

# Fubon Financial 2017 Q1 Interim Results and 2016 Embedded Value of Fubon Life

2017.05.15

This meeting may contain forward-looking statements with respect to the financial condition, results of operations and business of the company. These forward-looking statements represent the company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed. Certain statements, such as those that include the words "potential", "estimated", and similar expressions or variations on such expressions may be considered "forward-looking statements". Financial numbers in this report may include preliminary unaudited numbers or management accounts.



- ***Performance highlights of Fubon Financial Holdings***

- ***Performance review by subsidiary***

- *Taipei Fubon Bank*

- *Fubon Life*

- *Fubon Insurance*

- *Fubon Securities*

- *Fubon Bank (China)*

- ***2016 Embedded value of Fubon Life***



**Net profits reached NT\$9,879 million in 3M17, up 12.6% yoy.**

## Taipei Fubon Bank

- Net interest revenue and net fee revenue maintain steady growth
- NIM gradually recovering

## Fubon Life

- Renewal premium continues to grow, up 27% yoy
- Pre-hedge investment performance remains stable while hedging cost rise along with NT dollar appreciation
- Cost of liability and breakeven point continues improving

## Fubon Insurance

- Leading position in premium income with 23.5% market share
- Underwriting performance outstanding

## Fubon Securities

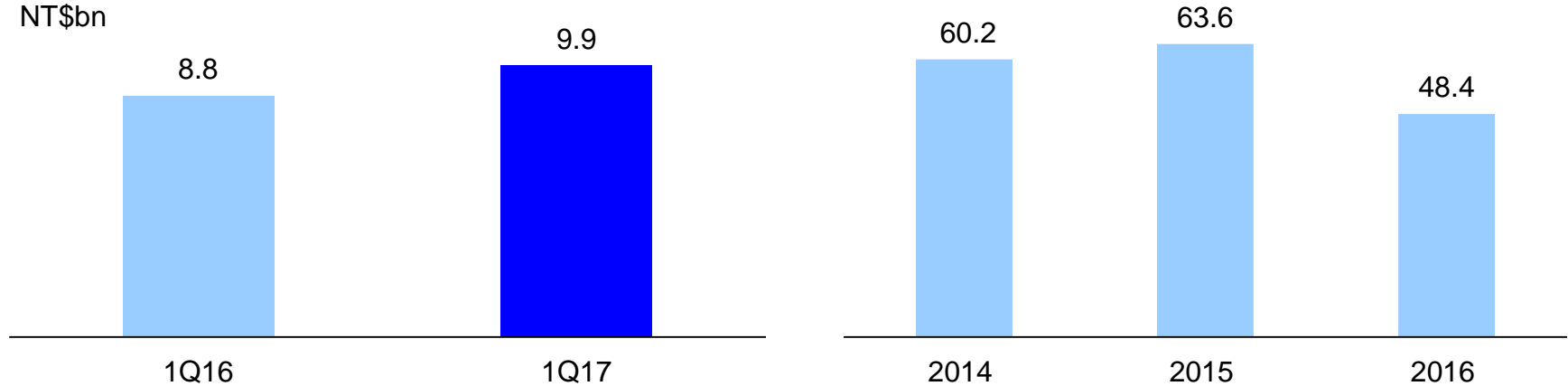
- Stable market share across business lines
- Wealth management business development, aiming to be regional ETF market leader

# Fubon Financial Holdings: Profitability



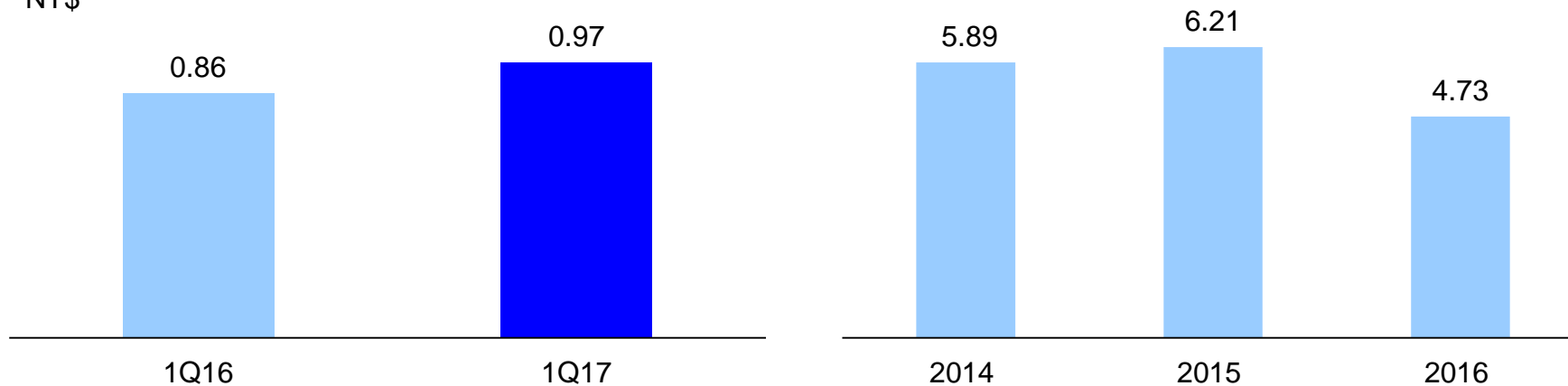
## Net profits

NT\$bn



## Earning per share (EPS)

NT\$

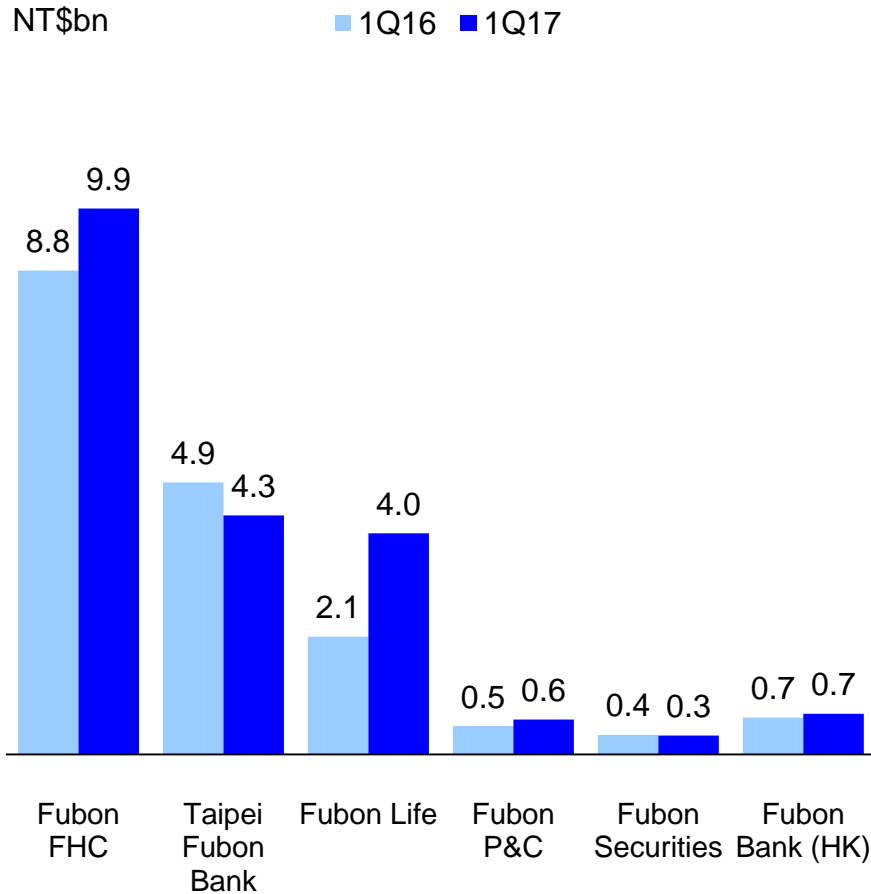


Note: Fubon adopted fair value method for investment property evaluation since September 2014.

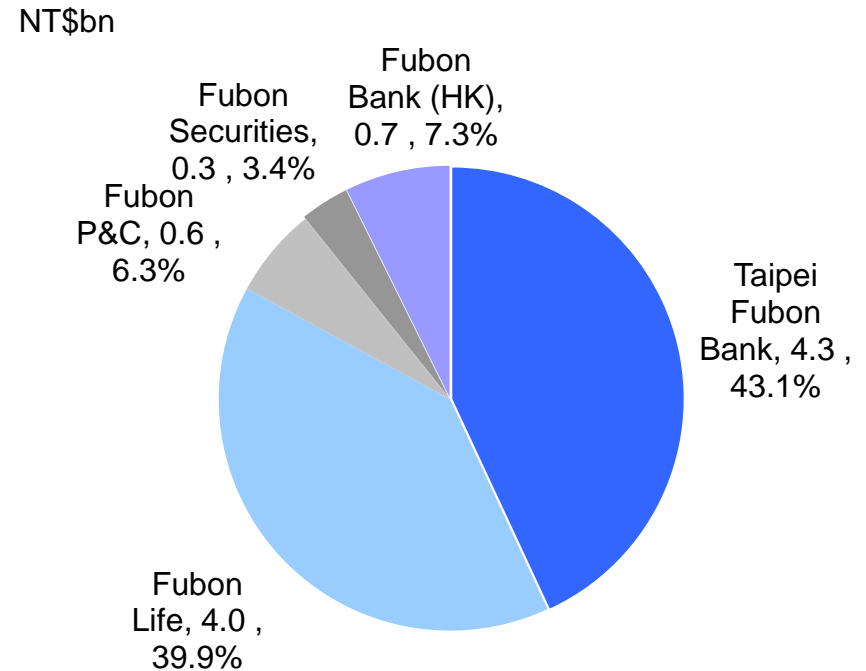
# Fubon Financial Holdings: Net profits from major subsidiaries



## Net profits from major subsidiaries



## Profit contribution from major subsidiaries



Note:

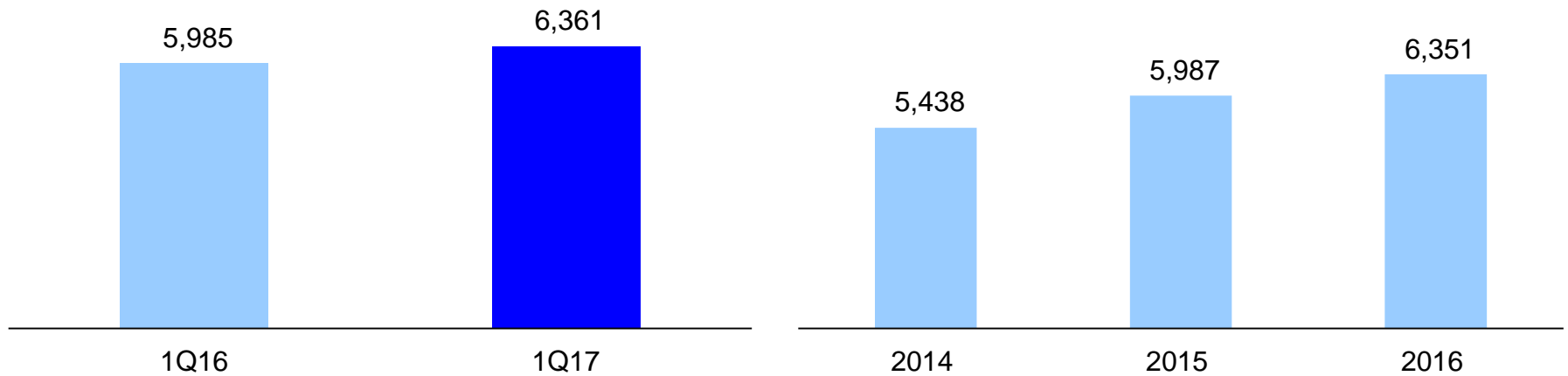
(1) Profit contribution are based on the summation of five major subsidiaries; (2) Fubon Bank (China) contributed NT\$146mn net profits to the Company on the basis of 100% shareholding.

# Fubon Financial Holdings: Asset and net worth



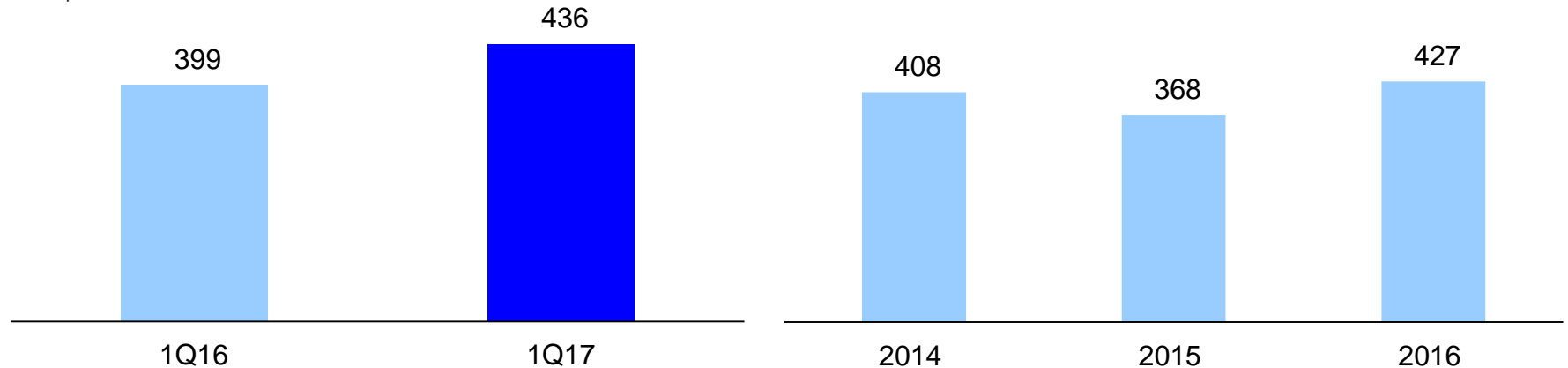
## Total assets

NT\$bn



## Equity attributable to parent company

NT\$bn

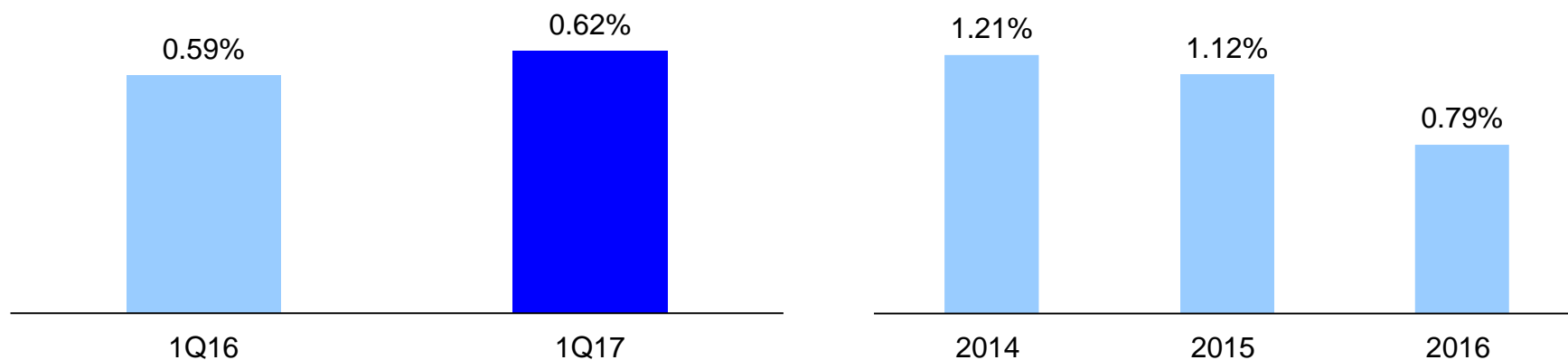


Note: Fubon adopted fair value method for investment property evaluation since September 2014.

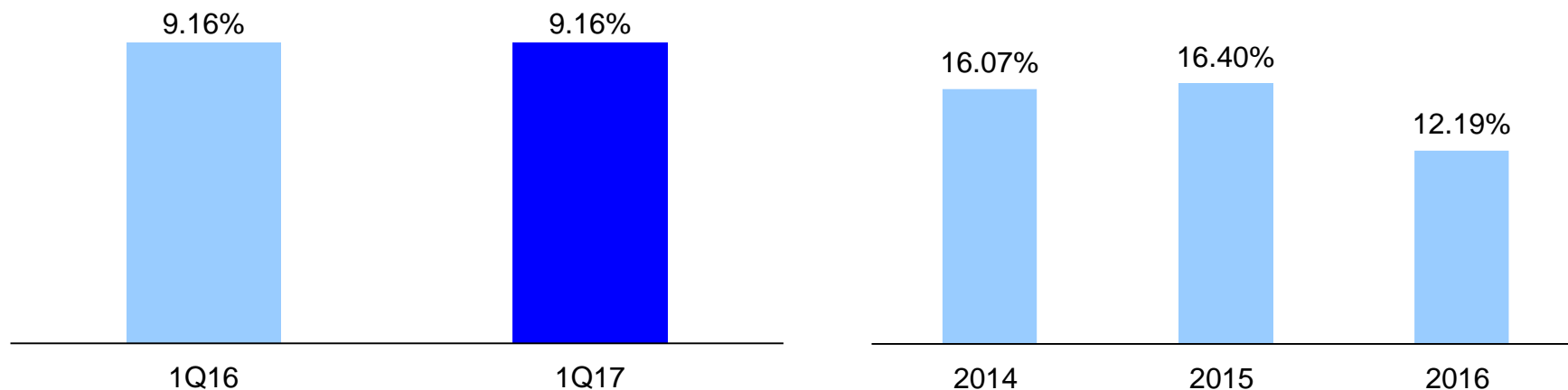
# Fubon Financial Holdings: ROA & ROE



## ROA



## ROE



Note: Fubon adopted fair value method for investment property evaluation since September 2014.



- ***Performance highlights of Fubon Financial Holdings***
- ***Performance review by subsidiary***



- *Taipei Fubon Bank*

- *Fubon Life*

- *Fubon Insurance*

- *Fubon Securities*

- *Fubon Bank (China)*

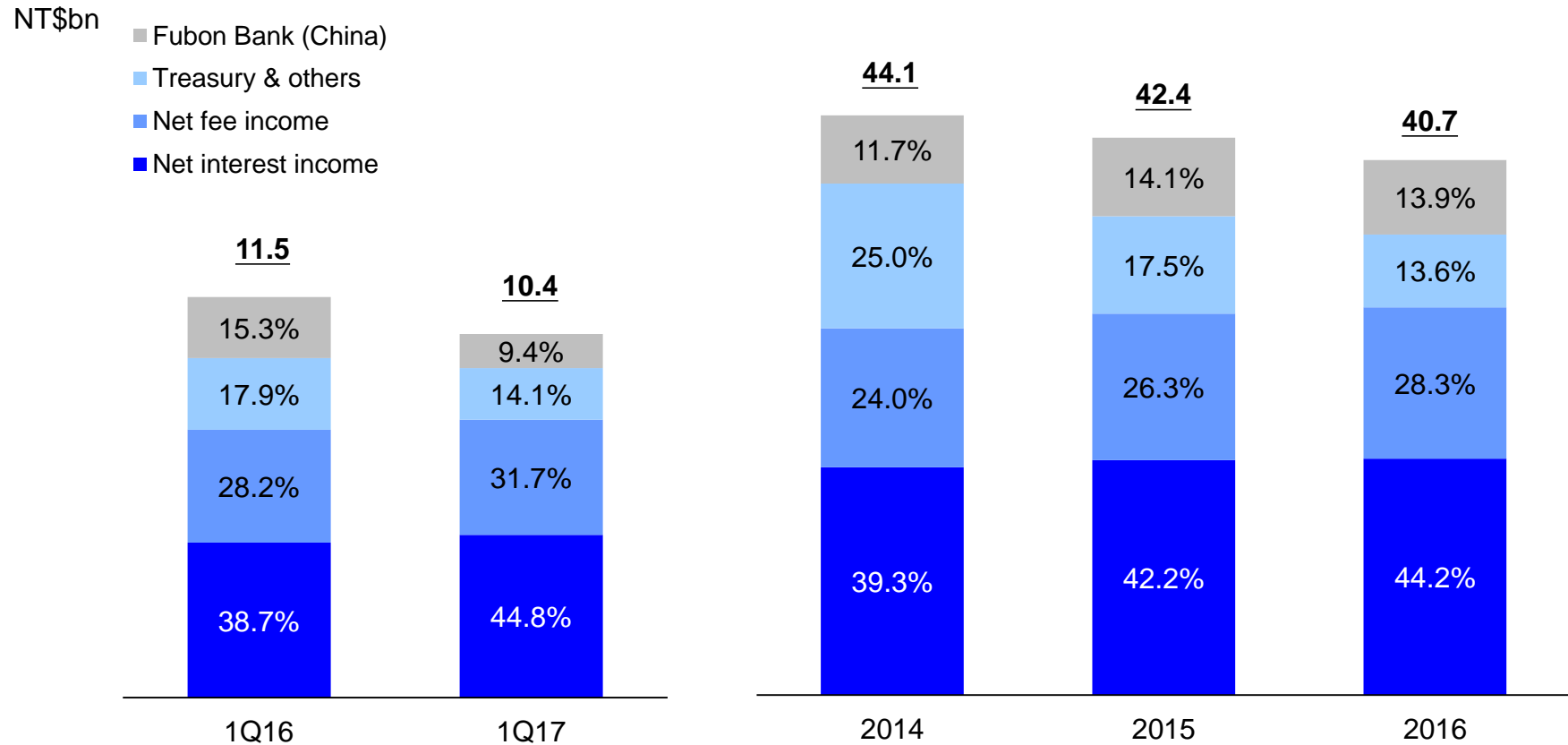
- ***2016 Embedded value of Fubon Life***

# Taipei Fubon Bank: Revenue



- Steady growth from net interest income and net fees

Revenue composition of Taipei Fubon Bank



Note: Consolidated basis; Fubon Bank (China) accounted starting from Jan. 7<sup>th</sup>, 2014

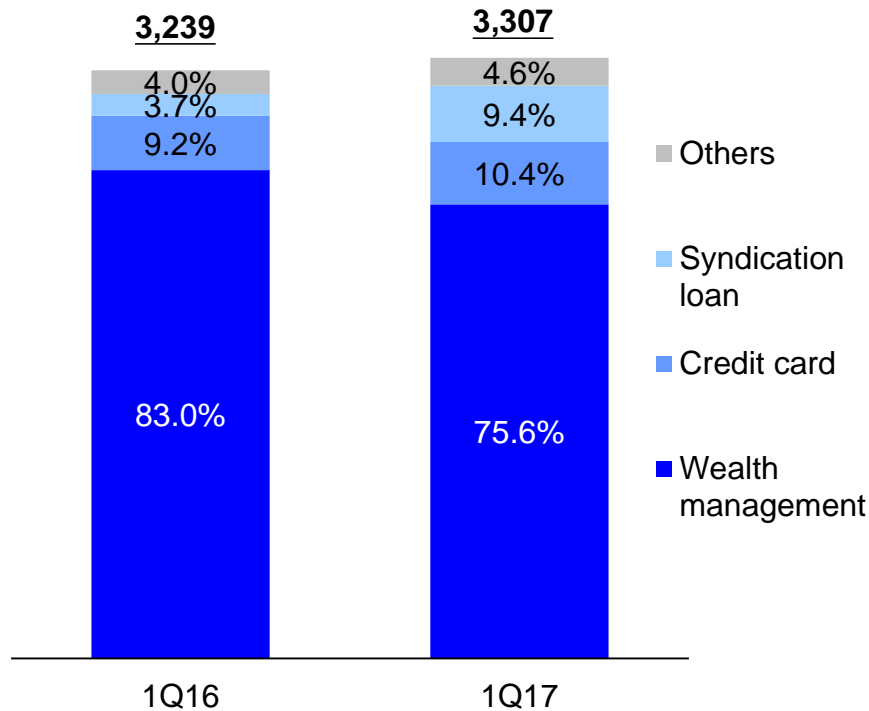
# Taipei Fubon Bank: Fee and wealth management revenue



- Fee income growth along with sound credit card and syndication business
- Investment type of products fee income increase with higher contribution

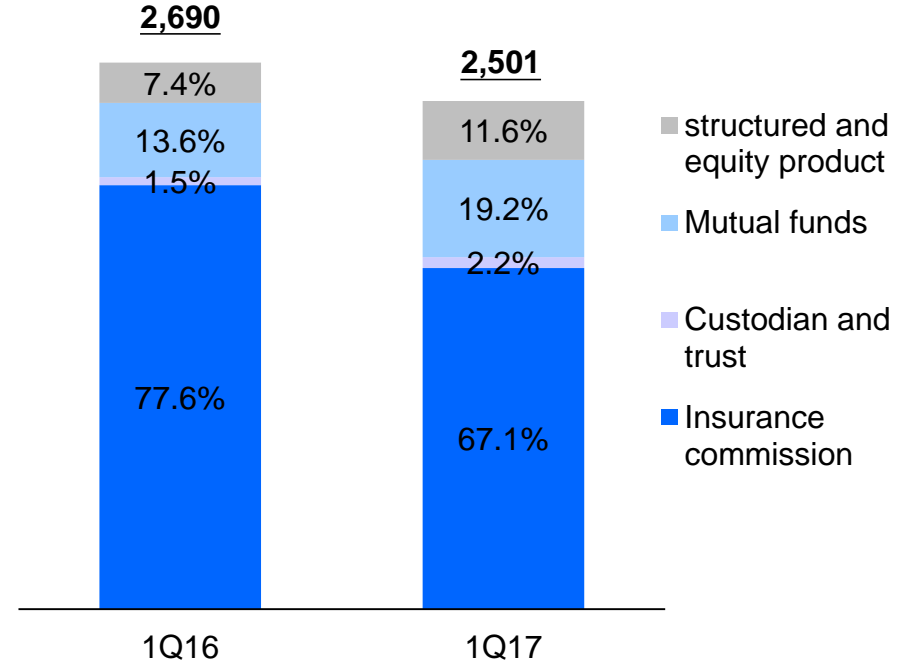
## Sources of fee revenue

NT\$m



## Wealth management fee

NT\$m



Note: (1) Wealth management revenue includes fee in the chart and other income (1Q17: NT\$79mn; 1Q16: NT\$93mn)

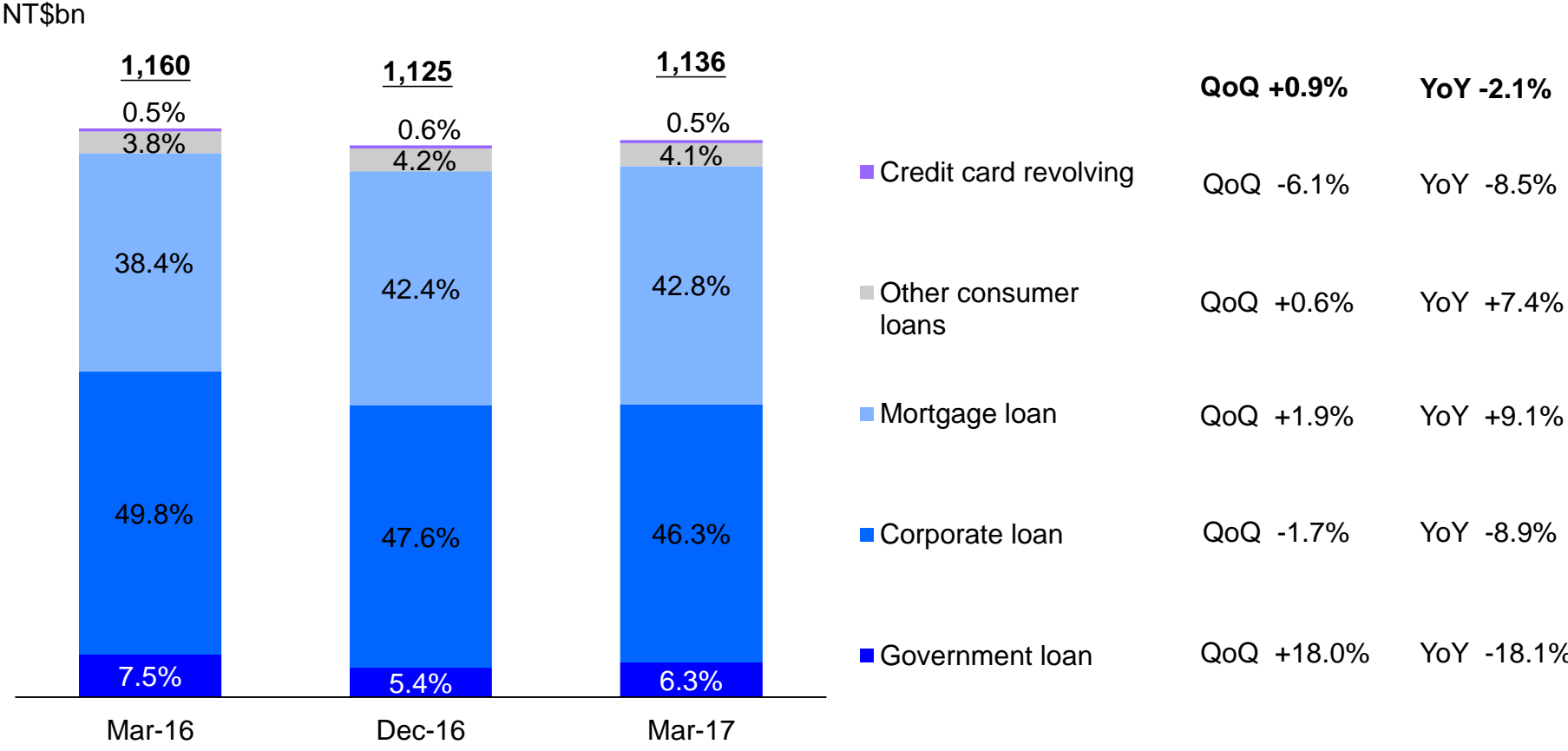
(2) Data are stand-alone basis in page 11-16

# Taipei Fubon Bank: Loan composition



- Mortgages growth outperformed industry
- Consumer loans contribution increase

## Loans by type



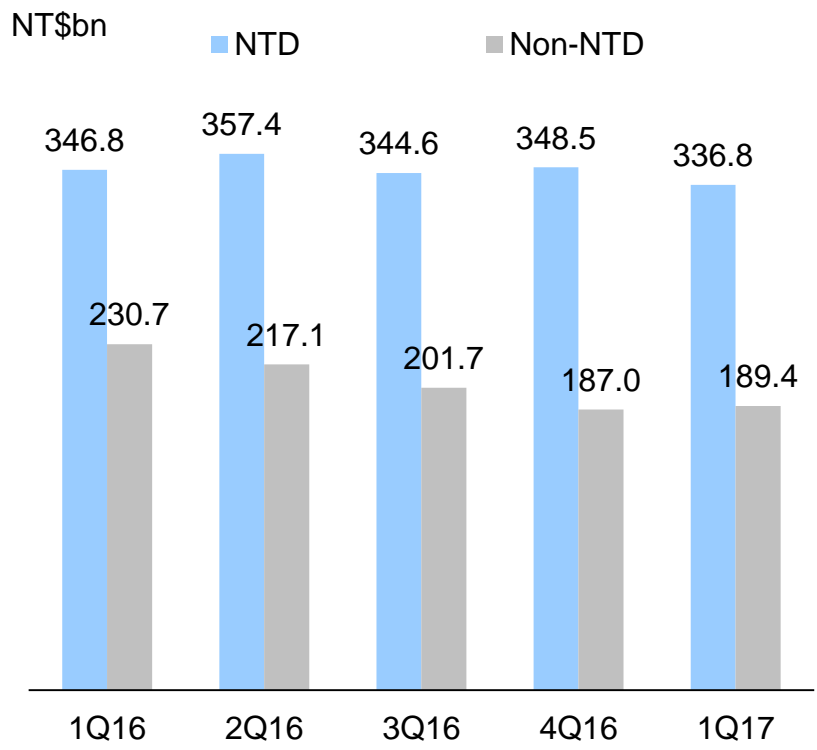
Note: Ending balance

# Taipei Fubon Bank: Corporate credit



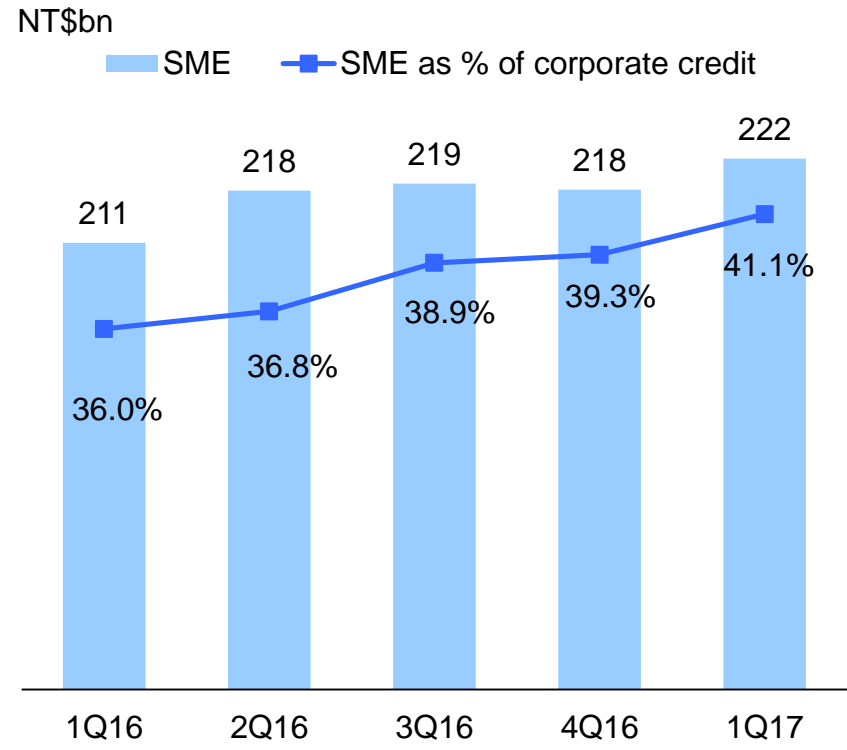
- Foreign currency loans recovered
- Contributions from SME credit continues increasing, reaching 41.1%

Corporate loan by currency



Note: Ending balance

SME credit and as % of corporate credit

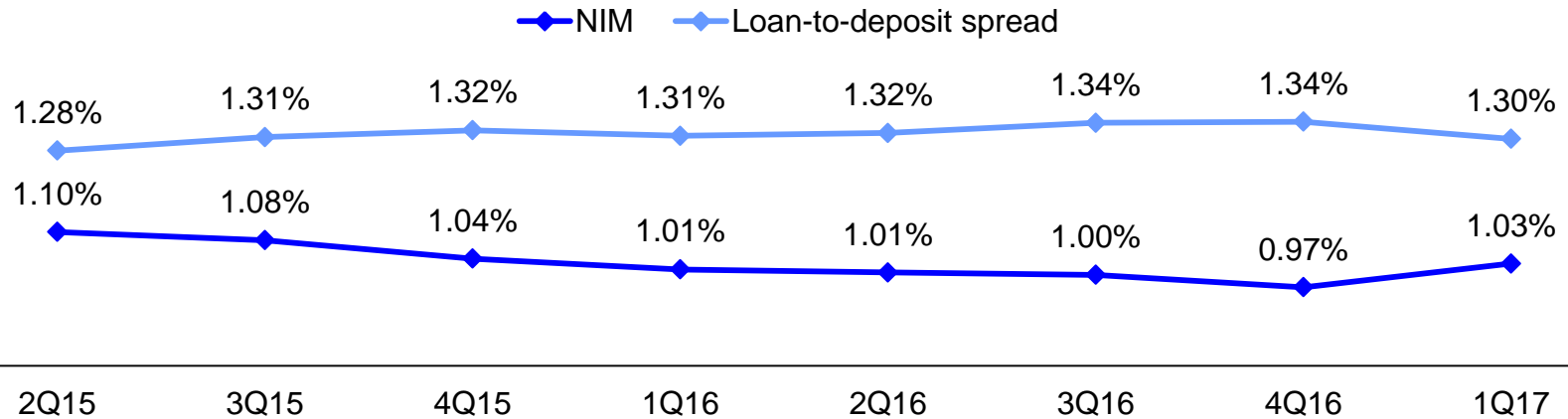


Note: SME credit and corporate credit include loan and trade finance

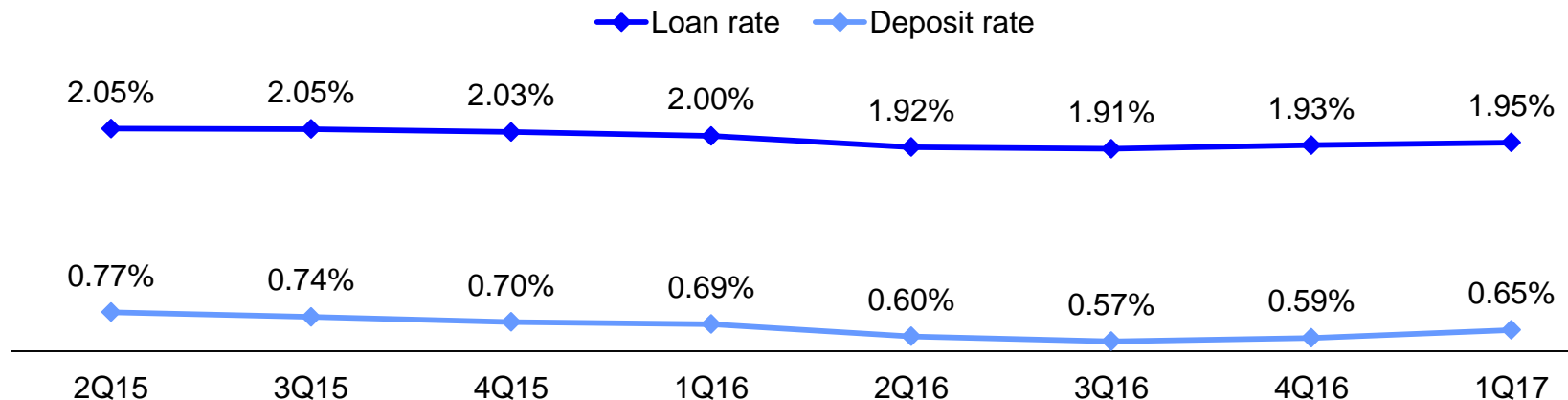
# Taipei Fubon Bank: Interest yield and margin



## NIM and loan-to-deposit spread



## Loan yield and deposit yield

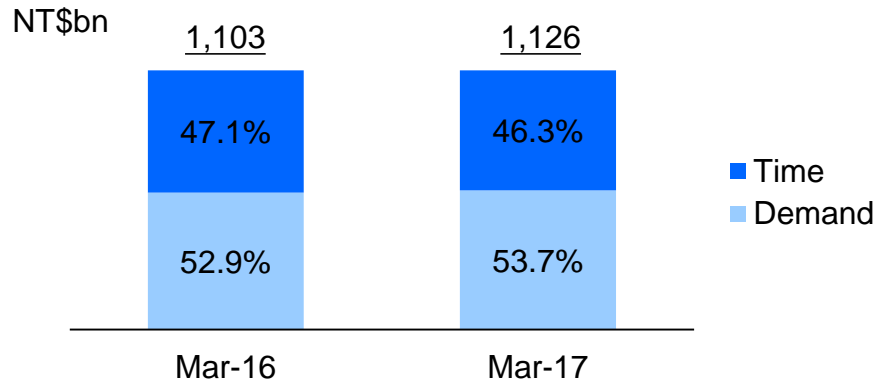


Note: Loan rate calculation inclusive of credit card revolving

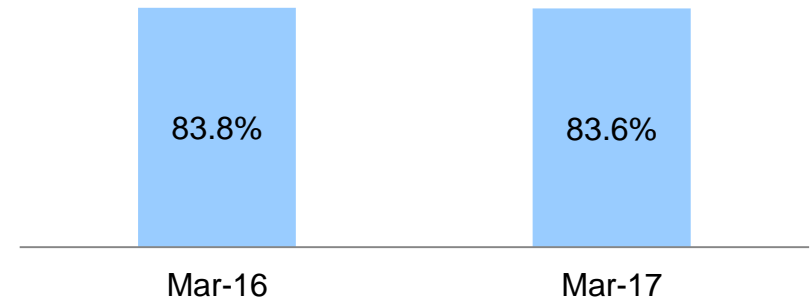
# Taipei Fubon Bank: Deposit mix and LDR



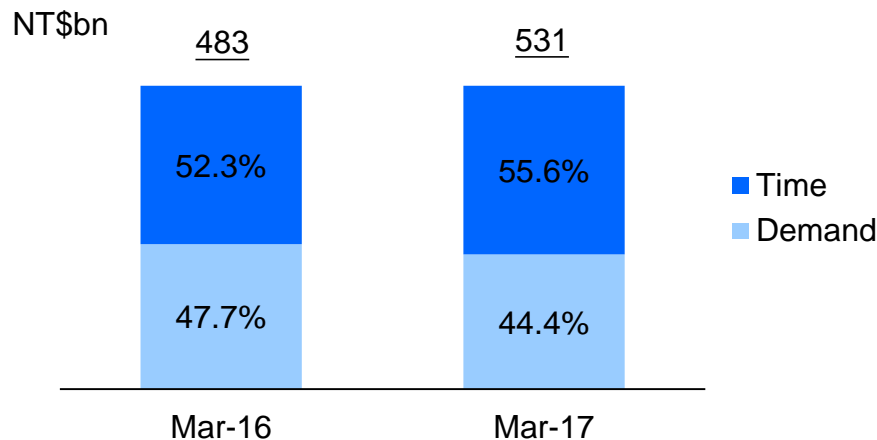
## Deposit mix in NTD



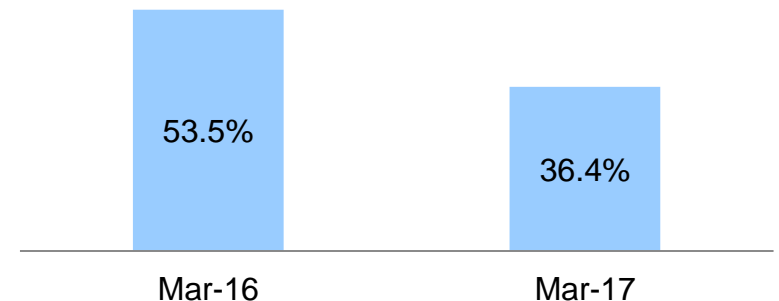
## NTD loan-to-deposit ratio (LDR)



## Deposit mix in foreign currency



## Foreign currency LDR

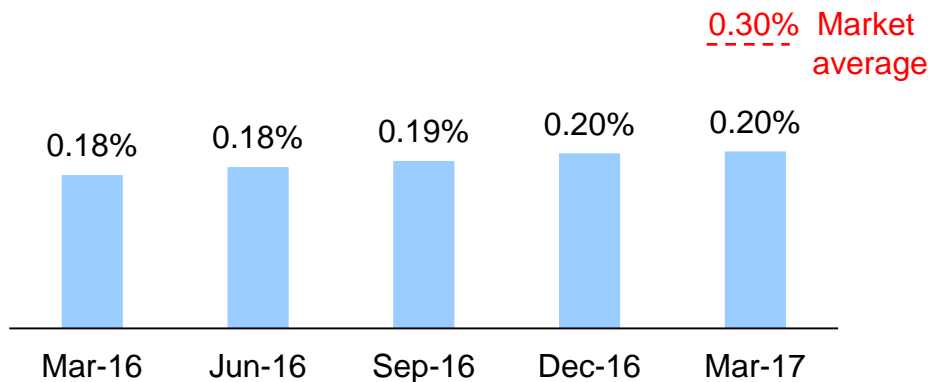


Note: Ending balance

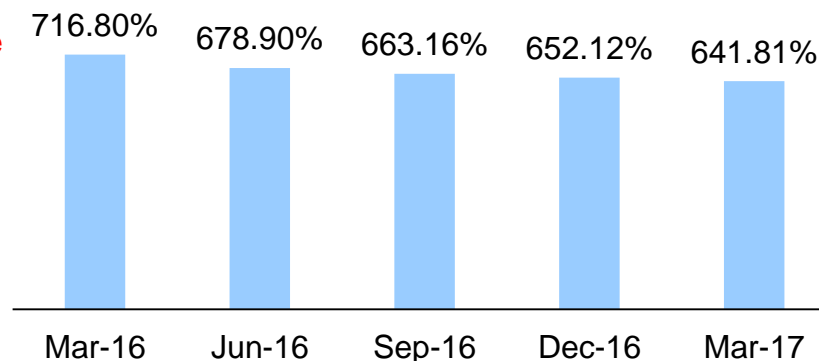
# Taipei Fubon Bank: Asset quality



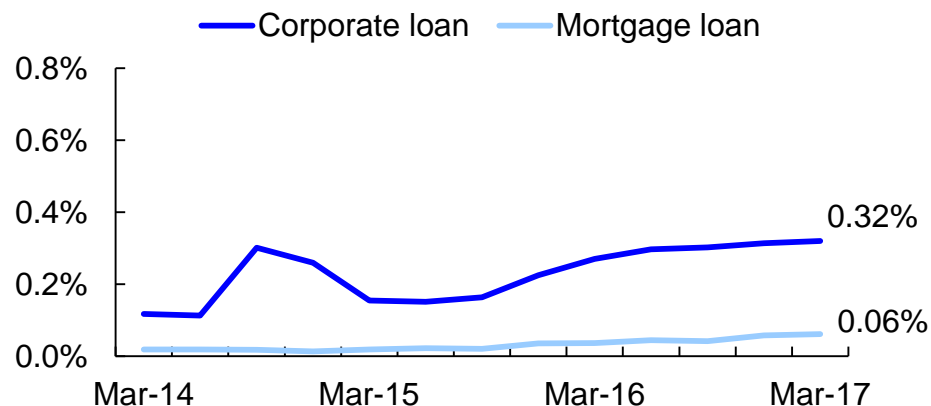
## NPL ratio



## Coverage ratio

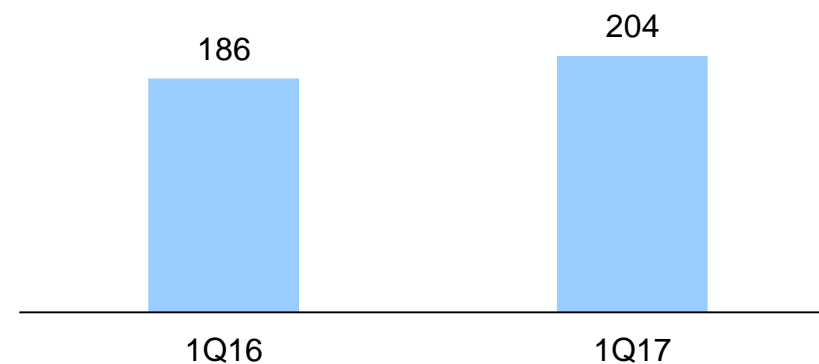


## NPL ratio by business



## Net provision

NT\$m





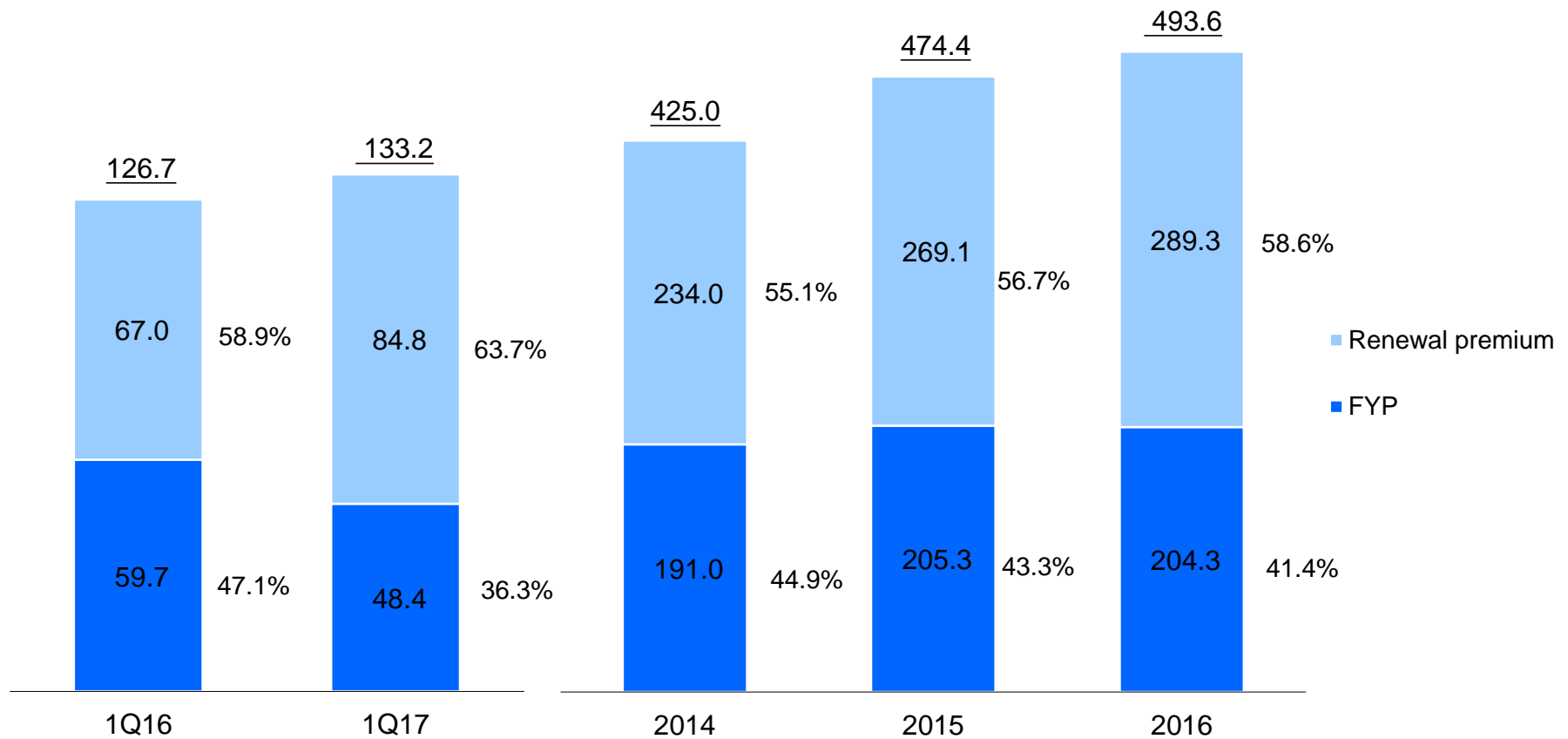
- ***Performance highlights of Fubon Financial Holdings***
- ***Performance review by subsidiary***
  - *Taipei Fubon Bank*
  - *Fubon Life*
  - *Fubon Insurance*
  - *Fubon Securities*
  - *Fubon Bank (China)*
- ***2016 Embedded value of Fubon Life***

# Fubon Life: Total premium



■ 5% yoy growth in total premium income and 27% growth in renewal premium

NT\$bn



# Fubon Life: First year premium (FYP)



- Contributions from traditional policies sales reached 83.7%

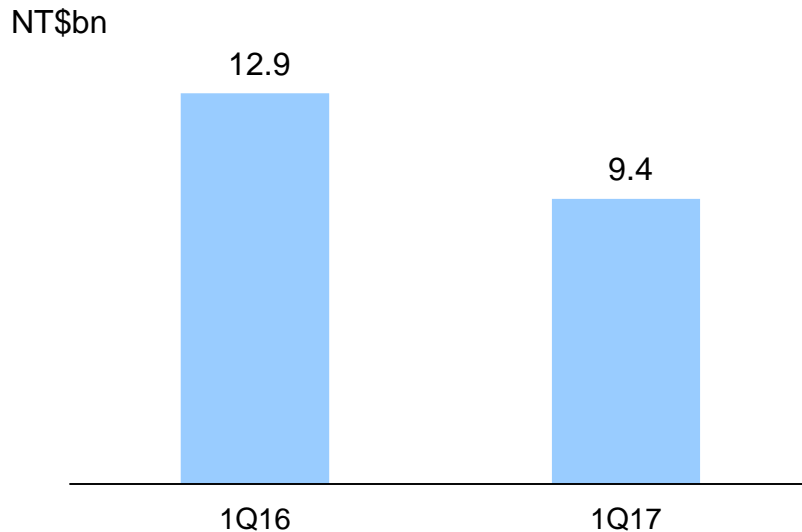
FYP composition					
NT\$bn	1Q16	%	1Q17	%	YoY growth
Traditional life: Regular-paid	24.9	41.7%	20.5	42.4%	-17.7%
Traditional life: Single-paid	22.9	38.3%	20.0	41.3%	-12.7%
Interest-sensitive annuity	7.4	12.4%	1.3	2.8%	-81.8%
Investment-linked	2.5	4.2%	4.4	9.0%	75.6%
Health, accidents and others	2.0	3.4%	2.2	4.5%	7.2%
Total	59.7	100.0%	48.4	100.0%	-19.0%

# Fubon Life: Value of new business (VNB) & First year premium equivalent (FYPE)

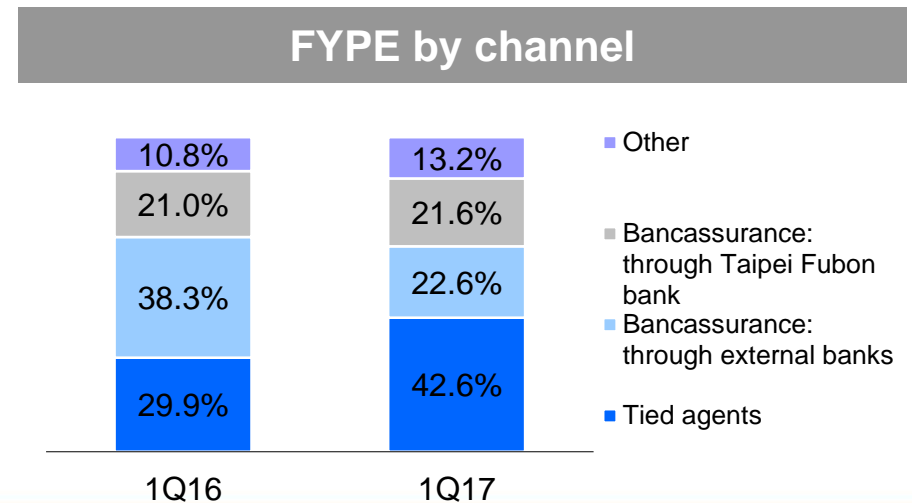
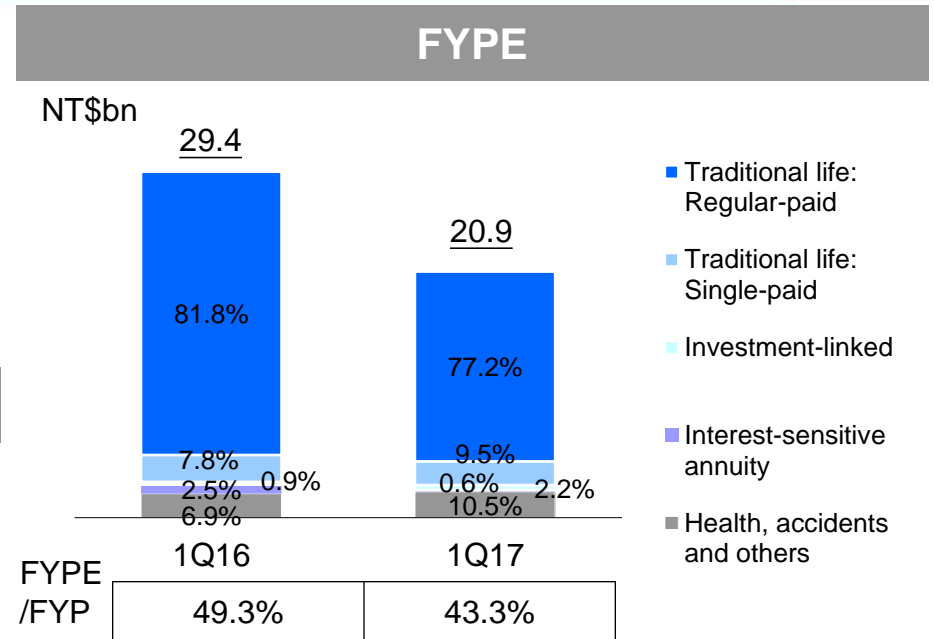


- FYPE reached NT\$20.9 billion in 1Q17, with balanced distribution channel
- VNB/FYPE ratio improved thanks to stable contributions from traditional regular-paid policies

## VNB



VNB/FYP	21.6%	19.5%
VNB/FYPE	43.9%	45.1%



Note: 1Q17 VNB is based on 2016 EV actuarial assumptions

# Fubon Life: Composition of investment income



- Investment income mainly came from recurring revenue
- Capital gains performance decent

NT\$bn	1Q16	1Q17	YoY	2014	2015	2016
Recurring investment income	23.1	23.2	0.4%	88.7	101.0	106.1
Cash dividend income from equity investment	0.4	0.1	-72.3%	12.6	16.5	14.9
Realized gains from fixed income investment	3.6	4.4	22.1%	12.1	9.9	23.9
Realized gains from equity investment	3.1	8.6	175.9%	14.0	22.6	10.3
FX and others	-4.9	-10.1	107.9%	-6.4	-3.6	-15.7
Investment property fair value movement	0.5	0.1	-85.9%	1.4	0.4	-0.3
<b>Investment income</b>	<b>25.5</b>	<b>26.2</b>	<b>2.8%</b>	<b>109.9</b>	<b>130.3</b>	<b>124.3</b>
<b>Total investment assets</b>	<b>2,866.1</b>	<b>3,118.1</b>	<b>8.8%</b>	<b>2,588.0</b>	<b>2,814.0</b>	<b>3,118.4</b>
<b>Investment Return</b>	<b>3.72%</b>	<b>3.45%</b>	<b>-</b>	<b>4.74%</b>	<b>4.97%</b>	<b>4.30%</b>

# Fubon Life: Investment portfolio



- Investment portfolio repositioned in response to market volatility
- Stabilizing recurring return by increasing overseas fixed income investment

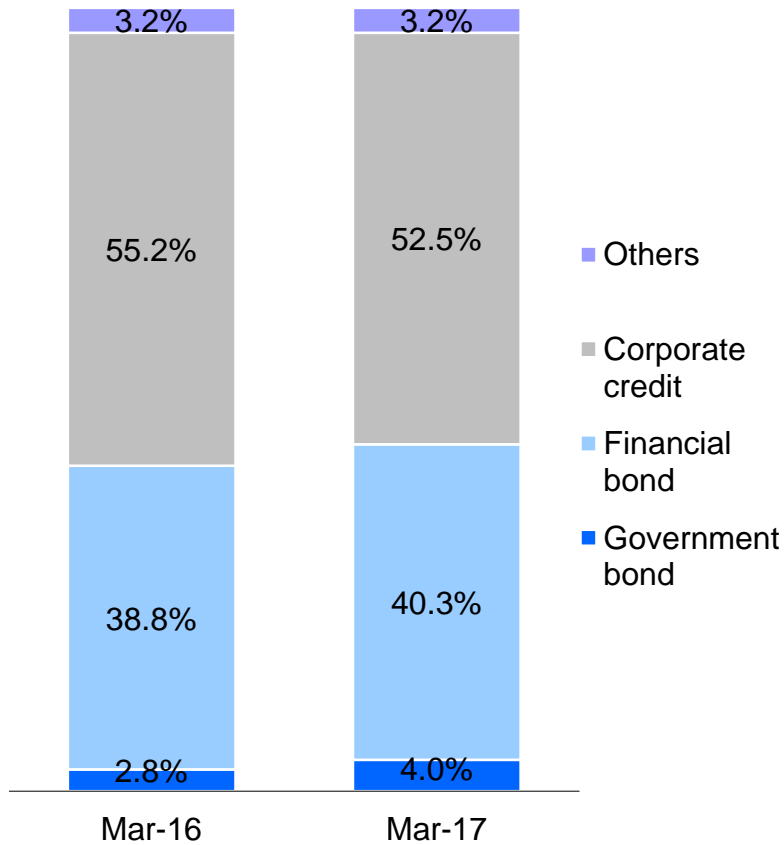
	2016/3/31		2016/12/31		2017/3/31	
<b>(NT\$bn)</b>						
Deposit and cash equivalent	195.4	6.8%	165.3	5.3%	142.8	4.6%
Domestic fixed income	495.9	17.3%	489.3	15.7%	445.1	14.3%
Overseas fixed income*	1,408.7	49.1%	1,630.3	52.3%	1,667.9	53.5%
Domestic equity	224.7	7.8%	271.2	8.7%	293.5	9.4%
Overseas equity	188.2	6.6%	189.4	6.1%	191.6	6.1%
Mortgage loans	88.0	3.1%	107.1	3.4%	112.7	3.6%
Policy loans	55.1	1.9%	58.5	1.9%	58.4	1.9%
Real estate	210.1	7.3%	207.3	6.6%	206.1	6.6%
<b>Total Investments</b>	<b>2,866.1</b>	<b>100.0%</b>	<b>3,118.4</b>	<b>100.0%</b>	<b>3,118.1</b>	<b>100.0%</b>
Domestic	1,211.8	42.3%	1,235.5	39.6%	1,184.1	38.0%
Overseas*	1,654.3	57.7%	1,882.9	60.4%	1,934.0	62.0%

Note: \*Including OTC-listed international bond, the international bonds investment reached 14.5% of total investment assets as of 2017/03/31

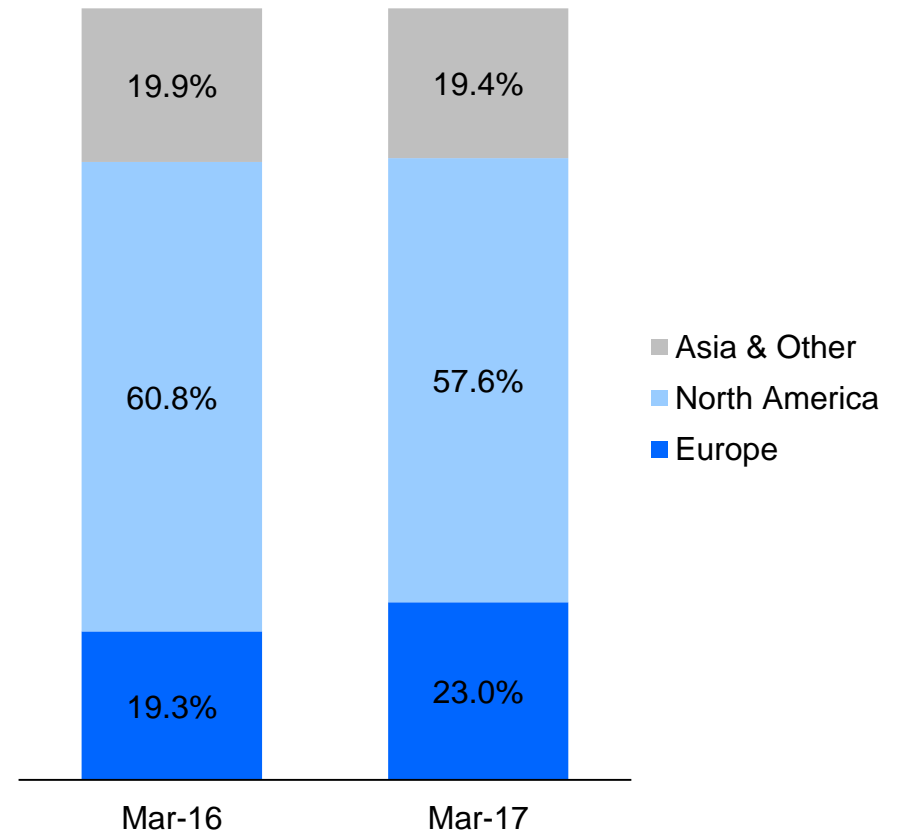
# Fubon Life: Portfolio of overseas fixed income



Overseas fixed income by asset type



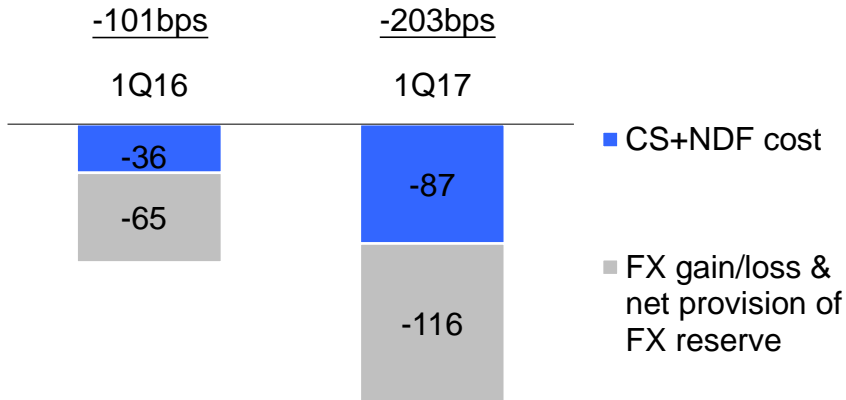
Overseas fixed income by region



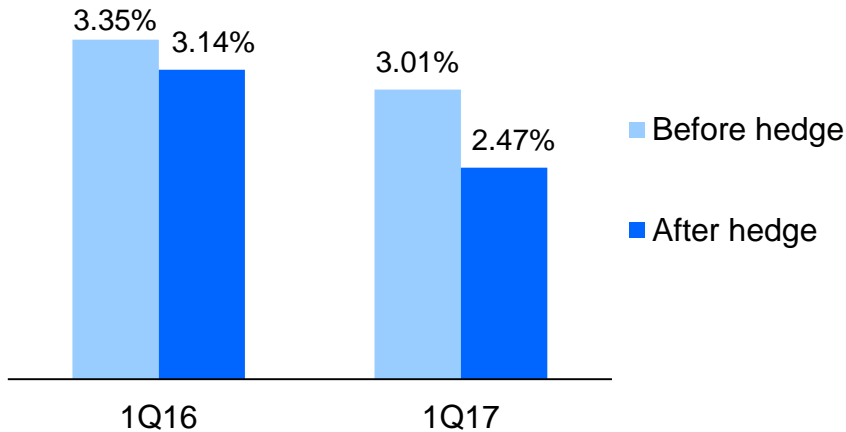
# Fubon Life: Hedging composition



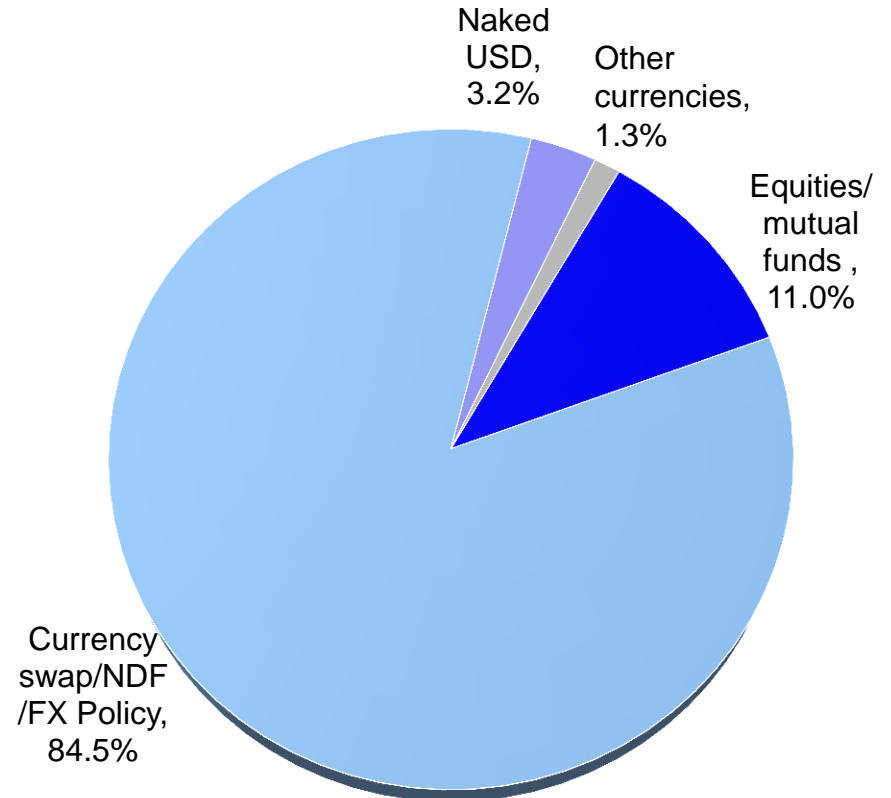
## Hedging cost & FX gain/loss



## Recurring return



## FX position



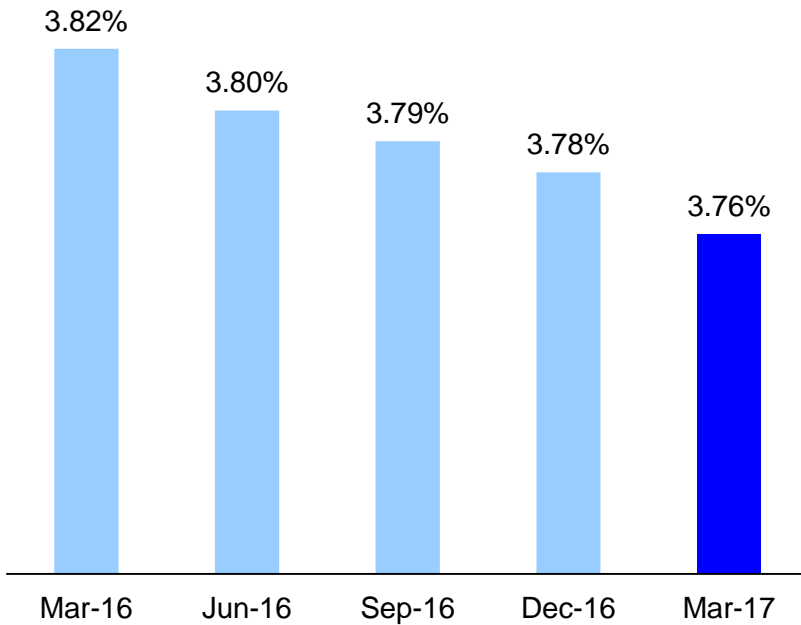


# Fubon Life: Cost of liability & Breakeven point

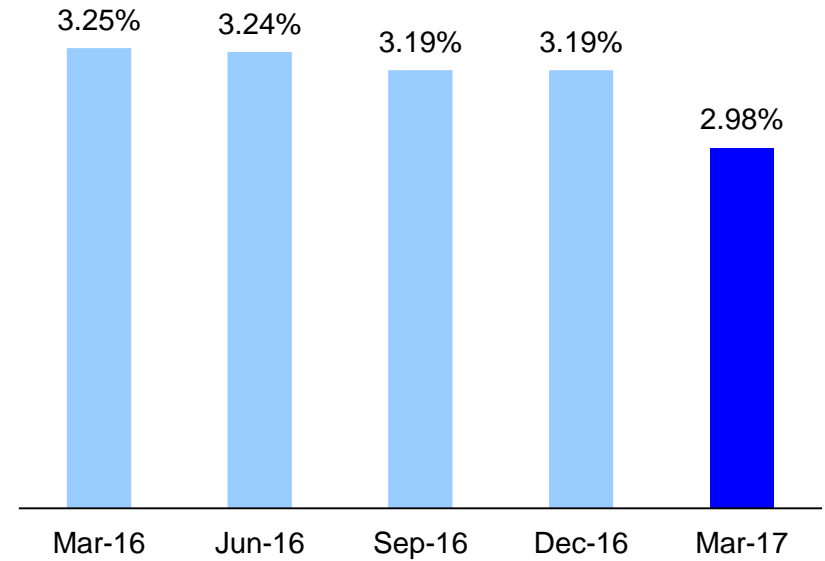


- Cost of liability improvement continues
- Breakeven point improvement due to improving cost structure

### Cost of liability



### Breakeven point

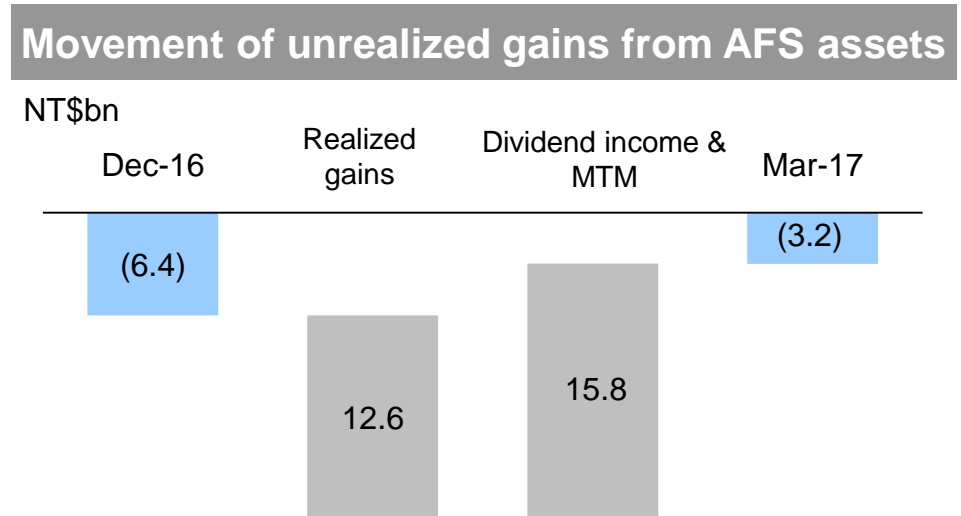
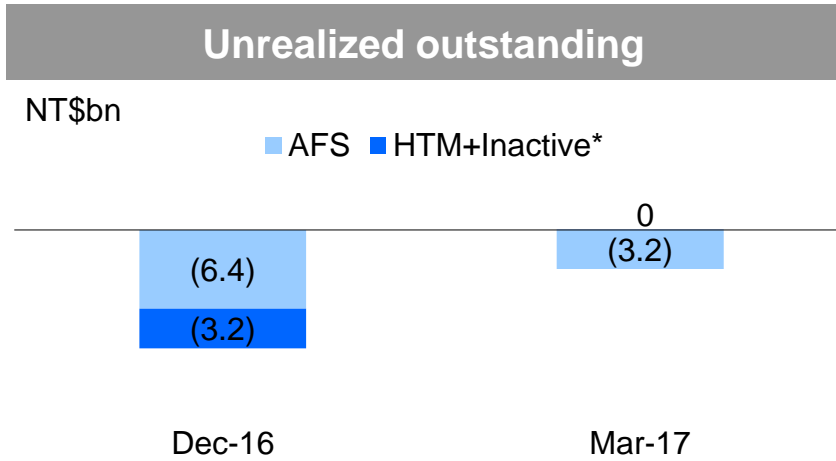


$$\text{Breakeven point} = (\text{Profit before tax} - \text{Investment income}) / \text{Average investment assets}$$

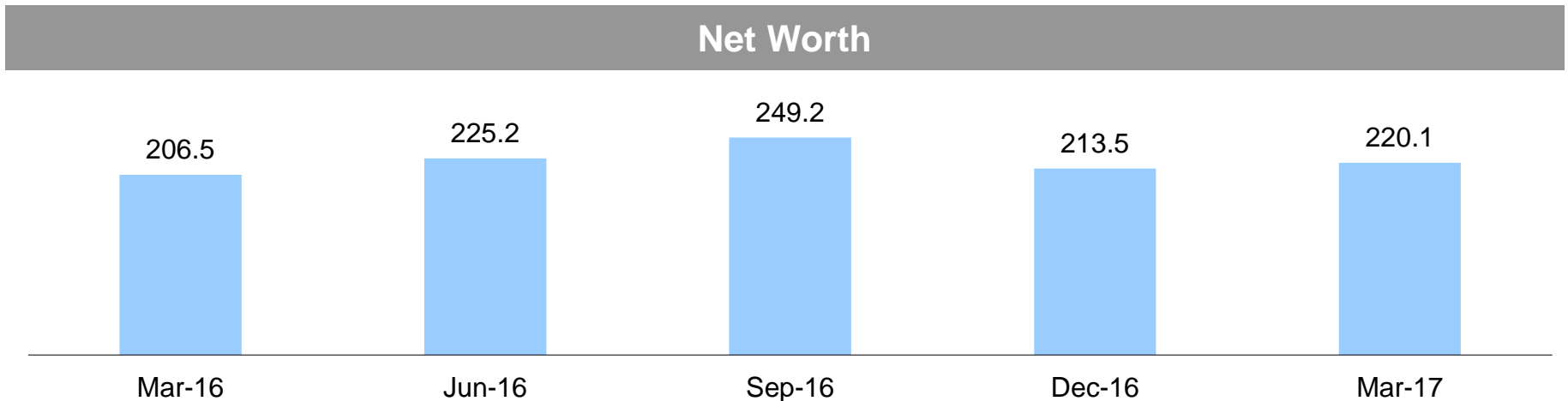
# Fubon Life: Investment performance



## ■ Improvement in unrealized position



Note: \*before tax basis



- ***Performance highlights of Fubon Financial Holdings***
- ***Performance review by subsidiary***
  - *Taipei Fubon Bank*
  - *Fubon Life*
  - *Fubon Insurance*
  - *Fubon Securities*
  - *Fubon Bank (China)*
- ***2016 Embedded value of Fubon Life***



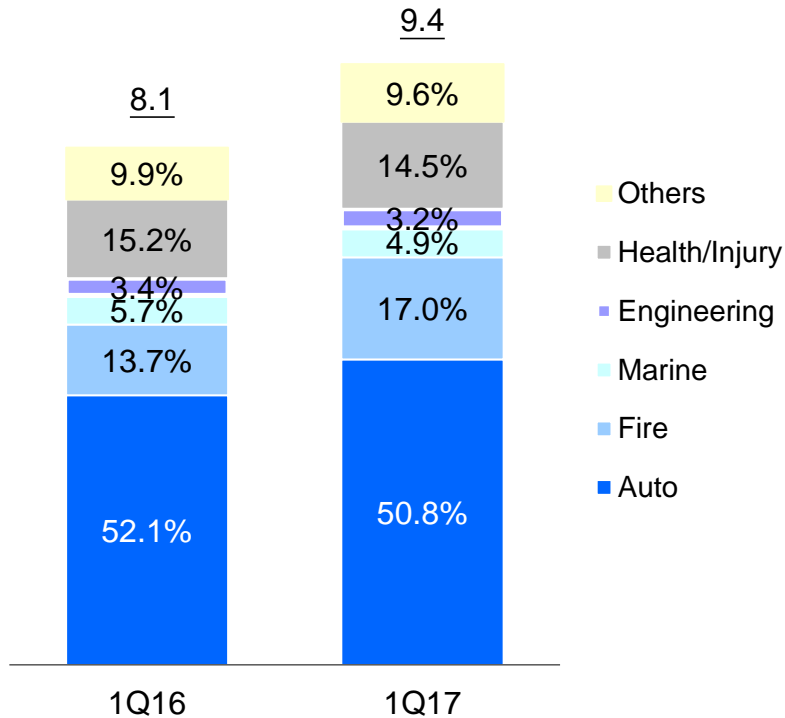
# Fubon Insurance: Operating snapshot



- Premium growth outperformed industry. Top 1 position in premium market share
- Outstanding underwriting performance with decreasing net combined ratio

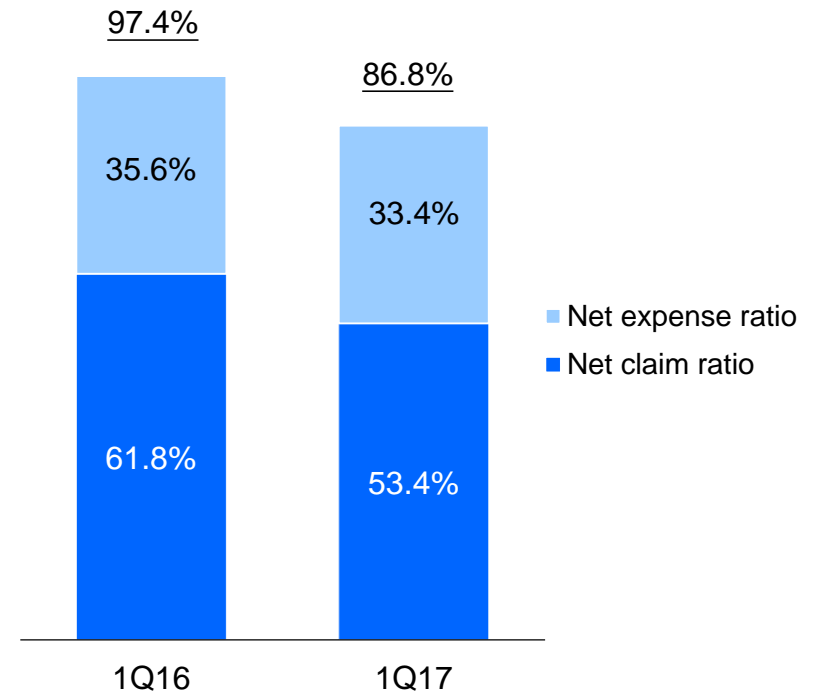
## Direct written premium by product

NT\$bn



Note: Standalone basis

## Net combined ratio



Note: Exclusive of auto compulsory due to the claims are reimbursed

- ***Performance highlights of Fubon Financial Holdings***
  
- ***Performance review by subsidiary***
  - *Taipei Fubon Bank*
  
  - *Fubon Life*
  
  - *Fubon Insurance*
  
  - *Fubon Securities*
  
  - *Fubon Bank (China)*
  
- ***2016 Embedded value of Fubon Life***

# Fubon Securities: Financial highlights



- Franchise optimization to further enhance market position
- Growth in wealth management business with diversified products
- Market leader in ETF with AUM up by 16% yoy.
- On-line trading promotion continues

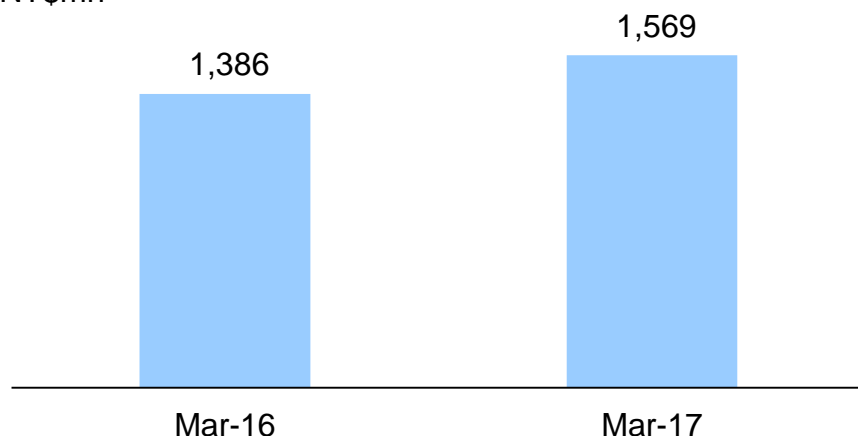
## Market share & ranking

	2017Q1	Ranking	2016Q1	Ranking
Brokerage per branch*	0.122%	1	0.096%	2
NAV of ETF (NT\$ mn)	65,000	2	55,900	2
Emerging stock trading	15.99%	2	20.84%	2
Brokerage	5.87%	3	5.26%	3
Electronic Transaction	3.32%	3	3.05%	3

Note: \*Ranking among top 10 brokers

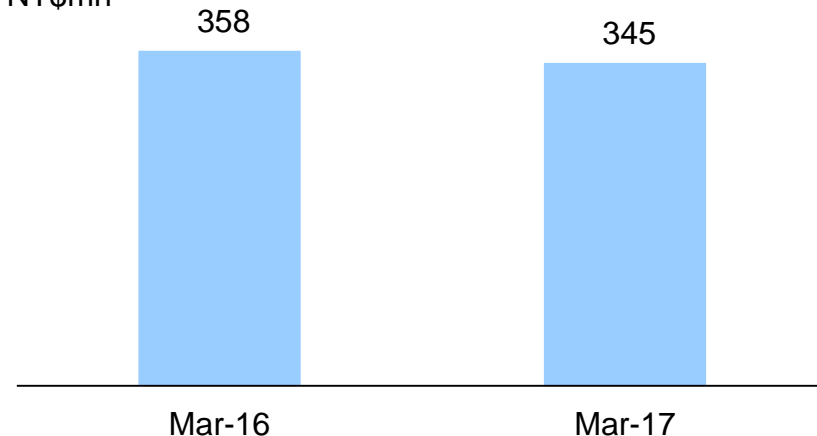
## Operating revenue

NT\$m



## Net profits

NT\$m



- ***Performance highlights of Fubon Financial Holdings***
- ***Performance review by subsidiary***
  - *Taipei Fubon Bank*
  - *Fubon Life*
  - *Fubon Insurance*
  - *Fubon Securities*
  - *Fubon Bank (China)*
- ***2016 Embedded value of Fubon Life***

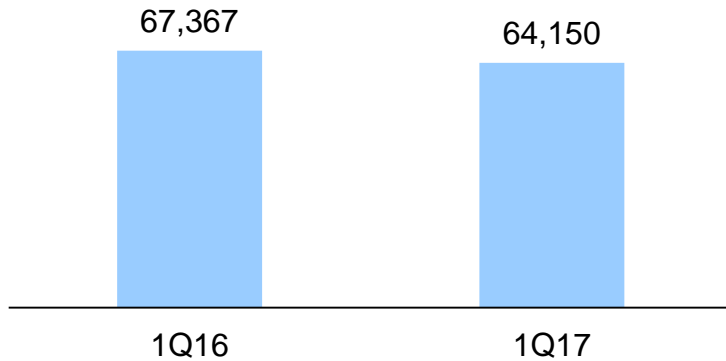


# Fubon Bank (China): Key balance sheet items



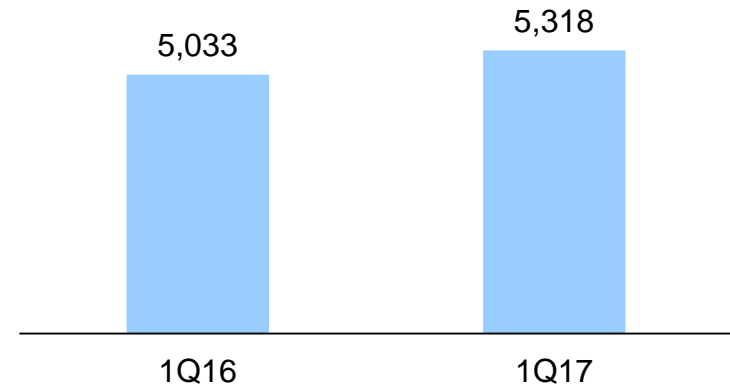
## Assets

RMB\$m



## Net worth

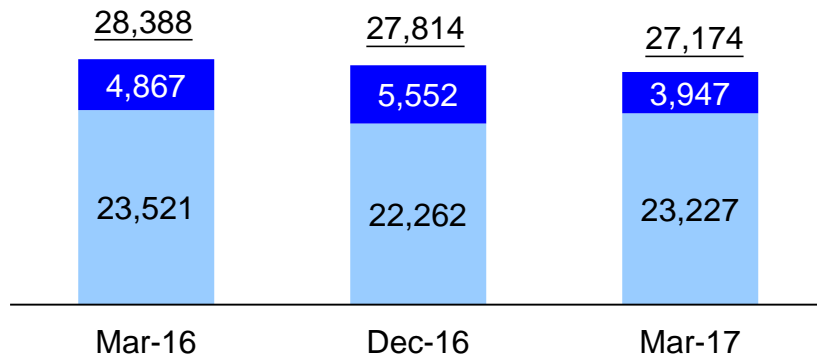
RMB\$m



## Loans

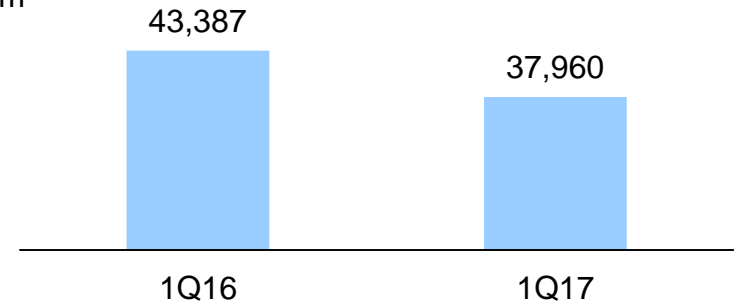
RMB\$m

■ Rediscount ■ Loans (excluding rediscount)



## Deposits

RMB\$m



CASA ratio

1Q16	16%
1Q17	21%

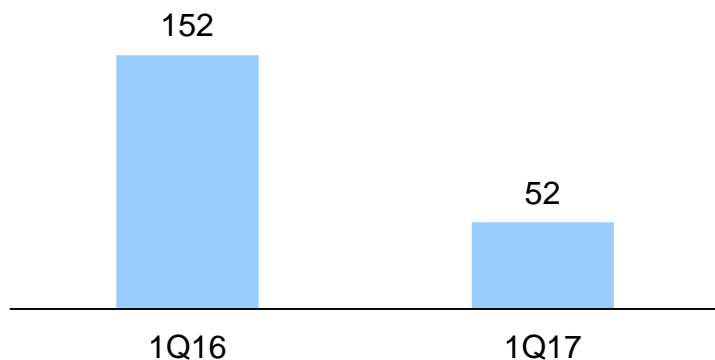


# Fubon Bank (China): Financial highlight

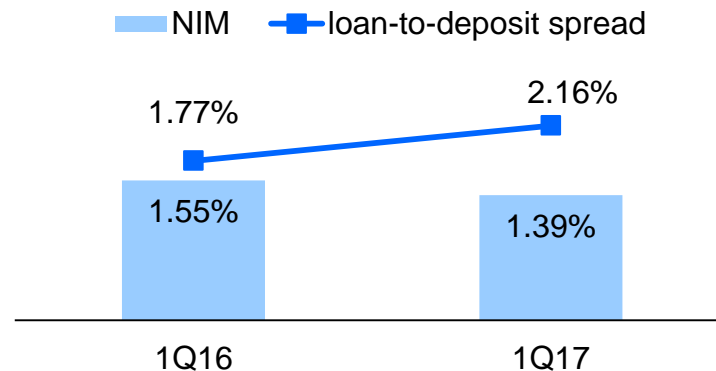


## Net Profits

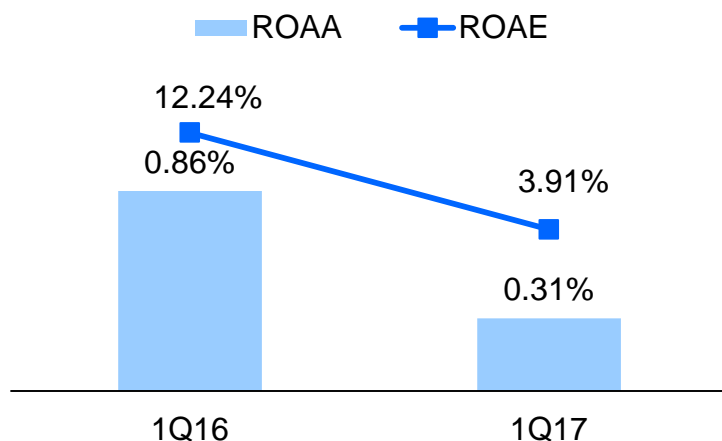
RMB\$m



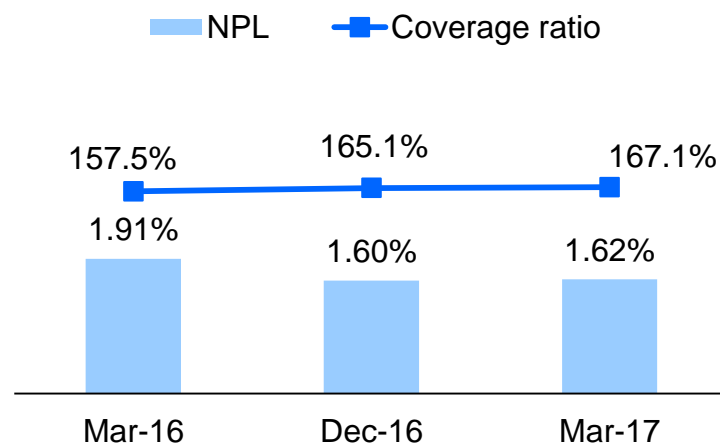
## NIM and loan-to-deposit spread



## ROAA & ROAE



## NPL ratio & Coverage ratio



- ***Performance highlights of Fubon Financial Holdings***
  
- ***Performance review by subsidiary***
  - *Taipei Fubon Bank*
  
  - *Fubon Life*
  
  - *Fubon Insurance*
  
  - *Fubon Securities*
  
  - *Fubon Bank (China)*
  
- ***2016 Embedded value of Fubon Life***

# Value Creation Summary



Unit: NTD billion

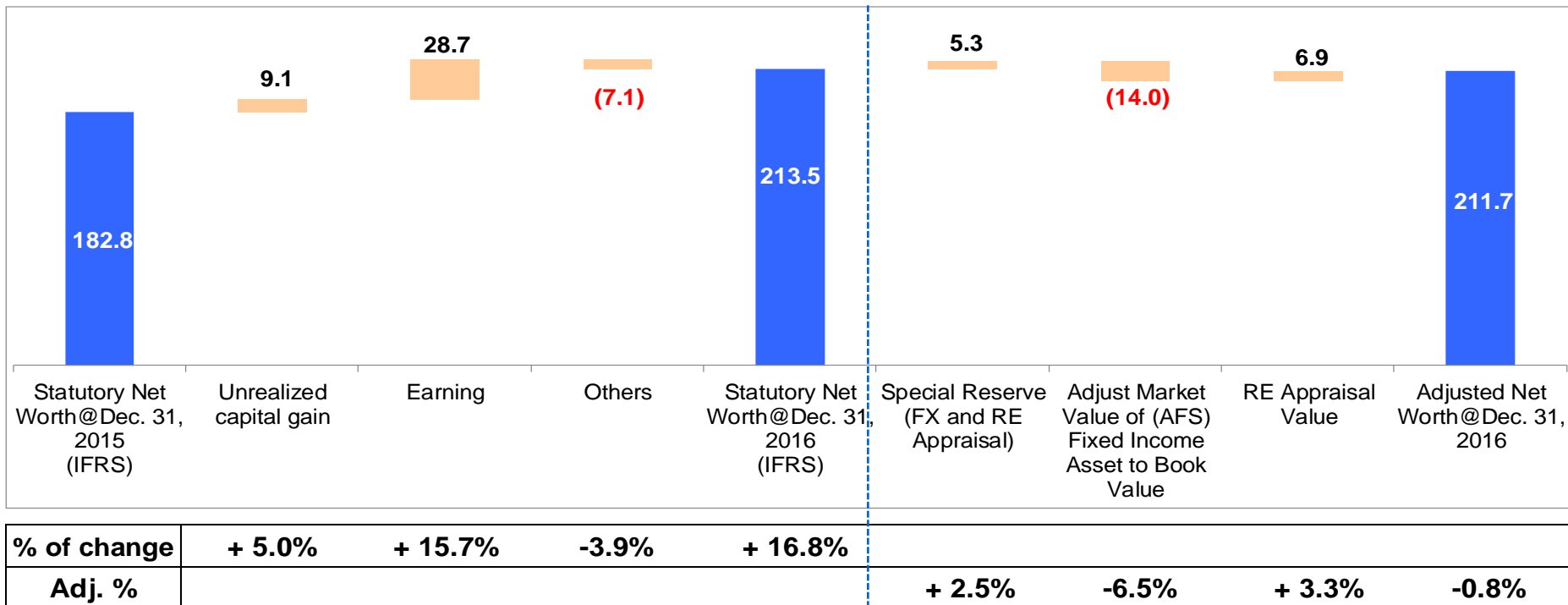
	Item	2015	2016	YoY	Difference	Impact
Inforce Value Creation	Net Worth (Book Value)	182.8	213.5	16.8%	30.7	↑
	Adjusted Net Worth	183.2	211.7	15.6%	28.6	↑
	VIF (before CoC)	306.0	353.8	15.6%	47.8	↑
	Cost of Capital (CoC)	(84.0)	(101.9)	-21.3%	-17.9	↓
	VIF (After CoC)	221.9	251.9	13.5%	29.9	↑
	Embedded Value	405.1	463.6	14.4%	58.5	↑
New Sales Value Creation	FYP	205.3	204.3	-0.5%	-1.0	↓
	FYPE	67.2	103.5	54.0%	36.3	↑
	VNB	35.6	47.3	32.9%	11.7	↑
	VNB margin (VNB/FYP)	17.3%	23.2%	33.6%	5.8%	↑
	VNB margin (VNB/FYPE)	52.9%	45.7%	-13.7%	-7.2%	↓
Appraisal Value (20 year NB)	Multiplier	8.8	8.8	0.0%	0.0	
	Appraisal Value	719.6	881.7	22.5%	162.1	↑
Value per FHC share	Outstanding shares (FHC)	10.2	10.2	0.0%	0.0	
	Embedded Value	39.6	45.3	14.4%	5.7	↑
	Appraisal Value	70.3	86.2	22.5%	15.8	↑
Value per Life share	Outstanding shares (Life)	5.7	6.9	21.1%	1.2	↑
	Embedded Value	70.7	66.8	-5.5%	-3.9	↓
	Appraisal Value	125.5	127.0	1.2%	1.4	↑

- Note: Fubon Life issues 1.2118 bn new shares in 2016 from utilizing 12.118 bn retained earnings. f new issue shares are excluded, EV and AV per Life share will grow 14.4% and 22.5%.

# Movement Analysis: Adjusted Net Worth



Unit: NTD billion



Note:

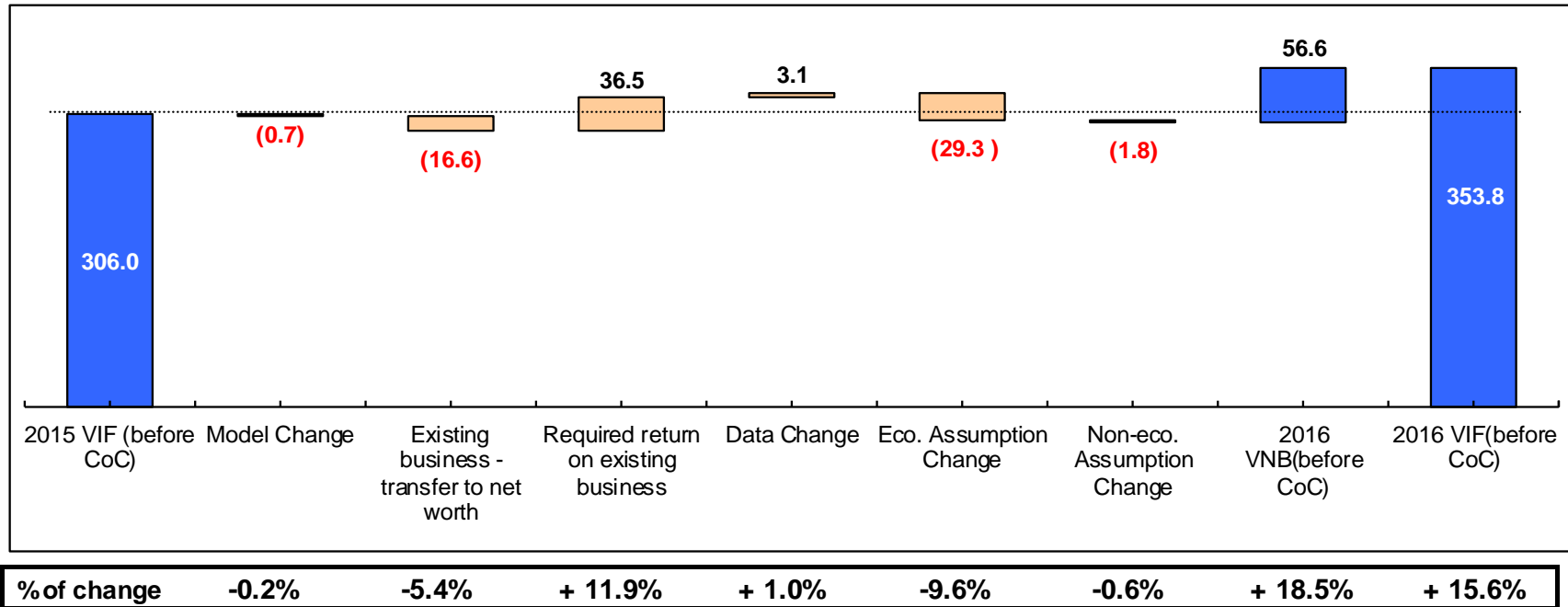
1. "Others" includes Exchange Differences on Translation of Foreign Financial Statements of - 6.2bn (-3.4%).

# Movement Analysis:

## Value of In-Force (before CoC)



Unit: NTD billion



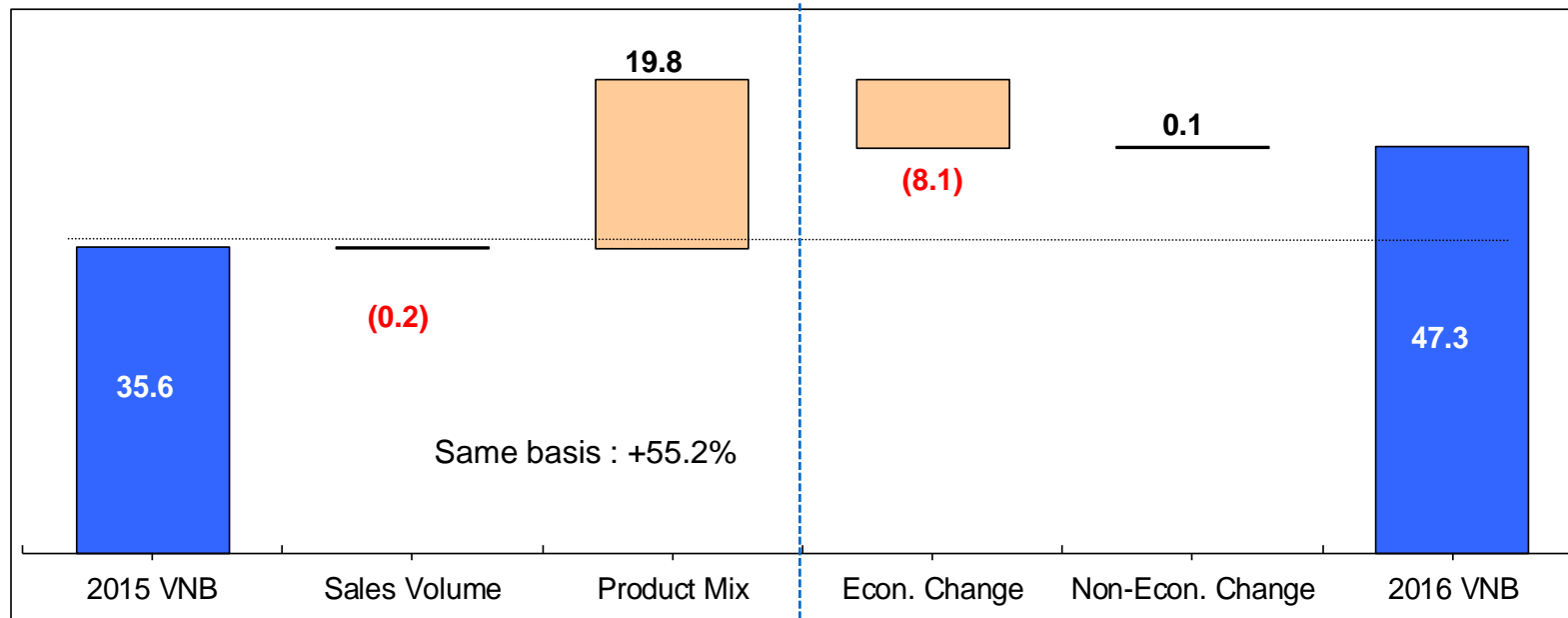
Note:

1. Economic assumption change includes changes of foreign exchange rate (-0.5%) and investment return (-9.1%).
2. The equivalent return of EV2015 reporting for VIF increased from 4.58% to 4.63% to reflect rolling over effect.
3. The equivalent return of EV2016 reporting for VIF is 4.49%.
4. 2016 VNB (after CoC) is 47.3 bn.

# Movement Analysis: Value of New Business



Unit: NTD billion



% of change		-0.5%	+ 55.7%	-22.4%	+ 0.2%	+ 32.9%
VNB/FYP	17.3%	0.0%	+ 9.7%	-3.9%	+ 0.0%	23.2%

Note:

1. The equivalent return of EV2015 reporting for VNB increased from 4.30% to 4.50% with consideration of rolling over effect and reflects 2016 product mix.
2. The equivalent return of EV2016 reporting for VNB is 4.30%.

# Economic Assumption



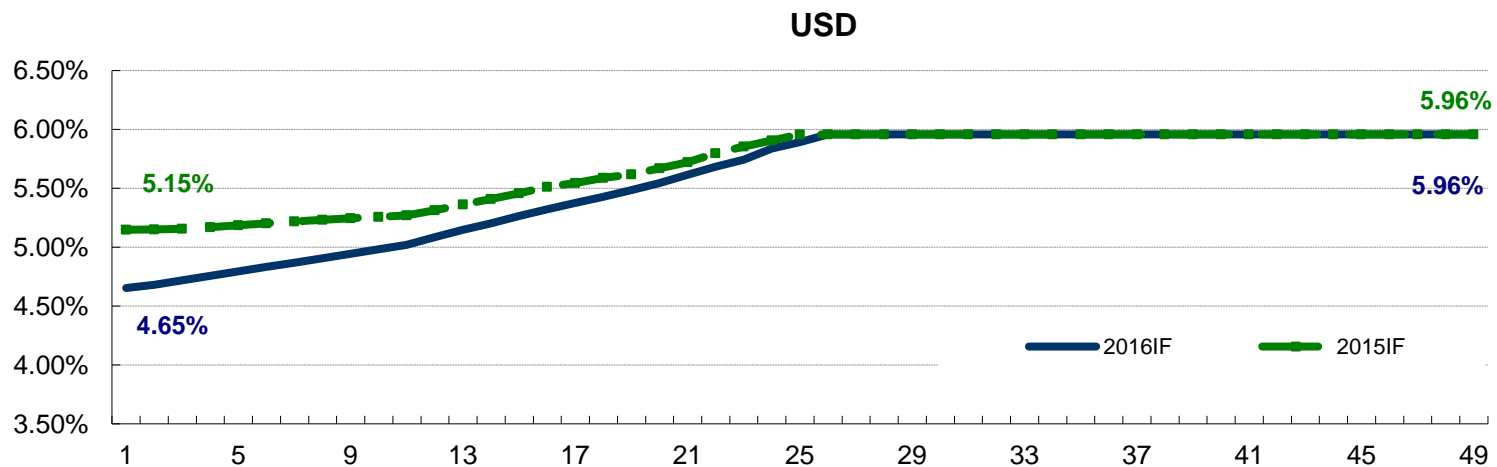
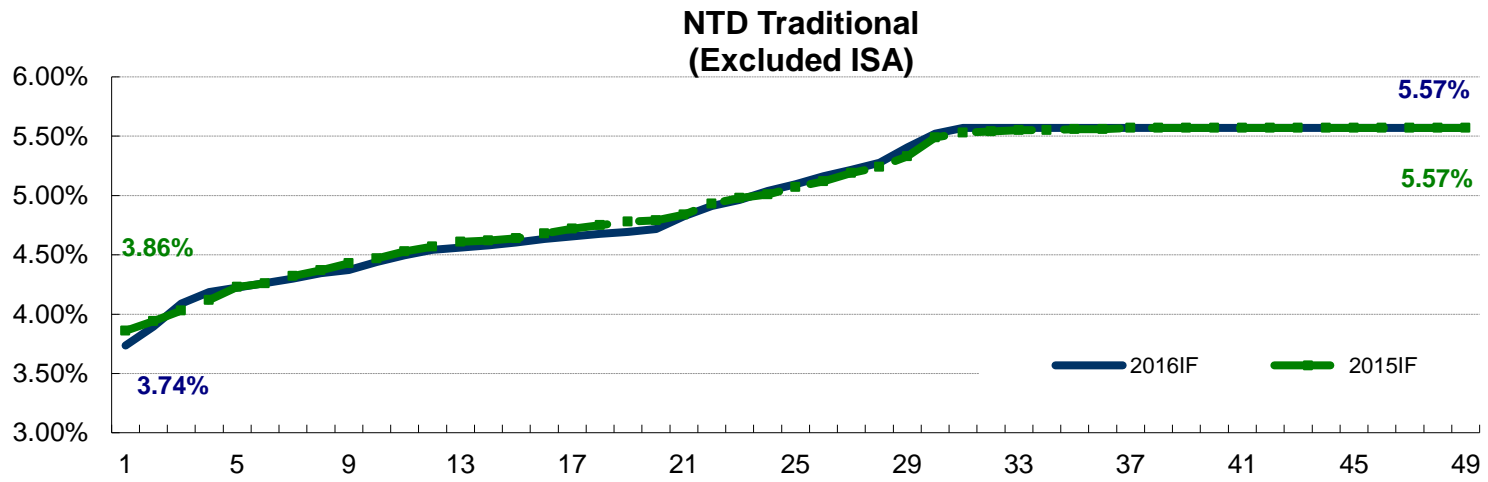
	Year 2015	Year 2016
<b>Investment return</b>	<p><b>VIF</b>  <b>NTD Traditional Policies :</b>                      Year 2016 to Year 2052 at 3.86%~5.57%(2053+)  <b>USD Policies :</b>                      Year 2016 to Year 2040 at 5.15%~5.96%(2041+)</p> <p><b>V1NB</b>  <b>NTD Traditional Policies :</b>                      Year 2015 to Year 2050 at 3.46%~5.55%(2051+)  <b>USD Policies :</b>                      Year 2015 to Year 2046 at 4.37%~5.96%(2047+)</p> <p><b>ISA</b>                      Average retained spread for the Interest sensitive business is around 50~100bps.</p>	<p><b>VIF</b>  <b>NTD Traditional Policies :</b>                      Year 2017 to Year 2047 at 3.74%~5.57%(2048+)  <b>USD Policies :</b>                      Year 2017 to Year 2042 at 4.65%~5.96%(2043+)</p> <p><b>V1NB</b>  <b>NTD Traditional Policies :</b>                      Year 2016 to Year 2049 at 3.30%~5.56%(2050+)  <b>USD Policies :</b>                      Year 2016 to Year 2046 at 4.01%~5.96%(2047+)</p> <p><b>ISA</b>                      Average retained spread for the Interest sensitive business is around 50~100bps.</p>
<b>Risk Discount Rate</b>	11.0% for VIF; 10.5% for V1NB	11.0% for VIF; 10.5% for V1NB
<b>Equivalent Return</b>	<p><b>VIF: 4.58% (rolling over to 2016: 4.63%)</b>  <b>V1NB: 4.30% (rolling over to 2016: 4.50%)</b></p>	<p><b>VIF: 4.49%</b>  <b>V1NB: 4.30%</b></p>
<b>YC (10 year) Initial / ultimate</b>	<p><b>TWD: 1.16% / 3.50%</b>  <b>USD : 2.19% / 5.25%</b></p>	<p><b>TWD: 1.51% / 3.50%</b>  <b>USD : 2.34% / 5.25%</b></p>

Note:

The FX reserve mechanism stipulated from 2012, its respective cost is reflected in the derivation of portfolio return.

# Economic Assumption

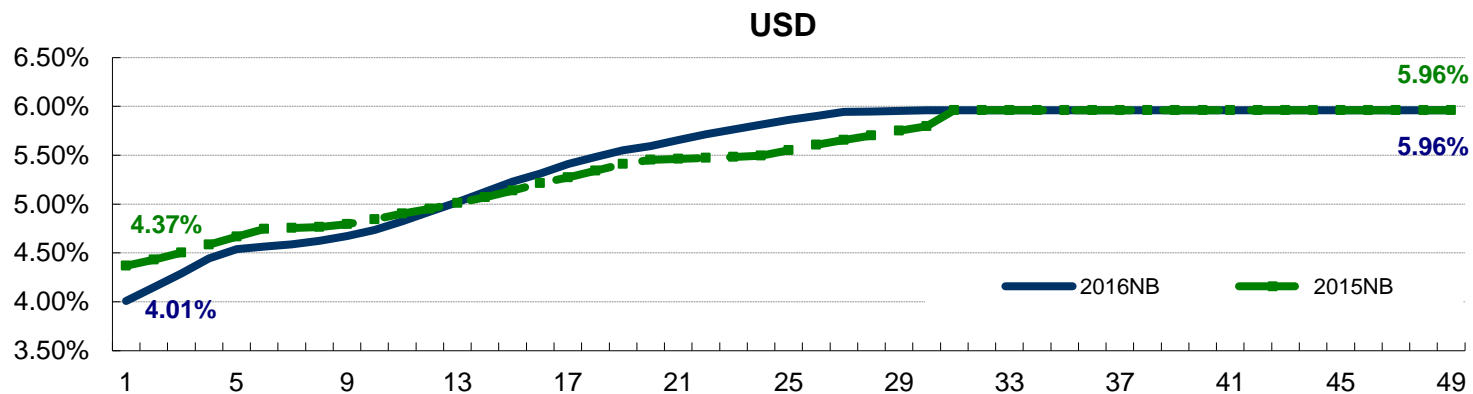
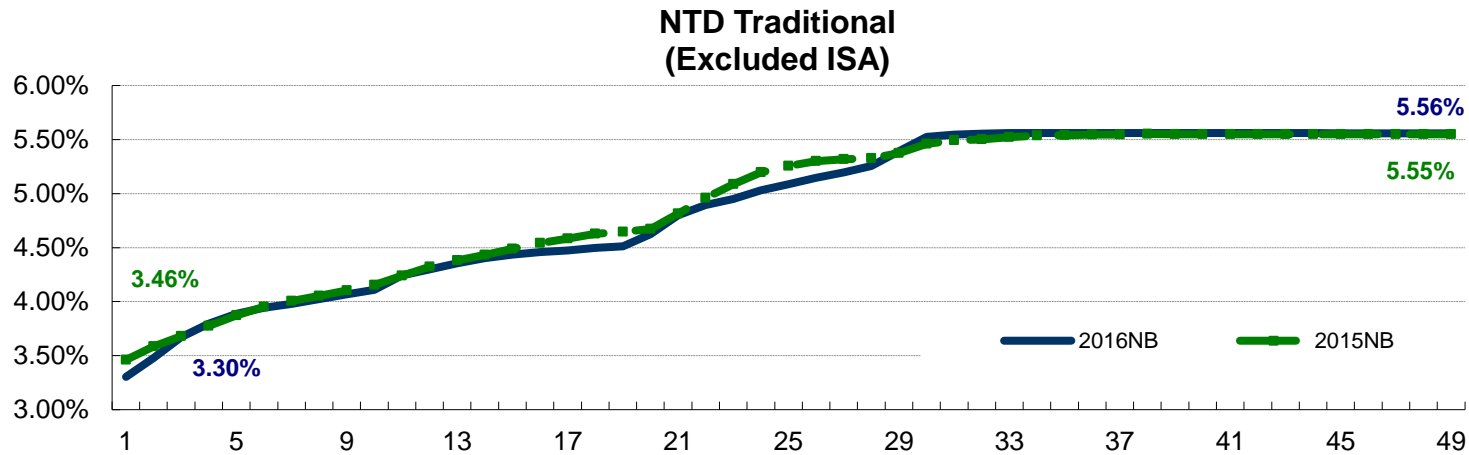
## – VIF Portfolio Return





# Economic Assumption

## – V1NB Portfolio Return



# Economic Assumption: Discount Rate



<b>Fubon Life</b>	<b>2015/12/31</b>	<b>2016/12/31</b>
Risk Free Rate	1.16%~3.5%	1.51%~3.5%
Equity plus Country Risk Premium	6.50%	6.50%
Beta	1.2	1.2
Calculated RDR	8.96%~11.30%	9.31%~11.30%
RDR used in the valuation	VIF:11.0% VNB:10.5%	VIF:11.0% VNB:10.5%

- RDR: According to CAPM (Capital Asset Pricing Model);  
RDR = Risk Free Rate + Beta \* Equity and Country Premium.

## Cost of Capital projection

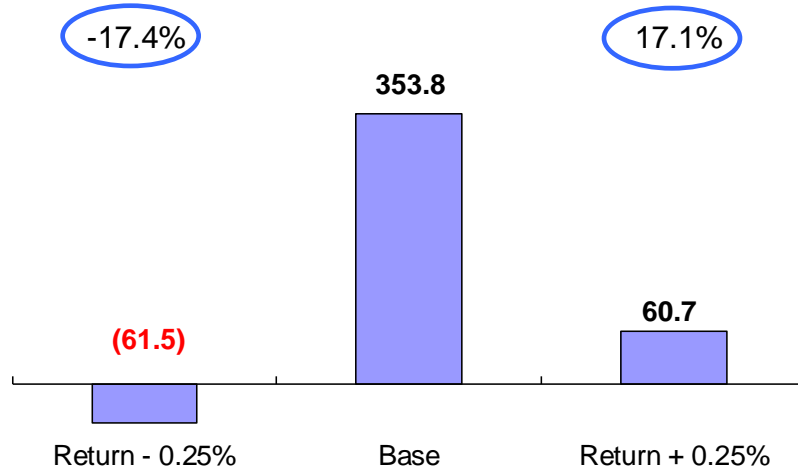
- **Project future cost of capital is based on future capital requirement maintaining regulatory minimum RBC level of 200% considering following factors:**
  - 1) Add 40% C3 risk capital of previous year for all traditional products every year (excludes investment-linked product) ;
  - 2) Reflect current business operation and future strategy.
  
- **Risk-based capital (RBC) regulation changes & adjustments in 2016:**
  - 1) Decrease base risk factor of domestic stock investment in C1 from 0.2274 to 0.2165.
  - 2) Increase risk factor of foreign stock investment in C1 from 0.1884 to 0.2009 for developed country, and from 0.2485 to 0.2887 for emerging market.
  - 3) Remove 50% discount adjustment of C2 risk factors for Par Products.
  - 4) Revise C3 risk capital calculation basis of Par products by 5-year average portfolio return instead of 1-year portfolio return.
  - 5) Increase the extra charge percentage of previous year's C3 risk capital from 30% to 40%.

# Sensitivity Summary : Portfolio Return

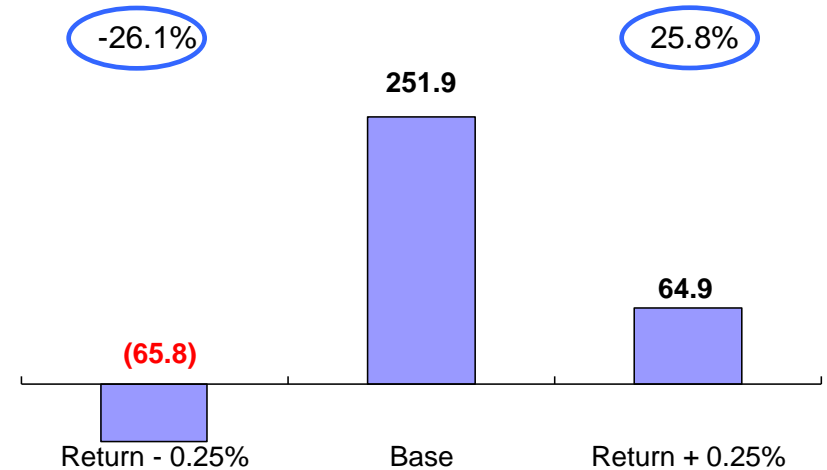


Unit: NTD billion

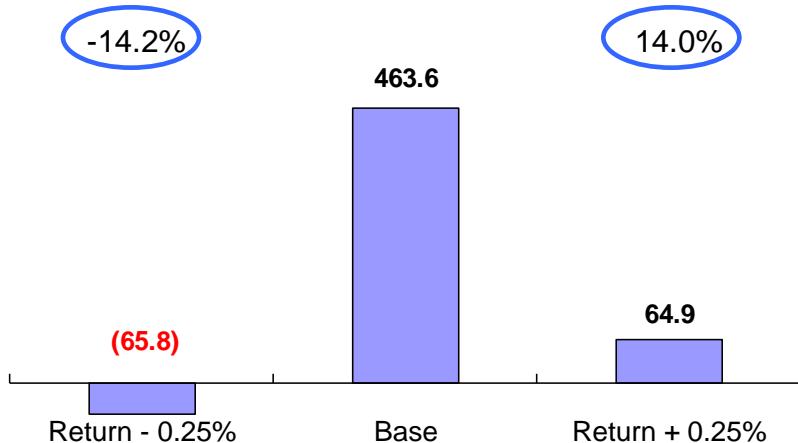
### VIF (before CoC)



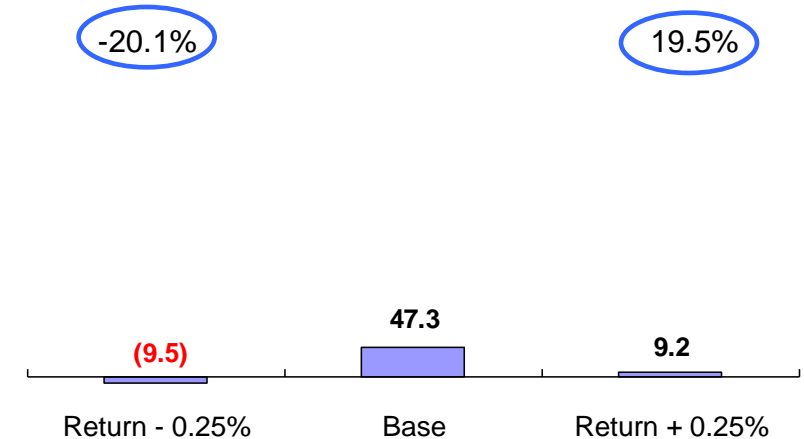
### VIF



### EV



### VNB



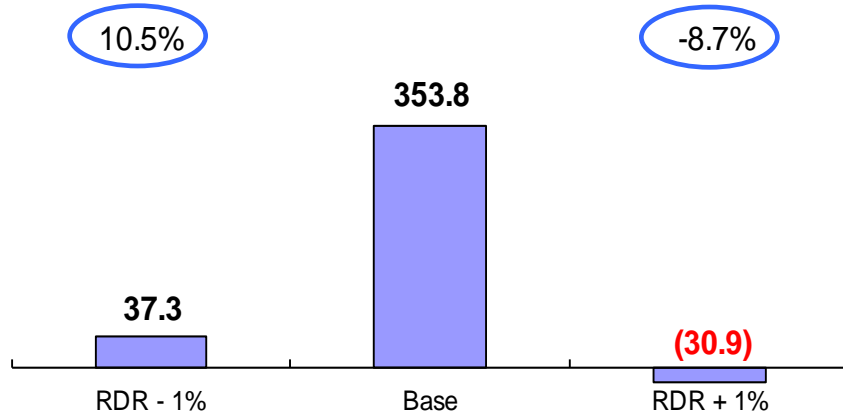
Note: ANW will not be affected by portfolio return.

# Sensitivity Summary : Risk Discount Rate

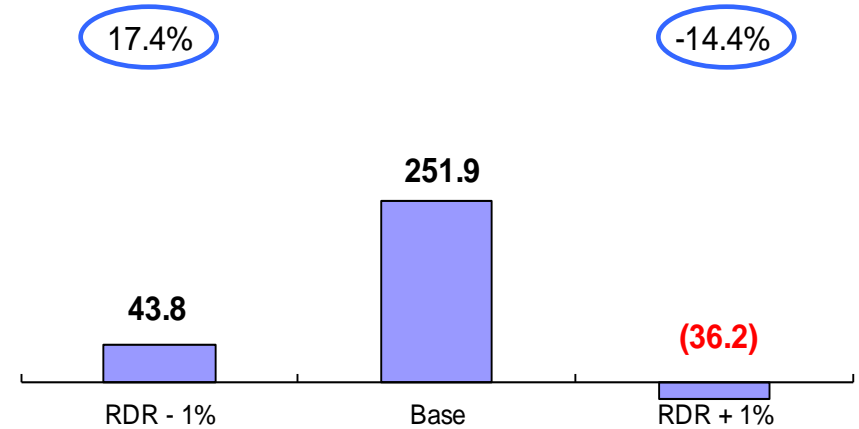


Unit: NTD billion

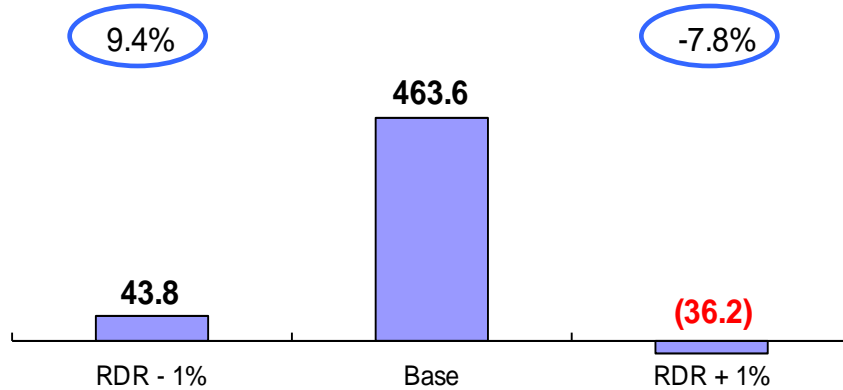
## VIF (before CoC)



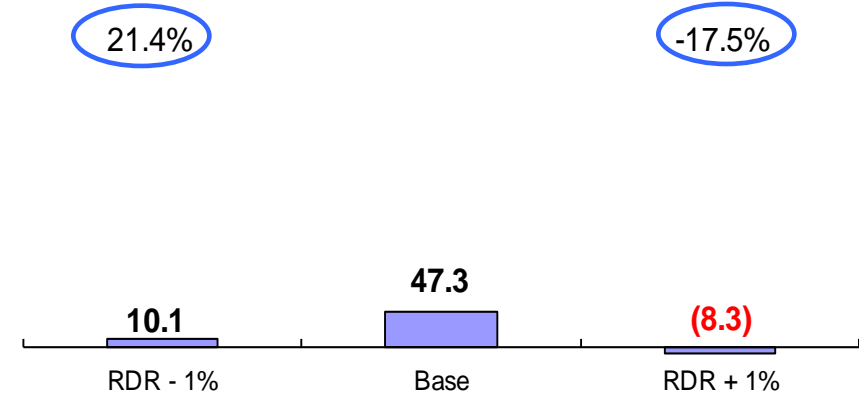
## VIF



## EV



## VNB



Note: ANW will not be affected by RDR

# 2016 Summary:

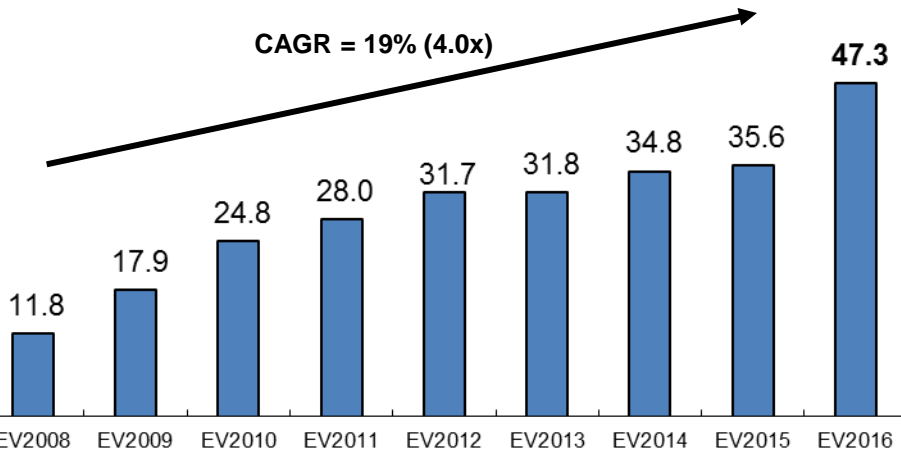
## Track record of Fubon Life's Value Creation



Unit: NTD billion

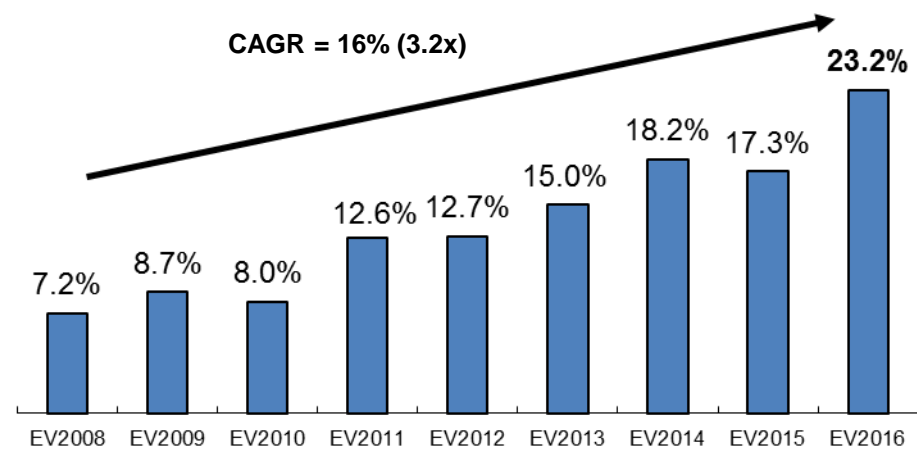
### Value of New Business

CAGR = 19% (4.0x)



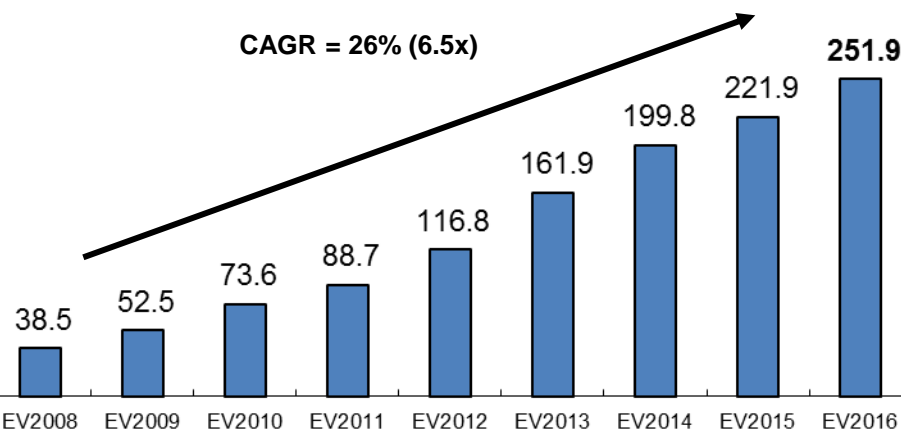
### NB Margin (VNB / FYP)

CAGR = 16% (3.2x)



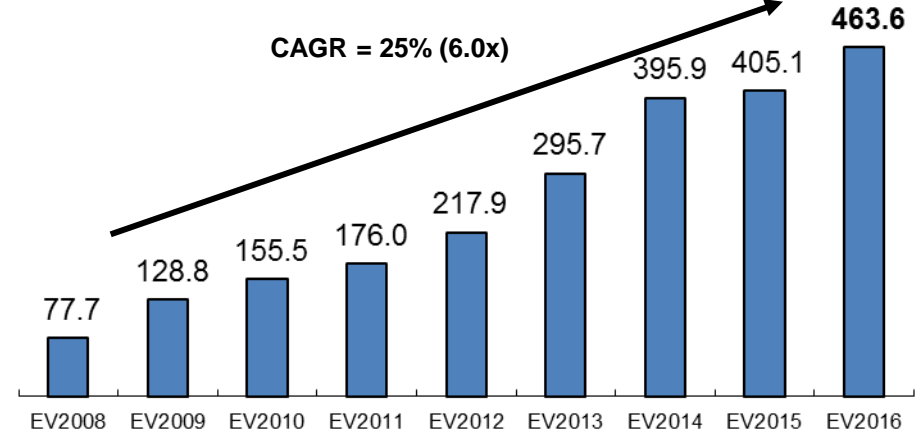
### Value of In-Force

CAGR = 26% (6.5x)

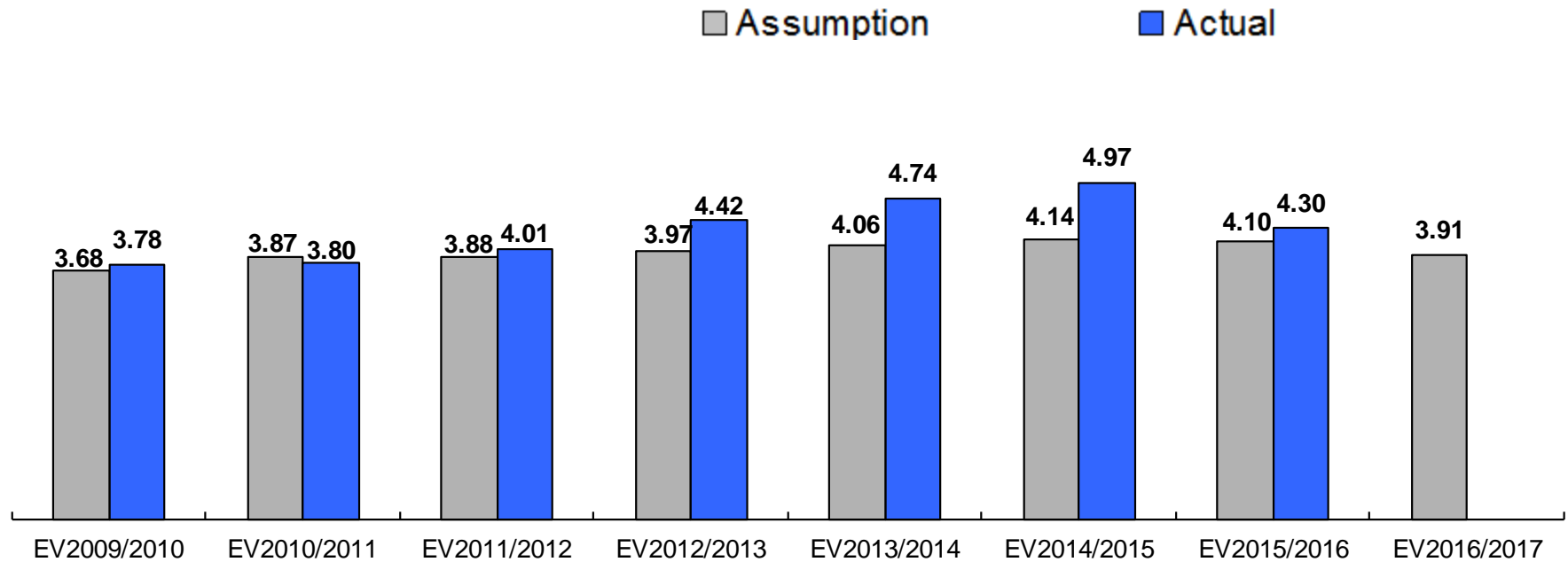


### Embedded Value

CAGR = 25% (6.0x)



# Investment Return: Assumption vs. Actual



## Note:

1. Track record shows higher actual return than EV assumption in general.
2. The investment return for 2013 and 2014 includes fair value recognition of investment property, which is +0.38% and +0.05% respectively.

## The Engagement

- Deloitte Advisory (Hong Kong) Limited (“Deloitte Consulting”) were retained by Fubon Life to perform an independent review of the Embedded Value (EV) as at 31 December 2016 and the Value of One Year’s New Business (V1NB) written over the period of 1 January 2016 to 31 December 2016.

## Scope of Deloitte Consulting’s Involvement

- Review and opine on the reasonableness of the EV and V1NB 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 2015 and 31 December 2016.



# Risk Adjusted Discount Rates



Deloitte Consulting

Fubon Life calculated the EV and V1NB at Risk Adjusted Discount Rates (“RDR”) of 11.0% and 10.5% respectively.

	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”)	1.51%	3.50%	2.75%	2.78%
Equity and Country Risk Premium	6.50%	6.50%	6.50%	6.50%
Beta	1.20	1.20	1.20	1.20
<b>Calculated Risk Discount Rate</b>	<b>9.31%</b>	<b>11.30%</b>	<b>10.55%</b>	<b>10.58%</b>
<b>Risk Discount Rate used in the Valuation for VIF</b>	<b>11.00%</b>			
<b>Risk Discount Rate used in the Valuation for V1NB</b>	<b>10.50%</b>			

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

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

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 bond in the future.
- The equivalent RFR is the RFR equivalent to using a set of graded-up RFR from 1.51% to 3.50% that derives the same VIF and V1NB.
- 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 1.2 was set using a risk profiling approach which considers risks related to the product range, distribution diversification/vulnerability, regulatory intervention and investments. Note that this beta value is consistent with that used in previous valuations.
- The RDR assumption applied by Fubon Life in the valuation lies within the range of RDR that we derived.
- In particular, we feel comfortable with different RDRs being used for the valuation of the in-force and new business, given the specific market conditions in Taiwan: it is well-known that the legacy business has a much riskier profile than the current new business, and hence it is reasonable for shareholders to be expecting a higher rate of return for the higher risk level. We feel that Fubon Life has taken a good approach in splitting up the RDR assumption for the two distinctively different blocks of business.

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 V1NB, 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 1.51% and 2.34% and a long-term risk free rate of 3.50% and 5.25% 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.

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;

## Economic Assumptions

- The expected long-term risk-free rate for New Taiwan Dollar yield and US Dollar yield are maintained at 3.50% and 5.25% 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.

## **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.

Deloitte Consulting have reviewed the Embedded Value and Value of One Year's 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 2015 to 2016;
- Review of the changes in the new business profit margin relative to that in 2015 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 One Year's New Business results appear to be reasonable within the above context.

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



**Thank you**





## Taipei Fubon Bank - Financial summary

<i>NT\$ millions, except for percentages</i>	1Q17	4Q16	3Q16	2Q16	1Q16	2016	2015	YoY
<b><u>Income statement data</u></b>								
Interest income	10,676	10,286	10,382	10,818	11,223	42,709	46,647	-8.4%
Interest expense	(5,032)	(4,758)	(4,758)	(4,962)	(5,377)	(19,855)	(23,294)	-14.8%
Net interest income	5,644	5,528	5,624	5,857	5,846	22,854	23,352	-2.1%
Net fee income	3,374	2,386	3,164	3,056	3,390	11,996	11,649	3.0%
Other income	1,421	777	1,543	1,238	2,264	5,822	7,367	-21.0%
Total net revenue	10,439	8,690	10,331	10,151	11,500	40,672	42,369	-4.0%
Operating expenses	(5,156)	(5,480)	(5,219)	(5,095)	(5,188)	(20,981)	(20,690)	1.4%
Pre-provision profits	5,283	3,210	5,113	5,056	6,312	19,691	21,679	-9.2%
Provision for credit losses	(204)	(534)	(244)	(408)	(186)	(1,372)	(177)	676.4%
Income before tax	5,079	2,676	4,869	4,648	6,126	18,319	21,502	-14.8%
Net income	4,405	1,954	4,109	3,941	5,268	15,272	18,606	-17.9%
Net income to parent company	4,333	1,827	3,992	3,714	4,933	14,466	17,783	-18.7%
<b><u>Balance sheet data</u></b>								
Loans and discounts	1,288,945	1,289,861	1,316,465	1,339,460	1,337,192	1,289,861	1,353,533	-4.7%
Deposits and remittances	1,859,336	1,877,778	1,859,512	1,813,143	1,793,280	1,877,778	1,813,356	3.6%
Allowance for loan losses*	14,739	14,666	14,331	14,449	14,543	14,666	14,651	0.1%
Total assets	2,396,147	2,414,226	2,375,875	2,364,792	2,336,284	2,414,226	2,409,836	0.2%
Equity attributable to parent company	177,644	174,634	173,537	170,357	170,598	174,634	165,696	5.4%
<b><u>Key metrics</u></b>								
ROA	0.73%	0.32%	0.69%	0.66%	0.89%	0.63%	0.81%	
ROE	9.84%	4.29%	9.41%	8.84%	11.74%	8.50%	11.21%	
Equity / assets	8.16%	8.01%	8.10%	8.02%	8.15%	8.01%	7.69%	
Cost / income ratio	-49.39%	-63.06%	-50.51%	-50.19%	-45.11%	-51.59%	-48.83%	
NPL ratio*	0.20%	0.20%	0.19%	0.18%	0.18%	0.20%	0.15%	
Reserve / NPL*	641.81%	652.12%	663.16%	678.90%	716.80%	652.12%	816.37%	
Tier 1 ratio*		12.57%		11.86%		12.57%	11.30%	
BIS ratio*		14.40%		13.91%		14.40%	13.44%	

Note: Data mark with \* are stand-alone basis

## Fubon Life - Financial summary

<i>NT\$ millions, except for percentages</i>	1Q17	4Q16	3Q16	2Q16	1Q16	2016	2015	YoY
<b><u>Income statement data</u></b>								
First year premium	48,373	45,253	42,966	56,342	59,722	204,283	205,282	-0.5%
Retained earned premium	125,882	110,595	114,461	122,708	120,844	468,608	440,297	6.4%
Total investment income	26,246	30,143	33,289	35,358	25,537	124,327	130,256	-4.6%
Recurring investment income	23,203	24,430	31,674	26,858	23,110	106,072	101,040	5.0%
Other investment income	3,043	5,713	1,615	8,500	2,427	18,255	29,216	-37.5%
Realized gains (losses) from fixed income	4,401	2,977	7,371	9,982	3,603	23,933	9,870	142.5%
Realized gains (losses) from equity	8,657	3,874	2,766	514	3,138	10,292	22,622	-54.5%
FX and others	(10,091)	(1,168)	(7,589)	(2,093)	(4,855)	(15,705)	(3,629)	332.8%
Investment property fair value movement	76	30	(933)	97	541	(265)	353	N.M.
Other income	504	666	280	559	626	2,131	2,159	-1.3%
Total operating revenue	152,632	141,403	148,030	158,625	147,008	595,066	572,711	3.9%
Retained claim payment	44,363	52,336	41,920	46,196	45,527	185,979	187,601	-0.9%
Net commission expense	7,553	7,290	7,586	9,636	9,113	33,625	26,093	28.9%
Net change in insurance liability	93,216	71,096	84,241	86,502	85,625	327,464	292,665	11.9%
General and administrative expense	3,936	4,383	4,194	4,480	4,122	17,179	15,526	10.6%
Other operating costs	968	602	492	479	462	2,035	1,932	5.3%
Total operating costs and expenses	150,036	135,707	138,433	147,293	144,849	566,282	523,816	8.1%
Net non-operating income / (expenses)	(14)	94	171	118	106	489	518	-5.5%
Income before tax	2,582	5,790	9,768	11,451	2,265	29,274	49,413	-40.8%
Net income	4,010	5,230	10,463	10,858	2,137	28,688	41,018	-30.1%
Net income to parent company	4,010	5,230	10,463	10,858	2,137	28,688	41,018	-30.1%
<b><u>Balance sheet data</u></b>								
Total assets	3,399,391	3,353,560	3,285,094	3,223,464	3,117,105	3,353,560	3,035,563	10.5%
Total assets (general account)	3,256,156	3,211,026	3,145,703	3,086,914	2,982,282	3,211,026	2,900,201	10.7%
Insurance liabilities	2,944,874	2,902,374	2,845,784	2,813,256	2,728,570	2,902,374	2,656,145	9.3%
Total liabilities	3,179,307	3,140,086	3,035,931	2,998,289	2,910,646	3,140,085	2,852,781	10.1%
Total liabilities (general account)	3,036,072	2,997,551	2,896,540	2,861,739	2,775,823	2,997,551	2,717,419	10.3%
Equity attributable to parent company	220,084	213,474	249,163	225,175	206,459	213,474	182,782	16.8%
<b><u>Key matrices</u></b>								
ROA	0.48%	0.65%	1.32%	1.39%	0.28%	0.90%	1.41%	
ROE	7.40%	10.56%	19.38%	21.29%	4.39%	14.48%	20.19%	
Equity / Assets	6.47%	6.37%	7.58%	6.99%	6.62%	6.37%	6.02%	
Claims and benefits ratio	35.24%	47.32%	36.62%	37.65%	37.67%	39.69%	42.61%	
Expense ratio	3.13%	3.96%	3.66%	3.65%	3.41%	3.67%	3.53%	
Persistency ratio - 13th month	97.29%	96.25%	96.17%	95.93%	96.19%	96.25%	96.66%	
Persistency ratio - 25th month	93.77%	94.09%	93.65%	93.37%	92.92%	94.09%	92.07%	

## Fubon Insurance - Financial summary

<i>NT\$ millions, except for percentages</i>	1Q17	4Q16	3Q16	2Q16	1Q16	2016	2015	YoY
<b><u>Income statement data</u></b>								
Direct written premiums	10,541	9,384	9,161	10,330	9,297	38,172	35,016	9.0%
Retention of earned premiums	7,884	7,610	7,451	7,286	7,230	29,577	27,139	9.0%
Net income from investment	412	566	869	822	497	2,754	2,811	-2.0%
Other operating revenue	358	374	332	390	345	1,440	1,295	11.2%
Retained insurance payments	4,275	4,326	3,994	4,063	3,833	16,216	14,250	13.8%
Net change in liability reserve	117	(78)	370	(287)	358	363	656	-44.6%
Commission and operating expenses	3,543	3,574	3,418	3,470	3,306	13,769	12,772	7.8%
Non-Operating Income	(43)	(64)	(40)	(32)	(22)	(158)	(96)	65.4%
Income before tax	675	664	831	1,219	553	3,266	3,472	-5.9%
Net income	546	545	676	1,007	444	2,672	2,839	-5.9%
Net income to parent company	634	652	874	1,077	516	3,119	3,213	-2.9%
<b><u>Balance sheet data</u></b>								
Total assets	98,532	98,470	99,597	97,868	94,323	98,470	89,213	10.4%
Investment assets	64,672	64,900	65,653	64,343	65,752	64,900	64,689	0.3%
Policy reserve	53,981	54,310	54,404	54,299	51,580	54,310	47,470	14.4%
Equity attributable to parent company	30,556	29,531	30,646	29,542	30,281	29,531	28,677	3.0%
<b><u>Summary ratios</u></b>								
ROA	2.22%	2.32%	2.86%	4.30%	1.94%	2.85%	3.29%	
ROE	8.44%	8.96%	11.78%	14.81%	7.00%	10.72%	11.41%	
Total investment return	2.54%	3.50%	5.34%	5.10%	3.05%	4.25%	4.50%	
Solvency margin (NWP/equity)	110.58%	106.12%	98.86%	107.27%	99.48%	104.51%	97.95%	
Retention ratio	75.60%	79.09%	76.56%	71.12%	75.19%	75.36%	75.30%	

## Fubon Securities - Financial summary

<i>NT\$ millions, except for percentages</i>	1Q17	4Q16	3Q16	2Q16	1Q16	2016	2015	YoY
<b><u>Income statement data</u></b>								
Brokerage commissions	778	659	712	655	701	2,728	3,044	-10.4%
Net interest income	242	218	224	244	215	901	942	-4.3%
Fee income	145	142	81	74	39	336	298	12.8%
Net principal transactions and financial products gains	183	(40)	220	100	222	501	324	54.6%
Other income	220	238	736	509	208	1,691	1,419	19.2%
Total operating revenue	1,569	1,217	1,974	1,580	1,386	6,157	6,025	2.2%
Total operating expense	(1,334)	(1,496)	(1,353)	(1,297)	(1,229)	(5,375)	(5,216)	3.1%
Net non-operating income / (expenses)	177	179	232	157	243	811	685	18.5%
Income before tax	412	(100)	852	442	399	1,594	1,494	6.7%
Net income	345	(118)	832	432	358	1,504	1,348	11.5%
Net income to parent company	345	(118)	832	432	358	1,504	1,348	11.5%
<b><u>Balance sheet data</u></b>								
Margin loans	12,554	11,142	11,663	11,108	11,613	11,142	11,950	-6.8%
Total assets	103,532	101,278	98,326	99,465	95,452	101,278	84,481	19.9%
Equity attributable to parent company	33,056	32,575	33,200	32,657	32,551	32,575	31,576	3.2%
<b><u>Key metrics</u></b>								
ROA	1.35%	-0.51%	3.64%	1.88%	1.59%	1.62%	1.75%	
ROE	4.21%	-1.47%	10.27%	5.38%	4.47%	4.69%	4.29%	
Equity / assets	31.93%	32.16%	33.77%	32.83%	34.10%	32.16%	37.38%	
Expenses / revenues	-85.02%	-87.30%	-78.52%	-85.16%	-88.73%	-87.30%	-86.57%	
Margin loans / total assets	12.13%	11.00%	11.86%	11.17%	12.17%	11.00%	14.14%	
Margin loans / shareholders' equity	37.98%	34.20%	35.13%	34.01%	35.68%	34.20%	37.84%	

## Fubon Bank (China) - Financial Summary

<i>RMB millions, except for percentages</i>	1Q17	4Q16	3Q16	2Q16	1Q16	2016	2015	YoY
<b><u>Income Statement Data</u></b>								
Interest income	472	472	492	555	491	2,011	2,232	-9.9%
Interest expense	(399)	(382)	(401)	(416)	(418)	(1,618)	(1,925)	-16.0%
Net interest income	73	90	91	139	73	393	307	28.1%
Net fee income	16	24	21	32	31	109	120	-9.5%
Other income	125	154	113	136	217	619	669	-7.4%
Operating expenses	(149)	(201)	(136)	(132)	(126)	(595)	(519)	14.7%
Pre-provision profits	65	67	88	175	195	526	577	-8.8%
Provision for credit losses	0	30	0	(32)	0	(1)	(84)	-98.7%
Income before tax	65	98	88	144	195	525	493	6.4%
Net income	52	77	71	113	152	412	390	5.6%
<b><u>Balance Sheet Data</u></b>								
Loans	27,174	27,814	28,542	29,672	28,388	27,814	30,822	-9.8%
Deposits	37,960	40,210	43,314	42,209	43,387	40,210	46,013	-12.6%
Total assets	64,150	68,154	70,460	68,640	67,367	68,154	73,647	-7.5%
Total equity	5,318	5,286	5,267	5,140	5,033	5,286	4,879	8.3%
<b><u>Key metrics</u></b>								
ROA	0.31%	0.44%	0.41%	0.66%	0.86%	0.58%	0.58%	
ROE	3.91%	5.81%	5.47%	8.86%	12.24%	8.11%	8.28%	
Equity / assets	8.29%	7.76%	7.48%	7.49%	7.47%	7.76%	6.63%	
Cost / income ratio	-62.50%	-67.61%	-55.96%	-39.91%	-36.32%	-48.84%	-43.72%	
NPL ratio	1.62%	1.60%	1.92%	1.85%	1.91%	1.60%	1.04%	
Reserve / NPL	167.08%	165.09%	161.77%	161.43%	157.53%	165.09%	265.11%	
Loan to deposit ratio (Renminbi)	73.20%	73.51%	68.52%	68.65%	62.88%	73.51%	74.91%	
Tier 1 ratio	12.91%	13.04%	12.40%	12.81%	13.01%	13.04%	12.59%	
BIS ratio	13.63%	13.76%	13.20%	13.63%	13.82%	13.76%	13.73%	

9 May 2017

**100** Making another century of impact  
德勤百年慶 開創新紀元

Fubon Life Insurance Company Limited  
14F, No. 108, Section 1  
Tun Hwa South Road  
Taipei 10557  
Taiwan, R.O.C

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

Dear Sirs,

## Review of Embedded Value as at 31 December 2016 and Value of One Year's New Business of Fubon Life Insurance Company Limited

Deloitte Advisory (Hong Kong) Limited ("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 2016 and the Value of One Year of New Business ("V1NB") sold during the calendar year 2016 as calculated and published by the Company. The purpose of the publication of the EV and V1NB 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 13 March 2017 between Fubon Life and Deloitte Consulting.

This engagement is solely with Fubon Life and this Opinion Letter is solely for the use of Fubon Life and its Directors as a body for the stated purpose only. 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 One Year of New Business Results

The Embedded Value as at 31 December 2016 and the Value of the One Year of New Business written over the period of 1 January 2016 to 31 December 2016 as calculated by the Company is summarised as follows:

	Values (NT\$ bn)
Adjusted Net Worth	211.7
Value of In Force Business after Cost of Capital	251.9
<b>Embedded Value</b>	<b>463.6</b>
<b>Value of One Year of New Business after Cost of Capital</b>	<b>47.3</b>

### 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;
- Appraisal Value ("AV"): this is the sum of the Embedded Value and Value of Future New Business as at the valuation date. It represents an assessment of the economic value of the company on a going concern basis using best estimate assumptions and a discounted cash flow approach;
- Value of One Year of New Business ("V1NB"): this is equal to the present value as at the policy issue dates of the future statutory profits from the policies sold in 2016 less the Cost of Capital associated with such business;
- Value of Future New Business ("VNB"): this is equal to the present value as at the issue date of the future statutory profits from policies assumed to be sold in the future less the Cost of Capital associated with such business. One of the common calculation approaches is to multiply the Value of One Year of New Business by a new business multiplier. The new business multiplier reflects an assessment of the company's future new business volume, the profitability of such new business and the uncertainty in achieving such volume and profitability.
- 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 One Year 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 V1NB 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 2015;
- 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 2015 and 31 December 2016.

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 2016; 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 2016 as submitted by the Company to the Taiwanese regulator.

- Any other actuarial or other valuation figures, such as an Appraisal Value, Value of Future New Business, New Business Multiplier, or any “Fair Value” or potential transaction price.

Only the EV and V1NB 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.

## **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 One Year 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 V1NB 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.

Yours faithfully,

Deloitte Advisory (Hong Kong) Limited