

Regulations Governing Investment of Investment-linked Insurance

- Article 1 The regulations are instituted based on paragraph 6 of article 146 of Insurance Act (hereunder called the Act).
- Article 2 In order to protect investment rights and interests of the insurance applicant or beneficiary, when entering into an investment-linked insurance contract, the insurer shall follow the Act and other related statutory regulations to state relevant clauses in the contract.
- Article 3 The insurer shall fully disclose relevant information when selling investment-linked insurance products, and explain the following items to the insurance applicant with the notification of important information which shall be signed by the insurance applicant when entering into a contract. 1. Various expenses. 2. Investment objects and their possible risks. 3. Related warnings. 4. Other items as regulated by competent authorities. The directions regarding information disclosure and sales as mentioned in the preceding paragraph shall be instituted by competent authorities separately.
- Article 4 The insurer engaging in investment-linked insurance business shall make out a separate account to record the values of investment assets. The said separate account shall meet the following principles: 1. The assets in the separate account shall be individually managed and; 2. Unless otherwise stated in the regulations, the insurer shall follow the life insurance accounting template submitted to competent authorities by the Life Insurance Association of the Republic of China (hereunder called the Association) to periodically value the assets in the separate account, calculate the benefiting assets value in the separate account and inform the insurance applicant of the value according to the method agreed in the insurance contract. 3. The assets in the separate account shall be utilized in conformity to the investment method and object agreed or specified by the insurance applicant.
- Article 5 The insurer shall follow one of the following ways in utilizing or managing the assets in the separate account: 1. The insurer may designate the professionals equipped with financial, securities or other investment experience to utilize and manage the assets in the separate account. However, in the event that the insurer plans to discretionarily invest in the securities regulated in article 6 of Securities and Exchange Law, the insurer shall separately apply for concurrently engaging in discretionary investment services in accordance with investment business with Securities Investment Trust and Consulting Act. 2. For the investment-linked insurance not having discretionary decision from the insurer on the investment object, the insurer may entrust the enterprise approved by competent authorities or the one concurrently engaging in discretionary investment services to utilize and manage the assets in the separate account. The entrusted enterprise shall be selected according to the capital management outsourcing

procedure internally regulated by the insurer and other related statutory regulations. In addition, the insurer shall report the selected enterprise to competent authorities. Also, any change of the selected enterprise shall be reported to competent authority within 15 working days after the change. The insurer using the assets in the separate account to proceed with investments and transactions in accordance with the preceding paragraph shall keep records in writing which shall be monthly reviewed, reported and filed by law. Any of the following behaviors is not allowed when the insurer follows the regulations in the first paragraph to utilize and manage the assets in the separate account:

1. Use the assets in the separate account for guarantee.
2. Lend the assets in the separate account to others, but it is not limited to the situation otherwise regulated by competent authorities.
3. Engage in the investment items prohibited by law.

Article 6 The insurer shall manage the assets in the separate account for the interests of the insurance applicant or beneficiary. The insurer shall send the assets in the separate account to the custodian institution for custody and report the selected custodian institution to competent authorities. Any change of the selected custodian institution shall be reported to competent authority within 15 working days after the change. The contents of the custody contract shall be provided when the insurance contract defined in chapter 2 is signed by the insurer and insurance applicant, and, according to the custody contract, the assets in the separate account as mentioned in paragraph 1 shall be sent to the custodian institution for custody. Also, the insurer shall report the selected custodian institution to competent authorities, and any change of the selected custodian institution shall also be reported to competent authority within 15 working days after the change. The custodian institution as referred to in the preceding two paragraphs is a financial institution reaching a certain level of grade as rated by the credit rating agency recognized by competent authorities. The regulations in paragraph 2 and 4 are applicable to the insurer who follows subparagraph 2 of paragraph 1 of the preceding article to commission a trust enterprise approved by competent authority for concurrently engaging in discretionary investment services to utilize and manage the assets in the separate account, in which the assets are under the custody of the trust enterprise.

Article 7 The investment method of investment-linked insurance or change of its investment objects shall be in compliance with statutory laws and regulations and the ones as agreed in the insurance contract.

Article 8 The assets in the separate account and the ones in the insurer's general account are not allowed to be sold, swapped or transferred to each other, but it is not limited to any of the following conditions:

1. Transfer the assets in the general account to the separate account of the investment-linked insurance not having discretionary decision from the insurer on the investment

object, so as to establish the separate account and give normal operation of the policy where the assets are transferred into its separate account. 2. Necessary transfer-out of the insurance cost or the expenses regulated in article 3.3. Protect the interests of the insurance applicant or beneficiary, which shall be approved by competent authorities. Unless otherwise approved by competent authority in advance to use the underlying assets regulated in paragraph 1 of article 10 in transfer, the transfer shall be made by cash.

Article 9 The directors, supervisors, managers and the persons responsible for utilizing and managing the assets in the separate account shall act as good fiduciaries to carefully and loyally take care of investment and management of the assets in the separate account. They are not allowed to conduct investment related transactions for themselves or the persons beyond the policyholder of these separate account through the information learned in their posts, or reveal the related information to others. In the event that the issuer or agency of the linked investment objects provided in the investment-linked insurance contract goes bankrupt, the insurer shall aggressively get the redemption according to the best interests of the insurance applicant and beneficiary.

Article 10 Except the discretionary investment services provided by the insurer as agreed by the insurance applicant in the insurance contract, the linked investment objects provided in the investment-linked insurance contract and utilization of the assets in the separate account are limited to the following: 1. Bank deposits. 2. Beneficiary certificates of securities investment trust funds. 3. Offshore funds. 4. Beneficiary securities of mutual trust funds. 5. Real estate investment trust beneficiary securities or real estate asset trust beneficiary securities issued in accordance with Real Estate Securitization Act. 6. Beneficiary securities or asset-backed securities issued in accordance with Financial Asset Securitization Act. 7. Bonds and treasury bills issued by central banks of various countries. 8. Financial bonds. 9. Secured corporate bonds issued by public companies, the ones issued by the companies having credit ratings above a certain level, or the ones trading on foreign stock exchange markets or OTC markets. 10. Structured products. 11. Mortgage-backed securities issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. 12. Other investment objects as approved by competent authorities. For the aforesaid assets in the separate account, the total of the proprietary position and other investments of the insurer shall not exceed the limits specified in Articles 146 to 146-2, 146-4, 146-5 and 146-7 of the Act. When the insurer entrusts an enterprise approved by the competent authorities to engage in or concurrently engage in discretionary investment service to utilize and manage assets in a separate account in accordance with subparagraph 2, paragraph 1 of Article 5, the linked investment objects provided in the investment-linked insurance contract and the utilization of assets in the separate account may include, in addition to the objects listed under paragraph 1 hereof, currency related derivatives transactions for the purpose of currency hedging in connection with the assets in these separate account, provided such transactions comply with the

range, conditions and relevant provisions set out by the competent authorities.

Article 10- 1 When the insurer entrusts an enterprise approved by the competent authorities to engage in or concurrently engage in discretionary investment service to utilize and manage the assets in these separate account in accordance with subparagraph 2, paragraph 1 of Article 5, the insurer shall comply with the following provisions: 1. The insurer shall establish the procedures for handling entrusted discretionary investment service providers and have the procedures approved by its board of directors. The handling procedures shall include at least operating procedures, internal control system, internal audit system, accounting system, risk management measures, selection and management measures for discretionary investment service providers, and mechanism for handling losses arising from the failure of the discretionary investment service provider to perform in accordance with the entrustment agreement. 2. The insurer shall make sure prior to the entrustment that the entrusted enterprise already has procedures for handling its discretionary investment services in place and such procedures have been approved by the board of directors of the entrusted enterprise. The handling procedures shall include at least trading principles and directions, operating procedures, internal control systems, internal audit system, risk management measures and counterparty risk management system. The entrusted enterprise shall also include the following into its annual audit plan and produce an audit report thereon: (1) Auditing compliance with regulations and entrustment agreement; (2) Including internal control and articulation functions in the audit of internal control measures; (3) Assessing the independence and implementation of risk management operation; and (4) Auditing the reliability of the sources of transaction documents. When the insurer entrusts an enterprise approved by the competent authorities to engage in or concurrently engage in discretionary investment service to utilize and manage the assets in these separate account in accordance with subparagraph 2, paragraph 1 of Article 5, the provisions of Paragraph 4, Article 28 of the Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises do not apply.

Article 11 The following are the range for the utilization of objects entrusted to the insurer by the insurance applicant for discretionary investment services: 1. Bank deposits. 2. Government bonds and treasury bills. 3. Financial bonds, convertible time certificates, bankers' acceptances, and bank-backed commercial papers. 4. Corporate stocks issued by public companies. 5. Secured corporate bonds issued by public companies, or the ones issued by the companies having credit ratings above a certain level. 6. Beneficiary certificates of securities investment trust funds and beneficiary securities of mutual trust funds. 7. Taiwan depositary receipts. 8. Beneficiary securities or asset-backed securities issued in accordance with Financial Asset Securitization Act. 9. Real estate investment trust beneficiary securities or real estate asset trust beneficiary securities issued in accordance with Real Estate Securitization Act. 10. Foreign securities. 11.

Securities related products.12. Other investment objects as approved by competent authorities.The foreign securities as referred to in subparagraph 10 of the preceding paragraph are limited to thefollowing:(1) Bonds and treasury bills issued by foreign countries' central banks.(2) Financial bonds, convertible time certificates and mid-term floating rate notes issued by foreign

banks.(3) Stocks and corporate bonds trading on foreign stock exchange markets or OTC markets.(4) Offshore funds.(5) Mortgage-backed securities issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae.

Article 12 Unless otherwise regulated by competent authorities, the following behaviors are not allowed for theinsurer in utilizing the objects as mentioned in the preceding article:1. Make loans.2. Have transaction behavior with the investment assets in the seperate account of other investment-linked insurance or the ones in the insurer's general account. However, it is not limited to the situationwhere the deal is done through stock exchange markets or securities firms' business outlets andthere is no intention for the occurrence of the corresponding transaction.3. Invest in the stocks or corporate bonds issued by the insurer.4. Invest in the stocks, corporate bonds or financial bonds issued by the interested party of theinsurer.5. Invest in the securities underwritten by the securities underwriter having conflict of interest with theinsurer.6. Invest in private-placement securities.7. Engage in securities credit transactions.8. Lend or borrow securities.

Article 13 In the event that the investment objects of investment-linked insurance are the ones regulated insubparagraph 7 to subparagraph 11of paragraph 1 of article 10, they shall pass a certain level ofgrade rated by the credit rating agency approved by competent authorities.The preceding paragraph is also applicable to the investment-linked insurance in which theinvestment objects include government bonds, bonds or mortgage-backed securities as regulated insubparagraph 3 and 5 of paragraph 1 and subparagraph 1, 2, 3 and 5 of paragraph 2 of article 11.

Article 14 In the event that the investment objects of investment-linked insurance are beneficiary certificates ofsecurities investment trust funds, those beneficiary certificates of securities investment trust fundsshall be the ones approved by competent authorities or coming into effect upon declaration forplacement and issuance. In case that the investment objects are offshore funds, those offshore fundsshall be the ones approved by competent authorities or coming into effect upon declaration for localplacement and sales. However, the situation is not limited to exchange traded funds (ETFs) trading on foreign securities exchange markets.In the event that the investment objects of investment-linked insurance are beneficiary certificates ofmutual trust funds, they shall be approved by competent authorities.The structured products used as the

investment objects of investment-linked insurance are the products either combining fixed-income products and financial derivatives or structured notes. The limits and restrictions on the investment objects listed in paragraph 1 of article 10 and article 11 are to be regulated separately by competent authorities.

Article 15 The assets in the separate account shall be valued according to the market price on the given valuation date as agreed in the investment-linked insurance contract, and the assets detailed list shall be prepared according to related statutory regulations. However, they are not limited to the proprietary position of the insurer and the investment risk partially taken by the insurer as agreed in the insurance contract.

Article 16 The insurer shall follow the regulations below in exercising their voting right for the stocks held in the separate account of investment-linked insurance. 1. Unless otherwise provided by law, the voting right shall be exercised by the involved personnel designated by the insurer. 2. When exercising the voting right, the insurer shall do to meet the best interests of the policyholder of investment-linked insurance, and is not allowed to directly or indirectly participate in the business run by the company issuing the stock, or have improper arrangements. 3. Prior to attending the shareholders' meeting held by the company issuing the stock held in the separate account of investment-linked insurance, the insurer shall evaluate and analyze how to properly exercise the voting right, and give a summary. 4. The insurer shall register and manage the notifications and attendance tickets of the shareholders' meetings held by the companies issuing the stocks held in the separate account of investment-linked insurance, and keep records of evaluation and analysis of exercising the voting right, decision making procedure and execution results in writing which shall be numbered, filed and kept for at least 5 years. When attending the beneficiary meeting held by the securities investment trust fund issuing the beneficiary certificate held in the separate account of investment-linked insurance, the insurer shall

do to meet the best interests of the policyholder of investment-linked insurance in exercising their voting right, and follow subparagraph 3 and 4 of the preceding paragraph.

Article 17 In case of dissolution and liquidation, the remaining assets left in the separate account after deducting the debts and expenses incurred due to closing the separate account shall be distributed to the insurer and insurance applicant or beneficiary according to the ratios of the beneficiary equity entitled respectively to the insurer and insurance applicant as listed in the separate account.

Article 18 When entering into an investment-linked insurance contract, the insurer and insurance applicant shall agree on a currency used in amount receipts and payments which include premium, insurance benefit, expenses, but it is not allowed to agree on a currency to be used in conversion between the NT dollar and a foreign currency. However, in the event of foreign-

currency-denominated investment-linked annuity insurance in which the linked investment objects will be totally disposed, sold and converted into the spot annuity insurance with general account after the expiry of the annuity accumulation period, it can be agreed in the contract to pay the annuity in NT dollars. The insurer engaging in the foreign-currency-denominated investment-linked insurance business and following the proviso of the preceding paragraph to pay annuity in NT dollars shall be approved by the Central Bank of Republic of China. The assets in the separate account of the foreign-currency-denominated investment-linked insurance contract are limited to foreign-currency-denominated investment objects. The insurer and insurance applicant shall agree on the payment/receipt method in advance, and all the payments and receipts shall be handled through the foreign currency deposit account. However, the foregoing provisions do not apply to any of the following situations: 1. Payment of annuity in NT dollars in accordance with the proviso in the first paragraph. 2. The insurer and the insurance applicant have agreed that on the date the living benefits of another foreign currency insurance contract entered between the insurer and the insurance applicant becomes payable, the living benefits will be used to pay for the premiums of another same-currency insurance contract and the beneficiary of the living benefits and the applicant of the insurance contract to be paid for are the same person. For the NT dollar-denominated investment-linked insurance contract, the exchange settlement shall be made in accordance with the Regulations Governing the Declaration of Foreign Exchange Receipts and Disbursements or Transactions regulated by the Central Bank of the Republic of China.

Article 19 The insurer shall meet the following qualifications in selling the investment-linked insurance with discretionary investment services: 1. The ratio of proprietary capital to risk capital in the recent year shall comply with the adequacy ratio regulated in paragraph 1 of article 143-4 of the Act. 2. Having not been subject to major sanction and disciplinary action by the competent authority in the recent year, or if it has, concrete improvement actions have been taken to remedy the violation and recognized by the competent authority. 3. Value at Risk has been applied to the risk assessment for their foreign investment, and the risk assessment shall be conducted at least once a week. 4. A risk control committee in the board of directors, or a risk control division with a risk chief or an executive in the equivalent rank shall be placed in a company to take full charge of overall risk control. 5. Ranked in the top eighty percent in the past year in terms of the results of the Treating Customer Fairly Principle evaluation of life insurance companies. The preceding provision does not apply to a life insurance company that could provide reasonable explanation (for not ranking in the top eighty percent) and such explanation is approved by the competent authority. The major sanction and disciplinary action as prescribed in Subparagraph 2 of the preceding Paragraph refer to Article 2 of the Regulations Governing Public Disclosure by the Financial Supervisory Commission of Material Enforcement Actions for Violations of Financial Legislation. The value at risk (VaR) as referred to in subparagraph 3, Paragraph 1 shall be

calculated on weekly basis with at least three years of sampling period, or on daily basis with at least one year of sampling period. The sample data shall be updated at least once a week and the 10-trading-day VaR shall be calculated with 99% confidence level at least. In addition, monthly back-test shall be conducted. Prior to applying for concurrently engaging in the discretionary investment business in accordance with Securities Investment Trust and Consulting Act, the insurer shall meet the qualification listed in paragraph 1 and approved by the competent authority.

Article 20 The discretionary investment business that the insurer is approved for engaging in the form of commission for the assets in the separate account of investment-linked insurance refers to the sale of the investment-linked insurance with discretionary investment services from the insurer (hereunder called discretionary investment-linked insurance), in which assets in the separate account of discretionary investment-linked insurance are discretionarily decided and utilized by the insurer.

Article 21 The assets in the separate account of discretionary investment-linked insurance shall be put under custodian institutions' custody separately by insurance product in accordance with paragraph 3 and 4 of article 6.

Article 22 In addition to the investment-linked insurance related information required to be disclosed and the items required to be stated as regulated in the Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises, the following items shall also be stated in the discretionary investment-linked insurance contract and insurance product prospectus: (1) Insurance contract conversion clause. (2) Responsibility ascription for trading beyond authority. (3) Other items required to be stated as regulated by competent authorities. (4) Insurance product prospectus: (1) The items regarding the characters, scope, operating principles, fee collection methods, prohibitions, the legal relationship among the policyholder, insurer and custodian institution, and operation methods of the discretionary investment-linked insurance. (2) Analysis methods, information sources and investment strategies to be used for discretionary investment assets. (3) The education and experiences of division heads and associated persons engaging in the discretionary investment-linked insurance business. (4) Income statements and balance sheets for the past two years. (5) Explanation of the litigation or non-litigation cases occurring in business practices. (6) Warnings of investment or trading risks, characteristics of investment or trading objects, possible risks and statutory restrictions, etc. Any change in the preceding product prospectus which may result in material influence on policyholder's rights and interests shall be reported to competent authority for future reference. The insurance contract of discretionary investment-linked insurance and its related documents shall be kept for at least five years after

termination or invalidation of the contract.

Article 23 The insurance applicant of the discretionary investment-linked insurance contract is eligible to apply to the insurer for converting the contract into other discretionary investment-linked insurance contract with different investment strategy. In this case, the insurer cannot reject it except that the change in the insurance category, period or sum assured may increase the insurer's insurance risk. By handling the application for contract conversion, the insurer shall institute contract conversion and dispute mediation regulations and announce them. In the event that the contract conversion fee is required, the insurer shall inform the insurance applicant in advance when accepting the conversion application.

Article 24 In the event that the investment or transaction range increases or decreases due to change in statutory regulations after the discretionary investment-linked insurance contract being signed, the insurer shall notify the insurance applicant no less than 60 days before the change. In this case, the insurance applicant may submit objection and apply to terminate the insurance contract during the foresaid period, and the insurer shall not collect any surrender fee from the insurance applicant.

Article 25 The accounting system of the separate account of discretionary investment-linked insurance shall be in accordance with Generally Accepted Accounting Principle, the regulations stipulated by the Association and relevant statutory regulations.

Article 26 For the insurance contract, unless otherwise agreed, the insurer shall respectively calculate the policy account value of each insurance applicant according to the separate account of discretionary investment-linked insurance on every business day.

Article 27 Based on the separate account of discretionary investment-linked insurance, the insurer shall make out an account book stating the processing status of the separate account of discretionary investment-linked insurance, and periodically prepare a utilization status report. Within four months after the end of the fiscal year, the insurer shall prepare a year-end report on the assets in the separate account of discretionary investment-type insurance according to the separate account of respective piece of discretionary investment-linked insurance, send to competent authorities and make announcement after being audited and certified by the certified public accountant.

Article 28 In the event that the insurer violates the regulations resulting in harm to the rights and interests of the insurance applicant or beneficiary, competent authorities may follow the regulations of the Act to punish the insurer according to the level of the violation.

Article 29 The regulations shall come into force on the day of their promulgation.