Condition and Performance of Domestic Banks

Third Quarter 2010

Summary of condition and performance

The global recovery is proceeding broadly as expected, but downside risks remain elevated. Most advanced economies and a few emerging economies still face large adjustments. Their recoveries are proceeding at a sluggish pace and high unemployment poses major social challenges, according to the IMF. Economic recovery continued to strengthen during the first half of 2010. Global activity expanded at an annual rate of about 5.25%, some 0.5% higher than anticipated in the July World Economic Outlook (WEO) Update. At the same period of time, the financial stability suffered a major setback. Market volatility increased and investor confidence dropped. Prices in many stock exchanges fell, led initially by financial stocks and by European markets.

For local economy, the external sector extended powerful performance with the real exports of goods and services, advancing by 20.10% in the third quarter of 2010. Furthermore, coupling with substantial domestic demand at 9.78% growth, the preliminary estimation of real gross domestic products (GDP) increased by 9.80% from the same quarter of 2009. Looking forward the fourth quarter of 2010, the growth of external and domestic sector will moderate. In whole, real GDP is forecasted to grow 9.98% in 2010. CPI is predicated to increase by 0.98%, according to the Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

The average capital adequacy ratio for domestic banks as a whole was well above the regulatory requirement of 8% as of end-September 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 Q3 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$ 141.3 billion for the first 3 quarters of 2010, increasing by NT$ 88.8 billion or 169.1% compared to the same period of time in 2009. The main reasons behind this were the net interest revenues increased as loan loss provision decreased. The major income statement components are tabulated as follows:

Major Income Statement Components

NT$ Billion

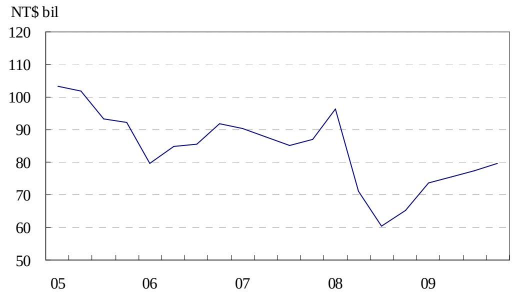
	Jan.-Sep. 2009	Jan.-Sep. 2010	% Change
Income			
Net interest revenues	196.8	232.4	18.1
Net revenues other than interest	122.2	154.5	26.4
Expense			
Loan loss provision	57.5	28.3	-50.8
Other expense	209.0	217.6	4.1
Net income	52.5	141.3	169.1

Net interest margin（NIM）increased slightly

NIM reported NT$ 79.7 billion for the third quarter of 2010, increasing by NT$2.4 billion or 3.1% compared to the previous quarter (Chart 1).

Chart 1

Net interest margin (NIM)



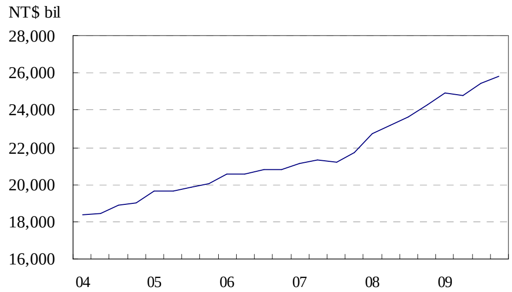
Note: Data are on a quarterly basis.

Deposits increased slightly

As of end-September 2010, total deposits amounted to NT$25,848.3 billion, increasing by NT$ 414.8 billion or 1.6% compared to the previous quarter. The annual growth rate of total deposits was 6.69%, up from 6.28% as of end-September 2009 (Chart 2).

Chart 2

Deposits



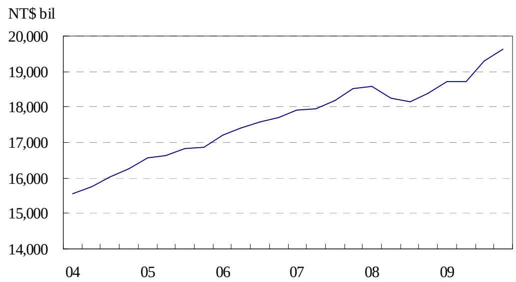
Note: Data are on a quarterly basis.

Loans increased slightly

Total loans amounted to NT$ 19,626.0 billion as of end-September 2010, increasing by NT$ 329.7 billion or 1.7% compared to end-June 2010. The annual growth rate of total loans registered 6.76%, dramatically increased by 8.90 percentage points from –2.14% as of end-September 2009 (Chart 3).

Chart 3

Loans



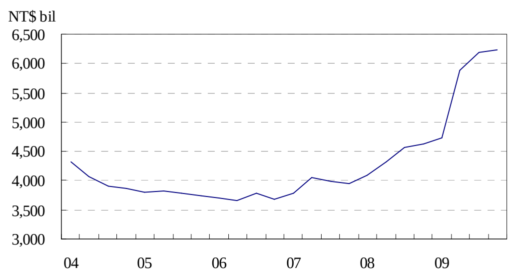
Note: Data are on a quarterly basis.

Investments increased slightly

Total investments reached NT$ 6,225.8 billion as of end-September 2010, increasing by NT$38.9 billion or 0.63 % compared to the previous quarter, mainly due to an increase of purchasing negotiable certificate of deposits issued by the CBC (Chart 4).

Chart 4

Investment



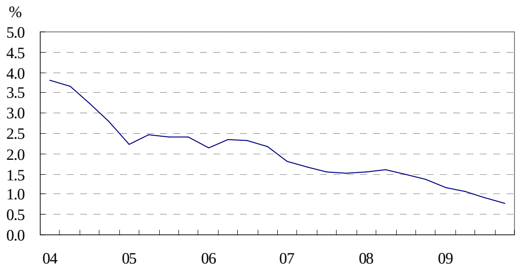
Note: Data are on a quarterly basis.

Asset quality remained satisfactory

The average NPL ratio stood at 0.78% as of end-September 2010, decreasing by 0.13 percentage points compared to the previous quarter (Chart 5). Asset quality for the overall banking sector kept satisfactory. The average provision coverage ratio was 155.48%, 21.57 percentage points up from 133.91% as of end-June 2010.

Chart 5

NPL ratio



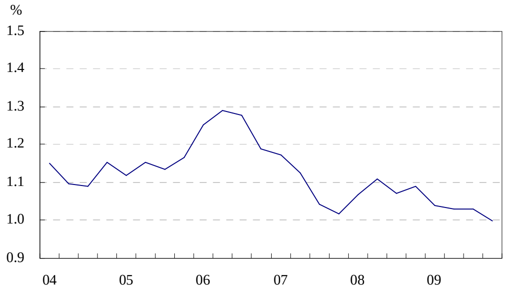
Note: Data are on a quarterly basis.

Provision-to-loan ratio nearly leveled off

The average provision-to-loan ratio was 1.00% as of end-September 2010, nearly leveled off as compared to the end of previous quarter（Chart 6）.

Chart 6

Provision-to-loan ratio



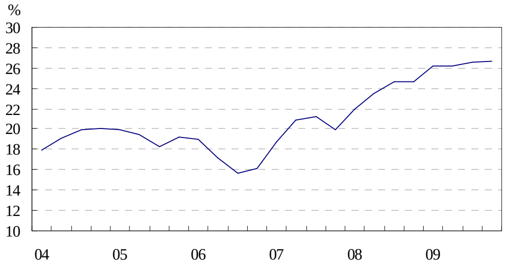
Note: Data are on a quarterly basis.

Liquidity kept ample

The average liquidity ratio was 26.66% for domestic banks as a whole in September 2010, increasing by 0.14 percentage points from 26.52% in June 2010. Every domestic bank met the regulatory liquidity ratio requirement of 7%. Liquidity for domestic banking sector kept ample. (Chart 7)

Chart 7

Liquidity ratio



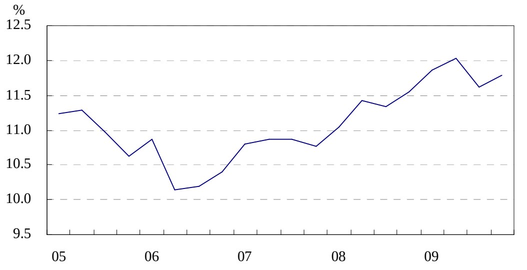
Note: Data are on a quarterly basis.

Average capital adequacy ratio increased slightly

The average capital adequacy ratio was 11.79% as of end-September 2010, increasing by 0.18 percentage points from 11.61% at end-June 2010 (Chart 8). Capital adequacy for most domestic banks remained satisfactory.

Chart 8

Capital adequacy ratio



Note: Data are on a quarterly basis.