Full Deposit Insurance Coverage and Related Supplementary Measures

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1. Background to the Implementation

   In view of the current international financial instability, and in order to avoid systemic risk, various countries have successively expanded the scope of their deposit insurance coverage to full coverage. Similarly, the Taiwan government has, in order to stabilize its financial system, strengthen the confidence of depositors and the structure of financial institutions, as well as promote the healthy long-term development of financial markets, in accordance with Paragraph 1 of Article 29, which allows the use Subparagraph 3 of Paragraph 1 and the proviso of Paragraph 2 of Article 28, as well as Paragraph 3 of Article 28 of the Deposit Insurance Act, in October 2008 announced that, up until December 31, 2009, the deposits of depositors in all financial institutions participating in deposit insurance (hereafter referred to as insured institutions) will receive full coverage. On October 28, 2008, the Financial Supervisory Commission (hereafter referred to as the FSC), the Ministry of Finance, and the Central Bank together institutions

- Foreign currency deposits
- Negotiable certificates of deposits
- Deposits from all levels of governments
- Deposits from the Central Bank
- Deposits of banks, postal institutions handling postal savings and remittance business, credit cooperatives, farmers’and fishermen’s associations with credit departments, and the Agricultural Bank of Taiwan
- Other deposits that have been approved as insurable by the competent authority

2. (2)Interbank call loans
3. (3)Any expenses, which under the CDIC's conservatorship are necessary to sustain the business operations of insured institutions, as well as pension payments, redundancy pay and related tax payments in accordance with law
4. (4)Bank debentures issued before or on June 23, 2005

3. 3. Period of Implementation: until December 31, 2009
4. 4. Enhancement of the Functions of Financial Supervision:
   1. In line with the measures to provide full coverage, the Financial Supervisory Commission will actively strengthen the following financial supervisory measures:
      i.It will urge financial institutions to strengthen the management of assets and liabilities and enhance the transparency of

institutions capital adequacy and financial soundness, and encourage financial institutions to merge.

iv.It will together with the Central Bank carefully examine financial institutions'interbank call loans for possible anomalies, in order to guard against moral hazard.

2. If, during the period in which full coverage is implemented, the Financial Supervisory Commission (FSC) discovers that a financial institution's capital adequacy ratio is below 8% or there are legal violations, it shall severely punish such an offender in accordance with the Banking Act and other relevant regulations. If a financial institution is deficient in terms of its corporate governance and internal controls, or should replenish its capital or make other necessary improvements, the FSC shall require the financial institution to make improvements within a stipulated time period. If the financial institution fails to make the necessary improvements within the stipulated time period, the FSC shall appropriately punish the offending financial linstitution in accordance with the Banking Act and other relevant regulations, for example by replacing the persons responsible, restricting business activities and taking other actions.

5. A special assessment charge on interbank call loans

(1)In order to prevent moral hazard as well as to enhance the accumulation of the deposit insurance special reserve, from the benchmark quota falls below this level) , and a surcharge rate will be assessed for amounts in excess the benchmark quota (see Appendix 1). In addition, in line with government policies aimed at encouraging banks'lending volume, the policies regarding the charging of a special assessment on interbank call loans were revised in December 2008 revised its by exempting banks from such an assessment in order to increase the volume of bank loans (see Appendix 2).

(2)During the implementation of the temporary blanket guarantee, in regard to any insured institutions that violate the laws or regulations under the scope of the competent authority, or engage in unsound business operations that require rectification within a stipulated timeframe, after being notified by the competent authority, the CDIC has the discretion to charge punitive premium rates from 5 basis points to 300 basis points on those aforementioned insured institutions until the competent authority notifies that rectification has been made.

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