



Financial Supervisory Commission, Taiwan
2004 Annual Report





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From the Chairperson

Established on July 1, 2004, the Financial Supervisory Commission (FSC) replaced Taiwan's former system of financial supervision with a single unified financial supervisory system. The creation of the FSC represents a major milestone and marks the completion of a consolidated supervision of the banking, securities, futures, and insurance industries in Taiwan. The establishment of the FSC is more than just a new name of a



supervisory body for the financial industry; it represents the birth of a new supervisory culture, where the goals are to accelerate financial reform and enhance the supervision of the financial industry. In moving towards these goals, the FSC is determined to achieve greater globalization and liberalization, to be service-driven, and to have closer communications with market participants.

Immediately after its establishment, the FSC dealt with a string of corporate scandals. Fortunately, the talented professionals at the FSC were able to resolve each of these nettlesome affairs as they arose. The FSC took prompt correction measures and enhanced the supervision of market activities, identifying the following major tasks: (1) improve the underwriting system; (2) strengthen post-IPO supervision; (3) adopt stricter requirements regarding corporate governance, information disclosure, and transparency; (4) amend the Securities and Exchange Act and the Certified Public Accountant Act; (5) strengthen the functions of the Securities and Futures Investors Protection Center; and (6) focus on the protection and education of individual investors and consumers.

It is said that "the financial sector is to the economy while blood is to the human body." Indeed, the financial sector has played

an important role in Taiwan's economic development. As our society develops, we find the financial sector accounting for an ever increasing share of the economy. Taiwan is now well equipped to facilitate our own fund raising and our manufacturing industry is a strong global competitor. However, the financial sector remains behind the rest of the economy in this regard, as it has thus far shied away from the international market. If we are to ensure that our financial sector plays its full and proper role in supporting the growth of the overall economy, we must recognize the strategic importance of the financial sector.

Taiwan's financial sector is plagued by a number of problems. We have the most number of the banks in Asia, except for China. We have no large and strong banks. There has been little progress toward regionalization or globalization. Further, product innovation is lacking. The FSC has sought to address these problems and enhance competitiveness by pushing for the banking consolidation. The aim is to achieve the emergence of one or two large and strong regional financial institutions. The FSC is also working on the amendments to the Deposit Insurance Act that would provide for stronger deposit insurance reserves, thereby paving the way for the Central Deposit Insurance Corporation to take over after the expiration of the Financial Restructuring Fund. In addition, the FSC is focused on the examination of financial institutions and has formed special task forces under the Financial Examination Bureau to crack down more effectively on financial crime.

At the FSC, we share a set of core commitments, such as "liberalization and globalization," and "the building of a service-driven supervisory culture." Guided by these values, we will continue working on financial reforms.

The FSC has adopted the following specific goals: (1) provide higher quality financial supervision and maintain the stability of financial markets; (2) formulate supervisory policies and financial systems that are relevant and in line with international trends; (3) spur the emergence of one to three regional financial institutions in East Asia; (4) establish Taiwan as a regional fund raising and asset management center; (5) establish an "international board" capital market; (6) ensure proper protection and education of investors and consumers; (7) strengthen corporate in-house training of financial personnel. Our ultimate aim in pursuing these goals is to contribute to the creation of a fair, sound and profitable financial sector, enhance the overall competitiveness of Taiwan's financial industry and bring about a win-win situation for financial institutions, investors and consumers.



Jaw-Sheng Kong
Chairperson

Financial Supervisory Commission



Structure and Functions of the FSC

Who we are

Background and establishment of the FSC

The Financial Supervisory Commission (FSC) was officially established on July 1, 2004, in part to stay in line with the rest of the developed world (where one nation after another in recent years has established a single financial supervisory authority to consolidate the oversight of banking, securities, and insurance), and to meet the need of Taiwan's financial institutions for cross-sector business. Ultimately, the establishment of the FSC was prompted by the government's determination to exercise more efficient financial supervision and push for a broader range of financial reforms. As a result, Taiwan's former system of sectoral regulation, with different regulatory authorities in charge of supervision and examination for the separate arms of the financial sector, has been replaced by a single unified system under the FSC. This development represents a major milestone and marks the completion of a consolidated supervision of the banking, securities, futures, and insurance industries in Taiwan.

Structure of the FSC

As required under the Organic Act Establishing the Financial Supervisory Commission, the Executive Yuan (the "FSC Organic Act"), the FSC is headed by nine commissioners, one of who serves as the chairperson and two who serve as vice-chairpersons. All commissioners are nominated by the premier to the president, and have academic expertise or professional experience in a relevant field such as law, economics, banking, public finance, accounting, or management. Each commissioner serves a fixed term of office, ensuring that policies are well thought out and that their public authority is exercised in an impartial manner.

In order to ensure professionalism, fairness, and independence in the setting and implementation of policy, the FSC Organic Act mandates that commissioners belonging to a single political party shall not exceed one-third of the total number of commissioners. Further, the Act bars the commissioners from taking part in the activities of any political party during their term in office.

The FSC is comprised of four departments, four offices, and four bureaus, as follows:
Departments: Planning; International Affairs; Legal Affairs; Information Management.

Offices: Secretariat; Personnel; Accounting; Civil Service Ethics
Bureaus: Banking; Securities and Futures; Insurance; Financial Examination.

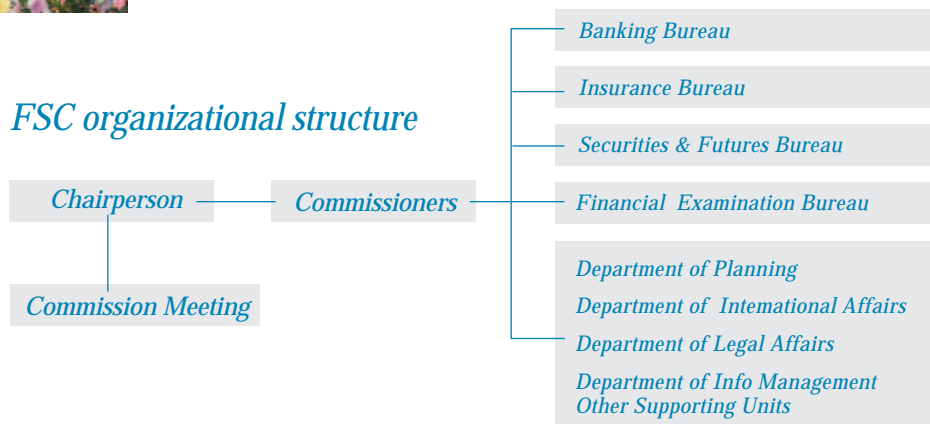
In addition, the FSC established a Financial Supervisory Fund to bolster the funding of financial supervisory activities, ensure our development as a regulator of financial markets and financial service enterprises, and guarantee our independence in the performance of supervision and financial examination.

Our missions

1. Managing financial systems and supervisory policy issues.
2. Drafting, amending, and repealing financial laws and regulations.
3. Supervising and regulating the following matters in connection with financial institutions: establishment, voidance, revocation, changes, mergers, business suspensions, dissolutions, and approval of business scope.
4. Development, supervision, and regulation of financial markets.
5. Examination of financial institutions.
6. Examination of matters relating to public companies and securities markets.
7. Handling of international financial matters.
8. Protection of financial consumers.
9. Enforcement of financial laws and regulations, punishment of violators,



FSC organizational structure



- and handling of matters related thereto.
- 10. Collection, processing, and analysis of statistical information relating to financial supervision, regulation, and examination.
- 11. Examination of other matters relating to financial supervision, regulation, and examination.

Decision making

The FSC board of commissioners meets once a week. Meetings are chaired by the FSC chairperson and resolutions are adopted if approved by a majority vote of a meeting attended by at least two-thirds of the commissioners. In addition to abiding by the provisions of recusal in the Administrative Procedure Act, a FSC commissioner must also exercise recusal when there is a proposal or deliberation regarding a case involving an organization or enterprise connected to the commissioner, the commissioner's spouse, a blood relative of the commissioner within three degrees of kinship, or a relative to the commissioner by marriage within two degrees of kinship.

Functions

The functions of the FSC's four bureaus and departments are as described below.

1. Banking Bureau: Supervises and regulates the banking market, money market, and banking enterprises.

2. Securities and Futures Bureau: Supervises and regulates securities and futures markets as well as securities and futures enterprises.
3. Insurance Bureau: Supervises and regulates insurance markets and insurance enterprises.
4. Financial Examination Bureau: Monitors and examines financial institutions.
5. Department of Planning: Drafts and proposes financial systems and supervisory policies; performs research and development work related to the financial industry and proposes measures for its improvement; performs research and analysis of developments in the financial industry in Taiwan, mainland China and overseas; prepares and disseminates FSC books and periodicals.
6. Department of International Affairs: Liaison with international financial organizations and foreign supervisory bodies; supervision of FSC overseas offices; research and implementation of major international financial projects and international promotional activities.
7. Department of Legal Affairs: Integration, drafting, revision, interpretation, research, and consulting on financial supervisory laws and regulations.
8. Department of Information Management: Planning, development, and administration of



information systems; processing and analysis of data related to financial supervision, regulation, and examinations.



FSC Activities in 2004

In 2004, the FSC kept on pushing for financial reforms, accelerating deregulation and globalization, and strengthening its financial supervisory mechanisms. The FSC also continued an ongoing review of laws and regulations in order to provide a favorable competitive environment and meet the needs for economic development.

Development of financial markets

Regional financial services center

The Plan for Promoting Taiwan as a Regional Financial Services Center seeks to foster the development of an open, innovative, and efficient financial services center. With this objective in mind, the plan calls for the implementation of five key strategies: (1) creating a sounder overall financial environment; (2) promoting the creation of a regional center for fund raising; (3) promoting asset management services; (4) developing diversified financial services; and (5) creating more robust financial markets. Concrete measures to address the following matters include:

1. Sounder overall financial environment: Integration of related provisions and systems set forth in different financial laws and regulations; drafting of a "Financial Services Act"; encouragement of financial innovation; etc.
2. Regional center for the fund raising: Gradual expansion of cross-strait financial services; strengthening of the ability of offshore banking units to serve as regional fund raising centers.
3. Asset management: Development of the asset management business; use of insurance and pension funds to spur economic development; and study of the feasibility of enacting an Asset Management Act.
4. Diversification of financial services: Development of the investment banking business; facilitation of the securitization market; promotion of fixed-income financial products; and encouragement of insurance enterprises to cultivate innovative, diversified marketing channels.
5. More robust financial markets: Updating of provisions governing capital adequacy management and information disclosure by banks; reinforcement of the ability of the insurance stabilization funds to quickly address and manage problems.



By taking these measures, the FSC intends to:

- (1) Push for the emergence of three financial institutions with market share of at least 10% each, and reduction of government ownership in financial institutions by the end of 2005.
- (2) Push for the emergence of at least one financial institution operating with foreign capital in Taiwan by the end of 2006 (or at least have one Taiwanese financial institution listed on an overseas stock exchange within that same time frame).
- (3) Raise the share of GDP accounted for by the financial services sector to 13% by 2008. (It was 11.5% in 2003.)
- (4) Push for the emergence of one to three regional financial institutions.
- (5) Raise the shareholdings of foreign investors to 25% of overall market capitalization by 2008. (It was 18.8% in 2003.)
- (6) Double by 2008 the amount of capital raised by multinational enterprises and institutions in Taiwan in 2003.
- (7) Quadruple by 2008 the number of outstanding securities that have been issued in connection with asset securitization since 2003.
- (8) Raise by 2008 the aggregate assets of financial institutions by 30% since 2003.

Establishment of market exit mechanism for financial institutions

The Act Governing the Establishment and Administration of the Financial Restructuring Fund (also known as the "RTC Act") was passed on July 9, 2001, to expedite the cleanup of poorly managed deposit-taking institutions. However, the FSC has drafted further amendments to the Act in order to increase the funds available for this activity and to prescribe the process by which the Central Deposit Insurance Corporation (CDIC) would take over after the end of the fund and hopes for its speedy enactment.

To lower the potential systemic risks stemming from the

switch from a blanket guarantee to limited coverage of deposits, and to consolidate the funds earmarked for deposit insurance claims, the FSC has also finished drafting amendments to the Deposit Insurance Act. (These amendments were enacted by Congress on May 31, 2005.)

Improvements to the underwriting and listing systems, and enhancement of post-listing regulation

Improvements made to the underwriting system include: (1) more reasonable procedures for pricing of initial listings on the stock exchange (TSE) or the over-the-counter market (OTC); (2) adoption of price stabilization measures; (3) free choice by underwriters as to the use of allocation methods; (4) enhancement of the professionalism of underwriters; and (5) enhanced efficacy for self-regulatory mechanisms. The new underwriting process is mandatory only for listing applications filed since 2005, but underwriters are requested to encourage issuers who filed in 2004 to abide by the new system.

To enhance the competitiveness of the domestic securities market, the FSC has improved pre- and post-management of TSE and OTC listings. Key measures initiated in 2005 include: (1) allowance of greater flexibility in TSE and OTC listing procedures; (2) more reasonable conditions for TSE/OTC listings; (3) more rigorous review of applications for conversion from TSE to OTC listings and for corporate splits or spin-offs; (4) more rigorous supervision of the financial affairs of TSE/OTC listed companies; (5) strengthened regulation of capital raising by domestic enterprises on domestic or overseas markets; (6) regulation of employee bonus policies; and (7) measures holding professionals to stricter liability standards.

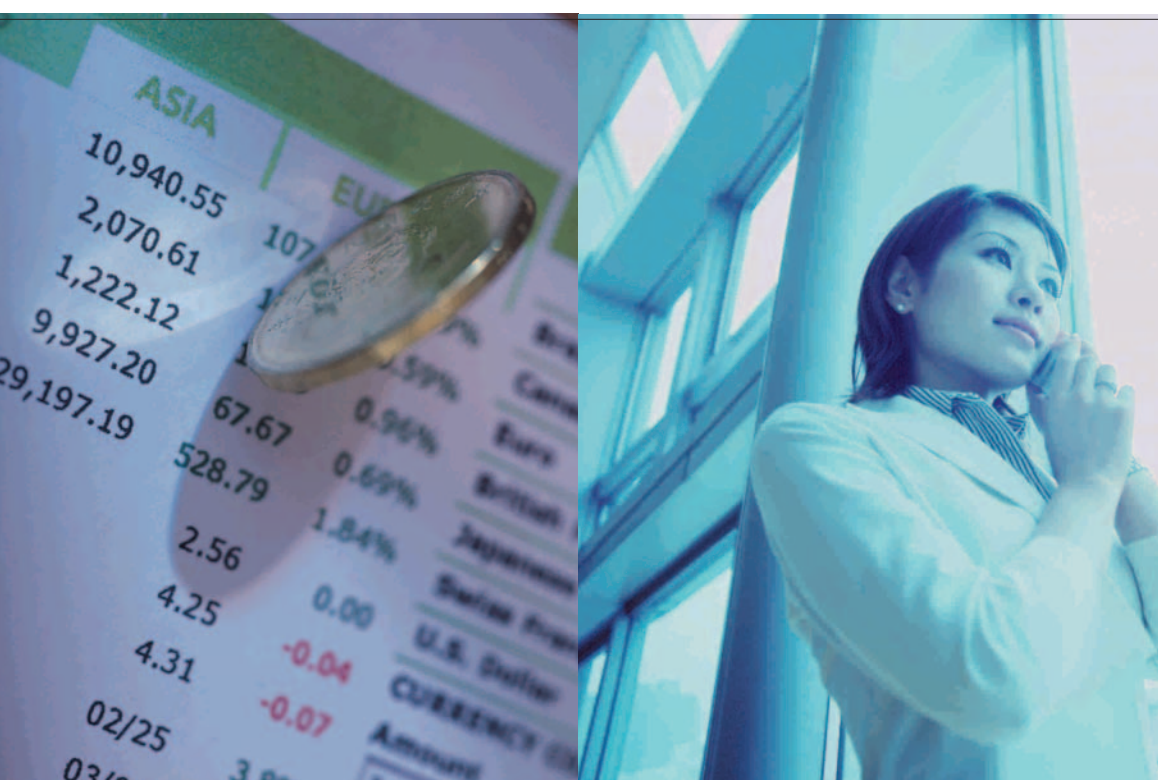


Mechanism for proxy solicitations

On November 29, 2004, the FSC proposed amendments to the Regulations Governing Handling of Stock Affairs by Public Companies. One of the goals of the amendments was to promote the solicitation of proxy votes from shareholders via a fair and impartial intermediary in order to increase the efficiency of shareholder meetings and reduce the expense and adverse impact of proxy fights.

Raise Taiwan's stature in the eyes of global institutions

In view of the ongoing liberalization of Taiwan's capital markets and removal of restrictions on foreign investment, Morgan Stanley Capital International (MSCI) announced on November 16, 2004 that it was raising Taiwan's limited investability factor (LIF) from 0.55 to 0.75 (the higher score indicating fewer restrictions on investment by foreign investors). The announcement was expected to attract billions of U.S. dollars into Taiwan's stock market. MSCI also announced it would further raise Taiwan's LIF from 0.75 to 1.0 in May 2005. In addition, FTSE announced in September 2004 that it was putting Taiwan on its watch list for developed markets, signifying a possible promotion of Taiwan from emerging to developed market status. An official announcement is scheduled for September 2005.



New requirements for financial forecasts

To keep pace with international practices while meeting local needs, the FSC amended the Regulations Governing the Public Disclosure of Financial Forecast Information by Public Companies. Key amendments to this policy include: (1) conversion to a voluntary disclosure of financial forecasts, which may be disclosed in summary or full format; (2) prescription of the time period that must be covered by summary and full financial forecast reports, and the information to be included; and (3) sole discretion for companies in deciding whether or not it is necessary to have its financial forecast reports reviewed by a certified public accountant.

Fair value accounting method

To bring Taiwan's accounting practices more in line with international standards, the "Statement of Financial Accounting Standards No. 34: Accounting for Financial Instruments (SFAS No. 34)" will enter into effect on January 1, 2006. SFAS No. 34 will enhance the transparency of financial statements by requiring that companies carry financial derivatives on their books and that the valuation of financial derivatives be carried out using the fair value method.

In September 2004, the FSC established an ad hoc team to assist Taiwan's enterprises in overcoming potential problems in

switching to the fair value method. The implementation of fair value accounting is expected to be completed in 2005 along with the adjustment of regulatory and administrative mechanisms and a revision of accounting and auditing standards.

Taiwan Financial Services Roundtable

The FSC has played a key role in pushing for the establishment of the Taiwan Financial Services Roundtable (TFSR), an organization intended to consolidate opinions from all finance-related industries into a consensus and provide assistance in the formulation and implementation of regulatory and industrial policies by the Taiwan government.



Towards more competitive financial institutions

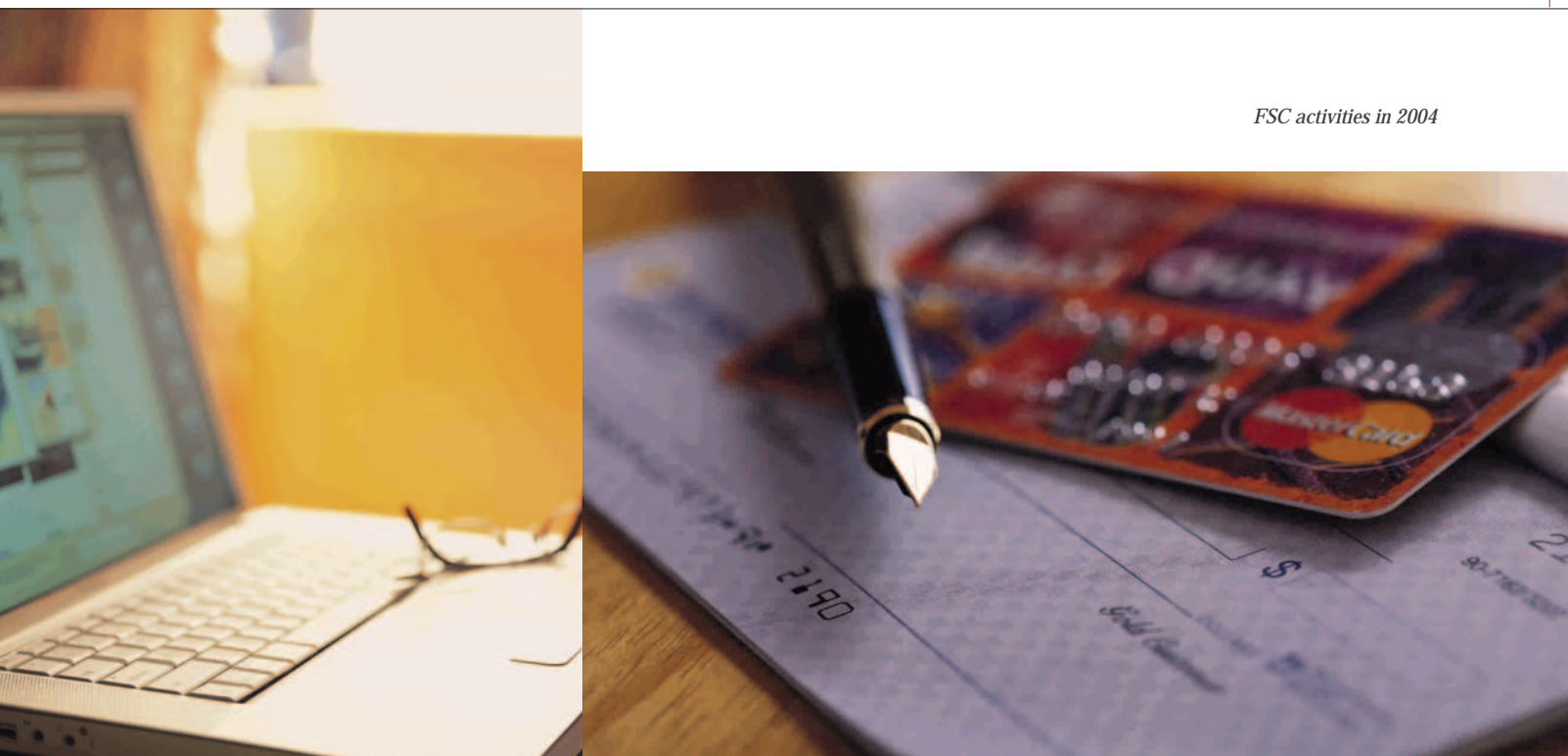
Acceleration of financial industry consolidation

Specific measures include the following:

1. Assist the Ministry of Finance, in its capacity as a stockholder, to select one or two large, well-managed privatized financial holding companies in order to spark financial industry consolidation and bring about the emergence of one or two "National Champion" financial institutions that would ultimately function as regional financial institutions.
2. Provide a favorable environment for financial industry consolidation: Differential regulatory measures include: (a) automatic approval for banks with a non-performing loan ratio under 2.5% to engage in certain lines of business; (b) for financial institutions that achieve a market share of 10% or higher through consolidation or merger, provide priority treatment in the approval process for the establishment of overseas branches; and (c) for financial institutions planning to acquire problematic financial institutions, give permission to reopen branches that have been previously closed down.
3. The FSC has prescribed the following performance targets for the National Champions: (a) at least 10% or more of market share in terms of total assets; (b) return on equity of 15% or higher; (c) return on assets of 1% or higher; (d) capital adequacy ratio of 10% or higher; (e) NPL ratio of 2.5% or lower; (f) coverage ratio of allowance for bad debts of 60% or greater; and (g) cost-to-income ratio of 40% or lower.

Easing of restrictions on business scope and uses of capital

1. Banks are now allowed to provide an expanded range of financial advisory services. In addition to advisory services related to financing, banks can also provide financial planning to clients involved in mergers and acquisitions, project financing, enterprise valuation, enterprise reorganization, and privatization of state-run enterprises.
2. Banks, bills finance companies, and the Chunghwa Post Co., Ltd. are now allowed to take part in lending and borrowing of government bonds via the book-entry system of the GreTai Securities Market.
3. Banks are now allowed to lend securities in their possession (provided that the securities are not being held for the purposes of a bank's concurrently operated securities business), and to lend and borrow securities on the Taiwan Stock Exchange by means of negotiation.
4. Credit cooperatives are now allowed to make housing loans to non-members, provide loans and overdraft facilities to government agencies, and extend larger consumer loans.
5. Insurance enterprises are now allowed to sell investment-linked insurance policies in which collections and payments are made in foreign currencies. The assets in the account books earmarked for this purpose are limited to investments denominated in foreign currencies. This change is designed to bring a broader range of insurance products on the market in order to better meet the needs of consumers.
6. Insurance enterprises are now allowed to invest in:



- (a) overseas corporate bonds with credit ratings of BBB+ or higher; (b) financial bonds issued by eight governmental entities including Norway's Eksportfinans ASA; and (c) real estate securitization products.
- 7. Broaden the applicable scope of and raise the ceiling for "other transactions" as applied to insurance enterprises. Insurance enterprises are not required to register "negotiated securities lending" transactions until after the fact. In order to allow insurance enterprises a wider range of investment options, the FSC has issued a determination that the following three types of enterprises all qualify as insurance-related enterprises: (a) enterprises providing financial or investment services to enterprises carrying out activities related to insurance; (b) financial holding companies; and (c) real estate rental and leasing enterprises.
- 8. Securities firms are now allowed to engage in businesses related to ETF warrants and bond options, and to concurrently operate securities investment consulting and futures advisory services. Also, securities underwriters are now allowed to provide financial planning and consulting services in connection with private participation in infrastructure projects.
- 9. Securities investment trust enterprises are now allowed to issue new fund products such as asset allocation umbrella funds, and regulations governing issuance of index funds and other types of funds have been eased.
- 10. The FSC eased restrictions governing how domestic FCMs engaged exclusively in futures trading. Foreign FCMs are allowed to invest their own funds. Also, futures commission merchants are now permitted to enter into hedging transactions in bond options with financial institutions already engaged in this business.
- 11. Foreign investors are now allowed to use futures for long hedging. Specific foreign institutional investors (FINIs) are also allowed a broader range of activities as participants in Taiwan's system for the borrowing and lending of securities, including: (a) the creation of exchange-traded funds, (b) hedging and arbitraging of various types of bonds (convertible bonds issued onshore or offshore; exchangeable bonds issued onshore or offshore; and exchangeable government bonds), (c) involvement in the process of converting exchangeable bonds or convertible bonds into stocks, and (4) the redemption of borrowed securities.



One-stop government service

To facilitate consolidated financial supervision, the FSC has adopted the so-called one-stop review process for applications and filings. Starting January 1, 2005, the Securities and Futures Bureau (SFB) will serve as the contact window for public financial institutions or insurance companies that plan to increase and/or reduce capital or issue securities. These applications or filings will also be reviewed by the SFB. Financial institutions and insurance companies submitting applications or filings are merely required to copy the Banking Bureau or the Insurance Bureau, as appropriate.

Streamlined review procedures for insurance products

Many more filings can now be made under use-and-file rules, the paperwork burden of filers has been reduced, and the review process has been streamlined. In addition, the FSC has adopted a system for ratings-based review of insurance products and granted a reasonable sales protection period for innovative insurance products.

Encouragement of product innovation

1. Asset securitization: In 2004, the FSC encouraged enterprises to securitize loan assets. To facilitate the review process, the FSC adopted rules regarding standardized reviews and information disclosure. From January 2003 through December 2004, the FSC approved 13 applications for the securitization of financial assets (aggregate value: NT\$72.4 billion) and six applications for the securitization of real estate (aggregate value: NT\$13.4 billion).
2. Regulations governing ABCP: Asset-backed commercial paper (ABCP) is one of the most widely used financial asset securitization products on the market. To further develop the ABCP market, the FSC has implemented a shelf registration system for short-term beneficial securities issued by trustee institutions on a revolving basis, and introduced relevant



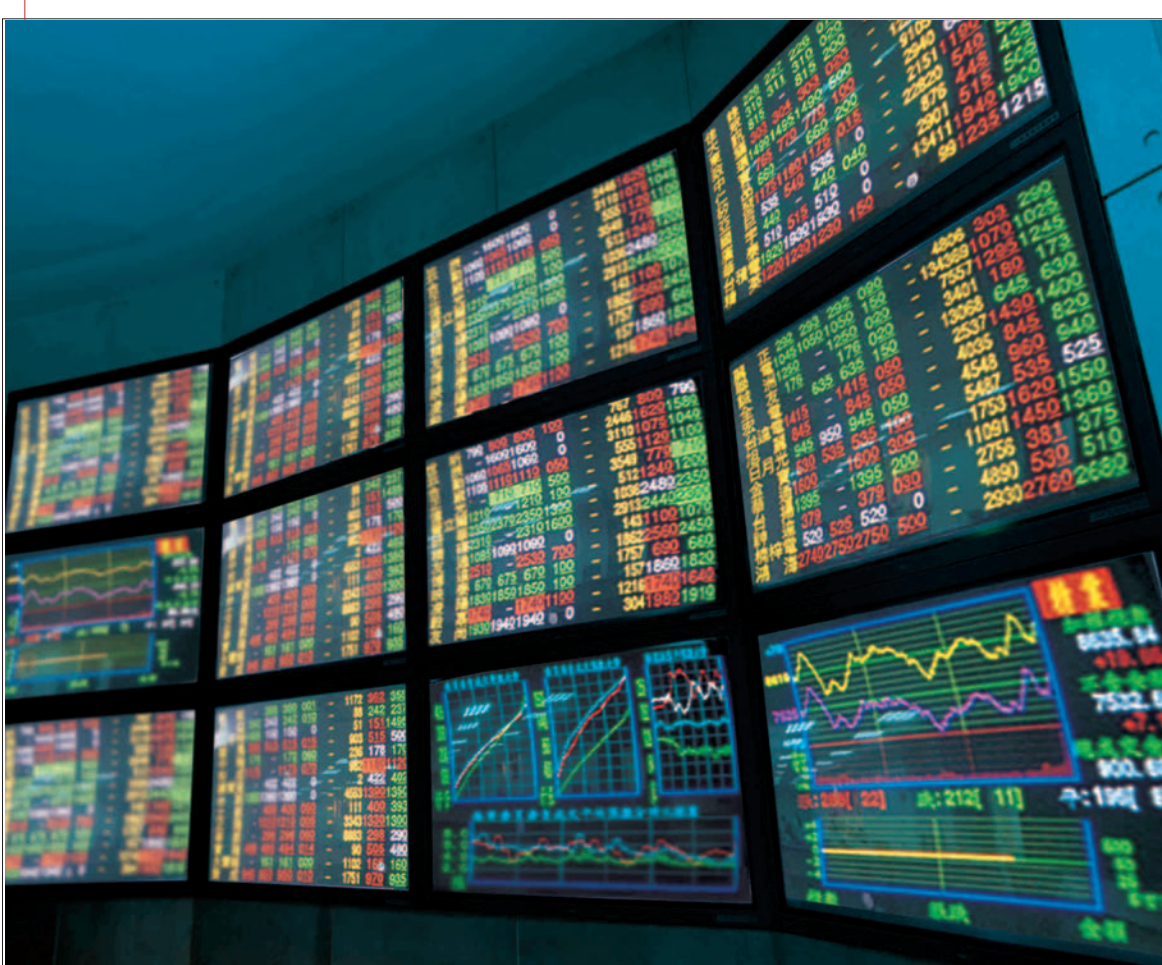
- settlement and delivery systems.
3. More assets approved for securitization: To enhance the liquidity of the bond market, shift the market risks for bondholders, and diversify investment channels, the FSC now allows the securitization of bonds that meet or exceed a prescribed credit rating, and accepts applications for issuance of beneficial securities backed by bonds (e.g. collateralized bond obligations and collateralized debt obligations).
 4. Launch of new financial products: To meet domestic investment needs, the FSC has approved the launch by foreign banks of various innovative financial products such as foreign-denominated weathers options, foreign currency structured time deposits, and gold option-based structured investment products. The FSC has also approved plans by the Taiwan Futures Exchange Corporation to provide interest rate futures contracts such as ten-year Treasury bond futures contracts and thirty-day interest rate futures contracts.
 5. New types of insurance products allowed: In 2004, the FSC approved the sale of 2,395 insurance products. Newly approved non-life insurance products include weather insurance, mortgage insurance, comprehensive insurance for women, and celebrity accident insurance with addendums providing for coverage of designated body parts. Newly approved products for life insurance include variable annuity packages in which insurance companies passively manage funds in separate accounts, universal life insurance contracts, adjustable-premium long-term health insurance, and investment-linked insurance with extended coverage for minors under the age of 14.

Education and training

1. The FSC worked in 2004 to dispatch personnel to other countries for advanced study, or for professional training in other supervisory authorities or prestigious global financial institutions. Plans currently call for FSC employees to go to 15 different organizations, including the Financial Services Authority in the United Kingdom, JP Morgan Fleming, Citigroup, as well as other institutions.
2. The FSC has also planned to dispatch outstanding personnel to foreign countries under its Elite Program for further study in academic degree programs.
3. The FSC has been holding training courses on financial engineering designed to enhance its personnel's capacity to review new financial products.

Deregulation of cross-strait financial services

1. Overseas branches of domestic banks and offshore banking units are now allowed to extend loans to offshore clients. Funds from such loans can be transferred to mainland China for use by resident Taiwanese businessmen.
2. Hong Kong branches of Taiwan-based banks are now allowed to handle Renminbi banking services.
3. The FSC has formulated plans to allow securities firms to apply for approval to invest directly in securities companies based in mainland China prior to execution of any memorandum of understanding for supervisory cooperation between the respective authorities in Taiwan and mainland China.
4. Since April 2004, the FSC has allowed Taiwanese insurance enterprises to invest in insurance companies in mainland China provided that their shareholdings remain less than 25%. By the end of 2004, the FSC had granted applications by 14 insurance enterprises to set up 43 representative offices in mainland China. Of these, 9 insurance enterprises have received approval from China's government and have set up 11 representative offices.



Enhanced financial supervision

Stronger corporate governance

The FSC has established a Corporate Governance Working Group with a view to promoting sound practice in this area. The following measures have been initiated:

1. Perform selective examinations of listed companies' financial conditions and internal control systems.
2. Encourage companies to establish independent directors and build up a sound internal control system.
3. Propose further legislative amendments to strengthen the securities trading system and make it easier for corporations to raise funds on capital markets.
4. Amend Taiwan's accounting standards to bring them more closely in line with international accounting standards and ensure the quality and timeliness of information disclosure. Amend the Certified Public Accountant Act to raise standards of professionalism.
5. Draft the "Corporate Governance Best-Practice Principles for Insurance Enterprises" in order to protect shareholders' equity, strengthen the function of boards of directors, enable supervisors to exert greater influence, respect the rights and interests of customers and interested parties, maintain solvency, and enhance transparency.

Better information disclosure

1. The FSC has completed an Information Disclosure Evaluation System and amended regulations governing what various items are to be published in annual reports and prospectuses.
2. The Accounting Research and Development Foundation issued the "Statement of Financial Accounting Standards No. 35" and "Statement on Auditing Standards No. 40 and 41," and amended the "Statement of Financial Accounting Standards No.1, 5 and 7."
3. Regulations have been issued for certified public accountants engaged in the auditing and attestation of financial statements of securities firms, specifying what items should be stated in the "Important Notes" section of their reports.
4. As of 2004, banks are required to post important financial and operating information on their company websites. In addition, all card-issuing institutions are now required to report important business and financial information concerning their credit and cash card operations on a monthly basis and to publish this information on the website of the Banking Bureau.

Stronger financial and risk management at financial institutions and public companies



1. To strengthen the settlement capacity of insurance enterprises, the FSC continues to scrutinize the risk-based capital and certifying actuary systems of insurance enterprises. New investment tools such as risk coefficients have been established for financial asset securities and real estate securities, as well as risk calculation methods for voluntary participating policies offered by life insurers. In addition, in response to growth in investment-linked insurance products, standards for the various reserves to be provided in connection with these products were published in October 2004.
2. The FSC has drafted a code of practice for risk management at securities firms.

Implementation of differential regulatory measures

1. In order to encourage financial innovation and invigorate the financial market, the FSC has issued Directions Governing Measures to Accelerate Reduction of Non Performing Loans at Domestic Banks, which, for parties with a relatively low NPL ratio, provides for simplified application procedures. By the end of December 2004, the average NPL ratio of domestic banks had been reduced to 2.78%, while the coverage ratio of allowances for bad debts averaged 41.41%, thus showing a significant improvement in the quality of bank assets.
2. The procedures whereby banks apply to engage in financial derivatives business have been simplified. Banks whose asset quality, capital adequacy, and allowances for non-performing loans are in line with established standards may utilize the negative list approach and after-the-fact filing. The derivatives operations of those institutions that do not conform to these standards are restricted to hedges only.
3. In order to implement differential regulatory measures, the FSC has adopted a rule requiring that a listed or OTC financial institution must meet specific criteria for capital adequacy ratios and other pertinent financial conditions before it will be allowed to implement a treasury stock system.
4. For insurance enterprises that have well-developed internal control systems and risk control mechanisms and that have not committed any major violations of the law, the FSC now agrees to authorize overseas investments in an amount to be determined in relation to a company's capital adequacy ratio (RBC).

5. The FSC now rates insurance enterprises according to five criteria (the quality of past filings, the professional qualifications of their qualified signatories, financial and operational status, quality of compliance with the law, and product innovation). As of July 1, 2005, when an insurance enterprise submits a new filing, the FSC varies the rigor of its regulatory scrutiny on the basis of the ratings -- an enterprise with a better rating is treated less restrictively.

Improving self-regulatory performance

1. The FSC has directed the Bankers Association to adopt a code of self-regulatory standards and completed draft amendments to the regulations governing the internal controls and audit systems of banks and financial holding companies.
2. The FSC has called on the Trust Association to review the advertising of its members to ensure that no inappropriate or misleading information is disseminated to the detriment of the public.
3. The FSC has called on the Non-Life Insurance Association to establish self-regulatory standards.
4. The FSC has called on the Non-Life and Life Insurance Associations to establish self-regulatory standards for investments, and similar standards to govern their members' advertising and marketing activities.
5. To enhance discipline, the FSC directed the Taiwan Securities Association to review its self-regulatory standards, including:
 - (a) Rules requiring balanced information reporting and the prior review of advertising issued by members who have previously contravened regulations. In addition, advertising behavior will be brought into the ambit of securities firm's internal control systems.
 - (b) Rules barring improper poaching of personnel among securities firms and prohibiting securities firms from appearing in the broadcast media to discuss investment options during any period in which they are: (i) acting as proxy solicitors, or (ii) concurrently providing securities investment consulting or futures investment advisory services.
 - (c) In coordination with the new underwriting process, the FSC has adopted more rational rules for the pricing of IPO underwriting services, introduced price stabilization operations, and now allows underwriters their choice of securities allocation methods.



Maintaining financial order

Prevention of financial crime

1. To quickly resolve major financial criminal cases prominent in the public eye, the FSC has designated a liaison office to handle communications with the Department of Criminal Affairs of the Judicial Yuan. The Commission's Financial Examination Bureau has set up a consultation group to help judges quickly sort out the technical details in court cases and attain higher conviction rates.
2. A circular has been issued instructing financial institutions to ensure compliance with the Money Laundering Control Act. In addition, the Central Deposit Insurance Corporation has been requested to report immediately to the FSC when it discovers cash flow irregularities at financial institutions.
3. The FSC has compiled information on 258 cases of suspected financial criminal activity referred to prosecutors by various government agencies. Among these, 36 cases were of significant public interest, while the other 222 cases involved illegal activity connected with financial institutions being cleaned up using the Financial Restructuring Fund. Judgments and indictments concerning financial criminal activity of significant interest are posted on the website of the Commission's Banking Bureau.
4. The Insurance Anti-Fraud Institute was formally established on January 31, 2004, with a mandate to: (a) investigate and analyze instances of insurance crime; (b) establish databases for underwriting reports, closed claim reports, and insurance fraud statistics; (c) assist in investigations of insurance crime; and (d) maintain communications with the judiciary and police authorities. In addition, the Institute fulfills a public role by providing accurate information concerning the insurance industry so as to enhance safeguards against fraudulent activities.
5. Selected articles of the Securities and Exchange Act have been amended to increase the terms of punishment and fines for financial crime, to lengthen periods of compulsory labor imposed when fines are commuted on account of inability to pay, and to increase the punishments meted out in severe cases of financial crime. These various measures are designed to discourage criminal activity of this type.
6. Measures have been adopted to clamp down on manipulative speculation and insider trading, and to improve cooperation with judiciary authorities so as to achieve timely justice and maintain order in the stock market.



7. Futures firms found engaging in illegal currency trading on margin and underground futures trading were referred for prosecution last year for violating the Futures Trading Act. The FSC actively provided professional assistance to courts trying cases involving fraudulent futures trading.

Stronger financial examinations

1. Under Article 5 of the FSC Establishment Act, the FSC and its subsidiary agencies can require the production of documents, summon persons for questioning, conduct searches, etc. In order to facilitate the exercise of these functions, standards have been established for their conduct and examination manuals drawn up. These initiatives guarantee the rights and interests of parties under examination and ensure the credibility of the investigative process.
2. The FSC has established a Special Inspections Unit to coordinate the auditing of money trails and loans. In addition, it has set up mechanisms for handling cases of major financial criminal activity and, with the coordination and assistance of the Investigation Bureau of the Ministry of Justice and the Investigation Supervision Unit for Financial Crimes of the High Court Prosecutor's Office, has proven very effective in combating such offenses.
3. Since its establishment in July 2004, the FSC has also taken part in investigations of securities firms and stepped up its investigations of major malfeasance cases involving listed and OTC companies in order to protect the rights and interests of investors and consumers.
4. An external monitoring mechanism has been set up to enhance the efficiency of examinations. Relying on the information obtained from the systems that make up the external monitoring mechanism, the FSC prioritizes its financial examinations in order to efficiently allocate supervisory resources.

Stronger market supervisory mechanisms

1. One-stop window for reporting of financial supervisory information
In August 2004, the FSC set up a "Preparatory Group for a One-Stop Window for Reporting of Financial Supervisory Information." The group is working to set up a financial supervisory database to be shared by all

the different financial supervisory agencies, which will simplify reporting procedures for financial institutions and cut reporting costs. By the end of 2004, the FSC consolidated reporting forms for domestic and foreign banks and bills for finance companies. The one-stop window will be formally launched in 2006.

2. Financial Supervisory Joint Committee
The Financial Supervisory Joint Committee is chaired by the FSC and includes representatives of the Central Bank and the Ministry of Finance and was created to coordinate the handling of supervisory, regulatory, and examination matters. The Joint Committee provides recommendations regarding how to handle troubled financial institutions, reviews related laws and regulations, and proposes legislative amendments as appropriate.

Enhancing disclosure of illegal activity by financial institutions

When a financial institution violates the law and the FSC metes out serious punishment, the details regarding the case are posted on the FSC website the next business day following the decision. The term "serious punishment" refers to cases in which the FSC:

1. requires the financial institution to replenish capital within a prescribed time limit and the financial institution fails to comply;
2. orders the discharge, dismissal or replacement of directors, supervisors, managers or employees;
3. suspends some or all of the duties and powers of the institution's shareholders meeting, directors, or supervisors;
4. orders the suspension, prohibition, alteration or rescission of a resolution adopted at a statutory meeting;
5. orders the suspension of all or a part of a company's operations, restricts its scope of business, or limits the amount of coverage that may be provided under any new insurance policy;
6. places a business under conservatorship or receivership, orders suspension of operations, or orders dissolution.
7. rescinds or cancel business licenses; or
8. takes other measures as may be deemed appropriate.



International exchange

International organizations and activities

As part of an ongoing commitment to globalization, the FSC actively participates in the activities of international financial supervisory organizations. The FSC takes advantage of the numerous opportunities presented by international gatherings to enhance its relations with other countries and to share the fruits of our respective experiences in the supervisory field. Important international activities of the FSC in 2004 include:

1. Participation in the 13th International Conference of Banking Supervisors (ICBS), organized by the Basel Committee on Banking Supervision (BCBS) in Madrid, Spain. Fruitful discussions with the financial authorities of a number of countries focused on current financial supervisory issues and the promotion of cross-border banking supervision.
2. Participation in the Financial Services Roundtable in Washington, DC, at which Commission Chairperson Mr. Kong Jaw-Sheng was invited to make a special presentation.
3. Chairperson Kong also led a delegation to New York to attend the IOSCO Technical Committee Conference on Regulators and the Global Marketplace. Delegates studied the American market systems for pre-listing review and post-listing regulation as well as the CPA system, and also visited a number of premier financial groups in the United States.
4. Chairperson Kong was invited to address the Committee on Trade in Financial Services of the WTO on the revamped structures of Taiwan's financial supervisory system and the progress of financial reforms.
5. FSC delegates also held talks in 2004 in Basel with the Bank for International Settlements (BIS), the Basel Committee on

Banking Supervision (BCBS), and the International Association of Insurance Supervisors (IAIS).

6. Finally, the FSC also attended annual meetings of the Asian Development Bank, the Central American Bank for Economic Integration, and the European Bank for Reconstruction and Development; the conference of Asian Development Fund donor nations; the annual meetings of the International Association of Insurance Supervisors (IAIS), the International Insurance Society (IIS), the East Asian Insurance Congress (EAIC), and the International Organization of Securities Commissions (IOSCO). The FSC was also represented at the annual APEC Finance Ministers' Meeting and the APEC Ministerial Meeting.

Hosting of international financial conferences

The 2nd Taipei Corporate Governance Forum was held on November 5, 2004, and attended by over 700 top executives of listed companies and financial institutions in Taiwan. Invited to address the assembly were senior officials of the OECD, government and industry officials from Japan, Korea, and Hong Kong, and well-known academics. The meeting was a valuable contribution in the efforts to bring corporate practice in Taiwan in line with the most advanced standards prevailing internationally.



International cooperation in financial supervision

Further initiatives to increase cross-border supervisory cooperation on the international scene include a substantive dialogue held in Taipei with the Financial Services Authority (FSA) of the UK in September 2004 and a visit by the Financial Supervisory Service of Korea in December. The FSC has also taken advantage of the IOSCO and ICBS conventions to develop stronger ties with the United States, United Kingdom, Canada, France, Netherlands, Singapore and other countries. In addition to furthering the interests of Taiwan's financial institutions, these various talks have led to the signing with many countries of memoranda of understanding addressing cooperation in the field of financial supervision.

Participation in international trade talks

FSC representatives attended bilateral consultative talks with Vietnam regarding its WTO accession, engaged in negotiations on a free trade agreement with Nicaragua, and actively participated in the WTO Doha Round of talks, seeking to bring down various national barriers to worldwide trade in financial services and open up market opportunities abroad for Taiwan's financial sector.

Enhancing Taiwan's international profile

To familiarize foreign audiences with Taiwan's financial markets, the FSC began publishing a bilingual electronic monthly newsletter in July 2004. This publication provides regulatory updates and statistical data on the Taiwan's financial markets, and is disseminated to important financial media and investment institutions worldwide.



Consumer and investor protection

Publicizing events to protect consumer & investor interests

The 2004 Securities and Futures Annual Festival was held on the plaza of the Chiang Kai-shek Memorial Hall to combine a variety of investment consulting services, performances, and family games in a fun and informative venue for investors to learn about securities, futures, and the various listed and OTC companies. The FSC also put on a roadshow to introduce the main policies and operations of the FSC and gave consumers around Taiwan an opportunity for face-to-face discussions about their financial interests or problems that may have arisen in their investments. The exercise was deemed very useful for the FSC's proactive commitment to the protection of consumer rights and interests.

Refreshing consumer and investor information websites

1. The bilingual Banking in Taiwan website (www.boma.gov.tw) of the Banking Bureau went online on January 1, 2005. The new website provides a wealth of information for consumers and investors through online browsing or subscription to regular financial features.
2. An insurance product database (www.iiroc.org.tw) has

also been set up providing direct access to consumers regarding details of insurance policy provisions, application forms, product information, summary rates, and a wide range of other useful and informative data.

3. Another consumer-oriented website proving to be of excellent value for users is the Market Observation Post System website (<http://newmops.tse.com.tw>) which combines data from the Taiwan Stock Exchange and the GreTai Securities Market, and provides users with access to a wide range of information concerning all listed, OTC, and emerging stock companies, as well as other public companies.

Adopting credit and cash card management measures

In an effort to improve the quality of credit and cash cards issued by financial institutions, the FSC has implemented supervisory practices as described below.

1. When an issuing institution has a NPL ratio of at least 3% but below 5%, it will be notified in writing, warned to take steps to avoid the degradation of the asset quality of its cards, and to devise plans for improvement.
2. When a NPL ratio is at least 5% but below 8%, a reprimand will be issued, and the institution will be required to improve its asset quality within three months.





3. When an institution's NPL ratio reaches 8%, its credit and cash card-issuing operations shall be suspended (though replacement cards may still be issued).

The implementation of these measures saw the average NPL ratio for cash cards drop from 2.84% in May 2004 to 0.63% in December 2004. In addition, the credit card NPL ratio dropped from 1.05% in June 2004 to 0.51% at the end of December, demonstrating the positive effects of these initiatives on the issuance of credit cards and stabilization of card quality.

Improving consumer and investor complaint services

1. With respect to banking operations, a committee providing consumers with a neutral and independent service for solving dispute with banks has been established by the Bankers Association. Initial plans call for three of the seven members of the committee to be nominated on a rotational basis by the Bankers Association, with the other four to be recommended by the FSC.
2. With respect to insurance matters, an Insurance Complaints Committee handles disputes concerning claims and oversees the complaints departments of the various insurance companies to ensure that the channels and procedures for complaints are clear and straightforward. In addition, in an effort to encourage insurance companies to treat the rights and interests of consumers with due concern, the Committee publishes related data and statistics on the complaints received by each company on a regular basis.
3. With respect to securities and futures trading, an Investors Protection Center has been established to provide securities and futures investors with consulting and complaint services. The Center can initiate class action suits or file for arbitration on behalf of investors. Since the Center opened, the number of investors lodging complaints or seeking dispute settlement has grown considerably. For example, the Center has been very proactive in assisting investors affected by the Procomp Informatics case.





Future Prospects

The FSC is committed to a service-oriented supervisory culture and will continue to adhere to the principle of differential regulatory measures as we work to bring our supervisory policies and financial systems more closely in line with international trends. In so doing, our ultimate goal is to help financial institutions achieve better performance and become more competitive internationally. At the same time, the FSC seeks to improve the education and protection of consumers and investors. We believe that raising the general level of public understanding of the financial world and promoting faith in financial markets will be of great benefit for the healthy development of a sound financial sector.

Drafting a Financial Services Act

In order to ensure the long-term development of a sound financial market in Taiwan, the FSC is preparing to draft a Financial Services Act modeled to a degree on similar legislation existing in the United Kingdom, Japan, Korea, and Australia. The four core concepts underpinning the Act are: (1) supervisory improvement; (2) reform and harmonization of financial regulations; (3) protection of financial consumers; and (4) encouragement of financial innovation. The Act will encompass the various statutes currently in force governing the banking, securities, and insurance sectors and will articulate a set of common supervisory principles. It will set up a single platform for the entire financial sector and put in place a statutory framework for Taiwan's future financial environment that is adapted to the requirements of the marketplace and the internationalization of financial activity.

Encouraging financial industry consolidation

At present, in comparison to more mature financial markets of other countries, Taiwan can most benefit from larger financial institutions with greater competitive strength. To this end, the FSC is encouraging mergers among Taiwan's financial institutions in order to bring about the emergence of one or two sizable firms that can compete at a higher level, and to stimulate latent merger momentum in the marketplace. To further these goals and as an inducement to financial institutions to engage in mergers, the FSC will implement differential regulatory measures and amend obsolete regulations that present unreasonable barriers to merger activities.

In addition, in order to remove troubled institutions from the market through



mergers or acquisitions, the FSC will: (a) pump additional funds in to the Financial Restructuring Fund and the Deposit Insurance Fund; (b) set up a prompt corrective action mechanism; and (c) put increased pressure on financial institutions to merge or exit the market. The FSC will also actively encourage inward investment by foreign institutions and the creation of strategic alliances that will bring in new technologies, management teams and capital to build up the international competitive profile of Taiwan's financial institutions.

Promoting Taiwan as a regional fund-raising center

The FSC plans to take steps to ease regulations governing fund raising in Taiwan by foreign firms and promote the internationalization of capital markets. Foreign institutions will be permitted to issue bonds denominated in foreign currencies, thus diversifying the types of products on the corporate bonds market. Also, the creation of a "government bond index" will be studied in order to evaluate market performance and attract foreign investors to the local bond market. To assist Taiwanese businesses with respect to the management of their finances, the FSC is looking into allowing greater flexibility in the operations of offshore banking units and overseas branches of Taiwan-based financial institutions, so that they can effectively respond to changes in the mainland Chinese market and better develop their business.

Promoting asset management

Taiwan is home to highly competitive manufacturing industries with global reach and holds significant foreign currency reserves. There is thus considerable scope for the development of asset management services. The FSC is preparing to allow banks to engage in securities investment consulting operations, permitting them to offer financial planning and consulting services to consumers. At the same time, regulations will be drawn up to ensure proper risk management and to prevent money laundering through the wealth management services.

In another initiative aimed at broadening the combination of securities and futures operations by companies and to strengthen securities investment consulting firms, the FSC amended the regulations governing investment consulting firms, investment trust firms, securities houses, and futures advisory firms so as to upgrade capital utilization efficiency. The FSC also studied ways to broaden the scope of managed futures enterprises and possibly permit futures trust enterprises, as well as offshore funds.

For the insurance industry, the FSC intends to promote the management of internal funds by insurance enterprises and open up investment channels for insurance capital in order to boost investment performance and put to use some of the vast amounts of capital held by insurance firms. This will also maximize capital managed by the insurance industry in separate accounts and encourage insurers to set up asset management platforms and risk management departments.

Finally, with respect to pension funds, the FSC is currently engaged in a joint study with the Council of Labor Affairs of new Regulations to Govern Workers' Pensions, to involve insurance and trust enterprises in the management of individual pension fund accounts.



Preparing for the "International Board"

In order to broaden the domestic securities market and open up investment channels in such a way as to attract reputable foreign firms to list in Taiwan, the FSC is planning to launch an "International Board" capital market. Trading will be denominated in US dollars and will represent an opportunity to boost standards of corporate governance as well as the professional competence of underwriters, certified public accountants, lawyers and other professionals further bringing Taiwan's capital markets into line with international practices and enhancing their competitiveness.

Adjusting the range of share price fluctuation

The current limit on daily share price fluctuations of 7% in effect for many years is actually quite restrictive in comparison to major international markets. In view of the growing maturity of domestic investors and a desire to keep pace with international trends, the FSC is considering allowing a wider range and achieving a more sound market pricing system through market mechanisms that respond quickly to changes in actual company prices. The FSC has a number of measures under consideration to ensure market stability in the wake of a relaxation of the share price fluctuation limit. Once these are finalized, a date will be chosen for the implementation of these changes.

Establishing a risk-oriented examination system

In response to the increasing number of cross-sector business combinations in the financial industry, examination resources will be directed towards financial institutions and lines of business with greater risk.

Furthering international exchange and cooperation

In order to promote further exchange and cooperation with supervisory authorities in other countries and with international organizations and increase interaction and training of personnel in these areas, the FSC will continue to invite officers of important international organizations and leaders of global stature to come to Taiwan to make presentations of interest to the FSC. Such efforts will enhance Taiwan's international profile and raise standards in the domestic financial industry. Meanwhile, through participation in WTO negotiations on services and the signing of bilateral memoranda of understanding with various countries, the FSC will play an active role in reducing barriers to trade in financial services around the world, and thereby open up opportunities for Taiwanese firms in this sector.

In addition, the FSC intends to dispatch traveling forums around the world to familiarize international investors with Taiwan's market and attract inward investment. In July 2005, the FSC will open a branch office in New York, with another to follow in London in December to promote increased cooperation with supervisory authorities and international financial organizations. These developments will serve as our contributions in the financial arena to Taiwan's overall diplomatic objectives. The FSC will also continue to host important international conferences in Taiwan. For example, the FSC has already hosted the 2005 IOSCO Emerging Markets Regional Training Seminar and the 5th Asian CEO Insurance Summit. Such events have significantly raised the international profile of Taiwan's financial markets.



Furthering improvements to consumer and investor protections and education

Ongoing efforts

The FSC will continue to amend and study current laws and regulations, with a view to ensuring the interests of investors and consumers. Aspects of this work include:

1. Prescribing the items that must (or must not) be included in standard contracts.
2. Drafting new amendments to the Securities and Exchange Act so as to clearly define the constituent elements of market manipulation, insider trading, and other offenses.
3. Developing model clauses for different types of policies for insurance of the person and drawing up regulations relative to the disclosure of information regarding investment-linked insurance products.

Promoting general understanding of financial matters

The FSC intends to offer university courses beginning in 2005 that will further a general understanding of financial matters and contribute to the training of future personnel for the financial industry. In addition, recommendations will be furnished to the Ministry of Education that financial education be introduced to high school curricula so as to improve understanding of financial matters and the basics of investment and personal finance among the general population.

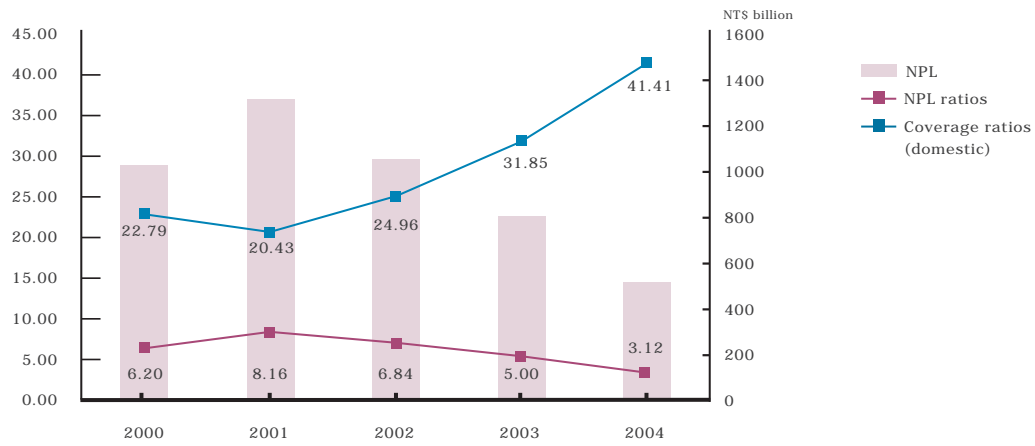
Financial Statistics

1. Banking-related Indicators

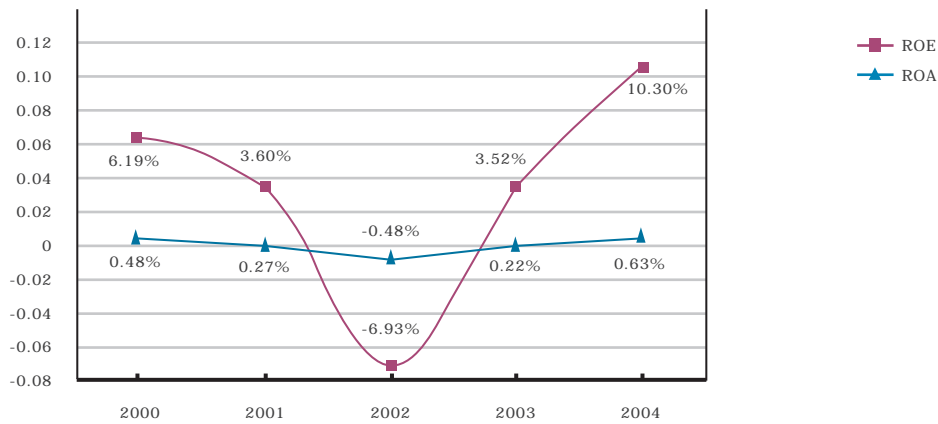
Currency: NTS

Item	Unit	2000	2001	2002	2003	2004
Numbers of financial institutions						
Head offices	Qty.	473	433	420	416	412
Domestic banks	Qty.	53	53	52	50	49
Branches of foreign banks	Qty.	39	38	36	36	35
Community financial institutions	Qty.	362	324	315	313	311
Trust investment companies	Qty.	3	3	3	3	3
Bills finance companies	Qty.	16	15	14	14	14
Branch units	Qty.	4,267	4,455	4,455	4,524	4,511
Domestic banks	Qty.	2,693	3,005	3,068	3,173	3,189
Branches of foreign banks	Qty.	70	69	68	69	67
Community financial institutions	Qty.	1,416	1,300	1,245	1,209	1,185
Trust investment companies	Qty.	36	33	29	28	26
Bills finance companies	Qty.	52	48	45	45	44
Deposit balance of head & branch domestic institutions						
	NT\$1 billion	18,827	19,713	20,052	21,111	22,495
Domestic banks' share	%	69.74	71.33	72.15	72.90	73.33
Foreign banks' share	%	2.91	2.48	2.47	2.63	2.61
Trust investments' share	%	0.56	0.59	0.58	0.56	0.54
Credit cooperatives' share	%	4.37	3.55	3.32	3.11	2.79
Share of credit depts of farmers' & fishermen's associations	%	7.4	6.62	6.22	6.04	5.94
Share of Postal Savings & Remittances Dept.	%	15.03	15.43	15.27	14.75	14.79
Loans of head & branch domestic institutions						
	NT\$1 billion	14,416	13,976	13,623	14,377	15,921
Domestic banks' share	%	88.85	90.18	90.76	91.33	91.70
Foreign banks' share	%	2.72	2.64	2.62	2.60	2.71
Trust investments companies' share	%	0.62	0.49	0.37	0.37	0.39
Credit cooperatives' share	%	3.41	2.77	2.64	2.48	2.22
Share of credit depts of farmers' & fishermen's associations	%	4.41	3.92	3.61	3.21	2.99
Non performing loans						
Total NPLs: all institutions	NT\$1 billion	1,021	1,327	1,074	802	529
NPL ratio: all institutions	%	6.20	8.16	6.84	5	3.12
Coverage ratio of domestic banks	%	22.79	20.43	24.96	31.85	41.41
Domestic bank profitability						
Return on equity (ROE)	%	6.19	3.60	-6.93	3.52	10.30
Return on assets (ROA)	%	0.48	0.27	-0.48	0.22	0.63

NPL Ratios & Amounts for All Financial Institutions vs. Coverage Ratio of Allowances for Domestic Banks



Domestic Bank ROE and ROA Trends



2. Securities & Futures: Important Indicators

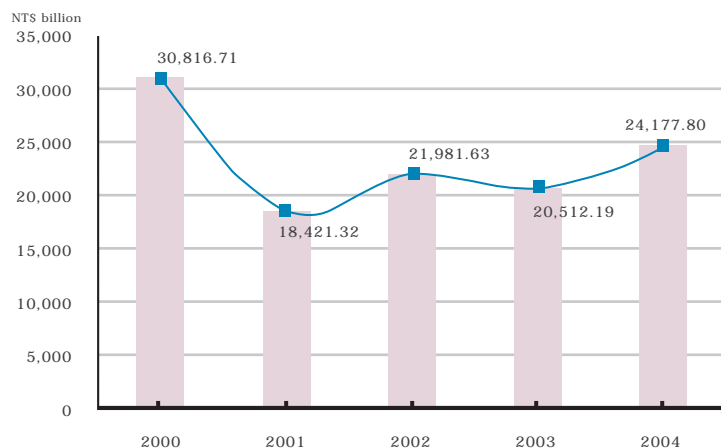
Currency: NT\$

Item	Unit	2000	2001	2002	2003	2004
Numbers of securities service enterprises						
Securities firms -head offices	Qty.	190	183	163	154	148
Securities firms -branches	Qty.	1,092	1,094	1,020	1,048	1,084
Brokers	Qty.	158	151	125	114	108
Proprietary traders	Qty.	105	105	97	95	96
Underwriters	Qty.	75	75	66	59	57
Securities investment trust enterprises	Qty.	38	41	44	43	45
Securities investment consulting enterprises	Qty.	238	223	212	208	218
Numbers of futures service enterprises						
FCMs engaged exclusively in futures trading	Qty.	25	26	24	24	23
Securities firms with concurrent operations in futures brokering	Qty.	29	31	34	32	34
Proprietary traders	Qty.	14	16	25	30	33
Brokers	Qty.	51	50	44	41	40
Futures advisory enterprises	Qty.	-	-	5	21	23
Managed futures enterprises	Qty.	-	-	-	2	14
Introducing brokers	Qty.	97	97	89	85	80
Equity issuance by public companies						
TSEC listed companies	Qty.	531	584	638	669	697
Capital issued	NTS1 billion	3,661.36	4,096.43	4,444.02	4,725.28	5,058.08
Market value	NTS1 billion	8,191.47	10,247.60	9,094.94	12,869.10	13,989.10
GTSM companies	Qty.	300	333	384	423	466
Capital issued	NTS1 billion	677.19	381.44	627.30	639.47	626.10
Market value	NTS1 billion	1,050.59	1,412.19	862.25	1,200.78	1,122.53
Emerging stock companies	Qty.	-	-	172	245	350
Market value	NTS1 billion	-	-	271.42	459.11	568.68
Securities trading status						
TSE trading value	NTS1 billion	30,816.71	18,421.32	21,981.63	20,512.19	24,177.8
Shares	NTS1 billion	30,526.57	18,354.94	21,873.95	20,333.24	23,875.37
Exchange traded funds (ETFs)	NTS1 billion	-	-	-	34.12	79.31
Closed-end funds	NTS1 billion	28.08	5.20	4.02	2.19	1.54
Call (Put) warrants	NTS1 billion	162.26	28.44	74.47	118.34	207.75
Taiwan depository receipts	NTS1 billion	48.53	8.71	10.03	14.39	9.86
Corporate convertibles	NTS1 billion	51.28	24.03	19.16	9.93	3.98
GreTai trading value	NTS1 billion	73,400.2	121,295.4	137,340.2	137,631.2	147,516.6
Shares	NTS1 billion	4,479.7	2,326.9	2,794.7	2,059.4	3,475.3
Call warrants	NTS1 billion	-	-	-	3.2	10.9
Bonds (incl. OP/OS, RP/RS)	NTS1 billion	68,920.6	118,968.5	134,545.5	135,568.7	144,030.3
Futures trading						
Futures trading volume	Lots	1,926,789	4,351,390	7,944,254	31,874,934	59,146,376
Open interest	Lots	9,810	19,341	111,793	695,063	772,497
Stock index options, trading volume	Lots	-	5,137	1,566,446	21,720,083	43,824,511
Stock index options, open interest	Lots	-	2,350	81,601	622,446	695,766

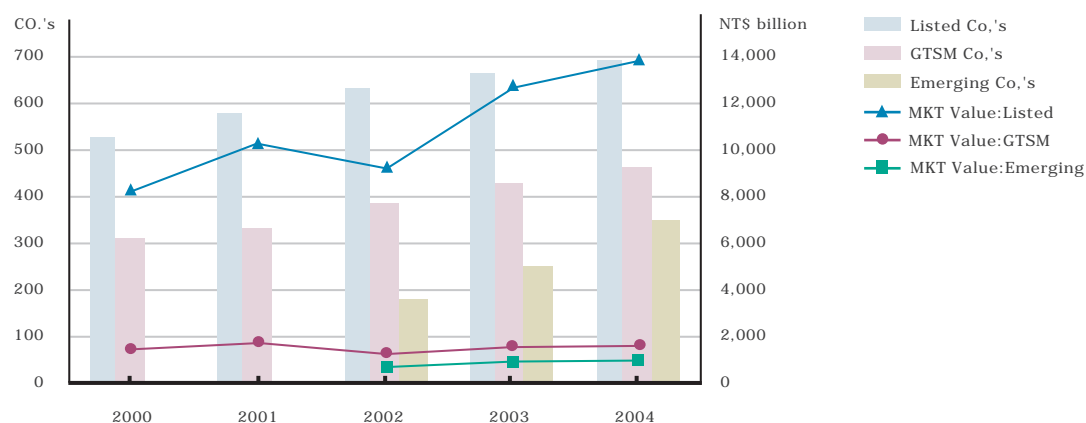
Currency: NT\$

Item	Unit	2000	2001	2002	2003	2004
Stock option contracts, trading volume	Lots	-	-	-	201,733	410,149
Stock option contracts, open interest	Lots	-	-	-	2,774	8,585
Total FINI/FIDI investments in the securities markets						
Net FINI/FIDI investments in TSE-listed shares	NTS1 billion	161.3	311.7	27.8	546.8	282.3
TSE trading accounted for by FINIs/FIDIs	%	4.52	7.20	7.64	10.63	12.52
Net FINI/FIDI investments in GreTai shares	NTS1 billion	26.4	19.9	7.5	21.9	-12.7
GreTai trading accounted for by FINIs/FIDIs	%	2.23	2.70	2.70	3.63	4.98

TSE Securities Trading Value



Issuing by Listed, GTSM & Emerging Companies



3. Insurance-related Indicators

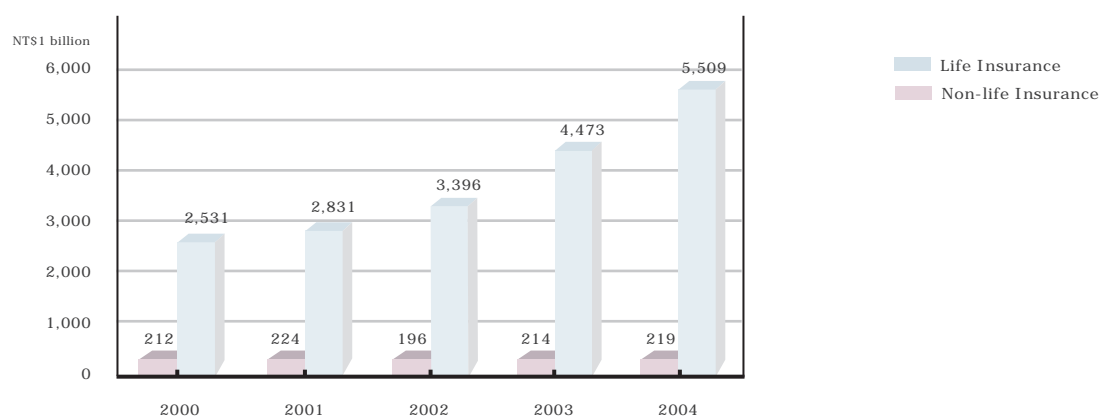
Currency: NTS

Item	Unit	2000	2001	2002	2003	2004
Numbers of insurance firms (acc. to business licenses issued)	Qty.	62	58	56	55	57
Domestic non-life insurers (incl. co-ops)	Qty.	18	18	17	17	17
Domestic life insurers	Qty.	16	18	20	21	21
Foreign non-life insurers	Qty.	11	9	8	8	9
Foreign life insurers	Qty.	16	12	10	8	8
Domestic re-insurers	Qty.	1	1	1	1	1
Overseas branches of domestic insurers	Qty.	26	25	25	24	24
Non-life insurance	Qty.	20	20	19	18	18
Life insurance	Qty.	6	5	6	6	6
Offices in Taiwan of foreign insurers	Qty.	30	24	20	19	19
Non-life insurance	Qty.	20	15	12	11	11
Life insurance	Qty.	3	2	1	1	2
Re-insurance	Qty.	7	7	7	7	6
Total assets: all financial institutions	NT\$1 billion	24,303	25,737	27,556	31,264	34,217
Insurance industry total assets	NT\$1 billion	2,744	3,056	3,593	4,688	5,729
Non-life insurance assets	NT\$1 billion	212	224	196	214	219
Life insurance assets	NT\$1 billion	2,531	2,831	3,396	4,473	5,509
Insurance industry assets as share of total financial institution assets	%	11.29	11.88	13.04	15.00	16.74
Non-life insurance assets as share of total financial institution assets	%	0.87	0.87	0.71	0.69	0.65
Life insurance assets as share of total financial institution assets	%	10.42	11.00	12.33	14.31	15.72
Premium income as share of GDP	%	7.27	8.42	9.91	12.20	13.99
Premium income	NT\$1 billion	714	819	990	1,242	1,424
Non-life premium income	NT\$1 billion	87	90	101	109	115
Life insurance premium income	NT\$1 billion	626	728	889	1,132	1,308
Premium income (non-life : life)	%	1:7.13	1:8.03	1:8.77	1:10.35	1:11.33
Annual growth rate of non-life insurance premium income	%	3.08	3.41	11.67	7.92	5.57
Annual growth rate of life insurance premium income	%	12.23	16.38	22.01	27.37	15.04
Market share (foreign non-life insurers)	%	2.68	3.21	3.50	3.84	4.25
Market share (foreign life insurers)	%	11.84	12.85	10.86	10.03	9.67
Concentration ratio (non-life)	%	47.50	48.02	47.97	49.73	50.54
Concentration ratio (life)	%	78.49	76.26	72.83	68.10	65.29
Insurance claims	NT\$1 billion	274	327	335	439	533
Non-Life insurance claims	NT\$1 billion	50	67	47	49	52
Life insurance claims	NT\$1 billion	224	259	288	390	480
Insurance density	NT\$	32,058	36,585	43,982	54,949	61,912

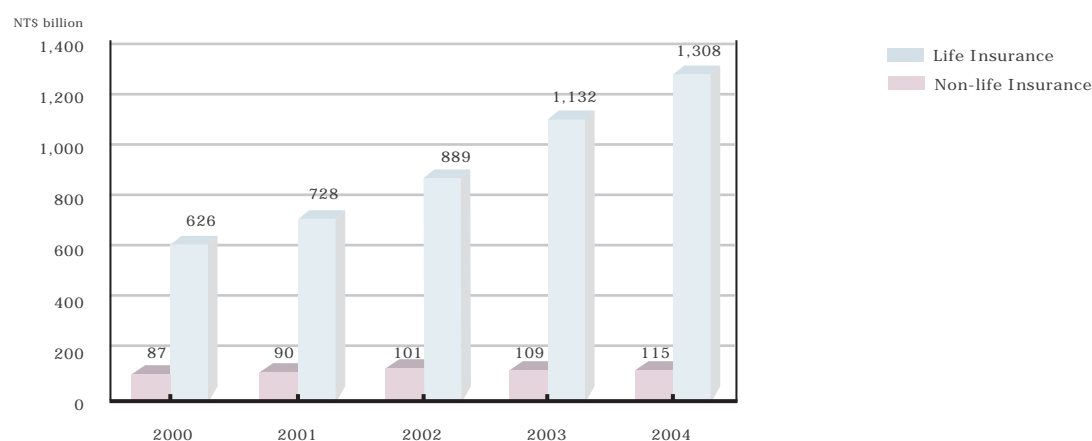
Currency: NTS

Item	Unit	2000	2001	2002	2003	2004
Non-Life insurance density	NTS	3,943	4,054	4,495	4,843	5,021
Life insurance density	NTS	28,115	32,531	39,487	50,106	56,891
Insurance penetration	%	7.39	8.59	10.18	12.61	13.92
Non-life insurance penetration	%	0.91	0.96	1.04	1.11	1.13
Life insurance penetration	%	6.48	7.64	9.14	11.50	12.79
Life insurance new business (policies)	000's	40,614	46,250	35,618	35,606	30,045
Life insurance new business (amount)	NTS1 billion	44,382	44,877	40,156	37,907	32,862
Life insurance business in force (policies)	000's	27,046	30,330	32,339	35,810	33,635
Life insurance business in force (amount)	NTS1 billion	22,012	23,184	24,178	26,624	26,123
Life & annuity insured ratio	%	121.41	135.40	143.70	158.86	166.30
Life & annuity insurance ratio of prevalence	%	246.64	264.49	268.49	291.27	309.34
Average dividend rate of life policy bonuses	%	5.15	4.05	2.31	1.62	1.52

Insurance Industry Total Assets by Year



Insurance Industry Premium Income by Year





Financial Supervisory Commission, Taiwan

Publisher : Jaw-Sheng Kong

Edited by : Dept. of International Affairs

Designer : Moonrise Advertising Tel: +886 4 2265 8843

Published in July, 2005

GPN : 2009401915 NTD 200





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GPN: 2009401915 NTD 200