

Regulations Governing Securities Investment of Credit Cooperatives

Article 1 These Regulations are enacted pursuant to Article 37 of the Credit Cooperatives Act, to which Article 74-1 of the Banking Act applies *mutatis mutandis*.

Article 2 Credit cooperatives may invest in the following types of securities:

1. Domestic and foreign government bonds.
2. Domestic short-term bills.
3. Domestic financial bonds.
4. Domestic corporate bonds.
5. Beneficiary certificates of domestic securities investment trust funds.
6. Negotiable certificates of deposit and savings bonds issued by the Central Bank of the Republic of China (Taiwan) (referred to as the “Central Bank” hereunder).
7. Domestic beneficial securities and asset-backed securities.
8. Domestic stocks listed on TWSE/TPEX.
9. Foreign securities under non-discretionary money trust.
10. Other securities approved by the central competent authority.

The types of stocks referred to in the preceding paragraph include:

1. Common shares of constituent stocks of TWSE Taiwan 50 Index, common shares of constituent stocks of TWSE Taiwan Mid-Cap 100 Index and TWSE Taiwan Technology Index.
2. Common shares of constituent stocks of MSCI Taiwan Index.
3. Common shares of constituent stocks of TPEX 50 Index.

Where the corporate bonds or financial bonds in Paragraph 1 hereof are convertible, exchangeable or come with warrants, they may not be converted or exchanged into stock or their warrant may not be exercised unless the underlying stocks are issued by a domestic TWSE/TPEX listed company as provided in the preceding paragraph.

Article 3 The aggregate amount of securities that a credit cooperative may invest in according to Paragraph 1 of the preceding article, excluding domestic government bonds, treasury bills, negotiable certificates of deposit and savings bonds issued by the Central Bank, shall not exceed 15% of the total balance of deposits received by it.

The balance of reverse repo transactions of short-term bills and bonds purchased by a credit cooperative is excluded from the limits for securities investment set forth in the preceding paragraph, while the balance of repo transactions of short-term bills and bonds sold by a credit cooperative shall be included.

Article 4 A credit cooperative that meets the following criteria may invest in the

beneficiary certificates of securities investment trust funds, provided the aggregate amount of the original acquisition costs for such investment does not exceed 40% of the cooperative's calculation basis:

1. It has allocated sufficient valuation reserve to meet the potential asset losses as stated on the latest financial examination report;
2. Non-performing loans and non-accrual loans that are two years or longer past the payoff period less the estimated recoverable amount have been written off as bad debt; and
3. The non-performing loan ratio of the credit cooperative is below 3% at the time of investment.

Where non-compliance with any one of the criteria specified in the preceding paragraph occurs after a credit cooperative has made the aforementioned investment, the credit cooperative shall promptly stop such investment, and may resume investment only after it becomes compliant with those criteria again.

The fund management company for the investment of a credit cooperative as mentioned in Paragraph 1 hereof shall meet the following criteria:

1. Having established for more than two years with total fund assets under its management exceeding NT\$20 billion and owning a management and research team well experienced in investment; and
2. Free of incidence in the past two years of being banned from engaging in certain business due to violation of financial laws or regulations, or having its responsible person or fund manager dismissed under the order of government authority, or being involved in major fraud.

Article 5 A credit cooperative that meets the criteria provided in Paragraph 1 of the preceding article, has capital adequacy ratio of 10% or higher, and at the time of investment, has bad debt reserve coverage ratio above 100% at the end of the previous month may invest in domestic TWSE/TPEX listed stocks, provided the aggregate amount of the original acquisition costs for such investment does not exceed 40% of the cooperative's calculation basis.

A credit cooperative's total investment in the shares of a domestic TWSE/TPEX listed company shall not exceed 5% of the company's total shares issued and outstanding.

Where non-compliance with any one of the criteria specified in Paragraph 1 hereof occurs after a credit cooperative has made the aforementioned investment, the credit cooperative shall promptly stop such investment, and may resume investment only after it becomes compliant with those criteria again.

Article 6 The aggregate amount of the original acquisition costs of a credit cooperative for investment in corporate bonds, financial bonds, short-term bills and stocks that are issued by a single financial holding company or a single bank shall not exceed 15% of the cooperative's calculation basis.

When a credit cooperative makes investments according to the preceding paragraph, if the credit cooperative also meets the following criteria and the invested financial holding company or bank meets the standards established by the ROC Credit Cooperative Union, the aggregate amount of investments may not exceed 25% of the cooperative's calculation basis:

1. Complying with the provisions of Paragraph 1, Article 4 herein;
2. The NPL ratio at the end of previous year does not exceed 1%;
3. The capital adequacy ratio is not less than 12% at the end of previous year; and
4. The bad debt reserve coverage ratio is not less than 100% at the end of previous year.

Where non-compliance with any one of the criteria specified in the preceding paragraph occurs or the invested financial holding company or bank does not meet the standards after a credit cooperative has made investments under Paragraph 1 hereof that exceed the limit specified in Paragraph 1 hereof, the credit cooperative shall promptly stop such investment, and may resume investment only after it becomes compliant with the criteria and standards under the preceding paragraph again.

The aggregate amount of the original acquisition costs of a credit cooperative for investment in short-term bills, corporate bonds and stocks issued by a single enterprise other than financial holding companies and banks shall not exceed 10% of the cooperative's calculation basis.

The balance of reverse repo transactions of short-term bills and bonds purchased by a credit cooperative is excluded from the limits for securities investment set forth in Paragraph 1, Paragraph 2 and preceding paragraph hereof, while the balance of repo transactions of short-term bills and bonds sold by a credit cooperative shall be included.

A credit cooperative's investment in negotiable certificates of deposit issued by the Cooperative Bank of Taiwan using reduction in reserve requirement as a result of the Central Bank's action of dropping the deposit reserve ratio is excluded from the limits set forth in Paragraphs 1 and 2 hereof.

Article 7 The aggregate amount of the original acquisition costs of a credit cooperative for investment in the following securities shall not exceed 15% of the cooperative's calculation basis:

1. Beneficiary certificates of securities investment trust funds issued by a single

securities investment trust enterprise.

2. A single type of beneficial securities or asset-backed securities.

Article 8 When a credit cooperative invests in domestic short-term bills, domestic financial bonds, domestic corporate bonds, domestic beneficial securities or asset-backed securities provided in Paragraph 1 of Article 2 herein, the security or its issuer, guarantor or acceptor shall have a credit rating that meets one of the following criteria:

1. A long-term credit rating of BBB- or above, or a short-term credit rating of A-3 or above from Standard & Poor's Corporation.
2. A long-term credit rating of Baa3 or above, or a short-term credit rating of P-3 or above from Moody's Investors Service.
3. A long-term credit rating of BBB- or above, or a short-term credit rating of F3 or above from Fitch Group.
4. A long-term credit rating of twBBB- or above, or a short-term credit rating of twA-3 or above from Taiwan Ratings Corp.
5. A long-term credit rating of BBB-(twn) or above, or a short-term credit rating of F3(twn) or above from Fitch International's Taiwan subsidiary.

When a credit cooperative invests in short-term bills, non-subordinate financial bonds or corporate bonds issued by a domestic TWSE/TPEX listed company that meet the criteria set out in Paragraph 2 of Article 2 herein, such investment is not subject to the credit rating requirements provided in the preceding paragraph.

Foreign government bonds that may be invested by a credit cooperative shall have a credit rating that meets one of the following criteria:

1. A long-term credit rating of A- or above from Standard & Poor's Corporation.
2. A long-term credit rating of A3 or above from Moody's Investors Service.
3. A long-term credit rating of A- or above from Fitch Group.

When a credit cooperative invests in foreign securities through –non-discretionary money trust, the credit rating of such securities shall be subject to the scope of investment for professional investors as provided in Article 10 of the Regulations Governing the Scope of Business, Restrictions on Transfer of Beneficiary Rights, Risk Disclosure, Marketing, and Conclusion of Contract by Trust Enterprises.

Article 9 A credit cooperative may not invest in the corporate bonds, short-term bills, beneficiary certificates of securities investment trust funds, and stocks issued by a company in which the cooperative's responsible person acts as its director, supervisor or manager, with exceptions to the following:

1. Financial bonds (including subordinated financial bonds).

2. Corporate bonds guaranteed by a bank.
3. Short-term bills guaranteed or accepted by other financial institutions and underwritten or traded by other bills finance companies.
4. Negotiable certificates of deposit issued by a bank.
5. Beneficial securities and asset-backed securities with a term of less than one year.

The phrase "the cooperative's responsible person acts as its director, supervisor or manager" depicted in the preceding paragraph does not include the situation where the responsible person of the credit cooperative is assigned to the position due to an investment relationship.

The term "responsible person of the credit cooperative" depicted in Paragraph 1 hereof means its director, supervisor, president (general manager), vice president (deputy general manager), assistant vice president (assistant general manager), manager or a person holding a comparable position.

Article 10 Where a credit cooperative acts as an originator (trustor) under the Financial Asset Securitization Act or Real Estate Securitization Act, it may not invest in the beneficial securities or asset-backed securities issued on the basis of its financial assets, real estate or real estate-related rights.

A credit cooperative that serves as an originator may hold beneficial securities or asset-backed securities issued on the basis of its financial assets for the purpose of credit enhancement. The holding of such securities by a credit cooperative for purposes other than investment is not subject to the restrictions set forth in the Regulations herein.

Article 11 A credit cooperative's investment in the stocks of other enterprises as approved by the central competent authority pursuant to Article 37 of the Credit Cooperatives Act, to which Article 74 of the Banking Act applies *mutatis mutandis* is excluded from the limits for securities investment set forth in Articles 3, 5 and 6 herein.

Article 12 The term "calculation basis" as used in these Regulations shall mean the credit cooperative's finalized net worth as of the end of the previous fiscal year less the following items:

1. The original acquisition costs for investment in the shares of banks held by the credit cooperative for more than one year;
2. The original acquisition costs for investment in the shares of each federation of cooperatives; and
3. The original acquisition costs for investment in the shares of other enterprises other than banks with the approval of the central competent authority.

Article 13 A credit cooperative shall establish internal operating guidelines for securities investment and implement those guidelines after approval by its board of directors.

Article 14 Where the credit ratings and limits of securities invested by a credit cooperative before the amendment to these Regulations on August 4, 2005 do not comply with the provisions herein, the credit cooperative may continue to hold such securities until expiration date.

Article 15 The Regulations herein shall be in force from the date of promulgation.