20 Years in Retrospect

Congratulation

Chair of the Executive Council & President, IADI

CONGRATULATION

July 20, 2005

On behalf of the International Association of Deposit Insurers, it is a great honour for me to congratulate you, the management and staff of the Central Deposit Insurance Corporation on your success over the last twenty years.

Your 20th Anniversary celebration this year is very special for all of us as it will coincide with IADI's Fourth Annual Conference in Taipei. In the true spirit of fellowship and cooperation, the conference will bring together an outstanding group of deposit insurance practitioners from around the globe.

As a founding member of IADI, the Central Deposit Insurance Corporation has every reason to be proud of all that our Association has accomplished over its three years of existence. We have enhanced the effectiveness of deposit insurance systems and at the same time we have expanded our network of members. We are indeed meeting our vision of "sharing deposit insurance expertise with the world".

We also recognize your personal contribution to IADI's success and appreciate your unwavering support and dedication. As Chair of IADI's Research and Guidance Committee, and as Chair of the Task Force for our annual conference, you have provided the necessary leadership and commitment to the task at hand.

We offer our best wishes for an enjoyable and memorable 20th Anniversary celebration and to your ongoing contribution to the stability of Taiwan's financial system.

With heartfelt admiration,

Jean Pierre Sabourin
Chair of the Executive Council & President
International Association of Deposit Insurers

國際存款保險機構協會(IADI) 主席 Mr. Jean Pierre Sabourin 賀詞

Chair of Asia Regional Committee, IADI

IADI International Association of Deposit Insurers

CONGRATULATION

July 20, 2005

It is my great honor, as the Chair of Asia Regional Committee (ARC) of IADI and a close friend of yours, to have an opportunity to offer my sincere congratulations on the 20th Anniversary of CDIC Taiwan.

Here, it is not necessary for me to spend many words to describe CDIC's successful 20-year history because I presume the achievement and contribution of CDIC over the last 20 years, since its inception in 1985, must have been broadly recognized. Now CDIC is one of the most prominent deposit insurance institutions, which provides a wealth of financial stability and stands as a solid example of successful deposit insurance system with its sophisticated tools such as the differential premium and the early warning system.

I have been always thankful for my luckiness to work with CDIC under your excellent leadership. I would like to take this opportunity to express my appreciation for CDIC's contribution and zealous devotion to facilitating the ARC activities. I, especially, would like to mention CDIC's numerous efforts to host the 3rd ARC Meeting simultaneously with its 20th Anniversary celebration. Another milestone has gone down in the ARC history in Taipei. Moreover, CDIC had chaired ARC's research subcommittee to take a leading role of the research project of which result was presented at the 3rd ARC Meeting and the success of this project greatly owes to CDIC.

Finally and again, I would like to express my deepest appreciation to share this moment of the celebration of CDIC's 20th Anniversary and CDIC's significant achievement in these years. And I am more than assured that CDIC Taiwan will continuously enjoy eminent reputation for another 20 years and beyond.

Yours sincerely,

篠原 興

Shinohara, Hajime
Chair of Asia Regional Committee, IADI

IADI 亞洲區域委員會(ARC) 主席 Mr. Shinohara, Hajime 賀詞

Message from the Chairman and the President

Financial institutions in Taiwan were mostly state-owned leaving very few to private ownership as a result of strict regulation of the financial industry. In addition, establishment of new financial institutions and new financial business items were strictly regulated. Profitability of the financial institutions, therefore, had been very stable as risks had been limited. The government would intervene for bailout in the event of rare financial frauds. Therefore, importance had never been attached to the financial safety net. It was only after the liquidation of the Continental Illinois Bank in the U.S. in 1984 that triggered impact on the international financial market, along with a series of financial incidents in 1985 in Taiwan when the government was prompted to set up the Central Deposit Insurance Corporation (CDIC) in September 1985 with a view to help stabilize the financial order through the safeguard of the majority of depositors.

The government started to promote international trade without reserving any effort after reign in Taiwan. Foreign exchange reserves accumulated massively and have ranked the first tier of the world. Accompanying the increases of the foreign exchange reserves was the abundant funds circulating in the local financial system. There was increasingly advocacy for the financial reform in deregulation and internationalization. The government responded by overhauling the *Banking Law* in 1989, which liberalized the scope of businesses of the banks and opened up the establishment of new banks. By end 1991, there had been a total number of 16 new banks in operation. A relatively regulated financial market had been carved up by a significant number of financial institutions. In 1995 financial crises broke out at the level of the community financial institutions with more than forty cases of financial panic run. The Asian financial crisis followed immediately in 1997. These events exposed the systemic problems inherent in Taiwan financial institutions; the various problem financial institutions did not have an existing mechanism to withdraw from the market. As a result, the government amended the *Deposit Insurance Act* in 1999, aimed at providing the problem financial institutions with the deposit insurance as an exit mechanism of the financial market as smoothly as possible and prevented financial disruptions. However, CDIC was not capable of facilitating a smooth withdrawal of the problem financial institutions to maintain the financial order as it adopted a voluntary insurance at that time and hence the amount of pay-off funds was very limited. Consequently, the Financial Restructuring Fund was set up in 2001 to keep the financial order. The Financial Restructuring Fund used public funds to make up for the shortage of deposit insurance pay-off funds. The policy-making and supervision of the Fund is in charge by the Management Committee of the Financial Restructuring Fund, Executive Yuan. CDIC is responsible for carrying out the policy. By the end of August 2005, CDIC has smoothly disposed 48 failed insured institutions to withdraw from the market.

The interim measure of blank guarantee previously under the Financial Restructuring Fund ended in July 2005. The government is in the process of amending the regulations including the *Deposit Insurance Act* in order to restore the dealing of problem financial institutions to the mechanism of limited coverage deposit insurance. Other relevant measures to strengthen the deposit insurance mechanism include strengthening deposit insurance pay-off funds, implementing prompt corrective action (mechanism that enables problem financial institutions to immediately correct themselves and smoothly withdraw from the market), and dealing with systemic risks in a more flexible fashion.

Moreover, in light of the contagion nature of global financial crises, CDIC has joined the International Association of Deposit Insurers (IADI) since 2002 and become its founding member. The IADI is an important mechanism that provides international cooperation on deposit insurance. CDIC is also actively involved in international activities related to deposit insurance for exchanges of information and experiences to make sure that Taiwan's deposit insurance system is in line with international development and innovation by learning the paradigm of the advanced countries and to improve the current deposit insurance system.

Chairman C. T. Tsay

President Johnson Chen

Establishment, Policy Goals and Organizational Structure

1. Background of Establishment

The government took elaborate measures of regulation and protection of local financial institutions before the 1980's to maintain stable growth of the financial industry. Therefore, the operations of financial institutions had been steady and smooth at that period of time. When local and international financial environments started to experience rapid changes brought about partly by the trend of liberalization and globalization, the government responded by sequential liberalization of the financial businesses and relaxation of relevant financial laws. As a result, the industry itself was empowered with higher operations freedom, though accompanied by increasing competition and higher business risk. In consideration of the far-reaching impact of business failure of financial institutions on wide facets of the economy, the government undertook to devise a deposit insurance system to safeguard the benefits of small amount depositors on the basis of Article 46 of the former *Banking Law*. The intention was widely supported by the financial industry, academia and experts. In 1983 Ministry of Finance joined by the Central Bank invited representatives from the financial industry and drafted the *Deposit Insurance Act*. After the approval by the Parliament, the *law* was promulgated and implemented by Presidential decree on January 9, 1985, which has become the origin of Taiwan's deposit insurance law.

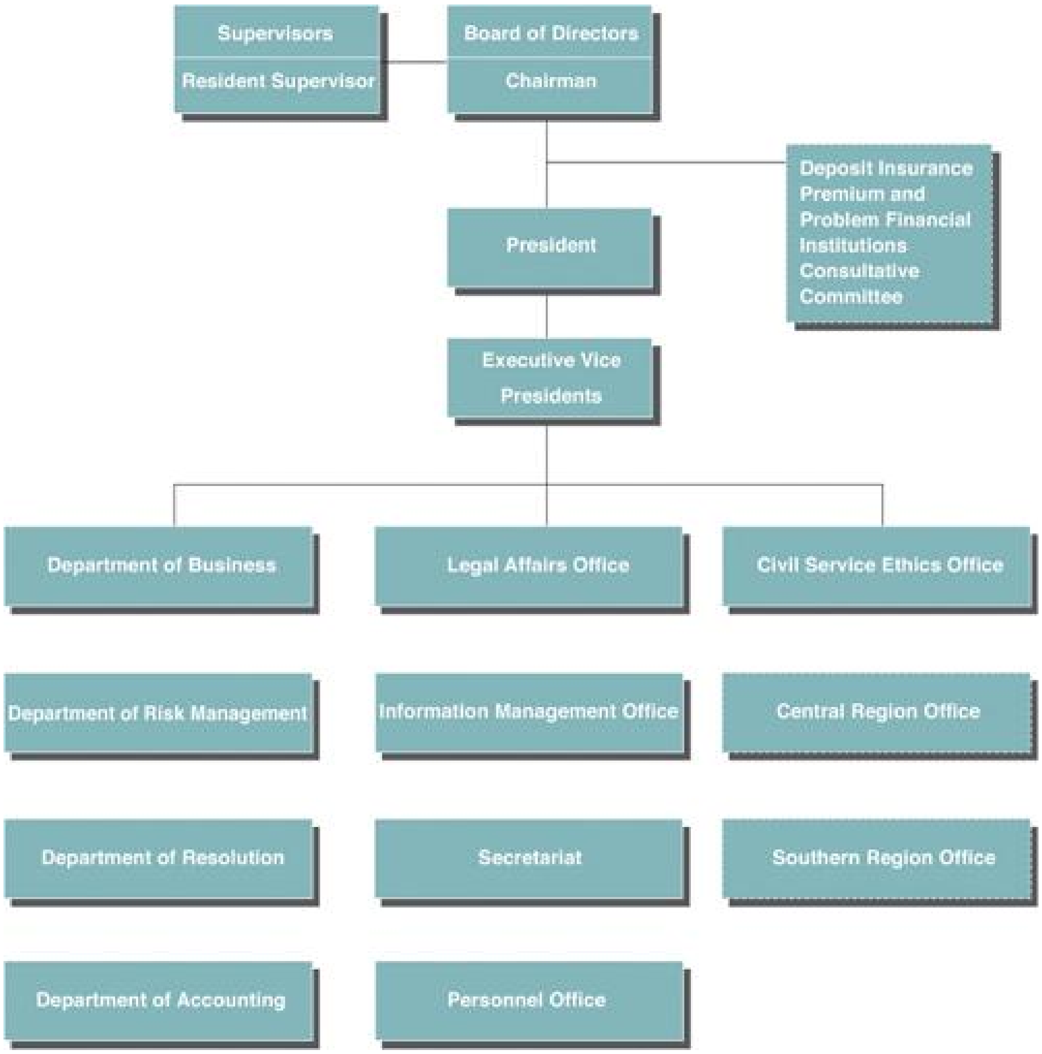
In the beginning of 1985, several panic run incidents broke out, including Tenth Credit Cooperative Association of Taipei City, Cathay Trust and Investment Corporation, Asia Trust and Investment Corporation and Overseas Chinese Trust & Investment Corporation. These crises highlighted the urgency of putting a deposit insurance system in place. As a result, Ministry of Finance in conjunction with the Central Bank organized and funded the establishment of Central Deposit Insurance Corporation (CDIC) based on the promulgation of the *Deposit Insurance Act*. CDIC officially opened business on September 27, 1985, and became specialized institution of deposit insurance.

2. Policy Goals and Main Responsibilities

As clearly spelt out in Article 1 of the *Deposit Insurance Act*, the deposit insurance system has been set up to safeguard the benefits of depositors in financial institutions, to maintain an orderly credit system and to enhance the sound development of financial operations; these are also its policy goals. Four important responsibilities were assigned to CDIC by the *Deposit Insurance Act* to fulfill the purpose of legislation, including handling deposit insurance, examining insured institutions, assisting problem insured institutions, and dealing with failed insured institutions.

3.Organization and Duties

The framework and regulation of CDIC organization has been amended and adjusted several times in accordance with the need of business development since its establishment before reaching current scale. Current organizational framework is exhibited as follows:



Duties of the individual departments are described as follows:

1. Department of Business:
   Handles deposit insurance international affairs, the utilization and management of funds, research and development, cash pay-offs, deposit transfer pay-offs, the temporary operation of failed financial institutions in the name of CDIC.
2. Department of Risk Management:
   Handles matters related to the National Financial Early-Warning System, management of insurance risk, off-site monitoring of insured institutions, disposition of panic run, and assistance for problem financial institutions.
3. Department of Resolution:
   Handles the placing of the insured institutions under supervision or conservatorship, provision of financial assistance to assist mergers and acquisitions among insured institutions, advance payment to uninsured creditors, and liquidation of the assets and liabilities of failed institutions.
4. Department of Accounting:
   Handles all budgets, financial accounting, statistics and internal auditing.

5. Legal Affairs Office:
   Handles contracts, litigation, financial laws and regulations, and research of laws and systems related to deposit insurance.
6. Information Management Office:
   Handles the planning, design, implementation and management of all electronic data operations, and other related matters.
7. Secretariat:
   Handles confidential matters, documentation, procurement, cashier affairs, assets management, and other general affairs.
8. Personnel Office:
   Handles personnel management and training matters.
9. Civil Service Ethics Office:
   Handles matters related to civil service ethics.

Deposit Insurance

1. Participation Basis from Voluntary shifted to Compulsory

(1) Business development in the period of voluntary insurance

Taiwan's deposit insurance system adopted a voluntary basis at its foundation. The idea was to follow the trend of financial liberalization and hence give the financial institutions higher freedom to choose participation in the system or not so as to meet management challenges. In the meantime CDIC had the authority of examination and approval to ensure the business principles of insurance industry were in place. However, the deposit insurance system was at its infancy in Taiwan at that time and the majority of the society was unfamiliar with the system. Moreover, depositors were not aware of the importance of such insurance system partly due to their confidence in the government's ability in maintaining financial stability and guaranteeing deposit safety. As a result, they were reluctant to participate in the system and deliberately avoided the burden of increasing deposit insurance assessment. Similarly, the majority of financial institutions side-stepped the system under the pretext of the difficulties and time consuming of computing premiums as businesses were not computerized at that time. Therefore, the business development in the beginning period of foundation did not meet expectations.

In order to break the deadlock, a promotion team of deposit insurance business was established despite external disadvantages. The team was dispatched to local financial institutions all over Taiwan and organized road shows for deposit insurance system. One on one presentation of the system and communications with responsible parties of the financial institutions were also made. With the assistance of the financial authorities of the then Taiwan Provincial Government, finance bureaus at the local government levels were invited to the presentations and policy implications of the deposit insurance system explained. They were encouraged to assist the participation of the local financial institutions under their jurisdiction. CDIC in the meantime increased maximum coverage and decreased premiums. All the efforts and measures managed to increase rapidly the number of insured institutions from 48 in end 1986 to 116 in end 1987 (refer to Appendix 5).

In retrospect, the five state-owned banking institutions that joined the deposit insurance system had been the benchmark as they set an example and subsequently prompted private financial institutions to join the insurance deposit. The success was achieved after continued and tireless efforts made to communicate with the public banks, the competent authority and the legislators for their support. However, the critical eight banks that were under the then Taiwan Provincial Government (these banks were under the jurisdiction of Ministry of Finance in 1997 when the government started to streamline the organization and businesses of the Taiwan Province Government) did not join the deposit insurance system in the voluntary period as they failed to win the approval of the Province Council. As a result, the majority of local financial institutions were deterred from participating as well, which had been the biggest obstruction in the promotion of CDIC's business. The eight banks did not join the deposit insurance until February 1999 when the mandatory system was in full implementation.

On the other hand, CDIC fully realized that the success of the deposit insurance system hinged very much upon the public's awareness of the security of their deposits, which would also act as big contributor to prompting the participation of financial institutions. Therefore, CDIC had launched a media campaign in April 1989 and promoted the idea of deposit insurance to the society as a whole. Speeches were toured in colleges and universities aided with prizes and rewards or public welfare activities for promotion. More often, giveaways were widely distributed in various occasions of all kinds of group gatherings or campaigns. Understanding and appreciation of the importance of the deposit insurance system by depositors and the society was finally achieved after CDIC's continued campaigning and promotion.

(2) Background of shifting to mandatory insurance and current status

In the second half of 1995, the crisis of the Fourth Credit Cooperative Association of Changhua City broke out, spilling over to some financial institutions with weaker internal management in Taiwan. A series of panic run followed. It was widely held that the government was required to embark on adequate reform of the financial supervision system in order to contain the hidden crisis in the financial system. In August 1995, Ministry of Finance and Central Bank started a revamp of the deposit insurance system under the order of the Executive Yuan. The conclusion was made that a full mandatory deposit insurance system should be implemented. CDIC amended part of the *Deposit Insurance Act* to meet the said policy instruction and changed the deposit insurance system to a mandatory basis. The amended act passed the Parliament and was promulgated and took effect on January 20, 1999. Ever since then Taiwan's deposit insurance has become mandatory. At that point of time the total 57 financial institutions that legally accepted deposits but did not participate in the deposit insurance system all joined the deposit insurance on February 1, 1999 and became CDIC's insured institutions. The only exception was the Taipei Branch of Deutsche Bank that was legally exempted from participation as it was guaranteed by the deposit insurance system of its home country.

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2. Adjustment of Maximum Coverage and Scope of Coverage

(1) Maximum coverage adjusted to NT$1 million

Maximum coverage refers to the maximum amount of a depositor's deposit that is guaranteed in one insured institution. The purpose of maximum coverage is aimed at limiting the pay-off liability of the deposit insurance corporation and preserving some sort of market sanction power so as to avoid the insured institutions undertaking excessive risks.

CDIC set the maximum coverage of deposit insurance at NT$700,000 when it was founded, with approval by Ministry of Finance and Central Bank. The benchmark of this maximum coverage was equivalent to the same amount of deposit by the postal savings exempt from tax on interest, and preferential deposit amount of each demand savings account at the banking industry. It was increased to NT$1 million per depositor on August 15, 1987 and remains effective today. The adjustment was made in order to enhance the willingness of financial institutions to join the deposit insurance, to strengthen guarantee for depositors, and to reflect the actual income growth of the economic development.

The current maximum coverage of NT$1 million is about 2.2 times Taiwan's per capita gross domestic production. It will be reviewed periodically in future by CDIC taking into account of the capability of the deposit insurance pay-off special reserves, national economic development and growth of national income, and maintaining market sanction power.

(2) Changes of scope of coverage

The deposit items insured by CDIC include checking deposits, passbook deposits, time deposits, savings deposits, postal savings deposits, and trust funds whose purpose was designated by the insured institutions. What is not insured include deposits in foreign currency, trust funds whose purpose was designated by the trustors, negotiable certificates of deposit, deposits by all levels of governments, deposits by the Central Bank and banks, Chunghwa Post Corporation, trust and investment corporations, credit cooperative associations and the credit departments of farmers' and fishermen's associations, as well as the amount deposited by each individual depositor in one insured institution that exceeds the maximum coverage.

When the *Deposit Insurance Act* was amended to adopt a mandatory basis in 1999, the coverage of deposit insurance was also amended to only the principal of deposits. This is in contrast to the coverage of both principal and interest of deposits at the establishment of CDIC. The reason behind the change was the augmentation of CDIC's insurance risks as a result of the rapid increase of the number of the insured institutions at that time. Such change was necessary to contain potential moral hazard wherein small-amount depositors might be lured by the high-risk insured institutions that offered high interest rates. It would also enhance the efficiency of computing payoffs and reflect the reciprocal principle that interest was not included in the insurance assessment.

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3. Flat Premium Basis shifted to Risk-based Premium

(1) Reduce premium to increase willingness of participation in the insurance

In the beginning of the founding of Taiwan's deposit insurance system, financial institutions were circumvented in many aspects including setting up and business scopes. Consequently, risk differentiation among individual institutions was not evident. Deposit insurance used a flat premium basis. In the early stage the premium was set to 0.05% by Ministry of Finance. In July 1987 CDIC reduced the premium to 0.04%, which was aimed at reducing the premium burden of financial institutions and encourage them to join the insurance system. The adjustment was made in accordance with the domestic economic and financial situations at that stage and consulting the opinions of the industry. The reduction was subsequently approved by Ministry of Finance. In January 1988, the premium was decreased again to 0.015%. As financial liberalization sped up later on, degrees of risk that reflected the effectiveness of management of domestic financial industries had been differentiated. With a series of financial crises breaking out, the flat premium basis that applied universally to all financial institutions regardless of their nature or soundness had come under critical questioning of its fairness. Eventually the risk-based premium system was brought up for discussion and implementation.

(2) Background and reason of shifting to risk-based premium

In 1994 the U.S. implemented risk-based assessment rate system for deposit insurance. By adopting a sequential and gradual approach, it enlarged the risk premium differentials and achieved significant results in aspects of inducing insured institutions to reduce management risk, increasing premium fairness and boost deposit insurance funds. At that period of time Taiwan was experiencing the impact of economic slowdown, and challenges of financial liberalization and globalization. Management risks among domestic financial institutions differed increasingly. The fairness of a flat premium basis of deposit insurance was strongly questioned as it was susceptible to moral hazards and induced financial institutions to undertake increasing high risks. In order to harmonize premium rates with the different levels of risk presented by individual institutions, CDIC drafted the“Proposal for a Deposit Insurance Risk-based Premium System”. This system was formulated on the basis of a broad consensus reached among the business, government and academic sectors and in line with the implementation of the mandatory system of deposit insurance. The proposal was submitted to Ministry of Finance, which ratified and officially enacted the“Implementation Scheme for the Deposit Insurance Risk-based Premium System” on July 1,1999. At that time, Taiwan became the first Asian country to implement such a system.

The said risk-based premium scheme adopted “capital adequacy ratio of the insured institutions”and“aggregate scores of the examination data ranking of the National Financial Early-Warning System” as risk indicators. Each of the two indicators was divided into three grades. The insured institutions were categorized in nine risk groups. A three-grade premium was applied to the nine risk groups. In the beginning period of implementation, the minimum premium was 0.015%, the middle premium 0.0175% and the maximum premium 0.02%. The difference of each grade of premium was 0.0025%. However, the accumulation of the deposit insurance pay-off special reserves was very slow due to the fact that Taiwan had adopted a voluntary insurance system and charged relatively lower premiums for quite some time. In order to build sufficient deposit insurance pay-off special reserves and strengthen the ability of dealing with problem financial institutions and boost depositors' confidence, CDIC reported to and was approved by Ministry of Finance on January 1, 2000 to increase the difference of the three-grade premium to 0.005% and the three grades have ever since become the minimum of 0.05%, the middle of 0.055%, and the maximum of 0.06%, which are still effective today. In the process of the adjustment to the risk-based premium system, CDIC had tried all methods to minimize any potential resistance. On the one hand, CDIC continued to communicate with the responsible parties of the insured institutions and to elaborate on the idea of a sound deposit insurance system, namely “what is taken from the industry is used in the interests of the industry”. On the other hand, CDIC also held conferences on the risk-based premium and explained to the insured institutions, the Bankers Associations of R.O.C., the National Federation of Credit Co-operatives, R.O.C., National Training Institute for Farmers' Organizations as well as the academia. The adjustment finally won the universal support of all fields and was implemented on January 1,2000 without fail.

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4. Deposit Insurance Fund and Optimal Target Fund Rate

(1)Current status of capital and deposit insurance pay-off special reserves

According to the *Enforcement Regulation of the Deposit Insurance Act*, the original total capital of CDIC was NT$2 billion. It was increased to NT$5 billion in July 1992 as an increasing number of private banks had been set up since end 1991 and hence altered the competitive landscape of domestic financial industry. The injection of capital was meant by Executive Yuan to build CDIC's capital and enhance its ability to undertake risks. The government had budgeted the incremental NT$3 billion in 1993 and 1994. In the aftermath of the crisis of the Fourth Credit Cooperative Association of Changhua City, Executive Yuan increased again CDIC's capital to NT$10 billion in November 1995 to speed up the accumulation of CDIC's deposit insurance pay-off special reserves, which had laid the foundation of the sound operation of the deposit insurance system. The government had budgeted NT$5 billion year on year until end 1999.

In addition, the *Enforcement Regulation of the Deposit Insurance Act* requires that CDIC shall set aside deposit insurance pay-off special reserves each year in an amount not less than 60% of that year's assessment income. In accordance with the *Act*, CDIC set aside 80% after being approved by Ministry of Finance in order to speed up the accumulation of the special reserve. The proportion was raised again to 90% of the annual premium income in consideration of the amendment of the *Deposit Insurance Act* in 1999 and the shifting of deposit insurance from a voluntary to mandatory basis that had augmented CDIC's insurance risk. In June 1999 the government amended the *laws* and reduced business tax rates of the banking and insurance industries from 5% to 2% with a view to assisting financial institutions to reduce the non-performing loan ratios. The revenues from the difference of the 3% business tax rates were used to write off non-performing loans or designate the allowance for doubtful debt. Since the designated allowance for doubtful debt of financial institutions was similar to the deposit insurance pay-off special reserves of CDIC in nature, both having the function of enhancing abilities of undertaking risks and losses, CDIC acquired the approval of Ministry of Finance in November 1999 to reduce business tax rates from 5% to 2% following the example of the banking and insurance industry. The revenues out of the difference of the 3% business tax are paid in to deposit insurance pay-off special reserves and this is still effective today. In July 2001, as the *Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund* was enacted, the *Deposit Insurance Act* was partly amended. Ever since then 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.

(2)Setting the optimal target fund rate

It is the practice of the advanced countries to stipulate by statute that the deposit insurance fund shall maintain a given ratio of the covered deposits in order to ensure capital adequacy to fulfill insurance liability. Currently, Taiwan's deposit premium averages 0.054% of the insured deposits, or equivalent to 0.022% of the total insurable deposits. This is among the lowest levels in the world and leads to the slow accumulation of the deposit insurance pay-off special reserves. As up to end of August 2005, the pay-off special reserves approximated NT$13.2 billion. After adding CDIC stockholders' equity of about NT$11.3 billion, this is about 0.27% of the insured deposits, falling far short of the target fund rate, 1.25%, of the advanced countries. In view of such situation, CDIC will review the current premium structure by making reference to insurance risk and the experiences of the advanced countries in order to establish appropriate target rate of deposit insurance fund and strengthen depositors' confidence and see full benefits of the deposit insurance.

Financial Examination and Insurance Risk Control

1. Financial Examination

(1) Division of duties in financial examination

Before the establishment of CDIC, Taiwan's financial examination, as in accordance with Article 45 of the *Banking Law*, Article 38 of the *Central Bank of China Act* and the “*Regulations Governing Ministry of Finance's Commissioning the Central Bank with the Examination of Financial Institutions*”, was responsible by Ministry of Finance and the Central Bank. However, being constrained by insufficient financial examination manpower for years, the Central Bank had enacted the “*Regulations Governing the Central Bank's Commissioning Taiwan Cooperative Bank with the Examination of Community Financial Institutions*”and included Taiwan Cooperative Bank to become another institution to carry out the financial examination. In 1985 when CDIC was established, and in accordance with Article 21 of the *Deposit Insurance Act*, CDIC was allowed to carry out financial examination of the insured institutions so as to effectively control insurance risk. As such, CDIC has been given mandate since 1987 to conduct financial examination of the five types of insured institutions, including domestic banks, trust and investment corporations, credit cooperative associations and credit departments of farmers' and fishermen's associations. Therefore, there are total four institutions that carry out Taiwan's financial examination, namely, Ministry of Finance, the Central Bank, Taiwan Cooperative Bank and CDIC.

After the crisis of Fourth Credit Cooperative Association of Changhua City, the government adjusted the division of duties in financial examination in July 1996 in order to strengthen financial supervision and management system. CDIC took over the financial examination previously conducted by Taiwan Cooperative Bank in respects of community financial institutions and their shared computer centers. Total number of the examined institutions by CDIC increased rapidly as a result from 82 in end 1995 to 396 in July 1996. To cope with rapid expansion of the financial examination business, Ministry of Finance approved CDIC to increase 157 examiners. CDIC also trained actively financial examination personnel in a short period of time and strengthened off-site monitoring mechanism. The major duty of taking over financial examination had been fulfilled.

In July 2004, the Financial Supervisory Commission, Executive Yuan was established in order to promote the policy of integrated financial supervision. The newly founded Financial Supervisory Commission is in charge of the examination of nation-wide financial holding companies, banks, insurance, securities and bills finance industries. The task of CDIC's financial examination and the 143 examiners were transferred to the Commission. The department of bank examination of CDIC was dissolved after fulfilling the task of financial examination for many years.

(2) Means 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. In addition, in the period of the voluntary insurance, CDIC when deemed necessary would conduct on site check beforehand to meet the requirements upon the application of financial institutions to participate in the deposit insurance and ensure that they fulfill the criteria of being insured by CDIC. Over the years CDIC has made flexible adjustments of the frequencies of financial examination by referring to the rating results of the National Financial Early-Warning System so as to enhance the execution efficiency of examination under limited manpower.

(3) Reform of financial examination business

Faced with the rapid change of financial environments, CDIC has continued to take measures to improve the financial examination business and cope with challenges. These measures include mainly three dimensions, namely compilation and amendment of the work manual and focal check items, computerization of the examination task and improvement of the skills of the financial examination personnel.

A. Compilation and amendment of the work manual and focal audit items

CDIC compiled“Work Manual of Financial Examination”to act upon when executing financial examination. The manual and guidelines were constantly reviewed and updated in accordance with the changes of financial environments, including examination procedures, examination points, report compilation, laying out of examination results, etc.. When the financial businesses started to see rapid innovation with increasing types of items and scopes, CDIC had compiled examination manuals of various sub-business items and chosen key examination items to facilitate the financial examination personnel to quickly command major points of the examination. These items include financial status, deposits, credit assessment, non-performing loans, investment, foreign exchange, internal control, internal audit, and information. The nine items are reviewed and amended every year.

B. Computerization of the examination task

In the early period of financial examination, CDIC relied on manual work to execute administration and operations. Since 1993 CDIC has been promoting computerization to conduct financial examination in order to increase efficiency of operations. All administration work has been conducted by computer processing, including business travel, printing of examination certificates, statistics of the examined institutions and examination personnel, progress control of examination reports. From May 1994 the computerized software of examination reports developed by CDIC has been in use. The said computerization includes mainly compilation and analysis of various reports, statistical figures, query and printing of historical check reports, and control of information security. In addition, in view of the multiplication of financial laws and regulations, CDIC developed the Financial Regulations Retrieval System in collaboration with the Institute for Information Industry in 1995. The system was launched in October of the same year. It can be installed in notebook computers and hence is very portable for financial examination personnel to carry around and speed up the retrieval of financial regulations as well as their history and updates. The system has been instrumental in enhancing efficiency of financial examination and providing legal consultation service to the examined institutions.

C. Improvement of skills of financial examination personnel

To improve professional knowledge and check skills of the financial examination personnel, CDIC not only held in-house training courses on financial business, legal matters, and examination, but also entrusted professional training institutions to educate the personnel and invited professionals to make speeches. Moreover, to strengthen exchanges of examination experiences and skills, CDIC also sent examination personnel abroad in financial supervision institutions for further training and held joint on-the-job training programs periodically for financial examination personnel with Department of Financial Inspection of the Central Bank, Bureau of Monetary Affairs, Ministry of Finance (renamed Bureau of Monetary Affairs, Financial Supervisory Commission since July 1, 2004) as well as holding nonscheduled case study seminars.

(4) Follow-up evaluation

As per the“*Regulations Governing Ministry of Finance's Commissioning CDIC with the Examination of Financial Institutions*” and the “*CDIC Enforcement Procedures for the Follow-up Evaluation of Insured' Institutions' Business Deficiencies to regulate institutions' operations*”, CDIC followed up on the deficiencies of the examined institutions and made assessment to ensure timely control of insurance risk and supervise the examined institutions to put into effect internal audit and strengthen internal control.

After the promulgation and implementation of the *Agricultural Finance Law* and the establishment of the Financial Supervisory Commission, the aforementioned follow-up and assessment task has been transferred to Council of Agriculture and Financial Supervisory Commission on June 1, 2004 and July 1, 2004, respectively.

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2. Insurance Risk Management

(1) Amend insurable standards for new members

CDIC had set insurable criteria for the financial institutions to join deposit insurance at its establishment aimed at scrupulously screening qualified members and controlling insurance risk. At that time the deposit insurance system was unprecedented and hence the criteria had been lax to encourage membership“e.g. one of the criteria is cumulative losses should not exceed one third of capital (or money paid for shares or business fund or specially allocated operations fund) pursuant to prior check result. However, this does not apply to the institutions that CDIC has reported to and approved by Ministry of Finance.”The criteria of insurance were subsequently changed several times to reflect the evolution of financial environments, mainly including adding the criterion for newly founded commercial banks in December 1991; the said two criteria were consolidated as one in March 1994 to reflect the amendment of the Banking Law and promulgation of the *Credit Cooperatives Act*; the capital or net worth ratio of financial institutions was included as check item in March 1995; another criteria of “susceptibility to impeding sound management of business”was included in March 1998, including non-performing loan ratio, ratio of non-performing loans plus criticized loans, ratio of loans concentration, and criticized assets subject to valuation as percent of adjusted net worth.

In February 1999 after the *Deposit Insurance Act* was amended to adopt a compulsory basis and being assessed by the insurable criteria, there were total 36 institutions unable to meet the said insurable criteria but nevertheless joined and became CDIC's members. To control the insurance risk, CDIC had pursuant to Article 2 of the *Enforcement Regulation of the Deposit Insurance Act*, asked these institutions to submit concrete corrective plans with a maximum period of three years and required that progress reports on improvement were submitted on a quarterly basis. In that period of time, CDIC actively supervised these insured institutions in the hope that their business deficiencies could be corrected within the prescribed timeframe, and the progress reports and measures taken were reported periodically to the competent authority. Among these institutions, 12 institutions failed to improve their operations with negative net worth, which were withdrawn from the market by the Financial Restructuring Fund in the beginning of 2001. The remaining 24 institutions have been put under general monitoring assistance mechanism in June 2002 with the approval of the competent authority.

(2) Set up and strengthen the National Financial Early-Warning System

To monitor the operations of the insured institutions and detect problems at an as early stage as possible for assistance and management, and to devise an auxiliary tool for financial examination and risk management analysis, CDIC right at its foundation embarked on developing the financial early warning system of the insured institutions by using statistical methods. In June 1988 the system was up and running. Since the system had been extremely effective in giving early warning on the management malpractice or financial deterioration of the insured institutions, Ministry of Finance entrusted CDIC in 1991 with setting up the National Financial Early-Warning System, which was in use since July 1993. The system includes Examination Data Rating System and Call Report Percentile Ranking System, both including four sub-systems of local banks (including trust and investment corporations), local branches of foreign banks in Taiwan, credit cooperative associations and credit departments of farmers' and fishermen's associations. The indicators include capital adequacy, asset quality, management, earning, liquidity, sensitivity to market risk and others. In addition, factors have been laid down as regards items that require exceptional management or with exceedingly high risk for follow up. Financial institutions that exhibit abnormal rating, percentile ranking or single indicator are included in exceptional management to strengthen supervision and management. Thereafter the system function had undergone a major revamp in June 1999 due to considerable evolution of the financial environments and to suit the requirements of financial supervision. The overhaul of the system was based on the members' actual business information of the nine base years(1990 to 1998) including the eighth business cycle (1990 to 1996) published by the Council for Economic Planning and Development. In 2000, the operation system was developed to a computer version with windows operation system.

Over the years the empirical evidence indicated that this system has been effective in reflecting good or bad operations performance of financial institutions and bringing its supervision function into full play. Its main performance includes submitting early warning reports to the supervisors on a regular basis to improve exchange of supervision information and effectiveness of financial supervision; posting financial status of national community financial institutions and relevant indicators in quarterly reports of deposit insurance information and CDIC website regularly to strengthen market sanction powers; requesting the insured institutions to improve operations if detecting warning on abnormal operations depending on situations or notifying relevant supervisors to supervise for improvement so as to reduce insurance risk; producing indicators related to examination rating results so as to determine the risk-based premiums applicable to individual insured institutions and to facilitate on monitoring the improvement in operations of the insured institutions.

(3) Strengthen insurance risk management

To prevent from crises of the insured institutions, CDIC took administrative measures regarding risk management. In addition, CDIC utilized the information exchange with relevant financial supervisors and the mechanism of cooperation and communication to correct management deficiencies of the insured institutions in a timely manner and reduce insurance risk. Major measures include adopting specialized management of the insured institutions with significant operations flaws and strengthening analysis and assessment of insurance risk to facilitate timely implementation of resolution; making use of the Financial Early-Warning System to control the irregularity of the insured institutions, and informing relevant institutions of the problems or notifying relevant supervisors to supervise their improvement as required in order to reduce insurance risk; inviting responsible parties or the management of the insured institutions as deemed required for explanation of their financial and business status and to submit improvement plan in order to strengthen their operations; dispatching personnel to check the insured institutions on site as deemed required and providing recommendations pertaining to their management problems for better operations; holding conferences and seminars on an regular basis for experience exchanges and two-way communication and assisting insured institutions in sound management. In addition, in order to control insurance risk, CDIC has attended the supervision liaison meetings organized by the Financial Supervisory Commission since July 1, 2004 on a regular basis to enhance information exchanges and the cooperative mechanism of crisis management forwards problem financial institutions with various financial supervisory agencies.

Disposition of Problem Financial Institutions

1. Assist Insured Institutions in Handling Panic Runs

CDIC has been able to command the relevant information immediately when irregular deposit withdrawals of the insured institutions triggered by contingent events. If judged necessary, CDIC will dispatch personnel on site and communicate with depositors face to face to mitigate panic run and anchor the financial order (Summary of CDIC's Handling Panic Run, refer to Appendix 6).

To establish a mode of dealing with panic run, CDIC, based on the experiences of assisting insured institutions taking care of bank run incidents, worked with Ministry of Finance and the Central Bank in 1992 and jointly formulated“Guidelines for Assisting Insured Institutions in Dealing with Bank Run”and“Emergency Measures for Bank Run”, which has become the guidelines of dealing with all kinds of bank run and division of duties among agencies at a later stage.

2. Disposition of Problem Financial Institutions

Since its establishment, CDIC has been entrusted with assisting many insured institutions or providing assistance jointly with local authorities and effectively brought the operations of the insured institutions to stability as well as preventing moral hazards. The assistance includes mainly dispatching personnel to attend important meetings for board of directors or resident directors of the insured institutions, or attending the assistance meetings held by the competent authority and closely cooperating with the competent authority to strengthen the assistance of the insured institutions; prompting the insured institutions with major flaws in financial and business status to correct their management deficiencies as soon as possible in collaboration with the local government to join the assistance; dispatching personnel to reside in the insured institutions with higher management risk for providing assistance as required to effectively control insurance risk, and making timely recommendations to the competent authority regarding any other necessary measures required by law to safeguard depositors' benefits.

3. Supervision of Problem Insured Institutions

In September 1996 Second Credit Cooperative Association of Hsinchu City experienced deteriorating financial status when its non-performing loan ratio reached over 20%. The majority of its directors and supervisors refused to increase share subscription required by law. In view that the Cooperative Association had failed to function in a normal capacity, Ministry of Finance assigned CDIC to take over pursuant to Article 62 of the *Banking Law*. In June 1997 two bank run incidents broke out, namely Fifth Credit Cooperative Association of Kaohsiung City and Tenth Credit Cooperative Association of Kaohsiung City, both credit cooperatives associations having exceedingly high non-performing loan ratios and the break-out of forged account fraud. CDIC was entrusted by Ministry of Finance to station on site for supervision. The said credit cooperatives under efforts of self salvation in combination with the assistance by the competent authority and the prevalence of merger and acquisition in the banking industry were assumed by Macoto Bank, Panchiao Credit

Cooperative(later restructured and now named Bank of Panhsin) and Pan Asia Bank (later restructured and now named Bowa Bank), respectively.

In November 1998, the large scale bank run broke out in Taichung Commercial Bank resulting from the illegal excessive loans by its responsible official. CDIC was entrusted by Ministry of Finance to station on site for supervision, assume the authority of office of directors and supervisors on behalf, attend important meetings and examine major credit assessments. In addition, the said bank was ordered to set up a department of resolving non-performing loans to pursue actively the recovery and security of creditors' rights. The business was finally brought to normal operations. In May 1999 the bank under assistance held the shareholders' meeting and elected new board of directors and supervisors, which brought CDIC's duties to a successful ending.

In May 2000, Taiwan Development and Trust Corporation(TDTC) experienced a financial crisis of own fund account, resulting in abnormal withdrawals of its trust funds. CDIC was assigned by Ministry of Finance as supervisor and assumed the authority of directors and supervisors on behalf. CDIC's conservatorship task was terminated in May 2001 after Ministry of Finance determined that the restructuring of TDTC's operations had been successful. Nevertheless, CDIC remained responsible for off-site monitoring of its business. Ministry of Finance entrusted CDIC again to assist the bank in July 2004 with a view to conducting a revamp of its operations. In January 2005 TDTC auctioned off its trust business to Jih Sun International Bank. Both parties completed the transaction by purchase & assumptions on August 6, 2005.

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4. Conservatorship of Problem Insured Institutions

As a result of the illegal credit assessment by Chung Shin Bank to the Typhone Group and after being disclosed by the media, an abnormal withdrawal by depositors amounting to NT$60 billion burst out. To restore depositors' confidence, Ministry of Finance entrusted CDIC in April 2000 with stationing on site for supervision for six months and coordinating the financial industries to subscribe to the negotiable certificates of deposit issued by Chung Shin for injection of funds and stabilizing its operations. In consideration of the necessity of providing continued assistance to increase the liquidity, Ministry of Finance had extended CDIC's supervision period in October 2000 and April 2001. In October 2001 supervision of Chung Shin was changed to conservatorship. In October 2002, Ministry of Finance relied business expertise on Land Bank of Taiwan and appointed it to be conservator of Chung Hsing Bank. In August 2003 Ministry of Finance reappointed CDIC as conservator to auction off the bad loans and assets of Chung Hsing and subsequent assignment of businesses and its assets and liabilities. Land Bank of Taiwan was entrusted by CDIC pursuant to Article 62-3 of the *Banking Law* for management and operations of its business and property. In December 2004, CDIC auctioned off the assets and liabilities and business excluding deposits by the financial industry and interbank call loans. In March 2005 the business transaction was completed. However, CDIC is still in conservatorship of the deposits by the financial industry and the interbank call loan business still not being auctioned off.

In January 2002 the asset quality of Kaohsiung Business Bank continued to deteriorate with negative adjusted net worth. The Bank also failed to increase capital by cash injection in the prescribed timeline. As result, Ministry of Finance entrusted CDIC as conservator. During the period of conservatorship the powers of the stockholders' meeting as well as directors and supervisors were terminated. In February 2002, the Financial Restructuring Fund made a resolution in its 11th meeting to include the said bank for disposition. CDIC was entrusted by the Fund in May 2004 for auctioning off of its businesses excluding trust. In September of that year the transaction was completed. As the trust business was not included in the auction, it is still now in CDIC's conservatorship.

Fongshan Credit Cooperative Association of Kaohsiung County continued to see its financial and business worsening. In February 2003 the Financial Restructuring Fund decided in its 17th meeting to include the institution for disposition. As its management failed to see significant improvement after months under CDIC's assistance, and with negative adjusted net worth, Ministry of Finance entrusted CDIC in April 2004 to station there and take over to assume the authority of office of directors and supervisors on behalf. Later CDIC was entrusted by the Financial Restructuring Fund in July of the same year for the auction off of the institution. The transaction was completed in October of that year.

5.Performance of Insurance Obligations - Provide Financial Assistance to Bank of Taiwan to Assume Donggang Township Credit Cooperative Association of Pingtung County

In July 1999 Donggang Township Credit Cooperative Association of Pingtung County experienced a panic run of depositors resulting from the embezzlement of illegal transfers of time deposits in Taiwan Cooperative Bank by its responsible official. CDIC was entrusted as supervisor. As pursuant to the *Deposit Insurance Act* that was just amended in 1999, CDIC can provide financial assistance to insured institutions to push through their mergers or assume the whole or a part of the businesses and assets and liabilities of the problem insured institutions. Accordingly, in September of the same year CDIC was instructed to change from supervision to conservatorship and by following the said regulation drew on NT$1,284 million out of the accumulated NT$2,587 million of the deposit insurance pay-off special reserves to fulfill insurance obligations by means of financial assistance, which brought about the assumption of the said association by Bank of Taiwan.

This was the first incident when CDIC drew on its deposit insurance pay-off special reserves since its establishment in 1985 and shared the losses with the assuming bank of the problem financial institutions. It changed the past measure of letting banks assume losses of the failed financial institutions and significantly enhanced the function of the deposit insurance mechanism.

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

1.Background of Establishment and Operations of Financial Restructuring Fund

Since the 1990's, Taiwan had been suffering from the burst of the economic bubbles with the real estate market mired in recession. The situations were exacerbated by the Asian financial crisis of 1997 and the September 21 earthquake in 1999. Many businesses started to experience financial crises. As a result, business operations of Taiwan's financial institutions were fast deteriorating with bad loans continuing to soar. During this period of time, the *British Economist* and the US *Business Week* started to anticipate a financial turmoil in Taiwan sometime before the Chinese Lunar New Year in 2001. Moreover, Standard & Poor's downgraded Taiwan's sovereignty rating. The market was awash with negative news and impacted the financial industry to detrimental effect. Rumors were rampant that systemic financial risk would be triggered. To facilitate the withdrawals of ailing financial institutions from the market smoothly and as soon as possible, and to preempt the occurrence of financial turmoil, the government had borrowed experiences from the US, Japan and Korea that utilized public funds to quickly resolve financial crises of the business sector and safeguard depositors' benefits. *The Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund* (hereinafter simply referred to as the *Financial Restructuring Fund Statute*) was promulgated and the Financial Restructuring Fund was set up and operative for a period of three years. However, it was extended for one further year after the approval of the Parliament. In 2004 the Parliament furthered its validity by one year to July 10, 2005. Within this period of time, the Financial Restructuring Fund shall provide a transitional blank guarantee to all depositors and other creditors of the problem financial institutions to avert chain risk of financial crises.

Originally, the Financial Restructuring Fund amounted to NT$140 billion. In June 2005 the Parliament increased its resources of funds by NT$110 billion. Therefore, the total resources of the Financial Restructuring Fund are now about NT$250 billion. The Financial Restructuring Fund Management Committee (hereinafter simply referred to as the Management Commission) 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 Management Committee consists of 9 to 13 members, including one chairman and one vice-chairmen, who serves concurrently as the head and deputy head of the competent authority (it was Ministry of Finance from July 2001 to June 2004, and has been changed to Financial Supervisory Commission since July 2004), respectively. In addition, four committee members are the concurrently serving deputy governor of the Central Bank , deputy chairman of Council of Agriculture, deputy director of Directorate General of Budget, Accounting and Statistics, and chairman of CDIC; the appointment of these members is based on their official posts. The other committee members shall be chosen according to their professional expertise or experience in law, economics, finance, and other relevant fields. The number of committee members belong to any single political party may not exceed half of the total membership, in order to assure the independence of the Management Committee's decision-making process. Therefore, the Management Committee is very well fairly represented. The Financial Restructuring Fund is not a legal person and without official organization or staff. Its Chairman is served by the head of the financial competent authority. As far as policy making is concerned, the structure of the Financial Restructuring Fund has the benefit of combining the monitoring function of the Management Committee and the supervision function of the competent authority. The Financial Restructuring Fund has been operative since July 16, 2001 after the establishment of the Management Committee. The execution of the Management Committee's resolutions has been carried out by CDIC pursuant to the *Financial Restructuring Fund Statute* in consideration of handling costs and availability of expertise.

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2. Handling Failed Financial Institutions

(1) Handling failed financial institutions by assuming

A. Year 2001

In view of the limited legal resources of the Financial Restructuring Fund, and to maximize the resolution number of problem financial institutions and hence safeguard as many depositors as possible, the Committee had chosen total 36 community financial institutions with negative adjusted net worth based on the assessment reports on the financial examination conducted in end July 2001 as the objectives of handling in order to swiftly and effectively resolve the financial quagmire. In August of the same year, Ministry of Finance entrusted CDIC with 118 staff with the support of another 78 staff from 4 state-owned banks to station on site and assist the aforesaid 36 community financial institutions. In the meantime, ten banks after being inquired of their intention agreed to assume these problem institutions and complete the legal assignment procedure in September of the same year.

Despite that the handling of the 36 failed community financial institutions had been resisted by some of their responsible persons, staff and members, it was completed smoothly with careful planning and resolution of the competent authority and CDIC. A withdrawal mechanism whereby problem financial institutions can exit from the market has been successfully established. In addition, it has been the forerunner of Taiwan's financial reforms, which evidently demonstrated the government's resolve in implementing financial reforms.

B. Year 2002

In the beginning of 2002, the financial status of a handful of community financial institutions was still deteriorating. The adjusted net worth of the credit departments of seven farmers' associations was negative as indicated in the assessment reports of their financial examination. These institutions were reported to the Management Committee and resolutions were passed to include them in the second stage of handling. Ministry of Finance entrusted CDIC in July of the same year to station on site and perform the rights of their credit departments. When it was verified by the accounting firm hired by the Management Committee that the adjusted net worth of the credit departments of these seven farmers' associations, Taiwan Cooperative Bank and Land Bank of Taiwan took over the credit departments of these seven associations after completing the legal assignment procedure in July 2002.

With the experiences of handling the 36 problem community financial institutions, the resolution of the seven problem community financial institutions had been smooth and successful in the whole operation and timing. Within less than one month, the said financial institutions had withdrawn from the market.

(2) Deal with Fifth Credit Cooperative Association of Tainan City by public price competition and negotiation

The non-performing loan ratio of Fifth Credit Cooperative Association of Tainan City continued to climb as a result of miscalculated management strategy and hence deteriorating loan quality. In 2002 its adjusted net worth was negative as indicated in the assessment report of the general financial examination. The Management Committee included the institution as the objective for handling. It followed that Ministry of Finance entrusted CDIC to station on site for conservatorship. In accordance with the resolution of the Management Committee, CDIC conducted the public price competition and negotiation of the said association in June and July 2002. Institutions that participated in the competition included Sunny Bank and Cosmos Bank. After the second price competition and negotiation, Sunny Bank won the right of merger and acquisition. It assumed all businesses, assets and liabilities of the said association in August 2002 and continued to operate. This was the first case of dealing with problem institutions via the competition mechanism of price competition and negotiation, which provided the incentive of free relocation of a given percentage of places of business to the assuming institution. It served a good reference for CDIC when formulating strategy of disposition later on.

(3) Deal with Kaohsiung Business Bank by auctioning off

The non-performing loan ratio of Kaohsiung Business Bank grew year by year as battered by the declining economy, faction strife and wrong management strategy. Eventually, the adjusted net worth became negative. In January 2002 Ministry of Finance entrusted CDIC to take over the bank. After the passing of resolution by the Management Committee to include the bank as objective of handling, CDIC conducted the auction of the bank in March 2002. However, the auction was aborted because no potential investor was interested due to the requirement of bidding the whole bank. A financial adviser was brought in by CDIC afterwards. The bid was divided into non-performing loans and businesses, assets and liabilities excluding non-performing loans. With the approval of the Management Committee, the non-performing loans of the bank were successfully auctioned off in June 2003. The first auction of the businesses, assets and liabilities was held in December 2003. However, during the process the labor union resisted and decided to go on strike indefinitely. The strike was called off after CDIC's mediation and communication with the union and the staff. Nevertheless, some investors had lost their interest in participating in the bid as a result of the incident. The valuation of the investors had also turned conservative. Eventually, the bid was not awarded as bidders' quotes had exceeded the maximum price set by the Management Committee. After the incident, CDIC had tried to negotiate with the staff to fulfill their requirements of compensation packages giving consideration to maintain the bank's capability of basic operations. Eventually, the second auction was held in May 2004 drawing acute competition among eight financial institutions.The bid was awarded to E.Sun Commercial Bank with the prescribed repayment amount of NT$13.37 billion by the Financial Restructuring Fund, or equivalent to net saving of NT$3.7 billion as compared to the negative net worth of NT$17.07 billion ending at the end of February 2004, or the valuation standard date. E.Sun Bank officially took over the businesses, assets and liabilities of the bank on September 4, 2004 and continued to operate.

Kaohsiung Business Bank was the first successful case that the Financial Restructuring Fund handled the problem financial institutions by dividing the business items. The strategy of auction is justified as it meets different requirements of professional investors of the market and has the advantage of enhancing competition and hence reduces handling costs. The non-performing loan of bad quality (the so-called Bad Bank) was first auctioned off followed by the selling off of the Good Bank, namely the remaining normal assets, liabilities and businesses. The reasons why the auction result of the Good Bank ended with the amount smaller than the net worth on book value (being negative) include the administrative incentive of free relocation of places of business, the competitive mechanism of open auction, transparency and the transaction mode that met market requirements. As a result, the auction had successfully attracted many investment institutions and hence retrenched the repayment by the Financial Restructuring Fund.

(4) Deal with Fongshan Credit Cooperative Association of Kaohsiung County by auctioning off

The Management Committee passed the resolution to include the Fongshan Credit Cooperative Association of Kaohsiung County as the objective of handling when its adjusted net worth became negative. Ministry of Finance entrusted CDIC to station on site for conservatorship in April 2004. In July 2004 CDIC followed the resolution passed by the Management Committee and conducted the auction of the whole businesses and assets and liabilities of the said association in July 2004. Chinatrust Commercial Bank won the bid after acute competition of seven bidders with the prescribed repayment amount of NT$1.1 billion by the Financial Restructuring Fund, or equivalent to net saving of NT$0.77 billion as compared to the negative net worth of NT$1.87 billion ending at the end of May 2004, or the valuation standard date. Chinatrust Commercial Bank has assumed the whole businesses and assets and liabilities of the institution since October 1, 2004 and continued to operate.

The reasons why the auction result of this case ended with the amount smaller than the net worth on book value (being negative) include mainly the administrative incentive of free relocation of places of business, the competition and transparency of the open auction mechanism. The competition of bids had fully reflected the value of the intangible assets and hence retrenched the repayment by the Financial Restructuring Fund.

(5) Deal with the Chung Hsing Bank by auctioning off

During the period of supervision, Chung Hsing Bank was required to supplement significant amounts of valuation reserves after the assessment by the accounting firm resulting partly from the undue credit granting policy of the original management. Chung Hsing Bank's accumulated losses continued to magnify and capital was in serious shortfall. Although the bank came up with a self salvation plan of capital decrease/increase in June 2001, it failed to meet the deadline of capital increase, namely October of the same year. The plan did not materialize. The Management Committee included Chung Hsing Bank as the objective of handling and CDIC was entrusted by Ministry of Finance in October 2001 and supervision was changed to conservatorship.

To handle the bank smoothly and establish a transparent mechanism of the disposition of failed financial institution, CDIC proposed the method of open auction and was accepted by the Management Committee. Total three times of public price competition and negotiation were held in February, May and July 2002. All three were aborted as a result of either no bidder or bidders' quotes being higher than the maximum price set by the Management Committee. In October 2002 Ministry of Finance re-entrusted Land Bank of Taiwan as the conservator.

Afterwards the Management Committee passed the resolution that CDIC was allowed to follow the mode of Kaohsiung Business Bank and hire a financial adviser for planning the auction. Ministry of Finance changed the entrustment to CDIC again charging with handling the auction of the bank's non-performing loans, assets and liabilities and businesses. As for business operations, it was entrusted by CDIC to Land Bank of Taiwan.

The auction strategy proposed by the financial adviser was reported to the Management Committee, which passed the resolution to adopt auctioning off of divided businesses. The non-performing loans were auctioned off in two batches in December 2003 and March 2004 after public auction. As for the assets and liabilities and businesses outside the non-performing loans, it was decided to resolve in two stages considering the expansion of the Financial Restructuring Fund had not passed the Parliament. That is, the deposits by the financial industry of NT$64 billion was not included in the auction for the time being, while the assets and liabilities and businesses outside deposits of financial industry were auctioned off to Union Bank of Taiwan in December 2004 at the price of NT$7.11 billion with the transaction completed in March 2005. The proceeds from the auction had repaid part of the deposits of the financial industry. The remaining balance of the deposits of the financial industry, about NT$57 billion, will be repaid after when the fund resources of the Financial Restructuring Fund are in place.

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3. 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 up to end of August 2005, CDIC had submitted 179 cases of malfeasance to prosecution agencies for handling, and recovery of losses has already been sought in about 96 civil cases.

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4. Enforcement Results

Since the establishment of the Financial Restructuring Fund in July 2001, total 44 community financial institutions have been restructured in 2001 and 2002, marking the precedents of peaceful withdrawal of Taiwan's problem financial institutions from the market. In 2003 and 2004 non-performing loans of Kaohsiung Business Bank and Chung Hsing Bank were auctioned off first. In the second half of 2004 the two problem banks and one problem credit association were successfully auctioned off, setting the record of forcing the withdrawal of problem financial institutions by auction in Taiwan. These achievements have revamped Taiwan's financial system and environment, boosted Taiwan's financial competitiveness and promoted steady economic growth.

International Exchange

1.Become the IADI's Founding Member and Participate Its Activities

In May 2002 the International Association of Deposit Insurers (IADI) was established in Basel, Switzerland. Its founding purpose was to promote cooperation and exchange among deposit insurers and financial supervisory institutions and enhance the stability of the financial system. Since the establishment of the IADI, six standing committees have been set up, including Governance, Training and Conference, Research and Guidance, Membership and Communication, Finance and Planning, and Audit. There are six regional committees located in Asia, Africa, Europe, Eurasia, the Caribbean and Latin America. Through the operations of these committees international activities are organized and global guidance are drawn up to strengthen cooperation and exchange among member countries and promote the deposit insurance system. As up to the end of August 2005, the IADI has 58 participating countries /organizations, including 41 members, 7 associates, 4 observers and 6 international organizations as partners.

CDIC joined the IADI in 2002 and became one of its 25 founding members. In the same year CDIC set up the division of international affairs to dedicatedly promote international exchange. In 2003 CDIC's Chairman, Mr. Chin-Tsair Tsay, had the honor to be nominated by the IADI and elected as a member of the Executive Council. In 2004 CDIC was recommended by the IADI to serve as the Chair of the Research and Guidance Committee as well as to chair the Research and Guidance Subcommittee on Resolution of Failed Banks and in charge of promoting the formulating of international guidance governing the handling of problem financial institutions. CDIC was also recommended to chair the Asia Regional Committee, Research Subcommittee in charge of two research projects, namely “Transitioning from Blanket Guarantee to Limited Coverage System”and“Developing Sources of Liquidity”. In addition, CDIC has been recommended to host the IADI Fourth Annual Conference and the Third Asia Regional Conference Meeting in Taipei in September. It is expected that more than one hundred representatives from more than fifty countries in the world will participate in this convention. CDIC will officially publish the achievements of promoting international guidelines over the past years as well as the results of the aforesaid two researches in this conference.

In future CDIC will participate in the activities of the IADI in an even more proactive way to share the information of supervision and principles of deposit insurance system through exchanges of experiences among members so as to enhance the participation in and contributions to the deposit insurance field in the international arena.

2. Signing of Cooperation MOUs with KDIC, KAMCO and NDIF

In view of the significant achievements of financial reforms in Korea after the 1997 Asian financial crisis, which had also won very high international acclaim, CDIC signed memorandum of understanding with Korea Deposit Insurance Corporation (KDIC), and Korea Asset Management Corporation (KAMCO), in March and August 2003, respectively, and officially established cooperative relations. CDIC is still in exchange of relevant information of economics, finance, regulation amendment and research and development on a constant basis with these institutions. Personnel is also exchanged to share the practical experiences of deposit insurance implementation and work jointly on the international research programs led by the IADI. In addition, CDIC signed the Memorandum of Understanding with the National Deposit Insurance Fund of Hungary (NDIF), which was the first formal tie established with the deposit insurers outside the Asian region, and thus is especially meaningful in terms of promoting international cooperation.

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3. Organize or Participate in Other International Exchange Activities

To promote international academic exchange, CDIC held a series of seminars, including the “Academic Seminar on Deposit Insurance”in Taipei in December 1994, the“International System on Financial Risk Management and Crisis Resolution”in Taipei in October 2003, the“International Symposium on Risk Management in the Post Financial Restructuring Fund Era in Taipei in September 2004, and an international convention jointly held by the KDIC and the Deposit Insurance Corporation of Japan in the Korean capital, Seoul, in November 2004 focusing on the issues related to the powers of the deposit insurance corporations to investigate the employees of insured institutions and bankrupt companies. In addition, CDIC also dispatched staff aboard for inspection, further education and participating in international meetings in order to enhance international visibility and to keep the development of Taiwan's deposit insurance system in line with international financial trend. Moreover, CDIC has maintained continued international exchange by receiving relevant financial supervisory institutions from all over the world to discuss on an extensive type of issues for closer cooperation.

Future Prospect and Challenge

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1. Strengthen the Functions of Deposit Insurance

In order to ensure that the deposit insurance system adapt to the changes of financial environments and accommodates the government's policy of financial reforms, CDIC has reviewed current mechanism of deposit insurance and amended the regulations to enhance the functions of deposit insurance as follows:

1. After the promulgation and implementation of the *Agricultural Finance Act*, the management of deposit insurance of the financial institutions of agriculture has to be separated since these institutions have a different competent authority with different supervision regulations. In addition, the risks they undertake are also different. It has been under study to set up two deposit insurance pay-off special reserves, one covering general finance and the other agriculture finance.
2. Strengthen risk management mechanism and establish information sharing mechanism between CDIC and financial safety network institutions. Furthermore, to give CDIC the power of examination so that CDIC may examine assessment base, termination of insurance, and performance of insurance liabilities.
3. Step prompt corrective action for undercapitalized financial institutions as soon as possible, and establish an unequivocal withdrawal mechanism to reduce pay-off losses of deposit insurance.
4. Set up target value of deposit insurance fund to facilitate the accumulation of deposit insurance pay-off special reserves.
5. To cope with systemic risk, CDIC should be allowed to exclude the limitation of less cost principle after applying for and being approved by the Executive Yuan by abiding some given procedures.

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2. Analysis and Adjustment of the Corporation's Position and the Correlation between the Corporation Position and Financial Security Network

At present, the role of international deposit insurance mechanisms has evolved from that of a Pay Box handling matters of troubled financial institutions to that of a Risk-Minimizer and Loss-Minimizer. Advanced nations are hoping to see to the effective performance of the deposit insurer for the protection of depositor interests and stabilization of the banking system endowed the deposit insurer with an independent status and authorities. For its part, the ROC Government amended the *Deposit Insurance Act* in 1999 to provide for the compulsory insurance system. Thereafter, the corporation became a chain in the national financial security network. The primary function of the system is to handle the withdrawal of problem financial institutions from the market. However, the present administration system of business operations of limited liability corporations and orientations of government-owned enterprises is patterned under the regular financial operations administration system of the Financial Supervisory Commission of the Executive Yuan. However, there are some doubts as to whether such role and orientation are capable of assuring the interests of depositors and safeguarding the stability of banks. In view of the significant role of the deposit insurance system in the international financial security network, it is only appropriate that the government amends pertaining laws and regulations, and adjust its organizational orientation in order to achieve the objectives of such laws and regulations. Furthermore, when coping with a systemic financial crisis, a solution could not be achieved through the singular efforts of a financial security network member; hence it is imperative that the law clearly define the authorities of each member of the network and the liaison and coordination mechanisms of the network to ensure the swift and effective solution of the problem.

Appendix

1. Deposit Insurance Act

As amended and promulgated on July 9, 2001 by Presidential

Article 1
This *Act* is enacted to safeguard the benefits of depositors in financial institutions, to promote savings, to maintain an orderly credit system and to enhance the sound development of financial operations.

Article 2
The term“competent authority”, as used in this *Act*, shall mean the Ministry of Finance.

Article 3
All financial institutions having been duly approved pursuant to the law to accept deposits or to be consigned to manage trust funds to safeguard principal and interest (hereinafter referred to as trust funds) shall be required to participate in deposit insurance as insured institutions under this *Act*.

The provision set forth in the preceding paragraph does not apply to a deposit-accepting foreign bank whose deposits have been insured by its home country.

Article 4
The term“deposit insurance”, as used in this *Act*, shall mean an insurance whose insured subjects are the following deposits and trust funds:

1. Checking deposits.
2. Demand deposits.
3. Time deposits.
4. Savings deposits.
5. Trust funds.
6. Other deposits which the competent authority has approved as insurable.

The aforesaid deposits and trust funds are restricted to those in the currency of the Republic of China.

Article 5
The competent authority in conjunction with the Central Bank shall establish a Central Deposit Insurance Corporation (hereinafter referred to as“CDIC”) to conduct the business of deposit insurance. The total capital of CDIC shall be prescribed by the Executive Yuan.

Shares of the aforesaid capital shall be subscribed by the competent authority, the Central Bank and the insured financial institutions. The total capital subscribed by the competent authority and the Central Bank shall exceed fifty percent of the paid-in capital.

Article 6
CDIC shall be exempt from providing security with the National Treasury.

Article 7
CDIC shall close all accounts at the end of each business year, and shall place the whole amount of the profit, if any, in the deposit insurance pay-off reserves fund, and shall not distribute it in accordance with the relevant provisions of the *Company Law*.

Article 8
The funds of CDIC shall be deposited with the Central Bank or with financial institutions that are approved by the competent authority with the provision of government bonds as collateral and, except for expenditures for normal operations and the uses stipulated under Article 15, Article 16 and Article 17 hereof, shall be invested exclusively in government bonds and bank debentures.

Article 9
The maximum insurance coverage that CDIC offers to each depositor of any insured institution shall be determined by the competent authority in conjunction with the Central Bank.

The aforesaid maximum insurance coverage shall mean the maximum amount insurable by each depositor for all his deposit accounts at the same insured institution.

Article 10
The assessment base shall be computed once every semiannual period, and the standard dates for computing such base shall be June 30 and December 31.

The aforesaid standard dates may be altered from time to time by the competent authority in conjunction with the Central Bank.

Article 11
The assessment base of each insured institution shall be its total deposit liability less the following amounts:

1. The balance of those deposits which exceed the maximum insurance coverage offered to individual depositors.
2. Trust funds whose uses are designated by the trustors.

Article 12
The insured institution shall report to CDIC within one month of the standard dates as to its total deposit liability, its assessment base, and the amount of the assessment due to CDIC, all computed as of the said standard dates.

Article 13
The assessment rate for deposit insurance shall be proposed by CDIC to the competent authority for approval

and implementation. The payment of assessment shall be made by the insured institution once every semiannual period. The manner and the date of such payment shall be agreed upon by CDIC and the insured institution.

Article 14

No insured institution shall distribute any dividends if it is in default of the payment of any assessment due to CDIC.

Article 15

In the event that an insured institution shall have been closed by an order of the competent authority, CDIC shall maintain orderly credit and protect the interests of the depositors of such insured institution or the designated beneficiaries of its trust funds (hereinafter referred to as depositors) by any of the following methods:

1. By directly making cash pay-offs in relation to principal from its insured deposits in accordance with the closed institution's own accounting records or based on evidence of outstanding amounts provided by the depositors.
2. By holding consultations with other insured institutions that are in close proximity to the closed institution, and transferring the principal of the deposit accounts of the closed institution to those institutions so that the claims of depositors can be met.
3. By extending financial assistance to other insured institutions through the provision of funds, loans or deposits, or by guaranteeing the liabilities of the closed institution to make it easier for the sound institutions to merge with the closed institution or else to assume its operations, assets and liabilities either in whole or in part.
4. By assuming and temporarily continuing the operations of the closed institution in the name of CDIC and then engaging in the activity subject to paragraph 1(3) should CDIC be unable through negotiation to find other insured institutions to handle the matters referred to the methods in paragraphs 1(2) and 1(3) above.

In order to fulfill the objectives stipulated in the preceding paragraphs (2) to (4), the cost to CDIC shall be less than the loss arising from cash pay-offs subject to paragraph (1).

Article 15-1

Any action brought by CDIC under this *Act* arising out of the transactions in paragraph 1 of Article 15, paragraph 2 of Article 16 and paragraph 2 of Article 17, may be exempted from the procedure of making invitations to tender, comparing prices, and negotiating over prices, and from Articles 25 to 27 of the *Budget Law*. CDIC shall draw up the operating procedures and regulations and shall submit the same to the competent authority for its approval.

Article 15-2

In the event that CDIC shall assume the business, assets and liabilities of the closed institution pursuant to paragraph 1(4) of Article 15, the accounting or financial statements and records of such institution shall remain independent; and the creditors of the closed institution shall have no claim over the property of CDIC.

Upon the completion by CDIC of the transactions stipulated in paragraph 1 of Article 15 and paragraph 1 and paragraph 2 of Article 16, the difference shall be written off from the insurance pay-off special reserves of CDIC and the remaining balance shall be recognized as a loss, should the amount recovered be less than the cost of assumption or liquidation.

When CDIC takes any action as set forth in paragraph 1 of Article 15 and paragraph 2 of Article 16, CDIC shall be subrogated to all rights of depositors and creditors against the insured institution to the extent of payment in its own name.

When another insured institution, pursuant to paragraph 1(3) of Article 15, either merges with or assumes a closed institution, and applies for alteration of registration with respect to all of the real estate, moveable property that should be registered and all pledges of the closed institution, it may register directly based on the certificates issued by the competent authority, and may be exempted from the registration fee, and on that basis from the stamp tax and the deed tax. The land incremental value tax may be credited and shall be paid by the other insured institution that merges with or assumes a closed institution once the land is further transferred. Should a bankruptcy or dissolution occur, the credited land incremental value tax should be preferentially repaid.

CDIC's temporarily assuming the operations, assets and liabilities of the closed institution in its own name and the insured institution's assuming the aforesaid items from CDIC pursuant to paragraph 1(4) and paragraph 1(3) of Article 15, respectively, shall be applicable to the preceding paragraph. However, when the land is further transferred by the insured institution that assumes it from CDIC, the credited land incremental value tax shall be paid along with the said tax arising from the transaction based on its assumption from CDIC.

Any action taken by the insured institution in making a public offering of stocks under the *Securities Trading Law* arising out of the transactions in paragraph 1(2) to paragraph 1(4) of Article 15, and paragraph 2 of Article 17 that is approved by the competent authority, shall be based upon the date of contract execution being regarded as the date of fact occurrence, and the insured institution shall make an announcement and declaration pursuant to paragraph 2 of Article 36 of the *Securities Trading Law*.

Article 16

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

To meet the liquidity needs of the creditors of the closed institution, CDIC may, without increasing the costs incurred by CDIC in taking any action under paragraph 1(1) to paragraph 1(4) of Article 15, make advance payment against claims filed by the depositors beyond the maximum insurance coverage and by non-depositors based on the anticipated reimbursement ratio derived from an evaluation of the values of assets of the closed institution. The aforesaid sums of the advance payment shall be counted item-by-item on the basis of the recovery order of the advance payment claims, and deducted first from the amount finally realized from the liquidation and repaid to CDIC.

The guidelines for calculating and operating the aforesaid advance payment in respect of the depositors beyond the maximum insurance coverage and non-depositors based on the anticipated reimbursement ratio shall be drawn up by CDIC, which shall submit the same to the competent authority for its approval.

Article 17

In order to control the insurance risk, CDIC may, if it deems it to be necessary, request the competent authority to dispatch personnel to extend assistance to an insured institution whose business operations are unsound.

In the event that an insured institution will be placed under assistance, or under a supervisor or conservator subject to this *Act* and the *Banking Law*, CDIC may extend loans to, or place deposits in, such institution with prior approval of the competent authority, and may in accordance with paragraph 1(3) of Article 15 extend assistance to other insured institutions. However, the cost of providing the financial assistance shall be less than the loss arising from the cash pay-offs stipulated by paragraph 1(1) of Article 15.

Article 17-1

CDIC, pursuant to paragraph 3 of Article 5 and Article 10 of the *Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund*, and when dealing with financial institutions as entrusted by that Fund, shall in line with that Fund deal with the settlement of the liabilities and the assets of insured institutions whose operations are unsound.

The Central Deposit Insurance Corporation, when dealing with financial institutions in accordance with the regulation stipulated in the above paragraph and within the period in which the Executive Yuan's Financial Restructuring Fund referred to in the *Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund* remains effective, shall use up to the full amount of the incremental deposit insurance assessment income received over the next ten years.

Article 18

In the event that an insured institution suspends its business of receiving deposits and trust funds, it shall give written notice to CDIC to terminate its status as an insured institution.

Article 19

If an insured institution violates the laws or regulations or the Insurance Agreement or engages in unsound business transactions, and fails to rectify such violations within the time-limit prescribed by CDIC, CDIC shall terminate its status as an insured institution, publish a notice to this effect, and report this matter to the competent authority. The insured institution shall notify its depositors that its status as an insured institution has been terminated.

In the case where an insured institution has had its insured status terminated pursuant to the provisions of the preceding paragraph and Article 18, the total deposit balance of the depositor in such institution on the date of such termination, less all subsequent withdrawals from any deposit account of such depositor, shall continue to be insured up to the maximum insurance coverage for a period of one year. In such case, the insured institution whose insured status has been terminated shall continue to pay to CDIC a fee in an amount equal to that of the assessment.

Article 20
In any action which CDIC takes pursuant to Article 15, Article 15-1, Article 15-2, Article 16 and Article 17, CDIC may ask the competent authority to negotiate with the Central Bank to receive its approval and obtain special financial accommodation. In such a case, Article 211 of the *Company Law* shall not apply.

That part of the aforesaid financial accommodation, which exceeds the collateral provided by CDIC, shall be guaranteed by the National Treasury. If the guarantee goes beyond the net worth of CDIC, the competent authority shall together with the Central Bank submit such guarantee to the Executive Yuan for its approval.

If CDIC deems it necessary in case of emergency, and before applying to the Central Bank for special financial accommodation pursuant to the preceding paragraph, CDIC may borrow the funds from the other financial institutions.

Article 21
If CDIC deems it necessary, and after obtaining the prior approval of the competent authority in consultation with the Central Bank, CDIC may examine the business records and accounts of the insured institution, or instruct the insured institution to prepare and submit, within a stipulated period of time, a balance sheet, property inventory, or other statements.

CDIC, based on the findings of the aforesaid examination or submitted statements, shall recommend improvements to the insured institution for its rectification within a stipulated period of time. If within such time-limit rectification is not made, CDIC may report this matter to the competent authority.

The important financial business information of banks shall be publicly announced every quarter, and the contents, format and style of such reports shall be determined by the competent authority.

Article 22
Insured institutions shall display a sign at their places of business, using such forms and contents prescribed by CDIC, stating that they are insured by CDIC.

Article 23
Should any of the following events occur in an insured institution, CDIC shall report this to the competent authority to punish the said insured institution with a fine of not less than 360,000 NT dollars and not more than 1,800,000 NT dollars:

1. Failure to file the statement with CDIC within the time-limit stipulated in Article 12.
2. Failure to accept the personnel dispatched by CDIC or comply with the opinions given by the personnel set forth in Article 17.
3. Failure to fulfill its obligation to give notice of the termination of its insured status set forth in Article 18 and paragraph 1 of Article 19.
4. Failure to obey or allow an examination to be conducted by CDIC or to prepare the balance sheet, property inventory or other reports within the time-limit set forth in paragraph 1 of Article 21.

5. Failure to display a sign of its participation in deposit insurance at its place of business as set forth in Article 22.

For failure to participate in deposit insurance as stipulated in Article 3 or make the assessment payment by the date agreed upon, an insured institution may be fined an amount two times the sum of the said assessment payment.

Upon the imposition of a penalty in the form of a fine under this Article to punish the said insured institution, the competent authority may issue a corrective order within the time-limit and may further impose a penalty of one to five times on the same fact or action if the said insured institution fails to comply with such order.

Article 24
CDIC shall stipulate its Articles of Incorporation in accordance with this *Act* and other relevant laws and regulations and shall submit the same to the competent authority for its approval and implementation.

Article 25
The Enforcement Regulation of this *Act* shall be prescribed by the Executive Yuan.

Article 26
This *Act* shall become effective on the date of promulgation.

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2. Enforcement Regulation of the Deposit Insurance Act

As amended and promulgated on May 5, 1999 by Executive Yuan

Article 1
This regulation is enacted in accordance with the provision of Article 25 of the *Deposit Insurance Act* (hereinafter referred to as the“*Act*”).

Article 2
After the implementation of the revisions to the *Act*, pursuant to paragraph 1 of Article 3 of the *Act*, each insured institution which is to participate in deposit insurance shall submit a business report, balance sheet, income statement, property inventory and other statements to the Central Deposit Insurance Corporation (hereinafter referred to as CDIC), so that CDIC can verify whether such insured institution has complied with the Insurance Standard drawn up prior to the implementation of the revisions to the *Act*. Insured institutions that have not complied with the Insurance Standard shall submit a concrete improvement plan that does not extend beyond a period of three years, within three months of the date on which these Enforcement Regulations take effect, that is, May 7, 1999.

In the case where the business operations of an insured institution as referred to in the above paragraph have deteriorated or it has not submitted a concrete improvement plan within the period of the plan's implementation, CDIC shall draft a proposal to deal with the situation, and shall submit a report to the competent authority asking that it handle the matter.

Article 3
The terms“deposits” and“trust funds” (hereinafter referred to as“deposits”), as used in Article 4 of the *Act*, shall not include the following deposits accepted by insured institutions:

1. Negotiable certificates of deposit.
2. Amounts due to all levels of government.
3. Amounts due to the Central Bank.
4. Amounts due to the banks, the postal savings system, investment and trust companies, Credit Cooperatives, and the credit departments of farmers' and fishermen's associations.
5. Other deposits approved by the competent authority that are not covered by deposit insurance.

Article 4
The total capital of CDIC shall be ten billion New Taiwan dollars.

Article 5
The fiscal year of CDIC shall be based on the Government fiscal year. CDIC shall set aside insurance pay-off special reserves each year in an amount not less than 60% of that year's premium income. However, the accumulated balance on such special reserves shall not exceed 5% of the total amount of the insured deposits current at the end of that year.

Article 6
CDIC, when determining the assessment rate for deposit insurance pursuant to Article 13 of the *Act*, may base such a decision on the size of the accumulated insurance pay-off special reserves and the operating risk of each insured institution.

Article 7
The items referred to in paragraph 1(1) and paragraph 1(2) of Article 15 should be rapidly dealt with beginning the day after the insured institution is closed.

Article 8
The term "cost", as used in paragraph 2 of Article 15 and in paragraph 2 of Article 17 of the *Act* shall mean the estimated cost; the loss arising from cash pay-offs shall mean the estimated loss.

Article 9
On the day that an insured institution suspends its business of receiving deposits or trust funds, it shall notify CDIC of such suspension in writing pursuant to Article 18 of the *Act*.

Article 10
This regulation shall become effective on the date of promulgation.

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3. Statute for the Establishment and Management of the Executive Yuan's

Financial Restructuring Fund

As amended and promulgated on June 22, 2005 by Presidential

Article 1

This *Statute* is enacted to dispose of failed financial institutions in order to maintain an orderly credit system, to improve the financial structure, to make a sound financial environment, to establish a management and operation mechanism, and establish the Executive Yuan's Financial Restructuring Fund (hereinafter simply referred to as the Fund).

Article 2

The term "competent authority", as used in this *Statute*, shall mean the Financial Supervisory Commission, Executive Yuan.

Article 3

Resources of the Fund are the following:

1. Business tax revenues collected from the businesses applicable to value-added and non-value-added business taxes as provided in paragraph 1 of Article 11 of the *Business Tax Law* during the period of nine years from January 2002 to the end of December 2010.
2. Incremental insurance premium income covering a ten-year period from January 2002 onwards that arises as a result of the increase in the insurance assessment rate which took effect on January 1, 2000.
3. Income arising from disposal of non-performing loans.
4. Other sources of the Fund.
5. Any amounts that are allocated following the government budget procedures.

In the event that the revenues from the tax and insurance premium income of items (1) and (2) of the preceding paragraph are not realized, the Fund may entrust Central Deposit Insurance Cooperation (hereinafter simply referred to as CDIC) to apply to financial institutions for accommodation for the pay-offs stipulated in paragraph 3 of Article 4 and paragraph 1 of Article 10; or else issue bank debentures in name of CDIC pursuant to paragraph 1 of Article 72 of the *Banking Law*, and shall use the sources provided in items (1) to (3) of the preceding paragraph as collateral to sustain cash receipts and expenditures. CDIC shall repay any such amounts from the principals, interests and expenses of the aforesaid accommodation and debentures by the resources of funds in the preceding paragraph.

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

Article 4

The term“failed financial institutions”, as used in this *Statute*, shall mean one of the following:

1. Adjusted net worth is negative after the examination by the competent authority of bank, agriculture finance or with certificated auditing by Accountant.

2. Failure to repay its debts.
3. Significant deterioration in businesses or financial status as stipulated in paragraph 1 of Article 62 of the *Banking Law*, failure to repay its debts, risking damaging the benefits of depositors, or pursuant to Article 64 losses exceeding one third its capital and failure to improve within a prescribed timeline and being determined by the competent authority and the Management Committee of the Fund to be incapable of continuing operations.

The Fund takes handling community financial institutions as its priority. In the process of disposal the Fund shall maintain same treatment whether formally or in essence. The Fund shall set aside 20% of the incremental resources of the funds after the amendment and enactment of this *Statute* for pay-offs of farmer's and fishermen's associations without being limited by the operative period of this Fund. The aforesaid fund shall be saved to an exclusive account; regulation governing the utilization and management of the said account shall be enacted by the Executive Yuan.

Prior to the amendment and promulgation of this *Statute*, the benefits of members of the failed credit cooperatives that have been placed in supervision or conservatorship by the competent authority pursuant to the *Credit Cooperatives Act* and are included for disposal by the Fund shall be safeguarded by blank guarantee in accordance with the principle of same treatment in the preceding paragraph. Their rights shall be protected by the pay-offs in full of the financial institutions that assume the assets of the aforesaid credit cooperatives. In the event that the assuming financial institution defaults on pay-off, the Fund shall repay in full.

CDIC may apply for the utilization of the Fund when engaging in paragraph 1, Article 15 and paragraph 2, Article 17 of the *Deposit Insurance Act* for pay-off in full of the deposits and non-deposits liabilities of the failed institutions. The Fund shall assume the assets of the said institutions without being limited by the maximum coverage as stipulated in Article 9 and that cost shall not exceed losses of cash payoffs as stipulated in paragraph 2, Article 15 and the proviso in paragraph 2, Article 17 of the said *Act*.

When the competent authority or the competent authority of the central government for agriculture finance deals with failed financial institutions after the amendment and promulgation of this Statute, non-deposit debts of the said institutions shall not be paid off. Nevertheless, the non-deposit debts of the said institutions that had occurred before the amendment and promulgation of this *Statute* shall be protected based on the principle of non-retroactiveness of law and trust and protection.

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

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

Article 5

The Fund has the capacity of a litigant and set up the Management Committee of the Financial Restructuring Fund (hereinafter simply referred to as the Management Committee) and the Valuation Division of the Financial Restructuring Fund (hereinafter simply referred to as the Valuation Division).

The Management Committee is in charge of the following:

1. Review of the uses and operations of the Fund, and approval of the items as provided in the preceding article, Article 10 and Article 11.
2. Approval of the Fund's receipts and expenditures custodianship plans.
3. Review of the Fund's financial reports and funding deployment.
4. Other matters concerned with the management, implementation and public disclosure of the Fund.
5. Hire international credit rating institutions or specialized valuation institutions to assist the Valuation Division.

The Fund may entrust CDIC with the execution and drawing up of the items in the preceding paragraph.

The resolution passed by the Management Committee shall haven't less than two thirds of the Committee members participating in the meeting and the agreement of no less than two thirds of the participating members.

The Valuation Division is in charge of the following:

1. Determination of the failed financial institutions to be dealt with by the Fund.
2. Determination of the sequence in and priority of dealing with the failed financial institutions by the Fund.
3. Determination of the methods of dealing with the failed financial institutions by the Fund.
4. Determination of the types of pay-offs and assets to be assumed and their prices and amounts that the Fund has entrusted to CDIC.
5. Monitoring the execution of matters entrusted by the Fund.

The decision with respect to the preceding by the Valuation Division shall be submitted to the Management Committee for resolution with more than two thirds of members participating in the meeting and the agreement of no less than two thirds of the participating members.

Article 6
The Fund shall determine to deal with failed financial institutions based on the following principles:

1. The failed financial institutions have closed businesses or have deposit bank run that may trigger systemic risk of the financial system.
2. The failed financial institutions have more serious deterioration of the financial status.
3. The failed financial institutions have smaller handling cost.

Determination of failed financial institutions and the sequence of priority of the Fund's dealing with these institutions shall be first established by the Valuation Division and then adopt the resolution by the Management Committee. In the event that the Management Committee disagrees with the determination of the Valuation Division, it shall in writing concretely demonstrate the reasons.

Article 7
The Management Committee consists of nine to thirteen members, including one Committee Gonvener, who serves concurrently as the Head of the competent authority and represents the Committee, and one Committee Vice-Convener, who serves concurrently as Deputy Head of the competent authority. The remaining Committee members, who shall serve currently in that capacity, shall include a Deputy Governor of the Central Bank, a Vice-Chairman of the Council of Agriculture, a Deputy Director of the Directorate-General for Budget, Accounting and Statistics, and the Chairman of CDIC, and shall be appointed in that capacity and excused from office on the same basis. In addition, the remaining Committee members shall be selected on the basis of their professional knowledge and experience in the field of law, economics, finance and other fields that are relevant to the Management Committee. Such Management Committee members who belong to the same party shall not exceed half of the total number of Committee members.

The Valuation Division consists of seven to nine members, who serve on the basis of the professional knowledge and experience that they have in international finance, banking management, or asset valuation and are hired by the Management Committee. Head of the Valuation Division is elected by and among the members of the Valuation Division, who also serves as natural member of the Management Committee. The Valuation Division members shall avoid the meetings in the event of interest conflict.

Members who are selected pursuant to paragraph 1 shall have an appointment period of three years. Should a Committee member be substituted before the term expires, the new term of the successor shall terminate on the original expiration date.

Members who are selected pursuant to paragraph 2 shall have the same termination of appointment as the members of the Management Committee.

Article 8
The Management Committee installs one Executive Secretary, who shall be a Grade 12 officer or above appointed by the Committee Convener. The competent authority and its subordinate departments shall dispatch currently-employed staff assist the execution of the Management Committee operations and may employ one to five persons as required by the businesses.

Article 9
The Management Committee meeting shall be convened and chaired by the Committee Convener. Whenever the Committee Convener is for cause unable to execute the above duties, the Vice-Convener shall act for him. Whenever the Committee Vice-Convener is for cause unable to execute the above duties, the Committee Convener shall designate one of the other Committee members to act for him.

The Management Committee may notify the Valuation Division to designate members to participate in the meeting called by the Committee. The resolutions that are made in relation to Article 4, Article 10 and Article 12 shall be submitted in five days to the Legislative Yuan regarding reasons of the resolutions, basis of computing, resolutions of the Valuation Division along with relevant assessment reports.

When dealing with failed financial institutions the Fund shall submit to the Legislative Yuan the reports in relation to the financial status, problems, loss estimation and principles of disposal. The Fund shall also notify the Legislative Yuan in writing in advance when the budget is drawn on.

Article 10
The Fund may entrust CDIC with the handling of financial institutions whose operations are unsound in accordance with the following methods:

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

The Fund is regarded as the financial institution and assessment management company referred to in the Financial Institutions' Merger Law and shall apply to Article 15, Article 17 and Article 18 of the Law.

Article 11
The Fund shall publish by notice in advance every single bad debt exceeding 1 million NT dollars of the customers of the failed financial institutions when dealing with the failed financial institutions pursuant to the preceding paragraph.

The competent authority shall make it known to the general public in internet the item that should be published in the preceding paragraph or by other appropriate means.

Article 12
The Management Committee shall preserve the Fund's funds in the name of the Fund in the following means except those used pursuant to Article 4:

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

Article 13
The proceeds resulting from selling the assets of financial institutions with unsound operations taken over by the Fund by tender, auction, or other means shall be deposited in to the Fund.

For the assets assumed by the Fund arising from the Fund's management and disposal of failed financial institutions, the Fund may entrust CDIC for collection, debts rating, packaging and combination, public sale by tender and securitization. CDIC shall apply to Article 15-1 of the *Deposit Insurance Act* when entrusted with the aforesaid.

The Fund shall bear the cost that CDIC may be incurred arising from being entrusted with the affairs of the preceding paragraph and Article 10.

The Fund shall not apply to Article 25 to Article 27 and Article 88 of the *Budget Law* when following paragraph

1 of Article 10 and the preceding three paragraphs.

Article 14
The handling of the Fund's accounting and auditing matters shall be based on the system of generally accepted accounting and auditing principles.

Article 15
The Fund may require that the period of failed financial institutions for disposal starts from the promulgation of this *Statute* and ends on July 10, 2005.

The Fund may proceed with the following after July 10, 2005:

1. Pay-off, assumption and sale by tender of the financial institutions already under disposal.
2. Collection of the taxes and insurance premium income set forth in item (1) and item (2), paragraph 1 of Article 3.
3. Disposal of outstanding assets and liabilities.
4. The Fund's lawsuit cases and matters in relation to the Fund.

The Fund shall be terminated when the taxes and insurance assessment set forth in item (1) and item (2), paragraph 1 of Article 3 cease incorporation.

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

Article 16
Any person who with intent illegally benefits from the Fund whether for himself or a third party, or damages property or other benefits of institutions participating in deposit insurance or the Fund, such person shall receive a sentence of between three and ten years, together with a fine of up to NT $100 million.

In the event that the insured institution's responsible official or two or more employees collaborate together in committing the above-mentioned crimes, the aforesaid penalties shall be increased by half, and that the violators shall jointly be required to pay compensation.

Non-penetration shall apply to paragraph 1.

Article 17
The Fund after the pay-off pursuant to the provisions of this *Statute* and within the limits of its pay-off shall acquire the right of the failed financial institution to claims damages of the non-performance of the debts or tort arising from the appointment or employment contract of the responsible official or staff of the institution along with the right to claim damages of its guarantor of employment, guarantor of insurance and joint acting person of tort.

CDIC may after the authorization of legal proceedings by the Fund in its own name file civil legal action against the person liable for damages compensation set forth in the preceding paragraph or file for lawsuit as succeeding party concerned.

CDIC when filing legal proceedings pursuant to the paragraph shall be exempt temporarily from paying judgment fee, or free from providing collateral if filing for provisional seizure, provisional disposition or provisional execution.

Article 18
This regulation shall become effective on the date of promulgation.

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4. Expansion and Improvement of Taiwan's Deposit Insurance System

	Year CDIC Established (Sep. 27, 1985)	Subsequent Changes (Sep. 27, 1985～July 2001)	Current System (July 2001～)
Type of Participation	Voluntary	Changed to mandatory coverage in January 1999	Same as left column
Capital	• Legally prescribed capital: NT$2 billion • Paid-in capital: NT$800,050,000	• 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	• Domestic banks (including trust and investment corporations, 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 Ministry of Finance	• 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	• 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$1 million on August 15, 1987	Remain at NT$ 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 Management Committee are fully covered

Scope of coverage	Deposit principal and interest	From January 1999, limited to deposit principal	Same as left column, limited to deposit 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	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 obligations	• 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 take advance payments of claims to meet the liquidity needs of the failed institutions 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 insured institutions	None	Added in January 1999	Same as left column
Recipients of financial assistance and methods of assistance	Limited to loans or the purchase of assets to enable failed financial institutions to resume operation, when such resumption is deemed necessary	Revised in January 1999 as follows: • Institutions under assistance, supervision, or conservatorship, may be extended loans or deposits • Other financial institutions that merge with or acquired 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: • That part for which CDIC is unable to provide collateral will be guaranteed by the National Treasury • When the secured portion exceeds CDIC's net worth, the competent authority and the Central Bank shall 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

Methods of allocation of CDIC's surplus	As stipulated in the Company Law	Same as left column	Added in July 2001: 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	Added in July 2001: Information is disclosed on a quarterly basis

5. Maximum Coverage, Numbers of Insured Institutions, Insured Deposits, Average Rate, Premium Income, and Deposit Insurance Pay-off Special Reserves

Year-end	Maximum Coverage	Insured Institutions		Insurable Deposits Ratio	Average Rate	Premium Income	Deposit Insurance Pay-off Special Reserves	Stock-holders' Equity	Ratio of Deposit Insurance Pay-off Special Reserves to insured Deposits (%)	Ratio of Deposit Insurance Pay-off Special Reserves plus Stock-holders' Equity to insured Deposits(%)
		Number of Institutions	Insured Deposits							
			(a)	%	%		(b)	(c)	(b)/(a)	(b)+(c)/(a)
2004	1.0	396	9,018,811	100.0	0.0548	3,909	12,153	11,277	0.13	0.26
2003	1.0	401	8,613,531	100.0	0.0549	3,766	10,946	11,277	0.13	0.26
2002	1.0	405	8,273,608	100.0	0.0541	3,597	9,662	11,277	0.12	0.25
2001	1.0	417	8,116,092	100.0	0.0534	3,408	8,528	11,277	0.11	0.24
2000	1.0	456	7,701,342	100.0	0.0532	3,321	4,916	11,220	0.06	0.21
1999	1.0	459	7,769,067	100.0	0.0153	900	1,752	10,185	0.02	0.15
1998	1.0	407	6,991,799	67.9	0.0150	509	2,200	8,967	0.03	0.16
1997	1.0	405	3,289,797	65.8	0.0150	465	1,793	8,457	0.05	0.31
1996	1.0	400	3,058,978	63.6	0.0150	427	1,421	5,753	0.05	0.23
1995	1.0	350	2,772,773	51.9	0.0150	325	1,080	5,587	0.04	0.24
1994	1.0	200	1,923,972	48.7	0.0150	252	820	5,472	0.04	0.33
1993	1.0	183	1,608,539	40.6	0.0150	189	618	5,331	0.04	0.37
1992	1.0	173	1,151,692	39.4	0.0150	146	481	4,181	0.04	0.40
1991	1.0	163	943,196	37.3	0.0150	120	396	2,076	0.04	0.26
1990	1.0	157	753,861	33.2	0.0150	98	300	2,007	0.04	0.31
1989	1.0	151	618,248	31.4	0.0150	77	222	1,985	0.04	0.36
1988	1.0	141	483,378	23.4	0.0150	59	157	1,974	0.03	0.44
1987	1.0	99	379,379	18.9	0.0400	97	116	1,611	0.03	0.46
1986	0.7	79	201,850	17.3	0.0500	69	48	1,195	0.02	0.62

Remarks:

1. 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 which 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 0.05% in 1985; it was reduced to 0.04% on July 1,1987, and further to 0.015% on January 1,1988. A risk-based premium rate was adopted on July 1,1999, and the differential rates were set at three levels: 0.015%, 0.0175%, and 0.02%. On January 1, 2000, the rates were readjusted to 0.05%, 0.055%, and 0.06%.
5. In September 1999, CDIC provided assistance in the amount of NT$1,284 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 resource include CDIC's incremental insurance premium income covering a 10-year period form January 2002 onwards that arises as a result of the increase in the deposit insurance premium rate which took effect on January 1, 2000.

6. Summary of CDIC's Handling Panic Run

Item No.	Institution with Panic Run	Date of Event	Decrease Rate of Deposits	Amount of Financial Assistance
1	Third Credit Cooperative Association of Taipei City	1990.06.13	16.1%	－
2	Second Credit Cooperative Association of Keelung City	1990.07.15	28.0%	－
3	Credit Department of Hsinda Port District Fishermen's Association of Kaohsiung County	1993.03.10	16.5%	－
4	Donggang Township Credit Cooperative Association of Pingtung County	1994.02.24	10.7%	－
5	Houlong Township Farmers' Association of Miaoli County	1994.03.08	5.0%	－
6	Nanlong District Fishermen's Association of Miaoli County	1994.09.27	25.5%	－
7	Guanyin Township Farmers' Association of Taoyuan County	1994.11.24	4.0%	－
8	Wanluan District Farmers' Association of Pingtung County	1995.09.11	15.1%	－
9	Siaogang District Farmers' Association of Kaohsiung County	1995.10.09	20.0%	－
10	Sinfong Township Farmers' Association of Hsinchu County	1995.10.30	30.7%	－
11	Overseas Chinese Bank	1995.12.07	11.9%	－
12	Farmers' Association of Kinmen County	1995.12.13	25.1%	－
13	Taitung Business Bank	1996.02.09	21.8%	NT$6 billion (repaid on March 12, 1996)
14	Guanyin Township Farmers' Association of Taoyuan County	1996.02.17	27.8%	NT$1.5 billion (repaid on May 23, 1997)
15	Gaoshu Township Farmers' Association of Pingtung County	1996.05.09	13.1%	NT$500 million (repaid on September 4, 1996)
16	Fenyuan Township Farmers' Association of Changhua County	1996.05.17	12.0%	－
17	Pingjhen City Farmers' Association of Taoyuan County	1996.05.24	35.1%	NT$3 billion (repaid on March 19, 1997)
18	Changjhih Township Farmers' Association of Pingtung County	1996.05.25	4.9%	－
19	Songshan District Farmers' Association of Taipei City	1996.06.26	21.3%	－
20	Eighth Credit Cooperative Association of Taichung City	1996.08.07	9.7%	－
21	Second Credit Cooperative Association of Hsinchu City	1996.09.12	34.5%	NT$4 billion (repaid on January 10, 1997)
22	Shueishang Township Farmers' Association of Chiayi County	1997.01.13	14.4%	－
23	Chiayi City Farmers' Association of Chiayi County	1997.01.13	9.5%	－

23	Chiayi City Farmers' Association of Chiayi County	1997.01.13	9.5%	–
24	Yangminshan Credit Cooperative Association of Taipei City	1997.02.02	7.1%	–
25	Ninth Credit Cooperative Association of Taipei City	1997.04.23	16.7%	–
26	Fifth Credit Cooperative Association of Kaohsiung City	1997.06.11	47.1%	–
27	Tenth Credit Cooperative Association of Kaohsiung City	1997.06.11	31.7%	–
28	Wandan Township Farmers' Association of Pingtung County	1997.07.25	9.9%	–
29	Lugang Township Farmers' Association of Changhua County	1998.01.03	1.4%	–
30	Linnei Township Farmers' Association of Yunlin County	1998.05.07	6.2%	–
31	Songshan District Farmers' Association of Taipei City	1998.07.08	–	–
32	Fangliao District Fishermen's Association of Pingtung County	1998.07.28	–	–
33	Jhunan Township Farmers' Association of Miaoli County	1998.09.10	7.4%	–
34	Fangliao District Fishermen's Association of Pingtung County	1998.11.02	1.4%	NT$210 million (repaid on March 17, 2000)
35	Fangliao District Farmers' Association of Pingtung County	1998.11.02	1.0%	NT$420 million (repaid on September 24, 2001)
36	Linbian Township Farmers' Association of Pingtung County	1998.11.02	2.4%	NT$200 million (repaid on March 16, 1999)
37	Taichung Commercial Bank	1998.11.25	25.4%	NT$5 billion (repaid on November 27, 1998)
38	Sinyuan Township Farmers' Association of Pingtung County	1999.01.25	–	NT$450 million (repaid on June 22, 2000)
39	Bank of Panhsin	1999.02.03	15.7%	–
40	Fongyuan City Farmers' Association of Taichung County	1999.03.03	12.3%	–
41	Pingjhen City Farmers' Association of Taoyuan County	1999.03.15	–	–
42	Second Credit Cooperative Association of Pingtung City	1999.06.28	4.6%	NT$2.37 billion (repaid on September 21, 2001 after assumption by Sunny Bank)
43	Donggang Township Credit Cooperative Association of Pingtung County	1999.07.05	62.8%	NT$1.32 billion (repaid on September 20, 1999 after assumption by Bank of Taiwan)
44	Zihguan District Fishermen's Association of Kaohsiung County	1999.07.13	20.7%	–
45	Wanluan District Farmers' Association of Pingtung County	1999.07.30	11.2%	–
46	Chung Hsing Bank	2000.04.28	20.2%	NT$5 billion (repaid on July 20, 2000)
47	Taiwan Development and Trust Corporation	2000.05.01	12.9%	–
48	Bank of Overseas Chinese	2000.05.24	7.9%	–
49	Chinfon Commercial Bank	2000.06.08	–	–
50	Fifth Credit Cooperative Association of Tainan City	2002.05.17	56.2%	NT$900 million (repaid on July 19, 2002)
51	Chung Hsing Bank	2003.04.18	4.1%	–
52	Kaohsiung Business Bank	2003.12.05	10.2%	NT$2 billion financed by the Financial Restructuring Fund (repaid on February 13, 2004)
53	Hualien City Farmers' Association of Hualien County	2003.12.19	12.3%	–
54	Fongshan Credit Cooperative Association of Kaohsiung County	2004.04.05	19.8%	NT$4 billion financed by the Financial Restructuring Fund (repaid on October 1, 2004)

7. Summary of CDIC Supervision and Conservatorship

Name of institution	Date of supervision/ conservatorship	Reason of supervision/ conservatorship	Handling
Second Credit Cooperative Association of Hsinchu City	1996.9.7 Supervision	Non-performing loan ratio far exceeding averages of the whole Credit Cooperatives, financial situation deteriorating significantly. Moreover, all directors and supervisors, except two, refused to increase shares subscription as required. Ministry of Finance deemed that it failed to operate normally and appointed CDIC to station on-site supervision.	Assumed by Macoto Bank on January 4, 1997
Fifth Credit Cooperative Association of Kaohsiung City	1997.6.12 Supervision	According to the media, its net worth had turned negative attracting concern from Ministry of Finance. Abnormal withdrawals by depositors were triggered on June 11, 1997. Ministry of Finance appointed CDIC to station on site for supervision.	Assumed by Pan Qiao Credit Cooperative (restructured and renamed Bank of Panhsin) on September 29, 1997
Tenth Credit Cooperative Association of Kaohsiung City	1997.6.12 Supervision	According to the media, its net worth had turned negative attracting concern from Ministry of Finance. Abnormal withdrawals by depositors were triggered on June 11, 1997. Ministry of Finance appointed CDIC to station on site for supervision.	Assumed by Pan Asia Bank (restructured and renamed Bowa Bank) on October 25, 1997
Taichung Commercial Bank	1998.11.25 Supervision	Its Chairman, Zeng Zheng-ren, forced the deal of making illegal big loans extended by its Taipei branch to its affiliated businesses. Large-scale bank run was triggered resulting from illegal transactions of the shares of its listed company. Ministry of Finance appointed CDIC to station on site for supervision after determining that its board of directors had serious problems of mal-function.	Ministry of Finance terminated CDIC's supervision task on May 24, 1999 after new members of board of directors and supervisors were elected successfully and most businesses had been in normal operations
Donggang Township Credit Cooperative Association of Pingtung County	1999.7.6 Supervision 1999.9.15 Conservatorship	CDIC conducted general examination of the institution and found out falsified daily entries and forged statements. In addition, adjusted net worth was negative. Ministry of Finance appointed CDIC to station on site for supervision and later for conservatorship.	assumed by Bank of Taiwan on September 16, 1999
Chung Hsing Bank	2000.4.28 Supervision for half year 2000.10.28 Supervision extended for half year 2001.4.28 Supervision extended for half year 2001.10.25 Conservatorship temporarily for five months 2002.3.25 Conservatorship for half year 2002.10.5 Conservatorship by Land Bank 2003.8.4 Conservatorship by CDIC again and entrusted Land Bank to manage its businesses and property	According to the media, illegal loan was made to Typhone Group. Abnormal withdrawals by depositors occurred on April 27, 2000. Ministry of Finance appointed CDIC to station on site for supervision and later for conservatorship to stabilize its business operation and maintain the financial order.	assumed by Union Bank of Taiwan on March 19, 2005
Taiwan Development and Trust Corporation(TDTC)	2000.5.13 Supervision for half year 2000.11.13 Supervision extended for half year	The media reported the controversies over the land of Far Eastern Silo and Shipping (FESS) it had bought and the disputed earnings figures. Withdrawal of trust funds took place from May 12 to May 17, 2000. Ministry of Finance appointed CDIC to station on site to assist resolving operations problems.	On May 11, 2001 Ministry of Finance released CDIC the supervision task, but still appointed CDIC to provide assistance. On January 27, 2005, the TDTC sold its trust department to Jih Sun International Bank. The assumption is completed on August 6, 2005

First batch of financial institutions handled by the Financial Restructuring Fund of the Executive Yuan, including 29 farmers' and fishermen's associations and 7 credit cooperative associations	2001.8.31 Conservatorship the credit department of Songshan District Farmers' Association of Taipei City 2001.9.14 Conservatorship the credit departments of the 28 farmers' and fishermen's associations 2001.9.14 Conservatorship of 7 credit cooperatives	Adjusted net worth of all institutions turned negative according to financial examination; included by the Financial Restructuring Fund for disposition. Ministry of Finance appointed CDIC to assume authority of office on site or for conservatorship.	Assumed by 10 state-owned and private banks
Kaohsiung Business Bank	2002.1.28 Conservatorship for five months 2002.6.28 Conservatorship extended for half year 2002.12.28 Conservatorship extended for half year 2003.6.28 Conservatorship extended for half year 2003.12.28 Conservatorship extended for half year	Asset quality continued to deteriorate and failed to increase capital by cash injection . Ministry of Finance appointed CDIC to station on site for conservatorship.	assumed by E.Sun Bank on September 4, 2004
Fifth Credit Cooperative Association of Tainan City	2002.5.17 Conservatorship	Adjusted net worth turned negative after financial examination; included by the Financial Restructuring Fund for disposition. Ministry of Finance appointed CDIC to station there for conservatorship.	assumed by Sunny Bank on August 24, 2002
Second batch of financial institutions handled by the Financial Restructuring Fund of the Executive Yuan including 7 Credit Department of farmers' associations	2002.7.12 Conservatorship the credit departments of farmers' associations	Adjusted net worth of all institutions turned negative after financial examination; included by the Financial Restructuring Fund for disposition. Ministry of Finance appointed CDIC to station on site and assume authority of office.	assumed by the Taiwan Cooperative Bank and Bank of Taiwan on July 27, 2002
Fongshan Credit Cooperative Association of Kaohsiung County	2004.4.2 Conservatorship	Both business and financial status were deteriorating fast and risked defaulting; included by the Financial Restructuring Fund for disposition. Ministry of Finance appointed CDIC to station on site for conservatorship.	assumed by China Trust Commercial Bank on October 1, 2004

8. CDIC's Handling of the 48 Failed Financial Institutions Entrusted by the Financial Restructuring Fund

Acquiring Bank	Acquired Financial Institution	Acquisition Date	Payoff amount [1]
Cathay United Bank	Credit Department of Songshan District Farmers' Association of Taipei City	2001.09.01	2,240
	Credit Department of Pingtung City Farmers' Association of Pingtung County	2001.09.15	2,420
Bank of Taiwan	Credit Department of Taiwan Provincial Farmers' Association	2001.09.15	5,357
	Credit Department of Sinyuan Township Farmers' Association of Pingtung County	2001.09.15	2,183
	Credit Department of Pingtung County Farmers' Association	2001.09.15	1,939
Hua Nan Commercial Bank	Credit Department of Guanyin Township Farmers' Association of Taoyuan County	2001.09.15	1,265
	Credit Department of Sinfong Township Farmers' Association of Hsinchu County	2001.09.15	634
	Credit Department of Siaogang District Farmers' Association of Kaohsiung City	2001.09.15	4,208
	Credit Department of Jiadong Township Farmers' Association of Pingtung County	2001.09.15	918
	Credit Department of Jhutian Township Farmers' Association of Pingtung County	2001.09.15	258
Land Bank of Taiwan	Credit Department of Kinmen County Farmers' Association	2001.09.15	260
	Credit Department of Fongyuan City Farmers' Association of Taichung County	2001.09.15	2,950
	Credit Department of Fangliao District Farmers' Association of Pingtung County	2001.09.15	2,051
	Credit Department of Gaoshu Township Farmers' Association of Pingtung County	2001.09.15	484
	Credit Department of Fusing Township Farmers' Association of Changhua County	2002.07.27	1,572
	Credit Department of Nanhua Township Farmers' Association of Tainan County	2002.07.27	456
	Credit Department of Dashu Township Farmers' Association of Kaohsiung County	2002.07.27	894
	Credit Department of Chaojhou Township Farmers' Association of Pingtung County	2002.07.27	1,993
Chang Hwa Commercial Bank	Credit Department of Fangyuan Township Farmers' Association of Changhua County	2001.09.15	957
	Credit Department of Fenyuan Township Farmers' Association of Changhua County	2001.09.15	1,081
	Credit Department of Puyan Township Farmers' Association of Changhua County	2001.09.15	813
	Credit Department of Checheng District Farmers' Association of Pingtung County	2001.09.15	406
	Credit Department of Linbian Township Farmers' Association of Pingtung County	2001.09.15	1,576
First Commercial Bank	Credit Department of Cigu Township Farmers' Association of Tainan County	2001.09.15	791
	Credit Department of Nansi Township Farmers' Association of Tainan County	2001.09.15	147
	Credit Department of Wanluan District Farmers' Association of Pingtung County	2001.09.15	620
	Credit Department of Zihguan District Fishermen's Association of Kaohsiung County	2001.09.15	532

	Credit Department of Changjhih Township Farmers' Association of Pingtung County	2001.09.15	679
The Farmers Bank of China	Credit Department of Fangliao District Fishermen's Association of Pingtung County	2001.09.15	461
	Credit Department of Wandan Township Farmers' Association of Pingtung County	2001.09.15	1,457
	Credit Department of Neimen Township Farmers' Association of Kaohsiung County	2001.09.15	519
	Credit Department of Liouguei Township Farmers' Association of Kaohsiung County	2001.09.15	411
	Credit Department of Niaosong Township Farmers' Association of Kaohsiung County	2001.09.15	1,136
Taiwan Cooperative Bank	First Credit Cooperative Association of Taichung City	2001.09.15	9,072
	Fifth Credit Cooperative Association of Taichung City	2001.09.15	6,748
	Ninth Credit Cooperative Association of Taichung City	2001.09.15	6,659
	Eleventh Credit Cooperative Association of Taichung City	2001.09.15	8,257
	Credit Department of Shengang Township Farmers' Association of Taichung County	2002.07.27	1,959
	Credit Department of Changhua City Farmers' Association of Changhua County	2002.07.27	1,627
	Credit Department of Linnei City Township Farmers' Association of Yunlin County	2002.07.27	888
Sunny Bank	Yuanlin Township Credit Cooperative Association of Changhua County	2001.09.15	1,949
	Second Credit Cooperative Association of Pingtung City	2001.09.15	4,748
	Fifth Credit Cooperative Association of Tainan City	2002.08.24	3,171
Macoto Bank	Gangshan Township Credit Cooperative Association of Kaohsiung County	2001.09.15	1,026
E.Sun Bank	Kaohsiung Business Bank	2004.09.04	13,863
China Trust Commercial Bank	Fongshan Township Credit Cooperative Association of Kaohsiung County	2004.10.01	1,147
Nanjhou Farmers' Association of Pingtung County	Credit Department of Sinpi Township Farmers' Association of Pingtung County	2005.03.11	98
Union Bank of Taiwan 2	Chung Hsing Bank	2005.03.19	—

Remarks:

1. Pay-off amount includes the amount adjusted after the assignment date.
2. Union Bank of Taiwan includes the amount after adjustment, total NT$6 billion or so was paid to the Financial Restructuring Fund.

9. Auctioning Off of the Non-performing Loans of Chung Hsing Bank and Kaohsiung Business Bank

Financial Institution	Non-Performing Loans		Auction Date	Book Value	Bid Value	Awarded Bidder
Chung Hsing Bank	First block	Enterprises	2003.12.15	17,175	4,028	Lone Star Asia Pacific, Ltd.
		Individuals	2003.12.15	11,605	4,190	Alliance of Lehman Brothers Commercial Corporation Asia, Ltd. and TAMCO
	Second block	Combination 1	2004.03.29	12,446	3,824	Lone Star Asia Pacific, Ltd.
		Combination 2	2004.03.29	10,029	2,843	GE Capital
		Combination 3	2004.03.29	18,233	3,089	Taiwan Asset Management Corporation (TAMCO)
	Non-NPL assets/ liabilities and business (excluding interbank deposits and call loans)		2004.12.09	3,123	7,108	Union Bank of Taiwan
Kaohsiung Business Bank	Enterprises		2003.06.24	8,370	2,980	Lone Star Asia-Pacific, Ltd.
	Individuals		2003.06.24	13,350	5,250	Lone Star Asia-Pacific, Ltd.
	Non-NPL assets/ liabilities and business (excluding trust business)		2004.05.31	-17,073	13,368	E.Sun Bank