


Bank Resolution - The Taiwan Experience

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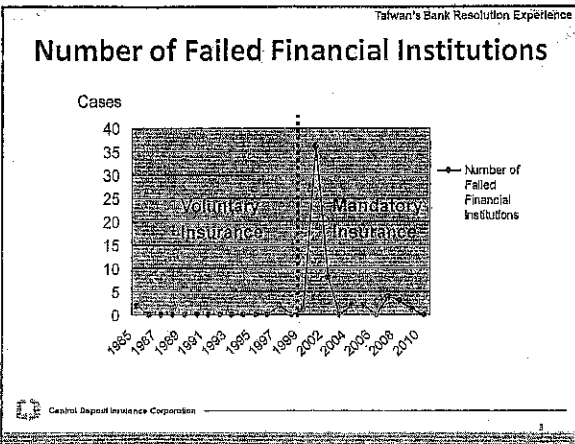
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- Future perspectives in bank failure resolution mechanism



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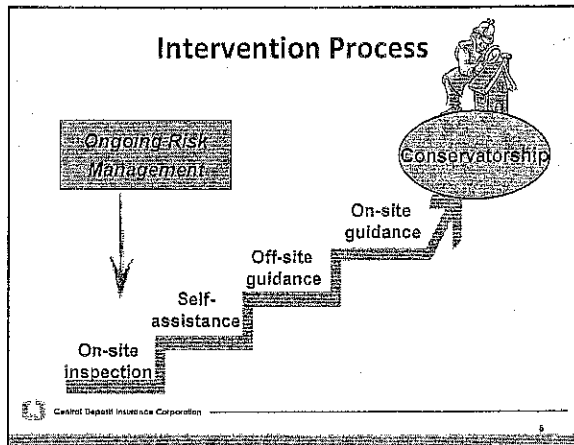
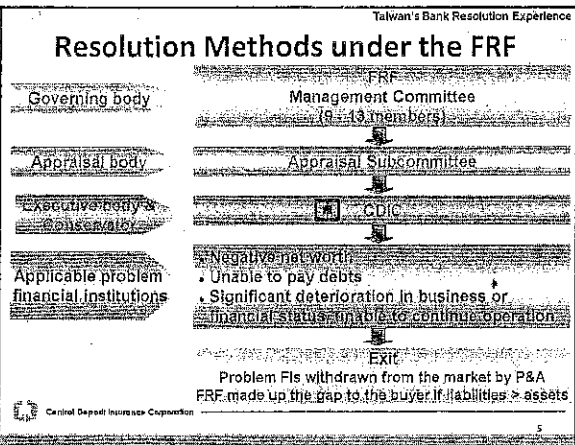
Background on the Establishment of the Financial Restructuring Fund

- Recession of real estate market in the 1990's
- Economy recession worsened by the 1997 Asian Financial Crisis
- Shocks of earthquake in 1999
- Growing NPLs
- Rampant reporting by foreign mass media that Taiwan has a systemic financial crisis

July 2001

Taiwan government injected US\$ 7.6 billion to provide blanket guarantee for bank resolution

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On-site Inspection

- Accuracy of deposit assessment base and content of electronic data files
- Any event causing termination of deposit insurance contract
- Assets and liabilities of insured institutions before bank closure
- Properties of employees of failed insured institutions, who violate the laws, to pursue civil liabilities

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Self-assistance & Off-site Guidance Mechanisms

- Self-assistance by problem financial institutions
 - Recapitalization or self-improvement plan
- Off-site guidance by CDIC
 - Ask financial institution to provide related data
 - Attend board of director meetings and other important meetings
 - Review meeting resolutions and minutes
 - Assist in completion of capital reduction, recapitalization or consolidation plans

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On-site Guidance

- CDIC dispatches officers to provide on-site guidance to closely monitor:
 - Business operations
 - Corporate governance
 - Internal controls
 - Problem institution's capital restructuring
- Intervention as early as possible

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Early Banking Resolution - Conservatorship

Banking Act
enacted in Dec 2008
P&A mechanism

Standard of makes minimal capital adequacy ratio

BIS ratio = 10%
If a bank to be put under conservatorship within 30 days

Banking Act
Bank should also be taken over

In case a bank is unable to pay its liabilities and could jeopardize depositors' interests or has losses exceeding 10% of capital and bank cannot make improvement within the stipulated timeframe

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Bank Resolution - Conservatorship

Conservatorship

The powers of the bank's shareholders meeting and board of directors will be suspended.

The conservator will handle the operations and management of the bank, has the right to dispose the bank's assets, liabilities and business.

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Resolution methods


	Payout	Deposit transfer	P&A	Bridge bank (systemic crisis)	Open bank assistance (systemic crisis)
Friday: Bank closure	Entrusted bank makes payout on behalf of CDIC	Recruit financial consultants to draw disposition strategies		Non-transfer of assets and liabilities	Conditions: • Problem bank is critically under-capitalized and put under conservatorship • Bank failure will trigger a systemic crisis • Competent authorities deem it non-viable and shall be closed
Sunday: Print & mail letter notices to depositors, including payout amount		Submit the strategies to FSC and get approval		Transfer of domestic businesses, good assets and some necessary liabilities	
		Open bid announcement		Receivership	
		Due diligence by potential investors		CDIC Bridge bank	
		Decide reserve price		P&A	
Monday: Depositors receive notices and can receive payout payment soon		Open bid		Sign P&A contract with the winner	Loans Others
		Settlement		CDIC continues to deal with unsettled items	Deposits

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Purchase and Assumption (P&A)

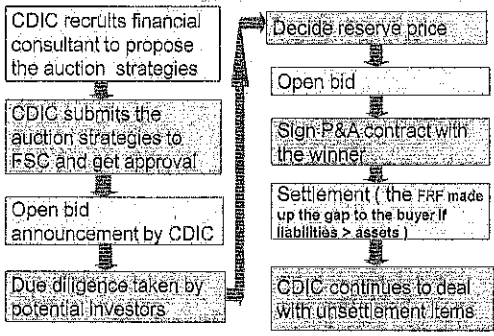
P & A is a resolution transaction in which a healthy institution purchases some or all of assets and assumes some or all of the obligations of a failed or failing financial institution.



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Bank Resolution – P&A Process



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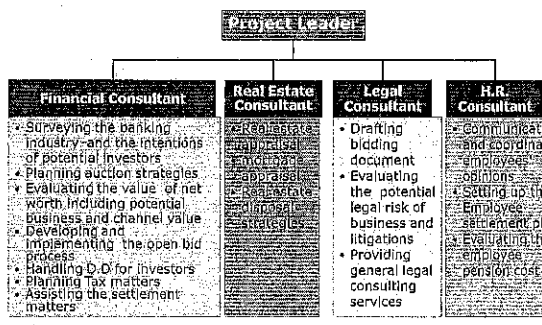
P&A Transaction

Year	Banks	Credit Coops	Public departments of farmers & fishermen's associations	Methods
1999				Whole bank P&A
2000				Whole bank P&A
2002				Whole bank P&A
2004				Whole bank P&A and partial P&A
2005				Whole bank P&A and partial P&A
2007				Whole bank P&A and partial P&A
2008				Partial P&A and P&A with put back option
2010				Partial P&A
Subtotal	9	10	38	
Total			57	

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The role of the FC



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Auction Strategies for Failed Banks (I)

Objective: To maximize the recovery value and chance of successful bid, through providing administrative incentives to entice potential buyers* and the well-designed package of the assets, liabilities and operations.

STEP 1

Understand the portfolio of the assets & liabilities

STEP 2

Identify and separate retained assets & assets to be sold

STEP 3

Categorize the assets to be sold into Good Bank (P&A) and Bad Bank**

STEP 4

Bad Bank classify, combine & package different NPLs

**administrative incentives* include relocating branches and upgrading mini-branches to full function branches without any restrictions.

** Good Bank* includes assets and liabilities, but exclude NPLs and retained items.

** Bad Bank* consists of NPLs and certain real estate.

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P&A Transaction – Case Study

• CH Bank :

Investor concerning about the qualities of performing loans caused the bidding failed at first

Adjusting the bidding strategy and incorporating a "loss sharing put back option" in a bid

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P&A Transaction – Case Study

A Trust & Investment Company

Possessing valuable Headquarter & commercial real estates

Separating valuable real estates from the Good Bank

Good bank & Headquarter building sold at a high price

Resulting in no loss to FRF & CDIC

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Buyers Qualification: Good Bank

- **Types of buyers**
 - Domestic & foreign Banks
 - Domestic & foreign financial holding companies without banks
 - Other legal entities under *Company Law* with certain financial strength and with capacity of running a bank
- **Financial strength**
 - **Total asset value** should reach NT\$150 billion (US\$4.9 billion)
 - **Net book value**
 - Banks should exceed NT\$10 billion (US\$327 million)
 - Financial holding companies should exceed NT\$20 billion (US\$654 million)
 - **BIS ratio** should maintain at 8% or above

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Buyers Qualification: Bad Bank

- **Types of buyers**
 - Domestic or foreign asset management companies
(Article 15 of the Financial Institutions Merger Act)
 - No any illegal records
 - CDIC reserves the rights to reject any buyers to participate in open bid

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Key to Facilitate P&A


- A well-designed auction strategy with flexibility and adaptability to market needs is the key factor of a successful bid.
- The auction process must with transparency, fairness, and opens to all investors.
- A sound economic and financial conditions would greatly increase the success rate of P&A transactions.

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Key Challenges - Retained Assets


Hillside land




Hotel



Taipei 101



Chinese antiques



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Future Perspective

Insurer's Obligation

Payout

CDIC makes payout to depositors by itself

Deposit transfer

The other bank entrusted to make payout on behalf of CDIC

P&A

CDIC provides financial assistance to promote the healthy bank to enter into a P&A transaction with a failed bank

systemic crisis

1. Exemption from the payout-cost restriction under limited coverage
2. Set up a bridge bank
3. Provide financial assistance to a failing bank that has been put under the conservatorship.

When adopting P&A as Deposit Transfer, the limited loss shall be less than the payout method

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Future Perspectives

- To enhance the inspection of the accuracy of electronic data files in deposits and related items installed by insured financial institution.
- To strengthen the functions of payout computer system
- To revise the resolution process related laws, include:
 - CDIC can arrange in advance and complete the P&A transactions at the time it is closed.

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The end.

Thank You!

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