


Content

Title :	Regulations Governing the Capital Adequacy Ratio and Capital Grade of Credit Cooperatives 
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Legislative :	1.Promulgated on November 13,1998 2.Amended on June 30,2003 3.Amended on 2006/05/09 per Order No. Jin-Kuan-Yin (3)-Zi-No. 09530002230 4.Amended on September 06, 2007 5.Amended on February 9,2010 6.Amended on November 1,2012
Content :	<p>Article 1</p> <p>These Regulations are enacted pursuant to Article 37 of the Credit Cooperatives Act (referred to as the “Act” hereunder) to which Paragraph 4, Article 44 of the Banking Act applies mutatis mutandis.</p> <p>Article 2</p> <p>Terms used in these Regulations are defined as follows:</p> <ol style="list-style-type: none"><li>1.The term “ratio of equity capital to risk assets” (hereinafter referred to as the “capital adequacy ratio” ) shall mean eligible equity capital divided by total risk assets.</li><li>2.The term “eligible equity capital” shall mean the sum of Tier 1 capital and eligible Tier 2 capital.</li><li>3.The term “eligible Tier 2 capital” shall mean such Tier 2 capital that may be used to cover credit risk, market risk and operational risk.</li><li>4.The term “capital stock” shall mean the daily average of total capital stock in the past half year, the daily average of total capital stock in the past month, or total capital stock on the base date of reporting, whichever is lower.</li><li>5.The term “total risk assets” shall mean the sum of risk-weighted assets for credit risk and capital requirements for market risk and operational risk multiplied by 12.5. However, those already deducted from eligible equity capital shall not be counted into the total risk assets.</li><li>6.The term “risk-weighted assets for credit risk” shall mean an assessment of risk of loss arising from counterparty’ s default for a credit cooperative. This risk assessment is expressed as the total of the credit cooperative’ s transaction items on and off the balance sheet multiplied by a risk weight.</li><li>7.The term “capital requirement for market risk” shall mean the capital required for assessed losses to the credit cooperative’ s transaction items on and off the balance sheet according to market price (interest rates, exchange rates, and stock prices etc.) fluctuations.</li><li>8.The term “capital requirement for operational risk” shall mean the capital required for the risk of loss arising from inadequate or failed internal processes, personnel or systems of the credit cooperative or external events.</li></ol> <p>Article 3</p> <p>The phrase “A credit cooperative’ s equity capital to its risk assets</p>

(i.e. capital adequacy ratio) shall not be less than a certain ratio” stipulated in Article 37 of the Act to which Paragraph 1, Article 44 of the Banking Act applies mutatis mutandis shall mean that the capital adequacy ratio of a credit cooperative shall not be less than 8 percent.

The term “capital grade” as used in Article 37 of the Act to which Paragraph 2, Article 44 of the Banking Act applies mutatis mutandis is delineated according to the standards set forth below:

1. “Adequate capital” means the capital adequacy ratio is 8 percent or higher.
2. “Inadequate capital” means the capital adequacy ratio is 6 percent or higher but below 8 percent.
3. “Significantly inadequate capital” means the capital adequacy ratio is 2 percent or higher but below 6 percent.
4. “Seriously inadequate capital” means the capital adequacy ratio is less than 2 percent. A credit cooperative whose net-worth to total assets is less than 2 percent shall be deemed as having seriously inadequate capital.

#### Article 4

Tier 1 capital consists of the sum of the following items less goodwill, unamortized loss on the disposal of non-performing loans, and amounts of items that should be deducted in accordance with the Methods and Forms for Calculating Equity Capital and Risk Assets of Credit Cooperatives:

- 1.Capital stock;
- 2.Capital surplus (except for fixed asset appreciation surplus);
- 3.Legal reserve;
- 4.Special reserve;
- 5.Retained earnings (less any insufficiency in operating reserve and loan loss provision); and
- 6.Other items under members’ equity (except for revaluation increments and unrealized gain on available-for-sale financial assets).

#### Article 5

Tier 2 capital consists of the sum of the following items less amounts of items that should be deducted in accordance with the Methods and Forms for Calculating Equity Capital and Risk Assets of Credit Cooperatives:

- 1.Capital surplus from revaluation of fixed assets;
- 2.Revaluation increments;
- 3.45% of unrealized gain on available-for-sale financial assets; and
- 4.Operating reserve and loan loss provision

The loan loss provision included in Tier 2 capital as provided in the preceding paragraph shall mean the amount of provisions that the credit cooperative sets aside in excess of the expected loss assessed based on historical loss experience.

The sum of operating reserve and loan loss provision as provided in Subparagraph 4 of Paragraph 1 hereof shall not exceed 1.25% of the total risk assets.

#### Article 6

Eligible equity capital is the sum of Tier 1 capital and eligible Tier 2 capital where the amount of eligible Tier 2 capital shall not exceed the amount of Tier 1 capital.

The term “eligible Tier 2 capital” in the preceding paragraph shall comply with the following requirements:

1. Capital used to cover credit risk and operational risk shall be limited to Tier 1 capital and Tier 2 capital, and Tier 2 capital used shall not exceed the amount of Tier 1 capital used to cover credit risk and operational risk.

2. Capital used to cover market risk must include Tier 1 capital. Only the remainder of Tier 2 capital after being used to cover credit risk and operational risk may be used to cover market risk.

#### Article 7

The calculation of total risk-weighted assets for credit risk and capital requirements for market risk and operational risk shall be in compliance with the Methods and Forms for Calculating Equity Capital and Risk Assets of Credit Cooperatives prescribed by the Central Competent Authority.

#### Article 8

Every credit cooperative shall, within two months after the end of each half-year account settlement, report its accountant-certified capital adequacy ratio calculated and presented in accordance with the methods and forms promulgated by the Central Competent Authority and submit relevant information.

If necessary, the Competent Authority may order a credit cooperative to report its capital adequacy ratio and submit relevant information at any time.

Paragraph 1 does not apply to a credit cooperative which is taken over by the Competent Authority pursuant to law.

#### Article 9

When a credit cooperative reports its capital adequacy ratio according to the preceding article, the Competent Authority shall examine its capital grade in accordance with the provisions of these Regulations on the calculation of capital adequacy ratio.

When a credit cooperative's capital is graded as inadequate capital, significantly inadequate capital or seriously inadequate capital by the competent authority following examination, the Competent Authority shall take appropriate actions pursuant to Article 37 of the Act to which Subparagraphs 1 to 3, Paragraph 1, Article 44-2 of the Banking Act applies *mutatis mutandis*.

#### Article 10

Credit cooperatives shall disclose relevant information concerning capital adequacy as required by the Central Competent Authority.

#### Article 11

These Regulations shall be in force on December 31, 2012.