

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.

4. Conservatorship of Problem Insured Institutions

As a result of the illegal credit assessment by Chung Shin Bank to the Typhoon 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.