

Content

Title : Measures to Accelerate the Reduction of Non-performing Loans of Domestic Banks [Ch](#)

Date : 2013.01.07

Legislative : 1. Full text promulgated by the Ministry of Finance Order Tai-Tsai-Rong Zi-(I)-0928010889 on 10 June2003.
2. Full text amended and issued in 5 February 2005 Order No. Jin-Kuan-Yin-(I)-0941000050 of the Financial Supervisory Commission, Executive Yuan.
3. Full 7 articles amended and issued in 15 February 2007 Order No. Jin-Kuan-Yin-(I)-09610000050 of the Financial Supervisory Commission, Executive Yuan
4. Article 2 and 3, are promulgated by the Financial Supervisory Commission on October 8, 2010 Ref. No. : Jin-Guan-Yin-(Fa)-zi NO.09910005360 ; the Regulations shall become effective from the date of issuance with the exception of Paragraph 2 and 3 of Article 3, which shall become effective on April 8, 2011.
5. Full text repealed and issued on 7 January 2013 Order No. Jin-Guan-Yin-Fa-10110008251 of the Financial Supervisory Commission

Content : 1 Preface

To reduce non-performing loans and non-performing loan ratios at domestic banks, strengthen operations, and build more robust financial markets, the Measures to Accelerate the Reduction of Non-performing Loans of Domestic Banks is amended to provide different supervisory measures to address non-performing loan situations at domestic banks of various levels of severity; incentive measures are provided for those with low non-performing loan ratios, employing simplified application procedures for financially sound banks to encourage financial innovation and invigorate financial markets; various dispositive measures are provided for those with excessively high non-performing loan ratios to effectively employ management-by-exception. In addition, when a bank writes off bad debt its capital will be affected, which will then affect its capital adequacy ratio; its non-performing loans and capital adequacy ratio are thus intimately related. Therefore, although the non-performing loan ratio is the sole index for these measures, when adopting incentive measures, the Competent Authority still requires that a bank must achieve the minimum capital adequacy ratio and set aside adequate allowance for bad debt (meaning an adequate allowance for bad debt has already been set aside according to the most recent financial examination report, CPA audit report, and in accordance with the loan classification standards in the bank's self-report). Those whose capital adequacy ratio does not comply with the provisions of the Competent Authority shall be subject to disposition in accordance with Article 44 of the Banking Act.

2 Applicable parties and determination of non-performing loan ratios

(I) The parties to whom these rules apply are domestic banks (excluding industrial banks).

(II) To spur domestic banks to accelerate consolidation, for those increases in non-performing loans that result from consolidation, the Competent Authority may consider temporarily suspending for two years the inclusion of such portion in the non-performing loan ratio calculations

under these Directions, i.e. continuing to apply the various incentives and dispositive measures based on the original non-performing loan ratios extant prior to consolidation.

(III) The non-performing loan ratio mentioned in the measure refers to the non-performing loan ratio subtracting the loan from the public business and government agencies.

3 Incentive measures when the non-performing loan ratio plus the loans under surveillance ratio does not exceed 2%, and the coverage ratio of allowances for bad debt is 60% or higher:

The incentive measures listed in point 3 and point 4 apply to a domestic bank whose non-performing loan ratio plus loans under surveillance ratio does not exceed 2% and whose coverage ratio of allowance for bad debt is at least 60% after the Competent Authority has issued a letter informing the respective party with a copy sent to the related authorities, provided that applications involving foreign exchange business shall still be processed in accordance with the applicable provisions of the Central Bank of China. If the non-performing loan ratio plus loans under surveillance ratio subsequently rises above 2% or the coverage ratio of allowance for bad debt falls below the 60% threshold at a domestic bank to which the aforementioned incentive measures apply, the letter of incentive measures issued by the Competent Authority is automatically voided, provided that for those whose non-performing loan ratio plus loans under surveillance ratio still does not exceed 5%, the Competent Authority shall issue another letter to advise the applicable incentive measures.

(1) Priority approval for applications to establish foreign and mainland China area branches for those who meet the prescribed conditions.

(2) Automatic approval system for bank applications to invest in financial related enterprises: When a bank applies to invest in a "financial related businesses" in accordance with Article 74 of the Banking Act, and its investment amount is in compliance with the provisions of the Banking Act concerning ceiling amounts, and its ratio of capital to risk-weighted assets after subtracting the investment amount (including the current investment) is over 10%, and its ratio of Tier 1 capital to risk-weighted assets is over 6%, its application is automatically approved beginning on the day after the Competent Authority receives the application documents.

(3) Automatic approval system for bank applications to invest in non-financial related businesses: When a bank, in coordination with government economic development projects, applies to invest in a "non-finance-related enterprise" in accordance with Article 74 of the Banking Act, and its investment amount is in compliance with the provisions of the Banking Act concerning ceiling amounts, and its ratio of capital to risk-weighted assets after subtracting the investment amount (including the current investment) is over 10%, and its ratio of Tier 1 Capital to risk-weighted assets is over 6%, its application is automatically approved beginning on the day after the Competent Authority receives the application documents.

(4) For a bank applying to operate collective trust fund management and employment accounts and mutual trust funds, where approval by the Commission is required, the application is automatically approved beginning on the day after the Trust Association of ROC submits a review report of No Comment to the Competent Authority.

4 Incentive measures when the non-performing loan ratio plus loans under surveillance ratio does not exceed 5%

The incentive measures listed below apply to a domestic bank whose non-performing loan ratio plus loans under surveillance ratio does not exceed 5% after the Competent Authority has issued a letter informing the respective party with a copy sent to the related authorities, provided that applications involving foreign exchange business shall still be processed in accordance with the applicable provisions of the Central Bank of China.

(1) Automatic approval system for bank applications to operate a new type of financial business: A bank application to operate a new type of financial business is approved beginning on the day after the application documents are received by the Competent Authority, provided that when the aforementioned new type of financial business involves the need to replace the business license, it may commence only after obtaining the new license.

(2) A bank application to add trust business (including subsidiary business) is automatically approved beginning on the day after the application documents are received by the Competent Authority, provided that when such business involves the need to replace the business license, it may commence only after obtaining the new license.

(3) Automatic approval system for bank applications to relocate domestic branches: A bank application to relocate a domestic branch, except to Taipei County, Taipei City, or Kaohsiung City, is not subject to inter-county/inter-city relocation restrictions or restrictions on numbers of relocated branches, and is automatically approved beginning on the day after the Competent Authority receives the application documents.

(4) Automatic approval system for applications for non-business locations: A bank application to establish, relocate, or dissolve a non-business location is automatically approved beginning on the day after the Competent Authority receives the application documents.

(5) Automatic approval system for applications for automated service facilities outside a bank's place of business: A bank application to establish, relocate, or dissolve automated service facilities outside its places of business is automatically approved beginning on the day after the Competent Authority receives the application documents.

(6) Automatic approval system for bank application to engage in business in the mainland China area: For a bank dispatching personnel to the mainland China area to engage in research and discussion, research and study, or to participate in financial business-related educational training, application is automatically approved beginning on the day after the Competent Authority receives the application documents.

(7) For government-owned banks, it is listed as a "special consideration" with respect to adverse policy factors affecting earnings resulting from actively cleaning up non-performing loans and writing off bad debt, and bonus points are awarded in the "coordination with policy task" item in the business operations portion of the annual performance evaluation.

5 Dispositive measures when the non-performing loan ratio exceeds 5%

(1) Authority: Article 61-1 of the Banking Act, (and may be carried out in tandem with the dispositive measures in Articles 44 and 45-1 of the Banking Act).

(2) For a domestic bank whose non-performing loan ratio exceeds 5%, the Competent Authority may inspect its reduction of its non-performing loan ratio, bad loan write-off amount, allocation of allowance for bad debt, and capital adequacy situations, and consider adopting one or more of the dispositive measures listed below:

- (i) Issue an official reprimand and order corrective action within a specified time period.
- (ii) Prohibit the establishment of new domestic or foreign branch units or the trade off of branches for mini-branches.
- (iii) Restrict distribution of compensation to directors and supervisors.
- (iv) Restrict distribution of earnings.
- (v) Restrict investment in non-financial related businesses.
- (vi) Restrict the extension of additional credit to interested parties or extension of credit for which interested parties act as guarantor or provide collateral (not including term extensions in existing credit cases).

6 Dispositive measures when the non-performing loan ratio exceeds 15%

(1) Authority: Article 61-1 of the Banking Act (and may be carried out in tandem with the dispositive measures in Article 44 and Article 45-1 of the Banking Act).

(2) When a domestic bank whose non-performing loan ratio exceeds 15% does not improve within the time limit prescribed by the Competent Authority, in addition to the dispositive measures in point 5(2), the Competent Authority may also adopt one or more of the dispositive measures listed below:

- (i) Restrict high-risk business.
- (ii) Restrict the use of inappropriately high interest to solicit deposits or borrow funds.
- (iii) Require a reduction in the number of branches.
- (iv) Dismiss directors or supervisors from their positions or suspend them from executing their duties for a specified period.
- (v) Order the bank to dismiss managers from their positions.

7 Other measures

(1) For domestic banks to whom the dispositive measures in point 5(2) and point 6(2), apply, but whose non-performing loan ratio has dropped two percentage points or more in the past half-year or three percentage points or more in the past year, the Competent Authority shall consider reducing the number of dispositions already adopted.

(2) The Competent Authority may consider reducing or lifting related dispositions to a bank that originally had poor asset quality when it has the following situation:

- (a) It has carried out reorganization of its management and has proven that it is actively dealing with its non-performing loans or has effectively reduced its non-performing loan ratio or
- (b) It has increased its capital or its financial structure has improved.