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Operating Procedures regarding the Provision of Financial Assistance by the Central Deposit Insurance Corporation to Encourage Acquisitions or Assumptions

As approved by the Financial Supervisory Commission, Executive Yuan, Letter Chin-Kuan-Yin (3) No. 09630004500 on October 2, 2007

1. These operating procedures are drawn up pursuant to Paragraph 4 of Article 28 of the *Deposit Insurance Act* (hereinafter referred to as the "Act").
2. The Central Deposit Insurance Corporation (hereinafter referred to as the "CDIC") in executing the items stipulated in Subparagraph 3 of Paragraph 1 of Article 28, and Paragraph 1 of Article 29 of the Act, shall handle such items in accordance with these operating procedures.
3. The so-called financial assistance in these operating procedures refers to providing insured institutions or financial holding companies (hereinafter referred to as the "acquiring institutions") which will acquire or assume other insured institutions that have ceased operations, are under conservatorship or whose power of board of directors and supervisors are exercised by the competent authority (hereinafter referred to as the "target institutions") with funds, loans, deposits, guarantees or purchases of subordinated debt issued by the acquiring institutions.

The target institutions as referred to in the previous Paragraph include financial institutions whose deposit insurance agreements have been terminated but the termination has not exceeded six months in accordance with the stipulations of the Act.

4. The funds provided by the CDIC for the financial assistance shall be limited to compensate the difference between the target institution's assets and liabilities. The amount to be compensated shall be calculated in accordance with the bid price and the stipulations contained within the acquisition or assumption contract.

If the acquiring institution in the preceding Paragraph is a financial holding company, the funds provided by the CDIC shall be paid into its subsidiary bank; if

such institution is a farmers' or fishermen's association, such funds shall be paid into its credit department.

5. When the CDIC provides financial assistance by means of loans or deposits, it shall choose either of these means. The amount of assistance shall be limited to 30% of the target institution's covered deposits. However, the aforesaid limit shall not apply should the CDIC consider it necessary to increase the amount in light of actual conditions.

The provision of the financial assistance referred to in the previous Paragraph by means of deposits shall be stipulated in a contract, and shall not be restricted by the rules governing the pledge and early-termination of time deposits; the counterparty whom the funds are paid to shall be in accordance with Paragraph 2 of the previous Point.

6. The interest rates on loans or deposits referred to in the previous Point shall be calculated according to the CDIC's cost of funds rate plus 0.25 percentage point on a floating rate basis, which can add with a plus or minus certain basis points and collateral may also need to be provided when deemed necessary in accordance with risk explosion and extension condition.

The cost of funds rate in the previous Paragraph shall be calculated in accordance with the following methods:

- (1) From the CDIC's own funds: the average of the CDIC's one-year fixed and floating deposit rates with the Central Bank when providing financial assistance.
- (2) Accommodation obtained from the Central Bank or other financial institutions: the interest rate obtained on such funding.
- (3) Where both of the above two methods apply: the weighted-average interest rate.

The duration of loans or deposits in the first Paragraph is limited to three months, but this can be extended when necessary.

7. When the CDIC provides financial assistance by purchasing subordinated debt, the amount shall be limited to the amount of capital needed by the acquiring institution for reaching the statutory minimum capital adequacy ratio after either acquiring or assuming the target institution.
8. When the CDIC provides financial assistance by means of making loans, deposits or purchasing subordinated debt, such assistance may be replaced by providing guarantee.

Point 5 and Point 7 shall also apply to the amount of the guarantee in the above Paragraph.

9. In the case where those that conform to the qualifications for acquiring or assuming the target institution as a result of being verified by the conservator, delegated authority or the receiver require financial assistance, apart from the method of providing funds, their application shall conform to the following criteria:

- (1) For those applying to receive loans or deposits, their forecast liquidity ratio after acquiring or assuming the target institution shall be lower than the stipulated ratio in Point 4 of the Guidelines for Auditing Liquid Reserves of Financial Institutions.
- (2) For those applying to purchase subordinated debt, their forecast capital adequacy ratio after acquiring or assuming the target institution shall be lower than the legally-required standard.
- (3) Those applying to provide guarantees shall conform to the rules in Subparagraph 1 or Subparagraph 2.

The applying institution as referred to in the above Paragraph shall in accordance with the CDIC's regulations append relevant information, including the method by which the financial assistance will be provided, the conditions and supporting documents that conform to above criteria, and hand them over to the conservator, delegated authority or the receiver, and after all these documents have been gathered together they shall be transferred to the CDIC for the financial assistance to be administered.



10. After carefully deliberating the above requests, the CDIC shall publish the methods and conditions regarding the provision of financial assistance, before the tender for the acquisition or assumption is decided.
11. When the CDIC provides financial assistance to the acquiring institution, the acquiring institution or its subsidiary bank shall at least at the same time assume the target institution's covered deposits.
12. The estimated cost of the financial assistance provided by the CDIC shall be less than the estimated loss from the payout stipulated in the Subparagraph 1 of Paragraph 1 of Article 28 of the Act. However, this restriction will not apply if there are other circumstances that could be sufficient to seriously endanger credit order and financial stability.

The estimated cost in the above Paragraph refers to the net amount after deducting net interest income from the sum of the following losses and expenses:

- (1) The loss that the CDIC shall share in accordance with the ratio of its creditor's right of the target institution, after the assets of the target institution are sold.
- (2) The loss that may possibly occur from making loans, deposits, guarantees or purchasing subordinated debts.
- (3) The necessary expense items.

The so-called net interest income in the above Paragraph refers to the difference resulting from the interest income from the financial assistance provided by the CDIC after deducting the cost of funds.

13. When the CDIC provides the acquiring institution with financial assistance, both parties shall sign a contract and clearly record the following items:
 - (1) The methods and conditions of providing financial assistance.
 - (2) The uses, restrictions and payment counterparty of the funds provided for financial assistance.
 - (3) The plan for the repayment of the financial assistance.
 - (4) The requests for the provision of related certificates of creditors' rights.
 - (5) The handling of violations of contractual stipulations.
 - (6) Other relevant items.
14. The CDIC, in accordance with Paragraph 1 of Point 4 regarding making compensation for the difference between assets and liabilities, shall after the base date of the transaction of acquisition or assumption make the payment pursuant to the contractual stipulations regarding the payment method and counterparty.

15. Upon the financial assistance agreed by the CDIC, the acquiring institution shall apply, following the base date of the transaction of acquisition or assumption, to use the funds in accordance with the following regulations:
- (1) Making loans or deposits: Within three months of the base date of the transaction of acquisition or assumption, should there be abnormal deposit withdrawal with the result that the liquidity ratio is lower than the legally-required standard, and there are already no other financing channels, the acquiring institution shall apply to the CDIC for making loans or deposits by submitting liquid funds demand analysis data, uses of funds and a repayment plan.
 - (2) Purchasing subordinated debts: In the case where the statutory capital adequacy ratio on the base date of the transaction of acquisition and assumption has not reached the legally-required standard and no one has purchased the subordinated debts issued, the acquiring institution shall within a period of one year submit an approval letter from the competent authority, guidelines for the issue and a repayment plan, and make a request to the CDIC to purchase the debt.
 - (3) Providing guarantees: When the circumstances in the above two subparagraphs occur, the acquiring institution shall submit relevant data to the CDIC to provide guarantees.
16. These operating procedures shall become effective after being submitted to and approved by the competent authority, and the same shall apply to any amendments.

