



**Shin Kong Life Insurance**

**2004/6 Embedded Value &  
Appraisal Value Results**

Mar.17, 2005

Shin Kong Life Insurance Co Ltd  
Shin Kong Life Tower  
Chung-Hsiao W. Road Section 1  
Taiwan R.O.C

17 March 2005

Dear Sir,

**Re: Review of Embedded Value & Value of One Year of New Business of Shin Kong Life**

Trowbridge Deloitte Pte Ltd ("Deloitte") has been retained by Shin Kong Life Insurance Co. Ltd ("Shin Kong Life" or "the Company"), to carry out a review of the Company's embedded value ("EV") and value of one year of new business ("VNB"), with a view to provide an independent assessment and opinion on the reasonableness of the valuation performed by the Company.

The valuation date for the EV is 30 June 2004 and for the new business, the year valued is 1 July 2003 to 30 June 2004.

For the purpose of performing our assignment, we have:

- reviewed and commented on the reasonableness of the assumptions used for the valuation, taking into consideration both Shin Kong Life's recent experience as supplied in experience studies, and our own knowledge of the Taiwanese life insurance market. The review covers both the economic as well as the portfolio and new business assumptions;
- validated the Prophet cash flow projection model used by the Company and recommended changes to the Prophet model where applicable by cross checking output for sample products;
- examined the integrity of the policy data used in the running of the Prophet model, including the way the data has been prepared, converted, summarised and grouped;
- checked the reasonableness of the Company's valuation results by examining the profitability by individual product, by distribution channel, by pricing interest rate and by line of business;
- checked the reasonableness the net asset value and any other adjustments made outside of the Prophet model;
- reviewed the calculation of the cost of capital by the Company;
- gave advice on common methods used to set new business multipliers.

In our opinion:

- the Company has valued the in force business using assumptions which, taken as a whole, are reasonable for the company and the current environment in which they conduct business, and the assumptions have been defined in accordance with the purpose of the valuation;
- the assumptions used reflect the actual experience of the Company, and would be the assumptions Deloitte would use in any independent valuation;
- the Prophet model has been set to carry out projections that are in accordance with the product specifications and in compliance with the regulation;
- the Company has used policy data that accurately represents the true policy data of the office as at the date of the valuation;
- the Company has used an internationally accepted methodology for this valuation. The Company has not used any stochastic or option pricing techniques or other recently proposed methodologies to allow for the cost of options and guarantees embedded in the portfolio. Allowance for these is made approximately through an implicit allowance in the risk discount rate.

In conclusion, we find the results of the embedded value and the value of one year of new business, as calculated by the Company, as reasonable for the current environment, and reflect a valuation for a "going concern" operation. Methods and approaches used in this valuation are consistent with internationally accepted standards.

The embedded value does not necessarily represent a sale value of the Company, nor the value which may be ascribed to the business by a potential buyer.

Deloitte gives no opinion on the "fair market value" of the company.

In forming our opinion, we have relied on the veracity and integrity of the non-policy data information supplied by the Company. We have reviewed it for general reasonableness but did not independently verify this information. Policy data was independently checked and verified.

Yours sincerely

Simon Walpole  
FIA

Terry Mezger  
Leader, Asia Financial Services

# Statement

Shin Kong Life Insurance Co., Ltd (Shin Kong Life) is pleased to announce the embedded value of the company as at June 30 2004 (EV), the value of one year of new business (VNB) and guides to the Appraisal Value of the company.

With respect to the EV and the value of one year of VNB, the calculations, approach and assumptions used in these valuations were reviewed by independent actuaries at Deloitte to verify the reasonableness of the values and the consistency of the approach with internationally accepted standards.

The Embedded Value as at 30 June 2004 is **NT\$ 98.0 bn** (NT\$ 62.0 bn after Cost of Capital).

The Value of one year on new business is **NT\$ 11.8 bn** (NT\$ 11.2 bn after the Cost of Capital).

The embedded value of a life company reflects the value of the insurance business on the books and in force as at the date of the valuation.

The value of one year of new business reflects the value added to the company by the business sold in the most recent 12 months and as such is a measure of the company's profitability of its current products, and its ability to sell and distribute these products efficiently. For the purpose of this exercise, the new business for July 1, 2003 to June 30, 2004 has been used.

The adjusted net worth of the Company is NT\$ 63.9 bn and reflects the revaluation of real estate properties to current market values and after deduction for tax liabilities.

As a guide to interested parties a range of new business multipliers are used to determine an Appraisal Value for the business:

AV with 5 year new business -> generating an AV of **NT\$ 131.7 bn** (NT\$ 94.1 bn after the Cost of Capital).

AV with 20 year new business -> generating an AV of **NT 174.5 bn** (NT\$ 134.9 bn after the Cost of Capital).

Deloitte were not involved in determining or verifying these new business multiplier.

The Appraisal Value of a life company is often used as one measure of market value and as such can be considered a measure of value to shareholders, though this is not the only measure, nor should it be considered the final value. This economic value represents the potential value as an ongoing concern to its current shareholders. It identifies and quantifies the potential future earnings streams of the products and services as a result of the supporting infrastructure, technologies and distribution.

# Embedded Value Results

Unit: NTD bn Valn Date: 30 June 2004 Solvency Basis: 200% RBC			Base Case Scenario		
	All else equal except:		Inv Return 5.05% p.a. RDR 11.90% p.a.	All else equal except:	
	Inv Return 4.05%	Inv Return 6.05%		RDR 10.90%	RDR 12.90%
Net Worth	63.9	63.9	63.9	63.9	63.9
VIF	(29.1)	95.2	34.1	36.6	31.9
<b>EV (before COC)</b>	<b>34.8</b>	<b>159.1</b>	<b>98.0</b>	<b>100.5</b>	<b>95.8</b>
Cost of Capital (COC)	38.9	33.1	36.0	35.2	36.7
<b>EV (after COC)</b>	<b>(4.1)</b>	<b>126.0</b>	<b>62.0</b>	<b>65.3</b>	<b>59.1</b>

\* COC reflects the opportunity cost of holding the statutory required capital. Annual COC is RBC \* (RDR – after tax investment return)

# One Year VNB Results

Unit: NTD bn Valn Date: Point of Sale for sales July 03 to June 04 Solvency Basis: 200% RBC	All else equal except:		Base Case Scenario	All else equal except:	
	Inv Return 4.05%	Inv Return 6.05%	Inv Return 5.05% p.a. RDR 11.90% p.a.	RDR 10.90%	RDR 12.90%
	VNB before COC	8.2	15.2	11.8	12.9
Cost of Capital (COC)	0.7	0.3	0.6	0.5	0.6
VNB after COC	7.5	14.9	11.2	12.4	10.2

# Estimate of Appraisal Value Results

Unit: NTD bn Valn Date: 30 June '04 Solvency Basis: 200% RBC			<b>Base Case Scenario</b>		
	<b>All else equal except:</b>		<b>Inv Return 5.05% p.a. RDR 11.90% p.a.</b>	<b>All else equal except:</b>	
	<b>Inv Return 4.05%</b>	<b>Inv Return 6.05%</b>		<b>RDR 10.90%</b>	<b>RDR 12.90%</b>
Net Worth	63.9	63.9	63.9	63.9	63.9
VIF	(29.1)	95.2	34.1	36.6	31.9
Cost of Capital(COC)	38.9	33.1	36.0	35.2	36.7
EV after COC	<b>(4.1)</b>	<b>126.0</b>	<b>62.0</b>	<b>65.3</b>	<b>59.1</b>
VNB after COC	7.5	14.9	11.2	12.4	10.2

## After COC

AV (5 years NB)	22.1	168.0	94.1	101.0	88.3
AV (20 years NB)	45.5	222.3	134.9	146.0	125.5

# Estimate Embedded Value and Appraisal Value Results (Per Share)

Unit: NTD bn Valn Date: 30 June '04 Solvency Basis: 200% RBC		Base Case Scenario		
		Inv Return 5.05% p.a.		
		RDR 10.90% p.a.	RDR 11.90% p.a	RDR 12.90% p.a.
Embedded Value	Value	65.3	62.0	59.1
	Per Share*	30.8 (25.9)	29.2 (24.6)	27.9 (23.4)

Appraisal Value (5 years NB)	Value	101.0	94.1	88.3
	Per Share*	47.6 (40.0)	44.4 (37.3)	41.7 (35.0)
Appraisal Value (20 years NB)	Value	146.0	134.9	125.5
	Per Share*	68.9 (57.8)	63.6 (53.4)	59.2 (49.7)

**NOTE:** \* : Per share = Per share of Skin Kong Life. (Per share) = Per share of Skin Kong FHC. Unit : NTD  
 \*\* : The Skin Kong Life corporation outstanding stock share is around 2.120 billion on 30 June 2004.  
 \*\*\* : The Skin Kong Financial Holding Co. LTD corporation outstanding stock share is around 2.525 billion on 30 June 2004.

# Property Appraisal Result

		02/28/2005 (in NT\$ bn)
Original Cost	Original Cost	\$ 80.97
	Accumulated Depreciation	-5.97
	Subtotal	\$ 75.00
Estimated Market Value		\$ 111.16

148.2%

Note : The market value is estimated by one of top 10 professional real estate appraisal companies in Taiwan



# Property Appraisal Result –

## Adjustment in Shareholders' Equities

<b>Est. MV (Net) :</b>	<b>Est. Market Value</b>	<b>111.16</b>	(in NT\$ bn)
<b>( Dec. 04 )</b>	<b>- ) Est. Land Value Incremental Tax</b>	<b>3.19</b>	
	<b>+ ) Reserve for Land Value Incremental Tax ( carried )</b>	<b>2.92</b>	
	<b>Subtotal</b>	<b>110.88</b>	
<b>Carried Cost :</b>	<b>Original Cost</b>	<b>80.97</b>	
<b>( Feb. 05 )</b>	<b>- ) Accumulated Depreciation</b>	<b>5.97</b>	
	<b>+ ) Revalued Increment</b>	<b>9.38</b>	
	<b>Subtotal</b>	<b>84.38</b>	
<b>P&amp;L :</b>		<b>26.50</b>	
	<b>+ ) Capital Surplus-Revalued Increment</b>	<b>2.19</b>	
<b>Change in Shareholders' equities</b>		<b>+28.70</b>	