

Content

Title :	Regulations Governing the Procedures for Credit Cooperatives to Evaluate Assets and Deal with Non-performing/Non-accrual Loans <b>Ch</b>
Date :	2014.01.28
Legislative :	<ol style="list-style-type: none"><li>1. 13 of Full articles promulgated by the Ministry of Finance Order Tai-Tsai-Rong (84)7643894 on 25 April 1987.</li><li>2. Amended by the Ministry of Finance Order Tai Tsai-Rong (84) 84737790 on 23 October 1995.</li><li>3. Full articles promulgated by the Ministry of Finance Order Tai-Tsai-Rong (89)89709314 on 5 April 2000.</li><li>4. Full articles promulgated by the Ministry of Finance Order Tai-Tsai-Rong (III) 0910033267 on 22 August 2002..</li><li>5. Amended per Order Tai-Tsai-Rong-(3)-Zi-No. 0933000496 dated 2004/06/30</li><li>6 Article 5, and 18 are promulgated and 17-1 are added by the Financial Supervisory Commission on November 18, 2010 Amendment order Ref. No. : Jin-Guan-Yin-(Fa)-zi NO.09900428781 ; the Regulations shall become effective on January 1, 2011.</li><li>7.Amended on January 28, 2014</li></ol>
Content :	<p>Article 1</p> <p>These Regulations are enacted pursuant to Paragraph 3, Article 21 of the Credit Cooperatives Act.</p> <p>Article 2</p> <p>In evaluating non-credit assets on and off balance sheet, a credit cooperative shall evaluate possible losses based on the characteristics of the assets, generally accepted accounting principles, relevant regulations, and the principle of conservatism, and shall allocate sufficient reserves for such losses.</p> <p>Article 3</p> <p>A credit cooperative shall classify credit assets on and off balance sheet. Non-defaulted credit assets shall be classified as "Category 1", while non-performing credit assets shall be evaluated based on the status of collaterals and the length of time overdue and classified under "Category 2" for assets that require special mention, "Category 3" for assets that are substandard, "Category 4" for assets that are doubtful, and "Category 5" for assets that are irrecoverable.</p> <p>Article 4</p> <p>The various types of unsound credit assets in the preceding article are defined as follows:</p> <ol style="list-style-type: none"><li>1. Those require "Special Mention" shall refer to those credit assets that have been evaluated as having sufficient collateral and on which the borrower's principal or interest payments have been in arrears for one (1) month to twelve (12) months; or those credit assets evaluated as unsecured and on which the borrower's principal or interest payments have been in arrears for one (1) month to three (3) months; or those credit assets that have not yet come due or reached their maturity date, but the borrower of</li></ol>

which has other instances of poor creditworthiness .

2. Those are "Substandard" shall refer to those credit assets that have been evaluated as having sufficient collateral and on which the borrower's principal or interest payments have been in arrears for twelve (12) months or more; or those credit assets evaluated as unsecured and on which the borrower's principal or interest payments have been in arrears for three (3) months to six (6) months.

3. Those are "Doubtful" shall refer to those credit assets evaluated as unsecured and on which the borrower's principal or interest payments have been in arrears for six (6) months to twelve (12) months.

4. Those are "Losses" shall refer to those credit assets evaluated as unsecured and on which the borrower's principal or interest payments have been in arrears for twelve (12) months or more; or those credit assets evaluated as impossible to obtain repayment.

With regard to those credit assets to be repaid in installments by agreement in accordance with Article 7, Paragraph 2, the credit cooperative may evaluate the assets in accordance with the borrower's solvency and the status of the collateral within six (6) months after the establishment of a separate contract; these assets may not be classified as Category One, however, and relevant corroborating evidence must be provided.

#### Article 5

A credit cooperative shall evaluate credit assets on and off balance sheet in accordance with Articles 3 and 4 herein, and shall allocate sufficient loan loss provision and reserves against liability on guarantees. The minimum loan loss provision and guarantee reserve shall be 1% of the outstanding balance of Category 1 credit assets (excluding assets that represent claims against ROC government agencies, including central and local governments), 2% of the outstanding balance of Category 2 credit assets, 10% of the outstanding balance of Category 3 credit assets, 50% of the outstanding balance of Category 4 credit assets, and 100% of outstanding balance of Category 5 credit assets.

To strengthen the ability of credit cooperatives to bear the loss of specific credit assets, the central competent authority may, if deemed necessary, require credit cooperatives to raise loan loss provision and guarantee reserve for specific credit assets.

#### Article 6

In the event that loss reserve, loan loss provision and guarantee reserve set aside by a credit cooperative in accordance with Article 2 and the preceding article herein are assessed as insufficient by the competent authority or a financial examination agency (organization), the credit cooperative shall immediately supplement such reserves in accordance with the request of the competent authority or comments of the financial examination agency (organization).

#### Article 7

"Non-Performing Loans" as referred to in the Regulations shall refer to those loans for which the principal or interest has been in arrears for three (3) months or more, and those loans which the principal or interest

has not yet been in arrears for more than three (3) months, but with regard to which the credit cooperative has sought payment from primary/subordinate debtors or has disposed of collateral.

If a restructured loan meets certain conditions, the negotiated interest rate is not lower than the original loan or the rates of new loans in the same risk category, and the negotiated terms have been performed for over six (6) months, the loan may be exempted from reporting as a non-performing loan. However, if the negotiated installment payments are in arrears for three (3) months or more during the period of exemption as non-performing loans, the loan shall still be reported as such.

The "certain conditions" referred to in the preceding paragraph shall include the following circumstances:

1. Those were originally short-term loans with annual repayment of principal and interest generally over 10%. However, the maximum loan period shall be five (5) years.
2. Those were originally mid-/long-term loans with an installment payment period limited to twice the original remaining number of years. However, the maximum loan period shall be thirty (30) years. The installments paid within the original remaining number of years may not be less than 30% of the owed principal and interest. If a mid-/long-term has no remaining number of years, or twice the remaining number of years is less than five (5) years, the installment payment period may be extended to five (5) years, and the annual repayment of principal and interest shall generally be over 10%.

The term "payment period" in the first paragraph shall be the agreed-upon date for restructured loans and other extensions of credit. However, if the credit cooperative requests earlier repayment in accordance with the contract, the repayment period of which the credit cooperative notifies the debtor shall be the payment period.

#### Article 8

"Non-accrual loans" as used in these Regulations shall refer to loans and other extensions of credit transferred to the non-accrual loans account. All non-performing loans shall be transferred to non-accrual loans account within six (6) months after the end of the payment period. However, those restructured loans to be performed in accordance with the agreement shall not be subject to this restriction.

#### Article 9

The credit cooperatives shall actively clear up non-performing loans and non-accrual loans in accordance with the following regulations:

1. After an evaluation of the debtor's financial and business conditions, if a bank determines that the business may continue to operate as a viable entity, the repayment terms of the original loan agreement may be amended within the amount standards authorized by the board of directors; the amended terms shall be approved by an authorized person.
2. Banks shall actively clear up loans in accordance with the Code of Civil Procedure, the Compulsory Execution Law, and other relevant laws and regulations. However, those restructured loans shall not be subject to this restriction.

3. If a bank feels that primary/subordinate debtors are unable to repay loan principal, the bank may reach a settlement with the debtor(s) reflecting the actual circumstances, based on the amount standards authorized by the board of directors, and approved by an authorized person; then the settlement shall be reported to the board of executive directors for acknowledgement.

#### Article 10

Interest shall not be accrued to non-performing loans that are transferred to non-accrual loans account. However, loan collection shall continue as per the terms of the relevant agreement, and accrued interest shall continue to be posted to the interest column of the non-accrual loans account for each borrower, or a notation of such shall be made. Any unpaid interest due on a non-performing loan prior to its transfer to a non-accrual loan shall be transferred to the non-accrual loans account together with principal.

#### Article 11

Any non-performing loans or non-accrual loans that, after subtracting the estimated recoverable portion, have one of the following circumstances shall be written off:

1. The loan cannot be recovered in full or in part because the debtors have dissolved, gone into hiding, reached a settlement, declared bankruptcy, or for other reasons.
2. The collateral and property of the primary/subordinate debtors have been appraised at a very low value or become insufficient to repay the loan after the subtraction of senior mortgages; or the execution cost approaches or possibly exceeds the amount that the bank might collect [from the debtor(s)] where there is no financial benefit in execution.
3. The primary/subordinate debtor's collateral has failed to sell at successive auctions where the price of such collateral has been successively lowered, and there is no financial benefit to be derived from the bank's taking possession of such collateral.
4. More than two (2) years have elapsed since the maturity date of the non-performing loans or non-accrual loans, and the efforts of collection have failed.

A non-performing loan or non-accrual loan that has not been in arrears for more than two years but has not been recovered after collection efforts may be written off as bad debt after subtracting the recoverable portion.

#### Article 12

The write-off of non-performing loans and non-accrual loans shall be approved by a resolution passed by the board of directors, and the supervisors shall be notified of the write-off. However, if so requested by the competent authority or a financial examination agency (organization), a loan shall be immediately written off with a report submitted to the subsequent board of directors' meeting, and the supervisors shall be notified the same.

With regard to the provisions of the preceding paragraph, if a loan that exceeds the limits prescribed in Article 37 of the Credit Cooperatives Act

to which Article 33 of the Banking Act applies mutatis mutandis is to be extended or written off (including cases where a stakeholder acts as the loan guarantor or provides the collateral), such decision requires the consent of at least three-fourths of directors present in a board meeting attended by at least two-thirds of all directors as well as the consent of all supervisors.

#### Article 13

With regard to the write-off of non-performing loans and non-accrual loans, the amount provided under the loan loss provision or the reserve against liability on guarantees shall be used to offset the write-off, and, if such amount(s) is insufficient, the deficiency shall be recognized as a loss in the current year..

#### Article 14

A credit cooperative shall establish an internal management system and procedures for the evaluation of asset quality, allocation of loss reserves, clearance of non-performing loans/non-accrual loans, and the write-off of bad debt, and such system and procedures shall be reported to the local competent authority for reference after approval by the board of directors. While reporting to local competent authority, the credit cooperative shall send a copy of the system and procedures and attachments thereto to the central competent authority. The internal management system and procedures shall contain at least the following items:

1. The evaluation and classification of assets.
2. Loan loss provision and loss reserve policy.
3. Measures to be taken when a credit extension becomes past due.
4. Regulations governing relevant collection procedures. Rules for collection procedures.
5. Regulations governing procedures for amending original credit repayment agreements of non-performing/non-accrual loans and entering settlement, as well as authorization standards. Procedures for amending original repayment agreements of non-performing/ non-accrual loans and loan settlement, as well as authorization standards.
6. Accounting treatment of non-accrual loans and writing off bad debt.
7. Accounting treatment of claims and debt collections, and the documentation needed to evidence the same.
8. Key points to be used by the auditors when conducting an audit.
9. Internal responsibilities and disciplinary/award measures.

#### Article 15

When writing off non-performing loans and non-accrual loans, a credit cooperative shall investigate whether the loan was made in accordance with applicable laws and regulations, and internal rules. If such investigation determines that the loan was made in accordance with the established procedures, and, the appropriate follow up reviews were conducted and no laws were violated or responsibilities neglected, then no administrative measures need to be taken. If such investigation reveals a violation or omission with regard to applicable laws and regulations, or internal rules, the credit cooperative shall take disciplinary actions against employees

based on the hierarchy of responsibility and the circumstances of the credit authorization. If such violations or omissions are criminal in nature, the credit cooperative shall report the matter to the proper prosecutorial authority for investigation.

#### Article 16

When a loan is written off in accordance with the established procedures, the claims shall still be posted in the accounts and registry books for reference. The relevant business department shall monitor the activities of the primary/subordinate obligors. If it is discovered that the primary/subordinate obligors have property for execution, the credit cooperative should take recourse actions as provided by law.

If an evaluation determines that there is no real benefit to be gained from the recourse actions described in the preceding paragraph, the debt needs not be posted in the accounts or put under control after approval by the board of directors; however, the debt shall continue to be recorded in registry books for future reference.

#### Article 17

A credit cooperative shall, before the fifteenth of each month, file its past due loans (including non-accrual loans) and non-performing assets as of the end of the previous month with the municipal government or county (city) government in accordance with the format and content as required by the central competent authority, and file the same with the central competent authority through Internet or in writing. A credit cooperative shall, before the fifteenth of the month following the end of each quarter, file details of asset evaluation and status of loan loss provision and loss reserves as of the end of the previous quarter with the municipal government or county (city) government.

#### Article 17-1

The minimum loan loss provision and reserves against liability on guarantees for Category I credit assets for a credit cooperative that is calculated according to Paragraph 1 of Article 5 amended on January 28, 2014 shall be fully allocated within one year from the date the amendment is implemented. A credit cooperative with legitimate reasons may, before the aforementioned deadline and after it has obtained approval from its board of directors, apply to the central competent authority for an extension of not more than four years.

#### Article 18

These Regulations shall take effect on July 1, 2005.

These Regulations amended and promulgated on November 18, 2010 shall take effect on January 1, 2011.

These Regulations amended and promulgated on January 28, 2014 shall take effect on January 1, 2014.