

5 May 2021

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 2020 and Value of New Business of Fubon Life Insurance Company Limited

Deloitte Consulting (Pacific) Limited, Taiwan Branch ("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 2020 and the Value of New Business ("VNB") sold during the calendar year 2020 as calculated and published by the Company. The purpose of the publication of the EV and VNB figures was to provide supplementary information to investors, analysts and other stakeholders.

This opinion letter ("the Opinion Letter") sets out the work carried out and findings from that work and has been prepared in accordance with the Work Order dated 2 March 2021 between Fubon Life and Deloitte Consulting.

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

### Summary of Embedded Value and Value of New Business Results

The Embedded Value as at 31 December 2020 and the Value of New Business written over the period of 1 January 2020 to 31 December 2020 as calculated by the Company is summarised as follows:

	Values (NT\$ bn)
Adjusted Net Worth	444.7
Value of In Force Business after Cost of Capital	336.7
<b>Embedded Value</b>	<b>781.4</b>
<b>Value of New Business after Cost of Capital</b>	<b>24.4</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;
- Value of New Business ("VNB"): this is equal to the present value as at the policy issue date of the future statutory profits from the policies sold in 2020 less the Cost of Capital associated with such business;
- Cost of Capital: this is defined as the amount of capital required to be held at the valuation date less the present value of future releases of such capital and after-tax earnings on the assets backing it. The level of capital required depends on the Company's internal target of capital level but is subject to the minimum of statutory requirement.

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

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

## Scope of Review

The scope of our review is outlined as follows:

- Review and opine on the reasonableness of the EV and VNB as calculated by the Company;
- Review of the reasonableness of the assumptions used in the calculations, taking into consideration both Company's recent experience and the experience of the Taiwanese life insurance market;
- Review of the Company's projection approach of the Cost of Capital;
- Review, at a high-level, of the changes made to the actuarial projection model by the Company since the previous valuation date of 31 December 2019;
- 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 2019 and 31 December 2020.

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 2020; 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 2020 as submitted by the Company to the Taiwanese regulator.
- Any other actuarial or other valuation figures, such as any "Fair Value" or potential transaction price.  
Only the EV and VNB fell in the scope of our review, and we offer no opinion on any other values.

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

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

## Findings from our Review

Our findings are summarised as follows:

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

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

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

The calculations of EV and VNB results necessarily make numerous assumptions with respect to economic conditions, operating conditions, taxes and other matters, many of which are not fully within the control of the Company. Although the assumptions used represent estimates which fall

within a reasonable range of expectations, actual experience in the future is almost certain to vary from that assumed in the calculation of the results and any such variations may be material. Deviations from assumed experience are normal and are to be expected.

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

Yours faithfully,  
Deloitte Consulting (Pacific) Limited, Taiwan Branch