Regulations Governing the Capital Adequacy and Capital Category of Banks

Article 1 These Regulations are enacted pursuant to Paragraph 4, Article 44 of the Banking Act (hereinafter referred to as the "Act").

Article 2 Terms used in these Regulations are defined as follows:

1. The term "Ratio of Regulatory Capital to Risk-weighted Assets" (hereinafter referred to as Capital Adequacy Ratio) shall mean Common Equity Tier 1 Ratio, Tier 1 Capital Ratio, and Total Capital Adequacy Ratio.
2. The term "Common Equity Tier 1 Ratio" shall mean the net Common Equity Tier 1 divided by total risk-weighted assets.
3. The term "Tier 1 Capital Ratio" shall mean net Tier 1 capital divided by total risk-weighted assets.
4. The term "Total Capital Adequacy Ratio" shall mean the aggregate amount of net Tier 1 Capital and net Tier 2 Capital divided by total risk-weighted assets.
5. The term “Regulatory Capital Adequacy Ratio” shall mean the sum of the minimum capital adequacy ratio specified in Article 5 and the additional capital requirements specified in Article 6, Article 7, and Paragraph 3 of Article 18.
6. The term "Leverage Ratio" shall mean the net Tier 1 Capital divided by Exposure Measurement.
7. The term "Regulatory Capital" shall mean the net Tier 1 Capital and the net Tier 2 Capital.
8. The term "Net Tier 1 Capital" shall mean the aggregate amount of net Common Equity Tier 1 and net additional Tier 1 Capital.
9. The term "Cumulative Perpetual Preferred Stock" shall mean the preferred stock that, in a fiscal year when a bank posts a profit, entitles the holder to the payment of a dividend to make up for the bank not having distributed a dividend in years in which it did not post a profit.
10. The term "Subordinated Debts" shall mean those debts holders' order of priority for the distribution of earnings and assets is subordinate to depositors and general creditors.
11. The term "Capital Instrument" shall mean the common stocks, the

perpetual preferred stocks, and the subordinated debts issued by a bank or its subsidiary shall be included in the securities of regulatory capital.

12. The term "Total Risk-weighted Assets" shall mean the sum of the risk-weighted assets for credit risk and the capital requirements for market risk and operational risk multiplied by 12.5. Those assets already deducted from regulatory capital, however, shall be deducted from the total risk-weighted assets.

13. The term "Risk-weighted Assets for Credit Risk" shall mean measurement of the risk of loss caused by the counterparty's default. This risk measurement is expressed as the total of each of the bank's transaction items on and off the balance sheet times a risk weight.

14. The term "the Capital Requirement for Market Risk" shall mean the capital required for assessed losses to the bank's transaction items on and off the balance sheet in arising from movements in market prices (interest rates, exchange rates, and stock prices etc.) .

15. The term "the Capital Requirement for Operational Risk" shall mean the capital required for the risk of loss resulting from inadequate or failed internal process, people and systems or external events.

16. The term "Exposure Measurement" shall mean the exposure amount on and off the balance sheet.

17. The term "Issuance Period" shall mean the period from the issuance date to the maturity date. The issuance period should be calculated based on the earliest available redemption date or repayment date if they could be redeemed or repaid prior to maturity date, as agreed upon, if there is any. Unless those whose earlier redemption or repayment that require the advanced approval from the Competent Authority.

Article 3 The bank shall calculate its stand-alone capital adequacy ratio. If a parent bank is required to present the consolidated financial statements in which it consolidates its investments in subsidiaries according to “International Financial Reporting Standards No. 10”, it shall also calculate the consolidated capital adequacy ratio. Those investments already deducted from the regulatory capital, however, shall not be included.

When a bank calculates its consolidated capital adequacy ratio, non-controlling interests and other capital issued out of consolidated subsidiaries that is held by third parties may be included the amount of consolidated regulatory capital. The calculation approach should follow the rule of "the Methods for calculating Bank's regulatory capital and Risk Weighted Assets" (hereinafter referred to as the "calculation methods") that is issued by the competent authority.

Article 4 The bank shall calculate its stand-alone leverage ratio. If a parent bank is required to present the consolidated financial statements in which it consolidates its investments in subsidiaries according to "International Financial Reporting Standards No. 10", it shall also calculate the consolidated leverage ratio. Those investments already deducted from the regulatory capital, however, shall not be included.

The leverage ratio shall not be less than 3%. The calculation shall be carried out in accordance with the calculation methods.

Article 5 The bank's calculation of its stand-alone and consolidated capital adequacy ratio in accordance with Article 3 shall meet the following standards:.

1. The common equity tier 1 ratio shall not be less than 7%
2. The Tier 1 capital ratio shall not be less than 8.5%..
3. The total capital adequacy ratio shall not be less than 10.5%.

Article 6 In addition to the preceding article, where necessary, the competent authority may consult the Central Bank and related authorities to request the bank to meet countercyclical capital buffer with Common Equity Tier 1 Capital only. However, the maximum ratio shall not exceed 2.5%.

Article 7 To improve the loss-absorbing capacity of systemically important banks, the competent authority may request domestic systemically important banks to meet 2% additional capital with Common Equity Tier 1 Capital only.

The additional capital specified in the preceding paragraph must be achieved before the end of each of the four years equally starting from the next year after the designated date.

The systemically important banks specified in Paragraph 1 refers to banks designated by the competent authority after consultation with the Central Bank and related authorities based on the size, interconnectedness, substitutability, complexity, and other indicators.

Article 8 The minimum ratio of regulatory capital to risk-weighted assets of a bank specified in Article 44 of the Act refers to regulatory capital adequacy ratio.

The classification standard of capital categories are as follows:

1. "Adequate Capital" means the capital adequacy ratio meets the regulatory capital adequacy ratio.
2. "Inadequate Capital" means the capital adequacy ratio does not meet the regulatory capital adequacy ratio.
3. "Significantly Inadequate Capital" means the total capital adequacy ratio is 2% or higher but under 8.5%.
4. "Seriously inadequate capital" means the total capital adequacy ratio is less than 2%. A bank whose net-worth to total assets is less than 2% shall be deemed as having seriously inadequate capital.

When a bank's capital category meets more than two categories at the same time in accordance with the classification standards in the preceding paragraph, the lower grade will be regarded as its capital grade.

Article 9 The common equity Tier 1 capital consists of the common equity that reduces intangible assets, the deferred tax assets due to losses from the previous year, the insufficiency of operation reserves and loan loss provisions, the revaluation surplus of real estate, and the statutory adjustment items calculated in accordance with other rules for calculation methods.

The common equity tier 1 capital shall mean the sum of the following items:

1. Common stock and additional paid-in capital in excess of par- common stock
2. Capital collected in advance
3. Capital reserves
4. Statutory surplus reserves
5. Special reserves
6. Accumulated profit or loss
7. Non-controlling interests
8. Other items of interest

Article 10 The range of additional Tier 1 capital shall mean the total amount of the following items reduces the total amount of the deductible items in accordance with the rules for calculation methods.

1. Non-cumulative perpetual preferred stock and its capital stock premium.
2. Non-cumulative perpetual subordinated debts.
3. The non-cumulative perpetual preferred stock and its capital stock premium, and the non-cumulative perpetual subordinated debts which are issued by banks' subsidiaries, and are not directly or indirectly held by banks.

The additional Tier 1 capital stated in the previous paragraph shall meet the following requirements, some of which involving the conditions of investors' interest shall be specified in the issuance document.

1. The issuance quota for such issuance shall be fully received.
2. The bank and its affiliated business do not provide guarantee, collateral or other arrangements to enhance the seniority of the holders.
3. For those whose priority orders for the distribution of the earnings and assets are junior to those of holders of Tier 2 capital, depositors, and other general creditors.
4. Non-maturity date, non-interest rate step-up conditions, or other incentives to redeem.
5. After five years of issuance, such debts may not be redeemed earlier or be bought from the market by banks, or the banks with the expectation from investors unless the debt meets the following situations at the same time:

A. Obtain prior approval from the competent authority.
B. Debts which may be redeemed earlier or be bought from the market shall meet one of the following requirements:
a. The capital adequacy ratio of the bank after being redeemed shall meet the minimum regulatory capital adequacy ratio.
b. Replace the original capital instrument with a capital instrument with equivalent or higher quality.

6. The dividend distribution or the interest payment shall meet the following requirements:

A. The bank may not distribute the dividend or pay the interest if it had no earnings during the previous fiscal year and did not distribute common stock dividends. Where the balance of accumulated undistributed earnings

after deducting the unamortized loss for the disposal of non-performing loans exceeds the interest payment and such payment does not alter the originally agreed conditions for interest payment, distribution is allowed.
B. The banks shall defer the payment of principal and interest before its capital adequacy ratio meets the regulatory capital adequacy ratio; the deferred payment of principal or interest shall not accrue additional interest.
C. The payment of principal or interest shall not be set to be adjusted according to the credit situation of the bank.
7. The order of priority for the distribution of the earnings and assets of the holder of additional Tier 1 capital is the same as that of a common stock holder when the competent authority assigned officials to take receivership over the bank, order such a bank to suspend and wind up business, or liquidate the bank.

Article 11 The range of Tier 2 capital shall mean the total amount of the following items reduces the total amount of the deductible items in accordance with the rules for calculation methods.
1. Cumulative perpetual preferred stock and its capital stock premium.
2. Cumulative perpetual subordinated debts.
3. Convertible subordinated debts
4. Long-term subordinated debts
5. Non-perpetual preferred stock and its capital stock premium
6. When first time applying International Financial Reporting Standards in real estate and using the fair value or the re-estimated value method as the deemed cost, the difference in amount between the deemed cost and the book value recognized in retained earnings.
7. The 45% of unrealized gains on changes in the fair value of investment properties using fair value method, as well as the 45% of unrealized gains on financial assets measured at fair value through other comprehensive income.
8. Operational reserves and loan-loss provisions.
9. The cumulative perpetual preferred stock and its capital stock premium, cumulative perpetual subordinated debts, convertible subordinated debts, long-term subordinated debts, and the non-perpetual preferred stock and its capital stock premiums, which are issued by banks' subsidiaries, and are not

directly or indirectly held by banks.

The operating reserves and loan-loss provisions included in Tier 2 capital as provided in Section 8 of the preceding paragraph means the amount of the operations reserves and loan-loss provisions that the bank recognized in excess of the expected loss for those are credit impaired, according to International Financial Reporting Standards No. 9.

The Tier 2 capital stated in Paragraph 1 shall meet the following requirements, some of which involve the conditions of investors' interest shall be specified in the issuance document.

1. The issuance quota of such issuance shall be fully.

2. The bank and its affiliated business do not provide guarantee, collateral or other arrangements to enhance the seniority of the holders.

3. Non-interest rate step-ups condition or other incentives to redeem.

4. The issuance period is more than five years. Recognition in regulatory capital in the remaining five years before maturity will be amorised on a straight line basis.

5. After five years of issuance, such debts may not be redeemed earlier or be bought from the market by banks, or the banks with the expectation from investors unless the debt meets the following conditions at the same time:

A. Obtain prior approval from the competent authority.

B. The debts which may be redeemed earlier or be bought from the market shall meet one of the following requirements:

a. The capital adequacy ratio of the bank after being redeemed shall meet the minimum regulatory capital adequacy ratio.

b. Replace the original capital instrument with a capital instrument of equivalent or higher quality.

6. The payment of principal or interest shall not be set to be adjusted according to the credit situation of bank.

7. The investors shall not be allowed to ask the bank for an early payment of interest unless the distribution is in accordance with the rules of suspension and windup of business, or liquidation.

8. The priority order for the distribution of the earnings and assets of the holder of Tier 2 capital is the same as that of a common stock holder when the competent authority assigned officials to take receivership over the bank, order such a bank to suspend and wind up business, or liquidate the

bank.
9. The convertible subordinated debts shall meet the following requirements except the above mentioned rules:
A. The issuance period is less than ten years.
B. The convertible bonds upon their maturity dates shall be converted into common stocks or perpetual preferred stocks; before maturity dates, they may only be converted into common stocks or perpetual preferred stocks. Other conversion methods shall be approved by the competent authority first.
The total amount of the so-called operational reserve and loan-loss provision in the Tier 2 capital, if banks adopt the standardized approach for credit risk may not exceed 1.25% of the credit risk-weighted assets, and if banks adopt the internal ratings-based approach, may not exceed 0.6% of the credit risk-weighted assets.

Article 12 The common stock, the preferred stock and the subordinated debts that the bank issues should be deemed not issuing such capital instruments when calculating the regulatory capital, if the following circumstances occur:
1. Upon or after issuance, the bank provides the holders of such capital instruments with relevant financing, which impairs the actual effect of the bank using such as the capital instrument.
2. The bank that has significant influence owns such capital instruments.
3. The subsidiaries of the bank and its financial holding company own such capital instruments.
If the capital instrument issued by the bank is such that the parent company of the financial holding company raises the capital and reinvests, the bank should deem as the capital category the lower of the capital instrument issued by the bank and the capital instruments issued by the parent company.

Article 13 The capital instrument issued by the bank before September 12, 2010 shall be included in the amount of the regulatory capital in accordance with the following rules:
1. The capital instrument shall be reduced at a decreasing rate of at least 10% per year from the Year 2013 if it does not meet the requirements in

Paragraph 2 of Article 10 or Paragraph 3 of Article 11.

2. The bank does not implement the procedure for redemption on the call date in accordance with the call provisions which have been established.

A. If the early redemption date is before September 12, 2010, the debt shall be redeemed according to the previous paragraph when it does not meet the requirements in Paragraph 2 of Article 10 or Paragraph 3 of Article 11.

B. If the early redemption date falls between September 12, 2010 and December 31, 2013, the debt shall not be included in regulatory capital from the Year 2013 when it does not meet the requirements in Paragraph 2 of Article 10 or Paragraph 3 of Article 11. However, if the debt does not meet the requirements in Section 7 of Paragraph 2 of Article 10 or Section 8 of Paragraph 3 of Article 11 only, it shall be reduced at a decreasing rate of at least 10% per year from the Year 2013.

C. If the early redemption date falls after the Year 2013, and the debt does not meet the requirements in Paragraph 2 of Article 10 or Paragraph 3 of Article 11, the debt shall be included in regulatory capital following the rules of the first section before the call date, and shall not be included in regulatory capital after the call date.

A capital instrument issued by the bank between September 12, 2010 and December 31, 2012 shall not be included in the regulatory capital, and shall be reduced at a decreasing rate of at least 10% per year from the Year 2013 if it does not meet the requirements in Paragraph 2 of Article 10 or Paragraph 3 of Article 11 unless it has obtained approval from the competent authority before September 12, 2010. However, if the capital instrument does not meet the requirements in Section 7 of Paragraph 2 of Article 10 or Section 8 of Paragraph 3 of Article 11 only, it shall be reduced at a decreasing rate of at least 10% per year from the Year 2013.

Article 14 The calculation of total risk-weighted assets for credit risk, market risk, and operational risk shall be in compliant with the rules for calculation methods.

Article 15 The contractual conditions of the capital instrument that is issued by the bank and is categorized as the additional Tier 1 capital or the Tier 2 capital shall be reported to the competent authority for reference 7 business days before the issue date.

Article 16 The bank shall report related information on the capital adequacy ratio to the competent authority according to the following rules:

1. Within three months after the end of each business year, the bank shall report its stand-alone, and the consolidated capital adequacy ratio, and leverage ratio reviewed by a certified public accountant including the calculation form and the relevant information.

2. Within two months after the end of each half business year, the bank shall report its stand-alone, and the consolidated capital adequacy ratio, and leverage ratio reviewed by a certified public accountant including the calculation form and the relevant information.

3. Within two months after the end of each business year and each half business year, and within forty-five days after the end of the first quarter and the third quarter, the bank shall report the capital adequacy ratio, leverage ratio, and relevant information to the competent authority in accordance with the rules of the Call-Report for information on financial supervision.

If necessary, the competent authority may order the bank to report and submit relevant information at any time.

Paragraph 1 does not apply to a bank which is taken over by the competent authority pursuant to laws.

Article 17 When a bank reports its capital adequacy ratio according to the preceding article, the competent authority shall examine its capital category in accordance with the provisions of these regulations on the calculation of capital adequacy ratio.

When a bank's capital is graded as inadequate capital, significantly inadequate capital or seriously inadequate capital by the competent authority's examination, the competent authority shall take prompt corrective actions pursuant to Sections 1 to 3, Paragraph 1, Article 44-2 of the Act.

Article 18 The bank shall establish procedures for assessing its capital adequacy consistent with its risk profile, and provide a strategy to maintain capital adequacy.

To follow the principle of capital adequacy supervisory review, each bank shall report to the competent authority the bank's capital allocation, the self assessment for the capital adequacy, and self assessment for management of each kind of risk and enclose the relevant information as required by the competent authority.

Based on the risk assessment of each bank, the competent authority may request the bank to improve its risk management. If the bank does not improve its risk management as required by the competent authority, the competent authority may ask such bank to raise additional capital, adjust its regulatory capital and risk-weighted assets, or submit a capital restoration plan within a certain period.

The information that is required to be reported provided in Paragraph 2 and its reporting date will be further provided by the competent authority.

Article 19 The bank shall disclose the relevant information concerning the capital adequacy as requested by the competent authority.

The rules with respect to the disclosure for the capital adequacy as mentioned in the above paragraph will be further provided by the competent authority.

Article 20 These Regulations shall become effective from January 1, 2020 except for Article 7 which shall become effective on the date of promulgation.