Condition and Performance of Domestic Banks

Second Quarter 2010

■ *Summary of condition and performance*

The global recovery has proceeded better than expected but at varying speeds, tepidly in many advanced economies and solidly in most emerging and developing economies. The recoveries in real and financial activity are mutually supportive, but access to credit remains difficult for some sectors. Money markets have stabilized. Corporate bond and equity markets have rebounded. In a few advanced economies, rising public deficits and debt have contributed to a sharp increase in sovereign risk premiums, posing new risks to the recovery, according to the IMF.

For local economy, the external sector extends brilliant performance with the real exports of goods and services advanced by 34.27% in 2010 Q2. Associating with 9.24% growth of the domestic sector, the preliminary real GDP increased by 12.53% compared to the same quarter of previous year, according to the Directorate-General of Budget, Accounting and Statistics, Executive Yuan. Looking forward the second half of 2010, the propelling strength of external sector will turn to be modest. Accompanying with domestic sector recovery, real GDP is forecasted to grow by 8.24% and consumer price index (CPI) will rise by 1.23% in 2010.

The average capital adequacy ratio for domestic banks as a whole was well above the regulatory requirement of 8% as of end-June 2010, indicating that capital adequacy for domestic banks kept satisfactory. Asset quality remained satisfactory as the provisions for loans and investment portfolios were sufficient to cover potential losses. The profitability for domestic banks increased slightly in 2010 Q2 while liquidity kept ample with the liquidity ratio well above the regulatory requirement of 7%.

■ Key trend

Net income before tax for domestic banks as a whole reported NT$ 90.4 billion in 2010 Q2, increasing by NT$ 52.8 billion or 140.42% compared to the same period of 2009. The main reasons behind this were the net interest revenues increased as loan loss provision decreased. The major income components are tabulated as follows:

Major income components

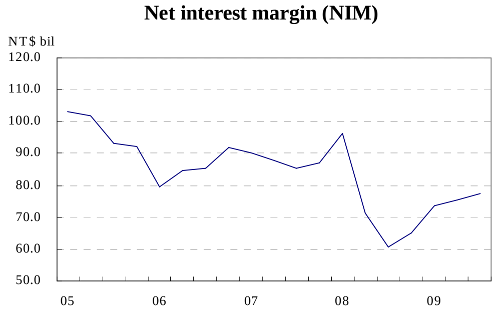
NT$ Billion

	Jan.-Jun. 2009	Jan.-Jun. 2010	% Change
Income			
Net interest revenues	131.7	152.7	15.9
Net revenues other than interest	82.6	98.6	19.4
Expense			
Loan loss provision	42.6	18.3	-57.0
Other expense	134.0	142.6	6.4
Net income	37.6	90.4	140.4

Net interest margin（NIM）increased slightly

NIM reported NT$ 77.3 billion for the second quarter of 2010, increasing by NT$1.9 billion or 2.5% compared to the previous quarter (Chart 1).

Chart 1

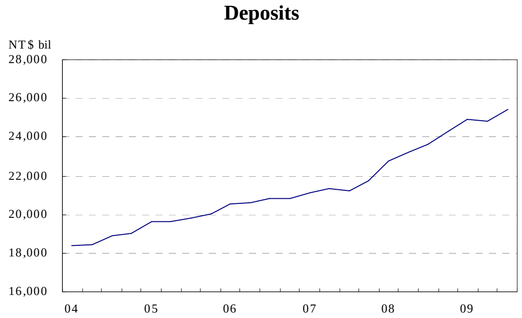


Note: Data are on a quarterly basis.

Deposits increased slightly

As of end-June 2010, total deposits amounted to NT$25,433.5 billion, increasing by NT$ 641.3 billion or 2.6% compared to the previous quarter. The annual growth rate of total deposits was 5.42%, down from 6.34% as of end-June 2009 (Chart 2).

Chart 2

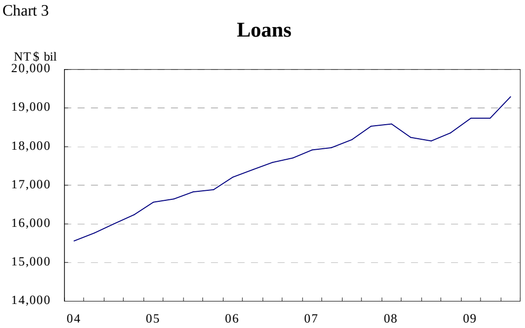


Note: Data are on a quarterly basis.

Loans increased

Total loans amounted to NT$ 19,296.3 billion as of end-June 2010, increasing by NT$ 566.7 billion or 3.0% compared to end-March 2010. The annual growth rate of total loans registered 5.38%, increased by 6.69 percentage points from -1.31% as of end-June 2009 (Chart 3).

Chart 3

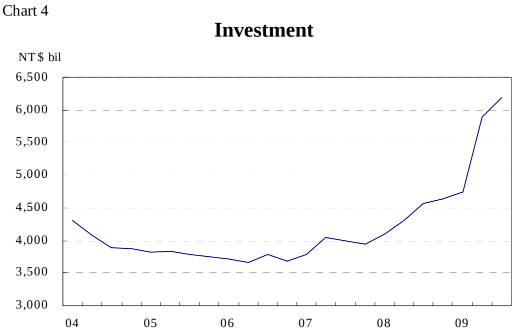


Note: Data are on a quarterly basis.

Investments increased

Total investments reached NT$ 6,186.9 billion as of end-June 2010, increasing by NT$304.9 billion or 5.2 % compared to the previous quarter, mainly due to an increase in purchasing negotiable certificate of deposits issued by the CBC (Chart 4).

Chart 4



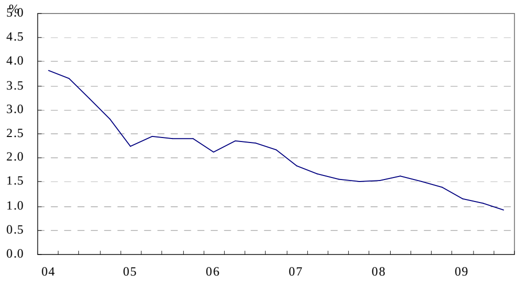
Note: Data are on a quarterly basis.

Asset quality remained satisfactory

The average NPL ratio stood at 0.91% as of end-June 2010, decreasing by 0.15 percentage points compared to the previous quarter (Chart 5). Asset quality for the overall banking sector kept satisfactory. The average provision coverage ratio was 133.91%, 27.23 percentage points up from 106.68% as of end-March 2010.

Chart 5

NPL ratio



Note: Data are on a quarterly basis.

Provision-to-loan ratio nearly leveled off

The average provision-to-loan ratio was 1.03% as of end-June 2010, nearly leveled off as compared to the end of previous quarter（Chart 6）.

Chart 6

Provision-to-loan ratio

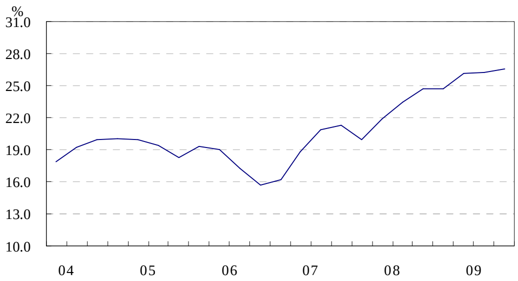
Note: Data are on a quarterly basis.

Liquidity kept ample

The average liquidity ratio was 26.52% for domestic banks as a whole in June 2010, increasing by 0.26 percentage points from 26.26% at the end of the previous quarter. Every domestic bank met the regulatory liquidity ratio requirement of 7%. Liquidity for domestic banking sector kept ample. (Chart 7)

Chart 7

Liquidity ratio



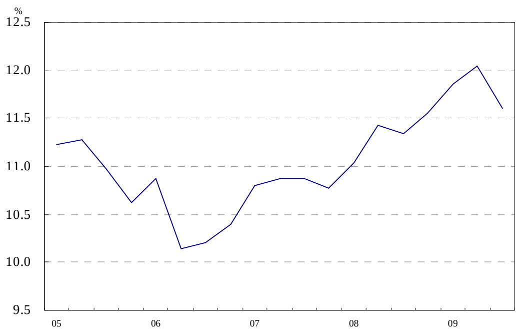
Note: Data are on a quarterly basis.

Average capital adequacy ratio decreased

The average capital adequacy ratio was 11.61% as of end-June 2010, decreasing by 0.43 percentage points from 12.04% at end-March 2010 (Chart 8). Capital adequacy for most domestic banks remained satisfactory.

Chart 8

Capital adequacy ratio



Note: Data are on a quarterly basis.