



Fubon Financial

1Q23 Interim Results and 2022 Embedded Value of Fubon Life

2023.05.18

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Performance highlights of Fubon Financial Holdings



Performance review by subsidiary

- Fubon Life
- Taipei Fubon Bank
- Fubon Insurance
- Fubon Securities
- Overseas Banking Operations



2022 Embedded Value of Fubon Life

2022 Dividends

- Proposal of cash dividend at NT\$1.5 and stock dividend at NT\$0.5 per common share
- The proposed dividends represent a total payout ratio of 56.5%

Fubon FHC

- Net profit of NT\$14.0bn, down 69.9% YoY and EPS of NT\$1.13, both leading among FHCs in Taiwan
- Total assets over NT\$10.6tn and net worth of NT\$713.1bn, up 0.5% and down 17.3% YoY, respectively
- BVPS at NT\$49.80 per common share

Fubon Life

- Net profit of NT\$7.25bn ranked 1st among peers in Taiwan
- Ranked top 2 in terms of FYP, TP and FYPE in Taiwan
- Investment return at 3.32% supported by increasing recurring income
- Equity to asset ratio at about 8.3% and RBC ratio near 300%

Taipei Fubon Bank

- Net profit reached NT\$6.91bn, a record high. Up 60% YoY if excluding bargain purchase gain in 2022
- Net fee income increased 17.4% YoY from the growth of wealth management and credit card business
- New credit card issuance was over 0.8mn, up 380% YoY. More than 80% from COSTCO co-branded cards
- Number of branches ranked 1st among private banks after the merger with Jih Sun Bank on April 1st, 2023

Fubon Insurance

- Net loss of NT\$4.25bn. Net profit would be NT\$0.97bn if excluding the impact of Covid-related policies
- Insurance premium climbed 10.2% YoY. Market share of 25.7% as a market leader
- Investment return at 5.89%, remaining stable in a volatile market
- RBC exceed the legal requirement upon the completion of NT\$16bn capital injection in May

Fubon Securities

- Net profit of NT\$1.53bn, up 100.6% YoY, mainly from investment gains as TAIEX trended up
- Merger with Jih Sun Securities to foster market position

ESG Performance

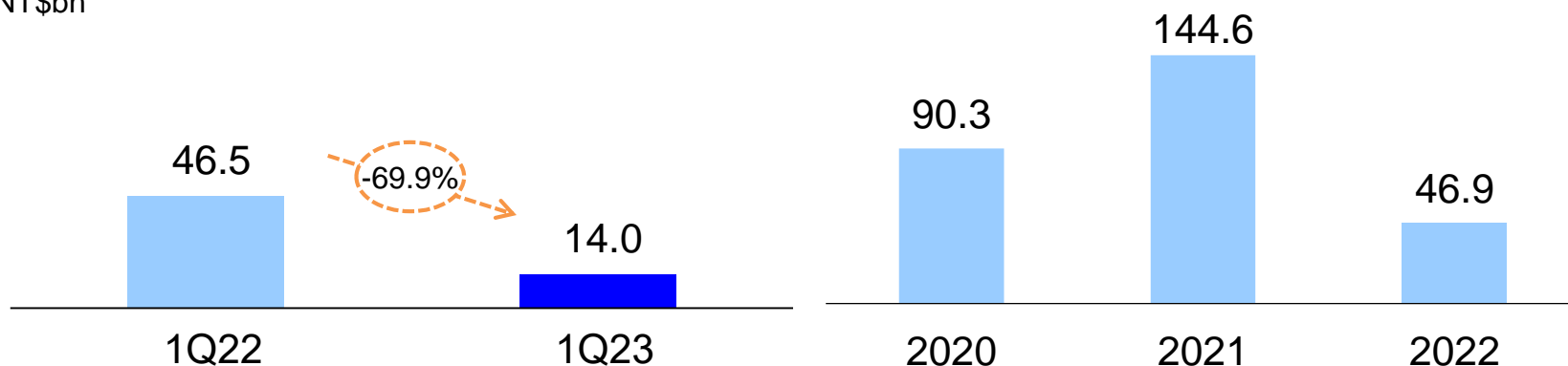
- Top 5% in ESG score among global insurers in The S&P Global Sustainability Yearbook 2023 from DJSI
- Focus on the “low-carbon” strategy in 2025 goals. Advocate in sustainability initiatives in business lines:
 - Fubon Life: 22.4% of the application rate for electronic insurance policy and 14% YoY on the number of applicants
 - Taipei Fubon Bank: The lead arranger, bookrunner and facility agent of US\$500mn sustainability-linked syndication loan for Wistron Corp. and US\$1bn social syndication loan for State Bank of India
 - Fubon Insurance: Launch green sustainability related insurance products with total premium of NT\$2.565bn year-to-March
 - Fubon Securities: Investment in low-carbon and green energy at NT\$2.743bn and NT\$1.578bn, respectively

Fubon Financial Holdings: Profitability

- Net profit NT\$14.0bn and EPS NT\$1.13 both topped FHCs in Taiwan

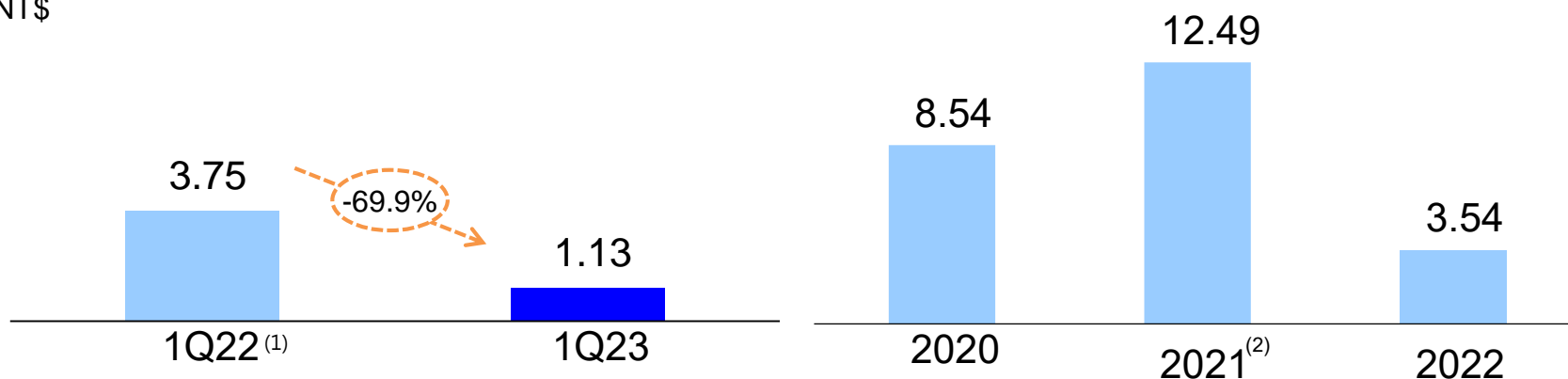
Net profit

NT\$bn



Earnings per share (EPS)

NT\$



Note : (1) 1Q22 data were adjusted to reflect the Fubon FHC's stock dividend distribution in 2022

(2) EPS of 2020 and 2021 would be NT\$7.39 and NT\$11.89, respectively, if adjusted to reflect stock dividends in 2021 and 2022

Fubon Financial Holdings:

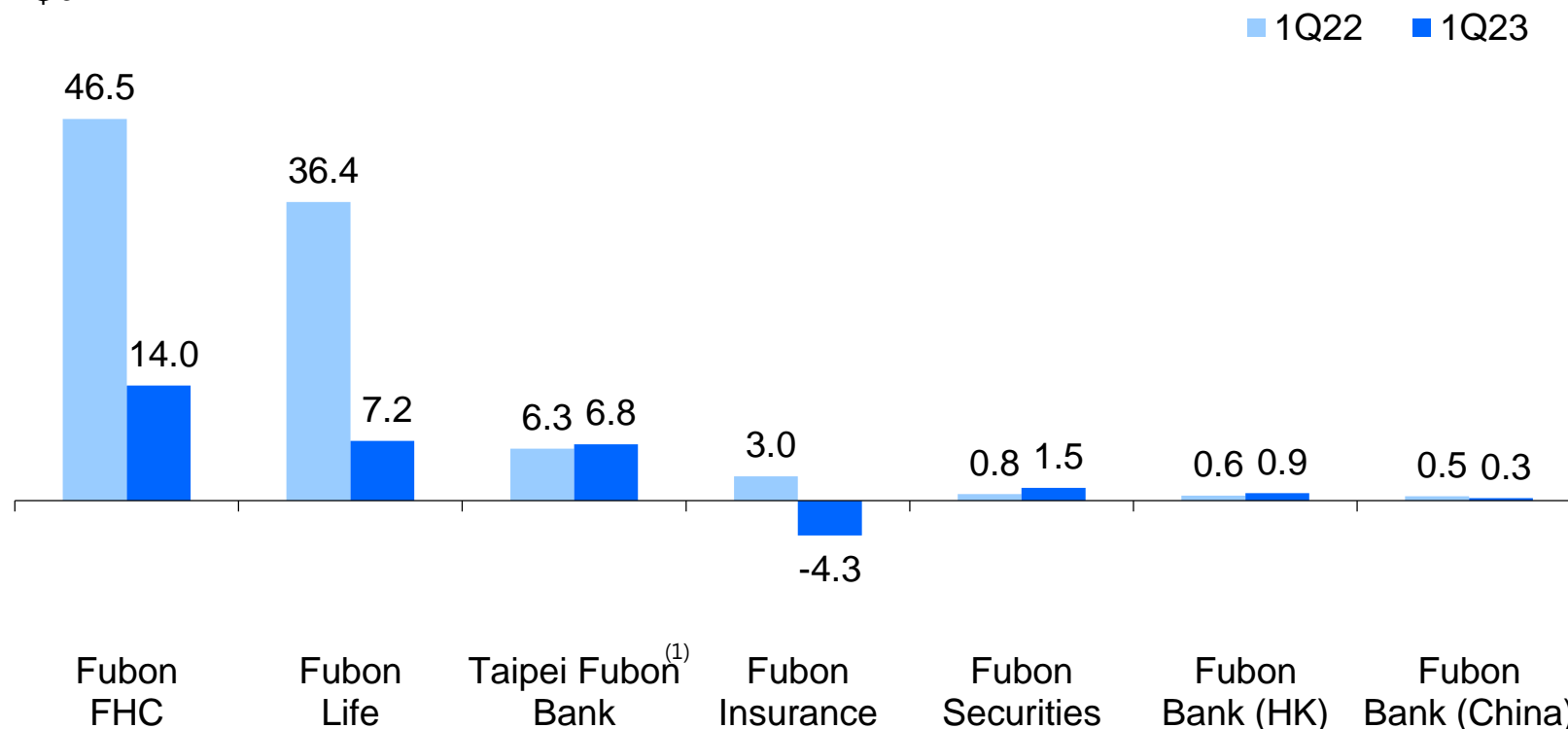
Net profit from major subsidiaries



- The decline in FHC's net profit YoY was mainly due to lower capital gains in Fubon Life under a volatile financial market, and Covid-related policies claims in Fubon Insurance. The performance of other subsidiaries was largely robust

Net profit of the FHC and subsidiaries

NT\$bn



Note: (1) Net profit of Taipei Fubon Bank was NT\$6.9bn. Taipei Fubon Bank's net profit of NT\$6.8bn excludes investment income from Fubon Bank (China) to avoid double counting and its net profit will grow by 60% YoY if excluding the bargain purchase gain of Hyundai credit card in 2022.

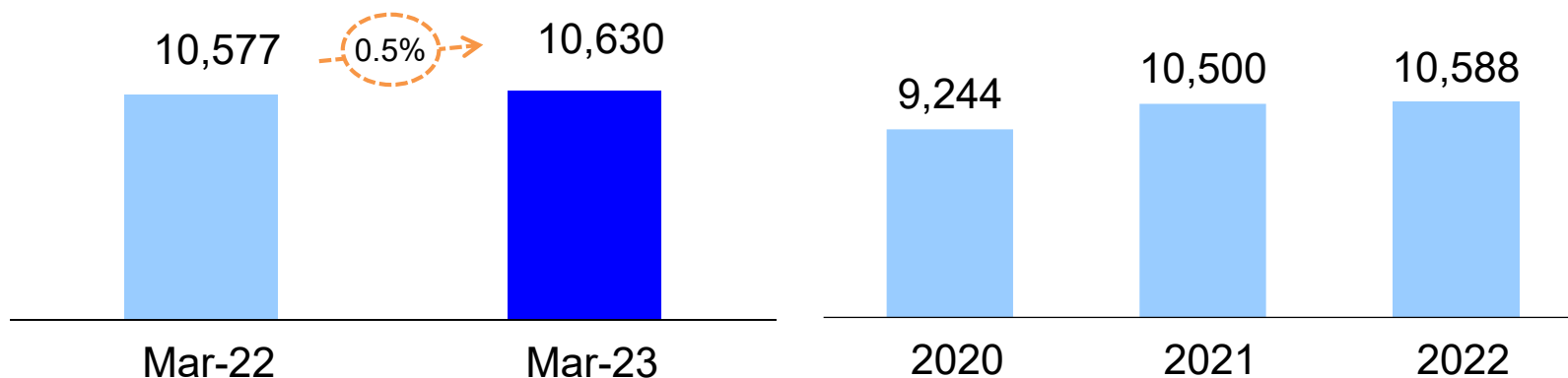
Fubon Financial Holdings: Assets and Net Worth



- Fubon FHC's total assets was over NT\$10.6tn, up 0.5% YoY
- Net worth increased 26% QoQ and decreased 17.3% YoY due to the market volatility
- BVPS at NT\$49.8 per common share

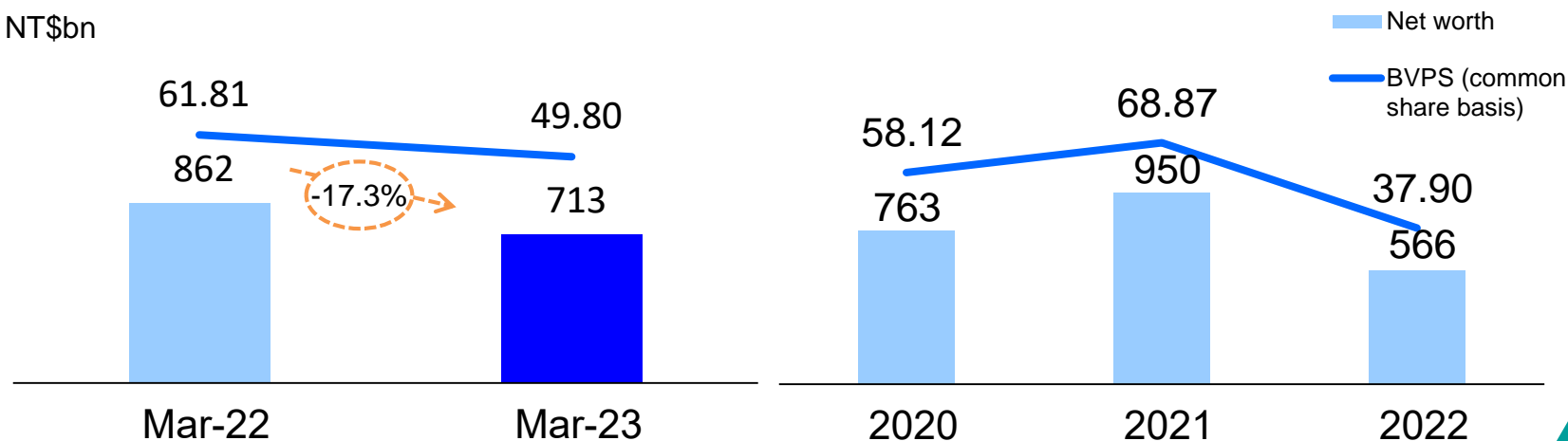
Total assets

NT\$bn



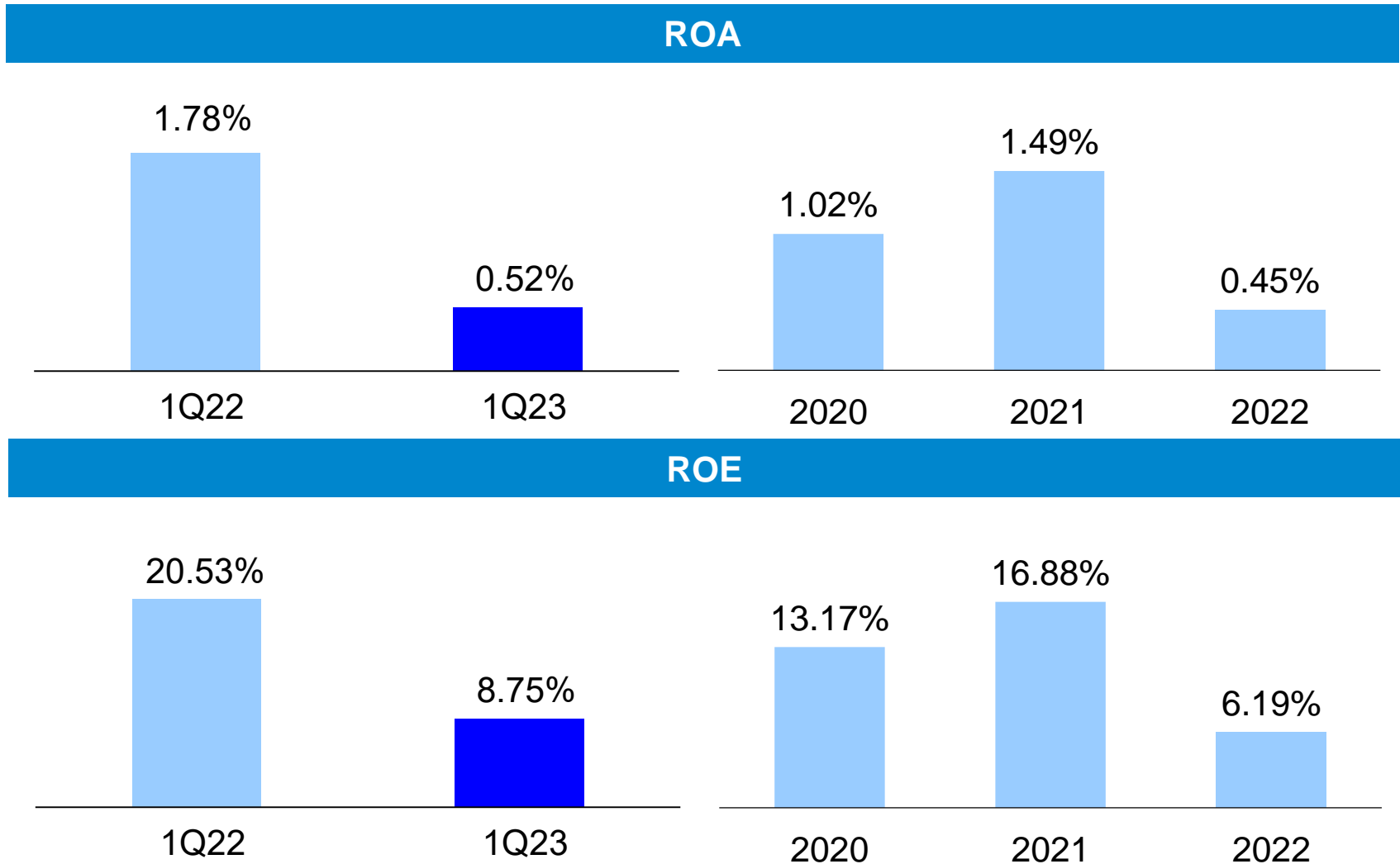
Equity attributable to parent company

NT\$bn



Fubon Financial Holdings: ROA & ROE

■ ROA and ROE decreased YoY along with earnings fluctuation



Note: data are annualized



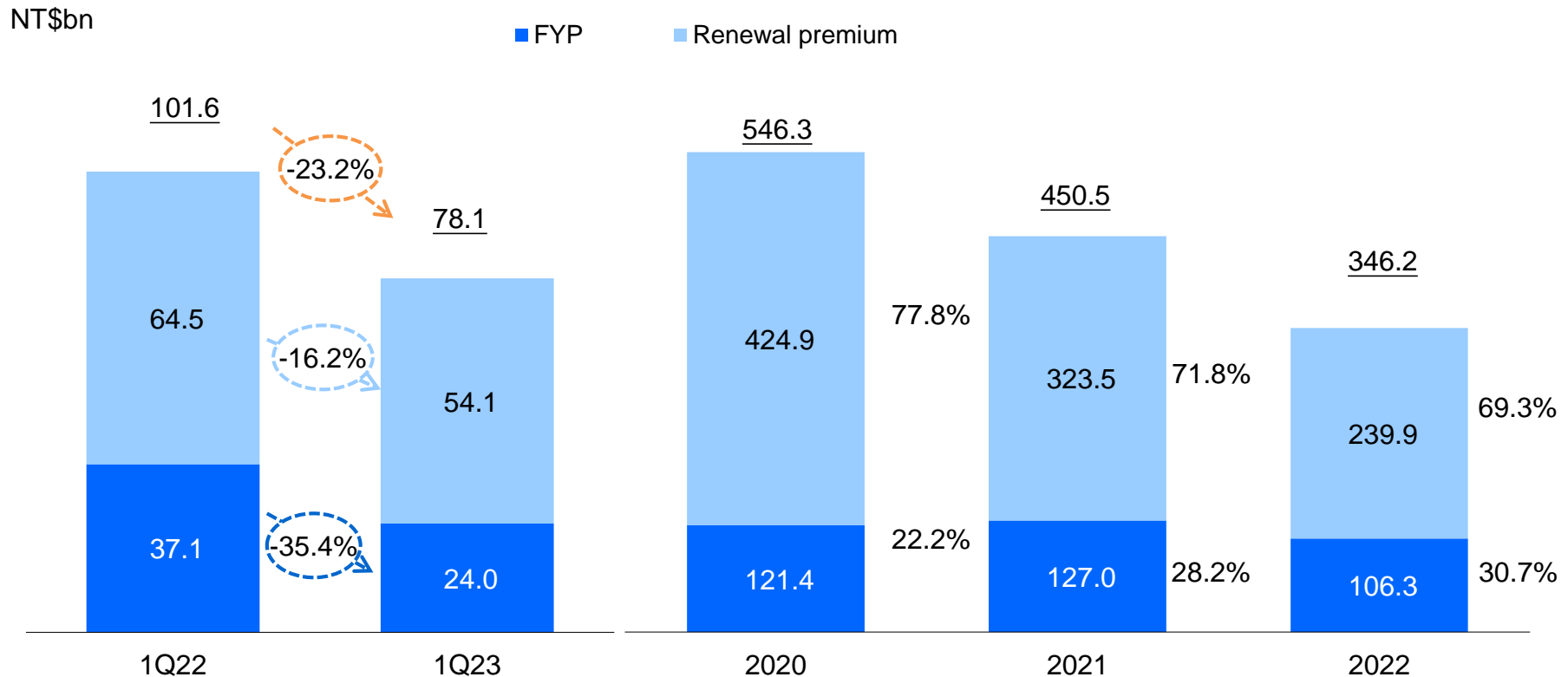
Performance Review by Subsidiary

Fubon Life

Fubon Life: Total Premiums

- Total premiums declined 23.2% YoY, including FYP drop of 35.4% YoY. Renewal premium fell mainly due to paid-up of regular-paid policies
- FYP declined 35.4% YoY compared to the 39.4% decline of the industry

Total premium composition

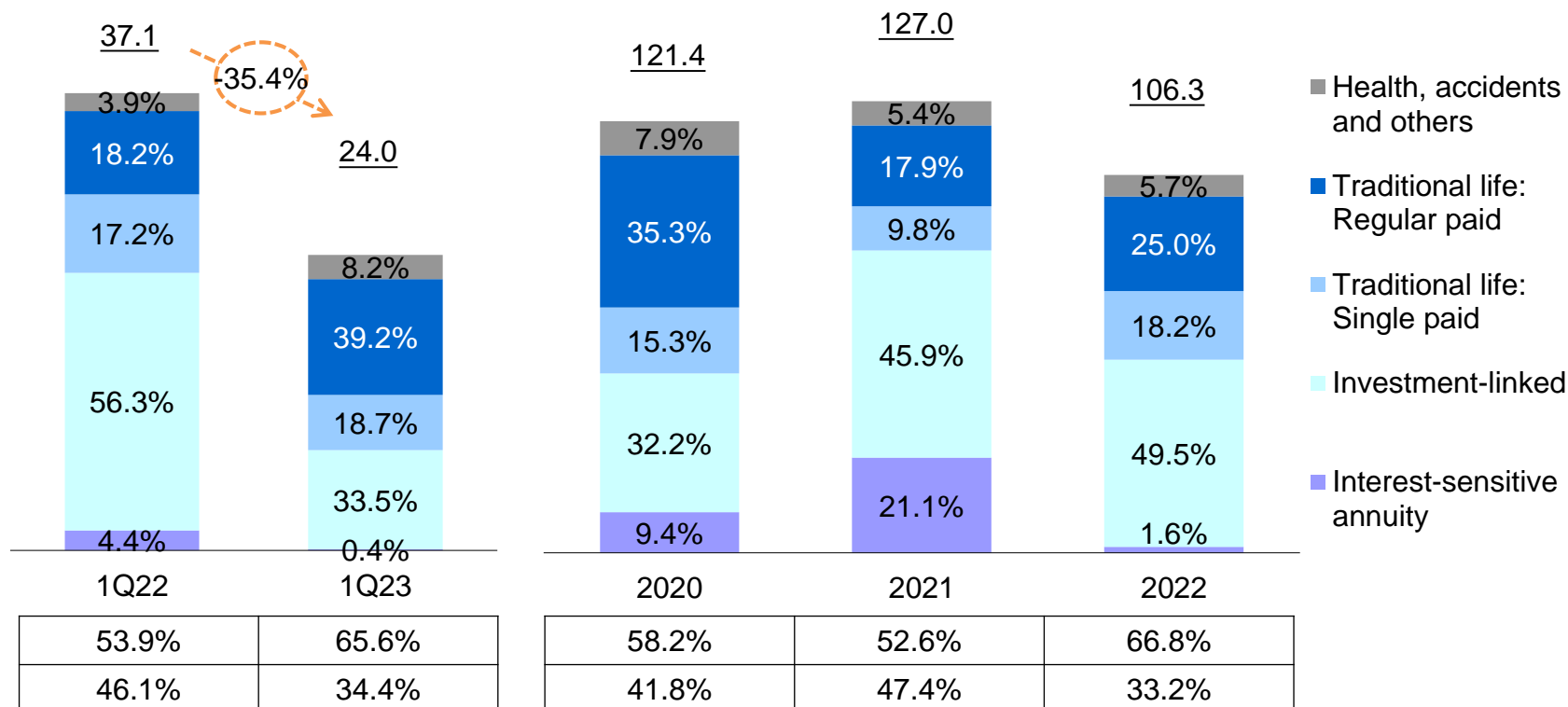


Fubon Life: First Year Premiums (FYP)

- Sales in regular-paid product grew on traditional life products (from 18.2% to 39.2% of FYP) and health, accidents and others (from 3.9% to 8.2% of FYP). FYP dropped 35.4% YoY due to a 22.8% decrease in investment-linked products led by rate hike and volatile market

FYP composition

NT\$bn

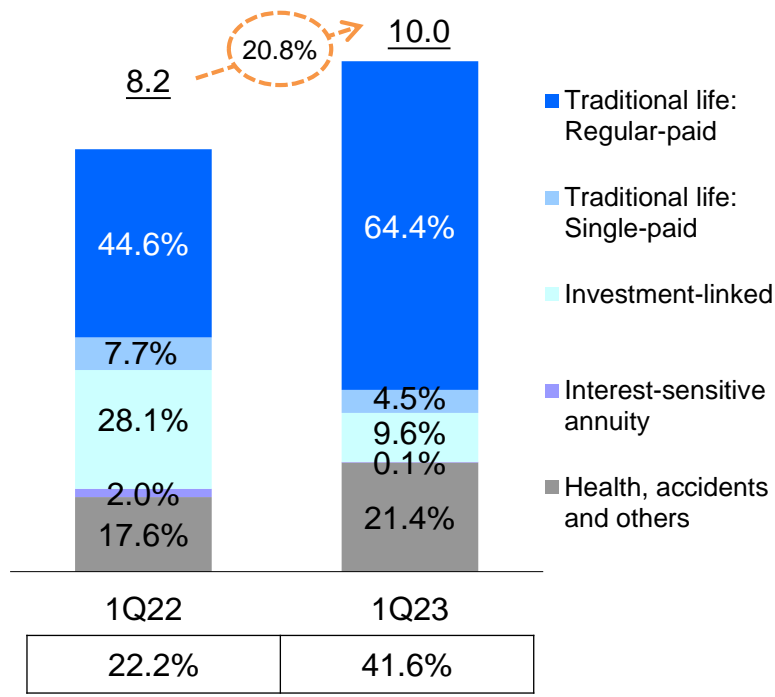


Fubon Life: FYPE & VNB

- Fubon Life's FYPE grew 20.8% YoY mainly from regular-paid traditional life products. The industry's FYPE declined by about 6.5% YoY. FYPE/FYP ratio reached 41.6% and VNB growth was 29.9% YoY

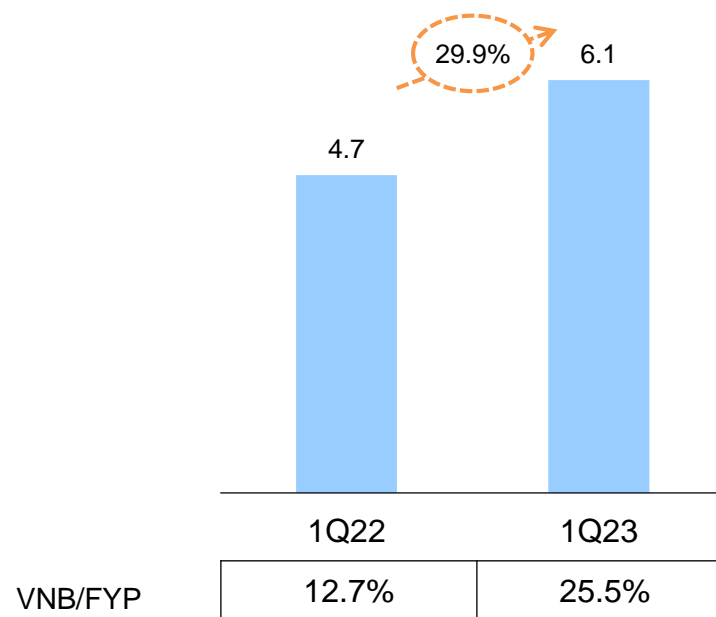
FYPE

NT\$bn



VNB

NT\$bn



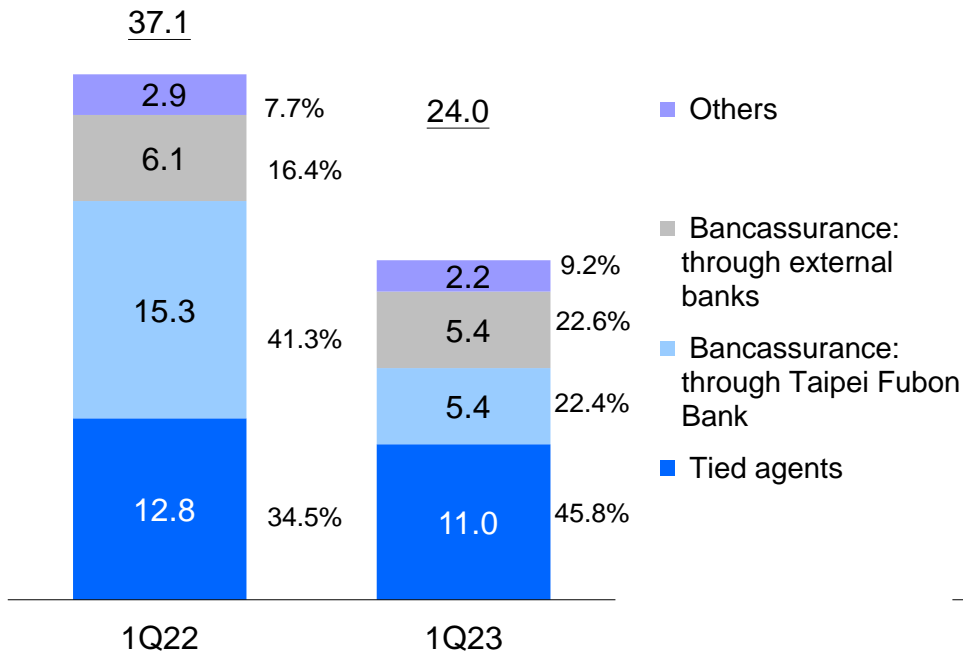
Note: VNB based on 2022 EV actuarial assumptions

Fubon Life: Channels

- Internal channels contributed over 70% of FYP. FYP contribution from external bancassurance channels also grew from 16.4% to 22.6%
- FYP from bancassurance topped the industry. Strengthened sales of regular-paid traditional life products to lift FYPE/FYP ratio

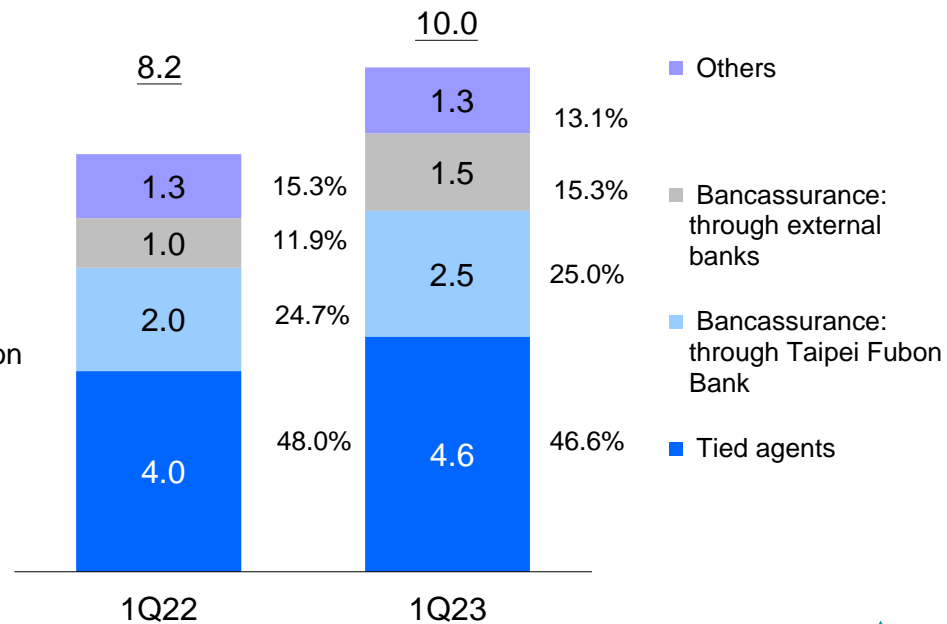
FYP by channel

NT\$bn



FYPE by channel

NT\$bn



Fubon Life: Investment Portfolio



- Relatively high cash position to seize market opportunities
- The increase in the domestic equity position reflected the rebound of the stock market and increase in equity allocation

NT\$bn	2022/12/31			2023/3/31		
	Amount	%	Return	Amount	%	Return
Deposit and cash equivalent	203.5	4.4%	0.62%	192.7	4.1%	1.11%
Domestic fixed income ⁽¹⁾	574.5	12.5%	1.76%	609.1	12.8%	2.34%
Overseas fixed income ⁽²⁾	2,624.5	57.2%	3.80%	2,695.2	56.9%	3.83%
Domestic equity	405.8	8.8%	14.02%	464.9	9.8%	13.52%
Overseas equity	248.5	5.4%	11.36%	251.5	5.3%	6.74%
Mortgage loans	118.9	2.6%	1.71%	113.7	2.4%	2.01%
Policy loans	76.2	1.7%	4.54%	74.9	1.6%	4.46%
Real estate	338.3	7.4%	0.88%	338.6	7.1%	3.71%
Total investment	4,590.2	100.0%	4.48%	4,740.5	100.0%	3.32%
Domestic	1,599.4	34.8%	4.93%	1,677.6	35.4%	5.58%
Overseas	2,990.8	65.2%	4.24%	3,063.0	64.6%	2.07%

Note: (1) Inclusive of NTD-denominated ETFs

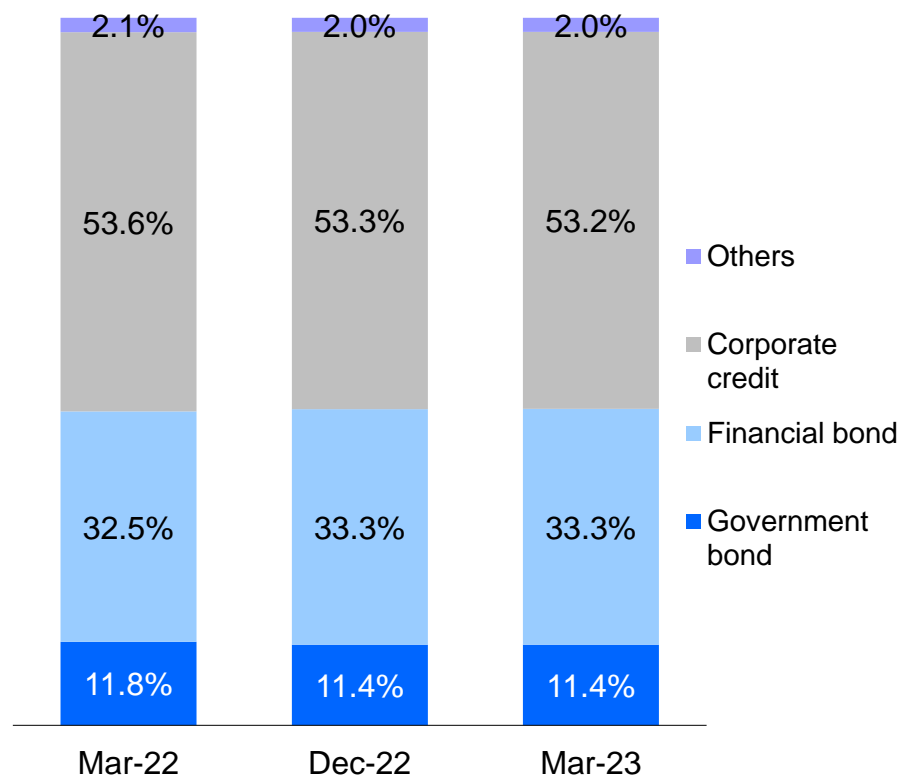
(2) Inclusive of OTC-listed international bonds, which was 13.8% of total investment assets as of 2023/3/31

Fubon Life: Overseas Fixed Income Portfolio

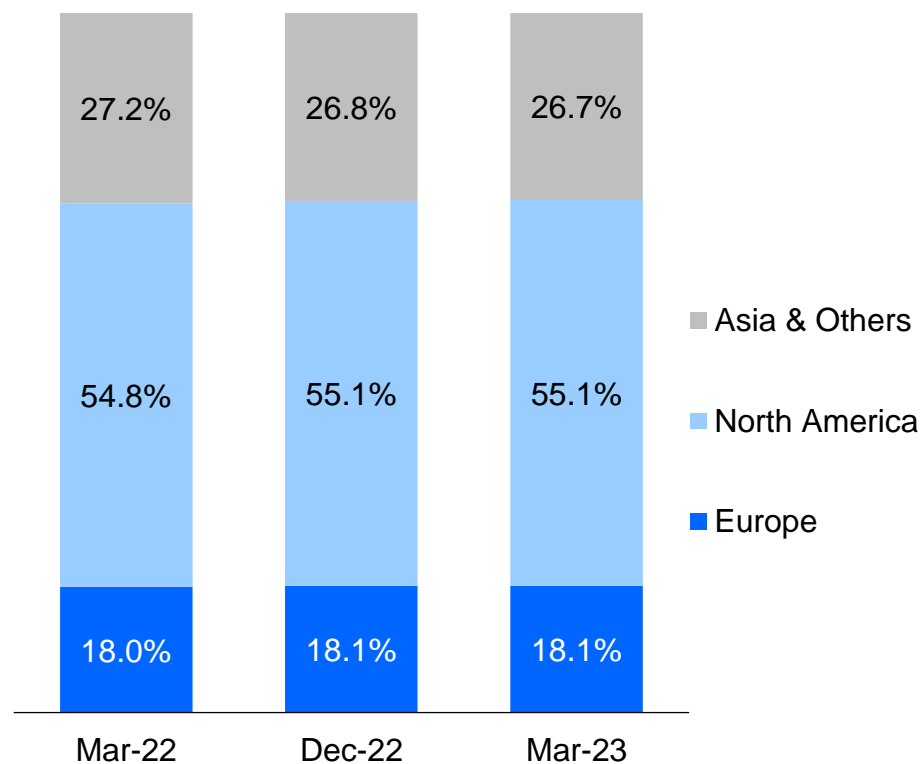


- Continue to focus on investment grade corporate credit and financial bonds with stable distribution by region

Overseas fixed income by asset type



Overseas fixed income by region



Fubon Life: Composition of Investment Income

- Recurring returns improvement mainly reflected higher interest income
- Capital gain decreased YoY due to rate hike and capital market volatility

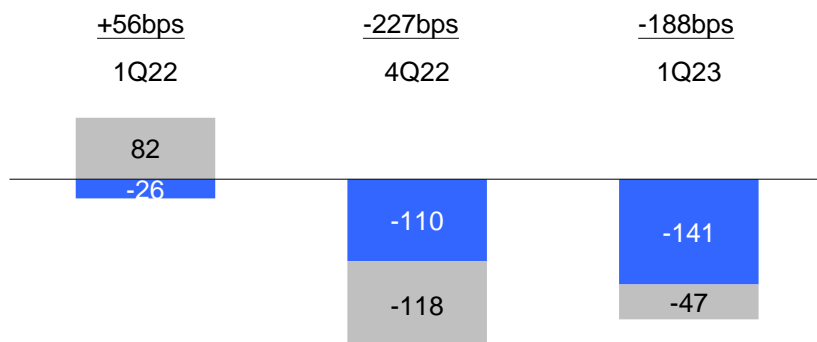
NT\$bn	1Q22	1Q23	YoY growth	2021	2022
Recurring investment income	31.0	35.1	13.2%	130.3	152.3
Interest income	25.7	27.4	6.5%	94.7	109.8
Cash dividend income from equity investment	1.6	1.9	22.2%	20.0	22.6
Rental and others	3.7	5.8	55.6%	15.6	19.8
Realized gains from fixed income investment	6.7	0.4	-94.6%	31.5	-2.8
Realized gains from equity investment	38.8	16.0	-58.8%	87.4	60.2
FX and others	1.9	-13.6	N.M.	-14.1	-7.2
Investment income	78.4	37.8	-51.8%	235.1	202.4
Total investment assets	4,748.8	4,740.5	-0.2%	4,729.5	4,590.2
Investment return (before hedge & FX)	6.31%	4.53%		5.71%	4.47%
Investment return (after hedge & FX)	6.68%	3.32%		5.27%	4.48%

Fubon Life: Composition of Hedging Portfolio

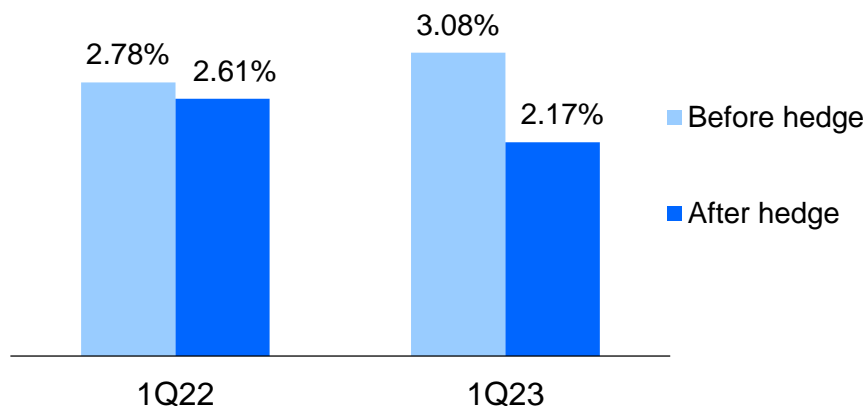
- Hedge cost was high as interest rate spread between USD and NTD remained wide
- NTD/USD was range-bound and FX gain improved QoQ
- Recurring return before hedge increased YoY due to a higher market rate while recurring return after hedge decreased

Hedging cost & FX gain/loss

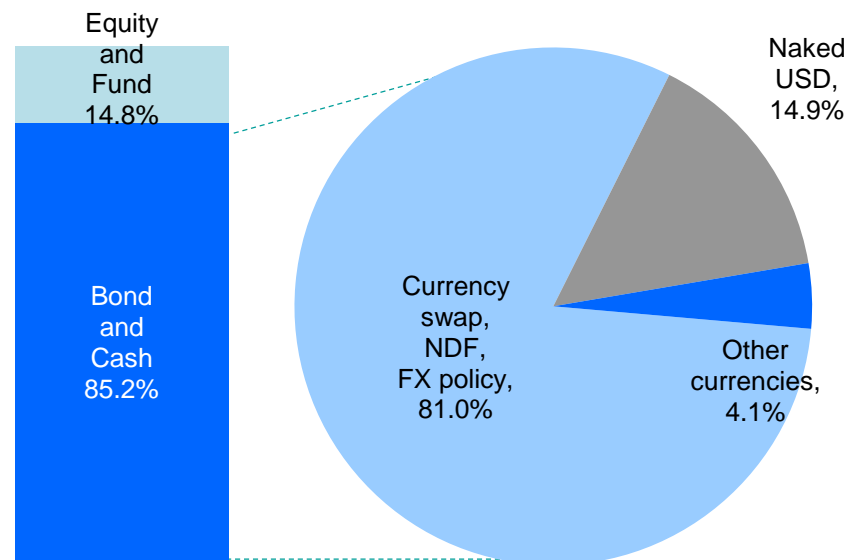
■ CS+NDF cost ■ FX gain/loss & net provision of FX reserve



Recurring return



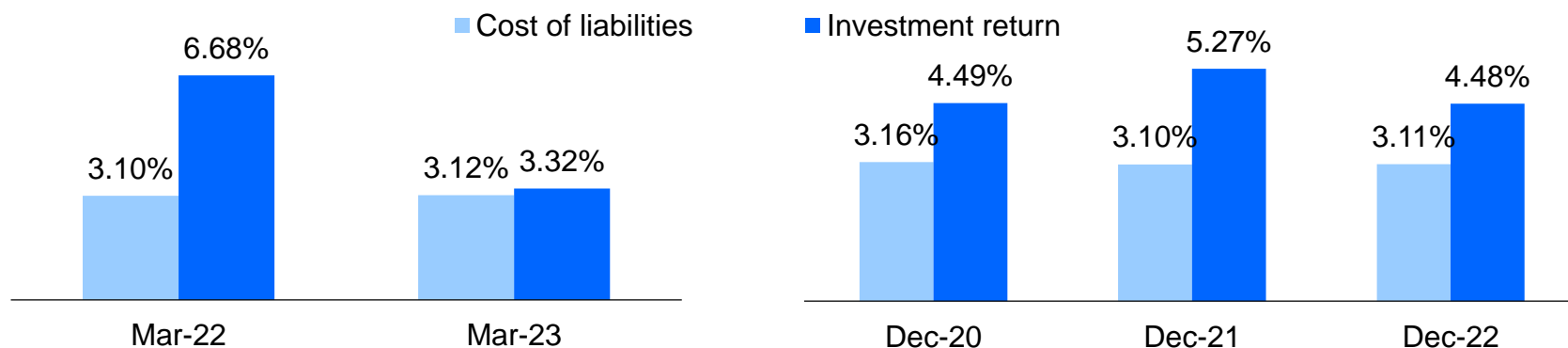
FX position



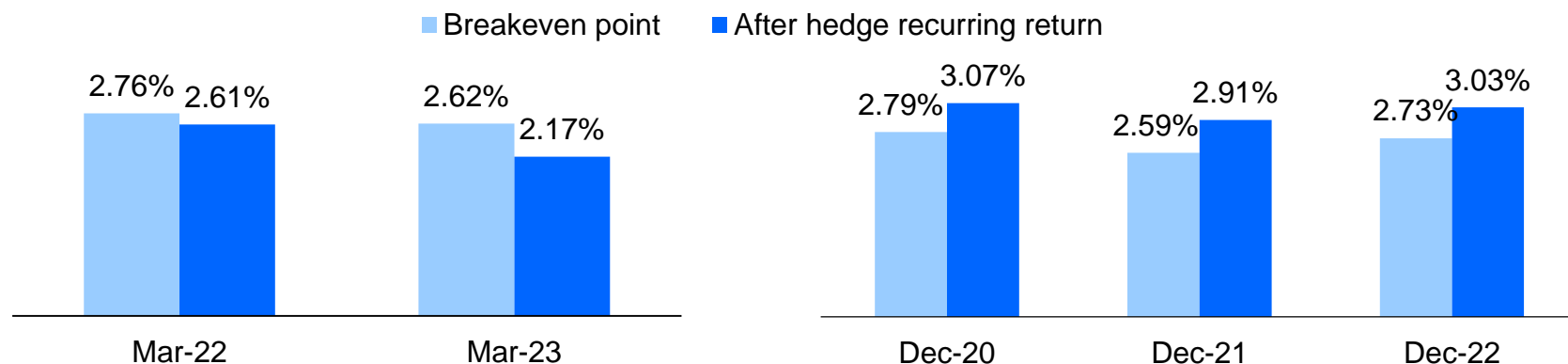
Fubon Life: Cost of Liability & Breakeven Point

- Investment return decreased due to capital market volatility. Fubon maintained a positive spread between COL and investment return
- Breakeven point improved on back of product mix adjustment. Recurring return after hedge decreased due to high hedging cost

Cost of liability



Breakeven point

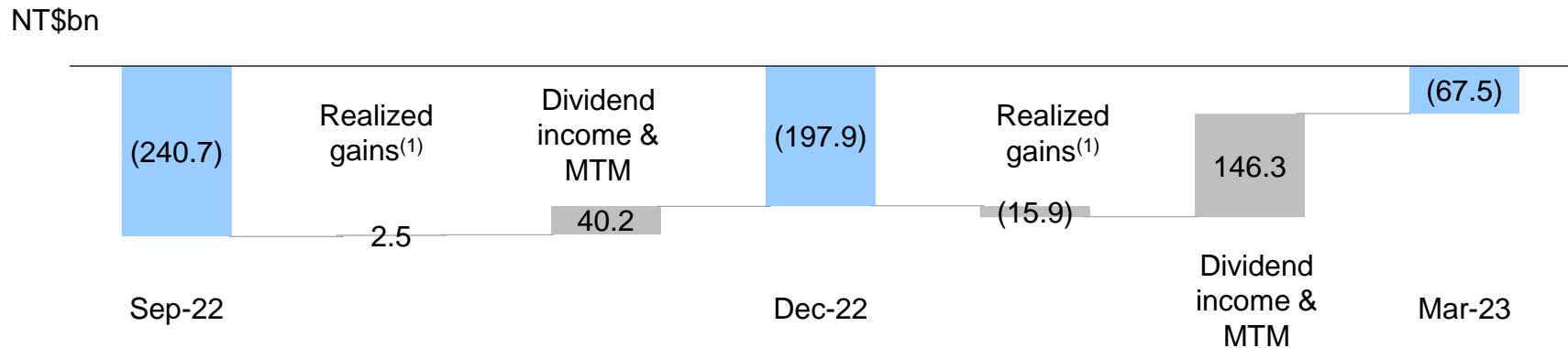


Note: Breakeven point = (Profit before tax – investment income) / average investment assets

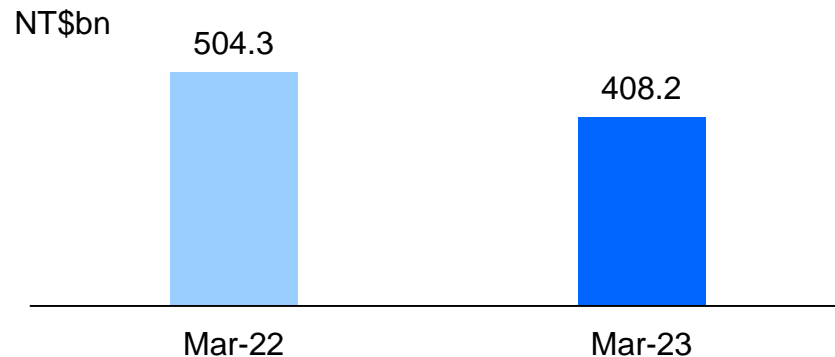
Fubon Life: Investment Performance

- Unrealized balance improved mainly due to market recovery and financial assets reclassification. The reclassification pushed up net worth by approximately NT\$70bn
- Equity-to-asset ratio was 8.3% and RBC ratio was around 300%

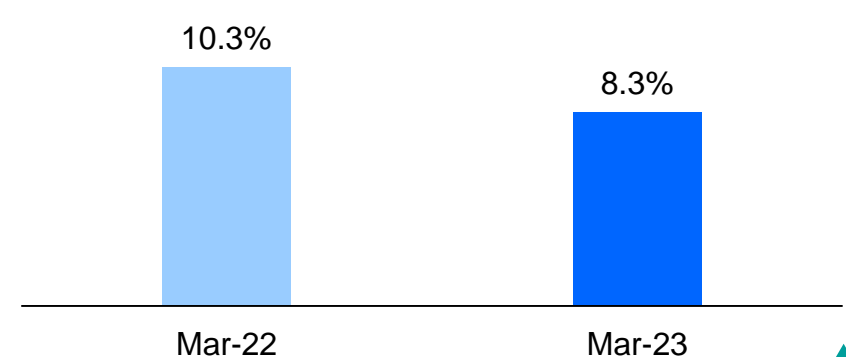
Unrealized balance in FVOCI & FVTPL overlay and movement



Shareholders' equity



Equity-to-asset



Note: (1) Realized equity gain/ loss under FVOCI is included



Performance review by subsidiary
Taipei Fubon Bank

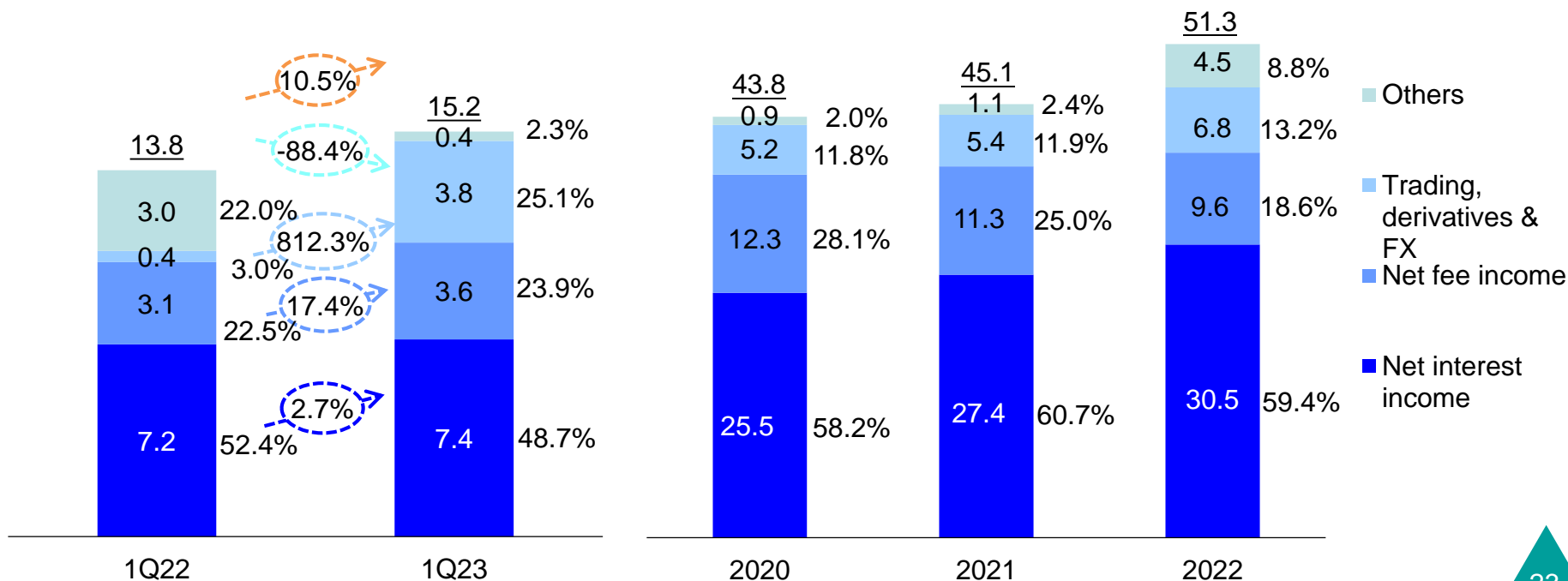
Taipei Fubon Bank: Revenue



- Adjustment in deposit and loan structure and growth of overseas loan led to 2.7% YoY in NII. Fee income rose 17.4% YoY, mainly from the increase on wealth management and credit card business as financial market and pandemic stabilized
- Treasury income grew mainly from valuation increase in financial assets and FX gains. Other income decreased, primarily due to the high base of one-time bargain purchase gain last year
- Total revenue was up 10.5% YoY, or 39% YoY if exclusive of bargain purchase gain in 1Q22

Revenue composition of Taipei Fubon Bank

NT\$bn

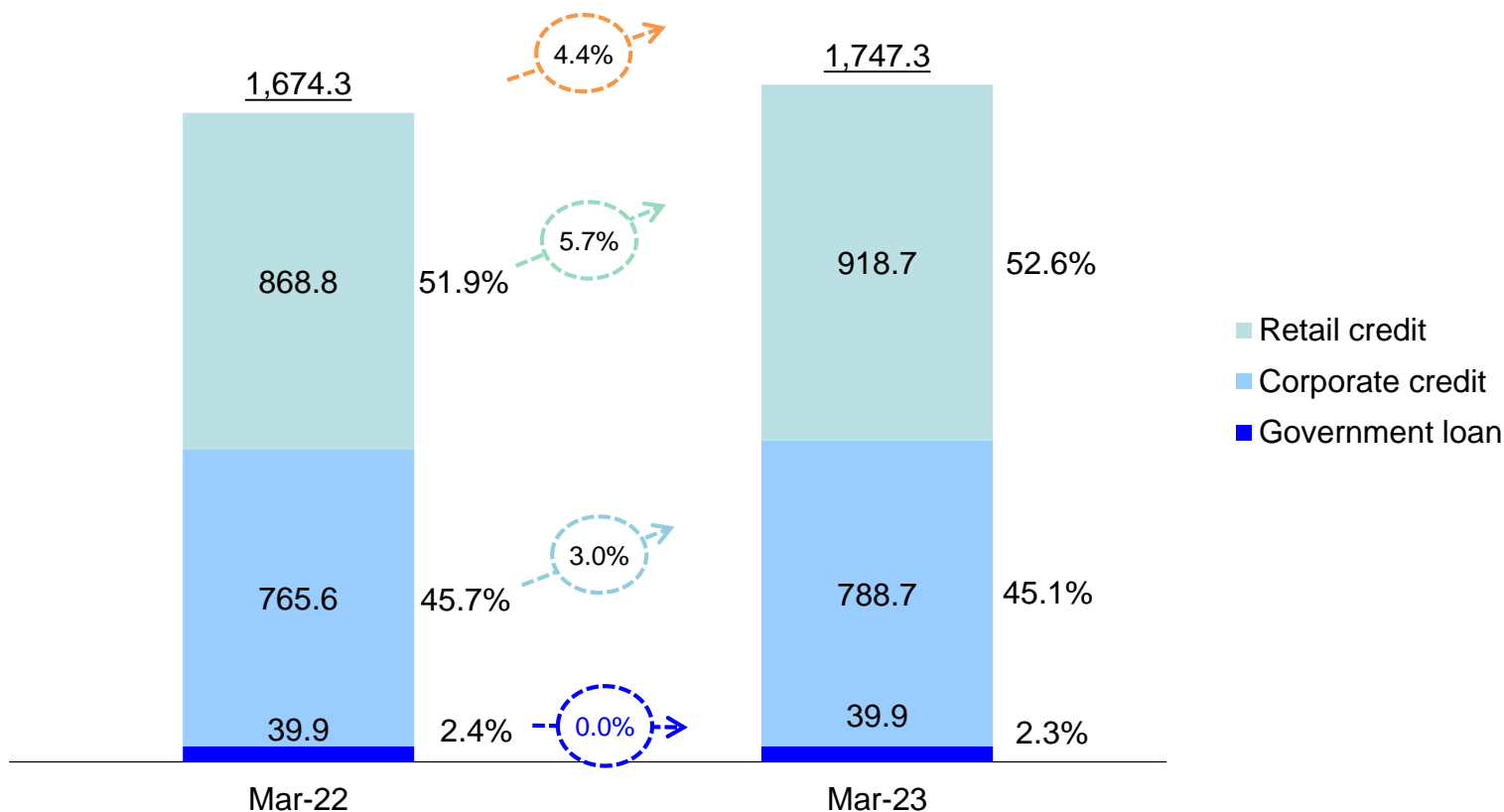


Taipei Fubon Bank: Credit Composition

- Retail loan grew faster than corporate loan. Total credit balance up 4.4% YoY

Credit composition

NT\$bn



Note: Ending balance

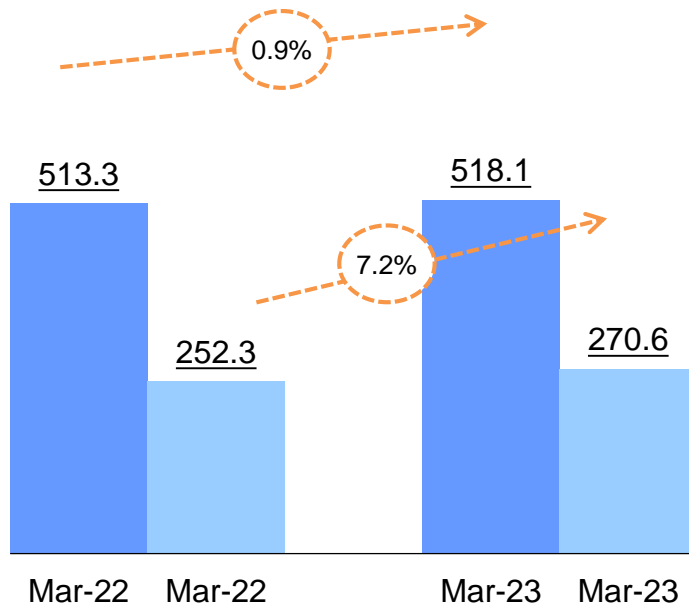
Taipei Fubon Bank: Corporate Loan

- Corporate loan balance rose 3.0% YoY, mainly from foreign currency loan
- SME credit climbed 7.3% YoY, with steady growth momentum

Corporate credit by currency

NT\$bn

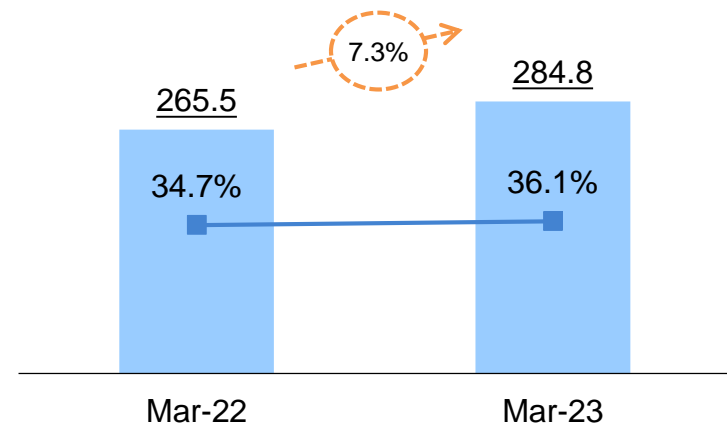
■ NTD loan ■ Non-NTD loan



SME credit

NT\$bn

■ Credit ■ SME as % of corporate credit



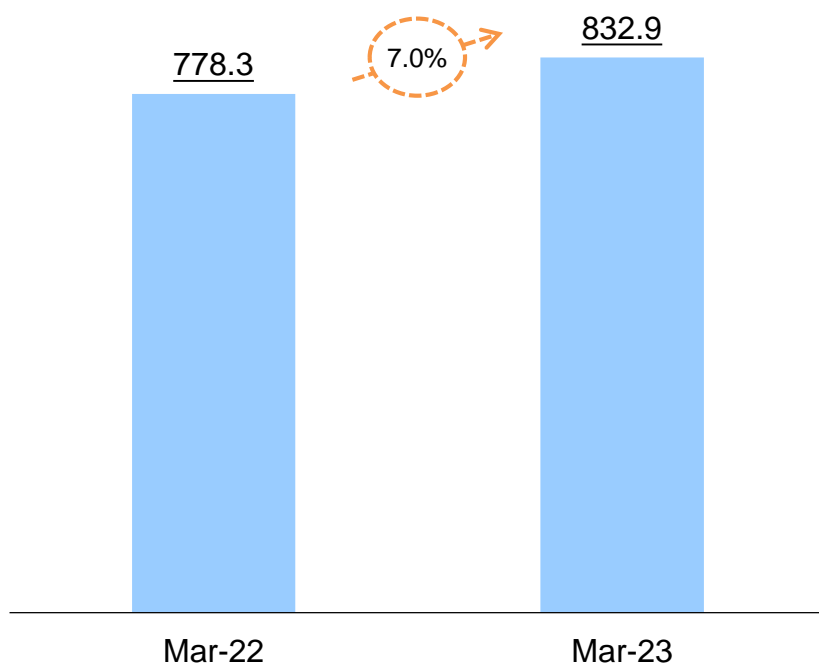
Note: Definition of SME (Small and Medium-sized Enterprise) is according to Ministry of Economic Affairs' criteria, which is a company with capital less than NT\$100mn or less than 200 employees.

Taipei Fubon Bank: Retail credit

- Mortgage grew 7.0% YoY
- Personal unsecured loans was down 5.3% YoY, reflecting increase of top-tier customer repayments under rate hike environment and adjustment of customer segment

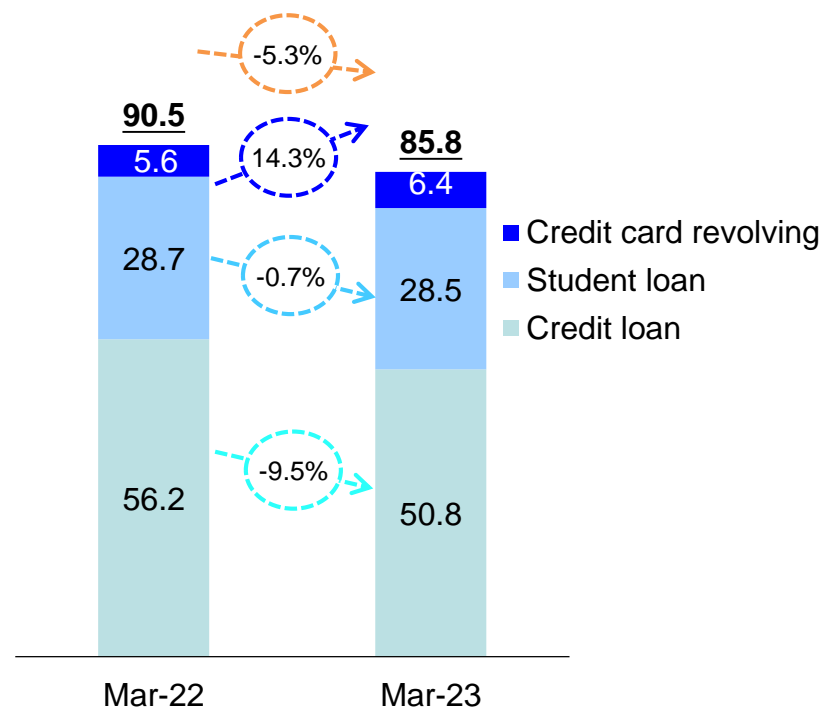
Mortgage

NT\$bn



Personal unsecured loans

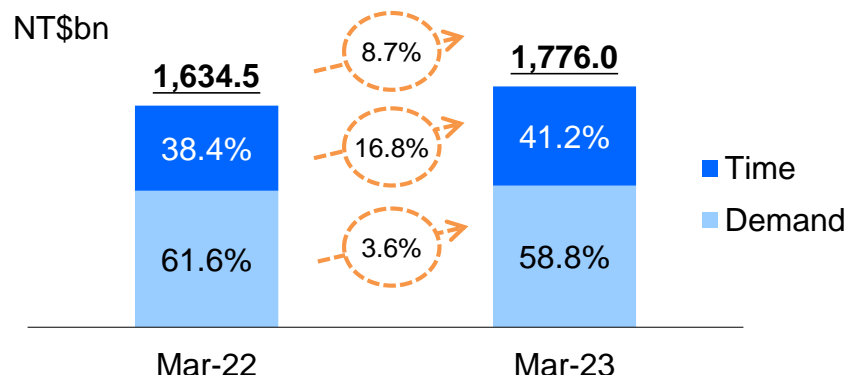
NT\$bn



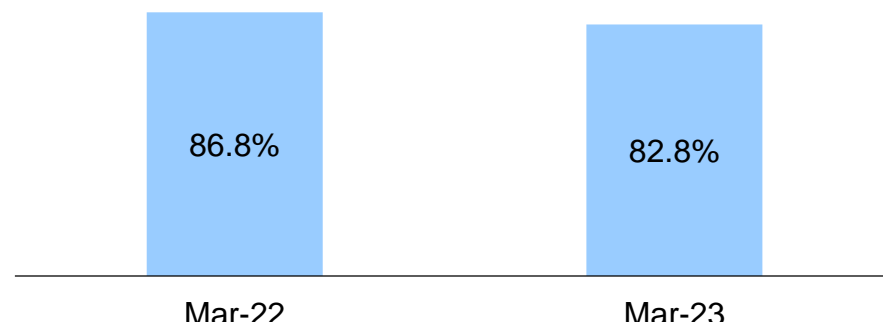
Taipei Fubon Bank: Deposit Mix and LDR

- Deposit balance climbed 6.1%, mainly due to growth of retail deposits. CASA ratio declined YoY, reflecting customers' preference for time deposits under rate hike environment
- The utilization of foreign currency continued to improve, which is reflected in the increase of SWAP revenue

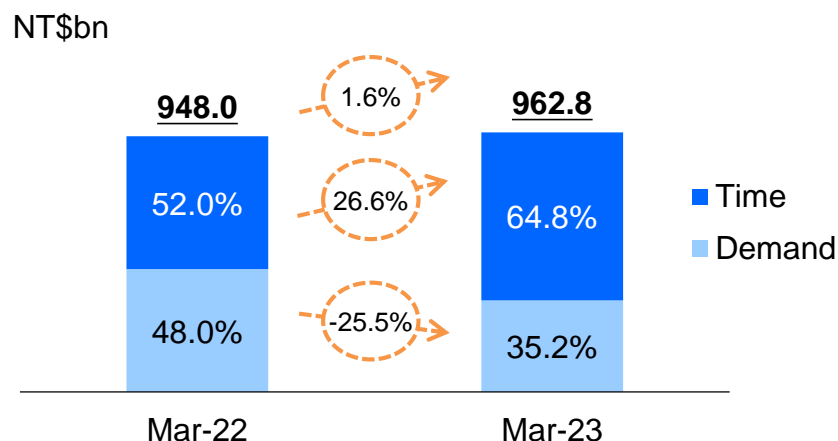
Deposit mix in NTD



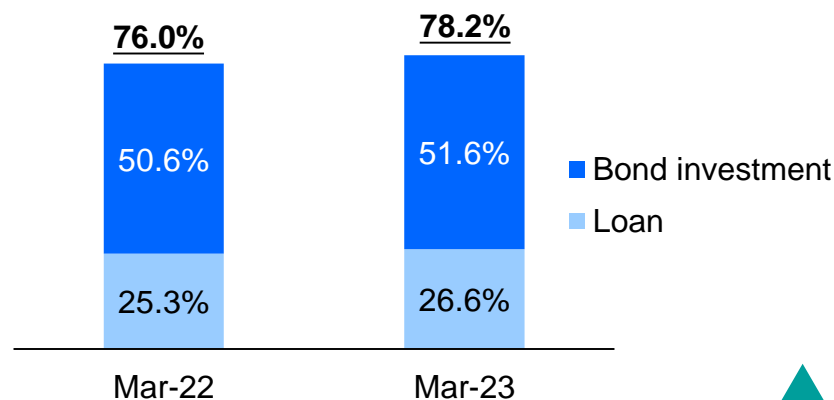
Loan-to-deposit ratio (LDR) in NTD



Deposit mix in FX



Loan and bond investment to deposit in FX



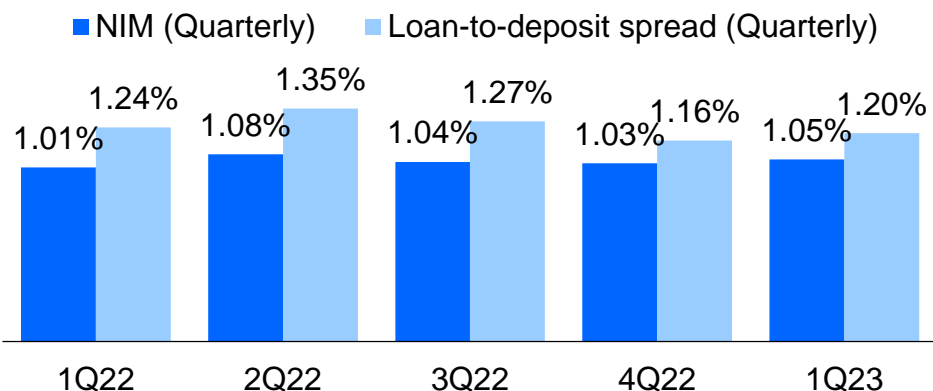
Note: Ending balance

Taipei Fubon Bank: Interest Spread and Margin

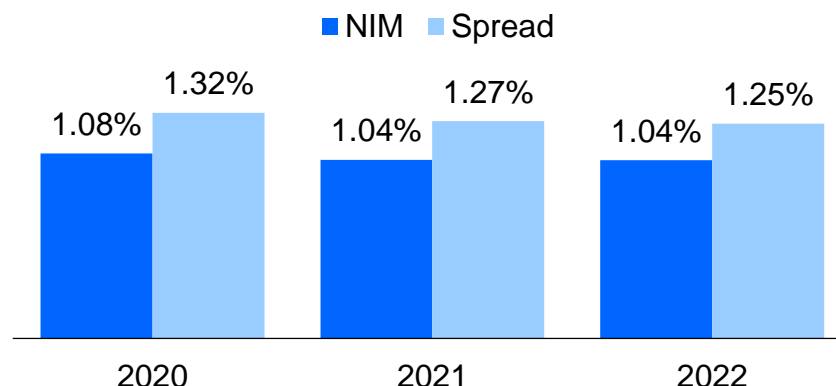


- NIM and spread up 2bps and 4bps QoQ, respectively, given the rising proportion of FX loan and FX LDR
- Spread in 1Q23 slightly down YoY, reflecting USD rate hike and the increase of FX funding cost. NIM of 1Q23 would be 1.29%, up 25bps YoY, if inclusive of SWAP due to NTD and USD spread widening

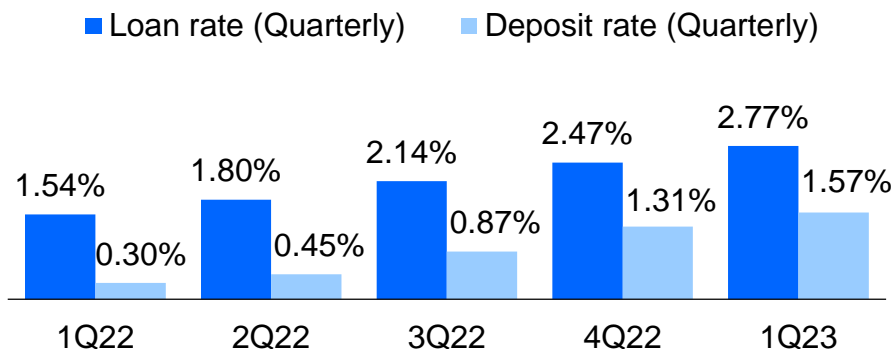
NIM and loan-to-deposit spread (quarterly)



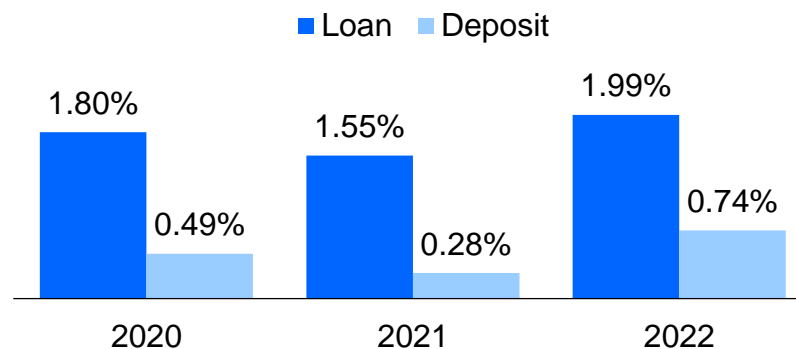
NIM and loan-to-deposit spread



Loan rate and deposit rate (quarterly)



Loan rate and deposit rate

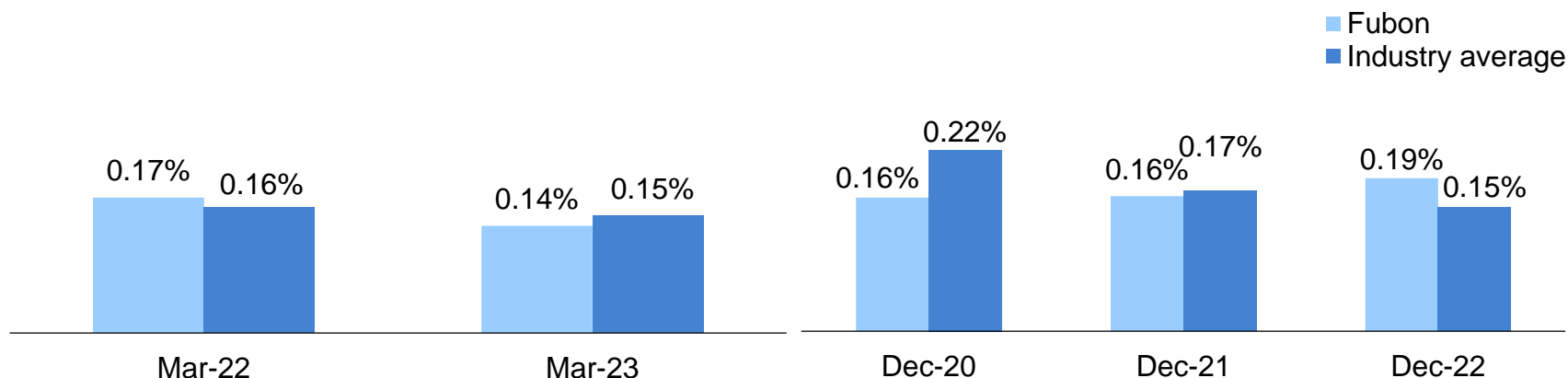


Note: Loan rate calculation inclusive of revolving credit cards

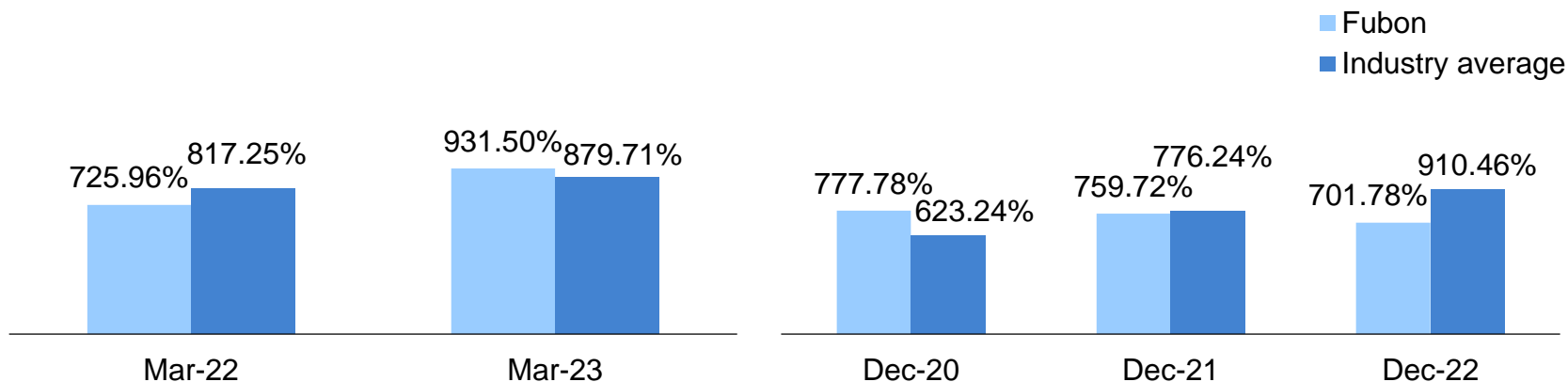
Taipei Fubon Bank: Asset Quality

■ Asset quality remained stable

NPL ratio



Coverage ratio



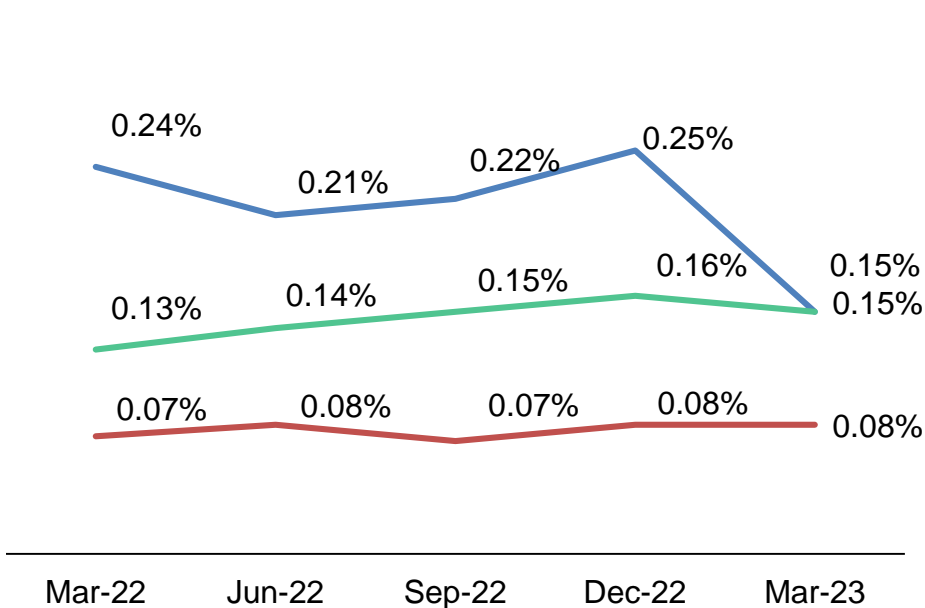
Note: Market data as of Mar. 2023

Taipei Fubon Bank: NPL Ratio and Credit Cost

- Benign asset quality across business lines. NPL ratio in corporate loans dropped due to write-off
- Provision cost mainly from general provisions as loan grew

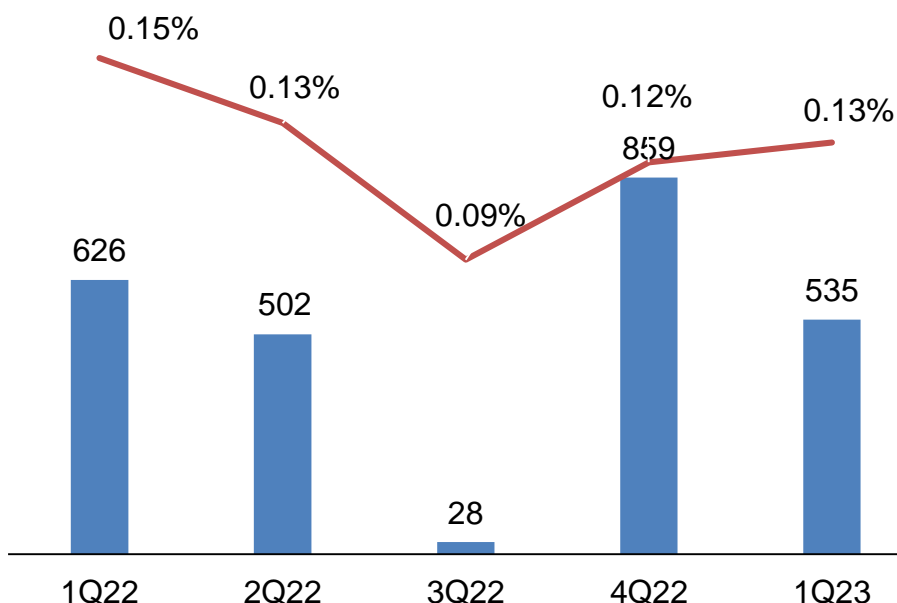
NPL ratio by product line

— Corporate loan — Personal unsecured loan — Mortgage



Quarterly provision and credit costs

■ Provision cost — Credit cost (annualized)

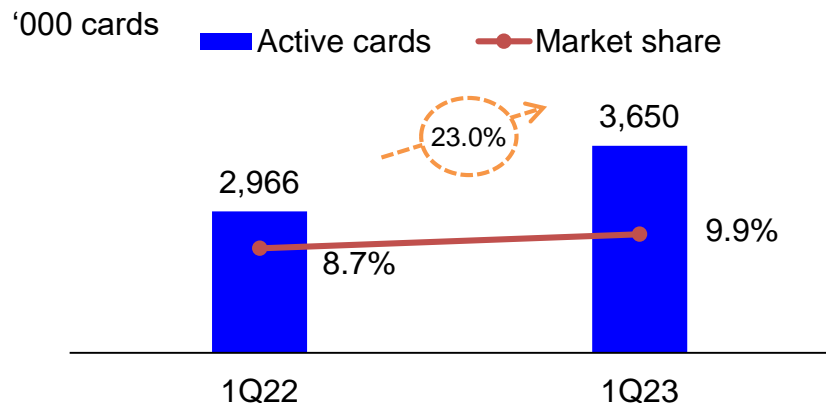


Taipei Fubon Bank: Credit Card

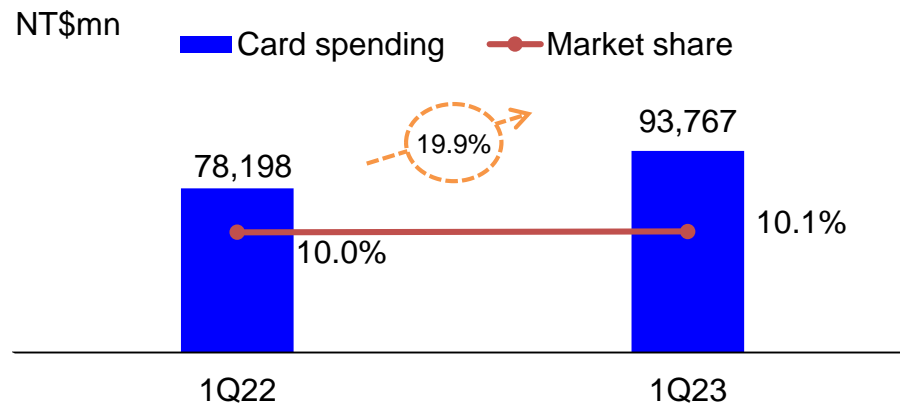


- Active cards and card spending grew YoY
- Monthly per card spending increased mainly from consumption. Credit card NPL ratio remained benign

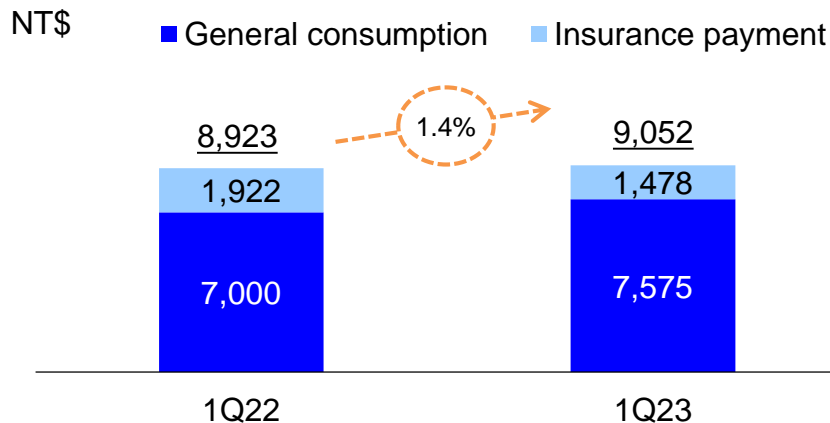
Active cards



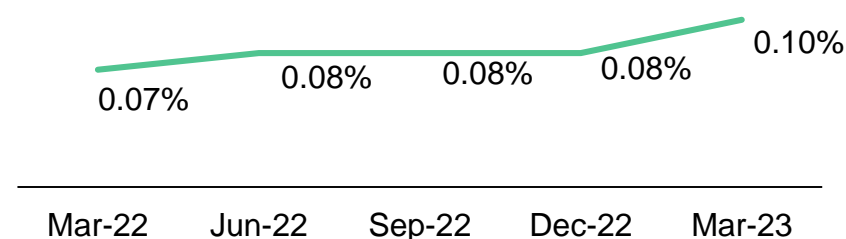
Card spending



Per card spending (monthly)



Credit card NPL ratio



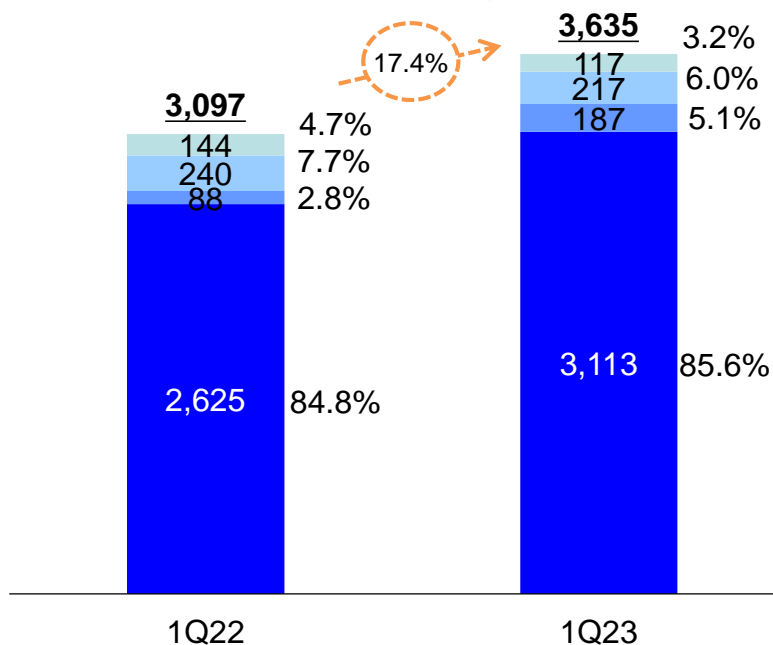
Note: Market data as of Mar. 2023

- Fee income was up 17.4% YoY, with 18.6% YoY growth in wealth management fee
- AuM of wealth management rose 8% YoY. Customer assets continued to grow steadily

Net fee income

NT\$mn

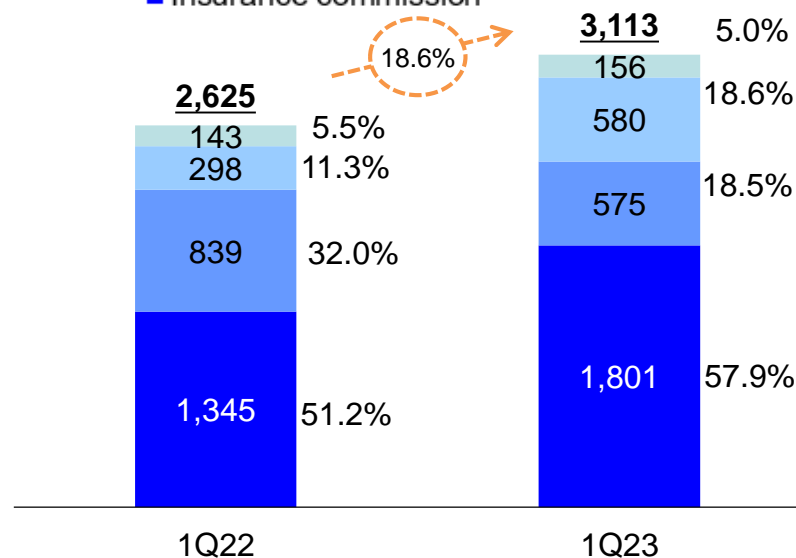
- Others
- Syndication loan
- Credit card
- Wealth management



Wealth management fees

NT\$mn

- Custodian and trust
- Structured, equity, and bonds product
- Mutual funds
- Insurance commission



NT\$bhn	1Q22	1Q23	YoY
WM AuM	1,102	1,186	8%

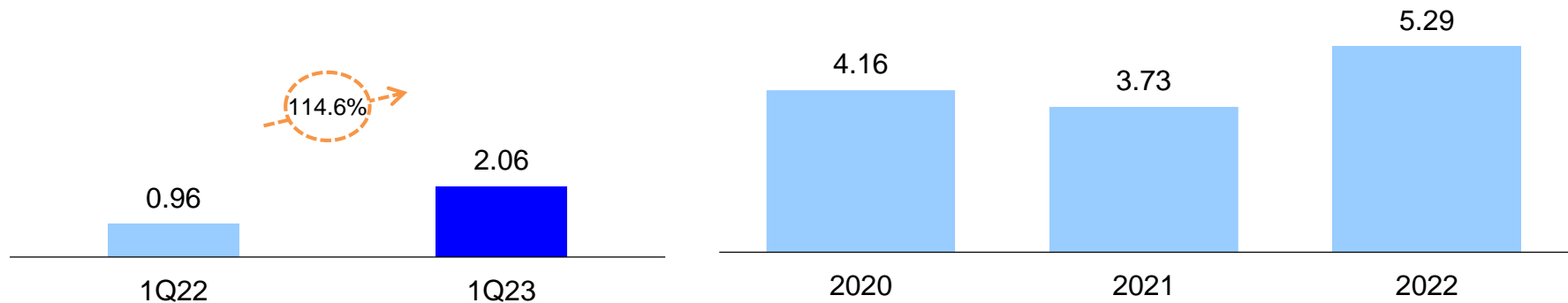
Taipei Fubon Bank: Overseas Branches



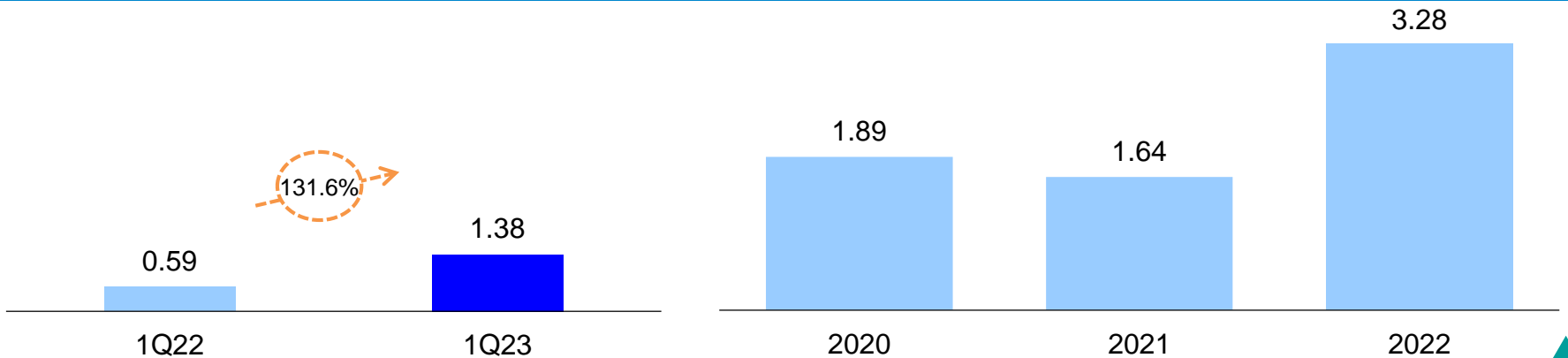
- Revenue increased 114.6% YoY in overseas branches under the rate hike environment
- Net profit increased 131.6% YoY from steady growth in Vietnam, Hong Kong and Singapore

Net revenue from overseas branches

NT\$bn



Net profit from overseas branches



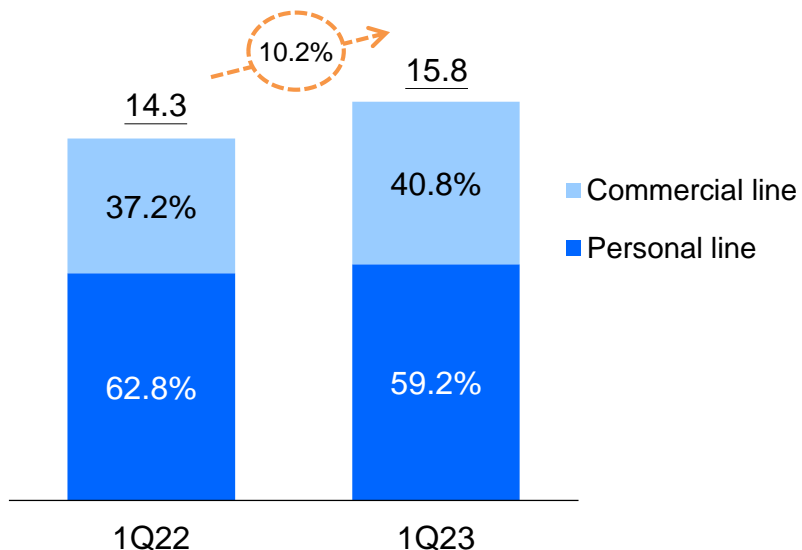


Performance review by subsidiary
Fubon Insurance

- Direct written premiums rose 10.2% YoY. Market share reached 25.7% as the market leader
- NT\$2.387bn reserve balance to cover Covid-related claims
- Underwriting profit would grow 126% YoY which was mainly from commercial line. Net combined ratio would be 87.7% if exclusive of the loss from Covid-related policies

Direct written premiums by product

NT\$bn

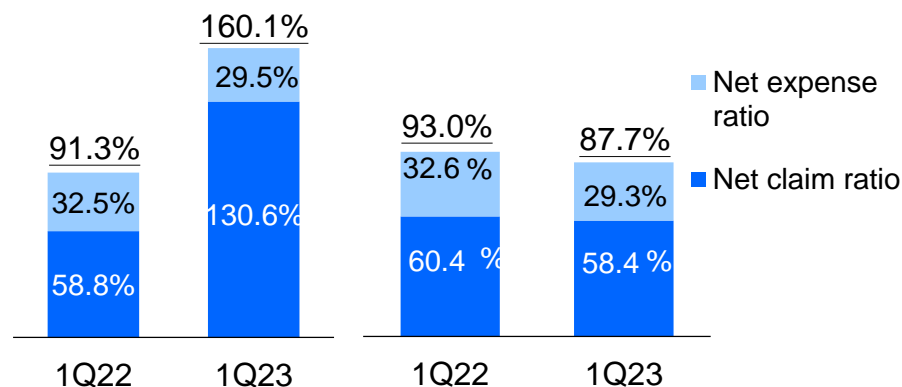


Note: Standalone basis

Net combined ratio

Inclusive of Covid-related policies

Exclusive of Covid-related policies



Note: Inclusive of compulsory auto business



Performance Review by Subsidiary

Fubon Securities

Fubon Securities: Operational Snapshot

- Net profit of NT\$1.534bn, up 100.6% YoY, mainly from investment gains as TAIEX trended up
- Net profit on pro forma basis would be NT\$1.55bn, up 26% YoY, or 63% if excluding HR related expenses on back of the merger. Market position enhanced upon the merger

Market Share & Ranking

	Fubon		Jih Sun		Pro forma	
	1Q23	Ranking	1Q23	Ranking	1Q23	Ranking
Brokerage	5.07%	3	2.79%	10	7.86%	3
Margin Loans	4.97%	8	4.63%	11	9.60%	2
Sub-Brokerage	8.78%	5	1.89%	12	10.67%	3
Emerging Stock Board Brokerage	16.84%	2	1.20%	13	18.04%	2

Note: The ranking does not include foreign brokers

Operating revenue

NT\$mn

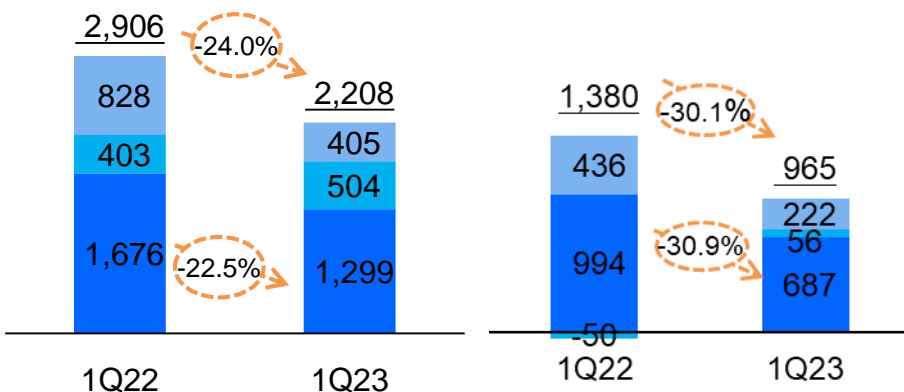
■ Other revenue

■ Proprietary trading and financial gain

■ Brokerage revenue

Fubon

Jih Sun

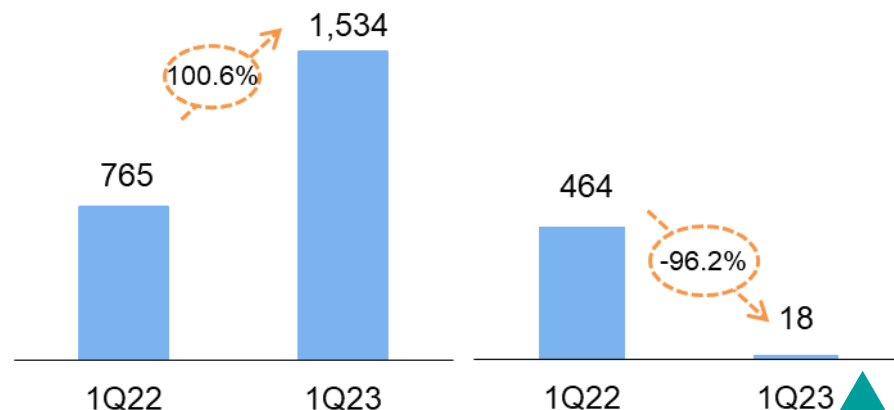


Net profit

NT\$mn

Fubon

Jih Sun





Performance Review by Subsidiary

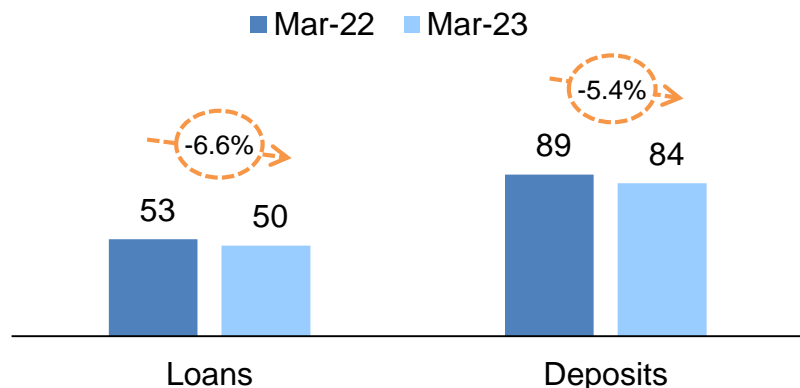
Overseas Banking Subsidiaries

Fubon Bank (China): Financial Highlights

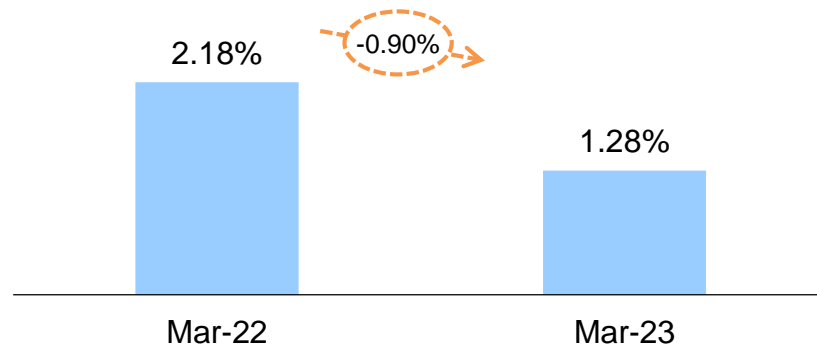


- Reduction in balance sheet and lending strategy adjustment in response to economic environment
- NIM down 90bps YoY, reflecting the decrease in online loans and rise of USD deposit cost. NIM would be 1.49%, flat YoY, if inclusive of SWAP
- Aim to maintain stable asset quality

Loans & deposits

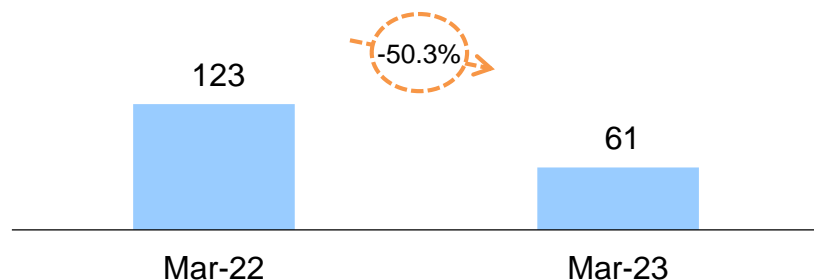


NIM



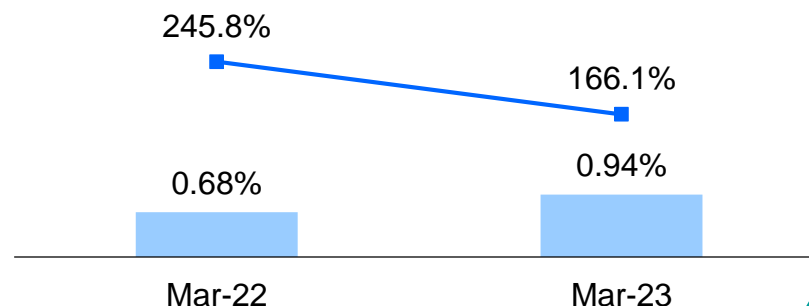
Net profit

RMBmn



NPL ratio & coverage ratio

■ NPL ratio ■ Coverage ratio





Fubon Financial

2022 Embedded Value

Fubon Life

2022 Value Creation Summary

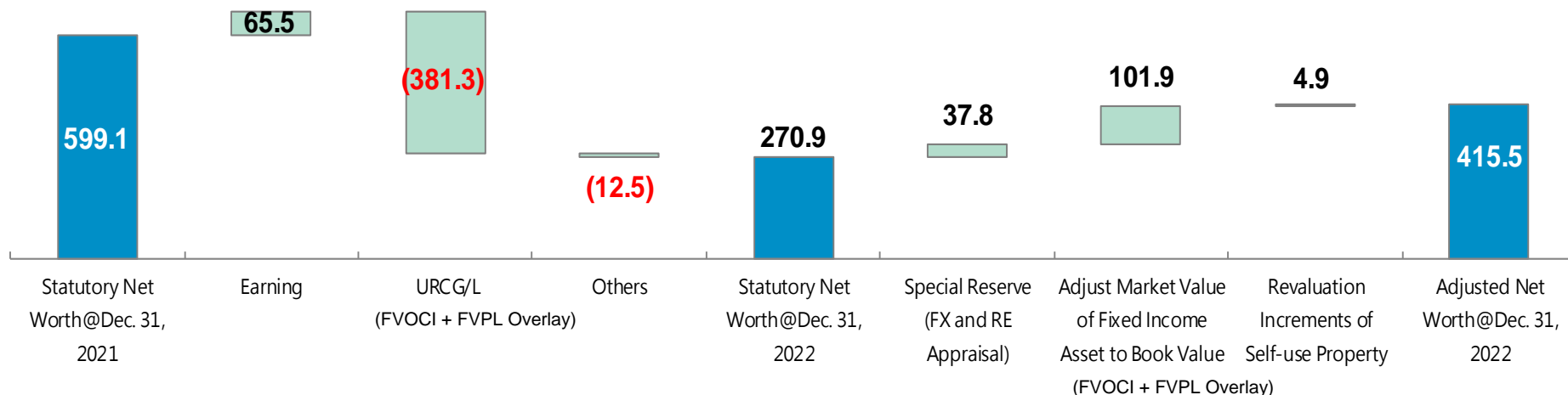


Unit : NTD billion	Items	2021	2022	YoY	Diff	Impact
Inforce Value Creation	Net Worth (Book Value)	599.1	270.9	-54.8%	-328.2	↓
	Adjusted Net Worth	596.5	415.5	-30.3%	-181.0	↓
	VIF (before CoC)	565.2	571.0	1.0%	5.8	↑
	Cost of Capital (CoC)	(185.2)	(187.9)	-1.4%	-2.7	↓
	VIF (after CoC)	380.0	383.1	0.8%	3.1	↑
	Embedded Value	976.5	798.6	-18.2%	-177.9	↓
New Sales Value Creation	FYP	127.0	106.3	-16.3%	-20.7	↓
	FYPE	28.8	28.1	-2.2%	-0.6	↓
	FYPE/FYP	22.6%	26.5%	16.9%	3.8%	↑
	VNB	17.8	16.6	-6.8%	-1.2	↓
	VNB margin (VNB/FYP)	14.0%	15.6%	11.4%	1.6%	↑
	VNB margin (VNB/FYPE)	62.0%	59.1%	-4.7%	-2.9%	↓
Appraisal Value (20 year NB)	Multiplier	10.0	10.0	0.0%	0.0	
	Appraisal Value	1,153.8	963.9	-16.5%	-190.0	↓
Value per FHC share	Outstanding shares (FHC)	11.8	12.4	5.0%	0.6	↑
	Embedded Value	82.7	64.4	-22.1%	-18.3	↓
	Appraisal Value	97.7	77.8	-20.4%	-20.0	↓

Movement Analysis: Adjusted Net Worth



Unit: NTD billion



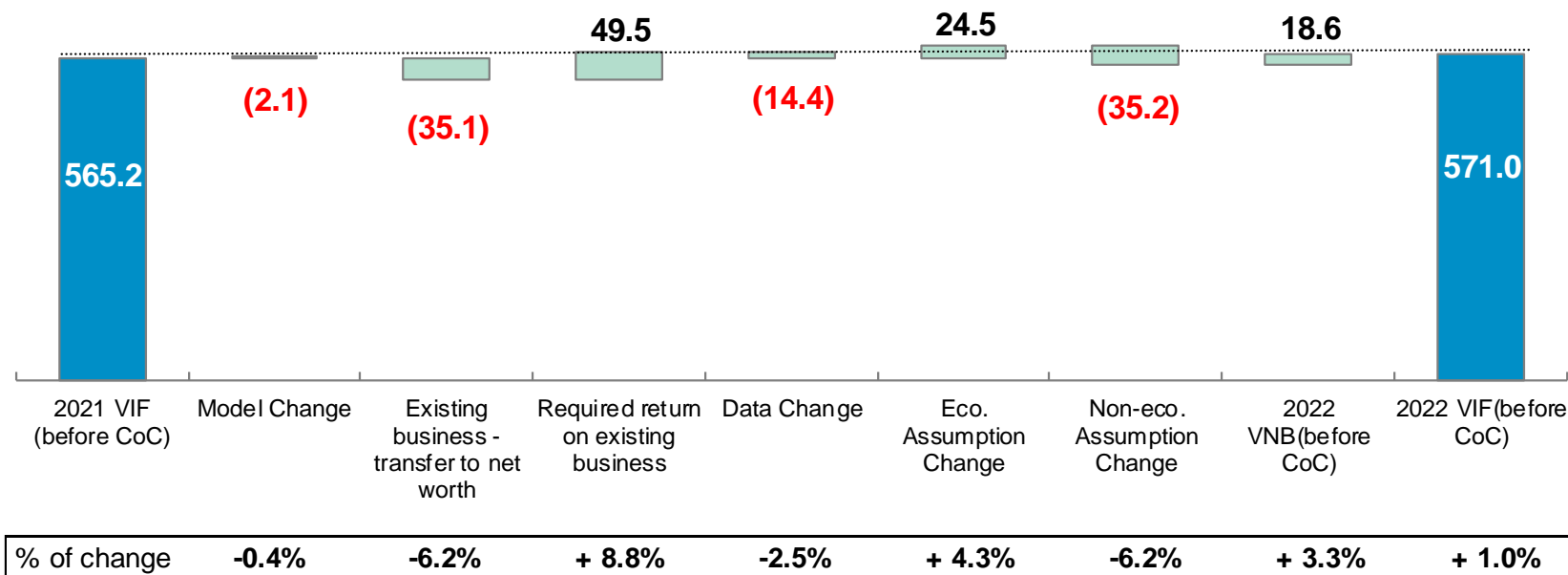
% of change	+ 10.9%	-63.6%	-2.1%	-54.8%				
Adj%					+ 13.9%	+ 37.6%	+ 1.8%	+ 53.4%

Note:

1. Special Reserve includes FX reserve 37.13bn and RE appraisal reserve 0.65bn.

Movement Analysis: Value of In-Force (before CoC)

Unit: NTD billion



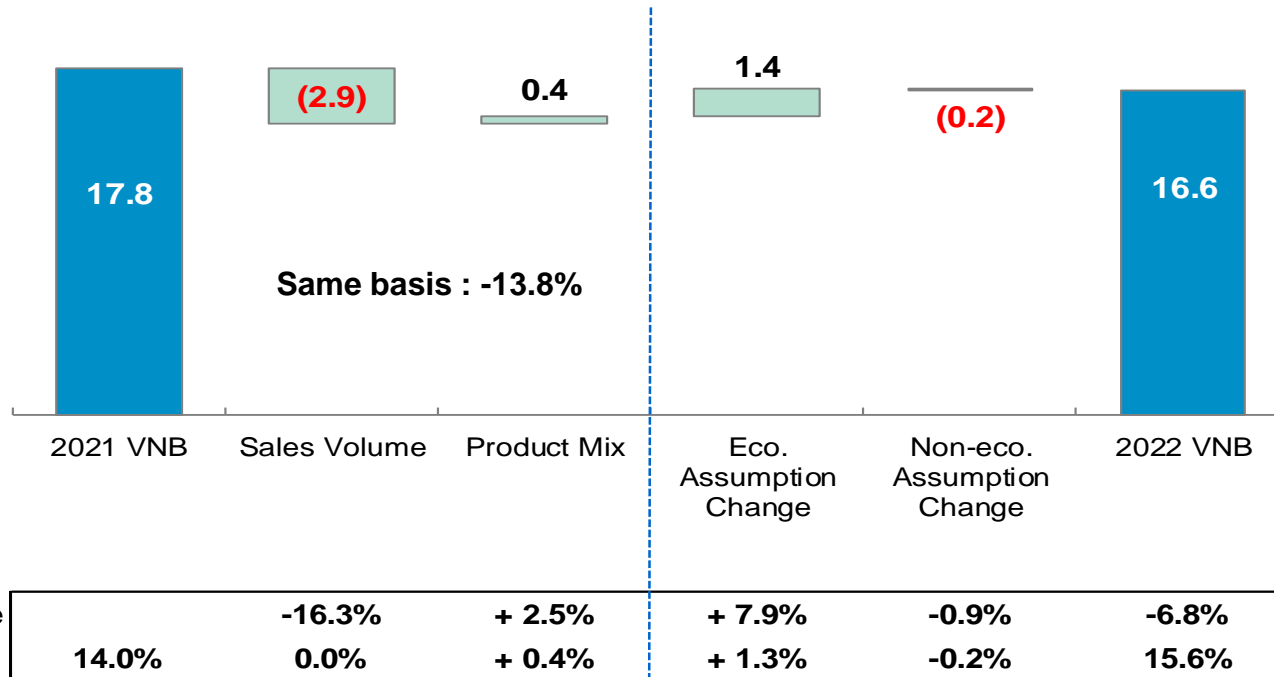
Note:

1. Economic assumption change includes changes of investment return (+2.3%) and foreign exchange rate (+2.0%).
2. The equivalent return of EV2021 reporting for VIF increased from 4.36% to 4.41% to reflect rolling over effect.
3. The equivalent return of EV2022 reporting for VIF is 4.44%.
4. 2022 VNB (after CoC) is 16.6bn.

Movement Analysis: Value of New Business



Unit: NTD billion



Note:

1. The equivalent return of EV2021 reporting for VNB increased from 4.38% to 4.42% with consideration of rolling over effect and reflecting product sales in 2022.
2. The equivalent return of EV2022 reporting for VNB is 4.67%.

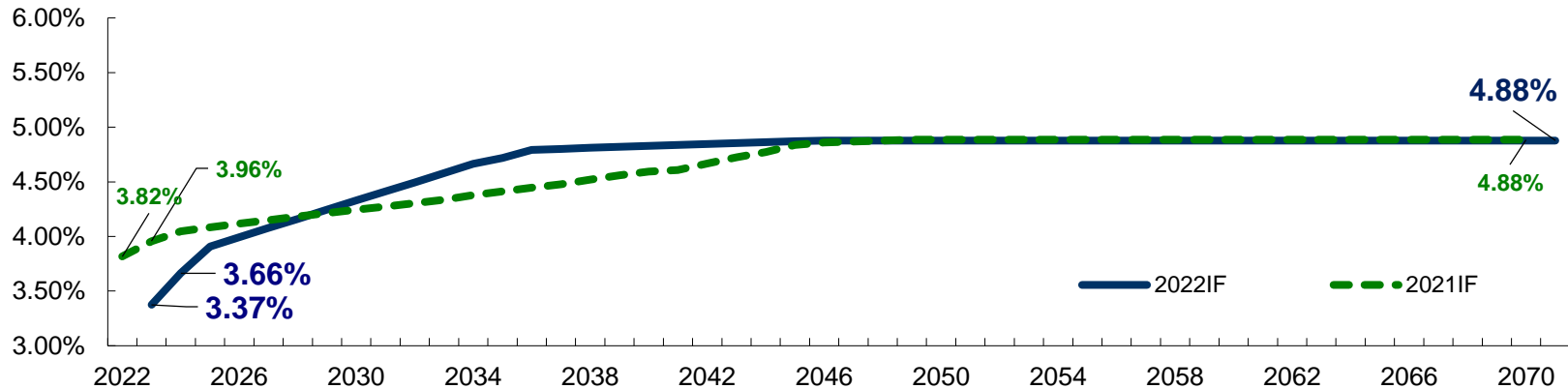
Economic Assumption



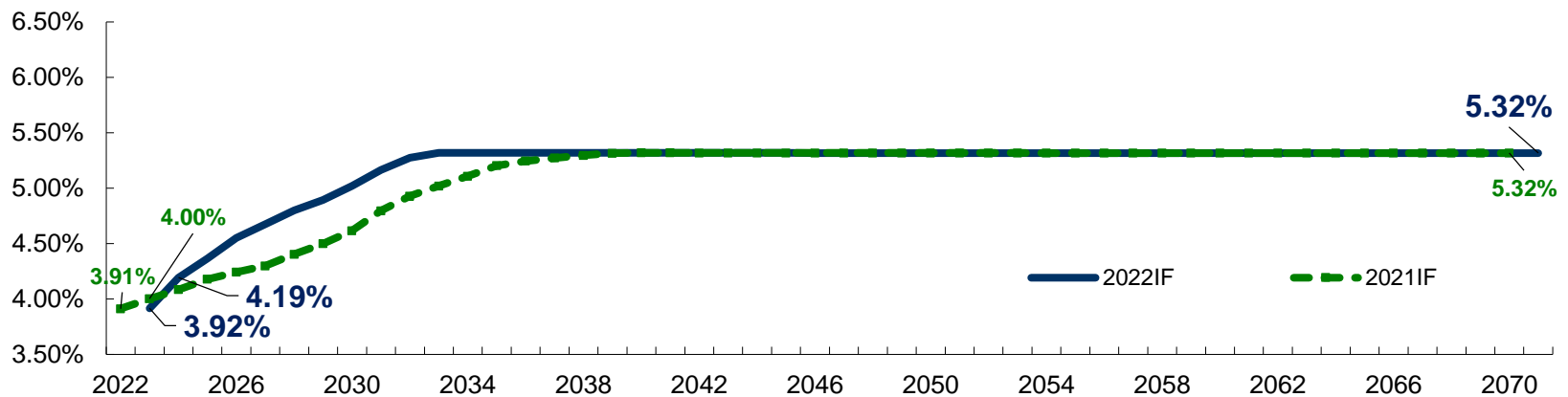
	Year 2021	Year 2022
Investment return	<p><u>VIF</u> NTD Traditional Policies : Year 2022 to Year 2048 at 3.82%~4.88%(2049+)</p> <p><u>USD Policies :</u> Year 2022 to Year 2039 at 3.91%~5.32%(2040+)</p> <p><u>VNB</u> NTD Traditional Policies : Year 2021 to Year 2042 at 3.57%~4.84%(2043+)</p> <p><u>USD Policies :</u> Year 2021 to Year 2042 at 3.95%~5.30%(2043+)</p> <p><u>ISA</u> Average retained spread for the Interest sensitive business is around 50~100bps.</p>	<p><u>VIF</u> NTD Traditional Policies : Year 2023 to Year 2046 at 3.37%~4.88%(2047+)</p> <p><u>USD Policies :</u> Year 2023 to Year 2033 at 3.92%~5.32%(2034+)</p> <p><u>VNB</u> NTD Traditional Policies : Year 2022 to Year 2041 at 3.68%~4.84%(2042+)</p> <p><u>USD Policies :</u> Year 2022 to Year 2041 at 4.03%~5.30%(2042+)</p> <p><u>ISA</u> Average retained spread for the Interest sensitive business is around 50~100bps.</p>
Risk Discount Rate	9% for VIF; 9% for V1NB	9% for VIF; 9% for V1NB
Equivalent Return	<p>VIF: 4.36% VNB: 4.38%</p>	<p>VIF: 4.44% VNB: 4.67%</p>
YC (10 year) Initial / ultimate	<p>TWD: 1.01% / 3.25% USD : 2.31% / 5.00%</p>	<p>TWD: 1.33% / 3.25% USD : 3.82% / 5.00%</p>

Economic Assumption – VIF Portfolio Return

In-force Portfolio Return_NTD Traditional



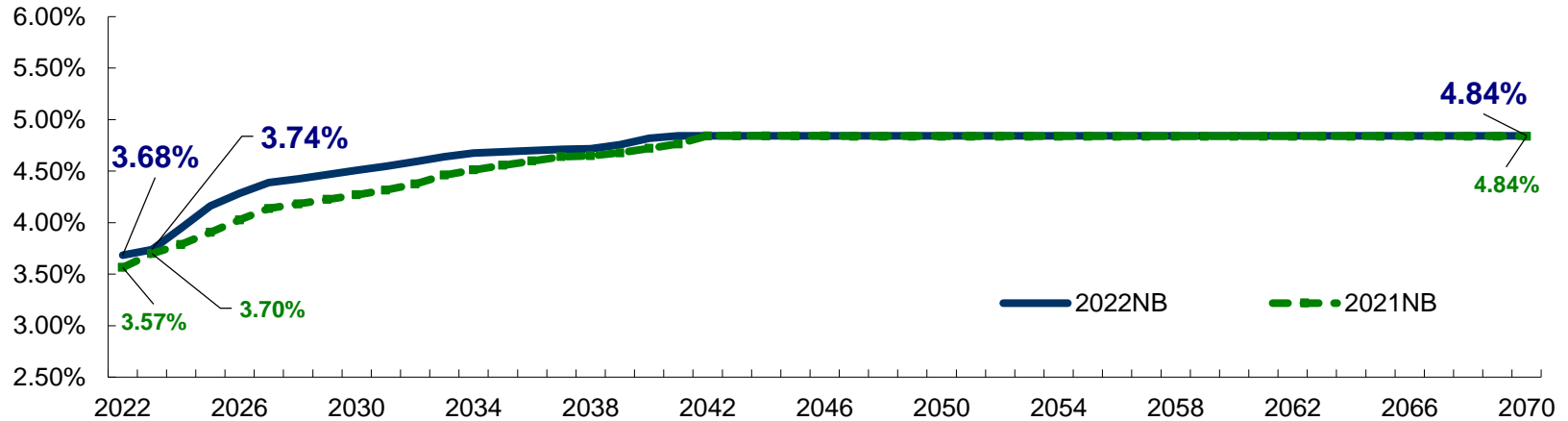
In-force Portfolio Return_USD



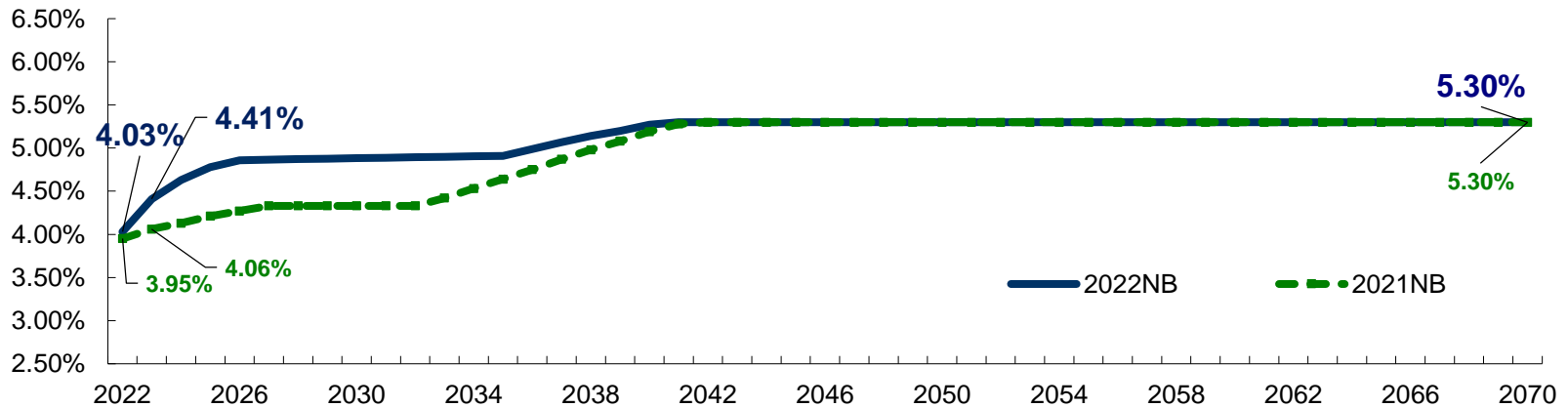
Economic Assumption – VNB Portfolio Return



NB Portfolio Return_NTD Traditional



NB Portfolio Return_USD



Economic Assumption: Discount Rate



	31-Dec-21	31-Dec-22
Risk Free Rate	1.01%~3.25%	1.33%~3.25%
Equity plus Country Risk Premium	6.14%	6.16%
Beta	1.05	1.02
Calculated RDR	7.5%~9.7%	7.6%~9.5%
Equivalent RDR	VIF: 8.97% VNB: 8.82%	VIF: 8.91% VNB: 8.79%
RDR used in the valuation	VIF: 9.0% VNB: 9.0%	VIF: 9.0% VNB: 9.0%

- RDR: According to CAPM (Capital Asset Pricing Model);
$$\text{RDR} = \text{Risk Free Rate} + \text{Beta} * \text{Equity and Country Premium}.$$
- The Equivalent RDR for 2021 VIF/VNB are both below 9%. Therefore, we set the RDR used for 2022 VIF/VNB calculation as 9%.

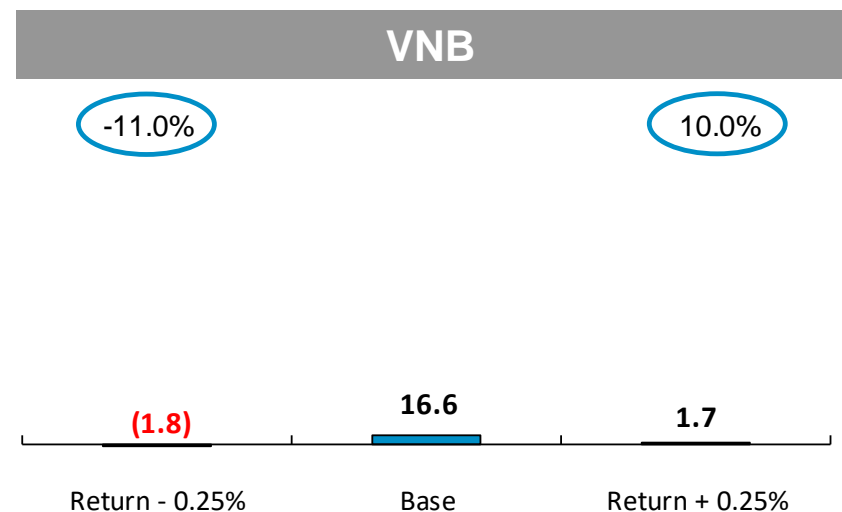
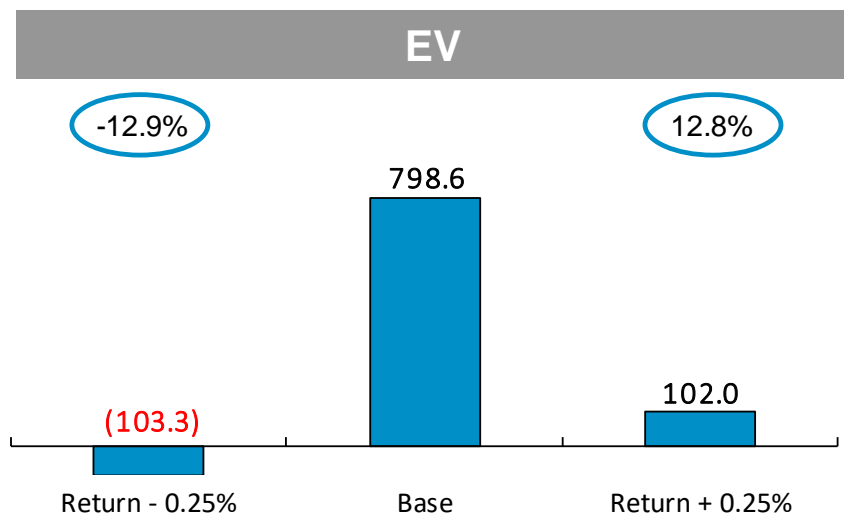
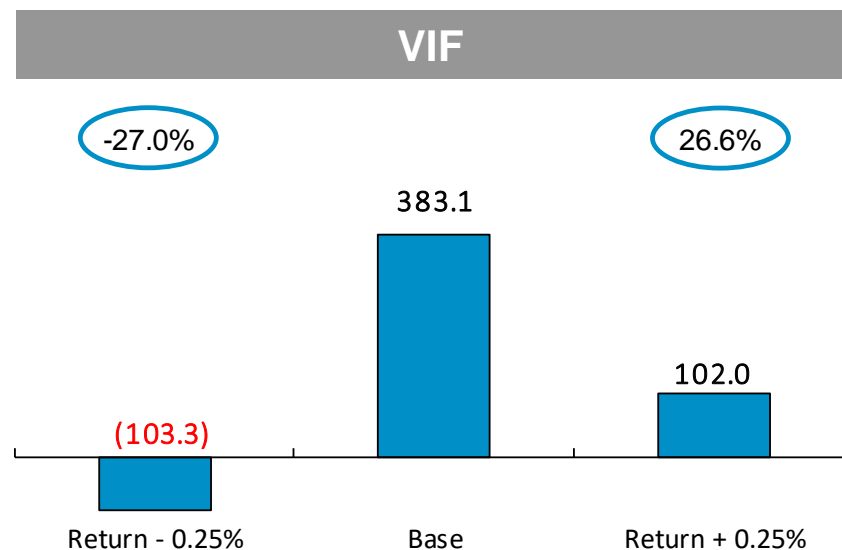
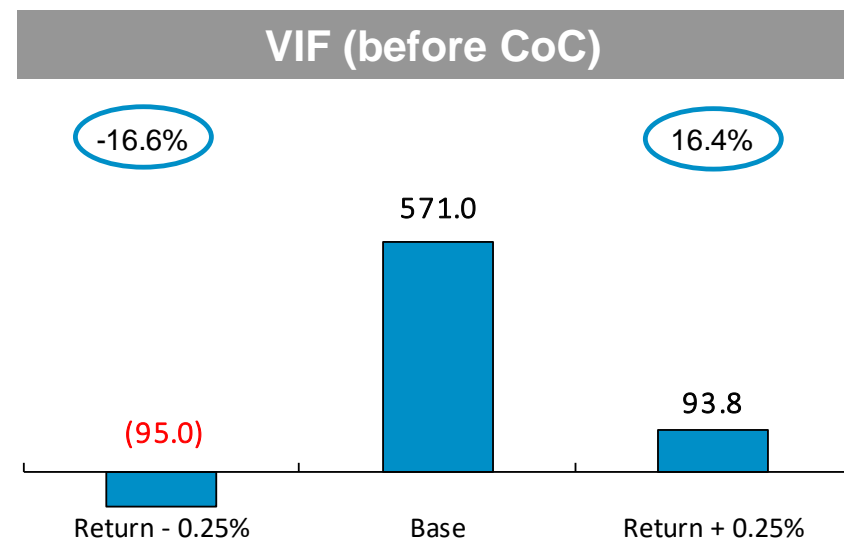
Cost of Capital projection

- **Project future cost of capital is based on future capital requirement maintaining regulatory minimum RBC level of 200% considering following factors:**
 - 1) Add regulatory required multiple of maximum C3 risk capital of previous five year for all traditional products every year (excludes investment-linked product) ;
 - 2) Reflect current business operation and future strategy.
- **Risk-based capital (RBC) regulation changes & adjustments in 2022:**
 - 1) For real estate construction in progress or unfinished projects that have not obtained a license for use, a risk charge of 0.4 times will be added in according to the regulation of raw land.
 - 2) Raise the risk factor of both domestic and foreign private equity funds investments.
 - 3) Adjust some domestic issuances which the investment area includes foreign investment to foreign investment, including “public investment, 5+2 and six core industries” and private equity funds.

Sensitivity Summary : Portfolio Return



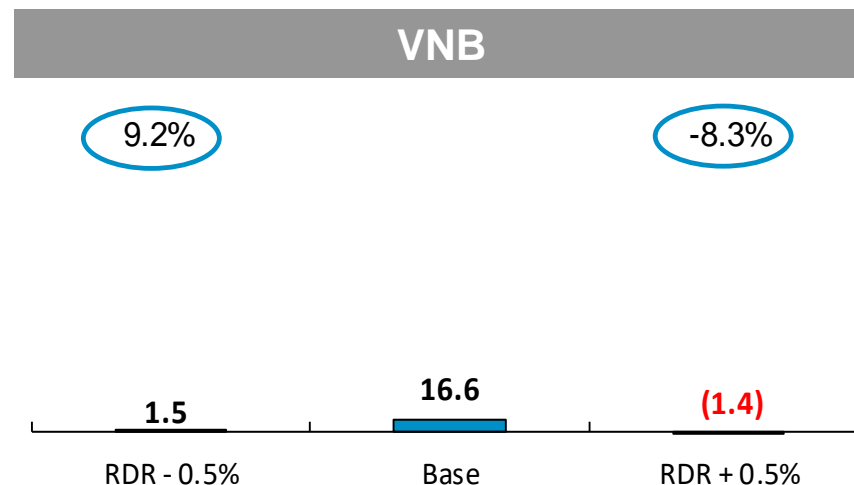
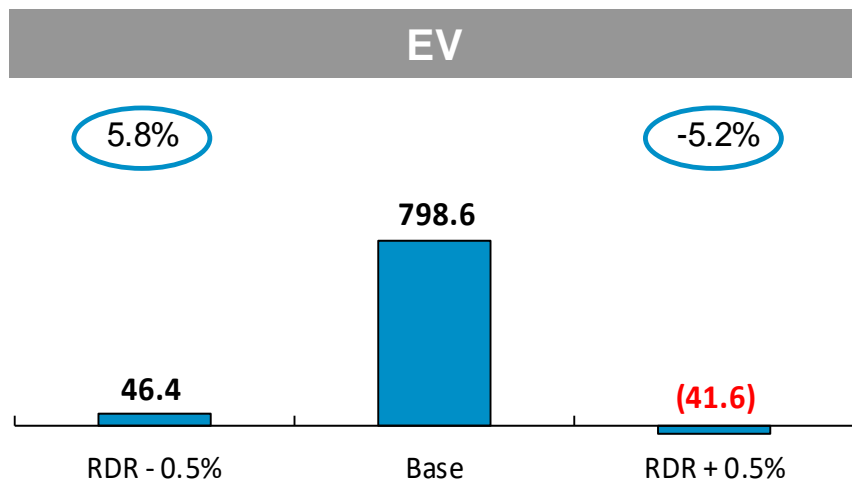
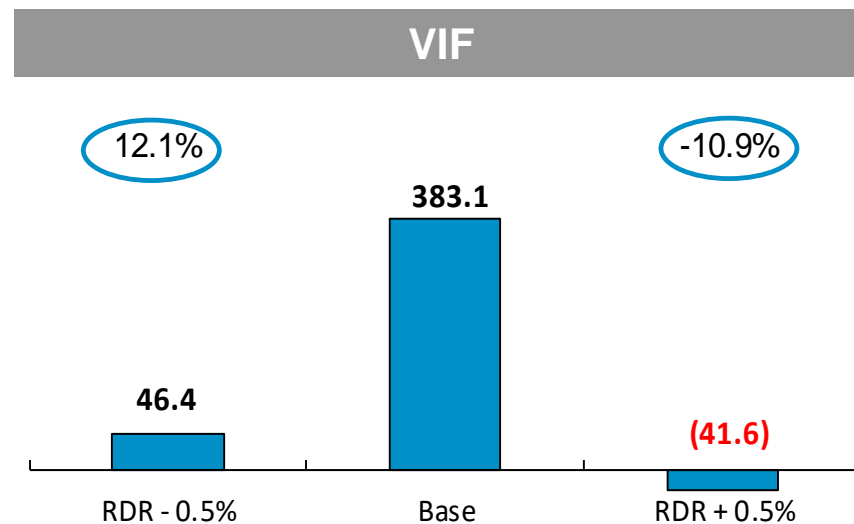
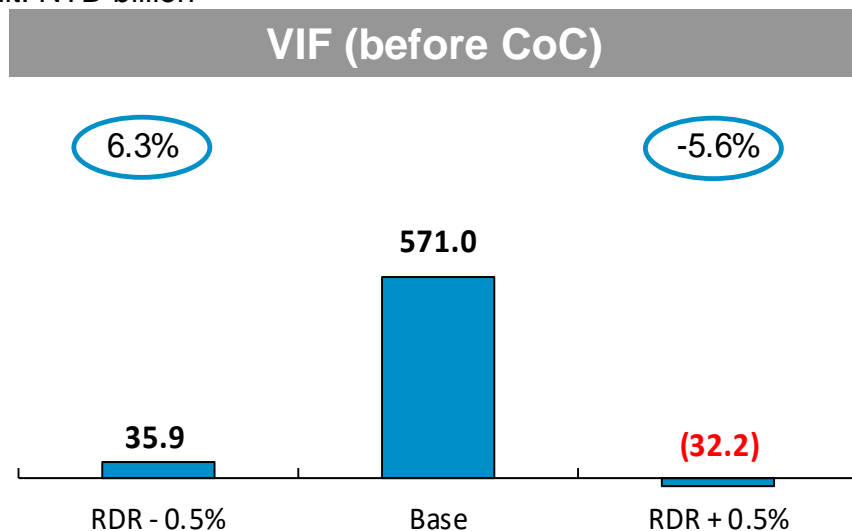
Unit: NTD billion



Note: ANW will not be affected by portfolio return.

Sensitivity Summary : Risk Discount Rate

Unit: NTD billion



Note: ANW will not be affected by RDR.

Independent Review by Deloitte Consulting



Deloitte Consulting

The Engagement

- Deloitte & Touche Consulting Co. (“Deloitte Consulting”) was retained by Fubon Life to perform an independent review of the Embedded Value (EV) as at 31 December 2022 and the Value of New Business (VNB) written over the period of 1 January 2022 to 31 December 2022.

Scope of Deloitte Consulting’s Involvement

- Review and opine on the reasonableness of the EV and VNB as calculated by the Company;
- Review of the reasonableness of the assumptions used in the calculations, taking into consideration both the Company’s recent experience and the experience of the Taiwanese life insurance market;
- Review, at a high-level, model changes to the actuarial projection model since the previous valuation date;
- Review of the Company’s projection approach of the Cost of Capital;
- Review of the data put through the model compared to the policy data on the Company’s policy administration systems to judge the extent to which the business has been valued in the financial model and to identify the portion (if any) omitted and how that was valued;
- Review of the approach used to determine the Adjusted Net Worth (“ANW”), in particular, the adjustments made in deriving the ANW, and any other adjustments made outside of the actuarial projection model;
- Review of the Company's analysis of change in the Value of In-Force Business (“VIF”) between 31 December 2021 and 31 December 2022.

Risk Adjusted Discount Rates

Deloitte Consulting

- Fubon Life calculated the EV and VNB at Risk Adjusted Discount Rates (“RDR”) of 9.0%.

	RFR based on current government bond yield	RFR based on Company's long-term view	Equivalent RFR for New Business	Equivalent RFR for In-Force Business
Risk Free Rate (“RFR”)	1.33%	3.25%	2.54%	2.63%
Equity and Country Risk Premium	6.16%	6.16%	6.16%	6.16%
Beta	1.02	1.02	1.02	1.02
Calculated Risk Discount Rate	7.61%	9.53%	8.82%	8.91%
Risk Discount Rate used in the Valuation for VIF	9.00%			
Risk Discount Rate used in the Valuation for VNB	9.00%			

Reference – RDR based on Capital Asset Pricing Model (CAPM):

$$RDR = RFR + Beta * Equity \text{ and Country Risk Premium}$$

Comments on the Risk Adjusted Discount Rates



Deloitte Consulting

Deloitte Consulting independently derived a range of RDRs using the CAPM approach:

- The low end of the RDR is developed based on the current yield on 10-year Taiwan government bonds.
- The high end of the RDR is developed based on the Company's view of the 10-year Taiwan government bonds in the future.
- The equivalent RFR is the RFR equivalent to using a set of graded-up RFR from 1.33% to 3.25% that derives the same VIF and VNB.
- The Equity and Country Risk Premium was developed based on the Country Default Spreads and Risk Premiums research published by New York University.
- The Beta of 1.02 was set using a risk profiling approach which considers risks related to the product range, distribution diversification/vulnerability, regulatory intervention and investments.
- The RDR assumption applied by Fubon Life in the valuation lies within the range of RDR that we derived.

A set of rising investment return assumption has been used in this valuation which is considered reasonable for the present market conditions.

Fubon Life's derivation of the investment return assumption is featured by the following:

- Derivation methodology is consistent with that applied in previous valuations.
- The methodology involves:
 - For VIF, the investment return assumption was derived from a combination of the investment return generated by the run-off of the existing asset portfolio and of that from future purchases of new assets;
 - For VNB, the new business is not supported by returns on existing assets and the investment return was derived from future purchases of new assets.
- New assets are purchased at the prevailing new money rates, which are set to equal to the expected future risk free rates plus a risk margin for each asset type.
- Future risk free rates are set starting off with the actual yield curves as at the valuation date and are assumed to rise to a long-term level over a 10-year period. For New Taiwan Dollar and US Dollar respectively, the initial risk free rates are 1.33% and 3.82% and a long-term risk free rate of 3.25% and 5.00% is assumed.
- Different assumptions were derived for different types of business, which were assumed to have a different long-term asset allocation.
- For some business lines, the investment return assumption derived in the above-mentioned manner was capped at a certain level for conservative reasons.

Comments on Investment Return (2)



Deloitte Consulting

It is in Deloitte Consulting's view that:

Methodology

- Fubon Life's derivation methodology for the investment return assumption is reasonable and consistent with the way that the ANW is calculated.

Investment Return Assumptions

- The expected long-term risk free rate for New Taiwan Dollar yield and US Dollar yield are set to 3.25% and 5.00% respectively.
- We note that taking a view on the future capital market is not uncommon under the traditional Embedded Value methodology. On a macro-economic level the arguments put forward for rising interest rates are plausible, and we note that the expected future rise in yields is spread out over a reasonably long period of 10 years.
- Readers should be aware that capital market conditions are subject to the impact of many forces. Yields and prices of financial instruments can move dramatically in a short period of time. As a result, it is difficult to predict the interest rate level in the future with great certainty. Readers should refer to the sensitivity tests to develop a broader understanding of the impact of the investment return assumption on the assessment of the economic value of Fubon Life.
- Overall, the economic assumptions appear to be reasonable.

Comments on Cost of Capital



Deloitte Consulting

Taiwan RBC

- Readers should be aware that the C3 risk calculation is subject to yearly regulatory change and therefore there is a high degree of uncertainty in the projection of cost of capital.

Comments on Non-Economic Assumptions



Deloitte Consulting

Non-Economic Assumptions

- The non-economic assumptions reflect Fubon Life's best estimate of future operating experience, and are appropriately supported by the company's historical operating experience.

Comments on EV and VNB Results



Deloitte Consulting

Deloitte Consulting have reviewed the Embedded Value and Value of New Business results at a high-level under the generally accepted method for calculating traditional embedded values in Taiwan:

- Review of the changes in the VIF relative to the assumption changes and model changes from 2021 to 2022;
- Review of the changes in the new business profit margin relative to that in 2021 based on information on changes in sales mix, sales volume and valuation assumptions;
- Review of the sensitivities relative to the base case results.

The Embedded Value and Value of New Business results appear to be reasonable within the above context.

Deloitte Consulting's detailed opinion can be found in their opinion letter.



Fubon Financial



Contact IR



Fubon Financial

ESG Results and Goals



Decarbonization:

Helping clients through sustainable finance

Fubon aims to accelerate green finance by driving the value chain's transition to more low carbon practices

Digitalization:

Providing the best financial services

Innovative services to satisfy clients' insurance, investment, and wealth management needs

3M23 results

- Green finance⁽¹⁾ : NT\$2,520.0bn
- Market share of green bond underwriting⁽¹⁾ : 67%
- Climate-related products and services: NT\$2.565bn

Long-term goals (2025)

- Green finance: NT\$2,796.3bn
- Market share of green bond underwriting: 34%
- Climate-related products and services: NT\$7.0bn
- Fubon's operational carbon reduction: 12% (base year: 2017)
- Continue to refine standards of permit /extract investment in carbon-intensive industries
- Support enterprises in transitioning to a low-carbon business model

3M23 results

- Digital financial services
- Fubon Life: E-notifications⁽¹⁾ : 30.1% growth vs. the goal of 97% in 2023
- Taipei Fubon Bank: active digital accounts⁽¹⁾ : 52.81% growth vs. the goal of 70% in 2023
- Fubon Insurance: E-policies and E-compulsory auto liability insurance certificates: 2.059mn vs. the goal of 8.57mn in 2023
- Securities: active accounts using digital trading system: 87% vs. the goal of 82% in 2023

Long-term goals (2025)

- Digital financial services
- Fubon Life: 61% growth in E-notifications⁽¹⁾
- Taipei Fubon Bank: 100% growth in no. of active digital accounts⁽¹⁾
- Fubon Insurance: 12.68mn in no. of E-policies and electronic compulsory auto liability insurance certificates
- Securities: 85% active accounts using digital trading system

Note: (1) cumulative basis is from 2020

Sustainability Initiatives in Fubon



Dow Jones Sustainability Indexes



RE100

CLIMATE GROUP | CDP

RACE TO ZERO

BUSINESS AMBITION FOR 1.5°C



2016

- Committed to SBT in carbon reduction
- Inclusion in DJSI Emerging Markets Index

2017

- Signatory of Equator Principles
- Inclusion in DJSI World Index
- Established Fubon FHC's Principles of Responsible Investment (PRI), compliant by subsidiaries since 2019

2019

- The only Taiwan corporation to speak ESG for APEC Minister of Finance conference series
- Officially becomes TCFD Supporter in Sep.
- Adoption of TCFD framework to disclose climate change-related information in CSR Report

2020

- The only financial institution in Taiwan to receive the "Leadership Level" A rating from both of CDP Climate Change and Supplier Negotiation Engagement
- Fubon Insurance published its first Principles for Sustainable Insurance Report aligned with the PSI

2021

- Disclosed ESG information in CSR Report aligned with Sustainable Accounting Standards Board (SASB)
- Established Sustainable Finance Policy
- Fubon Life publishes its first Sustainability Report and Institutional Investor Stewardship Report
- Fubon Insurance publishes Sustainability Report

2022

- SBTi approved carbon reduction goals, committing to reduce GHG emissions 42% by 2030, covering 50% of investment and financing portfolio, the top among financial institutions
- Joined RE100, using fully renewable energy consumption by 2040
- Support Race To Zero Campaign, Business Ambition for 1.5°C
- Apply the WEF Stakeholder Capitalism Metrics framework
- Join Sustainability leadership council (Eurasia Group)

2023

- Officially become a member of TNFD Forum in Jan.

Fubon Financial - Financial summary

NT\$ millions, except for percentages	1Q23	4Q22	3Q22	2Q22	1Q22	2022	2021	YoY
Income Statement Data								
Net interest income	39,865	41,520	43,178	41,601	38,913	165,212	143,472	15.2%
Insurance income	(23,945)	(52,220)	(28,270)	5,048	25,921	(49,521)	160,920	N.M.
Net gains (losses) on FX and financial assets	13,818	(20,621)	51,008	40,535	66,477	137,399	161,889	-15.1%
Others	2,300	183	(1,460)	4,861	2,785	6,369	19,552	-67.4%
Net revenue	32,038	(31,138)	64,456	92,045	134,095	259,458	485,832	-46.6%
Bad debt expense and reserve for guarantee	(1,086)	(1,872)	(1,062)	(1,779)	(1,054)	(5,768)	(4,588)	25.7%
Net change in insurance reserve	1,414	7,811	(28,754)	(43,229)	(58,681)	(122,853)	(243,782)	-49.6%
Operating expense	(18,342)	(18,664)	(17,062)	(17,363)	(16,802)	(69,891)	(71,873)	-2.8%
Income before tax	14,024	(43,863)	17,578	29,674	57,557	60,946	165,589	-63.2%
Net income	13,873	(37,142)	14,723	23,303	46,981	47,864	147,235	-67.5%
Net income to parent company	13,983	(36,788)	14,310	22,927	46,477	46,926	144,559	-67.5%
Balance Sheet Data								
Total assets	10,629,619	10,587,757	10,722,331	10,471,072	10,577,255	10,587,757	10,499,733	0.8%
Equity attributable to parent company	713,114	565,691	552,056	626,796	861,946	565,691	949,569	-40.4%
Outstanding common shares (million shares)	12,395	12,395	12,395	11,805	11,805	12,395	11,805	5.0%
Key Metrics								
ROA	0.52%	-1.41%	0.56%	0.89%	1.78%	0.45%	1.49%	
ROE	8.75%	-19.42%	7.62%	11.64%	20.53%	6.19%	16.88%	
Equity / assets	6.79%	5.42%	5.35%	6.17%	8.45%	5.42%	9.37%	
Double leverage	116.95%	121.72%	119.10%	113.89%	107.87%	121.72%	107.31%	
Capital adequacy ratio		125.29%		133.62%		125.29%	139.36%	
Cash dividend per share						1.5	3.5	
Stock dividend per share						0.5	0.5	

Fubon Life - Financial summary

NT\$ millions, except for percentages	1Q23	4Q22	3Q22	2Q22	1Q22	2022	2021	YoY
Income statement data								
First year premium	23,971	19,141	26,009	24,066	37,081	106,297	127,035	-16.3%
Retained earned premium	81,737	97,375	81,571	74,894	87,384	341,224	432,949	-21.2%
Total investment income	41,679	13,274	58,309	60,263	81,954	213,800	248,239	-13.9%
Recurring investment income	37,893	38,351	51,040	40,850	33,471	163,712	140,082	16.9%
Other investment income	3,786	(25,077)	7,269	19,413	48,483	50,088	108,157	-53.7%
Realized gains (losses) from fixed income	365	(6,937)	(4,174)	172	6,745	(4,193)	31,737	N.M.
Realized gains (losses) from equity	16,311	3,024	4,811	14,344	40,127	62,307	89,853	-30.7%
FX and others	(13,891)	(18,630)	9,258	4,418	2,256	(2,698)	(13,325)	-79.8%
Investment property fair value movement	1,000	(2,534)	(2,627)	478	(645)	(5,328)	(109)	4787.7%
Other income	1,086	1,371	1,350	1,246	1,265	5,232	5,558	-5.9%
Total operating revenue	124,502	112,020	141,230	136,402	170,604	560,256	686,746	-18.4%
Retained claim payment	(95,442)	(126,762)	(94,473)	(73,480)	(66,235)	(360,950)	(289,702)	24.6%
Net commission expense	(5,925)	(4,341)	(4,104)	(4,375)	(5,185)	(18,005)	(18,372)	-2.0%
Net change in insurance liability	(10,820)	2,439	(15,249)	(26,070)	(49,378)	(88,258)	(239,703)	-63.2%
General and administrative expense	(4,283)	(5,490)	(4,491)	(4,639)	(4,099)	(18,719)	(20,599)	-9.1%
Other operating costs	(1,898)	(1,475)	(830)	(1,482)	(1,006)	(4,793)	(4,006)	19.7%
Total operating costs and expenses	(118,369)	(135,630)	(119,148)	(110,046)	(125,902)	(490,726)	(572,383)	-14.3%
Net non-operating income / (expenses)	249	779	276	3,320	190	4,564	1,016	349.2%
Income before tax	6,382	(22,831)	22,358	29,675	44,891	74,094	115,379	-35.8%
Net income	7,131	(18,506)	20,499	26,975	36,714	65,682	103,697	-36.7%
Net income to parent company	7,248	(18,074)	20,364	26,884	36,363	65,537	102,271	-35.9%
Balance sheet data								
Total assets	5,668,952	5,602,830	5,620,054	5,533,122	5,681,105	5,602,830	5,711,408	-1.9%
Total assets (general account)	5,208,473	5,133,025	5,188,731	5,089,107	5,202,540	5,133,025	5,213,571	-1.5%
Insurance liabilities	4,578,544	4,588,879	4,609,057	4,524,253	4,465,174	4,588,879	4,373,948	4.9%
Total liabilities	5,255,527	5,327,819	5,373,902	5,216,167	5,168,721	5,327,819	5,101,897	4.4%
Total liabilities (general account)	4,773,042	4,830,330	4,912,184	4,749,906	4,679,282	4,830,330	4,604,170	4.9%
Equity attributable to parent company	408,200	270,918	243,250	312,000	504,312	270,918	599,148	-54.8%
Key Metrics								
ROA	0.51%	-1.32%	1.47%	1.92%	2.58%	1.16%	1.88%	
ROE	8.54%	-28.12%	29.34%	26.35%	26.36%	15.06%	18.87%	
Equity / Assets (general account)	7.94%	5.36%	4.74%	6.23%	9.85%	5.36%	11.69%	
Expense ratio	5.24%	5.64%	5.51%	6.19%	4.69%	5.49%	4.76%	
Persistency ratio - 13th month	96.11%	95.85%	95.55%	96.30%	96.22%	95.85%	97.65%	
Persistency ratio - 25th month	93.67%	95.97%	96.31%	96.46%	96.59%	95.97%	96.10%	
RBC		315.00%		349%		315%	338%	

Note: Consolidated basis

Taipei Fubon Bank - Financial summary

NT\$ millions, except for percentages	1Q23	4Q22	3Q22	2Q22	1Q22	2022	2021	YoY
Income statement data								
Interest income	25,660	24,692	21,238	17,603	15,674	79,207	57,708	37.3%
Interest expense	(16,815)	(14,854)	(10,833)	(6,893)	(5,535)	(38,115)	(19,839)	92.1%
Net interest income	8,846	9,838	10,405	10,710	10,139	41,092	37,869	8.5%
Net fee income	3,430	1,397	2,017	1,845	2,619	7,877	9,939	-20.7%
Other income	4,537	2,670	3,253	786	2,785	9,493	3,716	155.5%
Total net revenue	16,813	13,905	15,675	13,341	15,542	58,462	51,524	13.5%
Operating expenses	(7,722)	(7,534)	(6,780)	(6,490)	(6,500)	(27,304)	(25,641)	6.5%
Pre-provision profits	9,091	6,371	8,895	6,851	9,042	31,158	25,882	20.4%
Provision for credit losses	(784)	(1,235)	(624)	(636)	(978)	(3,473)	(3,622)	-4.1%
Income before tax	8,307	5,136	8,271	6,215	8,063	27,684	22,260	24.4%
Net income	6,981	4,096	7,238	5,390	6,709	23,432	19,554	19.8%
Net income to parent company	6,908	4,049	7,031	5,190	6,526	22,796	18,717	21.8%
Balance sheet data								
Loans and discounts, net	1,898,203	1,900,774	1,938,273	1,933,818	1,893,350	1,900,774	1,841,328	3.2%
Deposits and remittances	3,116,825	3,094,021	3,074,372	3,036,436	2,991,901	3,094,021	2,893,815	6.9%
Allowance for loan losses*	22,002	22,275	21,482	21,244	20,800	22,275	20,039	11.2%
Total assets	3,922,025	3,924,516	3,989,249	3,848,185	3,851,605	3,924,516	3,728,289	5.3%
Equity attributable to parent company	245,970	235,984	229,973	225,360	233,020	235,984	226,430	4.2%
Key metrics								
ROA	0.71%	0.41%	0.74%	0.56%	0.71%	0.61%	0.56%	
ROE	11.47%	6.95%	12.35%	9.06%	11.36%	9.86%	8.40%	
Equity / assets	6.85%	6.59%	6.33%	6.35%	6.55%	6.59%	6.58%	
Cost / income ratio	-45.93%	-54.18%	-43.26%	-48.65%	-41.82%	-46.70%	-49.77%	
NPL ratio*	0.14%	0.19%	0.16%	0.16%	0.17%	0.19%	0.16%	
Reserve / NPL*	931.50%	701.78%	759.80%	750.44%	725.96%	701.78%	759.72%	
Tier 1 ratio*	13.93%	13.03%	12.36%	12.31%	12.85%	13.03%	12.95%	
BIS ratio*	16.42%	15.49%	14.75%	14.59%	15.12%	15.49%	14.39%	
Tier 1 ratio		11.65%		10.93%		11.65%	11.19%	
BIS ratio		13.92%		13.00%		13.92%	13.20%	

Note: Data are consolidated basis and data mark with * are stand-alone basis

Fubon Insurance - Financial summary

NT\$ millions, except for percentages	1Q23	4Q22	3Q22	2Q22	1Q22	2022	2021	YoY
Income statement data								
Direct written premiums	16,549	12,335	13,077	16,485	15,117	57,014	54,406	4.8%
Retention of earned premiums	11,104	10,869	11,060	10,865	10,862	43,656	40,688	7.3%
Net income from investment	590	(961)	157	721	2,791	2,708	6,735	-59.8%
Other operating revenue	572	470	530	772	602	2,374	3,036	-21.8%
Retained insurance payments	(21,033)	(32,983)	(26,051)	(6,893)	(5,700)	(71,627)	(20,881)	243.0%
Net change in liability reserve	7,871	(1,608)	2,247	(8,457)	(598)	(8,416)	(2,831)	197.3%
Commission and operating expenses	(4,517)	(4,303)	(4,816)	(5,013)	(4,466)	(18,598)	(18,355)	1.3%
Non-operating income	80	(93)	(82)	(135)	(80)	(391)	(500)	-21.9%
Income before tax	(5,332)	(28,607)	(16,956)	(8,141)	3,410	(50,294)	7,891	N.M.
Net income	(4,237)	(22,925)	(13,718)	(6,286)	2,968	(39,961)	7,202	N.M.
Net income to parent company	(4,254)	(22,897)	(13,719)	(6,320)	2,953	(39,983)	6,856	N.M.
Balance sheet data								
Total assets	120,146	113,840	127,434	134,946	129,878	113,840	131,579	-13.5%
Investment assets	35,940	40,404	56,075	73,272	84,785	40,404	88,691	-54.4%
Policy reserve	68,996	77,450	79,736	86,896	66,389	77,450	64,726	19.7%
Equity attributable to parent company	1,084	4,485	26,121	25,000	41,534	4,485	44,662	-90.0%
Key Metrics								
ROA	-14.49%	-76.01%	-41.83%	-18.99%	9.08%	-32.57%	5.78%	
ROE	-611.01%	-598.51%	-214.69%	-75.99%	27.41%	-162.71%	16.16%	
Total investment return	6.19%	-7.97%	0.97%	3.65%	12.87%	4.20%	7.96%	
Solvency margin (NWP/equity)	4244.13%	893.98%	163.52%	193.97%	109.84%	986.14%	94.40%	
Retention ratio	66.80%	77.24%	76.77%	69.41%	71.02%	73.21%	71.62%	
RBC		-37%		226%		-37%	369%	

Note: Consolidated basis

Fubon Securities - Financial summary

<i>NT\$ millions, except for percentages</i>	1Q23	4Q22	3Q22	2Q22	1Q22	2022	2021	YoY
Income statement data								
Brokerage commissions	1,299	1,235	1,340	1,431	1,676	5,682	9,319	-39.0%
Net interest income	(98)	(94)	82	246	302	536	1,263	-57.6%
Fee income	403	399	252	355	372	1,378	1,206	14.3%
Net principal transactions and financial products gains	530	(27)	949	300	440	1,662	2,607	-36.2%
Other income	74	(6)	116	57	116	283	283	0.0%
Total operating revenue	2,208	1,507	2,738	2,390	2,906	9,541	14,680	-35.0%
Total operating expense	(1,239)	(1,580)	(1,595)	(1,622)	(1,697)	(6,494)	(8,029)	-19.1%
Net non-operating income / (expenses)	697	500	324	72	(168)	728	1,559	-53.3%
Income before tax	1,665	427	1,467	841	1,040	3,775	8,209	-54.0%
Net income	1,534	230	1,206	542	765	2,743	7,056	-61.1%
Net income to parent company	1,534	231	1,205	543	765	2,744	7,057	-61.1%
Balance sheet data								
Margin loans	11,895	11,080	11,679	13,188	17,514	11,080	20,660	-46.4%
Total assets	143,986	138,637	153,513	148,494	167,347	138,637	167,960	-17.5%
Equity attributable to parent company	34,985	33,163	32,872	32,301	39,476	33,163	38,545	-14.0%
Key Metrics								
ROA	4.34%	0.63%	3.19%	1.37%	1.82%	1.79%	4.70%	
ROE	18.01%	2.79%	14.80%	6.05%	7.84%	7.65%	19.44%	
Equity / assets	24.30%	23.92%	21.41%	21.75%	23.59%	23.92%	22.95%	
Expenses / revenues	-56.14%	-104.79%	-58.27%	-67.85%	-58.40%	-68.06%	-54.69%	
Margin loans / total assets	8.26%	7.99%	7.61%	8.88%	10.47%	7.99%	12.30%	
Margin loans / shareholders' equity	34.00%	33.41%	35.53%	40.83%	44.37%	33.41%	53.60%	
Capital adequacy ratio		361.23%		277.53%		361.23%	339.48%	

Note: Consolidated basis

Fubon Bank (China) - Financial summary

<i>RMB millions, except for percentages</i>	1Q23	4Q22	3Q22	2Q22	1Q22	2022	2021	YoY
Income Statement Data								
Interest income	1,152	1,286	1,344	1,348	1,368	5,346	5,129	4.2%
Interest expense	(828)	(780)	(752)	(706)	(710)	(2,949)	(2,707)	8.9%
Net interest income	324	506	592	642	657	2,397	2,422	-1.0%
Net fee income	(45)	(97)	(71)	(102)	(106)	(376)	(304)	23.5%
Other income	128	19	4	(135)	(84)	(197)	(384)	-48.6%
Operating expenses	(272)	(284)	(269)	(245)	(276)	(1,075)	(1,038)	3.5%
Pre-provision profits	135	144	255	159	191	749	696	7.7%
Provision for credit losses	(84)	(102)	(132)	(23)	(91)	(347)	(154)	125.3%
Income before tax	51	42	122	136	101	402	542	-25.8%
Net income	61	48	133	129	123	432	512	-15.7%
Balance Sheet Data								
Loans	49,788	51,272	54,573	53,671	53,324	51,272	53,432	-4.0%
Deposits	84,031	87,331	84,611	90,000	88,848	87,331	100,438	-13.0%
Total asset	122,139	133,344	134,644	132,614	136,284	133,344	137,273	-2.9%
Total equity	8,747	8,606	8,567	7,817	7,783	8,606	7,835	9.8%
Key Metrics								
ROA	0.19%	0.14%	0.40%	0.38%	0.36%	0.32%	0.40%	
ROE	3.10%	2.45%	6.81%	6.61%	6.29%	5.52%	7.25%	
Equity / assets	7.16%	6.45%	6.36%	5.89%	5.71%	6.45%	5.71%	
Cost / income ratio	-64.69%	-63.98%	-50.58%	-57.87%	-56.96%	-56.99%	-57.40%	
NPL ratio	0.94%	0.81%	0.82%	0.78%	0.68%	0.81%	0.53%	
Reserve / NPL	166.06%	186.20%	183.08%	192.47%	245.83%	186.20%	289.91%	
Loan to deposit ratio	59.25%	58.71%	64.50%	59.63%	60.02%	58.71%	53.20%	
Tier 1 ratio	12.91%	11.98%	11.68%	10.30%	10.03%	11.98%	10.27%	
BIS ratio	16.38%	15.32%	14.97%	13.50%	13.35%	15.32%	13.64%	

12 May 2023

Fubon Life Insurance Company Limited
14F, No. 108, Section 1
Tun Hwa South Road
Taipei 105408
Taiwan, R.O.C

For the attention of: Mr. Sue-Iue Chen, President
Ms. Tsai-Ling Chao, EVP

Dear Sirs and Madams,

Review of Embedded Value as at 31 December 2022 and Value of New Business of Fubon Life Insurance Company Limited

Deloitte & Touche Consulting Co. ("Deloitte Consulting", or "we") have been retained by Fubon Life Insurance Company Limited ("Fubon Life" or "the Company") to prepare an independent opinion in respect of the Embedded Value ("EV") as at 31 December 2022 and the Value of New Business ("VNB") sold during the calendar year 2022 as calculated and published by the Company. The purpose of the publication of the EV and VNB figures was to provide supplementary information to investors, analysts and other stakeholders.

This opinion letter ("the Opinion Letter") sets out the work carried out and findings from that work and has been prepared in accordance with the Work Order dated 11 April 2022 between Fubon Life and Deloitte Consulting.

This Opinion Letter has been prepared by Deloitte & Touche Consulting Co. ("Deloitte Consulting") solely for the information and use of Fubon Life Insurance Company Limited ("Fubon Life") for the purpose set out in the introduction of this Opinion Letter, including its reporting or filing obligations under the requirements set out in two circulars, published by the Financial Supervisory Commission R.O.C. (Taiwan) (Circular No. 10202092580) and the Life Insurance Association of the Republic of China (Circular No. 103031433) respectively, regarding the principles to be followed by life insurers disclosing Embedded Value Results. To the fullest extent permitted by law we do not accept or assume responsibility or liability (including without limitation, those arising from negligence) to anyone other than Fubon Life's Directors as a body for our work in respect of this Opinion Letter or for the conclusions that we have reached.

Summary of Embedded Value and Value of New Business Results

The Embedded Value as at 31 December 2022 and the Value of New Business written over the period of 1 January 2022 to 31 December 2022 as calculated by the Company is summarised as follows:

	Values (NT\$ bn)
Adjusted Net Worth	415.5
Value of In Force Business after Cost of Capital	383.1
Embedded Value	798.6
Value of New Business after Cost of Capital	16.6

Definitions

A number of specific terms are used in this Opinion Letter. They are defined as follows:

- Embedded Value ("EV"): this is the sum of the Adjusted Net Worth and Value of In Force Business as at the valuation date. It includes no allowance for the value of future business yet to be written;
- Adjusted Net Worth ("ANW"): this represents the shareholder equity in the enterprise as at the valuation date. This is equal to the shareholder equity as reported in its Taiwan statutory balance sheet plus several adjustment items. The purpose of the adjustments is to make the Adjusted Net Worth consistent with the projection of future profits and Cost of Capital;
- Value of In Force Business ("VIF"): this is equal to the present value as at valuation date of the future statutory profits from the business in force as at the valuation date using a risk adjusted discount rate, less the Cost of Capital associated with such business;
- Value of New Business ("VNB"): this is equal to the present value as at the policy issue date of the future statutory profits from the policies sold in 2022 less the Cost of Capital associated with such business;
- Cost of Capital: this is defined as the amount of capital required to be held at the valuation date less the present value of future releases of such capital and after-tax earnings on the assets backing it. The level of capital required depends on the Company's internal target of capital level but is subject to the minimum of statutory requirement.

This Opinion Letter does not give any opinion on the "fair market value" of any part or the whole of the Company. Actual market values are determined by investors based on a variety of information available to them and their own investment criteria.

The techniques for calculating a company's Embedded Value and the Value of New Business have been evolving over the last 20 years. The Company has used "traditional" techniques. This is a common approach in Taiwan which is consistent with the methodology used by all local domestically-owned companies which publish their Embedded Values. This method does not include an explicit allowance for the cost of options and guarantees within the business. Instead, this approach makes an implicit allowance for the time value cost of options and guarantees and other risks associated with the realisation of the projected future profits through the use of a risk adjusted discount rate.

Scope of Review

The scope of our review is outlined as follows:

- Review and opine on the reasonableness of the EV and VNB as calculated by the Company;
- Review of the reasonableness of the assumptions used in the calculations, taking into consideration both Company's recent experience and the experience of the Taiwanese life insurance market;
- Review of the Company's projection approach of the Cost of Capital;
- Review, at a high-level, of the changes made to the actuarial projection model by the Company since the previous valuation date of 31 December 2021;
- Review of the data put through the model compared to the policy data on the Company's policy administration systems to judge the extent to which the business has been valued in the financial model and to identify the portion (if any) omitted and how that was valued;
- Review of the approach used to determine the Adjusted Net Worth ("ANW"), in particular, the adjustments made in deriving the ANW, and any other adjustments made outside of the actuarial projection model;
- Review of the Company's analysis of change in the VIF between 31 December 2021 and 31 December 2022.

The scope of our review did not include the following aspects:

- Review of the policy data on the Company's administration systems;

Our review did not cover an audit of the accuracy or completeness of the policy data items and we offer no comment on the quality of the policy data used by the Company in the valuation, and readers should not assume our review verifies the data is free from error.

- Review or audit of the valuation of the assets or any items unless specifically stated on the Company's balance sheet;

We referred to the Company's audited financial statements and placed reliance on them.

- Review of the calculation of the RBC (risk based capital) of the Company as at 31 December 2022; and

Whilst we reviewed the projection of the RBC into future periods, we relied on the accuracy and completeness of the starting RBC figures as at 31 December 2022 as submitted by the Company to the Taiwanese regulator.

- Any other actuarial or other valuation figures, such as any "Fair Value" or potential transaction price.

Only the EV and VNB fell in the scope of our review, and we offer no opinion on any other values.

Our review was conducted in accordance with current generally accepted actuarial practices and processes for reviews of traditional Embedded Value calculations. In particular, we made reference to the methods, approach and other considerations as set out in:

- The relevant parts of Practice Guideline 199.03 of the Institute of Actuaries of Australia entitled "Economic Valuations"; and
- Professional Conduct Standards as defined by the Professional Affairs Board of the Institute and Faculty of Actuaries in the UK.
- 人壽保險業隱含價值評估精算實務處理準則及修正對照表(107 年版) published by the Actuarial Institute of Chinese Taipei.

Findings from our Review

Our findings are summarised as follows:

- With respect to the calculation methodology adopted by the Company in the calculations:
 - The chosen traditional EV methodology used by the Company has been applied in line with generally accepted actuarial practice and relevant guidance; and
 - The methodology was in line with the purpose stated by the Company, and is consistent with a “going concern” approach.
- With respect to the policy data used in the calculations:
 - The Company has used policy data that is, in aggregate, consistent with the policy data held on the Company's administration systems as at the appropriate dates.
- With respect to the actuarial projection and valuation systems and the results produced by the Company:
 - Over 99% of the policy data has been included in the valuation and a zero value has been assigned to that part which was not included in the valuation;
 - At the aggregate level, the model outputs for each major block of business that we reviewed appear to be consistent with the assumptions applied in the calculations, the features of the products included in each block of business, the prevailing applicable and relevant regulations in Taiwan.
- With respect to the assumptions used in the calculations:
 - The assumptions, taken as a whole, are reasonable for the Company and the environment in which it conducts business;
 - The economic assumptions, including rate of investment return, risk adjusted discount rate and inflation rate, were set consistently with one another and with the way in which the adjusted net worth was calculated;
 - The economic assumptions represent plausible future outcomes for expected future total returns (including the release of risk margins) and lie within a reasonable range of such plausible future outcomes; and
 - The non-economic assumptions have been set with regard to relevant actual historical experience of both the Company and the industry, and the Company has provided plausible, reasoned arguments in relation to their expectations of future trends and developments for these assumptions.
- With respect to the calculation of the Adjusted Net Worth:
 - The Company has made adjustments to the Net Worth as reported on the statutory balance sheet which are appropriate for the purpose of this valuation.

In conclusion, we find the results of the Embedded Value and Value of New Business calculated by the Company to be reasonable within the purpose and chosen methodology of their calculation, and that the methodology is consistent with the approach taken by all local domestically-owned life insurers which publish similar figures in Taiwan and with one generally accepted method for their calculation.

In stating the above opinion, we draw attention to the uncertainty related to such calculations.

The calculations of EV and VNB results necessarily make numerous assumptions with respect to economic conditions, operating conditions, taxes and other matters, many of which are not fully within the control of the Company. Although the assumptions used represent estimates which fall within a reasonable range of expectations, actual experience in the future is almost certain to vary from that assumed in the calculation of the results and any such variations may be material. Deviations from assumed experience are normal and are to be expected.

We note, and draw the attention of readers to the sensitivity of the results to assumptions, and in particular, to the assumed rate of future investment return and the risk discount rate; this is illustrated quantitatively in the Company's disclosures. A deviation from the assumed future investment return, even still within a reasonably plausible range of such assumptions, may lead to a materially different result. We note that future investment returns are subject to market factors beyond the control of the Company and hence it is not possible for the Company to fully immunise future profitability against movements in future investment returns.

Readers should be aware that the C3 risk calculation is subject to yearly regulatory change and therefore there is a high degree of uncertainty in the projection of cost of capital.

Yours faithfully,
Deloitte & Touche Consulting Co.