

# Annual Report 2017

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## I. Chairman's Preface

The global economy recovered steadily in 2017 on the strength of a rebound in international market demand and rising commodity prices. The International Monetary Fund (IMF) estimates that the global economy grew at a rate of 3.7% in 2017, up from 3.2% in 2016 and the highest rate of growth in three years. In Taiwan, the domestic economy in 2017 benefited from a clear uptick in



Chairman Joseph Jye-Cherng Lyu

the global economy, with exports rising sharply to the highest level since 2011. This boosted the economy as a whole, posting year-on-year GDP growth of 2.86%, up from 1.41% in 2016.

Taiwan's domestic banks have been burdened by a steadily narrowing interest spread, which declined from an average of 1.38 percentage points in 2016 to 1.36 percentage points in 2017. However, thanks to the steady global economic recovery, the overseas branches of Taiwan's domestic banks earned outstanding profits in 2017. This pushed total pre-tax earnings for domestic banks in 2017 to NT\$305.9 billion, up by 1.93% from the 2016 figure of NT\$300.1 billion. Over the same period, their return on assets (ROA) came to 0.67% while return on equity (ROE) was 8.97%, down slightly from figures of 0.68% and 9.24%, respectively, for 2016. As for asset quality, the non-performing loan (NPL) ratio of domestic banks at year-end 2017 stood at 0.28%, up by 0.01 percentage point from 2016, while their NPL coverage ratio came to 492.92% (down by 10.01 percentage points from the figure for year-end 2016). Despite this drop, the NPL coverage ratio remained above 400%, thus showing that domestic banks have strong risk-bearing capacity.

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. In 2017, BAROC continued to promote the shared interests of banks by: helping member banks respond to legislative developments at home and abroad; monitoring the progress of legislative action and taking proactive steps to safeguard the interests of member banks; drafting self-regulatory rules for the banking industry; and helping member banks to resolve problems in the management and operation of their businesses.

In addition, BAROC took steps to help the competent authorities adopt and implement their financial policies. Working under the guidance of the authorities and with the support of member banks, BAROC completed the following important undertakings: (1) Helped banks implement AML/CFT measures and prepare for the Asia/Pacific Group on Money Laundering's third round of the mutual evaluation in 2018; (2) Studied possible amendments to the "Directions Concerning the Security Control Operations of Financial Institutions Conducting Electronic Banking Business" and other regulations and measures intended to strengthen the information security mechanisms of financial institutions; (3) Coordinated with the government's policies on green finance and renewable energy by amending the "Credit Standards for Members of the ROC Bankers Association" and implementing related measures; (4) Encouraged banks to continue providing financing to firms in key innovative fields while making sure to properly manage risks; and (5) Coordinated with the policies of the competent authorities by continuing to promote the development of digital banking and drafting related regulations.

Human resource development is a key focus of BAROC's work. In response to Fintech development trends, BAROC in 2017 carried out several different training programs. In addition to uploading training videos to its website, in August 2017 the Association and Mizuho Bank jointly held a compliance training program in Tokyo to raise the level of compliance consciousness among employees at banks' overseas business units.

To help banks engage in effective overseas market development and strengthen their legal compliance capabilities, BAROC is actively engaged throughout the world. First, in order to signal the determination of our government and banks to strengthen legal compliance, internal control, and internal audits, BAROC held three sessions of the "Conference of the Foreign Branches' Managers, Legal Compliance Officers, Officers of the Internal Control and Internal Audits" in January, April, and July 2017 in New York, Hong Kong, and London, respectively, and visited with supervisory authorities in each of those cities as part of an effort to shape a culture of collective self-regulation and legal compliance at banks. BAROC also attended the 50th Annual Meeting of the Board of Governors of the Asian Development Bank in May 2017. During the proceedings, BAROC officials met for discussions with several Japanese banks with an eye to expanding banking industry cooperation between Taiwan and Japan. The Association also organized study tours in September and October. The first group traveled to Singapore to study Fintech matters, while the second focused on market opportunities for banks in Thailand. In September, BAROC held the 2017 Asian Financial Supervision Conference, inviting senior supervisory officials from Indonesia, Vietnam, Thailand, Cambodia, and the Philippines to Taiwan to discuss supervisory legislation in their respective countries and help BAROC's member banks better understand conditions in the countries targeted by the Taiwanese government's New Southbound Policy.

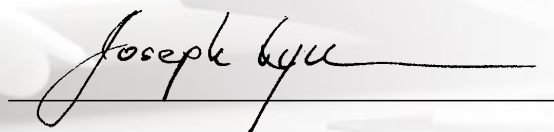
To ensure the fulfillment of corporate social responsibility, in addition to helping banks provide conveniently accessible financial services, BAROC donated to a number of charity organizations in 2017, including the Financial Services Education Charity Fund (established by the Taiwan Financial Services Roundtable). Furthermore, after a major earthquake caused serious property damage in Hualien County in February 2018, the Association took measures to help those most affected obtain loans at preferential interest rates.

Looking ahead to 2018, international forecasting institutions such as the IMF, the World Bank, and IHS Markit are cautiously optimistic about prospects for global economic performance. Expectations are for more robust growth than that seen in 2017. However, we need to be alert to the possible global economic impact of various factors, including the policies of US President Donald Trump (e.g. tax cuts and trade protectionism), the direction of monetary policy at the world's major central banks, the impact of Brexit, the pace of economic restructuring in mainland China, and geopolitical conflicts.

BAROC thanks its member banks for their support and hard work over the past year, and the competent authority for its guidance, which have enabled the Association to achieve many important tasks in an efficient and professional manner. In 2018, our banks will be challenged by many internal and external uncertainties, but the government is taking a variety of measures that should be helpful, including: continued implementation of the Forward-looking Infrastructure Development Program; support for the development of key innovative industries; steps to resolve the "five shortages" (land, electricity, water, labor, and talent); amendment of the "Urban Renewal Act" and the enactment of two other related pieces of legislation; promotion of green finance to support the development of green industry; and passage of the "Financial Technology Development and Innovative Experimentation Act." BAROC is therefore optimistic about prospects for Taiwan's banking industry.

In 2018, besides continuing to coordinate with government policy by adopting financial measures designed to spur financial industry support for the development of the real economy, BAROC will also serve as a platform for communication among member banks, and act as a bridge between the government and its member banks, and between 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.

Chairman



Joseph Yu

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

### A. History

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, which joined with the Bankers Association of Taiwan and the Bankers Association of Kaohsiung to form BAROC in accordance with the regulations of the Commercial Group Act. The merger was approved by the Ministry of the Interior. The Association was located on the eighth floor of No. 46, Kuan Chien Road, Taipei at the time. In January 1984, the Bankers Association of Taipei transferred the national aspects of its operations to BAROC. After Taipei County and Taoyuan County were upgraded to special municipalities of New Taipei City and Taoyuan City, the Bankers Association of Taipei County and the Bankers Association of Taoyuan County withdrew from the Bankers Association of Taiwan in May of 2010 and in May of 2013, respectively, and joined BAROC. At the same time, the Bankers Association of Taipei County changed its name to Bankers Association of New Taipei City, and the Bankers Association of Taoyuan County was renamed The Bankers Association of Taoyuan. Later, the special municipalities of Taichung, Tainan, and Kaohsiung were established. In response, the Bankers Association of Taichung, the Bankers Association of Taichung City (the former Bankers Association of Taichung County), the Bankers Association of Tainan, the Bankers Association of Tainan City (the former Bankers Association of Tainan County), and the Bankers Association of Kaohsiung City (the former Bankers Association of Kaohsiung County) withdrew from the Bankers Association of Taiwan and joined BAROC in May of 2016. As a result, BAROC membership now includes 10 local bankers associations.

The Chairmen of BAROC from the first session of the first General Assembly in August 1983 to the twelfth session of the second General Assembly in September 2017 are shown as follows:

Chairman	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	2013-2016
Jye-Cherng Lyu	12	2016-

### 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

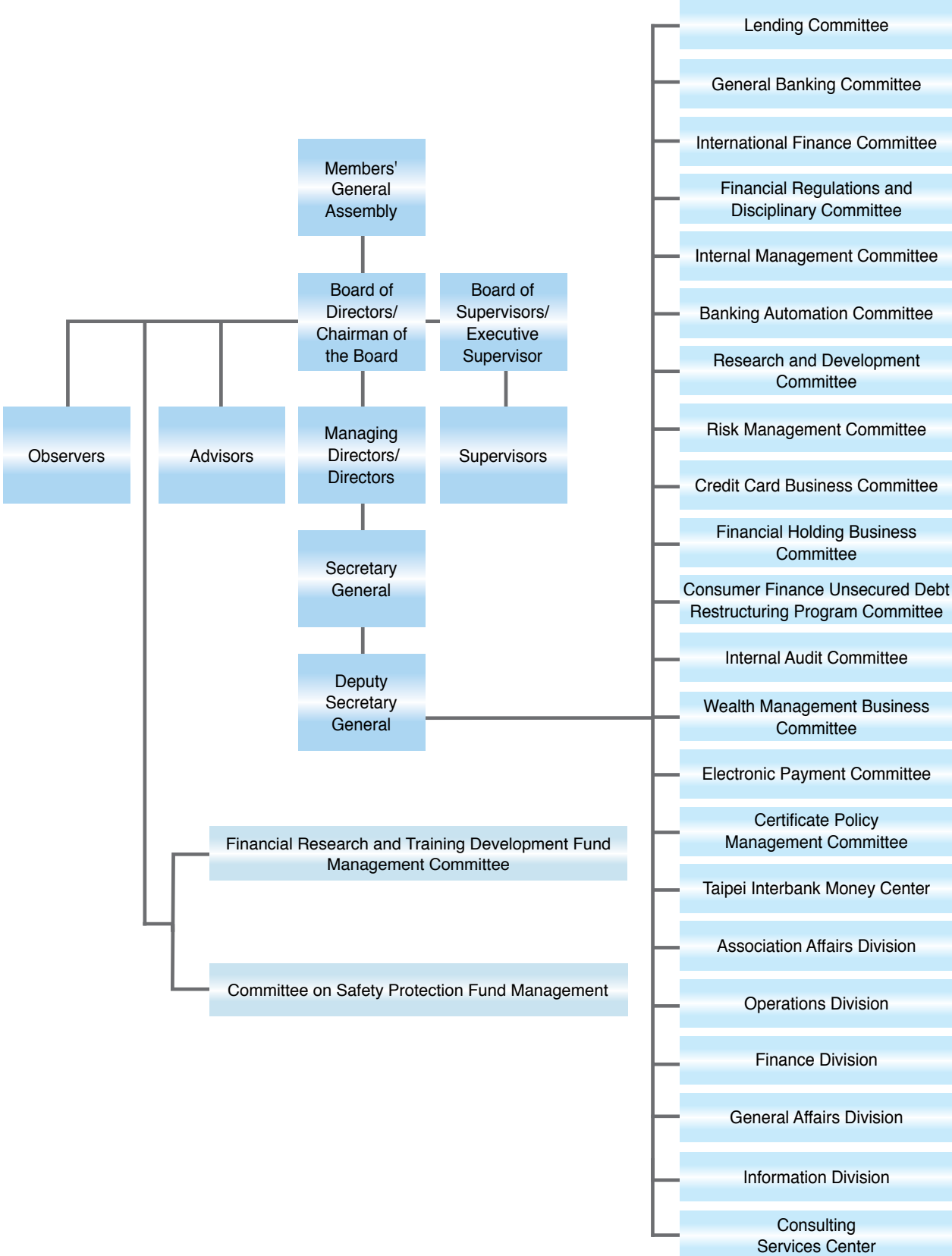
The 10 local bankers associations that have joined as BAROC members are the following: The Bankers' Association of Taipei; Bankers Association of Taiwan; The Bankers Association of Kaohsiung; Bankers Association of New Taipei City; The Bankers Association of Taoyuan; The Bankers Association of Taichung; The Bankers Association of Taichung City; The Bankers Association of Tainan; The Bankers Association of Tainan City; and The Bankers Association of Kaohsiung City. As of the end of 2017, the head offices of member banks totaled 61, of which 56 belong to The Bankers Association of Taipei, 1 belongs to the Bankers Association of New Taipei City, 1 belongs to the Bankers Association of Kaohsiung, 2 belong to The Bankers Association of Taichung, and 1 belongs to The Bankers Association of Tainan. The branches of member banks located in the six special municipalities (Taipei City, New Taipei City, Taoyuan City, Taichung City, Tainan City, and Kaohsiung City) and each county join their respective local bankers associations and participate in local association activities.

## Number of Member Banks of the Bankers Associations

Dec. 31, 2017

Member Banks	Headquarters	Branches
The Bankers Association of the Republic of China	< 61 >	
The Bankers Association of Taipei	< 56 >	( 892)
Bankers Association of Taiwan		(582)
The Bankers Association of Kaohsiung	< 1 >	(306)
Bankers Association of New Taipei City	< 1 >	(501)
The Bankers Association of Taoyuan		(256)
The Bankers Association of Taichung	< 2 >	(225)
The Bankers Association of Taichung City		(144)
The Bankers Association of Tainan	< 1 >	(135)
The Bankers Association of Tainan City		(98)
The Bankers Association of Kaohsiung City		(89)
Bankers Association of Hsinchu County		(53)
Bankers Association of Miaoli County		(44)
Bankers Association of Changhwa County		(100)
Bankers Association of Nantou County		(36)
Bankers Association of Yunlin County		(47)
Bankers Association of Chiayi County		(18)
Bankers Association of Pingtung County		(48)
Bankers Association of Ilan County		(40)
Bankers Association of Hualien County		(22)
Bankers Association of Taitung County		(14)
Bankers Association of Penghu County		(5)
Bankers Association of Keelung City		(26)
Bankers Association of Hsinchu City		(83)
Bankers Association of Chiayi City		(46)

# Organizational Structure of BAROC





## C. Directors, Supervisors, Advisors and Observers

May 2018

Title	Name	Company Affiliation
Chairman of the Board	Jye-Cherng Lyu	Chairman, Taiwan Financial Holding Co., Ltd.
Managing Directors	Chao-Shun Chang	Chairman, Mega Financial Holdings Co., Ltd.
	Joanne Ling	Chairman, Land Bank of Taiwan
	Rong-Jou Wang	Chairman, Yuanta Financial Holdings Co., Ltd.
	Chung-Dar Lei	Chairman, Taiwan Cooperative Financial Holding Co., Ltd.
	Ray B. Dawn	Chairman, First Financial Holding Co., Ltd.
	Tang-Chieh Wu	Chairman, Hua Nan Financial Holdings Co., Ltd.
	Directors	Ming-Daw Chang
Gary Tseng		Chairman, E. Sun Commercial Bank, Ltd.
Kenneth Lo		Chairman, O-Bank Co., Ltd.
Daniel M. Tsai		Standing Director, Taipei Fubon Commercial Bank
Jesse Ding		Chairman, EnTie Commercial Bank
Sheng-Hung Chen		Chairman, Sunny Bank
Wen-Long Yen		Chairman, CTBC Financial Holding Co., Ltd.
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.
Shui-Yung Lin		Chairman, The Export-Import Bank of the Republic of China
Chia-Juch Chang		Chairman, China Development Financial Holding Co.
Thomas Chou		President, Far Eastern International Bank
Richard Chang		President, KGI Bank
Chih-Ming Chien		President, China Bills Finance Co.
Jan-Lin Wei		President, Bank of Taiwan
Chao-Chin Tung		Chairman, CTBC Bank Co., Ltd.
Eugene T.C. Wu		Chairman, Shin Kong Financial Holding Co., Ltd.
Bor-Yi Huang		Chairman, Taiwan Business Bank
Shian-Juh Chen		President, Chunghwa Post Co., Ltd.
Ming-Ming Wu		Chairman, Agricultural Bank of Taiwan
Wen-Chyi Ong		Chairman, Sinopac Financial Holdings Co., Ltd.
Paulus Mok		Chairman, Citibank Taiwan, Ltd.
Yun-Peng Chang		Chairman, Bank of Kaohsiung
Shan-Chung Chen		President, The Shanghai Commercial & Savings Bank, Ltd.

Title	Name	Company Affiliation
Executive Supervisor	Chang-Ken Lee	President, Cathay Financial Holding Co., Ltd.
Supervisors	Victor Kung	Senior Advisor, Fubon Financial Holding Co., Ltd.
	Chenli Yang	Chief Operating Officer, DBS Bank (Taiwan) Ltd.
	Michael Y. J. Ding	President, Waterland Financial Holdings
	Terence Tai	Chairman, King's Town Bank
	Sung-Yie Liao	Chairman, Cota Commercial Bank
	Leo Kuo	Chairman, Taipei Star Bank
	Welch Lin	President, Taishin Financial Holding Co., Ltd.
	Adam Chen	President, HSBC Bank (Taiwan) Limited
	Anthony Lin	President, Standard Chartered Bank (Taiwan) Limited
	Chin-Yuan Lai	Chairman, Taichung Commercial Bank
Advisors	Yang-Ching Chao	Chairman, Financial Information Service Co., Ltd.
	Sherman H.M. Lin	Chairman, Taiwan Depository & Clearing Corporation
	Mao-Wei Hung	Chairman, Taiwan Academy of Banking and Finance
	Tong Liang Lin	President, National Credit Card Center of R.O.C
	Sen-Yu Chang	President, The National Federation of Credit Co-operatives R.O.C
	Teng-Cheng Liu	Advisor, The Bankers Association of the Republic of China
	Jih-Chu Lee	Advisor, The Bankers Association of the Republic of China
	Jiann-Jong Guo	Chairman, Joint Credit Information Center
	Chao-Hsien Lai	Chairman, Hwatai Bank
	Peter Chan	President, ANZ Bank (Taiwan) Limited
Observers	Ching-Chang Yen	Advisor, The Bankers Association of the Republic of China
	Shih-Yuan Tseng	President, The Taiwan Clearing House
	Yi-Hsiung Hsu	Advisor, The Bankers Association of the Republic of China
	Jennifer M.C. Liao	Chairman, Mega Bills Finance Co., Ltd.
	Nicole Wu	Senior Vice President, BNP Paribas, Taipei Branch
	Natalie Kuo	Executive Director, Credit Agricole Corporate & Investment Bank, Taipei Branch
	Kay Chen	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

May 2018

Title / Position in BAROC	Name	Full-time or Part-time
Chairman, Financial Research and Training Development Fund Management Committee	Jye-Cherng Lyu	Chairman, Bank of Taiwan, Part-time
Chairman, Committee on Safety Protection Fund Management	Jye-Cherng Lyu	Chairman, Bank of Taiwan, Part-time
Secretary General	Nancy Young	Full-time
Deputy Secretary General	Tsong-Ming Wang	Full-time
Secretary	Chuan Wang	Full-time
Chairman, Lending Committee	Yu-Feng Chu	EVP, Land Bank of Taiwan, Part-time
Chairman, General Banking Committee	Gordon Y. Wang	EVP, Taiwan Business Bank, Part-time
Chairman, International Finance Committee	Chia-Hsiang Lee	EVP, First Commercial Bank, Part-time
Chairman, Financial Regulations and Disciplinary Committee	Pi-Chu Wu	EVP & Chief Compliance Officer, Taiwan Cooperative Financial Holdings, Part-time
Chairman, Internal Management Committee	Tien-Hsia Chang	General Auditor, Fubon Financial Holding Co., Ltd., Part-time
Chairman, Banking Automation Committee	Yeung-Rong Ju	EVP & GM, Dept. of Information Management, Bank of Taiwan, Part-time
Chairman, Research and Development Committee	Shing-Shiang Ou	EVP & GM, Dept. of Economic Research, Bank of Taiwan, Part-time
Chairman, Risk Management Committee	Chun-Jen Hsu	CEO, Global Capital Market, CTBC Bank, Part-time
Chairman, Credit Card Business Committee	Justin Lee	Director, Citibank, Part-time
Chairman, Financial Holding Business Committee	Lawrence S. Liu	EVP, China Development Financial Holding Co., Part-time
Chairman, Consumer Finance Unsecured Debt Restructuring Program Committee	Jerry Yang	SVP, Consumer Finance Division, Taishin International Bank, Part-time
Chairmann, Internal Audit Committee	Albert Hu	Concurrent post of Executive Vice President & General Auditor for CTBC Financial Holding Co., Ltd., Part-time
Chairman, Wealth Management Business Committee	I-Meng Huang	Senior Executive Vice President, Taipei Fubon Commercial Bank, Part-time
Chairman, Electronic Payment Committee	Winni Liu	Executive Vice President of Digital Business Development, E.SUN Commercial Bank, Ltd., Part-time
Chairman, Certificate Policy Management Committee	Jeng-Fang Jang	EVP, Hua Nan Commercial Bank, Part-time
Director, Taipei Interbank Money Center	Jan-Lin Wei	President, Bank of Taiwan, Part-time
Chief, Association Affairs Division	Yu-Min Chou	Full-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) Steady Global Economic Recovery

In 2017, global economic growth impetus strengthened, spurring a resurgence in worldwide trade in goods. Countries everywhere experienced a rebound in economic growth. In the United States, employment continued to expand, corporate investment recovered, consumer spending increased, and the economy continued its moderate recovery. In the eurozone, the loose monetary policy of the European Central Bank (ECB) supported a strong economic recovery in France, Italy, and other major economies, which in turn spurred economic growth in the eurozone as a whole. In Japan, strong export performance and higher corporate profits fueled a stable economic recovery. In mainland China, the economy fared better than expected on the strength of growth in investments, property markets, and exports. In the ASEAN region, the global economic recovery and stabilization of commodity prices enabled most member nations to post strong economic performance.

In general terms, on the whole, the global economy performed better in 2017 than in the previous year. Official 2017 economic growth figures are 2.3% in the United States, up from the 1.5% figure for the year before; 2.4% in the eurozone, the fastest growth rate since 2008; 1.7% in Japan, up from 0.9%; and 6.9% in mainland China, up from 6.7% and reversing a post-2011 trend toward slower economic growth.

#### (2) Stable Economic Recovery in Taiwan

##### a. Taiwan's fastest economic growth rate in three years

Taiwan's domestic economy in 2017 benefitted from the steady global economic recovery. The employment situation improved and stock markets rose while domestic demand-driven consumption grew and exports continued strong. Economic growth topped 2% in each quarter of 2017, hitting 2.64%, 2.28%, 3.18%, and 3.28%. For the year as a whole, the economy grew by 2.86%, up from 1.41% in 2016 and above the National Development Council's target range of 2.0% to 2.5%.

*External demand:* As the global economic recovery picked up steam in 2017, markets for semiconductors, flat panels, and machinery boomed, while prices for agricultural and industrial raw materials rebounded. As a result, Taiwan enjoyed strong export performance, with growth of 13.22% in 2017 from the previous year. This was the fastest export growth

rate since 2011. Also, the number of tourist arrivals in Taiwan rebounded, and gross profits on merchanting trade increased, which translated to higher service exports. Taking goods and services exports together, external demand contributed 2.03 percentage points to economic growth.

*Domestic demand:* Continued improvement in employment numbers and strong stock markets triggered strong sales for intelligent mobile devices, clothing, and accessories. The retail sector and the dining sector both saw year-on-year revenue increases. Private consumption grew by 2.34% in 2017 and contributed 1.23 percentage points to economic growth. Due to lower capital expenditures in the semiconductor and airlines industries, plus weakening construction investment, private fixed investment fell 0.89% from the previous year and contributed a negative 0.14 percentage points to economic growth. Public consumption contracted by 1.06% and contributed a negative 0.15 percentage points to economic growth. Altogether, domestic demand contributed 0.83 percentage points to economic growth.

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

Rising global energy prices in 2017 resulted in higher prices for petroleum and gas products, but the baseline for comparison was a bit high because weather factors had caused high food prices in 2016, so year-on-year price rises were moderate. The consumer price index (CPI) in 2017 rose by just 0.62% over the previous year. Core CPI (excluding perishables and energy) rose 1.04% year-on-year.

A recovery in global market demand resulted in higher international prices for crude oil and agricultural and industrial raw materials, but appreciation of the NT Dollar offset these price increases. Wholesale price index (WPI) rose by 0.90% in 2017, marking the first positive price movement since 2012, but prices overall remained relatively low.

#### **c. Unemployment drops to 17-year low**

With the domestic economy recovering steadily, Taiwan's unemployment rate was slightly lower in the first half of 2017 than in the year-ago period. Starting from June, graduating students entered the job market and drove the rate upward. From September onward, however, the seasonal impact of graduation started to play itself out while the economy continued its steady recovery, driving the unemployment rate steadily lower. The

average unemployment rate for 2017 was 3.76%, down 0.16 percentage points from 2016 and the lowest since 2001. The average number of unemployed persons was 443,000, down by 17,000 persons from the year before.

## 2. Financial Conditions

### (1) Global Financial Conditions

The global economy in 2017 posted its fastest rate of growth since 2012, which buoyed stock markets around the world. Despite episodes of choppy retrenchment due to the impact of tensions in the Korean Peninsula, terror attacks in Europe, and Venezuelan debt default, most stock markets flourished, and in many cases even reached historic highs. Stock markets performed particularly well in developed nations. The US Dow Jones Industrial Average rose 25.08%, Japan's Nikkei 225 rose 19.10%, Germany's DAX finished up 12.51%, and France's CAC 40 rose 9.26%. In emerging market nations, markets fared even better still, accounting for the top three performers in the world. Argentina's Merval Index was number one with a rise of 77.72%, followed by Mongolia's MSE Top 20 Index (66.48%) and Vietnam's Ho Chi Minh Stock Index (48.03%).

On global foreign exchange markets in 2017, the US Dollar depreciated versus other currencies for a number of reasons. The US president declared that the US Dollar was overvalued, and the US also claimed that trading partners were manipulating exchange rates, while markets were expecting the US Federal Reserve to slow the pace of its interest rate hikes. The US Dollar Index fell by 9.87% on the year, while most major currencies rose against the US Dollar. The euro jumped sharply (14.12%) against the US Dollar, the Japanese Yen rose 3.82%, and the RMB appreciated 6.82% after three consecutive years of depreciation.

### (2) Financial Conditions in Taiwan

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

Due to continuing uncertainty over the future of the global economy, the moderate pace of Taiwan's economic recovery, a continued deflationary gap, low inflationary pressure, and moderate inflationary expectations, the Central Bank decided to maintain financial stability and support economic growth. Since cutting interest rates on June 30, 2016, it has made no further changes to policy rates. The discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral have been maintained at 1.375%, 1.75%, and 3.625%, respectively.

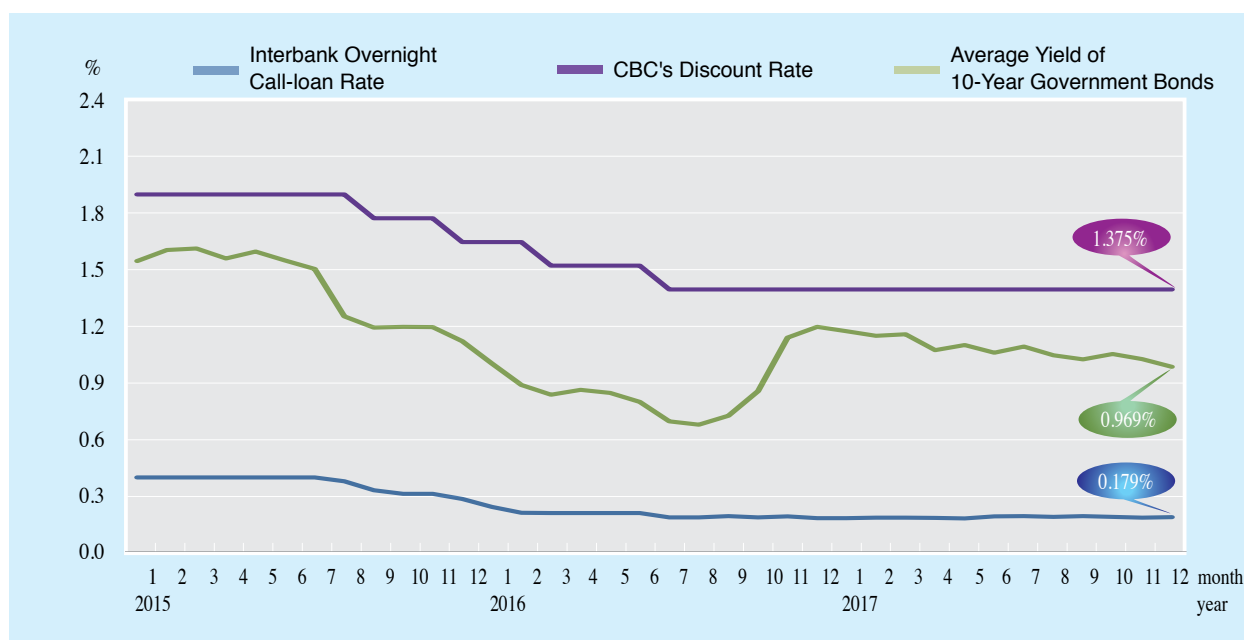
#### b. Stability in short-term interest rates, steady fall in long-term rates

*Short-term rates:* In the first half of 2017, the Central Bank continued using open market operations to maintain a ready money supply. As a result, the overnight call rate generally

declined at a moderate pace over that period, but then began climbing after payment of tax revenues into the national treasury in June and distribution of cash dividends by large corporations in July prompted banks to grow cautious in their fund allocations. This ushered in a tight funds market. After the fund allocations needed to support cash dividend distributions were by and large completed, the funds market loosened up again. Funds generally remained readily available in the 4th quarter, and the overnight call rate fluctuated in a tight range. For the year, the overnight call rate averaged 0.178%, down by 0.015 percentage points from the 2016 average of 0.193%, which shows that domestic monetary policy became increasingly accommodative.

*Long-term rates:* The yield on 10-year Taiwan government bonds rose slightly in Q1 2017 due to an interest rate hike in the US and a rebound in the domestic economy. In Q2, the yield on 10-year Taiwan government bonds dipped slightly in response to market expectations of stable interest rates and continued low inflation. In the latter half of the year, however, the yield on 10-year Taiwan government bonds continued to decline as bond yields in the US declined in response to geopolitical risks and the postponement of US interest hike plans. For 2017 as a whole, the yield on 10-year Taiwan government bonds averaged 1.06%, up by 0.20 percentage points from the 2016 average yield of 0.86%.

### Changes in Interest Rates

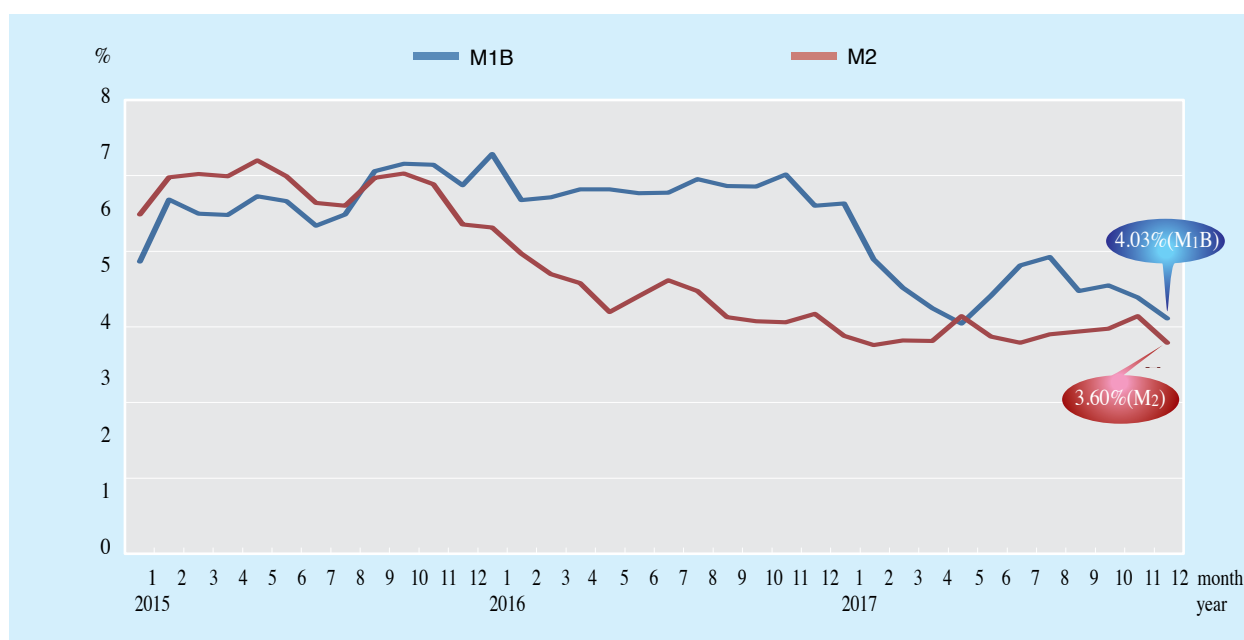


Source: the CBC website, TPEX website

### c. M2 money supply growth hits target rate

Average M2 money supply in 2017 was up 3.75% year-on-year. This was down from the 4.51% rise in the previous year due to a slowdown in bank lending and investment growth, but it still fell within the Central Bank's target range of 2.5% to 6.5%. For the more narrowly defined average M1B money supply, the growth rate fell to 4.65% from 6.33% in 2016, due primarily to slower growth in demand deposits. Except for the month of May, M1B year-on-year growth rates in 2017 were by and large higher than M2 year-on-year growth rates, an indication that domestic liquidity was strong and there were no concerns about liquidity in Taiwan's stock markets.

**Annual Growth Rates of Daily Monetary Aggregates**



Source: the CBC website

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

The weighted average interest rate on deposits with ordinary domestic banks fell from 0.57% in the first quarter to 0.56% in the third quarter, while the weighted average interest rate on loans rose from 1.92% in the first quarter to 1.93% in the third quarter before falling back to 1.92% in the fourth quarter. The interest spread widened from 1.35 percentage points in the first quarter to 1.37 percentage points in the second quarter, then narrowed slightly to 1.36% in the fourth quarter. The average interest spread for 2017 was 1.36 percentage points, down from 1.38 percentage points in 2016.

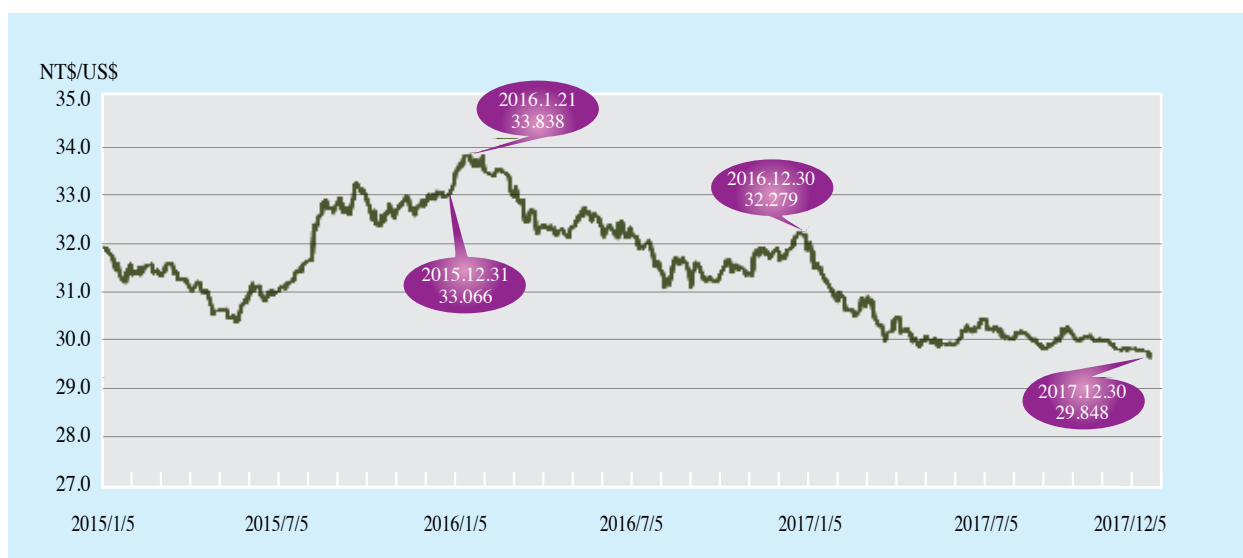
### e. NT Dollar appreciates against US Dollar

In early 2017, the NT Dollar appreciated steadily against the US Dollar after US President Donald Trump criticized the "strong Dollar" policy. This caused the US Dollar



to weaken and spurred an influx of funds into Asia. Later, however, the NT Dollar began to appreciate as foreign investors continued to make net inward remittances to purchase Taiwanese stocks. Around mid-year, the NT Dollar fell once again versus the US Dollar amidst falling global petroleum prices and rising market expectations of a rate hike by the US Federal Reserve. These factors buoyed US Dollar exchange rates and spurred the withdrawal of some funds from Asia. It wasn't until later, in mid-August, that the NT Dollar once again began to appreciate as tensions rose in Northeast Asia and foreign investors exited Taiwan's markets. Still later, the NT Dollar appreciated once again as a weakening US Dollar strengthened Asian currencies. Late in the year, despite a rate hike announcement by the US Federal Reserve, the US Dollar weakened because the rate hike was more conservative than the markets had been expecting. In addition, foreign investors made even bigger net inward investments in Taiwanese stocks. As a result, the NT Dollar exchange rate rose to 29.84 : 1 versus the US Dollar on 28 December, thus finishing 2017 up 8.14% year-on-year.

#### NT Dollar against the US Dollar Exchange Rates



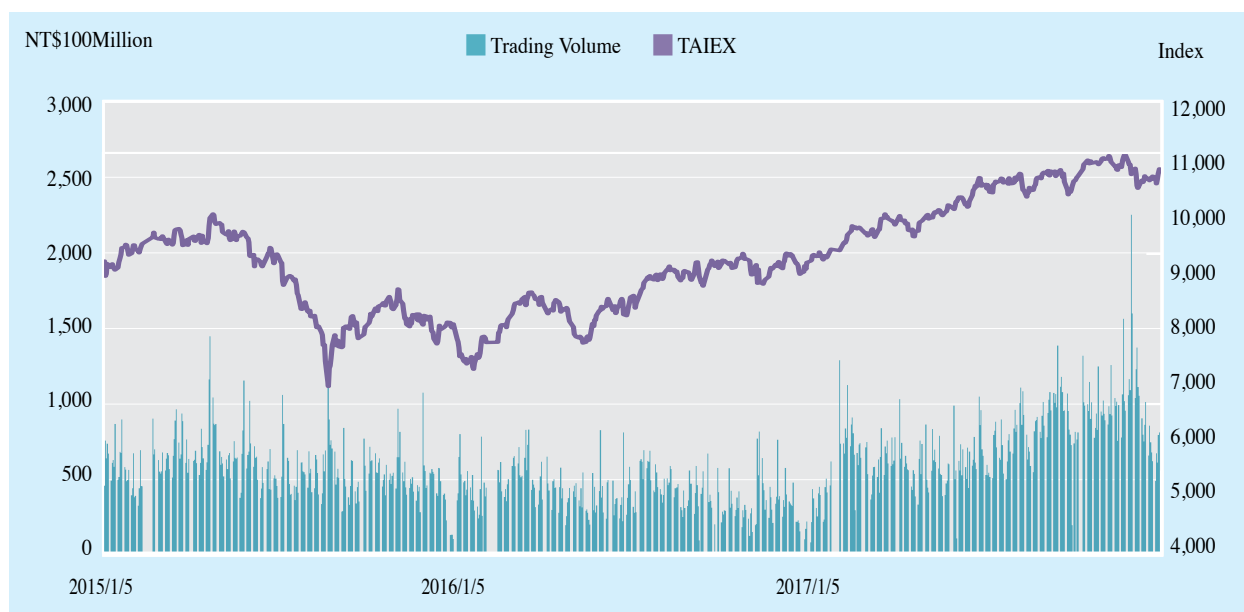
Source: the CBC website

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

In early 2017, the securities transaction tax on day trades was reduced by half. In addition, leading enterprises earned better revenues than expected, and foreign investors moved back into Taiwan markets. As a result, the TAIEX rose steadily from 9,272 points on 3 January. US stocks rose to successive historic highs and pulled other markets around the world along for the ride, and Taiwanese stocks rose along with those elsewhere. Later, as foreign entities became net investors in Taiwanese stock and Western stock markets

continued posting all-time highs, the TAIEX in May rose decisively past 10,000 points. Subsequently, strong performance by US tech stocks and the launch of new mobile phones by the world's top brands boosted the stock prices of Taiwanese mobile phone makers in the supply chain. This in turn boosted the TAIEX, which rose to a year-long high of 10,855 points on 23 November. The TAIEX rose 1,389.36 points (15.01%) on the year, and stayed above 10,000 points for 156 consecutive days beginning 23 May 2017, longer than ever before. Daily average turnover by trading value was NT\$97.448 billion, up sharply by 41.78% from NT\$68.734 billion in 2016.

### TAIEX and Trading Volume



Source: Taiwan Stock Exchange

### 3. Economic Outlook for 2018

Looking ahead to 2018, global economic conditions are expected to remain strong, and international forecasting bodies all believe that global economic performance will probably be better in 2018 than in the previous year. The IMF's January 2018 forecast calls for the global economy to grow 3.9% in 2018, slightly up from its 3.7% estimate for 2017. The World Bank's January 2018 forecast is for global growth of 3.1%, as compared with its 3.0% estimate for 2017. IHS Markit's March 2018 forecast is for global growth of 3.4%, up from last year's 3.2% forecast. IHS Markit expects growth of 2.4% in developed economies, and 4.9% in emerging market economies. However, global economic growth will still face numerous risk factors, including

high global inflation, the progress of currency normalization, the policies of US President Donald Trump (e.g. tax cuts and trade protectionism), the course of Brexit, continually climbing debts in mainland China, a rising tide of global protectionism, international crude oil and commodity price movements, and geopolitical conflicts.

The January 2018 update of the IMF World Economic Outlook forecasts the following: (a) Growth of 2.7% for 2018 in the US, where economic fundamentals are stable, and passage of the Tax Cuts and Jobs Act is expected to boost corporate investment, create jobs, and lead to higher pay; (b) Growth of 2.2% in the euro area, where economic growth should be powerfully supported by continued accommodative monetary policy, a shift from tight to neutral fiscal policy, a lessening of the Brexit impact, and a gradual fading of political risks associated with elections in some of the principal EU member nations; and (c) GDP growth expected to be just 1.2% in Japan with economic growth to be boosted by increased corporate profits, which will spur stronger investment in plant and equipment, and by preparations for the 2020 Tokyo Olympics, which will trigger a sharp increase in construction investment, although the previous year's high baseline has kept the growth forecast a bit low. Among emerging market and developing economies, the update indicates that economic growth in mainland China was impeded, on the one hand, by economic restructuring, elimination of excess productive capacity, tighter environmental protection, and accelerated steps to integrate state-owned enterprises, but the economy there should nevertheless be supported by strong external demand with growth of 6.6% expected in 2018.

### Forecast on Global Economic Growth Rates

Unit: %

Area \ InSTITUTE	IMF		The World Bank		IHS Markit	
	2017	2018	2017	2018	2017	2018
Global	3.7 (3.6)	3.9 (3.7)	3.0 (2.7)	3.1 (2.9)	3.2 (3.2)	3.4 (3.4)
US	2.3 (2.2)	2.7 (2.3)	2.3 (2.1)	2.5 (2.2)	2.3 (2.3)	2.7 (2.7)
Eurozone	2.4 (2.1)	2.2 (1.9)	2.4 (1.7)	2.1 (1.5)	2.5 (2.5)	2.4 (2.4)
Japan	1.8 (1.5)	1.2 (0.7)	1.7 (1.5)	1.3 (1.0)	1.7 (1.8)	1.4 (1.5)
Mainland China	6.8 (6.8)	6.6 (6.5)	6.8 (6.5)	6.4 (6.3)	6.9 (6.9)	6.7 (6.7)

Note: Figures in parentheses indicate the previous forecasts.

Sources: IMF, 22 Jan 2018; the World Bank, 9 Jan 2018; IHS Markit, 15 March 2018.

In Taiwan, domestic and external demands are expected to contribute 2.85 and -0.43 percentage points to economic growth, respectively, and real GDP growth in 2018 is forecast by the Directorate-General of Budget, Accounting and Statistics (DGBAS) to reach 2.42%, down from the growth of 2.86% achieved in 2017. The forecasts of other institutions at home and abroad for Taiwan's 2018 economic growth fall between 1.9% and 2.6%.

*External demand:* The IMF expects the volume of world trade to rise by 4.6%, up from a 4.0% increase in 2017, outpacing global economic growth for a second straight year. This will be helpful to export-driven Taiwan. In addition, the advance of automotive electronics, the Internet of Things, artificial intelligence, high-performance computing, and other emerging applications promises to help maintain export momentum. However, the comparison baseline is high, and the mainland Chinese policy of pursuing supply chain self-sufficiency is having the effect of crowding out Taiwanese suppliers. All factors considered, the rate of export growth is likely to drop off. The DGBAS expects the annual growth rate for Taiwan's exports of goods and services to rise in 2018 by 1.98%, while imports of goods and services are expected to grow by 3.27%, lower in both cases than in 2017.

*Domestic demand:* Various factors are seen contributing to stronger domestic consumption, including a better employment situation, booming stock markets, a raise in the minimum wage, improved compensation for public employees, and the government's continued efforts to stimulate the economy. On the other hand, demographic ageing and a falling birth rate are likely to inhibit growth to some extent. All factors considered, private consumption is forecast to grow by 2.45% in 2018. Leading semiconductor makers are expected to expand investments in next-generation processes, with knock-on benefits throughout the supply chain, while the government works to eliminate investment barriers, promote the forward-looking infrastructure program and implement development programs for innovative industries. These measures will help maintain investment growth. As a result, private investment is projected to grow by 3.62% in 2018.

*Prices:* Global prices for crude oil as well as agricultural and industrial raw materials are expected to continue rebounding, and a tobacco tax hike will continue to have a delayed impact. These factors will add to inflationary pressure, but effective domestic demand remains moderate while price expectations for ICT goods should continue to fall. The DGBAS has forecast CPI growth of 1.21% for 2018, versus 0.62% in 2017.

## Forecast on Taiwan Economic Growth Rates

Unit: %

	Institution	2018
Public and domestic institutions	DGBAS (2018.02)	2.42 (2.29)
	TIER (2018.01)	2.34 (2.30)
	CIER (2017.12)	2.27 (2.20)
	Academia Sinica (2017.12)	2.43
	Yuanta-Polaris Research Institute (2017.12)	2.2 (2.1)
	NTU-Cathay research team (2017.12)	2.0 (2.0)
	Taiwan Research Institute (2017.12)	2.31
Foreign institutions	IMF (2017.10)	1.9 (1.9)
	IHS Markit (2018.03)	2.6 (2.6)
	Asian Development Bank (2017.12)	2.2 (2.2)

Note: Dates in parentheses indicate when the forecast was released; figures in parentheses indicate the previous forecast.

Source: DGBAS, TIER, CIER, Academia Sinica, Yuanta-Polaris Research Institute, NTU-Cathay, Taiwan Research Institute, IMF, IHS Markit, and ADB

## B. Major Financial Measures Adopted by the Government

### 1. Financial Services Business

- (1) The FSC adopted the following three key measures on 5 January 2017 to encourage more consumers in Taiwan to make use of electronic payments: (a) took steps to create a more friendly legislative environment; (b) accelerated efforts to integrate various electronic payment terminals; and (c) encouraged public-sector organizations and medical institutions to provide electronic payment services. These changes were intended to build an environment that is friendly to the use of electronic payments.
- (2) To coordinate with the government's New Southbound Policy, the FSC on 21 February 2017 adopted performance targets for the year 2017 as part of its effort to encourage more financial support for countries targeted by the Policy. The 2017 target for lending by state-owned banks in countries targeted by the New Southbound Policy called for growth within a range of NT\$799.9 billion to NT\$831.0 billion, while the FSC provided added incentive by adopting a plan to allow three state-owned banks to open new business locations in such countries each year. The FSC will continue cooperating with relevant entities so that bank lending might spur Taiwanese firms to look southward for business opportunities, and to create win-win situations for financial services and industrial firms.

- (3) To enhance the implementation by financial holding companies and banks of their legal compliance systems, the FSC on 16 March 2017 amended the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries." The amended provisions require that financial institutions: (a) strengthen the corporate governance functions of the board of directors and the audit committee; (b) properly implement the three lines of defense for internal controls; and (c) improve compliance with AML/CFT requirements. The new provisions also: (a) set out stricter qualification and training requirements for chief compliance officers and other compliance personnel; (b) require that all compliance personnel at overseas business units must be independent; and (c) strengthen the reporting system for financial holding companies and banking enterprises.
- (4) To facilitate domestic issuance of bank debentures, the FSC on 21 March 2017 amended the "Regulations Governing Issuance of Bank Debentures by Banks." For a bank that issues bank debentures in Taiwan, the amended provisions require as follows: (a) the debentures must be delivered by book-entry transfer, and physical certificates will not be produced; and (b) title transfer and trust registration of bank debentures must be handled in accordance with the applicable regulations.
- (5) To build a favorable financing environment for small and medium enterprises, the Executive Yuan on 17 March 2017 accepted the FSC's filing of its 12th "Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises." The 2017 target for total outstanding loans extended by domestic banks to SMEs was set at NT\$240 billion to encourage banks, while taking necessary risk control measures, to: (a) lend needed working capital to SMEs; and (b) establish long-term partnerships in order to build a favorable financing environment for SMEs.
- (6) To encourage investments in public infrastructure, the FSC on 3 July 2017 amended the "Rules on the Maximum Percentage of Investments That a Public Offered or Privately Placed Real Estate Investment Trust Fund May Direct Toward Development-Oriented Real Estate or Real Estate-Related Rights." The amended provisions raise to 100% the limit on the percentage of investments that a privately placed REIT may direct toward development-oriented real estate. This change is intended to encourage increased investment of private-sector funds in infrastructure projects.

- (7) With an eye on the business development needs of electronic payment institutions, the FSC on 18 August 2017 amended the "Rules Governing the Administration of Electronic Payment Business." The amended provisions: (a) allow for the sharing of terminal equipment and the hiring of another party to integrate and convey receipt/payment information; (b) stipulate that provisions regarding user payment instructions and reconfirmation need not apply with respect to online to offline payments and tax payments; and (c) allow for the use of credit cards to deposit value in an electronic payment account. These provisions are designed to allow for more flexible and convenient use of electronic payment services.
- (8) To improve corporate governance regulations and properly supervise the responsible persons of financial holding companies, the FSC on 21 September 2017 initiated the public commentary period on a planned amendment to the "Regulations Governing Qualification Requirements for the Promoter or Responsible Persons of Financial Holding Companies and Concurrent Serving Restrictions and Matters for Compliance by the Responsible Persons of a Financial Holding Company." The proposed amendments were designed to strengthen qualification and legal compliance requirements for financial holding company responsible persons and impose stricter limitations on their holding of concurrent positions in order to reduce corporate governance risks and ensure consistent supervisory treatment.
- (9) To encourage financial institutions to provide financial services in remote rural areas and thus increase the geographic coverage of their services, the FSC on 12 October 2017 amended the "Regulations Governing Domestic Branches of Financial Institutions." The amended provisions—in order to encourage well-run financial institutions to establish an appropriate number of new business locations, thereby accelerating the implementation of financial inclusion—have relaxed the financial evaluation criteria for branch opening applications and eased limits on the number of times a bank can apply and the number of branches that can be opened.
- (10) To improve banks' derivatives risk management while simultaneously safeguarding consumer interests, the FSC on 26 October 2017 initiated the public commentary period on a planned amendment to the "Regulations Governing Internal Operating Systems and Procedures for Banks Conducting Financial Derivatives Business." The proposed amendments: (a) required banks to properly assess customer attributes and do a better job of protecting the interests of ordinary customers who invest in structured notes; and (b) required banks to maintain an effective assessment and control mechanisms for financial derivatives to prudently review the reasonableness of the transaction quotations. These changes are designed to ensure that banks do a better job of controlling the risks associated with complex, high-risk financial products.

- (11) In order to help banks achieve better capital efficiency and bring Taiwan more closely in line with international practices, the FSC on 31 October 2017 issued a set of adjusted capital adequacy rules for banks. Implementation of these rules commenced on 31 December 2017. Key points include the following: (a) Risk weightings for residential property were lowered from 45% to 35% for owner-occupied residences and from 100% to 75% for non-owner-occupied residences; and (b) Risk weightings for investments in the equity securities of finance-related enterprises that are carried on the trading book were lowered from 400% (or 300% in the case of open-market transactions) to 200%, while risk weightings for investments in the equity securities of non-finance-related enterprises that are carried on the banking book were lowered from 400% (or 300% in the case of open-market transactions) to 100%.
- (12) In order to strengthen the legal compliance and risk control systems of financial institutions, the FSC on 21 December 2017 initiated the public commentary period on a planned amendment to the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries." Key points include the following: (a) Large domestic banks are required to establish a dedicated legal compliance unit and a head office chief compliance officer; and the amended rules contain express provisions regarding a financial institution's compliance risk management framework and powers. These provisions are designed to strengthen banks' internal risk management and oversight framework; (b) Banks are required to establish an internal whistleblower system and a set of reporting criteria and procedures, and to designate a whistleblower complaint handling unit that has the power to exercise its function independently; and (c) Banks are required to establish a dedicated information security unit and a chief information security officer, who will be responsible for planning, overseeing, and implementing information security operations.
- (13) In order to help domestic firms obtain the funds they need for development, and to help banks make more efficient use of free capital, the FSC on 25 December 2017 issued the "Rules Governing Applications by Commercial Banks to Make Strategic Investments in Venture Capital Firms and Venture Capital Management and Advisory Firms." Key points include the following: (a) Venture capital firms are deemed to be finance-related enterprises, and the limit on the equity stake that a bank may take in any single venture capital firm has been raised to 100%, but the total amount of a direct investment must not exceed 3% of a bank's net worth; (b) The combined equity stake taken by a bank and its subsidiaries in a single venture capital firm must not exceed 15%, but the small investment of the venture capital subsidiary is not included; (c) The double leverage ratio taken on by a bank that makes a strategic investment in a venture capital firm's subsidiary must not exceed 125%; and (d) The responsible person or employees of a bank are not allowed to serve as a manager at a venture capital firm in which the bank has made a strategic investment.



- (14) To increase the convenience of electronic payment services while at the same time ensuring transaction security, the FSC on 28 December 2017 amended the "Regulations Governing the Standards for Information System and Security Management of Electronic Payment Institutions." Key points of the amendments include the following: (a) New provisions set out the manner of indirect verification using biometric characteristics collected, stored, and identified by the user's device; (b) New provisions set out how to confirm the identity of a user attempting to log on to an electronic payment platform; and (c) New provisions set out how to carry out security control with respect to the use of biometric identification by an electronic payment platform so as to ensure compliance with BAROC's "Rules Governing the Use of New Technologies by Financial Institutions."
- (15) To encourage the branches of foreign banks to take part in the financing of large infrastructure projects in Taiwan, the FSC on 28 December 2017 initiated the public commentary period on a planned amendment to the "Regulations Governing Foreign Bank Branches and Representative Offices." The proposed amendment, once adopted, would raise the upper limit on the amount of credit the branch of a foreign bank is allowed (provided that it properly implements internal risk management and controls liquidity) to extend in the financing of large infrastructure projects. The purpose of the proposed amendments is to make it easier for such branches to collaborate with domestic banks in providing companies with the capital needed to fund their development. Taiwan needs all its lenders to work together in helping domestic enterprises transform and spur sustainable economic development.
- (16) To encourage financial institutions to actively participate in the government's urban renewal policy initiatives, the FSC on 29 December 2017 amended the "Operating Principles for Asset Management Companies in which Financial Holding Companies (Banks) Hold Strategic Investments." The Principles allow for asset management companies (AMCs) in which financial holding companies hold strategic investments to make strategic investments in urban renewal services companies (up to a maximum equity stake of 5%). The Principles also require financial holding companies to oversee the adoption by such an AMC of a strategic investment plan, and to monitor the AMC's compliance with its related control rules. The idea is to ensure that such companies, while maintaining stable operations, can help the government promote its urban renewal policies, thereby increasing the value of Taiwan's social assets and accelerating social and economic development.

## 2. Anti-Money Laundering and Counter Terrorist Financing (AML/CFT)

- (1) In order to strengthen customer due diligence procedures at Taiwan's offshore banking units (OBUs), the FSC on 22 May 2017 amended the "Rules Governing Offshore Banking

Branches." The amended provisions: (a) require OBUs to handle customer due diligence procedures in accordance with Taiwan's AML/CFT legislation and directions; (b) allow OBUs to rely on an intermediary organization to assist with the performance of customer due diligence; and (c) require OBUs to re-perform customer due diligence procedures on existing customers and review their risk levels. The purpose of these amendments was to prepare for the Asia/Pacific Group on Money Laundering's third round of the mutual evaluation in Fourth-quarter 2018.

- (2) In order to improve Taiwan's AML/CFT regime, the FSC on 28 June 2017 adopted the "Regulations Governing Anti-Money Laundering of Financial Institutions." The Regulations require financial institutions to carry out rigorous customer due diligence and adopt enhanced measures commensurate with the degree of each customer's risk. Financial institutions are also required to engage in ongoing monitoring of accounts and transactions. In addition, provisions governing customer due diligence for politically exposed persons have also been strengthened. These changes have been made to lower the risks associated with financial institutions' conduct of related lines of business.

## C. Banking Operations in 2017

### 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 427 financial institutions in Taiwan at the end of December 2017, while the total number of branch banking units in Taiwan at the end of 2017 stood at 6,021.

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

Domestic banks saw their overall average NPL ratio rise in 2017 due to the debt default by Ching Fu Shipbuilding Co.. According to FSC statistics, the aggregate NPLs of domestic banks at the end of December 2017 stood at NT\$74.71 billion, up by NT\$4.02 billion from NT\$70.69 billion at the end of December 2016. The average NPL ratio of domestic banks at the end of December 2017 stood at 0.28%, up by 0.01 percentage points from 0.27% at the end of December 2016.

In addition, the average NPL coverage ratio of Taiwan's domestic banks stood at 492.92% at the end of December 2017, down by 10.01 percentage points from 502.93% at the end of December 2016. Despite this drop, however, the NPL coverage ratio remained high, thus showing that domestic banks have strong risk-bearing capacity.

### 3. Overview of Bank Profitability

The weighted average interest spread of domestic banks was 1.36 percentage points in 2017, or 0.02 percentage points narrower than in 2016. The interest spread earnings of state-owned banks continued to fall, but the steady global economic recovery translated to sharply higher profitability for the overseas branches of Taiwan's domestic banks in 2017, and increased the profits of state-owned banks. The pre-tax earnings of domestic banks totaled NT\$305.9 billion in 2017, up by 1.93% from NT\$300.1 billion in 2016. Banks' return on assets (ROA) in 2017 came to 0.67% (down from 0.68% in 2016) and return on equity (ROE) was 8.97% (versus 9.24%).

### 4. Major Lines of Banking Business

#### (1) Deposit Business

Deposits at all monetary institutions at the end of 2017 totaled NT\$42.09 trillion, up NT\$1.38 trillion (3.38%) over the end of 2016. Demand deposits accounted for the largest portion of this total (35.52%), followed by time and time savings deposits (33.30%).

Foreign-currency deposits posted the strongest growth, finishing up by NT\$669.2 billion (13.38%) from the end of 2016 to NT\$5.67 trillion. Demand deposits grew at the next fastest pace, finishing up by NT\$452.8 billion (3.12%) to NT\$14.95 trillion.

In addition, time and time savings deposits rose from the end of 2016 by NT\$164.7 billion (1.19%) to NT\$14.02 trillion, and postal savings deposits increased by NT\$64.3 billion (1.09%) to NT\$5.98 trillion.

#### Changes in Deposits by Category of All Monetary Institutions

Unit: NT\$ 100 million

Item	Year	End of 2017	End of 2016	Change (NT\$)	change (%)
Demand deposits		149,501	144,973	4,528	3.12
Time and time savings deposits		140,163	138,516	1,647	1.19
Foreign currency deposits		56,714	50,022	6,692	13.38
Postal savings deposits		59,811	59,168	643	1.09
NT Dollar deposits by foreigners		1,828	1,638	190	11.60
Repurchase agreements and Money Market Mutual Funds		1,772	1,897	-125	-6.59
Government deposits		11,150	10,960	190	1.73
Total		420,939	407,174	13,765	3.38

Note: Includes ordinary time deposits, negotiable certificates of deposit, and time savings deposits.

Source: "Financial Statistics Monthly, Republic of China," Department of Economic Research, CBC, February 2018.

## (2) Loans and Investments

The balance of outstanding loans and investments at all monetary institutions stood at NT\$32.02 trillion at the end of 2017, an increase of NT\$1.47 trillion (4.82%) over the end of 2016.

Loans and investments by all monetary institutions rose for all but one category of recipients at the end of 2017 in comparison with 2016. Claims on the private sector increased most, by NT\$1.47 trillion (5.94%), while claims on the state-owned enterprises rose by NT\$54.6 billion (5.62%). The only exception was claims on the government, which fell from year-end 2016 by NT\$49.3 billion (1.01%).

### Loans and Investments by Monetary Institutions

Unit: NT\$ 100 million

Item	Year	End of 2017	End of 2016	change (NT\$)	change (%)
Claims on the government		48,224	48,717	-493	-1.01
Claims on state-owned enterprises		10,261	9,715	546	5.62
Claims on the private sector		261,743	247,059	14,684	5.94
Total		320,228	305,491	14,737	4.82

Source: "Financial Statistics Monthly, Republic of China," Department of Economic Research, CBC, February 2018.

## (3) Foreign Exchange Business

The average daily foreign exchange turnover (total of bank-customer and interbank markets) in 2017 was US\$28.62 billion, down by 1.02% from 2016. Average daily turnover in the bank-customer market was US\$9.17 billion, up 10.19%, and average daily turnover in the interbank market was US\$19.45 billion, a decrease of 5.55%.

All categories of foreign exchange transactions decreased in 2017. Options transactions decreased from 2016 by US\$374 million (30.96%), while spot transactions declined by US\$371 million (5.06%).

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

Unit: US\$ million

Item	Year	2017	2016	Change (US\$)	Change (%)
Spot		6,955	7,326	-371	-5.06
Forwards		1,016	1,260	-244	-19.37
Swaps		10,604	10,699	-95	-0.89
Options		834	1,208	-374	-30.96
Cross-currency swaps		44	102	-58	-56.86
Total		19,453	20,595	-1,142	-5.55

Source: "Financial Statistics Monthly, Republic of China," Department of Economic Research, CBC, February 2018.

#### (4) Consumer Finance Business

According to statistics compiled by the FSC Banking Bureau, a total of 41.73 million credit cards issued by 36 institutions were in circulation at the end of December 2017, up by 2.53% from the 40.70 million in circulation at the end of 2016. The total number of active cards stood at roughly 28.03 million, an increase of 3.74% from the figure of 27.02 million at the end of 2016. The total dollar amount of transactions paid for with these cards in 2017 amounted to NT\$2.623 trillion, up by 8.30% from 2016. The amount of revolving credit outstanding at the end of the year stood at NT\$111.1 billion, up by 1.83% from the end of 2016. Cash advances outstanding totaled NT\$25.5 billion, down by 0.40% from 2016.

There were 28,298 automatic teller machines (ATMs) in Taiwan as of the end of December 2017, up by 3.88% from 27,240 at the end of 2016. The cumulative issuance of financial cards rose by 3.54% from 191.71 million at the end of 2016 to 198.48 million at the end of 2017. The number of ATM transactions during 2017 totaled 879.10 million, an increase of 4.05% over the 2016 figure of 844.88 million, and totaled NT\$10.935 trillion in value, up 5.57% from NT\$10.358 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 2017 stood at NT\$47.82 trillion, down by 4.21% from NT\$49.93 trillion a year earlier.

Over-the-counter (OTC) transactions accounted for 99.53% of these positions, while exchange-traded transactions made up only 0.47%. Of the OTC transactions, forward contracts accounted for the largest share (61.58%) of the nominal value of total open positions, followed by swaps at about 34.14%. Sold options and bought options accounted for 2.61% and 1.67%, 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. 2017		End of Dec. 2016		Changes	
	Amount	%	Amount	%	Amount	%
<b>I. Notional Amounts Outstanding</b>	<b>47,824,505</b>	<b>100</b>	<b>49,927,470</b>	<b>100</b>	<b>-2,102,965</b>	<b>-4.21</b>
A. OTC	47,600,716	99.53	49,802,395	99.75	-2,201,679	-4.42
1. Forwards	29,312,508	61.58	27,899,199	56.02	1,413,309	5.07
2. Swaps	16,251,262	34.14	17,353,671	34.85	-1,102,409	-6.35
3. Bought options	794,559	1.67	2,174,992	12.53	-1,380,433	-63.47
4. Sold options	1,242,387	2.61	2,374,533	13.68	-1,132,146	-47.68
B. Exchange-traded	223,789	0.47	125,075	0.25	98,714	78.92
1. Futures- long positions	40,979	18.31	51,798	41.41	-10,819	-20.89
2. Futures- short positions	159,337	71.20	60,768	48.59	98,569	162.21
3. Bought options	10,842	4.84	6,616	10.89	4,226	63.88
4. Sold options	12,631	5.64	5,893	9.7	6,738	114.34
<b>II. Notional Amounts Outstanding</b>	<b>47,824,505</b>	<b>100</b>	<b>49,927,470</b>	<b>100</b>	<b>-2,102,965</b>	<b>-4.21</b>
A. Total contracts held for trading purpose	47,614,912	99.56	49,751,534	99.65	-2,136,622	-4.29
B. Total contracts held for non-trading purpose	209,593	0.44	175,936	0.35	33,657	19.13

Note: The figures in this table include both domestic banks (head offices, domestic and overseas branches, and OBUs) and foreign banks (ordinary branches and OBUs in Taiwan).

Source: CBC website, February 2018.

### (6) Cross-Strait Remittances Business

In 2017, outward and inward remittances to and from mainland China by all banks came to US\$413.19 billion and US\$281.75 billion, respectively, up by 8.10% and 4.73%, respectively, from 2016. 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 in order to streamline bank operating procedures, facilitate the achievement of economies of scale, and reduce banks' operating costs.

### Changes in Cross-strait Remittances

Unit: US\$ 100 million

Item \ Year	2017	2016	Change (US\$)	Change (%)
Outward remittances	4,131.85	3,822.34	309.51	8.10
Inward remittances	2,817.48	2,690.24	127.24	4.73

Source: Financial Supervisory Commission

#### (7) Other Business

Domestic banks' fee income in 2017 came to NT\$203.8 billion, down 0.49% from NT\$204.8 billion in 2016, accounting for 9.62% of the total income of domestic banks in 2017, down slightly from 9.98% in 2016 but still nearly one-tenth of the total income of domestic banks.

### Changes in Banks' Fee Income

Unit: NT\$ 100 million

Item \ Year	2017	2016	Change (NT\$)	Change (%)
Fee income	2,038	2,048	-10	-0.49
Fee income as share of total income of domestic banks (%)	9.62	9.98	-	-

Source: Financial Supervisory Commission

## IV. Report on the Work of BAROC

### A. Major Achievements in 2017

#### 1. Helped banks implement guidelines for anti-money laundering and combating the financing of terrorism (AML/CFT)

- (1) To coordinate with legislative action by the Ministry of Justice, the FSC, and other cabinet agencies, BAROC collected related regulations of the Basel Committee on Banking Supervision (BCBS) and the Financial Action Task Force on Money Laundering (FATF) as well as legislation from the US, Singapore, Hong Kong, and mainland China. Making reference to the above, BAROC: (a) developed 53 red flags for transactions suspected to involve money laundering or terrorism financing; (b) amended the "Model Guidelines for Banks' Anti-Money Laundering and Counter Terrorism Financing Policies and Procedures" and the "Guidelines for Banks Regarding Assessment of Money Laundering and Terrorism Financing Risks and Adoption of Prevention Programs"; and (c) prepared separate FAQs for the general public and financial institutions. These actions are intended to help financial institutions better understand and implement whatever emerges from the Asia/Pacific Group on Money Laundering's Third Follow-up Report to the Mutual Evaluation Report in Fourth-quarter 2018.
- (2) With respect to the methods, procedures, and other requirements (as referred to in Article 7, paragraph 4 of the "Counter-Terrorism Financing Act") for reporting by financial institutions to the Ministry of Justice Investigation Bureau of information they hold regarding the property of sanctioned parties, or information they hold regarding the location of such property, BAROC has provided the FSC with assistance in the drafting of related secondary legislation and FAQs. The FSC then revised BAROC's submissions and, on the basis thereof, issued the "Regulations Governing Reporting on the Properties or Property Interests and Locations of Designated Sanctioned Individuals or Entities by Financial Institutions" as well as a set of "FAQs on Banks' Implementation of the Counter-Terrorism Financing Act."
- (3) In preparation for the Asia/Pacific Group on Money Laundering's Third Follow-up Report to the Mutual Evaluation Report in Fourth-quarter 2018, in order to help financial institutions better understand Taiwan's AML/CFT policies and the content of the Mutual Evaluation Report, BAROC assisted the FSC with its holding of an informational meeting where senior officials from the FSC Banking Bureau with the experience of evaluating other countries spoke about the APG Mutual Evaluation procedures and what it was like taking part in a mutual evaluation with Cambodia.
- (4) To help member banks better understand amendments to the "Money Laundering Control Act," the "Counter-Terrorism Financing Act," the "Regulations Governing Anti-Money Laundering of Financial Institutions," the "Directions Governing Internal Control System of Anti-Money



- Laundering and Countering Terrorism Financing of Banking Business, Electronic Payment Institutions and Electronic Stored Value Card Issuers," and the "Model Guidelines for Banks' Anti-Money Laundering and Counter Terrorism Financing Policies and Procedures," BAROC held an informational meeting for banks to discuss AML regulations and model guidelines. This meeting was attended by 340 people from member banks and the competent authorities.
- (5) To help the general public correctly understand international trends in the fight against money laundering, BAROC published two informative pieces, one case history, and one article by an expert in each of the following newspapers: Liberty Times, Economic Daily News, Apple Daily, and Commercial Times.
  - (6) In preparation for the Asia/Pacific Group on Money Laundering's third round of the mutual evaluation in November 2018, the Executive Yuan's Anti-Money Laundering Office retained a Canadian consultant to assist with an ML/TF risk assessment and help financial institutions fully understand the procedures of the APG's Third Follow-up Report to the Mutual Evaluation Report. A series of three meetings were held in June 2017, September 2017 and January 2018. In addition, the Anti-Money Laundering Office invited Richard Chalmers, former Co-Chair of the FATF's Working Group on Evaluation and Implementation, to Taiwan in December 2017 to help the government hold an international conference featuring a mock mutual evaluation. At the conference, Mr. Chalmers delivered a keynote address on AML measures. BAROC helped member institutions dispatch personnel to attend the conference, and paid for part of the costs.
  - (7) In preparation for the Asia/Pacific Group on Money Laundering's Third Follow-up Report to the Mutual Evaluation Report in Fourth-quarter 2018, and to strengthen financial institutions' implementation of AML/CFT activities, the FSC asked BAROC to amend the "Guidelines for Anti-Money Laundering and Countering Terrorism Financing for Electronic Payment Institutions" and the "Guidelines for Anti-Money Laundering and Countering Terrorism Financing for Electronic Stored Value Card Issuers." Draft amendments have been filed with the FSC.
  - (8) BAROC drafted an amendment to the "Model Guidelines for Credit Card Companies' Anti-Money Laundering and Counter Terrorism Financing Policies and Procedures" based on the "Model Guidelines for Banks' Anti-Money Laundering and Counter Terrorism Financing Policies and Procedures," and filed it with the FSC, which then forwarded the Model Guidelines to credit card companies with instructions to observe them. On 20 December 2017, the BAROC held an informational meeting that was attended by 105 representatives of member institutions.

## **2. Promoted the implementation of compliance systems, enhanced compliance awareness at overseas branches of domestic banks**

- (1) On 10-11 January, 12-13 April, and 4-5 July, BAROC held a "Conference of the Foreign Branches' Managers, Legal Compliance Officers, Officers of the Internal Control and Internal Audits" one time each in New York, Hong Kong, and London, respectively, attracting a combined attendance of 350. Officials from the competent authority and industry experts were invited to speak at the conferences on important related topics, including legal compliance, supervisory and examination systems, internal controls and internal audit procedures, and risk management strategies. In addition to providing deep-level analyses of different countries' financial legislation, the conferences also facilitated better understanding between Taiwan's banking industry and its counterparts in other countries.
- (2) BAROC and Mizuho Bank jointly held a "Legal Compliance Training Course" at Mizuho Bank's head office in Tokyo on 22-23 August 2017. The course was attended by 40 employees from the Japan branches of various Taiwan-invested banks.

## **3. Strengthened financial institution information security measures, drafted related rules**

- (1) BAROC, acting on instructions from the FSC, drafted an amendment to the "Directions Concerning the Security Control Operations of Financial Institutions Conducting Electronic Banking Business." Key points of the amendments include the following: (a) parties that have already opened a savings account may apply online for a bank card; (b) while the pre-amendment Directions provided that "a party that has already opened a non-digital savings account may apply for related credit services," this has been amended to provide that "a party that has already opened a savings account may apply for related credit services"; (c) a publicly switched telephone network may use other methods to inform users of the measures taken to ensure the security of message transmission routes, and to confirm transaction details; (d) to strengthen the protection of information security, the provision that formerly required an encryption key of at least 1024 bits for RSA asymmetric cryptographic algorithms has been changed to require an encryption key of at least 2048 bits; (e) a newly added provision sets out additional security features required for the handling of credit card applications by the owners of existing savings accounts; (f) to coordinate with the decision to allow the owners of digital savings accounts to apply for credit services, the amended Directions set out additional security features required for the handling of contract signing and identity verification; (g) with respect

- to applications by credit card customers for credit services, the amended Directions provide that if a one-time password is used to sign contracts and verify identity, the funds must be transferred into the customer's non-digital savings account; (h) the amended Directions provide that a new customer applying for a credit card must sign and seal the relevant transaction documents; (i) identity verification measures required for savings accounts and credit cards; (j) the amended Managing and Warning Requirements include internet app system log and audit trails; (k) the amended Directions include express provisions regarding a training timetable for DDoS response procedures; and (l) new provisions set out requirements regarding the material for the casing for ATM auxiliary equipment, and the thickness of the casing. The amended Directions were filed with the FSC, which then forwarded the Directions to member institutions with instructions to observe them.
- (2) In order to strengthen security controls for the use of biometric identification by financial institutions, BAROC, acting pursuant to FSC instructions, drafted a set of biometric identification technology security control provisions and incorporated them into the "Rules Governing the Use of New Technologies by Financial Institutions." The amended Rules were filed with the FSC, which then forwarded the Rules to member institutions with instructions to observe them.
  - (3) Acting pursuant to FSC instructions, BAROC amended the "Rules Governing the Provision of Mobile Device Apps by Financial Institutions." The amended Rules were filed with the FSC, which then forwarded the Rules to member institutions with instructions to observe them.
  - (4) Acting pursuant to FSC instructions, BAROC drafted a set of "Model Guidelines on Banks' Defense and Contingency Operations for Distributed Denial-of-Service Attacks" and provided the Guidelines to member institutions for their reference.
  - (5) Acting pursuant to FSC instructions, BAROC drafted a set of "Rules Governing Security Controls for QR Code Scanning and Payment Apps Provided by Financial Institutions." The Rules were filed with the FSC, which then forwarded the Rules to member institutions with instructions to observe them.
  - (6) Acting pursuant to instructions from the FSC's Banking Bureau, BAROC drafted a set of "Rules Governing the Conduct by Financial Institutions of Mobile Bank Card Security Control Operations." The Rules were filed with the FSC, which then forwarded the Rules to member institutions with instructions to observe them.
  - (7) Acting pursuant to instructions from the FSC's Banking Bureau, BAROC drafted a set of "Rules Governing Security Controls for Financial Institutions in Their Use of Internet-of-Things Devices." The Rules have been filed with the FSC for review.

- (8) Acting pursuant to FSC instructions, BAROC drafted an "Information Security Penetration Testing Plan for Financial Institutions." The Plan was filed with the FSC, which then forwarded the Plan to member institutions with instructions to observe it.
- (9) Having taken note of April 2017 news media reports that a hacker group had carried out a "watering hole attack" on the intranets of many banks, BAROC drafted a "Special Report on Attack by Korean Hackers on Financial Institutions in 18 Countries" and provided it to member institutions for their reference.
- (10) In order to improve information security at electronic payment institutions and facilitate their development, the FSC asked BAROC to study possible amendments to the "Directions Concerning the Security Control Operations of Financial Institutions Conducting Electronic Banking Business," and instructed BAROC that the scope of its considerations must include at least: (a) the design of the security systems used by electronic payment institutions for indirect verification of identity using biometric characteristics; and (b) other provisions to strengthen security safeguards. BAROC drafted a set of suggested amendments and submitted them to the FSC for its reference.
- (11) In order to ensure information security with respect to domestic financial institutions' use of the SWIFT system, BAROC asked SWIFT to help Taiwanese users enhance security systems and risk management pertaining to the SWIFT platform. Toward that end, BAROC arranged for SWIFT to dispatch experts to Taiwan to hold SWIFT Customer Security Programme (CSP) informational meetings in 2017 on 15 June, 4 July, 29 September, and 15 December. At these meetings, the experts discussed KYC-SA operating procedures and advanced security matters, and provided individual consulting services. The purpose was to help attendees better understand test items related to the Security Programme, thereby helping users submit reports on their CSP self-attestations on schedule by the end of 2017.

**4. Coordinated with the government's policies on green finance, supported development of renewable energy by implementing related measures and amending legislation**

- (1) BAROC held an international conference on trends in the offshore wind power industry on 17 October 2017. The conference attracted 65 participants.
- (2) Acting pursuant to FSC instructions, BAROC held conferences on 14 July 2017 focusing on the topics of "credit industry experience sharing under the Equator Principles" and "credit industry experience sharing in the field of renewable energy power generation." The events attracted 71 participants.

- (3) Acting pursuant to FSC instructions, BAROC, making reference with the Equator Principles, amended its "Credit Standards for Members of the ROC Bankers Association." Whereas the pre-amendment Standards applied only to project financing, they now apply to all corporate lending. The Standards were filed with the FSC, which then forwarded the Standards to member institutions with instructions to observe them.
- (4) Acting pursuant to FSC instructions, BAROC commissioned the Taiwan Academy of Banking and Finance to produce a research report entitled "An Examination of Investment in and Financing of Renewable Energy Industry Development: A Look at Offshore Wind Power Industries in Developed Nations." The report was provided to banks for their reference in the financing of offshore wind power projects.

## **5. Actively promoted international cooperation and exchange, trained international financial professionals, set up databases, helped banks expand their international presence**

- (1) To support the government's New Southbound Policy, BAROC continued with its quarterly updates of data on the 10 main countries targeted by the Policy, added research on "supervisory trends and anti-money laundering in major countries around the world" to the system, and started preparing semi-annual reports on countries targeted by the New Southbound Policy, beginning with a report on "Project Financing for Infrastructure Development in Cambodia" and another on the "Current State of the Middle Class in the Philippines, and Business Opportunities Stemming from the Development of Consumer Finance There." All of this information is posted to a special section on the BAROC website designed to help member banks collect the type of information they need when seeking to establish business locations in selected overseas markets.
- (2) In order to promote cross-border chip card services and provide greater convenience to citizens traveling to Japan, BAROC has helped five member institutions (Far Eastern International Bank, Taishin International Bank, Jih Sun International Bank, Cota Commercial Bank, and Bank SinoPac) to launch cross-border chip card services, thus bringing to 22 the number of banks that do so. Japanese ATMs where Taiwanese chip cards can be used were originally only available in Hokkaido, but in 2017 they also become available in such places as Tokyo, Kyoto, Osaka, Okinawa, Yokohama, and Iwate Prefecture. The total number of such ATMs in Japan now exceeds 700. BAROC has produced publicity materials and provided them to the Japanese authorities, who have placed the materials at ATMs and participating merchants to familiarize the public with the use of chip cards for cross-border cash withdrawals and debit purchases.

- (3) To accelerate the effort to promote the expansion by Taiwanese banks of their international presence, BAROC invited 8 senior financial supervisory officials from the Philippines, Cambodia, Thailand, Indonesia, and Vietnam to take part in a study tour in Taiwan on 25–29 September 2017. While in Taiwan, the visitors engaged in exchanges with financial supervisory authorities, banks, and financial infrastructure institutions. They also attended the "Asian Financial Supervisory Officials Summit Conference," where they spoke with other attendees about: (a) their respective countries' financial supervisory mechanism; (b) their key regulatory focal points; (c) their AML/CFT regulations; (d) foreign bank market access regulations; (e) their foreign banking operations; (f) what their financial authorities expect of foreign bank; and (g) the current state of Fintech development and future prospects. In total, 130 persons attended this Conference.
- (4) In order to strengthen training and build up a deeper pool of talent, BAROC continued to actively promote training programs designed to equip professionals with skills needed for the conduct of international banking. The idea is to increase the number of trained people available to support the overseas expansion of local banks, help them integrate their overseas operations, expand their business scope, and make them more internationally competitive.

## **6. Coordinated with Government Policy by Drafting Measures to be Taken by Financial Services Providers**

- (1) Coordinated with the FSC's Policy Project to Support the Real Economy by continuing to encourage member institutions to provide financing to firms in the key innovative fields of green energy, the Asia Silicon Valley initiative, the biotech and pharmaceutical industry, national defense, smart machinery, new agriculture, and the circular economy. The purpose is to spur real economic growth in Taiwan and support industrial upgrading. BAROC also adopted goals for a phase-two project proposal, and provided these to the competent authority for its reference.
- (2) To coordinate with the competent authority's policy of encouraging banks and peer-to-peer lending platform operators to collaborate in developing innovative, efficient business models that conform with the principles of "responsible innovation," BAROC adopted a set of "Self-Regulatory Rules Governing Cooperation between Member Banks and Peer-to-Peer Lending Platform Operators" and provided the Rules to member banks with instructions to observe them.

- (3) In order to ensure better risk management by banks that provide financing for public infrastructure projects, the FSC took steps to establish a system that enables procuring entities and banks to communicate directly about contract performance by contract awardees. In support of this policy objective, BAROC drafted a model "three-party contract for control of contract payments into a special account" and provided it to the Public Construction Commission, which released a model contract based on BAROC's proposed version. BAROC also amended the "Credit Standards for Members of the ROC Bankers Association" by adding new provisions setting out general principles regarding project financing for large infrastructure projects.
- (4) With respect to the handling by banks of customers' online loan applications, BAROC adopted plans to allow a bank's existing customers holding digital savings accounts to indicate consent online for financial institutions to access the Joint Credit Information Center to check their credit history, and to enter into loan agreements online. These measures were taken in order to coordinate with the FSC's efforts to promote the development of digital financial services. In addition, for existing credit card holders that enter into loan contracts, BAROC adopted new rules governing security mechanisms for one-time passwords and the transfer of funds into non-digital savings accounts.
- (5) To coordinate with the FSC policy decision to require compliance with International Financial Reporting Standards 9 (Financial Instruments) (hereinafter, "IFRS 9") beginning from 2018, BAROC amended the "Model Accounting System for Banking Enterprises" and adopted the "IFRS 9 Financial Report Case Illustrations," then held an informational meeting on 18 September 2017 to help member banks prepare to make necessary changes.
- (6) Acting pursuant to FSC instructions, BAROC drafted a set of "Procedures to Be Followed When a Minor Applies With an Electronic Payment Institution to Register and Open an Electronic Payment Account." To safeguard the interests of minors and avoid disputes, BAROC submitted a set of general principles to the FSC and disseminated it to member institutions for their reference in adopting their own operating rules.
- (7) To help the general public understand the convenience of having an electronic payment account, the FSC asked BAROC to produce a short video to be played by financial institutions and BAROC at public venues. BAROC has disseminated the video to member institutions.
- (8) In support of the FSC's policy objective of raising the percentage of payments in Taiwan that are made via electronic payment and mobile payment platforms, BAROC hired an advertising agency to help design a campaign theme and plan out publicity activities. A promotional

campaign was conducted throughout Taiwan in December 2017. The campaign was publicized via Facebook Pages, promotional videos, radio, and the print media, and campaign activities afforded consumers opportunities for hands-on experience to show the convenience of cashless transactions.

- (9) To raise the percentage of payments in Taiwan that are made electronically, the FSC instructed BAROC to produce a series of "e-Bill National Payments Network" publicity videos. BAROC completed videos illustrating the making of electronic payments from such places as the shower and the family dining room, and asked member institutions to play the videos (via such channels as Facebook Pages, mobile apps, YouTube, ATMs, their websites, and on screens at branch locations) for two years beginning 17 July 2017.
- (10) To help member banks conduct identity verification in accordance with the requirements of the "Rules Governing Offshore Banking Branches," BAROC amended the "Self-Regulatory Rules for Offshore Banking Units Accepting Account Opening by Offshore Customers and Investing in Trust Products On Behalf of Offshore Customers." Also, to help banks fully explain matters to customers, BAROC prepared a set of FAQs on how member banks are expected to go about informing OBU customers that banks are required to re-do identity verification. The FAQs were provided to banks for their reference.
- (11) To provide physically and mentally disabled persons with user-friendly financial services, the FSC instructed BAROC to draft a set of "Q&As on User-Friendly Financial Services." BAROC submitted the Q&As to the FSC for approval, then forwarded them to member banks with instructions to act accordingly. To help financial institutions meet the needs of persons with physical and mental disabilities, BAROC coordinated with the FSC and banks to discuss locations and schedules for installation and removal of ATMs, and to assist with the installation of ATMs at MRT stations, train stations, hospitals, retail outlets, department stores, convenience stores and other such places where replacement of old ATMs is a high priority.
- (12) The FSC instructed BAROC to study the feasibility of suggestions by the general public that consumers be allowed to apply to online banks for chip cards. BAROC completed a feasibility study and recommended that a customer who has already opened a savings account and has never applied for a chip card should be required to appear in person at a bank service counter for identity verification before picking up a card. This procedure was recommended to avoid the risk that an impostor might pick up a card. BAROC reported the recommendation to the FSC, then disseminated it to member banks with instructions to act accordingly.



- (13) Article 17 of the "Act for Industrial Innovation" requires the FSC to conduct surveys and projections on the supply and demand for key types of human resources in the financial industry. BAROC, acting on the FSC's behalf, conducted surveys and projections for banks and financial holding companies to identify the supply and demand factors affecting employee turnover during the years 2018–2020. Survey items include: basic identifying information on the respondent firms; expected number of employee retirements over the coming three fiscal years; analysis of the selection model for key personnel needed to implement the bank's plans for establishing new overseas business locations; the number of additional key personnel needed by the bank due to the launch of new lines of business; number of foreign nationals currently employed by the bank; number of key personnel currently employed whose hiring had been arranged by an outside executive recruitment service; and analysis of the reasons for the departures (retirements) of key personnel, with the purpose of understanding the short-, medium-, and long-term allocation of human resources in Taiwan's banking industry. The results of the survey will be submitted to the proper government agencies for them to use as reference in examining supply and demand for key banking personnel.

## 7. Helped Resolve Problems Faced by all Member Banks

- (1) In support of government efforts to encourage banks to grow their reverse mortgage business, BAROC continued working on the drafting of application forms, administrative rules, file transfer checklists, and data interchange security requirements. The FSC then used the information to apply to the Ministry of the Interior to provide the Joint Credit Information Center with information on household registration changes and deaths to facilitate access to such information by banks.
- (2) To coordinate with the government's promotion of its digital finance policy, BAROC suggested that the FSC should assist with the establishment of a "Personal Financial Services Platform" so that the existing procedure—under which a customer was required to appear in person at a bank service counter to apply for data on personal income and property—can be replaced with a new procedure that allows for online application and document review. This new procedure would reduce the workload of tax authority personnel. It would also enhance the benefits associated with banks' conduct of digital financial services and enhance the factual nature of credit information checks. The new procedure should help prevent identity fraud and improve personal credit risk control.

- (3) BAROC suggested that the FSC contact the National Development Council and the Ministry of Finance to seek their agreement to let the FSC designate the Joint Credit Information Center (JCIC) to act as an information conduit under certain circumstances. The suggestion is that, provided that a borrower has already given written consent, a bank should be allowed to go through the JCIC to check the borrower's tax information, personal income and property.
- (4) To promote nationwide payment services, BAROC applied in 2007 with the Taiwan Intellectual Property Office (TIPO) to trademark the English and Chinese names of the e-Bill National Payment Network, with the trademarks expiring on 15 March 2017. To facilitate efforts to promote nationwide payment services, and to continue enjoying trademark protection for the names, BAROC applied to renew the trademarks for another 10 years.
- (5) In order to ensure that different banks use consistent review procedures and are thereby able to reduce the incidence of disputes among members when consumers apply for pre-negotiation proceedings or pre-mediation proceedings, BAROC adopted "Operational Guidelines for Pre-negotiation Proceedings" and "Operational Guidelines for Pre-mediation Proceedings."
- (6) The FSC accepted a BAROC suggestion that when a bank calculates the "risk-weighted assets" portion of its credit risks, a risk weighting of 0% should apply to the "Notes held for exchange" item under the "Other assets" section on the bank's balance sheet.
- (7) In an effort to improve the professional expertise of member banks' foreign exchange business personnel and ensure that their skills are on a par with those of counterparts throughout the world, BAROC posted the following to its website: (a) Mandarin translation of summaries of the ICC Banking Commission's International Standard Banking Practice case studies; (b) reports on the latest international regulatory trends; and (c) reports on BAROC's participation in the ICC Banking Commission's 2017 Annual Meeting as well as the Commission's Technical Meeting. All of this information is available for member banks' foreign exchange business personnel to access in the course of their daily work.
- (8) To help member banks comply with the US "Foreign Account Tax Compliance Act (FATCA)," and taking into account what the competent authority needs in order to coordinate with the intergovernmental FATCA agreement between the US and Taiwan, BAROC provided support by collecting the opinions of banks and providing them to the FSC Banking Bureau for its reference. This measure was taken to help member banks respond appropriately.
- (9) BAROC prepared English versions of the "Calculation Method" and the "Code of Conduct" for the Taipei Interbank Offered Rate (TAIBOR) and posted them on its website to help overseas financial markets better understand how the TAIBOR is operated.

- (10) To coordinate with the Judicial Yuan's plan to establish a business court, BAROC prepared a set of concrete recommendations on core issues concerning its establishment. The purpose of such a court would be to expedite the handling of business litigation.
- (11) After studying regulations governing the use of ATM machines for cardless cash withdrawals and interbank deposits, BAROC concluded that a bank's compliance, internal audit, and information units should verify that the methods used for administering ATM cardless cash withdrawals are compliant with applicable regulations, and then contact the Financial Information Service Co., Ltd. (FISC) to make arrangements. In addition, they must also strengthen information security controls. Regarding ATM interbank deposits, BAROC asked FISC to draw up security mechanisms, set a maximum deposit, and devise control methods. BAROC then instructed member banks to complete amendment of their internal procedures by 1 March 2018.

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

- (1) In order to reduce the impact of a proposed amendment to Articles 43-3 and 43-4 of the Income Tax Act upon the operations of banks' offshore banking units, BAROC set up a special task force to prepare recommendations to the competent authority regarding related secondary legislation. The objective was to mitigate the impact of such legislation and afford OBUs room for sustainable business operations.
- (2) The Ministry of Finance initiated the public commentary period for the proposed "Regulations Governing the Implementation of the Common Standard on Reporting and Due Diligence for Financial Institutions," then encouraged member banks to visit the Ministry of Finance website and offer their views. BAROC also collected related views and forwarded them to the Ministry of Finance for its reference.

## **9. Continued to help Taiwanese banks bring practices in line with international risk management rules**

In order to help the competent authority in its work to research the Basel Committee on Banking Supervision's risk management requirements for banks, and to consider their application in Taiwan, the Basel Research Task Force (jointly established by BAROC and the FSC Banking Bureau) in 2017 finished the following tasks:

- (1) Credit Risk Working Group No. 1: Translated the "Basel III–Securitization Framework, Drafting of Securitization Regulations, and FAQs on Securitization" into Chinese, and held "illustrative example workshops" to help member banks carry out test calculations.

- (2) Market Risk Working Group: Translated the "Basel III–Minimum Capital Requirements for market risk" into Chinese, and drafted a proposed method for calculating market risk capital charges.
- (3) Pillar 3 Working Group: Drafted suggested amendments to the "Capital Adequacy and Risk Management Disclosure Requirements for Domestic Banks, and FAQs on Pillar 3 Disclosure Requirements" and helped banks fill out practice forms.
- (4) Stress Test Working Group: Drafted the "Guidelines for the Conduct of Stress Tests by Domestic Banks (2017 version)."

#### **10. Adopted new self-regulatory rules, amended existing ones**

- (1) Acting at the instruction of the FSC, BAROC amended the latter part of Article 18, subparagraph 7 of the "Credit Check Standards for Members of the ROC Bankers Association" by eliminating language which had provided that, beginning from the date on which an auditor receives a sanction, and continuing for a period twice as long as the duration of the business suspension order, a financial institution was not allowed to use an audit report prepared by that auditor. BAROC reported the amendment to the FSC, then informed member banks.
- (2) To coordinate with legislative amendments by the FSC, BAROC revised related rules and functions of the system for registration of bank personnel who engage in solicitation of structured products, and also amended the "Rules Governing the Registration of Bank Personnel Engaged in the Solicitation of Financial Derivatives" and the "Application and Standard Consent Form for Registration of the Qualifications of Bank Personnel Engaged in the Solicitation of Financial Derivatives, Changes to Registered Information, and Voidance of Registration." BAROC filed these with the FSC, then forwarded them to member banks with instructions to act accordingly.
- (3) To get banks to improve control measures for their financial derivatives business, BAROC, acting pursuant to FSC instructions, amended the "Self-regulatory Rules for Banks Dealing in Derivative Products." BAROC filed the amended Rules with the FSC, then forwarded them to member banks with instructions to act accordingly.
- (4) To coordinate with the repeal of the "Fair Trade Commission Guidelines for Handling Telemarketing Cases," BAROC, acting pursuant to FSC Banking Bureau instructions, drafted a set of "Compliance Principles for Telemarketing by Banks," filed them with the FSC, and then forwarded them to member banks with instructions to act accordingly.

- (5) To strengthen corporate governance at financial institutions, BAROC, acting pursuant to FSC instructions, amended the "Corporate Governance Best-Practice Principles for Financial Holding Companies" and the "Corporate Governance Best-Practice Principles for Banks," filed them with the FSC, and then forwarded them to member banks with instructions to act accordingly.
- (6) BAROC, acting pursuant to FSC instructions, drafted a set of "Self-Regulatory Rules for Compliance and AML/CFT Systems at the Overseas Branches (Subsidiaries) of Domestic Member Banks of the ROC Bankers Association," and provided them to domestic banks for their reference. The objective was to ensure the effectiveness and soundness of the internal management systems adopted by domestic banks.
- (7) BAROC, acting pursuant to FSC instructions, drafted proposed amendments to the "Mandatory Provisions of Standard Form Contract for the Business of Electronic Payment Institutions," and filed them with the FSC.
- (8) To strengthen controls on the issuance of blank checks, BAROC, acting pursuant to FSC instructions, amended the "Directions for the Handling of Checking Accounts" by adding new provisions regarding management mechanisms for the issuance of blank checks. Also, in order to strengthen customer due diligence procedures at financial institutions, BAROC, acting pursuant to FSC instructions, amended the "Model Checklist for Detection of Dummy Accounts" and the "Model Checklist for Account Openings," filed them with the FSC, and then forwarded them to member banks with instructions to act accordingly.

## 11. Other tasks undertaken at the request of the authorities

### (1) Consumer Protection

- (a) To reduce the occurrence of disputes over transactions involving banks' online financial products, BAROC, acting pursuant to the competent authority's instructions, drafted a report entitled "Feasibility of the Establishment of Real-Time Confirmation or Notification Systems for Transactions Involving Banks' Online Investment Funds." BAROC suggested in the report that a bank should be allowed to choose, on the basis of own business operations, which of the various possible confirmation and notification systems they wish to use (e.g. confirmation by telephone, notification by text message or voice mail, email, mobile banking push notification and one-time password verification). The FSC agreed with this suggestion, and BAROC instructed banks to establish the systems within a prescribed time period.

- (b) Acting pursuant to FSC instructions, BAROC studied measures that might be taken to safeguard the interests of hearing-impaired clients. BAROC collected the opinions of its various committees and forwarded them to the FSC for its reference.
- (c) Acting pursuant to FSC instructions, BAROC studied the feasibility of requiring billing statements and credit card applications to disclose a specific list of "matters that cardholders should be aware of when purchasing goods or services," to ensure that cardholders are properly aware of the billing dates of disputed transactions. In view of the fact that card issuers already disclose related information on their websites or in billing rights summaries, BAROC recommended that card issuers disclose the aforementioned information at least once each year in billing statements, application forms, or emails. BAROC filed the recommendation with the FSC, then forwarded it to credit card institutions with instructions to act accordingly.
- (d) Acting pursuant to FSC Banking Bureau instructions, BAROC studied possible ways to resolve the situation when a credit cardholder has reserved free parking at an airport but finds no available parking space upon arrival. BAROC prepared a set of recommended principles, filed them with the Banking Bureau for comment, then asked credit card institutions to fully disclose billing rights and problem resolution principles on their websites and in billing rights summaries. The above items have been forwarded to credit card institutions with instructions to act accordingly.

## (2) Risk management

- (a) Acting pursuant to FSC instructions, BAROC added a new paragraph (Point 18, paragraph 2) to the "Best-Practice Principles for the Establishment by Banks of Risk-based Internal Audit Systems." The newly added paragraph expressly provides that BAROC will determine what qualifies as an "outside institution" as referred to in paragraph 1.
- (b) Acting pursuant to FSC instructions, BAROC: (i) studied what can be done to strengthen mechanisms to prevent the hijacking of credit cards following their use in online transactions; (ii) prepared a package of simply worded, easily understood information to explain the situation to the public; and (iii) studied a reporting system for high-amount, high-frequency online transactions. BAROC reported the results of its work to the FSC for comment, and informed credit card institutions of the aforementioned reporting system with instructions to act accordingly. BAROC also prepared a set of "Simple Measures to Guard Against Credit Card Hijacking," posted it on its website, asked credit card institutions to link to the "Simple Measures" on their own websites, and used billing statements and other means to familiarize credit cardholders with the Measures.

### (3) Business Operations

To encourage credit card institutions to issue and promote the use of "green credit cards" and fulfill their corporate social responsibility by protecting the environment, the FSC instructed BAROC to develop a set of concrete and operable incentive measures. BAROC surveyed credit card institutions to learn how many green credit cards they've issued so far and what they are doing to promote their use, and to hear their opinions regarding the incentive measures. BAROC submitted its findings to the FSC for its reference.

## **12. Carried out a special research project on financial matters of concern to the competent authority and member banks**

- (1) BAROC prepared a research report entitled "An Examination of the Cross-Business Operations of Domestic Financial Services Industry" and submitted it to the FSC Banking Bureau and the Central Bank for their policymaking reference.
- (2) BAROC awarded research funding to Dr. Lee Jen-Sin, Chair of the Department of Finance at I-Shou University to conduct a study on the topic of "FinTech Development and the Response Strategy of Taiwan's Banks." BAROC submitted the research paper to the competent authority and disseminated it to member institutions for their reference.

## **13. Participated in international financial conferences and activities**

- (1) BAROC dispatched personnel to attend the "2017 International Conference of the Institute of Internal Auditors" on 23–26 July in Sydney, where they updated themselves on the latest internal auditing expertise and engaged in international exchange of information and knowhow.
- (2) BAROC dispatched personnel to attend the SWIFT International Banker's Operations Seminar (Sibos 2017) in Toronto on 16–19 October 2017 to stay up to date on the latest trends in SWIFT technologies, promote increased international participation by Taiwanese banks, and to raise Taiwan's international profile.
- (3) On 12–18 November 2017, BAROC took part in a study trip—the "2017 FinTechBase Study Mission to Observe FinTech Innovation Trends in Singapore"—organized by the Taiwan Financial Services Roundtable. The purposes of the trip were to: (a) understand the Singapore government's incentive measures to support financial innovation and innovative entrepreneurialism; and (b) learn about the latest FinTech trends and developments in Southeast Asia and other developing nations.
- (4) BAROC took part in the "TRUSTECH 2017 Conference and Exhibition" held in Cannes on 28–30 November 2017 to gain a better understanding of FinTech product development and application trends throughout the world, so as to facilitate BAROC's formulation of related rules.

- (5) BAROC arranged for member institutions to take part in banking-related events organized by the International Chamber of Commerce (ICC), and dispatched representatives to attend the ICC Banking Commission Annual Meeting on 3–6 April 2017 in Jakarta, as well as the Commission's Technical Meeting and a "Conference on Trade Finance in the UK", held on 6–9 November in London. The attendees returned with information collected at the meeting and news on the latest trends in the industry, and prepared a report for the reference of BAROC member banks.

#### **14. Held financial seminars and lectures to cultivate professional talent**

##### **(1) Financial seminars and lectures**

- (a) BAROC invited experts from the International Swaps and Derivatives Association (ISDA) to attend a "Conference on European Union Financial Instrument Market Regulations and International Derivatives Margin Rules" on 18 August 2017. The event attracted 130 participants. Presentation materials were made available for download from the BAROC website.
- (b) To help member banks better understand key economic and financial issues, BAROC held two conferences on economic and financial matters in 2017. On 16 May, Associate Professor Chuang Meng-han of the Department of Industrial Economics at Tamkang University delivered a lecture on "The Current Status and Future Prospects of Real Estate in Taiwan," and on 24 November Yu Min-chun, Assistant Manager of the Financial Markets Research Division at Taipei Fubon commercial Bank, spoke on "International Interest Rate and Exchange Rate Trends."
- (c) BAROC invited SWIFT to hold informational meetings and training sessions in Taiwan to familiarize domestic financial institutions with that organization's new products and technologies, so that participatory institutions can make better use of SWIFT platform technologies and bring their operations in line with international practices. In addition, BAROC helped member banks make use of the SWIFT Operational Newsletter to keep abreast of the latest information on the SWIFT platform.
- (d) BAROC held an informational meeting on 8 September 2017 on the "Regulations Governing Offshore Banking Unit" and OBU operations to ensure that member bank employees understand the risks associated with the OBU account openings they handle to ensure that the re-doing of customer due diligence by banks will proceed smoothly.
- (e) To help banks understand how to use carried interest provisions to increase the attractiveness of loans, thereby helping small and medium enterprises as well as start-



up businesses obtain financing both before and after they have commenced business operations, BAROC, acting upon FSC instructions, held a series of five "Carried-Interest Financing Workshops" from 30 August through 26 October 2017 in northern, central, and southern Taiwan, attracting a total of 249 participants.

- (f) To help member banks understand the government's industrial policy as well as the current state and future development trends of the banking industry, BAROC held a four-session 2018 Banking Forum Series from 19 October through 1 December 2017. Each of the sessions focused on one of the following four topics: the "Asia Silicon Valley" initiative; the defense industry; new agriculture industry; and industry in Southeast Asia. A total of 22 experts from industry, government, and academia served as lecturers at the forums, which attracted 213 participants.
- (g) To improve the information security protection capabilities of financial institutions, BAROC on 2 May 2017 held an "Information Security Conference." Information security experts were invited to speak on information security incidents and lead discussions.
- (h) To meet the needs of member institutions related to digital financial services, and to ensure the security of member institutions' information systems, BAROC on multiple occasions amended the "Directions Concerning the Security Control Operations of Financial Institutions Conducting Electronic Banking Business." BAROC held informational meetings regarding the Directions on 4 and 6 July 2017 to familiarize member institutions with the correlations and complexity of the post-amendment Directions, and to help institutions to develop their electronic banking business operations.
- (i) In order to help judicial system personnel better understand trends in the development of innovative financial services and measures to prevent fraud, and to learn more about the modus operandi of financial criminals, BAROC joined hands with the Judges Academy and the Ministry of Justice's Department of Prosecutorial Affairs to hold "the 3rd Financial and Legal Affairs Workshops" on 2–3 November and 9–10 November at The Place Yilan. Some 90 participants—including judges, prosecutors, officials from the FSC Banking Bureau, and BAROC representatives—attended the workshops.
- (j) To bring internal audit operations in Taiwan more closely in line with international standards, BAROC on 15–20 October 2017 held the "2017 Financial Examination and Audit Conference Series" in Hong Kong. During the event, participants visited various institutions and agencies to learn about financial examination and internal audit practices in Hong Kong from experts in government, industry, and academic circles there.

(k) BAROC held a "Symposium on Risk-based Internal Audit Systems" on 3 July 2017. Chief auditors from banks with FSC approval to adopt a risk-based internal audit system were invited to share their experience on the process of applying for approval. Also, on 12 December 2017, BAROC held a post-conference wrap-up meeting to hear the takeaways of personnel who had attended the "2017 Asian Confederation of Institutes of Internal Auditors Conference" and the "2017 International Conference of the Institute of Internal Auditors."

(l) On 30 November 2017, BAROC invited all rate-quoting banks to attend a Bloomberg News conference on how the Taipei Interbank Money Center's overnight interbank call-loan rates and TAIBOR are affected by the European Union's Markets in Financial Instruments Directive II (MiFID II) and the EU Benchmark Regulation (BMR).

(m) BAROC hired a team of attorneys led by Chien-ting Yeh of Chien Yeh Law Offices to collaborate with Zhong Lun Law Firm of mainland China in holding a "Workshop on Credit Asset Management Procedures and Standard Office Forms for Mainland China." The Workshop was attended by more than 90 employees of BAROC member banks.

(n) To help member banks understand the key points of amendments to electronic payments-related legislation, and to use informational meetings attended by member institutions to achieve the goal of increasing business ties among members, BAROC held "Informational Meetings on Work by the Electronic Payments Committee to Publicize Related Legislation and Electronic Payment Operations" on 21 and 23 November 2017. The events were attended by 160 persons.

(2) Personnel training and video courses

(a) BAROC continued to retain a professional training institute to set up professional development activities designed to provide attendees with skills that meet industry needs. BAROC held the following events in 2017: "Domestic Courses for Core Banking Personnel" (total attendance: 3,539); "Training Program for Key Personnel in Asia" (total attendance: 150); "Forum on the Establishment of a Business Presence in Asia" (total attendance: 187); "Cross-strait Financial Business" (total attendance: 570); "Course on Taiwan-Invested Banks in Mainland China" (total attendance: 277); "Training Program for Senior Management at Financial Institutions" (total attendance: 37); "Program for the Internationalization of Financial Industry Professionals" (total attendance: 37); "International Courses for Core Banking Personnel" (total attendance: 564); "International FinTech Forum" (total attendance: 789); "Singapore FinTech Study

Tour" (total attendance: 20); "Study tour for Financial Institutions Seeking to Build up a Stronger ASEAN Presence" (total attendance: 25); "Informational Meeting on Anti-Money Laundering Operations in the US and Hong Kong" (total attendance: 178); "Workshops on Amendments to the Labor Standards Act" (total attendance: 4,424); "On-the-Job Training for Fire Prevention Administrators at Banks" (total attendance: 204); and "On-the-Job Training for Labor Safety and Health Administrators at Banks" (total attendance: 5,230). Combined attendance at all of these activities came to 16,231.

- (b) To respond to the growing popularity of video instruction, and to provide employees at financial institutions with a wide range of professional development choices, BAROC in 2015 launched an open courses platform (can be accessed on the Chinese-language version of the BAROC website by clicking on "Open courses" and then the "Members only" tab). By the end of 2017 a total of 354 courses—including everything from introductory to advanced content—had been posted on the "Members only" section of the BAROC website. People working in the financial industry, and members of the general public interested in doing so, can access these course videos free of charge. Course materials were browsed by a total of 33,619 visitors in 2017.

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

- (1) BAROC joined hands with the Taiwan Academy of Banking and Finance, the Taiwan Insurance Institute, and the Financial Ombudsman Institution to conduct the 2017 Nationwide "A+ for Financial Literacy" School Lecture Series, holding events throughout Taiwan at government agencies, institutions of higher education, and remote villages. Parents and children attending the event had an opportunity to gain a proper understanding of financial matters in a fun environment where the atmosphere was enlivened by performances of the Just Apple Children's Theater Troupe. A total of 21 events were held, attracting a combined attendance of 2,785.
- (2) On 27 October 2017, BAROC joined hands with the National Federation of Credit Cooperatives to hold a refresher seminar at the Chientan Youth Activity Center for instructors taking part in the 2017 School and Community Financial Literacy Campaign. A total of 102 instructors attended the seminar, thus giving a good indication of their intention to continue taking part in the campaign.

- (3) BAROC took 9,425 phone calls from consumers seeking to discuss debt restructuring issues in 2017, and financial institutions processed 14,424 applications for pre-negotiation procedures relating to debts totaling NT\$17.031 billion.
- (4) BAROC provided information or explanations to help with the handling of cases where consumers had questions or complaints (including calls referred to BAROC from the FSC's 1998 hotline) about banking business operations. In 2017, BAROC responded to 617 consumer inquiries and 26 cases involving customer complaints against member institutions.
- (5) BAROC received 4,251 letters in 2017 from the heirs of member institutions' customers who inquired about deposits, safe deposit boxes, and other assets left behind by their benefactors. In another 1,326 cases, BAROC helped bank customers check their own account balances.
- (6) BAROC handled 65 identity theft cases referred by the competent authority to the Ministry of the Interior. The cases involved counterfeiting or fraudulent application for a victim's national ID card to make a fraudulent withdrawal of money.
- (7) BAROC periodically collected data on fees that were charged by all banks in connection with non-discretionary money trust services, and made the data available for public inspection.
- (8) BAROC mediated 165 credit card-related queries in 2017 via its one-stop credit card information hotline service. Whenever a query was received, the hotline service would contact the proper credit card institution to help the inquirer obtain a satisfactory response.
- (9) The following items of lending-related information were posted once each quarter on the BAROC website for public reference: (a) a list of the providers of outsourced debt recovery and outsourced marketing services that had passed review by member institutions and subsequently had their contracts renewed; (b) data on the cash card interest rates and fees for both unsecured and secured loans charged by each member institution; (c) information on each member institution's personal loan information contact window, descriptions of their main products, URLs, etc.; (d) information on each bank's standards governing penalties for early repayment of consumer loans; (e) information on each bank's performance in adopting financial measures to support women in their efforts to find employment or start businesses; and (f) information on each member institution's contact window for the handling of complaints following the sale of problematic assets.

- (10) BAROC continued to periodically compile the following four types of information related to the credit card business and posted it to its website: (a) revolving interest rates charged by credit card institution, and fee schedules for different fees; (b) service fees for credit card installment payment plans; (c) systems adopted by each credit card institution to prevent credit card theft following their use in online transactions; and (d) a "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."
- (11) To ensure that consumers with debt problems understood that they could best protect their own interests and avoid being swindled by going directly to their bank (rather than via a middleman) to apply for a pre-negotiation procedure, BAROC continued to play a public service video on its website to inform consumers that pre-negotiation procedures were free of charge and could lead to a successful resolution in a high percentage of cases.
- (12) In the run-up to the 2017 Chinese New Year holidays, out of consideration for the plight of people experiencing debt repayment difficulties, BAROC communicated with member banks (including debt collection agencies whose services they had contracted) to urge them to declare a moratorium on all debt collection operations during the holidays.
- (13) For the benefit of economically disadvantaged persons having temporary difficulties with debt repayment, BAROC helped them to weather short-term cash flow problems by continuing to administer the Unsecured Consumer Debt Rescheduling Program for Economically Disadvantaged Debtors Experiencing Difficulties with Repayment.
- (14) In order to help students from underprivileged background obtain scholarships, and to promote financial literacy, BAROC donated funds to support scholarships offered by the Financial Services Education Charity Fund.
- (15) In order to fulfill its social responsibilities and provide support for charitable groups, BAROC donated funds to the Taiwan Concern Society, the Child Welfare League Foundation, the Little Sisters of the Poor, Genesis Social Welfare Foundation, the Chinese Christian Relief Association's 1919 Food Bank, and After School 368. These donations supported underprivileged families, low-income households, underprivileged children, and senior citizens living alone.

## B. Major Tasks in 2018

No	Tasks
1	Strengthen Taiwan's anti-money laundering / counter terrorist financing (AML/CFT) regime; help the government prepare for the Asia/Pacific Group on Money Laundering's Third Follow-up Report to the Mutual Evaluation Report in Fourth-quarter 2018; support the competent authorities by continuing to develop AML/CFT typologies for transactions carried out by banks, electronic payment institutions, and electronic stored value card institutions; continue assessing money laundering risks; and conducting related publicity and outreach.
2	Hold the "Conference of the Foreign Branches' Managers, Legal Compliance Officers, Officers of the Internal Control and Internal Audits" in New York to encourage member banks to attach greater importance to legal compliance, internal controls, and internal audits at their overseas branch units.
3	Encourage member institutions to provide, in compliance with government policy, financing to firms in the key innovative fields of green energy, the Asian Silicon Valley initiative, the biotech and pharmaceuticals, national defense, smart machinery, new agriculture, and the circular economy. The purpose is to spur real economic growth in Taiwan and support industrial upgrading.
4	Continue collecting reports on information and communications security. These will be used to study security issues affecting the digitization of financial institution business, and to adopt related security requirements.
5	Accelerate the adoption of electronic payments and strengthen the e-payments infrastructure in Taiwan.
6	Support the government's policy of promoting electronic payments by helping to resolve problems, and by preparing recommendations for related legislative amendments.
7	Urge SWIFT to help Taiwanese users complete information security certifications under the SWIFT Customer Security Programme.
8	Continue promoting the national platform for online bill and tax payments, upgrading the functionality of our website (e-Bill National Payments Network), and promoting the use of smart carriers (such as mobile apps) to pay bills. These actions will provide the public with more convenient payment methods. BAROC will also actively encourage public-sector organizations and medical institutions to provide electronic payment services.
9	Help member banks obtain the information they need when seeking to establish business locations in selected overseas markets, continue building up the section on the BAROC website where such information is posted, and use this information to serve as reference for member banks in their efforts to expand their overseas presence.
10	Continue carrying out training programs for financial industry personnel and offering open courses to provide bank employees and the general public with free-of-charge online learning opportunities.
11	Strengthen banks' compliance functions, establish collective self-regulation mechanisms, and promote closer liaison and exchanges between the second and third lines of defense in effective risk management and control.
12	Assist with translation into Chinese of risk management requirements for banks issued by the Basel Committee on Banking Supervision, and prepare suggested amendments to related legislation and directives in Taiwan to bring local banks more closely in line with international practices.

## A. Chronology of Major Events in 2017

- ◎2017.01.10 Held the North American regional session of the "Conference of the Foreign Branches' ~11 Managers, Legal Compliance Officers, Officers of the Internal Control and Internal Audits" in New York.
- ◎2017.01.19 Held the 4th joint meeting of the 12th Boards of Directors and Supervisors.
- ◎2017.01.20 Held a "Workshop on Amendment of the Labor Standards Act."
- ◎2017.02.23 Held the 5th joint meeting of the 12th Boards of Directors and Supervisors.
- ◎2017.03.30 Held the 6th joint meeting of the 12th Boards of Directors and Supervisors.
- ◎2017.04.12 Held the Asia regional session of the "Conference of the Foreign Branches' Managers, ~13 Legal Compliance Officers, Officers of the Internal Control and Internal Audits" in Hong Kong.
- ◎2017.04.27 Held the 7th joint meeting of the 12th Boards of Directors and Supervisors.
- ◎2017.05.02 Held an "Information Security Conference."
- ◎2017.05.04 BAROC chairman attended as adviser at 50th Annual Meeting of the Board of ~07 Governors of the Asian Development Bank in Yokohama, Japan.
- ◎2017.05.16 Jointly held with the Bankers Association of Taipei the conference on "The Current Status and Future Prospects of Real Estate in Taiwan."
- ◎2017.05.25 Held the 8th joint meeting of the 12th Boards of Directors and Supervisors.
- ◎2017.06.23 Held the "2017 Workshop on Credit Asset Management Procedures and Standard Office Forms for Mainland China."
- ◎2017.06.29 Held the 2nd meeting of the 12th Board of Directors.
- ◎2017.07.03 Held a "Symposium on Risk-based Internal Audit Systems."
- ◎2017.07.04 Held the European regional session of the "Conference of the Foreign Branches' ~05 Managers, Legal Compliance Officers, Officers of the Internal Control and Internal Audits" in London.
- ◎2017.07.04 Held "Informational Meetings on the Directions Concerning the Security Control and 06 Operations of Financial Institutions Conducting Electronic Banking Business."
- ◎2017.07.06 Held an "Informational Meeting for Banks to Discuss AML Regulations and Model Guidelines."



On 12 April 2107, BAROC Chairman Jye-Cherng Lyu and participants at the Asia regional session of the "Conference of the Foreign Branches' Managers, Legal Compliance Officers, Officers of the Internal Control and Internal Audits" pose for a group photo.



BAROC Chairman Jye-Cherng Lyu and participants pose for a group photo at the European regional session of the "Conference of the Foreign Branches' Managers, Legal Compliance Officers, Officers of the Internal Control and Internal Audits" held on 4 July 2017.

- ◎2017.07.27 Held the 9th joint meeting of the 12th Boards of Directors and Supervisors.
- ◎2017.08.22 Jointly held with Mizuho Bank a "Legal Compliance Training Course."  
~23
- ◎2017.08.31 Held the 10th joint meeting of the 12th Boards of Directors and Supervisors.
- ◎2017.09.18 Held an Information meeting on IFRS 9.
- ◎2017.09.21 Held the 2nd session of the 12th General Assembly.
- ◎2017.09.28 Held the 11th joint meeting of the 12th Boards of Directors and Supervisors.
- ◎2017.10.15 Held a "Key Personnel Training Project for the Buildup of Banks' Presence in Asia"  
~21



BAROC Chairman Jye-Cherng Lyu poses with Bank of Thailand Deputy Governor Mrs. Ruchukorn Siriyodhin on 16 October 2017 and BAROC personnel who traveled to Thailand to take part in a "Key Personnel Training Project for the Buildup of Banks' Presence in Asia."





Coverage photo of participants at the 12th joint meeting of the 12th Boards of Directors and Supervisors on 27 October 2017.

- ◎2017.10.27 Held the 12th joint meeting of the 12th Boards of Directors and Supervisors.  
~28
- ◎2017.11.24 Jointly held with the Bankers Association of Taipei conference on the subject of "Trend Analysis for International Interest Rates and Exchange Rates."
- ◎2017.11.30 Held the 3rd meeting of the 12th Board of Directors.
- ◎2017.12.12 Held a "Post-seminar Discussion of Take-aways from the International Conference of the Institute of Internal Auditors."
- ◎2017.12.20 Held an informational meeting on the "Model Guidelines for Credit Card Companies' Anti-Money Laundering and Counter Terrorism Financing Policies and Procedures."
- ◎2017.12.21 Held the 13th joint meeting of the 12th Boards of Directors and Supervisors.



BAROC participants give the thumbs-up sign at the Financial Services Community Service Fair on 16 December 2017.

## B. List of Member Banks of BAROC

April 2018

Institution	Position	Name	Telephone	Fax	Website
Bank of Taiwan	Chairman President	Jye-Cherng Lyu Jan-Lin Wei	(02)23493456	(02)23315840	www.bot.com.tw
Land Bank of Taiwan	Chairman President	Joanne Ling Chung-Min Huang	(02)23483456	(02)23757023	www.landbank.com.tw
Taiwan Cooperative Bank	Chairman President	Chung-Dar Lei Bor-Chang Hwang	(02)21738888	(02)27316026	www.tcb-bank.com.tw
First Commercial Bank	Chairman President	Ray B. Dawn Grace M.L. Jeng	(02)23481111	(02)23892967	www.firstbank.com.tw
Hua Nan Commercial Bank, Ltd.	Chairman President	Tang-Chieh Wu Yung-Chun Cheng	(02)23713111	(02)87291747	www.hnbc.com.tw
Chang Hwa Commercial Bank	Chairman President	Ming-Daw Chang Hong-Chi Chang	(02)25362951	(02)25716871	www.chb.com.tw
The Shanghai Commercial & Savings Bank, Ltd.	Chairman President	Hung-Ching Yung Shan-Chung Chen	(02)25817111	(02)25318501	www.scsb.com.tw
Taipei Fubon Commercial Bank	Chairman President	Eric Chen Roman Cheng	(02)27716699	(02)27736769	www.taipeifubon.com.tw
Cathay United Bank	Chairman President	Andrew Ming-Jian Kuo Alan Lee	(02)87226666	(02)87898789	www.cathaybk.com.tw
The Export-Import Bank of the Republic of China	Chairman President	Shui-Yung Lin Pei-Jean Liu	(02)23210511	(02)23940630	www.eximbank.com.tw
Bank of Kaohsiung	Chairman President	Yun-Peng Chang Jin-Ann Wang	(07)5570535	(07)5580529	www.bok.com.tw
Mega International Commercial Bank Co., Ltd.	Chairman President	Chao-Shun Chang Yong- Yi Tsai	(02)25633156	(02)23569169	www.megabank.com.tw
Agricultural Bank of Taiwan	Chairman President	Ming-Ming Wu Kun-Shan Chen	(02)23805100	(02)23805252	www.agribank.com.tw
Citibank Taiwan, Ltd.	Chairman President	Paulus Mok Christie Chang	(02)87269999	(02)87801300	www.citibank.com.tw
ANZ Bank (Taiwan) Limited	Chairman President	Hong-Swee Lau Peter Chan	(02)87225000	(02)87225222	institutional.anz.com/markets/ taiwan/zh-hant
O-Bank Co., Ltd.	Chairman President	Kenneth Lo Ching-Yu Yang	(02)87527000	(02)87519568	www.o-bank.com
Taiwan Business Bank	Chairman President	Bor-Yi Huang James Shih	(02)25597171	(02)25507942	www.tbb.com.tw
Standard Chartered Bank (Taiwan) Limited	Chairman President	Benjamin Hung Anthony Lin	(02)27166261	(02)66036399	www.sc.com/tw/en
Taichung Commercial Bank	Chairman President	Chin-Yuan Lai Te-Wei Chia	(04)22236021	(04)22240748	www.tcbbank.com.tw
King's Town Bank	Chairman President	Terence Tai Jih-Cheng Chang	(06)2139171	(06)2136885	www.ktb.com.tw
HSBC Bank (Taiwan) Limited	Chairman President	Helen Pik Kuen Wong Adam Chen	(02)27230088	(02)27575150	www.hsbc.com.tw
Taipei Star Bank	Chairman President	Leo Kuo Eric Chen	(02)25575151	(02)25534883	www.taipeistarbank.com.tw
Hwatai Bank	Chairman President	Chao-Hsien Lai Hong-Jeng Chen	(02)27525252	(02)27775213	www.hwataibank.com.tw

Institution	Position	Name	Telephone	Fax	Website
Shin Kong Commercial Bank	Chairman President	Tseng-Chang Lee Chang-Rung Hsieh	(02)87587288	(02)87895600	www.skbank.com.tw
Sunny Bank	Chairman President	Sheng-Hung Chen Wei-Hao Ting	(02)28208166	(02)28233414	www.sunnybank.com.tw
Bank of Panhsin	Chairman President	Ping-Hui Liu Ming-Hsien Kao	(02)29629170	(02)29572011	www.bop.com.tw
Cota Commercial Bank	Chairman President	Sung-Yie Liao Jung-Shien Chiu	(04)22245161	(04)22275237	www.cotabank.com.tw
Chunghwa Post Co., Ltd.	Acting Chairman President	Kwo-Tsai Wang Shian-Juh Chen	(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
Far Eastern International Bank	Chairman President	Ching-Ing Hou Thomas Chou	(02)23786868	(02)23779000	www.feib.com.tw
Yuanta Bank	Chairman President	Tony Fan Yu-De Chuang	(02)21736699	(02)27722455	www.yuantabank.com.tw/bank
Bank Sinopac	Chairman President	Chia-Hsien Chen Eric Chuang	(02)25063333	(02)81618485	bank.sinopac.com
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 Oliver Shang	(02)25683988	(02)25234551	www.taishinbank.com.tw
Jih Sun International Bank	Chairman President	Jin-Tan Huang Mike Wang	(02)25615888	(02)25217698	www.jhsunbank.com.tw
EnTie Commercial Bank	Chairman President	Jesse Ding Claudie Yu	(02)27189999	(02)27187843	www.entiebank.com.tw
CTBC Bank Co., Ltd.	Chairman President	Chao-Chin Tung James Chen	(02)33277777	(02)87809122	www.ctcbank.com
Mega Bills Finance Co., Ltd.	Chairman President	Jennifer M.C. Liao Chi-Fu Lin	(02)23831616	(02)23822878	www.megabills.com.tw
China Bills Finance Co.	Chairman President	Hermann Wu Chih-Ming Chien	(02)27991177	(02)26592919	www.cbf.com.tw
International Bills Finance Co., Ltd.	Chairman Acting President	Chi-Lin Wea Yen-Lang Chiu	(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	Tang-Chieh Wu Pao-Chu Lo	(02)23713111	(02)87291943	www.hnfhc.com.tw
Fubon Financial Holding Co., Ltd.	Chairman President	Richard M. Tsai Jerry Harn	(02)66366636	(02)66360111	www.fubongroup.com.tw
China Development Financial Holding Co.	Chairman President	Chia-Juch Chang Alan Wang	(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

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Sinopac Financial Holdings Co., Ltd.	Chairman President	Wen-Chyi Ong Stanley Chu	(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.esunfhc.com/en/
Yuanta Financial Holding Co., Ltd.	Chairman President	Rong-Jou Wang Tony Shen	(02)27811999	(02)27721585	www.yuanta.com
Taishin Financial Holding Co., Ltd.	Chairman President	Thomas T.L. Wu Welch Lin	(02)23268888	(02)37076889	www.taishinholdings.com.tw
Shin Kong Financial Holding Co., Ltd.	Chairman Acting President	Eugene T.C. Wu Min-Yi Huang	(02)23895858	(02)23892868	www.skfh.com.tw
Mega Financial Holding Co., Ltd.	Chairman President	Chao-Shun Chang Kuang-Hua Hu	(02)23578888	(02)33938755	www.megaholdings.com.tw
First Financial Holding Co., Ltd.	Chairman President	Ray B. Dawn Chien-Hao Lin	(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 Holdings	Chairman President	Chi-Lin Wea Michael Y. J. Ding	(02)25154567	(02)25010606	www.waterland-fin.com.tw
Taiwan Financial Holding Co., Ltd.	Chairman President	Jye-Cherng Lyu Austin Chan	(02)23493456	(02)23115060	www.twfhc.com.tw
Taiwan Cooperative Financial Holdings	Chairman President	Chung-Dar Lei Shyh-Laang Lin	(02)21738888	(02)27313677	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