

# Notes on Capital Adequacy Management

Year 2020

Item	Content
<p>Briefly discuss the methods of evaluating the capital adequacy of banks in the face of current and future business</p>	<p>The bank's methods and procedures for assessing capital adequacy are as follows:</p> <p>I. Set the internal management target value and early warning indicator of capital adequacy ratio:</p> <p>When setting internal management target values for common equity ratio, tier1 capital ratio and capital adequacy ratio, this bank comprehensively considers (1) relevant laws and regulations; (2) The bank's operation strategy, risk management strategy, self-owned capital structure and risk appetite; (3) Business cycle and capital market changes; (4) External rating requirements; (5) capital affordability and other factors under stress test.</p> <p>The annual management target values of the above capital adequacy ratios are based on the principle of meeting the statutory capital requirements of the competent authorities for systemically important banks in Taiwan and the internal management capital requirements of relevant laws, and will be reviewed in the light of the overall operating environment and changes in the bank's financial business. In addition, early warning indicators are set on top of each management target value to serve as a buffer for monitoring and maintaining the bank's capital adequacy, so as to respond in advance. In the future, the bank will gradually increase various capital adequacy ratios in line with the requirements of relevant laws.</p> <p>II. Control procedures for maintaining capital adequacy:</p> <p>(1) The capital management department of the bank keeps a close watch on sales, income, capital sources and market changes, to calculate and review the capital adequacy ratio and capital utilization of each business on a monthly basis. When the capital adequacy ratio is equal to or lower than the early warning index, if after analysis there is a real risk of capital shortage, it will be reported to the approved level according to the internal procedures, and relevant units will be convened to formulate countermeasures, and timely adjust the self-owned capital or risky assets to improve the capital adequacy ratio.</p> <p>(2) Establish a dynamic adjustment and monitoring system of "risky asset allocation target". When there is a significant difference between the actual number of risky assets of any business and the target number in a year, or if there is an adjustment to the business strategy and business direction, and it is estimated that the risky assets of each business may deviate materially from the budget target, the trial calculation will be analyzed, and corresponding measures will be taken to ensure that the capital adequacy ratio can meet the management target.</p> <p>III. Methods to evaluate future capital adequacy:</p> <p>(1) According to the future business and financial objectives set out in the bank's medium and long-term development strategy, measure the bank's medium and long-term risk appetite to assess the impact of future business development on capital.</p> <p>(2) The executed capital forecast includes:</p>

	<ol style="list-style-type: none"><li>1. The quality and quantity of capital shall be sufficient to bear the risks arising from business development</li><li>2. The preparation of business budget shall meet the goal of capital adequacy</li><li>3. Assessment of operational risk control</li><li>4. Assessment of capital affordability under stress test</li></ol>
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**Capital adequacy ratio**  
December 31, 2020 (unit: NT \$1000; %)

Item	The Bank		Merger	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Self-owned capital:				
Tier1 net capital of common equity	273,635,312	272,142,408	276,182,111	274,907,180
Other tier1 net capital of non-common equity				
Tier2 net capital	28,823,492	27,140,533	31,640,197	30,180,451
Total self-owned capital	302,458,804	299,282,941	307,822,308	305,087,631
Weighted risky assets:				
Credit risks	2,026,903,799	2,007,799,761	2,047,980,712	2,029,590,378
Operation risk	93,922,763	96,540,700	94,724,225	97,333,175
Market risk	33,382,675	45,729,188	33,465,838	45,775,875
Total weighted risky assets	2,154,209,237	2,150,069,649	2,176,170,775	2,172,699,428
Common equity ratio	12.70	12.66	12.69	12.65
Tier1 capital ratio	12.70	12.66	12.69	12.65
Capital adequacy ratio	14.04	13.92	14.15	14.04
Leverage ratio:				
Net capital of tier1	273,635,312	272,142,408	276,182,111	274,907,180
Total exposure	3,703,564,073	3,589,206,670	3,726,436,058	3,612,719,948
Leverage ratio	7.39	7.58	7.41	7.61