

Taiwan Banks

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Financials/Banks

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SO WHAT? THE BNP PARIBAS ANGLE

INDUSTRY OUTLOOK: ↓

- Consolidation is the necessary evil to resolve fragmented banking structure.
- Recap needs will lend a hand to Taiwan government to go for consolidation.
- Pick banking survivors with financial strength and capital cushion. Top accumulate ideas: Fubon and First.

Stock Picks

Company	BBG code	Rec	Target price (TWD)	Share price (TWD)	Upside/ (downside) (%)	Mkt cap (USD m)	P/BV		
							2008E (x)	2009E (x)	2010E (x)
First FHC	2892 TT	BUY	20.10	16.75	20.0	2,990	1.0	1.0	1.0
Mega FHC	2886 TT	HOLD	12.60	11.60	8.6	3,811	0.7	0.7	0.7
Chinatrust FHC	2891 TT	HOLD	14.70	13.40	9.7	3,529	1.0	0.9	0.9
Taishin FHC	2887 TT	REDUCE	4.80	5.36	(10.4)	954	0.5	0.5	0.5
E. Sun FHC	2884 TT	REDUCE	7.80	8.26	(5.6)	788	0.6	0.5	0.5

Source: BNP Paribas estimates

- Global crisis provides great opportunity to check which bank is prepared for the downturn. Top ideas: Fubon and First.
- Further consolidation in financial sector would provide sustainable growth for long-term winners.
- Lessons from 2001: Taiwan RTC spent TWD275b in 7 years to sell 55 small banks. 2nd consolidation wave coming.

Every crisis is an opportunity

Government can prolong the failure process but cannot avoid it

Even though global financial crisis has darkened economic outlook, it also provides a great opportunity to revisit Taiwan-styled Resolution Trust Corp (RTC) achievements and blind spots from 2001 to 2008. Taiwan RTC spent TWD275b (USD8.6b) from 2001 to 2008 to shut down 55 small banks and credit cooperatives and sold failed banks to new domestic and foreign owners. RTC and Deposit Insurance Corp spent USD8.6b, which is about 2.4% of 2008 Taiwan GDP spreading seven years, to resolve the previous banking issue. However, this slow-motion consolidation progress also contributes to lowest return on equity (ROE) of Taiwan banking industry across Asia region. Taiwan banks handed out 10% ROE industry-wide only in 2004. Otherwise, ROE was either below 10% or even negative ROE (in 2006). We concluded that excess banking capacity still exists. Only a timely aggressive action plan for consolidation (or eliminate over-capacity) in the current crisis could provide sustainable profit prospect.

The strength of recovery depends on TW regulators
We recommend investors to remain UNDERWEIGHT on banks for the rest of 2008 as credit standard is still tightening. To re-position in Taiwan financial sector after recent sell-off, we look at the following points to change our view. 1) BOLD action plan from Taiwan government (i.e. leverage banking recap needs and push for significant consolidation). 2) Taiwan banks, not Taiwan Central Bank, should start to trust each others' ability to survive long enough to do business. 3) Market already priced in estimated TWD360b NPL influx from corporate loans (equivalent of corporate NPL ratio around 4%). If actual NPL number is lower than expected, market confidence could show a reversal sign.

Muted 2009 growth but value play worth a revisit
We prefer relatively strong capital base names with minimum leverage. Fubon (2881 TT) and First (2892 TT) are relatively better choices with higher capital base of BIS ratio 11.1% and 10.8%, respectively, combined with reasonable loan-to-deposit ratio of 74% and 83%. Currently they are trading at 09 P/BV 0.8x and 1.0x with 9M08 EPS of TWD1.26 and TWD1.35, respectively.

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Lessons from Taiwan's handling of failed banks

Taiwan Resolution Trust Corp (RTC) 2001-08

- 1) **Proactive action is the key:** Taiwan set up RTC in 2001 to resolve massive bank /credit cooperative failure due to loan default and mismanagement. Taiwan RTC spent TWD275b (USD8.6b) from 2001 to 2008 to close down 55 small banks and credit cooperatives and resold failed banks to new domestic and foreign owners. Total loss was concentrated in three banks' failure in late 2007 and 2008 which accounted for more than 54% total loss incurred. Looking back, proactive action could have prevented the downfall of banks and reduced loss burden of taxpayers' money.
- 2) **Capital market signal can be seen as leading indicators:** Stock market has all the right reasons to detect issues around ailing banks (i.e. unsustainable business model, unsuccessful capital raising attempts, below cost of equity return). Early warning signs can be detected through distressed valuations, lowest return on equity, and low capital adequacy ratio. In the past, Taiwan RTC took action AFTER ailing banks' equity turned negative (liability > assets). Swift action should be the area to improve in the current financial crisis.
- 3) **Government cannot save failed banks:** Taiwan RTC/government is not responsible for bad decisions made by banking executives. But social cost and actual damage control is in the hand of TW regulators. Forcefully broking M&A transaction or decision to takeover ailing financial institutions is acceptable in current environment if recapitalization needs cannot be achieved by private sectors buyers/investors.

Searching for survivors in the economic downturn

In our view, under current market condition and expected global economic slowdown in 2009, over-leveraged balance sheet and significant exposure to overseas investment will be punished badly. Smaller capital base financial institutions will find it very difficult to attract capital investment.

- 4) **Capital base is the key survivor trait:** Assets write-off, mark-to-market losses, loan defaults are typical byproducts of bear market and economic downturn. The loss will eat into financial institution's equity (or capital). Please refer to our appendix explaining how Taiwan capital ratio is calculated. Thus, we saw major US and EU governments pump money into preferred share/common share of major financial institutions around the world to recapitalize banks' capital.

We examine loan-to-deposit ratio, BIS ratio, tier-1 capital ratio and capital adequacy ratio of major Taiwan financial institutions to select survivors who can weather through the financial crisis relatively better. We prefer relatively strong capital base names with minimum leverage. Fubon (2881 TT) and First (2892 TT) are relatively better choices with higher capital base of BIS ratio 11.1% and 10.8%, respectively. Also we consider the reasonable loan-to-deposit ratio of 74% and 83%. Currently trading at P/BV of 0.8x and P/BV 1.0x with 9M08 EPS of TWD1.26 and TWD1.35, respectively.

Exhibit 1: Loan-To-Deposit Ratio For Taiwan Banks

(%)	BBG code	Dec-96	Dec-97	Dec-98	Dec-99	Dec-00	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Jun-08
Chinatrust	2891 TT	88.3	89.6	89.4	89.6	87.8	76.9	89.6	71.1	77.3	73.0	68.1	73.1	74.1
Jih Sun	5820 TT	88.6	90.2	88.5	90.2	87.5	85.9	90.2	88.2	83.1	84.5	83.4	77.9	74.5
Yuanta	2885 TT	81.6	77.1	83.9	77.1	77.6	77.5	77.1	88.3	85.5	88.9	80.4	86.5	75.1
Cathay	2882 TT	81.8	75.5	80.5	75.5	80.2	74.0	75.5	77.5	78.6	74.4	71.6	71.6	76.6
SinoPac	2890 TT	89.4	82.1	74.4	82.1	78.0	76.8	82.1	69.2	79.1	75.9	76.8	74.2	77.2
Fubon	2881 TT	84.3	80.2	76.6	80.2	77.2	76.9	80.2	71.9	61.1	74.9	76.1	78.5	77.6
Taishin	2887 TT	101.2	91.0	84.1	91.0	84.2	85.1	91.0	84.1	85.2	80.1	83.5	83.7	81.9
Shin Kong	2888 TT	na	80.0	80.4	81.1	74.6	69.5	69.5	69.9	71.1	71.5	81.0	84.7	82.3
Hua Nan	2880 TT	86.8	86.2	85.0	86.2	87.8	81.5	86.2	75.7	72.8	73.2	77.9	79.9	82.9
First	2892 TT	89.0	90.1	89.9	90.1	87.7	84.5	90.1	75.6	73.0	75.0	77.5	83.1	83.9
E. Sun	2884 TT	89.6	83.9	80.0	83.9	84.6	79.7	83.9	80.6	83.2	83.5	82.9	84.2	87.4
Mega	2886 TT	83.6	107.3	105.1	107.3	103.4	89.2	107.3	82.3	84.9	82.1	98.9	91.8	99.7
CDIB	2883 TT	na	na	na	141.5	218.8	200.0	141.5	140.5	139.1	250.6	508.9	308.1	208.7
Industry total		89.5	87.5	87.0	89.8	94.6	90.3	89.8	75.0	76.6	79.9	81.2	82.4	83.5

Note: LDR = total loans / total deposits; 1999 – 2003 Industry data are derived from the average of the data available, 2003 – 2008 are FSC data.
Sources: FSC; TEJ; BNP Paribas

Exhibit 2: Tier I Ratio For Taiwan Banks

(%)	BBG code	Dec-98	Dec-99	Dec-00	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Jun-08
CDIB	2883 TT	na	87.3	102.5	113.4	106.8	118.0	122.3	108.5	102.5	16.9	19.1
Mega	2886 TT	10.5	10.8	10.6	11.3	10.7	10.0	9.8	10.2	11.5	9.8	9.3
Fubon	2881 TT	15.0	15.9	15.8	12.9	14.9	13.9	14.7	14.6	11.5	9.6	9.3
SinoPac	2890 TT	11.8	14.8	14.6	14.7	13.6	12.1	10.4	9.4	11.0	9.3	9.1
Chinatrust	2891 TT	8.8	9.3	8.8	8.7	9.8	8.0	8.0	8.8	7.9	8.1	8.8
Yuanta	2885 TT	14.2	13.7	11.6	10.5	7.8	6.4	7.5	7.5	5.4	8.9	8.7
Cathay	2882 TT	14.6	13.9	12.6	12.9	11.6	11.2	12.0	11.0	9.6	9.1	8.4
Jih Sun	5820 TT	9.3	9.4	10.5	9.1	7.0	6.8	6.5	5.7	6.6	6.1	7.9
E. Sun	2884 TT	10.8	13.1	12.5	12.3	9.4	9.1	9.1	7.4	7.6	8.4	7.4
Shin Kong	2888 TT	8.4	9.3	8.5	7.7	7.7	6.3	6.4	8.3	7.8	7.3	7.4
First	2892 TT	9.3	9.8	9.7	8.9	6.6	6.2	8.0	8.2	8.4	7.3	7.0
Taishin	2887 TT	9.0	9.2	10.4	10.0	7.5	7.9	9.3	6.7	5.4	6.8	6.7
Hua Nan	2880 TT	10.3	10.6	10.0	9.9	6.5	7.7	8.1	8.0	7.9	6.5	6.2
Industry total		10.3	11.1	10.8	10.6	9.2	9.2	9.5	9.2	8.2	8.4	8.3

Note: Tier 1 ratio = Tier 1 capital / Total risk-weighted assets; please refer to appendix in page 8 for more details.
Sources: Taiwan Central Bank; BNP Paribas

Exhibit 3: BIS Ratio (CAR) For Taiwan Banks

(%)	BBG code	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Jun-08
CDIB	2883 TT	41.7	35.0	32.0	35.0	37.2	33.1	16.9	19.1
Yuanta	2885 TT	10.9	11.0	8.7	9.1	8.1	9.2	11.9	11.8
Chinatrust	2891 TT	11.2	12.6	10.4	10.7	12.4	11.3	10.7	11.6
Fubon	2881 TT	13.3	14.0	13.1	13.1	11.6	11.2	9.6	11.1
Mega	2886 TT	11.7	11.0	10.2	10.8	10.9	10.3	10.5	10.9
Shin Kong	2888 TT	11.1	11.3	9.3	9.7	10.6	12.5	10.6	10.8
First	2892 TT	9.3	9.0	9.0	10.4	10.3	11.0	10.8	10.8
Hua Nan	2880 TT	10.7	9.1	11.2	11.9	12.1	12.3	10.8	10.4
E. Sun	2884 TT	11.0	10.4	10.0	11.6	9.6	10.8	11.4	10.4
SinoPac	2890 TT	14.4	12.9	12.4	12.6	13.0	12.4	9.7	10.3
Cathay	2882 TT	10.4	10.8	11.2	11.7	14.2	12.3	11.1	10.0
Taishin	2887 TT	11.3	10.3	10.1	11.6	10.1	7.5	10.0	9.8
Jih Sun	5820 TT	8.7	9.7	9.3	10.1	8.7	9.0	8.8	8.8
Industry total		10.4	10.6	10.1	10.7	10.3	10.1	11.6	11.5

Note: BIS ratio = BIS capital / Total risk-weighted assets; please refer to appendix in page 8 for more details.
Sources: FSC; BNP Paribas

Exhibit 4: CAR For Taiwan Financial Holding Companies (FHC)

(%)	BBG code	Dec-05	Dec-06	Dec-07	Jun-08
Yuanta	2885 TT	117.3	108.2	168.5	174.7
Waterland	2889 TT	150.2	153.8	152.1	159.5
CDIB	2883 TT	223.7	202.4	108.6	141.5
Fubon	2881 TT	171.0	160.9	152.4	139.9
Jih Sun	5820 TT	102.7	111.1	121.9	119.8
SinoPac	2890 TT	144.0	134.0	118.0	115.0
Chinatrust	2891 TT	139.4	121.1	114.3	110.1
Hua Nan	2880 TT	109.4	112.7	108.1	106.6
First	2892 TT	122.1	119.4	109.5	103.6
Mega	2886 TT	na	110.6	109.0	103.0
Cathay	2882 TT	162.9	155.4	141.1	102.9
Taishin	2887 TT	94.1	98.3	107.4	101.4
E. Sun	2884 TT	115.7	110.4	104.7	100.4
Shin Kong	2888 TT	138.1	155.6	125.4	94.0
Average		137.7	132.4	124.4	119.5

Note: please refer to appendix in page 8 for more details.
Sources: TEJ; BNP Paribas

Earnings revisions

- 1) **Profitability:** We are lowering banks' profitability due to unavoidable net interest margin (NIM) contraction for Taiwan banks. On 9 October 2008, Taiwan Central bank unexpectedly lowered rediscount rate by 25bp to 3.25% to collaborate with global central bankers to increase market liquidity. The emergency treatment had started to ease market panic; however, we are expecting NIM will still be under pressure in the next two years.
- 2) **Risk and growth:** We are adjusting our NPL forecast for the next two years, given our already conservative asset quality forecast. We believe credit cost may increase somewhat in the next two years but a serious deterioration of SME loan quality seems unlikely. We also adjust loan growth for the next two years to below 3% to factor in our conservative view toward banking sector.

First FHC (2892 TT; BUY; TP: TWD20.10)

We believe it's time for value investors to accumulate quality names which was overlooked in the recent market havoc. We factor in conservative assumptions for First FHC including: 1) 20% credit cost* increase for 2009, 2) 2% NIM decrease for 2009, 3) fee, trading, and other capital market related income down 5% for 2009, and 4) National Investment Trust asset under management (AUM) down 20% in 2009.

First FHC is now trading at 1.0x 2009E P/BV (versus 1.3-2.3x 12-month forward P/BV in 2003-09E). We retain BUY in the light of: 1) current attractive valuation; 2) comfortable assumptions over the SME loan quality and earnings outlook for 2009, our sum-of-the-parts (SoTP)-based implied 1.2x 2009E P/BV, 12-month target price of TWD20.10 implies 20% upside. We suggest investors to accumulate First FHC during market turmoil.

* Credit cost = provision/average loan

Mega FHC (2886 TT; HOLD; TP: TWD12.60)

Under rising risk of global financial systems, we factor in aggressive provision against risky assets in our model. We are also concerned on Mega's 100% loan-to-deposit ratio as it is the highest in Taiwan banking sector (versus industry average 84% level). Inter-bank/debt market financing cost has been on the rise since mid-September, and Mega's cost of funding might also rise, thus eroding its interest margin.

Mega has been trading at a discount to quasi-government banks mainly because of its oversized exposure to riskier Taiwan corporations and questionable risk management practice. As Mega had finished a series of write downs from Lehman (TWD3b loss), AIG, CBO, mark-to-market of Mega trading book (TWD1.2b loss), and Far Eastern Airlines default, the company reported a preliminary TWD7.4 b net loss in September 2008. However, we expect the worst might not be over yet on the credit deterioration cycle and margin pressure. Mega will find it challenging to outperform its peers in 2009. Our 12-month target price of TWD12.60 implies 0.7x 2009E P/BV based on bear market valuation. Maintain HOLD.

Chinatrust FHC (2891 TT; HOLD; TP: TWD14.70)

Chinatrust FHC reported preliminary earnings of TWD8.5b (EPS: TWD0.85) as of September 2008. For September 2008, the company reported a TWD2.1b net loss, mainly explained by TWD3b mark-to-market loss from its 5% stake in Mega FHC (2886 TT), which was down 25% in September.

Our earnings revision includes factors such as, 1) Profitability under pressure: We expect NIM down 4% in 2009; 2) Credit cost increase: We adjust target NPL ratio for 2009 to 1.8% from 1.6%; and 3) Wealth management business: One of the core drivers of Chinatrust profit model, however, down 30% y-y. Besides conceivably weakened outlook, we believe it will take some time to expand wealth management business after regaining investors' confidence. We expect a further 5% decrease in wealth management business in 2009.

We lower our target price to TWD14.70, which is based on 1.0x 2009E P/BV (historical valuation range, 0.9-2.2x P/BV). We maintain our HOLD rating on Chinatrust fundamentals on weakening net interest margin and a challenging macro environment.

Taishin FHC (2887 TT; REDUCE; TP: TWD4.80)

Taishin FHC had dropped 65% from our recommendation to REDUCE on 16 May 2008, versus a 42% drop for TWSE. Taishin FHC reported preliminary earnings of TWD0.41b as of September 2008. For September 2008, the company reported a TWD690m net loss, mainly explained by TWD415m mark-to-market loss of its securities subsidiary.

We lowered Taishin FHC 2009E earnings, mainly to reflect: 1) Higher risk: We increase our NPL estimation for 2009 to 1.8% from 1.7%, 2) Limited growth: We estimate a 5% decrease in 09 loan growth from 2% increase, and 3) More uncertainties ahead: Market speculation on the Taishin liquidity condition, high dilution from potential rights issuance, possible merger with Mega FHC, and unsolved political uncertainty toward Taishin FHC. We maintain REDUCE recommendation. The target price of TWD4.80 is based on 0.5x 2009E P/BV and 2% 2009E ROE.

E. Sun FHC (2884 TT; REDUCE; TP: TWD7.80)

E. Sun FHC had dropped 50% from our recommendation to REDUCE on 7 December 2007, versus a 39% drop for TWSE. We cut our earnings forecast and target price to reflect: 1) net interest margin under pressure; 2) fee and commission income growth set to decrease, we estimate 5% decrease in 2009; and 3) TW small cap bank got squeezed in the economic downturn; its net interest margin has been decreasing faster than peers (35% down since 2.48% FY05 to 1.6% 1H08) due to competition squeeze in the Taiwan banking market.

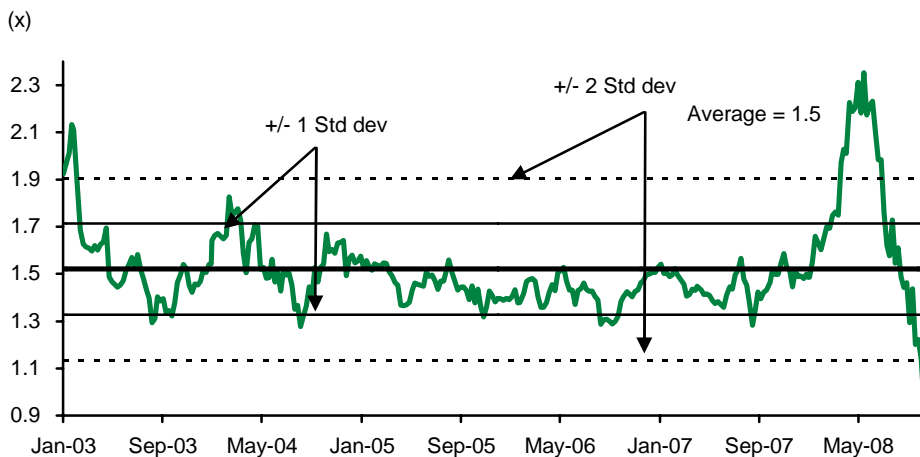
We reiterate REDUCE rating with target price of TWD7.80 based on 0.5x 2009E P/BV and 3.6% 2009E ROE. We believe the TP deserves to be lower than book value as E. Sun's ROE is lower than COE for three consecutive years.

Exhibit 5: Comparable Valuation Table

		BNPP rating	Share price (LC)	Target price (LC)	— P/BV —		— P/E —		— EPS —		— BVPS —		— ROAE —		— ROAA —	
					08E	09E	08E	09E	08E	09E	08E	09E	08E	09E	08E	09E
Bank Centric FHC					(x)	(x)	(x)	(x)	(TWD)	(TWD)	(TWD)	(TWD)	(%)	(%)	(%)	(%)
2892 TT	First FHC	Buy	16.75	20.10	1.0	1.0	9.9	10.9	1.7	1.5	16.1	16.5	10.7	9.5	0.8	0.8
2886 TT	Mega FHC	Hold	11.60	12.60	0.7	0.7	50.6	15.0	0.2	0.8	16.4	17.1	6.2	4.6	0.5	0.4
2891 TT	Chinatrust FHC	Hold	13.40	14.70	1.0	0.9	12.8	15.0	1.0	0.9	14.1	14.5	7.9	6.2	0.6	0.5
2887 TT	Taishin FHC	Reduce	5.36	4.80	0.5	0.5	21.1	27.3	0.3	0.2	10.3	10.2	2.5	1.9	0.3	0.3
2884 TT	E. Sun FHC	Reduce	8.26	7.80	0.6	0.5	12.9	13.6	0.6	0.6	14.7	15.0	4.4	4.1	0.3	0.2
Average					0.8	0.7	21.5	16.4	0.8	0.8	14.3	14.7	6.3	5.3	0.5	0.4

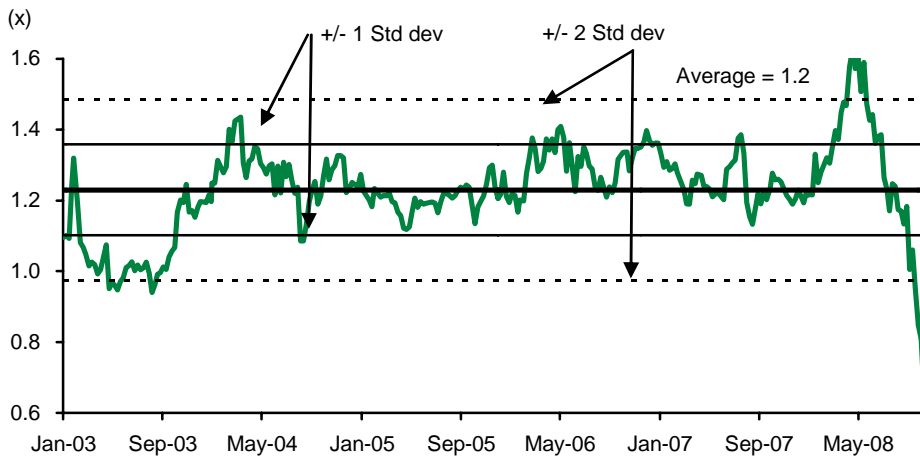
Prices are as of 13 October 2008
Sources: Bloomberg; BNP Paribas estimates

Exhibit 6: First FHC 12-Month Forward P/BV Band Chart



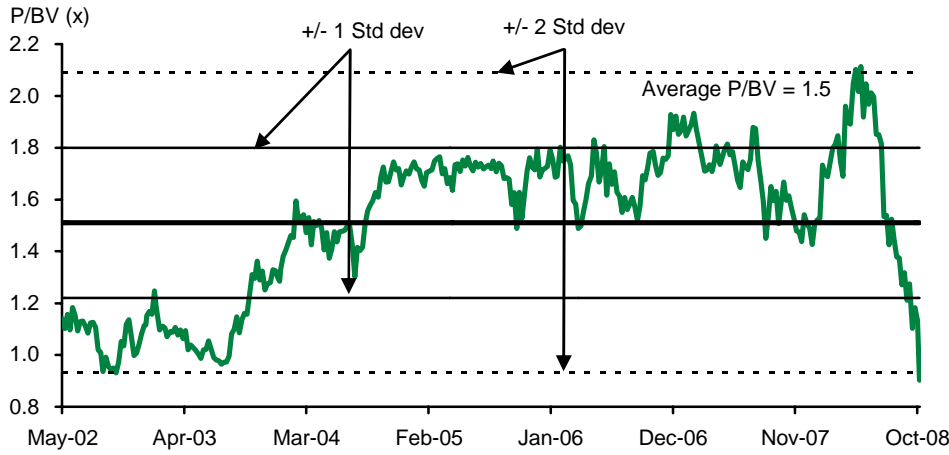
Sources: TEJ; BNP Paribas estimates

Exhibit 7: Mega FHC 12-Month Forward P/BV Band Chart



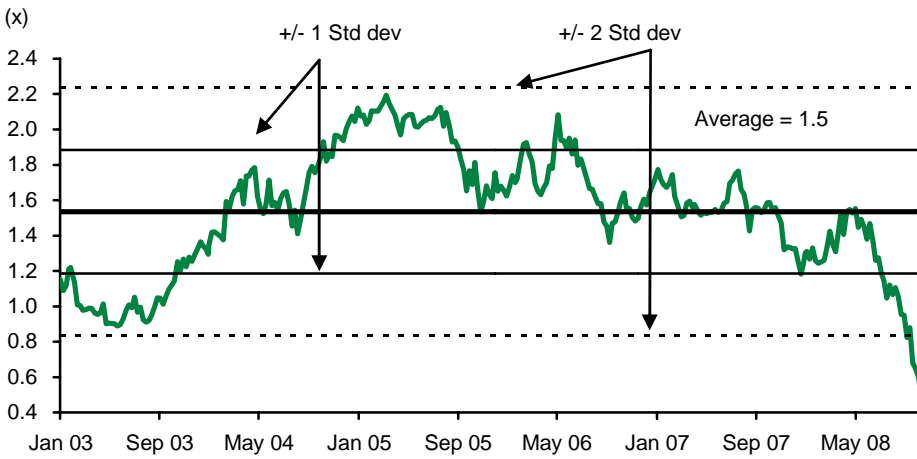
Sources: TEJ; BNP Paribas estimates

Exhibit 8: Chinatrust FHC 12-Month Forward P/BV Band Chart



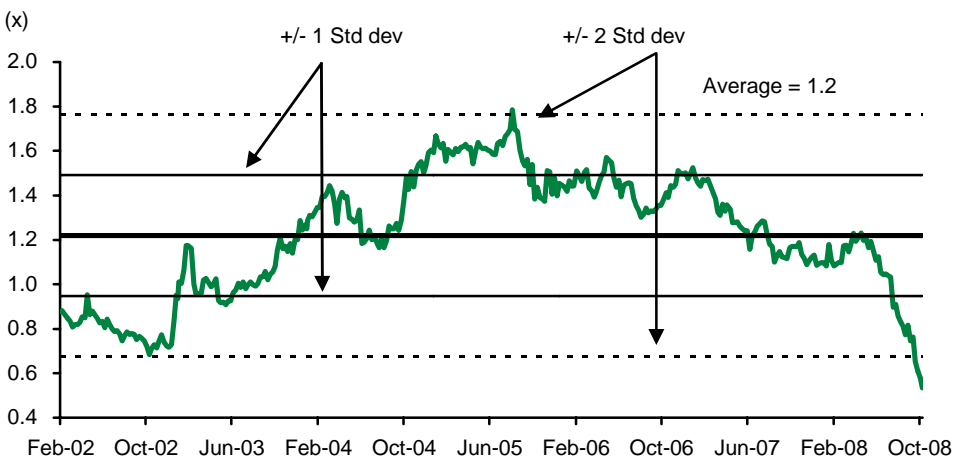
Sources: TEJ; BNP Paribas estimates

Exhibit 9: Taishin FHC 12-Month Forward P/BV Band Chart



Sources: TEJ; BNP Paribas estimates

Exhibit 10: E. Sun FHC 12-Month Forward P/BV Band Chart



Sources: TEJ; BNP Paribas estimates

Appendix

Bank and FHC CAR

Bank BIS ratio (CAR ratio)

The Bank for International Settlements (BIS) ratio is a measurement of appropriateness of bank's capital over its risky assets. It is determined by dividing the bank's total BIS capital by the bank's total risk-weighted assets. In essence, it's a measurement of the bank's capital safety over its risky asset. Currently, minimum BIS requirement for banks in Taiwan is 8%, however, no explicit requirement for Tier I banks.

Total BIS capital is the sum of Tier-1 and Tier-2 capital. The basic components of Tier I capital consist of common stock and non-cumulative perpetual preferred/ sub-debt without a maturity date, which is a more reliable form of capital. Tier II mainly constitute cumulative perpetual preferred stock/ sub-debt, fixed asset appreciation surplus, 45% of unrealized long-term equity investment capital gain and general loan loss reserves.

Total risk-weighted asset is calculated by the sum of the bank's asset under different risk weighting, for example, cash will be regarded as risk free, which we adopted 0% "risk weighting". On the other hand, non-performing loan will be regarded as totally risky, which we adopted 100% "risk weighting."

$$\text{Bank BIS (CAR) ratio} = \frac{\text{BIS Capital = Tier I + Tier II}}{\text{Total risk-weighted assets}}$$

FHC CAR ratio

Capital adequacy ratio (CAR), to be simple, it's determined by dividing the holding company's eligible capital by the holding company's legal capital required. Currently, minimum CAR requirement is 100% for FHC in Taiwan, which means minimum eligible capital should at least meet the minimum of legal capital required.

The calculation for holding company's capital is the sum of each eligible/ legal required capital of holding company's subsidiaries. Legal capital requirement is different for specific industries given different applicable laws, i.e. insurance subsidiary's legal capital requirement is 200% of its risk-weighted asset ("RWA"), bank subsidiary is 8% of its RWA, and securities subsidiary is 150% of its RWA.

Holding companies which cannot meet minimum CAR requirement will be fined and prohibited from dividend distribution. Further sanctions may also be applied depending on the degree of violation.

$$\text{FHC CAR ratio} = \frac{\text{Net Eligible Capital}}{\text{Net Required Qualified Capital}}$$

FINANCIAL STATEMENTS

First FHC

Profit and Loss (TWD m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Interest income	43,293	49,212	46,272	48,678	51,877
Interest expense	(22,576)	(26,709)	(25,216)	(26,676)	(28,422)
Net interest income	20,716	22,503	21,055	22,002	23,455
Net fees & commission	6,166	8,778	8,042	7,746	7,947
Foreign exchange trading income	-	-	-	-	-
Securities trading income	3,450	4,260	3,161	3,060	3,126
Dividend income	-	-	-	-	-
Other income	4,581	3,756	2,218	2,357	2,447
Non interest income	14,197	16,794	13,421	13,164	13,520
Total income	34,913	39,297	34,476	35,166	36,975
Staff costs	(10,711)	(11,205)	(11,478)	(11,836)	(12,205)
Other operating costs	(4,590)	(4,802)	(4,919)	(5,072)	(5,231)
Operating costs	(15,301)	(16,007)	(16,397)	(16,908)	(17,436)
Pre provision operating profit	19,612	23,290	18,079	18,258	19,539
Provisions for bad and doubtful debts	(4,736)	(6,062)	(4,799)	(5,937)	(6,304)
Other provisions	-	-	-	-	-
Operating profit	14,876	17,229	13,280	12,320	13,236
Recurring non operating income	(671)	(658)	(20)	(72)	(103)
Associates	-	-	-	-	-
Goodwill amortisation	-	-	-	-	-
Non recurring items	-	-	-	-	-
Profit before tax	14,205	16,571	13,260	12,248	13,133
Tax	(3,544)	(4,086)	(2,799)	(2,755)	(2,947)
Profit after tax	10,662	12,485	10,461	9,493	10,186
Minority interests	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	10,662	12,485	10,461	9,493	10,186
Non recurring items & goodwill (net)	-	-	-	-	-
Recurring net profit	10,662	12,485	10,461	9,493	10,186
Per share (TWD)					
Recurring EPS *	1.79	2.05	1.70	1.54	1.65
Reported EPS	1.79	2.05	1.70	1.54	1.65
DPS	1.00	1.70	1.11	1.10	1.17
Growth					
Net interest income (%)	2.1	8.6	(6.4)	4.5	6.6
Non interest income (%)	64.4	18.3	(20.1)	(1.9)	2.7
Pre provision operating profit (%)	44.7	18.8	(22.4)	1.0	7.0
Operating profit (%)	61.2	15.8	(22.9)	(7.2)	7.4
Reported net profit (%)	(23.8)	17.1	(16.2)	(9.2)	7.3
Recurring EPS (%)	21.0	14.8	(17.2)	(9.2)	7.3
Reported EPS (%)	(25.6)	14.8	(17.2)	(9.2)	7.3
Income breakdown					
Net interest income (%)	59.3	57.3	61.1	62.6	63.4
Net fees & commission (%)	17.7	22.3	23.3	22.0	21.5
Foreign exchange trading income (%)	-	-	-	-	-
Securities trading income (%)	9.9	10.8	9.2	8.7	8.5
Dividend income (%)	-	-	-	-	-
Other income (%)	13.1	9.6	6.4	6.7	6.6
Operating performance					
Gross interest yield (%)	3.38	3.99	3.50	3.45	3.47
Cost of funds (%)	1.65	1.90	1.71	1.71	1.74
Net interest spread (%)	1.74	2.09	1.79	1.74	1.73
Net interest margin (%)	1.62	1.82	1.59	1.56	1.57
Cost/income (%)	43.8	40.7	47.6	48.1	47.2
Cost/assets (%)	0.98	0.99	0.97	0.95	0.93
Effective tax rate (%)	24.9	24.7	21.1	22.5	22.4
Dividend payout on recurring profit (%)	56.0	82.9	65.7	71.1	71.0
ROE (%)	11.1	12.7	10.7	9.5	9.9
ROE - COE (%)	2.0	3.6	1.6	0.4	0.8
ROA (%)	0.68	0.77	0.62	0.53	0.54
RORWA (%)	1.13	1.20	0.96	0.82	0.84
* Pre exceptional, pre-goodwill and fully diluted					

Solid NIM trend should help First FHC profitability during times of turmoil

Sources: First FHC; BNP Paribas estimates

First FHC

Balance Sheet (TWD m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Gross customer loans	981,455	1,081,350	1,113,752	1,147,125	1,181,500
Total provisions	(8,322)	(9,041)	(9,139)	(10,324)	(11,259)
Interest in suspense	-	-	-	-	-
Net customer loans	973,134	1,072,310	1,104,613	1,136,802	1,170,241
Bank loans	-	-	-	-	-
Government securities	90,493	82,349	108,319	127,995	149,575
Trading securities	72,735	67,877	87,919	103,185	119,753
Investment securities	-	-	-	-	-
Cash & equivalents	69,661	63,672	83,255	98,109	114,380
Other interest earning assets	-	-	-	-	-
Tangible fixed assets	24,528	24,800	25,568	26,847	27,423
Associates	318,508	294,945	300,900	309,967	319,307
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	49,561	37,664	32,273	27,072	21,079
Total assets	1,598,620	1,643,616	1,742,847	1,829,975	1,921,758
Customer deposits	1,253,588	1,288,597	1,365,913	1,434,208	1,505,919
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	126,738	153,297	162,208	170,403	179,080
Non interest bearing liabilities	117,095	105,555	115,767	123,661	132,106
Hybrid capital	-	-	-	-	-
Total liabilities	1,497,422	1,547,449	1,643,887	1,728,272	1,817,105
Share capital	101,199	96,167	98,960	101,703	104,654
Reserves	-	-	-	-	-
Total equity	101,199	96,167	98,960	101,703	104,654
Minority interests	-	-	-	-	-
Total liabilities & equity	1,598,620	1,643,616	1,742,847	1,829,975	1,921,758
Supplementary items					
Risk weighted assets (RWA)	1,023,115	1,057,126	1,125,567	1,186,022	1,249,850
Average interest earning assets	1,279,113	1,233,724	1,322,120	1,411,761	1,496,449
Average interest bearing liabilities	1,369,304	1,404,946	1,478,631	1,559,772	1,637,990
Tier 1 capital	87,125	84,742	93,925	102,886	112,598
Total capital	87,446	86,582	95,864	106,010	116,657
Gross non performing loans (NPL)	15,406	16,234	17,243	19,479	21,244
Per share (TWD)					
Book value per share	16.94	15.79	16.06	16.50	16.98
Tangible book value per share	16.94	15.79	16.06	16.50	16.98
Growth					
Gross customer loans (%)	8.5	10.2	3.0	3.0	3.0
Average interest earning assets (%)	(4.6)	(3.5)	7.2	6.8	6.0
Total assets (%)	4.8	2.8	6.0	5.0	5.0
Risk weighted assets (%)	18.1	3.3	6.5	5.4	5.4
Customer deposits (%)	5.6	2.8	6.0	5.0	5.0
Leverage & capital measures					
Customer loans/deposits (%)	77.6	83.2	80.9	79.3	77.7
Equity/assets (%)	6.3	5.9	5.7	5.6	5.4
Tangible equity/assets (%)	6.3	5.9	5.7	5.6	5.4
RWA/assets (%)	64.0	64.3	64.6	64.8	65.0
Tier 1 CAR (%)	8.5	8.0	8.3	8.7	9.0
Total CAR (%)	8.5	8.2	8.5	8.9	9.3
Asset quality					
Change in NPL (%)	(0.5)	5.4	6.2	13.0	9.1
NPL/gross loans (%)	1.6	1.5	1.5	1.7	1.8
Total provisions/gross loans (%)	0.8	0.8	0.8	0.9	1.0
Total provisions/NPL (%)	54.0	55.7	53.0	53.0	53.0
Valuation					
Recurring P/E (x) *	9.4	8.2	9.9	10.9	10.1
Recurring P/E @ target price (x) *	11.3	9.8	11.8	13.0	12.2
Reported P/E (x)	9.4	8.2	9.9	10.9	10.1
Dividend yield (%)	6.0	10.1	6.7	6.5	7.0
Price/book (x)	1.0	1.1	1.0	1.0	1.0
Price/tangible book (x)	1.0	1.1	1.0	1.0	1.0
Price/tangible book @ target price (x)	1.2	1.3	1.3	1.2	1.2

Dividend yield as cushion

Sources: First FHC; BNP Paribas estimates

Mega FHC

Profit and Loss (TWD m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Interest income	66,626	69,618	68,154	68,143	66,698
Interest expense	(41,306)	(43,719)	(47,583)	(47,850)	(47,893)
Net interest income	25,320	25,899	20,571	20,294	18,805
Net fees & commission	7,768	9,611	9,403	8,858	8,673
Foreign exchange trading income	-	-	-	-	-
Securities trading income	14,816	10,446	6,648	5,961	5,932
Dividend income	-	-	-	-	-
Other income	15,022	16,467	16,587	16,858	17,510
Non interest income	37,606	36,524	32,638	31,677	32,114
Total income	62,926	62,423	53,210	51,971	50,920
Staff costs	(6,587)	(6,685)	(6,704)	(6,854)	(7,008)
Other operating costs	(22,462)	(23,309)	(23,523)	(24,172)	(24,941)
Operating costs	(29,049)	(29,994)	(30,227)	(31,025)	(31,950)
Pre provision operating profit	33,878	32,429	22,983	20,945	18,970
Provisions for bad and doubtful debts	(7,525)	(7,406)	(7,340)	(7,237)	(5,560)
Other provisions	(2,457)	(2,579)	(2,632)	(2,764)	(2,902)
Operating profit	23,896	22,444	13,010	10,945	10,509
Recurring non operating income	1,120	620	230	300	300
Associates	(2,389)	(1,979)	-	-	-
Goodwill amortisation	-	-	-	-	-
Non recurring items	-	-	(9,100)	-	-
Profit before tax	22,626	21,086	4,140	11,245	10,809
Tax	(3,076)	(3,091)	(674)	(1,748)	(1,717)
Profit after tax	19,551	17,994	3,467	9,497	9,091
Minority interests	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Other items	(115)	(924)	(933)	(942)	(952)
Reported net profit	19,436	17,070	2,534	8,554	8,140
Non recurring items & goodwill (net)	-	-	9,099	-	-
Recurring net profit	19,436	17,070	11,633	8,554	8,140
Per share (TWD)					
Recurring EPS *	1.76	1.54	1.05	0.77	0.74
Reported EPS	1.76	1.54	0.23	0.77	0.74
DPS	1.20	1.25	0.18	0.62	0.59
Growth					
Net interest income (%)	(3.2)	2.3	(20.6)	(1.3)	(7.3)
Non interest income (%)	27.6	(2.9)	(10.6)	(2.9)	1.4
Pre provision operating profit (%)	15.6	(4.3)	(29.1)	(8.9)	(9.4)
Operating profit (%)	7.2	(6.1)	(42.0)	(15.9)	(4.0)
Reported net profit (%)	(13.7)	(12.2)	(85.2)	237.7	(4.8)
Recurring EPS (%)	(13.7)	(12.2)	(31.9)	(26.5)	(4.8)
Reported EPS (%)	(13.7)	(12.2)	(85.2)	237.7	(4.8)
Income breakdown					
Net interest income (%)	40.2	41.5	38.7	39.0	36.9
Net fees & commission (%)	12.3	15.4	17.7	17.0	17.0
Foreign exchange trading income (%)	-	-	-	-	-
Securities trading income (%)	23.5	16.7	12.5	11.5	11.6
Dividend income (%)	-	-	-	-	-
Other income (%)	23.9	26.4	31.2	32.4	34.4
Operating performance					
Gross interest yield (%)	3.54	3.75	3.52	3.49	3.40
Cost of funds (%)	2.62	2.68	2.77	2.79	2.81
Net interest spread (%)	0.92	1.07	0.75	0.70	0.60
Net interest margin (%)	1.35	1.40	1.06	1.04	0.96
Cost/income (%)	46.2	48.0	56.8	59.7	62.7
Cost/assets (%)	1.33	1.34	1.30	1.33	1.36
Effective tax rate (%)	13.6	14.7	16.3	15.5	15.9
Dividend payout on recurring profit (%)	68.1	81.0	17.4	80.0	80.0
ROE (%)	10.0	8.7	6.2	4.6	4.3
ROE - COE (%)	0.8	(0.6)	(3.1)	(4.7)	(5.0)
ROA (%)	0.89	0.76	0.50	0.37	0.35
RORWA (%)	1.51	1.18	0.74	0.53	0.49
* Pre exceptional, pre-goodwill and fully diluted					

Sources: Mega FHC; BNP Paribas estimates

Mega FHC

Balance Sheet (TWD m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Gross customer loans	1,127,330	1,217,209	1,239,866	1,211,602	1,174,457
Total provisions	(11,174)	(8,668)	(7,830)	(7,657)	(6,077)
Interest in suspense	-	-	-	-	-
Net customer loans	1,116,156	1,208,541	1,232,037	1,203,945	1,168,380
Bank loans	-	-	-	-	-
Government securities	-	-	-	-	-
Trading securities	-	-	-	-	-
Investment securities	288,385	284,594	289,274	294,041	298,897
Cash & equivalents	10,166	7,426	9,421	9,735	10,163
Other interest earning assets	370,623	425,748	419,344	447,306	485,349
Tangible fixed assets	23,559	23,369	24,161	25,004	25,903
Associates	238,487	228,292	230,631	232,996	235,387
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	125,453	125,897	129,027	132,311	135,759
Total assets	2,172,828	2,303,867	2,333,894	2,345,337	2,359,837
Customer deposits	1,063,630	1,301,799	1,210,673	1,174,353	1,139,122
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	475,938	415,649	505,912	534,112	564,110
Non interest bearing liabilities	435,680	391,768	435,571	447,684	465,237
Hybrid capital	-	-	-	-	-
Total liabilities	1,975,249	2,109,216	2,152,156	2,156,149	2,168,469
Share capital	206,510	189,816	179,320	186,771	188,951
Reserves	(8,931)	4,835	2,417	2,417	2,417
Total equity	197,579	194,651	181,738	189,188	191,368
Minority interests	-	-	-	-	-
Total liabilities & equity	2,172,828	2,303,867	2,333,894	2,345,337	2,359,837
Supplementary items					
Risk weighted assets (RWA)	1,338,875	1,543,731	1,589,732	1,638,969	1,690,100
Average interest earning assets	1,881,878	1,855,819	1,938,192	1,952,551	1,958,907
Average interest bearing liabilities	1,574,908	1,628,508	1,717,016	1,712,525	1,705,849
Tier 1 capital	114,963	120,874	124,595	129,877	134,861
Total capital	143,455	152,041	156,445	162,208	167,694
Gross non performing loans (NPL)	8,052	12,080	17,795	17,403	16,881
Per share (TWD)					
Book value per share	17.87	17.60	16.43	17.11	17.30
Tangible book value per share	17.87	17.60	16.43	17.11	17.30
Growth					
Gross customer loans (%)	1.7	8.0	1.9	(2.3)	(3.1)
Average interest earning assets (%)	(2.8)	(1.4)	4.4	0.7	0.3
Total assets (%)	(1.3)	6.0	1.3	0.5	0.6
Risk weighted assets (%)	8.2	15.3	3.0	3.1	3.1
Customer deposits (%)	(2.0)	22.4	(7.0)	(3.0)	(3.0)
Leverage & capital measures					
Customer loans/deposits (%)	104.9	92.8	101.8	102.5	102.6
Equity/assets (%)	9.1	8.4	7.8	8.1	8.1
Tangible equity/assets (%)	9.1	8.4	7.8	8.1	8.1
RWA/assets (%)	61.6	67.0	68.1	69.9	71.6
Tier 1 CAR (%)	8.6	7.8	7.8	7.9	8.0
Total CAR (%)	10.7	9.8	9.8	9.9	9.9
Asset quality					
Change in NPL (%)	(38.8)	50.0	47.3	(2.2)	(3.0)
NPL/gross loans (%)	0.7	1.0	1.4	1.4	1.4
Total provisions/gross loans (%)	1.0	0.7	0.6	0.6	0.5
Total provisions/NPL (%)	138.8	71.8	44.0	44.0	36.0
Valuation					
Recurring P/E (x) *	6.6	7.5	11.0	15.0	15.8
Recurring P/E @ target price (x) *	7.2	8.2	12.0	16.3	17.1
Reported P/E (x)	6.6	7.5	50.6	15.0	15.8
Dividend yield (%)	10.3	10.8	1.6	5.3	5.1
Price/book (x)	0.6	0.7	0.7	0.7	0.7
Price/tangible book (x)	0.6	0.7	0.7	0.7	0.7
Price/tangible book @ target price (x)	0.7	0.7	0.8	0.7	0.7

Stable loan expansion
in the next three years

Solid dividend yield

Sources: Mega FHC; BNP Paribas estimates

Chinatrust FHC

Profit and Loss (TWD m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Interest income	67,258	64,234	58,080	61,195	64,747
Interest expense	(29,154)	(31,490)	(33,186)	(35,084)	(37,096)
Net interest income	38,104	32,743	24,894	26,110	27,651
Net fees & commission	18,823	25,027	26,278	24,964	25,464
Foreign exchange trading income	-	-	-	-	-
Securities trading income	1,563	3,474	3,648	3,466	3,535
Dividend income	-	-	-	-	-
Other income	8,718	(2,266)	2,380	2,261	2,306
Non interest income	29,103	26,235	32,306	30,691	31,305
Total income	67,207	58,978	57,200	56,801	58,955
Staff costs	(19,944)	(20,195)	(20,801)	(21,425)	(22,068)
Other operating costs	(11,137)	(11,303)	(11,642)	(11,991)	(12,351)
Operating costs	(31,082)	(31,498)	(32,443)	(33,416)	(34,419)
Pre provision operating profit	36,125	27,480	24,757	23,385	24,536
Provisions for bad and doubtful debts	(48,138)	(9,915)	(11,385)	(11,773)	(11,966)
Other provisions	-	-	-	-	-
Operating profit	(12,013)	17,565	13,372	11,612	12,570
Recurring non operating income	(2,745)	-	-	-	-
Associates	-	-	-	-	-
Goodwill amortisation	-	-	-	-	-
Non recurring items	-	-	-	-	-
Profit before tax	(14,758)	17,565	13,372	11,612	12,570
Tax	4,507	(4,219)	(2,808)	(2,438)	(2,640)
Profit after tax	(10,251)	13,346	10,564	9,173	9,931
Minority interests	-	-	-	-	-
Preferred dividends	(1,432)	(1,050)	(1,050)	(1,050)	(1,050)
Other items	-	-	-	-	-
Reported net profit	(11,683)	12,296	9,514	8,123	8,881
Non recurring items & goodwill (net)	-	-	-	-	-
Recurring net profit	(11,683)	12,296	9,514	8,123	8,881
Per share (TWD)					
Recurring EPS *	(1.39)	1.39	1.00	0.85	0.93
Reported EPS	(1.46)	1.46	1.05	0.89	0.98
DPS	-	0.20	0.20	0.50	0.50
Growth					
Net interest income (%)	(5.8)	(14.1)	(24.0)	4.9	5.9
Non interest income (%)	11.0	(9.9)	23.1	(5.0)	2.0
Pre provision operating profit (%)	3.6	(23.9)	(9.9)	(5.5)	4.9
Operating profit (%)	neg	neg	(23.9)	(13.2)	8.3
Reported net profit (%)	neg	neg	(22.6)	(14.6)	9.3
Recurring EPS (%)	neg	neg	(28.2)	(14.6)	9.3
Reported EPS (%)	neg	neg	(28.5)	(14.6)	9.3
Income breakdown					
Net interest income (%)	56.7	55.5	43.5	46.0	46.9
Net fees & commission (%)	28.0	42.4	45.9	44.0	43.2
Foreign exchange trading income (%)	-	-	-	-	-
Securities trading income (%)	2.3	5.9	6.4	6.1	6.0
Dividend income (%)	-	-	-	-	-
Other income (%)	13.0	(3.8)	4.2	4.0	3.9
Operating performance					
Gross interest yield (%)	5.33	5.61	4.90	4.88	4.90
Cost of funds (%)	1.95	2.13	2.20	2.20	2.20
Net interest spread (%)	3.38	3.48	2.70	2.68	2.70
Net interest margin (%)	3.02	2.86	2.10	2.08	2.09
Cost/income (%)	46.2	53.4	56.7	58.8	58.4
Cost/assets (%)	1.84	1.87	1.88	1.83	1.79
Effective tax rate (%)	neg	24.0	21.0	21.0	21.0
Dividend payout on recurring profit (%)	neg	14.4	20.0	58.7	53.7
ROE (%)	(11.4)	11.6	7.9	6.2	6.6
ROE - COE (%)	(21.5)	1.5	(2.2)	(3.8)	(3.4)
ROA (%)	(0.61)	0.79	0.61	0.50	0.52
RORWA (%)	(0.94)	1.23	0.94	0.77	0.80

* Pre exceptional, pre-goodwill and fully diluted

Sources: Chinatrust FHC; BNP Paribas estimates

NIM to decrease

But diversified revenue mix should help Chinatrust to have a sustainable ROE

Chinatrust FHC

Balance Sheet (TWD m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Gross customer loans	857,951	888,203	914,850	942,295	970,564
Total provisions	(18,935)	(12,233)	(13,220)	(14,417)	(14,850)
Interest in suspense	-	-	-	-	-
Net customer loans	839,016	875,970	901,630	927,878	955,714
Bank loans	-	-	-	-	-
Government securities	121,071	109,264	127,936	143,450	160,207
Trading securities	-	-	-	-	-
Investment securities	-	-	-	-	-
Cash & equivalents	181,606	163,896	191,905	215,174	240,310
Other interest earning assets	-	-	-	-	-
Tangible fixed assets	33,891	34,105	35,810	37,601	39,481
Associates	366,550	331,923	348,519	365,945	384,242
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	146,427	163,486	171,661	180,244	189,256
Total assets	1,688,560	1,678,645	1,777,461	1,870,291	1,969,209
Customer deposits	1,206,228	1,180,402	1,251,226	1,326,300	1,405,878
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	285,082	286,156	299,105	312,831	327,381
Non interest bearing liabilities	90,944	90,944	91,398	91,855	92,315
Hybrid capital	-	-	-	-	-
Total liabilities	1,582,253	1,557,502	1,641,730	1,730,987	1,825,574
Share capital	87,361	91,597	98,490	98,490	98,490
Reserves	18,946	29,546	37,241	40,815	45,146
Total equity	106,307	121,143	135,731	139,305	143,636
Minority interests	-	-	-	-	-
Total liabilities & equity	1,688,560	1,678,645	1,777,461	1,870,291	1,969,209
Supplementary items					
Risk weighted assets (RWA)	1,082,581	1,091,119	1,155,349	1,215,689	1,279,986
Average interest earning assets	1,261,449	1,145,412	1,185,301	1,253,986	1,321,366
Average interest bearing liabilities	1,497,357	1,478,934	1,508,445	1,594,731	1,686,195
Tier 1 capital	78,807	93,643	108,231	111,805	116,136
Total capital	99,577	113,711	129,285	134,056	138,820
Gross non performing loans (NPL)	10,511	14,943	15,552	16,961	17,470
Per share (TWD)					
Book value per share	12.37	13.51	14.09	14.49	14.96
Tangible book value per share	12.37	13.51	14.09	14.49	14.96
Growth					
Gross customer loans (%)	(6.8)	3.5	3.0	3.0	3.0
Average interest earning assets (%)	0.2	(9.2)	3.5	5.8	5.4
Total assets (%)	0.1	(0.6)	5.9	5.2	5.3
Risk weighted assets (%)	(1.6)	0.8	5.9	5.2	5.3
Customer deposits (%)	0.0	(2.1)	6.0	6.0	6.0
Leverage & capital measures					
Customer loans/deposits (%)	69.6	74.2	72.1	70.0	68.0
Equity/assets (%)	6.3	7.2	7.6	7.4	7.3
Tangible equity/assets (%)	6.3	7.2	7.6	7.4	7.3
RWA/assets (%)	64.1	65.0	65.0	65.0	65.0
Tier 1 CAR (%)	7.3	8.6	9.4	9.2	9.1
Total CAR (%)	9.2	10.4	11.2	11.0	10.8
Asset quality					
Change in NPL (%)	(18.2)	42.2	4.1	9.1	3.0
NPL/gross loans (%)	1.2	1.7	1.7	1.8	1.8
Total provisions/gross loans (%)	2.2	1.4	1.4	1.5	1.5
Total provisions/NPL (%)	180.1	81.9	85.0	85.0	85.0
Valuation					
Recurring P/E (x) *	neg	9.6	13.4	15.7	14.4
Recurring P/E @ target price (x) *	neg	10.6	14.7	17.2	15.8
Reported P/E (x)	neg	9.2	12.8	15.0	13.7
Dividend yield (%)	-	1.5	1.5	3.7	3.7
Price/book (x)	1.1	1.0	1.0	0.9	0.9
Price/tangible book (x)	1.1	1.0	1.0	0.9	0.9
Price/tangible book @ target price (x)	1.2	1.1	1.0	1.0	1.0
* Pre exceptional, pre-goodwill and fully diluted					

Watch out for loan quality

Sources: Chinatrust FHC; BNP Paribas estimates

Taishin FHC

Profit and Loss (TWD m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Interest income	42,000	35,306	37,188	38,385	39,382
Interest expense	(15,396)	(17,479)	(18,200)	(18,730)	(19,639)
Net interest income	26,604	17,827	18,987	19,655	19,744
Net fees & commission	8,509	10,674	9,677	9,387	9,111
Foreign exchange trading income	-	-	-	-	-
Securities trading income	2,485	3,432	2,978	3,548	3,978
Dividend income	-	-	-	-	-
Other income	(9,117)	2,198	1,637	1,726	1,737
Non interest income	1,877	16,304	14,292	14,661	14,826
Total income	28,481	34,131	33,280	34,316	34,569
Staff costs	(5,652)	(5,356)	(5,966)	(6,543)	(6,772)
Other operating costs	(13,189)	(12,496)	(13,921)	(15,268)	(15,801)
Operating costs	(18,841)	(17,852)	(19,887)	(21,812)	(22,573)
Pre provision operating profit	9,640	16,279	13,392	12,504	11,996
Provisions for bad and doubtful debts	(34,494)	(11,497)	(11,952)	(11,627)	(11,017)
Other provisions	-	-	-	-	-
Operating profit	(24,854)	4,783	1,440	877	979
Recurring non operating income	361	208	22	21	20
Associates	-	-	-	-	-
Goodwill amortisation	-	-	-	-	-
Non recurring items	-	-	-	-	-
Profit before tax	(24,493)	4,991	1,462	898	1,000
Tax	6,323	(790)	(276)	(371)	(429)
Profit after tax	(18,170)	4,200	1,186	527	570
Minority interests	-	-	-	-	-
Preferred dividends	(1,435)	(1,435)	(1,482)	(1,585)	(1,585)
Other items	3,302	1,482	1,861	2,266	2,266
Reported net profit	(16,303)	4,247	1,565	1,208	1,251
Non recurring items & goodwill (net)	-	-	-	-	-
Recurring net profit	(16,303)	4,247	1,565	1,208	1,251
Per share (TWD)					
Recurring EPS *	(2.86)	0.74	0.25	0.20	0.20
Reported EPS	(2.86)	0.74	0.25	0.20	0.20
DPS	-	0.22	-	-	-
Growth					
Net interest income (%)	(30.8)	(33.0)	6.5	3.5	0.5
Non interest income (%)	(85.8)	768.6	(12.3)	2.6	1.1
Pre provision operating profit (%)	(69.8)	68.9	(17.7)	(6.6)	(4.1)
Operating profit (%)	neg	neg	(69.9)	(39.1)	11.7
Reported net profit (%)	neg	neg	(63.2)	(22.8)	3.6
Recurring EPS (%)	neg	neg	(65.8)	(22.8)	3.6
Reported EPS (%)	neg	neg	(65.8)	(22.8)	3.6
Income breakdown					
Net interest income (%)	93.4	52.2	57.1	57.3	57.1
Net fees & commission (%)	29.9	31.3	29.1	27.4	26.4
Foreign exchange trading income (%)	-	-	-	-	-
Securities trading income (%)	8.7	10.1	8.9	10.3	11.5
Dividend income (%)	-	-	-	-	-
Other income (%)	(32.0)	6.4	4.9	5.0	5.0
Operating performance					
Gross interest yield (%)	5.42	4.41	4.38	4.34	4.31
Cost of funds (%)	2.03	2.25	2.20	2.20	2.25
Net interest spread (%)	3.39	2.17	2.18	2.15	2.07
Net interest margin (%)	3.44	2.23	2.24	2.22	2.16
Cost/income (%)	66.2	52.3	59.8	63.6	65.3
Cost/assets (%)	1.98	1.84	1.93	2.04	2.05
Effective tax rate (%)	neg	15.8	18.9	41.3	43.0
Dividend payout on recurring profit (%)	neg	29.6	-	-	-
ROE (%)	(26.5)	6.9	2.5	1.9	2.0
ROE - COE (%)	(36.3)	(3.0)	(7.4)	(7.9)	(7.8)
ROA (%)	(1.56)	0.59	0.30	0.26	0.26
RORWA (%)	(2.24)	0.83	0.42	0.37	0.36
<i>* Pre exceptional, pre-goodwill and fully diluted</i>					

Increase in cost-income ratio as management guided significant increase in unsecured lending and fee-based business

Sources: Taishin FHC; BNP Paribas estimates

Taishin FHC

Balance Sheet (TWD m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Gross customer loans	552,843	584,676	584,676	556,395	529,528
Total provisions	(14,451)	(6,491)	(6,434)	(6,480)	(6,156)
Interest in suspense	-	-	-	-	-
Net customer loans	538,391	578,185	578,242	549,915	523,372
Bank loans	-	-	-	-	-
Government securities	70,185	75,109	87,495	104,495	121,484
Trading securities	-	-	-	-	-
Investment securities	-	-	-	-	-
Cash & equivalents	163,764	175,255	204,156	243,822	283,463
Other interest earning assets	-	-	-	-	-
Tangible fixed assets	21,100	20,676	21,371	22,109	22,893
Associates	33,305	47,862	49,343	50,933	52,645
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	109,606	107,930	110,144	113,163	116,509
Total assets	936,351	1,005,016	1,050,751	1,084,436	1,120,367
Customer deposits	620,420	667,548	694,250	708,135	722,298
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	126,482	142,354	147,873	155,205	162,846
Non interest bearing liabilities	99,967	102,959	115,908	129,167	144,044
Hybrid capital	-	-	-	-	-
Total liabilities	846,869	912,861	958,031	992,508	1,029,188
Share capital	89,481	92,155	92,720	91,928	91,179
Reserves	-	-	-	-	-
Total equity	89,481	92,155	92,720	91,928	91,179
Minority interests	-	-	-	-	-
Total liabilities & equity	936,351	1,005,016	1,050,751	1,084,436	1,120,367
Supplementary items					
Risk weighted assets (RWA)	652,045	714,836	746,267	776,708	808,914
Average interest earning assets	774,271	800,444	849,221	884,062	913,275
Average interest bearing liabilities	758,291	778,402	826,013	852,732	874,242
Tier 1 capital	34,854	56,300	55,609	54,358	52,910
Total capital	64,305	74,774	74,025	72,820	71,048
Gross non performing loans (NPL)	8,146	11,243	9,898	9,672	9,189
Per share (TWD)					
Book value per share	10.59	11.06	10.34	10.22	10.09
Tangible book value per share	10.59	11.06	10.34	10.22	10.09
Growth					
Gross customer loans (%)	(4.0)	5.8	-	(4.8)	(4.8)
Average interest earning assets (%)	5.0	3.4	6.1	4.1	3.3
Total assets (%)	(3.4)	7.3	4.6	3.2	3.3
Risk weighted assets (%)	(3.3)	9.6	4.4	4.1	4.1
Customer deposits (%)	(7.5)	7.6	4.0	2.0	2.0
Leverage & capital measures					
Customer loans/deposits (%)	86.8	86.6	83.3	77.7	72.5
Equity/assets (%)	9.6	9.2	8.8	8.5	8.1
Tangible equity/assets (%)	9.6	9.2	8.8	8.5	8.1
RWA/assets (%)	69.6	71.1	71.0	71.6	72.2
Tier 1 CAR (%)	5.3	7.9	7.5	7.0	6.5
Total CAR (%)	9.9	10.5	9.9	9.4	8.8
Asset quality					
Change in NPL (%)	8.8	38.0	(12.0)	(2.3)	(5.0)
NPL/gross loans (%)	1.5	1.9	1.7	1.7	1.7
Total provisions/gross loans (%)	2.6	1.1	1.1	1.2	1.2
Total provisions/NPL (%)	177.4	57.7	65.0	67.0	67.0
Valuation					
Recurring P/E (x) *	neg	7.2	21.1	27.3	26.4
Recurring P/E @ target price (x) *	neg	6.5	18.9	24.5	23.6
Reported P/E (x)	neg	7.2	21.1	27.3	26.4
Dividend yield (%)	-	4.1	-	-	-
Price/book (x)	0.5	0.5	0.5	0.5	0.5
Price/tangible book (x)	0.5	0.5	0.5	0.5	0.5
Price/tangible book @ target price (x)	0.5	0.4	0.5	0.5	0.5
* Pre exceptional, pre-goodwill and fully diluted					

We factor in slow improvement in asset quality

Sources: Taishin FHC; BNP Paribas estimates

E Sun FHC

Profit and Loss (TWD m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Interest income	20,474	21,969	23,654	25,875	27,815
Interest expense	(11,247)	(13,146)	(14,211)	(15,770)	(16,723)
Net interest income	9,227	8,823	9,443	10,105	11,092
Net fees & commission	2,974	4,306	3,835	3,686	3,882
Foreign exchange trading income	-	-	-	-	-
Securities trading income	313	126	120	114	108
Dividend income	-	-	-	-	-
Other income	1,073	698	675	641	670
Non interest income	4,360	5,130	4,630	4,441	4,660
Total income	13,587	13,953	14,073	14,545	15,752
Staff costs	(2,895)	(2,976)	(3,174)	(3,455)	(3,782)
Other operating costs	(5,330)	(4,801)	(5,581)	(5,968)	(6,524)
Operating costs	(8,226)	(7,776)	(8,756)	(9,423)	(10,306)
Pre provision operating profit	5,361	6,177	5,317	5,123	5,447
Provisions for bad and doubtful debts	(5,140)	(2,175)	(2,713)	(2,711)	(2,797)
Other provisions	-	-	-	-	-
Operating profit	221	4,002	2,605	2,411	2,650
Recurring non operating income	(90)	38	-	-	-
Associates	-	-	-	35	35
Goodwill amortisation	-	-	-	-	-
Non recurring items	-	-	-	-	-
Profit before tax	131	4,040	2,605	2,446	2,685
Tax	(37)	(746)	(494)	(438)	(492)
Profit after tax	94	3,294	2,111	2,009	2,192
Minority interests	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	94	3,294	2,111	2,009	2,192
Non recurring items & goodwill (net)	-	-	-	-	-
Recurring net profit	94	3,294	2,111	2,009	2,192
Per share (TWD)					
Recurring EPS *	0.03	1.00	0.64	0.61	0.66
Reported EPS	0.03	1.00	0.64	0.61	0.66
DPS	-	-	0.42	0.38	0.41
Growth					
Net interest income (%)	(16.5)	(4.4)	7.0	7.0	9.8
Non interest income (%)	(3.8)	17.7	(9.7)	(4.1)	4.9
Pre provision operating profit (%)	(33.9)	15.2	(13.9)	(3.7)	6.3
Operating profit (%)	(96.7)	1708.2	(34.9)	(7.4)	9.9
Reported net profit (%)	(98.0)	3417.3	(35.9)	(4.8)	9.1
Recurring EPS (%)	(98.5)	3417.3	(35.9)	(4.8)	9.1
Reported EPS (%)	(98.2)	3417.3	(35.9)	(4.8)	9.1
Income breakdown					
Net interest income (%)	67.9	63.2	67.1	69.5	70.4
Net fees & commission (%)	21.9	30.9	27.3	25.3	24.6
Foreign exchange trading income (%)	-	-	-	-	-
Securities trading income (%)	2.3	0.9	0.9	0.8	0.7
Dividend income (%)	-	-	-	-	-
Other income (%)	7.9	5.0	4.8	4.4	4.3
Operating performance					
Gross interest yield (%)	3.91	3.73	3.69	3.76	3.76
Cost of funds (%)	2.07	2.14	2.10	2.20	2.20
Net interest spread (%)	1.85	1.59	1.59	1.56	1.56
Net interest margin (%)	1.76	1.50	1.47	1.47	1.50
Cost/income (%)	60.5	55.7	62.2	64.8	65.4
Cost/assets (%)	1.24	1.07	1.10	1.11	1.14
Effective tax rate (%)	28.5	18.5	19.0	17.9	18.3
Dividend payout on recurring profit (%)	-	-	66.0	62.2	61.1
ROE (%)	0.2	7.2	4.4	4.1	4.4
ROE - COE (%)	(7.2)	(0.3)	(3.0)	(3.4)	(3.1)
ROA (%)	0.01	0.45	0.27	0.24	0.24
RORWA (%)	0.02	0.73	0.49	0.44	0.45
<i>* Pre exceptional, pre-goodwill and fully diluted</i>					

E Sun concentrated on the loan business more than its peers

Sources: E Sun FHC; BNP Paribas estimates

E Sun FHC

Balance Sheet (TWD m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Gross customer loans	441,690	517,119	548,146	575,553	604,331
Total provisions	(2,518)	(2,470)	(2,960)	(3,007)	(3,158)
Interest in suspense	-	-	-	-	-
Net customer loans	439,172	514,649	545,186	572,546	601,173
Bank loans	-	-	-	-	-
Government securities	40,788	43,204	37,540	44,101	51,533
Trading securities	-	-	-	-	-
Investment securities	-	-	-	-	-
Cash & equivalents	95,172	100,809	87,593	102,902	120,245
Other interest earning assets	-	-	-	-	-
Tangible fixed assets	50,986	49,162	87,836	92,228	96,839
Associates	62,949	60,229	60,229	60,229	60,229
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	1,075	1,186	1,309	1,446	1,597
Total assets	690,141	769,238	819,692	873,452	931,616
Customer deposits	529,849	611,519	648,210	687,102	728,328
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	22,689	23,600	26,758	30,356	34,365
Non interest bearing liabilities	70,259	61,521	70,455	80,729	92,544
Hybrid capital	22,300	25,600	25,600	25,600	25,600
Total liabilities	645,097	722,239	771,022	823,787	880,838
Share capital	45,045	46,999	48,670	49,664	50,779
Reserves	-	-	-	-	-
Total equity	45,045	46,999	48,670	49,664	50,779
Minority interests	-	-	-	-	-
Total liabilities & equity	690,141	769,238	819,692	873,452	931,616
Supplementary items					
Risk weighted assets (RWA)	488,061	419,078	446,628	475,985	507,755
Average interest earning assets	523,370	589,284	641,032	688,479	739,547
Average interest bearing liabilities	544,321	613,977	676,719	717,699	761,425
Tier 1 capital	30,079	30,380	30,684	30,990	31,300
Total capital	40,440	40,741	41,045	41,351	41,661
Gross non performing loans (NPL)	4,357	4,577	4,933	5,468	5,741
Per share (TWD)					
Book value per share	13.64	14.23	14.73	15.03	15.37
Tangible book value per share	13.64	14.23	14.73	15.03	15.37
Growth					
Gross customer loans (%)	19.5	17.1	6.0	5.0	5.0
Average interest earning assets (%)	22.1	12.6	8.8	7.4	7.4
Total assets (%)	9.0	11.5	6.6	6.6	6.7
Risk weighted assets (%)	20.7	(14.1)	6.6	6.6	6.7
Customer deposits (%)	20.3	15.4	6.0	6.0	6.0
Leverage & capital measures					
Customer loans/deposits (%)	82.9	84.2	84.1	83.3	82.5
Equity/assets (%)	6.5	6.1	5.9	5.7	5.5
Tangible equity/assets (%)	6.5	6.1	5.9	5.7	5.5
RWA/assets (%)	70.7	54.5	54.5	54.5	54.5
Tier 1 CAR (%)	6.2	7.2	6.9	6.5	6.2
Total CAR (%)	8.3	9.7	9.2	8.7	8.2
Asset quality					
Change in NPL (%)	48.4	5.0	7.8	10.8	5.0
NPL/gross loans (%)	1.0	0.9	0.9	1.0	1.0
Total provisions/gross loans (%)	0.6	0.5	0.5	0.5	0.5
Total provisions/NPL (%)	57.8	54.0	60.0	55.0	55.0
Valuation					
Recurring P/E (x) *	291.4	8.3	12.9	13.6	12.4
Recurring P/E @ target price (x) *	275.1	7.8	12.2	12.8	11.8
Reported P/E (x)	291.4	8.3	12.9	13.6	12.4
Dividend yield (%)	-	-	5.1	4.6	4.9
Price/book (x)	0.6	0.6	0.6	0.5	0.5
Price/tangible book (x)	0.6	0.6	0.6	0.5	0.5
Price/tangible book @ target price (x)	0.6	0.5	0.5	0.5	0.5

* Pre exceptional, pre-goodwill and fully diluted

Sources: E Sun FHC; BNP Paribas estimates

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All share prices are as at market close on 14 October 2008 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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