

# Annual Report 2014

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# I. Chairperson's Preface

The global economy as a whole continued its recovery in 2014, but the degree of recovery varied markedly across nations and across regions. Recovery was relatively strong, for example, in the UK and US, but tepid in the other major economies (especially Japan and the Eurozone). On average, the International Monetary Fund (IMF) estimates global economic growth of 3.4% in 2014, the same as the year before.



Chairperson Jih-Chu Lee

In Taiwan, the global economic upturn fueled a continued expansion of goods exports, while another increase in the number of international arrivals spurred a sharp improvement in services exports. As a result, export growth exceeded expectations. Domestic internal demand picked up in terms of both private consumption (which rose strongly due to an improved employment situation and buoyant stock markets) and private investment (which grew moderately on the strength of major capital expenditures in the aviation and semiconductor industries). With positive factors at work on both the domestic and international fronts, Taiwan achieved GDP growth of 3.77% in 2014, up from 2.23% in 2013.

Domestic banks took active advantage of development opportunities generated by favorable conditions at home and abroad in 2014 to achieve outstanding success in terms of both business development and profits. The pre-tax earnings of domestic banks totaled NT\$320.1 billion in 2014, an all-time high that was up 24.2% from NT\$257.6 billion in 2013. Over the same period, their return on assets (ROA) came to 0.79% (up from 0.68% in 2013) and return on equity (ROE) was 11.65% (versus 10.26%). And in addition to record-high profits, our domestic banks also benefitted from a gradually improving interest spread, which rose from an average of 1.22 percentage points in 2009 to an average of 1.42 percentage points in 2014. This trend boosted banks' profitability. As for banks' asset quality, the average non-performing loan (NPL) ratio of domestic banks at year-end 2014 was down to 0.25%, setting a new low, while their average NPL coverage ratio set a new high of 516.38% (up by 197.2 percentage points from the figure for year-end 2013). These figures showed that even as our domestic banks continued to take in record earnings, they made sure that asset quality was maintained. For this, they deserve strong praise.

The Bankers Association of the Republic of China (BAROC) was founded to help the government implement its financial policy, spur economic development, and coordinate relations among peers in the industry so as to bring about the generation of benefits that can be shared among them. Over the past year, the active support and hard work of its member institutions has enabled BAROC to help the government implement key policies. For example, to help promote sound operation and development of electronic payment institutions, BAROC member banks formed an ad hoc task force and eight working groups to draft nine items of secondary legislation to be issued under the authority of the "Act Governing Electronic Payment Institutions." In the course of their work, the task force and work teams have invited network platform operators and electronic stored value card issuers to take part in the process. Also, in response to the rise of mobile communications and the Internet, the task force and working groups have been helping to devise coordinated measures to be adopted in connection with deregulation of 12 lines of business, including deposit taking, lending, credit cards, wealth management, and co-marketing. The objective is to provide consumers with convenient financial services. At the same time, they have been collecting information on actions taken overseas to deregulate the use of the Internet, with an eye to facilitating the launch of online account openings in Taiwan, which some have recommended.

Under the guidance of the competent authority, BAROC has taken active steps to strengthen professional training. For example, in support of the government's policy of encouraging banks to establish a stronger presence throughout Asia, BAROC continues to hold related professional development courses, seminars, and lectures; actively helps member banks carry out their own training programs to cultivate the skills needed for international business; has established a website section focused on the establishment of overseas business locations; and continues to add to the content of the Mainland China Financial Database. These measures are intended to help member banks systematically collect information on possible overseas business locations. In addition, in support of the government's policy of promoting development of cultural and creative industries, BAROC has helped to establish a valuation mechanism, offers education and training courses, and holds forums and lectures on the cultural and creative industries.

As mentioned above, coordinating relations among peers in the industry so as to bring about the generation of shared benefits among them is one of BAROC's key missions. With this goal in mind, BAROC focused on a number of tasks in 2014, including the following: (1) continued to monitor changes in foreign and domestic laws and regulations for the reference of member banks; (2) closely tracked the progress of legislative action in order to reflect the views of the banking sector in a timely manner; (3) drafted and researched self-regulatory rules for the banking industry; (4) worked with banks to ensure more convenient services for both corporate and individual customers and to promote the shared interests of banks; (5) drafted and improved financial institution information security measures; and (6) helped member banks resolve management and operational problems in common.

BAROC undertook many actions in 2014 to promote international exchange, expand its member banks' opportunities for international participation, and help member banks find new business opportunities. Steps taken included the following: organized a delegation to travel to mainland China and visit Internet-based businesses there as well as the financial supervisory authorities that oversee them; traveled to the United Kingdom to visit with the UK Treasury and the British Bankers' Association, where the delegation made a concerted effort to establish cooperation and exchange between Taiwan and the UK in the area of RMB business; and took part in the 47th Annual Meeting of the Board of Governors of the Asian Development Bank held in Astana, Kazakhstan.

In addition, BAROC also continued working to fulfill its corporate social responsibility by, for example: promoting the development of barrier-free websites; adopting recommended operating procedures for voice-enabled ATMs; helping banks to set up wheelchair-accessible ATMs; handling complaint mediation cases filed by the customers of member banks; and providing financial information and consulting services to the public. BAROC also took active part in charitable activities. Actions taken in this respect included giving donations to the Child Welfare League Foundation, the Little Sisters of the Poor, and the Genesis Social Welfare Foundation, and launching the relief effort following a series of major gas mains explosions in the city of Kaohsiung.

Looking ahead to 2015, the latest forecasts from international bodies such as the IMF and World Bank indicate a stable growth trend, but the pace of expansion will still be slow. In addition, there are risks that still require attention, including price volatility in energy, a sharp increase in capital flows due to the possibility of the US Federal Reserve raising interest rates in the latter half of the year, and geopolitical tensions involving ISIS and Ukraine.

Domestically, our Directorate-General of Budget, Accounting and Statistics (DGBAS) has forecast real GDP growth of 3.28% for 2015 in Taiwan, which would be lower than the 3.77% achieved last year. The successive growth of more than 3.0% in 2014 and 2015 would drive continued improvement in the performance of domestic banks. In addition, several other factors are expected to contribute to the continued strength of the local banking sector. Taiwan's financial environment is stable. Our banks are on sound financial footing, have a big overseas presence, and are strong in electronic banking. The competent authority's deregulatory actions and related policies should present opportunities for the development of digital banking, so we expect banks to achieve better operating results in the coming year.

BAROC thanks its member banks for their long-standing support, which has enabled the Association to efficiently and professionally build consensus among its membership and achieve many important tasks. In the future, BAROC will continue to cooperate with government policy by adopting financial measures, strengthening training, and doing more to cultivate professionals with the skills needed for international

business. Also, in line with our mission of promoting the shared interests of member banks, BAROC will: continue to monitor ongoing adoption of measures related to the implementation of the US Foreign Account Tax Compliance Act (FATCA), in order to help member banks respond appropriately; continue to adopt standards for electronic banking and information security; take active part in meetings of organizations involved in the study and discussion of wireless communications and mobile devices, so as to understand related technological developments as well as the payment services that could emerge as a result; actively help member banks improve the operation of financial services, and resolve problems related thereto; and continue monitoring and studying legislation and bank taxation issues, so as to communicate on such matters with the competent authorities and safeguard the interests of member banks. At the same time, BAROC will continue to seek expanded exchange and cooperation with key international and mainland Chinese financial industry associations and organizations, with an eye to increasing our international participation and generating more business opportunities for member banks.

The competent authority is actively easing restrictions on the scope of international banking business, promoting financial import substitution, pushing the development of a digitized financial environment (Bank 3.0), and encouraging financial institutions to diversify their financial products and develop innovative financial services. These undertakings have made banks more profitable and competitive, and propelled the financial industry as a whole to an entirely new level of development. In the future, BAROC will continue to act as a platform for communication among member banks; pool the tremendous professional expertise of its member banks; coordinate with government policies to devise measures for the financial industry; and act as a bridge between the government and its member banks, and between its member banks and the general public, so as to create a win-win-win situation for the government, banks, and consumers, thereby making the greatest possible contribution to social well-being and economic development.



*John-Chiu Lee*

Chairperson

## II. Introduction of the Bankers Association of the Republic of China

### A. Membership

The Bankers Association of the Republic of China (hereinafter referred to as BAROC) was founded on August 9, 1983 as the successor to the Bankers Association of Taipei. Most of its members are banks. Within its membership there are 62 financial institutions, including 36 commercial banks, two industrial banks, one export-import bank, one agricultural financial bank, 16 financial holding companies, the Chunghwa Post Co., four bills finance companies, and one securities finance company. As of year-end 2014, the total assets of all BAROC member banks combined stood at NT\$42.55 trillion, their combined loans outstanding stood at NT\$25.15 trillion, they employed roughly 141,000 persons, their pre-tax earnings totaled NT\$320.7 billion, and profitability was at an all-time high.

Proposals regarding important matters arising among BAROC members are discussed and decided upon at monthly joint meetings of the boards of directors and supervisors. According to the Charter of BAROC, the Board of Directors is composed of 33 directors and 6 alternate directors; while the Board of Supervisors is composed of 11 supervisors and 2 alternate supervisors. In addition, to solicit the views of financial self-regulatory organizations and foreign banks, BAROC has retained representatives of foreign banks as well as the heads of the Financial Information Service Corporation, the Joint Credit Information Center, and other such self-regulatory organizations to serve as advisors and observers for the board of directors. The BAROC chairperson is Dr. Jih-Chu Lee, who is the current chairperson of the Taiwan Financial Holding Company and the Bank of Taiwan.

The Chairpersons of BAROC from the first session of the first General Assembly in August 1983 to the eleventh session of the second General Assembly in September 2014 are shown as follows:

Chairperson	Session	Duration
I-Shuan Sun	1, 2	1983-1989
Y. D. Sheu	3, 4	1989-1995
James C. T. Lo	5, 6	1995-2000
Yung-San Lee	7	2000-2002
Mu-Tsai Chen	7	2002-2004
Shen-Chih Cheng	8	2004-2006
Jer-Shyong Tsai	8	2006-2007
Teh-Nan Hsu	8, 9	2007-2008
Susan S. Chang	9,10	2008-2012
Teng-Cheng Liu	10	2012-2013
Jih-Chu Lee	11	2013-

### B. Aims, Functions and Organization

#### 1. Aims

- (1) To assist the government in implementing financial policies
- (2) To promote economic development
- (3) To coordinate with its member banks
- (4) To improve its members' mutual benefits

#### 2. Functions

- (1) To help implement economic and financial policies and commercial decrees
- (2) To study the balance of funds in supply and demand among various sectors in line with economic development

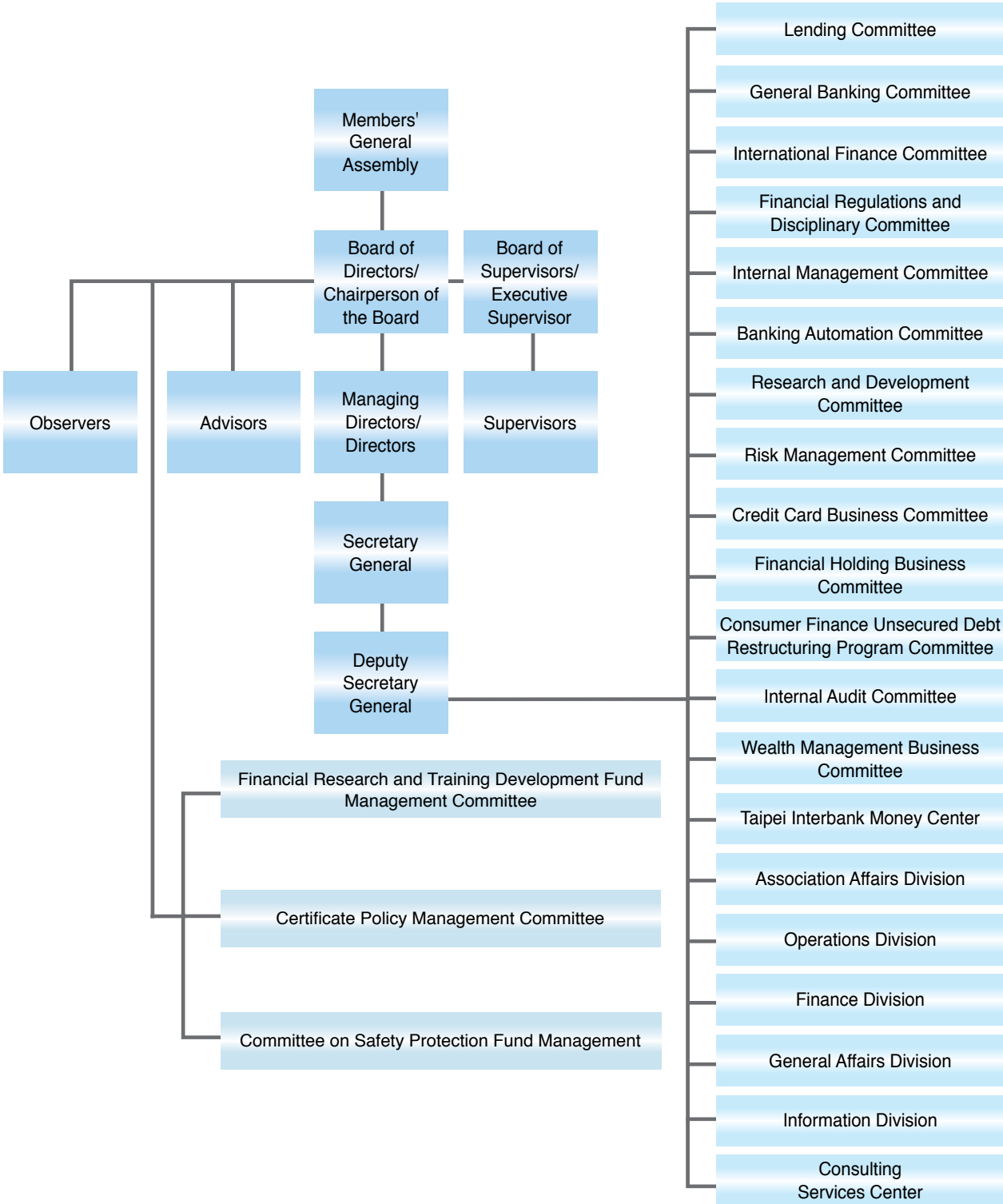
- (3) To formulate and compile common rules and regulations relating to various businesses of its members
- (4) To enhance communications, surveys, statistics, consultations, research, development and publications relating to national and international financial businesses
- (5) To protect the legitimate rights of its members and to help settle disputes among them
- (6) To promote the exchange, analysis and reporting of credit information among its members and to establish the credit files of the major clients of its members
- (7) To consolidate the planning of information systems among its members
- (8) To strengthen mutual support, assistance, education and interaction among the employees of its members, to sponsor activities for public benefit, and to help implement service ethics and self-disciplinary measures
- (9) To participate in international financial organizations and meetings
- (10) To enhance communications and collaborations with overseas bankers associations and to promote national diplomacy
- (11) To conduct research and make recommendations in response to requests from the government or private organizations
- (12) To participate in social charitable activities

### 3. Organization

BAROC's highest governing body is the Members' General Assembly, which meets once per year. It is the Members' General Assembly which elects the persons who make up the board of directors and the board of supervisors. These boards then elect the chairperson, the managing directors, and the managing supervisors. The chairperson leads and directs the conduct of association affairs. The board of directors retains the heads of self-regulatory organizations and representatives of foreign banks to serve as advisors and observers, and to take part in discussions on agenda items.

The board of directors has one secretary general and two deputy secretaries general who are responsible for the daily operations of BAROC under the supervision of the chairperson. BAROC acts as a bridge of communications between the financial authorities, the general public, and member banks. Moreover, it helps the authorities implement financial policies, and drafts legislation, self-regulatory rules, and operational guidelines for the protection of financial consumers. For these reasons, the association has set up 13 banking business committees to study the aforementioned matters. The committees are: the Lending Committee; the General Banking Committee; the International Finance Committee; the Financial Regulations and Disciplinary Committee; the Internal Management Committee; the Banking Automation Committee; the Research and Development Committee; the Risk Management Committee; the Credit Card Business Committee; the Financial Holding Business Committee; the Internal Audit Committee; the Wealth Management Business Committee; and the Consumer Finance Unsecured Debt Restructuring Program Committee. In addition, BAROC also has three special affairs committees (Financial Research and Training Development Fund Management Committee; Certificate Policy Management Committee; and Committee on Safety Protection Fund Management) that operate under the direct oversight of the chairperson, and has established the Taipei Interbank Money Center to handle related matters. The association also has five divisions (Association Affairs Division; Operations Division; Finance Division; General Affairs Division; Information Division) and a Consulting Services Center to handle daily operations and business administration matters, respectively.

# Organizational Structure of BAROC





## C. Directors, Supervisors, Advisors and Observers

April 2015

Title	Name	Company Affiliation
Chairperson of the Board	Jih-Chu Lee	Chairperson, Taiwan Financial Holding Co., Ltd.
Managing Directors	Gregory K.H. Wang	Senior Consultant, Cathay United Bank
	Kenneth Lo	Chairman, Industrial Bank of Taiwan
	Teng-Cheng Liu	Chairman, Hua Nan Financial Holdings Co., Ltd.
	Ching-Nain Tsai	Chairman, First Financial Holding Co., Ltd.
	McKinney Tsai	Chairman, Mega Financial Holding Co., Ltd.
	Cheng-Hsiung Chiu	Chairman, Bank Sinopac
	Directors	Mu-Tsai Chen
Gary Tseng		Chairman, E. Sun Commercial Bank, Ltd.
Daniel Tsai		Chairman, Taipei Fubon Commercial Bank
Yi-Jen Chiou		President, The Shanghai Commercial & Savings Bank, Ltd.
Victor Kuan		Chairman, CitiBank Taiwan, Ltd.
Terence Tai		Chairman, King's Town Bank
Jesse Ding		President, EnTie Commercial Bank
King-Ting Chang		President, Cota Commercial Bank
Sheng-Hung Chen		Managing Director, Sunny Bank
Richard Chang		President, KGI Bank
Chenli Yang		Chief Operating Officer, DBS Bank (Taiwan) Ltd.
Jwn-Yu Lee		President, Hwatai Bank
Toong-Min Chen		Chairman, Bank of Kaohsiung
Rueen-Fong Chu		Chairman, The Export-Import Bank of the Republic of China
Michael Y. J. Ding		President, Waterland Financial Holding Co., Ltd.
Ming-Cheng Lin		Chairman, Hua Nan Commercial Bank, Ltd.
Chang-Ken Lee		President, Cathay Financial Holding Co., Ltd.
Victor Kung		Director, Fubon Financial Holding Co., Ltd.
Terry King		President, ANZ Bank (Taiwan) Limited
Chao-Chin Tung		Chairman, CTBC Bank Co., Ltd
Yu-De Chuang	Director, Yuanta Securities Finance Co., Ltd.	
Stan Hsiao	President, Sinopac Financial Holdings Co., Ltd.	
Executive Supervisor	Wen-Long Yen	Chairman, CTBC Financial Holding Co., Ltd.

Title	Name	Company Affiliation
Supervisors	Shiang-Chang Lee	Chairman, Union Bank of Taiwan
	Tseng-Chang Lee	Chairman, Shin Kong Commercial Bank
	Ping-Hui Liu	Chairman, Bank of Panhsin
	Jin-Tan Huang	Chairman, Jih Sun Financial Holding Co., Ltd.
	Eli Hong	President, Far Eastern International Bank
	Joseph Jao	President, Taishin Financial Holdings Co., Ltd.
	Chun-Sheng Lee	President, Taichung Commercial Bank
	Jong-Peir Li	President, HSBC Bank (Taiwan) Limited
	Justin Tsai	President, Ta Chong Bank
Advisors	Vance Chin	President, China Bills Finance Co.
	Fu-Hsiung Hu	Chairman, Joint Credit Information Center
	Yang-Ching Chao	Chairman, Financial Information Service Co., Ltd.
	Kung-Wha Ding	Chairman, Taiwan Depository & Clearing Corporation
	Thomas Tan	Advisor, The Bankers Association of the Republic of China
	Julie S.M. Chen	Chairperson, Bank of Taipei
	Philip Wen-Chyi Ong	Chairman, Changhua Post Co., Ltd.
	Susan S. Chang	Advisor, The Bankers Association of the Republic of China
	Chao-Hui Chen	Chairman, Agricultural Bank of Taiwan
	Chang-Ruey Shiau	President, Bank of Taiwan
	Rong-Jou Wang	Chairman, Yuanta Financial Holdings Co., Ltd.
	John Tan	President, Standard Chartered Bank(Taiwan) Limited
	Tsan-Chang Liao	Chairman, Taiwan Cooperative Financial Holding Co., Ltd.
	Tien-Chang Huang	Chairman, Taiwan Business Bank
	Kuang-Si Shiu	Chairman, Land Bank of Taiwan
	Mao-Wei Hung	Chairman, Taiwan Academy of Banking and Finance
	Ming-Daw Chang	Chairman, Chang Hwa Commercial Bank
Feng-Chi Ker	Chairman, Mega Bills Finance Co., Ltd.	
Observers	Nicole Wu	Senior Vice President, BNP Paribas, Taipei Branch
	Natalie Kuo	Director, Credit Agricole Corporate & Investment Bank, Taipei Branch
	Miranda Liaw	Executive Director, JPMorgan Chase Bank, N.A., Taipei Branch
	Emy Hsieh	Director, Bank of America, N.A., Taipei Branch

## D. Major Staff Members of BAROC

April 2015

Title / Position in BAROC	Name	Full-time or Part-time
Chairperson, Financial Research and Training Development Fund Management Committee	Jih-Chu Lee	Chairperson, Bank of Taiwan, Part-time
Chairperson, Certificate Policy Management Committee	Jih-Chu Lee	Chairperson, Bank of Taiwan, Part-time
Chairperson, Committee on Safety Protection Fund Management	Jih-Chu Lee	Chairperson, Bank of Taiwan, Part-time
Secretary General	Nancy Young	Full-time
Deputy Secretary General	I-Cheng Liu	SEVP, CTBC Bank, Part-time
Deputy Secretary General	Tsong-Ming Wang	Full-time
Secretary	Ing-Lieh Lin	Full-time
Chairperson, Lending Committee	Yu-Feng Chu	EVP, Land Bank of Taiwan, Part-time
Chairperson, General Banking Committee	Shih-Tien Chiang	EVP, Bank of Taiwan, Part-time
Chairperson, International Finance Committee	Derek Y. P. Chang	EVP, Hua Nan Commercial Bank, Part-time
Chairperson, Financial Regulations and Disciplinary Committee	Chin-Cheng Yeh	EVP & Chief Compliance Officer Department of Legal Affairs & Compliance, Land Bank of Taiwan, Part-time
Chairperson, Internal Management Committee	Tien-Hsia Chang	General Auditor, Fubon Financial Holding Co., Ltd. Part-time
Chairperson, Banking Automation Committee	Hsi-Tai Ku	SVP & GM, Dept. of Information Management, Bank of Taiwan, Part-time
Chairperson, Research and Development Committee	Shing-Shiang Ou	Senior Vice President and General Manager, Bank of Taiwan, Part-time
Chairperson, Risk Management Committee	Chun-Jen Hsu	SEVP, CTBC Bank, Part-time
Chairperson, Credit Card Business Committee	Justin Lee	Director, CitiBank, Part-time
Chairperson, Financial Holding Business Committee	Lawrence S. Liu	EVP, China Development Financial Holdings, Part-time
Chairperson, Consumer Finance Unsecured Debt Restructuring Program Committee	Jerry Yang	SVP, Retail Banking Non Performing Asset Recovery Division, Taishin International Bank, Part-time
Chairperson, Internal Audit Committee	Albert Hu	Concurrent post of Executive Vice President & General Auditor for CTBC Financial Holding Co., Ltd., Part-time
Chairperson, Wealth Management Business Committee	Mei-Tsu Chen	Executive Vice President, Taiwan Cooperative Bank, Part-time
Director, Taipei Interbank Money Center	Chang-Ruey Shiau	Acting President, Bank of Taiwan, Part-time
Chief, Association Affairs Division	Yu-Min Chou	Acting President, Bank of Taiwan, Part-time
Chief, Operations Division	Kuo-En Wen	Full-time
Chief, Finance Division	Huei-Ling Li	Full-time
Chief, General Affairs Division	Hsien-Hwa Kao	Full-time
Chief, Information Division	Mei-Ling Tsai	Full-time
Chief, Consulting Services Center	Yin-Tarng Lee	Full-time

# III. An Overview of Banking Operations

## A. Macroeconomic Summary

### 1. Economic Conditions

#### (1) Moderate global economic recovery

The global economy posted a moderate recovery in 2014, due to such positive factors as a sharp drop in global oil prices and the easy monetary policies adopted by the world's key economies, but performance varied among the major economies. There was a stable recovery in the US, which acted as the main engine of global economic growth. Economic growth was minimal in the eurozone, which was dogged by high unemployment and the threat of deflation. In Japan, a consumption tax hike continued to impact domestic demand, and partially offset the effect of that nation's easy monetary policy. The economy in mainland China continued to undergo restructuring under the guidance of government policy. Economic growth slowed slightly, but was still quite good within the larger global context. With the world's major economies performing somewhat poorly, growth momentum in the emerging economies also declined. Meanwhile, geopolitical conflicts and the Ebola outbreak in West Africa introduced added uncertainty regarding the prospects for global economic recovery. Overall, the global economy performed better in 2014 than in the year before, but growth was still weaker than expected. The US economy grew at a 2.4% pace, up from 2.2% in 2013; the eurozone grew 0.9%, thus returning to positive growth after a contraction of 0.4% the year before; the Japanese economy posted zero growth, down from 1.6% the year before; and mainland China's economy grew 7.4%, a 24-year low, an indication that moderately rapid economic growth has become "the new normal" there.

#### (2) Stable economic growth in Taiwan

##### a. Highest economic growth rate in last three years

With the global economy in a moderate recovery, the domestic economy in 2014 also began to fare better. Spurred by an improved employment situation, rebounding equity markets, growth in domestic demand-driven consumption, and continued growth in private investment and exports, Taiwan's economic growth topped 3% in each quarter of 2014, hitting 3.41%, 3.87%, 4.32%, and 3.47% in the 1st through 4th quarters, respectively, and 3.77% for the year as a whole. This marked a three-year high, and exceeded the National Development Council's economic growth target of 3.2%.

**Domestic demand:** Corporate profits rebounded and the employment situation continued to improve, while equity market trading activity picked up and the number of tourist arrivals rose. Driven by these positive factors, private consumption in 2014 rose by 2.95% from the previous year and contributed 1.60 percentage points to economic growth. Private fixed investment rose by 3.46% from the preceding year and contributed 0.61 percentage points to economic growth due to active establishment of new flight routes by airlines, and continued upgrading of high-end processes by semiconductor manufacturers. Government consumption grew by 3.69%, and contributed 0.54 percentage points to economic growth. Altogether, domestic demand contributed 3.14 percentage points to economic growth.

**External demand:** Exports rose 2.7% from the previous year, aided by the moderate global economic recovery, depreciation of the New Taiwan Dollar, as well as record-high exports of electronic products and machinery (machinery exports were fueled by a strong trend toward automation). Taking goods and services exports together, external demand contributed 0.63 percentage points to economic growth.

#### **b. Moderate inflation**

Overall, prices rose moderately in 2014. Apart from February (when the consumer price index (CPI) fell 0.04% year-on-year due to high prices in the 2013 baseline period caused by the fact that the 2013 lunar new year fell in February) and August (when the CPI hit an 18-month peak of 2.07% due to a spike in fresh produce prices caused by hot weather and a series of floods), CPI growth was moderate. CPI growth for 2014 as a whole averaged 1.20%, while core CPI (which excludes fresh produce and energy) rose 1.26%.

The wholesale price index (WPI), meanwhile, fell at an average rate of 0.51% for the year as a whole. This drop was caused by the continued fall in global oil prices, as well as lower prices for computers, electronics, optical products, and chemicals. It will be noted, however, that these factors were partially offset by higher prices for electronic parts and components, and for poultry and livestock products.

#### **c. Continued labor market improvement**

Taiwan's unemployment rate basically stayed on a steady downward path in the first half of 2014, peaking at 4.09% in February and falling to 3.85% in May. Starting from June, however, graduation season drove the rate seasonally upward to a year-long high of 4.08% in August. As graduates found work, the rate steadily declined to 3.79% in December. While absolute unemployment numbers continued to climb, the average unemployment rate for 2014 came to a seven-year low of 3.96%, down by 0.22 percentage points from 2013. The total number of unemployed persons was 457,000, down by 4.46% from the year before.

## 2. Financial Conditions

### (1) Global financial conditions

Global stock markets remained choppy and range-bound in the first half of 2014 due to uncertain prospects for global economic growth and investors' speculation about monetary policy in major countries. In the second half of the year, central banks adopted clear monetary policies. The US Fed, for example, terminated its quantitative easing policy, Japan decided to expand its qualitative and quantitative easing, the European Central Bank launched upon a bond buying campaign, and mainland China's central bank spurred rising stock prices by adopting a "relatively easy" monetary policy. On the year, the Dow Jones Industrial Average rose 7.52%, the Nikkei index rose 7.12%, and the Shanghai Composite Index, propelled by the launch of Shanghai-Hong Kong Stock Connect, soared 52.87%

On global foreign exchange markets, strong economic recovery in the US has prompted general optimism about the prospects for the US economy. In addition, market expectations of an interest rate hike by the Federal Reserve in 2015 triggered appreciation of the US Dollar, and the US Dollar Index rose by 12.7% on the year, while most major currencies fell against the US Dollar. The euro fell 11.97% against the US Dollar, the Japanese Yen fell by 12.01%, and the RMB, which had been appreciating for a long time, fell by 2.41%.

### (2) Financial conditions in Taiwan

#### a. Central Bank leaves interest rates unchanged

The world's major economies were in differing modes of recovery and adopted differing monetary policies in 2014. Taiwan experienced only moderate economic recovery, and inflation was not a cause for concern, so the Central Bank left interest rates unchanged, having last raised them on 1 July 2011. The discount rate, the rate on accommodations with collateral, and the short-term lending rate remained unchanged at 1.875%, 2.25%, and 4.125%, respectively.

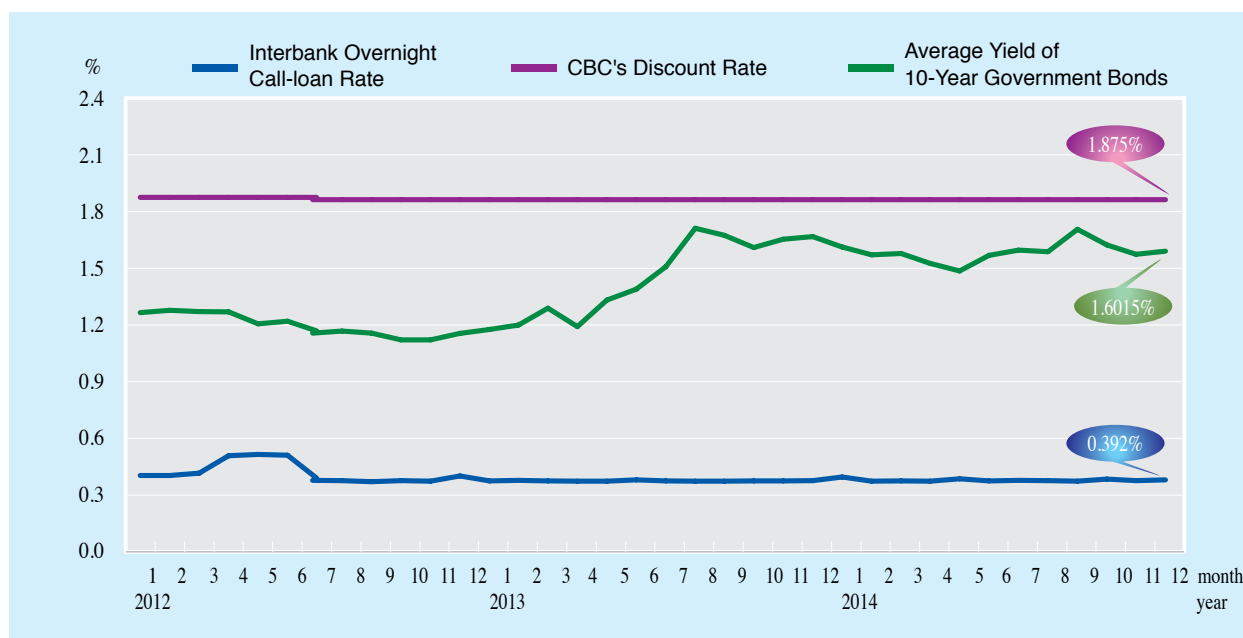
#### b. Stability in short-term interest rates, moderate rise in long-term rates

With slow economic growth and moderate inflation in Taiwan, the Central Bank continued using open market operations to adjust the money supply and maintain a relatively easy monetary policy. The overnight call rate generally fluctuated within a tight range between 0.385% and 0.388% (except for a period in January and February when it rose a bit due to the lunar new year holidays), and for the year as a whole averaged 0.387%, up 0.001 percentage points from the 2013 average of 0.386%. These figures indicate a stable domestic financial system, with continued low interest rates.

Long-term interest rates were affected in the first half of 2014 by the US Fed's tapering of its quantitative easing bond purchases, while geopolitical turmoil spurred a flight to US

bonds. Falling US bond yields were accompanied by a similar fall in the yield on 10-year Taiwan government bonds. Later, however, US bond yields bounced back due to increased consumption expenditures and continued improvement in the employment situation, and the yield on 10-year Taiwan government bonds also took a choppy path upward. Starting in mid-September, plunging oil prices increased the risk of deflation. Bond prices rose sharply afterward throughout the world, and the yield on 10-year Taiwan government bonds declined. On the year, the yield on 10-year Taiwan government bonds averaged 1.61%, up by 0.16 percentage points from the 2013 average yield of 1.45%.

### Changes in Interest Rates

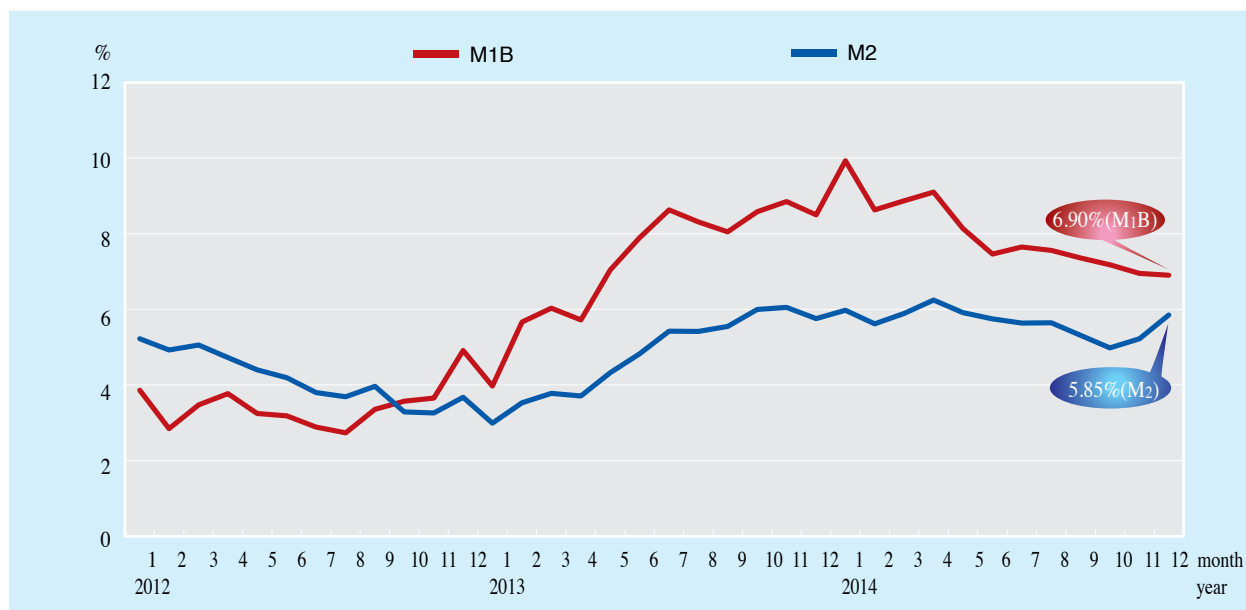


Source: the CBC website \ TPEX website

#### c. M2 money supply growth hits target rate, M1B growth slows

Average annual growth in the daily average M2 money supply rose at a 5.66% clip in 2014. This was up from 4.78% in the previous year, and was within the Central Bank's target range of 2.5% to 6.5%. Average annual growth for the more narrowly defined M1B money supply also rose, to 7.96% from 7.27% in 2013. However, with net inward remittances by foreign companies falling in the latter half of the year, and even reversing to a net outflow, the M1B growth rate declined for five consecutive months beginning from August 2014. During the same time frame, the M2 annual growth rate rose for two consecutive months amid short-term depreciation of the New Taiwan Dollar and increased export earnings. The result was a narrower gap between the annual growth rates for M1B and M2 money supply.

### Annual Growth Rates of Daily Monetary Aggregates



Source: the CBC website

#### d. Banks' average interest spread expands slightly

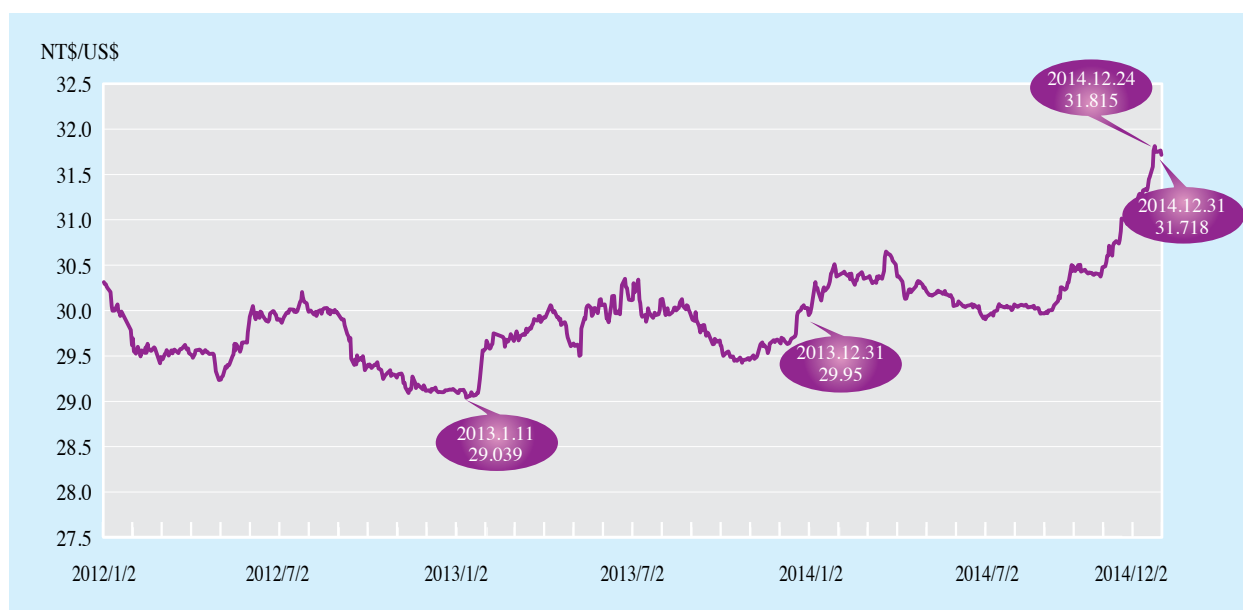
Taiwan experienced moderate economic recovery in 2014, and inflation was not a cause for concern, so the Central Bank left interest rates unchanged, and the main deposit and lending rates were basically stable. The weighted average interest rate on deposits for ordinary domestic banks fell from 0.79% in the first quarter to 0.78% in the second quarter and remained there through year-end, while the weighted average interest rate on loans rose steadily from 2.19% in the first quarter to 2.22% by the fourth quarter. The interest spread widened slightly, and averaged 1.42 percentage points on the year.

#### e. NT Dollar depreciates against the US Dollar

In early 2014, the US economy continued its recovery, the US Dollar was strong, the Federal Reserve continued its QE tapering, and foreign companies continued to generate a net capital outflow. As a result, the NT Dollar depreciated versus the US Dollar. Later, however, the NT Dollar appreciated slightly as aggressive foreign buying on domestic stock markets generated inward remittances. In the latter half of the year, the NT Dollar depreciated as international stock markets showed volatility and international funds flowed back to the US, and from late October it further dropped sharply to a rate of 31.815 : 1 versus the US Dollar by 24 December as the US Dollar strengthened, the Japanese Yen depreciated, and mainland China lowered its interest rates, triggering depreciation across all Asian currencies. The NT Dollar exchange rate stood at 31.718 : 1 versus the US Dollar at year-end, and thus depreciated by 5.57% over the course of the year.



### NT Dollar against the US Dollar Exchange Rates

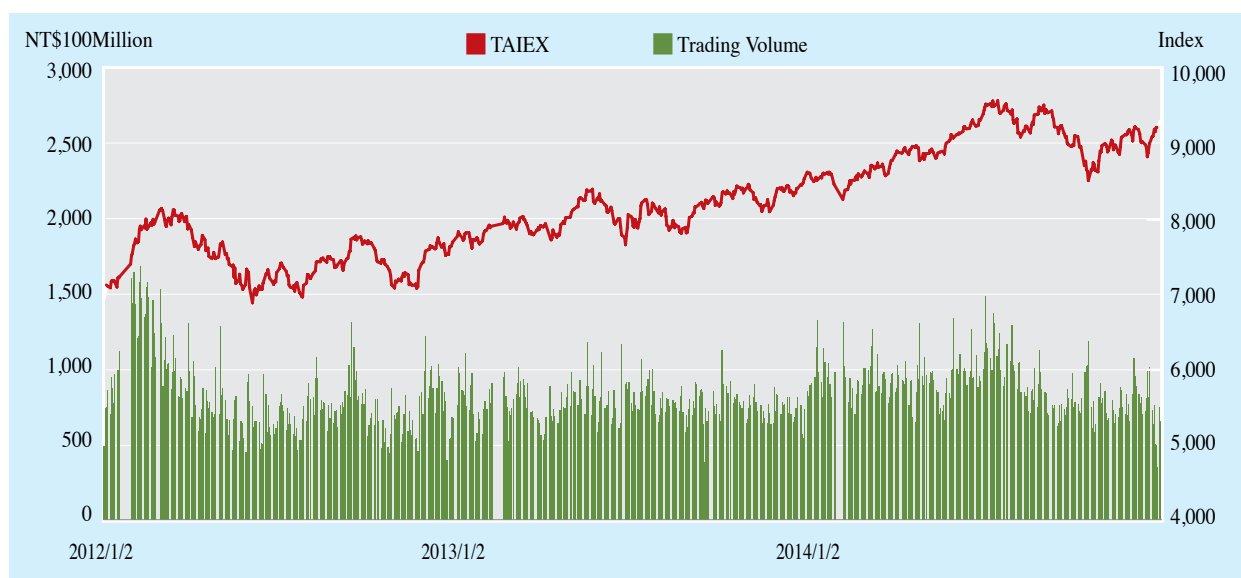


Source: the CBC website

#### f. Stocks move choppily upward; trading volumes recover

In early 2014, most stock markets around the world were on a downward trend, which affected the performance of equities in Taiwan. Right after the market opened again at the start of the Year of the Horse, the TAIEX dropped 198 points to its annual low of 8,264 points. Thereafter, the US Federal Reserve stated that its policy of quantitative easing would remain in place, sparking a rally in European and North American stock markets and sending international capital flowing back into Asia and emerging markets. This triggered a resurgence in Taiwan, where stock prices rose in choppy fashion to an annual high of 9,569 points on 15 July. International markets retrenched in the latter half of the year due to the spread of Ebola, falling international oil prices, and a downward revision of the IMF global economic forecast. In Taiwan, these factors were further exacerbated by a big aviation accident in Penghu, a series of massive gas mains explosions in Kaohsiung, and a string of food safety scandals, and stock prices fell as a result. Domestic stock prices rose late in the year, however, due to a ready availability of funds worldwide, relaxation of geopolitical risks, and an economic upturn in the US. For 2014 as a whole, the TAIEX climbed 695.75 points, an 8.08% rise. Daily average turnover by trading value was NT\$88.3 billion, up by 14.68% from NT\$77 billion in 2013.

## TAIEX and Trading Volume



Source: Taiwan Stock Exchange

### 3. Economic Outlook for 2015

Looking ahead to 2015, the global economy is expected to perform much as it did in 2014, showing a moderate recovery but differing growth rates in different regions. Challenges loom (e.g. slowing growth and restructuring in emerging market economies), but these are offset by stable economic growth in the US and the UK, continued pursuit of easy monetary policies in Europe and East Asia, and low oil prices. International forecasting bodies generally believe that global economic performance in 2015 will probably be better than last year. The IMF's January 2015 forecast calls for the global economy to grow 3.5% in 2015, slightly up from its 3.3% forecast for 2014. The World Bank's January 2015 forecast is for global growth of 3.0%, as compared with its 2.6% forecast for 2014. And Global Insight in March 2015 forecast global economic growth of 2.9%, up from its 2.7% forecast for the previous year. Global Insight expects growth of 2.3% in developed economies, and 4.0% in emerging market economies. However, global economic growth will still be faced with challenges and threats, including the Greek debt crisis, geopolitical conflict, international oil price movements, and the knock-on effects of the US Federal Reserve's plan to raise interest rates. The possible impact of such factors merits ongoing attention and assessment.

The January 2015 update of the IMF World Economic Outlook forecasts: growth of 3.6% for 2015 in the US on the strength of a further decline in unemployment and stronger domestic demand due to lower oil prices, plus corporate investment confidence; growth of 1.2% in the euro area, where the stimulus impact of monetary easing will be weakened by deflation worries that

will continue to depress consumption expenditures and discourage investment; and GDP growth of 0.6% in Japan, where continued monetary easing and the weak Yen are expected to help the economy gradually throw off the effect of the consumption tax hike. Among emerging market and developing economies, the update indicates expectations that: economic growth in mainland China will fall to 6.8% in 2015 as the government continues to push for restructuring; Russia's economy will contract by 3.0% due to sharply lower oil prices and economic sanctions imposed by the West in response to the Ukraine crisis; and the economies of India and Brazil will post growth of 6.3% and 0.3%, respectively.

### Forecast on Global Economic Growth Rates

Unit: %

Area \ Institute	IMF		The World Bank		Global Insight Inc.	
	2014	2015	2014	2015	2014	2015
Global	3.3 (3.3)	3.5 (3.8)	2.6 (2.8)	3.0 (3.4)	2.7 (2.8)	2.9 (3.0)
US	2.4 (2.2)	3.6 (3.1)	2.4 (2.1)	3.2 (3.0)	2.4 (2.4)	3.0 (3.0)
Euro Area	0.8 (0.8)	1.2 (1.3)	0.8 (1.1)	1.1 (1.8)	0.9 (0.9)	1.6 (1.5)
Japan	0.1 (0.9)	0.6 (0.8)	0.2 (1.3)	1.2 (1.3)	0.0 (0.2)	0.9 (1.0)
Mainland China	7.4 (7.4)	6.8 (7.1)	7.4 (7.6)	7.1 (7.5)	7.4 (7.4)	6.5 (6.5)

Note: Figures in ( ) refer to the previous forecast

Sources: 19,Jan., 2015, IMF, 13,Jan., 2015, WB, 15,Mar., 2015, Global Insight Inc.

In Taiwan, domestic and external demand are expected to contribute 1.70 and 1.57 percentage points to economic growth, and real GDP growth in 2015 is forecast by the Directorate-General of Budget, Accounting and Statistics (DGBAS) to reach 3.28%. The forecasts of other institutions at home and abroad for Taiwan's 2015 economic growth fall between 3.0% and 3.8%. The highest estimate is from the IMF (3.8%), and the lowest is from CIER (3.04%).

External demand: The global economy continues to improve, and the IMF expects the volume of world trade to rise by 3.8%, up from a 3.1% increase in 2014. This will be helpful to export-driven Taiwan. In addition, Taiwanese semiconductor makers continue to upgrade high-end processes and expand production capacity, which will help to maintain export momentum. However, supply chains in mainland China are becoming localized, and Taiwanese industry is not moving strongly enough to link up with the emerging markets of the ASEAN region. These two factors will limit the potential for export growth. The DGBAS expects the annual growth rate for Taiwan's exports of goods and services to rise by 4.69% in 2015, while imports of goods and services are expected to grow by 2.88%, lower in both cases than in 2014.

Domestic demand: Private consumption is expected to grow by 2.76% in 2015 as improving economic prospects encourage companies to step up hiring and give more pay increases to retain employees. This should spur continued improvement in consumer confidence. Private investment, meanwhile, is forecast to grow by 4.02% because mobile communication devices continue to generate strong demand for high-end chips, while emerging applications like the "internet of things" and Big Data promise to generate new business opportunities, which should encourage semiconductor makers to continue investing in high-end processes. In addition, corporate investments in Taiwan are having an increasing impact, while the aviation industry has been making big purchases, and these two factors will help spur increased domestic investment.

Prices: Sharply lower global oil prices have caused the prices of other commodities to fall, and the prices of ICT products are expected to continue falling, which will make for continued price stability in Taiwan. The DGBAS has forecast CPI growth of 0.13% for 2015, versus 1.20% in 2014.

### Forecast on Taiwan Economic Growth Rates

Unit: %

Institution		2015
Public and domestic institutions	DGBAS (2015.5)	3.28 (3.78)
	TIER (2015.4)	3.70 (3.67)
	CIER (2015.7)	3.04 (3.56)
	Academia Sinica (2015.7)	3.24 (3.38)
	Yuanta-Polaris Research Institute (2015.6)	3.32 (3.66)
	NTU-Cathy (2015.6)	3.40 (3.50)
	Taiwan Research Institute (2015.6)	3.35 (3.43)
Foreign institutions	IMF (2015.4)	3.80 (3.80)
	Global Insight (2015.7)	3.40 (3.50)
	Asian Development Bank (2015.7)	3.40 (3.70)

Note: The date in ( ) for the institutions indicate the forecast date; The figures in ( ) for the 2013 data refer to the previous forecast

Source: DGBAS, TIER, CIER, Academia Sinica, Yuanta-Polaris Research Institute, NTU-Cathy, Taiwan Research Institute, IMF, Global Insight and ADB

## B. Major Financial Measures Adopted by the Government

### 1. Financial Services Business

- (1) In order to help domestic banks build up greater ability to withstand economic downturns, the Financial Supervisory Commission (FSC) on 28 January 2014 amended the "Regulations

Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans." The amendments raised the minimum provision against Class 1 credit assets from 0.5% to 1%. Banks and credit cooperatives were required in principle to meet the higher minimum by the end of 2014.

- (2) On 30 July 2014, the FSC issued a set of "Directions for Banks Providing Information and Advisory Services on Offshore Financial Derivatives." Under the Directions, domestic banks or Taiwan branches of foreign banks are allowed to provide information and advisory services on offshore derivatives (including offshore structured products) to facilitate business dealings between domestic professional institutional investors and overseas financial institutions.
- (3) The FSC on 8 August 2014 amended the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" in order to spur financial institutions to place greater importance on legal compliance. Key points included the following: (a) the chief compliance officer at a bank's head office is not allowed to hold any job at that head office other than director of the legal affairs division; (b) the compliance officers at the head office of a financial institution must hold certain prescribed professional qualifications, and must attend a minimum number of hours of training per year; and (c) before a financial institution launches a new product or service, or starts up a new line of business, the chief compliance officer must sign off on the plan.
- (4) On 14 August 2014, the FSC issued the "Directions for the Internal Control and Internal Audit Systems of Credit Card Institutions" to ensure that credit card institutions effectively implement their internal control systems.
- (5) To ensure sound operation and development of electronic payment institutions, and provide consumers with secure and convenient funds transfer services, the FSC drafted its proposal for an "Act Governing Electronic Payment Institutions." The Executive Yuan approved the proposed bill and forwarded it on 5 September 2014 to the Legislative Yuan, where the bill passed its third and final reading on 16 January 2015. Once the FSC has completed and issued related secondary legislation, electronic payment institutions would be allowed to: (a) provide collection/payment services for actual transactions on behalf of sellers/buyers; (b) accept money for stored value and for transfers of funds between electronic payment accounts; and (c) provide such other services as may be approved by the competent authority.

- (6) In order to spur further development of the financial industry, encourage banks to develop bond-type financial products for the domestic market, promote the investment momentum of banks, and ensure sound management by banks of their derivatives business, the FSC drafted a proposed amendment to the "Banking Act." The Executive Yuan approved the proposed bill and forwarded it on 13 November 2014 to the Legislative Yuan, where the bill passed its third and final reading on 22 January 2015. Key points included the following: (a) a provision that banks are only allowed to issue debentures for the purpose of funding the extension of medium- and/or long-term credit has been eliminated; (b) the competent authority is authorized to issue regulations governing banks' conduct of derivatives business; (c) net worth has been adopted as the basis for calculating caps on a bank's total strategic investments and its total investments in non-financial enterprises; and (d) the maximum cash card interest rate and credit card revolving interest rate will be lowered to 15% from 1 September 2015.
- (7) In order to better safeguard the interests of consumers, the Executive Yuan approved a proposed amendment to the "Financial Consumer Protection Act" on 20 November 2014 and forwarded it to the Legislative Yuan, where the bill passed its third and final reading on 22 January 2015. Key points of the amendments included the following: (a) the competent authority is empowered to impose sanctions upon financial institutions that harm the interests of financial consumers by violating the provisions of the Act; (b) for especially severe violations of the law, the competent authority is allowed to impose administrative fines of unlimited amounts; (c) a financial services firm is required to submit its compensation system for salespersons to the board of directors (or board of managing directors) for approval, and is also required to obtain approval from its board of directors or its board of managing directors before first launching a complex high-risk product; and (d) newly added provisions would allow financial consumers to seek punitive damages against financial services firms and establish a system of collective ombudsman cases. Once the FSC has completed and issued coordinated measures and related secondary legislation, it would help to ensure that financial services firms attach greater importance to consumer protection, and will make financial markets in Taiwan more sound.
- (8) Banks are becoming increasingly mature in their conduct of derivatives business, while transaction types and the attendant risks are getting more and more complex, so the FSC amended the "Directions for Banks Conducting Financial Derivatives Business" on 1 December 2014, taking care in the process to hew to the principle of a two-pronged supervisory approach, whereby an effort is made to strike a proper balance between deregulation, on the one hand, and cautious handling of risk management and the safeguarding of customer

- interests. Key points of the amendments included the following: (a) banks are now allowed to handle structured notes backed by gold, and to trade—with a company that issues stock appreciation rights (SARs)—in equity derivatives that link to the same company's Taiwan-listed equities; (b) the FSC has eliminated the former provision that imposed a minimum credit rating requirement on any bank applying for permission to conduct derivatives business, and has simplified application documents related to domestic equity derivatives; and (c) the amended provisions would improve risk management and customer safeguards for elevated-risk complex structured finance products, strengthen review procedures for applications by banks to launch new types of products, upgrade compensation systems for salespersons, and strengthen rules on bank product suitability.
- (9) In order to strengthen the capacity of banks to bear real estate lending risks, the FSC on 4 December 2014 notified domestic banks that they will be expected by year-end 2016 to have a loan loss reserve ratio of at least 1.5% against the combined balance of loans for home purchases, property renovations, and construction (not including new policy-driven loans made since 1 January 2011).
- (10) In response to the liquidity coverage ratio put forward by the Basel Committee on Banking Supervision as a globally unified quantitative standard for short-term liquidity, the FSC on 29 December 2014 issued the "Standards Implementing the Liquidity Coverage Ratio of Banks" and "Methods for Calculating the Liquidity Coverage Ratio." Taiwan will begin implementing these, along with the rest of the world, from 2015, with the aim of improving domestic banks' liquidity risk management and enhancing financial stability.
- (11) In order to facilitate the development of innovative industries, the FSC launched a "Program for Financial Support of Innovative Industries" in January 2014. Under the program, financial institutions are encouraged to loan to innovative firms and invest in them, while the firms themselves are encouraged to raise capital directly by issuing shares on the Go Incubation Board for Startup and Acceleration Firms (the GISA board). By the end of 2014, the balance of outstanding loans by domestic banks to innovative firms stood at NT\$258.2 billion, up by NT\$76.5 billion from year-end 2013. Banks thus achieved 153% of their 2014 target of lending NT\$50 billion to innovative firms.
- (12) In order to build a favorable financing environment for SMEs, the FSC continued to carry out the "Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises," and the amount of outstanding loans to SMEs by domestic banks stood at NT\$5,163.9 billion as of year-end 2014 (or 55.68% of total corporate loans, and 59.11% of total loans to private companies), up by NT\$402.9 billion from year-end 2013. This figure represented 167.88% of the NT\$240 billion target for SME loans in 2014.

- (13) The FSC undertook a wide variety of deregulatory actions in 2014, with a special focus on international financial business. Offshore banking units (OBUs), for example, in their conduct of foreign exchange, derivatives, and trust business are now subject only to the negative list approach, and are basically free of restrictions, except that they are not allowed to handle NT Dollar products or complex credit derivatives.
- (14) In view of the fact that Bitcoins are a "virtual product" rather than a "currency," the FSC on 6 January 2014 issued a reminder that banks are required to apply to the FSC—in accordance with Article 57, paragraph 2 of the "Banking Act" and the provisions of the "Regulations Governing Off-Premises Automatic Teller Machines of Financial Institutions"—for approval before they can set up ATMs outside their places of business to provide currency withdrawals and other financial transaction services. Furthermore, the FSC stated, Bitcoins are not "currency" but a "virtual product," and may not be used as a payment instrument accepted by the great majority of people, therefore banks and other financial institutions are not allowed to accept or exchange Bitcoins, nor may bank ATMs be used to provide Bitcoin-related services.

## 2. Cross-Strait Financial Ties

- (1) Since the signing of the "Memorandum on Cross-Strait Currency Clearing Cooperation," Taiwan's domestic banks have been allowed to conduct RMB business, and gold and silver coins minted in mainland China can now be brought to Taiwan. At the same time, the FSC has also taken steps to better safeguard the interests of customers. The FSC therefore announced on 21 March 2014 that banks are now allowed to sell gold and silver coins issued in mainland China, which will enable them to provide customers with a wider range of financial products from which to choose.
- (2) Two-way cross-strait financial ties are beneficial to economic development on both sides of the Taiwan Strait. With this in mind, authorities from the two sides held the 4th meeting of the Cross-Strait Cooperation Platform for Banking Supervision in Beijing on 25 December 2014 in order to promote positive financial industry ties. Progress achieved at the meeting included the following:
  - (a) Prompt completion of the review and approval process: The two sides agreed to act as quickly as possible to complete review of cross-strait applications to set up new business locations or launch new lines of business, with the condition that the application review process must accord with the principles of prudential supervision and legislative provisions.
  - (b) Establishment of a regular exchange mechanism for cross-strait financial development and supervisory experience: To help both sides derive greater benefit from their financial supervisory work, the two sides will take turns hosting a seminar each year to discuss agenda items for future meetings of the Cooperation Platform.



(c) Establishment of a cross-strait banking industry crisis handling cooperation plan: If a bank with cross-strait operations experiences a crisis or an unexpected event of material significance that affects its ability to operate normally, the supervisory authorities on both sides will cooperate and communicate in order to reduce the potential negative impact upon the financial systems on both sides of the Taiwan Strait. For example, when a crisis occurs at the parent bank or head office of a bank that has branch institutions (i.e. branches or banking subsidiaries) on the other side of the Taiwan Strait, the supervisory authority for that bank will report the matter to its counterpart on the other side and the two authorities will, if necessary, set up an ad hoc response team to handle the matter. While the crisis is being dealt with, the two sides will stay in close contact so that they can act in a timely manner to take supervisory action and provide needed support and assistance.

## C. Banking Operations in 2014

### 1. Changes in the Operating Units of Financial Institutions

Financial institutions in Taiwan include monetary institutions, investment trust companies (prior to December 2008), and life insurance companies. The term "monetary institutions" includes the Central Bank and other monetary institutions. The term "other monetary institutions" includes domestic banks, Taiwan branches of foreign and mainland Chinese banks, credit cooperatives, credit departments of farmers' and fishermen's associations, the Department of Savings and Remittances at Chunghwa Post Co., and money market mutual funds. There were 428 financial institutions in Taiwan at the end of December 2014, while the total number of branch banking units in Taiwan at the end of 2014 stood at 6,055.

### 2. Non-performing Loans (NPLs) and Average NPL Coverage Ratio

Domestic banks continued to strengthen their risk management capabilities in 2014, and NPL ratios fell to historic lows. According to FSC statistics, the aggregate NPLs of domestic banks at the end of December 2014 stood at NT\$61.747 billion, down by NT\$28.132 billion from NT\$89.879 billion at the end of December 2013. The average NPL ratio of domestic banks has fallen steadily from a peak of 11.74% in the first quarter of 2002, and by the end of December 2014 stood at 0.25%, down by 0.13 percentage points from 0.38% at the end of December 2013.

In addition, the average NPL coverage ratio of Taiwan's domestic banks stood at 516.38% at the end of December 2014, up by 197.2 percentage points from 319.18% at the end of December 2013, an indication that the risk management capabilities of our domestic banks are improving.

### 3. Overview of Bank Profitability

Asset quality at Taiwan's domestic banks is continually improving, and profitability hit a historic high last year. The pre-tax earnings of domestic banks totaled NT\$320.076 billion in 2014, up 24.23% from NT\$257.648 billion in 2013. Over the same period their return on assets (ROA) came to 0.79% (up from 0.68% in 2013), while return on equity (ROE) rose from 10.26% to 11.65%. And in addition to record-high profitability, our domestic banks also benefited from a gradually widening interest spread, which has gone from an average of 1.22 percentage points in 2009 to an average of 1.42 percentage points in 2014. This trend is a boost to banks' profitability.

### 4. Major Lines of Banking Business

#### (1) Deposit Business

Deposits at all monetary institutions at the end of 2014 totaled NT\$37.13 trillion, up NT\$2.07 trillion (5.91%) over the previous year. Time deposits accounted for the largest portion of this total (35.94%), followed by demand deposits (34.60%).

Demand deposits posted the strongest growth, finishing up by NT\$708.1 billion (5.83%) from the end of 2013 to NT\$12.85 trillion. Foreign-currency deposits grew by NT\$685.4 billion (19.72%) to NT\$4.16 trillion, mainly because the FSC began allowing banks to accept RMB deposits. The cross-strait currency clearing agreement was signed, and the FSC began on 6 February 2013 allowing designated forex banking units (DBUs) to conduct RMB business. As of end-December 2014, RMB deposits at DBUs and offshore banking units (OBUs) together were up to RMB 302.267 billion and accumulating rapidly.

In addition, time and savings deposits rose from the end of 2013 by NT\$291.2 billion (2.23%) to NT\$13.35 trillion, and postal savings deposits increased by NT\$330.3 billion (6.43%) to NT\$5.47 trillion.

#### Changes in Deposits by Category of all monetary institutions

Unit: NT\$ 100 million

Item	Year	End of 2014	End of 2013	Amount change	Percentage change %
Demand deposits		128,492	121,411	7,081	5.83
Time and time savings deposits		133,454	130,542	2,912	2.23
Foreign currency deposits		41,605	34,751	6,854	19.72
Postal savings deposits		54,696	51,393	3,303	6.43
NT Dollar deposits by foreigners		1,946	1,900	46	2.41
Repurchase agreements and Money Market Mutual Funds		2,168	1,896	272	14.36
Government deposits		8,979	8,732	247	2.83
Total		371,339	350,624	20,715	5.91

Source: "Financial Statistics Monthly, Republic of China," Department of Economic Research, CBC, February 2015.

## (2) Loans and Investments

The balance of outstanding loans and investments at all monetary institutions stood at NT\$28.11 trillion at the end of 2014, an increase of NT\$1.39 trillion (5.2%) over the end of 2013.

Loans and investments by all monetary institutions showed growth in most recipient categories at the end of 2014 in comparison with 2013. The only exception was claims on state-run enterprises, while claims on the private sector increased by NT\$1.2179 trillion (5.68%) and claims on the public sector increased by NT\$223.3 billion (5.34%). Claims on state-run enterprises fell by NT\$51.3 billion (4.62%) from 2013.

### Loans and Investments by monetary Institutions

Unit: NT\$ 100 million

Item	Year	End of 2014	End of 2013	Amount change	Percentage change %
Claims on the government		44,033	41,800	2,233	5.34
Claims on state-owned enterprises		10,585	11,098	-513	-4.62
Claims on the private sector		226,488	214,309	12,179	5.68
Total		281,106	267,206	13,900	5.20

Source: "Financial Statistics Monthly, Republic of China," Department of Economic Research, CBC, February 2015.

## (3) Foreign Exchange Business

The average daily foreign exchange turnover (total of bank-customer and interbank markets) in 2014 was US\$31.290 billion, up by 8.16% from 2013. Average daily turnover in the bank-customer market was US\$8.021 billion, up 11.79%, and average daily turnover in the interbank market was US\$23.269 billion, an increase of 6.96%.

Further breaking down the figures for interbank foreign exchange transactions in 2014, cross-currency swaps decreased by US\$16 million from 2013, while all other types of foreign exchange transactions increased in 2014. The largest increase took place in foreign exchange swaps, which increased by US\$1.004 billion (10.14%), followed by spot transactions, which finished up by US\$306 million (4.21%).

## Daily Average Volume of Foreign Exchange Transactions Between Banks by Product

Unit: US\$ million

Item	Year	2014	2013	Amount change	Percentage change (%)
Spot		7,571	7,265	306	4.21
Forward		877	835	42	5.03
Swap		10,904	9,900	1,004	10.14
Option		3,841	3,662	179	4.89
Cross currency swap		76	92	-16	-17.39
Total		23,269	21,754	1,515	6.96

Source: "Financial Statistics Monthly, Republic of China," Department of Economic Research, CBC, February 2015.

### (4) Consumer Finance Business

According to statistics compiled by the FSC Banking Bureau, a total of 37.39 million cards issued by 37 institutions were in circulation at the end of December 2014, up by 4% from the 35.95 million in circulation at the end of 2013. The total number of active cards stood at roughly 24.37 million, an increase of 8% from the figure of 22.56 million at the end of 2013. The total volume of transactions paid for with these cards in 2014 amounted to NT\$2.07 trillion, up by 8.1% from 2013. The amount of revolving credit outstanding at the end of the year stood at NT\$112.905 billion, down 4.7% from the end of 2013. Cash advances outstanding totaled NT\$26.719 billion, up 0.2% from 2013.

There were 27,098 automatic teller machines (ATMs) in Taiwan as of the end of December 2014, up by 0.99% from 26,832 at the end of 2013. The cumulative issuance of bank cards rose by 4.0% from 172.08 million at the end of 2013 to 178.96 million at the end of 2014. The number of ATM transactions during 2014 totaled 793.96 million, an increase of 4.12% over the 2013 figure of 762.51 million, while the value of ATM transactions in 2014 amounted to NT\$9.8486 trillion, up 6.31% from NT\$9.2639 trillion a year earlier.

### (5) Financial Derivatives Business

The nominal amount of open derivatives positions of domestic banks (including headquarters, domestic and overseas branches, and offshore banking units) and foreign banks (general branches in Taiwan plus offshore banking units) at the end of December 2014 stood at NT\$55.5502 trillion, up approximately 12.73% from NT\$49.28 trillion a year earlier.

Over-the-counter (OTC) transactions accounted for 99.86% of these positions, while exchange-traded transactions made up only 0.14%. Of the OTC transactions, forward contracts accounted for the largest share (41.87%) of the nominal value of total open positions, followed

by swaps at about 31.48%. Put and call options accounted for 13.43% and 13.08%, respectively. Trading derivatives made up 99.56% of the total, while non-trading derivatives accounted for only 0.44%.

### Notional Amounts Outstanding of Financial Derivatives

Unit: NT\$ million, %

Item	End of Dec. 2014		End of Dec. 2013		Changes	
	Amount	%	Amount	%	Amount	%
<b>I. Notional Amounts Outstanding</b>	<b>55,550,224</b>	<b>100.00</b>	<b>49,276,370</b>	<b>100.00</b>	<b>6,273,854</b>	<b>12.73</b>
A. OTC	55,474,326	99.86	49,169,298	99.78	6,305,028	12.82
1. Forwards	23,257,108	41.87	18,763,995	38.08	4,493,113	23.95
2. Swaps	17,490,551	31.48	21,197,666	43.02	-3,707,115	-17.49
3. Call option	7,264,387	13.08	4,531,929	9.19	2,732,458	60.29
4. Put options	7,462,280	13.43	4,675,708	9.49	2,786,572	59.60
B. Exchange-traded	75,898	0.14	107,072	0.22	-31,174	-29.11
1. Futures- long positions	13,685	0.02	23,423	0.05	-9,738	-41.57
2. Futures- short positions	48,061	0.09	55,623	0.11	-7,562	-13.60
3. Call options	9,585	0.02	13,505	0.03	-3,920	-29.03
4. Put options	4,567	0.01	14,521	0.03	-9,954	-68.55
<b>II. Notional Amounts Outstanding</b>	<b>55,550,224</b>	<b>100.00</b>	<b>49,276,370</b>	<b>100.00</b>	<b>6,273,854</b>	<b>12.73</b>
A. Total contracts held for trading purpose	55,305,713	99.56	48,982,277	99.40	6,323,436	12.91
B. Total contracts held for non-trading purpose	244,511	0.44	294,093	0.60	-49,582	-16.86

Source: The CBC website, February 2015.

#### (6) Cross-Strait Remittances Business

In 2014, outward and inward remittances to and from mainland China by all banks came to US\$389.206 billion and US\$218.218 billion, respectively. Under the joint oversight of the FSC and the Central Bank, a new "modern cross-strait money remittance platform" has been launched to facilitate the development of cross-strait RMB business. In support of the new platform, Taiwan's Central Bank oversaw the establishment in September 2012 of a foreign currency settlement platform, and in September of 2013 it began providing domestic and cross-border (including cross-strait) remittances of RMB. Then in February 2014 the platform began providing cross-strait clearing and settlement of US dollars, and it will be further expanded in the future to handle other currencies. It is expected that the platform will streamline bank operating procedures, facilitate the achievement of economies of scale, and reduce banks' operating costs.

### Changes in cross-strait remittances

Unit: US\$1 million

Item \ Year	2014	2013	Amount change	Percentage change %
Outward remittances	389,206	369,752	19,454	5.26
Inward remittances	218,218	196,151	22,067	11.25

Source: Financial Supervisory Commission

#### (7) Asset Securitization Business

Domestic banks, in order to meet the capital adequacy requirements in the Basel III rules, have carried out fewer asset securitizations since 2012. All issues of securitized assets involved financial assets (no real estate). The financial asset securitizations carried out in 2014 raised a total of NT\$8.51 billion. This was up 5.71% from the 2013 figure of NT\$8.05 billion, but sharply down from NT\$77.23 billion in 2012.

### Changes in banks' issuance of asset securitization products

Unit: NT\$1 billion

Item \ Year	2014	2013	Amount change	Percentage change %
Financial asset securitization	8.51	8.05	0.46	5.71
Real estate asset securitization	0	0	0	0
Total	8.51	8.05	0.46	5.71

Source: Financial Supervisory Commission

#### (8) Other Business

Domestic banks' fee income in 2014 came to NT\$172.956 billion, up 10.56% from NT\$156.430 billion in 2013, accounting for 9.51% of the total income of domestic banks in 2014, down slightly from 10.29% in 2013. These figures show that, although our domestic banks have been working to develop wealth management, collection and payment services, bank insurance, and other such lines of business in order to increase fee income, the fact remains that there is still room for further improvement.

### Changes in banks' fee income

Unit: NT\$1 billion

Item \ Year	2014	2013	Amount change	Percentage change %
Fee income	172.96	156.43	+16.53	+10.56
Fee income as share of total income of domestic banks (%)	9.51	10.29	-	-

Source: Financial Supervisory Commission

## IV. Report on the Work of BAROC

### A. Major Achievements in 2014

#### 1. Coordinated with government policy on deregulatory measures to support establishment of "Bank 3.0" digitized financial environment

- (1) In response to the rise of mobile communications and the internet, and to help financial services firms act quickly in seizing business opportunities and developing related businesses, the FSC asked BAROC to prepare specific recommendations regarding legislative amendments that could be adopted to facilitate banks' business operations. BAROC surveyed the banking industry and—while paying due attention to both information security and the need to safeguard consumer interests—prepared a list of 12 recommendations for deregulatory actions and adjustments.
- (2) In response to a request from the FSC, BAROC adopted risk grades and drafted operating guidelines, coordinated measures, and standard form contract provisions regarding identity verification and security control operations for customers who had already opened a deposit account with a bank and then continued to have dealings with the bank thereafter. BAROC drafted a set of coordinated measures for the easing of regulatory restrictions on 12 lines of business, including deposit taking, lending, credit card, wealth management, co-marketing, and cooperative promotions, and amended the "Directions Concerning the Security Control Operations of Financial Institutions Conducting Electronic Banking Business."
- (3) With regard to online submission of account opening applications, BAROC retained an outside party to survey legal provisions, guidelines, actual measures taken (including money laundering control measures), and scam prevention measures in mainland China, the US, Japan, the European Union, the UK, and Hong Kong. Based on the survey findings, BAROC drafted suggestions for how online account openings might be handled in Taiwan, including account opening threshold requirements, procedures (how to obtain, store, interpret, and verify customer ID information, and mechanisms for confirmation and oversight), categories, and an after-the-fact review mechanism (scam prevention measures).

#### 2. Coordinated with government policy by working on secondary legislation for the "Act Governing Electronic Payment Institutions"

- (1) The FSC drafted a proposal for an "Act Governing Electronic Payment Institutions." The Executive Yuan approved the proposed bill at Cabinet meeting No. 3414 on 4 September 2014 and forwarded it the following day to the Legislative Yuan for deliberations. To help ensure that the act would be implemented as quickly as possible following its eventual passage, the FSC asked BAROC to establish an ad hoc task force to draft possible provisions for inclusion in secondary legislation to be issued under the act.
- (2) To complete the work smoothly and on time, BAROC held a meeting to introduce the project and set up the ad hoc task force, which has seven work teams under it focusing on: cross-border business (E.Sun Commercial Bank); ID confirmation (Bank SinoPac and Cathay United

Bank); special-purpose deposit accounts (Mega International Commercial Bank); internal audits and internal controls (Bank of Taiwan); standard form contracts (First Commercial Bank); transaction data confidentiality (Chinatrust Commercial Bank); and financial and business operations management (Citi (Taiwan) Commercial Bank). The aforementioned banks took charge of the topics assigned to them, and convened meetings to study the matters in question.

- (3) Because some network platform operators hope to take part in discussion of the content of the secondary legislation during the public input period, the FSC on 23 December 2014 invited network platform operators, their industry association, electronic stored value card issuers, and the eight banks on the aforementioned work teams (not including BAROC) to work for prompt adoption of secondary legislation and other requirements to be issued under the "Act Governing Electronic Payment Institutions." Meeting participants resolved to ask BAROC to continue helping with advance drafting of recommended provisions, and to invite the network platform operators and electronic stored value card issuers to take part in the discussions.
- (4) On 29 December 2014, the Legislative Yuan Finance Committee began deliberating on the draft of the "Act Governing Electronic Payment Institutions" and made a change so that the information system standards and the security control operations standards—which are to apply to the lines of business conducted by firms that are in business exclusively as electronic payment institutions—will in the future be set out in a separate set of regulations to be issued by the competent authority. The FSC has asked BAROC to help with the drafting of said regulations, and to submit them to the FSC along with the aforementioned eight items of secondary legislation (which makes for a total of nine items of secondary legislation).
- (5) The eight banks on the aforementioned work teams met a total of 60 times from 2 October 2014 through 16 February 2015 to discuss the nine items of secondary legislation. Of these, six also applied *mutatis mutandis* to banks run as a sideline business, and to the Chunghwa Post Co., so the suggested content for these pieces of legislation was approved on 26 February 2015 at the 11th joint meeting of the 16th Boards of Directors and Supervisors. After that, this content was forwarded—along with the recommended content of the other three items of (draft) secondary legislation that would apply to firms that are in business exclusively as electronic payment institutions, as well as the opinions of network platform operators regarding four of the pieces of secondary legislation—and submitted them to the FSC for its reference.

### **3. Coordinated with the government's policy of encouraging banks to establish a strong presence throughout Asia by continuing to build up the BAROC database of related information, and by offering more courses to equip professionals with the types of skills needed for international business**

- (1) To help domestic banks build up a stronger presence throughout the markets of Asia, BAROC in May 2014 launched a section on its website dedicated to providing information on overseas markets, and hired an outside firm to collect information on India, Cambodia, Myanmar,



Thailand, Indonesia, and Laos. A SWOT (strengths, weaknesses, opportunities, threats) analysis was completed by year-end 2014. The website section presents information on basic conditions, market access, the overall status of banks and their business performance, overall economic and trade conditions, and the current activities of Taiwan-invested enterprises. This information is made available to banks for their reference in the early stages of planning and evaluation. The website section also provides information on the following: consulting firms in the ASEAN region; contact information for ROC government offices overseas; contact information for financial supervisory authorities in the ASEAN region; and late breaking information on local financial markets as may be provided from time to time by overseas ROC missions.

- (2) In order to strengthen training and build up a deeper pool of talent, BAROC each year sets aside a certain amount within its budget to fund training programs designed to equip professionals with skills needed for the conduct of international banking. In 2014, training was provided to 2,377 course attendees to increase the number of trained people available to support the overseas expansion of our banks, help them integrate their overseas operations, expand their business scope, and make them more internationally competitive.

#### **4. Actively organized and participated in international financial conferences and activities, and worked to strengthen cross-strait contacts**

- (1) BAROC Chairperson Jih-Chu Lee led a "2014 emerging financial services study delegation" to mainland China to visit the offices of internet-based firms (such as Alibaba, Tencent, Baidu, and the Ping An Group) as well as supervisory authorities such as the People's Bank of China and the China Banking Regulatory Commission. The delegation discussed the state of internet banking with an eye to help Taiwan's financial services firms better understand the situation in the mainland and apply the knowledge to promote related business in Taiwan.
- (2) BAROC Chairperson Jih-Chu Lee traveled to the UK, where she called on Ms. Andrea Leadsom (Economic Secretary to the Treasury) and Anthony Browne (Chief Executive of the British Bankers' Association) in an active effort to promote bilateral cooperation on RMB business and generate expanded RMB business opportunities for Taiwanese financial services firms.
- (3) BAROC Chairperson Jih-Chu Lee, in her capacity as advisor, attended the 47th Annual Meeting of the Board of Governors of the Asian Development Bank in Astana, the capital of Kazakhstan, from 2-5 May 2014.
- (4) BAROC dispatched personnel in 2014 to take part in numerous international financial events, including the: "IFX Forum Annual Meeting," "15th International Common Criteria Conference," "CARTES in ASIA 2014," "2014 International Conference of the Institute of Internal Auditors," "2014 Asian Confederation of Institutes of Internal Auditors Conference," "2014 International Conference of the Institute of Internal Auditors," and "SWIFT International Banking Operations Seminar."

- (5) BAROC met with four delegations in 2014 (a delegation from the Asian Bankers Association, a financial industry study group from the city of Wuhan, an economic exchange group from Shandong Province, and a financial industry study group from Beijing), took part in a Cross-Strait CEO Summit in Taipei as well as a summit preparatory meeting in Beijing, the Taipei Foundation of Finance's 19th Cross-Strait Financial Academic Conference, and other such activities.

## **5. Coordinated with government policy of supporting development of innovative industries by lending related financial support**

In order to help cultural and creative firms obtain timely access to needed capital, and to help bank employees better understand innovative enterprises, BAROC hired the Taiwan Academy of Banking and Finance to hold forums, provide education and training, and organize lectures. Content included the following:

### **(1) Forum on innovative industries:**

- (a) Support for development of creative enterprises: BAROC, the Taiwan Securities Association, the ROC Life Insurance Association, and the Taiwan Venture Capital Association on 7 January 2014 jointly held a forum for senior management focusing on what the financial industry can do to support development of Taiwan's creative enterprises. Top officials and senior executives from BAROC's member organizations were invited to take part in the forum. Premier Mao Chi-Kuo (who was the Vice Premier at that time) delivered opening remarks at the event, and former Minister of Culture Lung Yingtai delivered the keynote address. Representatives of banks, venture capital firms, and cultural and creative firms also presented reports at the event. Finally, FSC Chairman Tseng Ming-Chung moderated a general discussion session at which BAROC Chairperson Jih-Chu Lee exchanged views with the chairpersons of the other three big industry associations as well as representatives of creative enterprises and the Small and Medium Enterprise Credit Guarantee Fund of Taiwan. The event was attended by 345 delegates.
- (b) International Forum on Cultural and Creative Industries: This event, which was held on 24 July 2014, featured three experts from the UK and the US who delivered keynote addresses to speak on the latest global trends in the cultural and creative sector, financing of cultural and creative firms, and assessment of intangible assets. It was attended by 169 persons.
- (c) Seminar on Investment by Financial Holding Companies in Cultural and Creative Enterprises: In order to help cultural and creative enterprises to upgrade and find expanded room for development, BAROC held the aforementioned seminar on 28 March 2014 to encourage financial holding companies, financial institutions, and venture capital firms to expand investments in cultural and creative enterprises.

## (2) Education and training:

From 8 April to 3 July 2014, BAROC held courses in northern, central, and southern Taiwan to train both managerial and rank-and-file personnel for credit examination work at bank head offices and branches, so as to improve their ability to assess the creditworthiness of cultural and creative firms. The courses attracted a total of 2,145 attendees, including 45 persons being trained as seed instructors, 176 persons working as chief credit examination officers, and 1,924 rank-and-file employees involved in credit examination work.

## (3) Co-hosted "Lecture Series on the Cultural and Creative Age" with the Bankers' Association of Taipei:

- (a) From 18 December 2014 to 21 January 2015, BAROC invited experts in different fields once a week to speak about their areas of specialty, including Li Ya-mei (president of Good Day Films), Su Li-mei (founder of Dreamland Productions), Johnny Tuan (chairman, Rock Records), Yu Kuo-hua (chairman of the board at the Performing Arts Alliance), and Johnson Chiu (president of DIT Startup).
- (b) In addition to staff from financial services firms, the events were also open to members of the public with an interest in cultural and creative matters, with the hope that the speeches might cultivate a deeper understanding of related matters. The five speeches attracted a combined attendance of 710.

## 6. Coordinated with government policy by implementing related financial measures

### (1) After the riots of 2014 in Vietnam, BAROC called on banks to support Taiwan-invested firms in Vietnam through the following measures:

- (a) Existing loans: For parties that qualify for relief under the "ROC Bankers Association Self-regulatory Rules for Corporate Debt Workouts and Workout Enforcement in Cases Transferred from the Ministry of Economic Affairs," the biggest creditor of any given debtor will take charge of debt workout proceedings. For parties that do not qualify for relief under the aforementioned Self-regulatory Rules, a firm can contact its creditor bank to apply for assistance, which might entail, for example, the bank refraining from collecting on any previously drawn credit facility until the principal comes due, and allowing the credit facility to be extended in accordance with existing rules. And in principle, banks are not to cancel any undrawn facility.
- (b) New loans: Banks are advised to be accommodating when a Taiwan-invested enterprise in Vietnam requests a loan to support its cash flow needs. Banks are also advised to provide needed financing in cases where the borrower is eligible for a loan guarantee and is able to provide collateral, or where the bank can confirm the borrower's ability to repay.

(2) Implemented relief measures following gas mains explosions in Kaohsiung:

- (a) Relief for private individuals: Where the blasts have damaged a vehicle or housing unit against which a loan has been made, if the borrower can furnish documentary proof of such damage, or if the bank inspection verifies the occurrence of such damage, the bank will extend the principal repayment period by 6 months to two years. Banks will, to the extent possible, provide loans at preferential rates to parties affected by the blasts who need funds to repair or rebuild a vehicle or home.
- (b) Relief for corporations: For a corporate borrower, the biggest creditor bank may take charge of debt workout proceedings in accordance with the "ROC Bankers Association Self-regulatory Rules for Corporate Debt Workouts and Workout Enforcement in Cases Transferred from the Ministry of Economic Affairs." The bank will refrain from collecting on any previously drawn credit facility until the principal comes due, and will not, in principle, cancel any undrawn facility. Where a loan is needed for rebuilding, a bank may provide a loan in accordance with the provisions of the "Guidelines for the Small and Medium Enterprises Development Fund in its Support for the Making of Special Loans to Small and Medium Enterprises for Post-disaster Recovery."

(3) Continued implementing three financial measures in support of the government's Economic Stimulus Program:

In order to coordinate with the government's economic stimulus efforts, BAROC continued to enforce its "Self-regulatory Rules for Corporate Debt Workouts and Workout Enforcement in Cases Transferred from the Ministry of Economic Affairs," "Temporary Supplemental Principles for Handling by Banking Institutions of Stock-secured Loans in Coordination with the Government's Economic Stimulus Program," and "Guidelines for the Handling by Members of the ROC Bankers Association of Mortgage Principal Deferment or Rescheduling for Involuntarily Unemployed Residents of Owner-occupied Homes." The deadline for submission of applications under these three measures was extended to 30 June 2015.

## 7. Showed Concern for Physically and Mentally Disabled Persons by Providing Conveniently Accessible Financial Services

- (1) In order to facilitate greater social participation by persons with disabilities, the FSC Banking Bureau asked BAROC to make reference to the "Barrier-free Website Development Rules" (which apply to government agencies and schools) in setting up a barrier-free website for public information, and to obtain barrier-free certification. BAROC obtained A+ barrier-free certification on 18 December 2014.
- (2) To make it easier for the visually impaired to operate ATMs, BAROC (acting upon instructions from the FSC) adopted a set of "Recommended Operating Procedures for Voice-enabled ATMs for the Visually Impaired." In addition to cash withdrawals, balance queries, and password changes—functions which voice-enabled ATMs already had—the Procedures now additionally

call for account transfer functionality (for both pre-registered and unregistered accounts) and cash withdrawals of user-selected amounts.

- (3) To provide wheelchair users with extra convenience, BAROC (acting upon instructions from the FSC) worked with banks to get them to set up wheelchair-friendly ATMs by 31 December 2014 at: (a) airports; (b) hospitals, major train stations, and big department stores in all five of Taiwan's special municipalities; and (c) academic medical centers located outside Taiwan's five special municipalities.

## 8. Drafted Financial Institution Information Security Measures

- (1) The FSC asked BAROC to categorize financial institution information systems on the basis of their importance and the degree of their impact on operations, and to adopt appropriate assessment frequencies and assessment procedures. In response, BAROC adopted a set of "Regulations Governing Computer System Information Security Assessments by Financial Institutions."
- (2) News media reported that Microsoft was preparing to discontinue support for its Windows XP operating system on 8 April 2014, which posed a security threat for bank ATMs, so BAROC (acting upon instructions from the FSC Banking Bureau) contacted member institutions to ask about their response to the news, developed a set of basic protective measures, and instructed member institutions to include the basic protective measures among the items to receive attention in banks' internal control self-audits and internal audits.
- (3) To ensure the security of financial certificates, the FSC has instructed financial institutions to lengthen financial certificates from 1024 to 2048 bits, and to switch the hash function from SHA-1 to SHA-256. To lower the cost of financial certificate upgrades for banks, BAROC completed a "Financial XML Collections Common Module" certificate upgrade, and held a public meeting to help member banks understand the added functionality that will come with a "Financial XML Collections Common Module" certificate upgrade, the timetable of such an upgrade, and coordinated measures that would be implemented in connection therewith. A total of 24 banks are using it.
- (4) In order to help financial institutions expand secure and convenient mobile banking and mobile payment services, BAROC issued a set of "Guidelines for the Provision of Mobile Device Applications by Financial Institutions," which were disseminated to member banks following approval by the FSC.

## 9. Continued Monitoring the Progress of Legislative Action, Communicated Banking Industry Views to Legislators

- (1) The Judicial Yuan, having previously put forward a proposed amendment to the "Bankruptcy Act" in August 2009, put forward another proposed amendment to the same Act on 12 February 2014. When a company files for reorganization or bankruptcy, its largest creditor is generally a financial institution. For this reason, having a fair and reasonable debt resolution

system is extremely important to financial institutions' ability to recover debts and assess credit risks. BAROC therefore in April 2014 furnished a special research report to the Judicial Yuan and the FSC in order to reflect the positions and views of banks regarding provisions governing the exercise of creditor rights, and restrictions thereon, in the proposed amendment.

- (2) Legislative Yuan member Lu Shiow-Yen and 18 other persons called for an amendment to Article 10, paragraph 3 of the "Financial Consumer Protection Act," suggesting the addition of a new provision which would require that a complete audiovisual recording be made when a financial services firm explains to a financial consumer the important content of a contract and makes risk disclosures. The competent authority then asked BAROC to provide an opinion on whether the proposed amendment would be difficult for banks to implement, and whether it would effectively resolve the problem, often seen in consumer litigation, where the two parties give their own versions of the facts without being able to put forward any positive proof. A BAROC committee handled the matter and furnished an opinion to the competent authority for its reference.
- (3) BAROC furnishes opinion of banks on proposed amendment to Article 28 of the "Labor Standards Act"
  - a. In recent years, some factory closings in Taiwan have resulted in unpaid back wages and other such problems. Legislators and the competent authority for labor matters have responded by proposing amendments to Article 28 of the "Labor Standards Act." The content of the amendments have had a severely adverse impact upon banks' lending risks, companies' access to funding, and the overall competitiveness of the nation. BAROC developed a position paper on the matter and furnished it to the FSC and all the members of the Legislative Yuan's Social Welfare and Environmental Hygiene Committee. Under the amendment that passed its third and final reading at the Legislative Yuan on 20 January 2015, unpaid back wages, retirement benefits, and severance pay are treated as collateral, and the people to which these are owed are accorded senior creditor rights. This provision is to enter into force eight months after promulgation of the amendment.
  - b. In order to ease worries about the impact of this year's amendment upon bank's loan approval procedures, a new provision was added to Article 56 of the "Labor Standards Act" to allow financial institutions to query local labor authorities regarding the state of a prospective corporate borrower's special account for labor pension funds. To facilitate implementation of this measure, BAROC will work together with the FSC by continuing to communicate with the Ministry of Labor about how to make information available for financial institution queries. Matters being discussed include the following: it has been suggested that the Ministry of Labor facilitate real-time online queries, and that queries be handled via the Joint Credit Information Center; it has been suggested that the Ministry of Labor integrate the information in the hands of Taiwan's local governments; and the parties have stressed that the types and scope of information made available for query should be limited to that which is needed by banks to make loan approval decisions.

- (4) To facilitate ratification of the "Cross-Strait Trade in Services Agreement" and passage of the proposed "Special Act for Free Economic Pilot Zones," BAROC supported FSC policy by holding related round-table discussions and helping banks use the mass media to carry out publicity, and by strengthening communication between elective assemblies and the general public in order to facilitate prompt passage and implementation of related legislation and expand expansion opportunities for financial services firms.

## 10. Adopted New Self-regulatory Rules, Amended Existing Ones

- (1) Supported FSC policy by adopting self-regulatory rules regarding wealth management committees:
  - a. Acting at the request of the FSC, BAROC prepared a set of draft "Self-regulatory Rules on Offshore Banking Units' Acceptance of Account Openings by Offshore Customers and Handling of Orders to Invest in Trust Products." The proposed Rules set out the following: an explanation of the reason for adoption of the Rules; general provisions regarding account openings by offshore customers; provisions regarding the handling by offshore banking units of orders to invest in trust products; a mechanism for the handling of customer complaints; and procedures for implementation of the Rules. BAROC distributed the Rules to member banks on 17 February 2015 and asked them to abide by them.
  - b. BAROC, acting at the request of the FSC, met with the ROC Trust Association to discuss the qualification requirements for bank personnel who wish to be registered as providers of structured notes, whether via trust arrangement or in their capacity as trading counterparty. BAROC amended the "Rules Governing the Registration of Bank Personnel Engaged in the Solicitation of Structured Notes" in order to achieve the goal of unified registration, then forwarded the amended Rules to member banks on 2 July 2014 and asked them to act accordingly. At the same time, BAROC coordinated by adding to the functionality of its registration system, i.e. via the operation of an interface between the systems of BAROC and the ROC Trust Association, by accessing the BAROC system, banks can check the registrations of persons who solicit structured notes or who operate or manage trusts. BAROC hired Trade-Van Information Services Co. to add new functions to the system and carry out related education and training. The upgraded system was launched on 1 September 2014.
- (2) The BAROC self-regulatory agreement was modified through an amendment to Article 18 and the insertion of a newly added Article 19. Key points included the following:
  - a. BAROC deleted Article 18, subparagraph 3, which had provided as follows: "The combined value of a bank's promotional gifts must not exceed 0.05% of its operating revenues for the preceding year, and the value of any particular gift item must not exceed NT\$500." Instead, promotional gifts are now subject to the provisions of the "Fair Trade Commission Principles for the Total Value of Gifts and Prizes Given Away to Promote Sales."
  - b. The self-regulatory agreement reminds members to take care to abide by the provisions of laws and regulations as they apply to limits on gifts that can be given away in the conduct of business.

- c. The self-regulatory agreement reminds members that, in conducting activities that involve the presentation of gifts or prizes, they must act in line with the principles of good faith and full disclosure, and must fully discharge the duty of disclosure with respect to the content and rules of such activities.
  - d. The self-regulatory agreement reminds members that when they conduct prize drawings and as a result obtain information on customers, in collecting and using such information they must abide by the related provisions of the "Personal Information Protection Act."
  - e. The self-regulatory agreement reminds members that when a customer buys a financial product that entails the assumption of risk, if the member provides a discount on fees it must clearly inform the customer of the risks being assumed and provide a balanced disclosure of both returns and risks, so as to avoid lowering the customer's risk awareness with respect to the financial product.
- (3) In coordination with the government's plan to switch in 2015 from IFRS 2010 to IFRS 2013, BAROC amended the "Model Accounting System for Banking Enterprises" and the "Guidelines and Case Illustrations of the Adoption by Banking Enterprises of the 'FSC-approved IFRSs' for Preparation of Financial Reports and Related Disclosures." BAROC also prepared guidelines to IFRS 7 and IFRS 13 and provided them to member banks for their reference.
  - (4) Banks are the main providers of corporate funding, and are therefore called upon to fulfill a corporate social responsibility. At the same time, internationally, financial institutions decide for themselves whether they wish to adopt the Equator Principles. In line with the spirit of the Equator Principles, therefore, BAROC added a new provision (Article 20, paragraph 2) to the "Credit Standards for Members of the ROC Bankers Association." It reads as follows: "When handling the review and approval of a project finance loan, it is advisable for a bank to consider whether the borrower properly protects the environment, maintains ethical business practices, and fulfills its corporate social responsibility." This provision has been added to remind banks to attach importance to the social and environmental risks of project finance borrowers.
  - (5) To coordinate with the competent authority, BAROC amended the "Self-regulatory Agreement on the Conduct of Credit Card Business by Members of the ROC Bankers Association Credit Card Business Committee" to bring the following three matters within the scope of coverage of the Agreement: (a) newly added rules set out operating procedures that members must adopt to ensure that cardholders' accounts are credited as quickly as possible after they return goods; (b) newly added rules set out the handling procedures and risk control measures that credit card acquirers must adopt for dealing with situations in which the gift certificates issued by participating merchants cannot be redeemed; and (c) credit card acquirers are advised to provide credit card services to construction-sector participating merchants only for the payment of earnest money in housing transactions. BAROC distributed the amended Agreement to all institutions engaged in credit card business, and instructed them to act accordingly.



- (6) In order to get banks that handle derivatives to do a better job protecting customer interests and implementing risk management, the FSC asked BAROC to study possible amendments to the "Self-regulatory Rules for Banks Dealing in Derivative Products" and the "Self-regulatory Rules for Risk Management by Banks in the Conduct of Financial Derivatives Business." On 30 May 2014, BAROC submitted to the FSC comparison charts showing proposed amendments to the provisions of these two sets of Rules. The FSC approved the proposed amendments, and BAROC distributed them to member banks on 20 June.
- (7) BAROC—acting at the instruction of the FSC, and in coordination with the requirement that all dormant accounts be immediately and unconditionally unfrozen, and with an eye to simplifying loan approvals for locally based borrowers—amended the "Checklist for Detection of Dummy Accounts," the "Financial Institution Account Opening Due Diligence Procedures and Risk Management Checklist for Irregular Accounts," and the attached procedural checklists. The amended documents were submitted to the FSC and, once FSC approval was obtained, BAROC distributed them to member banks with instructions to act accordingly.

## 11. Promotion of Bank Profitability and More Convenient Services

- (1) BAROC—acting upon instructions from the FSC—provided suggestions regarding the operating framework, operating system procedures for authorizations and settlements, and amendments to credit card legislation in connection with the possibility of allowing the issuance of dual currency credit cards for which transactions can be settled in NT Dollars and one other currency (the current recommendation is US dollars, Japanese yen, and euros; further policy easing would have to take place before RMB could be included on the list). The FSC agreed to everything except for provisions related to issuance of the China UnionPay Card, after which BAROC distributed the approved provisions to institutions engaging in credit card business, with instructions to apply with the FSC in accordance with the provisions.
- (2) In coordination with the FSC Insurance Bureau's policy decision to allow online insurance sales, BAROC adjusted the risk control measures used in connection with the use of the National Fee (Tax) Payment System to pay fees (taxes) via unregistered demand accounts. The adjustment has expanded the system such that it can now be used for the payment of life insurance premiums, with an eye to making it easier for customers to pay premiums while at the same time making collection services more profitable for financial institutions. By year-end 2014, consumers were able to use smart mobile device to pay for medical expenses incurred at Chang Gung Memorial Hospital, Show Chwan Memorial Hospital, Mackay Memorial Hospital, Far Eastern Hospital, and the Armed Forces General Hospital. A total of 32 financial institutions and 7,500 billing entities use the system, which each month handles 1.3 million transactions worth a combined amount of roughly NT\$13 billion.

## 12. Helped Resolve Problems Faced by all Member Banks, Improved Member Services

- (1) BAROC communicated with the MOEA Small and Medium Enterprise Administration (SMEA) and the Small and Medium Enterprise Credit Guarantee Fund of Taiwan (SMEG) regarding adjustments to credit guarantee measures:
  - a. SMEG on 5 November 2014 issued an amended version of the "Directions on the Granting of Wholesale Credit Guarantees by the Small and Medium Enterprise Credit Guarantee Fund of Taiwan." The amended Directions contained provisions that seriously affected the subrogation interests of banks, so BAROC on 22 December 2014 held a meeting presided over by Chairperson Jih-Chu Lee. In attendance were National Development Council Minister Woody Tyzz-Jiun Duh (then a Minister of State at the Executive Yuan) and FSC Chairman Tseng Ming-Chung, and representatives of the FSC Banking Bureau, the SMEA, and 37 SMEG member banks. At the meeting, SMEG Chairperson Tsao-shan Chou explained to SMEG member banks the latest adjustments to the organization's credit guarantee measures.
  - b. BAROC then invited SMEA, SMEG, and key banks to study and discuss possible changes. After many rounds of communication and coordination, they adopted a draft set of proposed adjustments. Now, SMEG will submit a proposal for an amendment to the Directions to its board of directors for a resolution, and once this is passed SMEG will forward it to SMEA for review and recordation, after which the amended provisions will be implemented.
- (2) There were worries that interest rate benchmarks published on pages 6165 and 51328 of Thomson Reuters were going to become unrepresentative because bills finance firms in Taiwan were set to stop providing quotations to Thomson Reuters. BAROC took the following measures in response:
  - a. The ROC Bills Finance Association had originally planned to have its members stop providing interest rate quotes for the Thomson Reuters benchmarks at end-June 2014, but after vigorous persuasion by BAROC, the ROC Bills Finance Association agreed to delay the discontinuation until the end of 2014 to allow BAROC member banks more time to develop a response.
  - b. Regarding the provision of assistance to support a smooth transition to alternative reference rates for banks' derivatives contracts, BAROC and the ROC Bills Finance Association coordinated with each other and obtained the assistance of the competent authority and the International Swaps and Derivatives Association for the proposal of a draft set of "Principles for the Quotation of New Taiwan Dollar Interest Rate Swap Rates" as well as a draft set of "Procedures for Transition to Alternative Reference Rates for Open Derivatives Contracts." These draft documents have been provided to industry participants for their reference.
  - c. Regarding a transition to alternative reference rates for bank lending, BAROC surveyed the response measures adopted by all its member banks. About 30% of the banks indicated that

their contracts with customers had already expressly switched to other reference rates, while the other 70% of the banks said that, even though their lending contracts did not expressly specify a switch to an alternative reference rate, they had in fact switched to alternatives, just as they had done in the past in dropping SIBOR. The great majority of member banks indicated that the transition was going smoothly, except that it was taking more time in the case of syndicated loans.

- (3) Member banks suggested the establishment of a shared platform for the testing of contactless card transactions. The National Credit Card Center (NCCC) evaluated the suggestion and agreed to support the efforts of banks to establish such a platform. BAROC set up an ad hoc task force to study the matter, and NCCC adopted a set of "Operational Guidelines for the Mobile Device Credit Card Business Transaction Testing Platform," while card issuers and acquirers were asked to provide test data and equipment, and to set parameters to be used in testing. The platform was launched on 1 September 2014.
- (4) In order to set up a platform for quick and convenient communication between BAROC and its member organizations, and to use the platform's many and diverse service functions so that member organizations can quickly gain an understanding of the state of BAROC undertakings, BAROC overhauled its website to better meet the needs of member organizations. The redesigned website was launched on 22 September 2014. In addition to previously existing functions, the redesigned website also has the following new features: a new section with information needed by companies seeking to expand their overseas presence, and a similar section focusing specifically on mainland China; a special section for completing conference registrations online; a special section for official documents; a section for sharing of information; and a special section for messages from the BAROC chairperson. In addition to affording access to research reports and to BAROC official documents, the redesigned website also provides a full-text search function to help member organizations look more easily for information released by the Association.

### **13. Carried out Special Research Projects on Financial Matters of Concern to the Competent Authority and Member Banks**

- (1) In order to help the competent authority in its effort to promote adoption by banks of the Basel III Capital Accord, BAROC and the FSC Banking Bureau jointly established the Basel Research Task Force, which has working groups focusing on the following matters:
  - a. Pillar 1 working group: In response to issuance by the Basel Committee on Banking Supervision (BCBS) in January 2014 of the "Basel III leverage ratio framework and disclosure requirements," BAROC studied and translated the related documents into Chinese, put forward suggested amendments to the "Methods for Calculating Banks' Regulatory Capital and Risk-Weighted Assets" and the "Capital Adequacy Disclosure Requirements for Banks," and then helped banks carry out test calculations of capital adequacy ratios so that Taiwanese banks would be able to bring their practices in line with Basel III requirements, and to do so on schedule.

- b. Liquidity risk working group: In response to issuance by BCBS in January 2013 of "Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools," the group completed a Chinese translation of this and related documents, and provided suggestions regarding the "Methods for Calculating the Liquidity Coverage Ratio." In addition, BAROC held a public meeting on 24 March 2014 to familiarize banks with test calculations and help them do the calculations, so that Taiwan can smoothly adopt the latest Basel requirements, and do so on schedule.
- (2) To coordinate with the Executive Yuan's campaign to promote exports to Muslim markets, the FSC asked BAROC to study the business opportunities likely to arise in the world of Islamic finance, and how to seize upon them. BAROC then contracted with the Taiwan Academy of Banking and Finance to prepare a research report on the subject. The report has been presented to the FSC Banking Bureau and BAROC member organizations for their reference.
  - (3) Acting at the instruction of the FSC Financial Examination Bureau, BAROC established a work team to study issues connected with "promotion of differential regulatory treatment" and "the establishment of risk-driven internal audit systems." The team completed a report and presented it to the FSC for its reference. The Financial Examination Bureau then further instructed BAROC to prepare an explanation in 2015 of the amendment that it had suggested to Article 15 of the "Regulations Governing the Implementation of Internal Control and Audit Systems by Financial Holding Companies and Banking Enterprises."
  - (4) The Legislative Yuan passed an amendment to Article 11 of the "Value-added and Non-value-added Business Tax Act," raising the business tax rate to 5% on the core sales revenues of financial services firms. The additional 3% is a feedback tax in nature, so in order to help banks remain internationally competitive, BAROC suggested adding a sunset clause setting an eight-year expiration date on the hike to the 5% tax rate. In addition, if at any time during that eight-year period there occurs an incident that qualifies as "financial instability" as defined by the Central Bank, the 5% rate will be discontinued.
  - (5) Most countries levy stamp duties on contracts or transaction documents. Taiwan, however, levies stamp duties on receipts for monetary payments, and also on interest income and service charge income, which makes our banks less competitive internationally. And in addition to the hike to a 5% rate on core business revenues, banks are not eligible for the sort of stamp tax exemptions that are available to value-added business entities. This means that banks bear a heavier tax burden than other types of business entities, so BAROC has been seeking to win an exemption for banks from stamp duties on core business revenues in accordance with Article 5 of the "Stamp Tax Act."

#### **14. Other tasks undertaken at the request of the authorities**

##### **(1) Consumer Protection**

- a. A case recently occurred in which an entity obtained account names and passwords from an online banking site, then logged onto that bank's website, downloaded customers' account information, and made it publicly accessible on the entity's own website. In order

to safeguard consumer interests and financial institution information security, the FSC Banking Bureau asked BAROC to devise a workable way to prevent the recurrence of such an incident. BAROC worked out a set of feasible measures (e.g. posting online security statements on websites; advising customers to carefully check the URL before using online banking services; and adding an identity confirmation function to online banking websites), and on 21 May 2014 distributed the measures to member organizations with instructions to act accordingly.

- b. When the FSC and the Executive Yuan's Department of Consumer Protection drafted the "Required and Prohibited Stipulations in the Standard Form Contract for the Personal Purchase of Real Estate" and the "Required and Prohibited Stipulations in the Standard Form Contract for the Personal Purchase of Automobiles," BAROC helped by providing the views of member banks that the contracts should strike a balance between the need for smooth bank lending operations and the need for proper safeguarding of consumer interests.
  - c. Tung-Hao Lee and 18 other members of the Legislative Yuan proposed that payment card issuers be required to publicly announce key information regarding their credit card revolving interest rates and cash card interest rates (hereinafter, "payment card interest rates"). Such information, to be broken down by payment card interest rate tier, would include the number (average, mean, and mode) and share of customers falling into each tier. In response to this proposal, BAROC adopted definitions for the aforementioned data and prepared related disclosure forms, and card issuers have been required since October 2014 to make the disclosures on the internet. BAROC also assembled the aforementioned information and posted it to its website for public access.
  - d. To better familiarize the public with anti-money laundering rules, BAROC carried out a publicity campaign featuring the use of advertising, posters, and websites. Campaign-related information was also displayed at ATM lobbies, on television, radio, trains, subway systems, and elsewhere.
  - e. The Taiwan Financial Services Roundtable (TFSR) took a number of measures to support the FSC's effort to promote financial literacy and increased job opportunities for youth. On 24 May 2014, TFSR joined with 10 major financial industry trade associations in holding a financial industry jobs fair. Later, on 12 July and 1 November of 2014, TFSR held community service fairs in cooperation with the governments of Changhua County and New Taipei City. On these occasions, BAROC opened booths to work for improved financial literacy.
- (2) Business Operations
- a. In support of the RMB clearing platform established by the Financial Information Service Co., BAROC's SWIFT National Member Group of Taiwan discussed the current state of RMB business, and joined with the Financial Information Service Co. to hold seminars to discuss issues pertaining to this platform, such as the payment versus payment (PVP) settlement system and the RMB cross-border settlement business, thus helping member

banks to better understand such matters while facilitating more efficient domestic settlement of RMB and foreign currencies.

- b. Taiwan Ocean Gold Coins Co. recently suggested easing restrictions on banks' gold business to allow them to sell gold and silver coins from mainland China. Thereafter, the competent authority asked BAROC to provide an opinion on the matter. BAROC surveyed its member banks, assembled their views, and forwarded them to the competent authority for its reference.
- c. The Taipei Interbank Offered Rate (TAIBOR) was recognized by the International Swaps and Derivatives Association on 5 September 2014, when it added the TAIBOR to the ISDA Definitions. As a result, the TAIBOR is now an internationally accepted reference rate.

### (3) Risk

- a. The major global credit card organizations have all adopted counterfeit card liability shift rules, so the FSC Banking Bureau asked BAROC to assess the impact of liability shift rules upon domestic financial institutions, and to develop a feasible response. BAROC invited representatives of EMV-ready business entities, ATM providers, international bodies, the systems interface center, and financial institutions to consider workable measures for adapting to the rules. These were submitted to the FSC, then distributed to all member organizations with instructions to properly implement the measures.
- b. In preparation for the Asia/Pacific Group on Money Laundering's 2nd Follow-up Report to the Mutual Evaluation Report of Chinese Taipei, scheduled for the fourth quarter of 2017, BAROC, acting in accordance with the "Directions Governing Anti-Money Laundering and Countering Terrorism Financing of Banking Sector" (issued by the FSC on 31 December 2013), studied the anti-money laundering and counter-terrorism financing legislation of Singapore, the US, mainland China, Hong Kong, and Australia, then studied recommendations for provisions that would be appropriate for Taiwan's legislative and financial environment, and incorporated its findings into the drafting of a set of "Points for Attention by Banks on Money Laundering Prevention," which have been furnished to the FSC.
- c. The FSC, in order to better understand the situation when credit card participating merchants use card swipe equipment provided by acquirers to handle "non-credit card ancillary services," asked BAROC to study the details of such services and to draft a consistent set of rules to govern them. The resulting study identified the different types of ancillary services provided via credit card swipe equipment. Based on its findings, BAROC recommended that, when such services involve the provision of credit card transaction information, then credit card numbers should be partially concealed, other sensitive information should not be provided, and a security control mechanism for shared equipment should be established. These recommendations have been furnished to the FSC for its reference.

## 15. Held financial seminars and lectures to cultivate professional talent

### (1) January-March 2014

BAROC held the following events (total of 40 sessions): "Prevention of International Money Laundering" and "Courses for Core Personnel—Financial Product Traders, Consumer Finance Personnel, Accountants, Corporate Credit Check Personnel, and Debt Collection Personnel, Wealth Managers."

### (2) April-June 2014

BAROC held the following events (total of 26 sessions): "Development of Mainland Chinese Non-bank Financial Services," "Workshop on Pricing of and Hedging With FX Structured Products," "Workshop on Case Studies Involving Forfaiting and the ICC Uniform Rules for Forfaiting," "Workshop on Basel III Auditing," and "Courses for Core Personnel—Forex/OBU Personnel, Legal Professionals, and e-Banking Personnel."

### (3) July-September 2014

BAROC held the following events (total of 157 sessions): "Trends in the Use of Internet Applications by Mainland Chinese Financial Services Firms," "Taiwan's Development of Offshore RMB Derivatives: Opportunities and Challenges," "Workshop on Risk Appetites and the Setting of Risk Limits," "Workshop on International Syndicated Lending," "Workshop on Funds Transfer Pricing," and "Workshops for Taiwan-invested Banks Doing Business in Mainland China—Corporate Finance Session, Consumer Finance Session, Financial Markets and Forex Fund Systems Session, Risk Management and Internal Audits Session, Legal Affairs and Debt Collection Session, and Accounting and Taxes Session."

### (4) October-December 2014

BAROC held the following events (total of 24 sessions): "Development of Cross-Strait e-Banking and Third-party Payments," "Workshop I on Derivatives Contracts and ISDA Rules," "Workshop II on Derivatives Contracts and ISDA Rules," "Workshop on Offshore BAROC Derivatives," "Training Program for Senior Management at Financial Institutions," "Forum on the Building of a Stronger Presence in Asia," and "Seminar on Credit Card Business and Related Legal Matters."

## 16. Provided financial information and consulting services to the public, and donated to charity

(1) Consumers filed with BAROC for mediation of 75 complaints against BAROC member institutions in 2014, and BAROC also provided consulting services in 775 cases where consumers had questions about banking business operations (including calls referred to BAROC from the BAROC's 1998 hotline).

(2) BAROC mediated 171 credit card-related queries in 2014, including: (a) debt collection matters [6 cases]; (b) debt repayment and discharge of debt by family members [54 cases]; (c) use of stolen credit cards for purchases or cash withdrawals [16 cases]; (d) problems with credit card use and credit card debt [58 cases]; (e) problems with information in the database of the Joint Credit Information Center [6 cases]; (f) problems with participating merchants [9 cases]; and (g) other matters [22 cases].

- (3) BAROC took 13,269 phone calls from consumers seeking to discuss debt restructuring issues in 2014, of which: (a) 7,515 cases were immediately resolved over the phone [56.7%]; (b) 5,033 cases involved the "Consumer Debt Clearance Act" [37.9%]; (c) 603 cases were referred to the financial institution [4.5%]; and (d) 118 cases involved consultation over the phone [0.9%]. In addition, consumers also filed 14,715 applications for pre-negotiation procedures relating to debts totaling an aggregate NT\$14.079 billion.
- (4) BAROC helped the heirs of member institutions' customers to check on their benefactors' deposits, safe deposit boxes, and other assets in banks. A total of 809 such inquiries were handled in 2014. In another 921 cases, BAROC helped bank customers check their own account balances.
- (5) BAROC periodically updated statistics on services that are common to all banks, such as deposits, loans, trust services, and foreign exchange services, and tracked the fees charged by each bank in each category. This information was posted to a special section on the BAROC website.
- (6) BAROC periodically compiled information on the credit card business and posted it to on its website. The following four are but a few of the different types of information to be found on the website's special section on matters related to credit cards: "Differential revolving credit interest rates charged by credit card issuers, and fee schedules for different fees," "Service fees for credit card installment payment plans," "Cash card interest rates and fees of BAROC member banks," and "Service fees of BAROC member banks for unsecured loans."
- (7) BAROC periodically updated the following information and posted it to the BAROC website for public perusal: "List of Outside Credit Card Sales Service Providers With Which BAROC Member Institutions Have Renewed Outsourcing Arrangements After the Providers Have Passed a Performance Review," "List of Outside Debt Collection Service Providers With Which BAROC Member Institutions Have Renewed Outsourcing Arrangements After the Providers Have Passed a Performance Review," "List of Outside Loan Marketing Institutions With Which BAROC Member Institutions Have Renewed Outsourcing Arrangements After the Providers Have Passed a Performance Review," "Contact Windows at BAROC Member Institutions for the Handling of Complaints Arising After the Sale of Problematic Assets," and "Contact Windows at BAROC Member Institutions for Information on Personal Loans and Flagship Products, and Related Internet Links."
- (8) In order to fulfill its social responsibilities and demonstrate its support for charitable groups, BAROC donated funds to the Child Welfare League Foundation, the Little Sisters of the Poor, and Genesis Social Welfare Foundation.
- (9) Out of concern for our fellowmen, BAROC and its member bankers associations at the provincial, municipality, and county levels jointly donated funds to help with the response to a series of massive gas mains explosions in Kaohsiung. Also, from 1 August to 31 December of 2014, fees were waived whenever members of the public donated to the relief effort by means of interbank transfer, ATM, the internet, mobile banking services, the National Fee (Tax) Payment system, financial electronic data interchange (FEDI), financial XML, or credit card.
- (10) Donated national day arch for celebration of National Day 2014.



## B. Major Tasks in 2015

No	Tasks
1	To coordinate with the government's policy of spurring the development of e-commerce payment services and mobile communications networks, BAROC will help the competent authority draft 13 pieces of secondary legislation related to the "Act Governing Electronic Payment Institutions."
2	In preparation for the arrival of the "Bank 3.0" era, BAROC will seek to get the authorities to allow online account openings so that entities conducting lending, credit card, and wealth management business can handle account openings online.
3	To coordinate with the government's policy of encouraging financial institutions to build up a stronger presence overseas (particularly in Asia), BAROC will further flesh out the content of its Mainland China Financial Database, continue to update its website section with information needed by companies seeking to expand their overseas presence, and continue to implement its Key Personnel Training Project for the Buildup of Banks' Presence in Asia.
4	To coordinate with the government's policy of developing creative enterprises, BAROC will hold a "Lecture Series on the Cultural and Creative Age" and a "Special Course on Financing of and Investment in Creative Enterprises" to better familiarize financial institution personnel with creative enterprises, and to help such enterprises obtain needed funding.
5	<p>Step up participation in international activities and exchange:</p> <p>(1) Apply for admission to the Islamic Financial Services Board (IFSB) as an associate member.</p> <p>(2) Take part in May 2015 in the 48th Annual Meeting of the Board of Governors of the Asian Development Bank</p> <p>(3) The 32nd Asian Bankers Association General Meeting and Conference will be held in Taiwan in 2015, and BAROC will take advantage of the occasion to communicate with major financial institutions from throughout Asia.</p> <p>(4) Strengthen exchange and cooperation with banking associations from around the world.</p>
6	BAROC will add a "video instruction" function to the "members only" section of its website, where members will be able to view videos advanced courses (including teaching materials) being held in Taiwan for core banking personnel. The idea is to enable people to benefit from such materials at a time and place of their own convenience, and to do so free of charge.
7	BAROC will strengthen cooperation, liaison, and joint workshop activities with judicial and consumer protection bodies in order to get law enforcement agencies to pay greater attention to the problem of financial crime. We will also take advantage of opportunities arising in the course of such cooperation to communicate with law enforcement agencies and consumer protection organizations about innovative new financial services and related consumer protection issues.
8	To better acquaint members of the general public with the BAROC activities and important financial issues, we are planning to publicize the association's activities (or the results thereof) as necessary via the media, and will invite experts to speak on important financial issues. The idea is to help people better understand such matters, and to communicate the views of the financial industry.
9	BAROC will continue to monitor pending legislative action (e.g. proposed amendment to the "Bankruptcy Act" and to Article 28 of the "Labor Standards Act") and taxation matters (e.g. efforts by the Ministry of Finance to amend Article 49, paragraph 2 of the "Income Tax Act" so as to raise the minimum loan loss reserve ratio for banks and add a sunset provision for the payment of income tax by banks) in order to understand their impact on banks. Where controversies or debate arise, we will take the initiative to coordinate and communicate with the competent authorities in defense of our members' interests.

No	Tasks
10	BAROC will seek to persuade the FSC to ease restrictions on RMB transactions and cross-border remittances to pave the way for more wealth management business opportunities. For example, BAROC will recommend that the government consider easing restrictions on travel to Taiwan by people from the mainland, and will also recommend an easing of the provisions of the "Regulations Governing the Scope of Business, Restrictions on Transfer of Beneficiary Rights, Risk Disclosure, Marketing, and Conclusion of Contract by Trust Enterprises" so that banks can expand their advertising and publicity in the mainland.
11	BAROC will seek to persuade the FSC to expand by an appropriate degree the range of financial products that DBUs are allowed to handle (with a possible phasing in of changes) so that customers can have more investment channels to choose from and new investment instruments available, while banks can have more ways to repatriate the huge amounts of RMB that have been building up in Taiwan. Such a change would reinvigorate financial services firms, generate increased job opportunities, and spur economic growth.
12	In order to strengthen Taiwan's AML/CFT system and help with the response to the Asia/Pacific Group on Money Laundering's 2nd Follow-up Report to the Mutual Evaluation Report of Chinese Taipei, scheduled for the fourth quarter of 2017, BAROC, will help the Ministry of Justice and the proper competent authorities as they continue to draft an amendment to the "Points for Attention by Banks on Money Laundering Prevention." BAROC will also study how banks are carrying out money laundering risk assessment, and will adopt measures for the implementation and promotion of AML/CFT programs. These will be presented to banks, with instructions to act in accordance.
13	To facilitate the efforts of member banks to comply with the US "Foreign Account Tax Compliance Act (FATCA)," BAROC will survey the views of banks regarding the measures that the competent authorities will need to take to comply with the intergovernmental FATCA agreement between Taiwan and the US. BAROC will then furnish the views to the FSC Banking Bureau for its reference. BAROC may also hold FATCA-related seminars to help member banks with their response.
14	In order to promote smooth adoption of IFRS 9: Financial Instruments, BAROC has established an IFRS 9 Working Group, and in the coming year will collect and study the problems encountered by banks in adopting IFRS 9, and will put forward a suggestion regarding the adoption timetable.

# V. Appendices

## A. Chronology of Major Events in 2014

- ◎2014.01.23 Held the 4th joint meeting of the 11th Boards of Directors and Supervisors.
- ◎2014.02.14 Held a meeting to explain the "Report on the Cross-border Implications of the CFTC Swap Regulations."
- ◎2014.02.27 Held the 5th joint meeting of the 11th Boards of Directors and Supervisors.
- ◎2014.03.12 Held a meeting to explain BAROC's "promotion of differential regulatory treatment" and its "recommendation for the establishment of risk-driven internal audit systems."
- ◎2014.03.24 BAROC and the Taiwan Academy of Banking and Finance jointly held a meeting to familiarize domestic banks with trial calculations of the liquidity coverage ratio.
- ◎2014.03.27 Held the 6th joint meeting of the 11th Boards of Directors and Supervisors.
- ◎2014.03.28 Held a seminar on investments by financial holding companies in the cultural and creative industries.
- ◎2014.04.24 Held the 7th joint meeting of the 11th Boards of Directors and Supervisors.
- ◎2014.05.02-05 BAROC Chairperson Jih-Chu Lee attended the 47th Annual Meeting of the Board of Governors of the Asian Development Bank in Astana, Kazakhstan.
- ◎2014.05.05 Held a roundtable discussion on the impact of free economic pilot zones on the development of the banking industry.
- ◎2014.05.29 Held the 2nd meeting of the 11th Board of Directors.
- ◎2014.06.16 Held the 8th joint meeting of the 11th Boards of Directors and Supervisors.



2014.05.02-05 BAROC Chairperson Jih-Chu Lee attended the 47th Annual Meeting of the Board of Governors of the Asian Development Bank held in Astana, Kazakhstan.



2014.05.05 BAROC held a roundtable discussion on the impact of free economic pilot zones on the development of the banking industry.

- ◎2014.06.27 BAROC and the Bankers' Association of Taipei jointly held a seminar on "International Perspectives on the Current State and Future Trends of Taiwan's Real Estate."
- ◎2014.07.12 Held a fair in Changhua County to show concern for society in cooperation with the Taiwan Financial Services Roundtable.
- ◎2014.07.25-26 Held the 9th joint meeting of the 11th Boards of Directors and Supervisors.



2014.07.12 Held a fair in Changhua County to show concern for society in cooperation with the Taiwan Financial Services Roundtable.



2014.07.25-26 Held the 9th joint meeting of the 11th Boards of Directors and Supervisors, followed by a series of social activities.

- ©2014.08.04 Held a meeting to familiarize attendees with the "Guidelines on the AML/CFT International Standard."
- ©2014.08.18 Held a meeting to familiarize attendees with the upgrade to longer public key certificates in connection with adoption of the financial XML collections common module.



2014.12.08-12 Organized an "emerging financial services" delegation to visit the Tencent Group.



2014.12.08-12 Organized an "emerging financial services" delegation to visit the People's Bank of China.

- ◎2014.08.28 Held the 10th joint meeting of the 11th Boards of Directors and Supervisors.
- ◎2014.08.29 Held a meeting to familiarize attendees with an upcoming internships fair for youth.
- ◎2014.09.19 Held the 2nd session of a series of meetings on implementation of the "Occupational Safety and Health Act."
- ◎2014.09.25 Held the 3rd meeting of the 11th Board of Directors.
- ◎2014.10.30 Held the 11th joint meeting of the 11th Boards of Directors and Supervisors.
- ◎2014.10.31 BAROC and the Bankers' Association of Taipei jointly held the 2015 seminar on domestic economic and financial industry prospects.
- ◎2014.11.27 Held the 12th joint meeting of the 11th Boards of Directors and Supervisors.
- ◎2014.11.27 Held a meeting to familiarize attendees with RMB cross-border trade settlement.
- ◎2014.11.28 Held a meeting on the US Foreign Account Tax Compliance Act.
- ◎2014.12.08-12 Organized a delegation to mainland China to visit the offices of internet-based firms, supervisory authorities, and the China Banking Association.
- ◎2014.12.18 Held the 13th joint meeting of the 11th Boards of Directors and Supervisors.

## B. List of Member Banks of BAROC

March 2015

Institution	Position	Name	Telephone	Fax	Website
Bank of Taiwan	Chairperson President	Jih-Chu Lee Chang-Ruey Shiau	(02)23493456	(02)23315840	www.bot.com.tw
Land Bank of Taiwan	Chairman President	Kuang-Si Shiu Ming-Hsien Kao	(02)23483456	(02)23757023	www.landbank.com.tw
Taiwan Cooperative Bank	Chairman President	Tsan-Chang Liao Hong-Chen Lin	(02)23118811	(02)23890704	www.tcb-bank.com.tw
First Commercial Bank	Chairman President	Ching-Nain Tsai Po-Chiao Chou	(02)23481111	(02)23892967	www.firstbank.com.tw
Hua Nan Commercial Bank, Ltd.	Chairman President	Ming-Cheng Lin Li-Yen Yang	(02)23713111	(02)87291747	www.hncb.com.tw
Chang Hwa Commercial Bank	Chairman President	Ming-Daw Chang James Shih	(02)25362951	(02)25716871	www.chb.com.tw
The Shanghai Commercial & Savings Bank, Ltd.	Chairman President	Hung-Ching Yung Yi-Jen Chiou	(02)25817111	(02)25318501	www.scsb.com.tw
Taipei Fubon Commercial Bank	Chairman President	Daniel Tsai Jerry Harn	(02)27716699	(02)27736769	www.taipeifubon.com.tw
Cathay United Bank	Chairman President	Tsu-Pei Chen Chang-Ken Lee	(02)87226666	(02)87898789	www.cathaybk.com.tw
The Export- Import Bank of the Republic of China	Chairman President	Rueen-Fong Chu Shui-Yung Lin	(02)23210511	(02)23940630	www.eximbank.com.tw
Bank of Kaohsiung	Chairman President	Toong-Min Chen Moan-Sheng Huang	(07)5570535	(07)5580529	www.bok.com.tw
Mega International Commercial Bank Co., Ltd.	Chairman President	McKinney Tsai Meei-Yeh Wei	(02)25633156	(02)23569169	www.megabank.com.tw
Agricultural Bank of Taiwan	Chairman President	Chao-Hui Chen Ying-Huei Chiou	(02)23805100	(02)23805252	www.agribank.com.tw
CitiBank Taiwan, Ltd.	Chairman President	Victor Kuan Christie Chang	(02)87269999	(02)87801300	www.citibank.com.tw
ANZ Bank(Taiwan) Limited	Chairman President	Alistair Bulloch Terry King	(02)87225000	(02)87225222	anz.tw/zh/index.jsp
China Development Industrial Bank	Chairman President	Chia-Juch Chang Paul Yang	(02)27638800	(02)27660047	www.cdibank.com
Industrial Bank of Taiwan	Chairman President	Kenneth Lo Ching-Yu Yang	(02)87527000	(02)87519568	www.ibt.com.tw
Taiwan Business Bank	Chairman President	Tien-Chang Huang Tzeng-Show Lin	(02)25597171	(02)25507942	www.tbb.com.tw
Standard Chartered Bank(Taiwan) Limited	Chairman President	Benjamin Hung John Tan	(03)5245131	(03)5250977	www.standardchartered.com.tw
Taichung Commercial Bank	Chairman President	Jin-Fong Soo Chun-Sheng Lee	(04)22236021	(04)22240748	www.tccb.com.tw
King's Town Bank	Chairman President	Terence Tai Bruce Chien	(06)2139171	(06)2136885	www.ktb.com.tw
HSBC Bank (Taiwan) Limited	Chairman President	Jayant Rikhye Jong-Peir Li	(02)27230088	(02)27575150	www.hsbc.com.tw
Bank of Taipei	Chairperson President	Julie S.M. Chen Eric Chen	(02)25575151	(02)25534883	www.bankoftaipei.com.tw
Hwatai Bank	Chairman President	Po-Yi Lin Jwn-Yu Lee	(02)27525252	(02)27775213	www.hwataibank.com.tw
Shin Kong Commercial Bank	Chairman President	Tseng-Chang Lee Chin-Yuan Lai	(02)87587288	(02)87895600	www.skbank.com.tw
Sunny Bank	Chairman President	Peng-Lang Lin Wei-Hao Ting	(02)28208166	(02)28233414	www.esunnybank.com.tw
Bank of Panhsin	Chairman President	Ping-Hui Liu Ming-Kun Cheng	(02)29629170	(02)29572011	www.bop.com.tw
Cota Commercial Bank	Chairman President	Sung-Yie Liao King-Ting Chang	(04)22245161	(04)22275237	www.cotabank.com.tw
Changhua Post Co., Ltd.	Chairman President	Philip Wen-chyi Ong Chang Wang	(02)23931260	(02)23911209	www.post.gov.tw
Union Bank of Taiwan	Chairman President	Shiang-Chang Lee Jeff Lin	(02)27180001	(02)27174093	www.ubot.com.tw

Institution	Position	Name	Telephone	Fax	Website
Far Eastern International Bank	Chairperson President	Ching-Ing Hou Eli Hong	(02)23786868	(02)23779000	www.feib.com.tw
Yuanta Bank	Chairman President	Tony Fan Chia-Lin Chin	(02)21736699	(02)27722455	www.yuantabank.com.tw/bank
Bank Sinopac	Chairman President	Cheng-Hsiung Chiu Tina Jiang	(02)25063333	(02)81618485	www.banksinopac.com.tw
E.Sun Commercial Bank, Ltd.	Chairman President	Gary Tseng Joseph N.C. Huang	(02)27191313	(02)27138713	www.esunbank.com.tw
KGI Bank	Chairman President	Mark Wei Richard Chang	(02)27011777	(02)27849848	www.kgibank.com
DBS Bank (Taiwan) Ltd.	Chairman President	Jeanette Wong Kai Yuan Jerry Chen	(02)66129889	(02)66129285	www.dbs.com/tw
Taishin International Bank	Chairman President	Thomas T.L. Wu Larry Chung	(02)25683988	(02)25234551	www.taishinbank.com.tw
Ta Chong Bank	Chairman President	Chien-Ping Chen Justin Tsai	(02)87869888	(02)87869800	www.tcbank.com.tw
Jih Sun International Bank	Chairman President	Jin-Tan Huang Mike Wang	(02)25615888	(02)25217698	www.jihsunbank.com.tw
EnTie Commercial Bank	Chairman President	Mark Zoltan Chiba Jesse Ding	(02)27189999	(02)27187843	www.entiebank.com.tw
CTBC Bank Co., Ltd.	Chairman President	Chao-Chin Tung James Chen	(02)33277777	(02)26539580	www.ctbcholding.com
Mega Bills Finance Co., Ltd	Chairman President	Feng-Chi Ker Chi-Fu Lin	(02)23831616	(02)23822878	www.megabills.com.tw
China Bills Finance Co.	Chairman President	Hermann Wu Vance Chin	(02)27991177	(02)26592919	www.cbf.com.tw
International Bills Finance Co., Ltd.	Chairman President	Chi-Lin Wea Norman Tsai	(02)25181688	(02)25158430	www.ibfc.com.tw
Grand Bills Finance Co.	Chairman President	Ho-Sheng Wang Lien-Chung Huang	(02)87802801	(02)87884031	www.grandbill.com.tw
Hua Nan Financial Holdings Co., Ltd.	Chairman President	Teng-Cheng Liu Mao-Hsien Liu	(02)23713111	(02)87291943	www.hnfhc.com.tw
Fubon Financial Holding Co., Ltd.	Chairman President	Richard Tsai Vivien Hsu	(02)66366636	(02)66360111	www.fubongroup.com.tw
China Development Financial Holding Co.	Chairman President	Mu-Tsai Chen Paul Yang	(02)27638800	(02)27660047	www.cdibh.com
Cathay Financial Holding Co., Ltd.	Chairman President	Hong-Tu Tsai Chang-Ken Lee	(02)27087698	(02)23252488	www.cathayholdings.com.tw
CTBC Financial Holding Co., Ltd.	Chairman President	Wen-Long Yen Daniel I.K. Wu	(02)33277777	(02)26539580	www.ctbcholding.com
Sinopac Financial Holdings Co., Ltd.	Chairman President	Show-Chung Ho Stan Hsiao	(02)81618888	(02)81618485	www.sinopac.com
E.Sun Financial Holding Co., Ltd.	Chairman President	Yung-Jen Huang Joseph N.C. Huang	(02)21751313	(02)27199313	www.esunbank.com.tw
Yuanta Financial Holding Co., Ltd.	Chairman President	Rong-Jou Wang Tony Shen	(02)27811999	(02)27721585	www.yuanta.com
Taishin Financial Holdings Co., Ltd.	Chairman President	Thomas T.L. Wu Joseph Jao	(02)23268888	(02)37076889	www.taishinholdings.com.tw
Shin Kong Financial Holding Co., Ltd.	Chairman President	Eugene T.C. Wu Victor Hsu	(02)23895858	(02)23892868	www.skfhc.com.tw
Mega Financial Holding Co., Ltd.	Chairman President	McKinney Tsai Meei-Yeh Wei	(02)23578888	(02)33938755	www.megaholdings.com.tw
First Financial Holding Co., Ltd.	Chairman President	Ching-Nain Tsai Grace M.L. Jeng	(02)23111111	(02)23119691	www.firstholding.com.tw
Jih Sun Financial Holding Co., Ltd.	Chairman President	Jin-Tan Huang Mike Wang	(02)25048888	(02)25175408	www.jsun.com
Waterland Financial Holding Co., Ltd.	Chairman President	Chi-Lin Wea Michael Y. J. Ding	(02)25154567	(02)25010606	www.waterland-fin.com.tw
Taiwan Financial Holding Co., Ltd.	Chairperson President	Jih-Chu Lee Chang-Ruey Shiau	(02)23493456	(02)23115060	www.twfhc.com.tw
Taiwan Cooperative Financial Holding Co., Ltd.	Chairman President	Tsan-Chang Liao Shyh-Laang Lin	(02)23118811	(02)23113699	www.tcfhc.com.tw
Yuanta Securities Finance Co., Ltd.	Chairman President	Ting-Shian Huang Rong-Ting Hong	(02)21736833	(02)27721101	www.yuantafinance.com.tw