Taiwan Financials Fact Sheet

Issue 23

Prefer high-beta names in N/T for liquidity injection, franchise names in L/T for cross-strait build up

Stance-at-a-Glance

	Ticker	GS rating	Price 12-Jun (NT$)	12-mo TP (NT$)	P/B 09E (X)	P/B 10E (X)	P/E 09E (X)	P/E 10E (X)	P/PPOP 09E (X)	P/PPOP 10E (X)	EPS (NT$) 09E	EPS (NT$) 10E	BVPS (NT$) 09E	BVPS (NT$) 10E	ROE (%) 09E	ROE (%) 10E	Price performance 1-mo	Price performance 3-mo	Price performance YTD
Cathay	2882.TW	Buy	46.5	58.0	2.3	2.1	32.4	18.9	19.7	16.7	1.44	2.46	20.2	22.7	8.2	11.5	3	86	27
Fubon	2881.TW	Buy	29.0	34.0	1.4	1.3	17.0	12.1	9.7	7.9	1.70	2.40	20.5	22.2	8.9	11.3	(3)	66	21
Yuanta	2885.TW	Buy	22.0	26.0	1.5	1.5	24.4	17.8	16.5	13.2	0.90	1.24	14.2	15.0	6.6	8.5	(7)	62	50
SinoPac	2890.TW	Buy	9.3	11.0	0.8	0.7	20.2	12.6	5.6	5.0	0.46	0.74	12.2	12.7	3.9	6.0	(5)	61	31
Polaris	2854.TW	Buy	15.8	16.0	1.3	1.2	480.8	15.3	NM	NM	0.03	1.03	12.1	13.1	0.3	8.2	(5)	45	36
FBHK	0636.HK	Neutral	3.8	3.3	1.1	1.0	40.3	15.2	7.6	6.3	0.09	0.25	3.4	3.6	2.8	7.0	(6)	107	50
Chinatrust	2891.TW	Neutral	19.1	19.0	1.4	1.3	28.6	15.3	7.6	7.1	0.67	1.25	13.3	14.2	5.2	9.1	(0)	78	37
Taishin	2887.TW	Neutral	11.0	9.5	1.0	1.0	7.1	40.2	3.6	6.0	1.56	0.27	11.6	11.5	11.9	2.0	29	134	90
CHB	2801.TW	Sell	14.2	11.5	1.1	1.1	44.2	20.8	13.1	10.6	0.32	0.68	12.7	13.2	2.5	5.3	4	42	11
Mega	2886.TW	Sell	14.7	13.0	0.9	0.9	37.5	15.6	6.1	5.9	0.39	0.94	16.3	17.1	2.4	5.7	(0)	46	28
First	2892.TW	Sell	18.4	16.0	1.1	1.1	30.9	20.3	7.8	7.3	0.60	0.91	16.3	17.0	3.7	5.5	0	33	7
Shin Kong	2888.TW	Sell	13.3	13.5	1.2	1.1	19.2	10.4	NM	6.5	0.69	1.28	10.8	12.3	8.6	13.2	1	82	49
Bank avg					1.1	1.1	26.5	19.6	7.6	7.1					5.5	6.4			

Source: Datastream, Company data, Goldman Sachs Research estimates.

Focus thematics, sector outlook changes

- Taiwan Banks: Cross-strait banking, issue no 3: What can and can't be done in N/T? (Apr 21)
- Taiwan Banks: Cross-strait banking, no 4: Co-op Agreement signed; what's next? (Apr 27);
- Taiwan Financial Services: Prefer high-beta names on liquidity injection; 4 upgrades (May 5);
- Taiwan Banks: Cross-strait banking, issue no 5: HK CEPA experience read-across (June 1);
- Taiwan Financial Services: 1Q09 EBITDA coverage: Still challenging asset quality outlook (June 11)

Focus stock calls, upgrades, downgrades

- Yuanta FHC (2885.TW), Polaris Securities (2854.TW) and SinoPac FHC (2890.TW): upgrade to Buy, Prefer high-beta names on liquidity injection; 4 upgrades (May 5);
- Cathay FHC (2882.TW): Pro-cyclical gearing off a solid franchise; upgrade to Buy (May 18);
- Taishin FHC (2887.TW): Shares rise post deal announcement, but valuation overdone (May 22)

Highlights of this report

- Sector view: Prefer high-beta names in N/T and franchise names in L/T
- Macro sector trends
- Card analytics
- Research reports summary
- Share performance and valuations

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The prices in the body of this report are based on the market close of June 12, 2009.

Asia financials valuation summary

	Ave shr price perf YTD, %	P/B 09E	P/B 10E	ROE (%) 09E	ROE (%) 10E	P/PPOP (X) 09E	P/PPOP (X) 10E	P/E (X) 09E	P/E (X) 10E	Loan YoY 09E	Loan YoY 10E	NII YoY 09E	NII YoY 10E	Non-NII YoY 09E	Non-NII YoY 10E	EPS gwth (%) 09E	EPS gwth (%) 10E
Indonesia banks	53.2	2.7	2.5	18.8	21.4	7.2	6.5	15.6	12.4	11.4	13.2	11.0	9.7	8.8	14.4	(6.9)	25.9
India banks	54.6	2.2	2.0	12.9	13.3	9.4	8.01	18.2	16.0	16.8	17.3	12.5	17.2	3.6	15.9	(13.5)	11.6
China H-shr banks	52.6	2.0	1.8	17.6	19.3	7.7	6.1	12.0	9.9	21.5	17.2	(2.3)	15.1	16.4	20.3	(0.0)	22.2
HK banks	48.5	1.6	1.5	8.9	11.3	9.3	7.9	23.3	15.5	3.4	7.3	0.9	7.1	(11.5)	13.5	66.9	31.7
Singapore banks	37.7	1.4	1.3	10.8	12.4	7.2	7.1	14.2	11.1	4.7	5.4	7.2	7.4	0.4	1.7	(10.5)	17.7
Taiwan banks	**39.8**	**1.1**	**1.1**	**5.5**	**6.4**	**7.6**	**7.1**	**26.5**	**19.6**	**0.2**	**4.2**	**(16.2)**	**8.7**	**149.3**	**(0.9)**	**37.5**	**25.9**
Korea banks	44.6	0.9	0.8	4.0	9.4	4.1	3.8	24.5	10.7	3.2	7.1	(6.2)	8.7	65.2	(0.4)	(61.7)	180.5

Note: EPS growth for Taiwan banks is the growth rate of the sum of net income for banks/bank-centric FHCs under our coverage.

Source: Datastream, Goldman Sachs Research estimates.

Life insurers: Benefit from liquidity injection and asset price reflation

We upgrade Cathay FHC to Buy with a 12-m, SOTP-based target price of NT$58. Catalysts include: **(1)** Continuous progress/breakthroughs in cross-strait issues further lifting investors' confidence in the TWSE, improving Cathay's N/T earnings outlook and strengthening its capital position. **(2)** Liquidity injection triggering domestic asset price reflation. **(3)** Modest re-cap in 2H09 and 2010 to boost its capital strength. **(4)** FSC announcing policies favorable to life insurers. ShinKong FHC shares a similar model; however, in our view, its fundamentals are still relatively weaker and at a higher risk than Cathay FHC in terms of financial leverage, negative interest spread and investment yield, which mgmt is making an effort to address. Maintain Sell.

Securities: Prefer high-beta securities brokers

We continue to prefer securities brokers due to: **(1) Increasing TWSE daily turnover; (2) Expectations on passage of a cross-strait financial MOU; (3) Limited book erosion risk:** Most securities companies have cut their prop trading positions since 2H08 and the potential book value erosion risk is lower compared with banks and life insurers. We now assume TWSE daily turnover/margin loan balance to rise to NT$140bn/NT$225bn in 2009E and NT$147bn/ NT$300bn in 2010E. We have upgraded Yuanta FHC, Polaris Sec to Buy. Besides, we also upgraded Sinopac FHC to Buy as it: **(1) has a sizeable securities business** (ranked #3 in brokerage and #7 in securities finance); **(2)** is well positioned to **benefit from inbound investment** from China, given its extensive branch footprint in Greater Taipei, and, in our view, SinoPac appears more open minded about equity investment from China.; **(3) is trading at a valuation discount** to peers.

Bank: Still challenging asset quality outlook, prefer private-sector names

TW banking sector's reported NPL ratio was surprisingly resilient at 1.6% as of April 2009, despite Taiwan's economy experiencing one of its worst GDP/export contractions ever. However, our EBITDA coverage analysis indicates that **implied NPLs** (i.e., EBITDA < interest expense) **continued to deteriorate** in 1Q09 to 38.7% and 39.3% for TWSE-listed and OTC-listed companies, from about 15% and 29% at 2008YE. In our view, the considerable discrepancy between the implied and actual NPL trend could stem from: **(1)** the government's explicit support for banks to restructure customers' debts (e.g., DRAM sector); **(2)** some industries which are benefiting from inventory re-stocking and China's subsidy program in 1Q09, with stronger-than-expected cash inflow (e.g., tech); **(3)** Taiwan banks typically loading the bulk of their provision charges in the 2H of a year (i.e., December). We do not view the implied NPL ratio rise as a temporary phenomenon as the US/Europe markets still account for about 60% of Taiwan's exports (IT hardware, for example); however, we expect it to have peaked out in 1Q09, given signs of global macro improvement.

Macro data

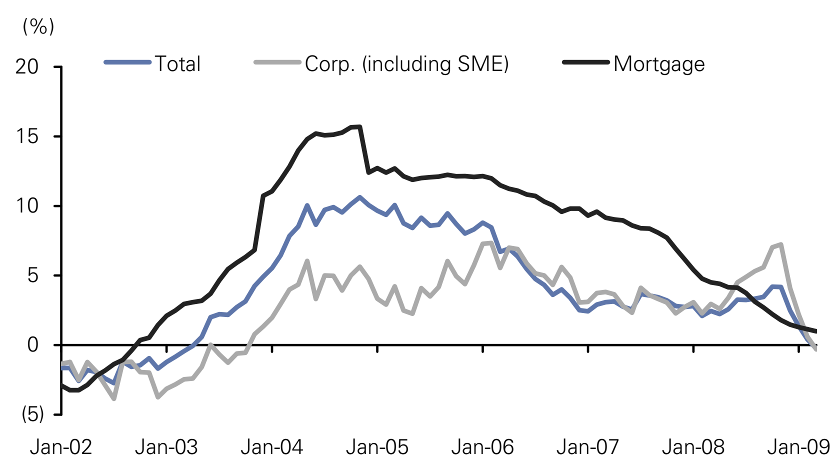
Breakdown of domestic bank loans

	Loan balance (NT$bn)						Yoy growth (%)					
	Total	Mid/Large Corp.	SME	Mortgage	High-yield consumer	Others	Total	Corporate	SME	Mortgage	High-yield consumer	Others
Mar-08	17,052	5,964	3,082	5,468	1,205	1,334	2.4	(0.2)	9.7	4.5	(12.9)	7.31
Apr-08	17,038	5,927	3,089	5,494	1,193	1,336	2.2	(0.2)	8.5	4.4	(12.2)	6.17
May-08	17,140	5,958	3,128	5,523	1,182	1,350	2.6	1.0	8.2	4.2	(12.3)	6.10
Jun-08	17,242	5,934	3,197	5,556	1,170	1,385	3.3	2.5	8.4	4.1	(11.7)	6.64
Jul-08	17,310	6,080	3,117	5,568	1,156	1,389	3.3	4.3	6.1	3.7	(11.5)	5.02
Aug-08	17,303	6,099	3,113	5,560	1,147	1,384	3.3	5.5	4.9	3.1	(11.4)	5.39
Sep-08	17,399	6,162	3,137	5,559	1,136	1,405	3.5	5.6	5.6	2.7	(11.2)	6.43
Oct-08	17,483	6,246	3,142	5,546	1,119	1,431	4.2	7.8	5.6	2.2	(11.4)	8.57
Nov-08	17,473	6,251	3,116	5,547	1,111	1,448	4.2	9.1	3.6	1.8	(11.8)	8.95
Dec-08	17,378	6,112	3,119	5,558	1,111	1,479	2.5	5.2	2.0	1.5	(11.5)	9.09
Jan-09	17,263	6,097	3,062	5,540	1,108	1,455	1.4	3.5	(0.4)	1.3	(11.3)	8.02
Feb-09	17,061	6,020	3,024	5,518	1,089	1,411	0.4	1.7	(1.6)	1.1	(11.3)	6.83
Mar-09	17,010	6,013	3,003	5,522	1,073	1,400	(0.2)	0.8	(2.6)	1.0	(11.0)	4.98

Source: Central Bank of China, Taiwan Economic Journal (TEJ).

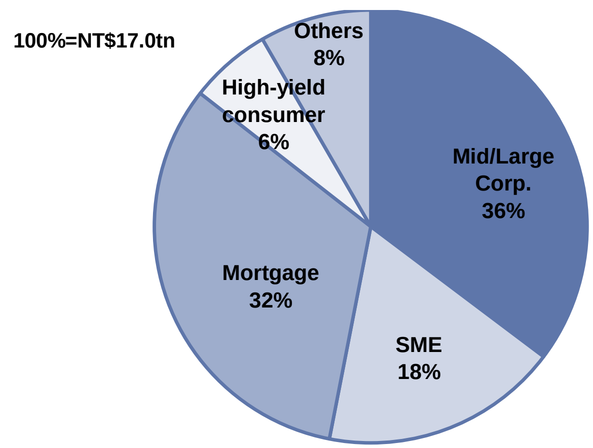
Loan growth breakdown

Yoy loan growth



Source: Central Bank of China.

Loan breakdown (as of March 2009)



Source: Central Bank of China.

Breakdown of domestic bank deposits

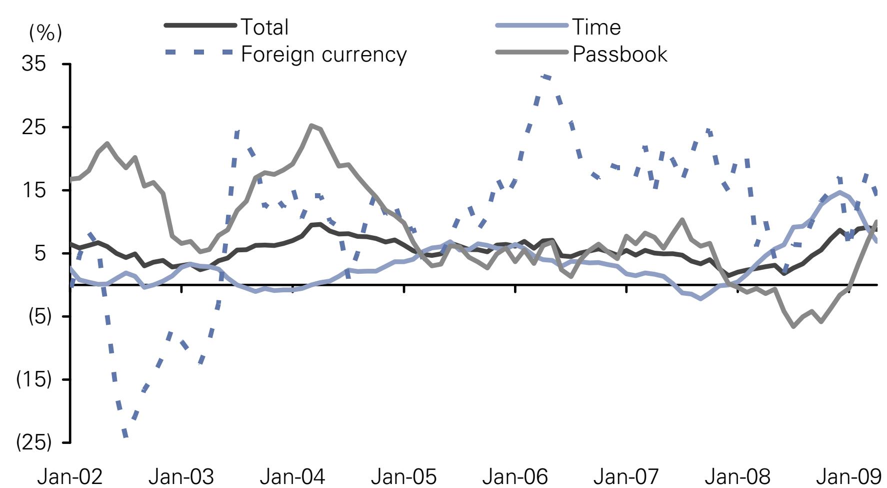
	Total deposits (NT$bn)					Yoy growth (%)					Loan to Deposit Ratio (%)
	Total	Passbook	Passbook savings	Time	Foreign currency	Total	Passbook	Passbook savings	Time	Foreign currency	
Apr-08	19,797	2,701	4,620	10,378	2,098	2.9	0.8	(2.6)	4.6	10.0	86.1
May-08	19,797	2,687	4,567	10,443	2,100	3.1	3.5	(2.9)	5.7	3.9	86.6
Jun-08	19,637	2,761	4,380	10,432	2,066	1.8	2.2	(7.8)	6.4	1.7	87.8
Jul-08	19,706	2,689	4,368	10,566	2,082	2.7	(2.1)	(9.1)	9.2	6.4	87.8
Aug-08	19,765	2,734	4,377	10,526	2,128	3.4	(0.5)	(7.7)	9.3	6.3	87.5
Sep-08	20,029	2,807	4,414	10,581	2,227	4.6	0.7	(7.1)	10.4	10.0	86.9
Oct-08	20,357	2,723	4,367	10,946	2,321	5.5	(1.3)	(8.5)	12.8	13.2	85.9
Nov-08	20,559	2,705	4,303	11,181	2,370	7.3	(1.2)	(5.3)	13.9	15.0	85.0
Dec-08	20,994	2,829	4,442	11,317	2,406	8.7	0.3	(2.7)	14.7	17.1	82.8
Jan-09	20,863	2,633	4,646	11,286	2,298	7.5	(4.0)	1.5	13.9	5.6	82.7
Feb-09	21,220	2,743	4,762	11,250	2,465	8.9	3.4	3.2	12.0	13.1	80.4
Mar-09	21,430	2,844	4,984	11,159	2,443	9.1	4.2	8.5	8.9	18.0	79.4
Apr-09	21,536	2,901	5,150	11,091	2,394	8.8	7.4	11.5	6.9	14.1	78.9

Note: Sharp FCY deposit decline in 2008 due to the NT$ appreciation.

Source: Central Bank of China.

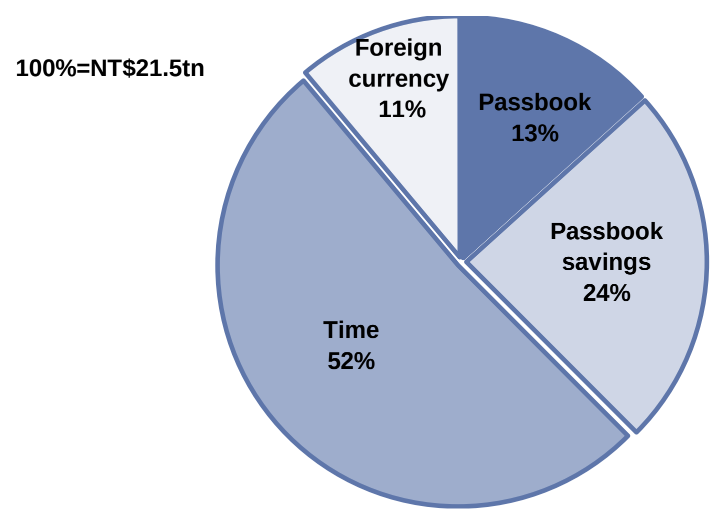
Deposit growth breakdown

Yoy system deposit growth



Source: Central Bank of China.

Deposit breakdown (as of April 2009)



Source: Central Bank of China.

New loan bookings by five leading government banks

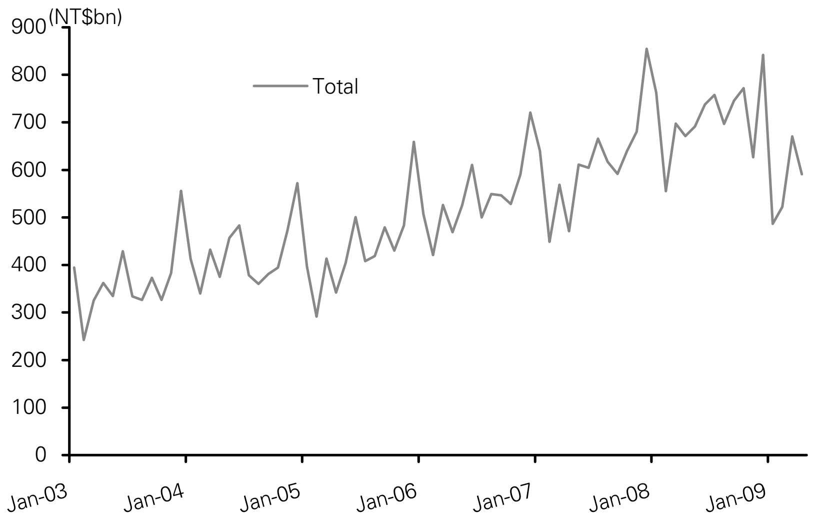
	New loan bookings (NT$bn)					New loan rates (%)				Mom change in new loan rates (bp)			
	Total	Working capital	Mortgage	Other consumer	Capex	Working capital	Mortgage	Capex	Other consumer	Working capital	Mortgage	Capex	Other consumer
Apr-08	671.5	592.2	42.7	10.7	25.8	2.89	2.77	3.22	3.55	6.7	0.8	(9.9)	(11.2)
May-08	691.3	606.2	45.0	12.6	27.5	2.85	2.76	3.25	3.56	(3.9)	(0.6)	3.0	1.4
Jun-08	737.4	650.1	49.9	7.2	30.2	2.87	2.80	3.28	3.49	2.0	3.9	2.8	(7.3)
Jul-08	757.5	679.0	43.6	7.6	27.3	2.87	2.83	3.16	3.55	0.0	3.4	(11.6)	6.2
Aug-08	696.9	629.8	32.0	5.8	29.4	2.84	2.83	3.18	3.55	(3.8)	0.0	1.5	(0.3)
Sep-08	745.7	676.4	34.3	7.0	27.9	2.86	2.86	3.33	3.53	2.0	2.6	15.6	(1.8)
Oct-08	772.0	701.6	34.1	6.5	29.7	2.81	2.85	3.17	3.49	(4.4)	(1.0)	(15.8)	(4.6)
Nov-08	626.8	540.1	39.1	10.5	37.1	2.68	2.76	3.13	3.34	(13.3)	(9.0)	(4.1)	(14.4)
Dec-08	842.1	724.2	60.2	13.0	44.7	2.29	2.52	2.85	2.84	(38.5)	(23.6)	(28.4)	(50.2)
Jan-09	486.4	412.2	38.5	4.0	31.9	1.90	2.04	2.20	2.97	(39.2)	(48.2)	(64.8)	13.4
Feb-09	522.3	457.6	34.8	3.2	26.7	1.67	1.86	2.17	3.03	(23.1)	(18.3)	(3.1)	6.0
Mar-09	670.6	588.9	48.1	4.5	29.1	1.49	1.85	2.23	2.73	(18.1)	(0.8)	5.6	(29.9)
Apr-09	591.1	505.7	42.4	11.0	31.9	1.38	1.89	2.11	2.07	(11.4)	3.9	(11.9)	(66.8)

Note: The five banks are First, Hua Nan, Chang Hwa, Bank of Taiwan, and Taiwan Cooperative Bank.

Source: Department of Economic Research, Central Bank of China.

New loan growth and interest rates of five leading government banks

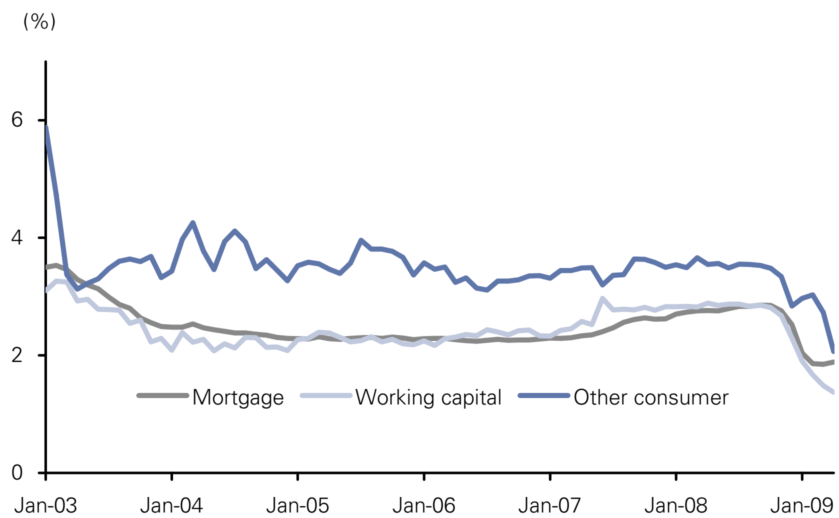
Total new loan bookings of five leading government banks



Note: The five banks are First, Hua Nan, Chang Hwa, Bank of Taiwan, and Taiwan Cooperative Bank.

Source: Central Bank of China.

New loan rates of five leading government banks

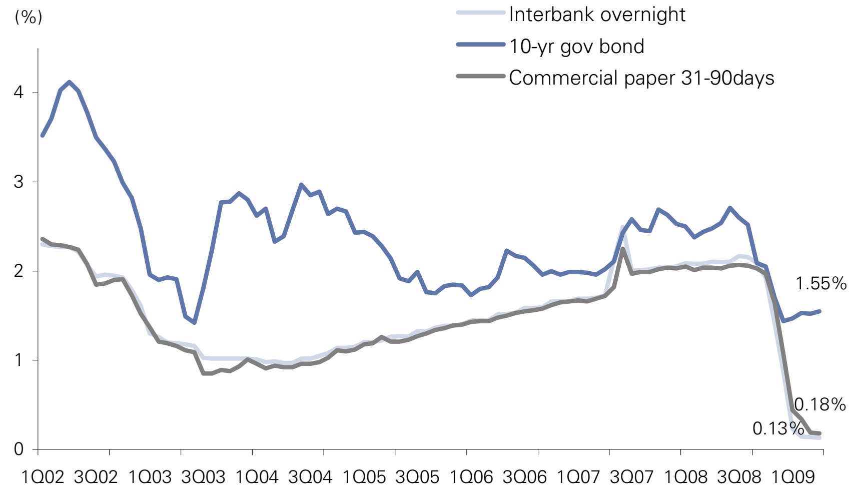


Note: The five banks are First, Hua Nan, Chang Hwa, Bank of Taiwan, and Taiwan Cooperative Bank.

Source: Central Bank of China.

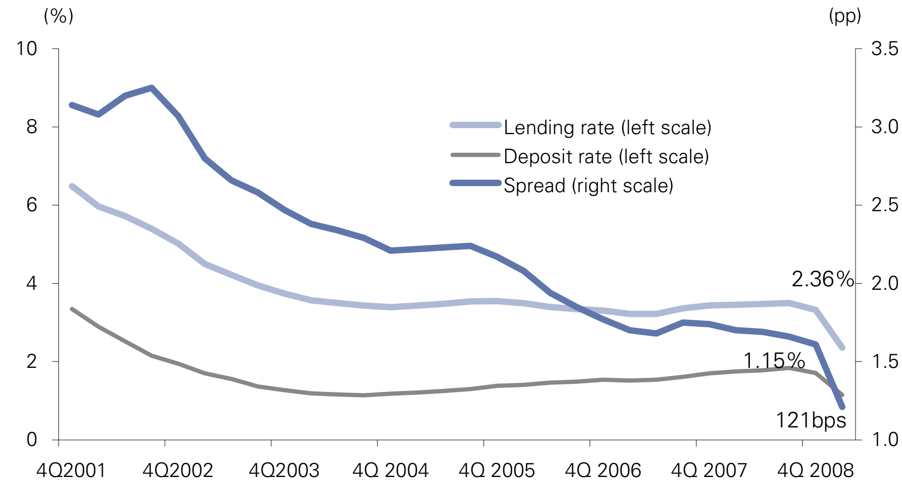
Key interest rates and system loan spread data

Implied yield curve



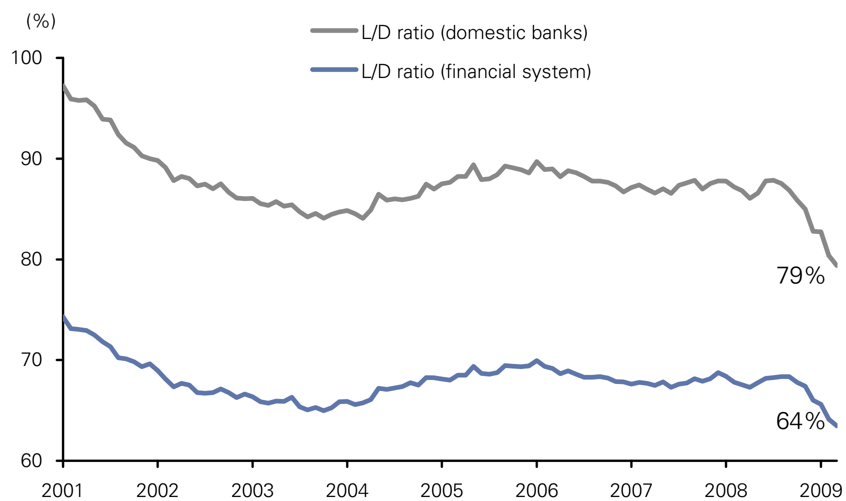
Source: Central Bank of China.

Weighted average interest rate—Loans and deposits



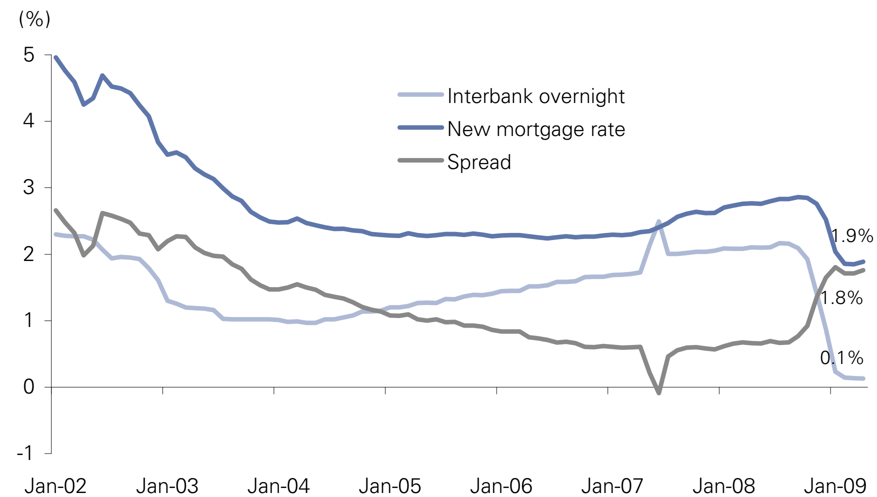
Source: Central Bank of China.

Loan/deposit ratio—Industry data



Source: Central Bank of China.

New mortgage spreads for five leading banks



Note: Five banks include First, Hua Nan, Chang Hwa, Bank of Taiwan, and Taiwan Cooperative Bank.

Source: Central Bank of China.

Individual loan breakdown

As of March 2009 (NT$bn, %)

Company name	Ticker	Total Loans	YoY (%)	Loan mkt share	Mid/Large corp. & Gov't	YoY (%)	%	SME	YoY (%)	%	Mortg	YoY (%)	%	High-yield consumer	YoY (%)	%
Bank of Taiwan	unlisted	1,987	0	11.1	1,219	(3)	61	218	5	11	363	9	18	188	7	9
Taiwan Cooperative	5854.TW	1,702	0	9.5	711	(4)	42	381	8	22	567	2	33	42	(18)	2
Land Bank	unlisted	1,509	2	8.5	676	1	45	189	4	12	606	4	40	38	(21)	3
Mega	2886.TW	1,297	3	7.3	872	6	67	196	(3)	15	201	(4)	16	28	1	2
First	2892.TW	1,123	8	6.3	482	17	43	323	0	29	311	4	28	7	(28)	1
Hua Nan	2880.TW	1,087	4	6.1	512	7	47	279	1	26	282	4	26	14	(27)	1
Chang Hwa Bank	2801.TW	954	5	5.3	499	8	52	212	0	22	237	5	25	6	(18)	1
Chinatrust	2891.TW	852	7	4.8	412	12	48	75	23	9	297	(0)	35	67	(5)	8
TW Business Bank	2834.TW	865	13	4.8	357	27	41	293	2	34	360	11	42	42	(22)	5
Taipei Fubon Bank	2881.TW	797	13	4.5	432	20	54	75	(5)	9	260	13	33	30	(9)	4
Cathay United Bank	2882.TW	782	3	4.4	440	4	56	82	4	10	256	1	33	4	(47)	1
SinoPac	2890.TW	606	2	3.4	206	20	34	67	(4)	11	315	(6)	52	18	(2)	3
E.Sun	2884.TW	531	2	3.0	158	26	30	116	(3)	22	245	(5)	46	12	(36)	2
Taishin	2887.TW	501	(11)	2.8	207	(15)	41	12	(42)	2	208	(6)	41	75	(3)	15
Shanghai Bank	unlisted	315	10	1.8	148	21	47	70	3	22	96	0	31	1	(10)	0
Standard Chartered	2888.HK	306	9	1.7	109	33	36	16	(42)	5	149	13	49	32	(21)	11
Shin Kong	2888.TW	274	(0)	1.5	151	(2)	55	34	14	12	62	3	23	28	(10)	10
Yuanta Bank	2885.TW	230	0	1.3	100	12	43	39	(4)	17	70	(13)	31	21	13	9
Ta Chong	2847.TW	214	(2)	1.2	135	(1)	63	6	(41)	3	64	5	30	9	(9)	4
Taichung Bank	2812.TW	203	5	1.1	90	23	44	70	1	34	39	(13)	19	4	(35)	2
Far Eastern	2845.TW	199	(9)	1.1	69	(19)	35	9	(21)	4	104	0	52	18	(3)	9
EnTie	2849.TW	183	5	1.0	58	26	32	53	(9)	29	64	12	35	8	(36)	5
Union Bank	2838.TW	169	(14)	0.9	33	(14)	20	23	(27)	14	103	(9)	61	10	(28)	6
Sunny Bank	unlisted	159	(6)	0.9	80	(5)	51	22	(11)	14	52	(5)	33	5	(16)	3
Bank of Kaohsiung	2836.TW	130	11	0.7	58	32	44	24	9	18	41	(7)	32	8	5	6
Jih Sun	5820.TWO	126	(13)	0.7	39	(8)	31	9	(32)	7	70	(4)	55	9	(52)	7
Panhsin Bank	unlisted	115	(5)	0.6	56	(12)	49	16	16	14	39	3	34	4	(32)	3
Kingstown Bank	2809.TW	98	(21)	0.6	31	(391)	31	23	(72)	23	31	(15)	31	14	(16)	15
Cosmos	2837.TW	87	(20)	0.5	22	(22)	26	21	(19)	24	7	(11)	8	37	(20)	42
Citibank	unlisted	84	(2)	0.5	39	(20)	47	0	NM	0	34	14	41	10	55	12
Total		17,854	1	100.0	8,642	4	48	3,003	(3)	17	5,394	0	30	816	(9)	5

* Bank of Taiwan numbers include Central Trust of China from 2008.

Source: Company data, TEJ.

Individual deposit breakdown

As of March 2009 (NT$bn, %)

Company	Ticker	Deposit	Total deposit YoY(%)	Deposit market share (%)	passbook saving	%	Time	%	Foreign	%	L/D ratio (%)	NPL ratio (%)	# of branches
Bank of Taiwan	unlisted	3,090	21	13.6	949	31	1,781	58	361	12	64%	1.17	162
Taiwan Cooperative	5854.TW	2,004	7	8.8	704	35	1,131	56	170	8	85%	1.80	299
Land Bank	unlisted	1,643	7	7.2	501	31	1,068	65	73	4	92%	1.01	138
First	2892.TW	1,434	14	6.3	605	42	549	38	280	20	78%	1.58	188
Hua Nan	2880.TW	1,404	8	6.2	634	45	538	38	232	17	77%	1.90	181
Mega	2886.TW	1,394	14	6.1	346	25	463	33	584	42	93%	1.18	104
Chinatrust	2891.TW	1,165	3	5.1	418	36	477	41	270	23	73%	1.04	123
Chang Hwa Bank	2801.TW	1,151	15	5.1	469	41	489	42	193	17	83%	1.70	174
Cathay United Bank	2882.TW	1,124	10	4.9	473	42	526	47	125	11	70%	0.91	154
Taipei Fubon Bank	2881.TW	1,001	15	4.4	365	36	477	48	159	16	80%	0.75	123
TW Business Bank	2834.TW	910	7	4.0	348	38	473	52	88	10	95%	2.74	124
SinoPac	2890.TW	790	(2)	3.5	243	31	390	49	157	20	77%	1.56	128
E.Sun	2884.TW	688	13	3.0	235	34	361	53	92	13	77%	0.92	112
Taishin	2887.TW	640	(6)	2.8	152	24	357	56	131	20	78%	1.16	99
Standard Chartered	2888.HK	511	31	2.2	207	41	198	39	105	21	60%	0.00	86
Citibank	unlisted	501	13	2.2	135	27	59	12	308	61	18%	1.18	66
Shanghai Bank	unlisted	457	6	2.0	120	26	186	41	151	33	18%	1.21	57
Shin Kong	2888.TW	355	6	1.6	105	30	230	65	19	5	77%	1.92	107
Union Bank	2838.TW	277	2	1.2	84	30	167	60	26	9	61%	2.60	78
Yuanta Bank	2885.TW	272	(11)	1.2	118	43	129	48	25	9	84%	1.55	68
Far Eastern	2845.TW	272	2	1.2	47	17	172	63	54	20	73%	2.44	35
Taichung Bank	2812.TW	264	11	1.2	105	40	148	56	11	4	77%	1.56	78
Ta Chong	2847.TW	236	8	1.0	56	24	144	61	36	15	91%	1.65	52
EnTie	2849.TW	216	19	1.0	51	23	148	69	17	8	85%	1.98	52
Sunny Bank	unlisted	200	(1)	0.9	57	29	135	67	8	4	79%	2.98	96
Jih Sun	5820.TWO	178	(12)	0.8	56	31	110	62	12	7	71%	3.73	37
Bank of Kaohsiung	2836.TW	156	22	0.7	53	34	95	61	8	5	83%	1.95	35
Panhsin Bank	unlisted	144	(3)	0.6	38	27	99	69	7	5	80%	4.75	48
Kingstown Bank	2809.TW	136	(6)	0.6	47	35	84	62	5	4	72%	2.48	62
Cosmos	2837.TW	119	(6)	0.5	29	25	86	72	3	3	73%	4.39	62
Total		**22,761**	**9**	**100.0**	**7,749**	**34**	**11,537**	**51**	**3,475**	**15**	**78%**	**1.63**	

* Bank of Taiwan numbers include Central Trust of China from 2008.

Source: TEJ, Banking Bureau.

Asset quality

Historical gross credit cost

bps	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	3M09
ChangHwa	49	49	102	116	111	571	191	157	**752**	54	79	71	60
Taishin	74	55	157	169	312	211	168	141	**677**	666	206	303	90
Cathay	44	31	62	85	136	**627**	213	44	243	366	54	11	40
Chinatrust	104	137	206	156	305	215	234	179	203	**616**	118	120	76
E.Sun	50	55	65	100	117	**551**	42	1	34	117	42	67	9
Yuanta	48	24	99	366	87	**512**	82	79	130	368	173	137	37
First	46	55	157	301	156	144	**432**	84	49	49	57	61	61
Shin Kong	NA	NA	40	153	98	117	206	224	231	**416**	73	71	79
Fubon	33	29	70	52	75	69	81	84	208	**247**	157	75	40
Mega	66	114	139	92	**174**	136	99	82	31	110	61	59	85
SinoPac	29	24	55	32	60	65	71	21	25	**146**	108	70	43
Average	54	62	120	138	156	294	207	106	263	250	93	84	60

Note: 3M09 data is annualized.

Source: TEJ.

Capital adequacy – Banks

		BIS ratio											Tier 1	
Company	Ticker	2002	2003	2004	2005	2006	1H07	2007	1Q08	2Q08	3Q08	4Q08	2Q08	4Q08
Export-import Bank	Unlisted	44.5	51.5	53.4	47.0	40.8	41.0	38.7	37.5	35.8	34.7	35.3		
Citi Bank	Unlisted	5.5	8.0	10.5	8.8	7.8	5.9	19.7	22.1	24.0	26.5	29.8		
China Development Bank	2883.TW	35.0	32.0	35.0	37.2	33.1	23.6	21.1	18.7	19.1	17.3	19.7		
Cosmos Bank	2837.TW	10.1	9.8	9.8	10.0	9.4	5.1	20.6	19.8	19.4	18.2	15.5		
First Capital Bank	5863.TWO	NA	NA	NA	NA	NA	NA	13.2	13.2	14.1	13.6	13.1		
Industrial Bank of TW	2897.TWO	23.0	18.1	20.5	16.5	15.4	14.4	12.4	12.4	12.1	12.3	13.1		
Entie Bank	2849.TW	11.5	10.4	11.2	9.9	8.9	6.4	10.7	10.1	8.8	8.6	12.5		
Chinatrust Bank	**2891.TW**	**12.6**	**10.4**	**10.7**	**12.4**	**11.3**	**9.7**	**10.6**	**10.4**	**11.6**	**12.1**	**12.3**	**8.7**	**9.1**
Ta Chong	2847.TW	8.3	8.8	9.5	9.0	8.4	8.6	11.5	12.2	11.5	11.5	12.0		
King Town Bank	2809.TW	10.0	10.1	9.8	12.5	11.0	10.1	10.9	11.3	11.7	12.0	12.0		
Bank of Taiwan	Unlisted	15.6	14.6	13.8	14.0	12.9	12.4	12.5	11.9	11.8	11.7	11.4		
Shanghai Commercial Ban	Unlisted	10.1	9.9	10.0	10.3	10.3	9.8	10.2	10.4	11.2	10.9	11.2		
Mega Bank	**2886.TW**	**11.0**	**10.2**	**10.8**	**10.9**	**10.3**	**10.3**	**10.5**	**10.2**	**10.9**	**9.8**	**11.2**	**9.3**	**9.1**
Yuanta Bank	**2885.TW**	**11.0**	**8.7**	**9.1**	**8.1**	**9.2**	**8.7**	**11.9**	**11.8**	**11.8**	**11.6**	**11.2**	**8.7**	**8.4**
Taipei Fubon Bank	**2881.TW**	**14.0**	**13.1**	**13.1**	**11.6**	**11.2**	**9.8**	**9.6**	**10.8**	**11.1**	**10.9**	**11.1**	**9.3**	**9.6**
Cathay United Bank	**2882.TW**	**10.8**	**11.2**	**11.7**	**14.2**	**12.3**	**11.8**	**11.1**	**10.8**	**10.0**	**10.0**	**11.0**	**8.4**	**8.6**
First Bank	**2892.TW**	**9.0**	**9.0**	**10.4**	**10.3**	**11.0**	**10.5**	**10.9**	**11.0**	**10.8**	**11.0**	**10.9**	**7.0**	**7.1**
Land bank	Unlisted	10.1	10.3	10.9	11.3	11.4	10.3	10.4	10.4	11.1	10.9	10.8		
Shin Kong Bank	**2888.TW**	**11.3**	**9.3**	**9.7**	**10.6**	**12.5**	**11.6**	**10.7**	**11.5**	**10.8**	**10.6**	**10.7**	**7.4**	**7.1**
Far Eastern Bank	2845.TW	11.3	10.4	10.7	10.3	8.9	7.9	8.8	8.6	9.6	9.5	10.6		
CHB	**2801.TW**	**8.4**	**11.2**	**10.2**	**11.0**	**11.2**	**9.6**	**10.5**	**10.5**	**10.2**	**10.0**	**10.6**	**7.0**	**7.5**
E.Sun	2884.TW	10.4	10.0	11.6	9.6	10.8	11.4	11.4	11.3	10.4	10.2	10.6	7.4	7.8
Cota Bank	Unlisted	12.7	12.7	11.1	9.4	11.4	11.6	11.5	11.6	11.4	11.9	10.6		
TW Cooperative Bank	5854.TW	9.0	8.9	9.7	8.5	10.7	10.4	11.1	11.3	11.2	11.0	10.6		
Bank SinoPac	**2890.TW**	**12.9**	**12.4**	**12.6**	**13.0**	**12.4**	**10.4**	**9.7**	**10.7**	**10.3**	**10.4**	**10.5**	**8.9**	**8.9**
Hua Nan Bank	2880.TW	9.1	11.2	11.9	12.1	12.3	9.7	10.8	11.0	10.4	10.3	10.2		
Standard Chartered	2888.HK	9.9	9.5	9.0	12.0	9.1	9.2	9.3	9.7	8.8	8.9	9.9		
Hwatai Bank	5827.TW	12.1	11.1	11.3	10.9	10.0	8.5	9.9	10.3	10.0	9.8	9.8		
TW Business Bank	Unlisted	10.5	10.1	11.4	10.1	10.3	9.0	8.6	9.5	10.0	10.3	9.8		
Taishin Bank	**2887.TW**	**10.3**	**10.1**	**11.6**	**10.1**	**7.5**	**10.2**	**10.1**	**9.9**	**9.8**	**9.6**	**9.4**	**6.7**	**6.4**
Taichung Bank	2812.TW	8.6	8.5	8.5	8.2	5.4	8.3	10.3	10.3	9.5	9.6	9.4		
Sunny Bank	Unlisted	9.2	9.2	9.3	8.5	8.8	9.5	9.9	9.7	9.7	9.6	8.9		
Bank of Kaohsiung	Unlisted	13.0	12.7	11.7	10.9	9.9	9.9	9.7	9.9	9.4	9.0	8.8		
Bank of Panhsin	Unlisted	9.4	8.9	8.8	8.2	8.4	8.2	8.7	8.7	8.0	8.1	8.7		
Jih Sun Bank	5820.TW	9.7	9.3	10.1	8.7	9.0	9.7	8.8	9.3	8.8	8.3	8.6		
Union Bank	2838.TW	12.6	10.3	12.4	8.9	9.5	8.2	8.9	8.6	8.9	8.6	8.4		

Note: We have highlighted companies under our coverage.

Source: Company data, Banking Bureau.

Capital adequacy – FHCs

FHC debt-to-equity ratio and capital adequacy ratio

		Debt/Equity ratio (legal cap = 30%)								Capital adequacy ratio (legal floor = 100)							
		Dec-06	Jun-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-05	Dec-05	Jun-06	Dec-06	Jun-07	Dec-07	Jun-08	Dec-08
2880	Hua Nan FHC	12.0	19.5	6.2	6.1	12.6	6.1	5.8	6.3	113.0	109.4	112.3	112.7	106.0	108.1	106.6	120.0
2881	Fubon FHC	8.3	14.3	9.2	8.8	17.4	11.2	17.6	20.0	167.6	171.1	179.7	160.9	158.0	155.0	139.9	147.7
2882	Cathay Holdings	3.5	7.1	1.6	1.6	14.2	3.4	17.2	17.1	137.5	162.9	161.0	155.4	152.0	141.2	102.9	125.6
2883	China Deve. FHC	11.7	18.3	18.5	18.4	25.0	21.5	24.3	24.3	236.5	223.7	206.7	202.4	165.0	144.9	141.5	129.5
2884	E.Sun FHC	32.0	30.8	30.4	15.2	17.8	21.4	22.2	22.4	101.4	115.7	113.9	110.4	102.0	104.7	100.4	120.5
2885	Yuanta Group	27.5	7.2	5.8	5.4	8.7	8.4	10.6	10.5	122.1	117.3	112.4	108.2	166.8	168.5	174.7	176.8
2886	MEGA FHC	13.3	19.3	12.6	13.0	19.4	15.4	16.3	16.4	111.2	119.5	113.8	110.6	109.0	109.0	103.0	119.4
2887	Taishin FHC	44.9	45.3	45.2	45.8	51.1	46.7	49.6	48.8	114.8	94.1	109.9	98.3	102.0	108.0	101.4	105.3
2888	Shin Kong FHC	22.7	26.0	18.1	17.6	25.5	41.2	48.0	50.5	149.2	138.1	143.6	155.6	125.0	125.8	94.0	107.0
2889	Waterland FHC	8.9	10.6	10.8	10.7	13.8	14.5	17.0	16.7	186.5	150.2	164.8	153.8	140.0	152.1	159.5	159.9
2890	Sinopac FHC	7.9	6.2	6.0	6.7	9.1	8.4	8.6	8.7	135.8	144.3	130.2	133.7	116.0	118.2	115.0	126.0
2891	Chinatrust FHC	26.5	16.4	15.0	14.2	15.5	13.2	13.0	11.5	110.5	139.4	111.2	121.1	124.8	114.3	110.1	128.3
2892	First FHC	5.4	11.0	5.0	4.9	15.7	5.1	5.2	5.2	113.8	122.1	117.6	119.4	107.8	109.5	103.6	120.2
5820	Jihsun FHC	32.9	33.4	35.2	32.9	25.9	26.0	27.8	28.5	109.0	102.7	0.0	111.1	111.0	121.9	119.8	142.8

Source: Company data, TEJ.

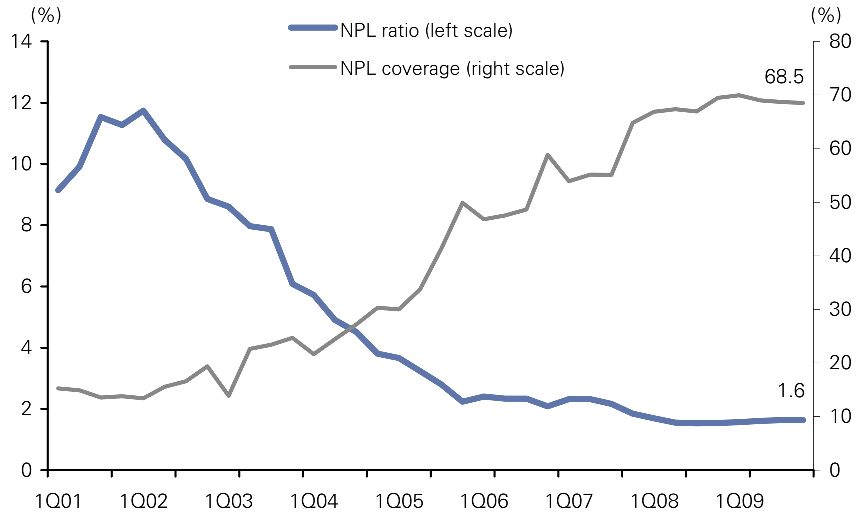
FHC double leverage ratio (legal ceiling = 125)

		Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
2880	Hua Nan FHC	99.1	99.1	104.3	104.3	104.4	104.4	104.9	104.9	104.9	104.9	103.0	103.1	103.3	103.3
2881	Fubon FHC	107.9	107.9	108.7	108.7	101.9	101.9	102.2	101.9	102.1	99.9	103.2	103.5	111.1	114.3
2882	Cathay Holdings	100.3	100.8	98.1	97.7	95.1	93.9	94.7	94.9	94.5	94.2	101.3	101.6	101.8	101.7
2883	China Deve. FHC	109.0	107.6	111.3	111.4	111.2	111.1	110.1	109.9	116.1	116.8	118.4	120.3	123.1	123.4
2884	E.Sun FHC	102.4	97.2	100.6	100.5	101.1	101.1	109.1	109.0	108.7	108.3	108.3	103.2	104.4	104.5
2885	Yuanta Group	117.0	120.1	120.1	121.7	122.9	119.1	104.3	89.0	101.1	95.7	100.1	105.1	108.0	106.7
2886	MEGA FHC	104.6	103.2	108.1	108.0	107.2	107.4	109.7	106.8	106.8	106.4	100.0	109.9	110.5	110.3
2887	Taishin FHC	132.6	106.5	113.0	114.0	117.0	130.6	124.1	124.0	125.1	125.5	126.9	127.5	128.3	127.5
2888	Shin Kong FHC	116.8	114.2	110.3	99.8	107.5	105.5	105.7	105.4	108.8	100.2	117.2	122.7	124.3	126.9
2889	Waterland FHC	105.5	105.2	106.9	106.6	106.7	106.7	107.6	107.6	107.9	107.7	109.4	111.3	113.5	113.8
2890	Sinopac FHC	100.4	94.4	102.8	103.6	104.6	103.5	103.1	104.0	104.0	101.0	101.0	102.4	105.2	105.2
2891	Chinatrust FHC	86.9	99.8	102.0	109.9	100.2	96.1	91.2	99.4	99.4	99.2	97.0	97.7	98.3	98.8
2892	First FHC	91.6	95.8	98.6	98.8	97.1	97.2	96.8	97.2	98.4	98.6	102.3	98.3	98.5	98.7
5820	Jihsun FHC	122.5	122.3	119.0	117.8	119.7	119.9	119.9	119.5	120.6	122.4	122.8	123.8	125.3	125.4

Source: TEJ.

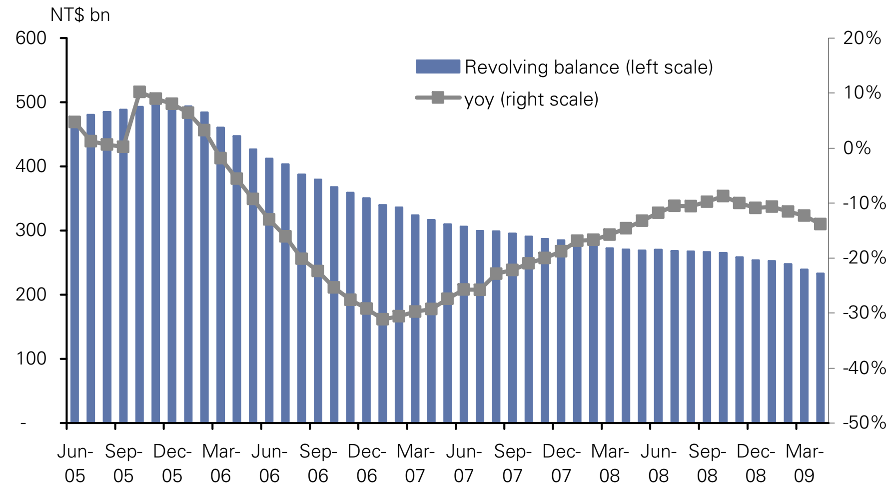
Asset quality and key card data

Banking system NPL ratio and coverage ratio



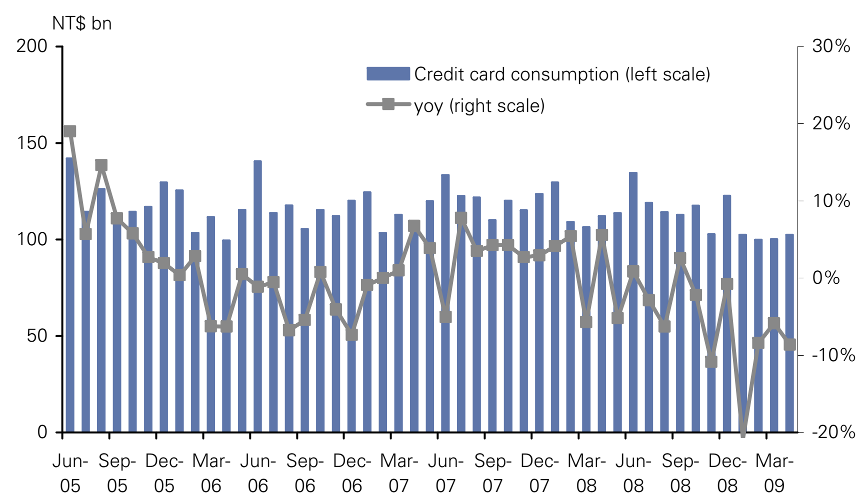
Source: Banking Bureau.

Credit card revolving balance



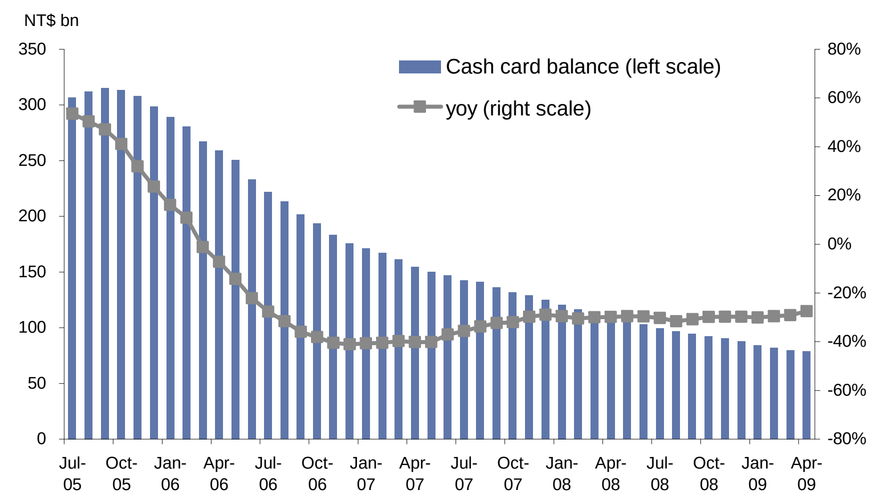
Source: Banking Bureau, Goldman Sachs Research.

Credit card consumption



Source: Banking Bureau.

Cash card loan balance



Source: Banking Bureau.

Selected data for leading credit card issuers ranked by revolving credit

As of April 2009	Revolving loan (NT$bn)	Revolving mom (%)	Revolving mkt share (%)	Effective card base ('000)	Revolving per card (NT$'000)	Card spending (NT$bn)	Spending mom (%)	Spending per card (NT$'000)	NPL (%, 3M)	Number of new cards	Cards cancelled ('000)
Citibank	49.2	(2.3)	21.1	1,553	31.7	11.8	3.3	7.6	1.3	31.3	20.5
Chinatrust	23.0	(5.3)	9.9	3,402	6.8	18.3	(0.8)	5.4	1.3	44.0	61.3
E.Sun	18.5	(2.4)	7.9	1,502	12.3	6.6	5.8	4.4	1.7	18.8	18.8
Cathay United Bank	17.5	(0.6)	7.5	1,911	9.1	11.7	(6.8)	6.1	1.0	22.3	49.1
ABN Amro	16.7	(4.3)	7.2	490	34.2	3.1	5.7	6.4	2.3	5.9	10.4
Taipei Fubon	12.9	(1.3)	5.5	1,447	8.9	7.2	5.1	5.0	0.8	33.1	33.3
Taishin	12.2	(1.7)	5.2	1,516	8.1	7.4	6.5	4.9	2.2	21.6	76.1
Union	10.6	(2.4)	4.5	1,125	9.4	4.0	(1.4)	3.6	2.5	10.9	62.8
HSBC	10.1	(3.0)	4.3	440	23.0	2.3	12.0	5.3	1.8	3.7	14.0
SinoPac	9.6	(2.7)	4.1	933	10.3	5.4	6.8	5.8	1.6	4.8	23.0
Far Eastern	8.8	(1.5)	3.8	626	14.1	2.4	7.8	3.8	1.4	7.4	6.3
Standard Chartered	7.2	(3.4)	3.1	229	31.3	1.3	4.2	5.5	1.0	0.5	8.7
Industry	**232.9**	**(2.6)**	**100.0**	**18,840**	**12.4**	**102.5**	**2.4**	**5.4**	**1.6**	**262.8**	**504.8**

Source: Banking Bureau.

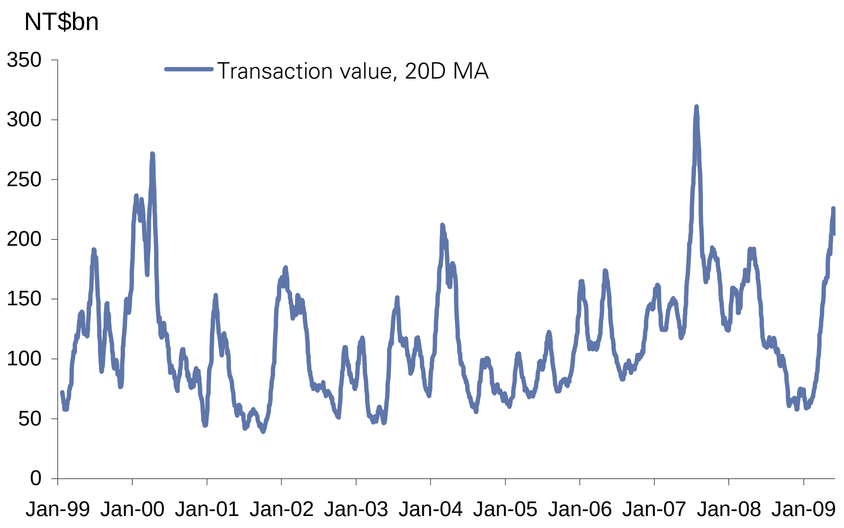
Leading cash card issuers ranked by loan market share

As of April 2009	Loans (NT$bn)	Mom (%)	Market share (%)	Cards in force ('000)	Mom (%)	Loans per card (NT$'000)	NPL ratio (%) - 90 day	Total credit line (NT$ bn)	Credit utilization rate (%)
Cosmos	34.7	(1.3)	44.1	572.0	(0.5)	60.6	3.8	88.8	39%
Taishin	17.5	(2.5)	22.2	113.1	(2.0)	154.9	2.4	14.0	125%
Chinatrust	9.0	(2.1)	11.4	112.2	(1.4)	80.0	2.9	13.4	67%
HSBC	5.9	(4.5)	7.4	55.4	(4.0)	105.8	3.0	9.5	61%
Ta Chong	3.8	(3.0)	4.8	89.0	(2.9)	42.7	0.1	7.5	50%
Hua Nan	1.8	(5.4)	2.3	38.0	(3.2)	47.4	1.8	2.7	66%
Bank of Kaohsiung	1.7	(0.2)	2.2	4.8	(0.2)	355.1	0.1	2.1	83%
Union Bank	1.7	43.8	2.2	26.3	51.8	64.9	17.2	2.8	60%
DBS	1.4	0.0	0.0	12.1	0.0	0.0	7.2	3.0	47%
Taipei Fubon	0.1	(5.2)	0.2	4.8	(4.0)	27.7	0.0	0.1	184%
Taichung	0.1	(2.6)	0.1	3.3	(1.9)	30.0	2.0	0.2	39%
First	0.1	(4.5)	0.1	3.7	(1.7)	20.3	0.1	0.2	NM
Industry	**78.7**	**(1.5)**	**100.0**	**1,051.3**	**(0.5)**	**74.9**	**3.3**	**145.9**	**54%**

Source: Banking Bureau.

Key stock market statistics

Transaction value



Source: Taiwan Stock Exchange.

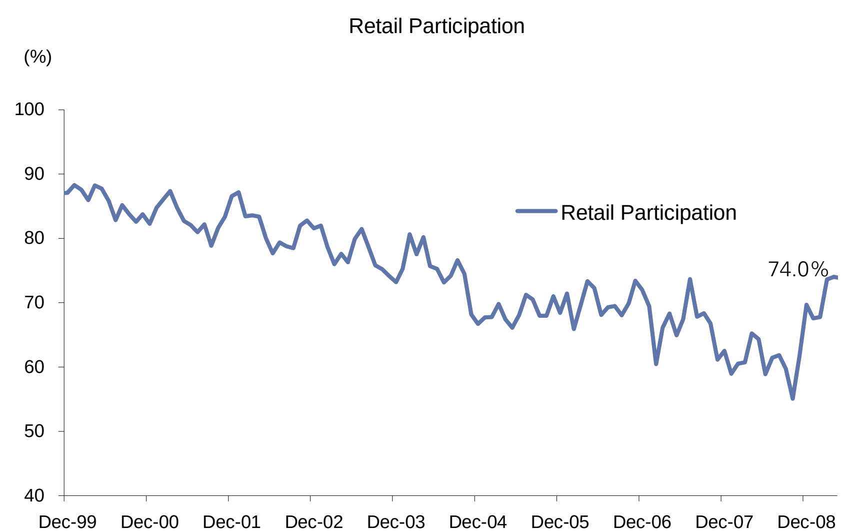
TAIEX performance

Source: Taiwan Stock Exchange.

Margin lending trends

Source: Taiwan Stock Exchange.

Retail participation



Source: Taiwan Stock Exchange.

Market share performance of leading brokers

Customer transactions as a percentage of total market turnover (%)

(%)	Ticker (parent)	Parent	Dec-01	2002	2003	2004	2005	2006	2007	1Q08	2Q08	3Q08	4Q08	1Q09	Apr-May 09
Yuanta*	2885.TW	Yuanta FHC	11.06	11.64	12.19	12.13	11.95	11.56	11.54	11.09	11.23	10.84	11.46	11.84	12.02
Fubon	2881.TW	Fubon FHC	7.23	6.56	6.34	6.06	6.09	6.07	5.76	5.37	5.33	5.00	5.14	6.01	6.27
SinoPac Securities	2890.TW	SinoPac FHC	3.71	4.13	4.90	4.72	4.24	4.23	4.39	4.13	4.37	4.24	4.30	4.74	4.71
Jih Sun Securities	5820.TWO	Jih Sun FHC	4.12	4.15	4.33	4.22	3.97	4.21	4.19	3.74	3.89	3.73	3.93	4.32	4.40
Polaris	2854.TW	Stand-alone	4.24	4.41	4.27	4.27	4.01	4.06	4.54	4.31	4.35	3.86	3.89	4.23	4.43
Taiwan Securities	2887.TW	Taishin FHC	3.54	3.78	4.04	5.07	5.13	4.92	4.35	4.15	4.36	4.11	4.01	4.36	4.55
Capital Securities	6005.TW	Stand-alone	3.61	3.67	3.63	4.05	4.12	4.29	4.06	3.75	3.83	3.55	3.59	4.02	4.20
KGI Securities	6008.TWO	Stand-alone	3.08	3.26	3.75	4.27	3.96	4.04	3.93	3.69	3.69	3.54	3.54	3.68	3.71
Masterlink	2856.TW	Stand-alone	3.97	3.75	3.54	3.49	3.52	3.66	3.53	3.25	3.38	3.25	3.31	3.65	3.62
President	2855.TW	Stand-alone	3.84	3.68	3.57	3.65	3.41	3.45	3.35	3.12	3.23	3.18	3.39	3.85	3.92

*Yuanta data includes the pro-forma turnover for Yuanta and Fuhwa Securities.

Source: Taiwan Stock Exchange.

Margin trading balance (including margin long and short positions, NT$ bn)

	Ticker (Parent)	Parent	2004	2005	2006	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	May-09	Market Share (%)
Yuanta*	2885.TW	Yuanta FHC	64.2	51.9	59.5	60.9	66.1	80.1	75.0	67.5	71.3	55.3	26.9	31.6	40.7	19.7
Fubon	2881.TW	Fubon FHC	19.0	15.9	18.9	19.5	21.0	25.4	23.7	21.8	22.7	17.5	8.1	10.1	13.0	6.3
Taiwan Securities	2887.TW	Taishin FHC	15.8	14.2	16.7	16.3	17.3	21.4	19.8	18.0	18.9	14.8	7.1	8.7	10.9	5.3
Polaris	2854.TW	Stand-alone	14.4	11.4	14.5	15.1	16.2	20.8	19.0	17.3	18.8	14.7	6.9	8.3	10.7	5.1
Capital	6005.TW	Stand-alone	14.6	13.6	16.4	17.0	17.6	21.9	19.9	18.0	19.4	14.8	7.1	8.3	11.0	5.3
Jih Sun	5820.TWO	Jih Sun FHC	14.0	12.6	16.2	16.8	17.7	21.6	20.2	17.4	19.1	14.8	6.7	8.0	10.3	5.0
SinoPac	2890.TW	SinoPac FHC	14.9	11.9	14.6	14.5	16.7	20.3	18.7	17.5	19.1	14.5	6.7	7.9	10.7	5.2
Mega	2886.TW	Mega FHC	10.7	9.8	12.3	12.5	13.8	17.9	17.5	16.0	17.3	13.9	6.7	7.9	10.0	4.8
President	2855.TW	Stand-alone	13.7	12.0	13.7	14.0	15.2	19.3	17.6	16.0	17.0	12.8	6.2	7.1	9.7	4.7
MasterLink	2888.TW	Shin Kong FHC	12.7	12.4	14.4	14.5	15.6	18.8	17.5	16.2	17.0	13.1	6.0	7.0	9.1	4.4
Market			294.9	246.6	294.2	296.1	323.4	398.0	372.6	338.1	362.2	236.8	133.6	157.6	207.1	

* Yuanta data includes the pro-forma margin lending balance for Yuanta, Fuhwa Securities and Fuhwa Securities Finance.

Source: Taiwan Stock Exchange.

Investment trust/asset management company overview

Mutual funds by product type, as of May 2009

AUM (NT$bn)		2006	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	May-09	Market	Growth rate (%)	
Type													Share (%)	QoQ	YoY
Equity Fund	Domestic	256	269	345	524	437	408	390	315	239	268	340	17.3	27	(24)
	Overseas	232	263	340	385	421	370	380	271	195	200	261	13.3	30	(34)
Balanced Fund		101	115	121	119	106	96	94	76	55	54	58	3.0	8	(42)
Bond Fund		1,121	1,044	850	877	811	937	920	763	952	1,182	1,148	58.4	(3)	22
Money Market Fund		11	13	13	13	11	12	9	7	5	4	7	0.3	53	(30)
Fund of Funds		155	180	205	169	150	127	105	79	5	58	62	3.2	7	(46)
Guaranteed Fund		4	2	0	0	0	0	0	0	0	0	0	-	NA	NA
Asset Securitization Fund		47	92	110	84	59	35	30	23	15	13	15	0.8	14	(56)
Exchange Traded Fund		41	47	49	39	44	53	63	62	47	60	67	3.4	12	20
Index Fund		0	1	0	1	1	2	3	3	3	3	6	0.3	106	116
Total		1,967	2,025	2,033	2,212	2,041	2,040	1,993	1,599	1,517	1,843	1,964	100.0	7	(7)

Source: SITCA (Securities Investment Trust & Consulting Association)

AUM by individual investment trust companies, as of May 2009

Company	AUM (NT$bn)	Market share	Number of funds	Beneficiaries	New subscription (March 2009) (NT$mn)	Redemption (March 2009) (NT$mn)	Net increase (NT$mn)	% of fund size
Polaris	150.3	7.7%	24	106,830	13,089	21,033	(7,944)	(5.3)
Capital	136.2	6.9%	16	88,056	17,015	20,167	(3,151)	(2.3)
Prudential	125.6	6.4%	21	65,243	8,647	7,604	1,043	0.8
JP Morgan	120.0	6.1%	29	287,658	8,616	9,148	(532)	(0.4)
Yuanta	117.1	6.0%	26	194,036	5,877	11,081	(5,204)	(4.4)
ING	110.1	5.6%	34	129,097	8,857	12,959	(4,102)	(3.7)
National Investment Trust	107.6	5.5%	23	54,074	10,907	11,051	(144)	(0.1)
Prudential Financial	102.5	5.2%	25	167,775	7,372	7,566	(194)	(0.2)
Fuhwa	101.9	5.2%	22	48,575	16,580	23,111	(6,531)	(6.4)
Cathay	97.5	5.0%	18	119,013	5,599	5,542	58	0.1
Fubon	78.7	4.0%	20	46,087	9,736	18,984	(9,248)	(11.8)
Allianz	72.6	3.7%	18	43,538	8,016	3,503	4,513	6.2
HSBC	64.1	3.3%	24	69,823	2,966	4,306	(1,339)	(2.1)
Uni-president	52.6	2.7%	13	57,403	1,471	4,160	(2,689)	(5.1)
IBT (Industrial Bank of Taiwan)	42.2	2.3%	13	10,676	7,491	5,350	2,142	5.1

Source: SITCA.

Investment trust/asset management company overview (cont'd)

AUM by individual investment trust companies, as of 2003-March 2009 (NT$ bn)

Company	2003	2004	2005	2006	2007	2Q08	3Q08	4Q08	1Q09	May-09
Polaris	102	112	96	108	120	144	121	116	143	150
Capital	138	155	139	139	139	128	114	116	128	136
Prudential	154	107	69	88	122	121	101	108	116	126
JP Morgan	126	117	129	140	148	138	107	94	106	120
Yuanta	118	100	78	66	127	124	103	103	107	117
ING	15	20	31	151	119	133	105	101	104	110
NITC	97	119	114	119	94	81	74	85	103	108
Prudential Financial	79	53	67	87	96	87	68	80	93	102
Fuhwa	107	124	106	98	96	100	87	84	106	102
Cathay	42	49	64	79	110	99	92	84	88	98
Fubon	142	201	158	117	74	57	51	58	79	79
Hua Nan	87	67	29	35	39	41	39	60	74	73
Allianz	24	29	47	57	95	96	70	55	60	73
Mega International	144	97	56	32	60	49	13	32	58	65
HSBC	80	83	71	91	115	106	79	65	65	64
Jih Sun	84	81	56	43	43	48	37	37	53	63
Uni-president	103	71	50	46	51	60	50	52	53	53
IBT (Industrial Bank of TW)	35	32	21	53	46	70	45	30	42	44
SinoPac	63	56	31	34	43	47	38	30	33	38
Union	27	21	8	10	7	11	14	21	33	35
Total	**2,667**	**2,481**	**1,963**	**1,967**	**2,041**	**1,993**	**1,599**	**1,571**	**1,843**	**1,964**

Source: SITCA.

AUM by product type and individual investment trust companies, as of May 2009 (NT$ bn)

Company		Polaris	ING	Capital	JP Morgan	Prudential	Yuanta	Cathay	HSBC	NITC	Prudential Financial	Total	%
Equity Fund	Domestic	4.9	18.1	35.9	20.3	14.1	39.3	36.9	10.0	8.0	25.6	340.0	17.3
	Overseas	1.3	23.2	2.9	49.1	22.9	16.3	6.6	23.8	3.1	15.7	261.1	13.3
Balanced Fund		0.9	2.0	8.1	12.0	5.9	1.4	1.2	3.5	1.2	0.9	58.3	3.0
Bond Fund		64.0	63.2	87.8	37.0	73.7	55.1	47.8	18.4	90.4	55.3	1,145.2	58.3
Money Market Fund		0.0	0.0	0.0	0.0	0.0	0.0	1.8	0.0	0.5	0.0	6.9	0.3
Fund of Fund		4.4	2.2	0.7	1.6	6.3	0.6	3.3	8.4	0.0	4.9	62.3	3.2
Asset Securitization Fund		3.6	1.3	0.9	0.0	2.8	4.4	0.0	0.0	0.5	0.0	17.4	0.9
Exchange Traded Fund		65.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	67.3	3.4
Index Fund		6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.0	0.3
Total		150.3	110.1	136.2	120.0	125.6	117.1	97.5	64.1	103.7	102.5	1,964.4	100.0

Source: SITCA.

Individual investment trust companies' product market share, as of May 2009 (%)

Company		Polaris	ING	Capital	JP Morgan	Prudential	Yuanta	Cathay	HSBC	NITC	Prudential Financial
Equity Fund	Domestic	1.4	5.3	10.6	6.0	4.1	11.5	10.8	2.9	2.4	7.5
	Overseas	0.5	8.9	1.1	18.8	8.8	6.3	2.5	9.1	1.2	6.0
Balanced Fund		1.5	3.5	13.8	20.6	10.1	2.4	2.1	6.0	2.1	1.6
Bond Fund		5.6	5.5	7.7	3.2	6.4	4.8	4.2	1.6	7.9	4.8
Money Market Fund		0.0	0.0	0.0	0.0	0.0	0.0	26.0	0.0	7.0	0.0
Fund of Fund		7.1	3.5	1.2	2.5	10.1	0.9	5.3	13.5	0.0	7.9
Asset Securitization Fund		20.8	7.6	5.0	0.0	15.9	25.5	0.0	0.0	2.9	0.0
Exchange Traded Fund		96.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Index Fund		100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall market share		7.6	5.6	6.9	6.1	6.4	6.0	5.0	3.3	5.3	5.2

Source: SITCA.

CDO/CBO/SIV exposure

Cathay

NT$mn	Original exposure	Loss recognition 4Q07	1Q08	2Q08	3Q08	4Q08	1Q09
CDO	29,048	3,264	1,800	-	544	2,994	1,300
CBO	31,970	-	-	-	-	-	-

NT$mn, % Rating	1Q09 book value	Rating (as of 1Q09/3Q08, %) AAA	AA	A	BBB-B	below B
CDO	18,900	4%	29%	39%	27%	
ABS CDO	2,892		27%		42%	31%
Corp CDO	13,306	14%	32%	41%	13%	
CBO	19,000	76%	7%	11%	6%	

Mega

NT$mn	Original exposure	Subprime exposure	Loss recognition Balance sheet	4Q07	7M08	Aug 08-Sep 08	4Q08
ABCP	10,960	5,937	203	766	5,693	500	300
RMBS	3,856	3,856					
RMBS/CMO	1,497	1,497	119	410	593		
CDO	852	-	95	-	5		
PPN	914	-	218	-	3		

Shin Kong

NT$mn	Original exposure	Loss recognition 4Q07	1Q08	2Q08	3Q08	4Q08	1Q09
CDO	37,000	1,880	1,900	1,269	700		1,350
ABS CDO	10,600	1,880	1,900	1,269	700		290
Corp CDO	23,310					1,371	90
CBO	34,500	1,030	1,370				

NT$mn, % Rating	1Q09 book value	Rating (as of 3Q08, %) AAA	AA	A	BBB-B	below B
CDO	25,000					
ABS CDO	4,000	44	16	0	40	
CBO	31,400	42.3	0.9	8.3	48.5	

Fubon

NT$mn	Original exposure	Loss recognition 4Q07	1Q08	2Q08	3Q08	4Q08
Subprime CDO	931	894	29	-	5	3
Corp CDO	10,225	352	200	120	816	1,165
SIV	1,741	1,135	473	-	45	-

NT$mn, % Rating	1Q09 book value	Rating (%) AAA	AA	A	BBB-B	below B
CDO	9,010	0	21.1	68.5	10.4	
SIV	32					

Note: Chinatrust and SinoPac have written off 100% of their SIV exposure; 60% of Fubon's CDO exposure is PPN product.

Source: Company data, Goldman Sachs Research estimates.

Research summary

Taiwan: Financial Services: 1Q09 EBITDA coverage: Still challenging asset quality outlook

1Q09 asset quality and credit cost were surprisingly resilient

Taiwan banking sector's reported NPL ratio was surprisingly resilient at 1.6% as of April 2009, despite Taiwan's economy experiencing one of its worst GDP/export contractions ever. Gross credit cost (annualized) came in at only 62bp in 1Q09, the second lowest in the past 25 quarters. Recent signs of stabilization in the global macro environment, and closer cross strait relations, could lead some investors to take a more optimistic outlook on the sector's asset quality cycle.

EBITDA coverage analysis, however, suggests it is not sustainable

However, our EBITDA coverage analysis indicates that implied NPLs (i.e., EBITDA < interest expense) continued to deteriorate in 1Q09 to 38.7% and 39.3% for TWSE-listed and OTC-listed companies, from about 15% and 29% at 2008 year-end, and exceeded the previous peak levels of 22% and 34%, respectively, in 2001.

In our view, the considerable discrepancy between the implied and actual NPL trend could stem from: (1) the government's explicit support for banks to restructure customers' debts (e.g., DRAM sector); (2) some industries are benefiting from inventory re-stocking and China's subsidy program in 1Q09, with stronger-than-expected cash inflow (e.g., tech); (3) Taiwan banks typically loading the bulk of their provision charges in the 2H of a year (i.e., December). We do not view the implied NPL ratio rise as a temporary phenomenon as the US/Europe markets still account for about 60% of Taiwan's exports (IT hardware, for example); however, we expect it to have peaked out in 1Q09, given signs of global macro improvement.

Still cautious on state-owned FHCs, prefer high-beta names

Our analysis of all non-financial companies under our coverage in Taiwan shows 26%/8% yoy EBITDA growth in 2010E/2011E, implying potentially improved debt repayment capacity for corporate customers. Government initiatives could also reduce/delay potential customers' default risk; as such we lower our credit cost assumptions for CHB, First and Mega to 80-132bp in 2009E/10E. We revise 2009-11E EPS by -11 to 144%, and raise our 12-m SOTP-based target prices by 15%/14%/18% to NT$11.5, NT$16, and NT$13. But we maintiain Sell ratings on these names, given the prolonged credit cycle downturn, heavier NIM contraction pressure, and less promising outlook of becoming inbound investment targets, and as we still prefer private sector, high-beta names. Upside risks: further mitigation of concerns on asset quality, faster and stronger NIM recovery.

Vincent Chang, Roxan Hsu, June 11, 2009

First FHC (2892.TW): First Take: 1Q09 beat estimates; core business still faces challenges

News

First FHC reported 1Q09 earnings of NT$1.6bn vs our FY09 forecast of NT$1.9bn, mainly due to strong investment/FX gain (NT$1.2bn in 1Q09, 29% of 1Q09 PPOP, vs NT$0.9bn in FY08) and lower-than-expected credit costs (60bp vs our forecast of 154bp). However, the core business remained weak as NII and fee income combined dropped to NT$5.6bn in 1Q09, (23%) qoq, vs. our NT$29bn FY09 forecast. Management stated on the call that the company does not hold any investments that are directly linked to GM. Despite the Tier 1 capital weakness, mgmt indicated that First is still looking for domestic (ITC/ securities companies) and overseas (2nd/3rd tier Chinese banks) equity investment opportunities, but MOF's approval would be required for any M&A initiatives, unless a deal is small.

Analysis

1) NPL ratio increased to 1.55% in 1Q09 from 1.45% in 4Q08, driven by domestic SME NPL formation; besides the company only sets aside 2% reserve on its NT$10bn restructured loan (0.9% of its loan book), implying more NPL could surface in 2H09, in our view. The company guided that the NPL ratio could climb up to 1.8% by 09YE in the worst case; 2) NIM dropped sharply (46bps) to 1.09% in 1Q09 and continues to trend down to c.1% in 2Q09 due to the declining interest spread and investment yield post CBC's rate cut. First expects its NIM to gradually improve in 2H09 and set a FY09 target at 1.1% vs 1.58% in FY08; 3) Mgmt guided that after the NT$3bn capital injection is done, First Bank's Tier 1 ratio will stay low at c.7.3%, which could constrain business expansion; 4) First Bank will incur another NT$500mn expense in 09 related to the NT$4.7bn Lehman structured notes it sold, on top of the NT$900mn loss it recognized in 08.

Implications

We note that credit cost came in better than our expectation and market sentiment has also improved from closer cross-strait relations. However, we think the company's core business still faces challenges. We place our estimates, target price and rating under review.

Vincent Chang, Roxan Hsu, June 4, 2009.

Taiwan: Banks: Cross-strait banking, issue no 5: HK CEPA experience read-across

Initial excitement on cross-strait banking link is largely priced-in

The Taiwan financial sector has rallied 39% since the China Mobile/Far Eastone deal announcement (April 30, 2009), and 87% since the trough in March 2009, despite near-term operational challenges such as NIM contraction, fee income decline, and potential asset quality deterioration.

HK CEPA experience - 3-stage trajectory

The initial excitement over the CEPA signing triggered the HK financial sector to re-rate from 1.3X to 2.1X P/B in 2003. However, market sentiment cooled down in 2004-06 (1.6-1.8X P/B), as investors became concerned about the delivery of post-CEPA earnings improvement. In 2007-08, the sector's valuation sharply re-rated, reaching 2.6X P/B at the peak, as their initial infrastructure build-up started paying off; banks started reporting significantly, which improved loan/fee income growth numbers, leading to robust earnings delivery.

Near-term- Inbound/asset price reflation: focus on high-beta names

In our view, Taiwan financials could follow a similar trajectory as the HK banks on the potential cross-strait banking link, and are now going through the "initial excitement" stage. We suggest investors focus on the inbound opportunity and asset price reflation theme, hence believe high beta stocks, such as Yuanta, Cathay, Fubon and Polaris Sec, would offer more near-term upside, as they benefit from liquidity injections and inbound investment from China. Our analysis shows that Cathay FHC's valuation has the highest positive correlation to NTD strengths, TWSE performance and the Taiwan government bond rate, and hence, offers the most leverage to the asset price reflation theme, in our view.

Mid/long-term - Outbound opportunity: focus on franchise names

Compared to the HK experience, we highlight three factors which we believe might serve to limit Taiwan financials' outbound investment opportunity into China: (1) Late to market; (2) Policy risk; (3) Execution capability: In the long term, we believe franchise names with good execution track records, such as Fubon, Cathay and Chinatrust, have greater potential to build a material presence in China. We raise Chinatrust's 12-month, SOTP-based target price to NT$19 (from NT$13); maintain Neutral. Key risks: US double dips, unexpected roadblocks in cross-strait progress.

Vincent Chang, Roxan Hsu, June 1, 2009.

Fubon FHC (2881.TW): In line with expectations on combined EV; Buy for solid franchise

What surprised us

Fubon reported FY08 EV (embedded value) of NT$78 bn for the combined life insurance entity, vs. our estimate of NT$73 bn on a set of like-for-like assumptions (4.4% L/T investment yield, 10% discount rate). Fubon set its annual VNB growth target at 10%; 4M09 is so far on track. Aside from EV, key positives include: (1) resilient asset quality with 40 bp annualized net provision (0.73% NPL, 77% coverage); however, it indicates the down cycle impact could be prolonged to 2010 for domestic banks; (2) WM fee income grew 35% qoq, thanks to 141% qoq growth for overseas mutual funds sales; (3) the net combined ratio remained low at 76% for Fubon Insurance. Key negatives: (1) 42 bp NIM contraction, resulting in 27% qoq net interest income decline in 1Q09. Fubon indicates the industry NIM is unlikely to improve back to the 2008 level unless the Central Bank raises rates; (2) 10% unhedged position for Fubon/Antai Life's overseas investment portfolio as of 1Q09, which might cause more earnings volatility, given the recent NTD appreciation. Fubon has increased its basket hedge position in 2Q09 to reduce the potential negative impact.

What to do with the stock

We maintain our Buy rating on Fubon FHC for its solid franchise, diversified revenue streams, capital strengths, and cross-strait banking advantage. We slightly adjust 2009E-2011E EPS by (5.5)%-2.6% and raise our 12-month, SOTP-based target price to NT$34, mainly to reflect Antai Life's VNB, not previously disclosed. We use 4.1% L/T investment yield and a 10.5% discount rate to value Fubon/Antai Life. Key risks are US double dips and unexpected roadblocks in the progress of cross-strait banking links.

Vincent Chang, Roxan Hsu, May 25, 2009.

Taishin FHC (2887.TW): Shares rise post deal announcement, but valuation overdone

What's changed

Taishin FHC share price has risen 37% in the past 5 trading days on the back of its announcement to dispose off Taiwan Securities, its 100%-owned subsidiary, at NT$29 bn (or 1.5X 1Q09E. BVPS), to KGI Sec. (6008.TWO, NC).

Implications

We agree that the pending deal is a game-changing event for Taishin, as it would substantially help improve Taishin's capital strength, and should enhance its negotiating position in dealing with potential strategic investors, if any, and give it more flexibility to pursue future expansion. However, we think the market may have blind spots when assessing what valuation Taishin is/should be traded at post the deal, given the complexity of Taishin's capital structure and the consequent material impact to its distributable earnings to common shareholders. In this note, we provide investors with all the detailed adjustments that we think are needed to assess Taishin FHC's value to common shareholders. Based on our analysis, it is trading at a premium to its peers on adjusted BV and net earning bases (1.4X 10E BVPS, 30X 10E post-preferred-dividend EPS, vs. 1.15X/20X bank-centric peer average), which we think is unsustainable due to its low ROE. On an adjusted PPOP basis, it is trading at a discount (5.5X v.s. 6.9X average), which we think is reasonable given its business model (i.e., more high-yield, unsecured loans on its book). As such, we think the run-up in the shares post the announcement is overdone.

Valuation

We raise 09E-11E EPS to NT$1.56/0.27/0.41 from NT$0.19/0.38/0.57 to reflect the disposal of TW Securities and the premium KGI Sec is paying. We raise our 12-m, SOTP-based TP to NT$9.5 (from NT$7). Maintain Neutral, but note 10E/11E ROE (2%-3%) is still materially lower than the sector average of 6.6%-8.3%.

Key risks

Upside: Price supported by positive market sentiment on improving cross-strait relationship. Downside: Disappointing capital utilization, deal falls through.

Vincent Chang, Roxan Hsu, May 22, 2009.

ShinKong FHC (2888.TW): Above expectations on FY08EV, but more issues ahead to fix

What surprised us

(1) FY08 EV was better than expected, NT$81bn vs. our NT$58bn forecast on a like-for-like basis, mainly due to greater real estate appreciation. (2) FYP (First-year premium) dropped 45% yoy in 1Q09, leading to a 4.7% market share contraction, but we note its FYP in high-margin traditional/health policy has risen 218% yoy. (3) Severe negative interest spread: Realized yield in 1Q09 was 3.9% versus its cost of liability of 5.2% (vs. 4.6% and 4.8% for Cathay Life in 1Q09); our analysis indicates its VIF (net of cost of capital) would turn negative if investment yield is lower than 4.5%. (4) Asset/equity leverage remained 55X for ShinKong Life in 1Q09, improving to 44X in Apr, thanks to NT$7.3bn one-off gain from real estate disposal. It announced on Apr 28 a NT$13-NT$18bn recap plan to improve its leverage. (5) Investment underperformance: Its implied domestic equity market return ytd is <10%, vs. TWSE index up 30%, which ShinKong attributes to its defensive stock holdings.

What to do with the stock

Similar to Cathay FHC (2882.TW, Buy), ShinKong also has a pro-cyclical business model that could benefit from the TWSE rally and asset price reflation, which might provide near-term share price support. But in our view, its fundamentals are still relatively weaker and at a higher risk than Cathay FHC in terms of financial leverage, negative interest spread and investment yield, which mgmt is making an effort to address. Maintain Sell and raise our 12-month, SOTP-based TP to NT$13.5 from NT$9.50, based on 4.1% investment yield assumption and 11% discount rate (from 3.8%/12.9% previously vs. 4.2%/10.5% for Cathay) and increase 09E/10E/11E EPS by 23%/8%/12% on our higher investment yield assumptions. Key risk: Strong equity market performance, boosting its investment yield.

Vincent Chang, Roxan Hsu, May 20, 2009.

Cathay FHC (2882.TW): Pro-cyclical gearing off a solid franchise; upgrade to Buy

Source of opportunity

Cathay FHC's pro-cyclical business model is geared in many ways – to any macro upturn, a TWSE re-rating, asset price reflation, and so on – and offers exposure to a virtuous circle of warmer cross-strait relationships and signs of stabilization in the global economy. This has improved, and should continue to improve, its asset/equity leverage, and alleviated concerns over possibly sizeable losses on its NT$785bn overseas investment portfolio. Risk-averse customers have helped improve high-margin traditional policy sales, offsetting FYP losses from investment-linked policies. We upgrade Cathay to Buy from Neutral with a 12-m, SOTP-based target price of NT$58 (up from NT$34).

Catalyst

(1) Continuous progress/breakthroughs in cross-strait issues in 2H09/2010 further lifting investors' confidence in the TWSE, improving Cathay's near-term earnings outlook and strengthening its capital position. (2) Liquidity injection triggering domestic asset price reflation. (3) Modest re-cap in 2H09 and 2010 to boost its capital strength. (4) FSC announcing policies favorable to life insurers (e.g., greater overseas investment flexibility, providing reserves, instead of actual hedges, to smoothen impact of FX fluctuations).

Valuation

The strong equity market performance and a more stable credit market are positive for Cathay FHC's ability to generate earnings. We increase our 2009-11E EPS by 36%-54%, and revise up our long-term investment yield assumption from 3.8% to 4.2%. We also revise up our 2010E 12-month VNB assumption to NT$29bn to align with its FY08/1Q09 results and the more recent emphasis on higher-margin policies.

Key risks

Sharp NT$ appreciation leading to FX losses; US economy double-dips, triggering stock/credit market sell-off; progress in cross-strait finance deregulation encounters unexpected roadblocks.

Vincent Chang, Roxan Hsu, May 18, 2009.

SinoPac FHC (2890.TW): Below expectations on NIM contraction; cost control on track

What surprised us

SinoPac reported net profit of NT$571mn in 1Q09, vs. a NT$2.0bn loss in 1Q08 and our full-year 09 estimate of NT$3.2bn. Key negatives: 1) NIM dropped 35bp qoq to 0.9% in 1Q09 due to mortgage repricing. It fell further in Apr to 0.8%, which mgmt believes should be the bottom. 2) Total loans declined 4% qoq and yoy; mgmt remains cautious on the asset quality of new credit line. 3) Fee income remains weak on poor investment sentiment and declining export orders. 4) The company estimates a potential loss of 60%-80% of US$146mn on the sale of PEM products, the founder of which was recently arrested in the US and is under investigation for fraud. Key positives: 1) Cost control: Sinopac FHC's operating expense declined 21% yoy in 1Q09 vs. its 10%-15% target. 2) Stable asset quality: NPL ratio/coverage ratio stayed flat at 1.38%/75% in 1Q09, while mortgage NPL ratio is at 1.03%. 3) Manageable US asset quality deterioration: NPL ratio up 58bp to 3.9% in 1Q09, while coverage ratio was up slightly to 64% (vs. 11% and 22%, respectively, of Chinatrust's US loan book). It plans to inject US$50mn capital into its US subsidiary bank FENB to keep its BIS ratio at 11.4%. 4) Strengthened capital adequacy: FHC CAR/bank Tier 1 ratio improved to 130%/9.4% in 1Q09 from 126%/8.9% in 4Q08.

What to do with the stock

Despite weak 1Q09 earnings, we advise investors to add on weakness, as SinoPac's sizeable securities presence as the No. 3 ranked brokerage business should benefit from the liquidity influx to TWSE; it could also benefit from cross-strait financial deregulation, given mgmt's open attitude toward cooperation with Chinese banks. The stock is trading at 0.8X 10E BVPS vs. sector average of 1.1X. Maintain Buy with a 12-m SOTP-based TP of NT$11. Risk: Delay in cross-strait financing deregulation.

Vincent Chang, Roxan Hsu, May 14, 2009.

Taiwan: Brokers: Read-across from potential Yuanta/Taiwan Securities deal

Potential deal between Yuanta FHC and Taiwan Securities

The Economic Daily reported on May 8 that Yuanta is considering acquiring the brokerage business of Taiwan Securities, a subsidiary of Taishin FHC (2887.TW, NT$9.15, Neutral), for NT$20-NT$25bn (or 1.0-1.3X 1Q09 BVPS).

If true, this might further strengthen Yuanta's leadership position...

As at end-December 2008, Yuanta FHC's CAR was 177% (legal floor = 100%), and double leverage ratio was 108% (legal ceiling is 125%), indicating it should have a sufficient capital buffer to pursue the deal without conducting a dilutive recapitalization exercise. Strategically, Yuanta could further strengthen its leadership position in the stock brokerage business, with 16.2% pro forma market share (vs. 6.0% for Fubon and 4.7% for Sinopac), and enhance its operational leverage.

...and create a sense of urgency for Fubon FHC

In our view, if this deal were to proceed it might create a sense of urgency for Fubon FHC (2881.TW, Buy) to accelerate its inorganic expansion in the securities brokerage business to catch up with Yuanta FHC. We believe the securities companies with relatively larger market share represent potential candidates, which may include Polaris Securities (2854.TW, Buy), Jih Sun Securities (a subsidiary of Jih Sun FHC (5820.TWO, NC)), and Capital Securities (6005.TW, NC), each of which has 4%-5% market share in the domestic brokerage business. In addition, several media articles in the Economic Daily have reported that the managements of these companies are actively looking for buyers. For Taishin, we think the purpose of this possible business disposal could be to help it partially solve its capital adequacy issue, allowing it to improve its negotiating position when dealing with potential strategic investors to avoid severe earnings dilution for existing shareholders.

Reaffirming our positive stance on the securities sub-sector

This potential consolidation reaffirms our positive stance on the securities sub-sector within the TW financials space, as they can directly benefit from rising TWSE daily turnover driven by strong liquidity inflows, from both domestic and offshore investors, and also higher-margin loan balances, with little negative overhang from credit/investment losses and policy risk. We have Buy ratings on Yuanta FHC, Fubon FHC, Sinopac FHC and Polaris Securities.

Vincent Chang, Roxan Hsu, May 8, 2009.

Cathay FHC (2882.TW): First take: FY08 EV in line; core business for Life turning stronger

News

Cathay Life reported FY08 embedded valuation (EV) of NT$290bn, v.s. GS forecast of NT$142bn. The major difference is on investment yield assumptions. On a like-for-like basis (5% investment yield assumption), Cathay Life's FY08 EV is largely in-line (NT$315bn vs GS forecast of NT$325bn). However, FY08 12-mo VNB (value of new business) is NT$28.6bn, 27% higher than GS forecast of NT$22.5bn. For Cathay United Bank, NIM fell 38bps qoq, NPL remained stable at 0.9%, wealth management fee income dropped 11% qoq in 1Q09. Cathay FHC also announced it will seek shareholders' approval in the upcoming AGM to issue up to 8.3bn new shares (vs. its current total shares outstanding of 9.7bn), although the exact timing, form and size of the capital injection is not decided yet.

Analysis

(1) 1Q09 policy mix appears favorable, with 14% of first-year premium coming from higher-yield, recurring protection-type policies (vs. GS forecast of 10.5%); (2) Negative interest spread issue is eased in near term, given TWSE strength, warmer cross-straits relationship, and signs of stabilization in the global economy, although it remains a structural issue in the longer term unless we have a rate-hike environment again; (3) Manageable loss from its CDO (NT$19bn) as half of that will be due by 2010 year-end. With a stronger capital base, we believe the market has looked beyond the issue; (4) 2Q09 NIM would likely further contract 20bps to 1.1%, but the company expects it to improve to 1.5% by 4Q09 as it re-prices its term deposits. (5) Modest dilution risk as Cathay Life's capital base gets lifted by TWSE strength. It aims to keep asset/equity leverage at 20X (vs., 24.8X/38.4X at FHC/life insurance level as of 1Q09).

Implications

Cathay's sizeable equity/property portfolio benefits the company from increasing liquidity and cycle turns. Its capital issue has been well flagged. We are placing our EPS, target price and rating under review.

Vincent Chang, Roxan Hsu, May 6, 2009.

Taiwan: Financial Services: Prefer high-beta names on liquidity injection; 4 upgrades

Strategy team upgrades TWSE to Overweight

Post our Asia strategy team's upgrade on TWSE to Overweight on May 3, we upgrade our stance on the Taiwan financial sector from cautious to neutral, roll over our valuation basis to 2010, and upgrade major securities brokers Yuanta FHC, Polaris Securities and Sinopac FHC, from Neutral to Buy with new 12-m TPs of NT$26, NT$16, and NT$11 on higher TWSE turnover / margin loan balance assumptions (P/B-based for Polaris, rest are SOTP-based).

Prefer high-beta securities brokers to banks/life insurers

Within the Taiwan financial sector, we continue to prefer securities brokers to banks/life insurers, as they can directly benefit from a rising TWSE daily turnover driven by liquidity injection and also higher margin loan balance, without much negative overhang from credit/investment loss and policy risks. We now assume TWSE daily turnover/margin loan balance to rise to NT$140bn/NT$225bn in 2009E and NT$147bn/NT$300bn in 2010E (27%/13% and 28%/7% higher than previous estimates). Given high operational leverage for securities brokers, we raise Yuanta's 09E-11E EPS by 38%-88%, and Polaris' 10E-11E EPS by 20%-34% and assume a net profit now in '09E.

Upgrade Sinopac FHC to Buy

We upgrade Sinopac FHC from Neutral to Buy as: (1) its sizeable securities business (ranked #3 in brokerage and #7 in securities finance) leads us to revise up our 09E-11E EPS by 24%-101% for higher TWSE turnover / margin loan balance assumptions; (2) it is well positioned to benefit from inbound investment from China, given its extensive branch footprint in Greater Taipei, and, in our view, SinoPac appears more open-minded about equity investment from China. Refer to "*Cross-strait banking, issue no. 2, ways to invest when MOU materializes" Feb 11, 2009* for more details; (3) it is trading at a valuation discount to peers; Sinopac FHC is trading 0.7X 09E BVPS (vs. industry average of 1.0X). We upgrade FBHK from Sell to Neutral as: (1) asset quality deterioration appears to be manageable; (2) Direct beneficiary from China's initiatives to allow RMB-based trade flow in HK.

Raise EPS estimates/TPs for Fubon, Taishin and Mega FHC

We upgrade our 2009E-11E EPS forecasts for Fubon, Taishin and Mega FHC by 6%-74%, and raise TPs by 16%-40%, as they all have presence in the securities brokerage business. We also raise TPs of other stocks by 5%-154% as we roll over valuation basis to 2010.

Vincent Chang, Roxan Hsu, May 5, 2009.

Taiwan: Financial Services: China corps now allowed to invest in TW? Read-across to TW Fins

What's changed: detailed rules of Chinese corps investing in TW announced & QDII deregulation

Central Daily News (April 29) reported that the PRC Ministry of Commerce has detailed the rules around allowing Chinese corporates to invest in the Taiwan market. The rules will come into effect on May 1. The article also indicated that several high-profile Chinese companies, including China Mobile, have previously expressed their interests in the Taiwan market. However, Economic Daily reports the Taiwan regulator might only finalize the rules of Chinese corporates' inbound investment by the end of May.

What can be done immediately? What has to wait for MOU?

1. Financial investment: QDII from China should be able to invest in the Taiwan financial sector (via public market purchase) as early as May, according to the Economic Daily, with up to 10% stake of any individual company. MOEA approval will be required for stakes over 10%. 2. Strategic investment: Taiwan/China financial institutions will still need to wait for finalization of the cross-strait financial MOU and associated execution details, which the Economy Daily expects might be finalized by the end of 2009, before they can make strategic investment across the strait. See our report, *Cross-strait banking, no 4: Co-op Agreement signed, what's next? Apr 27, 2009*.

Read across: private-sector financials likely eligible candidates

We highlighted that inbound investment (from China to Taiwan) would be a more compelling catalyst (see *Cross-strait banking, issue no 2, Ways to invest if MOU materializes, Feb. 11, 2009)*. We believe mid-to-large sized, private-sector financials will more likely be recipients of inbound investment, given (1) their wide geographical coverage and strong customer base; (2) fewer political complexities vs. state-owned banks; (3) greater potential to gain management control if any legal threshold is removed; (4) value creation from better product know-how (e.g., consumer finance). That said, the stance of major shareholders would naturally be an important factor to consider in any potential M&A. We identify Sinopac FHC (2890.TW, Neutral), Fubon FHC (2881.TW, Buy), Taishin FHC (2887.TW, Neutral) and Polaris Securities (2854.TW, Neutral) as the more likely candidates for inbound investment under our M&A framework.

Vincent Chang, Roxan Hsu, April 30, 2009.

Taiwan: Financial Services: Cross-strait banking, no 4: Co-op Agreement signed; what's next?

Cross-strait Financial Cooperative Agreement signed on Apr 26

The Cross-strait Financial Cooperative Agreement was signed in the third SEF-ARATS Summit on April 26, as expected. In the Agreement, the two sides express the intention to establish mutual supervisory mechanisms for various financial sub-sectors (i.e., MOU) within 60 days of the summit (Commercial Times), accelerate the entry of financial institutions into each other's market, and set up a cross-strait currency settlement system.

So, what can banks do now? What comes next?

However, there are no execution details in the Agreement, and further negotiation is still required, such as which institutions will qualify to build up their presence and make equity stake investments, and which businesses may be allowed to operate in each other's market, etc. In other words, despite the Agreement, no financial institutions can yet make any concrete progress in building up cross-strait business presence before the two sides reach agreement on the details, which the Economy Daily expects might be finalized by the end of 2009. Please see *"Crossstrait banking, issue no 3: What can and can't be done in N/T"* April 21.

Implication: Outbound investment - limited earning impact

Among our coverage, Chinatrust, Cathay United Bank, First Bank, and CHB have rep offices in China, and might be able to be upgrade to branches in future. While this is L/T positive, we do not expect significant earning contribution in the N/T from such an operation upgrade, as it will still be years before these branches will be permitted to provide RMB-based financing. Hence, any market excitement on such expectation is unwarranted.

Implication: Inbound investment - focus on SinoPac/Fubon

We see potential inbound investments (from China to TW) might be more compelling. We expect the mid-to-large-sized private financials to benefit more (see "*Cross-strait banking, issue no 2: Ways to invest if MOU materializes", Feb 11*); and state-owned banks rank last due to complex political issues. In our view, SinoPac appears more open-minded about equity investment from China, or active involvement in day-to-day management. Fubon FHC's recent announcement to seek shareholders' approval for a potential NT$30 bn capital raising (15% stakes) seems to pave the way for potential Chinese strategic partners, in our view.

Vincent Chang, Roxan Hsu, April 27, 2009.

Fubon FHC (2881.TW): Potential capital raise a strategically positive move; buy on any dips

What's changed

Fubon FHC's board on April 23 approved a NT$30 bn capital raising plan, implying 1.2 bn new shares, or 15% dilution (on today's close). As for the potential form, the company said it would remain flexible (e.g., CB, ECB, GDR, right issues, private placement). On potential timing, Fubon said it had no concrete plan, but emphasized its board chose today to authorize the plan so it could try to obtain shareholders' approval at the AGM on June 19. AGM approval would be valid for a year, according to Taiwan regulation, saving Fubon from spending two months preparing for an EGM later.

Implications

Fubon FHC's capital position is one of the strongest in the sector. The company currently also has the option to issue up to around NT$12 bn of subordinated debt to ING Group to strengthen its capital position. Hence, there could be three strategic intentions behind the board's decision, in our view. (1) It could be a preventive measure to boost Fubon's capital base efficiently, in case the global financial market tumbles again in 2H2009. (2) It could give Fubon FHC more flexibility to pursue M&A opportunities, if any interesting acquisition targets surfaced in Taiwan/China. (3) More importantly, it could pave the way for Fubon to get Chinese strategic partners in-house, if regulation allows after the cross-strait financial MOUs are passed. The move also indicates Fubon's key shareholder (the Tsai family) could be open to getting diluted, should appealing investment or cooperation opportunities surface, in our view. Therefore, we view this board decision a thoughtful, positive strategic move. We suggest investors buy on any weakness from this news announcement.

Valuation

The stock is now trading at 1.2X 2009E BVPS (vs. 0.6X-1.9X trading band). We reiterate our Buy rating with a 12-month, SOTP-based TP of NT$26.

Key risks

Severe loan quality worsening; poor investment yield for life insurance BU.

Vincent Chang, Roxan Hsu, April 24, 2009.

Taiwan: Banks: Cross-strait banking, issue no 3: What can and can't be done in N/T?

SEF-ARATS Summit confirmed on Apr 25-29

The 3rd SEF-ARATS Summit is confirmed to be held during Apr 25-29. One key topic to be discussed will be the cross-strait financial issue; in our view, a three-phase approach is likely: 1) a broad-level cooperative agreement, followed by 2) subsector-specific MOUs, and finally 3) the execution details. We expect all these to be completed by 2009 year-end.

What TW/China banks might be able to do going forward....

1) Rep office/branch setup: We expect TW banks may upgrade their rep offices to branches and operate non-RMB business in China; and Chinese banks may be able to set up operations in TW. 2) Equity investment: We believe TW banks will be allowed to invest in existing Chinese banks under regulation similar to other regions like HK (up to 20% stake) and securities (up to 33%). But TW regulators' stated view is not to allow Chinese banks to take over management control of any TW banks; thus it is reviewing whether the investment cap should be set at 10% or 25%.

What TW banks still would not likely be able to do...

1) RMB business: We don't expect China to allow TW banks to operate RMB business immediately, as even under the CEPA framework, it took HK banks two years before their China operations were permitted to do so; we don't expect TW banks to receive more favorable treatment; 2) A-share brokerages: We note that HK-incorporated securities brokers are not allowed to operate A-share brokerages. We think it is unlikely that TW securities will be able to do so, when no other foreign/HK brokers can.

MOU would be a breakthrough, but limited NT earnings impact

We would view the cross-strait financial MOU as a breakthrough. But we don't think it would solve the cyclical challenges and structural difficulty the sector is facing, as the earnings impact would likely be limited, given the business restriction is in its early stage.

How to leverage this theme?

We believe Yuanta FHC (2885.TW, Neutral) and SinoPac FHC (2890.TW, Neutral) provide better risk-reward and might benefit in the cross-strait financial MOU theme. While First FHC (2892.TW, Sell) and CHB (2801.TW, Sell) might be able to upgrade their rep offices in China to branches, we are concerned about their SME focus and weaker capital positions.

Vincent Chang, Roxan Hsu, April 21, 2009.

Target prices, ex-growth floors, and CAMELOT ceilings

	Current price	GS target price		GS CAMELOT price ceiling	Price floor		Capital asset pricing model			2-stage dividend discount model assumptions						Ex-growth bond-equivalent valuation		
	Price 6/15/2009	12-month Target price	Potential upside/ downside	Target P/B X est. BVPS	Ex-gth. P/B x BVPS	Curr price as % of ex-gwth	Risk-free rate	CAMELOT adj. risk premium	(d) Cost of equity	3-year div. CAGR	(a) Sust. ROE	(b) Div payout	(c)=a*(1-b) Long-term growth	CAMELOT implied P/E	CAMELOT target P/B	(a)/(d) Ex-gth. P/B	2009E P/B	Premium/ (discount) to ex-gwth
Hong Kong (HK$)				**On 2009E BVPS**														
BOC Hong Kong (Holdings)	13.32	12.00	-10%	12.00	9.7	137%	3.8	6.3	10.1	16.0	12.5	60.0	5.0	13.0	1.63	1.24	1.59	28%
Bank of East Asia	24.35	23.20	-5%	23.20	17.4	140%	3.8	6.3	10.1	47.0	10.0	33.0	6.7	18.0	1.80	1.00	1.33	34%
Chong Hing Bank	13.10	8.50	-35%	8.50	9.5	137%	3.8	6.3	10.1	0.0	7.0	60.0	2.8	8.1	0.57	0.70	0.98	41%
Dah Sing Banking Group	7.14	7.00	-2%	7.00	12.6	57%	3.8	6.9	10.7	18.0	8.0	60.0	3.2	10.5	0.84	0.75	0.81	8%
Fubon Bank (Hong Kong)	3.68	3.30	-10%	3.30	1.5	244%	4.0	11.0	15.0	12.0	7.0	30.0	4.9	4.3	0.30	0.47	1.07	130%
Hang Seng Bank	111.10	109.00	-2%	109.00	85.4	130%	3.8	5.1	8.9	5.5	28.0	78.0	6.2	16.9	4.73	3.16	4.03	27%
HSBC Holdings	68.00	84.00	24%	104.01	88.7	77%	3.8	5.4	9.2	2.8	15.0	65.0	5.3	12.8	1.92	1.64	1.38	-16%
ICBC (Asia)	15.16	12.70	-16%	12.70	11.3	134%	3.8	6.3	10.1	10.1	10.5	60.0	4.2	11.0	1.16	1.04	1.31	26%
Standard Chartered Bank	148.80	161.00	8%	161.00	139.8	106%	3.8	6.0	9.8	10.0	15.0	60.0	6.0	13.4	2.01	1.54	1.52	-1%
Wing Hang Bank	66.00	65.00	-2%	65.00	46.4	142%	3.8	6.3	10.1	28.6	13.0	60.0	5.2	16.1	2.09	1.29	1.72	33%
Indonesia (Rp)				**On 2009E BVPS**														
Bank Central Asia	3,850	4,000	4%	4,000	1,489	258%	12.0	6.8	18.8	26.0	29.0	50.0	14.5	10.8	3.13	1.54	3.47	125%
Bank Danamon	4,275	4,500	5%	4,500	1,810	236%	12.0	11.2	23.2	20.0	20.0	50.0	10.0	4.4	0.88	0.86	1.80	108%
Bank Mandiri	3,275	2,500	-24%	2,500	1,263	259%	12.0	8.8	20.8	13.0	18.0	50.0	9.0	5.6	1.02	0.87	2.13	146%
Bank Rakyat Indonesia	6,700	5,600	-16%	5,600	2,632	255%	12.0	8.0	20.0	27.0	29.0	50.0	14.5	9.2	2.68	1.45	3.30	127%
Korea (W)				**On 2008 BVPS**														
Daegu Bank	11,450	11,300	-1%	11,300	9,426	121%	6.0	6.4	12.4	1.9	9.8	30.0	6.9	6.0	0.59	0.79	0.93	17%
Hana Financial Group	26,700	32,000	20%	32,000	34,045	78%	6.0	6.2	12.2	-20.2	10.0	30.0	7.0	4.0	0.39	0.82	0.66	-19%
Industrial Bank of Korea	10,250	9,500	-7%	9,500	12,337	83%	6.0	6.6	12.6	-9.7	8.4	30.0	5.9	4.3	0.36	0.67	0.63	-7%
KB Financial Group	42,000	56,200	34%	56,200	38,775	108%	6.0	6.1	12.1	-8.0	10.7	40.0	6.4	5.7	0.61	0.88	0.91	3%
Korea Exchange Bank	9,930	9,700	-2%	9,700	8,782	113%	6.0	6.0	12.0	-16.5	10.3	30.0	7.2	4.5	0.47	0.86	0.94	9%
Busan Bank	8,920	9,000	1%	9,000	7,671	116%	6.0	6.5	12.5	-5.6	8.6	30.0	6.0	4.7	0.41	0.69	0.84	23%
Samsung Card	47,000	42,700	-9%	42,700	34,956	134%	6.0	6.1	12.1	-22.2	13.5	30.0	9.5	4.7	0.63	1.12	1.47	31%
Shinhan Financial Group	30,400	37,000	22%	37,000	35,676	85%	6.0	5.9	11.9	-1.5	12.5	40.0	7.5	7.2	0.90	1.05	0.93	-12%
Woori Finance Holdings	10,650	11,100	4%	11,100	10,780	99%	6.0	6.1	12.1	-14.7	8.6	30.0	6.0	4.2	0.36	0.71	0.68	-4%
Singapore (S$)				**On 2009E BVPS**														
DBS Group Holdings	12.00	14.20	18%	14.20	10.0	119%	3.0	6.9	9.9	0.0	9.5	75.0	2.4	9.4	0.90	0.96	1.15	19%
Oversea-Chinese Banking Corp.	7.10	8.00	13%	8.00	5.9	121%	3.0	6.9	9.9	0.0	12.0	45.0	6.6	10.0	1.19	1.21	1.46	21%
United Overseas Bank	14.82	16.40	11%	16.40	11.5	129%	3.0	6.9	9.9	0.0	12.0	55.0	5.4	9.9	1.19	1.21	1.56	29%
Taiwan (NT$)				**On 2009E BVPS**														
SinoPac Holdings	9.80	11.00	12%	4.96	6.8	145%	3.0	9.1	12.1	10.0	7.0	30.0	4.9	5.9	0.94	0.58	0.80	39%
Chinatrust Financial Holdings	19.00	19.00	0%	12.41	11.5	165%	3.0	8.5	11.5	14.0	10.5	30.0	7.4	8.9	1.51	0.92	1.43	56%
First Financial Holdings	18.30	16.00	-13%	11.54	13.0	141%	3.0	9.4	12.4	10.0	10.0	30.0	7.0	7.0	0.99	0.80	1.13	40%
Fubon Financial Holdings	28.50	34.00	19%	19.35	17.1	167%	3.0	6.8	9.8	12.0	9.0	40.0	5.4	10.6	1.83	0.92	1.39	52%
Yuanta FHC	20.85	26.00	25%	6.52	6.6	315%	3.0	9.1	12.1	15.0	6.0	60.0	2.4	7.9	1.95	0.50	1.47	196%
Mega Financial Holdings	14.35	13.00	-9%	6.98	9.7	148%	3.0	9.4	12.4	10.0	7.5	25.0	5.6	5.6	0.81	0.60	0.88	46%
Cathay Financial Holding Company	45.15	58.00	28%	12.13	10.8	417%	3.0	8.1	11.1	11.0	8.0	40.0	4.8	8.0	3.86	0.72	2.24	211%
Shin Kong Financial Holdings	12.70	13.50	6%	5.11	4.4	288%	3.0	9.1	12.1	0.0	7.5	40.0	4.5	5.6	1.90	0.62	1.42	130%
Chang Hwa Commercial Bank	14.00	11.50	-18%	6.84	9.1	154%	3.0	9.1	12.1	10.0	7.5	45.0	4.1	6.9	0.79	0.62	1.10	78%
Taishin Financial Holdings	10.40	9.50	-9%	4.80	8.6	122%	3.0	9.1	12.1	10.0	8.5	40.0	5.1	7.0	0.78	0.70	0.74	6%

Current price below ex-growth value at floor; we see this as an attractive buying opportunity for value-focused investors.

Key risks to our 12-month price targets: Earnings setbacks/disappointments, US double dips. Solid economics rebound, governments expansion plan. Note: Target prices are based on GS CAMELOT target P/B of 2007E BVPS.

For important disclosures, please go to http://www.gs.com/research/hedge.html.

Source: Datastream, Goldman Sachs Research estimates.

Dupont analysis – Breakdown of ROA as a percentage of average assets

(%)	ROE	Assets/ Equity (X)	ROA	ROE/ROA DuPont Analysis As % of Average Assets: NII	Non-int Income	Operating Revenue	Operating Expense	Pre-prov. Op. Profits	Loan Provisions	Pretax Profits	Tax	Net Profits	Profitability Ratios (%): Cost/ Income	Non-int. Inc./ Op. Revenue	Loans/ Assets
FY2008															
Cathay FHC	1.2	19.8	0.06	2.65	4.17	6.82	(6.83)	(0.02)	(0.02)	0.01	0.05	0.06	100.2	61.1	36.4
CHB	6.0	16.7	0.36	1.35	0.34	1.69	(0.88)	0.81	(0.15)	0.52	(0.16)	0.36	52.0	19.8	70.0
Chinatrust FHC	12.2	15.3	0.80	1.74	1.81	3.55	(1.81)	1.74	(0.74)	0.96	(0.16)	0.80	50.9	50.9	53.4
First FHC	7.2	16.9	0.43	1.43	0.41	1.84	(0.94)	0.83	(0.25)	0.53	(0.10)	0.43	54.6	22.1	64.5
Fubon FHC	7.0	12.3	0.57	1.73	3.79	5.52	(4.30)	1.16	(0.36)	0.64	(0.07)	0.57	79.0	68.7	45.7
Mega FHC	0.2	12.7	0.01	1.29	0.18	1.47	(0.83)	0.64	(0.34)	0.13	(0.12)	0.01	56.4	12.2	54.8
Polaris	(6.4)	3.1	(2.08)	1.11	1.03	2.14	(4.33)	(2.27)	0.00	(1.76)	(0.32)	(2.08)	206.3	48.0	8.4
Shin Kong FHC	28.7	26.7	1.07	4.99	3.18	8.17	(6.94)	1.20	(0.10)	0.69	0.39	1.07	85.3	38.9	27.1
Sinopac FHC	(4.3)	13.7	(0.31)	1.50	0.15	1.65	(1.45)	0.20	(0.49)	(0.33)	0.01	(0.31)	88.1	8.8	54.5
Taishin FHC	(9.0)	31.8	(0.28)	1.39	0.75	2.13	(1.37)	0.76	(0.75)	(0.05)	(0.23)	(0.28)	64.3	34.9	63.4
Yuanta FHC	1.7	4.9	0.36	1.72	2.18	3.90	(2.64)	1.26	(0.61)	0.36	(0.01)	0.36	67.8	55.8	36.0
FY2009E															
Cathay FHC	8.2	22.8	0.36	2.68	3.89	6.56	(5.96)	0.59	(0.15)	0.41	(0.06)	0.36	91.0	59.2	34.9
CHB	2.5	18.1	0.14	0.97	0.31	1.28	(0.81)	0.47	(0.38)	0.17	(0.03)	0.14	63.6	24.0	63.6
Chinatrust FHC	5.2	15.3	0.34	1.42	1.66	3.08	(1.78)	1.30	(0.80)	0.50	(0.16)	0.34	57.7	54.0	53.5
First FHC	3.7	18.3	0.20	1.03	0.67	1.70	(0.84)	0.80	(0.56)	0.24	(0.04)	0.20	52.9	39.6	62.1
Fubon FHC	8.9	15.1	0.59	1.15	6.04	7.19	(6.09)	1.03	(0.32)	0.69	(0.10)	0.59	85.7	84.0	35.1
Mega FHC	2.4	13.7	0.18	1.23	0.64	1.87	(0.77)	1.10	(0.67)	0.22	(0.05)	0.18	41.4	34.4	57.9
Polaris	0.3	3.2	0.08	0.83	2.85	3.68	(4.26)	(0.66)	0.00	0.37	(0.29)	0.08	118.0	77.5	14.3
Shin Kong FHC	8.6	35.3	0.24	2.60	5.93	8.54	(6.90)	1.62	(0.22)	0.33	(0.09)	0.24	81.1	69.5	25.8
Sinopac FHC	3.9	14.4	0.27	1.44	0.91	2.35	(1.37)	0.98	(0.61)	0.37	(0.10)	0.27	58.4	38.9	52.0
Taishin FHC	11.9	31.9	0.37	0.97	1.16	2.13	(1.22)	0.91	(0.47)	0.44	(0.07)	0.37	57.2	54.5	58.2
Yuanta FHC	6.6	4.7	1.38	1.44	3.19	4.63	(2.59)	2.04	(0.50)	1.58	(0.20)	1.38	56.0	68.8	35.4
FY2010E															
Cathay FHC	11.5	20.3	0.57	2.73	4.26	6.99	(6.33)	0.65	(0.15)	0.65	(0.08)	0.57	90.8	60.9	33.6
CHB	5.3	18.8	0.28	1.04	0.30	1.34	(0.79)	0.55	(0.28)	0.35	(0.07)	0.28	59.1	22.3	64.3
Chinatrust FHC	9.1	14.9	0.61	1.44	1.66	3.10	(1.77)	1.33	(0.50)	0.83	(0.22)	0.61	57.1	53.5	52.2
First FHC	5.5	18.5	0.30	1.09	0.63	1.72	(0.84)	0.82	(0.44)	0.38	(0.08)	0.30	52.1	36.5	61.9
Fubon FHC	11.3	15.9	0.71	1.08	5.58	6.66	(5.52)	1.08	(0.27)	0.83	(0.12)	0.71	83.8	83.8	34.7
Mega FHC	5.7	13.7	0.41	1.22	0.64	1.86	(0.78)	1.08	(0.56)	0.52	(0.11)	0.41	41.9	34.5	57.8
Polaris	8.2	3.1	2.67	1.08	5.52	6.60	(4.68)	1.84	0.00	3.01	(0.34)	2.67	72.1	83.6	18.7
Shin Kong FHC	13.2	30.7	0.43	2.50	5.19	7.69	(6.98)	0.69	(0.19)	0.58	(0.15)	0.43	91.1	67.5	25.0
Sinopac FHC	6.0	14.3	0.42	1.42	1.03	2.45	(1.39)	1.05	(0.51)	0.54	(0.12)	0.42	56.9	41.9	52.1
Taishin FHC	2.0	30.8	0.06	1.10	0.71	1.81	(1.12)	0.69	(0.38)	0.31	(0.25)	0.06	61.7	39.3	59.1
Yuanta FHC	8.5	4.8	1.77	1.54	3.35	4.89	(2.50)	2.39	(0.41)	2.03	(0.26)	1.77	51.1	68.5	38.1
FY2011E															
Cathay FHC	13.7	19.8	0.69	2.75	4.72	7.47	(6.68)	0.78	(0.12)	0.80	(0.10)	0.69	89.6	63.2	32.1
CHB	6.7	18.8	0.36	1.10	0.28	1.38	(0.78)	0.60	(0.24)	0.44	(0.09)	0.36	56.3	20.4	65.0
Chinatrust FHC	10.5	14.7	0.72	1.46	1.70	3.16	(1.76)	1.40	(0.44)	0.96	(0.25)	0.72	55.6	53.7	52.9
First FHC	7.5	18.5	0.40	1.13	0.64	1.77	(0.83)	0.88	(0.36)	0.52	(0.12)	0.40	50.0	36.3	63.5
Fubon FHC	12.0	15.5	0.78	1.08	5.51	6.59	(5.43)	1.10	(0.22)	0.90	(0.13)	0.78	83.2	83.7	35.1
Mega FHC	6.9	13.5	0.51	1.27	0.69	1.96	(0.78)	1.17	(0.53)	0.64	(0.13)	0.51	40.1	35.3	59.0
Polaris	8.7	2.9	2.97	1.18	5.89	7.07	(4.78)	2.20	0.00	3.42	(0.45)	2.97	68.8	83.4	19.6
Shin Kong FHC	12.0	29.0	0.41	2.38	5.32	7.70	(6.97)	0.71	(0.15)	0.55	(0.14)	0.41	90.8	69.1	24.6
Sinopac FHC	7.7	14.2	0.54	1.43	1.09	2.51	(1.40)	1.11	(0.42)	0.69	(0.15)	0.54	55.7	43.2	52.1
Taishin FHC	2.9	31.6	0.09	1.13	0.72	1.85	(1.11)	0.74	(0.37)	0.37	(0.28)	0.09	60.0	38.7	59.9
Yuanta FHC	9.5	4.8	1.97	1.60	3.38	4.98	(2.44)	2.54	(0.31)	2.29	(0.32)	1.97	49.0	67.9	41.2

Source: Company data, Goldman Sachs Research estimates.

EPS growth drivers

	Key earnings drivers % growth (yoy)											Memo (%)					
	Deposits	Gross loans	NII	Non-int income	Operating revenue	Operating expense	Pre-prov. op. profits	Loan provisions	Pretax profits	NPAT	EPS	NIM	Yoy change	LLP/ loans	Yoy change	ROA	ROE
Taiwan (FY 2008)																	
Cathay FHC	6.1	4.3	7.5	(4,275.0)	188.1	361.3	(101.9)	(77.3)	(99.4)	(92.9)	(92.9)	1.86	(0.24)	0.15	(0.52)	0.06	1.17
CHB	8.9	7.7	(1.6)	(8.1)	(3.0)	2.9	(8.7)	134.3	(42.2)	(38.0)	(34.2)	1.65	(0.10)	0.21	0.12	0.36	5.98
Chinatrust FHC	3.9	5.2	(9.1)	14.1	1.4	(2.1)	5.3	30.2	(6.9)	11.1	6.6	1.92	(0.25)	1.40	0.28	0.80	12.23
First FHC	9.8	8.4	10.4	(49.2)	(12.3)	2.0	(24.9)	48.1	(45.1)	(41.1)	(41.7)	1.49	0.00	0.40	0.10	0.43	7.23
Fubon FHC	17.2	13.7	7.8	145.2	75.2	214.3	(33.0)	(35.3)	(31.4)	(24.6)	(24.6)	1.57	(0.10)	0.99	(0.68)	0.57	7.03
Mega FHC	6.3	9.2	16.1	(82.0)	(30.3)	(3.1)	(48.9)	7.1	(84.6)	(98.3)	(98.3)	1.68	0.12	0.47	(0.00)	0.01	0.16
Polaris	NA	(66.1)	(24.7)	(84.3)	(73.3)	(15.1)	(180.7)	NA	NA	NA	(157.6)	2.17	(0.04)	NA	NA	(2.08)	(6.38)
Shin Kong FHC	4.3	2.5	90.6	(811.1)	276.2	413.8	50.9	(8.2)	138.5	268.0	229.3	1.88	(0.04)	0.63	(0.13)	1.07	28.71
Sinopac FHC	1.8	(0.1)	(6.2)	(85.9)	(37.5)	(9.0)	(81.2)	(25.9)	NA	NA	(245.3)	1.29	(0.12)	0.93	(0.35)	(0.31)	(4.32)
Taishin FHC	3.4	1.7	(9.4)	(25.4)	(15.7)	(1.3)	(33.3)	45.3	NA	NA	(316.9)	1.82	(0.33)	3.31	1.02	(0.28)	(9.04)
Yuanta FHC	(0.2)	(21.7)	(9.9)	(27.3)	(20.6)	(6.4)	(39.7)	(16.0)	(68.8)	(68.7)	(68.9)	1.77	(0.07)	1.34	(0.35)	0.36	1.74
Taiwan (FY 2009E)																	
Cathay FHC	0.2	3.0	5.5	(2.5)	0.6	(8.8)	NA	545.7	7,575.1	532.5	532.7	1.68	(0.18)	0.97	0.82	0.36	8.16
CHB	1.3	(3.2)	(23.4)	(2.1)	(19.2)	(1.2)	(38.6)	169.1	(64.7)	(58.9)	(63.5)	1.18	(0.47)	0.56	0.35	0.14	2.50
Chinatrust FHC	7.7	3.3	(16.6)	(5.4)	(10.9)	1.1	(23.3)	10.8	(46.3)	(56.3)	(56.3)	1.50	(0.42)	1.49	0.09	0.34	5.22
First FHC	3.5	(1.3)	(24.3)	75.1	(2.4)	(5.5)	1.3	133.8	(52.8)	(50.3)	(50.3)	1.07	(0.42)	0.89	0.49	0.20	3.69
Fubon FHC	2.5	3.1	(18.0)	96.7	60.7	74.6	9.8	9.7	31.6	27.2	20.8	1.08	(0.48)	1.04	0.05	0.59	8.91
Mega FHC	3.7	8.5	(1.8)	269.8	31.3	(3.6)	76.5	105.1	77.7	1,370.1	NA	1.56	(0.12)	0.92	0.45	0.18	2.42
Polaris	NA	64.4	(26.6)	174.1	69.8	(2.9)	71.2	NA	NA	NA	104.0	1.48	(0.70)	NA	NA	0.08	0.27
Shin Kong FHC	2.5	(1.8)	(46.2)	92.5	7.8	2.4	38.6	126.0	(49.9)	(76.5)	(76.5)	1.83	(0.04)	1.40	0.77	0.24	8.62
Sinopac FHC	3.3	(2.0)	(0.4)	552.8	48.6	(1.5)	418.4	30.3	NA	NA	189.1	1.26	(0.03)	1.21	0.28	0.27	3.88
Taishin FHC	2.7	(5.5)	(29.2)	58.3	1.4	(9.7)	21.4	(36.9)	NA	NA	233.4	1.38	(0.43)	2.22	(1.08)	0.37	11.88
Yuanta FHC	5.2	4.0	(15.8)	47.2	19.3	(1.5)	63.1	(17.6)	336.2	287.9	287.9	1.69	(0.07)	1.10	(0.23)	1.38	6.56
Taiwan (FY 2010E)																	
Cathay FHC	2.9	4.8	10.4	18.7	15.3	15.0	17.9	3.8	70.1	71.5	71.5	1.88	0.19	0.97	0.00	0.57	11.50
CHB	3.7	4.9	12.2	2.0	9.8	2.0	23.2	(21.8)	112.6	112.6	112.6	1.28	0.09	0.43	(0.13)	0.28	5.27
Chinatrust FHC	6.3	3.4	6.2	4.2	5.1	4.0	6.6	(35.2)	73.5	86.5	86.5	1.48	(0.02)	0.93	(0.56)	0.61	9.06
First FHC	4.5	4.3	10.2	(3.6)	4.8	3.3	6.4	(18.5)	65.6	52.1	52.1	1.16	0.09	0.71	(0.18)	0.30	5.47
Fubon FHC	4.2	3.5	10.3	8.4	8.7	6.3	22.9	1.5	41.4	41.2	41.2	1.21	0.12	1.04	(0.00)	0.71	11.27
Mega FHC	4.7	4.1	2.7	3.5	3.0	4.2	2.2	(13.9)	140.9	140.6	140.6	1.54	(0.02)	0.77	(0.15)	0.41	5.65
Polaris	NA	33.3	30.0	92.2	78.2	9.0	375.8	NA	703.5	3,050.7	NA	1.77	0.29	NA	NA	2.67	8.20
Shin Kong FHC	7.1	3.9	1.0	(8.1)	(5.3)	6.4	(55.4)	(11.8)	81.7	85.7	85.7	1.85	0.01	1.21	(0.19)	0.43	13.24
Sinopac FHC	4.1	4.0	2.4	16.0	7.7	5.0	11.4	(12.8)	51.4	59.6	59.6	1.25	(0.01)	1.04	(0.17)	0.42	5.95
Taishin FHC	3.7	5.2	17.3	(36.6)	(12.1)	(5.2)	(21.4)	(15.9)	(27.1)	(82.4)	(82.4)	1.60	0.21	1.84	(0.38)	0.06	1.96
Yuanta FHC	7.7	16.3	14.2	12.4	12.9	3.1	25.4	(12.4)	37.3	37.0	37.0	1.78	0.08	0.94	(0.16)	1.77	8.49
Taiwan (FY 2011E)																	
Cathay FHC	4.1	4.7	9.9	20.9	16.6	15.1	31.4	(9.7)	33.8	33.5	33.5	1.94	0.06	0.83	(0.14)	0.69	13.74
CHB	3.7	4.9	9.9	(2.2)	7.2	2.1	14.7	(9.8)	32.0	32.0	32.0	1.35	0.07	0.37	(0.06)	0.36	6.70
Chinatrust FHC	4.6	5.9	6.7	7.7	7.3	4.5	10.9	(7.5)	22.0	24.1	24.1	1.50	0.02	0.82	(0.11)	0.72	10.53
First FHC	4.5	7.6	8.0	7.4	7.8	3.4	12.6	(14.3)	44.1	43.0	43.0	1.21	0.06	0.57	(0.14)	0.40	7.47
Fubon FHC	4.0	6.0	4.4	3.6	3.7	3.1	7.1	(15.5)	14.5	14.7	14.7	1.36	0.15	0.83	(0.20)	0.78	11.99
Mega FHC	3.0	5.7	8.2	11.7	9.4	4.7	12.8	(1.3)	27.8	28.6	28.6	1.61	0.07	0.73	(0.05)	0.51	6.91
Polaris	NA	7.7	11.2	9.3	9.6	4.7	22.4	NA	16.4	14.0	14.0	1.92	0.15	NA	NA	2.97	8.68
Shin Kong FHC	5.0	4.4	1.5	9.4	6.8	6.5	10.0	(12.6)	2.0	2.0	2.0	1.89	0.04	1.00	(0.21)	0.41	11.98
Sinopac FHC	4.7	4.3	4.3	10.2	6.8	4.5	9.8	(14.4)	32.8	35.9	35.9	1.26	0.02	0.85	(0.19)	0.54	7.73
Taishin FHC	4.1	5.4	7.3	4.4	6.1	3.2	10.8	0.3	23.5	50.9	50.9	1.65	0.05	1.75	(0.09)	0.09	2.92
Yuanta FHC	5.7	13.3	10.6	7.3	8.3	3.9	13.0	(20.7)	19.9	18.4	18.4	1.77	(0.01)	0.69	(0.25)	1.97	9.51

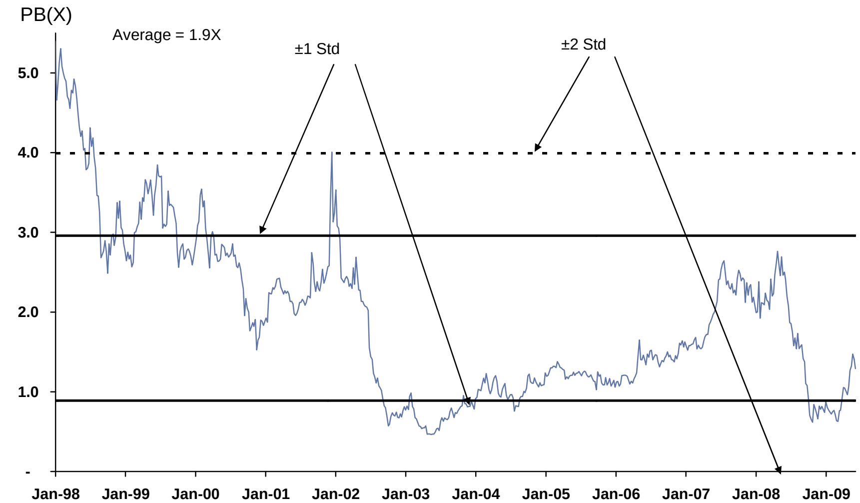
Source: Company data, Goldman Sachs Research estimates.

12-month forward-looking P/B

Cathay FHC 12-month forward-looking P/B (1998-ytd)

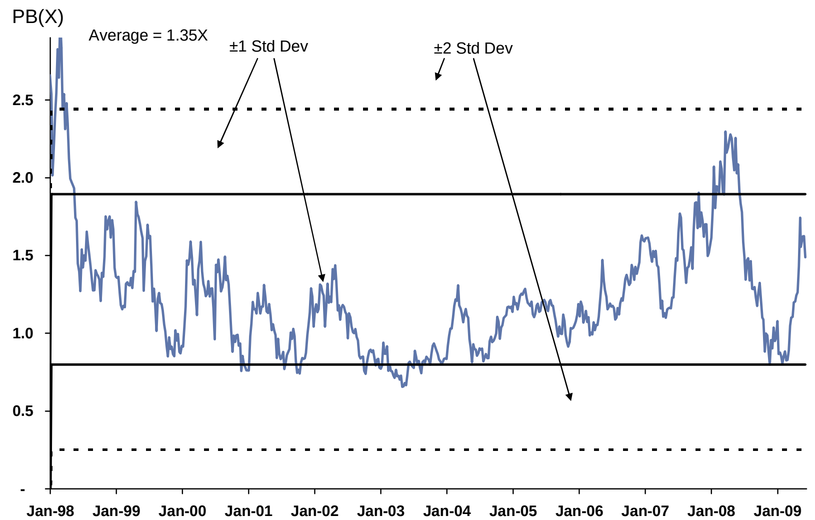
Source: Company data, Goldman Sachs Research estimates.

Shin Kong FHC 12-month forward-looking P/B (1998-ytd)



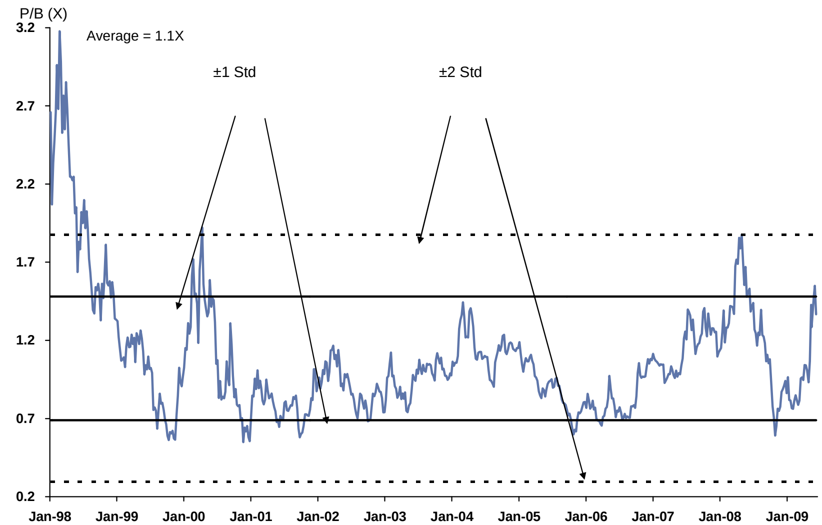
Source: Company data, Goldman Sachs Research estimates.

Yuanta FHC 12-month forward-looking P/B (1998-ytd)



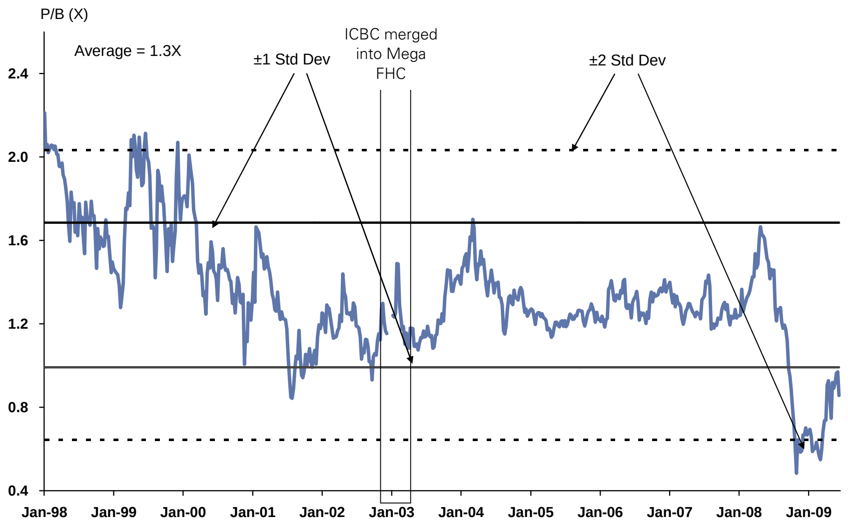
Source: Company data, Goldman Sachs Research estimates.

Polaris Securities 12-month forward-looking P/B (1998-ytd)



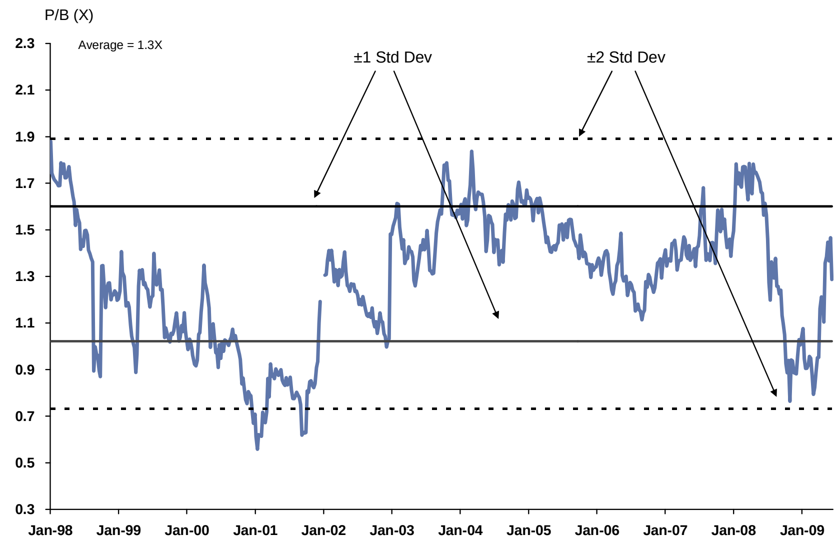
Source: Company data, Goldman Sachs Research estimates.

Mega FHC 12-month forward-looking P/B (1998-ytd)



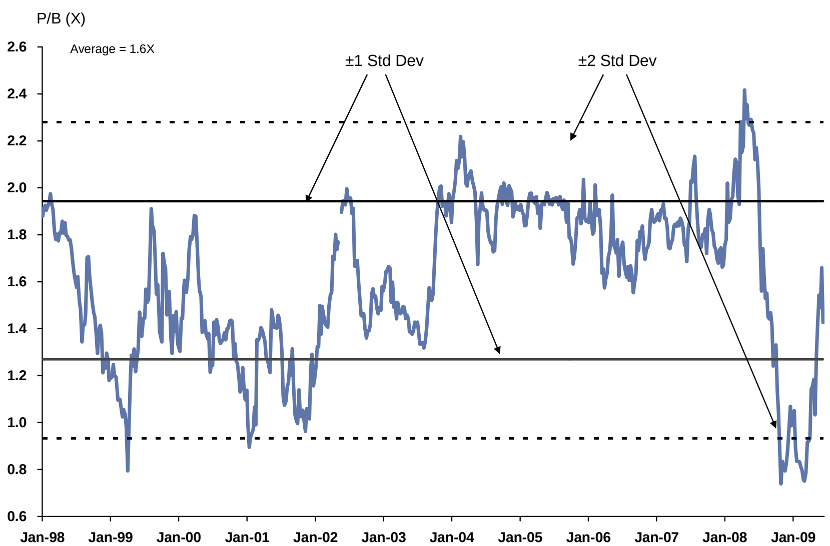
Source: Company data, Goldman Sachs Research estimates.

Fubon FHC 12-month forward-looking P/B (1998-ytd)



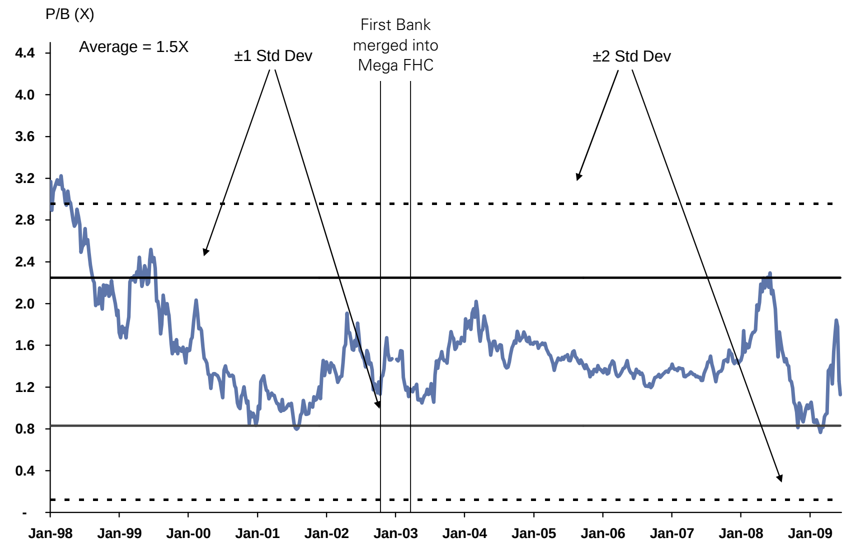
Source: Company data, Goldman Sachs Research estimates.

Chinatrust FHC 12-month forward-looking P/B (1998-ytd)



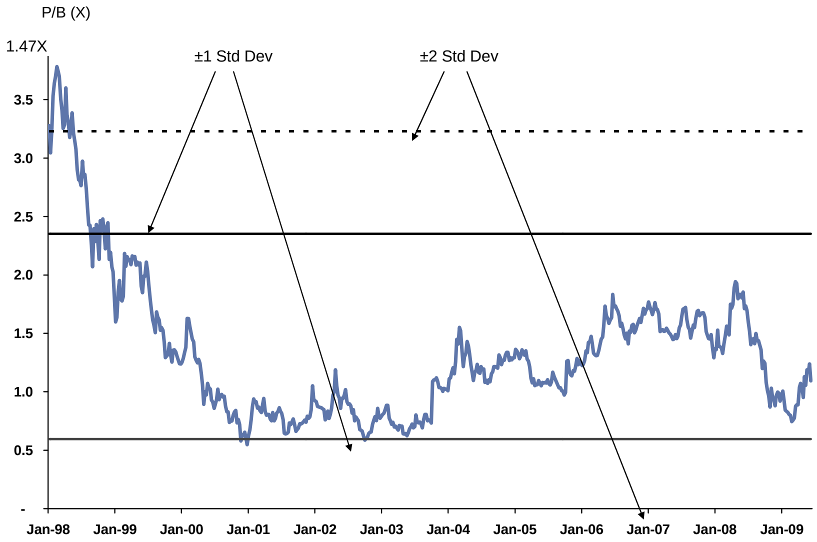
Source: Company data, Goldman Sachs Research estimates.

First FHC 12-month forward-looking P/B (1998-ytd)



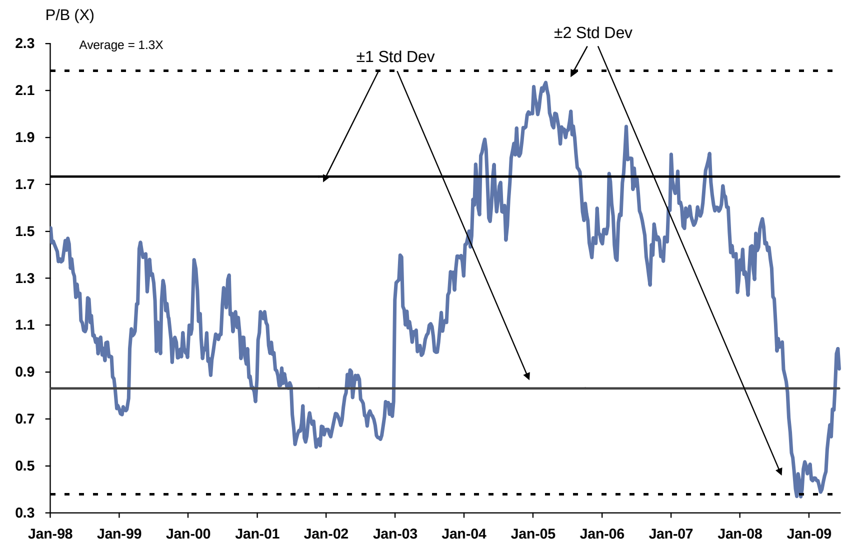
Source: Company data, Goldman Sachs Research estimates.

CHB 12-month forward-looking P/B (1998-ytd)



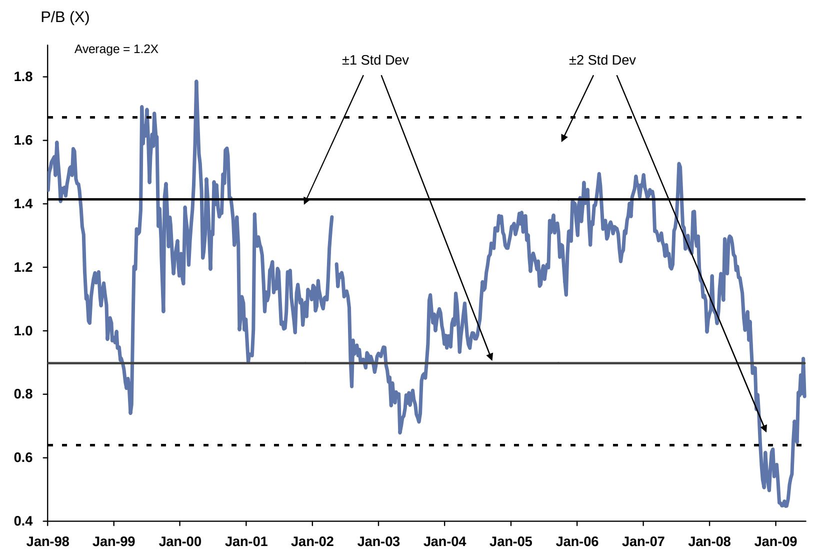
Source: Company data, Goldman Sachs Research estimates.

Taishin FHC 12-month forward-looking P/B (1998-ytd)



Source: Company data, Goldman Sachs Research estimates.

SinoPac FHC 12-month forward-looking P/B (1998-ytd)



Source: Company data, Goldman Sachs Research estimates.

Share price performance of selected Taiwan financials

Pricing date 6/12/09	GS rating	Price (NT$)	P/E (a) (X)	P/adj BVPS (a) (X)	Market cap (US$mn)	52 weeks Low	52 weeks High	Avg dly t/o (US$mn)	Absolute performance 1-mo	3-mo	6-mo	1-yr	3-yr	Relative performance (to TWSE) 1-mo	3-mo	6-mo	1-yr	3-yr
Financial holding company																		
Shin Kong FHC	Sell	13.30	NM	0.7	2,286	6.65	22.90	17.81	0.8	82.2	53.2	(39.6)	(51.5)	0.5	34.3	6.5	(24.4)	(51.5)
Fubon FHC	Buy	29.00	13.3	0.7	6,841	16.60	33.45	25.28	(3.3)	65.7	36.5	(9.5)	6.8	(3.6)	22.2	(5.2)	13.1	6.7
Cathay FHC	Buy	46.50	27.2	1.4	13,744	24.05	71.05	68.64	3.3	85.6	33.2	(32.7)	(26.3)	3.1	36.9	(7.4)	(15.8)	(26.3)
SinoPac FHC	Buy	9.34	27.0	0.5	1,995	5.42	13.95	8.16	(5.1)	61.0	31.6	(29.2)	(39.4)	(5.3)	18.7	(8.6)	(11.5)	(39.4)
Chinatrust FHC	Neutral	19.10	11.8	0.8	5,257	8.26	27.58	36.31	(0.3)	77.7	51.6	(27.3)	(8.7)	(0.5)	31.0	5.4	(9.2)	(8.7)
Mega FHC	Sell	14.70	139.0	0.6	4,969	7.85	24.00	12.81	(0.3)	46.3	36.7	(35.2)	(36.4)	(0.6)	7.9	(5.0)	(19.0)	(36.4)
Taishin FHC	Neutral	11.00	30.2	0.6	1,920	3.91	14.35	13.14	29.0	133.6	101.5	(23.3)	(44.7)	28.6	72.2	40.0	(4.2)	(44.8)
Yuanta FHC	Buy	22.00	32.3	0.9	5,490	10.95	25.40	30.92	(6.6)	62.4	57.1	(4.4)	61.2	(6.8)	19.7	9.2	19.6	61.0
Hua Nan FHC	NC	19.85	2.6	1.3	3,694	14.00	29.31	7.60	3.7	23.3	17.1	(28.7)	(7.6)	3.4	(9.1)	(18.6)	(10.9)	(7.6)
China Dev. FHC	NC	7.90	NM	0.7	2,633	5.45	12.00	7.14	(9.0)	31.7	15.3	(32.5)	(28.4)	(9.2)	(2.9)	(19.9)	(15.6)	(28.5)
E Sun FHC	NC	10.20	8.7	0.7	1,105	6.24	16.06	4.13	0.5	33.3	15.4	(35.1)	(47.5)	0.3	(1.7)	(19.8)	(18.9)	(47.5)
Waterland FHC	NC	9.45	6.1	0.7	619	4.88	10.35	2.03	12.0	33.3	84.6	2.9	(0.1)	11.7	(1.7)	28.3	28.7	(0.2)
First FHC	Sell	18.40	44.7	0.8	3,467	12.35	34.63	31.23	0.3	32.9	17.6	(44.4)	(15.2)	0.0	(2.0)	(18.3)	(30.5)	(15.2)
Jih Sun FHC	NC	5.40	NM	0.6	358	2.32	8.02	1.73	15.4	107.7	92.2	(20.8)	(50.2)	15.1	53.1	33.6	(1.0)	(50.2)
Banks																		
Chang Hwa Bank	Sell	14.20	32.0	0.7	2,695	9.52	22.55	11.5	4.4	42.0	17.8	(33.6)	(35.2)	4.2	4.7	(18.1)	(17.0)	(35.2)
Taichung BB	NC	7.60	2.98	0.6	303	5.01	13.02	1.0	(0.2)	(11.8)	(9.6)	(16.9)	(14.3)	(0.6)	2.1	(14.8)	(25.1)	(30.4)
Taiwan Business Bank	NC	8.01	1.93	0.9	948	5.53	13.25	8.4	6.7	31.3	13.6	(35.7)	(22.5)	6.4	(3.2)	(21.0)	(19.6)	(22.6)
Bank of Kaohsiong	NC	9.74	NM	0.5	157	5.87	15.00	0.5	12.6	63.4	43.0	(34.2)	(27.7)	12.3	20.5	(0.6)	(17.8)	(27.7)
Cosmos	NC	4.56	NM	0.2	311	1.37	7.99	0.1	9.6	185.0	119.2	(42.7)	(92.3)	9.4	110.2	52.4	(28.3)	(92.3)
Union	NC	5.70	NM	0.7	334	3.94	6.88	0.1	(6.1)	2.2	18.8	(16.4)	(28.8)	(6.3)	(24.7)	(17.5)	4.5	(28.8)
Far Eastern	NC	8.15	NM	0.8	468	4.19	10.50	1.4	5.2	74.2	49.0	(21.3)	(35.7)	4.9	28.4	3.6	(1.6)	(35.7)
Ta Chong	NC	5.89	4.07	0.6	488	3.26	10.25	0.6	7.9	70.7	20.0	(40.5)	(26.3)	7.6	25.9	(16.6)	(25.6)	(26.3)
Entie	NC	8.68	NM	1.0	399	6.50	16.47	0.0	(15.7)	4.1	(8.6)	(34.7)	(55.4)	(15.9)	(23.3)	(36.5)	(18.4)	(55.5)
Taiwan Cooperative	NC	18.35	2.75	1.0	3,064	13.15	26.26	12.22	(2.65)	28.3	21.5	(27.5)	NA	(2.89)	(5.38)	(15.55)	(9.33)	(28.81)
Other financial institutions																		
Polaris	Buy	15.75	NM	0.8	1,023	5.50	14.84	9.46	(4.8)	45.2	43.8	(5.3)	37.8	(5.1)	7.0	(0.0)	18.4	37.7
Taiwan Life	NC	21.80	NM	2.3	359	7.10	16.95	1.87	(8.6)	59.7	43.7	(43.6)	(27.7)	(8.8)	17.8	(0.1)	(29.5)	(27.8)
President	NC	16.60	NM	1.1	615	7.80	20.72	2.30	(2.9)	64.4	60.4	(16.4)	25.0	(3.2)	21.2	11.5	4.6	24.9
Masterlink	NC	11.20	NM	0.9	475	5.01	13.65	1.96	(1.8)	58.9	49.7	(11.8)	(5.2)	(2.0)	17.1	4.1	10.3	(5.3)
Capital	NC	14.20	NM	1.1	706	5.45	18.18	4.02	5.6	60.5	80.4	(15.6)	38.5	5.3	18.3	25.4	5.6	38.4
KGI	NC	13.90	4.00	1.1	1,078	6.58	22.10	8.80	(4.8)	81.7	37.6	(32.5)	48.2	(5.0)	34.0	(4.4)	(15.6)	48.1
Taiwan International	NC	9.03	NM	1.0	299	5.34	13.00	0.98	(8.0)	25.4	27.7	(28.9)	6.2	(8.3)	(7.5)	(11.2)	(11.1)	6.2
Horizon	NC	7.81	NM	0.8	103	3.86	12.20	0.77	(6.2)	31.7	15.0	(35.5)	30.2	(6.5)	(2.9)	(20.1)	(19.3)	30.1
Concord	NC	9.66	NM	0.8	181	5.48	12.27	1.22	3.5	34.0	36.6	(17.5)	37.0	3.3	(1.2)	(5.0)	3.2	36.9
Ta Chan	NC	15.00	NM	1.1	107	9.66	17.25	0.07	2.0	27.1	41.5	(8.0)	3.5	1.8	(6.3)	(1.7)	15.1	3.4
Ta Ching	NC	12.70	NM	1.1	103	5.78	17.18	0.27	3.3	75.2	67.1	(24.4)	60.1	3.0	29.2	16.1	(5.5)	60.0
Ta Chong	NC	16.70	NM	1.4	153	4.73	18.60	0.91	12.5	128.8	126.3	25.3	NA	12.2	68.7	57.3	56.7	NA
TWSE		6,448				4,090	8,218		0.2	35.6	43.9	(20.0)	0.1					
								Legend:	> 5%	> 10%	> 20%	> 30%	> 40%	> 5%	> 10%	> 20%	> 30%	> 40%
									< (5%)	< (10%)	< (20%)	< (30%)	< (40%)	< (5%)	< (10%)	< (20%)	< (30%)	< (40%)

NC=Not Covered.

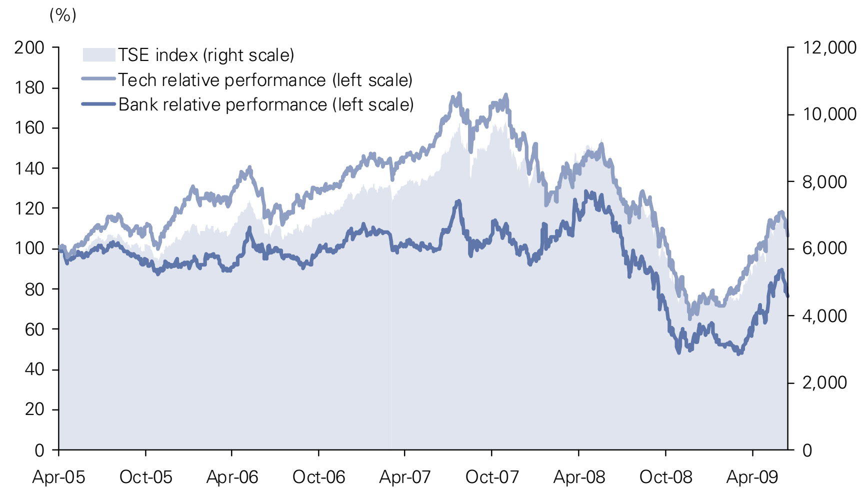
Note: (a) P/E and P/adjusted BVPS are based on GS forecasts for stocks under coverage, and on 3Q08 for remaining stocks. BVPS adjustments assume a 60% loss ratio on loans, deduct deferred NPL losses and add back reserves and prospective tax credits.

For important disclosures, please go to http://www.gs.com/research/hedge.html.

Source: Company data, Goldman Sachs Research estimates.

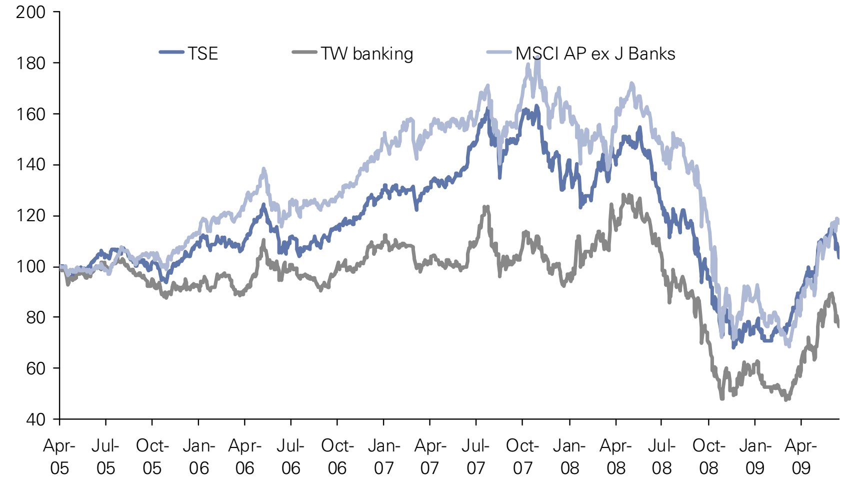
Market index performance and regional comparison

Banking and tech—Relative performance vs. market



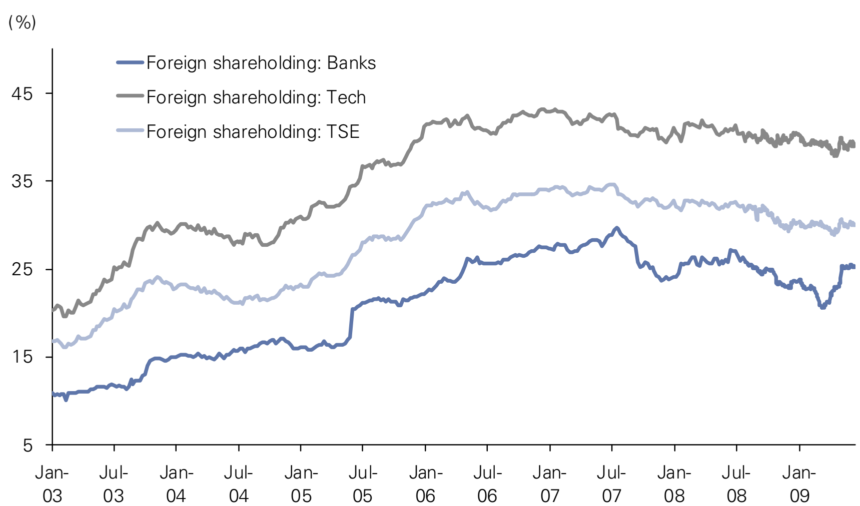
Source: Datastream.

Performance of TWSE, TWSE Banking, and MSCI AP ex-J Banks indices



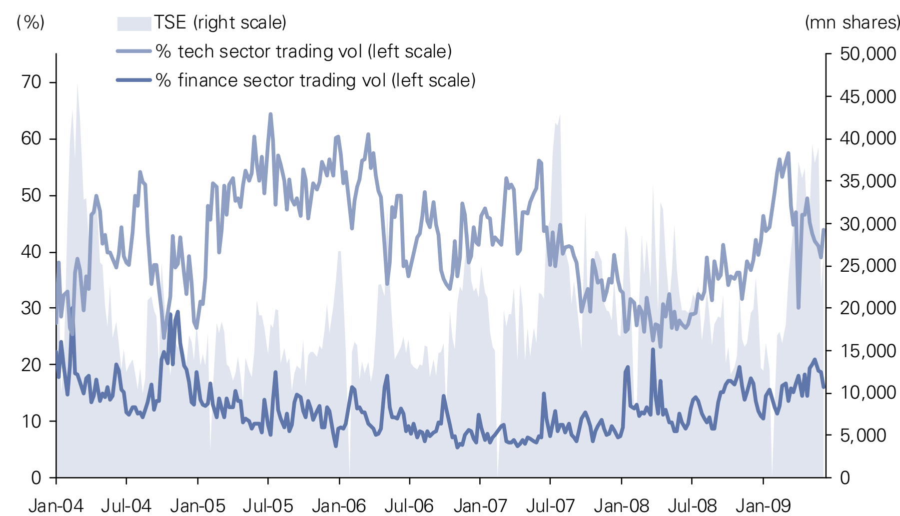
Source: Datastream.

Banking and tech—Foreign institutional investor holdings



Source: Taiwan Stock Exchange.

Weekly market trading volumes



Source: Datastream.

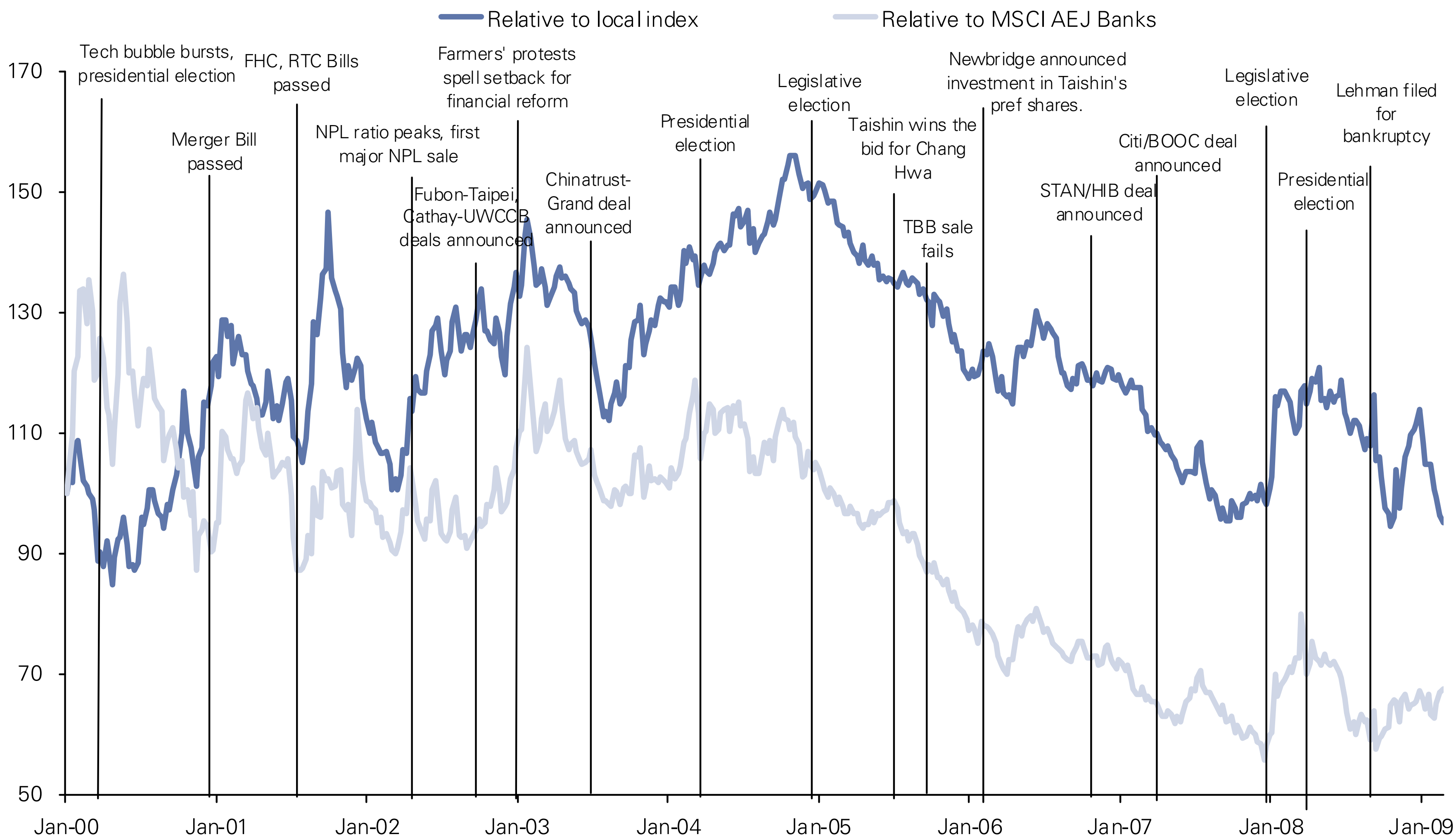
Foreign shareholdings (%)

Code/Name		15-Jun-09	09-Jun-09	12-May-09	16-Jun-08	Change wow	Change mom	Change yoy
2801	Chang Hwa Bank	9.6	9.5	14.4	20.5	0.12	(4.81)	(10.9)
2812	Taichung Comm. Bank	3.9	4.1	3.9	3.1	(0.26)	0.02	0.8
2823	China Life Insurance	47.9	48.0	48.5	51.9	(0.07)	(0.58)	(4.0)
2833	Taiwan Life	2.0	2.1	2.2	1.6	(0.03)	(0.20)	0.4
2834	Taiwan Business Bank	9.9	10.3	10.9	6.5	(0.34)	(0.97)	3.4
2836	Bank of Kaohsiung	7.4	7.4	4.6	11.3	(0.01)	2.79	(3.8)
2837	Cosmos Bank	51.4	51.4	51.3	51.7	0.00	0.11	(0.3)
2838	Union Bank	1.1	1.2	1.2	1.1	(0.05)	(0.06)	(0.0)
2845	Far Eastern Bank	3.9	4.1	4.1	7.2	(0.14)	(0.20)	(3.2)
2847	Ta Chong Bank	18.0	18.0	18.6	22.0	0.03	(0.59)	(4.0)
2849	EnTie Bank	55.1	55.2	55.1	55.5	(0.06)	0.00	(0.3)
2850	Shinkong Insurance	1.9	1.9	1.8	4.9	(0.01)	0.14	(3.0)
2854	Polaris	47.6	48.0	49.2	45.7	(0.37)	(1.59)	1.9
2855	President Securities	6.7	6.8	7.1	12.9	(0.09)	(0.34)	(6.2)
2856	Masterlink Securities	3.1	3.2	2.8	3.5	(0.10)	0.29	(0.4)
2880	Hua Nan Financial	7.2	7.2	7.1	5.6	(0.02)	0.14	1.6
2881	Fubon Financial	31.7	31.8	32.0	26.2	(0.03)	(0.26)	5.5
2882	Cathay Holdings	24.6	24.6	23.7	29.2	0.04	0.94	(4.6)
2883	China Development FHC	11.9	12.3	12.2	13.7	(0.39)	(0.23)	(1.8)
2884	E.Sun FHC	33.4	33.5	33.1	40.9	(0.06)	0.34	(7.5)
2885	Yuanta FHC	43.8	43.7	43.9	43.1	0.11	(0.11)	0.7
2886	Mega Holdings	18.0	18.1	19.4	25.8	(0.10)	(1.44)	(7.8)
2887	Taishin Financial	33.9	33.6	29.0	35.7	0.33	4.91	(1.8)
2888	Shin Kong Financial	24.0	24.0	23.8	20.1	0.02	0.20	3.9
2889	Waterland Holdings	3.0	3.1	3.3	5.5	(0.10)	(0.31)	(2.5)
2890	SinoPac Holdings	32.3	32.3	31.5	31.4	0.01	0.82	0.9
2891	Chinatrust FHC	47.4	47.2	46.4	55.1	0.16	0.97	(7.7)
2892	First Financial	19.9	19.7	20.1	32.1	0.16	(0.22)	(12.3)
5854	Taiwan Cooperative Bank	11.4	11.7	11.7	9.7	(0.26)	(0.23)	1.7
6005	Capital Securities	14.3	14.5	11.6	14.9	(0.21)	2.65	(0.7)
6008	KGI Securities	26.2	27.3	29.0	30.6	(1.15)	(2.84)	(4.5)
6012	Taiwan International Securities	0.2	0.3	0.4	0.6	(0.09)	(0.18)	(0.4)

Legend:			
	up > 0.25%	up > 1.0%	up > 3.0%
	down > 0.25%	down > 1.0%	down > 3.0%

Source: Taiwan Stock Exchange.

Taiwan financials share price performance (Dec 1999 = 100)



Source: Datastream, Taiwan Stock Exchange, TEJ.

Reg AC

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Investment profile

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