

## Your Deposits are in Good Hands with CDIC

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# Heart to Heart

The Central Deposit Insurance Corporation believes that every dollar a depositor saves is hard-earned. At this time of turbulence in world finance, deposit insurance system provides full protection. A blanket guarantee for all deposits makes depositors feel at ease.





Chairman

Fred S. C. Chen

President

Howard N. H. Wang

Howard N. H. Wang

## Message from the Chairman and President

With the structural enlargement and operational diversification that have characterized financial institutions in recent years, the scope of financial risk has gradually expanded and become more complex. Ever more attention has been directed to the building of a proactive deposit insurance mechanism and ever greater efforts have been devoted to protecting the rights and interests of depositors, maintaining credit order, and enhancing the sound development of the financial business. In addition to shouldering the burden of these tasks, the Central Deposit Insurance Corporation (hereinafter referred to as "CDIC") has worked in line with the government's financial reform policies, participating actively in the planning and implementation of various systems and measures related to financial safety net, and through the combining of the Financial Restructuring Fund and the deposit insurance mechanism, enabling 55 failed financial institutions with a negative adjusted net worth to withdraw smoothly from the market. In the disposition of failed financial institutions the CDIC has held firmly to the principles for fully protecting the interest of depositors and minimized social cost, handling disposition with justice, fairness, and transparency to achieve the policy goals of stabilizing financial order and strengthening the financial environment.

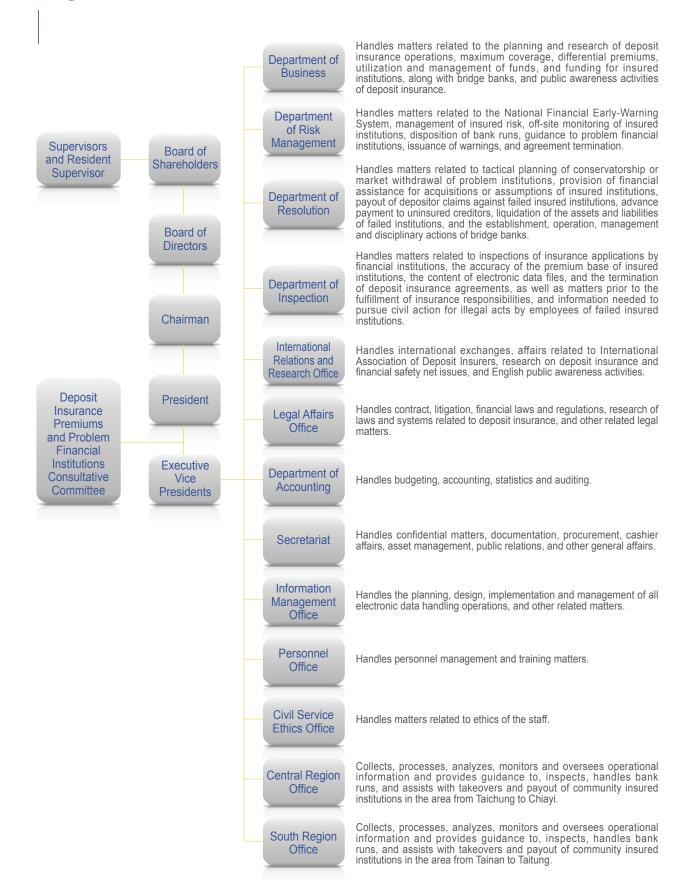
Amendments to the *Deposit Insurance Act* that were promulgated in January 2007 and May 2008 call for major changes—in the augmentation of the payout special reserves, the strengthening of risk controls, and the disposition of failed financial institutions—that reinforce the functioning of Taiwan's deposit insurance mechanism. During this year the CDIC continued to refer to the experience of different countries and the needs of domestic financial operations in formulating and revising regulations related to deposit insurance with the aim of providing a more complete legal foundation. The CDIC also set up a new Department of Inspection on March 31, 2008 so as to fully exercise the inspection authority granted by the revised *Deposit Insurance Act*; besides carrying out the items of inspection stipulated in Article 24 of the Act, this new department also handles on-site verification of financial institutions that apply to join deposit insurance system; 12 farmers' associations with newly established credit departments joined the system after being examined during this year, bringing the total number of insured institutions at the end of the year to 384.

In response to the instability that afflicted international finance during the past year, governments everywhere have adopted countermeasures designed to stabilize their financial systems and help financial institutions and their markets to resume normal operations. To assure depositors confidence, on October 7, 2008, Taiwan's government announced that all deposits in financial institutions insured by the CDIC would be protected by blanket guarantee and that coverage was extended to previously uninsured foreign-currency deposits, interbank deposits, and interbank call loans. The CDIC took steps to publicize this new policy, including the inviting of Premier Chao-shiuan Liu to shoot a blanket-guarantee short film, the production of blanket-guarantee posters, the sending of letters to all insured institutions, and the placement of advertisements in popular economic and financial magazines and on mass-transportation vehicles so as to bolster the understanding of the public about its rights and achieve the goal of stabilizing financial order. In addition, in accordance with the provision for the CDIC's collection of a special premium on interbank call loans by insured institutions included in the "Measures to Support Blanket Guarantee of All Bank Deposits" as promulgated jointly by the Financial Supervisory Commission, Ministry of Finance, and Central Bank on October 28, 2008, and in line with the government policy of strengthening banks' lending capacity, the CDIC lowered the rate of the special premium on interbank call loans and considered the growth of bank loans and other factors as reasons for exemption from collection of the premium in order to support the government policy of "banks supporting enterprises."

During the extraordinary period of blanket guarantee, the CDIC is striving to reinforce control of its underwriting risk and guide insured institutions toward sound operation by using the Financial Early-Warning System and the implementation of an Account Officer Analysis system to maintain a timely understanding of the financial and business status of insured institutions and, at the same time, to strengthen the mechanism for information sharing and coordination with financial supervisory agencies so as to improve the performance of supervision. To enhance its international image and visibility, during this year the CDIC continued to participate actively in the tasks and activities of the International Association of Deposit Insurers (IADI), serving on its Executive Council member and as chairman of its Research and Guidance Committee, joining in the formulation of policy, and advancing international research on deposit insurance issues and the setting of guidance. The CDIC also hosted the 2nd annual session of IADI's Executive Training Program. Furthermore, we strengthened the collection and study of international financial information. These activities not only heightened the CDIC's professional status but also helped domestic financial supervisory agencies and financial institutions to understand current trends in international finance and financial supervision.

Over the past year, thanks to the concerted efforts of our staff and the support and encouragement of all sectors, the CDIC has been able to carry out its operations smoothly. For this, we extend our sincere appreciation to all of you. In view of the instability in the global financial market and the recession that has been afflicting the major countries of the world, and the substantial impact that this situation is having on Taiwan's economics and finance, in the future the CDIC will carry on with the attitude it has held in the past as it works hard to fulfill its obligations and continue exerting the functions of the deposit insurance system and financial safety net so as to protect the interests of depositors, maintain credit order, and promote the sound development of the financial business. In this endeavor, we solicit your ongoing support and guidance.

## **Organization and Duties**





From left to right:

Director, Personnel Office / Hong-Dei Huang · Director, Department of Accounting / Huei-Ling Liu Executive Vice President / W.H. Lai · Director, Department of Business / Allen Chen Advisor / Ruby Hou · Advisor / Cyuan-Yuan Yang



Director, Secretariat / **Tsu-I Yeh** · Director, Information Management Office / **Shui-Dong Huang**Director, Civil Service Ethics Office / **Ing-Cyuan Hu** · Executive Vice President / **L.C. Pan**Director, Department of Risk Management / **William Su** 

Director, Legal Affairs Office / Grace M.C. Lee · Director, Department of Resolution / Annie Jen Director, South Region Office / Yong-Huei Peng · Executive Vice President / Robert L.I. Chen Director, Department of Inspection / Yao-Kun Chen · Director, Central Region Office / Sin-Fa Liou Acting Director, International Relations and Research Office / Yvonne Fan

## • Board of Directors, Supervisors and Senior Executives

	Board of Directors
Chairman	Fred S.C. Chen (Representative of the Ministry of Finance)
Directors	Howard N. H. Wang (Representative of the Central Bank)
	David C.Y. Sun (Representative of the Central Bank)
	Wei-Ching Lue (Representative of the Ministry of Finance)
	Ling-Yang Wu (Representative of the Ministry of Finance)
	Lu Ye (Representative of the Ministry of Finance)

Supervisors									
Resident Supervisor	Tsai-Chiu Hsu (Representative of the Central Bank)								
Supervisors	Ta-Tsong Lin (Representative of the Ministry of Finance)								
	Cheng-Shang Chang (Appointed on 2009.4.9) (Representative of the Ministry of Finance)								
	Lin-Yueh Chen (Left on 2009.4.9) (Representative of the Ministry of Finance)								

## **Business Operations**

The 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 of insured problem institutions. The following is a brief overview of the major tasks and policy missions of CDIC in 2008:

## 1. Deposit Insurance

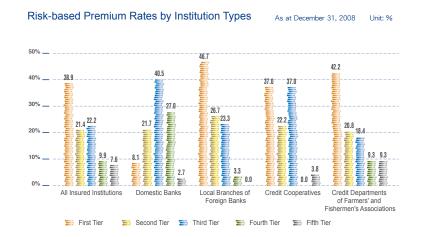
## (1) Membership and Scope of Coverage

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 the CDIC to participate in deposit insurance and become insured institutions upon review and approval by the 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 2008, 12 farmers' associations with newly established credit departments applied to the CDIC to join the deposit insurance system; after being examined and found qualified, they became insured by the CDIC.

The government has constantly promoted financial consolidation in recent years as a means of improving Taiwan's financial market efficiency and international competitiveness. Four insured institutions were taken over or merged during this year and 12 farmers' associations with newly established credit departments became insured institutions; as a result, the number of insured institutions rose from 376 at the end of 2007 to 384 at the end of 2008.

## (2) Implementation of the Risk-based Premium System

With the approval of the Ministry of Finance (MOF), the CDIC has formally implemented a risk-based premium rate 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 also referred to as "Deposit Insurance Fund"), the 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.



<sup>\*</sup> Domestic Banks include the Agricultural Bank of Taiwan but exclude Chunghwa Post Co., Ltd.





The January 2007 amendments 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, the 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, while 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 rates was expanded to five tiers from the original three tiers. The annual deposit insurance premium rates following the adjustment are as follows:

- **a.** The premiums for general financial institutions (including domestic banks, local branches of foreign banks, trust and investment companies, and credit cooperatives) are divided into five-tiered differential premium rates 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-tiered differential premium rates of 0.02%, 0.03%, 0.04%, 0.05%, and 0.06%, respectively, and a flat premium rate of 0.0025%.

The first tier of premium rate is currently applied to about 38.9% of all insured institutions, the second tier to 21.4%, the third tier to 22.2%, the fourth tier to 9.9%, and the fifth tier to 7.6%.

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

To enhance the protection of small depositors, on July 1, 2007, the CDIC was granted approval by the competent authority, the FSC in consultation with the MOF and the Central Bank, to raise the maximum coverage for each depositor from NT\$1 million to NT\$1.5 million per insured institution. In view of the instability in international financial markets, the government moved to stabilize Taiwan's financial system and reinforce depositors' confidence by announcing, in October 2008, that deposits of all depositors in all institutions participating in deposit insurance will receive full coverage up to December 31, 2009, and would not be subject to the above maximum amounts. Further, in accordance with the *Measures to Support Blanket Guarantee of All Bank Deposits* as announced jointly by the FSC, the MOF and the Central Bank on October 28, 2008, a special premium was charged on interbank call loans to insured institutions. In line with the government policy of strengthening the performance of banks in the extension of loans, and to help realize the policy of "banks support for enterprises," the CDIC reduced the special premium on interbank call loans in December 2008.

## (4) Raising Public Awareness of the Deposit Insurance System

a. To raise public knowledge about deposit insurance, the CDIC carried out publicity work via television, newspapers and magazines, the Internet, and other media. In addition, in line with the government's October 2008 announcement of blanket guarantee of all deposits until December 31, 2009, the CDIC quickly organized all kinds of publicity activities to strengthen the awareness of the public about its rights and to achieve the goal of stabilizing financial order. The related measures included the following:

- (a) Premier Chao-shiuan Liu was invited to film a 30-second advertisement to publicize blanket guarantee. The film, "Voice of the People," was aired on 11 TV channels and public-interest slots from late December 2008 to the end of January in 2009. Financial institutions were also informed that they could download the film for showing at their business premises and broadcasting on the Internet.
- (b) Publicity posters for blanket guarantee were produced and sent to all insured institutions, which were requested to post them in conspicuous places at all their business locations to inform all depositors of the blanket-guarantee policy.
- (c) Advertisements were placed in popular economic and finance magazines, and light-boxes and bus body advertisements were placed on public transportation to reach the target audience and places with large concentrations of people.
- b. Since the CDIC joined the International Association of Deposit Insurers (IADI), it has steadily increased exchanges with other financial supervisory agencies and deposit insurers around the world. As its English-language website is a primary channel through which foreigners gain an understanding of the CDIC and information on deposit insurance in Taiwan, the CDIC has worked vigorously to reinforce its website design. In addition to changing its celebratory web-banner designs for four major festivals, the CDIC also revised its obstacle-free page and regularly updated its content to meet the needs of users and enhance its professional image for internationalization and modernization. During this year the CDIC also completed translating the *Deposit Insurance Act* and affiliated regulations into English, and put the translations on its website.



Through a coordination mechanism to strengthen liaison among financial safety net players so as to enhance the control of insured risk.

## 2. Risk Management

## (1) Financial Early-Warning Operations

The 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 2008 are summarized as follows:

- a. In order to promote information sharing among financial safety net participants and thereby enhance regulatory effectiveness, the 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, the 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 of the financial

condition and related indexes 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 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, the CDIC produced the "Financial Holding Company Quarterly Report." The report serves as a reference for the CDIC in controlling the overall operational risk of insured institutions and their affiliated financial holding groups.
- d. The CDIC coordinated with the Bureau of Agricultural Finance (BOAF) under the Council of Agriculture on the establishment of the "Internet Reporting System," and 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 System.
- **e.** The transmission and output of the call report ranking system for Taiwan's domestic banks were revised in coordination with the FSC's single-window reporting system.
- f. In conjunction with the revision of related legal ratios by the competent authority, the CDIC continuously revised the standards and definitions of legal ratios in the system so as to respond in a timely manner to the financial conditions and regulatory compliance of insured institutions.
- g. In light of the changes taking place in the domestic and global financial environments, the CDIC collected various types of data on insured institutions and analyzed their potential influence on CDIC's insured risk. These data included, for example, investment in securitized and structured products, cash and credit card business, real-estate loans, and small and medium enterprise loans.
- h. In line with the government's announcement of a blanket guarantee of deposits, the CDIC instituted the "Rate Standards for Punitive Fees Collected on Interbank Call Loans Between Insured Institutions During the Period of Blanket Guarantee of Deposits" to serve as a basis for the collection of punitive fees from insured institutions that violate the law or that have weak corporate governance or internal controls.

## (2) Implementation of an Account Officer Analysis System

The 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.** The 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.** The CDIC properly handled public complaints and tip-offs in accordance with regulations. Cases involving the authority or duties of the compentent authority were transferred to such authority for handling.
- d. Internet transmission surveillance systems between the CDIC and financial institutions are used for timely acquisition of warnings about abnormal changes in the operations of financial institutions. The CDIC sends a formal letter to financial institutions for requesting improvement or suggests that the competent authority revises 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.
- **e.** The CDIC carried out off-site monitoring toward insured institutions with concentrations of business risk and made suggestions for improvement when appropriate.

## (3) Guidance to Insured Institutions

- a. The 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, the 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. The CDIC also dispatched personnel to attend related quidance meetings convened by the competent authority to facilitate close coordination with the competent authority in strengthening operational guidance to insured institutions.
- c. The 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. The 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 coordination with the operation of "The Single Window for Reporting of Financial Supervisory Information System" implemented by the Examination Bureau of the FSC, the CDIC sent specialists to take charge of additions to and revisions of the relevant tables and reports, thus making the supervisory information sharing mechanism more complete.
- c. The CDIC continuously assisted the BOAF in upgrading the performance of the Internet Reporting System, and it was suggested that assessment of the asset value of the credit departments of farmers' and fishermen's associations be taken into the system. In addition, the CDIC would carry out the follow up status of reporting by insured credit departments of farmers' and fishmen's associations to facilitate transmission of the accuracy and completeness of the data transmission, and thus to enhance the efficacy of the Financial Early-Warning System.
- d. The CDIC dispatched personnel to visit the competent authorities of local governments and the staff of assisting units. The sharing of experience and full communication of opinions about guidance were helpful to the stable operation of community insured institutions.
- e. The CDIC invited the BOAF under the Council of Agriculture to discuss the strengthening of the sound operations of the credit departments of farmers' and fishermen's associations.

## (5) Holding of Seminars on Insured Institution's Operating Policies and Management to Enhance Risk **Management Concepts**

The managers of farmers' and fishermen's associations, and the directors of their credit departments, were invited to participate in four Insured Institutions' Operating Policies and Management Seminars organized by the CDIC. Scholars and experts were invited to address the seminars on the topic of "Real Estate Market Trends and Assessment Practice" to instill concepts of risk management in the real estate loan business of the credit departments of insured associations. Ranking managers of banks and credit cooperatives were also invited to join the CDIC's Insured Institution Operating Policies and Management Seminars, for which scholars and experts were invited to talk on "Trends in the Real Estate Market" and "Central Bank and Financial Stability Report" to help the attendees gain a grasp of risk management for real estate loans and trends in financial stability in Taiwan.





## 3. Resolution of Problem Institutions

On instructions from the competent authority, the CDIC assumed conservatorship of two failing financial institutions this year and was commissioned to sell their assets, liabilities and business, as follows:

- (1) The CDIC assumed conservatorship of the Asia Trust & Investment Corp. as of January 31, 2008.
- (2) The CDIC assumed conservatorship of the Chinfon Bank as of September 26, 2008 and, in accordance with the provisions of Article 62-3 of the *Banking Act*, requested that the competent authority gives approval for the commissioning of the Bank of Taiwan to form an operating team to operate and manage the businesses and assets of the Chinfon Bank.

# 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, the CDIC successfully resolved 55 unsound financial institutions to withdraw from the market, including the credit departments of 38 farmers' and fishermen's associations, nine credit cooperatives, six banks, and two trust and investment companies. The remainder of the Financial Restructuring Fund is insufficient to dispose of all of the unsound financial institutions; however; to maintain financial order, the Financial Supervisory Commission formulated the "Mechanism for the Combined Use of the Financial Restructuring Fund and the Deposit Insurance Payout Reserves" program, which was approved by the Executive Yuan. This program takes deposit insurance payout reserves as an auxiliary source of funds for combined use by the Financial Restructuring Fund in accordance with the proviso of Paragraph 2 of Article 28, of the *Deposit Insurance Act*, so as to provide a uniform guarantee to the creditors of institutions under the Fund's supervision as provided by the Fund's regulations. The total reimbursements paid by the Financial Restructuring Fund was about NT\$206.2 billion by the end of December 2008, and the deposit insurance payout reserves had been used to pay reimbursements approximately NT\$69.2 billion for the Enterprise Bank of Hualien and four other unsound financial institutions.

## (2) Operations Commissioned to CDIC

a. Disposition of the Bowa Commercial Bank through sale by tender

The CDIC, in accordance with the provisions of the *Banking Act* and with the approval of the competent authority, and in compliance with a resolution of the Financial Restructuring Fund's Management Committee, carried out the sale of the Bowa Commercial Bank by open tender on January 31, 2008. The tenders for Bad Bank Tranche A (encompassing debt of NT\$16.188 billion [including NPL write-offs and other debt worth NT\$8.956 billion] and designated real estate with a book or assumption

cost of NT\$1.368 billion) and Bad Bank Tranche B (debt in the amount of NT\$4.135 billion, including NT\$2.051 billion in NPL write-offs and other debt) were won by Yuanta Asset Management Co. and Liang Jing Co., respectively. The winning bids were approximately NT\$2.69 billion and NT\$120 million.

In addition to bad debt, the sale of assets and liabilities was carried out by an open tender process on January 31, 2008 and a price negotiation procedure on February 1, 2008. The bid was won by the Development Bank of Singapore (DBS) for approximately NT\$44.5 billion.

## b. Disposition of the Asia Trust & Investment Corp. through sale by tender

The CDIC carried out the procedures for the sale of the Asia Trust & Investment Corp. in accordance with the provisions of the Banking Act and with the permission of the competent authority, and in accordance with a resolution of the Financial Restructuring Fund. The Asia Trust & Investment Corp. was divided into a Good Bank and a Bad Bank along with Asia Trust Building and Asia Taipei Plaza and sold by open tender via the multiple award method.

The Good Bank Tranche A (the Asia Trust Building), the Good Bank Tranche B (assets/liabilities and businesses excepting the Asia Trust Building and those included in the Bad Bank), and the Bad Bank Tranche B (designated bad debt, real estate, and rights of claim) were sold by open tender on October 7, 2008. The tenders were won by the Taiwan Life Insurance Co. (with a bid of NT\$3.03 billion), Standard Chartered Bank (NT\$3.348 billion), and Revival Asset Management Corp. (NT\$707 million), respectively. The tender for Bad Bank Tranche A (Asia Taipei Plaza) failed because none of the bids fell within the floor price set by the Financial Restructuring Fund Management Committee, and will be tried again when market conditions are more favorable.

## c. Sale of the Chinfon Bank through sale by tender

To accomplish the disposition of Chinfon Bank as quickly as possible, the CDIC has announced a public tender for the commissioning of a financial consulting company to handle the bidding arrangement. The sale is expected to be completed within fiscal year 2009.

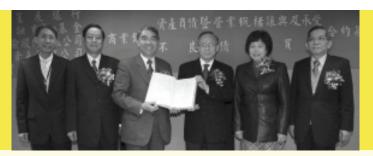
## d. Disposition of The Chinese Bank through sale by tender

Following settlement of the sale of assets/liabilities and businesses of The Chinese Bank on March 29, 2008, the CDIC in the status of receiver, continued with the disposition of The Chinese Bank's retained assets and liabilities including loans to Rebar-related parties, loans for resale under the conditions of the Hong Kong and Shanghai Banking Corporation (HSBC) Bank's purchase and assumption contract, bad debt that has already been sold, and the court claim by investors for payment of principal and interest on subordinated financial debentures.

To carry out follow-up on the protection of creditor rights and on the collection of debt in the case of The Chinese Bank's retained loans (primarily divided into loans to Rebar-related parties and repurchase loans), the CDIC formulated guidelines on related retained loan monitoring, loan collection, and delegated authority by grade to serve as a basis for implementation and standards for operation. A Loan Collection Review Committee was also set up to assure the quality of loan collection. In the retained loans case, loans outstanding to 79 borrowers amounted to NT\$6.47 billion at the end of December 2008; this was a reduction of NT\$760 million from the settlement, mainly because of the recovery of related debt.

## e. Disposition of the China United Trust and Investment Corp. through sale by tender

The takeover of the China United Trust and Investment Corp. by the Cathay United Bank was completed on December 29, 2007, leaving the CDIC to continue conservatorship of the following unsold assets: shares in the Asia United Bank of the Philippines having a book value of NT\$887,987,000; NT\$2,457,235,000 in shares in the Taipei Financial Building Corp.; and real estate with a book value of NT\$7,378,256,000.



- (a) Equity in the Asia United Bank of the Philippines: The Financial Restructuring Fund Management Committee agreed to the sale of the equity to the Asia United Bank of the Philippines for NT\$967,200,000 on April 17, 2008 for use as treasury shares.
- (b) Equity in the Taipei Financial Building Corp.: After two failed tender offers in 2007, the corporation carried out a capital reduction in September 2008 which lowered the value of the shares held on the books of the China United Trust and Investment Corp. The CDIC has appointed two persons to participate in the operations of the corporation's board of directors.
- (c) Designated real estate: Debenham Tie Leung limited (DTZ) was again commissioned on October 14, 2008 to carry out sale by open tender; investors at that time were holding to a wait-and-see attitude about future economic prospects because of the international financial tsunami, and thus the 29 bids all failed again.
- f. Continued Disposition of Outstanding Issues of Closed Institutions

The trust assets belonging to the trust-related businesses of the Kaohsiung Business Bank that were not included within the scope of sale were returned in their entirety to the trustors and were duly registered, and the CDIC is pursuing compensation of the business and house taxes, totaling more than NT\$700,000, due from part of the trustors. The CDIC has also been continuing to handle, as conservator, remaining court cases involving the Chung Shing Bank, Taitung Business Bank, and Enterprise Bank of Hualien.

g. Payment of Share Compensation to Employees of the Fengshan Credit Cooperative

In accordance with the *Financial Restructuring Fund Statute* and a resolution of the Financial Restructuring Fund's Management Committee, the issuance of share compensation to members of the Fengshan Credit Cooperative that was originally commissioned to the Chinatrust Commercial Bank was, on January 1, 2008, transferred to the CDIC for continued outstanding work. By the end of 2008 such compensation had been issued to 81% of the credit cooperative members and the value of the money paid accounted for 95% of the total value of the money paid for shares.

- h. The Remaining 38 Credit Departments of Farmers' and Fishermen's Associations
  - (a) In the pursuit of compensation by the credit department of the Chaozhou Farmers' Association in Pingtung County, the department's time deposits in the Taiwan Cooperative Bank and Farmers Bank were used by those two banks to offset overdue debt owed by the Farmers' Association, leaving the Farmers' Association with a debt of NT\$266,683,000 owed to the Financial Restructuring Fund. The CDIC received compensation of NT\$2,408,000 from 2005, 2006, and 2007 cash dividends on shares pledged by the Farmers' Association to the Financial Restructuring Fund, as well as an additional pledge of stock dividends from 571,444 shares. The Chaozhou Farmers' Association is continuing to carry out its original repayment plan.
  - (b) The sale by tender, on May 9, 2008 and August 7, 2008, of the remaining 10 lots of tilled land assumed by the Financial Restructuring Fund was commissioned to the National Property Administration of the Ministry of Finance in accordance with resolutions by the 20th meeting of the Financial Restructuring Fund's Appraisal Subcommittee and the 60th meeting of its Management Committee. Seven lots were tendered, and the CDIC requested the National Property Administration by letter on November 3, 2008 to choose another opportune time to tender the remaining three lots in accordance with a floor price approved by the Financial Restructuring Fund Management Committee.

## (3) Legal Prosecution

The CDIC is entrusted with the disposition of unsound financial institutions in accordance with the *Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund* and, with the approval of the Fund's Management Committee, transfers cases of illegal behavior by the responsible persons and employees of those institutions to prosecutorial agencies for investigation. The CDIC also pursues civil action for compensation against guilty parties to make up for compensation payments by the Financial Restructuring Fund and to serve the interest of social justice. At the end of December 2008 the CDIC had submitted 183 cases of suspected criminal activity to prosecutorial agencies for investigation, and 114 cases of civil compensation were being pursued.

## 5. Inspection

## (1) Inspection Stipulated in Article 24 of the Deposit Insurance Act

With the approval of the Ministry of Finance, the CDIC established the Department of Inspection on March 7, 2008 in order to fully exercise the inspection authority provided by the *Deposit Insurance Act*. The new department began operating on March 31, 2008, carrying out the inspection tasks stipulated in Article 24 of the *Deposit Insurance Act*. By the end of December 2008 the Department had carried out inspections of the premium assessment bases of 30 insured institutions, and when problems with premium calculation were found the institutions involved were asked to carry out improvement and assure the proper calculation of premiums.

## (2) On-site Inspection of Institutions Applying to Join Deposit Insurance so as to Lower the CDIC's Insured Risk

In accordance with the provisions of Article 10 of the *Deposit Insurance Act* and Article 5 of the Approval Standards for Financial Institutions Applying to Participate in Deposit Insurance as promulgated by the Financial Supervisory Commission on August 2, 2007, in addition to carrying out a documentary examination of deposit insurance applicants the CDIC also sends personnel to carry out on-site inspection when necessary. By the end of December 2008, on-site inspection had been carried out for the re-establishment of credit departments by 12 farmers' associations. When deficiencies were discovered during on-site verification, they were reported to the competent authorities and the institutions involved were asked to carry out improvement so as to reduce underwriting risk. The applications of credit department of the farmers' association referred to the above have all been reviewed and approved by the CDIC's Board of Directors.

## 6. Computerization

- (1) The NET-version Internet Transmission System for Financial Institutions was established, along with a special website, to enhance the efficiency of data transmission.
- (2) The "Insured Institution Electronic Data File Inspection System" was developed to meet the need for examining the accuracy of premium assessment bases and the format and content of electronic data files.
- (3) The "Special Insurance Premium Operating System" was developed to meet the need to collect special premiums monthly from insured institutions for interbank call loans during the period of blanket deposit guarantee.
- (4) In coordination with the sharing of information on financial supervision, the source of banking data used in the CDIC's operations was switched from a Central Bank disc to downloading from the Financial Supervisory Commission's financial information sharing website into the CDIC database.

- (5) The speed of the CDIC's Internet link was upgraded from 1M to 3M in order to enhance the efficiency of the company's global information website, the Internet Data Transmission System, and CDIC's e-mail system.
- (6) An "Information Asset Risk Assessment and Management Operations Procedure" was set up to protect the CDIC's information security and assure the smooth execution of information operations, allowing for effective risk control and the prevention of the threats of information security incidents.

## 7. Research and Development

In view of the rapid changes that are taking place in the financial environment, the CDIC makes sure that the development of its business conforms more closely to the needs produced by those changes not only by collecting the opinions of insured institutions on a regular basis but also by carrying out studies of the latest information related to domestic and overseas financial operations, and to the business of the CDIC, and compiling reports on those studies. The results of important R&D projects carried out during this year are briefly described below:

## (1) Survey of Deposit Insurance Knowledge Among General Depositors

To understand how much the public know about the concept of deposit insurance, and the channels through which they gain information about deposit insurance and financial safety, the CDIC commissioned a professional institution to carry out a questionnaire survey to provide a reference in publicity work and the formulation of follow-up measures.

# (2) Formulation and Revision of Subsidiary Regulations Relating to the Performance of Deposit Insurance Liability

Related regulations were revised to conform to the revision of the *Deposit Insurance Act*. The *Regulations Governing the Establishment and Business Operations of Bridge Banks*, *Operating Procedures regarding the Payout to Depositors by the Central Deposit Insurance Corporation*, and *Regulations Governing the Advance Payments to Depositors by the Central Deposit Insurance Corporation* were implemented or approved by the competent authority on February 22, July 17, and September 23, 2008 respectively. The *Format and Content Standards for the Establishment of Deposit Insurance Electronic Files by Insured Institutions* were also set up in accordance with the *Deposit Insurance Act*, and on March 24, 2008 insured institutions were asked by a letter to coordinate by carrying out the establishment of files related to the payment of claims so as to meet the future needs of performing financial liabilities.

## (3) Holding of the 13th and 14th Meetings of the CDIC Deposit Insurance Premiums and Problem Financial Institutions Consultative Committee

The 13th meeting discussed issues related to coverage amounts and deposit insurance premium rates following the revision of Article 12 of the *Deposit Insurance Act* to take "deposits required by law to be deposited in certain financial institutions" under insurance coverage, and the 14th meeting solicited the opinions of the Committee members on such issues as whether or not existing deposit insurance mechanisms for dealing with systemic risk are adequate when international financial storms erupt. The attending members expressed their valuable opinions on the issues addressed, providing great reference value for business operation and development of the deposit insurance system.

## (4) International Research

a. The CDIC chaired the Public Awareness of Deposit Insurance Systems Subcommittee under the Research and Guidance Committee of the International Association of Deposit Insurers (IADI), and the guidance paper on the topic was approved by IADI's Executive Council in October 2008.

- b. Of the 14 other IADI research projects that were carried out at the same time, the CDIC chaired one (Public Policy Objectives for Deposit Insurance Systems), participated in six, and assisted with seven.
- c. The CDIC answered questionnaires on deposit insurance issues from international organizations and the deposit insurance institutions of various countries, including Jamaica, Bulgaria, the Philippines, Kazakhstan, and Vietnam.

## (5) Research Projects and Summary Translation Reports

- a. The following research reports were completed: "Responsive Measures of Major Countries to the Global Financial Turbulence," "The British Government's Handling of the Northern Rock Bank Crisis: Review and Challenges," "The U.S. Subprime Mortgage Crisis and Major Countermeasures of Different Countries," "The U.S. Private Deposit Insurance System: History and Experience," and "Complementary Measures and Market Impact of the U.S. Government Takeover of Fannie Mae and Freddie Mac."
- b. The 2008 Ministry of Finance research report was completed: "Reinforcement of Protection for Financial Consumers Through the Deposit Insurance System."
- c. Two IADI report translations were completed: "Public Awareness of Deposit Insurance Systems" and "Core Principles for Effective Deposit Insurance Systems."
- d. A report on "Enhancing Market and Institutional Resilience" was extracted and translated.
- e. Excerpts were translated of newsletters, member profile, and research letters published on the IADI website, and were published on the CDIC's knowledge management system for the reference of employees.
- f. The following reports of overseas trips were completed: "Participation in the 6th IADI Annual General Meeting and International Conference," "Participation in the IADI European and Asian Regional Committee's International Seminar on Risk Analysis in Deposit Insurance Schemes," "Memorandum of Understanding on Continued Cooperation Between the CDIC and the National Deposit Insurance Fund of Hungary," "Participation in IADI Regional Seminar on Deposit Insurance Coverage and Public Awareness," "Participation in the 4th Public-Private Dialogue for the Asia-Pacific Region of the Conference of Governors of South East Asian Central Banks," "Participation in the IADI-EFDI Steering Group," "Participation in the First Session of 2008 IADI Executive Training Program," "Participation in the 7th IADI Annual General Meeting and International Conference," "Participation in the 11th Annual International Banking Conference co-sponsored by the Federal Reserve Bank of Chicago and the European Central Bank," "Regional Study Visit on the Philippine Deposit Insurance Corporation Experience on Receivership, Claims and Liquidation," and "2008 Annual Meeting on a Memorandum of Understanding for Cooperation Between the CDIC, Korea Deposit Insurance Corporation, and Korea Asset Management Corporation."

## (6) Expansion of the Global Deposit Insurance Information Display Area

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

## (7) 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.

## (8) Publication of Deposit Insurance Reports

A series of three reports on overseas visit and research conducted by CDIC staff in 2007 was published as a reference for relevant government agencies, financial institutions, academic organizations, experts and scholars.

## 8. International Exchange

To enhance its international image and visibility, the CDIC actively participated in and organized several international exchange activities in 2008, including the following major activities:

## (1) Participation in IADI Affairs and Activities

- **a.** The CDIC participated in the meetings of the Executive Council and Research and Guidance Committee called by IADI in mid-February in Basel, Switzerland to carry out its duties.
- **b.** The CDIC participated in the 6th Annual Meeting and International Seminar of IADI's Asia Regional Committee (IADI-ARC), held by IADI in Bali in late Match. The CDIC's Executive Vice President L.C. Pan was invited to serve as a speaker for the first session of the international seminar, "Deposit Insurance & Small Banks."
- c. The CDIC participated in the "Risk Analysis in Deposit Insurance Schemes" inter-regional joint seminar held by IADI's Europe Regional Committee and Eurasia Regional Committee in late May in Moscow. The CDIC was asked to provide presentation on "Benchmarking Deposit Insurance Fund."
- **d.** The CDIC participated in meetings of the IADI's Executive Council and Standing Committee in Prague in early June. The CDIC was approved to continue in the post of Chair of the Research and Guidance Committee, which will favor the strengthened promotion of international relations and research in the future.
- e. The CDIC participated in the first session of 2008 IADI Executive Training Program held by the U.S. Federal Deposit Insurance Corporation (FDIC) in early July, and served as working staff there. This helped the CDIC with the planning of the second conference in early September 2008.
- **f** . The CDIC participated in the working meetings for the international organization cooperation project held by the IADI and the EFDI in July and at the end of September in Rome and Dublin, respectively.
- **g.** The CDIC participated in the IADI Africa Regional Committee's "Deposit Insurance Coverage and Public Awareness" seminar held in mid-August in Abuja, Nigeria, and was asked to deliver a presentation.
- h. The CDIC participated in IADI's 7th Annual General Meeting and International Conference in Washington, D.C. in late October. The CDIC President Howard N.H. Wang was nominated, and elected, as the member of IADI's Executive Council.

# (2) Holding of the 2nd IADI Executive Training Program and International Conference on "Global Financial Market Conditions and Challenges"

In view of the importance of the deposit insurance mechanism in the resolution of problem financial institutions, the improvement of the deposit insurance system so as to prevent financial crises or to keep financial crises from expanding has drawn increasing attention from international organizations and the financial supervisory authorities of different countries. For this reason, the

IADI Training and Conference Committee decided to hold "Resolution Management: Principles and Best Practices" training program during the year. The CDIC was chosen to host the second session on September 1-4, 2008 in Taipei; the event was attended by nearly 50 delegates from about 20 countries, and the 100% satisfaction they expressed following the conference in a survey indicated that the CDIC greatly enhanced its international exchange and brightened Taiwan's international image by organizing the event.

In addition, to give domestic bankers a deeper understanding of the current instability in international financial markets and of trends in financial supervisory systems, the CDIC held an international seminar on the topic of "Global Financial Market Conditions and Challenges" at the Taiwan Academy of Banking and Finance on September 5, 2008. Scholars and experts from America, Asia, and Europe were invited to attend and offer suggestions to domestic financial supervisory agencies from the international perspectives of different countries.





## (3) Continued Signing of Memorandums of Understanding with Other Deposit Insurance Organizations

- a. To continuously strengthen the mutual sharing of experience and information with the Korea Deposit Insurance Corporation (KDIC), the CDIC held a memorandum of understanding signing ceremony on May 8, 2008. The CDIC President Howard N.H. Wang and KDIC Chairman Dae-Dong Park signed the memorandum for the two sides, thus continuing their formal cooperative relationship.
- b. To continuously strengthen the sharing of experience and exchange of information with the National Deposit Insurance Fund of Hungary (NDIF), CDIC President Howard N.H. Wang visited the NDIF and participated in a memorandum of understanding meeting on June 13, 2008 in Budapest, with himself and Dr. Peter Szekacs, Managing Director of the NDIF, representing the two sides so as to continue formal cooperative relations.

## (4) Other International Exchange Activities

- a. The CDIC received visits from ranking executives from the KDIC and the Muzuho Research Institute of Japan, during this year.
- b. The CDIC sent people to attend the following annual international meetings in 2008: Roundtable Meeting and Symposium organized by the Deposit Insurance Corporation of Japan (DICJ), the 4th Asia-Pacific Public-Private Dialogue of the Conference of Governors of South East Asian Central Banks (SEACEN), the First Joint Conference EFDI/FDIC on Financial Integration and the Safety Net, the 11th Annual International Banking Conference: Credit Market Turmoil of 2007–08: Implications for Public Policy, the 14th Cross-Strait Academic Seminar held by the China Society for Finance and Banking in Beijing, and the International Seminar held by the Philippines Deposit Insurance Corporation( PDIC). The CDIC was invited to lecture at some of these meetings.
- c. The CDIC made visits to the deposit insurance and financial supervisory agencies of various countries to promote cooperation and exchange experience, including visits to the NDIF, FDIC, DICJ, KDIC, KAMCO, and Deposit Insurance of Vietnam.

## 9. Human Resources

## (1) Employee Structure

Vann	No. of Familian	Avg. Age of	Educational Attainment of Employees						
Year	No. of Employees	Avg. Age of Employees	Graduate School	College	Other				
2008	158	44	30	125	3				
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				

Department breakdown of CDIC staff:

Dept. of Risk Management (26) Dept. of Resolution (28)

Dept. of Business (15)

Dept. of Inspection (10)

International Relations and Research office (8)

Legal Affairs Office (6)
Dept. of Accounting (10)

Secretariat (19)

Personnel Office (5)

Information Management Office (12)

Civil Service Ethics Office (1) Central Region Office (8)

South Region Office (10)

## (2) Contract Employees

In order to thoroughly carry out financial reforms and actively fulfill the policies on the disposition of problem institutions, the 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, the CDIC arranged the following training programs in 2008:

- **a.** Personnel were sent to participate in intensive training programs at the Taiwan Academy of Banking and Finance, Institute for Information Industry, Training Program for Government Personnel.
- **b.** The CDIC organized monthly professional business seminars, with lectures by outstanding senior CDIC personnel and outside experts and supporting case studies.
- **c.** The CDIC personnel were sent overseas for study, or for participation in international conferences, in order to strengthen research in subjects related to deposit insurance.
- **d.** In order to strengthen the international meeting hosting and presentation ability of CDIC executives, the 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



## INDEPENDENT AUDITORS' REPORT

NO.121497EA

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, 2008 and 2007, 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, 2008 and 2007, 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

Le Yough

Yung-Chi Lai, CPA

February 6, 2009



DECEMBER 31,

(Expressed in New

		2008		2007	
ASSETS	NOTES	Amount	%	Amount	%
CURRENT ASSETS		\$ 14,726,770	21	\$ 13,729,037	93
Cash and Cash Equivalents	4	 12,864,894	19	 10,835,337	74
Held-to-Maturity Financial Assets	2,5	1,555,058	2	2,521,269	17
Receivables	6	273,264	-	355,904	2
Prepayments		13,411	-	12,661	-
Other Current Assets		20,143	-	3,866	-
FIXED ASSETS-NET	2,7	 528,849	1	 532,065	4
Cost		 606,333	1	 604,199	4
Land		228,833	-	228,833	2
Buildings		265,486	1	265,486	2
Machinery and Equipment		77,683	-	76,683	-
Transportation Equipment		11,805	-	14,222	-
Other Equipment		22,526	-	18,975	-
Revaluation Increment		 66,149	-	 66,149	-
Less Accumulated Depreciation		 143,633	-	 138,283	-
Buildings		 74,133	-	 69,399	-
Machinery and Equipment		48,466	-	47,259	-
Transportation Equipment		7,663	-	9,331	-
Other Equipment		13,371	-	12,294	-
INTANGIBLE ASSETS	2,8	 5,604	-	 2,154	-
OTHER ASSETS		 53,819,297	78	 524,660	3
Guarantee Deposits Paid		511	-	511	-
Temporary Payments and The		2,485	-	2,500	-
Account to be Carried Over					
Deferral on General Financial	2,9	53,816,301	78	521,649	3
Deposit Insurance Payout Losses					
TOTAL ASSETS		\$ 69,080,520	100	\$ 14,787,916	100

# RANCE CORPORATION

2008 and 2007

Taiwan Thousand Dollars)

			2008			2007	
LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES		Amount	%		Amount	%
CURRENT LIABILITIES		\$	884,232	1	\$	1,304,175	9
Marketable Securities Sold Under	2,10		718,492	1		1,045,000	7
Repurchase Agreement							
Payables	11		165,740	-		259,175	2
LONG-TERM LIABILITIES			54,625,551	79		25,551	-
Long-term Loans	12		54,600,000	79		-	-
Reserve for Land Revaluation Increment Tax			25,551	-		25,551	-
OTHER LIABILITIES			2,293,708	4		2,181,161	15
General Financial Deposit Insurance Payout	13	***************************************	-	-	•••••	-	-
Special Reserves							
Agricultural Financial Deposit Insurance	13		2,293,146	4		2,180,281	15
Payout Special Reserves							
Guarantee Deposits Received			562	-		880	-
TOTAL LIABILITIES			57,803,491	84		3,510,887	24
Capital Stock	14		10,000,000	14		10,000,000	68
Capital Surplus							
Donated Assets Received			265	-		265	-
Retained Earnings			1,236,166	2		1,236,166	8
Legal Reserve			235,700	-		235,700	1
Special Reserve			1,000,466	2		1,000,466	7
Others				•••••			
Unrealized Incremental Value from			40,598	-		40,598	-
Revaluation							
TOTAL STOCKHOLDERS' EQUITY			11,277,029	16		11,277,029	76
TOTAL LIABILITIES AND STOCKHOLDERS'		\$	69,080,520	100	\$	14,787,916	100



FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

(Expressed in New Taiwan Thousand Dollars)

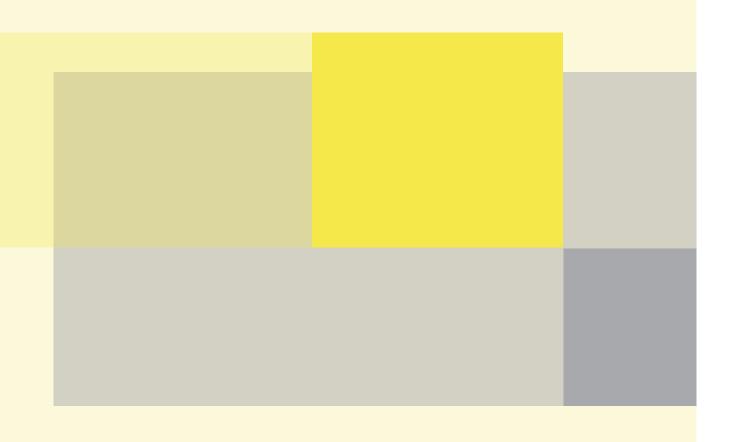
			2008		2007	
DESCRIPTION	NOTES		Amount	%	Amount	%
OPERATING INCOME		\$	4,803,575	100	\$ 4,923,033	100
Interest Revenue			428,724	9	593,198	12
Premiums Revenue			4,367,523	91	4,329,835	88
Special Premium Revenue			7,328	-	-	-
OPERATING COSTS			4,314,101	90	4,444,693	90
Handling Fees			133	-	413	-
Insurance Expenses			83	-	4,998	-
Interest Expenses			14,744	-	15,518	-
Insurance Payout Reserve Provisions			1,649,141	35	1,772,655	36
Financial Restructuring Fund Expenses			2,650,000	55	2,650,000	54
Losses on Sale of Investments			-	-	1,109	-
GROSS PROFIT			489,474	10	478,340	10
OPERATING EXPENSES			485,528	10	475,539	10
Transaction Expenses			423,719	9	412,288	9
General & Administrative Expenses			56,394	1	57,752	1
Other Operating Expenses			5,415	-	5,499	-
OPERATING INCOME		***************************************	3,946	-	2,801	-
NON-OPERATING INCOME			1,197	_	1,015	-
Indemnity Income			1	-	-	-
Other Income			1,196	-	1,015	-
NON-OPERATING EXPENSES			5,143	-	3,816	-
Loss on Disposal of Assets			1,625	-	397	-
Other Expenses			3,518	-	3,419	-
INCOME BEFORE INCOME TAX			-	-	-	-
INCOME TAX	2,15		-	-	-	-
NET INCOME		\$	-	-	\$ -	-
EARNINGS PER SHARE		\$	-		\$ -	



FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

(Expressed in New Taiwan Thousand Dollars)

	CAPITAL	CAPITAL	RETAINED	EARNINGS	UNREALIZED INCREMENTAL	
DESCRIPTION	STOCK SURPLUS		Legal Reserve	Special Reserve	VALUE FROM REVALUATION	TOTAL
BALANCE, JANUARY 1, 2007	\$ 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
BALANCE, DECEMBER 31, 2008	\$ 10,000,000	\$ 265	\$ 235,700	\$ 1,000,466	\$ 40,598	\$ 11,277,029





FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

(Expressed in New Taiwan Thousand Dollars)

DESCRIPTION	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ -	\$ -
Adjustments		
Depreciation	13,065	14,063
Amortization	1,108	1,500
Losses on Sale of Investments	-	1,109
Insurance Payout Reserve Provisions	1,649,141	1,900,155
Net Loss on Disposal of Fixed Assets	1,625	397
Changes in Assets and Liabilities:		
Receivables	82,640	41,684
Prepayments	(750)	(691)
Other Current Assets	(16,277)	(3,090)
Marketable Securities Sold Under Repurchase Agreement	(326,508)	7,986
Payables	(93,435)	55,260
Net Cash Inflow from Operating Activities	1,310,609	2,018,373
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in Held-to-Maturity Financial Assets	966,211	3,375,277
Intangible Assets Increase	(4,558)	(1,332)
Decrease in Temporary Payments and The Account to be Carried Over	15	-
Acquisition of Fixed Assets	(11,490)	(8,057)
Proceeds from Disposal of Fixed Assets	16	-
Increase in Deferral on General Financial Deposit Insurance Payout Losses	(53,294,652)	(403,317)
Net Cash (Outflow) Inflow from Investing Activities	(52,344,458)	2,962,571
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in Long-term Loans	54,600,000	-
Decrease in Guarantee Deposits Received	(318)	(301)
Decrease in General Financial Deposit Insurance Payout Special Reserves	(1,536,276)	(14,835,865)
Net Cash Inflow (Outflow) from Financing Activities	53,063,406	(14,836,166)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,029,557	(9,855,222)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,835,337	20,690,559
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 12,864,894	\$ 10,835,337

# CENTRAL DEPOSIT INSURANCE CORPORATION NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 and 2007
(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 the Ministry of Finance, the Central Bank and four insured financial institutions based on the shares that each of them has purchased. The Ministry of Finance decreed that the shares were not to be issued publicly. The Corporation's approved capital stock is NT\$10,000,000,000,000, 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. The Ministry of Finance and the Central Bank are the major shareholders of the Corporation. As of December 31, 2008, 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, 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 *Deposit Insurance 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 the 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 the Ministry of Audit of the Control Yuan serves as the authority for final approval. The Corporation's account books as of the end of 2007 were audited by Directorate General of Budget, Accounting & Statistics, Executive Yuan and the Ministry of Audit, Control Yuan. Consequently, the balance at the beginning of 2008 was subject to the balance at the end of 2007, which has been audited by the 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.

## (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 Fund and deposit insurance payout reserve provision* and 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."

## (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 Standards Act* based on the length of an employee's service in the Corporation which is calculated based on the applicable the *Labor Standards Act* effective from March 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) 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."

## (9) 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.

## 3. THE REASONS AND EFFECTS OF ACCOUNTING CHANGES

- (1) Since July 1, 2008, the Corporation has followed the new amendment of Statements of Financial Accounting Standards (SFAS) No. 34 "Accounting for the Financial Instruments" to handle its financial products. After evaluation, the adoption of the account standards does not affect the Corporation's 2008 financial statement.
- (2) Since January 1, 2007, the Corporation 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 Corporation's 2007 financial statement.

## 4. CASH AND CASH EQUIVALENTS

	2008	2007		
Petty Cash	\$ 350	\$	350	
Checking Deposits	8,544		4,987	
Time Deposits	12,856,000		10,830,000	
Total	\$ 12,864,894	\$	10,835,337	

## 5. HELD-TO-MATURITY FINANCIAL ASSETS

	2008	2007
Bonds	\$ 1,555,058	\$ 2,521,269

## 6. RECEIVABLES

	2008	2007
Tax Refund Receivable	\$ 43,445	\$ 125,099
Interest Receivable	228,995	230,805
Others	824	-
Total	\$ 273,264	\$ 355,904

## 7. FIXED ASSETS

	2008								
	Cost		Revaluation Increment		Accumulated Depreciation			Net	
Land	\$	228,833	\$	66,149	\$	-	\$	294,982	
Buildings		265,486		-		74,133		191,353	
Machinery and Equipment		77,683		-		48,466		29,217	
Transportation Equipment		11,805		-		7,663		4,142	
Other Equipment		22,526		-		13,371		9,155	
Total	\$	606,333	\$	66,149	\$	143,633	\$	528,849	

	2007							
		Cost	In	valuation crement	De	cumulated preciation		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

- (1) The fire insurance coverage on fixed assets as of December 31, 2008 and 2007 was NT\$234,343 and NT\$252,922.
- (2) Depreciation for 2008 and 2007 was NT\$13,065 and NT\$14,063, 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, 1994, the Corporation has revaluated lands after the approval of the 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.	•	Increase				Increase Decrease		Dec. 31, 2008	
Computer Software	\$	2,154	\$	4,558	\$	1,108	\$	5,604		
	To a	4 0007			-		Des	04 0007		
		1, 2007		ncrease	ט	ecrease		31, 2007		
Computer Software	\$	2,322	\$	1,332	\$	1,500	\$	2,154		

## 9. DEFERRED ASSETS

	2008	2007
Deferral on General Financial Deposit Insurance Payout Losses	\$ 53,816,301	\$ 521,649

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

	2008	2007
Marketable Securities Sold under Repurchase Agreement	\$ 718,492	\$ 1,045,000

## 11. PAYABLES

	2008	2007
Interest Payable	\$ 89,883	\$ 1,404
Accrued Expenses of The Financial Restructuring Fund	-	130,000
Accrued Expenses	75,056	126,933
Advance Collections for Customers	801	838
Total	\$ 165,740	\$ 259,175

## 12. LONG-TERM LOANS

	2008
Bank SinoPac	\$ 5,000,000
Chinatrust Commercial Bank	5,500,000
Cathay United Bank	4,500,000
Bank of Taiwan	15,000,000
Hua Nan Bank	10,000,000
Taishin Bank	500,000
Taiwan Cooperative Bank	5,140,000
First Bank	8,960,000
Total	\$ 54.600.000

- (1) It is the credit loan in which the total credit facility is NT\$66.5 billion, and revolving credit is available within the amount. Repayment can be spread over time or made in lump sum within the financing period. The Corporation has proceeded in accordance with the approval documents issued by competent authorities and Executive Yuan, and the budget passed by Legislative Yuan.
- (2) The loan interest rate at the end of 2008 was between 1.29% and 2.01%.

## 13. 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 February 26, 2007, the "Reserve for Insurance payout" 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." The changes are as follows:

	Insui Spec	Financial Deposit rance Payout sial Reserves	Depo:	ricultural Financial sit Insurance Payout pecial Reserves	Total
January 1, 2008	\$	-	\$	2,180,281	\$ 2,180,281
Reserve of The Current Period		1,536,276		112,865	1,649,141
Repeal of The Deferred Assets		(1,536,276)		-	(1,536,276)
December 31, 2008	\$	-	\$	2,293,146	\$ 2,293,146

## 14. CAPITAL STOCK

	December 31, 2008 & 2007
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

## 15. INCOME TAX

## (1) Income Tax Payable

	2008	2007
Current Tax Expense	\$ -	\$ -

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

## (3) Integrated Tax Related Information

	2008	2007
Shareholders' Imputation Credit Account Balance	\$ 144,736	\$ 144,736

## **Statistics**

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

Unit: Number of institutions

Type of Institution \ Year	2008	2007	2006	2005	2004
Domestic Banks	38	41	45	48	52
Credit Cooperatives	27	27	28	29	32
Credit Departments of Farmers' Associations	264	252	253	253	253
Credit Departments of Fishermen's Associations	25	25	25	25	25
Local Branches of Foreign Banks	30	31	32	35	34
Total	384	376	383	390	396

#### Notes:

- (1) The standard date for the annual figures in the table is December 31.
- (2) The figure for domestic banks includes Agricultural Bank of Taiwan, Chunghwa Post Co., Ltd. and trust and investment corporations.
- (3) The number of insured institutions increased by eight in 2008. Four insured institutions left the system (The Chinese Bank was assumed by HSBC, Bowa Bank by the Development Bank of Singapore, and American Express Bank and the Asia Trust & Investment Corp. by the Standard Chartered Bank) and 12 newly established credit departments of farmers' associations (of Fuxing in Changhua County, Dashu in Kaohsiung County, Pingtung City in Pingtung County, Linnei in Yunlin County, Checheng District in Pingtung County, Xiaogang District in Kaohsiung City, Xinfeng in Hsinchu County, Taiwan Province, Nanhua in Tainan County, Puyan in Changhua County, Qigu in Tainan County, and Liugui in Kaohsiung County) were added.

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

Unit: NT\$ million

	Ratio of Insured Deposits to Total Insurable Deposits (%)						
Type of Institution	Year 2008 (Notes 1)	Year 2007	Year 2006	Year 2005	Year 2004		
Domestic Banks		48.7	42.2	42.8	43.4		
Credit Cooperatives		61.1	51.1	52.1	52.8		
Credit Departments of Farmers' Associations	Blanket Guarantee	69.8	59.9	60.5	60.8		
Credit Departments of Fishermen's Associations		75.1	64.7	64.9	65.3		
Local Branches of Foreign Banks		17.7	13.8	21.1	14.7		
Total		49.3	42.7	43.6	44.1		

#### Notes

- (1) In October 2008 the government announced that all deposits of depositors in financial institutions participating in deposit insurance (including principal and interest as stipulated in Paragraph 1 and Paragraph 2 of Article 12 of the *Deposit Insurance Act*) would be guaranteed in their entirety, without being limited to the maximum coverage, up to December 31, 2009.
- (2) The standard date for the annual figures in the table is December 31.
- (3) The figure for domestic banks includes Agricultural Bank of Taiwan and Chunghwa Post Co., Ltd.
- (4) 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.
- (5) Insurable deposits refer to the total amount of checking deposits, demand deposits, time deposits, and other deposits listed under the deposit liabilities item, after deducting the outstanding amount of foreign-currency deposits, negotiable certificates of deposit, government deposits, Central Bank deposits, interbank deposits, and other uninsured deposits.

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

Unit: NT\$ million

		Insured Institutions				Ratio of		
Year	Туре	No. of Institutions  Total Insurable Deposits  No. of Deposits  Deposits  Ratio of Insured Deposits to Total Insurable Deposits %  Premiums  Premiums  Deposit Insurance Fund		Deposit Insurance Fund to Insured Deposits %				
			(a) (b) (b) /(a) (c)	(c) /(b)				
2008	General	95				4,068	0	0
2000	Agricultural 289 Blanket Guarante		t Guarantee (	Notes 1)	300	2,293	0.26	
2007	General	98	21,764,787	10,472,346	48.1	3,965	0	0.00
2007	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

#### Notes

- (1) The government announced in October 2008 that deposits of depositors in all financial institutions participating in deposit insurance will receive full coverage until December 31, 2009.
- (2) The standard date for the annual figures in the table is December 31 of each year.
- (3) 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.
- (4) 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.
- (5) 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-tiered differential premium rates 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-tiered differential premium rates of 0.02%, 0.03%, 0.04%, 0.05%, and 0.06%, respectively, and a flat premium rate of 0.0025%.
- (6) 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.
- (7) The reasons for the decrease in the Deposit Insurance Fund in 1999 are that the CDIC provided NT\$1.284 billion in financial assistance to the Bank of Taiwan for the takeover of the Donggang Credit Cooperative in Pingtung County, and that beginning in September 2007 the CDIC's Deposit Insurance Fund was used to share some of the compensation paid in relation to the disposition of failed financial institutions in line with the mechanism for the combined utilization of the Financial Restructuring Fund and the Deposit Insurance Fund as approved by the Executive Yuan. In 2007 and 2008 the Deposit Insurance Fund for general financial institutions was 0.

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

Unit: NT\$ million

				Offic	. 141 \$ 111111011
Item\ Year	2008	2007	2006	2005	2004
Operating Revenues	4,804	4,923	4,701	4,517	4,348
Interest Revenue	429	593	591	498	439
Premium Revenue	4,368	4,330	4,110	4,019	3,909
Special Premium Revenue	7				
Operating Costs and Expenses	4,800	4,920	4,697	4,509	4,263
Provision for Insurance Payout Special Reserves	1,649	1,773	1,546	1,425	1,208
Financial Restructuring Fund Expenses	2,650	2,650	2,684	2,617	2,529
Interest Expenses	15	16	18	15	11
Commission Expenses					93
Transaction Expenses	424	412	386	390	359
General & Administrative Expenses	56	58	57	54	55
Other Operating Expenses	5	5	5	7	7
Other Expenses	1	6	1	1	1
Net Operating Income	4	3	4	8	85
Net Non-Operating Income (Loss)	(4)	(3)	(4)	(8)	(85)
Net Income before Income Tax					
Income Tax Expenses					
Net Income					

## Notes:

<sup>(1)</sup> Annual figures are calculated based on the period from January 1 to December 31. The figures for 2004, 2005, 2006 and 2007 are reviewed and audited by the Ministry of Audit; those for 2008 are based on CDIC's final accounts for that year.

<sup>(2)</sup> 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," so 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. 2008)	Current System (Jan. 2008 ~)
Type of Participation	Voluntary	Changed to mandatory coverage in January 1999	Revised in January 2007 as follows:  1. All financial institutions legally approved to accept deposits must apply to the CDIC to join the deposit insurance system.  2. Such institutions may become insured institutions after examination and approval by the 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.	Same as left column
Capital	Legally prescribed capital: NT\$2 billion     Paid-in capital: NT\$800,050,000	<ul> <li>Legally prescribed capital raised to NT\$5 billion in July 1992</li> <li>Prescribed capital raised to NT\$10 billion in November 1995</li> </ul>	Same as left column	Same as left column
Participating Institutions	Domestic banks     (including trust     and investment     companies, but not     including Chunghwa     Post Co., Ltd.)     Credit cooperatives     Credit departments     of farmers' and     fishermen's     associations     Foreign bank     branches in Taiwan     (even if their deposits     are protected in their     home countries)     Other financial     institutions designated     by the Ministry of     Finance	Chunghwa Post joined in January 1999     Beginning January 1999, foreign bank branches whose deposits are protected in their home countries may not participate	Same as left column (Note: Chunghwa Post was renamed as Taiwan Post on February 9, 2007)	Same as left column
Premium Assessment Base	Insured deposits (Total deposit liabilities minus uninsured deposit items and deposit amounts exceeding the maximum coverage)	Same as left column	Revised in July 2007 to: Total insurable deposits (Total deposit liabilities minus uninsured deposit items)	Same as left column
Insurance Premium	Flat rate of 0.05% of insured deposits	<ul> <li>Still flat rate, but reduced to 0.04% in July 1987</li> <li>Reduced to 0.015% in January 1988</li> <li>Risk-based premium system adopted on July 1, 1999, and three rates instituted: 0.015%, 0.0175%, and 0.02%</li> </ul>	Revised in July 2007 to:  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 credit cooperatives,	Same as left column

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985 ~ July 2001)	Changes (July 2001 ~ Jan. 2008)	Current System (Jan. 2008 ~)
		Three rates adjusted to 0.05%, 0.055% and 0.06% on January 1, 2000	five-tiered differential premium rates 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.  For the credit departments of farmers' and fishermen's associations, the differential premium rates are 0.02%, 0.03%, 0.04%, 0.05%, and 0.06%; flat premium rate is 0.0025%.	
Maximum coverage	NT\$700,000	Increased to NT\$1 million on August 15, 1987. 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 period of the Fund's operation, there was no maximum coverage limit on the deposits in unsound institutions under disposal or listed for disposal.	Increased to NT\$1.5 million on July 1, 2007.	To stabilize the financial system and reinforce depositors' confidence, in October 2008 the government announced that all deposits of depositors in insured institutions would be insured in their entirety and would not be subject to the maximum insured amount.
Scope of Coverage	Deposit principal and interest	From January 1999, limited to deposit principal	Limited to principal, as in left column. (Beginning in July 2001, the principal and interest of deposits in failed financial institutions disposed of by the Financial Restructuring Fund are both guaranteed.)	Limited to principal, as in left column. (According to a government announcement in October 2008, under the temporary blanket guarantee effective until December 31, 2009, both the principal and interest of insured deposits are guaranteed.)
Items Covered	Checking deposits     Demand deposits     Time deposits     Savings deposits     Trust funds     Other deposits     that the competent authority has approved as insurable	Same as left column	1. Same as left column. (Beginning in July 2001, all deposits and nondeposit liabilities of insured institutions that were disposed of by the Financial Restructuring Fund are guaranteed. Following the implementation of a revision of Statute for the Establishment and Management of the Executive Yuan's Financial	1. Under revision of May 2008:  Checking deposits  Demand deposits  Time deposits  Deposits required by law to be deposited in certain financial institutions.  Other deposits that the Competent authority has approveed as insurable.

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985 ~ July 2001)	Changes (July 2001 ~ Jan. 2008)	Current System (Jan. 2008 ~)
			Restructuring Fund in July 2005, the non-deposit liabilities of failed financial institutions were not eligible for compensation; non-deposit liabilities that were incurred prior to the implementation of the revised Statute, however, remain protected.)  2. Under revision of January 2007:  Checking deposits  Demand deposits  Time deposits  Other deposits that the Competent authority has approved as insurable	2. The following types of deposits are covered under the temporary blanket guarantee announced by the government since October 7, 2008 till December 31, 2009:  Checking deposits  Demand deposits  Time deposits  Foreign-currency deposits  Negotiable certificates of deposit  Deposits by government agencies  Central Bank deposits  Redeposits  Redeposits in designated financial institutions required in accordance with law Interbank deposits by deposit-taking institutions  Other deposits that the competent authority has approved as insurable.
Scope of Capital Utilization	Limited to the Central Bank	The following revisions were effective in January 1999:     Deposits at the Central Bank     Financial institutions approved by the competent authority and which provide government bonds as collateral	Revised in January 2007 as:     Deposits at the Central Bank     Investments in government bonds     Utilization by methods approved by the CDIC Board of Directors	Same as left column
Means of Fulfilling Insurance Obligation	Cash payout     Deposit transfers     Temporarily continued operation in name of the 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.	Revised in January 2007 to:  Deletion of temporarily continued operation in name of the 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	Same as left column

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985 ~ July 2001)	Changes (July 2001 ~ Jan. 2008)	Current System (Jan. 2008 ~)
			Ministry of Finance and the 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 January 1999, advance payment is allowed to resolve the needs of debtor liquidity at problem institutions, under the principle that no additional costs are incurred.	Same as left column	Same as left column
Exemption from Invitation for Tender, Price Comparison, Price Negotiation, and the Provisions of Article 25~27 of the <i>Budget Act</i> When Disposing of Unsound and Problem Financial Institutions	None	Added in January 1999	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 the Deposit Insurance Act.	Same as left column
Recipient of Financial Assistance and Method of Assistance	Limited to loans or the purchases of assets to enable problem financial institutions to resume operation, when such resumption is deemed necessary.	The following revisions were effective in January 1999: 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.	Revised in January 2007 as follows:  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, the CDIC may provide loans, deposits or other financial assistance to the insured institution.  Before providing financial assistance, the CDIC shall reguest for the full amount of collateral from the financial holding company of the insured institution or from any insured institution or farmers' and fishermen's association credit department with a	Same as left column

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985 ~ July 2001)	Changes (July 2001 ~ Jan. 2008)	Current System (Jan. 2008 ~)
			dominant share in the institution.  In cases where the competent authority has dispatched personnel to assume conservatorship or acting management over an insured institution, the 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.	Revised in January 2007 to: Through a joint request by the competent authority with the Ministry of Finance and the Central Bank and approval by the Executive Yuan, the part for which collateral cannot be provided may be guaranteed by the National Treasury.	Same as left column
Penalty for Refusal to Participate in Deposit Insurance	None	Provision added in January 1999: A fine of double amount of the insurance premium will be imposed.	Revised in January 2007 to: Depending on whether the institution is a general financial institution or agricultural financial institution, the CDIC shall report to the competent authority to order the financial institution replace its persons in charge or to terminate its business permit.	Same as left column
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 payout.	Same as left column

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985 ~ July 2001)	Changes (July 2001 ~ Jan. 2008)	Current System (Jan. 2008 ~)
			Revised in January 2007 to: The entire amount of surplus remaining from annual income after payment of costs and accounting of losses shall be deposited into the Deposit Insurance Payout Special Reserves.	
Priority Repayment of Deposit Liabilities	None	Same as left column	Addition in May 2006: In handling compensation in course of the disposal of insured institutions by market withdrawal or liquidation at the direction of the competent authority or the competent authority for agricultural finance in accordance with the <i>Deposit Insurance Act</i> , the 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	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.	Same as left column
Examination of Insured Institutions	If the CDIC deems it necessary, and after obtaining the prior approval of the competent authority in consultation with the Central Bank, the CDIC may examine the business records and accounts of an insured institution.	Same as left column	Revised in January 2007 to: The CDIC may inspect an insured institution to confirm the accuracy of its deposit insurance premium base in accordance with the <i>Deposit Insurance Act</i> .	Same as left column
Elimination of Limits on Payout Cost	None	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 the Central Bank and ratification by the Executive Yuan, the limit on payout cost may be eliminated.	Same as left column

	Year CDIC Established (Sept. 27, 1985)	Subsequent Changes (Sept. 27, 1985 ~ July 2001)	Changes (July 2001 ~ Jan. 2008)	Current System (Jan. 2008 ~)
Allowable Creditor Right Offsets before Payout	None	Same as left column	Addition in January 2007: Before handling claims, the CDIC may offset the creditor's rights of depositors in the problem institution.	Same as left column
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	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 central competent authority for agricultural finance to be recapitalized or improve its financial or business condition, and fails to meet such requirements within the prescribed time-limit; or the time-limit is not due but the competent authority or the CDIC deems 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, the CDIC shall, after notifying the competent authority or central competent authority for agricultural finance, terminate the deposit insurance membership of the insured institution and make a public announcement.	Same as left column
Financial Products must State whether they are Protected by Deposit Insurance	None	Same as left column	Added in January 2007	Same as left column
Depositor Protections Upon Termination of an Insured Institution's Insured Status	The 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	Revised in January 2007 to: The 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.	Same as left column

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

Year Economic & Financial Indicators	2008	2007	2006	2005	2004
1. Economic Growth					
• Economic Growth Rate (GDP) (%)	0.12	5.70	4.80	4.16	6.15
<ul> <li>Gross Domestic Product (GDP) (US\$ billion)</li> </ul>	392.1	384.8	366.4	356.0	331.0
Avg. Per Capita GDP (US\$)	17,116	16,855	16,111	15,714	14,663
2. Foreign Trade					
Export Annual Growth Rate (%)	3.63	10.12	12.89	8.81	21.10
Import Annual Growth Rate (%)	9.67	8.17	11.00	8.21	31.83
Foreign Exchange Reserves at Year-end (US\$ billion)	291.7	270.3	266.1	253.3	241.7
3. Economic Indices (Year-end)					
Monitoring Indicator	Blue	Green	Blue	Green	Green
Score of Monitoring Indicator	9	29	16	27	26
Leading Index	88.0	106.0	104.9	102.0	95.0
Coincident Index	82.8	111.0	102.8	101.1	92.2
4. Population & Unemployment Rate					
Population at Year-end (Million Persons)	23.04	22.96	22.88	22.77	22.69
Avg. Unemployment Rate for Whole Year (%)	4.14	3.91	3.91	4.13	4.44
5. Inflation					
Consumer Price Index (CPI) Annual Change Rate (%)	3.53	1.80	0.60	2.31	1.61
Wholesale Price Index (WPI) Annual Change Rate (%)	5.15	6.47	5.63	0.62	7.03
6. Interest and Exchange Rates (Year-end)					
Central Bank Discount Rate (%)	2	3.375	2.75	2.25	1.75
Central Bank Accommodations with Collateral Rate (%)	2.375	3.750	3.125	2.625	2.125
Exchange Rate (NT\$/US\$)	32.86	32.443	32.596	32.850	31.917
7. Monetary Aggregates (Year-end)					
M2 Annual Growth Rate (%)	7.00	0.93	5.27	6.55	7.35
M1b Annual Growth Rate (%)	-0.81	-0.03	4.47	6.83	12.44
M1a Annual Growth Rate (%)	2.08	2.82	2.91	7.39	10.03
8. Lending by Financial Institutions (Year-end)					
<ul> <li>Total Loan (NT\$ billion)<sup>1</sup></li> </ul>	18,461.6	18,008.0	17,623.1	17,198.4	15,920.1
<ul> <li>Non-Performing Loan Ratio (%)<sup>2</sup></li> </ul>	1.52	1.79	2.08	2.19	3.28

#### 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
- (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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