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Shin Kong Financial Holding

Embedded Value and Value of 2006 New Business

May 2007

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Disclaimer

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Project Scope

Project description

- Shin Kong Life performs, on a yearly basis, an embedded value (EV), value of one year's new business (V1NB), and appraisal value (AV) calculation as an important effort to provide investors and analysts information and insights on the company's operations
- Deloitte Actuarial is retained to perform an independent review of the calculations (excluding the AV calculation), sensitivity tests carried out by Shin Kong Life and the reasonableness of the assumptions used

Scope of Deloitte′s involvement

- Review of the EV (at 31/12/2006) and V1NB (value of all business sold in the period 1/1/2006-31/12/2006)
- Review and opinion on the reasonableness of the assumptions, taking into consideration both Shin Kong Life's recent experience and Deloitte's knowledge of the Taiwanese life insurance market.
- Review and opinion on the correct operation of financial cash flow projection model used by Shin Kong Life for the calculations. The review is a high-level review of the cash flows, assumption tables, and results and is not intended to identify every single error.
- Review and opinion on the model data used compared to the policy data on the office Master File to verify that all office data has been used in the financial model to calculate the values
- Review and opinion on the reasonableness of the profitability assumed by the model for the new business valuation, reviewed at the product line level
- Review and opinion on the net asset value and adjustments, and any outside model value adjustments
- Review the calculation of the cost of capital
- Review the analysis of change in EV

Key roles

- Valuation is done by Shin Kong Life
- Deloitte Actuarial provide an independent review of the valuation of the EV and V1NB

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Appraisal and Embedded Values

An embedded value (EV) is the sum of

- The net worth
- The value of in force business (VIF)

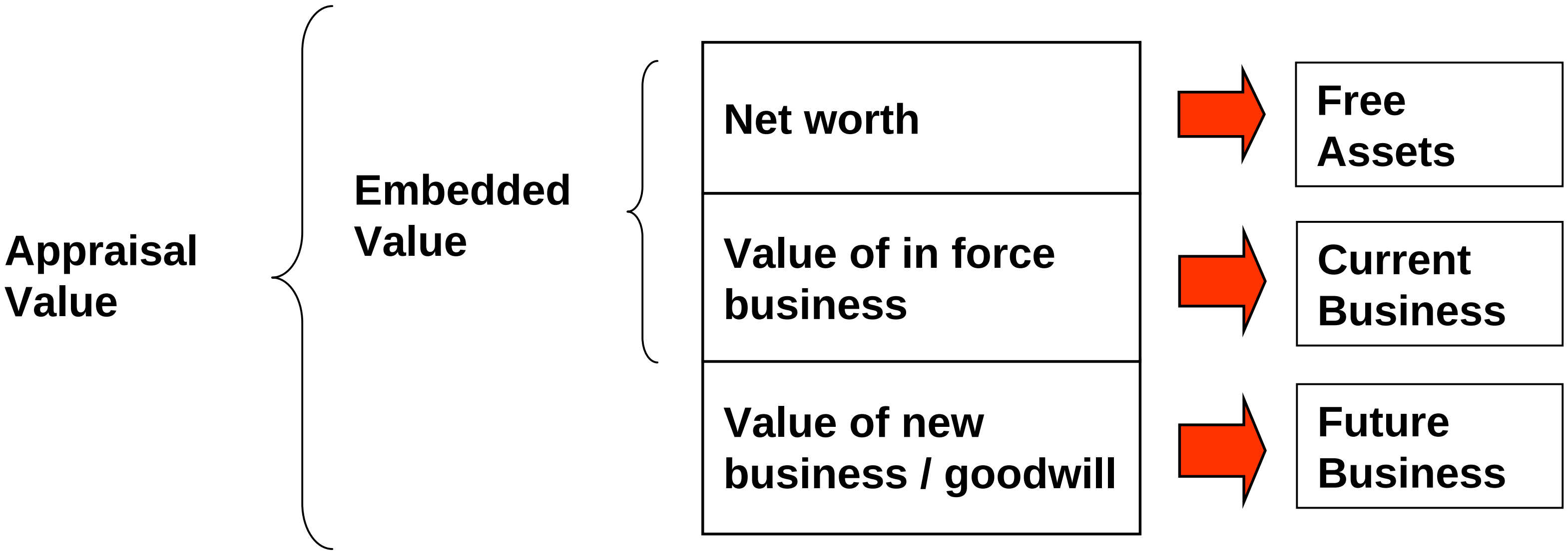
An appraisal value (AV) is the sum of

- The embedded value
- The value of future new business (VNB)

The VNB is normally the product of

- The value of one year's new business (V1NB)
- A new business "multiplier"

- **Net worth**
  This is the value of shareholder assets, or free assets.
- **Value of in force**
  This is the value of profits from business already sold, allowing for the need to comply with RBC. This calculation requires (i) an actuarial projection model, (ii) valuation assumptions (e.g., future investment return), and (iii) data relating to the company's policies.
- **Value of one year's new business**
  The approach is similar to that for the value of the in force. The actual policies sold in the previous 12 months are normally used.
- **New business multiplier**
  This subjective component requires a view to be taken on the company's future new business volumes and profitability.



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EV and AV Results

Unit：NT$ Bn

	2005.12	2006.12	YoY growth
Adjusted NAV	84.6	100.3	18.6%
VIF	38.3	44.2	15.4%
COC	34.6	29.3	-15.3%
EV	88.3	115.2	30.5%
V1NB	7.9	8.9	12.7%
AV (5 years NB)	113.3	143.0	26.2%
AV (20 years NB)	143.0	170.4	19.2%

Adjusted Net Worth (1/2)

Impact of Article 34 is to move the Statutory Net Worth closer to a full market value basis and so there is a difference in the basis for 2006 when compared to 2005.

Unit: NT$ Bn	NAV 31 Dec. 2005	NAV 31 Dec. 2006
	Pre Article 34 effects	Post Article 34 effects
Statutory Net Worth	54.4	69.9
Preference Shares (Face Value)	(3.0)	(3.0)
Accrued Interest on Pref Shares	(0.6)	(0.1)
Contingency Reserve	4.3	4.5
Unrealised Gains on Property	27.8	28.0
Value of Un-Utilised Tax Losses	1.7	1.1
Adjusted NAV	84.6	100.3

Note:

(1) Figures may not add up exactly due to rounding.

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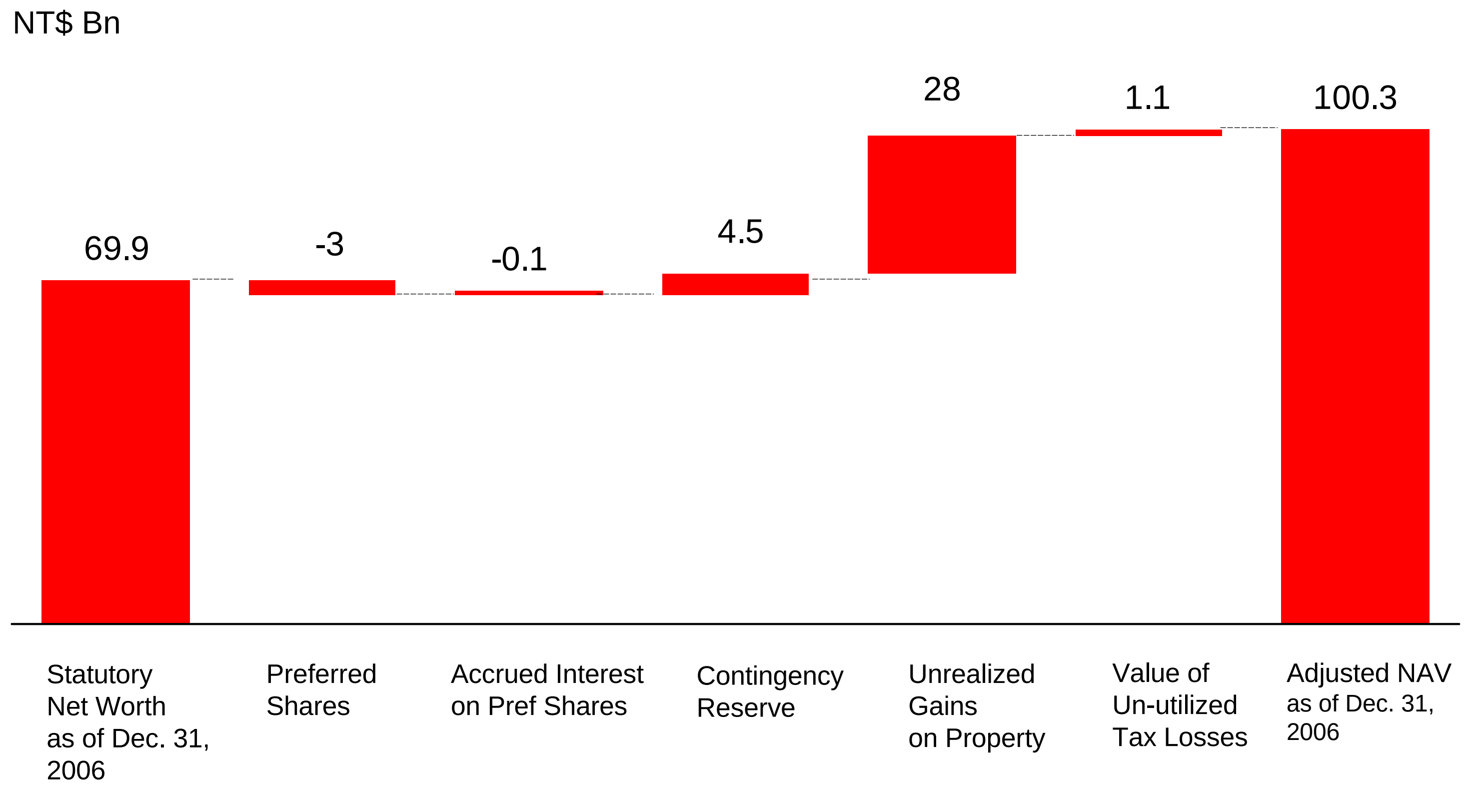
Adjusted Net Worth (2/2)

Adjustments to Statutory Net Worth



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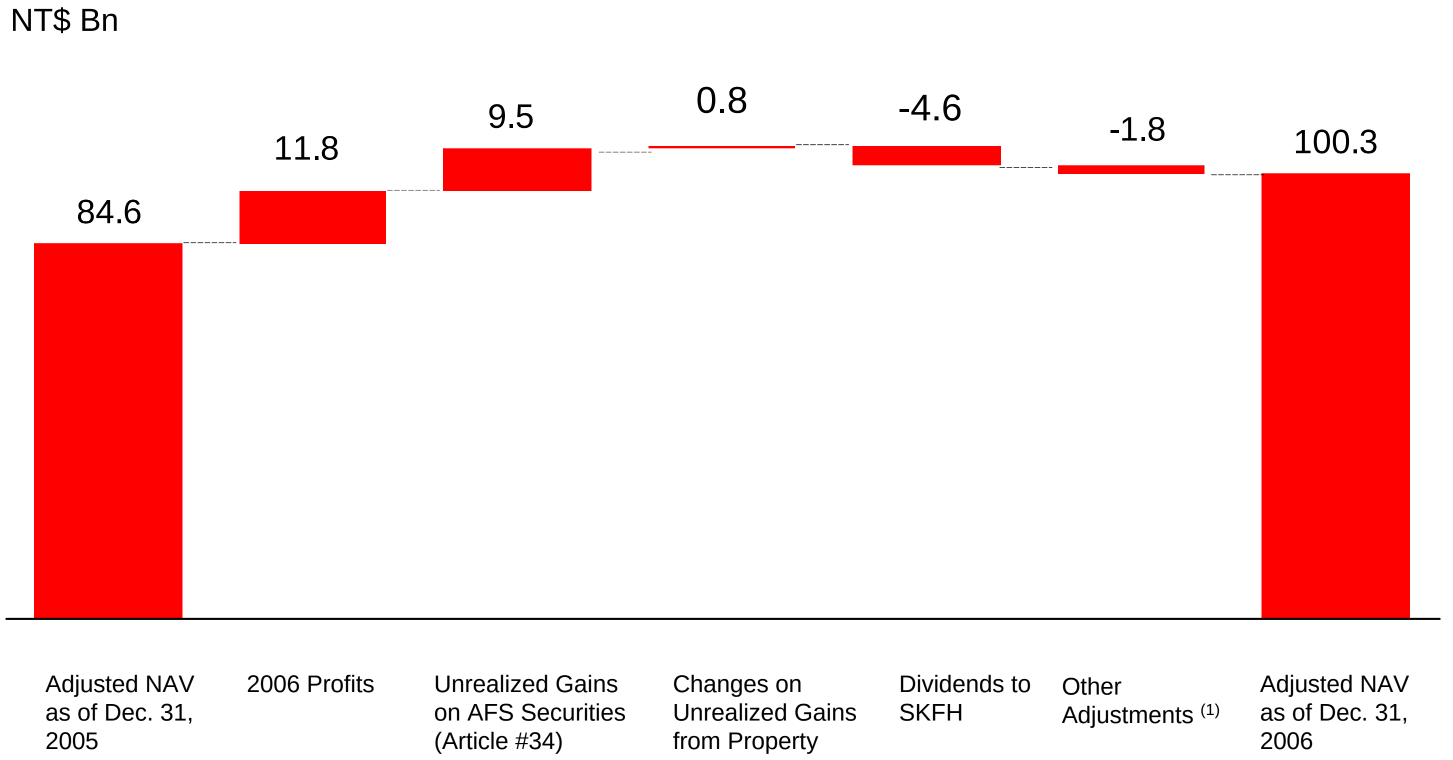
Analysis of Change in NAV

Changes between 31 Dec. 2005 and 31 Dec. 2006 broken down by components



Note:

(1) Include changes in preferred dividends, contingency reserve, value of un-utilized tax losses, and other items.

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Analysis of Change in VIF (1/2)

Explains key reasons for the change in the value of in force from 2005 to 2006

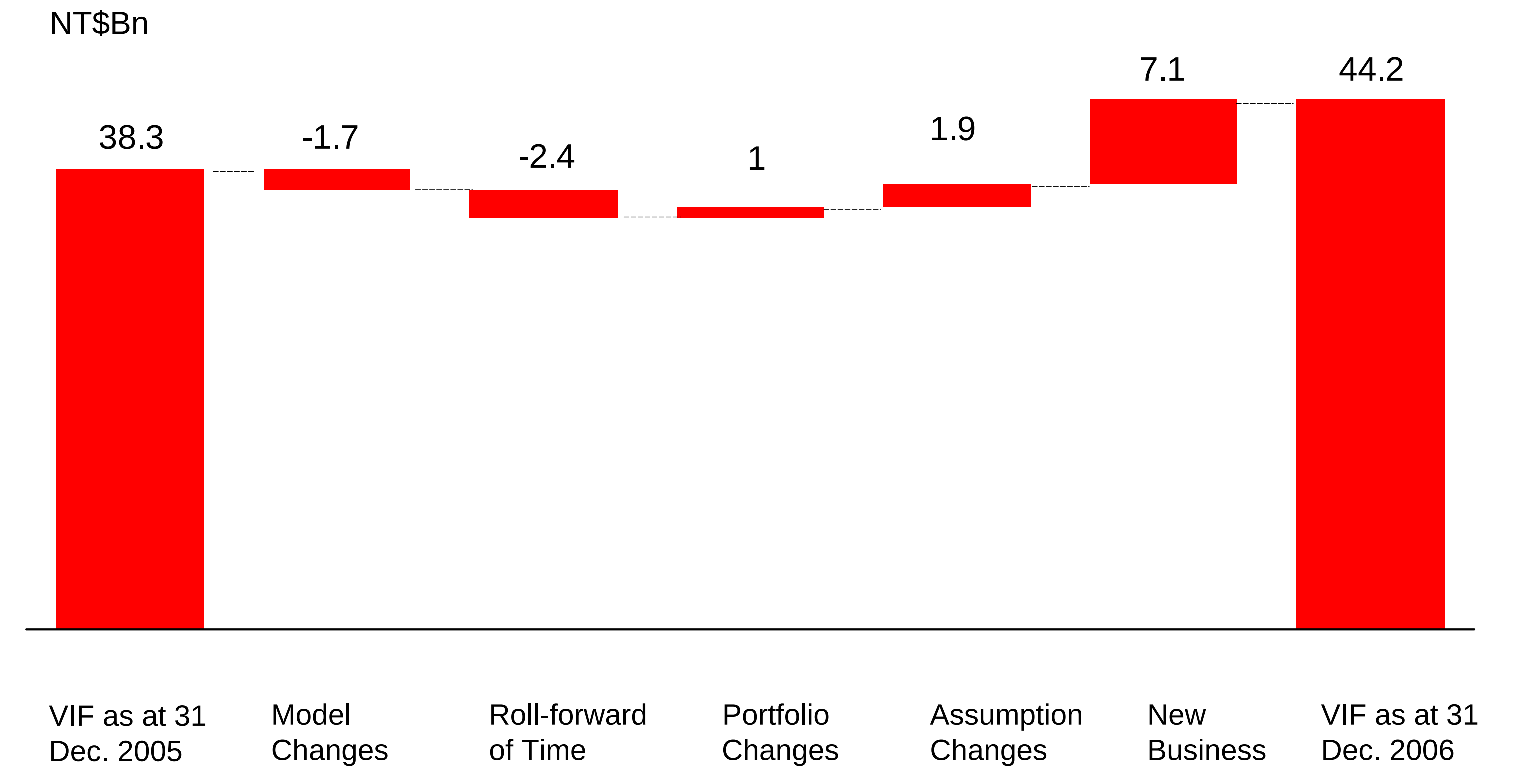
Unit: NT$ Bn		VIF after CoC
As of 31 Dec. 2005	**Description**	**38.3**
		Change in VIF
Model Changes	Refinements and/or corrections made to the cash flow projection model since last valuation date	(1.7)
Roll-Forward of Time	Impact to EV as of 31 December 2006 due to elapse of time from December 2005 (business is one year older)	(2.4)
Portfolio Changes	Differences in the projected policies in force as at 31 December 2006 and the actual policies in force as at valuation date	1.0
Assumption Changes	Differences in valuation assumptions used in last valuation and this valuation	1.9
New Business	Refers to the value added by policies sold between 1 January 2006 and 31 December 2006, as they now form part of the in force block	7.1
As of 31 Dec. 2006		**44.2**

Note:

(1) Figures may not add up exactly due to rounding.

Analysis of Change in VIF (2/2)

Changes between 31 Dec. 2005 and 31 Dec. 2006 broken down by components



Treatment of Cost of Capital (CoC)

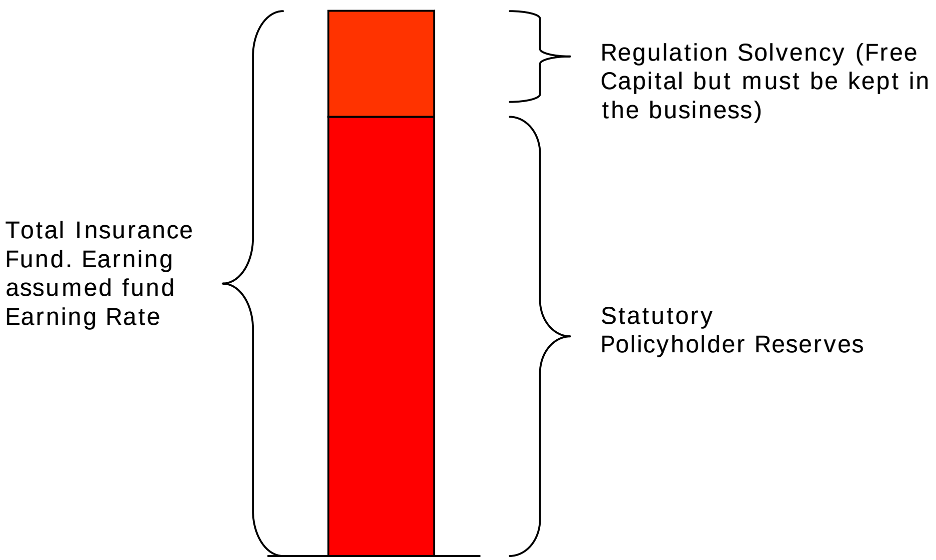
CoC refers to the opportunity cost of needing to hold an additional solvency margin above the statutory reserves to meet local regulations.

This margin must be held whilst any policies are in force, both now and in the future.

The opportunity cost arises since the capital covering this margin is expected to earn the assumed long term earning rate of the business and cannot earn the return on shareholders require (which would be something equal to the Risk Discount Rate to justify holding of the assets in the business).

There exists a gap between the rate of return expected by the shareholders and the actual rate of return that can be achieved. This is determined to be a "cost" of doing business in this market and should be reflected in the value of the business.

This is a standard calculation, in line with internationally accepted practice for EV.



Solvency Margin for this Valuation is assumed to be 200% of the RBC

The EV is reduced by the cost of holding this capital in the business. The cost is estimated as the difference between the Earnings Rate (ER) and the Risk Discount Rate (RDR) on the assumption that the capital could earn RDR if it were not held in the business

This valuation is on the basis of holding the minimum solvency and does not estimate an EV on the basis of "economic capital".

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EV Sensitivity Analysis

EV Results – Base Case Scenario and Some Sensitivities

Unit: NT$ Bn Valn Date: 31 December 2006 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 4.80%	Inv Return 5.30%		RDR 10.90%	RDR 12.90%
Net Worth	100.3	100.3	**100.3**	100.3	100.3
VIF	20.5	65.0	**44.2**	48.1	41.0
EV (before COC)	**120.8**	**165.3**	**144.5**	**148.4**	**141.3**
Cost of Capital (COC)	29.9	28.6	**29.3**	28.0	30.3
EV (after COC)	**90.9**	**136.7**	**115.2**	**120.4**	**111.0**

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V1NB Sensitivity Analysis

V1NB Results – Base Case Scenario and Some Sensitivities

Unit: NT$ Bn Valn Date: 31 Dec, 06 Solvency Basis: 200% RBC	All else equal except		**Base Case Scenario** **Inv Return 5.05% p.a.** **RDR 11.90% p.a.**	All else equal except	
	Inv Return 4.8%	Inv Return 5.3%		RDR 10.90%	RDR 12.90%
Net Worth	100.3	100.3	**100.3**	100.3	100.3
VIF	20.5	65.0	**44.2**	48.1	41.0
Cost of Capital(COC)	29.9	28.6	**29.3**	28.0	30.3
EV after COC	**90.9**	**136.7**	**115.2**	**120.4**	**111.0**
V1NB after COC	**8.4**	**9.4**	**8.9**	**9.7**	**8.3**
AV (5 years NB)	**117.2**	**166.0**	**143.0**	**151.3**	**136.2**
AV (20 years NB)	**142.6**	**195.4**	**170.4**	**184.2**	**159.2**

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Assumptions

Review of assumptions and comparison to values used in last valuation

Assumptions	Changes from Last Valuation
Mortality assumption	Decreased slightly to reflect the improvement in mortality seen in both company and industry experience
Morbidity assumption	Follows experience and is increased from last year. A deterioration factor has been added to the assumptions
Lapse assumption (Traditional Business)	Similar to last valuation, lapse assumption varies by product line and by pricing interest rate. Overall lapse assumption has decreased slightly, reflecting experience observed in the industry
Lapse Assumption (Unit linked/Interest sensitive business)	Follows experience and is lower than last year's assumption
Expense and override assumption	A number of changes were made and the overall impact has been to lower renewal costs assumed in the valuation in future years. Altered loading allocation by premium and per policy and increased initial expenses
Crediting rate (on interest sensitive business)	Fixed spread at 100 bps and reduced assumed profit margin

Risk Discount Rate

Shin Kong Life derived the Risk Discount Rate (RDR) assumption using the CAPM approach and with the following parameters:

	As at 31 December 2005	As at 31 December 2006
Risk Free Rate	**3.75%**	**3.00%**
Equity plus Country Risk Premium	**6.25%**	**7.00%**
Beta	**1.16**	**1.26**
Risk Discount Rate	**11.0%**	**11.8%**

- Last year 11.9% was used (the extra 0.9% above that determined from the CAPM model was added for the hedging risk inherent in the investment strategy). This year 11.9% has been used again.
- This year, currency mismatch risk was allowed for in the beta by increasing the factor to reflect increased risk associated with the use of less than 100% currency hedging on the overseas investments.
- The Risk Free Rate was sourced from a survey of 20 international and local investment houses in Taiwan for their view on the long term ultimate yield for the Taiwan 10-year government bond.

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Earning Rate

Description of approach:

The method uses a market yield approach (except for held-to-maturity assets where book yields are used) and applies a single universal expected future yield to the value of both the In Force and New Business portfolios, and is based on the view that current bond yields are unusually low. A “rising earning path” has been determined by setting a reasonable higher future risk free rate based on discussions with independent investment houses.

To develop an average future portfolio yield, Shin Kong Life estimates the future new cash flows and reinvestment of maturing assets for the next 20 years and applies the estimated future new money yield in the relevant year by holding the asset mix constant.

The resulting “earning path” is averaged to give an earning rate for the projection. This method produces a future portfolio return of 5.12% allowing for the reinvestment of future cash flows and the expected reinvestment yield for new money. Shin Kong Life has decided to retained last year’s assumption of 5.05%.