

CDIC



Financial Early-Warning System of CDIC (Taiwan)



中央存款保險公司
Central Deposit Insurance Corporation

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1

What is CDIC Taiwan's Financial Early-Warning System?

The Financial Early-Warning System of the Central Deposit Insurance Corporation (CDIC Taiwan) is a statistical model for financial regulators to regularly assess the operational condition of all financial institutions that accept deposits, including banks, credit cooperatives, and the credit departments of farmers' and fishermen's associations. The Risk-based Premium Rating System is part of this system.

2

What is CDIC Taiwan's Risk-based Premium Rating System? —

The Risk-based Premium Rating System was formulated by referring to the Uniform Financial Institutions Rating System (often referred to as "CAMELS") of the U.S. Federal Financial Institutions Examination Council. The system applies seven categories of indicators for assessment, including capital adequacy, asset quality, management ability, earnings, liquidity, sensitivity to market risk and others. Moreover, based on the characteristics of each peer group of financial institutions, assessment indicators for each assessment category are selected. These indicators are then weighted and allocated according to their attributes and importance. A composite score is then calculated for each financial institution. Based on the composite score, each financial institution is assigned one of the following five rankings (A, B, C, D, and E) for CDIC Taiwan to differentiate its operational condition:

A

Strong
performance

B

Satisfactory
performance

C

Fair
performance

D

Unsatisfactory
performance

E

Hazardous
performance

The composite score generated by the Risk-based Premium Rating System serves as one risk indicator to calculate the risk premium rate of an insured institution.

3

Why was CDIC Taiwan's Financial Early-Warning System established?

The interests of depositors and financial stability are greatly affected by the operational condition of insured financial institutions. In order to timely understand the up-to-date financial conditions and changes of insured institutions, CDIC Taiwan needs to regularly assess the business risks of such institutions in order to adopt appropriate measures in a timely manner and thereby protect the rights and interests of depositors. CDIC Taiwan's Financial Early-Warning System was established to this end.

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Who is in charge of CDIC Taiwan's Financial Early-Warning System?

CDIC Taiwan is designated as the agency in charge of establishing, maintaining, and producing early warning data for the Financial Early-Warning System. The system was officially put into operation in 1993. CDIC Taiwan periodically provides the early-warning results to supervisory agencies to create a mechanism for sharing supervisory information and thereby improve the efficiency and effectiveness of financial supervision.

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How does CDIC Taiwan's Financial Early-Warning System assess the condition of financial institutions?

A financial institution assessed to meet one of the following criteria will be defined as a financial institution in poor operating condition and should be subject to attention:

- (1) It gets an "E" ranking under the Risk-based Premium Rating System; or
- (2) Its adjusted net worth is less than two-thirds of its net worth, share capital or reserved funds; or
- (3) Its capital adequacy ratio falls short of the requirement set by the competent authorities; or
- (4) Its operations are at risk due to management frauds, serious conflicts among factions or other major incidents.

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How does the competent authorities deal with financial institutions in poor operating condition as identified by CDIC Taiwan's Financial Early-Warning System?

When a financial institution is identified as a financial institution in poor operating condition under CDIC Taiwan's Financial Early-Warning System, the relevant competent authorities can by law take supervisory measures depending on the circumstances. The main measures include the following:

- (1) Strengthen supervision of the institution's operating condition;
- (2) Require the institution to submit an improvement plan;
- (3) Adopt necessary measures stipulated by law, such as curtailing business operations, restricting earnings distribution or replacing persons in charge;
- (4) Require institutions with inadequate capital or serious losses to submit a concrete improvement plan or recapitalize within a specified time;
- (5) Dispatch officers by law to provide guidance;
- (6) Dispatch officers by law to place the institution under superintendence or conservatorship or to exercise the functions and powers of the persons in charge; or
- (7) Adopt other supervisory measures.

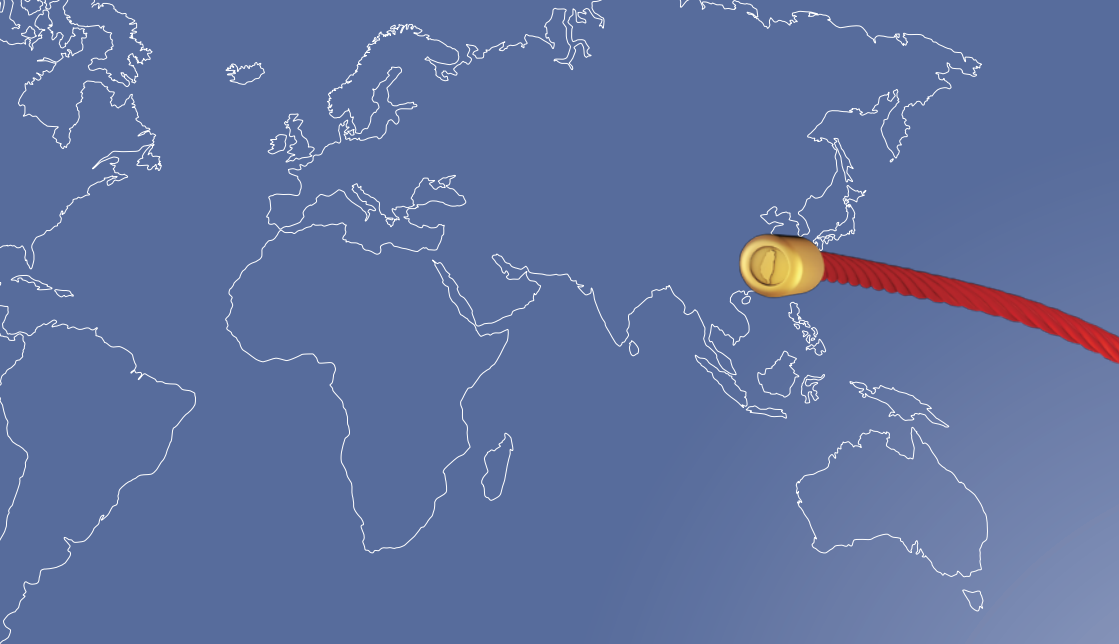
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Can CDIC Taiwan's Financial Early-Warning System detect the fraudulence of financial institutions in time?

CDIC Taiwan's Financial Early-Warning System is not a panacea. It is only one of the several supervisory tools used primarily to assess the financial condition of a financial institution. Its main function is to use financial data to assess general financial changes at a financial institution, but as a statistical model it is not effective for early detection of non-quantifiable factors involved in major or special cases of fraudulence or managerial problems. The system must therefore be complemented by on-site examinations and other supervisory measures.

Central Deposit Insurance Corporation





DEPOSIT INSURANCE :

Bringing Smiles of Satisfaction and Security to Taiwan's Financial Sector



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