

Glossary

■ *Data Sources*

In order to publish this report on time, all data are collected based on unaudited figures submitted by each domestic bank's headquarter, including the domestic banking units, offshore banking units and overseas branches. However, the information disclosed on the banks' website was audited by the banks or Certified Public Accountant (CPA).

■ *Computation Methodology*

The dollar amounts displayed for all income and expense items in the report are shown for the year-to-date period. The income and expense and related data used in ratios are annualized for interim reporting period. However, the year-end report represents a full fiscal year, the data do not have to be annualized. Thus the income and expense items are multiplied by the factors listed below before dividing it by the corresponding assets or liabilities.

March -----	4.0
June-----	2.0
September -----	1.3

The peer-group average is a winsorized mean based on an average of banks within the 25th and 75th percentile values for a given ratio. The values below first quartile (Q1) are substituted by Q1. The values above third quartile (Q3) are substituted by Q3.

■ *Definitions*

● *Total Risk-based Capital / Risk-weighted Assets*

Qualifying capital

Credit-risk-weighted assets + Market-risk-equivalent assets

● *Qualifying capital*

Qualifying capital = tier 1 capital + tier 2 capital + tier 3 capital - deduction items

A. *Tier 1 capital, including:*

1. Common stockholder's equity
2. Noncumulative perpetual preferred stock
3. Capital reserves (except the appreciation reserves of fixed assets)
4. Retained earnings (deducting the insufficiency of operation reserves and loan loss provisions)
5. Minority interest
6. Cumulative effect of equity adjustments
7. Less: goodwill and treasury stock

B. *Tier 2 capital, including:*

1. Perpetual preferred stock
 2. Appreciation reserves of fixed assets
 3. 45% of unrealized holding gains of long-term equity investments
 4. Operation reserves
 5. Convertible debt securities
 6. Allowance for loan and lease losses (except the reserves created against identified losses)
 7. Long-term subordinated debt and long-term non-perpetual preferred stock
- C. Tier 3 capitals include short-term subordinated debt and short-term non-perpetual preferred stock. The two items should be unsecured; be fully paid up; have an original maturity of at least two years; be not redeemable before the arranged date; include a lock-in clause precluding payment of either interest or principal if the payment would cause the issuing organization's risk-based capital ratio to fall below the minimum requirement.

D. *Deduction items*

1. Booking value of investments in other banks that are not consolidated for accounting purpose and held more than one year.
2. Booking value of investments in non-bank subsidiaries, excluding the investments in banking-related subsidiaries that are consolidated.

E. *Restrictions*

1. Tier 2 capitals for credit risk capital charge may not exceed 100% of tier 1 capital for credit risk capital charge.
2. Long-term subordinated debt and long-term non-perpetual preferred stock included in tier 2 capital may not exceed 50% of tier 1 capital.
3. Tier 3 capitals can only be used for market risk capital charge.
4. The sum of tier 2 and tier 3 capitals for market risk capital charge may not exceed 250% of tier 1 capital for market risk capital charge.
5. The sum of eligible tier2 and eligible tier3 capital may not exceed 100% of tier1 capital.

● *Risk-weighted assets*

Assets adjusted for risk-based capital definition, which includes on-balance-sheet, as well as off-balance-sheet items multiplied by risk weights that range from zero to

100 %. The risk-weighted assets equal credit-risk-weighted assets plus market-risk-equivalent assets.

● **The non-performing loan ratio**

$$\text{The NPL ratio} = \frac{\text{Non-performing loans}}{\text{Total loans}}$$

The items of the “non-performing loans” include:

1. Loans which payment of principal has been overdue for more than 3 months;
2. Installment repayments for medium and long-term loans are overdue for more than 6 months;
3. Any loan of which the debtor has been sued for non-payment, or the underlying collateral has been disposed;
4. Any loan of which repayment of interest has been overdue for more than 6 months.

According to the regulation effected on 1 July 2005, the definition of “non-performing loans” includes :

- 1. Loans which repayment of principal or interest have been overdue for more than 3 months ;*
- 2. Any loan of which the principal debtors and surety have been sued for non-payment or the underlying collateral has been disposed, although the repayment of principal or interest have not been overdue for more than 3 months*

● **The ratio of loans under surveillance to total loans**

The ratio of loans under surveillance to total loans:

$$\frac{\text{Loans under surveillance}}{\text{Total loans}}$$

The items of the “*loans under surveillance*” include:

1. Term loans overdue for 3 months but less than 6 months
2. Loans with principal not yet overdue or has been overdue for less 3 months but with interests payment overdue for more than 3 months but less than 6 months
3. Of NPL standard but exempt from calculation with approval

The following loans are exempted from NPL:

1. Restructured Loans of which short-term loans should repay within 5 years and medium and long-term loans should repay within twice of residual period of time fully.
2. Loans compensated by the Credit Guaranty Funds.

3. Loans of which the collateral has been disposed by court, but the proceeds have not been distributed yet
4. Loans with sufficient certificate of deposits or reserve.
5. Loans affected by the September 21st Earthquake of 1999 repay with an agreement between the borrowers and banks,
6. Relief Loans granted approval from Ministry of Finance (MOF) under some conditions, including:
 - A. The enterprises must apply for assistance and get approval from MOF.
 - B. All the creditor banks should reach a consensus.
 - C. Those enterprises should perform all the repayment terms required by creditor banks.

● **NTD Liquidity ratio**

$$\text{The NTD liquidity ratio} = \frac{\text{Actual liquid reserves}}{\text{Total reservable liabilities}}$$

Actual liquid reserves include:

1. Excess reserves
2. Net balance due from banks
3. Treasury bills
4. CDs issued by Central Bank of China, Taipei.
5. Net holding of NCDs deducted from bank’s own issuance
6. Net Banker’s acceptance deducted from bank’s own acceptance
7. Commercial acceptance.
8. Net Commercial paper deducted from bank’s own guarantee
9. Government bonds
10. Net Corporate bonds deducted from bank’s own guarantee
11. Net Bank debentures (including subordinated bank debentures, deducted from bank’s own issuance)
12. Deposits with appointed banks within 1 year
13. NTD debentures and Corporate bonds issued in Taiwan by international financial organization approved by CBC and FSC.
14. Others approved by CBC as “liquidity assets.”

Total reservable liabilities include:

1. Reservable deposits (including checking deposits, demand deposits, saving deposits, term deposits and treasury deposits)
2. Net balance due to banks
3. The outstanding of repurchase agreement on bills and bonds
4. Others approved by CBC