

Fubon Financial 2018 Q1 Interim Results and 2017 Embedded Value of Fubon Life

2018.05.14

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)*

- ***2017 Embedded value of Fubon Life***



- Net profits reached NT\$16,453 million in 1Q18, up 66.5% yoy

Taipei Fubon Bank

- Net interest revenue growth along with loan and investment momentum
- Asset quality remains benign

Fubon Life

- Steady recurring income growth with hedging costs improvement
- Top three market position in FYP and FYPE

Fubon Insurance

- Top position across personal and commercial lines in terms of total premium with a focus on quality
- Outstanding combined ratio and investment performance led to earnings growth

Fubon Securities

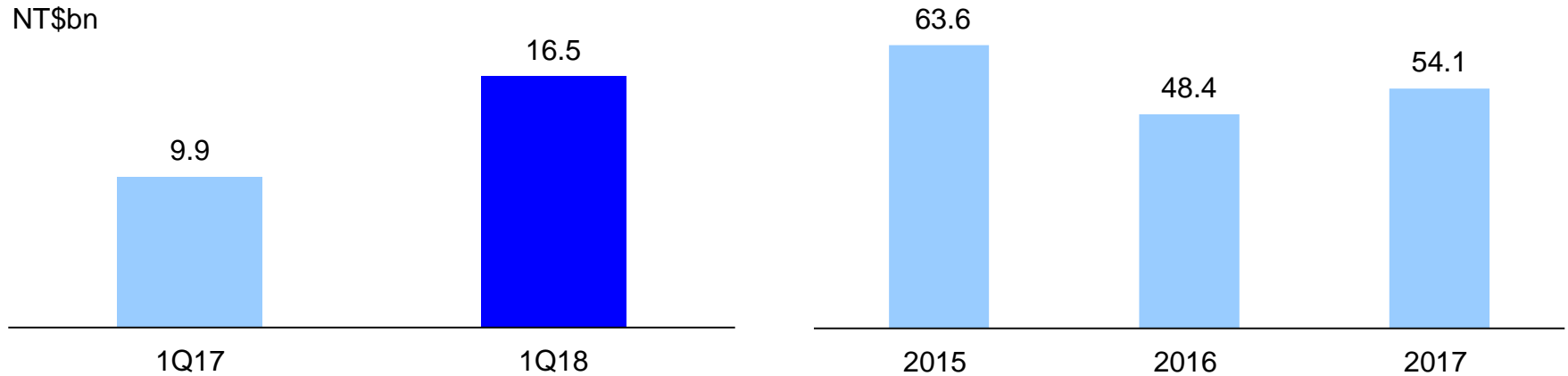
- Increase in brokerage market share
- Focus on regional ETF products in Fubon Asset Management

Fubon Financial Holdings: Profitability

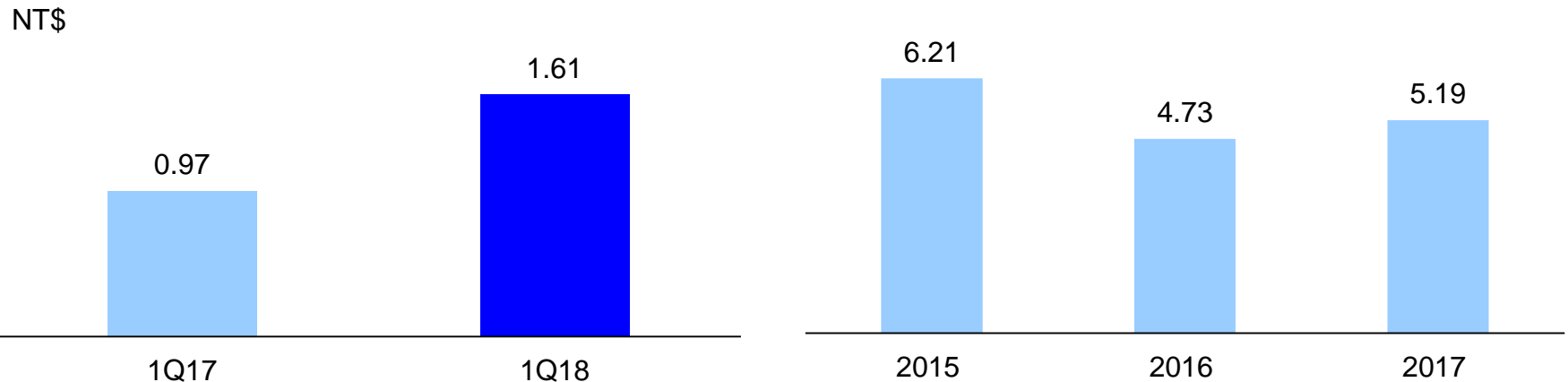


- Net profits growth of 66.5% yoy with the second highest EPS among peers

Net profits



Earning per share (EPS)

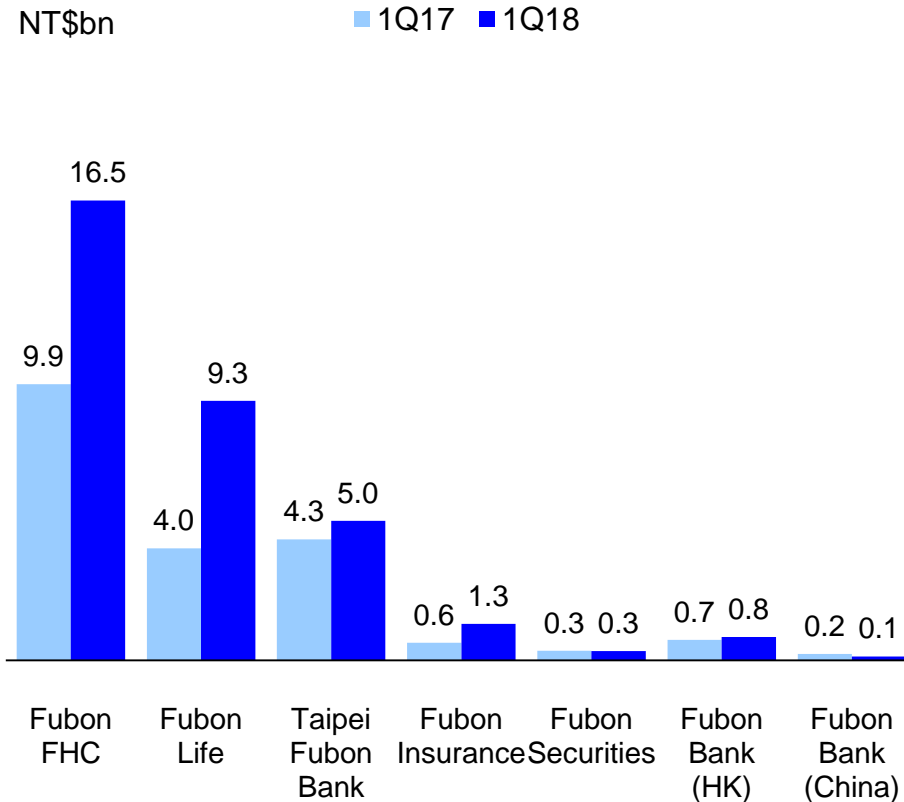


Fubon Financial Holdings: Net profits from major subsidiaries

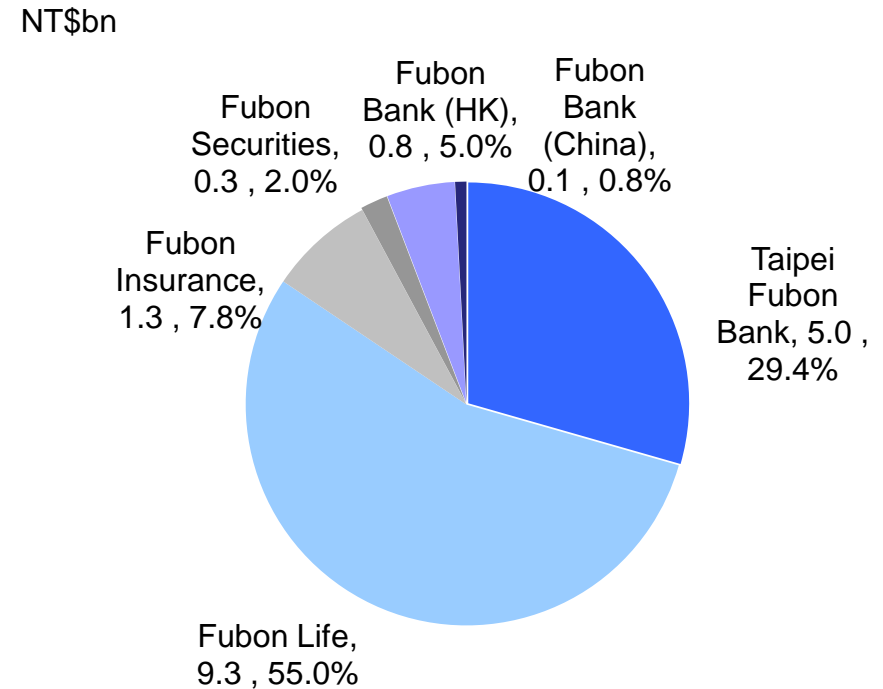


■ Fubon Life, Taipei Fubon Bank and Fubon Insurance delivered meaningful earnings growth

Net profits from subsidiaries



Profit contribution from subsidiaries



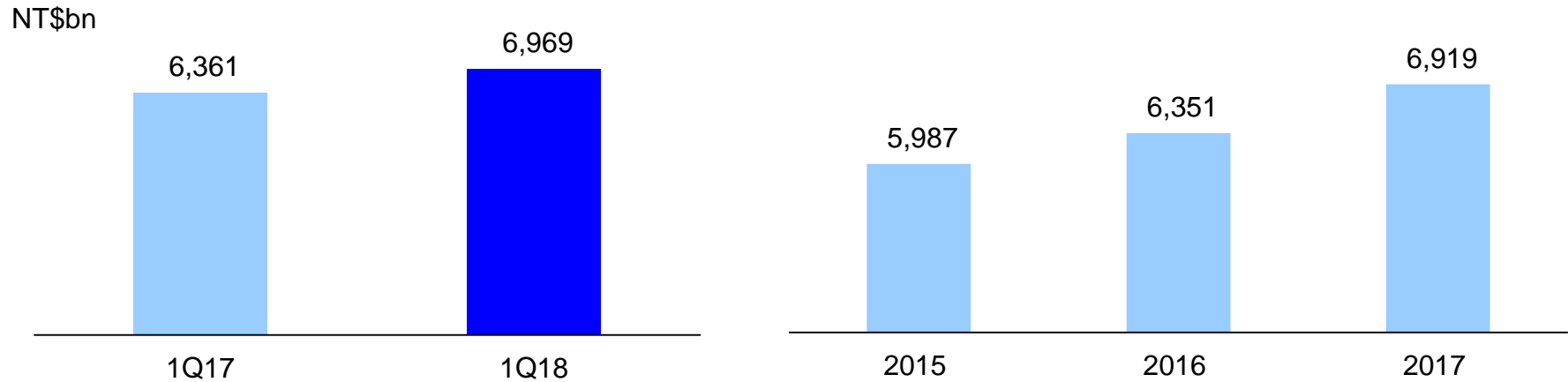
Note: (1) Profit contribution are based on the summation of the six subsidiaries shown in the chart
 (2) Net profits of Fubon Bank(China) is not included in net profits of Taipei Fubon Bank

Fubon Financial Holdings: Asset and net worth

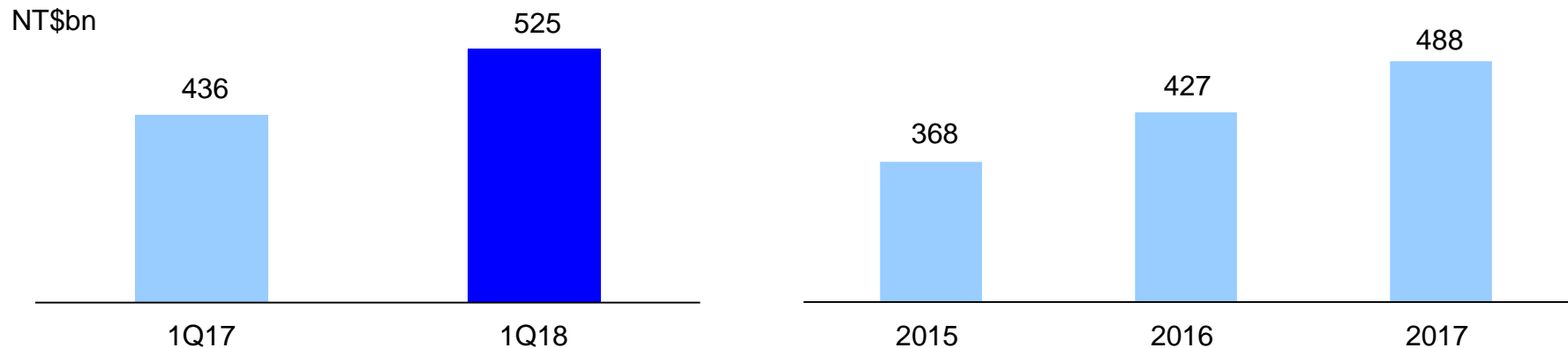


- Asset growth 9.6% yoy. Net worth up 20.4% yoy due to preferred shares issuance and earnings contribution

Total assets



Equity attributable to parent company

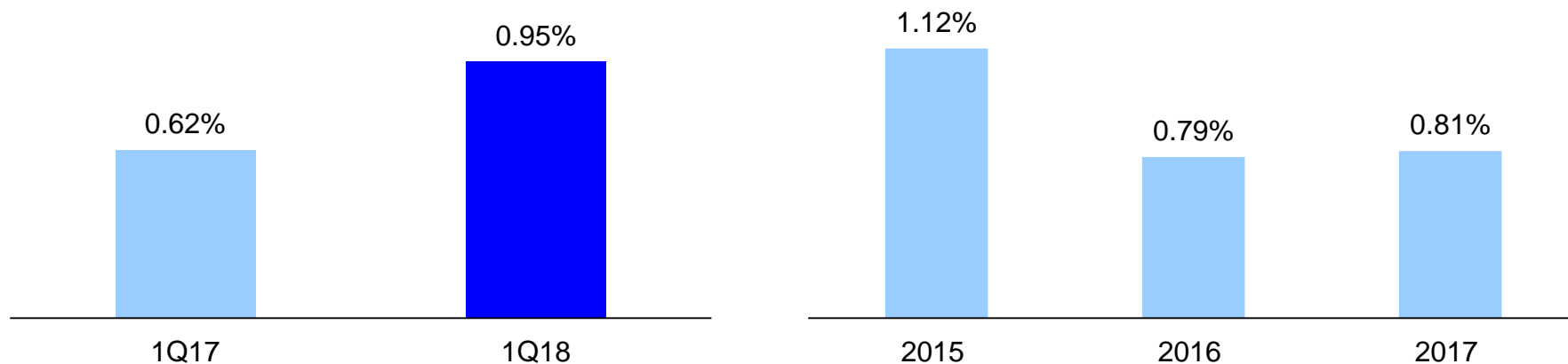


Fubon Financial Holdings: ROA & ROE

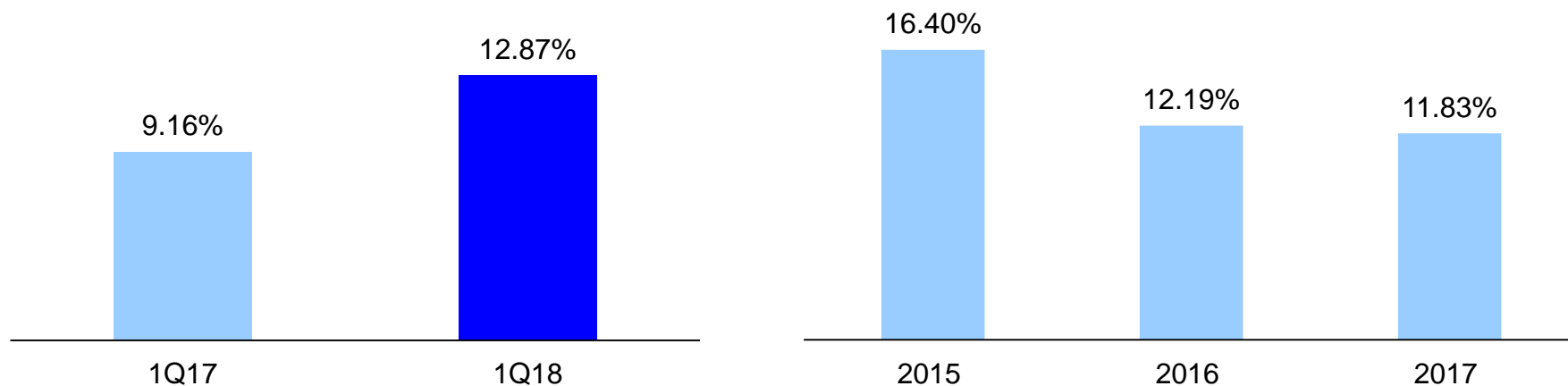


■ ROA and ROE improved yoy along with earnings growth

ROA



ROE



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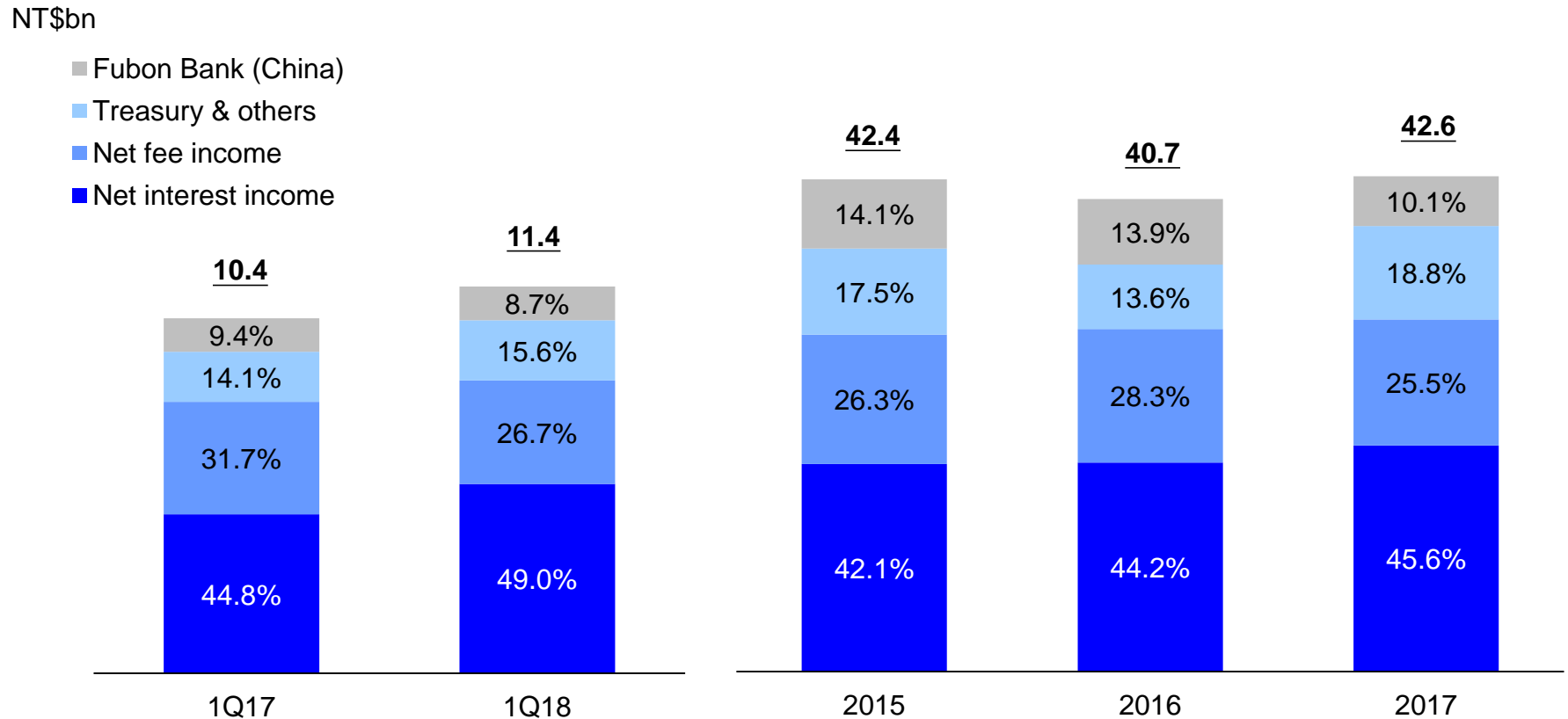
- ***2017 Embedded value of Fubon Life***

Taipei Fubon Bank: Revenue



- Net revenue growth of 9.0% yoy driven by 19.2% growth in net interest income, which contributed 49% of net revenue

Revenue composition of Taipei Fubon Bank



Note: Consolidated basis

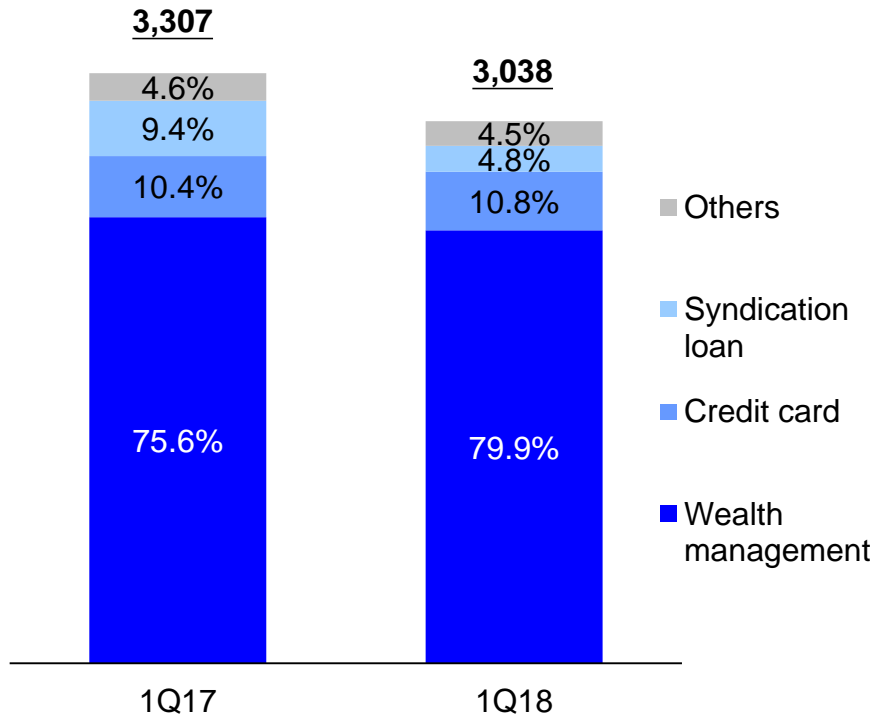
Taipei Fubon Bank: Fee and wealth management revenue



- Fees down 8.1% yoy. Syndication fee was impacted by weak momentum in Asia market
- Sales volume of wealth management grew 33% yoy. Fee dropped 3% due to product mix shift in insurance

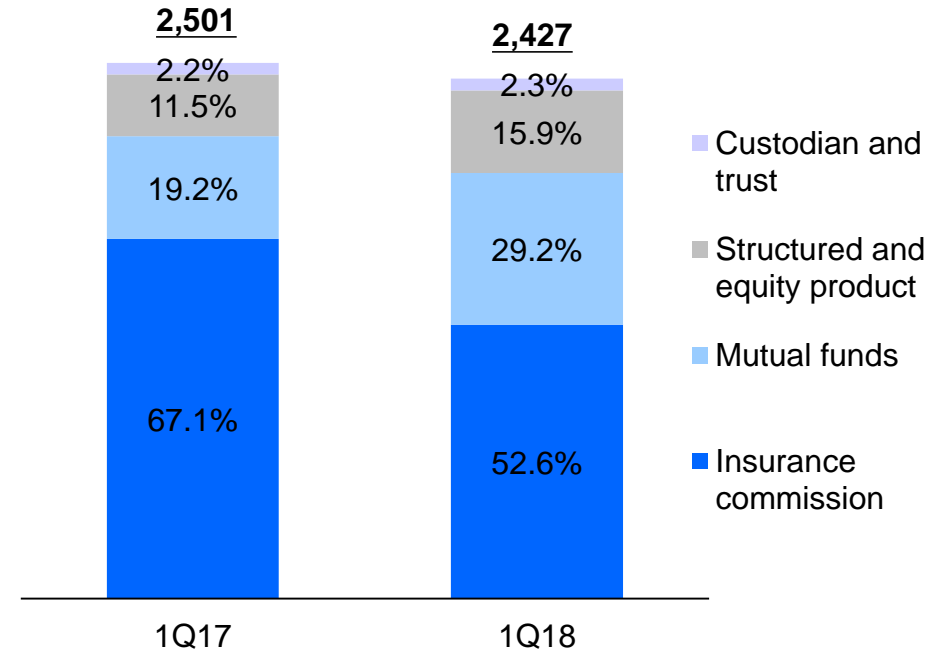
Sources of fee revenue

NT\$m



Wealth management fee

NT\$m



Note: Data are stand-alone basis in page 11-16

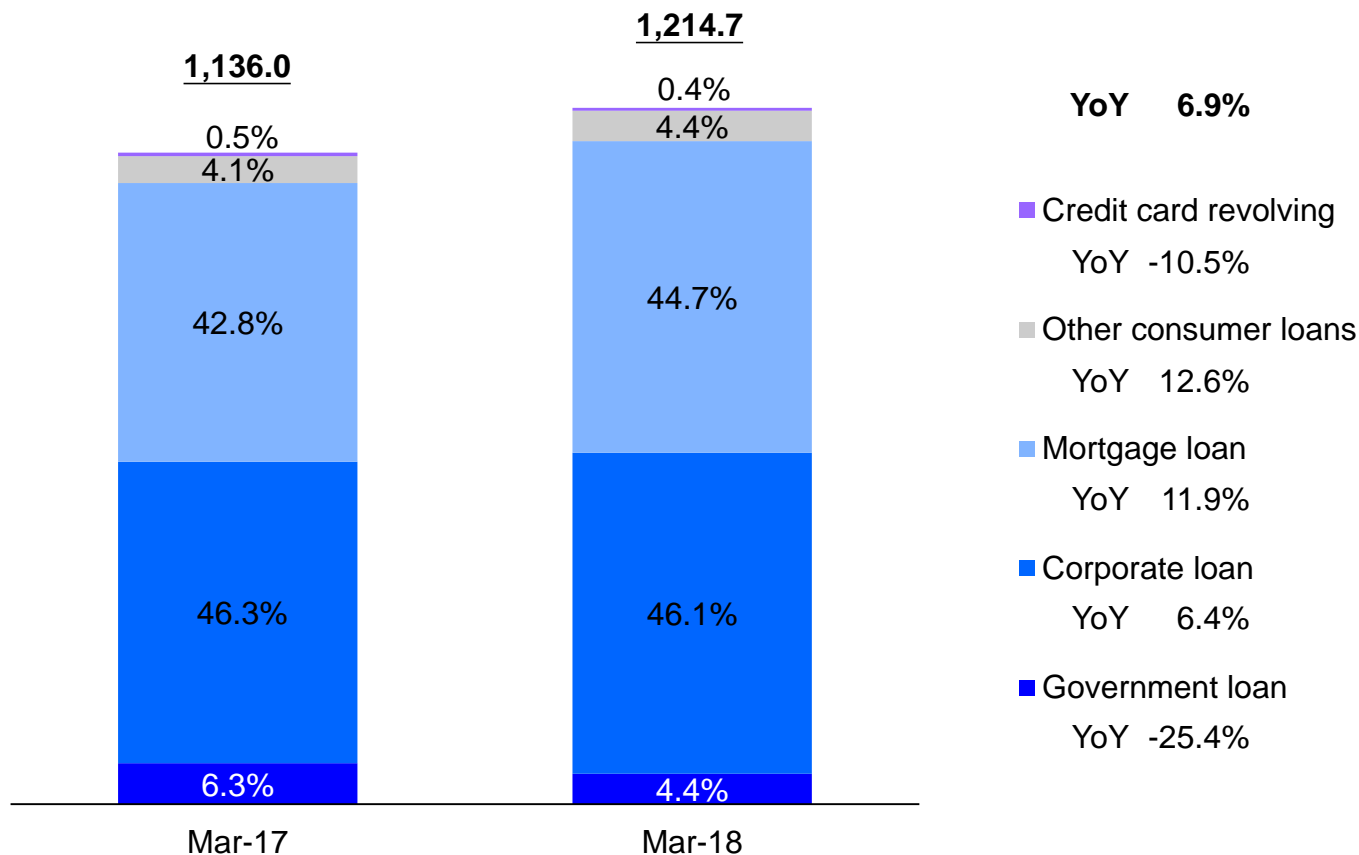
Taipei Fubon Bank: Loan composition



- Loan growth 6.9% yoy mainly driven by corporate, mortgage and consumer loans
- Mortgages growth 11.9% yoy outperformed industry average

Loans by type

NT\$bn



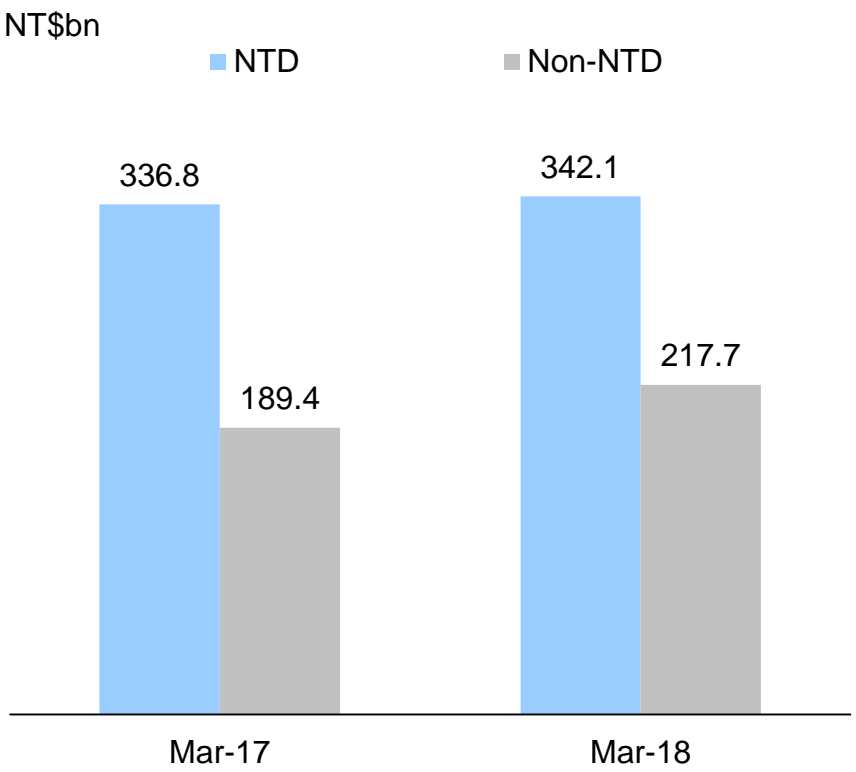
Note: Ending balance

Taipei Fubon Bank: Corporate credit



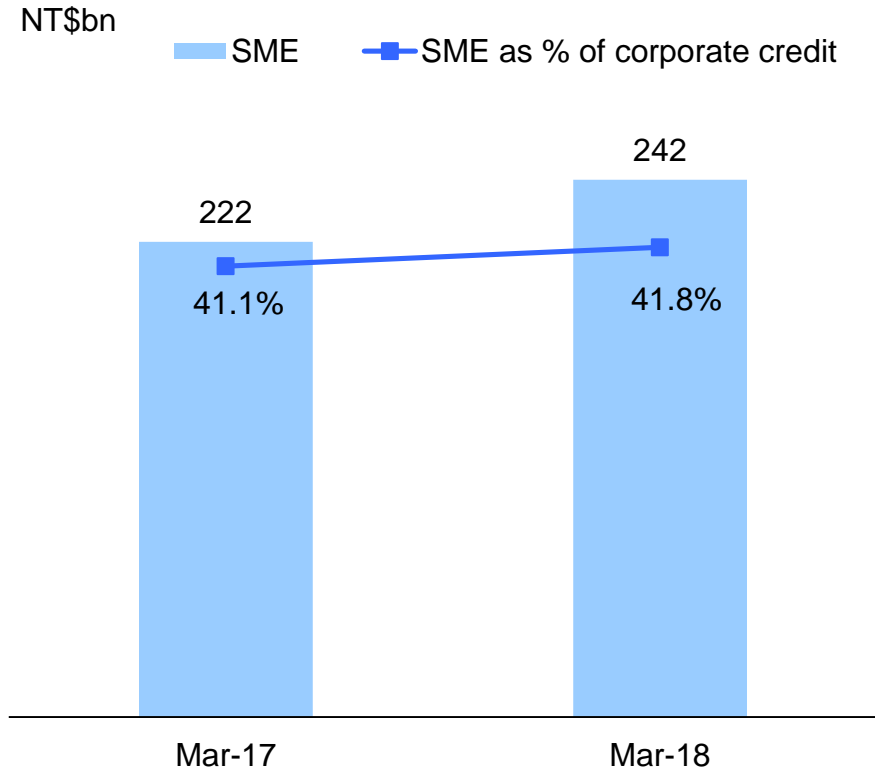
- Foreign currency loans up 14.9% yoy, driven by overseas demand
- SME credit steadily grew 8.8% yoy

Corporate loan by currency



Note: Ending balance

SME credit and as % of corporate credit



Note: Corporate credit include loan and trade finance

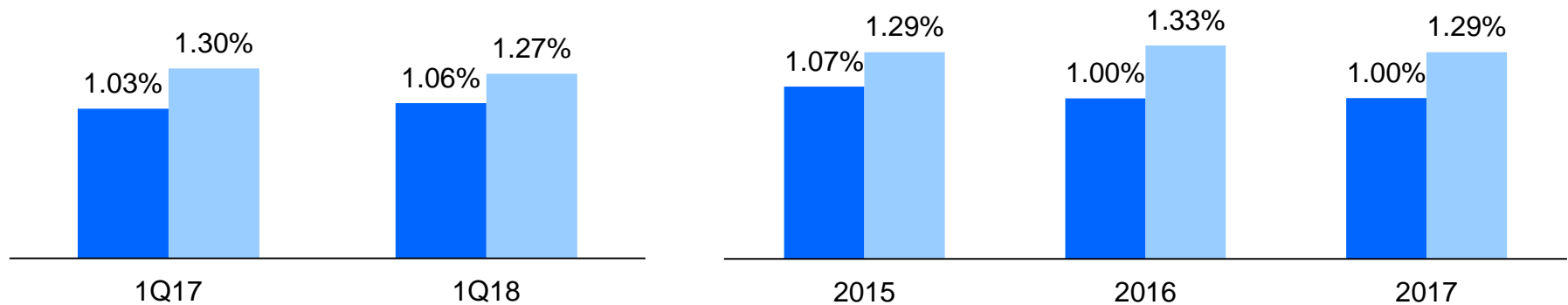
Taipei Fubon Bank: Interest yield and margin



- NIM improved 3bps yoy contributed by FX loans and bond investment
- Loan-to-deposit spread maintained flat qoq. Down 3bps yoy due to market interest rate increase and volume growth in foreign currency deposits

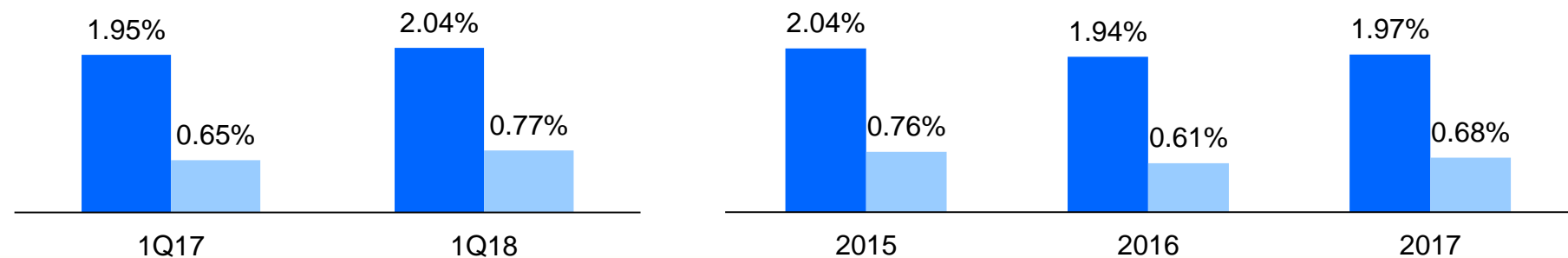
NIM and loan-to-deposit spread

■ NIM ■ Loan-to-deposit spread



Loan yield and deposit yield

■ Loan rate ■ Deposit rate



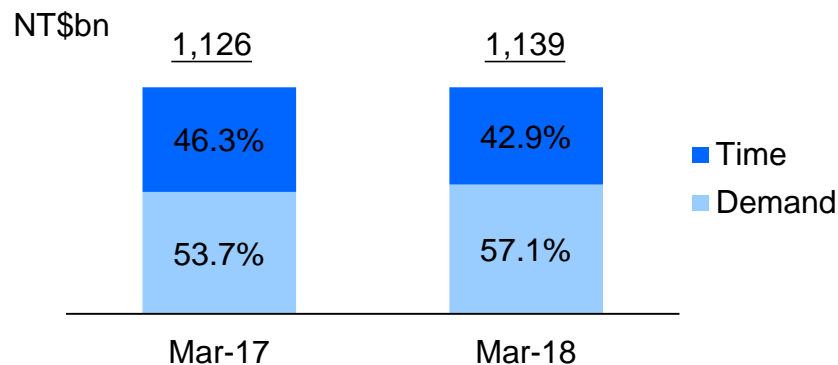
Note: Loan rate calculation inclusive of credit card revolving

Taipei Fubon Bank: Deposit mix and LDR

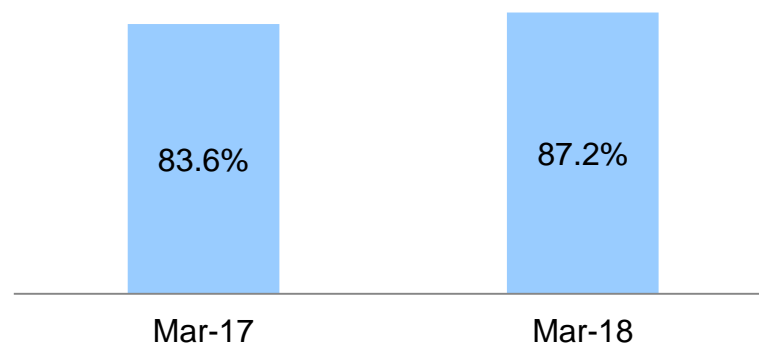


- NT dollar demand deposits ratio increased to 57.1% with LDR up to 87.2%
- Foreign currency deposits up 24% yoy. Utilize foreign deposits into loans and investment asset deployment

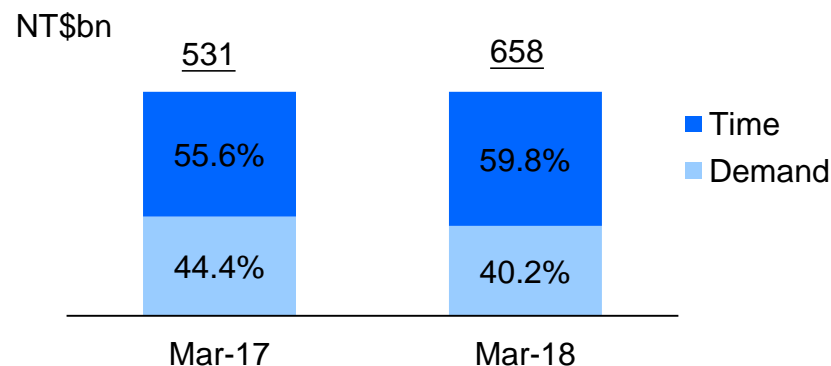
Deposit mix in NTD



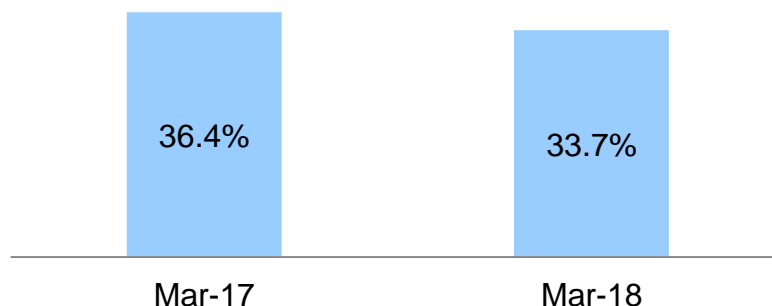
NTD loan-to-deposit ratio (LDR)



Deposit mix in foreign currency



Foreign currency LDR



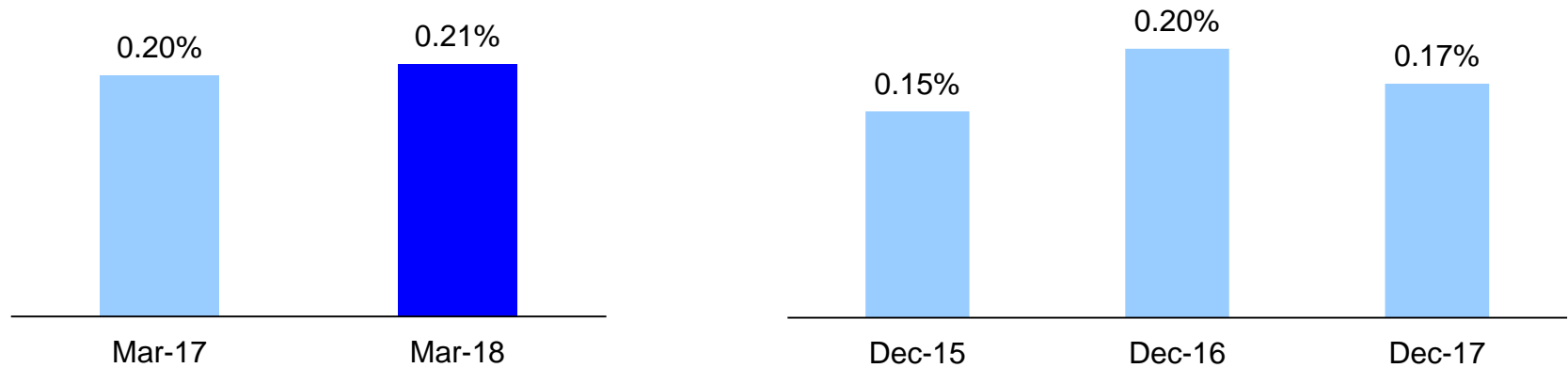
Note: Ending balance

Taipei Fubon Bank: Asset quality

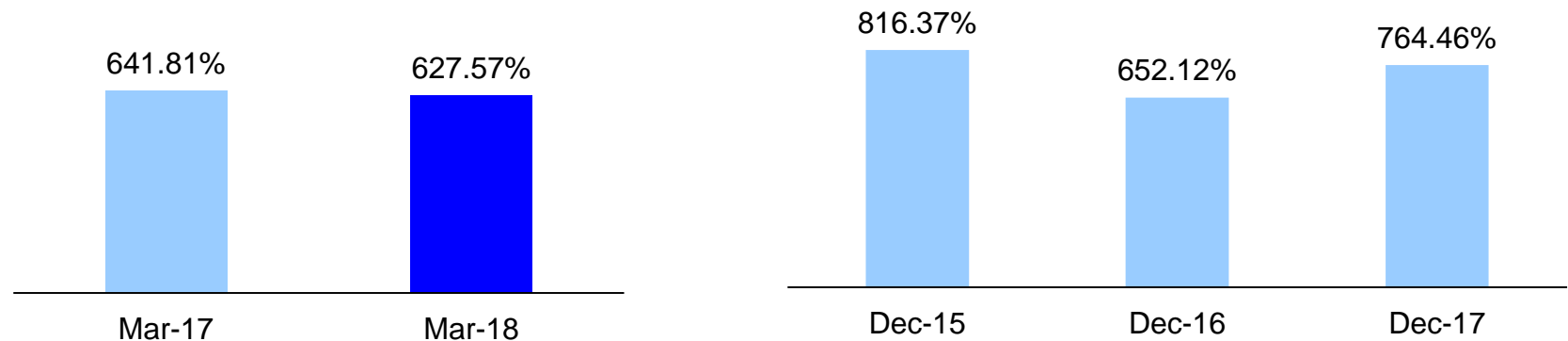


■ Steady outperformance in asset quality

NPL ratio



Coverage ratio

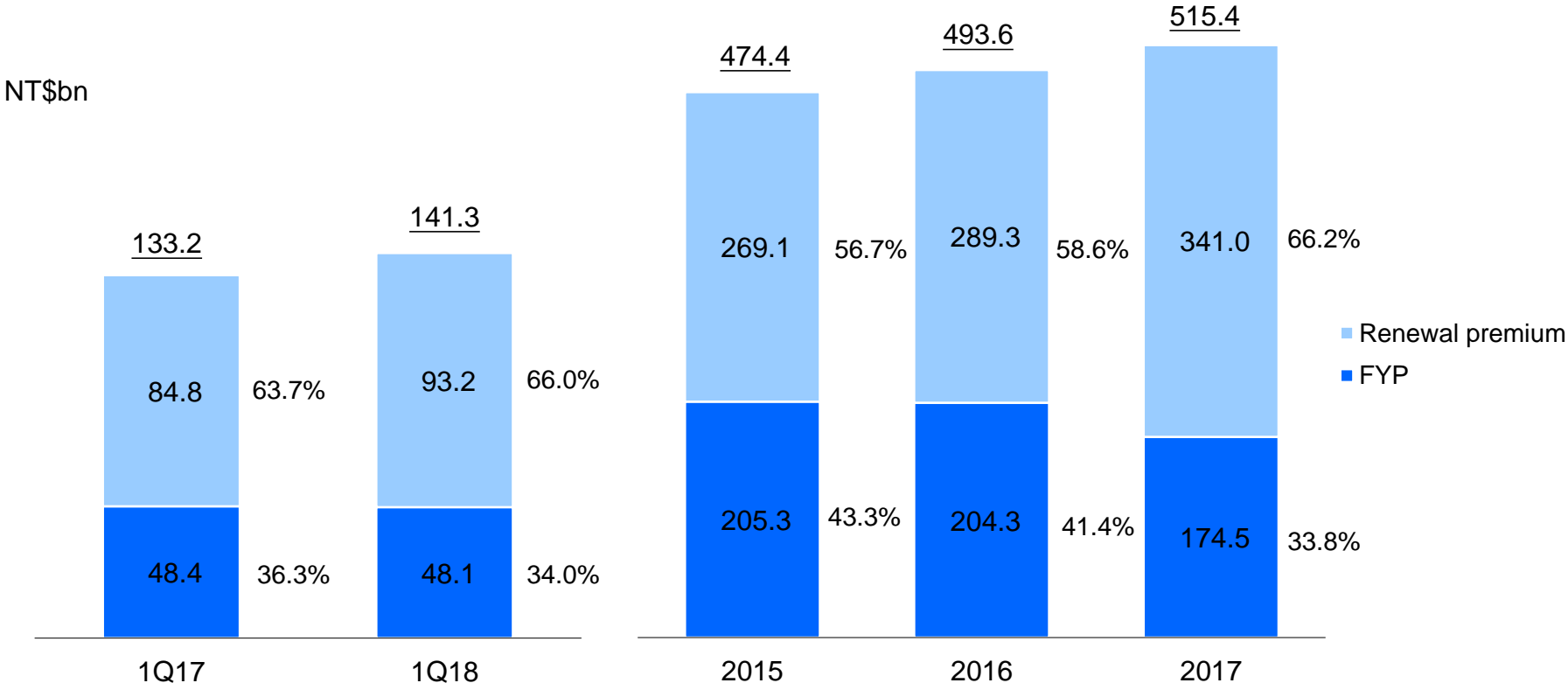


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- ***2017 Embedded value of Fubon Life***

Fubon Life: Total premium



■ 6% growth in total premium driven by renewal premium growth of 10%. Renewal premium contributed 66% of total premium



Fubon Life: First year premium (FYP)



- FYP declined 0.7% yoy due to deferred effect leading to a higher base in traditional regular-paid products in 1Q17. Investment-linked products grew 108.3% yoy driven by market demand

FYP composition

NT\$bn	1Q17	%	1Q18	%	YoY growth	2015	2016	2017
Traditional life: Regular-paid	20.5	42.4%	14.0	29.2%	-31.5%	51.2	90.4	59.4
Traditional life: Single-paid	20.0	41.3%	21.8	45.3%	9.0%	107.6	74.7	74.7
Interest-sensitive annuity	1.3	2.8%	1.1	2.3%	-17.8%	19.0	14.7	6.0
Investment-linked	4.4	9.0%	9.1	18.9%	108.3%	19.6	13.7	25.9
Health, accidents and others	2.2	4.5%	2.1	4.3%	-6.1%	7.9	10.8	8.4
Total	48.4	100.0%	48.1	100.0%	-0.7%	205.3	204.3	174.5

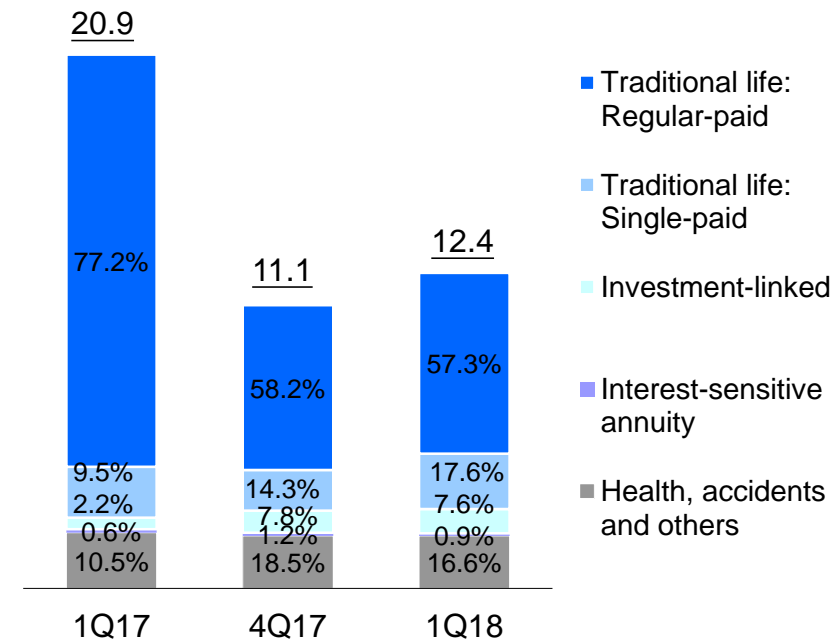
Fubon Life: First year premium equivalent (FYPE) & Value of new business (VNB)



■ FYPE and VNB declined yoy due to shift in product mix, but improved QoQ

FYPE

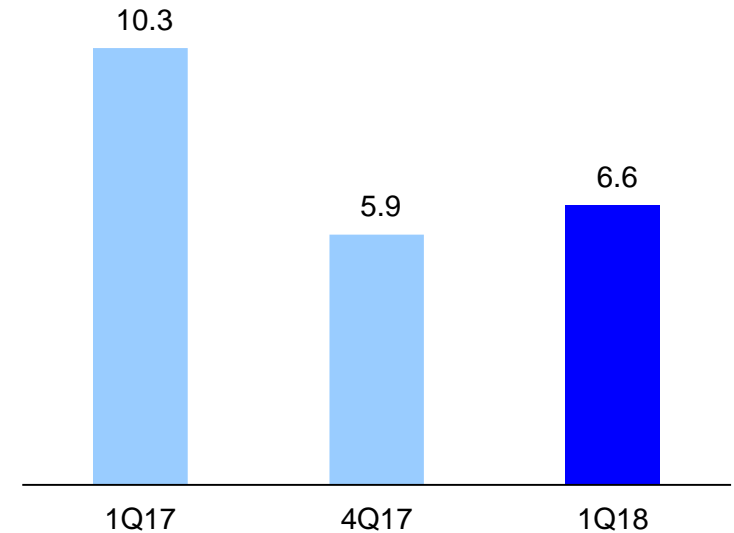
NT\$bn



FYPE/ FYP	1Q17	4Q17	1Q18
	43.3%	27.9%	25.8%

VNB

NT\$bn

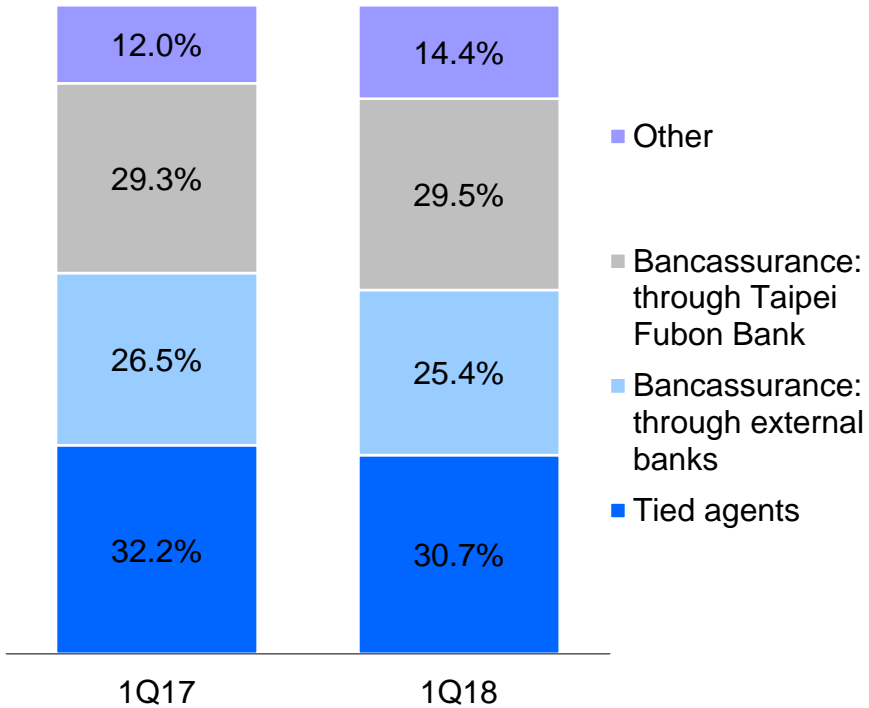


VNB/FYP	21.2%	14.8%	13.7%
VNB/FYPE	49.0%	52.9%	53.0%

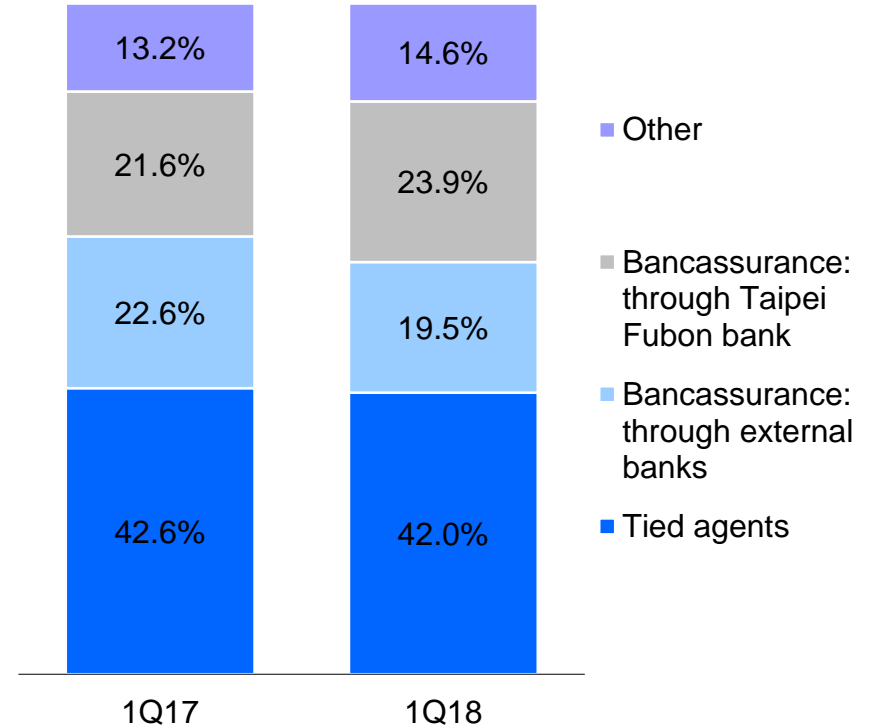
Note: VNB is based on 2017 EV actuarial assumptions

- FYPE contribution from tied agents remained stable. Contribution from Taipei Fubon Bank and brokers channel increased

FYP by channel



FYPE by channel



Fubon Life: Composition of investment income



- Investment return (after-hedged) increased yoy due to capital market and FX performance
- Realized gains from equity investment increased under the favorable market environment

NT\$bn	1Q17	1Q18	YoY growth	2015	2016	2017
Recurring investment income	23.2	24.8	6.9%	101.0	106.1	114.9
Interest income	20.3	22.5	10.8%	66.6	77.4	85.0
Cash dividend income from equity investment	0.1	0.1	23.1%	16.5	14.9	18.8
Rental and others	2.8	2.2	-21.6%	17.9	13.8	11.1
Realized gains from fixed income investment	4.4	4.4	0.3%	9.9	23.9	14.1
Realized gains from equity investment	8.6	10.6	22.4%	22.6	10.3	25.5
FX and others	-10.0	-7.9	-21.3%	-3.2	-16.0	-28.9
Investment income	26.2	31.9	21.6%	130.3	124.3	125.6
Total investment assets	3,118.1	3,466.9	11.2%	2,814.0	3,118.4	3,386.3
Investment return (before hedge)	4.70%	4.63%		5.12%	4.84%	4.76%
Investment return (after hedge)	3.45%	3.68%		4.97%	4.30%	3.93%

Fubon Life: Investment portfolio



- Steady growth of investment assets with 11.2% yoy growth
- Investment portfolio repositioned in response to market volatility

	2017/03/31		2017/12/31		2018/03/31	
NT\$bn						
Deposit and cash equivalent	142.8	4.6%	163.5	4.8%	165.3	4.8%
Domestic fixed income	445.1	14.3%	414.1	12.2%	437.9	12.6%
Overseas fixed income*	1,667.9	53.5%	1,837.5	54.3%	1,897.2	54.7%
Domestic equity	293.5	9.4%	376.2	11.1%	373.8	10.8%
Overseas equity	191.6	6.1%	200.4	5.9%	192.4	5.6%
Mortgage loans	112.7	3.6%	126.5	3.7%	129.3	3.7%
Policy loans	58.4	1.9%	63.2	1.9%	63.9	1.8%
Real estate	206.1	6.6%	204.9	6.1%	207.1	6.0%
Total Investments	3,118.1	100.0%	3,386.3	100.0%	3,466.9	100.0%
Domestic	1,184.1	38.0%	1,264.3	37.3%	1,281.0	36.9%
Overseas*	1,934.0	62.0%	2,122.0	62.7%	2,185.9	63.1%

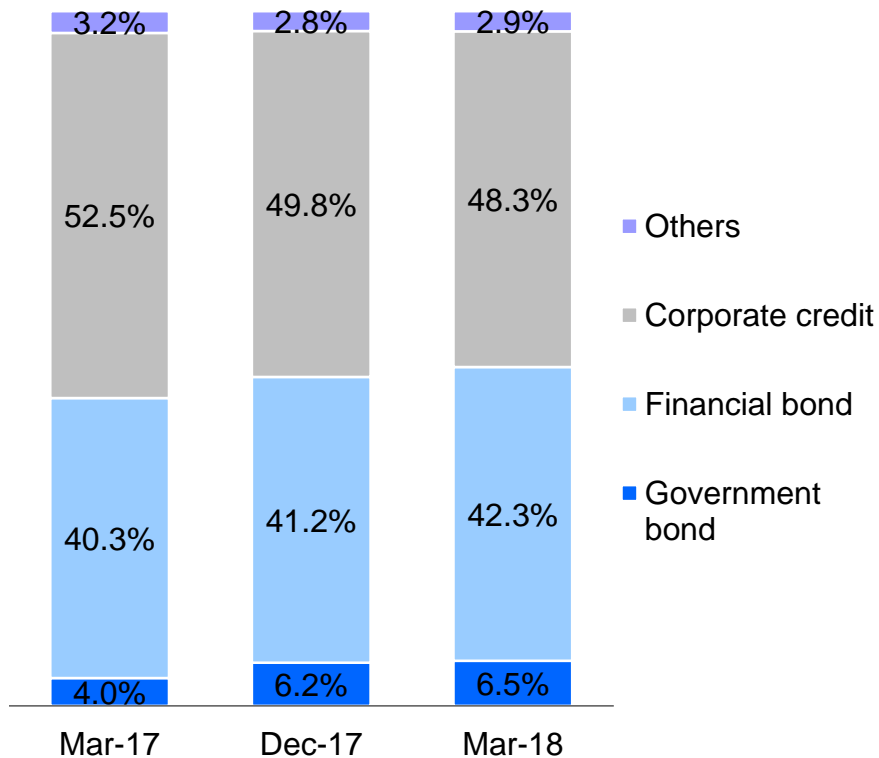
Note: *Including OTC-listed international bond, the international bonds investment reached 16.3% of total investment assets as of 2018/03/31

Fubon Life: Portfolio of overseas fixed income

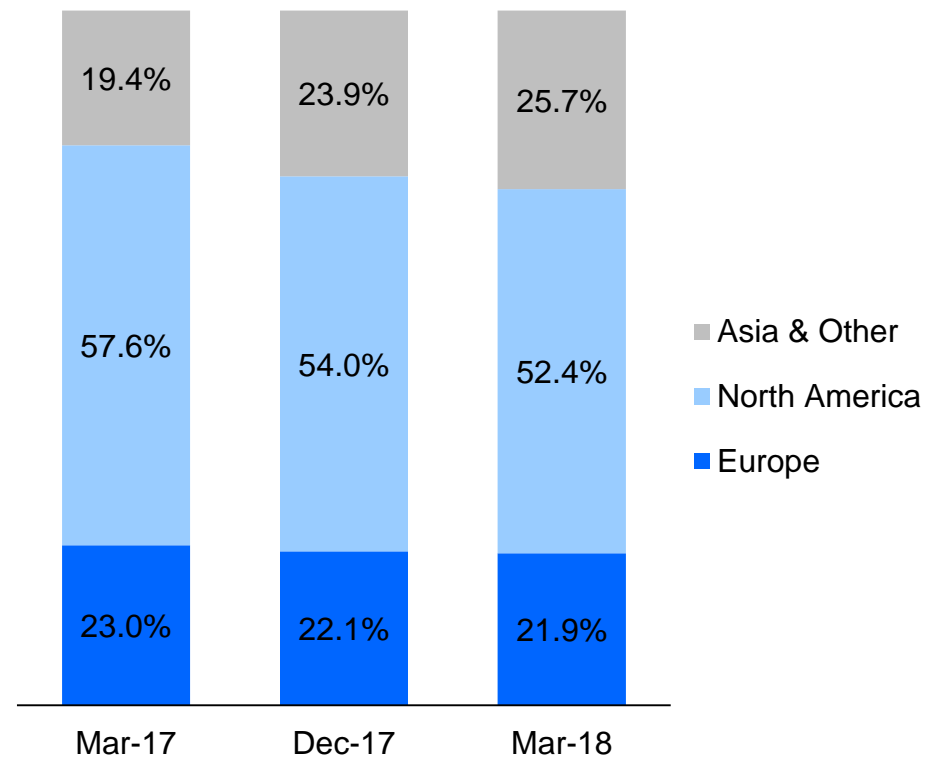


- Asset allocation predominately in corporate credit and financial bonds at investment-grade
- Over 50% of the assets are issuers in North America

Overseas fixed income by asset type



Overseas fixed income by region

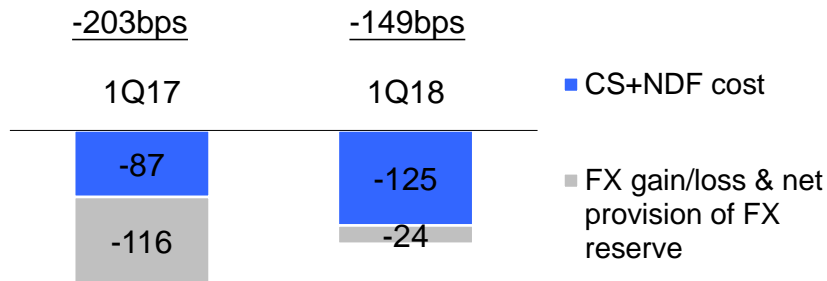


Fubon Life: Hedging composition

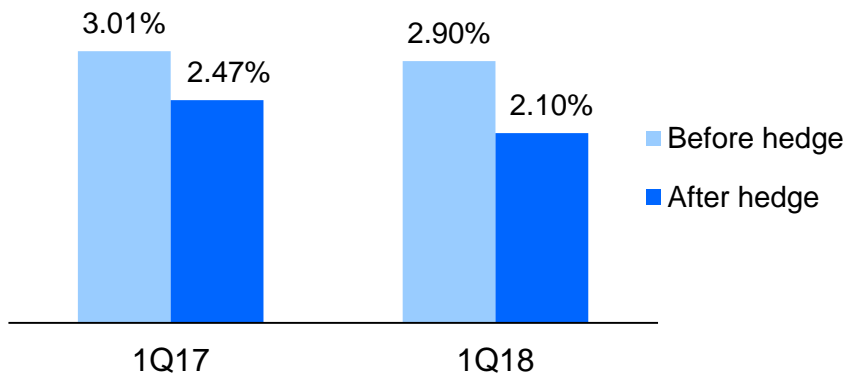


- Recurring hedging cost increased yoy while overall hedging and FX cost improved
- Hedging structure repositioned in response to market volatility

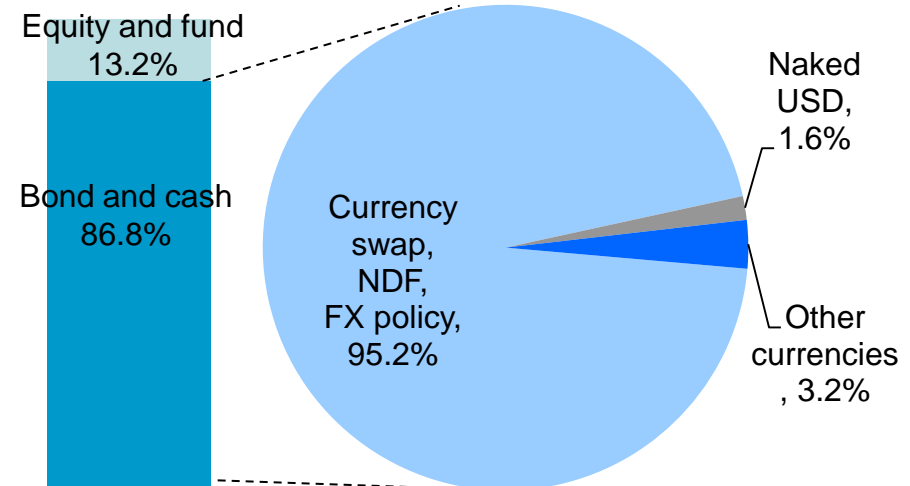
Hedging cost & FX gain/loss



Recurring return



FX position

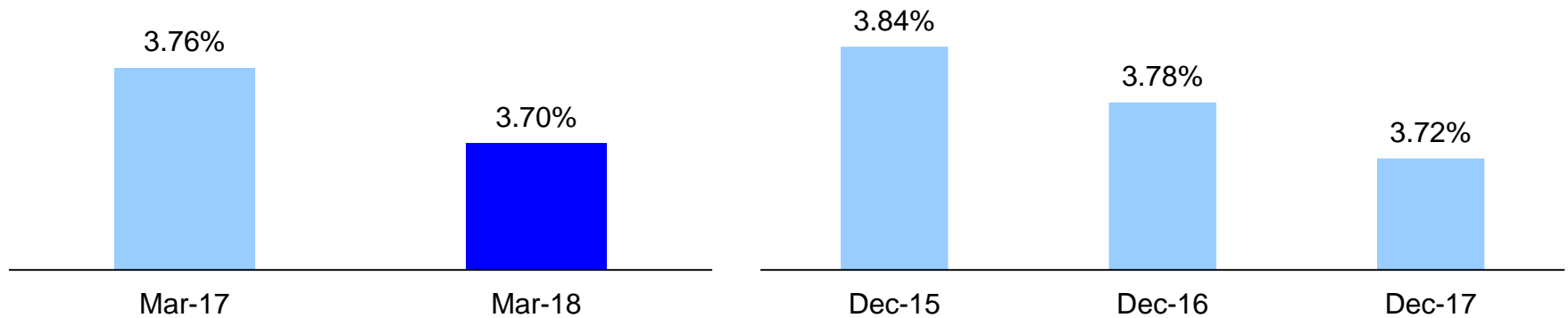


Fubon Life: Cost of liability & Breakeven point

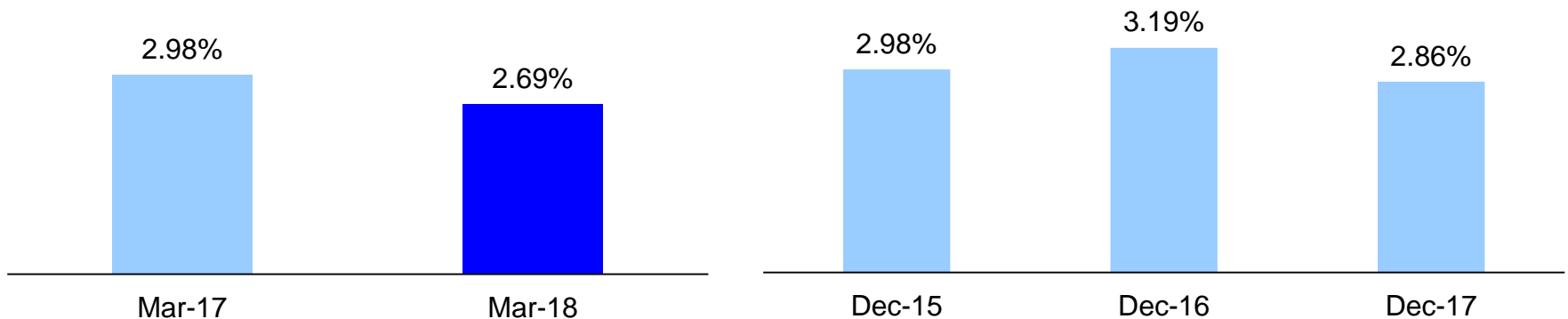


- Cost of liability improvement due to lower cost from new premiums
- Breakeven point improvement due to lower first year strain

Cost of liability



Breakeven point



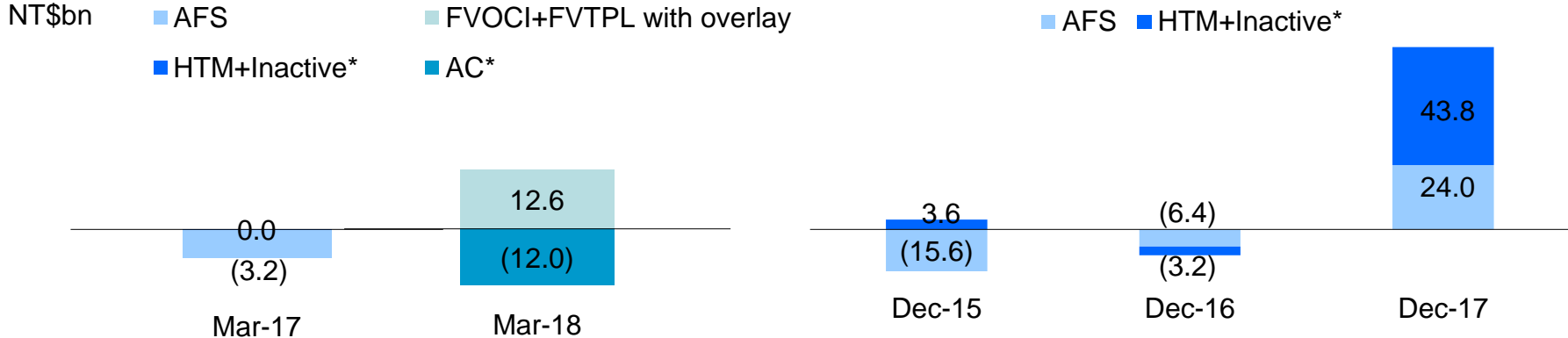
Breakeven point = (Profit before tax – Investment income) / Average investment assets

Fubon Life: Investment performance



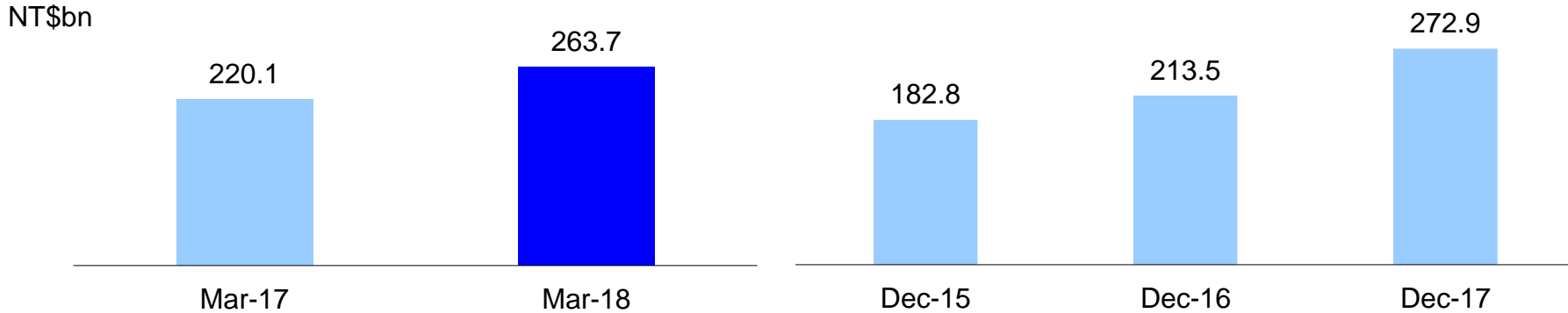
■ Movement of unrealized gains balance primarily reflected the volatilities in market interest rate

Unrealized gains outstanding balance



Note: *before tax basis

Shareholders' equity



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- ***2017 Embedded value of Fubon Life***



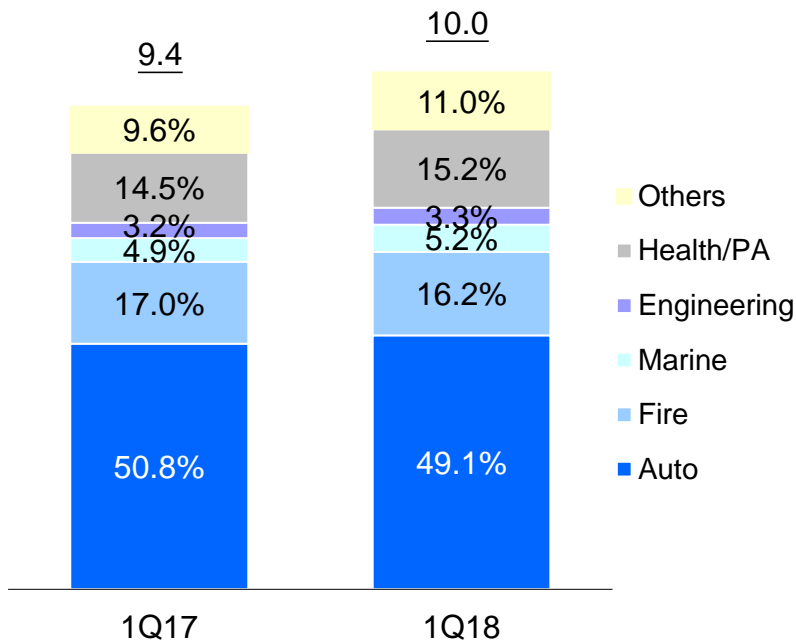
Fubon Insurance: Operating snapshot



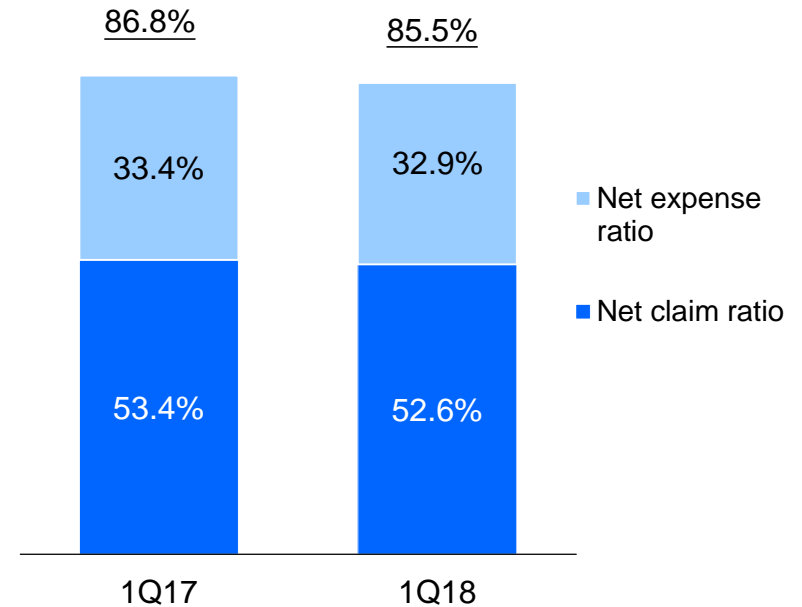
- Top 1 position with 23.7% market share
- 7.1% premium growth yoy outperformed industry
- Net combined ratio improvement due to better underwriting experience

Direct written premium by product

NT\$bn



Net combined ratio



Note: Standalone basis

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

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Fubon Securities: Financial highlights



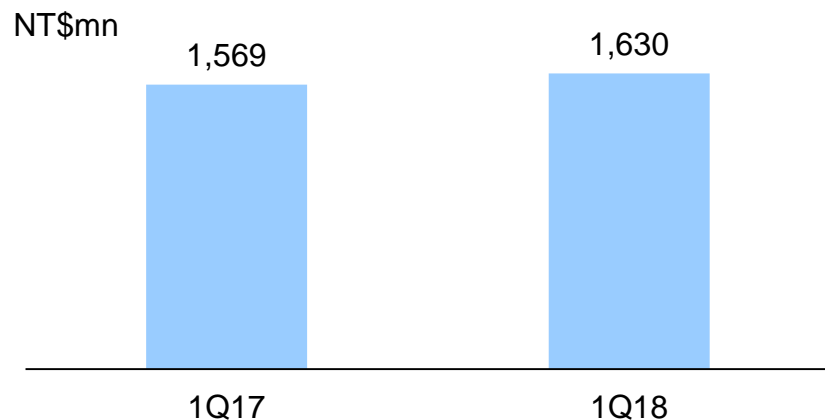
- Leading market position across lines of business. Brokerage market share increased to 6%
- Earnings edged down due to one-off expected credit loss from clients default in Fubon Futures

Market share & ranking

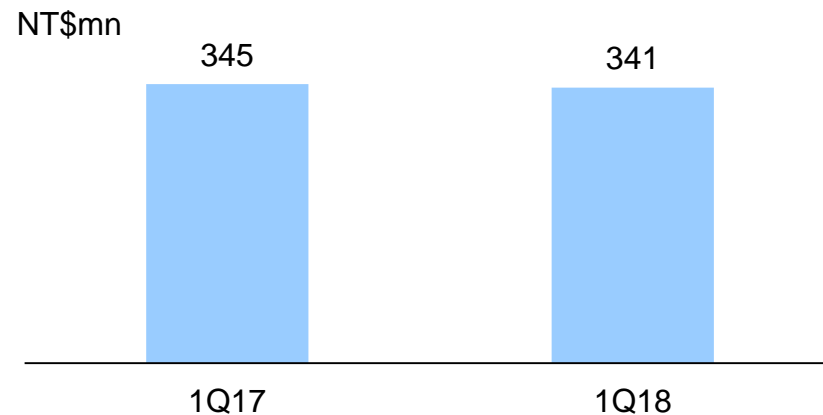
	20181Q	Ranking	20171Q	Ranking
Brokerage per branch*	0.134%	1	0.122%	1
Emerging stock trading	27.49%	1	15.99%	2
AUM of ETF (NT\$m)	85,300	2	65,000	2
AUM of Overseas ETF (NT\$m)	76,300	2	61,200	2
Brokerage	6.04%	3	5.87%	3

Note: *Ranking among top 10 brokers

Operating revenue



Net profits



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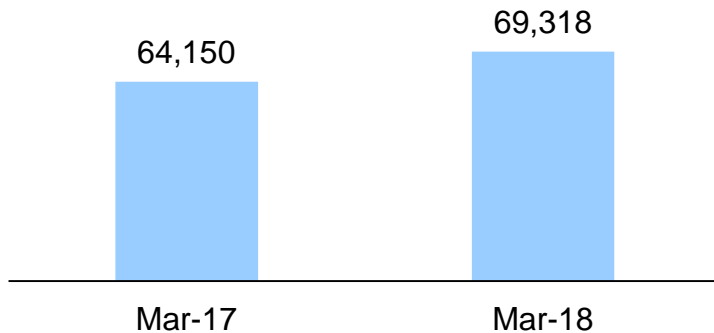
Fubon Bank (China): Key balance sheet items



- Assets and net worth steadily increased
- Commercial loans up by 7.6% with a focus on loan mix improvement

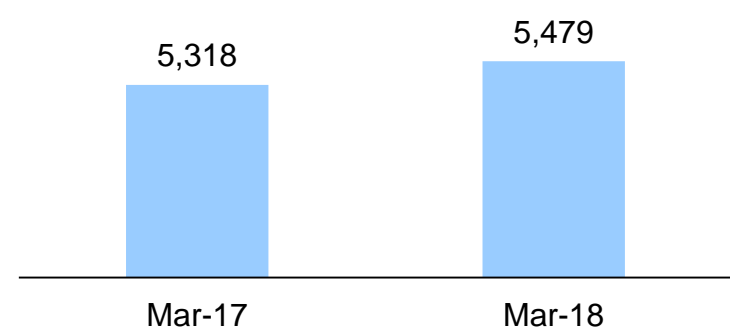
Assets

RMB\$m



Net worth

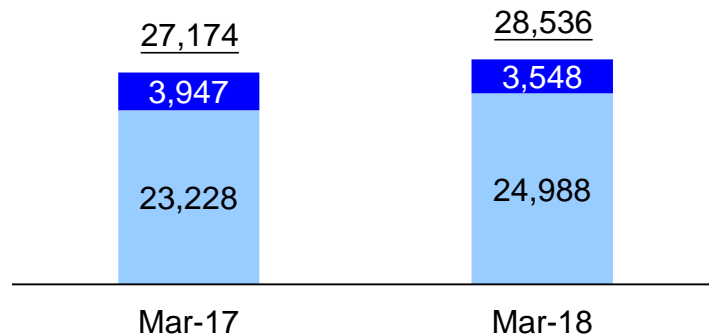
RMB\$m



Loans

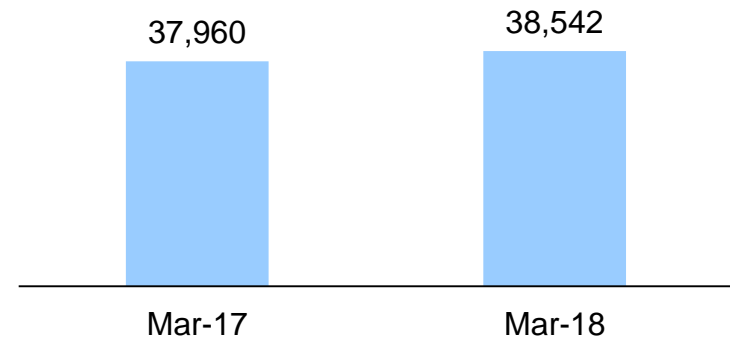
RMB\$m

■ Rediscount ■ Loans (excluding rediscount)



Deposits

RMB\$m

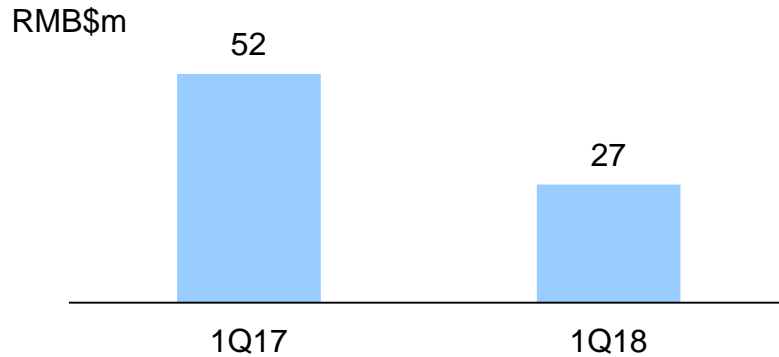


Fubon Bank (China): Financial highlight

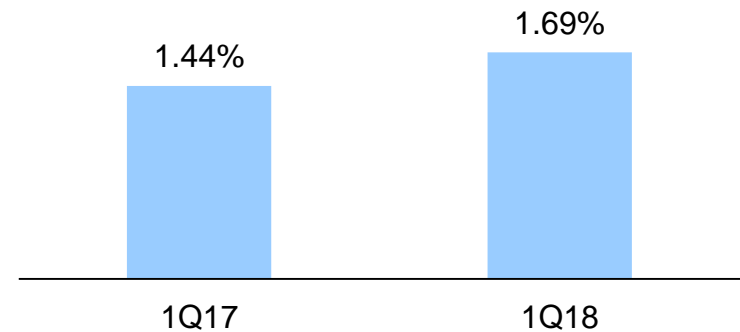


- Earnings impacted by treasury activities as RMB appreciated, while NII and fees grew
- 25bps improvement in NIM along with lending yield pick up
- Stable asset quality with NPL ratio down to 1.5%

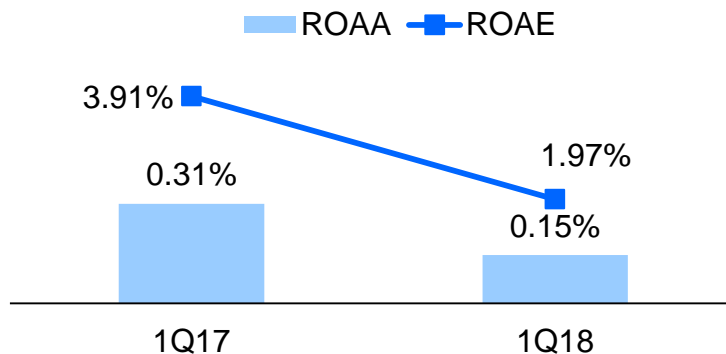
Net Profits



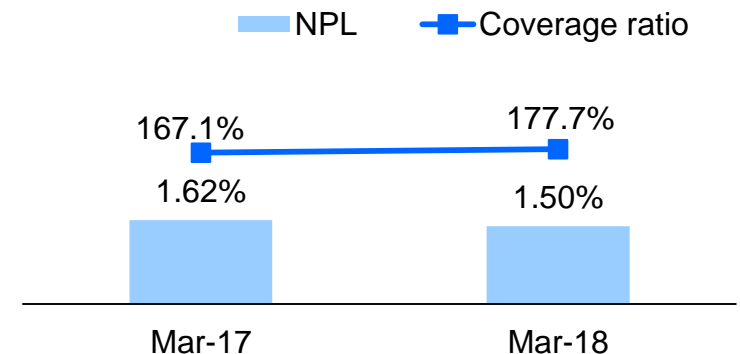
NIM




ROAA & ROAE



NPL ratio & Coverage ratio



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Value Creation Summary



Unit: NTD billion

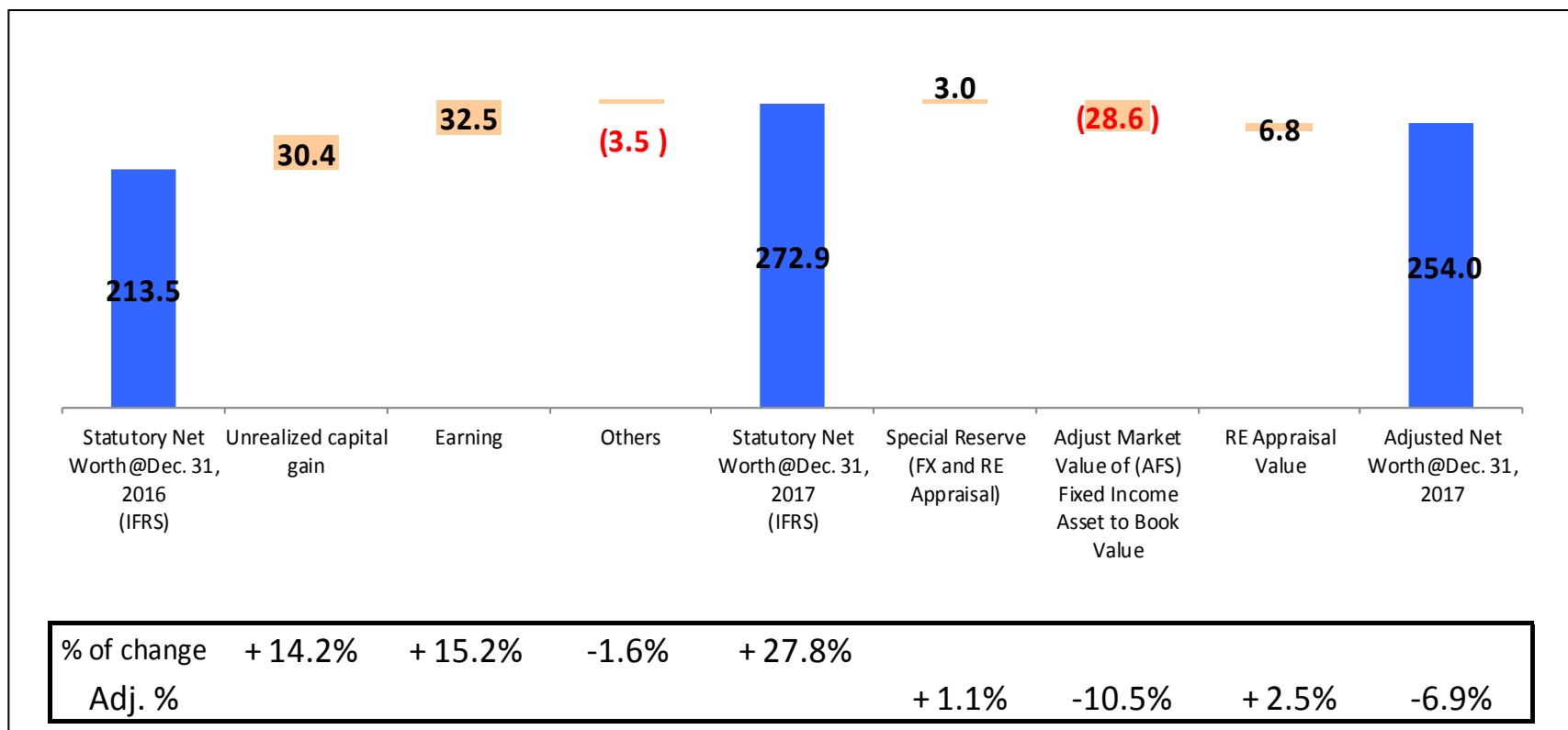
	Items	2016	2017	YoY	Diff	Impact
Inforce Value Creation	Net Worth (Book Value)	213.5	272.9	27.8%	59.4	↑
	Adjusted Net Worth	211.7	254.0	20.0%	42.3	↑
	VIF (before CoC)	353.8	380.2	7.5%	26.4	↑
	Cost of Capital (CoC)	(101.9)	(109.9)	-7.9%	-8.0	↓
	VIF (After CoC)	251.9	270.2	7.3%	18.4	↑
	Embedded Value	463.6	524.3	13.1%	60.7	↑
New Sales Value Creation	FYP	204.3	174.5	-14.6%	-29.8	↓
	FYPE	103.5	56.1	-45.8%	-47.4	↓
	VNB	47.3	28.5	-39.8%	-18.8	↓
	VNB margin (VNB/FYP)	23.2%	16.3%	-29.5%	-6.8%	↓
	VNB margin (VNB/FYPE)	45.7%	50.8%	11.2%	5.1%	↑
Appraisal Value (20 year NB)	Multiplier	8.8	8.8	0.0%	0.0	
	Appraisal Value	881.7	776.2	-12.0%	-105.5	↓
Value per FHC share	Outstanding shares (FHC)	10.2	10.2	0.0%	0.0	
	Embedded Value	45.3	51.2	13.1%	5.9	↑
	Appraisal Value	86.2	75.8	-12.0%	-10.3	↓
Value per Life share	Outstanding shares (Life)	6.9	8.3	19.5%	1.4	↑
	Embedded Value	66.8	63.2	-5.4%	-3.6	↓
	Appraisal Value	127.0	93.5	-26.3%	-33.4	↓

Note: Fubon Life issues 1.3537 bn new shares in 2017 from utilizing 13.537 bn retained earnings. If new issue shares are excluded, EV per Life share will grow 13%.

Movement Analysis: Adjusted Net Worth



Unit: NTD billion



Note:

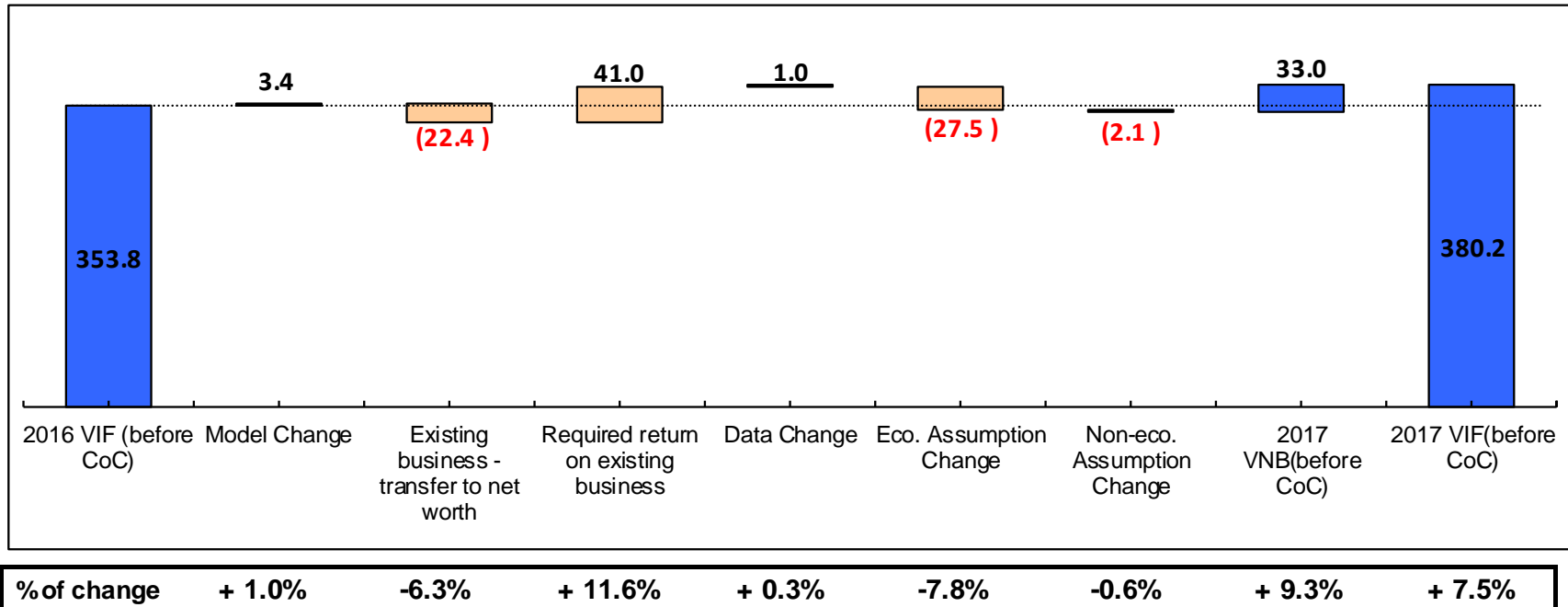
1. "Others" includes cash dividend payout of 5.2bn (-2.4%).

Movement Analysis:

Value of In-Force (before CoC)



Unit: NTD billion



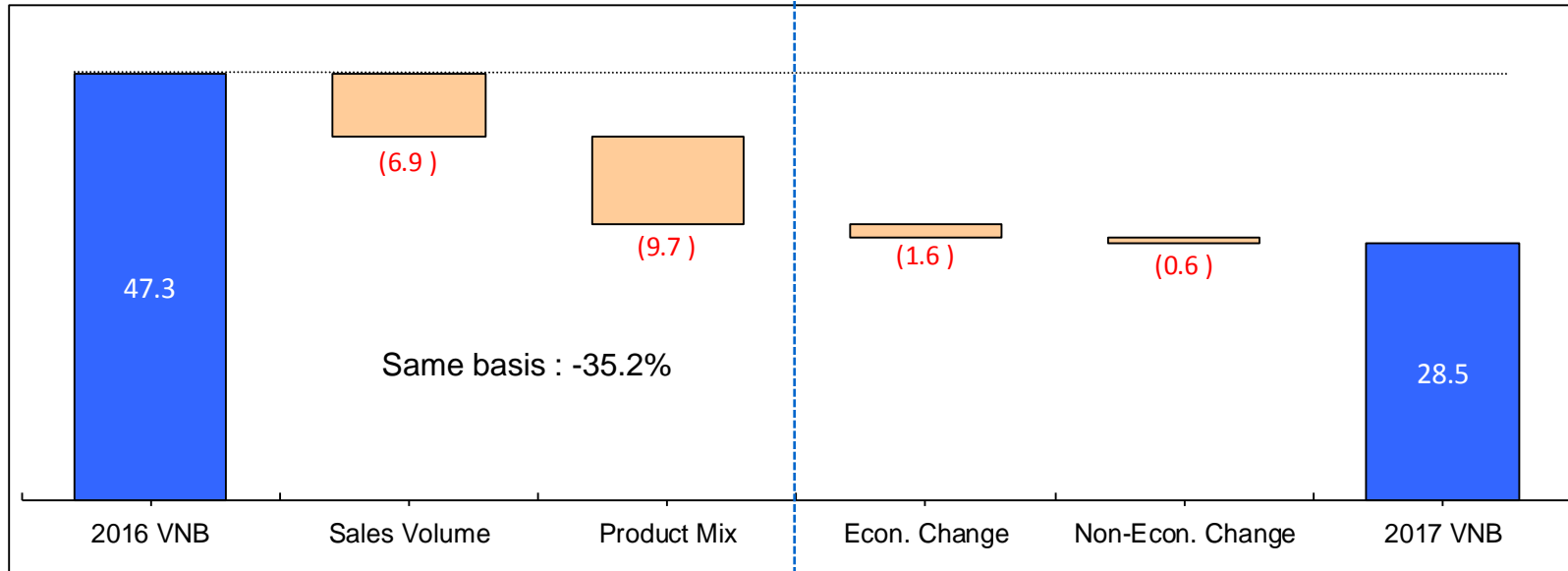
Note:

1. Economic assumption change includes changes of foreign exchange rate (-1.3%) and investment return (-6.5%).
2. The equivalent return of EV2016 reporting for VIF increased from 4.49% to 4.55% to reflect rolling over effect.
3. The equivalent return of EV2017 reporting for VIF is 4.47%.
4. 2017 VNB (after CoC) is 28.5 bn.

Movement Analysis: Value of New Business



Unit: NTD billion



% of change	2016 VNB	Sales Volume	Product Mix	Econ. Change	Non-Econ. Change	2017 VNB
VNB/FYP	23.2%	-14.6%	-20.6%	-3.4%	-1.2%	-39.8%
		0.0%	-5.6%	-0.9%	-0.3%	16.3%

Note:

1. The equivalent return of EV2016 reporting for VNB increased from 4.30% to 4.40% with consideration of rolling over effect and reflects 2017 product mix.
2. The equivalent return of EV2017 reporting for VNB is 4.36%.

Economic Assumption



	Year 2016	Year 2017
Investment return	<p><u>VIF</u> NTD Traditional Policies : Year 2017 to Year 2047 at 3.74%~5.57%(2048+) USD Policies : Year 2017 to Year 2042 at 4.65%~5.96%(2043+)</p> <p><u>V1NB</u> NTD Traditional Policies : Year 2016 to Year 2049 at 3.30%~5.56%(2050+) USD Policies : Year 2016 to Year 2046 at 4.01%~5.96%(2047+)</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 2018 to Year 2049 at 3.72%~5.57%(2050+) USD Policies : Year 2018 to Year 2043 at 4.44%~5.96%(2044+)</p> <p><u>V1NB</u> NTD Traditional Policies : Year 2017 to Year 2049 at 3.08%~5.54%(2050+) USD Policies : Year 2017 to Year 2046 at 3.85%~5.96%(2047+)</p> <p><u>ISA</u> Average retained spread for the Interest sensitive business is around 50~100bps.</p>
Risk Discount Rate	11.0% for VIF; 10.5% for V1NB	11.0% for VIF; 10.5% for V1NB
Equivalent Return	<p>VIF: 4.49% V1NB: 4.30%</p>	<p>VIF: 4.47% V1NB: 4.36%</p>
YC (10 year) Initial / ultimate	<p>TWD: 1.51% / 3.50% USD : 2.34% / 5.25%</p>	<p>TWD: 1.17% / 3.50% USD : 2.40% / 5.25%</p>

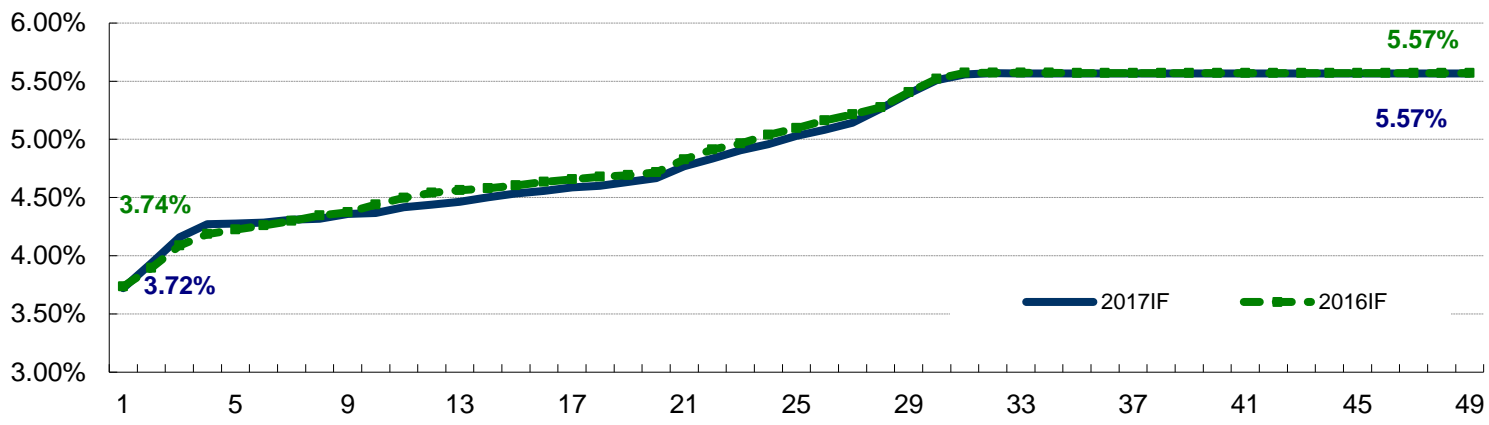
Note:

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

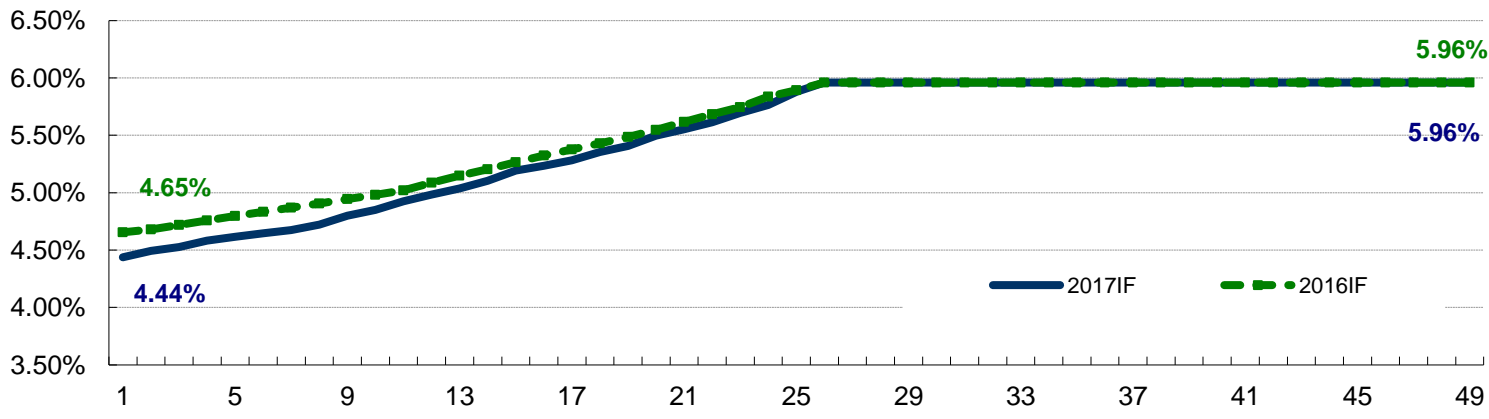
Economic Assumption – VIF Portfolio Return



In-force Portfolio Return_NTD Traditional



In-force Portfolio Return_USD

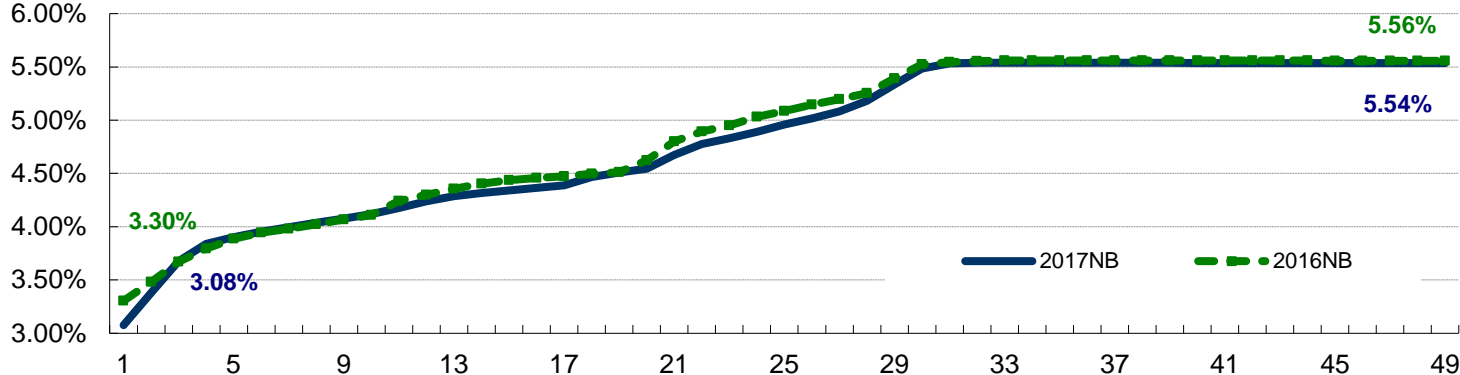


Economic Assumption

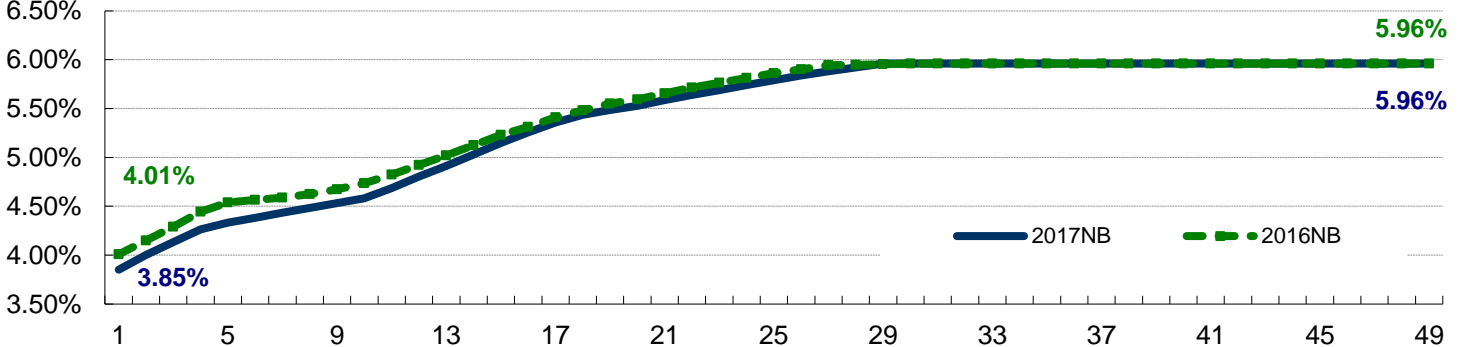
– V1NB Portfolio Return



NB Portfolio Return_NTD Traditional



NB Portfolio Return_USD



Economic Assumption: Discount Rate



Fubon Life	2016/12/31	2017/12/31
Risk Free Rate	1.51%~3.50%	1.17%~3.50%
Equity plus Country Risk Premium	6.50%	6.50%
Beta	1.2	1.2
Calculated RDR	9.31%~11.30%	8.97%~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

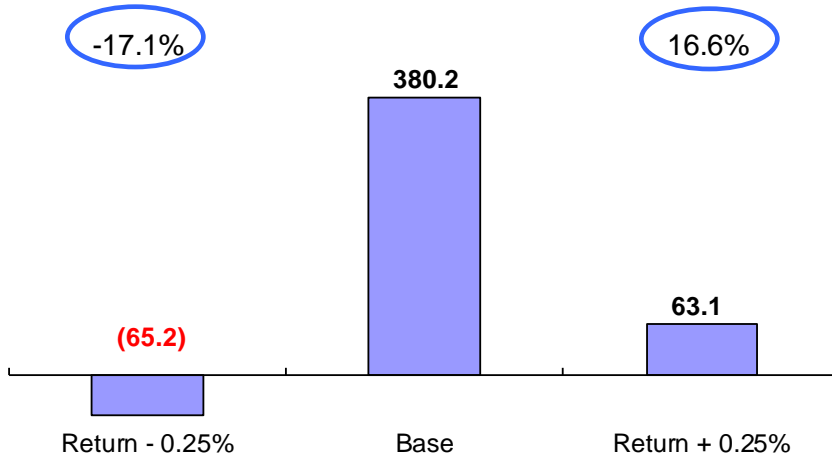
- **Project future cost of capital is based on future capital requirement maintaining regulatory minimum RBC level of 200% considering following factors:**
 - 1) Add 50% C3 risk capital of previous year for all traditional products every year (excludes investment-linked product) ;
 - 2) Reflect current business operation and future strategy.
- **Risk-based capital (RBC) regulation changes & adjustments in 2017:**
 - 1) Modify the calculation method of asset concentration risk, reclassifying the category of foreign bonds into three types by credit rating instead of two countries;
 - 2) Increase C3 extra charge from 40% to 50% of previous year's C3 risk capital.

Sensitivity Summary : Portfolio Return

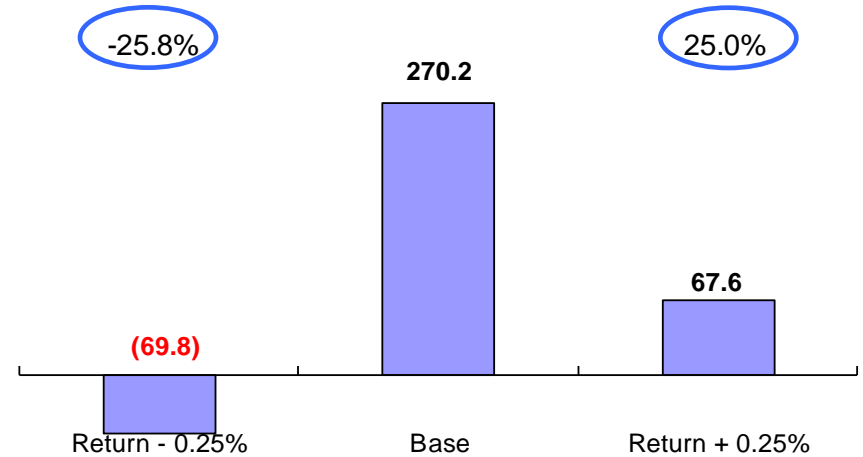


Unit: NTD billion

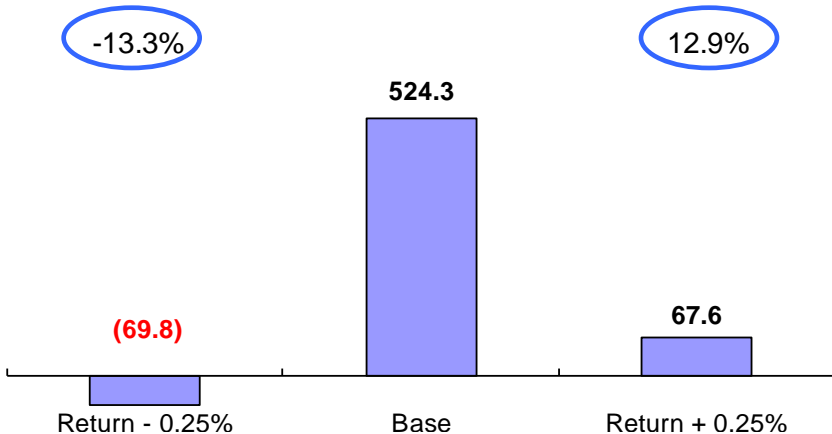
VIF (before CoC)



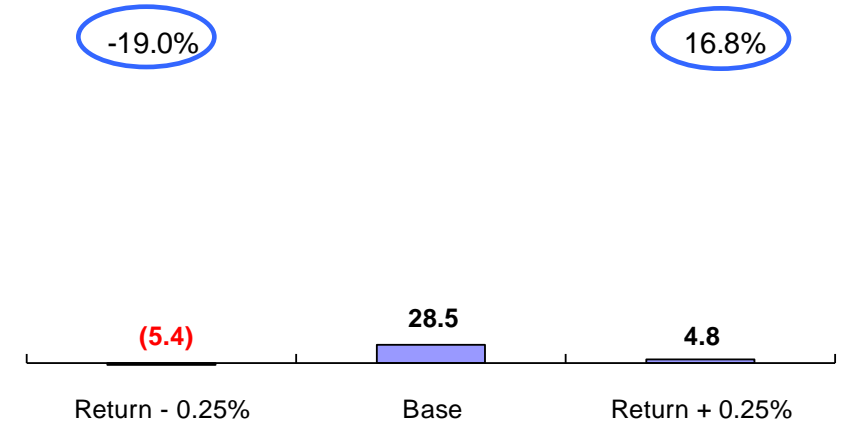
VIF



EV



VNB



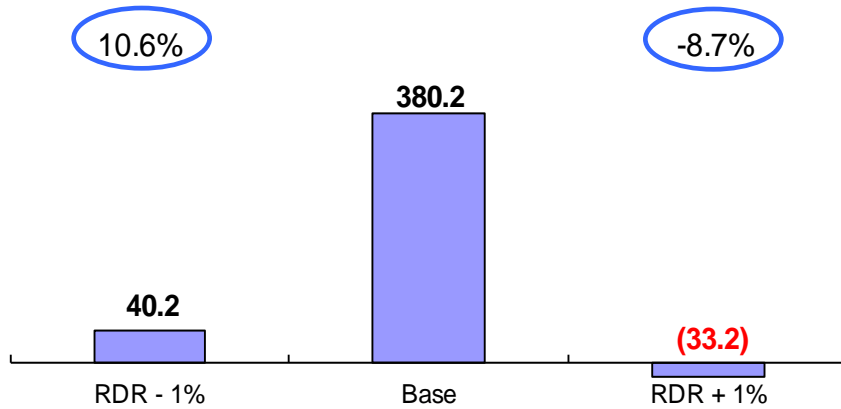
Note: ANW will not be affected by portfolio return.

Sensitivity Summary : Risk Discount Rate

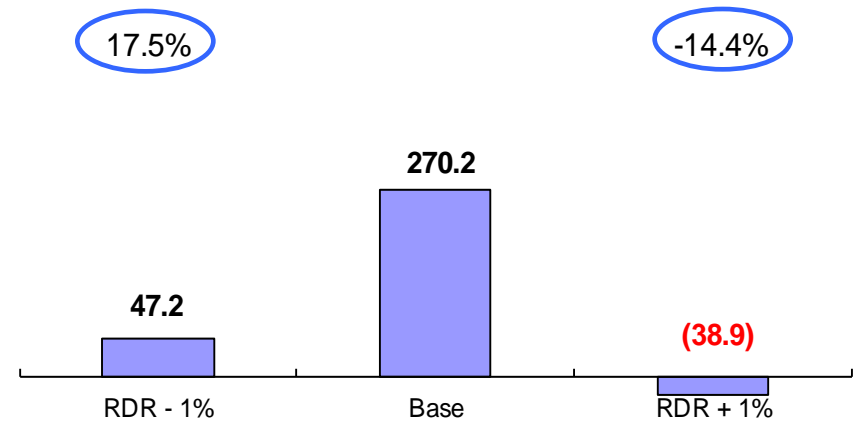


Unit: NTD billion

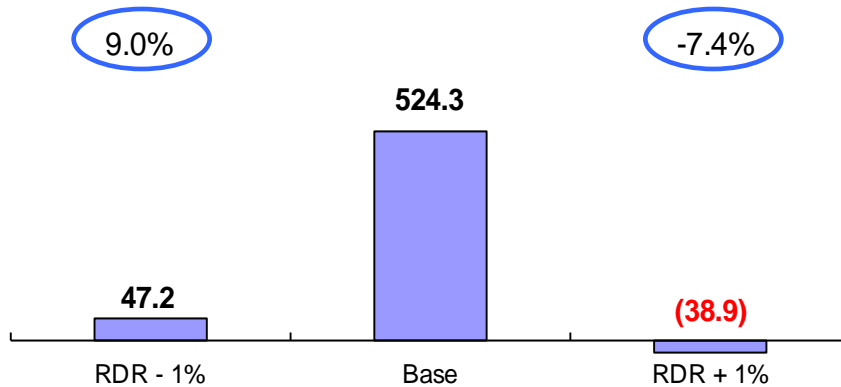
VIF (before CoC)



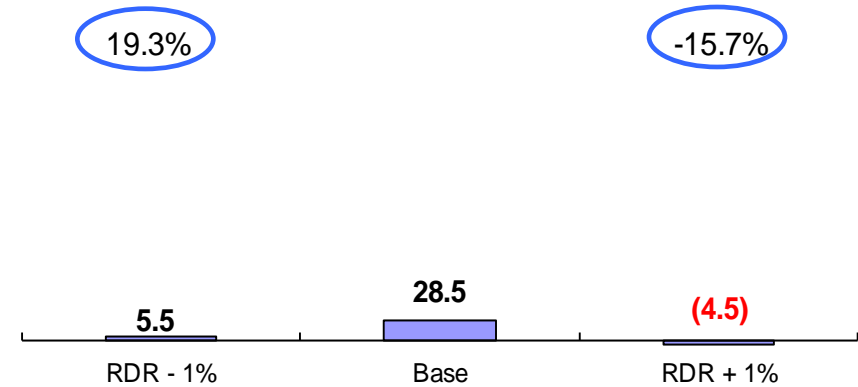
VIF



EV



VNB



Note: ANW will not be affected by RDR

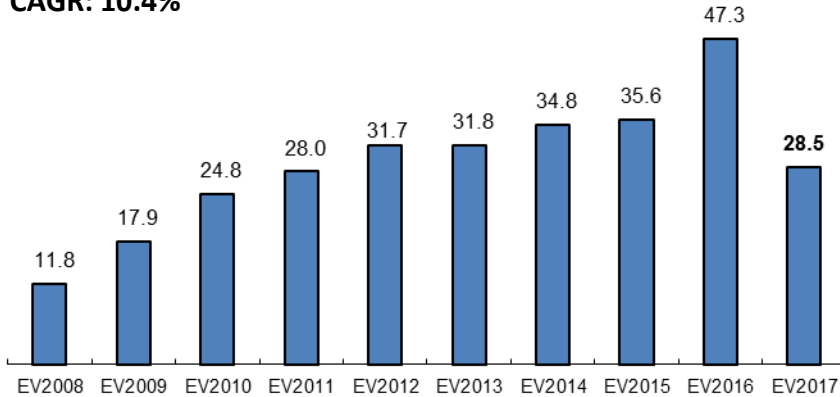
2017 Summary: Track record of Fubon Life's Value Creation



Unit: NTD billion

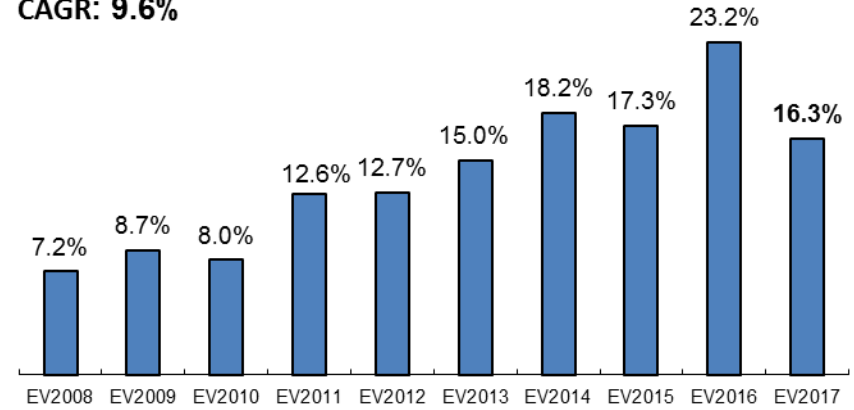
Value of New Business

CAGR: 10.4%



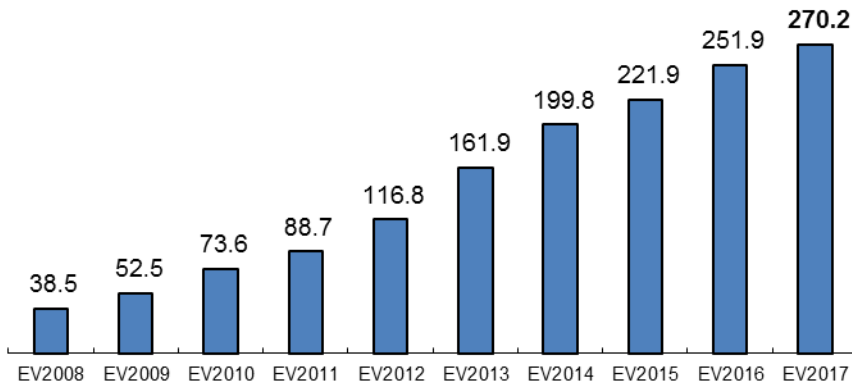
NB Margin (VNB / FYP)

CAGR: 9.6%



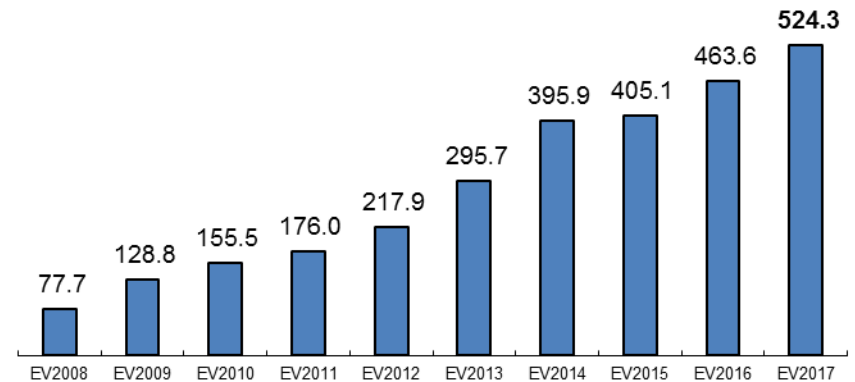
Value of In-Force

CAGR: 24.2%

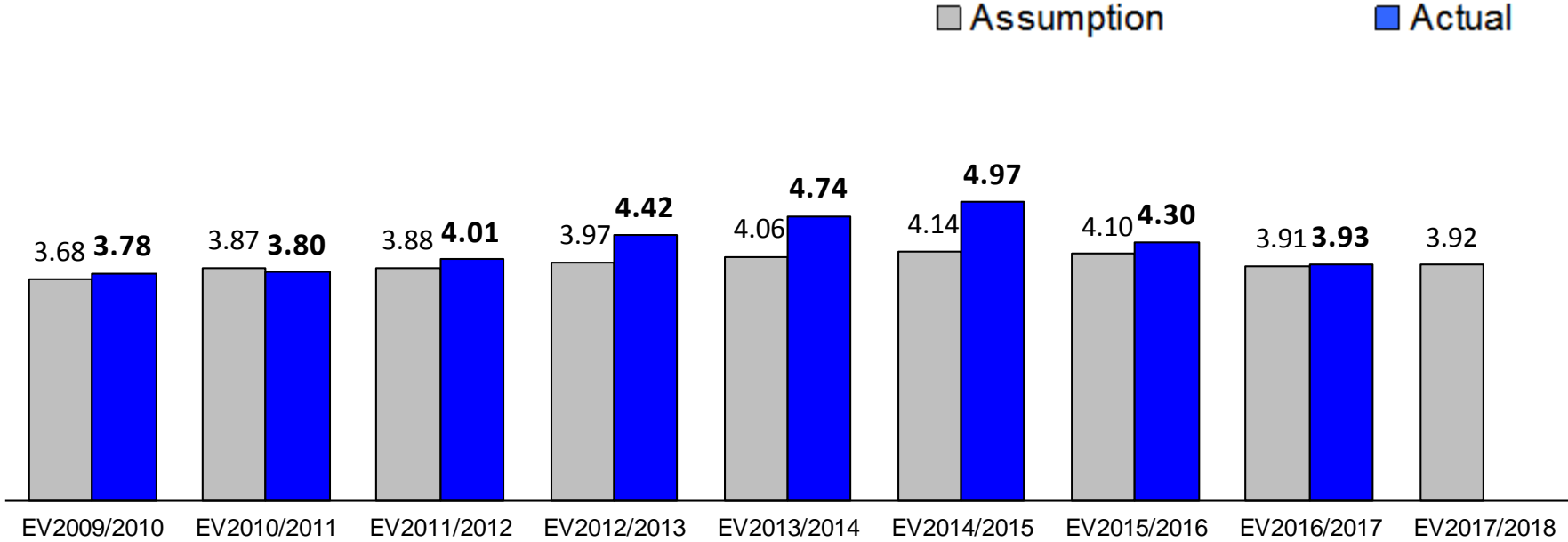


Embedded Value

CAGR: 23.6%



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 2017 and the Value of One Year’s New Business (V1NB) written over the period of 1 January 2017 to 31 December 2017.

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 2016 and 31 December 2017.

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”)	1.17%	3.50%	2.62%	2.66%
Equity and Country Risk Premium	6.50%	6.50%	6.50%	6.50%
Beta	1.20	1.20	1.20	1.20
Calculated Risk Discount Rate	8.97%	11.30%	10.42%	10.46%
Risk Discount Rate used in the Valuation for VIF	11.00%			
Risk Discount Rate used in the Valuation for V1NB	10.50%			

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 bond in the future.
- The equivalent RFR is the RFR equivalent to using a set of graded-up RFR from 1.17% 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 1.17% and 2.40% 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 3.5% 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 2016 to 2017;
- Review of the changes in the new business profit margin relative to that in 2016 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

Fubon Life - Financial summary

<i>NT\$ millions, except for percentages</i>	1Q18	4Q17	3Q17	2Q17	1Q17	2017	2016	YoY
<u>Income statement data</u>								
First year premium	48,051	39,838	43,413	42,836	48,373	174,460	204,283	-14.6%
Retained earned premium	130,136	114,618	121,955	117,431	125,882	479,885	468,608	2.4%
Total investment income	31,921	29,026	43,989	26,317	26,246	125,578	124,327	1.0%
Recurring investment income	24,807	26,004	38,686	26,997	23,203	114,890	106,072	8.3%
Other investment income	7,114	3,023	5,303	(681)	3,043	10,688	18,255	-41.5%
Realized gains (losses) from fixed income	4,414	2,214	4,172	3,291	4,401	14,078	23,933	-41.2%
Realized gains (losses) from equity	10,581	6,382	6,080	4,352	8,657	25,471	10,292	147.5%
FX and others	(7,958)	(5,606)	(4,960)	(8,295)	(10,091)	(28,952)	(15,705)	84.3%
Investment property fair value movement	77	33	11	(29)	76	91	(265)	N.M.
Other income	631	589	573	537	504	2,203	2,131	3.4%
Total operating revenue	162,688	144,233	166,517	144,284	152,632	607,666	595,066	2.1%
Retained claim payment	62,398	68,114	70,328	59,646	44,363	242,452	185,979	30.4%
Net commission expense	5,726	5,393	5,718	5,613	7,553	24,277	33,625	-27.8%
Net change in insurance liability	82,444	61,476	66,436	70,794	93,216	291,922	327,464	-10.9%
General and administrative expense	3,900	4,045	3,899	3,987	3,936	15,867	17,179	-7.6%
Other operating costs	742	668	635	710	968	2,980	2,035	46.5%
Total operating costs and expenses	155,210	139,696	147,017	140,750	150,036	577,498	566,282	2.0%
Net non-operating income / (expenses)	125	118	114	70	(14)	288	489	-41.1%
Income before tax	7,603	4,656	19,614	3,605	2,582	30,456	29,274	4.0%
Net income	9,292	5,221	18,667	4,590	4,010	32,488	28,688	13.2%
Net income to parent company	9,292	5,221	18,667	4,590	4,010	32,488	28,688	13.2%
<u>Balance sheet data</u>								
Total assets	3,740,144	3,662,772	3,586,932	3,511,526	3,399,391	3,662,772	3,353,560	9.2%
Total assets (general account)	3,584,391	3,507,557	3,434,671	3,363,318	3,256,156	3,507,557	3,211,026	9.2%
Insurance liabilities	3,203,701	3,136,523	3,083,344	3,018,120	2,944,874	3,136,523	2,902,374	8.1%
Total liabilities	3,476,434	3,389,882	3,328,193	3,270,064	3,179,307	3,389,882	3,140,085	8.0%
Total liabilities (general account)	3,320,681	3,234,667	3,175,932	3,121,857	3,036,072	3,234,667	2,997,551	7.9%
Equity attributable to parent company	263,710	272,890	258,739	241,461	220,084	272,890	213,474	27.8%
<u>Key Metrics</u>								
ROA	1.00%	0.60%	2.15%	0.53%	0.48%	0.93%	0.90%	
ROE	13.61%	8.59%	31.62%	8.07%	7.40%	13.36%	14.48%	
Equity / Assets	7.05%	7.45%	7.21%	6.88%	6.47%	7.45%	6.37%	
Claims and benefits ratio	47.95%	59.43%	57.67%	50.79%	35.24%	50.52%	39.69%	
Expense ratio	3.00%	3.53%	3.20%	3.40%	3.13%	3.31%	3.67%	
Persistency ratio - 13th month	97.90%	97.96%	97.97%	97.95%	97.29%	97.96%	96.25%	
Persistency ratio - 25th month	95.87%	95.09%	94.51%	93.69%	93.77%	95.09%	94.09%	

Taipei Fubon Bank - Financial summary

<i>NT\$ millions, except for percentages</i>	1Q18	4Q17	3Q17	2Q17	1Q17	2017	2016	YoY
<u>Income statement data</u>								
Interest income	13,392	12,467	11,770	11,021	10,676	45,934	42,709	7.6%
Interest expense	(6,618)	(6,154)	(5,802)	(5,394)	(5,032)	(22,382)	(19,855)	12.7%
Net interest income	6,774	6,313	5,969	5,627	5,644	23,552	22,854	3.1%
Net fee income	3,112	2,217	2,975	2,667	3,374	11,232	11,996	-6.4%
Other income	1,487	1,640	2,336	2,451	1,421	7,848	5,822	34.8%
Total net revenue	11,373	10,170	11,279	10,746	10,439	42,633	40,672	4.8%
Operating expenses	(5,418)	(5,563)	(5,260)	(5,210)	(5,156)	(21,188)	(20,981)	1.0%
Pre-provision profits	5,955	4,607	6,019	5,536	5,283	21,445	19,691	8.9%
Provision for credit losses	(52)	(1,138)	(263)	(577)	(204)	(2,183)	(1,372)	59.1%
Income before tax	5,903	3,469	5,756	4,958	5,079	19,262	18,319	5.2%
Net income	5,017	3,052	5,125	4,349	4,405	16,931	15,272	10.9%
Net income to parent company	4,994	3,092	5,050	4,302	4,333	16,778	14,466	16.0%
<u>Balance sheet data</u>								
Loans and discounts, net	1,362,418	1,383,755	1,321,327	1,310,670	1,288,945	1,383,755	1,289,861	7.3%
Deposits and remittances	2,002,108	2,067,918	1,962,074	1,953,213	1,859,336	2,067,918	1,877,778	10.1%
Allowance for loan losses*	16,144	16,142	15,370	15,286	14,739	16,142	14,666	10.1%
Total assets	2,662,852	2,671,668	2,540,792	2,489,210	2,396,147	2,671,668	2,414,226	10.7%
Equity attributable to parent company	183,795	179,965	177,297	172,419	177,644	179,965	174,634	3.1%
<u>Key metrics</u>								
ROA	0.75%	0.48%	0.83%	0.71%	0.73%	0.67%	0.63%	
ROE	11.02%	6.98%	11.48%	9.92%	9.84%	9.46%	8.50%	
Equity / assets	7.61%	7.43%	7.71%	7.66%	8.16%	7.43%	8.01%	
Cost / income ratio	-47.64%	-54.70%	-46.63%	-48.48%	-49.39%	-49.70%	-51.59%	
NPL ratio*	0.21%	0.17%	0.17%	0.20%	0.20%	0.17%	0.20%	
Reserve / NPL*	627.57%	764.46%	797.38%	657.81%	641.81%	764.46%	652.12%	
Tier 1 ratio*		12.11%		11.60%		12.11%	12.57%	
BIS ratio*		13.93%		13.25%		13.93%	14.40%	

Note: Data mark with * are stand-alone basis

Fubon Insurance - Financial summary

<i>NT\$ millions, except for percentages</i>	1Q18	4Q17	3Q17	2Q17	1Q17	2017	2016	YoY
<u>Income statement data</u>								
Direct written premiums	10,976	9,442	9,738	11,116	10,541	40,837	38,172	7.0%
Retention of earned premiums	8,207	8,202	8,361	8,006	7,884	32,453	29,577	9.7%
Net income from investment	1,017	373	872	1,080	412	2,737	2,754	-0.6%
Other operating revenue	360	289	274	364	358	1,285	1,440	-10.8%
Retained insurance payments	4,544	4,416	4,560	4,119	4,275	17,370	16,216	7.1%
Net change in liability reserve	(118)	32	174	325	117	648	363	78.4%
Commission and operating expenses	3,601	3,695	3,592	3,604	3,543	14,434	13,769	4.8%
Non-Operating Income	(53)	(123)	(61)	(49)	(43)	(276)	(158)	74.8%
Income before tax	1,504	598	1,120	1,353	676	3,747	3,266	14.7%
Net income	1,294	654	928	1,209	547	3,338	2,672	24.9%
Net income to parent company	1,311	729	1,011	1,257	634	3,631	3,119	16.4%
<u>Balance sheet data</u>								
Total assets	98,595	97,667	99,127	99,400	98,532	97,667	98,470	-0.8%
Investment assets	68,473	68,399	67,543	65,839	65,083	68,399	64,900	5.4%
Policy reserve	51,812	51,353	53,237	54,902	53,981	51,353	54,310	-5.4%
Equity attributable to parent company	31,740	31,241	30,436	29,614	30,556	31,241	29,531	5.8%
<u>Key Metrics</u>								
ROA	5.27%	2.67%	3.76%	4.89%	2.22%	3.40%	2.85%	
ROE	16.65%	9.60%	13.49%	17.00%	8.44%	11.95%	10.72%	
Total investment return	5.94%	2.24%	5.27%	6.61%	2.53%	4.11%	4.25%	
Solvency margin (NWP/equity)	111.18%	101.50%	106.50%	114.51%	110.58%	105.49%	104.51%	
Retention ratio	75.41%	78.32%	78.01%	72.04%	75.60%	75.85%	75.36%	

Fubon Securities - Financial summary

<i>NT\$ millions, except for percentages</i>	1Q18	4Q17	3Q17	2Q17	1Q17	2017	2016	YoY
<u>Income statement data</u>								
Brokerage commissions	1,082	1,084	1,080	852	778	3,795	2,728	39.1%
Net interest income	258	254	243	248	242	987	901	9.5%
Fee income	195	175	185	189	145	694	336	106.5%
Net principal transactions and financial products gains	66	759	(87)	269	183	1,124	509	120.8%
Other income	29	225	838	315	220	1,599	1,691	-5.5%
Total operating revenue	1,630	2,497	2,256	1,872	1,569	8,194	6,157	33.1%
Total operating expense	(1,432)	(1,648)	(1,519)	(1,461)	(1,334)	(5,962)	(5,375)	10.9%
Net non-operating income / (expenses)	197	242	217	149	177	785	811	-3.2%
Income before tax	394	1,091	954	560	412	3,017	1,594	89.3%
Net income	338	1,095	875	492	345	2,806	1,504	86.6%
Net income to parent company	341	1,100	878	494	345	2,817	1,504	87.3%
<u>Balance sheet data</u>								
Margin loans	14,294	14,420	13,754	12,577	12,554	14,420	11,142	29.4%
Total assets	123,410	125,210	121,355	117,421	103,532	125,210	101,278	23.6%
Equity attributable to parent company	35,628	33,755	33,328	32,736	33,056	33,755	32,575	3.6%
<u>Key Metrics</u>								
ROA	1.08%	3.87%	3.15%	1.80%	1.35%	2.48%	1.62%	
ROE	3.86%	13.27%	10.66%	6.05%	4.21%	8.49%	4.69%	
Equity / assets	28.87%	26.96%	27.46%	27.88%	31.93%	26.96%	32.16%	
Expenses / revenues	-87.87%	-66.01%	-67.35%	-78.03%	-85.02%	-72.76%	-87.30%	
Margin loans / total assets	11.58%	11.52%	11.33%	10.71%	12.13%	11.52%	11.00%	
Margin loans / shareholders' equity	40.12%	42.72%	41.27%	38.42%	37.98%	42.72%	34.20%	

Fubon Bank (China) - Financial Summary

<i>RMB millions, except for percentages</i>	1Q18	4Q17	3Q17	2Q17	1Q17	2017	2016	YoY
<u>Income Statement Data</u>								
Interest income	737	748	702	630	613	2,692	2,608	3.2%
Interest expense	(478)	(490)	(476)	(420)	(399)	(1,786)	(1,618)	10.4%
Net interest income	259	258	225	209	214	907	990	-8.5%
Net fee income	16	18	32	18	15	83	104	-20.6%
Other income	(62)	32	(34)	(25)	(10)	(37)	73	N.M.
Operating expenses	(169)	(195)	(156)	(153)	(154)	(658)	(641)	2.8%
Pre-provision profits	44	113	67	49	65	293	526	-44.2%
Provision for credit losses	(12)	(17)	0	0	(0)	(17)	(1)	1405.6%
Income before tax	32	96	67	49	65	276	525	-47.4%
Net income	27	75	53	41	52	220	412	-46.5%
<u>Balance Sheet Data</u>								
Loans	28,536	29,206	29,187	28,625	27,174	29,206	27,814	5.0%
Deposits	38,542	44,529	42,983	39,338	37,960	44,529	40,210	10.7%
Total asset	69,318	71,723	71,709	64,588	64,150	71,723	68,154	5.2%
Total equity	5,479	5,409	5,399	5,352	5,318	5,409	5,286	2.3%
<u>Key Metrics</u>								
ROA	0.15%	0.42%	0.31%	0.25%	0.31%	0.32%	0.58%	
ROE	1.97%	5.53%	3.95%	3.05%	3.91%	4.12%	8.11%	
Equity / assets	7.90%	7.54%	7.53%	8.29%	8.29%	7.54%	7.76%	
Cost / income ratio	-79.50%	-63.32%	-70.16%	-75.58%	-70.47%	-69.17%	-54.90%	
NPL ratio	1.50%	1.44%	1.48%	1.59%	1.62%	1.44%	1.60%	
Reserve / NPL	177.69%	177.49%	169.32%	161.14%	167.08%	177.49%	165.09%	
Loan to deposit ratio (Renminbi)	75.09%	72.16%	69.40%	73.51%	73.20%	72.16%	73.51%	
Tier 1 ratio	12.11%	11.49%	11.78%	12.37%	12.91%	11.49%	13.04%	
BIS ratio	12.85%	12.19%	12.44%	13.01%	13.63%	12.19%	13.76%	

10 May 2018

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 2017 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 2017 and the Value of One Year of New Business ("V1NB") sold during the calendar year 2017 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 5 February 2018 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 2017 and the Value of the One Year of New Business written over the period of 1 January 2017 to 31 December 2017 as calculated by the Company is summarised as follows:

	Values (NT\$ bn)
Adjusted Net Worth	254.0
Value of In Force Business after Cost of Capital	270.2
Embedded Value	524.3
Value of One Year of New Business after Cost of Capital	28.5

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 2017 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 2016;
- 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 2016 and 31 December 2017.

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 2017; 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 2017 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.
- 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 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