Condition and Performance of Domestic Banks

First Quarter 2010

■ *Summary of condition and performance*

The global recovery is proceeding better than expected but at varying speeds, tepidly in many advanced economies and solidly in most emerging and developing economies. Emerging Asia is leading the recovery, while many emerging European and some Commonwealth of Independent States economies are lagging behind. This multispeed recovery is expected to continue, according to the IMF. Given the large amount of public debt has been accumulated during this recession, in many advanced countries exit policies need to emphasize fiscal consolidation and financial sector repair. In emerging and developing economies, priorities depend on room available for fiscal policy maneuvers and on current account positions.

For local economy, the external sector showed powerful gain with the real exports of goods and services advanced by 42.17% in 2010 Q1. Associating with 12.93% growth of the domestic sector, the preliminary real GDP increased by 13.27%, compared to the same quarter of previous year, according to the Directorate-General of Budget, Accounting and Statistics, Executive Yuan. Taiwan export is expected to expand strongly. This also helps boost the fixed investments of private sector. The Real GDP is predicted to grow by 6.14% and consumer price index (CPI) will rise by 1.40% in 2010.

For local financial institutions, the average capital adequacy ratio for domestic banks as a whole was well above the regulatory requirement of 8% as of the end of March 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 Q1 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 increased by NT$ 22.4 billion or 116.7% in 2010 Q1, compared to the same period of 2009, mainly due to the decrease of loan loss provisions. The major income components are tabulated as follows:

Major income components

NT$ Billion

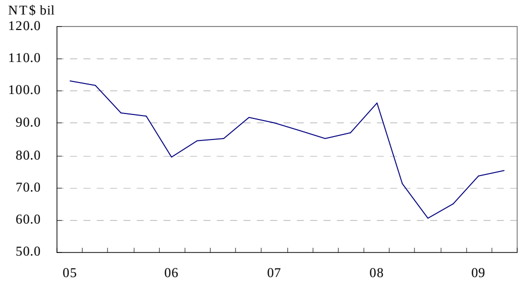
	Jan.-Mar. 2009	Jan.-Mar. 2010	% Change
Income			
Net interest revenues	71.2	75.4	5.9
Net revenues other than interest	39.3	44.5	13.2
Expense			
Loan loss provision	23.4	9.1	-61.1
Other expense	67.9	69.2	3.5
Net income	19.2	41.6	116.7

Net interest margin（NIM）increased

NIM reported NT$ 75.4 billion for the first quarter of 2010, increasing by NT$4.2 billion or 5.9% compared to the previous quarter. (Chart 1)

Chart 1

Net interest margin (NIM)



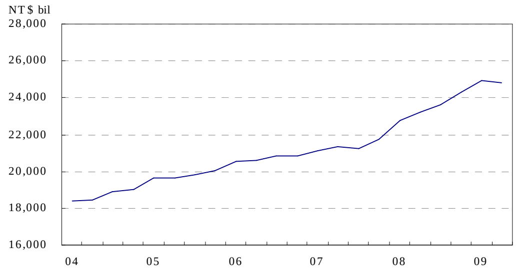
Note: Data are on a quarterly basis.

Deposits decreased slightly

As of end-March 2010, total deposits amounted to NT$24,792.2 billion, decreasing by NT$ 136.1 billion or 0.55% compared to end-December 2009. The annual growth rate of total deposits was 3.13%, down from 6.05% as of end-March 2009. (Chart 2)

Chart 2

Deposits



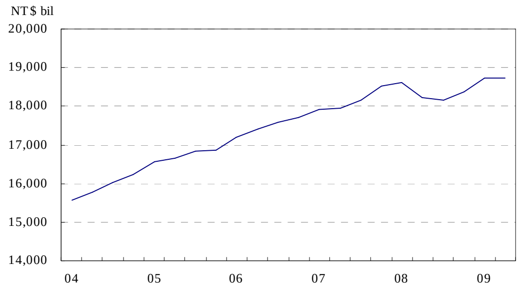
Note: Data are on a quarterly basis.

Loans nearly leveled off

Total loans amounted to NT$ 18,729.6 billion as of end-march 2010, increasing slightly by NT$ 5.5 billion or 0.03% compared to end-December 2009. The annual growth rate of total loans registered 3.11%, increased moderately by 2.87 percentage points from 0.24% as of end-March 2009. (Chart 3)

Chart 3

Loans



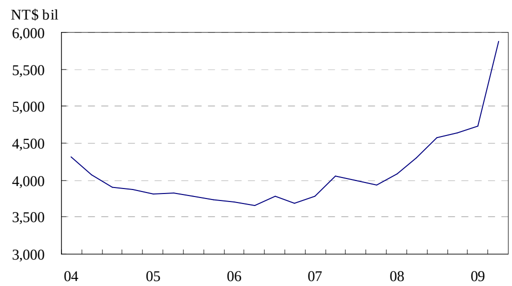
Note: Data are on a quarterly basis.

Investments increased dramatically

Total investments reached NT$ 5,882.0 billion as of end-March 2010, increasing dramatically by NT$1,145.5 billion or 24.2 % compared to the previous quarter, mainly due to an increasing in purchasing negotiable certificate of deposits issued by CBC. (Chart 4)

Chart 4

Investment



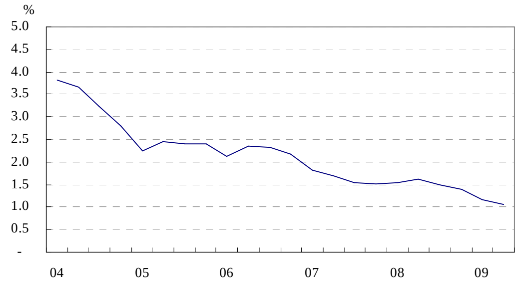
Note: Data are on a quarterly basis.

Asset quality remained satisfactory

The average NPL ratio stood at 1.06% as of end-March 2010, decreasing by 0.09 percentage points compared to the previous quarter (Chart 5). Asset quality for the overall banking sector kept satisfactory. The average provision coverage ratio was 106.68%, 10.98 percentage points up from 95.70% as of end-December 2009.

Chart 5

NPL ratio



Note: Data are on a quarterly basis.

Provision-to-loan ratio decreased slightly

The average provision-to-loan ratio was 1.03% as of end-March 2010, slightly decreased by 0.01 percentage points from 1.04% as of the end of previous quarter.（Chart 6）

Chart 6

Provision-to-loan ratio

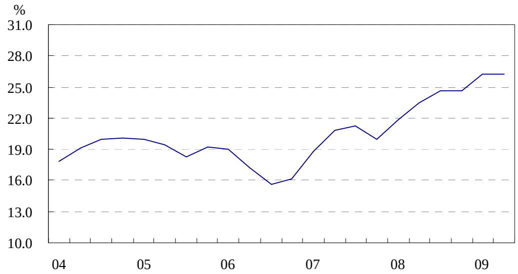
Note: Data are on a quarterly basis.

Liquidity kept ample

The average liquidity ratio was 26.26% for domestic banks as a whole in March 2010, increasing by 0.08 percentage points compared to 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



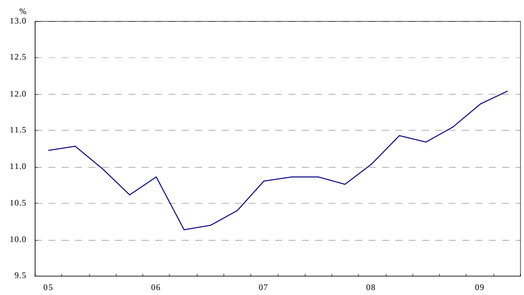
Note: Data are on a quarterly basis.

Average capital adequacy ratio increased

The average capital adequacy ratio was 12.04% as of end-March 2010, increasing by 0.18 percentage points from 11.86% at end-December 2009. (Chart 8) Capital adequacy for most domestic banks remained satisfactory.

Chart 8

Capital adequacy ratio



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