Table of Contents

- Financial Highlights 02
- Awards and Achievements 04
- Message to Shareholders 06
- Corporate & Investment Banking 20
- Financial Markets 24
- Consumer Finance 28
- Wealth Management 32
- Investment Management 36
- Insurance 40
- Fubon Bank (Hong Kong) 44
- Corporate Citizenship 48
- Fubon Group Members 54
- Corporate Governance 56
- Financial Statements 57
Forward-thinking and solid in its approach, Fubon Financial is a key generator of positive momentum in the financial services sector. By offering the best financial services to Chinese communities in Asia and building a robust organization, we continue to move closer to our vision of becoming one of Asia’s first-class financial institutions.
## Financial Highlights

**Fubon Financial**

In **NT$ Million**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Assets</strong></td>
<td>3,452,775</td>
<td>3,622,863</td>
<td>4,083,257</td>
</tr>
<tr>
<td><strong>Stockholders’ Equity</strong></td>
<td>217,390</td>
<td>233,683</td>
<td>305,273</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>19,905</td>
<td>30,543</td>
<td>28,983</td>
</tr>
<tr>
<td><strong>Earnings Per Share (NTD)</strong></td>
<td>2.33</td>
<td>3.39</td>
<td>3.05</td>
</tr>
<tr>
<td><strong>Book Value Per Share (NTD)</strong></td>
<td>25.40</td>
<td>25.93</td>
<td>32.05</td>
</tr>
<tr>
<td><strong>Return on Equity (%)</strong></td>
<td>9.3%</td>
<td>13.5%</td>
<td>10.8%</td>
</tr>
<tr>
<td><strong>Return on Assets (%)</strong></td>
<td>0.6%</td>
<td>0.9%</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

The figures above are the consolidated results of Fubon Financial Holding Co. and its subsidiaries.
### Taipei Fubon Bank

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Interest Income</strong></td>
<td>12,210</td>
<td>13,944</td>
<td>15,126</td>
</tr>
<tr>
<td><strong>Commissions and Fee Revenues, Net</strong></td>
<td>7,310</td>
<td>8,144</td>
<td>7,995</td>
</tr>
<tr>
<td><strong>Other Revenues</strong></td>
<td>3,022</td>
<td>3,368</td>
<td>5,771</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td>13,614</td>
<td>13,891</td>
<td>14,372</td>
</tr>
<tr>
<td><strong>Pre-Provision Profit</strong></td>
<td>8,928</td>
<td>11,565</td>
<td>14,520</td>
</tr>
<tr>
<td><strong>Provision (reversal) for Bad-Debt Losses</strong></td>
<td>1,020</td>
<td>1,060</td>
<td>(542)</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>7,281</td>
<td>9,054</td>
<td>12,994</td>
</tr>
</tbody>
</table>

### Fubon Securities

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Brokerage Commissions</strong></td>
<td>4,514</td>
<td>3,951</td>
<td>2,920</td>
</tr>
<tr>
<td><strong>Net Interest Income</strong></td>
<td>1,402</td>
<td>1,326</td>
<td>905</td>
</tr>
<tr>
<td><strong>Gain on Trading Securities, Net</strong></td>
<td>645</td>
<td>94</td>
<td>159</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>9,635</td>
<td>10,388</td>
<td>7,185</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td>5,440</td>
<td>5,638</td>
<td>4,991</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>2,124</td>
<td>2,672</td>
<td>990</td>
</tr>
</tbody>
</table>

*Consolidated financial statements

### Fubon Bank (Hong Kong)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Interest Income</strong></td>
<td>853</td>
<td>636</td>
<td>657</td>
</tr>
<tr>
<td><strong>Net Fees and Commission Income</strong></td>
<td>257</td>
<td>221</td>
<td>218</td>
</tr>
<tr>
<td><strong>Other Operating Income</strong></td>
<td>28</td>
<td>210</td>
<td>116</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td>856</td>
<td>933</td>
<td>788</td>
</tr>
<tr>
<td><strong>Operating Profit before Gains and Impairment Losses</strong></td>
<td>282</td>
<td>134</td>
<td>203</td>
</tr>
<tr>
<td><strong>Change for / (write back of) Impairment Losses</strong></td>
<td>47</td>
<td>(52)</td>
<td>(35)</td>
</tr>
<tr>
<td><strong>Profit for the Year</strong></td>
<td>266</td>
<td>280</td>
<td>309</td>
</tr>
</tbody>
</table>

### Fubon Asset Management

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenue</strong></td>
<td>475</td>
<td>564</td>
<td>561</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td>398</td>
<td>499</td>
<td>513</td>
</tr>
<tr>
<td><strong>Net Income (After Tax)</strong></td>
<td>89</td>
<td>(28)</td>
<td>15</td>
</tr>
<tr>
<td><strong>AUM (average)</strong></td>
<td>158,607</td>
<td>160,446</td>
<td>148,824</td>
</tr>
</tbody>
</table>

### Fubon Insurance

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct Written Premium</strong></td>
<td>22,171</td>
<td>24,287</td>
<td>26,600</td>
</tr>
<tr>
<td><strong>Net Written Premium</strong></td>
<td>16,802</td>
<td>18,224</td>
<td>20,047</td>
</tr>
<tr>
<td><strong>Underwriting Profit</strong></td>
<td>1,361</td>
<td>1,661</td>
<td>1,831</td>
</tr>
<tr>
<td><strong>Investment Income</strong></td>
<td>1,740</td>
<td>1,927</td>
<td>1,746</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>2,676</td>
<td>3,078</td>
<td>2,997</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Claim Ratio</strong></td>
<td>52.32%</td>
<td>57.14%</td>
<td>57.18%</td>
</tr>
<tr>
<td><strong>Net Expense Ratio</strong></td>
<td>36.81%</td>
<td>37.00%</td>
<td>37.57%</td>
</tr>
<tr>
<td><strong>Net Combined Ratio</strong></td>
<td>89.13%</td>
<td>94.14%</td>
<td>94.75%</td>
</tr>
<tr>
<td><strong>Retention</strong></td>
<td>72.75%</td>
<td>72.58%</td>
<td>72.51%</td>
</tr>
</tbody>
</table>

### Fubon Life

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First Year Premium (1)</strong></td>
<td>305,738</td>
<td>219,886</td>
<td>245,539</td>
</tr>
<tr>
<td><strong>Investment Income</strong></td>
<td>46,489</td>
<td>54,321</td>
<td>68,098</td>
</tr>
<tr>
<td><strong>Operating Revenue</strong></td>
<td>417,265</td>
<td>387,282</td>
<td>487,298</td>
</tr>
<tr>
<td><strong>Operating Costs</strong></td>
<td>399,818</td>
<td>363,758</td>
<td>460,314</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>6,426</td>
<td>16,104</td>
<td>12,973</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First Year Premium (2)</strong></td>
<td>310,201</td>
<td>222,834</td>
<td>249,724</td>
</tr>
<tr>
<td><strong>Interest-Sensitive</strong></td>
<td>148,882</td>
<td>27,163</td>
<td>32,369</td>
</tr>
<tr>
<td><strong>Investment-Linked</strong></td>
<td>4,463</td>
<td>4,185</td>
<td>4,185</td>
</tr>
<tr>
<td><strong>Traditional</strong></td>
<td>156,856</td>
<td>192,723</td>
<td>213,170</td>
</tr>
</tbody>
</table>

*Excludes Investment-Linked
(1) Including Investment-Linked
(2) Including Investment-Linked
2012 Awards and Achievements

Corporate Governance Asia
Fubon Financial Chairman, Daniel M. Tsai
- Asian Corporate Director Recognition Awards
- Asia’s Best CEO (Investor Relations)

Fubon Financial
- Recognition Award for Corporate Governance—Taiwan
- Best Investor Relations by a Taiwan Company
- Best CSR, Best Investor Relations Professional

FinanceAsia
Fubon Financial
- Best Managed Company in Taiwan-Banks and Financial Institutions
- Best Corporate Governance in Taiwan-Banks and Financial Institutions
- Best Corporate Social Responsibility in Taiwan-Banks and Financial Institutions
- Best Investor Relations in Taiwan-Banks and Financial Institutions

Fubon Financial President Victor Kung
- Best CEO

Global Finance
Taipei Fubon Bank
- Best Trade Finance Bank in Taiwan

Fubon Financial
- Best Investment Bank in Taiwan

The Asset
Fubon Financial
- Corporate Award—Platinum Award

Taipei Fubon Bank
- Best MNC/Large Corporate Bank

World Finance
Fubon Financial
- Best Investment Bank in Taiwan

Fubon Life
- Insurance Company of the Year 2012, Taiwan

CommonWealth Magazine
Fubon Financial
- Most Admired Company—Financial Holdings Sector

Fubon Securities
- Most Admired Company—Securities Sector, 2nd Place

Fubon Life
- Most Admired Company—Insurance Sector
- Golden Service Award 2012—Insurance Sector

Next Magazine—Top Services Awards
Taipei Fubon Bank
- Banking—2nd Place

Fubon Life
- Life Insurance—2nd Place

Business Today
Taipei Fubon Bank
Evaluation of Wealth Management Bank
- Best Risk Management
- Best Overseas Development
- Best Wealth Management Team—2nd Place
- Best Customer Reliability—3rd Place,
- Best Professional Service—3rd Place

Fubon Securities
- Brand Appeal among Businesspeople—2nd Place in the Brokerage Industry

Fubon Life
- Brand Appeal among Businesspeople—3rd Place in Life Insurance Industry

Global Views Monthly
Taipei Fubon Bank
- Best Image Wealth Management Banks, 3rd Place

Business Next
Taipei Fubon Bank
- Top Green Brands 2012—Financial Sector—Excellence Award

Taipei Fubon Bank
- Digital Services—1st Place in Banking Industry

Fubon Life
- Digital Services—2nd Place in Life Insurance Industry

Wealth Magazine—Survey of Financial Service Brands
Taipei Fubon Bank
- Best Service for Domestic Wealth Management Bank, 3rd Place

Fubon Securities
- Preferred Brokerage House, 2nd Place

Fubon Life
- Best Service for an Insurance Brand, 3rd Place

Asia Insurance Review
Fubon Life
- 16th Asia Insurance Industry Awards—Corporate Social Responsibility Award

Factors Chain International
Taipei Fubon Bank
- Best Factoring Service Quality in Taiwan

14th Faith, Hope, and Love Awards of Insurance
Fubon Insurance
- Distinguished Contribution Award for Social Responsibility
- Distinguished Policy Designer Award for Non-Life Insurance
- Distinguished Representative Office Award for Non-Life Insurance
- Distinguished Award for Non-Life Insurance Career Achievement

Fubon Life
- Distinguished Profession Award for Life Insurance Company
- Distinguished Product Creativity Award for Life Insurers
- Distinguished Sales Strategy Award for Insurance Marketing
- Distinguished Award for Integrated Marketing Communications
- Distinguished Profession Sales Award for Life Insurance
Risk Management, Insurance & Finance
Fubon Financial
• The Most Admired Financial Holding Company
Fubon Insurance
• Best Insurance Company
• Best Customer Service
• Best Corporate Image
• Most Recommended Insurance Company
Fubon Life
• Most Admired Insurance Company—Best Back Office Group
• Most Admired Insurance Company—Best Field Group
• Best Name Recognition
• Best Claims Services
• Most Recommended Insurance Company

Ministry of Education
Fubon Financial
• Contribution to Professional Education Award
Fubon Cultural & Educational Foundation
• NGO Assessment—Excellent

Taipei Foundation Of Finance—Best Fund Award 2012
Fubon Asset Management
• The Best Three-year Fund in the Domestic Mid/Small Cap Equity Fund Category—Fubon Elite Fund
• The Best Three-year/Five-year/Ten-year Fund in the Domestic Equity Value Fund Category—Fubon Value Fund
• The Best Three-year Fund in the Domestic Equity Fund Category—Fubon Aggressive Growth Fund
• Nominated For The Best Ten-year Fund in the Domestic Equity Fund Category—Fubon Aggressive Growth Fund
• The Best Ten-year Fund in the Foreign High Yield Fixed Income Fund Category—Loomis Sayles High Income Fund R/A (EUR)
• The Best Three-year Fund in the Foreign Equity Greater China Fund Category—GAM Star China Equity Fund

Lipper Fund Award 2012
Fubon Asset Management
• The Best Three-year Fund in the Category of “Equity Taiwan Small and Mid Cap”—Fubon Elite Fund
• The Best Three-year Fund in the Category of “Bond US Dollar- High Yield”—Loomis Sayles High Income Fund R/A (EUR)
• The Best Three-year Fund in the Category of “Bond US Dollar”—Loomis Sayles Multisector Income Fund R/D (USD)

Morningstar and Smart Fund Award 2012
Fubon Asset Management
• The Best Eco-environment and Alternative Energy Equity Fund—SAM Smart Energy Fund

Win Times Magazine—Best Wealth Management Brand
Taipei Fubon Bank
• 3rd Place in Banking Industry
Fubon Securities
• Securities Sector

Taiwan Banking and Finance Best Practice Awards
Fubon Financial
• Best Risk Management
• Best CSR

Taiwan Corporate Governance Association
Fubon Financial
• Certificate of Corporate Governance System—CG6007 Advanced Assessment

Taipei Fubon Bank
• Certificate of Corporate Governance System—CG6007 Advanced Assessment
Fubon Life
• Certificate of Corporate Governance System—CG6007 Advanced Assessment

British Standard Institution
Fubon Financial
• Corporate Social Responsibility Report Verified by both AA1000 and GRI G3.1 Assurance Standards

2012 Taiwan CSR Award
Fubon Financial
• Taiwan CSR Award—Bronze Award among Financial Industry

Peking University
Fubon Financial Chairman Daniel M. Tsai
• Contribution to Education Award

Joint Credit Information Center
Taipei Fubon Bank
• Golden Security Award—Credit Information Reporting

Taiwan Stock Exchange Corporation (TWSE)
Fubon Securities
• Listing Intermediary Contribution Award for IPO applications in 2012
• Warrant Trading Turnover in 2012, 3rd Place

VISA Hong Kong Limited
Fubon Bank (Hong Kong)
• Largest Payment Volume Growth—Gold Prize
• Highest Payment Volume—Bronze Prize
• Cross Border Best Performance in Authorization Decline Rate

Bank of New York Mellon
Fubon Bank (Hong Kong)
• Straight Through Processing Award

The Hong Kong Council of Social Service
Fubon Bank (Hong Kong)
• Caring Company Logo

The Community Chest
Fubon Bank (Hong Kong)
• 2012/2013 Corporate & Employee Contribution Programme—Bronze Award
Dear Shareholders,

Global economic growth turned sluggish in 2012, but Fubon Financial still persevered forward and had another outstanding year, posting after-tax net income of NT$28.98 billion and earnings per share of NT$3.05. Both led Taiwan's financial services sector for the fourth consecutive year.

Fubon Financial also had the highest market capitalization and share price of any domestic financial holding company, reflecting the strong teamwork exhibited by our employees and our commitment to maximizing value for our shareholders.

An important new milestone was achieved in the company's expansion in Greater China in 2012. In December, the boards of Fubon Financial and Taipei Fubon Bank approved the acquisition of a controlling 80% stake in Shanghai-based First Sino Bank, clearing a critical hurdle in Fubon Financial's long-term plan for China. Once the deal is completed, Fubon will have bank units in Taiwan (Taipei Fubon Bank), Hong Kong (Fubon Bank (Hong Kong)) and China (a 19.99% stake in Xiamen Bank and an 80% stake in First Sino Bank), giving us the most complete financial services platform in Greater China of any Taiwanese financial institution.

In the coming year, we expect the global economy to regain momentum, but financial markets will remain fiercely competitive. Fubon Financial intends to capitalize on the opening of Chinese renminbi operations in Taiwan to offer customers at home even more diverse financial products while also actively carving out a greater presence in China to further solidify the most comprehensive financial services network in the Greater China market.

The Industry Earnings Leader Four Years in a Row

Global trade volume contracted in 2012, beset by economic stagnation in advanced countries and a clear slowdown in economic growth in emerging markets. The pervasive economic gloom combined with domestic increases in fuel and electricity prices and the imposition of a tax on stock gains to adversely affect consumption and private investment in Taiwan. Stunted by this sluggishness in both domestic and external demand, Taiwan's economic growth fell to 1.26% in 2012, from 4.07% in 2011.

Despite the challenging environment, Fubon Financial was able to maintain steady growth through sound risk control strategies. Our after-tax net income of NT$28.983 billion and EPS of NT$3.05 both led the domestic financial services sector for the fourth consecutive year. If the one-time gains from the sale of Fubon Multimedia Technology are excluded from 2011 income and the impact of provisions for guaranteed sports lottery surpluses are set aside, after-tax net income rose 23.2% from a year earlier. Return on assets (ROA) and return on equity (ROE) were 0.75% and 10.76%, respectively.

Total assets rose 12.9% in 2012, driven by the continued asset growth of Fubon Life. As of the end of December, the holding company's assets totaled NT$4.08 trillion, ranking Fubon Financial as Taiwan's second biggest publicly listed financial holding company by assets.

Key Profit Engines:
Banking, Life Insurance

Subsidiaries Fubon Life and Taipei Fubon Bank generated strong results in 2012 and were Fubon Financial's main profit engines, accounting for 90 percent of the holding company’s after-tax earnings.

Taipei Fubon Bank’s after-tax income grew 43.51% year-on-year to NT$12.99 billion, contributing 45% of Fubon Financial’s earnings. The Bank derived its income from diverse sources. Nearly half (47.6%) came from non-interest income (including processing fees and Treasury revenue), and rising interest income driven by higher mortgage volume was also an important contributor.

Fubon Life had after-tax income of NT$12.97 billion, also accounting for 45% of Fubon Financial’s profit. Strong sales of traditional policies and policies with installment payment plans helped first-year premium grow 12.07% to NT$249.72 billion. Total premium totaled NT$420.73 billion. Fubon Life’s 21.9% share of the FYP market and 16.8% share of the TP market both ranked second in the industry.

Because traditional policies continued to assume greater weight in Fubon Life’s overall products mix, its cost of liability continued to fall in 2012 to 4.07%, from 4.16% in 2011. Return on investment rose to 4.01% from 3.80% a year earlier because of sound investment portfolio strategies.

Fubon Insurance Stays on Top
Profit Growth for Fubon Bank (Hong Kong)

Fubon Bank (Hong Kong)’s after-tax income grew 10% in 2012 to HK$309 million, helped by a major reduction in impairment charges and a widening net interest margin that boosted interest income. The Bank will continue to pursue long-term growth and capture opportunities related to
Fubon Financial had net income of NT$28.983 billion, or NT$3.05 per share, in 2012, leading the financial sector in both categories for the fourth straight year. It also led the industry in market value and highest share price.
the internationalization of the Chinese renminbi.

Fubon Insurance’s after-tax income totaled NT$2.997 billion in 2012. Direct written premium was NT$26.6 billion, representing 9.52% year-on-year growth that outpaced the industry average of 6.61%. Direct written premium market share was 22.2%, leading the sector once again, and net combined ratio was a strong 94.8%.

Fubon Securities posted after-tax income of NT$980 million in a year when Taiwan’s stock market slowed to a crawl because of global economic weakness and the imposition of a capital gains tax on stock transactions and fuel and electricity price hikes at home. But while the domestic stock market performed poorly, Fubon Securities maintained its share of the securities brokerage market at an impressive 5.82%.

### A New Milestone for Fubon in China

Over the past five years, Fubon Financial has moved aggressively into China. Among the major steps forward: Fubon Bank (Hong Kong) acquired a stake in Xiamen Bank in 2008; Fubon Insurance’s China subsidiary Fubon Property & Casualty Insurance Co., Ltd., formally opened in October 2010; and Fubon Asset Management teamed up with China-based Founder Securities Co. to set up Founder Fubon Fund Management Co. in Beijing July 2011.

Fubon Life and Nanjing Zijin Investment Co., meanwhile, agreed to set up joint venture Fubon Zijin Life, to be headquartered in Nanjing, and applied to the China Insurance Regulatory Commission for preparatory approval in March 2011.

In December 2012, the boards of Fubon Financial and Taipei Fubon Bank approved the acquisition of a controlling stake of 80% in Shanghai-based First Sino Bank. Once the deal is completed, Fubon will become the first Taiwanese bank to have one stake and one controlling interest in Chinese banks and stand out as the only Taiwanese financial institution with a complete financial services platform throughout Greater China.

First Sino Bank was established in 1997 as a joint venture between foreign and Chinese investors and has a national license. Its return on equity was 13.7% in 2012, the highest among Chinese subsidiaries of foreign banks. As of the end of 2012, the Bank had a non-performing loan ratio of 0.28% and a coverage ratio of 563.4 percent, indicating its strong asset quality.

The Bank has 14 outlets (four branches and 10 sub-branches) concentrated mostly in cities in the Yangtze River Delta, the Pearl River Delta and the Bohai Rim. Nine outlets (one branch and eight sub-branches) are located in the Shanghai area and others can be found in Suzhou, Shenzhen and Tianjin. The network is highly complementary to Fubon’s existing foothold in Greater China (in Taiwan, Hong Kong, and the Haixi area), and will serve as an important financial services platform for Fubon in China’s market.

The Bank’s coverage ratio remained at 360%.

The Bank has 32 outlets in Xiamen, but its network has expanded beyond the city since 2010, when it set up a branch in Fuzhou. New presences in Quanzhou, Chongqing and Zhangzhou then followed and the Bank now has 41 outlets, consisting of three branches and 35 sub-branches in the Haixi Economic Zone (the area on the west coast of the Taiwan Strait) and one branch and two sub-branches in Chongqing. New outlets are planned for Nanping, Putian and Ningde in Fujian province and for Nanchang and Tianjin outside the province as the Bank positions itself in the market as the “Gateway to Haixi Banking,” serving Taiwanese-invested businesses and deepening its penetration of the local market.

### Widening Insurance Net in China

Since making Xiamen its base of development, Fubon Property & Casualty Insurance has gradually expanded its service reach. In March 2012, the company became the first Taiwanese-invested P&C insurer in Chongqing when it formally opened a branch in the city, creating a new beachhead outside of Fujian province to serve customers in the vast western part of China. In December 2012, Fubon Property & Casualty Insurance became the first Taiwanese-invested P&C insurer in northeastern China when its branch in Dalian began operations.

Xiamen Bank Profit Sets New High

In 2012, Xiamen Bank was in its fourth year with Fubon Bank (Hong Kong) as a major shareholder, and its results continued to sparkle, setting a new high for profits. After-tax income rose 23.6% year-on-year to RMB467 million, and its non-performing loan ratio edged down further to 1%, from 1.03% in 2011.

The company currently employs more than 700 people and has 10 outlets covering Xiamen, Fuzhou, Quanzhou, Zhangzhou and Pingtan in Fujian and in Chongqing and Dalian. Written premium totaled RMB180 million in 2012, ranking seventh among the 20 P&C insurers in Xiamen.
Fubon Financial and Taipei Fubon Bank announced plans in December 2012 to buy an 80% stake in First Sino Bank, another key step in expanding Fubon’s long-term presence in China.
In November 2012, Fubon Property & Casualty Insurance set another milestone, becoming the first Taiwanese-invested and second foreign-invested P&C insurer in China to get the green light from regulators to sell compulsory automobile liability insurance. Because car insurance accounts for 70% of the general insurance business in China, getting an operating license to sell auto liability coverage represents a truly significant breakthrough for the company’s future expansion in the mainland market. Looking forward, Fubon Property & Casualty Insurance intends to replicate Fubon Insurance’s professional experience and excellent services and strengthen its localization strategy to offer Chinese customers the most complete range of auto insurance products and services available.

**Maintaining a Strong Capital Structure by Controlling Risk**

In the process of expanding Group operations, Fubon Financial has remained extremely attentive to risk management, maintaining a strong capital structure and a level of asset quality that exceeds the market average. In 2012, our capital adequacy ratio was 143%, far above the legally mandated 100%.

Taipei Fubon Bank’s BIS ratio was 13.83% as of the end of 2012, an indication of the bank’s strong capital position. Even with steady loan growth, the Bank’s nonperforming loan ratio fell to 0.12%, from 0.26% a year earlier, well below the industry average of 0.4%, while the Bank’s coverage ratio was 695.98% as of the end of 2012, easily beating the industry average of 274.09%.

Taiwan Ratings Corp. announced on Aug. 24, 2012 that Fubon Financial’s long-term rating remained at “twAA” and its short-term rating remained at “twA-1+.” In its latest ratings note issued on Jan. 17, 2013, Moody’s Investors Service maintained Fubon Financial’s outlook as “stable”. The ratings clearly reflected Fubon’s superior profit-generating capability and asset quality relative to others in the industry.

**The Industry Benchmark for Corporate Governance**

Recognized for its comprehensive network and flexible strategies, Fubon Financial was named the “Most Admired Company” among financial holding companies by CommonWealth Magazine for the third time in 2012 and was honored for the first time as one of Taiwan’s 10 most admired companies across all sectors.

“Fubon Financial transcended traditional frameworks and showed flexible and innovative thinking to build a complete network covering the three major financial service sectors: insurance, banking and securities brokerage. It ranked at the top among financial holding companies in 7 of the 10 benchmark company indicators, for foresight, operating performance, financial capacity, talent cultivation, cross-border operations, long-term investment value and corporate citizenship,” the magazine wrote.

Fubon Financial has long been committed to optimizing corporate governance. We were not only Taiwan’s first publicly listed company to pass advanced standard certification (with 110 indicators). These achievements again reflected Fubon Financial’s dedication and commitment to strengthening corporate governance.

The company’s strong governance practices also earned Fubon Financial Chairman Daniel M. Tsai an “Asian Corporate Director Recognition Award” from Corporate Governance Asia in 2012 for the third consecutive year. Tsai was recognized as a benchmark for putting corporate social responsibility into practice and showing commitment to environmental protection.

Information transparency has always been a major priority for Fubon Financial in managing investor relations, and in 2012 the company was cited by Corporate Governance Asia and Finance Asia for “Best Investor Relations” in Taiwan’s financial sector.

Fubon Financial has embraced active corporate social responsibility practices for many years, earning the recognition

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The ratings of various rating agencies in 2012 were as follows:

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<th>Rating Agency Type</th>
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<th>Effective Date</th>
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<td>BBB+</td>
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<td>Taiwan Ratings Corp</td>
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of the international media. Corporate Governance Asia cited Fubon Financial for “Best CSR” in Asia for the third year in a row in 2013, and Finance Asia honored the company for “Best Corporate Social Responsibility” among Taiwanese companies in 2012.

At the sixth biennial “Taiwan Banking and Finance Best Practice Awards” in November 2012, Fubon Financial gained further recognition for our sustained social engagement and positive role as a corporate citizen, winning the “Best CSR” and “Best Risk Management” awards. The company also won the competition's first-ever award for “Best Risk Management” among financial holding companies.

Outstanding Performances of Subsidiaries Widely Recognized

Fubon Financial was also named Taiwan’s “Best Domestic Bank” by The Asset in 2012, and Group subsidiaries amassed numerous accolades of their own. Taipei Fubon Bank was honored as “Best Trade Finance Bank” in Taiwan for the fourth year in a row and “Best Investment Bank” in Taiwan for the third year running by Global Finance. The Bank’s rigorous risk control system also earned it the top prize for “Best Risk Management” in Business Today’s 2012 Evaluation of Wealth Management Banks.

Fubon Life was honored by Common-Wealth Magazine as Taiwan’s “Most Admired Company” in the insurance sector for the fourth consecutive year and as the winner of the “Golden Service Award” for the life insurance industry for the second year in a row. It was named “2012 Insurance Company of the Year” for Taiwan by London-based journal World Finance and grabbed five awards at the 2012 “Faith, Hope and Love Awards of Insurance,” including the “Distinguished Profession Award” for life insurers.

Fubon Insurance garnered four awards at the “Faith, Hope and Love Awards,” including the “Distinguished Product Creative Award” for non-life insurers and a “Distinguished Insurance Achievement” for individuals in the non-life insurance field. The company was also named by Risk Management, Insurance and Finance magazine as “Best Insurance Company” among Taiwan’s top 1,000 companies for the 12th year in a row.

Fubon Securities’ top-notch underwriting results again drew recognition. It earned a “Listing Intermediary Contribution Award for IPO applications in 2012” from the Taiwan stock exchange and was second among CommonWealth Magazine’s most admired companies in the securities sector.

Embracing CSR: Fubon Volunteers Close in on Milestone

Fubon Financial has actively engaged in a diverse range of social causes for many years through four major foundations. We have also established a Fubon Volunteer Association and offered incentives such as paid volunteer leave to encourage employees to get involved in social welfare activities and foster a culture of “giving back to society what is reaped from society.”

Founded in 1993 to get Fubon employees to volunteer, the Fubon Volunteer Association will be entering its 10th year in 2013. It currently has 7 branches and 16 sub-branches that serve all corners of Taiwan. In 2012, Fubon volunteers contributed a total of 9,859 hours to helping others and supporting social welfare activities.

The Fubon Charity Foundation has long provided emergency relief and assistance. Since 2002, it has helped economically disadvantaged children stay in school through the “Making Friends with Love” campaign. The campaign distributed more than NT$120 million, benefiting 17,037 students, in 2012 and has helped a total of 129,887 underprivileged students get an education since the program’s inception.

The Fubon Cultural & Educational Foundation is dedicated to promoting the “new competitiveness” of Taiwan's next generation through more rigorous education. It has instituted an innovative “Young Voice, Young Life, Young Career” program to provide support for teenagers as they grow.

The Fubon Art Foundation devotes itself to sponsoring artistic creation, promoting art education and enriching people’s lives, transforming the ideal of “bringing life into art and art into life” into a widely embraced core value. The Taipei Fubon Bank Charity Foundation cares for the elderly and people with disabilities and helps the economically disadvantaged escape poverty.

Strong in Taiwan, Still Expanding in China

The global economy should regain momentum in 2013, boosted by a rebound in the United States housing market, a gradual lifting of the cloud of doubt hanging over the eurozone, the completion of China’s transition of power, and continued monetary easing policies by central banks around the world. These trends, which will spur a stable recovery in the U.S. and an acceleration of economic growth in China, along with domestic stimulus measures, will help Taiwan’s economy pick up steam, and we expect it to grow between 3.3% to 3.8% this year.

Beginning on January 1, 2013, Fubon Financial’s Corporate and Investment Banking and Financial Markets business groups will merge, creating the Institutional Banking Group, giving us five business groups.

The key development strategies and goals for 2013 for each of these five business groups are as follows:

1. Institutional Banking Group—The Group intends to strengthen its SME customer base and improve its yields; aggressively tap into overseas and non-Taiwan invested client segments and build regional and industry matrixes; develop new cross-strait trade financing products and actively pursue renminbi business; and strengthen Treasury market sales by capitalizing...
on opportunities created by the easing of renminbi-related restrictions. Based on the progress made in the renminbi-deregulation process, the Group will build a DBU renminbi-product platform to offer a more diversified product line and focus on profit opportunities in renminbi-related FX swaps, interest rate swaps and bonds. Initiatives will also be taken to strengthen equity derivatives sales and increase share in the warrants market, while also further developing QFII brokerage business.

2. Consumer Finance Group—Main goals include widening mortgage spreads and solidifying profits from mortgage lending; focusing more on clients with high-quality credit, strengthening relationship marketing with professional groups, teachers and civil servants, and cultivating card users and direct depositors of paychecks; and regularly advertising on the MRT to boost visibility and increasing the use of digital marketing to tap into younger customer segments. The Group also plans to introduce a “digital life” credit card supported by digital marketing to increase card spending; actively seek out partnerships with large retailers and increase market share in medium-sized chains and franchises; and expand the number of brick-and-mortar and online shops accepting China Union Pay cards and cooperate with system operators on merchant settlement and cross-border payment services to capitalize on the influx of Chinese tourists.

3. Wealth Management Group—The Group’s main strategies will be to satisfy clients’ diverse needs through a more diversified product portfolio; enhance service quality through new service models introduced at recently opened branches; better customize service to different client segments based on their different behavior patterns; expand its team of outstanding financial advisors; and continue to promote its virtual services platform. The brokerage business will focus on using more diversified marketing strategies and reining in expenses; improving service quality and tightening relationships with customers; and strengthening distribution channels while elevating the caliber of the sales team. The marketing priority of the Group’s asset management business will be Greater China market investment products, such as A share ETFs, index funds and fixed income products. Once cross-strait financial markets are further deregulated in the future, the goal will be to issue a renminbi bond fund and help establish Fubon as the recognized asset management expert in Greater China.

4. Investment Management Group—Anticipating a global economic recovery in 2013 but also potential risk from regional uncertainty, the Group expects to further expand its holdings of domestic and overseas fixed-income assets and tread carefully in an environment where the Taiwan dollar is relatively strong, while also capitalizing on opportunities brought by the recovery, targeting shares of global industry leaders and high-dividend stocks. Plans are being developed to invest in real estate overseas as related policies become more liberalized in the future, which will help Fubon deal with changes in the business cycle more quickly and flexibly and maintain stable long-term returns on investment.

5. Insurance Group—Fubon Life will strengthen sales of high-contribution products and offer renminbi-denominated policies when regulatory changes allow; continue to expand its sales team and enhance the competitiveness of its in-house salespeople and outside agent network; and, in view of Taiwan’s aging population, continue to offer products and services tailored to middle-aged and elderly customers. Fubon Insurance plans to expand its personal insurance business by marketing “special offer” products through diverse sales channels and putting a premium on client retention. On the corporate insurance side, the focus will be on stabilizing market premium rates. Other strategies include appropriately using reinsurance, diversifying catastrophe risk, integrating the company’s specialized loss prevention technology, and grasping economic development trends to create corporate insurance growth opportunities.

Building on a strong foundation in Taiwan, Fubon Financial will continue to move aggressively into the Greater China market in the future and expand operations in Vietnam. We hope to establish ourselves as the best banking and insurance partner for Taiwanese-invested businesses in Asia and local residents and advance steadily toward our vision of becoming one of Asia’s first-class financial institutions.

Daniel M. Tsai
Chairman, Fubon Financial

Richard M. Tsai
Vice Chairman, Fubon Financial
Management Team
Dynamic Fubon: Sustaining Abundance

Most profitable FHC for fourth year running

Fubon Financial had a great year in 2012, leading all domestic financial holding companies in net income (NT$28.98 billion) and EPS (NT$3.05) for the fourth year in a row. It also led the sector in market cap and highest share price.
Dynamic Fubon: Moving Forward in Unison

The Benchmark for Corporate Governance

Fubon Financial puts a premium on corporate governance and is seen as a benchmark in the field in Greater China, earning us widespread recognition at home and abroad.
Dynamic Fubon: Creating New Opportunities

Leading the Industry into the Greater China Market
Firmly rooted in Taiwan, Fubon Financial is leading the industry into Greater China by building the most complete regional financial services platform, a major step forward on our way to becoming one of Asia’s first-class financial institutions.
In the first half of 2012, the eurozone crisis and slowdowns in the world’s major consumer markets, including the United States and China, adversely affected Taiwan’s economy. Demand for Taiwan’s exports stalled, domestic consumption grew sluggish, orders fell and domestic companies lacked incentives to invest. Without a catalyst for growth either at home or abroad, Taiwan’s economy ground to a halt. But in the second half of the year, a number of key economic indicators, including exports, export orders and industrial production, slowly regained momentum, helping pull the domestic economy gradually back from the depths and attain a growth rate of 1.26% for the year as a whole. Though both the domestic and global economies were mired in uncertainty for much of the year, the Corporate & Investment Banking Group still delivered solid results.

Undeterred by a Volatile Environment
The Group overcame global economic instability and a domestic slowdown to post a 17% increase in operating revenues in 2012. Effective control of operating expenses and provision expenses and a substantial impairment writeback contributed to 76% year-on-year growth in net income (after provisions), 20% higher than the annual budgeted target.

The commercial banking operation’s outstanding loan balance to public and private enterprises remained the highest among private banks as of the end of 2012, with a market share of 3.5%. The Group’s factoring business still ranked third in the sector with a 16.4% share despite adopting a profit-over-volume strategy and overhauling the client structure to broaden the business’s base. This specialized product expertise earned the recognition of a number of prestigious international financial journals. Taipei Fubon Bank was named, for example, as Taiwan’s “Best Trade Finance Bank” by Global Finance for the fourth year in a row, as providing the “Best Factoring Service Quality” in Taiwan by Factors Chain International, and as the “Best MNC/Large Corporate Bank” in Taiwan by the Asset.

In investment banking, the Group’s 8.3% share of the domestic syndicated loan market ranked fifth among all banks in Taiwan and the highest among private banks, and its 17.4% share of the transaction volume on the GreTai Emerging Stock Market ranked second in the industry. It also ranked third in IPO underwriting and fifth in SPO underwriting by value with market shares of 9.2% and 7.1%, respectively. This strong performance also won its share of accolades and recognition, with Fubon Financial being awarded as Taiwan’s “Best Investment Bank” by both Global Finance and World Finance.

2013: Business Expansion, Higher Overseas Profits
The debt crises in Europe’s most financially troubled countries have been temporarily alleviated, but future developments still bear watching, and the risk still exists that the United States will tighten its fiscal belt. Those uncertainties could dampen economic activity in the coming year, cooling global trade momentum and especially the trading vitality of emerging economies. But while the global economic outlook remains full of unknowns, some factors are expected to fall in Taiwan’s favor and propel a recovery domestically.
The CIB Group provides a wide array of financial services through its extensive platform. It continues to move closer to emerging as the corporate banking regional bank of choice of Taiwanese-invested companies overseas.
In 2012, the CIB Group had the highest market share in the syndicated loan market of any private bank.

Worldwide growth in demand for handheld mobile devices will fuel exports, semiconductor foundries should continue to build high-end capacity, rising inbound tourist numbers will spur further investment in the leisure and tourism sector, and government efforts to attract overseas Taiwanese businesses to invest at home will begin to pay dividends, all of which should turn private investment positive in 2013. Taiwan’s statistics bureau has forecast economic growth for the year at over 3%, and the Corporate and Investment Banking Group will pursue several strategies to create opportunities in many areas in this improving environment, as described below.

Profitability: Key strategies include expanding overseas investment and financing services to widen interest spreads and overcome Taiwan’s low interest spread environment, and further tapping into the SME client segment to increase rates of return. Efforts will also focus on expanding cross-selling and diversifying profit sources while better segmenting customers to effectively use the company’s resources in increasing customers’ contribution margin.

Business Expansion: Looking to expand its customer base, the Group will more actively target overseas Taiwanese businesses and client segments in overseas markets along with companies in their respective supply chains to build regional and industrial client clusters and solidify the pool of potential customers. In terms of product planning, the
emphasis will be on continuing to promote new types of trade financing across the Taiwan Strait and developing renminbi-denominated services to accelerate the growth in scale of renminbi operations and capitalize on the liberalization of the cross-strait financial sector.

**Balanced Development:** The Group’s business development strategy will emphasize balance in both channel and product development. On the distribution side, SMEs have assumed growing importance in recent years and revenue from large companies is now less than 50% of the Group’s total, and that trend will continue. On the product side, the Group will use cross selling to expose clients to a greater variety of products and deepen client relationships, reflecting a commitment to the broader development of each product line to prevent the risk of concentrating too heavily on any single product.

**Overseas Expansion:** To better serve Taiwanese clients abroad, the Group plans to expand its presence on the U.S. West Coast beyond its existing bank branch in Los Angeles and assess the feasibility of moving into emerging markets in Southeast Asia that are attracting Taiwanese-invested businesses.

**Human Resources:** Continued emphasis will be placed on recruiting talent externally and increasing manpower, while also training the professionals needed to support the long-term development of overseas operations. This focus on strengthening both the caliber of the Group’s human capital and the size of the talent pool will give the organization a medium- and long-term competitive edge.

**Basic Infrastructure:** The Group will continue to optimize risk models and put in place risk pricing to strengthen credit portfolio management and enhance returns on credit risk. To deal with business development abroad, a core back office system for overseas branches will be built to upgrade operating functions and develop support capabilities for regional banks.

Anchored on a foundation that continues to get stronger, the Corporate & Investment Banking Group has seen earnings grow steadily in recent years and will continue to provide clients a comprehensive range of corporate and investment banking products and services in Taiwan, Hong Kong, China, Vietnam and the United States through our team of dedicated account managers and product specialists. The Group intends to solidify its position in the domestic market through its highly efficient distribution platform, complete product line and consistent service capabilities at home and abroad. The push into Greater China will also be accelerated to help Fubon achieve its ambition of becoming the preferred corporate banking group among Taiwanese-invested businesses throughout the region.
Financial Markets

The global economy performed far short of expectations in 2012, compelling forecasters to repeatedly lower their economic growth projections. Growth in the eurozone contracted for three consecutive quarters and in Japan for two quarters in a row. The United States fared slightly better, with economic growth nudging upward, but the recovery’s foundation remained weak. Emerging economies expanded at a more moderate pace than in the past. China posted its lowest annual growth rate in 13 years, and India, Brazil and other major emerging markets saw their growth rates tumble from 2011 levels. Many countries’ central banks pursued expansionary monetary policies to revitalize their sluggish economies, but those policies led to competitive devaluations that still bear watching. In Taiwan, consumption and investment weakened in the first half of 2012 because of the global economic gloom, but several indicators rebounded, albeit slowly, in the second half of the year.

Thriving in Murky Waters
Undaunted by the uncertain economic environment both at home and abroad, the Financial Markets Group saw operating revenues rise by 18% year-on-year in 2012. The growing revenues combined with tightly controlled operating expenses helped generate net income that was 24% higher than the budgeted target. A number of businesses within the Financial Markets Group performed well in 2012 despite the challenging environment.

Treasury Marketing: The strong client franchise created in Greater China in recent years in close collaboration with the Corporate & Investment Banking Group and the diverse portfolio of derivatives designed by the treasury marketing unit have generated strong results over the past five years. Revenue growth has averaged 20% a year over that period, among the fastest paces of growth in the sector.

FX: Because Taiwan’s external trade was lower than expected and exchange rates were less volatile in 2012, Taipei Fubon Bank’s forex trading volume fell last year from 2011, but income was higher. The Group’s notional principal amount of outstanding forex derivative contracts as of the end of 2012 continued to rank second in the industry. It also emerged as a leading brand in forex options because of the expertise and competitive advantages reflected in its technical and pricing capabilities.

Fixed-Income: Taipei Fubon Bank is the biggest player in the domestic bond market, not only as the main market maker but also as the leader in market share. In 2012, it ranked first in domestic bond trading with a 7.46% share. Because of its role as a market maker, the Bank can keep close tabs on the market’s pulse and vitality, capital flows, and other changing conditions, helping it devise and flexibly apply a wide range of trading strategies and generate more profit-making opportunities.

Equity Derivatives: Fubon Securities issued 1,402 warrants in 2012, 28.9% more than in the previous year, and ranked fourth among brokerage houses in value of warrants issued with an 8.6% market share. It ranked fifth in total warrant volume with a 7.3% market share.
The FMG specializes in derivatives and hedging services and aspires to be the top domestic financial trading market maker. It also covers equity products and FINI brokerage services, offering customers a full range of financial services.
Reading the Market, Creating Opportunities

Continuing problems in Europe’s most indebted countries and the United States’ widening fiscal deficits are expected to keep the global economy in the doldrums in 2013 and affect the economic vitality of emerging markets, which should still grow, but at a slow pace. To revitalize economic activity, central banks will likely sustain quantitative easing measures, creating an environment of minimal interest and exchange rate volatility that will lower hedging demand and limit profit opportunities. The Financial Markets Group will follow Taipei Fubon Bank in expanding overseas and offer clients financial derivative trading and hedging services through the Bank’s overseas platform. The Group is committed to becoming the leading market maker for domestic financial transactions and in the inter-bank market and covering the equity derivative and FINI (foreign institutional investor) markets to provide customers the most comprehensive array of financial services.

Here are the expectations and strategies that will come into play for different businesses in 2013:

Treasury Marketing: Looking at the movements of major currencies, the U.S. dollar is expected to trend lower because of the United States’ gaping fiscal deficits, while the Japanese yen should continue to depreciate under the Bank of Japan’s unlimited quantitative easing program. The euro will likely become more volatile as
debt problems in several European countries are exposed. To cope with these trends and client needs, the Treasury Marketing division plans to introduce new products and appropriately adjust product weights while also seizing opportunities created by the easing of legal restrictions on renminbi services. Other priorities will be to aggressively expand into the Greater China market and strengthen both the caliber and depth of the treasury marketing team.

**FX:** Taking a consumer-centric approach, the forex division plans to expand the range of products it quotes and develop a DBU renminbi-services platform to create a product line unrivaled in its diversity. The division will build on its advantage in pricing to expand its inter-bank clientele and enhance its profit-generating capacity through added risk made possible by a strong franchise revenue foundation.

**Fixed Income:** The widespread quantitative easing by the world’s major central banks will keep interest rates in check and limit volatility, making profit growth more of a challenge. But a franchise revenue foundation that is growing stronger by the day will allow for greater risk taking and more flexible trading strategies to create more profit opportunities. New products will be introduced at overseas branches to satisfy customers’ investment and hedging needs, and opportunities in RMB/FX swaps, RMB interest rate swaps and RMB-denominated bonds will be explored to enhance international trading capabilities and generate stable profits.

**Equity Derivatives:** The growth of the equity derivatives market in Taiwan in recent years, the rising number of trading accounts, and a reduction in the transactions tax on risk-hedging warrant trades should all benefit the future development of the warrants business. To capitalize on this growing market and increase its share of the warrants market, the derivatives team will continue to strengthen the functions and performance of its trading system to accommodate changes as the market evolves; adopt a strategy of concentrating equity-linked warrant issuances on popular targets; use a variety of hedging tools to lower hedging costs and lock in profits; and follow a stable and consistent market-making approach.

**FINI Market:** The priority in 2013 will be to build a diverse client base by strengthening the cooperation between the research and marketing teams, provide more sophisticated service, and vie for the business of regional or international brokers and hedge funds. In terms of the securities lending business, efforts will be made to exploit untapped sources of securities to increase the scale of the business and satisfy customer demand for borrowed securities, while also strengthening relationships with clients by providing insight into the market.
Consumer Finance

Profit Engine for Fubon, Benchmark for the Industry
Consumer sentiment in Taiwan turned conservative in 2012, blunted by the European debt crisis, fuel and electricity price hikes, a new luxury tax, the formal registration of housing transaction prices (which slowed the property market), and central bank restrictions on mortgages for high-end apartments. Competition in this stagnant market grew fierce, but the Consumer Finance Group relied on sound management and greater attentiveness to customers’ needs, the pursuit of stable profit growth, and boldness and solid execution to remain Fubon Financial’s leading profit engine.

Strong Business Growth through a Balanced Strategy
The decline in real estate transactions in 2012 slackened mortgage demand growth, but the Consumer Finance Group’s outstanding mortgage balance still rose 6.81%, far outpacing the industry-wide average of 0.74%. The consumer loan balance grew 23% despite the overall economic gloom that beset Taiwan for much of the year.

The Group’s mortgage division continued to focus on providing customers with mortgage options that best met their needs and proposed fund uses. Among the options offered, for instance, were the promotional “Fubon Home Equity Loan,” and the “First-time Homebuyer Preferential Mortgage” targeted at salaried workers looking to buy their first home. Group customers were also given access to attractive value-added services, including a “New Home Discount Card” issued in collaboration with the Test Rite Retail Group offering discounts on purchases of goods at Test Rite DIY and houseware stores.

In terms of consumer credit, the Group maintained its operating model oriented toward customer needs. Several initiatives were taken to solidify the loyalty of existing customers and make inroads into the lucrative white-collar worker market, including strengthening product design, marketing activities and promotional contests; adopting risk-differentiated pricing; optimizing operating procedures and streamlining application processes; and diversifying and enhancing media exposure.

Maximizing Cardholders’ Experience
Because of the challenging domestic economy last year, consumer demand for cash-back credit cards grew considerably. The “Fubon Fortune Card” had offered a 0.5% cash rebate on every purchase made since being introduced in June 2010, and in 2012 it expanded its appeal to younger consumers by adding incentives such as 12% discounts on tickets to shows by superstar singers Jam Hsiao, Show Luo, JJ Lin, Yoga Lin, Jason Mraz, Sandy Lam and Olivia Ong and “buy one, get one free” deals on movie tickets. The package of incentives made the Fubon Fortune Card the fastest growing Fubon card, and nearly 400,000 were in circulation as of the end of 2012.

When Taiwan’s stored value card leader EasyCard Corp. launched a new “registered” co-branded EasyCard in March 2012, the Group jumped on the opportunity, issuing a Fubon Fortune co-branded EasyCard that offered consumers two major incentives – a NT$2,000 rebate for applying for the new card and a high-end trip to Singapore at a steep discount. Nearly 100,000 of the cards were issued within six months.
The Consumer Finance Group is highly attentive to customers’ needs and tailors innovative promotions to different client groups to increase cardholder contribution and promote steady growth.
An innovative campaign targeting new customers and their daily needs followed in the middle of August. Applying to all Fubon cards, the “New Customer Spend 100, Get 1,000” promotion gave customers who charged NT$100 to a new card within 30 days of receiving it a credit of NT$1,000 for future card use. Those who charged NT$1,000 on a single purchase were eligible to draw for a 100% cash rebate, with up to NT$10 million in rebates available. The campaign spurred thousands of applications, with nearly 200,000 new credit cards issued in a matter of four months.

With premium credit cards, meanwhile, becoming the norm in the domestic market and regular credit cards offering few perks, the Group decided in August to stop issuing new basic level cards. It also lowered eligibility criteria for Platinum card holders and the threshold at which cardholders are exempt from annual fees. Also during the year, new cards such as the “Fuhua Titanium Card,” the “Fortune EasyCard Titanium Card,” and the “A-money Signature Card” were introduced to strengthen brand value and expand Fubon’s premium card range. The latter two, both cash-back credit cards, featured generous cash rebates and lavish privileges and perks, providing cardholders with an even more complete credit card experience.

Driving Card Spending through Innovative Promotions

Among the Group’s many promotional activities, the “Fubon Gourmet Group” continued to thrive in 2012, offering countless special deals on food, travel, shopping and daily necessities. Three promotions for domestic travel during the summer proved especially popular: package tour deals with special perks to nine major amusement parks; trips with meals included to 21 upmarket B&Bs; and generous discounts on souvenirs and shopping around Taiwan.

A number of new promotions were also introduced, starting with the “Fubon Beauty” campaign. This unprecedented program, open to all female Fubon cardholders, provided specials on a full range of beauty services from head to toe and other shopping at 1,500 outlets around the country. Another new promotion gave card users 10% cash rebates on purchases made Saturdays and Sundays at major supermarkets such as Wellcome, Matsusei, Carrefour and RT-Mart. The campaign was so effective, other financial services companies soon followed with similar campaigns of their own.

In the middle of 2012, the Group transcended the usual limitations faced by co-branded cards in launching
promotions to collaborate with the Breeze Center and FE21 on exclusive promotional campaigns for Fubon cardholders, successfully snatching a piece of the elite card spending market from other banks. A special VIP package that was introduced for the first time targeted the upper end of the market and provided five types of rewards and incentives – birthday gifts, rewards for hitting spending targets, restaurant privileges, gastronomic feasts and luxury travel – to strengthen market segmentation.

**Setting the Standard in Digital Services**

The exploding popularity of mobile devices and media led to the creation of a digital marketing division in April 2012. The division hopes to exploit digital media in many ways, including using it to inform consumers about special credit card or mortgage offers. In November, Fubon became the first financial services company to collaborate with Korean Internet operator NHN Corp., which manages the messaging app “LINE,” and set up an official “Fubon Credit Card” LINE account. Accompanying the account was the image of Fubon’s “Taipei Fubon doll.” On the first day the account went online, it attracted more than 700,000 fans, and it drew 2.5 million fans within three months. By providing updates on credit card promotions and holding monthly prize draws, the LINE account has successfully created a bond between card users and fans. A “Fubon Credit Card” Facebook Fans page, meanwhile, was created at the same time and quickly drew over 10,000 followers.

The onset of the digital age has also meant making use of the Internet and mobile devices to boost card volume. In 2012, the Group launched a special promotion in which applicants could pick one of six rewards when applying for a new credit card electronically, breaking away from more conventional channel approaches and increasing consumers’ willingness to apply for new cards.

In 2013, the Group will maintain its focus on digital development and integrate mobile and social networking services to keep pace with the trend toward a more digital lifestyle and bring cardholders a more convenient and efficient experience.

**2013: Target Groups, Segmentation and Cross-selling**

Facing an environment in 2013 that will be as fiercely competitive as ever, the Consumer Finance Group plans to aggressively tap into new markets and develop innovative products and marketing strategies to reinforce the brand’s advantages. At the same time, satisfying customers’ needs will remain the top priority, and special efforts will be made to provide more customized services based on customer profiles. By strengthening customer segmentation and capitalizing on operating synergies, the Group expects to sustain strong profit growth momentum.
Wealth Management

In Pursuit of Excellence

2012 was full of challenges, but the Wealth Management Group maintained an outstanding portfolio of professional financial services by remaining true to its core management philosophy and fostering a corporate culture of putting the client first. Amid the instability of the investment market last year, the Group focused on client asset allocation and risk diversification planning, with considerable success. As of the end of December 2012, the assets of wealth management clients handled by Taipei Fubon Bank were up 6.7% from a year earlier. Fubon Securities had a 5.82% share of the securities brokerage market in a year when the brokerage business, particularly re-consigned trading business, continued to take positive strides forward. Though total turnover on Taiwan’s stock market fell 16% year-on-year, the volume handled by Fubon Securities grew 10%, bucking the broader market. Fubon Asset Management, meanwhile, relied on its many Taiwan equity funds to end the year with assets under management of NT$154.4 billion. Its discretionary investments under management ranked second in the industry.

Creating Unrivaled Brand Value

The Wealth Management Group’s brand value has earned praise from the media and society. Taipei Fubon Bank was cited for “Best Risk Management” and “Best Overseas Development” in Business Today’s 2012 Evaluation of Wealth Management Banks and won third prize for “Best Wealth Management Brand” for domestic banks from Win Times Magazine. It also received a silver “Top Service Award” in the banking category from Next Magazine, and its digital platform earned the top award for “Digital Services” in the banking sector from Business Next.

Fubon Securities finished second among brokerage houses in CommonWealth Magazine’s rankings of Taiwan’s “Most Admired Companies” for the second straight year in 2012 and was named “Best Wealth Management Brand” among securities firms by Win Times Magazine. It also took second place for “Preferred Brokerage House” in Wealth Magazine’s survey of financial services brands and was ranked second among integrated securities firms by Business Today for “Brand Appeal among Businesspeople.”

These honors showed that Fubon Securities’ professionalism and positive brand image have become deeply rooted in people’s minds and are appreciated by investors.

Fubon Asset Management has long been dedicated to investment research, and its mutual funds were widely recognized by ratings agencies in 2012. Fubon funds won a combined 11 TFF-Bloomberg Best Fund Awards, Lipper Fund Awards for Taiwan, and Smart Magazine/Morningstar Fund Awards last year, reflecting Fubon Asset Management’s ability to pick equities and sound investment philosophy. The offshore funds it represents also performed extremely well and were highly praised by experts.

Expanding Aggressively in Greater China

The Wealth Management Group encompasses many elements, from securities brokerage and banking services to expert asset management and product development teams and a strong Greater China investment research team. Fubon Securities has built a complete Greater China services platform, establishing Fubon Securities (Hong Kong) at
Taipei Fubon Bank remains committed to helping customers with asset allocation and risk diversification planning and satisfying their needs with a diverse product portfolio. It will also create a new customer experience by renovating its branches and offering outstanding personalized service.
the end of 2012, and it stays on top of opportunities in Chinese equity markets through frequent contacts between its representative offices in Beijing, Shanghai and Xiamen and China’s business and academic communities and government officials.

Fubon Securities is also actively looking to set up a fully licensed joint venture securities company in China to further penetrate the market as soon as the cross-strait financial deregulation process allows and provide even more comprehensive brokerage services in the region. Expanding into Southeast Asia’s securities market also remains a priority in the company’s drive to lead the industry in building the most complete overseas financial network.

Fubon Asset Management led the sector again in gaining a foothold in China in 2012, building on its pioneering moves into the market the year before. After establishing the first Taiwan-China joint venture asset management firm, called Founder Fubon Fund Management Co., and formally securing a QFII quota in China in 2011, it became the first QFII from Taiwan to launch a Chinese A-shares ETF when it listed the Fubon SSE180 ETF. Later in November 2012, Fubon Asset Management secured an additional QFII quota of RMB150 million, again reflecting its diligence in China’s asset management market.

Building a Complete Wealth Management Brand

With the market environment expected to gradually regain steam in 2013, Taipei Fubon Bank’s Wealth Management division will follow several strategies to deepen client relationships and help clients steadily increase the values of their portfolios, including offering a more varied product portfolio to satisfy customers’ increasingly diverse needs, renovating branches and improving service quality, and promoting Fubon’s “virtual” services platform.

The emphasis on satisfying clients will involve better understanding their individual risk tolerances and financial goals and then assessing those profiles through Fubon’s exclusive risk allocation management system while also continuing to push the concept of asset allocation. At the same time, financial products customized for different client segments will be developed to give clients optimum financial planning options as the market gradually recovers.

In remodeling branches, the Group intends to create a new generation of warm and comfortable service outlets and blend that with outstanding personal service to offer clients a completely new experience. Promoting the online service platform will involve continuously upgrading online and mobile banking functions and organizing online marketing activities to expand the client base and enhance customer satisfaction. New mobile banking apps for tablet computers will also be introduced.

▲ 15th “Budding Millionaire Money Management Camp” uses carefully designed courses to impart proper attitudes toward money.
Most significantly, the Group anticipates building a new-generation online banking platform and creating the most exclusive e-services platform in the business through constant improvements and innovation.

Fubon Securities will carry forward its three major core strategies from 2012 – “greater institutionalization to ensure sustainable management,” “income diversification,” and “sophisticated management” practices. Several initiatives are being taken as part of those strategies. Among them: enhancing the operating performance of distribution channels; diversifying income sources by actively selling a more diverse range of products, strengthening the contribution of active clients, and waking up dormant customers; and strengthening the professional capabilities of Fubon Securities employees to better meet customers’ diverse investment needs. There will also be an emphasis on using value-added services to increase business and serve clients and developing a more precise understanding of clients’ needs through systematic techniques to provide more targeted services.

Fubon Futures will continue to pursue its vision of emerging as the most efficient and most trusted futures and options platform in the industry and work toward developing optimal trading strategies for futures and options at home and abroad.

Fubon Investment Services, the main integrator of Fubon Financial’s research resources, provides timely analysis on macroeconomic trends and publicly listed companies and sectors, sets investment strategies, and suggests investment portfolios. It also feeds market intelligence to Fubon Group units and provides training and financial product consulting services. In the future, Fubon Investment Services expects to strengthen the depth of its research and differentiated services, while also enhancing the research team’s corporate contacts and access to provide investors better channels and platforms through which they can connect with companies.

Fubon Asset Management will primarily focus on fixed income products in 2013 in view of market trends. Renminbi-denominated products will be introduced as services in the Chinese currency take hold in Taiwan, solidifying an already robust product line and helping clients diversify their assets. Renewed efforts will be made, meanwhile, to further increase the company’s QFII quota in China to support new ETFs and cross-strait funds, so as to establish Fubon Asset Management as the recognized asset management expert in Greater China market.

The Wealth Management Group anticipates strengthening its foothold in Taiwan in 2013 while extending its reach in Greater China. Embracing a management philosophy based on the core values of integrity, sincerity, professionalism and innovation, the Group hopes to create services of even higher value for its customers and society and emerge as the most trustworthy wealth management team in the eyes of investors.

The “Fubon e-touch” system was ranked second for financial software in the securities sector by the app store.
Investment Management

Working Tirelessly to Transcend Boundaries
Global financial markets were fraught with risk in 2012 as the eurozone debt crisis smoldered and the United States faced a fiscal cliff. The Investment Management Group thoroughly analyzed the challenges from these external threats and closely monitored changes in interest and exchange rates, credit conditions, and the political and economic situation in countries around the world. That vigilance, and Fubon’s internal early-warning risk control system, enabled the Group to adjust portfolio allocations and investment strategies in a timely manner and generate excellent investment returns. Fubon Life’s investment funds (the sum of shareholders’ equity and reserves for operation) rose 21% from a year earlier to NT$1.96 trillion as of the end of 2012, and investment income was a record NT$69.1 billion. Fubon Insurance’s investment funds remained steady at NT$59.9 billion.

Fubon Life and Fubon Insurance

Broad Product Development,
Flexible Investment Strategies
The Investment Management Group’s unwavering goal has been to strengthen asset utilization and diversify investment risk, most often by staying on top of the global economy’s pulse and flexibly adjusting portfolio allocations and investment strategies in line with the product development of Fubon Life and Fubon Insurance. The Group’s mission is to ensure that long-term commitments to protect policy holders are met. Relying on investment principles grounded in integrity and professionalism, the Group makes use of innovative investment concepts and technologies to keep close watch of global economic and political events in real time, spot trends before others, and carefully analyze the opportunities and risks presented by different types of financial products, all to make real contributions to gains in policyholder or company wealth.

Fubon Life’s sound and ethical practices have helped it lay a solid foundation in the industry, and it often earns the highest honors and accolades in media ratings of benchmark companies. In 2012, it was again named by World Finance as Taiwan’s “Insurance Company of the Year.” At home, it was honored as the most admired company in the domestic insurance industry for the fourth consecutive year in CommonWealth Magazine’s “Most Admired Company” survey, and also ranked atop the industry in three of the survey’s 10 key indicators—“operating performance,” “financial capacity,” and “long-term investment value.” These awards highlighted Fubon Life’s long term diligence in the areas of asset liability management and investment expertise, commitments that have driven Fubon Life to consistently outdo itself and outpace the investment performance of its rivals, while also earning the recognition of experts from various fields in successive annual evaluations.

Financial Outlook and Challenges
The fiscal policy debate in the United States and the European debt crisis are likely to be the world economy’s major risk factors in 2013. But the key to economic growth this year will be whether the massive liquidity being injected into financial systems through quantitative easing will actually flow into capital markets and stimulate private investment that creates employment opportunities.
The Investment Management Group is focused on expanding its holdings of fixed-income assets, shares of global industry leaders and high-dividend stocks. Potential moves into the global overseas property market are also being planned in anticipation of regulatory changes. Such moves would help Fubon maintain steady long-term investment returns.
present, Washington’s quantitative easing and energy policies have helped stabilize commodity prices and improved private investment and consumer spending, which could indirectly spur higher employment and Asian export growth and support a moderate economic recovery. In Europe, the financial stabilization measures taken by the European Central Bank have kept the eurozone intact and temporarily eased the debt crisis. But European countries must still undertake fundamental structural reforms if they hope to meet deficit reduction targets and create sound fiscal systems.

Domestically, the sluggish global economy and increases in fuel and electricity prices have dented consumer confidence and adversely affected consumer spending, limiting the potential for private consumption growth in the near term. Fixed investment by the government and state-run enterprises is unlikely to pick up the slack because of budget constraints limiting growth in public spending. The prospects for private investment, however, seem to be brighter, mainly because of expectations that the global economy will soon regain some momentum. Investment confidence is gradually picking up among domestic companies, growth in capital spending has started to accelerate, and the government has launched an “Economic Power-Up Plan” designed to encourage overseas Taiwanese to invest back home. These trends and initiatives are expected to spark considerable growth in private investment. Overall, the gradual recovery expected in the United States and continuing expansion in China should help pull the global economy out of its doldrums and reverse the anemic growth seen in Taiwan in 2012 because of a slowdown in external demand.

The prospects for financial markets in 2013 remain hard to gauge. The global economy has begun to see a modest recovery, driven in part by quantitative easing policies carried out by the world’s major central banks. But regional uncertainties still persist. Cutting budget deficits in advanced countries and maintaining growth momentum in developing
countries depend on sustained monetary easing measures, which should limit interest rates to only incremental increases or movements within a very narrow range. This low-interest rate environment favors increased investment and additional economic stimulus measures that could help the current recovery gain more traction. But exchange rate volatility sparked by competing loose monetary policies could also have a negative economic effect.

With the global economic recovery expected to take root but potential risks from regional uncertainties still evident, Fubon Life and Fubon Insurance have adopted an investment strategy that will expand holdings of domestic and foreign fixed-income assets while treading carefully in an environment where the Taiwan dollar is relatively strong. Hoping to capitalize on opportunities brought by the recovery, the strategy also targets shares of global industry leaders and high-dividend stocks. At the same time, regulatory restrictions on investments in foreign real estate are expected to be eased in the future, and the Group has already planned potential moves into the overseas property market to benefit from the opening. Once given the green light, the moves will help Fubon deal more quickly and flexibly with rapid changes in the business cycle and maintain stable long-term returns on investment.

**Direct Investment: Unearthing New Profit Opportunities**

The Group’s direct investment division creates new promising enterprises through joint ventures or invests in companies that have the potential to be consistently profitable. Our main investment targets include:

1. emerging high-tech industries, such as the biomedical, cloud computing, key material, and information technology and optoelectronics sectors;
2. emerging sectors promoted by the government, such as cultural and creative industries, tourism, and green energy;
3. large-scale government projects including basic infrastructure;
4. emerging channel businesses; and
5. financial services-related enterprises.

As of the end of 2012, direct investment totaled NT$7.01 billion. Of that, NT$3.64 billion was invested in basic infrastructure, NT$146 million was in digital media and channel sales businesses and NT$644 million was in biomedical companies. The Group also had about NT$512 million invested in energy and environmental engineering companies, NT$141 million invested in the IT/high-tech sector, NT$1.12 billion in financial service-related enterprises, and NT$814 million in other venture capital areas.

Though many of the strategies pursued in 2012 will be continued this year, new initiatives will be taken to expand investment in Taiwanese companies, especially those involved in sectors that the government plans to nurture into future stars. Investment will be primarily directed toward the biomedical, service, and cultural and creative sectors, and efforts will also be made to capitalize on the trend among domestic enterprises to upgrade their operations and contribute to those initiatives.
Insurance

Fubon Insurance
An Outstanding Year for the Industry Leader
Taiwan’s property & casualty insurance market set a record for direct written premium in 2012 at NT$119.8 billion, spurred by increases in rates for natural disaster of commercial fire insurance and third party liability auto insurance. Fubon Insurance had direct written premium of NT$26.6 billion, and its 22.2% market share topped the industry for the 31st consecutive year. On the profit side, even after a NT$5 billion capital reduction in 2012, sound underwriting strategies and appropriate cost controls helped generate NT$1.83 billion in underwriting profit, NT$3 billion in total after-tax income and NT$6.2 in earnings per share. These outstanding results satisfied investor expectations and further solidified the strong foundation underpinning the company’s sound management and protection of customers’ interests.

Embracing Professionalism, Innovation
Fubon Insurance brings its significant competitive advantages, such as a diverse distribution network, customized products, extensive claims and loss prevention services, the deft use of e-commerce, and Fubon Financial’s ample resources, to every growth opportunity. Beyond high-quality insurance products, services such as timely, reasonable claims settlements after accidents and disaster relief assistance consistently provide the immediate assistance and support policy holders demand. Specialized advice on loss prevention technology, meanwhile, is offered to corporate clients to lower the frequency and magnitude of accidents and ensure that they have access to complete risk management solutions. The company’s many loss control seminars held over the years have earned widespread acclaim and recognition from corporate customers.

Fubon Insurance developed an innovative mobile services and claims platform in 2012 that gave individual policy holders even more timely insurance services. It also introduced “human resource and supply chain business continuity plans” as part of its loss control services for companies, extending the scope of risk management cover-age from disaster risk to management functions.

Through the long-term nurturing of the domestic market, Fubon Insurance now has 73 outlets and a top-notch customer service team of more than 200 people around Taiwan. Initiatives will be taken in the future to enhance service quality and customer satisfaction to live up to the notion of providing “trustworthy and heartfelt services.”

An Expanding Presence Overseas
Fubon Insurance has successfully developed presences in overseas markets over the past five years. In Vietnam, a subsidiary headquartered in Ho Chi Minh City was opened in 2008, followed by the establishment of branches in Hanoi and Binh Duong province and an office in Dong Nai province. An office in Haiphong and a branch in Danang were added in February and June 2012, respectively, extending the Fubon network to north, central and southern Vietnam. In China, Fubon Insurance’s subsidiary based in Xiamen—Fubon Property & Casualty Insurance Co., Ltd.—opened in October 2010. Branches in Chongqing (March 2012) and Dalian (December 2012) were later established and sales and service offices were opened in Zhangzhou and Pingtan to widen coverage of
Fubon Insurance and Fubon Life stand out as benchmarks in the insurance sector for embracing CSR and creating a social good.
Major milestones were achieved in November and December 2012 when Fubon Property & Casualty received regulatory approval to sell compulsory automobile third party liability insurance and dedicated automobile insurance for telemarketing, respectively, opening the doors to China’s vast car insurance market.

In addition, Fubon Insurance obtained approval from the Insurance Bureau of Taiwan’s Financial Supervisory Commission in December 2012 to set up an insurance broking firm in the Philippines. The company’s extensive Asian network also includes an insurance broking firm in Thailand and representative offices in Beijing and Malaysia. Fubon Insurance’s drive to expand overseas in step with the times, backed by its expertise, has not only provided more customers with outstanding protection and services but also promoted the development of the market.

In the year ahead, Fubon Insurance will continue to build on its sound financial structure, sustainable management principles, outstanding line of products and precise risk management to further extend its expertise into Asia and embrace Fubon Financial’s vision of striving to become one of Asia’s first-class financial institutions.

Fubon Life
The Life Insurance Benchmark for Excellence
Fubon Life received widespread acclaim for its operating performance, professionalism and service, and social engagement in 2012, garnering multiple awards from both local and international media. It was named by CommonWealth Magazine as the “Most Admired Company” in Taiwan’s insurance sector for the fourth consecutive year and winner of the magazine’s “Golden Service Award” for life insurers for the second year running. World Finance again cited Fubon Life as the “Insurance Company of the Year” in Taiwan, and Asia Insurance Review honored it with the “Corporate Social Responsibility Award” at the 16th Asia Insurance Industry Awards.

Exceptional Results through Sound Management
Fubon Life had a great year in 2012. After-tax profit rose 28% year-on-year to a record NT$13.0 billion, the highest among life insurers in Taiwan for the fourth consecutive year. Both first-year premium and total premium posted solid growth, with FYP totaling NT$249.7 billion and TP totaling NT$420.7 billion. Assets rose to NT$2.1 trillion as of the end of 2012 despite macroeconomic turbulence, thanks to sound management strategies and the rapid accumulation of corporate assets.

Building Success through Diverse Channels, Talent Cultivation
Fubon Life relied on a diversified marketing strategy involving sales, bancassurance and other distribution channels to fully satisfy customers’ far-ranging financial and insurance service and one-stop shopping needs. Sales division initiatives continued to target organizational development by focusing on cultivating well-rounded insurance and financial services talent through a strong injection of resources into employee training. They also made use of “entrepreneurial” niches that gave incentives to salespeople to make Fubon the fountain of their success and wealth. Fubon Life’s bancassurance channel again led the industry in market share, backed by innovative products, customized systems and services, sustainable management practices and close relationships with channel partners. As for other market channels, the emphasis was on sustaining efforts to develop innovative operating models, leverage Fubon Financial resources, penetrate the insurance broker and agent market, cultivate regional clients and collaborate with local service counters to upgrade customer service functions.

Strong Safety Net through Great Products
Fubon Life remains committed to building the most comprehensive product line in the industry and
adjusting its product strategy to emerging economic and social trends. As Taiwan’s population has aged and the elderly population grown, for example, Fubon Life has introduced a series of products, including annuity insurance, medical insurance and long-term care protection, tailored to help people with retirement planning and protect them from risk. In the face of Taiwan’s low interest rate environment that persists despite a potential rebound in the global economy, Fubon Life continues to offer investment annuity products linked to dividend funds, and unit-linked insurance plans featuring discretionary investment accounts. The launch of a cross-strait currency settlement mechanism in Taiwan spurred the introduction of renminbi-priced variable annuity insurance products and the development of renminbi-denominated traditional insurance policies, diversifying the forex insurance offerings available to customers.

Localized Service, Cloud Platform Satisfying Customers
Fubon Life is dedicated to providing caring service guided by a commitment to putting customers’ needs first. In 2012, a localized service initiative became reality, extending Fubon services to Taiwan’s rural areas and forging community-based “Fubon living circles” that stress healthy and sustainable lifestyles, practical money skills and healthy exercise. In the coming year, efforts will be made to more deeply root services in local communities by holding LOHAS activities around Taiwan, using caring gestures to draw the company closer to local residents and helping customers happily manage their money and live healthy lives.

Technology was also a top priority last year. A mobile cloud services platform launching exclusive cloud services was built, and e-convenience apps for mobile phones were introduced, offering even more immediate and convenient service. In 2013, Fubon Life plans to send notices directly to the calendars of policy holders’ mobile devices, complete the mobile integration of insurance and financial services, and optimize such mobile insurance services as “Cloud Insurance Suggestions, Web-based Proposal System” “ibon Cloud Printing,” “Fubon e-Photo,” and “Cloud Insurance Counters.” These options turn the mobile devices of Fubon salespeople into virtual offices, through which they can offer customers insurance planning advice, cloud claims processing, and insurance coverage at any time.

Fubon Life has also aggressively expanded into overseas markets, hoping to join the ranks of regional life insurers in Asia. It has set up subsidiary Fubon Life Insurance (Vietnam) Co., Ltd. in Southeast Asia and partnered with the Nanjing Zijin Investment Group to launch joint venture Fubon Zijin Life in China, pending regulatory approval.

Playing a Positive Role in Society
Committed to being a good corporate citizen, Fubon Life fully supports Fubon’s charity, art, and educational and cultural foundations and engages in the community. In sponsoring one of Taiwan’s largest scale annual sporting events, the Fubon Taipei International Marathon, over the past few years, it has not only raised public awareness of the need to exercise but also mobilized support for disadvantaged groups in Taiwan.

In the year ahead, Fubon Life will rely on a steady, pragmatic approach and strict management of risk to capitalize on new opportunities and create a new dynamic for the company. Customers will be given access to the most comprehensive and special-ized insurance and financial planning services in the industry. At the same time, public welfare will remain a top priority, as Fubon Life strives to be the best possible corporate citizen and emerge as the benchmark for social engagement in the insurance industry.

▲ Fubon Life Chairman Pen-Yuan Cheng (left) accepts an award from CommonWealth Magazine after his company was named Most Admired Company in Taiwan’s insurance sector for the fourth straight year.
Building a Solid Foundation for Growth
The global economy in 2012 was clouded by uncertainties and continued to struggle amid adversity. With the exception of Mainland China, the world’s major economies have yet to show signs of sustainable growth. Although Mainland China recorded economic growth of over 7% during the year, its export figures were inevitably affected by the slowdown of the European and U.S. economies.

In the face of the challenging economic conditions, Fubon Bank (Hong Kong) Limited (“the Bank”) continued to adopt a growth-yet-prudent strategy in 2012. Given our solid foundation, rigorous risk management and strategic focus on financial prudence, we believed we were well placed to manage the risks and achieve satisfactory performance. However, while exercising strict cost controls, we continued to invest in information technology to enhance our customer experience and improve operational efficiency. The Bank’s capital and liquidity positions remained strong and our collaboration with our parent company, Fubon Financial Holding Co., Ltd. (“Fubon Financial”), continued to enhance and broaden our customer service platforms.

Improve Financial Performance despite Volatile Market Situation
Despite the volatile market situation in 2012, the Bank responded well to the challenges and registered a net profit of HK$309 million for the financial year ended 31 December 2012, represented an increase of 10% compared to 2011. The Bank’s operating profit, before impairment allowances, registered a year-on-year increase of 51% to HK$203 million for 2012.

Net interest income increased 3% to HK$657 million. Better asset yields, especially from increased mortgage and corporate loans, outweighed the higher interest expenses resulting from increased customer deposits. Net interest margin widened by 8 basis points to 1.17%, attributed to the easing of deposit costs after having reached an apex in January 2012.

Non-interest income decreased 22% to HK$334 million in 2012 compared with 2011, which included recoveries from collateral of Lehman Brothers Minibonds (“Minibonds”). Excluding this, the non-interest income would have increased by 14% due to a lower revaluation loss on financial instruments and a steady growth in fee income from credit card and insurance services. This was despite the lower credit-related and securities brokerage fees registered in 2012. Excluding the non-recurring recovery in 2011, the ratio of non-interest income to total operating income increased from 31.59% to 33.72%.

During the year, the Bank initiated various measures to control costs. It implemented office space rationalization and in-house information technology transformation projects. Legal costs also reduced markedly, due to the absence of expenses incurred on one-off projects; some one-off project expenses were incurred in 2011, including those related to the privatization of the Bank in June 2011.

Operating expenses in 2012 were down by 15% compared with 2011. To some degree, the huge drop was attributed to payments made
Fubon Bank (Hong Kong) is poised to capture the opportunities ahead and deliver growth as we develop our franchise in Hong Kong.
to the Minibonds investors in 2011. However, after excluding those non-recurring payments, operating expenses in 2012 were still 5% lower at HK$788 million.

We adhered to a prudent credit policy and robust risk management to safeguard asset quality. This was reflected in the continual write-back of impairment losses on advances to customers during the year. In 2012, the amount of write-back was HK$39 million. Other impairment charges were also reduced by 88% to HK$4 million for 2012. The impaired loans ratio dropped to 0.05% compared to 0.33% as of 31 December 2011.

Benefiting from the strong performance of Xiamen Bank Co., Ltd (“Xiamen Bank”), the Bank’s share of its profits attained a record high of HK$115 million, an increase of HK$24 million or 26% over the profits recorded in 2011. In August 2012, the Bank fully subscribed to its allotted 60,029,970 newly issued ordinary shares (“Rights Shares”) in Xiamen Bank in a rights issue exercise, to maintain its 19.99% shareholding interest. The consideration for the Rights Shares, amounting to RMB210,104,895, was financed from the Bank’s internal surplus funds.

After accounting for impairment charges, other gains and the tax charge, net profits after taxation stood at HK$309 million. Return on average assets advanced from 0.46% to 0.50%, but return on average equity decreased from 5.53% to 4.85% when compared with 2011. The decrease in return on average equity was due to the substantially higher average equity resulting from the revaluation of premises in 2012.

Total assets were HK$63 billion as of 31 December 2012, an increase of 4% from 2011. Gross advances to customers decreased 6% year-on-year for 2012 as a result of the refocusing of the Bank’s geographic coverage of the Mainland market. However, with the completion of this exercise, we expect the Bank’s loan book will return to a growth situation. Deposits from customers remained steady at HK$44 billion in the first half of 2012 and rose 5% to HK$46 billion as of 31 December 2012. The loan-to-deposit ratio dropped from 71.29% to 66.57% as of 31 December 2012.
Strong Capital and Liquidity Positions to Pursue Sustainable Growth

The Bank maintained strong capital and liquidity positions. Both the consolidated capital adequacy ratio and core capital adequacy ratio were at comfortable levels of 16.71% and 12.13% respectively, compared with 15.89% and 8.54% at 31 December 2011. The average liquidity ratio for 2012 of 53.96% was well above the statutory requirement and allowed the Bank greater flexibility in managing its investments.

To further strengthen the Tier 1 capital and to allow for future growth, in August 2012, the Bank issued 199,328,916 new Ordinary Shares of HK$1.00 each, which were allotted to Fubon Financial at HK$5.20 per share. The proceeds were used to complete the repurchase of 1,156,586,517 or 98.67% of its Cumulative Irredeemable Preference Shares of USD0.10237 each from its parent company, Fubon Financial.

Looking forward to 2013, the implementation of various local regulatory measures, while safeguarding market stability and upholding the operation soundness of financial institutions, will bring more challenges to the banking industry in Hong Kong. Nevertheless, there are ample opportunities amid the strengthening of the Hong Kong economy and positive growth in Asia. To support diversified business development, we will invest more resources in information technology to broaden our product offerings and to upgrade our online platforms to provide even better banking services for our customers in all regions. By building a solid foundation, we are poised to capture the opportunities ahead and deliver growth as we strengthen our franchise in Hong Kong.
Dynamic Fubon, Creating a Common Good

Spreading Love – One Step at a Time

Fubon Financial acts as a “social catalyst,” embracing corporate social responsibility. Through ethical management practices and forward thinking, we have emerged as a positive force in the financial sector, committed to creating a common good.

Fubon Charity Foundation  Fubon Cultural and Educational Foundation
Fubon Art Foundation  Taipei Fubon Bank Charity Foundation
Fubon Charity Foundation

Founded in 1988, the Fubon Charity Foundation was the Fubon’s first philanthropic undertaking. Its main causes include the “Making Friends with Love” campaign, emergency rescue and assistance programs, and “Fubon Volunteer Association” activities.

The Foundation’s core initiative, the “Making Friends with Love” campaign, has pooled resources raised from the public and Fubon employees to help more than 120,000 economically disadvantaged students stay in school and continue their education since the program first began in 2002. In 2012, popular singer-songwriter David Tao was the campaign’s spokesman and produced songs and MVs to raise awareness of the cause. He also took the initiative to sponsor 100 children on his own, and a one-off fundraising project spearheaded by a single he composed called “Just Love” raised NT$3,518,551.

The Foundation also teamed up with Taipei Fubon Bank in the “Exchanging Points for Love” campaign to raise NT$2,358,550 from Fubon cardholders, with the proceeds going to 12 outside social welfare groups and the “Making Friends with Love” campaign. In all, NT$121,575,600 was raised for the initiative in 2012, helping 17,037 students stay in school. In its 11 years, the program has helped a total of 129,887 children.

The Foundation’s “Emergency Relief Fund” helps individuals and families facing hard times because of an emergency with timely financial assistance that covers living, medical and even funeral expenses. Support has been provided in many forms over the years, including individual financial assistance, medical fund accounts, the 921 Education Fund, the Fubon Insurance micro-insurance program, and a scholarship plan for children who had a parent die while trying to help others after Typhoon Morakot.

The Fund has built an online personal emergency reporting system that provides people in need links to resources available through government agencies and private organizations. The network also occasionally arranges for Fubon volunteers to visit individuals or families facing emergencies to better understand their situations and gauge the appropriate level of assistance necessary. In 2012, the Fund contributed NT$18,965,921 to assist in 4,670 cases.

Since being founded in 1993, the “Fubon Volunteer Association” has encouraged and mobilized Fubon’s people to participate in social welfare activities. The Association also took part in educational initiatives, organizing four “Volunteer Education” seminars at which top Fubon Group executives shared their life experiences to help Fubon volunteers grow and improve their overall caliber. It also participated in the Taipei Lantern Festival, 1919 Love Movement, Fubon Emergency Household Relief Plan, and, in collaboration with the Foundation and Federal Express, the “We Deliver Green! Classroom” campaign. In all, Fubon volunteers contributed 9,859 hours of service.

The Association also took part in 21 special events during the year that helped economically disadvantaged students, pre-school students, and the physically and mentally challenged or mobilized people to help clean mountains and beaches. To give its members more opportunities to get involved in social welfare activities, the Association developed a “Fubon Social Welfare Ambassador” platform that encourages Fubon employees to apply for funding to support an outside NGO event. A total of NT$2 million was distributed under the program.

The Fubon Charity Foundation’s painstaking efforts to spread love and prosperity have received widespread recognition and support. The Foundation intends to remain on the front lines of public service, bringing love and caring to where it’s needed throughout society.
The Fubon Cultural & Educational Foundation has remained committed for more than 20 years to enhancing the competitiveness of younger Taiwanese generations through a comprehensive education approach that embraces strategies devised for different phases of development based on the trends and needs of each era. It has organized a diverse range of activities to help adolescents grow that eventually evolved into an innovative three-pronged “Young Voice, Young Life, Young Career” campaign.

The Foundation has always believed that adults do not have a monopoly on dreams or the unilateral right to advocate ideas. Though adolescents’ ideas may lack maturity, they are unquestionably heartfelt and pure. By helping teenagers observe their world – whether it be reflecting on their personal relationships or showing concern for social issues – the Foundation offers them the chance to take the initiative to boldly pursue their own dreams or those of their communities and disseminate their youthful visions through the power of multimedia tools. The key platform for this is the “Youth Dream Project,” which received more than 100 submissions in 2012, from which 26 group and individual projects were selected based on a review of submitted documents and interviews with a panel of experts. The personal stories of discovery covered a wide array of activities, from promoting agricultural products, volunteering in Nauru, and developing a volunteer network to studying reptiles, marketing tea leaves and participating in an international invention competition.

Using film to develop a dialogue on life issues with adolescents, the 2012 “Life and Film Education Project” visited schools around Taiwan and helped students cherish life more and gain an appreciation and respect for other values through films that were screened.

The Foundation, meanwhile, has always seen financial education as an extension of life education and stressed the importance of proper financial knowledge and values. In its 15th year of promoting financial education among Taiwan’s youth, the Foundation teamed up with Taipei Fubon Bank on a project to create teaching programs for elementary and junior high school students depending on their varying needs. At elementary schools, financial education skits were used to impart healthy money values, while at junior highs, Taipei Fubon Bank executives gave talks; presentations at both levels were made in conjunction with a “Learn about Money the Easy Way” handbook. The project concentrated on schools in more remote areas, bringing Fubon’s financial education to more than 10,000 students in all corners of Taiwan.

The Foundation has also consistently taken an active interest in humanitarian causes around the world. In 2012, it continued to sponsor the development of safe water resources and the promotion of AIDS prevention in Mozambique, support children in Sri Lanka orphaned by a massive tsunami in 2004, and provide medical assistance and shelter to street children in the Democratic Republic of Congo—extending a positive force on the world.
Fubon Art Foundation

Since it was established in 1997, Fubon Art Foundation has adhered to a mission statement that focuses on the importance of “sharing” art. This guiding principle has informed the “Very Fun Park” contemporary art exhibitions in Taipei City’s Eastern District and the Fubon Forum with its lively discussions on life aesthetics. It is also behind the foundation’s publication of Art Map and a cooperative project to produce the radio show “Have Fun with Art.” Fubon Art Foundation is dedicated to sponsoring artistic creativity, promoting art education and elevating the quality of life for everyone by making art more real-world-oriented and an integral part of everyday life.

In 2012, the foundation displayed boundless creativity in surpassing the achievements of previous years. For example, “Very Fun Park” was expanded beyond its earlier format of cooperation with businesses in the Eastern District to take up residence in one private house and one historical building in Songshan Cultural Park. As a result, a new and beautiful image of a wall-less museum was created that it is estimated attracted more than 350,000 visitors. In addition, the foundation’s continued exhibition project on the campus of National Chengchi University had another excellent year. Indeed, the use of art as a topic of discussion for students introduced the university to the power of art when the walls of more traditional display venues are removed. With the continued support of the private sector the brilliance, creativity and true beauty of art can now be seen throughout Taipei City.

In 2012, the Fubon Forum was expanded in scale, with more than 20 free seminars and almost 50 fee-charging classes. These addressed a wide range of subjects, ranging from literature, cuisine and architecture to design, culture and innovation, cinema and a workshop series. At Master Forum, before the premiere of the film “Life of Pi,” Oscar-winning director Ang Lee was invited to discuss the creative process of filmmaking. The passion and humility displayed by Lee made him a big hit with the audience. In addition, Pritzker Architecture Prize laureate 80-year-old Richard Meier’s talk on creativity and his ideas on the use of space was also well received by individuals in the fields of architecture, design and the cultural industries, with 900 people signing up to attend the lecture in just 90 minutes. These examples indicate that the Fubon Forum has already become a knowledge platform embraced by global leaders in cultural fields. Other than the independently organized lecture classes, continued efforts were made to organize cooperative projects with other leading organizations in different industries. Examples include “Let’s Talk Design” at Taiwan Designers’ Week and a guide to the Golden Horse Film Festival. By keeping up to date with current events, the Fubon Forum continues to provide art lovers with relevant information about culturally creative activities. In the 12 years since it was launched, the Forum has developed a reputation for an impressive understanding of the cultural heartbeat of Taiwan. To date, the Fubon Forum has invited 550 speakers and attracted over 80,000 members, with more than 150,000 individuals attending nearly 1,400 life aesthetics classes.

Fubon Art Foundation has made use of the rich artist resource platform at its disposal to develop public relations gifts for the Fubon Group. It has also signed an exclusive sponsorship deal with UFO Radio to produce the program “Have Fun with Art” and publishes the Eastern District Life Publication “Art Map,” both of which promote its vision of art as an indispensable part of life. Over the next year, the foundation will continue to focus on ongoing projects, but has also established a number of new objectives. These include a plan to expand the number of free lectures and working to become an even broader platform for the promotion and exchange of art and culture. By establishing a database the foundation has been able to systematically record the names and bio data of students, speakers and artists, together with pictures, text and audiovisual data, on which basis there are plans to establish a dedicated audio-visual platform making it easier to share the beauty of art and life with an even wider audience. Fubon Art Foundation remains as dedicated to showcasing art in daily life as the day it was founded and it is that energy and passion combined with a belief in the power of beauty that provides a solid foundation for the future.
Taipei Fubon Bank Charity Foundation

Since its inception in 2003, the Taipei Fubon Bank Charity Foundation has served as a catalyst for caring and devoted itself to the socially disadvantaged, focusing on helping the elderly, the physically and mentally challenged, and the economically disadvantaged and backing social welfare activities.

Elderly care issues occupy much of the Foundation's attention, including support for family caregivers who rarely get time off throughout the year. A total of 37 “Giving Family Caregivers a Breather” excursions were organized around the country in 2012, providing appropriate learning opportunities and activities to help caregivers keep both their minds and bodies healthy and build a mutual support network. The Foundation also sustained key initiatives to promote healthy aging locally, opening its 13th day care center in Taiwan in the tribal village of Tomiac in Taitung County, and organizing 11 “Happy Train” outings on the traditional day honoring the elderly for 550 senior citizens based on their interests and requests.

Since 2004, the Foundation has held five “Taipei Fubon Bank Artistic Achievement Awards for the Disabled” competitions to help people transcend their disabilities and challenge boundaries, and special spin-off events have been held to give the public additional opportunities to appreciate their talent. Sixteen past winners of the awards, for example, exhibited 75 of their works in “Discovering the Impossible III” painting exhibitions at the Taipei Cultural Center and the National Taiwan University of Arts Museum from September to November 2012. The shows gave these talented artists more exposure and encouraged them to continue their artistic endeavors. Similarly, the “All Love Orchestra,” composed of musicians who have won achievement awards, again performed at high schools, special education schools and the Taipei Lantern Festival in 2012, resonating emotionally with audiences everywhere. One concert, held in collaboration with the Chungli chapter of the Rotary Club, raised NT$200,000 for the Taitung branch of Mackay Memorial Hospital to sustain its program of delivering meals on holidays to seniors living alone on the remote Orchid Island. The event enabled people with disabilities to use their talent to help socially disadvantaged seniors, creating a win-win situation.

To support the economically disadvantaged, the Foundation draws on the Fubon Group’s financial expertise to create savings programs in association with local governments that help second-generation members of low-income families escape poverty by accumulating tangible and intangible assets. In 2012, programs run in conjunction with Chiayi City and Taitung County continued while that in Pingtung County came to an end, with 30 people making it through to the end. The successful precedent attracted interest from local social welfare groups and companies in sustaining the initiative in Pingtung, a clear indication that the program’s original intention had been met. In a separate initiative to protect people at risk of going missing when on their own, the Foundation has distributed 2,000 wristbands and funded search services over the past three years as part of the “Love Bracelet” campaign, organized in collaboration with the Federation for the Welfare of the Elderly. To date, people wearing the wristbands who have gone missing have been found 100% of the time, earning the gratitude of families and lowering social costs. The Foundation has also worked with Fubon Asset Management’s “My Own Plot of Land” program to harvest 666 cartons of rice (6 small packages to a carton) in 2012 and distribute the food staple to seniors living alone around Taiwan through the Taitung branch of Mackay Memorial Hospital, Mennonite Christian Hospital in Hualien, and Heng Chun Christian Hospital in Pingtung County. Another 200 bags of white rice were purchased to distribute during an activity held in December in conjunction with the Taiwan Disability-Free Association to mark International Day of Persons with Disabilities, again expressing Fubon’s multifaceted support for social welfare initiatives.
Fubon Financial Holding Co., Ltd. ("Fubon Financial") follows the guidelines laid out in Taiwan’s “Corporate Governance Best-Practice Principles for Bills Finance Companies.” We strive to maintain high ethical standards and an effective accountability mechanism, and insist on strict corporate governance practices in every area of the business. The sense of responsibility and honesty that is evident throughout our operation guarantees the long-term interests of the company and our shareholders. Fubon Financial firmly believes that robust corporate governance practices can form a strong foundation for business growth, whether providing the highest-quality products and services or generating high returns for shareholders.

Fubon Financial’s dedication to corporate governance has been widely recognized by prominent international financial journals for years. In 2012, Fubon Financial was honored by FinanceAsia for “Best Managed Company,” “Best Corporate Governance,” “Best Corporate Social Responsibility,” and “Best Investor Relations” in Taiwan’s financial sector. We also received a “Recognition Award” for corporate governance in Taiwan from Corporate Governance Asia for the fourth year in a row and a Platinum Award for corporate governance from The Asset for the second year running.

In July 2012, Fubon Financial, along with subsidiaries Taipei Fubon Bank and Fubon Life, received “CG6007 Corporate Governance System Assessment Certification,” becoming the first publicly listed company to pass this advanced standard (with 110 indicators) developed by the Taiwan Corporate Governance Association. The achievement reflected Fubon Financial’s unwavering commitment and determination to enhancing its corporate governance.

Fubon Financial elected an additional member to its board in 2011, bringing the total to 13. Of those, four seats are reserved for independent directors, a ratio of over 30%. Three other board members represent the Taipei City government, meaning that more than half of the board’s members are outside directors. This relative independence contributes to the effective supervision of the company’s management and manifests Fubon Financial’s sustained determination and effort to strengthen corporate governance.

An “Audit Committee,” which fulfills the functions of supervisors, a “Remuneration Committee,” and a “Corporate Governance Committee” have also been established under the board. It is hoped that this governance system based on functional committees can strengthen the board’s supervisory role.

The Audit Committee’s main responsibilities include setting or revising internal control systems and assessing the effectiveness of internal systems and compliance programs. It carefully reviews the company’s financial statements on a regular basis and monitors the company’s management of tangible and potential risk, while also verifying that communications between our internal auditors and certified public accountants remain smooth.

The Remuneration Committee, composed entirely of independent board directors, is mainly responsible for setting, evaluating and reviewing the performance and remuneration of Fubon Financial directors and executives.

The Corporate Governance Committee, composed of all of the board’s independent directors and two representatives from the largest corporate shareholder, is primarily responsible for helping the board recruit, nominate, and verify independent director candidates. It also contributes and makes suggestions related to board operations and management issues, with an eye toward strengthening the board’s functions.
Financial Statements

Responsibility Statement 58
Independent Auditors’ Report 59
Consolidated Balance Sheets 60
Consolidated Statements of Income 62
Consolidated Statements of Changes in Stockholders’ Equity 64
Consolidated Statements of Cash Flows 66

Please refer to Fubon Financial website for detail financial statements
www.fubon.com
Responsibility Statement

We confirm that to the best of our knowledge

The consolidated financial statements included in this annual report, prepared in accordance with ROC GAAP, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.

The management report included in this annual report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board, which approved the making of the responsibility statement for the Company at a meeting of the Board on March 20th 2013.
Independent Auditors’ Report

The Board of Directors
Fubon Financial Holding Co., Ltd.

We have audited the accompanying consolidated balance sheets of Fubon Financial Holding Co., Ltd. and its subsidiaries (the Company) as of December 31, 2012 and 2011 (restated), and the related consolidated statements of income, changes in stockholders’ equity and cash flows for the years ended December 31, 2012 and 2011 (restated). These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to issue an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Fubon Financial Holding Co., Ltd. and its subsidiaries as of December 31, 2012 and 2011 (restated), and the results of their operations and their cash flows for the years then ended, in conformity with the “Principles for Compiling the Financial Statements of Financial Holding Companies”, the letter Jin-Guan-Jian-Pao No.10001602331 issued by Financial Supervisory Commission, R.O.C. on August 23, 2011, and Republic of China generally accepted accounting principles.

As described in note 3, starting from January 1, 2011, the Company’s subsidiaries Fubon Insurance and Fubon Life Insurance adopted Republic of China Statement of Financial Accounting Standards (SFAS) No.40 “Insurance Contracts”, the interpretation letter Jin-Guan-Pao No.09802506492 of revised “Principles for Compiling the Financial Statement of Insurance Companies” issued on December 30, 2009 and the interpretation letter Jin-Guan-Pao No.09802513192 of revised “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprise” issued on December 28, 2009. In accordance with accounting standards and regulations, information of Insurance Contracts should be classified, evaluated and disclosed. As a result, net income and earnings per share increased by NT$1,541,162 thousand and NT$0.17 for the year ended December 31, 2011 (restated), respectively. In addition, starting from March 1, 2012, the Company’s subsidiary Fubon Life Insurance recognized the foreign exchange change reserves and calculated related reserves in accordance with the revised “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprise”. As a result, net income and earnings per share increased by NT$792,178 thousand and NT$0.08 for the year ended December 31, 2012, respectively.

As described in note (40)-(3), in accordance with the letter Jin-Guan-Jian-Pao No.10001602331 issued by Financial Supervisory Commission, R.O.C. on August 23, 2011, the Company’s subsidiary Fubon Life Insurance should comply with this letter, adjusting the transactions of available-for-sale financial assets and restate the financial statements of 2010. As a result, the Company’s unrealized gain on financial assets under stockholders’ equity increased by NT$1,994,649 thousand and retained earnings decreased by NT$1,994,649 thousand on January 1, 2011.

As described in note (2)-(1), the entities of the consolidated financial statements were modified as of December 31, 2012, and we have restated the consolidated financial statements as of December 31, 2011 for comparison.

March 20, 2013

Note to Reader

The accompanying consolidated financial statements are intended only to present the consolidated financial position, results of operations 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 audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

The 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 auditors’ review report and consolidated financial statements, the Chinese version shall prevail.
## Fubon Financial Holding Co., Ltd. and Its Subsidiaries
### Consolidated Balance Sheets

**December 31, 2012 and 2011**

<table>
<thead>
<tr>
<th>Assets</th>
<th>2012.12.31</th>
<th>2011.12.31 (restated)</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 172,506,291</td>
<td>218,464,919</td>
<td>(21)</td>
</tr>
<tr>
<td>Due from Central Bank and call loans to banks</td>
<td>74,518,214</td>
<td>78,798,417</td>
<td>(5)</td>
</tr>
<tr>
<td>Financial assets measured at fair value through profit or loss</td>
<td>100,841,827</td>
<td>78,921,506</td>
<td>28</td>
</tr>
<tr>
<td>Bonds and bills purchased under resell agreements</td>
<td>53,191,101</td>
<td>28,068,404</td>
<td>90</td>
</tr>
<tr>
<td>Receivables, net</td>
<td>116,461,324</td>
<td>114,188,028</td>
<td>2</td>
</tr>
<tr>
<td>Loan, net</td>
<td>1,229,033,530</td>
<td>1,158,339,862</td>
<td>6</td>
</tr>
<tr>
<td>Available-for-sale financial assets, net</td>
<td>1,423,619,008</td>
<td>889,556,526</td>
<td>60</td>
</tr>
<tr>
<td>Held-to-maturity financial assets, net</td>
<td>235,709,317</td>
<td>457,502,518</td>
<td>(48)</td>
</tr>
<tr>
<td>Investments under equity method, net</td>
<td>4,691,208</td>
<td>3,483,527</td>
<td>35</td>
</tr>
<tr>
<td>Other financial assets, net</td>
<td>196,223,752</td>
<td>177,343,895</td>
<td>11</td>
</tr>
<tr>
<td>Debt investments in non-active market</td>
<td>325,784,548</td>
<td>277,585,811</td>
<td>17</td>
</tr>
<tr>
<td>Real estate investments, net</td>
<td>79,294,705</td>
<td>68,494,654</td>
<td>16</td>
</tr>
<tr>
<td>Fixed assets, net</td>
<td>33,744,542</td>
<td>32,516,829</td>
<td>4</td>
</tr>
<tr>
<td>Intangible assets, net</td>
<td>13,503,347</td>
<td>13,805,271</td>
<td>(2)</td>
</tr>
<tr>
<td>Other assets, net</td>
<td>24,133,814</td>
<td>25,792,367</td>
<td>(6)</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$ 4,083,256,528</td>
<td>3,622,862,534</td>
<td>13</td>
</tr>
<tr>
<td>Liabilities and Stockholders’ Equity</td>
<td>2012.12.31</td>
<td>2011.12.31 (restated)</td>
<td>Percentage change</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>-------------------</td>
<td>-----------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Due to Central Bank and other banks</td>
<td>$ 76,405,140</td>
<td>61,162,654</td>
<td>25</td>
</tr>
<tr>
<td>Financial liabilities measured at fair value through profit or loss</td>
<td>26,673,629</td>
<td>33,769,320</td>
<td>(21)</td>
</tr>
<tr>
<td>Bonds and bills sold under repurchase agreements</td>
<td>32,344,490</td>
<td>38,460,376</td>
<td>(16)</td>
</tr>
<tr>
<td>Payables</td>
<td>88,770,682</td>
<td>68,608,671</td>
<td>29</td>
</tr>
<tr>
<td>Deposits</td>
<td>1,383,866,794</td>
<td>1,298,148,877</td>
<td>7</td>
</tr>
<tr>
<td>Bonds payable</td>
<td>106,287,447</td>
<td>102,575,600</td>
<td>4</td>
</tr>
<tr>
<td>Other borrowings</td>
<td>-</td>
<td>3,269,333</td>
<td>(100)</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>177,528,391</td>
<td>176,678,144</td>
<td>-</td>
</tr>
<tr>
<td>Reserve for operations and other liabilities</td>
<td>1,865,222,998</td>
<td>1,583,714,753</td>
<td>18</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>20,883,886</td>
<td>22,792,124</td>
<td>(8)</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>3,777,983,457</td>
<td>3,389,179,852</td>
<td>11</td>
</tr>
</tbody>
</table>

### Stockholders’ Equity

<table>
<thead>
<tr>
<th>Stockholders’ equity</th>
<th>2012.12.31</th>
<th>2011.12.31</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>95,269,157</td>
<td>90,137,379</td>
<td>6</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>55,704,785</td>
<td>54,968,575</td>
<td>1</td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal reserve</td>
<td>29,007,646</td>
<td>25,953,363</td>
<td>12</td>
</tr>
<tr>
<td>Special reserve</td>
<td>1,669,704</td>
<td>1,669,704</td>
<td>-</td>
</tr>
<tr>
<td>Unappropriated retained earnings</td>
<td>56,099,036</td>
<td>43,757,286</td>
<td>28</td>
</tr>
<tr>
<td>Total retained earnings</td>
<td>86,776,386</td>
<td>71,380,353</td>
<td>22</td>
</tr>
<tr>
<td>Equity adjustments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized revaluation increments</td>
<td>1,325,571</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cumulative foreign currency translation adjustments</td>
<td>(1,913,399)</td>
<td>(1,283,925)</td>
<td>(49)</td>
</tr>
<tr>
<td>Unrealized gain on financial assets</td>
<td>69,166,412</td>
<td>18,894,095</td>
<td>266</td>
</tr>
<tr>
<td>Net loss from unrecognized pension cost</td>
<td>(998,697)</td>
<td>(356,651)</td>
<td>(180)</td>
</tr>
<tr>
<td>Total</td>
<td>67,579,887</td>
<td>17,253,519</td>
<td>292</td>
</tr>
<tr>
<td>Treasury Stock</td>
<td>(57,144)</td>
<td>(57,144)</td>
<td>-</td>
</tr>
<tr>
<td>Total stockholders’ equity</td>
<td>305,273,071</td>
<td>233,682,682</td>
<td>31</td>
</tr>
</tbody>
</table>

### Commitments and contingencies

| Total Liabilities and Stockholders’ Equity                  | $ 4,083,256,528   | 3,622,862,534 | 13                |
## Fubon Financial Holding Co., Ltd. and Its Subsidiaries
### Consolidated Statements of Income

**December 31, 2012 and 2011**

<table>
<thead>
<tr>
<th>Description</th>
<th>2012.12.31</th>
<th>2011.12.31 (restated)</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest Income</strong></td>
<td>$80,467,891</td>
<td>73,297,106</td>
<td>10</td>
</tr>
<tr>
<td><strong>Less: interest expense</strong></td>
<td>14,336,517</td>
<td>12,297,213</td>
<td>17</td>
</tr>
<tr>
<td><strong>Net interest income</strong></td>
<td><strong>66,131,374</strong></td>
<td><strong>60,999,893</strong></td>
<td><strong>8</strong></td>
</tr>
<tr>
<td><strong>Non-interest income, net</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service fees loss, net</td>
<td>(8,738,209)</td>
<td>(5,811,354)</td>
<td>(50)</td>
</tr>
<tr>
<td>Insurance income, net</td>
<td>282,925,223</td>
<td>160,628,571</td>
<td>76</td>
</tr>
<tr>
<td>Gain (loss) on financial assets or liabilities measured at fair value</td>
<td>14,585,115</td>
<td>(12,590,136)</td>
<td>216</td>
</tr>
<tr>
<td>Realized gain on available-for-sale financial assets</td>
<td>27,856,357</td>
<td>17,733,815</td>
<td>57</td>
</tr>
<tr>
<td>Income from equity investments under the equity method</td>
<td>384,816</td>
<td>523,229</td>
<td>(26)</td>
</tr>
<tr>
<td>Gain on real estate investments</td>
<td>1,250,176</td>
<td>1,155,220</td>
<td>8</td>
</tr>
<tr>
<td>Foreign exchange gain (loss)</td>
<td>(16,708,888)</td>
<td>12,063,443</td>
<td>(239)</td>
</tr>
<tr>
<td>Reversal gain from impaired assets</td>
<td>20,214</td>
<td>(396,624)</td>
<td>105</td>
</tr>
<tr>
<td>Other non-interest income (loss)</td>
<td>(1,497,133)</td>
<td>(1,419,806)</td>
<td>(5)</td>
</tr>
<tr>
<td>Gain on disposal of investments</td>
<td>905,618</td>
<td>8,892,601</td>
<td>(90)</td>
</tr>
<tr>
<td><strong>Net revenue</strong></td>
<td><strong>367,114,663</strong></td>
<td><strong>241,778,852</strong></td>
<td><strong>52</strong></td>
</tr>
<tr>
<td><strong>Bad debt expense (reversal gain)</strong></td>
<td>(612,217)</td>
<td>902,389</td>
<td>(168)</td>
</tr>
<tr>
<td><strong>Net change for liability reserve</strong></td>
<td><strong>294,099,667</strong></td>
<td><strong>165,101,252</strong></td>
<td><strong>78</strong></td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Personnel expenses</td>
<td>22,431,181</td>
<td>21,638,538</td>
<td>4</td>
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<tr>
<td>Depreciation and amortization expenses</td>
<td>1,869,757</td>
<td>1,738,813</td>
<td>8</td>
</tr>
<tr>
<td>Other general and administrative expenses</td>
<td>15,923,211</td>
<td>16,588,613</td>
<td>(4)</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td><strong>40,224,149</strong></td>
<td><strong>39,965,964</strong></td>
<td><strong>1</strong></td>
</tr>
<tr>
<td><strong>Net income before income tax</strong></td>
<td>33,403,064</td>
<td>35,809,247</td>
<td>(7)</td>
</tr>
<tr>
<td><strong>Income tax expense</strong></td>
<td>4,420,265</td>
<td>5,122,161</td>
<td>(14)</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$28,982,799</td>
<td>30,687,086</td>
<td>(6)</td>
</tr>
</tbody>
</table>
### Attributions

<table>
<thead>
<tr>
<th></th>
<th>2012.12.31</th>
<th>2011.12.31 (restated)</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Company’s income</td>
<td>28,982,799</td>
<td>30,542,828</td>
<td>(5)</td>
</tr>
<tr>
<td>Minority interest’s income</td>
<td>-</td>
<td>144,258</td>
<td>(100)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>28,982,799</td>
<td>30,687,086</td>
<td>(6)</td>
</tr>
</tbody>
</table>

### Earnings per share

<table>
<thead>
<tr>
<th></th>
<th>Before income tax</th>
<th>After income tax</th>
<th>Before income tax</th>
<th>After income tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings per share—basic (NTD)</td>
<td>3.51</td>
<td>3.05</td>
<td>3.96</td>
<td>3.39</td>
</tr>
<tr>
<td>Earnings per share—diluted (NTD)</td>
<td>3.51</td>
<td>3.05</td>
<td>3.95</td>
<td>3.38</td>
</tr>
</tbody>
</table>

Expressed in Thousands of New Taiwan Dollars
### Fubon Financial Holding Co., Ltd. and Its Subsidiaries

**Consolidated Statements of Changes in Stockholders’ Equity**

**December 31, 2012 and 2011**

<table>
<thead>
<tr>
<th></th>
<th>Common Stock</th>
<th>Capital Surplus</th>
<th>Legal Reserve</th>
<th>Special Reserve</th>
<th>Retained Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance on January 1, 2011 (restated)</strong></td>
<td>$ 85,583,663</td>
<td>54,416,660</td>
<td>23,962,851</td>
<td>1,285,676</td>
<td>30,057,143</td>
</tr>
<tr>
<td><strong>Prior period adjustments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(1,994,649)</td>
</tr>
<tr>
<td><strong>Balance on January 1,2011 after adjustment</strong></td>
<td>85,583,663</td>
<td>54,416,660</td>
<td>23,962,851</td>
<td>1,285,676</td>
<td>28,062,494</td>
</tr>
<tr>
<td><strong>Issuing new shares for employee warrants exercise</strong></td>
<td>267,875</td>
<td>374,988</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Treasury stock transfer to employees</strong></td>
<td></td>
<td>20,436</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Recognized as treasury stock</strong></td>
<td></td>
<td>156,491</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>30,542,828</td>
</tr>
<tr>
<td><strong>Appropriation of retained earnings (note 1)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Legal reserve</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(1,990,512)</td>
</tr>
<tr>
<td><strong>Cash dividends</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(8,571,683)</td>
</tr>
<tr>
<td><strong>Stock dividend</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4,285,841</td>
</tr>
<tr>
<td><strong>Net loss for unrecognized pension cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(4,285,841)</td>
</tr>
<tr>
<td><strong>Change in minority interest</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cumulative foreign currency translation adjustments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Unrealized gains or (losses) from remeasurement of financial instruments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Reserve for securities default from consolidated company transfer to special reserve</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>384,028</td>
</tr>
<tr>
<td><strong>Balance on December 31, 2011</strong></td>
<td>90,137,379</td>
<td>54,968,575</td>
<td>25,953,363</td>
<td>1,669,704</td>
<td>43,757,286</td>
</tr>
<tr>
<td><strong>Issuing new shares for employee warrants exercise</strong></td>
<td>602,856</td>
<td>736,003</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>28,982,799</td>
</tr>
<tr>
<td><strong>Appropriation of retained earnings (note 2)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Legal reserve</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(3,054,283)</td>
</tr>
<tr>
<td><strong>Cash dividend</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(9,057,844)</td>
</tr>
<tr>
<td><strong>Stock dividend</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(4,528,922)</td>
</tr>
<tr>
<td><strong>Unrealized revaluation increments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net loss from unrecognized pension cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Capital surplus from investee under equity method</strong></td>
<td></td>
<td>207</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cumulative foreign currency translation adjustments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Unrealized gains or (losses) from remeasurement of financial instruments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance on December 31, 2012</strong></td>
<td>$ 95,269,157</td>
<td>55,704,785</td>
<td>29,007,646</td>
<td>1,669,704</td>
<td>56,099,036</td>
</tr>
</tbody>
</table>

Note1: Remuneration of directors and supervisors and bonus for employees, amounted to $36,000 and $4,000, respectively, and deducted from the Statement of Income.

Note2: Remuneration of directors and supervisors and bonus for employees, amounted to $45,000 and $6,500, respectively, and deducted from the Statement of Income.
### Cumulative Stockholders' Equity

<table>
<thead>
<tr>
<th></th>
<th>Common Stock Capital</th>
<th>Unrecognized or Losses on</th>
<th>Unrealized Gains or Losses on</th>
<th>Unrealized revaluation increments</th>
<th>Treasury Stock</th>
<th>Minority Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cumulative Foreign Currency Translation Adjustments</strong></td>
<td>157,101</td>
<td>24,279,998</td>
<td>-</td>
<td>(387,548)</td>
<td>4,883,914</td>
<td>-</td>
<td>222,273,442</td>
</tr>
<tr>
<td>(1,966,016)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Prior period adjustments</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>(1,994,649)</td>
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<td><strong>Balance on January 1, 2011 after adjustment</strong></td>
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<td>54,416,660</td>
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<td>1,285,676</td>
<td>28,062,494</td>
<td>-</td>
<td>222,273,442</td>
</tr>
<tr>
<td><strong>Issuing new shares for employee warrants exercise</strong></td>
<td>267,875</td>
<td>374,988</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>642,863</td>
</tr>
<tr>
<td><strong>Treasury stock transfer to employees</strong></td>
<td>-</td>
<td>20,436</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>135,184</td>
<td>155,620</td>
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<tr>
<td><strong>Recognized as treasury stock</strong></td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>195,220</td>
<td>351,711</td>
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<tr>
<td><strong>Net income</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>30,542,828</td>
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<td>-</td>
<td>30,542,828</td>
</tr>
<tr>
<td><strong>Appropriation of retained earnings (note 1)</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Legal reserve</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,990,512</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Cash dividends</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td><strong>Stock dividend</strong></td>
<td>-</td>
<td>-</td>
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<td>4,285,841</td>
<td>-</td>
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<td>-</td>
</tr>
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<td><strong>Net loss for unrecognized pension cost</strong></td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Change in minority interest</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(4,883,914)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Cumulative foreign currency translation adjustments</strong></td>
<td>682,091</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>682,091</td>
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<tr>
<td><strong>Unrealized gains or (losses) from remeasurement of financial instruments</strong></td>
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<td>-</td>
<td>-</td>
<td>(7,380,552)</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>Reserve for securities default from consolidated company transfer to special reserve</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>384,028</td>
<td>-</td>
<td>-</td>
<td>384,028</td>
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<tr>
<td><strong>Balance on December 31, 2011</strong></td>
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<td>43,757,286</td>
<td>-</td>
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<tr>
<td><strong>Issuing new shares for employee warrants exercise</strong></td>
<td>602,856</td>
<td>736,003</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,338,859</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>28,982,799</td>
<td>-</td>
<td>-</td>
<td>28,982,799</td>
</tr>
<tr>
<td><strong>Appropriation of retained earnings (note 2)</strong></td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>3,054,283</td>
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<td>-</td>
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<tr>
<td><strong>Cash dividend</strong></td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Stock dividend</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,528,922</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Unrealized revaluation increments</strong></td>
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<td>-</td>
<td>1,325,571</td>
<td>-</td>
<td>-</td>
<td>1,325,571</td>
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<tr>
<td><strong>Net loss from unrecognized pension cost</strong></td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Capital surplus from investee under equity method</strong></td>
<td>-</td>
<td>207</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>207</td>
</tr>
<tr>
<td><strong>Cumulative foreign currency translation adjustments</strong></td>
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<td>-</td>
<td>-</td>
<td>(629,474)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Unrealized gains or (losses) from remeasurement of financial instruments</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Balance on December 31, 2012</strong></td>
<td>95,269,157</td>
<td>55,704,785</td>
<td>29,007,646</td>
<td>1,669,704</td>
<td>56,099,036</td>
<td>-</td>
<td>305,273,071</td>
</tr>
</tbody>
</table>

**Expressed in Thousands of New Taiwan Dollars**
Fubon Financial Holding Co., Ltd. and Its Subsidiaries  
Consolidated Statements of Cash Flows  
December 31, 2012 and 2011

<table>
<thead>
<tr>
<th>Description</th>
<th>2012.12.31</th>
<th>2011.12.31</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$28,982,799</td>
<td>30,687,086</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash flows provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,995,172</td>
<td>1,710,752</td>
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<tr>
<td>Amortization</td>
<td>600,646</td>
<td>656,707</td>
</tr>
<tr>
<td>Allowance (reversal of allowance) on bad debts</td>
<td>(612,217)</td>
<td>902,389</td>
</tr>
<tr>
<td>Provision for insurance reserves</td>
<td>294,099,667</td>
<td>165,101,252</td>
</tr>
<tr>
<td>Amortization on discount of financial assets</td>
<td>(5,658,617)</td>
<td>(9,752,419)</td>
</tr>
<tr>
<td>Amortization on premium of financial bonds payable</td>
<td>60,112</td>
<td>56,785</td>
</tr>
<tr>
<td>Investment income accounted for under equity method</td>
<td>(384,816)</td>
<td>(523,229)</td>
</tr>
<tr>
<td>Cash dividend received on investments under equity method</td>
<td>750,499</td>
<td>686,339</td>
</tr>
<tr>
<td>Loss on disposal of fixed assets</td>
<td>31,084</td>
<td>52,274</td>
</tr>
<tr>
<td>Fixed assets transfer to expense</td>
<td>4,210</td>
<td>11</td>
</tr>
<tr>
<td>Gain on disposal of other assets</td>
<td>(874)</td>
<td>(1,193)</td>
</tr>
<tr>
<td>Gain on disposal of investments</td>
<td>(19,599,593)</td>
<td>(17,241,035)</td>
</tr>
<tr>
<td>Gain on disposal of long term investments under equity method</td>
<td>-</td>
<td>(8,904,223)</td>
</tr>
<tr>
<td>Gain on disposal of real estate investments</td>
<td>-</td>
<td>(1,931)</td>
</tr>
<tr>
<td>Unrealized loss on financial assets and liabilities</td>
<td>1,242,453</td>
<td>17,732,470</td>
</tr>
<tr>
<td>Loss on financial asset impairment</td>
<td>239,608</td>
<td>103,591</td>
</tr>
<tr>
<td>Reversal on financial asset impairment</td>
<td>(247,709)</td>
<td>(228,362)</td>
</tr>
<tr>
<td>Loss on non-financial asset impairment</td>
<td>93,027</td>
<td>554,145</td>
</tr>
<tr>
<td>Reversal on non-financial asset impairment</td>
<td>(105,140)</td>
<td>(32,750)</td>
</tr>
<tr>
<td>Unrealized loss (income) from foreign exchange</td>
<td>445,481</td>
<td>(18,129,334)</td>
</tr>
<tr>
<td>Minority interest’s income</td>
<td>-</td>
<td>(144,258)</td>
</tr>
<tr>
<td><strong>Change in operating assets and liabilities, net</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in operating asset, net</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease (increase) in receivables</td>
<td>(2,113,603)</td>
<td>26,264,004</td>
</tr>
<tr>
<td>Increase in financial assets measured at fair value though profit or loss</td>
<td>(20,023,742)</td>
<td>(25,095,124)</td>
</tr>
<tr>
<td>Decrease (increase) in other financial assets</td>
<td>(18,008,775)</td>
<td>26,754,409</td>
</tr>
<tr>
<td>Decrease (increase) in other assets</td>
<td>7,577,717</td>
<td>(613,371)</td>
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<tr>
<td>Change in operating liabilities, net</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease in commercial paper payable</td>
<td>-</td>
<td>(4,599,072)</td>
</tr>
<tr>
<td>Increase (decrease) in payables</td>
<td>20,162,011</td>
<td>(15,972,611)</td>
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<tr>
<td>Decrease in financial liabilities measured at fair value through profit or loss</td>
<td>(4,658,105)</td>
<td>(5,183,636)</td>
</tr>
<tr>
<td>Increase (decrease) in reserve for operating and other liabilities</td>
<td>(12,591,422)</td>
<td>20,878,566</td>
</tr>
<tr>
<td>Increase (decrease) in other financial liabilities</td>
<td>850,247</td>
<td>(12,341,664)</td>
</tr>
<tr>
<td>Increase (decrease) in other liabilities</td>
<td>(2,550,284)</td>
<td>5,491,567</td>
</tr>
<tr>
<td><strong>Net cash flows provided by operating activities</strong></td>
<td><strong>270,579,836</strong></td>
<td><strong>178,868,135</strong></td>
</tr>
</tbody>
</table>

**Cash flows from investing activities**

<table>
<thead>
<tr>
<th>Description</th>
<th>2012.12.31</th>
<th>2011.12.31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of available for sale financial assets</td>
<td>(786,512,838)</td>
<td>(488,828,113)</td>
</tr>
<tr>
<td>Disposal of available for sale financial assets</td>
<td>484,896,275</td>
<td>433,339,628</td>
</tr>
<tr>
<td>Proceeds from capital reduction of available for sale financial assets</td>
<td>72,069</td>
<td>88,250</td>
</tr>
<tr>
<td>Acquisition of debt investment in non-active market</td>
<td>(147,976,364)</td>
<td>(95,205,065)</td>
</tr>
<tr>
<td>Disposal of debt investment in non-active market</td>
<td>107,436,317</td>
<td>119,153,220</td>
</tr>
</tbody>
</table>
### Cash Flows from Operating Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2012.12.31</th>
<th>2011.12.31 (restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of held to maturity financial assets</td>
<td>$ (665,088,327)</td>
<td>(790,487,507)</td>
</tr>
<tr>
<td>Disposal of held to maturity financial assets</td>
<td>707,099,062</td>
<td>822,089,310</td>
</tr>
<tr>
<td>Acquisition of financial assets measured at cost</td>
<td>(84,507)</td>
<td>(491,157)</td>
</tr>
<tr>
<td>Disposal of financial assets measured at cost</td>
<td>1,280,542</td>
<td>2,293</td>
</tr>
<tr>
<td>Proceeds from capital reduction of financial assets measured at cost</td>
<td>115,151</td>
<td>198,897</td>
</tr>
<tr>
<td>Increase in investment under equity method</td>
<td>(1,067,463)</td>
<td>(847,730)</td>
</tr>
<tr>
<td>Disposal of investment under equity method</td>
<td></td>
<td>10,006,214</td>
</tr>
<tr>
<td>Purchase of fixed assets</td>
<td>(1,136,853)</td>
<td>(3,752,059)</td>
</tr>
<tr>
<td>Disposal of fixed assets</td>
<td>7,397</td>
<td>7,697</td>
</tr>
<tr>
<td>Purchase of intangible assets</td>
<td>(232,867)</td>
<td>(251,965)</td>
</tr>
<tr>
<td>Decrease in due from Central Bank and call loans to banks</td>
<td>4,280,203</td>
<td>26,695,645</td>
</tr>
<tr>
<td>Increase in loans</td>
<td>(70,241,144)</td>
<td>(112,277,003)</td>
</tr>
<tr>
<td>Purchase of real estate investments</td>
<td>(11,631,891)</td>
<td>(14,879,428)</td>
</tr>
<tr>
<td>Disposal of real estate investments</td>
<td>14,973</td>
<td>6,347</td>
</tr>
<tr>
<td>Increase in bonds and bills purchased under resell agreements</td>
<td>(25,122,697)</td>
<td>(15,329,673)</td>
</tr>
<tr>
<td>Proceeds of the liquidation of investee companies under equity method</td>
<td></td>
<td>129,544</td>
</tr>
<tr>
<td><strong>Net cash flows used in investing activities</strong></td>
<td><strong>(403,872,962)</strong></td>
<td><strong>(110,632,655)</strong></td>
</tr>
</tbody>
</table>

### Cash Flows from Financing Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2012.12.31</th>
<th>2011.12.31 (restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease in short term borrowings</td>
<td>(3,269,333)</td>
<td>(1,505,667)</td>
</tr>
<tr>
<td>Bonds issued</td>
<td>7,000,000</td>
<td>6,000,000</td>
</tr>
<tr>
<td>Repayment of bonds</td>
<td>(7,000,000)</td>
<td>-</td>
</tr>
<tr>
<td>Financial bonds issued</td>
<td>6,000,000</td>
<td>11,930,340</td>
</tr>
<tr>
<td>Repayment of financial bonds</td>
<td>(1,892,225)</td>
<td>(9,097,335)</td>
</tr>
<tr>
<td>Repayment of long term borrowings</td>
<td></td>
<td>(460,000)</td>
</tr>
<tr>
<td>Increase (decrease) in bonds and bills sold under repurchase agreements</td>
<td>(6,115,886)</td>
<td>10,842,831</td>
</tr>
<tr>
<td>Cash dividend</td>
<td>(9,057,844)</td>
<td>(8,571,683)</td>
</tr>
<tr>
<td>Issuing new shares for employee warrants exercise</td>
<td>1,338,858</td>
<td>642,863</td>
</tr>
<tr>
<td>Disposal of treasury stock</td>
<td>-</td>
<td>155,620</td>
</tr>
<tr>
<td>Employees to purchase treasury stock</td>
<td></td>
<td>342,188</td>
</tr>
<tr>
<td>Increase (decrease) in due to Central Bank and other banks</td>
<td>15,242,486</td>
<td>(17,425,029)</td>
</tr>
<tr>
<td>Increase (decrease) in deposits</td>
<td>85,717,917</td>
<td>(1,375,309)</td>
</tr>
<tr>
<td>Change in minority interest</td>
<td>-</td>
<td>(4,883,914)</td>
</tr>
<tr>
<td><strong>Net cash flows provided (used in) financing activities</strong></td>
<td><strong>87,963,973</strong></td>
<td><strong>(13,405,095)</strong></td>
</tr>
</tbody>
</table>

### Effect of exchange rate changes:

<table>
<thead>
<tr>
<th>Description</th>
<th>2012.12.31</th>
<th>2011.12.31 (restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Effect of exchange rate changes</strong></td>
<td>(629,475)</td>
<td>682,091</td>
</tr>
</tbody>
</table>

### Net Increase (Decrease) in Cash and Cash Equivalents:

<table>
<thead>
<tr>
<th>Description</th>
<th>2012.12.31</th>
<th>2011.12.31 (restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net increase (decrease) in cash and cash equivalents</strong></td>
<td>(45,958,628)</td>
<td>55,512,476</td>
</tr>
</tbody>
</table>

### Cash and Cash Equivalents at Beginning of Period:

<table>
<thead>
<tr>
<th>Description</th>
<th>2012.12.31</th>
<th>2011.12.31 (restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash and cash equivalents at beginning of period</strong></td>
<td><strong>218,464,919</strong></td>
<td><strong>162,952,443</strong></td>
</tr>
</tbody>
</table>

### Cash and Cash Equivalents at End of Period:

<table>
<thead>
<tr>
<th>Description</th>
<th>2012.12.31</th>
<th>2011.12.31 (restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash and cash equivalents at end of period</strong></td>
<td><strong>$ 172,506,291</strong></td>
<td>218,464,919</td>
</tr>
</tbody>
</table>

### Supplemental Disclosure of Cash Flow Information:

<table>
<thead>
<tr>
<th>Description</th>
<th>2012.12.31</th>
<th>2011.12.31 (restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash payments of interest</td>
<td><strong>$ 14,845,710</strong></td>
<td>11,856,706</td>
</tr>
<tr>
<td>Cash payments of income tax</td>
<td><strong>$ 3,161,678</strong></td>
<td>4,863,200</td>
</tr>
</tbody>
</table>
Board of Directors
Chairman
Daniel M. Tsai
Fubon Financial

Vice Chairman
Richard M. Tsai
Fubon Financial

Independent Directors
Hong-Chang Chang
Ex-Dean, College of Management
National Taiwan University

Chi-Yan Cheung
Chief Executive Officer of Boyu Capital Advisory Co., Ltd.
Standard Chartered PLC
Independent Non-Executive Director

Yuan-Chi Chao
Chairman
Concord Asia Finance Ltd.

Shau-Kong Jaw
Chairman
Broadcasting Corporation of China

Directors
Dah-Jan Chiou
Commissioner
Department of Finance,
Taipei city Government

Yeh-Shin Chen
Commissioner
Department of Labor,
Taipei city Government

Li-Wen Tsai
Commissioner
Department of Legal Affairs,
Taipei city Government

Victor Kung
President
Fubon Financial

Tsan-Ming Shih
Chairman
Fubon Insurance

Peng-Yuan Cheng
Chairman
Fubon Life

Jerry Harn
President
Taipei Fubon Bank

Management Committee
Daniel M. Tsai
Chairman
Fubon Financial

Richard M. Tsai
Vice Chairman
Fubon Financial

Victor Kung
President
Fubon Financial

Tsan-Ming Shih
Chairman
Fubon Insurance

Benny Chen
Chairman
Fubon Securities

Peng-Yuan Cheng
Chairman
Fubon Life

Jerry Harn
President
Taipei Fubon Bank

Thomas Liang
Executive VP
Fubon Financial

Howard Lin
Vice Chairman
Fubon Life

Raymond Wing Hung Lee
Chief Executive Officer
Fubon Bank (Hong Kong)

Business Group
Institutional Banking
Jerry Harn
John Kuang
Jerry Wu

Consumer Finance
Thomas Liang
Chu-Ming Hung

Wealth Management
Benny Chen
Leo Cheng
Morris Huang
Eric Wu

Investment Management
Howard Lin

Insurance
Tsan-Ming Shih
Peng-Yuan Cheng
Steve T.H. Chen
Benson Chen
Fubon Financial Holding Co., Ltd.
Year of Founding: Dec. 2001
Chairman: Daniel M. Tsai
President: Victor Kung
Capital: NT$95.35 Billion
237 Section 1 Jianguo S Road
Taipei Taiwan
Tel: (8862) 6636-6636
Fax: (8862) 6636-0111
www.fubon.com

Fubon Insurance Co., Ltd.
Year of Founding: April 1961
Chairman: Tsan-Ming Shih
President: Steve T.H. Chen
Capital: NT$3.17 Billion
237 Section 1 Jianguo S Road
Taipei Taiwan
Tel: (8862) 2706-7890
Fax: (8862) 2704-2915
www.fubon.com

Fubon Life Insurance Co., Ltd.
Year of Founding: July 1987
Chairman: Pen-Yuan Cheng
President: Benson Chen
Capital: NT$29.10 Billion
108 Section 1 Dunhua S Road
Taipei Taiwan
Tel: (8862) 8771-6699
Fax: (8862) 8809-8889
www.fubon.com

Fubon Securities Investment Services Co., Ltd.
Year of Founding: May 1987
Chairman: Philip Hu
President: Charles Hsiao
Capital: NT$300 Million
108 Section 1 Dunhua S Road
Taipei Taiwan
Tel: (8862) 2781-5995
Fax: (8862) 2773-5601
www.fubon.com

Fubon Securities Co., Ltd.
Year of Founding: July 1988
Chairman: Benny Chen
President: Leo Cheng
Capital: NT$16.64 Billion
108 Section 1 Dunhua S Road
Taipei Taiwan
Tel: (8862) 8771-6888
Fax: (8862) 8771-6636
www.fubon.com

Fubon Asset Management Co., Ltd.
Year of Founding: Sep. 1992
Chairman: Gang Shyy
President: Henry Lin
Capital: NT$1.92 Billion
108 Section 1 Dunhua S Road
Taipei Taiwan
Tel: (8862) 8771-6688
Fax: (8862) 8771-6788
www.fubon.com

Fubon Futures Co., Ltd.
Year of Founding: May 1998
Chairman: Raymond Yang
President: Phoebe Chung
Capital: NT$1 Billion
9 Xiangyang Road
Taipei Taiwan
Tel: (8862) 2388-2626
Fax: (8862) 2370-1110
www.fubon.com

Fubon AMC Co., Ltd.
Year of Founding: Aug. 2004
Chairman: Chao-Yang Kao
President: Philip Chao
Capital: NT$2.5 Billion
50 Section 2 Zhongshan N Road
Taipei Taiwan
Tel: (8862) 6618-0588
Fax: (8862) 6608-0168

Fubon Financial Holding Venture Capital Corp.
Year of Founding: Oct. 2003
Chairman: Richard M. Tsai
President: Chu-Hsin Lee
Capital: NT$2.73 Billion
108 Section 1 Dunhua S Road
Taipei Taiwan
Tel: (8862) 6606-9088
Fax: (8862) 8771-4697

Taipei Fubon Commercial Bank Co., Ltd.
Year of Founding: April 1969
Chairman: Daniel M. Tsai
President: Jerry Harn
Capital: NT$61.23 Billion
169 Section 4 Ren Ai Road
Taipei Taiwan
Tel: (8862) 2771-6699
Fax: (8862) 6606-9398
www.fubon.com

Fubon Bank (Hong Kong) Limited
Year of Founding: Jan. 1970
Chairman: Richard M. Tsai
Chief Executive Officer: Raymond Wing Hung Lee
Capital: NT$5.33 Billion
Fubon Bank Building, 38 Des Voeux Road
Central, Hong Kong
Tel: (852) 2842-6222
Fax: (852) 2810-1483
www.fubonbank.com.hk

Fubon Direct Marketing Co., Ltd.
Year of Founding: Aug. 1997
Chairman: Gordon Yeh
President: Alex Yeh
Capital: NT$145 Million
9 Xiangyang Road
Taipei Taiwan
Tel: (8862) 2370-5199
Fax: (8862) 2370-5100
www.fubon.com

Taiwan Sport Lottery Co., Ltd.
Year of Founding: Aug. 2007
Chairman: Thomas Liang
President: Chu-Min Hong
Capital: NT$3.45 Billion
50 Section 2 Zhongshan N Road
Taipei Taiwan
Tel: (8862) 6608-5885
Fax: (8862) 6606-1968
www.i-win.com.tw

Aetna Life Insurance Company of America, Taiwan Branch was established in 1987 and then bought by ING Group in 2000 and renamed ING Life Taiwan. The branch became an ING Life subsidiary in 2006, which was later bought by the Fubon Group. Fubon Life was launched in 1993. The two insurers formally merged in 2009.