

Message from the Chairman and the President



In recent years, financial institutions in Taiwan have undergone major organizational changes and diversified their operations, increasing the scope and complexity of their exposure to financial risk. Creating an active deposit insurance mechanism to safeguard depositor rights and maintain an orderly credit system in this changing climate has therefore become an issue of widespread concern. In the undertaking of this mission, the Central Deposit Insurance Corporation (CDIC) has the twofold duty of implementing the deposit insurance system and conducting financial examination. In coordination with government policies, it also assists with the planning and implementation of measures relating to systems of the financial safety net. Since the establishment of Executive Yuan Financial Restructuring Fund in 2001, CDIC has worked in conjunction with the fund to smoothly remove problem financial institutions from the market and maintain an orderly credit system. In 2004, two banks and one credit cooperative association were smoothly withdrawn from the market, bringing the total of disposed problem financial institutions to 47.

The Financial Restructuring Fund will expire in July 2005. At that time, deposit insurance will revert from a full

coverage system back to the original limited coverage system, which will have a significant impact on depositor rights. In order to ensure a smooth transition and thereby uphold the stability of the financial system, CDIC has been drafting and implementing plans and measures to disseminate accurate information about the change to banks, depositors and creditors. Moreover, in order to keep the deposit insurance mechanism in line with government financial reforms, and effectively realize the full functions of the financial safety net, CDIC has been collecting information on similar mechanisms in advanced countries to serve as a reference for the competent authority in amending the *Deposit Insurance Act*, and facilitating adjustments to the current blanket deposit insurance coverage system, substantiation of the deposit insurance fund, strengthening of insurance risk controls, and revisions to methods of implementing insurance obligations. Such reforms are designed to ensure depositor rights and assist stabilization of financial order in the period following the expiration of the Financial Restructuring Fund.

In line with the unification of financial supervisory and examination agencies, CDIC's examination operations and personnel were transferred to the Financial Supervisory Commission in July 2004. CDIC therefore carried out such operations only through the first half of the year. In the second half of the year, CDIC, despite significant staff reductions resulting from reassignments, continued to assist the competent authority in implementing appropriate guidance or monitoring measures for seriously undercapitalized or problem insured institutions. Such work aimed at helping to normalize the operations of these institutions at reduced cost to the Financial Restructuring Fund. Furthermore, CDIC revised its internal organization and personnel framework to strengthen assistance in the investigation and prosecution of financial fraud committed by personnel at problem institutions in order to more effectively investigate such malfeasance and thereby establish a fair, just and disciplined financial environment. In 2002, CDIC became a founding member of the International Association of Deposit Insurers (IADI) to enhance information and experience exchanges with deposit insurance organizations abroad, and thereby enhance its professional ability. Since that time, CDIC, as directed by Ministry of Finance, has actively taken part in IADI activities and earned the affirmation of the international community. In 2003, Taiwan was appointed to the association's Executive Council; and in 2004 we were chosen to host the association's Research and Guidance Committee, which is in charge of drafting international norms for promoting the disposition of problem financial institutions. Taiwan was also picked to host the Asia Regional Research Subcommittee, which is in charge of studying issues concerning financial stability in Asia. In addition, Taipei will host the IADI Fourth Annual Conference and Third Asia Regional Committee Meeting in September 2005. More than 100 representatives from over 50 countries are expected to attend these events, significantly raising Taiwan's international visibility.

In the past, CDIC has always worked closely with the competent authority in providing timely intervention to prevent the occurrence of financial crises, stabilize depositor confidence, and uphold the order of the financial system. Over the past year, CDIC has smoothly carried out its business tasks and the duties entrusted to it by the government with the care and support of all sectors, to whom we are deeply indebted and grateful. In the years ahead, CDIC will continue working in this spirit to ensure depositor rights and uphold the financial system. We hope that all of you will continue to favor us with your unstinting support in these endeavors.

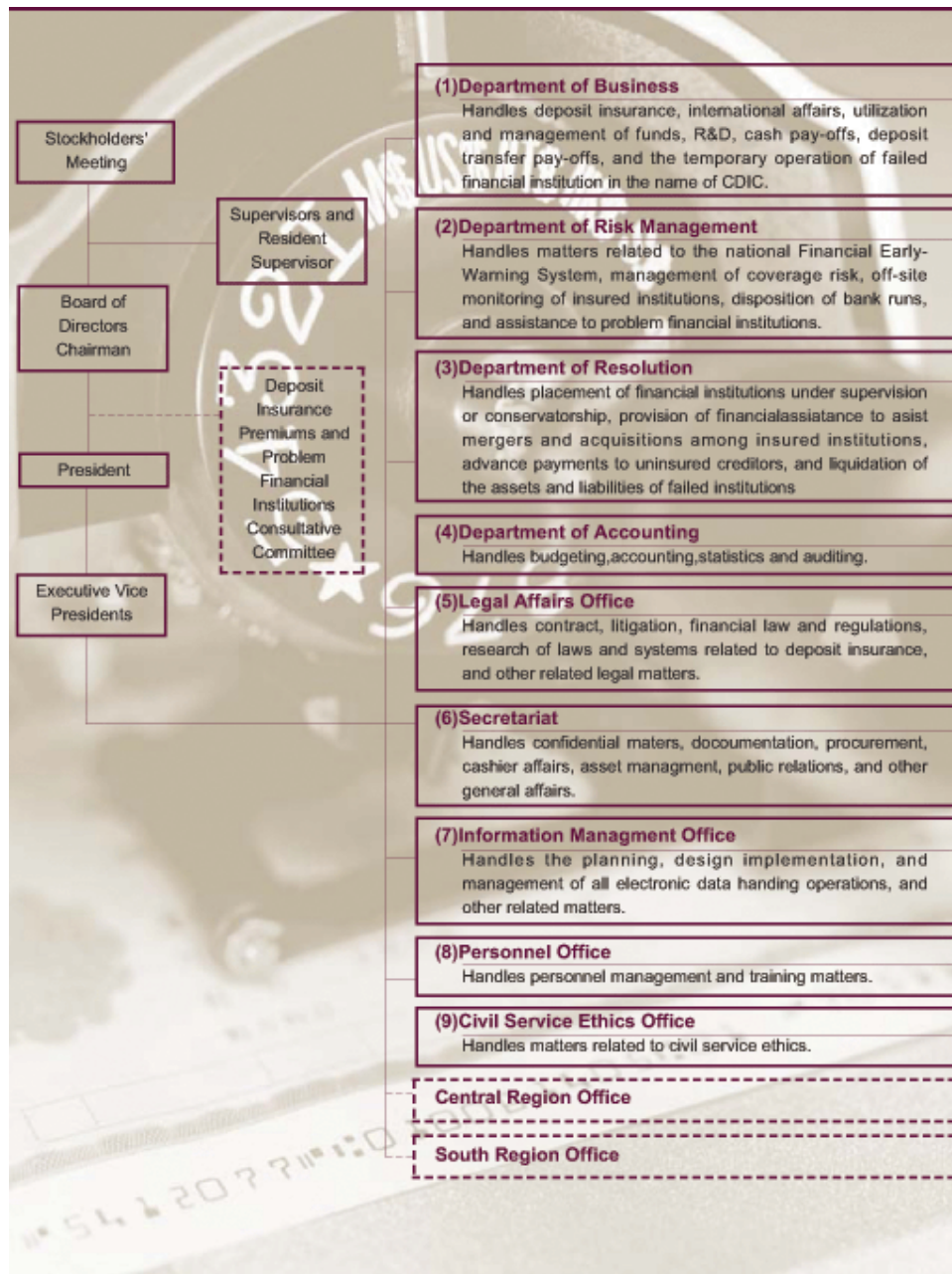
Chairman



President



Organization and Duties



Board of Directors, Supervisors and Senior Executives

Board of Directors

Chairman	Chin-Tsair Tsay (Representative of the Central Bank of China)
Directors	Fred S.C. Chen (Representative of the Central Bank of China)
	Cheng-Shang Chang (Representative of Ministry of Finance)
	Ming-Daw Chan (Representative of Ministry of Finance)
	Johnson C.S. Chen (Representative of Ministry of Finance)
	Hon-Zinn Lin (Representative of Ministry of Finance)
	David H.C. Lien (Representative of Ministry of Finance)

Supervisors

Resident Supervisor	Jiin-Tarng Yue (Representative of the Central Bank of China)
Supervisors	Kuo-Chung Hsu (Representative of Ministry of Finance)
	Tang-Chieh Wu (Representative of Ministry of Finance)

Senior Executives

President	Johnson C.S. Chen
Executive Vice Presidents	W.H. Lai
	L.C. Pan
	Howard N.H. Wang

Business Operations

CDIC is the sole government agency vested with the responsibility for handling deposit insurance in Taiwan. Its objectives are to safeguard the benefits of depositors in financial institutions, promote savings, maintain an orderly credit system, and enhance the sound development of financial operations. To facilitate legislative objectives, the *Deposit Insurance Act* vests CDIC with the major duties of handling deposit insurance, examining insured institutions, assisting problem institutions, and disposing failed institutions. In addition, the Executive Yuan Financial Restructuring Fund has entrusted CDIC with the policy mission of resolving problem financial institutions. The following is a brief overview of the major tasks and policy missions of CDIC in 2004:

1 · Deposit Insurance

Participation of Financial Institutions in Deposit Insurance

After Taiwan replaced its voluntary deposit insurance system with a mandatory system, all financial institutions legally permitted to accept deposits in Taiwan have become CDIC-insured institutions. The one exception at present is the Taipei branch of Deutsche Bank, which is covered under the German deposit insurance scheme and therefore legally exempted from the Taiwan system. Deposit insurance coverage extends to checking accounts, passbook deposits, time deposits, savings deposits, postal savings deposits, and trust funds whose uses are designated by the insured institutions on an agency basis. Coverage does not extend to foreign currency deposits, trust funds whose uses are designated by the trustors, and negotiable certificates of deposit. It also excludes amounts due to all levels of government, the Central Bank, banks, Chunghwa Post, trust and investment companies, credit cooperative associations, and the credit departments of farmers' and fishermen's associations; as well as the balance of those deposits exceeding the maximum insurance coverage offered to individual depositors. In 2004, as part of ongoing financial reform policies, two problem institutions were removed from the market under the Financial Restructuring Fund, and another three institutions were voluntarily merged or acquired, reducing the total number of insured institutions from 401 at the end of 2003 to 396 at the end of 2004.

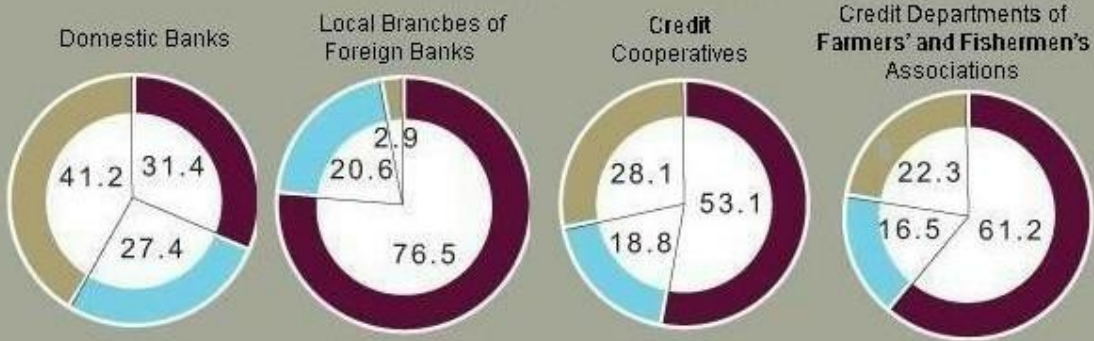
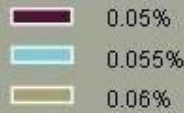
Implementation of the Risk-based Premium System

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

As of the end of 2004, approximately 55% of all insured institutions were subject to the 0.05% rate, about 20% were subject to the 0.055% rate, and about 25% were subject to the 0.06% rate. The amount of the accumulated deposit insurance pay-off special reserves as of that time totaled NT\$12.15 billion.

Risk-based Premium Rates by Institution Type

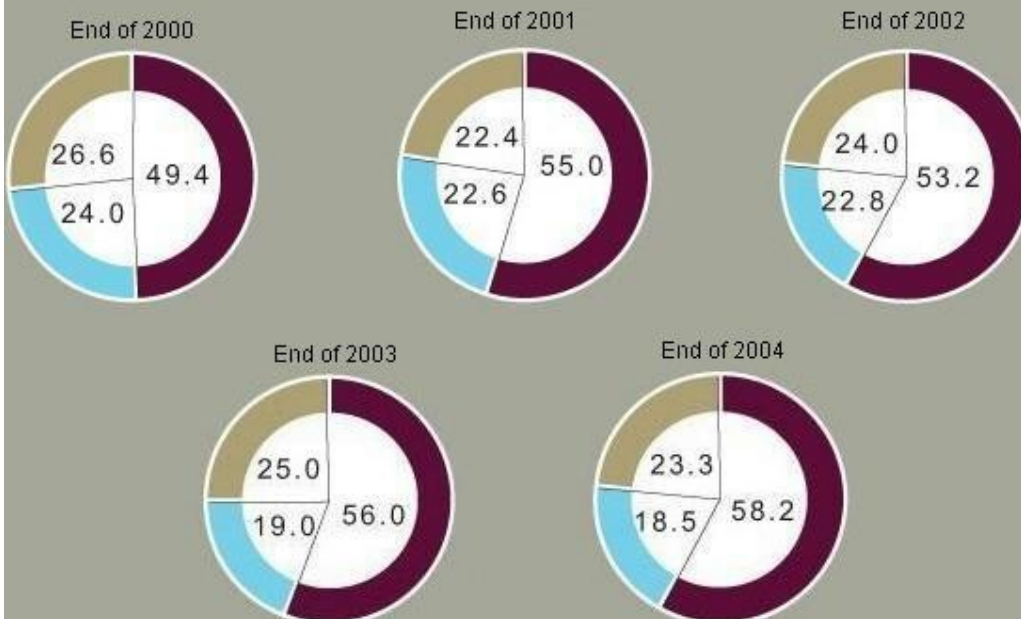
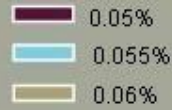
As at December 31, 2004
Unit: %



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

Comparison of Risk-based Premium Rates for All Institution Types(2000-2005)

As at December 31, 2004
Unit: %

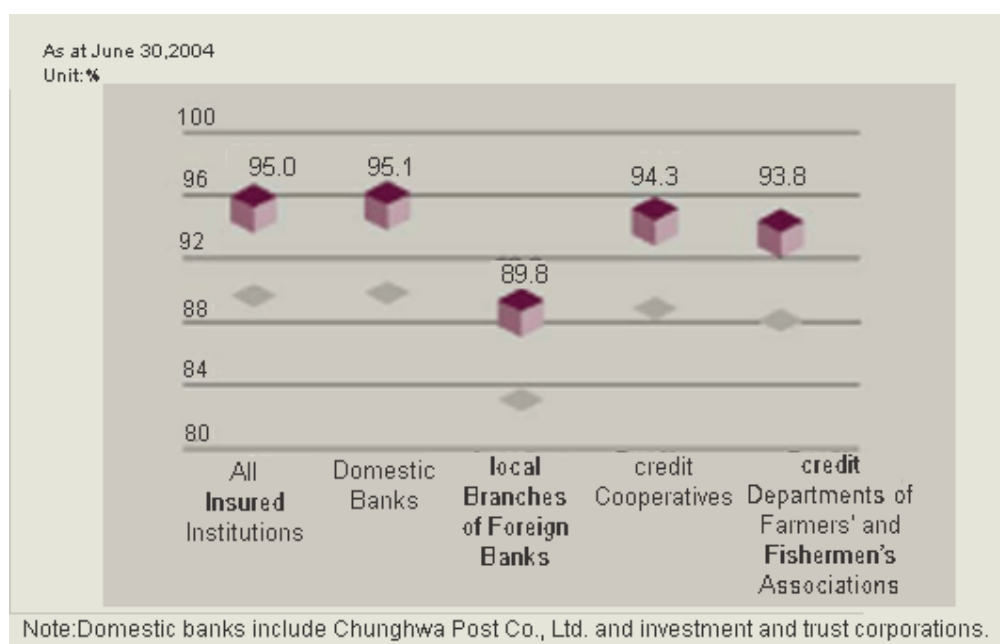


Note: Chunghwa Post Co., Ltd. is excluded from calculation of the figures.

Protection of Depositors and Deposits in the Insured Institutions

The maximum deposit insurance coverage provided by CDIC is currently set at NT\$1 million per depositor at each insured institution. According to figures reported by all insured institutions, total insurable deposits (at June 30, 2004) amounted to approximately NT\$19.78 trillion, of which about NT\$8.77 trillion were under the maximum coverage limit. The average ratio of insured deposits to total insurable deposits in all insured institutions was 44.3%. The average ratio of depositors whose deposits were under the maximum coverage to total depositors in all insured institutions was 95.0%. The average ratio of depositors whose deposits were under the maximum coverage to total depositors in all insured institutions was 95.0%. Domestic banks had the highest ratio in this regard, at 95.1%; while the local branches of foreign banks had the lowest ratio, at 89.8%. This indicates that the current maximum coverage of NT\$1 million is able to extend full protection to most small depositors.

Ratio of Depositors Covered by the NT\$1 million Deposit Insurance Limit to Total Insurable Depositors



Impact of the Financial Restructuring Fund on Deposit Insurance Coverage

During the effective period of the Financial Restructuring Fund (originally July 11, 2001 to July 10, 2004, but extended to July 10, 2005 by the Legislative Yuan on June 11, 2004), the full amount of deposits and interest at problem financial institutions handled by the Fund is covered, without being subject to the NT\$1 million coverage limit.

Measures Related to Expiration of the Financial Restructuring Fund

After the Financial Restructuring Fund expires on July 2005, Taiwan's deposit insurance will revert from a full coverage basis to the original limited coverage basis. In order to minimize the impact of this shift, CDIC has carried out various measures to raise public awareness of the return to the limited coverage system, including media promotions and the production and placement of public notices at insured institutions. It has also requested that insured institution branches with LED reader boards use such media to publicize the return to the limited coverage system (NT\$1 million for each depositor per institution) on July 10, 2005. CDIC has additionally arranged seminars at Taiwan Academy of Banking and Finance, Center for the Study of Banking and

Finance at National Taiwan University, and Turnaround Management Association of Taiwan to publicize the limited coverage system. It also arranged regional public discussion meetings to foster correct understanding the return to the original limited coverage system among banks, depositors and creditors and thereby uphold the stability of the financial system.

2 、 Examination Operations

In conjunction with the unification of financial supervisory agencies, the financial examination operations of CDIC were transferred to the Financial Supervisory Commission, Executive Yuan, on July 1, 2004. Prior to this change, the CDIC's Department of Bank Examination continued as before to carry out general-scope examinations and specific-scope examinations of insured institutions.

Status of Financial Examination

CDIC's financial examinations are primarily conducted on-site and secondarily via off-site monitoring. On-site examinations consist of general-scope examinations and specific-scope examinations. The former involve all aspects of a financial institution's operations, and their focus shifts along with changes in the financial environment; while the latter focus on specific areas of business as commissioned by the competent authority in response to abnormal changes in financial conditions or other unexpected events.

CDIC's examinations of financial institutions are categorized into the examinations of insured institutions and commissioned examinations. The former are carried out in accordance with Article 21 of the Deposit Insurance Act, the latter are undertaken in accordance with the Regulations Governing Ministry of Finance's Commissioning CDIC with the Examination of Community Financial Institutions. Since July 1996, CDIC has undertaken the examination of all community financial institutions. In addition, since December 1998, Ministry of Finance has, in accordance with Article 45 of the Banking Law, commissioned CDIC to examine all computer centers shared by such institutions. In the first half of 2004, CDIC completed 113 general-scope examinations for institutions' headquarters and 322 such examinations for their branches. It also conducted 11 specific-scope examinations of insured institutions, focusing on credit operations, asset assessment, follow-up on public tip-offs, and other specific matters aimed at controlling its insurance risk.

Coordinating Major Financial Examinations through the Financial Examination Committee

The Financial Examination Committee is composed of representatives from Ministry of Finance, the Central Bank of China, CDIC, and Taiwan Cooperative Bank. Its purpose is to plan and integrate the task of financial examination. In the first half of 2004, the Committee convened to discuss and work out specific measures regarding the drafting of the Financial Holding Company Auditing Work Assessment Guidelines, the reporting expression for bill and bond repo trade from outright trading method to financing method, the transfer of examination reports and follow-up assessment files, and other issues.

Participation in Combating Financial Crime

In order to prevent malfeasance by insured institutions, CDIC has designated special personnel to assist the Supervisory Committee for Investigation and Prosecution of Financial Crime, Ministry of Justice, in the investigation of financial crime so as to establish a highly disciplined, fair and just financial environment. CDIC also holds training courses on early detection of financial crime, applicable laws and regulations, and other related topics to enhance evidence gathering and examination ability.

Participation in the New Basel Capital Agreement Study Team

At the request of Ministry of Finance, CDIC participated in the Examination Supervision Group for the New Basel Capital Accord to be implemented by the Bank for International Settlements at the end of 2006. In this capacity, CDIC studied issues concerning new agreement monitoring techniques, procedures and laws, providing the authorities with a reference for the formulation of coordinating measures and the revision of financial regulations. The results of the studies were published on the website of Bureau of Monetary Affairs, MOF (currently Bureau of Monetary Affairs, Financial Supervisory Commission).

Revision of Key Items and Writing Methods of Examination Reports to Enhance Examination Effectiveness

CDIC regularly reviews and revises its methods of examination reporting, examination work drafts, key points for examination work, and questionnaires on financial institution operations to reflect environmental and regulatory changes in the financial sector. Such work in the first half of 2004 included: revision of legal ratios, deposit, loan, and internal control operations of the credit departments of farmers' and fishermen's associations in line with amendments to the *Agricultural Finance Law*; disclosure of credit card and debit card financial affairs and business operations; and enhancement of self-discipline mechanisms in the interbank foreign exchange market.

Examiner Training

CDIC commissions the Taiwan Academy of Banking and Finance and other finance professional training institutes to provide training aimed at enhancing the professional ability of CDIC staff. It also holds discussions on examination case studies to facilitate the sharing of examination experience. In the first half of 2004, CDIC arranged three professional training courses and 34 case-study discussions. The activities contributed significantly to the enhancement of examination quality, covering such topics as: bills operations and examination, trust operations, new financial products, the New Basel Capital Accord, and ebanking security control.

3 · Risk Management

Reforming the Financial Early-warning System

CDIC implemented the National Financial Early-warning System to closely track the operating status and financial conditions of financial institutions and detect problem financial institutions in a timely manner, as well as to provide a reference for making relevant regulatory policies. It also makes necessary adjustments and

revisions to the system to meet changing financial conditions and supervision needs. Major operations concerning early-warning operations in 2004 are summarized as follows:

- a. In order to promote information sharing among financial regulatory agencies and thereby enhance regulatory effectiveness, CDIC regularly submits to the competent authorities the results of examination assessments, "Quarterly Analysis Report of Community Financial Institutions" " Report on the Ranking of Data of Financial Institutions", and "Table of Major Financial Operations of Community Financial Institutions". Such information facilitates the timely monitoring of the financial and business status of financial institutions, the timely correction of business deficiencies, and improvement of regulatory and control efficiency.
- b. In line with the government policy of public disclosure of information on financial institutions, CDIC published summarized information of the "Quarterly National Statistical Report on the Financial Data and Related Indicators of Community Financial Institutions" in its Deposit Insurance Journal and on CDIC website. Such channels provide public access to information on financial institution operations and reinforce the function of market discipline.
- c. Internet-based data transmission monitoring systems between CDIC and financial institutions are used for timely acquisition of warnings about abnormal changes in the operations of financial institutions. CDIC conveys related questions to financial institutions and requests the competent authority to oversee the institutions with operational deficiencies to make improvement in accordance with the regulations so as to reduce insurance risk.
- d. In order to meet financial supervision needs, CDIC revised certain media application formats for credit cooperative associations. Additional items on the forms include foreign currency assets and liabilities and credit observation information. Moreover, all such applications must be filed online as of July 2004.
- e. In response to the competent authority's revised definition of overdue loans, CDIC expanded the definition of information disclosure on overdue loan amounts and ratios under the Financial Earlywarning System to so as to more closely track information on the operations of insured institutions.
- f. In order to have better operational information regarding the insurance risk of the banking subsidiaries of financial holding companies, CDIC compiled basic information on financial holding companies from Bureau of Monetary Affairs, Financial Supervisory Commission. Such information is used to facilitate follow-up work by special assistants.

Follow-up Evaluation

In conjunction with the implementation of the *Agricultural Finance Law* and the establishment of Financial Supervisory Commission, responsibility for follow-up evaluation of financial examination deficiencies was shifted to Council of Agriculture and Financial Supervisory Commission on June 1 and July 1, 2004, respectively. CDIC follow-up evaluations prior to that time are summarized below:

- a. Establishing and Updating Files on Insured Institutions
Files on the basic data, business deficiencies, and operational status of insured institutions were established and updated in order to firmly track such information. In addition, CDIC established specific

files on significant unexpected events, special warning signal items, and institutions with high dishonored check ratios, to serve as a reference in carrying out specific-scope and follow-up evaluations aimed at controlling the operating risk of insured institutions.

b. Follow-up Evaluation of the Deficiencies of Insured Institutions

CDIC prepared written examination opinions on financial institutions subject to its examination. It also submitted written requests to relevant agencies and examined institutions to conduct on-site follow-up examinations in cases involving major operational deficiencies. In addition, CDIC carried out specific-scope follow-up evaluations on-site at insured institutions with abnormal operating conditions.

c. Examining the Internal Auditing of Institutions

CDIC reviewed the internal audit reports and self-evaluation work of examined institutions in order to understand the outcomes of internal auditing work and related internal deficiencies of these institutions, as well as provide a valuable reference for examination work. CDIC also asked examined institutions with major deficiencies to review and improve such deficiencies so as to make sure that the internal auditing function is carried through.

d. Handling of Public Complaints and Tip-offs

Public complaints and tip-offs received by CDIC are incorporated into the corporation's general-scope examinations or are investigated as special cases. The results are handled in accordance with the regulations, and replies are issued to those making the complaints or tip-offs.

Assistance to Insured Institutions

a. Strengthened Analysis of the Insurance Risk of Insured Institutions

In order to reduce insurance risk and uphold the order of the financial system, CDIC has adopted a special account management system for insured institutions with major business deficiencies. It has also strengthened insurance risk analysis and assessment to facilitate timely implementation of handling measures.

b. Arrangement of Discussions with Officers of Problem Institutions

CDIC requests the responsible officers or relevant staff at problem institutions to present statements on the institution's financial and business conditions and to study measure to assist the improvement of the institution's operations.

c. Attendance of Important Meetings of Insured Institutions

At the instruction of the competent authority, CDIC dispatched personnel to attend meetings of the board of directors, regular shareholder meetings, and other important meetings of insured institutions to provide assistance and guidance on important policy issues. CDIC also dispatched personnel to attend related assistance meetings convened by the competent authority and coordinated closely with the competent authority to strengthen operational assistance to insured institutions.

d. Provision of Joint Assistance with Local Governments

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

e. On-site Assistance to Insured Institutions

At the instruction of the competent authority, CDIC dispatched personnel to provide on-site assistance to two insured institutions, helping them to effectively control their moral hazard.

f. **Assisting Insured Institutions in Handling Panic Runs**

In 2004, one insured institution encountered a panic run. In this case, CDIC dispatched personnel to the affected institution to assist in handling the situation, effectively stabilizing the order of the financial system. A report by CDIC personnel on the circumstances and suggestions regarding the handling of the bank run was submitted to the competent authority for its reference.

Enhancing Information Exchange and Coordinating Resolution Mechanisms with Supervisory and Regulatory Agencies

- a. CDIC held regular meetings with financial supervisory agencies to strengthen information exchange with such bodies and develop cooperation and liaison with them on handling problem institutions.
 - b. Work was completed on an online inquiry system that enables Bureau of Monetary Affairs, Financial Supervisory Commission to access data from the CDIC's Financial Early-warning System. CDIC also dispatched personnel to attend meetings on the establishment of standards for financial supervisory and management information and a single-window reporting mechanism, so as to facilitate information sharing among relevant bodies.
 - c. CDIC and Bureau of Agricultural Finance (BAF), Council of Agriculture convened a meeting for initial discussions on information sharing and exchange. The meeting achieved a consensus on this issue, and it also provided BAF with information on reporting formats for the credit departments of farmers' and fishermen's associations under the CDIC's Financial Earlywarning System as reference for BAF's establishment of a media reporting system for such credit departments.
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4 、 Resolution

Conservatorship and Disposition of Problem Institutions

In 2004, CDIC assumed conservatorship of the following problem institutions as directed by the competent authority (see Chapter VII of this report for details):

- a. **Conservatorship of Chung Shing Bank, and Entrustment of Operational Management to Land Bank of Taiwan**
With expanded funding for the Financial Restructuring Fund still pending approval by the Legislative Yuan, CDIC continued to act as conservator of Chung Shing Bank so as to speedily resolve the operational problems of the bank. CDIC was in charge of the tender of Chung Shing's non-performing loans (NPLs) and follow-up sale of the bank's assets, liabilities and operations. With approval from the competent authority, CDIC entrusted the management of Chung Shing's operations to Land Bank of Taiwan.

b. Conservatorship of Kaohsiung Business Bank

Ministry of Finance (MOF) placed Kaohsiung Business Bank under CDIC conservatorship on Jan. 28, 2002, due to the continued deterioration of the bank's asset quality, negative adjusted net worth, and inability to carry out a capital increase within the stipulated time limit. MOF also vested CDIC with authority to exercise the powers of the bank's shareholders' meeting, board of directors, and board of supervisors during the period of conservatorship. The Financial Restructuring Fund Management Committee resolved to list the bank as an object of disposition. In late May of 2004, the bank's assets, liabilities and operations were auctioned to E. Sun Bank. The sales transaction was completed in September of the same year. Since the trust operations of the bank remain to be disposed, yet do not yet come within the applicable scope of sale by tender, the bank remained under CDIC conservatorship through the end of the year.

c. Conservatorship of Fengshan Credit Cooperative

Ministry of Finance (MOF) placed Fengshan Credit Cooperative in Kaohsiung County under on-site conservatorship by CDIC on April 2, 2004, due to a continued deterioration of the bank's financial and business condition, failure to make significant improvements after months of intensive assistance, and the bank's negative adjusted net worth. The ministry also authorized CDIC to exercise the powers of the bank's shareholders' meeting, board of directors, and board of supervisors during the period of conservatorship. With the approval of the Financial Restructuring Fund and MOF, CDIC sold all of the operations, assets and liabilities of the bank by tender to Chinatrust Commercial Bank on July 5, 2004. The transaction was completed on October 1.

Training Personnel to Carry Out Duties Commissioned by the Fund

- a. Eight study courses were arranged to pass down experience in the disposition of problem financial institutions, and to improve the knowledge of CDIC staff with regards to on-site conservatorship and tender sale operations.
- b. Training courses led by scholars and experts were provided to augment the professional knowledge of CDIC staff in regards to merger and acquisition affairs in the disposal of problem financial institutions.

5 、 Computerization

- a. The Financial Institution Operation Analysis and Quarterly Reporting System was established to strengthen analysis of the financial data and operating status of insured institutions.
- b. The Operation Analysis and Quarterly Reporting System, Call Report Ranking System, Financial Institution Network Monitoring System, and Financial Early-warning System were amended to account for revisions to the formats for financial institution call report information media and the promulgation of related bylaws to the *Agricultural Finance Law*.

- c. A virtual private network (VPN) was established between Bureau of Monetary Affairs, Financial Supervisory Commission and CDIC to provide examiners with online access to data in the Financial Early-warning System and facilitate information sharing.
 - d. CDIC's website was redesigned to improve access for the visually impaired, as called for by the Research, Development and Evaluation Commission, Executive Yuan.
 - e. CDIC adopted a web-based word processing system and adjusted the reporting formats of various information application systems in accordance with the Executive Yuan's promotion of a horizontal writing format for government documents.
 - f. CDIC's LAN operating system was upgraded to Microsoft's 2003 system. New functions include: network hard drive applications, network shared software, web faxing, online diagnostics, remote office, and wireless network operations.
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6 · Research and Development

In order to develop its operations in step with rapid changes in the financial environment, CDIC has gathered feedback and views from insured institutions and collected information related to the latest developments in deposit insurance and financial supervision both at home and abroad. The major research achievements of CDIC in 2004 are summarized below:

- a. Completion of Draft Revisions to the *Deposit Insurance Act*

Since the implementation of the Agricultural Finance Law in 2004, supervision and management of agricultural financial institutions has been under the charge of Council of Agriculture. This supervisory mechanism differs from that of Financial Supervisory Commission for banks and other such financial institutions under the Banking Law. Moreover, after the termination of the Financial Restructuring Fund, the deposit insurance mechanism will resume charge for disposal of problem financial institutions. CDIC therefore has been thoroughly reviewing the current deposit insurance mechanism in line with these financial reforms in order to effectively control insurance risk and realize the full functioning of the financial safety net. Following several review meetings, CDIC prepared draft revisions to the Deposit Insurance Act in September 2004 and presented them for review by Financial Supervisory Commission. The major revisions were as follows: establishment of two special indemnity funds in accordance with the Agricultural Finance Law; adjustment of current blanket coverage methods to require new financial institutions to apply for participation in the deposit insurance system and to become insured institutions following examination and approval; strengthening of risk management mechanisms by clearly stipulating matters regarding authority for examination of insured institutions and termination of insurance; amendment of methods of performance of insurance obligations, including clarification of methods for calculating compensation amounts; and drafting of regulations related to the expiration of the Financial Restructuring Fund. In late December, Financial Supervisory

Commission submitted the revised Act to Executive Yuan, which has forwarded it to Legislative Yuan for deliberation.

b. Commissioned Study on Deposit Insurance Mechanisms

The Center for the Study of Banking and Finance at National Taiwan University was commissioned to conduct a study and hold a seminar to provide as a reference on the setting of target value, maximum coverage, and premium rate for the deposit insurance fund following the expiration of the Financial Restructuring Fund and return to a limited coverage system. The report was completed in August 2004 and presented to the competent authority for examination.

c. Survey of Financial Restructuring Fund

The Financial Restructuring Fund completed conservatorship operations for 36 credit departments of farmers' and fishermen's associations as part of national financial reforms. In order to publicly disclose such operations and follow-up disposal matters in a timely manner, CDIC was entrusted by the Financial Restructuring Fund Management Committee to commission a professional and objective survey organization to design questionnaire-based surveys on the topics of: "Level of Customer Satisfaction with the Efficacy of Disposal Operations Under the Financial Restructuring Fund" and "Level of Satisfaction on the Reassigned Rights of 36 problem Financial Institutions' Personnel". The survey results were submitted to the Financial Restructuring Fund for reference on disposal efficacy.

d. The seventh and eighth meetings of the CDIC Deposit Insurance Premium and Problem Financial Institutions Consultative Committee were held to discuss reorganization of CDIC, coordination of relations between the CDIC and the competent authority for the financial sector, and improvements to deposit insurance functions. Committee members made several invaluable suggestions to serve as a reference for CDIC revisions to the *Deposit Insurance Act* and other related operational plans.

e. Special Research and Summary Translation Reports

CDIC collects important up-to-date information on deposit insurance and financial supervision from Taiwan and abroad. It also writes and translates research reports under commission of the Financial Restructuring Fund. In 2004, CDIC prepared more than 10 reports, including a study on "Revision of Network Transmitted Alarm Standards" and a translation of a study on the "Review of Risk-based Premium Regulations in the U.S.A."

f. Publication of the Deposit Insurance Journal

CDIC's Deposit Insurance Journal features articles by experts and scholars on the operational management of financial institutions, financial theory and affairs, financial supervision, and case studies of successful and failed financial institutions in Taiwan and abroad. The journal is distributed to relevant government departments, financial institutions, universities and colleges, public representatives at all level, and libraries and cultural centers for reference purposes.

g. Publication of Deposit Insurance Reports

A series of six reports on overseas inspections and research conducted by CDIC staff in 2003 were published as a reference for relevant government departments, financial institutions, academic organizations, experts and scholars.

7 、 International Exchange

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

Participation in IADI Activities

CDIC was selected by the International Association of Deposit Insurers (IADI) to host a meeting of a subcommittee in charge of promoting the drafting of international standards for the disposal of problem institutions. CDIC was also elected to host the Asia Regional Research Subcommittee, which is in charge of studying issues concerning "Transition from Blanket Guarantee to Limited Deposit Insurance Coverage System" and "Sources of for Liquidity Deposit Insurance Fund". In addition, CDIC will host the IADI Fourth Annual Conference and Third Asia Regional Committee Meeting in 2005. More than 100 representatives from over 50 countries are expected to attend these events. CDIC will brief its recent promotion of international standards and the results of two studies on above Conference/ Meeting.

International Symposiums

- a. In order to promote recent developments in international finance and financial supervision in Taiwan, as well as to facilitate the transition from a blanket deposit insurance coverage system to a limited coverage system, CDIC held an "International Symposium on Risk Management in the Post Financial Restructuring Fund Era" on September 23 and 24 at the Sheraton Taipei Hotel. International speakers presented keynote addresses on the New Basel Capital Accord, international financial risk management trends, the experience of Japan and Korea in shifting from a blanket to limited deposit insurance system, and other related issues. About 400 representatives of the business, government, and academic sectors attended the symposium. CDIC published the symposium proceedings for distribution to all insured institutions and other relevant bodies for reference. The proceedings are also available from the CDIC website.
- b. CDIC, Korea Deposit Insurance Corporation (KDIC), and Deposit Insurance Corporation of Japan (DICJ) jointly organized an international symposium in Seoul, Korea, on November 18 and 19 to discuss issues concerning the powers of deposit insurance corporations to investigate the employees of insured institutions and bankrupt companies.

Other International Exchange Activities

In 2004, representatives of Canada Deposit Insurance Corporation, DICJ, KDIC, Committee on Management of Deposit Insurance Fund for Mutual Banking Business of Primary Agricultural Cooperatives, Korea, Korea Asset Management Corporation, Indonesian Bank Restructuring Agency, Value Recovery Group of the U.S., Taiwan Ratings Corporation and its overseas shareholder Standard & Poor of the U.S., and other international financial-related bodies visited CDIC to exchange views on economics, finance, financial affairs, legal and regulatory revisions, and R&D issues. CDIC Chairman Chin-Tsair Tsay and President Johnson S.C. Chen were also invited to participate, respectively, in an APEC strategy meeting hosted by the Central Bank of Malaysia in Kuala Lumpur, the Seventh International Symposium of the Federal Reserve Bank of Chicago, and the Sixth Conference of Directors of Supervision of Asia Pacific Economies hosted by the South East Asian Central Banks (SEACEN) Research and Training Center in Kuala Lumpur.



Mr. Chin-Tsair Tsay, CDIC Chairman, participated in the meetings of IADI Executive Council.



Mr. Johnson Chen, CDIC President, participated in the 2nd ARC/ IADI Annual Meeting held in Japan.



Mr. Chin-Tsair Tsay, CDIC Chairman, shared experience with Mr. Istvan Farkas, Chairman of the Board of the Hungarian Financial Supervisory Authority, and Mr. Daniel Janossy, Managing Director of the National Deposit Insurance Fund of Hungary.

8 · Human Resources

Employee Structure

Year	No. of Employees	Avg. Age of Employees	Educational Attainment of Employees		
			Graduate School	College	Other
2004	162	41	29	129	4
2003	287	40	46	234	7
2002	290	38	45	237	8
2001	294	38	43	242	9
2000	282	38	43	230	9
1999	291	35	51	231	9

Department breakdown of CDIC staff:

Dept. of Risk Management	43	Dept. of Resolution	46	Dept. of Business	16
Legal Affairs Office	8	Dept. of Accounting	10	Secretariat	20
Personnel Office	5	Information Management Office	13	Civil Service Ethics Office	1

Personnel Reassignment

Following the establishment of Financial Supervisory Commission on July 1, 2004, and in conjunction with the unification of financial supervisory agencies, CDIC reassigned 143 staff members to the Commission. To ensure the rights of these employees, CDIC formed a working group to be in charge of liaison, communication and coordination with relevant agencies over reassignment matters. CDIC also participated in several meetings of the Commission Planning Subcommittee and meetings of various competent authorities on reassigned employee rights, during which it presented several suggestions. CDIC has also strengthened training programs for reassigned employees in order to ensure the successful completion of the reassignment process.

Contract Employees

In response to the large-scale reassignment of examination personnel, and in order to strengthen its ability to dispose problem financial institution, CDIC adjusted its manpower structure and approved the hiring of 24 special contract employees.

Personnel Training

The following training programs were carried out in 2004 to upgrade the quality of CDIC employees and strengthen their professional know-how:

- a. Personnel were sent to participate in intensive professional training programs offered by such institutions as the Taiwan Academy of Banking and Finance, Institute for Information Industry, and Training Program for Government Personnel.
- b. CDIC organized monthly professional business seminars, with lectures by outstanding senior CDIC bank examiners and outside experts as well as examination case studies.
- c. CDIC personnel were sent overseas for study and observation, 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 speaking ability of CDIC executives, CDIC holds weekly international ceremony-related training, international business speaking workshops, and conference/meeting English classes. English and Japanese classes are also offered once or twice a week to upgrade the foreign language proficiency of CDIC personnel.

Financial Statements and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

NO. 121493EA

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, 2004 and 2003, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion based on our examinations, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Central Deposit Insurance Corporation as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with the law and with Republic of China generally accepted accounting principles applied on a consistent basis.

Clock & Co., CPAs



Yin-Lai Chou, CPA

January 27, 2005

CENTRAL DEPOSIT INSURANCE CORPORATION
BALANCE SHEETS
DECEMBER 31, 2004 and 2003

(Expressed in New Taiwan Thousand Dollars)
NTS/US\$=31.917

ASSETS	NOTES	2004		2003	
		Amount	%	Amount	%
CURRENT ASSETS		\$24,187,995	98	\$23,703,920	98
Cash and Cash Equivalents	3	18,537,754	75	17,737,435	73
Short-Term Investments	2,4	5,335,297	22	5,683,390	24
Receivables	5	301,076	1	262,572	1
Prepayments		12,314	—	18,986	—
Other Current Assets	6	1,554	—	1,537	—
FIXED ASSETS-NET	2,7	553,273	2	557,620	2
Cost		596,778	2	597,724	2
Land		228,833	1	228,833	1
Buildings		265,486	1	265,486	2
Machinery and Equipment		67,065	—	71,078	—
Transportation Equipment		14,231	—	16,323	—
Other Equipment		18,665	—	20,017	—
Revaluation Increment		66,149	—	66,149	—
Less Accumulated Depreciation		109,654	—	106,253	—
Buildings		55,195	—	50,460	—
Machinery and Equipment		37,177	—	34,681	—
Transportation Equipment		6,104	—	8,625	—
Other Equipment		11,178	—	12,487	—
INTANGIBLE ASSETS	2,8	3,206	—	4,529	—
OTHER ASSETS		351	—	456	—
Guarantee Deposits Paid		351	—	454	—
Other Deferred Charges		—	—	2	—
TOTAL ASSETS		\$24,744,825	100	\$24,266,525	100
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES		\$ 1,287,738	5	\$2,017,614	9
Marketable Securities Sold Under Repurchase Agreement	2,9	1,203,242	5	1,906,424	8
Payables	10	84,496	-	111,190	1
LONG-TERM LIABILITIES					
Reserve for Land Revaluation Increment Tax		25,551	-	25,551	-
OTHER LIABILITIES		12,154,772	49	10,946,596	45
Reserve for Special Compensation		12,153,407	49	10,945,933	45

Guarantee Deposits Received		1,365	-	663	-
TOTAL LIABILITIES		13,468,061	54	12,989,761	54
CAPITAL STOCK	11	10,000,000	41	10,000,000	41
CAPITAL SURPLUS Reserve for Asset Revaluation Increment		40,598	-	40,598	-
RETAINED EARNINGS		1,236,166	5	1,236,166	5
Legal Reserve		235,700	1	235,700	1
Special Reserve		1,000,466	4	1,000,077	4
TOTAL STOCKHOLDERS' EQUITY		11,276,764	46	11,276,764	46
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$24,744,825	100	\$24,266,525	100

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

CENTRAL DEPOSIT INSURANCE CORPORATION
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003

(Expressed in New Taiwan Thousand Dollars)
NTS/US\$=31.917

Description	NOTES	2004		2003	
		Amount	%	Amount	%
OPERATING INCOME		\$4,347,860	100	\$4,249,393	100
Interest Revenue		438,925	10	483,551	11
Premiums Revenue		3,908,935	90	3,765,842	89
OPERATING COSTS		3,842,710	88	3,839,771	90
Handling Fees		435	—	389	—
Insurance Expenses		198	—	108	—
Interest Expenses		11,098	—	14,338	—
Special Loss Reserve Provisions		1,207,475	28	1,215,101	29
Finance Restructuring Fund Expenses		2,529,146	58	2,435,210	57
Loss on Trading of Notes and Bills		—	—	3	—
Agent Fees		94,358	2	174,622	4
GROSS PROFIT		505,150	12	409,622	10
OPERATING EXPENSES		420,077	10	404,756	10
Transaction Expenses		357,779	9	343,693	8
General & Administrative Expenses		55,400	1	54,076	2
Other Operating Expenses		6,987	—	6,987	—
OPERATING INCOME		85,073	2	4,866	—
NON-OPERATING INCOME		900	—	188	—
Indemnity Income		3	—	3	—
Other Income		897	—	185	—
NON-OPERATING EXPENSES		85,973	—	5,054	—
Loss on Disposal of Assets		2,127	—	2,371	—

Other Expenses	13	83,846	—	2,683	—
INCOME BEFORE INCOME TAX		—	—	—	—
INCOME TAX	12	—	—	—	—
NET INCOME		\$—	—	\$—	—
EARNINGS PER SHARE		\$—	—	\$—	—

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

CENTRAL DEPOSIT INSURANCE CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003

(Expressed in New Taiwan Thousand Dollars)

NTS/US\$=31.917

DESCRIPTION	CAPITAL STOCK	CAPITAL SURPLUS	RETAINED EARNINGS			TOTAL
			Legal Reserve	Special Reserve	Unappropriated Retained Earnings	
BALANCE, JANUARY 1, 2003	\$10,000,000	\$ 40,598	\$ 235,700	\$ 1,000,077	\$389	\$11,276,764
Transfer from Unappropriated Retained Earnings				389	(389)	—
BALANCE, DECEMBER 31, 2003	10,000,000	40,598	235,700	1,000,466	—	11,276,764
BALANCE, DECEMBER 31, 2004	\$10,000,000	\$ 40,598	\$ 235,700	\$ 1,000,466	\$—	\$11,276,764

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

CENTRAL DEPOSIT INSURANCE CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003

(Expressed in New Taiwan Thousand Dollars)

NTS/US\$=31.917

DESCRIPTION	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$—	\$—
Adjustments		
Depreciation	14,744	15,661
Amortization	3,010	3,489
Insurance Pay-off Special Reserves	1,207,474	1,284,062
Net Loss on Disposal of Fixed Assets	2,127	2,371

Changes in Assets and Liabilities :		
Receivables	(38,504)	(16,628)
Prepayments	6,672	(932)
Other Current Assets	(17)	(363)
Marketable Securities Sold Under Repurchase Agreement	(703,182)	286,959
Payables	(26,694)	(29,011)
Net Cash Provided by Operating Activities	465,630	1,545,608
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in Short-Term Investments	348,093	(1,583,950)
Intangible Assets Increase	(1,685)	(1,118)
Decrease in Guarantee Deposits Paid	103	6,505
Acquisition of Fixed Assets	(12,570)	(10,730)
Proceeds from Disposal of Fixed Assets	46	82
Net Cash Provided by (Used in) Investing Activities	333,987	(1,589,211)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (Decrease) in Guarantee Deposits Received	702	(836)
Increase (Decrease) in Temporary Receipts and Suspense	—	(20)
Net Cash Provided by (Used in) Financing Activities	702	(856)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	800,319	(44,459)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	17,737,435	17,781,894
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 18,537,754	\$17,737,435
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest Expense Paid (Net of Amount Capitalized)	\$11,250	\$14,480

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

CENTRAL DEPOSIT INSURANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 and 2003

1. GENERAL

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

The Corporation is a government-run organization of which the capital is contributed by Ministry of Finance, Central Bank of China and five insured financial institutions based on the shares that each of them has purchased. Ministry of Finance decreed that the shares were not to be issued publicly. The Corporation's approved capital stock is NT\$10,000,000,000, divided into 1,000,000,000 shares with a face value at NT\$10 each. The number of shares issued is 1,000,000,000. Ministry of Finance and the Central Bank of China are the major shareholders of the Corporation.

As of December 31, 2004, the ratio of their shareholding was 99.9995%. The Corporation's major businesses includes deposit insurance, bank supervision, operation of the financial early-warning system, and follow-up evaluation, as well as the provision of assistance, supervision and conservatorship. The objectives of insurance are focused on financial institutions that engage in deposit-taking business, including banks, trust and investment companies, local branches of foreign banks, credit cooperative associations, credit departments of farmers' and fishermen's associations, and the postal savings system. In order to comply with the Agricultural Finance Act and the unified financial supervisory system, the Corporation has transferred its financial supervision functions to the Financial Supervisory Commission, the Executive Yuan since July 1, 2004 while the follow-up evaluation tasks has been transferred to the Council of Agriculture, Executive Yuan and the Financial Supervisory Commission, the Executive Yuan since June 1 and July 1 of the same year respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

(1) General Accounting Practice & Financial Statements Preparation

As the Corporation is a government-run organization, its accounting criteria are subject to the Budget Law, the Audit Law, 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 provided by Ministry of Audit, Control Yuan, for the accounting affairs of government-run organizations. Matters not provided in the law are dealt with in accordance with generally accepted accounting principles. Annual accounting settlements are examined by Directorate General of Budget, Accounting & Statistics, Executive Yuan, and Ministry of Audit, Control Yuan serves as the authority for final approval. As of 2003, the Corporation's account books were completely examined by Directorate General of Budget, Accounting & Statistics, Executive Yuan and Ministry of Audit, Control Yuan. Consequently, the balance at the beginning of 2004 was subject to the balance at the end of 2003, which has been examined by Ministry of Audit, Control Yuan.

(2) Short-Term Investments

According to the Deposit Insurance Act, the Corporation's funds have to be deposited with the Central Bank of China or with financial institutions that have been approved by the competent authority to provide government bonds as guarantees. Except for the allowance for regular expenses and for special purposes as provided in Articles 15, 16 & 17 of the Deposit Insurance Act, the use of the funds shall be limited to the investment in government bonds and bank debentures.

(3) Marketable Securities Sold Under Repurchase Agreement

Bond transactions are listed as repurchased bond liabilities based on the quality of transaction purposes.

(4) Fixed Assets

Fixed assets are recorded at cost. Major improvements, renewals and replacements are capitalized, while repairs and maintenance are expensed currently. When assets are disposed of, the cost and related accumulated depreciation are removed from the accounts based on the estimated durable period with the Straight-line Method, and any gain or loss is credited or charged to income.

(5) Intangible Assets

Computer software is recorded on the books at cost and amortized at an average rate over 3 years by the Straight-line Method.

(6) Employees' Pension

The Corporation deals with employee retirement, consolation and demobilization in accordance with the "Retirement, Consolation and Demobilization Regulations for Government-run Financial and Insurance Institutions Under ministry of Finance". According to Article 41-1 of the Regulations, the pension offered will be calculated in accordance with the Labor Standard Law based on the length of an employee's service in the Corporation after the applicable Labor Standards Law went into effect (on Mar. 1, 1998). The length of the employee's service in the Corporation before the Labor Standards Law went into effect will be taken as reserve length of service according to the law for the purpose of allocating public savings (4%~8.5% of salary) and private savings (3% of salary) per month. The calculation of the employee pension offered by the Corporation is based on the length of an employee's service and salary at the time of retirement. At present, the Corporation appropriates 9.91% of salaries for the labor pension fund.

The Corporation commissions an actuary to allocate the pension fund payment for which the Corporation is responsible according to relevant regulations and to deposit it in the special labor pension account opened by the Corporation's Employees Pension Supervision Committee and Labor Retirement Fund Supervision Committee in the Central Trust of China.

(7) Income Tax

The Corporation executes accounting settlement at the end of the fiscal year. All earnings are placed in the special reserve for deposit insurance pay-offs in accordance with the Deposit Insurance Act. There is no profit before tax.

(8) Limitation of Earning Allocation

According to Article 7 of the Deposit Insurance Act, "The Central Deposit Insurance Corporation carries out accounting settlement at the end of the business year. All earnings will be placed in their entirety in the special reserve for deposit insurance pay-offs. The relevant provisions in the Company Law are not applicable to the Corporation." In addition, according to Article 38 of the Corporation's Articles of Incorporation, "The Corporation carries out accounting settlement at the end of the fiscal year. All earnings are placed in their entirety into the special reserve for deposit insurance pay-offs in accordance with Article 7 of the Deposit Insurance Act."

3. CASH AND CASH EQUIVALENTS

Unit : NTS thousand

	2004	2003
Petty Cash	\$375	\$375
Checking Deposits	13,379	8,060
Time Deposits	18,524,000	17,729,000
Total	\$18,537,754	\$17,737,435

4. SHORT-TERM INVESTMENTS

Unit : NTS thousand

	2004	2003
Bonds	\$ 5,335,297	\$ 5,683,390

5. RECEIVABLE

Unit : NTS thousand

	2004	2003
Tax Receivable	\$102,064	\$55,539
Interest Receivable	199,012	207,033
Total	\$301,076	\$262,572

6. OTHER CURRENT ASSETS

Unit : NTS thousand

	2004	2003
Provisional Amount Paid for Others	\$1,053	\$1,131
Insurance Premiums Paid for Others	501	406
Total	\$1,554	\$1,537

7. FIXED ASSETS

Unit : NT\$ thousand

2004				
	Cost	Revaluation Increment	Accumulated Depreciation	Net
Land	\$228,833	\$ 66,149	\$—	\$294,982
Buildings	265,486	—	55,195	210,291
Machinery and Equipment	69,563	—	37,177	32,386
Transportation Equipment	14,231	—	6,104	8,127
Other Equipment	18,665	—	11,178	7,487
Total	\$596,778	\$ 66,149	\$ 109,654	\$ 553,273

2003				
	Cost	Revaluation Increment	Accumulated Depreciation	Net
Land	\$228,833	\$ 66,149	\$—	\$294,982
Buildings	265,486	—	50,460	215,026
Machinery and Equipment	67,065	—	34,681	32,384
Transportation Equipment	16,323	—	8,625	7,698
Other Equipment	20,017	—	12,487	7,530
Total	\$597,724	\$ 66,149	\$ 106,253	\$ 557,620

1. The fire insurance coverage on fixed assets as of December 31, 2004 and 2003 was approximately NT\$265,443 thousand and NT\$309,577 thousand, respectively.
2. Depreciation for 2004 and 2003 was NT\$14,744 thousand and NT\$15,661 thousand, respectively.
3. In accordance with the regulations as stated in official letter from Directorate General of Budget, Accounting & Statistics, Executive Yuan on June 22, 1984, the Corporation has revaluated lands after obtaining the approval of Ministry of Audit. The land value was increased by NT\$66,149 thousand. Long-term Liabilities - Reserve for Land Revaluation Increment Tax is NT\$25,551 thousand, and Capital Surplus - Reserve for Asset Revaluation Increment is NT\$40,598 thousand. In addition, the Corporation undertook land value re-evaluation pursuant to official letter from Ministry of Finance with the purpose of transferring official letter from Ministry of Audit. The Chung Cheng Branch of Taipei Tax Collection Office estimated that the land value increment tax was NT\$14,861 thousand 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 thousand of 1995. Moreover, since the Consumer Price Index rose for mere 6.2%, there were no need of adjustment on the book values of land and the details of such fact thereof were stated in official letter from the Corporation which has been submitted to Ministry of Audit for review.

8. INTANGIBLE ASSETS

Unit : NT\$ thousand

2004				
	Jan. 1, 2004	Increase	Decrease	Dec. 31, 2004
Computer Software	\$ 4,529,442	\$ 1,684,692	\$ 3,008,109	\$ 3,206,025

2003				
	Jan. 1, 2003	Increase	Decrease	Dec. 31, 2003
Computer Software	\$6,892,811	\$1,118,058	\$3,481,427	\$4,529,442

9. Marketable Securities sold under Repurchase Agreement

Unit : NT\$ thousand

	2004	2003
Marketable Securities sold under Repurchase Agreement	\$1,203,242	\$1,906,424

Bond Repurchase rates intervals at year ends of 2004 and 2003 are 0.965 % ~1% and 0.75 %~0.925% respectively.

10. PAYABLES

Unit : NT\$ thousand

	2004	2003
Interest Payable	\$439	\$590
Accrued Expenses	83,432	109,678
Advance Collections for Customers	625	922
Total	\$84,496	\$111,190

11. CAPITAL STOCK

	December 31, 2004 & 2003
Authorized Capital	10,000,000 Thousand Dollars
Paid-in Capital	10,000,000 Thousand Dollars
Authorized Shares	1,000,000 Thousand Shares
Outstanding Shares	1,000,000 Thousand Shares

12. INCOME TAX

(1) Income Tax Payable

Unit : NT\$ thousand

	2004	2003
Current Tax Expense	\$ —	& —

(2) The corporation's income tax returns, with the exception of those for 2002 have been assessed by the tax authority.

(3) Integrated Tax Related Information

Unit : NT\$ thousand

	2004	2003
Shareholders' Imputation Credit Account Balance	\$ 144,736	\$ 144,736

13. OTHERS

The Corporation transferred and temporarily assigned the total number of 143 examiners to Financial Supervisory Commission, Executive Yuan on 1 July 2004. In addition, the Corporation also transferred a fund of NT\$81,204 thousand to Financial Supervisory Commission, Executive Yuan, pursuant to the official letter from Ministry of Finance. Furthermore, as per official letter from Ministry of Finance, the non-operation expenses are listed under the category of other expenses.

Statistics

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

Type of Institution \ Year	2004	2003	2002	2001	2000
Domestic Banks	52	53	55	56	56
Credit Cooperative Associations	32	35	37	39	48
Credit Departments of Farmers' Associations	253	253	253	260	287
Credit Departments of Fishermen's Associations	25	25	25	25	27
Local Branches of Foreign Banks	34	35	35	37	38
Total	396	401	405	417	456

Notes:

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

(2) The figure for domestic banks includes Chunghwa Post Corporation and three trust and investment corporations.

(3) The number of insured institutions was reduced by five in 2004 due to the acquisition of Kaohsiung Business Bank by E. Sun Bank, the acquisition of Taitung City Credit Cooperative in Taitung County by Fuhwa Commercial Bank, the acquisition of Fengshan Credit Cooperative in Kaohsiung County by Chinatrust Commercial Bank, the acquisition of Hsinchu Tenth Credit Cooperative by Taishin International Bank, and the acquisition of Credit Lyonnais of France by Banque de l'Indochine et de Suez, also of France.

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

Unit: NT\$ million

Type of Institution	Year 2004			Ratio of Insured Deposits to Total Insurable Deposits (%)			
	Insured Deposits(a)	Total Insurable Deposits (b)	Ratio of Insured Deposits to Total Insurable Deposits (%) (a)/(b)	Year 2003	Year 2002	Year 2001	Year 2000
Domestic Banks	7,614,918	17,442,778	43.7	45.0	44.2	44.8	43.4
Credit Cooperative Associations	330,750	616,062	53.7	54.9	55.6	56.6	56.6
Credit Departments of Farmers' Associations	729,433	1,203,212	60.6	61.7	62.3	62.7	62.7
Credit Departments of Fishermen's Associations	21,129	32,633	64.7	65.4	66.0	67.4	67.4
Local Branches of Foreign Banks	70,583	488,976	14.4	18.4	18.0	22.1	24.6
Total	8,766,813	19,783,661	44.3	45.8	45.3	46.1	45.2

Notes:

(1)The standard date for the annual figures in the table is June 30.

(2)The figure for domestic banks includes Chunghwa Post and three trust and investment corporations.

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

(4)Total insurable deposits refer to the total amount of NT dollar deposits in checking accounts, passbook deposits, passbook savings deposits, time deposits, time savings deposits, and trust fund accounts.

Table 3: Insured Deposits, Insurance Pay-off Special Reserves and Stockholders' Equity for the Last Ten Years

Unit: NT\$ million

year-end (Dec.31)	Max. Coverage	Insured institutions				Insurable Deposits Ratio %	Premiums	Insurance Pay-off Special Reserves (c)	Stockholders' Equity (d)	Ratio of Insurance Pay-off Special Reserves to Insured Deposits% (c)/(b)	Ratio of Insurance Pay-off Special Reserves Plus Stockholders' Equity to Insured Deposits % [(c)+(d)]/(b)
		No. of Insured Institutions	Total Insurable Deposits (a)	Insured Deposits (b)	Ratio of Insured Deposits to Total Insurable Deposits% (b)/(a)						
2004	1	396	19,783,661	8,766,813	44.3	100.0	3,909	12,153	11,277	0.14	0.27
2003	1	401	19,183,842	8,613,531	44.9	100.0	3,766	10,946	11,277	0.13	0.26
2002	1	405	18,339,760	8,273,608	45.1	100.0	3,597	9,662	11,277	0.12	0.25
2001	1	417	17,894,174	8,116,092	45.4	100.0	3,408	8,528	11,277	0.11	0.24
2000	1	456	16,900,795	7,701,342	45.6	100.0	3,321	4,916	11,220	0.06	0.21
1999	1	459	16,420,478	7,769,067	47.3	100.0	900	1,752	10,185	0.02	0.15
1998	1	407	15,000,627	6,991,799	46.6	67.9	509	2,200	8,967	0.03	0.16
1997	1	405	7,313,529	3,289,797	45.0	65.8	465	1,793	8,457	0.05	0.31
1996	1	400	7,152,291	3,058,978	42.8	63.6	427	1,421	5,753	0.05	0.23
1995	1	350	6,550,052	2,772,773	42.3	51.9	325	1,080	5,587	0.04	0.24

Notes:

- (1) With the exception of 2004, when the base date for Total Insurable Deposits, Insured Deposits, and the ratio between the two is June 30, the base date for statistics in this chart is December 31 of the relevant year.
- (2) Insured Deposits: The total of each individual depositor's insurable deposits that do not exceed the maximum coverage.
- (3) Insurable Deposits Ratio: The ratio of total insurable deposits of insured institutions to those of insurable institutions.
- (4) The annual deposit insurance premium was 0.15% from 1985 to 1999. A risk-based premium rate was adopted on July 1, 1999, and the differential rates were set at three levels: 0.015%, 0.0175%, and 0.02%. On January 1, 2000, the rates were readjusted to 0.05%, 0.055%, and 0.06%.

(5) In September 1999, CDIC provided assistance in the amount of NT\$1,284 million to help Taiwan Bank to acquire the Donggang Township Credit Cooperative Association of Pingtung County, causing a reduction in insurance pay-off special reserves.

(6) Article 4 of the Financial Restructuring Fund Statute stipulates that the Fund's resources include CDIC's incremental insurance premium income covering a 10-year period from January 2002 onwards that arises as a result of the increase in the deposit insurance premium rate which took effect on January 1, 2000.

Table 4: Number of Examined Institutions and On-Site Examinations for the Last Five Years

Type of Institution \ Year	Jan.~June 2004	2003	2002	2001	2000
Domestic Banks	8	18	19	19	19
Credit Cooperative Associations	13	35	37	39	48
Credit Departments of Farmers' Associations	82	253	253	260	287
Credit Departments of Fishermen's Associations	12	25	25	25	27
Information Centers of Community Financial Institutions	3	6	6	7	7
Number of Examined Institutions	118	337	340	350	388
Number of On-Site Examinations of Head Offices and Branches	446	1,226	1,334	1,197	1,177

Notes:

(1) Figures for 2000 to 2003 are based on period from January 1 to December 31. Figures for 2004 are based on period from January 1 to June 30, 2004, after which examination duties were transferred to the Financial Supervisory Commission.

(2) The number of domestic banks includes two trust & investment corporations.

(3) A total of 118 institutions were examined in 2004 in accordance with the Financial Affairs Examination Division-of-Labor Program.

(4) The 446 on-site examinations conducted in 2004 include 106 examinations of insured institutions (head office and branches) plus 340 commissioned examinations (head office and branches).

Table 5: Major Revenue and Expense Items for the Last Five Years

Unit: NT\$ million

Item \ Year	2004	2003	2002	2001	2000
Operating Revenues	4,348	4,249	4,186	4,308	4,287
Interest revenue	439	483	585	899	967
Premium revenue	3,909	3,766	3,597	3,409	3,320
Other revenue	-	-	4	-	-
Operating Costs and Expenses	4,263	4,244	4,185	4,174	3,888
Provision for insurance pay-off special reserves	1,208	1,215	1,269	3,559	3,088
Financial Restructuring Fund expenses	2,529	2,435	2,335	-	-
Interest expenses	11	14	21	72	187
Commission expenses	94	175	192	191	268
Business expenses	358	344	310	295	289
Administrative expenses	55	54	53	52	50
Other operating expenses	7	7	5	5	5
Other expenses	1	-	-	-	1
Net Operating Income	85	5	1	134	399
Net Non-Operating Income (loss)	(85)	(5)	(1)	1	84
Net Income before Income Tax	-	-	-	135	483
Income Tax Expenses	-	-	-	135	121
Net Earnings this period	-	-	-	-	362

Notes:

(1) Annual figures are calculated based on the periods January 1 to December 31. The figures for 2001, 2002 and 2003 are reviewed and audited by Ministry of Audit; and those for 2004 are based on CDIC's final accounts for that year.

(2) Pursuant to revisions to Article 7 of the Deposit Insurance Act, on July 9, 2001, "CDIC shall close all accounts at the end of each fiscal year, and shall place the whole amount of the profit, if any, in the deposit insurance pay-off special reserves, and not in accordance with the relevant provisions of the Company Law." Therefore, CDIC's net income before income tax has been placed in the insurance pay-off special reserves since 2001.

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

1 、 Introduction to the Financial Restructuring Fund

Establishment and Objectives

The *Executive Yuan Financial Restructuring Fund Establishment and Management Statute* (hereinafter referred to as the "the Financial Restructuring Fund Statute") was promulgated by the President on July 9, 2001, with the aim of strengthening Taiwan's financial market and reinforcing the mechanism for withdrawal of problem financial institutions from the market. The Financial Restructuring Fund was set up in the form of a publicly financed fund to provide blanket protection for depositors for a defined period of time, so as to handle problem financial institution in a timely manner and thereby stabilize the financial order and uphold depositor rights.

Competent Authority

The Financial Restructuring Fund's competent authority is the competent authority as stated in the *Banking Law*. Currently this is the Financial Supervisory Commission, Executive Yuan.

Decision-making Body

In accordance with Article 6 of the *Financial Restructuring Fund Statute*, the basic decisionmaking body of the Fund shall be the Financial Restructuring Fund Management Committee. The Committee is responsible for deliberating the uses and operations of the Fund, approving the Fund's receipts and expenditures custodianship plans, reviewing the Fund's financial reports and cash flow arrangements, and the appraisal of other issues related to the Fund.

The Committee consists of nine to 13 members, a chairman who serves concurrently as the head and deputy head of the competent authority. The other committee members shall be chosen according to their professional expertise or experience in law, economics, finance, and other relevant fields.

Executive Body

To facilitate the operations of the Fund Management Committee, the Fund chairman may, in accordance with Article 8 of the *Financial Restructuring Fund Statute*, appoint the director general of the Bureau of Monetary Affairs (BMA), Financial Supervisory Commission, to serve concurrently as the Fund's executive secretary. The appointment of other concurrently serving the Fund officials from among personnel of the BMA and CDIC may be delegated to the executive secretary.

The implementation of resolutions passed by the Committee may, in accordance with Article 10 of the *Financial Restructuring Fund Statute*, be entrusted to CDIC, and the results of implementation are reported to the Committee for ratification in order to achieve the objective of task specialization.

Financial Resources and Funding Accommodation

The main financial resources of the Financial Restructuring Fund include government financial business tax revenue from the years 2002 to 2005 and revenue from the increased deposit insurance premium rate during the 10-year period from January 1, 2002. Prior to the full realization of the financial resources described above, CDIC may be entrusted to apply for accommodation from the Central Bank of China, to borrow funds from other financial institutions, or to issue financial debentures to meet the need of the Fund's operations. The Fund's financial resources will be used to repay any such accommodation, borrowing, or issuance.

Applicable Financial Institutions

Pursuant to the *Financial Restructuring Fund Statute*, three categories of problem financial institutions are subject to disposition under the Fund:

- a. Institutions with a negative adjusted net worth
- b. Institutions unable to pay their debts
- c. Institutions with deteriorating financial condition and which have been determined by the competent authority to be unable to continue operating

Disposal of Problem Financial Institutions

In order to effectively resolve failed financial institutions and avoid a crisis of confidence among depositors and chain risk reaction, the *Financial Restructuring Fund Statute* has removed the restrictions in the *Deposit Insurance Act* that states the cost of handling failed financial institutions shall be less than the loss arising from the cash pay-off. The Statute also clearly stipulates that when commissioned by the Fund to dispose of problem financial institutions, CDIC may apply to the Fund for full compensation on deposit and non-deposit claims. Methods of disposal include the following:

- a. Compensating for liabilities, taking over assets and selling such assets by tender
- b. Providing compensation for the amount that liabilities exceed assets
- c. Injecting funds into financial institutions by means of preferred shares

Custody of the Fund

The Fund's funds, apart from being used to handle problem financial institutions, shall be deposited in the form of cash in creditworthy financial institutions; used to purchase government bonds, bank debentures, or negotiable certificates of deposit issued by banks; or managed in other ways as prescribed by the competent authority.

Disposition of Acquired Assets

The Financial Restructuring Fund may commission CDIC with the full amount required to settle the deposit and non-deposit claims on problem financial institutions. In the name of the Fund, CDIC will take over the assets of such institutions and dispose of them by tender sale, auction, or other method. Any proceeds from the disposal of assets will be placed in the Fund.

Fund's Period of Operation

The Financial Restructuring Fund was originally designed to operate from July 11, 2001 to July 10, 2004. In June 2004, the deadline was extended by one year to July 10, 2005. After the Fund is expired, its assets and liabilities will be taken over by the National Treasury. However, if the assets which have been taken over by the Fund still have not been fully disposed of by the set time, the National Treasury may value them as property, and reinvest such assets in CDIC, in order to handle them more efficiently and increase the capital of the corporation.

Penalties for Causing Losses to the Fund

To prevent illegal profiteering by the responsible officials or employees of insured institutions, leading to the occurrence of moral hazard, the *Financial Restructuring Fund Statute* stipulates that any person who intentionally gains illegal benefit for himself or a third party, or damages property or other interests of insured institutions, CDIC, or the Fund, shall receive a sentence of between 3 to 10 years, and also be fined up to NT\$100 million. Also, to prevent the responsible persons or employees of insured institutions from collaborating together in committing the crimes described above, the Statute stipulates that the aforesaid penalties shall be increased by half, and the violators shall be jointly required to pay compensation, in order to serve as an effective deterrent. CDIC shall also, in its own name, file civil proceedings against the persons who should pay compensation on behalf of the institution participating in deposit insurance or the Fund, to thereby control moral hazard.

Principles for Handling Problem Financial Institutions

In order to carry out the disposal of problem financial institutions smoothly as stipulated by the *Financial Restructuring Fund Statute*, the first meeting of the Fund Management Committee was convened on July 16, 2001. During the meeting, the four main principles of the fund were announced, namely: stability of financial order, protection of depositor benefits, continuity of financial services, and minimization of social costs.

Disclosure of Information

Under the principles of openness and transparency, CDIC publicly discloses information pertaining to the resolution of problem institutions on the Financial Restructuring Fund section of its website (www.cdic.gov.tw). Such information includes status of fund compensation payments, status of follow-up on cases of illegal behavior, financial statements, and CDIC meeting records.

2 · Operations Commissioned to CDIC

Disposal of Problem Institutions

A. Auction of Chung Shing Bank

a. Auction of NPLs

CDIC publicly auctioned the non-performing loans (NPLs) of Chung Shing Bank in two blocks on December 15, 2003, and March 29, 2004, respectively. The first block was acquired by Lone Star Asia-Pacific, Ltd. and a joint bid by Lehman Brothers Commercial Corp. Asia Ltd. and Taiwan Asset Management Corp. (TAMCO). The second block went to Lone Star, FC Capital Management Co., Ltd., and TAMCO. The sales transactions were completed on April 16 and July 16, 2004, respectively.

b. Auction of asset, liabilities (excluding interbank deposits and call loans) and operations

In view of Chung Shing Bank's continued monthly losses following the auctioning of the bank's NPLs, as well as in consideration of the pending legislative approval of expansion to the Financial Restructuring Fund, and the desire to prevent the rise of accumulated losses leading to higher disposal costs for the Fund, CDIC decided to auction off the bank's non-NPL assets, liabilities and operations in two separate blocks. Compensation for interbank deposit and call loan liabilities were deferred until the expansion of the Fund's financial resources. A public auction of the bank's other assets, liabilities and operations was held on October 21, 2004. Four investors submitted bids on December 13. The winning bid of NT\$7.108 billion was submitted by Union Bank of Taiwan. The sale contract was signed on December 13, and the transaction was completed on March 19, 2005.

B. Auction of Kaohsiung Business Bank

All of the assets, liabilities and operations Kaohsiung Business Bank (excluding trust business and assets/liabilities) were put up for sale by public tender on April 15, 2004. On May 31, eight investors submitted bids. E. Sun Bank submitted the winning bid at the Financial Restructuring Fund's reserve price of NT\$13.368 billion. The sales contract was signed on June 3, and the transaction was completed on September 4.

C. Auction of Fengshan Credit Cooperative

At its 17th meeting, the Fund Management Committee listed Fengshan Credit Cooperative in Kaohsiung County for disposition due to the cooperative's deteriorating financial and business condition. Since the cooperative was unable to make improvements and its net worth was negative, the Committee resolved at its 28th meeting to sell the cooperative by public tender. CDIC announced the tender on May 26, 2004. On July 5, seven investors submitted bids, resulting in the sale to Chinatrust Commercial Bank at the Financial Restructuring Fund's reserve price of NT\$1.1 billion. The sales contract was signed on July 21, and the transaction was completed on October 1.

D. Assessment of the Assets and Liabilities of the Credit Department of the Hsinpi Township Farmers' Association

Acting on a resolution by the 29th meeting of the Fund Management Committee, the Council of Agriculture disposed of the credit department of the Hsinpi Township Farmers' Association in Pingtung County due to its poor business condition, in accordance with the disposition mechanism stipulated in the *Agricultural Finance Law*. On December 17, 2004, the Bureau of Agricultural Finance assumed on-site authority over the operations of the said credit department. CDIC also dispatched personnel to provide advice and assist with the implementation of related affairs. On December 20, a certified public accountant was commissioned to conduct an on-site assessment of the credit department's assets.

Legal Prosecution

The government established the Financial Restructuring Fund to dispose of problem financial institutions, hold personnel whose illegal actions create losses at a financial institution accountable for their civil and criminal responsibility, and thereby safeguard the rights and interests of the Fund and uphold justice. CDIC therefore actively pursues civil and criminal action against illegal acts by the responsible parties and employees of financial institutions in accordance with the *Financial Restructuring Fund Statute* and resolutions of the Fund Management Committee. As of the end of 2004, CDIC had submitted 176 cases of malfeasance to prosecution agencies for handling, and recovery of losses has already been sought in about 80 civil cases.

Fund Payments

In 2001 and 2002, the Financial Restructuring Fund disposed of 44 problem community financial institutions. A certified public accountant was commissioned to assess the value of the assets and liabilities of these institutions in accordance with the "Guidelines for Assessing the Assets and Liabilities of Problem Financial Institution" approved by the Fund Management Committee. After such assessment, compensation of around NT\$89.77 billion was paid to the banks acquiring these institutions.

In 2004, the Fund Management Committee commissioned the services of a financial consultancy to enhance the sales price and success rate in the disposal of problem financial institutions disposing. With such assistance, Kaohsiung Business Bank was auctioned off for NT\$13.368 billion on May 31, representing a gap of about NT\$3.7 billion from than the bank's negative net worth of NT\$17.073 billion as booked on the standard date of February 29, 2004. CDIC adopted this model for the July 5, 2004, self-arranged auction of Fengshan Credit Cooperative in Kaohsiung County. The cooperative sold for NT\$1.1 billion, or more than NT\$700 million less than the cooperative's book negative net worth of NT\$1.866 billion, as assessed on the standard date of May 31, 2004. The main reason the two institutions sold for less than their book net worth is the adoption of a professional and transparent tender mechanism and transaction mode suited to market needs. Such approach resulted in intense investor competition that enabled the true value of intangible assets to be fully reflected in the sales price, thereby significantly reducing the compensation amount paid by the Financial Restructuring Fund.

Efficacy of Disposition

Between July 2001 and 2002, the Financial Restructuring Fund disposed of 44 community financial institutions, setting a precedent in Taiwan for the smooth withdrawal of problem financial institutions from the market. In

2003 and 2004, the non-performing loans of Kaohsiung Business Bank and Chung Shing Bank were sold by tender, respectively. Moreover, these two problem banks and one problem credit cooperative association were successfully sold by auction, setting a new precedent for Taiwan in methods of removing problem banks from the market.

The Financial Restructuring Fund has earned widespread public support for its record in the disposal of 47 problem financial institutions over the last more than three years. There remain some financial institutions in Taiwan in urgent need of disposal, but the Fund has insufficient funds to deal with these cases. It is therefore hoped that legislative amendments to expand the financing resources of the Fund can soon be approved so as to thoroughly reform Taiwan's financial system and environment, comprehensively enhance Taiwan's financial competitive strength, and thereby promote steady economic growth.

Appendix

Appendix I - Expansion and Improvement of Taiwan's Deposit Insurance System

	Year CDIC Established (Sept. 27,1985)	Subsequent Changes (Sept. 27,1985~July 2001)	Current System (July 2001~)
Type of Participation	Voluntary	Changed to mandatory coverage in January 1999	Same as left column
Capital	<ul style="list-style-type: none"> • Legally prescribed capital: NT\$2 billion • Paid-in capital: NT\$800,050,000 	<ul style="list-style-type: none"> • Legally prescribed capital raised to NT\$5 billion in July 1992 • Prescribed capital raised to NT\$10 billion in November 1995 	Same as left column
Participating Institutions	<ul style="list-style-type: none"> • Domestic banks (including trust and investment companies, but not including postal savings bank) • Credit cooperatives • Credit departments of farmers' and fishermen's associations • Foreign bank branches in Taiwan (even if their deposits are protected in their home countries) • Other financial institutions designated by the Ministry of Finance 	<ul style="list-style-type: none"> • Postal savings bank added in January 1999 • Beginning January 1999, foreign bank branches whose deposits are protected in their home countries may not participate 	Same as left column
Insurance Premium	Flat rate of 0.05% of covered deposits	<ul style="list-style-type: none"> • Still flat rate, but reduced to 0.04% in July 1987 • Reduced to 0.015% in January 1988 • Risk-based rate system adopted on July 1, 1999, and three rates instituted: 0.015%, 0.0175%, and 0.02% • Three rates adjusted to 0.05%, 0.055% and 0.06% on January 1, 2000 	Same as left column

Maximum Coverage	NT\$700,000	Raised to NT\$1 million on August 15, 1987	Remains at NT\$1 million; however, during the three-year period of operation of the Financial Restructuring Fund which the government established in July 2001 to accommodate the disposition of unsound financial institutions, all deposits and non-deposit debts of institutions approved for disposition by Financial Restructuring Fund Committee are fully covered
Scope of Coverage	Deposit principal and interest	From January 1999, limited to deposit principal	Same as left column, limited to principal; for institutions being disposed of by the Financial Restructuring Fund, however, all deposits and non-deposit debts are fully covered
Institutions in Which CDIC Funds May be Deposited	Limited to the Central Bank of China	These institutions added in January 1999: Institutions that are approved by the competent authority and that provide government bonds as collateral	Same as left column
Means of Fulfilling Insurance Obligation	<ul style="list-style-type: none"> • Cash payoffs • Deposit transfers • Temporarily continued operation in name of CDIC 	This additional means added in January 1999: Provision of financial assistance to bring about merger or acquisition by other financial institutions	Same as left column
Advance Payment for Deposit and Non-deposit Debt in Excess of Insured Amount	None	Provision added in January 1999: Under the principle that there will be no increase in cost to CDIC, CDIC may make advance payments of claims to meet the liquidity needs of the failed institution's creditors	Same as left column
Exemption from Invitation for Tender, Price Comparison, Price Negotiation, and the Provisions of Article 25~27 of the Budget Law when Disposing of Unsound and Failed Financial Institutions	None	Added in January 1999	Same as left column
Recipient of Financial Assistance and Method of Assistance	Limited to loans or the purchases of assets to enable failed financial institutions to resume operation, when such resumption is deemed necessary	Revised in January 1999 as follows: <ul style="list-style-type: none"> • Institutions under assistance, supervision, or conservatorship, may be extended loans or deposits • Other financial institutions that merge with or acquire institutions that are under assistance, supervision, or conservatorship, or that have failed, may be assisted with loans, deposits, or the provision of funds and guarantees 	Same as left column

Borrowing of Funds from Other Financial Institutions	None	Added in January 1999	Same as left column
Provision of Collateral when Applying to the Central Bank for Accommodation	Full collateral must be provided	Provisions added in January 1999 as follows: <ul style="list-style-type: none"> • That part for which the CDIC is unable to provide collateral will be guaranteed by the National Treasury • When the secured portion exceeds the CDIC's net worth, the competent authority and the Central Bank must apply to the Executive Yuan for approval 	Same as left column
Penalty for Refusal to Participate in Deposit Insurance	None	Provision added in January 1999: A fine of double the amount of the insurance premium will be imposed	Same as left column
Penalty for Non-acceptance of Deposit Insurance Assistance or Failure to Comply with Opinions of Assisting Personnel	None	Provision added in January 1999: A fine of NT\$360,000 to NT\$1.8 million will be imposed	Same as left column
Penalty for Failure to Comply with a Corrective Order Within the Prescribed Time Limit	None	Provision added in January 1999: A further fine of one to five times the amount of the original fine may be imposed	Same as left column
Method of Allocation of CDIC's Surplus	As stipulated in the Company Law	Same as left column	The entire amount of surplus remaining after the accounts are closed is paid into the special reserve for insurance payoffs
Public Disclosure of Important Financial and Business Information of Banks	None	Same as left column	Information is disclosed on a quarterly basis

Appendix II - Major Economic and Financial Indicators (2000~2004)

Economic \Year	2004	2003	2002	2001	2000
1. Economic Growth					
● Economic Growth Rate (%)	5.71	3.33	3.94	-2.22	5.78
● Gross Domestic Product (US\$1 b)	305.3	286.0	281.5	279.4	307.8
● Avg. Per Capita National Income (US\$)	12,381	11,710	11,517	11,454	12,781
2. Foreign Trade					
○ Export Annual Growth Rate (%)	20.7	10.4	6.3	-17.2	22.0
○ Import Annual Growth Rate (%)	31.9	13.1	4.9	-23.4	26.5

■Foreign Exchange Reserves at Year-end(US\$1b)	241.7	206.6	161.7	122.2	106.7
3.Economic Indices (Year-end)					
□Monitoring Indicator	Green	Yellow-Red	Green	Blue	Green
□Score of Monitoring Indicator	28	34	24	15	16
□Leading Index	104.2	105.0	101.1	96.7	98.4
□Coincident Index	108.0	105.8	104.1	97.8	101.6
4.Population & Unemployment Rate					
●Population at Year-end (Million Persons)	2.27	2.26	2.25	2.24	2.23
●Avg. Unemployment Rate for Whole Year (%)	4.44	4.99	5.17	4.57	2.99
5.Inflation (%)					
●Consumer Price Index (CPI) Annual Change Rate	1.62	-0.28	-0.20	-0.01	1.26
●Wholesale Price Index (WPI) Annual Change Rate	7.05	2.48	0.05	-1.34	1.82
6.Interest and Exchange Rates (Year-end)					
■Central Bank Discount Rate (%)	1.75	1.375	1.625	2.125	4.625
■Central Bank Accommodations with Collateral Rate (%)	2.125	1.750	2.000	2.500	5.000
■Exchange Rate (NT\$/US\$)	31.917	33.978	34.753	34.999	32.992
7.Monetary Aggregates (Year-end)					
■M2 Annual Growth Rate (%)	7.35	5.82	2.58	4.44	6.50
■M1b Annual Growth Rate (%)	12.44	19.32	9.27	11.88	-0.34
■M1a Annual Growth Rate (%)	10.03	20.77	8.96	0.84	-3.39
8.Lending by Financial Institutions (Year-end)					
⊖Total Loan (NT\$1 b) (1)	15,921	14,378	13,766	14,098	14,312
⊖Non-Performing Loan Ratio (%) (2)	3.12	5.00	6.84	8.16	6.20

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

Notes:

(1)Total loan amount includes all loans extended by the main offices and branches of domestic banks, the local branches of foreign banks, trust and investment corporations, credit cooperatives, and the credit departments of farmers' and fishermen's associations.

(2)The Non-Performing loan ratio includes all overdue loans for domestic banks, the local branches of foreign banks, trust and investment corporations, credit cooperatives, and the credit departments of farmers' and fishermen's associations, but excludes loans under surveillance.