Condition and Performance of Domestic Banks

Fourth Quarter 2009

■ *Summary of condition and performance*

The global recovery is off to a stronger start than anticipated earlier but is proceeding at different speeds in the various regions, according to the IMF. In most advanced economies, the recovery is expected to remain sluggish, whereas in many emerging and developing economies, activity is expected to be relatively vigorous, largely driven by buoyant internal demand. Nevertheless, as emphasized in the January 2010 Global Financial Stability Report issued by the IMF, financial conditions have improved further but remain challenging for bank lending is likely to remain sluggish, the surge in corporate bond issuance has not offset the reduction in bank credit growth to the private sector as well as sovereign debt has come under pressure for some small countries.

In Q4 2009, the preliminary real GDP increased by 9.22%, compared to the same quarter of previous year, according to the Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

As to local financial market, liquidity remained ample contributed by continuous easing monetary policies adopted by the Central Bank. 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 2009. Asset quality remained satisfactory as the provisions for loans and investment portfolios were sufficient to cover potential losses. Liquidity kept ample while the profitability for domestic banks increased.

■ Key trend

Net income before tax for domestic banks as a whole increased by NT$ 50.7 billion or 147.4%, compared to the same period of 2008, mainly due to net revenues other than interest increasing. The major income components are tabulated as follows:

Major income components

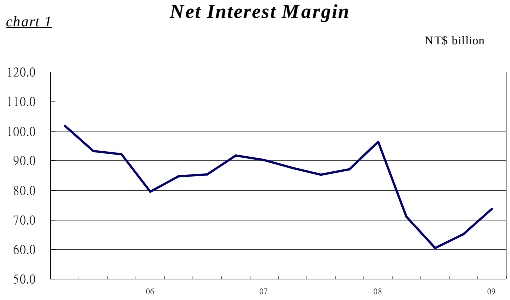
NT$ Billion

	Jan.-Dec. 2008	Jan.-Dec. 2009	% Change
Income			
Net interest revenues	356.5	270.5	-24.1
Net revenues other than interest	97.4	183.8	88.7
Expense			
Loan loss provision	106.4	80.6	-24.2
Other expense	313.1	288.6	-7.8
Net income	34.4	85.1	147.4

Net interest margin（NIM）increased

NIM reported NT$ 73.7 billion for this quarter, increasing by NT$8.6 billion or 13.2% compared to the previous quarter. (Chart 1)

chart 1

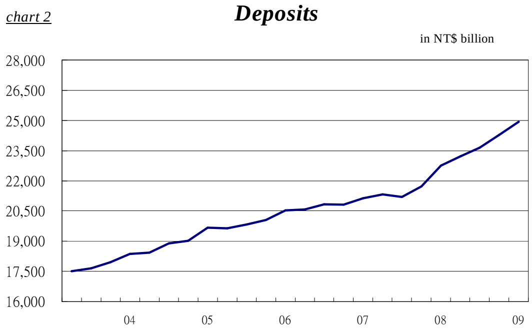


Data are on a quarterly basis

Deposits increased moderately

As of end-December 2009, total deposits amounted to NT$24,928.3 billion, increasing by NT$ 648.8 billion, compared to the previous quarter. The annual growth rate of total deposits was 4.52% down from 6.14% in 2008 Q4. (Chart 2)

chart 2

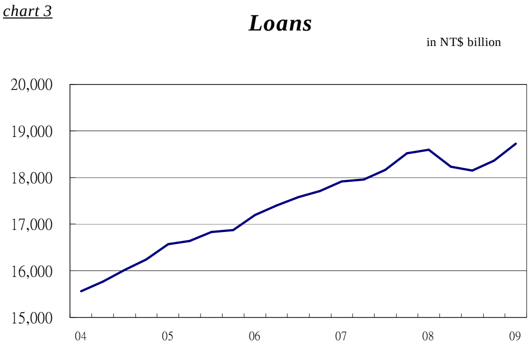


Data are on a quarterly basis

Loans increased slightly

Total loans amounted to NT$ 18,724.1 billion as of end-December 2009, increasing slightly by NT$ 358.1 billion or 1.95% compared to previous quarter, reflecting that domestic banks became more proactive in credit extension. The annual growth rate of total loans registered –0.30%, moderately decreased by 2.30 percentage points from 2.00% in end-December 2008. (Chart 3)

chart 3

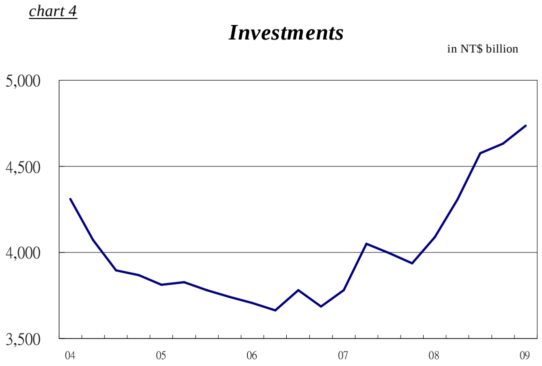


Data are on a quarterly basis

Investments increased slightly

Total investments reached NT$ 4,736.5 billion, increasing by NT$104.2 billion or 2.25 %, compared to the previous quarter, mainly due to an increasing in purchasing Negotiable Certificate of Deposits（NCDs）issued by CBC. (Chart 4)

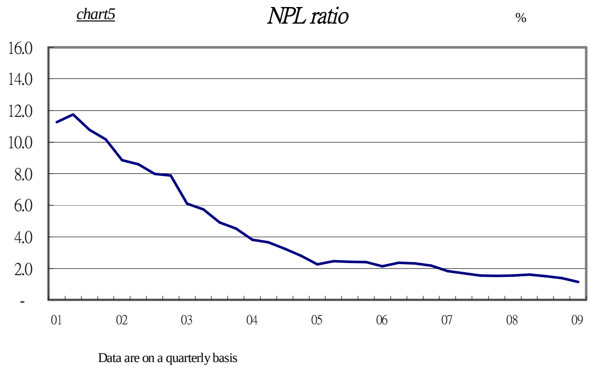
chart 4



Data are on a quarterly basis

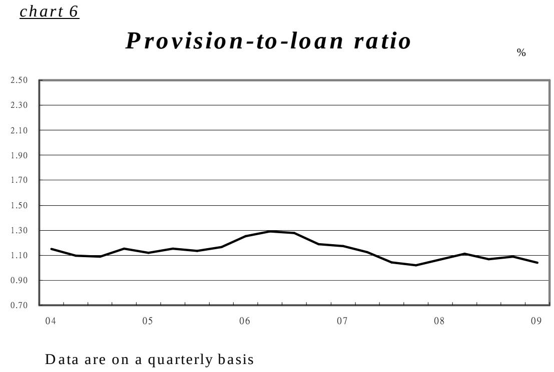
Asset quality remained satisfactory

The average NPL ratio stood at 1.15% as of end-December 2009, decreasing by 0.23 percentage points from the previous quarter. Asset quality for the overall banking sector kept satisfactory. The average provision coverage ratio was 95.7%, 12.95 percentage points up from 82.75% as of the previous quarter's end.



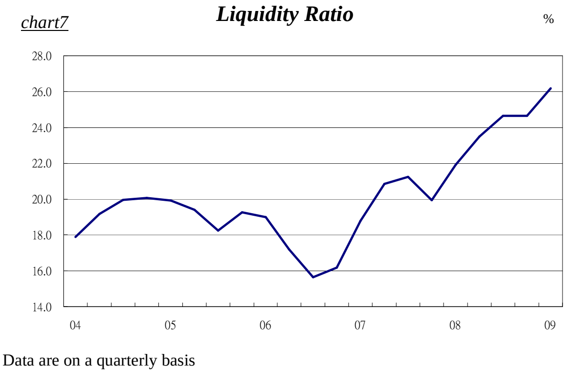
Provision-to-loan ratio decreased slightly

The provision-to-loan ratio was 1.04％ as of end-December 2009, slightly decreased by 0.05 percentage points down from 1.09% at the end of previous quarter.（Chart 6）



Liquidity kept ample

Every domestic bank met the regulatory liquidity ratio requirement of 7% in December 2009. The average liquidity ratio was 26.18% for domestic banks as a whole, increasing by 1.53 percentage points, compared to the previous quarter. Liquidity for domestic banking sector kept ample. (Chart 7)



Average capital adequacy ratio increased

The average BIS capital adequacy ratio was 11.85% as of end-December 2009 on arithmetic mean, increasing by 0.30 percentage points from 11.55% at end-September 2009. Capital adequacy for most domestic banks remained satisfactory. (Chart 8)