

CDIC



Central Deposit Insurance Corporation

2006





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Message

from the Chairman
and the President



Central Deposit Insurance Corporation (CDIC) is the only institution in Taiwan exclusively in charge of managing the deposit insurance system. Since its establishment in September 1985, it has been committed to protecting the rights of depositors, maintaining credit order, and promoting the sound development of the financial industry. In coordination with the government's financial reform policies, CDIC has planned and implemented financial safety net systems and measures over recent years and allowed 48 problem financial institutions with negative net worth to successfully withdraw from the market. In 2006, CDIC arranged for the market withdrawal of the credit department of one farmers' association and one business bank under commission by the Executive Yuan Financial Restructuring Fund.

Following the expiry of the transitional blanket guarantee under the Financial Restructuring Fund in July 2005, CDIC reviewed and revised the *Deposit Insurance Act* in reference to developments in the international deposit insurance system to ensure the smooth reinstatement of a limited coverage deposit insurance system. The revisions strengthen control on insured risk and performance of insurance responsibilities, expand the deposit insurance fund, and enhance mechanisms for the market withdrawal of problem financial institutions. The amended *Act* was approved by the Legislative Yuan and promulgated by the President on January 18, 2007. In conjunction with the revisions, CDIC is actively researching and formulating various related by-laws and operational regulations to facilitate the smooth implementation of the new system.

To enhance controls over insured risk and accelerate accumulation of the deposit insurance fund, CDIC has continued to strengthen its off-site monitoring mechanism so as to effectively understand the operating status of insured institutions and enhance liaison and information sharing with financial supervisory agencies. CDIC is also researching adjustments to maximum

coverage limit and risk-based premium and establishing target values for the deposit insurance fund to raise risk-bearing ability.

Since becoming a founding member of International Association of Deposit Insurers (IADI) in May 2002, CDIC has actively participated in various association activities and affairs. In 2006, CDIC was reelected to IADI's Executive Council and participated in drafting various association policies. It was also appointed to chair the Research and Guidance Committee, in which capacity it has spearheaded the promotion of 12 international studies and promulgation of international guidance and achieved considerable results. CDIC also signed a Memorandum of Understanding (MOU) with Deposit Insurance of Vietnam and a Letter of Exchange with Deposit Insurance Corporation of Japan to enhance international exchange and information sharing. These arrangements establish official cooperation mechanisms and will promote closer regional exchange. In future, CDIC will continue to expand cooperation partnerships through friendly relations with IADI members, advocate international viewpoints through information sharing and cooperation mechanisms, pioneer new financial concepts, help Taiwan establish even sounder mechanisms for financial supervision and management and deposit insurance, and further synchronize Taiwan's deposit insurance with international norms.

Over the past year, CDIC has smoothly carried out its operations through the concerted efforts of its staff and the support and encouragement of all sectors. We would like to take this opportunity to thank all of them. In the years ahead, CDIC hopes that the competent agencies will continue to offer guidance and care and that members of the financial industry will continue to support and coordinate with us in our ongoing work to protect the rights and interests of depositors and maintain credit order. We sincerely hope to benefit from your continued enlightenment in these endeavors.

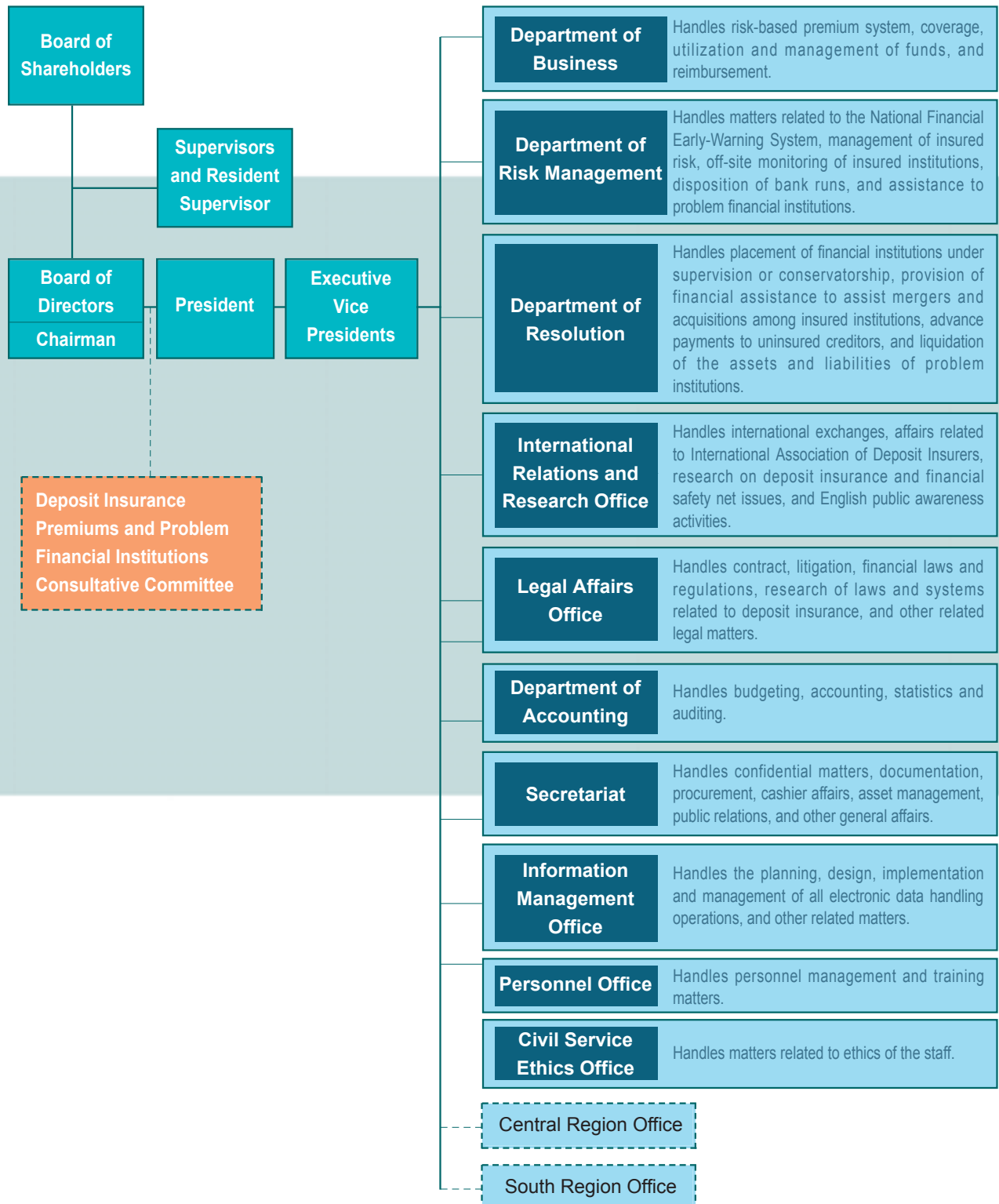
Chairman



President



Organization and Duties



- 1.Department of Business Director - **Allen Chen**
- 2.Advisor - **Wei-Liang Lou**
- 3.Department of Accounting Director - **Huei-Ling Liu**
- 4.Executive Vice President - **W.H. Lai**
- 5.Advisor - **Ruby Hou**
- 6.Personnel Office Director - **Hong-Dei Huang**



- 7.Civil Service Ethics Office Director - **Ing-Cyuan Hu**
- 8.Department of Risk Management Director - **William Su**
- 9.Executive Vice President - **L.C. Pan**
- 10.Secretariat Director - **Tsu-I Yeh**
- 11.Information Management Office Director - **Shui-Dong Huang**

- 12.Legal Affairs Office Director - **Mang-Chih Lee**
- 13.Department of Resolution Director - **Robert L.I. Chen**
- 14.Executive Vice President - **Howard N.H. Wang**
- 15.South Region Office Director - **Yong-Huei Peng**
- 16.Central Region Office Director - **Jhong-Syun Zeng**



* From left to right



Board of Directors, Supervisors and Senior Executives

Representative of
the Central Bank

Board of Directors

Ray-Beam Dawn
Chairman

Representative of the
Central Bank

Board of Directors

Fred S.C. Chen
Director



Representative of
Ministry of Finance

Board of Directors

Cheng-Shang Chang
Director



Representative of
Ministry of Finance

Board of Directors

Chin-Chang Tang
Director



Representative of
Ministry of Finance

Board of Directors

Hon-Zinn Lin
Director





Representative of
Ministry of Finance

Board of Directors

Johnson C.S. Chen
Director



Representative of
Ministry of Finance

Supervisors

Tang-Chieh Wu
Supervisor



Representative of the
Central Bank

Supervisors

Jiin-Tarnng Yue
Resident Supervisor



Representative of
Ministry of Finance

Supervisors

Jung-Hua Hsieh
Supervisor



Representative of
Ministry of Finance

Board of Directors

Ming-Daw Chang
Director



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Worthy of Support

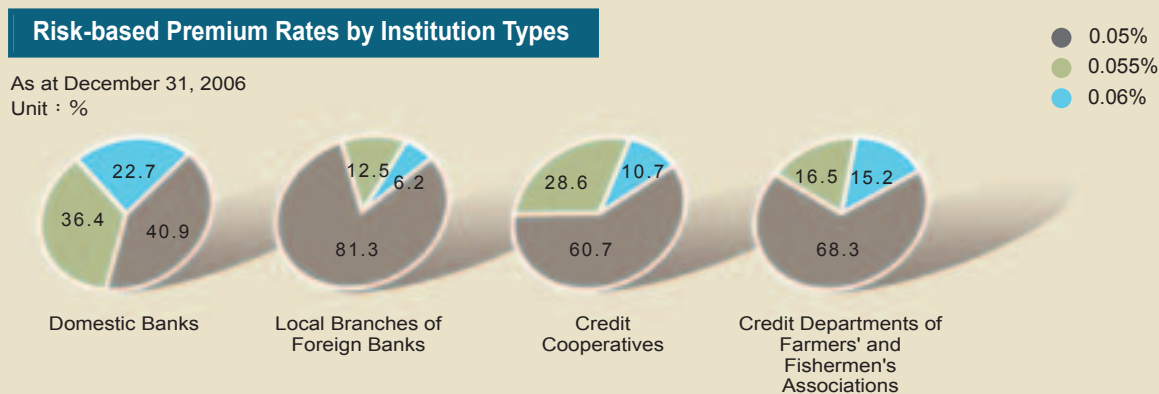
CDIC is the sole government agency vested with the responsibility for handling deposit insurance in Taiwan. Its objectives are to safeguard the benefits of depositors in financial institutions, maintain an orderly credit system, and enhance the sound development of financial operations. To facilitate legislative objectives, the *Deposit Insurance Act* vests CDIC with the major duties of handling deposit insurance, assisting problem institutions, and disposing problem institutions. The following is a brief overview of the major tasks and policy missions of CDIC in 2006:

1. Deposit Insurance

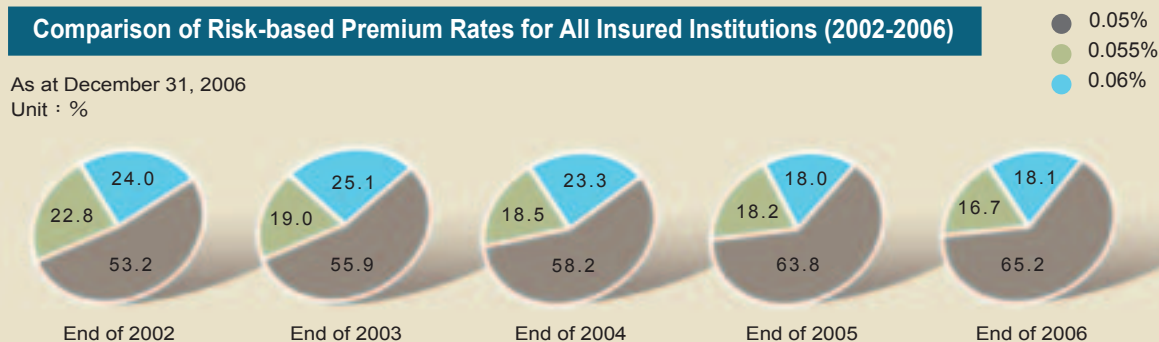
(1) Membership and Scope of Coverage

After Taiwan replaced its voluntary deposit insurance system with a mandatory system, all deposit-taking financial institutions in Taiwan have become CDIC-insured institutions. The one exception at present is the Taipei branch of Deutsche Bank, which is covered under the German deposit insurance scheme and therefore is legally exempted from the Taiwan system.

In recent years the government has vigorously promoted mergers of financial institutions to enhance the efficiency of the financial market and international competitiveness of Taiwan. In 2006, the number of insured institutions continued to fall with the voluntary acquisition or merger of five insured institutions; and the termination of business operations in Taiwan by two insured institutions due to business considerations, thereby reducing the total number of insured institutions from 390 at the end of 2005 to 383 at the end of 2006.



Note: Domestic banks include trust and investment corporations, but exclude Taiwan Post Co., Ltd.



Note: Taiwan Post Co., Ltd. is excluded from calculation of the figures.

(2) Implementation of the Risk-based Premium System

With approval of Ministry of Finance (MOF), CDIC has formally implemented a risk-based premium system since July 1, 1999, in response to the shift to the mandatory system of deposit insurance and to adequately reflect the operating risk of insured institutions. To ensure sufficient deposit insurance pay-off special reserves (hereinafter referred to as “deposit insurance fund”) so that the confidence of depositors can be maintained, CDIC received approval from MOF to raise its three-tiered deposit insurance premium rates from the original 0.015%, 0.0175%, and 0.02% to 0.05%, 0.055%, and 0.06%, respectively, on Jan. 1, 2000. This has enabled CDIC to accumulate an adequate deposit insurance fund and reinforce its ability to handle problem institutions, thereby protecting the interests of depositors, effectively assisting insured institutions in reducing operating risk, and maintaining financial stability.

As of the end of 2006, approximately 65.2% of all insured institutions were subject to the 0.05% rate, about 16.7% were subject to the 0.055% rate, and about 18.1% were subject to the 0.06% rate. The amount of the accumulated deposit insurance fund as of that time was approximately NT\$15.125 billion.

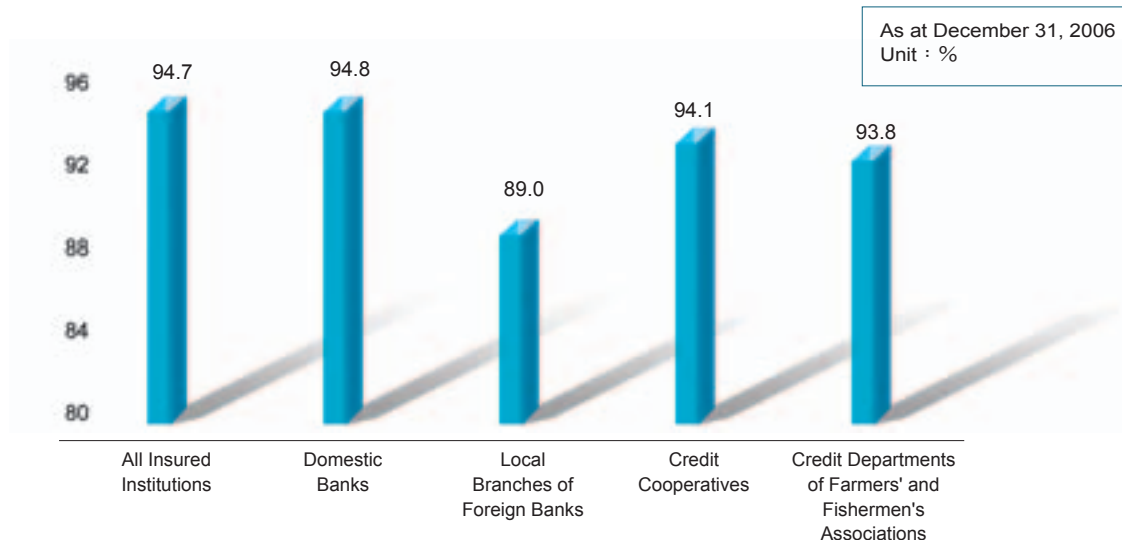
In recent years, financial institutions in Taiwan

have made major operational improvements under various financial reform measures introduced by the government. Among insured institutions of all types, the ratio adopting the lowest premium rate has steadily increased. Major reasons for this trend are the gradual recovery of the economy and the fact that most of the 48 unsound institutions disposed under the Financial Restructuring Fund since 2001 were credit departments of farmers' and fishermen's associations.

(3) Protection of Depositors and Deposits in the Insured Institutions

The maximum deposit insurance coverage provided by CDIC is currently set at NT\$1 million per depositor at each insured institution. According to figures reported by all insured institutions (As at December 31, 2006), total insurable deposits amounted to approximately NT\$22.67 trillion, of which about NT\$9.69 trillion were under the maximum coverage limit. The average ratio of insured deposits to total insurable deposits at all insured institutions was 42.7%. The average ratio of depositors whose deposits were under the maximum coverage to total depositors in all insured institutions was 94.7%. Domestic banks had the highest ratio in this regard, at 94.8%, while the local branches of foreign banks had the lowest ratio, at 89.0%. This indicates that the current maximum coverage of NT\$1 million is able to extend full protection to most small depositors.

Ratio of Depositors Covered by the NT\$1 Million Deposit Insurance Coverage to Total Depositors



Note: Domestic banks include Taiwan Post Co., Ltd. and investment and trust corporations.



(4) Raising Public Awareness of the Deposit Insurance System

- a. A limited coverage deposit insurance system was reinstated at CDIC following the expiry of the transitional blanket guarantee under the Financial Restructuring Fund in July 2005. In order to ensure public confidence in the deposit insurance system, CDIC has produced educational materials and organized direct communication activities.
- b. Since joining International Association of Deposit Insurers (IADI), CDIC has steadily increased exchanges with financial supervisory and deposit insurance organizations around the world. Since CDIC's English website is an important channel for people around the world to access information on CDIC and deposit insurance in Taiwan, the website was completely redesigned and content-enhanced in 2006. The new site is designed to better meet user needs and effectively upgrade the international status of CDIC and its modern professional image.

(5) Legislative Yuan Approval of Prioritizing Deposit Liabilities over Non-deposit Liabilities

On April 28, 2006, the Legislative Yuan approved the addition of Article 16-1 to the *Deposit Insurance Act*. The article stipulates that "When an insured institution is disposed of by the CDIC under the stipulations of this *Act* by the competent authority or the central competent authority of the agricultural finance for the exit or liquidation upon clearing off the debt, its deposit liabilities shall take precedence over non-deposit liabilities. The aforementioned deposit liabilities shall mean the deposits stated in Article 4 of this *Act*; non-deposit liabilities shall mean liabilities other than the deposit liabilities of the insured institution." The amended *Act* was promulgated on May 17, 2006, by presidential decree No. Hu-zong-yi-yi No. 09500069781. (Under the current *Act*, the provision has been amended as Article 42.)

2. Risk Management

(1) Financial Early-warning Operations

CDIC continued to implement the National Financial Early-warning System to closely track the operating status and financial conditions of financial institutions and detect problem institutions in a timely manner, as well as to provide a reference for making relevant regulatory policies. It also makes necessary adjustments and revisions to the system to meet changing financial conditions and supervision needs. Major operations and achievements concerning early-warning operations in 2006 are summarized as follows:

- a. In order to promote information sharing among financial safety net participants and thereby enhance regulatory effectiveness, CDIC regularly submits to the competent authorities the results of examination assessments, Quarterly Analysis Report of Community Financial Institutions, Report on the Percentile Ranking of Data of Financial Institutions and Table of Major Financial Operations of Credit Cooperatives. Such information facilitates the timely monitoring of the financial and business status of financial institutions, the timely correction of business deficiencies, and improvement of regulatory and control efficiency.
- b. In line with the government's policy of disclosing information on financial institutions, CDIC continued to publish on a quarterly basis summarized content from its "Quarterly Analysis Report of Community Financial Institutions" in its Deposit Insurance Quarterly Bulletin and on CDIC website so that the public can access complete information and indexes of the financial affairs of financial institutions. Furthermore, the CDIC website provides links to the websites of related competent authorities so the public can easily obtain financial information recently announced by insured institutions, thereby strengthening market self-discipline.
- c. In order to improve its grasp of information on the operations of financial holding companies and monitor the overall operational risk of such companies, CDIC produced the "Financial Holding Company Quarterly Report." The report serves as a reference for CDIC in controlling the overall operational risk of insured institutions and their affiliated financial holding groups.
- d. CDIC coordinated with the Bureau of Agricultural Finance (BAF) under the Council of Agriculture on the establishment of the "Internet Reporting System." It completed revisions to the format for call report internet transmission by the credit departments of farmers' and fishermen's associations; and in September 2006 it began using internet media for the call reporting of balance sheet and income statement information for the credit departments of farmers' and fishermen's associations to enhance the efficiency of financial early warning operations.
- e. In conjunction with the statement of the implementation of the Financial Accounting Standards No. 34 by the competent authority regarding the handling of accounting for financial products, revisions to the Regulations Governing the Preparation of Financial Reports by Publicly Held Banks, and the Unification of Accounting Systems for Credit Cooperatives, CDIC completed revisions to the report format for the balance sheet, income statement and other related financial information format of domestic banks, the local branches of foreign banks, and credit cooperatives. Moreover, in conjunction with the implementation of the new accounting system, CDIC completed revisions to financial early warning subsystem operations to obtain full understanding of the financial and business conditions of insured institutions.
- f. In conjunction with the revision of related legal ratios by the competent authority, CDIC continued to revise the standards and definitions of legal ratios in the Financial Early-warning System to reflect the financial status of insured institutions in a timely manner.

(2) Implementation of an Account Officer Analysis System

CDIC implemented an account officer analysis system to grasp the operating status of insured institutions and facilitate the adoption of appropriate measures for individual insured institutions so as to control insured risk and implement a risk-prevention management system. The key operations of the system are as follows:

- a. CDIC conducted regular analysis of the operating status of insured institutions in order to expose, in a timely manner, the major operational strategies of insured institutions and any potential insured risk, and provide an important reference for the adoption of related disposition measures.

- b. Specific files on significant unexpected events, as well as on the operational data and special warning signal items of insured institutions were established to assist in the timely control of insured risk.
- c. CDIC properly handled public complaints and tip-offs in accordance with regulations. Cases involving the authority or duties of the competent authority were transferred to such authority for handling.
- d. Internet transmission surveillance systems between CDIC and financial institutions are used for timely acquisition of warnings about abnormal changes in the operations of financial institutions. CDIC sends a formal letter including related questions to financial institutions for requesting improvement or suggests that the competent authority revise financial oversight policies and encourages insured institutions to make improvement in accordance with the regulations so as to effectively increase the efficacy of financial supervision and reduce insured risk.

(3) Assistance to Insured Institutions

- a. CDIC requested the responsible officers or relevant staff at insured institutions to present statements on the institution's financial and business conditions and to bring up the improvement plan to assist with the strengthening and improvement of the institution's operations.



- b. At the instruction of the competent authority, CDIC dispatched personnel to attend board of directors meetings, managing board meetings, and other important meetings of some insured institutions to provide assistance and guidance on important policy issues. CDIC also dispatched personnel to attend related guidance meetings convened by the competent authority to facilitate close coordination with the competent authority in strengthening operational assistance to insured institutions.
- c. CDIC dispatched personnel to insured institutions to provide timely related suggestions as a reference for the institution in handling operational problems, thereby facilitating the institution's return to sound business operations.

(4) Enhancing Information Sharing and Coordination Mechanisms with Supervisory and Regulatory Agencies

- a. CDIC held regular meetings with financial supervisory agencies to strengthen information sharing with such bodies and developed cooperation and liaison with them on handling problem institutions.
- b. In conjunction with the mechanism planned and established by the Financial Examination Bureau, Financial Supervisory Commission for off-site monitoring of financial institutions, CDIC dispatched personnel to attend meetings on the establishment of standards for financial supervisory and management information and a single-window reporting mechanism to facilitate information sharing among relevant bodies.
- c. CDIC communicated to related personnel of the Bureau of Agricultural Finance (BAF), Council of Agriculture the test results and direction of information sharing under the "Internet Reporting System." It also coordinated with and assisted in introducing the system to personnel of the information offices and joint centers of various farmers' associations to ensure the accuracy and completeness of transmitted data and upgrade the efficacy of the Financial Early-warning System.
- d. CDIC dispatched personnel to meet with the personnel of supervisory and assisting units of the local competent authorities. The sharing of experience and full communication of guidance and suggestions during such visits aided these units in helping community financial institutions to achieve stable operations.
- e. CDIC sent specialists to participate regularly in the meetings of the Supervisory and Examination Team, Credit Risk Standard Law Team, and Credit Risk IRB Team of the Financial Supervisory Commission's Basel II Joint Research Taskforce to assist the competent authority in establishing a new capital adequacy ratio mechanism.

3. Resolution of Problem Institutions

(1) Conservatorship and Disposition of Problem Institutions

a. Conservatorship and Disposition of Taitung Business Bank

Under appointment by the competent authority, CDIC assumed conservatorship over Taitung Business Bank on December 15, 2006, and subsequently formed a team to take over the management of the bank.



b. Continued Disposition of Chung Shing Bank, Kaohsiung Business Bank and Fongshan Credit Cooperative

CDIC was commissioned to handle the disposition of Chung Shing Bank in 2005 and the disposition of Kaohsiung Business Bank and Fongshan Credit Cooperative in 2004. At present, it continues to assume conservatorship over these institutions in order to handle remaining accounting, tax, share-related and other affairs.

(2) Assistance to the Council of Agriculture in the Disposition of Unsound Credit Departments of Farmers' Associations

The Financial Restructuring Fund resolved at its 42nd meeting to handle the disposition and market withdrawal of the credit department of Dapu Township Farmers' Association in Chiayi County due to the department's unsound operations and negative adjusted net worth. On October 20, 2006, the Bureau of Agricultural Finance formed a taskforce acting with the bureau's authority to handle related matters. According to relevant regulations, CDIC was commissioned to retain a certified public accountant to assess the assets and liabilities of the said credit department.

4. Disposition of Problem Financial Institutions under Commission by the Financial Restructuring Fund

(1) Operations Commissioned to the CDIC

a. Disposition of Kaohsiung Business Bank's Trust Business

After the selling by open bid a portion of the trust assets of Gangshan Steel Corp. to pay back the latter's debts, CDIC abolished the two trust cases of Gangshan Steel Corp. and Hsiu Kang Development Co., Ltd. with approval of the Financial Restructuring Fund and the competent authority,

which is the Financial Supervisory Commission.

b. Payment of Salary Reduction Difference to Chung Shing Bank's Employees

In accordance with a Supreme Court ruling, Chung Shing Bank was required to pay its employees the difference on salary reductions plus interest. CDIC completed related payment or offset procedure in May 2006.

c. Disposition of Applications by Union Bank of Taiwan for Additional Compensation to Cover Shortfalls due to Undisclosed Liabilities at Chung Shing Bank

According to stipulations in the merger and acquisition contract, Union Bank of Taiwan may, with proper certification, apply to CDIC for increased claims related to Chung Shing Bank's undisclosed liabilities within one year of the standard date of the acquisition.

d. Payment of Compensation for Member Shares in Kaohsiung Fongshan Credit Cooperative

CDIC entrusted Chinatrust Commercial Bank to handle claims operations for the share compensation to members of Fongshan Credit Cooperative. As of the end of 2006, such compensation had been paid to 81% of the credit cooperative members, representing 95% of the compensation value.

e. Continued Sale of Land Assets Assumed by the Restructuring Fund

A total of nine plots of land put by acquiring banks were successfully sold through an open bid on May 2006.

f. Continued Arrangement of the Remaining Affairs at 46 Unsound Community Financial Institutions

CDIC actively coordinated in handling unresolved disputes between 46 unsound community financial institutions and their acquiring banks. Such matters included handling applications by acquiring banks for supplementary compensation; the recovery of land value increment tax paid on an agency basis by acquiring banks to offset the burden of such tax on the credit departments of farmers' and fishermen's associations; the handling of the petitions from members of unsound community financial institutions; and the clarification and return of disputed assets.

g. Recovery of Liabilities Owed to the Financial Restructuring Fund by the Pingtung City Farmers' Association and Chaozhou Township Farmers' Association in Pingtung County

The Pingtung City Farmers' Association and Chaozhou Township Farmers' Association owed liabilities to the Financial Restructuring Fund due to the certificate of deposits issued by their credit departments were set off by other banks. The liabilities of Pingtung City Farmers' Association were fully paid off; and liabilities of the Chaozhou Township Farmers' Association are being handled according to a debt payment plan.

(2) Legal Prosecution

The government established the Financial Restructuring Fund to dispose of problem financial institutions. Prosecuting personnel whose illegal actions create losses at a financial institution accountable for their civil and criminal responsibility could safeguard the rights and interests of the Fund and uphold social justice. CDIC therefore actively pursues civil and criminal action against illegal acts by the responsible parties and employees of financial institutions in accordance with the Financial Restructuring Fund Statute and resolutions of the Fund Management Committee. As of the end of 2006, CDIC had submitted 179 cases of malfeasance to prosecution agencies for handling, and civil compensation has already been sought in 106 civil cases.

(3) Fund Payments

Between July 2001 and the end of 2006, the Financial Restructuring Fund disposed of 48 unsound financial institutions and paid out claims amounting to NT\$165.1 billion according to law. The disposed institutions included 36 community financial institutions in 2001, eight community financial institutions in 2002, Fongshan Credit Cooperative and Kaohsiung Business Bank in 2004, and the credit department of Sinpi Township Farmers' Association and Chung Shing Bank in 2005.

As of December 31, 2006, the fund had handled claims for 37 credit departments of farmers' and fishermen's associations, with total payments of NT\$49.4 billion, or 29.9% of the total; nine credit cooperatives, with total payments of about NT\$43.3 billion, or 26.2% of the total; and two banks, with total payments of about NT\$72.4 billion, or 43.9% of the total.

5. Computerization

- (1) CDIC completed development of the "Financial Restructuring Fund Credit Certificate Management System" and the "Accounting Operations for the CDIC Pension and Savings Management System."
- (2) In conjunction with the statement of the implementation of the Financial Accounting Standards No. 34 regarding the "Standards for Handling of Accounting for Financial Products," CDIC completed revisions to the "Quarterly Analysis Reporting System," "Internet Transmission Surveillance System," "Call Report Percentile Ranking System," "Financial Examination Rating System," "Financial Early-warning System," and "Financial Holding Company Call Report System."



- (3) CDIC established a database on International Association of Deposit Insurers (IADI) research projects. IADI members can access information from the database through a link on the association's website to CDIC's server.
- (4) CDIC established an electronic file format for claims calculation and other related data to meet the needs of calculating insurance premiums for insured institutions and performance of insurance responsibility.
- (5) The upgrading of all desktop personal computers to the Windows XP operating system was completed; and the transmission speeds of network equipment was upgraded, increasing the transmission speed of network connections to 1,000 MBps and DSL bandwidth to 2M to enhance operational efficiency.
- (6) The servers for data application systems were updated to meet the future development needs of CDIC's information operations; the internet data transmission systems of financial institutions were replaced; and local and remote replication mechanisms were installed to maintain the security of information operations.
- (7) Establishment of a "Document File Imaging System" was completed to improve the convenience of document retrieving and reading.

6. Research and Development

(1) Researching Measures Related to the Revised *Deposit Insurance Act*

- a. CDIC researched and drafted proposals for adjusting the maximum coverage limit and premium rates. It drew on the experience advanced countries in deposit insurance reform and convened a seminar to collect input from scholars and experts as a reference in studying revisions to the maximum coverage limit and premium rates.
- b. CDIC researched and drafted "Standards for Examination of Applications by Financial Institutions to Join the Deposit Insurance System" in order to effectively control insured risk. Moreover, in order to meet the contract signing needs of newly established financial institutions joining the deposit insurance system, CDIC revised the deposit insurance contract as the standard basis of performance rights and obligations for both CDIC and insured institutions.

(2) Research and Drafting of By-laws on Performance of Deposit Insurance Responsibility

In conjunction with amendments to the *Deposit Insurance Act*, CDIC researched and drafted revisions to five by-laws, including the "Measures Governing the Establishment and Management of Bridge Bank," "Operational Procedures for Claims Processing," "Operational Procedures for Providing Financial Assistance to Promote Acquisitions and Assumptions," "Operational Procedures for Arrangement of Loans, Deposits or Other Financial Assistance to Unsound Insured Institutions," and "Operational Measures for Handling of Advanced Payments." It also planned "Draft Operational Standards for the Format and Content of Electronic Files on Deposit Insurance Information Established by Insured Institutions" to provide an operational basis for future performance of deposit insurance responsibilities.

(3) Drafting of Proposals for the Effective Disposition of Unsound Financial Institutions and Reporting to the Competent Authority and Financial Restructuring Fund for Approval

- a. According to stipulations in Paragraph 7 of Article 4 under the *Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund*, CDIC researched and drafted the "Operating Procedures for the Disposition of Unsound Financial Institutions under the Executive Yuan's Financial Restructuring Fund." The draft was submitted to the Financial Restructuring Fund's Management Committee for approval. On March 23, 2006, the competent authority promulgated and enacted the operating procedures.

- b. CDIC coordinated with the competent authority on the formulation of mechanisms, measures and disposition procedures related to the combined utilization of funding under Deposit Insurance Pay-off Special Reserve and Financial Restructuring Fund as a reference in planning. The Executive Yuan approved above items on November 15, 2006.
- c. In response to the enactment of provisions in the *Deposit Insurance Act* stipulating that "deposit liabilities shall take precedence over non-deposit liabilities," CDIC made a written request to the competent authority for explanation on the issue of whether or not, during the conservatorship of an unsound financial institution with a negative net worth, the conservator can pay off unprotected non-deposit liabilities, in order to provide a basis for carrying out conservatorship operations. The Financial Supervisory Commission made a written response on December 14, 2006, stating that payment of non-deposit liabilities shall be temporarily suspended during the period of conservatorship. Moreover, the Financial Restructuring Fund's Management Committee agreed to include "expenses arising from disbursement dealings and other service operations" as expenses for maintaining business operations to be borne by the Financial Restructuring Fund.

(4) Conducting Surveys of Depositor Awareness of Deposit Insurance

In order to understand the level of depositor awareness of deposit insurance concepts and channels for information on deposit insurance and financial security, CDIC commissioned a professional

organization to conduct a questionnaire-based survey. The survey results provided a reference for CDIC in the promotion and drafting of related follow-up measures.

(5) Convening the 11th Meeting of the "CDIC Deposit Insurance Premiums and Problem Financial Institutions Consultative Committee"

This meeting discussed the suitability of adopting a gradual approach in raising the deposit insurance premium to achieve the 2% deposit insurance fund target ratio stipulated under the draft revision of the *Deposit Insurance Act*; as well as issues related to paying off the non-deposit liabilities of unsound financial institutions under conservatorship by the CDIC. The committee members provided many invaluable opinions and proposal with considerable reference value in handling these issues.

(6) International Research

- a. The CDIC chaired Research and Guidance Committee of the International Association of Deposit Insurers (IADI) established international guidance in 2006, including "General Guidance for the Resolution of Bank Failures" and "Guidance on Interrelationships among Safety Net Players." The committee also promoted the following 12 research projects (of which CDIC chaired the first project and dispatched personnel to attend the second to sixth projects):
 - (a) Public Awareness
 - (b) Effective DI Mandate
 - (c) Funding
 - (d) Establishment of an IADI Database for DIS



- (e) Coverage Limit
- (f) Cross-Border Issues
- (g) Claims and Recoveries
- (h) Governance
- (i) Legal Protection and Indemnification Issues
- (j) Enterprise Risk Management
- (k) Evaluation of Deposit Insurance Fund Sufficiency
- (l) Evaluation of the Effectiveness of Deposit Insurance Systems

b. CDIC completed a database management system for responses to IADI's questionnaire on "Interrelationships among Financial Safety Net Players and Resolution of Bank Failures."

(7) Special Research and Summary Translation Reports

- a. CDIC completed the reports on overseas visit and research, including "Study on Supervisory Mechanisms for Implementation of Korea Deposit Insurance Corporation's 'Business Normalization Plan' for Problem Financial Institutions" and "Mission to Study Malaysia's Deposit Insurance System and Disposition Status after the Asian Financial Crisis."
- b. CDIC translated the 2004 annual report of Korea Deposit Insurance Corporation (KDIC) and lecture reports on "Outlook for Deposit Insurance Systems" delivered by deposit insurers in Malaysia, the United States and Japan.
- c. CDIC translated the "General Guidance for the Resolution of Bank Failures" issued by IADI and content on IADI's website, including "Newsletters," member profiles, and "Research Letters."
- d. CDIC completed and reported to the Ministry of Finance its 2006 "Study on Cross-Border Issues Related to the Deposit Insurance Mechanism and Disposal of Problem Financial Institutions."
- e. A record of IADI's 4th Annual General Meeting and Conference and CDIC's 20th Anniversary Celebration was completed and included among CDIC's series of Deposit Insurance Reports.

(8) Establishment of a Global Deposit Insurance Information Display Area

CDIC established a special area in its Reading Room to display deposit insurance publications from around the world, arranged by country, for public access.



(9) Publication of the Deposit Insurance Quarterly Bulletin

CDIC's Deposit Insurance Quarterly Bulletin features articles by experts and scholars on the operational management of financial institutions, financial theory and practice, financial supervision, and case studies of successful and problem financial institutions in Taiwan and abroad. The Quarterly Bulletin is distributed to relevant agencies, financial institutions, universities and colleges, legislators, and libraries and cultural centers for reference purposes.

(10) Publication of Deposit Insurance Reports

A series of seven reports on overseas visit and research conducted by CDIC staff in 2005 was published as a reference for relevant government agencies, financial institutions, academic organizations, experts and scholars.

7. International Exchange

To enhance its international image and visibility, CDIC actively participated in and organized several international exchange activities in 2006, including the following major activities:

(1) Participation in IADI Affairs and Activities

- a. CDIC attended the 4th Annual Meeting and International Seminar of the IADI Asia Regional Committee in Manila, the Philippines on February 15 to 18. Former CDIC Chairman Chin-Tsair Tsay was invited to speak at the event.
- b. CDIC attended meetings of the IADI Executive Council, Governance Committee, and Research and Guidance Committee in Basel, Switzerland in March and May, in Kuala Lumpur, Malaysia in September, and in Chicago, USA in October.
- c. CDIC attended the 9th Annual International Banking Conference co-held by IADI and the Federal Reserve Bank of Chicago on October 5 and 6.
- d. CDIC attended the IADI 5th Annual General Meeting and Conference held in Rio de Janeiro, Brazil in November. CDIC President Johnson C.S. Chen represented CDIC in winning election to IADI's Executive Council.



(2) Holding of International Seminars

On April 14, CDIC and the Taiwan Academy of Banking and Finance jointly held the "Seminar on Korea's Experience of Handling its Non-performing Loans" and a presentation for the release of the book "The Financial Sector's New Frontier- Handling Non-performing Loans." Dr. Jae-Ryong Chung, the former Chairman of the Korea Asset Management Corporation (KAMCO) and one of the authors of the book, was invited to present a lecture on the "Korean Experience in the Disposal of Non-performing Loans." There was also a general discussion, during which Mr. Rong-Jou Wang, Chairman of the Taiwan Asset Management Corporation held exchanges with CDIC President Johnson C.S. Chen.



(3) Signing of MOU and Letter of Exchange

a. CDIC and the Deposit Insurance Corporation of Japan Signed a Letter of Exchange

In order to promote experience sharing and information exchange, the CDIC signed a Letter of Exchange with the Deposit Insurance Corporation of Japan (DICJ). Former CDIC Chairman Chin-Tsair Tsay and DICJ Governor Shunichi Nagata signed the Letter of Exchange on behalf of their respective organizations on August 30 in Tokyo to further strengthen cooperation between the two sides.

b. CDIC and KAMCO Renewed MOU

In order to promote the exchange of experience and information between Korea and Taiwan concerning the handling of the non-performing loans of financial institutions, former CDIC Chairman Chin-Tsair Tsay and Chairman & CEO of KAMCO, Mr. Woo-Suk Kim, on behalf of their respective corporations signed a Memorandum of Understanding (MOU) on September 21 in Taipei, thereby extending the formal bilateral cooperative relationship between the two organizations.

c. CDIC and Deposit Insurance of Vietnam Signed MOU

In order to promote exchange of experience and the sharing of information Mr. Do Khac Hai, Chairman of Deposit Insurance of Vietnam (DIV), and Dr. Ray-Beam Dawn, Chairman of CDIC, on behalf of their respective organizations signed a Memorandum of Understanding (MOU) in Hanoi, Vietnam on December 15 to formally initiate bilateral cooperation.

(4) Other International Exchange Activities

a. CDIC received visits by representatives of the deposit insurers and financial supervisory organizations of various countries, including high-ranking officials and representatives of Indonesia Deposit Insurance Corporation, KAMCO, Vietnam's Ministry of Finance and DIV, Zimbabwe's Deposit Protection Board, the U.S. Federal Deposit Insurance Corporation, and DICJ and Japan's Keio University.

b. CDIC dispatched personnel to attend the Round Table held by DICJ on the topics of "Effective Disposal of Closed Financial Institutions Under a Limited Coverage System" and "Suitable Frameworks for Financing Deposit Insurance Funds to Maintain Financial Stability"; the KDIC's "10th Anniversary and International Open House"; the "Seminar on the Role of Banking Supervision in Financial Stability" held by South East Asian Central Banks Research and Training Centre (SEACEN); and the 2nd APEC Policy Dialogue Workshop on Financial Sector Reform held by Bank Indonesia. CDIC also presented several papers and shared Taiwan's deposit insurance experience at these events.

8. Human Resources

(1) Employee Structure

Year	No. of Employees	Avg. Age of Employees	Educational Attainment of Employees		
			Graduate School	College	Other
2006	158	43	29	125	4
2005	158	42	29	125	4
2004	162	41	29	129	4
2003	287	40	46	234	7
2002	290	38	45	237	8
2001	294	38	43	242	9

Department breakdown of CDIC staff:

Dept. of Risk Management (41)

International Relations and Research office (7)

Secretariat (21)

Information Management Office (12)

Dept. of Resolution (40)

Legal Affairs Office (8)

Personnel Office (5)

Dept. of Business (13)

Dept. of Accounting (10)

Civil Service Ethics Office (1)

(2) Contract Employees

In order to thoroughly carry out financial reforms and actively fulfill the policies on the disposition of problem institutions, CDIC adjusted its manpower structure and was approved to hire 24 special contract employees.

(3) Personnel Training

In order to upgrade staff quality and enhance employee's professional knowledge, CDIC arranged the following training programs in 2006:

- Personnel were sent to participate in intensive training programs at the Taiwan Academy of Banking and Finance, Institute for Information Industry, Training Program for Government Personnel.
- CDIC organized monthly professional business seminars, with lectures by outstanding senior CDIC personnel and outside experts and supporting case studies.
- CDIC personnel were sent overseas for study and visit, or for participation in international conferences, in order to strengthen research in subjects related to deposit insurance.
- In order to strengthen the international meeting hosting and presentation ability of CDIC executives, CDIC held English classes on international conference and advisory operations communication skill. English and Japanese classes were also offered once or twice a week, as well as "General English Proficiency Test (GEPT)" night class to upgrade the proficiency of CDIC personnel in these languages.



Financial Statements and Independent Auditor's Report

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Worthy of Trust

INDEPENDENT AUDITOR'S REPORT

NO.121495EA

To the Board of Directors of

Central Deposit Insurance Corporation

We have audited the accompanying balance sheets of the Central Deposit Insurance Corporation as of December 31, 2006 and 2005, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the "Guidelines for Certified Public Accountants' Examinations and Reports on Financial Statements" in the Republic of China and with generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes the examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion based on our examinations, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Central Deposit Insurance Corporation as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with the law and with generally accepted accounting principles in the Republic of China applied on a consistent basis.

As mentioned in Note 3 of the Financial Statements, the Central Deposit Insurance Corp. has been dealing with accounting affairs by adopting the Statements of Financial Accounting Standards (SFAS) No.34 "Accounting Regulations for Financial Products" and No.36 "Expression and Disclosure of Financial Products", effective from Jan. 1, 2006, and No. 35 "Accounting Regulations for Asset Impairment", effective from Jan. 1, 2005.

Baker Tilly, Clock & Co



Kuo-Shih Huang, CPA

January 26, 2007



ASSETS	NOTES	2006		2005	
		Amount	%	Amount	%
CURRENT ASSETS		\$ 26,998,548	98	\$ 25,822,699	98
Cash and Cash Equivalents	4	20,690,559	75	19,619,985	75
Held-to-maturity financial assets	2, 5	5,897,655	21	5,847,350	22
Receivables	6	397,588	2	343,355	1
Prepayments		11,970	—	11,483	—
Other Current Assets		776	—	526	—
FIXED ASSETS-NET	2, 7	538,468	2	544,157	2
Cost		598,239	2	593,108	2
Land		228,833	1	228,833	1
Buildings		265,486	1	265,486	1
Machinery and Equipment		71,672	—	66,022	—
Transportation Equipment		14,197	—	14,419	—
Other Equipment		18,051	—	18,348	—
Revaluation Increment		66,149	—	66,149	—
Less Accumulated Depreciation		125,920	—	115,100	—
Buildings		64,664	—	59,930	—
Machinery and Equipment		42,232	—	37,475	—
Transportation Equipment		8,027	—	7,393	—
Other Equipment		10,997	—	10,302	—
INTANGIBLE ASSETS	2, 8	2,322	—	1,861	—
OTHER ASSETS					
Guarantee Deposits Paid		511	—	518	—
TOTAL ASSETS		\$27,539,849	100	\$26,369,235	100

The accompanying notes are an integral part of the financial statements.



INSURANCE CORPORATION

SHEET

2006 and 2005

(Expressed in New Taiwan Thousand Dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	2006		2005	
		Amount	%	Amount	%
CURRENT LIABILITIES		\$ 1,110,929	4	\$ 1,486,277	6
Marketable Securities Sold Under Repurchase Agreement	2, 9	1,037,014	4	1,412,298	6
Payables	10	73,915	—	73,979	—
LONG-TERM LIABILITIES					
Reserve for Land Revaluation Increment Tax		25,551	—	25,551	—
OTHER LIABILITIES		15,126,340	55	13,580,378	51
Reserve for Insurance Pay-offs		15,125,159	55	13,579,167	51
Guarantee Deposits Received		1,181	—	1,191	—
Temporary Credits		—	—	20	—
TOTAL LIABILITIES		16,262,820	59	15,092,206	57
CAPITAL STOCK	11	10,000,000	36	10,000,000	38
CAPITAL SURPLUS					
Donated Assets Received		265	—	265	—
RETAINED EARNINGS		1,236,166	5	1,236,166	5
Legal Reserve		235,700	1	235,700	1
Special Reserve		1,000,466	4	1,000,466	4
OTHERS					
Unrealized Incremental Value from Revaluation		40,598	—	40,598	—
TOTAL STOCKHOLDERS' EQUITY		11,277,029	41	11,277,029	43
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$27,539,849	100	\$26,369,235	100

CENTRAL DEPOSIT & INSURANCE CORPORATION

STATEMENT OF INCOME



FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

(Expressed in New Taiwan Thousand Dollars)

DESCRIPTION	NOTES	2006		2005	
		Amount	%	Amount	%
OPERATING INCOME		\$ 4,700,990	100	\$ 4,517,616	100
Interest Revenue		591,388	13	498,362	11
Premiums Revenue		4,109,602	87	4,019,254	89
OPERATING COSTS		4,248,926	90	4,058,102	90
Handling Fees		501	—	505	—
Insurance Expenses		466	—	172	—
Interest Expenses		17,986	—	15,157	—
Insurance Pay-offs		1,545,992	33	1,425,422	32
Reserve Provisions					
Finance Restructuring		2,683,981	57	2,616,846	58
Fund Expenses					
GROSS PROFIT		452,064	10	459,514	10
OPERATING EXPENSES		448,558	10	451,122	10
Transaction Expenses		386,321	9	389,539	9
General & Administrative Expenses		56,786	1	54,135	1
Other Operating Expenses		5,451	—	7,448	—
OPERATING INCOME		3,506	—	8,392	—
NON-OPERATING INCOME		313	—	549	—
Indemnity Income		9	—	2	—
Other Income		304	—	547	—
NON-OPERATING EXPENSES		3,819	—	8,941	—
Loss on Disposal of Assets		728	—	1,934	—
Other Expenses		3,091	—	7,007	—
INCOME BEFORE INCOME TAX		—	—	—	—
INCOME TAX	12	—	—	—	—
NET INCOME		\$ —	—	\$ —	—
EARNINGS PER SHARE		\$ —	—	\$ —	—

The accompanying notes are an integral part of the financial statements.

CENTRAL DEPOSIT INSURANCE CORPORATION
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY



FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

(Expressed in New Taiwan Thousand Dollars)

DESCRIPTION	CAPITAL STOCK	CAPITAL SURPLUS	RETAINED EARNINGS		UNREALIZED INCREMENTAL VALUE FROM REVALUATION	TOTAL
			Legal Reserve	Special Reserve		
BALANCE, JANUARY 1, 2005	\$ 10,000,000	\$ —	\$ 235,700	\$ 1,000,466	\$ 40,598	\$ 11,276,764
Donated Assets Received		265				265
BALANCE, DECEMBER 31, 2005	\$ 10,000,000	\$ 265	\$ 235,700	\$ 1,000,466	\$ 40,598	\$ 11,277,029
BALANCE, DECEMBER 31, 2006	\$ 10,000,000	\$ 265	\$ 235,700	\$ 1,000,466	\$ 40,598	\$ 11,277,029

The accompanying notes are an integral part of the financial statements.

CENTRAL DEPOSIT INSURANCE CORPORATION

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

(Expressed in New Taiwan Thousand Dollars)

DESCRIPTION	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ —	\$ —
Adjustments		
Depreciation	14,306	15,478
Amortization	1,219	2,131
Insurance Pay-offs Reserve Provisions	1,545,992	1,425,422
Net Loss on Disposal of Fixed Assets	728	1,934
Changes in Assets and Liabilities :		
Receivables	(54,233)	(42,279)
Prepayments	(487)	1,169
Other Current Assets	(250)	1,028
Marketable Securities Sold Under Repurchase Agreement	(375,284)	209,056
Payables	(64)	(10,517)
Net Cash Provided by Operating Activities	1,131,927	1,603,422
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in Held-to-maturity financial assets	(50,305)	(512,053)
Intangible Assets Increase	(1,680)	(786)
Decrease (Increase) in Guarantee Deposits Paid	7	(167)
Acquisition of Fixed Assets	(9,347)	(8,031)
Proceeds from Disposal of Fixed Assets	2	—
Net Cash Used in Investing Activities	(61,323)	(521,037)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in Guarantee Deposits Received	(10)	(174)
(Decrease) Increase in Temporary Credits	(20)	20
Net Cash Used in Financing Activities	(30)	(154)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,070,574	1,082,231
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	19,619,985	18,537,754
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 20,690,559	\$ 19,619,985
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest Expense Paid (Net of Amount Capitalized)	\$ 17,980	\$ 14,732

The accompanying notes are an integral part of the financial statements.

CENTRAL DEPOSIT INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006 and 2005

(Amounts are expressed in New Taiwan thousand dollars, unless otherwise stated)

1. GENERAL

The Corporation was established in accordance with the *Deposit Insurance Act* in September 1985, with the aim of safeguarding the interests of depositors in financial institutions, promoting savings, maintaining an orderly credit system, and enhancing the sound development of financial operations.

The Corporation is a government-run organization of which the capital is contributed by Ministry of Finance, the Central Bank and five insured financial institutions based on the shares that each of them has purchased. Ministry of Finance decreed that the shares were not to be issued publicly. The Corporation's approved capital stock is \$10,000,000,000 divided into 1,000,000,000 shares with a face value at NT\$10 each. The number of shares issued is 1,000,000,000. Ministry of Finance and the Central Bank are the major shareholders of the Corporation. As of December 31, 2006, the ratio of their shareholding was 99.9995%. The Corporation's major businesses range from handling deposit insurance, managing deposit insurance risk, dealing with failing and failed insured institutions, and establishing related regulations and systems of deposit insurance. Financial institutions duly approved under the law to accept deposits are required to apply for deposit insurance, including banks, trust and investment companies, the Taiwan branches of foreign banks, credit cooperatives, credit departments of farmers' and fishermen's associations, and the postal savings bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) General Accounting Practice & Basis of Compilation for Financial Statements

As the Corporation is a government-run organization, its accounting criteria are subject to the *Budget Act*, the *Financial Statement Act*, the *Unified Accounting System Regulations for Departments and Bureaus of Ministry of Finance* as approved by Directorate General of Budget, Accounting & Statistics, Executive Yuan, and other regulations for the accounting affairs of government-run organizations promulgated by Ministry of Audit, Control Yuan. Matters not regulated in the above-mentioned law are subject to generally accepted accounting principles. Annual settlement of accounts are audited by Directorate General of Budget, Accounting & Statistics, Executive Yuan, and Ministry of Audit of the Control Yuan serves as the authority for final approval. The Corporation's account books as of the end of 2005 were audited by Directorate General of Budget, Accounting & Statistics, Executive Yuan and Ministry of Audit, Control Yuan. Consequently, the balance at the beginning of 2006 was subject to the balance at the end of 2005, which has been audited by Ministry of Audit, Control Yuan.

(2) Held-to-Maturity Financial Assets:

- a. Delivery date accounting is used, and financial products are measured at fair value plus transaction costs generated from acquisition or issuance, when being recognized originally.
- b. Financial assets held to maturity are measured at amortized cost.
- c. According to the *Deposit Insurance Act*, the Corporation's funds have to be deposited in the Central Bank or in financial institutions approved by the competent authority with the provision of government bonds as collateral. Except for the allowance for regular expenses and for special purposes as provided in Articles 15, 16 & 17 of the

Deposit Insurance Act, the use of the funds shall be limited to the investment in government bonds and bank debentures.

(3) Marketable Securities Sold Under Repurchase Agreement

Bond for transaction purposes are listed as repurchased bond liabilities.

(4) Fixed Assets

Fixed assets are recorded in the books at cost. Major improvements, renewals and replacements are capitalized, while repairs and maintenance are expensed at the year of occurrence. When assets are sold or disposed of, the cost and related accumulated depreciation are written off from the accounts based on the estimated durable period by using the straight-line method. Any gain or loss is credited or charged to income.

(5) Intangible Assets

Computer software is recorded in the books at cost and amortized equally in 3 years based on the straight-line method.

(6) Employees' Pension

The Corporation deals with its employees' retirement, consolation and demobilization in accordance with the "Retirement, Consolation and Demobilization Regulations for Government-run Financial and Insurance Institutions Under Ministry of Finance". Pursuant to Article 41-1 of the Regulations, the pension offered will be calculated in accordance with the *Labor Standard Act* based on the length of an employee's service in the Corporation which is calculated based on the applicable *Labor Standards Act* effective from Mar. 1, 1998. The length of the employee's service in the Corporation before the *Labor Standards Act* went into effect, will be reserved and the savings fund appropriated from the Corporation (4%~8.5% of salary) and the employees (3% of salary) per month will also be reserved. The calculation of the employees' pension offered by the Corporation is based on the length of each employee's service and salary at the time of retirement.

Pursuant to relevant regulations, the Corporation commissions an actuary to calculate the amount of the Corporation's contributions to the pension fund and to deposit it in the special labor pension accounts opened by the Corporation's Employees Pension Supervision Committee and Labor Retirement Fund Supervision Committee. The latter account is deposited in the Central Trust of China.

As for project contract employees, in order to comply with the enforcement of the *Labor Pension Act* the Corporation, beginning from July 1, 2005, contributes an amount equal to at least 6% of their monthly salaries into the pension fund. The pensions are deposited into employees' exclusive labor retirement accounts. The Corporation's contributions are listed as current expense at the year of occurrence.

(7) Income Tax

The Corporation settles the accounts at every end of the fiscal year. All profits are placed in the reserve for insurance pay-offs in accordance with the *Deposit Insurance Act*. There is no income before income tax.

(8) Limitation of Earning Allocation

Pursuant to Article 7 of the *Deposit Insurance Act*, "The CDIC shall close all accounts at the end of each business year, and shall place the whole amount of the profit, if any, in the deposit insurance pay-off reserve fund, and shall not distribute it in accordance with the relevant provisions of the *Company Law*." In addition, pursuant to Article 38 of the Corporation's Articles of Incorporation, "The Corporation carries out accounting settlement at the end of the

fiscal year. All profits are placed in the deposit insurance pay-off special reserve fund in accordance with Article 7 of the *Deposit Insurance Act*."

(9) Asset Impairment

The Corporation adopted SFAS No. 35 "Accounting for Asset Impairment" from January 1, 2005. The Corporation shall recognize devaluation loss of the owned assets when the environment has changed or a certain event occurs in order to reflect that retrievable value of the owned assets is less than book value. Retrievable value refers to net fair value or use value, whichever is higher, of assets. Net fair value refers to acquirable value of assets during a general transaction (disposal cost of assets has been deducted from the sales of assets). Use value refers to the present value of prospective cash flows expected to be generated from the assets. When the situation resulting in recognition of the accumulative impairment loss in the previous years does not exist any more or has improved, accumulative impairment loss can be reversed to the extent of the amount of such loss recognized in the previous year.

(10) Reclassification of Accounts

Some accounts for 2005 have been reclassified in compliance with instructions in the letters No. Chu-Hui-Erh-Tzu-Ti-0940008683, 0950005507, and 0950006273A from Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

3. THE REASONS AND EFFECTS OF ACCOUNTING CHANGES

(1) The Corporation has been dealing with accounting affairs in compliance with SFAS No. 34 "Accounting Regulations for Financial Products" and No. 36 "Expression and Disclosure of Financial Products" since Jan. 1, 2006.

a. Effect of First Application of the above-mentioned Statements of Financial Accounting Standards: None

All financial products held by the Corporation are held to maturity; thus this change does not affect the net income of 2005.

b. Reclassification of Accounts for First Application of the above-mentioned Statements of Financial Accounting Standards:

Pursuant to the letter No. (94)-Chi-Mi-Tzu-Ti-016 from Accounting Research and Development Foundation of the Republic of China, the accounts used for the 2005 financial statements in the comparative financial statements of 2006, which were applicable for the first time to the SFAS No. 34, shall be reclassified according to the accounts used for the 2006 financial statements, but shall not be restated. However, evaluation methods for accounts in the same group might be different, so such difference shall be indicated in the Notes. Some accounts for the 2005 financial statements of the Corporation have been reclassified as follows in compliance with the Statements of Financial Accounting Standards:

	Before Reclassification	After Reclassification
Balance Sheet		
Short-term investments	\$ 5,847,350	\$ —
Held-to-maturity financial assets	—	5,847,350

- (2) The Corporation adopted SFAS No.35 "Accounting for Impairment Loss of Assets" since January 1, 2005. The changes in accounting principle have no effect on the total assets and stockholders' equities as of December 31, 2005.

4. CASH AND CASH EQUIVALENTS

	2006	2005
Petty Cash	\$ 375	\$ 375
Checking Deposits	8,184	6,610
Time Deposits	20,682,000	19,613,000
Total	\$20,690,559	\$19,619,985

5. HELD-TO-MATURITY FINANCIAL ASSETS

	2006	2005
Bonds	\$ 5,897,655	\$ 5,847,350

6. RECEIVABLES

	2006	2005
Tax Refund Receivable	\$ 105,955	\$ 102,580
Interest Receivable	291,631	240,775
Others	2	—
Total	\$ 397,588	\$ 343,355

7. FIXED ASSETS

2006				
	Cost	Revaluation Increment	Accumulated Depreciation	Net
Land	\$228,833	\$66,149	\$ —	\$294,982
Buildings	265,486	—	64,664	200,822
Machinery and Equipment	71,672	—	42,232	29,440
Transportation Equipment	14,197	—	8,027	6,170
Other Equipment	18,051	—	10,997	7,054
Total	\$598,239	\$66,149	\$125,920	\$538,468

2005				
	Cost	Revaluation Increment	Accumulated Depreciation	Net
Land	\$228,833	\$ 66,149	\$ —	\$294,982
Buildings	265,486	—	59,930	205,556
Machinery and Equipment	66,022	—	37,475	28,547
Transportation Equipment	14,419	—	7,393	7,026
Other Equipment	18,348	—	10,302	8,046
Total	\$593,108	\$ 66,149	\$115,100	\$544,157

- (1) The fire insurance coverage on fixed assets as of December 31, 2006 and 2005 was approximately \$252,922 and \$257,744, respectively.
- (2) Depreciation for 2006 and 2005 was \$14,306 and \$15,478, respectively.
- (3) In accordance with the regulations as stated in official letter No. Tai-(83)-Chu-Hsiao-5-Tzu-Ti-05739 from Directorate General of Budget, Accounting & Statistics, Executive Yuan on June 22, 1984, the Corporation has revaluated land after the approval of Ministry of Audit. The recognition of land value was increased by \$66,149. Long-term Liabilities - Reserve for Land Revaluation Increment Tax was \$25,551, and Unrealized Incremental Value from Revaluation was \$40,598. In addition, the Corporation undertook land value re-evaluation pursuant to official letter No. Tai-Tsai-Jung(2)-Tzu-Ti 0920031415 from the Ministry of Finance with the purpose of transferring official letter No. Tai-Shen-Pu-Szu-Tzu-Ti 921710 from the Ministry of Audit. The Chung Cheng Branch of Taipei Tax Collection Office estimated that the land value increment tax was \$14,861 based on the present land value released by government land administration authorities in 2003, which is less than the latest land re-evaluation of \$25,551 in 1995. Moreover, since the Consumer Price Index rose for merely 6.2%, there were no need for adjustment on the book values of land and the details of such fact thereof were stated in official letter No. Tsun-Pao-Mi-Tzu-Ti 930000793 from the Corporation which has been submitted to the Ministry of Audit for reference.

8. INTANGIBLE ASSETS

	Jan. 1, 2006	Increase	Decrease	Dec. 31, 2006
Computer Software	\$ 1,861	\$ 1,680	\$ 1,219	\$ 2,322

	Jan. 1, 2005	Increase	Decrease	Dec. 31, 2005
Computer Software	\$ 3,206	\$ 786	\$ 2,131	\$ 1,861

9. MARKETABLE SECURITIES SOLD UNDER REPURCHASE AGREEMENT

	2006	2005
Marketable Securities Sold under Repurchase Agreement	\$ 1,037,014	\$ 1,412,298

Bond Repurchase rates intervals at year ends of 2006 and 2005 are 1.61%~1.62% and 1.38%~1.395% respectively.

10. PAYABLES

	2006	2005
Interest Payable	\$ 869	\$ 863
Accrued Expenses	72,321	72,385
Advance Collections for Customers	725	731
Total	\$ 73,915	\$ 73,979

11. CAPITAL STOCK

	December 31, 2006 & 2005
Authorized Capital	10,000,000
Paid-in Capital	10,000,000
Authorized Shares	1,000,000 thousand Shares
Outstanding Shares	1,000,000 thousand Shares

12. INCOME TAX

(1) Income Tax Payable

	2006	2005
Current Tax Expense	\$ —	\$ —

(2) The corporation's income tax have been assessed till 2004 by the tax authority.

(3) Integrated Tax Related Information

	2006	2005
Shareholders' Imputation Credit Account Balance	\$144,736	\$144,736





Statistics

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Worthy of Praise

Table 1: Number of Insured Institutions for the Last Five Years

Type of Institution \ Year	2006	2005	2004	2003	2002
Domestic Banks	45	48	52	53	55
Credit Cooperatives	28	29	32	35	37
Credit Departments of Farmers' Associations	253	253	253	253	253
Credit Departments of Fishermen's Associations	25	25	25	25	25
Local Branches of Foreign Banks	32	35	34	35	35
Total	383	390	396	401	405

Notes:

(1) The standard date for the annual figures in the table is December 31.

(2) The figure for domestic banks includes Agricultural Bank of Taiwan, Taiwan Post Co., Ltd. and trust and investment corporations.

(3) The number of insured institutions was reduced by seven in 2006 due to the merger of Chinese Farmer's Bank with Taiwan Cooperative Bank, the merger of Chiao Tung Bank with International Commercial Bank of China into Mega International Commercial Bank, the merger of International Bank of Taipei with Bank SinoPac, the acquisition of Fong Yuan Credit Cooperative by COTA Commercial Bank, the merger of Taipei Branch of UFJ Bank of Japan with Taipei Branch of Tokyo-Mitsubishi Bank of Japan into Taipei Branch of Bank of Tokyo-Mitsubishi UFJ of Japan, and the close operation of Taipei Branch of Union Bank of California of USA and Taipei Branch of TD Bank Financial Group of Canada.

Table 2: Ratio of Insured Deposits to Total Insurable Deposits for the Last Five Years

Unit: NT\$ million

Type of Institution	Year 2006			Ratio of Insured Deposits to Total Insurable Deposits (%)			
	Insured Deposits	Total Insurable Deposits	Ratio of Insured Deposits to Total Insurable Deposits %	Year 2005	Year 2004	Year 2003	Year 2002
	(a)	(b)	(a)/(b)				
Domestic Banks	8,520,569	20,202,511	42.2	42.8	43.4	44.1	44.1
Credit Cooperatives	301,175	589,837	51.1	52.1	52.8	54.1	55.0
Credit Departments of Farmers' Associations	763,178	1,274,482	59.9	60.5	60.8	61.3	61.7
Credit Departments of Fishermen's Associations	22,943	35,486	64.7	64.9	65.3	64.9	65.8
Local Branches of Foreign Banks	78,214	567,747	13.8	21.1	14.7	16.1	19.3
Total	9,686,079	22,670,063	42.7	43.6	44.1	44.9	45.1

Notes:

(1) The standard date for the annual figures in the table is December 31.

(2) The figure for domestic banks includes Agricultural Bank of Taiwan, Taiwan Post Co., Ltd. and trust and investment corporations.

(3) Insured deposits are the total amount of each depositor's insurance deposits, which do not exceed the NT\$1million maximum coverage.

(4) Total insurance deposits refer to the total amount of NT dollar deposits in checking accounts, passbook deposits, passbook savings deposits, time deposits, time savings deposits, and trust funds with uses designated by the insured institutions.

Table 3: Insured Deposits, Deposit Insurance Fund and Stockholders' Equity for the Last Ten Years

Unit: NT\$ million

Year-end (Dec. 31)	Max. Coverage	Insured Institutions				Insurable Deposits Ratio %	Pemi- ums	Deposit Insurance Fund	Stock- holders' Equity	Ratio of Deposit Insurance Fund to Insured Deposits %	Ratio of Deposit Insurance Fund Plus Stockholders' Equity to Insured Deposits %
		No. of Insti- tutions	Total Insurable Deposits (a)	Insured Deposits (b)	Ratio of Insured Deposits to Total Insurable Deposits % (b)/(a)						
2006	1	383	22,670,063	9,686,079	42.7	100.0	4,109	15,125	11,277	0.15	0.27
2005	1	390	21,850,180	9,528,182	43.6	100.0	4,019	13,579	11,277	0.14	0.26
2004	1	396	20,444,435	9,018,811	44.1	100.0	3,909	12,154	11,277	0.13	0.26
2003	1	401	19,183,842	8,613,531	44.9	100.0	3,766	10,946	11,277	0.13	0.26
2002	1	405	18,339,760	8,273,608	45.1	100.0	3,597	9,662	11,277	0.12	0.25
2001	1	417	17,894,174	8,116,092	45.4	100.0	3,408	8,528	11,277	0.11	0.24
2000	1	456	16,900,795	7,701,342	45.6	100.0	3,321	4,840	11,220	0.06	0.21
1999	1	459	16,420,478	7,769,067	47.3	100.0	900	1,752	10,185	0.02	0.15
1998	1	407	15,000,627	6,991,799	46.6	67.9	509	2,200	8,967	0.03	0.16
1997	1	405	7,313,529	3,289,797	45.0	65.8	465	1,793	8,457	0.05	0.31

Notes:

- (1) The standard date for the annual figures in the table is December 31.
- (2) Insured Deposits: The total of each depositor's insurable deposits that do not exceed the maximum coverage.
- (3) Insurable Deposits Ratio: The ratio of total insurable deposits of insured institutions to those of insurable institutions.
- (4) On July 1, 1999, the deposit insurance system shifted from a flat premium rate (0.015%) to a risk-based differential rate with the three rate levels of 0.015%, 0.0175%, and 0.02%. On January 1, 2000, the rate levels were adjusted to 0.05%, 0.055%, and 0.06%.
- (5) In September 1999, CDIC provided assistance in the amount of NT\$1.284 billion to help Taiwan Bank to acquire the Donggang Credit Cooperative, causing a reduction in deposit insurance fund.
- (6) Article 4 of the *Financial Restructuring Fund Statute* stipulates that the Fund's resources include CDIC's incremental insurance premium income covering a 10-year period from January 2002 onwards that arises as a result of the increase in the deposit insurance premium rate which took effect on January 1, 2000.

Table 4: Major Revenue and Expense Items for the Last Five Years

Unit: NT\$ million

Item\ Year	2006	2005	2004	2003	2002
Operating Revenues	4,701	4,517	4,348	4,249	4,186
Interest Revenue	591	498	439	483	585
Premium Revenue	4,110	4,019	3,909	3,766	3,597
Other Revenue	-	-	-	-	4
Operating Costs and Expenses	4,697	4,509	4,263	4,244	4,185
Provision for Insurance Pay-off Special Reserves	1,546	1,425	1,208	1,215	1,269
Financial Restructuring Fund Expenses	2,684	2,617	2,529	2,435	2,335
Interest Expenses	18	15	11	14	21
Commission Expenses	-	-	93	175	192
Business Expenses	386	390	359	344	310
Administrative Expenses	57	54	55	54	53
Other Operating Expenses	5	7	7	7	5
Other Expenses	1	1	1	-	-
Net Operating Income	4	8	85	5	1
Net Non-Operating Income (Lose)	(4)	(8)	(85)	(5)	(1)
Net Income before Income Tax	-	-	-	-	-
Income Tax Expenses	-	-	-	-	-
Net Earnings Period	-	-	-	-	-

Notes:

- (1) Annual figures are calculated based on the period from January 1 to December 31. The figures for 2002, 2003, 2004 and 2005 are reviewed and audited by Ministry of Audit; those for 2006 are based on CDIC's final accounts for that year.
- (2) Pursuant to revisions to Article 7 of the *Deposit Insurance Act* on July 9, 2001, CDIC shall close all accounts at the end of each fiscal year, and shall place the whole amount of the profit, if any, in the deposit insurance fund, and not in accordance with the relevant provisions of the *Company Law*. Therefore, CDIC's net income before income tax has been placed in the deposit insurance fund since 2001.

Appendix 1: Expansion and Improvement of Taiwan's Deposit Insurance System

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985 ~ July 2001)	Changes (July 2001 ~ Jan. 2007)	Current System (Jan. 2007 ~)
Type of Participation	Voluntary	Changed to mandatory coverage in January 1999	Same as left column	Revised in January 2007 as follows: 1. All financial institutions legally approved to accept deposits must apply to CDIC to join the deposit insurance system. 2. Such institutions may become insured institutions after examination and approval by CDIC. 3. The second item does not apply to insured institutions that have joined the deposit insurance system prior to the enactment of the revised statute.
Capital	<ul style="list-style-type: none"> Legally prescribed capital: NT\$2 billion Paid-in capital: NT\$800,050,000 	<ul style="list-style-type: none"> Legally prescribed capital raised to NT\$5 billion in July 1992 Prescribed capital raised to NT\$10 billion in November 1995 	Same as left column	Same as left column
Participating Institutions	<ul style="list-style-type: none"> Domestic banks (including trust and investment companies, but not including Chunghwa Post Co., Ltd.) Credit cooperatives Credit departments of farmers' and fishermen's associations Foreign bank branches in Taiwan (even if their deposits are protected in their home countries) Other financial institutions designated by Ministry of Finance 	<ul style="list-style-type: none"> Postal savings bank added in January 1999 Beginning January 1999, foreign bank branches whose deposits are protected in their home countries may not participate 	Same as left column	Same as left column (Note: Chunghwa Post was renamed as Taiwan Post on February 9, 2007)
Insurance Premium	Flat rate of 0.05% of insured deposits	<ul style="list-style-type: none"> Still flat rate, but reduced to 0.04% in July 1987 Reduced to 0.015% in January 1988 Risk-based rate system adopted on July 1, 1999, and three rates instituted: 0.015%, 0.0175%, and 0.02% Three rates adjusted to 0.05%, 0.055% and 0.06% on January 1, 2000 	Same as left column	Same as left column

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985 ~ July 2001)	Changes (July 2001 ~ Jan. 2007)	Current System (Jan. 2007 ~)
Maximum Coverage	NT\$700, 000	Raised to NT\$1 million on August 15, 1987	<ul style="list-style-type: none"> Same as left column In July 2001, the government passed the Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund (Financial Restructuring Fund Statute) and established the Financial Restructuring Fund to dispose of unsound financial institutions. During the four-year effective period of the fund (July 2001 to July 2005) there was no maximum coverage limit on the deposits in unsound institutions under disposal or listed for disposal. 	Same as left column
Scope of Coverage	Deposit principal and interest	From January 1999, limited to deposit principal	Same as left column, limited to deposit principal. However, deposit and non-deposit liabilities of unsound institutions disposed under the Financial Restructuring Fund from July 2001 are protected. Following the enactment of the revised Financial Restructuring Fund Statute in June 2005, no reimbursement will be made for the non-deposit liabilities of unsound institutions. However, non-deposit liabilities incurred before enactment of the revised statute will still be protected.	Same as left column
Scope of Capital Utilization	Limited to the Central Bank	<p>The following revisions were effective in Jan. 1999:</p> <ul style="list-style-type: none"> Deposits at the Central Bank Financial institutions approved by the competent authority and which provide government bonds as collateral 	Same as left column	<p>Revised in January 2007 as:</p> <ul style="list-style-type: none"> Deposits at the Central Bank Investments in government bonds Utilization by methods approved by the CDIC Board of Directors

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985 ~ July 2001)	Changes (July 2001 ~ Jan. 2007)	Current System (Jan. 2007 ~)
Means of Fulfilling Insurance Obligation	<ul style="list-style-type: none"> · Cash pay-offs · Deposit transfers · Temporarily continued operation in name of CDIC 	According to revisions enacted in January 1999, the provision of financial assistance to encourage merger or acquisition by other insured institutions was added to the three means listed to the left.	Same as left column	Revised in January 2007 to: <ul style="list-style-type: none"> · Deletion of temporarily continued operation in name of CDIC. · The method of providing financial assistance to encourage acquisition or assumption is revised to include provision of funds, arrangement of loans, deposits, or guarantees to other insured institutions or financial holding companies or purchase of subordinated bonds issued by the said insured institutions or financial holding companies. · Addition: When there is concern of a serious threat to credit order and financial stability, the limit of "least cost" may be waived after obtaining the prior approval of the competent authority in consultation with the Ministry of Finance and Central Bank and ratification by the Executive Yuan. Moreover, if a acquisition or assumption cannot be encouraged in a timely manner, a bridge bank may be established.
Advance Payment for Deposit and Non-deposit Debt in Excess of Maximum Coverage	None	According to revisions made in Jan. 1999, advance payment is allowed to resolve the needs of debtor liquidity at problem institutions, under the principle that no additional costs are incurred.	Same as left column	Same as left column
Exemption from Invitation for Tender, Price Comparison, Price Negotiation, and the Provisions of Article 25~27 of the <i>Budget Act</i> When Disposing of Unsound and Problem Financial Institutions	None	Added in January 1999	Same as left column	Stipulations of the <i>Government Procurement Act</i> and Articles 25 to 27 of the <i>Budget Act</i> do not apply to CDIC in the performance of its insurance responsibility, provision of financial assistance, establishment of bridge banks and handling of advance payments in accordance with <i>Deposit Insurance Act</i> .
Recipient of Financial Assistance and Method of Assistance	Limited to loans or the purchases of assets to enable problem financial institutions to resume operation, when such resumption is deemed necessary	The following revisions were effective in Jan. 1999: <ul style="list-style-type: none"> · Institutions under assistance, supervision, or conservatorship, may be extended loans or deposits · Other financial institutions that merge with or acquire 	Same as left column	Revised in January 2007 to: <ul style="list-style-type: none"> · If an insured institution has a seriously deficient net worth and the competent authority has determined a need for the institution's liquidation or market withdrawal, personnel may

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985 ~ July 2001)	Changes (July 2001 ~ Jan. 2007)	Current System (Jan. 2007 ~)
		institutions that are under assistance, supervision, or conservatorship, or that have failed, may be assisted with loans, deposits, or the provision of funds and guarantees	Same as left column	<p>be dispatched prior to liquidation or market withdrawal to assume conservatorship or acting management of the institution. Moreover, in cases in which the proviso in paragraph 2 of Article 28 of the <i>Deposit Insurance Act</i> applies, CDIC may provide loans, deposits or other financial assistance to the insured institution.</p> <ul style="list-style-type: none"> Before providing financial assistance, CDIC shall demand provision of a sufficient guarantee from the parent financial holding company of the insured institution or from any insured institution or farmers' and fishermen's association credit department with a controlling share in the institution. In cases where the competent authority has dispatched personnel to assume conservatorship or acting management over an insured institution, CDIC may encourage the acquisition or assumption of the institution by providing funds or arranging loans, deposits, or guarantees to other insured institutions or financial holding companies or by purchasing the subordinated bonds issued by the said insured institutions or financial holding companies.
Borrowing of Funds from Other Financial Institutions	None	Added in January 1999	Same as left column	Same as left column
Provision of Collateral when Applying to Central Bank for Accommodation	Full collateral must be provided	Provisions added in January 1999 as follows: <ul style="list-style-type: none"> That part for which the CDIC is unable to provide collateral will be guaranteed by the National Treasury When the secured portion exceeds the CDIC's net worth, the competent authority and the Central Bank must apply to the Executive Yuan for approval 	Same as left column	Revised in January 2007 to: Through a joint request by the competent authority with the Ministry of Finance and Central Bank and approval by the Executive Yuan, the part for which collateral cannot be provided may be guaranteed by the National Treasury.

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985 ~ July 2001)	Changes (July 2001 ~ Jan. 2007)	Current System (Jan. 2007 ~)
Penalty for Refusal to Participate in Deposit Insurance	None	Provision added in January 1999: A fine of double amount of the insurance premium will be imposed	Same as left column	Revised in January 2007 to: Depending on whether it is a general financial institution or agricultural financial institution, CDIC may request that the competent authority respectively order the financial institution to replace its officers or terminate its business permit.
Penalty for Failure to Make Timely Rectification after Penalization for Violation of the <i>Deposit Insurance Act</i>	None	Provision added in January 1999: A further fine of one to five times the amount of the original fine may be imposed	Same as left column	Same as left column
Method of Allocation of CDIC's Surplus	As stipulated in the <i>Company Law</i>	Same as left column	Beginning July 2001, the entire amount of surplus remaining after the accounts are closed is placed into the deposit insurance fund for insurance pay-offs.	Revised in January 2007 to: The entire amount of surplus remaining from annual income after payment of costs and accounting of losses shall be deposited into the Deposit Insurance Payout Special Reserves.
Priority Repayment of Deposit Liabilities	None	Same as left column	Addition in May 2006 : In handling compensation in course of the disposal of insured institutions by market withdrawal or liquidation at the direction of the competent authority or the competent authority for agricultural finance in accordance with the <i>Deposit Insurance Act</i> , CDIC shall give priority to the repayment of the insured institution's deposit liabilities over non-deposit liabilities.	Same as left column
Creation of Two Separate Deposit Insurance Payout Special Reserves	None	Same as left column	Same as left column	Addition in January 2007: <ul style="list-style-type: none"> · The special reserve fund was divided into separate deposit insurance payout special reserves for general financial institutions and agricultural financial institutions. · Both reserve funds have a target amount of 2% of the amount of deposits covered.
Examination of Insured Institutions	If the CDIC deems it necessary, and after obtaining the prior approval of the competent authority in consultation with the Central Bank, the CDIC may examine the business records and accounts of an insured institution.	Same as left column	Same as left column	Revised in January 2007 to: CDIC may inspect an insured institution to confirm the accuracy of its deposit insurance premium base in accordance with the <i>Deposit Insurance Act</i> .

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985 ~ July 2001)	Changes (July 2001 ~ Jan. 2007)	Current System (Jan. 2007 ~)
Elimination of Limits on Reimbursement Cost	None	Same as left column	Same as left column	Addition in January 2007: When there is concern of a serious threat to credit order and financial stability, after obtaining the prior approval of the competent authority in consultation with the Ministry of Finance and Central Bank and ratification by the Executive Yuan, the limit on reimbursement cost may be eliminated.
Allowable Creditor Right Offsets before Reimbursement	None	Same as left column	Same as left column	Addition in January 2007: Before handling claims, CDIC may offset the creditor's rights of depositors in the problem institution.
Termination of Membership	If an insured institution violates the laws or regulations or the insurance agreement or engages in unsound business transactions, and fails to rectify such violations within the time-limit prescribed by the CDIC, the CDIC shall terminate its status as an insured institution and report such action to the competent authority for disposal.	Same as left column	Same as left column	Revised in January 2007 to: The scope of reasons for termination of insured status is revised to also include the following: <ul style="list-style-type: none"> · It is ordered and required by the competent authority or central competent authority for agricultural finance to be recapitalized or improve its financial or business condition, and fails to meet such requirements within the prescribed time-limit; or the time-limit is not due but the competent authority or CDIC deem the said insured institution's condition non-improvable. · There is serious fraud or other illegal cases occurred at the said insured institution that might increase the compensation burden. In the aforementioned situations, CDIC shall, after notifying the competent authority or central competent authority for agricultural finance, terminate the deposit insurance membership of the insured institution.
Financial Products Must State whether they are Protected by Deposit Insurance	None	Same as left column	Same as left column	Added in January 2007
Depositor Protections Upon Termination of an Insured Institution's Insured Status	CDIC will continue to protect the depositor's deposits up to the maximum coverage limit for one year after the institution stops participating in the deposit insurance system	Same as left column	Same as left column	Revised in January 2007 to: CDIC will continue to protect the depositor's deposits up to the maximum coverage limit for six months from the day the deposit insurance contract is terminated.

Appendix 2: Deposit Insurance Act

As amended and promulgated on Jan 18, 2007 by Presidential Decree

Chapter 1: General Principles

- Article 1** This Act (the "Act") is enacted to protect the rights and interests of depositors in financial institutions, to maintain credit order, and to enhance sound development of financial businesses.
- Article 2** The term "competent authority", as used in this Act, means the Financial Supervisory Commission, the Executive Yuan.
- Article 3** The Ministry of Finance in conjunction with the Central Bank shall establish the Central Deposit Insurance Corporation (hereinafter referred to as the "CDIC") to conduct the business of deposit insurance. The total capital shall be determined by the Executive Yuan. Shares of the aforesaid capital shall be subscribed by the Ministry of Finance, the Central Bank and the insured financial institutions. The total capital subscribed by the Ministry of Finance and the Central Bank shall exceed 50% of the said capital.
- Article 4** The CDIC shall be exempt from providing security with the National Treasury.
- Article 5** Any remainder of the annual gross income of the CDIC, after deducting costs, expenses and losses, shall be fully appropriated for deposit insurance payout special reserves.
- Article 6** In conducting the business of deposit insurance of banks, credit cooperatives, and the postal savings and remittance institutions, the CDIC shall set up an account for the general financial deposit insurance payout special reserves.
In conducting the business of deposit insurance of agricultural financial institutions according to Article 8 of the *Agricultural Finance Law*, the CDIC shall set up an account for the agricultural financial deposit insurance payout special reserves.
The deposit insurance payout special reserves accounts mentioned in the preceding two Paragraphs shall be kept separately.
- Article 7** The annual appropriated amount of the deposit insurance payout special reserves mentioned in Paragraph 1 and 2 of the preceding Article shall be calculated separately according to the ratios of the insurance premiums paid by general insured financial institutions and agricultural insured financial institutions.
The amount of the original deposit insurance payout special reserves, prior to the enforcement of the Amendment to this Act, shall be calculated and recorded year by year according to the ratios mentioned in the preceding Paragraph.
- Article 8** The funds of the CDIC, other than expenditure for normal operation, fulfillment of insurance responsibilities according to the Act, offering of financial assistance, setting up of bridge banks and making of advance payment, shall be invested in government bonds, deposited with the Central Bank or used in other methods approved by the board of directors of the CDIC.
- Article 9** The CDIC shall be liable for any damage arising from an intent or negligent act of the persons-in-charge and employees of the CDIC acting within the scope of fulfillment of insurance responsibilities or bank failure resolutions according to the Act which infringes upon the right of any other person.
Should the damage referred to in the preceding Paragraph results from an act committed with intent or gross negligence of the persons-in-charge and employees of the CDIC, the CDIC shall have the right to claim for reimbursement from the responsible person.

Chapter 2: Deposit Insurance and Insured Risk Control

Section 1 Deposit Insurance

- Article 10** Financial institutions having been duly approved to accept deposits, postal savings or to be consigned to manage trust funds used for the purpose designated by the financial institutions with guaranteed principal and interest (hereinafter referred to collectively as "deposits") shall apply to the CDIC to participate in deposit insurance and become insured institutions upon review and approval by the CDIC. However, the provision set forth in the aforesaid does not apply to the Taiwan branches of a deposit-taking foreign bank whose deposits have been insured by the deposit insurance system in their home countries.
In the event that any financial institution fails to apply for participation in deposit insurance according to the aforementioned provision, the CDIC shall report to the competent authority or the central competent authority of the agricultural finance depending on whether such institution is a general financial institution or an agricultural financial institution to request the replacement of the persons-in-charge or revoke its license.
Provisions set forth in the preceding two Paragraphs do not apply to the insured institutions that have participated in deposit insurance prior to

the enforcement of the Amendment to this Act.

The standards for the documents to be submitted by the financial institutions when applying for the participation in deposit insurance and the verification of application qualification according to Paragraph 1 shall be drawn up by the CDIC and submitted to the competent authority for approval and promulgation.

Article 11 Financial institutions approved as insured institutions by the CDIC shall sign a deposit insurance agreement in writing with the CDIC. In the event of any modification of this Act and other relevant laws and regulations, stipulations in the deposit insurance agreement relating to such laws and regulations shall also be modified accordingly.

Article 12 The term "deposit insurance" as used in this Act, shall mean an insurance whose insured subjects are the following deposits:

1. Checking deposits.
2. Demand deposits.
3. Time deposits.
4. Other deposits that the competent authority has approved as insurable.

The deposits mentioned in the preceding Paragraph shall not include the following deposits:

1. Deposits in foreign currency.
2. Negotiable Certificate of Deposits.
3. Amounts due to all levels of government agencies.
4. Amounts due to the Central Bank.
5. Amounts due to banks, postal institutions handling postal savings and remittance businesses, credit cooperatives, farmer's and fishermen's associations with credit departments, and the Agricultural Bank of Taiwan.
6. Other deposits that approved by the competent authority has approved as uninsurable.

Article 13 The maximum insurance coverage that the CDIC offers to each depositor of any insured institution shall be determined by the competent authority along with the Ministry of Finance and the Central Bank.

The aforementioned maximum insurance coverage shall mean the maximum amount of deposit principal being covered by deposit insurance at the same insured institution.

For employee pension accounts opened by organizations, business entities or groups at insured institutions, if the account records may clearly distinguish the amount of each employee's pension, the pension of such individual employee and other deposits thereof at the same insured institution shall be protected with the maximum coverage respectively and shall not be limited by the stipulations in the preceding two Paragraphs.

Article 14 The assessment base shall be calculated based on the total liabilities over underlying deposits after subtracting the uninsured deposits mentioned in Paragraph 2 of Article 12 and shall be calculated once every semiannual period; the standard dates for calculating such base shall be determined by the CDIC.

Article 15 Insured institutions shall report the total amount of liabilities over the underlying deposits and assessment base to CDIC and make payment of insurance premium within one month of the standard dates mentioned in the preceding Article; the payment methods shall be decided by the CDIC.

Article 16 The ratio of the remaining amount of each account of the insurance payout special reserves of the CDIC to the insured deposits shall be targeted at 2 %.

The deposit insurance premium rates may be differentiated based on the operational risks of the insured institutions, and may be adjusted according to the achievement of the target ratio mentioned in the preceding Paragraph.

The above-mentioned insurance premium rates shall be drawn up by the CDIC and submitted to the competent authority for its approval.

Article 17 Insured institutions shall indicate the fact, according to the forms and contents prescribed by the CDIC, that the deposits are insured at each of their business locations and indicate in their financial products whether such products are insured or uninsured by deposit insurance.

Article 18 Insured institutions shall not use the deposit insurance premium rate or relevant information thereof as advertisement.

Article 19 Prior to distribution of stock dividends and bonuses, as well as remuneration to the directors of the board and supervisors, stock dividends and bonuses to shareholders, insured institutions shall complete payment of the insurance premium to the CDIC.

Article 20 Upon fulfillment of insurance responsibilities, provision of financial assistance, establishment of a bridge bank or processing of advance payments by the CDIC, if the recovered amount is less than cost expended, the difference shall be written off from the insurance payout special reserves. Any further deficiencies shall be recorded in the deferral account and written off from the insurance payout special reserves in the subsequent years.

Article 21 In the event that an insured institution stops taking deposits, it shall notify the CDIC in writing to terminate the deposit insurance agreement.

Section 2 Insured Risk Control

Article 22 In the event where there are needs for the CDIC to collect and analyze the financial information or business information relating to an insured institution for the purpose of insured risk control, CDIC shall obtain such information through the information sharing mechanism established by the competent authority, the central competent authority of the agricultural finance, and the Central Bank and the CDIC. In the event of insufficiency, the CDIC may require the insured institutions to report the truth.

The CDIC shall establish coordination mechanisms with the competent authority, the central competent authority of the agricultural finance and the Central Bank for the purpose of handling business crises of insured institutions or any major event affecting financial order.

Article 23 For the calculation of insurance premium and amount of payout in fulfilling insurance responsibilities, the insured institutions shall establish electronic data files of deposits and related items according to the file format and content stipulated by the CDIC.

The CDIC may request the insured institutions to provide the aforementioned electronic data files, if necessary.

Article 24 The CDIC may inspect the following items of an insured institution:

1. Accuracy of deposit assessment base and content of the electronic data files stipulated in Paragraph 1 of the preceding Article.
2. Any event causing the termination of the deposit insurance agreement.
3. Assets and liabilities of insured institutions prior to the fulfillment of insurance responsibilities.
4. Property information and information needed to pursue civil liabilities for illegal acts or omissions by employees of failed insured institutions and by those of problem insured institutions that receive financial assistance according to Paragraph 1 of Article 29.

When the CDIC undertakes inspection according to Subparagraph 3 or 4 of the aforesaid Paragraph, if an insured institution has made any improper funds transfers or property trades with its controlling financial holding companies, other subsidiaries thereof, or non-credit departments of farmer's or fishermen's associations with the potential to jeopardize the insurance payout special reserves, the CDIC may report to the competent authority or the central competent authority of the agricultural finance and undertake inspections, after obtaining their approval, of the said financial holding companies, the subsidiaries thereof, and the non-credit departments of farmers' and fishermen's associations.

In undertaking the inspection stipulated in Subparagraph 4 of Paragraph 1, the CDIC may obtain or review relevant property and household registration information from government authorities, financial institutions or securities' central depository agencies.

Article 25 If an insured institution violates the laws, regulations or deposit insurance agreements, or engages in unsound business operations, the CDIC may give a warning notice of terminating the deposit insurance agreement and require rectification within a stipulated timeframe.

Article 26 The CDIC shall notify the competent authority or the central competent authority of the agricultural finance and terminate its deposit insurance agreement and make announcements with respect thereof, in the event any one of the followings occurs to an insured institution:

1. Failure to take corrective actions within the stipulated timeframe after the CDIC gives a warning notice of termination of the deposit insurance agreement according to the preceding article.
2. Failure to make improvements upon being ordered by the competent authority or the central competent authority of the agricultural finance to undertake recapitalization or make improvements in financial condition and business operations within a certain timeframe; or being assessed as being unable to make improvements by the aforementioned authorities or the CDIC prior to the deadline.
3. Occurrence of a major fraud or other illegal activities with the potential to increase deposit insurance payouts.

Article 27 In the event of termination of a deposit insurance agreement by the CDIC according to Article 21 or the preceding Article, the insured institution shall notify its depositors within one month of the date of termination and return the deposit insurance sign issued by the CDIC.

The total deposit balance of each of the abovementioned depositors on the date of termination of the deposit insurance agreement subtracting

subsequent withdrawals shall, within the maximum insurance coverage, continue to be insured by the CDIC for one-half year after the termination date. The insured institution with a terminated deposit insurance agreement shall continue to make payment equivalent to the insurance premium to the CDIC.

Chapter 3: Fulfillment of Insurance Responsibilities

Article 28 When an insured institution is closed by the competent authority or the central competent authority of the agricultural finance, the CDIC shall fulfill its insurance responsibilities by any of the following methods:

1. Make payout by cash, remittance, transfer or other payment methods according to the books and records of the closed insured institution and the certificate of outstanding amount of deposits provided by depositors.
2. Consult with other insured institutions to make the same amount of deposits as the amount of payout for the depositors of the closed insured institution and make payment on behalf of the CDIC.
3. Provide other insured institutions or financial holding companies with funds, loans, deposits and guarantees, or purchase the subordinated debts issued by the said insured institutions or financial holding companies, in order to facilitate the acquisition or assumption of all or part of businesses, assets and liabilities of the closed insured institutions.

The estimated cost to the CDIC when it adopts the methods in the Subparagraph 2 and 3 of the previous Paragraph shall be less than the estimated loss arising from the payout subject to Subparagraph 1. However, in the event that there is any potential that will significantly endanger credit order and financial stability, the aforementioned requirement shall not apply if CDIC obtains consent of the competent authority in consultation with the Ministry of Finance and the Central Bank, and with the final approval of the Executive Yuan.

In the case of insufficiency of deposit insurance special reserves account for general financial sector or that for agricultural financial sector as a result of the CDIC's processing of matters under the proviso to the preceding Paragraph, the CDIC can charge special insurance premium from general financial insured institutions and agricultural financial insured institutions respectively. The special insurance premium rates and the collection period shall be drawn up by the CDIC and submitted to the competent authority for its approval.

The operating procedures of the fulfillment of the insurance responsibilities according to the stipulations in Paragraph 1 shall be drawn up by the CDIC and submitted to the competent authority for approval.

Article 29 In the event that the competent authority or the central competent authority of the agricultural finance appoints any person to act as the conservator or to take over the authorities of the board of directors and supervisors of an insured institution by law, the CDIC may apply the provisions in Subparagraph 3 of Paragraph 1 and Paragraph 2 of the previous Article against other insured institutions or financial holding companies.

The CDIC may provide an insured institution with loans, deposits or other financial assistance, when all the following conditions are met: when the said institution is critically under-capitalized, and the competent authorities deem it non-viable and shall be closed; the aforesaid institution is put under conservatorship or the authorities of its board of directors and supervisors are taken over by the competent authorities; the resolution will cause the situations as stipulated under the proviso to Paragraph 2 of the preceding Article. Its operating procedure shall be drawn up by the CDIC and submitted to the competent authority for approval.

When the CDIC provides the aforesaid loans, deposits or other financial assistance to the insured institution under conservatorship or the credit department of farmers' or fishermen's association whose board of directors and supervisors authorities are taken over, it should request for the full amount of collateral from the financial holding company of the said institution, or any other insured institution that such financial holding company has dominant shares, or from any farmers' or fishermen's association possessing the said credit department.

Article 30 In situations as stipulated in the second sentence of under the proviso to Paragraph 2 of Article 28 if the CDIC is unable to consult with other insured institutions or financial holding companies to acquire or assume the closed insured institution according to Subparagraph 3 of Paragraph 1 of the same Article, it may set up a bridge bank to assume all or part of the business, assets and liabilities of the closed insured institution. However, if the value of the assets of the closed insured institution is greater than that of its liabilities, the receiver shall distribute the remaining assets to its original shareholders according to liquidation procedures.

Article 31 In any action which the CDIC takes pursuant to the preceding three Articles or Paragraph 2 of Article 41, the CDIC may request the competent authority to negotiate with the Central Bank to receive its approval obtaining special financial accommodation within the range of collateralization.

If the aforesaid financial accommodation exceeds the value of the collateral provided by the CDIC, the competent authority may together with Ministry of Finance and the Central Bank submit to the Executive Yuan for its approval that the excess part shall be guaranteed by the National Treasury.

If the CDIC deems it necessary in case of emergency, and before applying to the Central Bank for special financial accommodation pursuant to the preceding Paragraph, the CDIC may borrow the funds from the other financial institutions. Bankruptcy-related rules of the *Company Act* and *Bankruptcy Act* shall not apply when the CDIC processes matters stipulated in the preceding three Articles and Paragraph 2 of Article 41.

Article 32 A bridge bank is a legal entity and shall be set up upon approval by the competent authority and proceed with business registration. If the process of registration could not be done in a timely manner, it may be completed within fifteen days after the establishment.

The duration of a bridge bank shall not last for more than two years. However, the duration can be extended for one more year upon approval by the competent authority.

A bridge bank is an insured institution with no founding capital required. If necessary, the CDIC may provide working capital.

Article 33 A bridge bank shall establish a board of directors to decide and execute business matters. The board shall be composed of five to nine directors with one being the chairman.

The chairman of the board shall carry out duties in accordance with board resolutions and represent the bridge bank publicly.

A bridge bank shall have one supervisor responsible for the supervision of the assets and business thereof.

The appointment of the chairman and the directors of the board and the supervisor shall be assigned by the CDIC.

Article 34 A bridge bank may be exempted from Article 23, Paragraph 2 of Article 28, Article 32 to Article 33-5, Paragraph 2 of Article 36, Article 38 to Article 40, Article 44, Article 60, Article 72 to Article 76 of the *Banking Act*, when it continues operation within the scope of assumption on business, assets and liabilities of a closed insured institution. If necessary, it may also be exempted from Article 43 of the *Banking Act* and Article 25 of the *Central Bank of Republic of China (Taiwan) Act* after the competent authority consults with the Central Bank and grants their approval.

Regulations regarding the establishment of a bridge bank and its business management and operation shall be drawn up by the CDIC and shall be submitted to the competent authority for approval and promulgation.

Article 35 The *Bankruptcy Act* shall not apply to a bridge bank.

Article 36 In the event of any loss results from the categorical assignment of the business, major assets and liabilities to other insured institutions or liquidation of a bridge bank, it shall be set off from the general financial deposit insurance payout special reserves of the CDIC. If there is any insufficiency, it shall be recorded in the deferred account and shall be set off with the same reserves set aside in subsequent years on an annual basis. Earnings, if any, shall be recorded in the said reserves account.

Article 37 Where a bridge bank assumes the businesses, assets and liabilities of a close insured institution according to Article 30, it may, when applying for registration of changes of the real estate owned by the closed institution, and the movable properties that require registration and all encumbrances of the said institutions, directly process the registration by the certificate issued by the competent authority without paying registration fees. The land value increment tax borne by the original land owner is allowed to be deferred under the name of the land acquirer; the same applies when another insured institution categorically assumes the business, assets and liabilities of the bridge bank according to the stipulation in the preceding Article. However, at the time when the land with the said deferred tax is being transferred from the bridge bank or from the insured institution assuming the bridge bank, the land value increment tax allowed to be deferred at each transfer shall be paid on a priority over all other creditors' rights and mortgage right in the price received from disposition of the said land.

Article 38 The CDIC shall subrogate all rights of depositors and creditors against the insured institution to the extent of insurance payment in its own name, after taking any action as set forth in Article 28 to Article 30 and Paragraph 2 of Article 41.

When the CDIC takes any action as set forth in Article 28 to Article 30 and Paragraph 2 of Article 41, in case a financial holding company directly or indirectly causes its subsidiary insured institution to conduct any business which is contrary to normal business practices or not profitable, and thus causing the subsidiary insured institution to suffer damages, the CDIC may make compensation claims against such financial holding company on behalf of the said insured institution. The responsible people of the financial holding company shall be liable jointly and severally, with the financial holding company for such damages.

If the farmers' or fishermen's association transfers the properties owned by its credit department to other departments gratuitously or at an

unreasonable price, or directly or indirectly causes its credit department to undertake unprofitable businesses, the CDIC may make compensation claims against the farmers' and fishermen's associations to the extent of its insurance payment. The responsible people of the farmers' or fishermen's association shall be liable jointly and severally, with the farmers' or fishermen's association for such damages.

Article 39 Any action brought by the CDIC under this *Act* arising out of the transaction in Article 28 to Article 30 and Paragraph 2 of Article 41, may be exempted from the *Government Procurement Act* and Article 25 to Article 27 of the *Budget Act*.

Article 40 Any insured institution publicly traded according to the *Securities and Exchange Act* that is disposed by the CDIC in accordance with Subparagraph 2 and 3 of Paragraph 1 of Article 28, or Paragraph 1 of Article 29, shall make a public announcement and declaration as stipulated by Paragraph 2 of Article 36 of the *Securities and Exchange Act* and shall use the date of signing the contract as the date of the fact occurrence.

Article 41 Upon the issue of an order of the competent authority or the central competent authority of the agricultural finance to close an insured institution, the CDIC shall be appointed as the receiver to commence the winding-up procedure, and the winding-up procedure shall apply to the related winding-up articles stipulated by the *Banking Act*.

To meet the liquidity needs of the creditors of the closed insured institution, the CDIC may, without increasing the costs incurred by the CDIC in taking any action under Paragraph 1 of Article 28, make advance payment against claims filed by the depositors beyond the maximum insurance coverage and by non-deposit creditors based on the anticipated reimbursement ratio derived from an evaluation of the values of assets of the closed insured institution. The aforesaid sums of the advance payment shall be counted item-by-item on the basis of the recovery order of the advance payment claims, and deducted first from the amount finally realized from the liquidation and repaid to the CDIC.

The regulation for calculating and operating the aforesaid advance payment in respect of the depositors beyond the maximum insurance coverage and non-deposit creditors based on the anticipated reimbursement ratio shall be drawn up by the CDIC and be submitted to the competent authority for approval.

Article 42 When an insured institution is disposed of by the CDIC with the stipulations of this *Act* by the competent authority or the central competent authority of the agricultural finance for the exit or liquidation upon clearing off the debt, its deposit liabilities shall take precedence over non-deposit liabilities.

The aforementioned deposit liabilities shall mean the deposits stated in Article 12 of this *Act*; non-deposit liabilities shall mean liabilities other than the deposit liabilities of the insured institution.

Article 43 Before handling any payout, the CDIC may offset the claims of depositors of a closed insured institution according to the following order of liabilities:

1. Liabilities created by deposits pledged as collateral of the closed insured institution.
2. Liabilities reaching due or deemed to be due according to the applicable agreements, or liabilities fit to be offset in accordance with other laws and regulations.

When the CDIC handling the offset according to Subparagraph 2 of the preceding Paragraph, the offset shall be handled according to the applicable agreements or laws and regulations. However, in the event that there is lack of such agreements or laws and regulations, the depositor's claim other than that insured by the CDIC shall be the offset against the debt first; where there is insufficiency, the insured deposit shall then be used for offset.

Article 44 The amount of payout the CDIC liable for each depositor shall be the outstanding of deposits after the offset in accordance with the preceding Article up to the limit of the maximum insurance coverage.

The amount of deposits in joint accounts owned by two or more individuals shall be calculated according to the deposit agreement executed by the joint individuals and the closed insured institution. For any individual without such an agreement, the deposits should share equally among joint depositors. The amount of payout should be calculated by aggregating the deposits of the said joint individuals and those in the accounts opened by each of them in his or her own name.

Article 45 In the event the amount of payout mentioned in Paragraph 1 of the preceding Article is under any of the following situations, it shall be temporarily withheld until the elimination of the causes for the withholding:

1. Deposits being seized by court order.
2. Deposits being mortgaged to a third party.

3. Depositors having already been served notice of bankruptcy with a bankruptcy trustee not yet being selected or in the event of depositor's death with the inheritance registration not yet being completed.
4. Other instances where payments may be withheld in accordance with related laws.

Chapter 4: Penal Provisions

Article 46 Should any of the following events occur in an insured institution, the CDIC shall report it to the competent authority to penalize the insured institution with a fine of not less than 1,000,000 NT dollars and not more than 5,000,000 NT dollars.

1. Failure to comply with Article 19 but distribute remuneration, stock dividends or bonuses before completing payment of insurance premium.
2. Failure to establish electronic data files or provide the electronic data or files to the CDIC according to Paragraph 1 of Article 22 or Article 23, or provide data or files with serious counterfeit.
3. Evading, hindering or refusing an inspection conducted by the CDIC stipulated in Paragraph 1 or Paragraph 2 of Article 24.

Upon the imposition of a penalty in the form of a fine under the preceding Paragraph, the competent authority may issue a corrective order within the stipulated timeframe and may further impose an additional fine of one to five times of the original penalty for the same facts or actions if the said insured institution fails to comply with such order.

Article 47 Should any of the following events occur in an insured institution, the CDIC shall report it to the competent authority to punish the insured institution with a fine of not less than 500,000 NT dollars and not more than 2,500,000 NT dollars.

1. Failure to provide the total amount of liabilities over the underlying deposits and assessment base set forth in Article 15.
2. Failure to indicate the fact of being insured by deposit insurance or in the financial products whether the products are insured or uninsured by deposit insurance set forth in Article 17.
3. Failure to avoid using the deposit insurance premium rate or relevant information thereof as advertisement set forth in Article 18.
4. Failure to fulfill the notice obligation for the termination of deposit insurance agreement set forth in Article 21 or Paragraph 1 of Article 27.

Upon the imposition of a penalty in the form of a fine under the preceding Paragraph, the competent authority may issue a corrective order within the stipulated timeframe and may further impose an additional fine of one to five times of the original penalty for the same facts or actions if the said insured institution fails to comply with such order.

Chapter 5: Supplementary Provisions

Article 48 For business needs, the CDIC may be allowed to hire lawyers, accountants, financial analysts, appraisers and senior staff specialized in financial credit reference, extending credit, financial legal affairs, information technology, financial merger and acquisition, disposition of non-performing loans, real estate appraisal, evaluation of assets and liabilities, corporate restructuring and international affairs. The number of such staff cannot exceed 25% of the total budgetary number of staff.

Article 49 After the termination for the Executive Yuan's Financial Restructuring Fund (hereinafter referred to as the Fund) disposing failed financial institutions since July 10, 2005, the Fund may continuously entrust the CDIC with handling the following matters:

1. The payout, assumption and sale by tender of financial institutions already under disposal by the fund.
2. Collection of the taxes and insurance premium income set forth in Article 4 of the Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund.
3. Disposal of outstanding assets and liabilities of the Fund.
4. Lawsuit cases and matters in relation to the Fund.

Article 50 The CDIC shall stipulate its Articles of Incorporation in accordance with this Act and other relevant laws and regulations and shall submit it to the competent authority for implementation after its approval.

Article 51 The Enforcement Regulations of this Act shall be prescribed by the competent authority.

Article 52 This Act shall become effective on the date of promulgation.

Appendix 3: Major Economic and Financial Indicators for the Last Five Years

Economic & Financial Indicators \ Year	2006	2005	2004	2003	2002
1. Economic Growth					
● Economic Growth Rate (%)	4.62	4.03	6.07	3.43	4.25
● Gross Domestic Product (US\$ billions)	3,556	3,464	3,222	2,998	2,948
● Avg. Per Capita National Income (US\$)	15,640	15,291	14,271	13,327	13,163
2. Foreign Trade					
■ Export Annual Growth Rate (%)	12.9	8.8	21.1	11.3	10.1
■ Import Annual Growth Rate (%)	11.0	8.2	31.8	13.0	5.6
▲ Foreign Exchange Reserves at Year-end (US\$ billions)	2,661	2,533	2,417	2,066	1,617
3. Economic Indices (Year-end)					
◆ Monitoring Indicator	Blue	Green	Green	Yellow-Red	Green
◆ Score of Monitoring Indicator	16	27	26	34	24
◆ Leading Index	107.8	109.8	110.9	113.7	108.2
◆ Coincident Index	109.1	114.8	109.6	111.0	106.3
4. Population & Unemployment Rate					
● Population at Year-end (Million Persons)	2,288	2,277	2,269	2,260	2,252
● Avg. Unemployment Rate for Whole Year (%)	3.91	4.13	4.44	4.99	5.17
5. Inflation (%)					
● Consumer Price Index (CPI) Annual Change Rate	0.6	2.30	1.62	-0.28	-0.20
● Wholesale Price Index (WPI) Annual Change Rate	5.64	0.61	7.03	2.48	0.05
6. Interest and Exchange Rates (Year-end)					
▲ Central Bank Discount Rate (%)	2.75	2.25	1.75	1.375	1.625
▲ Central Bank Accommodations with Collateral Rate (%)	3.125	2.625	2.125	1.750	2.000
▲ Exchange Rate (NT\$/US\$)	32.596	32.850	31.917	33.978	34.753
7. Monetary Aggregates (Year-end)					
▲ M2 Annual Growth Rate (%)	5.27	6.55	7.35	5.82	2.58
▲ M1b Annual Growth Rate (%)	4.47	6.83	12.44	19.32	9.27
▲ M1a Annual Growth Rate (%)	2.91	7.39	10.03	20.77	8.96
8. Lending by Financial Institutions (Year-end)					
● Total Loan (NT\$ billions) ¹	175,978	171,984	159,201	143,775	137,755
● Non-Performing Loan Ratio (%) ²	2.08	2.19	3.28	5.00	6.84

Sources: ● Directorate-General of Budget, Accounting and Statistics, Executive Yuan website; ■ Ministry of Finance website; ▲ The Central Bank website; ◆ Council for Economic Planning and Development, Executive Yuan website; ● Financial Supervisory Commission, Executive Yuan website

Notes:

- (1) Total loan amount includes all loans extended by the main offices and branches of domestic banks (including trust and investment corporations), the local branches of foreign banks, credit cooperatives, and the credit departments of farmers' and fishermen's associations.
- (2) The non-performing loan ratio includes all overdue loans for domestic banks (including trust and investment corporations), the local branches of foreign banks, credit cooperatives, and the credit departments of farmers' and fishermen's associations, but excludes loans under surveillance.

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