



**The 2nd Bilateral Meeting
Between
Japan Financial Services Agency and
Taiwan Financial Supervisory
Commission**

November 10, 2016

Topic I:

Business status of and supervisory on cross-border banking establishment under each other's jurisdiction

1. Profile of Taiwan-based banks in Japan

1-(1) Summary of Taiwan-based Banks

USD billion, %

| | 2013.12 | 2014.12 | 2015.06 | 2015.12 | 2016.06 |
|--------------------------|---------|---------|---------|---------|---------|
| Total Assets | 1,254 | 1,184 | 1,232 | 1,199 | 1,235 |
| ROA | 0.88 | 0.87 | 0.85 | 0.78 | 0.76 |
| ROE | 13.19 | 12.87 | 11.79 | 11.10 | 10.25 |
| NPL | 0.39 | 0.25 | 0.26 | 0.24 | 0.28 |
| Capital Ratio | 11.83 | 11.35 | 12.52 | 12.93 | 13.02 |
| Liquidity Coverage Ratio | - | - | 135.41 | 136.47 | 137.44 |

Note: There are total 39 Taiwan-based commercial banks in total.

1-(2) Summary of the 5 Taiwan-based Banks

Jun. 2016

| Name | Abbr. | Asset Rank | Net Worth Rank | Domestic Branches | Overseas Establishments |
|------------------------------------|-------------|------------|----------------|-------------------|-------------------------|
| Bank of Taiwan | BOT | 1 | 1 | 163 | 13 |
| Mega International Commercial Bank | MEGA | 3 | 2 | 107 | 40 |
| CTBC Bank | CTBC | 4 | 3 | 147 | 109 |
| First Commercial Bank | FCB | 7 | 5 | 189 | 27 |
| Chang Hwa Commercial Bank | CHCB | 10 | 9 | 184 | 10 |

Note: Ranking among all Taiwan's domestic banks

1-(3) Financial Highlights

- Satisfied performances and asset qualities

Jun. 2016 USD million

| Bank Name | Total Assets | Net Worth | ROA (%) | ROE (%) | NPL (%) |
|-------------|--------------|-----------|---------|---------|---------|
| BOT | 147,693 | 8,394 | 0.66 | 11.94 | 0.28 |
| MEGA | 92,728 | 7,683 | 0.66 | 8.10 | 0.11 |
| CTBC | 110,147 | 7,660 | 0.84 | 12.30 | 0.73 |
| FCB | 75,207 | 5,709 | 0.88 | 11.54 | 0.20 |
| CHCB | 59,471 | 4,119 | 0.76 | 10.94 | 0.23 |

Note: Calculated in consolidated basis (i.e. each bank and its subsidiaries).



1-(4) Capital Adequacy & LCR

Jun. 2016 %

| Bank Name | Common Equity Ratio | Tier 1 Ratio | Capital Ratio | Liquidity Coverage Ratio |
|-------------|---------------------|--------------|---------------|--------------------------|
| BOT | 9.81 | 9.81 | 12.07 | 218.1 |
| MEGA | 11.387 | 11.38 | 13.41 | 76.31 |
| CTBC | 9.70 | 11.05 | 13.03 | 100.87 |
| FCB | 10.90 | 10.92 | 13.73 | 148.27 |
| CHCB | 8.71 | 8.87 | 11.56 | 98.52 |

Note: Three capital ratios are calculated in consolidated basis (i.e. each bank and its subsidiaries).
Liquidity Coverage ratio is in bank-standalone basis.

1-(5)Recent event about MEGA Bank

- The New York State Department of Financial Services imposed a US\$180 million fine on the Bank's New York branch for breaches of anti-money laundering regulations on August 19th, 2016.
- FSC has required the Head Office of the Bank to enhance its anti-money laundering programs, legal compliance system as well as risk management mechanism.

1-(6) Recent event about MEGA Bank (continued)

The following measures were adopted:

- Restructuring the Board of Directors to include external directors with AML and other expertise to the Board
- Risk Management Committee is now under the Board of Directors and chaired by the Chairman
- Enhancing education and training to establish a risk management culture
- Adjusting the bank's performance evaluation methods

2. Profile of Japan-based Banks in Taiwan

2-(1) Branches and Size

| | MUFG | SMBC | Mizuho |
|---|----------------------------------|-----------------|---------------------------------|
| Branches | 2 | 1 | 3 |
| | Taipei Kaohsiung ¹ | Taipei | Taipei Taichung Kaohsiung |
| Working Capital (In USD millions) | 51 | 63 | 139 |
| Assets Ranking (Among foreign banks' branches²) | 3 rd | 2 nd | 1 st |

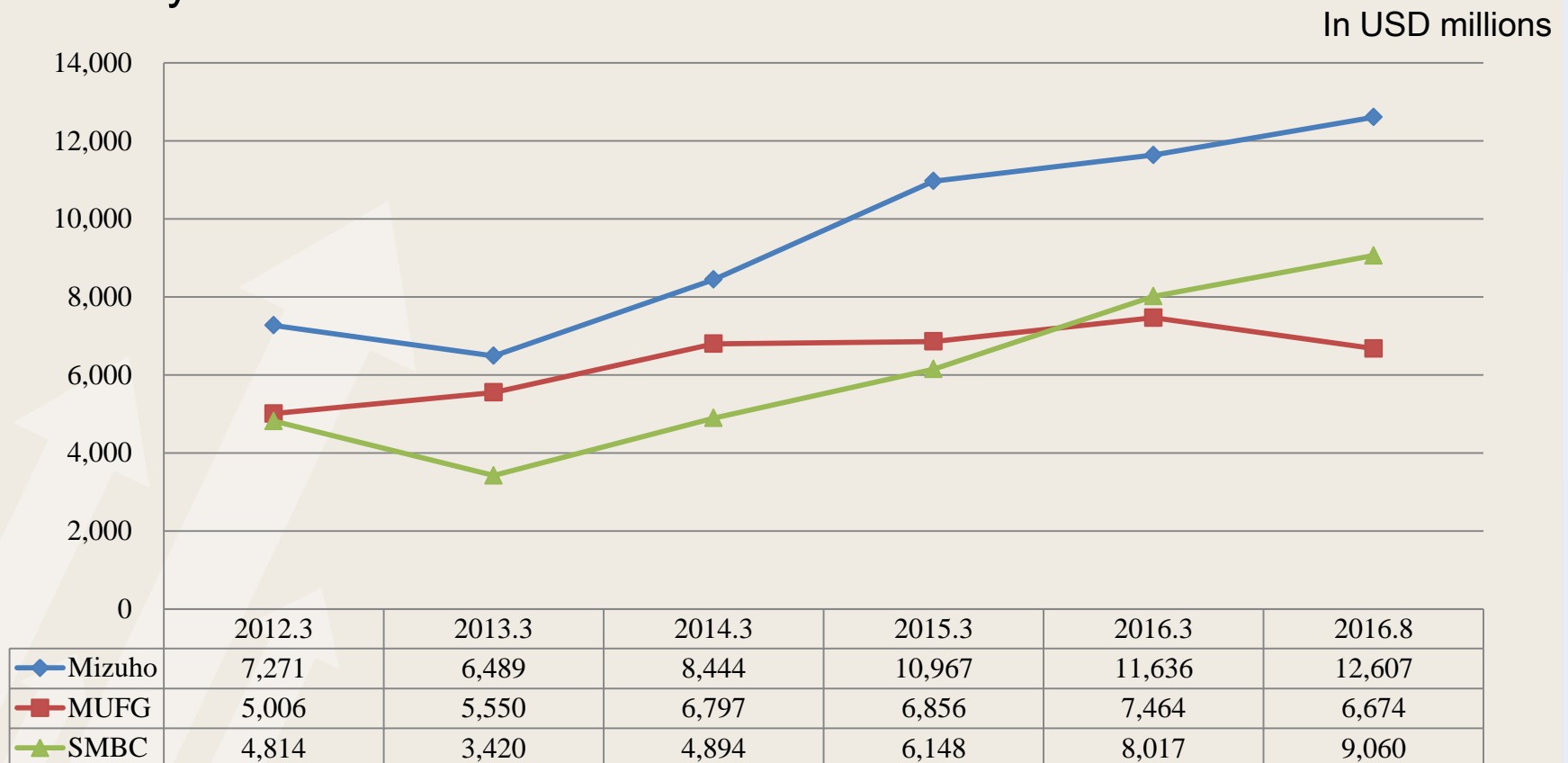
1. The FSC approved MUFG to set up its Kaohsiung branch on July 2, 2015.
2. As of Aug 31, 2016, there are 27 foreign banks' branches in Taiwan.

2-(2) Main Business & Niche

- The FSC grants foreign banks national treatment for business scope. However, the 3 Japanese banks focus on corporate banking business, including the followings:
 - ✓ Accepting deposits, extending loans and other credits
 - ✓ Investing in bonds, short-term bills, and funds which invest in bonds and short-term bills
 - ✓ Handling domestic and cross-border remittances
 - ✓ Conducting FX business and trade finance
- Niche: Japanese corporate clients in Taiwan and local large listed companies

2-(3) Total Assets

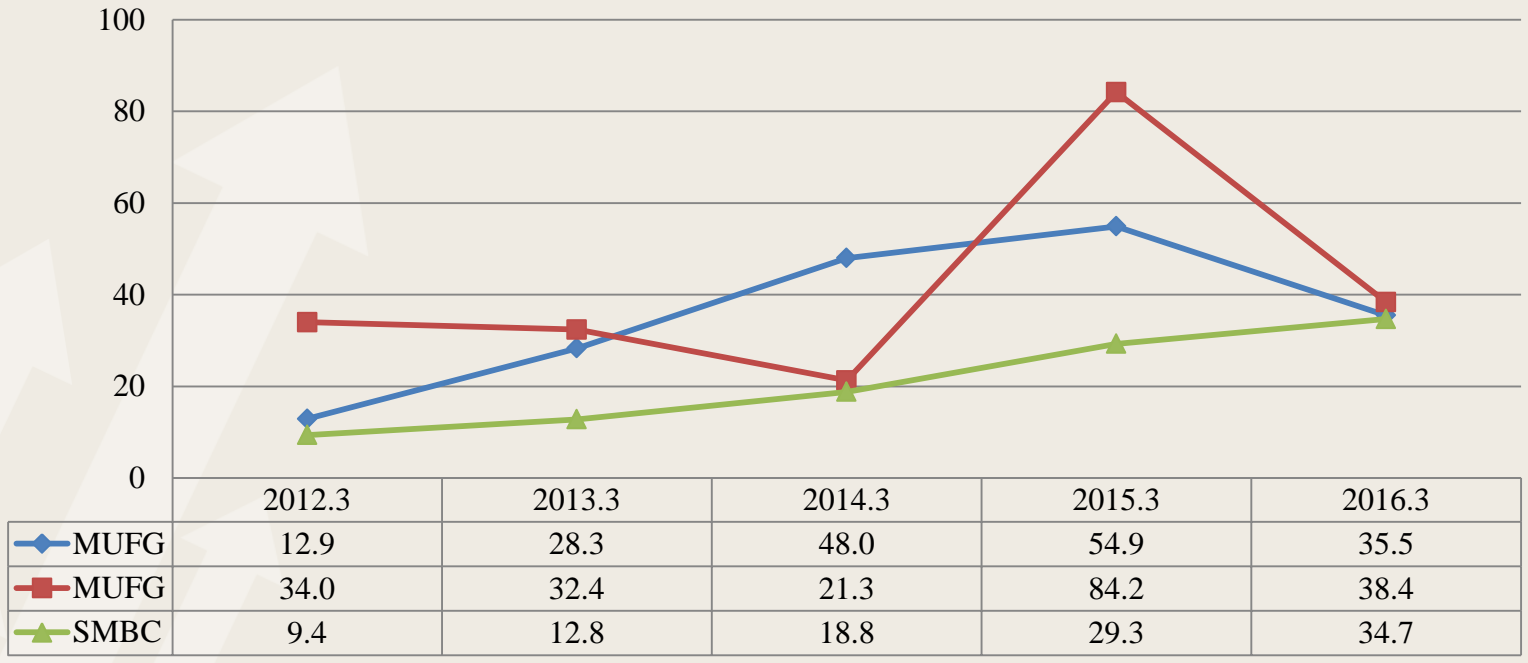
- Despite a slowdown in loans, total assets maintains growing trend this year.



2-(4) Profitability

- Profits before tax declined in 2015 with a downward trend continuing, with the exception of SMBC.
- The downturn of net interests revenue and the increase of operational expenses both contributed to the decline of profits.

In USD millions



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Topic II:
Supervisory approaches to cope with trends of Fintech and payment system



- 1. The Development and Supervisory Policy of the Electronic Payment Institutions**
- 2. The Supervisory Approach toward P2P Lending Businesses**
- 3. Innovation and Development of E-Payment**
- 4. Encourage the Development of Fintech**



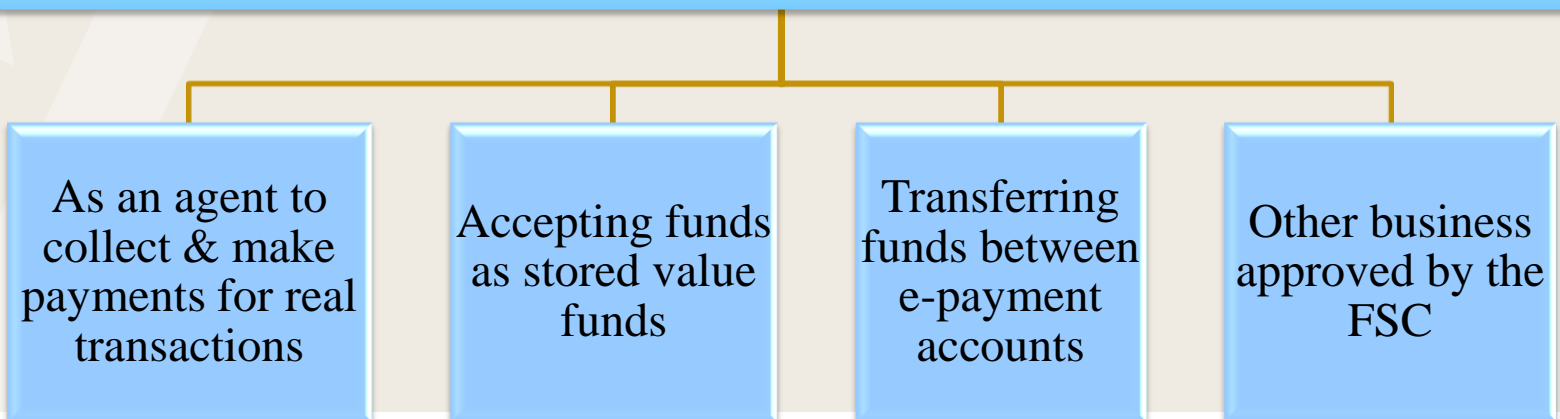
1. The Development and Supervisory Policy of Electronic Payment Institutions



1-(1) The Purposes of “The Act Governing Electronic Payment Institutions”

- ✓ To promote the sound operations and development of electronic payment institutions (EPIs)
- ✓ To ensure safe and convenient fund-transfer services

The Act was promulgated on February 4, 2015, with its 14 authorized regulations and 1 administrative order went into effect on May 3 to allow electronic payment institutions to apply for:



1-(2) Status Quo

Aug 2016

| Type | Governing Law | Approved Electronic Payment Institutions |
|--|-----------------------------|--|
| Specialized electronic payment institutions | Article 10 of the Act | <ol style="list-style-type: none"> 1. AllPay Electronic Payment Co., Ltd. 2. Gama Pay Co., Ltd. 3. PAY2GO Technology Corp. 4. PChome InterPay Inc. 5. ezPay Taiwan Co.,Ltd. |
| Concurrently engaging electronic payment institutions | Articles 10 & 55 of the Act | 21 Banks and Chunghwa Post |



1-(3) Expected Goals

Build up consumer confidence
in the use of e-money
transfer

Reduce the cost of
small-value payments

Create a more friendly
business environment for
small & individual businesses

Protect
Customers'
Interests
&
Facilitate
development of
e-commerce



2. The Supervisory Approach toward P2P Lending Businesses



2-(1) The P2P Lending market situation and the approach of FSC

Current market situation

- Affected by Fintech and foreign P2P lending platforms
- The major functions of these platforms:
 - ✓ matching borrowers and lenders
 - ✓ arranging assignments of loans

Prohibited by law from

- Accepting deposits or accepting deposits of funds as stored value funds
- Issuing securities or issuing beneficiary securities
- Unlawfully collecting, processing, and using personal information
- Improperly collecting debts or harassing to collect

2-(2) Our Approaches—Option and Policy Considerations

**Encouraging
banks to
cooperate with
P2P lending
platforms**

✓ Contextual factors

We have different background and financial environment for P2P lending from foreign countries.

✓ Lenient approach to address policy concerns

To create Fintech innovations, protect consumers, and control risks, we chose to give this market flexibilities and room to develop.

✓ In line with responsible innovation

Cooperation with banks could foster innovations and promote efficiency of services while adequately controlling risks arising from the P2P lending.



2-(3) Our Approach –next steps

✓ Communication

✓ Education and public awareness

✓ Credit information infrastructure for P2P lending



3. Innovation and Development of E-Payment

3-(1) The 5-Year Plan for E-Payment Ratio Multiplication

- Establishing a favorable regulatory environment for e-payment industry.
- Accelerating the integration of e-payment infrastructure and systems.
- Encouraging government agencies and medical institutions to provide e-payment services.
- Study the effect of Korea government policy on e-payment.

3-(2) Policy Concerns of Promotion on International Mobile Payment Service

Key issues—From a regulator’s perspective, we will pay attention on the following issues:

- Personal data protection
- Information security
- Taxation
- Consumer protection
- Development of domestic TSPs



3-(3) Promotion of International Mobile Payment Service

The FSC's Expectations:

Domestic Transactions Settled in Taiwan

Cooperation with Credit-card and Non-credit-card Payment Services Operators

Domestic TSP Development

3-(4) Promotion of International Mobile Payment Service

- The FSC maintains good dialogues with relevant parties: domestic card issuers, card settlement institutions, domestic TSP industry, international credit card organizations and global mobile payment industry.
- The FSC allowed domestic credit card issuers may apply for international mobile payment business on Sep 29, 2016. Since then:
 - 3 card issue banks received FSC's approval
 - 2 applications are under reviewing process



**4. Encourage the Development
of
FinTech**

4-(1) Encourage the Development of Fintech

- The FSC amended relevant regulations in Sep 2015 to allow:
 - Banks and financial holding companies may invest in companies specializing in big data, cloud computing, mobile payments, biometrics, etc.
- The objective is to increase the competitiveness of financial institutions and foster the development of the Fintech companies.

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Topic III:

Supervisory policies to respond to domestic and global markets

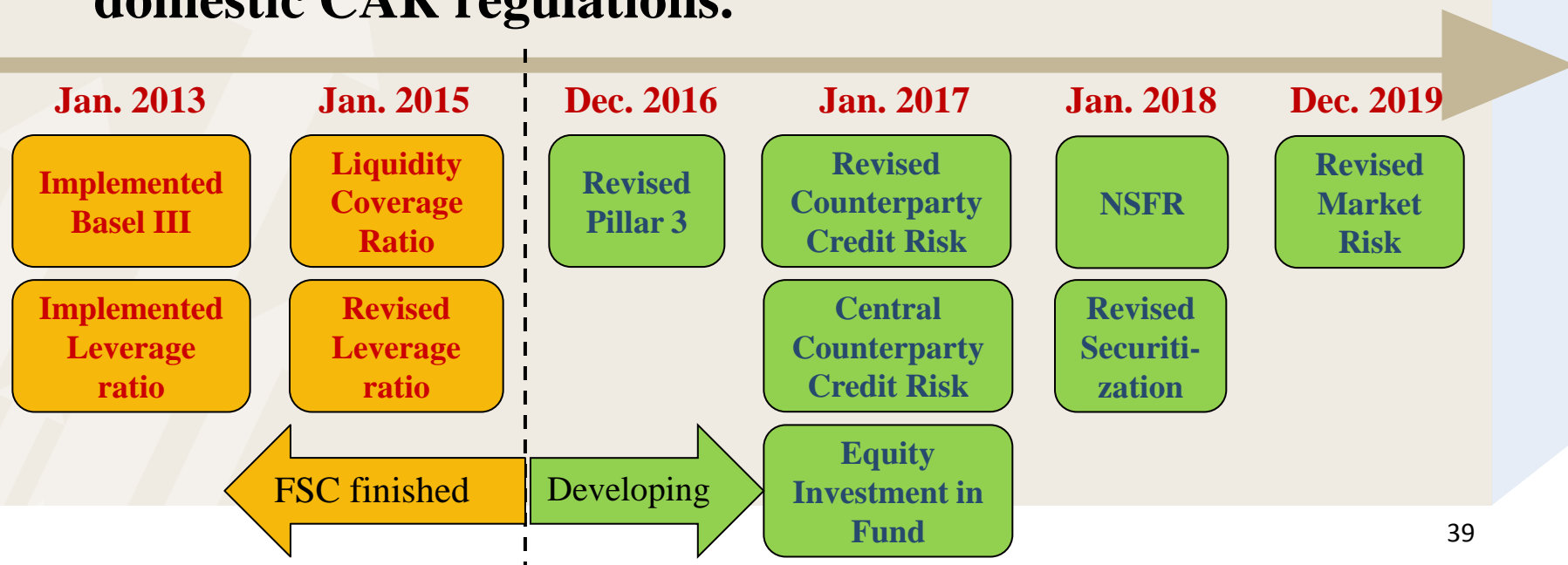


- 1. Implementation of Basel III in Taiwan**
- 2. The policy of “financial sector supports economy”**
- 3. Strategies and implementation plans for AML/CFT**

1. Implementation of Basel III in Taiwan

1-(1) Process of phasing Basel III in Taiwan

- ◆ To keep consistency with international standard of CAR,
 - ✓ The FSC has set up an ad hoc working group, and researched the following document published by the BCBS..
 - ✓ The FSC will consider the timetable proposed by the BCBS and the implementation of other countries to amend the domestic CAR regulations.



1-(2) Liquidity Standards: LCR

◆ Implementing the Liquidity Coverage Ratio

- ✓ The LCR regulations promulgated in 2014.
- ✓ Raised the minimum LCR requirement in equal annual steps to reach 100% on 1 Jan 2019.
- ✓ The average LCR of the domestic banks was 129.83% on August, 2016 compared to 124.63% at the end of 2015.
- ✓ 31 of 37 domestic banks' LCR have been over 100%.

Transitional arrangements for regulatory LCR requirements

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|-----------------|------|------|------|------|------|
| LCR requirement | 60% | 70% | 80% | 90% | 100% |

1-(2) Liquidity Standards: NSFR

◆ Adopting the Net Stable Funding Ratio

- ✓ Set up an ad hoc working group comprising FSC, Central Bank and banks
- ✓ Follow the timetable proposed by BCBS

Draw up
regulations by
working group

2015

Conduct trial
test, draft
regulations and
then promulgate

2016

Implement
the NSFR
regulations

2018.1.1

1-(3) Supervisory Stress Test

- ◆ **Conducted by the FSC in June, 2016, which included the following scenario:**
 - ✓ **Downturn in domestic and international GDPs, and increased unemployment rates and decline on housing prices in Taiwan.**
 - ✓ **Interest rate going down and led to thinner spread.**
 - ✓ **Prices going down in equity, bond and commodity markets.**
- ◆ **37 domestic banks passed the test with average 11.68% CAR in adverse scenario and 10.58% in severely adverse scenario, which showed the soundness and resilience of domestic banks.**

| | | CET1 | TIER 1 | CAR | Leverage Ratio |
|-------------|------------------------------|--------|--------|--------|----------------|
| Test Result | Minimum CAR requirement 2016 | 5.125% | 6.625% | 8.625% | 3% |
| | CAR in Dec 2015 | 9.96% | 10.27% | 12.85% | 5.88% |
| | Adverse scenario | 9.55% | 9.83% | 11.68% | 5.63% |
| | Severely adverse scenario | 8.5% | 8.78% | 10.58% | 5.03% |

2. The policy of “financial sector supports economy”

2-(1). Financial Sector Supports Economy

- Utilize the knowledge and resources of financial industry to provide needed financial supports to the real economy. So as to allow the development of innovation and transformation, which will increase the opportunities of employment.
- While the economy is growing, in turn it will fuel up financial business, thus forming a positive virtuous circle between the financial industry and the real economy.
- The FSC will take policies which benefit the financial industry and enhance its competitiveness, thus allowing the industry to make greater contribution to economic development.

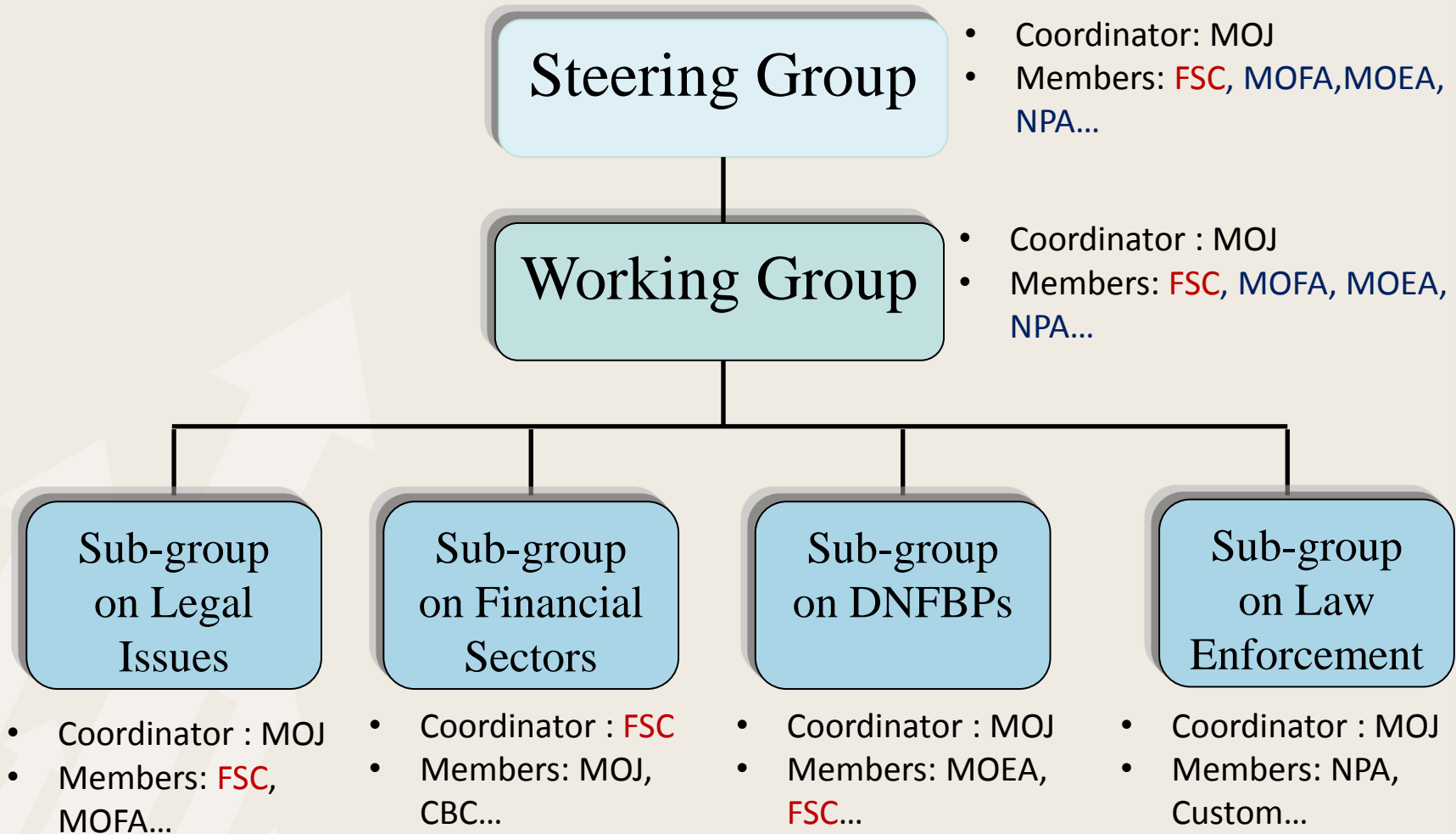
2-(2). Financial Sector Supports Economy (Continued)

- Policy aim: the 4 supports
 - Support Industrial Development
 - Support Youth Entrepreneurship
 - Support Innovative and Creative Businesses
 - Support Employment Opportunities
- Policy guideline: the 3 measures
 - Capital: Diversifying funding channels
 - Brains: Providing financial advisory, industry research and market analysis
 - Fields: Supporting the industry with software & hardware facilities



3. Strategies and Implementation Plans in AML/CFT

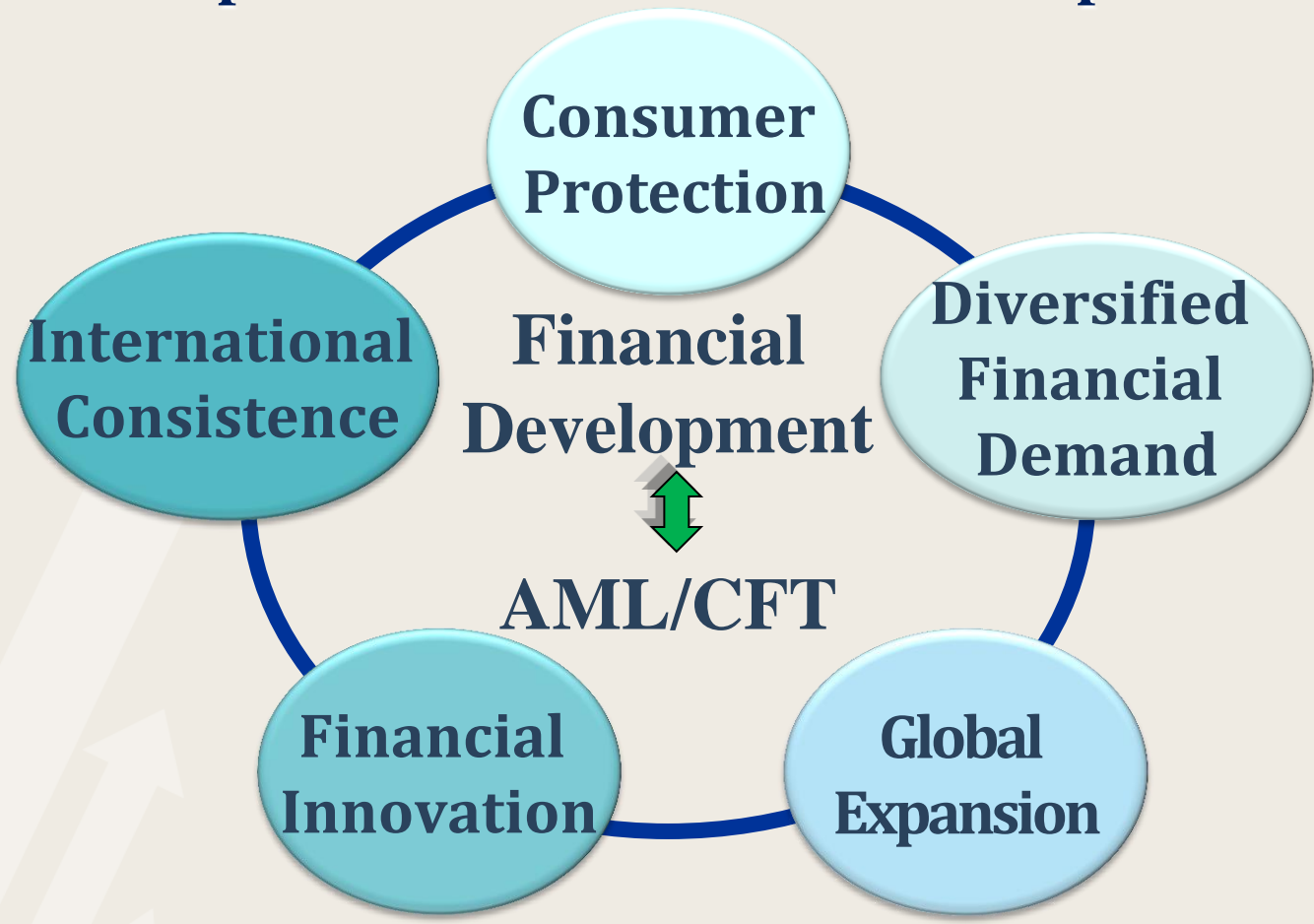
3-(1). Inter-Agency AML/CFT Task Force





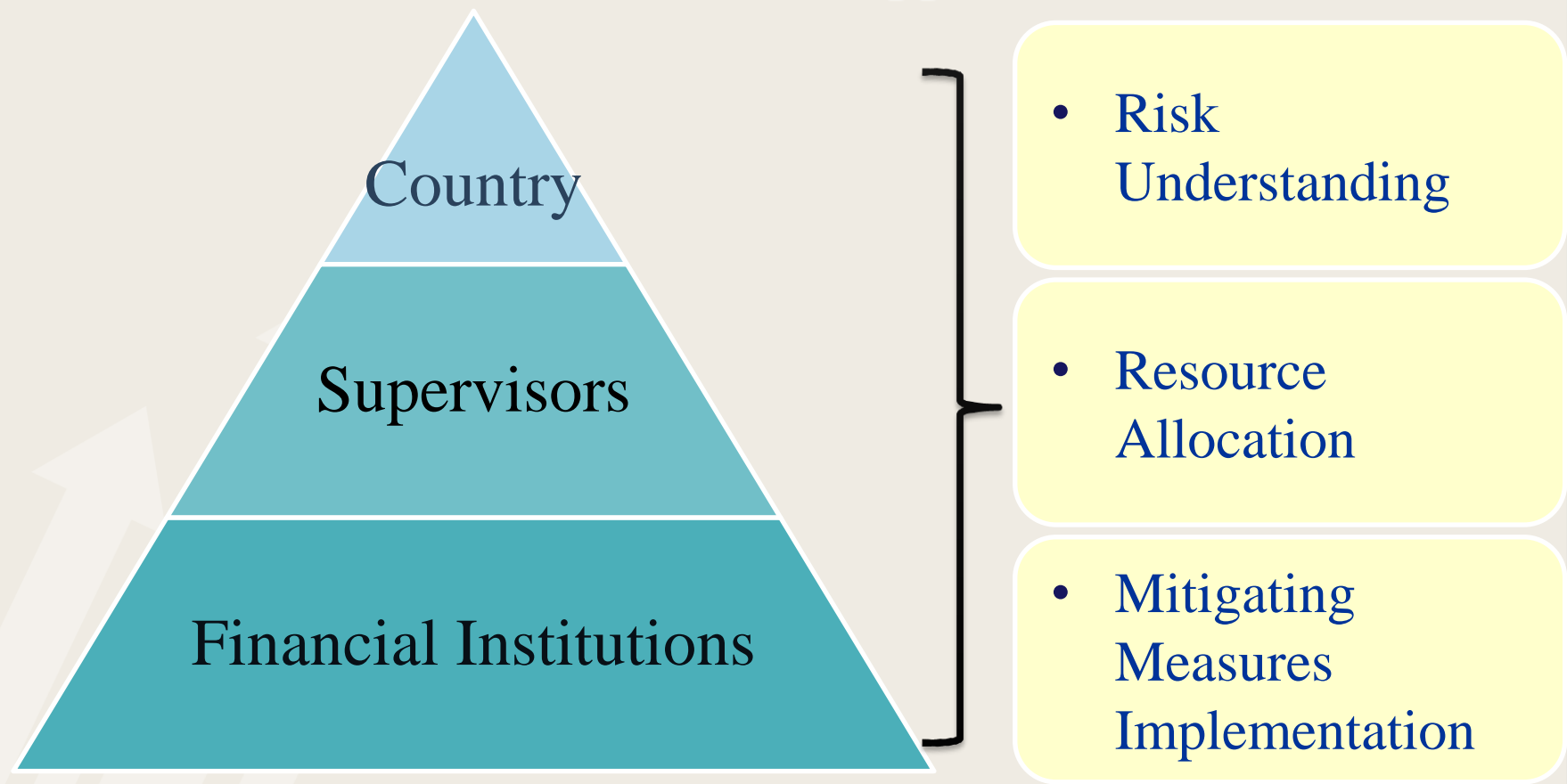
3-(2).AML/CFT Supervisory Strategies(1/2)

— Keep Abreast with Financial Development





3-(3).AML/CFT Supervisory Strategies(2/2) — Risk-Based Approach





3-(3).AML/CFT Implementation Plans(1/2)

— Supervisory Actions

Construct ML/FT Risk Profile of Financial Sector

Amend AML/CFT Regulations to Meet FATF Standards

Reinforce On-site Examinations

Enhance Enforcement Actions

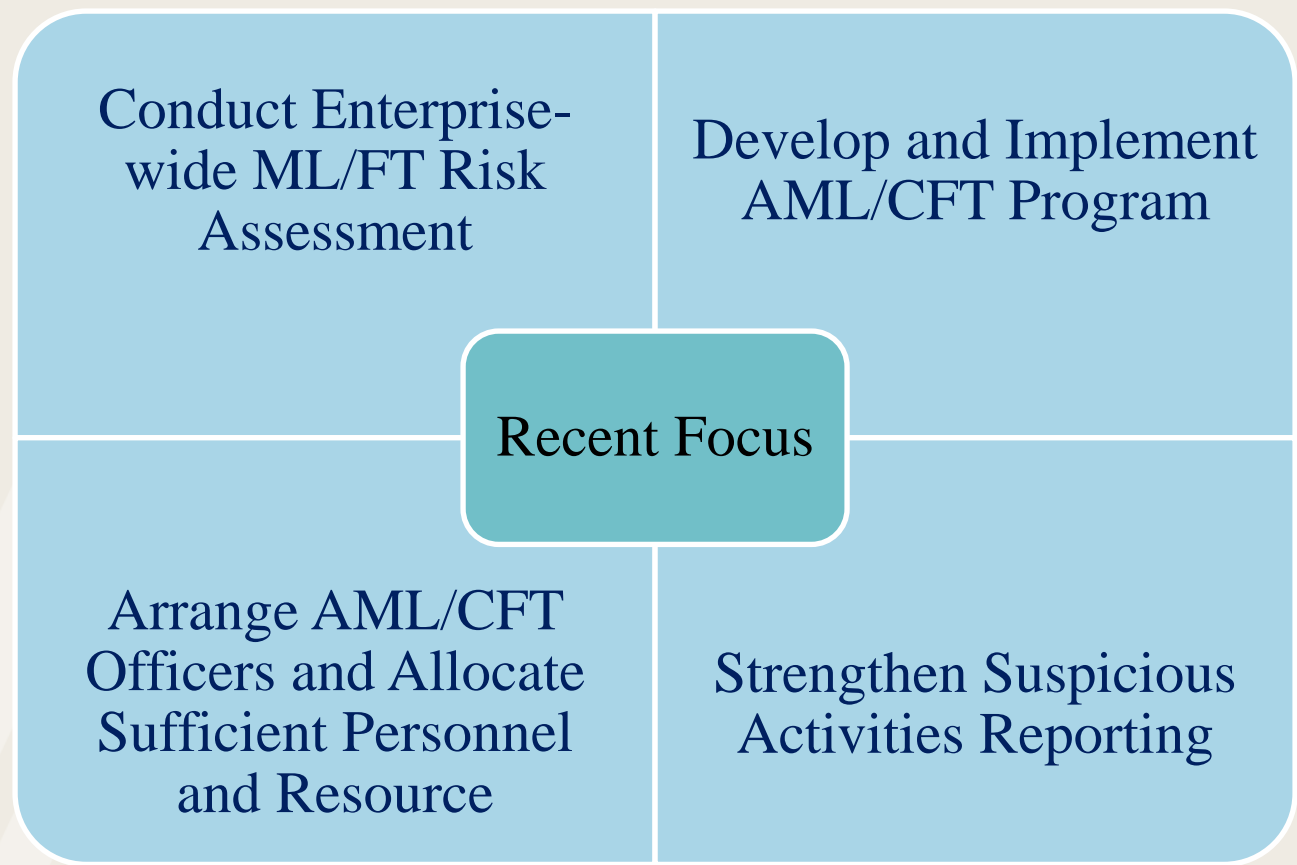
Direct Financial Sector to Focus on Culture of Compliance

Strengthen International Cooperation and Assistance



3-(3).AML/CFT Implementation Plans(2/2)

— Financial Institutions Requirements



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Topic IV

Cooperation with Asia

Economic Trend in Asia

Outperformed Economic Growth

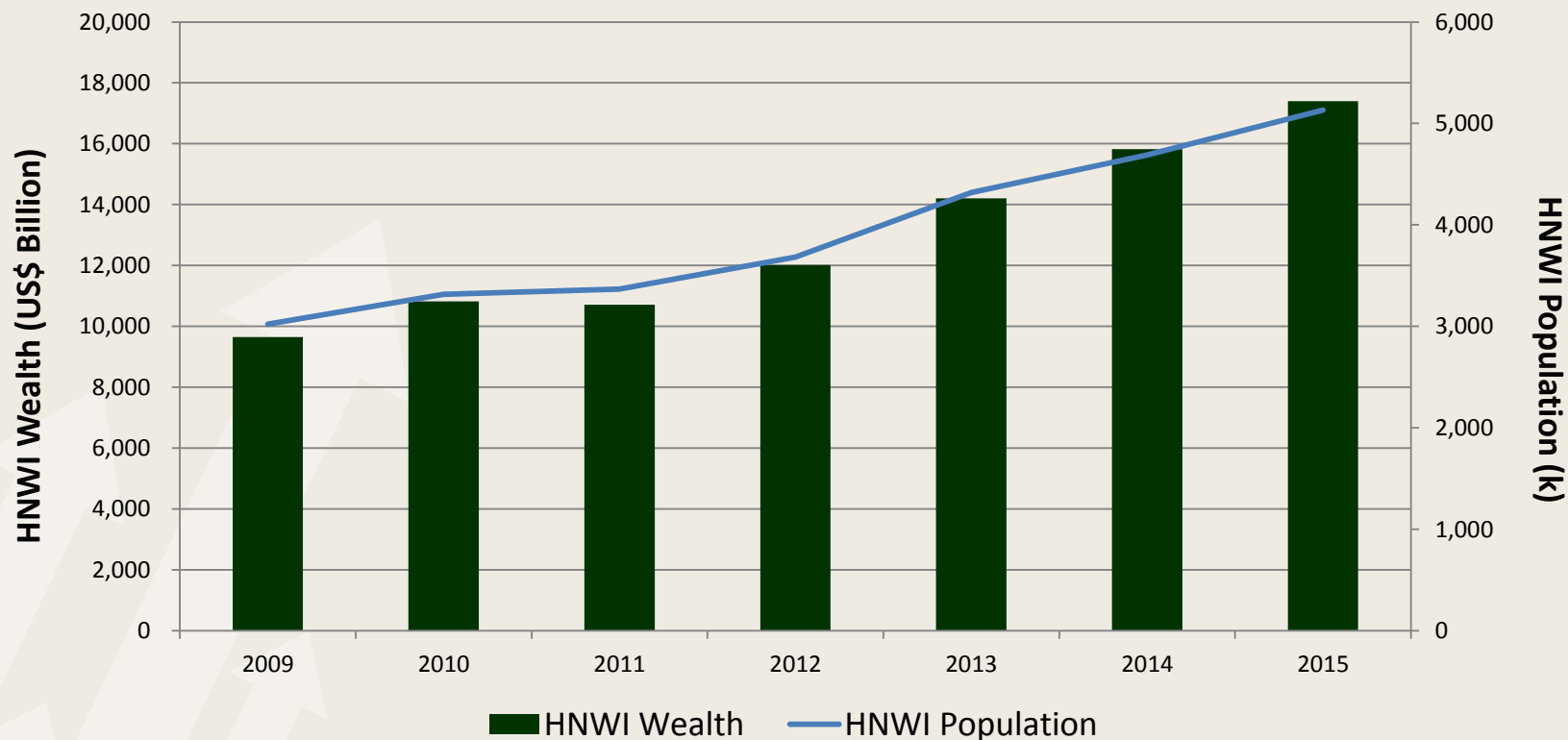
GDP growth rate %

| Country/Area | IMF | | | World Bank | | |
|----------------------|------------|------------|------------|------------|------------|------------|
| | 2015 | 2016 | 2017 | 2015 | 2016 | 2017 |
| World | 3.1 | 3.1 | 3.4 | 2.4 | 2.4 | 2.8 |
| USA | 2.4 | 2.2 | 2.5 | 2.4 | 1.9 | 2.2 |
| Euro Area | 1.7 | 1.6 | 1.4 | 1.6 | 1.6 | 1.6 |
| Japan | 0.5 | 0.3 | 0.1 | 0.6 | 0.5 | 0.5 |
| Emerging Asia | 6.6 | 6.4 | 6.3 | 6.5 | 6.3 | 6.2 |
| China | 6.9 | 6.6 | 6.2 | 6.9 | 6.7 | 6.5 |

Source: IMF, World Economic Outlook Update, July 2016.
World Bank, Global Economic Prospects, June 2016.

Economic Trend in Asia

High Net Worth Individuals (HNWIs*) wealth and population in Asia



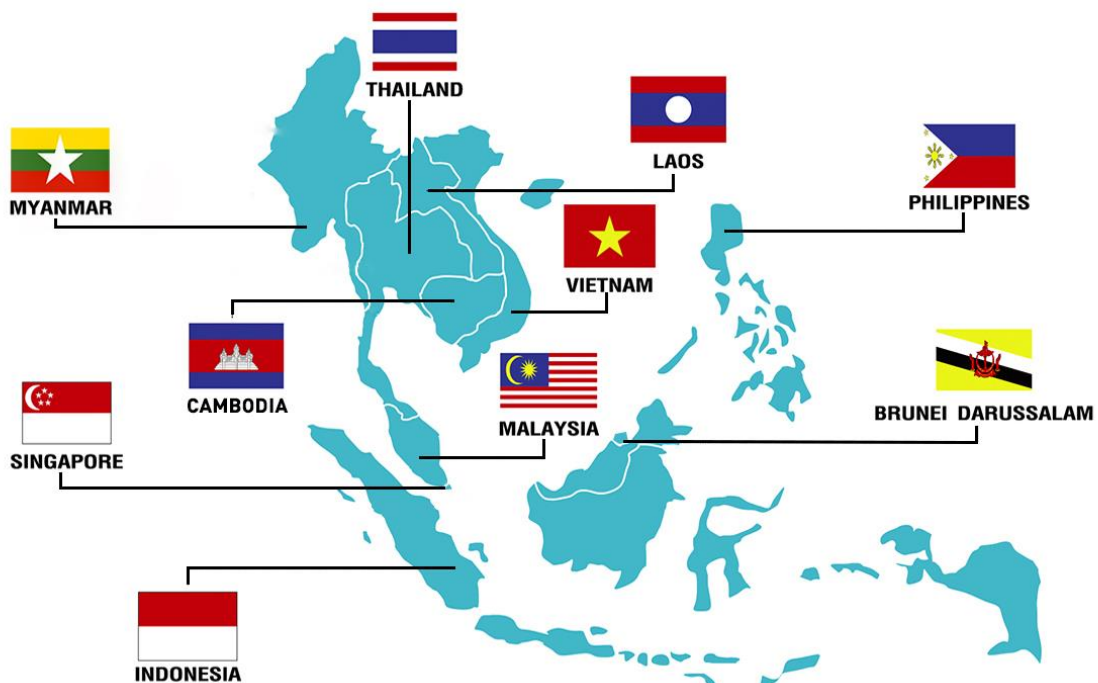
* **HNWIs** are defined as having investable finance in excess of US\$1 million.

* Source: Capgemini Financial Services Analysis, World Wealth Report 2016.

The Government's New Southward Policy

South Asia

ASEAN



Roots in Taiwan, Presence in Asia

3 main reasons:

- Asia's strong economic growth potential
- Diversify risks
- Assist overseas Taiwanese enterprises

- Encourage banks to expand presence in Asia .
- Provide services to Taiwan businessmen in Asia .

- ✓ Promote financial sector's competitiveness
- ✓ Market expansion

enterprises

Assist overseas Taiwanese

in Asia .

Taiwan businessmen

Strategies to Create a Favorable Environment for Overseas Expansion

1.

Enhancing Supervisory Cooperation with Foreign Jurisdictions

2.

Relaxing Regulations and Streamlining Application Procedures

Building Up Human Resource

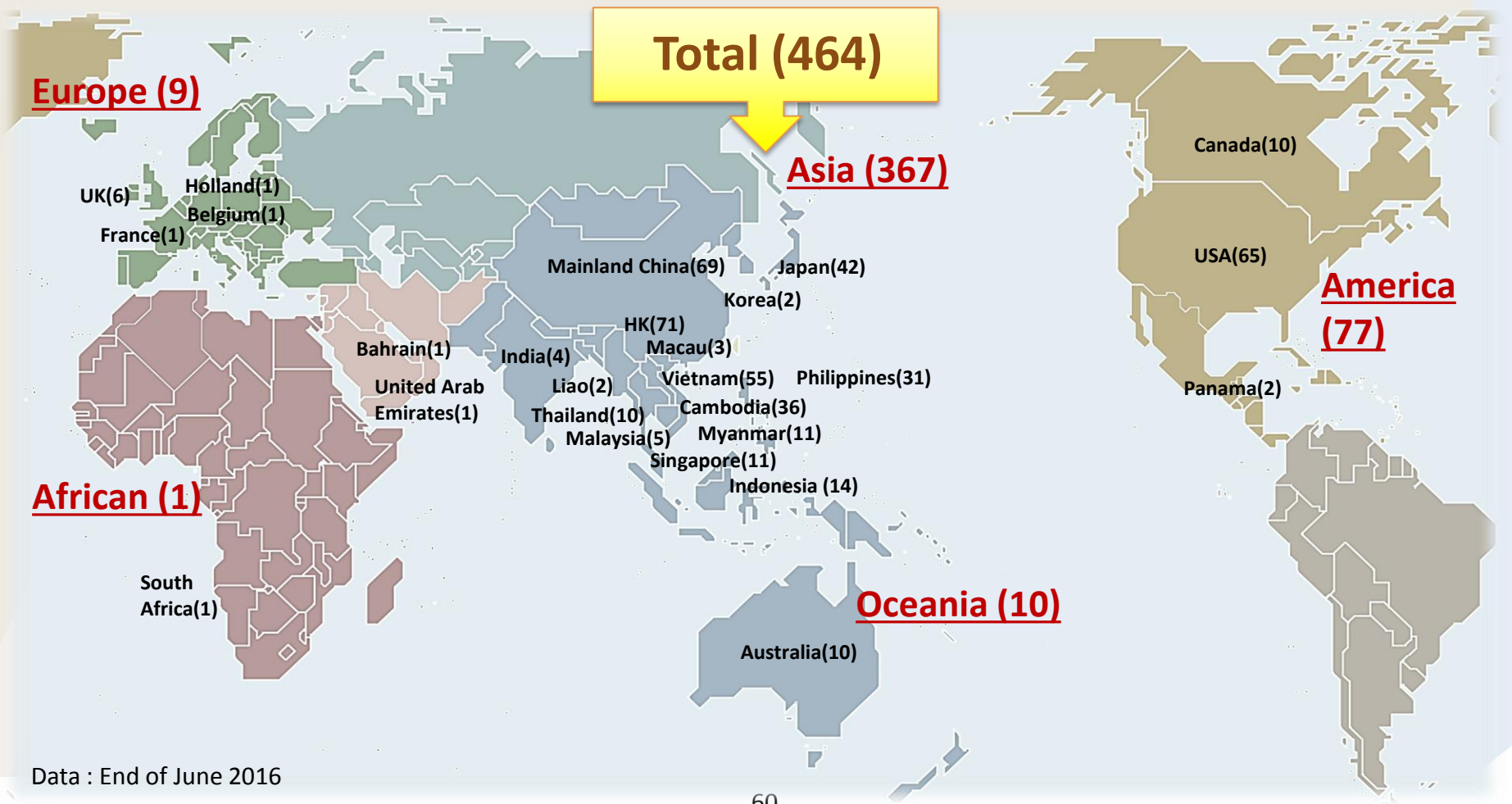
3.

Collecting Overseas Market Information and Establishing Databases

4.



Overseas Presence of Taiwanese Banks



Data : End of June 2016

Ongoing Efforts

1

Participating in International Activities

2

Strengthening Bilateral Cooperation with Foreign regulators

3

Encouraging Foreign Investors' Participation in Our Financial Markets

Participating in International Activities

Sharing views and experience on financial supervision with foreign regulators through occasions such as:

- Attending meetings organized by WTO, APEC, APG, ICBS, EBRD, etc.
- Participating in the annual meetings of Asia Program hosted by the FRBSF of the US.
- Joining the TPP.

Participating in International Activities

Taiwan has determined to join the TPP

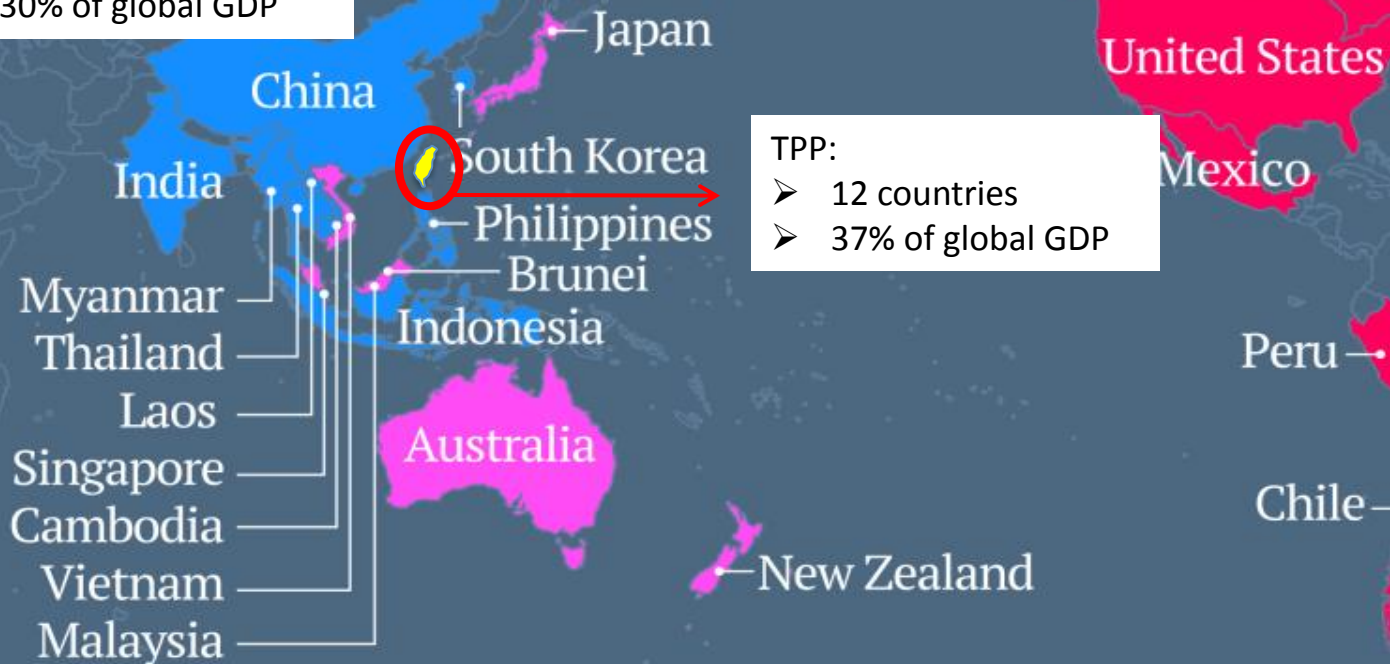
TPP, RCEP and both

RCEP:

- 16 countries
- 30% of global GDP

TPP:

- 12 countries
- 37% of global GDP



Strengthening Bilateral Cooperation

- **Signing MOUs/EOLs**
- **Supervisory college meetings**
- **Bilateral visits**
- **Overseas financial examinations**

Strengthening Bilateral Cooperation

52 MoUs/EoLs signed

North America (7)

- Canada
- USA (6)

Europe (12)

- UK
- Ireland
- France (2)
- Spain
- Italy
- ECB
- Sweden
- Germany
- Netherlands
- Belgium
- Luxembourg

Asia (20)

- Thailand
- Malaysia
- Labuan
- India
- Turkey
- Jordan (2)
- Dubai
- Japan (2)
- Mainland China (3)
- Hong Kong (2)
- The Philippines
- Vietnam (2)
- Singapore
- Indonesia

Central and South America (4)

- Salvador
- Brazil
- Chile
- Argentina
- Panama

Africa (5)

- Egypt
- Morocco
- Kenya
- South Africa (2)

Oceania (3)

- Australia (2)
- New Zealand

Note: Figures in parenthesis refer to the number of MOUs signed by the FSC with foreign supervisory authorities

Strengthening Bilateral Cooperation

Hosted Two Supervisory College Meetings

Mega Bank

- Held in 2013
- Participants:
 - Australia
 - Cambodia
 - Mainland China
 - Japan
 - Malaysia
 - Thailand

Cathay United Bank

- Held in 2015
- Participants:
 - Cambodia
 - Mainland China
 - Hong Kong
 - Indonesia
 - Malaysia
 - Philippines
 - Singapore
 - Vietnam

Encouraging Foreign Investors' Participation

➤ FSC's policy towards foreign banks

- Foreign banks are welcome to do business in Taiwan
- No limits on foreign shareholding in domestic banks
- National treatment for foreign banks both in terms of market access and business scope

➤ New Investment in recent years

- The Agricultural Bank of China
- Bank for Investment and Development of Vietnam (BIDV)
- Bank of Fukuoka
- The Akita Bank
- Natixis



Thank You
