



## Operational Procedures for Loaning Funds to Others

Note: The original version of this regulation is published in Chinese. In case of discrepancy between the Chinese and English versions the Chinese version shall prevail.

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**1.0 Purpose**

These Operational Procedures are adopted to regulate the Corporation's loaning of funds to others.

**2.0 Scope**

The meaning of "loaning funds to others" as used in these Operational Procedures shall be determined in accordance with Article 15 of the Company Act. For any loaning of funds in connection with business transactions or necessity of a short-term financing facility between the Corporation and another company or firm, the following criteria must be met:

- a) The loan arises from a business need.
- b) The Corporation and/or its related business entity(ies) have direct investment in the company or firm accounting for an equity percentage of 50 percent or more or have direct control over the operations of the company or firm.
- c) The loan must be approved by resolution of the Board of Directors ("Board") and within a maximum amount approved and adopted at a shareholders' meeting.
- d) The loan must comply with restrictions as set out in a syndicated loan agreement signed by the Corporation.

**3.0 Applicable documentation**

- a) Article 36-1 of the Securities and Exchange Act.
- b) The Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies issued by the Financial Supervisory Commission.
- c) The Corporation's Rules Governing Securities (THSRC-BE2-000-008).
- d) The Corporation's Directions for the Handling of Public Announcements and Reporting over the Market Observation Post System (THSRC-BQ2-000-001).
- e) The Corporation's Rules Governing Rewards and Disciplinary Action (THSRC-BA2-000-003).
- f) The Regulations Governing the Preparation of Financial Reports by Securities Issuers issued by the Financial Supervisory Commission.

**4.0 Definitions**

- a) Short-term

Means the period of 1 year or 1 operating cycle, whichever is longer.

- b) Net worth

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Means the balance of total assets less total liabilities (i.e., shareholders' equity). Where the Corporation's financial reports are prepared according to the International Financial Reporting Standards, "net worth" means the equity attributable to owners of the parent as stated in the balance sheet prepared under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

c) Date of occurrence

Means the earliest of the date of loan disbursement, date of Board resolution, date of contract, or other date from which the entity ("recipient") to which the loan is made and the amount of the loan can be determined.

d) Subsidiary

Shall be determined in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

**5.0** Authorities and responsibilities

- a) The Finance Department under the Finance Division shall be responsible for the formulation, amendment, or repeal, and triennial review of these Operational Procedures.
- b) These Operational Procedures, and any amendments hereto, shall be implemented after adoption at a shareholders' meeting.
- c) All units and personnel involved in the execution of operations related to loaning of funds to others shall comply with the provisions of these Operational Procedures.

**6.0** Descriptions

**6.1** General provisions

**6.1.1** Maximum amount limits for the Corporation's loaning of funds to others

- a) The total amount of the Corporation's loaning of funds to others ("total loanable funds") may not exceed 10 percent of the Corporation's net worth, wherein the percentage of 10 percent shall be calculated based on cumulative loan amounts.
- b) The total amount of the Corporation's loaning of funds to a single recipient shall be subject to the following limits, wherein the Corporation's current net worth shall be as stated in its latest financial statements attested by a certified public accountant (CPA):
  - i) For loaning funds to others with which the Corporation transacts business, the total amount loaned to a single recipient may not exceed 20 percent of the Corporation's total loanable funds.
  - ii) For loaning funds to others due to a short-term financing necessity, the total amount loaned to a single recipient may not exceed 20 percent of the Corporation's total loanable funds.

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Loans of funds may be made between overseas companies in which the Corporation directly and/or indirectly holds 100 percent of the voting shares. Unless otherwise provided by law or regulation, such loans are also subject to the maximum loan amount limits set out in the preceding paragraph and applicable maximum loan term limits set out in these Operational Procedures.

6.1.2 Within the maximum amount authorized at a shareholders' meeting, and subject to approval by resolution of the Board, the Corporation may loan funds to others as specified below:

- a) A company or firm with which the Corporation transacts business.
- b) A company or firm to which it is necessary for the Corporation to grant a short-term financing facility.

The assessment standards for the Corporation's loaning of funds to others shall be subject to the Corporation's applicable rules.

Unless otherwise provided by law or regulation, all matters relating to the Corporation's loaning of funds to others shall be handled in accordance with these Operational Procedures.

6.1.3 The Corporation's loaning of funds to others shall be subject to a maximum loan term of 2 years, provided that an extension may be made if an actual need arises and upon approval by resolution of the Board before the expiration of the original term.

6.1.4 The Corporation may not loan funds at an interest rate below the Corporation's capital cost rate. In principle, interest shall accrue on a daily basis and be paid once every month. The Corporation shall notify a borrower to pay interest within 1 week from the stated interest payment date.

6.1.5 The Corporation shall establish a log book for its funds loaning activities and shall record the itemized details of each loan, including the recipient, amount, date of passage by the Board, loan date, and the prudent assessment results required under 6.2, in the log book for future reference.

6.1.6 When as a result of a change in circumstances a loan recipient no longer meets the requirements of these Operational Procedures or the loan balance exceeds the maximum limit, the Corporation shall adopt a corrective plan, submit the plan to all Supervisors, and complete the corrections according to the plan schedule.

6.1.7 The assessment standards for the Corporation's loaning of funds to others shall be as follows:

- a) For loaning funds to others with which the Corporation transacts business:

The total amount loaned to a single recipient may not exceed the amount of business transacted between the two parties. The "amount of business transacted" means the amount of purchases of goods or sales of goods between the two parties, whichever is higher.

- b) For loaning funds to others due to a short-term financing necessity, the reason and necessity shall be limited to the following:

- i) It is necessary for the Corporation, due to a business need, to grant a short-term

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financing facility to a company in which the Corporation holds 50 percent or more of the shares.

- ii) Any other loan of funds as approved by the Corporation's Board.

## 6.2 Assessment of loan cases

6.2.1 For loaning of funds to others, the Corporation shall satisfy the requirements of 6.1.1 and also prudently assess and review the following matters:

- a) The necessity and reasonableness of the loan.
- b) The borrower's scope of business, financial condition, repayment ability, credit status, profitability, loan purpose, company outlook, etc.
- c) Impact on the Corporation's operational risk, financial condition, and shareholders' equity.
- d) Whether collateral shall be obtained and valuation of the collateral.

The Corporation shall also prepare an assessment report based on the review results, stating the reason for and circumstances of loan eligibility and the maximum amount, term, and conditions of the loan, and submit the assessment report to the Board for passage by resolution. The funds may be disbursed only after approval by the Board.

For loaning of funds between the Corporation and any of its subsidiaries or between any of the Corporation's subsidiaries, the Chairman of the Board may be authorized to disburse loaned funds to a single recipient in installments or provide a revolving credit line available for a single recipient to draw down, subject to a certain amount approved by the Board and within a period of no more than 1 year.

6.2.2 The opinions of each Independent Director shall be given full consideration in matters related to the Corporation's loaning of funds to others, and each Independent Director's reason for assent or dissent shall be recorded in the Board meeting minutes.

## 6.3 Creation of security interests

If collateral is required for a loan case, the borrower shall provide the collateral and complete the pledge or mortgage creation procedure to secure the Corporation's rights as a creditor. The provided collateral, except for land and securities, shall be insured by fire and other relevant insurance, for an amount, in principle, of not less than the value of the collateral. Each insurance policy shall name the Corporation as the beneficiary of the policy. The description, quantity, storage place, insurance terms and conditions, insurance endorsements, and other relevant matters with respect to the insured subject matter as stated in the policy shall correspond to the original terms and conditions on which the Corporation grants the loan. The person handling the loan case shall keep track of when the insurance period expires and before expiration shall notify the borrower to renew the policy.

## 6.4 Disbursement of funds

The funds may be disbursed for a loan case only after the loan has been approved and the borrower has signed a contract and delivered the corresponding negotiable instrument (or

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instrument for repayment by installment) or completed registration of the mortgage (or pledge) of the collateral, and all of the procedures have been checked and found to be correctly performed.

6.5 Maintenance of creditor's rights

After a loan has been disbursed, the financial, business, and credit conditions of the borrower and the guarantor shall be monitored on a regular ongoing basis. If collateral has been provided, it shall be monitored for any changes in the collateral value. By 2 months before the loan term expires, the Corporation shall notify the borrower to repay the principal and interest or extend the loan term before or at expiration. If repayment or extension is not made by the due date, the Corporation shall immediately investigate the reason and, according to the type of collateral provided, formulate a plan to address the issue, submit the plan to the Chairman for approval/decision, and on that basis make the corresponding disposition with respect to the creditor's rights, so as to safeguard the Corporation's rights and interests. The Corporation shall also submit the matter to the next Board meeting for retroactive recognition.

6.6 Custody of collateral

6.6.1 If the loan collateral provided by a borrower is securities, the provided securities collateral shall be handled in accordance with the Corporation's Rules Governing Securities (THSRC-BE2-000-008).

6.6.2 If the loan collateral provided by a borrower is not securities, the borrower shall be solely responsible for keeping custody of the collateral; nevertheless, the borrower shall still provide a collateral certificate as evidence, to be kept in custody in accordance with the preceding paragraph by *mutatis mutandis* application.

6.7 Public announcement and reporting procedures

6.7.1 The Corporation shall publicly announce and report the previous month's balance of loans of funds made by the Corporation and its subsidiaries by the 10th day of each month.

6.7.2 If the Corporation's balance of loans of funds reaches one of the following levels, it shall publicly announce and report the event within 2 days from the date of occurrence:

- a) The balance of loans of funds made by the Corporation and its subsidiaries to others reaches 20 percent or more of the Corporation's net worth as stated in its latest financial statements.
- b) The balance of loans of funds made by the Corporation and its subsidiaries to a single business entity reaches 10 percent or more of the Corporation's net worth as stated in its latest financial statements.
- c) The amount of any new additional loans of funds made by the Corporation or any of its subsidiaries reaches NT\$10 million or more and also reaches 2 percent or more of the Corporation's net worth as stated in its latest financial statements.

The Corporation shall publicly announce and report on behalf of any of its subsidiaries that is not a domestic public company any matters that such subsidiary is required to publicly announce and report under subparagraph c) of the preceding paragraph.

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- 6.7.3 Any public announcement or reporting required above or otherwise by applicable provisions shall be handled in a timely manner in accordance with applicable requirements of the competent authority and the Corporation's Directions for the Handling of Public Announcements and Reporting over the Market Observation Post System (THSRC-BQ2-000-001).
- 6.8 Supplementary provisions
- 6.8.1 All matters not covered by these Operational Procedures shall be handled in accordance with other applicable rules.
- 6.8.2 The operational procedures of the Corporation's subsidiaries for loaning funds to others shall comply with the provisions of the Corporation. A subsidiary that is not a public company shall, by the 5th day of each month, report relevant loan information to the Corporation including the amount, recipient, and term, provided that if one of the levels set out in 6.7.2 is reached by the subsidiary, it shall immediately notify the Corporation so that the Corporation can duly proceed with public announcement and reporting.
- 6.8.3 Internal audit
- The internal audit personnel shall at least quarterly audit the operational procedures for loaning funds and the execution of the operations, and prepare written records accordingly. If any material violation is found, it shall immediately be reported in writing to all Supervisors.
- 6.8.4 When an in-charge person or management member violates these Operational Procedures or applicable requirements of the competent authority, the violation shall be handled in accordance with the Corporation's Rules Governing Rewards and Disciplinary Action (THSRC-BA2-000-003).
- 6.8.5 The accounting unit shall evaluate the status of loans of funds and set aside sufficient allowance for bad debts. It shall also adequately disclose relevant information in the Corporation's financial reports and provide the attesting CPAs (external auditor) with relevant materials for the performance of necessary audit procedures.
- 6.8.6 After passage by the Board, these Operational Procedures shall be sent to all Supervisors and submitted to a shareholders' meeting for approval. When a Director expresses dissent and such dissent is on record or in a written statement, the Corporation shall forward the materials containing the Director's dissent to all Supervisors and submit the matter to the shareholders' meeting for discussion. The same procedures shall also apply to any amendments to these Operational Procedures.
- 6.8.7 When these Operational Procedures are submitted to and discussed at a Board meeting pursuant to the preceding article, the opinions of each Director shall be given full consideration. If the Corporation has established the position of Independent Director, each Independent Director's explicit opinion of assent or dissent and reasons for objection shall be recorded in the Board meeting minutes.
- 6.8.8 If the Corporation has set up an Audit Committee in accordance with the Securities and Exchange Act, all powers of Supervisors described in these Operational Procedures shall be exercised by the Audit Committee in accordance with law.



**7.0**      Records

- a) Shareholders' meeting minutes (retention period: permanently)
- b) Board meeting minutes (retention period: permanently)
- c) Internal request and approval documents (retention period: permanently)
- d) Case assessment reports for loaning of funds to others (retention period: permanently)
- e) Seal request forms (retention period: as provided in the Rules Governing Official Documents and Files)
- f) Loan contracts (retention period: permanently)
- g) Mortgage creation contracts (retention period: during the loan term)
- h) Certificates of encumbrance (retention period: during the loan term)
- i) Insurance policies (retention period: during the loan term)
- j) Securities (retention period: during the loan term)
- k) Creation-of-pledge notices (retention period: during the loan term)
- l) Release-of-pledge notices (retention period: during the loan term)
- m) Promissory notes (retention period: during the loan term)
- n) Log book for loaning of funds to others (retention period: permanently)
- o) Securities deposit slips (retention period: as provided in the Rules Governing Securities)
- p) Securities withdrawal slips (retention period: as provided in the Rules Governing Securities)
- q) Reporting lists of public announcements and reporting over the Market Observation Post System (retention period: as provided in the Directions for the Handling of Public Announcements and Reporting over the Market Observation Post System)
- r) Audit reports (retention period: as provided in the Internal Audit Standards)

**8.0**      Attachments

None