

Operational Overview

I. Business activities

(I) Scope of business:

1. Main business activities:

The Company is a non-life insurance business that specializes in the offering of insurance products and related services. Below is a list of the Company's current main products and services:

- (1) Fire: A. Fire insurance, B. Fire & Allied Perils Insurance, C. Residential Fire and Earthquake Insurance
- (2) Marine: A. Marine Cargo Insurance, B. Marine Hull Insurance, C. Fishing Vessel Insurance, D. Carrier's Liability Insurance
- (3) Motor: A. Automobile Hull Insurance, B. Automobile Theft Insurance, C. Automobile Third Party Insurance, D. Automobile Insurance Rider, E. Compulsory Automobile Liability Insurance, F. Compulsory Motorcycle Liability Insurance, G. Compulsory Automobile/Motorcycle Liability Insurance Driver's Injury Rider
- (4) Machinery and Engineering: A. Erection All Risks Insurance, B. Installation All Risks Insurance, C. Electronic Equipment Insurance, D. Contractors' Plant & Machinery Insurance, E. Boiler & Pressure Vessel Insurance, F. Machinery Breakdown Insurance, G. Construction Bond Insurance, H. Civil Engineering Completed Risks Insurance
- (5) Liability: A. Public Liability Insurance, B. Elevator Liability Insurance, C. Contractors' Liability Insurance, D. Employers' Liability Insurance, E. Product Liability Insurance, F. Golfers' Liability Insurance, G. Security Liability Insurance, H. Public Transportation Liability Insurance, I. Professional Indemnity for Architects & Engineers, J. Professional Indemnity for Accountants, K. Professional Indemnity for Lawyers, L. Financial Industry Safety Deposit Box Liability Insurance, M. Medical Malpractice Insurance, N. Hospital Comprehensive Liability Insurance, O. Professional Indemnity for Insurance Agents/Brokers, P. Professional Indemnity for Travel Agencies, Q. Human Clinical Trial Insurance, R. Golfers All Risk Insurance, S. Directors & Officers Liability Insurance
- (6) Performance Bond Insurance: A. Blanket Fidelity Bond Insurance, B. Insurance Brokers' Blanket Bond Insurance
- (7) Credit: A. Small Loan Credit Insurance
- (8) Aviation Insurance
- (9) Others: A. Money Insurance, B. Burglary & Theft Insurance, C. Bankers' All Risk Insurance, D. Commercial Property Floater Insurance, E. Artwork Comprehensive Insurance, F. Shop Insurance

- (10) Personal Accident: A. Personal Accident Insurance, B. Group Accident Insurance, C. Comprehensive Personal Travel Insurance, D. Women's Comprehensive Insurance, E. Credit Card Comprehensive Insurance
- (11) Health Insurance: A. Daily Hospitalization Insurance, B. Hospitalization Rider, C. Critical Illness Insurance, D. Daily Hospitalization Rider, E. Travel Insurance Overseas Illness Benefit Rider, F. Daily Hospitalization Rider [Type A], G. First-time Cancer Diagnosis Rider, H. First-time Cancer Insurance
- (12) Reinsurance: Reinsurance of various non-life risks
- (13) Damage Prevention Services: A. Infrared Thermal Imaging, B. Ultraviolet (UV) Imaging, C. Fire Safety Seminar and Certification, D. Fire Safety Design and Advice for New Buildings/Plants, E. Quantitative Fire Risk Assessment and Improvement Advice

2. Revenue weight of main products:

2017 Premiums Revenues by Insurance Category (in NT\$ 1,000)

Insurance category	Fire	Marine	Automobile	Others	Total
Premium revenues	887,156	379,369	4,317,972	1,415,288	6,999,785
Reinsurance Premium	41,795	25,563	241,597	71,471	380,426
Total	928,951	404,932	4,559,569	1,486,759	7,380,211

(II) Industry overview:

1. Euler Hermes SA (Belgium) established its Taiwan Branch, making it the first foreign insurance institution to create a branch in Taiwan in recent years.
2. The Financial Supervisory Commission plans to revise its “Compulsory Automobile Liability Insurance Premium Increment Standards for Drinking and Driving” to increase the amount of premiums for drink-and-drive offenders, so that the cost of claims against compulsory automobile liability insurance in the event of drink-and-drive can be more reasonably reflected.
3. The government and the general public have become increasingly aware of issues concerning personal data protection and information security, particularly after recent hacker and ransomware attacks on banking systems. Protection against information security risks has emerged as the latest insurance trend.
4. The Financial Supervisory Commission continues to encourage innovation from the insurance industry and motivate industry participants in making more efficient use of capital and exploring new business opportunities. Meanwhile, additional supervisory efforts are

being undertaken to enhance compliance with anti-money laundering laws and internal control for the sound development of the insurance industry.

5. On June 1, 2017, Taiwan Insurance Institute published its reference premium rates for large-sum insurance, which prevents large-sum fire insurance coverage from being charged at unreasonable levels, and is expected to put an end to the intensive price competition that has existed for many years.
6. Abnormal climates in recent years have increased the frequency and extent of agricultural losses. To protect farmers, the Financial Supervisory Commission has been assisting the Council of Agriculture, Executive Yuan, in organizing trial launch of natural disaster insurance coverage for agricultural products. Currently, agricultural insurance covers several categories including pear, mango, rice and aquaculture.
7. Premiums from online insurance still account for a low percentage of overall insurance revenue. Automobile insurance, motorcycle insurance and travel insurance are the largest sources of online premium revenue, and still present abundant room for growth as compared to physical channels. Financial Supervisory Commission continues to encourage the insurance industry in making products available online by: introducing the use of negative checklist, permitting new insurance categories for online sale, increasing the maximum sum assured for travel insurance, allowing parents to purchase travel insurance for children below 7 years of age, and simplifying the automobile/motorcycle accident reporting procedures.

(III) Technological research and development:

The Company allocates budget to train professional talents and develop new products on a yearly basis.

(IV) Long and short-term business plans:

1. Short-term plan:
 - (1) Optimize asset allocation for improved capital efficiency.
 - (2) Offer talent transformation training programs to accommodate changes in the financial market.
 - (3) Adjust premium rates and underwriting strategies based on the loss rate.
 - (4) Develop/package suitable products and value-adding solutions for increased revenue.
 - (5) Reduce operating costs using automated file conversion processes and B2B platforms.
 - (6) Secure and maintain existing businesses; increase the percentage of new businesses and expand scale of operation.
 - (7) Expand bancassurance, insurance broker/agency and direct sales channels for higher market share.

- (8) Enforce sound KYC (Know Your Customer), compliance and anti-money laundering practices to prevent financial and reputation loss.
2. Long-term plan:
 - (1) Enhance human resource training as a means to secure competitiveness for future growth.
 - (2) Create a technology-powered platform that replaces manual works with automated file conversion processes.
 - (3) Introduce innovative marketing channels, products and risk management tools that reduce loss rate.
 - (4) Utilize bank channels and form strategic alliances with participants from different industries for business expansion and broader customer reach.
 - (5) Enhance and enforce enterprise risk management (ERM); apply stringent risk control that contributes toward corporate sustainability.

II. Market and sales overview

(I) Market analysis:

1. Sale of main products and market share

(in NT\$ 1,000)

Insurance category	Company - 2017 direct written premium	Domestic non-life insurance market - 2017 written premium	Market share
Fire Insurance	887,156	20,677,632	4.29%
Marine Insurance	379,369	6,794,938	5.58%
Automobile Insurance	4,317,972	85,245,837	5.07%
Others	1,415,288	43,250,994	3.27%
Total	6,999,785	155,969,401	4.49%

2. Product locations:

(in NT\$ 1,000)

Location	Amount	%
Head Office	2,462,530	35.18%
Taipei Branch Office	909,552	12.99%
Taochu Branch Office	897,368	12.82%
Taichung Branch Office	825,109	11.79%
Tainan Branch Office	881,410	12.59%
Kaohsiung Branch Office	1,023,816	14.79%
Total	6,999,785	100.00%

3. Future market supply and demand:

(1) Supply

- A. Develop new and differentiated products that satisfy customers' needs.
- B. Provide insurance planning and damage prevention advices to customers.
- C. Develop and market suitable products according to laws and market demands.
- D. Refine product marketing and service procedures in ways that satisfy customers' needs.
- E. Utilize cloud platforms for online sale and service for customers' convenience.
- F. Given the high concentration of large-sum insurance policies, the Company shall tighten financial assessment and exercise greater caution for customers that exhibit poor management and financial performance.

(2) Demand

- A. The arrival of smart vehicles gives rise to demands for automobile hull and theft insurance, and increased premiums.
- B. Demands for certain insurance coverage have increased due

- to risk management, regulatory or contractual requirements.
 - C. Purchase of fire insurance riders used to be low, but has shown progressive increase in recent years.
 - D. Rising awareness on the protection of personal interest has increased demand for new services and products.
 - E. A rising number of companies are starting to acquire group insurance coverage for their employees, which may stimulate growth of certain insurance categories.
 - F. Recent hacker and ransomware attacks on banking systems have given rise to demands for information security insurance.
4. Opportunities and threats:
- (1) Opportunities:
 - A. Launch of packaged and customized products may address the market's different needs.
 - B. The Company has the flexibility to adjust its strategies and business activities in line with market competition.
 - C. Tightened supervision from the authority helps restore order in the market and favors business expansion.
 - D. The public is increasingly aware of corporate governance and directors'/supervisors' responsibility, which gives rise to demands for directors'/supervisors' liability insurance.
 - E. Rapid advancement of electronics and technology have enabled the Company to reduce operating costs via the use of e-commerce and high-tech platforms.
 - F. Customers' rising risk awareness and availability of damage prevention measures help control the severity and frequency of accidents.
 - G. Rising awareness towards corporate social responsibilities has brought the public's attention to pollution insurance, civil engineering insurance, and information security liability insurance.
 - H. Frequent public accidents combined with increasing claims from consumers present additional business risks to most companies. Both developments are favorable to the sale of liability insurance coverage.
 - (2) Threats:
 - A. Some industry participants have resorted to malicious competition as a means to expand market share, which poses additional operating costs for the Company.
 - B. Some high-tech industries, such as solar power and optoelectronics, are operating under increasing risks.
 - C. Uprise of Internet banking and mobile APP has caused a

reduction in the number of financial branches, and narrowed the channels through which the Company can market its products.

- D. Slow economic growth has deterred private investment and consumption activities, which is unfavorable for business growth.
- E. Competitors that operate under a financial group have access to more abundant resources, incur lower fixed costs, and have larger customer leads at their disposal.
- F. Due to abnormal climates around the world, the insurance industry has experienced increase in both the frequency and extent of damage caused by natural disasters, which adversely affect business performance.
- G. As a result of government policy, the real estate market has seen fewer development projects year after year, causing a slowdown in terms of demand for engineering insurance.

(3) Responses:

- A. Create profits by exploring direct service to small and medium-sized businesses and individuals.
- B. Provide consumers with more convenient ways of purchasing insurance products and expand marketing channels.
- C. Utilize existing channels and promote residential all-risk products of higher premiums that meet consumers' requirements.
- D. Engage banks and insurance brokers/agencies in joint marketing, coordinated service and partnered business arrangements for mutual benefit.
- E. Exercise caution when underwriting coverage for high-risk business activities and locations. Control risks of retained insurance coverage on natural disaster by developing risk management system and reinsurance channels
- F. Develop consumer-oriented new products and packages in line with economic developments and social demands. Avoid malicious competition by adopting product differentiation.
- G. Upgrade the official portal and introduce SEO for better user experience and higher exposure, which favors development of online businesses in the future.
- H. Utilize new financial technologies such as big data to provide more integrated and better customized services in response to market changes and the needs of new industries.

(II) Main product applications and production processes

1. Main applications

Non-life insurance is about providing businesses, families and individuals with protection against property, liability, accident, and health-related risks. The industry not only contributes to the stability of the society and prosperity of the economy, but also provides the country with the capital needed to proceed with constructions. For the above reasons, growth of the insurance industry has become a key measurement for a country's economic development and social welfare in recent years.

2. Production process

All government policy-based insurance products designed and underwritten by non-life insurance companies must have premium rates approved by the competent authority based on a number of factors including loss rate and expense ratio, whereas other insurance products also require the approval or acknowledgment of the competent authority before underwriting.

(III) Supply of key raw materials: Not applicable as the Company is not a manufacturer.

(IV) List of main suppliers/buyers:

Name of trade partner representing more than 10% of total purchases (sales) in any of the previous two years, and the amount and percentage of purchase (sale). Describe the cause of any variation. Code names can be used instead if contract prohibits the company from disclosing customers' names, or if the counterparty is a non-related party: Not applicable.

(V) Production volume and value in the last two years: Not applicable.

(VI) Insurance underwritten (direct written premiums) in the last two years:

Unit: policies, NTD thousands

Item Year	Fire Insurance		Marine Insurance		Automobile Insurance		Others		Total (Note)	
	No. of cases	Premium	No. of cases	Premium	No. of cases	Premium	No. of cases	Premium	No. of cases	Premium
2016	217,988	856,294	97,252	380,523	1,210,444	4,043,563	642,120	1,356,346	2,167,804	6,636,726
2017	221,923	887,156	93,897	379,369	1,284,394	4,317,972	618,015	1,415,288	2,218,229	6,999,785

Note: Premium revenue does not include reinsurance.