

Central Bank Operations



III. Central Bank Operations

1. Overview

In the first half of 2011, the Bank raised its policy rates twice by a total of 25 basis points to curb inflation expectations as international commodity prices rose. During the second half of the year, the ongoing eurozone debt crisis threatened to slow down the global economy. The Bank decided to keep the policy rates unchanged to support the steady growth of the domestic economy.

Furthermore, the Bank continued to issue CD/NCDs and conducted open market operations to absorb excess liquidity and maintain market rates at appropriate levels. During the course of the year, the interbank overnight rate edged up to 0.4 percent at the end of 2011.

To discourage speculative property investments, the Bank continued to implement targeted prudential measures and urge banks to closely monitor mortgage lending risks. To provide assistance for SMEs, the Bank proposed an increase in the SME credit guarantee fund to help them smoothly secure financing from financial institutions.

In terms of foreign exchange management, the Bank steadily promoted the internationalization of capital markets and revised relevant foreign regulations in continual cooperation with the Financial Supervisory Commission (FSC). In view of the lessons learned about credit derivatives from the recent financial crisis, the Bank reviewed and stipulated relevant regulations to control potential risks. Furthermore, to meet the rising needs for renminbi remittances as cross-strait relations grew closer, the FSC and the Bank promulgated jointly the *Directions for Banks in Taiwan Area Conducting Renminbi (RMB) Business* on July 21, 2011. Pursuant to the said *Directions*, offshore banking units (OBUs) and overseas branches of domestic banks may apply for approval to conduct RMB business.

To ensure smooth operation of the payment systems, the Bank closely monitored domestic payment systems and urged settlement institutions to set up backup facilities and adequate contingency plans to provide business continuity. In addition, the Bank further opened the market of treasury bills to more participating institutions by including securities firms as eligible bidders. The Bank also raised the minimum purchasing amount from NT\$300 million per year to NT\$800 million for each eligible bond dealer to encourage active trading.

2. Monetary Management

In 2011, due to continued high international raw material prices and a run-up in global inflation risks, the Bank tightened its monetary policy stance by raising policy rates twice in the first half of the year before holding rates unchanged for the rest of the year. The Bank still continued to enhance the financing mechanism for small and medium-sized enterprises (SMEs) in order to expand banks' lending to SMEs while absorbing excess funds from the financial market to an appropriate liquidity level.

Policy Rate Adjustments to Maintain Price Stability

Owing to sustained high international raw material prices and global inflation risks, the Bank raised policy rates on April 1 and July 1, respectively, by a total 0.25 percentage points to restrain inflation expectations and maintain domestic price and financial stability. In the second half of the year, owing to the gradual spread of the European sovereign-debt problem, an obvious decline in global economic growth and a domestic economic moderation, the Bank kept policy rates unchanged so as to promote economic growth.

At the end of 2011, the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral were 1.875 percent, 2.25 percent, and 4.125 percent, respectively.

Continuing Macro-prudential policy

To curb speculative investment in the property market, the Bank continued to conduct macro-prudential policies and urged financial institutions to enhance their credit risk control over real estate lending through the *Regulations Governing the Extension of Housing Loans in Specific Areas*

CBC Policy Rates

Unit: % (percent per annum)

Effective Date	Discount Rate	Accommodation Rate with Collateral	Accommodation Rate without Collateral
2009 / Jan. 8	1.500	1.875	3.750
Feb. 19	1.250	1.625	3.500
2010 / Jun. 25	1.375	1.750	3.625
Oct. 1	1.500	1.875	3.750
Dec. 31	1.625	2.000	3.875
2011 / Apr. 1	1.750	2.125	4.000
Jul. 1	1.875	2.250	4.125

Source: *Financial Statistics Monthly*, CBC.

and Land Loans by Financial Institutions. Important measures related to the aforesaid Regulations in 2011 include:

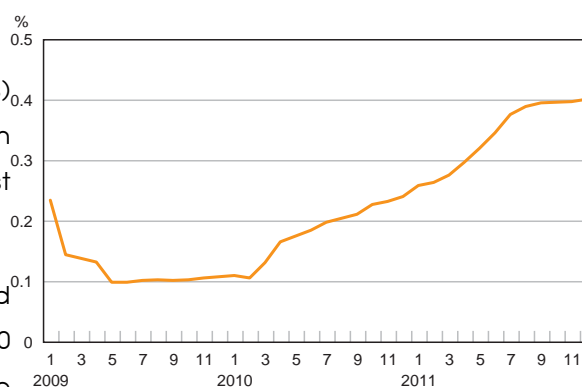
- (1) On January 20, the Bank provided related explanations and FAQs for the Regulations. The contents were released on the CBC website.
- (2) On August 2, for land collateralized loans to be used to cover living expenses or for financial management, the Bank announced that borrowers who apply for such loans without a specific construction project may only do so on condition that the financial institutions confirm the use of funds and verify the loans are not to be used for investment, purchase of real estate or housing construction.

Absorbing Excess Liquidity through Open Market Operations

The Bank issued certificates of deposit (CDs) and conducted open market operations to maintain reserve money and overnight call-loan interest rates at appropriate levels.

In 2011, the total value of CDs issued amounted to NT\$44,310 billion, among which was NT\$1,200 billion worth of 364-day CDs. At the end of the

Overnight Call-loan Rate



Source: Financial Statistics Monthly, CBC.

Open Market Operations

Unit: NT\$ Billion; %

Year/ Month	Amount Absorbed*	Amount Offered*	Weighted Average Rate on CDs Issued					
			Issues of CDs	Redemptions of CDs	1-30 days	31-91 days	92-182 days	274-365 days
2009	40,416	38,823			0.575	0.616	0.715	--
2010	45,105	44,401			0.621	0.659	0.729	0.698
2011	44,310	44,279			0.818	0.879	0.988	0.948
2011 / 1	4,277	4,481			0.740	0.780	0.880	0.799
2	3,672	3,453			0.740	0.780	0.880	0.839
3	4,060	4,082			0.740	0.780	0.880	0.877
4	4,161	3,939			0.810	0.860	0.970	0.935
5	3,807	3,867			0.810	0.860	0.970	0.975
6	3,290	3,399			0.810	0.860	0.970	1.010
7	3,850	3,818			0.870	0.930	1.050	1.049
8	3,766	3,814			0.870	0.930	1.050	1.054
9	3,032	3,158			0.870	0.930	1.050	0.995
10	3,526	3,382			0.870	0.930	1.050	0.984
11	3,473	3,369			0.870	0.930	1.050	0.960
12	3,397	3,518			0.870	0.930	1.050	0.898

Note: * End-of-period data.

Source: Financial Statistics Monthly, CBC.

year, the total outstanding amount of CDs issued by the Bank was NT\$6,682 billion.

Keeping in line with changes in policy rates, the Bank also adjusted its non-competitive bidding rates for new CDs to guide market interest rate movements. Consequently, on July 1, the rates on 30-day, 91-day, and 182-day CDs were increased to 0.87 percent, 0.93 percent, and 1.05 percent, respectively, which represented increases of 0.13, 0.15, and 0.17 of a percentage point for each type of CDs.

As a result of CD bidding rate adjustments, the average overnight interest rate of interbank call loans gradually increased to 0.4 percent in December from 0.239 percent a year ago.

Enhancing the SME Financing Mechanism

To provide easier access to financing for SMEs, the Bank continued to urge commercial banks to increase lending to SMEs. Furthermore, the Bank asked the government to expand the SME Credit Guarantee Fund (SMEG) in order to improve its credit guarantee capacity and help those SMEs lacking in collaterals for funding. As a consequence, the Ministry of Economic Affairs and the Bankers Association decided to contribute to the fund NT\$5.7 billion in 2011 and NT\$2 billion in 2012.

At the end of 2011, the fund size of the SMEG increased to NT\$536 billion, which was a 14.42 percent gain from 2010. The outstanding loans extended to SMEs by domestic banks increased to NT\$4,076 billion, which was a 10.85 percent rise from 2010.

Redeposits of Financial Institutions

Accepting redeposits from Chunghwa Post Co. and commercial banks is another instrument for the Bank to influence banks' reserve positions to promote financial stability. At the end of 2011, outstanding postal savings redeposits amounted to NT\$1,624 billion. At the same time, banks' redeposits totaled NT\$401 billion.

In addition, Agricultural Bank of Taiwan accepted deposits from community financial institutions and made redeposits with the Bank. At the end of 2011, its outstanding redeposits were NT\$145 billion.

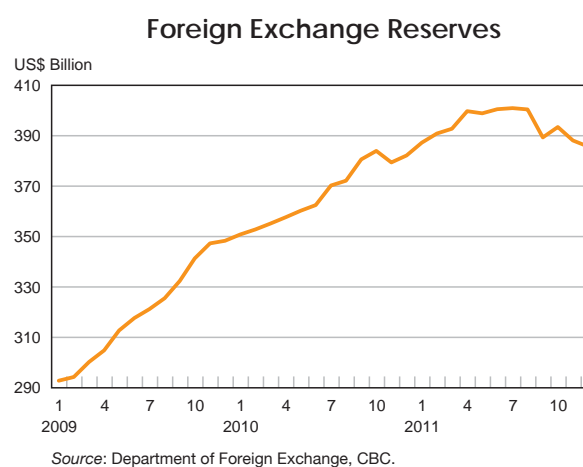
3. Foreign Exchange Management

For the year 2011, the Bank followed the established managed float regime to maintain an orderly foreign exchange market. Sufficient seed funds were provided by the Bank for foreign currency swaps and call loans. The Bank's foreign exchange reserves increased by US\$3.5 billion due to a higher return on investment. The Bank also loosened regulations regarding foreign exchange remittances. Moreover, the FSC and the Bank jointly issued provisions for Taiwanese banks to manage renminbi business.

Foreign Exchange Market Management

Taiwan's exchange rate is in principle guided by market mechanism, the Bank only steps in when there is excessive exchange rate volatility, and a managed float regime is adopted.

In 2011, the Bank continued to implement the Real-Time Reporting System for Large-Amount Foreign Exchange Transactions to keep the market in order. Moreover, monitoring efforts were reinforced to insure that forward transactions were based only on actual transactions. The Bank also urged authorized banks to enhance their exchange rate risk management. In addition, the Bank strengthened target examinations related to foreign exchange activities.



Management of Foreign Currency Call-Loan and Foreign Exchange Swap Business

In order to provide the financial system with sufficient foreign currency liquidity to meet funding needs, including corporate needs to venture into overseas markets, the Bank provided seed funds¹ for the Taipei Foreign Currency Call-loan Market.

Furthermore, the Bank continued to carry out foreign currency swap transactions with banks and extended foreign currency call loans to banks so as to facilitate smooth corporate financing. During 2011, the volume of foreign exchange call-loan transactions reached US\$1,856.2 billion, while that of foreign currency-NT dollar swap transactions reached US\$ 968.0 billion.

¹ The seed funds include US\$20 billion, €1 billion and ¥ 80 billion.

Foreign Exchange Reserve Management

In 2011, the Bank's foreign exchange revenues amounted to US\$1,088.6 billion, while foreign exchange expenditures were US\$1,085.1 billion. At the end of 2011, total foreign exchange reserves stood at US\$385.5 billion, a US\$3.5 billion gain from the end of 2010. The increase was mainly attributable to a higher return on investment from foreign exchange reserves.

Capital Flow Management

The Bank's foreign exchange management mainly relies on the market mechanism, and capital can flow freely in and out of Taiwan. As of 2011, foreign currency capital not involving NT dollar conversion can flow freely; there is also no restriction on financial flows involving NT dollar conversion for commodity and service trade, as well as direct and securities investments approved by the authorities. However, regulation exists for short-term remittances: annual remittances for an individual resident within 5 million USD, a juridical person within 50 million USD and a nonresident within 0.1 million USD can be settled by banks directly; annual remittances above these amounts require the approval of the Bank. Key measures with regard to the management of foreign exchange in 2011 included:

- (1) In order to promote the internationalization of Taiwan's capital market, the Bank agreed to the following in 2011:
 - (i) the issuance of overseas depository receipts by 3 corporations with a total of US\$1.1 billion, the issuance of European Convertible Bonds by 14 corporations with a total of US\$3.1 billion and the issuance of European Exchangeable Bonds by 1 corporation with a total of US\$0.1 billion;
 - (ii) 30 foreign corporations may raise funds from Taiwan's stock markets via TWSE listing or GTSM listing, with the total amount reaching NT\$13.4 billion;
 - (iii) the issuance of Taiwan Depository Receipts (TDRs) by 19 foreign corporations, with the total amount reaching NT\$18.8 billion.
- (2) The Bank agreed to an increase in residents' investments in foreign securities as follows:
 - (i) domestic securities investment trust companies were allowed to raise public funds via 48 securities investment trust funds domestically to invest in foreign securities with a total of NT\$558 billion raised;
 - (ii) domestic securities investment trust companies were allowed to raise 3 private trust funds domestically to invest in foreign securities with a total of NT\$9 billion raised;

- (iii) life insurance companies were given consent to invest in foreign securities with the amount totaling US\$4.6 billion through non-discretionary money trusts managed by financial institutions, while their insurance products-related foreign securities investment interests can be hedged by selling forward exchange contracts totaling US\$2.0 billion;
 - (iv) four major government pension funds, including Labor Pension Funds, invested in foreign securities with the total amount reaching US\$5.1 billion.
- (3) The Bank loosened the following regulations regarding foreign exchange remittances. The amended *Points to Be Noted for Banks to Guide Customers to Declare Foreign Exchange Receipts and Disbursements or Transactions* went into force on August 25, with the following key points:
- (i) to simplify banking reports to the Bank, the verifying documents will be preserved by banks, without the need to send a photocopy to the Bank;
 - (ii) according to various market-opening measures adopted by the FSC, points to be noted were added for banks to take the following declaration of remittances and settlements:
 - ① the securities investment remittances to Mainland China by investment trust companies and investment consulting companies as qualified institutional investors (QFIs) for Mainland China;
 - ② foreign currency-denominated international debt repayment remittances underwritten by securities firms;
 - ③ the purchase or buyback remittances of offshore Exchange Traded Funds either entrusted or undertaken by securities firms;
 - (iii) the practice where the Bank would issue official letters to banks to require confirmation documents for the following remittances and settlements was also incorporated in the amended Points:
 - ① remittance outflows and inflows to Mainland China;
 - ② wage remittance declaration by private employment service organizations acting on behalf of foreign laborers.

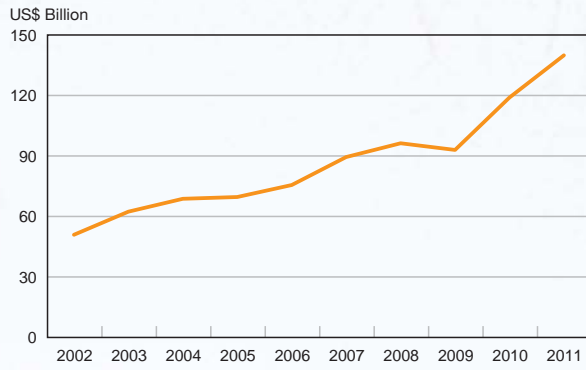
Management of the Foreign Exchange Business of Financial Institutions

- (1) At the end of 2011, there were 2,342 authorized foreign exchange banks in total, which included 38 head offices and 2,232 branches of domestic banks, 72 branches of 28 foreign banks, as well as 2,003 authorized money exchangers, postal offices and financial institutions authorized to engage in basic foreign exchange business. In 2011, the Bank approved the issuance of 16 new foreign exchange derivative products. To maintain the stability of bank management, on

March 14 the Bank revised the regulations for authorized banks to apply to conduct Credit Default Swap and Credit Default Option business.

- (2) In response to the needs of Mainland Chinese tourist consumption in Taiwan and Taiwanese tourist consumption in Mainland China, renminbi cash has been allowed to be exchanged in Taiwan since June 30, 2008. Along with the gradual opening of cross-strait activities, plus the opening of Mainland Chinese free and independent travel in June 2011, banks' exchange of renminbi cash apparently increased. Between June 30, 2008, and the end of 2011, the government approved 224 financial institutions (with a total of 3,704 branches) and 209 authorized money exchangers to conduct RMB cash exchange business. The total amount of renminbi purchased was RMB17.26 billion, while the total sale was RMB19.57 billion.
- (3) Up to the end of 2011, 19 insurance companies were allowed to engage in foreign currency investment-linked insurance business, and 19 insurance companies were permitted to conduct business in relation to traditional foreign currency insurance products.
- (4) Up to the end of 2011, the Bank allowed one securities firm to be an agent for foreign bond trading, two securities firms to be entrusted as agents for foreign securities trading, three securities firms for making outright purchases and sales of foreign securities not belonging to investment with their own funds or for hedging needs, two securities firms to manage warrants linked to foreign securities or indexes, five securities firms to conduct wealth management business, eight securities firms to manage onshore foreign currency bills. The Bank also permitted three investment trust or investment consulting firms to conduct foreign currency discretionary investments in foreign securities, four administration agencies to raise offshore private trust funds, one securities firm to raise domestic mutual funds or private foreign currency funds.
- (5) In order to meet the need for cross-border renminbi settlement of overseas Taiwanese businessmen, on July 21, 2011, the FSC and the Bank jointly promulgated *Directions for Banks in Taiwan Area Conducting Renminbi (RMB) Business*, opening the channel for banks' OBUs and overseas branches to apply for renminbi business. Along with the expansion of OBU business, its asset scale also continued to grow. Up to the end of 2011, total OBU assets amounted to US\$145.1 billion, an increase of 18% from the previous year. As for remittances, since June 2001, OBUs have been approved to conduct cross-Strait remittances. Steady growth has gradually turned OBUs into funding centers for overseas Taiwanese business. In 2011, cross-Strait remittances increased from US\$243.3 billion in the previous year to US\$282.8 billion, an increase of 16.2 percent.

OBU Assets



Source: Department of Foreign Exchange, CBC.

Cross-Strait Remittances through OBUs



Source: Department of Foreign Exchange, CBC.

4. Financial Inspection

Pursuant to the *Central Bank of the Republic of China (Taiwan) Act*, the Bank conducts target examinations to ensure effective enforcement of policies related to monetary, credit, and foreign exchange management, establishes an off-site monitoring system and a financial stability assessment framework to systematically monitor and assess the potential sources of risks in order to deploy appropriate policies and measures in a timely manner to fulfill its mandate of financial stability.

Implementing On-Site Target Examinations

Target examinations in 2011 inspected the handling of counterfeit money by financial institutions, housing loans in specific areas (Taipei City and 13 other districts in New Taipei City), land collateralized loans, housing credit information disclosure, data warehouse of checking accounts, spot and forward foreign exchange transactions, derivatives, foreign liabilities, the operation of foreign currency exchanges by authorized foreign exchange banks, e-banking of foreign currency business, and correctness of reporting to the Bank, etc.

Follow-up on Banks' Compliance with Examination Findings

In light of the Bank's target examination findings and the FSC's examination findings related to the Bank's operations or regulations, the Bank continued to monitor what the examined financial institutions had improved, to urge the financial institutions to rectify related deficiencies, and thus to ensure the successful implementation of the Bank's policies.

Off-site Monitoring

Based on financial conditions and amendments to relevant laws and regulations, the Bank reviews and amends as necessary the format and content of periodical statistical data submitted by financial institutions. The collected statistics are compiled mostly on a quarterly basis, and the operating developments of financial institutions were monitored via the following:

- (1) To strengthen financial institutions' liquidity management, domestic banks' core deposits in NT dollars and limits on maturity mismatch of 0-30 day liquidity in US dollars were newly added in the analytic pool.
- (2) In line with the *SFAS (Statement of Financial Accounting Standards) No.40: Accounting Guidelines for Insurance Contracts*, the relevant monitoring indicators for life insurance companies and property and casualty insurance companies were amended.
- (3) In accordance with the amendments to the *Regulations Governing the Credit and Ceiling on*

Credit Extension by the Credit of Departments of Farmers' and Fishermen's Associations, the relevant requirements and analytic items were modified.

- (4) In consonance with the changes of the BIS statistics format and national classification, the country risk statistics reporting system was amended.

Financial Institution Information Transparency

The Bank regularly compiles and publishes various financial institution statistics and the most up-to-date financial regulations. The Bank also discloses related information on its website. Therefore, the operational transparency of financial institutions has increased, and market self-discipline has been reinforced.

Financial Stability Assessment

The Bank compiles financial soundness indicators so that the relevant authorities, market participants and the public are kept informed of the status and sources of financial system risks in Taiwan. In 2011, the fifth *Financial Stability Report* was published. This would also promote cross-border communication and information sharing of Taiwan's financial stability.

International Cooperation in Financial Supervision

The Bank actively engages in international cooperation relating to the area of financial supervision. In 2011, the Bank assigned two researchers for the SEACEN Centre research projects ("Strengthening Financial Stability Indicators in the Midst of Rapid Financial Innovation: Updates and Assessments", and "Framework for Macro-prudential Policies for Emerging Economies in a Globalised Environment"), answered questionnaires regarding financial stability risks, and provided the Centre with related information for the SEACEN members' "College of Supervisors".

Other Important Measures

The Bank collaborated with the academia in the research project titled "Assessments of Financial System's Liquidity Risks" in order to build a qualified liquidity risks assessment model.

5. Payment and Settlement Systems

The CBC Interbank Funds-Transfer System (CIFS) is the backbone of Taiwan's payment system, linking the Check Clearing House System (CCHS), the Interbank Remittance System (IRS), the Central Government Securities Settlement System (CGSS), the Bills Clearing and Settlement System (BCSS), the Securities Book-Entry Clearing System (SBECs), and the Electronic Bond Trading System (EBTS) together to constitute a comprehensive payment system.

Accordingly, the Bank, with its mandate for financial stability, plays a key role in the smooth functioning of Taiwan's payment systems. In addition to operating the CIFS and CGSS, the Bank also monitors major payment systems based on international standards to ensure sound operation of these systems and to promote stability of the financial system.

Funds Transfers via the CIFS

Launched in May 1995, the CIFS is a large-value electronic funds-transfer system. In addition to dealing with interbank funding, reserve requirement adjustments and funds settlements in financial markets, the CIFS also provides interbank final settlement services to several clearing institutions such as the Taiwan Clearing House (TCH), the Financial Information Service Co. (FISC), the Taiwan Depository and Clearing Corporation (TDCC) and the Taiwan Stock Exchange Corporation (TWSE).

At the end of 2011, participants of the CIFS included 66 banks, 8 bills finance companies, and 5 other institutions including Chunghwa Post Co., the TWSE, and the GreTai Securities Market (GTSM). In the year, the daily average amount of funds transferred via the CIFS was NT\$1,434.4 billion, while the daily average number of transactions reached 3,043.

Transactions via the CGSS

The CGSS was established in September 1997. It is a system for issuance, transfer, redemption, and interest payment of book-entry central government securities. Since its inception, central government bonds have been issued in book-entry form. In October 2001, treasury bills were included in the system and have been issued in book-entry form since then.

The CGSS linked with the CIFS in April 2008. Since then, fund settlements, principal redemptions and interest payments have been handled through the CIFS using a delivery-versus-payment (DVP) mode. The DVP mode, promoted by the Bank for International Settlements (BIS), is an arrangement linking securities delivery with funds settlement in a securities settlement system to ensure that securities delivery occurs almost at the same time as the funds transfer, effectively mitigating potential risks during the transaction process.

There were 16 clearing banks with 1,688 branches that handle the registration of central government securities transfers at the end of 2011. In 2011, 455 thousand transfers with a total amount of NT\$40.8 trillion were processed by this system.

Monitoring Payment Systems

The Bank monitors the payment systems on a periodic basis to maintain their safety and efficiency. Monitoring activities include the following:

- (1) Required payment system operators and payment instrument issuers to provide detailed information on their operations and activities as a basis for monitoring payment systems; ensured clearing institutions set up backup systems and contingency plans for business continuity in case of emergency.
- (2) Invited clearing institutions, the FISC, the TDCC, and the TCH, to jointly hold a conference in March 2011 to promote the sound operation of the payment systems and fortify the mechanism of emergency procedures.
- (3) Urged the TCH and its branches to adhere to the standard operating procedures of bill delivery in order to avoid accidentally missing batches of bills, thus ensuring the rights of note holders and keeping financial market in order.

Publishing the Payment and Settlement Systems Report

The interconnection between the operation of payment systems and securities settlement systems has become an important issue. The Bank translated the report, "The Interdependencies of Payment and Settlement Systems," which was published by the Committee on Payment and Settlement Systems (CPSS), and released this translation on the CBC website in August 2011.

6. Currency Issuance

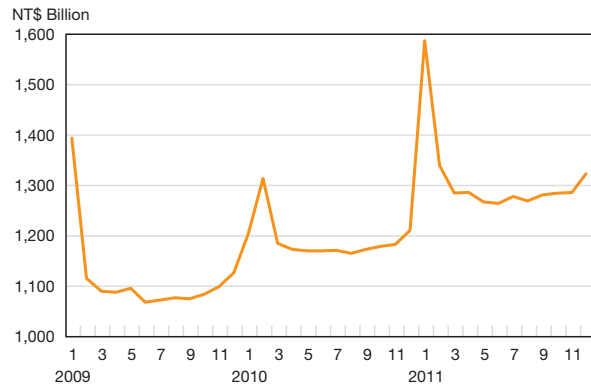
Currency Issuance Increased

As the issuing authority for the nation's currency, the Bank has the responsibility for maintaining the supply of currency at an optimum level to meet public demand, which is dependent on the level of economic activity, seasonal factors, and the development of noncash payments instruments, etc.

In 2011, the Bank implemented an appropriate currency issuance plan for delivering banknotes and coins. The currency issued peaked at NT\$1,614.2 billion on February 1, the day before the Chinese Lunar New Year holidays, reflecting a temporary seasonal surge in cash demand. At the year end, the outstanding amount of the currency issued was NT\$1,320.6 billion, representing an increase of NT\$115.8 billion or 9.61 percent over the previous year-end.

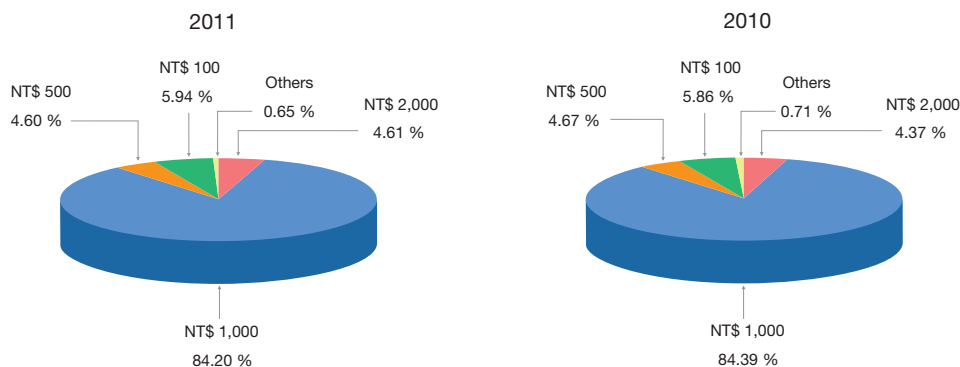
At the end of 2011, the denomination structure of NT dollar banknotes in circulation was similar to the end of 2010. The NT\$1,000 note accounted for a lion's share at 84.20 percent, followed by the NT\$100 (5.94 percent) and the NT\$500 (4.60 percent) notes.

Currency Issued



Source: CBC.

Composition of NT Dollar Banknotes Issued
(Year-end figure)

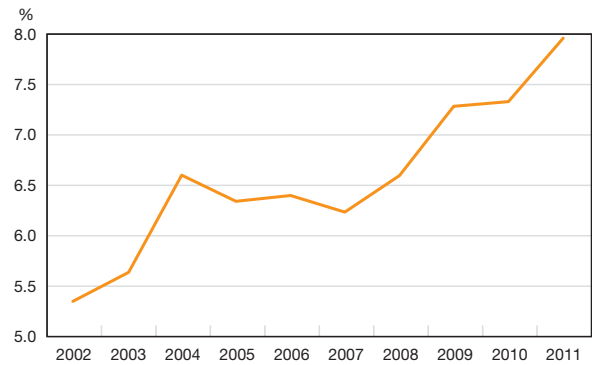


Source: CBC.

Currency in Circulation to GDP Ratio Increased

Between 2005 and 2007, as credit card defaults weakened private consumption, currency demand for transaction purposes decreased, causing the ratio of currency in circulation to nominal GDP to trend downwards. However, due to the low interest rate environment that existed since September 2008, the public began to increase their currency holdings, and the ratio of currency in circulation to GDP rose significantly. It stood at 7.95 percent in 2011, a 0.64 of a percentage point gain over the previous year.

The Ratio of Currency Held by the Public to GDP



Source: CBC.

Commemorative Coin Sets Issued Successively

In addition to normal currency issuance, the Bank may also issue gold and silver coins, and commemorative notes and coins from time to time, such as for important ceremonies, national holidays, major international events or other significant national events. During the year 2011, the Bank issued a commemorative NT\$100 banknote for circulation, uncut commemorative NT\$100 banknote sheets, and the Republic of China centenary commemorative silver coin in celebration of the 100th anniversary of the founding of the Republic of China. In addition, the Bank issued a casting set of coins for the Chinese Zodiac Year of the rabbit, and the 14th casting set of coins for the Taiwan Indigenous Peoples Cultural Series- the Sediq tribe.

7. Fiscal Agency Functions

The Bank acts as a banker to other banks as well as to the central government. As the fiscal agent of the government, the Bank offers several services for the Treasury. These services include handling the treasury deposit account (TDA) and central governmental agency deposit accounts, and undertaking the issuance, registration, redemption, and interest payment of central government bonds and treasury bills.

Managing the Treasury Deposit Account

The Bank manages the TDA on behalf of the Ministry of Finance (MOF), processing receipts and disbursements of the central government. The Bank delegates the handling of treasury transactions to 13 financial institutions and their 359 branches, including 5 overseas branches located in New York, Los Angeles, Seattle, and Paris. There are another 4,403 tax collection agencies set in financial institutions, offering convenient services to government agents and the general public. In 2011, the Bank received a total of NT\$3,028.9 billion in treasury deposits, a decrease of NT\$10.7 billion or 3.52 percent over the previous year. Payments made for the Treasury were NT\$3,047.2 billion, mildly decreasing by NT\$1.3 billion or 0.04 percent from 2010. At the end of 2011, the TDA balance was NT\$8.4 billion, decreasing by NT\$18.2 billion or 68.42 percent from the end of 2010, mainly due to the funding allocation considerations of the MOF.

Handling Central Government Agency Deposits

Central government agencies are required to make their deposits with the Bank or other delegated banks. However, the delegated banks are required by law to redeposit 60 percent of the deposits with the Bank, except those in interest-bearing accounts. At the end of 2011, the balance of central government agencies' deposits with the Bank amounted to NT\$173.3 billion, a decrease of NT\$13.4 billion or 7.17 percent over 2010. Deposits with other delegated banks were NT\$460.4 billion at the end of 2011, an increase of NT\$9.1 billion or 2.02 percent. Among them, redeposits with the Bank registered NT\$10.7 billion, increasing by NT\$0.4 billion or 3.88 percent from the previous year-end.

Managing Central Government Bonds

As a fiscal agent, the Bank performs services related to the issuance, registration, transfer, redemption, and interest payment of central government bonds. The Bank also conducts the auctions of central government bonds. There are 65 domestic dealers qualified to directly participate in the auctions, including 25 banks, 26 securities companies, 8 bills finance companies, 5 insurance

companies, and Chunghwa Post Co.

In 2011, the Bank conducted 18 issues of central government bonds in book-entry form worth NT\$620 billion and paid NT\$298 billion in principal and NT\$118.9 billion in interest for central government bonds. At the end of 2011, the outstanding amount of central government bonds was NT\$4,509.6 billion, an increase of NT\$ 322 billion or 7.69 percent from the previous year-end.

Managing Treasury Bills

Treasury bills are issued at a discount through auctions. Effective from April 29, 2011, securities companies were allowed to bid for treasury bills. Currently, direct auction participants include banks, insurance companies, securities companies, bills finance companies, and Chunghwa Post Co.

In 2011, the Bank handled 12 issues of book-entry treasury bills with a total amount of NT\$321.2 billion. At the end of 2011, the outstanding amount of treasury bills was NT\$180.3 billion, a decrease of NT\$59.7 billion or 24.88 percent from the previous year-end.

8. Participation in International Activities

The Bank actively took part in international activities during 2011. As a member of various international organizations, the Bank hosts conferences, provides training courses, and attends various forums, including the annual meetings organized by Asian Development Bank (ADB), the Central American Bank for Economic Integration (CABEL), and the South East Asian Central Banks (SEACEN) group. In addition, the Bank also maintains close relationships with the Inter-American Development Bank (IDB), the European Bank for Reconstruction and Development (EBRD) and the Bank for International Settlements (BIS). In 2011, the Bank also strengthened its relationship and interaction with other central banks to exchange views on key issues of current global economic and financial situations.

The Bank is a founding member of ADB and, through this platform, has played an active role in promoting financial cooperation and stability in Asia. In May 2011, the Bank participated in the 44th annual meeting of ADB held in Hanoi, Vietnam, and shared views on the management of volatile short-term capital flows and the possibility of a formal regional exchange rate coordination mechanism. In addition, the issue of the formulation of a regional disaster prevention plan and guidelines for reconstruction work was also addressed on the occasion.

The Bank is also a member of SEACEN. In February 2011, the Bank attended the 46th annual conference of governors held in Colombo, Sri Lanka. At this conference, the Bank joined other member central banks to discuss policy responses to the global financial crisis, exit strategies and increasing linkages between the macroeconomic environment and the financial sector, and the way forward to face new challenges. Furthermore, the Bank hosted the SEACEN-Deutsche Bundesbank Course on Bank Stress Testing in November 2011.

