

Annual Report 2005

Central Deposit
Insurance Corporation



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2005 Central Deposit Insurance Corporation

Central Deposit Insurance Corporation



Message from the Chairman and the President



Central Deposit Insurance Corporation (CDIC), established in 1985, celebrated its 20th anniversary in 2005. Over the past two decades, Taiwan has steadily introduced phased innovations and reforms to its deposit insurance system in conjunction with domestic and international financial trends. Starting 1999, some reforms on Taiwan's deposit insurance system have been undertaken to broaden CDIC's operations, such as a shift from a voluntary to mandatory participation basis, new mechanism for handling problem financial institutions, as well as the implementation of a risk-based premium system, and thereby CDIC serves as an important role in the financial safety net. In 2001, the Taiwan government set up the Financial Restructuring Fund and appropriated a total of US\$ 7 billion to dispose of problem insured institutions. The temporary blanket guarantee was provided by the Fund over a period of four years. Since 2001 CDIC has smoothly made 48 problem financial institutions to exit from the market. Such efforts have earned CDIC widespread recognition for its contribution to bringing about major improvements to the overall operational status of the financial institutions, protecting the interests of depositors, and enhancing the public confidence in the financial system.

Following the expiry of the transitional blanket guarantee under the Financial Restructuring Fund in July 2005, a limited coverage deposit insurance system has reinstated normal operation at CDIC. To heighten public awareness of the limited coverage system and its likely impact on the benefit of depositors, CDIC has carried out an extensive promotional campaign both through media channels and by organizing numerous seminars that enabled CDIC's direct communication with the public. Such programs have provided the public with accurate information about the changes in deposit insurance coverage, and thereby facilitate the smooth transition from blanket guarantee to limited coverage and help to maintain the stability of the financial system. Moreover, in order to keep the deposit insurance system in line with government financial reforms, a draft amendment to the *Deposit Insurance Act* has been proposed to the Parliament for deliberation. The main points of draft amendment include establishing a mechanism for handling systemic financial crises, setting up a target ratio of deposit insurance fund, enhancing the management of insurance risk, facilitating the resolution of problem institutions, etc.

To enhance controls over insurance risk, CDIC has also continued to actively revise the financial early warning system and other off-site monitoring mechanisms so as to effectively understand the operating status and risk control situation at insured institutions in line with changes in the financial environment and supervisory needs. Additionally, CDIC has enhanced liaison and information sharing and exchange between regulatory agencies to ensure timely access to financial supervisory information related to insured institutions and thereby effectively control insurance risk.

Since joining the International Association of Deposit Insurers (IADI) as a founding member in May 2002, CDIC has actively participated in various association activities. In September 2005, CDIC hosted IADI's Fourth Annual General Meeting and Conference in Taipei in conjunction with its 20th anniversary. Around 150 representatives from 50 countries attended the event. In addition to organizing various internal meetings during the Conference, CDIC hosted the International Deposit Insurance Week and the Exhibition on Deposit Insurance and other events. CDIC also was awarded as the first Deposit Insurance Organization of the Year (2005) by IADI. The award not only recognizes the deposit insurance professionalism of CDIC, but also appreciates the contribution of CDIC to the stability of financial system in Taiwan.

Over the past year, CDIC has smoothly carried out its operations due to colleagues' concerted efforts 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 nevertheless shall continue to strengthen deposit insurance mechanisms, as well as devote every effort to the protection of depositors and contribute to the stability of the financial system in a professional and innovative manner. We sincerely hope your continued enlightenment in these endeavors with invaluable support.



Chairman

C. T. Tsay

President

Johnson Chen



Organization and Duties



1. Executive Vice President - **L.C. Pan**

2. President - **Johnson C.S. Chen**

3. Chairman - **Chin Tsair Tsay**

4. Executive Vice President - **Howard N.H. Wang**

5. Executive Vice President - **W.H. Lai**

6. Department of Business Director - **Allen Chen**

7. Advisor - **Ruby Hou**

8. Legal Affairs Office Director - **Mang-Chih Lee**

9. Department of Accounting Director - **Huei-Ling Liu**

10. Department of Resolution Director - **Robert L.I. Chen**

11. Department of Risk Management Director - **William Su**

12. Secretariat Director - **Tsu-I Yeh**

13. Civil Service Ethics Office Director - **Ing-Cyuan Hu**

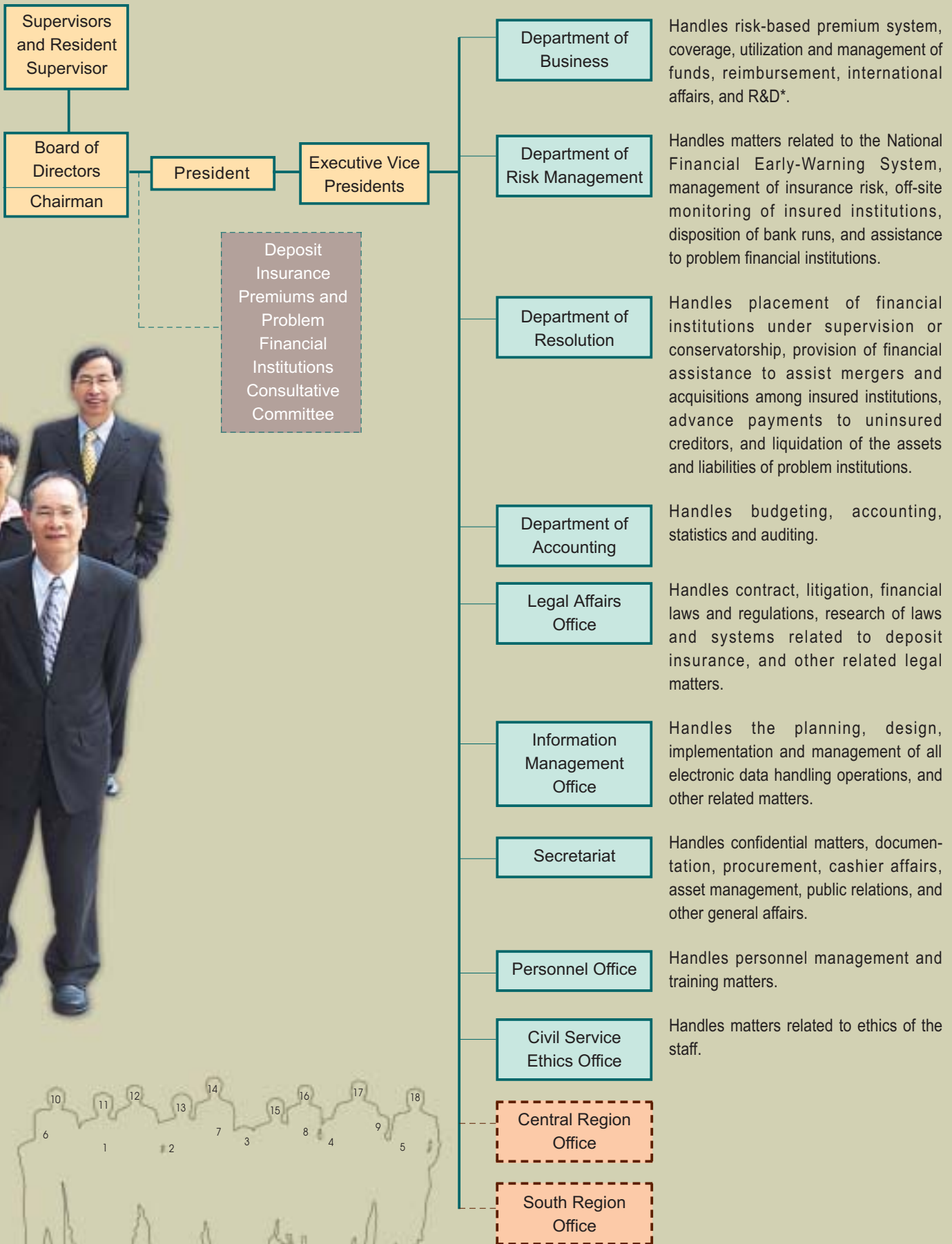
14. Information Management Office Director - **Shui-Dong Huang**

15. South Region Office Director - **Yong-Huei Peng**

16. Central Region Office Director - **Jhong-Syun Zeng**

17. Personnel Office Director - **Hong-Dei Huang**

18. Advisor - **Wei-Liang Lou**



*International Relations and Research Office has been established since May 1, 2006.

Board of Directors, Supervisors and Senior Executives

Board of Directors		Supervisors		Senior Executives	
Chairman	Chin-Tsair Tsay (Representative of the Central Bank of China)	Resident Supervisor	Jiin-Tarnq Yue (Representative of the Central Bank of China)	President	Johnson C.S. Chen
Directors	Fred S.C. Chen (Representative of the Central Bank of China)	Supervisors	Kuo-Chung Hsu (Representative of Ministry of Finance)	Executives Vice President	W.H. Lai
	Cheng-Shang Chang (Representative of Ministry of Finance)		Tang-Chieh Wu (Representative of Ministry of Finance)		L.C. Pan
	Ming-Daw Chang (Representative of Ministry of Finance)				Howard N.H. Wang
	Johnson C.S. Chen (Representative of Ministry of Finance)				
	Hon-Zinn Lin (Representative of Ministry of Finance)				
	Chin-Chang Tang (Representative of Ministry of Finance)				

Central Deposit Insurance Corporation



1 2 3 4 5 6 7 8 9 10

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|--------------------------------------|--|
| 1. Director - Fred S.C. Chen | 6. Resident Supervisor - Jiin Tarng Yue |
| 2. Director - Hon-Zinn Lin | 7. President - Johnson C.S. Chen |
| 3. Supervisor - Kuo-Chung Hsu | 8. Supervisor - Tang-Chieh Wu |
| 4. Director - Ming-Daw Chang | 9. Director - Cheng-Shang Chang |
| 5. Chairman - Chin-Tsair Tsay | 10. Director - Chin-Chang Tang |



Business Operations

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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, promote savings, 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 of problem institutions. The following is a brief overview of the major tasks and policy missions of CDIC in 2005:

1. Deposit Insurance

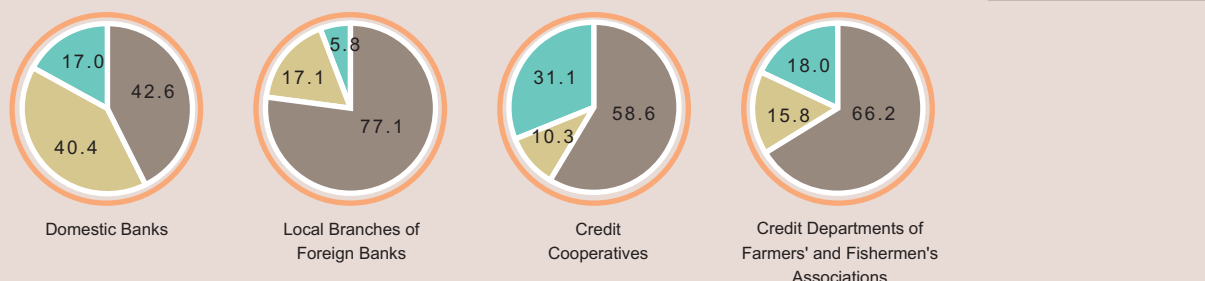
(1) Membership and Scope of Coverage

Since 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.

Deposit insurance coverage extends to checking accounts, passbook deposits, time deposits, savings deposits, postal savings deposits, and trust funds whose uses are designated by the insured institutions. Coverage does not extend to foreign currency deposits, trust funds whose uses are designated by the trustors, and negotiable certificates of deposit. It also excludes amounts due to all levels of government, the Central Bank, banks, Chunghwa Post, trust and investment companies, credit cooperatives, and the credit departments of farmers' and fishermen's associations, as well as the balance of those deposits exceeding the maximum insurance coverage of NT\$ 1 million offered to individual depositors.

Risk-based Premium Rates by Institution Types

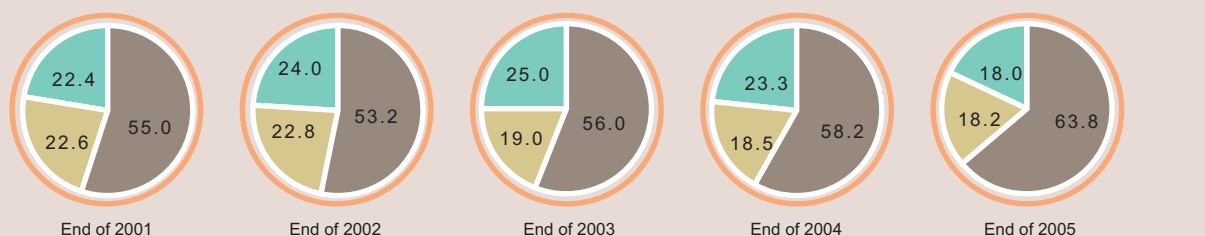
As at December 31, 2005
Unit : %



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

Comparison of Risk-based Premium Rates for All Insured Institutions (2001-2005)

As at December 31, 2005
Unit : %



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

In 2005, as part of ongoing financial reform policies, two problem institutions were withdrawn from the market under the Financial Restructuring Fund; another seven institutions were voluntarily merged or acquired; 3 new institutions were added, thereby reducing the total number of insured institutions from 396 at the end of 2004 to 390 at the end of 2005.

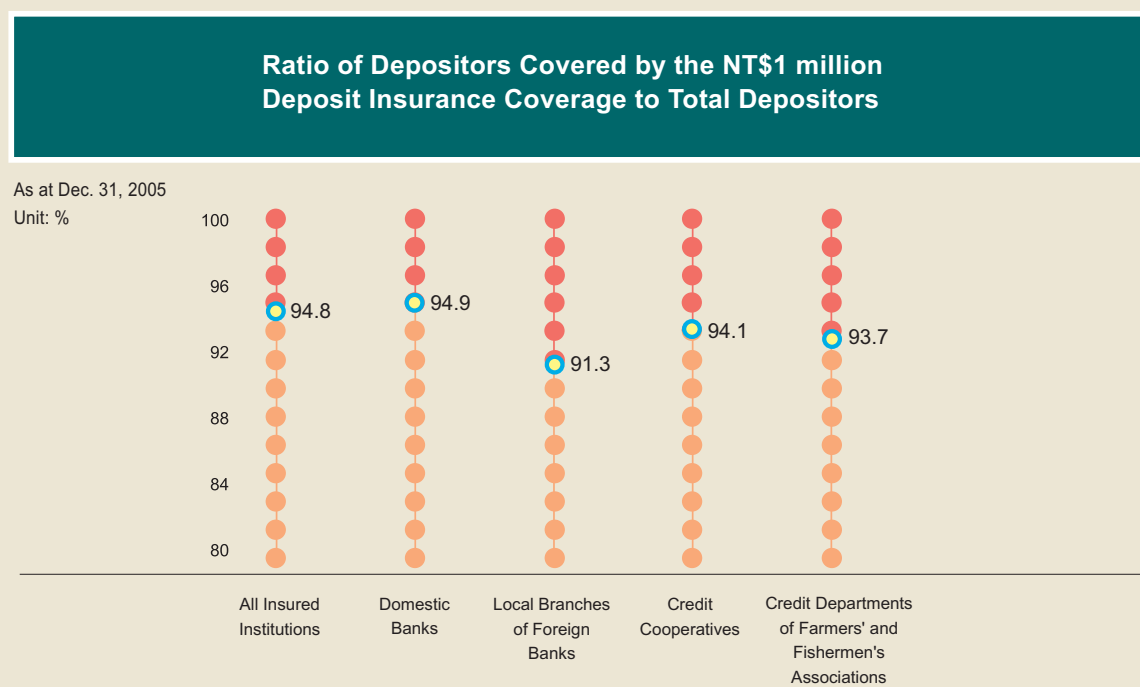
(2) Protection of Depositors and Deposits in the Insured Institutions

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, 2005), total insurable deposits amounted to approximately NT\$21.85 trillion, of which about NT\$9.53 trillion were under the maximum coverage limit. The average ratio of insured deposits to total insurable deposits at all insured institutions was 43.6%. The average ratio of depositors whose deposits were under the maximum coverage to total depositors in all insured institutions was 94.8%. Domestic banks had the highest ratio in this regard, at 94.9%, while the local branches of foreign banks had the lowest ratio, at 91.3%. This indicates that the current maximum coverage of NT\$1 million is able to extend full protection to most small depositors.

(3) 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-offs 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 2005, approximately 63.8% of all insured institutions were subject to the 0.05% rate, about 18.2% were subject to the 0.055% rate, and about 18% were subject to the 0.06% rate. The amount of the accumulated deposit insurance fund as of that time was approximately NT\$13.579 billion.



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

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, with remarkable gains made by foreign bank branches in Taiwan and the credit departments of farmers' and fishermen's associations. 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.

(4) Strengthening Public Awareness of Deposit Insurance

In order to soften the impact of the shift from a blanket guarantee to limited coverage system upon expiration of the Financial Restructuring Fund, CDIC drafted various transition measures and implemented programs to strengthen promotion of "financial information transparency", "safeguarding deposit security" and other themes. In 2005, CDIC actively publicized such measures through television, radio, internet, and print media channels, etc. It also organized several public seminars to directly inform the public about the content of deposit insurance protections, so as to better inform depositors of their rights and interests and fully realize the functions of deposit insurance.



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 concerning early-warning operations in 2005 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 policy of disclosure of information on financial institutions, CDIC published summarized information of the "Quarterly National Statistical Report on the Financial Data and Related Indicators of Community Financial Institutions" in its Deposit Insurance Journal and on CDIC website. Such channels are provided for public access to reinforce the function of market discipline.
- c) 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 instruct insured institutions to make improvement in accordance with the regulations so as to effectively increase the efficacy of financial supervision and reduce insurance risk.

- d) In order to meet the needs of financial supervision and in line with revisions to laws and regulations on credit cooperatives, CDIC completed revisions to the format for credit cooperative call report internet transmission, added statistics on non-performing loans, and adopted internet media for call reporting of information under the "Community Financial Institution Monthly Report Form for Profits from Reduction of Business Tax Rate and Deposit Reserve Rates and for Write Offs of Non-performing Loans" to enhance the efficient utilization of supervisory information.
- e) In response to the competent authority's revised definition of overdue loans and in line with international standards, CDIC continued to revise financial early warning systems related to domestic banks, trust and investment companies, local branches of foreign banks and credit cooperatives to enhance understanding of the asset quality of insured institutions.
- f) CDIC completed the establishment of a call report percentile ranking of financial holding companies system to access better operational information of the financial holding companies so as to control the insurance risk of their banking subsidiaries. The system, which began trial operation in March 2005, will assist the strengthening of risk control for insured institutions and the overall operations of their parent holding group.



- g) In conjunction with the implementation of Statement of the Financial Accounting Standards No. 35 in Taiwan regarding handling asset impairment, CDIC completed revisions related to the financial statements of domestic banks and the local branches of foreign banks, required by the competent authority, to help obtain full understanding of the true financial status of insured institutions.

(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 insurance 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 insurance 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 insurance risk.
- c) Handling of Public Complaints and Tip-offs

CDIC properly handled public complaints and tip-offs in a circumspect manner and in accordance with regulations.



(3) Assistance to Insured Institutions

a) Strengthening Analysis of the Insurance Risk of Insured Institutions

CDIC by way of the account officer system mentioned above has strengthened insurance risk analysis and assessment to facilitate timely implementation of handling measures.

b) Arrangement of Discussions with Officers of Problem Institutions

CDIC requested the responsible officers or relevant staff at problem 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.

c) Attendance at Important Meetings of Insured Institutions

At the instruction of the competent authority, CDIC dispatched personnel to attend board of directors meetings, managing board meetings, and other important meetings of 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.

d) Provision of Joint Assistance with Local Governments

In conjunction with local governments, CDIC provided assistance to insured institutions with serious financial or operational deficiencies to help them quickly improve such deficiencies.

e) Assisting Insured Institutions in Completing Self-rescue Plan to Support Financial Stability and Protect Depositors' Rights and Interests

As directed by the competent authority, CDIC dispatched personnel to provide on-site assistance to one insured institution. Assistance was provided according to regulations to effectively control moral hazard. CDIC also assisted the smooth merger of the operations and main assets and liabilities of the said institution's trust department with a commercial bank, effectively resolving operational problems and protecting depositors' rights and interests.

Moreover, as instructed by the competent authority, CDIC and the local competent authorities formed joint assistance teams to attend the board meetings, business meetings, guidance meetings, and credit review meetings of three community financial institutions with the purpose of reducing moral hazard and assisting them in the completion of self-rescue objectives this year. One of the institutions effectively improved its financial operations and was exempted by the competent authority from further special assistance. The other two institutions were smoothly merged with commercial banks.

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

- a) CDIC attended regular meetings with financial supervisory agencies to strengthen information sharing with such bodies and develop cooperation and liaison with them on handling problem institutions.
- b) Work was completed on an online inquiry system that enables the Financial Examination Bureau, Financial Supervisory Commission to access data from CDIC's Financial Early-warning System. CDIC also 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 coordinated with the Bureau of Agricultural Finance (BAF), Council of Agriculture on the establishment of an internet reporting system aimed at enhancing information sharing and exchange between the two sides. CDIC also assigned personnel to inspect information submitted by credit departments of farmers' and fishermen's associations from July 1, 2005, to ensure the accuracy and completeness of such data and upgrade the efficacy of the Financial Early Warning System.
- d) CDIC sent specialists to participate regularly in the meetings of the Supervisory and Examination 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

CDIC assumed conservatorship of the following problem institutions as directed by the competent authority:

a) Conservatorship and Disposition of Chung Shing Bank

The assets, liabilities (excluding interbank deposits) and operations of Chung Shing Bank were transferred to Union Bank of Taiwan on March 19, 2005, and compensation for interbank deposits was completed on September 21, 2005. CDIC is still fulfilling its conservator functions in the handling of unresolved matters at the bank, such as payment of employee pensions and severance pay, transfer of unsold assets to the Financial Restructuring Fund, and remaining accounting, tax, share-related and other affairs.

b) Conservatorship of Kaohsiung Business Bank and Fengshan Credit Cooperative

After Kaohsiung Business Bank and Fengshan Credit Cooperative were resolved in 2004, CDIC continued to serve as conservator in the handling of remaining affairs, such as resolution of the banks' unsold trust business, transfer of unsold assets to the Financial Restructuring Fund, and 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

CDIC assisted the Council of Agriculture, Executive Yuan, in disposing of the unsound operations of the credit department of the Hsinpi Farmers' Association in Pingtung County. The Council had the Hsinpi credit department merged with the credit department of the Nanchou Farmers' Association on March 11, 2005.

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

(1) Key Revisions to the *Financial Restructuring Fund Statute*

The revised *Executive Yuan's Financial Restructuring Fund Establishment and Management Statute* (hereinafter referred to as "*Financial Restructuring Fund Statute*") was approved by the Legislative Yuan on



May 31, 2005 and promulgated by the President on June 22 the same year. The key revisions to the *Statute* are summarized below:

a) Expansion of the Fund

The revised *Statute* stipulates that business tax revenue from the financial industry for the five-year period from January 1, 2006, to the end of 2010 should be included in the financial source of the Restructuring Fund, up to a maximum of NT\$110 billion. The surplus over this amount shall be appropriated to the deposit insurance fund.

b) Financial resources for special fund to dispose of the credit departments of farmers' and fishermen's associations

Twenty percent of the additional financial sources stipulated under the revised *Statute* shall be used for compensation in the disposition of the credit departments of farmers' and fishermen's associations, not subject to the expiration date of the Fund establishment.

c) Establishment of an Evaluation Subcommittee

In addition to the Fund Management Committee, an Evaluation Subcommittee shall be established under the Fund. The functions of the Subcommittee are to identify unsound institutions, to determine the priority and manner of disposition work and amount of compensation,

and to submit such findings to the Management Committee for its resolution.

d) Non-deposit liability guarantees

Compensation for the non-deposit liabilities incurred by unsound financial institutions before promulgation of the revised *Statute* shall still be guaranteed under the principles of non-retroactive and legitimate expectation. No compensation will be provided for such liabilities incurred after the revised *Statute* came into force.

e) Deadline for the inclusion of unsound financial institutions for disposition

The deadline for the Fund's inclusion of problem financial institutions for disposition was the *Statute's* expiration date on July 10, 2005.

(2) Operations Commissioned to CDIC

a) Disposal of Problem Institutions

(a) Open bid for Chung Shing Bank and compensation for negative net worth

The assets, liabilities (excluding interbank deposits) and operations of Chung Shing Bank were sold to Union Bank of Taiwan by an open bid. The two sides completed the merger and transaction on March 19, 2005. Compensation for the interbank deposit

liabilities of NT\$64 billion not included in the sale was completed on September 21, 2005, from proceeds of the open bid and new financial sources of the expansion of the Restructuring Fund.



(b) Disposition of Kaohsiung Business Bank's trust business

On June 15, 2005, CDIC terminated the Huang Hsi-wen trust case and paid collected reimbursement of NT\$11.29 million to the Restructuring Fund. CDIC sought compensation from the other two trust cases—Hsiu Kang Development Co., LTD & Gangshan Steel Corp., by means of compulsory enforcing the trustor's properties, selling off the trust properties, and abolishing the trust contracts.

(c) Payment of compensation for member shares in Fengshan Credit Cooperative

After the revised *Statute* came into effect, CDIC issued a letter to Chinatrust Commercial Bank asking it to pay compensation for member shares in Fengshan Credit Cooperative according to Item 3 of Article 4 of the *Statute*. The bank sent a reply letter stating its position for not paying compensation. According to a resolution of the Fund Management Committee, it was agreed that the Fund would pay the compensation. On October 7, 2005, CDIC formally entrusted Chinatrust Commercial Bank to arrange for the share compensation. As of the end of 2005, such compensation had been paid to 72% of the credit cooperative members, representing 90% of the compensation value.

(d) Assistance of the merger of the credit departments of the Nanchou and Hsinpi farmers' associations in Pingtung County

CDIC assisted the Council of Agriculture, Executive Yuan, in planning the asset appraisal, negotiated price, sale, merger and compensation affairs. On March 11, 2005, Hsinpi Farmers' Association was merged with the Nanchou Farmers' Association. The Restructuring Fund completed related compensation payments on April 21.

(e) Continued sale of land assets assumed by the Restructuring Fund

In 2004, the Restructuring Fund held two open bids of land assumed in the course of its disposition of unsound financial institutions, and in June 2005 it held a third bid. Land remaining after the third bid was sold to certain parties at negotiated prices in September 2005. A total of 18 plots of land had so far been sold for a total price of NT\$80,086 thousand.

(f) Arrangement of the remaining affairs at 44 unsound community financial institutions

CDIC actively coordinated with acquiring banks to handle the remaining affairs of 44 community financial institutions, including the clarification and return of disputed assets at 36 credit departments of farmers' and fishermen's associations; the handling of requests from acquiring banks for additional compensation to cover shortfalls; the handling of petitions by the employees of unsound community financial institutions.

b) Legal Prosecution

The government established the Financial Restructuring Fund to dispose of problem financial institutions. Personnel whose illegal actions create losses at a financial institution should be prosecuted for their civil and criminal responsibility, so as to safeguard the rights and interests of the Fund and uphold social justice. CDIC therefore has actively pursued 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 2005, CDIC had submitted 179 cases of malfeasance to prosecution agencies for handling, and civil compensation has already been sought in 104 civil cases.

c) Fund Payments

In 2001 and 2002, the Financial Restructuring Fund disposed of 44 problem community financial institutions. A certified public accountant was commissioned to assess the value of the assets and liabilities of these institutions in accordance with the "Guidelines for Assessing the Assets and Liabilities of Problem Financial Institution" approved by the Fund Management Committee. After such assessment, compensation was paid to the banks acquiring these institutions. Since 2003, CDIC has commissioned a financial consultant to plan the open bids of unsound financial institutions to raise the disposition price and the probability of successful sale. Under this approach, the assets and liabilities of unsound financial institutions have been dealt with by open bids in separately packaged batches. Such approach was, therefore, used to increase the bid price of Kaohsiung Business Bank and Fengshan Credit Cooperative and smoothly withdraw the said financial institutions from the market in 2004.

In 2005, Chung Shing Bank was smoothly withdrawn from the market through a batch open bid. Moreover, since the Restructuring Fund had not yet received financial resource from newly expanded sources, CDIC for the first time adopted the approach of excluding the bank's interbank deposit liabilities from the scope of the bid price in order to speed up disposition of the bank and effectively reduce compensation payments. Furthermore, the Credit Department of Hsinpi Farmers' Association in Pingtung County was merged with the operationally similar Credit Department of the Nanchou Farmers'

Association to avoid disputes over the separate disposition of the credit department.

Over the years, CDIC has constantly refined its methods in the disposition of problem institutions and kept such methods in step with the times in the goal of increasing the disposition value and reducing compensation payments. In 2005, two problem institutions were withdrawn from the market at a total compensation cost of NT\$58.572 billion, including NT\$58.474 billion for the disposition of Chung Shing Bank and NT\$98 million for the disposition of the Hsinpi Farmers' Association.

d) Outcome of Disposition

The *Financial Restructuring Fund Statute* was promulgated and implemented by presidential decree on July 9, 2001. On June 22, 2005, it was revised to reflect changes in the domestic financial environment. As of the end of 2005, a total of 48 unsound financial institutions have been withdrawn from the market under the Fund, helping to reduce the average non-performing loan ratio across all financial institutions from 6.2% at the end of December 2000 to 2.2% at the end of December 2005. In addition to reducing the excess number of financial institutions in Taiwan, the withdrawal of problem institutions has resulted in a clear improvement in the overall asset quality of financial institutions, as well as the creation of a sound economic environment.

The initial period of the Restructuring Fund's establishment was a time marked by the spread of Asian Financial Crisis. In this regard, when undertaking a large-scaled disposition of problem institutions, the government particularly needs to consider avoiding the occurrence of a systemic financial crisis and the social unrest. Fortunately the disposition process was able to peacefully achieve its mission in keeping with the four main principles of the Fund, namely: stability of financial order, protection of depositors' benefits, continuity of financial services, and minimization of social costs.



5. Computerization

- (1) A "Financial Holding Company Call Report Ranking System" was established, including functions such as percentile ranking, compilation of lists for follow-up analysis, and tables on percentile ranking changes to better grasp the operating status of financial holding companies.
- (2) Four systems, "Quarterly Analysis Reporting System", "Call Report Percentile Ranking System", "Internet Transmission Surveillance System", and "Financial Early-warning System", were amended in line with the revisions made by the Central Bank of China to the formats of call reports for domestic banks, foreign banks and trust and investment companies.
- (3) Functions for the conversion of financial information on the credit departments of farmers' and fishermen's associations were added to the "Quarterly Analysis Reporting System" in order to access relevant information from the "Credit Department of Farmers' and Fishermen's Associations Internet Financial Reporting System", which is designed by Bureau of Agricultural Finance, Council of Agriculture.
- (4) CDIC established a special website and online registration system to handle affairs and member activities related to its hosting of the fourth annual conference of the International Association of Deposit Insurers.
- (5) A Windows-based version of "Pension and Savings Management System" and a "Material Goods Management System" were developed to enhance management efficiency.
- (6) Establishment of a Financial Supervision Information Sharing Platform mechanism, in cooperation with Financial Supervisory Commission, was completed to facilitate the sharing of financial information among various supervisory agencies and enhance operational efficiency by preventing overlapping information gathering and processing.
- (7) A "Digital Audio-Visual Platform System" was established with functions for interactive video learning and videoconferencing, providing a high-quality e-learning environment.

6. Research and Development

Financial reforms carried out by the Taiwan government in recent years have already brought tangible results and earned the recognition and support of international financial supervisory agencies. In order to ensure that its operations develop even more closely in line with changes in the financial environment, CDIC has continued to actively participate in international activities and gather feedback and views from insured institutions. It has also collected information and authored special reports related to the latest developments in deposit insurance and financial supervision both at home and abroad.

(1) Revisions to the *Deposit Insurance Act* and related by-laws

In response to financial liberalization, internationalization, consolidation of financial supervision, return to the limited deposit insurance coverage, and other changes in the financial environment, CDIC drafted revisions to the *Deposit Insurance Act*. The draft was under deliberation by the Legislative Yuan as of December 2005. CDIC has also started drafting by-laws related to the draft revised *Act*.



(2) Questionnaire survey on maximum coverage and risk-based deposit insurance premium rates

CDIC commissioned a professional survey organization to conduct a questionnaire-based survey on "Maximum Coverage and Risk-based Deposit Insurance Premiums" as a reference in augmenting protections for small depositors, effectively securing depositors' confidence and stabilizing financial order. The survey has also provided a basis for reasonably reflecting differences among insured institutions in terms of operational risk and thereby encouraging these institutions to reduce operating risk and effectively realizing the effects of the risk-based premium mechanism. The results of the survey also will serve as a reference in the study of adjustments to coverage amounts and premium rates.

(3) Drafting of by-laws for the disposition of unsound financial institutions under the Financial Restructuring Fund

In conjunction with the promulgation of the revised *Executive Yuan's Financial Restructuring Fund Establishment and Management Statute* on June 22, 2005, CDIC drafted the "Operational Measures for the Disposition of Unsound Financial Institutions under the Executive Yuan's Financial Restructuring Fund" and its principles for handling sale by open bids so as to make disposition procedures more standardized and transparent.

(4) Questionnaire survey of awareness of policies related to the Financial Restructuring Fund

CDIC commissioned a professional survey organization to conduct two surveys in June and September 2005, respectively, to assess public awareness of the transition of the Financial Restructuring Fund from a blanket guarantee to limited deposit insurance coverage mechanism. The survey results will serve as a reference for follow-up promotional and publicity measures.

(5) Convening the ninth and tenth meetings of CDIC Deposit Insurance Premium and Problem Financial Institutions Consultative Committee.

The ninth meeting discussed the topics of how insured institutions can strengthen governance and maintain relations with the financial safety net. The tenth meeting discussed the topics of the position and strengthening of the deposit insurance mandate in Taiwan; how deposit insurance organizations can respond to cross-border issues and international financial supervision integration; the strengthening of deposit protection mechanisms. Committee members made several invaluable suggestions that will serve as a reference for CDIC in planning future developments to Taiwan's deposit insurance system.

(6) International Research

- a) CDIC chaired the Subcommittee on Resolution of Bank Failures under the Research and Guidance Committee of the International Association of Deposit Insurers (hereinafter referred to as "IADI"). The subcommittee was in charge of developing "General Guidance for the Resolution of Bank Failures." The Guidance was presented at the 2005 IADI's 4th Annual Conference.
- b) CDIC was in charge of two research projects for IADI's Asia Regional Research Subcommittee, which were "Transitioning from A Blanket Guarantee to Limited Coverage System" and "Sources of Liquidity for Deposit Insurance Fund." These studies were completed and the research papers jointly presented at the 3rd Asia Regional Committee Annual Meeting held in Taipei in 2005.



(7) Special Research and Summary Translation Reports

- a) CDIC collected the most recent information from Taiwan and abroad on deposit insurance and financial supervision for the drafting of research reports. Such reports included "A Study on the Impact of Financial Holding Companies on CDIC's Insurance Risk" and "The Influence and Impact of the Basel II Capital Accord on Risk Management at Member Institutions". Pertinent sections of the reports were submitted to the competent authorities for its reference.
- b) Summary translations were prepared including profiles of the IADI's committees and members as well as relevant information from the IADI Newsletters. A report on the 3rd IADI Annual General Meeting and Conference was also completed.

(8) Publication of the Deposit Insurance Journal

CDIC's Deposit Insurance Journal 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 journal is distributed to relevant agencies, financial institutions, universities and colleges, legislators, and libraries and cultural centers for reference purposes.

(9) Publication of Deposit Insurance Reports

A series of four reports on overseas visit and research conducted by CDIC staff in 2004 were published as a reference for relevant government agencies, financial institutions, academic organizations, experts and scholars.

7. International Exchange

CDIC actively participated in and organized several international exchange activities in 2005 to enhance its international image and visibility. The major activities are introduced below:

(1) Participation in IADI Activities

- a) CDIC held its 20th Anniversary celebration in conjunction with hosting the 4th Annual General Meeting and Conference of the IADI and the First International Deposit Insurance Exhibition. CDIC was also honored to win the IADI's first-ever Deposit Insurance Organization of the Year Award.



- (a) In 2005, CDIC marked its 20th anniversary and was selected by IADI to host the association's 4th Annual General Meeting and Conference. The event was held along with other related activities at the Grand Hotel in Taipei. At the IADI Annual General Meeting on September 27, CDIC was honored with the first-ever Deposit Insurance Organization of the Year Award. The award is conferred on a member of IADI in celebration of an important domestic or international achievement and in recognition of the contribution that the member has made to the furtherance of IADI's objectives. CDIC was honored with the award this year in recognition of its assistance to the government in accomplishing financial reforms, and smoothly completing the mission entrusted to it by the Executive Yuan's Financial Restructuring Fund, as well as for chairing the IADI Research and Guidance Committee, playing a major role in developing guidance to enhance the effectiveness of deposit insurance systems, and issuing two guidance papers this year including one on "Resolution of Bank Failures." CDIC earned a high mark from international deposit insurers for its contribution to domestic financial stability as well as for its active efforts in forming international linkages and sharing its deposit insurance experience.
- (b) On September 28 and 29, CDIC hosted the IADI 4th Annual Conference on "Challenges for Deposit Insurers in Resolving Bank Failures." In his keynote address to the conference, Premier Frank Hsieh introduced the results of the first stage of Taiwan's financial reforms and the direction and key points of the second stage of reforms to the attending representatives of domestic and international financial supervisory agencies and deposit insurance organizations. The conference was enthusiastically received by over 150 participants from 50 countries or areas.
- (c) In conjunction with the annual general meeting and conference, CDIC held the First International Deposit Insurance Exhibition. More than 30 countries participated in the exhibition, greatly expanding the opportunities for exchanges among deposit insurers and financial supervisory agencies. The event presented IADI's ambition to assist in the promotion of global financial stability.
- b) CDIC hosted IADI's 3rd Asia Regional Committee and workshop, which were joined by about 30 representatives from 10 Asian countries. It also played a leading role in the preparation of two research papers presented at the workshop.
- c) CDIC also participated in several meetings of IADI's Regional Committees, Standing Committees and Executive Council in Basel, Switzerland, during this year.

(2) Holding of International Seminars

- a) The "NPL Resolution and Corporate Restructuring" seminar was jointly held by CDIC, the Korea Asset Management Corporation (KAMCO), the Taiwan Academy of Banking and Finance, and the Bankers' Association of the R.O.C. from 28 to 30 March 2005 in Taipei. The experts from KAMCO were invited to present lectures on topics including the "ABS and International Sale of NPLs," "Loan Valuation, Acquisition and Management," "Successful Workout Programs," "Resolution of Consumer Debt Delinquencies by Bad Banks" and "Utilization of Technology to Facilitate NPL Resolution". The total number of participants was about 300 and included government representatives and bank practitioners.
- b) CDIC, the Taiwan Academy of Banking and Finance, and National Taiwan University's Department of Finance jointly held the "Regulatory Information & Risk Management on the U.S. Banking Industry" seminar on November 18, 2005. The keynote speaker was Mr. Donald E. Inscoe, Deputy Director of the U.S. Federal Deposit Insurance Corporation (FDIC). Other speakers included finance experts and scholars from Taiwan. Topics discussed were: overview of the FDIC and the U.S. banking system; status of U.S. implementation of the Basel II capital accord; the quality and uses of information banks report to insurers and supervisors. About 200 people enthusiastically participated.

(3) Signing of MOU

- a) Memorandum of Understanding renewed with KDIC

In order to promote regional exchange of experience on finance and deposit insurance mechanisms, CDIC signed Memorandum of Understanding with Korea Deposit Insurance Corporation (KDIC) and KAMCO in March and August 2003, respectively, establishing formal cooperative relations. The two sides have conducted cooperation through the designation of mutual contact representatives, the holding of annual meetings, and the arrangement of personnel and information exchanges. In March 2005, the Memorandum of Understanding signed between CDIC and KDIC was renewed upon its expiration.

- b) Memorandum of Understanding signed with National Deposit Insurance Fund of Hungary (NDIF)

In order to establish cooperative relations in deposit insurance with NDIF and promote the sharing of experience and information between the two sides, CDIC Chairman Chin-Tsair Tsay and NDIF Managing Director Daniel Janossy signed a memorandum of understanding in Budapest, capital of Hungary, in June 2005, establishing formal cooperative ties. In future, the two sides will cooperate through the designation of mutual contact representatives and the arrangement of personnel and information exchanges.

(4) Other International Exchange Activities

- a) CDIC personnel paid visits at various international deposit insurers and financial supervisory agencies, including the NDIF, Deposit Insurance Corporation of Japan, Malaysia Deposit Insurance Corporation and its state-run asset management corporation Danaharta, KDIC, KAMCO, and Korea's Financial Supervisory Commission.
- b) CDIC personnel attended various international conferences, including "Early Warning Systems as a Key Issue to Bank Solvency and Financial Stability" hosted by the Kazakhstan Deposit Insurance Fund; "Conference on Banking Crisis Resolution—Theory and Policy" hosted by Norges Bank; Asian Finance Association Conference 2005; "Deposit Insurance International Forum" held by China in Dalian, Liaoning Province; "The Conference on the Road to Prosperity and Cooperation: Financial Hub in Northeast Asia" hosted by KAMCO in Seoul.
- c) CDIC received representatives of deposit insurers and financial supervisory agencies around the world, including Mr. Hajime Shinohara, Deputy Governor of the Deposit Insurance Corporation of Japan and Chair of IADI's Asia Regional Committee; Dr. In-Woo Lee, National Agricultural Cooperative Federation, Korea, etc.

8. Human Resources

(1) Employee Structure

Year	No. of Employees	Avg. Age of Employees	Educational Attainment of Employees		
			Graduate School	College	Other
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
2000	282	38	43	230	9
Department breakdown of CDIC staff:					
Dept. of Business (17)		Dept. of Risk Management (42)		Dept. of Resolution (43)	
Legal Affairs Office (8)		Dept. of Accounting (10)		Secretariat (20)	
Personnel Office (5)		Information Management Office (12)		Civil Service Ethics Office (1)	

*In conjunction with the consolidation of the financial supervisory agencies and the establishment of Financial Supervisory Commission on July 1, 2004, 143 staff members of CDIC were transferred to the Commission.

(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 2005:

- a) 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, and Training Institute of the Ministry of Finance.
- b) CDIC organized monthly professional business seminars, with lectures by outstanding senior CDIC personnel and outside experts and supporting case studies.
- c) 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.
- d) In order to strengthen the international meeting hosting and presentation ability of CDIC executives, CDIC held English classes on international business communication/etiquette and meeting procedures. English and Japanese classes were also offered once or twice a week to upgrade the proficiency of CDIC personnel in these languages.



▶▶ Financial Statements
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INDEPENDENT AUDITOR'S REPORT

NO.121494EA

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, 2005 and 2004, 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 Republic of China "Guidelines for Certified Public Accountants' Examinations and Reports on Financial Statements" and with Republic of China generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with the law and with Republic of China generally accepted accounting principles applied on a consistent basis.

As disclosed in Note 3 to the financial statements, the Company adopted Statement of Financial Accounting Standards No. 35 "Accounting for Impairment Loss of Assets" since January 1, 2005.

Clock & Co., CPAs



Kuo-Shih Huang, CPA

January 27, 2006

CENTRAL DEPOSIT

BALANCE

DECEMBER 31,

ASSETS	2005		2004	
	Amount	%	Amount	%
CURRENT ASSETS	\$ 25,822,699	98	\$ 24,188,333	98
Cash and Cash Equivalents	19,619,985	75	18,537,754	75
Short-Term Investments	5,847,350	22	5,335,297	22
Receivables	343,355	1	301,076	1
Prepayments	11,483	—	12,652	—
Other Current Assets	526	—	1,554	—
FIXED ASSETS-NET	544,157	2	553,273	2
Cost	593,108	2	596,778	2
Land	228,833	1	228,833	1
Buildings	265,486	1	265,486	1
Machinery and Equipment	66,022	—	69,563	—
Transportation Equipment	14,419	—	14,231	—
Other Equipment	18,348	—	18,665	—
Revaluation Increment	66,149	—	66,149	—
Less Accumulated Depreciation	115,100	—	109,654	—
Buildings	59,930	—	55,195	—
Machinery and Equipment	37,475	—	37,177	—
Transportation Equipment	7,393	—	6,104	—
Other Equipment	10,302	—	11,178	—
INTANGIBLE ASSETS	1,861	—	3,206	—
OTHER ASSETS				
Guarantee Deposits Paid	518	—	351	—
TOTAL ASSETS	\$ 26,369,235	100	\$ 24,745,163	100

INSURANCE CORPORATION

SHEETS

2005 and 2004

(Expressed in New Taiwan Thousand Dollars)

	LIABILITIES AND STOCKHOLDERS' EQUITY	2005		2004	
		Amount	%	Amount	%
	CURRENT LIABILITIES	\$ 1,486,277	6	\$ 1,287,738	5
	Marketable Securities Sold Under Repurchase Agreement	1,412,298	6	1,203,242	5
	Payables	73,979	—	84,496	—
	LONG-TERM LIABILITIES				
	Reserve for Land Revaluation Increment Tax	25,551	—	25,551	—
	OTHER LIABILITIES	13,580,378	51	12,155,110	49
	Reserve for Insurance Pay-offs	13,579,167	51	12,153,745	49
	Guarantee Deposits Received	1,191	—	1,365	—
	Temporary Credits	20	—	—	—
	TOTAL LIABILITIES	15,092,206	57	13,468,399	54
	CAPITAL STOCK	10,000,000	38	10,000,000	41
	CAPITAL SURPLUS	40,863	—	40,598	—
	Reserve for Asset Revaluation Increment	40,598	—	40,598	—
	Donated Assets Received	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
	TOTAL STOCKHOLDERS' EQUITY	11,277,029	43	11,276,764	46
	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$26,369,235	100	\$24,745,163	100

CENTRAL DEPOSIT INSURANCE CORPORATION

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004

(Expressed in New Taiwan Thousand Dollars)

DESCRIPTION	2005		2004	
	Amount	%	Amount	%
OPERATING INCOME	\$ 4,517,616	100	\$ 4,347,860	100
Interest Revenue	498,362	11	438,925	10
Premiums Revenue	4,019,254	89	3,908,935	90
OPERATING COSTS	4,058,102	90	3,841,236	88
Handling Fees	505	—	435	—
Insurance Expenses	172	—	198	—
Interest Expenses	15,157	—	11,098	—
Insurance Pay-offs Reserve Provisions	1,425,422	32	1,207,812	28
Finance Restructuring Fund Expenses	2,616,846	58	2,529,146	58
Agent Fees	—	—	92,547	2
GROSS PROFIT	459,514	10	506,624	12
OPERATING EXPENSES	451,122	10	421,551	10
Transaction Expenses	389,539	9	359,193	9
General & Administrative Expenses	54,135	1	55,460	1
Other Operating Expenses	7,448	—	6,898	—
OPERATING INCOME	8,392	—	85,073	2
NON-OPERATING INCOME	549	—	900	—
Indemnity Income	2	—	3	—
Other Income	547	—	897	—
NON-OPERATING EXPENSES	8,941	—	85,973	2
Loss on Disposal of Assets	1,934	—	2,127	—
Other Expenses	7,007	—	83,846	2
INCOME BEFORE INCOME TAX	—	—	—	—
INCOME TAX	—	—	—	—
NET INCOME	\$ —	—	\$ —	—
EARNINGS PER SHARE	\$ —	—	\$ —	—

CENTRAL DEPOSIT INSURANCE CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004

(Expressed in New Taiwan Thousand Dollars)

DESCRIPTION	CAPITAL STOCK	CAPITAL SURPLUS	RETAINED EARNINGS		TOTAL
			Legal Reserve	Special Reserve	
BALANCE, JANUARY 1, 2004	\$10,000,000	\$40,598	\$235,700	\$1,000,466	\$11,276,764
BALANCE, DECEMBER 31, 2004	10,000,000	40,598	235,700	1,000,466	11,276,764
Donated Assets Received	—	265	—	—	265
BALANCE, DECEMBER 31, 2005	\$10,000,000	\$40,863	\$235,700	\$1,000,466	11,277,029

CENTRAL DEPOSIT INSURANCE CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004

(Expressed in New Taiwan Thousand Dollars)

DESCRIPTION	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ —	\$ —
Adjustments		
Depreciation	15,478	14,744
Amortization	2,131	3,010
Insurance Pay-offs Reserves	1,425,422	1,207,812
Net Loss on Disposal of Fixed Assets	1,934	2,127
Changes in Assets and Liabilities:		
Receivables	(42,279)	(38,504)
Prepayments	1,169	6,334
Other Current Assets	1,028	(17)
Marketable Securities Sold Under Repurchase Agreement	209,056	(703,182)
Payables	(10,517)	(26,694)
Net Cash Provided by Operating Activities	1,603,422	465,630
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in Short-Term Investments	(512,053)	348,093
Intangible Assets Increase	(786)	(1,685)
(Increase) Decrease in Guarantee Deposits Paid	(167)	103
Acquisition of Fixed Assets	(8,031)	(12,570)
Proceeds from Disposal of Fixed Assets	—	46
Net Cash Provided by (Used in) Investing Activities	(521,037)	333,987
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (Decrease) in Guarantee Deposits Received	(174)	702
Increase in Temporary Credits	20	—
Net Cash Provided by (Used in) Financing Activities	(154)	702
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,082,231	800,319
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	18,537,754	17,737,435
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 19,619,985	\$ 18,537,754
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest Expense Paid (Net of Amount Capitalized)	\$ 14,732	\$ 11,250



Statistics

- 32 Number of Insured Institutions for the Last Five Years
- 32 Ratio of Insured Deposits to Total Insurable Deposits for the Last Five Years
- 33 Insured Deposits, Deposit Insurance Fund and Stockholders' Equity for the Last Ten Years
- 34 Major Revenue and Expense Items for the Last Five Year

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

Type of Institution \ Year	2005	2004	2003	2002	2001
Domestic Banks	48	52	53	55	56
Credit Cooperatives	29	32	35	37	39
Credit Departments of Farmers' Associations	253	253	253	253	260
Credit Departments of Fishermen's Associations	25	25	25	25	25
Local Branches of Foreign Banks	35	34	35	35	37
Total	390	396	401	405	417

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, Chunghwa Post Co., Ltd. and trust and investment corporations.
- (3) The number of insured institutions was reduced by six in 2005 due to the merger of Fubon Commercial Bank with Taipei Bank, the merger of credit department of the Hsinpi Farmers' Association with the credit department of the Nanchou Farmers' Association, the merger of Kao Shin Commercial Bank with Sunny Bank, the merger of Taiwan Shin Kong Commercial Bank with Macoto Bank, the acquisition of Chiayi First Credit Cooperative by Bank of Panhsin, the acquisition of Chung Shing Bank by Union Bank of Taiwan, the acquisition of Tainan Seventh Credit Cooperative by Fuhwa Commercial Bank, the acquisition of the trust business of Taiwan Development & Trust Corp. by Jih Sun International Bank, the acquisition of Tainan Sixth Credit Cooperative by Fuhwa Commercial Bank, and the addition of Niao-Song Farmers' Association, Agricultural Bank of Taiwan, and the Taipei Branch of the U.K.-based Barclays Bank.

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

Unit: NT\$ million

Type of Institution	Year 2005			Ratio of Insured Deposits to Total Insurable Deposits (%)			
	Insured Deposits (a)	Total Insurable Deposits (b)	Ratio of Insured Deposits to Total Insurable Deposits % (a)/(b)	Year 2004	Year 2003	Year 2002	Year 2001
Domestic Banks	8,321,601	19,452,004	42.8	43.4	44.1	44.1	44.1
Credit Cooperatives	313,106	601,364	52.1	52.8	54.1	55.0	55.8
Credit Departments of Farmers' Associations	766,820	1,268,284	60.5	60.8	61.3	61.7	62.3
Credit Departments of Fishermen's Associations	22,565	34,782	64.9	65.3	64.9	65.8	66.7
Local Branches of Foreign Banks	104,090	493,746	21.1	14.7	16.1	19.3	20.8
Total	9,528,182	21,850,180	43.6	44.1	44.9	45.1	45.4

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, Chunghwa Post Co., Ltd and trust and investment corporations.
- (3) Insured deposits are the total amount of each depositor's insurable deposits, which do not exceed the NT\$1 million maximum coverage.
- (4) Total insurable 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 %	Premi- ums	Deposit Insurance Fund	Stock- holders' Equity	Ratio of Deposit Insurance Fund to Insured Deposits %	Ratio of Deposit Insurance Fund Plus Stock- holders' Equity to Insured Deposits %
		No. of Institu- tions	Total Insurable Deposits (a)	Insured Deposits (b)	Ratio of Insured Deposits to Total Insurable Deposits % (b)/(a)						
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
1996	1	400	7,152,291	3,058,978	42.8	63.6	427	1,421	5,753	0.05	0.23

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) The annual deposit insurance premium rate was set at 0.05% in 1985 and fell to 0.04% from July 1, 1987. It was lowered again to 0.015 on January 1, 1988. A risk-based premium rate was adopted on July 1, 1999, and the differential rates were set at three levels: 0.015%, 0.0175%, and 0.02%. On January 1, 2000, the rates were readjusted 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 Year

Unit: NT\$ million

Item \ Year	2005	2004	2003	2002	2001
Operating Revenues	4,517	4,348	4,249	4,186	4,308
Interest Revenue	498	439	483	585	899
Premium Revenue	4,019	3,909	3,766	3,597	3,409
Other Revenue	-	-	-	4	-
Operating Costs and Expenses	4,509	4,263	4,244	4,185	4,174
Provision for Insurance Pay-off Special Reserves	1,425	1,208	1,215	1,269	3,559
Financial Restructuring Fund Expenses	2,617	2,529	2,435	2,335	-
Interest Expenses	15	11	14	21	72
Commission Expenses	-	93	175	192	191
Business Expenses	390	359	344	310	295
Administrative Expenses	54	55	54	53	52
Other Operating Expenses	7	7	7	5	5
Other Expenses	1	1	-	-	-
Net Operating Income	8	85	5	1	134
Net Non-Operating Income (Loss)	(8)	(85)	(5)	(1)	1
Net Income before Income Tax	-	-	-	-	135
Income Tax Expenses	-	-	-	-	135
Net Earnings Period	-	-	-	-	-

Notes:

- (1) Annual figures are calculated based on the period from January 1 to December 31. The figures for 2001, 2002, 2003 and 2004 are reviewed and audited by Ministry of Audit; those for 2005 are based on CDIC's final accounts for that year. Fiscal year calculations have been replaced by calendar year calculations since 2001.
- (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 I: Expansion and Improvement of Taiwan's Deposit Insurance System

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985~July 2001)	Current System (July 2001~)
Type of Participation	Voluntary	Changed to mandatory coverage in January 1999	Same as left column
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
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 the 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
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
Maximum Coverage	NT\$700,000	Raised to NT\$1 million on August 15, 1987	Remains at NT\$1 million; however, during the three-year period of operation of the Financial Restructuring Fund which the government established in July 2001 to accommodate the disposition of unsound financial institutions, all deposits and non-deposit debts of institutions approved for disposition by Financial Restructuring Fund Committee are fully covered. Maximum coverage reverted to NT\$1 million after expiration of the Financial Restructuring Fund on July 10, 2005.

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985~July 2001)	Current System (July 2001~)
Scope of Coverage	Deposit principal and interest	From January 1999, limited to deposit principal	Same as left column, limited to principal; for institutions disposed of by the Financial Restructuring Fund, however, all deposits and non-deposit debts were fully covered. Non-deposit liabilities incurred after promulgation of the revised <i>Financial Restructuring Fund Statute</i> are not covered; however, such liabilities incurred prior to the promulgation of the revised <i>Statute</i> are still covered.
Institutions in Which CDIC Funds May be Deposited	Limited to the Central Bank of China	The following revisions were effective in Jan. 1999: <ul style="list-style-type: none"> ● Deposits at the Central Bank of China ● Financial institutions approved by the competent authority and which provide government bonds as collateral 	Same as left column
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
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
Exemption from Invitation for Tender, Price Comparison, Price Negotiation, and the Provisions of Article 25~27 of the Budget Act when Disposing of Unsound and Problem Financial Institutions	None	Added in January 1999	Same as left column

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985~July 2001)	Current System (July 2001~)
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 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
Borrowing of Funds from Other Financial Institutions	None	Added in January 1999	Same as left column
Provision of Collateral when Applying to the Central Bank of China 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 of China must apply to the Executive Yuan for approval 	Same as left column
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
Penalty for Non-acceptance of Deposit Insurance Assistance or Failure to Comply with Opinions of Assistance	None	Provision added in January 1999: A fine of NT\$360,000 to NT\$1.8 million will be imposed	Same as left column
Further Penalty for Failure to Comply with a Corrective Order Within the Prescribed Time Limit Following the Initial Fine	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
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
Public Disclosure of Important Financial and Business Information of Banks	None	Same as left column	Following July 2001, information is disclosed on a quarterly basis

Appendix 2: Executive Yuan's Financial Restructuring Fund Establishment and Management Statute

As amended and promulgated on June 22, 2005 by Presidential Decree

Article 1

This *Statute* is enacted to establish the Executive Yuan's Financial Restructuring Fund (hereinafter referred to as "the Fund") to dispose of problem financial institutions so as to stabilize financial and credit order, to improve financial structure, and to promote a healthy financial environment, as well as to set up the mechanism of management and operation of the Fund.

Article 2

The competent authority under this *Statute* is the Financial Supervisory Commission, Executive Yuan.

Article 3

The Fund shall draw funding from the following financial resources:

1. Business tax revenues collected from the businesses applicable to value-added and non-value-added business taxes as provided in paragraph 1 of Article 11 of the *Business Tax Law* during the period of nine years from January 2002 to the end of December 2010.
2. Incremental insurance premium income covering a ten-year period from January 2002 onwards that arises as a result of the increase in the insurance premium rates which took effect on January 1, 2000.
3. Income derived from utilization of the Fund for the disposition of non-performing loans.
4. Other income derived by the Fund.
5. Funds allocated by the government in accordance with budgetary procedures.

Prior to receipt of sufficient income from the tax and insurance premium sources stipulated in items 1 and 2 of the preceding paragraph, the Fund may entrust the Central Deposit Insurance Corporation (hereinafter referred to as "CDIC") to apply to financial institutions for accommodation for the pay-offs stipulated in paragraph 3 of Article 4 and paragraph 1 of Article 10. Alternatively, in accordance with stipulations in Article 72-1 of the *Banking Act*, financial debentures guaranteed by financial resources in items 1 to 3 of the preceding paragraph may be issued in the name of CDIC to raise funds to meet reimbursement needs. CDIC shall repay any such amounts from the principals, interests and expenses of the aforesaid accommodation and debentures by the resources of funds in the preceding paragraph.

The total operations amount of the incremental financial business tax revenues from item 1 of paragraph 1 arising from the amendment and enactment of this *Statute* shall not exceed NT \$110 billion. Any tax revenues beyond the amount shall be appropriated for the deposit insurance pay-off special reserves.

Article 4

Problem financial institutions as referred to in this *Statute* include any of the following:

1. A financial institution whose adjusted net worth following examination by the competent authority or central competent authority for agricultural finance or net worth as audited by a certified public accountant is determined to be negative.
2. A financial institution unable to repay its debts.
3. As stipulated in paragraph 1 of Article 62 of the *Banking Act*, a financial institution, due to obvious adverse changes in its business or financial status, fails to repay its liabilities when due or risks damage to depositors' interests, or as stipulated in Article 64, the losses of the institution exceed one-third of its capital, and the institution fails to improve within a prescribed time limit, as well as, it is therefore identified, by the competent authority and the Fund Management Committee, as being incapable of continuing its operation.

The Fund shall give priority to the disposition of community financial institutions, and it shall adhere nominally or substantively to the principle of equal treatment during the disposition. 20% of the additional resources following amendment and enactment of this *Statute* shall be used exclusively for reimbursement of the credit departments of farmers' and fishermen's associations, without being limited by the operative period of this Fund. These funds shall be deposited in an exclusive account and the regulations governing their utilization and management shall be enacted by the Executive Yuan.

The benefits of members of the problem credit cooperatives that have been placed in supervision or conservatorship by the competent authority pursuant to the *Credit Cooperatives Act* and are included for disposal by the Fund prior to the amendment and promulgation of this *Statute* shall be safeguarded by blanket guarantee in accordance with the principle of equal treatment in the preceding paragraph. Moreover, compensation for such interests shall be paid by the financial institution taking over the assets of the involved credit cooperative. If the acquiring financial institution is unable to pay compensation, full compensation will be paid by the Fund.

Handling the matters in accordance with paragraph 1 of Article 15 and item 1 of paragraph 2 of Article 17 of the *Deposit Insurance Act*, CDIC may apply for using the Fund to fully compensate the deposit and non-deposit liabilities of problem financial institutions, and to assume their assets. This shall neither be subject to the limitation which is about maximum insurance coverage stipulations in Article 9 of the *Act*, nor to the limitation as stipulated in paragraph 2 of Article 15 and the proviso in paragraph 2 of Article 17 of the *Act*, that the cost shall be less than the loss arising from cash pay-offs.

In the process of disposition, the competent authority or central competent authority for agricultural finance shall not provide compensation for the non-deposit liabilities incurred by problem financial institutions after promulgation of the revised *Statute*. However, the non-deposit liabilities incurred by problem financial institutions prior to promulgation of the revised *Statute* shall still be covered under the principles of non-retroactiveness of law and reliance protection.

The rights of the shareholders or members of the problem financial institutions that have been placed in supervision or conservatorship by the competent authority pursuant to the *Banking Law* or the *Credit Cooperatives Act* after the amendment and promulgation of this *Statute* and have been included for disposal by the Fund shall be lost except distribution of the remaining property. The competent authority shall notify such shareholders and members by public announcement.

The Fund shall draw up regulations governing the disposal of problem financial institutions and submit to the competent authority for approval and promulgation.

Article 5

The Fund has the capacity to be a litigant, and establishes the Financial Restructuring Fund Management Committee (hereinafter referred to as the "Management Committee") and the Financial Restructuring Fund Evaluation Subcommittee (hereinafter referred to as the "Evaluation Subcommittee").

The Management Committee shall have responsibility for the following matters:

1. Approving the uses and operations of the Fund and approving items stipulated in the preceding article, Article 10 and Article 12.
2. Approving the Fund's receipt and expenditure custodianship plans.
3. Approving the Fund's financial reports and cash-flow arrangements.
4. Approving other issues concerned with the management, implementation and public disclosure in relation to the Fund.
5. Employing international credit rating or other specialized appraisal organizations to assist the Evaluation Subcommittee in implementation of its duties.

CDIC may be entrusted to handle execution and drafting of items related to resolutions in the preceding paragraph.

Resolutions of the Management Committee shall require a quorum of over two-thirds of the Committee members and the approval of over two-thirds of the attending members.

The Evaluation Subcommittee shall have responsibility for the following matters:

1. Identification of problem financial institutions for disposition by the Fund.
2. Determination of the priority of problem financial institutions for disposition by the Fund.

3. Determination of the methods of disposition of problem financial institutions by the Fund.
4. Determination of types and amounts of liabilities for compensation and assumed assets to be entrusted by the Fund to CDIC.
5. Supervision of the execution of affairs entrusted by the Fund.

The determinations of the Evaluation Subcommittee on the above items require a quorum of more than two-thirds of the Subcommittee members and the approval of more than two-thirds of the attending members. Such determinations shall then be submitted to the Management Committee for resolution.

Article 6

The Fund shall determine disposition of problem financial institutions in accordance with the following principles:

1. There is concern that close of the institution or a run on its deposits would cause systemic risk in the financial system.
2. The deterioration of the institution's financial condition is relatively serious.
3. The cost of disposition is relatively low.

Identification of problem financial institutions and prioritization of Fund disbursements for the disposition of such institutions shall be determined by the Evaluation Subcommittee and then submitted to the Management Committee for resolution. If the Management Committee disagrees with the determination of the Evaluation Subcommittee, it shall clearly explain in writing the reason for such disagreement.

Article 7

The Management Committee consists of nine to thirteen members, including one Committee Convener who is on behalf of the Fund and served concurrently by the Head of the competent authority, and one Deputy Committee Convener who is served concurrently by the Deputy Head of the competent authority. In addition there are four Committee members, who are served concurrently by the Deputy Governor of the Central Bank of China, the Deputy Minister of the Council of Agriculture, Executive Yuan, the Deputy Minister of the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, and the Chairman of CDIC, and should be appointed in that capacity and excused from office on the same basis. The remaining Committee members shall be appointed on the basis of professional knowledge and experience in law, economics, finance and other fields that are relevant to the Committee's duties. Not more than one half of the Committee members shall be of the same political party.

The Evaluation Subcommittee shall comprise seven to nine concurrently serving members employed by the Management Committee and with specialized knowledge and experience in fields related to international finance, banking management, or asset valuation. The Convener of the Subcommittee shall be elected from among the Subcommittee members, and shall be one of the appointed members of the Management Committee. Recusal is necessary when any of members of the Subcommittee is in a position of dealing with meeting matter which could represent a conflict of interest.

Committee members appointed in accordance with the stipulations of paragraph 1 shall serve for a term of three years. Should a Committee member be substituted before the term expires, the new term of the successor shall terminate on the original expiration date.

Subcommittee members employed in accordance with stipulations of paragraph 2 shall serve for a term equal in length to that of the appointed members of the Management Committee.

Article 8

The Management Committee shall have one Executive Secretary who shall be a Grade 12 public officer or above and appointed by the Convener. The competent authority and its subsidiary units shall dispatch currently-employed staff to assist in the execution of the Management Committee operations and may employ one to five persons as required by the businesses.

Article 9

Meetings of the Management Committee shall be convened and chaired by the Convener. In the event the Convener is unable to carry out

the functions of his or her office, the Deputy Convener shall act on the Convener's behalf. In the event the Deputy Convener is unable to carry out the functions of his or her office, the Convener shall appoint one Committee member to act for himself or herself.

When convening a meeting, the Management Committee may notify the Evaluation Subcommittee to designate members to attend and provide explanation. The resolutions that are made in relation to Article 4, Article 10 and Article 12 shall be submitted within five days to the Legislative Yuan including reasons of the resolutions, basis of computing, determinations of Evaluation Subcommittee and relevant assessment reports.

The Fund shall prepare a report on the financial condition, nature of the problem, loss estimation and principles of disposition for problem financial institutions under its disposition, and submit such report to the Legislative Yuan. The Fund shall also notify the Legislative Yuan in writing before using budget funds.

Article 10

The Fund may entrust CDIC to dispose of problem financial institutions according to the following methods:

1. Pay off the debts of financial institutions and assume their assets.
2. Pay off the debts that exceed the amounts of the assets.

The Fund shall be regarded as a financial institution and an asset management company in the *Financial Institutions Merger Act*, and apply to the stipulations in Article 15, Article 17 and Article 18 of the aforesaid *Act*.

Article 11

Before the Fund disposes of problem financial institutions in accordance with the preceding article, the competent authority shall make a public announcement of each non-performing loan exceeding NT \$1 million of customers of problem financial institutions.

The competent authority shall make the aforementioned announcement widely known through internet and other appropriate channels.

Article 12

The Fund's funds, apart from the uses stipulated in Article 4, shall be kept in reserve by the Management Committee in the name of the Fund and in the following forms:

1. Cash.
2. Deposits in creditworthy financial institutions.
3. Purchase of government bonds, bank debentures, and negotiable certificates of deposit issued by banks.
4. Other means in accordance with regulations prescribed by the competent authority.

Article 13

Proceeds from the sale, by public tender, bid or other methods, of the assets of problem financial institutions assumed by the Fund shall be included in the Fund.

In order to administer and dispose of assets assumed by the Fund, the Fund may entrust CDIC or another party to handle affairs related to collection, loan valuation, package and portfolio, sale by open bid and securitization. CDIC shall carry out such entrusted duties in accordance with stipulations in Article 15-1 of the *Deposit Insurance Act*.

All costs incurred by CDIC in carrying out the aforementioned affairs entrusted to it by the Fund and related affairs stipulated in Article 10 shall be borne by the Fund.

In the handling of affairs stipulated in item 1 of Article 10 and in the three preceding paragraphs, the Fund shall not apply to Articles 25 through 27 and Article 88 of the *Budget Act*.

Article 14

When handling accounting and auditing matters, the Fund shall establish an accounting system that conforms to generally accepted accounting principles and auditing standards.

Article 15

The period in which the Fund may include problem financial institutions for disposition shall be from the date of promulgation of this *Statute* to July 10, 2005.

The operation of the Fund may be extended beyond July 10, 2005, in order to carry out the following affairs:

1. Compensation, assumption and sale by tender of problem financial institutions included by the Fund for disposition.
2. Collection of tax and insurance premium income stipulated in items 1 and 2 of paragraph 1 under Article 3.
3. Unfinished disposition of assets and liabilities.
4. Handling of Fund litigation cases and other affairs related to the Fund.

The Fund shall be terminated when the inclusion of tax and insurance premium income stipulated in items 1 and 2 of paragraph 1 under Article 3 is ceased.

When the Fund is terminated, the remaining assets and liabilities shall be assumed by the National Treasury after the principals, interests and expenses of the liabilities arising from the Fund's disposal of problem financial institutions are paid by the Fund's resources of tax revenues and premium income set forth in item 1 and item 2 of paragraph 1 of Article 3.

Article 16

Any responsible person or employee of a financial institution participating in deposit insurance, who intentionally abuses his or her official position to gain illegal benefit for himself or herself, or any third party, or to do harm to the interests of the institution or the Fund, resulting in damage to the assets or other interests of the institution or the Fund, shall be punished with imprisonment for not less than three years and not more than ten years, and, in addition thereto, may be fined not more than NT \$100 million.

If two or more of the above mentioned responsible persons or employees collaborate in the commission of the crimes prescribed in the preceding paragraph, the punishment for such behavior may be increased by up to one-half, and the violators shall be held jointly and severally liable for damages.

Any attempted offense described in paragraph 1 shall be punishable.

Article 17

After handling compensation in accordance with this *Statute*, the Fund shall obtain the financial institution's right within the compensatory limit to claim damages from default or tort resulting from the commissioning or employment contracts of its responsible persons and employees, and the right to claim damages of its guarantors of position, bonding insurers and joint tortfeasors.

Upon authorization of a right to conduct litigation from the Fund, CDIC may in its own name initiate an action or move for assuming the action against the persons liable for damages in the preceding paragraph.

When CDIC initiates an action in accordance with the preceding paragraph, it shall be temporarily exempted from payment of judgment fee. When requesting a preliminary attachment, preliminary injunction or provisional execution, it may be exempted from providing a guarantee.

Article 18

This *Statute* shall become effective on the date of promulgation.

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

Economic & Financial Indicators	Year	2005	2004	2003	2002	2001
1. Economic Growth						
● Economic Growth Rate (%)		4.09 (Estimate)	6.07	3.43	4.25	-2.17
● Gross Domestic Product (US\$ billions)		345.9	322.2	299.8	294.8	291.7
● Avg. Per Capita National Income (US\$)		15,271	14,271	13,327	13,163	13,093
2. Foreign Trade						
■ Export Annual Growth Rate (%)		8.8%	21.1	11.3	10.1	-17.2
■ Import Annual Growth Rate (%)		8.2%	31.8	13.0	5.6	-23.4
▲ Foreign Exchange Reserves at Year-end (US\$ billions)		253.3	241.7	206.6	161.7	122.2
3. Economic Indices (Year-end)						
◆ Monitoring Indicator		Green	Green	Yellow-Red	Green	Blue
◆ Score of Monitoring Indicator		27	26	34	24	15
◆ Leading Index		109.8	110.9	113.7	108.2	102.6
◆ Coincident Index		114.8	109.6	111.0	106.3	97.8
4. Population & Unemployment Rate						
● Population at Year-end (Million Persons)		22.77	22.69	22.60	22.52	22.41
● Avg. Unemployment Rate for Whole Year (%)		4.13	4.44	4.99	5.17	4.57
5. Inflation (%)						
● Consumer Price Index (CPI) Annual Change Rate		2.30	1.62	-0.28	-0.20	-0.01
● Wholesale Price Index (WPI) Annual Change Rate		0.61	7.03	2.48	0.05	-1.34
6. Interest and Exchange Rates (Year-end)						
▲ Central Bank Discount Rate (%)		2.25	1.75	1.375	1.625	2.125
▲ Central Bank Accommodations with Collateral Rate (%)		2.625	2.125	1.750	2.000	2.500
▲ Exchange Rate (NT\$/US\$)		32.850	31.917	33.978	34.753	34.999
7. Monetary Aggregates (Year-end)						
▲ M2 Annual Growth Rate (%)		6.55	7.35	5.82	2.58	4.44
▲ M1b Annual Growth Rate (%)		6.83	12.44	19.32	9.27	11.88
▲ M1a Annual Growth Rate (%)		7.39	10.03	20.77	8.96	0.84
8. Lending by Financial Institutions (Year-end)						
● Total Loan (NT\$ billions) ¹		17,186	15,920	14,378	13,776	14,098
● Non-Performing Loan Ratio (%) ²		2.19	3.28	5.00	6.84	8.16

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

Notes:

- 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.
- 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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