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Central Deposit Insurance Corporation

2007

2007 Annual Report





CONTENTS

02	I. Message from the Chairman and President
04	II. Organization and Duties
06	III. Board of Directors, Supervisors and Senior Executives
08	IV. Business Operations
30	V. Financial Statements and Independent Auditor's Report
44	VI. Statistics
48	Appendix 1: Expansion and Improvement of Taiwan's Deposit Insurance System
55	Appendix 2: Major Economic and Financial Indicators for the Last Five Years

2007

Enabling Fortune, Empowering Dreams Accomplishment

Central Deposit Insurance Corporation

2003

Entrusted with arranging deposit insurance affairs for financial institutions

Established with a mission to protect depositor rights and interests

2000

Raising the maximum deposit insurance coverage to NT\$1.5 million

1997

Maintaining credit order in market transactions

Establishing and strengthening financial safety net mechanisms

Enhancing the risk management ability of insured institutions

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Leading the way to sound financial development in Taiwan

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Central Deposit Insurance Corporation (CDIC) is the only institution in Taiwan exclusively in charge of managing the deposit insurance system. Since its establishment in September 1985, it has been committed to protecting the rights of depositors, maintaining credit order, and promoting the sound development of the financial industry. In coordination with the government's financial reform policies, CDIC has planned and implemented financial safety net systems and measures over recent years. Moreover, through the integration of the Executive Yuan Financial Restructuring Fund and deposit insurance mechanism, CDIC has allowed 52 problem financial institutions with negative net worth to successfully withdraw from the market, including 38 credit departments of farmers' and fishermen's associations, nine credit cooperatives, four banks and one trust and investment company.

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With the conclusion of the Financial Restructuring Fund's mission in handling unsound financial institutions, CDIC reviewed and revised the *Deposit Insurance Act* in reference to developments in the international deposit insurance system. The revisions ensure the deposit insurance mechanism coordinates with the supervisory measures of the competent authority and the smooth reinstatement of a limited coverage deposit insurance system. They also expand the deposit insurance fund,

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Message

from the Chairman and President

strengthen controls on insured risk, as well as enhance mechanisms for withdrawing problem financial institutions from the market and responding to systemic risk. The amended Act was promulgated by the President on January 18, 2007.

1997

The amended *Deposit Insurance Act* shifts the assessment base for the deposit insurance premium from insured deposits to total insurable deposits. It also more rationally reflects the differences in operational risk among insured institutions and enhances the Deposit Insurance Payout Special Reserve. In conjunction with these changes, CDIC proposed adjustments to deposit insurance premiums and expansion of the number of premium grades. These proposals were approved by the competent authority and implemented on July 1, 2007. From that date, as well, the maximum coverage limit for insured deposits per depositor in each insured institution was increased from a deposit principal amount of NT\$1 million to NT\$1.5 million. This move enhances protections for small depositors and also maintains depositor confidence in the deposit insurance system. Moreover, in order to prudently control insured risk, the most recently amended *Deposit Insurance Act* stipulates that newly established financial institutions authorized to accept deposits shall apply to CDIC to participate in the deposit insurance system. Such institutions will only become insured institutions after passing an audit and approval process. As for financial institutions already members of the deposit insurance system, risk controls will be enhanced through an information sharing mechanism with the related competent authorities.

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Chairman

Lin Teng-cheng



President

Howard N.-H. Wang

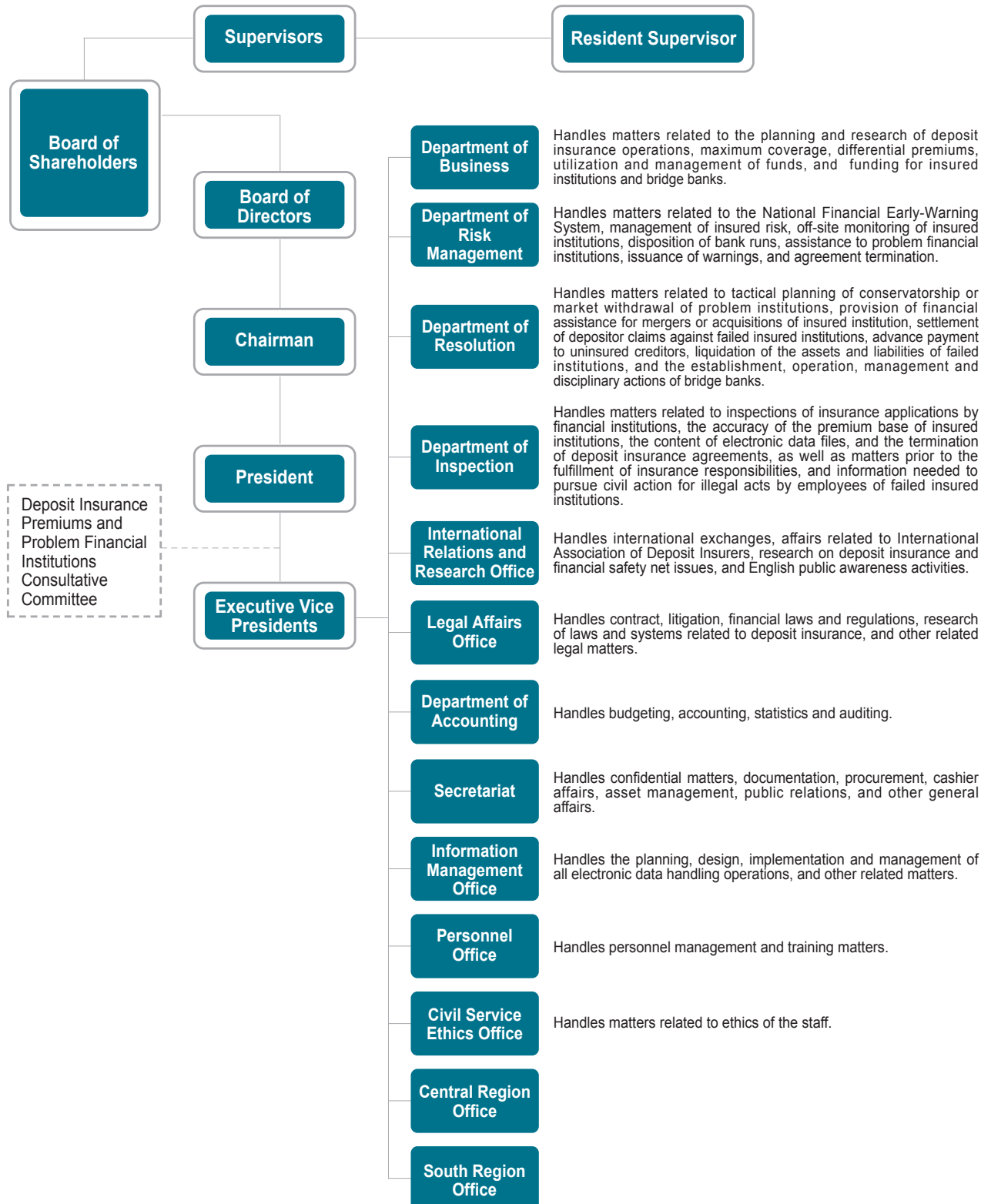
The most recently amended *Deposit Insurance Act* also vests CDIC with the authority of examination and approval. CDIC therefore was approved by the Ministry of Finance to establish a Department of Special Inspection to enhance controls on insured risk and strengthen the functions of the deposit insurance mechanism. The department is in charge of handling inspections for applications to become insured institutions, review of insurance premiums, and termination of deposit insurance, as well as inspections preceding execution of insurance obligations. The department is also in charge of pursuing civil and criminal action against illegal acts by the related personnel of problem financial institutions. Through these functions, CDIC aims to create a fair, just, and disciplined financial environment so as to reduce deposit insurance fund losses and improve risk management.

To enhance its international image and visibility, CDIC actively participated in the affairs and activities of the

International Association of Deposit Insurers in 2007. It also organized international symposiums on deposit insurance issues, received visits by representatives of deposit insurance and financial supervisory organizations of various countries, and made visits to such organizations. These activities effectively increased CDIC's professional position and further synchronized Taiwan's deposit insurance system with international norms.

Over the past year, CDIC has smoothly carried out its operations through to the concerted efforts of its staff and the support and encouragement of all sectors. We would like to take this opportunity to thank all of them. In the years ahead, CDIC will continue as always to work hard to protect depositors, maintain an orderly credit system, and enhance the sound development of financial operations in Taiwan. We sincerely hope you will continue to support and guide us in these endeavors.

Organization and Duties



✕ From left to right

1. Executive Vice President / **Robert L.I. Chen** (Promoted on 2008.3.18)
2. President / **Howard N.H. Wang** (Promoted on 2008.1.16)
3. Executive Vice President / **W.H. Lai**
4. Executive Vice President / **L.C. Pan**



5. Advisor / **Wei-Liang Lou**
6. Director, Personnel Office / **Hong-Dei Huang**
7. Director, Department of Accounting / **Huei-Ling Liu**
8. Director, Department of Business / **Allen Chen**
9. Advisor / **Cyuan-Yuan Yang**
10. Advisor / **Ruby Hou**



11. Director, Department of Risk Management / **William Su**
12. Director, Civil Service Ethics Office / **Ing-Cyuan Hu**
13. Director, Secretariat / **Tsu-I Yeh**
14. Director, Information Management Office / **Shui-Dong Huang**



15. Director, Department of Resolution / **Ming-Huei Jheng**
16. Director, Legal Affairs Office / **Mang-Chih Lee**
17. Director, International Relations and Research Office / **Yi-Duan Fan**
18. Director, Central District Office / **Sin-Fa Liou**
19. Director, Department of Inspection / **Yao-Kun Chen**
20. Director, Southern District Office / **Yong-Huei Peng**



Board of Directors, Supervisors and Senior Executives



Board of Directors

Teng-Cheng Liu Chairman
(Representative of Ministry of Finance)
(Appointed on 2008.1.15)

Board of Directors

Ray-Beam Dawn Chairman
(Representative of the Central Bank)
(Transferred on 2008.1.15)



Board of Directors

Fred S.C. Chen Directors
(Representative of the Central Bank)

Board of Directors

Ming-Daw Chang Directors
(Representative of Ministry of Finance)



Board of Directors

Yi-Ting Lee Directors
(Representative of Ministry of Finance)
(Appointed on 2008.1.23)



Board of Directors

Howard N. H. Wang Directors
(Representative of the Central Bank)
(Promoted on 2008.1.16)

Board of Directors

Johnson C.S. Chen Directors
(Representative of Ministry of Finance)
(Retired on 2008.1.15)



Board of Directors

Hon-Zinn Lin Directors
(Representative of Ministry of Finance)

Board of Directors

Ling-Yang Wu Directors
(Representative of Ministry of Finance)



Supervisors

Tsai-Chiu Hsu
Resident Supervisor
(Representative of the Central Bank)

Supervisors

Tang-Chieh Wu
Supervisors
(Representative of Ministry of Finance)

Supervisors

Lin-Yueh Chen
Supervisors
(Representative of Ministry of Finance)
(Appointed on 2008.2.19)

Business Operation



Effectively grasping information on the operations of insured institution

Strengthening the risk management ability of insured institution

Maintaining credit order in the financial market

Ensuring Credit Order



CDIC is the sole government agency vested with the responsibility for handling deposit insurance in Taiwan. Its objectives are to safeguard the benefits of depositors in financial institutions, maintain an orderly credit system, and enhance the sound development of financial operations. To facilitate legislative objectives, *the Deposit Insurance Act* vests CDIC with the major duties of handling deposit insurance, handling insured problem institutions, and disposing insured problem institutions. The following is a brief overview of the major tasks and policy missions of CDIC in 2007:

1. Deposit Insurance

(1) Membership and Scope of Coverage

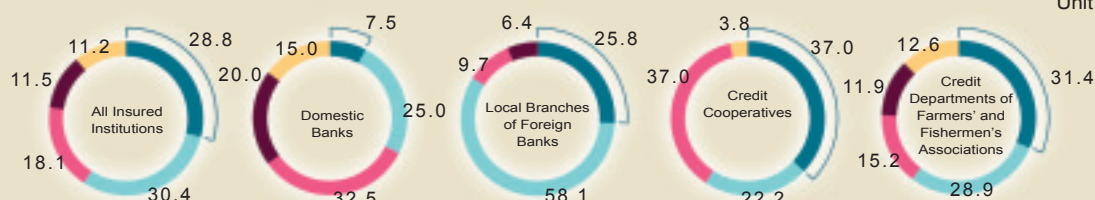
The deposit insurance system was revised under the January 2007 amendments to *the Deposit Insurance Act*. All financial institutions established after implementation of the new system shall apply to CDIC to participate in deposit insurance and become insured institutions upon review and approval by CDIC, though the insured status of financial institutions insured before implementation of the new system is not affected by this change. Currently the only exception is the Taipei branch of Deutsche Bank, which is covered under the German deposit insurance scheme and therefore is legally exempted from the Taiwan system. In 2007, six farmers' associations with newly established credit departments applied to CDIC to participate in the deposit insurance system. Upon examination, two were qualified for insured status.

In recent years the government has vigorously promoted mergers of financial institutions to enhance the efficiency of the financial market and international competitiveness of Taiwan. In 2007, the number of insured institutions continued to fall with the acquisition or merger of six insured institutions; and the termination of business operations in Taiwan by one insured institutions due to business considerations, thereby reducing the total number of insured institutions from 383 at the end of 2006 to 376 at the end of 2007.

Risk-based Premium Rates by Institution Types



As at December 31, 2007
Unit: %



* Domestic Banks include the Agricultural Bank of Taiwan and trust and investment companies but exclude Taiwan Post Co., Ltd.; All Insured Institutions exclude Taiwan Post Co., Ltd.

Ensuring Credit Order

(2) Implementation of the Risk-based Premium System

With the approval of the 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 different operating risks of insured institutions. To ensure the sufficiency of the Deposit Insurance Payout Special Reserve (hereinafter referred to as "deposit insurance fund"), CDIC received approval from the 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 January 1, 2000.

The January 2007 revision to *the Deposit Insurance Act* expanded the premium assessment base from insured deposits to total insurable deposits. To prevent this change from increasing the premium burden on insured institutions, CDIC received approval from the Financial Supervisory Commission (FSC) to adopt a risk-based premium for insured deposits of the premium assessment base from July 1, 2007. At the same time, a lower flat premium rate was adopted for deposits exceeding the maximum insurance coverage, as such deposits are not protected by deposit insurance. Furthermore, in order to more effectively assist insured institutions in reducing their operating risk, the number of premium grades was increased to five from the original three. The annual deposit insurance premium rates following the adjustment are as follows:

- a. The premiums for general financial institutions (including domestic banks, foreign bank branches in Taiwan, trust and investment companies, and credit cooperatives) are divided into five differential premium grades of 0.03%, 0.04%, 0.05%, 0.06%, and 0.07%, respectively, and a flat premium rate of 0.0025%. From January 1, 2010, the flat premium rate will be raised to 0.005%.
- b. The premiums for credit departments of farmers' and fishermen's associations are divided into five differential premium grades of 0.02%, 0.03%, 0.04%, 0.05%, and 0.06%, respectively, and a flat premium rate of 0.0025%.

The first premium grade is currently applied to about 28.8% of all insured institutions, the second grade to 30.4%, the third grade to 18.1%, the fourth grade to 11.5%, and the fifth grade to 11.2%. As of the end of 2007, the accumulated balance of the deposit insurance fund was approximately NT\$1.786 billion. According to stipulations in Article 6 of the revised *Deposit Insurance Act*, the deposit insurance fund is divided into separate special reserve funds



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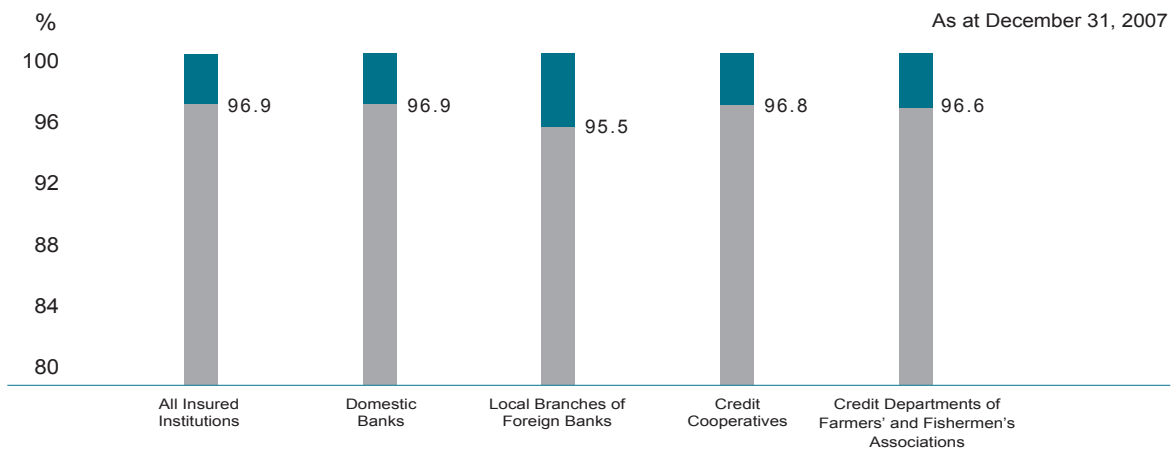
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Ratio of Depositors Covered by the NT\$1.5 Million Deposit Insurance Coverage to Total Depositors



Note: Domestic banks include the Agricultural Bank of Taiwan, Taiwan Post Co., Ltd. and investment and trust corporations.

for general financial institutions and agricultural financial institutions. After the disposal of three unsound financial institutions – the Enterprise Bank of Hualien, Taitung Business Bank and China United Trust and Investment Corporation – by the Financial Restructuring Fund and the payment of 80% of the total reimbursement amount, the balance of the special reserve for general financial institutions was minus NT\$403 million, and the balance of the special reserve for agricultural financial institutions was NT\$2.189 billion.

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

To enhance the protection of small depositors, CDIC proposed to raise the maximum deposit coverage for each depositor per insured institution from a deposit principal amount of NT\$1 million to NT\$1.5 million. The higher coverage limit was approved by the competent authority, the FSC, in conjunction with the MOF and the Central Bank, and became effective from July 1, 2007. According to figures reported by all insured institutions, total insurable deposits (as of December 31, 2007) amounted to approximately NT\$23.06 trillion, of which about NT\$11.37 trillion were under the maximum coverage limit of NT\$1.5 million. The average ratio of insured deposits to total insurable deposits in all insured institutions was 49.3%. The average ratio of depositors whose deposits were under the maximum coverage to total depositors in all insured institutions was 96.9%. Domestic banks had the highest ratio in this regard, at 96.9%; while the local branches of foreign banks had the lowest ratio, at 95.5%. This indicates that the current maximum coverage of NT\$1.5 million is able to extend full protection to most small depositors and effectively maintain depositor confidence in the deposit insurance system.

(4) Raising Public Awareness of the Deposit Insurance System

- a. CDIC produced educational materials related to the revised *Deposit Insurance Act* and the increased maximum coverage amount in order to actively promote the rights and interests of depositors. It also held promotional activities to directly communicate with and increase the awareness of the public about deposit insurance.



- b. Since joining the International Association of Deposit Insurers (IADI), CDIC has steadily increased exchanges with financial supervisory and deposit insurance organizations around the world. As CDIC's English website is an important channel for people around the world to access information on CDIC and deposit insurance in Taiwan, the website was completely redesigned and content-enhanced. It is also regularly updated to better meet user needs and effectively upgrade the international status of CDIC and its modern professional image.

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2. Risk Management

(1) Financial Early-Warning Operations

CDIC continued to implement the National Financial Early-Warning System to closely track the operating status and financial conditions of financial institutions and detect problem institutions in a timely manner, as well as to provide a reference for making relevant regulatory policies. It also makes necessary adjustments and revisions to the system to meet changing financial conditions and supervision needs. Major operations and achievements concerning Early-Warning operations in 2007 are summarized as follows:

- a. In order to promote information sharing among financial safety net participants and thereby enhance regulatory effectiveness, CDIC regularly submits to the competent authorities the results of examination assessments, Quarterly Analysis Report of Community Financial Institutions, Report on the Percentile Ranking of Data of Financial Institutions and Table of Major Financial Operations of Credit Cooperatives. Such information facilitates the timely monitoring of the financial and business status of financial institutions, the timely correction of business deficiencies, and improvement of regulatory and control efficiency.
- b. In line with the government's policy of disclosing information on financial institutions, CDIC continued to publish on a quarterly basis summarized content from its "Quarterly Analysis Report of Community Financial Institutions" in its Deposit Insurance Quarterly Bulletin and on CDIC website so that the public can access complete information and indexes of the financial affairs of financial institutions. Furthermore, the CDIC website provides links to the websites of related competent authorities so the public can easily obtain financial information recently announced by insured institutions, thereby strengthening market self-discipline.
- c. In order to improve its grasp of information on the operations of financial holding companies and monitor the overall operational risk of such companies, CDIC produced the "Financial Holding Company Quarterly Report." The report serves as a reference for CDIC in controlling the overall operational risk of insured institutions and their affiliated financial holding groups.
- d. CDIC coordinated with the Bureau of Agricultural Finance (BAF) under the Council of Agriculture on the establishment of the "Internet Reporting System," and in September 2006 it began using Internet media for the call reporting of balance sheet and income statement information for the credit departments of farmers' and fishermen's associations to enhance the efficiency of financial early warning operations.

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e. In conjunction with the revision of related legal ratios by the competent authority, CDIC continued to revise the standards and definitions of legal ratios in the Financial Early-Warning System to reflect the financial status of insured institutions in a timely manner.

f. In response to changes in the domestic and international financial environment, CDIC compiled information on insured institution. This information was analyzed to determine the likely impacts on insurance risk, such as changes in the credit card and cash card and real estate lending operations 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 insured risk and implement a risk-prevention management system. The key operations of the system are as follows:

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

b. Specific files on significant unexpected events, as well as on the operational data and special warning signal items of insured institutions were established to assist in the timely control of insured risk.

c. CDIC properly handled public complaints and tip-offs in accordance with regulations. Cases involving the authority or duties of the competent authority were transferred to such authority for handling.

d. Internet transmission surveillance systems between CDIC and financial institutions are used for timely acquisition of warnings about abnormal changes in the operations of financial institutions. CDIC sends a formal letter including related questions to financial

institutions for requesting improvement or suggests that the competent authority revise financial oversight policies, and encourages insured institutions to make improvement in accordance with the regulations so as to effectively increase the efficacy of financial supervision and reduce insured risk.

(3) Assistance to Insured Institutions

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

b. At the instruction of the competent authority, CDIC dispatched personnel to attend board of director meetings, managing board meetings, and other important meetings of some insured institutions to provide assistance and guidance on important policy issues. CDIC also dispatched personnel to attend related guidance meetings convened by the competent authority to facilitate close coordination with the competent authority in strengthening operational assistance to insured institutions.

c. CDIC dispatched personnel to insured institutions to provide timely related suggestions as a reference for the institution in handling operational problems, thereby facilitating the institution's return to sound business operations.

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

a. CDIC held regular meetings with financial supervisory agencies to strengthen information sharing with such bodies and developed cooperation and liaison with them on handling problem institutions.

b. In conjunction with the promotion of a Single-window Reporting Mechanism for Financial Supervisory Information by the Financial Examination Bureau of the Financial Supervisory Commission for off-site

monitoring of financial institutions, CDIC dispatched personnel to attend meetings on the establishment of standards for financial supervisory and management information and a Single-window Reporting Mechanism to facilitate information sharing among relevant bodies.

- c. CDIC assisted the Bureau of Agricultural Finance (BAF) under the Council of Agriculture to upgrade the efficiency of its Internet Reporting System. It also met with personnel of the information offices and joint centers of various farmers' associations and provided suggestions as needed to ensure the accuracy and completeness of transmitted data and upgrade the efficacy of the Financial Early-Warning System.
- d. CDIC dispatched personnel to meet with the personnel of supervisory and assisting units of the local competent authorities. The sharing of experience and full communication of guidance and suggestions during such visits aided these units in helping community financial institutions to achieve stable operations.

(5) Enhancing CDIC Insured Risk in Conjunction with the Revised *Deposit Insurance Act*

- a. In conjunction with the promulgation of the revised *Deposit Insurance Act* on January 18, 2007, CDIC formulated the "Operational Guidelines for CDIC in Giving Warning Notice to Insured Institution of Termination of the Deposit Insurance Agreement," "Operational Guidelines of CDIC for Implementing Inspections" and "Guidelines for Coordinating with Relevant Competent Authorities on Disposal Mechanisms."
- b. In order that insured institutions fully understand the key points of the revised *Deposit Insurance Act*, CDIC held three "Seminars on the Operation Policies and Management of Insured Institutions: Introduction to the Newly Revised *Deposit Insurance Act*" on April 16, 17, and 19, 2007, respectively.
- c. In accordance with the revised *Deposit Insurance Act* and approval standards, CDIC carried out on-site inspections and provided suggestions for improvement to six newly established credit departments of farmers' associations applying to participate in deposit insurance so as to promote their sound operations.

Ensuring Credit Order

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3. Resolution of Problem Institutions

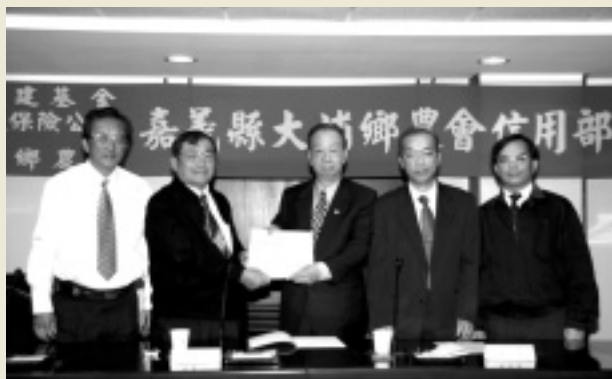
(1) Conservatorship and Disposition of Problem Institutions

In 2007, CDIC was instructed by the competent authority to assume conservatorship of four unsound institutions, and was placed in charge of handling the sale by tender the assets and operational affairs of the said institutions, as follows:

- a. CDIC assumed conservatorship of Enterprise Bank of Hualien from January 5, 2007.
- b. CDIC assumed conservatorship of The Chinese Bank from January 6, 2007.
- c. CDIC assumed conservatorship of China United Trust and Investment Corporation from March 30, 2007. Additionally, according to stipulations under Article 62-3 of the *Banking Law*, CDIC was approved by the competent authority to entrust the Bank of Taiwan to form a task force to manage the business operations and assets of the said corporation.
- d. CDIC assumed conservatorship of Bowa Bank from August 10, 2007. Furthermore, according to stipulations under Article 62-3 of the *Banking Law*, CDIC was approved by the competent authority to entrust the Land Bank of Taiwan to form a task force to manage the business operations and assets of the bank.

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

On January 25, 2007, the Council of Agriculture (COA), together with CDIC, completed price negotiations with Jhuci Township Farmers' Association of Chiayi County related to the Financial Restructuring Fund's handling of claim settlements for the asset and liability gap in the case of Dapu Township Farmers' Association of Chiayi County. The merger of Jhuci Township Farmers' Association and Dapu Township Farmers' Association was subsequently concluded on March 8, 2007. CDIC received written notification from the COA on April 12, 2007, that the merger was completed; and on April



20, 2007, it paid a total reimbursement amount of NT\$94.9 million (NT\$1.3 million after adjusting for the negotiated tender sale price of NT\$93.6 million) to Jhuci Township Farmers' Association.

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

(1) Status of Reimbursement by the Financial Restructuring Fund

From the establishment of the Financial Restructuring Fund in July 2001 up to the end of 2007, CDIC successfully withdrew from the market 52 unsound financial institutions, including 38 credit departments of farmers' and fishermen's associations, nine credit cooperatives, four banks and one trust and investment company. The total reimbursement amount paid by the Financial Restructuring Fund according to law was approximately NT\$169.2 billion.

(2) Operations Commissioned to CDIC

- a. Disposition of Enterprise Bank of Hualien through Sale by Tender

With approval of the competent authority according to the *Banking Law*, and according to a resolution by the Financial Restructuring Fund's Management Committee, CDIC arranged the sale of Enterprise Bank of Hualien by open tender on May 31, 2007. Chinatrust Commercial Bank submitted the winning bid of NT\$4.49 billion.



b. Disposition of Taitung Business Bank through Sale by Tender

With approval of the competent authority according to the *Banking Law*, and according to a resolution by the Financial Restructuring Fund's Management Committee, CDIC arranged an open tender sale of the non-performing loans (NPLs) of Taitung Business Bank on June 7, 2007. The sale included NPLs under Tranche A (with an NPL amount of NT\$5.02 billion, including NPL write-offs of NT\$3.75 billion) and the sale of NPLs under Tranche C (with an NPL amount of NT\$4.29 billion, including NPL write-offs of NT\$1.23 billion). ORIX Taiwan Asset Management Company and Liang Ging Co., Ltd., submitted the winning bids of NT\$513 million and NT\$241 million, respectively. On June 8, 2007, CDIC arranged price negotiations for the sale by tender of assets/liabilities and business operations excluding designated NPLs, and NPLs under Tranche B (with an NPL amount of NT\$4.31 billion, including NPL write-offs of NT\$1.23 billion). ABN AMRO Bank and Liang Ging Co., Ltd. submitted the winning bids of NT\$6.9 billion and NT\$153 million, respectively.

c. Disposition of Chinese Bank through Sale by Tender

In accordance with the *Banking Law*, CDIC received approval from the competent authority to arrange the sale of Chinese Bank by open tender. Furthermore, according to a resolution by the Financial Restructuring Fund's Management Committee, CDIC arranged the sale by tender of assets/liabilities and business operations excluding designated NPLs of the bank. The NPLs were divided into three tranches (A, B and C) for sale.

With approval of the competent authority according to the *Banking Law*, and according to a resolution by the Financial Restructuring Fund's Management Committee, CDIC arranged the sale of Chinese Bank by open tender on July 31, 2007. Among the NPL portion of the sale, Tranche A (with an NPL amount NT\$13.98 billion, including

NPL write-offs of NT\$6.32 billion) was acquired by FC Capital Management Co., Ltd. for approximately NT\$2.73 billion; and Tranche B (with an NPL amount of NT\$3.7 billion, including NPL write-offs of NT\$1.77 billion) and Tranche C (with an NPL amount of NT\$3.7 billion, including NPL write-offs of NT\$1.84 billion) were acquired by HC First Asset Management Corporation for approximately NT\$76 million.

The assets/liabilities and business operations excluding designated NPLs of the bank were sold through two public tenders held on July 31 and December 13, 2007 and a price negotiation on December 14. These were acquired by the Hongkong and Shanghai Banking Corp. Ltd. for NT\$47.488 billion.

d. Disposition of China United Trust and Investment Corporation through Sale by Tender

CDIC received approval from the competent authority to arrange the sale by open tender of China United Trust and Investment Corporation according to Article 62-3 of the *Banking Law*. Moreover, according to a resolution by the Financial Restructuring Fund's Management Committee, the sale of the corporation was divided into assignment of assets/liabilities and business operations, designated NPLs, designated real estate, and shares in Taipei Financial Center Corp. The results of the sale by tender are as follows:

(a) On October 2, 2007, the assets/liabilities and business operations of China United Trust and Investment were acquired by Cathay United Bank with a winning bid of NT\$12.9 billion; and the designated NPLs were acquired by FC Capital Management Co. with a winning bid of about NT\$2.7 billion. In addition, the sale by open tender of the shares in Asia United Bank Corp. of the Philippines was unsuccessful.

(b) The designated real estate of China United Trust and

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Investment was sold through two tenders on August 22, 2007 and October 30, 2007, respectively. A total of nine winning bids were submitted with a total amount of approximately NT\$1.628 billion.

- (c) China United Trust and Investment's shares in the Taipei Financial Building Corp. were put up for sale by tender on September 3, 2007, and November 23, 2007. No bids were submitted.

Unsold assets of China United Trust and Investment currently under disposition by CDIC include real estate with a book cost of NT\$7.4 billion, shares in Asia United Bank with a book value NT\$890 million, and stock options in the Taipei Financial Building Corp. with a book value of NT\$2.5 billion.

e. Disposition of Fongshan Credit Cooperative

According to the Financial Restructuring Fund Statute and a resolution of the Financial Restructuring Fund's Management Committee, the Financial Restructuring Fund entrusted Chinatrust Commercial Bank on October 6, 2005, to handle the claims operations for share compensation to members of Fongshan Credit Cooperative. At the expiration of the commission period on December 31, 2007, CDIC assumed responsibility for the ongoing compensation operations. As of the end of 2007, such compensation had been paid to 81% of the credit cooperative members, representing 95% of the compensation value.

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+0.643



f. Continued Arrangement of the Outstanding Issues at 38 Unsound Community Financial Institutions

- (a) CDIC handled applications by acquiring banks for adjustment of reimbursement after the acquisition.

2003

- (b) Recovery of Liabilities Owed by the Chaozhou Township Farmers' Association in Pingtung County

2000

The Chaozhou Township Farmers' Association owed liabilities to the Financial Restructuring Fund due to the certificates of deposit issued by their credit departments were set off by the Taiwan Cooperative Bank and Farmer's Bank of China. CDIC obtained in compensation the cash dividends on Taiwan Cooperative Bank stock provided by the farmers' association as a pledge to the Financial Restructuring Fund and obtained the stock dividends of the said farmers' association as an additional pledge. The farmers' association is currently considering a way to pay off its debt.

- (c) Armored Car Heist at the Credit Department of the Puyan Township Farmers' Association in Changhua County

After reimbursing the acquiring bank through the Financial Restructuring Fund, CDIC coordinated with the farmers' association and the acquiring bank to yield the claim right of the mortgagee for insurance money to the Financial Restructuring Fund. After several meetings were held between CDIC and the insurer, the insurer paid the claim settlement along with late payment interest in March 2007.

- (d) According to a plan determined at the 20th meeting of the Appraisal Subcommittee of the Financial Restructuring Fund and the 60th meeting of the Financial Restructuring Fund's Management Committee, the Financial Restructuring Fund submitted a written request to the National Property Administration to handle on commission the sale by tender of the 10 remaining land plots assumed by the fund.

(2) Legal Prosecution

1997

The government established the Financial Restructuring Fund to dispose of problem financial institutions. Prosecuting personnel whose illegal actions create losses at a financial institution accountable for their civil and criminal responsibility could safeguard the rights and interests of the Fund and uphold social justice. CDIC therefore actively pursues civil and criminal action against illegal acts by the responsible parties and employees of financial institutions in accordance with the Financial Restructuring Fund Statute and resolutions of the Fund Management Committee. As of the end of 2007, CDIC had submitted 179 cases of malfeasance to prosecution agencies for handling, and civil compensation has already been sought in 109 civil cases.

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5. Computerization

- (1) CDIC completed the development of the "Internet Information Transmission System for Financial Institutions.NET" and "Employee Welfare Committee Accounting System."
- (2) CDIC expanded and revised the functions of the "Deposit Insurance Premium Operation System" in response to the amended deposit insurance premium assessment base and differential premium system.
- (3) CDIC drafted the format for the "Electronic Data Files of Insured Institutions" and the detailed operational content, procedure requirements, and requests for proposal for contracted development under the "Examination and Approval System for Electronic Data Files by Insured Institutions."
- (4) CDIC expanded its knowledge management system to include daily financial news and information, employee retirement trial balances, and classified search functions.
- (5) CDIC completed establishment of a "Unified Threat Management System" to replace its old firewall system and improve the security of information operations.
- (6) CDIC upgraded its broadband network to a T3 system. It also set up a backup download site for the CDIC website to effectively handle heavy system traffic flow.

6. Research and Development

(1) Increase of the Maximum Coverage to NT\$1.5 million

Based on the results of questionnaire surveys, consultations with experts and scholars, and consideration of domestic economic indicators and the deposit insurance

standards in other countries, CDIC proposed that the maximum deposit insurance coverage be raised from NT\$1 million to NT\$1.5 million to enhance protections for small depositors and maintain financial stability and social order. The proposal was approved by the Financial Supervisory Commission, along with the Ministry of Finance and Central Bank, and became effective from July 1, 2007.

(2) Adjustment of the Deposit Insurance Premium and Expansion of Premium Grades

The expansion of the premium assessment base from insured deposits to total insurable deposits significantly increased the premiums for insured institutions. In order to prevent a sudden increase in the premium burden borne by insured institutions, as well as to rationally reflect the different levels of operational risk among insured institutions and enhance the deposit insurance fund, CDIC proposed that the number of premium grades be expanded at the same time of the premium adjustment. This proposal was based on the experience of the US, Japan, Korea and other countries, commissioned studies, questionnaire survey results, and consultations with experts and scholars. CDIC also held several seminars and, along with the competent authority, communicated with the industry to promote the new system. The proposal was revised based on suggestions from the competent authority and private sector and reported to the competent authority for approval. The new system subsequently came into effect from July 1, 2007.

(3) Formulation of "Approval Standards for Financial Institutions Applying to Participate in Deposit Insurance"

According to stipulations in Paragraph 4 of Article 10 under the Deposit Insurance Act, CDIC formulated the

"Approval Standards for Financial Institutions Applying to Participate in Deposit Insurance." The standards were drafted in conjunction with the requirement under the revised Deposit Insurance Act that newly established financial institutions shall apply for permission to join the deposit insurance system. They also aimed to effectively control CDIC's insured risk and encourage financial institutions to be cautious in their operations. The proposed standards were reported to the competent authority for approval and came into effect from August 4, 2007.

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(4) Conducting Surveys of Public Awareness of Deposit Insurance

In order to understand the level of public awareness of deposit insurance concepts and channels for information on deposit insurance and financial security, CDIC commissioned a professional organization to conduct a questionnaire-based survey. The survey results provided a reference for CDIC in promoting and drafting related follow-up measures.

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

In conjunction with amendments to the Deposit Insurance Act, CDIC researched and drafted revisions to five by-laws, including the "Regulations Governing the Establishment and Business Operations of Bridge Bank," "Operating Procedures for Claims Processing," "Operating Procedures Regarding the Provision of Financial Assistance by the Central Deposit Insurance Corporation to Encourage Acquisitions or Assumptions," "Operating Procedures of the Central Deposit Insurance Corporation for the Provision of Loans, Deposits or other Financial Assistance to Insured Institutions under Conservatorship or Delegated Authority," and "Operating Measures for Handling of Advanced Payments." It also planned "Draft Operating Standards for the Format and Content of Electronic Files on Deposit Insurance Information Established by Insured Institutions" to provide an operational basis for insured institutions in establishing related files.

(6) Formulation of Suggestions for the Effective Disposal of Unsound Institutions

1997

- a. In view of concerns that the Financial Restructuring Fund surpluses were insufficient for the disposal of unsound financial institutions, and that this could seriously endanger credit order and financial stability, CDIC, in conjunction with the competent authority, proposed that the "Joint Operational Mechanism of the Financial Restructuring Fund and Deposit Insurance Payout Special Reserve" be revised and expanded according to the proviso of Paragraph 2 of Article 28 under the *Deposit Insurance Act*. A request was made to the competent authority to consult with the Ministry of Finance and Central Bank, which granted approval for the CDIC and Financial Restructuring Fund to integrate their operations and jointly provide uniform protections unrestricted by the maximum coverage limit to the creditors of seven institutions under management by the Financial Restructuring Fund.

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- b. According to the Executive Yuan letter of approval Yuan-tai-cai-zih No. 0960081567 dated January 24, 2007, on the "Joint Operational Mechanism of the Financial Restructuring Fund and Deposit Insurance Payout Special Reserve," CDIC proposed that reimbursement expenses for the loss amount gap for the seven unsound financial institutions under management by the Financial Restructuring Fund be proportionally shared by the two funds. The Financial Restructuring Fund's Management Committee approved the proposal following review at its 49th and 61st meetings.

(7) Convening the 12th Meeting of the CDIC Deposit Insurance Premiums and Problem Financial Institutions Consultative Committee

During this meeting, a report was presented on key matters following revisions to the deposit insurance premium mechanism and *Deposit Insurance Act*. Committee members also presented highly valuable opinions on means of providing financing and other issues related the occurrence of liquidity crises among normal financial institutions.

(8) International Research

- a. CDIC chaired the "Public Awareness" subcommittee under the Research and Guidance Committee of the International Association of Deposit Insurers (IADI). The subcommittee presented a draft research report at IADI's 6th Annual General Meeting and International Conference on October 31, 2007, and expects to present Core Principles in early 2008
- b. The committee also promoted the following 13 research projects (of which CDIC chaired the first project and dispatched personnel to attend the second to seventh projects):
- (a) Public Policy Objectives
 - (b) Effective Deposit Insurance Mandates
 - (c) Funding
 - (d) Information Management and Database
 - (e) Coverage Limit
 - (f) Cross-Border Issues
 - (g) Early Intervention and Prompt Corrective Action
 - (h) Claims and Recoveries
 - (i) Governance
 - (j) Legal Protection and Indemnification Issues
 - (k) Enterprise Risk Management

Ensuring Credit Order

(l) Evaluation of Deposit Insurance Fund Sufficiency

(m) Evaluation of the Effectiveness of Deposit Insurance Systems

c. CDIC participated in three research projects of IADI's Asia Regional Committee on the topics of: Bridge Bank, Prompt Corrective Action on Small Banks, and Multilateral Cooperation between Deposit Insurance and Safety Net Players for Consumer Protection and Public Education.

d. CDIC responded to inquiries on deposit insurance topics made by the deposit insurance agencies of various countries and international organizations, including the financial supervisory authorities in Jordan, the Philippines, Korea, India, Thailand and the UK.

(9) Special Research and Summary

Translation Reports

a. CDIC completed the reports on overseas visit and research, including a "Study on the Reimbursement and Claims Settlement Operations of the Federal Deposit Insurance Corporation" and "Study on the Korean Deposit Insurance System for Community Financial Institutions."

b. CDIC completed a report on an overseas visit to attend the "Seminar on the Role of Banking Supervision in Financial Stability" jointly held by SEACEN and the Financial Stability Institute.

c. In conjunction with the passage of the revised *Deposit Insurance Act*, CDIC translated the revised Act into English and published the translation on its website.

d. CDIC completed the translation of the IADI reports on "Draft Standards for Deposit Insurance Governance" and "International Standards for Cooperation among Financial Safety Net Members."

e. A record of the symposium on "Financial Risk Management and International Cooperation" was completed.



f. CDIC completed summarized translations for the "Newsletters," member profiles, and "Research Letters" sections of the IADI website.

g. CDIC completed a summarized translation of a speech on "Management of Troubled Banks: A Practitioner's Approach," Presented by former IADI President Mr. Jean Pierre Sabourin at the 9th SEACEN Conference of Directors of Supervision of Asia-Pacific Economies in 2007.

h. CDIC translated a speech on "Balancing Financial Stability and Enforcing Market Discipline: The Deposit Insurers Dilemma," presented by Mr. Don Inscoe, the deputy director of the Division of Insurance and Research under the US Federal Deposit Insurance Corporation (FDIC) at an international conference held by IADI's Middle East and North Africa Regional Committee and Europe Regional Committee.

(10) Expansion of the Global Deposit Insurance Information Display Area

In order to create a high-quality archive of global deposit insurance materials, CDIC has established a special area in its Reading Room to display publications, e-book series, and related operational products of deposit insurance organizations from around the world region by region. CDIC also continues to update such information for public access.

(11) Publication of the Deposit Insurance Quarterly Bulletin

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

(12) Publication of Deposit Insurance Reports

A series of five reports on overseas visit and research conducted by CDIC staff in 2006 was published as a reference for relevant government agencies, financial institutions, academic organizations, experts and scholars.



> www.cdic.gov.tw

7. International Exchange

To enhance its international image and visibility, CDIC actively participated in and organized several international exchange activities in 2007, including the following major activities:

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(1) Participation in IADI Affairs and Activities

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- a. CDIC attended the Executive Council related meetings and Strategic Planning Sessions held by IADI in Washington DC, USA, from late February. Former CDIC President Mr. Johnson Chen was unanimously elected as the Chair of Research and Guidance Committee.
- b. CDIC attended the 5th Asia Regional Committee Annual Meeting and International Conference of IADI in Hanoi, Vietnam, in late March. Former CDIC President Mr. Johnson Chen was invited to speak at this event.
- c. CDIC participated in the IADI Executive Council meetings, Research and Guidance Committee meetings, Symposium on Deposit Insurance Cross-Border Issues, and IADI's 5th Anniversary Celebration in Basel, Switzerland in early May, former CDIC President Mr. Johnson Chen was invited as a moderator. At the 5th Anniversary celebration, former CDIC President Mr. Johnson Chen and former CDIC Chairman Mr. Chin-Tsair Tsay were presented with crystal awards in recognition of their contributions to IADI. The awards were accepted by Mr. Chen.
- d. CDIC attended the IADI 1st Inter-regional Conference co-hosted by the IADI Europe Regional Committee, Eurasia Regional Committee and Middle East and North Africa Regional Committee in Istanbul, Turkey in late June. Former CDIC President Mr. Johnson Chen was invited as a moderator and speaker at different conference sections.
- e. CDIC attended the 1st IADI Executive Training Program in Washington DC, USA. During the meeting, CDIC introduced the experience and developments of the deposit insurance system in Taiwan.
- f. CDIC attended meetings of the IADI Executive Council, Governance Committee, and Research and Guidance Committee held in Basel, Switzerland in mid-September.
- g. CDIC attended IADI's 6th Annual General Meeting and International Conference in Kuala Lumpur, Malaysia, in late October. Former CDIC Chairman Mr. Ray-Beam Dawn and former CDIC President Mr. Johnson Chen were invited as speakers and moderators at the conference.

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(2) Holding of International Seminars

Following the bank run on Chinese Bank, the biggest such incident in Taiwan in recent years, various sectors reviewed the efficacy of deposit insurance mechanisms and mechanisms for disposing problem financial institutions. As the sole government agency

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> www.cdic.gov.tw



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with the responsibility for handling deposit insurance in Taiwan, CDIC bears the policy mission of disposing problem financial institutions. In order to strengthen the functions of the deposit insurance system, CDIC specially held a seminar and invited former IADI President and Chief Executive Officer of the Malaysia Deposit Insurance Corporation (MDIC) Mr. Jean Pierre Sabourin to present a keynote speech at this event on April 27. Mr. Sabourin offered suggestions from an international perspective on the financial supervision mechanism in Taiwan. A general discussion, press conference, and visits with high-ranking government officials were also arranged.

(3) Other International Exchange Activities

- a. CDIC received visits by representatives of the deposit insurers and financial supervisory organizations of various countries, including senior officials and representatives of Deposit Insurance of Vietnam (DIV), the National Policy Committee of the National Assembly (Korea), Korea Asset Management Corporation (KAMCO), MDIC, and FDIC.
- b. CDIC dispatched personnel to attend international conferences, including the Round Table and Symposium held by the Deposit Insurance Corporation of Japan; the "International Forum on Non-Performing Asset Funds: 10-year Management" held by KAMCO; 9th SEACEN Conference of Directors of Supervision of Asia-Pacific Economies, 20th Meeting of SEACEN Directors of Supervision, and 3rd Public-Private Dialogue for the Asia-Pacific Region; "The Financial Safety Net and Deposit Insurance System International Seminar on the Experience of Taiwan and Vietnam" held by DIV; and the 10th International Symposium of the Federal Reserve Bank of Chicago.
- c. CDIC made visits to the deposit insurance and financial supervisory organizations of various countries to promote cooperation and exchange experience, including visits to the National Deposit Insurance Fund of Hungary, the FDIC and Office of Thrift Supervision in the US, the Deposit Insurance Corporation of Japan, the Korea Deposit Insurance Corporation, KAMCO, MDIC and DIV.

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8. Human Resources

(1) Employee Structure

	Year	No. of Employees	Avg. Age of Employees	Educational Attainment of Employees			
				Graduate School	College	Other	
	2007	157	44	29	125	3	
	2006	158	43	29	125	4	
	2005	158	42	29	125	4	
	2004	162	41	29	129	4	
	2003	287	40	46	234	7	
	2002	290	38	45	237	8	

Department breakdown of CDIC staff:

Dept. of Risk Management (40)
International Relations and Research office (7)
Secretariat (21)
Civil Service Ethics Office (1)

Dept. of Resolution (40)
Legal Affairs Office (8)
Personnel Office (5)

Dept. of Business (13)
Dept. of Accounting (10)
Information Management Office (12)

(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 2007:

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

Financial Statements and Independent Auditor's Report



CDIC is entrusted by the Executive Yuan's Financial Restructuring Fund to arrange for the removal of problem financial institutions from the market. CDIC also actively participates in the planning and implementation of the financial safety net in conjunction with the government's financial reform policies.

Ensuring Financial Stability

INDEPENDENT AUDITORS' REPORT

NO.121496EA

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, 2007 and 2006, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion based on our examinations, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Central Deposit Insurance Corporation as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with the law and with generally accepted accounting principles in the Republic of China applied on a consistent basis.

Baker Tilly Clock & Co



Kuo-Shih Huang, CPA

January 25, 2008



CENTRAL DEPOSIT
BALANCE



DECEMBER 31,

ASSETS	NOTES	2007		2006	
		Amount	%	Amount	%
CURRENT ASSETS		\$ 13,729,037	93	\$ 26,998,548	98
Cash and Cash Equivalents	4	10,835,337	74	20,690,559	75
Held-to-Maturity Financial Assets	2, 5	2,521,269	17	5,897,655	21
Receivables	6	355,904	2	397,588	2
Prepayments		12,661	—	11,970	—
Other Current Assets		3,866	—	776	—
FIXED ASSETS-NET	2, 7	532,065	4	538,468	2
Cost		604,199	4	598,239	2
Land		228,833	2	228,833	1
Buildings		265,486	2	265,486	1
Machinery and Equipment		76,683	—	71,672	—
Transportation Equipment		14,222	—	14,197	—
Other Equipment		18,975	—	18,051	—
Revaluation Increment		66,149	—	66,149	—
Less Accumulated Depreciation		138,283	—	125,920	—
Buildings		69,399	—	64,664	—
Machinery and Equipment		47,259	—	42,232	—
Transportation Equipment		9,331	—	8,027	—
Other Equipment		12,294	—	10,997	—
INTANGIBLE ASSETS	2,8	2,154	—	2,322	—
OTHER ASSETS		403,828	3	511	—
Guarantee Deposits Paid		511	—	511	—
Deferral on General Financial	2,9	403,317	3	—	—
Deposit Insurance Payout Losses					
TOTAL ASSETS		\$ 14,667,084	100	\$ 27,539,849	100

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



INSURANCE CORPORATION
SHEETS

2007 and 2006

(Expressed in New Taiwan Thousand Dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	2007		2006	
		Amount	%	Amount	%
CURRENT LIABILITIES		\$ 1,174,175	8	\$ 1,110,929	4
Marketable Securities Sold Under Repurchase Agreement	2,10	1,045,000	7	1,037,014	4
Payables	11	129,175	1	73,915	—
LONG-TERM LIABILITIES					
Reserve for Land Revaluation Increment Tax		25,551	—	25,551	—
OTHER LIABILITIES		2,190,329	15	15,126,340	55
General Financial Deposit Insurance Payout	12	—	—	13,093,483	48
Special Reserves					
Agricultural Financial Deposit Insurance	12	2,189,449	15	2,031,676	7
Payout Special Reserves					
Guarantee Deposits Received		880	—	1,181	—
TOTAL LIABILITIES		3,390,055	23	16,262,820	59
Capital Stock	13	10,000,000	68	10,000,000	36
Capital Surplus					
Donated Assets Received		265	—	265	—
Retained Earnings		1,236,166	9	1,236,166	5
Legal Reserve		235,700	2	235,700	1
Special Reserve		1,000,466	7	1,000,466	4
Others					
Unrealized Incremental Value from Revaluation		40,598	—	40,598	—
TOTAL STOCKHOLDERS' EQUITY		11,277,029	77	11,277,029	41
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$ 14,667,084	100	\$ 27,539,849	100

CENTRAL DEPOSIT INSURANCE CORPORATION

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006

(Expressed in New Taiwan Thousand Dollars)

DESCRIPTION	NOTES	2007		2006	
		Amount	%	Amount	%
OPERATING INCOME		\$ 4,923,033	100	\$ 4,700,990	100
Interest Revenue		593,198	12	591,388	13
Premiums Revenue		4,329,835	88	4,109,602	87
OPERATING COSTS		4,442,193	90	4,248,926	90
Handling Fees		413	—	501	—
Insurance Expenses		4,998	—	466	—
Interest Expenses		15,518	—	17,986	—
Insurance Pay-offs Reserve Provisions		1,900,155	39	1,545,992	33
Finance Restructuring Fund Expenses		2,520,000	51	2,683,981	57
Losses on Sale of Investments		1,109	—	—	—
GROSS PROFIT		480,840	10	452,064	10
OPERATING EXPENSES		478,039	10	448,558	10
Transaction Expenses		414,788	9	386,321	9
General & Administrative Expenses		57,752	1	56,786	1
Other Operating Expenses		5,499	—	5,451	—
OPERATING INCOME		2,801	—	3,506	—
NON-OPERATING INCOME		1,015	—	313	—
Indemnity Income		—	—	9	—
Other Income		1,015	—	304	—
NON-OPERATING EXPENSES		3,816	—	3,819	—
Loss on Disposal of Assets		397	—	728	—
Other Expenses		3,419	—	3,091	—
INCOME BEFORE INCOME TAX		—	—	—	—
INCOME TAX	14	—	—	—	—
NET INCOME		\$ —	—	\$ —	—
EARNINGS PER SHARE		\$ —	—	\$ —	—

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

CENTRAL DEPOSIT INSURANCE CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY



FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006

(Expressed in New Taiwan Thousand Dollars)

DESCRIPTION	CAPITAL STOCK	CAPITAL SURPLUS	RETAINED EARNINGS		UNREALIZED INCREMENTAL VALUE FROM REVALUATION	TOTAL
			Legal Reserve	Special Reserve		
BALANCE, JANUARY 1, 2006	\$ 10,000,000	\$ 265	\$ 235,700	\$ 1,000,466	\$ 40,598	\$ 11,277,029
BALANCE, DECEMBER 31, 2006	10,000,000	265	235,700	1,000,466	40,598	11,277,029
BALANCE, DECEMBER 31, 2007	\$ 10,000,000	\$ 265	\$ 235,700	\$ 1,000,466	\$ 40,598	\$ 11,277,029

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

CENTRAL DEPOSIT INSURANCE CORPORATION

STATEMENTS OF CASH FLOWS



FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006

(Expressed in New Taiwan Thousand Dollars)

DESCRIPTION	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ —	\$ —
Adjustments		
Depreciation	14,063	14,306
Amortization	1,500	1,219
Losses on Sale of Investments	1,109	—
Insurance Pay-offs Reserve Provisions	1,900,155	1,545,992
Net Loss on Disposal of Fixed Assets	397	728
Changes in Assets and Liabilities:		
Receivables	41,684	(54,233)
Prepayments	(691)	(487)
Other Current Assets	(3,090)	(250)
Marketable Securities Sold Under Repurchase Agreement	7,986	(375,284)
Payables	55,260	(64)
Net Cash Inflow from Operating Activities	2,018,373	1,131,927
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (Increase) in Held-to-Maturity Financial Assets	3,375,277	(50,305)
Intangible Assets Increase	(1,332)	(1,680)
Decrease in Guarantee Deposits Paid	—	7
Acquisition of Fixed Assets	(8,057)	(9,347)
Proceeds from Disposal of Fixed Assets	—	2
Increase in Deferral on General Financial Deposit		
Insurance Payout Losses	(403,317)	—
Net Cash Inflow (Outflow) from Investing Activities	2,962,571	(61,323)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in Guarantee Deposits Received	(301)	(10)
Decrease in Temporary Credits	—	(20)
Decrease in General Financial Deposit Insurance Payout		
Special Reserves	(14,835,865)	—
Net Cash Outflow from Financing Activities	(14,836,166)	(30)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(9,855,222)	1,070,574
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	20,690,559	19,619,985
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 10,835,337	\$ 20,690,559
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest Expense Paid (Excluding Capitalized Interest)	\$ 14,983	\$ 17,980

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

CENTRAL DEPOSIT INSURANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 and 2006

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

1. GENERAL

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

The Corporation is a government-run organization of which the capital is contributed by Ministry of Finance, the Central Bank and four insured financial institutions based on the shares that each of them has purchased. Ministry of Finance decreed that the shares were not to be issued publicly. The Corporation's approved capital stock is NT\$10,000,000,000, divided into 1,000,000,000 shares with a face value at NT\$10 each. The number of shares issued is 1,000,000,000. Ministry of Finance and the Central Bank are the major shareholders of the Corporation. As of December 31, 2007, the ratio of their shareholding was 99.9995%. The Corporation's major businesses range from handling deposit insurance, managing deposit insurance risk, dealing with failing and failed insured institutions, and establishing related regulations and systems of deposit insurance. Financial institutions duly approved under the law to accept deposits are required to apply for deposit insurance, including banks, trust and investment companies, the Taiwan branches of foreign banks, credit cooperatives, credit departments of farmers' and fishermen's associations, and the postal savings bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

As the Corporation is a government-run organization, its accounting criteria are subject to the *Budget Act*, the *Financial Statement Act*, the *Unified Accounting System Regulations for Departments and Bureaus of Ministry of Finance* as approved by Directorate General of Budget, Accounting & Statistics, Executive Yuan, and other regulations for the accounting affairs of government-run organizations promulgated by Ministry of Audit, Control Yuan. Matters not regulated in the above-mentioned law are subject to generally accepted accounting principles. Annual settlement of accounts are audited by Directorate General of Budget, Accounting & Statistics, Executive Yuan, and Ministry of Audit of the Control Yuan serves as the authority for final approval. The Corporation's account books as of the end of 2006 were audited by Directorate General of Budget, Accounting & Statistics, Executive Yuan and Ministry of Audit, Control Yuan. Consequently, the balance at the beginning of 2007 was subject to the balance at the end of 2006, which has been audited by Ministry of Audit, Control Yuan.

(2) Held-to-Maturity Financial Assets:

- (A) Delivery date accounting is used, and financial products are measured at fair value plus transaction costs generated from acquisition or issuance, when being recognized originally.
- (B) Financial assets held to maturity are measured at amortized cost.

(C) According to the *Deposit Insurance Act*, the funds of the Corporation, except for the allowance for regular expenses, fulfillment of insurance responsibilities provided in the Act, provision of financial assistance, establishment of a bridge bank and processing of advance payments, shall be invested in government bonds, deposited with the Central Bank or used in other methods approved by the board of directors of the Corporation.

(3) Marketable Securities Sold Under Repurchase Agreement

Bond for transaction purposes are listed as repurchased bond liabilities.

(4) Fixed Assets

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

(5) Intangible Assets

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

(6) Deferred Assets

As regulated in the "Mechanism of combined utilization of Financial Restructuring Funds and deposit insurance pay-offs reserve provision" and Article 20 of *Deposit Insurance Act*, "Upon fulfillment of insurance responsibilities, provision of financial assistance, establishment of a bridge bank

or processing of advance payments by the CDIC, if the recovered amount is less than cost expended, the difference shall be written off from the deposit insurance payout special reserves. Any further deficiencies shall be recorded in the deferral account and written off from the deposit insurance payout special reserves in the subsequent years."

(7) Employees' Pension

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

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

As for project contract employees, in order to comply with the enforcement of the *Labor Pension Act* (hereinafter referred to as the "New System"), the Corporation, beginning from July 1, 2005, contributes an amount equal to at least 6% of their

monthly salaries into the pension fund. The pensions are deposited into employees' exclusive labor retirement accounts. The Corporation's contributions are listed as current expense at the year of occurrence.

(8) Income Tax

As regulated by *Deposit Insurance Act*, any remainder of the annual gross income of this Company, after deducting costs, expenses and losses, shall be fully appropriated for deposit insurance payout special reserves. The net income before tax is zero.

(9) Limitation of Earning Allocation

Pursuant to Article 5 of the *Deposit Insurance Act*, "any remainder of the annual gross income of the CDIC, after deducting costs, expenses and losses, shall be fully appropriated for deposit insurance payout special reserves."

(10) Asset Impairment

The Corporation shall recognize devaluation loss of the owned assets when the environment has changed or a certain event occurs in order to reflect that retrievable value of the owned assets is less than book value. Retrievable value refers to net fair value or use value, whichever is higher, of assets. Net fair value refers to acquirable value of assets during a general transaction (disposal cost of assets has been deducted from the sales of assets). Use value refers to the present value of prospective cash flows expected to be generated from the assets. When the situation resulting in recognition of the accumulative impairment loss in the previous years does not exist any more or has improved, accumulative impairment loss can be reversed to the extent of the amount of such loss recognized in the previous year.

(11) Reclassification of Accounts

Some accounts for 2006 have been reclassified in compliance with instructions to Article 6 : 7 of the *Deposit Insurance Act* and the letters No. Chu-Hui-Erh-Tzu-Ti-0960001098 from Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

3. THE REASONS AND EFFECTS OF ACCOUNTING CHANGES

- (1) Since January 1, 2007, the Company has adopted the Statements of Financial Accounting Standards (SFAS) No. 37 for "intangible assets' accounting processing standards". After evaluation, the adoption of the account standards does not affect the Company's 2007 financial statement.
- (2) Since January 1, 2006, the Company has adopted the Statements of Financial Accounting Standards (SFAS) No. 34 for "financial instruments' accounting processing standards" and No. 36 for "disclosure and presentation of financial instruments" to record its financial instruments, which is applicable to the financial statement of the year in which it occurs and no effect is incurred.

4. CASH AND CASH EQUIVALENTS

	2007	2006
Petty Cash	\$ 350	\$ 375
Checking Deposits	4,987	8,184
Time Deposits	10,830,000	20,682,000
Total	\$ 10,835,337	\$ 20,690,559

5. HELD-TO-MATURITY FINANCIAL ASSETS

	2007	2006
Bonds	\$ 2,521,269	\$ 5,897,655

6. RECEIVABLES

	2007	2006
Tax Refund Receivable	\$ 125,099	\$ 105,955
Interest Receivable	230,805	291,631
Others	—	2
Total	\$ 355,904	\$ 397,588

7. FIXED ASSETS

2007				
	Cost	Revaluation Increment	Accumulated Depreciation	Net
Land	\$ 228,833	\$ 66,149	\$ -	\$ 294,982
Buildings	265,486	-	69,399	196,087
Machinery and Equipment	76,683	-	47,259	29,424
Transportation Equipment	14,222	-	9,331	4,891
Other Equipment	18,975	-	12,294	6,681
Total	\$ 604,199	\$ 66,149	\$ 138,283	\$ 532,065

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

(1) The fire insurance coverage on fixed assets as of December 31, 2007 and 2006 was \$252,922.

(2) Depreciation for 2007 and 2006 was \$14,063 and \$14,306, respectively.

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

8. INTANGIBLE ASSETS

	Jan. 1, 2007	Increase	Decrease	Dec. 31, 2007
Computer Software	\$ 2,322	\$ 1,332	\$ 1,500	\$ 2,154

	Jan. 1, 2006	Increase	Decrease	Dec. 31, 2007
Computer Software	\$ 1,861	\$ 1,680	\$ 1,219	\$ 2,322

9. DEFERRED ASSETS

	2007	2006
Deferral on general financial deposit insurance payout losses	\$ 403,317	\$ -

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

10. MARKETABLE SECURITIES SOLD UNDER REPURCHASE AGREEMENT

	2007	2006
Marketable Securities Sold under Repurchase Agreement	\$ 1,045,000	\$ 1,037,014

The range of Bond Repurchase rates at year ends of 2007 and 2006 is 1.89% and 1.61%~1.62% respectively.

11. PAYABLES

	2007	2006
Interest Payable	\$ 1,404	\$ 869
Accrued Expenses	126,933	72,321
Advance Collections for Customers	838	725
Total	\$ 129,175	\$ 73,915

12. GENERAL FINANCIAL DEPOSIT INSURANCE PAYOUT SPECIAL RESERVES AND AGRICULTURAL FINANCIAL DEPOSIT INSURANCE PAYOUT SPECIAL RESERVES

Pursuant to Article 6 and 7 of the *Deposit Insurance Act* and the document Chu-hui-2-tzu no. 0960001098 issued by Directorate-General of Budget, Accounting and Statistics, Executive Yuan on Feb. 26, 2007, the "Reserve for Insurance pay-offs" on the 2006 account closing date shall be transferred to "general financial deposit insurance payout special reserves" and "agricultural financial deposit insurance payout special reserves."

13. CAPITAL STOCK

	December 31, 2007 & 2006
Authorized Capital	10,000,000
Paid-in Capital	10,000,000
Authorized Shares	1,000,000,000 Shares
Outstanding Shares	1,000,000,000 Shares

14. INCOME TAX

(1) Income Tax Payable

	2007	2006
Current Tax Expense	\$ —	\$ —

(2) The corporation's income tax has been assessed till 2005 by the tax authority.

(3) Integrated Tax Related Information

	2007	2006
Shareholders' Imputation Credit Account Balance	\$ 144,736	\$ 144,736

Statistics



Increasing the maximum deposit insurance coverage

Strengthening the Special Reserve Funds for settling deposit insurance claims

Insulating investment and money management from financial storms

Concretely protecting the rights and interests of depositors

Insuring Your Savings

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

Unit: NT\$ million

Type of Institution \ Year	2007	2006	2005	2004	2003
Domestic Banks	41	45	48	52	53
Credit Cooperatives	27	28	29	32	35
Credit Departments of Farmers' Associations	252	253	253	253	253
Credit Departments of Fishermen's Associations	25	25	25	25	25
Local Branches of Foreign Banks	31	32	35	34	35
Total	376	383	390	396	401

Notes:

- (1) The standard date for the annual figures in the table is December 31.
- (2) The figure for domestic banks includes Agricultural Bank of Taiwan, Taiwan Post Co., Ltd. and trust and investment corporations.
- (3) The number of insured institutions was reduced by seven in 2007 due to the merger of Seventh Credit Co-operative of Taichung and China United Trust and Investment Corporation with Cathay United Bank; the merger of Central Trust of China with Bank of Taiwan; the acquisition of Enterprise Bank of Hualien by Chinatrust Commercial Bank; the acquisition of Taitung Business Bank by ABN AMRO Bank; the merger of Jhuci Township Farmers' Association of Chiayi County with Dapu Township Farmers' Association of Chiayi County and renaming of the merged entity to Jhuci Area Farmers' Association of Chiayi County; and the closure of the Taiwan branch of Cetelem Bank of France.

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

Unit: NT\$ million

Type of Institution	Year 2007			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 2006	Year 2005	Year 2004	Year 2003
Domestic Banks	10,032,028	20,599,942	48.7%	42.2	42.8	43.4	44.1
Credit Cooperatives	326,528	534,569	61.1%	51.1	52.1	52.8	54.1
Credit Departments of Farmers' Associations	873,271	1,250,752	69.8%	59.9	60.5	60.8	61.3
Credit Departments of Fishermen's Associations	26,522	35,314	75.1%	64.7	64.9	65.3	64.9
Local Branches of Foreign Banks	114,006	642,075	17.7%	13.8	21.1	14.7	16.1
Total	11,372,355	23,063,282	49.3%	42.7	43.6	44.1	44.9

Notes:

- (1) The standard date for the annual figures in the table is December 31.
- (2) The figure for domestic banks includes Agricultural Bank of Taiwan, Taiwan Post Co., Ltd. and trust and investment corporations.
- (3) Insured deposits refer to the total deposit amount of each depositor under the maximum coverage limit in an insured institution. On July 1, 2007, the maximum coverage was raised from NT\$1 million to NT\$1.5 million. The insured deposits for 2007 therefore refer to deposits under the NT\$1.5 million limit, while the insured deposits for other years refers to deposits under the NT\$1 million limit.
- (4) Total insurable deposits refer to the balance of the total amount of checking account deposit, passbook deposit, and time deposit liabilities of an insured institution after deducting foreign currency and foreign exchange deposits, negotiable certificates of deposit, deposits from government agencies, deposits from the Central Bank, and deposits from other financial institutions.

Table 3: Insured Deposits, Premiums and Deposit Insurance Fund for the Last Ten Years

Unit: NT\$ million

Year	Insured Institutions					Premiums	Deposit Insurance Fund (c)	Ratio of Deposit Insurance Fund to Insured Deposits % (c)/(b)
	Type	No. of Institutions	Total Insurable Deposits (a)	Insured Deposits (b)	Ratio of Insured Deposits to Total Insurable Deposits % (b)/(a)			
2007	General	98	21,764,787	10,472,346	48.1	3,965	(403)	0.00
	Agricultural	278	1,298,495	900,009	69.3	365	2,189	0.24
2006	All	383	22,670,064	9,686,080	42.7	4,109	15,125	0.16
2005	All	390	21,850,180	9,528,182	43.6	4,019	13,579	0.14
2004	All	396	20,444,435	9,018,811	44.1	3,909	12,154	0.13
2003	All	401	19,183,842	8,613,531	44.9	3,766	10,946	0.13
2002	All	405	18,339,760	8,273,608	45.1	3,597	9,662	0.12
2001	All	417	17,894,174	8,116,092	45.4	3,408	8,528	0.11
2000	All	456	16,900,795	7,701,342	45.6	3,321	4,840	0.06
1999	All	459	16,420,478	7,769,067	47.3	900	1,752	0.02
1998	All	407	15,000,627	6,991,799	46.6	509	2,200	0.03

Notes:

- (1) The standard date for the annual figures in the table is December 31 of each year.
- (2) According to stipulations under Article 6 of the Deposit Insurance Act, the Deposit Insurance Fund was divided into two special reserves for general financial institutions and agricultural financial institutions from 2007.
- (3) Insured deposits refer to the total deposit amount of each depositor under the maximum coverage limit in an insured institution. On July 1, 2007, the maximum coverage was raised from NT\$1 million to NT\$1.5 million. The insured deposits for 2007 refer to deposits under the NT\$1.5 million limit, while the insured deposits for other years refer to deposits under the NT\$1 million limit.
- (4) On July 1, 1999, the deposit insurance system shifted from a flat premium rate (0.015%) to a risk-based differential rate with the three rate levels of 0.015%, 0.0175%, and 0.02%. On January 1, 2000, the rate levels were adjusted to 0.05%, 0.055%, and 0.06%. On July 1, 2007, the premium assessment base shifted from insured deposits to total insurable deposits. For insured deposits, a risk-based premium was adopted; and for deposits exceeding the maximum insurance coverage a flat premium rate was adopted. The annual deposit insurance premium rates following the adjustment are as follows:
 - a. The premium for general financial institutions (including domestic banks, foreign bank branches in Taiwan, trust and investment companies, and credit cooperatives) is divided into five differential premium grades of 0.03%, 0.04%, 0.05%, 0.06%, and 0.07%, respectively, and a flat premium rate of 0.0025%.
 - b. The premium for credit departments of farmers' and fishermen's associations is divided into five differential premium grades of 0.02%, 0.03%, 0.04%, 0.05%, and 0.06%, respectively, and a flat premium rate of 0.0025%.
- (5) According to stipulations under Article 3 of the Financial Restructuring Fund Statute, CDIC shall pay to the Financial Restructuring Fund any incremental insurance premium income covering a ten-year period from January 2002 onwards that arises as a result of the increase in the deposit insurance premium rate that took effect on January 1, 2000.
- (6) In September 1999, CDIC provided assistance in the amount of NT\$1.284 billion to help Bank of Taiwan to acquire the Donggang Credit Cooperative, causing a reduction in deposit insurance fund. Furthermore, in 2007, the special reserve for general financial institutions was minus NT\$403 million. This was because, under the principles of the consolidated operation mechanism of the Financial Restructuring Fund and Deposit Insurance Fund, CDIC's special reserves must cover 80% of the reimbursement amount for unsound financial institutions under management by the Financial Restructuring Fund. In 2007, the total reimbursements were made in the amounts of NT\$3.592 billion for Enterprise Bank of Hualien, NT\$5.52 billion for Taitung Business Bank, and NT\$7.04 billion for China United Trust and Investment Corporation.

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

Unit: NT\$ million

Item\ Year	2007	2006	2005	2004	2003
Operating Revenues	4,923	4,701	4,517	4,348	4,249
Interest Revenue	593	591	498	439	483
Premium Revenue	4,330	4,110	4,019	3,909	3,766
Operating Costs and Expenses	4,920	4,697	4,509	4,263	4,244
Provision for Insurance Payout Special Reserves	1,900	1,546	1,425	1,208	1,215
Financial Restructuring Fund Expenses	2,520	2,684	2,617	2,529	2,435
Interest Expenses	16	18	15	11	14
Commission Expenses	-	-	-	93	175
Transaction Expenses	415	386	390	359	344
General & Administrative Expenses	58	57	54	55	54
Other Operating Expenses	5	5	7	7	7
Other Expenses	6	1	1	1	-
Net Operating Income	3	4	8	85	5
Net Non-Operating Income (Lose)	(3)	(4)	(8)	(85)	(5)
Net Income before Income Tax	-	-	-	-	-
Income Tax Expenses	-	-	-	-	-
Net Earnings Period	-	-	-	-	-

Notes:

- (1) Annual figures are calculated based on the period from January 1 to December 31. The figures for 2003, 2004, 2005 and 2006 are reviewed and audited by Ministry of Audit; those for 2007 are based on CDIC's final accounts for that year.
- (2) According to the stipulation in Article 5 of the Deposit Insurance Act that, "Any remainder of the annual gross income of the CDIC, after deducting costs, expenses and losses, shall be fully appropriated for deposit insurance payout special reserves," net income for these periods is not listed.

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

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985 ~ July 2001)	Changes (July 2001 ~ Jan. 2007)	Current System (Jan. 2007 ~)
Type of Participation	Voluntary	Changed to mandatory coverage in January 1999	Same as left column	Revised in January 2007 as follows: 1. All financial institutions legally approved to accept deposits must apply to CDIC to join the deposit insurance system. 2. Such institutions may become insured institutions after inspection and approval by CDIC. 3. The second item does not apply to insured institutions that have joined the deposit insurance system prior to the enactment of the revised statute.
Capital	<ul style="list-style-type: none"> Legally prescribed capital: NT\$2 billion Paid-in capital: NT\$800,050,000 	<ul style="list-style-type: none"> Legally prescribed capital raised to NT\$5 billion in July 1992 Prescribed capital raised to NT\$10 billion in November 1995 	Same as left column	Same as left column
Participating Institutions	<ul style="list-style-type: none"> Domestic banks (including trust and investment companies, but not including Chunghwa Post Co., Ltd.) Credit cooperatives Credit departments of farmers' and fishermen's associations Foreign bank branches in Taiwan (even if their deposits are protected in their home countries) Other financial institutions designated by Ministry of Finance 	<ul style="list-style-type: none"> Postal savings bank added in January 1999 Beginning January 1999, foreign bank branches whose deposits are protected in their home countries may not participate 	Same as left column	Same as left column (Note: Chunghwa Post was renamed as Taiwan Post on February 9, 2007)
Premium Assessment Base	Insured deposits (Total deposit liabilities minus uninsured deposit items and deposit amounts exceeding the maximum coverage)	Same as left column	Same as left column	Revised in July 2007 to: Total insurable deposits (Total deposit liabilities minus uninsured deposit items)
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% 	Same as left column	Revised in July 2007 to: <ul style="list-style-type: none"> A differential premium for insured deposits; and a flat premium rate for deposits exceeding the maximum insurance coverage For banks, foreign bank branches in Taiwan, trust and investment companies, and

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985 ~ July 2001)	Changes (July 2001 ~ Jan. 2007)	Current System (Jan. 2007 ~)
		<ul style="list-style-type: none"> Three rates adjusted to 0.05%, 0.055% and 0.06% on January 1, 2000 		<p>credit cooperatives, the five differential premium grades are 0.03%, 0.04%, 0.05%, 0.06%, and 0.07%; and the flat premium rate is 0.0025%. The flat premium rate will be adjusted to 0.005% from January 1, 2010.</p> <ul style="list-style-type: none"> For the credit departments of farmers' and fishermen's associations, the differential premium grades are 0.02%, 0.03%, 0.04%, 0.05%, and 0.06%; flat premium rate is 0.0025%.
Maximum coverage	NT\$700, 000	Raised to NT\$1 million on August 15, 1987	<ul style="list-style-type: none"> Same as left column In July 2001, the government passed the Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund (Financial Restructuring Fund Statute) and established the Financial Restructuring Fund to dispose of unsound financial institutions. During the four-year effective period of the fund (July 2001 to July 2005) there was no maximum coverage limit on the deposits in unsound institutions under disposal or listed for disposal. 	The maximum coverage limit was increased to NT\$1.5 million on July 1, 2007.
Scope of Coverage	Deposit principal and interest	From January 1999, limited to deposit principal	Same as left column, limited to deposit principal. However, deposit and non-deposit liabilities of unsound institutions disposed under the Financial Restructuring Fund from July 2001 are protected. Following the enactment of the revised Financial Restructuring Fund Statute in June 2005, no reimbursement will be made for the non-deposit liabilities of unsound institutions. However, non-deposit liabilities incurred before enactment of the revised statute will still be protected.	Same as left column

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985 ~ July 2001)	Changes (July 2001 ~ Jan. 2007)	Current System (Jan. 2007 ~)
Scope of Capital Utilization	Limited to the Central Bank	The following revisions were effective in Jan. 1999: · Deposits at the Central Bank · Financial institutions approved by the competent authority and which provide government bonds as collateral	Same as left column	Revised in January 2007 as: · Deposits at the Central Bank · Investments in government bonds · Utilization by methods approved by the CDIC Board of Directors
Means of Fulfilling Insurance Obligation	· Cash pay-offs · Deposit transfers · Temporarily continued operation in name of CDIC	According to revisions enacted in January 1999, the provision of financial assistance to encourage merger or acquisition by other insured institutions was added to the three means listed to the left.	Same as left column	Revised in January 2007 to: · Deletion of temporarily continued operation in name of CDIC. · In addition to providing financial assistance to encourage acquisition or assumption of insured institutions that have been ordered to close, personnel may be dispatched to assume conservatorship or acting management of the institution according to law. · Addition: When there is concern of a serious threat to credit order and financial stability, the limit of "least cost" may be waived after obtaining the prior approval of the competent authority in consultation with the Ministry of Finance and Central Bank and ratification by the Executive Yuan. Moreover, if a acquisition or assumption cannot be encouraged in a timely manner, a bridge bank may be established.
Advance Payment for Deposit and Non-deposit Debt in Excess of Maximum Coverage	None	According to revisions made in Jan. 1999, advance payment is allowed to resolve the needs of debtor liquidity at problem institutions, under the principle that no additional costs are incurred.	Same as left column	Same as left column

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985 ~ July 2001)	Changes (July 2001 ~ Jan. 2007)	Current System (Jan. 2007 ~)
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	Stipulations of the Government Procurement Act and Articles 25 to 27 of the Budget Act do not apply to CDIC in the performance of its insurance responsibility, provision of financial assistance, establishment of bridge banks and handling of advance payments in accordance with Deposit Insurance Act.
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	<p>The following revisions were effective in Jan. 1999:</p> <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	<p>Revised in January 2007 as follows:</p> <ul style="list-style-type: none"> · If an insured institution has a seriously deficient net worth, or there is concern that it seriously threatens the credit order and financial stability, and the competent authority has determined a need for the institution's liquidation or market withdrawal, personnel may be dispatched prior to liquidation or market withdrawal to assume conservatorship or acting management of the institution. In such cases, CDIC may provide loans, deposits or other financial assistance to the insured institution. · Before providing financial assistance, CDIC shall demand provision of a sufficient guarantee from the parent financial holding company of the insured institution or from any insured institution or farmers' and fishermen's association credit department with a controlling share in the institution. · In cases where the competent authority has dispatched personnel to assume conservatorship or acting

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985 ~ July 2001)	Changes (July 2001 ~ Jan. 2007)	Current System (Jan. 2007 ~)
				management over an insured institution, CDIC may encourage the acquisition or assumption of the institution by providing funds or arranging loans, deposits, or guarantees to other insured institutions or financial holding companies or by purchasing the subordinated bonds issued by the said insured institutions or financial holding companies.
Borrowing of Funds from Other Financial Institutions	None	Added in January 1999	Same as left column	Same as left column
Provision of Collateral when Applying to Central Bank for Accommodation	Full collateral must be provided	Provisions added in January 1999 as follows: · That part for which the CDIC is unable to provide collateral will be guaranteed by the National Treasury · When the secured portion exceeds the CDIC's net worth, the competent authority and the Central Bank must apply to the Executive Yuan for approval	Same as left column	Revised in January 2007 to: Through a joint request by the competent authority with the Ministry of Finance and Central Bank and approval by the Executive Yuan, the part for which collateral cannot be provided may be guaranteed by the National Treasury.
Penalty for Refusal to Participate in Deposit Insurance	None	Provision added in January 1999: A fine of double amount of the insurance premium will be imposed	Same as left column	Revised in January 2007 to: Depending on whether the institution is a general financial institution or agricultural financial institution, CDIC shall report to the competent authority to order the financial institution replace its persons in charge or to terminate its business permit.
Method of Allocation of CDIC's Surplus	As stipulated in the Company Law	Same as left column	Beginning July 2001, the entire amount of surplus remaining after the accounts are closed is placed into the deposit insurance fund for insurance pay-offs.	Revised in January 2007 to: The entire amount of surplus remaining from annual income after payment of costs and accounting of losses shall be deposited into the Deposit Insurance Payout Special Reserves.

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985 ~ July 2001)	Changes (July 2001 ~ Jan. 2007)	Current System (Jan. 2007 ~)
Priority Repayment of Deposit Liabilities	None	Same as left column	Addition in May 2006 : In handling compensation in course of the disposal of insured institutions by market withdrawal or liquidation at the direction of the competent authority or the central competent authority for the agricultural finance in accordance with the Deposit Insurance Act, CDIC shall give priority to the repayment of the insured institution's deposit liabilities over non-deposit liabilities.	Same as left column
Creation of Two Separate Deposit Insurance Payout Special Reserves	None	Same as left column	Same as left column	Addition in January 2007: · The special reserve fund was divided into separate deposit insurance payout special reserves for general financial institutions and agricultural financial institutions. · Both reserve funds have a target amount of 2% of the amount of deposits covered.
Inspection of Insured Institutions	If the CDIC deems it necessary, and after obtaining the prior approval of the competent authority in consultation with the Central Bank, the CDIC may inspect the business records and accounts of an insured institution.	Same as left column	Same as left column	Revised in January 2007 to: CDIC may inspect an insured institution to confirm the accuracy of its deposit insurance premium base in accordance with the Deposit Insurance Act.
Elimination of Limits on Reimbursement Cost	None	Same as left column	Same as left column	Addition in January 2007: When there is concern of a serious threat to credit order and financial stability, after obtaining the prior approval of the competent authority in consultation with the Ministry of Finance and Central Bank and ratification by the Executive Yuan, the limit on reimbursement cost may be eliminated.
Allowable Creditor Right Offsets before Reimbursement	None	Same as left column	Same as left column	Addition in January 2007: Before handling claims, CDIC may offset the creditor's rights of depositors in the problem institution.

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985 ~ July 2001)	Changes (July 2001 ~ Jan. 2007)	Current System (Jan. 2007 ~)
Termination of Membership	If an insured institution violates the laws or regulations or the insurance agreement or engages in unsound business transactions, and fails to rectify such violations within the time-limit prescribed by the CDIC, the CDIC shall terminate its status as an insured institution and report such action to the competent authority for disposal.	Same as left column	Same as left column	Revised in January 2007 to: The scope of reasons for termination of insured status is revised to also include the following: · It is ordered and required by the competent authority or the central competent authority of the agricultural finance to be recapitalized or improve its financial or business condition, and fails to meet such requirements within the prescribed time-limit; or the time-limit is not due but the competent authority or CDIC deem the said insured institution's condition non-improvable. · There is serious fraud or other illegal cases occurred at the said insured institution that might increase the compensation burden. In the aforementioned situations, CDIC shall, after notifying the competent authority or the central competent authority of the agricultural finance, terminate the deposit insurance membership of the insured institution.
Financial Products Must State whether they are Protected by Deposit Insurance	None	Same as left column	Same as left column	Added in January 2007
Depositor Protections Upon Termination of an Insured Institution's Insured Status	CDIC will continue to protect the depositor's deposits up to the maximum coverage limit for one year after the institution stops participating in the deposit insurance system.	Same as left column	Same as left column	Revised in January 2007 to: CDIC will continue to protect the depositor's deposits up to the maximum coverage limit for six months from the day the deposit insurance contract is terminated.

Appendix 2: Major Economic and Financial Indicators for the Last Five Years

Economic & Financial Indicators \ Year	2007	2006	2005	2004	2003
1. Economic Growth					
● Economic Growth Rate (%)	5.70	4.62	4.03	6.07	3.43
● Gross Domestic Product (US\$ billion)	383.3	355.6	346.4	322.2	299.8
● Avg. Per Capita National Income (US\$)	16,494	15,640	15,291	14,271	13,327
2. Foreign Trade					
■ Export Annual Growth Rate (%)	10.1	12.9	8.8	21.1	11.3
■ Import Annual Growth Rate (%)	8.2	11.0	8.2	31.8	13.0
▲ Foreign Exchange Reserves at Year-end (US\$ billion)	270.3	266.1	253.3	241.7	206.6
3. Economic Indices (Year-end)					
◆ Monitoring Indicator	Green	Blue	Green	Green	Yellow-Red
◆ Score of Monitoring Indicator	30	16	27	26	34
◆ Leading Index	148.8	107.8	109.8	110.9	113.7
◆ Coincident Index	152.5	109.1	114.8	109.6	111.0
4. Population & Unemployment Rate					
● Population at Year-end (Million Persons)	22.96	22.88	22.77	22.69	22.60
● Avg. Unemployment Rate for Whole Year (%)	3.91	3.91	4.13	4.44	4.99
5. Inflation					
● Consumer Price Index (CPI) Annual Change Rate(%)	1.80	0.6	2.30	1.62	-0.28
● Wholesale Price Index (WPI) Annual Change Rate(%)	6.46	5.64	0.61	7.03	2.48
6. Interest and Exchange Rates (Year-end)					
▲ Central Bank Discount Rate (%)	3.375	2.75	2.25	1.75	1.375
▲ Central Bank Accommodations with Collateral Rate (%)	3.750	3.125	2.625	2.125	1.750
▲ Exchange Rate (NT\$/US\$)	32.443	32.596	32.850	31.917	33.978
7. Monetary Aggregates (Year-end)					
▲ M2 Annual Growth Rate (%)	1.36	5.27	6.55	7.35	5.82
▲ M1b Annual Growth Rate (%)	1.07	4.47	6.83	12.44	19.32
▲ M1a Annual Growth Rate (%)	4.26	2.91	7.39	10.03	20.77
8. Lending by Financial Institutions (Year-end)					
● Total Loan (NT\$ billion)1	18,019.0	17,623.1	17,198.4	15,920.1	14,377.5
● Non-Performing Loan Ratio (%)2	1.79	2.08	2.19	3.28	5.00

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

Notes:

- (1) Total loan amount includes all loans extended by the main offices and branches of domestic banks (including trust and investment corporations), the local branches of foreign banks, credit cooperatives, and the credit departments of farmers' and fishermen's associations.
- (2) The non-performing loan ratio (including loans under surveillance) for the years prior to 2005 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. From 2005, the non-performing loan ratio excludes the overdue loans of trust and investment companies and credit departments of farmers' and fishermen's associations. From July 2005, an international standard was adopted for the calculation of the generalized non-performing loan ratio.



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