

Support Measures for the Blank Deposit Guarantee Program

A. Forward

In light of the current instability in the international financial markets, governments around the world are expanding the insurance coverage for banks deposits to blanket guarantee. The U. S. and the British governments took extra steps announcing on October 13 and 14 respectively the guarantee for non-deposit debts (including interbank loans), mainly because the trust between banks suddenly evaporates under the current market sentiment. If there is no guarantee provided for interbank loans, lending between banks will cease, which would adversely affect the operations of the financial markets. Based on the same consideration, for the sake of stabilizing our financial system, bolstering the confidence of depositors and safeguarding the financial condition of financial institutions, and working for healthy, sustainable development of the financial market, the government announced on the 7th this month that the deposits of depositors (natural and juridical persons) at financial institutions (banks and community financial institutions) will be fully insured. In a move to stabilize the financial market, the guarantee operation also extends to foreign currency deposits, interbank deposits and interbank loans previously excluded from the deposit insurance. At the same time, the government will step up the financial supervision of related businesses.

B. Legal Basis

Paragraph 1 of Article 29 of Deposit Insurance Act applicable pursuant to Subparagraph 3 of Paragraph 1 and Paragraph 2 of Article 28, Paragraph 3 of Article 28 of the same Act and approval of the Executive Yuan.

C. Strengthening the Functions of Financial Supervision

1. In conjunction with the blanket guarantee program, the Financial Supervisory Commission (FSC) will step up financial supervision by implementing the following measures:

(1) Urging financial institutions to pay close attention to asset-liability management and improve their disclosure of financial and business information. (2) Strengthening the corporate governance, internal control and internal audit systems of financial institutions, and review the principles of good corporate governance practices to add the guidelines for the reasonableness and disclosure of the remunerations of the directors, supervisors and managers of financial institutions.

(3) Strengthening capital adequacy regulation and financial soundness and pushing for financial industry consolidation.

(4) Collaborating with the Central Bank to watch closely the presence of irregular interbank loan transactions so as to minimize moral risk.

2. During the period of blank deposit guarantee, the FSC will impose strict disciplinary actions according to Banking Act and relevant regulations if a financial institution is found violating laws and regulations or if its capital adequacy ratio falls below 8%. If a financial institution is found deficient in corporate governance or internal controls, or required to replenish its capital or take other remedial actions, the FSC will ask such financial institution to take remedial actions within a specified period of time, and impose pertinent disciplinary action according to Banking Act and relevant regulations, such as replacing its responsible person,

restricting its business and other actions.

D. Scope of application: Institutions participating in the deposit insurance.

E. Scope of guarantee

1. Deposits, including principal and interest provided in Paragraph 1 and Paragraph 2, Article 12 of Deposit Insurance Act.

2. Interbank loans.

3. Expenses necessary for the operation of an insured institution, and retirement benefits, severance pays and related taxes due according to law during its receivership by the Central Deposit Insurance Corporation (CDIC).

4. Bank debentures issued on or before June 23, 2005.

F. Implementation period: Up to December 31, 2009.

G. Charges of special premiums:

1. Scope of application: Interbank loans.

2. Baseline: The baseline is 120% of average outstanding amount borrowed from other banks between April 1, 2008 and September 30, 2008. Where the baseline is below NT\$500,000,000, it shall be treated as NT\$500,000,000.

3. Premium schedule:

(1) For amount at or below the baseline, the premium will be charged at the basic premium rate. For amount exceeding the baseline, the premium will be charged at the excess premium rate.

(2) Premium rate:

Basic premium rate	Excess premium rate
Differential rates in five grades (0.01%, 0.03%, 0.05%, 0.07% and 0.09%). (See Attachment for details)	Differential rates in five grades (0.25%, 0.375%, 0.5%, 0.625% and 0.75%). (See attached table for detail)

(3) During the period of implementation, if an insured institution is disciplined by the competent authority for violation of law, or is notified by the competent authority to take remedial actions within a specified period of time for a situation as provided in the second paragraph of Point C herein, the CDIC may, in view of the severity of the situation, charge additionally a punitive premium rate ranging from 0.05% ~ 3% until the insured institution has taken remedial action as ordered by the competent authority.

4. Charge method

Starting November 1, 2008, the special premium will be charged by the month based on the daily outstanding amount borrowed by the insured institution from other banks.

1. Basic premium rate

Composite examination score	≥ 65.0	50.0 (inclusive) - 65.0	< 50.0
	Capital adequacy ratio		
$\geq 12.0\%$ or 1.5 times or more of minimum capital adequacy ratio	Grade 1 - 0.01%	Grade 2 - 0.03%	Grade 3 - 0.05%
8.0% (inclusive) ~ 12.0% or at or above minimum capital adequacy ratio but less than 1.5 times of minimum capital adequacy ratio	Grade 2 - 0.03%	Grade 3 - 0.05%	Grade 4 - 0.07%
$< 8.0\%$ or below minimum capital adequacy ratio	Grade 3 - 0.05%	Grade 4 - 0.07%	Grade 5 - 0.09%

Notes: 1. The composite examination score is the composite score given in the examination report on a financial institution under the National Financial Institutions' Early Warning System.

2. Capital adequacy ratio is defined as the ratio of equity capital to risky assets for banks and credit cooperatives, and as the ratio of equity capital of the foreign bank to its risky assets for the branch of a foreign bank in Taiwan.

3. The determination of premium rate benchmark is the same as that under the current deposit insurance premium rate program.

2. Excess premium rate

Composite examination score	≥ 65.0	50.0 (inclusive) - 65.0	< 50.0
Capital adequacy ratio			
$\geq 12.0\%$ or 1.5 times or more of minimum capital adequacy ratio	Grade 1 - 0.25%	Grade 2 - 0.375%	Grade 3 - 0.5%
8.0% (inclusive) ~ 12.0% or at or above minimum capital adequacy ratio but less than 1.5 times of minimum capital adequacy ratio	Grade 2 - 0.375%	Grade 3 - 0.5%	Grade 4 - 0.625%
$< 8.0\%$ or below minimum capital adequacy ratio	Grade 3 - 0.50%	Grade 4 - 0.625%	Grade 5 - 0.75%

Notes: 1. The composite examination score is the composite score given in the examination report on a financial institution under the National Financial Institutions' Early Warning System.

2. Capital adequacy ratio is defined as the ratio of equity capital to risky assets for banks and credit cooperatives, and as the ratio of equity capital of the foreign bank to its risky assets for the branch of a foreign bank in Taiwan.

3. The determination of premium rate benchmark is the same as that under the current deposit insurance premium rate program.