中央存款保險公司
Central Deposit Insurance Corporation

ANNIVERSARY
CDIC

Central Deposit Insurance Corporation 30 Years in Retrospect

CDIC at 30 – Maintaining Financial Stability

Central Deposit Insurance Corporation
30 Years in Retrospect

Thirty years have passed since the start of our undertaking.

Standing on the first line of defense, CDIC works tirelessly to fulfill its unchanged mission of maintaining financial stability.

Looking ahead while facing new opportunities and challenges,

CDIC will continue to endeavor to protect the interests of depositors, maintain credit order, and promote sound development of financial businesses.

中央存款保險公司
Central Deposit Insurance Corporation

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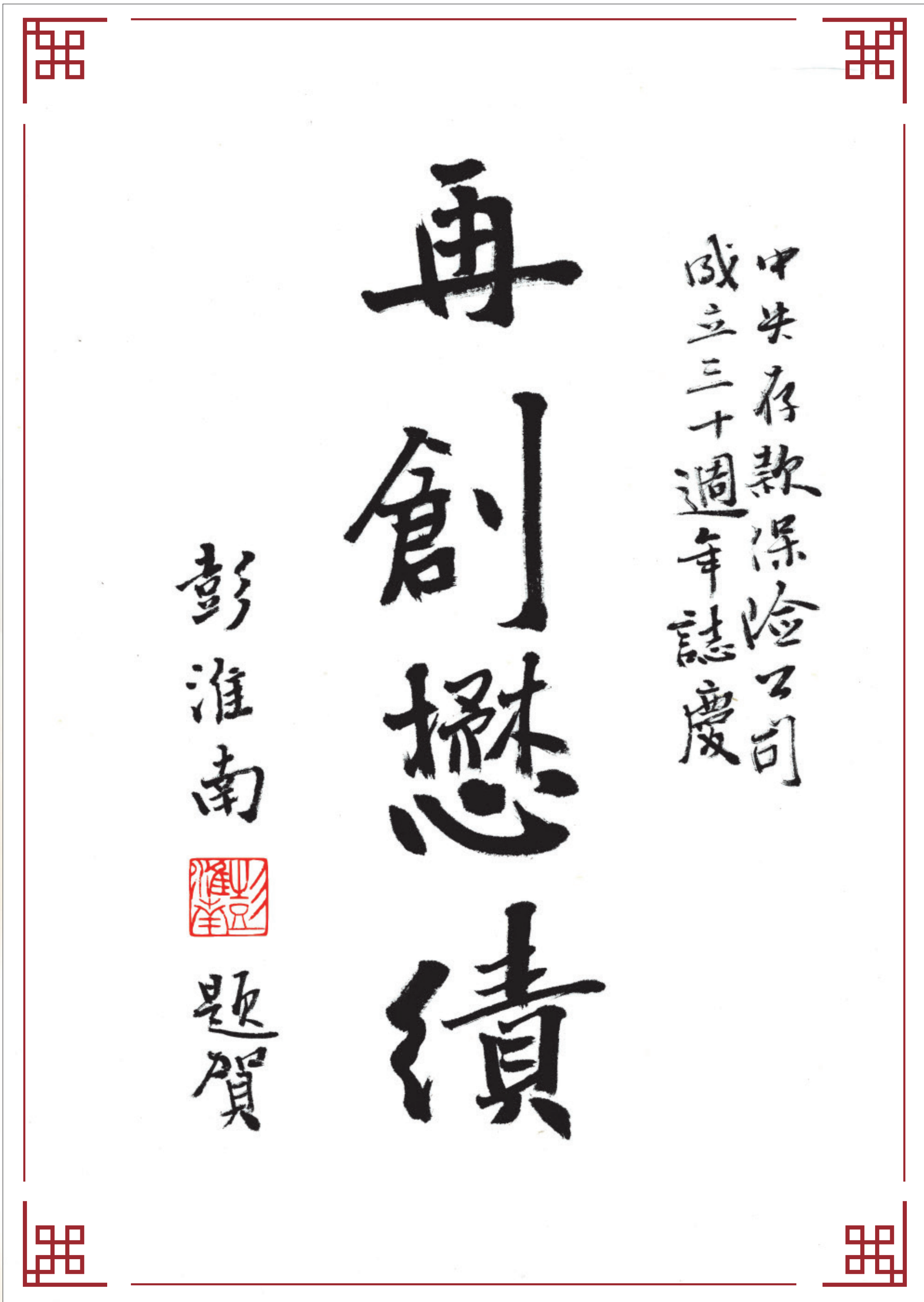

Congratulatory Message from the Chairman of the Financial Supervisory Commission

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Congratulatory Message from Mr.Jerzy Pruski,President and Chair of the Executive Council of the International Association of Deposit Insurers

IADI International Association of Deposit Insurers

February 9th, 2015

It is with great pleasure that I extend my warmest congratulations to the Central Deposit Insurance Corporation (CDIC) on reaching 30 years of its operations.

The CDIC is a very well organized institution with a strong and active position in the international family of deposit insurance schemes. Since 1985, you have successfully inspired confidence in deposit-taking institutions and have contributed to financial system stability in Taiwan.

As one of the founding members of the International Association of Deposit Insurers (IADI), the CDIC has contributed significantly to the advancement of the Association's goals and priorities over the years. In the course of your involvement in the work of IADI, you have brought experience and technical knowledge to the forum of international cooperation that has striven to share deposit insurance expertise with the world.

Having all that in mind, it is my honor to express, on behalf of the entire Membership of our Association, my gratitude and appreciation to the CDIC on the occasion of your milestone celebration this year. Let me congratulate all the management and staff of the CDIC for your 30 years of hard work and for your many achievements in furthering financial stability, and I wish you every success in the coming years.

Yours sincerely,

Jerzy Pruski
President and Chair of the Executive Council
International Association of Deposit Insurers

Congratulatory Message from Mr. Hiroyuki Obata, Chairperson of the Asia-Pacific Regional Committee of the International Association of Deposit Insurers

IADI International Association of Deposit Insurers

Hiroyuki Obata
Chairperson
Asia-Pacific Regional Committee
International Association of Deposit Insurers

February 6, 2015

On behalf of the Asia-Pacific Regional Committee (APRC) of the International Association of Deposit Insurers (IADI), I would like to extend my heartiest congratulations on the 30th Anniversary of the Central Deposit Insurance Corporation of Taiwan (CDIC).

Needless to say, CDIC has played a fundamental role in the formation as well as the development of APRC, as a founding member. I especially would like to mention CDIC's generous efforts to host IADI APRC 13th Annual Meeting and International Conference in conjunction with its 30th Anniversary celebration. I also appreciate CDIC's significant contribution to the APRC's various achievements, especially its research initiatives and outreach activities. For example, much is owed to the successful leadership of CDIC for the APRC Research Paper on "Funding Mechanisms of Deposit Insurance Systems in the Asia-Pacific Region," another milestone for APRC. Moreover, I would like to highlight CDIC's dedication to outreach activities in the region over the years. In particular, CDIC has shown itself to be an exceptional host in organizing the APRC Outreach Workshop in December 2013 and I was very impressed with the thorough preparation by CDIC's brilliant team as well as your warm hospitality.

I would also like to express appreciation for CDIC's tremendous contribution to APRC by being a great example of a successful deposit insurance system through tireless efforts to enhance its own system. Sharing knowledge and expertise is the key mission for APRC and CDIC has played a pivotal role in this regard.

Finally, I am very honored to have been given this opportunity to write a message for CDIC's 30th Anniversary Celebration. I wish you great success for many more years to come.

Sincerely yours,

H. Obata

Hiroyuki Obata
Chairperson of the Asia-Pacific Regional Committee
International Association of Deposit Insurers

ABOUT CDIC, TAIWAN

The CDIC's emblem: the two C's at the beginning and end of the simple version of the CDIC's acronym in English come together to form the silhouette of an ancient Chinese coin. This image symbolizes the CDIC's service sphere, namely, "Deposit Insurance – Safeguarding Deposits". These twin C's also resemble two hands cupped together, which serves as a symbol of unity and protection.

The CDIC's mascot: the elephant represents unity, stability, and wholehearted devotion to duty. It fully accords with the CDIC's operating concepts of "stability, professionalism, service and efficiency."

Words from the Chairmen

Chairman Hsien-Nung Kuei

It was my good fortune to be appointed as Chairman of the Central Deposit Insurance Corporation (CDIC) on April 2 this year, coinciding with the 30th anniversary of the corporation's establishment. During a more than three-decade career in public service at the Bureau of Monetary Affairs under the Ministry of Finance, Executive Yuan, and the Banking Bureau under the Financial Supervisory Commission, I have completed the enactment and revision on several financial-related bills (including amendments to *the Deposit Insurance Act*), established resolution mechanisms for problem financial institutions under the Executive Yuan's Financial Restructuring Fund, and participated in the implementation of the blanket deposit coverage, Asia's first, and the smooth return to a limited coverage deposit insurance mechanism. These measures helped the financial industry to safely weather the global financial crisis and were all closely related to the operations of the CDIC.

After the 2008 financial crisis, governments worldwide and international organizations further recognized the importance of the deposit insurance systems in stabilizing depositor confidence and maintaining financial stability. The International Monetary Fund and World Bank included deposit insurance as one of the elements in their assessments of national financial sectors; and the Financial Stability Board included the "Core Principles for Effective Deposit Insurance Systems" among the "Key International Standards for Sound Financial Systems," further underscoring the importance of deposit insurance systems.

Looking ahead, I fully expect the CDIC to fulfill its vision of "developing the deposit insurance mechanism and ensuring financial stability." The CDIC will respond to future changes in the domestic and international financial environments by continuing to augment the deposit insurance payout special reserves, enhance insurance risk controls, bolster mechanisms for the resolution of problem insured institutions, actively promote the deposit insurance system, and promote cooperation and exchanges with deposit insurance organizations in other countries and international financial supervisory bodies. The CDIC will also fully cooperate with government policy and assist the competent authority to complete various financial supervision tasks to fulfill its mission of protecting the rights and interests of depositors, maintaining an orderly credit system, and enhancing the sound development of financial operations.

The sound development of the financial sector depends on the collective wisdom of the competent authorities, the CDIC and financial industry elites. Since its establishment, the CDIC has become an indispensable part of the financial safety net through its widely acknowledged contributions to financial stability. In order to share with everyone the performance and achievements of the CDIC over the past three decades, we have published this special 30th anniversary commemorative edition. I hope that my colleagues at the CDIC will all work together as we advance into another proud 30 years ahead.

Hsien-Nung Kuei

Hsien-Nung Kuei
Chairman

Former Chairman David C.Y. Sun

My relationship with the CDIC dated back to before the corporation's foundation. At that time, I was working at the Central Bank and taking part in drafting *the Deposit Insurance Act* and the organizational plan for the CDIC. In September 1985, the CDIC was established as the exclusive institution in charge of implementing the deposit insurance system in Taiwan.

Since that time, the entire team at the CDIC has embraced the challenges inherent in a new undertaking in a spirit of mutual encouragement. The corporation has also proactively advanced and steadily improved various systems. For example, the voluntary participation system was replaced by compulsory insurance, the flat rate premium was substituted by a differential premium, and insurance risk control and management has been strengthened. In conjunction with government policy, the CDIC has also prevented bank runs through its missions of guidance, superintendence and conservatorship of troubled financial institutions.

I was appointed as a board member of the CDIC in July 2008. The subsequent global financial crisis prompted the Taiwan government to announce blanket deposit guarantees in October 2008, making Taiwan the first country in Asia to adopt such measures. As financial markets stabilized, Taiwan reverted to a limited coverage system from 2011, around the same time as similar moves in neighboring Hong Kong, Singapore and Malaysia. At the same time, the CDIC increased the maximum coverage and scope, as well as strengthened advocacy along with other supporting measures to achieve policy functions.

Since 2001, the CDIC has been entrusted by the Executive Yuan's Financial Restructuring Fund to handle the resolution of problem financial institutions. The corporation honed its operations in the face of difficulties and overcame countless hardships and challenges to ultimately achieve the smooth resolution of 56 troubled financial institutions, effectively stabilizing the financial order and protecting the rights and interests of depositors. This process also imparted the staff of the CDIC with extensive practical experience.

To align with international trends, the CDIC became a founding member of the International Association of Deposit Insurers (IADI) in 2002. It subsequently served as a member of IADI's Executive Council among other positions, and actively participated in the association's activities. The CDIC has also signed Memorandums of Understanding with numerous international peers, establishing close exchange relations and heightening Taiwan's international image.

As we celebrate the CDIC's 30th anniversary, I remember with gratitude the painstaking efforts of the corporation's past chairmen and presidents, as well as the efforts and cultivation by the CDIC staff that enabled the scale and achievements of the corporation today. Looking to the future, I am confident that the entire team at the CDIC will continue to uphold an industrious and professional spirit and coordinate with government policy in ongoing efforts to achieve the vision of "developing the deposit insurance mechanism and ensuring financial stability."

David C.Y. Sun David C.Y. Sun, Former Chairman

Words from the President

President Michael M.K. Lin

The 30th anniversary of the CDIC brings a time to reflect on the past three decades. During this time, participation in Taiwan's deposit insurance system has transitioned from a voluntary to mandatory basis, and more recently to a system based on mandatory application for permission to join the system. Along the way, there were several depositor runs on insured institutions and financial crises. Fortunately, the CDIC was able, with guidance from the competent authority and the collective efforts of its staff, to fulfill its fire brigade role, defuse the crises and smoothly restore the financial order. At the same time, the CDIC has shouldered the task of handling the resolution of unsound financial institutions and laid a foundation for the smooth operation of the banking industry today. At this time, as a part of the CDIC team, I extend the highest respects to my colleagues for their past dedication and hard work and feel grateful to be able to share in their achievements.

Going forward, the CDIC faces many tasks that need to be advanced constantly:

1. Strengthening risk management: In addition to the ongoing operation of the existing financial early warning system, the CDIC will review various types of risk indicators for insured institutions, strengthen timely detection and analysis of the operational risks faced by insured institutions, produce timely warnings, and take appropriate response measures.

2. Enhancing the legal framework for deposit insurance: The present legal framework has enabled the successful resolution of problem insured institutions. Nevertheless, timely amendments to legal framework will be necessary with regard to offsetting of creditor and debtor rights, reimbursements for pension and joint accounts, and ensure the smooth operation of the payment system for future payouts under limited deposit insurance coverage.

3. Building up the payout special reserves and promoting awareness of deposit insurance: The CDIC will adopt more flexible methods of fund investment to increase earnings and accelerate growth of the payout special reserve. The CDIC will also diversify channels to support more effective advocacy and broaden public awareness of deposit insurance.

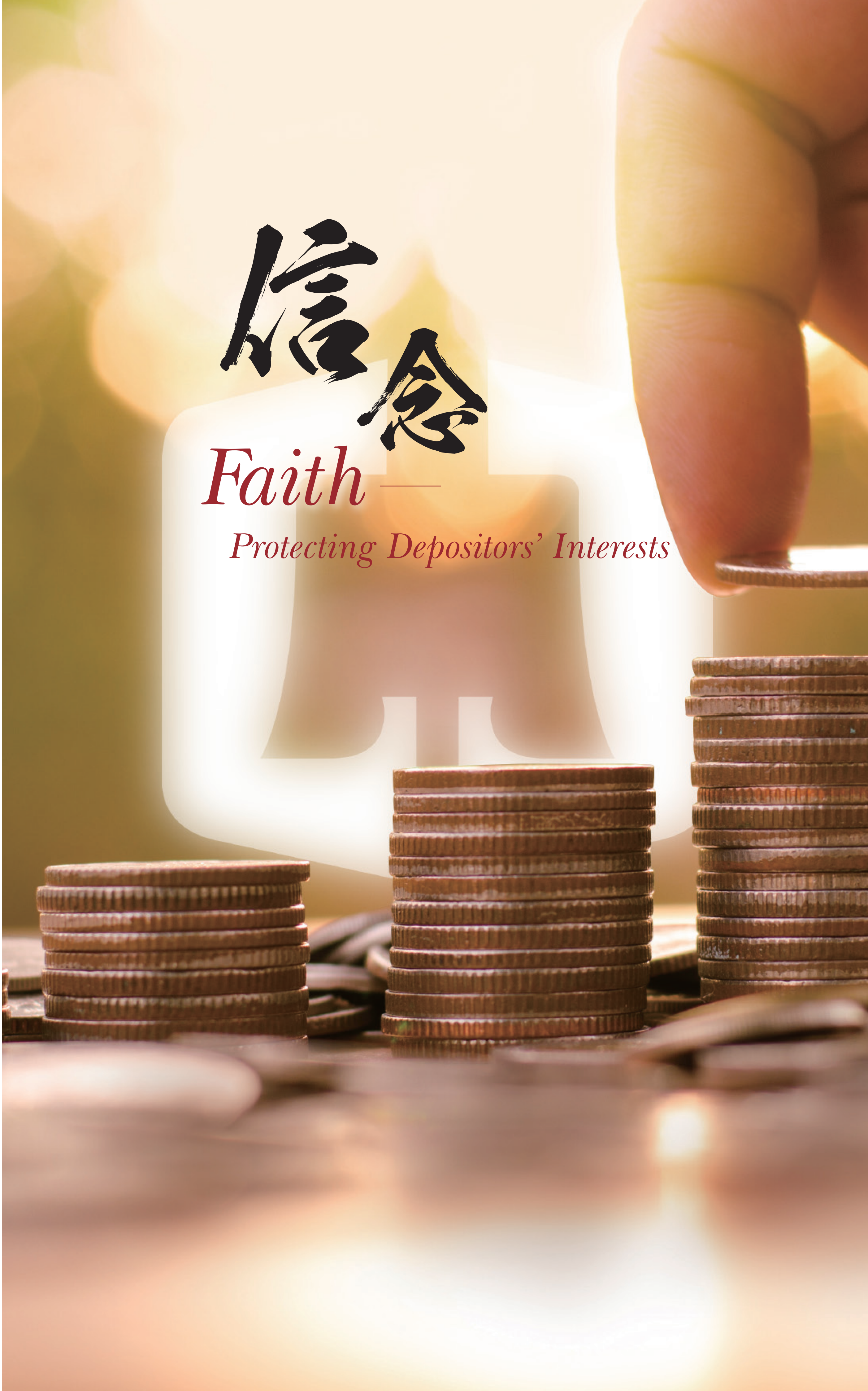
4. Continuing to promote statutory mandates: The CDIC's statutory mandates include strengthening participation in international deposit insurance affairs, enhancing cooperation and liaison; continuing to dispose the retained assets and handling the ongoing litigation of problem insured institutions; seeking legal redress for illegal acts by employees of problem insured institutions; carrying out statutory inspections; cultivating employee familiarity with market operations and professional knowledge; and strengthening internal controls.

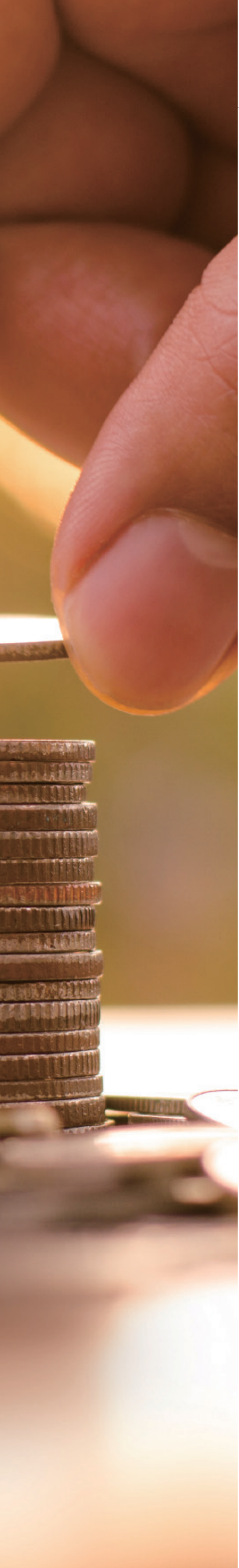
Michael M.K. Lin

Michael M.K. Lin, President

Review and Outlook

信念 Faith — Protecting Depositors’ Interests





1. Foreword

The CDIC was established according to *the Deposit Insurance Act* (hereinafter referred to as "the Act") promulgated by the President on January 9, 1985. Article 2 of the Act empowered the Ministry of Finance (MOF) as the competent authority. The Financial Supervisory Commission (FSC) was established on July 1, 2004. At that time, the CDIC was made subordinate to the FSC.

The original shareholders of the CDIC at the time of its establishment were the MOF, Central Bank, Bank of Communications, International Commercial Bank of China, Farmers Bank of China, United World Chinese Commercial Bank, and Shanghai Commercial Bank. Some of the shareholders subsequently merged, leaving the MOF, Central Bank, Mega Bank, Taiwan Cooperative Bank, Cathay United Bank and Shanghai Commercial Bank as the remaining shareholders by the end of 2006. On January 1, 2011, CDIC shares held by the MOF were transferred to the FSC. The FSC subsequently purchased the CDIC shares held by the four private shareholders-Mega Bank, Taiwan Cooperative Bank, Cathay United Bank and Shanghai Commercial Bank. As a result, the CDIC became a fully government-owned, state-run institution on August 15, 2014, with the Central Bank and the FSC as its sole shareholders.

This commemorative edition was published to mark the 30th anniversary of the CDIC this year. It reviews the hardships faced by the CDIC in its pioneering work to stabilize the financial environment, as well as looks ahead to the corporation's ongoing mission to further improve the deposit insurance system.

2. Period of Voluntary Participation (Sept. 1985 ~ Dec. 1998)

(1) Background

Before 1981, the government adopted layers of controls and safeguards to ensure the stable and smooth operation of domestic financial institutions. However, rapid changes in the local and international financial environments led to deregulation of the financial sector, giving the industry more operational freedom. It also intensified competition and increased operational risks. In view of the far-reaching impact a failed financial institution could have on the economy, the government devised a deposit insurance system to safeguard the rights of small depositors in line with Article 46 of the former *Banking Act*. This was widely supported by the industry, academia and experts. In 1983, the MOF and the Central Bank together with financial industry experts drafted the *Deposit*

Insurance Act. The bill completed the third reading in the Legislative Yuan on December 24, 1984, and was promulgated and implemented by presidential decree on January 9, 1985, setting the stage for the birth of Taiwan's deposit insurance system.

At the start of 1985, Taiwan experienced a chain of bank runs affecting the Tenth Credit Cooperative of Taipei City, Cathay Trust and Investment Corporation, Asia Trust and Investment Corporation, and Overseas Chinese Trust and Investment Corporation. These crises highlighted the urgency of establishing a deposit insurance system. The MOF, in conjunction with the Central Bank, therefore organized and funded the establishment of the CDIC following promulgation of *the Deposit Insurance Act*. The CDIC officially began operations on September 27, 1985, becoming Taiwan's sole institution in charge of deposit insurance.

(2) Overview of Major Duties

A. Promoting Deposit Insurance under the Voluntary System

Taiwan's deposit insurance system was founded as a voluntary system. The main intention was to give financial institutions freedom of choice, consistent with the trend of financial liberalization. It also allowed the CDIC to retain underwriting power. As a new system, the deposit insurance scheme was largely unknown to the general public. Moreover, financial institutions took a wait-and-see attitude on whether or not to join the system, making it harder for the CDIC to promote the system than had been initially anticipated.

The CDIC therefore established a team to promote the deposit insurance system. The team was dispatched to hold seminars at financial institutions throughout Taiwan, attend work meetings of financial institutions to introduce the deposit insurance system, and communicate with responsible parties at financial institutions. With the assistance of the then Department of Financial Affairs under the Taiwan Provincial Government, the finance departments of cities and counties were invited to attend seminars introducing the policy implications of deposit insurance. These agencies were also encouraged to help local financial institutions under their jurisdictions to participate in the deposit insurance scheme. At the same time, the CDIC decreased premiums and raised the maximum coverage in 1987 and 1988. These efforts and measures finally succeeded in increasing the number of insured institutions from eight initially to 141 by the end of 1988.

Looking back over the process of expanding deposit insurance operations, it is clear that the success in prompting private financial institutions to join the deposit insurance scheme hinged on winning participation by the five state-owned banks, which in turn was achieved by actively communicating with and gaining support from the persons in charge at these banks, related competent authorities, and legislators. Nevertheless, the eight banks under the Taiwan Provincial

Government did not join the deposit insurance system during the voluntary period. This deterred the majority of local financial institutions from participating as well, posing the biggest obstacle for the CDIC in promoting its operations. The eight banks did not join the deposit insurance system until February 1999, when a mandatory system was implemented.

B. Implementation of a Flat Premium Basis

In the early stages, the deposit insurance system adopted a flat premium basis, with the premium rate set at 0.05% by the MOF. At the time, interest in joining the system was dampened by concern among some financial institutions that the premium was high and that joining the deposit insurance system would increase the cost of business. The CDIC therefore got approval from the MOF to reduce the premium, first to 0.04% from July 1987 and again to 0.015% from January 1988. The two rate drops achieved the short-term objective of lightening the burden on insured institutions and increasing the willingness of these institutions to participate in the deposit insurance system. However, with subsequent financial liberalization, domestic financial institutions faced steadily higher operational risks. This, along with a series of financial crises, raised questions over the fairness of applying a flat premium rate to all financial institutions regardless of their nature or the soundness of their business. A risk-based premium system was therefore adopted in 1999.

C. Maximum Coverage and Scope of Coverage

The maximum coverage under Taiwan's deposit insurance system was initially set at NT$700,000. To increase the willingness of financial institutions to join the system, the coverage was increased, with approval from the MOF, to NT$1 million per depositor on August 15, 1987. To further protect small depositors the CDIC subsequently increased the maximum coverage to NT$1.5 million with approval from the FSC, the MOF and the Central Bank.

The deposit insurance system was established mainly to protect small depositors. Under provisions in *the Deposit Insurance Act*, at that time the system covered checking deposits, passbook deposits, time deposits, savings deposits, trust funds, and other deposits which the competent authority had approved as insurable.

D. Financial Examination

Before the establishment of the CDIC, financial examinations in Taiwan were the responsibility of the MOF and the Central Bank, as stipulated in Article 45 of the *Banking Act*, Article 38 of the *Central Bank of China Act*, and the "Regulations Governing the Ministry of Finance's Commissioning Examination of Financial Institutions to the Central Bank."

Lacking sufficient manpower for financial examinations, the Central Bank enacted the "Regulations Governing the Central Bank's Commissioning the Examination of Community Financial Institutions to Taiwan Cooperative Bank" and included Taiwan Cooperative Bank (TCB) among institutions in charge of conducting financial examinations. In 1985, the CDIC was established and empowered under Article 21 of *the Deposit Insurance Act* to carry out financial examination of insured institutions to effectively control insurance risk. Accordingly, the CDIC has been mandated since 1987 to conduct financial examinations of the six types of insured institutions, including domestic banks, trust and investment corporations, credit cooperatives, and the credit departments of farmers' and fishermen's associations, making it one of four institutions in charge of performing financial examinations in Taiwan along with the MOF, the Central Bank, and the TCB.

In July 1996, following the crisis of the Fourth Credit Cooperative of Changhua City in 1995, the government adjusted the division of duties in financial examination to strengthen the financial supervisory system. The CDIC assumed TCB's original duties of financial examination for community financial institutions and their shared computer centers, rapidly increasing the number of institutions examined by the CDIC from 82 at the end 1995 to 396 in July 1996.

3. Period of Mandatory Participation (Jan. 1999~Dec. 2006)

(1) Background

In the second half of 1995, Taiwan experienced a series of runs at community financial institutions that spilled over to other less operationally sound financial institutions. This brought to the public’s attention the need to improve the financial regulatory system and strengthen deposit insurance functions. At the direction of the Executive Yuan, the MOF and the Central Bank began in August 1995 to discuss ways to improve Taiwan’s deposit insurance system. These talks culminated

with a decision to make the system compulsory. The CDIC subsequently formulated draft amendments to provisions in *the Deposit Insurance Act* to enable the transition to a compulsory deposit insurance system. The bill passed the third reading in the Legislative Yuan and was promulgated by the President on January 20, 1999. On February 1, 1999, the 57 financial institutions that legally accepted deposits but did not participate in the deposit insurance system joined the deposit insurance system, becoming CDIC-insured institutions. The only exception was the Taipei Branch of Germany's Deutsche Bank, which was legally exempted from participation as it was covered by the deposit insurance system in its home country.

The amended Act also relaxed limits on the CDIC's utilization of funds and application for special financing, as well as strengthened the corporation's capacity for resolution of problem institutions. The amendments also expanded the means by which the CDIC could fulfill its insurance responsibilities. Among these was the provision of financial assistance to encourage other financial institutions to acquire or assume failed institutions to achieve the purpose of maintaining an orderly credit system and safeguard depositors. The changes also broadened the scope and methods of financial assistance. Assistance measures for insured institutions under guidance, superintendence, and conservatorship, included providing loans and deposits, while assistance to other insured institutions acquiring or assuming insured institutions under guidance, superintendence, and conservatorship included providing loans or placing deposits, providing financing, and guaranteeing debt. The amended law also stipulated that the CDIC may, without increasing the costs of payout, make advance payment against claims to meet the liquidity needs of the creditors of closed institutions.

In July 2001, *the Deposit Insurance Act* was revised in conjunction with the enactment of the *Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund* (hereinafter referred to as the "Financial Restructuring Fund Statute").Articles 7 and 21 were amended and Article 17-1 was appended to the Act, stipulating that the CDIC may be entrusted by the Executive Yuan's Financial Restructuring Fund (hereinafter referred to as the "Financial Restructuring Fund") to coordinate in handling claims against the liabilities and the disposition of assets of insured institutions.

(2) Deposit Insurance

A. Strengthening Capital and Accelerating Reserve Accumulation to Strengthen Reimbursement Ability

The CDIC was established with an initial capitalization of NT$2 billion. The

government subsequently increased this amount to NT$5 billion through incremental annual appropriations to strengthen the CDIC's capital and increase risk tolerance. By the end of 1999, the CDIC's capitalization had increased to NT$10 billion.

Since its establishment, the CDIC has been required under the enforcement regulations of *the Deposit Insurance Act* to set aside deposit insurance payout special reserves each year in an amount not less than 60% of that year's premium income. The proportion was increased, first to 80% and later to 90%, with approval from the MOF to more quickly strengthen the CDIC's ability to meet claims. With the enactment of the Financial Restructuring Fund in July 2001 and strengthening of the CDIC's ability to fulfill its insurance responsibilities, portions of *the Deposit Insurance Act* were amended to require the full amount of any surpluses remaining at the end of each business year to be added to the deposit insurance payout special reserves.

Under the amended *Value-Added and Non-Value-Added Business Tax Act* passed in June 1999, the business tax rate for the banking and insurance industries was reduced from 5% to 2%, with the stipulation an amount equal to the three percentage point reduction be used to write off non-performing loans or make provisions for doubtful accounts. The CDIC also received approval from the MOF in July 1999 to reduce its business tax rate to 2% in line with the rate applied to the banking and insurance industries. Revenues equal to the 3% difference in the business tax rate were paid in to deposit insurance payout special reserves (such provisions were terminated in July 2014 following the amendments to Article 11 of *the Value-Added and Non-Value-Added Business Tax Act passed* in May that year).

B. Revising Insurable Standards to Control Insurance Risk

The voluntary nature of the deposit insurance scheme required the CDIC to initially adopt lenient insurable standards to encourage qualified financial institutions to join the system. In March 1995, the CDIC added the capital and net worth ratio of financial institutions to its insurable standards in reference to the capital-based supervisory measures used in advanced countries. In March 1998, the insurable criterion of "susceptibility to impeding sound business management" was quantified and covered the NPL ratio, NPL plus bad loan ratio, loan concentration ratio, and ratio of adversely classified assets to adjusted net worth.

After the compulsory deposit insurance system was implemented in February 1999, there were 36 institutions unable to meet the CDIC's insurable standards yet still became CDIC insured institutions. To control insurance risk, the CDIC asked these institutions to submit concrete corrective plans to be carried out within three years. It also required that progress reports on improvement be submitted regularly. Among these institutions, 12 failed to improve their operations and had negative net worth. They were withdrawn from the market under the Financial Restructuring Fund in 2001 through assumption by other banks. The remaining 24 institutions were put under a general monitoring guidance mechanism by the CDIC in June 2002 with the approval of the competent authority.

C. Pioneering Risk-based Premiums in Asia

In order to harmonize premium rates with the different levels of risk presented by individual institutions, the CDIC drafted the "Proposal for a Deposit Insurance Risk-based Premium System." The proposal was submitted to the MOF, which ratified and officially enacted the *"Implementation Scheme for the Deposit Insurance Risk-based Premium System"* on July 1, 1999, making Taiwan the first Asian country to implement such a system.

The risk indicators adopted for the risk-based premium scheme were the capital adequacy ratio (CAR) of the insured institutions and the Composite Score of the Examination Data Rating System under the National Financial Early-Warning System. Each of the two indicators was divided into three grades. The insured institutions were categorized in nine risk groups and a three-grade premium was applied to each of these groups. At the time of the system's implementation on July 1, 1999, the minimum premium was set at 0.015%, the middle premium at 0.0175%, and the maximum premium at 0.02%. In order to build an adequate deposit insurance payout special reserve, the CDIC, following active communication with the insured institutions, Bankers Association and relevant competent authorities, requested and received approval from the MOF to increase rates for the three grades to 0.05%, 0.055% and 0.06%, effective from January 1, 2000. This was an important milestone as the first adjustment to the differential premium rate.

(3) Strengthening Off-site Monitoring Mechanisms

The FSC was established in July 2004 to promote a policy of integrated financial supervision. It was placed in charge of the examination of financial holding companies, banks, insurers, securities and bills finance companies nationwide. The CDIC's financial examination tasks and 143 examiners were transferred to the FSC. The CDIC's Department of Bank Examination was also dissolved after fulfilling the task of financial examination for many years.

In developing deposit insurance functions, the CDIC has not limited itself to a passive pay-box role. It has also served as an enthusiastic risk-minimizer, adopting regular and ongoing risk control measures to detect potential risks at insured institutions early and intervene in a timely manner to maximize the benefits of deposit insurance in protecting depositors and stabilizing the financial order. Believing that "prevention is better than cure," the CDIC began in the 1990s to successively develop and implement a number of off-site early warning monitoring mechanisms. These mechanisms have duly served their early warning function and, in conjunction with on-site inspections of business and financial affairs by the CDIC personnel, have enabled the CDIC to promptly detect operational problems at insured institutions and seize opportunities to handle these problems.

A. Strengthening the National Financial Early-Warning System

In June 1999, the CDIC comprehensively reviewed the National Financial Early-Warning System (NFEWS) (including the Financial Examination Rating System and Call Report Percentile Ranking System) enacted in July 1993 to fully reflect the actual operating conditions of financial institutions. Empirical evidence gained over the years has confirmed the ability of this system to reflect the business performance of financial institutions and fully develop the proper supervisory functions. The main purpose of the system is to regularly compile early-warning management statements to provide to the relevant competent authorities to enhance exchanges of supervisory information and the efficacy of financial supervision; to regularly publish information on the financial affairs and related indicators of community financial institutions nationwide in the Deposit Insurance Quarterly Bulletin and on the CDIC website to strengthen market supervisory powers; to request insured institutions to improve operations when abnormal operations are detected or,

depending on the situation, notify the relevant authorities to urge these institutions to make improvement to reduce insurance risk; and to produce indicators related to examination rating results to determine the risk-based premiums applicable to individual insured institutions and help to urge insured institutions to improve operations.

B. Establishing an Account Officer System

The CDIC began to establish an account officer system in the second half of 1998. Under the system, all insured institutions are divided into special guidance areas according to their administrative district or nature. Specialists are assigned to track and provide input on assessments and inspections, attend the meetings of insured institutions, duly offer opinions on improving business deficiencies, and summon persons in charge of insured institutions with abnormal operations. They also maintain contact with the related financial supervisory agencies, coordinate with the supervisory measures of the competent authority, and track the status of improvements by insured institutions to effectively control the CDIC's insurance risk and promptly deal with insured institutions.

C. Establishing a Mechanism for Internet Transmissions between Financial Institutions and the CDIC

In order to strengthen off-site monitoring mechanisms, the CDIC began in 1998 to establish an operating system for the internet transmissions between financial institutions and the CDIC.

Officially implemented in February 2000, the system is used by insured institutions to report daily the amounts of deposits and loans, loans to related parties, unsecured loans, and other major business items. In the event of warnings of abnormalities, the CDIC can promptly take necessary measures to prevent a major business crisis at the insured institution.

(4) Provision of Guidance and Resolution of Problem Insured Institutions

A. Helping Insured Institutions Calm Bank Runs

In the 1990s, Taiwan experienced a series of bank runs. To properly respond to and effectively quell such incidents, the CDIC worked with the MOF and the Central Bank to jointly formulate the "Guidelines for Assisting Insured Institutions in Dealing with Bank Runs" and "Bank Run Response Measures" in 1992. The guidelines have since provided a basis for coordinating the work platforms, emergency financial assistance and other mechanisms of related units. The CDIC has thus been able over the years to properly and effectively calm bank runs, restore depositor confidence and stabilize the financial order.

B. Establishing and Strengthening Mechanisms for the Resolution of Problem Insured Institutions

In December 1991, the CDIC set up a Review Committee for the Resolution of Problem Insured Institutions. The committee's purpose was to effectively handle problem insured institutions facing business crises and strengthen the response capacity and resolution techniques of the CDIC in such cases. The committee reviews the resolution measures for individual problem insured institutions and other major financial incidents. The committee also later formulated guidelines on business guidance for insured institutions, the issuance of warnings to insured institutions, and the announcement of termination of status as an insured institution to create mechanisms for the resolution of problem financial institutions.

C. Providing Guidance and Superintendence of Problem Insured Institutions

In 1995, fraud by high-level executives at the Changhua Fourth Credit Cooperative sparked local bank runs and created systemic risk. In order to stabilize the operations of insured institutions and prevent moral hazard, the CDIC was successively assigned to provide guidance and superintendence at insured institutions with business problems. This was achieved mainly by attending the meetings of the institution's board of directors or managing board and guidance meetings convened by the competent authority. When serious financial or business deficiencies were found, the CDIC actively urged the institution to formulate improvements to return their operations to normal. The CDIC may also, when deemed appropriate, suggested that the competent authority adopted other necessary legal measures, such as effecting independent mergers or general assumption. Over the years, the CDIC has provided guidance to 61 insured institutions and superintendence to seven institutions. In all cases, depositor rights and interests were protected as a result.

(5) Handling of Unsound Financial Institutions under Commission of the Executive Yuan's Financial Restructuring Fund

A. Establishing and Operating the Fund Management Committee

In order to handle potential problems at community financial institutions and the rising non-performing loan (NPL) ratio of banks, the ROC government decided to finance the establishment of the Financial Restructuring Fund. The Financial Restructuring Fund provided a blanket guarantee for depositors and enabled mismanaged financial institutions to gently and smoothly withdraw from the market, making the financial storm disappear. On July 9, 2001, the *Financial Restructuring Fund* Statute was enacted and the Financial Restructuring Fund was established. On July 16, 2001, the Financial Restructuring Fund Management Committee (hereinafter referred to as the "Fund Management Committee ") was established and placed in charge of reviewing decisions related to handling mechanisms and supporting measures. In June 2005, the committee established an Evaluation Subcommittee in charge of auditing asset valuations. Implementation of the decisions reached by the Fund Management Committee was entrusted to the CDIC.

B. Financial Resources and Funding Accommodation for the Financial Restructuring Fund

The Financial Restructuring Fund Statute stipulates that, if financial industry business tax revenue and deposit insurance premium income are insufficient to cover payouts, the Fund may entrust the CDIC to borrow from financial institutions, as well as use statutory funding sources for repayment.

I. Decision-making Body

The CDIC was entrusted by the Financial Restructuring Fund to apply for accommodation from financial institutions. The accommodation method, amount, interest rate, conditions and period must all be passed or approved by resolution of the Fund Management Committee.

II. Accommodation Methods

The first time that the CDIC was entrusted by the Financial Restructuring Fund to apply for accommodation from financial institutions, the Central Bank, the MOF and the CDIC invited large banks with an interest in lending for consultations on financing conditions. In most cases, financing for payout gaps was provided by the assuming bank to avoid large capital transfers between banks. Since most of the assuming banks from 2008 were foreign banks whose capital strength was not as high as that of domestic assuming banks, they were unable to provide financing to cover the fund gap in a resolution transaction. A financing bank was therefore selected based on a competitive bid interest rates.

III. Accommodation Interest Rate

Initially, the financing rate was approved by the Fund Management Committee according to the Central Bank's announced floating interest rate for accommodations with collateral. Seeking to reduce interest costs following capital loosening in the financial system, the committee resolved from August 2003 to adopt a rate of 0.125% less than the Central Bank's announced official floating discount rate. From August 2005, the rate was based on an average sliding scale of the floating rate for six-month term deposits at

five major banks (the Bank of Taiwan, the Taiwan Cooperative Bank, the First Bank, the Hua Nan Bank and the Chang Hwa Bank). In July 2008, public tenders were adopted to determine financing rates in order to lighten interest costs.

IV. Accommodation Amount

From December 10, 2001, to June 17, 2009, the CDIC used NT$276.8 billion in financing from financial institutions under commission of the Financial Restructuring Fund. The highest amount of outstanding loans during this time was NT$77.8 billion and the total interest paid for financing was about NT$6.1 billion.

C. Please see section 5 for details on the resolution of problem financial institutions over the years.

4. Period of Mandatory Application (Jan. 2007~Present)

(1) Background

The Deposit Insurance Act was amended on January 18, 2007, to better control the CDIC's insurance risk. Enacted on January 20, 2007, the amended Act shifted deposit insurance to a mandatory application system. All financial institutions that may, pursuant to law, accept deposits, postal savings or be consigned to manage principal- and interest-guaranteed trust funds with designated uses must apply to the CDIC to participate in the deposit insurance system and, following the CDIC's audit and approval, become insured institutions. The focal points of the amendment were, in conjunction with the establishment of two separate deposit insurance payout special reserves, one covering general finance and the other agriculture finance, under

the *Agricultural Finance Act*, to strengthen control over insurance risk by specifying the timing and methods of inspecting insured institutions and adding principles for the resolution of troubled financial institutions.

According to the amended regulations, the CDIC successively studied and formulated five regulations, including the *"Operating Procedures regarding the Provision of Financial Assistance by the Central Deposit Insurance Corporation to Encourage Acquisitions or Assumptions," "Regulations Governing the Establishment and Business Operations of Bridge Bank," "Operating Procedures regarding the Payout to Depositors by the CDIC," "Operating Procedures of the CDIC for the Provision of Loans, Deposits or other Financial Assistance to Insured Institutions under Conservatorship or Whose Powers of Board of Directors and Supervisors are Exercised by the Competent Authority,"* and *"Regulations Governing the Advance Payments to Depositors by the CDIC."* These regulations were implemented following approval and promulgation by the competent authority, providing more comprehensive mechanisms for the resolution of failed financial institutions.

(2) Background and Measures for the Implementation of the Blanket Guarantee Policy

A. Background

The international financial situation underwent a major change in 2008. To avoid systemic risk, many countries around the world successively expanded their deposits coverage with the implementation of blanket guarantees. In Taiwan, the government announced on October 7, 2008 that it would implement blanket guarantees for deposits at insured institution (banks and community financial institutions) to the end of 2009. The measure sought to stabilize the financial system, strengthen depositor confidence and the health of financial institutions, as well as promote the healthy and sustainable development of financial markets. To further stabilize financial markets, the government extended coverage to foreign currency deposits, interbank deposits and interbank call loans, which were previously excluded from the deposit insurance system, and strengthened financial supervision of related businesses. The blanket guarantee was subsequently extended to the end of 2010 in view of the overall financial situation in Taiwan, the need of some financial institutions for more time to adjust and improve their deposit structure, and the expiration times of blanket guarantee programs in neighboring countries. This policy fully achieved the effects of stabilizing the financial order and reinforcing depositor confidence.

B. Collecting a Special Insurance Premium for NT Dollar Interbank Call Loans

In conjunction with the implementation of blanket guarantees, insured institutions were required, from November to December 31, 2010, to pay a special monthly insurance premium on NTD interbank call loans, as stipulated by the "Measures to Support Blanket Guarantee of All Bank Deposits" promulgated jointly by the FSC, the MOF, and the Central Bank. The special premium, the CDIC's first, was aimed at preventing moral hazard.

C. Strengthening Moral Hazard Prevention during the Blanket Guarantee Period

To avoid moral hazard during the blanket guarantee period, the FSC and the Central Bank closely watched for abnormalities in interbank call loans by financial institutions. To further ensure the sound operation of financial institutions, the government strengthened financial supervision, regulation of debt structure management at financial institution, and implementation of prompt corrective action to enable the prompt resolution of problem financial institutions and reduce resolution costs.

D. Stabilizing the Financial Order through Active Advocacy

In conjunction with blanket guarantee policy, the CDIC actively engaged in advocacy. These included the filming of an informational video on the blanket guarantee system featuring the ROC Premier and aired intensively on television. The CDIC also encouraged financial institutions to download the video and show it at their places of business and on their websites. Other advocacy measures included producing posters publicizing the blanket guarantee system and asking all insured institutions to post them. The CDIC also took out advertisements in newspapers, magazines, online channels, financial and economic publications, and public transport vehicles to strengthen depositor's awareness of deposit insurance and achieve the objective of stabilizing the financial order.

(3) Response Measures for the Blanket Guarantee Returning to Limited Coverage System

As the economy recovered, financial markets stabilized, and depositors regained confidence, the government returned to a limited coverage system on January 1, 2011. At the same time, the following coordinated measures were adopted:

A. Increasing the Maximum Coverage and Expanding the Scope of Coverage

In response to the end of the blanket guarantee measure and to boost depositor confidence in the return to the limited coverage system, the FSC, the MOF and the Central Bank announced on August 12, 2010, that, in reference to the CDIC's report on "Response Measures for the Expiration of Blanket Deposit Guarantees in Taiwan," the maximum deposit insurance coverage amount would be raised to NT$3 million effective from January 1, 2011. This policy increased the ratio of deposit accounts fully covered by deposit insurance to 98.6%. Furthermore, to accord with international trends and strengthen depositor confidence in the limited deposit coverage, the CDIC expanded the coverage scope to include foreign currency deposits and interest on deposits, consistent with the amended Articles 12 and 13 of *the Deposit Insurance Act*.

B. Adjusting Deposit Insurance Premiums to Accelerate Accumulation of the Deposit Insurance Payout Special Reserve

Because the CDIC's general deposit insurance payout special reserve fund, which had been used in line with government policies and in combination with the Financial Restructuring Fund to enable 56 problem financial institutions with unsound operations to withdraw from the market had become seriously insufficient, the Legislative Yuan's Finance Committee resolved to require that the CDIC's accumulated reserves achieve a target of 2% of covered deposits by the year 2016. Furthermore, in conjunction with raising the maximum coverage from NT$1.5 million to NT$3 million, the FSC instructed the CDIC to adjust deposit insurance premiums to strengthen the CDIC's ability to undertake risk. The CDIC therefore actively deliberated adjustments to the deposit insurance premiums. The adjusted rates were approved by the FSC in November 2010 and implemented in January 2011, as follows:

I. For banks and credit cooperatives, the five-tiered differential premium rates which had been 0.03%, 0.04%, 0.05%, 0.06%, and 0.07%, were respectively raised to 0.05%, 0.06%, 0.08%, 0.11%, and 0.15% and to 0.04%, 0.05%, 0.07%, 0.10%, and 0.14% for covered deposits, with a flat premium rate of 0.005% for eligible deposits in excess of maximum coverage.

II. For the credit departments of farmers' and fishermen's associations, no adjustments in premium rates were made. The risk-based premium rates were still divided into five-tiered differential premium rates of 0.02%, 0.03%, 0.04%, 0.05%, and 0.06% for covered deposits respectively, with a flat premium rate of 0.0025% for eligible deposits in excess of maximum coverage. The main reason for the lack of adjustments was that the agricultural finance insurance payout reserve was in the black and the Financial Restructuring Fund still had over NT$20 billion appropriated for payouts to the credit departments of farmers' and fishermen's associations. In view of the sufficient capital available to handle the resolution of problem credit departments of farmers' and fishermen's associations, it was decided to temporarily leave the premium rates unchanged.

The premium adjustment was the CDIC's biggest ever premium increase and was highly effective in accelerating accumulation of the deposit insurance payout special reserve and increasing the CDIC's ability to undertake risk.

C. Advocating the Limited Coverage System and Supporting Measures to Help the Public Understand their Rights and Interests

In response to the end of the blanket guarantee and return to the limited coverage deposit insurance system at the end of 2010, the maximum coverage was increased from NT$1.5 million to NT$3 million, effective from January 1, 2011, to further strengthen depositor confidence and stabilize the financial order. Coverage was also extended to foreign currency deposits and interest on deposits. The CDIC also planned and carried out a comprehensive awareness campaign focus on delivering positive and simple messages of “double of the coverage” via television, radio, print media, the internet, outdoor media, ATMs and other channels to alleviate unease over the return to the limited coverage system and deepen public understanding of this system.

(4) Strengthening Control of insurance risk

The January 2007 amendment to *the Deposit Insurance Act* specifically established Section 2 ” insurance risk control”and the amended Article 22 of the Act granted statutory powers to the CDIC to collect financial or business information related to an insured institution. The appended Article 24 empowers the CDIC to inspect specific matters at insured institutions, effectively strengthening the CDIC’s risk management mechanism and enabling the CDIC to more actively fulfill its risk-minimizer role. The CDIC actively controls insurance risk through the following measures:

A. Helping supervisory bodies to establish reporting systems or joint sharing mechanisms to access financial and business information of insured institutions

I. Insured Banks: The CDIC continues to access financial and business information for banks through the Central Bank. In addition, a single window reporting system for the banking industry was officially launched in 2007, along with the establishment of related mechanisms for sharing supervision and management information. At present, the CDIC mainly uses this system to access financial and business information reported monthly by banks.

II. Insured Credit Cooperatives: The CDIC asks credit cooperatives to report basic asset/liability and profit/loss data through an internet transmission system. It also has access to the financial and business information reported by these institutions through the FSC's "Online Declaration System for Financial Institutions."

III. Insured Credit Departments of Farmers' and Fishermen's Associations: The Bureau of Agricultural Finance, Council of Agriculture established an internet reporting system in 2005. This system was subsequently made available to the CDIC to access related financial and business information.

B. Actively Applying Powers under Article 22 of *the Deposit Insurance Act* to Establish Risk-oriented Off-site Monitoring Mechanisms and Effectively Enhance the Efficacy of these Mechanisms

After the amendment of Article 22 of *the Deposit Insurance Act* in January 2007, the CDIC used its account officer system to actively collect a wide range of financial and business information of insured institutions. Paragraph 2, Article 22 of the Act further empowers account officers to request insured institutions to report related financial and business information if they discover warning signals that could affect the CDIC's insurance risk, as well as to conduct special audits of financial reports. Depending on the materiality of the warning, the officers may write an operation analysis report and more thoroughly and continuously monitor changes in operational risk to duly recommend necessary improvements.

C. Establishing a Call Report Data Rating System to Promptly Reflect Operational Risk at Insured Institutions

In order to provide guidance to insured institutions in controlling operational risk, the CDIC adopted capital adequacy ratio (CAR) and the Composite Score of the Examination Data Rating System (CSEDRS) as the two risk indicators in calculating risk grades for risk-based premiums under the "*Revised Implementation Scheme for the Deposit Insurance Risk-based Premium System*" approved by the FSC in 2007. The CSEDRS risk indicator was subsequently changed to a grading score based on the financial and business information reported by insured institutions. The CDIC also began to establish a Call Report Data Rating System so that the grading system could effectively and immediately reflect the operational risk at insured institutions and enable more appropriate risk-based premiums. The system was completed in June 2011 and

implemented on October 31, 2011, following approval by the competent authority.

In February 2012, the CDIC re-screened the risk indicators and performed statistical tests so that the rating results of the Call Report Data Rating System would better reflect changes in financial operations and financial supervision measures. A new system was proposed and approved by the competent authority on October 16, 2013, and has been used since the third quarter of 2013 to produce ratings and scores.

D. Inspecting Data Reported by Insured Institutions

After CSEDRS came into operation, the CDIC began to inspect information reported by insured institutions that was relevant to the risk indicators for the Risk-based Premium Rating System (hereinafter referred to as the "risk indicators") to increase the accuracy of the data reported by insured institutions. Such inspections are conducted in the following situations:

I. There are major concerns or unreasonable circumstances with the information related to risk indicators reported by the insured institution without reasonable explanatory evidence.

II. There is a significant financial operational risk incident at the insured institution between the standard date for reporting or examining data and the standard date for calculating deposit insurance premiums.

III. A sample inspection is conducted for various types of insured institution groups.

E. Strengthening Liaison and Information Exchange among Financial Regulators: Participating in the Financial Supervisory Coordination Council

After the FSC was established in July 2004, the "Regulations Governing the Operational Affairs of the Financial Supervisory Commission, Executive Yuan Involving the Central Bank or other Ministries and Departments" were formulated to create cooperation and liaison mechanisms for financial supervision, management and inspection matters. In August 2004, the Financial Supervisory Coordination Council was established with members including the Central Bank, the Council of Agriculture, and the CDIC. The CDIC, represented at the Council meetings by its chairman, proposes and fully discusses issues related to the operational risks of insured institutions to effectively accomplish cooperation and liaison on the exchange of financial supervision information and the handling of business crises at insured institutions. The Council has also formulated "Operating Guidelines for the Handling of Business Crises at Financial Institutions" stipulating the division of tasks among related units in the handling of future business crises at financial institutions.

(5) Establishment of E-Data Files by Insured Institutions

In accordance with Article 23 of *the Deposit Insurance Act*, the CDIC formulated the "Operating Standards for the Format and Content of Deposit Insurance Electronic Data Files Established by Insured Institutions," which were implemented on April 1, 2008. Insured institutions are required to establish electronic data (e-data) files according to these operating standards. The e-data files should cover the operations of insured institutions within the territory of the Republic of China, including overseas banking units.

(6) Statutory Inspection Mechanism for Deposit Insurance

A. Amending *the Deposit Insurance Act* to Grant Statutory Inspection Powers

In 2004, the FSC was established and placed in charge of overall financial inspection and supervision. In 2007, the Legislative Yuan passed Article 24 of *the Deposit Insurance Act*, granting the CDIC statutory inspection powers to meet needs related to reviewing premium assessment bases, controlling insurance risk, and fulfilling insurance responsibilities. The provision empowers the CDIC to inspect the accuracy of deposit assessment base and content of the e-data files; data related to risk indicators for the Risk-based Premium Rating System; any event causing the termination of the deposit insurance agreement; the assets and liabilities of insured institutions prior to the fulfillment of insurance responsibilities; and civil recoveries related to illegal acts and dereliction of duty by personnel. Moreover, on March 31, 2008, the CDIC was authorized to establish a Special Inspection Department specifically in charge of carrying out such inspections. After the deposit insurance system shifted from mandatory participation to an application and approval method, the department has also performed on-site verifications of underwriting at newly established financial institutions applying to join the deposit insurance system to effective control insurance risk.

B. Inspections

I. Inspecting the Accuracy of the Deposit Assessment Base

To ensure the accuracy of the basis of the deposit insurance premium reported for each period of the year by insured institutions, the CDIC performs a written examination of the data submitted by insured institution. If further confirmation of the accuracy of the information is deemed necessary after the review, the CDIC may send staff to perform an on-site inspection at the insured institution.

II. Inspecting Data Related to Risk Indicators for the Risk-based Premium Rating System

Since 2012, the CDIC has inspected data on risk indicators for the Risk-based Premium Rating System. Detailed on-site inspections are performed to ensure the accuracy of data reported by insured institutions and to verify the accuracy of the calculation of the insured institution's applicable risk based premium.

The CDIC formulated the "Key Points for Inspections of Risk Indicator Data Reported by Insured Institutions for the Deposit Insurance Risk-based Premium Rating System." The key points stipulate that the main purpose of such inspections is to audit the CAR, assess the likelihood of asset impairment, and grade classified assets and various management abilities. They also specify the purpose, timing, methods and scope of inspections.

III. Inspecting the Content of E-Data Files

To enable the correct and timely calculation of payout amounts in the future fulfillment of insurance responsibilities, the CDIC formulated the "Operating Standards for the Format and Content of Deposit Insurance Electronic Data Files Established by Insured Institutions" in September 2007, according to stipulations in Article 23 of the *Deposit Insurance Act*. It also asked insured institutions to establish e-data files according to the operating standards. In addition, since 2009, the CDIC has conducted on-site inspections of the accuracy of the format and contents of e-data files established by insured institutions.

The CDIC also designed and planned an "Insured Institution E-Data Files Verification IT System" to support inspection of the completeness and accuracy of the large amount of e-data provided by insured institutions with the least possible manpower and in the shortest possible time. The system assists the implementation of inspection operations by making up for shortcomings in comprehensive manual checks, thereby improving inspection efficiency and inspection quality.

IV. On-site Verification of Deposit Insurance Applications

Taiwan's deposit insurance system shifted from a mandatory participation method to an application and approval method in 2007. In order to enable financial institutions that apply to participate in deposit insurance to qualify for insurable standards, the CDIC carries out on-site verification of underwriting at newly established financial institutions applying to participate in deposit insurance, pursuant to Article 5 of the "*Approval Standards for Financial Institutions Applying to Participate in Deposit Insurance*." The verification results confirm whether financial institution's risk management system, internal control system, and internal audit system have been effectively established and implemented, as well as urges financial institutions to make improvements when deficiencies are found in order to effectively reduce insurance risk.

信賴

Trust —

Stabilizing Financial Environment

5. *Resolution of Problem Financial Institutions*

(1) From the Establishment of Deposit Insurance to before the Establishment of the Financial Restructuring Fund

Before July 2001, there were only sporadic cases of business crisis at insured institutions in Taiwan. The problems that did arise were related to improper loans or fraud by persons in charge at individual institutions. In these cases, the MOF, as the competent authority at the time, instructed the CDIC to provide legally mandated on-site guidance, assist in quelling bank runs, provide financial assistance, and provide on-site superintendence or conservatorship to achieve the policy objectives of stabilizing depositor confidence and helping insured institutions meet liquidity needs.

Many of the failed institutions coming under superintendence or conservatorship during this period were ultimately merged or acquired through friendly takeovers by sound insured institutions. For example, the Hsinchu Second Credit Cooperative, which came under superintendence in September 1996, was assumed by the Macoto Bank (now merged as the Shin Kong Bank) in January 1997; and the Kaohsiung Fifth and Tenth Credit Cooperatives, which came under superintendence in June 1997, were assumed, respectively, by the Banqiao Credit Cooperative (reorganized as the Bank of Panhsin) in September 1997 and the Pan Asia Bank in October 1997. However, the Donggang Township Credit Cooperative of Pingtung County, which came under conservatorship in July 1999, was assumed by the Bank of Taiwan in September that year, with the CDIC making payouts to make up the asset-liability gap.

In some cases, the operating conditions at the insured institutions steadily improved following the replacement of executives and business reorganization, enabling the institution to continue operating without changing its original name. One example is Taichung Commercial Bank, which came under superintendence in 1998. In other cases, the institution divested its financial business unit to another sound insured institution after coming under superintendence. One example is the Taiwan Development and Trust Corporation, which came under superintendence in 2000 and sold its trust department to the Jih Sun International Bank in 2005.

(2) Financial Restructuring Fund Period

The repercussions of the Asian financial crisis in 1997 spread to some financially weak major enterprises in Taiwan and began to affect Taiwan's stock market. This led to the "land-mine stock" crisis in the second half of 1998 and had a fallout effect on many weaker insured institutions. This, and the downturn in the real estate market, led to a steady deterioration in asset quality and a gradual rise in NPL ratios in the banking system. In addition, the 921 Earthquake that struck central Taiwan in 1999 seriously affected the real estate market, adding fuel to the fire for weak insured institutions and put Taiwan into the throes of a rising systemic financial crisis.

At the time, the CDIC's deposit insurance payout special reserves were woefully insufficient to cope with the crisis. Mechanisms for handling systemic financial crisis were also lacking. The Executive Yuan and Legislative Yuan therefore jointly appended and revised the related laws to respond to potential systemic risks. In July 2001, the president promulgated the *Financial Restructuring Fund Statute*. The government also formulated the *Financial Holding Company Act*, the *Financial Institutions Merger Act*, and the *Act Governing Bills Finance Business* and revised the *Banking Act*, the *Deposit Insurance Act*, the *Business Tax Act*, and the *Insurance Act*, as well as actively encouraged the establishment of asset management companies to facilitate the handling of the extensive NPLs in the banking system. Through the coordination of legal, capital, and market measures, tax incentives, and resolution tools, the government was able to smoothly deal with the systemic financial crisis.

During this period, the CDIC was entrusted by the Financial Restructuring Fund to implement policies and resolutions, becoming the sole platform for the fund in handling the resolution of unsound financial institutions. Since then, the CDIC's mission of handling failed financial institutions has entered a new era.

During this time, the CDIC served as conservators and exercised the management rights and property disposition rights of institutions under conservatorship. It also suspended shareholder (or association member) meetings to handle the affairs of failed financial institutions. This approach of maintaining banking services without interruption and making no direct payouts on covered deposits, in conjunction with the temporary blanket deposit guarantee measures, accorded with the four handling principles of the Financial Restructuring Fund: stabilize the financial order, safeguard depositor rights, maintain uninterrupted financial services, and minimize social cost. It also effectively reduced the impact of extensive financial institution collapse on social stability and economic development.

Under the Financial Restructuring Fund's operation model, the Fund Management Committee was in charge of policy decision-level approval of related handling mechanism and supporting measures. In June 2005, the committee established an Evaluation Subcommittee in charge of auditing asset valuations. The Fund Management Committee consisted of nine to thirteen members, including one Committee Convener who served concurrently as the head of the competent authority (the FSC), and one Deputy Committee Convener who served concurrently as the deputy head of the competent authority. The other members included Deputy Governor of the Central Bank, Deputy Minister of the Council of Agriculture, Deputy Minister of the Directorate General of Budget, Accounting and Statistics, Executive Yuan, and Chairman of the CDIC. The remaining committee members were chosen according to their professional expertise or experience in law, economics, finance, and other relevant fields. The Evaluation Subcommittee comprised seven to nine concurrently serving members employed by the Fund Management Committee and with specialized knowledge and experience in fields related to international finance, banking management, or asset valuation.

The tools of resolution adopted were purchase and assumption (P&A) transactions. Depending on the specific circumstances of the failed institutions, as well as the legal requirements and demand for mergers and acquisitions in financial markets at the time of resolution, the assets/liabilities and business operations of failed institutions were either sold separately or jointly to achieve the resolution result of "minimizing resolution costs and maximizing recovered value."

The CDIC handled the resolution of failed financial institutions through conservatorship measures along with general assumption or P&A transactions as follows:

I. 47 Community Financial Institutions

A total of 36 community financial institutions, including credit departments of farmers' and fishermen's associations and credit cooperatives, with negative adjusted net worth based on the assessment reports on the financial examination conducted at the end July 2001, were selected for the first round of resolution. 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. Moreover, in 2002, seven credit departments of farmers' associations and one credit cooperative also faced operational difficulties. Between July and August that year, the legal assignment procedures for these institutions were completed through general assumption and open competitive tender bids.

Of the 44 community financial institutions mentioned, 36 were credit departments of farmers' and fishermen's associations. The resolution resulted in transferring to other banks the credit departments of the respective farmers' and fishermen's associations, while allowing the other departments of the farmers' and fishermen's associations (such as the supply and marketing departments, promotion subsections, and association services subsections) to remain so as to not affect the promotion of agriculture and fishery policy.

The *Agricultural Finance Act* enacted on January 30, 2004, stipulates that, when a credit department of the farmers' and fishermen's associations has negative net worth, the Financial Restructuring Fund will make up the gap for the credit department during its existence. After that, the central competent authority for farmers' and fishermen's associations (the Council of Agriculture) may order such credit departments to be acquired by other farmers' or fishermen's associations. In the acquisition process, the Council of Agriculture assigned the Bureau of Agricultural Finance (BOAF) to invite related units to form a task force for the assumption of functions and powers and dispatch acting directors and supervisors to assume the functions and powers, and suspend meetings of the association members. The CDIC was the task force member in charge of appointing an accounting firm for asset and liability assessment. The Financial Restructuring Fund also authorized the CDIC to jointly arrange price negotiations with the acquiring farmers' associations. The resolutions of two credit departments of farmers' associations were jointly handled between March 2005 and March 2007. When the Financial Restructuring Fund period ended, the funds for meeting capital shortfalls at the credit departments of farmers' and fishermen's associations had been retained during the Financial Restructuring Fund period and were earmarked for use by the BOAF.

In 2004, the CDIC was entrusted with the resolution of the Fengshan Credit Cooperative, which it performed through the full sale of the cooperative. At the time, the competent authority (MOF) allowed the bid-winning bank to open 10 new branches, six of which could be freely relocated, as an administrative incentive. The Chinatrust Bank won the bid in the public tender.

II. Kaohsiung Business Bank (KBB)

The CDIC was entrusted as conservator of the KBB in early 2002. The first attempt to sell the bank as a whole through a public tender failed due to a lack of investor bids. In order to increase the transparency, competitiveness, and professionalism of the public tender, the CDIC appointed a professional financial consultancy to handle affairs regarding marketing, auction strategy, and evaluations. The consultancy proposed an innovative strategy, by which the designated NPLs (i.e. the "Bad Bank") and the assets, liabilities, and business operations other than the designated NPLs (i.e. the "Good Bank") were split and sold separately by tender.

The method of split tender sale was adopted in the KBB case and met market demands. This, along with administrative measures provided by the competent authority to allow the flexible relocation of some branches, encouraged several investors to participate in the competitive bid resulting in a successful auction at a high price. The Bad Bank was sold by tender to an asset management company on October 27, 2003, and the Good Bank was assumed by the E.Sun Bank on September 4, 2004.

III. Chung Shing Bank (CSB)

The CDIC appointed a financial consultancy to arrange the tender sale of the Chung Shing Bank through separate tenders for the Bad Bank and Good Bank. The Bad Bank was auctioned off in two tenders in December 2003 and March 2004. The Good Bank, excluding financial interbank deposits and call loans, was sold by tender to the Union Bank of Taiwan (UBT) on December 2004, and the assumption was completed on March 19, 2005.

The CDIC used all funds from the UBT's winning bid of NT$7.108 billion to repay the financial interbank deposits and call loans not sold in the tender, leaving NT$57 billion in unpaid financial interbank deposits. In May 2005, an amendment to the Financial Restructuring Fund Statute providing new sources of revenue was approved by the Legislative Yuan. After the FSC made written notification to the Legislative Yuan on August 16, 2005, the Financial Restructuring Fund completed compensation for deposits principal and interest to 29 financial institutions.

IV. Enterprise Bank of Hualien (EBH)

The CDIC arranged the sale of the EBH as a whole by open tender on May 31, 2007. The Chinatrust Commercial Bank submitted the winning bid and the sale was completed on September 8, 2007.

V. Taitung Business Bank (TBB)

TBB was also sold by open tenders dividing the Good Bank and Bad Bank assets. To attract a competitive price, the Bad Bank was divided into portfolios A, B, and C based on investor demand and business type, respectively secured loans, micro credit loans, and unsecured loans. On June 7, 2007, tender resulted in the auctioning of the Portfolio A NPLs for NT$513 million and Portfolio C NPLs for NT$241 million.

Since none of the bids for the Good Bank excluding designated NPLs and the NPLs in Portfolio B met the Fund Management Committee's floor price, the CDIC arranged price negotiations on June 8, 2007, the NPLs in Portfolio B were sold for NT$153 million. The ABN AMRO Bank (now merged as ANZ) submitted the winning bid for the Good bank. The three Bad Bank auctions were completed on August 27, 2007, and the assumption of the Good Bank was completed on September 22, 2007.

VI. Chinese Bank

The Chinese Bank was sold by separate tenders for the Good Bank and Bad Bank. The Bad Bank was divided into three tranches that were successfully auctioned on July 31, 2007. Tranche A (consisting mainly of corporate loan) was sold for NT$2.73 billion; Tranche B (mainly credit cards, cash cards and unsecured credit loans) was sold for NT$76 million; and Tranche C (mainly unsecured credit loans) was sold for NT$76 million. The Good Bank tender failed due to lack of bids. An post-sale putback mechanism was added, under which the buyer was allowed to sell back the NPLs of 171 borrowers, totaling about NT$16.5 billion. The putback deadline was set at two years and six months, with the deadline for the remaining loans set at two years from the standard date of the assumption (before March 28, 2010).

After including the mentioned post-sale putback mechanism, the second tender for the Good Bank in the Chinese Bank case was sold to the Hongkong and Shanghai Banking Corp., Ltd. (HSBC) after the completion of the bid opening procedures on December 13, 2007, and a price negotiation on December 14. The Bad Bank purchase was completed on October 17, 2007, and the assumption of the Good Bank was finalized on March 29, 2008.

VII. China United Trust and Investment Corporation (CUTIC)

The CDIC was entrusted with the resolution of the CUTIC in 2007. In addition to its banking operations, the CUTIC owned large real estate holdings (book value of about NT$9.49 billion), the equity of Taipei Financial Center Corp. (book value of about NT$2.46 billion), the Asia United Bank of the Philippines (book value of about NT$890 million), and other specific assets. The Fund

Management Committee resolved at its 53rd meeting to arrange separate tender sales of the CUTIC's Good Bank, the equity in the Asia United Bank Corporation of the Philippines, the Bad Bank (designated NPLs), designated real estate, and the Taipei Financial Center Corp. to meet the market demand for different investors while maximizing gains from the resolution.

The Bad Bank was sold by tender for NT$2.73 billion. The Good Bank was acquired by the Cathay United Bank and the assumption was completed on December 29, 2007. The un-auctioned assets remained under management by the CDIC as conservator. The equity stake in the Asia United Bank Corporation of the Philippines was sold back to the Asia United Bank Corporation of the Philippines on April 17, 2008, for NT$967.2 million. The designated real estate was fully disposed by March 2014.

VIII. Bowa Commercial Bank (Bowa Bank)

During the resolution of the Bowa Bank, the CDIC was concurrently serving as conservator for four financial institution–the EBH, the TBB, the CUTIC, and the Chinese Bank, leaving it constrained by a shortage of manpower. According to Article 62-3 of the *Banking Act*, the CDIC therefore requested authorization from the competent authority to entrust the Land Bank of Taiwan to operate and manage the bank's business and property. The auction strategy for the Bowa Bank was to first deduct retained items and then separate the assets/liabilities and operations into two major auctions of the Good Bank and the Bad Bank. The Bad Bank was split into Tranche A and Tranche B. Tranche A consisted of corporate loans, mortgage and auto loans, consumer loans, and other general NPLs along with some fixed assets not for self-use, assumed collateral, and road-use land. Tranche B consisted of credit cards, cash cards, micro-credit loans, and other NPLs.

On January 31, 2008, the Bad Bank Tranche A was sold by tender for NT$2.69 billion and the Bad Bank Tranche B was sold for NT$120 million. Since none of the bids submitted for the Good Bank met the reserve price, this tranche was sold on the following day (February 1, 2008) to the DBS Bank Ltd. through a price negotiation. The assumption was completed on May 24, 2008.

XI. Asia Trust & Investment Co., Ltd. (Asia Trust)

The CDIC carried out the resolution of the Asia Trust in 2008. An auction strategy was designed to maximize the value of the asset disposal according to the nature of the Asia Trust's assets and liabilities. In addition to the conventional practice of separately auctioning the Good Bank and the Bad Bank, the head office building and the Asia Plaza were separately put up for auction and a portfolio tender decision method was adopted to meet the tender needs of different potential investors and attract the most competitive bid. On October 7, 2008, the Good Bank Tranche A (the Asia Trust's head office building) was acquired by the Taiwan Life Insurance Company with a winning bid of NT$3.03 billion. The Good Bank Tranche B (major assets/liabilities and businesses) was acquired by the Standard Chartered Bank for NT$3.348 billion. The Bad Bank Tranche B (designated NPLs, specific claims and designated real estate) was acquired by an asset management company for NT$707 million; and Bad Bank Tranche A was not successfully auctioned. After the auction, The Asia Trust's book net worth (assessment standard date: April 30, 2008) of negative NT$750 million had become a positive net worth of NT$1.9 billion. The assumption of the Good Bank Tranche B was completed on December 27, 2008. The resolution did not require any funding from the Financial Restructuring Fund or the deposit insurance payout special reserve, setting a new precedent in Taiwan for the resolution of unsound financial institutions without the use of public funds.

The CDIC subsequently sold the Asia Plaza by public tender on October 29, 2012. The Shin Kong Life Insurance submitted the winning bid of NT$3.909 billion. With the final disposal of the Asia Trust's assets and liabilities, CDIC completed its conservatorship duties. It reported to the FSC on January 31, 2013, and obtained the latter's approval to terminate conservatorship, effective from midnight on September 6, 2013. This also marked the start of the dissolution and liquidation process. On the day that the CDIC ended conservatorship, it turned over affairs related to the liquidation of the Asia Trust to the liquidator the Cosmos Bank. A special meeting of the Asia Trust shareholders resolved to pay the Financial Restructuring Fund NT$217 million for administrative resources provided by the government to the Asia Trust. The CDIC notified the FSC of the closure of the Asia Trust conservatorship, concluding this case.

X. Chinfon Commercial Bank (Chinfon Bank)

In September 2008, the CDIC was instructed by the competent authority to handle conservatorship of the Chinfon Bank. The bank was the last institution included for resolution under the Financial Restructuring Fund. The bank was split into a Bad Bank and a Good Bank for separate tender sale. The Bad Bank was smoothly auctioned off in four tranches of creditor rights. However, the tender for the Good Bank failed due to lack of participation. Following a study and analysis, the CDIC adopted an auction strategy splitting the Good Bank into four lots: domestic branch lots A (18 branches) and B (19 branches), the Vietnam branches, and credit card operations. The strategy was approved by the Fund Management Committee at its 80th meeting and by the FSC in August 2009. The tender sale was announced on September 14, 2009, and the tender results were disclosed on October 27. All four lots were successfully auctioned. The Lot A domestic branches was acquired by the Yuanta Commercial Bank; the Lot B domestic branches was acquired by the Far Eastern International Bank; the credit card business was acquired by the Taishin International Bank; and the Vietnam branches was acquired by the Taipei Fubon Commercial Bank. The case created a new model for the split auction of unsound financial institutions. The CDIC and the aforementioned four banks signed general assignment and assumption contracts on October 30, 2009. The general assignment of the Vietnam branches and credit card business was completed on March 6, 2010, while the general assignment of the domestic branches in lots A and B was completed on April 3, 2010.

Between July 2001, when the CDIC was first entrusted under the Financial Restructuring Fund with the resolution of unsound financial institutions, to the termination of the fund on December 31, 2011, the CDIC participated in the resolution of 56 unsound financial institutions. The subjects of these resolutions include 36 community financial institutions in 2001, eight community financial institutions in 2002, the Fengshan Credit Cooperative and the KBB in 2004, the Credit Department of Xinpi Township Farmers' Association and the CSB in 2005, the Dapu Township Farmers' Association, the EBH, the TBB, and the CUTIC in 2007, the Chinese Bank, the Bowa Bank and the Asia Trust in 2008, and the Chinfon Commercial Bank in 2010. Payment amount as of March 31, 2015, totaled about NT$287 billion (with the CDIC covering NT$79.4 billion). A total of 56 unsound financial institutions were generally assigned to other sound banks without interruption of operations, effectively maintaining financial market stability and ending a systemic financial crisis.

In the tender sale of problem insured institutions, the CDIC has the option to retain assets of the institution to maximize recovered value in cases where such assets do not attract a competitive prices from investors, cannot be held by an investor due to statutory limits, or which have been bought back through the putback mechanism. Among the asset types retained by the CDIC are real estates (including agricultural and a small amount of movable property in buildings), loan assets, equity investments, and antiques. Such retained assets had a net book value of NT$2.53 billion at the end of March 2015, representing a reduction from the NT$21.224 billion or 89.35% in such assets originally held. The total recovery from the retained assets was NT$21,039 billion.

When the Financial Restructuring Fund period terminated at the end of 2011, there remained some unresolved issues that required ongoing handling by the CDIC through the exercise of conservator functions and powers. After the return to the deposit insurance mechanism, the CDIC in 2011 successively formulated guidelines for the implementation of conservator and receiver tasks needed to fulfill its insurance responsibilities. These included the "Guidelines for the Establishment of an Appraisal Task Force for Handling Insured Institutions with Unsound Operations," " Guidelines for Managing the Disposal of the Retained Assets of Insured Institutions with Unsound Operations," "Guidelines for the Outsourcing of the Tasks in the Fulfillment of the Insurance Obligation and the Conducting of the Conservatorship and Receivership." According to the fifth point of the last Guidelines, the CDIC also formulated five professional and technical qualification and fee standards as a basis for retaining lawyers, financial consultants or accountants, land administration agents, professional real estate appraisal agencies, and professional real estate agencies.

(3) Post Financial Restructuring Fund Period

The CDIC continued to manage and dispose retained assets after the termination of the Financial Restructuring Fund on December 31, 2011. Its ongoing tasks concluded with the disposal of the retained assets of removed institutions. At the same time, the FSC designated the

CDIC to serve as receiver for removed institutions or to separately assign liquidator to handle matters related to write offs for removed institutions. By the end of March 2015, the CDIC had concluded all conservatorship tasks apart from those related to the CUTIC and the Chinfon Bank. The liquidation of the Asia Trust was completed with the cancellation of the bank's corporate personality. The receivership of the Bowa Bank was completed and its corporate personality is in the cancellation process. The remaining five removed institutions—the KBB, the CSB, the EBH, the TBB, and the Chinese Bank—are still in the receivership process due to ongoing litigation, money logged at the court in those institutions' name, or lack of full recovery of retained loan assets.

In response to the rise of electronic transactions, the CDIC also continues to research and develop ways to simplify and expedite procedures for one of its most basic resolution tools—the payout system. This project involves two stages. Stage one involves the establishment of e-data files for insured institution based on standardized formats. The stage two is the development of the Payout and Advance Payment System.

Under the amendment to *the Deposit Insurance Act* effective on January 18, 2007, insured institutions are required to establish e-data files for deposits and related items according to the file format and content stipulated by the CDIC for the calculation of insurance premiums and the amount of payout when fulfilling insurance responsibilities. According to this stipulation, the CDIC formulated the "Operational Guidelines for Insured Institutions Establishing Deposit Insurance Electronic Data Format and Content," which were implemented on April 1, 2008. Insured institutions are required to establish e-data files according to the Operational Guidelines. Such files shall cover all businesses of the insured institutions in the territory of the Republic of China, including the operations of overseas banking units.

The CDIC has also completed development of the Payout and Advance Payment System. The system can complete all operations related to the calculation of payouts and advance payment, starting on a Friday when business is suspended and ending before the following business day (Monday), with the aim to begin processing depositor claims on the following business day.

信心 Confidence — Maintaining Credit Order

6. International Affairs

(1) Joining IADI as a Founding Member

The International Association of Deposit Insurers (IADI) was established in Basel, Switzerland, in May 2002 to promote cooperation and exchange among deposit insurance organizations around the world and support the stability of the international financial system. The CDIC joined the IADI in 2002 as one of the association's 25 founding members and has since actively participated in related international affairs.

(2) Election to the IADI Executive Council to Actively Participate in the Development of the International Organization

At the second Annual Conference of the IADI in Seoul, Korea, former CDIC Chairman Chin-tsair Tsay presented a speech introducing Taiwan's experience in financial reform. He was also nominated and elected to serve on the association's Executive Council.

(3) Hosting IADI Annual General Meeting and Conference and Receiving the First Deposit Insurance Organization of the Year Award

The CDIC hosted the IADI 4th Annual General Meeting and Conference in conjunction with its 20th Anniversary in 2005. In September that year, the CDIC held its expanded 20th anniversary celebration at the Grand Hotel in Taipei along with the IADI 4th Annual General Meeting and Conference, Third Annual Meeting of the Asia-Pacific Regional Committee, and First International Deposit Insurance Week exhibition. These activities were joined by more than a hundred delegates from over

50 countries or institutes. At the General Meeting, the CDIC was awarded as IADI's first "Deposit Insurance Organization of the Year."

(4) Serving as a Member of the IADI Executive Council and Chairperson of the Research and Guidance Committee and Participating Deeply in R&D on International Deposit Insurance

Former CDIC Chairman Chin-tsair Tsay was elected in 2004 to serve on the IADI Executive Council. The CDIC was subsequently represented on the council by former presidents Johnson C.S. Chen, Howard N. H. Wang, and, from November 2013, Executive Vice President William T.Y. Su.

In August 2004, the CDIC was elected to serve as chairperson of the IADI's Research and Guidance Committee (RGC), in which capacity it presided related conferences and the planning of meeting affairs. It subsequently presided the "General Guidance for the Resolution of Bank Failures" research project and was responsible for promoting the formulation of international standards for the resolution of problem institutions. The standards were formally announced by the IADI in February 2006. That year, former CDIC President Johnson C.S. Chen represented former Chairman Chin-tsair Tsay as chairperson of the RGC. The committee is responsible for setting the direction of IADI's research on global deposit insurance mechanisms, as well as formulation and research on international standards for deposit insurance. The CDIC International Relations and Research Office Director Yvonne Fan has served as the committee chair since 2008. During the global financial crisis, the CDIC participated in formulating the "Core Principles for Effective Deposit Insurance Systems" along with other international organizations and deposit insurers in other countries. The CDIC also chaired the Guidance Paper for "Public Awareness of the Deposit Insurance Systems." Both standards were approved and formally announced by the IADI in 2009.

(5) Signing MOUs with Deposit Insurance Organizations to Strengthen International Cooperation and Exchange

The CDIC has enthusiastically participated in international affairs over the years to promote international exchange and experience sharing, as well as to strengthen friendly relations with deposit insurance organizations in other countries. From March 2004, the CDIC successively signed Memorandums of Understanding (MOUs) or Letters of Exchange with deposit insurance related institutions in 13 jurisdictions, including Korea, Hungary, Japan, Vietnam, Indonesia, Malaysia, Thailand, Switzerland, France, Hong Kong, Germany, Canada and Argentina. The establishment of these cooperative relationships has helped the CDIC to achieve the policy objectives of Taiwan's deposit insurance system, namely protecting the rights and interests of depositors and maintaining financial stability.

7. Future Outlook and Challenges

The CDIC is the only institution in Taiwan dedicated to carrying out deposit insurance. It shoulders the dual policy tasks of serving as a member of the financial safety net and protecting depositors. In recent years, the CDIC has enabled the smooth resolution of 56 unsound financial institutions in conjunction with the government's comprehensive financial reform policy. The CDIC also actively participates in the planning and implementation of systems and measures for the financial safety net, effectively improving the financial environment and maintaining financial stability. Moreover, in response to the return to limited coverage deposit insurance, the CDIC has drafted amendments to *the Deposit Insurance Act*, increased the coverage amount and scope, and carried out active promotions to strengthen public confidence in the deposit insurance system.

In order to strengthen control of insurance risk, the CDIC also continues to carry out inspections of insured institutions through off-site monitoring mechanisms and the Risk-based Premium Rating System in accordance with *the Deposit Insurance Act* and the *"Implementation Scheme for the Deposit Insurance Risk-based Premium System."* In conjunction with government policy, the CDIC has also adopted relevant supervisory measures and strengthened information exchange and cooperation with relevant financial supervisory agencies to maintain a timely grasp of the overall business conditions of insured institutions and help insured institutions to achieve sound operations and reduce operational risk.

Looking back, the CDIC has established and progressively improved the deposit insurance system with industriousness and dedication. Going forward, the CDIC will continue efforts in the following areas to achieve the goals of protecting depositors and stabilizing the financial order:

(1) Accelerating Accumulation of the Deposit Insurance Payout Special Reserves to Strengthen Depositor Confidence in the Deposit Insurance System

A sufficient deposit insurance payout special reserve is the cornerstone of an effective deposit insurance system. It is also related to the confidence of depositors in the deposit insurance system and the stability of financial order. In the future, the CDIC will, in view of the overall economic and financial situation, as well as the financial affordability and profit situation of insured institution, deliberate adjustments to the deposit insurance premium at appropriate times. Moreover, in conjunction with the related supervisory policies of the competent authority, the CDIC will strengthen controls of insurance risk and reduce claim losses to accelerate accumulation of the deposit insurance payout special reserves and promptly achieve the 2% target ratio. This will enhance the CDIC's ability to settle claims and strengthen depositor confidence in the deposit insurance mechanism.

(2) Strengthening Off-site Monitoring Mechanisms and the Functions of the Risk-based Premium Rating System to Control Insurance Risk

In order to better control insurance risk, the CDIC will continue to strengthen and use off-site monitoring mechanisms and the Risk-based Premium Rating System to track changes in the financial and operational risks of insured institutions. When signs of abnormalities appear, the CDIC will also take necessary measures and provide guidance as appropriate to help insured institutions reduce operational risk.

(3) Strengthening Information Exchange with Financial Supervisory Agencies and Taking Necessary Measures in Conjunction with the Competent Authority

The CDIC will continue to strengthen exchanges and contacts with the relevant competent authorities related to supervision and management information to provide timely access to relevant operational information of insured institutions and control insurance risk. Moreover, in conjunction with the related supervision and management policies of the competent authority, the CDIC will continue to be entrusted to monitor affairs related to financial products and risk. If an insured institution faces a business crisis or other incident that could affect the financial order, the CDIC will closely cooperate with the competent authority and carry out timely supervisory measures as needed to maintain financial stability.

(4) Conducting Statutory Inspections to Control Insurance Risk

In accordance with *the Deposit Insurance Act*, the CDIC will continue to carry out statutory on-site inspections related to the deposit assessment base, the content of e-data files, and data reported to the Risk-based Premium Rating System. Furthermore, to reduce insurance risk, the CDIC will continue to conduct on-site inspections of financial institutions applying to participate in the deposit insurance system. It will also supervise the establishment of sound business regulations and risk control mechanisms at such institutions to ensure the accuracy of financial information and effectively reduce insurance risk.

(5) Establishing the Payout and Advanced Payment System and Strengthening Simulation

To fulfill the responsibilities of deposit payout and transfer deposits, under the limited coverage system, the CDIC's future objectives will be to establish a comprehensive payout system and operating manual to accelerate payouts, establish a payout communication mechanism, and strengthen system simulation.

(6) Handling Unresolved Issues and Receivership Affairs for Removed Unsound Financial Institutions and Pursuing Civil and Criminal Liabilities for Illegal Acts by the Personnel of Financial Institutions

The Financial Restructuring Fund has handled the resolution of 56 unsound financial institutions. The CDIC will continue to actively dispose the retained assets of these institutions that remained after the termination of the fund at the end of 2011. Moreover, in cases where the competent authority has approved termination of conservatorship and ordered receivership, the CDIC will actively handle receivership affairs according to receivership plan. It will also actively handle cases involving criminal cases transferred to the investigative agencies for investigation and pursue civil actions and seek compensation in cases involving illegalities by personnel of financial institutions.

(7) Reviewing the Legal System for Deposit Insurance in a Timely Manner to Strengthen the Functions of Deposit Insurance

To further develop the financial safety net functions of the deposit insurance mechanism, the CDIC will, in conjunction with government policy and financial development in Taiwan, deliberate legal systems for coverage, failure resolution and other deposit affairs so that the deposit insurance system can more comprehensively protect depositors and stabilize financial order.

(8) Actively Promoting International Affairs and Research Related to Deposit Insurance and Strengthening International Exchanges and Cooperation

In order to strengthen exchanges with the deposit insurance organizations in foreign countries and other financial safety net members, the CDIC will continue to participate in the activities and international research projects of the IADI, foreign deposit insurers and related international organizations, as well as assist in the formulation of international standards. It will also continue to participate in and host international conferences and sign MOUs to enhance substantive exchanges with foreign deposit insurers and strengthen international cooperation. Moreover, the CDIC will review Taiwan's deposit insurance mechanisms according to related standards and research announced by international organizations to further improve Taiwan's deposit insurance system.

Appendix

- Expansion and Improvement of Taiwan's Deposit Insurance System
- Number of Insured Institutions
- Maximum Coverage, Covered Deposits and Deposit Insurance Payout Special Reserves for the Last Ten Years
- Chronology of Superintendence, Conservatorship and Receivership Operations
- CDIC's Handling of the Failed Financial Institutions Entrusted by the Financial Restructuring Fund

Expansion and Improvement of Taiwan's Deposit Insurance System

	YEAR OF ESTABLISHMENT (SEPT. 1985)	CHANGES (SEPT. 1985 ~ PRESENT)
Type of Participation	Voluntary	• Changed to mandatory system in January 1999. • Revised in January 2007 as follows: 1. All financial institutions legally approved to accept deposits must apply to the CDIC to join the deposit insurance system. 2. Such institutions may become insured institutions after inspection and approval by the CDIC. 3. The two preceding items do not apply to insured institutions that have joined the deposit insurance system prior to the enactment of the revised *Deposit Insurance Act*.
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.
Membership	• Domestic banks (excluding Chunghwa Post Co., Ltd.) • Small and medium business banks • Trust and investment companies • Credit cooperatives • Credit departments of farmers' and fishermen's associations • Local branches of foreign banks (even if their deposits are protected in their home countries)	• Revised in January 1999, to include the financial institutions: 1. The Chunghwa Post Co., Ltd. 2. Foreign bank branches whose deposits are protected in their home countries may not participate. • Revised in October 2013: Revised "Local Branches of Foreign Banks" into "Local Branches of Foreign Banks and Mainland Chinese Banks".

<table>
<tr><th></th><th>YEAR OF ESTABLISHMENT (SEPT. 1985)</th><th>CHANGES (SEPT. 1985 ~ PRESENT)</th></tr>
<tr><td>Assessment Base</td><td>• Covered deposits</td><td>Revised in January 2007 to total eligible deposits.</td></tr>
<tr><td>Insurance Premium</td><td>Flat rate: 0.05%</td><td>
• Flat rate, but reduced to 0.04% in July 1987
• Further reduced to 0.015% in January 1988
• Risk-based premium system adopted on July 1, 1999, and three-tier rates instituted: 0.015%, 0.0175%, and 0.02%
• Three-tier rates adjusted to 0.05%, 0.055% and 0.06% on January 1, 2000
• Revised in July 2007 to:
Risk-based premium rates for covered deposits within the maximum coverage and a flat rate for any amounts beyond this, as follows:
<table>
<tr><th>FINANCIAL INSTITUTIONS</th><th>RISK-BASED PREMIUM RATES</th><th>FLAT PREMIUM RATE</th></tr>
<tr><td>Domestic banks, foreign bank branches in Taiwan, trust and investment companies, and credit cooperatives</td><td>Five-tier rates: 0.03%, 0.04%, 0.05%, 0.06%, and 0.07%</td><td>Formerly 0.0025%, but from January 1, 2010 the flat premium rate was adjusted to 0.005%</td></tr>
<tr><td>Credit departments of farmers' and fishermen's associations</td><td>Five-tier rates: 0.02%, 0.03%, 0.04%, 0.05%, and 0.06%</td><td>0.0025%</td></tr>
</table>
• Revised in November 2010 to:
Risk-based premium rates for eligible deposits within the maximum coverage and a flat rate for any amounts beyond this, effective from January 1, 2011; also revised in October 2013 the term "Local Branches of Foreign Banks" into "Local Branches of Foreign Banks and Mainland Chinese Banks" and applied the same risk-based premium rate as follows:
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<tr><th></th><th>YEAR OF ESTABLISHMENT (SEPT. 1985)</th><th>CHANGES (SEPT. 1985 ~ PRESENT)</th></tr>
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<table>
<tr><th>FINANCIAL INSTITUTIONS</th><th>RISK-BASED PREMIUM RATES</th><th>FLAT PREMIUM RATE</th></tr>
<tr><td>Domestic banks, local branches of foreign banks and mainland Chinese banks</td><td>Five-tier rates: 0.05%, 0.06%, 0.08%, 0.11%, and 0.15%</td><td>0.005%</td></tr>
<tr><td>Credit cooperatives</td><td>Five-tier rates of 0.04%, 0.05%, 0.07%, 0.1%, and 0.14%</td><td>0.005%</td></tr>
<tr><td>Credit departments of farmers' and fishermen's associations</td><td>Five-tier rates of 0.02%, 0.03%, 0.04%, 0.05%, and 0.06%</td><td>0.0025%</td></tr>
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</td></tr>
<tr><td>Maximum Coverage</td><td>NT$700,000</td><td>
• Increased to NT$1 million on August 15, 1987.
• In July 2001, the government passed the Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund and established the Financial Restructuring Fund to dispose of unsound financial institutions. During the period of the Fund's operation, there was no maximum coverage on the deposits in unsound institutions under disposal or listed for disposal.
• Increased to NT$1.5 million on July 1, 2007.
• To stabilize the financial system and strengthen the confidence of depositors, the government announced in October 2008 that, until December 31, 2009, the deposits in insured institutions would be provided with temporary full coverage and would not be subject to the maximum coverage. In October 2009, the government announced that the period of temporary full deposit insurance coverage would be extended one more year until December 31, 2010.
• On August 12, 2010, the Financial Supervisory Commission, the Ministry of Finance and the Central Bank jointly announced that the maximum coverage would be increased to NT$3 million from January 1, 2011.
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	YEAR OF ESTABLISHMENT (SEPT. 1985)	CHANGES (SEPT. 1985 ~ PRESENT)
Scope of Coverage	Deposit principal and interest	• From January 1999, limited to deposit principal. • Limited to principal as above. However, beginning in July 2001, the principal and interest of deposits in unsound financial institutions disposed of by the Financial Restructuring Fund were both guaranteed. • In October 2008, the government announced that the coverage of deposits under the temporary full deposit insurance coverage would include both principal and interest until December 31, 2009. • On December 29, 2010, amendments to Articles 12 and 13 of the Deposit Insurance Act were promulgated by Presidential decree, whereby the scope of coverage was enlarged to include both foreign currency deposits and interest on deposits.
Types of Eligible Deposits	• Checking deposits • Demand deposits • Time deposits • Savings deposits • Trust funds • Other deposits that the competent authority has approved as eligible	• Same as the left column. (Beginning in July 2001, all deposits and non-deposit liabilities of insured institutions disposed of by the Financial Restructuring Fund were fully guaranteed. In June 2005, after a revision of the Financial Restructuring Fund Statute, the non-deposit liabilities of unsound financial institutions were not eligible for protection. However, those non-deposit liabilities that were incurred prior to the implementation of the revised Statute remained protected.) • Revised in January 2007: Deletion of "Trust funds". • Revised in May 2008 as follows: 1. Checking deposits 2. Demand deposits 3. Time deposits 4. Deposits required by law to be deposited in certain financial institutions 5. Other deposits that the competent authority has approved as eligible

<table>
<tr><th></th><th>YEAR OF ESTABLISHMENT (SEPT. 1985)</th><th>CHANGES (SEPT. 1985 ~ PRESENT)</th></tr>
<tr><td>Types of Eligible Deposits</td><td></td><td>
• In October 2008, the government announced that until December 31, 2009, the deposits in insured institutions would be provided with temporary full coverage. According to the Measures to Support the Full Deposit Insurance Coverage jointly promulgated by the Financial Supervisory Commission, the Ministry of Finance and the Central Bank on October 28, 2008, the scope of the temporary full deposit insurance coverage includes the following:
1. The principal and interest of deposits pursuant to Paragraphs 1 and 2 of Article 12 of the Deposit Insurance Act
2. Interbank call loans
3. The payments during the period in which the CDIC acts as a conservator that are necessary to keep an insured institution operating as well as the pensions, severance pay, and related taxes that shall be paid according to laws
4. Bank debentures issued on or before June 23, 2005
• In October 2009, the government announced that the period of temporary full deposit insurance coverage would be extended a further year until December 31, 2010.
• On December 29, 2010, amendments to Articles 12 and 13 of the Deposit Insurance Act were promulgated by Presidential decree, whereby the following deposits within the territory of the Republic of China would be the targets of deposit insurance:
1. Checking deposits
2. Demand deposits
3. Time deposits
4. Deposits required by law to be deposited in certain financial institutions
5. Other deposits that the competent authority has approved as eligible
The above deposits referred to as being within the territory of the Republic of China do not include the deposits accepted by offshore banking branches.
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</table>

	YEAR OF ESTABLISHMENT (SEPT. 1985)	CHANGES (SEPT. 1985 ~ PRESENT)
Fund Investment	• Deposits at the Central Bank • Investments in government bonds, bonds guaranteed by the government, or financial debentures	• The following revisions were effective in January 1999: 1. Deposits at the Central Bank 2. Deposits in financial institutions approved by the competent authority and which provide government bonds as collateral 3. Investments in government bonds and financial debentures • Revised in January 2007 as follows: 1. Deposits at the Central Bank 2. Investments in government bonds 3. Investment tools approved by the CDIC Board of Directors
Resolution Measures	• Direct payout • Deposit transfers • Temporarily continued operation in the name of the CDIC	• According to revisions enacted in January 1999, the provision of financial assistance to encourage acquisitions or assumptions by other insured institutions was added to the three measures listed to the left. • Revised in January 2007 as follows: 1. Deletion of temporarily continued operation in the name of the CDIC. 2. In addition to providing financial assistance to encourage acquisitions or assumptions of insured institutions that have been ordered to close by the FSC, such financial assistance can also be provided to insured institutions being put under conservatorship or taken over by the authorities according to law.
Advance Payment for Deposit in Excess of Maximum Coverage and Non-deposit Liabilities	None	According to revisions made in January 1999, advance payment is allowed to resolve the needs of creditors' liquidity at failed institutions, under the principle that no additional costs are incurred.

	YEAR OF ESTABLISHMENT (SEPT. 1985)	CHANGES (SEPT. 1985 ~ PRESENT)
Exemption from Open Tender, Price Comparison, Price Negotiation, and the Provisions of Articles 25~27 of the *Budget Act* When Disposing of Problem Financial Institutions	None	Added in January 1999
Recipient and Method of Financial Assistance	Limited to loans or the purchases of assets to enable problem financial institutions to resume operation, when such resumption is deemed necessary.	• The following revisions were effective in January 1999: 1. Insured institutions under guidance, superintendence, or conservatorship, may be extended loans or deposits. 2. Other insured institutions that acquire or assume insured institutions that are under guidance, superintendence, or conservatorship, or that have failed, may be assisted by the CDIC with provision of loans, deposits, funds or guarantees to their debts. • Revised in January 2007 as follows: 1. If an insured institution has a seriously deficient net worth, or there is concern that it seriously threatens the credit order and financial stability, and the competent authority has determined a need for the institution's liquidation or market withdrawal, personnel may be dispatched to assume conservatorship or take over the powers of the board of directors and supervisors of the institution prior to liquidation or market withdrawal. In such cases, the CDIC may provide loans, deposits or other financial assistance to the above mentioned insured institution. 2. Before providing financial assistance, the CDIC shall request the full amount of collateral from the financial holding company of the insured institution or from any other insured institution that has a dominant shareholding of the insured institution. 3. In cases where the competent authority has dispatched personnel to assume conservatorship or take over the powers of the board of directors and supervisors of an insured institution, the CDIC may encourage the acquisition or assumption of the institution by the other insured institutions or financial holding companies, by providing funds, arranging loans, deposits or guarantees, or purchasing the subordinated securities issued by the acquiring or assuming insured institutions or financial holding companies.

	YEAR OF ESTABLISHMENT (SEPT. 1985)	CHANGES (SEPT. 1985 ~ PRESENT)
Borrowing of Funds from Other Financial Institutions	None	Added in January 1999
Provision of Collateral when Applying to the Central Bank for Accommodation	Full collateral must be provided.	• Provisions added in January 1999 as follows: 1. That part for which the CDIC is unable to provide collateral is to be guaranteed by the National Treasury. 2. When the secured portion exceeds the CDIC's net worth, the competent authority and the Central Bank must apply to the Executive Yuan for approval. • Revised in January 2007 to: Through a joint request by the competent authority with the Ministry of Finance and the Central Bank and approval by the Executive Yuan, the part for which collateral cannot be provided may be guaranteed by the National Treasury.
Penalty for Refusal to Apply to Participate in Deposit Insurance	None	• Provision added in January 1999: A fine of double the amount of the deposit insurance premium for penalty is to be imposed. • Revised in January 2007 to: Depending on whether the institution is a general financial institution or agricultural financial institution, the CDIC shall report to the competent authority to order the financial institution to replace its persons in charge or to revoke its business license.
Method of Allocation of the CDIC's Surplus	As stipulated in the *Company Act*	• Beginning in July 2001, the entire amount of the surplus remaining after the accounts are closed is placed into the Deposit Insurance Payout Special Reserves. • Revised in January 2007 to: The entire amount of the surplus remaining from annual income after deducting costs, expenses and losses shall be deposited into the Deposit Insurance Payout Special Reserves.

	YEAR OF ESTABLISHMENT (SEPT. 1985)	CHANGES (SEPT. 1985 ~ PRESENT)
Depositor Preference	None	Added in May 2006: When an insured institution is disposed of by the CDIC with the stipulation of the *Deposit Insurance Act* by the competent authority or the central competent authority for agricultural finance for resolution or liquidation upon clearing the debt, its deposit liabilities shall take precedence over non-deposit liabilities.
Establishment of Two Separate Deposit Insurance Payout Special Reserves	None	Added in January 2007: • The reserves were divided into separate deposit insurance payout accounts for general financial institutions and agricultural financial institutions. • Both reserve funds have a target ratio of 2% of covered deposits.
Inspection of Insured Institutions	If the CDIC deemed it necessary, and after obtaining the prior approval of the competent authority in consultation with the Central Bank, the CDIC could examine the business records and accounts of an insured institution.	• Revised in January 2007 as follows: The CDIC may in accordance with Article 24 of the *Deposit Insurance Act* perform inspections on insured institutions on the following items: 1. Accuracy of deposit assessment base and the content of the electronic data files for the calculation of deposit insurance premiums and the amount of the payout. 2. Any event causing the termination of the deposit insurance agreement. 3. Assets and liabilities of insured institutions prior to the fulfillment of insurance responsibilities. 4. Property information and information needed to pursue civil liabilities for illegal acts or omissions by employees of failed insured institutions and for those of problem insured institutions that receive financial assistance. • Addition in January 2012: Pursuant to Subparagraph 1, Paragraph 1, Article 24 of the *Deposit Insurance Act* and Item 4, Point 3 of the Implementation Scheme of the Deposit Insurance Premium System approved by the Financial Supervisory Commission, in order to confirm the accuracy of the data and files related to the risk indicators reported by insured institutions, the CDIC shall conduct review inspections and evaluation inspections.

	YEAR OF ESTABLISHMENT (SEPT. 1985)	CHANGES (SEPT. 1985 ~ PRESENT)
Elimination of Limits on Payout Cost	None	Added in January 2007: When there is concern of a serious threat to credit order and financial stability, after the CDIC obtains the consent of the competent authority in consultation with the Ministry of Finance and the Central Bank and with the final approval of the Executive Yuan, the limit on payout cost may be eliminated.
Set-off	None	Added in January 2007: Before handling any payout, the CDIC may set-off the claims of a depositor against his/her liabilities in the failed insured institution.
Termination of Membership	If an insured institution violated the laws or regulations or the deposit insurance agreement or engaged in unsound business transactions, and failed to rectify such violations within the time limit prescribed by the CDIC, the CDIC shall terminate its status as an insured institution and report such action to the competent authority for disposal.	Revised in January 2007 to: The scope of reasons for termination of insured status is revised to also include the following: 1. An insured institution is ordered and required by the competent authority or the central competent authority for agricultural finance to be recapitalized or improve its financial or business condition, but fails to meet such requirements within the prescribed time-limit; or the time-limit is not due but the competent authorities or the CDIC deem the said insured institution's condition non-improvable. 2. There is a major fraud or other illegal activities occurring at an insured institution with the potential to increase the deposit insurance payouts. In the aforementioned situations, the CDIC shall, after notifying the competent authority or the central competent authority for agricultural finance, terminate the deposit insurance membership of the insured institution and make a public announcement.
Disclosure Requirement of Eligibility of Deposit Insurance in Financial Products	None	Added in January 2007

	YEAR OF ESTABLISHMENT (SEPT. 1985)	CHANGES (SEPT. 1985 ~ PRESENT)
Depositor Protections upon Termination of Membership	The CDIC shall continue to protect the deposits up to the maximum coverage for one year after the date of termination of membership.	Revised in January 2007 to: The CDIC shall continue to protect the depositor's deposits up to the maximum coverage for six months after the date of termination of membership.

Number of Insured Institutions

March 2015

TYPE OF INSTITUTION	NUMBER
Domestic Banks (Chunghwa Post Co.,Ltd.included)	40
Local Branches of Foreign Banks and Mainland Chinese Banks in Taiwan	29
Credit Cooperatives	23
Credit Departments of Farmers' Associations	278
Credit Departments of Fishermen's Associations	25
Total	395

Maximum Coverage, Covered Deposits and Deposit Insurance Payout Special Reserves for the Last Ten Years

Currency Unit: NT$ million

YEAR	MAXIMUM COVERAGE	INSURED INSTITUTIONS			DEPOSIT INSURANCE PAYOUT SPECIAL RESERVES (NOTE 4)	RATIO OF COVERED DEPOSITS TO TOTAL ELIGIBLE DEPOSITS (%)
		TYPE (NOTE 2)	NO. OF INSTITUTIONS	COVERED DEPOSITS (NOTE 3) (a)	(b)	(b)/(a)
2014	3	General	92	18,636,378	47,343	0.25
		Agricultural	303	1,299,574	3,690	0.28
2013	3	General	92	17,668,414	27,133	0.15
		Agricultural	303	1,263,214	3,368	0.27
2012	3	General	88	17,007,656	0	0
		Agricultural	303	1,230,068	3,054	0.25
2011	3	General	89	16,255,949	0	0
		Agricultural	303	1,194,099	2,744	0.23
2010	(Note1)	General	90		0	
		Agricultural	301		2,507	
2009	(Note1)	General	93	Blanket Guarantee	0	-
		Agricultural	290		2,395	(Note 5)
2008	(Note1)	General	94		0	
		Agricultural	290		2,293	
2007	1.5	General	98	10,472,346	0	0
		Agricultural	278	900,009	2,180	0.24
2006	1	All	383	9,686,080	15,125	0.16
2006	1	All	390	9,528,182	13,579	0.14

Notes: 1. The government announced in October 2008 that the deposits in all financial institutions participating in deposit insurance (include principal and interest as stipulated in Paragraph 1 and Paragraph 2 of Article 12 of the *Deposit Insurance Act*) would be provided with temporary full coverage without being limited to the maximum coverage until December 31, 2009. This was later extended by one year to December 31, 2010. The deposit insurance system was returned to the limited deposit insurance coverage on January 1, 2011.

2. The standard date for the annual figures in the table is December 31 of each year. The term "General Account" refers to general financial institutions including domestic banks, local branches of foreign banks and mainland Chinese banks in Taiwan, and credit cooperatives, whereas the term "Agricultural Account" refers to agricultural financial institutions including the Agricultural Bank of Taiwan, and the credit departments of farmers' and fishermen's associations.
3. The term "Covered Deposits" refers to the total deposit amount of each depositor under the maximum coverage in an insured institution.
4. In September 1999, the CDIC provided assistance in the amount of NT$1,284 million to help the Taiwan Bank to acquire the Donggang Township Credit Cooperative of Pingtung County, causing a reduction in insurance payout special reserves. Beginning in September 2007 the CDIC's Deposit Insurance Payout Special Reserves were used to share some of the compensation paid in relation to the disposition of failed financial institutions in line with the Mechanism for the Combined Utilization of the Financial Restructuring Fund and the Deposit Insurance Payout Special Reserves as approved by the Executive Yuan. Thus, from 2007 to 2012 the Deposit Insurance Payout Special Reserves for general financial institutions as well as the ratio of this Reserve to covered deposits was both 0.
5. From October 2008 to December 31, 2010 the government implemented temporary full deposit insurance coverage, and thus the ratio of the Deposit Insurance Payout Special Reserves to covered deposits had no relevant meaning, and was hence denoted by "-" in the table.

Chronology of Superintendence, Conservatorship and Receivership Operations

	INSTITUTION	PERIOD	BACKGROUND, RESPONSE MEASURES AND RESULTS
1	Second Credit Cooperative of Hsinchu City	1996.09.07~1997.01.06 Superintendence	• Non-performing loan ratio far exceeded averages of the whole Credit Cooperatives, financial situation deteriorating significantly. Moreover, all directors and supervisors, except two, refused to increase shares subscription as required. The Ministry of Finance deemed that it failed to operate normally and appointed the CDIC to station on-site superintendence. • Assumed by the Macoto Bank on January 5, 1997
2	Fifth Credit Cooperative of Kaohsiung City	1997.06.12 ~1997.09.30 Superintendence	• According to the media, its net worth had turned negative attracting concern from the Ministry of Finance. Abnormal withdrawals by depositors were triggered on June 11, 1997. The Ministry of Finance appointed the CDIC to station on-site superintendence. • Assumed by the Pan Qiao Credit Cooperative (restructured and renamed Bank of Panhsin) on September 30, 1997
3	Tenth Credit Cooperative of Kaohsiung City	1997.06.12 ~1997.10.15 Superintendence	• According to the media, its net worth had turned negative attracting concern from the Ministry of Finance. Abnormal withdrawals by depositors were triggered on June 11, 1997. The Ministry of Finance appointed the CDIC to station on-site superintendence. • Signed Purchase and Assumption contract with the Pan Asia Bank (restructured and renamed the Bowa Bank) on August 23, 1997
4	Taichung Commercial Bank	1998.11.25 ~1999.05.24 Superintendence	• 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. The Ministry of Finance appointed the CDIC to station on-site superintendence after determining that its board of directors had serious problems of mal-function.

	INSTITUTION	PERIOD	BACKGROUND, RESPONSE MEASURES AND RESULTS
			• The Ministry of Finance terminated the CDIC's superintendence task after the bank's new members of board of directors and supervisors were elected successfully.
5	Donggang Township Credit Cooperative of Pingtung County	1999.07.06~1999.09.15 Superintendence 1999.09.15~1999.09.16 Conservatorship	• The CDIC conducted general examination of the institution and found out falsified daily entries and forged statements. In addition, adjusted net worth was negative. The Ministry of Finance appointed the CDIC to station on-site superintendence and later for conservatorship. • Assumed by the Bank of Taiwan on September 16, 1999.
6	Chung Hsing Bank	2000.04.28~2001.10.24 Superintendence 2001.10.25~2005.03.19 Conservatorship (2002.10.05~2003.08.03 Conservatorship by the Land Bank, 2003.08.04 Conservatorship by the CDIC again and entrusted the Land Bank to manage its businesses and property) 2012.07.10 Liquidation	• According to the media, illegal loan was made to Typhone Group. Abnormal withdrawals by depositors occurred on April 27, 2000. The Ministry of Finance appointed the CDIC to station on-site superintendence and later for conservatorship to stabilize its business operation and maintain the financial order. • Assumed by the Union Bank of Taiwan on March 19, 2005 • The FSC instructed that conservatorship be terminated from midnight on July 10, 2012, and that the receivership be simultaneously started. The CDIC was designated as receiver to handle follow-up receivership affairs according to law.
7	Taiwan Development and Trust Corporation (TDTC)	2000.05.12~2001.05.13 Superintendence	• Bank run occurred in May 2000. The Ministry of Finance appointed the CDIC to station on-site superintendence and to assume authorities of the board members. • In February 2001 The Ministry of Finance released the CDIC the superintendence task, after the TDTC reconstructed its board of directors.

	INSTITUTION	PERIOD	BACKGROUND, RESPONSE MEASURES AND RESULTS
8	First batch of problem financial institutions handled by the Financial Restructuring Fund of the Executive Yuan, including 29 farmers' and fishermen's associations and 7 credit cooperatives	2001.08.31 Conservatorship the credit department of Song Shan Farmers' Association of Taipei City 2001.09.14 Conservatorship the credit departments of the 28 farmers' and fishermen's associations 2001.09.14 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. The Ministry of Finance appointed the CDIC to assume authority of office or station on-site conservatorship. • Assumed by 10 state-owned and private banks.
9	Kaohsiung Business Bank	2002.1.28~2012.07.09 Conservatorship 2012.07.10~President Receivership	• Asset quality continued to deteriorate and failed to increase capital by cash injection. The Ministry of Finance appointed the CDIC to station on-site conservatorship. • Assumed by the E.Sun Bank on September 4, 2004. • The FSC instructed that conservatorship be terminated from midnight on July 10, 2012, and that the receivership be simultaneously started. The CDIC was designated as receiver to handle follow-up receivership affairs according to law.
10	Fifth Credit Cooperative of Tainan City	2002.05.17~2002.08.24 Conservatorship	• Adjusted net worth turned negative after financial examination; included by the Financial Restructuring Fund for disposition. The Ministry of Finance appointed the CDIC to station on-site conservatorship. • Assumed by the Sunny Bank on August 24, 2002.

	INSTITUTION	PERIOD	BACKGROUND, RESPONSE MEASURES AND RESULTS
11	Second batch of problem financial institutions handled by the Financial Restructuring Fund of the Executive Yuan including 7 Credit Department of farmers' associations	2002.07.12 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. The Ministry of Finance appointed the CDIC to station on-site conservatorship and to assume authority of office. • Assumed by the Taiwan Cooperative Bank and the Land Bank of Taiwan on July 27, 2002.
12	Fongshan Credit Cooperative of Kaohsiung County	2004.04.02~2004.10.01 Conservatorship	• Both business and financial status were deteriorating fast and risked defaulting; included by the Financial Restructuring Fund for disposition. The Ministry of Finance appointed the CDIC to station on-site conservatorship. • Assumed by the Chinatrust Commercial Bank on October 1, 2004.
13	Taitung Business Bank	2006.12. 05~2012.07.09 Conservatorship 2012. 07. 10~Present Receivership	• The bank's asset quality rapidly deteriorated, with years of losses culminating in a negative net worth from September 2005. The FSC designate the CDIC to carry out on-site conservatorship. • The bank was generally assumed by the ABN AMRO Bank on September 22, 2007. • The FSC instructed that conservatorship be terminated from midnight on July 10, 2012, and that the receivership be simultaneously started. The CDIC was designated as receiver to handle follow-up receivership affairs according to law.

	INSTITUTION	PERIOD	BACKGROUND, RESPONSE MEASURES AND RESULTS
14	Enterprise Bank of Hualien	2007.01.05~2012.07.09 Conservatorship 2012.07.10~Present Receivership	• The bank's operational and financial condition continued to markedly deteriorate, resulting in a negative net worth and continuous monthly losses from 2005. The FSC designated the CDIC to carry out on-site conservatorship. • The bank was generally assumed by the Chinatrust Commercial on September 8, 2007. • The FSC instructed that conservatorship be terminated from midnight on July 10, 2012, and that the receivership be simultaneously started. The CDIC was designated as receiver to handle follow-up receivership affairs according to law.
15	Chinese Bank	2007.01.06~2014.02.27 Conservatorship 2014.02.28~Present Receivership	• The bank experienced major fraud following a management change at the start of 2007. This led to a serious bank run and turned the bank's net worth negative. Due to concerns over the bank's inability to pay its debt and the danger of jeopardizing the rights and interests of depositors, the FSC designated the CDIC to carry out on-site conservatorship. • The bank was generally assumed by the Hongkong and Shanghai Banking Corp. on March 29, 2008. • The FSC instructed that conservatorship be terminated from midnight on February 28, 2014, and that the receivership be simultaneously started. The CDIC was designated as receiver to handle follow-up receivership affairs according to law.
16	China United Trust and Investment Corp.	2007.05.30~Present Conservatorship	• The company had a negative net worth and unsuccessfully tried to save itself through a capital increase. The FSC designated the CDIC to carry out on-site conservatorship. • The bank was generally assumed by the Cathay United Bank on Dec. 29, 2007.

	INSTITUTION	PERIOD	BACKGROUND, RESPONSE MEASURES AND RESULTS
17	Bowa Commercial Bank	2007.08.10~2012.07.09 Conservatorship 2012.07.10~Present Receivership 2014.11.20 Cancellation of operating license	• The bank had large unamortized losses due to poor asset quality and several NPL sales, resulting in a negative net worth. The FSC therefore designated the CDIC to carry out on-site conservatorship. • The bank was generally assumed by Development Bank of Singapore on May 24, 2008. • The FSC instructed that conservatorship be terminated from midnight on July 10, 2012, and that the receivership be simultaneously started. The FSC revoked the bank's operating license on November 20, 2014, following receivership.
18	Asia Trust and Investment Corp.	2008.01.31~2013.09.05 Conservatorship 2013.09.06 Dissolution and liquidation	• The company was unable to fund a capital increase and restructuring and showed a negative net book worth through December 2007. The FSC therefore designated the CDIC to carry out on-site conservatorship. • The company was generally assumed by Standard Chartered Bank on December 27, 2008. • The FSC instructed that conservatorship be terminated from midnight on September 6, 2013, and that the dissolution and liquidation be simultaneously started, with the Cosmos Bank as liquidator.
19	Chinfon Commercial Bank	2008.09.26~ Present Conservatorship	• The bank showed a negative net work on its books due to deteriorating financial and business conditions. After the failure of a capital increase self-help plan, the FSC designated the CDIC to carry out on-site conservatorship. • The Good Bank domestic branches Lots A (18 branches) and B (19 branches), credit card business, and Vietnam branches were acquired by auction, respectively, by the Yuanta Commercial Bank, the Far Eastern International Bank, the Taishin International Bank and the Taipei Fubon Commercial Bank. The general assignment of the Vietnam branches and credit card business was completed on March 6, 2010, while the general assignment of the domestic branch lots A and B was completed on April 3, 2010.

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

As at Mar. 31, 2015/ Unit: NT$ million

ACQUIRED FINANCIAL INSTITUTION	CONSERVAT-ORSHIP DATE	ACQUISITION DATE	ACQUIRING BANK	PAYOFF AMOUNT (NOTE 1)
Credit Department of Taiwan Provincial Farmers' Association	2001.09.14	2001.09.15	Bank of Taiwan	5,357
Credit Department of Sinyuan Township Farmers' Association of Pingtung County	2001.09.14	2001.09.15		2,195
Credit Department of Pingtung County Farmers' Association	2001.09.14	2001.09.15		1,973
Credit Department of Fongyuan City Farmers' Association of Taichung County Credit	2001.09.14	2001.09.15	Land Bank of Taiwan	2,998
Credit Department of Gaoshu Township Farmers' Association of Pingtung County	2001.09.14	2001.09.15		552
Credit Department of Fangliao District Farmers' Association of Pingtung County	2001.09.14	2001.09.15		2,063
Department of Kinmen County Farmers' Association	2001.09.14	2001.09.15		260
Credit Department of Fusing Township Farmers' Association of Changhua County	2002.07.12	2002.07.27		1,573
Credit Department of Nanhua Township Farmers' Association of Tainan County	2002.07.12	2002.07.27		478
Credit Department of Dashu Township Farmers' Association of Kaohsiung County	2002.07.12	2002.07.27		923
Credit Department of Chaojhou Township Farmers' Association of Pingtung County	2002.07.12	2002.07.27		2,023

ACQUIRED FINANCIAL INSTITUTION	CONSERVATORSHIP DATE	ACQUISITION DATE	ACQUIRING BANK	PAYOFF AMOUNT (NOTE 1)
Credit Department of Zihguan District Fishermen's Association of Kaohsiung County Credit	2001.09.14	2001.09.15	First Commercial Bank	560
Department of Cigu Township Farmers' Association of Tainan County	2001.09.14	2001.09.15		834
Credit Department of Nansi Township Farmers' Association of Tainan County	2001.09.14	2001.09.15		148
Credit Department of Changjhih Township Farmers' Association of Pingtung County	2001.09.14	2001.09.15		752
Credit Department of Wanluan District Farmers' Association of Pingtung County	2001.09.14	2001.09.15		670
Credit Department of Guanyin Township Farmers' Association of Taoyuan County	2001.09.14	2001.09.15	Hua Nan Commercial Bank	1,297
Credit Department of Sinfong Township Farmers' Association of Hsinchu County	2001.09.14	2001.09.15		670
Credit Department of Siaogang District Farmers' Association of Kaohsiung City	2001.09.14	2001.09.15		4,272
Credit Department of Jhutian Township Farmers' Association of Pingtung County Credit	2001.09.14	2001.09.15		287
Department of Jiadong Township Farmers' Association of Pingtung County	2001.09.14	2001.09.15		961

ACQUIRED FINANCIAL INSTITUTION	CONSERVAT-ORSHIP DATE	ACQUISITION DATE	ACQUIRING BANK	PAYOFF AMOUNT (NOTE 1)
Credit Department of Fenyuan Township Farmers' Association of Changhua County	2001.09.14	2001.09.15	Chang Hwa Commercial Bank	1,091
Credit Department of Puyan Township Farmers' Association of Changhua County	2001.09.14	2001.09.15		813
Credit Department of Fangyuan Township Farmers' Association of Changhua County	2001.09.14	2001.09.15		963
Credit Department of Linbian Township Farmers' Association of Pingtung County	2001.09.14	2001.09.15		1,579
Credit Department of Checheng District Farmers' Association of Pingtung County	2001.09.14	2001.09.15		428
Credit Department of Fangliao District Fishermen's Association of Pingtung County	2001.09.14	2001.09.15	Farmers Bank of China	461
Credit Department of Liouguei Township Farmers' Association of Kaohsiung County	2001.09.14	2001.09.15		416
Credit Department of Neimen Township Farmers' Association of Kaohsiung County	2001.09.14	2001.09.15		532
Credit Department of Niaosong Township Farmers' Association of Kaohsiung County	2001.09.14	2001.09.15		1,153
Credit Department of Wandan Township Farmers' Association of Pingtung County	2001.09.14	2001.09.15		1,474

ACQUIRED FINANCIAL INSTITUTION	CONSERVAT-ORSHIP DATE	ACQUISITION DATE	ACQUIRING BANK	PAYOFF AMOUNT (NOTE 1)
Credit Department of Song Shan District Farmers' Association of Taipei City	2001.08.31	2001.09.01	Cathay United Bank	2,308
Credit Department of Pingtung City Farmers' Association of Pingtung County	2001.09.14	2001.09.15		2,668
First Credit Cooperative Association of Taichung City	2001.09.14	2001.09.15	Taiwan Cooperative Bank	9,072
Fifth Credit Cooperative Association of Taichung City	2001.09.14	2001.09.15		6,756
Ninth Credit Cooperative Association of Taichung City	2001.09.14	2001.09.15		6,660
Eleventh Credit Cooperative Association of Taichung City	2001.09.14	2001.09.15		8,256
Credit Department of Shengang Township Farmers' Association of Taichung County	2002.07.12	2002.07.27		2,008
Credit Department of Changhua City Farmers' Association of Changhua County	2002.07.12	2002.07.27		1,730
Credit Department of Linnei Township Farmers' Association of Yunlin County	2002.07.12	2002.07.27		908
Credit Department of Sinpi Township Farmers' Association of Pingtung County	2004.12.17	2005.03.11	Nanjhou Farmers' Association of Pingtung County	98

ACQUIRED FINANCIAL INSTITUTION	CONSERVAT-ORSHIP DATE	ACQUISITION DATE	ACQUIRING BANK	PAYOFF AMOUNT (NOTE 1)
Dapu Township Farmers' Association of Chiayi County	2006.10.20	2007.03.08	Jhuci Township Farmers' Association of Chiayi County	95
Yuanlin Township Credit Cooperative of Changhua County	2001.09.14	2001.09.15	Sunny Bank	1,949
Second Credit Cooperative4 of Pingtung City	2001.09.14	2001.09.15		4,748
Fifth Credit Cooperative Association of Tainan City	2002.05.17	2002.08.24		3,171
Gangshan Township Credit Cooperative of Kaohsiung County	2001.09.14	2001.09.15	Macoto Bank	1,025
Fongshan Township Credit Cooperative Association of Kaohsiung County	2004.04.02	2004.10.01	Chinatrust Commercial Bank	1,649
Total of 47 Community Financial Institutions				92,857

ACQUIRED FINANCIAL INSTITUTION	CONSERVAT-ORSHIP DATE	ACQUISITION DATE	ACQUIRING BANK	PAYOFF AMOUNT (NOTE 1)
Chung Hsing Bank	2001.10.25	2005.03.19	Union Bank of Taiwan	58,530
Kaohsiung Business Bank	2002.01.28	2004.09.04	E.Sun Bank	13,812
Taitung Business Bank	2006.12.15	2007.09.22	ABN AMRO Bank	5,586
Enterprise Bank of Hualien	2007.01.05	2007.09.08	Chinatrust Commercial Bank	4,902
The Chinese Bank	2007.01.06	2008.03.29	Hong Kong and Shanghai Banking Corporation	47,388
China United Trust and Investment Corporation	2007.03.30	2007.12.29	Cathay United Bank	3,267
The Bowa Commercial Bank	2007.08.10	2008.05.24	Development Bank of Singapore	42,124
Asia Trust and Investment Corporation	2008.01.31	2008.12.27	Standard Chartered Bank	0 (Note 2)

ACQUIRED FINANCIAL INSTITUTION	CONSERVATORSHIP DATE	ACQUISITION DATE	ACQUIRING BANK	PAYOFF AMOUNT (NOTE 1)
Chinfon Commercial Bank	2008.09.26	The Good Bank domestic branches Lots A (18 branches) and B (19 branches), credit card business, and Vietnam branches were acquired by auction, respectively, by the Yuanta Commercial Bank, the Far Eastern International Bank, the Taishin International Bank and the Taipei Fubon Commercial Bank. The general assumption of the Vietnam branches and credit card business was completed on March 6, 2010, while the general assumption of the domestic branch lots A and B was completed on April 3, 2010.		18,552
Total of 9 Banks and Trust and Investment Corporations				194,161
Total of 56 Failed Financial Institutions				287,018

Notes:

1. Payout amount includes the amount adjusted after the assignment date.
2. The winning bid for the Good Bank Tranche of the Asia Trust and Investment Corporation was NT$3.348 billion, the recovery amount of NPL and the sale of real estate for the Asia Trust and Investment Corporation was NT$3.737 billion. No compensation was paid by the Financial Restructuring Fund.

CDIC 30th Anniversary Ceremony


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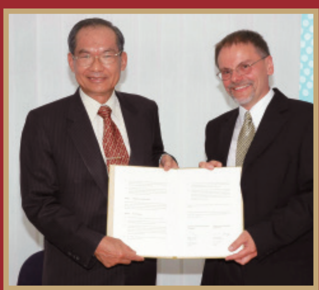
MOU Signing Ceremony



MOU Signing Ceremony

Business Activities

Public Awareness Activities

Public Awareness Activities

Public Awareness Publications

Public Awareness Publications

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