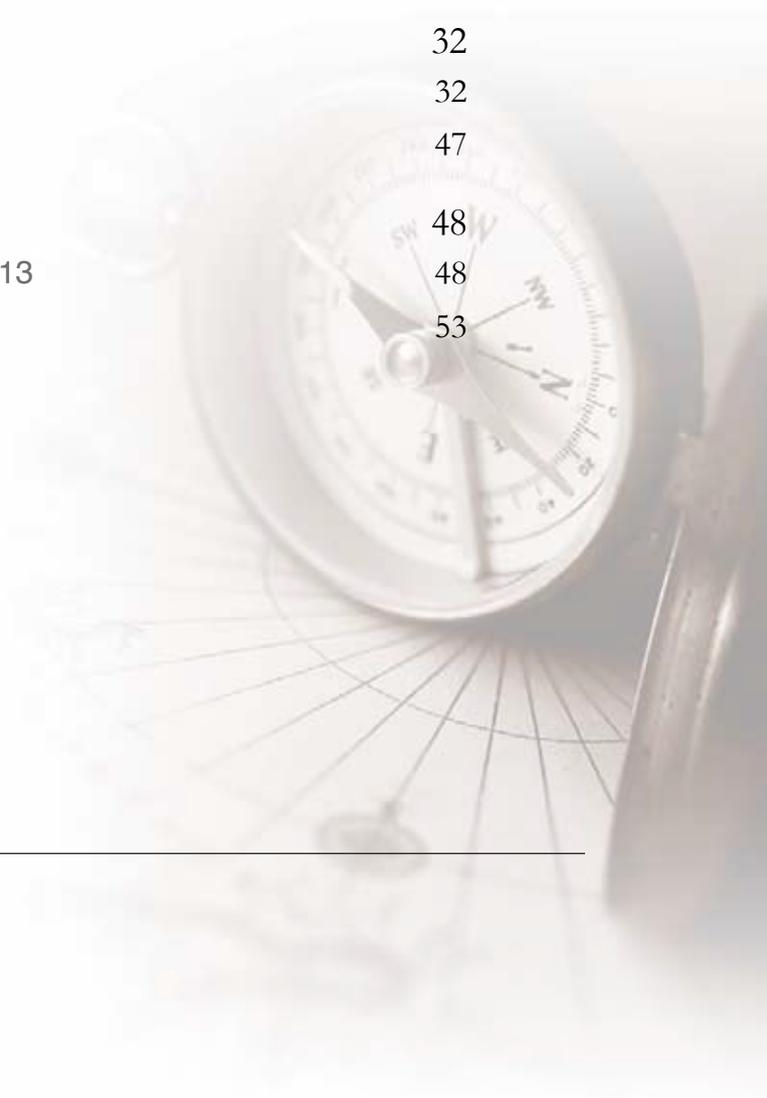


Annual Report 2013

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I. Chairperson's Preface

In both developed and emerging markets, economies around the world showed a clear upswing starting from the latter half of 2013, and the global economy has pretty much emerged from the serious recession triggered by the financial crisis. The International Monetary Fund (IMF) estimates global economic growth of 3.0% in 2013, and forecasts figures of 3.6% and 3.9% for 2014 and 2015, respectively. The improving international economy was certainly a positive factor for Taiwan; real exports, which have always been a key driver of economic activity here, rose 3.8% in 2013. The recovery, however, has not been reflected in domestic demand due to various factors. Trading volume on our stock markets, for example, has not risen appreciably, real wages remain stagnant, and a string of food safety scandals has affected consumer's willingness to spend. As a result, private consumption has been weak and ordinary companies have had little interest in investing. Fortunately, however, large capital expenditures by Taiwan's main semiconductor makers have fueled growth of 7.38% in private investments. With conditions gradually improving both at home and abroad, GDP in 2013 grew by 2.11%, up from 1.48% growth in 2012.



Chairperson Jih-Chu Lee

A bank's business success is closely tied to the state of the real economy. With the pace of economic recovery gradually quickening, domestic banks here performed well once again in 2013. The interest spread, which is strongly correlated to bank profitability, rose from a low of 1.22 percentage points in 2009 to 1.42 percentage points in 2012, where it stayed in 2013. While it didn't rise any further, it did contribute to bank profitability. And on top of that, profit growth of overseas branches and offshore banking units (OBUs) reached 7.8%, which together contributed NT\$79.2 billion to pre-tax earnings, or about 30.8% of the total earnings of domestic banks. As a result, the combined pre-tax earnings of all domestic banks rose in 2013 to NT\$257.6 billion, up from NT\$240.2 billion in 2012. This figure represented yet another all-high in absolute terms. Over the same period, return on equity (ROE) and return on assets (ROA) hit 10.26% (down by 0.15 percentage points from 2012) and 0.68% (unchanged), respectively. In addition, the average non-performing loan (NPL) ratio of domestic banks in 2013 came to 0.38%, setting a new low, while their average NPL coverage ratio set a new high of 319.18%. These figures show that even as our domestic banks continue to take in record earnings, they have also taken care to maintain asset quality.

The Bankers Association of the Republic of China (hereinafter referred to as 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 shared benefits among them. Over the past year, under the guidance of the competent authority and with the hard work of our member institutions, BAROC has done all it could to help the government implement key policies. For example, the government has sought to spur the development of cultural and creative (C&C) enterprises, and BAROC has devised measures to help C&C firms obtain funding—the Small and Medium Enterprise Credit Guarantee Fund of Taiwan (SMEG) has been allowed to guarantee up to 90% of loans made to C&C firms; BAROC has joined hands with trade associations representing banks, securities firms, insurers, and venture capital firms to establish a joint services platform; more resources have been made available to banks for research on C&C firms; and BAROC has been working out a curriculum for training courses on lending operations in order to improve banks' ability to evaluate the creditworthiness of C&C firms. The goal is to get the outstanding balance of bank loans to such firms doubled within three years.

In addition, BAROC has adopted self-regulatory rules and made concrete recommendations to support the government's policy objective of spurring the development of e-commerce payment services. Also, because encouraging banks to actively build up a greater presence throughout Asia is currently an important government policy, BAROC has been working to establish a database designed to help banks with their overseas expansion plans, and will continue helping member banks to cultivate the skills needed in their workforce to support international operations.

In response to the operational needs of credit card issuers, BAROC recommended to the Financial Supervisory Commission (FSC) that the issuance of dual currency credit cards be allowed, and then helped research the details of how such business should be managed. The FSC agreed to the recommendation on 1 April 2014. In the future, institutions will issue cards which, when used abroad, can be settled in any of several designated currencies, including US dollar, Euro, and Japanese yen.

In the area of risk management policy, BAROC and the FSC's Banking Bureau have jointly established a Basel Research Task Force and are studying Pillar 3 on market discipline and matters related to liquidity risks. Also, the FSC is seeking to strengthen risk control by credit card acquirers with respect to participating merchants, and BAROC has been coordinating with the FSC by adopting related self-regulatory rules. Various other measures have also been taken to help the competent authority implement its financial policies; including the following: (1) BAROC has drafted loan pricing policies and related measures, which were modeled in part on methods used in the United States, Hong Kong, and Singapore for pricing of the overall risks faced by financial institutions. (2) BAROC has been working to raise public awareness of consumer protection concepts, and has urged consumers not to go through agents to apply for bank loans. (3) Now that the FSC has discontinued supervision of dormant accounts, BAROC has notified its member banks to reclassify all dormant accounts as normal accounts. All the actions described above are steps that BAROC has taken to help implement government policy.

One of BAROC's critical missions is to spur economic development, which is why it helps its member banks to properly fulfill their role as financial intermediaries. By doing this, they support development of the real economy. Also, BAROC continues to support the Economic Stimulus Program adopted by the government in 2011, and has extended to 30 June, 2014 the deadline for interested parties to apply for assistance under any of the three financial sector stimulus measures included in the program.

As mentioned above, coordinating relations among peers in the industry so as to bring about the generation of shared benefits among them is one of BAROC's key missions. With this goal in mind, BAROC accomplished a number of tasks in 2013, including the following: (1) To respond to international conditions, we continued to monitor changes in foreign and domestic laws and regulations for the reference of member banks; (2) We closely tracked the progress of legislative action in order to reflect the views of the banking sector in a timely manner; (3) We drafted and researched self-regulatory rules for the banking industry; (4) To promote the shared interests of banks, we worked with them to ensure more convenient services for both corporate and individual customers; and (5) We helped member banks resolve problems in the management and operation of their businesses.

Finally, BAROC takes its corporate social responsibility very seriously. We seek actively to further the public good. For example, we've helped to set up wheelchair-accessible ATMs, and out of concern for people experiencing debt repayment difficulties we arranged with member banks for a moratorium on dunning activities each year during the lunar new year holidays. In addition, consumers can file with BAROC for mediation of complaints against its member institutions, and BAROC also provides consumers with financial information and consulting services. As for charity activities, BAROC in 2013 made donations to the Southern Taipei Family Helper Project of the Taiwan Fund for Children and Families, the Genesis Social Welfare Foundation, the Little Sisters of the Poor, the Yu-Cheng Social Welfare Foundation, the Child Welfare League Foundation, the Hsinchu Association for the Physically Disabled, and the Syin-Lu Social Welfare Foundation.

In addition to actively pursuing the matters described above, BAROC over the past year also continued with efforts to strengthen training of banking industry employees. We organized many different professional courses, seminars, and lectures, held or participated in international financial conferences and activities, and took steps to improve cross-strait ties.

Looking ahead to 2014, the IMF forecasts global economic growth of 3.6%, significantly better than the 3.0% figure for 2013. At the same time, however, we are also going to be faced with increased volatility in capital flows as a result of the tapering of the Fed's quantitative easing program, and there are also risks in connection with geopolitical tensions such as the political turbulence in Ukraine and Thailand.

Domestically, our Directorate-General of Budget, Accounting and Statistics (DGBAS) has forecast real GDP growth of 2.98% for 2014, which would be better than the 2.11% achieved last year. The narrow interest spread is not likely to improve much over the short term due to the very gradual interest rate adjustment policy of our Central Bank. On top of that, capital requirements are becoming more stringent due to Basel III and to the implementation from 1 July 2014 of the Foreign Account Tax Compliance Act (FATCA) of the United States. In addition, the business tax on financial services firms will be raised in the future. All these factors will raise legal compliance and other costs. Even so, however, some risk control measures will help put banks on stronger financial footing. Overall, Taiwan's financial environment is stable and banks are in good financial condition. Domestic banks continue to develop their RMB businesses, banks can be expected to make further progress (thanks in part to encouragement from competent authority) in the expansion of their overseas presence, and financial services firms will be allowed to operate under the same deregulated conditions that apply in Taiwan's free economic pilot zones. These conditions should generate higher operating revenues and bring continued improvement in the business performance of banks.

In the future, BAROC will continue to cooperate with government policy by adopting related financial measures, supporting innovative enterprises, encouraging banks to build up their presence throughout Asia, establishing a database designed to help banks with their overseas expansion plans, and strengthening human resources training. Also, to mesh with the government's decision to allow cross-strait RMB business and cross-border RMB transaction settlements and investments, BAROC will help banks to actively take part in the building of a cross-strait settlement platform, thereby enhancing the benefits of fund settlement and taking advantage of business opportunities.

In order to bring about the generation of shared benefits among banks, BAROC is also working to resolve problems that they all share in common. Holders of the mainland's China UnionPay Card have been able since June 2010 to withdraw cash from ATM machines in Taiwan, and BAROC will continue helping banks to make it possible for the holders of Taiwanese bank cards to withdraw cash and execute transaction payments at mainland Chinese ATMs, so that cardholders on both sides of the Taiwan Strait can enjoy greater convenience. We will also continue to pay close attention to issuance by the US of rules related to the FATCA, so as to help our domestic banks maintain proper compliance. Moreover, BAROC will continue researching e-commerce technologies and issues pertaining to the security of online transactions, actively promoting the use of mobile phones and other smart devices for the payment of bills, and taking part in both public- and private-sector conferences and organizations that focus on wireless communications and the development of mobile phones, so as to keep abreast of the latest developments in the electronic and mobile device payments industry. On another front, the BAROC also intends to keep tracking the progress of legislative initiatives (such as a proposed amendment to the Bankruptcy Act) and taxation issues to understand how they will affect banks. Where there are matters of controversy or debate, BAROC will act on behalf of banks to coordinate and communicate with the competent authorities and protect the interests of our members.

The financial industry accounts for a considerable share of Taiwan's GDP. What's more, it also supports the development of other industries, provides financial consumers with the means to manage their finances, and contributes to a better quality of life. In the future, BAROC will pool the tremendous professional expertise of its member banks to play a big role on six key fronts: (1) We will help the competent authority for the financial industry and other government agencies to build up an environment that is conducive to the development of financial institutions (efforts will involve, for example, legislative initiatives, policy recommendations, and policy implementation); (2) We will strengthen banks' self-regulation, build up stronger trust between the competent authorities and the general public, and bring about constructive interactions so as to gain greater maneuvering room and reduce consumer disputes; (3) We will establish good channels of communication with the Legislative Yuan to help get legislation passed more quickly; (4) We will actively develop human resources to make our financial industry more competitive; (5) We will facilitate interaction among industry peers to build points of consensus, and will develop stronger liaison and cooperation with bankers' associations in other countries so as to expand our international participation; and (6) We will fulfill our corporate social responsibility. In other words, BAROC will continue to properly play its role as a bridge between the government and its member banks, and between its member banks and the general public. In addition, we will also act as a platform for communication among our member banks. We must all work together in unity to make Taiwan's financial institutions more competitive, and to make a contribution to the public wellbeing and the development of our economy.



John-Chiu Lee
Chairperson

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, based on the original structure of the Bankers Association of Taipei. Together with the Bankers Association of Taiwan and the Bankers Association of Kaohsiung, BAROC was formed in accordance with the regulations of the Commercial Group Act, and 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 banker association business to BAROC to allow it to take over its overall functions. After Taipei County and Taoyuan County were upgraded to New Taipei City and The Special Municipality 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 the Bankers Association of the ROC. At the same time, the Bankers Association of Taipei County changed its name to the Bankers Association of New Taipei City. BAROC now has five association members, but this number will soon go up as a result of recent and upcoming governmental restructuring actions. In the future, the bankers associations of Taichung City and Tainan City will withdraw from the Bankers Association of Taiwan and join BAROC instead. To pave the way for this expansion, BAROC has amended Article 8 of its Articles of Incorporation, which has to do with the number of representatives that member associations can dispatch to attend general meetings of BAROC members.

The Chairpersons of BAROC from the first session of the first General Assembly in August 1983 to the first session of the eleventh General Assembly in Autumn 2013 are shown as follows:

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

B. Aims, Functions and Organization

1. Aims

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

2. Functions

- (1) To help implement economic and financial policies and commercial decrees
- (2) To study the balance of funds in supply and demand among various sectors in line with economic development
- (3) To formulate and compile common rules and regulations relating to various businesses of its members

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

3. Organization

BAROC consists of five association members, namely, the Bankers Association of Taipei, the Bankers Association of Taiwan, the Bankers Association of Kaohsiung, the Bankers Association of New Taipei City and the Bankers Association of Taoyuan County. As of the end of 2013, the head offices of member banks totaled 62, of which 56 belong to the Bankers Association of Taipei, 1 belongs to the Bankers Association of New Taipei City, 4 belong to the Bankers Association of Taiwan and 1 belongs to the Bankers Association of Kaohsiung. The branches of member banks located in Taipei, New Taipei City, Taoyuan County, Kaohsiung and each county join their respective local bankers associations and participate in local association activities.

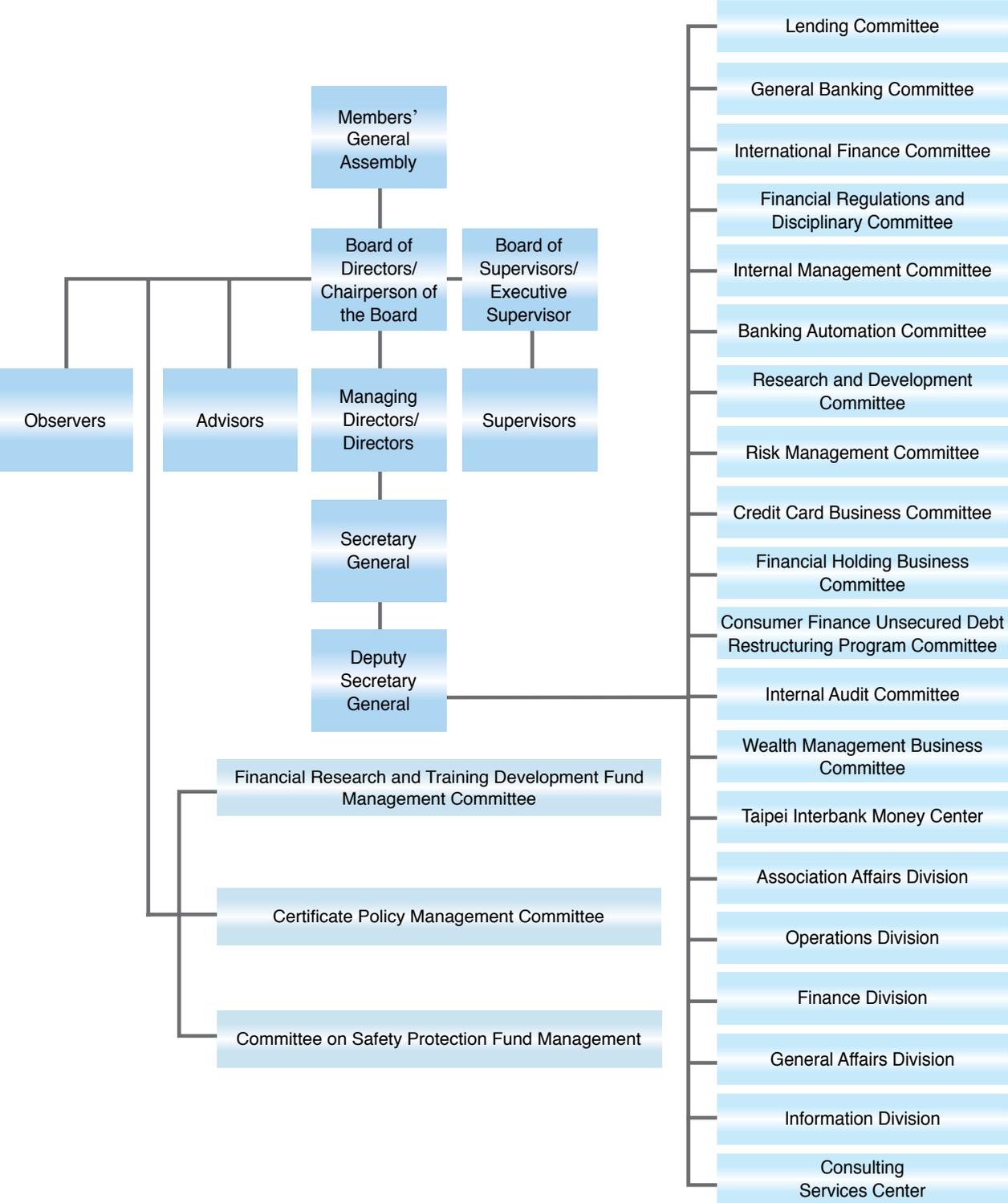
Member Banks of the Bankers Associations

Dec. 31, 2013

Member Banks	Number	
	Headquarters	Branches
Bankers Association of the Republic of China	62	
Bankers Association of Taipei	56	807
Bankers Association of Taiwan	4	1273
Bankers Association of Kaohsiung	1	314
Bankers Association of New Taipei City	1	502
Bankers Association of Taoyuan County		255
Bankers Association of Hsinchu County		54
Bankers Association of Miaoli County		47
Bankers Association of Taichung County		143
Bankers Association of Changhwa County		101
Bankers Association of Nantou County		37
Bankers Association of Yunlin County		48
Bankers Association of Chiayi County		18
Bankers Association of Tainan County		97
Bankers Association of Kaohsiung County		92
Bankers Association of Pingtung County		55
Bankers Association of Ilan County		40
Bankers Association of Hualien County		20
Bankers Association of Taitung County		13
Bankers Association of Penghu County		5
Bankers Association of Keelung City		26
Bankers Association of Hsinchu City	1	80
Bankers Association of Taichung City	2	213
Bankers Association of Chiayi City		49
Bankers Association of Tainan City	1	135

BAROC has a Secretary General and a Deputy Secretary General. The two of them are responsible for the daily operations of BAROC under the supervision of the Chairperson. There are five Divisions within the Bankers Association, namely: Association Affairs, Operations, Finance, General Affairs, and Information. In addition, there is a Consulting Services Center. The Association's affairs are conducted through its 13 banking business related committees, 3 specific committees and 1 interbank money center.

Organizational Structure of BAROC



C. Directors, Supervisors, Advisors and Observers

As of April 30, 2014

Title	Name	Company Affiliation
Chairperson of the Board	Jih-Chu Lee	Chairperson, Taiwan Financial Holding Co., Ltd.
Managing Directors	Gregory K.H. Wang	Senior Consultant, Cathay United Bank
	Kenneth Lo	Chairman, Industrial Bank of Taiwan
	Teng-Cheng Liu	Chairman, Hua Nan Financial Holdings Co., Ltd.
	Ching-Nain Tsai	Chairman, First Financial Holding Co., Ltd.
	McKinney Tsai	Chairman, Mega Financial Holding Co., Ltd.
	Yao-Shing Wang	Chairman, Land Bank of Taiwan
	Directors	Ling-Long Shen
Cheng-Hsiung Chiu		Chairman, Bank Sinopac
Mu-Tsai Chen		Chairman, China Development Financial Holding Co., Ltd.
Julius Chen		Chairman, Chang Hwa Commercial Bank
Gary Tseng		Chairman, E. Sun Commercial Bank, Ltd.
Daniel Tsai		Chairman, Taipei Fubon Commercial Bank
Tsan-Chang Liao		Chairman, Taiwan Business Bank
Yi-Jen Chiou		President, The Shanghai Commercial & Savings Bank, Ltd.
Victor Kuan		Chairman, Citi Bank Taiwan, Ltd.
Terence Tai		Chairman, King's Town Bank
Jesse Ding		President, EnTie Commercial Bank
King-Ting Chang		President, Cota Commercial Bank
Sheng-Hung Chen		Managing Director, Sunny Bank
Richard Chang		President, Cosmos Bank, Taiwan
Chenli Yang		Chief Operating Officer, DBS Bank (Taiwan) Ltd.
Jwn-Yu Lee		President, Hwatai Bank
Toong-Min Chen		Chairman, Bank of Kaohsiung
Rueen-Fong Chu		Chairman, The Export-Import Bank of the Republic of China.
Michael Y. J. Ding		President, Waterland Financial Holding Co., Ltd.
Ming-Cheng Lin		Chairman, Hua Nan Commercial Bank, Ltd.
Chang-Ken Lee	President, Cathay Financial Holding Co., Ltd.	
Victor Kung	Director, Fubon Financial Holding Co., Ltd.	

Title	Name	Company Affiliation
	Terry King	President, ANZ Bank(Taiwan) Limited
	Chao-Chin Tung	Chairman, CTBC Bank Co., Ltd
	Yu-De Chuang	Chairman, Yuanta Securities Finance Co., Ltd.
	Stan Hsiao	President, Sinopac Financial Holdings Co., Ltd.
Executive Supervisor	Wen-Long Yen	Chairman, CTBC Financial Holding Co., Ltd.
Supervisors	Shiang-Chang Lee	Chairman, Union Bank of Taiwan
	Tseng-Chang Lee	Chairman, Shin Kong Commercial Bank
	Ping-Hui Liu	Chairman, Bank of Panhsin
	Jin-Tan Huang	Chairman, Jih Sun Financial Holding Co., Ltd.
	Eli Hong	President, Far Eastern International Bank
	Joseph Jao	President, Taishin Financial Holding Co., Ltd.
	Chun-Sheng Lee	President, Taichung Commercial Bank
	Jong-Peir Li	President, HSBC Bank (Taiwan) Limited
	Justin Tsai	President, Ta Chong Bank
	Chii-Bang Wang	President, Mega Bills Finance Co., Ltd.
Advisors	Vance Chin	President, China Bills Finance Co., Ltd.
	Fu-Hsiung Hu	Chairman, Joint Credit Information Center
	Yang-Ching Chao	Chairman, Financial Information Service Co., Ltd.
	Kung-Wha Ding	Chairman, Taiwan Depository & Clearing Corporation
	Jia-Dong Shea	Chairman, Taiwan Academy of Banking and Finance
	Thomas Tan	Advisor, The Bankers Association of the Republic of China
	Julie S.M. Chen	Chairman, Bank of Taipei
	Philip Wen-chyi Ong	Chairman, Changhua Post Co., Ltd.
	Susan S. Chang	Advisor, The Bankers Association of the Republic of China
	Chao-Hui Chen	Chairman, Agricultural Bank of Taiwan
	Chang-Ruey Shiau	President, Bank of Taiwan
	Rong-Jou Wang	Chairman, Yuanta Financial Holding Co., Ltd.
Observers	Nicole Wu	Senior Vice President, BNP Paribas, Taipei Branch
	Natalie Kuo	Director, Credit Agricole Corporate & Investment Bank, Taipei Branch
	Miranda Liaw	Executive Director, JPMorgan Chase Bank, N.A., Taipei Branch
	Brian Hwang	V.P., Bank of America, N.A., Taipei Branch

D. Major Staff Members of BAROC

As of April 30, 2014

Title / Position in BAROC	Name	Full-time or Part-time
Chairperson, Financial Research and Training Development Fund Management Committee	Jih-Chu Lee	Chairperson, Bank of Taiwan, Part-time
Chairperson, Certificate Policy Management Committee	Jih-Chu Lee	Chairperson, Bank of Taiwan, Part-time
Chairperson, Committee on Safety Protection Fund Management	Jih-Chu Lee	Chairperson, Bank of Taiwan, Part-time
Secretary General	Nancy Young	Full-time
Deputy Secretary General	Tsong-Ming Wang	Full-time
Secretary	Ing-Lieh Lin	Full-time
Chairperson, Lending Committee	Chu, Yu-Feng	EVP, Land Bank of Taiwan, Part-time
Chairperson, General Banking Committee	Teng-Lung Hsieh	EVP, Bank of Taiwan, Part-time
Chairperson, International Finance Committee	Derek, Y. P. Chang	EVP, Hua Nan Commercial Bank, Part-time
Chairperson, Financial Regulations and Disciplinary Committee	Yeh, Chin-Cheng	SVP&GM, Dept. of Legal Affairs & Compliance Land Bank of Taiwan, Part-time
Chairperson, Internal Management Committee	Tien-Hsia Chang	General Auditor, Fubon Financial Holding Co., Ltd. Part-time
Chairperson, Banking Automation Committee	Hsi-Tai Ku	SVP&GM, Dept. of Information Management, Bank of Taiwan, Part-time
Chairperson, Research and Development Committee	Shing-Shiang Ou	Senior Vice President and Acting General Manager, Bank of Taiwan, Part-time
Chairperson, Risk Management Committee	Meei-Yeh Wei	EVP., Mega International Commercial Bank, Part-time
Chairperson, Credit Card Business Committee	Justin Lee	Director, Citibank, Part-time
Chairperson, Financial Holding Business Committee	Lawrence S.Liu	EVP., China Development Financial Holdings, Part-time
Chairperson, Consumer Finance Unsecured Debt Restructuring Program Committee	Jerry Yang	SVP, Retail Banking Non Performing Asset Recovery Division, Taishin International Bank, Part-time
Chairperson, Internal Audit Committee	Jane Shieh	Executive Vice President & General Auditor, Bank of Taiwan, Part-time
Chairperson, Wealth Management Business Committee	Mei-Tsu Chen	Executive Vice President, Taiwan Cooperative Bank, Part-time
Director, Taipei Interbank Money Center	Chang-Ruey Shiau	Acting President, Bank of Taiwan, Part-time
Chief, Association Affairs Division	Yu-Min Chou	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-Tarn Lee	Full-time

III. An Overview of the Banking Operations

A. Macroeconomic Summary

1. Economic Conditions

(1) Moderate global economic recovery

The US policy of quantitative easing (QE) remained in place in 2013, the eurozone debt crisis abated sharply, and Japan's Abe administration introduced the "three arrows" policy of fiscal stimulus, monetary easing, and structural reforms. On the strength of these factors, the global economy gradually got back on track. At the same time, however, the impact of QE tapering and the "fiscal cliff" standoff in the US on market confidence, sluggish growth in emerging markets, and geopolitical instability in the Middle East kept global economic performance below expectations. Key international bodies downgraded their global economic growth forecasts time and again as the year progressed. The IMF, for example, eventually called for global economic growth of 3.0%, down from 3.1% in 2012, including 1.3% growth in the developed economies and 4.7% in emerging economies.

The world's major economies performed as described below:

In the US, several tax breaks expired in 2013, and automatic spending cuts kicked in from 1 March, resulting in US\$85 billion in fiscal cuts in the fiscal year ended 30 September. Squabbling over government spending resulted in a government shutdown. And when Chairman Ben Bernanke of the US Federal Reserve hinted at an upcoming QE tapering, it sent long-term bond yields upward. Due to these factors, the US economy performed relatively poorly in the first half of the year. In the latter half of the year, however, continued improvements in the housing and labor markets supported growth in private consumption, and the US gradually overcame the negative impact of the fiscal cuts. By December 2013, the unemployment rate was down to 6.7%, and economic growth for the year came to 1.9%.

In the eurozone, a decision was made to give economic growth priority over fiscal austerity, and though the economy contracted 0.4% in 2013, that was an improvement from the 0.7% contraction of the year before. The makings of an economic recovery were beginning to solidify, but the eurozone remained mired in high unemployment and the threat of deflation. The European Central Bank responded in May and November with two interest rate cuts, but CPI growth for the year was just 1.3%. The International Monetary Fund (IMF) warned that the eurozone would have to find a way in 2014 to avoid falling into deflation.

In Japan, the "three arrows" of Abenomics (massive fiscal stimulus, aggressive monetary easing, and measures to boost private investment) pulled the economy out of a deflationary spiral and triggered the beginning of a recovery. Prices also rose a bit. According to official figures, Japan's economy grew 1.6% in 2013.

Mainland China pursued aggressive economic reform measures. At the Third Plenary Session of the 18th Central Committee of the Communist Party of China adopted a 10-year development blueprint that calls for a shift in priorities. In place of their longstanding emphasis on rapid economic growth, the authorities have instead identified industrial restructuring as the number one task. In addition, the mainland's newly installed top leader launched campaigns to combat corruption, eliminate excess productive capacity, and further strengthen regulation of real estate markets. These factors held economic growth in 2013 to a relatively low 7.7%.

(2) Moderate economic recovery in Taiwan

a. Economic growth was up from 2012, but still weaker than expected

The global economy was sluggish in 2013, while the localization of supply chains in mainland China sparked increased industrial competition across the Taiwan Strait and impacted Taiwan's export growth, which came in at a very slight 1.4% for the year. Imports, in the meantime, actually declined. For goods and services trade as a whole, after netting out imports and exports we find that growth in net foreign demand accounted for 0.63 percentage points of Taiwan's economic growth, the lowest contribution since 2005. Weak exports, slow growth in real domestic wages, a hike in electricity rates, and the introduction of new supplementary national health insurance premiums affected internal demand and held private consumption to a very low growth of 1.77%. Private investment growth was better at 7.38%, but still fell short of expectations at the start of the year. Because exports, consumption, and investment were all weaker than expected, economic growth in 2013 came to a lackluster 2.11%, better than 2012 but below the historical trend.

b. Moderate inflation

The consumer price index (CPI) rose 0.79% from 2012, while core CPI (which excludes fresh produce and energy prices) rose 0.66%, so prices were generally stable. Looking ahead, the unlikelihood of any significant rebound in private consumption appears to ensure continued price stability. The wholesale price index (WPI) fell 2.43% in 2013 due to economic sluggishness and a continuing slide in international commodities prices.

c. Continued labor market improvement

Taiwan's unemployment rate basically stayed on a steady downward path in the first half of 2013, peaking at 4.24% in February and troughing at 4.06% in May. Starting from June, however, graduation season drove the rate seasonally upward to a year-long high of 4.33% in August. As graduates found work, the rate steadily declined to 4.08% in December. While absolute unemployment numbers continued to climb, the average unemployment rate for 2013 came to a five-year low of 4.18%. However, there was no clear improvement in unemployment among youths; the rate in the 15-24 age bracket was 13.17%, a four-year high.

2. Financial Conditions

(1) Global financial conditions

Due to uncertainty over a QE exit in the US and the sluggishness of worldwide economic recovery, global financial markets were relatively volatile in 2013, but there was a bifurcation in the performance of developed and emerging economies. Financial markets in developed economies for the most part performed relatively well. US markets went from one historic high to the next. German stocks rose 25.48% over the year, and Japanese equities soared 56.72%. The euro rose 4.18% against the US Dollar, while the Japanese Yen fell 17.62% against the US Dollar. In some emerging markets, by contrast, discussion in May by the US Fed of an exit from its QE policy triggered a huge exodus of foreign funds, and sharp financial market volatility ensued. Currencies depreciated precipitously, and stock markets plummeted. Currencies finishing 2013 down against the US Dollar included the Indian Rupee (13.3%), the Indonesian Rupiah (11.0%), the Philippine Peso (7.4%), the Thai Baht (6.5%), and the Singapore Dollar (3.3%). The RMB remained strong, however, rising 2.91% against the US Dollar in 2013. The Korean Won also rose 1.04%. In the meantime, yields on long-term debt rose. Yields on 10-year US and German government bonds stood at 3.03% and 1.9% at the end of 2013, up year-on-year by 126 and 61 basis points, respectively.

(2) Financial conditions in Taiwan

a. Central Bank stops raising interest rates

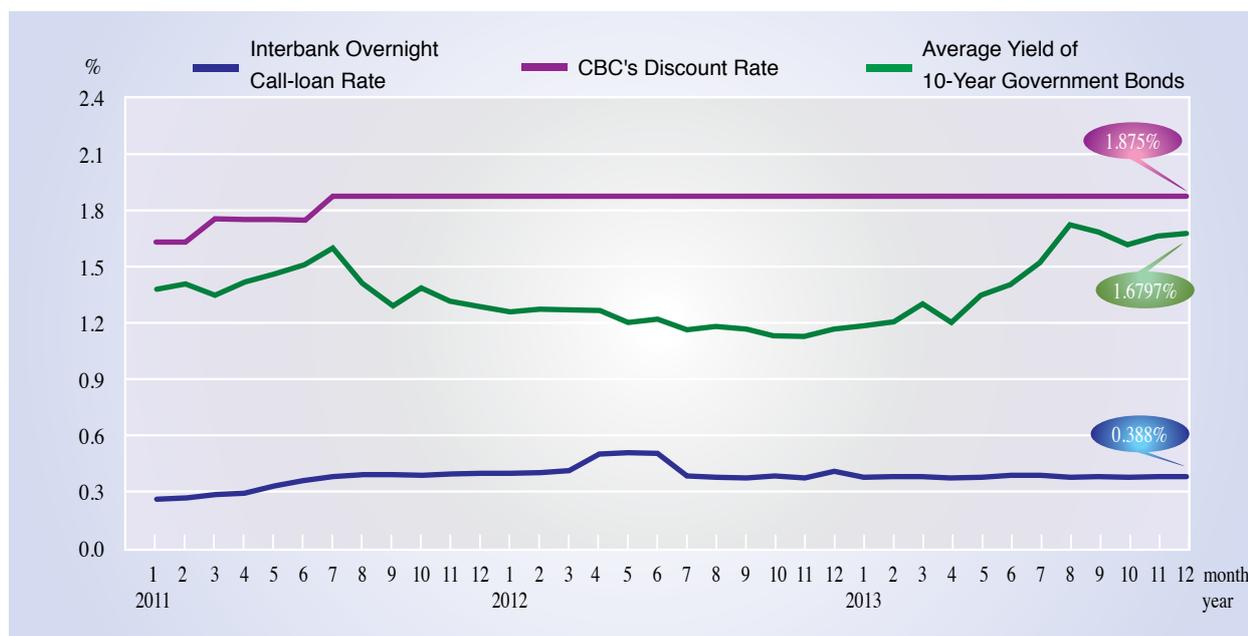
The global economy slowly improved, but Taiwan's Central Bank felt that the adverse impact upon emerging economies of the US Fed's policy of QE tapering, and uncertainties over the aftermath of fiscal problems in Europe and the US, would put a damper on the global economic recovery. With Taiwan experiencing only moderate economic growth and no worries here about inflation, our Central Bank kept policy rates unchanged in 2013. The discount rate, the rate on accommodations with collateral, and the short-term lending rate remained unchanged at 1.875%, 2.25%, and 4.125%, respectively.

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

Central banks over the world lowered interest rates and adopted other monetary easing measures in 2013 to achieve economic stimulus. As a result, global currency markets were relatively liquid. In Taiwan, as well, the slow pace of economic recovery prompted our Central Bank to continue using open market operations to adjust the money supply and maintain an appropriate degree of liquidity. The overnight call rate generally fluctuated within a tight range between 0.384% and 0.388%, and for the year as a whole averaged

0.386%, down 0.042 percentage points from the 2012 average of 0.428%. As for long-term interest rates, worries about a possible early QE exit in the US sent the 10-year government benchmark bond yield in Taiwan climbing in step with rising US yields, from a low of 1.2025% in April to a peak of over 1.7% in August. Beginning from September, however, market expectations of a delayed QE exit in the US dragged yields down just a bit. They ranged between 1.62% and 1.68% in the fourth quarter.

Changes in Interest Rates

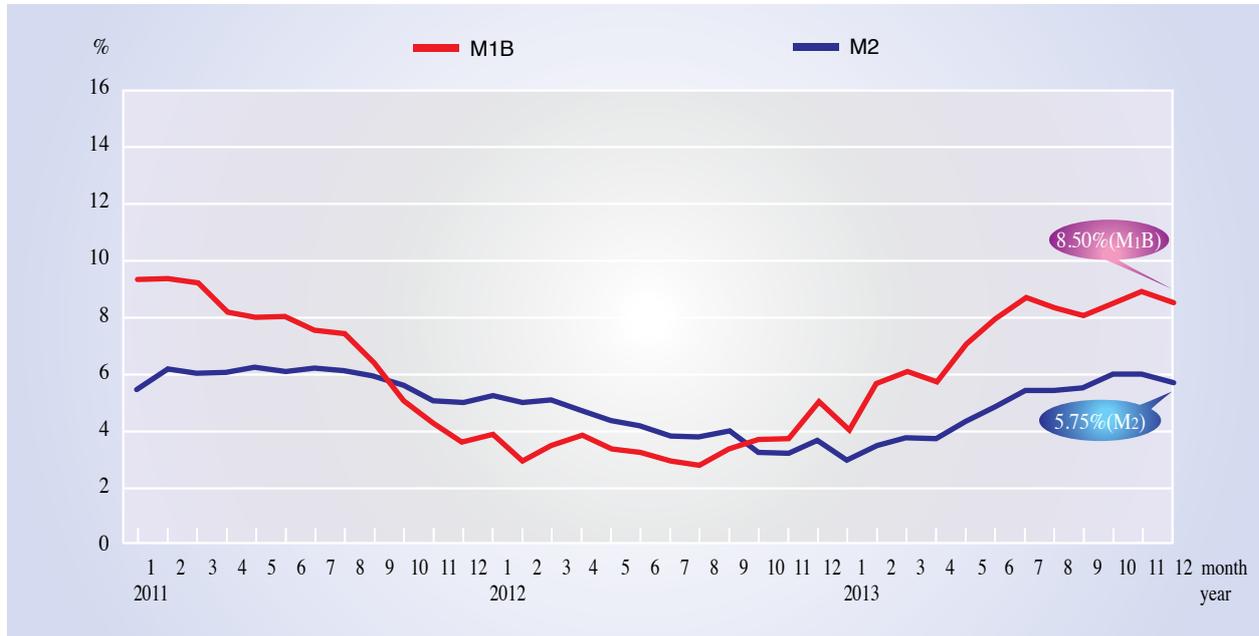


Source: the CBC website

c. M1B and M2 growth rates both accelerate

The annual growth rate for average daily M1B and M2 money supply trended generally upward in 2013, due mainly to accelerated growth in bank loans and investments and a net capital inflow generated by foreign firms. The M1B money supply growth rate rose from 3.97% at the start of the year to 8.63% in July. Thereafter, the growth rate dropped off slightly due to conversions of NT dollar demand deposits to foreign-currency deposits, and because foreign firms started generating a net capital outflow. However, the annual growth rate still stayed above 8%, and stood at 8.5% in December. For the year as a whole, the average annual growth rate for M1B money supply came to 7.27%. The M2 annual growth rate rose slowly from 2.99% in January to 5.75% in December, and for the year as a whole the average annual growth rate for M2 money supply came to 4.78%, which was within the Central Bank's target range (2.5% to 6.5%) and quite near the 4.5% mid-point.

Annual Growth Rates of Daily Monetary Aggregates



Source: the CBC website

d. Banks see average interest spread of 1.43% for 2013

The weighted average interest rate on deposits for ordinary domestic banks in 2013 came to 0.80%, while their weighted average interest rate on loans was 2.23%, making for an interest spread of 1.43 percentage points.

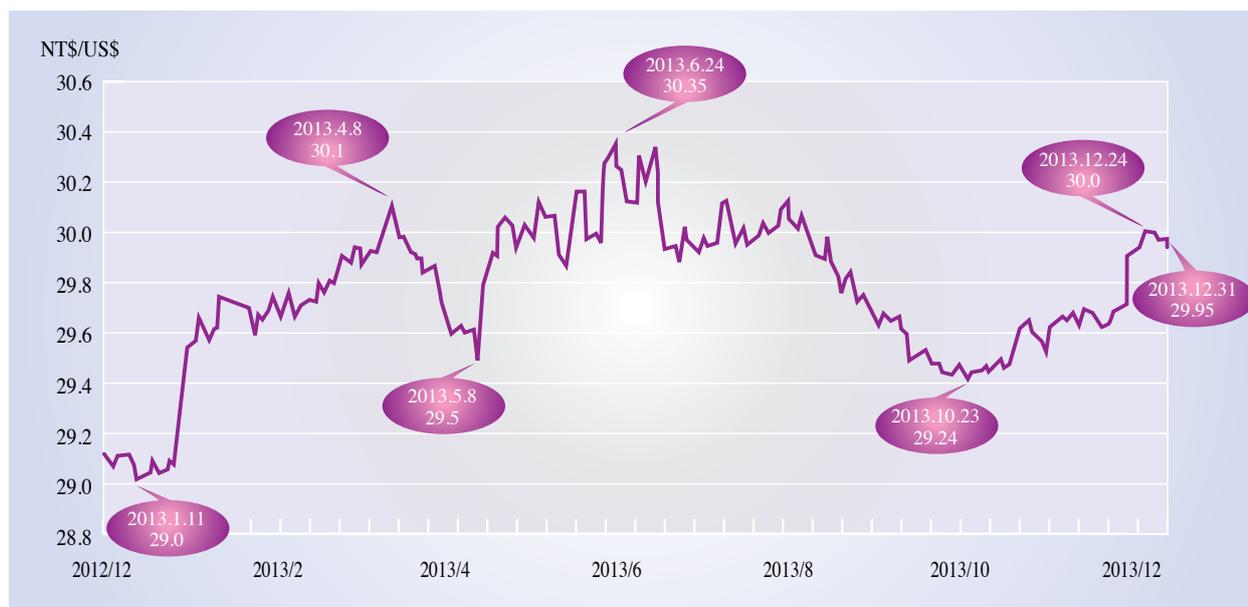
Taiwan's economy grew moderately in 2013, but uncertainty about global economic recovery remained quite high, so our Central Bank maintained a relatively easy money supply policy, and deposits rose steadily. The weighted average interest rate on deposits for ordinary domestic banks declined from 0.82% in Q4 2012 to 0.81% in Q1 2013, and then in Q2 to 0.80%, where it remained through the end of the year. The weighted average interest rate on loans, in the meantime, dropped from 2.25% in Q4 2012 to 2.23% in Q1 2013 and 2.22% in Q2 before rising to 2.23% in Q3 and falling back to 2.22% in Q4. For the whole year, the average interest spread of banks therefore held steady at 1.42 to 1.43 percentage points.

e. NT Dollar depreciates against the US Dollar

Early in the year, due to the expansion of quantitative easing policies in the US and Japan, the euro slowly appreciated against the US Dollar, as did the NT Dollar for a brief time. Thereafter, however, the US Dollar strengthened due to a lowering of the economic growth outlook for the European Union (EU), as well as expectations of a possible QE exit in the US, and the NT Dollar depreciated in two stages against the US Dollar, hitting a 2013 low of 30.35 on 24 June. But after then-Chairman Ben Bernanke of the US Fed let it be

known that the Fed was in no rush to exit from QE, the rapid appreciation of the US Dollar came to a brief halt and the NT Dollar rebounded sharply against the US Dollar, rising to a peak of 29.4 : 1 on 23 October before falling back to 29.95 : 1, or 2.70% down from the exchange rate of 29.14 : 1 at the end of 2012.

NT Dollar against the US Dollar Exchange Rates



Source: the CBC website

f. Stock markets undergo turbulence; trading volumes decline from previous year

Thanks to passage of a budget by the US House and Senate that averted triggering of the fiscal cliff, and thanks also to positive developments in cross-strait financial industry dealings, the Taiwan Stock Exchange Weighted Index (TAIEX) rose from 7,699 points at year-end 2012 to 8,038 on 11 March 2013. Then the TAIEX retrenched, falling back to 7,728 on 9 April before rebounding to a half-year high of 8,398 on 22 May on the strength of expansion by the Bank of Japan of its easy money policy and rising international stock markets. Soon thereafter, however, the TAIEX slumped to 7,663, one of its lowest points of the year, on 25 June after Fed Chairman Bernanke hinted at plans for QE tapering, which sent international stock markets tumbling. Then a statement from Bernanke that a QE exit was not in the immediate offing sparked a rally in US stocks. The TAIEX responded by taking a choppy path upward. In addition, the Financial Supervisory Commission (FSC) rolled out a set of stock market stimulus measures, including decisions to: (a) allow long day trades (i.e. purchase precedes sale) of shares paid for in cash; (b) allow short selling at below the previous trading day's closing price with any securities eligible for margin purchases and short sale; and (c) allow securities dealers to give quotes for the purchase (or sale) of securities at the limit-up (or limit-down) price. By 31 October, the TAIEX was up to 8,450.

By November, the market was overbought and adjusted back downward. Thereafter, markets in Europe and North America rose, while developed economies experience clear economic recovery. These factors propelled the TAIEX to 8,611 at year-end. The index thus ended the year up 11.85%, while market capitalization rose 14.8% to NT\$24.52 trillion. But daily average turnover by trading value was only NT\$77.00 billion. This made for a year-on-year drop of 4.89%, which came on the heels of a 23.67% decline in the previous year.

TAIEX and Trading Volume



Source: Taiwan Stock Exchange

3. Economic Outlook for 2014

Looking ahead to 2014, there is considerable uncertainty about the outlook for emerging markets, but due to the strong momentum of developed economies, international organizations expect global economic performance this year to top last year's. With economic growth in the UK and the US expected to accelerate, the IMF in its World Economic Outlook report of 8 April calls for global growth of 3.6% in 2014, which was a clear improvement over the 3.0% growth it had forecast for 2013. In addition, Global Insight in April 2014 forecast global economic growth of 3.0% in 2014, which was 0.5 percentage points better than the 2.5% growth it had forecast for 2013, with 2.0% growth for developed economies and 4.7% growth in emerging market and developing economies.

Outlook for individual countries: In the US, moderate economic expansion continues, the employment situation is improving, and the Fed in January 2014 began QE tapering, a signal that the US economy can remain stable without the benefit of quantitative easing stimulus. In addition,

the US Congress has reached a two-year budget deal, so the US is expected to achieve a more stable economic recovery this year than in 2013. The IMF has forecast US growth of 2.8% in 2014, up from 1.9% in 2013.

Eurozone: After a five-year government debt crisis, most eurozone countries are gradually emerging from recession and returning to growth, but the pace of recovery varies from one country to the next. The German economy will once again be strong this year, while recovery in other eurozone countries will remain slow. Overall, the eurozone in 2014 will still be faced with high unemployment and slack economic growth. The IMF has forecast 1.2% growth in the eurozone for 2014.

In Japan, Abenomics has at least had a short-term effect, although the long-term impact remains to be seen, but on 1 April Japan raised its sales tax from 5% to 8%, which is expected to affect consumer confidence. Even though the Abe government simultaneously adopted JPY5.5 trillion worth of stimulus measures that can be expected to partially offset the negative impact of the higher sales tax, the IMF forecast still calls for 1.4% economic growth, down slightly from 1.7% the year before.

Mainland China has been forcefully implementing pursuing a policy of economic restructuring that calls for elimination of excess productive capacity. This to some extent has affected private investment sentiment, while private consumption has been affected by "anti-luxury" and "anti-corruption" campaigns, which have put a damper on growth in public spending. On top of that, local government bonds and shadow banking entities continue to generate a high level of financial risk. These factors should slow the rate of economic growth, with the IMF calling for 7.5% growth in 2014.

Forecast on Global Economic Growth Rates

Unit: %

Area \ Institute	IMF		The World Bank		Global Insight Inc.	
	2013	2014	2013	2014	2013	2014
Global	3.0(2.9)	3.6(3.7)	2.4(2.2)	3.2(3.0)	2.5(2.5)	3.0(3.1)
US	1.9(1.6)	2.8(2.8)	1.8(2.0)	2.8(2.8)	1.9(1.9)	2.4(2.5)
Japan	1.7(2.0)	1.4(1.7)	1.7(1.4)	1.4(1.2)	1.7(1.7)	1.4(1.4)
Euro Area	-0.4(-0.4)	1.2(1.0)	-0.4(-0.6)	1.1(0.9)	-0.4(-0.4)	1.1(1.1)
Mainland China	7.7(7.6)	7.5(7.5)	7.6(7.7)	7.4(7.5)	7.7(7.7)	7.5(7.5)

Note: Figures in () refer to the previous forecast

Sources: 8,Arp., 2013, IMF, 14,Jan., 2014, The World Bank, 15,Arp., 2013, Global Insight Inc.

In Taiwan, the factor of external demand is poised to both contribute and detract from economic growth in 2014. On the one hand, a slow global economic recovery will mean more demand in our export markets. On the other hand, though, supply chains in mainland China are becoming localized, which will present related industries in Taiwan with increased competitive pressure. Our Directorate-General of Budget, Accounting and Statistics (DGBAS) expects the annual growth rate for Taiwan's goods exports to rise to 3.3% in 2014. Imports, spurred by strong domestic demand, are expected to grow 3.95%. Combined exports of goods and services, inflation-adjusted, are expected to post real growth of 4.34%, while imports should increase by 4.96%.

Domestic demand: As the economic outlook has improved, our stock markets have rebounded and some companies have hired aggressively. This continued improvement in the labor market has bolstered consumer confidence and driven increased private consumption. Real growth in private consumption this year is expected to hit 2.44%. As for investment, strong demand for high-end chips for use in mobile devices is expected to prompt key domestic semiconductor makers to continue investing in advanced process technologies. On top of that, the accelerated launch of 4G networks by telecoms operators and expanded aircraft purchases by airlines operators are both contributing to investment momentum. The DGBAS expects real growth in private investment this year of 4.39%.

With domestic and external demand expected to contribute 2.31 and 0.51 percentage points to economic growth, Taiwan's real GDP growth in 2014 is forecast by the DGBAS to reach 2.82%, up from 2.11% in 2013. The forecasts of other institutions at home and abroad for Taiwan's 2014 economic growth range from 2.7% (Asian Development Bank) to 3.4% (Global Insight).

Forecast on Taiwan Economic Growth Rates

Unit: %

Institution		2014
Public and domestic institutions	DGBAS (2014.2)	2.82 (2.59)
	TIER (2014.1)	3.17 (3.11)
	CIER (2014.4)	3.05 (3.03)
	Academia Sinica (2013.12)	2.89
	Yuanta-Polaris Research Institute (2014.3)	2.88 (2.72)
	NTU-Cathy (2014.3)	2.98 (2.93)
	Taiwan Research Institute (2013.12)	2.81
Foreign institutions	IMF (2014.4)	3.1 (3.8)
	Global Insight (2014.4)	3.4 (3.4)
	Asian Development Bank (2014.4)	2.7 (3.3)

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

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

B. Major Financial Measures Adopted by the Government

1. Financial Services Business

- (1) In response to changing economic and financial trends, the FSC has adopted a "Program for Development of the Financial Services Industry," which takes into account the special characteristics of Taiwan's financial markets and the problems they face. The Program was approved by the Executive Yuan on 5 March 2014. The Program puts forward eight major strategies for developing the financial services industry, as follows: (a) enable firms to engage in an expanded range of business activities, and develop a Taiwan-Centric Wealth Management Platform for Domestic Consumers; (b) tighten financial supervision, and ensure financial stability; (c) gradually open up cross-strait ties in the financial industry, and develop financial businesses with cross-strait characteristics; (d) encourage financial institutions to establish an international presence, and bring our financial markets more closely in line with international practices; (e) fully satisfy the need for a diverse range of financial services; (f) proactively push to establish a capital raising platform for industries with special characteristics; (g) provide for stronger protection of the interests of financial consumers; and (h) strengthen the solvency of insurers, and improve Taiwan's social safety net.
- (2) In order to make it convenient for small merchants and individual sellers to accept payment by credit card for online transactions, BAROC in March 2013 filed with the FSC a set of self-disciplinary rules that allow for an "online transaction collection and payment services platform operator" (that has entered into an agreement with a credit card company that defines the former as a participating merchant) to provide collection and payment services to participating merchants that accept credit card payments for online transactions.
- (3) Promotion of the free economic pilot zones (FEPZs) is an important policy objective for the government. On 16 August 2013, the Executive Yuan approved the "Free Economic Pilot Zone Phase I Development Project," which includes a "virtual presence" concept, i.e. financial services firms will be allowed to benefit from the deregulatory measures being taking within the zones regardless whether they actually have a physical presence there. In line with this Project, the FSC drafted a "Plan to Include Financial Institutions in the Free Economic Pilot Zone Project," which was approved by the Executive Yuan on 19 November 2013. The principles of the plan are as follows: (a) adoption of a "virtual presence" concept; (b) deregulation; (c) extending the FEPZs to cover all of Taiwan; and (d) keeping talent and assets inside the country. Under this Plan, the FSC assigns different lines of business to different categories and accords them differential regulatory treatment depending on which category

they fall under. Also, depending on the type of customer to which products and services are sold, the FSC is making plans to ease restrictions on the provisions of different products and services. By deregulating, the FSC intends to spur development of financial services.

- (4) In order to facilitate the launch of a stored-value payment account mechanism, the FSC in August 2013 finished necessary amendments of laws and regulations and completed review of a set of "Guidelines for the Handling by Banks of Customers' Online Opening of Stored-value Payment Accounts" drafted by BAROC. In addition, as of September 2013, third-party payment service operators (online transaction collection and payment services platform operators) and banks are allowed to collaborate in the provision of services.
- (5) In order to help domestic banks expand their presence in Asia and develop markets throughout the region, the FSC called a meeting in September 2013 to engage in a wide-ranging exchange of views with the Central Bank, BAROC, and 18 domestic banks with overseas branches and subsidiaries. After the meeting, the FSC announced that it would put top priority on "cultivating the domestic market while establishing an expanded presence in Asia," and that the strategy for achieving this would be to "move forward one step at a time on many different fronts." With these aims in mind, the FSC intends to devise the following four key approaches: engage in supervisory cooperation to eliminate difficulties; deregulate to simplify procedures; replenish capital and build up human resources; and collect information and build up strong databases. The FSC intends to encourage and facilitate the efforts of Taiwanese banks to expand their presence in Asian markets and seize upon more business opportunities. We hope to see one or two Taiwanese banks emerge over the coming three to five years as leading regional financial institutions in Asia-Pacific.
- (6) The FSC has launched a "Program for Financial Industry Support of Creative Enterprises," which includes incentive measures to encourage domestic banks to double the amount of outstanding loans to creative enterprises within three years, always with the understanding that such lending must not affect risk management. The FSC will strongly promote this program in hopes that bank loans will support vigorous growth of creative enterprises. In addition, in response to a suggestion put forward by BAROC, the FSC has adopted a four-pronged action plan for support of innovative enterprises with strong development potential, which entails the following four approaches: (a) education and training; (b) special financing projects; (c) an advisory platform; and (d) coordinated measures. In connection therewith, the FSC invited the Ministry of Culture, the Ministry of Finance, the Council for Economic Planning and Development, and the National Science Council to a forum to discuss the Program's implementation. The results of the forum were summarized and reported to the Executive Yuan, which incorporated them into the "Program for Financial Support of Innovative Industries" that it adopted on 5 December 2013.

2. Cross-Strait Financial Ties

- (1) In order to accommodate the operational needs of banks, the FSC invited the Central Bank and several commercial banks to discuss proposed amendments to the "Methods for Calculating the Aggregate Amount of a Taiwan Bank's Credit, Investments, and Interbank Funding in the Mainland Area." This led to the adoption of amendments that took effect on 18 January 2013. According to the FSC, the revised calculation methods will better accommodate the needs of the banking industry, and will also enable the FSC to better understand the exposures of Taiwanese banks to risks in the Chinese mainland.
- (2) The Central Bank granted approval on 4 January 2013 for the Shanghai branch of the Bank of Taiwan to buy and sell NT Dollar banknotes in the mainland. The mainland authorities then granted the necessary business permit on 27 March, and the bank's Shanghai branch launched the service on 2 April.
- (3) On 25 January 2013, the People's Bank of China and the Taipei branch of the Bank of China signed an RMB clearing agreement, then on 28 January 2013, our Central Bank granted approval for the Taipei branch of the Bank of China to serve as the RMB clearing bank in Taiwan. The branch started providing RMB clearing services on 6 February.
- (4) On 25 January 2013, the FSC amended Point 7 of the "Directions for Banks Conducting Financial Derivatives Business" to allow a designated forex banking unit (DBU) wishing to trade derivatives linked to assets from Taiwan or the mainland to apply directly with the Central Bank for permission without getting separate FSC approval. Also, in order to better protect the interests of financial consumers, the FSC asked BAROC to: (1) study the possibility of allowing individual retail investors to trade derivatives linked to RMB assets that are less complex and present less risk; and (2) devise measures to strengthen disclosure of risks to customers. BAROC has amended the "Self-regulatory Rules for Banks Dealing in Financial Derivative Products" and issued a new "Model Risk Disclosure Statement for Use by Banks in the Trading of Derivatives Linked to RMB Assets," both of which have been filed with the FSC for recordation.
- (5) On 27 February 2013, the FSC granted approval for the Financial Information Service Company (FISC) to launch its Foreign Currency Clearing Platform, and the platform began operating on 1 March 2013, providing domestic interbank clearing and settlement of US dollars. Working under the joint supervision of the FSC and the Taiwan Central Bank, FISC and the Taipei branch of the Bank of China devised a set of domestic and cross-border (not limited to cross-strait) RMB clearing and settlement services to be handled via the Foreign Currency Clearing Platform. The new RMB services were launched on 30 September 2013, so it is now possible to make RMB remittances in Taiwan without having to route the funds via a foreign country, and the full amount of such remittances is received on the same day.

- (6) The third meeting of the Cross-Strait Cooperation Platform for Banking Supervision was held on 1 April 2013 in Taipei. During the meeting the two sides reached consensus on numerous issues pertaining to market access in the mainland for Taiwanese banks, and also agreed to incorporate measures for further market opening in the banking sector into the Cross-Strait Trade in Services Agreement, which is part of the Cross-Straits Economic Cooperation Framework Agreement (ECFA). In addition, the two sides also signed an MOU on supervision and regulation of offshore wealth management business conducted by mainland commercial banks. The FSC submitted the MOU to the Executive Yuan, which approved it on 17 April. The main points of the MOU include the following: (a) establishment of a supervisory cooperation mechanism; (b) the products and services in which a mainland commercial bank that conducts offshore wealth management business will be allowed to invest; (c) information sharing; and (d) confidentiality. Once the MOU takes effect, a mainland bank designated as a Qualified Domestic Institutional Investor (QDII) that provides offshore wealth management services will be able to invest in securities listed in Taiwan.
- (7) Under the terms of the "Cross-Strait Trade in Services Agreement" that was signed on 21 June 2013, Taiwan and the mainland have both made commitments to allow access to their respective financial services markets, which will facilitate increased dealings between financial institutions on the two sides. By signing this agreement, the FSC has, in addition to commitments made under the early harvest list, won concessions that will afford Taiwan's financial services firms access to the mainland market on terms more favorable than those available to other WTO members. This will help Taiwan's financial institutions establish an expanded presence in the mainland, and will also provide Taiwan-invested firms in the mainland with access to more convenient financial services. The easing of caps on investments by mainland entities in Taiwan financial institutions can be expected to facilitate the efforts of banks on both sides to establish strategic alliances. This would help Taiwanese banks develop mainland markets, and would also strengthen our banks' capital.
- (8) In response to requests from banks, BAROC suggested that the FSC further ease restrictions on the range of RMB products that designated forex banking units (DBUs) are allowed to handle. The FSC forwarded the suggestion to the Central Bank, which on 14 September 2013 issued a circular to all DBUs informing them that on 14 September 2013 the Central Bank's Foreign Exchange Department sent out a letter stating that—in addition to straightforward trades in derivatives linked to exchange rates, interest rates, or equities, which are already permitted—banks will now additionally be allowed to engage in basket transactions involving such derivatives, and such transactions can now be denominated or settled in RMB, foreign currencies, or the NT dollar. In addition, such derivatives may also link to Formosa Bonds and ETFs that track the prices of shares issued in mainland China. Also, in order to develop wealth management and asset management business in Taiwan, the FSC and the Central Bank jointly decided that from 1 January 2014 they would further ease restrictions on the sorts of customer with which offshore banking units (OBUs) are allowed to trade foreign-currency

derivatives, as well as restrictions on the range of such derivatives that OBUs are allowed to trade. An OBU is now allowed to trade any new type of derivative not involving the NT Dollar so long as it does not appear on a negative list.

3. Regulation of Financial Institutions

- (1) In response to implementation by the United States of its "Foreign Account Tax Compliance Act" (FATCA), the FSC and the Ministry of Finance on 2 April 2013 jointly announced that the FSC, the Ministry of Finance, the Ministry of Justice, and the Ministry of Economic Affairs have set up a "FATCA task force" at the instruction of the Executive Yuan. The task force has already met on several occasions with officials from the US Treasury Department, and the two sides have agreed on the need for intergovernmental cooperation to facilitate implementation of the FATCA and reduce the compliance costs to financial institutions, while at the same time ensuring that all actions taken accord with Taiwan's domestic law and that the interests of depositors and investors are safeguarded. The two sides will continue working actively to complete talks on a cooperation agreement.
- (2) In order to safeguard consumer interests, maintain the stability of Taiwan's financial and payment systems, and uphold the position of the NT Dollar as Taiwan's national currency, the Central Bank and the FSC on 30 December 2013 called upon the general public to be wary of the risks associated with accepting, trading, or holding Bitcoin currency. If a bank handles Bitcoin-related business, the Central Bank and the FSC will take appropriate measures at the appropriate time, acting upon the authorities granted to them under the "The Central Bank of the Republic of China (Taiwan) Act" (Articles 2 and 13) and the "Organic Act Governing the Establishment of the Financial Supervisory Commission" (Articles 1 and 2).

C. Banking Operations in 2013

1. Changes in the Operating Units of Financial Institutions

Financial institutions in Taiwan include monetary institutions, investment trust companies (prior to December 2008), and life insurance companies. The term "monetary institutions" includes the Central Bank and other monetary institutions. The term "other monetary institutions" includes domestic banks, Taiwan branches of foreign and mainland Chinese banks, credit cooperatives, credit departments of farmers' and fishermen's associations, the Department of Savings and Remittances at Chunghwa Post Co., and money market mutual funds. There were 428 financial institutions in Taiwan at the end of December 2013, up by one from the end of 2012. The total number of branch banking units in Taiwan at the end of 2013 stood at 6,050, up by 16 from 6,034 at the end of 2012.

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

Domestic banks continued to strengthen their risk management capabilities in 2013, and NPL ratios fell to historic lows. According to statistics from the FSC, the aggregate NPLs of domestic banks at the end of December 2013 stood at NT\$89.9 billion, down by NT\$400 million from NT\$90.3 billion at the end of December 2012. The average NPL ratio of domestic banks has fallen steadily from a peak of 11.74% in the first quarter of 2002, and by the end of December 2013 stood at 0.38%, down by 0.02 percentage points from 0.40% at the end of December 2012.

In addition, the average NPL coverage ratio of Taiwan's domestic banks stood at 319.18% at the end of December 2013, up by 45.09 percentage points from 274.09% at the end of December 2012, a clear indication that the risk management capabilities of our domestic banks are improving.

3. Overview of Bank Profitability

Asset quality at Taiwan's domestic banks is continually improving, and profitability remains stable. The pre-tax earnings of domestic banks totaled NT\$257.6 billion in 2013, up 7.24% from NT\$240.2 billion in 2012. Over the same period their return on assets (ROA) came to 0.68% (same as in 2012), while return on equity (ROE) fell slightly from 10.41% to 10.26%. And in addition to steady profitability, our domestic banks are also benefitting from a gradually widening interest spread, which has gone from an average of 1.22 percentage points in 2009 to an average of 1.43 percentage points in 2013 (up from 1.42 percentage points in 2012). This trend is a boost to banks' profitability.

4. Major Lines of Banking Business

(1) Deposit Business

Deposits at all monetary institutions at the end of 2013 totaled NT\$35.06 trillion, up NT\$1,726.0 billion (5.29%) over the previous year. Time deposits accounted for the largest portion of this total (37.23%), followed by demand deposits (34.63%). Demand deposits posted the strongest growth, finishing up by NT\$925.9 billion (8.26%) from the end of 2012 to NT\$12.14 trillion. Foreign-currency deposits grew by NT\$599.8 billion (20.86%) to NT\$3.48 trillion, mainly because the FSC began allowing banks to accept RMB deposits. The cross-strait currency clearing agreement was signed, and the FSC began on 6 February 2013 allowing designated forex banking units (DBUs) to conduct RMB business. As of end-December 2013, RMB deposits at DBUs and offshore banking units (OBUs) together were up to RMB 214.52 billion and accumulating rapidly. In addition, time and savings deposits rose from the end of 2012 by NT\$124.1 billion (0.96%) to NT\$13.05 trillion, and postal savings deposits increased by NT\$215.2 billion (4.37%) to NT\$5.14 trillion.

Changes in Deposits by Category of all monetary institutions

Unit: NT\$ 100 million

Item	Year	End of 2013	End of 2012	Amount change	Percentage change %
Demand deposits		121,411	112,152	+9,259	+8.26
Time and time savings deposits		130,542	129,301	+1,241	+0.96
Foreign currency deposits		34,751	28,753	+5,998	+20.86
Postal savings deposits		51,393	49,241	+2,152	+4.37
NT Dollar deposits by foreigners		1,900	1,992	-92	-4.62
Repurchase agreements and Money Market Mutual Funds		1,896	2,273	-377	-16.59
Government deposits		8,732	9,292	-560	-6.03
Total		350,624	333,004	+17,620	+5.29

Source: "Financial Statistics Monthly, Republic of China," Department of Economic Research, CBC, February 2014.

(2) Loans and Investments

The balance of outstanding loans and investments at all monetary institutions stood at NT\$26.72 trillion at the end of 2013, an increase of NT\$1.17 trillion (4.59%) over the end of 2012.

Loans and investments by all monetary institutions showed growth in all recipient categories at the end of 2013 in comparison with 2012. Claims on the private sector increased by the greatest amount, rising NT\$1.525 trillion (5.16%), followed by claims on the public sector, which rose NT\$75.0 billion (1.83%). Claims on state-run enterprises rose by NT\$44.4 billion (4.17%).

Loans and Investments by monetary Institutions

Unit: NT\$ 100 million

Item	Year	End of 2013	End of 2012	Amount change	Percentage change %
Claims on the government		41,800	41,050	+750	+1.83
Claims on state-owned enterprises		11,098	10,654	+444	+4.17
Claims on the private sector		214,309	203,784	+10,525	+5.16
Total		267,206	255,488	+11,718	+4.59

Source: "Financial Statistics Monthly, Republic of China," Department of Economic Research, CBC, February 2014.

(3) Foreign Exchange Business

The average daily foreign exchange turnover (total of bank-customer and interbank markets) in 2013 was US\$28.929 billion, up by 23.59% from 2012. Average daily turnover in the bank-customer market was US\$7.175 billion, up 13.98%, and average daily turnover in the interbank market was US\$21.754 billion, an increase of 27.12%.

Further breaking down the figures for interbank foreign exchange transactions in 2013, forward transactions decreased by US\$229 billion (-21.52%) from 2012, while all other types of foreign exchange transactions increased in 2013. The largest increase took place in foreign exchange swaps, which increased by US\$1.71 billion (20.88%), followed by options transactions, which finished up by US\$1.648 billion (81.83%).

Daily Average Volume of Foreign Exchange Transactions Between Banks by Product

Unit: US\$ million

Item	Year	2013	2012	Amount change	Percentage change (%)
Spot		7,265	5,766	+1,499	+26.00
Forward		835	1,064	-229	-21.52
Swap		9,900	8,190	+1,710	+20.88
Option		3,662	2,014	+1,648	+81.83
Cross currency swap		92	79	+13	+16.46
Total		21,754	17,113	+4,641	+27.12

Source: "Financial Statistics Monthly, Republic of China," Department of Economic Research, CBC, February 2014.

(4) Consumer Finance Business

According to statistics compiled by the FSC Banking Bureau, a total of 35.95 million cards issued by 36 institutions were in circulation at the end of December 2013, up by 1.87 million (5.49%) from the 34.08 million in circulation at the end of 2012. The total number of active cards stood at 22.56 million, an increase of 1.06 million (4.93%) since the end of 2012. The total volume of transactions paid for with these cards in 2013 amounted to NT\$1,737,147 billion, down 1.45% from 2012. The amount of revolving credit outstanding at the end of the year stood at NT\$118.471 billion, down 10.16% from the end of 2012. Cash advances outstanding totaled NT\$24.205 billion, down 12.77% from a year earlier.

FSC Banking Bureau statistics indicate there were 26,832 automatic teller machines (ATMs) in Taiwan as of the end of December 2013, up by 224 (0.84%) from 26,608 at the end of 2012. The cumulative issuance of bank cards rose by 6.14 million (3.70%) from 165.94 million at the end of 2012 to 172.08 million at the end of 2013. The number of ATM transactions during 2013 totaled 762.51 million, an increase of 11.26% over 2012, while the value of ATM transactions in 2013 amounted to NT\$9.2639 trillion, up 9.28% from NT\$8.4771 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 2013 stood at the equivalent of NT\$49.28 trillion, up approximately NT\$3.36 trillion (7.33%) from NT\$45.91 trillion a year earlier.

Over-the-counter (OTC) transactions accounted for 99.78% of these positions, while exchange-traded transactions made up only 0.22%. Of the OTC transactions, swaps accounted for the largest share (43.02%) of the nominal value of total open positions, followed by forward contracts at about 38.08%. Put and call options accounted for 9.49% and 9.19%, respectively. Trading derivatives made up 99.40% of the total, while non-trading derivatives accounted for only 0.60%.

Notional Amounts Outstanding of Financial Derivatives

Unit: NT\$100 million, %

Item	End of Dec. 2013		End of Dec. 2012		Changes	
	Amount	%	Amount	%	Amount	%
I. Notional Amounts Outstanding	492,764	100.00	459,123	100.00	33,641	7.33
A. OTC	491,693	99.78	458,377	99.84	33,316	7.27
1. Forwards	187,640	38.08	162,235	35.34	25,405	15.66
2. Swaps	211,977	43.02	247,103	53.82	-35,126	-14.22
3. Call option	45,319	9.19	24,055	5.24	21,264	88.40
4. Put options	46,757	9.49	24,984	5.44	21,773	87.15
B. Exchange-traded	1,071	0.22	746	0.16	325	43.57
1. Futures- long positions	234	0.05	17	0.00	217	1,276.47
2. Futures- short positions	556	0.11	569	0.12	-13	-2.28
3. Call options	135	0.03	94	0.02	41	43.62
4. Put options	145	0.03	66	0.02	79	119.70
II. Notional Amounts Outstanding	492,764	100.00	459,123	100.00	33,641	7.33
A. Total contracts held for trading purpose	489,823	99.40	456,091	99.34	33,732	7.40
B. Total contracts held for non-trading purpose	2,941	0.60	3,032	0.66	-91	-3.00

Source: The CBC website, February 2014.

(6) Cross-strait Remittances Business

In 2013, outward and inward remittances to and from mainland China by domestic banks came to US\$369.752 billion and US\$196.151 billion, respectively. Under the joint oversight of the FSC and the Central Bank, a new "modern cross-strait money remittance platform" was launched last year in order 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 February 2013 the platform began providing cross-strait clearing and settlement of US dollars, then in September of 2013 it began providing domestic and cross-strait remittances of RMB. In the future, the platform will be further expanded to handle clearing and settlement. It is expected that the platform will streamline bank operating procedures, facilitate the achievement of economies of scale, and reduce banks' operating costs.

Changes in cross-strait remittances

Unit: US\$1 million

Item	Year	2013	2012	Amount change	Percentage change %
Outward remittances		369,752	329,069	+40,683	+12.36
Inward remittances		196,151	194,303	+1,848	+0.95

Source: Financial Supervisory Commission

(7) Asset Securitization Business

Domestic banks carried out eight issues of securitized assets (all financial asset securitizations, no real estate), 27 fewer issues than in 2012. The eight issues raised a total of NT\$8.045 billion, down 89.58% from the 2012 figure of NT\$77.226 billion. The big drop highlighted the fact that banks cut back on the issuance of asset securitization products in order to reach the capital adequacy ratios required under the Basel III Capital Accord.

Changes in banks' issuance of asset securitization products

Unit: NT\$1 billion

Item	Year	2013	2012	Amount change	Percentage change %
Financial asset securitization		80.45	772.26	-691.81	-89.58
Real estate asset securitization		0	0	0	0
Total		80.45	772.26	-691.81	-89.58

Source: Financial Supervisory Commission

(8) Other Business

Domestic banks' fee income in 2013 came to NT\$156.430 billion, up 10.93% from NT\$141.012 billion in 2012, accounting for 10.19% of the total income of domestic banks in 2013, which was 0.51 percentage points higher than in 2012. These figures show how hard our domestic banks have been working to develop wealth management, collection and payment services, bank insurance, and other such lines of business in order to increase fee income. The efforts have already yielded success, but there is still room for further improvement.

Changes in banks' fee income

Unit: NT\$1 billion

Item	Year	2013	2012	Amount change	Percentage change %
Fee income		1,564.30	1,410.12	+154.18	+10.93
Fee income as share of total income of domestic banks (%)		10.19	9.68	-	-

Source: Financial Supervisory Commission

IV. Report on the Work of BAROC

A. Major Achievements in 2013

1. Supported Government's Work to develop creative enterprises; held roadshows and drafted related measures

- (1) In order to help cultural and creative enterprises to gain timely access to needed funding, BAROC, acting upon the instruction of the FSC, prepared a number of concrete suggestions for the FSC, which approved the following:
 - a. Education and training: Asked banks to devote more research resources to creative enterprises; prepared courses on credit check procedures in order to develop employees with this type of expertise and improve their ability to assess the creditworthiness of creative enterprises; held forums and seminars focusing on topics related to creative enterprises in order to help banks more quickly develop a better understanding of creative enterprises.
 - b. Special financing projects: The outstanding balance of bank loans to creative enterprises should be doubled within three years; the maximum percentage of loans to creative enterprises that the Small and Medium Enterprise Credit Guarantee Fund of Taiwan is allowed to guarantee was raised to 90%; the GreTai Securities Market set up an incubation board for startup firms to provide another way to raise capital.
 - c. Advisory platform: Industry associations representing banking, securities, insurance, and venture capital firms established a joint services platform. The Taiwan Venture Capital Association serves as the contact window, and on its website has set up a special section to service the needs of creative enterprises and integrate government and industry association resources.
 - d. Coordinated measures: The FSC provided incentive measures for banks that performed especially well in providing financing to creative enterprises. The Taiwan Financial Asset Service Corporation handles requests to assess the value of creative enterprises.
- (2) In response to the government's policy of supporting creative enterprises, BAROC, the Taiwan Securities Association, the ROC Life Insurance Association, and the Taiwan Venture Capital Association (acting under the guidance of the FSC and the Ministry of Culture) on 7 January 2014 jointly held a forum for senior management focusing on what the financial industry can do to support development of Taiwan's creative enterprises. Vice Premier Mao Chi-Kuo delivered opening remarks at the event, Minister of Culture Lung Yingtai delivered the keynote address, and Director General Hsien-Nung Kuei of the FSC Banking Bureau briefed attendees on policy matters. Representatives of banks, venture capital firms, and cultural and creative firms also delivered reports at the event. Finally, FSC Chairman Tseng Ming-Chung moderated a general discussion session at which BAROC Chairperson Jih-Chu Lee exchanged views with the chairpersons of the other three big industry associations as well as representatives of creative enterprises and the Small and Medium Enterprise Credit Guarantee Fund of Taiwan. The event was attended by 345 delegates.

2. Promoted Development of e-Commerce Payment Services, Amended or Adopted Self-regulatory Rules, Held Seminars

(1) With respect to banks that use "deposit business" to attract funds that they then use to provide online transaction collection and payment services, BAROC (acting upon instructions from the FSC) formulated procedures and related measures for review and approval of online account openings and closings. We also amended or adopted related self-regulatory rules, which we filed with the competent authority for recordation before instructing member banks to abide by them. Actions taken include the following:

- a. Adopted the "Guidelines for the Handling by Banks of Customers' Online Opening of Stored-value Payment Accounts."
- b. Suggested that the competent authority amend the "Regulations Governing Bank Handling of Accounts with Suspicious or Unusual Transactions."
- c. Amended five sets of BAROC rules: "Financial Institution Account Opening Due Diligence Procedures and Risk Management Checklist for Irregular Accounts"; "Checklist for Detection of Dummy Accounts"; "Guidelines for Domestic Financial Institutions Regarding Establishment of Image Files During the Processing of a Depositor's Opening of a New Account"; "Points for Attention by Banks on Money Laundering Prevention"; and "Self-regulatory Rules Governing the Account Closing Procedures of Banks."
- d. In order to spur development of e-commerce and facilitate the smooth operation of online collection and payment services, BAROC made the following three suggestions to the competent authority:
 - (a). BAROC suggested that foreign natural persons be included among the types of customers referred to in the "Guidelines for the Handling by Banks of Customers' Online Opening of Stored-value Payment Accounts."
 - (b). Regarding the requirement that banks establish a database of account opening applications that have been turned down, BAROC suggested that the competent authority help banks arrange for the Joint Credit Information Center to set up such a database and make it available for banks to query.
 - (c). To make it easier for customers to use the payment tools of other banks to open stored-value payment accounts, BAROC suggested that the competent authority help banks arrange for the Financial Information Service Corporation to study the feasibility of developing an interbank query system.

3. Oversaw Establishment of Database on Overseas Markets, Offered Training Programs Focusing on Skills Needed for International Financial Business

(1) Asian economic growth (plus the demographic dividend, the rise of the middle class, and the progress of regional integration in Asia) makes for tremendous future development potential in Asian markets. BAROC, in cooperation with the competent authority, is working to collect the information that banks need in order to study where they might want to establish overseas business locations, and will incorporate this information into a database.

- (2) In order to strengthen the training of human resources, BAROC each year sets aside a certain amount within its budget to fund training programs designed to equip professionals with skills needed for the conduct of international banking. The target is to train 1,500 persons per year in order to increase the number of trained people available to support the overseas expansion of our banks, help them integrate their overseas operations, expand their business scope, and make the more internationally competitive.

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

- (1) BAROC (acting at the instruction of the FSC) worked with banks to set up wheelchair-friendly ATMs at hospitals, schools, major train stations, and High Speed Rail stations in all five of Taiwan's special municipalities.
- (2) BAROC invited representatives from banks and organizations for the disabled to a meeting where they discussed and reached a consensus on the need to add the following two functions to voice-enabled ATMS for the visually impaired: (a) "account transfer" functionality (for both pre-registered and unregistered accounts); and (b) cash withdrawals of user-selected amounts. A recommendation was passed on to the FSC.
- (3) In order to provide visually impaired persons with user-friendly financial services, BAROC (acting at the instruction of the FSC) informed member institutions that they are required to abide by the provisions of the National Communications Commission's "Regulations Governing Testing and Certification of the Barrier-free Status of the Websites of Government Agencies and Schools at All Levels." These Regulations require banks to apply with the NCC by end-December 2014 to have their websites tested. Banks must receive a score of A+, and thereafter must maintain their A+ qualifications.
- (4) In order to ensure that persons with disabilities have access to user-friendly financial services, the FSC Banking Bureau instructed BAROC to conduct a study on the feasibility of providing sign language interpreters at banks and developing sign language-operated ATMs, or of working out some alternative thereto. The Banking Bureau also instructed BAROC to survey the state of barrier-free facilities at its member institutions. The study was completed and submitted to the FSC.
- (5) The FSC Banking Bureau forwarded to BAROC a request from a consumer who wanted his bank to provide barrier-free online ATM service. After receiving the request, we began working with our member institutions to make improvements as quickly as possible so that visually impaired persons can use text-to-speech software to make online ATM transfers to pre-registered accounts.
- (6) To make it easier for the visually impaired and wheelchair users to operate ATMs, BAROC (acting upon instructions from the FSC) added a special section to its website that Internet users can visit to check the locations of barrier-free ATMs. BAROC periodically updates its nationwide lists of ATMs for the visually impaired and ATMs for wheelchair users.

5. Drafted Financial Institution Information Security Measures

- (1) In order to ensure the security of financial services conducted via mobile device, BAROC amended the "Directions Concerning the Security Control Operations of Financial Institutions Conducting Electronic Banking Business" and then instructed member institutions to conduct their business in accordance with the Directions.
- (2) With respect to the upgrade on the customer side from 1024-bit to 2048-bit XML public key certificates and a SHA256 hash function in order to ensure the security of financial certificates, BAROC assisted with an adjustment of the "Financial XML Message Installation Guide Version 1.5" and the "Financial XML Interbank Message Installation Guide Version 1.3," and also instructed all member institutions to upgrade to 2048-bit public key certificates within the prescribed timeframe.
- (3) In response to media reports about a Korean bank suffering a hacker attack that crashed its computer system, the FSC instructed BAROC to determine whether the same type of attack could happen in Taiwan and develop a defense against it. In addition, BAROC also took the following steps: (a) suggested amendments to improve relevant provisions in the "Security Standards for Financial Institution Information Systems" and formulated a draft version of a set "Regulations Governing Computer System Information Security Tests by Financial Institutions"; (b) collected and reviewed related case histories; and (c) added information security provisions to self-regulatory rules governing social media, cloud technology, and personal devices in the workplace. Thereafter, BAROC held an information security seminar to communicate with financial institutions and familiarize them with related rules. The aforementioned self-regulatory rules have been filed with the FSC for recordation.
- (4) In response to media reports about a Taiwanese telecoms provider whose customers had their mobile device payment function hijacked by hackers to buy online game points, the FSC instructed BAROC to develop measures to prevent theft of the one-time passwords used for online bank transfers to unregistered accounts. BAROC responded to the FSC by recommending that financial institutions, in addition to signing on security design, should also post public service announcements on their websites urging customers to be careful about the security of their online transactions.

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

- (1) In response to a Legislative Yuan member's proposal to amend Article 203 of the Civil Code (concerning the statutory interest rate on any interest-bearing debt for which there is no stipulated interest rate), Article 204 (concerning a borrower's right to make early repayment of a debt at a statutorily determined interest rate or higher), and Article 205 (the maximum legally allowable interest rate that can be charged on any debt), the FSC instructed BAROC to prepare a banking industry position on the proposal. BAROC prepared a position paper and presented it to the FSC. The legislator has proposed that the maximum allowable interest rate as set out in Article 205 be reduced to an annual rate of between 10.5% and 15%. If this amendment is passed, it would severely affect the financial intermediary function of banks and directly

influence Taiwan's industrial, commercial, and social development. The impact on the national economy would be enormous, so BAROC has recommended that the maximum interest rate be kept unchanged.

- (2) Regarding a proposal in the Legislative Yuan to add a new Article 57-1 and Article 88-1 Article to the "Act for Protecting the Interests of the Physically and Mentally Disabled" to bar financial institutions from discriminating against persons with physical and mental disabilities, and to provide for administrative fines would have an enormous impact on the development of Taiwan's financial services firms, BAROC prepared a position paper on the matter and asked its member banks and the FSC to make their views known. BAROC also hired a professional translation agency to translate Korea's "Anti-Discrimination Against and Remedies for Persons with Disabilities Act" and related legislation into Chinese for the reference of the FSC Banking Bureau. After much effort by all parties concerned, the proposal was voted down in the Legislative Yuan's Social Welfare and Environmental Hygiene Committee.
- (3) A proposal was made in the Legislative Yuan to amend Article 11 of the "Value-added and Non-value-added Business Tax Act" to raise the business tax rate to 5% for financial services firms for operations which are connected exclusively with their authorized business, and to change the list of purposes to which business tax proceeds may be put. Since real tax rates for financial services firms are higher than for firms in other industries in Taiwan, and since in most countries that have a value-added tax the principal financial services of financial services firms are exempt from value-added taxes in order to improve their risk-bearing capacity and strengthen their capability to cope with economic downturns, so BAROC recommended keeping the business tax rate at the current 2% for financial services firms for operations which are connected exclusively with their authorized business. We also recommended allowing business tax proceeds to be allocated to the deposit insurance reserve. However, in light of the government's fiscal difficulties, the financial services industry decided it should help shoulder the burden and give back to society by supporting the government's plan to raise the business tax rate. But because this is a feedback tax in nature, banks therefore did not receive any special tax breaks, and for the sake of enhancing banks' international competitiveness and achieving tax fairness among different sectors of the economy, BAROC studied the possibility of eliminating or lowering the feedback tax.
- (4) A proposal was made in the Legislative Yuan to amend the "Income Tax Act" by inserting a new Article 43-3 (which would set up a taxation system for controlled foreign companies) and Article 43-4 (which would require that the place where a profit-seeking enterprise is considered to be effectively managed is where it will be resident for tax purposes). In order to reduce the impact of these proposed changes on the willingness of customers to open accounts at banks' offshore banking units (OBUs), and to prevent a big outflow of capital to other financial centers, BAROC drafted exemptions for inclusion in various tax acts and the "Offshore Banking Act." These exemptions have been furnished to the Ministry of Finance and the FSC for their reference.

- (5) Any amendment to the "Financial Institutions Merger Act" will affect the sound consolidation and development of Taiwan's financial system. For this reason, BAROC retained Lee and Li Attorneys-at-Law to write a position paper that proposes amendments to this Act. The position paper has been furnished to the FSC to serve as reference in the latter's ongoing work to further ease regulatory restrictions, thereby reducing barriers to consolidation among financial institutions, and providing M&A incentives.
- (6) Because a proposed amendment to Article 28 of the "Labor Standards Act" would affect the development of financial services firms and the economy, BAROC retained Baker & McKenzie to prepare a position paper to help the competent authorities and other concerned parties better understand the important impact of the proposed amendment. BAROC used the Baker & McKenzie paper to prepare specific suggestions, and these have been furnished to the competent authorities for their reference.

7. Adopted New Self-regulatory Rules, Amended Existing Ones

- (1) To safeguard the right of undomiciled foreign juristic persons to institute court cases in Taiwan, and to accommodate the legitimate need of such foreign juristic persons to use appropriate means to provide collateral, BAROC amended its "Guidelines for the Provision by Member Banks of NT Dollar Credit to Foreign Nationals not Domiciled in Taiwan."
- (2) In response to an amendment to the "Personal Information Protection Act," BAROC amended credit application documentation requirements and the provisions in the "Credit Check Standards for Members of the ROC Bankers Association" that have to do with the Credit Check Form that accompanies the Standards as an attachment.
- (3) In response to the decision by the Central Bank to allow designated banks to deal in RMB derivatives, BAROC amended the "Self-regulatory Rules for Banks Dealing in Derivative Products" and issued the "Model Risk Disclosure Statement for Use by Banks Dealing in RMB Derivatives."
- (4) In order to strengthen the internal control and internal audit systems of financial institutions as they pertain to safety deposit boxes, BAROC formulated the draft version of a set of "Self-regulatory Rules for the Conduct by Banks of Safety Deposit Box Business." The Rules have been filed with the FSC Banking Bureau for recordation.
- (5) In order to safeguard customer interests and strengthen transaction security, BAROC drew up an "Application Form to Authorize Bank Transfers Under the National Fee (Tax) Payment System," and adopted a set of "Guidelines for Use of the National Fee (Tax) Payment System to Pay Fees (Taxes) Via Unregistered Demand Accounts." The Application Form and Guidelines were filed with the FSC, which required all BAROC member banks to make necessary adjustments by end-February 2014.
- (6) The purpose of investigations carried out under the "Act on Recusal of Public Servants Due to Conflicts of Interest," the "Political Donations Act," and the "Lobbying Act" is to maintain ethics in government, prevent improper funneling of interests, and ensure the development of democratic governance. The purpose of such investigations is therefore very much in line with

the reason for requiring public officials to file property disclosure statements. For this reason, BAROC amended its "Guidelines Concerning Fees Charged by Member Banks for Handling Government Agency Queries and Garnishment Orders" to apply the same fee exemptions that are set out in the aforementioned Acts.

- (7) Acting upon the instruction of the FSC Banking Bureau, BAROC amended the "ROC Bankers Association Guidelines for Reporting of Employees Involved in Violation of the Law or Dereliction of Duty," filed the Guidelines with the FSC for recordation, and disseminated them to all member institutions with instructions to abide by their provisions.

8. Promotion of Bank Profitability and More Convenient Services

- (1) In order provide cardholders on both sides of the Taiwan Strait with a convenient electronic payments environment, BAROC set up an ad hoc task force to draft rules designed to help member banks conduct "business involving ATM cash withdrawals and credit card purchases by the holders of Taiwanese bank cards in mainland China and overseas" (e.g. establishment of standard specifications, money transfer [clearing] procedures, business plan proposals, model contracts). In addition, acting upon the instructions of the FSC, BAROC formulated a set of guidelines for persons holding a bank card issued by a Taiwanese bank when they use the systems of China UnionPay Company to make cash withdrawals and check account balances at ATM machines in mainland China or overseas, or to make card purchases at participating merchants there. BAROC also continued drafting a public business plan and holding informational meetings to help member banks launch this line of business.
- (2) In order to build up a fully fleshed out corporate payments system, BAROC had previously carried out a campaign to encourage domestic banks and major foreign banks to accept XML payments. Currently, all 39 domestic Taiwanese banks have adopted the XML system. To encourage financial institutions to continue developing their XML business operations, BAROC offered subsidies in 2013 from 1 May to 31 October to member banks that performed especially well in developing this type of business, and the results were quite good. Interbank transaction volume grew significantly, from 7.7 million transactions (worth a total of NT\$2.687 trillion) in 2012, up by 51.3% (and 38.8%) from the previous year. On average, each interbank transaction was worth NT\$350,000.
- (3) BAROC continued promoting the National Fee (Tax) Payment System and worked to improve the functionality of its website homepage in order to make the collection services offered by Taiwan's financial institutions more competitive, and to provide the public with a more convenient system for fee and tax payments. As of end-December 2013, new participants enrolling over the year in the National Fee (Tax) Payment System included parking garages in Taichung City and the credit card operations of CTBC Bank and Ta Chong Commercial Bank. A total of 32 financial institutions and over 7,000 other companies have applied to join the National Fee (Tax) Payment System, which now handles a monthly average of 1 million transactions worth a monthly average of NT\$100 million. These figures are quite good.

- (4) BAROC continued its publicity campaign to familiarize the public with the debit card function of bank cards. Activities held included "UDN Smart Pay Day," a "Bank Card Smart Pay" press conference, activities to attract more participating merchants, advertising and publicity events, and others.

9. Helped Resolve Problems Faced by all Member Banks

- (1) To ensure sound development of an offshore RMB market in Taiwan, BAROC filed a "Proposal for a Rate Fixing Mechanism for Taiwan Offshore RMB Exchange and Interbank Lending Rates" with the Central Bank for its reference. The Central Bank then named the Taipei Foreign Exchange Market Development Foundation as the administrator of the rate fixing mechanism and asked the Foundation to formulate a set of selection criteria for the calculating agent and contributing institutions, a code of ethics for the contributing institutions, and by-laws to govern the more detailed aspects of the fixing and calculation of RMB exchange rates and interbank lending rates.
- (2) BAROC continued monitoring developments related to America's "Final Rules implementing the Volcker Rule" and distributed its findings, together with reports on the Final Rules prepared by law firms, to its member banks for their reference.
- (3) In order to help its member banks fulfill their duty of disclosure as set out in Article 8 of the "Personal Information Protection Act" and to ease public concerns, BAROC issued a "Model Disclosure Statement to be Provided by BAROC Member Banks to Customers in Performance of the Duty of Disclosure as Set Forth in Article 8 of the Personal Information Protection Act (Filled in to Provide an Illustration)." After the FSC approved the Model Disclosure Statement, BAROC distributed it to member banks for their reference.
- (4) There has been a lot of public comment about whether the "databases of interested parties" and "databases of subsidiary businesses and customers" that are maintained by banks and financial holding companies are subject to the provisions of the "Personal Information Protection Act." BAROC analyzed the impact of these discussions, provided its findings to the FSC, and asked for the FSC's interpretation of the law in regard to this issue. The FSC responded by instructing as follows: The databases in question were set up in order to implement the obligations set out in laws and regulations. So long as a bank or financial holding company is acting in accordance with the applicable provisions of the "Personal Information Protection Act," it need not make any disclosure to the party to whom certain information pertains, nor is it required to obtain that party's written consent. BAROC has relayed the content of this interpretation to its member institutions.
- (5) In light of the fact that mobile device credit card business, near field communication (NFC) applications, and other mobile payment methods constitute the wave of the future, BAROC launched a mobile payment initiative to provide related education and training, and to build consensus within the domestic payment card industry. Also, acting upon a suggestion from member banks, BAROC evaluated the possibility of establishing a trust services management

platform that meets the information security requirements of financial institutions. The Financial Information Service Corporation, the National Credit Card Center, and the Taiwan Clearing House then decided to jointly set up a trust services management platform, which is scheduled to begin operating in the fourth quarter of 2014.

10. Carried out a Special Research Project on Financial Matters of Concern to the Competent Authority and Member Banks

- (1) In order to develop a clearer understanding of the principles for classification of specific financial holding company expenses as either operating expenses or interest expenses, and the treatment of individual instances, BAROC retained PwC Taiwan to prepare a "Study on the Controversy Over the Classification of Specific Financial Holding Company Expenses as Either Operating Expenses or Interest Expenses." The Study was furnished to the FSC Banking Bureau and the Ministry of Finance Taxation Agency for their reference.
- (2) BAROC, acting upon the instruction of the FSC, retained the Accounting Research and Development Foundation in Taiwan to prepare a research report on "How to Disclose an Auditor's Audit Report on Financial Statements Under Taiwan's Floating Guarantee System."
- (3) In order to help its member banks develop a better understanding of new rules on OTC derivatives in Europe and North America, BAROC established an ad hoc working group on swap dealers and retained Ernst & Young Business Advisory Services to prepare a "Report on the Cross-border Implications of the CFTC Swap Regulations." The Report was furnished to the FSC Banking Bureau and to member banks for their reference.
- (4) To coordinate with the Executive Yuan's campaign to promote exports to Muslim markets, BAROC conducted an opinion survey within Taiwan's financial services industry to understand what the industry thinks about business opportunities in the Muslim world, and how business is done there. A report on the survey results has been furnished to the FSC Banking Bureau for its reference.

11. Other tasks undertaken at the request of the authorities

- (1) Consumer Protection
 - a. Acting at the instruction of the FSC Banking Bureau, BAROC once again retained an advertising company to run an advertising campaign to urge consumers needing a bank loan to contact banks directly rather go through loan brokers. The advertising campaign was carried out via posters, newspapers, Mass Rapid Transit system billboards, the Internet, and radio.
 - b. As drafting proceeded on amendments to the "Required Provisions in the Standard Form Contract for Unsecured Consumer Loans," the "Prohibited Provisions in the Standard Form Contract for Unsecured Consumer Loans," the "Standard Form Contract for Unsecured Consumer Loans," "Required and Prohibited Provisions in the Standard Form Contract for Credit Cards" and the "Standard Form Contract for Credit Cards," BAROC provided banking industry views to the competent authority for its reference.

- c. The Executive Yuan's Department of Consumer Protection adopted a resolution regarding a "mechanism for ascertaining the amount of bank deposits made at ATM machines," the purpose of which would be to prevent the account of a customer who makes a cash deposit at an ATM machine from being credited for less than the customer placed into the machine. Acting at the instruction of the FSC Banking Bureau, BAROC adopted a plan to place a warning on the screens of ATM machines to remind users to carefully count their cash before depositing it in the machine. BAROC filed its plan with the FSC, then instructed member banks to implement it.
 - d. Under legislation in force through last year, dormant accounts could receive transfers and be closed using simplified procedures, and banks could charge a fee to reactivate one. Acting at the instruction of the FSC Banking Bureau, BAROC developed related recommendations regarding these matters and amended the "Procedural Checklist for Account Openings and Reactivation of Dormant Accounts." BAROC filed the amended Checklist with the FSC for recordation and disseminated it to member banks with instructions to abide by the amended provisions. Later, however, the FSC entirely discontinued the practice of designating certain accounts as dormant accounts, so BAROC instructed member banks to reinstate all dormant accounts as active accounts.
 - e. Out of consideration for the plight of people experiencing debt repayment difficulties, BAROC arranged with member banks (including debt collection agencies whose services they have contracted) to declare a moratorium on all debt collection operations during the extended Chinese New Year holidays.
- (2) Business Operations
- a. The Ministry of the Interior put forward a suggestion that, when a citizen has his/her national ID card reissued or updated, financial institutions should update the customer identity information by including his/her uniform ID number. In response, the FSC instructed BAROC to provide its opinion on this suggestion. An opinion was prepared and filed with the FSC.
 - b. In order to coordinate with the government's economic stimulus efforts, BAROC continued to enforce its "Self-regulatory Rules for Corporate Debt Workouts and Workout Enforcement in Cases Transferred from the Ministry of Economic Affairs," "Temporary Supplemental Principles for Handling by Banking Institutions of Stock-secured Loans in Coordination with the Government's Economic Stimulus Program," and "Guidelines for the Handling by Members of the ROC Bankers Association of Mortgage Principal Deferment or Rescheduling for Involuntarily Unemployed Residents of Owner-occupied Homes." The deadline for submission of applications under these three measures was extended to 30 June 2014, and BAROC instructed member banks to compile monthly statistics on complaints related to the implementation of these measures. In addition, in order to strengthen banks' control of the risks associated with debt workouts, BAROC also added additional related provisions to the "ROC Bankers Association Self-regulatory Rules for Corporate Debt Workouts and Workout Enforcement in Cases Transferred from the Ministry of Economic Affairs."

- c. Acting at the instruction of the FSC, BAROC studied how operational risk and overall risk are priced in the United States, Hong Kong, and Singapore, and also put forward recommendations on loan pricing policies, implementation methods, and a related set of coordinated measures. These were provided to the FSC for its reference in the drafting of supervisory rules.
- d. To facilitate the efforts of member banks to evaluate the impact of the US "Foreign Account Tax Compliance Act (FATCA)," BAROC: (a) continued to help member banks better understand FATCA and its implementation rules; (b) continued to monitor the implementation of intergovernmental FATCA agreements between the US and other countries, and collect information on aspects of the model intergovernmental FATCA agreement that would be difficult for Taiwanese financial institutions to implement, to serve as reference for our government when it discusses an intergovernmental FATCA agreement with the US; (c) continued to collect the opinions of member banks regarding "exempt financial institutions" and review suggestions regarding "exempt banking accounts" so as to put forward specific opinions, which it filed with the FSC Banking Bureau so the latter can obtain FATCA exemptions; (d) hired out the summary translation of instructions and guidelines on how to obtain the "global intermediary identification number," which a financial institution needs in order to register on the FATCA Registration website as FATCA compliant; and (e) held two public meetings for discussions with banks on how to deal with FATCA.
- e. In response to the government's "Program for Development of Financial Businesses with Cross-Strait Characteristics," BAROC studied how to launch the conduct of RMB business by designated forex banking units (DBUs) and helped SWIFT establish a Best Practices Working Group on SWIFT MT and ISO Messages for the RMB Market in Taiwan. We discussed related practical issues and shared the latest information on RMB business in other countries to encourage domestic Taiwanese financial services firms to use the SWIFT platform to get in synch with international markets.
- f. BAROC communicated the views of the banking industry regarding the FSC's draft "Regulations Governing FSC-designated Non-government Agencies in the Adoption of Personal Data File Security Maintenance Plans and the Handling of Personal Data After Termination of Business" and provided the FSC with recommendations for specific amendments.
- g. In response to the government's decision to adopt the International Financial Reporting Standards (IFRSs) from 2013, BAROC continued to closely monitor IFRS revisions, including: (a) a proposed amendment of IFRS 9: Financial Instruments to adopt the "expected credit losses" model for assessing "impairment of assets"; and (b) the likely impact of a switch from IFRS 2010 to IFRS 2013. BAROC presented its findings to the FSC for its reference.
- h. The FSC instructed BAROC to amend the "Accounting Treatment Principles for Credit Card Business" and the "Model Credit Card Accounting System." In response, BAROC retained PwC Taiwan to draft the amendments, called a meeting to discuss the drafts, and filed them with the FSC for recordation before instructing members that conduct credit card business to abide by the amended provisions.

- i. In order to facilitate the efforts of Taiwanese financial institutions to comply with tax legislation when paying the fees charged by international credit card institutions, the FSC instructed BAROC to research related tax payment problems. BAROC invited its member banks and the various international credit card institutions to attend a meeting to discuss the issue, and then provided the opinions expressed during the meeting to the FSC for its reference.
 - j. After credit card issuers recommended that they be allowed to issue credit cards for which transactions are denominated and settled in foreign currencies, the FSC instructed BAROC to conduct a feasibility study and prepare a timetable for the making of necessary adjustments to systems. After completing the study, BAROC provided the FSC Banking Bureau with a report setting out its opinions regarding the feasibility of allowing the issuance of dual currency credit cards for which transactions can be settled in NT Dollars and one other currency (the current recommendation is US dollars, Japanese yen, and euros; further policy easing would have to take place before RMB could be included on the list). Issues covered in the timeline include the following: (a) an operating framework; (b) operating system procedures for authorizations and settlements; (c) amendments to credit card legislation; (d) adjustments that would have to be made by card issuers to safeguard cardholder interests; and (e) other related adjustments. The timeline and other opinions were furnished to the FSC Banking Bureau for its reference.
 - k. The FSC Banking Bureau asked BAROC to help seek support for the ECFA Cross-Strait Trade in Services Agreement. In response to the request, BAROC took out advertisements in the Commercial Times and the Economic Daily News to express the support of banks for the signing of the agreement. We also asked member banks, which stand to benefit from the agreement, to seek support for the agreement and communicate with legislators on the subject. BAROC then reported back to the Banking Bureau about these efforts. In addition, after the government signed the agreement, BAROC, acting at the instruction the Banking Bureau, called upon member banks to state support for the agreement and upon the legislature to pass the agreement as quickly as possible. The taking of these measures was duly reported to the BAROC Board of Directors.
- (3) Risk
- a. The Basel II Research Task Force, jointly established by BAROC and the FSC Banking Bureau, has several working groups, two of which worked on the following matters:
 - (a) Pillar 3 working group: Held a "Seminar for 'Dry-run' Completion of the Amended Capital Adequacy Disclosure Forms for Domestic Banks" to help familiarize banks with the new forms, and provided the FSC Banking Bureau with suggestions for amendments to the "Capital Adequacy Disclosure Requirements for Domestic Banks."
 - (b) Liquidity risk working group: This group completed a Chinese translation of "Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools" and the attachments included in the LCR press release, and provided the FSC Banking Bureau with suggestions for amendments to the "Liquidity Coverage Ratio Calculation Table and Calculation Instructions." In addition, acting at the instruction of the Banking Bureau, BAROC helped carry out a survey of liquidity coverage ratio regulations issued by other countries, and provided the results to the Banking Bureau for its reference.

b. To improve management by credit card acquirers of participating merchant risks, the FSC Banking Bureau instructed BAROC to formulate a set of consistent operating standards and related self-regulatory rules governing how credit card acquirers audit their participating merchants. In response, BAROC adopted the "Directions Concerning Audits of Participating Merchants by Credit Card Acquirers" and associated on-site audit checklists. These were duly filed with the FSC Banking Bureau and disseminated to card issuing institutions with instructions to abide by their provisions.

12. Held financial seminars and lectures to cultivate professional talent.

(1) January-March 2013

BAROC held the following events (total of 19 sessions): "Prevention of International Money Laundering," "Seminar for 'Dry-run' Completion of the Amended Capital Adequacy Disclosure Forms for Domestic Banks," "Global Economic and Financial Outlook," "Courses for Core Personnel—Forex/OBU Personnel, Corporate Credit Check Personnel, Investment Analysts, Legal Professionals, Financial Product Traders, Risk Managers, Wealth Managers, and Debt Collection Personnel," and "On-the-job Training for Labor Safety and Health Supervisors."

(2) April-June 2013

BAROC held the following events (total of 56 sessions): "Strengthening of Legal Compliance and Internal Control Functions at Banks," "On-the-job Training for Internal Auditors at Domestic Banks," "Dispute Resolution at the Financial Dispute Resolution Centre of Hong Kong," "Program for the Internationalization of Financial Industry Professionals," "Cross-strait Financial Business: Future Prospects and Challenges for Development by Taiwanese Banks of Cross-border of RMB Trade Financing," "Courses for Core Personnel—Information Systems Specialists, Managers, and Consumer Finance Personnel," "Seminar on Credit Risk Stress Tests," "Seminar on Tips and Techniques for Cash Management," "Asset-Liability Management and Economic Capital Allocation," "Bank Branch Performance Management," "Latest Amendments to the International Standard Banking Practice," "Mainland Chinese Legislation Governing Letters of Credit and Bank Guarantees, and Related Court Cases," "International Syndicated Loans," "Training Program for Senior Management at Financial Institutions," and "On-the-job Training for Labor Safety and Health Supervisors."

(3) July-September 2013

BAROC held the following events (total of 95 sessions): "Courses for Core Personnel—Bank Tellers, Corporate Management Personnel, Design and Development Personnel for Financial Products and Derivatives," "Counterparty Risk Management," "Seminar on the Occupational Safety and Health Act," "Introduction to Mobile Payment Innovations and Strategies," "Mobile Payment Security and Applications," "Forum on Domestic Industry—the Medical and Healthcare Sector," "Changing RMB Trends and Their Impact on Cross-strait Financial Industry Ties," "Workshop for Taiwan-invested Banks Doing Business in Mainland China—Legal Affairs, Debt Collection, Risk Management, Internal Audits, Tax Accounting, Financial Markets and Forex Fund Systems, Consumer Finance, and Corporate Finance," "Cross-strait Financial Business: Opportunities and Challenges Connected With the Development of RMB Asset Management Business in Taiwan," "Derivatives Contracts and ISDA Rules," "New

Mainland Chinese Supervisory Legislation on Financial Products, and its Impact on Markets," "Offshore RMB Bonds: Issuing, Investing, and Hedging," "On-the-job Training for Workplace Accident First-aid Personnel," and "On-the-job Training for Labor Safety and Health Supervisors."

(4) October-December 2013

BAROC held the following events (total of 23 sessions): "Supply Chain Finance—Bank Payment Obligations," "Forex and Equity Derivatives Trading and Hedging," "Mainland Banking Business of Taiwan-invested Banks," "Market Impact of New Rules on OTC Derivatives in Europe and North America," "Introduction to EMIR and its Impact on Overseas Counterparties," "Credit Card Business and Related Legal Matters," "Applications and Trends in Third-party Payment Services," "Mobile Acquisition and Account Management," "Internal Controls and Internal Auditing for Financial Transactions," "Operational Risk Management and Internal Audits," "Impact of Japan's Economic Reforms on Development of the Real Economy and the Financial Sector in Taiwan," "Post-seminar Discussion of Take-aways from the International Conference of the Institute of Internal Auditors," "Seminar Series on Financial Examinations and Internal Audits," "Maintaining a Healthy Workplace," "Labor Pension Seminar," "Internal Auditing at Domestic Banks," "On-the-job Training for Workplace Accident First-aid Personnel," and "Forum on Domestic and International Industry—Internet of Things, Shale Gas, Food and Beverage Industry, Online Shopping Industry, Precision Instruments Industry, and Tourism Industry."

13. BAROC actively organized and participated in international financial conferences and activities, and worked to strengthen cross-strait contacts.

- (1) Former BAROC Chairperson Teng-Cheng Liu, in his capacity as Central Bank advisor, attended the 46th Annual Meeting of the Board of Governors of the Asian Development Bank in Delhi, India from 2-5 May 2013.
- (2) BAROC dispatched personnel in 2013 to take part in numerous international financial events, including: "2013 International Conference of the Institute of Internal Auditors," "2013 Asian Confederation of Institutes of Internal Auditors Conference," "CARTES in ASIA 2013," a conference in mainland China on the interpretation of banking industry standards and rules, "14th International Common Criteria Conference," "ICC Commission on Banking Technique and Practice," and "SWIFT International Banking Operations Seminar."
- (3) To promote cross-strait interaction, BAROC met with four delegations from the mainland in 2013 (a financial industry study delegation from Guangzhou, a group from Fudian Bank in Yunnan Province, a study delegation from the Yancheng Economic Development Zone, and visitors from the Anhui Credit Guarantee Association), took part in the Cross-strait Financial Seminar, the Seventh China International Private Equity Forum, the 18th Cross-strait Financial Academic Conference, a Shanghai-Hong Kong bank card risk management seminar held by HSBC, and other such activities.

14. BAROC provided financial information and consulting services to the public, and donated to charity.

- (1) Consumers filed with BAROC for mediation of 73 complaints against BAROC member institutions in 2013, and BAROC also provided consulting services in 691 cases where consumers had questions about banking business operations (including calls referred to BAROC from the FSC's 1998 hotline).
- (2) BAROC mediated 272 credit card complaints in 2013, including: (a) debt collection matters [19 cases]; (b) debt repayment and discharge of debt by family members [108 cases]; (c) use of stolen credit cards for purchases or cash withdrawals [10 cases]; (d) problems with credit card use and credit card debt [77 cases]; (e) problems with information in the database of the Joint Credit Information Center [14 cases]; (f) problems with participating merchants [11 cases]; and (g) other matters [33 cases].
- (3) BAROC took 14,043 phone calls from consumers seeking to discuss debt restructuring issues in 2013, of which: (a) 8,621 cases were immediately resolved over the phone [61.4%]; (b) 4,737 cases involved the "Consumer Debt Clearance Act" [33.7%]; (c) 617 cases were referred to the financial institution [4.4%]; (d) and 68 cases involved consultation over the phone [0.5%]. In addition, consumers also filed 17,976 applications for pre-negotiation procedures relating to debts totaling an aggregate NT\$18.684 billion.
- (4) BAROC helped the heirs of member institutions' customers to check on their benefactors' deposits, safe deposit boxes, and other assets in banks. A total of 292 such inquiries were handled in 2013.
- (5) BAROC periodically updated statistics on services that are common to all banks, such as deposits, loans, trust services, and foreign exchange services, and tracked the fees charged by each bank in each category. This information was posted to a special section on the BAROC website.
- (6) BAROC periodically compiled information on the credit card business and posted it to on its website. The following four are but a few of the different types of information to be found on the website's special section on matters related to credit cards: "Differential revolving credit interest rates charged by credit card issuers, and fee schedules for different fees," "Service fees for credit card installment payment plans," "Cash card interest rates and fees of BAROC member banks," and "Service fees of BAROC member banks for unsecured loans."
- (7) BAROC periodically updated 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" posted it to the BAROC website for public perusal.
- (8) In order to raise the general level of financial literacy and help people develop a better basic understanding of credit cards, BAROC prepared and published a leaflet entitled Using Credit Cards the Right Way—Things You Have to Know. The full text of the leaflet has been posted to the BAROC website (www.ba.org.tw) for public perusal.
- (9) In order to fulfill its social responsibilities and demonstrate its support for charitable groups, BAROC donated funds to the Southern Taipei Family Helper Project of the Taiwan Fund for Children and Families, Genesis Social Welfare Foundation, The Little Sisters of the Poor, Yu-Cheng Social Welfare Foundation, Child Welfare League Foundation, Hsinchu Association for the Physically Disabled, and Syin-Lu Social Welfare Foundation.
- (10) BAROC donated a national day arch to contribute to the celebration of National Day 2013.

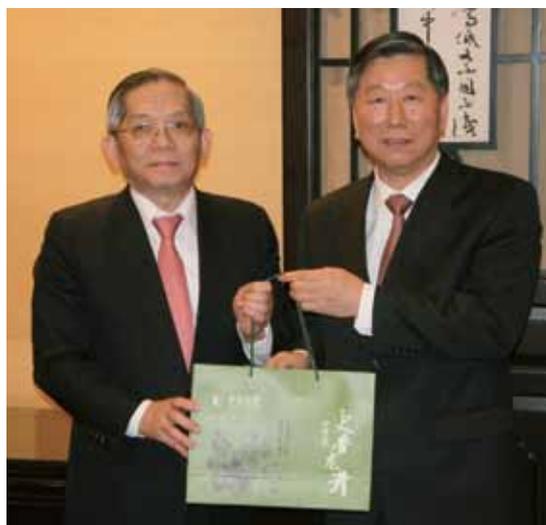
B. Major Tasks in 2014

No	Tasks
1	To coordinate with the government's policy of supporting the development of creative enterprises, BAROC will continue to carry out related education and training, seminars, and other activities.
2	To coordinate with the government's policy of encouraging banks to establish a strong presence throughout Asia, BAROC will continue to build up its database of information that banks need to carry out such expansion, and will also offer more courses to equip professionals with the types of skills needed for international business.
3	Acting under the oversight of the competent authority, BAROC will work with banks to increase the availability of ATMs for wheelchair users and the visually impaired, and to take other measures to address the needs of such persons so they can have access to convenient financial services.
4	In response to the government's decision to allow the conduct of cross-strait RMB business as well as cross-border RMB clearance and investments, BAROC will help banks to take active part in the establishment of a cross-strait settlements platform in order to increase the efficiency of fund clearance and take advantage of related business opportunities.
5	Holders of the China UnionPay Card have been able to make ATM cash withdrawals since 30 June 2010, and BAROC will continue helping banks to promote the use of Taiwanese bank cards to make ATM cash withdrawals and pay for purchases in the mainland.
6	The IFRSs have been adopted, but domestic companies will still need to make further changes to comply with updated versions of the IFRSs, so BAROC, acting in accordance with a timetable established by the FSC, will retain a team of certified public accountants to amend the "Case Illustrations of Financial Statement Disclosures" and the "Model Accounting System for Banking Enterprises," and will prepare a sample application of the "impairment of assets" provisions in IFRS 9: Financial Instruments.
7	BAROC will help banks deal with Basel III rules and various overseas regulations governing derivatives (e.g. the Volcker Rule and swap regulations), and will communicate with the competent authorities regarding the difficulties that banks experience in adapting.
8	To facilitate the efforts of banks to comply with the US Foreign Account Tax Compliance Act (FATCA), BAROC will continue to closely monitor the issuance by US authorities of FATCA-related rules, and will also continue to compile and provide to the competent authorities information on the compliance difficulties that banks experience. In addition, BAROC will also hire outside parties to prepare research reports (or translations) and hold seminars to assist banks.
9	BAROC will study possible revisions to the "Directions Concerning the Security Control Operations of Financial Institutions Conducting Electronic Banking Business" and the "Security Standards for Financial Institution Information Systems," and will continue to research matters pertaining to electronic banking technologies and online transaction security.
10	In response to requests from the Ministry of Justice and our own competent authority, BAROC will continue drafting amendments to the "Model Money Laundering Control Guidelines for Banks," the "Financial Institution Account Opening Due Diligence Procedures and Risk Management Checklist for Irregular Accounts," and a set of "Standard Questions to Ask of Walk-in Bank Customers." In addition, BAROC will also identify specific matters require the cooperation of banks in connection with the "Operational Guidelines for Prosecutorial Authorities When Faxing an Order to Freeze an Account at a Financial Institution."
11	BAROC will continue to take part in conferences and organizations that research wireless communications and mobile devices in order to keep abreast of the latest developments in the mobile payments industry. This will enable BAROC to understand related technological developments and possible opportunities these might create in the field of payments.
12	BAROC will continue promoting the national platform for online bill and tax payments, and upgrade the functionality of our portal site (National Payments Net), in order to provide the public with a more convenient way to pay bills and taxes, and to enable financial institutions to simplify collections procedures while achieving greater profitability. Also, in response to the widespread availability of smart phones, BAROC will actively promote the use of smart carriers (such as mobile apps) to pay bills.
13	BAROC will continue to monitor pending legislative action (e.g. the Bankruptcy Act) and taxation matters to understand their impact on banks. Where controversies or debate arise, we will take the initiative to coordinate and communicate with the competent authorities in defense of our members' interests.
14	Acting at the instruction of the competent authority, BAROC will study issues connected with "promotion of differential regulatory treatment" and "the establishment of risk-driven internal audit systems," and we will present our findings to the competent authority.

V. Appendices

A. Chronology of Major Events in 2013

- ©2013.01.31 The 24th meeting of the 10th Directors and Supervisors was held.
- ©2013.02.21 The 25th meeting of the 10th Directors and Supervisors was held.
- ©2013.02.26 BAROC and the Taiwan Academy of Banking and Finance jointly held a "Seminar for 'Dry-run' Completion of the Amended Capital Adequacy Disclosure Forms for Domestic Banks
- ©2013.03.28 The 26th meeting of the 10th Directors and Supervisors was held.
- ©2013.03.29 BAROC and the Bankers' Association of Taipei jointly held a "Global Economic and Financial Markets Outlook" forum.
- ©2013.04.01 Held a meeting of the Cross-Strait Banking Supervisory Cooperation Platform.
- ©2013.04.25 The 6th meeting of the 10th Directors was held.
- ©2013.05.08 Received a visit at BAROC headquarters from a financial industry study delegation from Guangzhou. The group was hosted by former BAROC Chairperson Teng-Cheng Liu.



2013.04.01 Held a meeting of the Cross-Strait Banking Supervisory Cooperation Platform



2013.10.25 Held the 1st joint meeting of the 11th Boards of Directors and Supervisors.



2013.10.25 Held the 1st joint meeting of the 11th Boards of Directors and Supervisors.

©2013.05.30 The 27th meeting of the 10th Directors and Supervisors was held.

©2013.06.19-20BAROC and the Taiwan Academy of Banking and Finance jointly held the 2013 forum on "strengthening banks' legal compliance and internal control functions."



2013.11.30 Held a fair in Hsinchu to show concern for society.



2013.12.03 Held a course completion ceremony for participants in the LEAP training course for senior management at financial services firms.

©2013.06.27 The 28th meeting of the 10th Directors and Supervisors was held.

©2013.07.16 The 29th meeting of the 10th Directors and Supervisors was held.



2013.12.06 Held a course completion ceremony for participants in training courses for international financial professionals.



2013.05.08 Received a visit at BAROC headquarters from a financial industry study delegation from Guangzhou. The group was hosted by former BAROC Chairperson Teng-Cheng Liu.

- ◎2013.08.19 Held a meeting to familiarize member institutions with FATCA online registration procedures.
- ◎2013.08.22 The 30th meeting of the 10th Directors and Supervisors was held.
- ◎2013.08.30 BAROC and the Bankers' Association of Taipei jointly held two meetings to familiarize participants with Taiwan's "Occupational Safety and Health Act."



2014.02.27 Held a banquet to celebrate the Chinese New Year.

- ◎2013.09.06 Held a meeting to familiarize participants with the draft "Operational Guidelines for Prosecutorial Authorities When Faxing an Order to Freeze an Account at a Financial Institution."
- ◎2013.09.10 BAROC and the Bankers' Association of Taipei jointly held a seminar on "Changing RMB Trends and Their Impact on Cross-strait Financial Industry Ties."
- ◎2013.09.13 Held the 1st meeting of the 11th Board of Directors.
- ◎2013.10.21 Held a "Seminar on the Latest Trends in the Application of Third-party Payment Services."
- ◎2013.10.25-26 The 1st meeting of the 11th Directors and Supervisors was held.
- ◎2013.10.28 Held a "Seminar on Internal Auditing at Domestic Banks."
- ◎2013.11.18 Held a meeting on the "Market Impact of New Rules on OTC Derivatives in Europe and North America."
- ◎2013.11.28 The 2nd meeting of the 11th Directors and Supervisors was held.
- ◎2013.11.30 Held a fair in Hsinchu to show concern for society.
- ◎2013.12.13 Held a "Post-seminar Discussion of Take-aways from the International Conference of the Institute of Internal Auditors."
- ◎2013.12.19 The 3rd meeting of the 11th Directors and Supervisors was held.

B. List of Member Banks of BAROC

April 2014

Institution	Position	Name	Telephone	Fax	Website
Bank of Taiwan	Chairperson President	Jih-Chu Lee Chang-Ruey Shiau	(02)23493456	(02)23315840	www.bot.com.tw
Land Bank of Taiwan	Chairman President	Yao-Shing Wang Ming-Hsien Kao	(02)23483456	(02)23757023	www.landbank.com.tw
Taiwan Cooperative Bank	Chairman President	Ling-Long Shen Hong-Chen Lini	(02)23118811	(02)23890704	www.tcb-bank.com.tw
First Commercial Bank	Chairman President	Ching-Nain Tsai Po-Chiao Chou	(02)23481111	(02)23892967	www.firstbank.com.tw
Hua Nan Commercial Bank, Ltd.	Chairman President	Ming-Cheng Lin Li-Yen Yang	(02)23713111	(02)23316741	www.hncb.com.tw
Chang Hwa Commercial Bank	Chairman President	Julius Chen Ming-Daw Chang	(02)25362951	(02)25716871	www.chb.com.tw
The Shanghai Commercial & Savings Bank, Ltd.	Chairman President	Hung-Ching Yung Yi-Jen Chiou	(02)25817111	(02)25318501	www.scsb.com.tw
Taipei Fubon Commercial Bank	Chairman President	Daniel Tsai Jerry Harn	(02)27716699	(02)27736769	www.taipeifubon.com.tw
Cathay United Bank	Chairman President	Tsu-Pei Chen Chang-Ken Lee	(02)87226666	(02)87898789	www.cathaybk.com.tw
The Export- Import Bank of the Republic of China	Chairman President	Rueen-Fong Chu Shui-Yung Lin	(02)23210511	(02)23940630	www.eximbank.com.tw
Bank of Kaohsiung	Chairman President	Toong-Min Chen Moan-Sheng Huang	(07)5570535	(07)5580529	www.bok.com.tw
Mega International Commercial Bank Co., Ltd.	Chairman President	McKinney Tsai Kuang-Si Shiu	(02)25633156	(02)23569169	www.megabank.com.tw
Agricultural Bank of Taiwan	Chairman President	Chao-Hui Chen Ying-Huei Chiou	(02)23805100	(02)23805252	www.agribank.com.tw
Citi Bank Taiwan, Ltd.	Chairman President	Victor Kuan Christie Chang	(02)87269999	(02)87801300	www.citibank.com.tw
ANZ Bank(Taiwan) Limited	Chairman President	Alistair Bulloch Terry King	(02)87225000	(02)87225222	anz.tw/zh/index.jsp
China Development Industrial Bank	Chairman President	Mu-Tsai Chen Paul Yang	(02)27638800	(02)27660047	www.cdibank.com
Industrial Bank of Taiwan	Chairman President	Kenneth Lo Ching-Yu Yang	(02)87527000	(02)87519568	www.ibt.com.tw
Taiwan Business Bank	Chairman President	Tsan-Chang Liao Tien-Chang Huang	(02)25597171	(02)25507942	www.tbb.com.tw
Standard Chartered Bank(Taiwan) Limited	Chairman President	Katherine King-Suen Tsang John Tan	(03)5245131	(03)5250977	www.standardchartered.com.tw
Taichung Commercial Bank	Chairman President	Jin-Fong Soo Chun-Sheng Lee	(04)22236021	(04)22240748	www.tccb.com.tw
King's Town Bank	Chairman President	Terence Tai Shih-Chu Chien	(06)2139171	(06)2136885	www.ktb.com.tw
HSBC Bank (Taiwan) Limited	Chairman President	Jayant Rikhye Jong-Peir Li	(02)27230088	(02)27575150	www.hsbc.com.tw
Bank of Taipei	Chairman President	Julie S.M. Chen Eric Chen	(02)25575151	(02)25534883	www.bankoftaipei.com.tw
Hwatai Bank	Chairman President	Po-Yi Lin Jwn-Yu Lee	(02)27525252	(02)27775213	www.hwataibank.com.tw
Shin Kong Commercial Bank	Chairman President	Tseng-Chang Lee Chin-Yuan Lai	(02)87587288	(02)87895600	www.skbank.com.tw
Sunny Bank	Chairman President	Peng-Lang Lin Wei-Hao Ting	(02)28208166	(02)28233414	www.esunnybank.com.tw
Bank of Panhsin	Chairman President	Ping-Hui Liu Ming-Kun Cheng	(02)29629170	(02)29572011	www.bop.com.tw
Cota Commercial Bank	Chairman President	Kuo-Chao Hsiao King-Ting Chang	(04)22245161	(04)22275237	www.cotabank.com.tw
Changhua Post Co., Ltd.	Chairman President	Philip Wen-chyi Ong Chang Wang	(02)23931260	(02)23911209	www.post.gov.tw
Union Bank of Taiwan	Chairman President	Shiang-Chang Lee Jeff Lin	(02)27180001	(02)27174093	www.ubot.com.tw

Institution	Position	Name	Telephone	Fax	Website
Far Eastern International Bank	Chairman President	Ching-Ing Hou Eli Hong	(02)23786868	(02)23779000	www.feib.com.tw
Yuanta Bank	Chairman President	Rong-Jou Wang Chia-Lin Chin	(02)21736699	(02)27722455	www.yuantabank.com.tw/bank
Bank Sinopac	Chairman President	Cheng-Hsiung Chiu Tina Jiang	(02)25063333	(02)81618485	www.banksinopac.com.tw
E.Sun Commercial Bank, Ltd.	Chairman President	Gary Tseng Joseph N.C. Huang	(02)27191313	(02)27138713	www.esunbank.com.tw
Cosmos Bank, Taiwan	Chairman President	Peter Berger Richard Chang	(02)27011777	(02)27849848	www.cosmosbank.com.tw
DBS Bank (Taiwan) Ltd.	Chairman President	Jeanette Wong Kai Yuan Jerry Chen	(02)66129889	(02)66129285	http://www.dbs.com/tw
Taishin International Bank	Chairman President	Thomas T.L. Wu Larry Chung	(02)25683988	(02)25234551	www.taishinbank.com.tw
Ta Chong Bank	Chairman President	Chien-Ping Chen Justin Tsai	(02)87869888	(02)87869800	www.tcbank.com.tw
Jih Sun International Bank	Chairman President	Jin-Tan Huang Mike Wang	(02)25615888	(02)25217698	www.jihsunbank.com.tw
EnTie Commercial Bank	Chairman President	Mark Zoltan Chiba Jesse Ding	(02)27189999	(02)27187843	www.entiebank.com.tw
CTBC Bank Co., Ltd.	Chairman President	Chao-Chin Tung James Chen	(02)27222002	(02)27251499	www.chinatrust.com.tw
Mega Bills Finance Co., Ltd	Chairman President	Ta-Pei Liu Chii-Bang Wang	(02)23831616	(02)23822878	www.megabills.com.tw
China Bills Finance Co.	Chairman President	Hermann Wu Vance Chin	(02)27991177	(02)26592919	www.cbf.com.tw
International Bills Finance Co., Ltd.	Chairman President	Chi-Lin Wea Norman Tsai	(02)25181688	(02)25158430	www.ibfc.com.tw
Grand Bills Finance Co.	Chairman President	Ho-Sheng Wang Lien-Chung Huang	(02)87802801	(02)87884031	www.grandbill.com.tw
Hua Nan Financial Holdings Co., Ltd.	Chairman President	Teng-Cheng Liu Mao-Hsien Liu	(02)23713111	(02)23310654	www.hnfhc.com.tw
Fubon Financial Holding Co., Ltd.	Chairman President	Richard Tsai Vivien Hsu	(02)66366636	(02)66360111	www.fubongroup.com.tw
China Development Financial Holding Co.	Chairman President	Mu-Tsai Chen Paul Yang	(02)27638800	(02)27660047	www.cdibh.com
Cathay Financial Holding Co., Ltd.	Chairman President	Hong-Tu Tsai Chang-Ken Lee	(02)27087698	(02)23252488	www.cathayholdings.com.tw
CTBC Financial Holding Co., Ltd.	Chairman President	Wen-Long Yen Daniel I.K. Wu	(02)27222002	(02)27234767	www.chinatrustgroup.com.tw
Sinopac Financial Holdings Co., Ltd.	Chairman President	Show-Chung Ho Stan Hsiao	(02)81618888	(02)81618485	www.sinopac.com
E.Sun Financial Holding Co., Ltd.	Chairman President	Yung-Jen Huang Joseph N.C. Huang	(02)21751313	(02)27199313	www.esunbank.com.tw
Yuanta Financial Holding Co., Ltd.	Chairman President	Rong-Jou Wang Jason Wang	(02)27811999	(02)27721585	www.yuanta.com
Taishin Financial Holding Co., Ltd.	Chairman President	Thomas T.L. Wu Joseph Jao	(02)23268888	(02)37076889	www.taishinholdings.com.tw
Shin Kong Financial Holding Co., Ltd.	Chairman President	Eugene T.C. Wu Victor Hsu	(02)23895858	(02)23892868	www.skfhc.com.tw
Mega Financial Holding Co., Ltd.	Chairman President	McKinney Tsai Kuang-Si Shiu	(02)23578888	(02)33938755	www.megaholdings.com.tw
First Financial Holding Co., Ltd.	Chairman President	Ching-Nain Tsai Tzuoo-Yau 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 Holding Co., Ltd.	Chairman President	Chi-Lin Wea Michael Y. J. Ding	(02)25154567	(02)25010606	www.waterland-fin.com.tw
Taiwan Financial Holding Co., Ltd.	Chairman President	Jih-Chu Lee Chang-Ruey Shiau	(02)23493456	(02)23115060	www.twfhc.com.tw
Taiwan Cooperative Financial Holding Co., Ltd.	Chairman President	Ling-Long Shen Jiin-Tarng Yue	(02)23118811	(02)23113699	www.tcfhc.com.tw
Yuanta Securities Finance Co., Ltd.	Chairman President	Yu-De Chuang Lawrence Lee	(02)21736833	(02)27721101	www.yuantafinance.com.tw