Condition and Performance of Domestic Banks

Second Quarter 2009

■ *Summary of condition and performance*

The global economy has been pulling out of a recession unprecedented from the post-World War II era, but stabilization is still uneven and the recovery is expected to be sluggish, according to the IMF. Financial conditions have improved more than expected, owing to public intervention, and recent data showed that the rate of decline in economic activity is moderate, although varied from regions. Despite these positive signs, the global recession is not over, and the recovery is still expected to be slow, as financial systems remain impaired and support from public policies gradually diminish.

In Q2 2009, the preliminary real GDP contracted by 7.54%, compared to the same quarter of previous year, mainly caused by export declining and weakening private consumption, according to the Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

The financial market in Q2 2009 saw profit takings as a result of recent market performance. The surge of latent electronics export orders from China has signaled recovery potentials and has led to the capital market rally in recent months. 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 requirements of 8%, indicating that capital adequacy for the domestic banks kept satisfactory as of the end of June. 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 declined for margin squeezing.

■ Key trend

Net income before tax for domestic banks as a whole declined by NT$17.1 billion or 31.22%, 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

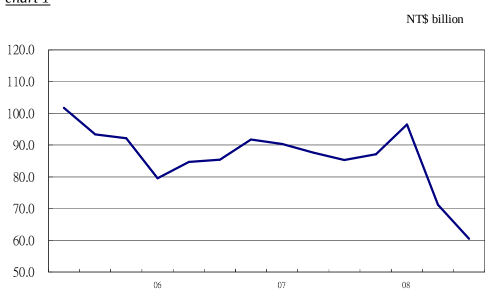
	Jan.-Jun. 2008	Jan.-Jun. 2009	% Change
Income			
Net interest income	172.9	131.7	-23.8
Net revenues other than interest	81.0	82.6	-2.0
Expense			
Loan loss provision	44.8	42.6	-4.9
Other expense	154.4	134.0	-13.2
Net income	54.7	37.6	-31.3

Net interest margin（NIM）decreased

NIM reported NT$ 60.5 billion during this quarter, decreasing by NT$10.7 billion or 15.0% compared to the previous quarter. (Chart 1)

chart 1

Net Interest Margin

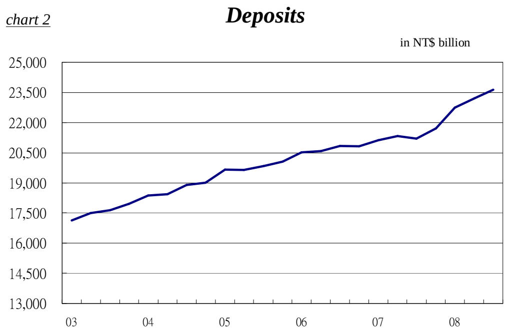


Data are on a quarterly basis

Deposits increased dramatically

As of end-June 2009, total deposits amounted to NT$23,642.8 billion, increasing by NT$ 431.9 billion, compared to the previous quarter. The annual growth rate of total deposits was 6.34% up from 1.40% in 2008 Q2. (Chart 2)

chart 2



Data are on a quarterly basis

Loans decreased slightly

Total loans amounted to NT$ 18,153.8 billion as of end-June 2009, decreasing slightly by NT$ 77.4 billion or 0.42%, compared to previous quarter, reflecting that domestic banks remained conservative in credit extension. The annual growth rate dropped to –1.31%, moderately decreased by 3.75 percentage points from 2.44% in end-June 2008. (Chart 3)

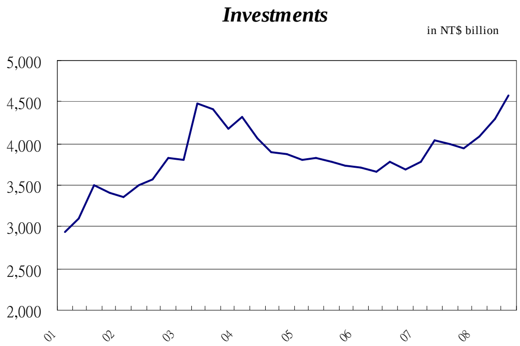
chart 3

Data are on a quarterly basis

Investments increased

Total investments reached NT$ 4,575.4 billion, increasing by NT$ 267.4 billion or 6.21 %, compared to the previous quarter, mainly due to an increasing in purchasing Negotiable Certificate of Deposits（NCDs）issued by CBC. (Chart 4)

chart 4

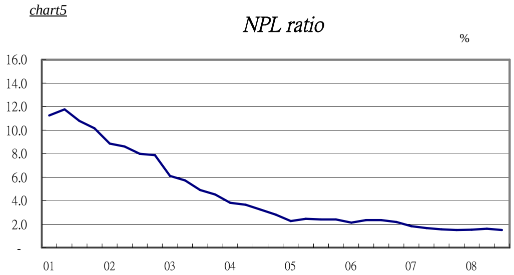


Data are on a quarterly basis

Asset quality remained satisfactory

The average NPL ratio stood at 1.50% as of end-June 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 78.02%, 3.77 percentage points up from 74.25% as of the previous quarter's end.

chart5



Data are on a quarterly basis

Provision-to-loan ratio slightly decreased

The provision-to-loan ratio was 1.07％ as of end-June 2009, slightly decreased by 0.04 percentage points from 1.11％ at the end of previous quarter.（Chart 6）

Liquidity kept ample

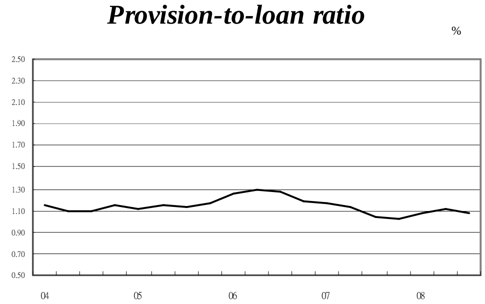
Every domestic bank met the regulatory liquidity ratio requirement of 7% in June 2009. The average liquidity ratio was 24.65% for domestic banks as a whole, increasing by 1.16 percentage points, up from 23.49% in March 2009. Liquidity for domestic banking sector kept ample. (Chart 7)

Average capital adequacy ratio decreased

The average BIS capital adequacy ratio was 11.34% as of end-June 2009 on arithmetic mean, decreasing by 0.09 percentage points from 11.43% at end-March 2009. Capital adequacy for most domestic banks remained satisfactory. (Chart 8)

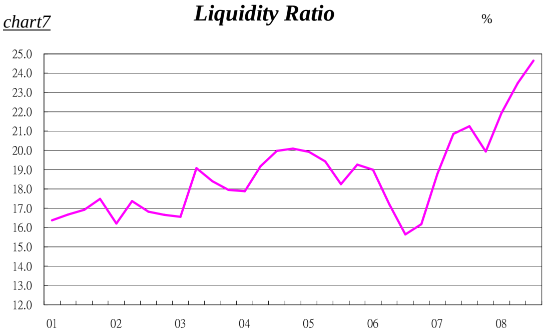
chart 6

Provision-to-loan ratio



Data are on a quarterly basis

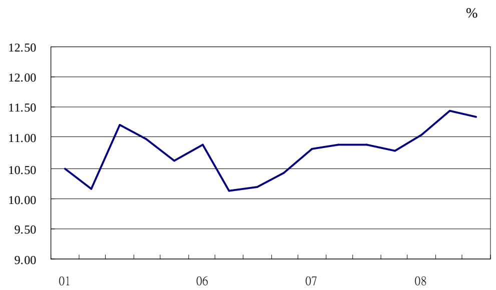
chart7 ***Liquidity Ratio***



Data are on a quarterly basiss

chart 8

Capital Adequacy Ratio



Data are on a quarterly basis