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| Title :       | Regulations Governing Derivatives Transactions Conducted by Insurance Companies <b>Ch</b>   |
| Date :        | 2024.07.04  |
| Legislative : | Amended on 4 July 2024 per Order No. Jin-Guan-Bao-Cai-Zi- 11304921741 of the Financial Supervisory Commission   |
| Content :     | <p>Article 2</p> <p>The terms used in the Regulations are defined as follows:</p> <ol style="list-style-type: none"><li>1. "Derivatives transactions" mean "transactions for hedging purpose", "transactions for enhancing the investment efficiency", or "transactions of structured products".</li><li>2. "Transactions for hedging purpose" mean derivatives transactions which comply with the following provisions:<ol style="list-style-type: none"><li>(1)The hedged item is in existence and exposes the insurance company ( "insurer" ) to identifiable risk of loss;</li><li>(2)The hedging derivatives transactions may reduce the risk of the hedged item and are specified for hedging the aforesaid item; and</li><li>(3)When conducting a hedging transaction where the hedged item is an existing investment position or an anticipated investment position provided in Subparagraph 3 hereof and where the underlying instrument of the hedging derivatives is different from the hedged item, such instrument and the hedged item shall be specified in a formal document, with a statement certifying the high correlation between them.</li><li>(4)When conducting a hedging transaction where the hedged item is a specific liability position provided in Subparagraph 3 hereof, the hedging derivative shall have the expected hedging effect stated in the hedging program drafted pursuant to Subparagraph 2, Paragraph 1 of Article 4-1 herein.</li></ol></li><li>3. "A hedged item" means an existing investment position, an anticipated investment position or a specific liability position. Anticipated investment positions and specific liability positions can include the following:<ol style="list-style-type: none"><li>(1) An anticipated investment position means the following:<ol style="list-style-type: none"><li>a.The principal of an existing investment position that will reach maturity within the coming year and the incurred interest;</li><li>b.Cash flow expected to go on within the coming year from sold insurance policies.</li></ol></li><li>(2)The specific liability position means the position that should be recognized as a guaranteed benefits liability for investment-linked insurance product according to regulations.</li></ol></li><li>4. "Risk of a hedged item" means the price, interest rate, exchange rate, and credit, among other things, of the hedged item.</li><li>5."High correlativity" means that with all the transaction records of the past three months or more as samples, the correlation coefficient with regard to the rate-of-change of price or rate of return between the underlying instrument of the hedging derivatives or the portfolio thereof is equivalent to 70% or above.</li><li>6. "Transactions for enhancing the investment efficiency" mean those with purposes other than hedging and investing in structured products.</li><li>7."Value-at-risk calculation of positions relevant to transactions for enhancing the investment efficiency" means that 10-day 99% VAR for the above position is required to be calculated either on a weekly basis for at least three years period or on a daily basis for at least one year period. On top of that, the aforesaid data shall be updated on a weekly basis and back testing of the above VAR shall be performed on a monthly basis.</li><li>8. "Transactions of structured products" mean transactions of portfolios combining fixed-income instruments and derivatives issued or guaranteed by</li></ol> |

financial institutions.

9. "Aggregate nominal value" means the value calculated in accordance with the following requirements:

(1) In option contracts, it is the sum of products of the exercise price multiplied by the theoretical hedging ratio and the total number of open-interest positions.

(2) In interest rate swap contracts, it is the sum of products of the nominal principal of hedged item multiplied by the theoretical hedging ratio.

(3) In leveraged derivatives contracts, it is the sum of products of the nominal principal in the contract multiplied by the leverage.

(4) For derivative contracts other than those mentioned in the preceding three items, it is the sum of the contract value or the nominal principal.

10. "Foreign credit rating agencies" means Moody's Investors Service, Standard & Poor's Corp., Fitch Ratings Ltd. and other credit rating agencies recognized by the Financial Supervisory Commission.

#### Article 5

An insurer with the following qualifications and get approved from the competent authority may engage in the derivatives transactions for enhancing the investment efficiency:

1. The insurer's ratio of total adjusted net capital to risk-based capital is equivalent to 125% of the regulatory standard for capital adequacy set out in Subparagraph 1, Paragraph 2, Article 143-4 of the Act or above;

2. The value-at-risk calculation is performed every day to measure and manage the risk exposure of derivatives positions;

3. In the immediately preceding year, there are no major violations of performing the insurer's internal control procedure with regard to the use of funds, or the rectification of such violations have been done and get affirmed by the competent authorities;

4. There have been no major sanctions and disciplinary actions related to the usage of insurer's funds imposed by the competent authority in the most recent year, however, this does not include violations that have been rectified and affirmed by the competent authority; and

5. Other eligible qualifications required by the competent authority.

The major sanctions and disciplinary actions as prescribed in Subparagraph 4 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.

An insurer intending to engage in the derivatives transactions for enhancing the investment efficiency shall submit the trading proposal which has got approved by the board of directors, together with the application form and the documents in support of the qualification provided in the Paragraph 1 of this article to the competent authority for getting a prior approval. The trading proposal shall record forth the following information:

1. Types of derivatives;

2. Restrictions on manipulation of derivatives;

3. The objects of investment efficiency enhancement and the way to assess its performance;

4. Mechanism with regard to risk-limit management, including the limit on total position, stop-loss strategies and the frequency of assessment etc.

Where the trading proposal mentioned in the preceding Paragraph is amended and get approved by the board of directors, it shall be submitted to the competent authority for reference purpose after it.

#### Article 17

Except for subparagraph 3 of Article 2 amended and promulgated on 4 July 2024 that will come into force on 1 January 2026, these Regulation shall come into force on the date of promulgation.