

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

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

Consolidated Financial Statements

**With Independent Auditors' Review Report
For the Three Months Ended March 31, 2019 and 2018**

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

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Independent Auditors' Review Report

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

Introduction

We have reviewed the accompanying consolidated balance sheets of Fubon Financial Holding Co., Ltd. and its subsidiaries as of March 31, 2019 and 2018, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2019 and 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. 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 Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

We conducted our reviews in accordance with Statement of Auditing Standard 65, "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of Fubon Financial Holding Co., Ltd. and its subsidiaries as of March 31, 2019 and 2018, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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

KPMG

Taipei, Taiwan (Republic of China)
May 2, 2019

Notes to Readers

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

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with the generally accepted auditing standards as of March 31, 2019 and 2018

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2019, December 31 and March 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Assets		March 31, 2019		December 31, 2018		March 31, 2018		Liabilities and Equity		March 31, 2019		December 31, 2018		March 31, 2018	
		Amount	%	Amount	%	Amount	%			Amount	%	Amount	%	Amount	%
11000	Cash and cash equivalents (notes 6(a) and 8)	\$ 259,184,153	3	232,234,449	3	166,071,411	2	21000	Deposits from the central bank and banks	\$ 162,231,942	2	152,445,771	2	160,182,681	2
11500	Due from the central bank and call loans to banks (notes 6(b) and 8)	213,304,369	3	223,566,116	3	233,078,576	4	21500	Due to the central bank and banks	684,676	-	442,461	-	3,510,420	-
12000	Financial assets measured at fair value through profit or loss (notes 6(c) and 8)	1,080,181,806	14	917,327,572	12	861,645,785	13	22000	Financial liabilities measured at fair value through profit or loss (note 6(t))	35,169,336	-	45,422,901	1	38,715,108	1
12150	Financial assets measured at fair value through other comprehensive income (notes 6(d) and 8)	756,970,284	10	820,207,183	11	851,645,696	12	22300	Financial liabilities for hedging (note 6(f))	3,323,730	-	3,425,972	-	3,274,436	-
12200	Debt investments measured at amortized cost (notes 6(e) and 8)	2,587,038,819	33	2,564,909,862	33	2,272,001,700	33	22500	Securities sold under repurchase agreements (note 6(u))	152,748,566	2	178,403,211	2	181,080,238	3
12300	Financial assets for hedging (note 6(f))	2,657,540	-	3,776,327	-	3,808,028	-	22600	Commercial papers issued, net (note 6(v))	10,296,487	-	13,535,972	-	5,963,424	-
12500	Securities purchased under resell agreements (note 6(g))	77,451,952	1	69,364,357	1	70,986,986	1	23000	Payables	132,019,182	2	166,682,986	2	99,192,940	1
13000	Receivables, net (note 6(h))	184,390,966	2	209,274,405	3	151,433,040	2	23200	Current tax liabilities	8,140,568	-	7,144,528	-	15,798,051	-
13200	Current tax assets	4,180,644	-	4,075,626	-	637,705	-	23500	Deposits and remittances (note 6(w))	2,279,294,468	29	2,273,618,639	30	2,206,039,690	32
13300	Assets classified as held for sale, net (note 6(i))	46,806	-	48,312	-	3,179,819	-	24000	Bonds payable (note 6(x))	223,590,926	3	217,754,674	3	190,847,587	3
13500	Discounts and loans, net (note 6(j))	1,840,951,778	23	1,847,793,140	24	1,737,686,435	25	24400	Other borrowings (note 6(y) and 8)	2,139,235	-	1,482,921	-	5,189,487	-
13700	Reinsurance contract assets, net (note 6(k))	21,076,355	-	20,353,688	-	20,329,836	-	24600	Provisions(note 6 (z))	3,801,933,406	48	3,721,508,656	48	3,297,609,238	47
15000	Investments accounted for using equity method, net (notes 6(l))	29,097,330	-	28,203,343	-	24,237,002	-	25500	Other financial liabilities (note 6(n) and (aa))	398,203,537	5	411,517,835	5	188,035,160	3
15500	Other financial assets, net (note 6(n))	397,717,163	5	406,782,484	5	225,200,100	3	26000	Lease liabilities (note 6(ab))	22,616,263	-	-	-	-	-
18000	Investment property, net (note 6(o) and 8)	228,627,086	3	179,436,352	2	176,687,516	3	29300	Deferred tax liabilities	14,440,388	-	11,184,801	-	13,164,871	-
18500	Property and equipment, net (notes 6(p) and 8)	58,342,417	1	58,481,088	1	56,891,970	1	29500	Other liabilities (note 6 (j) and (ac))	44,904,912	1	41,662,504	1	34,367,108	-
18600	Right-of-use assets (notes 6(q))	7,286,094	-	-	-	-	-		Total liabilities	<u>7,291,737,622</u>	<u>92</u>	<u>7,246,233,832</u>	<u>94</u>	<u>6,442,970,439</u>	<u>92</u>
19000	Intangible assets, net (note 6(r))	34,036,255	1	33,907,733	1	28,377,321	-		Equity attributable to owners of parent (note 6(ae)):						
19300	Deferred tax assets	15,747,941	-	19,970,316	-	26,777,585	-	31101	Share capital:						
19500	Other assets, net (note 6(s))	41,722,943	1	75,347,455	1	58,059,400	1	31103	Common stock	102,336,040	2	102,336,040	2	102,336,040	1
									Preferred stock	12,666,600	-	12,666,600	-	12,666,600	-
									Total share capital	115,002,640	2	115,002,640	2	115,002,640	1
								31500	Capital surplus	137,018,762	2	137,018,872	2	136,946,503	2
									Retained earnings:						
								32001	Legal reserve	57,815,312	1	57,815,312	1	52,403,066	1
								32003	Special reserve	31,976,946	-	30,008,647	-	53,069,867	1
								32011	Undistributed earnings	203,280,149	3	191,853,334	2	174,894,607	3
									Total retained earnings	293,072,407	4	279,677,293	3	280,367,540	5
								32500	Total other equity interest	(7,286,817)	-	(7,455,455)	(1)	(6,876,819)	-
									Total equity attributable to owners of parent	537,806,992	8	459,243,350	6	525,439,864	8
								39500	Non-controlling interests (note 6(ae))	10,468,087	-	9,582,626	-	325,608	-
									Total equity	<u>548,275,079</u>	<u>8</u>	<u>468,825,976</u>	<u>6</u>	<u>525,765,472</u>	<u>8</u>
									Total liabilities and equity	<u>\$ 7,840,012,701</u>	<u>100</u>	<u>7,715,059,808</u>	<u>100</u>	<u>6,968,735,911</u>	<u>100</u>
	Total assets	<u>\$ 7,840,012,701</u>	<u>100</u>	<u>7,715,059,808</u>	<u>100</u>	<u>6,968,735,911</u>	<u>100</u>								

See accompanying notes to consolidated financial statements.

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

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2019 and 2018

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

		For the three months ended March 31			
		2019		2018	
		Amount	%	Amount	%
41000	Interest revenue (note 6(ah))	\$ 45,075,256	41	38,321,209	34
51000	Less: Interest expenses (note 6(ah))	10,542,243	10	8,138,470	7
	Net interest revenue	<u>34,533,013</u>	<u>31</u>	<u>30,182,739</u>	<u>27</u>
	Net non-interest revenue				
49800	Net service charge and commissions loss (note 6(ah))	(3,659,979)	(3)	(1,757,424)	(1)
49810	Net income of insurance operations (note 6(ah))	64,727,719	59	71,095,165	63
49820	Gains on financial assets or liabilities measured at fair value through profit or loss (note 6(c))	53,857,582	49	24,342,104	22
49825	Gains on investment property	781,754	1	1,363,427	1
49835	Realized gains on financial assets measured at fair value through other comprehensive income (note 6 (d))	5,053,814	5	3,437,284	3
49850	Gains arising from derecognition of financial assets measured at amortized cost (note 6(e))	64,558	-	1,137,076	1
49870	Foreign exchange gains (losses)	5,863,351	5	(29,838,645)	(26)
49880	Reversal gains (impairment losses) on assets	(19,228)	-	(80,818)	-
49890	Share of profit of associates and joint ventures accounted for using equity method (note 6(l))	267,491	-	294,472	-
49898	Profits or losses reclassified by applying overlay approach (note 6(c))	(52,655,889)	(48)	11,549,302	10
49900	Net other non-interest revenue	930,775	1	351,280	-
	Net revenue	<u>109,744,961</u>	<u>100</u>	<u>112,075,962</u>	<u>100</u>
58100	Bad debt expenses and guarantee liability provisions	(128,295)	-	(258,876)	-
58300	Net change in provisions for insurance liabilities (note 6(ah))	(79,444,016)	(72)	(82,115,748)	(73)
	Expense:				
58501	Employee benefits expenses (note 6(ah))	(8,255,376)	(8)	(7,558,675)	(7)
58503	Depreciation and amortization expenses (note 6(ah))	(1,603,946)	(1)	(858,260)	(1)
58599	Other general and administrative expenses (note 6(ah))	(4,978,755)	(5)	(5,197,769)	(4)
	Total Expenses	<u>(14,838,077)</u>	<u>(14)</u>	<u>(13,614,704)</u>	<u>(12)</u>
	Net income before tax from continuing operations	<u>15,334,573</u>	<u>14</u>	<u>16,086,634</u>	<u>15</u>
61003	Less: Income tax expenses (revenue) (note 6(ad))	<u>2,765,554</u>	<u>3</u>	<u>(314,912)</u>	<u>-</u>
	Net income	<u>12,569,019</u>	<u>11</u>	<u>16,401,546</u>	<u>15</u>
69500	Other comprehensive income:				
69560	Items not to be reclassified to profit or loss				
69561	Gains (losses) on remeasurements of defined benefit plans	(4,105)	-	-	-
69562	Revaluation gains on property	-	-	90,088	-
69567	Unrealized gains (losses) on equity instruments measured at fair value through other comprehensive income	4,069,118	4	(1,665,620)	(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	-	-	(4,764)	-
69568	Other items not to be reclassified to profit or loss	-	-	266,952	-
69569	Less: income tax related to items not to be reclassified to profit or loss (note 6 (ad))	482,560	-	(930,659)	-
	Subtotal of items not to be reclassified to profit or loss	<u>3,582,453</u>	<u>4</u>	<u>(382,685)</u>	<u>(1)</u>
69570	Items that may be subsequently reclassified to profit or loss				
69571	Exchange differences on translation of foreign operations	1,819,361	2	(318,425)	-
69581	Gains (losses) on financial instruments for hedging	310,617	-	(328,401)	-
69583	Unrealized gains (losses) on debt instruments measured at fair value through other comprehensive income	11,659,610	11	(20,495,400)	(18)
69575	Share of other comprehensive income of associates and joint ventures accounted for using equity method - items that may be subsequently reclassified to profit or loss	251,356	-	(211,827)	-
69590	Other comprehensive income reclassified by applying overlay approach	52,655,889	48	(11,549,302)	(11)
69579	Less: income tax related to items that may be subsequently reclassified to profit or loss (note 6 (ad))	5,445,641	5	(4,815,500)	(4)
	Subtotal of items that may be subsequently reclassified to profit or loss	<u>61,251,192</u>	<u>56</u>	<u>(28,087,855)</u>	<u>(25)</u>
69500	Other comprehensive income	<u>64,833,645</u>	<u>60</u>	<u>(28,470,540)</u>	<u>(26)</u>
	Total comprehensive income	<u>\$ 77,402,664</u>	<u>71</u>	<u>(12,068,994)</u>	<u>(11)</u>
	Consolidated net income attributable to:				
69901	Owners of parent	\$ 12,500,898	11	16,410,161	15
69903	Non-controlling interests	68,121	-	(8,615)	-
		<u>\$ 12,569,019</u>	<u>11</u>	<u>16,401,546</u>	<u>15</u>
	Total comprehensive income attributable to:				
69951	Owners of parent	\$ 76,630,464	70	(12,054,327)	(11)
69953	Non-controlling interests	772,200	1	(14,667)	-
		<u>\$ 77,402,664</u>	<u>71</u>	<u>(12,068,994)</u>	<u>(11)</u>
	Basic earnings per share (in New Taiwan Dollars) (note 6(af))	<u>\$ 1.22</u>		<u>1.60</u>	

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Equity
 For the three months ended March 31, 2019 and 2018
 (Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent																		
	Share capital			Retained earnings					Total other equity interest										
	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 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 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, 2018	\$ 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	-	-	-	-	-	-	16,410,161	16,410,161	-	-	-	-	-	-	-	-	16,410,161	(8,615)	16,401,546
Other comprehensive income	-	-	-	-	-	-	328,978	328,978	(30,381)	(19,178,424)	-	-	(251,128)	87,338	(9,420,871)	(28,793,466)	(28,464,488)	(6,052)	(28,470,540)
Total comprehensive income	-	-	-	-	-	-	16,739,139	16,739,139	(30,381)	(19,178,424)	-	-	(251,128)	87,338	(9,420,871)	(28,793,466)	(12,054,327)	(14,667)	(12,068,994)
Changes in equity of associates and joint ventures accounted for using equity method	-	-	-	2,314	-	-	-	-	-	-	-	-	-	-	-	-	2,314	-	2,314
Issue of preferred stock	-	6,666,600	6,666,600	33,269,969	-	-	-	-	-	-	-	-	-	-	-	-	39,936,569	-	39,936,569
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	535	535
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	(6,617,625)	(6,617,625)	-	6,617,625	-	-	-	-	-	6,617,625	-	-	-
Balance at March 31, 2018	\$ 102,336,040	12,666,600	115,002,640	136,946,503	52,403,066	53,069,867	174,894,607	280,367,540	(11,316,459)	(14,704,625)	-	-	(550,777)	2,390,292	17,304,750	(6,876,819)	525,439,864	325,608	525,765,472
Balance at January 1, 2019	\$ 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
Effects of retrospective application	-	-	-	-	-	1,968,299	(35,011)	1,933,288	-	-	-	-	-	-	-	-	1,933,288	-	1,933,288
Equity at beginning of period after adjustments	102,336,040	12,666,600	115,002,640	137,018,872	57,815,312	31,976,946	191,818,323	281,610,581	(11,908,923)	(16,079,586)	-	-	(217,381)	2,238,671	(46,488,236)	(72,455,455)	461,176,638	9,582,626	470,759,264
Net income	-	-	-	-	-	-	12,500,898	12,500,898	-	-	-	-	-	-	-	-	12,500,898	68,121	12,569,019
Other comprehensive income	-	-	-	-	-	-	(2,548)	(2,548)	1,903,450	12,488,876	-	-	248,493	-	49,491,295	64,132,114	64,129,566	704,079	64,833,645
Total comprehensive income	-	-	-	-	-	-	12,498,350	12,498,350	1,903,450	12,488,876	-	-	248,493	-	49,491,295	64,132,114	76,630,464	772,200	77,402,664
Changes in equity of associates and joint ventures accounted for using equity method	-	-	-	(110)	-	-	-	-	-	-	-	-	-	-	-	-	(110)	-	(110)
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	113,261	113,261
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	(1,036,524)	(1,036,524)	-	1,036,524	-	-	-	-	-	1,036,524	-	-	-
Balance at March 31, 2019	\$ 102,336,040	12,666,600	115,002,640	137,018,762	57,815,312	31,976,946	203,280,149	293,072,407	(10,005,473)	(2,554,186)	-	-	31,112	2,238,671	3,003,059	(7,286,817)	537,806,992	10,468,087	548,275,079

See accompanying notes to consolidated financial statements.

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

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2019	2018
Cash flows from (used in) operating activities:		
Income before income tax	\$ 15,334,573	16,086,634
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expenses	1,247,551	558,182
Amortization expenses	356,394	300,078
Allowance on bad debts	139,594	244,181
Interest expense	10,542,243	8,138,470
Interest income	(45,075,256)	(38,321,209)
Dividend income	(2,838,039)	(1,475,847)
Net change in insurance reserves	79,390,167	82,990,134
Net change in provisions for guarantee reserves	(7,367)	14,695
Net change in other reserves	852,121	(167,379)
Share of profit of associates and joint ventures accounted for using equity method	(267,491)	(294,472)
Profits or losses reclassified by applying overlay approach	52,655,889	(11,549,302)
Gain on disposal of investments	(13,228,184)	(15,670,106)
Impairment loss (reversal gain) on financial assets	19,228	32,134
Impairment loss on non-financial assets	-	41,230
Unrealized foreign exchange (gain) loss	(5,382,521)	23,241,893
Loss (gain) on fair value adjustment of investment property	549,993	(71,590)
Other adjustments	(61,473)	(85)
Subtotal of income of non-cash activities	78,892,849	48,011,007
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease (increase) in due from the central bank and call loans to banks	9,272,481	(17,940,139)
Increase in financial assets for hedging and measured at fair value through profit or loss	(153,043,954)	(33,809,607)
Decrease in financial assets measured at fair value through other comprehensive income	85,555,230	43,532,294
Increase in investments in debt instruments measured at amortized cost	(13,038,548)	(127,873,639)
Decrease in receivables and current tax assets	23,148,568	18,066,770
Decrease in discounts and loans	6,792,111	3,951,959
Increase in reinsurance assets	(604,973)	(134,101)
Decrease (increase) in other financial assets	9,100,368	(3,855,199)
Decrease in other assets	2,870,159	573,020
Subtotal of changes in operating assets	(29,948,558)	(117,488,642)
Changes in operating liabilities:		
Increase in due to the central bank and banks	9,786,171	21,475,054
Decrease in financial liabilities for hedging and measured at fair value through profit or loss	(10,355,807)	(847,291)
Increase (decrease) in securities sold under repurchase agreement	(25,654,645)	22,763,773
Decrease in payable and current tax liabilities	(35,748,166)	(9,736,653)
Increase (decrease) in deposits and remittances	5,675,829	(78,566,249)
Decrease in provisions	(289,369)	(69,768)
Decrease in other financial liabilities	(13,033,004)	(3,921,665)
Increase in other liabilities	3,275,187	2,423,846
Subtotal of changes in operating liabilities	(66,343,804)	(46,478,953)
Subtotal of all adjustments	(17,399,513)	(115,956,588)
Cash outflow generated from operations	(2,064,940)	(99,869,954)
Interest received	41,945,240	34,329,927
Dividends received	2,464,716	1,532,935
Interest paid	(9,581,875)	(7,277,899)
Income taxes paid	(821,991)	(719,917)
Net Cash flows from (used in) operating activities	31,941,150	(72,004,908)

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

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (CONT'D)

For the three months ended March 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2019	2018
Cash flows from (used in) investing activities:		
Acquisition of investments accounted for using equity method	\$ -	(402,597)
Acquisition of property and equipment	(402,456)	(909,393)
Proceeds from disposal of property and equipment	7,090	362
Acquisition of intangible assets	(73,377)	(93,057)
Acquisition of investment properties	(428,752)	(277,940)
Net cash flows used in investing activities	(897,495)	(1,682,625)
Cash flows from (used in) financing activities:		
Increase (decrease) in due to the central bank and banks	230,676	(1,875,786)
Decrease in commercial papers issued	(3,239,485)	(17,508,467)
Repayments of bonds	(1,744,225)	-
Proceeds from issuing bank financial debentures	10,749,097	10,183,179
Repayments of bank financial debentures	(5,397,390)	(7,423,534)
Increase (decrease) in other borrowings	656,314	(251,262)
Repayments of lease liabilities	(736,682)	-
Cash capital increase	-	39,936,569
Change in non-controlling interests	113,261	535
Net cash flows from financing activities	631,566	23,061,234
Effect of exchange rate changes on cash and cash equivalents	2,372,812	426,910
Net increase (decrease) in cash and cash equivalents	34,048,033	(50,199,389)
Cash and cash equivalents at beginning of period	370,652,334	358,310,694
Cash and cash equivalents at end of period	\$ 404,700,367	308,111,305
Composition of cash and cash equivalents:		
Cash and cash equivalents reported in the statement of financial position	\$ 259,184,153	166,071,411
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	68,064,262	71,052,908
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	77,451,952	70,986,986
Cash and cash equivalents at end of period	\$ 404,700,367	308,111,305

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

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

(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 March 31, 2019, Fubon Bank (China) has established its headquarter and 25 branches (or sub-branches and preparatory offices) in the PRC.

(2) Approval date and procedures of the financial statements

On May 2, 2019, the consolidated financial statements were presented to the board of directors and issued 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 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.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 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.

(Continued)

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

The Company and its subsidiaries applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below,

1) Definition of a lease

Previously, the Company and its subsidiaries determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Company and its subsidiaries assess whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4 (s).

On transition to IFRS 16, the Company and its subsidiaries elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company and its subsidiaries applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

2) As a lessee

As a lessee, the Company and its subsidiaries previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company and its subsidiaries. Under IFRS 16, the Company and its subsidiaries recognize right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Company and its subsidiaries recognize the lease payments of short-term leases or lease of low-value assets as expenses.

- Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company and its subsidiaries' s incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee' s incremental borrowing rate at the date of initial application; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

In addition, the Company and its subsidiaries used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.

(Continued)

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

- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption from recognizing the right-of-use asset and lease liabilities for leases within lease terms that ends within 12 months of the date of the initial application.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- Leases previously classified as finance leases

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

3) As a lessor

The Company and its subsidiaries are not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Company and its subsidiaries accounted for their leases in accordance with IFRS 16 from the date of initial application.

4) Sale-and-leaseback

When initially applying IFRS 16, the leaseback transaction was treated in accordance with the transition regulation. In addition, Taipei Fubon Bank recognized unrealized sale-and-leaseback profit of Fubon Neihu building, which was accounted for operating lease under IAS 17, as right-of-use asset on January 1, 2019.

5) Impacts on financial statements

On transition to IFRS 16, the Company and its subsidiaries recognized additional \$25,283,833 of assets, \$23,350,545 of liabilities, and additional \$1,933,288 of retained earnings. The right-of-use assets defined as investment properties were measured at fair value, and thus increased retained earnings by \$1,968,299 with the special reserve appropriated. When measuring lease liabilities, the Company and its subsidiaries discounted lease payments using their incremental borrowing rate at January 1, 2019. The weighted-average rate applied was 3.32%.

(Continued)

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

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

	<u>January 1, 2019</u>
Operating lease commitment at December 31, 2018 as disclosed in the consolidated financial statements	\$ 29,351,752
Undisclosed operating lease commitment at December 31, 2018	94,842
Recognition exemption for:	
short-term leases	(50,086)
low-value items	(23,847)
Extension and termination options reasonably certain to be exercised	2,138,891
Service contracts	<u>(94)</u>
	<u>\$ 31,511,458</u>
Discounted using the incremental borrowing rate at January 1, 2019	\$ 22,830,792
Finance lease liabilities recognized as at December 31, 2018	<u>210,941</u>
Lease liabilities recognized at January 1, 2019	<u><u>\$ 23,041,733</u></u>

- (b) 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 IASB voted unanimously on November 14, 2018 to propose a delay of the mandatory effective date of IFRS 17 by one year to January 1, 2022.

(Continued)

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

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.
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.

(Continued)

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
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>
October 31, 2018	Amendments to IAS 1 and IAS 8 “Definition of Material”	<p>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.</p>

The Company and its subsidiaries are evaluating the impact of initial adoption of the abovementioned standards or interpretations on their consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Company and its subsidiaries complete the evaluation.

(Continued)

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

(c) The impact of IFRS FAQ “REITs”

REITs that have been classified as financial assets measured at fair value through profit or loss are elected to designate as at fair value through other comprehensive income in accordance with the IFRS FAQ “REITs” issued by the Accounting Research and Development Foundation. Impacts for the first quarter of 2018 were as follows.

<u>Impacts on consolidated assets, liabilities and equity</u>	<u>Amount reported before reclassification</u>	<u>Reclassification</u>	<u>Amount reported after reclassification</u>
March 31, 2018			
Financial assets measured at fair value through profit or loss	\$ <u>862,452,438</u>	<u>(806,653)</u>	<u>861,645,785</u>
Financial assets measured at fair value through other comprehensive income	\$ <u>850,839,043</u>	<u>806,653</u>	<u>851,645,696</u>
Retained earnings	\$ <u>280,566,155</u>	<u>(198,615)</u>	<u>280,367,540</u>
Other equity interest	\$ <u>(7,075,434)</u>	<u>198,615</u>	<u>(6,876,819)</u>
	<u>Amount</u>		<u>Amount</u>
<u>Impacts on consolidated comprehensive income</u>	<u>reported before reclassification</u>	<u>Reclassification</u>	<u>reported after reclassification</u>
For the three months ended March 31, 2018			
Gains (losses) on financial assets or liabilities measured at fair value through profit or loss	\$ <u>24,384,827</u>	<u>(42,723)</u>	<u>24,342,104</u>
Net income	\$ <u>16,444,269</u>	<u>(42,723)</u>	<u>16,401,546</u>
Other comprehensive income	\$ <u>(28,513,263)</u>	<u>42,723</u>	<u>(28,470,540)</u>
Total comprehensive income	\$ <u>(12,068,994)</u>	<u>-</u>	<u>(12,068,994)</u>
Consolidated net income attributable to:			
Owners of parent	\$ 16,452,884	(42,723)	16,410,161
Non controlling interests	(8,615)	-	(8,615)
	<u>\$ 16,444,269</u>	<u>(42,723)</u>	<u>16,401,546</u>
Total comprehensive income attributable to:			
Owners of parent	\$ (12,054,327)	-	(12,054,327)
Non controlling interests	(14,667)	-	(14,667)
	<u>\$ (12,068,994)</u>	<u>-</u>	<u>(12,068,994)</u>
Basic earnings per share	<u>\$ 1.61</u>	<u>(0.01)</u>	<u>1.60</u>

(Continued)

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

(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 International Accounting Standards ("IASs") 34, "Interim Financial Reporting" endorsed and announced by the FSC.

The consolidated financial statements have not contained all the necessary information that should be disclosed which the consolidated financial statements have been prepared in accordance with the IFRS, IAS and interpretations recognized and announced by the FSC (TIFRS).

(b) Basis of preparation

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

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

(c) Principles of consolidation

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

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

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

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

(Continued)

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

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

<u>Name of Investor</u>	<u>Subsidiary</u>	<u>Main Activities</u>	<u>Percentage of Ownership (%)</u>		
			<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
The Company	Fubon Insurance	Property and casualty insurance	100.00 %	100.00 %	100.00 %
The Company	Taipei Fubon Bank	Banking	100.00 %	100.00 %	100.00 %
The Company	Fubon Life Insurance	Life insurance	100.00 %	100.00 %	100.00 %
The Company	Fubon Securities	Securities business	100.00 %	100.00 %	100.00 %
The Company	Fubon Marketing	Marketing management	100.00 %	100.00 %	100.00 %
The Company, Fubon Life Insurance, Fubon Insurance and Fubon Securities	Fubon Financial Holding Venture Capital	Venture Capital	100.00 %	100.00 %	100.00 %
The Company	Fubon Bank (Hong Kong)	Banking	100.00 %	100.00 %	100.00 %
The Company	Fubon AMC	Creditor's rights management	100.00 %	100.00 %	100.00 %
The Company	Taiwan Sport Lottery	IT Software service	100.00 %	100.00 %	100.00 %
The Company and Taipei Fubon Bank	Fubon Bank (China)	Banking	100.00 %	100.00 %	100.00 %
Fubon Securities	Fubon Asset Management	Investment trust	100.00 %	100.00 %	100.00 %
Fubon Securities	Fubon Futures	Futures	100.00 %	100.00 %	100.00 %
Fubon Securities	Fubon Investment Service	Investment Service	100.00 %	100.00 %	100.00 %
Fubon Securities	Fubon Securities BVI	Securities business	100.00 %	100.00 %	100.00 %
Fubon Securities	Fubon Securities Venture Capital	Venture Capital	100.00 %	100.00 %	100.00 %
Fubon Securities	Fubon Equity Investment	Equity Investment	100.00 %	100.00 %	100.00 %
Fubon Securities	Fubon Mintou Venture Capital	Venture Capital	67.00 %	67.00 %	67.00 %
Fubon Securities BVI	Fubon Securities (Hong Kong)	Securities business	100.00 %	100.00 %	100.00 %
Fubon Securities BVI	Fubon Fund Management (Hong Kong) Limited (Note 1)	Asset Management	100.00 %	-	-
Fubon Asset Management	Fubon Convoy Asset Management (Hong Kong) Limited (Note 2)	Asset Management	49.00 %	49.00 %	49.00 %
Fubon Insurance	Fubon Insurance (Vietnam) Limited	Insurance business	100.00 %	100.00 %	100.00 %
Fubon Insurance	Fubon Insurance Broker (Thailand) Limited (Note 2)	Broker	48.97 %	48.97 %	48.97 %
Fubon Insurance	Fubon Insurance Broker (Philippines) Limited	Broker	99.99 %	99.99 %	99.99 %
Fubon Insurance and Fubon Life Insurance	Fubon Property & Casualty Insurance (Xiamen)	Insurance business	80.00 %	80.00 %	80.00 %

(Continued)

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

<u>Name of Investor</u>	<u>Subsidiary</u>	<u>Main Activities</u>	<u>Percentage of Ownership (%)</u>		
			<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Fubon Life Insurance	Fubon Life Insurance (Vietnam) Limited	Insurance business	100.00 %	100.00 %	100.00 %
Fubon Life Insurance	Fubon Life Insurance (Hong Kong) Limited	Insurance business	100.00 %	100.00 %	100.00 %
Fubon Life Insurance	Fubon Hyundai Life Insurance Co., Ltd. (Note 3)	Insurance business	62.06 %	62.06 %	- %
Fubon Life Insurance	Carter Lane (Guernsey) Limited	Real estate investment and management	100.00 %	100.00 %	100.00 %
Fubon Life Insurance	Bow Bells House (Jersey) Limited	Real estate investment and management	100.00 %	100.00 %	100.00 %
Fubon Life Insurance	Fubon MTL Property (Jersey) Limited	Real estate investment and management	100.00 %	100.00 %	100.00 %
Fubon Life Insurance	Fubon Ellipse (Belgium) S.A. (Note 4)	Real estate investment and management	100.00 %	100.00 %	100.00 %
Fubon Life Insurance	Fubon Ellipse (Jersey) Limited	Holding company	100.00 %	100.00 %	100.00 %
Fubon Marketing	Fu Sheng Life Insurance Agent	Life insurance agent	100.00 %	100.00 %	100.00 %
Fubon Marketing	Fu Sheng General Insurance Agent	Property and casualty insurance agent	100.00 %	100.00 %	100.00 %
Fubon Financial Holding Venture Capital	Fubon Sports & Entertainment Co., Ltd.	Sports service business	100.00 %	100.00 %	100.00 %
Fubon Financial Holding venture Capital	Fubon Stadium Co., Ltd.	Stadium management	100.00 %	100.00 %	100.00 %
Fubon Bank (Hong Kong)	Fubon Nominees (Hong Kong) Limited (Note 5)	Financial sector business	100.00 %	100.00 %	100.00 %
Fubon Bank (Hong Kong)	Fubon Credit (Hong Kong) Limited (Note 5)	Financial sector business	100.00 %	100.00 %	100.00 %
Fubon Bank (Hong Kong)	FB Securities (Hong Kong) Limited (Note 5)	Securities brokerage	100.00 %	100.00 %	100.00 %
Fubon Bank (Hong Kong)	FB Investment Management (Hong Kong) Limited (Note 5)	Capital management	- %	100.00 %	100.00 %
Fubon Bank (Hong Kong)	Fubon Insurance Brokers Limited (Note 5)	Insurance agent	100.00 %	100.00 %	100.00 %

Note 1: Fubon Securities BVI has acquired 100% equity of FB Investment Management (Hong Kong) Limited from Fubon Bank (Hong Kong) in February 2019, and renamed it to Fubon Fund Management (Hong Kong) Limited.

Note 2: In February 2017, Fubon Asset Management and Convoy Asset Management Limited set up Fubon Convoy Asset Management (HK) Limited. After the evaluation, since Fubon Asset Management has direct existing rights to its financial and operating activities, it is regarded as having control over Fubon Convoy Asset Management (Hong Kong). 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.

(Continued)

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

Note 3: 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 4: The issued and outstanding shares of Fubon Ellipse (Belgium) S.A. were 1,133,718 shares, while 1 share is held by Fubon Ellipse (Jersey) Limited.

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

(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;
- 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.

(Continued)

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

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.

(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.

(Continued)

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

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.

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

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.

(Continued)

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

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.

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.

(Continued)

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

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.

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.

(Continued)

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

6) Overlay approach

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 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.

4) Financial guarantee contracts

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.

(Continued)

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

5) Futures traders' equity

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

(iii) Derecognition of financial assets and liabilities

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 continue to recognize under continuing involvement, and the part they no longer recognize 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.

(iv) Determination of fair value

For the fair value information of financial instrument, please refer to Note 6 (ai) for details.

(v) Offsetting of financial instruments

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

(Continued)

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

(i) Derivative financial instruments and hedge accounting

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.

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.

(Continued)

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

(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.

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) Pecuniary and securities financing and refinancing

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

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

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

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

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

(k) Securities lending

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

(l) Non-current assets held for sale

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

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

(m) Investment property

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

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.

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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”.

(n) Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Before January 1, 2019, 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.

Before January 1, 2019, 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. Before January 1, 2019, 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

(o) Other assets – Superficies (applicable before January 1, 2019)

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 (s) "Lease" for related accounting policy of the case that the superficies be held as operating lease are changed as financial lease.

(p) Assets impairment

(i) Financial assets impairment

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-forementioned 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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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- 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 2019 Regulatory Requirements for the Loan Loss Reserves of Fubon Bank (China)” and “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 are 1.5% and 1.8%, and of coverage ratios are 120% and 130% for the year 2019 and 2018, 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) 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.

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

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.

(q) 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.

Reinsurance shall arrange the impairment losses recognized and/or reversed in accordance with IFRS 4.

(r) 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.

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

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(r).

(s) Leases

(i) Identifying a lease (applicable since January 1, 2019)

At inception of a contract, the Company and its subsidiaries assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company and its subsidiaries assess whether:

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the Company and its subsidiaries have the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the Company and its subsidiaries have the right to direct the use of the asset when they have the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company and its subsidiaries have the right to direct the use of an asset if either:
 - the Company and its subsidiaries have the right to operate the asset and the asset supplier has no right to change the way the asset is operated; or
 - the Company and its subsidiaries designed the asset in a way that predetermines how and for what purpose it will be used.

(Continued)

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

At inception or on reassessment of a contract that contains a lease component, the Company and its subsidiaries allocate the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company and its subsidiaries have elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(ii) As a lessee (applicable since January 1, 2019)

The Company and its subsidiaries recognize a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The right-of-use assets defined as investment properties are measured at fair value and recognized as “Investment property”.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Company and its subsidiaries’ incremental borrowing rate. Generally, the Company and its subsidiaries use their incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments(including in-substance fixed payments);
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Company and its subsidiaries’ estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change in the evaluation of asset purchase option; or

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

- there is a change of the assessment on whether they will exercise a purchase, extension or termination option; or
- there is any modifications in the asset, scope or other terms in the lease

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Company and its subsidiaries account for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Company and its subsidiaries present right-of-use assets that do not meet the definition of investment property and lease liabilities as a separate line item respectively in the statement of financial position.

The amortization of right-of-use assets and the interest expense from lease liabilities within the constructing period are recognized as the cost of the buildings.

The Company and its subsidiaries have elected not to recognize right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. The Company and its subsidiaries recognize the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

For sale-and-leaseback transactions, the Company and its subsidiaries apply the requirements for determining when a performance obligation is satisfied in IFRS15 to determine whether the transfer of an asset is accounted for as a sale of the asset. If the transfer of an asset satisfies the requirement of IFRS15 to be accounted for as a sale of the asset, the Company and its subsidiaries measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained. Accordingly, the Company and its subsidiaries recognize only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. If the transfer of an asset does not satisfy the requirement of IFRS15 to be accounted for as a sale of the asset, the Company and its subsidiaries will continue to recognize the transferred asset and shall recognize the financial liability equal to the transfer proceeds.

(iii) As a lessor (applicable since January 1, 2019)

When the Company and its subsidiaries act as a lessor, they determine at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Company and its subsidiaries make an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Company and its subsidiaries consider certain indicators such as whether the lease is for the major part of the economic life of the asset.

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

When the Company and its subsidiaries are an intermediate lessor, they account for the interests in the head lease and the sub-lease separately. They assess the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company and its subsidiaries apply the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Company and its subsidiaries apply IFRS15 to allocate the consideration in the contract.

The lessor recognizes a finance lease receivable at an amount equal to its net investment in the lease. Initial direct costs, such as lessors to negotiate and arrange a lease, are included in the measurement of the net investment. The lessor recognizes the interest income over the lease term based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. The Company and its subsidiaries recognize lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

(iv) Lessor (applicable before January 1, 2019)

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.

(v) Lessee (applicable before January 1, 2019)

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

Other leases are operating leases and are not recognized in the Company's consolidated balance sheet. Payments made under operating lease (excluding insurance and maintenance expenses) are recognized as an expense on a straight-line basis over the term of the lease. Lease incentives received are recognized and amortized on a straight-line basis to decrease lease expenses over the term of the lease.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

(t) 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).

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

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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 Fubon Life Insurance, when the actual catastrophe claim exceeding \$30 million, the excess amount is offset against special catastrophe reserve. For Fubon Insurance, when 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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

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.

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

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.

(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.

(u) 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.

(v) 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.

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

(w) Employee benefits

(i) Defined contribution plans

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

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

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

(ii) Defined benefit plans

The past service cost arising from the improvement of the benefits of a plan are recognized as profit or loss in the current period immediately.

The service cost and net interest of the net defined benefit liability (asset) of the Company and its subsidiaries are recognized as employee benefits expenses when it occur. All of the remeasurements of the defined benefit plans are recognized in other comprehensive income when it occur. The amounts recognized in other comprehensive income are transferred to retained earnings, and will not be reclassified subsequently to profit or loss.

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

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

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

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

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

(iv) Termination benefits

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

(v) Short-term employee benefit

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

(vi) Other long-term employee benefit

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

(x) 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.

(Continued)

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

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

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

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

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

2) Life insurance subsidiaries

a) Fubon Life Insurance

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

Premiums on 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”.

(Continued)

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

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

b) Fubon Life Insurance (Vietnam)

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

c) Fubon Life Insurance (Hong Kong)

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

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.

(Continued)

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

- 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.

(y) Income tax

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

(i) Current income tax

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

Income tax expense for the reporting period is best estimated by multiplying the pretax income for the period with the effective annual tax rate as forecasted by the management. This is recognized fully as tax expense for the current period.

The 5% surtax on undistributed earnings, computed to the ROC Income Tax Act, is charged to current income tax expense in the year when stockholders decided not to distribute the earnings.

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

(ii) Deferred income tax

Deferred taxes are measured based on the enacted or substantively enacted tax rate on the reporting date applicable during the year of expected asset realization or debt settlement. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Temporary differences arise primarily from the evaluation of financial instruments (including derivative financial instrument), pension, and the reserve and reversal of post-employment benefits. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

(Continued)

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

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

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

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

(z) 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.

(Continued)

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

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.

(aa) 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.

(ab) 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" and with the International Accounting Standards ("IASs") 34, "Interim Financial Reporting" endorsed and announced 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.

(Continued)

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

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

Classification of financial assets

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

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

(a) Fair value of financial instruments

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

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

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

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.

- (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

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) Fair value of investment property

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

- (e) Impairment of goodwill

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

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

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.

(6) Explanation of significant accounts

(a) Cash and Cash Equivalents

	March 31, 2019	December 31, 2018	March 31, 2018
Cash on hand and petty cash	\$ 6,775,664	7,078,268	6,776,871
Bank deposits	168,300,486	129,453,300	126,406,066
Cash equivalents	6,640,751	22,454,367	1,409,795
Notes and checks for clearing	4,582,799	7,334,967	2,814,498
Due from banks	72,954,964	65,992,043	28,756,739
Less: Guarantee deposits	70,511	78,496	92,558
Total	<u>\$ 259,184,153</u>	<u>232,234,449</u>	<u>166,071,411</u>

(Continued)

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

For consolidated statements of cash flows, cash and cash equivalents include accounts as of March 31, 2019 and 2018, listed below:

	<u>March 31, 2019</u>	<u>March 31, 2018</u>
Cash and cash equivalents in consolidated balance sheets	\$ 259,184,153	166,071,411
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	68,064,262	71,052,908
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	77,451,952	70,986,986
Cash and cash equivalents in consolidated statements of cash flows	<u>\$ 404,700,367</u>	<u>308,111,305</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 March 31, 2019, December 31 and March 31, 2018, the Company and its subsidiaries recognized the loss allowance for cash and cash equivalents amounting to \$4,476, \$10,890 and \$1,578, respectively.

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.

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Call loans to banks	\$ 132,682,444	139,819,789	147,258,227
Deposit reserves	72,814,340	73,627,393	79,134,841
Due from the central bank — others	7,807,585	10,118,934	6,685,508
Total	<u>\$ 213,304,369</u>	<u>223,566,116</u>	<u>233,078,576</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 March 31, 2019, December 31 and March 31, 2018, deposit reserves for checking account amounted to \$16,083,028, \$16,937,378 and \$19,201,522, respectively; required deposit reserves amounted to \$34,916,505, \$34,386,173 and \$33,483,822, 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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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 March 31, 2019, December 31 and March 31, 2018, the Company and its subsidiaries recognized the loss allowance amounting to \$7,511, \$10,779 and \$11,469.

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Financial assets mandatorily measured at fair value through profit or loss:			
Non-hedge derivative instruments			
Interest rate contracts	\$ 3,091,611	3,281,997	2,909,641
Currency rate contracts	19,265,741	25,207,439	34,503,341
Options contracts	548,283	813,380	301,518
Others	<u>3,646,711</u>	<u>3,100,706</u>	<u>3,812,126</u>
	<u>26,552,346</u>	<u>32,403,522</u>	<u>41,526,626</u>
Non-derivative financial assets			
Government bonds	35,363,673	30,877,022	22,731,369
Commercial papers	46,895,989	32,888,551	7,991,763
Corporate and financial bonds	71,523,448	75,344,794	78,849,814
Stocks and beneficiary certificates	854,473,962	708,462,910	685,889,523
Beneficiary securities	10,710,627	9,706,536	7,612,861
Others	<u>13,223,686</u>	<u>12,721,122</u>	<u>3,584,144</u>
	<u>1,032,191,385</u>	<u>870,000,935</u>	<u>806,659,474</u>
Hybrid financial assets			
Convertible corporate bonds	10,686,011	10,192,705	10,463,418
Structured products	<u>10,752,064</u>	<u>4,730,410</u>	<u>2,996,267</u>
	<u>21,438,075</u>	<u>14,923,115</u>	<u>13,459,685</u>
Total	<u>\$ 1,080,181,806</u>	<u>917,327,572</u>	<u>861,645,785</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.

(ii) 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.

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

(iii) 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:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Financial assets measured at fair value through profit or loss:			
Stocks	\$ 386,896,936	359,650,904	413,894,145
Corporate and financial bonds	28,036,042	26,196,813	26,163,631
Beneficiary certificates	467,940,341	346,642,043	270,041,681
Others	<u>12,241,894</u>	<u>5,610,754</u>	<u>3,684,703</u>
Total	<u>\$ 895,115,213</u>	<u>738,100,514</u>	<u>713,784,160</u>

For the three months ended March 31, 2019 and 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:

	<u>For the three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Gains reported as profit or loss under IFRS 9	\$ 63,590,556	1,504,463
Less: Gains reported as profit or loss if applied IAS 39	(10,934,667)	(13,053,765)
Gains (losses) reclassified by applying overlay approach	<u>\$ 52,655,889</u>	<u>(11,549,302)</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:

	<u>For the three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Gains of financial assets before adjustment	<u>\$ 53,857,582</u>	<u>24,342,104</u>
Gains of financial assets after adjustment	<u>\$ 1,201,693</u>	<u>35,891,406</u>

2) For the three months ended March 31, 2019 and 2018, none of financial assets held by the Insurance subsidiaries has changed conditions and released designation.

3) For the three months ended March 31, 2019 and 2018, none of financial assets held by the Insurance subsidiaries has been terminated.

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

(d) Financial Assets Measured at Fair Value through Other Comprehensive Income

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Debt investments measured at fair value through other comprehensive income:			
Government bonds	\$ 196,608,813	215,730,081	236,368,594
Financial bonds	198,256,043	216,941,835	194,557,366
Corporate bonds	197,278,144	213,571,317	217,277,443
Commercial papers	18,119,653	24,664,294	44,954,881
Negotiable certificates of deposits	8,035,923	16,016,515	32,341,174
Beneficiary securities	25,944,795	26,038,080	26,513,935
Discount notes and loans	27,569,404	27,741,408	16,506,692
Others	635,698	839,364	454,550
Less: Guarantee deposits	<u>17,171,678</u>	<u>17,046,443</u>	<u>12,805,948</u>
Subtotal	<u>655,276,795</u>	<u>724,496,451</u>	<u>756,168,687</u>
Equity investments measured at fair value through other comprehensive income:			
Stocks	98,801,611	92,829,128	93,886,674
Others	<u>2,891,878</u>	<u>2,881,604</u>	<u>1,590,335</u>
Subtotal	<u>101,693,489</u>	<u>95,710,732</u>	<u>95,477,009</u>
Total	<u>\$ 756,970,284</u>	<u>820,207,183</u>	<u>851,645,696</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.

(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:

	For the three months ended March 31	
	<u>2019</u>	<u>2018</u>
Dividend income	<u>\$ 3,446</u>	<u>21,282</u>

For the three months ended March 31, 2019 and 2018, dividend income from disposed financial assets measured at fair value through other comprehensive income within the same period amounting to \$0.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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For the three months ended March 31, 2019 and 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 \$2,357,931 and \$16,615,984, respectively and the Company and its subsidiaries recognized accumulated loss after tax of \$1,036,524 and \$6,765,864, respectively. 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) Debt Investments Measured at Amortized Cost

	March 31, 2019	December 31, 2018	March 31, 2018
Government bonds	\$ 214,063,623	212,882,729	195,044,850
Corporate bonds	1,060,195,707	1,048,171,983	874,322,550
Financial bonds	928,047,477	916,880,880	818,856,250
Negotiable certificates of deposits	292,011,917	296,332,471	322,450,490
Linked deposits	25,137,926	26,629,910	19,900,000
Beneficiary securities	44,391,429	40,228,117	30,193,277
Others	<u>24,175,041</u>	<u>24,743,792</u>	<u>12,347,636</u>
Subtotal	2,588,023,120	2,565,869,882	2,273,115,053
Less: Loss allowance	<u>984,301</u>	<u>960,020</u>	<u>1,113,353</u>
Total	<u>\$ 2,587,038,819</u>	<u>2,564,909,862</u>	<u>2,272,001,700</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.
- (ii) For the three months ended March 31, 2019 and 2018, the current gain or loss on disposal of financial assets measured at amortized cost and the carrying amount of derecognition were as follows:

For the three months ended March 31, 2019		For the three months ended March 31, 2019	
Carrying amount of derecognition	Current gain or loss recognized	Carrying amount of derecognition	Current gain or loss recognized
<u>\$ 27,318,063</u>	<u>64,559</u>	<u>18,994,542</u>	<u>1,137,076</u>

(Continued)

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

(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.

(f) Financial Instruments for Hedging

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
<u>Financial assets for hedging</u>			
Interest rate swap contracts	\$ 2,645,658	3,409,428	3,808,028
Currency swap contracts	11,882	364,663	-
Forward exchange contracts	-	2,236	-
	<u>\$ 2,657,540</u>	<u>3,776,327</u>	<u>3,808,028</u>
	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
<u>Financial liabilities for hedging</u>			
Interest rate swap contracts	\$ 2,534,381	3,393,195	3,274,436
Currency swap contracts	787,617	32,706	-
Forward exchange contracts	1,732	71	-
	<u>\$ 3,323,730</u>	<u>3,425,972</u>	<u>3,274,436</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.

(Continued)

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

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.

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
March 31, 2019					
Fair value hedge					
Forward exchange					
Nominal amount	\$ 52,100	55,889	-	-	-
Average exchange rate (KRW/USD)	1,119.24	1,118.86	-	-	-
Foreign exchange swap					
Nominal amount	1,534,201	152,245	761,374	-	-
Average exchange rate (KRW/TWD)	30.77	30.64	30.45	-	-
Nominal amount	20,590,244	35,395,908	2,857,808	-	-
Average exchange rate (KRW/USD)	1,119.76	1,122.07	1,120.36	-	-
Cash flow hedge					
Interest rate swap					
Nominal amount	\$ -	-	3,000,000	14,826,918	12,531,275
Average fixed interest rate	- %	- %	1.20 %	1.47 %	1.91 %
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 fixed interest rate	- %	- %	- %	1.33 %	1.94 %

(Continued)

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

	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
March 31, 2018					
Cash flow hedge					
Interest rate swap					
Nominal amount	\$ -	-	-	5,172,164	28,919,955
Average fixed interest rate	-	%	-	%	1.50 %

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 for first quarter of 2019
		Assets	Liabilities		
March 31, 2019					
Fair value hedge					
Exchange rate risk					
– Forward exchange contracts	\$ 107,989	-	(1,732)	Financial assets / liabilities for hedging	(110,403)
– Foreign exchange swap contracts	\$ 61,291,780	11,882	(787,617)	Financial assets / liabilities for hedging	(1,101,254)
Cash flow hedge					
– Interest rate swap contract	\$ 30,358,193	522,941	(482,772)	Financial assets / liabilities for hedging	(444,840)
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

	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 for first quarter of 2018
		Assets	Liabilities		
March 31, 2018					
Cash flow hedge					
— Interest rate swap contract	\$ 34,092,119	401,056	(1,139,127)	Financial assets / liabilities for hedging	(378,206)

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 for first quarter of 2019	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				
March 31, 2019								
Items designated as hedged								
Financial assets measured at fair value through profit or loss- TWD dominated stocks	\$ 1,789,149	-	(1,118)	-	(7,024)	None	(25,729)	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	607,543	-	1,757	-	974,597	None	(169,605)	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	54,863,961	-	204,897	-	40,058	None	(8,691)	Gains (losses) on financial assets or liabilities measured at fair value through profit or loss

(Continued)

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

	Carrying amount of items designated as hedged		Accumulated adjustment of fair value		Fair value changes used to calculate the hedge ineffectiveness for 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 stocks	\$ 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 for first quarter of 2019	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 to be reclassified from provision for cash flow hedge to profit or loss	The line item affected by reclassification in profit or loss
March 31, 2019								
Items designated as hedged								
Floating bonds	\$ (503,682)	38,890	Not applicable	324,577	(314)	Gains (losses) on financial assets or liabilities measured at fair value through profit or loss	(13,960)	Interest revenue

(Continued)

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

	Fair value changes used to calculate the hedge ineffectiveness for 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 provision for cash flow hedge to profit or loss	The line item affected by reclassification in profit or loss
March 31, 2019								
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
March 31, 2018								
Items designated as hedged								
Floating bonds	\$ 401,730	(688,266)	Not applicable	(345,315)	(49,805)	Gains (losses) on financial assets or liabilities measured at fair value through profit or loss	16,914	Interest revenue

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	
	For the three months ended	
	March 31	
	2019	2018
Beginning balance	\$ (271,727)	(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	324,577	(345,315)
The amount be reclassified from provision for cash flow hedge to profit or loss	(13,960)	16,914
Ending balance	<u>\$ 38,890</u>	<u>(688,266)</u>

(Continued)

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

(ii) Taipei Fubon Bank and its subsidiaries

Fair value hedge

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

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 for first quarter of 2019
		Assets	Liabilities		
March 31, 2019					
Fair value hedge					
— Interest rate swap contract	\$ 128,168,028	1,364,503	(1,600,116)	Financial assets / liabilities for hedging	354,994
December 31, 2018					
Fair value hedge					
— Interest rate swap contract	\$ 126,199,673	1,816,774	(2,411,422)	Financial assets / liabilities for hedging	(381,333)
March 31, 2018					
Fair value hedge					
— Interest rate swap contract	\$ 115,785,384	2,003,556	(1,894,562)	Financial assets / liabilities for hedging	443,393

(Continued)

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

	Carrying amount		Accumulated adjustment of fair value		Fair value changes used to calculate the hedge ineffectiveness for first quarter of 2019
	Assets	Liabilities	Assets	Liabilities	
	March 31, 2019				
Hedged items					
Financial bonds payable	\$ -	(65,025,366)	-	22,608	(1,578,176)
Financial assets measured at amortized cost— corporate bonds	61,416,881	-	179,174	-	1,182,447
Financial assets measured at amortized cost— financial bonds	2,483,787	-	45,687	-	44,792
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
March 31, 2018					
Hedged items					
Financial bonds payable	\$ -	(52,748,299)	-	1,291,357	1,020,070
Financial assets measured at amortized cost— corporate bonds	58,312,750	-	(1,362,679)	-	(1,438,917)
Financial assets measured at amortized cost— financial bonds	2,730,308	-	(32,029)	-	(24,784)

(Continued)

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

For the three months ended March 31, 2019

<u>Impact of comprehensive income</u>	<u>Gains (losses) on ineffective portion of interest risk hedge recognized in comprehensive income</u>	<u>The line item in the Statement of Comprehensive Income for ineffective portion</u>
Fair value hedge		
Financial bonds payable	\$ 4,057	Gains (losses) on financial assets or liabilities measured at fair value through profit or loss

For the three months ended March 31, 2018

<u>Impact of comprehensive income</u>	<u>Gains (losses) on ineffective portion of interest risk hedge recognized in comprehensive income</u>	<u>The line item in the Statement of Comprehensive Income for ineffective portion</u>
Fair value hedge		
Financial bonds payable	\$ (238)	Gains (losses) on financial assets or liabilities measured at fair value through profit or loss

(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:

	<u>Maturity</u>				
	<u>Less than one month</u>	<u>Between one and three months</u>	<u>Between three months and one year</u>	<u>Between one and five years</u>	<u>More than five years</u>
March 31, 2019					
Fair value hedge					
Interest rate swap					
Nominal amount	\$ 801,669	4,704,104	10,859,830	51,166,613	18,022,136
Average fixed interest rate	4.98 %	3.94 %	4.13 %	3.91 %	3.85 %

(Continued)

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

	<u>Maturity</u>				
	<u>Less than one month</u>	<u>Between one and three months</u>	<u>Between three months and one year</u>	<u>Between one and five years</u>	<u>More than five years</u>
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 %

	<u>Maturity</u>				
	<u>Less than one month</u>	<u>Between one and three months</u>	<u>Between three months and one year</u>	<u>Between one and five years</u>	<u>More than five years</u>
March 31, 2018					
Fair value hedge					
Interest rate swap					
Nominal amount	\$ -	-	2,908,003	43,299,150	14,885,708
Average fixed interest rate	-	%	-	%	4.49 %

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 for first quarter of 2019</u>
		<u>Assets</u>	<u>Liabilities</u>		
March 31, 2019					
Fair value hedge					
Interest rate risk					
— Interest rate swap contract	\$ 85,554,352	758,214	(470,578)	Debt investments measured at amortized cost	-
	<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 for 2018</u>
		<u>Assets</u>	<u>Liabilities</u>		
December 31, 2018					
Fair value hedge					
Interest rate risk					
— Interest rate swap contract	\$ 72,989,860	1,124,020	(267,392)	Debt investments measured at amortized cost	-

(Continued)

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

	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 for first quarter of 2018
		Assets	Liabilities		
March 31, 2018					
Fair value hedge					
Interest rate risk					
— Interest rate swap contract	\$ 61,092,861	1,403,415	(282,605)	Debt investments measured at amortized cost	-

The information of designated hedged items were as follows:

	Carrying amount		Accumulated adjustment of fair value		Fair value changes used to calculate the hedge ineffectiveness for first quarter of 2019
	Assets	Liabilities	Assets	Liabilities	
March 31, 2019					
Hedged items					
Financial bonds payable	\$ -	(9,074,293)	-	(89,776)	-
Financial assets measured at amortized cost— financial bonds	77,529,165	-	5,248	-	-
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	-	-
March 31, 2018					
Hedged items					
Financial bonds payable	\$ -	(8,313,468)	-	63,036	-
Financial assets measured at amortized cost— financial bonds	52,758,831	-	(1,056,736)	-	-

(Continued)

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

(g) Securities Purchased Under Resell Agreements

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Securities purchased under resell agreements	\$ <u>77,451,952</u>	<u>69,364,357</u>	<u>70,986,986</u>

The maturity of abovementioned securities purchased under resell agreements were all within one year as of March 31, 2019, December 31 and March 31, 2018.

(h) Receivables, Net

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Accounts receivable – credit card	\$ 40,783,047	39,644,510	36,598,037
Accounts receivable – forfeiting	353,894	538,578	886,637
Notes receivable, accounts receivable and acceptance	24,555,975	23,923,187	20,664,796
Accounts receivable – factoring	15,811,735	19,518,633	12,302,573
Interest receivable	40,643,821	42,713,847	34,712,972
Revenues receivable	3,300,952	2,979,817	2,964,841
Premiums receivable	4,515,159	3,403,232	3,342,060
Margin loans receivable	11,210,161	9,948,857	14,294,382
Accounts receivable – settlement	29,988,265	15,759,544	19,843,915
Others	<u>14,692,830</u>	<u>52,281,169</u>	<u>7,044,741</u>
Subtotal	185,855,839	210,711,374	152,654,954
Less: Allowance for doubtful accounts	<u>1,464,873</u>	<u>1,436,969</u>	<u>1,221,914</u>
Total	<u>\$ 184,390,966</u>	<u>209,274,405</u>	<u>151,433,040</u>

For credit risk, the assessment of impairment and the change of allowance for loss, please refer to Note 6 (ak) for details.

(i) 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 March 31, 2019, December 31 and March 31, 2018, net book value of assets held for sale are \$46,806, \$46,804 and \$44,204 were recognized at the lower of the carrying amount and fair value less costs of sale.

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

On March 21, 2018, the board of directors of Fubon AMC approved the selling plan for investment property, the land located at Sec. 5, Xinyi Rd., Xinyi Dist., Taipei City, and started working on the said plan. The property has been classified to assets held for sale. As of March 31, 2018, assets held for sale amounting to \$3,135,615. The bid for the land has completed on April 18, 2018.

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.

(j) Discounts and Loans, Net

	March 31, 2019	December 31, 2018	March 31, 2018
Discounts and overdrafts	\$ 6,929,326	6,763,228	6,790,988
Short-term advances	11,879,516	11,718,446	11,193,129
Accounts receivable – financing	3,083,925	3,726,273	3,152,092
Short-term loans	337,368,261	320,583,292	354,993,799
Short-term secured loans	93,485,544	92,872,668	89,997,238
Medium-term loans	242,424,867	253,095,513	254,353,048
Medium-term secured loans	148,544,556	145,595,673	121,866,807
Long-term loans	110,320,989	103,884,338	85,036,413
Long-term secured loans	821,687,341	843,738,028	760,603,752
Insurance policy loans	70,379,451	71,392,396	52,668,809
Import and export bill negotiation	14,040,806	13,409,261	15,078,215
Nonperforming loans	<u>4,313,311</u>	<u>4,300,320</u>	<u>4,925,733</u>
Subtotal	1,864,457,893	1,871,079,436	1,760,660,023
Less: Allowance for doubtful accounts	22,897,154	22,681,311	22,398,597
Adjustments of premium and discount	608,961	604,985	574,991
Total	<u>\$ 1,840,951,778</u>	<u>1,847,793,140</u>	<u>1,737,686,435</u>

For credit risk, the assessment of impairment and the change of allowance for loss, please refer to Note 6 (ak) for details.

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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 three months ended March 31, 2019 and 2018, were as follows:

	For the three months ended March 31, 2019			
	Receivables	Loans	Other financial assets	Total
Beginning balance	\$ 1,436,969	22,681,311	340,222	24,458,502
Allowance for doubtful accounts (reversal)	36,288	130,451	(33,183)	133,556
Write-off	(12,542)	(89,027)	(56,353)	(157,922)
Recovery from write-off	-	93,219	82,357	175,576
Effects of exchange rate changes and others	4,158	81,200	49	85,407
Ending balance	<u>\$ 1,464,873</u>	<u>22,897,154</u>	<u>333,092</u>	<u>24,695,119</u>
	For the three months ended March 31, 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)	(66,699)	188,393	(43,693)	78,001
Write-off	(6,395)	(112,876)	(58,931)	(178,202)
Recovery from write-off	-	106,494	93,529	200,023
Effects of exchange rate changes and others	(13,204)	(59,150)	(1,517)	(73,871)
Ending balance	<u>\$ 1,221,914</u>	<u>22,398,597</u>	<u>352,310</u>	<u>23,972,821</u>

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

(k) Reinsurance Contract Assets

	March 31, 2019	December 31, 2018	March 31, 2018
Claims recoverable from reinsurers	\$ 1,983,843	2,695,265	1,893,505
Due from reinsurers and ceding companies	5,406,351	4,089,957	4,809,263
Subtotal	<u>7,390,194</u>	<u>6,785,222</u>	<u>6,702,768</u>
Reinsurance reserve assets:			
Ceded unearned premium reserve	6,326,424	5,884,864	5,618,336
Ceded claim reserve	6,708,576	7,030,424	7,439,441
Ceded premium deficiency reserve	648,899	651,387	568,478
Ceded liability reserve	2,262	1,791	813
Subtotal	<u>13,686,161</u>	<u>13,568,466</u>	<u>13,627,068</u>
Total	<u>\$ 21,076,355</u>	<u>20,353,688</u>	<u>20,329,836</u>

(l) Investments Accounted for Using Equity Method, Net

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

Name of associate	Relationship with the Company and its subsidiaries	Main business office / Country of Registry	Ownership interest and voting right		
			March 31, 2019	December 31, 2018	March 31, 2018
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 %	19.95 %	15.78 %

Summarized financial information of material associates was as follows:

Xiamen Bank

	March 31, 2019	December 31, 2018	March 31, 2018
Total assets	\$ 1,010,962,343	1,038,617,565	974,486,281
Total liabilities	(944,173,775)	(975,971,944)	(915,405,130)
Net assets	<u>\$ 66,788,568</u>	<u>62,645,621</u>	<u>59,081,151</u>

(Continued)

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

	For the three months ended	
	March 31	
	2019	2018
Operating revenue	<u>\$ 5,167,942</u>	<u>5,198,007</u>
Net income	\$ 1,996,755	1,331,483
Other comprehensive income	401,643	871,895
Total comprehensive income	<u>\$ 2,398,398</u>	<u>2,203,378</u>
	For the three months ended	
	March 31	
	2019	2018
Share of net assets of associates at the beginning of the periods	\$ 12,486,794	8,947,205
Total comprehensive income attributable to the Company and its subsidiaries for the period	805,305	417,098
Book value of equity of associates at the end of the periods	<u>\$ 13,292,099</u>	<u>9,364,303</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%.

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.

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

(ii) Individually immaterial associates

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Fubon Construction Management Co., Ltd.	\$ 119,237	115,338	110,761
Line Biz+ Taiwan Co., Ltd.	3,129,559	3,139,671	-
Fubon Health Management Co., Ltd.	28,153	30,556	41,497
Founder Fubon Fund Management Co., Ltd.	680,736	682,065	753,141
CITIC Capital Holdings Ltd.	8,901,916	8,804,540	8,830,324
Hyundai Life Insurance Co., Ltd.	-	-	2,793,509
CITIC FUTONG Financial Leasing Limited	904,801	915,547	1,483,780
Teng Fu Bo Investment Limited	269,731	274,643	164,593
Star River Energy Corporation	283,693	278,581	345,287
Bravelog Sport Technology Co., Ltd.	5,711	4,617	7,215
Star Shining Energy Corporation	1,128,504	1,123,932	329,234
Cofit Healthcare Inc.	8,207	9,564	13,358
Wholex Max Green Power Co., Ltd.	344,983	337,495	-
	<u>\$ 15,805,231</u>	<u>15,716,549</u>	<u>14,872,699</u>
		For the three months ended	
		March 31	
		<u>2019</u>	<u>2018</u>
Attributable to the Company and its subsidiaries :			
Net income		\$ (131,325)	60,847
Other comprehensive income		<u>253,662</u>	<u>(311,028)</u>
Total comprehensive income		<u>\$ 122,337</u>	<u>(250,181)</u>

For the three months ended March 31, 2019 and 2018, the share of profit (loss) of associates accounted for using equity method amounting to \$2,532 and \$2,920, respectively, were recognized based on the unreviewed financial statements of the investee companies. As of March 31, 2019 and 2018, the relevant investment amounted to \$4,886,739 and \$674,521, respectively.

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

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.

(m) Non-controlling interest of materiality

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

<u>Name of subsidiary</u>	<u>Main business office / Country of registry</u>	<u>Ownership interest and voting right of non-controlling interest</u>	
		<u>March 31, 2019</u>	<u>December 31, 2018</u>
Fubon Hyundai Life Insurance Co., Ltd.	South Korea	<u>37.94 %</u>	<u>37.94 %</u>

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.:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Total assets	\$ 390,625,997	481,787,324
Total liabilities	(366,491,416)	(459,696,772)
Non-common equity	<u>(2,744,843)</u>	<u>(2,775,114)</u>
Net assets	<u>\$ 21,389,738</u>	<u>19,315,438</u>
Equity attributable to non-controlling interest	<u>\$ 10,153,680</u>	<u>9,389,182</u>
	For the three months ended	
	<u>March 31, 2019</u>	
Net revenue	<u>\$ 8,354,705</u>	
Net income	191,363	
Other comprehensive income	<u>1,852,666</u>	
Total comprehensive income	<u>\$ 2,044,029</u>	
Consolidated net income for the period attributable to non-controlling interests	<u>\$ 72,602</u>	
Consolidated other comprehensive income attributable to non-controlling interests	<u>\$ 764,498</u>	

(Continued)

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

	For the three months ended March 31, 2019		
Cash flows			
Operating activities		\$ (9,056,049)	
Investing activities		(2,255,604)	
Financing activities		<u>(1,707,469)</u>	
Net increase (decrease) in cash and cash equivalents		<u><u>\$ (13,019,122)</u></u>	
 (n) Other Financial Assets, Net			
	March 31, 2019	December 31, 2018	March 31, 2018
Assets on insurance product—separated account	\$ 351,181,713	369,434,448	155,752,575
Margin deposits paid for borrowed securities	8,435,640	4,425,851	39,686
Collateral for borrowed securities	215,633	207,172	44,005
Overdue receivables	297,640	297,785	265,700
Customer margin deposit	21,596,520	16,250,349	14,981,173
Buy remittance	-	231	1,154
Buy nonperforming loan	242,530	253,911	271,707
Deposits not qualifying as cash equivalents	18,451,766	18,549,111	48,638,327
Prepayments for investments	<u>58,992</u>	<u>-</u>	<u>7,872,834</u>
Subtotal	400,480,434	409,418,858	227,867,161
Less: Guarantee deposits—others	2,430,179	2,296,152	2,314,751
Allowance for doubtful accounts	<u>333,092</u>	<u>340,222</u>	<u>352,310</u>
Total	<u><u>\$ 397,717,163</u></u>	<u><u>406,782,484</u></u>	<u><u>225,200,100</u></u>

For credit risk, the assessment of impairment and the change of allowance for loss, please refer to Note 6 (ak) for details.

(Continued)

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

(i) Separated account—insurance product

Fubon Life Insurance and its subsidiaries

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Assets on insurance product— separated account:			
Bank deposits	\$ 10,032,609	9,420,408	10,026,583
Securities	164,085,781	148,498,922	142,344,443
Receivables	<u>3,406,358</u>	<u>1,895,424</u>	<u>3,381,549</u>
Total	<u>\$ 177,524,748</u>	<u>159,814,754</u>	<u>155,752,575</u>
	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Liabilities on insurance product — separated account:			
Reserve—insurance contract	\$ 103,724,781	93,025,937	95,663,467
Reserve—investment contract	73,700,717	66,692,806	60,088,437
Payables	<u>99,251</u>	<u>96,011</u>	<u>671</u>
Total	<u>\$ 177,524,749</u>	<u>159,814,754</u>	<u>155,752,575</u>
		<u>For the three months ended March 31</u>	
		<u>2019</u>	<u>2018</u>
Separate account products revenues:			
Insurance revenues		\$ 5,901,138	6,285,941
Interest revenues		448,436	313,664
Gains (losses) on financial assets or liabilities measured at fair value through profit and loss		7,973,890	(1,057,543)
Gains (losses) on foreign exchange		<u>(11,011)</u>	<u>(224,057)</u>
Total		<u>\$ 14,312,453</u>	<u>5,318,005</u>
Separate account products expenses:			
Net insurance separate account value reserve		\$ 10,665,012	1,204,555
Insurance claim payments		2,839,128	3,379,060
Administrative expense		806,853	734,390
Other expenses		<u>1,460</u>	<u>-</u>
Total		<u>\$ 14,312,453</u>	<u>5,318,005</u>

For the three months ended March 31, 2019 and 2018, Fubon Life Insurance earned sales commission in investment oriented insurance products from counterparties amounted to \$148,202 and \$128,823, respectively. The rebate was recognized as net service charge and commissions loss.

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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:

	March 31, 2019	December 31, 2018
Assets on corporate and individual annuity insurance products - seperated account :		
Bank deposits-seperated account	\$ 9,893,730	4,778,265
Financial assets measured at fair value through profit or loss	14,467,294	6,251,761
Financial assets measured at fair value through other comprehensive income	108,471,580	107,012,055
Financial assets measured at amortized cost	32,877,428	30,742,114
Financial assets for hedging-seperated account	390	-
Interest receivables	745	11,522
Other receivables	<u>7,945,798</u>	<u>60,823,977</u>
Total	<u>\$ 173,656,965</u>	<u>209,619,694</u>
	March 31, 2019	December 31, 2018
Liabilities on corporate and individual annuity insurance products - seperated account :		
Financial liabilities for hedging	\$ 394,947	20,827
Other payables	2,958,008	44,476,263
Insurance seperate account value reserve	<u>168,841,128</u>	<u>165,533,843</u>
Total	<u>\$ 172,194,083</u>	<u>210,030,933</u>
	For the three months ended March 31, 2019	
Revenues on corporate and individual annuity insurance products - seperated account:		
Interest revenue	\$ 1,126,879	
Gains (losses) on financial assets or liabilities measured at fair value through profit and loss	199,801	
Gains on foreign exchange	<u>158,095</u>	
Total	<u>\$ 1,484,775</u>	

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

	For the three months ended March 31, 2019
Expenses on corporate and individual annuity insurance products - separated account:	
Insurance value reserve provisions - separated account	\$ 1,061,243
Gains (losses) on financial assets or liabilities measured at fair value through profit and loss	781,262
Losses on foreign exchange	(409,636)
Administrative expenses	<u>51,906</u>
Total	<u><u>\$ 1,484,775</u></u>

(o) Investment Property

	Land and improvements	Buildings	Investment property under construction	Prepayment for investment property	Right-of-use assets	Total
Balance as of January 1, 2019	\$ 127,612,446	46,839,502	3,648,561	53,638	1,282,205	179,436,352
Effects of retrospective application	-	-	-	-	48,540,915	48,540,915
Beginning balance after restating	127,612,446	46,839,502	3,648,561	53,638	49,823,120	227,977,267
Additions	-	4,177	421,825	2,750	-	428,752
Reclassification	-	389	60,132	(213)	-	60,308
Disposals	-	-	-	-	-	-
Gains (losses) generated from fair value adjustments	(1,584,282)	1,494,609	-	-	(460,320)	(549,993)
Effects of exchange rate changes	206,620	462,838	-	-	41,294	710,752
Balance as of March 31, 2019	<u>\$ 126,234,784</u>	<u>48,801,515</u>	<u>4,130,518</u>	<u>56,175</u>	<u>49,404,094</u>	<u>228,627,086</u>
Balance as of January 1, 2018	\$ 130,725,092	44,318,761	1,478,188	57,868	1,747,321	178,327,230
Additions	-	1,882	272,477	3,581	-	277,940
Reclassification	647,524	50,672	119,478	(1,842)	-	815,832
Classified as held for sale	(3,135,615)	-	-	-	-	(3,135,615)
Gains (losses) generated from fair value adjustments	124,254	371,655	-	-	(424,319)	71,590
Effects of exchange rate changes	110,131	198,492	-	-	21,916	330,539
Balance as of March 31, 2018	<u>\$ 128,471,386</u>	<u>44,941,462</u>	<u>1,870,143</u>	<u>59,607</u>	<u>1,344,918</u>	<u>176,687,516</u>

Rental revenue incurred for investment property for the three months ended March 31, 2019 and 2018, amounted to \$1,499,828 and \$1,486,006, respectively. Direct operation expenses amounted to \$289,772 and \$241,153 for the three months ended March 31, 2019 and 2018, respectively, in which, \$13,760 and \$8,988, 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 and March 31, 2018, the net carrying amount of leasehold property was \$208,986 and \$219,227, respectively.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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The effects of IFRS 16 retrospective application of superficities were \$48,540,915, including fair value measurement \$2,460,374.

Please refer to note 6 (ab) for the details of lease liabilities and interest expenses of superficities.

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 the terms of general lease contracts.

A maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date are as follows:

	<u>March 31, 2019</u>
Less than one year	\$ 5,719,250
One to two years	5,720,857
Two to three years	5,319,162
Three to four years	4,874,919
Four to five years	4,145,975
More than five years	<u>26,439,604</u>
Total undiscounted lease payments	<u>\$ 52,219,767</u>

As of March 31, 2019, December 31 and March 31, 2018, 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 March 31, 2019, December 31 and March 31, 2018.

- 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

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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 Limited: Hsu Kuo-Chun, Andrew Dolan
- 16) Savills Plc and Savills Korea Co., Ltd.: Chang Hung-Kai, Chang I-Chih, Youngsu Hwang
- 17) Euro-Asia Real Estate Appraiser Firm and BNP Paribas Real Estate Advisory Belgium S.A.: Chou Shih-Yuan, Jean-Claude Dubois, Nabil Mouloua
- 18) Repro International Inc. and Knight Frank SA/NV: Wu Hung-Hsu, Filip Derijck

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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The inputs applied are as follows:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
	Mainly	Mainly	Mainly
Income capitalization rate	0.90%~8.00%	0.90%~8.00%	0.99%~5.24%
Year-end income capitalization rate	1.28%~7.00%	1.28%~7.00%	1.33%~6.35%
Discount rate	1.44%~8.25%	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 March 31, 2019, December 31 and March 31, 2018.

Valuation agencies as of March 31, 2019 were as follows:

- 1) Zhan-Mao Real Estate Appraisers Firm: Chang Shih-Xian
- 2) Repro International Inc.: Wu Hung-Hsu, Cai, You-Xiang

Valuation agencies as of December 31 and March 31, 2018 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.

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

The inputs applied are as follows:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Direct capitalization rate (net)	1.00%~5.40%	1.00%~5.40%	1.00%~5.30%
Profit rate	15.00%~21.00%	15.00%~21.00%	15.00%~20.00%
Overall capital interest rate	1.50%~4.10%	1.50%~4.10%	2.00%~4.10%

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.

As of March 31, 2019, the lease contracts between Taipei Fubon Bank and the lessors have contained general risk management policy to reduce the residual asset risk of the buildings when the leases expire.

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.

Taipei Fubon Bank has consulted the appraisers about the effectiveness of the original appraisal report. As of March 31, 2019 and 2018, the fair values of the aforementioned investment property at December 31, 2018 and 2017 were considered valid, respectively.

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.

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Expected future cash inflows	\$ 4,034,278	4,054,750	4,228,869
Expected future cash outflows	(123,847)	(126,909)	(132,282)
Expected future cash inflows, net	<u>\$ 3,910,431</u>	<u>3,927,841</u>	<u>4,096,587</u>
Discount rate	3.845%	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).

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

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 March 31, 2019, December 31 and March 31, 2018, 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%.

(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. After consulting with the appraisers, Fubon Securities determined that the fair value reported as of December 31, 2018 and 2017 were still considered valid as of March 31, 2019 and 2018. 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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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 March 31, 2019 and December 31, 2018, the replacement allowance rate is 0.5%. On March 31, 2018, 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 :

	March 31, 2019	December 31, 2018	March 31, 2018
Discount rate	2.095%~5.345%	2.095%~5.345%	4.345%

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

(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.

Fubon AMC has consulted the appraisers about the effectiveness of the original appraisal report. As of March 31, 2019 and 2018, the fair value of the aforementioned investment property at December 31, 2018 and 2017 were considered valid, 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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Profit rate	14.00%~18.00%	14.00%~18.00%	15.00%~18.00%
Overall capital interest rate	2.92%~3.16%	2.92%~3.16%	2.93%~4.77%
Income capitalization rate	1.49%~2.55%	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.

(p) Property and Equipment, Net

Changes in the cost, depreciation, and impairment loss of the property, plant and equipment of the Company and its subsidiaries for the three months ended March 31, 2019 and 2018, were as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and computer equipment</u>	<u>Transportation equipment</u>	<u>Other equipment</u>	<u>Prepayment for purchases of equipment, and construction in progress</u>	<u>Total</u>
Cost or deemed cost:							
Balance as of January 1, 2019	\$ 29,137,318	27,510,693	7,124,495	439,488	11,157,308	1,947,541	77,316,843
Effects of retrospective application	-	-	-	-	(133,308)	-	(133,308)
Beginning balance after restating	29,137,318	27,510,693	7,124,495	439,488	11,024,000	1,947,541	77,183,535
Additions	-	24,425	62,571	4,051	120,764	190,645	402,456
Disposals	-	-	(26,209)	(28,857)	(73,276)	-	(128,342)
Reclassification	-	11,357	27,429	(6,264)	113,901	(196,824)	(50,401)
Effects of exchange rates changes	(512)	196,678	11,778	1,143	17,922	112	227,121
Balance as of March 31, 2019	<u>\$ 29,136,806</u>	<u>27,743,153</u>	<u>7,200,064</u>	<u>409,561</u>	<u>11,203,311</u>	<u>1,941,474</u>	<u>77,634,369</u>
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
Additions	-	379,946	73,586	6,045	156,210	293,870	909,657
Estimated decommissioning cost	-	-	-	-	909	-	909
Reversal decommissioning cost	-	-	-	-	(216)	-	(216)
Disposals	-	-	(19,776)	(1,576)	(70,278)	-	(91,630)
Reclassification	(548,416)	(93,052)	27,173	-	44,072	(183,938)	(754,161)
Effects of exchange rates changes	-	(3,548)	1,590	95	(92,829)	(21)	(94,713)
Balance as of March 31, 2018	<u>\$ 28,813,403</u>	<u>26,472,667</u>	<u>6,101,829</u>	<u>315,396</u>	<u>9,647,080</u>	<u>2,050,763</u>	<u>73,401,138</u>

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

	Land	Buildings	Machinery and computer equipment	Transportation equipment	Other equipment	Prepayment for purchases of equipment, and construction in progress	Total
Depreciation and impairment loss:							
Balance as of January 1, 2019	\$ 1,013,284	5,375,313	5,047,987	308,127	7,091,044	-	18,835,755
Effects of retrospective application	-	-	-	-	(62,302)	-	(62,302)
Beginning balance after restating	1,013,284	5,375,313	5,047,987	308,127	7,028,742	-	18,773,453
Depreciations	-	159,715	195,789	9,918	256,887	-	622,309
Disposals	-	-	(25,910)	(28,600)	(68,065)	-	(122,575)
Reclassification	-	(20,084)	-	-	(5,833)	-	(25,917)
Effects of exchange rates changes	-	26,363	6,148	2,851	9,320	-	44,682
Balance as of March 31, 2019	<u>1,013,284</u>	<u>5,541,307</u>	<u>5,224,014</u>	<u>292,296</u>	<u>7,221,051</u>	<u>-</u>	<u>19,291,952</u>
Balance as of January 1, 2018	\$ 1,013,284	4,941,082	3,955,005	228,574	6,034,215	-	16,172,160
Depreciations	-	147,994	181,297	5,825	224,253	-	559,369
Disposals	-	-	(19,533)	(1,546)	(68,729)	-	(89,808)
Reversal decommissioning cost	-	-	-	-	(216)	-	(216)
Reclassification	(4,962)	(75,060)	(3)	1	6	-	(80,018)
Effects of exchange rates changes	-	(13,217)	(141)	78	(56,826)	-	(70,106)
Impairment loss	4,962	12,825	-	-	-	-	17,787
Balance as of March 31, 2018	<u>\$ 1,013,284</u>	<u>5,013,624</u>	<u>4,116,625</u>	<u>232,932</u>	<u>6,132,703</u>	<u>-</u>	<u>16,509,168</u>
Carrying amounts:							
Balance as of January 1, 2019	\$ 28,124,034	22,135,380	2,076,508	131,361	4,066,264	1,947,541	58,481,088
Balance as of March 31, 2019	<u>28,123,522</u>	<u>22,201,846</u>	<u>1,976,050</u>	<u>117,265</u>	<u>3,982,260</u>	<u>1,941,474</u>	<u>58,342,417</u>
Balance as of January 1, 2018	\$ 28,348,535	21,248,239	2,064,251	82,258	3,574,997	1,940,852	57,259,132
Balance as of March 31, 2018	<u>27,800,119</u>	<u>21,459,043</u>	<u>1,985,204</u>	<u>82,464</u>	<u>3,514,377</u>	<u>2,050,763</u>	<u>56,891,970</u>

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

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

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

As of March 31, 2019, December 31 and March 31, 2018, certain property were pledged as collateral, please refer to note 8 for details.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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(q) Right-of-use assets

Information about leases of land, buildings, machinery and transportation equipment of the Company and its subsidiaries is presented below:

	<u>Land</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Transportation equipment</u>	<u>Other equipment</u>	<u>Total</u>
Cost:						
Balance at January 1, 2019	\$ -	-	-	-	-	-
Effects of retrospective application	1,334,924	6,074,216	63,423	60,114	253,893	7,786,570
Beginning balance after restating	1,334,924	6,074,216	63,423	60,114	253,893	7,786,570
Additions	-	425,911	1,274	9,641	10,239	447,065
Disposals	-	(109,104)	-	(506)	(35)	(109,645)
Reclassification	-	(34,428)	7,528	357	136	(26,407)
Effect of changes in exchange rates	-	22,831	-	19	221	23,071
Balance at March 31, 2019	<u>\$ 1,334,924</u>	<u>6,379,426</u>	<u>72,225</u>	<u>69,625</u>	<u>264,454</u>	<u>8,120,654</u>
Accumulated depreciation and impairment losses:						
Balance at January 1, 2019	\$ -	-	-	-	-	-
Effects of retrospective application	-	257,804	-	-	33,824	291,628
Beginning balance after restating	-	257,804	-	-	33,824	291,628
Depreciation, including capitalization	5,028	594,280	6,639	8,953	20,429	635,329
Disposals	-	(93,605)	-	(143)	(35)	(93,783)
Reclassification	-	(4,468)	5,834	-	-	1,366
Effect of changes in exchange rates	-	(208)	-	(2)	230	20
Balance at March 31, 2019	<u>\$ 5,028</u>	<u>753,803</u>	<u>12,473</u>	<u>8,808</u>	<u>54,448</u>	<u>834,560</u>
Carrying amounts:						
March 31, 2019	<u>\$ 1,329,896</u>	<u>5,625,623</u>	<u>59,752</u>	<u>60,817</u>	<u>210,006</u>	<u>7,286,094</u>

(r) Intangible Assets, Net

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
License and operating rights	\$ 9,371,244	9,315,823	5,784,109
Core deposits	6,098,730	6,038,562	6,588,595
Goodwill	16,136,847	16,076,566	14,320,601
Computer software	1,710,633	1,728,912	1,330,032
Customer relationship	62,987	63,609	73,317
Others	655,814	684,261	280,667
	<u>\$ 34,036,255</u>	<u>33,907,733</u>	<u>28,377,321</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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The movements of intangible assets of the Company and its subsidiaries for the three months ended March 31, 2019 and 2018 were as follows:

	<u>Goodwill</u>	<u>Other intangible assets</u>	<u>Total</u>
Cost :			
Balance as of January 1, 2019	\$ 16,076,566	17,831,167	33,907,733
Additions	-	73,343	73,343
Amortization	-	(341,367)	(341,367)
Reclassification	-	81,454	81,454
Effects of exchange rates changes	60,281	254,811	315,092
Balance as of March 31, 2019	<u>\$ 16,136,847</u>	<u>17,899,408</u>	<u>34,036,255</u>
Balance as of January 1, 2018	\$ 14,271,271	13,982,503	28,253,774
Additions	-	93,057	93,057
Amortization	-	(264,046)	(264,046)
Reclassification	-	59,716	59,716
Effects of exchange rates changes	49,330	185,490	234,820
Balance as of March 31, 2018	<u>\$ 14,320,601</u>	<u>14,056,720</u>	<u>28,377,321</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 three months ended March 31, 2019 and 2018, after evaluating the carrying amount of goodwill.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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(s) Other Assets

	March 31, 2019	December 31, 2018	March 31, 2018
Refundable deposits	\$ 27,431,490	31,059,950	20,948,871
Foreclosed collaterals and residuals taken over	55,022	53,593	89,322
Operation guarantee deposits and settlement fund	380,483	360,579	367,797
Deferred assets	855,557	849,505	814,050
Prepayments	3,100,345	33,334,216	32,687,145
Others	9,900,046	9,689,612	3,152,215
Total	\$ 41,722,943	75,347,455	58,059,400

The Company acquired the superfcies by bid, accounted as prepayments. For the three months ended March 31, 2019 and 2018, the Company and its subsidiaries recognized impairment loss on other assets measured at net fair value amounting to \$0 and \$23,443, respectively.

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

	March 31, 2019	December 31, 2018	March 31, 2018
Financial liabilities designated as at fair value through profit or loss:			
Structured products	\$ 3,095,038	2,455,857	2,474,597
Held-for-trading financial liabilities:			
Non-hedge derivative instruments			
Interest rate contracts	2,882,041	3,131,147	2,711,073
Currency rate contracts	21,625,201	27,863,488	27,824,734
Options contracts	1,589,717	1,736,927	1,762,637
Others	2,409,989	2,420,811	3,161,207
	<u>28,506,948</u>	<u>35,152,373</u>	<u>35,459,651</u>
Non-derivative financial liabilities			
Stock borrowing and short selling	427,573	358,056	308,396
Bonds borrowing and short selling	3,139,777	7,456,615	472,464
	<u>3,567,350</u>	<u>7,814,671</u>	<u>780,860</u>
Total	\$ 35,169,336	45,422,901	38,715,108

(u) Securities Sold under Repurchase Agreements

	March 31, 2019	December 31, 2018	March 31, 2018
Securities sold under repurchase agreements	\$ 152,748,566	178,403,211	181,080,238

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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The maturity of abovementioned securities sold under repurchase agreement were all within one year as of March 31, 2019, December 31 and March 31, 2018.

(v) Commercial Paper Issued, Net

	March 31, 2019	December 31, 2018	March 31, 2018
Par value	\$ 10,300,000	13,540,000	5,965,000
Less: Discount on commercial paper issued	3,513	4,028	1,576
Total	<u>\$ 10,296,487</u>	<u>13,535,972</u>	<u>5,963,424</u>
Interest rate range	0.47%~0.61%	0.68%~0.76%	0.45%~0.68%

(w) Deposits and Remittances

	March 31, 2019	December 31, 2018	March 31, 2018
Checking accounts	\$ 11,980,277	11,226,153	11,211,548
Public treasury deposits	19,473,979	64,455,592	24,140,701
Demand deposits	485,664,919	490,391,281	486,260,420
Time deposits	773,909,940	759,758,537	776,284,955
Negotiable certificates of deposit	84,386,564	70,171,153	50,823,024
Savings accounts	903,061,883	876,479,829	856,754,588
Remittances	816,906	1,136,094	564,454
Total	<u>\$ 2,279,294,468</u>	<u>2,273,618,639</u>	<u>2,206,039,690</u>

(x) Bonds Payable

(i) The bonds payable as of March 31, 2019, December 31 and March 31, 2018 were as follows:

	March 31, 2019	December 31, 2018	March 31, 2018
Unsecured corporate bonds	\$ 58,550,000	58,550,000	54,000,000
Subordinated corporate bonds	41,370,947	43,115,172	35,000,000
Financial bonds	123,669,979	116,089,502	101,847,587
Total	<u>\$ 223,590,926</u>	<u>217,754,674</u>	<u>190,847,587</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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(ii) Unsecured corporate bonds

Name	Issue period		Issue amount	Interest rate	March 31, 2019	December 31, 2018	March 31, 2018	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	5,000,000	Note 1
First 2013 unsecured domestic corporate bonds-bond A	2013.08.28	2018.08.28	5,450,000	1.45	-	-	5,450,000	Note 2
First 2013 unsecured domestic corporate bonds-bond B	2013.08.28	2020.08.28	900,000	1.58	900,000	900,000	900,000	Note 1
Second 2013 unsecured domestic corporate bonds-bond A	2013.12.18	2018.12.18	100,000	1.42	-	-	100,000	Note 2
Second 2013 unsecured domestic corporate bonds-bond B	2013.12.18	2020.12.18	2,550,000	1.60	2,550,000	2,550,000	2,550,000	Note 1
First 2014 unsecured domestic corporate bonds	2014.07.21	2021.07.21	15,000,000	1.72	15,000,000	15,000,000	15,000,000	Note 1
First 2015 unsecured domestic corporate bonds-bond A	2015.03.30	2020.03.30	6,100,000	1.38	6,100,000	6,100,000	6,100,000	Note 2
First 2015 unsecured domestic corporate bonds-bond B	2015.03.30	2022.03.30	3,900,000	1.65	3,900,000	3,900,000	3,900,000	Note 1
Second 2015 unsecured domestic corporate bonds-bond A	2015.07.15	2018.07.15	2,100,000	1.15	-	-	2,100,000	Note 3
Second 2015 unsecured domestic corporate bonds-bond B	2015.07.15	2020.07.15	3,500,000	1.35	3,500,000	3,500,000	3,500,000	Note 2
Second 2015 unsecured domestic corporate bonds-bond C	2015.07.15	2022.07.15	9,400,000	1.65	9,400,000	9,400,000	9,400,000	Note 1
First 2018 unsecured domestic corporate bonds-bond A	2018.09.04	2023.09.04	1,700,000	0.85	1,700,000	1,700,000	-	Note 2
First 2018 unsecured domestic corporate bonds-bond B	2018.09.04	2025.09.04	8,300,000	0.95	8,300,000	8,300,000	-	Note 1
Second 2018 unsecured domestic corporate bonds-bond A	2018.11.22	2023.11.22	700,000	0.85	700,000	700,000	-	Note 2
Second 2018 unsecured domestic corporate bonds-bond B	2018.11.22	2025.11.22	1,500,000	0.95	1,500,000	1,500,000	-	Note 1
					<u>\$ 58,550,000</u>	<u>58,550,000</u>	<u>54,000,000</u>	

Note 1: Fixed interest, interest payable annually; pay in full upon seven years.

Note 2: Fixed interest, interest payable annually; pay in full upon five years.

Note 3: Fixed interest, interest payable annually; pay in full upon three years.

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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	March 31, 2019	December 31, 2018	March 31, 2018	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	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	6,500,000	Note 2
Hyundailife Insurance 2 (private placement)	2013.06.28	2019.01.28	4.91 %	816,000	-	-	826,401	-	Note 3
Hyundailife Insurance 2-2 (private placement)	2013.08.27	2019.03.27	4.98 %	816,000	-	-	830,873	-	Note 3
Hyundailife Insurance 3 (private placement)	2013.12.06	2019.07.06	5.25 %	544,000	4,077	548,077	557,947	-	Note 3
Hyundailife Insurance 4 (private placement)	2014.10.30	2020.04.30	5.30 %	1,360,000	30,199	1,390,199	1,412,414	-	Note 3
Hyundailife Insurance 5 (private placement)	2015.12.11	2021.06.11	4.65 %	544,000	9,927	553,927	561,232	-	Note 3
Hyundailife Insurance 5-2 (private placement)	2015.12.30	2021.06.30	4.65 %	81,600	1,996	83,596	84,740	-	Note 3
Hyundailife Insurance 6 (private placement)	2016.04.28	2022.04.28	4.60 %	1,088,000	15,317	1,103,317	1,116,734	-	Note 3
Hyundailife Insurance 7 (private placement)	2016.12.28	2022.07.28	4.75 %	544,000	6,017	550,017	556,539	-	Note 3
Hyundailife Insurance 8 (private placement)	2017.06.26	2023.01.26	4.90 %	244,800	2,692	247,492	250,400	-	Note 3
Hyundailife Insurance 9 (private placement)	2017.07.20	2023.01.20	4.90 %	217,600	4,389	221,989	224,729	-	Note 3
Hyundailife Insurance 11 (private placement)	2017.12.28	2023.06.28	5.60 %	1,632,000	40,333	1,672,333	1,693,163	-	Note 3
Total					\$ 114,947	41,370,947	43,115,172	35,000,000	

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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Note 3: The corporate bond that Fubon Life Insurance bears is because of the acquisition of the subsidiary on September 15, 2018.

(iv) Financial Bonds Payable

1) Taipei Fubon Bank and its subsidiaries

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
First issuance of subordinated bank debentures in 2010; fixed 2.5%; maturity: January 25, 2020	\$ 2,400,000	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	2,000,000
Sixth issuance of subordinated bank debentures in 2010; fixed 2.05%; maturity: August 20, 2020	1,900,000	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	900,000
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

(Continued)

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
First issuance of subordinated bank debentures in 2012; fixed 1.48%; maturity: in April 5, 2019	\$ 1,300,000	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	4,700,000
First issuance of subordinated bank debentures in 2013; fixed 1.52%; maturity: August 1, 2020	3,750,000	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	500,000
First issuance of subordinated bank debentures in 2014; fixed 1.7%; maturity: May 15, 2021	5,500,000	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	4,500,000
Second issuance of subordinated bank debentures in 2014; fixed 1.98%; maturity: September 25, 2024	3,700,000	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)	3,646,051	3,599,137	3,307,724
First issuance of dominant bank debentures in 2016; zero interest rate; maturity: December 22, 2046 (US\$200,000 thousand)	6,748,701	6,662,962	6,126,564

(Continued)

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
First issuance of dominant bank debentures in 2017; zero interest rate; maturity: January 24, 2047 (US\$200,000 thousand)	\$ 6,728,878	6,642,908	6,106,765
First issuance of dominant bank debentures in 2017; zero interest rate; maturity: January 24, 2047 (US\$200,000 thousand)	6,721,826	6,636,732	6,103,295
Second issuance of subordinated bank debentures in 2017; fixed 1.33%; maturity: September 22, 2024	3,000,000	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	1,750,000
Fifth issuance of subordinated bank debentures in 2017; zero interest rate; maturity: December 4, 2047 (US\$100,000 thousand)	3,251,561	3,209,866	2,950,374
First issuance of dominant bank debentures in 2018; fixed 0.67%; maturity: March 1, 2020	1,000,000	1,000,000	1,000,000
Second issuance of subordinated bank debentures in 2018; zero interest rate; maturity: March 8, 2048 (US\$195,000 thousand)	6,291,312	6,206,979	5,694,934

(Continued)

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Third issuance of subordinated bank debentures in 2018; fixed 1.15%; maturity: September 25, 2025	\$ 1,200,000	1,200,000	-
Third issuance of subordinated bank debentures in 2018; fixed 1.3%; maturity: September 25, 2028	1,800,000	1,800,000	-
Fourth issuance of dominant bank debentures in 2018; fixed 0.6%; maturity: November 5, 2019	2,150,000	2,150,000	-
Fifth issuance of dominant bank debentures in 2018; zero interest rate; maturity: November 20, 2048 (US\$80,000 thousand)	2,509,645	2,472,796	-
Sixth issuance of dominant bank debentures in 2018; fixed 1.1%; maturity: November 28, 2028	3,700,000	3,700,000	-
Seventh issuance of subordinated bank debentures in 2018; fixed 2.15%; perpetual	6,500,000	6,500,000	-
First issuance of dominant bank debentures in 2019; fixed 0.98%; maturity: March 20, 2029	1,500,000	-	-
Subtotal	<u>89,647,974</u>	<u>87,681,380</u>	<u>78,639,656</u>
Valuation adjustments of bank debentures	(22,608)	(1,600,785)	(1,291,357)
Subtotal	<u>89,625,366</u>	<u>86,080,595</u>	<u>77,348,299</u>
Tier 2 capital ; fixed 5.43% ; maturity: December 6, 2028	4,585,200	4,466,100	-
Total	<u><u>\$ 94,210,566</u></u>	<u><u>90,546,695</u></u>	<u><u>77,348,299</u></u>

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

2) Fubon Bank (Hong Kong) and its subsidiaries

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
10-year bonds issued in November 2010; fixed 6.125%; maturity: November 2020	\$ 6,154,752	6,138,797	5,805,193
3-year bonds issued in June 2015; floating; maturity: June 2018	-	-	370,935
3-year bonds issued in June 2016; fixed 2.12%; maturity: June 2019	785,014	781,511	736,436
2-year bonds issued in July 2016; floating; maturity: July 2018	-	-	370,894
3-year bonds issued in July 2016; fixed 1.90%; maturity: July 2019	391,679	389,691	366,087
2-year bonds issued in August 2016; fixed 1.60%; maturity: August 2018	-	-	998,698
3-year bonds issued in September 2016; fixed 1.60%; maturity: September 2019	391,093	389,019	365,067
3-year bonds issued in October 2016; floating; maturity: October 2019	616,527	615,038	581,913
3-year bonds issued in February 2017; fixed 2.53%; maturity: February 2020	392,327	390,802	367,990
2-year bonds issued in March 2017; fixed 2.28%; maturity: March 2019	-	784,193	740,828
3-year bonds issued in March 2017; fixed 2.5%; maturity: March 2020	470,559	468,386	441,226
3-year bonds issued in April 2017; fixed 2.4%; maturity: April 2020	274,199	272,852	256,675
2-year bonds issued in June 2017; fixed 1.75%; maturity: June 2019	588,674	585,756	551,065

(Continued)

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
2-year bonds issued in June 2017; fixed 1.8%; maturity: June 2019	\$ 784,472	780,678	735,319
1-year bonds issued in August 2017; fixed 2.11%; maturity: August 2018	-	-	873,372
2-year bonds issued in August 2017; fixed 1.75%; maturity: August 2019	391,863	389,993	366,736
2-year bonds issued in September 2017; floating; maturity: September 2019	392,755	392,735	370,842
2-year bonds issued in September 2017; fixed 1.8%; maturity: September 2019	782,732	778,887	732,270
3-year bonds issued in September 2017; floating; maturity: September 2020	1,177,848	1,177,761	1,112,026
6-month bonds issued in October 2017; fixed 2.02%; maturity: April 2018	-	-	582,265
2-year bonds issued in October 2017; fixed 1.95%; maturity: October 2019	783,137	780,148	733,977
3-month bonds issued in January 2018; fixed 2.07%; maturity: April 2018	-	-	727,834
3-year bonds issued in February 2018; fixed 2.55%; maturity: February 2021	393,403	390,484	366,921
3-month bonds issued in March 2018; fixed 2.2%; maturity: June 2018	-	-	582,047
2-year bonds issued in March 2018; fixed 2.6%; maturity: March 2020	589,900	587,410	554,544
3-month bonds issued in March 2018; fixed 1.24%; maturity: June 2018	-	-	574,947

(Continued)

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
3-month bonds issued in March 2018; fixed 2.57%; maturity: June 2018	\$ -	-	756,931
3-month bonds issued in March 2018; zero interest rate; maturity: June 2018	-	-	1,158,827
3-month bonds issued in March 2018; zero interest rate; maturity: June 2018	-	-	1,158,750
3-month bonds issued in March 2018; zero interest rate; maturity: June 2018	-	-	1,158,673
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	785,160	785,085	-
3-year bonds issued in August 2018; floating; maturity: August 2021	785,396	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	1,021,124	1,021,111	-
6-month bonds issued in October 2018; fixed 2.7%; maturity: January 2019	-	615,207	-
3-month bonds issued in October 2018; fixed 2.7%; maturity: January 2019	-	1,538,017	-
6-month bonds issued in November 2018; fixed 3.15%; maturity: May 2019	770,811	768,985	-
3-month bonds issued in December 2018; zero interest rate; maturity: February 2019	-	306,781	-

(Continued)

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
2-year bonds issued in December 2018, fixed 3.3%; maturity: December 2020	\$ 596,263	593,331	-
3-year bonds issued in December 2018, fixed 3.25%; maturity: December 2021	278,963	276,394	-
6-month bonds issued in December 2018; zero interest rate; maturity: June 2019	611,664	605,183	-
6-month bonds issued in January 2019; zero interest rate; maturity: July 2019	916,717	-	-
6-month bonds issued in January 2019, fixed 3.2%; maturity: July 2019	1,541,210	-	-
6-month bonds issued in January 2019, fixed 3.2%; maturity: July 2019	1,541,210	-	-
3-month bonds issued in January 2019, fixed 2.9%; maturity: April 2019	616,637	-	-
3-month bonds issued in January 2019, fixed 3.02%; maturity: April 2019	1,541,658	-	-
3-month bonds issued in January 2019, fixed 3.02%; maturity: April 2019	1,294,993	-	-
2-year bonds issued in March 2019; fixed 2.63%; maturity: March 2021	1,180,020	-	-
3-month bonds issued in March 2019, fixed 2.73%; maturity: June 2019	616,653	-	-
Subtotal	<u>\$ 29,459,413</u>	<u>25,542,807</u>	<u>24,499,288</u>
Total	<u>\$ 123,669,979</u>	<u>116,089,502</u>	<u>101,847,587</u>

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

(y) Other Borrowings

	March 31, 2019	December 31, 2018	March 31, 2018
Credit and guarantee loan	<u>\$ 2,139,235</u>	<u>1,482,921</u>	<u>5,189,487</u>
Interest rate range	1.04%~3.01%	1.25%~2.93%	0.45%~2.86%

As of March 31, 2019, December 31 and March 31, 2018, other borrowings were pledged as collateral, please refer to note 8 for details.

(z) Provisions

(i) Provisions

	March 31, 2019	December 31, 2018	March 31, 2018
Unearned premium reserves (Note)	\$ 33,463,289	32,258,606	31,465,960
Claim reserves (Note)	26,101,285	26,014,338	22,752,742
Liability reserves (Note)	3,649,185,345	3,570,534,145	3,160,902,070
Special reserves (Note)	16,714,760	15,820,199	15,305,442
Premium deficiency reserves (Note)	15,021,691	16,075,356	19,130,939
Reserves for insurance contract with nature of financial instrument (Note)	3,551,015	3,523,635	3,751,506
Foreign exchange valuation reserves(Note)	9,289,692	8,337,666	2,204,308
Provisions for guarantee liabilities	294,963	301,774	332,400
Provisions for financing commitment	137,168	138,127	121,818
Provisions for employment benefits	12,814,777	12,865,827	11,810,427
Provisions for decommissioning, restoration and rehabilitation costs	287,417	229,887	181,534
Others	<u>35,072,004</u>	<u>35,409,096</u>	<u>29,650,092</u>
Total	<u>\$ 3,801,933,406</u>	<u>3,721,508,656</u>	<u>3,297,609,238</u>

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

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

(ii) Employee benefits

1) Defined benefit plans

There was no significant volatility of the market or any significant reimbursement, settlement or other one time event in the prior fiscal year. Therefore, the Company and its subsidiaries used the pension cost as of December 31, 2018 and 2017 to measure and disclose the interim pension cost.

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

	For the three months ended	
	March 31	
	2019	2018
Pension expense	<u>\$ 173,086</u>	<u>182,920</u>

2) Defined contribution plans

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

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

	For the three months ended	
	March 31	
	2019	2018
Pension expense	<u>\$ 289,319</u>	<u>308,678</u>

(aa) Other Financial Liabilities

	March 31, 2019	December 31, 2018	March 31, 2018
Principal of structured products	\$ 26,888,180	25,140,505	17,081,970
Liabilities on insurance product— separated account	349,718,832	369,845,687	155,752,575
Future traders' equity	21,596,525	16,250,349	14,981,173
Others	-	281,294	219,442
Total	<u>\$ 398,203,537</u>	<u>411,517,835</u>	<u>188,035,160</u>

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.

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

(ab) Lease liabilities

The Company and its subsidiaries' lease liabilities were as follow:

	March 31, 2019		
	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	\$ 3,354,260	695,876	2,658,384
Between one and five years	7,423,577	2,187,790	5,235,787
More than five years	<u>25,901,069</u>	<u>11,178,977</u>	<u>14,722,092</u>
	<u>\$ 36,678,906</u>	<u>14,062,643</u>	<u>22,616,263</u>

The amounts recognized in profit or loss were as follows:

	For the three months ended March 31, 2019
Interest on lease liabilities	<u>\$ 125,749</u>
Variable lease payments not included in the measurement of lease liabilities	<u>\$ 20,507</u>
Expenses relating to short-term leases	<u>\$ 41,583</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<u>\$ 16,616</u>

The amounts recognized in the statement of cash flows for the Company and its subsidiaries were as follows:

	For the three months ended March 31, 2019
Total cash outflow for leases	<u>\$ 1,012,592</u>

(i) Real estate leases

As of March 31, 2019, the Company and its subsidiaries lease land and buildings for office space. The leases of office space typically run for a period of 1 to 10 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract-term.

(ii) Superficies leases

As of March 2019, the Company and its subsidiaries lease land for superficies with usual lease terms of 50 to 70 years for the purpose of commercial buildings, malls, hotels etc..

(iii) Other leases

The Company and its subsidiaries lease vehicles and equipment, with lease terms of 2 to 8 years.

(Continued)

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

For short-term or leases of low-value items, the Company and its subsidiaries have elected not to recognize right-of-use assets and lease liabilities for these leases.

(ac) Other Liabilities

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Advance receipts	\$ 4,220,364	3,465,846	3,290,027
Temporary receipts	4,288,076	4,519,847	3,193,769
Guarantee deposits received	6,048,472	4,852,199	6,667,929
Advance premiums	11,495,297	10,860,718	7,077,292
Deferred revenue	2,134,159	1,820,700	1,880,316
Deposit-in for borrowed securities	14,053,339	13,473,433	8,087,057
Collections for underwriting stock value	148,850	33,569	92,525
Others	2,516,355	2,636,192	4,078,193
Total	<u>\$ 44,904,912</u>	<u>41,662,504</u>	<u>34,367,108</u>

(ad) Income Tax

(i) Income tax expenses

The components of income tax expenses (revenue) for the three months ended March 31, 2019 and 2018, respectively, were as follows:

	<u>For the three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Current tax expense (revenue)		
Current period	\$ 1,773,372	6,474,282
Adjustment for prior periods	(66,971)	(439,693)
Others	115,394	114,043
	<u>1,821,795</u>	<u>6,148,632</u>
Deferred tax expense (revenue)		
Changes of the corporate income tax rate	943,759	(6,463,544)
Total income tax expenses	<u>\$ 2,765,554</u>	<u>(314,912)</u>

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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 three months ended March 31, 2019 and 2018, respectively, were as follows:

	For the three months ended	
	March 31	
	<u>2019</u>	<u>2018</u>
Items not to be reclassified subsequently to profit or loss:		
Remeasurements of the defined benefit plans	\$ -	(121,571)
Revaluation gains on property	-	2,750
Gains/ losses on valuation of equity instruments measured at fair value through other comprehensive income	482,560	(866,619)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	-	1,391
Other items not to be reclassified subsequently to profit or loss	-	53,390
	<u>\$ 482,560</u>	<u>(930,659)</u>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	\$ 163,893	(197,232)
Gains on financial instruments for hedging / effective portion of cash flow hedges	62,124	(76,476)
Gains/ losses on valuation of debt instruments measured at fair value through other comprehensive income	2,039,154	(2,251,691)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	33,073	(103,777)
Other comprehensive income reclassified by applying overlay approach	3,147,397	(2,186,324)
	<u>\$ 5,445,641</u>	<u>(4,815,500)</u>
	<u>\$ 5,928,201</u>	<u>(5,746,159)</u>

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

(ii) Income tax assessment situation

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

	March 31, 2019
2012	\$ 102,072
2013	124,612
	\$ 226,684

- 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.
- 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:

Taxpayer	Assessment issue	Status
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 application for reassessments for the year 2010 and 2014 is 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 2010 to 2014.

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

	December 31, 2018			
	Estimate in 2018	Filed in previous years	Total	
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	<u>1,433</u>	<u>-</u>	<u>1,433</u>	
Total	<u>\$ 1,824,775</u>	<u>363,637</u>	<u>2,188,412</u>	
	December 31, 2018			
	Estimate in 2018	Filed in previous years	Total	
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	<u>172</u>	<u>-</u>	<u>172</u>	
Total	<u>\$ 5,850,004</u>	<u>391,805</u>	<u>6,241,809</u>	
	March 31, 2018			
	Estimate for the three months ended March 31, 2018	Estimate in 2017	Filed in previous years	Total
Linked tax receivables from subsidiaries:				
Taipei Fubon Bank	\$ 546,258	696,986	65,406	1,308,650
Fubon Life Insurance	3,997,255	6,395,773	294,263	10,687,291
Fubon Insurance	265,065	124,382	22,010	411,457
Fubon Securities	91,000	216,488	25,896	333,384
Fubon AMC	<u>7,265</u>	<u>15,023</u>	<u>-</u>	<u>22,288</u>
Total	<u>\$ 4,906,843</u>	<u>7,448,652</u>	<u>407,575</u>	<u>12,763,070</u>

(Continued)

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

	March 31, 2018			
	Estimate for the three months ended March 31, 2018	Estimate in 2017	Filed in previous years	Total
Linked tax payables to subsidiaries:				
Taipei Fubon Bank	\$ -	-	205,467	205,467
Fubon Life Insurance	-	-	186,338	186,338
Fubon Marketing	372	171	-	543
Total	\$ 372	171	391,805	392,348

(ae) Capital and Other Equity

(i) Share capital

- 1) As of March 31, 2019, December 31 and March 31, 2018, 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 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.

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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.
- 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.

(Continued)

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

- 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:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Additional paid-in capital from new share issuance for cash	\$ 96,915,012	96,915,012	96,914,011
Additional paid-in capital from share exchange	36,199,185	36,199,185	36,199,185
Additional paid-in capital from equity-accounted investees	2,035,946	2,036,056	1,964,688
Land revaluation surplus	1,104	1,104	1,104
Sale of treasury stock	178,098	178,098	178,098
Transfer of treasury stock to employee	23,753	23,753	23,753
Cash dividend from the Company's stock held by its subsidiary	27,664	27,664	27,664
Additional paid-in capital for employee warrants exercise	1,637,823	1,637,823	1,637,823
Share-based payment	177	177	177
Total	<u>\$ 137,018,762</u>	<u>137,018,872</u>	<u>136,946,503</u>

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

<u>Date of share exchange</u>	<u>Participants of share exchange and description</u>	<u>Additional paid in capital from share exchange</u>		
		<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
December 19, 2001	Fubon Securities, Fubon Bank, and Fubon Life Insurance	\$ 42,040,134	42,040,134	42,040,134
August 28, 2002	Fubon Asset Management	(124,882)	(124,882)	(124,882)
December 23, 2002	Taipei Bank	3,384,059	3,384,059	3,384,059
February 11, 2009	ING Life Insurance	4,825,587	4,825,587	4,825,587
		<u>50,124,898</u>	<u>50,124,898</u>	<u>50,124,898</u>

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

<u>Date of share exchange</u>	<u>Participants of share exchange and description</u>	<u>Additional paid in capital from share exchange</u>		
		<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
	Cash dividend	\$ (5,842,342)	(5,842,342)	(5,842,342)
	Subsidiaries' employee bonus and remuneration to directors and supervisors	(46,600)	(46,600)	(46,600)
December 19, 2004	Common stock held by Fubon Securities and Fubon Insurance to be cancelled	(2,982,647)	(2,982,647)	(2,982,647)
	Retirement of treasury stock	(2,601,777)	(2,601,777)	(2,601,777)
		<u>(11,473,366)</u>	<u>(11,473,366)</u>	<u>(11,473,366)</u>
October 2016	Acquisition of the non-controlling interests of Fubon Bank (China)	(2,452,347)	(2,452,347)	(2,452,347)
		<u>\$ 36,199,185</u>	<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 Article 72-1 of Regulations Governing the Offering and Issuance of Securities by Securities Issuers. As of March 31, 2019 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.

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

(iv) Special reserve

	March 31, 2019	December 31, 2018	March 31, 2018
Share exchange	\$ 1,669,704	1,669,704	1,669,704
First adoption of IFRSs	1,315,662	1,315,662	1,315,662
Adoption of fair value model of investment property	28,991,580	27,023,281	27,310,683
Deduction from others equity, net	-	-	22,773,818
	<u><u>\$ 31,976,946</u></u>	<u><u>30,008,647</u></u>	<u><u>53,069,867</u></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.

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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	Gains (losses) on financial instruments for hedging	Revaluation reserve	Other comprehensive income reclassified by applying overlay approach	Total
Balance as of January 1, 2019	\$ (11,908,923)	(16,079,586)	(217,381)	2,238,671	(46,488,236)	(72,455,455)
Exchange differences on translation of foreign operations	1,771,159	-	-	-	-	1,771,159
Share of exchange differences on translation of the associates accounted for using equity method	132,291	-	-	-	-	132,291
Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	-	17,358,609	-	-	-	17,358,609
Accumulated gains (losses) reclassified to profit or loss on disposal of debt investments measured at fair value through other comprehensive income	-	(4,897,641)	-	-	-	(4,897,641)
Disposal of equity instruments measured at fair value through other comprehensive income	-	1,036,524	-	-	-	1,036,524
Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income of the associates accounted for using equity method	-	27,908	-	-	-	27,908
Fair value changes of financial instruments for hedging	-	-	248,493	-	-	248,493
Other comprehensive income reclassified by applying overlay approach	-	-	-	-	49,442,553	49,442,553
Other comprehensive income reclassified by applying overlay approach of the associates accounted for using equity method	-	-	-	-	48,742	48,742
Balance as of March 31, 2019	<u>\$ (10,005,473)</u>	<u>(2,554,186)</u>	<u>31,112</u>	<u>2,238,671</u>	<u>3,003,059</u>	<u>(7,286,817)</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 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, 2019	\$ (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	(135,296)	-	-	-	-	-	-	(135,296)
Share of exchange differences on translation of the associates accounted for using equity method	104,915	-	-	-	-	-	-	104,915
Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	-	(15,597,916)	-	-	-	-	-	(15,597,916)
Accumulated gains (losses) reclassified to profit or loss on disposal of debt investments measured at fair value through other comprehensive income	-	(3,412,351)	-	-	-	-	-	(3,412,351)
Disposal of equity instruments measured at fair value through other comprehensive income	-	6,617,625	-	-	-	-	-	6,617,625
Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income of the associates accounted for using equity method	-	(168,157)	-	-	-	-	-	(168,157)
Fair value changes of financial instruments for hedging	-	-	-	-	(251,925)	-	-	(251,925)
Fair value changes of financial instruments for hedging of the associates accounted for using equity method	-	-	-	-	797	-	-	797
Revaluation gains	-	-	-	-	-	87,338	-	87,338
Other comprehensive income reclassified by applying overlay approach	-	-	-	-	-	-	(9,328,594)	(9,328,594)
Other comprehensive income reclassified by applying overlay approach of the associates accounted for using equity method	-	-	-	-	-	-	(92,277)	(92,277)
Balance as of March 31, 2019	<u>\$ (11,316,459)</u>	<u>(14,704,625)</u>	<u>-</u>	<u>-</u>	<u>(550,777)</u>	<u>2,390,292</u>	<u>17,304,750</u>	<u>(6,876,819)</u>

(viii) Non-controlling interests

	For the three months ended March 31	
	2019	2018
Beginning balance	\$ 9,582,626	339,740
Attributable to non-controlling interests		
Net income (loss)	68,121	(8,615)
Exchange differences on translation of foreign operations	(109,809)	-
Gains (losses) on financial assets measured at fair value through other comprehensive income	810,434	(6,052)
Other comprehensive income reclassified by applying overlay approach	5,012	-
Changes in non-controlling interests	113,261	-
Others	<u>(1,558)</u>	<u>535</u>
Ending balance	<u>\$ 10,468,087</u>	<u>325,608</u>

(Continued)

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

(af) Earnings Per Share

The details of earnings per share were as follows:

	For the three months ended March 31	
	2019	2018
Net income of ordinary equity holders	<u>\$ 12,500,898</u>	<u>16,410,161</u>
Weighted average number of common shares outstanding (thousands)	10,233,604	10,233,604
Dilutive potential common shares	-	-
	<u>10,233,604</u>	<u>10,233,604</u>
Basic EPS (Dollars)	<u>\$ 1.22</u>	<u>1.60</u>

(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.

The recognized employees' compensation were \$2,500 and \$2,500, and the directors' remuneration were \$16,250 and \$16,250, for the three months ended March 31, 2019 and 2018, 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, 2018, the recognized employees' compensation and directors' remuneration were \$10,000 and \$62,000, respectively. If the actual distribution is different from the estimation, the different will be accounted for as changes in accounting estimates and recognized in profit or loss for year 2019.

(Continued)

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

(ah) Income and Expenses

(i) Net interest revenue

	For the three months ended March 31	
	2019	2018
Interest revenue:		
Discounts and loans	\$ 12,789,375	10,676,308
Investment in securities	28,927,160	24,461,933
Others	<u>3,358,721</u>	<u>3,182,968</u>
Subtotal	<u>45,075,256</u>	<u>38,321,209</u>
Interest expense:		
Deposits	6,903,010	5,638,487
Debt securities issued	1,310,766	920,975
Call loans from the central Bank and banks	934,068	633,130
Securities sold under repurchase agreements	871,885	736,626
Others	<u>522,514</u>	<u>209,252</u>
Subtotal	<u>10,542,243</u>	<u>8,138,470</u>
Net interest revenue	<u><u>\$ 34,533,013</u></u>	<u><u>30,182,739</u></u>

(ii) Net service charge and commissions loss

	For the three months ended March 31	
	2019	2018
Service fee and commission income:		
Brokerage service fees	\$ 835,808	1,141,947
Trust and custody services	1,058,475	1,214,782
Credit card and cash card related fees	422,526	445,727
Commission income	575,846	447,874
Loan service fees	295,868	304,076
Others	<u>1,528,854</u>	<u>1,340,665</u>
Subtotal	<u>4,717,377</u>	<u>4,895,071</u>
Service charge and commission expense:		
Insurance commission expense	7,648,566	5,900,491
Interbank service charge	93,502	82,230
Brokerage service charge	67,982	90,927
Credit card service charge	227,716	216,391
Others	<u>339,590</u>	<u>362,456</u>
Subtotal	<u>8,377,356</u>	<u>6,652,495</u>
Net service charge and commission loss	<u><u>\$ (3,659,979)</u></u>	<u><u>(1,757,424)</u></u>

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

(iii) Net income of insurance operations

	For the three months ended March 31	
	2019	2018
Premiums income	\$ 164,765,526	138,269,772
Separate account products revenues	<u>15,797,228</u>	<u>5,318,005</u>
Income from insurance business	<u>180,562,754</u>	<u>143,587,777</u>
Direct business expenses	11,205	9,860
Insurance claims payment	99,708,102	66,952,062
Separate account products expenses	15,797,228	5,318,005
Disbursement toward industry stability	<u>318,500</u>	<u>212,685</u>
Insurance business expenses	<u>115,835,035</u>	<u>72,492,612</u>
Net income of insurance operations	<u><u>\$ 64,727,719</u></u>	<u><u>71,095,165</u></u>

(iv) Net change in provisions for insurance liabilities

	For the three months ended March 31	
	2019	2018
Net change of claim reserves	\$ 414,348	(215,382)
Net change of liability reserves	78,393,002	83,601,362
Net change of special reserves	897,315	301,042
Net change of reserves for premium deficiency	(1,063,621)	(1,400,038)
Net change of reserves for insurance contract with nature of financial instrument	36,941	39,070
Others	<u>766,031</u>	<u>(210,306)</u>
	<u><u>\$ 79,444,016</u></u>	<u><u>82,115,748</u></u>

(v) Employee benefits expenses

	For the three months ended March 31	
	2019	2018
Salaries and wages	\$ 6,439,436	5,768,136
Labor insurance, national health insurance, and group insurance for life	859,681	825,291
Director's remuneration	42,552	46,109
Pension	460,654	471,244
Other employee benefit expenses	<u>453,053</u>	<u>447,895</u>
	<u><u>\$ 8,255,376</u></u>	<u><u>7,558,675</u></u>

(Continued)

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

(vi) Depreciation and amortization expenses

	For the three months ended	
	March 31	
	2019	2018
Depreciation expenses	\$ 1,247,552	558,182
Amortization expenses	<u>356,394</u>	<u>300,078</u>
	<u>\$ 1,603,946</u>	<u>858,260</u>

(vii) Other general and administrative expenses

	For the three months ended	
	March 31	
	2019	2018
Taxation and government fee	\$ 887,815	885,917
Rental	222,530	902,459
Professional services	747,468	656,290
Business activities	702,540	421,525
Selling expense	121,701	181,634
Postage	248,832	295,422
Others	<u>2,047,869</u>	<u>1,854,522</u>
	<u>\$ 4,978,755</u>	<u>5,197,769</u>

(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.

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

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.

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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.

Financial instruments - instruments measured at fair value	March 31, 2019			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurement				
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss				
Financial assets mandatorily measured at fair value through profit or loss				
Stock investment	\$ 398,657,681	393,287,010	-	5,370,671
Bond investment	134,226,492	55,673,306	67,786,247	10,766,939
Others	520,745,287	390,752,347	48,099,430	81,893,510
Financial assets measured at fair value through other comprehensive income				
Stock investment	99,377,232	70,199,393	1,278,489	27,899,350
Bond investment (Note)	618,403,458	398,143,694	192,682,512	27,577,252
Others	56,361,271	2,564,233	45,320,320	8,476,718
Investment property	228,627,086	-	2,181,977	226,445,109
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	3,567,350	3,567,350	-	-
<u>Derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	26,552,346	535,306	23,336,004	2,681,036
Financial assets for hedging	2,657,540	-	2,657,540	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Financial liabilities designated as at fair value through profit or loss	3,095,038	-	-	3,095,038
Held-for-trading financial liabilities	28,506,944	228,133	25,620,995	2,657,816
Financial liabilities for hedging	3,323,730	-	3,323,730	-
Non-recurring fair value measurement				
Asset classified as held for sale	46,806	-	-	46,806

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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Financial instruments - instruments measured at fair value	December 31, 2018			
	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

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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Financial instruments - instruments measured at fair value	March 31, 2018			
	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	\$ 423,098,759	419,642,929	3,304	3,452,526
Bond investment	112,168,016	53,462,292	55,123,732	3,581,992
Others	284,852,383	204,047,166	8,975,312	71,829,905
Financial assets measured at fair value through other comprehensive income				
Stock investment	94,657,642	77,359,272	10,499,336	6,799,034
Bond investment (Note)	675,027,261	490,025,775	173,358,044	11,643,442
Others	94,766,742	1,077,725	92,819,296	869,721
Investment property	176,687,516	-	1,749,746	174,937,770
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Held-for-trading financial liabilities	780,860	780,860	-	-
<u>Derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	41,526,626	614,190	39,136,446	1,775,990
Financial assets for hedging	3,808,028	-	3,808,028	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Financial liabilities designated as at fair value through profit or loss	2,474,597	-	-	2,474,597
Held-for-trading financial liabilities	35,459,651	400,058	33,290,649	1,768,944
Financial liabilities for hedging	3,274,436	-	3,274,436	-
<u>Non-recurring fair value measurement</u>				
Asset classified as held for sale	3,179,819	-	3,135,615	44,204

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

2) Valuation techniques

a) Financial instruments

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

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FUBON FINANCIAL HOLDING CO., LTD. AND 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 wide bid-ask spread, or significantly low trading volume are indications of an inactive market.

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

The Company and its subsidiaries use the valuation techniques commonly accepted by market participants for nonstandard and less complicated financial instruments. 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 (o) for details.

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

3) Fair value adjustment

a) Limitations of valuation models and inputs

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

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FUBON FINANCIAL HOLDING CO., LTD. AND 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 three months ended March 31, 2019 and 2018.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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5) Changes in Level 3 Fair Value Category

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

Units: In thousands of TWD

Name	For the three months ended March 31, 2019								Ending balance
	Beginning balance	Acquisition through business combinations	Gains (Losses) on Valuation		Increase		Decrease		
			Profit and Loss	Other Comprehensive Income (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	\$ 92,316,435	-	513,782	(589,882)	13,808,230	365,035	3,793,330	1,908,114	100,712,156
Financial assets measured at fair value through other comprehensive income	68,704,863	-	216,774	1,844,382	386,569	288,594	2,451,611	5,036,251	63,953,320
Investment property	225,795,573	-	(549,993)	710,752	428,468	62,081	1,772	-	226,445,109
Total	\$ 386,816,871	-	180,563	1,965,252	14,623,267	715,710	6,246,713	6,944,365	391,110,585

(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 1: 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.

Note 2: The Company and its subsidiaries have adopted IFRS 16 since January 1, 2019, with no restatement of comparative information.

Name	For the three months ended March 31, 2018								Ending balance
	Beginning balance	Profit and Loss	Gains (Losses) on Valuation		Increase		Decrease		
			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									
Financial assets mandatorily measured at fair value through profit or loss	\$ 75,093,456	(241,015)	-	8,713,945	322,623	3,142,239	106,357	80,640,413	
Financial assets measured at fair value through other comprehensive income	42,385,792	(142,590)	173,166	650,071	3,029,571	982,059	25,801,754	19,312,197	
Investment property	173,442,136	71,590	342,969	277,672	659,988	346	(143,761)	174,937,770	
Total	\$ 290,921,384	(312,015)	516,135	9,641,688	4,012,182	4,124,644	25,764,350	274,890,380	

(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	For the three months ended March 31, 2019							Ending balance
	Beginning balance	Valuation gains (losses) reflected on profit or loss	Purchased/ Issued	Increase		Decrease		
				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	\$ 2,455,857	6,375	7,421,546	-	6,788,740	-	3,095,038	
Held-for-trading financial liabilities	2,902,821	(193,075)	1,742	-	53,672	-	2,657,816	
Total	\$ 5,358,678	(186,700)	7,423,288	-	6,842,412	-	5,752,854	

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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Name	For the three months ended March 31, 2018						Ending balance
	Beginning balance	Valuation gains (losses) reflected on profit or loss	Increase		Decrease		
			Purchased/ Issued	Transferred to Level 3	Sold/ Disposed/ Settled	Transferred from Level 3	
Financial liabilities measured at fair value through profit or loss							
Held-for-trading financial liabilities	\$ 2,423,559	(474,733)	991	-	180,873	-	1,768,944
Financial liabilities designated as at fair value through profit or loss	2,073,271	2,321	9,871,969	-	9,472,964	-	2,474,597
Total	<u>\$ 4,496,830</u>	<u>(472,412)</u>	<u>9,872,960</u>	<u>-</u>	<u>9,653,837</u>	<u>-</u>	<u>4,243,541</u>

Transfers into and out of Level 3 for the three month ended March 31, 2019 and 2018 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 \$396,118 and the unrealized losses \$244,426 for the three month ended March 31, 2019 and 2018, respectively.

For gains or losses on the valuation recognized as other comprehensive income, the changes in unrealized gains or losses were the unrealized gains of \$1,958,543 and \$404,576 for the three month ended March 31, 2019 and 2018, 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 (o) for details.

Because of the inability to measure the fair value reliably due to the significant unobservable inputs, quantitative information is not disclosed. The fair value of the aforementioned assets amounted to \$345,732,221, \$293,189,086 and \$268,077,079 as of March 31, 2019, December 31 and March 31, 2018.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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Quantitative information of Level 3 inputs of subsidiaries are as follows:

a) Taipei Fubon Bank

Name	March 31, 2019				
	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)\$	1,271,686	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	137,556	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 \$	27,107	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	(4,655)	Exotic FX option model	Scaling parameter	10%~90%	The higher the scaling parameter, the closer it is to stochastic volatility model. The inputs should be inspected regularly to ensure reasonable fair value.

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Name	March 31, 2019				
	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.

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Name	March 31, 2019				
	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) \$	1,359,691	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	139,566	Discounted cash flow	Real interest rate	5.9%	The lower the 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 \$	6,869	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	(858)	Exotic FX option model	Scaling parameter	10%~90%	The higher the scaling parameter, the closer it is to stochastic volatility model. The inputs should be inspected regularly to ensure reasonable fair value.

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b) Fubon Life Insurance

Name	Fair value	Valuation techniques	March 31, 2019		Relationship between inputs and fair value	
			Significant unobservable inputs	Intervals		
Financial assets measured at fair value through profit or loss	7,016,825	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%	The higher the non-controlling interest discount, the lower the fair value.	
			Market approach – comparable company	25%	The higher the discount for lack of marketability, the lower the fair value.	
			Income multiplier	1%	The higher the income multiplier, the higher the fair value.	
			P/E ratio	14%~20.7% (17.6%)	The higher the P/E ratio, the higher the fair value.	
			P/B ratio	1.7%~3.8% (2.75%)	The higher the P/B ratio, the higher the fair value.	
Financial assets measured at fair value through other comprehensive income	27,954,095	Black Derman Toy Model/Net asset value method	Discount rate	10.10%~15.83%	The higher the discount rate, the lower the fair value.	
			Asset-based Approach	Discount for lack of marketability	5%~70% (13.46%)	The higher the discount for lack of marketability, the lower the fair value.
			Non-controlling interest discount	5%~29.7% (21.35%)	The higher the non-controlling interest discount, the lower the fair value.	
			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	2.3%~2.6% (2.45%)	The higher the P/B ratio, the higher the fair value.	
			Discounted cash flow	Discount rate	1.97%~2.47%	The higher the discount rate, the lower the fair value.
			Credit spread	Not applicable	The higher the credit spread, the lower the fair value.	
			Prepayment rate	Not applicable	The higher the prepayment rate, the higher the fair value.	

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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%	The higher the non-controlling interest discount, the lower the fair value.	
			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%	The higher the income multiplier, the higher the fair value.	
			P/E ratio	14%~16.2% (15.1%)	The higher the P/E ratio, the higher the fair value.	
			P/B ratio	1.7%~3.5% (2.6%)	The higher the P/B ratio, 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.
Financial assets measured at fair value through other comprehensive income	28,089,189	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%)	The higher the non-controlling interest discount, the lower the fair value.	
			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%)	The higher the P/B ratio, the higher the fair value.	
			Discounted cash flow	Discount rate	Not applicable	The higher the discount rate, the lower the fair value.
			Credit spread	Not applicable	The higher the credit spread, the lower the fair value.	
			Prepayment rate	Not applicable	The higher the prepayment rate, the higher the fair value.	

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Name	Fair value	Valuation techniques	March 31, 2018		Relationship between inputs and fair value	
			Significant unobservable inputs	Intervals		
Financial assets measured at fair value through profit or loss	705,448	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%	The higher the non-controlling interest discount, the lower the fair value.	
			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%	The higher the income multiplier, the higher the fair value.
				P/E ratio	13.8%~22.4% (18.1%)	The higher the P/E ratio, the higher the fair value.
				P/B ratio	2.2%~3.5% (2.85%)	The higher the P/B ratio, the higher the fair value.
Financial assets measured at fair value through other comprehensive income	820,964	Asset-based Approach	Discount for lack of marketability	5%~70% (12.86%)	The higher the discount for lack of marketability, the lower the fair value.	
			Non-controlling interest discount	0%~29.7% (19.83%)	The higher the non-controlling interest discount, the lower the fair value.	
			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	2.6%~2.8% (2.7%)	The higher the P/B ratio, the higher the fair value.

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c) Fubon Securities

		March 31, 2019				
		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						
	Stock investment	\$ 42,000	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.
	Bond investment	\$ 212,164	Bloomberg BVAL valuation method	BVAL valuation score	Not applicable	The higher the BVAL score, the higher the fair value.
	Securities invested by brokers	294,043	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	2,312,747	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.
	Bond investment	156,063	Bloomberg BVAL valuation method	BVAL valuation score	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	3,095,038	Option pricing model	Volatility	1%~80%	The higher the volatility, the higher the fair value.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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		December 31, 2018				
		Fair value	Valuation techniques	Significant unobservable inputs	Intervals	Relationship between inputs and fair value
Recurring fair value measurement						
<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.
		March 31, 2018				
		Fair value	Valuation techniques	Significant unobservable inputs	Intervals	Relationship between inputs and fair value
Recurring fair value measurement						
<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	\$ 301,139	Bloomberg BVAL valuation method	BVAL valuation score	Not applicable	The higher the BVAL score, the higher the fair value.
Financial assets measured at fair value through other comprehensive income						
	Stock investment	1,720,343	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	2,474,597	Option pricing model	Volatility	1%~80%	The higher the volatility, the higher the fair value.

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

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

7) Valuation procedure of Level 3 inputs

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

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

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

a) Taipei Fubon Bank

Units : In thousands

<u>March 31, 2019</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 measured at fair value through profit or loss				
Financial assets mandatorily \$ measured at fair value through profit or loss	96	(54)	-	-
Financial assets measured at fair value through other comprehensive income	-	-	947	(944)

(Continued)

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

<u>March 31, 2019</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>	
Liabilities					
Financial liabilities measured at fair value through profit or loss					
Held-for-trading financial liabilities	78	(77)	-	-	
December 31, 2018					
<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 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)	-	-	
March 31, 2018					
<u>March 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 measured at fair value through profit or loss					
Financial assets mandatorily \$ measured at fair value through profit or loss	103	(61)	-	-	
Liabilities					
Financial liabilities measured at fair value through profit or loss					
Held-for-trading financial liabilities	66	(64)	-	-	

(Continued)

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

b) Fubon Life Insurance

<u>March 31, 2019</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	28,356	(28,446)
Financial assets measured at fair value through other comprehensive income	102,024	(101,978)
<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>March 31, 2019</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	\$ 54,821	(54,821)	-	-
Financial assets measured at fair value through other comprehensive income	-	-	246,880	(246,880)
Liabilities				
Financial liabilities designated as at fair value through profit or loss	309,504	(309,504)	-	-
<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)

(Continued)

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

<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>
Liabilities					
Financial liabilities designated as at fair value through profit or loss	\$ 245,586	(245,586)	-	-	
<u>March 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	\$ 30,114	(30,114)	-	-	
Financial assets measured at fair value through other comprehensive income	-	-	172,034	(172,034)	
Liabilities					
Financial liabilities designated as at fair value through profit or loss at initial recognition	247,760	(247,760)	-	-	

(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.

<u>Items</u>	<u>Book value</u>	<u>Fair value</u>
March 31, 2019		
Financial assets		
Debt investments measured at amortized cost	\$ 2,587,038,819	2,585,627,292
Financial liabilities		
Bonds payable	223,590,926	225,487,687

(Continued)

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

<u>Items</u>	<u>Book value</u>	<u>Fair value</u>
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
March 31, 2018		
Financial assets		
Debt investments measured at amortized cost	2,272,001,700	2,259,653,113
Financial liabilities		
Bonds payable	190,847,587	212,870,998

Note: Included government bonds accounted for refundable deposits.

2) Fair value hierarchy

<u>Financial instruments measured at fair value</u>	<u>Total</u>	<u>March 31, 2019</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Financial assets:				
Debt investments measured at amortized cost	\$ 2,585,627,292	1,074,459,049	1,129,768,666	381,399,577
Financial liabilities:				
Bonds payable	225,487,687	54,656,607	164,384,076	6,447,004
<u>Financial instruments measured at fair value</u>	<u>Total</u>	<u>December 31, 2018</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
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

Financial instruments measured at fair value	March 31, 2018			
	Total	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	\$ 2,259,653,113	932,939,565	993,694,701	333,018,847
Financial liabilities:				
Bonds payable	212,870,998	49,094,493	163,776,505	-

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 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.

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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	March 31, 2019			
	Unearned premium reserves		Ceded unearned premium reserves	
	Direct business	Reinsurance-assumed business	Reinsurance-ceded business	Retained business
Fire insurance	\$ 1,237,470	4,235	333,609	908,096
Marine cargo insurance	345,619	445	150,447	195,617
Marine hull fishing vessel	263,259	3,959	217,487	49,731
Voluntary motor insurance	7,773,399	220,685	386,816	7,607,268
Compulsory motor TPL insurance	2,111,406	705,040	1,262,025	1,554,421
Liability insurance	1,756,653	586	567,458	1,189,781
Engineering and nuclear insurance	1,149,442	22,102	606,373	565,171
Surety and credit insurance	104,055	680	66,704	38,031
Other property insurance	133,551	12	64,376	69,187
Accident insurance	2,806,221	12,541	32,096	2,786,666
Typhoon, flood and earthquake insurance	1,746,178	33,772	1,158,650	621,300
Personal and commercial multiple peril insurance	499,432	21	43,891	455,562
Health insurance	385,970	-	4,366	381,604
Overseas reinsurance assumed	-	224,441	31,369	193,072
Overseas subsidiaries	2,202,288	801,950	557,216	2,447,022
Total	\$ 22,514,943	2,030,469	5,482,883	19,062,529

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

Particular	December 31, 2018			
	Reserve for unearned premiums		Ceded unearned premium reserves	
	Direct business	Reinsurance-assumed business	Reinsurance-ceded business	Retained 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
Security 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	\$ 21,532,820	1,956,264	5,057,488	18,431,596

Particular	March 31, 2018			
	Unearned premium reserves		Ceded unearned premium reserves	
	Direct business	Reinsurance-assumed business	Reinsurance-ceded business	Retained business
	\$			
Fire insurance	1,288,632	5,570	327,339	966,863
Marine cargo insurance	344,776	188	140,572	204,392
Marine hull fishing vessel	271,350	216	209,982	61,584
Voluntary motor insurance	7,299,440	199,687	444,374	7,054,753
Compulsory motor TPL insurance	2,047,672	633,919	1,217,046	1,464,545
Liability insurance	1,623,350	306	532,748	1,090,908
Engineering and nuclear insurance	1,072,467	10,486	427,607	655,346
Security and credit insurance	95,573	659	65,114	31,118
Other property insurance	70,885	15	48,927	21,973
Accident insurance	2,633,904	11,145	33,653	2,611,396
Typhoon, flood and earthquake insurance	1,522,521	38,107	1,053,355	507,273
Personal and commercial multiple peril insurance	456,553	-	35,124	421,429
Health insurance	318,586	-	3,441	315,145
Overseas reinsurance assumed	-	254,458	23,775	230,683
Overseas subsidiaries	2,301,218	568,479	461,988	2,407,709
Total	\$ 21,346,927	1,723,235	5,025,045	18,045,117

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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- ii) The movements in unearned premium reserves and ceded unearned premium reserves were as follows:

Particular	For the three months ended March 31, 2019	
	Unearned premium reserves	Ceded unearned premium reserves
Beginning balance	\$ 23,489,084	5,057,488
Provision	24,547,859	5,547,515
Recovered	(23,489,084)	(5,057,488)
Other — effect of change in exchange rates	(2,447)	(64,632)
Ending balance	<u>\$ 24,545,412</u>	<u>5,482,883</u>

Particular	For the three months ended March 31, 2018	
	Unearned premium reserves	Ceded unearned premium reserves
Beginning balance	\$ 22,455,345	5,059,529
Provision	23,064,436	5,052,958
Recovered	(22,455,345)	(5,059,529)
Other — effect of change in exchange rates	5,726	(27,913)
Ending balance	<u>\$ 23,070,162</u>	<u>5,025,045</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 accordance to type of insurance. This method cannot be changed, unless approved by the Authority.

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

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.

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

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.

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.

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

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.

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.

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

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

Particular	For the three months ended March 31	
	2019	2018
Beginning balance	\$ 1,143,370	1,295,097
Provision	112,491	-
Recovered	(20,160)	(131,756)
Ending balance	\$ 1,235,701	1,163,341

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

Particular	For the three months ended March 31, 2019					
	Liability			Special Reserve		
	Catastrophe	Dangerous Change	Total	Catastrophe	Dangerous Change	Total
Beginning balance (same as ending balance)	\$ 315,455	5,488,187	5,803,642	2,403,482	4,955,470	7,358,952

Particular	For the three months ended March 31, 2018					
	Liability			Special Reserve		
	Catastrophe	Dangerous Change	Total	Catastrophe	Dangerous Change	Total
Beginning balance (same as ending balance)	\$ 315,455	5,786,493	6,101,948	2,054,146	4,361,011	6,415,157

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:

March 31, 2019					
Particular	Notes payable	Indemnity payments payable	Claim reserves		
	Reported and paid	Reported but unpaid	Unreported	Total	
	Fire insurance	\$ -	1,283	2,170,098	40,069
Marine cargo insurance	-	2,980	588,728	174,652	763,380
Marine hull fishing vessel	-	170	354,523	183,760	538,283
Voluntary motor insurance	-	79,049	3,625,492	869,766	4,495,258
Compulsory motor TPL insurance	-	25,930	656,358	2,922,952	3,579,310
Liability insurance	-	3,877	1,558,343	776,335	2,334,678
Engineering and Nuclear insurance	-	873	1,518,777	127,365	1,646,142
Surety and credit insurance	-	778	196,287	56,015	252,302
Other property insurance	-	7	47,546	47,518	95,064
Accident insurance	-	20,734	227,391	980,859	1,208,250
Typhoon, flood and earthquake insurance	-	283	420,215	217,107	637,322
Personal and commercial multiple peril insurance	-	1,128	33,704	106,146	139,850
Health insurance	-	2,334	22,802	96,096	118,898
Overseas reinsurance assumed	-	-	327,784	42,636	370,420
Overseas subsidiaries	-	6,791	1,018,048	721,179	1,739,227
Total	\$ -	146,217	12,766,096	7,362,455	20,128,551

December 31, 2018					
Particular	Notes payable	Indemnity payments payable	Claim reserves		
	Reported and paid	Reported but unpaid	Unreported	Item	
	Fire insurance	\$ -	5,968	1,939,557	40,362
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	\$ -	56,891	13,207,820	7,234,128	20,441,948

(Continued)

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

March 31, 2018					
Particular	Notes payable	Indemnity payments payable	Claim reserves		
	Reported and paid	Reported but unpaid	Unreported	Total	
	\$ -	641	1,770,016	66,649	1,836,665
Marine cargo insurance	-	554	1,125,316	201,081	1,326,397
Marine hull fishing vessel	-	63	374,726	216,611	591,337
Voluntary motor insurance	-	32,236	3,334,146	825,155	4,159,301
Compulsory motor TPL insurance	-	10,572	820,097	2,569,490	3,389,587
Liability insurance	-	7,000	1,830,695	792,450	2,623,145
Engineering and Nuclear insurance	-	429	1,454,631	64,952	1,519,583
Surety and credit insurance	-	(7)	157,382	65,013	222,395
Other property insurance	-	552	40,292	14,864	55,156
Accident insurance	-	6,741	151,385	889,991	1,041,376
Typhoon, flood and earthquake insurance	-	297	1,151,189	232,970	1,384,159
Personal and commercial multiple peril insurance	-	187	22,421	96,810	119,231
Health insurance	-	724	6,228	72,611	78,839
Overseas reinsurance assumed	-	-	347,462	54,513	401,975
Overseas subsidiaries	-	36,913	1,197,463	711,025	1,908,488
Total	\$ -	96,902	13,783,449	6,874,185	20,657,634

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

March 31, 2019			
Particular	Reported but unpaid	Unreported	Total
Fire insurance	\$ 961,122	15,413	976,535
Marine cargo insurance	214,741	75,739	290,480
Marine hull fishing vessel	286,547	158,464	445,011
Voluntary motor insurance	160,896	28,213	189,109
Compulsory motor TPL insurance	199,538	1,389,117	1,588,655
Liability insurance	576,003	272,199	848,202
Engineering and Nuclear insurance	929,334	56,602	985,936
Surety and credit insurance	138,745	44,956	183,701
Other property insurance	11,136	33,162	44,298
Accident insurance	8	4,306	4,314
Typhoon, flood and earthquake insurance	325,036	163,957	488,993
Personal and commercial multiple peril insurance	331	7,818	8,149
Health insurance	-	1,111	1,111
Overseas reinsurance assumed	21,741	3,122	24,863
Overseas subsidiaries	156,274	201,417	357,691
Less: Accumulated impairment	(99)	-	(99)
Total	\$ 3,981,353	2,455,596	6,436,949

(Continued)

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

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	March 31, 2018		
	Reported but unpaid	Unreported	Total
Fire insurance	\$ 774,121	15,657	789,778
Marine cargo insurance	818,683	76,108	894,791
Marine hull fishing vessel	305,214	192,630	497,844
Voluntary motor insurance	163,824	26,705	190,529
Compulsory motor TPL insurance	319,051	1,199,729	1,518,780
Liability insurance	682,813	294,513	977,326
Engineering and Nuclear insurance	718,738	34,920	753,658
Surety and credit insurance	94,529	52,359	146,888
Other property insurance	2,697	9,888	12,585
Accident insurance	29	5,384	5,413
Typhoon, flood and earthquake insurance	816,095	164,385	980,480
Personal and commercial multiple peril insurance	443	7,060	7,503
Health insurance	-	835	835
Overseas reinsurance assumed	52,957	10,265	63,222
Overseas subsidiaries	349,221	171,520	520,741
Less: Accumulated impairment	(110)	(5)	(115)
Total	\$ 5,098,305	2,261,953	7,360,258

Reserves above were expressed in net amount and the estimated accumulated impairment losses amounted to \$99, \$99 and \$115 as of March 31, 2019, December 31 and March 31, 2018, respectively.

(Continued)

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

iii) Movements in claim reserves and ceded claim reserves

Particular	For the three months ended March 31, 2019	
	Claim reserves	Ceded claim reserves
Beginning balance	\$ 20,441,948	6,785,893
Provision	20,129,778	6,467,721
Recovered	(20,441,948)	(6,785,992)
Other — effect of change in exchange rates	(1,227)	(30,673)
Ending Balance	<u>\$ 20,128,551</u>	<u>6,436,949</u>

Particular	For the three months ended March 31, 2019	
	Claim reserves	Ceded claim reserves
Beginning balance	\$ 20,743,674	7,473,181
Provision	20,655,656	7,377,489
Recovered	(20,743,674)	(7,473,296)
Other — effect of change in exchange rates	1,978	(17,116)
Ending balance	<u>\$ 20,657,634</u>	<u>7,360,258</u>

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

Particular	For the three months ended March 31	
	2019	2018
Fire insurance	\$ 9,428	811
Marine cargo insurance	10,830	22,417
Marine hull fishing vessel	-	-
Voluntary motor insurance	123,222	107,537
Compulsory motor TPL insurance	40,614	39,444
Liability insurance	6,617	11,625
Engineering and Nuclear insurance	80	264
Surety and credit insurance	3,578	4,550
Other property insurance	60	20
Accident insurance	307	153
Personal and commercial multiple peril insurance	25	446
Typhoon, flood and earthquake insurance	-	45
Health insurance	-	-
Overseas reinsurance assumed	-	-
Overseas subsidiaries	2,703	-
Total	<u>\$ 197,464</u>	<u>187,312</u>

(Continued)

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

Claim reserves are provided to conform the “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” amended by Financial Supervisory Commission, Executive Yuan, Jin Guan Bao Tsai No.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.

- 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	For the three months ended March 31			
	2019		2018	
	Liability reserve	Ceded liability reserve	Liability reserve	Ceded liability reserve
Beginning balance	\$ 77,049	-	143,764	-
Provision	192	-	290	-
Maturity refund	(13,215)	-	(18,421)	-
Ending balance	\$ 64,026	-	125,633	-

(Continued)

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

- e) Premium deficiency reserve
i) Premium deficiency reserve

<u>Particular</u>	<u>March 31, 2019</u>			
	<u>Premium deficiency reserve</u>		<u>Ceded</u>	<u>Retained</u>
	<u>Direct</u>	<u>Reinsurance</u>	<u>premium</u>	
	<u>business</u>	<u>-assumed</u>	<u>deficiency</u>	<u>business</u>
	<u>business</u>	<u>business</u>	<u>reserve</u>	<u>business</u>
	<u>business</u>	<u>business</u>	<u>Reinsuranc</u>	<u>business</u>
	<u>business</u>	<u>business</u>	<u>e-ceded</u>	<u>business</u>
	<u>business</u>	<u>business</u>	<u>business</u>	<u>business</u>
Fire insurance	\$ 57,541	-	-	57,541
Marine cargo insurance	4,098	-	-	4,098
Marine hull fishing vessel	8,996	48	-	9,044
Voluntary motor insurance	-	-	-	-
Compulsory motor TPL insurance	-	-	-	-
Liability insurance	-	-	-	-
Engineering and Nuclear insurance	25,698	-	-	25,698
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	141,635	579,987	648,899	72,723
Total	\$ 237,968	580,035	648,899	169,104

(Continued)

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

Particular	December 31, 2018			
	Premium deficiency reserve		Ceded premium deficiency reserve	
	Direct business	Reinsurance -assumed business	Reinsuranc e-ceded business	Retained 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	\$ 227,627	586,043	651,387	162,283

(Continued)

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

Particular	March 31, 2018			
	Premium deficiency reserve		Ceded premium deficiency reserve	
	Direct business	Reinsurance -assumed business	Reinsuranc e-ceded business	Retained business
	Direct business	Reinsurance -assumed business	Reinsuranc e-ceded business	Retained business
Fire insurance	\$ 49,363	-	-	49,363
Marine cargo insurance	4,135	-	-	4,135
Marine hull fishing vessel	15,615	17	1,497	14,135
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	1,924	-	-	1,924
Personal and commercial multiple peril insurance	-	-	-	-
Health insurance	-	-	-	-
Overseas reinsurance assumed	-	-	-	-
Overseas subsidiaries	143,598	478,757	566,981	55,374
Total	\$ 214,635	478,774	568,478	124,931

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

Particular	For the three months ended March 31, 2019									
	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	deficiency	Provision	Recovered	reserve	reserve	
Fire insurance	\$ 57,541	54,961	-	-	2,580	-	-	-	2,580	
Marine cargo insurance	4,098	4,142	-	-	(44)	-	-	-	(44)	
Marine hull fishing vessel	8,996	7,809	48	32	1,203	-	-	-	1,203	
Voluntary motor insurance	-	-	-	-	-	-	-	-	-	
Compulsory motor TPL insurance	-	-	-	-	-	-	-	-	-	
Liability insurance	-	-	-	-	-	-	-	-	-	
Engineering and Nuclear insurance	25,698	24,418	-	-	1,280	-	-	-	1,280	
Surety and credit insurance	-	-	-	-	-	-	-	-	-	
Other property insurance	-	-	-	-	-	-	-	-	-	
Accident insurance	-	-	-	-	-	-	-	-	-	
Personal and commercial multiple peril insurance	-	-	-	-	-	-	-	-	-	
Typhoon, flood and earthquake insurance	-	-	-	-	-	-	-	-	-	
Health insurance	-	-	-	-	-	-	-	-	-	
Overseas reinsurance assumed	-	-	-	-	-	-	-	-	-	
Overseas subsidiaries	141,723	138,162	580,645	597,478	(13,272)	649,635	664,134	(14,499)	1,227	
Other—effect of change in exchange rates	(88)	(1,865)	(658)	(11,467)	12,586	(231)	(13,539)	13,308	(722)	
Total	\$ 237,968	227,627	580,035	586,043	4,333	649,404	650,595	(1,191)	5,524	

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

For the three months ended March 31, 2018									
Particular	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	\$ 49,363	50,620	-	-	(1,257)	-	-	-	(1,257)
Marine cargo insurance	4,135	4,066	-	-	69	-	-	-	69
Marine hull fishing vessel	15,615	11,524	17	65	4,043	1,497	1,938	(441)	4,484
Voluntary motor insurance	-	-	-	-	-	-	-	-	-
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	1,924	1,816	-	-	108	-	-	-	108
Health insurance	-	-	-	-	-	-	-	-	-
Overseas reinsurance assumed	-	-	-	53	(53)	-	-	-	(53)
Overseas subsidiaries	143,349	134,438	477,357	402,331	83,937	565,473	483,723	81,750	2,187
Other—effect of change in exchange rates	249	1,467	1,400	6,354	(6,172)	1,714	7,641	(5,927)	(245)
Total	<u>\$ 214,635</u>	<u>203,931</u>	<u>478,774</u>	<u>408,803</u>	<u>80,675</u>	<u>568,684</u>	<u>493,302</u>	<u>75,382</u>	<u>5,293</u>

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

Particular	For the three months ended March 31, 2019	
	Premium deficiency reserve	Ceded premium deficiency reserve
Beginning balance	\$ 813,670	651,387
Provision	818,749	650,942
Recovered	(813,670)	(651,387)
Other—effect of change in exchange rates	(746)	(2,043)
Ending balance	<u>\$ 818,003</u>	<u>648,899</u>

(Continued)

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

Particular	For the three months ended March 31, 2018	
	Premium deficiency reserve	Ceded premium deficiency reserve
Beginning balance	\$ 612,734	493,301
Provision	691,760	567,034
Recovered	(612,734)	(493,301)
Other — effect of change in exchange rates	1,649	1,444
Ending balance	<u>\$ 693,409</u>	<u>568,478</u>

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.

(Continued)

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

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.
- 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.

(Continued)

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

4. Risk Management Department
 - a. Responsible for monitoring, measuring, and revaluing daily risks.
 - b. Assist the execution / implementation of risk management policies approved by the Board of Directors.
 - c. Set up the risk tolerance level and the limitations based on the risk appetite.
 - d. Summarize the relative information provided by each unit, and help each unit follow the policies and the limits.
 - e. Regular propose risk management related reports.
 - f. Regularly monitor the risk limits and the utilization of risk limits of respective business unit.
 - g. Assist in carrying out the stress test.
 - h. If necessary, proceed the back testing.
 - i. Other risk management related duties.
5. Business Units
 - a. 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.

(Continued)

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

- 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.

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. They also establish 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.

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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.

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

Test Hypothesis

Particular	For the three months ended March 31, 2019						
	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	\$ 545,727	63.0%	6,641	3,007	5,313	2,406	
Marine cargo insurance	343,962	61.5%	2,802	1,502	2,242	1,202	
Marine hull fishing vessel	199,020	72.1%	1,775	187	1,420	150	
Voluntary motor insurance	4,033,015	66.7%	35,988	34,932	28,790	27,946	
Compulsory motor TPL insurance	1,464,908	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	
Liability insurance	872,826	68.2%	7,745	5,182	6,196	4,146	
Engineering and Nuclear insurance	519,903	60.8%	3,038	1,236	2,430	989	
Surety and credit insurance	61,389	69.0%	664	163	531	130	
Other property insurance	216,605	66.3%	1,764	461	1,411	369	
Accident insurance	1,439,742	70.6%	13,555	13,411	10,844	10,729	
Typhoon, flood and earthquake insurance	1,005,539	73.9%	8,662	1,987	6,930	1,590	
Personal and commercial multiple peril insurance	270,948	68.2%	2,585	2,382	2,068	1,906	
Health insurance	277,794	63.8%	2,334	2,307	1,867	1,846	
Overseas reinsurance assumed	120,576	64.7%	1,297	1,105	1,038	884	
Overseas subsidiaries	1,058,675	65.8%	11,864	9,806	9,491	7,845	

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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For the three months ended March 31, 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	\$ 539,758	62.6%	6,944	3,103	5,555	2,483	
Marine cargo insurance	335,738	61.5%	2,591	1,556	2,073	1,245	
Marine hull fishing vessel	189,277	71.6%	1,752	145	1,401	116	
Voluntary motor insurance	3,791,083	66.4%	33,623	32,266	26,898	25,813	
Compulsory motor TPL insurance	1,404,003	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Liability insurance	971,183	68.2%	8,442	5,120	6,753	4,096	
Engineering and Nuclear insurance	323,662	60.5%	2,776	1,305	2,221	1,044	
Surety and credit insurance	45,369	69.1%	660	169	528	135	
Other property insurance	52,993	66.7%	350	109	280	87	
Accident insurance	1,351,874	71.0%	12,301	12,171	9,840	9,737	
Typhoon, flood and earthquake insurance	909,289	73.3%	9,919	1,867	7,935	1,493	
Personal and commercial multiple peril insurance	272,930	68.2%	2,258	2,109	1,807	1,687	
Health insurance	222,874	63.5%	1,771	1,753	1,417	1,403	
Overseas reinsurance assumed	115,983	64.8%	2,033	1,881	1,627	1,505	
Overseas subsidiaries	1,172,566	65.6%	12,679	9,729	10,143	7,783	

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 32.4% and 32.3% of all insurances for the three months ended March 31, 2019 and 2018, respectively. Although its proportion is higher than the others, its loss experience is stable and the variance is small. There is no risk concentration in other types of insurance.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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The proportion of underwriting and inward reinsurance premiums is as follows:

Insurance type	For the three months ended March 31			
	2019		2018	
	Amount	%	Amount	%
Fire insurance	\$ 545,727	4.4 %	539,758	4.6 %
Marine cargo insurance	343,962	2.8 %	335,738	2.9 %
Marine hull fishing vessel	199,020	1.6 %	189,277	1.6 %
Voluntary motor insurance	4,033,015	32.4 %	3,791,083	32.3 %
Compulsory motor TPL insurance	1,464,908	11.8 %	1,404,003	12.0 %
Liability insurance	872,826	7.0 %	971,183	8.3 %
Engineering and nuclear insurance	519,903	4.2 %	323,662	2.8 %
Surety and credit insurance	61,389	0.5 %	45,369	0.4 %
Other property insurance	216,605	1.7 %	52,993	0.5 %
Accident insurance	1,439,742	11.6 %	1,351,874	11.6 %
Typhoon, flood and earthquake insurance	1,005,539	8.1 %	909,289	7.8 %
Personal and commercial multiple peril insurance	270,948	2.2 %	272,930	2.3 %
Health insurance	277,794	2.2 %	222,874	1.9 %
Foreign business	120,576	1.0 %	115,983	1.0 %
Overseas subsidiaries	<u>1,058,675</u>	<u>8.5 %</u>	<u>1,172,566</u>	<u>10.0 %</u>
Total	<u>\$ 12,430,629</u>	<u>100.0 %</u>	<u>11,698,582</u>	<u>100.0 %</u>

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 41.3% and 40.2% for the three month ended March 31, 2019 and 2018, respectively. Fubon Insurance and its subsidiaries consider the loss of voluntary motor insurance to be stable, and therefore, retain all the reinsurance. For other insurances, Fubon Insurance and its subsidiaries evaluate the possibility of significant accumulated losses and arrange the appropriate reinsurance contracts to diversify the risk. Therefore, there is no risk concentration.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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In addition, the insurance which is likely to result in significant accumulated loss is catastrophe insurance (for example, earthquake, typhoon and flood), and insurances that are likely to result in 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	For the three months ended March 31			
	2019		2018	
	Amount	%	Amount	%
Fire insurance	\$ 300,403	3.2 %	271,119	3.1 %
Marine cargo insurance	157,293	1.7 %	164,421	1.9 %
Marine hull fishing vessel	23,849	0.3 %	35,738	0.4 %
Voluntary motor insurance	3,831,626	41.3 %	3,558,506	40.2 %
Compulsory motor TPL insurance	943,613	10.2 %	899,036	10.2 %
Liability insurance	577,597	6.2 %	622,255	7.1 %
Engineering and nuclear insurance	154,110	1.7 %	156,662	1.8 %
Surety and credit insurance	26,877	0.3 %	17,428	0.2 %
Other property insurance	84,082	0.9 %	14,975	0.2 %
Accident insurance	1,421,093	15.4 %	1,327,994	15.0 %
Typhoon, flood and earthquake insurance	238,718	2.6 %	203,101	2.3 %
Personal and commercial multiple peril insurance	258,297	2.8 %	236,633	2.7 %
Health insurance	274,997	3.0 %	220,612	2.5 %
Foreign business	108,958	1.2 %	94,671	1.1 %
Overseas subsidiaries	852,564	9.2 %	999,236	11.3 %
Total	\$ 9,254,077	100.0 %	8,822,387	100.0 %

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iii) Claim development trend:

1. Sum of accumulated and reported claims

Occurrence year	March 31, 2019					
	≤2014	2015	2016	2017	2018	2019
At the end of occurrence year	-	22,609,249	31,961,162	24,494,090	25,734,469	7,573,567
The first year	-	20,624,704	29,670,155	22,699,914	24,494,115	-
The second year	-	20,659,058	29,225,988	22,283,428	-	-
The third year	-	20,532,911	29,100,865	-	-	-
The fourth year	-	20,430,574	-	-	-	-
Estimation of accumulated claims	-	20,430,574	29,100,865	22,283,428	24,494,115	7,573,567
Accumulated claims paid	-	19,926,829	28,016,687	19,333,117	16,635,264	1,310,564
Subtotal	1,289,794	503,745	1,084,178	2,950,311	7,858,851	6,263,003
Reconciliations (Note)						346,573
Consolidated write-offs						(167,904)
Total amount recognized in balance sheet						20,128,551

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 fourth 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

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Occurrence year	March 31, 2018					
	≤2013	2014	2015	2016	2017	2018
At the end of occurrence year	-	20,901,661	22,633,321	32,003,932	24,522,596	7,070,588
The first year	-	18,779,400	20,647,217	29,708,528	23,488,403	-
The second year	-	18,588,389	20,682,005	29,379,054	-	-
The third year	-	18,395,832	20,612,392	-	-	-
The fourth year	-	18,320,356	-	-	-	-
Estimation of accumulated claims	-	18,320,356	20,612,392	29,379,054	23,448,403	7,070,588
Accumulated claims paid	-	17,501,851	19,340,151	25,883,751	15,318,400	1,235,778
Subtotal	829,357	818,505	1,272,241	3,495,303	8,130,003	5,834,810
Reconciliations (Note)						346,439
Consolidated write-offs						(69,024)
Total amount recognized in balance sheet						20,657,634

Note: Reconciliations are indistributable paid off claims.

2. Sum of accumulated and reported claims, net

Occurrence year	March 31, 2019					
	≤2014	2015	2016	2017	2018	2019
At the end of occurrence year	-	16,648,942	18,345,133	19,118,277	20,013,831	5,770,562
The first year	-	15,614,132	17,396,997	17,890,882	19,332,665	-
The second year	-	15,576,544	17,350,424	17,634,366	-	-
The third year	-	15,496,798	17,265,069	-	-	-
The fourth year	-	15,463,965	-	-	-	-
Estimation of accumulated claims	-	15,463,965	17,265,069	17,634,366	19,332,665	5,770,562
Accumulated claims paid	-	15,177,941	16,640,979	15,876,193	14,022,315	1,095,913
Subtotal	691,644	286,024	624,090	1,758,173	5,310,350	4,674,649
Reconciliations (Note)						346,672
Total amount recognized in balance sheet						13,691,602

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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 fourth 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	March 31, 2018					
	≤2013	2014	2015	2016	2017	2018
At the end of occurrence year	-	15,535,674	16,674,099	18,376,787	19,151,751	5,342,123
The first year	-	14,096,190	15,636,161	17,424,539	18,531,854	-
The second year	-	14,116,903	15,598,971	17,234,954	-	-
The third year	-	13,997,360	15,527,896	-	-	-
The fourth year	-	13,985,397	-	-	-	-
Estimate of cumulative claims incurred	-	13,985,398	15,527,896	17,234,954	18,531,854	5,342,123
Accumulated claims paid	-	13,657,909	14,882,577	15,831,770	12,896,994	1,011,955
Subtotal	609,802	327,489	645,319	1,403,184	5,634,860	4,330,168
Reconciliations (Note)						346,554
Total amount recognized in balance sheet						13,297,376

Note: Reconciliations are indistributable paid off claims.

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.

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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 March 31, 2019, the major unqualified reinsurance counterparties are listed below:
 - a. AIG EUROPE LIMITED: The facultative reinsurance of engineering insurance.
 - b. TRUST INTERNATIONAL INSURANCE AND REINSURANCE CO. B.S.C. (C)TRUST RE, LABUAN: 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. BRIGHTSTAR RE. LTD.: The facultative reinsurance of new types of insurance.
 - f. EMIRATES RETAKAFUL LIMITED: The facultative reinsurance of engineering insurance.
 - g. PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED: The facultative reinsurance of personal fire insurance.

2. As of December 31, 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.

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- 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.
3. As of March 31, 2018, the major unqualified reinsurance counterparties are listed below:
- a. AIG EUROPE LIMITED: The facultative reinsurance of engineering insurance.
 - b. MILLI REASURANS T.A.S. (SINGAPORE BRANCH): The facultative reinsurance of fire insurance.
 - c. SCHWARZMEER UND OSTSEE VERS-AG SOVAG (UK BRANCH): The facultative reinsurance of commercial fire insurance.
 - d. TUGU INSURANCE CO., LTD.: The facultative reinsurance of marine insurance.
 - e. ALLIANZ C.P. GENERAL INSURANCE COMPANY LIMITED: The facultative reinsurance of new type of insurance.
 - f. RESOLUTE MANAGEMENT SERVICES LIMITED: The facultative reinsurance of engineering insurance.
 - g. PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED: The facultative reinsurance of personal fire insurance.
4. For the three months ended March 31, 2019 and 2018, the unauthorized reinsurance expenses amounted to \$18,984 and \$7,217, respectively.

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5. As of March 31, 2019, December 31 and March 31, 2018, the reserve for unauthorized reinsurance amounted to \$259,557, \$301,880 and \$197,698, respectively. The components of this account include: (a) the unearned premium reserve of \$80,994, \$77,262 and \$34,064, respectively. (b) the claims recoverable from reinsurers of paid claims overdue in nine month amounted to \$102,641, \$123,953 and \$40,100, respectively. (c) the claims recoverable from reinsurers which were reported but unpaid amounted to \$75,922, \$100,665 and \$123,534, 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.

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.

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(ii) Fubon Life Insurance and its subsidiaries

1) Various reserves

a) Unearned premium reserves

	March 31, 2019		
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance	\$ 5,486	-	5,486
Individual injury insurance	3,622,799	-	3,622,799
Individual health insurance	3,394,634	-	3,394,634
Group insurance	1,791,469	-	1,791,469
Investment-linked insurance	103,489	-	103,489
Gross reserve	<u>8,917,877</u>	<u>-</u>	<u>8,917,877</u>
Deduction of provision for reinsurance ceded			
Individual life insurance	692,184	-	692,184
Individual injury insurance	20,436	-	20,436
Individual health insurance	21,452	-	21,452
Group insurance	98,480	-	98,480
Investment-linked insurance	10,989	-	10,989
Total ceded reserve	<u>843,541</u>	<u>-</u>	<u>843,541</u>
Net reserve	<u>\$ 8,074,336</u>	<u>-</u>	<u>8,074,336</u>
	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>

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	March 31, 2018		
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance	\$ 1,989	-	1,989
Individual injury insurance	3,217,744	-	3,217,744
Individual health insurance	3,437,637	-	3,437,637
Group insurance	1,635,089	-	1,635,089
Investment-linked insurance	103,339	-	103,339
Gross reserve	<u>8,395,798</u>	<u>-</u>	<u>8,395,798</u>
Deduction of provision for reinsurance ceded			
Individual life insurance	475,700	-	475,700
Individual injury insurance	20,346	-	20,346
Individual health insurance	2,496	-	2,496
Group insurance	83,509	-	83,509
Investment-linked insurance	11,240	-	11,240
Total ceded reserve	<u>593,291</u>	<u>-</u>	<u>593,291</u>
Net reserve	<u>\$ 7,802,507</u>	<u>-</u>	<u>7,802,507</u>

The movements in unearned premium reserves were as follows:

	For the three months ended March 31, 2019		
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 8,769,522	-	8,769,522
Current provisions	8,797,939	-	8,797,939
Current reclaims	(8,648,020)	-	(8,648,020)
Gain and loss on foreign exchange	(1,564)	-	(1,564)
Ending balance	<u>8,917,877</u>	<u>-</u>	<u>8,917,877</u>
Deduction of provision for ceded reinsurance			
Beginning balance	827,376	-	827,376
Current provisions	808,941	-	808,941
Current reclaims	(792,401)	-	(792,401)
Gain and loss on foreign exchange	(375)	-	(375)
Ending balance	<u>843,541</u>	<u>-</u>	<u>843,541</u>
Net ending balance	<u>\$ 8,074,336</u>	<u>-</u>	<u>8,074,336</u>

(Continued)

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

	For the three months ended March 31, 2018		
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 8,290,265	-	8,290,265
Current provisions	8,395,844	-	8,395,844
Current reclaims	(8,290,265)	-	(8,290,265)
Gain and loss on foreign exchange	(46)	-	(46)
Ending balance	8,395,798	-	8,395,798
Deduction of provision for ceded reinsurance			
Beginning balance	568,381	-	568,381
Current provisions	593,305	-	593,305
Current reclaims	(568,381)	-	(568,381)
Gain and loss on foreign exchange	(14)	-	(14)
Ending balance	593,291	-	593,291
Net ending balance	\$ 7,802,507	-	7,802,507

(Continued)

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

b) Claim reserves

	March 31, 2019		
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance			
— Reported but not paid	\$ 2,946,897	12,350	2,959,247
— Incurred but not reported	299,765	-	299,765
Individual injury insurance			
— Reported but not paid	142,995	-	142,995
— Incurred but not reported	496,271	-	496,271
Individual health insurance			
— Reported but not paid	492,570	-	492,570
— Incurred but not reported	956,457	-	956,457
Group insurance			
— Reported but not paid	80,724	-	80,724
— Incurred but not reported	425,692	-	425,692
Investment-linked insurance			
— Reported but not paid	69,405	-	69,405
— Incurred but not reported	49,608	-	49,608
Total reserve	<u>5,960,384</u>	<u>12,350</u>	<u>5,972,734</u>
Deduction of provision for reinsurance ceded			
Individual life insurance	167,595	-	167,595
Individual injury insurance	34,730	-	34,730
Individual health insurance	54,526	-	54,526
Group insurance	6,713	-	6,713
Investment-linked insurance	8,063	-	8,063
Total ceded reserve	<u>271,627</u>	<u>-</u>	<u>271,627</u>
Net reserve	<u>\$ 5,688,757</u>	<u>12,350</u>	<u>5,701,107</u>

(Continued)

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

	December 31, 2018		
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance			
— Reported but unpaid	\$ 2,511,767	1,353	2,513,120
— Incurred but not reported	299,982	-	299,982
Individual injury insurance			
— Report but unpaid	155,415	-	155,415
— Incurred but not reported	504,174	-	504,174
Individual health insurance			
— Reported but unpaid	473,151	-	473,151
— Incurred but not reported	985,558	-	985,558
Group insurance			
— Reported but unpaid	77,457	-	77,457
— Incurred but not reported	437,664	-	437,664
Investment-linked insurance			
— Reported but unpaid	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>\$ 5,326,505</u>	<u>1,353</u>	<u>5,327,858</u>

(Continued)

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

	March 31, 2018		
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance			
— Reported but not paid	\$ 352,076	1,946	354,022
— Incurred but not reported	3,648	-	3,648
Individual injury insurance			
— Report but not paid	81,165	-	81,165
— Incurred but not reported	347,522	-	347,522
Individual health insurance			
— Reported but not paid	171,821	-	171,821
— Incurred but not reported	570,733	-	570,733
Group insurance			
— Reported but not paid	64,420	-	64,420
— Incurred but not reported	357,243	-	357,243
Investment-linked insurance			
— Reported but not paid	76,880	-	76,880
— Incurred but not reported	67,654	-	67,654
Total reserve	<u>2,093,162</u>	<u>1,946</u>	<u>2,095,108</u>
Deduction of provision for reinsurance ceded			
Individual life insurance	21,572	-	21,572
Individual injury insurance	33,567	-	33,567
Individual health insurance	2	-	2
Group insurance	4,935	-	4,935
Investment-linked insurance	19,107	-	19,107
Total ceded reserve	<u>79,183</u>	<u>-</u>	<u>79,183</u>
Net reserve	<u>\$ 2,013,979</u>	<u>1,946</u>	<u>2,015,925</u>

(Continued)

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

The movements in claims reserve were as follows:

	For the three months ended March 31, 2019		
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 5,571,037	1,353	5,572,390
Current provisions	2,862,852	12,350	2,875,202
Current reclaims	(2,436,358)	(1,353)	(2,437,711)
Gain and loss on foreign exchange	(37,147)	-	(37,147)
Ending balance	5,960,384	12,350	5,972,734
Deduction of provision for ceded reinsurance			
Beginning balance	244,532	-	244,532
Current provisions	91,888	-	91,888
Current reclaims	(62,644)	-	(62,644)
Gain and loss on foreign exchange	(2,149)	-	(2,149)
Ending balance	271,627	-	271,627
Net ending balance	\$ 5,688,757	12,350	5,701,107

(Continued)

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

	For the three months ended March 31, 2018		
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 2,359,925	2,348	2,362,273
Current provisions	2,093,421	1,946	2,095,367
Current reclaims	(2,359,925)	(2,348)	(2,362,273)
Gain and loss on foreign exchange	(259)	-	(259)
Ending balance	2,093,162	1,946	2,095,108
Deduction of provision for ceded reinsurance			
Beginning balance	122,918	-	122,918
Current provisions	79,183	-	79,183
Current reclaims	(122,918)	-	(122,918)
Ending balance	79,183	-	79,183
Net ending balance	\$ 2,013,979	1,946	2,015,925

c) Liability reserve:

	March 31, 2019		
	Insurance contracts	Financial instruments with discretionary participation	Total
Life insurance	\$ 3,147,292,380	-	3,147,292,380
Injury insurance	1,501,506	-	1,501,506
Health insurance	291,149,742	-	291,149,742
Annuity insurance	70,241,001	138,613,178	208,854,179
Investment-linked insurance	119,398	-	119,398
Total (Note 1)	3,510,304,027	138,613,178	3,648,917,205
Deduction of liability reserve ceded			
Life insurance	2,262	-	2,262
Net reserve (Note 1)	\$ 3,510,301,765	138,613,178	3,648,914,943

Note 1: As of March 31, 2019, liability reserve amounted to \$3,649,121,319 after adding the “liability reserve— payment for pending policyholders”, amounted to \$3,649,119,057 after subtracting the liability reserve ceded.

(Continued)

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

	December 31, 2018		
	Insurance contracts	Financial instruments with discretionary participation	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 2)	<u>3,431,287,933</u>	<u>138,958,769</u>	<u>3,570,246,702</u>
Deduction of liability reserve ceded			
Life insurance	1,791	-	1,791
Net reserve (Note 2)	<u>\$ 3,431,286,142</u>	<u>138,958,769</u>	<u>3,570,244,911</u>

Note 2: As of December 31, 2018, liability reserve amounted to \$3,570,457,096 after adding the “liability reserve – payment for pending policyholders”.

	March 31, 2018		
	Insurance contracts	Financial instruments with discretionary participation	Total
Life insurance	\$ 2,762,760,357	-	2,762,760,357
Injury insurance	704,211	-	704,211
Health insurance	251,124,047	-	251,124,047
Annuity insurance	1,236,106	144,780,589	146,016,695
Investment-linked insurance	121,218	-	121,218
Total (Note 3)	<u>3,015,945,939</u>	<u>144,780,589</u>	<u>3,160,726,528</u>
Deduction of liability reserve ceded			
Life insurance	813	-	813
Net reserve (Note 3)	<u>\$ 3,015,945,126</u>	<u>144,780,589</u>	<u>3,160,725,715</u>

Note 3: As of March 31, 2018, liability reserve amounted to \$3,160,776,437 after adding the “liability reserve – payment for pending policyholders”, amounted to \$3,160,775,624 after subtracting the liability reserve ceded.

(Continued)

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

d) Special reserves

March 31, 2019				
	Insurance contracts	Financial instruments with discretionary participation	Others	Total
Dividend provision for participation policies	\$ 9,023,150	-	-	9,023,150
Valuation surplus gain for investment property	-	-	652,267	652,267
Total	\$ 9,023,150	-	652,267	9,675,417
December 31, 2018				
	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	\$ 8,220,920	-	652,267	8,873,187
March 31, 2018				
	Insurance contracts	Financial instruments with discretionary participation	Others	Total
Dividend provision for participation policies	\$ 7,387,886	-	-	7,387,886
Valuation surplus gain for investment property	-	-	652,267	652,267
Total	\$ 7,387,886	-	652,267	8,040,153

(Continued)

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

The movements in special reserves were as follows:

	For the three months ended March 31, 2019			
	Insurance contracts	Financial instruments with discretionary participation	Others	Total
Beginning balance	\$ 8,220,920	-	652,267	8,873,187
Provision for dividend provision for participating policies	804,984	-	-	804,984
Gain and loss on foreign exchange	(2,754)	-	-	(2,754)
Ending balance	<u>\$ 9,023,150</u>	<u>-</u>	<u>652,267</u>	<u>9,675,417</u>

	For the three months ended March 31, 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	136,800	-	-	136,800
Gain and loss on foreign exchange	(69)	-	-	(69)
Ending balance	<u>\$ 7,387,886</u>	<u>-</u>	<u>652,267</u>	<u>8,040,153</u>

e) Premium deficiency reserve

	March 31, 2019		
	Insurance contracts	Financial instruments with discretionary participation	Total
Individual life insurance	\$ 13,940,521	-	13,940,521
Individual injury insurance	268	-	268
Individual health insurance	250,913	-	250,913
Group insurance	11,024	-	11,024
Investment-linked product	962	-	962
Total	<u>\$ 14,203,688</u>	<u>-</u>	<u>14,203,688</u>

(Continued)

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

	December 31, 2018		
	Insurance	Financial	
	contracts	instruments	
		with	
		discretionary	
		participation	Total
	<u> </u>	<u> </u>	<u> </u>
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	<u>\$ 15,261,687</u>	<u>-</u>	<u>15,261,687</u>
	March 31, 2018		
	Insurance	Financial	
	contracts	instruments	
		with	
		discretionary	
		participation	Total
	<u> </u>	<u> </u>	<u> </u>

(Continued)

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

The movements in premium deficiency reserve were as follows:

	For the three months ended March 31, 2019		
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 15,261,687	-	15,261,687
Current reversal of provision, net	(1,069,145)	-	(1,069,145)
Gain and loss on foreign exchange	11,146	-	11,146
Ending balance	\$ 14,203,688	-	14,203,688
	For the three months ended March 31, 2018		
	Insurance contracts	Financial instruments with discretionary participation	Total
Beginning balance	\$ 19,937,823	-	19,937,823
Current provision, net	(1,405,331)	-	(1,405,331)
Gain and loss on foreign exchange	(94,962)	-	(94,962)
Ending balance	\$ 18,437,530	-	18,437,530

(Continued)

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

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	March 31, 2019	December 31, 2018	March 31, 2018
Liability reserve	\$ 3,619,045,909	3,542,522,896	3,154,462,901
Unearned premium reserves	8,914,906	8,766,935	8,394,261
Premium deficiency reserve	13,830,562	15,048,129	18,408,595
Special reserves	9,327,111	8,546,098	8,036,850
Claim reserves	<u>2,518,691</u>	<u>2,437,711</u>	<u>2,094,814</u>
Carrying amount of insurance liabilities	<u>\$ 3,653,637,179</u>	<u>3,577,321,769</u>	<u>3,191,397,421</u>
Current estimate of future cash flows under its insurance liabilities	<u>\$ 2,793,321,460</u>	<u>2,778,770,182</u>	<u>2,379,945,769</u>
Total liability adequacy reserve	<u>\$ -</u>	<u>-</u>	<u>-</u>

The liability adequacy test method adopted by Fubon Life Insurance as of March 31, 2019, December 31 and March 31, 2018, 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.

(Continued)

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

- g) Special reserve (catastrophic risk reserve and special reserves for fluctuation of risks):

March 31, 2019				
Financial instruments with				
	Insurance contracts	discretionary participation	Others	Total
Catastrophic risk reserve	\$ 3,647,385	-	-	3,647,385
Contingency risk reserve	2,789,051	-	-	2,789,051
Total	\$ 6,436,436	-	-	6,436,436

December 31, 2018				
Financial instruments with				
	Insurance contracts	discretionary participation	Others	Total
Catastrophic risk reserve	\$ 3,647,385	-	-	3,647,385
Contingency risk reserve	2,789,051	-	-	2,789,051
Total	\$ 6,436,436	-	-	6,436,436

March 31, 2018				
Financial instruments with				
	Insurance contracts	discretionary participation	Others	Total
Catastrophic risk reserve	\$ 3,375,135	-	-	3,375,135
Contingency risk reserve	2,782,027	-	-	2,782,027
Total	\$ 6,157,162	-	-	6,157,162

- 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:

	March 31, 2019	December 31, 2018	March 31, 2018
Life insurance	\$ 3,551,015	3,523,635	3,751,506

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

	For the three months ended	
	March 31	
	2019	2018
Beginning balance	\$ 3,523,635	3,744,674
Current premiums collected	145	310
Current claims payment	(9,706)	(32,548)
Current net provision for legal reserve	36,941	39,070
Ending balance	\$ 3,551,015	3,751,506

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.

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

	For the three months ended	
	March 31	
	2019	2018
Beginning balance	\$ 8,337,666	2,305,484
Current provision :		
Compulsory provision	1,144,876	631,101
Additional provision	457,612	197,959
Subtotal	1,602,488	829,060
Recovered	(650,462)	(930,236)
Ending balance	\$ 9,289,692	2,204,308

3. Effect of foreign exchange fluctuation reserve

Item	Unapplied amount	Applied amount	Effected amount
March 31, 2019			
Foreign exchange fluctuation reserve	\$ -	9,289,692	(9,289,692)
Owner's equity	271,518,126	265,691,535	5,826,591

(Continued)

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

<u>Item</u>	<u>Unapplied amount</u>	<u>Applied amount</u>	<u>Effected amount</u>			
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			
March 31, 2018						
Foreign exchange fluctuation reserve	\$ -	2,204,308	(2,204,308)			
Owner's equity	263,868,570	263,710,286	158,284			
For the three months ended March 31						
	2019			2018		
<u>Item</u>	<u>Unapplied amount</u>	<u>Applied amount</u>	<u>Effected amount</u>	<u>Unapplied amount</u>	<u>Applied amount</u>	<u>Effected amount</u>
Net income	\$ 3,830,186	3,068,565	761,621	9,210,563	9,291,504	(80,941)
Earnings per share	0.35	0.28	0.07	0.83	0.84	(0.01)

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:

	For the three months ended March 31	
	2019	2018
Beginning balance	\$ 520,024	421,434
Addition	29,318	29,121
Amortization	(5,361)	(6,129)
Ending balance	<u>\$ 543,981</u>	<u>444,426</u>

(Continued)

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

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:

	For the three months ended	
	March 31	
	2019	2018
Beginning balance	\$ 1,423,865	1,160,950
Addition	80,763	75,192
Amortization	(13,581)	(13,842)
Ending balance	\$ 1,491,047	1,222,300

j) Retained earned premiums and retained claims payment.

i) Retained earned premiums

	For the three months ended March 31, 2019		
	Insurance contracts	Financial instruments with discretionary participation	Total
Direct written premium	\$ 152,388,588	4,440,347	156,828,935
Reinsurance premium	-	-	-
Premium income	152,388,588	4,440,347	156,828,935
Less: Reinsurance premium expenditure	(537,062)	-	(537,062)
Net change in unearned premium reserve	(133,345)	-	(133,345)
Subtotal	(670,407)	-	(670,407)
Retained earned premiums	\$ 151,718,181	4,440,347	156,158,528

(Continued)

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

	For the three months ended March 31, 2018		
	Insurance contracts	Financial instruments with discretionary participation	Total
Direct written premium	\$ 128,132,314	2,409,926	130,542,240
Reinsurance premium	-	-	-
Premium income	128,132,314	2,409,926	130,542,240
Less: Reinsurance premium expenditure	(325,642)	-	(325,642)
Net change in unearned premium reserve	(80,655)	-	(80,655)
Subtotal	(406,297)	-	(406,297)
Retained earned premiums	\$ 127,726,017	2,409,926	130,135,943
ii) Retained claims payment			

	For the three months ended March 31, 2019		
	Insurance contracts	Financial instruments with discretionary participation	Total
Claims payment incurred	\$ 89,933,968	5,436,472	95,370,440
Reinsurance claims payment incurred	20	-	20
Insurance claims payment	89,933,988	5,436,472	95,370,460
Less: Claims payment recovered from reinsures	(375,862)	-	(375,862)
Retained claims payment	\$ 89,558,126	5,436,472	94,994,598

(Continued)

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

	For the three months ended March 31, 2018		
	Insurance contracts	Financial instruments with discretionary participation	Total
Claims payment incurred	\$ 57,840,487	4,797,808	62,638,295
Reinsurance claims payment incurred	18	-	18
Insurance claims payment	57,840,505	4,797,808	62,638,313
Less: Claims payment recovered from reinsures	(229,695)	-	(229,695)
Retained claims payment	\$ 57,610,810	4,797,808	62,408,618

- 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.

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

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.

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.

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

- 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.

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

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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.

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The credit rating of the reinsurers is also monitored monthly. The credit rating is evaluated based on article 8 of “Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms”. Under these regulations, reinsurers or insurance organizations with a credit rating above a certain level from an international credit rating agency (ie. BBB- or higher by Standard & Poor’ s Corporation or its equivalent credit rating from agencies endorsed by the authority) are eligible as reinsurers to whom an insurance enterprise may cede it business. Fubon Life Insurance currently adopts Standard and Poor’ s A- or above as its guideline regarding newly incorporated reinsurers.

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

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:

For the three months ended March 31, 2019				
		Change in assumption	Change in income before tax	Change in stockholder's equity
Mortality/Morbidity	Increase	10 %	(795,756)	(635,539)
Rate of return	Decrease	0.1 %	(975,699)	(779,577)
Expense (fixed expense)	Increase	5 %	(111,703)	(88,925)
Lapse and surrender rate	Increase	10 %	63,485	50,714

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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For the three months ended March 31, 2018				
		Change in assumption	Change in income before tax	Change in stockholder's equity
Mortality/Morbidity	Increase	10 %	(708,573)	(566,858)
Rate of return	Decrease	0.1 %	(857,767)	(686,214)
Expense (fixed expense)	Increase	5 %	(92,300)	(73,840)
Lapse and surrender rate	Increase	10 %	55,543	44,434

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% 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.

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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:

March 31, 2019 (Fubon Life Insurance)

Occurrence year	Development year							Claim provision
	1	2	3	4	5	6	7	
2013	3,970,050	4,725,262	4,813,040	4,826,369	4,833,979	4,836,819	4,837,147	-
2014	4,172,446	5,113,019	5,173,291	5,183,758	5,193,828	5,196,076	-	-
2015	4,605,165	5,558,277	5,666,297	5,694,273	5,697,522	-	-	7,561
2016	5,070,166	6,224,855	6,352,169	6,363,323	-	-	-	21,889
2017	5,431,814	6,649,814	6,710,897	-	-	-	-	110,485
2018	5,723,578	6,568,959	-	-	-	-	-	1,179,891
2019	884,284	-	-	-	-	-	-	203,758
IBNR Reserve								1,523,584
Plus: RBNA Reserve								980,034
The balance of claim reserve								2,503,618

March 31, 2019 (Fubon Hyundai Life Insurance)

Occurrence year	Development year					Claim provision
	1	2	3	4	5	
2015	1,572,361	1,872,551	1,915,817	1,923,538	1,931,019	-
2016	1,587,480	1,934,569	1,972,739	1,993,080	-	10,647
2017	1,652,828	2,023,738	2,090,113	-	-	32,701
2018	1,706,353	2,044,218	-	-	-	105,797
2019	1,662,760	-	-	-	-	539,492
IBNR Reserve						688,637
Plus: RBNA Reserve						2,764,907
The balance of claim reserve						3,453,544

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 (reported and unpaid claims)								862,025
The balance of claim reserve								2,422,764

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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

March 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	4,361,162	-
2013	3,970,050	4,725,262	4,813,040	4,826,369	4,833,979	4,834,075	-	-
2014	4,172,446	5,113,019	5,173,291	5,183,758	5,185,707	-	-	788
2015	4,605,165	5,558,277	5,666,297	5,675,470	-	-	-	3,731
2016	5,070,166	6,224,855	6,280,502	-	-	-	-	77,206
2017	5,431,814	6,233,346	-	-	-	-	-	1,063,347
2018	853,768	-	-	-	-	-	-	186,777
IBNR Reserve								1,331,849
Plus: RBNA Reserve								748,308
The balance of claim reserve								2,080,157

Note 1: Amount shown above excludes investment contracts.

Note 2: As of March 31, 2019, December 31 and March 31, 2018, 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 \$15,572, \$15,333 and \$14,951, respectively.

2. Development trend of retained claims payments

Cumulative claims payments from prior years are as follows:

March 31, 2019 (Fubon Life Insurance)

Occurrence year	Development year							Claim provision
	1	2	3	4	5	6	7	
2013	3,942,698	4,565,096	4,651,774	4,665,103	4,672,708	4,675,548	4,675,875	-
2014	4,166,511	4,992,049	5,052,316	5,062,783	5,072,770	5,075,018	-	-
2015	4,587,144	5,435,512	5,543,341	5,571,173	5,574,422	-	-	7,500
2016	5,068,488	6,111,210	6,238,474	6,249,628	-	-	-	21,663
2017	5,412,545	6,506,146	6,566,228	-	-	-	-	108,461
2018	5,708,571	6,518,425	-	-	-	-	-	1,169,216
2019	878,674	-	-	-	-	-	-	201,971
IBNR Reserve								1,508,811
Plus: RBNA Reserve								924,645
The balance of claim reserve								2,433,456

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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March 31, 2019 (Fubon Hyundai Life Insurance)

Occurrence year	Development year					Claim provision
	1	2	3	4	5	
2015	1,151,252	1,374,729	1,400,422	1,402,326	1,407,184	-
2016	1,128,378	1,357,546	1,380,013	1,394,702	-	8,637
2017	1,200,593	1,460,353	1,508,311	-	-	26,530
2018	1,273,549	1,537,120	-	-	-	85,834
2019	1,265,820	-	-	-	-	437,691
IBNR Reserve						558,692
Plus: RBNA Reserve						2,695,464
The balance of claim reserve						3,254,156

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

March 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	4,281,932	-
2013	3,942,698	4,565,096	4,651,774	4,665,103	4,672,708	4,672,804	-	-
2014	4,166,511	4,992,049	5,052,316	5,062,783	5,064,732	-	-	744
2015	4,587,144	5,435,512	5,543,341	5,552,514	-	-	-	3,516
2016	5,068,488	6,111,210	6,166,840	-	-	-	-	75,938
2017	5,412,545	6,190,020	-	-	-	-	-	1,054,376
2018	853,768	-	-	-	-	-	-	186,777
IBNR Reserve								1,321,351
Plus: RBNA Reserve								681,673
The balance of claim reserve								2,003,024

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Note 1: Amount shown above excludes investment contracts.

Note 2: As of March 31, 2019, December 31 and March 31, 2018 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 \$13,495, \$13,260 and \$12,901, respectively.

Claim reserves are provided based on the expected claims payment and relevant handling fee of RBNA and IBNR claims. Such provisions involve vast uncertainty, estimates and judgments which are highly complicated. Any change of estimate or judgment is regarded as a change in accounting estimate and the amount of change is recognized as a current gain or loss. For some claims, notifications to Fubon Life Insurance and its subsidiaries may be delayed. In addition, estimating the potential IBNR claims involves vast past loss experience and subjective judgment, therefore, it is difficult to confirm whether the estimated claims reserve on the balance sheet date will equal to the final claim compensation amount. The estimate of claims reserve is based on the information currently available. However, the final result may deviate from the original estimate due to the subsequent development.

The table above demonstrates the development trend of claims (excluding those claims that need confirmation within one year). The vertical shaft represents the year in which the claim event occurred, and the horizontal shaft represents the development years. Each slash represents the accumulated compensation amount at the end of each year. The compensation amount refers to the claims whether they are finalized or not. It explains how Fubon Life Insurance and its subsidiaries estimate the compensation amount of each year as time passed. The scenario and trend which affect the provision of claims reserve may not be the same as they will be in the future. Therefore, the estimated future compensation amount cannot be determined by the claim development trend.

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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:

March 31, 2019

Units: In million

Maturity date	< 1 year	1~3 years	3~5 years	> 5 years	Unable to classify (note)	Total
Provision	150,652	176,526	20,803	3,045,231	297,578	3,690,790
Proportion	4.1 %	4.8 %	0.6 %	82.4 %	8.1 %	100.0 %

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 %

March 31, 2018

Units: In million

Maturity date	< 1 year	1~3 years	3~5 years	> 5 years	Unable to classify (note)	Total
Provision	133,241	249,661	49,077	2,541,134	227,731	3,200,844
Proportion	4.2 %	7.8 %	1.5 %	79.4 %	7.1 %	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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

(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' protection of important personal information to strengthen the management of personal information protection.

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

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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, which is 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.
- 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.

(Continued)

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

Fubon Bank (China)

Fubon Bank (China)'s current credit risk management is based on its comprehensive risk management system. Credit Approval & Administration Department and Risk Control Department, which belong to Fubon Bank's Risk Management Department, are responsible for identifying, quantifying, managing, controlling and reporting 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.

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.

(Continued)

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

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.

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

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

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 bed 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

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

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.

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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.

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

- j) Assessment of expected credit loss
- i) Financial assets measured at fair value through other comprehensive income

Total carrying value

	For the three months ended March 31, 2019					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	\$ 151,673,864	-	-	-	
Changes due to recognition of financial instruments at beginning:						
— Derecognition of financial assets at current period	(62,816,857)	-	-	-	-	(62,816,857)
Originated or purchased new financial assets	52,793,644	-	-	-	-	52,793,644
Effects of exchange rate changes and others	418,730	-	-	-	-	418,730
Ending balance	<u>\$ 142,069,381</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>142,069,381</u>

	For the three months ended March 31, 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	\$ 154,292,706	-	-	-	
Changes due to recognition of financial instruments at beginning:						
— Derecognition of financial assets at current period	(83,165,807)	-	-	-	-	(83,165,807)
Originated or purchased new financial assets	88,038,201	-	-	-	-	88,038,201
Effects of exchange rate changes and others	988,471	-	-	-	-	988,471
Ending balance	<u>\$ 160,153,571</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>160,153,571</u>

Expected credit losses

	For the three months ended March 31, 2019							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	\$ 74,266	-	-	-	-	74,266	
Changes due to recognition of financial instruments at beginning:								
— Derecognition of financial assets at current period	(21,829)	-	-	-	-	(21,829)	-	(21,829)
Originated or purchased new financial assets	28,437	-	-	-	-	28,437	-	28,437
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Nonaccrual Loans"	-	-	-	-	-	-	(921)	(921)
Effects of exchange rate changes and others	7,946	-	-	-	-	7,946	1,761	9,707
Ending balance	<u>\$ 88,820</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>88,820</u>	<u>218,078</u>	<u>306,898</u>

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

For the three months ended March 31, 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	(27,130)	-	-	-	-	(27,130)	-	(27,130)
Originated or purchased new financial assets	38,286	-	-	-	-	38,286	-	38,286
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Nonaccrual Loans"	-	-	-	-	-	-	(7,312)	(7,312)
Effects of exchange rate changes and others	(8,539)	-	-	-	-	(8,539)	2,809	(5,730)
Ending balance	<u>\$ 71,688</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>71,688</u>	<u>213,132</u>	<u>284,820</u>

ii) Debt investments measured at amortized cost

Total carrying value

For the three months ended March 31, 2019								
	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	\$ 606,667,975	-	-	661,670	-	-	-	607,329,645
Changes due to recognition of financial instruments at beginning:								
– Transfer to lifetime ECLs	-	(1,564,442)	-	1,564,442	-	-	-	-
– Derecognition of financial assets at current period	-	(163,361,473)	-	(2,003)	-	-	-	(163,363,476)
Originated or purchased new financial assets	-	168,668,179	-	1,187	-	-	-	168,669,366
Effects of exchange rate changes and others	-	1,762,110	-	6,699	-	-	-	1,768,809
Ending balance	<u>\$ 612,172,349</u>	<u>-</u>	<u>-</u>	<u>2,231,995</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>614,404,344</u>

For the three months ended March 31, 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	\$ 582,918,544	-	-	1,231,421	-	-	-	584,149,965
Changes due to recognition of financial instruments at beginning:								
– Transfer to 12-month ECLs	-	298,574	-	(298,574)	-	-	-	-
– Derecognition of financial assets at current period	-	(153,676,184)	-	(295,014)	-	-	-	(153,971,198)
Originated or purchased new financial assets	-	170,362,261	-	1,074	-	-	-	170,363,335
Effects of exchange rate changes and others	-	(3,634,928)	-	(15,684)	-	-	-	(3,650,612)
Ending balance	<u>\$ 596,268,267</u>	<u>-</u>	<u>-</u>	<u>623,223</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>596,891,490</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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	For the three months ended March 31, 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	(297,827)	298,013	-	(186)	-	-
– Transfer to credit-impaired financial assets	(24,715)	(14,562)	-	39,277	-	-
– Transfer to 12-month ECLs	234,368	(234,179)	-	(189)	-	-
– Derecognition of financial assets at current period	(41,956,863)	(302,352)	-	(126,257)	-	(42,385,472)
Originated or purchased new financial assets	35,860,146	19,603	-	16,678	-	35,896,427
Write-off	-	-	-	(3,192)	-	(3,192)
Effects of exchange rate changes and others	229,521	5,450	-	1,163	-	236,134
Ending balance	<u>\$ 60,277,790</u>	<u>652,849</u>	<u>-</u>	<u>585,155</u>	<u>-</u>	<u>61,515,794</u>

Note: Included only acceptances, accounts receivable— factoring and credit card receivables.

Expected credit losses

	For the three months ended March 31, 2019							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	\$ 473,388	62,106	223	225,618	-	761,335	-	761,335
Changes due to recognition of financial instruments at beginning:								
– Transfer to lifetime ECLs	(6,929)	7,036	25	(132)	-	-	-	-
– Transfer to credit-impaired financial assets	(426)	(5,993)	-	6,419	-	-	-	-
– Transfer to 12-month ECLs	13,734	(13,734)	-	-	-	-	-	-
– Derecognition of financial assets at current period	(173,032)	(20,256)	-	(29,215)	-	(222,503)	-	(222,503)
Originated or purchased new financial assets	101,392	9,504	-	34,694	-	145,590	-	145,590
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Nonaccrual Loans"	-	-	-	-	-	-	24,553	24,553
Write-off	-	-	-	(5,285)	-	(5,285)	-	(5,285)
Effects of exchange rate changes and others	(910)	19,802	1,468	9,178	-	29,538	-	29,538
Ending balance	<u>\$ 407,217</u>	<u>58,465</u>	<u>1,716</u>	<u>241,277</u>	<u>-</u>	<u>708,675</u>	<u>24,553</u>	<u>733,228</u>

	For the three months ended March 31, 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	(5,211)	5,350	-	(139)	-	-	-	-
– Transfer to credit-impaired financial assets	(271)	(6,314)	-	6,585	-	-	-	-
– Transfer to 12-month ECLs	20,615	(20,426)	(2)	(187)	-	-	-	-
– Derecognition of financial assets at current period	(131,677)	(19,138)	(41)	(26,687)	-	(177,543)	-	(177,543)
Originated or purchased new financial assets	86,988	7,793	-	32,360	-	127,141	-	127,141
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Nonaccrual Loans"	-	-	-	-	-	-	(34,471)	(34,471)
Write-off	-	-	-	(4,596)	-	(4,596)	-	(4,596)
Effects of exchange rate changes and others	(15,132)	21,699	214	18,869	-	25,650	-	25,650
Ending balance	<u>\$ 210,933</u>	<u>62,954</u>	<u>464</u>	<u>186,433</u>	<u>-</u>	<u>460,784</u>	<u>122,069</u>	<u>582,853</u>

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

iv) Discounts and loans

Total carrying value

	For the three months ended March 31, 2019					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	\$ 1,373,903,395	34,863,237	-	8,673,819	-	1,417,440,451
Changes due to recognition of financial instruments at beginning:						
– Transfer to lifetime ECLs	(7,430,067)	7,445,646	-	(15,579)	-	-
– Transfer to credit-impaired financial assets	(109,860)	(110,126)	-	219,986	-	-
– Transfer to 12-month ECLs	3,651,335	(3,640,779)	-	(10,556)	-	-
– Derecognition of financial assets at current period	(342,395,897)	(7,110,982)	-	(595,886)	-	(350,102,765)
Originated or purchased new financial assets	329,944,845	2,685,103	-	788,954	-	333,418,902
Write-off	-	-	-	(63,070)	-	(63,070)
Effects of exchange rate changes and others	2,715,025	(242,864)	-	32,363	-	2,504,524
Ending balance	<u>\$ 1,360,278,776</u>	<u>33,889,235</u>	<u>-</u>	<u>9,030,031</u>	<u>-</u>	<u>1,403,198,042</u>
	For the three months ended March 31, 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	\$ 1,337,438,503	39,123,598	-	9,883,788	-	1,386,445,889
Changes due to recognition of financial instruments at beginning:						
– Transfer to lifetime ECLs	(8,915,492)	8,953,984	-	(38,492)	-	-
– Transfer to credit-impaired financial assets	(288,425)	(249,220)	-	537,645	-	-
– Transfer to 12-month ECLs	10,862,787	(10,856,502)	-	(6,285)	-	-
– Derecognition of financial assets at current period	(488,970,839)	(8,382,587)	-	(2,606,484)	-	(499,959,910)
Originated or purchased new financial assets	486,037,089	4,953,410	-	2,566,456	-	493,556,955
Write-off	-	-	-	(90,773)	-	(90,773)
Effects of exchange rate changes and others	2,006,826	64,583	-	72,659	-	2,144,068
Ending balance	<u>\$ 1,338,170,449</u>	<u>33,607,266</u>	<u>-</u>	<u>10,318,514</u>	<u>-</u>	<u>1,382,096,229</u>

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

Expected credit losses

	For the three months ended March 31, 2019							
	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	\$ 3,270,650	397,960	-	3,298,053	-	6,966,663	12,478,927	19,445,590
Changes due to recognition of financial instruments at beginning:								
– Transfer to lifetime ECLs	(60,363)	61,101	-	(738)	-	-	-	-
– Transfer to credit-impaired financial assets	(1,845)	(26,942)	-	28,787	-	-	-	-
– Transfer to 12-month ECLs	55,296	(53,685)	-	(1,611)	-	-	-	-
– Derecognition of financial assets at current period	(1,129,934)	(55,466)	-	(217,461)	-	(1,402,861)	-	(1,402,861)
Originated or purchased new financial assets	1,359,129	34,248	-	47,287	-	1,440,664	-	1,440,664
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Nonaccrual Loans"	-	-	-	-	-	-	49,357	49,357
Write-off	-	-	-	(63,070)	-	(63,070)	-	(63,070)
Recovery from write-off	-	-	-	87,510	-	87,510	-	87,510
Effects of exchange rate changes and others	(52,630)	116,575	-	45,160	-	109,105	-	109,105
Ending balance	<u>\$ 3,440,303</u>	<u>473,791</u>	<u>-</u>	<u>3,223,917</u>	<u>-</u>	<u>7,138,011</u>	<u>12,528,284</u>	<u>19,666,295</u>
	For the three months ended March 31, 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	(10,507)	19,897	-	(9,390)	-	-	-	-
– Transfer to credit-impaired financial assets	(2,211)	(33,921)	-	36,132	-	-	-	-
– Transfer to 12-month ECLs	364,560	(363,132)	-	(1,428)	-	-	-	-
– Derecognition of financial assets at current period	(1,404,211)	(59,836)	-	(422,769)	-	(1,886,816)	-	(1,886,816)
Originated or purchased new financial assets	1,432,924	23,335	-	76,754	-	1,533,013	-	1,533,013
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Nonaccrual Loans"	-	-	-	-	-	-	584,477	584,477
Write-off	-	-	-	(90,773)	-	(90,773)	-	(90,773)
Recovery from write-off	-	-	-	101,872	-	101,872	-	101,872
Effects of exchange rate changes and others	(314,834)	76,079	-	106,103	-	(132,652)	-	(132,652)
Ending balance	<u>\$ 3,919,313</u>	<u>389,357</u>	<u>-</u>	<u>3,058,629</u>	<u>-</u>	<u>7,367,299</u>	<u>12,310,841</u>	<u>19,678,140</u>

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

v) Other financial assets

Total carrying value

	For the three months ended March 31, 2019					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	\$ 231	-	-	92,755	-	92,986
Changes due to recognition of financial instruments at beginning:						
— Derecognition of financial assets at current period	(231)	-	-	(1,077)	-	(1,308)
Originated or purchased new financial assets	-	-	-	57,689	-	57,689
Write-off	-	-	-	(56,335)	-	(56,335)
Ending balance	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>93,032</u>	<u>-</u>	<u>93,032</u>
	For the three months ended March 31, 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	(79)	-	-	(3,568)	-	(3,647)
Originated or purchased new financial assets	-	-	-	61,593	-	61,593
Write-off	-	-	-	(58,931)	-	(58,931)
Ending balance	<u>\$ 1,154</u>	<u>-</u>	<u>-</u>	<u>125,507</u>	<u>-</u>	<u>126,661</u>

Expected credit losses

	For the three months ended March 31, 2019						Total	
	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
Beginning balance	\$ -	-	-	73,841	-	73,841	-	73,841
Changes due to recognition of financial instruments at beginning:								
— Derecognition of financial assets at current period	-	-	-	(1,077)	-	(1,077)	-	(1,077)
Originated or purchased new financial assets	-	-	-	36,380	-	36,380	-	36,380
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Nonaccrual Loans"	-	-	-	-	-	-	16	16
Write-off	-	-	-	(56,335)	-	(56,335)	-	(56,335)
Recovery from write-off	-	-	-	82,357	-	82,357	-	82,357
Effects of exchange rate changes and others	-	-	-	(61,104)	-	(61,104)	-	(61,104)
Ending balance	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>74,062</u>	<u>-</u>	<u>74,062</u>	<u>16</u>	<u>74,078</u>

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

For the three months ended March 31, 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	-	-	-	(3,104)	-	(3,104)	-	(3,104)
Originated or purchased new financial assets	-	-	-	40,261	-	40,261	-	40,261
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Nonaccrual Loans"	-	-	-	-	-	-	44	44
Write-off	-	-	-	(58,931)	-	(58,931)	-	(58,931)
Recovery from write-off	-	-	-	93,529	-	93,529	-	93,529
Effects of exchange rate changes and others	-	-	-	(71,969)	-	(71,969)	-	(71,969)
Ending balance	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>106,367</u>	<u>-</u>	<u>106,367</u>	<u>44</u>	<u>106,411</u>

vi) Provisions for guarantee liabilities, loan commitments and other— letter of credit

Expected credit losses

For the three months ended March 31, 2019								
	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	\$ 185,981	26,052	-	805	-	212,838	240,377	453,215
Changes due to recognition of financial instruments at beginning:								
– Transfer to lifetime ECLs	(2,079)	2,108	-	(29)	-	-	-	-
– Transfer to credit-impaired financial assets	-	(1)	-	1	-	-	-	-
– Transfer to 12-month ECLs	4,139	(4,139)	-	-	-	-	-	-
– Derecognition of financial assets at current period	(43,166)	(4,638)	-	(128)	-	(47,932)	-	(47,932)
Originated or purchased new financial assets	36,192	2,050	-	45	-	38,287	-	38,287
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Nonaccrual Loans"	-	-	-	-	-	-	(8,892)	(8,892)
Effects of exchange rate changes and others	(2,737)	9,756	-	(16)	-	7,003	-	7,003
Ending balance	<u>\$ 178,330</u>	<u>31,188</u>	<u>-</u>	<u>678</u>	<u>-</u>	<u>210,196</u>	<u>231,485</u>	<u>441,681</u>

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

For the three months ended March 31, 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	\$ 135,311	36,591	-	15,014	-	186,916	266,445	453,361
Changes due to recognition of financial instruments at beginning:								
– Transfer to lifetime ECLs	(1,819)	1,841	-	(22)	-	-	-	-
– Transfer to credit-impaired financial assets	(1)	(11)	-	12	-	-	-	-
– Transfer to 12-month ECLs	7,682	(7,663)	-	(19)	-	-	-	-
– Derecognition of financial assets at current period	(24,066)	(5,989)	-	(14,407)	-	(44,462)	-	(44,462)
Originated or purchased new financial assets	38,000	3,665	-	15,117	-	56,782	-	56,782
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Nonaccrual Loans"	-	-	-	-	-	-	65	65
Effects of exchange rate changes and others	(15,360)	3,579	-	253	-	(11,528)	-	(11,528)
Ending balance	<u>\$ 139,747</u>	<u>32,013</u>	<u>-</u>	<u>15,948</u>	<u>-</u>	<u>187,708</u>	<u>266,510</u>	<u>454,218</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		
	March 31, 2019	December 31, 2018	March 31, 2018
Irrevocable loan commitments	\$ 115,665,146	112,580,654	79,711,210
Standby letters of credit	8,988,814	8,295,749	9,337,763
Financial guarantees	26,887,533	27,845,774	29,015,719
Total	<u>\$ 151,541,493</u>	<u>148,722,177</u>	<u>118,064,692</u>

Fubon Bank (China)

Units: In thousands of CNY

Off-balance sheet items	Maximum exposure amount		
	March 31, 2019	December 31, 2018	March 31, 2018
Standby letters of credit	\$ 261,032	312,512	257,482
Financial guarantees	833,828	965,035	1,303,545
Total	<u>\$ 1,094,860</u>	<u>1,277,547</u>	<u>1,561,027</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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>March 31, 2019</u>					
<u>Assets</u>	<u>Financial instruments</u>	<u>Properties</u>	<u>Guarantees</u>	<u>Others</u>	
Loans	3.24 %	60.59 %	3.68 %	2.17 %	
Guarantees receivable	3.49 %	7.23 %	0.67 %	1.69 %	
Acceptances and other credits	1.01 %	1.27 %	0.02 %	-	
Financial assets measured at fair value through profit or loss—Debt investments	-	-	3.99 %	-	
Financial assets measured at fair value through other comprehensive income—Debt investments	-	-	9.69 %	-	
Debt investments measured at amortized cost	-	-	9.20 %	-	
<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	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 %	-	

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

<u>March 31, 2018</u>				
<u>Assets</u>	<u>Financial instruments</u>	<u>Properties</u>	<u>Guarantees</u>	<u>Others</u>
Loans	3.07 %	57.30 %	3.61 %	2.53 %
Guarantees receivable	3.27 %	5.48 %	0.51 %	0.64 %
Acceptances	0.90 %	1.74 %	0.01 %	-
Financial assets measured at fair value through profit or loss—Debt investments	-	-	5.32 %	-
Financial assets measured at fair value through other comprehensive income—Debt investments	-	-	1.03 %	-
Debt investments measured at amortized cost	-	-	6.95 %	-

Fubon Bank (China)

<u>March 31, 2019</u>				
<u>Assets</u>	<u>Financial instruments</u>	<u>Properties</u>	<u>Guarantees</u>	<u>Others</u>
Loans	7.02 %	15.50 %	-	1.03 %
Guarantees receivable	64.22 %	24.90 %	10.43 %	-
Acceptances	33.12 %	1.11 %	34.15 %	-

<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 %	-

<u>March 31, 2018</u>				
<u>Assets</u>	<u>Financial instruments</u>	<u>Properties</u>	<u>Guarantees</u>	<u>Others</u>
Loans	8.74 %	11.23 %	-	1.83 %
Guarantees receivable	69.55 %	25.90 %	4.10 %	-
Acceptances	23.44 %	2.87 %	43.86 %	-

l) 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.

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

Credit risk concentrations can arise in Taipei Fubon Bank and its subsidiary's 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 subsidiary 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 subsidiary's most significant concentrations of credit risk are summarized as follows:

Taipei Fubon Bank (The Bank)

i) By industry

	<u>March 31, 2019</u>		<u>December 31, 2018</u>		<u>March 31, 2018</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Private	\$ 688,893,216	54.79	681,387,936	52.43	652,701,403	51.85
Private enterprise	451,731,899	35.93	466,443,553	35.89	458,497,541	36.42
Government institution	54,108,751	4.30	57,554,699	4.43	56,345,644	4.48
Financial organization	31,207,760	2.48	62,059,416	4.78	53,074,455	4.22
Public enterprise	30,312,360	2.41	31,055,954	2.39	37,576,127	2.98
Non-profit organization	1,085,676	0.09	991,959	0.08	668,679	0.05
Total (Note)	<u>\$ 1,257,339,662</u>	<u>100.00</u>	<u>1,299,493,517</u>	<u>100.00</u>	<u>1,258,863,849</u>	<u>100.00</u>

ii) By geographical area

	<u>March 31, 2019</u>		<u>December 31, 2018</u>		<u>March 31, 2018</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Domestic	\$ 1,073,431,889	85.37	1,123,966,924	86.49	1,098,460,022	87.26
Asia	96,881,989	7.71	88,622,271	6.82	87,456,373	6.95
America	66,256,161	5.27	68,490,647	5.27	57,790,844	4.59
Others	20,769,623	1.65	18,413,675	1.42	15,156,610	1.20
Total (Note)	<u>\$ 1,257,339,662</u>	<u>100.00</u>	<u>1,299,493,517</u>	<u>100.00</u>	<u>1,258,863,849</u>	<u>100.00</u>

iii) By collateral

	<u>March 31, 2019</u>		<u>December 31, 2018</u>		<u>March 31, 2018</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Unsecured	\$ 408,090,865	32.46	416,669,591	32.06	447,500,640	35.55
Secured	849,248,797	67.54	882,823,926	67.94	811,363,209	64.45
Properties	737,140,843	58.63	735,785,045	56.62	698,056,630	55.45
Guarantees	44,825,525	3.56	75,511,380	5.81	44,049,221	3.50
Financial instruments	40,450,162	3.22	41,550,277	3.20	38,387,185	3.05
Others	26,832,267	2.13	29,977,224	2.31	30,870,173	2.45
Total (Note)	<u>\$ 1,257,339,662</u>	<u>100.00</u>	<u>1,299,493,517</u>	<u>100.00</u>	<u>1,258,863,849</u>	<u>100.00</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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iv) Credit risk rating grades

The credit risk defined by Taipei Fubon Bank 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.

March 31, 2019	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	\$ 80,107,039	500,985	-	80,608,024	-	-	-	-	-	-	22,550	80,585,474
Debt investments measured at amortized cost	568,940,757	712,250	-	569,653,007	-	2,231,995	-	2,231,995	-	-	267,798	571,617,204
Receivables												
Credit card receivables	28,347,060	10,694,470	25,954	39,067,484	-	140,128	395,512	535,640	519,255	-	203,812	39,918,567
Accounts receivable -factoring	13,737,817	1,982,559	-	15,720,376	6,184	168,188	-	174,372	-	-	181,859	15,712,889
Acceptances	552,564	981,964	-	1,534,528	-	-	-	-	-	-	15,574	1,518,954
Loans												
Personal finance	524,879,951	77,472,295	320,818	602,673,064	-	17,673,503	1,383,823	19,057,326	2,148,996	-	8,321,013	615,558,373
Corporate banking	306,244,709	263,886,305	456,553	570,587,567	-	12,355,439	588,633	12,944,072	4,987,196	-	8,260,767	580,258,068
Other financial assets (bill purchased and nonperforming loans transferred from other than loans)	-	-	-	-	-	-	-	-	93,032	-	74,078	18,954
Off-balance sheet assets												
Financing commitments	342,534,623	35,549,947	21,222	378,105,792	-	617,380	373,945	991,325	42,413	-	137,168	379,002,362
Guarantees receivable	19,059,494	7,061,405	-	26,120,899	-	766,634	-	766,634	-	-	272,361	26,615,172
Accounts receivable -forfeiting	4,370,497	4,618,061	-	8,988,558	-	-	256	256	-	-	5,166	8,983,648

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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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	\$ 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												
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
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
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 -forfeiting	3,797,316	4,015,625	438,558	8,251,499	-	44,250	-	44,250	-	-	7,141	8,288,608

(Continued)

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

March 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	\$ 82,503,813	2,148,255	-	84,652,068	-	-	-	-	-	-	18,883	84,633,185
Debt investments measured at amortized cost	561,364,710	991,615	-	562,356,325	-	623,223	-	623,223	-	-	223,433	562,756,115
Receivables												
Credit card receivables	25,367,017	9,695,541	38,648	35,101,206	-	275,863	204,393	480,256	585,155	-	201,035	35,965,582
Accounts receivable -factoring	11,546,082	1,100,296	-	12,646,378	79,914	92,679	-	172,593	-	-	148,011	12,670,960
Acceptances	747,549	1,179,793	-	1,927,342	-	-	-	-	-	-	20,114	1,907,228
Loans												
Personal finance	503,805,714	65,463,618	506,071	569,775,403	-	17,432,868	787,008	18,219,876	2,303,135	-	7,959,938	582,338,476
Corporate banking	357,793,793	244,124,239	831,729	602,749,761	350,000	14,320,640	703,450	15,374,090	6,100,738	-	8,184,432	616,040,157
Other financial assets (bill purchased and nonperforming loans transferred from other than loans)	1,154	-	-	1,154	-	-	-	-	125,507	-	106,411	20,250
Off-balance sheet assets												
Financing commitments	299,168,285	32,525,708	29,210	331,723,203	-	1,054,161	100,400	1,154,561	40,839	-	121,818	332,796,785
Guarantees receivable	22,466,417	6,078,270	-	28,544,687	-	471,032	-	471,032	-	-	297,552	28,718,167
Accounts receivable -forfeiting	5,113,909	4,195,152	-	9,309,061	-	13,626	-	13,626	15,076	-	20,859	9,316,904

(Continued)

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

Fubon Bank (China)

i) By industry

Units: In thousands of CNY

Industry	March 31, 2019		December 31, 2018		March 31, 2018	
	Amount	%	Amount	%	Amount	%
Finance and insurance	\$ 16,426,743	39.48	14,222,447	37.96	12,581,748	34.93
Wholesale and retailing	5,322,724	12.79	4,865,995	12.99	3,861,261	10.72
Manufacturing	3,934,575	9.46	3,671,232	9.80	3,420,497	9.50
Construction	2,710,802	6.51	2,648,112	7.07	4,826,370	13.40
Real estate	2,650,784	6.37	2,144,199	5.72	1,943,687	5.40
Personal loans	2,609,962	6.27	2,522,757	6.73	1,507,496	4.19
Water conservation and environment	2,463,251	5.92	2,497,750	6.67	2,911,104	8.08
Others	5,493,264	13.20	4,891,183	13.06	4,968,048	13.78
Total (Note)	\$ 41,612,105	100.00	37,463,675	100.00	36,020,211	100.00

Note: Included only discounts and loans.

ii) By geographical area

Units: In thousands of CNY

	March 31, 2019		December 31, 2018		March 31, 2018	
	Amount	%	Amount	%	Amount	%
East China	\$ 15,489,231	37.22	13,456,906	35.92	15,229,881	42.28
North China	7,449,164	17.90	7,853,423	20.96	7,277,659	20.20
South west region	4,858,958	11.68	4,070,298	10.87	4,965,105	13.78
Central China	4,236,394	10.18	3,297,339	8.80	2,782,546	7.72
South China	4,049,805	9.73	3,222,171	8.60	2,723,413	7.56
Other	5,528,553	13.29	5,563,538	14.85	3,041,607	8.46
Total (Note)	\$ 41,612,105	100.00	37,463,675	100.00	36,020,211	100.00

Note: Included only discounts and loans.

iii) By collateral

Units: In thousands of CNY

	March 31, 2019		December 31, 2018		March 31, 2018	
	Amount	%	Amount	%	Amount	%
Credit loans	\$ 31,813,239	76.45	28,154,859	75.15	28,170,903	78.21
Guarantees loans	427,034	1.03	495,538	1.32	658,000	1.83
Collateral loans	9,371,832	22.52	8,813,278	23.53	7,191,308	19.96
Mortgage loans	6,450,635	15.50	5,857,003	15.64	4,044,400	11.23
Pledge loans	2,921,197	7.02	2,956,275	7.89	3,146,908	8.73
Total (Note)	\$ 41,612,105	100.00	37,463,675	100.00	36,020,211	100.00

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

The credit risk defined by Fubon Bank (China) 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.

March 31, 2019	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	\$ 13,404,291	-	-	13,404,291	-	-	-	-	-	-	61,944	13,342,347
Debt investments measured at amortized cost	9,273,171	-	-	9,273,171	-	-	-	-	-	-	2,472	9,270,699
Receivables												
Acceptances	4,244,633	-	-	4,244,633	-	-	-	-	-	-	31,187	4,213,446
Loans												
Personal finance	2,568,583	-	1,406	2,569,989	33,344	-	5,665	39,009	964	-	39,911	2,570,051
Corporate banking	32,924,310	5,113,108	179,940	38,217,358	-	372,715	-	372,715	412,070	-	632,801	38,369,342
Off-balance sheet assets												
Guarantees receivable	833,828	-	-	833,828	-	-	-	-	-	-	4,929	828,899
Accounts receivable -forfeiting	261,032	-	-	261,032	-	-	-	-	-	-	956	260,076

(Continued)

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

<u>December 31, 2018</u>	<u>Financial assets measured by 12-month ECLs</u>				<u>Financial assets whose credit risk has increased significantly since initial recognition</u>				<u>Credit-impaired financial assets</u>	<u>Purchased or originated credit-impaired financial assets</u>	<u>Loss allowance</u>	<u>Total</u>
	<u>Low risk</u>	<u>Moderate risk</u>	<u>High risk</u>	<u>Total</u>	<u>Low risk</u>	<u>Moderate risk</u>	<u>High risk</u>	<u>Total</u>				
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												
Accounts receivable and documents against acceptance - forfaiting	4,244,049	-	-	4,244,049	-	-	-	-	-	-	29,913	4,214,136
Acceptances	21,774	-	-	21,774	-	-	-	-	-	-	261	21,513
Loans												
Personal finance	2,473,539	-	47,946	2,521,485	46	-	305	351	921	-	31,332	2,491,425
Corporate banking	29,070,022	5,272,809	152,905	34,495,736	-	25,673	-	25,673	419,509	-	598,589	34,342,329
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

(Continued)

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

March 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	\$ 16,184,152	45,052	-	16,229,204	-	-	-	-	-	-	57,331	16,171,873
Debt investments measured at amortized cost	7,290,681	-	-	7,290,681	-	-	-	-	-	-	7,750	7,282,931
Receivables												
Accounts receivable and documents against acceptance - forfeiting	6,399	-	-	6,399	-	-	-	-	-	-	92	6,307
Acceptances	2,272,709	-	-	2,272,709	-	-	-	-	-	-	8,997	2,263,712
Loans												
Personal finance	1,500,237	-	3,729	1,503,966	2,859	-	-	2,859	671	-	22,053	1,485,443
Corporate banking	29,169,955	4,413,303	518,572	34,101,830	-	-	-	-	410,885	-	737,538	33,775,177
Off-balance sheet assets												
Guarantees receivable	1,303,545	-	-	1,303,545	-	-	-	-	-	-	2,632	1,300,913
Accounts receivable -forfeiting	257,482	-	-	257,482	-	-	-	-	-	-	375	257,107

(Continued)

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

- m) The financial effects of credit risk mitigation policies
 - 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.

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 recognize impairment loss. The impact of collaterals on the carrying amount of credit-impaired financial assets are as follows:

Taipei Fubon Bank (The Bank)

March 31, 2019	Financial instruments	Properties	Guarantees	Other
<u>Assets</u>				
Receivables	0.25 %	2.81 %	0.11 %	0.13 %
Loans	1.14 %	65.53 %	5.74 %	5.33 %
Other financial assets	-	9.09 %	-	-
Off-balance sheet assets	-	- %	-	35.35 %

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 %

March 31, 2018	Financial instruments	Properties	Guarantees	Other
<u>Assets</u>				
Receivables	0.01 %	4.57 %	0.01 %	0.02 %
Loans	8.15 %	59.44 %	4.33 %	7.53 %
Other financial assets	-	6.82 %	-	-
Off-balance sheet assets	-	- %	-	35.65 %

Fubon Bank (China)

March 31, 2019	Financial instruments	Properties	Guarantees	Other
<u>Assets</u>				
Loans	- %	71.90 %	- %	13.09 %

December 31, 2018	Financial instruments	Properties	Guarantees	Other
<u>Assets</u>				
Loans	- %	71.23 %	- %	13.91 %

(Continued)

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

March 31, 2018	Financial instruments	Properties	Guarantees	Other
<u>Assets</u>				
Loans	0.07 %	68.31 %	- %	- %

- iii) Outstanding contract amount of the financial assets that have been written off, and there are recourse activities on them.

As of March 31, 2019, December 31 and March 31, 2018, outstanding contract of the financial assets that have been written off and still have recourse activities, amounting to \$118,562, \$420,865 and \$44,163, 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 March 31, 2019, December 31 and March 31, 2018, the book value amounted to \$55,022, \$53,593 and \$89,322, respectively. Foreclosed collaterals are accounted for as other assets in the consolidated balance sheet.

2) Fubon Life Insurance and its subsidiaries

Credit risk refers to the risk resulted from the deterioration of the credit status of the investment, the descending of credit rating, the credit risk event which can be attributed to the default of contracts, and the default of the 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.

(Continued)

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

Credit risk exposure—by industry

<u>Financial assets</u>	<u>March 31, 2019</u>		<u>December 31, 2018</u>		<u>March 31, 2018</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Industrial enterprise	\$ 83,707,550	3.17	91,168,389	3.39	76,955,005	3.26
Public business	103,224,838	3.91	107,477,560	4.00	99,698,175	4.22
Mortgage backed securities	42,885,243	1.62	43,149,178	1.61	34,038,771	1.44
Financial sector	1,106,604,709	41.91	1,116,538,215	41.54	974,545,278	41.23
Consumer staples	176,676,611	6.69	183,590,158	6.83	159,801,213	6.76
Government	355,949,702	13.48	373,060,322	13.88	345,513,516	14.62
Technology	63,748,192	2.41	67,824,115	2.52	57,566,874	2.44
Raw material	54,240,492	2.05	54,185,252	2.02	59,060,819	2.50
Consumer discretionary	55,062,203	2.09	54,972,579	2.04	41,129,871	1.74
Energy	133,479,090	5.06	136,624,644	5.08	112,385,722	4.75
Assets backed securities	19,597,073	0.74	19,538,584	0.73	22,073,936	0.93
Telecommunication	213,840,496	8.10	209,840,363	7.81	187,373,673	7.93
Others	<u>231,426,461</u>	<u>8.77</u>	<u>229,851,159</u>	<u>8.55</u>	<u>193,391,119</u>	<u>8.18</u>
Subtotal	2,640,442,660	100.00	2,687,820,518	100.00	2,363,533,972	100.00
Fair value adjustment from business combinations	<u>(569,865)</u>	<u>-</u>	<u>(567,614)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,639,872,795</u>	<u>100.00</u>	<u>2,687,252,904</u>	<u>100.00</u>	<u>2,363,533,972</u>	<u>100.00</u>

Credit risk exposure—by geographic area

<u>Financial assets</u>	<u>March 31, 2019</u>		<u>December 31, 2018</u>		<u>March 31, 2018</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Taiwan	\$ 602,815,378	22.83	616,510,966	22.94	621,775,895	26.31
Asia except Taiwan	393,436,145	14.90	404,543,931	15.05	246,922,001	10.45
North America	1,028,649,838	38.96	1,045,728,759	38.91	942,825,713	39.89
Middle and South America	42,357,500	1.60	46,228,783	1.72	38,805,560	1.64
Europe	498,022,199	18.86	504,533,583	18.77	451,725,155	19.11
Africa/Middle East	<u>75,161,600</u>	<u>2.85</u>	<u>70,274,496</u>	<u>2.61</u>	<u>61,479,648</u>	<u>2.60</u>
Subtotal	2,640,442,660	100.00	2,687,820,518	100.00	2,363,533,972	100.00
Fair value adjustment from business combinations	<u>(569,865)</u>	<u>-</u>	<u>(567,614)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,639,872,795</u>	<u>100.00</u>	<u>2,687,252,904</u>	<u>100.00</u>	<u>2,363,533,972</u>	<u>100.00</u>

(Continued)

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

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.

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

iv) The credit quality information is shown below:

Credit analysis of financial assets

	March 31, 2019												
	stage1				stage2				stage3			Loss allowance	Total
	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		
Financial assets measured at fair value through other comprehensive income – debt instruments	\$ 492,823,458	6,822,276	-	499,645,734	1,121,782	41,115	-	1,162,897	1,447,607	-	1,447,607	(Note 1)	502,256,238
Financial assets measured at amortized cost (note 2)	1,776,252,204	38,248,278	-	1,814,500,482	-	-	-	-	2,335,051	-	2,335,051	627,939	1,816,207,594
Loans (note 2)	205,781,329	54,185,159	704,526	260,671,014	353,747	2,581,487	21,727	2,956,961	724,686	-	724,686	2,368,793	261,983,868
Total	\$ 2,474,856,991	99,255,713	704,526	2,574,817,230	1,475,529	2,622,602	21,727	4,119,858	4,507,344	-	4,507,344	2,996,732	2,580,447,700
	December 31, 2018												
	stage1				stage2				stage3			Loss allowance	Total
	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		
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)	561,694,082
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	1,810,728,871
Loans (note 2)	203,460,735	53,619,081	632,102	257,711,918	271,224	2,679,829	10,450	2,961,503	808,737	-	808,737	2,329,528	259,152,630
Total	\$ 2,524,728,223	100,306,598	632,102	2,625,666,923	1,624,442	2,697,194	10,450	4,332,086	4,531,184	-	4,531,184	2,954,610	2,631,575,583

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

	March 31, 2018												Loss allowance (Note 1)	Total
	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	Total		
Financial assets measured at fair value through other comprehensive income – debt instruments	\$ 578,700,629	7,186,585	-	585,887,214	-	-	-	-	-	-	-	-	585,887,214	
Financial assets measured at amortized cost (note 2)	1,508,015,205	39,698,485	-	1,547,713,690	-	-	-	-	-	-	-	692,542	1,547,021,148	
Loans (note 2)	154,553,096	39,335,174	562,112	194,450,382	111,869	155,525	5,221	272,615	437,602	-	437,602	1,969,480	193,191,119	
Total	\$ 2,241,268,930	86,220,244	562,112	2,328,051,286	111,869	155,525	5,221	272,615	437,602	-	437,602	2,662,022	2,326,099,481	

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: As of March 31, 2019 and December 31, 2018, fair value adjustments from business combinations of financial assets measured at amortized cost and loans were (485,091), (84,774) and (483,306), (84,308), respectively.

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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.

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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.

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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.

FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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h) Changes in the loss allowance

The reconciliations in loss allowance of loans are as follows:

	<u>12-month ECLs</u>	<u>Lifetime ECLs (collectively assessed)</u>	<u>Lifetime ECLs (individually assessed)</u>	<u>Lifetime ECLs (neither purchased nor originated credit-impaired financial assets)</u>	<u>Lifetime ECLs (purchased or originated credit-impaired financial assets)</u>	<u>The loss allowances measured in accordance with IFRS 9</u>	<u>Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Non performing/ Nonaccrual Loans"</u>	<u>Total</u>
Balance as of January 1, 2019	\$ 20,133	42,254	435	86,338	-	149,160	2,180,368	2,329,528
Changes due to financial instruments recognized as at beginning:								
– Transfer to lifetime ECLs	(482)	905	1	(424)	-	-	-	-
– Transfer to credit-impaired financial assets	(115)	(1,068)	(18)	1,201	-	-	-	-
– Transfer to 12-month ECLs	2,356	(2,264)	(92)	-	-	-	-	-
– Derecognition of financial assets at current period	(620)	(3,782)	(19)	(14,931)	-	(19,352)	-	(19,352)
Originated or purchased new financial assets	412	1,107	-	86	-	1,605	-	1,605
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Non-performing/Nonaccrual Loans"	-	-	-	-	-	-	51,040	51,040
Effects of exchange rate changes and others	(2,016)	1,636	-	326	-	(54)	-	(54)
Changes in models/risk parameters	1,006	-	89	4,931	-	6,026	-	6,026
Balance as of March 31, 2019	<u>\$ 20,674</u>	<u>38,788</u>	<u>396</u>	<u>77,527</u>	<u>-</u>	<u>137,385</u>	<u>2,231,408</u>	<u>2,368,793</u>

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

	<u>12-month ECLs</u>	<u>Lifetime ECLs (collectively assessed)</u>	<u>Lifetime ECLs (individually assessed)</u>	<u>Lifetime ECLs (neither purchased nor originated credit-impaired financial assets)</u>	<u>Lifetime ECLs (purchased or originated credit-impaired financial assets)</u>	<u>The loss allowances measured in accordance with IFRS 9</u>	<u>Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Non performing/ Nonaccrual Loans"</u>	<u>Total</u>
Balance as of January 1, 2018	\$ 1,271	-	435	28,326	-	30,032	1,895,850	1,925,882
Changes due to financial instruments recognized as at beginning:								
— Transfer to lifetime ECLs	(1)	-	1	-	-	-	-	-
— Transfer to credit-impaired financial assets	-	-	(39)	39	-	-	-	-
— Transfer to 12-month ECLs	130	-	(130)	-	-	-	-	-
— Derecognition of financial assets at current period	(43)	-	(6)	(2,772)	-	(2,821)	-	(2,821)
Originated or purchased new financial assets	77	-	-	-	-	77	-	77
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Non-performing/Nonaccrual Loans"	-	-	-	-	-	-	44,142	44,142
Effects of exchange rate changes and others	(64)	-	115	2,149	-	2,200	-	2,200
Balance as of March 31, 2018	<u>\$ 1,370</u>	<u>-</u>	<u>376</u>	<u>27,742</u>	<u>-</u>	<u>29,488</u>	<u>1,939,992</u>	<u>1,969,480</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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The reconciliations in loss allowance of financial assets measured at fair value through other comprehensive income 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
Balance as of January 1, 2019	\$ 306,721	133,201	-	450,428	-	890,350	890,350
Changes due to financial instruments recognized as at beginning:							
– Transfer to lifetime ECLs	(12,212)	12,641	-	(429)	-	-	-
– Transfer to credit-impaired financial assets	(1,668)	(16,840)	-	18,508	-	-	-
– Transfer to 12-month ECLs	10,584	(10,584)	-	-	-	-	-
– Derecognition of financial assets at current period	(54,028)	(33,777)	-	(207,217)	-	(295,022)	(295,022)
Originated or purchased new financial assets	4,249	-	-	511	-	4,760	4,760
Write-off	-	(472)	-	(23,242)	-	(23,714)	(23,714)
Changes in models/risk parameters	2,854	29,578	-	10,380	-	42,812	42,812
Effects of exchange rate changes and others	(205)	(242)	-	(559)	-	(1,006)	(1,006)
Balance as of March 31, 2019	<u>\$ 256,295</u>	<u>113,505</u>	<u>-</u>	<u>248,380</u>	<u>-</u>	<u>618,180</u>	<u>618,180</u>

Note: The reconciliation is conducted according to the overall changes of Fubon Life Insurance and its subsidiaries during a report period, so the loss allowance balance of the subsidiary when it was acquired by Fubon Life Insurance is included.

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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	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
Balance as of January 1, 2018	\$ 226,992	-	-	-	-	226,992	226,992
Changes due to financial instruments recognized as at beginning:							
— Derecognition of financial assets at current period	(14,998)	-	-	-	-	(14,998)	(14,998)
Originated or purchased new financial assets	8,214	-	-	-	-	8,214	8,214
Changes in models/risk parameters	(4,256)	-	-	-	-	(4,256)	(4,256)
Effects of exchange rate changes and others	(2,139)	-	-	-	-	(2,139)	(2,139)
Balance as of March 31, 2018	<u>\$ 213,813</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>213,813</u>	<u>213,813</u>

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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 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
Balance as of January 1, 2019	\$ 392,266	-	-	232,816	-	625,082	625,082
Changes due to financial instruments recognized as at beginning:							
— Derecognition of financial assets at current period	(8,643)	-	-	-	-	(8,643)	(8,643)
Originated or purchased new financial assets	9,738	-	-	-	-	9,738	9,738
Changes in models/risk parameters	(615)	-	-	(8)	-	(623)	(623)
Effects of exchange rate changes and others	1,167	-	-	1,218	-	2,385	2,385
Balance as of March 31, 2019	<u>\$ 393,913</u>	<u>-</u>	<u>-</u>	<u>234,026</u>	<u>-</u>	<u>627,939</u>	<u>627,939</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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	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
Balance as of January 1, 2018	\$ 633,513	-	-	-	-	633,513	633,513
Changes due to financial instruments recognized as at beginning:							
— Derecognition of financial assets at current period	(20,333)	-	-	-	-	(20,333)	(20,333)
Originated or purchased new financial assets	65,969	-	-	-	-	65,969	65,969
Changes in models/risk parameters	28,883	-	-	-	-	28,883	28,883
Effects of exchange rate changes and others	(15,490)	-	-	-	-	(15,490)	(15,490)
Balance as of March 31, 2018	<u>\$ 692,542</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>692,542</u>	<u>692,542</u>

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

The reconciliations loss allowance of other financial assets 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
Balance as of January 1, 2019	\$ -	-	-	-	-	-	-
Changes due to financial instruments recognized as at beginning:							
Originated or purchased new financial assets	74	-	-	-	-	74	74
Effects of exchange rate changes and others	(1)	-	-	-	-	(1)	(1)
Balance as of March 31, 2019	<u>\$ 73</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73</u>	<u>73</u>

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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.

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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.

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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

March 31, 2019						
By area	Taiwan	Asia except Taiwan	North America	Central and South America	Europe	Total
Exposure amount	\$ 43,875,411	6,754,800	7,471,051	624,693	8,124,176	66,850,131
Ratio of the total	65.63 %	10.11 %	11.18 %	0.93 %	12.15 %	100.00 %
December 31, 2018						
By area	Taiwan	Asia except Taiwan	North America	Central and South America	Europe	Total
Exposure amount	\$ 41,354,011	6,283,361	7,553,424	580,828	8,063,812	63,835,436
Ratio of the total	64.78 %	9.85 %	11.83 %	0.91 %	12.63 %	100.00 %
March 31, 2018						
By area	Taiwan	Asia except Taiwan	North America	Central and South America	Europe	Total
Exposure amount	\$ 41,248,413	6,786,329	7,609,857	584,182	8,186,849	64,415,630
Ratio of the total	64.03 %	10.54 %	11.81 %	0.91 %	12.71 %	100.00 %

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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	March 31, 2019		December 31, 2018		March 31, 2018	
	Book value	Maximum exposure	Book value	Maximum exposure	Book value	Maximum exposure
<u>Non-derivative financial instruments</u>						
Financial assets						
Cash and cash equivalents	\$ 9,329,020	9,329,020	8,477,179	8,477,179	9,735,571	9,735,571
Receivables	6,184,983	6,184,983	4,857,637	4,857,637	4,964,712	4,964,712
Financial assets measured at fair value through profit or loss	24,432,208	24,432,208	21,873,641	21,873,641	21,840,682	21,840,682
Financial assets measured at amortized cost	3,306,098	3,306,098	3,678,259	3,678,259	3,414,776	3,414,776
Other financial assets	387,226	387,226	1,000,621	1,000,621	396,844	396,844
Financial assets measured at fair value through other comprehensive income	22,794,580	22,794,580	21,901,101	21,901,101	22,124,906	22,124,906
Reinsurance contract assets — due from other reinsurance	6,380,940	6,380,940	5,607,488	5,607,488	5,628,537	5,628,537
Other assets	1,708,340	1,708,340	1,579,989	1,579,989	1,614,115	1,614,115
Financial liabilities						
Payables	11,547,234	11,547,234	10,978,591	10,978,591	10,744,403	10,744,403
Current tax liabilities	331,088	331,088	207,547	207,547	342,298	342,298
Lease obligations	213,380	213,380	-	-	-	-
Other liabilities	118,840	118,840	110,537	110,537	79,739	79,739
<u>Derivative financial instruments</u>						
Financial assets						
Financial assets measured at fair value through profit or loss	2,803	2,803	29,021	29,021	119,674	119,674
Financial liabilities						
Financial liabilities measured at fair value through profit or loss	94,563	94,563	66,889	66,889	8,627	8,627

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.

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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 conservatism, the amount is able to reflect the current value of the impairment. The information of credit quality is shown as follows:

March 31, 2019											
	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	\$ 19,769,173	-	-	19,769,173	-	-	-	-	-	-	19,769,173
Financial assets measured at amortized cost	3,307,597	-	-	3,307,597	-	-	-	-	-	1,499	3,306,098
Total	\$ 23,076,770	-	-	23,076,770	-	-	-	-	-	1,499	23,075,271
December 31, 2018											
	Neither past due nor impaired				Overdue but not impaired				Impaired	Impairment allowance	Total
	Low risk	Moderate risk	High risk	Total	Low risk	Moderate risk	High risk	Total			
Financial assets measured at fair value through profit or loss	\$ 19,249,331	-	-	19,249,331	-	-	-	-	-	-	19,249,331
Financial assets measured at amortized cost	3,679,817	-	-	3,679,817	-	-	-	-	-	1,558	3,678,259
Total	\$ 22,929,148	-	-	22,929,148	-	-	-	-	-	1,558	22,927,590
March 31, 2018											
	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	\$ 19,538,413	-	-	19,538,413	-	-	-	-	-	-	19,538,413
Financial assets measured at amortized cost	3,416,207	-	-	3,416,207	-	-	-	-	-	1,431	3,414,776
Total	\$ 22,954,620	-	-	22,954,620	-	-	-	-	-	1,431	22,953,189

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:

	March 31, 2019				
	Not overdue	30 days overdue	90 days overdue	90 days and above overdue	Total
Rate of expected credit-impaired	0%	2%~5%	10%~25%	25%~100%	
Carry amount	\$ 7,835,276	1,554,770	520,975	594,005	10,505,026
Expected credit-impaired	-	22,053	13,794	32,480	68,327

(Continued)

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

	December 31, 2018				Total
	Not overdue	30 days overdue	90 days overdue	90 days and above overdue	
Rate of expected credit-impaired	0%	2%~5%	10%~25%	25%~100%	
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
	March 31, 2018				
	Not overdue	30 days overdue	90 days overdue	90 days and above overdue	Total
Rate of expected credit-impaired	0%	2%~5%	10%~25%	25%~100%	
Carry amount	\$ 6,855,108	1,161,583	512,303	269,358	8,798,352
Expected credit-impaired	-	16,862	24,489	34,560	75,911

- 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-)
 - 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.

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

- 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.
- 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.

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

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.

iv) Changes in loss allowance

1. Changes in loss allowance of debt instrument measured at fair value through other comprehensive income

	For the three months ended March 31, 2019			
	12-month ECLs	Lifetime ECLs (collective assessment)	Lifetime ECLs (individual assessment)	Impairment recognized due to IFRS 9
Beginning balance	\$ 11,264	-	-	11,264
Changes due to recognition of financial instruments at beginning:				
— Derecognition of financial assets at current period	(58)	-	-	(58)
Purchased or originated financial assets	275	-	-	275
Effects of exchange rate changes and others	(2,076)	-	-	(2,076)
Ending balance	<u>\$ 9,405</u>	<u>-</u>	<u>-</u>	<u>9,405</u>

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

	For the three months ended March 31, 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	(202)	-	-	(202)
Effects of exchange rate changes and others	(100)	-	-	(100)
Ending balance	<u>\$ 10,324</u>	<u>-</u>	<u>-</u>	<u>10,324</u>

2. Changes in financial assets measured at amortized cost – loss allowance

	For the three months ended March 31, 2019			
	12-month ECLs	Lifetime ECLs (collective assessment)	Lifetime ECLs (individual assessment)	Impairment recognized due to IFRS 9
Beginning balance	\$ 1,558	-	-	1,558
— Derecognition of financial assets at current period	(108)	-	-	(108)
Effects of exchange rate changes and others	49	-	-	49
Ending balance	<u>\$ 1,499</u>	<u>-</u>	<u>-</u>	<u>1,499</u>

	For the three months ended March 31, 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	(21)	-	-	(21)
Ending balance	<u>\$ 1,431</u>	<u>-</u>	<u>-</u>	<u>1,431</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.

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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:

<u>Financial assets</u>	March 31, 2019					
	Credit risk exposure amount—by region					
	<u>Taiwan</u>	<u>Hong Kong</u>	<u>Asia</u>	<u>Europe</u>	<u>America</u>	<u>Total</u>
Cash and cash equivalents	\$ 12,172,088	120,048	880,393	62,214	-	13,234,743
Customer margin account	15,720,523	153,787	3,569,095	3,116	2,149,999	21,596,520
Financial assets mandatorily measured at fair value through profit or loss — current	29,716,499	237,765	4,238,035	528,522	544,106	35,264,927
Debt securities	28,649,017	237,765	4,238,035	528,522	544,106	34,197,445
Derivative assets—OTC	260,685	-	-	-	-	260,685
Derivative assets—Futures trading margin	246,956	-	-	-	-	246,956
Other debt securities	558,870	-	-	-	-	558,870
Call option—Futures	971	-	-	-	-	971
Margin deposits for borrowed securities	8,435,640	-	-	-	-	8,435,640
Other refundable deposits	1,471,278	3,597	1,008	-	-	1,475,883
Other current assets	1,458,424	977	-	-	-	1,459,401
Financial assets measured at fair value through other comprehensive income	4,492,970	279,560	2,128,845	248,032	740,265	7,889,672
Debt securities	<u>4,492,970</u>	<u>279,560</u>	<u>2,128,845</u>	<u>248,032</u>	<u>740,265</u>	<u>7,889,672</u>
Total	<u>\$ 73,467,422</u>	<u>795,734</u>	<u>10,817,376</u>	<u>841,884</u>	<u>3,434,370</u>	<u>89,356,786</u>
Proportion of the total	<u>82.22 %</u>	<u>0.89 %</u>	<u>12.11 %</u>	<u>0.94 %</u>	<u>3.84 %</u>	<u>100.00 %</u>

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

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	148,636	887,066	416	-	16,030,667
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	\$ 67,851,738	796,407	10,419,677	605,838	1,915,923	81,589,583
Proportion of the total	83.16 %	0.98 %	12.77 %	0.74 %	2.35 %	100.00 %

Financial assets	March 31, 2018					
	Credit risk exposure amount – by region					
	Taiwan	Hong Kong	Asia	Europe	America	Total
Cash and cash equivalents	\$ 12,724,645	345,849	858,251	411	-	13,929,156
Customer margin account	11,425,471	1,010,523	2,435,771	-	109,408	14,981,173
Financial assets mandatorily measured at fair value through profit or loss – current	31,802,695	86,807	4,360,916	-	521,289	36,771,707
Debt securities	30,816,620	86,807	4,360,916	-	521,289	35,785,632
Derivative assets – OTC	116,143	-	-	-	-	116,143
Derivative assets – Futures trading margin	380,652	-	-	-	-	380,652
Other debt securities	488,245	-	-	-	-	488,245
Call option – futures	1,035	-	-	-	-	1,035
Margin deposits for borrowed securities	39,686	-	-	-	-	39,686
Other refundable deposits	1,648,095	2,594	1,055	-	-	1,651,744
Other current assets	801,736	445,810	-	-	-	1,247,546
Financial assets measured at fair value through other comprehensive income	2,302,984	-	1,409,739	-	-	3,712,723
Debt securities	2,302,984	-	1,409,739	-	-	3,712,723
Total	\$ 60,745,312	1,891,583	9,065,732	411	630,697	72,333,735
Proportion of the total	83.98 %	2.62 %	12.53 %	- %	0.87 %	100.00 %

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

March 31, 2019													
Credit risk exposure amount—by industry													
Financial assets	Central and local government service 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	\$ 13,234,743	-	-	-	-	-	-	-	-	-	-	13,234,743	
Customer margin account	21,596,520	-	-	-	-	-	-	-	-	-	-	21,596,520	
Financial assets mandatorily measured at fair value through profit or loss — current	11,134,922	8,797,929	-	8,071,030	300,360	691,445	1,406,934	3,279,190	115,683	29,087	22,010	1,416,337	35,264,927
Debt securities	10,067,440	8,797,929	-	8,071,030	300,360	691,445	1,406,934	3,279,190	115,683	29,087	22,010	1,416,337	34,197,445
Derivative assets — OTC	260,685	-	-	-	-	-	-	-	-	-	-	-	260,685
Derivative assets — futures trading margin	246,956	-	-	-	-	-	-	-	-	-	-	-	246,956
Other debt securities	558,870	-	-	-	-	-	-	-	-	-	-	-	558,870
Call options — Futures	971	-	-	-	-	-	-	-	-	-	-	-	971
Margin deposits for borrowed securities	8,435,640	-	-	-	-	-	-	-	-	-	-	-	8,435,640
Other refundable deposits	1,472,202	-	-	-	-	-	-	-	-	-	-	3,681	1,475,883
Other current assets	609,454	-	-	-	-	-	-	-	-	-	-	849,947	1,459,401
Financial assets measured at fair value through other comprehensive income	3,615,003	315,663	-	-	-	149,854	754,890	1,030,324	-	-	-	2,023,938	7,889,672
Debt securities	3,615,003	315,663	-	-	-	149,854	754,890	1,030,324	-	-	-	2,023,938	7,889,672
Total	\$ 60,098,484	9,113,592	-	8,071,030	300,360	841,299	2,161,824	4,309,514	115,683	29,087	22,010	4,293,903	89,356,786
Proportion of the total	<u>67.26 %</u>	<u>10.20 %</u>	<u>- %</u>	<u>9.03 %</u>	<u>0.34 %</u>	<u>0.94 %</u>	<u>2.42 %</u>	<u>4.82 %</u>	<u>0.13 %</u>	<u>0.03 %</u>	<u>0.02 %</u>	<u>4.81 %</u>	<u>100.00 %</u>

December 31, 2018													
Credit risk exposure amount—by industry													
Financial assets	Central and local government service 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	\$ 16,030,667	-	-	-	-	-	-	-	-	-	-	16,030,667	
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	1,435,207	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	1,435,207	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	1,310,701	-	-	-	-	-	-	-	-	-	-	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	\$ 51,102,265	8,797,253	-	8,707,692	263,826	875,884	2,138,923	5,147,769	135,483	44,730	21,900	4,353,858	81,589,583
Proportion of the total	<u>62.63 %</u>	<u>10.78 %</u>	<u>- %</u>	<u>10.67 %</u>	<u>0.32 %</u>	<u>1.08 %</u>	<u>2.62 %</u>	<u>6.31 %</u>	<u>0.17 %</u>	<u>0.05 %</u>	<u>0.03 %</u>	<u>5.34 %</u>	<u>100.00 %</u>

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

March 31, 2018															
Credit risk exposure amount—by industry															
Financial assets	Central and	Building			Food and			Electronic			Chemical	Motor vehicle	Culture and	Other	Total
	Financial service	local government agencies	Retail and wholesale	and material	Biotechnology industry	travel industry	Shipping industry	industry	industry	industry	industry	creative industry	services		
Cash and cash equivalents	\$ 13,929,156	-	-	-	-	-	-	-	-	-	-	-	-	13,929,156	
Customer margin account	14,981,173	-	-	-	-	-	-	-	-	-	-	-	-	14,981,173	
Financial assets mandatorily measured at fair value through profit or loss — current	2,194,582	6,341,844	658	4,613,002	195,862	738,922	-	5,678,178	22,391	-	170,439	16,815,829	36,771,707		
Debt securities	1,208,507	6,341,844	658	4,613,002	195,862	738,922	-	5,678,178	22,391	-	170,439	16,815,829	35,785,632		
Derivative assets—OTC	116,143	-	-	-	-	-	-	-	-	-	-	-	116,143		
Derivative assets—futures trading margin	380,652	-	-	-	-	-	-	-	-	-	-	-	380,652		
Other debt securities	488,245	-	-	-	-	-	-	-	-	-	-	-	488,245		
Call option—Future	1,035	-	-	-	-	-	-	-	-	-	-	-	1,035		
Margin deposits for borrowed securities	39,686	-	-	-	-	-	-	-	-	-	-	-	39,686		
Other refundable deposits	1,651,744	-	-	-	-	-	-	-	-	-	-	-	1,651,744		
Other current assets	673,708	-	-	-	-	-	-	-	-	-	-	573,838	1,247,546		
Financial assets measured at fair value through other comprehensive income	1,602,146	959,496	-	56,354	-	-	598,785	495,942	-	-	-	-	3,712,723		
Debt securities	1,602,146	959,496	-	56,354	-	-	598,785	495,942	-	-	-	-	3,712,723		
money market instruments	-	-	-	-	-	-	-	-	-	-	-	-	-		
Total	<u>\$ 35,072,195</u>	<u>7,301,340</u>	<u>658</u>	<u>4,669,356</u>	<u>195,862</u>	<u>738,922</u>	<u>598,785</u>	<u>6,174,120</u>	<u>22,391</u>	<u>-</u>	<u>170,439</u>	<u>17,389,667</u>	<u>72,333,735</u>		
Proportion of the total	<u>48.48 %</u>	<u>10.09 %</u>	<u>- %</u>	<u>6.46 %</u>	<u>0.27 %</u>	<u>1.02 %</u>	<u>0.83 %</u>	<u>8.54 %</u>	<u>0.03 %</u>	<u>- %</u>	<u>0.24 %</u>	<u>24.04 %</u>	<u>100.00 %</u>		

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

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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:

		March 31, 2019											
		Financial assets measured by 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	Subtotal	Low risk	Medium risk	High risk	Subtotal	-	-	-	
Financial assets measured fair value through other comprehensive income – debt instruments		7,291,966	602,503	-	7,894,469	-	-	-	-	-	-	4,797	7,889,672
		December 31, 2018											
		Financial assets measured by 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	Subtotal	Low risk	Medium risk	High risk	Subtotal	-	-	-	
Financial assets measured fair value through other comprehensive income – debt instruments		7,544,673	952,204	-	8,496,877	-	-	-	-	-	-	5,542	8,491,335
		March 31, 2018											
		Financial assets measured by 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	Subtotal	Low risk	Medium risk	High risk	Subtotal	-	-	-	
Financial assets measured fair value through other comprehensive income – debt instruments		3,715,606	-	-	3,715,606	-	-	-	-	-	-	2,883	3,712,723

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

(Continued)

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

March 31, 2019							
Financial assets credit quality and classification							
Financial assets	Low risk	Medium risk	High risk	Overdue but not impaired	Impaired	Impairment allowance	Total
Cash and cash equivalents	\$ 12,415,099	819,644	-	-	-	-	13,234,743
Customer margin account	21,596,520	-	-	-	-	-	21,596,520
Financial assets mandatorily measured at fair value through profit or loss—current	29,679,684	5,303,089	282,154	-	-	-	35,264,927
Debt securities	28,808,407	5,106,884	282,154	-	-	-	34,197,445
Derivative assets—OTC	64,480	196,205	-	-	-	-	260,685
Derivative assets—Futures trading margin	246,956	-	-	-	-	-	246,956
Other debt securities	558,870	-	-	-	-	-	558,870
Call option—Futures	971	-	-	-	-	-	971
Margin deposits for borrowed securities	8,435,640	-	-	-	-	-	8,435,640
Other refundable deposits	1,474,630	1,253	-	-	-	-	1,475,883
Other current assets	1,459,401	-	-	-	-	-	1,459,401
Financial assets measured at fair value through other comprehensive income	7,291,966	602,503	-	-	-	4,797	7,889,672
Debt securities	7,291,966	602,503	-	-	-	4,797	7,889,672
Subtotal	82,352,940	6,726,489	282,154	-	-	4,797	89,356,786
Proportion of the total	92.16 %	7.53 %	0.32 %	- %	- %	0.01 %	100.00 %
Receivables	19,279,924	5,488,050	572,273	-	159,414	159,414	25,340,247
Account receivable	14,118,072	12,014	-	-	159,414	159,414	14,130,086
Receivables from pecuniary finance	5,161,852	5,476,036	572,273	-	-	-	11,210,161
Total	\$ 101,632,864	12,214,539	854,427	-	159,414	164,211	114,697,033
Proportion of the total	88.61 %	10.65 %	0.74 %	- %	0.14 %	0.14 %	100.00 %

Note: There is no purchased or originated credit-impaired financial in the above financial assets.

December 31, 2018							
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	\$ 14,466,079	1,564,588	-	-	-	-	16,030,667
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	68,392,352	12,733,213	469,560	-	-	5,542	81,589,583
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	\$ 82,248,115	17,962,393	1,006,350	-	159,725	165,267	101,211,316
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

March 31, 2018							
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	\$ 12,574,156	1,355,000	-	-	-	-	13,929,156
Customer margin account	14,981,173	-	-	-	-	-	14,981,173
Financial assets mandatorily measured at fair value through profit or loss – current	25,784,668	10,514,540	472,499	-	-	-	36,771,707
Debt securities	25,294,785	10,018,348	472,499	-	-	-	35,785,632
Derivative assets – OTC	18,921	97,222	-	-	-	-	116,143
Derivative assets – Futures trading margin	380,652	-	-	-	-	-	380,652
Other debt securities	89,275	398,970	-	-	-	-	488,245
Call option – Futures	1,035	-	-	-	-	-	1,035
Margin deposits for borrowed securities	39,686	-	-	-	-	-	39,686
Other refundable deposits	1,650,204	1,540	-	-	-	-	1,651,744
Other current assets	1,247,546	-	-	-	-	-	1,247,546
Financial assets measured at fair value through other comprehensive income	3,715,606	-	-	-	-	2,883	3,712,723
Debt securities	3,715,606	-	-	-	-	2,883	3,712,723
Subtotal	<u>59,993,039</u>	<u>11,871,080</u>	<u>472,499</u>	<u>-</u>	<u>-</u>	<u>2,883</u>	<u>72,333,735</u>
Proportion of the total	82.94 %	16.41 %	0.65 %	-	-	-	100.00 %
Receivables	20,396,049	8,192,063	537,351	-	159,717	159,717	29,125,463
Account receivable	14,817,877	13,204	-	-	159,717	159,717	14,831,081
Receivables from pecuniary finance	5,578,172	8,178,859	537,351	-	-	-	14,294,382
Total	<u>\$ 80,389,088</u>	<u>20,063,143</u>	<u>1,009,850</u>	<u>-</u>	<u>159,717</u>	<u>162,600</u>	<u>101,459,198</u>
Proportion of the total	<u>79.23 %</u>	<u>19.77 %</u>	<u>1.00 %</u>	<u>-</u>	<u>0.16 %</u>	<u>0.16 %</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 have no financial assets which are overdue but not impaired. 0.74% 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.

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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 three months ended March 31, 2019 and 2018.

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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 .

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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 March 31, 2019 and 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:

	For the three months ended March 31, 2019					Total
	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)	
Beginning balance	5,542	-	-	-	-	5,542
Effects of exchange rate changes and others	(745)	-	-	-	-	(745)
Ending balance	<u>\$ 4,797</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,797</u>

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

	For the three months ended March 31, 2018						Total
	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	1,799	-	-	-	-	1,799	1,799
Originated or purchased new financial assets	940	-	-	-	-	940	940
Effects of exchange rate changes and others	144	-	-	-	-	144	144
Ending balance	<u>\$ 2,883</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,883</u>	<u>2,883</u>

For the three months ended March 31, 2019 and 2018, there was no significant change in the allowance loss resulting from significant changes in the total carrying amount.

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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 March 31, 2019, the reconciliations of the beginning and ending balances for loss allowance of other receivables and overdue receivables were as follows:

	For the three months ended March 31, 2019						Total
	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	-	-	161,118	39,063	-	200,181	200,181
Originated or purchased new financial assets	-	-	-	762	-	762	762
Effects of exchange rate changes and others	-	-	(333)	(273)	-	(606)	(606)
Ending balance	<u>\$ -</u>	<u>-</u>	<u>160,785</u>	<u>39,552</u>	<u>-</u>	<u>200,337</u>	<u>200,337</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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	For the three months ended March 31, 2019						Total
	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	-	-	1,080	12,906	-	13,986	13,986
Originated or purchased new financial assets	-	-	159,717	957	-	160,674	160,674
Effects of exchange rate changes and others	-	-	(133)	(4,788)	-	(4,921)	(4,921)
Ending balance	<u>\$ -</u>	<u>-</u>	<u>160,664</u>	<u>9,075</u>	<u>-</u>	<u>169,739</u>	<u>169,739</u>

Affected by the sharp plummet in US stocks, as of March 31, 2019, December 31 and March 31, 2018, Fubon Futures had the unpaid amount of future exchanges margins receivable amounting to \$171,428, \$172,038 and \$172,921, which has yet to be recovered, and recorded loss allowance amounting to \$159,414, \$159,725 and \$159,717 after considering the actual recovery.

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

vii) Impairment loss

As of March 31, 2019, December 31 and March 31, 2018, 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 March 31, 2019, December 31 and March 31, 2018, 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 March 31, 2019, December 31 and March 31, 2018, 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.

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

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.

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.

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

The Credit Committee is a management level committee that provides management oversight of Fubon Bank (Hong Kong) and its subsidiaries' credit risk management. It ensures that Fubon Bank (Hong Kong) and its subsidiaries have in place an effective credit risk management framework and that its credit risks are within the credit policies and credit risk profile as specified by the Board of Directors or its delegated committees. The Credit Committee reviews and endorses 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.

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.

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

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.

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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.

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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.

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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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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

For the three months ended March 31, 2019							
	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	\$ 22,554	-	722	-	-	23,276	23,276
Changes due to financial instruments recognized as at beginning:							
— Derecognition of financial assets at current period	(1,629)	-	-	-	-	(1,629)	(1,629)
Originated or purchased new financial assets	4,172	-	-	-	-	4,172	4,172
Effects of exchange rate changes and others	(4,166)	-	(82)	-	-	(4,248)	(4,248)
Ending balance	<u>\$ 20,931</u>	<u>-</u>	<u>640</u>	<u>-</u>	<u>-</u>	<u>21,571</u>	<u>21,571</u>
For the three months ended March 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	Total
Beginning balance	\$ 38,427	-	804	-	-	39,231	39,231
Changes due to financial instruments recognized as at beginning:							
— Derecognition of financial assets at current period	(894)	-	-	-	-	(894)	(894)
Originated or purchased new financial assets	2,644	-	-	-	-	2,644	2,644
Effects of exchange rate changes and others	1,787	-	(64)	-	-	1,723	1,723
Ending balance	<u>\$ 41,964</u>	<u>-</u>	<u>740</u>	<u>-</u>	<u>-</u>	<u>42,704</u>	<u>42,704</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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ii) Discount and Loans

Units: In thousands of HKD

For the three months ended March 31, 2019							
	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	\$ 26,058	-	199,694	-	-	225,752	225,752
Changes due to financial instruments recognized as at beginning:							
– Transfer to lifetime ECLs	1,091	-	(1,091)	-	-	-	-
– Transfer to 12-month ECLs	(6)	-	6	-	-	-	-
– Derecognition of financial assets at current period	(6,048)	-	(77)	-	-	(6,125)	(6,125)
Originated or purchased new financial assets	5,407	-	490	-	-	5,897	5,897
Write-off	-	-	(6,616)	-	-	(6,616)	(6,616)
Effects of exchange rate changes and others	(6,223)	-	6,787	-	-	564	564
Ending balance	<u>\$ 20,279</u>	<u>-</u>	<u>199,193</u>	<u>-</u>	<u>-</u>	<u>219,472</u>	<u>219,472</u>
For the three months ended March 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	Total
Beginning balance	\$ 37,783	-	10,619	-	-	48,402	48,402
Changes due to financial instruments recognized as at beginning:							
– Transfer to lifetime ECLs	(25)	-	25	-	-	-	-
– Transfer to 12-month ECLs	6,999	-	(6,999)	-	-	-	-
– Derecognition of financial assets at current period	(3,020)	-	(2,537)	-	-	(5,557)	(5,557)
Originated or purchased new financial assets	6,812	-	116	-	-	6,928	6,928
Write-off	-	-	-	-	-	-	-
Effects of exchange rate changes and others	(8,636)	-	4,862	-	-	(3,774)	(3,774)
Ending balance	<u>\$ 39,913</u>	<u>-</u>	<u>6,086</u>	<u>-</u>	<u>-</u>	<u>45,999</u>	<u>45,999</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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iii) Off-balance sheet guarantees and commitments

Units: In thousands of HKD

	For the three months ended March 31, 2019						Total
	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	\$ 5,081	-	184	-	-	5,265	5,265
Changes due to financial instruments recognized as at beginning:							
Effects of exchange rate changes and others	85	-	8	-	-	93	93
Ending balance	<u>\$ 5,166</u>	<u>-</u>	<u>192</u>	<u>-</u>	<u>-</u>	<u>5,358</u>	<u>5,358</u>
	For the three months ended March 31, 2018						Total
	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	\$ 10,065	-	-	-	-	10,065	10,065
Changes due to financial instruments recognized as at beginning:							
Effects of exchange rate changes and others	3,861	-	-	-	-	3,861	3,861
Ending balance	<u>\$ 13,926</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,926</u>	<u>13,926</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		
	March 31, 2019	December 31, 2018	March 31, 2018
Irrevocable loan commitments	\$ 1,897,399	2,280,666	1,919,178
Standby letters of credit	325,947	192,471	418,787
Financial guarantees	181,149	907,588	150,818
Total	<u>\$ 2,404,495</u>	<u>3,380,725</u>	<u>2,488,783</u>

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

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:

	March 31, 2019		
	Collaterals	General agreement of net amount settlement	Other credit enhancement tools
On-balance sheet items			
Discounts and loans	45.57 %	-	39.44 %
Financial assets measured at amortized cost			
– Bonds investments	-	-	5.09 %
December 31, 2018			
	Collaterals	General agreement of net amount settlement	Other credit enhancement tools
On-balance sheet items			
Discounts and loans	45.97 %	-	40.36 %
Financial assets measured at amortized cost			
– Bonds investments	-	-	4.43 %
March 31, 2018			
	Collaterals	General agreement of net amount settlement	Other credit enhancement tools
On-balance sheet items			
Discounts and loans	48.44 %	-	38.61 %
Financial assets measured at amortized cost			
– Bonds investments	-	-	5.18 %

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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Information of loans and nonperforming loans in different industries, areas and guarantees with significant concentration of credit risk is as follow:

i) By industry and by area

Units: In thousands of HKD

Industry	March 31, 2019		December 31, 2018		March 31, 2018	
	Amount	%	Amount	%	Amount	%
Gross advances for use in Hong Kong industrial, commercial and financial						
Property development	\$ 4,323,091	8.64	4,311,798	8.83	3,029,785	6.14
Property investment	7,846,954	15.68	8,230,920	16.85	8,495,042	17.22
Financial concerns	3,324,789	6.64	2,734,051	5.60	4,137,986	8.39
Stockbrokers	1,249,399	2.50	1,051,310	2.15	2,245,843	4.55
Wholesale and retail trade	517,553	1.03	501,723	1.03	396,673	0.80
Manufacturing	1,715,705	3.43	1,582,124	3.24	1,263,035	2.56
Transport and transport equipment	154,331	0.31	154,633	0.32	109,444	0.22
Information technology	616,627	1.23	615,749	1.26	803,668	1.63
Electricity and gas	556,792	1.11	356,792	0.73	10,000	0.02
Others	3,584,529	7.16	3,651,717	7.48	2,972,786	6.03
Individuals						
Project plan	4,493	0.01	4,635	0.01	5,527	0.01
Loan for the purchase of other residential properties	9,140,913	18.26	9,376,721	19.20	9,740,248	19.74
Credit card advances	809,360	1.62	872,000	1.78	874,117	1.77
Others	4,407,149	8.81	4,491,341	9.20	4,714,990	9.56
	38,251,685	76.43	37,935,514	77.68	38,799,144	78.64
Trade finance	5,821,143	11.63	5,653,600	11.57	5,611,793	11.38
Gross advances for use in Hong Kong	44,072,828	88.06	43,589,114	89.25	44,410,937	90.02
Gross advances for use outside Hong Kong	5,973,580	11.94	5,248,797	10.75	4,925,005	9.98
Gross advances to customers	<u>\$ 50,046,408</u>	<u>100.00</u>	<u>48,837,911</u>	<u>100.00</u>	<u>49,335,942</u>	<u>100.00</u>

ii) By collateral

Units: In thousands of HKD

Collateral	March 31, 2019		December 31, 2018		March 31, 2018	
	Amount	%	Amount	%	Amount	%
Unsecured	\$ 27,240,456	54.43	26,386,289	54.03	25,438,792	51.56
Secured						
– Financial collateral	444,516	0.89	510,164	1.04	250,788	0.51
– Real estate	21,493,996	42.95	21,330,016	43.68	21,938,388	44.47
– Other collateral	867,440	1.73	611,442	1.25	1,707,974	3.46
Total	<u>\$ 50,046,408</u>	<u>100.00</u>	<u>48,837,911</u>	<u>100.00</u>	<u>49,335,942</u>	<u>100.00</u>

(Continued)

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

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

i) Credit quality analysis of financial assets

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. Medium risk: Exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with medium default risk
3. High risk: Exposures require varying degrees of special attention and default risk is of greater concern.

On-balance sheet items:

Units: In thousands of HKD

	March 31, 2019										
	stage1				stage2				stage3	Loss allowance	Total
	Low risk	Medium risk	High risk	Total	Low risk	Medium risk	High risk	Total			
Discounts and loans											
Personal finance											
– Mortgage	\$ 14,903,762	-	-	14,903,762	-	108,821	-	108,821	5,897	2,683	15,015,797
– Consumer loans	3,925,123	-	-	3,925,123	-	7,453	-	7,453	6,222	6,303	3,932,495
Corporate finance											
– Commercial loans	29,700,931	-	-	29,700,931	-	1,202,342	-	1,202,342	185,857	210,486	30,878,644
Due from the central bank and call loans to banks	4,297,962	-	-	4,297,962	-	-	-	-	-	2,291	4,295,671
Financial assets measured at amortized cost – debt instruments	34,196,747	-	2,791,730	36,988,477	236,591	-	-	236,591	-	19,280	37,205,788
Total	\$ 87,024,525	-	2,791,730	89,816,255	236,591	1,318,616	-	1,555,207	197,976	241,043	91,328,395

	March 31, 2018										
	stage1				stage2				stage3	Loss allowance	Total
	Low risk	Medium risk	High risk	Total	Low risk	Medium risk	High risk	Total			
Discounts and loans											
Personal finance											
– Mortgage	\$ 13,039,736	-	-	13,039,736	-	23,319	-	23,319	-	3,177	13,059,878
– Consumer loans	1,220,470	-	-	1,220,470	-	110,539	-	110,539	11,112	16,916	1,325,205
Corporate finance											
– Commercial loans	34,603,881	-	-	34,603,881	-	150,639	-	150,639	176,248	182,354	34,748,414
Guarantee and commitments	34,041,407	-	-	34,041,407	-	464,360	-	464,360	-	13,926	34,491,841
Financial assets measured at amortized cost – debt instruments	32,225,011	-	1,637,542	33,862,553	233,944	-	-	233,944	-	42,704	34,053,793
Total	\$ 115,130,505	-	1,637,542	116,768,047	233,944	748,857	-	982,801	187,360	259,077	117,679,131

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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Off-balance sheet items:

Units: In thousands of HKD

	March 31, 2019										
	stage1				stage2				stage3	Loss allowance	Total
	Low risk	Medium risk	High risk	Total	Low risk	Medium risk	High risk	Total			
Guarantee and commitments	38,537,019	-	-	38,537,019	-	93,013	-	93,013	-	5,358	38,624,674

(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).

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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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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

	March 31, 2019					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Cash and due from/ call loans to banks	\$ 34,181,740	3,639,990	3,023,760	5,883,998	19,420,359	66,149,847
Investment in marketable securities (Note 2)	212,354,733	38,628,326	17,955,298	50,413,286	135,165,305	454,516,948
Securities purchased under resell agreements	9,565,800	-	-	-	-	9,565,800
Loans (included overdue loans)	58,105,149	66,612,730	80,821,634	64,034,664	719,193,777	988,767,954
Deliverable derivative assets	209,018,948	227,295,611	152,201,107	98,564,687	21,652,379	708,732,732
Non-deliverable derivative assets	4,006,670	-	-	-	473,498	4,480,168
Other capital inflow on maturity	24,198,756	7,309,631	8,708,379	5,350,161	54,186,679	99,753,606
Total assets	<u>\$ 551,431,796</u>	<u>343,486,288</u>	<u>262,710,178</u>	<u>224,246,796</u>	<u>950,091,997</u>	<u>2,331,967,055</u>
Liabilities						
Deposits from the central bank and banks	\$ 19,186,440	1,000	-	-	117,000	19,304,440
Deposits and remittances	100,532,380	122,788,692	102,029,270	198,540,915	654,279,499	1,178,170,756
Securities sold under repurchase agreements	3,149,968	1,828,987	30,778	10,923	-	5,020,656
Payables	379,301	1,003,988	464,837	663,743	103,674	2,615,543
Financial bonds payable	1,300,143	-	-	7,550,000	45,373,498	54,223,641
Lease liability	94,610	176,585	281,962	538,042	2,624,645	3,715,844
Deliverable derivative liabilities	270,696,898	278,214,989	162,394,383	98,587,950	33,335,295	843,229,515
Non-deliverable derivative liabilities	4,066,833	-	-	-	-	4,066,833
Other capital outflow on maturity	13,948,371	1,722,376	201,935	2,069,953	6,704,230	24,646,865
Total liabilities	<u>\$ 413,354,944</u>	<u>405,736,617</u>	<u>265,403,165</u>	<u>307,961,526</u>	<u>742,537,841</u>	<u>2,134,994,093</u>

(Continued)

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

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	<u>\$ 662,256,859</u>	<u>294,187,399</u>	<u>298,479,103</u>	<u>238,424,914</u>	<u>984,222,146</u>	<u>2,477,570,421</u>
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	<u>\$ 473,927,268</u>	<u>459,287,155</u>	<u>324,316,030</u>	<u>282,906,447</u>	<u>748,700,148</u>	<u>2,289,137,048</u>

(Continued)

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

Units: In thousands of TWD

	March 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	\$ 41,984,977	3,001,105	3,037,506	5,655,263	18,121,943	71,800,794
Investment in marketable securities (Note 2)	201,606,110	50,704,795	39,042,219	50,811,141	139,982,061	482,146,326
Securities purchased under resell agreements	17,629,255	-	-	-	-	17,629,255
Loans (included overdue loans)	73,003,080	89,913,323	66,188,497	101,784,039	662,319,387	993,208,326
Deliverable derivative assets	239,916,916	199,820,037	146,843,602	128,050,109	11,804,213	726,434,877
Non-deliverable derivative assets	3,501,306	-	2,406	7,895	233,938	3,745,545
Other capital inflow on maturity	23,181,423	7,832,957	6,887,659	3,399,876	49,949,065	91,250,980
Total assets	\$ 600,823,067	351,272,217	262,001,889	289,708,323	882,410,607	2,386,216,103
Liabilities						
Deposits from the central bank and banks	\$ 15,996,449	5,879	1,700	-	103,000	16,107,028
Deposits and remittances	125,694,895	101,945,737	103,216,673	192,169,923	614,777,347	1,137,804,575
Securities sold under repurchase agreements	8,502,007	3,401,185	-	10,897	-	11,914,089
Payables	436,019	881,029	452,278	587,972	102,242	2,459,540
Financial bonds payable	-	-	2,452,406	9,007,895	37,130,311	48,590,612
Deliverable derivative liabilities	304,000,579	317,370,368	180,610,326	119,197,113	28,215,115	949,393,501
Non-deliverable derivative liabilities	3,702,327	-	-	-	3,627	3,705,954
Other capital outflow on maturity	10,678,802	3,279,040	335,385	1,792,045	5,796,369	21,881,641
Total liabilities	\$ 469,011,078	426,883,238	287,068,768	322,765,845	686,128,011	2,191,856,940

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 and debt investments measured at amortized cost.

(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

	March 31, 2019					Total
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	
Assets						
Cash and due from / call loans to banks	\$ 708,797	650,000	380,000	620,000	-	2,358,797
Investment in marketable securities (Note 2)	458,519	44,989	10,989	78,990	6,443,047	7,036,534
Loans (included overdue loans)	574,291	441,755	356,373	309,116	1,442,524	3,124,059
Deliverable derivative assets	11,796,755	10,467,916	5,693,281	3,478,655	1,112,277	32,548,884
Non-deliverable derivative assets	33,626	-	-	219	28,450	62,295
Other capital inflow on maturity	857,753	244,571	58,737	16,920	218,303	1,396,284
Total assets	\$ 14,429,741	11,849,231	6,499,380	4,503,900	9,244,601	46,526,853
Liabilities						
Deposits from the central bank and banks	\$ 1,944,562	255,000	30,000	-	-	2,229,562
Deposits and remittances	2,090,332	1,564,149	1,958,605	1,867,062	3,982,662	11,462,810
Securities sold under repurchase agreements	1,584,356	819,708	-	-	-	2,404,064
Payables	22,055	14,670	7,707	1,936	168	46,536
Financial bonds payable	-	-	-	-	1,148,180	1,148,180
Deliverable derivative liabilities	8,925,046	8,718,407	5,471,550	3,440,300	732,872	27,288,175
Non-deliverable derivative liabilities	36,858	3	-	109	49,455	86,425
Other capital outflow on maturity	760,088	77,032	45,807	15,338	751,581	1,649,846
Total liabilities	\$ 15,363,297	11,448,969	7,513,669	5,324,745	6,664,918	46,315,598

(Continued)

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

Units: In thousands of USD

	December 31, 2018					Total
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	
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	\$ 14,862,313	14,140,736	8,462,741	3,867,365	9,073,748	50,406,903
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	\$ 19,789,623	11,403,673	7,182,198	5,322,159	6,290,753	49,988,406

(Continued)

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

Units: In thousands of USD

	March 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	\$ 922,986	859,000	495,000	532,000	-	2,808,986
Investment in marketable securities (Note 2)	576,584	26,613	87,866	166,745	5,288,112	6,145,920
Loans (included overdue loans)	897,014	489,868	312,324	259,217	1,454,032	3,412,455
Deliverable derivative assets	13,820,740	13,012,605	7,750,661	5,004,973	995,410	40,584,389
Non-deliverable derivative assets	22,588	-	120	97	58,650	81,455
Other capital inflow on maturity	886,288	195,381	53,799	21,475	174,860	1,331,803
Total assets	\$ 17,126,200	14,583,467	8,699,770	5,984,507	7,971,064	54,365,008
Liabilities						
Deposits from the central bank and banks	\$ 1,570,969	770,000	20,000	-	-	2,360,969
Deposits and remittances	4,804,386	1,832,813	2,164,364	1,551,744	4,071,863	14,425,170
Securities sold under repurchase agreements	1,499,914	837,742	-	-	-	2,337,656
Payables	16,352	15,625	7,135	537	-	39,649
Financial bonds payable	-	-	-	-	987,449	987,449
Deliverable derivative liabilities	11,175,474	9,137,412	6,554,620	5,343,871	419,530	32,630,907
Non-deliverable derivative liabilities	29,326	70	-	16	63,018	92,430
Other capital inflow on maturity	703,090	82,468	21,223	12,168	455,134	1,274,083
Total liabilities	\$ 19,799,511	12,676,130	8,767,342	6,908,336	5,996,994	54,148,313

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 and debt investments measured at amortized cost.

(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

	March 31, 2019					Total
	0-30 days	31-90 days	91-365 days	Over 1 year	Undetermined	
Assets						
Cash and due from / call loans to banks	\$ 1,935,240	-	-	-	4,567,130	6,502,370
Investment in marketable securities (Note)	5,227,452	1,189,187	2,069,484	17,642,289	-	26,128,412
Loans (included overdue loans)	7,850,647	8,689,206	21,142,233	9,740,971	-	47,423,057
Deliverable derivative assets	3,574,216	3,790,016	6,159,701	679,573	-	14,203,506
Non-deliverable derivative assets	8,571,426	10,493,391	31,299,952	134,961	-	50,499,730
Other capital inflow on maturity	1,235,139	1,272,542	2,126,771	-	18,239	4,652,691
Total assets	\$ 28,394,120	25,434,342	62,798,141	28,197,794	4,585,369	149,409,766
Liabilities						
Deposits from the central bank and banks	\$ 1,613,617	502,461	2,299,515	-	-	4,415,593
Due to the central bank and banks	-	-	151,734	-	-	151,734
Deposits and remittances	24,267,706	11,877,029	19,612,257	3,627,619	-	59,384,611
Securities sold under repurchase agreements	2,406,839	-	-	-	-	2,406,839
Payables	1,019,709	1,272,542	2,126,771	541	-	4,419,563
Financial bonds payable	-	-	54,300	1,488,700	-	1,543,000
Lease liability	7,223	5,154	61,936	104,349	-	178,662
Deliverable derivatives liabilities	3,598,712	3,822,898	5,763,817	677,219	-	13,862,646
Non-deliverable derivatives liabilities	8,491,449	10,496,682	31,364,097	134,949	-	50,487,177
Other capital outflow	-	-	-	-	3,122	3,122
Total liabilities	\$ 41,405,255	27,976,766	61,434,427	6,033,377	3,122	136,852,947

(Continued)

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

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
Investments 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 assets	4,097,729	2,882,187	7,336,783	682,450	-	14,999,149
Non-deliverable derivative assets	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	\$ 30,476,396	22,495,071	56,719,078	25,389,180	4,802,537	139,882,262
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
Financial bonds payable	-	-	54,300	1,488,700	-	1,543,000
Deliverable derivatives liabilities	4,118,721	2,933,752	7,437,064	680,097	-	15,169,634
Non-deliverable derivatives liabilities	8,938,974	9,849,401	25,854,254	-	-	44,642,629
Other capital outflow	-	-	-	-	3,122	3,122
Total liabilities	\$ 44,578,685	29,673,585	48,895,098	7,214,004	3,122	130,364,494

(Continued)

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

Units: In thousands of CNY

	March 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	\$ 2,066,507	-	-	-	5,434,237	7,500,744
Investments in marketable securities (Note)	7,103,182	3,289,764	4,335,228	11,009,232	-	25,737,406
Securities purchased under resell agreements	388,092	-	-	-	-	388,092
Loans (included overdue loans)	5,162,805	8,238,244	15,620,814	9,362,261	-	38,384,124
Deliverable derivative assets	2,295,820	1,659,224	3,499,133	2,305	-	7,456,482
Non deliverable derivative assets	10,843,730	12,048,013	27,300,689	63,569	-	50,256,001
Other capital inflow on maturity	1,091,542	691,379	1,302,337	-	20,385	3,105,643
Total assets	\$ 28,951,678	25,926,624	52,058,201	20,437,367	5,454,622	132,828,492
Liabilities						
Deposits from the central bank and banks	\$ 3,617,073	1,782,513	4,725,301	-	-	10,124,887
Due to the central bank and banks	-	-	776,782	-	-	776,782
Deposits and remittances	21,507,886	10,077,646	10,899,584	2,803,839	-	45,288,955
Securities sold under repurchase agreements	4,569,099	2,924,100	-	-	-	7,493,199
Payables	614,322	684,929	1,302,337	539	-	2,602,127
Deliverable derivatives liabilities	2,314,708	1,654,324	3,421,895	2,305	-	7,393,232
Non-deliverable derivatives liabilities	10,928,180	12,124,240	27,585,871	63,717	-	50,702,008
Other capital outflow	-	-	-	-	3,122	3,122
Total liabilities	\$ 43,551,268	29,247,752	48,711,770	2,870,400	3,122	124,384,312

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 and debt investments measured at amortized cost.

(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

	March 31, 2019					Total
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	
Assets						
Deliverable derivative assets						
– Forward contracts	\$ 582,585	1,963,338	176,220	62,763	-	2,784,906
– Currency swap	196,214,736	219,861,182	143,753,851	68,411,935	602,160	628,843,864
– Cross currency swap	12,221,627	5,471,091	8,271,036	30,089,989	21,050,219	77,103,962
Subtotal	<u>209,018,948</u>	<u>227,295,611</u>	<u>152,201,107</u>	<u>98,564,687</u>	<u>21,652,379</u>	<u>708,732,732</u>
Non-deliverable derivative assets						
– Foreign exchange derivative instruments	925,098	-	-	-	-	925,098
– Interest rate derivative instruments – hedging	143	-	-	-	473,498	473,641
– Interest rate derivative instruments – non-hedging	2,336,108	-	-	-	-	2,336,108
– Equity derivative instruments	745,321	-	-	-	-	745,321
Subtotal	<u>4,006,670</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>473,498</u>	<u>4,480,168</u>
Liabilities						
Deliverable derivative liabilities						
– Forward contracts	\$ 1,067,668	643,861	45,700	584	-	1,757,813
– Currency swap	262,860,780	268,690,468	158,366,683	80,234,196	2,664,280	772,816,407
– Cross currency swap	6,768,450	8,880,660	3,982,000	18,353,170	30,671,015	68,655,295
Subtotal	<u>270,696,898</u>	<u>278,214,989</u>	<u>162,394,383</u>	<u>98,587,950</u>	<u>33,335,295</u>	<u>843,229,515</u>
Non-deliverable derivative liabilities						
– Foreign exchange derivative instruments	925,098	-	-	-	-	925,098
– Interest rate derivative instruments – non-hedging	2,396,234	-	-	-	-	2,396,234
– Equity derivative instruments	745,501	-	-	-	-	745,501
Subtotal	<u>4,066,833</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,066,833</u>

(Continued)

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

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	<u>9,784,349</u>	<u>15,467,091</u>	<u>5,174,984</u>	<u>17,538,925</u>	<u>17,244,360</u>	<u>65,209,709</u>
Subtotal	<u>322,877,292</u>	<u>197,352,278</u>	<u>161,782,111</u>	<u>113,441,476</u>	<u>19,331,060</u>	<u>814,784,217</u>
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	<u>4,143,393</u>	<u>-</u>	<u>1,921</u>	<u>-</u>	<u>354,325</u>	<u>4,499,639</u>
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	<u>3,549,225</u>	<u>8,023,900</u>	<u>15,649,110</u>	<u>8,408,940</u>	<u>29,332,680</u>	<u>64,963,855</u>
Subtotal	<u>313,354,989</u>	<u>329,648,202</u>	<u>225,560,881</u>	<u>91,209,577</u>	<u>30,791,880</u>	<u>990,565,529</u>
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	<u>4,213,223</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,213,223</u>

(Continued)

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

Units: In thousands of TWD

	March 31, 2018					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Deliverable derivative assets						
– Forward contracts	\$ 263,040	895,638	370,076	434,677	89,653	2,053,084
– Currency swap	218,043,593	186,356,800	138,493,176	106,977,377	295,250	650,166,196
– Cross currency swap	<u>21,610,283</u>	<u>12,567,599</u>	<u>7,980,350</u>	<u>20,638,055</u>	<u>11,419,310</u>	<u>74,215,597</u>
Subtotal	<u>239,916,916</u>	<u>199,820,037</u>	<u>146,843,602</u>	<u>128,050,109</u>	<u>11,804,213</u>	<u>726,434,877</u>
– Non-deliverable derivative assets						
– Foreign exchange derivative instruments	276,478	-	-	-	-	276,478
– Interest rate derivative instruments – hedging	-	-	2,406	7,895	233,938	244,239
– Interest rate derivative instruments – non-hedging	2,321,329	-	-	-	-	2,321,329
– Equity derivative instruments	903,499	-	-	-	-	903,499
Subtotal	<u>3,501,306</u>	<u>-</u>	<u>2,406</u>	<u>7,895</u>	<u>233,938</u>	<u>3,745,545</u>
Liabilities						
Deliverable derivative liabilities						
– Forward contracts	\$ 1,899,477	1,931,263	78,882	-	-	3,909,622
– Currency swap	288,817,700	313,913,055	178,411,594	104,272,248	10,537,395	895,951,992
– Cross currency swap	<u>13,283,402</u>	<u>1,526,050</u>	<u>2,119,850</u>	<u>14,924,865</u>	<u>17,677,720</u>	<u>49,531,887</u>
Subtotal	<u>304,000,579</u>	<u>317,370,368</u>	<u>180,610,326</u>	<u>119,197,113</u>	<u>28,215,115</u>	<u>949,393,501</u>
– Non-deliverable derivative liabilities						
– Foreign exchange derivative instruments	276,478	-	-	-	-	276,478
– Interest rate derivative instrument-hedging	-	-	-	-	3,627	3,627
– Interest rate derivative instruments – non-hedging	2,522,350	-	-	-	-	2,522,350
– Equity derivative instruments	903,499	-	-	-	-	903,499
Subtotal	<u>3,702,327</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,627</u>	<u>3,705,954</u>

Note: The above amounts include only New Taiwan dollar amounts (exclude foreign currencies) held by headquarter and domestic branches of Taipei Fubon Bank.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND 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

	March 31, 2019					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Deliverable derivative assets						
– Forward contracts	\$ 632,507	675,305	183,021	60,189	-	1,551,022
– Currency swap	10,934,248	9,497,611	5,380,260	2,802,194	90,000	28,704,313
– Cross currency swap	230,000	295,000	130,000	616,272	1,022,277	2,293,549
Subtotal	<u>11,796,755</u>	<u>10,467,916</u>	<u>5,693,281</u>	<u>3,478,655</u>	<u>1,112,277</u>	<u>32,548,884</u>
Non-deliverable derivative assets						
– Foreign exchange derivative instruments	22,915	-	-	-	-	22,915
– Interest rate derivative instruments – hedging	2	-	-	219	28,450	28,671
– Interest rate derivative instruments – non-hedging	10,161	-	-	-	-	10,161
– Equity derivative instruments	408	-	-	-	-	408
– Product derivative instruments	140	-	-	-	-	140
Subtotal	<u>33,626</u>	<u>-</u>	<u>-</u>	<u>219</u>	<u>28,450</u>	<u>62,295</u>
Liabilities						
Deliverable derivative liabilities						
– Forward contracts	\$ 277,799	360,091	194,315	23,744	-	855,949
– Currency swap	8,249,294	8,179,398	5,018,018	2,431,929	20,000	23,898,639
– Cross currency swap	397,953	178,918	259,217	984,627	712,872	2,533,587
Subtotal	<u>8,925,046</u>	<u>8,718,407</u>	<u>5,471,550</u>	<u>3,440,300</u>	<u>732,872</u>	<u>27,288,175</u>
Non-deliverable derivative liabilities						
– Foreign exchange derivative instruments	24,717	-	-	-	-	24,717
– Interest rate derivative instruments – hedging	14	3	-	109	49,455	49,581
– Interest rate derivative instruments – non-hedging	11,580	-	-	-	-	11,580
– Equity derivative instruments	407	-	-	-	-	407
– Product derivative instruments	140	-	-	-	-	140
Subtotal	<u>36,858</u>	<u>3</u>	<u>-</u>	<u>109</u>	<u>49,455</u>	<u>86,425</u>

(Continued)

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

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	<u>11,667,328</u>	<u>12,020,165</u>	<u>7,763,624</u>	<u>3,238,784</u>	<u>1,048,549</u>	<u>35,738,450</u>
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	<u>36,210</u>	<u>-</u>	<u>11</u>	<u>268</u>	<u>46,105</u>	<u>82,594</u>
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	<u>12,436,483</u>	<u>7,980,826</u>	<u>5,618,162</u>	<u>3,974,241</u>	<u>671,170</u>	<u>30,680,882</u>
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	<u>36,741</u>	<u>-</u>	<u>182</u>	<u>-</u>	<u>76,524</u>	<u>113,447</u>

(Continued)

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

Units: In thousands of USD

	March 31, 2018					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Deliverable derivative assets						
– Forward contracts	\$ 384,877	470,066	47,415	31,306	-	933,664
– Currency swap	13,001,083	12,492,539	7,633,246	4,474,881	376,861	37,978,610
– Cross currency swap	434,780	50,000	70,000	498,786	618,549	1,672,115
Subtotal	<u>13,820,740</u>	<u>13,012,605</u>	<u>7,750,661</u>	<u>5,004,973</u>	<u>995,410</u>	<u>40,584,389</u>
Non-deliverable derivative assets						
– Foreign exchange derivative instruments	13,731	-	-	-	-	13,731
– Interest rate derivative instruments – hedging	-	-	120	97	58,650	58,867
– Interest rate derivative instruments – non-hedging	8,090	-	-	-	-	8,090
– Equity derivative instruments	500	-	-	-	-	500
– Product derivative instruments	267	-	-	-	-	267
Subtotal	<u>22,588</u>	<u>-</u>	<u>120</u>	<u>97</u>	<u>58,650</u>	<u>81,455</u>
Liabilities						
Deliverable derivative liabilities						
– Forward contracts	\$ 445,430	350,750	257,995	99,077	4,427	1,157,679
– Currency swap	10,008,452	8,362,593	6,029,076	4,549,752	13,859	28,963,732
– Cross currency swap	721,592	424,069	267,549	695,042	401,244	2,509,496
Subtotal	<u>11,175,474</u>	<u>9,137,412</u>	<u>6,554,620</u>	<u>5,343,871</u>	<u>419,530</u>	<u>32,630,907</u>
Non-deliverable derivative liabilities						
– Foreign exchange derivative instruments	14,715	-	-	-	-	14,715
– Interest rate derivative instruments – hedging	-	70	-	16	63,018	63,104
– Interest rate derivative instruments – non-hedging	13,857	-	-	-	-	13,857
– Equity derivative instruments	500	-	-	-	-	500
– Product derivative instruments	254	-	-	-	-	254
Subtotal	<u>29,326</u>	<u>70</u>	<u>-</u>	<u>16</u>	<u>63,018</u>	<u>92,430</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

	March 31, 2019				
	0-30 days	31-90 days	91-365 days	Over 1 year	Total
Assets					
Deliverable derivative assets					
– Forward contracts	\$ 291,326	718,937	431,063	340,729	1,782,055
– Currency swap	2,447,849	1,063,415	2,628,076	338,844	6,478,184
– Options	835,041	2,007,664	3,100,562	-	5,943,267
Subtotal	<u>3,574,216</u>	<u>3,790,016</u>	<u>6,159,701</u>	<u>679,573</u>	<u>14,203,506</u>
Non-deliverable derivative assets					
– Interest rate derivative instruments – non-hedging	946	635	1,054	-	2,635
– Currency swap	8,230,146	9,361,599	28,378,208	134,961	46,104,914
– Options	340,334	1,061,797	2,809,813	-	4,211,944
– Forward contracts	-	69,360	110,877	-	180,237
Subtotal	<u>8,571,426</u>	<u>10,493,391</u>	<u>31,299,952</u>	<u>134,961</u>	<u>50,499,730</u>
Liabilities					
Deliverable derivative liabilities					
– Forward contracts	\$ 297,650	715,122	407,955	338,844	1,759,571
– Currency swap	2,472,369	1,091,227	2,651,581	338,375	6,553,552
– Options	828,693	2,016,549	2,704,281	-	5,549,523
Subtotal	<u>3,598,712</u>	<u>3,822,898</u>	<u>5,763,817</u>	<u>677,219</u>	<u>13,862,646</u>
Non-deliverable derivative assets					
– Interest rate derivative instruments – non-hedging	1,183	987	2,460	-	4,630
– Currency swap	8,151,423	9,362,446	28,412,258	134,949	46,061,076
– Options	338,843	1,062,798	2,838,980	-	4,240,621
– Forward contracts	-	70,451	110,399	-	180,850
Subtotal	<u>8,491,449</u>	<u>10,496,682</u>	<u>31,364,097</u>	<u>134,949</u>	<u>50,487,177</u>

(Continued)

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

Units: In thousands of CNY

Asset	December 31, 2018				
	0~30 days	31~90 days	91~365 days	Over 1 year	Total
Deliverable derivatives 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 derivatives assets					
– Interest rate derivatives 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	123,061	34,356	104,792	-	262,209
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 derivatives 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 derivatives assets					
– Interest rate derivatives 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	122,426	34,310	104,693	-	261,429
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

	March 31, 2018				
	0~30 days	31~90 days	91~365 days	Over 1 year	Total
Assets					
Deliverable derivative assets					
– Forward contracts	\$ 143,098	62,034	198,975	-	404,107
– Currency swap	1,773,601	1,187,328	2,588,990	-	5,549,919
– Options	379,121	343,365	700,219	-	1,422,705
– Equity exchange	-	-	10,949	2,305	13,254
– Cross currency swap	-	66,497	-	-	66,497
Subtotal	<u>2,295,820</u>	<u>1,659,224</u>	<u>3,499,133</u>	<u>2,305</u>	<u>7,456,482</u>
Non-deliverable derivative assets					
– Interest rate derivative instruments – non-hedging	31	-	2,758	-	2,789
– Currency swap	10,715,024	11,762,516	26,974,285	63,569	49,515,394
– Forward contracts	64,000	283,464	256,225	-	603,689
– Options	64,675	-	63,713	-	128,388
– Commodity swap	-	2,033	3,708	-	5,741
Subtotal	<u>10,843,730</u>	<u>12,048,013</u>	<u>27,300,689</u>	<u>63,569</u>	<u>50,256,001</u>
Liabilities					
Deliverable derivative liabilities					
– Forward contracts	\$ 144,387	63,497	190,254	-	398,138
– Currency swap	1,785,605	1,209,463	2,511,969	-	5,507,037
– Options	384,716	314,868	708,722	-	1,408,306
– Equity exchange	-	-	10,950	2,305	13,255
– Cross currency swap	-	66,496	-	-	66,496
Subtotal	<u>2,314,708</u>	<u>1,654,324</u>	<u>3,421,895</u>	<u>2,305</u>	<u>7,393,232</u>
Non-deliverable derivative assets					
– Interest rate derivative instruments – non-hedging	30	-	3,028	-	3,058
– Currency swap	10,802,353	11,835,457	27,259,709	63,717	49,961,236
– Forward contracts	62,883	286,750	256,125	-	605,758
– Commodity swap	62,914	-	63,302	-	126,216
– Options	-	2,033	3,707	-	5,740
Subtotal	<u>10,928,180</u>	<u>12,124,240</u>	<u>27,585,871</u>	<u>63,717</u>	<u>50,702,008</u>

(Continued)

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

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

March 31, 2019	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Standby and irrevocable loan commitment	115,665,146	-	-	-	-	115,665,146
Unused letters of credit	8,988,814	-	-	-	-	8,988,814
Other guarantee amounts	12,889,446	2,135,700	81,506	2,481,644	9,299,237	26,887,533
Total	137,543,406	2,135,700	81,506	2,481,644	9,299,237	151,541,493

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

Units: In thousands of TWD

March 31, 2018	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Standby and irrevocable loan commitment	79,711,210	-	-	-	-	79,711,210
Unused letters of credit	9,337,763	-	-	-	-	9,337,763
Other guarantee amounts	14,446,175	58,904	2,419,270	493,993	11,597,377	29,015,719
Total	103,495,148	58,904	2,419,270	493,993	11,597,377	118,064,692

Fubon Bank (China)

Units: In thousands of CNY

March 31, 2019	0-30 days	31-90 days	91-365 days	Over 1 year	Total
Unused letters of credit	101,472	137,919	21,641	-	261,032
Other guarantee amounts	89,135	236,962	497,462	10,269	833,828
Total	190,607	374,881	519,103	10,269	1,094,860

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

(Continued)

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

Units: In thousands of CNY

March 31, 2018	0-30 days	31-90 days	91-365 days	Over 1 year	Total
Unused letters of credit	113,360	95,474	48,648	-	257,482
Other guarantee amounts	228,821	300,362	763,293	11,069	1,303,545
Total	342,181	395,836	811,941	11,069	1,561,027

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.

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.

(Continued)

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

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

	March 31, 2019				
	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Accounts payable	\$ 44,965,428	86,512	-	4,532	45,056,472
Short-term debts	263,197	-	-	-	263,197
Bonds payables (Note)	2,408,827	5,749,222	7,516,648	61,012,308	76,687,005
Lease obligations	1,351,071	2,664,712	31,693	14,129,499	18,176,975
Total	<u>\$ 48,988,523</u>	<u>8,500,446</u>	<u>7,548,341</u>	<u>75,146,339</u>	<u>140,183,649</u>

	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 payable (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>

	March 31, 2018				
	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Accounts payable	\$ 23,210,266	288	1,087	219,059	23,430,700
Short-term debts	379,406	-	-	-	379,406
Bonds payables (Note)	1,860,750	3,721,500	3,721,500	62,873,058	72,176,808
Total	<u>\$ 25,450,422</u>	<u>3,721,788</u>	<u>3,722,587</u>	<u>63,092,117</u>	<u>95,986,914</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:

	March 31, 2019				
	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	\$ 5,400,290	-	-	-	5,400,290
Financial liabilities for hedging	789,349	-	445,307	37,465	1,272,121
Total	<u>\$ 6,189,639</u>	<u>-</u>	<u>445,307</u>	<u>37,465</u>	<u>6,672,411</u>

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

	December 31, 2018				Total
	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	
Financial liabilities measured at fair value through profit or loss	\$ 3,445,100	-	-	-	3,445,100
Financial liabilities for hedging	32,776	-	623,580	115,189	771,545
Total	\$ 3,477,876	-	623,580	115,189	4,216,645

	March 31, 2018				Total
	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	
Financial liabilities measured at fair value through profit or loss	\$ 346,562	-	-	-	346,562
Financial liabilities for hedging	-	-	42,801	1,096,326	1,139,127
Total	\$ 346,562	-	42,801	1,096,326	1,485,689

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

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.

(Continued)

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

- 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.

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:

	March 31, 2019							Total
	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	
The maturity analysis of financial assets								
Financial assets measured at fair value through profit or loss	\$ 183,408	-	-	-	36,739	-	-	220,147
Financial assets measured at fair value through other comprehensive income	313,030	1,002,391	2,784,621	6,418,492	2,897,247	4,253,392	2,100,000	19,769,173
Financial assets measured at amortized cost	-	-	-	-	189,843	3,116,255	-	3,306,098
	<u>\$ 496,438</u>	<u>1,002,391</u>	<u>2,784,621</u>	<u>6,418,492</u>	<u>3,123,829</u>	<u>7,369,647</u>	<u>2,100,000</u>	<u>23,295,418</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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		December 31, 2018							
		Less than one year	1 to 3 year	3 to 5 year	5 to 10 year	10 to 20 year	More than 20 year	No maturity date	Total
The maturity analysis of financial assets									
Financial asset 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>
		March 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 asset measured at fair value through profit or loss	\$	279,133	-	-	-	37,601	-	-	316,734
Financial assets measured at fair value through other comprehensive income		405,765	457,536	2,354,541	6,774,869	2,559,565	5,086,137	1,900,000	19,538,413
Financial assets measured at amortized cost		154	-	-	-	214,993	3,199,629	-	3,414,776
		<u>\$ 685,052</u>	<u>457,536</u>	<u>2,354,541</u>	<u>6,774,869</u>	<u>2,812,159</u>	<u>8,285,766</u>	<u>1,900,000</u>	<u>23,269,923</u>

c) The maturity analyses of derivative financial assets and liabilities

All of the forward rate contracts and swap contracts are not held for trading, but mainly for avoiding the foreign exchange rate risk generated from the foreign investment capital. Being high liquidity monetary, whose probability of being unable to sale in the market is extremely small, the liquidity risk of the currency held is low. Matured forward rate contracts and swap contracts almost will be continued and there is enough capital for settlement. Therefore, the liquidity risk of the capital is low. The maturity analysis of derivative financial instruments is as follows:

		March 31, 2019					
		Less than 1 year	1 to 3 years	3 to 5 years	5 to 10 years	No maturity date	Total
Maturity analysis of financial assets		<u>\$ 2,803</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,803</u>
Maturity analysis of financial liabilities		<u>\$ 94,563</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>94,563</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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		December 31, 2018					
		Less than 1 year	1 to 3 year	3 to 5 year	5 to 10 year	No maturity date	Total
	Maturity analysis of financial assets	\$ 29,021	-	-	-	-	29,021
	Maturity analysis of financial liabilities	\$ 66,889	-	-	-	-	66,889
		March 31, 2018					
		Less than 1 year	1 to 3 years	3 to 5 years	5 to 10 years	No maturity date	Total
	Maturity analysis of financial assets	\$ 119,674	-	-	-	-	119,674
	Maturity analysis of financial liabilities	\$ 8,627	-	-	-	-	8,627

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

		March 31, 2019					
		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	\$ 8,206,781	3,498,184	922,098	607,680	-	13,234,743
	Customer margin account	21,596,520	-	-	-	-	21,596,520
	Financial assets mandatorily measured at fair value though profit or loss – current	11,446,191	1,768,386	150,572	1,458,746	24,093,000	38,916,895
	Open-end funds, money market instruments and other securities	693,511	186,374	-	-	-	879,885
	Operating securities	9,449,480	1,582,012	150,572	1,458,746	23,520,925	36,161,735
	Derivative assets – OTC	260,685	-	-	-	-	260,685
	Derivative assets – Futures trading margin	246,956	-	-	-	-	246,956
	Other debt securities	-	-	-	-	558,870	558,870
	Call option – Futures	971	-	-	-	-	971
	Securities invested by brokers	794,588	-	-	-	13,205	807,793
	Financial assets measured at fair value through other comprehensive income – current and non-current	492,903	1,821,840	-	7,564,415	7,733,824	17,612,982
	Receivables from pecuniary finance	9,192,332	1,233,118	448,406	336,305	-	11,210,161
	Collateral for borrowed securities	215,633	-	-	-	-	215,633
	Margin deposits for borrowed securities	8,435,640	-	-	-	-	8,435,640
	Receivables	14,077,181	151,550	22,192	7,207	-	14,258,130
	Total	\$ 73,663,181	8,473,078	1,543,268	9,974,353	31,826,824	125,480,704
	Proportion of the total	58.70 %	6.75 %	1.23 %	7.95 %	25.37 %	100.00 %

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

Financial liabilities	March 31, 2019					
	Cash flow gap					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Short term loans	\$ 1,076,235	-	-	-	-	1,076,235
Commercial papers issued	3,799,012	-	-	-	-	3,799,012
Held-for-trading financial liabilities — current	1,560,367	-	-	-	-	1,560,367
Call (put) warrants	156,748	-	-	-	-	156,748
Derivative liabilities—OTC	976,041	-	-	-	-	976,041
Liabilities in sale of borrowed securities	427,572	-	-	-	-	427,572
Bonds purchased under resell agreement—Futures	6	-	-	-	-	6
Financial liabilities designated as at fair value through profit or loss	3,095,038	-	-	-	-	3,095,038
Securities sold under repurchase agreements	33,056,834	-	-	-	-	33,056,834
Securities financing refundable deposits	1,262,459	169,354	61,583	46,188	-	1,539,584
Deposits payable for securities financing	1,411,131	189,298	68,835	51,627	-	1,720,891
Securities lending refundable deposits	14,053,338	-	-	-	-	14,053,338
Lease liability	5,890	11,297	10,530	18,949	421,952	468,618
Futures customers' equity	21,596,526	-	-	-	-	21,596,526
Payables	14,352,398	57	21	16	-	14,352,492
Amounts collected for other parties	1,375,684	168	-	-	-	1,375,852
Total	\$ 96,644,912	370,174	140,969	116,780	421,952	97,694,787
Proportion of the total	98.93 %	0.38 %	0.14 %	0.12 %	0.43 %	100.00 %
Cash inflow	73,663,181	8,473,078	1,543,268	9,974,353	31,826,824	125,480,704
Cash outflow	96,644,912	370,174	140,969	116,780	421,952	97,694,787
Net cash flow	(22,981,731)	8,102,904	1,402,299	9,857,573	31,404,872	27,785,917

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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Financial assets	December 31, 2018					
	Cash flow gap					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Cash and cash equivalents	\$ 7,346,232	4,387,710	3,628,091	533,380	135,254	16,030,667
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	<u>9,735,937</u>	<u>268,506</u>	<u>22,234</u>	<u>4,825</u>	<u>-</u>	<u>10,031,502</u>
Total	<u>\$ 59,517,618</u>	<u>11,306,354</u>	<u>4,148,707</u>	<u>7,821,389</u>	<u>30,291,669</u>	<u>113,085,737</u>
Proportion of the total	<u>52.63 %</u>	<u>10.00 %</u>	<u>3.67 %</u>	<u>6.91 %</u>	<u>26.79 %</u>	<u>100.00 %</u>

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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 years	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) warrant	169,643	-	-	-	-	169,643
Derivative liabilities—OTC	889,025	-	-	-	-	889,025
Liabilities on sale of borrowed securities	358,057	-	-	-	-	358,057
Put options—Futures	121	-	-	-	-	121
Financial liabilities designated as at fair value through profit or loss	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	59,517,618	11,306,354	4,148,707	7,821,389	30,291,669	113,085,737
Cash outflow	83,308,838	559,387	203,336	101,668	-	84,173,229
Net cash flow	(23,791,220)	10,746,967	3,945,371	7,719,721	30,291,669	28,912,508

March 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	\$ 6,442,427	3,688,216	3,175,624	405,650	217,239	13,929,156
Customer margin account	14,981,173	-	-	-	-	14,981,173
Financial assets mandatorily measured at fair value through profit or loss— current	12,613,157	7,397,854	-	733,196	22,300,420	43,044,627
Open-end funds, money market instruments and other securities	1,094,211	190,508	-	-	-	1,284,719
Operating securities	10,244,495	7,207,346	-	733,196	21,812,175	39,997,212
Derivative assets—OTC	116,143	-	-	-	-	116,143
Derivative assets—Futures trading margin	380,652	-	-	-	-	380,652
Other debt securities	-	-	-	-	488,245	488,245
Call option—Futures	1,035	-	-	-	-	1,035
Securities invested by brokers	776,621	-	-	-	-	776,621
Financial assets measured at fair value through other comprehensive income—current and noncurrent	6,829,892	756,439	-	-	4,640,825	12,227,156
Bonds purchased under resell agreement	86,662	-	-	-	-	86,662
Receivables from pecuniary finance	11,721,393	1,715,326	571,775	285,888	-	14,294,382
Collateral for borrowed securities	44,005	-	-	-	-	44,005
Margin deposits for borrowed securities	39,686	-	-	-	-	39,686
Receivables	14,775,758	112,634	22,703	4,829	-	14,915,924
Total	\$ 67,534,153	13,670,469	3,770,102	1,429,563	27,158,484	113,562,771
Proportion of the total	59.47 %	12.04 %	3.32 %	1.26 %	23.91 %	100.00 %

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Financial liabilities	March 31, 2018					
	Cash flow gap					
	0-30 days	31-90 days	91-180 days	181-365 years	Over 1 year	Total
Short term loans	\$ 2,082,687	-	-	-	-	2,082,687
Commercial papers issued	5,798,483	-	-	-	-	5,798,483
Held-for-trading financial liabilities— current	1,628,605	-	-	-	-	1,628,605
Call (put) warrant	399,779	-	-	-	-	399,779
Derivative liabilities—OTC	920,151	-	-	-	-	920,151
Liabilities on sale of borrowed securities	223,933	-	-	-	-	223,933
Bonds purchased under resell agreement—Borrowed securities	84,463	-	-	-	-	84,463
Put options—Futures	279	-	-	-	-	279
Financial liabilities designated as at fair value through profit or loss	2,474,597	-	-	-	-	2,474,597
Securities sold under repurchase agreements	32,030,166	-	-	-	-	32,030,166
Securities financing refundable deposits	999,925	146,330	48,777	24,388	-	1,219,420
Deposits payable for securities financing	1,093,513	160,026	53,342	26,671	-	1,333,552
Securities lending refundable deposits	8,087,057	-	-	-	-	8,087,057
Futures traders' equity	14,981,173	-	-	-	-	14,981,173
Payables	13,948,104	47	16	8	-	13,948,175
Amounts collected for other parties	1,189,211	549	-	-	-	1,189,760
Total	\$ 84,313,521	306,952	102,135	51,067	-	84,773,675
Proportion of the total	99.46 %	0.36 %	0.12 %	0.06 %	- %	100.00 %
Cash inflow	67,534,153	13,670,469	3,770,102	1,429,563	27,158,484	113,562,771
Cash outflow	84,313,521	306,952	102,135	51,067	-	84,773,675
Net cash flow	(16,779,368)	13,363,517	3,667,967	1,378,496	27,158,484	28,789,096

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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;

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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- v) Maintaining a diverse range of funding sources with adequate back-up facilities;
 - 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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

management alert triggers throughout the year 2018:

- net long position of Exchange Fund Bills/Notes held was maintained at not less than HK\$1.0 billion;
- assets eligible for Lenders of Last Resort purpose was maintained at not less than 30% of total customer deposits;
- level 1 high-quality readily liquefiable assets were maintained at not less than 8.5% of total customer deposits;
- non-financial institution high-quality readily liquefiable assets were maintained at not less than 25% of total customer deposits; and
- total high-quality readily liquefiable assets were maintained at not less than 30% of total customer deposits.

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

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

	March 31, 2019					Total
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	
Non-derivative financial liabilities measured at fair value through profit or loss	\$ 499,821	299,532	-	-	-	799,353
Securities sold under repurchase agreements	2,424,420	3,426,507	-	-	-	5,850,927
Others	40,178,380	21,555,030	10,053,231	6,223,870	3,380,850	81,391,361

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

	December 31, 2018					Total
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	
Non-derivative financial liabilities measured at fair value through profit or loss	\$ 573,351	1,325,021	-	-	-	1,898,372
Securities sold under repurchase agreement	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

	March 31, 2018					Total
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	
Non-derivative financial liabilities measured at fair value through profit or loss	\$ -	127,500	-	-	-	127,500
Securities sold under repurchase agreements	2,396,300	5,543,974	-	-	-	7,940,274
Others	41,065,062	19,957,821	5,875,752	4,588,792	4,159,908	75,647,335

d) The maturity analysis of derivative financial liabilities

i) Net settlement derivative instruments

Units: In thousands of HKD

	March 31, 2019					Total
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	
Derivative financial liabilities measured at fair value through profit or loss						
— Foreign exchange derivative instruments	\$ 9,822,418	1,192,455	721,834	3,638,798	950,844	16,326,349
— Interest rate derivative instruments	-	-	-	235,496	1,474,955	1,710,451
Derivative financial liabilities for hedging						
— Interest rate derivative instruments	204,096	1,197,613	1,308,535	1,456,258	17,614,692	21,781,194
Total	\$ 10,026,514	2,390,068	2,030,369	5,330,552	20,040,491	39,817,994

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

	December 31, 2018					Total
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	
Derivative financial liabilities measured at fair value through profit or loss						
– Foreign exchange derivative contracts	\$ 10,687,769	1,760,622	389,162	3,228,739	1,684,589	17,750,881
– Interest rate derivatives contracts	-	276,411	-	234,950	1,623,320	2,134,681
Derivatives designated for hedging						
– Interest rate derivatives contracts	-	317,475	1,399,734	1,584,976	15,280,228	18,582,413
Total	\$ 10,687,769	2,354,508	1,788,896	5,048,665	18,588,137	38,467,975

Units: In thousands of HKD

	March 31, 2018					Total
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	
Derivative financial liabilities measured at fair value through profit or loss						
– Foreign exchange derivative instruments	\$ 18,063,408	2,169,201	1,019,133	2,342,882	1,673,268	25,267,892
– Interest rate derivative instruments	-	418,237	-	1,108,002	2,223,107	3,749,346
Derivatives financial liabilities for hedging						
– Interest rate derivative instruments	-	-	466,209	317,725	15,685,364	16,469,298
Total	\$ 18,063,408	2,587,438	1,485,342	3,768,609	19,581,739	45,486,536

ii) The maturity analysis of off-balance sheet items

Units: In thousands of HKD

	March 31, 2019					Total
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	
Standby and irrevocable loan commitment	\$ 198	395	95,667	303,010	1,498,129	1,897,399
Unused letters of credit	64,339	224,808	36,800	-	-	325,947
Other guarantee amounts	14,527	4,165	8,133	122,756	31,568	181,149
Total	\$ 79,064	229,368	140,600	425,766	1,529,697	2,404,495

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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	\$ 68,488	1,102,221	169,925	544,088	1,496,003	3,380,725

Units: In thousands of HKD

	March 31, 2018					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
	\$					
Standby and irrevocable loan commitment	2,816	163,352	24,191	17,382	1,711,437	1,919,178
Unused letters of credit	166,129	196,300	56,358	-	-	418,787
Other guarantee amounts	6,060	2,062	15,056	96,268	31,372	150,818
Total	\$ 175,005	361,714	95,605	113,650	1,742,809	2,488,783

(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.

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

e) Measurement of trading book market risk

Taipei Fubon Bank (The Bank)

The Bank's measurement of trading book market risk includes methods for determining degrees (known as the "Greeks") of sensitivity to risk and measures (such as VaR and stress testing) of the risk of loss on specific portfolios of financial assets. These measures provide consistent and comparable measurement of various types of risks across different trading desks.

i) VaR (Value at Risk)

VaR is a tool that measures "the worst expected loss over a given time horizon under normal market conditions at a given level of confidence." The Bank adopts various risk models to evaluate the worst loss on current net positions within one day, with a 99% confidence level. The Bank adopts the historical simulation to calculate current VaR and stressed VaR, covering most market risk scenarios. To ensure the VaR's quality, the Bank performs back-testing and statistical tests regularly.

VaR information of trading book is shown below:

<u>Common VaR</u>	<u>For the three months ended March 31, 2019</u>			
	<u>Highest</u>	<u>Lowest</u>	<u>Average</u>	<u>End of period</u>
Equity group	\$ 1,682	1,132	1,338	1,682
Interest rate group	63,542	56,167	61,001	63,293
Exchange rate group	11,598	4,912	7,276	4,912
Volatility group	362	222	302	320
Diversification effect	-	-	(11,077)	(7,172)
Common VaR of trading book			<u>\$ 58,840</u>	<u>63,035</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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<u>Common VaR</u>	<u>For the three months ended March 31, 2018</u>			<u>End of period</u>
	<u>Highest</u>	<u>Lowest</u>	<u>Average</u>	
Equity group	\$ 19,072	-	6,357	19,072
Interest rate group	95,413	50,580	75,007	95,413
Exchange rate group	7,676	4,753	6,203	7,676
Volatility group	1,200	756	1,018	756
Diversification effect	-	-	(15,245)	(30,302)
Common VaR of trading book			<u>\$ 73,340</u>	<u>92,615</u>

Note: The highest and lowest VaRs may occur on different dates; the related diversification effects were not disclosed in the above table because it has no significant meaning.

The above VaRs are calculated on the basis of changes in risk factors. If one product includes several risk factors, it will be classified under different risk factors. For example, forward contracts are exposed to interest rate risk and exchange rate risk; foreign exchange option is exposed to exchange rate risk and volatility risk.

ii) Stress testing

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

Fubon Bank (China)

To manage the trading book market risks, Fubon Bank (China) has set appropriate market risk measurements and relevant risk limits based on its trading products and the features and complexity of its risk exposures, including position limits on notional amounts, net exposures of foreign currencies, stop-loss limits of various products, and sensitivity limits. Fubon Bank (China)'s main currency businesses of trading book are spot trade and options. 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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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f) Banking Book Market Risk

Taipei Fubon Bank (The Bank)

i) Interest rate risk

Interest rate risk refers to the possible loss on investment portfolio value due to interest rate changes. The interest rate-sensitive assets/liabilities include banking book debt securities. The characteristics of banking book debt securities differ from those of trading book securities, which are for short-term trading. The valuation basis of banking book debt securities includes fair value and accrued interest.

Banking book interest rate risk refers to possible loss due to unfavorable changes in interest rates for the banking book portfolio. One of the methods used to determine exposure to interest rate risks is earnings analysis, which focuses on the effects interest rate changes on the earnings of the banking book portfolio, especially earnings in the short term. Had the interest rate increased/decreased 1bps (basis points) as of March 31, 2019, December 31 and March 31, 2018, and all other factors been held constant, the earnings would have decreased/increased by \$5 million, \$4 million and \$7 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 March 31, 2019, the percentage of the exchange differences on translation of foreign operation is immaterial when compared with the Bank's entire foreign currency position.

iii) Equity securities risk

The Bank's equity instruments as shown in the banking book have two groups. The first consists of investments in accordance with Article 74 of the Banking Act. The second group refers to investments in promising companies with a higher cash dividend payout ratio. For the second group, even though changes in equity prices may influence the stockholder's equity, the Bank holds these investments for a long term and has strict regulations on buying or selling these investments.

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

	March 31, 2019		December 31, 2018		March 31, 2018	
	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity
Stock prices increased by 10%	\$ -	450,855	-	429,230	-	314,770
Stock prices decreased by 10%	-	(450,855)	-	(429,230)	-	(314,770)

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.

	March 31, 2019		December 31, 2018		Units: In thousands of CNY March 31, 2018	
	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity
Interest rate increased by \$ 50 basis points	(29,716)	(101,608)	(7,076)	(97,588)	(833)	(72,167)
Interest rate decreased by 50 basis points	29,716	10,541	7,076	100,692	833	74,562

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:

	March 31, 2019		December 31, 2018		Units: In thousands of CNY March 31, 2018	
	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity
Foreign exchange rate for USD and HKD against CNY increased by 5%	\$ 5,959	36,288	13,404	40,261	(64,158)	7,994
Foreign exchange rate for USD and HKD against CNY decreased by 5%	(5,959)	(36,288)	(13,404)	(40,261)	64,158	(7,994)

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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 March 31, 2019, December 31 and March 31, 2018.

Taipei Fubon Bank (The Bank)

	March 31, 2019			December 31, 2018			March 31, 2018		
	Original	Rate	TWD	Original	Rate	TWD	Original	Rate	TWD
<u>Financial assets</u>									
<u>Monetary items</u>									
USD	\$ 16,942,212	30.8329	522,377,528	18,177,041	30.7404	558,769,511	16,379,745	29.1232	477,030,590
CNY	12,041,877	4.5852	55,214,414	11,110,698	4.4671	49,632,599	16,622,184	4.6522	77,329,724
JPY	169,075,552	0.2782	47,036,819	-	-	-	-	-	-
HKD	9,472,277	3.9279	37,206,157	8,034,603	3.9259	31,543,048	9,306,624	3.7095	34,522,922
AUD	1,376,262	21.8516	30,073,527	1,169,088	21.7320	25,406,620	1,334,801	22.3648	29,852,557
EUR	-	-	-	631,486	35.1357	22,187,703	754,628	35.8795	27,075,675
<u>Non-monetary items</u>									
USD	182,820	30.8329	5,636,871	187,014	30.7404	5,748,885	168,647	29.1232	4,911,540
CNY	485,275	4.5852	2,225,083	625,823	4.4671	2,795,614	1,516,033	4.6522	7,052,889
JPY	4,787,253	0.2782	1,331,814	-	-	-	-	-	-
HKD	167,907	3.9279	659,522	89,137	3.9259	349,943	137,981	3.7095	511,841
AUD	1,020	21.8516	22,289	738	21.7320	16,038	581	22.3648	12,994
EUR	-	-	-	383	35.1357	13,457	1,222	35.8795	43,845
<u>Investments accounted for using equity method</u>									
CNY	4,746,648	4.5852	21,764,332	4,729,936	4.4671	21,129,099	4,622,730	4.6522	21,505,863
<u>Financial liabilities</u>									
<u>Monetary items</u>									
USD	22,855,507	30.8329	704,701,562	23,394,423	30.7404	719,153,921	24,989,758	29.1232	727,781,720
CNY	14,173,754	4.5852	64,989,497	15,895,005	4.4671	71,004,577	15,409,616	4.6522	71,688,616
JPY	26,070,254	0.2782	7,252,745	-	-	-	-	-	-
HKD	7,880,012	3.9279	30,951,899	8,169,380	3.9259	32,072,169	9,088,032	3.7095	33,712,055
AUD	980,476	21.8516	21,424,969	1,123,686	21.7320	24,419,944	995,358	22.3648	22,260,983
EUR	-	-	-	297,597	35.1357	10,456,279	242,830	35.8795	8,712,619
<u>Non-monetary items</u>									
USD	155,652	30.8329	4,799,203	210,131	30.7404	6,459,511	167,947	29.1232	4,891,154
CNY	473,359	4.5852	2,170,476	593,107	4.4671	2,649,468	1,527,424	4.6522	7,105,882
JPY	4,607,455	0.2782	1,281,794	-	-	-	-	-	-
HKD	75,600	3.9279	296,949	34,746	3.9259	136,409	139,819	3.7095	518,659
AUD	872	21.8516	19,055	617	21.7320	13,409	553	22.3648	12,368
EUR	-	-	-	871	35.1357	30,603	762	35.8795	27,340

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

Fubon Bank (China)

	March 31, 2019			December 31, 2018			March 31, 2018		
	Original	Rate	CNY	Original	Rate	CNY	Original	Rate	CNY
<u>Financial assets</u>									
<u>Monetary items</u>									
USD	\$ 523,539	6.7335	3,525,250	511,544	6.8632	3,510,829	616,507	6.2881	3,876,658
JPY	1,371,768	0.0609	83,541	1,601,877	0.0619	99,156	2,409,297	0.0591	142,389
HKD	33,931	0.8578	29,106	26,708	0.8762	23,402	25,835	0.8013	20,702
EUR	363	7.5607	2,745	1,543	7.8473	12,108	1,488	7.7378	11,514
<u>Non-monetary items</u>									
USD	42,249	6.7335	284,484	98,995	6.8632	679,422	109	6.2881	685
<u>Financial liability</u>									
<u>Monetary items</u>									
USD	1,605,243	6.7335	10,808,904	1,732,364	6.8632	11,889,561	1,894,833	6.2881	11,914,899
JPY	2,016,162	0.0609	122,784	2,806,577	0.0619	173,727	2,688,291	0.0591	158,878
HKD	22,378	0.8578	19,196	12,899	0.8762	11,302	21,251	0.8013	17,028
EUR	2,817	7.5607	21,298	4,868	7.8473	38,201	12,697	7.7378	98,247
<u>Non-monetary items</u>									
USD	34,618	6.7335	233,100	9,446	6.8632	64,830	243,225	6.2881	1,529,423

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

March 31, 2019			
Risk factor	Variation	Change in profit or loss	Change in equity
Equity risk (Price index)	Price incline by 10%	-	51,124,643
	Price decline by 10%	-	(51,124,643)
Interest rate risk (Yield curve)	Yield curve (USD) incline by 50BPS	(3,899)	(13,843,841)
	Yield curve (TWD) incline by 50BPS	-	(24,258,574)
	Yield curve (Other) incline by 50BPS	(69)	(357,001)
	Yield curve (USD) decline by 50BPS	2,913	14,657,986
	Yield curve (TWD) decline by 50BPS	-	25,447,908
	Yield curve (Other) decline by 50BPS	69	370,428
Exchange rate risk (Currency exchange rate)	TWD to all currency incline by 3%	(10,464,027)	(7,792,706)
	TWD to all currency decline by 3%	10,464,027	7,792,706

(Continued)

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

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
March 31, 2018			
Risk factor	Variation	Change in profit or loss	Change in equity
Equity risk (Price index)	Price incline by 10%	-	51,257,683
	Price decline by 10%	-	(51,257,683)
Interest rate risk (Yield curve)	Yield curve (USD) incline by 50BPS	(3,035)	(15,897,331)
	Yield curve (TWD) incline by 50BPS	-	(17,864,873)
	Yield curve (Other) incline by 50BPS	-	(475,888)
	Yield curve (USD) decline by 50BPS	3,045	16,945,023
	Yield curve (TWD) decline by 50BPS	-	18,927,271
	Yield curve (Other) decline by 50BPS	-	497,031
Exchange rate risk (Currency exchange rate)	TWD to all currency incline by 3%	(4,167,421)	(5,938,416)
	TWD to all currency decline by 3%	4,167,421	5,938,416

(Continued)

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

Sensitivity analysis (Fubon Hyundai Life Insurance)

Units: In thousands of KRW

March 31, 2019			
Risk factor	Variation	Change in profit or loss	Change in equity
Equity risk (Price index)	Price incline by 10%	-	9,861,607
	Price decline by 10%	-	(9,861,607)
Interest rate risk (Yield curve)	Yield curve (USD) incline by 50BPS	-	(752,764)
	Yield curve (KRW) incline by 50BPS	-	(23,872,709)
	Yield curve (USD) decline by 50BPS	-	774,397
	Yield curve (KRW) decline by 50BPS	-	25,383,785
Exchange rate risk (Currency exchange rate)	KRW to all currency incline by 3%	(5,295,130)	-
	KRW to all currency decline by 3%	5,295,130	-

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 \$(75) thousand, \$(71) thousand and \$(61) thousand in profit or loss and \$(788,211) thousand, \$(748,117) thousand and \$(705,654) thousand in equity of Fubon Life Insurance on March 31, 2019, December 31 and March 31, 2018, 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(507,530) thousand and KRW(497,467) thousand in equity of Fubon Hyundai Life Insurance Co., Ltd on March 31, 2019 and 2018.

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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.

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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.

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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			
March 31, 2019			
<u>Common VaR</u>	<u>Average</u>	<u>Highest</u>	<u>Lowest</u>
Fixed income group	\$ 532,256	603,233	413,887
Equity group	874,983	954,884	769,752
Fund group	86,885	95,917	78,738
Asset securitization group	37,215	37,827	36,295
Total position	1,130,236	1,207,376	988,303
December 31, 2018			
<u>Common VaR</u>	<u>Average</u>	<u>Highest</u>	<u>Lowest</u>
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
March 31, 2018			
<u>Common VaR</u>	<u>Average</u>	<u>Highest</u>	<u>Lowest</u>
Fixed income group	\$ 460,081	517,779	353,012
Equity group	898,056	2,197,243	463,839
Fund group	98,188	125,508	87,827
Asset securitization group	43,181	54,064	37,164
Total position	858,262	1,688,209	560,035

Note 1: VaR was adopted for the three months ended March 31, 2019 and 2018 and for the year ended December 31, 2018.

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

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.

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.

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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

For the three months ended March 31, 2019			
Common VaR	Highest	Lowest	Average
Foreign exchange rate	\$ 401	70	241
Interest rate	15,368	11,283	13,381
Equity	54,549	38,345	45,387
Fluctuation	2,345	1,745	2,033

For the three months ended March 31, 2018			
Common VaR	Highest	Lowest	Average
Foreign exchange rate	\$ 95,697	52,955	67,550
Interest rate	32,407	15,782	24,111
Equity	53,341	44,371	48,551
Fluctuation	9,641	2,617	6,395

(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.

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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 (PVBPP): Measure the changing value of the yield rate curve when it moves 1 bp in parallel.

5) Fubon Bank (Hong Kong) and its subsidiaries

The following disclosures related to Fubon Bank (Hong Kong) are all expressed in thousands of HKD, unless otherwise stated.

a) The definition and classification of market risk

Market risk arises on all market risk sensitive financial instruments, including securities, foreign exchange contracts, equity and other derivative instruments, as well as from balance sheet or structural positions. Fubon Bank (Hong Kong) and its subsidiaries transact in the money market, foreign exchange market, equity market and capital market giving rise to market risk exposures. Positions are taken as a result of the execution of customers' orders, market making activities, and offsetting transactions in order to hedge Fubon Bank (Hong Kong) and subsidiaries' open position. Fubon Bank (Hong Kong) and its subsidiaries do not engage in significant proprietary trading.

b) Guidelines and procedures

The objective of market risk management is to avoid excessive exposure of earnings and equity to loss and to reduce Fubon Bank (Hong Kong) and its subsidiaries' exposure to the volatility inherent in financial instruments.

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

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.

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.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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c) Organization and framework

The Board of Directors reviews and approves policies for the management of market risks including dealing authorities and limits. The Board of Directors has delegated the responsibility for ongoing general market risk management to the Asset and Liability Committee. This committee articulates the interest rate view of Fubon Bank (Hong Kong) and its subsidiaries and decides on future business strategy with respect to interest rates. It also reviews and sets funding policy and ensures adherence to risk management objectives.

d) Evaluation technique of market risk: Value at risk (VaR). Fubon Bank (Hong Kong) adopts various risk models to evaluate the worst loss on current net positions within one day, with a 99% confidence level.

The following table shows the relevant market risk VaR:

Units: In thousands of HKD

March 31, 2019			
VaR	Average	Highest	Lowest
Foreign exchange risk	\$ 145	1,711	76
Interest rate risk	31	352	-
Total risk	195	1,671	109
December 31, 2018			
VaR	Average	Highest	Lowest
Foreign exchange risk	\$ 129	619	16
Interest rate risk	29	669	-
Total risk	174	766	34
March 31, 2018			
VaR	Average	High	Low
Foreign exchange risk	\$ 142	619	46
Interest rate risk	22	156	7
Total risk	202	596	75

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

Units: In millions of HKD

March 31, 2019			
Main risk	Variance	Influenced amount	
		Equity	profit or loss
Foreign exchange risk	10% increase in HKD	-	(141.0)
Foreign exchange risk	10% decrease in HKD	-	141.0
Interest rate risk	+100 basis points shift in yield curves	24.0	107.5
Interest rate risk	-100 basis points shift in yield curve	(24.0)	(107.5)
Equity risk	10% increase in equity prices	-	-
Equity risk	10% decrease in equity prices	-	-

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

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	-100basis points shift in yield curve	(35.5)	(79.5)
Equity risk	10% increase in equity prices	-	-
Equity risk	10% decrease in equity prices	-	-
March 31, 2018			
Main risk	Variance	Influenced amount	
		Equity	profit or loss
Foreign exchange risk	10% increase in HKD	-	(141.0)
Foreign exchange risk	10% decrease in HKD	-	141.0
Interest rate risk	+100 basis points shift in yield curves	(17.0)	69.0
Interest rate risk	-100 basis points shift in yield curves	17.0	(69.0)
Equity risk	10% increase in equity prices	-	-
Equity risk	10% decrease in equity prices	-	-

(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.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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Analysis of financial assets that are not completely derecognized and the associated liabilities are shown in following table:

<u>Types of financial assets</u>	<u>March 31, 2019</u>	
	<u>Carrying amount of the transferred financial assets</u>	<u>Carrying amount of relevant financial liabilities</u>
Financial assets measured at fair value through other comprehensive income		
Repurchase agreements	\$ 7,273,979	6,936,070
Debt investments measured at amortized cost		
Repurchase agreements	96,183,065	89,450,319
Discounts and loans		
Repurchase agreements	194,335	197,001
<u>Types of financial assets</u>	<u>December 31, 2018</u>	
	<u>Carrying amount of the transferred financial assets</u>	<u>Carrying amount of relevant financial liabilities</u>
Financial assets measured at fair value through 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
Discounts and loans		
Repurchase agreements	153,551	158,599
<u>Types of financial assets</u>	<u>March 31, 2018</u>	
	<u>Carrying amount of the transferred financial assets</u>	<u>Carrying amount of relevant financial liabilities</u>
Financial assets measured at fair value through other comprehensive income		
Repurchase agreements	\$ 29,140,238	27,803,525
Debt investments measured at amortized cost		
Repurchase agreements	98,457,082	91,471,417
Discounts and loans		
Repurchase agreements	342,027	348,790

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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

<u>Types of financial assets</u>	March 31, 2019				
	<u>Carrying amount of the transferred financial assets</u>	<u>Carrying amount of relevant financial liabilities</u>	<u>Fair value of the transferred financial assets</u>	<u>Fair value of relevant financial liabilities</u>	<u>Fair value net position</u>
Financial assets measured at fair value through profit or loss					
Security lending agreements	\$ 5,962,004	-	5,962,004	-	5,962,004
Financial assets measured at fair value through other comprehensive income					
Security lending agreements	57,788	-	57,788	-	57,788
Securities sold under repurchase agreement	240,008	263,197	295,475	263,197	32,278

Units: In thousands of TWD

<u>Types of financial assets</u>	December 31, 2018				
	<u>Carrying amount of the transferred financial assets</u>	<u>Carrying amount of relevant financial liabilities</u>	<u>Fair value of the transferred financial assets</u>	<u>Fair value of relevant financial liabilities</u>	<u>Fair value net position</u>
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

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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Units: In thousands of TWD

<u>Types of financial assets</u>	March 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 fair value through profit or loss					
Security lending agreements	\$ 1,941,695	-	1,941,695	-	1,941,695
Financial assets measured at fair value through other comprehensive income					
Security lending agreements	156,473	-	156,473	-	156,473
Financial assets measured at amortized cost					
Securities sold under repurchase agreement	197,980	379,406	312,790	379,406	(66,616)

3) Fubon Insurance and its subsidiaries

Transferred financial assets that are completely derecognized

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

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

Units: In thousands of TWD

<u>Types of financial assets</u>	March 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 fair value through other comprehensive income					
Security lending agreements	\$ 113,621	-	113,621	-	113,621

(Continued)

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

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.

<u>Types of financial assets</u>	<u>March 31, 2019</u>	
	<u>Carrying amount of the transferred financial assets</u>	<u>Carrying amount of relevant financial liabilities</u>
Financial assets measured at fair value through profit or loss		
Repurchase agreements	\$ 33,763,073	33,056,834
Convertible bonds transferred to counter parties of asset exchange option	454,911	422,039
<u>Types of financial assets</u>	<u>December 31, 2018</u>	
	<u>Carrying amount of the transferred financial assets</u>	<u>Carrying amount of relevant financial liabilities</u>
Financial assets measured at fair value through profit or loss		
Repurchase agreements	\$ 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

<u>Types of financial assets</u>	March 31, 2018	
	<u>Carrying amount of the transferred financial assets</u>	<u>Carrying amount of relevant financial liabilities</u>
Financial assets measured at fair value through profit or loss		
Repurchase agreements	\$ 32,676,389	32,030,166
Convertible bonds transferred to counter parties of asset exchange option	476,085	416,068

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

<u>Types of financial assets</u>	March 31, 2019				
	<u>Carrying amount of the transferred financial assets</u>	<u>Carrying amount of relevant financial liabilities</u>	<u>Fair value of the transferred financial assets</u>	<u>Fair value of relevant financial liabilities</u>	<u>Fair value net position</u>
Financial assets measured at amortized cost					
Repurchase agreements	\$ 6,061,638	5,816,122	6,097,368	5,816,122	281,246

Unit: In thousands of HKD

<u>Types of financial assets</u>	December 31, 2018				
	<u>Carrying amount of the transferred financial assets</u>	<u>Carrying amount of relevant financial liabilities</u>	<u>Fair value of the transferred financial assets</u>	<u>Fair value of relevant financial liabilities</u>	<u>Fair value net position</u>
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

<u>Types of financial assets</u>	March 31, 2018				
	<u>Carrying amount of the transferred financial assets</u>	<u>Carrying amount of relevant financial liabilities</u>	<u>Fair value of the transferred financial assets</u>	<u>Fair value of relevant financial liabilities</u>	<u>Fair value net position</u>
Financial assets measured at amortized cost					
Repurchase agreements	\$ 8,260,221	7,911,302	8,324,756	7,911,302	413,454

(Continued)

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

(vii) Offsetting financial assets and financial liabilities

1) Taipei Fubon Bank and its subsidiaries

Taipei Fubon Bank and its subsidiaries did not hold any financial instruments which meet Section 42 of the IAS 32 endorsed by the FSC. Therefore, the financial instrument will be offset on the balance sheet.

Although Taipei Fubon Bank and its subsidiaries do not engage in any transactions that meet the offsetting condition in IFRSs, they have signed net settlement contracts of similar agreements with counterparties, such as global master repurchase agreement, global securities lending agreement and similar repurchase agreement or reverse-repurchase agreement. If both parties choose to net settle, the abovementioned executable net settlement contracts or similar agreements will be allowed to be settled in net amount after offsetting the financial assets and financial liabilities. Otherwise, the transaction will be settled in gross amount. However, if one party defaults, the other party could choose to net settle.

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

March 31, 2019						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
Financial assets	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		
				Financial instruments (Note 1)	Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial instruments (Note 2)	\$ 25,329,251	-	25,329,251	17,020,197	3,370,796	4,938,258
Securities purchased under resale agreements	9,565,800	-	9,565,800	9,404,858	-	160,942
Total	\$ 34,895,051	-	34,895,051	26,425,055	3,370,796	5,099,200

March 31, 2019						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
Financial liabilities	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		
				Financial instruments (Note 1)	Pledged cash Collaterals	Net amount (e)=(c)-(d)
Derivative financial instruments (Note 2)	\$ 23,333,841	-	23,333,841	14,168,932	3,800,583	5,364,326
Securities sold under repurchase agreements	96,583,390	-	96,583,390	96,580,839	-	2,551
Total	\$ 119,917,231	-	119,917,231	110,749,771	3,800,583	5,366,877

(Continued)

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

December 31, 2018						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
Financial assets	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		
				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	\$ 41,495,926	-	41,495,926	32,944,764	2,480,756	6,070,406

December 31, 2018						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
Financial liabilities	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		
				Financial instruments (Note 1)	Pledged cash Collaterals	Net amount (e)=(c)-(d)
Derivative financial instruments (Note 2)	\$ 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	\$ 154,045,570	-	154,045,570	139,448,942	7,628,167	6,968,461

March 31, 2018						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
Financial assets	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		
				Financial instruments (Note 1)	Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial instruments (Note 2)	\$ 33,525,730	-	33,525,730	23,721,833	4,478,313	5,325,584
Securities purchased under resell agreements	19,434,308	-	19,434,308	19,266,499	-	167,809
Total	\$ 52,960,038	-	52,960,038	42,988,332	4,478,313	5,493,393

(Continued)

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

March 31, 2018

Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
Financial liabilities	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note 1)	Pledged cash Collaterals	
Derivative financial instruments (Note 2)	\$ 35,358,301	-	35,358,301	21,922,428	2,593,403	10,842,470
Securities sold under repurchase agreements	119,623,732	-	119,623,732	119,386,519	3,183	234,030
Total	\$ 154,982,033	-	154,982,033	141,308,947	2,596,586	11,076,500

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:

March 31, 2019

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 and structured deposits	\$ 25,851,219	-	25,851,219	2,407,642	-	23,443,577
Securities purchased under resell agreements	66,381,947	-	66,381,947	65,230,700	-	1,151,247
Total	\$ 92,233,166	-	92,233,166	67,638,342	-	24,594,824

(Continued)

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

March 31, 2019						
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total Recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheets (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Pledged cash Collaterals	
Derivative financial instruments	\$ 6,672,411	-	6,672,411	3,195,062	706,817	2,770,532
Securities sold under repurchase agreements	263,197	-	263,197	240,008	-	23,189
Total	\$ 6,935,608	-	6,935,608	3,435,070	706,817	2,793,721

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 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	\$ 85,132,562	-	85,132,562	57,742,169	16,288	27,374,105

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 (Note)	Pledged cash collaterals	
Derivative financial instruments	\$ 4,216,645	-	4,216,645	2,505,940	588,230	1,122,475

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

March 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 and structured deposits	\$ 30,907,237	-	30,907,237	1,139,924	414,378	29,352,935
Securities purchased under resell agreements	49,934,822	-	49,934,822	49,127,100	-	807,722
Total	\$ 80,842,059	-	80,842,059	50,267,024	414,378	30,160,657

March 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 (Note)	Pledged cash collaterals	
Derivative financial instruments	\$ 1,485,689	-	1,485,689	1,139,924	345,072	693
Securities sold under repurchase agreements	379,406	-	379,406	197,980	-	181,426
Total	\$ 1,865,095	-	1,865,095	1,337,904	345,072	182,119

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:

March 31, 2019						
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	\$ 2,803	-	2,803	2,803	-	-

(Continued)

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

March 31, 2019						
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	\$ 94,563	-	94,563	94,563	-	-
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	Cash received as collaterals	
Derivative financial instruments	\$ 29,021	-	29,021	29,021	-	-
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
March 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	Cash received as collaterals	
Derivative financial instruments	\$ 119,674	-	119,674	8,627	-	111,047
Securities lending agreements	113,621	-	113,621	113,621	-	-
Total	\$ 233,295	-	233,295	122,248	-	111,047

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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March 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	\$ 8,627	-	8,627	8,627	-	-

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.

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

March 31, 2019						
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	\$ 261,656	-	261,656	-	-	261,656

March 31, 2019						
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	\$ 741,480	-	741,480	-	-	741,480
Repurchase agreements	33,056,834	-	33,056,834	33,056,834	-	-
Total	\$ 33,798,314	-	33,798,314	33,056,834	-	741,480

(Continued)

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

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

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 (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

March 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	\$ 117,178	-	117,178	-	-	117,178
Resell agreements	86,662	-	86,662	86,662	-	-
Total	\$ 203,840	-	203,840	86,662	-	117,178

March 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 (note)	Pledged cash collaterals	
Derivative financial liabilities	\$ 835,528	-	835,528	-	-	835,528
Repurchase agreements	32,030,166	-	32,030,166	32,030,166	-	-
Total	\$ 32,865,694	-	32,865,694	32,030,166	-	835,528

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

March 31, 2019						
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	\$ <u>646,077</u>	<u>-</u>	<u>646,077</u>	<u>42,552</u>	<u>-</u>	<u>603,525</u>
March 31, 2019						
Financial liabilities under general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities (a)	Total recognized 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	\$ (164,291)	-	(164,291)	(42,552)	-	(121,739)
Securities sold under repurchase agreements	(5,816,122)	-	(5,816,122)	-	-	(5,816,122)
Total	<u>\$ (5,980,413)</u>	<u>-</u>	<u>(5,980,413)</u>	<u>(42,552)</u>	<u>-</u>	<u>(5,937,861)</u>

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

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

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 (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

March 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	\$ 583,088	-	583,088	58,863	-	524,225

March 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 (note)	Pledged cash collaterals	
Derivative financial instruments	\$ 86,406	-	86,406	(58,863)	-	145,269
Securities sold under repurchase agreements	(7,911,302)	-	(7,911,302)	-	-	(7,911,302)
Total	\$ (7,824,896)	-	(7,824,896)	(58,863)	-	(7,766,033)

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

(Continued)

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

(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:

<u>March 31, 2019</u>	<u>Asset securitization products</u>	<u>Trust plans</u>
Assets possessed		
— Debt investments measured at amortized cost	\$ 7,230,937	-
— Financial assets measured at fair value through other comprehensive income	2,316,256	137,556
Total assets possessed	<u>\$ 9,547,193</u>	<u>137,556</u>
	Asset securitization products	Trust plans
<u>December 31, 2018</u>	<u>Asset securitization products</u>	<u>Trust plans</u>
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>March 31, 2018</u>	<u>Asset securitization products</u>	<u>Trust plans</u>
Assets possessed		
– Debt investments measured at amortized cost	368,631	-
– Financial assets measured at fair value through other comprehensive income	806,654	139,566
Total assets possessed	<u>\$ 1,175,285</u>	<u>139,566</u>

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

- 3) For the three month ended March 31, 2019 and 2018, 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 March 31, 2019, December 31 and March 31, 2018, Fubon Life Insurance and its subsidiaries offered \$22,350,530, \$21,856,055 and \$23,437,910 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>March 31, 2019</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	\$ 67,162,487	8,909,603
– Financial assets measured at fair value through other comprehensive income	-	25,384,036
– Financial assets measured at amortized cost	-	37,157,105
Total assets possessed	<u>\$ 67,162,487</u>	<u>71,450,744</u>
<u>December 31, 2018</u>	<u>Private fund investment</u>	<u>Asset securitization products</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>\$ 65,972,113</u>	<u>71,317,345</u>
<u>March 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	\$ 58,694,955	5,946,302
– Financial assets measured at fair value through other comprehensive income	-	26,513,935
– Financial assets measured at amortized cost	-	29,821,032
Total assets possessed	<u>\$ 58,694,955</u>	<u>62,281,269</u>

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

(Continued)

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

- c) For the three month ended March 31, 2019 and 2018, Fubon Life Insurance and its subsidiaries did not offer any financial support to those unconsolidated private fund investment, asset securitization products and REIT.

(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:

March 31, 2019	Private equity fund	Asset securitization products
Assets possessed		
— Financial assets measured at fair value through profit or loss	\$ 135,373	1,774,756
— Financial assets measured at amortized cost	-	189,843
Total assets possessed	<u>\$ 135,373</u>	<u>1,964,599</u>
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>\$ 156,358</u>	<u>1,889,324</u>

(Continued)

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

<u>March 31, 2018</u>	<u>Private equity fund</u>	<u>Asset securitization products</u>
Assets possessed		
— Financial assets measured at fair value through profit or loss	\$ 142,493	1,647,624
— Financial assets measured at amortized cost	-	215,146
Total assets possessed	<u>\$ 142,493</u>	<u>1,862,770</u>

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

- 3) For the three month ended March 31, 2019 and 2018, Fubon Insurance and its subsidiaries did not offer any financial support to those unconsolidated private investment fund and asset securitization products.
- (iv) Fubon Securities and its subsidiaries
- 1) Fubon Securities and its subsidiaries hold the following types equity of unconsolidated structured entities. The fund is from Fubon Securities and its subsidiaries and an external third-party.

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

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

<u>March 31, 2019</u>	<u>Asset securitization products</u>
Assets possessed	
— Financial assets measured at fair value through profit or loss - current	\$ 558,870
Total assets possessed	<u>\$ 558,870</u>
<u>December 31, 2018</u>	<u>Asset securitization products</u>
Assets possessed	
— Financial assets measured at fair value through profit or loss - current	\$ 525,259
Total assets possessed	<u>\$ 525,259</u>

(Continued)

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

March 31, 2018	Asset securitization products
Assets possessed	
— Financial assets measured at fair value through profit or loss - current	\$ 488,245
— Financial assets measured at fair value through other comprehensive income - current	1,981
Total assets possessed	<u>\$ 490,226</u>

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

- 3) For the three month ended March 31, 2019 and 2018, Fubon Securities and its subsidiaries did not offer any financial support to those unconsolidated asset securitization products.

(v) Other subsidiaries

- 1) Other subsidiaries hold the following types equity of unconsolidated structured entities. The fund is from the subsidiaries and an external third-party.

Types of structured entity	Characteristic and purpose	Equity owned by other subsidiaries
Private equity fund	Invest in private investment fund issued by outside fund manager to gain profit	Invest in the fund units issued by the funds or limited partnership equity
Assets securitization products	Invest in assets securitization products to gain profit	Invest in asset backed securities issued by the entity

- 2) The carrying amounts of the unconsolidated structured entities recognized by other subsidiaries were as below:

March 31, 2019	Private fund investment	Asset securitization products
Assets possessed		
— Financial assets mandatorily measured at fair value through profit or loss	\$ 11,200	-
— Financial assets measured at fair value through profit or loss	-	63,007
Total assets possessed	<u>\$ 11,200</u>	<u>63,007</u>

(Continued)

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

<u>December 31, 2018</u>	<u>Private fund investment</u>	<u>Asset securitization products</u>
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>
<u>March 31, 2018</u>	<u>Private fund investment</u>	<u>Asset securitization products</u>
Assets possessed		
– Financial assets measured at fair value through profit or loss	\$ 10,469	56,536
Total assets possessed	<u>\$ 10,469</u>	<u>56,536</u>

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

- 3) For the three month ended March 31, 2019 and 2018, other subsidiaries did not offer any financial support to those unconsolidated private investment fund and asset securitization products.

(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.

(Continued)

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

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

	March 31, 2019			December 31, 2018			March 31, 2018		
	Foreign currency (in thousands)	Exchange rate (in dollars)	TWD	Foreign currency (in thousands)	Exchange rate (in dollars)	TWD	Foreign currency (in thousands)	Exchange rate (in dollars)	TWD
Financial assets:									
Monetary items									
USD	\$ 88,611,665	30.8329 /30.825 /30.833 /30.948	2,731,861,946	88,835,674	30.7515 /30.733 /31 /30.751 /30.748	2,730,640,579	84,420,066	29.1232 /29.12 /29.149 /29.123	2,458,383,779
HKD	59,776,070	3.9279 /3.927 /3.928	234,793,457	58,028,084	3.9279 /3.924 /3.928	227,927,526	52,084,834	3.7095 /3.71012	193,209,059
CNY	88,956,601	4.5852 /4.59204 /4.585	407,908,992	87,643,443	4.4661 /4.46798 /4.466 /4.46928	391,436,735	89,143,572	4.6522 /4.63753 /4.64701	414,653,413
Non-Monetary items									
USD	9,094,055	30.8329 /30.825 /30.833	280,331,082	6,752,230	30.7515 /30.733 /30.751	207,531,069	6,738,220	29.1232 /29.12	196,219,067
HKD	7,994,627	3.9279 /3.927 /3.928	31,394,040	9,306,579	3.9279 /3.924 /3.928	36,522,331	8,436,582	3.7095 /3.71012	31,300,432
CNY	12,317,858	4.5852 /4.592 /4.585 /4.584	57,293,569	11,032,741	4.4661 /4.468 /4.466 /4.469	50,298,333	13,048,182	4.6522 /4.63753 /4.64701	60,799,065
Derivatives									
USD	14,511	30.8329 /30.825 /30.948	447,344	85,117	30.7515 /30.733 /30.748	2,616,084	253,922	29.1232 /29.12	7,394,222
Investments accounted for using equity method									
CNY	3,303,534	4.5852	15,147,367	3,215,120	4.4661	14,359,049	2,529,087	4.652	11,765,817
HKD	2,266,330	3.928	8,901,916	2,241,539	3.928	8,804,540	2,415,297	3.710	8,959,544
KRW	-	-	-	-	0.028	-	101,952,876	0.027	2,793,509
Financial liabilities:									
Monetary items									
USD	29,749,696	30.8329 /30.825 /30.833	917,264,615	28,852,121	30.7515 /30.733 /30.751	887,244,493	30,807,475	29.1232 /29.12	897,212,892
HKD	50,065,388	3.9279 /3.927 /3.928	196,651,555	56,298,051	3.9279 /3.924 /3.928	221,133,197	52,926,752	3.7095 /3.71012	196,331,950
CNY	75,053,181	4.5852 /4.59204	344,134,091	73,495,556	4.4661 /4.46798	328,238,486	68,714,179	4.6522 /4.63753	319,671,915
Non-Monetary items									
USD	632,040	30.8329	19,487,612	503,915	30.752	15,496,146	411,172	29.123	11,974,658
CNY	807,055	4.585	3,700,510	1,173,043	4.466	5,238,929	1,554,183	4.652	7,230,368
JPY	33,865,727	0.278	9,421,445	17,054,688	0.278	4,746,320	6,990,799	0.274	1,915,479
Derivatives									
USD	219,426	30.8329 /30.825 /30.948	6,766,976	139,377	30.7515 /30.733 /30.748	4,283,531	51,341	29.1232 /29.12	1,495,038

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

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

(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, %

Item		March 31, 2019					
		Non-performing loan (NPL) (Note 1)	Total loans	NPL Ratio (%) (Note 2)	Loan loss reserves (LLR)	Coverage ratio (%) (Note 3)	
Corporate loan	Secured	495,461	158,246,960	0.31	1,947,211	393.01	
	Unsecured	1,123,002	367,726,378	0.31	5,498,273	489.60	
Consumer loan	Mortgage (Note 4)	295,671	413,229,749	0.07	6,182,617	2,091.05	
	Cash card	16	2,251	0.71	45	281.25	
	Micro credit (Note 5)	58,013	28,930,012	0.20	327,116	563.87	
	Others (Note 6)	Secured	149,738	209,133,948	0.07	2,253,457	1,504.93
		Unsecured	40,035	35,737,883	0.11	373,061	931.84
Total		2,161,936	1,213,007,181	0.18	16,581,780	766.99	
		Overdue receivable	Account receivable	Delinquency ratio (%)	Allowance for credit losses	Coverage ratio (%)	
Credit card		38,243	41,268,032	0.09	321,953	841.86	
Account receivable factoring with no recourse (Note 7)		-	15,540,855	-	178,276	-	
Excluded NPL as a result of debt consultation and loans agreement (Note 8)		45,444					
Excluded overdue receivables as a result of debt consultation and loans agreements (Note 8)		85,677					
Excluded NPL as a result of debt solvency and restart plan (Note 9)		317,129					
Excluded overdue receivables as a result of debt solvency and restart plan (Note 9)		390,594					

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

Item		March 31, 2018					
		Non-performing loan (NPL) (Note 1)	Total loans	NPL Ratio (%) (Note 2)	Loan loss reserves (LLR)	Coverage ratio (%) (Note 3)	
Corporate loan	Secured	430,662	150,202,260	0.29	1,898,806	440.90	
	Unsecured	1,428,132	412,971,947	0.35	5,487,551	384.25	
Consumer loan	Mortgage (Note 4)	485,370	412,506,148	0.12	6,162,018	1,269.55	
	Cash card	-	3,143	-	63	-	
	Micro credit (Note 5)	52,960	23,579,033	0.22	273,517	516.46	
	Others (Note 6)	Secured	131,152	180,901,679	0.07	1,958,457	1,493.27
		Unsecured	44,265	34,933,783	0.13	363,958	822.23
Total		2,572,541	1,215,097,993	0.21	16,144,370	627.57	
		Overdue receivable	Account receivable	Delinquency ratio (%)	Allowance for credit losses	Coverage ratio (%)	
Credit card		42,313	36,454,810	0.12	307,159	725.92	
Account receivable factoring with no recourse (Note 7)		-	11,962,103	-	138,987	-	
Excluded NPL as a result of debt consultation and loans agreement (Note 8)		69,902					
Excluded overdue receivables as a result of debt consultation and loans agreements (Note 8)		116,640					
Excluded NPL as a result of debt solvency and restart plan (Note 9)		298,965					
Excluded overdue receivables as a result of debt solvency and restart plan (Note 9)		422,976					

Note 1: For loan business: Overdue loans represent the amounts of reported overdue loans pursuant to the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Nonaccrual Loans" issued by the MOF.

For credit card business: Overdue receivables are regulated by the Banking Bureau letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: For loan business: $NPL\ Ratio = NPL / Total\ Loans$.

For credit card business: $Delinquency\ Ratio = Overdue\ receivable / Account\ receivable$.

Note 3: For loan business: $Coverage\ Ratio = LLR / NPL$

For credit card business: $Coverage\ Ratio = Allowance\ for\ credit\ losses / Overdue\ receivables$.

Note 4: Household mortgage means the purpose of financing is to purchase, build, or fix up the dwelling, and the dwelling owned by the borrower, spouse, or children fully secures the loan.

Note 5: Micro credit is regulated by the Banking Bureau letter dated December 19, 2005 (Ref. No. 09440010950).

Note 6: Others in consumer loan refer to secured or non-secured loans excluding mortgage, cash card, micro credit, and credit card.

Note 7: Account receivable – factoring with no recourse: As required by the Banking Bureau letter dated July 19, 2005 (Ref. No. 094000494), provision for bad debt is recognized once no compensation is received from the factoring or insurance company.

Note 8: The amounts of excluded NPL and excluded overdue receivables through financial debt negotiation and loan agreement were disclosed based on the interpretation issued by the Banking Bureau dated April 25, 2006 (Ref. 09510001270).

Note 9: The amounts of excluded NPL and excluded overdue receivables through debt solvency and restart plan were disclosed based on the interpretation issued by the Banking Bureau dated September 15, 2008 (Ref. 09700318940) and September 20, 2016 (Ref. 10500134790).

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

(ii) Concentration of credit extensions

Units: In thousands of TWD, %

March 31, 2019			
Rank (Note 1)	Group name (Note 2)	Credit extensions balance (Note 3)	% of net asset value
1	A group (Semiconductor packaging and testing industry)	10,147,458	5.27
2	B group (petrochemicals manufacturing industry)	9,079,355	4.71
3	C group (other electronic parts and components manufacturing not elsewhere classified)	9,041,432	4.69
4	D group (ocean freight industry)	6,555,182	3.40
5	E group (Cable and other paid programming)	6,322,492	3.28
6	F group (Laptops, desktops, tablets, data centers and holding)	5,549,985	2.88
7	G group (LCD and its component manufacturing industry)	4,787,087	2.49
8	H group (LCD and its component manufacturing industry)	4,596,607	2.39
9	I group (exploitation of real estate, retail and service)	4,148,440	2.15
10	J group (ocean freight industry)	4,023,693	2.09

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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Units: In thousands of TWD, %

March 31, 2018			
Rank (Note 1)	Group name (Note 2)	Credit extensions balance (Note 3)	% of net asset value
1	A group (petrochemicals manufacturing industry)	10,834,665	5.89
2	B group (other electronic parts and components manufacturing not elsewhere classified)	8,759,372	4.77
3	C group (ocean freight industry)	8,623,857	4.69
4	D group (other electronic parts and components manufacturing not elsewhere classified)	8,240,000	4.48
5	E group (LCD and its component manufacturing industry)	6,664,458	3.63
6	F group (wire and cable manufacturing industry)	6,168,022	3.36
7	G group (Electronic passive components manufacturing)	5,325,458	2.90
8	H group (computer peripheral equipment, communications, optoelectronics, power management and consumer electronics)	5,308,666	2.89
9	I group (Cable and other paid programming)	4,596,121	2.50
10	J group (ocean freight industry)	4,562,690	2.48

Note 1: The list shows ranking by total amounts of credit, endorsement or other transactions (excluding those of government-owned or state-run enterprises). If the borrower is a member of a group enterprise, the total amount of credit, endorsement or other transactions of the entire group enterprise must be listed and disclosed by code and line of industry. The industry of the group enterprise should be presented as the industry of the member firm with the highest risk exposure. The lines of industry should be described in accordance with the Standard Industrial Classification System of the Republic of China published by the Directorate-General of Budget, Accounting and Statistics under the Executive Yuan.

Note 2: Groups enterprise refers to a group of corporate entities as defined by Article 6 of the Supplementary Provisions to the Taiwan Stock Exchange Corporation Criteria for Review of Securities Listings.

Note 3: The total amount of credits, endorsements or other transactions is the sum of various loans (including import and export negotiations, discounted, overdrafts, unsecured and secured short-term loans, margin loans receivable, unsecured and secured medium-term loans, unsecured and secured long-term loans and overdue loans), exchange bills negotiated, accounts receivable factored without recourse, acceptances and guarantees.

(Continued)

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

(iii) Interest rate sensitivity information

Interest Rate Sensitivity (TWD)

Units: In thousands of TWD, %

March 31, 2019					
Items	1-90 days	91-180 days	181-365 days	Over 1 year	Total
Interest rate-sensitive assets	\$ 1,195,652,930	48,381,037	59,337,260	185,093,322	1,488,464,549
Interest rate-sensitive liabilities	407,436,729	714,442,067	65,839,849	60,720,929	1,248,439,574
Interest rate sensitivity gap	788,216,201	(666,061,030)	(6,502,589)	124,372,393	240,024,975
Net worth					189,882,908
Ratio of interest rate-sensitive assets to liabilities (%)					119.23
Ratio of the interest rate sensitivity gap to net worth (%)					126.41

Units: In thousands of TWD, %

March 31, 2018					
Items	1-90 days	91-180 days	181-365 days	Over 1 year	Total
Interest rate-sensitive assets	\$ 1,242,345,389	86,771,497	63,744,060	142,392,326	1,535,253,272
Interest rate-sensitive liabilities	391,361,419	682,543,255	80,715,817	51,303,924	1,205,924,415
Interest rate sensitivity gap	850,983,970	(595,771,758)	(16,971,757)	91,088,402	329,328,857
Net worth					181,892,351
Ratio of interest rate-sensitive assets to liabilities (%)					127.31
Ratio of the interest rate sensitivity gap to net worth (%)					181.06

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

Note 2: Interest-rate sensitive assets and liabilities mean the revenues or costs of interest-earnings assets and interest-bearing liabilities affected by interest-rate changes.

Note 3: Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.

Note 4: Ratio of interest-rate sensitive assets to liabilities = Interest-rate sensitive assets/Interest-rate sensitive liabilities (New Taiwan dollars).

(Continued)

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

Interest Rate Sensitivity (USD)

Units: In thousands of USD, %

March 31, 2019						
Items	1-90 days	91-180 days	181-365 days	Over 1 year	Total	
Interest rate-sensitive assets	\$ 10,080,613	816,809	1,114,504	6,225,947	18,237,873	
Interest rate-sensitive liabilities	18,319,684	2,353,949	1,714,653	1,773,908	24,162,194	
Interest rate sensitivity gap	(8,239,071)	(1,537,140)	(600,149)	4,452,039	(5,924,321)	
Net worth						62,892
Ratio of interest rate-sensitive assets to liabilities (%)						75.48
Ratio of the interest rate sensitivity gap to net worth (%)						(9,419.83)

Units: In thousands of USD, %

March 31, 2018						
Items	1-90 days	91-180 days	181-365 days	Over 1 year	Total	
Interest rate-sensitive assets	\$ 9,247,255	1,231,353	1,537,072	5,509,866	17,525,546	
Interest rate-sensitive liabilities	20,975,463	2,552,931	1,254,705	1,334,388	26,117,487	
Interest rate sensitivity gap	(11,728,208)	(1,321,578)	282,367	4,175,478	(8,591,941)	
New worth						60,795
Ratio of interest rate-sensitive assets to liabilities (%)						67.10
Ratio of the interest rate sensitivity gap to net worth (%)						(14,132.64)

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).

(iv) Profitability

Unit: %

		For the three months ended March 31	
		2019	2018
Return on total assets	Before income tax	0.27	0.22
	After income tax	0.23	0.19
Return on net worth	Before income tax	3.54	2.93
	After income tax	2.96	2.49
Profit margin		46.06	43.90

(Continued)

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

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 three months ended March 31, 2019 and 2018.

(v) Maturity analysis

Maturity Analysis of Assets and Liabilities (TWD)

Units: In thousands of TWD

March 31, 2019							
	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	\$ 2,331,967,055	304,938,018	246,493,778	343,486,288	262,710,178	224,246,796	950,091,997
Main capital outflow on maturity	2,738,140,807	187,591,024	256,696,116	467,613,644	358,201,622	493,584,321	974,454,080
Gap	(406,173,752)	117,346,994	(10,202,338)	(124,127,356)	(95,491,444)	(269,337,525)	(24,362,083)

Units: In thousands of TWD

March 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	\$ 2,386,216,103	287,412,403	313,410,664	351,272,217	262,001,889	289,708,323	882,410,607
Main capital outflow on maturity	2,779,836,874	187,482,659	311,744,764	487,315,927	377,717,801	504,063,911	911,511,812
Gap	(393,620,771)	99,929,744	1,665,900	(136,043,710)	(115,715,912)	(214,355,588)	(29,101,205)

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

March 31, 2019						
	The amount for the remaining period to maturity					
	Total	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year
Main capital inflow on maturity	\$ 83,600,296	35,113,584	21,355,402	9,931,865	6,504,697	10,694,748
Main capital outflow on maturity	89,854,798	39,048,435	20,943,881	12,573,429	8,629,330	8,659,723
Gap	(6,254,502)	(3,934,851)	411,521	(2,641,564)	(2,124,633)	2,035,025

Units: In thousands of USD

March 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	\$ 80,852,302	28,075,651	22,324,318	13,555,187	7,541,018	9,356,128
Main capital outflow on maturity	85,413,605	33,469,263	20,119,462	15,608,359	9,144,825	7,071,696
Gap	(4,561,303)	(5,393,612)	2,204,856	(2,053,172)	(1,603,807)	2,284,432

(Continued)

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

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

(7) Related-party transactions:

(a) Names and relationships of related parties

<u>Name of related party</u>	<u>Relationship with the Company and its subsidiaries</u>
Fubon Property Management Co., Ltd. (Fubon Property Management)	Related parties in substance
Taiwan Stock Exchange Corporation (Taiwan Stock Exchange)	Related parties in substance
Taiwan Futures Exchange Corporation (Taiwan Futures Exchange)	Related parties in substance
momo.com Inc. (momo)	Related parties in substance
Fubon Charity Foundation	Related parties in substance
Funds Managed by Fubon Asset Management	Related parties in substance
Taiwan Fixed Network Co., Ltd. (Taiwan Fixed Network)	Related parties in substance
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
Kbro Media Co., Ltd. (Kbro Media)	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 (related parties in substance from the third quarter of 2018)
Xiamen Bank Co., Ltd. (Xiamen Bank)	Related parties in substance
Convoy Financial Service Limited (Convoy Financial Service)	Related parties in substance
Formosa Petrochemical Corporation	Related parties in substance
Long Time Tech. Co., Ltd. (Long Time Tech.)	Related parties in substance (related parties in substance from the fourth quarter of 2018)
Taihsin Property Insurance Agent Co., Ltd. (Taihsin Property Insurance Agent)	Related parties in substance
Harbin Bank Co., Ltd (Harbin Bank)	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 and its subsidiaries</u>
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
Hyundai Mobis Co., Ltd.	Related parties in substance (related parties in substance from the third quarter of 2018)
Hyundai Commercial Co., Ltd.	Related parties in substance (related parties in substance from the third quarter of 2018)
Chien Kuo Construction Co., Ltd.	Related parties in substance (not related parties in substance from the fourth quarter of 2018)
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

(b) Significant transactions with related parties

(i) Insurance revenue and insurance receivable:

	Insurance receivable		Insurance receivable		
	For the three months ended March 31		March 31,	December 31,	March 31,
	2019	2018	2019	2018	2018
Taiwan Mobile	88,376	185,730	59,907	48,459	77,044
Taiwan High Speed Rail	4,622	68,036	83,348	82,879	1,914
Taipei City Government	55,715	15,789	-	-	-
Taipei New Horizon	245	9	-	16,270	-
momo	24,979	19,316	3,876	8,951	15,194
Taiwan Pelican Express	17,949	15,353	5	-	69
Taiwan Fixed Network	10,033	1,945	9,989	3	1,895
Inventec	-	2,547	8,854	10,427	2,632
Hyundai Mobis Co., Ltd.	16,230	-	-	-	-
Related parties in substance (individual)	440,915	388,369	851	-	-
Others (not related company or person accounts for more than \$10,000 or 10%)	28,810	25,197	15,661	19,374	10,873
Total	<u>\$ 687,874</u>	<u>722,291</u>	<u>182,491</u>	<u>186,363</u>	<u>109,621</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.

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

(ii) Rental revenue and guarantee deposits:

	For the three months ended	
	March 31	
	2019	2018
Rental revenue:		
momo	\$ 28,649	27,509
TAROKO Development	-	28,750
Kbro Media	20,037	18,340
TAROKO Mall	28,750	-
Taiwan Fixed Network	10,633	10,298
Taiwan Mobile	9,788	10,289
Others (not related company or person accounts for more than \$10,000 or 10%)	14,544	11,539
Total	\$ 112,401	106,725

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

	March 31, 2019	December 31, 2018	March 31, 2018
Advanced real estate receipts:			
Kbro Media	\$ 37,807	-	37,807
momo	47	48	48
Taiwan Fixed Network	1,677	1,821	1,690
Taiwan Mobile	2,529	2,194	2,710
Others (not related company or person accounts for more than \$10,000 or 10%)	2,863	2,863	3,261
Total	\$ 44,923	6,926	45,516

(Continued)

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Guarantee deposits:			
momo	\$ 30,072	30,077	27,219
TAROKO Mall	35,000	35,000	-
TAROKO Development	-	-	35,000
Taiwan Fixed Network	10,899	10,899	10,708
Taiwan Mobile	9,101	9,101	9,496
Others (not related company or person accounts for more than \$10,000 or 10%)	18,722	17,333	11,262
Total	<u>\$ 103,794</u>	<u>102,410</u>	<u>93,685</u>

The aforementioned guarantee deposits are for leasing investment properties. The performance guarantees of Kbro Media amounting to \$26,345, of TAROKO Mall Co., Ltd. amounting to \$22,500 were also acquired.

(iii) Rental expense and refundable deposits:

	<u>For the three months ended March 31, 2018</u>
Rental expense:	
Chung Hsing Land Development	\$ 64,038
Taipei City Government	80,679
Fubon REIT I Fund	39,160
Fubon REIT II Fund	44,564
Others (not related company or person accounts for more than \$10,000 or 10%)	29,185
Total	<u>\$ 257,626</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.

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Refundable deposits:			
Chung Hsing Land Development	\$ 37,436	37,436	37,436
Taipei City Government	4,386	4,244	4,244
Fubon REIT I Fund	49,882	49,786	48,271
Fubon REIT II Fund	38,236	38,216	19,529
Others (not related company or person accounts for more than \$10,000 or 10%)	13,699	13,430	13,264
Total	<u>\$ 143,639</u>	<u>143,112</u>	<u>122,744</u>

(iv) Right-of-use asset and lease liability

<u>Name of related party</u>	<u>Right-of-use asset</u>	
	<u>March 31, 2019</u>	<u>January 1, 2019</u>
Taipei City Government	\$ 29,924,817	30,311,439
Taiwan Fixed Network	148,534	164,340
Chung Hsing Land Development	412,178	468,365
Ming-Dong Industrial	10,466	17,832
Fubon Charity Foundation	33,747	38,081
Fubon REIT I Fund	236,972	301,584
Fubon REIT II Fund	202,348	267,974
Taiwan Mobile	9,909	10,810
Related parties in substance	25,103	36,513
Others (not related company or person accounts for more than \$10,000 or 10%)	719	1,181
Total	<u>\$ 31,004,793</u>	<u>31,618,119</u>

(Continued)

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

<u>Name of related party</u>	<u>Lease liability</u>		<u>Interest expense</u>	<u>Value of Contract</u>
	<u>March 31, 2019</u>	<u>January 1, 2019</u>	<u>For the three months ended March 31, 2019</u>	
Taipei City Government	\$ 7,521,942	7,786,372	57,868	37,836,301
Taiwan Fixed Network	153,995	169,704	1,286	328,223
Chung Hsing Land Development	413,053	468,365	3,676	720,913
Ming-Dong Industrial	10,643	17,357	110	81,886
Fubon Charity Foundation	33,896	37,974	301	52,617
Fubon REIT I Fund	236,543	293,871	2,187	518,774
Fubon REIT II Fund	207,313	266,628	2,027	421,900
Taiwan Mobile	9,926	10,810	93	19,540
Related parties in substance	25,967	34,478	245	105,075
Others (not related company or person accounts for more than \$10,000 or 10%)	740	874	7	1,690
Total	<u>\$ 8,614,018</u>	<u>9,086,433</u>	<u>67,800</u>	<u>40,086,919</u>

(v) Other deposits

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>	<u>Note</u>
	Taipei City Government	\$ 1,223,676	1,223,476	1,208,426
Taiwan Stock Exchange	8,032,801	4,237,952	230,000	Margin lending and others
Others (not related company or person accounts for more than \$10,000 or 10%)	4,227	4,230	4,246	
Total	<u>\$ 9,260,704</u>	<u>5,465,658</u>	<u>1,442,672</u>	

(vi) Deposits

<u>Name of related party</u>	<u>March 31, 2019</u>		<u>December 31, 2018</u>		<u>March 31, 2018</u>	
	<u>Amount</u>	<u>Interest rate range</u>	<u>Amount</u>	<u>Interest rate range</u>	<u>Amount</u>	<u>Interest rate range</u>
		<u>%</u>		<u>%</u>		<u>%</u>
Xiamen Bank	\$ 878,207	0.05~3.10	870,557	1.90~2.60	853,823	0.05~2.00
Far Eastern Bank	161,857	2.55~2.70	314,265	2.10~2.60	-	
Others	<u>50,502,455</u>	0~6.12	<u>71,666,340</u>	0~8.00	<u>49,578,318</u>	0~8.00
Total	<u>\$ 51,542,519</u>		<u>72,851,162</u>		<u>50,432,141</u>	

(Continued)

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

(vii) Loans

<u>Name of related party</u>	<u>March 31, 2019</u>		<u>December 31, 2018</u>		<u>March 31, 2018</u>	
	<u>Amount</u>	<u>Interest rate range %</u>	<u>Amount</u>	<u>Interest rate range %</u>	<u>Amount</u>	<u>Interest rate range %</u>
Others	<u>\$ 4,168,250</u>	0~14.97	<u>35,138,208</u>	0~14.98	<u>4,022,936</u>	0~14.98

Units: In thousands of TWD

March 31, 2019							
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	74	36,786	31,565	✓	-	None	None
House mortgages	390	3,788,628	3,589,326	✓	-	Real estate	None
Others	Department of Urban Development, Taipei City Government	541,612	516,086	✓	-	Public treasury guarantees	None
	Department of Rapid Transit systems, Taipei City Government	27,004,874	-	✓	-	Public treasury guarantees	None
	Taipei Municipal Secured Small Loans Service	167	111	✓	-	Public treasury guarantees	None
	Department of Sports, Taipei City Government	4,000,000	-	✓	-	Public treasury guarantees	None
	Long Time Tech.	33,709	30,667	✓	-	Certificate of deposit	None
	Other loans	524	495	✓	-	Credit Guarantee Fund	None
Total		35,406,300	4,168,250				

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

March 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		
Employee Consumer loans	86	45,148	39,138	✓	-	Clean credit	None
House mortgages	377	3,497,002	3,312,668	✓	-	Real estate	None
Others	Department of Urban Development, Taipei City Government	647,319	625,956	✓	-	Public treasury guarantees	None
	Department of Rapid Transit systems, Taipei City Government	1,218,400	-	✓	-	Public treasury guarantees	None
	Taipei Municipal Secured Small Loans Service	458	368	✓	-	Public treasury guarantees	None
	ICDC	93,044	44,196	✓	-	Standby Letter of Credit	None
	Other loans	638	610	✓	-	Credit Guarantee Fund	None
Total		5,502,009	4,022,936				

(viii) Guarantees

Units: In thousands of TWD

March 31, 2019					
Related party	Highest balance for the period	Ending balance	Provision (Note)	Rates (%)	Type of collateral
Taipei City Government	1,233	1,233	-	1%	Public treasury guarantees

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

March 31, 2018					
Related party	Highest balance for the period	Ending balance	Provision (Note)	Rates (%)	Type of collateral
Taipei City Government	1,194	1,165	-	1%	Public treasury guarantees

Note: Guarantee provisions are reversed based on all claims.

(Continued)

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

(ix) Details of financing activities:

1) Secured loans

March 31, 2019						
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	55 related parties in substance	\$ 415,576	406,217	Normal loans	Real estate	None

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	\$ 409,583	397,891	Normal loans	Real estate	None

March 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	50 related parties in substance	\$ 361,809	349,230	Normal loans	Real estate	None

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

2) Life insurance loans:

March 31, 2019						
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	115 related parties in substance	\$ 43,967	42,978	Normal loans	Policy value	None

(Continued)

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

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	\$ 59,581	39,473	Normal loans	Policy value	None

March 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	106 related parties in substance	\$ 41,922	38,046	Normal loans	Policy value	None

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

(x) Derivative financial instruments (notional amount)

Name of related party	Financial instrument	March 31, 2019	December 31, 2018	March 31, 2018
Harbin Bank	Foreign currency swap contracts	\$ -	-	3,644,168
Far Eastern Bank	Interest rate swap contracts	2,100,000	2,100,000	-
Total		<u>\$ 2,100,000</u>	<u>2,100,000</u>	<u>3,644,168</u>

(xi) Other income

1) Service fees

Name of related party	For the three months ended March 31	
	2019	2018
momo	\$ 18,456	38,817
Taiwan Mobile	53,400	55,879
Others (not related company or person accounts for more than \$10,000 or 10%)	10,679	11,096
Total	<u>\$ 82,535</u>	<u>105,792</u>

(Continued)

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

2) Management income

Name of related party	For the three months ended March 31	
	2019	2018
Funds managed by Fubon Asset Management and authorization accounts	\$ 276,465	210,769

3) Sales commissions

Name of related party	For the three months ended March 31	
	2019	2018
Funds managed by Fubon Asset Management and authorization accounts	\$ 38,375	11,205

4) Handling fee income

Name of related party	For the three months ended March 31	
	2019	2018
Others (not related company or person accounts for more the \$10,000 or 10%)	\$ 25,894	26,487

5) Sponsorship income, sales revenue, royalty income and unearned revenue

Name of related party	For the three months ended March 31	
	2019	2018
Taiwan Mobile	\$ 7,620	10,125
momo	4,974	-
Others (not related company or person accounts for more the \$10,000 or 10%)	15	2,500
	\$ 12,609	12,625

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

	March 31, 2019	December 31, 2018	March 31, 2018
	Taiwan Mobile	\$ 22,500	-
momo	12,000	-	-
Others (not related company or person accounts for more than \$10,000 or 10%)	-	-	7,500
Total	\$ 34,500	-	25,875

(Continued)

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

(xii) Other expenses (Rental expenses of 2019 are included)

<u>Name of related party</u>	<u>Category</u>	For the three months ended	
		March 31	
		2019	2018
Taiwan Fixed Network	Phone expenses, telecom expenses, network equipment rental expenses, maintenance expenses and rental expenses	\$ 58,780	58,891
Taiwan Mobile	Telecom expenses, marketing fee, service fee and rental expenses	11,985	9,699
Fubon Property Management	Management fees and investment property expenses	54,358	46,569
Taiwan Stock Exchange	Brokerage commissions, computer information fee, issuing call warrant fee, dealing fee and rental expenses	44,811	66,580
Taiwan Depository & Clearing	Depository and clearing fee and other expenses	45,813	32,327
Taiwan Futures Exchange	Brokerage commissions, clearing and settlement fee and dealing fee	37,083	47,918
Convoy Financial Service	Commission expenses and sales bonus	15,008	386
Taihsin Property Insurance Agent	Acquisition commission and service fees	41,458	1,855
Others (not related company or person accounts for more than \$10,000 or 10%)	Service fees, commission expenses, rental expenses and other expenses	47,987	33,792
Total		<u>\$ 357,283</u>	<u>298,017</u>

(xiii) Bond transaction— Bonds sold under repurchase agreement

<u>Name of related party</u>	<u>March 31, 2019</u>	December 31,	
		<u>2018</u>	<u>March 31, 2018</u>
Taiwan High Speed Rail	\$ -	4,678,000	-
Taiwan Fixed Network	-	146,013	-
Directors, supervisors, managers and their relatives up to the second degree, affiliates and the related parties in substance	4,085,554	4,075,288	4,562,226
Total	<u>\$ 4,085,554</u>	<u>8,899,301</u>	<u>4,562,226</u>

(Continued)

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

(xiv) Bond transaction—Bonds sold under repurchase agreement

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Formosa Petrochemical Corporation	\$ <u>120,028</u>	<u>100,000</u>	<u>-</u>

(xv) Donations

Donations to related parties were as follows:

<u>Name of related party</u>	<u>For the three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Others (not related company or person accounts for more the \$10,000 or 10%)	\$ <u>7,745</u>	<u>14,281</u>

(xvi) Other receivables and payables

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Taiwan Mobile	\$ 25,920	991	20,238
Funds managed by Fubon Asset Management	119,098	353,047	74,625
Taiwan Stock Exchange	(13,893)	(12,938)	(18,658)
Taiwan Futures Exchange	(11,503)	(12,855)	(19,957)
Convoy Financial Service	(4,871)	(5,882)	(17,236)
Chien Kuo Construction	-	-	(32,355)
Taiwan Win TV	-	26,166	-
Taihsin Property Insurance Agent	(11,364)	(961)	-
Others (not related company or person accounts for more than \$10,000 or 10%)	(12,925)	14,412	5,106
Total	\$ <u>90,462</u>	<u>361,980</u>	<u>11,763</u>

(xvii) Futures traders' equity

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Funds managed by Fubon Asset Management	\$ <u>11,758,632</u>	<u>6,465,477</u>	<u>7,580,521</u>

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

(xviii) The details of the fund's balance from related parties Fubon Asset Management were as follows:

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Fubon Chi-Hsiang Money Market Fund	\$ 457,167	1,159,095	2,462,511
Fubon Strategic High Income Fund	-	15,699	82,430
Fubon Taiwan Technology ETF	52,391	246,470	139,082
Fubon MSCI Taiwan ETF	224,447	207,868	238,849
Fubon Taiwan Finance ETF	172,172	155,562	149,163
Fubon Taiwan Eight Industries ETF	183,718	173,905	169,549
Fubon SZSE 100 ETF	156,608	141,243	157,523
Fubon China High Yield Bd CNY	160,849	113,394	175,768
Fubon China Money Market CNY	-	67,249	123,067
Fubon China Investment Grade Bond Fund - CNY	42,145	40,761	31,180
Fubon China Growth Fund	15,342	25,345	50,237
Fubon FTSE TWSE Taiwan 50 ETF	12,716	10,181	7,330
Fubon SSE180 ETF	956,907	884,378	1,012,900
Fubon SSE180 Leveraged Inversed 2X Index ETF	33,760	16,133	20,184
Fubon SSE180 Inversed Index ETF	6,173	31,371	21,244
Fubon Elite Fund	137	487	302
Fubon Global REIT Fund	669	514	686
Fubon Global Investment Fund	-	5,139	4,988
Fubon TOPIX ETF	9,454	17,835	9,552
Fubon TOPIX Leveraged 2X Index Fund	353	452	59
Fubon TOPIX Inverse 1X Index ETF	1,050	950	7,841
Fubon NIFTY ETF	545	589	1,169
Fubon NIFTY 2X Leveraged Index ETF	601	1,314	3,472
Fubon NIFTY 1X Inverse Index ETF	22,351	7,887	25,425
Fubon NASDAQ 100 ETF	6,741	30	1,154
Fubon Hang Seng China Enterprises ETF	43,647	36,277	32,949
	13,620	14,755	9,622

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Fubon Hang Seng H-Share 2X Leveraged Index ETF	\$ 30,243	23,949	34,235
Fubon Hang Seng H-Share 1X Inverse Index ETF	34,444	30,670	45,204
Fubon TAIEX Daily 2X Leveraged ETF	21,828	19,409	4,641
Fubon TAIEX Daily 1X Inverse ETF	1,914	6,324	1,749
Fubon S&P 500 VIX Short Term Futures ETF	149,972	20,717	13,399
Fubon Euro Asia Silk Road Multi Asset Fund	37,240	33,871	54,076
Fubon TWSE Corporate Governance 100 ETF	1,073,608	976,320	1,089,338
Fubon 1-3 Years US Treasury Bond ETF	21,350	3,096,063	6,577
Fubon 7-10 Years US Treasury Bond ETF	809	119,600	1,229,283
Fubon 20+Years US Treasury Bond ETF	4,168,071	2,080,560	1,780,352
Fubon FTSE Developed Europe ETF	10,222	9,322	21,803
Fubon NASDAQ 100 1X Inverse Index ETF	8,407	19,322	-
Fubon NASDAQ 100 2X Leveraged Index ETF	50,978	41,733	24,049
Fubon China Policy Bank Bond 0-1 ETF	1,736	8,151	-
Fubon 9-35 Years US Corporate Bond A ETF	4,170,585	3,848,082	-
Fubon Technology Fund	377	334	-
Fubon China Multi-Asset Fund	-	31,381	90,256
Fubon India and Indonesia Sovereign Bond Fund ETF	21,080	20,204	-
Fubon S&P US Preferred Stock ETF	1,257,733	1,793,537	576,468
Fubon US Corporate Bond ETF Umbrella Fund - Fubon 10+Years US Corporate Bond BBB Ex China	4,302,243	198,697	-

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Fubon US Corporate Bond ETF	\$ 295,427	201,402	-
Umbrella Fund - Fubon 1-5 Years US High Yield Bond Ex China			
Fubon China Policy Bank Bond ETF	1,085,161	5,005,801	6,057,593
Fubon Taiwan Small-Mid Cap Alpha Momentum 50 ETF	10,850	2,179	-
Fubon Dow Jones Taiwan High- Quality Dividend 30 ETF	584	191	3,864
Fubon China CSI 500 Index ETF	21,502	-	-
Fubon FTSE Asian Broad Bond Index-China Investment - Grade ETF	256,727	-	-
Fubon FTSE World Broad Investment - Grade Bank Bond 1ct Years Index ETF	39,971	-	-
Total	<u>\$ 19,646,625</u>	<u>20,962,702</u>	<u>15,971,123</u>

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

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Fubon REIT I Fund	\$ 3,016,123	2,887,963	2,663,649
Fubon REIT II Fund	1,940,632	1,859,785	1,861,506
Total	<u>\$ 4,956,755</u>	<u>4,747,748</u>	<u>4,525,155</u>

(xix) Clearing and settlement fund

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Taiwan Stock Exchange	\$ 110,559	143,704	143,703
Taiwan Futures Exchange	141,922	140,414	147,512
Total	<u>\$ 252,481</u>	<u>284,118</u>	<u>291,215</u>

(xx) Deal on credit

As of March 31, 2019, December 31 and March 31, 2018, the Company and its subsidiaries had receivables from other related parties' pecuniary finance amounting to \$129,182, \$119,353 and \$222,616.

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

(xxi) Customer margin deposit

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Taiwan Futures Exchange	\$ <u>2,040,196</u>	<u>2,415,595</u>	<u>1,333,447</u>

(xxii) Prepaid expense

Prepaid expense — superficies rental expense and temporary payment:

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Taipei City Government	\$ -	-	228,606
Others	4,265	-	-
Total	\$ <u>4,265</u>	<u>-</u>	<u>228,606</u>

(xxiii) Transaction of property

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

<u>Name of related party</u>	<u>Category</u>	<u>For the three months ended March 31</u>	
		<u>2019</u>	<u>2018</u>
Taipei City Government	Prepaid rental expense-superficies and construction contracts	\$ -	15,260
Chien Kuo Construction	Construction contracts	-	67,650
Others (not related company or person accounts for more than \$10,000 or 10%)		2,895	2,886
Total		\$ <u>2,895</u>	<u>85,796</u>

(xxiv) Others

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Principal of structured products	\$ <u>85,759</u>	<u>92,557</u>	<u>24,074</u>

(xxv) Bonds payable — issued by the Company

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Hyundai Commercial Co., Ltd.	\$ <u>272,000</u>	<u>-</u>	<u>-</u>

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

(c) Compensation to executive officers

Executive officers' compensation comprised:

	For the three months ended March 31	
	2019	2018
Short-term employee benefits	\$ 421,378	417,030
Post-employment benefits	11,415	10,089
Other long-term employee benefits	1,574	1,724
	\$ 434,367	428,843

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

(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

Name of related party	Relationship with the Company and its subsidiaries
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

Name of related party	March 31, 2019	December 31, 2018	March 31, 2018
Taipei Fubon Bank	\$ 66,440	6,255,385	172,920

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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>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Fubon Bank (Hong Kong) - non-cumulative subordinated securities	\$ -	-	5,612,958
Fubon Life Insurance - non-cumulative perpetual subordinated corporate bonds	20,379,486	20,236,023	20,068,872
Total	\$ <u>20,379,486</u>	<u>20,236,023</u>	<u>25,681,830</u>

ii) Interest receivables

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Fubon Bank (Hong Kong)	\$ -	-	68,901
Fubon Life Insurance	9,863	552,329	9,863
Total	\$ <u>9,863</u>	<u>552,329</u>	<u>78,764</u>

iii) Interest revenue

<u>Name of related party</u>	<u>For the three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Fubon Life Insurance	\$ 177,534	9,863
Fubon Bank (Hong Kong)	-	68,901
Total	\$ <u>177,534</u>	<u>78,764</u>

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

c) Others

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Fubon Life Insurance— income tax receivables	\$ 330,406	232,325	10,687,291
Taipei Fubon Bank—income tax receivables	1,947,171	1,449,470	1,308,650
Fubon Insurance—income tax receivables	352,071	227,557	411,457
Fubon Securities—income tax receivables	340,712	277,627	333,384
Total	\$ <u>2,970,360</u>	<u>2,186,979</u>	<u>12,740,782</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
Funds managed by Fubon Asset Management	Related parties in substance

2) Significant transactions with related parties were as follows:

a) Bank deposits

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Taipei Fubon Bank	\$ <u>1,503,368</u>	<u>1,097,330</u>	<u>1,197,646</u>

b) Premium revenue with related party were as follows:

i) Premium revenue

<u>Name of related party</u>	<u>For the three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Taiwan Mobile	\$ <u>88,180</u>	<u>185,533</u>

ii) Premium receivables arose from premium revenue

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Taiwan Mobile	\$ <u>59,907</u>	<u>48,459</u>	<u>77,044</u>

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

c) Fund balance were as follows:

<u>Fund</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Fubon China Policy Bank Bond ETF	\$ 146,650	145,250	-
Fubon 7-10 Years US Treasury Bond ETF	-	118,650	-
Total	\$ 146,650	263,900	-

d) Balance of Fubon REIT I Fund and Fubon REIT II Fund :

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Fubon REIT I Fund	\$ 878,453	835,269	771,629
Fubon REIT II Fund	859,564	816,165	818,756
Total	\$ 1,738,017	1,651,434	1,590,385

(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
Taipei Fubon Bank Co., Ltd. (Taipei Fubon Bank)	Company controlled by Fubon Financial Holdings
Fubon Insurance Co., Ltd. (Fubon Insurance)	Company controlled by Fubon Financial Holdings
Fubon Bank (Hong Kong) Limited (Fubon Bank (Hong Kong))	Company controlled by Fubon Financial Holdings
Funds managed by Fubon Asset Management	Related parties in substance
Taipei City Government	Related parties in substance
Taiwan Fixed Network Co., Ltd. (Taiwan Fixed Network)	Related parties in substance
Others	Directors, supervisors, managers and their spouse or relatives up to the second degree; affiliates and the related parties in subsidiary

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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>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Taipei Fubon Bank:			
Check deposits	\$ 38,386	79,365	59,033
Demand deposits	11,342,349	4,643,860	4,207,871
Time deposits	1,379,172	1,879,724	8,360,172
Structured deposits	-	-	1,750,000
Fubon Bank (Hong Kong):			
Demand deposits	1,153,562	699,660	1,746,185
Time deposits	294,593	818,142	1,138,817
Total	<u>\$ 14,208,062</u>	<u>8,120,751</u>	<u>17,262,078</u>

b) Loans

Secured loans

<u>March 31, 2019</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	55 related parties in substance	\$ <u>415,576</u>	<u>406,217</u>	Normal loan	Real Estate	None
<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>March 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	50 related parties in substance	\$ <u>361,809</u>	<u>349,230</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

c) Funds were as follows:

Fund	March 31, 2019	December 31, 2018	March 31, 2018
Fubon Chi-Hsiang Money Market Fund	\$ -	702,511	1,706,150
Fubon Taiwan Technology ETF	219,610	198,598	234,883
Fubon MSCI Taiwan ETF	141,759	129,112	145,795
Fubon Taiwan Eight Industries ETF	153,603	138,215	155,522
Fubon Taiwan Finance ETF	175,091	165,216	167,464
Fubon 1-5 Years High Yield Bond Fund ETF	207,061	201,402	-
Fubon SZSE 100 ETF	141,596	101,731	154,129
Fubon FTSE TWSE Taiwan 50 ETF	954,450	873,180	1,010,940
Fubon 7-10 Years US Treasury Bond ETF	-	-	1,218,172
Fubon 20+Years US Treasury Bond ETF	4,166,623	2,077,412	1,770,706
Fubon S&P US Preferred Stock ETF	1,232,313	1,722,683	426,432
Fubon China Policy Bank Bond ETF	755,519	4,680,564	5,930,946
Fubon TWSE Corporate Governance 100 ETF	1,031,000	966,500	1,082,500
Fund-Fubon 10+ Years US Corporate Bond BBB Ex China	4,292,625	198,697	-
Fubon 1-3 Years US Treasury Bond ETF	-	3,088,427	-
Fubon 9-35 Years US Corporate Bond A ETF	4,167,528	3,843,315	-
Total	\$ <u>17,638,778</u>	<u>19,087,563</u>	<u>14,003,639</u>

(Continued)

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

d) Balance of Fubon REIT I Fund and Fubon REIT II Fund:

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Fubon REIT I Fund	\$ 877,927	834,769	771,167
Fubon REIT II Fund	967,582	918,728	921,646
Total	<u>\$ 1,845,509</u>	<u>1,753,497</u>	<u>1,692,813</u>

e) Bond transactions:

Sales of bonds

<u>Name of related party</u>	<u>For the three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Taipei Fubon Bank	\$ -	<u>3,869,492</u>

f) Other receivables:

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Fubon Financial Holding	\$ 6,040,372	6,040,372	186,637
Fubon Insurance	142,676	145,455	246,704
Total	<u>\$ 6,183,048</u>	<u>6,185,827</u>	<u>433,341</u>

g) Prepayment:

<u>Name of related party</u>	<u>Category</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Taipei Fubon Bank	Bonus and personal expenditure	\$ 108,655	88,676	49,682
Taipei City Government	Prepaid rental expense-superficies and temporary payment	-	-	228,606
Total		<u>\$ 108,655</u>	<u>88,676</u>	<u>278,288</u>

h) Premium Revenue:

<u>Name of related party</u>	<u>For the three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Others (individuals whose revenue is less than \$10,000 or 10% of transaction)	\$ <u>427,857</u>	<u>344,032</u>

(Continued)

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

Premium rates were calculated in accordance with the relevant provisions of the Insurance Act, and were not materially different from the general trading terms.

i) Leasing transaction:

i) Refundable deposits:

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>	<u>Note</u>
Taipei City Government	\$ <u>1,223,676</u>	<u>1,223,476</u>	<u>1,208,426</u>	Construction / Superficies

ii) Rental expense (For the year before 2018):

<u>Name of related party</u>	<u>For the three months ended March 31, 2018</u>	<u>Note</u>
Taipei City Government	\$ 74,817	Superficies rental expense
Total	<u>\$ 74,817</u>	

iii) Right-of-use asset and lease liability – building and construction (started from January 1, 2019)

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>January 1, 2019</u>
Taiwan Fixed Network	\$ 109,808	119,048
Fubon REIT I Fund	207,738	244,519
Fubon Insurance	158,036	201,429
Total	<u>\$ 475,582</u>	<u>564,996</u>

<u>Name of related party</u>	<u>Lease liability</u>		<u>Interest expense</u>	<u>Value of Contract</u>
	<u>March 31, 2019</u>	<u>January 1, 2019</u>	<u>For the three months ended March 31, 2019</u>	
Taiwan Fixed Network	\$ 115,210	124,413	1,000	201,427
Fubon REIT I Fund	211,434	238,654	1,879	349,186
Fubon Insurance	161,543	183,830	1,486	284,124
Total	<u>\$ 488,187</u>	<u>546,897</u>	<u>4,365</u>	<u>834,737</u>

(Continued)

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

- iv) Right-of-use asset and lease liability— Investment property— Superficies (started from January 1, 2019)

Name of related party	March 31, 2019	January 1, 2019
Taipei City Government	<u>\$ 29,852,372</u>	<u>30,230,875</u>

Name of related party	Lease liability		Interest expense	Value of Contract
	March 31, 2019	January 1, 2019	For the three months ended March 31, 2019	
Taipei City Government	<u>\$ 7,454,550</u>	<u>7,705,808</u>	<u>57,185</u>	<u>37,738,742</u>

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

- j) Integrate business revenue and cross-selling commission:

Name of related party	For the three months ended March 31	
	2019	2018
Fubon Insurance	<u>\$ 140,675</u>	<u>119,337</u>

- (iv) Fubon Securities and its subsidiaries

- 1) Name and relationship with related party

Name of related party	Relationship with the Company
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
Far Eastern International Bank Co., Ltd. (Far Eastern Bank)	Related parties in substance (related parties in substance from the third quarter of 2018)
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
Formosa Petrochemical Corporation	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>
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)
Others	Directors, supervisors, managers and their spouse or relatives up to the second degree; affiliated and the related parties in substance

2) Significant transactions with related parties

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

Cash deposits in Taipei Fubon Bank and Fubon Bank (Hong Kong) were as follows :

<u>Items</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Demand deposits (excluding settlement accounts)	\$ <u>834,743</u>	<u>1,419,636</u>	<u>1,735,526</u>
Demand deposits (booked as customer margin accounts)	\$ <u>345,650</u>	<u>274,101</u>	<u>120,434</u>
Check deposits	\$ <u>39,982</u>	<u>22,061</u>	<u>28,912</u>
Time deposits	\$ <u>581,500</u>	<u>596,500</u>	<u>463,472</u>
Pledged time deposit	\$ <u>180,021</u>	<u>177,521</u>	<u>197,521</u>
Foreign currency deposits (excluding settlement accounts)	\$ <u>158,019</u>	<u>611,419</u>	<u>465,067</u>
Foreign time deposit	\$ <u>4,246,277</u>	<u>7,018,221</u>	<u>4,237,426</u>

As of March 31, 2019, December 31 and March 31, 2018, Fubon Securities and its subsidiaries had put bank deposits in Xiamen Bank and Far Eastern Bank amounting to \$1,040,064, \$1,184,822 and \$853,823, respectively.

As of March 31, 2019, December 31 and March 31, 2018, Fubon Securities and its subsidiaries had put time deposits in Taipei Fubon Bank as operating deposits refundable deposits and warrant deposits amounting to \$835,000, \$845,000 and \$870,000, respectively.

(Continued)

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

Balances of short-term borrowings from Taipei Fubon Bank as of March 31, 2019, December 31 and March 31, 2018, were all nil, unused credit facilities from Taipei Fubon Bank were all \$6,000,000. As of March 31, 2019, December 31 and March 31, 2018, the book value of lands and buildings pledged to Taipei Fubon bank were \$1,578,494, \$1,579,946 and \$1,559,713, 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 \$4,321,450, \$4,288,300 and \$3,134,000 to Taipei Fubon Bank as collateral for short-term borrowings (recognized as financial assets at fair value through other comprehensive income).

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 valuation were as follows:

<u>Name of security</u>	<u>March 31, 2019</u>	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Taiwan Mobile	\$ <u>1,682,697</u>	<u>574,287</u>

<u>Name of security</u>	<u>December 31, 2018</u>	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Taiwan Mobile	\$ <u>1,682,697</u>	<u>473,077</u>

<u>Name of security</u>	<u>March 31, 2018</u>	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Taiwan Mobile	\$ <u>975,039</u>	<u>541,862</u>

c) Accounts receivable

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Funds managed by Fubon Asset Management	\$ <u>119,098</u>	<u>353,046</u>	<u>74,625</u>

(Continued)

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

d) Futures traders' equity

Related parties engaging in futures have Fubon Futures traders' equity deposited in Fubon Securities and its subsidiaries were as follow:

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Taipei Fubon Bank	\$ 102,998	96,874	35,624
Fubon SSE 180 ETF	353,192	221,232	164,647
Fubon SZSE 100 ETF	84,547	79,938	114,858
Fubon SSE 180 Leveraged 2X index ETF	7,905,199	5,054,426	5,811,551
Fubon NASDAQ 100 ETF	518,953	95,270	50,863
Fubon Hang Seng H-Share Leveraged 2X Index ETF	238,575	174,618	154,376
Fubon S&P 500 VIX Short- Term Futures ETF	2,457,395	544,189	799,219
Fubon NIFTY 2X Leveraged	75,321	59,383	118,632
Fubon TAIEX ETF Umbrella Fund-Fubon Index ETF	-	72,469	172,624
Total	\$ <u>11,736,180</u>	<u>6,398,399</u>	<u>7,422,394</u>

e) Fubon Asset Management's funds purchased by Fubon Securities and its subsidiaries were as follow:

<u>Name of Funds</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Fubon Chi-Hsiang Money Market Fund	\$ 256,422	256,095	255,289
Fubon China High Yield Bond Fund CNY	-	67,249	123,067
Fubon S&P US Preferred Stock ETF	21,666	66,201	103,413
Fubon China Policy Bank Bond ETF	88,051	179,657	121,484
Total	\$ <u>366,139</u>	<u>569,202</u>	<u>603,253</u>

f) 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>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Fubon Chi-Hsiang Money Market Fund	\$ <u>457,167</u>	<u>1,159,095</u>	<u>2,462,511</u>

(Continued)

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

g) Deal on credit

As of March 31, 2019, December 31 and March 31, 2018, Fubon Securities and its subsidiaries had receivables from the other related parties' pecuniary finance amounting to \$129,182, \$119,353 and \$222,616, respectively.

h) Settlement and clearing funds

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Taiwan Stock Exchange	\$ 110,559	143,704	143,703
Taiwan Futures Exchange	141,922	140,414	147,512
Total	<u>\$ 252,481</u>	<u>284,118</u>	<u>291,215</u>

i) Debit bond deposit

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Taiwan Stock Exchange	\$ 7,932,801	4,237,952	-

j) Refundable deposits

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Taiwan Stock Exchange	\$ 100,000	-	230,000

k) Customer margin deposit

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Taiwan Futures Exchange	\$ 2,040,196	2,415,595	1,333,447

(Continued)

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

1) Trading securities-dealing

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

<u>Name of security</u>	<u>March 31, 2019</u>	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Fubon S&P 500 VIX Short-Term Futures ETF (managed by Fubon Asset Management)	\$ 146,031	1,834
Fubon FTSE Asian Broad Bond Index- China Investment-Grade ETF	255,965	762
Fubon REIT I Fund	242,516	125,494
First 106 unsecured domestic corporate bonds of Taiwan Acceptance	300,000	458
Total	<u>\$ 944,512</u>	<u>128,548</u>

<u>Name of security</u>	<u>December 31, 2018</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 (Individual payments less than \$10,000 or 5% of ending balance)	123,199	(1,103)
Total	<u>\$ 665,371</u>	<u>107,303</u>

<u>Name of security</u>	<u>March 31, 2018</u>	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Fubon REIT I Fund	\$ 237,784	80,885
First 104 unsecured domestic corporate bonds of Clevo Co.	204,989	(1,477)
First 106 unsecured domestic corporate bonds of Taiwan Acceptance	300,000	1,080
Total	<u>\$ 742,773</u>	<u>80,488</u>

As of March 31, 2019, December 31 and March 31, 2018, the balance of the trading securities-dealing of the related parties were \$300,000, \$300,000 and \$504,989, respectively.

(Continued)

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

m) Trading securities-hedging

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

<u>Name of security</u>	<u>March 31, 2019</u>	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Third issue of unsecured convertible bonds of Taiwan Mobile	\$ <u>100,090</u>	<u>5,910</u>

<u>Name of security</u>	<u>December 31, 2018</u>	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Third issue of unsecured convertible bonds of Taiwan Mobile	\$ <u>100,090</u>	<u>2,960</u>

<u>Name of security</u>	<u>March 31, 2018</u>	
	<u>Cost</u>	<u>Gains (losses) on valuation</u>
Third issue of unsecured convertible bonds of Taiwan Mobile	\$ 100,090	2,810
MediaTek	<u>277,158</u>	<u>21,831</u>
Total	\$ <u>377,248</u>	<u>24,641</u>

n) Bond transaction- Bonds sold under repurchase agreement

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Formosa Petrochemical Corporation	\$ <u>120,028</u>	<u>100,000</u>	<u>-</u>

o) Management fee (accounted for other operating revenue)

<u>Name of related party</u>	<u>For the three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Others (Individual payments less than \$10,000)	<u>116,524</u>	<u>95,745</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

(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 Securities Co., Ltd. (Fubon Securities)	Company controlled by Fubon Financial Holdings
Taipei City Government	A major shareholder of Fubon Financial Holdings
Taiwan Fixed Network Co., Ltd.(Taiwan Fixed Network)	Related parties in substance
Taiwan High Speed Rail Co., Ltd. (Taiwan High Speed Rail)	Related parties in substance
Harbin Bank Co., Ltd. (Harbin Bank)	Related parties in substance
Long Time Tech. Co., Ltd. (Long Time Tech.)	Related parties in substance (related parties in substance from fourth quarter of 2018)
ICDC (Beijing) China Co., Ltd. (ICDC)	Related parties in substance (not related parties in substance from second quarter of 2018)
Others	Directors, supervisors, managers and their relatives up to the second degree; affiliated and the related parties in substance

2) Significant transactions with related parties

a) Deposits and loans

<u>Item</u>	<u>For the three months ended March 31, 2019</u>		
	<u>March 31, 2019 Ending balance</u>	<u>Interest rate/ service fee rate (%)</u>	<u>Interest revenue (expense)</u>
Loans	\$ <u>4,168,250</u>	0~14.97	<u>18,287</u>
Due to banks	\$ <u>111,432</u>	0~5.40	<u>365</u>
Deposits	\$ <u>71,333,340</u>	0~6.12	<u>(122,270)</u>

(Continued)

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

Units: In thousands of TWD

March 31, 2019							
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	74	\$ 36,786	31,565	✓	-	None	None
Residential mortgage loans	390	3,788,628	3,589,326	✓	-	Real estate	None
Others	Department of Rapid Transit systems, Taipei City Government	27,004,874	-	✓	-	Public treasury guarantees	None
	Department of Urban Development, Taipei City Government	541,612	516,086	✓	-	Public treasury guarantees	None
	Taipei Municipal Secured Small Loans Service	167	111	✓	-	Public treasury guarantees	None
	Department of Sports, Taipei City Government	4,000,000	-	✓	-	Public treasury guarantees	None
	Long Time Tech.	33,709	30,667	✓	-	Certificate of deposit	None
	Other loans	524	495	✓	-	Credit Guarantee Fund	None
Total		\$ 35,406,300	4,168,250				

Item	December 31, 2018 Ending balance	Interest rate/ service fee rate (%)	Interest revenue (expense)
Loans	\$ <u>35,138,208</u>	0~14.98	<u>66,059</u>
Discounts	\$ <u>-</u>	5.40~6.00	<u>46,981</u>
Due to banks	\$ <u>158,646</u>	0~5.40	<u>2,914</u>
Due from banks	\$ <u>-</u>	1.87	<u>470</u>
Deposits	\$ <u>95,258,250</u>	0~8.00	<u>(390,386)</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
Residential mortgage loans	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	無
	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				

For the three months ended March 31, 2018

Item	March 31, 2018 Ending balance	Interest rate/ service fee rate (%)	Interest revenue (expense)
Discounts	\$ <u>1,564,360</u>	5.40~6.00	<u>24,028</u>
Due to banks	\$ <u>86,951</u>	0~5.40	<u>1,272</u>
Due from banks	\$ <u>-</u>	1.87	<u>470</u>
Deposits	\$ <u>69,439,526</u>	0~8.00	<u>(75,856)</u>

(Continued)

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

Units: In thousands of TWD

March 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 nonrelated parties
				Normal	Overdue		
Consumer loans	86	\$ 45,148	39,138	✓	-	Clean credit	None
Residential mortgage loans	377	3,497,002	3,312,668	✓	-	Real estate	None
Others	Department of Urban Development, Taipei City Government	647,319	625,956	✓	-	Public treasury guarantees	None
	Department of Rapid Transit systems, Taipei City Government	1,218,400	-	✓	-	Public treasury guarantees	None
	Taipei Municipal Secured Small Loans Service	458	368	✓	-	Public treasury guarantees	None
	ICDC	93,044	44,196	✓	-	Standby letter of credit	None
	Other loans	638	610	✓	-	Credit Guarantee Fund	None
Total		\$ 5,502,009	4,022,936				

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	For the three months ended March 31	
			2019	2018
Fubon Life Insurance	Bonds	Bonds purchased	\$ -	3,869,492

(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>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Fubon Securities	Bonds	Repurchase agreement	\$ -	-	300,041
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	4,085,554	4,075,288	4,562,226

c) Fund and stock transactions

<u>Name of Funds</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Fubon REIT I Fund	\$ <u>891,733</u>	<u>847,896</u>	<u>783,295</u>

d) Derivative financial instruments

Units: In thousands of TWD

March 31, 2018						
Name of Related party	Derivative instruments	Contract period	Contract (notional) amount	Gains (losses) on valuation	Balance Sheet	
					Account	Balance
Harbin Bank	Foreign currency swap contracts	2017.12.07~2018.12.24	3,644,168	156,560	Valuation adjustment of financial asset at fair value through profit or loss	199,605

e) Others

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Receivables – Fubon Financial Holding	\$ 205,467	205,467	205,467
Receivables – Fubon Life Insurance	480,574	220,239	370,629
Principal of structured products – Fubon Life Insurance	-	-	1,750,000

(Continued)

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

	For the three months ended	
	March 31	
	2019	2018
Service fee income – Fubon Life Insurance	\$ 1,748,684	1,438,231
Service fee income – Others	155,721	138,376

(vi) Fubon Bank (Hong Kong)

1) Name and relationship with related party

Name of related party	Relationship with the 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

Name of related party	March 31, 2019	December 31, 2018	March 31, 2018
Taipei Fubon Bank	HKD <u>19,675</u>	HKD <u>32,907</u>	HKD <u>23,884</u>
Fubon Life Insurance (Hong Kong)	HKD <u>369,138</u>	HKD <u>386,995</u>	HKD <u>778,296</u>
Fubon Convoy Asset Management (Hong Kong)	HKD <u>3,602</u>	HKD <u>3,887</u>	HKD <u>49,216</u>

b) Bank Deposits in Taipei Fubon Bank

Name of related party	March 31, 2019	December 31, 2018	March 31, 2018
Taipei Fubon Bank	HKD <u>26,575</u>	HKD <u>30,149</u>	HKD <u>5,343</u>

(vii) Fubon Financial Holding Venture Capital and its subsidiaries

1) Name and relationship with related party

Name of related party	Relationship with the Company
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

(Continued)

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

Funds managed by Fubon Asset Management Related parties in substance

2) Significant transactions with related parties

a) Bank deposits

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Taipei Fubon Bank	\$ <u>311,305</u>	<u>166,904</u>	<u>428,284</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>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Fubon Chi-Hsiang Money Market Fund	\$ <u>200,745</u>	<u>200,489</u>	<u>501,072</u>

c) Other receivables

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Fubon Life Insurance	\$ <u>131,750</u>	<u>-</u>	<u>50,000</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

2) Significant transactions with related parties

a) Bank deposits

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Bank deposits	\$ <u>311,861</u>	<u>300,445</u>	<u>298,839</u>

(Continued)

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

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:

<u>Name of related party</u>	For the three months ended March 31	
	<u>2019</u>	<u>2018</u>
Fubon Insurance	\$ 101,792	81,747
Fubon Life Insurance	62,415	66,391
Total	<u>\$ 164,207</u>	<u>148,138</u>

The details of receivables generated from aforementioned transactions were as follows:

<u>Name of related party</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Accounts receivables:			
Fubon Insurance	\$ 39,554	34,134	28,112
Fubon Life Insurance	-	39,807	28,896
Total	<u>\$ 39,554</u>	<u>73,941</u>	<u>57,008</u>

(8) Pledged assets

<u>Pledged assets</u>	<u>Purpose of pledge</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Savings deposits (accounted for refundable deposits)	Guarantee deposits for Insurance business and bank overdraft	\$ 16,030	15,840	15,360
Time deposits (accounted for refundable deposits)	Performance bond	1,165,570	979,636	1,031,775
Time deposits (accounted for pledged assets)	Full fiduciary discretionary deposits, bank overdraft and performance bond	15,021	12,521	-
Time deposits (accounted for refundable deposits)	Deposits for leases and others	1,379,172	1,379,172	1,360,172
Time deposits (accounted for other financial assets)	Deposits for Operate-Transfer (OT) project	15,000	15,000	15,000
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	19,995,545	19,996,172	28,992,218
Other banks' deposits (accounted for other financial assets)	Note 1	1,651,818	1,622,296	2,830,434

(Continued)

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

<u>Pledged assets</u>	<u>Purpose of pledge</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Government bonds (accounted for refundable deposits)	Guarantee deposits for Insurance business, performance bond and margin deposit for trust business	\$ 17,171,677	17,046,443	12,805,949
Government bonds (accounted for financial assets measured at fair value through profit or loss)	Note 1	100,529	150,163	-
Government bonds (accounted for financial assets measured at amortized cost)	Pledged for repurchase agreement	5,019,089	2,965,894	197,980
Government bonds (accounted for financial assets measured at fair value through profit or loss)	Pledged for securities trading guarantee	3,139,779	6,282,095	472,464
Government bonds (accounted for financial assets measured at amortized cost)	Pledged for securities trading guarantee	-	-	1,854,694
Government bonds (accounted for financial assets measured at fair value through profit or loss)	Note 1	-	-	49,948
Government bonds (accounted for debt investment measured at amortized cost)	Note 1	1,836,791	1,809,111	1,979,942
Government bonds (accounted for financial assets measured at fair value through other comprehensive income)	Pledged for securities trading guarantee	611,415	504,549	-
Government bonds (accounted for financial assets measured at amortized cost)	Pledged for securities trading guarantee	-	1,174,419	-
Corporate bonds (accounted for financial assets measured at amortized cost)	Pledged for repurchase agreement	9,816,411	7,309,051	9,042,755
Financial bonds (accounted for financial assets measured at amortized cost)	Pledged for repurchase agreement	12,005,681	15,260,109	18,875,426
Commercial paper (accounted for financial assets measured at amortized cost)	Pledged for repurchase agreement	2,127,759	2,142,923	2,962,502

(Continued)

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

<u>Pledged assets</u>	<u>Purpose of pledge</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Investment property— land and buildings	Bank loans	\$ 407,416	407,416	430,248
Property and equipment— land and buildings	Bank loans	506,334	506,811	508,191
Total		<u>\$ 76,981,037</u>	<u>79,579,621</u>	<u>83,425,058</u>

Note 1: Those pledged assets had been placed with (a) courts for meeting requirements for judiciary provisional seizure of debtors' property, (b) the National Credit Card Center for the Bank's potential obligations on credit card activities, (c) the Central Bank for the Bank's potential obligations on its trust activities, (d) foreign governments for the Bank's potential obligations on its overseas operations, (e) transactions for bonds business, and (f) collaterals for derivatives transactions.

(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

March 31, 2018	Less than one year	Between one and five years	More than five years	Total
Lease commitments				
Operating lease payments (Lessee)	1,926,980	3,744,417	14,143,537	19,814,934
Operating lease income (Lessor)	5,932,705	20,518,834	31,138,389	57,589,928
Finance lease payments (Lessee)	11,209	40,779	1,221,130	1,273,118
Finance lease income (Lessor)	3,773	10,793	7,676	22,242
Present value of finance lease payments (Lessee)	1,442	1,750	219,059	222,251
Present value of finance lease income (Lessor)	3,315	9,675	7,277	20,267
Capital expenditure commitments	2,519,286	9,760	-	2,529,046

(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:

	March 31, 2019	December 31, 2018	March 31, 2018
Amount of repurchase agreements	\$ 96,652,532	121,955,488	120,053,997
Amount of resell agreements	9,568,249	11,771,008	19,438,666
Unused credit card commitments	270,147,809	265,528,189	260,578,329
Collections for customers	23,119,052	32,527,651	43,905,023
Agency loans payable	10,786,750	10,908,911	12,497,646
Designated deposits	1,416,311	2,011,632	6,237,472
Designated loans	1,416,311	2,011,632	6,237,472
Designated financial management	24,789,104	19,062,297	20,578,200
Travelers' checks consigned-in	334,624	366,693	404,522
Marketable securities under custody	345,465,846	334,341,775	297,020,912
Trust assets	406,134,469	389,334,919	392,449,056
Management for book-entry government bonds	117,280,300	103,237,100	107,037,300

(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 superficies contract of Life Insurance and its subsidiaries that have been won but have not yet been signed is as follows:

	March 31, 2019	December 31, 2018	March 31, 2018
Acquisition of investment properties	\$ -	-	<u>7,728,300</u>

(Continued)

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

- 2) The signed but unrecognized new construction contract amount of investment and owner-occupied properties of Fubon Life Insurance and its subsidiaries are as follows:

	March 31, 2019	December 31, 2018	March 31, 2018
New construction	<u>\$ 3,424,162</u>	<u>3,792,485</u>	<u>4,395,649</u>

- (iii) The unfunded commitments (ceiling) of Fubon Life Insurance and its subsidiaries' private fund agreements were as follows (in thousands):

	March 31, 2019	December 31, 2018	March 31, 2018
USD	<u>\$ 1,888,084</u>	<u>1,518,565</u>	<u>1,828,582</u>
EUR	<u>\$ 622,209</u>	<u>222,280</u>	<u>286,900</u>
TWD	<u>\$ 150,000</u>	<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 \$465,237, of which approximately \$371,645 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 March 31, 2019.
- (ii) The unfunded commitments (ceiling) of Fubon Insurance and its subsidiaries' private equity agreements were as follows (in thousands):

	March 31, 2019	December 31, 2018	March 31, 2018
USD	<u>\$ 18,038</u>	<u>17,991</u>	<u>16,789</u>
EUR	<u>\$ 14,237</u>	<u>14,474</u>	<u>16,382</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 March 31, 2019, 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:

	March 31, 2019	December 31, 2018	March 31, 2018
Indemnificatory loss payable	<u>\$ 11,526</u>	<u>11,526</u>	<u>11,526</u>

(Continued)

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

For the three months ended March 31, 2019 and 2018, 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 signed a contract about purchasing the 100% ownership of ‘Eurotower’ in Frankfurt (including auxiliary equipment) on December 28, 2018. The contract amounted to €530,000. Fubon Life Insurance set up Fubon Eurotower (Luxembourg) S.A.R.L in Luxembourg, engaging in special purpose real estate investment on April 5, 2019, and recognized the aforementioned contract to acquire that real estate on April 9, 2019.
- (b) Since the Company’s Articles of Incorporation does not define clearly that whether preferred stock dividends can be appropriated from undistributed earnings or not, the board of directors of the Company had approved to not distribute preferred stock dividends temporarily on May 2, 2019. After the amendment of the Company’s Articles of Incorporation is approved at the shareholders’ meeting, the Company will convene an interim shareholders’ meeting and propose the amendment of distribution of earnings, which suggests that preferred stock A dividend be the same as prior year and preferred stock B dividend be calculated by the issuance period.

(12) Other

- (a) 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.

- (b) 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 March 31, 2019, the unpaid amount was \$171,428 thousand. After considering the actual recovery situation, Fubon Futures Co., Ltd. had recognized the allowance for doubtful accounts amounting to \$159,414 thousand.

(Continued)

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

- (c) On March 29, 2018, Fubon Kanghong Asset Management, Fubon Asset Management's investment company, 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.

- (d) Fubon Securities BVI has acquired 100% equity of FB Investment Management (Hong Kong) Limited from Fubon Bank (Hong Kong) in February 2019. According to the (100) Letter NO.390 explanation issued by the Accounting Research and Development Foundation, the transaction is the business combination under common control, and book value method shall be applied. Therefore, Fubon Securities has restated the comparative information of the prior period as the subsidiary was acquired from the beginning.
- (e) 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 three months ended March 31,	
	2019	2018
Fubon Insurance	\$ 401,448	338,525
Taipei Fubon Bank	15,811	13,987
Fubon Life Insurance	69,199	40,529
Fubon Securities	1,217	2,286

(f) Financial information classified by business type:

For the three months ended March 31, 2019

Units: In thousands of TWD

Item	Banking	Insurance	Securities	Others	Consolidation
Net interest revenue	8,110,161	26,250,699	188,109	(15,956)	34,533,013
Net non-interest revenue	7,278,478	65,661,420	1,949,011	323,039	75,211,948
Net revenue	15,388,639	91,912,119	2,137,120	307,083	109,744,961
Bad debt expenses and provision for insurance reserve	(15,985)	(110,210)	(234)	(1,866)	(128,295)
Net change in provisions for insurance liability	-	(79,552,181)	-	108,165	(79,444,016)
Operating expenses	(6,823,174)	(7,082,599)	(1,329,132)	396,828	(14,838,077)
Income from continuing operations before income tax	8,549,480	5,167,129	807,754	810,210	15,334,573
Income tax revenue (expense)	(1,422,912)	(846,014)	(69,833)	(426,795)	(2,765,554)
Net income	7,126,568	4,321,115	737,921	383,415	12,569,019

(Continued)

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

For the three months ended March 31, 2018

Units: In thousands of TWD

Item	Banking	Insurance	Securities	Others	Consolidation
Net interest revenue	7,935,760	22,123,843	239,160	(116,024)	30,182,739
Net non-interest revenue	5,101,098	75,699,140	1,619,713	(526,728)	81,893,223
Net revenue	13,036,858	97,822,983	1,858,873	(642,752)	112,075,962
Bad debt expenses and provision for insurance reserve	(44,162)	(57,551)	(160,603)	3,440	(258,876)
Net change in provisions for insurance liability	-	(82,224,879)	-	109,131	(82,115,748)
Operating expenses	(6,239,806)	(6,432,950)	(1,303,891)	361,943	(13,614,704)
Income from continuing operations before income tax	6,752,890	9,107,603	394,379	(168,238)	16,086,634
Income tax revenue (expense)	(1,032,942)	1,478,108	(56,781)	(73,473)	314,912
Net income	5,719,948	10,585,711	337,598	(241,711)	16,401,546

(Continued)

g) Financial statements of Fubon Financial Holding Co., Ltd.

March 31, 2019 and 2018 reviewed only, not audited in accordance with the generally accepted auditing standards**FUBON FINANCIAL HOLDING CO., LTD.****Balance Sheets****March 31, 2019, December 31 and March 31, 2018****(Expressed in thousands of New Taiwan Dollars)**

Assets	March 31, 2019		December 31, 2018		March 31, 2018		Liabilities and Equity	March 31, 2019		December 31, 2018		March 31, 2018	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
Cash and cash equivalents	\$ 67,268	-	6,255,724	1	177,969	-	Commercial papers issued, net	\$ 6,497,475	1	13,535,972	2	-	-
Financial assets measured at fair value through profit or loss	20,379,486	3	20,236,023	4	25,681,830	4	Payables	680,712	-	792,963	-	751,641	-
Financial assets measured at fair value through other comprehensive income	-	-	52,957	-	43,564	-	Current tax liabilities	12,228,813	2	11,460,587	2	14,948,043	2
Securities purchased under resell agreements	119,907	-	164,819	-	499,852	-	Bonds payable	58,550,000	9	58,550,000	11	54,000,000	9
Receivables, net	9,876	-	554,202	-	79,676	-	Lease liabilities	65,901	-	-	-	-	-
Current tax assets	6,455,857	1	5,645,731	1	12,989,754	2	Deferred tax liabilities	4,444,428	1	4,145,078	1	3,621,523	1
Investments accounted for using equity method, net	593,086,160	96	514,717,209	94	559,201,493	94	Other liabilities	6,902	-	6,538	-	9,517	-
Property and equipment, net	19,993	-	20,676	-	19,370	-	Total liabilities	82,474,231	13	88,491,138	16	73,330,724	12
Right-of-use assets, net	65,843	-	-	-	-	-	Equity:						
Intangible assets, net	1,922	-	2,592	-	4,754	-	Share capital:						
Deferred tax assets	2,698	-	7,057	-	2,736	-	Common stock	102,336,040	16	102,336,040	19	102,336,040	17
Other assets, net	72,213	-	77,498	-	69,590	-	Preferred stock	12,666,600	2	12,666,600	2	12,666,600	2
							Total share capital	115,002,640	18	115,002,640	21	115,002,640	19
							Capital surplus	137,018,762	22	137,018,872	25	136,946,503	23
							Retained earnings:						
							Legal reserve	57,815,312	9	57,815,312	10	52,403,066	9
							Special reserve	31,976,946	5	30,008,647	5	53,069,867	9
							Undistributed earnings	203,280,149	33	191,853,334	35	174,894,607	29
							Total retained earnings	293,072,407	47	279,677,293	50	280,367,540	47
							Total other equity interest	(7,286,817)	-	(72,455,455)	(12)	(6,876,819)	(1)
							Total equity	537,806,992	87	459,243,350	84	525,439,864	88
Total assets	\$ 620,281,223	100	547,734,488	100	598,770,588	100	Total liabilities and equity	\$ 620,281,223	100	547,734,488	100	598,770,588	100

Reviewed only, not audited in accordance with the generally accepted auditing standards**FUBON FINANCIAL HOLDING CO., LTD.****Statement of Comprehensive Income****For the three months ended March 31, 2019 and 2018****(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

	For the three months ended March 31			
	2019		2018	
	Amount	%	Amount	%
Revenue :				
Share of profit of associates and joint ventures accounted for using equity method	\$ 12,894,743	97	16,877,676	99
Other revenues	<u>336,924</u>	<u>3</u>	<u>150,330</u>	<u>1</u>
Net revenue	<u>13,231,667</u>	<u>100</u>	<u>17,028,006</u>	<u>100</u>
Expense:				
Operating expenses	160,567	1	159,855	1
Other expenses and losses	<u>235,917</u>	<u>2</u>	<u>377,823</u>	<u>2</u>
Total expenses	<u>396,484</u>	<u>3</u>	<u>537,678</u>	<u>3</u>
Net income before tax from continuing operations	12,835,183	97	16,490,328	97
Income tax expenses	<u>334,285</u>	<u>3</u>	<u>80,167</u>	<u>1</u>
Net income	<u>12,500,898</u>	<u>94</u>	<u>16,410,161</u>	<u>96</u>
Other comprehensive income:				
Items not to be reclassified to profit or loss				
Unrealized gains (losses) on equity instruments measured at fair value through other comprehensive income	(159)	-	4,543	-
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	<u>3,587,598</u>	<u>27</u>	<u>(383,213)</u>	<u>(2)</u>
Less: income tax related to items not to be reclassified to profit or loss	-	-	-	-
Subtotal of items not to be reclassified to profit or loss	<u>3,587,439</u>	<u>27</u>	<u>(378,670)</u>	<u>(2)</u>
Items that may be subsequently reclassified to profit or loss				
Exchange differences on translation of foreign financial statements	809,959	6	(760,623)	(5)
Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method - items that may be subsequently reclassified to profit or loss	<u>59,732,168</u>	<u>452</u>	<u>(27,325,195)</u>	<u>(160)</u>
Less: income tax related to items that may be reclassified subsequently to profit or loss	-	-	-	-
Subtotal of items that may be reclassified subsequently to profit or loss	<u>60,542,127</u>	<u>458</u>	<u>(28,085,818)</u>	<u>(165)</u>
Other comprehensive income, net of income tax	<u>64,129,566</u>	<u>485</u>	<u>(28,464,488)</u>	<u>(167)</u>
Total comprehensive income	<u>\$ 76,630,464</u>	<u>579</u>	<u>(12,054,327)</u>	<u>(71)</u>
Basic earnings per share (in New Taiwan Dollars)	<u>\$ 1.22</u>		<u>1.60</u>	

Reviewed only, not audited in accordance with the generally accepted auditing standards

FUBON FINANCIAL HOLDING CO., LTD.

Statement of Changes in Equity

For the three months ended March 31, 2019 and 2018

(Expressed in thousands of New Taiwan Dollars)

	Share capital								Retained earnings								Total other equity interest						Total equity
	Share capital			Capital surplus	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 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						
	Common stock	Preferred stock	Total		Legal reserve	Special reserve	Undistributed earnings	Total							Other comprehensive income reclassified by applying overlay approach	Total							
Balance at January 1, 2018	\$ 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	<u>102,336,040</u>	<u>6,000,000</u>	<u>108,336,040</u>	<u>103,674,220</u>	<u>52,403,066</u>	<u>53,069,867</u>	<u>164,773,093</u>	<u>270,246,026</u>	<u>(11,286,078)</u>	<u>(2,143,826)</u>	<u>-</u>	<u>-</u>	<u>(299,649)</u>	<u>2,302,954</u>	<u>26,725,621</u>	<u>-</u>	<u>15,299,022</u>	<u>497,555,308</u>					
Net income	-	-	-	-	-	-	16,410,161	16,410,161	-	-	-	-	-	-	-	-	-	16,410,161					
Other comprehensive income	-	-	-	-	-	-	328,978	328,978	(30,381)	(19,178,424)	-	-	(251,128)	87,338	(9,420,871)	(28,793,466)	(28,793,466)	(28,464,488)					
Total comprehensive income	-	-	-	-	-	-	16,739,139	16,739,139	(30,381)	(19,178,424)	-	-	(251,128)	87,338	(9,420,871)	(28,793,466)	(28,793,466)	(12,054,327)					
Changes in equity of associates and joint ventures accounted for using equity method	-	-	-	2,314	-	-	-	-	-	-	-	-	-	-	-	-	-	2,314					
Issue of preference share	-	6,666,600	6,666,600	33,269,969	-	-	-	-	-	-	-	-	-	-	-	-	-	39,936,569					
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	-	-	(6,617,625)	(6,617,625)	-	6,617,625	-	-	-	-	-	-	6,617,625	-					
Balance at March 31, 2018	<u>\$ 102,336,040</u>	<u>12,666,600</u>	<u>115,002,640</u>	<u>136,946,503</u>	<u>52,403,066</u>	<u>53,069,867</u>	<u>174,894,607</u>	<u>280,367,540</u>	<u>(11,316,459)</u>	<u>(14,704,625)</u>	<u>-</u>	<u>-</u>	<u>(550,777)</u>	<u>2,390,292</u>	<u>17,304,750</u>	<u>(6,876,819)</u>	<u>(6,876,819)</u>	<u>525,439,864</u>					
Balance at January 1, 2019	\$ 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						
Effects of retrospective application	-	-	-	-	-	1,968,299	(35,011)	1,933,288	-	-	-	-	-	-	-	-	-	1,933,288					
Equity at beginning of period after adjustments	<u>102,336,040</u>	<u>12,666,600</u>	<u>115,002,640</u>	<u>137,018,872</u>	<u>57,815,312</u>	<u>31,976,946</u>	<u>191,818,323</u>	<u>281,610,581</u>	<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>	<u>(72,455,455)</u>	<u>461,176,638</u>					
Net income	-	-	-	-	-	-	12,500,898	12,500,898	-	-	-	-	-	-	-	-	-	12,500,898					
Other comprehensive income	-	-	-	-	-	-	(2,548)	(2,548)	1,903,450	12,488,876	-	-	248,493	-	49,491,295	64,132,114	64,132,114	64,129,566					
Total comprehensive income	-	-	-	-	-	-	12,498,350	12,498,350	1,903,450	12,488,876	-	-	248,493	-	49,491,295	64,132,114	64,132,114	76,630,464					
Changes in equity of associates and joint ventures accounted for using equity method	-	-	-	(110)	-	-	-	-	-	-	-	-	-	-	-	-	-	(110)					
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	(1,036,524)	(1,036,524)	-	1,036,524	-	-	-	-	-	-	1,036,524	-					
Balance at March 31, 2019	<u>\$ 102,336,040</u>	<u>12,666,600</u>	<u>115,002,640</u>	<u>137,018,762</u>	<u>57,815,312</u>	<u>31,976,946</u>	<u>203,280,149</u>	<u>293,072,407</u>	<u>(10,005,473)</u>	<u>(2,554,186)</u>	<u>-</u>	<u>-</u>	<u>31,112</u>	<u>2,238,671</u>	<u>3,003,059</u>	<u>(7,286,817)</u>	<u>(7,286,817)</u>	<u>537,806,992</u>					

Reviewed only, not audited in accordance with the generally accepted auditing standards**FUBON FINANCIAL HOLDING CO., LTD.****Statement of Cash Flows****For the three months ended March 31, 2019 and 2018****(Expressed in thousands of New Taiwan Dollars)**

	For the three months ended March 31	
	2019	2018
Cash flows from operating activities:		
Income before income tax	\$ 12,835,183	16,490,328
Adjustments:		
Income of non-cash activities		
Depreciation expenses	11,966	2,437
Amortization expenses	2,852	2,950
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(143,463)	80,648
Interest expense	234,217	227,009
Interest income	(2,877)	(1,495)
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	(12,894,743)	(16,877,676)
Subtotal of income of non-cash activities	<u>(12,792,048)</u>	<u>(16,566,127)</u>
Changes in operating assets and liabilities:		
Increase in financial assets measured at fair value through profit or loss	-	(20,000,000)
Decrease in financial assets at fair value through other comprehensive income	52,798	-
Increase in receivables and current tax assets	(915,661)	(5,057,701)
Increase in other assets	3,160	500
Decrease in payables and current tax liabilities	624,707	5,241,507
Increase in other liabilities	364	1,813
Subtotal of all adjustments	<u>(13,026,680)</u>	<u>(36,380,008)</u>
Cash used in operating activities	(191,497)	(19,889,680)
Interest received	652,738	1,416
Dividends received	588,727	-
Interest paid	(161,185)	(168,170)
Income tax paid	(72,474)	(141)
Net cash from (used in) operating activities	<u>816,309</u>	<u>(20,056,575)</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(1,092)	(296)
Acquisition of intangible assets	(22)	(261)
Net cash used in investing activities	<u>(1,114)</u>	<u>(557)</u>
Cash flows from (used in) financing activities:		
Decrease in commercial papers payable	(7,038,497)	(19,488,059)
Repayment of lease liabilities	(10,066)	-
Cash capital increase	-	39,936,569
Net cash from (used in) financing activities	<u>(7,048,563)</u>	<u>20,448,510</u>
Net increase (decrease) in cash and cash equivalents	(6,233,368)	391,378
Cash and cash equivalents at beginning of period	6,420,543	286,443
Cash and cash equivalents at end of period	<u>\$ 187,175</u>	<u>677,821</u>
Components of cash and cash equivalents:		
Cash and cash equivalents recognized in balance sheet	\$ 67,268	177,969
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	119,907	499,852
Cash and cash equivalents at end of period	<u>\$ 187,175</u>	<u>677,821</u>

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

(h) Subsidiaries' balance sheets and statements of comprehensive income

(i) Balance sheets

	Taipei Fubon Bank	
	March 31, 2019	March 31, 2018
Cash and cash equivalents	\$ 68,232,596	23,520,696
Due from the central bank and call loans to banks	182,598,639	207,950,483
Financial assets measured at fair value through profit or loss	111,029,093	86,033,596
Financial assets measured at fair value through other comprehensive income	86,736,641	89,363,588
Debt investments measured at amortized cost	571,842,064	561,361,408
Financial assets for hedgings / Derivative financial assets for hedging	1,364,503	2,003,556
Securities purchased under resell agreements	9,565,800	17,629,255
Receivables, net	72,834,789	66,072,344
Current income tax assets	205,467	205,965
Discounts and loans, net	1,195,816,441	1,198,378,633
Investments accounted for using equity method	25,013,128	21,616,625
Other financial assets, net	17,489,707	52,396,075
Property and equipment, net	12,935,368	12,698,885
Right-of-use asset, net	3,460,690	-
Investment property	2,794,200	2,936,800
Intangible assets, net	1,716,981	1,572,810
Deferred tax assets	600,088	549,985
Other assets	7,194,304	5,987,954
Total assets	\$ 2,371,430,499	2,350,278,658

(Continued)

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

	Taipei Fubon Bank	
	March 31, 2019	March 31, 2018
Deposits to the central bank and banks	\$ 134,393,901	119,863,403
Financial liabilities measured at fair value through profit or loss	19,313,323	26,215,865
Financial liabilities for hedging / Derivative financial liabilities for hedging	1,600,116	1,894,562
Securities sold under repurchase agreements	85,556,397	84,942,483
Payables	27,458,634	28,165,373
Current tax liabilities	2,814,259	1,717,649
Deposits and remittances	1,773,974,140	1,794,799,367
Bonds payable	89,625,366	77,348,299
Other financial liabilities	26,888,180	18,831,971
Provisions	3,243,423	2,803,332
Lease liability	3,418,692	-
Deferred tax liabilities	1,248,997	1,056,594
Other liabilities	<u>9,286,809</u>	<u>8,844,418</u>
Total liabilities	<u>2,178,822,237</u>	<u>2,166,483,316</u>
Common stock	106,518,023	106,518,023
Capital surplus	14,800,927	14,800,927
Retained earnings	71,990,032	63,719,146
Other equity	<u>(700,720)</u>	<u>(1,242,754)</u>
Total equity	<u>192,608,262</u>	<u>183,795,342</u>
Total liabilities and equity	<u>\$ 2,371,430,499</u>	<u>2,350,278,658</u>

(Continued)

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

	Fubon Insurance	
	March 31, 2019	March 31, 2018
Cash and cash equivalents	\$ 7,807,824	8,246,974
Receivables	5,753,697	4,615,114
Financial assets measured at fair value through profit or loss	23,392,647	20,949,561
Financial assets measured at amortized cost	3,306,098	3,414,776
Investments accounted for using equity method, net	1,135,159	937,983
Financial assets measured at fair value through other comprehensive income	22,493,305	21,821,848
Right-of-use asset	124,829	-
Investment property	10,799,278	10,676,276
Reinsurance contract assets	15,774,286	15,640,280
Property and equipment	3,012,146	3,083,181
Intangible assets	115,935	95,263
Deferred tax assets	876,771	917,596
Other assets	925,653	881,082
Total assets	\$ 95,517,628	91,279,934
Payables	\$ 9,803,451	9,253,981
Current tax liabilities	331,088	342,298
Financial liabilities measured at fair value through profit or loss	94,563	8,627
Insurance liabilities	47,406,547	46,576,851
Lease liability	122,236	-
Deferred tax liabilities	1,404,714	1,152,666
Other liabilities	1,201,504	756,692
Provisions	1,416,318	1,449,019
Total liabilities	61,780,421	59,540,134
Common stock	3,178,396	3,178,396
Capital surplus	5,934,408	5,934,408
Retained earnings	20,278,512	19,312,707
Other equity	4,345,891	3,314,289
Total equity	33,737,207	31,739,800
Total liabilities and equity	\$ 95,517,628	91,279,934

(Continued)

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

	Fubon Life Insurance	
	March 31, 2019	March 31, 2018
Cash and cash equivalents	\$ 226,910,372	171,737,299
Receivables	43,987,806	28,493,703
Current tax assets	6,429,180	570,576
Financial assets measured at fair value through profit or loss	855,495,054	696,071,782
Financial assets measured at fair value through other comprehensive income	528,853,164	641,540,314
Derivative financial assets for hedging	522,941	401,055
Financial assets measured at amortized cost	1,721,133,263	1,545,292,928
Investments accounted for using equity method, net	47,164,929	31,449,093
Other financial assets, net	28,513	28,717
Investment property	187,078,389	137,051,392
Loans	238,633,704	216,626,655
Reinsurance contract assets	1,890,254	1,746,702
Property and equipment	19,552,166	19,208,108
Right-of-use asset	2,552,632	-
Intangible assets	303,417	162,292
Deferred tax assets	13,248,987	24,213,234
Other assets	22,148,928	54,684,456
Assets on insurance product, separated account	<u>177,016,936</u>	<u>155,752,575</u>
Total assets	<u><u>\$ 4,092,950,635</u></u>	<u><u>3,725,030,881</u></u>

(Continued)

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

	Fubon Life Insurance	
	March 31, 2019	March 31, 2018
Payables	\$ 37,668,172	22,768,272
Current tax liabilities	851,154	11,068,318
Financial liabilities measured at fair value through profit or loss	5,400,290	346,562
Derivative financial liabilities for hedging	482,772	1,139,127
Bonds payable	55,000,000	55,000,000
Lease liability	17,695,653	-
Insurance liabilities	3,501,608,840	3,191,397,421
Reserve for insurance contract with nature of financial instrument futures	3,551,015	3,751,506
Foreign exchange valuation reserve	9,289,692	2,204,308
Provisions	7,889,044	7,085,597
Deferred tax liabilities	5,891,761	6,456,553
Other liabilities	4,913,771	4,350,356
Liabilities on insurance product, separated account	<u>177,016,936</u>	<u>155,752,575</u>
Total liabilities	<u>3,827,259,100</u>	<u>3,461,320,595</u>
Common stock	110,831,140	82,969,690
Capital surplus	29,530,620	29,460,334
Retained earnings	123,650,738	144,743,423
Other equity	<u>1,679,037</u>	<u>6,536,839</u>
Total equity	<u>265,691,535</u>	<u>263,710,286</u>
Total liabilities and equity	<u>\$ 4,092,950,635</u>	<u>3,725,030,881</u>

(Continued)

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

	<u>Fubon Securities</u>	
	<u>March 31, 2019</u>	<u>March 31, 2018 (Restatement) (Note)</u>
Current assets	\$ 98,749,756	93,128,128
Financial assets measured at fair value through other comprehensive income — non-current	2,238,413	1,669,850
Investments accounted for using equity method	8,756,611	7,975,959
Property and equipment	1,779,619	1,707,628
Right-of-use asset	421,241	-
Investment property	929,618	1,048,761
Intangible assets	98,428	100,830
Deferred tax assets	305,798	236,865
Other non-current assets	<u>1,199,432</u>	<u>1,355,336</u>
Total assets	<u>\$ 114,478,916</u>	<u>107,223,357</u>
Current liabilities	\$ 76,284,805	70,468,484
Provisions — non-current	1,052,490	967,984
Lease liability — non-current	422,355	-
Deferred tax liabilities	113,332	79,689
Other non-current liabilities	<u>3,682</u>	<u>5,123</u>
Total liabilities	<u>77,876,664</u>	<u>71,521,280</u>
Common stock	16,643,550	16,643,550
Retained earnings	17,381,471	16,923,328
Other equity	2,577,231	2,061,350
Equity attributable to former owner of business combination under common control	<u>-</u>	<u>73,849</u>
Total equity	<u>36,602,252</u>	<u>35,702,077</u>
Total liabilities and equity	<u>\$ 114,478,916</u>	<u>107,223,357</u>

Note: Fubon Securities BVI has acquired 100% equity of FB Investment Management (Hong Kong) Limited from Fubon Bank (Hong Kong) in February 2019. According to the (100) Letter NO.390 explanation issued by the Accounting Research and Development Foundation, the transaction is the business combination under common control, and book value method shall be applied. Therefore, Fubon Securities has restated the comparative information of the prior period as the subsidiary was acquired from the beginning.

(Continued)

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

	Units: In thousands of CNY	
	Fubon Bank (China)	
	<u>March 31, 2019</u>	<u>March 31, 2018</u>
Cash and cash equivalents	\$ 757,606	1,284,410
Due from the central bank and call loans to banks	5,743,804	6,214,846
Financial assets measured at fair value through profit or loss	760,721	1,186,051
Financial assets measured at fair value through other comprehensive income	13,457,468	16,140,293
Financial assets measured at amortized cost	9,270,699	7,282,931
Securities purchased under resell agreements	-	388,000
Receivables, net	4,843,722	3,179,954
Current tax assets	1,880	404
Discounts and loans, net	40,939,393	35,260,620
Other financial assets	378,481	361,373
Property and equipment, net	1,166,214	1,212,994
Right-of-use asset	170,177	-
Intangible assets, net	33,564	37,589
Deferred tax assets	104,871	139,451
Other assets, net	58,904	66,176
Total assets	\$ 77,687,504	72,755,092
Deposits from the central bank and banks	\$ 4,308,314	9,928,072
Due to the central bank and banks	149,323	754,572
Financial liabilities measured at fair value through profit or loss	527,873	1,557,945
Securities sold under repurchase agreements	2,404,910	7,454,806
Payables	5,074,907	3,037,798
Deposits and remittances	58,229,901	44,561,399
Bonds payable	1,000,000	-
Provisions	5,885	3,007
Lease liability	171,971	-
Deferred tax liabilities	29,191	2
Other liabilities	3,217	3,238
Total liabilities	71,905,492	67,300,839
Common stock	2,100,000	2,100,000
Capital surplus	93,177	93,177
Retained earnings	3,502,494	3,284,761
Other equity	86,341	(23,685)
Total equity	5,782,012	5,454,253
Total liabilities and equity	\$ 77,687,504	72,755,092

(Continued)

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

(ii) Statements of comprehensive income

	Taipei Fubon Bank	
	For the three months ended	
	March 31	
	2019	2018
Interest revenue	\$ 11,441,333	10,145,986
Interest expense	(5,890,077)	(4,575,199)
Net interest revenue	5,551,256	5,570,787
Net non-interest revenues	6,262,523	4,780,318
Net revenue	11,813,779	10,351,105
Bad debt expenses and guarantee liability provisions	156,939	(7,770)
Operating expenses	(4,829,618)	(4,534,904)
Income before income tax	7,141,100	5,808,431
Income tax expense	1,105,397	857,192
Net income	6,035,703	4,951,239
Other comprehensive income (net of income tax)	686,536	239,880
Total comprehensive income	\$ 6,722,239	5,191,119
Earnings per share (In New Taiwan Dollars)	\$ 0.57	0.46

	Fubon Insurance	
	For the three months ended	
	March 31	
	2019	2018
Operating Revenue	\$ 8,893,414	8,489,608
Operating cost	(5,675,996)	(5,179,697)
Operating expenses	(1,792,670)	(1,735,305)
Net operating income	1,424,748	1,574,606
Non-operating income and expense	(59,365)	(53,725)
Income before income tax	1,365,383	1,520,881
Income tax expense	(172,238)	(210,000)
Net income	1,193,145	1,310,881
Other comprehensive income (net of income tax)	2,328,368	(807,838)
Total comprehensive income	\$ 3,521,513	503,043
Basic earnings per share (In New Taiwan Dollars)	\$ 3.75	4.12

(Continued)

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

	Fubon Life Insurance	
	For the three months ended	
	March 31	
	2019	2018
Operating Revenue	\$ 194,550,727	166,489,530
Operating cost	(186,962,209)	(155,243,516)
Operating expenses	(4,075,389)	(3,796,788)
Operating income	3,513,129	7,449,226
Non-operating income and expense	170,151	128,179
Income before income tax	3,683,280	7,577,405
Income tax revenue (expense)	(614,715)	1,714,099
Net income	3,068,565	9,291,504
Other comprehensive income (net of income tax)	(59,815,863)	(27,930,898)
Total comprehensive income	\$ (62,884,428)	(18,639,394)
Basic earnings per share (In New Taiwan Dollars)	\$ 0.28	0.84
	Fubon Securities	
	For the three months ended	
	March 31	
	2019	2018
		(Restatement)
		(Note)
Revenue	\$ 1,798,606	1,637,833
Expenses	(1,388,247)	(1,403,215)
Net operating income	410,359	234,618
Non-operating income and expense	370,013	159,585
Income before income tax	780,372	393,453
Income tax expense	(42,429)	(52,646)
Net income	737,943	341,557
Other comprehensive income (net of income tax)	442,311	340,715
Total comprehensive income	\$ 1,180,254	682,272
Net income attributable to:		
Owners of parent	\$ 737,943	340,807
Equity attributable to former owner of business combination under common control	-	750
	\$ 737,943	341,557
Comprehensive income attributable to:		
Owners of parent	\$ 1,180,254	681,531
Equity attributable to former owner of business combination under common control	-	741
	\$ 1,180,254	682,272
Earnings per share (In New Taiwan Dollars)	\$ 0.44	0.20

(Continued)

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

Note: Fubon Securities BVI has acquired 100% equity of FB Investment Management (Hong Kong) Limited from Fubon Bank (Hong Kong) in February 2019. According to the (100) Letter NO.390 explanation issued by the Accounting Research and Development Foundation, the transaction is the business combination under common control, and book value method shall be applied. Therefore, Fubon Securities has restated the comparative information of the prior period as the subsidiary was acquired from the beginning.

Units: In thousands of CNY
Fubon Bank (China)

**For the three months ended
March 31**

	2019	2018
Interest revenue	\$ 773,492	736,241
Interest expense	(494,168)	(478,497)
Net interest revenue	279,324	257,744
Net non-interest revenues	81,149	(43,141)
Net revenue	360,473	214,603
Bad debt expenses and guarantee liability provisions	(44,826)	(9,507)
Operating expenses	(219,124)	(168,836)
Income before income tax	96,522	36,260
Income tax expense	(24,641)	(6,254)
Net income	71,881	30,006
Other comprehensive income (net of income tax)	(19,684)	43,009
Total comprehensive income	\$ 52,197	73,015

(i) Profitability of the Company and bank, insurance and security subsidiaries

March 31, 2019

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 %	8.78 %	1.20 %	1.22 %	0.50 %	0.37 %	2.83 %
	After income tax	0.65 %	8.55 %	1.01 %	1.00 %	0.37 %	0.31 %	2.67 %
Return on equity	Before income tax	12.04 %	10.28 %	15.09 %	10.54 %	6.71 %	6.29 %	17.08 %
	After income tax	9.87 %	10.01 %	12.76 %	8.72 %	5.00 %	5.24 %	14.93 %
Profit margin		11.45 %	96.19 %	51.09 %	47.96 %	19.94 %	1.58 %	13.42 %

March 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	0.93 %	11.14 %	0.99 %	1.01 %	0.20 %	0.82 %	1.49 %
	After income tax	0.94 %	11.09 %	0.84 %	0.84 %	0.16 %	1.01 %	1.29 %
Return on equity	Before income tax	12.57 %	12.90 %	12.82 %	9.32 %	2.68 %	11.10 %	19.32 %
	After income tax	12.82 %	12.83 %	10.93 %	7.79 %	2.22 %	13.61 %	16.65 %
Profit margin		14.63 %	98.56 %	47.83 %	43.69 %	13.98 %	5.58 %	15.44 %

(Continued)

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

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.

(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 March 31, 2019:

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	March 31, 2019				Remark
				No. of shares	Carrying amount	Shareholding ratio	Market price	
Fubon Futures Co. Ltd.	Paradigm Dow Jones Copper ER Futures ETF	-	Financial assets measured at fair value through profit or loss	540	11,156	-	11,156	Beneficiary certificates
"	Capital Potential Income Multi-Asset Fund	-	"	2,000	21,395	-	21,395	"
"	MSCI China Index	-	"	1,000	11,320	-	11,320	"
"	Fubon FTSE World Broad Investment-Grade USD Bank Bond 10+ Years Index ETF	-	"	750	29,978	-	29,978	"
"	Fubon China Policy Bank Bond 0-1 ETF	Fund managed under a subsidiary company's manager of the Company	"	750	31,005	-	31,005	"
"	Cathay Financial Holding Co., Ltd. Preferred Stock B	-	"	850	53,125	-	53,125	Listed stock
"	Cathay Financial Holding Co., Ltd. Preferred Stock A	-	"	4,500	288,450	-	288,450	"
"	China Steel Corporation Preferred Stock A	-	Financial assets at fair value through other comprehensive income	47	2,202	-	2,202	"
"	Taiwan Futures Exchange Co., Ltd.	Related parties in substance	"	745	63,276	0.22	63,276	Unlisted Stock
Fubon Marketing	Allianz G1b1 Inv All Seasons Ret of Bd	-	Financial assets measured at fair value through profit or loss	785	12,097	-	12,097	Beneficiary certificates
"	Fubon China Investment Grade Bond Fund - CNY	Fund managed under a subsidiary company's manager of the Company	"	200	11,105	-	11,105	"
"	Fubon R1	-	"	1,391	21,505	-	21,505	Beneficiary securities
"	Fubon R2	-	"	1,380	18,313	-	18,313	"
"	Cathay R1	-	"	500	7,790	-	7,790	"
"	Cathay R2	-	"	950	15,400	-	15,400	"
Fu Sheng Life Insurance Agent	98 Central Government Bond 6	-	Financial assets at fair value through other comprehensive income	-	3,012	-	3,012	Government Bond

(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	March 31, 2019				Remark
				No. of shares	Carrying amount	Shareholding ratio	Market price	
Fu Sheng General Insurance Agent	98 Central Government Bond 6	-	Financial assets at fair value through other comprehensive income	-	2,008	-	2,008	Government Bond
Fubon Asset Management	Fubon Taiwan Technology ETF	Fund managed under Fubon Asset Management	Financial assets measured at fair value through profit or loss	21	1,125	-	1,125	Beneficiary certificates
"	Fubon MSCI Taiwan ETF	"	"	26	1,307	-	1,307	"
"	Fubon Taiwan Eight Industries ETF	"	"	24	1,081	-	1,081	"
"	Fubon Taiwan Financial ETF	"	"	24	1,025	-	1,025	"
"	Fubon SSE180 ETF	"	"	452	14,322	-	14,322	"
"	Taiwan FTSE TWSE Taiwan 50 EFT	"	"	20	898	-	898	"
"	Fubon SZSE 100 ETF	"	"	20	206	-	206	"
"	Fubon TOPIX Index ETF	"	"	10	198	-	198	"
"	Fubon India ETF	"	"	9	229	-	229	"
"	Umbrella Fund-Fubon NASDAQ 100 ETF	"	"	13	397	-	397	"
"	Fubon FTSE Developed Europe ETF	"	"	12	230	-	230	"
"	Fubon S&P US Preferred Stock ETF	"	"	1,108	21,666	-	21,666	"
"	Fubon Strategic High Income Fund – C	"	"	2,723	57,046	-	57,046	"
"	Fubon Chi-Hsiang Money Market	"	"	8,636	135,445	-	135,445	"
"	Eastspring Investments Well Pool Money Market Fund	"	"	6,664	90,635	-	90,635	"
"	Fubon Hang Seng China Enterprises ETF	"	"	328	6,973	-	6,973	"
"	Fubom 1-3 Years US Treasury Bond ETF	"	"	506	20,778	-	20,778	"
"	Fubon China Growth Fund TWD	"	"	2,044	12,716	-	12,716	"
"	Fubon China Investment Grade Bd CNY B	"	"	327	15,342	-	15,342	"
"	Fubon China Money Market CNY	"	"	796	42,145	-	42,145	"
"	Fubon Global Investment-grade Bond Fund B	"	"	1,023	9,454	-	9,454	"
"	Fubon Euro-Asia Silk Road Multi-Asset Fund A	"	"	3,501	37,240	-	37,240	"
"	Fubon India and Indonesia Sovereign Bond Fund TWD A	"	"	1,999	21,080	-	21,080	"
"	Fubon TWSE Corporate Governance 100 ETF	"	"	3	57	-	57	"
"	Fubon 7-10 Years US Treasury Bond ETF	"	"	5	192	-	192	"
"	Fubon 20+ Years US Treasury Bond ETF	"	"	6	234	-	234	"

(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	March 31, 2019				Remark
				No. of shares	Carrying amount	Shareholding ratio	Market price	
Fubon Asset Management	Fubon 10+ Years US Corporate Bond BBB Ex China ETF	Fund managed under Fubon Asset Management	Financial assets measured at fair value through profit or loss	5	229	-	229	Beneficiary certificates
"	Fubon 1-5 Years US High Yield Bond Ex China	"	"	4	158	-	158	"
"	Yuanta China Treasury + Policy Bank 3-5 Year Bond ETF	-	"	500	23,700	-	23,700	"
"	Yuanta RMB Money Market Fund TWD	-	"	786	8,613	-	8,613	"
"	Yuanta USD Money Market Fund TWD	-	"	1,031	10,026	-	10,026	"
"	Mega USD Money Market Fund TWD	-	"	1,492	15,042	-	15,042	"
"	103 Central Government Development Bond 13	-	Financial assets measured at fair value through other comprehensive income	-	315,663	-	315,663	Government Bond
"	FundRich Securities Co., Ltd.	Related parties in substance	"	2,018	11,058	3.36	11,058	Unlisted 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	120,977	-	120,977	Beneficiary certificates
Fubon Securities Venture Capital Co., Ltd.	Fusheng Precision Co., Ltd.	-	"	332	54,116	0.28	54,116	Emerging stock
"	Timing Pharmaceutical Co., Ltd.	-	"	1,300	23,071	1.51	23,071	Unlisted stock
"	uPI Group Inc.	-	"	1,313	-	5.42	-	"
"	PocketNet Technology Inc.	-	"	952	75,758	1.66	75,758	"
"	Amis Technology Co., Ltd.	Related parties in substance	"	48,750	93,908	22.45	93,908	"
"	Noodoe Inc.	-	"	450	50,705	5.99	50,705	"
"	MAYO Human Capital Inc.	-	"	500	22,500	3.56	22,500	"
"	Cinema Pro Limited	-	"	2,800	13,373	14.69	13,373	"
"	uPI Group Inc.	-	"	190	14,727	0.27	14,727	"
Fubon Mintou Venture Capital Co., Ltd.	Yuanta De-Li Money Market Fund	-	"	2,472	40,294	-	40,294	Beneficiary certificates
"	FSITC Taiwan Money Market	-	"	3,293	50,379	-	50,379	"
"	Mega Diamond Money Market Fund	-	"	4,018	50,373	-	50,373	"
"	Capital Money Market Fund	-	"	2,810	45,327	-	45,327	"
"	Luo Lih-Fen Holding Co., Ltd.	-	"	10	2,005	-	2,005	Listed stock
Fubon Securities Equity Investment Ltd.	Guang Dong Ying Jiang Film Industry Investment Limited	Related party in substance	"	-	13,205	-	13,205	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	200,745	-	200,745	Beneficiary certificates
"	Franklin Templeton Sinoam Money Market Fund	-	"	29,107	300,815	-	300,815	"

(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	March 31, 2019				Remark
				No. of shares	Carrying amount	Shareholding ratio	Market price	
Fubon Financial Holding Venture Capital Co., Ltd.	Chunghwa chemical Synthesis & Biotech Co., Ltd.	-	Financial assets measured at fair value through profit or loss	3,000	73,950	3.87	73,950	Listed stock
"	Fubon Multimedia Technology Co., Ltd.	Related party in substance	"	3,322	845,449	2.34	845,449	"
"	Tanvex BioPharma, Inc.	-	"	2,064	152,530	0.85	152,530	"
"	Media Asia Group Holdings Ltd.	-	"	99,188	38,181	4.64	38,181	Hong Kong listed stock
"	ConforMIS, Inc.	-	"	100	8,880	0.16	8,880	US listed stock
"	H&Q AP Greater China Growth Fund	-	"	-	11,200	4.00	11,200	Private fund
"	An Shin Food Service Co., Ltd.	-	"	97	6,553	0.30	6,553	Emerging stock
"	KD Holding Corporation	-	"	470	88,803	0.70	88,803	"
"	SynCore Biotechnology Co.	-	"	2,695	76,402	3.23	76,402	"
"	Foresee pharmaceuticals Co., Ltd.	-	"	82	7,134	0.09	7,134	"
"	One Production Co., Ltd.	Related party in substance	"	3,874	19,719	13.84	19,719	Emerging stock
"	Long time tech. Co., Ltd.	Related party in substance	"	10,000	290,190	8.31	290,190	"
"	TwI Biotechnology Co., Ltd.	-	"	2,700	54,405	4.00	54,405	"
"	Drewloong Precision, Inc.	-	"	177	29,141	0.59	29,141	"
"	TIPCO International Limited	"	"	1	928	4.54	928	Unlisted stock
"	Lonestar Heart Inc.	"	"	294	-	4.01	-	"
"	ABG Grail Limited	-	"	-	83,261	4.00	83,261	"
"	Aeolus Robotics	-	"	5,000	154,070	7.97	154,070	"
"	RenalPro Medical, Inc.	-	"	1,055	30,860	10.00	30,860	"
"	Phalanx Biotech Group	"	"	95	430	0.15	430	"
"	JEoutai Technology	-	"	2,714	38,760	8.06	38,760	"
"	Century Development Corporation	Related party in substance	"	3,361	36,401	1.00	36,401	"
"	StemCyte Inc.	Related party in substance	"	9,426	161,274	10.60	161,274	"
"	UUPON Inc.	Related party in substance	"	1,900	3,629	5.29	3,629	"
"	DoDoPal Holdings Ltd.	-	"	42	-	6.78	-	"
"	TAROKO Development Co., Ltd.	Related party in substance	"	20,736	210,263	12.71	210,263	"
"	TAROKO MALL Co., Ltd.	Related party in substance	"	2,304	25,736	7.65	25,736	"
"	Crystal Bright Development Co., Ltd.	-	"	10	226,273	1.91	226,273	"
"	Asian Crown International Co., Ltd.	Related party in substance	"	824	-	6.94	-	"
"	Alliance Digital Tech Co., Ltd.	Related party in substance	"	900	-	2.16	-	"
"	EcoNet Inc.	Related party in substance	"	312	288,100	1.67	288,100	"
"	DETKET Technology Inc.	Related party in substance	"	2,200	15,246	17.12	15,246	"
"	Eva Technologies Co., Ltd.	-	"	1,340	-	6.50	-	"

(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	March 31, 2019				Remark
				No. of shares	Carrying amount	Shareholding ratio	Market price	
Fubon Financial Holding Venture Capital Co., Ltd.	ABG II-WX Limited	-	Financial assets measured at fair value through profit or loss	2	2,487,187	9.30	2,487,187	Unlisted stock
"	Sunny Pharmtech Inc.	-	"	12,820	149,988	9.90	149,988	"
"	A.T.Holding Ltd.	Related party in substance	"	280	333,871	2.35	333,871	"
"	Allianz Pharmascience Ltd.	-	"	2,000	34,080	6.85	34,080	"
"	tixCraft Inc.	Related party in substance	"	990	20,523	15.71	20,523	"
"	Alar Pharmaceuticals Inc.	-	"	3,300	37,587	9.43	37,587	"
"	TeTanTi Agricultural Biotechnology Co., Ltd.	Related party in substance	"	1,500	18,540	6.00	18,540	"
"	Beseye Cloud Security Co., Ltd.	Related party in substance	"	3,700	74,666	22.04	74,666	"
"	Grand Academy Investment, L.P.	-	"	-	116,337	4.17	116,337	Private fund
"	Starview Heights Investment, L.P.	-	"	-	63,473	4.17	63,473	"
"	Bridge Roots Fund.L.P.	-	"	-	429,885	11.48	429,885	"
"	Omniad Media Incorporation	-	Financial assets at fair value through other comprehensive income	7,675	-	10.21	-	Unlisted stock
"	Yuan tai Foreign	-	"	240	9,766	2.00	9,766	"
"	Kbro Media Co., Ltd.	Related party in substance	"	13,050	79,475	14.50	79,475	"
"	Diamond Bioventure	Related party in substance	"	22,500	153,675	5.00	153,675	"
"	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	28,655	9.90	28,655	"
"	Yesin Electronics Technology Co., Ltd.	Related party in substance	"	4,026	30,756	10.61	30,756	"
"	Xin-Yao Bioventure Co., Ltd.	Related party in substance	"	17,500	124,950	5.00	124,950	"
"	Fubon Hospitality Management Co., Ltd.	Related party in substance	"	5,000	30,750	17.86	30,750	"
"	Star River Energy Corporation	Related party in substance	"	1,760	36,150	1.49	36,150	"
"	Star Shining Energy Corporation	Related party in substance	"	21,000	398,160	7.00	398,160	"
"	Wholax Max Green Power Co., Ltd.	Related party in substance	"	1,090	20,383	1.00	20,383	"
Fubon Sports & Entertainment Co., Ltd.	CHOXUE INC. (Cayman)	"	"	298	-	1.66	-	"

(Continued)

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

- (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 2019		Purchase		Sale				March 31 2019	
					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	-	1,275,000	2,680,890	700,000	3,398,087 (Note 1)	-	-	-	-	1,975,000	6,078,977
Fubon Securities	Fubon Securities (BVI)	Investment accounted for using equity method, net	Subsidiary	-	18,830	393,152	16,216	492,011 (Note 1)	-	-	-	-	35,046	885,163
Fubon Securities (BVI)	Fubon Securities (HK) Ltd.	Investments accounted for using equity method, net	Subsidiary	-	156,386	257,906	126,792	502,786 (Note 1)	-	-	-	-	283,178	760,692

Note 1: The initial costs of Fubon Life Insurance (Hong Kong) Ltd. invested by Fubon Life Insurance amounting to \$2,749,457, Fubon Securities (BVI) invested by Fubon Securities amounting to \$500,000, and Fubon Securities (HK) Ltd. invested by Fubon Securities (BVI) amounting to \$500,000, respectively, have already been included. The remainder is shares of profit or other comprehensive income accounted for using equity method.

- (v) Acquisition or disposal amount of the same securities up to \$300,000 or 10% of paid-in capital: None
- (vi) Obtain of real estate up to \$300,000 or 10% of paid-in capital: None.
- (vii) Disposal of real estate up to \$300,000 or 10% of paid-in capital: None.
- (viii) Discount of commission fees for transaction with related parties up to \$5,000: None
- (ix) Receivables from related parties up to \$300,000 or 10% of paid-in capital:

Unit: In thousands of TWD

Company of receivable	Counter-party	Relation-ship	Balance of receivables from related party	Turnover rate	Post-due receivables – related parties		Subsequently received amount of receivables from related party	Allowance for doubtful accounts
					Amount	Resolution		
The Company	Taipei Fubon Bank	Subsidiary of the Company	1,947,171 (Note 1)	-	-	-	-	-
"	Fubon Life Insurance	"	330,406 (Note 1)	-	-	-	-	-
"	Fubon Insurance	"	352,071 (Note 1)	-	-	-	-	-
"	Fubon Securities	"	340,712 (Note 1)	-	-	-	-	-
Taipei Fubon Bank	Fubon Life Insurance	Subsidiary of the Parent	480,574	-	-	-	-	-

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(f), 6(t) and 6(ai).
- (xi) Transaction information of NPL disposition:
- 1) Summary of transaction information of NPL disposition: None

(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	177,534	Same as non related-party transactions	0.16 %
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	6,040,372	Same as non related-party transactions	0.08 %
1	Taipei Fubon Bank	Fubon Life Insurance	3	Deposits and remittance	11,150,891	Same as non related-party transactions	0.14 %
1	Taipei Fubon Bank	Fubon Life Insurance	3	Net service fee and commission income	1,599,904	Same as non related-party transactions	1.46 %
1	Taipei Fubon Bank	Fubon Securities	3	Deposits and remittance	5,738,619	Same as non related-party transactions	0.07 %
1	Taipei Fubon Bank	Fubon Securities	3	Net service charge and commission loss	65,113	Same as non related-party transactions	0.06 %
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	177,534	Same as non related-party transactions	0.16 %
2	Fubon Life Insurance	Fubon Financial Holding	2	Income tax receivable	6,040,372	Same as non related-party transactions	0.08 %
2	Fubon Life Insurance	Taipei Fubon Bank	3	Cash and cash equivalents	11,150,891	Same as non related-party transactions	0.14 %
2	Fubon Life Insurance	Taipei Fubon Bank	3	Net service charge and commission loss	1,218,860	Same as non related-party transactions	1.11 %
2	Fubon Life Insurance	Taipei Fubon Bank	3	Other general and administrative expense	381,044	Same as non related-party transactions	0.35 %
2	Fubon Life Insurance	Fubon Insurance	3	Other non-interest revenue, net	140,675	Same as non related-party transactions	0.13 %
2	Fubon Life Insurance	Fu Sheng Life Insurance Agent	3	Net service charge and commission loss	62,416	Same as non related-party transactions	0.06 %
3	Fubon Insurance	Fubon Life Insurance	3	Other general and administrative expense	136,972	Same as non related-party transactions	0.12 %
3	Fubon Insurance	Fu Sheng General Insurance Agent	3	Net service charge and commission loss	99,663	Same as non related-party transactions	0.09 %
4	Fubon Securities	Taipei Fubon Bank	3	Cash and cash equivalents	4,948,619	Same as non related-party transactions	0.06 %
4	Fubon Securities	Taipei Fubon Bank	3	Other non-interest revenue, net	58,805	Same as non related-party transactions	0.05 %
5	Fu Sheng General Insurance Agent	Fubon Insurance	3	Net service fee and commission income	101,792	Same as non related-party transactions	0.09 %
6	Fu Sheng Life Insurance Agent	Fubon Life Insurance	3	Net service fee and commission income	62,415	Same as non related-party transactions	0.06 %

(Continued)

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

Note 1: Serial number is determined as follows:

1. 0 represents parent company.
2. Subsidiaries are numbered in a sequence of Arabic numerals from 1 based on the companies' category.

Note 2: The relation category among traders is determined as follows:

1. Parent to subsidiary.
2. Subsidiary to parent.
3. Subsidiary to subsidiary.

Note 3: Above listed are the significant transactions that comprised over 0.05% of the consolidated revenue or total assets.

(xiv) Other significant transactions that may have substantial influence upon the decision made by financial statement user: None.

(b) Information on investment in mainland China:

(i) Information 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 March 31, 2019	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of March 31, 2019	Accumulated inward remittance of earnings as of March 31, 2019
					Outflow	Inflow						
Fubon Bank (China)	Banking	9,628,920 (CNY2,100,000)	Direct investment in Mainland China	42,122,872	-	-	42,122,872	329,963 (CNY71,881)	100 %	231,247	42,075,235	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 March 31, 2019	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of March 31, 2019	Accumulated inward remittance of earnings as of March 31, 2019
					Outflow	Inflow						
Xiamen Bank Co., Ltd.	Banking	10,890,836 (CNY2,375,215)	(Note 1)	N/A, Investment of Fubon Bank (Hong Kong)	-	-	-	1,996,755	19.95 %	398,816	13,292,099	-

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.

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

3) Upper limit on investment:

Company	Accumulated investment in Mainland China as of March 31, 2019	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)	322,684,195
Taipei Fubon Bank Co., Ltd.	20,258,298 (CNY4,093,113)	20,258,298 (CNY4,093,113)	115,564,957
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 March 31, 2019, and the CNY average exchange rate for the three months ended March 31, 2019.

- (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 200 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.

(Continued)

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

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, 2019	Investment flows		Accumulated outflow of investment from Taiwan as of March 31, 2019	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of March 31, 2019	Accumulated inward remittance of earnings as of March 31, 2019
					Outflow	Inflow						
Fubon Property and Casualty Insurance Limited	Property Insurance	5,135,424 (CNY1,120,000)	1	4,310,367	-	94	4,310,273	(21,845)	80.00 %	(17,476)	870,030	-
Teng Fu Bo Investment Limited	Investment advisory	1,604,820 (CNY350,000)	3	-	-	-	-	(39,386)	24.88 %	(9,800)	215,784	-

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, 2019	Investment flows		Accumulated outflow of investment from Taiwan as of March 31, 2019	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of March 31, 2019	Accumulated inward remittance of earnings as of March 31, 2019
					Outflow	Inflow						
CITIC Fulljoy (Dalian) Limited	Real estate development	1,414,044 (HKD 360,000)	2	-	-	-	-	17,765 (CNY 3,870)	18.00 %	3,198 (CNY 697)	Note 3	-
Shang Hsing Real Estate (Shenyang) Limited	Real estate leasing	1,963,950 (HKD 500,000)	2	-	-	-	-	(11,210) (CNY (2,442))	18.00 %	(2,018) (CNY (440))	Note 3	-
CITIC Capital Holdings (Tianjin) Ltd.	Investment Holdings	20,617,035 (CNY 4,496,431)	2	-	-	-	-	394,141 (CNY 85,862)	12.27 %	48,360 (CNY 10,535)	Note 3	-
Hui Zhi Ju Xin (Shenzhen) Investment Ltd.	Investment Management	22,926 (CNY 5,000)	2	-	-	-	-	360,043 (CNY 78,434)	12.27 %	44,177 (CNY 9,624)	Note 3	-
Zhong An Tai Xin (Shenzhen) Equity Investment and Fund Management Ltd.	Investment advisory	45,852 (CNY 10,000)	2	-	-	-	-	(1,894) (CNY (413))	18.00 %	(341) (CNY (74))	Note 3	-
CITIC Capital Asset Management (Shenzhen) Ltd.	Investment advisory	45,852 (CNY 10,000)	2	-	-	-	-	25,270 (CNY 5,505)	18.00 %	4,549 (CNY 991)	Note 3	-
CITIC Capital Culture Tourism (Chengdu) Ltd.	Real estate leasing	2,554,415 (CNY 557,100)	2	-	-	-	-	(730) (CNY (159))	12.58 %	(92) (CNY (20))	Note 3	-
Jin Rui Tong Investment Consultancy (Chengdu) Ltd.	Real estate leasing	842,177 (CNY 183,673)	2	-	-	-	-	(76,219) (CNY(16,604))	6.41 %	(4,889) (CNY(1,065))	Note 3	-
Tianjin Xinze Equity Investment and Fund Management Ltd.	Investment advisory	114,630 (CNY 25,000)	2	-	-	-	-	8,834 (CNY 1,925)	18.00 %	1,590 (CNY 346)	Note 3	-
Shanghai Ling Hui Business Information Consultancy Ltd.	Real estate leasing	3,408,330 (CNY 743,333)	2	-	-	-	-	(33,328) (CNY (7,260))	8.99 %	(2,997) (CNY (653))	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, 2019	Investment flows		Accumulated outflow of investment from Taiwan as of March 31, 2019	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of March 31, 2019	Accumulated inward remittance of earnings as of March 31, 2019
					Outflow	Inflow						
Shanghai Jing Rong Industrial Development Ltd.	Real estate leasing	1,724,035 (CNY 743,333)	2	-	-	-	-	(5,166) (CNY (1,125))	8.99 %	(465) (CNY (101))	Note 3	
Murkden Tzu Tsai Heating & Development Ltd.	Real estate leasing	298,038 (CNY 743,333)	2	-	-	-	-	(50,514) (CNY (11,004))	18.00 %	(9,093) (CNY (1,981))	Note 3	

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: 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, Beijing Xinhe Run Investment Management Ltd., Shenzhen Pengyi Equity Investment Management Ltd., Shenzhen Xinpeng Yu Investment Management Ltd., Beijing Pengyu Investment Management Ltd., Jiaqieng (Shanghai) Consulting Ltd., Jiaqieng 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 Jiaqieng Xiaofeng Equity Investment Management Ltd., Shenzhen Jiaqieng 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 Be Zhuang Hotel Ltd., Yunnan Shangri La Alpine Be Zhuang Hotel Ltd., Shenzhen Shengyin Consulting Ltd., Shenzhen Shengyi Equity Investment Management Ltd., Shenzhen Jiashi Datong Industrial Ltd. Company, Shenzhen Yushengxin Consulting Ltd., Shanghai Sterling De Real Estate Ltd., Huiyi Management Consulting (Shanghai) Ltd., Kangquan (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 Ruite 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., Jman Huanqi Commercial Operation Management Ltd., Beijing Shuangyu Capital Management Ltd., CITIC Capital (Guangdong) Industrial Investment Fund Management Ltd., CITIC Capital (Guangdong) Equity Investment Ltd., Shenzhen Shantai Industrial Park Management Ltd., Shenzhen Shunze Industrial Park Management Ltd., Human 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 March 31, 2019 and average exchange rate for the three months ended March 31, 2019.

3) Upper limit on investment:

Units: In thousands of TWD

Company	Accumulated investment in Mainland China as of March 31, 2019	Investment amounts authorized by investment commission, MOEA	Upper limit on investment
Fubon Life Insurance Co., Ltd.	25,819,167	26,301,824	159,414,921
Fubon Insurance Co., Ltd.	2,154,951 (CNY448,000)	2,209,973 (CNY460,000)	20,242,324

Note: The limit of Fubon Life Insurance Co., Ltd. and Fubon Insurance Co., Ltd. investment were \$106,276,614, and \$13,494,883 according to the Regulations Governing Foreign Investments by Insurance Companies.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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- (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 March 31, 2019	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of March 31, 2019	Accumulated inward remittance of earnings as of March 31, 2019
					Outflow	Inflow						
Fubon Securities Equity Investment Ltd.	Equity Investment	893,220 (CNY200,000)	(Note 1)	944,532	-	-	944,532	(10,691)	100.00 %	(10,691)	901,986	-

Company	Accumulated investment in Mainland China as of March 31, 2019	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)	21,961,351

Note 1: Direct investment in Mainland China.

Note 2: It was calculated by Fubon Securities' net value as of March 31, 2019

- (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.
- (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 March 31, 2019	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of March 31, 2019	Accumulated inward remittance of earnings as of March 31, 2019
					Outflow	Inflow						
CITIC FUTONG Financial Leasing Ltd.	Financial leasing	4,677,513 (CNY931,034)	(Note 1)	1,356,479	-	-	1,356,479	(140,805)	25 %	(35,201)	904,801	-

Company	Accumulated investment in Mainland China as of March 31, 2019	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)	1,594,756

Note 1: Direct investment in Mainland China.

Note2: It was calculated by Fubon AMC' s net value as of March 31, 2019.

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

- (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 remitted the amount of TWD 402,597 thousand on March 12, 2018. As of March 31, 2019, 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 March 31, 2019	Net income from investee	Percentage of Ownership	Equity in the Earnings (gains)	Carrying value as of March 31, 2019	Accumulated inward remittance of earnings as of March 31, 2019
					Outflow	Inflow						
Founder Fubon Fund Management Limited	Fund raising and asset management	2,947,626 (CNY660,000)	(Note 1)	1,029,119	-	-	1,029,119	(58,673)	33.00 %	(19,538)	680,736	-

Company	Accumulated investment in Mainland China as of March 31, 2019	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)	1,139,097

Note 1: Direct investment in Mainland China.

Note2: It was calculated by Fubon Asset Management's net value as of March 31, 2019.

(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.

Financial information classified by business type please refer to note 12(f).

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