finance	8,257,552	1,094,374	397,954	198,977	-	9,948,857
Collateral for borrowed securities	207,172	-	-	-	-	207,172
Margin deposits for borrowed securities	4,425,851	-	-	-	-	4,425,851
Receivables	9,735,937	268,506	22,234	4,825	-	10,031,502
Total	\$ <u>59,483,530</u>	<u>11,306,354</u>	<u>4,148,707</u>	<u>7,821,389</u>	<u>30,291,669</u>	<u>113,051,649</u>
Proportion of the total	<u>52.62 %</u>	<u>10.00 %</u>	<u>3.67 %</u>	<u>6.92 %</u>	<u>26.79 %</u>	<u>100.00 %</u>

(Continued)

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

December 31, 2018						
Cash flow gap						
Financial liabilities	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Short term loans	\$ 937,921	-	-	-	-	937,921
Held-for-trading financial liabilities — current	1,416,846	-	-	-	-	1,416,846
Call (put) warrants	169,643	-	-	-	-	169,643
Derivative liabilities — OTC	889,025	-	-	-	-	889,025
Liabilities in sale of borrowed securities	358,057	-	-	-	-	358,057
Bonds purchased under resell agreement — Futures	121	-	-	-	-	121
Financial liabilities designated as at fair value through profit or loss at initial recognitions	2,455,857	-	-	-	-	2,455,857
Securities sold under repurchase agreements	33,609,095	-	-	-	-	33,609,095
Securities financing refundable deposits	1,996,529	264,600	96,218	48,109	-	2,405,456
Deposits payable for securities financing	2,222,185	294,507	107,093	53,547	-	2,677,332
Securities lending refundable deposits	13,473,433	-	-	-	-	13,473,433
Futures customers' equity	16,250,349	-	-	-	-	16,250,349
Payables	10,131,096	68	25	12	-	10,131,201
Amounts collected for other parties	815,527	212	-	-	-	815,739
Total	\$ 83,308,838	559,387	203,336	101,668	-	84,173,229
Proportion of the total	98.97 %	0.67 %	0.24 %	0.12 %	- %	100.00 %
Cash inflow	59,483,530	11,306,354	4,148,707	7,821,389	30,291,669	113,051,649
Cash outflow	83,308,838	559,387	203,336	101,668	-	84,173,229
Net cash flow	(23,825,308)	10,746,967	3,945,371	7,719,721	30,291,669	28,878,420

December 31, 2017						
Cash flow gap						
Financial assets	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Cash and cash equivalents	\$ 6,829,344	5,152,484	577,799	905,005	42,500	13,507,132
Customer margin account	20,504,270	-	-	-	-	20,504,270
Held-for-trading financial assets — current	13,425,993	2,353,735	300,727	201,200	24,015,110	40,296,765
Open-end funds, money market instruments and other securities	358,271	190,298	-	-	-	548,569
Operating securities	11,986,204	2,163,437	300,727	201,200	23,558,115	38,209,683
Derivative assets — OTC	96,612	-	-	-	-	96,612
Derivative assets — Futures trading margin	493,030	-	-	-	-	493,030
Other debt securities	-	-	-	-	456,995	456,995
Call option — Futures	172	-	-	-	-	172
Securities invested by brokers	491,704	-	-	-	-	491,704
Available-for-sale financial assets — current	6,307,129	-	-	-	1,885,137	8,192,266
Bonds purchased under resell agreement	-	-	-	-	-	-
Receivables from pecuniary finance	11,824,326	1,730,389	576,796	288,398	-	14,419,909
Collateral for borrowed securities	46,188	-	-	-	-	46,188
Margin deposits for borrowed securities	41,654	-	-	-	-	41,654
Receivables	18,670,824	110,950	9,037	4,518	-	18,795,329
Total	\$ 77,649,728	9,347,558	1,464,359	1,399,121	25,942,747	115,803,513
Proportion of the total	67.06 %	8.07 %	1.26 %	1.21 %	22.40 %	100.00 %

(Continued)

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

	December 31, 2017					
	Cash flow gap					
				181-365		
Financial liabilities	0-30 days	31-90 days	91-180 days	years	Over 1 year	Total
Short term loans	\$ 2,355,749	-	-	-	-	2,355,749
Commercial papers issued	3,798,891	-	-	-	-	3,798,891
Held-for-trading financial liabilities — current	2,215,370	-	-	-	-	2,215,370
Call (put) warrant	461,755	-	-	-	-	461,755
Derivative liabilities — OTC	1,375,819	-	-	-	-	1,375,819
Liabilities on sale of borrowed securities	178,120	-	-	-	-	178,120
Short covering bonds	199,559	-	-	-	-	199,559
Put options — Futures	117	-	-	-	-	117
Financial liabilities designated as at fair value through profit or loss at initial recognition	2,078,273	-	-	-	-	2,078,273
Securities sold under repurchase agreements	25,208,809	-	-	-	-	25,208,809
Securities financing refundable deposits	1,978,773	289,576	96,526	48,263	-	2,413,138
Deposits payable for securities financing	2,165,884	316,959	105,653	52,827	-	2,641,323
Securities lending refundable deposits	7,196,801	-	-	-	-	7,196,801
Futures traders' equity	20,504,270	-	-	-	-	20,504,270
Payables	18,173,424	77	26	13	-	18,173,540
Amounts collected for other parties	1,401,050	160	-	-	-	1,401,210
Total	<u>\$ 87,077,294</u>	<u>606,772</u>	<u>202,205</u>	<u>101,103</u>	<u>-</u>	<u>87,987,374</u>
Proportion of the total	<u>98.97 %</u>	<u>0.69 %</u>	<u>0.23 %</u>	<u>0.11 %</u>	<u>- %</u>	<u>100.00 %</u>
Cash inflow	77,649,728	9,347,558	1,464,359	1,399,121	25,942,747	115,803,513
Cash outflow	87,077,294	606,772	202,205	101,103	-	87,987,374
Net cash flow	(9,427,566)	8,740,786	1,262,154	1,298,018	25,942,747	27,816,139

As of the reporting date, the cash flows of Fubon Securities and its subsidiaries have shown a significant increase in net cash inflow in most of the periods. Fubon Securities and its subsidiaries maintained great net cash inflow to accumulated capital deficit for a long-term period which shows Fubon Securities and its subsidiaries could sustain adequate quality of capital volatility.

b) Capital liquidity risk management

In order to allocate capital effectively, Fubon Securities and its subsidiaries utilize liquidity risk management mechanisms to evaluate and monitor short-term cash flow requirements for various types of business, and consider local short-term, cross-border, or cross-market demand for capital.

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

In order to increase liquidity reserve, Fubon Securities and its subsidiaries sell the low-risk assets from the Trading Department dealing positions. Fubon Securities and its subsidiaries dispose of high-liquidity stocks, government bonds, and other securities in order to respond to adverse shocks affecting the market. Fubon Securities and its subsidiaries also use secured loan credit lines and long-term financing credit lines from banks and bills corporations to implement Fubon Securities and its subsidiaries' capital allocation emergency response plan.

5) Fubon Bank (Hong Kong) and its subsidiaries

The following disclosures related to Fubon Bank (Hong Kong) are all expressed in thousands of HKD, unless otherwise stated.

a) Management strategy and principles

The purpose of liquidity management is to ensure sufficient cash flows to meet all financial commitment and to capitalize on opportunities for business expansion. This includes Fubon Bank (Hong Kong) and its subsidiaries' ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity maintenance ratio, and to make new loans and investments as opportunities arise. Fubon Bank (Hong Kong) and its subsidiaries maintain a stable and diversified funding base of core retail and corporate customer deposits as well as portfolios of highly liquid assets.

It is the responsibility of Fubon Bank (Hong Kong) and its subsidiaries' management to ensure compliance with local regulatory requirements and limits set by Risk Committee of the Board ("RCB"). Liquidity is managed on a daily basis by Fubon Bank (Hong Kong)'s Funding Desk unit. The Funding Desk unit is responsible for ensuring that Fubon Bank (Hong Kong) and its subsidiaries have adequate liquidity for all operations, ensuring that the funding mix is appropriate so as to avoid maturity mismatches and to minimize price and reinvestment rate risk in the case of a maturity gap, and monitoring relevant markets for the adequacy of funding and liquidity.

Compliance with liquidity and funding requirements is monitored by the Asset and Liability Committee ("ALCO") and is reported to the RCB on a regular basis. This process includes:

- i) Maintaining balances within relevant regulatory requirements;
- ii) Projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- iii) Maintaining adequate intraday liquidity position and assessing how the intraday liquidity profile will change in conditions of stress.
- iv) Monitoring balance sheet liquidity and loan to deposit ratios against internal requirements;
- v) Maintaining a diverse range of funding sources with adequate back-up facilities;

(Continued)

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

- vi) Managing the concentration and profile of debt maturities;
 - vii) Managing lending commitment to customers within pre-determined management alert triggers;
 - viii) Managing debt financing plans;
 - ix) Monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix;
 - x) Maintaining funding contingency plans, which identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systematic or other crises, while minimizing adverse long-term implications for the business; and
 - xi) Managing liquidity on a legal entity and on a group basis. Intragroup funding transactions are carried out at arm's length and treated in the same way as transactions with non-related third parties and controlled within pre-determined management alert triggers.
- b) Qualitative explanation
- i) The management of funding and liquidity risk

As part of its liquidity risk management, Fubon Bank (Hong Kong) and its subsidiaries focus on a number of components, including maintaining sufficient liquid assets, maintaining diversified sources of liquidity, reserving necessary funding capacity and contingent planning. Fubon Bank (Hong Kong) and its subsidiaries manage liquidity risk by holding sufficient liquid assets (e.g. cash and short term funds and securities) of appropriate quality to ensure that short term funding requirements are covered within prudential level. Debt securities held are marked to the market on daily basis to ensure their market liquidity. Fubon Bank (Hong Kong) and its subsidiaries also adopt a funding strategy that is to achieve diversification of funding by controlling the concentration of top deposits, wholesale funding and reliance of foreign exchange swap markets. Moreover, adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business.

In addition to observing the statutory liquidity ratio, Fubon Bank (Hong Kong) and its subsidiaries have established different liquidity risk metrics, including but not limited to the liquidity maintenance ratio, loan-to-deposit ratio, cumulative cash flow gap, concentration of funding sources and medium-term funding ratio to measure and analyze its liquidity risks. Financial Management Division is responsible for measurement and monitoring of these liquidity metrics and reporting to the ALCO regularly.

(Continued)

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

ii) Core deposits

Fubon Bank (Hong Kong) and its subsidiaries monitor the stability of customer deposits by means of the core deposit ratio, which is the ratio of core deposits to total customer deposits. Fubon Bank (Hong Kong) and its subsidiaries categorize customer deposits into core deposits after taking into consideration of nature of deposits, relationship history with customers and stability of customer's total balance. An alert trigger level is set on the core deposits ratio which is monitored by the ALCO.

iii) Loan to deposit ratio

Fubon Bank (Hong Kong) and its subsidiaries emphasize the importance of customer deposits as a source of funds to finance lending to customers, and mitigate against reliance on short-term interbank funding. A limit on the loan to deposit ratio is established and approved by the RCB and monitored by the ALCO.

iv) Cash flow projection and stress testing

Fubon Bank (Hong Kong) and its subsidiaries conduct cash flow analysis and cash flow projection arising from on-and off-balance sheet items over a set of time horizons on a regular basis to identify funding needs in specific time buckets. Fubon Bank (Hong Kong) and its subsidiaries also regularly perform stress tests on its liquidity position. In the stress test, both on-and off-balance sheet items with a cash flow impact are considered, with applicable hypothetical and historical assumptions. Three stressed scenarios, namely an institution-specific crisis scenario, a general market crisis scenario, and a combined scenario are adopted with minimum survival period defined pursuant to HKMA's Supervisory Policy Manual guideline "Sound Systems and Controls for Liquidity Risk Management". Stress testing assumptions are reviewed and approved by the ALCO regularly to ensure their continued appropriateness.

v) Liquidity Cushion

Fubon Bank (Hong Kong) and its subsidiaries maintain a stock of high-quality readily liquefiable assets as a liquidity cushion against a range of stressed scenarios. The eligible assets are unencumbered, low credit risk and low market risk. The liquidity cushion is segregated from debt securities held for trading purposes. A certain portion of the liquidity cushion is made up of the most liquid and readily marketable assets (such as debt securities issued by government or multinational development banks) that can be easily liquidated to meet funding needs in the initial phase of liquidity stress.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The size of the liquidity cushion shall be adequate to meet Fubon Bank (Hong Kong) and its subsidiaries' day-to-day liquidity needs and also emergency funding needs under both normal and stress market conditions. The minimum required size of the liquidity cushion is determined with reference to the funding gap generated from the Fubon Bank (Hong Kong) and its subsidiaries' regular liquidity stress testing results. Management alert triggers are established by the ALCO to ensure sufficient size of liquidity cushion is maintained and appropriate diversification among the liquidity cushion is achieved. The size and mix of the liquidity cushion is reviewed by the ALCO regularly.

vi) Contingent liquidity risk

Fubon Bank (Hong Kong) and its subsidiaries provide customers with committed and standby facilities. These facilities increase the funding requirements of Fubon Bank (Hong Kong) and its subsidiaries when customers drawdown. The liquidity risk associated with the potential drawdown on committed facilities is factored into our stressed scenarios and a management alert trigger is set for these facilities.

vii) Contingency funding plan

Fubon Bank (Hong Kong) and its subsidiaries have formulated a Contingency Funding Plan ("CFP") that describes Fubon Bank (Hong Kong) and its subsidiaries' strategy for dealing with any liquidity problem and the procedures for making up cash flow deficits in emergency situations. The CFP is designed to be pro-active and pre-emptive. Fubon Bank (Hong Kong) and its subsidiaries utilize early warning indicators, which cover both qualitative and quantitative measures, monitoring both internal and external factors. Should there be any early signs of significant impact on Fubon Bank (Hong Kong) and its subsidiaries' liquidity position, the management would be informed for their consideration. Once the CFP is triggered, a Crisis Management Team, which is led by the senior management, is formed to handle the crisis. Strategy and procedures in obtaining contingency funding, as well as roles and responsibilities of parties concerned are clearly stated. The CFP also includes the analysis of cash flow projections to estimate potential liquidity needs under stress scenarios.

The CFP is subject to regular testing to ensure its effectiveness and operational feasibility, particularly in respect of the availability of the contingency sources of funding listed in it. The CFP is also subject to review and update on a regular basis to ensure it remains robust over time. Any changes to the CFP would be approved by the RCB.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Moreover, in accordance with the HKMA's Supervisory Policy Manual guideline "Recovery Planning", Fubon Bank (Hong Kong) and its subsidiaries have established a Recovery Plan, which has been approved by the Board. The Recovery Plan helps ensure that Fubon Bank (Hong Kong) and its subsidiaries are able to recover quickly from period of severe stress and preserve or restore its liquidity level. The Recovery Plan is subject to a regular, at least annual, review and update.

c) The maturity analysis of non-derivative financial liabilities

Units: In thousands of HKD

	December 31, 2018					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Non-derivative financial liabilities measured at fair value through profit or loss	\$ 573,351	1,325,021	-	-	-	1,898,372
Securities sold under repurchase agreements	2,036,453	3,982,319	-	-	-	6,018,772
Others	44,571,759	20,651,064	7,546,693	4,986,882	3,460,777	81,217,175

Units: In thousands of HKD

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

d) The maturity analysis of derivative financial liabilities

i) Net settlement derivative instruments

Units: In thousands of HKD

	December 31, 2018					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Derivative financial liabilities measured at fair value through profit or loss						
— Foreign exchange derivative instruments	\$ 10,687,769	1,760,622	389,162	3,228,739	1,684,589	17,750,881
— Interest rate derivative instruments	-	276,411	-	234,950	1,623,320	2,134,681
Derivative financial liabilities for hedging						
— Interest rate derivative instruments	-	317,475	1,399,734	1,584,976	15,280,228	18,582,413
Total	<u>\$ 10,687,769</u>	<u>2,354,508</u>	<u>1,788,896</u>	<u>5,048,665</u>	<u>18,588,137</u>	<u>38,467,975</u>

(Continued)

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

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

ii) The maturity analysis of off-balance sheet items

		Units: In thousands of HKD				
		December 31, 2018				
		0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year
						Total
Standby and irrevocable loan commitment	\$ 198	189,558	144,158	518,463	1,428,289	2,280,666
Unused letters of credit	60,075	122,301	10,095	-	-	192,471
Other guarantee amounts	8,215	790,362	15,672	25,625	67,714	907,588
Total	<u>\$ 68,488</u>	<u>1,102,221</u>	<u>169,925</u>	<u>544,088</u>	<u>1,496,003</u>	<u>3,380,725</u>

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

(Continued)

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

(v) Market risk

Major subsidiaries are listed separately as follows:

1) Taipei Fubon Bank (The Bank) and its subsidiaries

a) The definition and classification of market risk

Market risk refers to unfavorable changes in the market (such as changes in interest rates, exchange rates, stock prices and commodity prices), which may cause a potential loss on or off the balance sheet. Based on the Bank and its subsidiaries' policies on risk measurement and management, financial instruments are recorded in either the trading book or the banking book, and the Bank performs risk measurement and management accordingly.

Trading book positions follow the definitions below:

- i) Positions held for earning profits from changes in bid-ask spread or changes in price and interest rate;
- ii) Positions held for the brokerage business or proprietary trading;
- iii) Positions held for full or partial offsetting risk from other positions; and
- iv) Positions held for trading within approved market risk limits.

Trading book positions should not be under any restrictive trading contract and should be completely hedged against risks. Positions that do not qualify for recording in the trading book are recorded in the banking book.

b) Market risk strategy and procedures

Taipei Fubon Bank (The Bank)

The Bank has comprehensive policies on market risk management and has a systematic mechanism for deal execution, clearing and settlement. The trading book instruments, which are exposed to risk factors, are as follows: interest rate-related instruments, exchange rate-related instruments, securities and commodities. The risk management systems apply the Bank's management policies and market risk limits to identify, measure, monitor and control market risks.

Fubon Bank (China)

Pursuant to the guidance of relevant laws and regulations, a series of policies and procedures regarding market risk management policies and procedure control are stipulated to regulate internal control of market risks as well as trading strategies and limits. IT systems are also established to identify, quantify, monitor and control market risks, ensuring that market risk exposures of Fubon Bank (China) are managed strongly and effectively.

(Continued)

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

c) Organization and framework

Taipei Fubon Bank (The Bank)

Under the supervision of the Board of Directors, the Bank has established the Market Risk Management Committee, which is composed of senior management and chaired by the President to monitor the Bank's market risk control, risk acceptance and management strategies for the trading business, securities investments and transactions, and derivatives.

The Risk Management Department under the Chief Risk Officer is responsible for formulating policies on and procedures for market risk management, enforcing market risk limits, reporting market risk events timely and validating valuation models independently. The Independent Audit Department under the Board of Directors is an added support for the market risk management framework.

Fubon Bank (China)

The Board of Directors, acting as the highest supervisor of market risk management, approves the market risk strategies and trading limits of Fubon Bank (China). The Risk & Related Party Transaction Committee under the board is responsible for supervising the implementation of market risk policies. Market risk assessment reports are submitted by Risk Management Department to senior management, the Risk & Related Party Transaction Committee and Board of Directors on a quarterly basis.

The Risk Control Department, under the Risk Management Department, which is independent from front trading desk and back settlement desk, is responsible for implementing market risk policies authorized by the Board and the senior management. Internal Audit Department is responsible for reviewing and evaluating the effectiveness and independence of the risk management system. Compliance Department, on the other hand, is accountable for monitoring compliance risk and reporting to the Board and senior management.

d) Market risk management, control and reporting

The Corporate Financial Credit Management Department of Taipei Fubon Bank is responsible for monitoring compliance with the daily market risk limit (including the analysis of risk sensitivity factors such as Delta, Vega, DV01, and VaR) and loss control. The valuation and VaR models are evaluated independently by the Risk Management Department to ensure their stability and effectiveness. The Bank has established a market risk management system and related market risk management procedures to be able to observe the VaR limit. In addition, the Bank does back testing periodically to check the effectiveness of the VaR calculation module and establishes financial trading system.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

e) Measurement of trading book market risk

Taipei Fubon Bank (The Bank)

The Bank's measurement of trading book market risk includes methods for determining degrees (known as the "Greeks") of sensitivity to risk and measures (such as VaR and stress testing) of the risk of loss on specific portfolios of financial assets. These measures provide consistent and comparable measurement of various types of risks across different trading desks.

i) VaR (Value at Risk)

VaR is a tool that measures "the worst expected loss over a given time horizon under normal market conditions at a given level of confidence." The Bank adopts various risk models to evaluate the worst loss on current net positions within one day, with a 99% confidence level. The Bank adopts the historical simulation to calculate current VaR and stressed VaR, covering most market risk scenarios. To ensure the VaR's quality, the Bank performs back-testing and statistical tests regularly.

VaR information of trading book is shown below:

2018				
Common VaR	Highest	Lowest	Average	End of period
Equity group	\$ 25,106	-	7,770	2,232
Interest rate group	95,413	50,073	64,807	72,475
Exchange rate group	12,668	4,753	8,455	9,593
Volatility group	3,043	322	909	1,830
Diversification effect	-	-	(14,622)	(17,124)
Common VaR of trading book			<u>\$ 67,319</u>	<u>69,006</u>
2017				
Common VaR	Highest	Lowest	Average	End of period
Equity group	\$ -	-	-	-
Interest rate group	94,459	42,826	59,745	51,387
Exchange rate group	17,482	3,529	7,979	4,534
Volatility group	6,047	794	2,731	794
Diversification effect	-	-	(11,169)	(7,693)
Common VaR of trading book			<u>\$ 59,286</u>	<u>49,022</u>

Note: The highest and lowest VaRs may occur on different dates; the related diversification effects were not disclosed in the above table because it has no significant meaning.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The above VaRs are calculated on the basis of changes in risk factors. If one product includes several risk factors, it will be classified under different risk factors. For example, forward contracts are exposed to interest rate risk and exchange rate risk; foreign exchange option is exposed to exchange rate risk and volatility risk.

ii) Stress testing

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

Fubon Bank (China)

To manage the trading book market risks, Fubon Bank (China) has set appropriate market risk measurements and relevant risk limits based on its trading products and the features and complexity of its risk exposures, including position limits on notional amounts, net exposures of foreign currencies, stop-loss limits of various products, and sensitivity limits. Fubon Bank (China)'s main currency businesses of trading book are spot trade and options. The main interest rate businesses of trading book are bonds, currency swap and CNY interest rate swap. The market risk level is normal.

The Risk Control Department also performs stress tests on derivative trading of trading book on a quarterly basis to evaluate Fubon Bank (China)'s ability to sustain loss of market value of its trading book when main market risk factors such as interest rates and exchange rates move adversely.

f) Banking Book Market Risk

Taipei Fubon Bank (The Bank)

i) Interest rate risk

Interest rate risk refers to the possible loss on investment portfolio value due to interest rate changes. The interest rate-sensitive assets/liabilities include banking book debt securities. The characteristics of banking book debt securities differ from those of trading book securities, which are for short-term trading. The valuation basis of banking book debt securities includes fair value and accrued interest.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Banking book interest rate risk refers to possible loss due to unfavorable changes in interest rates for the banking book portfolio. One of the methods used to determine exposure to interest rate risks is earnings analysis, which focuses on the effects interest rate changes on the earnings of the banking book portfolio, especially earnings in the short term. Had the interest rate increased/decreased 1bps (basis points) as of December 31, 2018 and 2017, and all other factors been held constant, the earnings would have decreased/increased by \$4 million and \$5 million, respectively.

ii) Exchange rate risk

Banking book exchange rate risk refers to the risk of loss due to unfavorable changes in exchange rates for the Bank's foreign currency operating funds to be used for the launch of a foreign exchange business, the establishment of overseas branches or overseas subsidiaries branch's investment accounted for using the equity method. These exchange rate differences are reflected under either the statement of comprehensive income or "exchange differences on translation of foreign operations under equity.

The Bank has a foreign exchange business, overseas branches, overseas subsidiaries branch's investment accounted for using the equity method. As of December 31, 2018, the percentage of the exchange differences on translation of foreign operation is immaterial when compared with the Bank's entire foreign currency position.

iii) Equity securities risk

The Bank's equity instruments as shown in the banking book have two groups. The first consists of investments in accordance with Article 74 of the Banking Act. The second group refers to investments in promising companies with a higher cash dividend payout ratio. For the second group, even though changes in equity prices may influence the stockholder's equity, the Bank holds these investments for a long term and has strict regulations on buying or selling these investments.

The sensitivity analysis for equity positions of banking book is listed below:

	December 31, 2018		December 31, 2017	
	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity
Stock prices increased by 10%	\$ -	429,230	30,036	296,393
Stock prices decreased by 10%	-	(429,230)	(30,036)	(296,393)

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fubon Bank (China)

i) Interest rate risk

The interest rate risk of Fubon Bank (China) is mainly from the risk of interest repricing. The measure of monitoring account interest rate risk is to compute the repricing gap of risk-sensitive assets/liabilities and to develop risk standards as the monitoring benchmark. Its measure is to set the interest rate, which increases or decreases 50 basis points to evaluate risk.

	December 31, 2018		December 31, 2017	
	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity
Interest rate increased by 50 basis points	\$ (7,076)	(97,588)	(11,269)	(75,245)
Interest rate decreased by 50 basis points	7,076	100,692	11,269	77,762

Units: In thousands of CNY

ii) Exchange rate risk

Fubon Bank (China) uses CNY to perform the loan/deposit and inter-bank borrowing and foreign currency is composed of USD. In order to effectively control the exchange rate risk, Fubon Bank (China) establishes the foreign exchange gap controlling conditions and simultaneously conducts the foreign currency sensitivity analysis on assets/liabilities, based on its risk-taking ability and operating strategy. Assuming CNY appreciates or depreciates 5% compared to all foreign currency spot rate and forward rate, the outcome is as follows:

	December 31, 2018		December 31, 2017	
	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity
Foreign exchange rate for USD and HKD against CNY increased by 5%	\$ 13,404	40,261	(44,312)	8,351
Foreign exchange rate for USD and HKD against CNY decreased by 5%	(13,404)	(40,261)	44,312	(8,351)

Units: In thousands of CNY

(Continued)

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

g) Foreign currency rate risk information

The table below shows the Bank and its subsidiaries' foreign currency risk information for financial assets and liabilities denominated in foreign currency at carrying value as of December 31, 2018 and 2017.

Taipei Fubon Bank (The Bank)

	December 31, 2018			December 31, 2017		
	Original	Rate	TWD	Original	Rate	TWD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 18,177,041	30.7404	558,769,511	16,245,522	29.8574	485,049,049
CNY	11,110,698	4.4671	49,632,599	16,297,356	4.5795	74,633,742
JPY	-	-	-	135,205,202	0.2650	35,829,379
HKD	8,034,603	3.9259	31,543,048	8,337,859	3.8211	31,859,793
AUD	1,169,088	21.7320	25,406,620	1,176,755	23.3123	27,432,866
EUR	631,486	35.1357	22,187,703	-	-	-
<u>Non-monetary items</u>						
USD	187,014	30.7404	5,748,885	156,231	29.8574	4,664,651
CNY	625,823	4.4671	2,795,614	1,263,540	4.5795	5,786,381
JPY	-	-	-	4,552,980	0.2650	1,206,540
HKD	89,137	3.9259	349,943	82,782	3.8211	316,318
AUD	738	21.7320	16,038	523	23.3123	12,192
EUR	383	35.1357	13,457	-	-	-
<u>Investments accounted for using equity method</u>						
CNY	4,729,936	4.4671	21,129,099	4,609,936	4.5795	21,111,200
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	23,394,423	30.7404	719,153,921	23,073,140	29.8574	688,903,970
CNY	15,895,005	4.4671	71,004,577	12,851,572	4.5795	58,853,774
JPY	-	-	-	43,752,207	0.2650	11,594,335
HKD	8,169,380	3.9259	32,072,169	4,834,320	3.8211	18,472,420
AUD	1,123,686	21.7320	24,419,944	939,882	23.3123	21,910,811
EUR	297,597	35.1357	10,456,279	-	-	-
<u>Non-monetary items</u>						
USD	210,131	30.7404	6,459,511	181,888	29.8574	5,430,703
CNY	593,107	4.4671	2,649,468	1,341,586	4.5795	6,143,793
JPY	-	-	-	4,878,441	0.2650	1,292,787
HKD	34,746	3.9259	136,409	79,543	3.8211	303,942
AUD	617	21.7320	13,409	635	23.3123	14,803
EUR	871	35.1357	30,603	-	-	-

(Continued)

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

Fubon Bank (China)

	December 31, 2018			December 31, 2017		
	Original	Rate	CNY	Original	Rate	CNY
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 511,544	6.8632	3,510,829	520,405	6.5342	3,400,430
JPY	1,601,877	0.0619	99,156	2,743,663	0.0579	158,858
HKD	26,708	0.8762	23,402	25,619	0.8359	21,415
EUR	1,543	7.8473	12,108	2,088	7.8023	16,291
<u>Non-monetary items</u>						
USD	98,995	6.8632	679,422	1,451	6.5342	9,481
<u>Financial liability</u>						
<u>Monetary items</u>						
USD	1,732,364	6.8632	11,889,561	2,114,746	6.5342	13,818,173
JPY	2,806,577	0.0619	173,727	2,095,932	0.0579	121,354
HKD	12,899	0.8762	11,302	16,592	0.8359	13,869
EUR	4,868	7.8473	38,201	18,533	7.8023	144,600
<u>Non-monetary items</u>						
USD	9,446	6.8632	64,830	141,494	6.5342	924,550

2) Fubon Life Insurance and its subsidiaries

Market risk refers to the risk that the value of assets decreases due to disadvantageous movement of the market price and this may result in a loss to Fubon Life Insurance and its subsidiaries. The risk factors of the market price fluctuation include interest rates, foreign exchange rates, stock prices, and commodity prices.

Guided by Assets and Liabilities Management Committee and other operations, Fubon Life Insurance takes financial environment, all the economic indicators, liability risk properties and ALM into account, to choose appropriate investment target through risk control mechanism. Under the consent of regulatory framework and market environment, choosing and acquisition of long-term assets is monitored by the Assets and Liabilities Management Committee or other operations. This is to allow assets and liabilities to coordinate better in terms of payment terms and profits, to pursue long term business and protect the rights of policyholders. This will also reduce the influence on insurance contract caused by market risk and eventually lower the potential loss to Fubon Life Insurance and its subsidiaries.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fubon Life Insurance and its subsidiaries 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 two instruments, Fubon Life Insurance and its subsidiaries are able to measure, monitor and manage market risk completely and effectively.

a) Value at Risk

Value at Risk is to apply statistical techniques to measure the maximum potential loss of the investment portfolio resulted from market risk factor variation in a given period of time and under certain confidence interval. Fubon Life Insurance and its subsidiaries applies 99% as the confidence interval to predict the VaR in the next 10 days.

The VaR model applied to manage risk shall be examined retrospectively and continuously to ensure that Fubon Life Insurance and its subsidiaries are able to measure the maximum potential risk of the portfolios reasonably, completely and accurately.

b) Sensitivity analysis

Besides using VaR to manage market risk, Fubon Life Insurance and its subsidiaries adopt sensitivity analysis to serve as a basis for corporate risk analysis, risk alert and operation management. Sensitivity analysis is to measure the amount changed in the portfolio value resulted from the variation of single risk factor. This will facilitate Fubon Life Insurance to understand how each variation of risk factors may influence the portfolios in certain extreme scenarios.

Sensitivity analysis (Fubon Life Insurance)

Units: In thousands of TWD

December 31, 2018			
Risk factor	Variation	Change in profit or loss	Change in equity
Equity risk (Price index)	Price incline by 10%	-	47,092,560
	Price decline by 10%	-	(47,092,560)
Interest rate risk (Yield curve)	Yield curve (USD) incline by 50BPS	(3,691)	(14,898,940)
	Yield curve (TWD) incline by 50BPS	-	(21,081,077)
	Yield curve (Other) incline by 50BPS	-	(356,450)
	Yield curve (USD) decline by 50BPS	3,407	15,909,930
	Yield curve (TWD) decline by 50BPS	-	22,331,053
	Yield curve (Other) decline by 50BPS	-	369,477
Exchange rate risk (Currency exchange rate)	TWD to all currency incline by 3%	(8,761,929)	(6,076,942)
	TWD to all currency decline by 3%	8,761,929	6,076,942

(Continued)

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

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

Sensitivity analysis (Fubon Life Hyundai Life Insurance)

Units: In thousands of KRW

December 31, 2018			
Risk factor	Variation	Change in profit or loss	Change in equity
Equity risk (Price index)	Price incline by 10%	-	1,173,426
	Price decline by 10%	-	(1,173,426)
Interest rate risk (Yield curve)	Yield curve (USD) incline by 50BPS	-	(2,942,044)
	Yield curve (KRW) incline by 50BPS	-	(21,285,384)
	Yield curve (USD) decline by 50BPS	-	3,024,892
	Yield curve (KRW) decline by 50BPS	-	22,520,801
Exchange rate risk (Currency exchange rate)	KRW to all currency incline by 3%	(4,298,309)	-
	KRW to all currency decline by 3%	4,298,309	-

Note 1: The sensitivity analysis of equity risk and interest rate risk mainly includes financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and available-for-sale financial assets. The scenario of equity risk includes stock and fund but excludes monetary funds and bond funds. As for the scenario of interest rate risk, it includes bonds and bond funds. The sensitivity analysis of exchange rate variation excludes foreign currency insurance policy assets and OIU assets.

Note 2: The abovementioned sensitivity analysis is a scenario assumed that the impact of changes in risk factor on fair value is based on other factors which remained constant.

Note 3: Assuming other factors remain the same, an upward parallel shift in the yield curve for individual currency of 1 bps will affect \$(71) thousand, and \$(748,117) thousand in profit or loss and \$(41) thousand and \$(598,500) thousand in equity of Fubon Life Insurance on December 31, 2018 and 2017, respectively.

Note 4: Assuming other factors remain the same, an upward parallel shift in the yield curve for individual currency of 1 bps will affect KRW(497,467) thousand dollars in equity of Fubon Hyundai Life Insurance Co., Ltd on December 31, 2018.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Hong Kong and Vietnam subsidiaries are considered insignificant to the consolidated disclosures after Fubon Life Insurance and its subsidiaries' assessment, therefore, the data of Hong Kong and Vietnam subsidiaries are not disclosed.

3) Fubon Insurance and its subsidiaries

Market risk is the risk of losses in the value of assets in a given period resulting from unfavorable changes in the asset's market prices. Fubon Insurance and its subsidiaries management set a monitor system on the concentration of daily transactions, established a sound crisis response mechanism to deal with working capital demand due to emergency or abnormal event.

a) Management process of market risk

i) Risk identification

To achieve market risk management goal, Fubon Insurance and its subsidiaries have identified potential market risk factors encountered during operation process. Positions in different financial instruments were classified into four categories, mainly interest, foreign exchange rate, equity security and commodity, according to accounting standards.

ii) Risk measurement

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

iii) Risk monitoring

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iv) Risk responding

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

b) Concentration of market risk

The main counterparty and buyer of financial instruments of Fubon Insurance and its subsidiaries are companies in financial industry. There are rules about limitation of the government bonds, fixed income bonds, bonds, convertible bonds, funds, stocks, derivative financial instruments, structured notes and bonds securitization to control the risk.

c) Market risk management mechanism

i) Risk tolerance management

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

ii) Risk limit management

Establishment of risk limits is to put risk tolerance management into practice. Risk limits for different financial products were made by trading position, investment position and hedging position separately. When setting risk limits, various factors were taken into account, such as risk tolerance, business history, expected budget target, market liquidity of a specific product, historical utilization of risk limits, traders' trading experiences, trading system and supports by the operation department. The amendments of risk limits should first be proposed to Risk Control Department of the Company and signed by internal delegates. After reviewed by the Risk Management Committee of the Company and Fubon Insurance, the amendments are presented to the board of directors. Under system support, Fubon Insurance and its subsidiaries' limits include VaR and position.

iii) Valuation management

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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

d) Risk value model

Risk value is a statistical estimate of probable worst outcome during normal fluctuation. Fubon Insurance and its subsidiaries use value at risk (VaR) model to measure the potential maximum loss in value of an investment portfolio at risk over a period of ten-day for a 99% confidence interval with respect to different market factors.

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

Units: In thousands of TWD

Common VaR	December 31, 2018		
	Average	Highest	Lowest
Fixed income group	\$ 475,111	540,845	353,012
Equity group	1,052,296	2,197,243	463,839
Fund group	90,278	136,667	60,573
Asset securitization group	42,651	71,216	26,215
Total position	1,045,082	2,022,723	560,035

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

Note 1: VaR was adopted for the years ended December 31, 2018 and 2017.

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

4) Fubon Securities and its subsidiaries

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

(Continued)

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

Trading book positions fit the following definitions:

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

Trading book positions should not be under any restrictive trading contract and should be completely hedged against risks.

i) Guidelines and Procedures

Fubon Securities and its subsidiaries have enacted comprehensive policies of market risk management and have established mechanism for deal execution, clearing and settlement. Based on the risk factors they are exposed to trading book positions are categorized in the following four groups: interest rates instruments, exchange rates instruments, securities and commodities. Fubon Securities and its subsidiaries have established management policies and market risk limits that implement the risk management systems to identify, measure, monitor and control the market risk.

ii) Organization and Framework

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

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

(Continued)

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

iii) Procedure for Market Risk Control, Reporting and Verification

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

iv) Market Risk Measurement of Trading Book

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

Value at Risk (VaR)

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

(Continued)

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

Common VaR information of trading book were as follows:

Units: In thousands of TWD

2018			
Common VaR	Highest	Lowest	Average
Foreign exchange rate	\$ 95,697	44	26,512
Interest rate	48,400	10,383	28,130
Equity	100,749	29,303	51,027
Fluctuation	9,641	1,698	4,580

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

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

Stress Testing

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

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

(Continued)

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

Sensitivity analysis

Sensitivity analysis is used to measure the impact and effect of the products and portfolios when there are changes in the factors of a specific market. Fubon Securities and its subsidiaries use the following sensitivities to measure and monitor the risk exposure based on each type of risk.

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

5) Fubon Bank (Hong Kong) and its subsidiaries

The following disclosures related to Fubon Bank (Hong Kong) are all expressed in thousands of HKD, unless otherwise stated.

a) The definition and classification of market risk

Market risk arises on all market risk sensitive financial instruments, including securities, foreign exchange contracts, equity and other derivative instruments, as well as from balance sheet or structural positions. Fubon Bank (Hong Kong) and its subsidiaries transact in the money market, foreign exchange market, equity market and capital market giving rise to market risk exposures. Positions are taken as a result of the execution of customers' orders, market making activities, and offsetting transactions in order to hedge Fubon Bank (Hong Kong) and subsidiaries' open position. Fubon Bank (Hong Kong) and its subsidiaries do not engage in significant proprietary trading.

b) Guidelines and procedures

The objective of market risk management is to avoid excessive exposure of earnings and equity to loss and to reduce Fubon Bank (Hong Kong) and its subsidiaries' exposure to the volatility inherent in financial instruments.

The Board of Directors reviews and approves policies concerning market risk management, including handling authorizations and limits. The Board has delegated the responsibility for continuing general market risk management to the Asset and Liability Committee. The committee is responsible for determining future business strategies in response to Fubon Bank (Hong Kong) and its subsidiaries' forecasts of interest rate movements. The committee also reviews and formulates financing policies and ensures compliance with various risk management objectives.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fubon Bank (Hong Kong) and its subsidiaries has also established clear market risk policies, including limits, reporting lines and control procedures, which are reviewed regularly and approved by the Board of Directors. Market risk is managed within various limits approved by the Board of Directors. These limits are determined for each financial instrument and include limits on product volume, gross and net positions, position concentrations, mark to market limits, stop loss limits and risk position limits. The Asset and Liability Committee reviews and approves these restrictions, which are approved by the board of directors at least once a year. Regular monitoring is performed daily and the results are reported to the members of the Asset and Liability committee. Risk-taking is also reported to the Risk Committee at least monthly.

The sale of derivatives to customers as risk management products and the subsequent use of derivatives to manage the resulting position is an integral part of Fubon Bank (Hong Kong) and its subsidiaries' business activities. These instruments are also used to manage Fubon Bank (Hong Kong) and its subsidiaries' own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by Fubon Bank (Hong Kong) and its subsidiaries are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives. Fubon Bank (Hong Kong) and its subsidiaries also purchases exchange traded derivatives. Most of Fubon Bank (Hong Kong) and its subsidiaries' derivatives positions have been entered into to meet customer demand and to hedge these and other positions.

One of the tools used by Fubon Bank (Hong Kong) and its subsidiaries to monitor and limit market risk exposure is Value-at-risk (VaR). VaR is one of the technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The calculation uses the historical simulation method as the means to estimate the statistical confidence level.

The VaR technique is only effective for potential loss events which are not correlated. Fubon Bank (Hong Kong) and its subsidiaries therefore augment its VaR limits with other positions and sensitivity limit structures. Additionally, Fubon Bank (Hong Kong) and its subsidiaries apply a wide range of sensitivity analysis and stress testing, both on individual portfolios and on Fubon Bank (Hong Kong) and its subsidiaries' consolidated positions to assess the potential impact on Fubon Bank (Hong Kong) and its subsidiaries' earnings as a result of extreme movements in market prices.

c) Organization and framework

The Board of Directors reviews and approves policies for the management of market risks including dealing authorities and limits. The Board of Directors has delegated the responsibility for ongoing general market risk management to the Asset and Liability Committee. This committee articulates the interest rate view of Fubon Bank (Hong Kong) and its subsidiaries and decides on future business strategy with respect to interest rates. It also reviews and sets funding policy and ensures adherence to risk management objectives.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- d) Evaluation technique of market risk: Value at risk (VaR). Fubon Bank (Hong Kong) adopts various risk models to evaluate the worst loss on current net positions within one day, with a 99% confidence level.

The following table shows the relevant market risk VaR:

Units: In thousands of HKD			
December 31, 2018			
VaR	Average	Highest	Lowest
Foreign exchange risk	\$ 129	619	16
Interest rate risk	29	669	-
Total risk	174	766	34
December 31, 2017			
VaR	Average	High	Low
Foreign exchange risk	\$ 111	1,397	51
Interest rate risk	35	300	5
Total risk	172	1,472	49

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

Units: In millions of HKD			
December 31, 2018			
Main risk	Variance	Influenced amount	
		Equity	profit or loss
Foreign exchange risk	10% increase in HKD	-	(174.7)
Foreign exchange risk	10% decrease in HKD	-	174.7
Interest rate risk	+100 basis points shift in yield curves	35.5	79.5
Interest rate risk	-100 basis points shift in yield curve	(35.5)	(79.5)
Equity risk	10% increase in equity prices	-	-
Equity risk	10% decrease in equity prices	-	-
December 31, 2017			
Main risk	Variance	Influenced amount	
		Equity	profit or loss
Foreign exchange risk	10% increase in HKD	-	(109.6)
Foreign exchange risk	10% decrease in HKD	-	109.6
Interest rate risk	+100 basis points shift in yield curves	(9.5)	69.0
Interest rate risk	-100 basis points shift in yield curves	9.5	(69.0)
Equity risk	10% increase in equity prices	-	-
Equity risk	10% decrease in equity prices	-	-

(Continued)

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

(vi) Transfer of financial assets

1) Taipei Fubon Bank and its subsidiaries

a) Transferred financial assets that are not completely derecognized

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

Analysis of financial assets that are not completely derecognized and the associated liabilities are shown in following table:

	December 31, 2018	
	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities
Types of financial assets		
Financial assets measured at fair value through other comprehensive income		
Repurchase agreements	\$ 18,167,014	17,566,722
Debt investments measured at amortized cost		
Repurchase agreements	113,785,581	103,582,222
Repurchase agreements	153,551	158,599
	December 31, 2017	
	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities
Types of financial assets		
Financial assets measured at fair value through profit or loss		
Repurchase agreements	\$ 1,004,618	1,007,092
Discount and loans		
Repurchase agreements	6,461,588	6,560,623
Available-for-sale financial assets		
Repurchase agreements	50,953,338	48,079,115
Held-to-maturity financial assets		
Repurchase agreements	41,179,732	37,999,295
Debt Investments without active market		
Repurchase agreements	4,398,597	4,379,450

(Continued)

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

2) Fubon Life Insurance and its subsidiaries

The transferred financial assets of Fubon Life Insurance and its subsidiaries that are not qualified for de-recognition in the daily operation are mainly equity securities under lending agreements. Since the right to receive cash flow is transferred and it reflects the associated liabilities to repurchase transferred financial assets at fixed price in future period, Fubon Life Insurance and its subsidiaries cannot use, sell or pledge these transferred financial assets during the valid transaction period. Therefore, Fubon Life Insurance and its subsidiaries do not completely derecognize the transferred assets. The table below discloses the information of financial assets that are not completely derecognized and the associated financial liabilities:

Units: In thousands of TWD

December 31, 2018					
Types of financial assets	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities	Fair value of the transferred financial assets	Fair value of relevant financial liabilities	Fair value net position
Financial assets measured at fair value through profit or loss					
Security lending agreements	\$ 3,159,974	-	3,159,974	-	3,159,974
Financial assets measured at fair value through other comprehensive income					
Security lending agreements	34,823	-	34,823	-	34,823

Units: In thousands of TWD

December 31, 2017					
Types of financial assets	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities	Fair value of the transferred financial assets	Fair value of relevant financial liabilities	Fair value net position
Available-for-sale financial assets					
Security lending agreements	\$ 913,064	-	913,064	-	913,064

3) Fubon Insurance and its subsidiaries

Transferred financial assets that are completely derecognized

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

(Continued)

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

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

December 31, 2017					
Types of financial assets	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities	Fair value of the transferred financial assets	Fair value of relevant financial liabilities	Fair value net position
Available-for-sale financial assets					
Security lending agreements	\$ 50,055	-	50,055	-	50,055

4) Fubon Securities and its subsidiaries

Transferred financial assets that are not completely derecognized

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

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

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

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

December 31, 2018		
Types of financial assets	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities
Financial assets measured at fair value through profit or loss		
Repurchase agreements	\$ 34,352,193	33,609,095
Convertible bonds transferred to counter parties of asset exchange option	466,839	441,807

(Continued)

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

Types of financial assets	December 31, 2017	
	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities
Financial assets measured at fair value through profit or loss		
Repurchase agreements	\$ 25,094,339	25,208,809
Convertible bonds transferred to counter parties of asset exchange option	952,010	860,334

5) Fubon Bank (Hong Kong) and its subsidiaries

Transferred financial assets that are not completely derecognized

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

Unit: In thousands of HKD

Types of financial assets	December 31, 2018				
	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
Financial assets measured at amortized cost					
Repurchase agreements	\$ 6,266,342	5,979,423	6,291,424	5,979,423	312,001

Unit: In thousands of HKD

Types of financial assets	December 31, 2017				
	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities	Fair value of the transferred financial assets	Fair value of relevant financial liabilities	Fair value net position
Available-for-sale financial assets					
Repurchase agreements	\$ 9,520,768	9,062,267	9,520,768	9,062,267	458,501
Held-to-maturity financial assets					
Repurchase agreements	117,279	118,880	122,612	118,880	3,732

(vii) Offsetting financial assets and financial liabilities

1) Taipei Fubon Bank and its subsidiaries

Taipei Fubon Bank and its subsidiaries did not hold any financial instruments which meet Section 42 of the IAS 32 endorsed by the FSC. Therefore, the financial instrument will be offset on the balance sheet.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Although Taipei Fubon Bank and its subsidiaries do not engage in any transactions that meet the offsetting condition in IFRSs, they have signed net settlement contracts of similar agreements with counterparties, such as global master repurchase agreement, global securities lending agreement and similar repurchase agreement or reverse-repurchase agreement. If both parties choose to net settle, the abovementioned executable net settlement contracts or similar agreements will be allowed to be settled in net amount after offsetting the financial assets and financial liabilities. Otherwise, the transaction will be settled in gross amount. However, if one party defaults, the other party could choose to net settle.

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

December 31, 2018						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		
Financial assets				Financial instruments (Note 1)	Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial instruments (Note 2)	\$ 29,729,300	-	29,729,300	21,240,757	2,480,756	6,007,787
Securities purchased under resell agreements	11,766,626	-	11,766,626	11,704,007	-	62,619
Total	<u>\$ 41,495,926</u>	<u>-</u>	<u>41,495,926</u>	<u>32,944,764</u>	<u>2,480,756</u>	<u>6,070,406</u>
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		
Financial liabilities				Financial instruments (Note 1)	Pledged cash Collaterals	Net amount (e)=(c)-(d)
Derivative financial instruments (Note 2)	\$ 32,738,027	-	32,738,027	18,154,244	7,628,167	6,955,616
Securities sold under repurchase agreements	121,307,543	-	121,307,543	121,294,698	-	12,845
Total	<u>\$ 154,045,570</u>	<u>-</u>	<u>154,045,570</u>	<u>139,448,942</u>	<u>7,628,167</u>	<u>6,968,461</u>
December 31, 2017						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		
Financial assets				Financial instruments (Note 1)	Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial instruments (Note 2)	\$ 26,739,448	-	26,739,448	20,148,025	2,272,495	4,318,928
Securities purchased under resell agreements	15,434,688	-	15,434,688	15,376,203	-	58,485
Total	<u>\$ 42,174,136</u>	<u>-</u>	<u>42,174,136</u>	<u>35,524,228</u>	<u>2,272,495</u>	<u>4,377,413</u>

(Continued)

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

December 31, 2017						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		
Financial liabilities				Financial instruments (Note 1)	Pledged cash Collaterals	Net amount (e)=(c)-(d)
Derivative financial instruments (Note 2)	\$ 29,440,816	-	29,440,816	17,820,220	3,495,813	8,124,783
Securities sold under repurchase agreements	98,025,575	-	98,025,575	98,008,820	-	16,755
Total	<u>\$ 127,466,391</u>	<u>-</u>	<u>127,466,391</u>	<u>115,829,040</u>	<u>3,495,813</u>	<u>8,141,538</u>

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

Note 2: Derivative financial assets for hedging are included.

2) Fubon Life Insurance and its subsidiaries

Although Fubon Life Insurance and its subsidiaries do not engage in transactions that meet the offsetting condition in IFRSs, they have signed net settlement contracts of similar agreements with counterparties. If both parties choose to net settle, the abovementioned executable net settlement contracts or similar agreements will be allowed to be settled in net amount after offsetting the financial assets and financial liabilities. Otherwise, the transaction will be settled in gross amount. However, if one party defaults, the other party could choose to net settle. Relevant information is shown as follows:

December 31, 2018						
Financial assets under general agreement of net amount settlement or similar norms						
	Total Recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		
				Financial instruments (Note)	Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial instruments and structured deposits	\$ 29,481,228	-	29,481,228	2,505,569	16,288	26,959,371
Securities purchased under resell agreements	55,651,334	-	55,651,334	55,236,600	-	414,734
Total	<u>\$ 85,132,562</u>	<u>-</u>	<u>85,132,562</u>	<u>57,742,169</u>	<u>16,288</u>	<u>27,374,105</u>

Financial liabilities under general agreement of net amount settlement or similar norms						
	Total Recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		
				Financial instruments (Note)	Pledged cash Collaterals	Net amount (e)=(c)-(d)
Derivative financial instruments	\$ 4,216,645	-	4,216,645	2,505,940	588,230	1,122,475

(Continued)

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

December 31, 2017						
Financial assets under general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		
				Financial instruments (Note)	Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial instruments and structured deposits	\$ 30,672,986	-	30,672,986	998,636	1,115,420	28,558,930
Securities purchased under resell agreements	55,452,579	-	55,452,579	54,672,600	-	779,979
Total	<u>\$ 86,125,565</u>	<u>-</u>	<u>86,125,565</u>	<u>55,671,236</u>	<u>1,115,420</u>	<u>29,338,909</u>
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		
				Financial instruments (Note)	Pledged cash collaterals	Net amount (e)=(c)-(d)
Derivative financial instruments	\$ 1,230,147	-	1,230,147	998,636	243,560	(12,049)

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

3) Fubon Insurance and its subsidiaries

Although Fubon Insurance and its subsidiaries do not engage in transactions that meet the offsetting condition in IFRSs, they have signed net settlement contracts of similar agreements with counterparties. If both parties choose to net settle, the abovementioned executable net settlement contracts or similar agreements will be allowed to be settled in net amount after offsetting the financial assets and financial liabilities. Otherwise, the transaction will be settled in gross amount. However, if one party defaults, the other party could choose to net settle. Relevant information is shown as follows:

December 31, 2018						
Financial assets under general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		
				Financial instruments	Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial instruments	\$ 29,021	-	29,021	29,021	-	-

(Continued)

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

December 31, 2018						
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments	Pledged cash collaterals	
Derivative financial instruments	\$ 66,889	-	66,889	29,021	-	37,868
December 31, 2017						
Financial assets under general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments	Cash received as collaterals	
Derivative financial instruments	\$ 124,793	-	124,793	9,573	-	115,220
Securities lending agreements	50,055	-	50,055	50,055	-	-
Total	\$ 174,848	-	174,848	59,628	-	115,220
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments	Pledged cash collaterals	
Derivative financial instruments	\$ 9,573	-	9,573	9,573	-	-

4) Fubon Securities and its subsidiaries

Fubon Securities and its subsidiaries did not hold any financial instruments contract which meets Section 42 of IAS 32 endorsed by the FSC. Therefore, the financial assets and financial liabilities will be offset on the balance sheet.

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

(Continued)

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

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

December 31, 2018						
Financial assets under general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (note)	Cash received as collaterals	
Derivative financial assets	\$ 222,925	-	222,925	-	-	222,925
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (note)	Pledged cash collaterals	
Derivative financial liabilities	\$ 670,872	-	670,872	-	-	670,872
Repurchase agreements	33,609,095	-	33,609,095	33,609,095	-	-
Total	\$ 34,279,967	-	34,279,967	33,609,095	-	670,872
December 31, 2017						
Financial assets under general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (note)	Cash received as collaterals	
Derivative financial assets	\$ 96,784	-	96,784	-	-	96,784
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (note)	Pledged cash collaterals	
Derivative financial liabilities	\$ 3,454,209	-	3,454,209	-	-	3,454,209
Repurchase agreements	25,208,809	-	25,208,809	25,208,809	-	-
Total	\$ 28,663,018	-	28,663,018	25,208,809	-	3,454,209

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

(Continued)

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

5) Fubon Bank (Hong Kong) and its subsidiaries

Fubon Bank (Hong Kong) and its subsidiaries hold financial instruments contracts which meet Section 42 of IAS 32 endorsed by the FSC. Therefore, the financial assets and financial liabilities will be offset on the balance sheet.

Although Fubon Bank (Hong Kong) and its subsidiaries do not engage in transactions that meet the offsetting condition in IFRSs, they have signed net settlement contracts of similar agreements with counterparties, such as global master repurchase agreement, global securities lending agreement and similar repurchase agreement or reverse-repurchase agreement. If both parties choose to net settle, the abovementioned executable net settlement contracts or similar agreements will be allowed to be settled in net amount after offsetting the financial assets and financial liabilities. Otherwise, the transaction will be settled in gross amount. However, if one party defaults, the other party could choose to net settle. Relevant information is shown as follows:

Units: In thousands of HKD

December 31, 2018						
Financial assets under general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (note)	Cash received as collaterals	
Derivative financial instruments	\$ 796,596	-	796,596	48,733	-	747,863
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheet (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (note)	Pledged cash collaterals	
Derivative financial instruments	\$ (133,348)	-	(133,348)	(48,733)	-	(84,615)
Securities sold under repurchase agreements	(5,979,423)	-	(5,979,423)	-	-	(5,979,423)
Total	\$ (6,112,771)	-	(6,112,771)	(48,733)	-	(6,064,038)

Units: In thousands of HKD

December 31, 2017						
Financial assets under general agreement of net amount settlement or similar norms						
	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (note)	Cash received as collaterals	
Derivative financial instruments	\$ 705,165	-	705,165	57,248	-	647,917

(Continued)

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

December 31, 2017						
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		
				Financial instruments (note)	Pledged cash collaterals	Net amount (e)=(c)-(d)
Derivative financial instruments	\$ (228,216)	-	(228,216)	(57,248)	-	(170,968)
Securities sold under repurchase agreements	(9,181,147)	-	(9,181,147)	-	-	(9,181,147)
Total	<u>\$ (9,409,363)</u>	<u>-</u>	<u>(9,409,363)</u>	<u>(57,248)</u>	<u>-</u>	<u>(9,352,115)</u>

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

(al) Structured entities

(i) Taipei Fubon Bank and its subsidiaries

- 1) Taipei Fubon Bank and its subsidiaries hold the following types equity of unconsolidated structured entities. The fund is from Taipei Fubon Bank and its subsidiaries and an external third-party.

Types of structured entity	Characteristic and purpose	Equity owned by Taipei Fubon Bank and its subsidiaries
Assets securitization products	Invest in assets securitization products to gain profit	Invest in asset backed securities issued by unconsolidated structured entities
Trust plans	Invest in trust plans to gain profit	Invest in income right of trust issued by unconsolidated structured entities

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

December 31, 2018	Asset securitization products	Trust plans
Assets possessed		
— Debt investments measured at amortized cost	\$ 2,940,482	-
— Financial assets measured at fair value through other comprehensive income	2,278,180	133,983
Total assets possessed	<u>\$ 5,218,662</u>	<u>133,983</u>

(Continued)

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

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

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

- 3) For the years ended December 31, 2018 and 2017, Taipei Fubon Bank and its subsidiaries did not offer any financial support to those unconsolidated asset securitization products and trust plans.

(ii) Fubon Life Insurance and its subsidiaries

1) Consolidated structured entities

The consolidated structured entity of Fubon Life Insurance and its subsidiaries is the real estate investment and management entity. The structured entity is consolidated because the involvement in it exposes Fubon Life Insurance and its subsidiaries to variability of returns from performance and their influence over it. As of December 31, 2018 and 2017, Fubon Life Insurance and its subsidiaries offered \$21,856,055 and \$23,207,662 of non-contractual obligation loan for the entity, respectively.

2) Unconsolidated structured entities

- a) Fubon Life Insurance and its subsidiaries hold the following types equity of unconsolidated structured entities. The fund is from Fubon Life Insurance and its subsidiaries and an external third-party.

Types of structured entity	Characteristic and purpose	Equity owned by Fubon Life Insurance and its subsidiaries
Private fund investment	Invest in private fund issued by outside fund manager to gain profit	Invest in the fund units issued by the funds or limited partnership equity
Assets securitization products and REIT	Invest in assets securitization products and REIT to gain profit	Invest in asset-backed securities issued by the entity

(Continued)

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

- b) The carrying amounts of the unconsolidated structured entities recognized by Fubon Life Insurance and its subsidiaries were as below:

<u>December 31, 2018</u>	<u>Private fund investment</u>	<u>Asset securitization products and REIT</u>
Assets possessed		
— Financial assets measured at fair value through profit or loss	\$ 65,972,113	7,995,559
— Financial assets measured at fair value through other comprehensive income	-	26,038,079
— Financial assets measured at amortized cost	-	37,283,707
Total assets possessed	<u><u>\$ 65,972,113</u></u>	<u><u>71,317,345</u></u>

<u>December 31, 2017</u>	<u>Private fund investment</u>	<u>Asset securitization products and REIT</u>
Assets possessed		
— Available-for-sale financial assets	\$ 55,551,417	5,818,886
— Debt investments without active market	-	48,727,013
Total assets possessed	<u><u>\$ 55,551,417</u></u>	<u><u>54,545,899</u></u>

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

- c) For the years ended December 31, 2018 and 2017, Fubon Life Insurance and its subsidiaries did not offer any financial support to those unconsolidated private fund investment, asset securitization products and REIT.

(Continued)

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

(iii) Fubon Insurance and its subsidiaries

1) Structured entities not included in the consolidated financial statements

Fubon Insurance and its subsidiaries possess the equities of the following structured entities which are not included in the consolidated financial statements. The fund is from Fubon Insurance and its subsidiaries and an external third party:

Types of structured entity	Characteristic and purpose	Equity owned by Fubon Insurance and its subsidiaries
Private equity fund	Invest in funds that can not be traded in a public market	Invest in the fund units issued by the funds or limited partnership equity
Assets securitization products	Invest in assets securitization products of commercial real estate	Invest in asset-backed securities issued by the entity

2) The carrying amount of the assets related to the structured entities recognized by Fubon Insurance and its subsidiaries but not yet included in the consolidated financial statements were as follows:

December 31, 2018	Private equity fund	Asset securitization products
Assets possessed		
— Financial assets measured at fair value through profit or loss	\$ 156,358	1,691,945
— Financial assets measured at amortized cost	-	197,379
Total assets possessed	<u><u>\$ 156,358</u></u>	<u><u>1,889,324</u></u>
December 31, 2017	Private equity fund	Asset securitization products
Assets possessed		
— Available-for-sale financial assets	\$ 147,029	1,700,572
— Debt investments without active market	-	269,351
Total assets possessed	<u><u>\$ 147,029</u></u>	<u><u>1,969,923</u></u>

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

3) For the years ended December 31, 2018 and 2017, Fubon Insurance and its subsidiaries did not offer any financial support to those unconsolidated private investment fund and asset securitization products.

(Continued)

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

(iv) Fubon Securities and its subsidiaries

- 1) Fubon Securities and its subsidiaries hold the following types equity of unconsolidated structured entities. The fund is from Fubon Securities and its subsidiaries and an external third-party.

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

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

December 31, 2018	Asset securitization products
Assets possessed	
— Financial assets measured at fair value through profit or loss - current	\$ 525,259
Total assets possessed	\$ 525,259
December 31, 2017	Asset securitization products
Assets possessed	
— Financial assets measured at fair value through profit or loss - current	\$ 459,800
— Available-for-sale financial assets - current	1,995
Total assets possessed	\$ 461,795

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

- 3) For the years ended December 31, 2018 and 2017, Fubon Securities and its subsidiaries did not offer any financial support to those unconsolidated asset securitization products.

(Continued)

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

(v) Other subsidiaries

- 1) Other subsidiaries hold the following types equity of unconsolidated structured entities. The fund is from the subsidiaries and an external third-party.

Types of structured entity	Characteristic and purpose	Equity owned by other subsidiaries
Private equity fund	Invest in private investment fund issued by outside fund manager to gain profit	Invest in the fund units issued by the funds or limited partnership equity
Assets securitization products	Invest in assets securitization products to gain profit	Invest in asset backed securities issued by the entity

- 2) The carrying amounts of the unconsolidated structured entities recognized by other subsidiaries were as below:

December 31, 2018	Private fund investment	Asset securitization products
Assets possessed		
— Financial assets mandatorily measured at fair value through profit or loss	\$ 10,870	-
— Financial assets measured at fair value through profit or loss	-	59,544
Total assets possessed	<u>\$ 10,870</u>	<u>59,544</u>
December 31, 2017	Private fund investment	Asset securitization products
Assets possessed		
— Available-for-sale financial assets	\$ 13,217	-
— Financial assets measured at fair value through profit or loss	-	52,876
Total assets possessed	<u>\$ 13,217</u>	<u>52,876</u>

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

- 3) For the years ended December 31, 2018 and 2017, other subsidiaries did not offer any financial support to those unconsolidated private investment fund and asset securitization products.

(Continued)

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

(am) Capital Management

(i) General information

Objectives for managing capital are as follows:

- 1) The Company's basic objective of capital management shall be in compliance with the capital requirements of FSC and achieve the minimum statutory capital adequacy ratio. The qualified capital calculation is in accordance with regulation by competent authorities.
- 2) Maintain an optimal capital structure to respond to possible operational or economic risks, to sustain future development of the business, and to make appropriate and effective capital allocation.

(ii) Procedure for capital management

The Company maintained capital adequacy ratio to meet the requirements of the authority and report to the authority every quarter.

The Company complies with the "Regulations Governing the Consolidated Capital Adequacy of Financial Holding Companies". The subsidiaries shall comply with the related capital adequacy norms, and overseas subsidiaries shall comply with local ordinances.

The Capital is managed by the authority of the Company according to the Company Capital Adequacy Monitoring Standard.

(an) Significant impact of related foreign currency information

	December 31, 2018			December 31, 2017		
	Foreign currency (in thousands)	Exchange rate (in dollars)	TWD	Foreign currency (in thousands)	Exchange rate (in dollars)	TWD
Financial assets:						
Monetary items						
USD	\$ 88,835,674	30.7515 /30.733 /31/ 30.751 /30.748	2,730,640,579	80,580,514	29.8574 /29.848 /29.682 /29.857	2,405,376,417
HKD	58,028,084	3.9279 /3.924/3.928	227,927,526	49,905,093	3.8211 /3.81864	190,691,962
CNY	87,643,443	4.4661 /4.46798 /4.466/4.46928	391,436,735	92,478,345	4.5795 /4.58636 /4.58129	424,059,883
Non-Monetary items						
USD	6,752,230	30.7515 /30.733/30.751	207,531,069	6,498,639	29.8574 /29.848	193,977,485
HKD	9,306,579	3.9279 /3.924/3.928	36,522,331	11,585,481	3.8211 /3.81864	44,241,727
CNY	11,032,741	4.4661 /4.468 /4.466/4.469	50,298,333	9,914,733	4.5795 /4.58636 /4.58129	45,439,015
Derivatives						
USD	85,117	30.7515 /30.733 /30.748	2,616,084	321,835	29.8574 /29.848	9,606,430
Investments accounted for using equity method						
CNY	3,215,120	4.4661	14,359,049	2,402,699	4.580	11,003,161
HKD	2,241,539	3.928	8,804,540	2,400,559	3.821	9,172,776
KRW	-	-	-	128,167,435	0.028	3,588,688

(Continued)

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

	December 31, 2018			December 31, 2017		
	Foreign currency (in thousands)	Exchange rate (in dollars)	TWD	Foreign currency (in thousands)	Exchange rate (in dollars)	TWD
Financial liabilities:						
Monetary items						
USD	28,852,121	30.7515 /30.733/30.751	887,244,493	29,322,831	29.8574 /29.848	875,501,086
HKD	56,298,051	3.9279 /3.924/3.928	221,133,197	48,012,351	3.8211 /3.81864	183,460,171
CNY	73,495,556	4.4661 /4.46798	328,238,486	67,218,088	4.5795 /4.58636	307,825,207
Non-Monetary items						
USD	503,915	30.752	15,496,146	323,357	29.857	9,654,592
CNY	1,173,043	4.466	5,238,929	1,356,725	4.580	6,213,120
JPY	17,054,688	0.278	4,746,320	4,885,208	0.265	1,294,580
Derivatives						
USD	139,377	30.7515/30.733 /30.748	4,283,531	58,417	29.8574 /29.848	1,743,784

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

(ao) The following disclosures are only applicable to Taipei Fubon Bank, in accordance with relevant regulations

(i) Asset quality of overdue loans and overdue receivables

Units: In thousands of TWD, %

			December 31, 2018				
Item			Non-performing loan (NPL) (Note 1)	Total loans	NPL Ratio (%) (Note 2)	Loan loss reserves (LLR)	Coverage ratio (%) (Note 3)
Corporate loan	Secured		512,971	191,823,786	0.27	1,978,548	385.70
	Unsecured		1,047,609	379,345,823	0.28	5,592,090	533.80
Consumer loan	Mortgage (Note 4)		348,528	412,056,212	0.08	6,164,429	1,768.70
	Cash card		11	2,446	0.45	49	445.45
	Micro credit (Note 5)		52,312	27,798,268	0.19	318,822	609.46
	Others (Note 6)	Secured	112,861	201,103,666	0.06	2,165,679	1,918.89
		Unsecured	45,339	38,598,716	0.12	412,684	910.22
Total			2,119,631	1,250,728,917	0.17	16,632,301	784.68
			Overdue receivable	Account receivable	Delinquency ratio (%)	Allowance for credit losses	Coverage ratio (%)
Credit card			38,070	39,946,004	0.10	315,808	829.55
Account receivable factoring with no recourse (Note 7)			-	19,189,941	-	218,250	-
Excluded NPL as a result of debt consultation and loans agreement (Note 8)			50,809				
Excluded overdue receivables as a result of debt consultation and loans agreements (Note 8)			92,625				
Excluded NPL as a result of debt solvency and restart plan (Note 9)			854,417				
Excluded overdue receivables as a result of debt solvency and restart plan (Note 9)			402,004				

(Continued)

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

			December 31, 2017				
Item			Non-performing loan (NPL) (Note 1)	Total loans	NPL Ratio (%) (Note 2)	Loan loss reserves (LLR)	Coverage ratio (%) (Note 3)
Corporate loan	Secured		436,228	148,007,763	0.29	1,882,713	431.59
	Unsecured		1,086,644	428,430,815	0.25	5,665,294	521.36
Consumer loan	Mortgage (Note 4)		357,814	407,742,814	0.09	6,089,002	1,701.72
	Cash card		-	3,425	-	68	-
	Micro credit (Note 5)		57,911	22,362,155	0.26	265,722	458.85
	Others (Note 6)	Secured	122,529	171,831,739	0.07	1,864,785	1,521.91
		Unsecured	50,426	35,892,711	0.14	374,321	742.32
Total			2,111,552	1,214,271,422	0.17	16,141,905	764.46
			Overdue receivable	Account receivable	Delinquency ratio (%)	Allowance for credit losses	Coverage ratio (%)
Credit card			40,317	37,832,545	0.11	207,904	515.67
Account receivable factoring with no recourse (Note 7)			-	16,239,837	-	184,419	-
Excluded NPL as a result of debt consultation and loans agreement (Note 8)			77,260				
Excluded overdue receivables as a result of debt consultation and loans agreements (Note 8)			126,300				
Excluded NPL as a result of debt solvency and restart plan (Note 9)			841,057				
Excluded overdue receivables as a result of debt solvency and restart plan (Note 9)			438,345				

Note 1: For loan business: Overdue loans represent the amounts of reported overdue loans pursuant to the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Nonaccrual Loans” issued by the MOF.

For credit card business: Overdue receivables are regulated by the Banking Bureau letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: For loan business: $NPL\ Ratio = NPL / Total\ Loans$.

For credit card business: $Delinquency\ Ratio = Overdue\ receivable / Account\ receivable$.

Note 3: For loan business: $Coverage\ Ratio = LLR / NPL$

For credit card business: $Coverage\ Ratio = Allowance\ for\ credit\ losses / Overdue\ receivables$.

Note 4: Household mortgage means the purpose of financing is to purchase, build, or fix up the dwelling, and the dwelling owned by the borrower, spouse, or children fully secures the loan.

Note 5: Micro credit is regulated by the Banking Bureau letter dated December 19, 2005 (Ref. No. 09440010950).

Note 6: Others in consumer loan refer to secured or non-secured loans excluding mortgage, cash card, micro credit, and credit card.

Note 7: Account receivable – factoring with no recourse: As required by the Banking Bureau letter dated July 19, 2005 (Ref. No. 094000494), provision for bad debt is recognized once no compensation is received from the factoring or insurance company.

Note 8: The amounts of excluded NPL and excluded overdue receivables through financial debt negotiation and loan agreement were disclosed based on the interpretation issued by the Banking Bureau dated April 25, 2006 (Ref. 09510001270).

Note 9: The amounts of excluded NPL and excluded overdue receivables through debt solvency and restart plan were disclosed based on the interpretation issued by the Banking Bureau dated September 15, 2008 (Ref. 09700318940) and September 20, 2016 (Ref. 10500134790).

(Continued)

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

(ii) Concentration of credit extensions

Units: In thousands of TWD, %

December 31, 2018			
Rank (Note 1)	Group name (Note 2)	Credit extensions balance (Note 3)	% of net asset value
1	A group (other electronic parts and components manufacturing not elsewhere classified)	11,796,879	6.35
2	B group (petrochemicals manufacturing industry)	11,249,478	6.05
3	C group (Semiconductor packaging and testing industry)	10,562,360	5.68
4	D group (electronic passive devices manufacturing industry)	6,530,662	3.51
5	E group (ocean freight industry)	6,020,275	3.24
6	F group (Laptops, desktops, tablets, data centers and holding)	5,794,622	3.12
7	G group (Cable and other paid programming)	5,708,168	3.07
8	H group (real estate industry)	5,375,960	2.89
9	I group (LCD and its component manufacturing industry)	4,793,565	2.58
10	J group (LCD and its component manufacturing industry)	4,640,000	2.50

Units: In thousands of TWD, %

December 31, 2017			
Rank (Note 1)	Group name (Note 2)	Credit extensions balance (Note 3)	% of net asset value
1	A group (petrochemicals manufacturing industry)	11,566,839	6.43
2	B group (LCD and its component manufacturing industry)	11,249,797	6.25
3	C group (other electronic parts and components manufacturing not elsewhere classified)	8,300,759	4.61
4	D group (other electronic parts and components manufacturing not elsewhere classified)	8,267,889	4.59
5	E group (electronic passive components manufacturing)	8,240,000	4.58
6	F group (ocean freight industry)	7,272,046	4.04
7	G group (real estate industry)	5,971,397	3.32
8	H group (wire and cable manufacturing industry)	5,746,819	3.19
9	I group (ocean freight industry)	5,494,754	3.05
10	J group (Financial industry)	5,397,768	3.00

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Note 1: The list shows ranking by total amounts of credit, endorsement or other transactions (excluding those of government-owned or state-run enterprises). If the borrower is a member of a group enterprise, the total amount of credit, endorsement or other transactions of the entire group enterprise must be listed and disclosed by code and line of industry. The industry of the group enterprise should be presented as the industry of the member firm with the highest risk exposure. The lines of industry should be described in accordance with the Standard Industrial Classification System of the Republic of China published by the Directorate-General of Budget, Accounting and Statistics under the Executive Yuan.

Note 2: Groups enterprise refers to a group of corporate entities as defined by Article 6 of the Supplementary Provisions to the Taiwan Stock Exchange Corporation Criteria for Review of Securities Listings.

Note 3: The total amount of credits, endorsements or other transactions is the sum of various loans (including import and export negotiations, discounted, overdrafts, unsecured and secured short-term loans, margin loans receivable, unsecured and secured medium-term loans, unsecured and secured long-term loans and overdue loans), exchange bills negotiated, accounts receivable factored without recourse, acceptances and guarantees.

(iii) Interest rate sensitivity information

Interest Rate Sensitivity (TWD)

Units: In thousands of TWD, %

December 31, 2018					
Items	1-90 days	91-180 days	181-365 days	Over 1 year	Total
Interest rate-sensitive assets	\$ 1,206,940,828	77,757,449	53,952,929	187,557,450	1,526,208,656
Interest rate-sensitive liabilities	405,418,173	724,716,696	58,240,887	61,221,383	1,249,597,139
Interest rate sensitivity gap	801,522,655	(646,959,247)	(4,287,958)	126,336,067	276,611,517
Net worth					176,298,317
Ratio of interest rate-sensitive assets to liabilities (%)					122.14
Ratio of the interest rate sensitivity gap to net worth (%)					156.90

Units: In thousands of TWD, %

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

(Continued)

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

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

Note 2: Interest-rate sensitive assets and liabilities mean the revenues or costs of interest-earnings assets and interest-bearing liabilities affected by interest-rate changes.

Note 3: Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.

Note 4: Ratio of interest-rate sensitive assets to liabilities = Interest-rate sensitive assets/Interest-rate sensitive liabilities (New Taiwan dollars).

Interest Rate Sensitivity (USD)

Units: In thousands of USD, %

December 31, 2018					
Items	1-90 days	91-180 days	181-365 days	Over 1 year	Total
Interest rate-sensitive assets	\$ 11,417,278	794,595	744,913	6,120,007	19,076,793
Interest rate-sensitive liabilities	19,722,013	1,780,050	1,115,097	1,721,279	24,338,439
Interest rate sensitivity gap	(8,304,735)	(985,455)	(370,184)	4,398,728	(5,261,646)
Net worth					225,697
Ratio of interest rate-sensitive assets to liabilities (%)					78.38
Ratio of the interest rate sensitivity gap to net worth (%)					(2,331.29)

Units: In thousands of USD, %

December 31, 2017					
Items	1-90 days	91-180 days	181-365 days	Over 1 year	Total
Interest rate-sensitive assets	\$ 9,560,776	1,143,929	1,627,018	5,384,161	17,715,884
Interest rate-sensitive liabilities	19,847,063	2,122,642	1,283,277	1,330,223	24,583,205
Interest rate sensitivity gap	(10,286,287)	(978,713)	343,741	4,053,938	(6,867,321)
New worth					384,740
Ratio of interest rate-sensitive assets to liabilities (%)					72.06
Ratio of the interest rate sensitivity gap to net worth (%)					(1,784.93)

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

Note 2: Interest-rate sensitive assets and liabilities mean the revenues or costs of interest-earnings assets and interest-bearing liabilities affected by interest-rate changes.

Note 3: Interest-rate sensitive gap = Interest-rate sensitive assets - Interest-rate sensitive liabilities.

Note 4: Ratio of interest-rate sensitive assets to liabilities = Interest-rate sensitive assets/Interest-rate sensitive liabilities (U.S. dollars).

(Continued)

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

(iv) Profitability

Unit: %

Item		2018	2017
Return on total assets	Before income tax	0.82	0.76
	After income tax	0.70	0.67
Return on net worth	Before income tax	11.03	9.83
	After income tax	9.38	8.64
Profit margin		41.06	39.71

Note 1: Return on total assets = Income before (after) income tax/Average total assets.

Note 2: Return on net worth = Income before (after) income tax/Average net worth.

Note 3: Profit margin = Income after income tax/Total operating revenues.

Note 4: Income before (after) income tax represents income for the years ended December 31, 2018 and 2017.

(v) Maturity analysis

Maturity Analysis of Assets and Liabilities (TWD)

Units: In thousands of TWD

December 31, 2018							
	The amount for the remaining period to maturity						
	Total	0-10 days	11-30 days	31-90 days	91-180 days	181-365 days	Over 1 year
Main capital inflow on maturity	\$ 2,477,570,421	322,644,139	339,612,720	294,187,399	298,479,103	238,424,914	984,222,146
Main capital outflow on maturity	2,866,589,284	237,420,638	266,355,868	518,985,631	413,863,745	462,001,876	967,961,526
Gap	(389,018,863)	85,223,501	73,256,852	(224,798,232)	(115,384,642)	(223,576,962)	16,260,620

Units: In thousands of TWD

December 31, 2017							
	The amount for the remaining period to maturity						
	Total	0-10 days	11-30 days	31-90 days	91-180 days	181-365 days	Over 1 year
Main capital inflow on maturity	\$ 2,400,966,780	308,622,209	333,911,949	380,119,501	280,492,801	230,593,105	867,227,215
Main capital outflow on maturity	2,798,077,159	245,691,773	324,574,990	539,056,998	354,125,467	449,647,757	884,980,174
Gap	(397,110,379)	62,930,436	9,336,959	(158,937,497)	(73,632,666)	(219,054,652)	(17,752,959)

Note: The above amounts are book value of assets and liabilities held by headquarter and domestic branches of Taipei Fubon Bank and denominated is New Taiwan dollars.

Maturity Analysis of Assets and Liabilities (USD)

Units: In thousands of USD

December 31, 2018						
	The amount for the remaining period to maturity					
	Total	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year
Main capital inflow on maturity	\$ 82,748,414	32,250,010	22,917,984	11,687,374	5,498,085	10,394,961
Main capital outflow on maturity	87,993,221	41,143,680	19,943,521	10,848,157	8,485,067	7,572,796
Gap	(5,244,807)	(8,893,670)	2,974,463	839,217	(2,986,982)	2,822,165

(Continued)

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

Units: In thousands of USD

December 31, 2017						
	The amount for the remaining period to maturity					
	Total	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year
Main capital inflow on maturity	\$ 75,993,302	26,533,031	24,294,916	10,087,780	5,803,424	9,274,151
Main capital outflow on maturity	81,201,553	29,806,347	24,151,886	11,836,750	8,181,442	7,225,128
Gap	(5,208,251)	(3,273,316)	143,030	(1,748,970)	(2,378,018)	2,049,023

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

(vi) Statement of capital adequacy

			December 31, 2018		December 31, 2017	
			Consolidated	Bank	Consolidated	Bank
Eligible capital	Common equity Tier 1		181,088,191	173,945,127	174,030,583	161,746,125
	Additional Tier 1 capital		7,535,526	237,525	1,776,375	-
	Tier 2 capital		36,946,319	22,377,621	39,150,749	24,383,575
	Eligible capital		225,570,036	196,560,273	214,957,707	186,129,700
Risk-weighted assets	Credit risk	Standardized approach	1,537,630,004	1,285,291,652	1,489,062,544	1,236,150,633
		Internal rating-based approach	-	-	-	-
		Securitization	1,179,928	1,179,928	160,367	160,367
	Operational risk	Basic indicator approach	-	-	-	-
		Standardized approach / Alternative standardized approach	77,798,950	68,197,950	74,847,625	64,516,213
		Advance measurement approach	-	-	-	-
	Market risk	Standardized approach	55,272,575	51,063,500	38,235,838	35,271,988
		Internal models approach	-	-	-	-
	Total risk-weighted assets		1,671,881,457	1,405,733,030	1,602,306,374	1,336,099,201
	Capital adequacy ration			13.49 %	13.98 %	13.42 %
Common equity-based capital ratio			10.83 %	12.37 %	10.86 %	12.11 %
Tier 1 risk-based capital ratio			11.28 %	12.39 %	10.97 %	12.11 %
Ratio of financial leverage			6.53 %	6.79 %	6.20 %	6.44 %

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

Note 2: The formula:

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

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

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

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

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

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

(Continued)

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

(7) Related-party transactions:

(a) Names and relationships of related parties

Name of related party	Relationship with the Company and its subsidiaries
Fubon Property Management Co., Ltd. (Fubon Property Management)	Related parties in substance
Taiwan Stock Exchange Corporation (Taiwan Stock Exchange)	Related parties in substance
Taiwan Futures Exchange Corporation (Taiwan Futures Exchange)	Related parties in substance
momo.com Inc. (momo)	Related parties in substance
Fubon Land Development Co., Ltd. (Fubon Land Development)	Related parties in substance
Taipei Fubon Commercial Bank Charity Foundation	Related parties in substance
Fubon Art Foundation	Related parties in substance
Fubon Cultural & Education Foundation	Related parties in substance
Fubon Charity Foundation	Related parties in substance
Taiwan Insurance Institute	Related parties in substance
Funds Managed by Fubon Asset Management	Related parties in substance
Taiwan Fixed Network Co., Ltd. (Taiwan Fixed Network)	Related parties in substance
TFN Media Co., Ltd. (TFN Media)	Related parties in substance
Taiwan High Speed Rail Corporation (Taiwan High Speed Rail)	Related parties in substance
Taiwan Mobile Co., Ltd. (Taiwan Mobile)	Related parties in substance
Taipei New Horizon Co., Ltd. (Taipei New Horizon)	Related parties in substance
Taiwan Depository & Clearing Corporation (Taiwan Depository & Clearing)	Related parties in substance
Taiwan Pelican Express Co., LTD. (Taiwan Pelican Express)	Related parties in substance
YAHOO! Taiwan Holdings Limited	Related parties in substance
Kbro Media Co., Ltd. (Kbro Media)	Related parties in substance
Kbro Co., Ltd. (Kbro)	Related parties in substance
TAROKO Development Co., Ltd. (TAROKO Development)	Related parties in substance
TAROKO Mall Co., Ltd. (TAROKO Mall)	Related parties in substance
Far Eastern International Bank Co., Ltd. (Far Eastern Bank)	Related parties in substance
Xiamen Bank Co., Ltd. (Xiamen Bank)	Related parties in substance

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Name of related party	Relationship with the Company and its subsidiaries
Fubon Gehua (Beijing) Enterprise Ltd. (Fubon Gehua)	Related parties in substance
Teng Fu Bo Investment Limited (Teng Fu Bo Investment)	Related parties in substance
Convoy Financial Service Limited (Convoy Financial Service)	Related parties in substance
EasyCard Corporation	Related parties in substance
Lion Travel Co., Ltd. (Lion Travel)	Related parties in substance
Formosa Petrochemical Corporation	Related parties in substance
Powerchip Technology Co., Ltd. (Powerchip Technology)	Related parties in substance
Long Time Tech. Co., Ltd. (Long Time Tech.)	Related parties in substance
The Non-Life Insurance Association of the Republic of China (The Non-Life Insurance Association)	Related parties in substance
Taiwan Securities Association	Related parties in substance
Taihsin Property Insurance Agent Co., Ltd. (Taihsin Property Insurance Agent)	Related parties in substance
Harbin Bank Co., Ltd (Harbin Bank)	Related parties in substance
ICDC (Beijing) China Co., Ltd. (ICDC)	Related parties in substance (not related parties in substance from the second quarter of 2018)
Taiwan Win TV Media CO., Ltd. (Taiwan Win TV)	Related parties in substance
Inventec Co., Ltd (Inventec)	Related parties in substance
Metropolitan transport Co., Ltd. (Metropolitan transport)	Related parties in substance
Ying Bao Development Ltd.	Related parties in substance
Chien Kuo Construction Co., Ltd.	Related parties in substance (not related parties in substance from the forth quarter of 2018)
Alltek Technology Co., Ltd. (Alltek Technology)	Related parties in substance (not related parties in substance from the second quarter of 2017)
Chung Hsing Land Development Co., Ltd. (Chung Hsing Land Development)	A major stockholder of the Company
Ming-Dong Industrial Co., Ltd. (Ming-Dong Industrial)	A major stockholder of the Company
Taipei City Government	A major stockholder of the Company
Others	Directors, supervisors, managers and their relatives up to the second degree, affiliates and the related parties in substance

(Continued)

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

(b) Significant transactions with related parties

(i) Insurance revenue and insurance receivable:

	Insurance receivable		Insurance receivable	
	2018	2017	2018	2017
Formosa Petrochemical Corporation	\$ 13,020	7,896	-	-
Taiwan Mobile	580,066	583,875	48,459	60,061
Taiwan High Speed Rail	163,063	35,070	82,879	20,961
Taipei City Government	41,938	85,735	-	-
Taipei New Horizon	16,565	15,812	16,270	16,550
momo	39,673	26,452	8,951	7,937
Taiwan Pelican Express	22,775	20,945	-	1
Powerchip Technology	35,090	33,388	148	15,560
Kbro	19,772	627	-	-
Inventec	16,355	205	10,427	-
Metropolitan transport	25,189	-	78	-
Related parties in substance (individual)	1,411,489	1,031,059	-	44
Others (not related company or person accounts for more than \$10,000 or 10%)	81,659	60,320	19,151	13,545
Total	\$ 2,466,654	1,901,384	186,363	134,659

Premium rates were calculated in accordance with the relevant provisions of the Insurance Act, and were not materially different from the general trading terms.

(ii) Rental revenue and guarantee deposits:

	2018	2017
Rental revenue:		
momo	\$ 111,935	108,170
TAROKO Development	38,333	115,000
Kbro Media	58,118	51,438
Kbro	24,351	23,306
TAROKO Mall	76,667	-
TFN Media	11,784	11,582
Taiwan Fixed Network	42,794	41,695
Taiwan Mobile	39,980	41,365
Others (not related company or person accounts for more than \$10,000 or 10%)	18,511	7,357
Total	\$ 422,473	399,913

(Continued)

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

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

	December 31, 2018	December 31, 2017
Advanced real estate receipts:		
Others (not related company or person accounts for more than \$10,000 or 10%)	\$ 6,926	8,445
Guarantee deposits:		
momo	\$ 30,077	27,219
TAROKO Mall	35,000	-
TAROKO Development	-	35,000
TFN Media	3,093	2,934
Kbro	5,694	6,393
Taiwan Fixed Network	10,899	10,688
Taiwan Mobile	9,101	9,490
Others (not related company or person accounts for more than \$10,000 or 10%)	8,546	1,858
Total	\$ 102,410	93,582

The aforementioned guarantee deposits are for leasing investment properties. The performance guarantees of Kbro Media amounting to \$26,345, of TAROKO Shopping Center amounting to \$22,500 were also acquired.

(iii) Rental expense and refundable deposits:

	2018	2017
Rental expense:		
Chung Hsing Land Development	\$ 257,758	220,612
Ming-Dong Industrial	25,069	25,279
Taipei City Government	337,754	358,801
Fubon REIT I Fund	198,112	175,353
Fubon REIT II Fund	149,909	150,476
Taiwan Fixed Network	29,339	22,727
Fubon Charity Foundation	16,092	6,601
Related parties in substance (individual)	35,025	35,047
Others (not related company or person accounts for more than \$10,000 or 10%)	14,217	13,356
Total	\$ 1,063,275	1,008,252

(Continued)

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

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

	December 31, 2018	December 31, 2017
Refundable deposits:		
Chung Hsing Land Development	\$ 37,436	37,436
Ming-Dong Industrial	4,094	4,094
Taipei City Government	4,244	4,244
Fubon REIT I Fund	49,786	48,190
Fubon REIT II Fund	38,216	28,696
Fubon Charity Foundation	2,512	1,027
Related parties in substance (individual)	5,837	5,837
Others (not related company or person accounts for more than \$10,000 or 10%)	987	822
Total	<u>\$ 143,112</u>	<u>130,346</u>

(iv) Other deposits

	December 31, 2018	December 31, 2017	Note
Taipei City Government	\$ 1,223,476	1,127,204	Construction/ Superficies Margin lending
Taiwan Stock Exchange	4,237,952	-	
Others (not related company or person accounts for more than \$10,000 or 10%)	4,230	1,051	
Total	<u>\$ 5,465,658</u>	<u>1,128,255</u>	

(v) Deposits

	December 31, 2018		December 31, 2017	
		Interest rate range		Interest rate range
Name of related party	Amount	%	Amount	%
Xiamen Bank	\$ 870,557	1.9~2.6	868,773	1.75~2.00
Far Eastern Bank	314,265	2.1~2.6	-	-
Others	<u>71,666,340</u>	0~8.00	<u>45,085,459</u>	0~8.00
Total	<u>\$ 72,851,162</u>		<u>45,954,232</u>	

(Continued)

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

(vi) Loans

Name of related party	December 31, 2018		December 31, 2017	
	Amount	Interest rate range %	Amount	Interest rate range %
Others	<u>\$ 35,138,208</u>	0~14.98	<u>3,932,336</u>	0~14.98

Units: In thousands of TWD

December 31, 2018							
Category	Amount or name of related party	Highest balance	Ending balance	Compliance Situation		Type of collateral	Differences in transaction terms between related and non related parties
				Normal	Overdue		
Consumer loans	79	58,976	32,375	✓	-	None	None
House mortgages	385	4,465,107	3,543,052	✓	-	Real estate	None
Others	Department of Urban Development, Taipei City Government	647,319	541,310	✓	-	Public treasury guarantees	None
	Department of Rapid Transit systems, Taipei City Government	27,004,874	27,004,874	✓	-	Public treasury guarantees	None
	Taipei Municipal Secured Small Loans Service	458	167	✓	-	Public treasury guarantees	None
	ICDC	89,322	-	✓	-	Standby Letter of Credit	None
	Department of Sports, Taipei City Government	4,000,000	4,000,000	✓	-	Public treasury guarantees	None
	Long Time Tech.	18,862	15,906	✓	-	None	None
	Other loans	638	524	✓	-	Credit Guarantee Fund	None
Total		36,285,556	35,138,208				

(Continued)

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

Units: In thousands of TWD

December 31, 2017							
Category	Amount or name of related party	Highest balance	Ending balance	Compliance Situation		Type of collateral	Differences in transaction terms between related and non related parties
				Normal	Overdue		
Employee Consumer loans	77	48,719	35,409	✓	-	Partially provide deposits as collateral	None
House mortgages	373	4,014,584	3,249,407	✓	-	Real estate	None
Others	Department of Urban Development, Taipei City Government	771,519	646,424	✓	-	Public treasury guarantees	None
	Department of Rapid Transit systems, Taipei City Government	8,000,000	-	✓	-	Public treasury guarantees	None
	Department of Sports, Taipei City Government	1,000,000	-	✓	-	Public treasury guarantees	None
	Taipei Municipal Secured Small Loans Service	813	458	✓	-	Public treasury guarantees	None
	Fubon Land Development	2,290,800	-	✓	-	Construction, land and domestic listed stocks	None
	Fubon Gehua	137,385	-	✓	-	Stand by Letter of Credit	None
	Alltek Technology	39,134	-	✓	-	Clean credit	None
	Teng Fu Bo Investment	68,693	-	✓	-	Pledged deposits and Standby Letter of Credit	None
	Other loans	752	638	✓	-	Credit Guarantee Fund	None
Total		16,372,399	3,932,336				

(vii) Guarantees

Units: In thousands of TWD

December 31, 2018					
Related party	Highest balance for the period	Ending balance	Provision (Note)	Rates (%)	Type of collateral
Taipei City Government	1,239	1,230	-	1%	Public treasury guarantees

December 31, 2017					
Related party	Highest balance for the period	Ending balance	Provision (Note)	Rates (%)	Type of collateral
Taipei City Government	1,291	1,194	-	1%	Public treasury guarantees
Taipei New Horizon	16,250	-	-	0.85%	Buildings, excluding land

Note: Guarantee provisions are reversed based on all claims.

(Continued)

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

(viii) Details of financing activities:

1) Secured loans

December 31, 2018						
Category	Numbers or name of related party	Highest balance	Ending balance	Compliance situation	Type of collateral	Difference in transaction terms between related and unrelated parties
Residential mortgage loans	53 related parties in substance	\$ <u>409,583</u>	<u>397,891</u>	Normal loans	Real estate	None

December 31, 2017						
Category	Numbers or name of related party	Highest balance	Ending balance	Compliance situation	Type of collateral	Difference in transaction terms between related and unrelated parties
Residential mortgage loans	51 related parties in substance	\$ <u>356,741</u>	<u>348,046</u>	Normal loans	Real estate	None

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

2) Life insurance loans:

December 31, 2018						
Category	Numbers or name of related party	Highest balance	Ending balance	Compliance situation	Type of collateral	Difference in transaction terms between related and nonrelated parties
Life insurance loans	126 related parties in substance	\$ <u>59,581</u>	<u>39,473</u>	Normal loans	Policy value	None

December 31, 2017						
Category	Numbers or name of related party	Highest balance	Ending balance	Compliance situation	Type of collateral	Difference in transaction terms between related and nonrelated parties
Life insurance loans	120 related parties in substance	\$ <u>49,720</u>	<u>40,842</u>	Normal loans	Policy value	None

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

(Continued)

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

(ix) Derivative financial instruments (notional amount)

<u>Name of related party</u>	<u>Financial instrument</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Harbin Bank	Foreign currency swap contracts	\$ -	3,587,221
Far Eastern Bank	Interest rate swap contracts	2,100,000	-
Total		<u><u>\$ 2,100,000</u></u>	<u><u>3,587,221</u></u>

(x) Other income

1) Service fees

<u>Name of related party</u>	<u>2018</u>	<u>2017</u>
momo	\$ 105,034	122,920
Taiwan Mobile	212,384	224,994
YAHOO! Taiwan Holdings Limited	13,762	15,539
Others (not related company or person accounts for more than \$10,000 or 10%)	36,836	40,459
Total	<u><u>\$ 368,016</u></u>	<u><u>403,912</u></u>

2) Dividend revenue

<u>Name of related party</u>	<u>2018</u>	<u>2017</u>
Taiwan Stock Exchange	\$ 35,750	17,439
Taiwan Futures Exchange	18,004	10,536
Others	14,631	6,803
Total	<u><u>\$ 68,385</u></u>	<u><u>34,778</u></u>

3) Management income

<u>Name of related party</u>	<u>2018</u>	<u>2017</u>
Funds managed by Fubon Asset Management and authorization accounts	<u><u>\$ 924,440</u></u>	<u><u>882,336</u></u>

4) Sales commissions

<u>Name of related party</u>	<u>2018</u>	<u>2017</u>
Funds managed by Fubon Asset Management and authorization accounts	<u><u>\$ 56,125</u></u>	<u><u>30,500</u></u>

(Continued)

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

5) Handling fee income

<u>Name of related party</u>	<u>2018</u>	<u>2017</u>
Others (not related company or person accounts for more than \$10,000 or 10%)	\$ <u><u>135,602</u></u>	<u><u>136,597</u></u>

6) Sponsorship income, sales revenue, royalty income and unearned revenue

	<u>2018</u>	<u>2017</u>
Taiwan Mobile	\$ 40,500	34,972
momo	33,976	28,217
Taiwan Win TV	49,711	-
Others (not related company or person accounts for more than \$10,000 or 10%)	1,368	3,862
Total	\$ <u><u>125,555</u></u>	<u><u>67,051</u></u>

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Others (not related company or person accounts for more than \$10,000 or 10%)	\$ <u><u>-</u></u>	<u><u>417</u></u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(xi) Other expenses

Name of related party	Category	2018	2017
Taiwan Fixed Network	Phone expenses, telecom expenses, network equipment rental expenses and maintenance expenses	\$ 280,848	309,672
Taiwan Mobile	Telecom expenses, marketing fee and service fee	62,945	49,633
Fubon Property Management	Management fees and investment property expenses	213,664	182,322
Fubon Land Development	Consulting fee and service fee	21,955	39,237
Taiwan Stock Exchange	Brokerage commissions, computer information fee, issuing call warrant fee and dealing fee	273,771	229,546
Taiwan Depository & Clearing	Depository and clearing fee	134,566	90,673
Taiwan Futures Exchange	Brokerage commissions, clearing and settlement fee and dealing fee	197,163	164,805
Taipei High Speed Rail	Service fee	9,179	17,141
EasyCard Corporation	Service fee	9,104	10,529
Convoy Financial Service	Commission expenses 、 Sales bonus	22,666	30,395
Lion Travel	Marketing expenses	4,947	10,914
Taihsin Property Insurance Agent	Acquisition commission and service fees	45,690	-
The Taiwan Insurance Institute	Postage expenses, advertising expenses and other expenses	19,799	17,937
Taiwan Securities Association		11,828	-
Fubon REIT 1 Fund		22,955	-
The Non-Life Insurance Association	Postage expenses, advertising expenses and other expenses	12,274	11,700
Others (not related company or person accounts for more than \$10,000 or 10%)	Service fees, commission expenses and other expenses	71,206	54,356
Total		<u><u>\$ 1,414,560</u></u>	<u><u>1,218,860</u></u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(xii) Bond transaction

1) Bonds sold under repurchase agreement

Name of related party	December 31, 2018	December 31, 2017
Taiwan High Speed Rail	\$ 4,678,000	-
Taiwan Fixes Network	146,013	-
Directors, supervisors, managers and their relatives up to the second degree, affiliates and the related parties in substance	4,075,288	4,815,085
Total	<u>\$ 8,899,301</u>	<u>4,815,085</u>

2) Bonds and bills transactions

Bonds purchased

Name of related party	2018	2017
Xiamen Bank	<u>\$ -</u>	<u>687,990</u>

(xiii) Donations

Donations to related parties were as follows:

	2018	2017
Taipei Fubon Commercial Bank Charity Foundation	\$ 27,000	25,500
Fubon Art Foundation	47,455	53,893
Fubon Cultural & Education Foundation	52,510	96,170
Fubon Charity Foundation	53,013	53,465
Others (not related company or person accounts for more than \$10,000 or 10%)	8,330	8,438
Total	<u>\$ 188,308</u>	<u>237,466</u>

(xiv) Other receivables and payables

Name of related party	December 31, 2018	December 31, 2017
Funds managed by Fubon Asset Management	\$ 353,047	99,674
Taiwan Depository & Clearing	(5,687)	(7,417)
Taiwan Stock Exchange	(12,938)	-
Taiwan Futures Exchange	(12,855)	(235)
Convoy Financial Service	(5,882)	(11,045)
Chien Kuo Construction	-	(25,252)
Taiwan Win TV	26,166	-
Others (not related company or person accounts for more than \$10,000 or 10%)	20,129	204
Total	<u>\$ 361,980</u>	<u>55,929</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(xv) Futures traders' equity

Name of related party	December 31, 2018	December 31, 2017
Funds managed by Fubon Asset Management	\$ 6,465,477	10,767,127

(xvi) The details of the fund's balance from related parties Fubon Asset Management were as follows:

Name of related party	December 31, 2018	December 31, 2017
Fubon Chi-Hsiang Money Market Fund	\$ 1,159,095	3,028,017
Fubon Strategic High Income	15,699	118,276
Fubon Fund	246,470	131,105
Fubon Taiwan Technology ETF	207,868	220,961
Fubon MSCI Taiwan ETF	155,562	142,305
Fubon Taiwan Finance ETF	173,905	163,393
Fubon Taiwan Eight Industries ETF	141,243	157,920
Fubon SZSE 100 ETF	113,394	169,642
Fubon China High Yield Bd CNY	67,249	123,905
Fubon China Money Market CNY	40,761	30,426
Fubon China Investment Grade Bond Fund - CNY	25,345	48,642
Fubon China Growth Fund	10,181	7,330
Fubon FTSE TWSE Taiwan 50 ETF	884,378	982,110
Fubon SSE180 ETF	16,133	73,102
Fubon SSE180 Leveraged Inversed 2X Index ETF	31,371	115,556
Fubon SSE180 Inversed Index ETF	487	1,351
Fubon Elite Fund	514	542
Fubon Global REIT Fund	5,139	5,306
Fubon Global Investment Fund	17,835	9,744
Fubon TOPIX ETF	452	1,931
Fubon TOPIX Leveraged 2X Index Fund	950	18,444
Fubon TOPIX Inverse 1X Index ETF	589	2,536
Fubon NIFTY ETF	1,314	1,073
Fubon NIFTY 2X Leveraged Index ETF	7,887	25,425
Fubon NIFTY 1X Inverse Index ETF	30	1,154
Fubon NASDAQ 100 ETF	36,277	45,461
Fubon Hang Seng China Enterprises ETF	14,755	43,014
Fubon Hang Seng H-Share 2X Leveraged Index ETF	23,949	64,645
Fubon Hang Seng H-Share 1X Inverse Index ETF	30,670	27,784
Fubon TAIEX Daily 2X Leveraged ETF	19,409	1,757
Fubon TAIEX Daily 1X Inverse ETF	6,324	17,185
Fubon S&P 500 VIX Short Term Futures ETF	20,717	42,124
Fubon Euro Asia Silk Road Multi Asset Fund	33,871	56,189
Fubon TWSE Corporate Governance 100 ETF	976,320	1,046,313
Fubon 1-3 Years US Treasury Bond ETF	3,096,063	36,788

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Name of related party	December 31, 2018	December 31, 2017
Fubon 7-10 Years US Treasury Bond ETF	\$ 119,600	243,706
Fubon 20+Years US Treasury Bond ETF	2,080,560	253,549
Fubon FTSE Developed Europe ETF	9,322	23,077
Fubon NASDAQ 100 1X Inverse Index ETF	19,322	867
Fubon NASDAQ 100 2X Leveraged Index ETF	41,733	18,228
Fubon China Policy Bank Bond 0-1 ETF	8,151	-
Fubon 9-35 Years US Corporate Bond A ETF	3,848,082	-
Fubon Technology Fund	334	-
Fubon China Multi-Asset Fund	31,381	90,734
Fubon India and Indonesia Sovereign Bond Fund ETF	20,204	-
Fubon S&P US Preferred Stock ETF	1,793,537	451,086
Fubon US Corporate Bond ETF Umbrella Fund - Fubon 10+Years US Corporate Bond BBB Ex China	198,697	-
Fubon US Corporate Bond ETF Umbrella Fund - Fubon 1-5 Years US High Yield Bond Ex China	201,402	-
Fubon China Policy Bank Bond ETF	5,005,801	-
Fubon Taiwan Small-Mid Cap Alpha Momentum 50 ETF	2,179	-
Fubon Dow Jones Taiwan High-Quality Dividend 30 ETF	191	-
Total	\$ 20,962,702	8,042,703

The Company and its subsidiaries has acquired Fubon REIT I Fund and Fubon REIT II Fund as follows:

Name of related party	December 31, 2018	December 31, 2017
Fubon REIT I Fund	\$ 2,887,963	1,492,251
Fubon REIT II Fund	1,859,785	865,747
Total	\$ 4,747,748	2,357,998

(xvii) Clearing and settlement fund

Name of related party	December 31, 2018	December 31, 2017
Taiwan Stock Exchange	\$ 143,704	103,924
Taiwan Futures Exchange	140,414	148,063
Total	\$ 284,118	251,987

(xviii) Deal on credit

As of December 31, 2018 and 2017, the Company and its subsidiaries had receivables from other related parties' pecuniary finance amounting to \$119,353 and \$247,872.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(xix) Customer margin deposit

<u>Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taiwan Futures Exchange	\$ <u>2,415,595</u>	<u>2,032,930</u>

(xx) Transaction of property

1) Payments of investment and held-for-use property are:

<u>Name of related party</u>	<u>Category</u>	<u>2018</u>	<u>2017</u>
Fubon Land Development	Consultancy fees	\$ 54,395	27,860
Taipei City Government	Prepaid rental expense-superficies, construction contracts and rental of public hearings facilities	555,707	17,357
Chien Kuo Construction	Construction contracts	395,627	240,494
Total		\$ <u>1,005,729</u>	<u>285,711</u>

- 2) For the year ended December 31, 2017, the Company and its subsidiaries purchased computer equipment from Taiwan Fixed Network amounting to \$46,336.
- 3) For the year ended December 31, 2017, the Company and its subsidiaries paid leasehold improvements costs of \$34,280 to Taiwan Fixed Network.
- 4) In May 2018, the Company and its subsidiaries sold investment property to Ying Bao Development Ltd. amounting to \$3,550,000.

(xxi) Others

<u>Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Principal of structured products	\$ <u>92,557</u>	<u>22,057</u>

(c) Compensation to executive officers

Executive officers' compensation comprised:

	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 1,915,454	1,972,589
Post-employment benefits	44,768	44,152
Other long-term employee benefits	6,603	6,579
	\$ <u>1,966,825</u>	<u>2,023,320</u>

For share-based payment information please refer to note 6 (ae).

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (d) Information on related party transactions amounting to more than \$100,000

If a transaction occurs between two subsidiaries, only one subsidiary needs to disclose its related party information, and the inter-company transaction is eliminated in the consolidated financial statements.

- (i) The Company

- 1) Name and relationship of related party

<u>Name of related party</u>	<u>Relationship with the Company and its subsidiaries</u>
Fubon Bank (Hong Kong) Limited (Fubon Bank (Hong Kong))	The subsidiary
Fubon Life Insurance Co., Ltd. (Fubon Life Insurance)	The subsidiary
Fubon Insurance Co., Ltd. (Fubon Insurance)	The subsidiary
Fubon Securities Co., Ltd. (Fubon Securities)	The subsidiary
Taipei Fubon Bank Co., Ltd. (Taipei Fubon Bank)	The subsidiary

- 2) Significant transactions with related parties were as follows:

- a) Bank deposits

<u>Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taipei Fubon Bank	\$ <u><u>6,255,385</u></u>	<u><u>187,384</u></u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

b) The investment balance details:

i) Balance of investment

<u>Name of security</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Fubon Bank (Hong Kong) - non-cumulative subordinated securities	\$ -	5,762,478
Fubon Life Insurance - non-cumulative perpetual subordinated corporate bonds	20,236,023	-
Total	<u>\$ 20,236,023</u>	<u>5,762,478</u>

ii) Interest receivables

<u>Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Fubon Life Insurance	<u>\$ 552,329</u>	<u>-</u>

iii) Interest revenue

<u>Name of related party</u>	<u>2018</u>	<u>2017</u>
Fubon Life Insurance	\$ 552,329	-
Fubon Bank (Hong Kong)	285,261	-
Total	<u>\$ 837,590</u>	<u>-</u>

c) Others

<u>Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Fubon Life Insurance—income tax receivables	\$ 232,325	6,690,036
Taipei Fubon Bank—income tax receivables	1,449,470	762,392
Fubon Insurance—income tax receivables	227,557	147,392
Fubon Securities—income tax receivables	277,627	265,576
Total	<u>\$ 2,186,979</u>	<u>7,865,396</u>

(ii) Fubon Insurance and its subsidiaries

1) Name and relationship of related party

<u>Name of related party</u>	<u>Relationship with the Company</u>
Taipei Fubon Bank Co., Ltd. (Taipei Fubon Bank)	Company controlled by Fubon Financial Holdings
Taiwan Mobile Co., Ltd. (Taiwan Mobile)	Related parties in substance

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Name of related party</u>	<u>Relationship with the Company</u>
Funds managed by Fubon Asset Management	Related parties in substance
Taiwan High Speed Rail Co., Ltd. (Taiwan High Speed Rail)	Related parties in substance

2) Significant transactions with related parties were as follows:

a) Bank deposits

<u>Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taipei Fubon Bank	\$ <u>1,097,330</u>	<u>1,268,222</u>

b) Premium revenue with related party were as follows:

i) Premium revenue

<u>Name of related party</u>	<u>2018</u>	<u>2017</u>
Taiwan High Speed Rail	\$ 148,247	21,562
Taiwan Mobile	<u>578,872</u>	<u>582,227</u>
Total	\$ <u>727,119</u>	<u>603,789</u>

ii) Premium receivables arose from premium revenue

<u>Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taiwan High Speed Rail	\$ 82,879	20,961
Taiwan Mobile	<u>48,459</u>	<u>60,061</u>
Total	\$ <u>131,338</u>	<u>81,022</u>

c) Funds were as follows:

<u>Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Fubon China Policy Bank Bond ETF	\$ 145,250	-
Fubon 7-10 Years US Treasury Bond ETF	<u>118,650</u>	<u>-</u>
Total	\$ <u>263,900</u>	<u>-</u>

d) Rental revenue (accounted for gain on rental estate investments)

<u>Name of related party</u>	<u>2018</u>	<u>2017</u>
Taipei Fubon Bank	\$ <u>100,947</u>	<u>104,494</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- e) Fubon Insurance has acquired Fubon REIT I Fund and Fubon REIT II Fund :

<u>Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Fubon REIT I Fund	\$ 835,269	731,854
Fubon REIT II Fund	816,165	736,492
Total	<u>\$ 1,651,434</u>	<u>1,468,346</u>

- (iii) Fubon Life Insurance and its subsidiaries

- 1) Name and relationship of related party

<u>Name of related party</u>	<u>Relationship with the Company</u>
Fubon Financial Holdings Co., Ltd. (Fubon Financial Holdings)	Parent Company
Fubon Securities Co., Ltd. (Fubon Securities)	Company controlled by Fubon Financial Holdings
Taipei Fubon Bank Co., Ltd. (Taipei Fubon Bank)	Company controlled by Fubon Financial Holdings
Fubon Insurance Co., Ltd. (Fubon Insurance)	Company controlled by Fubon Financial Holdings
Fubon Bank (Hong Kong) Limited (Fubon Bank (Hong Kong))	Company controlled by Fubon Financial Holdings
Fubon Property Management Co., Ltd. (Fubon Property Management)	Related parties in substance
Funds managed by Fubon Asset Management	Related parties in substance
Taipei City Government	Related parties in substance
momo.com Inc. (momo)	Related parties in substance
TAROKO Development Co., Ltd. (TAROKO Development)	Related parties in substance
Chien Kuo Construction Co., Ltd. (Chien Kuo Construction)	Related parties in substance (not related parties in substance from the forth quarter of 2018)
Taiwan Fixed Network Co., Ltd. (Taiwan Fixed Network)	Related parties in substance
Others	Directors, supervisors, managers and their relatives up to the second degree; affiliates and the related parties in subsidiary

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Significant transactions with related parties

a) Bank deposits

<u>Nature of deposits</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taipei Fubon Bank:		
Check deposits	\$ 79,365	50,173
Demand deposits	4,643,860	5,471,350
Time deposits	1,879,724	1,360,172
Structured deposits	-	1,766,861
Fubon Bank (Hong Kong):		
Demand deposits	699,660	987,926
Time deposits	818,142	-
Total	<u><u>\$ 8,120,751</u></u>	<u><u>9,636,482</u></u>

b) Interest revenues

<u>Name of related party</u>	<u>2018</u>	<u>2017</u>
Taipei Fubon Bank	<u><u>\$ 112,873</u></u>	<u><u>177,893</u></u>

c) Interest receivables

<u>Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taipei Fubon Bank	<u><u>\$ 9,602</u></u>	<u><u>12,072</u></u>

d) Loans

Secured loans

<u>December 31, 2018</u>						
<u>Category</u>	<u>Numbers or name of related party</u>	<u>Highest Balance</u>	<u>Ending Balance</u>	<u>Compliance situation</u>	<u>Type of Collateral</u>	<u>Differences in transaction terms between related and non related parties</u>
Residential mortgage loans	53 related parties in substance	\$ <u>409,583</u>	<u>397,891</u>	Normal loan	Real Estate	None
<u>December 31, 2017</u>						
<u>Category</u>	<u>Numbers or name of related party</u>	<u>Highest Balance</u>	<u>Ending Balance</u>	<u>Compliance situation</u>	<u>Type of Collateral</u>	<u>Differences in transaction terms between related and non related parties</u>
Residential mortgage loans	51 related parties in substance	\$ <u>356,741</u>	<u>348,046</u>	Normal loan	Real Estate	None

The transaction terms are identical to those of other market participants.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

e) Funds were as follows:

Name of related party	December 31, 2018	December 31, 2017
Fubon Chi-Hsiang Money Market Fund	\$ 702,511	2,405,344
Fubon Taiwan Technology ETF	198,598	218,165
Fubon MSCI Taiwan ETF	129,112	138,746
Fubon Taiwan Eight Industries ETF	138,215	155,724
Fubon Taiwan Finance ETF	165,216	161,162
Fubon 1-5 Years High Yield Bond Fund ETF	201,402	-
Fubon SZSE 100 ETF	101,731	153,729
Fubon FTSE TWSE Taiwan 50 ETF	873,180	979,860
Fubon 7-10 Years US Treasury Bond ETF	-	234,158
Fubon 20+Years US Treasury Bond ETF	2,077,412	241,954
Fubon S&P US Preferred Stock ETF	1,722,683	410,348
Fubon China Policy Bank Bond ETF	4,680,564	-
Fubon TWSE Corporate Governance 100 ETF	966,500	1,042,000
Fund-Fubon 10+ Years US Corporate Bond BBB Ex China	198,697	-
Fubon 1-3 Years US Treasury Bond ETF	3,088,427	-
Fubon 9-35 Years US Corporate Bond A ETF	3,843,315	-
Total	<u><u>\$ 19,087,563</u></u>	<u><u>6,141,190</u></u>

f) Fubon Life Insurance has acquired Fubon REIT I Fund and Fubon REIT II Fund:

Name of related party	December 31, 2018	December 31, 2017
Fubon REIT I Fund	\$ 834,769	731,417
Fubon REIT II Fund	918,728	829,043
Total	<u><u>\$ 1,753,497</u></u>	<u><u>1,560,460</u></u>

g) Bond transactions:

Sales of bonds

Name of related party	2018	2017
Fubon Securities	\$ -	1,119,635
Taipei Fubon Bank	4,438,660	22,840,636
	<u><u>\$ 4,438,660</u></u>	<u><u>23,960,271</u></u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

h) Other receivables:

<u>Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Fubon Financial Holding	\$ 6,036,170	77,051
Fubon Insurance	145,455	121,707
Total	<u>\$ 6,181,625</u>	<u>198,758</u>

i) Premium Revenue:

<u>Name of related party</u>	<u>2018</u>	<u>2017</u>
Related parties in substance	\$ 276,216	94,222
Others (not related company or person accounts for more than \$10,000 or 10%)	1,163,147	971,213
Total	<u>\$ 1,439,363</u>	<u>1,065,435</u>

Premium rates were calculated in accordance with the relevant provisions of the Insurance Act, and were not materially different from the general trading terms.

j) Rental revenue

<u>Name of related party</u>	<u>2018</u>	<u>2017</u>
momo	\$ 111,935	108,170
TAROKO Development	38,333	115,000
Total	<u>\$ 150,268</u>	<u>223,170</u>

k) Refundable deposits and rental expense:

i) Refundable deposits:

<u>Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>Note</u>
Taipei City Government	\$ 1,223,476	1,127,204	Construction / Superficies
Fubon REIT I Fund	29,939	29,818	Offices rental expenses
Total	<u>\$ 1,253,415</u>	<u>1,157,022</u>	

ii) Rental expense:

<u>Name of related party</u>	<u>2018</u>	<u>2017</u>	<u>Note</u>
Taipei City Government	\$ 305,513	326,604	Superficies rental expense
Fubon REIT I Fund	114,936	105,852	Offices rental expenses
Total	<u>\$ 420,449</u>	<u>432,456</u>	

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

All the above leases were operating leases. The leasing term was not materially different from that with unrelated parties.

- l) Integrate business revenue and cross-selling commission:

<u>Name of related party</u>	<u>2018</u>	<u>2017</u>
Fubon Insurance	\$ <u>537,195</u>	<u>448,632</u>

- m) Transaction of property

Payments of investment property are:

<u>Name of related party</u>	<u>Category</u>	<u>2018</u>	<u>2017</u>
Taipei City Government	Prepaid superficies rental expense, construction contract and Public hearing facilities rental expense	\$ 555,707	17,357
Chien Kuo Construction	Construction contracts	395,627	240,494
		\$ <u>951,334</u>	<u>257,851</u>

- n) Other expenses:

<u>Name of related party</u>	<u>Category</u>	<u>2018</u>	<u>2017</u>
Fubon Property Management	Management fees and investment Property expenses	\$ 118,230	100,909
Taiwan Fixed Network	Phone expenses, telecom expenses and network equipment rental expense	148,558	174,439
		\$ <u>266,788</u>	<u>275,348</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Fubon Securities and its subsidiaries

1) Name and relationship with related party

<u>Name of related party</u>	<u>Relationship with the Company</u>
Taipei Fubon Bank Co., Ltd. (Taipei Fubon Bank)	Company controlled by Fubon Financial Holdings
Fubon Bank (Hong Kong) Limited (Fubon Bank (Hong Kong))	Company controlled by Fubon Financial Holdings
Fubon Life Insurance Co., Ltd. (Fubon Life Insurance)	Related parties in substance
Far Eastern International Bank Co., Ltd. (Far Eastern Bank)	Related parties in substance
Xiamen Bank Co., Ltd. (Xiamen Bank)	Related parties in substance
Taiwan Mobile Co., Ltd. (Taiwan Mobile)	Related parties in substance
Funds managed by Fubon Asset Management	Related parties in substance
Taiwan Stock Exchange Corporation (Taiwan Stock Exchange)	Related parties in substance
Taiwan Futures Exchange Corporation (Taiwan Futures Exchange)	Related parties in substance
MediaTek Inc. (MediaTek)	Related parties in substance
Taiwan Acceptance Corporation	Related parties in substance
CLEVO Co., Ltd.	Related parties in substance (not related parties in substance from the third quarter of 2018)
Taiwan Depository & Clearing Corporation (Taiwan Depository & Clearing)	Related parties in substance
Others	Directors, supervisors, managers and their relatives up to the second degree; affiliated and the related parties in substance

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Significant transactions with related parties

a) Bank deposits, short-term borrowings, and other current assets

Cash deposits in Taipei Fubon Bank and Fubon Bank (Hong Kong) were as follows :

Items	December 31, 2018	December 31, 2017
Demand deposits (excluding settlement accounts)	\$ <u>1,419,636</u>	<u>1,113,584</u>
Demand deposits (booked as customer margin accounts)	\$ <u>274,101</u>	<u>258,265</u>
Check deposits	\$ <u>22,061</u>	<u>61,940</u>
Time deposits	\$ <u>596,500</u>	<u>1,223,013</u>
Restricted time deposits	\$ <u>177,521</u>	<u>217,521</u>
Foreign currency deposits (excluding settlement accounts)	\$ <u>611,419</u>	<u>698,741</u>
Foreign time deposit	\$ <u>7,018,221</u>	<u>6,945,238</u>

As of December 31, 2018 and 2017, Fubon Securities and its subsidiaries had put bank deposits in Xiamen Bank and Far Eastern Bank amounting to \$1,184,822 and \$868,773, respectively.

For the years ended December 31, 2018 and 2017, interest revenues from bank deposits of Taipei Fubon Bank, Far Eastern Bank, and Fubon Bank (Hong Kong) were \$144,175 and \$94,681, respectively. For the years ended December 31, 2018 and 2017, interests rate intervals were 0.001%~4.300% and 0.170%~2.060%, respectively.

As of December 31, 2018 and 2017, Fubon Securities and its subsidiaries had put time deposits in Taipei Fubon Bank as operating deposits refundable deposits and warrant deposits amounting to \$845,000 and \$970,000, respectively.

Balances of short-term borrowings from Taipei Fubon Bank as of December 31, 2018 and 2017, were all nil, unused credit facilities from Taipei Fubon Bank were all \$6,000,000. As of December 31, 2018 and 2017, the book value of lands and buildings pledged to Taipei Fubon bank were \$1,579,946 and \$1,556,652, respectively, and time deposits pledged to Taipei Fubon Bank for short-term borrowing were all \$105,000. Fubon Securities also provided stock investments amounting to \$4,288,300 and \$2,983,000 to Taipei Fubon Bank as collateral for short-term borrowings (recognized as financial assets at fair value through other comprehensive income as of December 31, 2018 and as available-for-sale financial assets – current as of December 31, 2017).

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Finance assets measured at fair value through other comprehensive income

The balance of related parties' shares held by Fubon Securities and its subsidiaries and the gain or loss on disposal were as follows:

December 31, 2018		
Name of security	Cost	Gains (losses) on valuation
Taiwan Mobile	\$ <u>1,682,697</u>	<u>473,077</u>
2018		
Name of security	Dividend revenue	Gains (losses) on disposal
Taiwan Mobile	\$ <u>113,355</u>	<u>-</u>

c) Available-for-sale financial assets – current

The balance of related parties' shares held by Fubon Securities and its subsidiaries and the gain or loss on disposal were as follows:

December 31, 2017		
Name of security	Cost	Gains (losses) on valuation
Taiwan Mobile	\$ <u>706,319</u>	<u>503,057</u>
2017		
Name of security	Dividend revenue	Gains (losses) on disposal
Taiwan Mobile	\$ <u>126,000</u>	<u>495,611</u>

d) Accounts receivable

Name of related party	December 31, 2018	December 31, 2017
Funds managed by Fubon Asset Management	\$ <u>353,407</u>	<u>97,712</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

e) Futures traders' equity

Related parties engaging in futures trading and deposited in Fubon Futures traders' equity were as follow:

<u>Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Fubon SSE 180 ETF	\$ 221,232	317,848
Fubon SZSE 100 ETF	79,938	121,335
Fubon SSE 180 Leveraged 2X index ETF	5,054,426	8,708,332
Fubon Hang Seng H-Share Leveraged 2X Index ETF	174,618	223,295
Fubon S&P 500 VIX Short-Term Futures ETF	544,189	828,859
Fubon NIFTY 2X Leveraged	59,383	136,547
Fubon TAIEX ETF Umbrella	72,469	198,463
Fund-Fubon Index ETF		
Total	<u><u>\$ 6,206,255</u></u>	<u><u>10,534,679</u></u>

f) Funds purchased by Fubon Securities were as follow:

<u>Name of Funds</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Fubon Chi-Hsiang Money Market Fund	\$ 256,095	134,710
Fubon Chian High Yield Bond Fund CNY	67,249	123,905
Fubon China Policy Bank Bond ETF	179,657	-
Total	<u><u>\$ 503,001</u></u>	<u><u>258,615</u></u>

g) The Company holds the funds issued by Fubon Asset Management which is traded outside the exchange market (excluding the index funds):

<u>Name of Funds</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Fubon Chi-Hsiang Money Market Fund	\$ 1,159,095	3,028,017
Fubon Strategic High Income Fund Bond CNY	15,699	118,276
Total	<u><u>\$ 1,174,794</u></u>	<u><u>3,146,293</u></u>

h) Deal on credit

As of December 31, 2018 and 2017, Fubon Securities and its subsidiaries had receivables from the other related parties' pecuniary finance amounting to \$119,353 and \$247,872, respectively.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

i) Settlement and clearing funds

<u>Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taiwan Stock Exchange	\$ 143,704	103,924
Taiwan Futures Exchange	140,414	148,063
Total	<u>\$ 284,118</u>	<u>251,987</u>

j) Margin lending deposits

<u>Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taiwan Stock Exchange	<u>\$ 4,237,952</u>	<u>-</u>

k) Customer margin deposit

<u>Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taiwan Futures Exchange	<u>\$ 2,415,595</u>	<u>2,032,930</u>

l) Trading securities-dealing

The cost of related parties' shares and the gains (losses) on valuation and disposal were as follows:

<u>December 31, 2018</u>		
<u>Name of security</u>	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Fubon REIT I Fund	\$ 242,172	107,409
First 106 unsecured domestic corporate bonds of Taiwan Acceptance	300,000	997
Others (no Individual payments of more than \$10,000)	123,199	(1,103)
Total	<u>\$ 665,371</u>	<u>107,303</u>

<u>December 31, 2017</u>		
<u>Name of security</u>	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Fubon REIT I Fund	\$ 236,225	64,497
First 104 secured domestic corporate bonds of Clevo Co.	204,989	(1,531)
First 106 unsecured domestic corporate bonds of Taiwan Acceptance	300,000	950
Total	<u>\$ 741,214</u>	<u>63,916</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2018 and 2017, the balance of the trading securities-dealing of the related parties were \$300,000 and \$504,989, respectively. For the years ended December 31, 2018 and 2017, the interest revenue of trading securities-bonds were \$4,952 and \$5,058 respectively. For the years ended December 31, 2018 and 2017, the balance of the interest revenue of trading securities-others were \$12,024 and \$11,879 respectively.

m) Trading securities-hedging

The cost of related parties' shares and the gains (losses) on valuation and disposal were as follows:

Name of security	December 31, 2018	
	Cost	Gains (losses) on valuation
Third issue of unsecured convertible bonds of Taiwan Mobile	\$ <u>100,090</u>	<u>2,960</u>

Name of security	December 31, 2017	
	Cost	Gains (losses) on valuation
Third issue of unsecured convertible bonds of Taiwan Mobile	\$ 100,090	1,760
MediaTek	159,809	3,158
Total	\$ <u>259,899</u>	<u>4,918</u>

Name of related party	2017	
	Dividend revenue	Gains (losses) on disposal
MediaTek	\$ <u>11,675</u>	<u>65,814</u>

n) Management fee (accounted for other operating revenue)

Name of related party	2018	2017
Fubon SSE 180 ETF	\$ 146,220	178,865
Fubon SSE 180 Leveraged 2X Index ETF	300,351	286,588
Others (no Individual payments of more than \$10,000)	110,731	93,467
Total	\$ <u>557,302</u>	<u>558,920</u>

o) Rental revenue (accounted for other profit and loss)

Name of related party	2018	2017
Taipei Fubon Bank	\$ <u>257,864</u>	<u>297,195</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

p) Brokerage service charge

<u>Name of related party</u>	<u>2018</u>	<u>2017</u>
Taiwan Stock Exchange	\$ 196,134	163,339
Taiwan Futures Exchange	108,851	89,968
Total	<u>\$ 304,985</u>	<u>253,307</u>

q) Handling fees (accounted for brokerage service fees)

<u>Name of related party</u>	<u>2018</u>	<u>2017</u>
Fubon Life Insurance	\$ 108,299	80,348
Others (no Individual payments of more than \$10,000)	141,963	136,002
Total	<u>\$ 250,262</u>	<u>216,350</u>

r) Depository and clearing fee

<u>Name of related party</u>	<u>2018</u>	<u>2017</u>
Taiwan Depository & Clearing	<u>\$ 103,333</u>	<u>90,403</u>

(v) Taipei Fubon Bank and its subsidiaries

1) Name and relationship with related party

<u>Name of related party</u>	<u>Relationship with the Company</u>
Fubon Financial Holding Co., Ltd. (Fubon Financial Holding)	Parent Company
Fubon Life Insurance Co., Ltd. (Fubon Life Insurance)	Company controlled by Fubon Financial Holdings
Fubon Securities Co., Ltd. (Fubon Securities)	Company controlled by Fubon Financial Holdings
Fubon AMC	Company controlled by Fubon Financial Holdings
Taipei City Government	A major shareholder of Fubon Financial Holdings
Chung Hsing Land Development Co., Ltd. (Chung Hsing Land Development)	A major shareholder of Fubon Financial Holdings
Fubon Land Development Co., Ltd. (Fubon Land Development)	Related parties in substance
Taiwan Fixed Network Co., Ltd.(Taiwan Fixed Network)	Related parties in substance
Xiamen Bank Co., Ltd. (Xiamen Bank)	Related parties in substance
Taiwan High Speed Rail Co., Ltd. (Taiwan High Speed Rail)	Related parties in substance

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Name of related party</u>	<u>Relationship with the Company</u>
Fubon Gehua (Beijing) Enterprise Ltd. (Fubon Gehua)	Related parties in substance
Teng Fu Bo Investment Limited (Teng Fu Bo Investment)	Related parties in substance
ICDC (Beijing) China Co., Ltd. (ICDC)	Related parties in substance
Long Time Tech. Co., Ltd. (Long Time Tech.)	Related parties in substance
Alltek Technology Corp. (Alltek Technology)	Related parties in substance (not related parties in substance from second quarter of 2017)
Others	Directors, supervisors, managers and their relatives up to the second degree; affiliated and the related parties in substance

2) Significant transactions with related parties

a) Deposits and loans

<u>Item</u>	2018		
	<u>December 31, 2018</u> <u>Ending balance</u>	<u>Interest rate/ service fee rate</u> <u>(%)</u>	<u>Interest revenue</u> <u>(expense)</u>
Loans	\$ <u><u>35,138,208</u></u>	0~14.98	\$ <u><u>66,059</u></u>
Discounts	\$ <u><u>-</u></u>	5.40~6.00	\$ <u><u>46,981</u></u>
Due from banks	\$ <u><u>158,646</u></u>	0~5.40	\$ <u><u>2,914</u></u>
Call loans to banks	\$ <u><u>-</u></u>	1.87	\$ <u><u>470</u></u>
Deposits	\$ <u><u>95,258,250</u></u>	0~8.00	\$ <u><u>(390,386)</u></u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Units: In thousands of TWD

December 31, 2018							
Category	Amount or name of related party	Highest balance	Ending balance	Compliance Situation		Type of collateral	Differences in transaction terms between related and non related parties
				Normal	Overdue		
Consumer loans	79	\$ 58,976	32,375	✓	-	None	None
House mortgages	385	4,465,107	3,543,052	✓	-	Real estate	None
Others	Department of Rapid Transit systems, Taipei City Government	27,004,874	27,004,874	✓	-	Public treasury guarantees	None
	Department of Urban Development, Taipei City Government	647,319	541,310	✓	-	Public treasury guarantees	None
	Taipei Municipal Secured Small Loans Service	458	167	✓	-	Public treasury guarantees	None
	Fubon Securities	1,499,420	-	✓	-	Domestic listed stocks	None
	Department of Sports, Taipei City Government	4,000,000	4,000,000	✓	-	Public treasury guarantees	None
	Long Time Tech.	18,862	15,906	✓	-	None	None
	ICDC	89,322	-	✓	-	Standby letter of credit	None
	Other loans	638	524	✓	-	Credit Guarantee Fund	None
Total		\$ 37,784,976	35,138,208				

2017			
Item	December 31, 2017 Ending balance	Interest rate / service fee rate (%)	Interest revenue (expense)
Loans	\$ <u>3,932,336</u>	0~14.98	<u>97,604</u>
Discounts	\$ <u>1,670,161</u>	3.66~6.00	<u>84,661</u>
Due to banks	\$ <u>184,749</u>	0~5.40	<u>2,902</u>
Deposits	\$ <u>63,105,506</u>	0~8.00	<u>(266,955)</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Units: In thousands of TWD

December 31, 2017							
Category	Amount or name of related party	Highest balance	Ending balance	Compliance Situation		Type of collateral	Differences in transaction terms between related and nonrelated parties
				Normal	Overdue		
Employee Consumer loans	77	\$ 48,719	35,409	✓	-	Partially provide deposits as collateral	None
House mortgages	373	4,014,584	3,249,407	✓	-	Real estate	None
Others	Department of Urban Development, Taipei City Government	771,519	646,424	✓	-	Public treasury guarantees	None
	Department of Rapid Transit systems, Taipei City Government	8,000,000	-	✓	-	Public treasury guarantees	None
	Department of Sports, Taipei City Government	1,000,000	-	✓	-	Public treasury guarantees	None
	Taipei Municipal Secured Small Loans Service	813	458	✓	-	Public treasury guarantees	None
	Fubon Land Development	2,290,800	-	✓	-	Construction, land and domestic listed stocks	None
	Alltek Technology	39,134	-	✓	-	Clean credit	None
	Fubon Gehua	137,385	-	✓	-	Standby letter of credit	None
	Teng Fu Bo Investment Limited	68,693	-	✓	-	Pledged deposits and standby letter of credit	None
	Other loans	752	638	✓	-	Credit Guarantee Fund	None
Total		\$ 16,372,399	3,932,336				

Transaction terms between Fubon Bank and the related parties were similar to those with non related parties except a better interest rate deposit will be given within a certain limit.

In accordance with Article 32 and Article 33 of the Banking Law, except for the amount of consumer loans and loans to the government, no credit can be granted for unsecured credit; at the time, there should be full guarantees, and their conditions must not be better than other similar credit grantees.

b) Bond transactions were as follows:

Name of related party	Subject	Transaction types	2018	2017
Fubon Life Insurance	Bonds	Bonds purchased	\$ 4,438,660	22,840,636
Fubon Life Insurance	Bonds	Bonds sold	-	476,876
Xiamen Bank	Bonds	Bonds purchased	-	687,990

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Name of related party</u>	<u>Subject</u>	<u>Transaction types</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taiwan High Speed Rail	Bonds	Repurchase agreement	\$ 4,678,000	-
Taiwan Fixed Network	Bonds	Repurchase agreement	146,013	-
Directors, supervisors, managers and their relatives up to the second degree; affiliated and the related parties in substance	Bonds	Repurchase agreement	4,075,288	4,815,085

c) Fund and stock transactions

<u>Name of Funds</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Fubon REIT I Fund	<u>\$ 847,896</u>	<u>742,918</u>

d) Lease

Rental expense

<u>Name of related party</u>	<u>2018</u>	<u>2017</u>
Chung Hsing Land Development	\$ 211,209	175,922
Fubon REIT II Fund	101,064	100,698
Total	<u>\$ 312,273</u>	<u>276,620</u>

e) Others

<u>Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Receivables – Fubon Financial Holding	\$ 205,407	180,345
Receivables – Fubon Life Insurance	220,239	215,395
Principal of structured products – Fubon Life Insurance	-	1,750,000
	<u>2018</u>	<u>2017</u>
Service fee income – Fubon Life Insurance	\$ 6,057,620	5,585,947
Service fee income – Others	509,043	540,987
Service fee expenses – Others	158,569	142,070
Operating expenses – Others	297,697	255,196
Interest expense of structured products – Fubon Life Insurance	44,829	454,325

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

f) Transaction of property

For the years ended December 31, 2018 and 2017, Taipei Fubon Bank sold parts of its buildings, with book value of \$278,710 and \$617,383, to Fubon AMC, with the amount of \$350,000 and \$1,310,500, and recognized the gains on disposal amounting to \$71,290 and \$693,117.

(vi) Fubon Bank (Hong Kong)

1) Name and relationship with related party

<u>Name of related party</u>	<u>Relationship with the Company</u>
Fubon Financial Holding Co., Ltd	Parent company
Taipei Fubon Bank Co., Ltd. (Taipei Fubon Bank)	Company controlled by Fubon Financial Holdings
Fubon Life Insurance (Hong Kong) Limited	Company controlled by Fubon Financial Holdings
Fubon Convoy Asset Management (Hong Kong)	Company controlled by Fubon Financial Holdings

2) Significant transactions with related parties

a) Deposits and remittances

<u>Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taipei Fubon Bank	HKD <u>32,907</u>	HKD <u>36,503</u>
Fubon Life Insurance (Hong Kong)	HKD <u>386,995</u>	HKD <u>259,046</u>
Fubon Convoy Asset Management (Hong Kong)	HKD <u>3,887</u>	HKD <u>49,306</u>

b) Bank Deposits in Taipei Fubon Bank

<u>Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taipei Fubon Bank	HKD <u>30,149</u>	HKD <u>12,993</u>

c) Fubon Bank (Hong Kong) sold the common stocks of Xiamen Bank amounting to 473,575 thousand shares to Fubon Financial Holding, with the amount of HKD3,248,488. The transfer of equity was completed on November 30, 2018. As of December 31, 2018, the remaining accounts receivable amounted to \$9,225.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vii) Fubon Financial Holding Venture Capital

1) Name and relationship with related party

<u>Name of related party</u>	<u>Relationship with the Company</u>
Taipei Fubon Bank Co., Ltd. (Taipei Fubon Bank)	Company controlled by Fubon Financial Holdings
Fubon Life Insurance Co., Ltd. (Fubon Life Insurance)	Company controlled by Fubon Financial Holdings
Funds managed by Fubon Asset Management	Related parties in substance

2) Significant transactions with related parties

a) Bank deposits

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taipei Fubon Bank	\$ <u>166,904</u>	<u>210,404</u>

b) The details of the fund's balances purchased from related parties Fubon Asset Management were as follow:

<u>Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Fubon Chi-Hsiang Money Market Fund	\$ <u>200,489</u>	<u>500,565</u>

c) Advertisement sponsorship income

<u>Name of related party</u>	<u>2018</u>	<u>2017</u>
Fubon Life Insurance	\$ <u>164,787</u>	<u>124,791</u>

(viii) Fubon Marketing and its subsidiaries

1) Name and relationship with related party

<u>Name of related party</u>	<u>Relationship with the Company</u>
Fubon Insurance Co., Ltd. (Fubon Insurance)	Company controlled by Fubon Financial Holdings
Fubon Life Insurance Co., Ltd. (Fubon Life Insurance)	Company controlled by Fubon Financial Holdings
Taipei Fubon Bank Co., Ltd. (Taipei Fubon Bank)	Company controlled by Fubon Financial Holdings

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Significant transactions with related parties

a) Bank deposits

	December 31, 2018	December 31, 2017
Bank deposits	\$ <u>300,445</u>	<u>284,454</u>

b) Operating revenue

Remuneration of commissions and project service fees due to the appointment of agents by related parties, to sell their products or provide consulting services, their related details are as follows:

Name of related party	2018	2017
Fubon Insurance	\$ 364,031	380,730
Fubon Life Insurance	279,840	309,338
Total	\$ <u>643,871</u>	<u>690,068</u>

The details of receivables generated from aforementioned transactions were as follows:

Name of related party	December 31, 2018	December 31, 2017
Notes receivables:		
Fubon Insurance	\$ 1,199	-
Fubon Life Insurance	-	22,304
Total	\$ <u>1,199</u>	<u>22,304</u>

Name of related party	December 31, 2018	December 31, 2017
Accounts receivables:		
Fubon Insurance	\$ 34,134	28,494
Fubon Life Insurance	39,807	39,973
Total	\$ <u>73,941</u>	<u>68,467</u>

(ix) Fubon AMC

1) Name and relationship with related party

Name of related party	Relationship with the Company
Ying Bao Development Ltd.	Related parties in substance

2) Significant transactions with related parties — Transaction of property

Fubon AMC sold the investment properties to Ying Bao Deveopment Ltd. amounting to \$3,550,000.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(8) Pledged assets

Pledged assets	Purpose of pledge	December 31, 2018	December 31, 2017
Savings deposits (accounted for refundable deposits)	Guarantee deposits for Insurance business	\$ 15,840	15,720
Time deposits (accounted for refundable deposits)	Performance bond	979,636	1,042,404
Time deposits (accounted for pledged assets)	Full fiduciary discretionary deposits, bank overdraft and performance bond	12,521	-
Time deposits (accounted for refundable deposits)	Deposits for leases and others	1,379,172	1,279,000
Time deposits (accounted for other financial assets)	Deposits for Operate-Transfer (OT) project	15,000	15,000
Time deposits (accounted for due from the central bank and call loans to banks)	Collaterals for day term overdraft as liquidity reserve, collaterals for call loans of foreign currency and USD clearing transaction warranty	-	4,400,000
Negotiable Certificate of Deposit (accounted for held-to-maturity financial assets)	Collaterals for day term overdraft as liquidity reserve, collaterals for call loans of foreign currency and USD clearing transaction warranty	-	24,600,000
Negotiable Certificate of Deposit (accounted for debt investments measured at amortized cost)	Collaterals for day term overdraft as liquidity reserve, collaterals for call loans of foreign currency and USD clearing transaction warranty	19,996,172	-
Other banks' deposits (accounted for other financial assets)	Note 1	1,622,296	1,649,234
Government bonds (accounted for refundable deposits)	Guarantee deposits for Insurance business, performance bond and margin deposit for trust business	17,046,443	12,827,228
Government bonds (accounted for financial assets measured at fair value through profit or loss)	Note 1	150,163	49,888
Government bonds (accounted for financial assets measured at amortized cost)	Pledged for repurchase agreement	2,965,894	-
Government bonds (accounted for financial assets measured at fair value through profit or loss)	Pledged for securities trading guarantee	6,282,095	7,056,895
Government bonds (accounted for held-to-maturity financial assets)	Note 1	-	1,982,095
Government bonds (accounted for debt investment measured at amortized cost)	Note 1	1,809,111	-
Government bonds (accounted for financial assets measured at fair value through other comprehensive income)	Pledged for securities trading guarantee	504,549	-
Government bonds (accounted for financial assets measured at amortized cost)	Pledged for securities trading guarantee	1,174,419	-
Corporate bonds (accounted for available-for-sale financial assets)	Pledged for repurchase agreement	-	12,124,973
Corporate bonds (accounted for financial assets measured at amortized cost)	Pledged for repurchase agreement	7,309,051	-

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Pledged assets	Purpose of pledge	December 31, 2018	December 31, 2017
Financial bonds (accounted for available-for-sale financial assets)	Pledged for repurchase agreement	\$ -	24,254,833
Financial bonds (accounted for held-to-maturity financial assets)	Pledged for repurchase agreement	-	468,513
Financial bonds (accounted for financial assets measured at amortized cost)	Pledged for repurchase agreement	15,260,109	-
Commercial paper (accounted for financial assets measured at amortized cost)	Pledged for repurchase agreement	2,142,923	-
Investment property—land and buildings	Bank loans	407,416	408,280
Property and equipment—land and buildings	Bank loans	506,811	533,006
Total		\$ 79,579,621	92,707,069

Note 1: Those pledged assets had been placed with (a) courts for meeting requirements for judiciary provisional seizure of debtors' property, (b) the National Credit Card Center for the Bank's potential obligations on credit card activities, (c) the Central Bank for the Bank's potential obligations on its trust activities, (d) foreign governments for the Bank's potential obligations on its overseas operations, (e) transactions for bonds business, and (f) collaterals for derivatives transactions.

(9) Commitments and contingencies:

(a) Details of the Company's leasing contract commitments to the maturity were as follows:

December 31, 2018	Less than one year	Between one and five years	More than five years	Total
Lease commitments				
Operating lease payments (Lessee)	2,998,488	6,011,868	20,341,396	29,351,752
Operating lease income (Lessor)	6,054,702	20,784,162	28,302,174	55,141,038
Finance lease payments (Lessee)	9,981	37,549	1,157,209	1,204,739
Finance lease income (Lessor)	2,479	3,930	1,324	7,733
Present value of finance lease payments (Lessee)	658	349	208,820	209,827
Present value of finance lease income (Lessor)	2,321	3,669	1,282	7,272
Capital expenditure commitments	2,343,753	6,280	-	2,350,033

December 31, 2017	Less than one year	Between one and five years	More than five years	Total
Lease commitments				
Operating lease payments (Lessee)	1,760,764	3,623,218	14,431,226	19,815,208
Operating lease income (Lessor)	5,957,180	20,432,977	32,071,993	58,462,150
Finance lease payments (Lessee)	10,568	40,033	1,209,909	1,260,510
Finance lease income (Lessor)	5,042	15,893	13,212	34,147
Present value of finance lease payments (Lessee)	899	1,431	216,621	218,951
Present value of finance lease income (Lessor)	4,354	14,131	12,532	31,017
Capital expenditure commitments	2,847,744	11,459	-	2,859,203

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Taipei Fubon Bank and its subsidiaries

- (i) Except for disclosed in other notes of consolidated financial statements, Taipei Fubon Bank and its subsidiary had commitments as follows:

	December 31, 2018	December 31, 2017
Amount of repurchase agreements	\$ 121,955,488	98,521,376
Amount of resell agreements	11,771,008	16,321,038
Unused credit card commitments	265,528,189	256,146,355
Collections for customers	32,527,651	39,701,051
Agency loans payable	10,908,911	20,613,388
Designated deposits	2,011,632	8,164,848
Designated loans	2,011,632	8,164,848
Designated financial management	19,062,297	18,702,541
Travelers' checks consigned-in	366,693	407,670
Marketable securities under custody	334,341,775	290,970,013
Trust assets	389,334,919	378,193,650
Management for book-entry government bonds	103,237,100	125,799,500

- (ii) On March 24, 2006, Taipei Fubon Bank sold its Fubon Neihu building to Taiwan Land Bank Co., Ltd., the trust company of Fubon No. 2 REITs, and then leased back the building. The disposal gain of \$295,819 was recognized over the three-year lease term.

However, at the end of the lease term in April 2009, Taipei Fubon Bank renewed the lease, thereby extending the lease term to another 10 years. Consequently, the unrealized profit on the sale and leaseback transaction was recognized over 124 months commencing from January 1, 2009.

(c) Fubon Life Insurance and its subsidiaries

- (i) Fubon Life Insurance and its subsidiaries had contingent liability of lawsuits arising from operating activities. Other than cases which have already made provision, several lawsuits are still in process and appointed to lawyers. Fubon Life Insurance and its subsidiaries will recognize relevant losses when professional opinions and reasonable estimated loss are available.

- (ii) Significant unrecognized contract commitment

- 1) The unfunded superficies contract of Life Insurance that have been won but have not yet been signed is as follows:

	December 31, 2018	December 31, 2017
Acquisition of superficies	\$ -	700,500

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 2) The unrecognized new construction contract amount of investment and owner-occupied properties of Fubon Life Insurance and its subsidiaries are as follows:

	December 31, 2018	December 31, 2017
New construction	\$ <u>3,792,485</u>	<u>3,639,049</u>

- (iii) The unfunded commitments (ceiling) of Fubon Life Insurance and its subsidiaries' private fund agreements were as follows (in thousands):

	December 31, 2018	December 31, 2017
USD	\$ <u>2,640,671</u>	<u>1,536,449</u>
EUR	\$ <u>222,280</u>	<u>234,560</u>
TWD	\$ <u>150,000</u>	<u>-</u>

Note: The unfunded commitments does not include the commitments which have been traded but not settled.

- (d) Fubon Insurance and its subsidiaries

- (i) Fubon Insurance had several insurance disputes and was requested to pay indemnities amounting to approximately \$412,103, of which approximately \$367,124 was reinsured. The difference not covered by reinsurance related to these claims had been accrued. These cases were still pending with the district court and had not been resolved as of December 31, 2018.
- (ii) The unfunded commitments (ceiling) of Fubon Insurance and its subsidiaries' private equity agreements were as follows (in thousands):

	December 31, 2018	December 31, 2017
USD	\$ <u>17,991</u>	<u>17,888</u>
EUR	\$ <u>14,474</u>	<u>16,310</u>

Note: The unfunded commitments does not include the commitments which have been traded but not settled.

- (e) Fubon Securities and its subsidiaries

There were several disputes that former brokers have had with their clients due to securities brokerage transactions. Taiwan High Court has remanded the case and rejected the appeal of Mr. Chou. Mr. Chou disagreed with the court decision and appealed to the Taiwan Supreme Court. As of December 31, 2018, the case is still in progress. Based on the adjudication, the balances of indemnificatory loss payable, resulting from the litigation with customers for stock business were as follows:

	December 31, 2018	December 31, 2017
Indemnificatory loss payable	\$ <u>11,526</u>	<u>11,526</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017, Fubon Securities recognized indemnification loss of \$0 in both periods.

(10) Losses Due to Major Disasters: None

(11) Significant subsequent events

- (a) Fubon Life Insurance had been approved by the Ministry of Economic Affairs ("MOEA") with Jin Shen Zhi No.10600236350 letter by MOEA to invest the amount of CNY 60,000 thousand in Fubon Property and Casualty Insurance Co., Ltd. on October 17, 2017, and remitted the investment amount of CNY 48,000 thousand on September 13, 2018. The investment project was approved by the CBIRC on January 3, 2019.
- (b) The board of directors of Fubon Life Insurance had approved to the capital increase for cash of Fubon Life Insurance (Hong Kong) on August 14, 2018. The investment project was approved by the regulation of Jin Shen Zhi No. 10820705880 letter by MOEA by HKD 700,000 thousand on January 29, 2019 and was completed on February 22, 2019.
- (c) Fubon Life Insurance was approved by the MOEA with Jin Shen Zhi No. 10800012500 letter to set up 100% owned subsidiary FUBON EUROTOWER (LUXEMBOURG) S.A.R.L in Luxembourg, engaging in real estate investment and management. The subsidiary will acquire "Eurotower" in Frankfurt, and provide the building as pledged assets for the loans borrowed from Fubon Life Insurance.
- (d) Fubon Insurance had been approved by the MOEA with Jin Shen Zhi No.10600226460 letter to invest the amount of CNY 60,000 thousand in Fubon Property and Casualty Insurance Co., Ltd. on October 17, 2017, and remitted the investment amount of CNY 48,000 thousand on September 13, 2018. The investment project was approved by the CBIRC on January 3, 2019.
- (e) Fubon Securities was approved by the FSC, Rule No. 1080301599 to participate in the capital increase for cash of Fubon Securities HK Ltd. by \$500,000 through Fubon Securities (BVI) on January 24, 2019. The investment amount was remitted on February 20, 2019 and the capital increase was completed.
- (f) To develop the asset management business in Hong Kong, Fubon Securities has planned to participate in the capital increase for cash through Fubon Securities (BVI) for HKD 30,000 thousand to invest in FB Investment Management (Hong Kong) Ltd., which owns the assets management operating license. The investment was approved by the FSC, Rule No. 1070323515 on July 19, 2018 and by the Hong Kong authorities on January 7, 2019. Fubon Securities (BVI) has remitted HKD 10,000 thousand and complete the project in February, 2019.
- (g) After the end of the reporting period, the Hong Kong Court of Appeal issued a judgment in favor of Fubon Bank (Hong Kong)'s appeal and rejected the Plaintiff's cross-appeal in a lawsuit, where an original judgement was issued against Fubon Bank (Hong Kong) in 2016. Fubon Bank (Hong Kong) received HKD 96 million (being the net aggregate amount that Fubon Bank (Hong Kong) previously paid to the Plaintiff under the original judgment) from the Plaintiff on January 17, 2019. Fubon Bank (Hong Kong) will receive further interest and recover costs relating to the lawsuit at such rates and amounts to be determined by the court.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(12) Other

(a) Reclassification

On January 1, 2012, Taipei Fubon Bank reclassified its financial assets. The fair values at the reclassification date were as follows:

	Before Reclassification	After Reclassification
Available-for-sale financial assets	\$ 12,052,604	-
Held-to-maturity financial assets	-	12,052,604
	\$ 12,052,604	12,052,604

The effective interest rates for the available-for-sale financial assets that have been reclassified to held-to-maturity financial assets ranged from 0.52% to 9.95%. The estimated recoverable cash flows amounted to \$13,966,953.

As of December 31, 2017, the carrying amounts and fair values of the reclassified financial assets (excluding those that had been derecognized) were as follows:

	December 31, 2017
<u>Held-to-maturity financial assets</u>	
Carrying amounts	\$ 400,660
Fair value	403,448

The gains or losses recorded for the reclassified financial assets (excluding those that had been derecognized before December 31, 2017) for the years ended December 31, 2017, and the pro forma adjustments recognized in other equity assuming no reclassifications had been made were as follows:

	2017
<u>Held-to-maturity financial assets</u>	
Gains recognized	\$ 9,027
Pro forma adjustments recognized in other equity	1,166

(b) Business combinations

(i) Subsidiaries acquired

Fubon Life Insurance had acquired 48.62% of ownership interest in Hyundai Life Insurance Co., Ltd. on December 3, 2015, using equity method. After participating in the capital increase for cash by \$6,420,296, Fubon Life Insurance acquired an additional 13.44% of ownership interest on September 15, 2018, and made Hyundai Life Insurance Co., Ltd. a 62.06% owned subsidiary. Hyundai Life Insurance Co., Ltd. is renamed as “Fubon Hyundai Life Insurance Co., Ltd.”, which is a life insurance company.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Fubon Life Insurance and its subsidiaries expand the overall insurance business scale and achieve risk diversification through the growth potential of the Korean life insurance market and Fubon Hyundai Life Insurance. In addition, the operating results of Fubon Hyundai Life Insurance are expected to create financial performance in the long run, that will enhance the profitability of Fubon Life and its subsidiaries.

The costs incurred in this transaction have been excluded from the transfer price, and recognized as operating expenses.

- (ii) Fair value of assets acquired and liabilities assumed at the date of acquisition

	<u>Fubon Hyundai Life Insurance</u>
Assets	
Cash and cash equivalents	\$ 4,904,598
Receivables	4,400,626
Current tax assets	161,084
Investments	190,149,931
Reinsurance contract assets	214,658
Property and equipment—net	227,314
Intangible assets	4,111,265
Other assets	7,266,885
Assets on insurance product-separated account	150,920,752
Liabilities	
Payables	(2,415,400)
Financial liabilities	(8,176,629)
Insurance liabilities	(174,491,471)
Other liabilities	(259,117)
Liabilities on insurance product-separated account	(152,668,481)
Provisions	(5,804,272)
Deferred Tax Liability	(260,460)
Non-common stock equity	<u>(2,773,093)</u>
Fair value of identifiable net assets acquired	<u>\$ 15,508,190</u>

The fair value of loan acquired from Fubon Hyundai Life Insurance in the business combination is \$45,155,540 with the contracts amounting to \$45,215,695. The expected cash flows of uncollectible contracts on the date of acquisition is estimated to be \$133,694. The fair value of accounts receivable is \$4,400,626 with the contracts amounting \$4,520,212. The expected cash flows of uncollectible contracts on the date of acquisition is estimated to be \$119,586.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Goodwill

	Fubon Hyundai Life Insurance
Consideration transferred	\$ 6,420,296
Plus: Non-controlling interests	5,883,730
Fair value of the original interest of the acquirer	5,085,037
Less: Fair value of identifiable net assets acquired	<u>(15,508,190)</u>
Goodwill	<u>\$ 1,880,873</u>

Fubon Life Insurance and its subsidiary remeasured the fair value of 48.62% interest of Fubon Hyundai Life Insurance held prior to the acquisition date and therefore recognized \$282,666 gain, which was recognized as “share of profit of associates and joint ventures accounted for using equity method” in the consolidated statement of profit or loss.

Goodwill is mainly derived from the profitability of Fubon Hyundai Life Insurance in the Korean life insurance market, which is expected to create synergies from business combination.

The required market evaluations and other calculations are based on the best estimates of the management. According to IFRS13, the measurement period shall not exceed one year from the date of acquisition.

(iv) The influence of business performance on the business combination

The operating income and net income of Fubon Hyundai Life Insurance from the date of acquisition to December 31, 2018 were amounting to \$8,211,569 and \$129,660, respectively. If this acquisition project occurred on January 1, 2018, the management estimated that the operating income would be \$678,987,402 and the consolidated net income would be \$25,904,303, respectively. When estimating those amounts, the management assumed that the acquisition occurred on January 1, 2018, and the tentative fair value adjustment was the same as on the date of acquisition.

(c) Operation of Taiwan Sport Lottery

Taiwan Sport Lottery was established to operate a sport lottery business entrusted by Taipei Fubon Bank. Ministry of Finance assigned Fubon Taipei Bank to handle the issuance of sport lottery operations. In accordance with the provisions, the right of sport lottery operations was expired on December 31, 2013. Taiwan Sport Lottery (hold by CTBC Bank) is the new issuer after January 1, 2014. As of the date of the report, the board of directors has not discussed the issue of dissolution and liquidation.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (d) The US stocks had plummeted on February 6, 2018, resulting in the equity of customer margin deposit to be negative. The clients of Fubon Futures Co., Ltd. breached the contract due to their failure to fully pay the additional guarantee deposits within three working days after having been noticed. Therefore, Fubon Futures Co., Ltd. had to recognize the future exchanges margins receivable with the approximate amount of \$185 million. This matter had been reported to the Taiwan Futures Exchange. As of December 31, 2018, the unpaid amount was \$171,469 thousand. If the default of \$561 thousand reported on February 14, 2018 and \$8 thousand reported on October 16 were included, the unpaid amount would be \$172,038 thousand. After considering the actual recovery situation, Fubon Futures Co., Ltd. had recognized the allowance for doubtful accounts amounting to \$159,164 thousand, which would be \$159,725 thousand if the default of \$561 thousand reported on February 14 was included.
- (e) On March 29, 2018, Fubon Investment Transfer to Fubon Kanghong Asset Management received a writ of summons filed by a company called Convoy (Trademarks) Limited as the plaintiff against Fubon Convoy and certain related parties of Fubon Convoy as the defendants under High Court in the High Court of Hong Kong. It is understand that the Plaintiff is the registered owner of the five registered trademarks relating to the names and logos of “Convoy” and “康宏” and is a contracting party of a trademark agreement entered into with Convoy Global Holding Limited, (the ultimate holding company of Fubon Convoy’s shareholder Fubon Convoy Asset Management (Hong Kong) Limited),base on the Writ,the Plaintiff is claiming the Defenfants Parties for infringement of the five registeredtrademarks relating to the names and logos of “Convoy” and “康宏”.

Since there is no letter of claim attached with the writ, the reason and details of the claim remain unknown. Fubon Convoy has inquired of external legal consultant and make a strong counterplea.

- (f) Business or trading behaviors within subsidiaries:

- (i) Business or trading behaviors:

Please refer to note 7 for related-party transactions.

- (ii) Integrate business activities:

Subsidiaries operating in cross-selling, under the Company, included Taipei Fubon Bank Co. Ltd., Fubon Insurance Co. Ltd., Fubon Life Insurance Co. Ltd., Fubon Securities Co. Ltd., Fubon Futures Co. Ltd., Fu Sheng General Insurance Agent Co. Ltd. and Fu Sheng Life Insurance Agent Co. Ltd. The cooperation among the subsidiaries, from planning their products and advocating different channels to training their personnel on cross-selling, makes their relationship much closer and brings multi-business benefits.

- (iii) Cross utilization of information:

In accordance with Financial Holding Company Act, Marketing Collaboration Agreement with Financial Holdings Company and its subsidiaries, and the self-discipline standard for financial holding company and its subsidiaries, the Company and its subsidiaries which joined the cross-selling business signed the “Agreement of Privacy Exchange” to keep the customers' data confidential or to limit the use of the data. In addition, they also announced the “Jointly Privacy Statement” and disclosed the statement in each subsidiary's website and the Company's website, as well as facilitate customers to online searching and browsing.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Locations and business utilities:

The Company has been approved to conduct integrate business activities in “operation place” by the authorities. Thus, the customers can directly handle their relevant businesses in banking, securities and futures operation places.

(v) Allocation on revenues, costs, expenses, profits and losses:

Allocation of Revenue, Cost and Expense is calculated based on the proportion of actual sales among subsidiaries. The estimated amount was as follows:

	For the years ended December 31,	
	2018	2017
Fubon Insurance	\$ 1,535,183	1,303,745
Taipei Fubon Bank	54,227	75,332
Fubon Life Insurance	154,544	204,893
Fubon Securities	7,628	5,357

(g) Capital adequacy ratios (Reviewed)

Unit: In millions of TWD, %

December 31, 2018			
Item	Ownership interest	Eligible capital	Legal capital
The Company	100.00 %	459,205	535,630
Taipei Fubon Bank	100.00 %	196,560	138,816
Fubon Bank (Hong Kong)	100.00 %	46,561	28,576
Fubon Bank (China)	49.00 %	15,190	11,247
Fubon Securities	100.00 %	24,184	9,356
Fubon Insurance and Fubon Life Insurance	100.00 %	291,233	198,298
Fubon Financial Holding Venture Capital	53.80 %	4,093	2,108
Taiwan Sport Lottery Corporation	100.00 %	97	49
Others	100.00 %	3,565	1,939
Less: deductible item		(559,630)	(522,466)
Subtotal		481,058	403,553
Consolidated capital adequacy ratio			119.21

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Unit: In millions of TWD, %

December 31, 2017			
Item	Ownership interest	Eligible capital	Legal capital
The Company	100.00 %	488,400	567,551
Taipei Fubon Bank	100.00 %	186,130	123,589
Fubon Bank (Hong Kong)	100.00 %	42,085	24,529
Fubon Bank (China)	49.00 %	12,785	10,596
Fubon Securities	100.00 %	23,008	9,956
Fubon Insurance and Fubon Life Insurance	100.00 %	299,786	179,782
Fubon Financial Holding Venture Capital	53.80 %	3,800	1,916
Taiwan Sport Lottery Corporation	100.00 %	97	49
Others	100.00 %	3,716	3,545
Less: deductible item		(601,332)	(567,465)
Subtotal		458,475	354,048
Consolidated capital adequacy ratio			129.50

(h) Eligible capital (Reviewed)

Unit: In thousands of TWD

Item	Amount	
	December 31, 2018	December 31, 2017
Common stock	102,336,040	102,336,040
Tier 1 Capital Instruments	12,666,600	6,000,000
Other preferred stock and subordinated bonds	-	-
Advanced Capital	-	-
Capital surplus	137,018,872	103,674,220
Legal reserve	57,815,312	52,403,066
Special reserve	30,008,647	53,069,867
Accumulated profit and loss	191,853,334	165,573,101
Equity adjustment	(72,455,455)	5,375,314
Less: Goodwill and other intangible assets	2,592	5,528
Less: Deferred assets	35,564	26,106
Less: Treasury stock	-	-
Consolidated eligible capital	459,205,194	488,399,974

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (i) Please refer to the attachment for the aggregate lending, guarantee or other transactions taken place between all subsidiaries of a financial holding company and same person, same relatives or same affiliate.
- (j) Financial information classified by business type:

For the year ended December 31, 2018

Units: In thousands of TWD

Item	Banking	Insurance	Securities	Others	Consolidation
Net interest revenue	31,260,065	97,700,332	852,036	135,645	129,948,078
Net non-interest revenue	22,268,186	252,804,610	7,377,440	(1,465,057)	280,985,179
Net revenue	53,528,251	350,504,942	8,229,476	(1,329,412)	410,933,257
Bad debt expenses and provision for insurance reserve	(951,081)	(306,577)	(191,049)	(14,159)	(1,462,866)
Net change in provisions for insurance liability	-	(293,873,846)	-	451,051	(293,422,795)
Operating expenses	(26,412,241)	(27,934,219)	(5,538,397)	1,452,588	(58,432,269)
Income from continuing operations before income tax	26,164,929	28,390,300	2,500,030	560,068	57,615,327
Income tax revenue (expense)	(3,702,152)	298,600	(420,471)	(6,070,282)	(9,894,305)
Net income	22,462,777	28,688,900	2,079,559	(5,510,214)	47,721,022

For the year ended December 31, 2017

Units: In thousands of TWD

Item	Banking	Insurance	Securities	Others	Consolidation
Net interest revenue	28,284,069	84,804,139	875,592	(751,730)	113,212,070
Net non-interest revenue	21,250,088	266,225,281	7,616,430	(2,158,903)	292,932,896
Net revenue	49,534,157	351,029,420	8,492,022	(2,910,633)	406,144,966
Bad debt expenses and provision for insurance reserve	(2,468,544)	(403,033)	(8,694)	(33,539)	(2,913,810)
Net change in provisions for insurance liability	-	(290,242,819)	-	352,433	(289,890,386)
Operating expenses	(24,689,122)	(26,180,353)	(5,466,392)	1,045,674	(55,290,193)
Income from continuing operations before income tax	22,376,491	34,203,215	3,016,936	(1,546,065)	58,050,577
Income tax revenue (expense)	(2,782,339)	1,623,110	(210,527)	(2,664,504)	(4,034,260)
Net income	19,594,152	35,826,325	2,806,409	(4,210,569)	54,016,317

(Continued)

k) Financial statements of Fubon Financial Holding Co., Ltd.

FUBON FINANCIAL HOLDING CO., LTD.
Balance Sheets
December 31, 2018 and 2017
(Expressed in thousands of New Taiwan Dollars)

Assets	December 31, 2018		December 31, 2017		Liabilities and Equity	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%		Amount	%	Amount	%
Cash and cash equivalents	\$ 6,255,724	1	220,473	-	Commercial papers issued, net	\$ 13,535,972	2	19,488,059	3
Financial assets measured at fair value through profit or loss	20,236,023	4	-	-	Payables	792,963	-	796,522	-
Financial assets measured at fair value through other comprehensive income	52,957	-	-	-	Current tax liabilities	11,460,587	2	10,143,645	2
Securities purchased under resell agreements	164,819	-	65,970	-	Bonds payable	58,550,000	11	54,000,000	9
Receivables, net	554,202	-	833	-	Deferred tax liabilities	4,145,078	1	3,012,019	1
Current tax assets	5,645,731	1	8,010,818	1	Other liabilities	<u>6,538</u>	<u>-</u>	<u>7,704</u>	<u>-</u>
Investments accounted for using equity method, net	514,717,209	94	561,703,318	98	Total liabilities	<u>88,491,138</u>	<u>16</u>	<u>87,447,949</u>	<u>15</u>
Other financial assets, net	-	-	5,774,075	1	Equity:				
Property and equipment, net	20,676	-	21,547	-	Share capital:				
Intangible assets, net	2,592	-	5,528	-	Common stock	102,336,040	19	102,336,040	18
Deferred tax assets	7,057	-	5,026	-	Preferred stock	<u>12,666,600</u>	<u>2</u>	<u>6,000,000</u>	<u>1</u>
Other assets, net	77,498	-	71,969	-	Total share capital	<u>115,002,640</u>	<u>21</u>	<u>108,336,040</u>	<u>19</u>
					Capital surplus	<u>137,018,872</u>	<u>25</u>	<u>103,674,220</u>	<u>18</u>
					Retained earnings:				
					Legal reserve	57,815,312	10	52,403,066	9
					Special reserve	30,008,647	5	53,069,867	9
					Undistributed earnings	<u>191,853,334</u>	<u>35</u>	<u>165,573,101</u>	<u>29</u>
					Total retained earnings	<u>279,677,293</u>	<u>50</u>	<u>271,046,034</u>	<u>47</u>
					Other equity interest	<u>(72,455,455)</u>	<u>(12)</u>	<u>5,375,314</u>	<u>1</u>
					Total equity	<u>459,243,350</u>	<u>84</u>	<u>488,431,608</u>	<u>85</u>
Total assets	<u>\$ 547,734,488</u>	<u>100</u>	<u>575,879,557</u>	<u>100</u>	Total liabilities and equity	<u>\$ 547,734,488</u>	<u>100</u>	<u>575,879,557</u>	<u>100</u>

FUBON FINANCIAL HOLDING CO., LTD.
Statement of Comprehensive Income
For the years ended December 31, 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

	2018		2017		Percentage change
	Amount	%	Amount	%	
Revenue :					
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	\$ 54,009,820	98	58,390,108	100	(8)
Other revenues	<u>1,278,485</u>	<u>2</u>	<u>32,425</u>	<u>-</u>	3,843
Net revenue	<u>55,288,305</u>	<u>100</u>	<u>58,422,533</u>	<u>100</u>	(5)
Expense:					
Operating expenses	713,933	1	803,498	1	(11)
Other expenses and losses	<u>902,952</u>	<u>2</u>	<u>929,900</u>	<u>2</u>	(3)
Total expenses	<u>1,616,885</u>	<u>3</u>	<u>1,733,398</u>	<u>3</u>	(7)
Net income before tax from continuing operations	53,671,420	97	56,689,135	97	(5)
Income tax expense	<u>(5,942,564)</u>	<u>(11)</u>	<u>(2,566,672)</u>	<u>(4)</u>	(132)
Net income	<u>47,728,856</u>	<u>86</u>	<u>54,122,463</u>	<u>93</u>	(12)
Other comprehensive income:					
Items not to be reclassified to profit or loss					
Losses on remeasurements of defined benefit plans	(14,523)	-	(1,597)	-	(809)
Gains on equity instruments measured at fair value through other comprehensive income	13,936	-	-	-	-
Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method - items not to be reclassified to profit or loss	(4,779,002)	(9)	824,314	1	(680)
Income tax - items not to be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	-
Subtotal of items not to be reclassified to profit or loss	<u>(4,779,589)</u>	<u>(9)</u>	<u>822,717</u>	<u>1</u>	(681)
Items that may be reclassified subsequently to profit or loss					
Exchanges differences in translation of foreign operations	(66,803)	-	(3,477,453)	(6)	98
Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method - items that may be reclassified subsequently to profit or loss	(96,405,947)	(174)	30,674,668	53	(414)
Income tax - items that may be reclassified subsequently to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	-
Subtotal of items that may be reclassified subsequently to profit or loss	<u>(96,472,750)</u>	<u>(174)</u>	<u>27,197,215</u>	<u>47</u>	(455)
Other comprehensive income, net of incom tax	<u>(101,252,339)</u>	<u>(183)</u>	<u>28,019,932</u>	<u>48</u>	(461)
Total comprehensive income	<u>\$ (53,523,483)</u>	<u>(97)</u>	<u>82,142,395</u>	<u>141</u>	(165)
Basic earnings per share (in New Taiwan Dollars)	<u>\$ 4.52</u>		<u>5.19</u>		

FUBON FINANCIAL HOLDING CO., LTD.

Statement of Changes in Equity

For the years ended December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

									Total other equity interest									
	Share capital				Retained earnings				Exchange differences on translation of foreign operations	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial instruments	Gains (losses) on effective portion of cash flow hedges	Gains (losses) on hedging instruments	Revaluation gains	Other comprehensive income reclassified by applying overlay approach	Total	Total equity	
	Common stock	Preferred stock	Total	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Total										
Balance at January 1, 2017	\$ 102,336,040	6,000,000	108,336,040	102,713,132	47,560,961	50,310,722	140,672,624	238,544,307	(7,625,985)	-	(16,096,768)	(402,102)	-	1,351,037	-	(22,773,818)	426,819,661	
Net income	-	-	-	-	-	-	54,122,463	54,122,463	-	-	-	-	-	-	-	-	54,122,463	
Other comprehensive income	-	-	-	-	-	-	(129,200)	(129,200)	(3,660,093)	-	30,754,855	102,453	-	951,917	-	28,149,132	28,019,932	
Total comprehensive income	-	-	-	-	-	-	53,993,263	53,993,263	(3,660,093)	-	30,754,855	102,453	-	951,917	-	28,149,132	82,142,395	
Appropriation and distribution of retained earnings:																		
Legal reserve appropriated	-	-	-	-	4,842,105	-	(4,842,105)	-	-	-	-	-	-	-	-	-	-	
Special reserve appropriated	-	-	-	-	-	2,759,145	(2,759,145)	-	-	-	-	-	-	-	-	-	-	
Cash dividends of common stock	-	-	-	-	-	-	(20,467,208)	(20,467,208)	-	-	-	-	-	-	-	-	(20,467,208)	
Cash dividends of preferred stock	-	-	-	-	-	-	(1,024,328)	(1,024,328)	-	-	-	-	-	-	-	-	(1,024,328)	
Changes in equity of associates and joint ventures accounted for using equity method	-	-	-	961,088	-	-	-	-	-	-	-	-	-	-	-	-	961,088	
Balance at December 31, 2017	102,336,040	6,000,000	108,336,040	103,674,220	52,403,066	53,069,867	165,573,101	271,046,034	(11,286,078)	-	14,658,087	(299,649)	-	2,302,954	-	5,375,314	488,431,608	
Effects of retrospective application	-	-	-	-	-	-	(800,008)	(800,008)	-	(2,143,826)	(14,658,087)	299,649	(299,649)	-	26,725,621	9,923,708	9,123,700	
Equity at beginning of period after adjustments	102,336,040	6,000,000	108,336,040	103,674,220	52,403,066	53,069,867	164,773,093	270,246,026	(11,286,078)	(2,143,826)	-	-	(299,649)	2,302,954	26,725,621	15,299,022	497,555,308	
Net income	-	-	-	-	-	-	47,728,856	47,728,856	-	-	-	-	-	-	-	-	47,728,856	
Other comprehensive income	-	-	-	-	-	-	(460,825)	(460,825)	(622,845)	(27,509,236)	-	-	82,268	472,156	(73,213,857)	(100,791,514)	(101,252,339)	
Total comprehensive income	-	-	-	-	-	-	47,268,031	47,268,031	(622,845)	(27,509,236)	-	-	82,268	472,156	(73,213,857)	(100,791,514)	(53,523,483)	
Appropriation and distribution of retained earnings:																		
Legal reserve appropriated	-	-	-	-	5,412,246	-	(5,412,246)	-	-	-	-	-	-	-	-	-	-	
Cash dividends of common stock	-	-	-	-	-	-	(23,537,289)	(23,537,289)	-	-	-	-	-	-	-	-	(23,537,289)	
Cash dividends of preferred stock	-	-	-	-	-	-	(1,476,000)	(1,476,000)	-	-	-	-	-	-	-	-	(1,476,000)	
Reversal of special reserve	-	-	-	-	-	(23,061,220)	23,061,220	-	-	-	-	-	-	-	-	-	-	
Changes in equity of associates and joint ventures accounted for using equity method	-	-	-	73,682	-	-	-	-	-	-	-	-	-	-	-	-	73,682	
Issuance of preferred stock	-	6,666,600	6,666,600	33,270,970	-	-	-	-	-	-	-	-	-	-	-	-	39,937,570	
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	(13,573,476)	(13,573,476)	-	13,573,476	-	-	-	-	-	13,573,476	-	
Disposal of special reserves transferred from investments in equity instruments measured at fair value through other comprehensive income of participating policies from subsidiaries accounting for using equity method	-	-	-	-	-	-	213,562	213,562	-	-	-	-	-	-	-	-	213,562	
Disposal of investment properties	-	-	-	-	-	-	536,439	536,439	-	-	-	-	-	(536,439)	-	(536,439)	-	
Balance at December 31, 2018	\$ 102,336,040	12,666,600	115,002,640	137,018,872	57,815,312	30,008,647	191,853,334	279,677,293	(11,908,923)	(16,079,586)	-	-	(217,381)	2,238,671	(46,488,236)	(72,455,455)	459,243,350	

Note: For the years ended December 31, 2018 and 2017, the recognized directors and supervisors' remuneration were \$62,000 and \$65,000, respectively, and the employees' compensation were \$10,000 and \$10,000, respectively, which have already been deducted from statement of comprehensive income.

FUBON FINANCIAL HOLDING CO., LTD.
Statement of Cash Flows
For the years ended December 31, 2018 and 2017
(Expressed in thousands of New Taiwan Dollars)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Income before income tax	\$ 53,671,420	56,689,135
Adjustments:		
Income of non-cash activities		
Depreciation expenses	8,456	11,843
Amortization expenses	11,571	14,151
Interest expense	894,164	904,607
Interest income	(36,630)	(15,719)
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	<u>(54,009,820)</u>	<u>(58,390,108)</u>
Subtotal of income of non-cash activities	<u>(53,132,259)</u>	<u>(57,475,226)</u>
Changes in operating assets and liabilities:		
Increase in financial assets measured at fair value through profit or loss	(14,473,545)	-
Decrease (increase) in receivables and current tax assets	1,526,708	(825,046)
Increase in other financial assets	-	(5,762,478)
Decrease (increase) in other assets	(27,635)	256,165
Decrease in payables and current tax liabilities	(1,912,415)	(128,750)
Decrease in other liabilities	<u>(1,166)</u>	<u>(479,551)</u>
Subtotal of all adjustments	<u>(68,020,312)</u>	<u>(64,414,886)</u>
Cash used in operating activities	(14,348,892)	(7,725,751)
Interest received	321,245	14,565
Dividends received	21,933,117	18,961,779
Interest paid	(900,114)	(1,096,671)
Income tax paid	<u>(1,570,334)</u>	<u>(655,855)</u>
Net cash from operating activities	<u>5,435,022</u>	<u>9,498,067</u>
Cash flows from investing activities:		
Acquisition of investments accounted for using equity method	(12,814,479)	-
Acquisition of property and equipment	(7,885)	(10,306)
Acquisition of intangible assets	<u>(752)</u>	<u>(2,068)</u>
Net cash used in investing activities	<u>(12,823,116)</u>	<u>(12,374)</u>
Cash flows from (used in) financing activities:		
Increase (decrease) in commercial papers issued	(5,952,087)	19,488,059
Proceeds from issuing bonds	12,200,000	-
Repayments of bonds	(7,650,000)	(9,800,000)
Cash dividends paid	(25,013,289)	(21,491,536)
Cash capital increase	<u>39,937,570</u>	<u>-</u>
Net cash from (used in) financing activities	<u>13,522,194</u>	<u>(11,803,477)</u>
Net increase (decrease) in cash and cash equivalents	6,134,100	(2,317,784)
Cash and cash equivalents at beginning of period	<u>286,443</u>	<u>2,604,227</u>
Cash and cash equivalents at end of period	<u><u>\$ 6,420,543</u></u>	<u><u>286,443</u></u>
Components of cash and cash equivalents:		
Cash and cash equivalents recognized in balance sheet	\$ 6,255,724	220,473
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	<u>164,819</u>	<u>65,970</u>
Cash and cash equivalents at end of period	<u><u>\$ 6,420,543</u></u>	<u><u>286,443</u></u>

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(l) Subsidiaries' balance sheets and statements of comprehensive income

(i) Balance sheets

	Taipei Fubon Bank	
	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 49,501,552	71,508,456
Due from the central bank and call loans to banks	197,707,230	191,411,622
Financial assets measured at fair value through profit or loss	96,445,854	85,917,970
Financial assets measured at fair value through other comprehensive income	88,964,567	-
Available-for-sale financial assets, net	-	156,039,119
Debt investments measured at amortized cost	570,303,579	-
Financial assets for hedgings / Derivative financial assets for hedging	1,816,774	1,048,870
Securities purchased under resell agreements	10,891,270	5,285,078
Receivables, net	73,817,397	67,635,236
Current income tax assets	206,953	180,788
Discounts and loans, net	1,233,491,631	1,197,565,723
Held-to-maturity financial assets	-	429,220,491
Investments accounted for using equity method	24,384,108	21,218,975
Other financial assets, net	17,723,028	105,087,421
Property and equipment, net	13,008,971	12,673,549
Investment property	2,794,200	2,890,900
Intangible assets, net	1,743,452	1,576,840
Deferred tax assets	635,400	452,737
Other assets	11,499,346	5,569,465
Total assets	\$ 2,394,935,312	2,355,283,240

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Taipei Fubon Bank	
	December 31, 2018	December 31, 2017
Deposits to the central bank and banks	\$ 124,789,468	112,947,010
Financial liabilities measured at fair value through profit or loss	27,466,183	23,766,523
Financial liabilities for hedging / Derivative financial liabilities for hedging	2,411,422	1,369,923
Securities sold under repurchase agreements	106,642,871	65,684,428
Payables	27,185,588	24,393,701
Current tax liabilities	2,146,545	1,105,147
Deposits and remittances	1,795,646,346	1,842,777,625
Bonds payable	86,080,595	75,096,956
Other financial liabilities	25,140,505	17,770,717
Provisions	3,290,890	2,700,932
Deferred tax liabilities	1,001,434	982,676
Other liabilities	<u>7,247,442</u>	<u>6,723,069</u>
Total liabilities	<u>2,209,049,289</u>	<u>2,175,318,707</u>
Common stock	106,518,023	106,518,023
Capital surplus	14,800,927	14,800,927
Retained earnings	65,954,329	58,976,672
Other equity	<u>(1,387,256)</u>	<u>(331,089)</u>
Total equity	<u>185,886,023</u>	<u>179,964,533</u>
Total liabilities and equity	<u><u>\$ 2,394,935,312</u></u>	<u><u>2,355,283,240</u></u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Fubon Insurance	
	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 7,157,172	7,087,430
Receivables	4,511,725	4,248,310
Financial assets measured at fair value through profit or loss	21,151,090	124,793
Available-for-sale financial assets	-	39,815,471
Financial assets carried at cost	-	925,291
Financial assets measured at amortized cost	3,678,259	-
Investments accounted for using equity method, net	875,485	964,281
Debt investments without active market	-	5,818,689
Financial assets measured at fair value through other comprehensive income	21,607,434	-
Investment property	10,798,611	10,556,206
Reinsurance contract assets	15,086,048	16,053,450
Property and equipment	3,036,642	3,117,625
Intangible assets	118,146	79,579
Deferred tax assets	1,120,254	685,074
Other assets	1,102,979	937,458
Total assets	\$ 90,243,845	90,413,657
Payables	\$ 9,449,535	9,585,661
Current tax liabilities	207,547	66,565
Financial liabilities measured at fair value through profit or loss	66,889	9,573
Insurance liabilities	46,550,095	45,979,044
Deferred tax liabilities	1,363,577	1,211,486
Other liabilities	831,331	673,776
Provisions	1,559,177	1,646,805
Total liabilities	60,028,151	59,172,910
Common stock	3,178,396	3,178,396
Capital surplus	5,934,408	5,934,408
Retained earnings	19,095,960	18,074,882
Other equity	2,006,930	4,053,061
Total equity	30,215,694	31,240,747
Total liabilities and equity	\$ 90,243,845	90,413,657

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Fubon Life Insurance	
	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 177,709,940	170,335,411
Receivables	34,939,279	45,728,358
Current tax assets	6,400,195	454,788
Financial assets measured at fair value through profit or loss	705,058,600	8,679,477
Financial assets measured at fair value through other comprehensive income	582,718,944	-
Available-for-sale financial assets, net	-	1,244,614,385
Derivative financial assets for hedging	468,635	421,914
Financial assets carried at cost, net	-	1,044,850
Financial assets measured at amortized cost	1,721,822,568	-
Debt investments without active market, net	-	1,524,535,218
Held-to-maturity financial assets	-	16,343,302
Investments accounted for using equity method, net	41,663,840	29,963,820
Other financial assets, net	27,724	21,681,149
Investment property	138,522,720	136,311,499
Loans	234,879,706	212,895,751
Reinsurance contract assets	2,017,425	1,621,146
Property and equipment	19,619,980	19,635,538
Intangible assets	277,778	173,913
Deferred tax assets	17,129,199	13,554,339
Other assets	51,915,586	46,801,614
Assets on insurance product, separated account	<u>159,308,325</u>	<u>155,214,816</u>
Total assets	<u>\$ 3,894,480,444</u>	<u>3,650,011,288</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Fubon Life Insurance	
	December 31, 2018	December 31, 2017
Payables	\$ 21,612,504	28,149,443
Current tax liabilities	820,275	6,991,303
Financial liabilities measured at fair value through profit or loss	3,445,100	448,368
Derivative financial liabilities for hedging	738,769	781,779
Bonds payable	55,000,000	35,000,000
Insurance liabilities	3,423,468,357	3,125,078,005
Reserve for insurance contract with nature of financial instrument futures	3,523,635	3,744,674
Foreign exchange valuation reserve	8,337,666	2,305,484
Provisions	7,693,729	6,980,790
Deferred tax liabilities	3,305,764	6,662,663
Other liabilities	6,367,219	5,763,640
Liabilities on insurance product, separated account	<u>159,308,325</u>	<u>155,214,816</u>
Total liabilities	<u>3,693,621,343</u>	<u>3,377,120,965</u>
Common stock	110,831,140	82,969,690
Capital surplus	29,530,619	29,460,334
Retained earnings	119,664,133	142,483,759
Other equity	<u>(59,166,791)</u>	<u>17,976,540</u>
Total equity	<u>200,859,101</u>	<u>272,890,323</u>
Total liabilities and equity	<u><u>\$ 3,894,480,444</u></u>	<u><u>3,650,011,288</u></u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Fubon Securities	
	December 31, 2018	December 31, 2017
Current assets	\$ 91,571,424	90,719,851
Available-for-sale financial assets — non-current	-	38,417
Financial assets measured at fair value through other comprehensive income — non-current	2,029,482	-
Financial assets carried at cost — non-current	-	428,655
Investments accounted for using equity method	8,003,611	7,623,636
Property and equipment	1,799,025	1,753,111
Investment property	929,618	1,036,331
Intangible assets	111,625	104,955
Deferred tax assets	287,130	207,218
Other non-current assets	1,086,540	1,358,884
Total assets	\$ 105,818,455	103,271,058
Current liabilities	\$ 69,163,366	68,457,969
Provisions — non-current	1,111,008	973,311
Deferred tax liabilities	113,143	79,871
Other non-current liabilities	3,813	4,782
Total liabilities	70,391,330	69,515,933
Common stock	16,643,550	16,643,550
Retained earnings	16,648,651	16,547,835
Other equity	2,134,924	563,740
Total equity	35,427,125	33,755,125
Total liabilities and equity	\$ 105,818,455	103,271,058

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Units: In thousands of CNY	
	Fubon Bank (China)	
	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 1,692,360	408,339
Due from the central bank and call loans to banks	6,263,498	7,101,945
Financial assets measured at fair value through profit or loss	799,857	751,321
Financial assets measured at fair value through other comprehensive income	15,418,721	-
Available-for-sale financial assets, net	-	10,929,923
Financial assets measured at amortized cost	8,012,168	-
Securities purchased under resell agreements	196,000	2,216,314
Receivables, net	4,856,235	3,048,294
Discounts and loans, net	36,833,754	40,657,037
Held-to-maturity financial assets, net	-	7,780,775
Other financial assets	358,033	254,956
Property and equipment, net	1,180,003	1,224,941
Intangible assets, net	36,606	38,916
Deferred tax assets	124,980	143,266
Other assets, net	54,861	66,089
Total assets	\$ 75,827,076	74,622,116
Deposits from the central bank and banks	\$ 6,525,742	8,033,136
Due to the central bank and banks	99,071	1,176,156
Financial liabilities measured at fair value through profit or loss	640,474	940,083
Securities sold under repurchase agreements	3,283,552	7,062,157
Payables	5,512,563	2,821,832
Current tax liabilities	6,429	12,077
Deposits and remittances	52,984,806	49,162,674
Bonds payable	1,000,000	-
Provisions	5,948	-
Deferred tax liabilities	35,342	-
Other liabilities	3,334	4,661
Total liabilities	70,097,261	69,212,776
Common stock	2,100,000	2,100,000
Capital surplus	93,177	93,176
Retained earnings	3,430,613	3,326,206
Other equity	106,025	(110,042)
Total equity	5,729,815	5,409,340
Total liabilities and equity	\$ 75,827,076	74,622,116

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Unit: In thousands of HKD	
	Fubon Bank (Hong Kong)	
	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 5,981,567	5,133,533
Due from the central bank and call loans to banks	2,060,262	558,348
Financial assets measured at fair value through profit or loss	2,408,804	2,342,085
Financial assets measured at fair value through other comprehensive income	809,330	-
Available-for-sale financial assets, net	-	32,243,660
Debt investments measured at amortized cost-net	36,889,767	-
Investments accounted for using equity method	-	2,341,526
Held-to-maturity financial assets, net	-	1,561,796
Derivative financial assets for hedging	286,163	209,902
Receivables, net	1,091,958	1,284,430
Discounts and loans, net	48,607,205	48,463,573
Current tax asset	350	-
Assets classified as held for sale	12,300	11,916
Property and equipment	1,153,380	1,155,450
Deferred tax assets	7	6
Other assets	293,003	151,842
Total assets	\$ 99,594,096	95,458,067
Deposits from the central bank and banks	\$ 3,488,002	2,026,148
Financial liabilities measured at fair value through profit or loss	1,963,644	1,943,100
Payables	1,120,093	1,450,410
Current tax liabilities	48,200	35,823
Liabilities directly related to the assets held for sale	25	-
Deposits and remittances	68,247,798	62,067,793
Derivative financial liabilities for hedging	68,075	131,935
Securities sold under repurchase agreements	5,979,422	9,181,147
Bonds payable	6,502,917	6,047,938
Preference stock liability	-	1,507,797
Provisions	52,627	57,301
Deferred tax liabilities	147,087	149,247
Other liabilities	615,785	530,971
Total liabilities	88,233,675	85,129,610
Common stock	1,641,273	1,641,273
Capital surplus	3,130,763	3,189,175
Retained earnings	6,029,448	5,054,304
Other equity	558,937	443,705
Total equity	11,360,421	10,328,457
Total liabilities and equity	\$ 99,594,096	95,458,067

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Note: The balance sheet of Fubon Bank (Hong Kong) as of December 31, 2018 and 2017, were presented fairly in accordance with the "Regulations Governing the Preparation of Financial Reports by Public Banks" and with the IFRSs (note 4 (3)), which were not prepared in conformity with the Hong Kong Companies Ordinance. Fubon Bank (Hong Kong) has submitted the financial statements as of December 31, 2017 to the Company Registry of Hong Kong, and will submit the financial statements as of December 31, 2018 in accordance with section 3 of Schedule 662 and Form 6 to the Hong Kong Companies Ordinance within the legal term. The independent auditors have issued unqualified audit reports as of December 31, 2018 and 2017 (Any emphasis matters to the user of financial reports and statements made under section 2 of Schedule 406, section 2 or 3 of Schedule 407 to the Hong Kong Companies Ordinance were not included.).

(ii) Statements of comprehensive income

	Taipei Fubon Bank	
	2018	2017
Interest revenue	\$ 43,304,437	34,144,984
Interest expense	(21,571,608)	(14,695,279)
Net interest revenue	21,732,829	19,449,705
Net non-interest revenues	19,671,877	19,338,161
Net revenue	41,404,706	38,787,866
Bad debt expenses and guarantee liability provisions	(667,308)	(2,106,404)
Operating expenses	(19,024,470)	(17,825,389)
Income before income tax	21,712,928	18,856,073
Income tax expense	(3,094,278)	(2,078,493)
Net income	18,618,650	16,777,580
Other comprehensive income (net of income tax)	(26,888)	(1,403,914)
Total comprehensive income	\$ 18,591,762	15,373,666
Earnings per share (In New Taiwan Dollars)	\$ 1.75	1.58

	Fubon Insurance	
	2018	2017
Operating Revenue	\$ 33,755,185	31,527,265
Operating cost	(21,542,852)	(20,231,245)
Operating expenses	(7,315,144)	(6,982,281)
Net operating income	4,897,189	4,313,739
Non-operating income and expense	(456,616)	(275,934)
Income before income tax	4,440,573	4,037,805
Income tax expense	(582,338)	(406,741)
Net income	3,858,235	3,631,064
Other comprehensive income (net of income tax)	(2,463,209)	171,379
Total comprehensive income	\$ 1,395,026	3,802,443
Basic earnings per share (In New Taiwan Dollars)	\$ 12.14	11.42
Diluted earnings per share(In New Taiwan Dollars)	\$ 12.13	11.42

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Fubon Life Insurance	
	2018	2017
Operating Revenue	\$ 638,034,108	631,702,806
Operating cost	(598,507,710)	(586,093,033)
Operating expenses	(16,120,193)	(15,432,978)
Operating income	23,406,205	30,176,795
Non-operating income and expense	439,348	300,647
Income before income tax	23,845,553	30,477,442
Income tax revenue (expense)	(1,084,353)	(2,010,500)
Net income	24,929,906	32,487,942
Other comprehensive income (net of income tax)	(100,730,514)	31,080,865
Total comprehensive income	\$ (75,800,608)	63,568,807
Basic earnings per share (In New Taiwan Dollars)	\$ 2.25	2.93

	Fubon Securities	
	2018	2017
Revenue	\$ 7,255,751	7,451,501
Expenses	(5,924,518)	(5,458,793)
Net operating income	1,331,233	1,992,708
Non-operating income and expense	1,085,738	1,005,014
Income before income tax	2,416,971	2,997,722
Income tax expense	(326,946)	(180,687)
Net income	2,090,025	2,817,035
Other comprehensive income (net of income tax)	268,764	(639,449)
Total comprehensive income	\$ 2,358,789	2,177,586
Earnings per share (In New Taiwan Dollars)	\$ 1.26	1.69

Units: In thousands of CNY

	Fubon Bank (China)	
	2018	2017
Interest revenue	\$ 2,912,572	2,684,728
Interest expense	(1,906,923)	(1,785,759)
Net interest revenue	1,005,649	898,969
Net non-interest revenues	14,179	51,825
Net revenue	1,019,828	950,794
Bad debt expenses and guarantee liability provisions	(28,438)	(17,000)
Operating expenses	(767,635)	(657,339)
Income before income tax	223,754	276,455
Income tax expense	(47,896)	(56,125)
Net income	175,858	220,330
Other comprehensive income (net of income tax)	172,719	(96,834)
Total comprehensive income	\$ 348,576	123,496

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Unit: In thousands of HKD	
	Fubon Bank (Hong Kong)	
	2018	2017
Interest revenue	\$ 2,708,241	2,180,742
Interest expense	(1,351,788)	(964,563)
Net interest revenue	1,356,453	1,216,179
Net non-interest revenues	713,621	557,582
Net revenue	2,070,074	1,773,761
Bad debt expenses and guarantee liability provisions	(40,077)	(73,382)
Operating expenses	(909,356)	(889,920)
Income before income tax	1,120,641	800,459
Income tax expense	(101,252)	(115,873)
Net income	1,019,389	684,586
Other comprehensive income (net of income tax)	298,489	565,401
Total comprehensive income	\$ 1,317,877	1,249,987

Note: The statements of comprehensive income of Fubon Bank (Hong Kong) for the years ended December 31, 2018 and 2017, were presented fairly in accordance with the “Regulations Governing the Preparation of Financial Reports by Public Banks” and with the IFRSs (note 4 (3)), which were not prepared in conformity with the Hong Kong Companies Ordinance. Fubon Bank (Hong Kong) has submitted the financial statements as of December 31, 2017 to the Company Registry of Hong Kong, and will submit the financial statements as of December 31, 2018 in accordance with section 3 of Schedule 662 and Form 6 to the Hong Kong Companies Ordinance within the legal term. The independent auditors have issued unqualified audit reports as of December 31, 2018 and 2017 (Any emphasis matters to the user of financial reports and statements made under section 2 of Schedule 406, section 2 or 3 of Schedule 407 to the Hong Kong Companies Ordinance were not included.).

(m) Profitability of the Company and bank, insurance and security subsidiaries

December 31, 2018

									Unit: %
Item		Consolidation	The Company	Taipei Fubon Bank	Fubon Bank (Hong Kong)	Fubon Bank (China)	Fubon Life Insurance	Fubon Insurance	Fubon Securities
Return on total assets	Before income tax	0.79 %	9.48 %	0.91 %	1.15 %	0.30 %	0.63 %	4.91 %	2.30 %
	After income tax	0.65 %	8.43 %	0.78 %	1.05 %	0.23 %	0.66 %	4.27 %	1.99 %
Return on equity	Before income tax	12.03 %	11.22 %	11.91 %	9.73 %	4.03 %	9.87 %	14.45 %	6.87 %
	After income tax	9.97 %	9.98 %	10.22 %	8.85 %	3.17 %	10.32 %	12.56 %	5.94 %
Profit margin		11.61 %	87.76 %	44.97 %	49.24 %	17.24 %	3.91 %	11.44 %	28.81 %

December 31, 2017

									Unit: %
Item		Consolidation	The Company	Taipei Fubon Bank	Fubon Bank (Hong Kong)	Fubon Bank (China)	Fubon Life Insurance	Fubon Insurance	Fubon Securities
Return on total assets	Before income tax	0.87 %	10.50 %	0.85 %	0.85 %	0.38 %	0.87 %	4.44 %	3.19 %
	After income tax	0.81 %	10.03 %	0.75 %	0.73 %	0.31 %	0.93 %	3.99 %	3.11 %
Return on equity	Before income tax	12.68 %	12.39 %	10.64 %	7.65 %	5.17 %	12.53 %	13.29 %	9.04 %
	After income tax	11.80 %	11.83 %	9.46 %	6.54 %	4.12 %	13.36 %	11.95 %	8.49 %
Profit margin		13.30 %	94.14 %	43.25 %	38.60 %	23.17 %	5.14 %	11.52 %	37.80 %

Note 1: Return on total assets = Income before (after) income tax/Average total assets.

Note 2: Return on equity = Income before (after) income tax/Average net worth of equity.

Note 3: Profit margin = Income after income tax/Total operating revenues.

Note 4: Income before (after) income tax is the income for the year ended December 31, 2018 and 2017.

Note 5: The return on assets and return on equity are presented annualized ratios.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(13) Other disclosures

(a) Information on significant transactions:

(i) Loans to others: None

(ii) Endorsement and guarantees for others: None

(iii) Marketable securities held as of December 31, 2018:

Units: In thousands of TWD / Thousands shares

Held company name	Held company name securities type and name	securities type and name with the securities issuer	Account	December 31, 2018				Remark
				No. of shares	Carrying amount	Shareholding ratio	Market price	
Fubon Futures Co., Ltd.	CTBC MSCI China Free 50 ex A and B Daily Leveraged 2X ETF	-	Financial assets measured at fair value through profit or loss	630	12,758	-	12,758	Beneficiary certificates
"	Yuanta U.S. Treasury 1-3 Year Bond ETF	-	"	500	15,870	-	15,870	"
"	Paradigm Dow Jones Copper ER Futures ETF	-	"	560	10,858	-	10,858	"
"	Shin Kong Global AI New Industry Fund	-	"	1,000	9,980	-	9,980	"
"	Capital Potential Income Multi-Asset Fund	-	"	2,000	19,827	-	19,827	"
"	Fubon China Policy Bank Bond 0-1 ETF	Fund managed under a subsidiary company's manager of the Company	"	750	29,820	-	29,820	"
"	Cathay Financial Holding Co., Ltd. Preferred Stock B	-	"	850	52,615	-	52,615	Listed stock
"	Cathay Financial Holding Co., Ltd. Preferred Stock A	-	"	4,500	286,650	-	286,650	"
"	China Steel Corporation Preferred Stock A	-	Financial assets at fair value through other comprehensive income	47	2,040	-	2,040	"
"	Taiwan Futures Exchange Co., Ltd.	Related parties in substance	"	745	57,040	0.22	57,040	Unlisted Stock
Fubon Marketing	Allianz G1b1 Inv All Seasons Ret of Bd	-	Financial assets measured at fair value through profit or loss	785	11,597	-	11,597	Beneficiary certificates
"	Fubon China Investment Grade Bond Fund - CNY	Fund managed under a subsidiary company's manager of the Company	"	200	10,588	-	10,588	"
"	Fubon R1	-	"	1,391	20,448	-	20,448	Beneficiary securities
"	Fubon R2	-	"	1,380	17,388	-	17,388	"
"	Cathay R1	-	"	500	7,430	-	7,430	"
"	Cathay R2	-	"	950	14,278	-	14,278	"
Fu Sheng Life Insurance Agent	98 Central Government Bond 6	-	Financial assets at fair value through other comprehensive income	-	3,018	-	3,018	Government Bond
Fu Sheng General Insurance Agent	98 Central Government Bond 6	-	"	-	2,012	-	2,012	"

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Held company name	Held company name securities type and name	securities type and name with the securities issuer	Account	December 31, 2018				Remark
				No. of shares	Carrying amount	Shareholding ratio	Market price	
Fubon Asset Management	Eastspring Investments Well Pool Money Market Fund	-	Financial assets measured at fair value through profit or loss	6,664	90,520	-	90,520	Beneficiary certificates
"	Fubon Chi-Hsiang Money Market	Fund managed under Fubon Asset Management	"	8,636	135,272	-	135,272	"
"	Fubon Hang Seng China Enterprises ETF	"	"	320	6,010	-	6,010	"
"	Fubon Taiwan Technology ETF	"	"	36	1,726	-	1,726	"
"	Fubon Taiwan Financial ETF	"	"	34	1,392	-	1,392	"
"	Fubon Taiwan Eight Industries ETF	"	"	35	1,420	-	1,420	"
"	Fubon MSCI Taiwan ETF	"	"	41	1,848	-	1,848	"
"	Fubon SSE180 ETF	"	"	458	11,546	-	11,546	"
"	Taiwan FTSE TWSE Taiwan 50 EFT	"	"	13	539	-	539	"
"	Fubon SZSE 100 ETF	"	"	26	200	-	200	"
"	Fubon TOPIX Index ETF	"	"	16	306	-	306	"
"	Fubon India ETF	"	"	14	308	-	308	"
"	Umbrella Fund-Fubon NIFTY ETF	"	"					
"	Fubon NASDAQ 100 ETF	"	"	13	352	-	352	"
"	Fubon China Growth Fund	"	"	2,044	10,181	-	10,181	"
"	Fubon Strategic High Income C	"	Financial assets measured at fair value through profit or loss	1,907	15,700	-	15,700	"
"	Fubon China Money Market CNY	"	"	796	40,761	-	40,761	"
"	Fubon China High Yield Bond Fund-B(CNY)	"	"	327	14,757	-	14,757	"
"	Fubon China Investment Grade Bond Fund-B(CNY)	"	"	1,633	67,249	-	67,249	"
"	Fubon Global Investment Grade Bond B	"	"	1,023	9,235	-	9,235	"
"	Fubon Global REIT Fund	"	"	578	5,139	-	5,139	"
"	Fubon China Multi-Asset Fund-A CNY	"	"	1,676	15,620	-	15,620	"
"	Fubon China Multi-Asset Fund-B CNY	"	"	1,974	15,761	-	15,761	"
"	Fubon 1-3 Years US Treasury Bond ETF	"	"	165	6,704	-	6,704	"
"	Fubon India and Indonesia Sovereign Bond Fund-A	"	"	1,999	20,204	-	20,204	"
"	Fubon Euro-Asia Silk Road Multi-Asset Fund-A	"	"	3,501	33,871	-	33,871	"
"	Fubon FTSE Developed Europe ETF	"	"	13	228	-	228	"
"	Fubon S&P US Preferred Stock ETF	"	"	3,614	66,201	-	66,201	"
"	Fubon China Policy Bank Bond ETF	"	"	7,221	149,837	-	149,837	"

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Held company name	Held company name securities type and name	securities type and name with the securities issuer	Account	December 31, 2018				Remark
				No. of shares	Carrying amount	Shareholding ratio	Market price	
Fubon Asset Management	103 Central Government Development Bond 13	-	Financial assets at fair value through other comprehensive income	-	314,465	-	314,465	Government Bond
"	FundRich Securities Co., Ltd.	Related parties in substance	"	2,018	9,837	3.36	9,837	Unlisted stock
Fubon AMC Co., Ltd.	Union Bank	-	"	203	1,947	0.01	1,947	Listed stock
Fubon Investment Service Co., Ltd.	Fubon Chi-Hsiang Money Market	Fund managed under a subsidiary company's manager of the Company	Financial assets measured at fair value through profit or loss	7,713	120,822	-	120,822	Beneficiary certificates
Fubon Securities Venture Capital Co., Ltd.	Applied Bio Code Corporation	-	"	137	5,213	0.27	5,213	Emerging stock
"	Fusheng Precision Co., Ltd.	-	"	332	52,954	0.28	52,954	"
"	APEX Flight Academy	-	"	1,313	-	5.42	-	Unlisted stock
"	Noodoe Corporation	-	"	450	49,852	5.99	49,852	"
"	Timing Pharmaceutical Co., Ltd.	-	Financial assets measured at fair value through profit or loss	1,300	21,892	1.51	21,892	Unlisted stock
"	uPI Group Inc.	-	"	190	12,350	0.27	12,350	"
"	PocketNet Technology Inc.	-	"	952	53,303	1.70	53,303	"
"	Amis Technology Co., Ltd.	-	"	48,750	91,832	22.45	91,832	"
"	Cinema Pro Limited	-	"	2,800	12,754	14.69	12,754	Unlisted stock
Fubon Mintou Venture Capital Co., Ltd.	Yuanta De-Li Money Market Fund	-	"	2,472	40,240	-	40,240	Beneficiary certificates
"	FSITC Taiwan Money Market	-	"	3,293	50,308	-	50,308	"
"	Mega Diamond Money Market Fund	-	"	4,018	50,309	-	50,309	"
"	Capital Money Market Fund	-	"	2,810	45,267	-	45,267	"
"	Luo Lih-Fen Holding Co., Ltd.	-	"	10	1,780	-	1,780	Listed stock
Fubon Securities Equity Investment Ltd.	Guang Dong Ying Jiang Film Industry Investment Limited	-	"	-	12,862	-	12,862	Unlisted stock
Fubon Financial Holding Venture Capital Co., Ltd.	Fubon Chi-Hsiang Money Market Fund	Fund managed under a subsidiary company's manager of the Company	"	12,799	200,489	-	200,489	Beneficiary certificates
"	Mega Diamond Money Market Fund	-	"	16,156	202,303	-	202,303	"
"	Franklin Templeton Sinoam Money Market Fund	-	"	29,107	300,408	-	300,408	"
"	Chunghwa chemical Synthesis & Biotech Co., Ltd.	-	"	3,000	68,400	3.87	68,400	Listed stock
"	Fubon Multimedia Technology Co., Ltd.	Related parties in substance	"	3,322	624,536	2.34	624,536	"
"	Tanvex BioPharma, Inc.	-	"	2,064	129,000	0.85	129,000	"
"	Media Asia Group Holdings Ltd.	-	"	99,188	27,272	4.64	27,272	Hong Kong listed stock
"	ConforMIS, Inc.	-	"	100	1,101	0.16	1,101	US listed stock
"	H&Q AP Greater China Growth Fund	-	"	-	10,870	-	10,870	Private fund

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Held company name	Held company name securities type and name	securities type and name with the securities issuer	Account	December 31, 2018				Remark
				No. of shares	Carrying amount	Shareholding ratio	Market price	
Fubon Financial Holding Venture Capital Co., Ltd.	An Shin Food Service Co., Ltd.	-	Financial assets measured at fair value through profit or loss	97	6,273	0.30	6,273	Emerging stock
"	KD Holding Corporation	-	"	470	81,050	0.70	81,050	"
"	SynCore Biotechnology Co.	-	"	2,695	66,430	3.23	66,430	"
"	Foresee pharmaceuticals Co., Ltd.	-	"	446	25,377	0.51	25,377	"
"	One Production Co., Ltd.	Related party in substance	"	3,874	17,433	13.84	17,433	"
"	Long time tech. Co., Ltd.	-	"	10,000	289,340	8.31	289,340	"
"	TwI Biotechnology Co., Ltd.	-	"	2,700	56,214	4.00	56,214	"
"	Drewloong Precision, Inc.	-	"	100	12,023	0.33	12,023	"
"	TIPCO International Limited	-	"	1	846	4.54	846	Unlisted stock
"	ABG Grail Limited	-	"	-	82,759	4.00	82,759	"
"	Jeoutai Technology Co., Ltd.	-	"	2,714	39,330	8.06	39,330	"
"	Century Development Corporation	Related party in substance	"	3,361	34,385	1.00	34,385	"
"	Phalanx Biotech Group	-	"	95	478	0.15	478	"
"	StemCyte Inc.	Related party in substance	"	9,426	122,440	10.60	122,440	"
"	LoneStar Heart Inc.	-	"	294	-	4.01	-	"
"	UUPON Inc..	-	"	1,900	3,800	5.29	3,800	"
"	DoDoPal Holdings Ltd.	Related party in substance	"	42	-	6.78	-	"
"	Beseye Cloud Security Co., Ltd.	-	"	3,700	121,450	23.13	121,450	"
"	Alar pharma ceuticals Inc	-	"	3,300	30,723	9.43	30,723	"
"	TAROKO Development Co., Ltd.	Related party in substance	"	20,736	224,364	12.71	224,364	"
"	TAROKO MALL Co., Ltd.	"	"	2,304	27,072	7.65	27,072	"
"	Crystal Bright Development Limited, BVI	-	"	10	294,431	1.91	294,431	"
"	Sunny Pharmtech Inc.	Related party in substance	"	11,239	146,101	10.04	146,101	"
"	Asian Crown International Co., Ltd.	"	"	824	-	6.94	-	"
"	Alliance Digital Tech Co., Ltd.	"	"	900	-	2.16	-	"
"	EcoNet Inc.	Related party in substance	"	312	60,970	1.67	60,970	"
"	DETKET Technology Inc.	Related party in substance	"	2,200	15,268	17.12	15,268	"
"	Eva Technologies Co., Ltd.	-	"	1,340	-	6.50	-	"
"	ABG II-WX Limited	-	"	2	2,315,625	9.30	2,315,625	"
"	Allianz Pharmaceuticals	-	"	2,000	100,100	6.85	100,100	Unlisted stock
"	A.T.Holding Ltd.	Related party in substance	"	280	228,067	2.35	228,067	"
"	tixCraft Inc.	-	"	990	20,503	15.71	20,503	"
"	TeTanTi Agricultural Biotechnology Co., Ltd.	Related party in substance	"	1,500	16,740	6.00	16,740	"

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Held company name	Held company name securities type and name	securities type and name with the securities issuer	Account	December 31, 2018				Remark
				No. of shares	Carrying amount	Shareholding ratio	Market price	
Fubon Financial Holding Venture Capital Co., Ltd.	Grand Academy Investment, L.P.	-	Financial assets measured at fair value through profit or loss	-	107,954	4.17	107,954	Private fund
"	Starview Heights Investment, L.P.	-	"	-	28,371	4.17	28,371	"
"	Bridge Roots Fund.L.P.	-	Financial assets at fair value through other comprehensive income	-	546,167	11.48	546,167	"
"	Yuan tai Foreign Exchange Broker Co., Ltd.	-	"	240	9,701	2.00	9,701	Unlisted stock
"	Omniad Media Incorporation	-	"	7,675	-	10.21	-	"
"	Kbro Media Co., Ltd.	Related party in substance	"	13,050	59,899	14.50	59,899	"
"	Diamond Bioventure	Related party in substance	"	22,500	157,050	5.00	157,050	"
"	Dragon Tiger Capital Partners Ltd. B class	-	"	1	-	7.00	-	"
"	Dragon Tiger Capital Partners Ltd. C class	-	"	-	-	35.00	-	"
"	SANITAS Health Management Co., Ltd.	Related party in substance	"	4,105	27,957	9.90	27,957	"
"	Yesin Electronics Technology Co., Ltd.	"	"	4,026	30,192	10.61	30,192	"
"	Wholox Max Green Power Co., Ltd.	Related party in substance	"	1,090	10,900	1.00	10,900	"
"	Xin-Yao Bioventure Co., Ltd.	Related party in substance	"	17,500	134,750	5.00	134,750	"
"	Star River Energy Co., Ltd	Related party in substance	"	1,760	34,461	1.49	34,461	"
"	Fubon Hospitality Management Co., Ltd.	"	"	5,000	30,300	17.86	30,300	"
"	Star Shining Energy Co., Ltd	"	"	21,000	381,570	7.00	381,570	"
Fubon Sports & Entertainment Co., Ltd.	CHOXUE INC. (Cayman)	-	"	298	-	1.66	-	"

(iv) Cumulative purchase or sales of the same investee's capital stock up to \$300,000 or 10% of paid-in capital:

Units: In Thousands of TWD / Thousands shares

Purchase or sale company	Marketable securities type and name	Account	Counter-party	Relation-ship	January 1 2017		Purchase		Sale				September 30 2017	
					No. of shares	Amounts	No. of shares	Accounts	No. of shares	Sales price	Book value	Disposal gain or loss	No. of shares	Accounts
Fubon Life Insurance	Fubon Life Insurance (Hong Kong)	Investment accounted for using equity method, net	Subsidiary	-	500,000	1,681,253	775,000	1,678,018 (Note 1)	-	-	-	-	1,275,000	3,359,271
Fubon Life Insurance	Star Shining Energy Corporation	Investment accounted for using equity method, net	Investment accounted for using equity method	-	30,000	299,313	60,000	608,987 (Note 1)	-	-	-	-	90,000	908,300
Fubon Life Insurance	Wholox Max Green Power Co., Ltd.	Investments accounted for using equity method, net	Investment accounted for using equity method	-	37,009	3,588,688	46,727	7,966,886 (Note 1)	-	-	-	-	83,736	11,555,574
Fubon Life Insurance	He Suo Green Energy Co., Ltd.	Investments accounted for using equity method, net	Investment accounted for using equity method	-	-	-	32,700	326,596 (Note 1)	-	-	-	-	32,700	326,596
Fubon Asset Management	Founder Fubon Fund Asset Management Co., Ltd.	Investment accounted for using equity method, net	Investment accounted for using equity method	-	-	359,674	-	334,496 (Note 1)	-	-	-	-	-	694,170

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Purchase or sale company	Marketable securities type and name	Account	Counter-party	Relation-ship	January 1 2017		Purchase		Sale				September 30 2017	
					No. of shares	Amounts	No. of shares	Accounts	No. of shares	Sales price	Book value	Disposal gain or loss	No. of shares	Accounts
Fubon Financial Holding Venture Capital Co., Ltd.	Star Shining Energy Corporation	Financial assets measured at fair value through other comprehensive income	Star Shining Energy Corporation	-	3,000	30,000	18,000	364,800 (Note 2)	-	-	-	-	21,000	394,800
Fubon Bank (Hong Kong)	Xiamen Bank Co., Ltd.	Investments accounted for using equity method, net	Investment accounted for using equity method	-	374,855	8,947,205	98,900	3,449,770 (Note 3)	473,735	12,814,479	12,396,975	- (Note 4)	473,755	11,985,473
Fubon Financial Holding	Xiamen Bank Co., Ltd.	Investments accounted for using equity method, net	Subsidiary	-	-	-	473,755	12,486,794 (Note 1)	-	-	-	-	473,755	12,486,794
Taipei Fubon Bank	Line BIZ+ Taiwan Limited	Investments accounted for using equity method, net	Line BIZ+ Taiwan Limited	-	-	-	10,936	3,156,315 (Note 1)	-	-	-	-	10,936	3,156,315

- Note 1: The initial costs of Fubon Life Insurance (Hong Kong) Ltd., Star Shining Energy Corporation, Fubon Hyundai Life Insurance Co., Ltd and Heshuo Green Energy invested by Fubon Life Insurance amounting to \$2,298,712, \$600,000, \$6,420,296 and \$327,000, respectively, and Founder Fubon Fund Asset Management Co., Ltd. invested by Fubon Asset Management amounting to \$402,597, and Xiamen Bank Co., Ltd. invested by Fubon Financial Holding amounting to \$12,814,479, as well as Line BIZ+ Taiwan Limited invested by Taipei Fubon Bank amounting to \$3,158,375, have already been included. The remainder is shares of profit or other comprehensive income accounted for using equity method.
- Note 2: The initial costs of Star Shining Energy Corporation invested by Fubon Financial Holding Venture Capital Co., Ltd. amounting to \$180,000 have already been included. The remainder was the valuation based on fair value.
- Note 3: The initial costs of Xiamen Bank Co., Ltd. invested by Fubon Bank (Hong Kong) amounting to \$2,235,704 and bargain purchase gain, have already been included. The remainder was shares of profit or loss or other comprehensive income accounted for using equity method.
- Note 4: The transaction was organization reassembly, thus the difference between sales price and book value was recognized as capital surplus.

(v) Acquisition of the same securities up to \$300,000 or 10% of paid-in capital:

Purchase of sales company	Marketable securities type and name	Account	Counter-party	Relation-ship	January 2013		Purchase		Sales				December 31, 2013	
					No. of shares	Amounts	No. of shares	Amounts	No. of shares	Sales price	Book value	Deposit gain or loss	No. of shares	Amounts
Fubon Financial Holding Venture Capital Co., Ltd.	Long Time Tech. Co., Ltd.	Financial assets measured at fair value through profit or loss	Long Time Tech. Co., Ltd.	-	-	-	10,000	318,495 (Note)	-	-	-	-	10,000	318,495
Fubon Financial Holding Venture Capital Co., Ltd.	Bridge Roots Fund, L.P.	Financial assets measured at fair value through profit or loss	Bridge Roots Fund, L.P.	-	-	-	-	546,340 (Note)	-	-	-	-	-	546,340

Note: The initial investment costs of Fubon Financial Holding Venture Capital Co., Ltd entered into by Long Time Tech. Co., Ltd and Bridge Roots Fund, L.P. amounting to \$320,000 and \$598,840, The remainder were shares of profit or other comprehensive income accounted for using equity method.

(vi) Obtain of real estate up to \$300,000 or 10% of paid-in capital

(In Thousands of TWD)

Company	Property Name	Occurrence Date	Amount	Amount Paid	Counterparty	Relationship	Previous transfer information, as the counterparty is a related party,				Reference for price	Purpose and usage	Others
							Owner	Relations with the issuer	Transfer Date	Amount			
Fubon AMC.	located at No. 68, 68-6 Two sections of Yixian Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)	2018.07	350,000 (note 1)	Paid in accordance with the contract	Taipei Fubon Bank	Related party	Kang Huo Real Estate Development Co., Ltd.	General purchase of non-stakeholder	1995.12.27	290,713	Referred to appraisal reports.	Real estate investment	None
Fubon Property and Casualty Insurance Co., Ltd.	19 and 20 floor, No. 68, Taitung Road, Siming District, Xiamen City.	2018.01	369,152	Fully paid	Xiamen Shen Lu Da Trading Development Limited	Not related party	-	-	-	-	Referred to the price agreed by buyer and seller	Office building	None

Note 1: The inter-company transactions have been eliminated.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vii) Disposal of real estate up to \$300,000 or 10% of paid-in capital:

(In Thousands of TWD)

Disposed company	Property Name	Transaction date	Acquisition date	Book value	Transaction amount	Balance due	Disposal gain or loss	Counter-party	Relationship	Disposal purpose	Price reference	Others
Fubon AMC	located at No. 39-2, 39-12, 39-15, 39-16, Five sections of Xinyi Road, Xinyi District, Taipei City, Taiwan (R.O.C.)	2018.04	2006/12/22 and 2013/4/11	3,135,615	3,550,000 (Note 1)	Fully collected	1,171,800 (Note 1)	Ying Bao Development td.	Company controlled by Fubon Financial Holdings	Sold its building to avoid it from being idle	Referred to appraisal reports.	None
Taipei Fubon Bank	Songlong Branch old site(located at No.176 B4, 176-1, 176 2F-1 Sec. 1, Keelung Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)	2017.06	1995.12.27	278,710	350,000 (Note 2)	Fully collected	71,290 (Note 2)	Fubon AMC	Company controlled by Fubon Financial Holdings	Sold its building to avoid it from being idle	Referred to appraisal reports	None

Note 1: The amount recognized in profit or loss was \$414,385. The remainder, \$757,495, was directly transferred from revaluation gain of equity to retained earnings.

Note 2: The inter-company transactions have been eliminated.

(viii) Discount of commission fees for transaction with related parties up to \$5,000: None

(ix) Receivables from related parties up to \$300,000 or 10% of paid-in capital:

Unit: In thousands of TWD

Company of accounted for receivable	Counter-party	Relation-ship	Balance of receivables from related party	Turnover rate	Post-due receivables – related parties		Subsequently received amount of receivables from related party	Allowance for doubtful accounts
					Amount	Resolution		
The Company	Taipei Fubon Bank	Subsidiary of the Company	1,449,470 (Note 1)	-	-	-	-	-
"	Fubon Life Insurance	"	552,329	-	-	-	-	-
Fubon Life Insurance	Fubon Financial Holding	Parent Company	6,036,170 (Note 2)	-	-	-	-	-

Note 1: The tax receivable by tax link mainly of subsidiary of company estimated payment that Company should be paid.

Note 2: The tax receivables to the subsidiaries, which derived from tax receivable of the Company as a result of combined income tax declaration starting from 2002.

Note 3: The inter-company transactions have been eliminated.

(x) Transactions of financial derivatives: for future information please refer to notes 6(c), 6(g), 6(u) and 6(ai).

(xi) Transaction information of NPL disposition:

1) Summary of transaction information of NPL disposition:

Unit: In Thousands of TWD

Trade date	Counterparty	Debt component	Book value (Note)	Sale price	Gains on disposal	Additional term	Relationship
Fubon Bank (China) 2018.12.7	Shanghai Rui Cheng Asset Management	Mortgage loan, guarantee loan, and credit loan	63,555	116,565	53,010	None	None

Note: The book value is the NPL amount, less, allowance for doubtful accounts.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) The information of a transaction of NPL disposition up to \$1,000,000 should be disclosed: None

(xii) Types of securitization instruments and other relevant information approved to issue pursuant to financial assets securitization rules or real estate securitization rules: None

(xiii) Business relationships and significant inter-company transactions

Unit: In thousands of TWD

No.	Company	Counter-party	Relationship	Transaction details			Rates of operation income/total asset
				Accounts	Amounts	Transaction terms	
0	Fubon Financial Holding	Fubon Life Insurance	1	Interest revenue of Financial assets and liabilities measured at fair value through profit or loss	552,329	Same as non related-party transactions	0.13 %
0	Fubon Financial Holding	Fubon Life Insurance	1	Financial assets mandatorily measured at fair value through profit or loss	20,000,000	Same as non related-party transactions	0.26 %
0	Fubon Financial Holding	Fubon Life Insurance	1	Income tax payable	6,036,170	Same as non related-party transactions	0.08 %
0	Fubon Financial Holding	Fubon Bank (Hong Kong)	1	Interest revenue of Financial assets and liabilities measured at fair value through profit or loss	285,261	Same as non related-party transactions	0.07 %
0	Fubon Financial Holding	Taipei Fubon Bank	1	Cash and cashequivalents	6,253,213	Same as non related-party transactions	0.08 %
1	Taipei Fubon Bank	Fubon Financial Holding	2	Deposits and remittance	6,253,213	Same as non related-party transactions	0.08 %
1	Taipei Fubon Bank	Fubon Life Insurance	3	Deposits and remittance	6,386,571	Same as non related-party transactions	0.08 %
1	Taipei Fubon Bank	Fubon Life Insurance	3	Net service fee and commission income	6,033,056	Same as non related-party transactions	1.47 %
1	Taipei Fubon Bank	Fubon Securities	3	Deposits and remittance	9,019,011	Same as non related-party transactions	0.12 %
1	Taipei Fubon Bank	Fubon Securities	3	Net service charge and commission loss	293,739	Same as non related-party transactions	0.07 %
2	Fubon Life Insurance	Fubon Financial Holding	2	Bonds Payable	20,000,000	Same as non related-party transactions	0.26 %
2	Fubon Life Insurance	Fubon Financial Holding	2	Interest expense	552,329	Same as non related-party transactions	0.13 %
2	Fubon Life Insurance	Fubon Financial Holding	2	Income tax receivable	6,036,170	Same as non related-party transactions	0.08 %
2	Fubon Life Insurance	Taipei Fubon Bank	3	Cash and cash equivalents	6,386,571	Same as non related-party transactions	0.08 %
2	Fubon Life Insurance	Taipei Fubon Bank	3	Net service charge and commission loss	4,471,609	Same as non related-party transactions	1.09 %
2	Fubon Life Insurance	Taipei Fubon Bank	3	Other general and administrative expense	1,570,464	Same as non related-party transactions	0.38 %
2	Fubon Life Insurance	Fubon Insurance	3	Other non-interest revenue, net	533,974	Same as non related-party transactions	0.13 %
2	Fubon Life Insurance	Fu Sheng Life Insurance Agent	3	Net service charge and commission loss	277,180	Same as non related-party transactions	0.07 %
3	Fubon Insurance	Fubon Life Insurance	3	Other general and administrative expense	545,608	Same as non related-party transactions	0.13 %
3	Fubon Insurance	Fu Sheng General Insurance Agent	3	Net service charge and commission loss	356,416	Same as non related-party transactions	0.09 %

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

No.	Company	Counter-party	Relationship	Transaction details			
				Accounts	Amounts	Transaction terms	Rates of operation income/total asset
4	Fubon Securities	Taipei Fubon Bank	3	Cash and cash equivalents	8,219,011	Same as non related-party transactions	0.11 %
4	Fubon Securities	Taipei Fubon Bank	3	Other non-interest revenue, net	267,220	Same as non related-party transactions	0.06 %
5	Fu Sheng General Insurance Agent	Fubon Insurance	3	Net service fee and commission income	364,031	Same as non related-party transactions	0.09 %
6	Fu Sheng Life Insurance Agent	Fubon Life Insurance	3	Net service fee and commission income	277,515	Same as non related-party transactions	0.07 %
7	Fubon Bank (Hong Kong)	Fubon Financial Holding	2	Interest expense	285,261	Same as non related-party transactions	0.07 %

Note 1: Serial number is determined as follows:

1. 0 represents parent company.
2. Subsidiaries are numbered in a sequence of Arabic numerals from 1 based on the companies' category.

Note 2: The relation category among traders is determined as follows:

1. Parent to subsidiary.
2. Subsidiary to parent.
3. Subsidiary to subsidiary.

Note 3: Above listed are the significant transactions that comprised over 0.05% of the consolidated revenue or total assets.

(xiv) Other significant transactions that may have substantial influence upon the decision made by financial statement user: None

(b) Related information of investees companies:

As of December 31, 2018 were as follow:

(In Thousands of New Taiwan Dollars)

Name of investor company	Name of investee Company	Address	Main business scope	Shareholding ratio	Book Value	Investment gain(loss) recognized	Aggregate shareholding of the Company and its subsidiaries				Note
							Number of shares	Number of proforma shares	Total		
									Number of shares	Shareholding ratio	
Fubon Financial Holding	Fubon Insurance Co., Ltd.	Taipei	Property insurance	100.00%	27,539,411	3,823,064	317,840	-	317,840	100.00%	
	Fubon Life Insurance Co.,Ltd.	Taipei	Life insurance	100.00%	180,552,990	25,142,841	11,083,114	-	11,083,114	100.00%	
	Fubon Securities Co., Ltd.	Taipei	Securities	100.00%	35,450,529	2,092,719	1,664,355	-	1,664,355	100.00%	
	Taipei Fubon Bank Co., Ltd.	Taipei	Banking	100.00%	183,917,453	18,497,497	10,651,802	-	10,651,802	100.00%	
	Fubon Marketing Co.,Ltd.	Taipei	Marketing and management consult	100.00%	346,696	115,890	14,500	-	14,500	100.00%	
	Fubon Financial Holding Venture Capital Co., Ltd.	Taipei	Venture Capital	53.80%	3,634,888	454,519	250,580	-	465,800	100.00%	
	Fubon Bank Hong Kong Limited	Hong Kong	Banking	100.00%	47,756,858	3,589,500	1,641,273	-	1,641,273	100.00%	
	Fubon Asset Management Service Co., Ltd.	Taipei	Creditor's rights management	100.00%	3,217,963	53,746	250,000	-	250,000	100.00%	

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Name of investor company	Name of investee Company	Address	Main business scope	Shareholding ratio	Book Value	Investment gain(loss) recognized	Aggregate shareholding of the Company and its subsidiaries				Note
							Number of shares	Number of proforma shares	Total		
									Number of shares	Shareholding ratio	
Fubon Financial Holding	Taiwan Sport Lottery Co., Ltd.	Taipei	IT Software Service	100.00%	97,463	85	9,729	-	9,729	100.00%	
	Fubon Bank(China) Co., Ltd.	Mainland China	Banking	49.00%	19,716,164	206,958	-	-	-	100.00%	
	Xiamen Bank Co., Ltd.	Mainland China	Banking	19.95%	12,486,794	33,001	473,755	-	473,755	19.95%	
Fubon Insurance	Fubon Brokers (Thailand) Co.,Ltd.	Thailand	Insurance brokers	48.97%	22,500	4,200	29	-	29	48.97%	
	Fubon Insurance (Vietnam) Co.,Ltd.	Vietnam	Insurance Business	100.00%	647,938	43,249	-	-	-	100.00%	
	Fubon Property and Casualty Insurance Co.,Ltd	Mainland China	Insurance Business	40.00%	194,138	(101,873)	-	-	-	80.00%	
Fubon Life Insurance	Fubon Insurance Brokers (Philippines) Co., Ltd.	Philippines	Insurance brokers	99.99%	10,909	450	200	-	200	99.99%	
	Teng Fu Bo Investment Limited	Mainland China	Investment advisory	12.44%	109,857	(44,819)	-	-	-	24.88%	
	Fubon Life Insurance (Vietnam) Co.,Ltd.	Vietnam	Life Insurance business	100.00%	1,683,611	19,228	-	-	-	100.00%	
	Fubon Property and Casualty Insurance Co.,Ltd.	Mainland China	Property insurance	40.00%	194,138	(101,873)	-	-	-	80.00%	
	Carter Lane (Guernsey) Limited	Guernsey Island	Investment property leasing	100.00%	2,727,867	111,572	41,515	-	41,515	100.00%	
	Bow Bells House (Jersey) Limited	Jersey Island	Investment property leasing	100.00%	1,843,736	167,227	46,173	-	46,173	100.00%	
	Fubon MTL Property (Jersey) Limited	Jersey Island	Investment property leasing	100.00%	4,748,634	1,096,423	92,581	-	92,581	100.00%	
	CITIC Capital Holdings Ltd.	Hong Kong	Capital holdings	18.00%	8,804,540	384,063	13,980	-	13,980	18.00%	
	Fubon Hyundai Life Insurance Co.,Ltd.	Korea	Life Insurance business	62.06%	12,701,371	471,024	83,736	-	83,736	62.06%	
	Fubon Life Insurance (Hong Kong) Ltd.	Hong Kong	Life Insurance business	100.00%	2,680,890	(512,819)	1,275,000	-	1,275,000	100.00%	
	Fubon Ellipse (Belgium) S.A.	Belgium Brussels	Investment property leasing	100.00%	2,681,342	59,714	1,134	-	1,134	100.00%	
	Fubon Ellipse (Jersey) Limited	Jersey Island	Capital holdings	100.00%	1,458	(817)	90	-	90	100.00%	

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Name of investor company	Name of investee Company	Address	Main business scope	Shareholding ratio	Book Value	Investment gain(loss) recognized	Aggregate shareholding of the Company and its subsidiaries				Note
							Number of shares	Number of proforma shares	Total		
									Number of shares	Shareholding ratio	
Fubon Life Insurance	Teng Fu Bo Investment Limited	Mainland China	Investment advisory	12.44%	109,857	(44,819)	-	-	-	24.88%	
	Fubon Financial Holding Venture Capital Co., Ltd.	Taipei	Venture Capital	25.00%	2,098,702	186,626	116,450	-	465,800	100.00%	
	Star River Energy Co., Ltd.	Taipei	Energy Technology Service	20.00%	259,251	17,751	23,680	-	25,440	21.49%	
	Star Shining Energy Co., Ltd.	Taipei	Energy Technology Service	30.00%	911,704	12,391	90,000	-	111,000	37.00%	
	Ho Shuo Green Energy Co., Ltd.	Taipei	Energy Technology Service	30.00%	326,596	(404)	32,700	-	33,790	31.00%	
	Fubon Securities	Fubon Futures Co., Ltd.	Taipei	Futures	100.00%	1,947,418	73,424	140,000	-	140,000	100.00%
Fubon Securities	Fubon Securities (BVI) Ltd.	British Virgin Islands	Securities	100.00%	393,152	(9,265)	18,830	-	18,830	100.00%	
	Fubon Securities investment Services Co., Ltd.	Taipei	Investment Consulting	100.00%	312,549	5,660	30,000	-	30,000	100.00%	
	Fubon Financial Holding venture Capital Co., Ltd.	Taipei	Venture Capital	11.20%	873,973	81,870	52,190	-	465,800	100.00%	
	Fubon Asset Management Co., Ltd.	Taipei	Asset management	100.00%	3,141,193	200,114	230,345	-	230,345	100.00%	
	Fubon Securities Venture Capital Co., Ltd.	Taipei	Venture Capital	100.00%	310,675	9,875	30,000	-	30,000	100.00%	
	Founder Fubon Fund Asset Management Co., Ltd.	Mainland China	Fund Management	33.30%	682,065	(56,081)	-	-	-	33.30%	
	Fubon Equity Investment Ltd.	Mainland China	Venture Capital	100.00%	888,958	46,925	-	-	-	100.00%	
	Fubon Mintou Venture Capital Co., Ltd.	Taipei	Venture Capital	66.70%	135,694	2,219	13,400	-	13,400	66.70%	
	Fubon Securities (HK) Ltd.	Hong Kong	Securities	100.00%	257,906	(8,414)	156,386	-	156,386	100.00%	
	Fubon Convoy Asset Management (Hong Kong) Limited	Hong Kong	Asset management	49.00%	5,858	(11,105)	6,860	-	6,860	49.00%	

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Name of investor company	Name of investee Company	Address	Main business scope	Shareholding ratio	Book Value	Investment gain(loss) recognized	Aggregate shareholding of the Company and its subsidiaries				Note	
							Number of shares	Number of proforma shares	Total			
									Number of shares	Shareholding ratio		
Taipei Fubon Bank	Fubon Construction Management Co., Ltd.	Taipei	Construction Management, real estate valuation	30.00%	115,338	14,527	6,964	-	6,964	30.00%		
	Line BIZ+ Taiwan Limited	Taipei	Third-Party Payment Services	19.99%	3,139,671	(18,705)	10,936	-	10,936	19.99%		
	Fubon Bank (China) Co., Ltd	Mainland China	Banking	51.00%	21,129,099	215,406	-	-	-	100.00%		
Fubon Marketing	Fu-Sheng Life Insurance Agent Co., Ltd.	Taipei	Life Insurance Agent	100.00%	71,903	27,457	2,800	-	2,800	100.00%		
	Fu-Sheng General Insurance Agent Co., Ltd.	Taipei	Property and Casualty Insurance Agent	100.00%	147,731	90,496	2,500	-	2,500	100.00%		
Fubon AMC	CITC Futong Financial Leasing Ltd.	Mainland China	Financial Leasing	25.00%	915,547	(575,711)	-	-	-	25.00%		
Fubon Financial Holding Venture Capital Co.,Ltd.	Fubon Sports & Entertainment Co., Ltd	Taipei	Sports service business	100.00%	63,098	40,210	4,797	-	4,797	100.00%		
	Fubon Stadium Co., Ltd.	Taipei	Stadium management	100.00%	59,348	9,784	5,000	-	5,000	100.00%		
	Fubon Health Management Co., Ltd.	Taipei	Aesthetic medicine	24.27%	30,556	(13,104)	5,000	-	5,000	24.27%		
	Bravelog Sport Technology Co., Ltd.	Taipei	Sport Training	40.00%	4,617	(2,861)	800	-	800	40.00%		
	Cofit Healthcare Inc.	Taipei	IT Software Serice	33.33%	9,564	(4,814)	275	-	275	33.33%		
	Fubon Bank (HongKong) (Note)	Fubon Credit (Hong Kong) Limited	Hong Kong	Financial service	100.00%	HKD 91,169	HKD 854	65,000	-	65,000		100.00%
		FB Securities (Hong Kong) Limited	Hong Kong	Securities broker	100.00%	HKD 103,956	HKD 34,789	8,000	-	8,000		100.00%
FB Investment management (Hong Kong) Limited		Hong Kong	Nominees service	100.00%	HKD 8,644	HKD 644	80	-	80	100.00%		
Fubon Nominees (Hong Kong) Limited		Hong Kong	Nominees service	100.00%	HKD 142	HKD (4)	-	-	-	100.00%		
	Fubon Insurance Broker Limited	Hong Kong	Insurance broker	100.00%	HKD 1,541	HKD (170)	100	-	100	100.00%		

Note: The details of consolidated entities of Fubon Bank (Hong Kong) are its main subsidiaries.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Information on investment in mainland China:

(i) Information on investment in Mainland China of the Company and Fubon Taipei Bank:

1) Information of the Company and Fubon Taipei Bank's investee in Mainland China:

Units: In thousands of TWD / CNY

Investee Company	Main Business	Total Amount of Paid-in Capital (thousand)	Investment types	Accumulated outflow of Investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of December 31, 2018	Accumulated inward remittance of earnings as of December 31, 2018
					Outflow	Inflow						
Fubon Bank (China)	Banking	9,378,810 (CNY2,100,000)	Direct investment in Mainland China	42,122,872	-	-	42,122,872	800,767 (CNY175,857)	100 %	422,364	40,845,263	168,999

2) Information of the Company and Fubon Bank (Hong Kong)'s investee in Mainland China:

In order to adjust the Group's investment structure, Fubon Bank (Hong Kong) has transferred 473,754 thousand shares of common stock of Xiamen Bank to the Company. The transfer was approved by the FSC Gin Guan Securities NO.10701090160 on May 31, 2018 and by the Investment Commission MOEA, with letter No.10700185740 on August 27, 2018. The transfer was completed on November 30, 2018.

Units: In thousands of TWD / CNY

Investee Company	Main Business	Total Amount of Paid-in Capital	Investment types	Accumulated outflow of Investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of December 31, 2018	Accumulated inward remittance of earnings as of December 31, 2018
					Outflow	Inflow						
Xiamen Bank Co., Ltd.	Banking	10,607,948 (CNY2,375,215)	(Note 1)	N/A, Investment of Fubon Bank (Hong Kong)	-	-	-	6,577,852	19.95 % (direct/indirect)	1,437,227 (Note 2)	12,486,794	-

Note 1: The company has invested in the mainland China directly rather than invested through 100% owned subsidiary, Fubon Bank (Hong Kong), since November 30, 2018.

Note 2: Include gain recognized in bargain purchase transaction of Fubon Bank (Hong Kong), and the remainder is the investment income recognized under equity method.

3) Upper limit on investment:

Company	Accumulated investment in Mainland China as of December 31, 2018	Investment amounts authorized by investment commission, MOEA	Upper limit on investment
Fubon Financial Holding Co., Ltd.	21,864,574 (CNY4,491,338)	29,682,633 (CNY6,131,035)	275,546,010
Taipei Fubon Bank Co., Ltd.	20,258,298 (CNY4,093,113)	20,258,298 (CNY4,093,113)	111,531,613
Fubon Bank Hong Kong Limited	N/A, Investment of Fubon Bank (Hong Kong)	N/A, Investment of Fubon Bank (Hong Kong)	N/A, Investment of Fubon Bank (Hong Kong)

Note: The paid-in capital and profit or loss in foreign currencies are converted into TWD using CNY closing exchange rate on December 31, 2018, and the CNY average exchange rate for the years ended December 31, 2018.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (ii) Fubon Life Insurance and Fubon Insurance invested CNY 400 million (with each company funding CNY 200 million) to set up Fubon Property and Casualty Insurance Co., Ltd. for insurance business in Mainland China. Fubon Life Insurance and Fubon Insurance signed a joint investment contract with Xiamen Port Holding Group on September 10, 2012. The board of directors of Fubon Life Insurance and Fubon Insurance approved in participating in the capital increase for cash in Fubon Property & Casualty Insurance Co., Ltd. in June and July, 2017, respectively. The project was approved by Jin Guan Bao Chan No.10602080481 and No.10602080482 and by the Investment Commission, MOEA, Jing Shen (2) Letter No.1060236350 and No.10600226464 to invest the total amount of CNY 120 million in Fubon Property & Casualty Insurance. The investment amounting to CNY 96 million was remitted on September 13, 2018. The investment project was approved by the CBIRC on January 3, 2019, in the meanwhile was set as the capital increase date. As of the capital increase date, the paid-in capital of Fubon Property & Casualty Insurance was CNY 1,120 million. The total investment of Fubon Life Insurance and Fubon Insurance amounted to CNY 896 million.

Fubon Property and Casualty Insurance Co., Ltd. participated in the capital increase in Teng Fu Bo Investment Limited on November 20, 2018. The investment project intended to gather CNY 20 million in two installments. Fubon Property and Casualty Insurance Co., Ltd. had remitted CNY 46,650 thousand as first installment on November 20, 2018. As of December 31, 2018, the paid-in capital of Teng Fu Bo Investment Limited amounted to CNY 350 million, with Fubon Property and Casualty Insurance Co., Ltd. contributing the amount of CNY 108.85 million.

Fubon Life Insurance indirectly acquired ownership of 12 companies, including CITIC Fulljoy (Dalian) Ltd., by acquiring the ownership of Hong Kong CITIC Capital Holdings Ltd..

1) Information of Fubon Insurance and Fubon Life Insurance's investees in Mainland China

Units: In thousands of TWD / CNY

Investee Company	Main Business	Total Amount of Paid-in Capital	Investment types (Note 1)	Accumulated outflow of Investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of December 31, 2018	Accumulated inward remittance of earnings as of December 31, 2018
					Outflow	Inflow						
Fubon Property and Casualty Insurance Limited	Property Insurance	4,466,100 (CNY1,000,000)	1	3,878,890	431,477	-	4,310,367	(254,682)	80.00 %	(203,746)	388,276	-
Teng Fu Bo Investment Limited	Investment advisory	1,563,135 (CNY350,000)	3	-	-	-	-	(360,281)	24.88 %	(89,638)	219,714	-

2) Information of Fubon Life Insurance's investees in Mainland China:

Units: In thousands

Investee Company	Main Business	Total Amount of Paid-in Capital	Investment types (Note 1)	Accumulated outflow of Investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of December 31, 2018	Accumulated inward remittance of earnings as of December 31, 2018
					Outflow	Inflow						
CITIC Fulljoy (Dalian) Limited	Real estate development	1,414,044 (HKD 360,000)	2	-	-	-	-	(10,942) (CNY2,403)	18.00 %	(1,970) (CNY(433))	Note 3	-
Shang Hsing Real Estate (Shenyang) Limited	Real estate leasing	1,963,950 (HKD 500,000)	2	-	-	-	-	(100,628) (CNY(22,099))	18.00 %	(18,113) (CNY(3,978))	Note 3	-
CITIC Capital Holdings (Tianjin) Ltd.	Investment Holdings	20,081,510 (CNY 4,496,431)	2	-	-	-	-	(493,796) (CNY(108,443))	12.27 %	(60,588) (CNY(13,306))	Note 3	-
Hui Zhi Ju Xin(Shenzhen) Investment Ltd.	Investment Management	22,331 (CNY 5,000)	2	-	-	-	-	263,029 (CNY57,764)	12.27 %	32,273 (CNY7,088)	Note 3	-

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Investee Company	Main Business	Total Amount of Paid-in Capital	Investment types (Note 1)	Accumulated outflow of Investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of December 31, 2018	Accumulated inward remittance of earnings as of December 31, 2018
					Outflow	Inflow						
Zhong An Tai Xin (Shenzhen) Equity Investment and Fund Management Ltd.	Investment advisory	44,661 (CNY 10,000)	2	-	-	-	-	(2,518) (CNY(553))	8.82 %	(453) (CNY(100))	Note 3	-
CITIC Capital Asset Management (Shenzhen) Ltd.	Investment advisory	44,661 (CNY 10,000)	2	-	-	-	-	119,088 (CNY26,153)	18.00 %	21,436 (CNY4,708)	Note 3	-
CITIC Capital Culture Tourism (Chengdu) Ltd.	Real estate leasing	2,488,064 (CNY 557,100)	2	-	-	-	-	(4,007) (CNY(880))	12.58 %	(504) (CNY(111))	Note 3	-
Jin Rui Tong Investment Consultancy (Chengdu) Ltd.	Real estate leasing	820,302 (CNY 183,673)	2	-	-	-	-	(261,946) (CNY(57,526))	6.41 %	(16,804) (CNY(3,690))	Note 3	-
Tianjin Xinze Equity Investment and Fund Management Ltd.	Investment advisory	111,653 (CNY 25,000)	2	-	-	-	-	119,830 (CNY26,316)	18.00 %	21,569 (CNY4,737)	Note 3	-
Shanghai Ling Hui Business Information Consultancy Ltd.	Real estate leasing	3,319,800 (CNY 743,333)	2	-	-	-	-	(148,321) (CNY(32,573))	8.99 %	(13,338) (CNY(2,929))	Note 3	-
Shanghai Jing Rong Industrial Development Ltd.	Real estate leasing	1,679,254 (CNY 743,333)	2	-	-	-	-	294,932 (CNY64,770)	8.99 %	26,522 (CNY5,825)	Note 3	-
Murkden Tzu Tsai Heating & Development Ltd.	Real estate leasing	290,297 (CNY 743,333)	2	-	-	-	-	(176,230) (CNY(38,702))	18.00 %	- (CNY-)	Note 3 Note 4	-

Note 1: Investment types are as follows.

1. Direct investment in Mainland China.
2. Investment in Mainland China companies through CITIC Capital Holdings Ltd., a company established in a third region.
3. Others.

Note 2: The recognition of equity in the earnings is based on the reviewed financial statements of the investees.

Note 3: The self-prepared financial statements obtained by the third regional companies cannot be distinguished from the book value of the investment at the end of each period.

Note 4: The third regional companies did not recognize relative investment income since CITIC capital had acquired 100% shareholdings of the investee company at the end of period.

Note 5: Fubon Life Insurance also indirectly invested in following companies through CITIC Fulljoy (Dalian) Ltd.: Peng Yu Investment Consulting (Shanghai) Ltd., Peng Yu Investment Consulting (Shanghai) Ltd. Pudong Branch Division, Beijing Xinhe Run Investment Management Ltd., Shenzhen Pengyi Equity Investment Management Ltd., Shenzhen Xinpeng Yu Investment Management Ltd., Beijing Pengyu Investment Management Ltd., Jiaqiang (Shanghai) Consulting Ltd., Jiaqiang Equity Investment Management (Shenzhen) Ltd., Shanghai Xunyi Investment Management Consulting Ltd., Pengwei Investment Consulting (Shanghai) Ltd., Pengwei Investment Consulting Inquiry (Shanghai) Ltd. Jing'an Branch, Pengwei Investment Consulting (Shanghai) Ltd. Xuhui Branch, CITIC Capital (China) Investment Ltd., CITIC Capital Equity Investment (Tianjin) Ltd. Beijing Branch, CITIC Capital Equity Investment (Tianjin) Ltd. Shanghai Branch, Beijing Yuexin Investment Management Ltd., Shenzhen Jiaqiang Xiaofeng Equity Investment Management Ltd., Shenzhen Jiaqiang Yiheng Equity Investment Management Ltd. Division, Shenzhen Minzhi Juxin Investment Management Ltd. Beijing Branch, Shenzhen Yixin Management Consulting Ltd., Benyuan Investment Consultant (Beijing) Ltd., Shanghai Yuanlong Engineering Service Ltd., Shanghai Longyu Management Consulting Ltd., CITIC Capital (Qingdao) Investment Management Ltd., Deqin Alpine Beizhuang Hotel Ltd., Yunnan Shangri La Alpine Beizhuang Hotel Ltd., Shenzhen Shengyin Consulting Ltd., Shenzhen Shengyi Equity Investment Management Ltd., Shenzhen Jushi Datong Industrial Ltd. Company, Shenzhen Yushengxin Consulting Ltd., Shanghai Sterling De Real Estate Ltd., Huiyi Management Consulting (Shanghai) Ltd., Kangqun (Nanjing) Warehousing Service Ltd. Shenzhen Xinlong Consulting Ltd., Shanghai Xinming Investment Consulting Ltd., Kaixin Venture Capital Management (Beijing) Ltd., Kaixin Venture Capital Ltd., CITIC Kasina (Beijing) Consulting Ltd., CITIC Fengyue (Dalian) Real Estate Development Ltd., CITIC Capital (Shenzhen) Investment Management Ltd., CITIC Capital (Zhuhai) Asset Management Ltd., Zhongyu Ruixin (Beijing) Asset Management Ltd. Division, Xinyi Business Management (Shanghai) Ltd., CITIC Guoke Asset Management Ltd., Shanghai Xuanxuan Business Information Consulting Ltd., Fujian Xintai Qianlong Investment Ltd., CITIC Capital (Ningbo) Investment Management Ltd., Shanghai Airlines Investment Management Ltd., Tibet Yuzexin Investment Service Ltd., Tibet Yudaxin Investment Management Ltd., Tibet Xinyi Investment Service Ltd., Chengdu Ruote Tourism Resources Development Ltd., Zhejiang Xinwei Investment Management Ltd., Tibet Giant Lihexin Investment Management Ltd., Shanghai Zhongxing Enterprise Management Ltd. Company, CITIC Jiu'an (Ningbo) Equity Investment Fund Management Ltd., Zhuhai Zhongrui Zhixin Investment Management Ltd., Ningbo Dingxin Jingli Investment Management Ltd., Shanghai Jingrong Industrial Development Ltd., Xinyi (Shanghai) Asset Management Ltd., Beijing Jianyuan Tiandi Real Estate Ltd., Ningbo Xinrong Jiu'an Enterprise Management Consulting Ltd., Chengdu Xinrun Dehong Equity Investment Management Ltd., CITIC Jiu'an (Ningbo) Equity Investment Fund Management Ltd., Shenzhen Hengxin Management Consulting Ltd., Jinan Huanqi Commercial Operation Management Ltd., Beijing Shangyun Capital Management Ltd., CITIC Capital (Guangdong) Industrial Investment Fund Management Ltd., CITIC Capital (Guangdong) Equity Investment Ltd., Shenzhen Shuntai Industrial Park Management Ltd., Shenzhen Shunze Industrial Park Management Ltd., Hunan Yingfu Real Estate Ltd., Huizhou Xinli Nanshan Real Estate Development Ltd., Huiyang District Weiyu Industrial Development Ltd., Shanghai Yunyi Consulting Management Ltd..

Note 6: The foreign currency is converted into TWD using CNY closing exchange rate on December 31, 2018 and average exchange rate for the years ended December 31, 2018.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Upper limit on investment:

Units: In thousands of TWD

Company	Accumulated investment in Mainland China as of December 31, 2018	Investment amounts authorized by investment commission, MOEA	Upper limit on investment
Fubon Life Insurance Co., Ltd.	25,819,262	26,293,549	120,515,461
Fubon Insurance Co., Ltd.	2,154,951 (CNY448,000)	2,208,544 (CNY460,000)	18,129,416

Note: The limit of Fubon Life Insurance Co., Ltd. and Fubon Insurance Co., Ltd. investment were \$80,343,640, and \$12,086,278 according to the Regulations Governing Foreign Investments by Insurance Companies.

- (iii) On March 19, 2015, the board of directors of Fubon Securities has approved the establishment of a new subsidiary in Mainland China. The project was approved by FSC Gin Guan Securities No. 1040042628 on November 24, 2015 and by the Investment Commission, MOEA, with letter No. 10430066740 on January 20, 2016. The investment amount was CNY200 million. The subsidiary was set up in Xiamen on June 6, 2016. Fubon Securities has remitted CNY200 million for investment.

Units: In thousands of TWD / CNY

Investee Company	Main Business	Total Amount of Paid-in Capital	Investment types	Accumulated outflow of investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of December 31, 2018	Accumulated inward remittance of earnings as of December 31, 2018
					Outflow	Inflow						
Fubon Securities Equity Investment Ltd.	Equity Investment	893,220 (CNY200,000)	(Note 1)	944,532	-	-	944,532	46,925	100.00 %	46,925	888,958	-

Company	Accumulated investment in Mainland China as of December 31, 2018	Investment amounts authorized by investment commission, MOEA	Upper limit on investment (Note 2)
Fubon Securities Co., Ltd.	994,532 (CNY200,000)	1,017,360 (CNY200,000)	21,256,275

Note 1: Direct investment in Mainland China.

Note 2: It was calculated by Fubon Securities' net value as of December 31, 2018

- (iv) On November 18, 2014, the board of directors of Fubon Securities approved participating in the capital increase for cash in Huishang Futures Co., Ltd. in Mainland China. However, after considering the financial situation, the shareholders of Huishang Futures Co., Ltd. requested to change the cooperation plan. After negotiation, Fubon Securities decided not to participate in the capital increase, and announced the decision on March 26, 2018.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (v) Fubon AMC acquired 25% ownership of CITIC FUTONG Financial Leasing Co., Ltd. on May 8, 2015. The investment amounted to CNY270,000 thousand.

Units: In thousands of TWD / CNY

Investee Company	Main Business	Total Amount of Paid-in Capital	Investment types	Accumulated outflow of Investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of December 31, 2018	Accumulated inward remittance of earnings as of December 31, 2018
					Outflow	Inflow						
CITIC FUTONG Financial Leasing Ltd.	Financial leasing	4,677,513 (CNY931,034)	(Note 1)	1,356,479	-	-	1,356,479	(2,373,529)	25 %	(575,711)	915,547	-

Company	Accumulated investment in Mainland China as of December 31, 2018	Investment amounts authorized by investment commission, MOEA	Upper limit on investment (Note 2)
Fubon Assets Management Service Co., Ltd.	1,356,479 (CNY270,000)	1,356,479 (CNY270,000)	1,930,778

Note 1: Direct investment in Mainland China.

Note2: It was calculated by Fubon AMC's net value as of December 31, 2018.

- (vi) Fubon Asset Management and Founder Securities Co. co-invested in a fund management company. The investment amounted to CNY200,000 thousand, with Fubon Asset Management contributing the amount of CNY66,600 thousand. The board of directors of Fubon Asset Management had approved to participate in the capital increased for cash of Founder Fubon Fund Management Co., Ltd. by CNY 66,600 thousands. The investment project was approved by the FSC and the Investment Commission, MOEA on April 7 and May 31, 2016, respectively. On November 28, 2017, the board of directors of Fubon Asset Management has approved to participate in the capital increased for cash of Founder Fubon Fund Management Co., Ltd. by CNY 86,580 thousand. The investment project had been approved by the Investment Commission, MOEA, and FSC on January 5 and February 7, 2018, respectively. Fubon Asset Management has invested the amount of TWD 402,597 thousand on March 12, 2018. As of December 31, 2018, the paid-in capital of Founder Fubon Fund Management Co., Ltd. amounted to CNY660,000 thousand, with Fubon Asset Management contributing the amount of 1,029,119 thousand.

Units: In thousands of TWD / CNY

Investee Company	Main Business	Total Amount of Paid-in Capital	Investment types	Accumulated outflow of Investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of December 31, 2018	Accumulated inward remittance of earnings as of December 31, 2018
					Outflow	Inflow						
Founder Fubon Fund Management Limited	Fund raising and asset management	2,947,626 (CNY660,000)	(Note 1)	626,522	402,597	-	1,029,119	(168,410)	33.30 %	(56,081)	682,065	-

Company	Accumulated investment in Mainland China as of December 31, 2018	Investment amounts authorized by investment commission, MOEA	Upper limit on investment (Note 2)
Fubon Asset Management Co., Ltd.	1,029,119 (CNY219,780)	1,029,119 (CNY219,780)	1,884,716

Note 1: Direct investment in Mainland China.

Note2: It was calculated by Fubon Asset Management's net value as of December 31, 2018.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(14) Segment Information:

(a) Operating segment information

The reportable segments of the Company are as follows:

- (i) Bank business: Engaged in banking business.
- (ii) Insurance business: Providing a variety of life and property insurance services.
- (iii) Life insurance business: Providing a variety of life and property insurance services.
- (iv) Securities business: Engaged in securities business.
- (v) Others: Engaged in financial holding venture capital and asset management business, etc.

The Company reports segments information by business type to offer different business and services. All of these business types are administered separately and have different finance and marketing strategies.

The Company does not allocate tax expenses to reporting segments. The accounting policies of the operating segments are the same as those described in Note 2. The income of the operating segments is based on income before tax, which also serves as the basis for the performance measurement. The sales and transfer between the departments are regarded as third party sales and transfer, and are measured at current market value.

(b) Business information

Operating Segments information was as follows:

	2018						
	Bank business	Insurance business	Insurance business	Securities business	Others	Adjustment and reversal	Total
Net interest revenue							
Revenue by external customers	\$ 31,845,371	1,077,928	97,090,981	710,795	(776,997)	-	129,948,078
Revenue between segments	(585,306)	2,785	(471,362)	141,241	34,363	878,279	-
Net interest revenue	31,260,065	1,080,713	96,619,619	852,036	(742,634)	878,279	129,948,078
Other net revenue							
Revenue by external customers	16,260,286	11,884,051	245,076,053	6,884,997	879,792	-	280,985,179
Revenue between segments	6,007,900	(52,384)	(4,103,110)	492,443	56,002,507	(58,347,356)	-
Other net revenue	22,268,186	11,831,667	240,972,943	7,377,440	56,882,299	(58,347,356)	280,985,179
Net income	53,528,251	12,912,380	337,592,562	8,229,476	56,139,665	(57,469,077)	410,933,257
Bad debt expense and reserve for guarantees	(951,081)	10,857	(317,434)	(191,049)	(14,159)	-	(1,462,866)
Net change in provision for insurance reserve	-	(8,091)	(293,865,755)	-	-	451,051	(293,422,795)
Operating expenses	(26,412,241)	(8,621,453)	(19,312,766)	(5,538,397)	(1,403,585)	2,856,173	(58,432,269)
Net income (loss) before income tax	\$ 26,164,929	4,293,693	24,096,607	2,500,030	54,721,921	(54,161,853)	57,615,327
Net income (loss) after income tax	\$ 22,462,777	3,709,802	24,979,098	2,079,559	900,698	(6,410,912)	47,721,022
Assets	\$ 3,102,119,073	97,721,464	4,385,527,661	123,227,513	559,668,083	(553,203,986)	7,715,059,808
Liabilities	\$ 2,853,275,472	67,191,119	4,175,279,378	87,727,456	89,155,820	(26,395,413)	7,246,233,832

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	2017						Total
	Bank business	Insurance business	Insurance business	Securities business	Others	Adjustment and reversal	
Net interest revenue							
Revenue by external customers	\$ 28,573,801	963,620	83,649,561	783,707	(758,619)	-	113,212,070
Revenue between segments	(289,732)	8,320	182,638	91,884	6,890	-	-
Net interest revenue	28,284,069	971,940	83,832,199	875,591	(751,729)	-	113,212,070
Other net revenue							
Revenue by external customers	15,848,110	11,921,214	258,533,588	7,181,923	(551,939)	-	292,932,896
Revenue between segments	5,401,978	35,071	(4,264,592)	434,507	60,066,720	(61,673,684)	-
Other net revenue	21,250,088	11,956,285	254,268,996	7,616,430	59,514,781	(61,673,684)	292,932,896
Net income	49,534,157	12,928,225	338,101,195	8,492,021	58,763,052	(61,673,684)	406,144,966
Bad debt expense and reserve for guarantees	(2,468,544)	(29,487)	(373,546)	(8,694)	(33,539)	-	(2,913,810)
Net change in provision for insurance reserve	-	(647,684)	(289,595,135)	-	-	352,433	(289,890,386)
Operating expenses	(24,689,122)	(8,504,214)	(17,676,139)	(5,466,391)	(1,509,162)	2,554,835	(55,290,193)
Net income (loss) before income tax	\$ 22,376,491	3,746,840	30,456,375	3,016,936	57,220,351	(58,766,416)	58,050,577
Net income (loss) after income tax	\$ 19,594,152	3,338,383	32,487,942	2,806,409	450,747	(4,661,317)	54,016,316
Assets	\$ 3,036,423,091	97,667,097	3,662,772,135	125,210,131	590,300,887	(592,919,355)	6,919,453,986
Liabilities	\$ 2,792,763,953	65,903,752	3,389,881,812	91,301,750	90,992,233	(160,862)	6,430,682,638

(c) Geographic information

	2018	2017
Taiwan	\$ 382,640,520	382,716,620
Asia	26,756,709	22,313,203
Others	1,536,028	1,115,144
	\$ 410,933,257	406,144,967

(d) Major customer information

There is no revenue from transactions with single external customer amounted to 10% or more of the Company's revenues.

Fubon Financial Holding Co., Ltd.

Chairman: Richard M. Tsai