

MARKET CONDITIONS

1. The Market in General

Owing to the revival of the global economy and Taiwan's progressive recovery in imports and exports as well as increased domestic investments, the total gross premium of Taiwan's non-life insurance market achieved a new historic high of NT\$109,469 million in 2003, a moderate 7.92% increase from NT\$101,434 million of the previous year.

Although severe competition remained in domestic insurance market in 2003, the solid pricing policy of the international reinsurance market and the unceasing development of new products helped the domestic non-life insurance achieve its continuous growth in premium income for the third consecutive year in 2003.

Out of the total premium income of NT\$109,469 million for the entire non-life insurance market in the year 2003, fire insurance recorded a total written premium of NT\$24,178 million, increasing slightly by NT\$551 million, or a 2.33% growth, from NT\$23,627 million in 2002.

As for the total written premium for marine insurance, it increased to NT\$7,738 million for the year 2003 from NT\$7,369 million in 2002, a NT\$369 million increase or 5.01% growth in premium income.

As the domestic economy picked up, imports and exports in Taiwan also

rebounded. This explained why marine cargo insurance could generate a total written premium of NT\$5,286 million for the year 2003, up 12.35% or an increase of NT\$581 million compared to the premium income of NT\$4,705 million in 2002.

Marine hull marked a written premium of NT\$1,723 million in 2003, down NT\$199 million from NT\$1,922 million in 2002 due to a soft reinsurance market and downward trend of hull insurance pricing. The reduction showed a negative growth of 10.35%

Being affected by the increased number of overage fishing vessels and cheaper rates, the written premium of fishing vessel insurance reduced from NT\$742 million in 2002 to NT\$730 million in 2003, dropping by 12 million with a negative growth rate of 1.62%.

The written premium generated by automobile insurance in 2003 was NT\$50,387 million, up NT\$1,728 million from NT\$48,659 million in 2002 with a growth rate of 3.55%. Although the market share of automobile insurance decreased from 47.97% in 2002 to 46.03% in 2003, automobile insurance still kept its leading share amongst all classes of non-life insurance.

Aviation insurance scored a total premium income of NT\$3,840 million in 2003, down by NT\$68 million or a negative growth rate of 1.74%, in comparison with

Market Conditions

the total premium income of NT\$3,908 million in 2002. The premium reduction of aviation insurance was mostly attributed to the downward adjustment of aviation war risks surcharge after 911 terrorist attack and the rate deduction due to overall good results over the past five years.

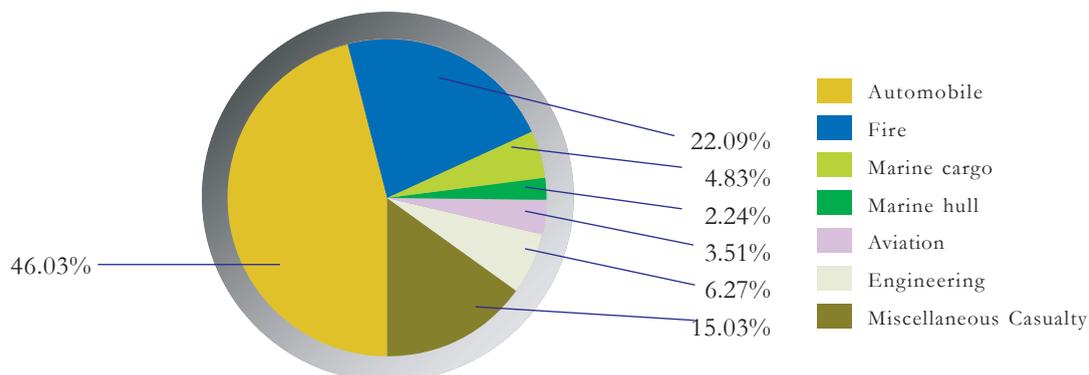
In 2003, the written premium of engineering insurance achieved NT\$6,865 million, a positive growth rate of 9.54% compared to NT\$6,267 million of the previous year. The main drives for this growth are the nation's rising economy and the government-funded infrastructure projects.

Miscellaneous casualty insurance consisting of liability insurance, bond & credit insurance and other property

insurance made a total written premium of NT\$16,461 million in the year 2003, up by 41.87% from last year's NT\$11,603 million. By the type of insurance, liability insurance had a premium income of NT\$5,799 million in 2003, bond & credit insurance and other property insurance had NT\$2,686 million and NT\$7,976 million respectively.

As for the market shares of various classes of non-life insurance in 2003, automobile insurance maintained a major share of 46.03% and the remaining 53.97% share was split up as fire insurance 22.09%; marine cargo insurance 4.83%; marine hull insurance, including fishing vessel insurance 2.24%; aviation insurance 3.51%; engineering insurance 6.27%; and miscellaneous casualty insurance 15.03%.

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The overall loss ratio of non-life insurance industry slightly improved from 46.62% in 2002 to 45.31% in 2003, down 1.31%. Without major fire and engineering losses in both 2002 and 2003, the non-life insurance industry was able to enjoy two profitable years.

To review the loss experience of non-life insurance in 2003, it revealed that the loss ratio of fire insurance declined from 12.17% in 2002 to 10.77% in 2003; marine cargo insurance increased by 3.75% to 41.09% in 2003 from 37.34% of the previous year and marine hull, including fishing vessels

2003
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jumped up to 46.88% in 2003, showing an increase of 11.68% compared to 35.20% in 2002. The average loss ratio for voluntary automobile insurance recorded a tiny increase of 0.88% from 53.53% in 2002 to 54.41% in 2003, while the compulsory automobile insurance had a higher loss ratio of 79.91% in 2003 than 75.24% in 2002. The loss ratio of aviation insurance dropped by 13.22% from 107.27% in 2002 to 94.05% in 2003. Talking about the loss ratio of engineering insurance, it used to be in the

high side because engineering insurance in Taiwan is highly exposed to natural hazards. But without major typhoon or heavy rain losses incurred in the years of 2002 and 2003, the loss ratio of engineering insurance dropped down dramatically to -4.78% in 2002 and 25.42% in 2003 respectively. With respect to the loss ratio of miscellaneous casualty insurance in 2003, it hit its lowest loss ratio of 40.38% over the past five years.



Table 1: Premium Income & Growth Rate

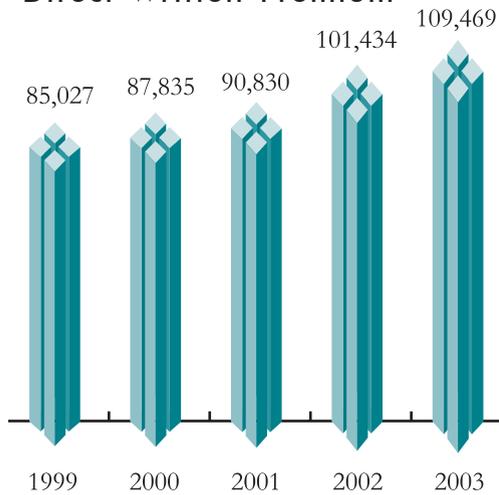
(in million NT\$ & %)

Year		1999	2000	2001	2002	2003
Fire	Amount	14,764	16,692	19,754	23,627	24,178
	Growth Rate	-0.82	13.06	18.34	19.61	2.33
Marine Cargo	Amount	3,912	4,374	4,298	4,705	5,286
	Growth Rate	-12.93	11.81	-1.73	9.46	12.35
Marine Hull	Amount	1,956	2,008	2,395	2,664	2,453
	Growth Rate	-9.07	2.66	19.27	11.23	-7.92
Automobile	Amount	51,096	50,639	47,254	48,659	50,387
	Growth Rate	21.87	-0.89	-6.69	2.97	3.55
Aviation	Amount	2,531	1,814	2,390	3,908	3,840
	Growth Rate	15.47	-28.32	31.69	63.51	-1.74
Engineering	Amount	3,597	4,266	4,585	6,267	6,865
	Growth Rate	-3.75	18.60	7.48	36.68	9.54
Miscellaneous Casualty	Amount	7,352	8,042	10,153	11,603	16,461
	Growth Rate	12.47	9.39	26.25	14.28	41.87
Total	Amount	85,027	87,835	90,830	101,434	109,469
	Growth Rate	12.23	3.08	3.41	11.67	7.92

Remarks: 1. Marine hull includes ocean hull and fishing vessel insurance.
 2. Miscellaneous casualty includes liability, bonding and miscellaneous property insurance.

Sources: Insurance Institute of the Republic of China.
 The Non-Life Insurance Association of the Republic of China.

Direct Written Premium



Growth Ratio

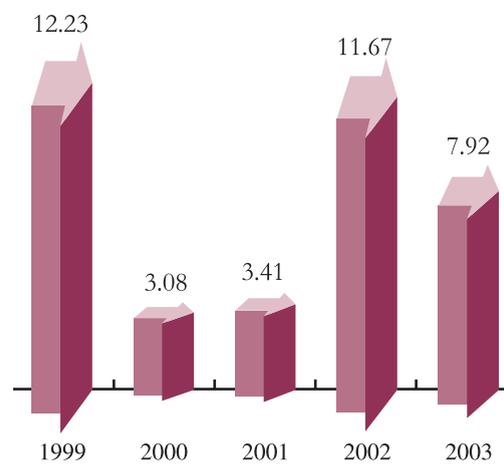


Table 2: Loss Ratio

(in %)

Year	1999	2000	2001	2002	2003
Fire	177.28	41.43	96.98	12.17	10.77
Marine Cargo	54.85	50.80	60.88	37.34	41.09
Marine Hull	90.90	125.18	71.50	35.20	46.88
Automobile	55.61	59.47	64.41	61.18	62.86
Aviation	83.22	15.12	12.51	107.27	94.05
Engineering	142.04	47.40	142.44	-4.78	25.42
Miscellaneous Casualty	60.47	75.61	68.14	69.40	40.38
Total	82.35	57.09	74.44	46.62	45.31

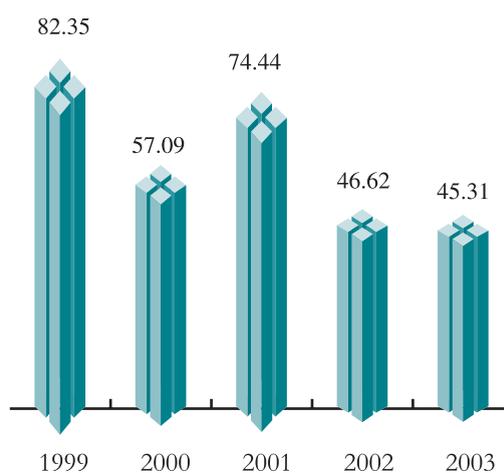
Remarks: 1. Marine hull includes ocean hull and fishing vessel insurance.

2. Miscellaneous casualty includes liability, bonding and miscellaneous property insurance.

Sources: Insurance Institute of the Republic of China.

The Non-Life Insurance Association of the Republic of China.

Loss Ratio



2. Fire Insurance

Direct written premium for fire insurance increased by NT\$550 million, or 2.3%, from NT\$23,627 million in 2002 to NT\$24,178 million in 2003.

The loss ratio for fire insurance dropped from 12.17% in 2002 to 10.77% in 2003 with a decrease of 1.4%. This low loss ratio was a result of no major natural perils losses in 2003.

Table 3: Fire Insurance

(in million NT\$ & %)

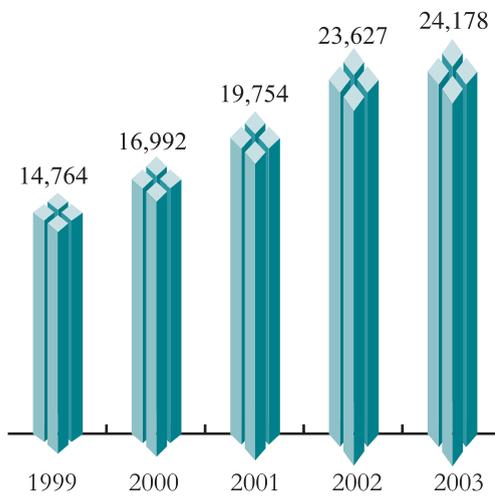
Year	1999	2000	2001	2002	2003
Direct Written Premium	14,764	16,992	19,754	23,627	24,178
Loss Ratio	177.28	41.43	96.68	12.17	10.77

Remarks: Loss Ratio on written to incurred basis.

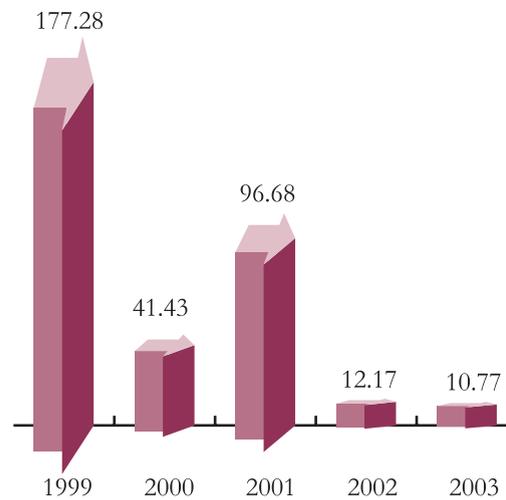
Sources: Insurance Institute of the Republic of China.

The Non-Life Insurance Association of the Republic of China.

Direct Written Premium



Loss Ratio



3. Marine Cargo Insurance

Direct written premium for marine cargo insurance in 2003 was NT\$5,286 million, which was NT\$581 million higher than the NT\$4,705 million in 2002. The total written premium increased by 12.35%.

The substantial increase in the marine

cargo written premium was a result of not only the increase in cargo quantities for import and export, but also the increase in inland transportation liability insurance.

As to the loss ratio of marine cargo insurance, it decreased by 3.75% from 37.34% in 2002 to 41.09% in 2003.

Table 4: Marine Cargo Insurance

(in million NT\$ & %)

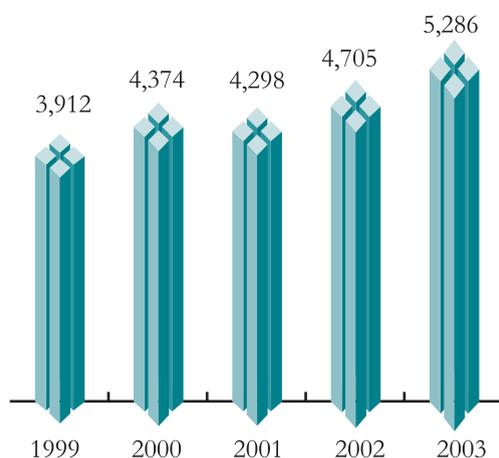
Year	1999	2000	2001	2002	2003
Direct Written Premium	3,912	4,374	4,298	4,705	5,286
Loss Ratio	54.85	50.80	60.88	37.34	41.09

Remarks: Loss Ratio on written to incurred basis.

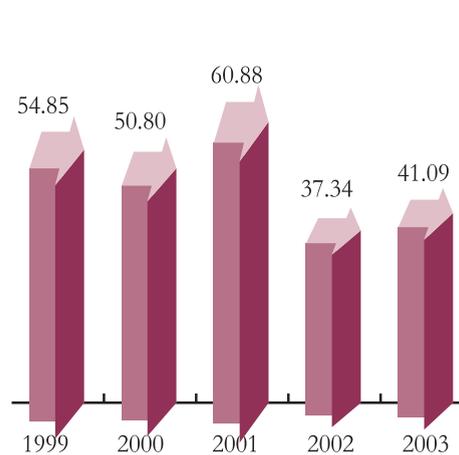
Sources: Insurance Institute of the Republic of China.

The Non-Life Insurance Association of the Republic of China.

Direct Written Premium



Loss Ratio



4. Marine Hull Insurance

The total written premium for marine hull insurance decreased by NT\$213 million from NT\$2,664 million in 2002 to NT\$2,451 million in 2003 due to soft reinsurance market of the shipping and fishing industry.

The loss ratio for ocean hull increased to 40.42% in 2003, an increase of 10.04%

in comparison with 30.38% in 2002. Incidentally, the loss ratio for fishing vessels increased by 14.56% from 47.72% in 2002 to 62.28% in 2003.

The average loss ratio for marine hull insurance, including ocean hull and fishing vessels, increased from 35.20% in 2002 to 46.88% in 2003.

Table 5: Marine Hull Insurance

(in million NT\$ & %)

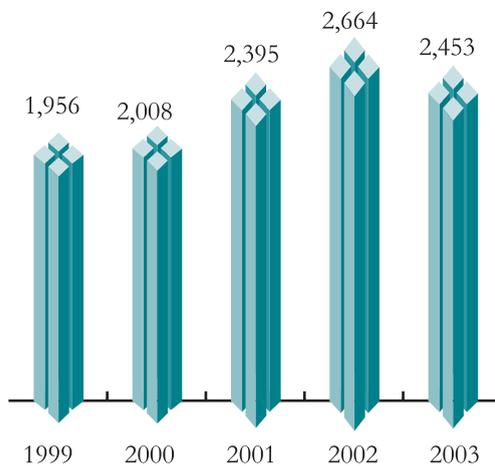
Year	1999	2000	2001	2002	2003
Direct Written Premium	1,956	2,008	2,395	2,664	2,453
Loss Ratio	90.90	125.18	71.50	35.20	46.88

Remarks: Loss Ratio on written to incurred basis.

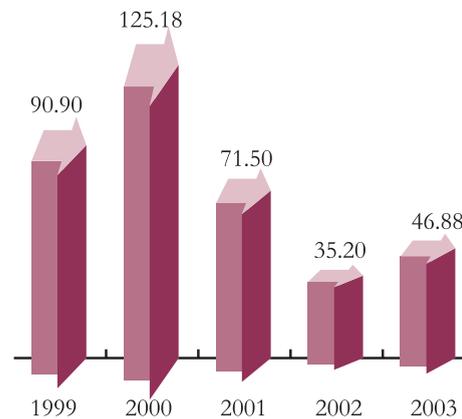
Sources: Insurance Institute of the Republic of China.

The Non-Life Insurance Association of the Republic of China.

Direct Written Premium



Loss Ratio



5. Automobile Insurance

The total premium written in 2003 was NT\$50,387 million, showing a growth of 3.55% compared to NT\$48,659 million in 2002. The growth of automobile insurance written premium in 2003 was mainly due to an increase of long-term policy and the number of cars sold. The direct written premium from voluntary automobile insurance, i.e. physical damage and optional third party liability was NT\$33,697 million in 2003, which was an increase of 6.87%. The direct written premium of compulsory automobile liability insurance in 2003 was

NT\$16,690 million.

The average loss ratio for voluntary automobile insurance increased by 0.88% from 53.53% in 2002 to 54.41% in 2003. The loss ratio for compulsory insurance increased by 4.64% from 75.27% in 2002 to 79.91% in 2003.

The revised rating system and basic deductibles applied to each and every physical loss prevented the loss ratio of automobile physical damage insurance from rising. We can expect good profitability for automobile physical damage insurance in the coming years.

Table 6: Voluntary Automobile Insurance

(in million NT\$ & %)

Year	1999	2000	2001	2002	2003
Direct Written Premium	30,000	31,927	30,616	31,531	33,697
Loss Ratio	56.98	53.51	56.05	53.53	54.41

Remarks: Loss Ratio on written to incurred basis.

Sources: Insurance Institute of the Republic of China.

The Non-Life Insurance Association of the Republic of China.

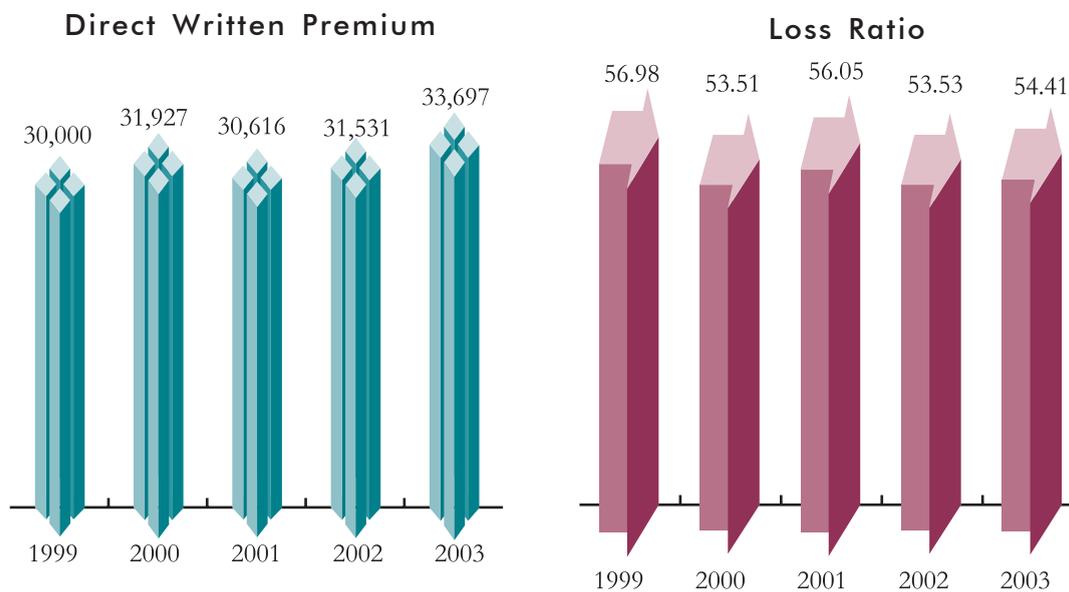


Table 7: Compulsory Automobile Liability Insurance

(in million NT\$ & %)

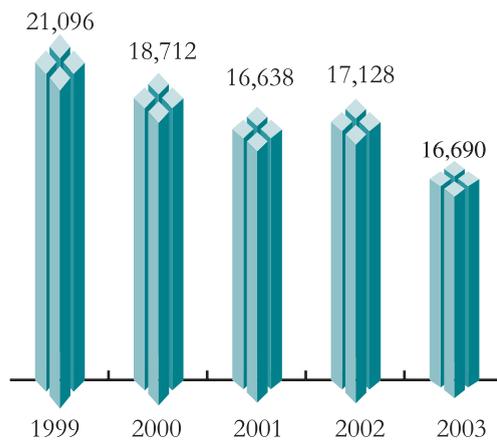
Year	1999	2000	2001	2002	2003
Direct Written Premium	21,096	18,712	16,638	17,128	16,690
Loss Ratio	53.65	69.65	79.78	75.27	79.91

Remarks: Loss Ratio on written to incurred basis.

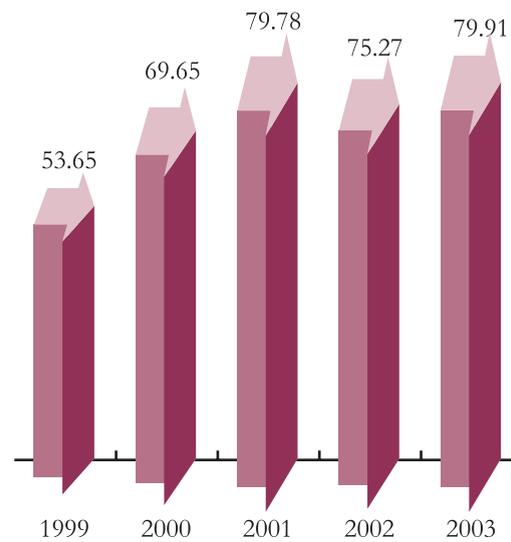
Sources: Insurance Institute of the Republic of China.

The Non-Life Insurance Association of the Republic of China.

Direct Written Premium



Loss Ratio



6. Aviation Insurance

The direct written premium reached NT\$3,840 million in 2003, which was NT\$68 million or 1.74% lower than the direct premium of NT\$3,908 million in 2002. The slight decrease of direct written premium was mainly attributed to the

decreased premium in the basic cover and additional war risk with no major losses incurred.

As for the loss ratio of the aviation on insurance, it decreased by 13.22% from 107.27% in 2002 to 94.05% in 2003.

Table 8: Aviation Insurance

(in million NT\$ & %)

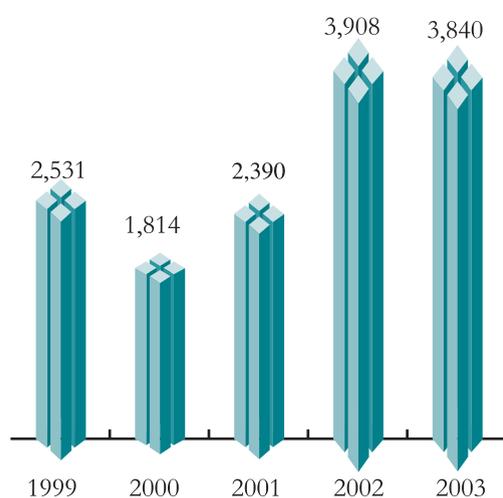
Year	1999	2000	2001	2002	2003
Direct Written Premium	2,531	1,814	2,390	3,908	3,840
Loss Ratio	83.22	15.12	12.51	107.27	94.05

Remarks: Loss Ratio on written to incurred basis.

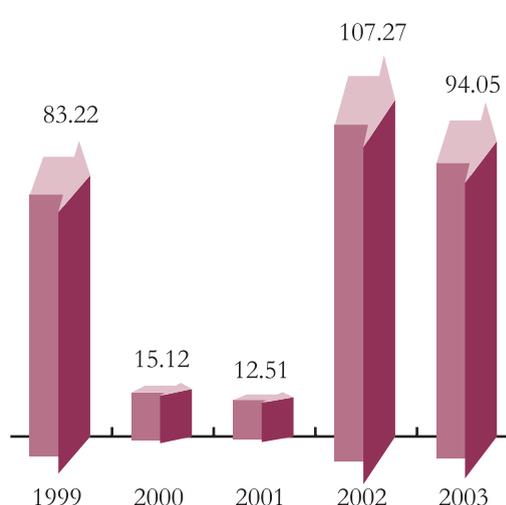
Sources: Insurance Institute of the Republic of China.

The Non-Life Insurance Association of the Republic of China.

Direct Written Premium



Loss Ratio



7. Engineering Insurance

The written premium of engineering insurance in 2003 reached an all-time high of NT\$6,865 million, representing a 9.54% up from last year's NT\$6,267 million. Its market share was 6.27% of the entire non-life insurance premium income of NT\$109,469 million in 2003, slightly increasing by 0.09% compared with the previous year's market share of 6.18%.

From the year 2000 to the year 2003, the premium income of engineering insurance had continuous growth for four consecutive years. And the premium income in 2003 achieved a growth rate of 60.92% compared to the premium income of NT\$4,266 million in 2000.

The remarkable high growth rate of engineering insurance in 2003 was mostly due to the execution of government-funded infrastructure projects that had been designed to stimulate the economy as well as the increase of private investments due to the recovery of Taiwan's economy.

As usual, over 85% of total premium income of engineering insurance in 2003 came from non-renewable business, in which 56.30% came from Contractors' All Risks insurance and 28.94% from Erection All Risks insurance, and only 14.76% of premium written in 2003 was generated from renewable engineering insurance, such as CPM, BPV, MB and EEI.

Although the premium volume of renewable engineering business is rather small at present, we believe that Taiwanese

engineering market has big potential for these renewable businesses. We do hope that the renewal engineering insurance can be promoted successfully in the near future.

Without any major natural catastrophe or fire losses, the loss ratio of engineering insurance in 2003 was only 25.42%, which was much lower than the average loss ratio of 109.76% over the past three years from 1999 to 2001.

Since engineering insurance in Taiwan is highly exposed to natural catastrophes, it is essential that engineering insurers have to keep in mind any possible risks from earthquake, windstorm, typhoon, flood, tidal waves and heavy rains, etc. while they are evaluating a risk.

Moreover, because engineering insurance has potential catastrophic risks, we should understand that one or two years' worth of favorable loss experience is no guarantee that insurers will make profits from writing engineering insurance.

Table 9: Engineering Insurance

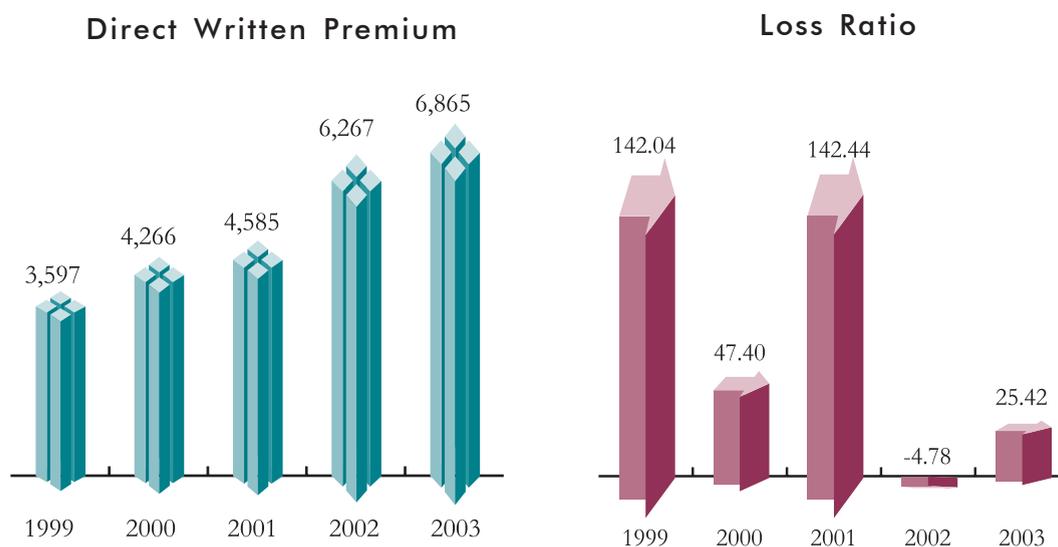
(in million NT\$ & %)

Year	1999	2000	2001	2002	2003
Direct Written Premium	3,597	4,266	4,585	6,267	6,865
Loss Ratio	142.04	47.40	142.44	-4.78	25.42

Remarks: Loss Ratio on written to incurred basis.

Sources: Insurance Institute of the Republic of China.

The Non-Life Insurance Association of the Republic of China.



8. Miscellaneous Casualty Insurance

Miscellaneous Casualty Insurance consists of three categories: liability insurance, bond & credit insurance, miscellaneous property insurance.

In 2003, a total direct written premium of Miscellaneous Casualty Insurance NT\$16,461 million increased from NT\$11,603 million in year 2002 with a growth ratio 41.87%. The loss ratio of Miscellaneous Casualty Insurance in 2003 is 40.38% which

compared with last year 69.40% reduced by 29.02%.

The major growth area of Miscellaneous Casualty Insurance is personal accident insurance. Direct written premium of personal accident insurance substantially increased to NT\$4,900 million in 2003 from NT\$2,300 million in 2002. Due to the lower loss ratio of personal accident insurance, Miscellaneous Casualty Insurance has a very good result in 2003.

Table 10: Miscellaneous Casualty Insurance

(in million NT\$ & %)

Year	1999	2000	2001	2002	2003
Direct Written Premium	7,352	8,042	10,153	11,603	16,461
Loss Ratio	60.47	75.61	68.14	69.40	40.38

Sources: Insurance Institute of the Republic of China.
The Non-Life Insurance Association of the Republic of China.

Direct written premium of liability insurance NT\$5,799 million in 2003 increased from NT\$5,476 million in 2002 with a growth ratio 5.90%. The loss ratio

of liability insurance in 2003 is 36.72% which compared with last year 47.93% reduced by 11.21%.

Table 11: Liability Insurance

(in million NT\$ & %)

Year	1999	2000	2001	2002	2003
Direct Written Premium	2,587	3,366	4,440	5,476	5,799
Loss Ratio	47.47	52.48	52.18	47.93	36.72

Sources: Insurance Institute of the Republic of China.
The Non-Life Insurance Association of the Republic of China.

Non-Life Insurance Business in Taiwan

Direct written premium of miscellaneous property insurance NT\$7,976 million in 2003 increased from NT\$3,452 million in 2002 with a growth ratio 131.05%. The loss ratio

of Miscellaneous Property insurance in 2003 is 27.82% which compared with last year 57.47% reduced by 29.65%.

Table 12: Miscellaneous Property Insurance

(in million NT\$ & %)

Year	1999	2000	2001	2002	2003
Direct Written Premium	2,817	2,621	3,387	3,452	7,976
Loss Ratio	52.39	58.49	67.84	57.47	27.82

Sources: Insurance Institute of the Republic of China.
The Non-Life Insurance Association of the Republic of China

Direct written premium of bond & credit insurance NT\$2,686 million in 2003 increased from NT\$2,675 million in 2002 with a growth ratio 4.11%. The loss ratio

of bond & credit insurance in 2003 is 85.58% which compared with last year 128.75% reduced by 43.17%.

Table 13: Bond & Credit Insurance

(in million NT\$ & %)

Year	1999	2000	2001	2002	2003
Direct Written Premium	1,947	2,055	2,326	2,675	2,686
Loss Ratio	89.47	135.32	99.03	128.76	85.58

Sources: Insurance Institute of the Republic of China.
The Non-Life Insurance Association of the Republic of China

9. Reinsurance Premium Ceded Abroad

Reinsurance premium ceded abroad in 2003 was 45,621 million which was NT\$5,943 million or 14.98% higher than the NT\$39,678 million in 2002.

The ceded premium to South East

Asia last year was still greatest one which amounted to NT\$19,908 million and equivalent to 18.19% of the total gross premium in 2003.

Table 14: Reinsurance Premium Ceded Abroad

(in million NT\$ & %)

Assuming Country	2001		2002		2003	
	Ceded Premium	% of Direct Premium	Ceded Premium	% of Direct Premium	Ceded Premium	% of Direct Premium
United Kingdom	3,519	3.87	5,149	5.07	5,295	4.84
France	711	0.78	692	0.68	751	0.68
Germany	4,139	4.56	5,064	4.99	5,409	4.94
Rest of Europe	4,395	4.84	5,223	5.15	5,477	5.00
Japan	1,960	2.16	2,119	2.09	2,410	2.20
South East Asia	14,546	16.01	16,387	16.15	19,908	18.19
U.S.A.	3,832	4.22	4,411	4.35	5,421	4.95
Rest of America	71	0.08	613	0.60	941	0.86
Australia	49	0.05	20	0.02	9	0.01
Total	33,222	36.57	39,678	39.10	45,621	41.67

Sources: 16 domestic non-life insurance companies.
5 foreign non-life insurance companies, Taiwan Branch.