Condition and Performance of Domestic Banks

Third Quarter 2009

■ *Summary of condition and performance*

The global economy appears to be expanding again, pulled up by the strong performance of Asian economies and stabilization or modest recovery elsewhere, according to the IMF. Nevertheless, as emphasized in the October 2009 Global Financial Stability Report, the risk of economic reversal warrant closer attention for a number of financial stress indicators remain elevated.

In Q3 2009, the preliminary real GDP contracted by 1.29%, compared to the same quarter of previous year, according to the Directorate-General of Budget, Accounting and Statistics, Executive Yuan. Meanwhile, the GDP growth rate of the Q1 and Q2 are revised up to –9.06% and –6.85% (formerly –10.13% and –7.54%). Expressed at seasonally adjusted annual rate, the real GDP increased 8.25% in Q3.

The financial market was bullish in Q3 as a result of recent market performance. As to the monetary policy, there is still excess liquidity in local financial system.

The average capital adequacy ratio for domestic banks as a whole was well above the regulatory requirement of 8%, indicating that capital adequacy for domestic banks kept satisfactory as of the end of September. Asset quality remained satisfactory for the provisions for loans and investment portfolios were sufficient to cover potential losses. Liquidity kept ample while the profitability for domestic banks increased slightly.

■ Key trend

Net income before tax for domestic banks as a whole declined by NT$ 6.7 billion or 11.3%, compared to the same period of 2008, mainly due to interest rate margin declining. The major income components are tabulated as follows:

Major income components

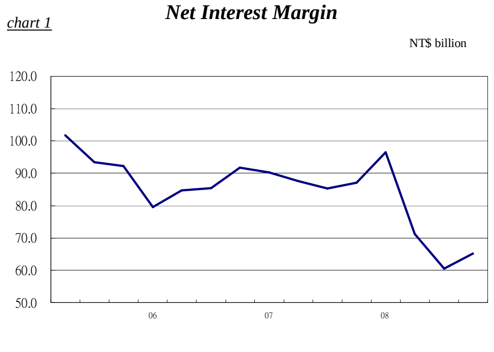
NT$ Billion

	Jan.-Sept. 2008	Jan.-Sept. 2009	% Change
Income			
Net interest income	260.1	196.8	-24.3
Net revenues other than interest	95.7	122.2	27.7
Expense			
Loan loss provision	66.0	57.5	-12.9
Other expense	230.5	209.0	-9.3
Net income	59.2	52.5	-11.3

Net interest margin（NIM）increased slightly

NIM reported NT$ 65.1 billion for this quarter, slightly increasing by NT$4.6 billion or 7.6% compared to the previous quarter. (Chart 1)

chart 1



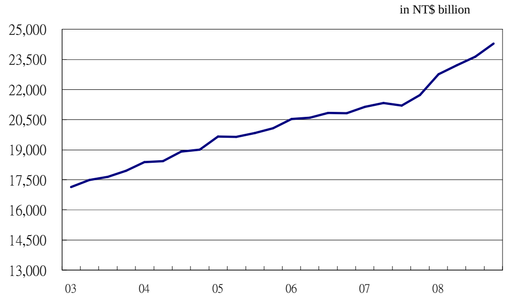
Data are on a quarterly basis

Deposits increased moderately

As of end-September 2009, total deposits amounted to NT$24,279.5 billion, increasing by NT$ 636.7 billion, compared to the previous quarter. The annual growth rate of total deposits was 6.28% up from 3.89% in 2008 Q3. (Chart 2)

chart 2

Deposits



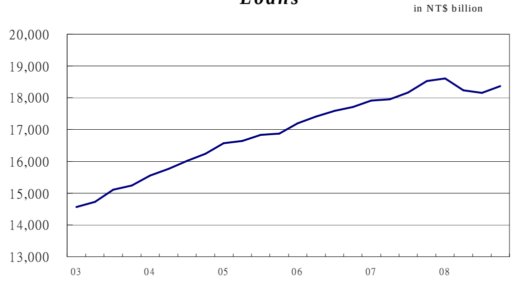
Data are on a quarterly basis

Loans increased slightly

Total loans amounted to NT$ 18,366.0 billion as of end-September 2009, increasing slightly by NT$ 212.2 billion or 1.17 compared to previous quarter, reflecting that domestic banks became less conservative in credit extension. The annual growth rate registered –2.14%, moderately decreased by 4.24 percentage points from 2.10% in end-September 2008. (Chart 3)

chart 3

Loans



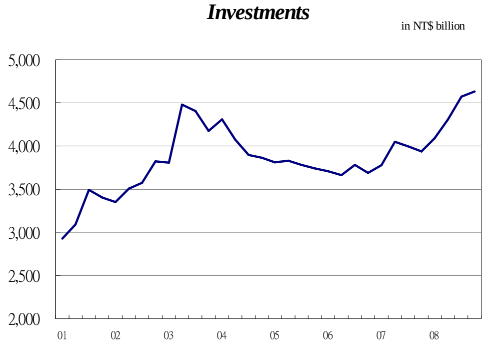
Data are on a quarterly basis

Investments increased slightly

Total investments reached NT$ 4,632.3 billion, slightly increasing by NT$ 56.9 billion or 1.24 %, compared to the previous quarter, mainly due to an increasing in purchasing Negotiable Certificate of Deposits（NCDs）issued by CBC. (Chart 4)

chart 4

Investments



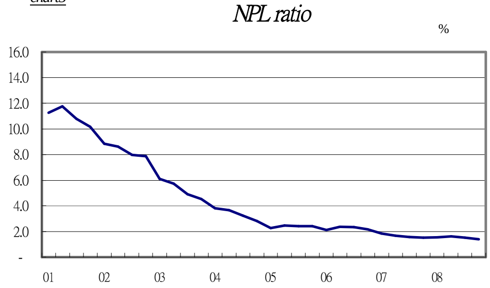
Data are on a quarterly basis

Asset quality remained satisfactory

The average NPL ratio stood at 1.38% as of end-September 2009, decreasing by 0.12 percentage points from the previous quarter. Asset quality for the overall banking sector kept satisfactory. The average provision coverage ratio was 82.75%, 4.73 percentage points up from 78.02% as of the previous quarter’s end.

chart5

NPL ratio



Data are on a quarterly basis

Provision-to-loan ratio increased slightly

The provision-to-loan ratio was 1.09％ as of end-September 2009, slightly increased by 0.02 percentage points from 1.07% at the end of previous quarter.（Chart 6）

Liquidity kept ample

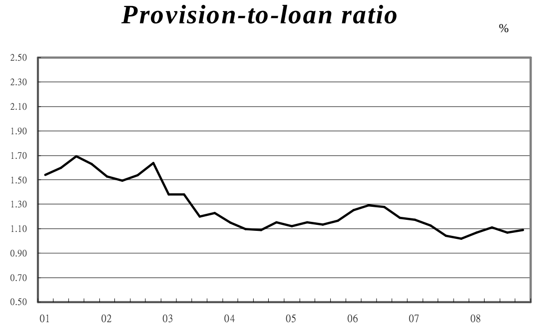
Every domestic bank met the regulatory liquidity ratio requirement of 7% in September 2009. The average liquidity ratio was 24.65% for domestic banks as a whole, remained the same level as the previous quarter. Liquidity for domestic banking sector kept ample. (Chart 7)

Average capital adequacy ratio increased

The average BIS capital adequacy ratio was 11.55% as of end-September 2009 on arithmetic mean, increasing by 0.21 percentage points from 11.34% at end-June 2009. Capital adequacy for most domestic banks remained satisfactory. (Chart 8)

chart 6

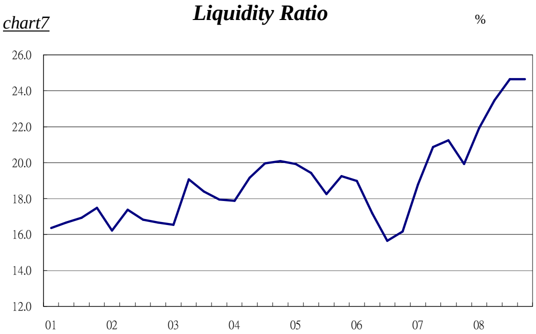
Provision-to-loan ratio



Data are on a quarterly basis

chart7

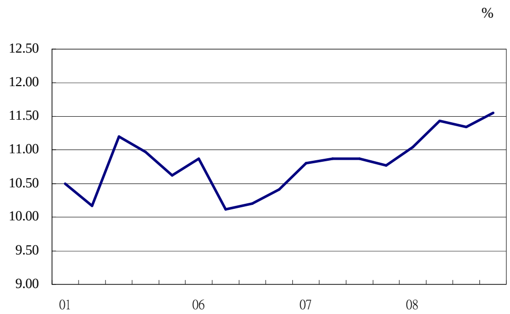
Liquidity Ratio



Data are on a quarterly basis

chart 8

Capital Adequacy Ratio



Data are on a quarterly basis