

Condition and Performance of Domestic Banks

First Quarter 2007

■ Summary of Condition and Performance

Fuelled by the bullish Asian economies, the external sector for the Taiwanese economy remains robust. The export growth, lead by electronic and steel related products, expanded moderately for the first three months in 2007. Besides, with no major drive to stimulate fixed investments and consumption, the domestic demands didn't leap forward apparently. Nevertheless, due to the improving unemployment rate and the tailing-off negative impact of consumer debt, Taiwan's economic growth is anticipated to stay in an upward trend. Overall speaking, based on the stronger external demand and the firmer price index, Taiwan's domestic economy is expected to maintain competitiveness in the global market. According to the statistics of Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the preliminary real GDP growth rate was 4.15% in the first quarter of 2007, decreasing 0.8 percentage points from 4.95% at the same quarter of the previous year.

Due to the impact of the delinquency in credit cards debt, many domestic banks have been suspending the issuance of high-risk credit cards. The attractiveness of consumer banking has been waning because of shrinking profit margins. Nevertheless, faced with the highly competitive financial market, many domestic banks tried to tap overseas market. Fortunately, benefited from the remarkable performance of overseas investments, they gradually turned in fairly good performance in the first quarter of this year. Based on the adequate capital and ample liquidity, the banking sector grasped new business opportunities and performed better management of risk. The average ratio of NPLs was 2.35% , 0.22 percentage points up from 2.13% as of the end of previous quarter. The average provision coverage ratio was 52.82% , 4.91 percentage points down from 57.73% at the previous quarter's end.

■ Key Trend

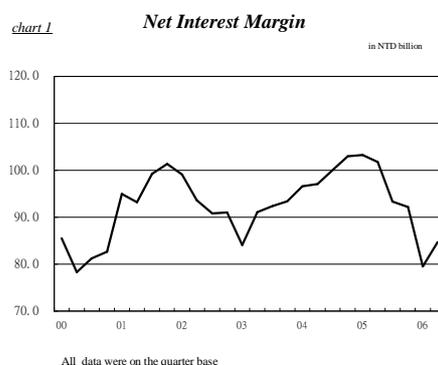
The net revenues other than interest including the credit card provisions during the first quarter in 2007 showed a dramatic decrease compared with the same period in 2006. The domestic banks were still in an effort to write off non-performing loans from the card business, resulting in suffering the operating losses. The major income components are tabulated as follows.

Major income components

	NT\$ billion		
	Jan.-Mar. 2006	Jan.-Mar. 2007	% Change
Income			
Net interest income	101.8	84.7	-16.8
Net revenues other than interest	30.7	8.0	-73.9
Expense			
Loan loss provision	40.9	31.0	-24.2
Other expense	62.2	66.3	6.6
Net income	29.4	-4.6	-115.6

Net Interest Margin (NIM) increasing

The NIM was NT\$84.7 billion during this quarter, increasing by NT\$5.2 billion (6.5%) compared with the previous quarter due to the little expansion of spread between loan and deposit. (Chart 1)



Deposits increased slightly

Total deposits as of the first quarter's end of 2007 were NT\$20,582.2 billion, increasing by NT\$52.2 billion (0.25%) compared with the preceding quarter. The increase was slight due to the increase in time deposits and foreign deposits. The annual growth rate of total deposits was 7.36 %, 1.59 percentage points up from 5.77% as of the first quarter's end of 2006. (Chart 2)

Loans grew slightly

The total loans were NT\$ 17,399.5 billion at this quarter's end, increasing by NT\$ 203.6 billion (1.18%) compared with preceding quarter. The growth rate was attributed to the traditional business, especially in the real estate sector and mortgage loans. (Chart 3)

Investments decreased slightly

The investments were classified based on the Statements of Financial Accounting Standards No.34 "Financial instruments : Recognition and Measurement" issued by the Accounting Research and Development Foundation of the R.O.C. The total investments amounted to NT\$3,662.7 billion, decreasing by NT\$43.8 billion (-1.18 %) compared with the previous quarter. (Chart 4)

Asset quality leveled off

The average ratio of non-performing loans at this quarter went up by 0.22 percentage points to 2.35 %. Nevertheless, the adequate capital provides an additional buffer to cover write-offs, the non-performing assets of the overall banking sector remain manageable. Besides, the average provision coverage ratio was 52.82%, 4.91 percentage points down from 57.73% as of previous quarter's end. However, the consumer credit problem is likely to ameliorate in 2007. (Chart 5)

chart 2

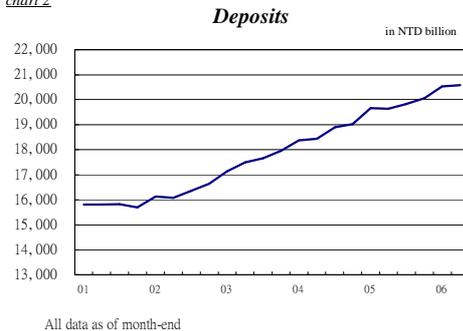


chart 3

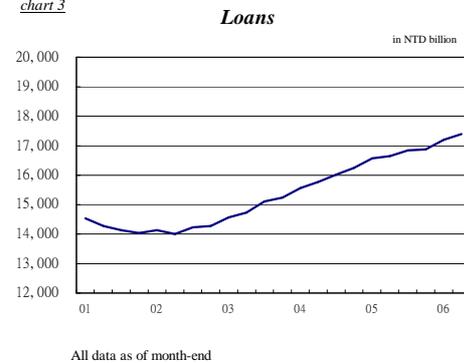


chart 4

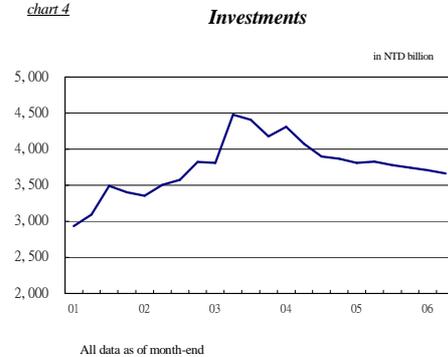
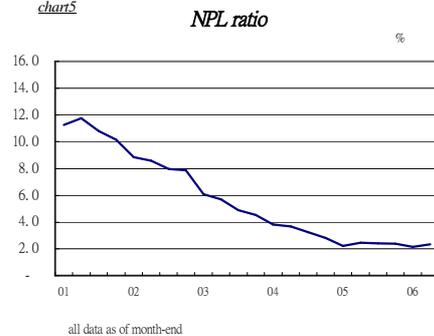


chart 5



Provision-to-loan ratio on a slight rising trend

The provision-to-loan ratio was 1.29% , slightly up from 1.25% at the end of preceding quarter. The increase of provision-to-loan ratio was slight due to the increase of loans and loan loss provisions. (Chart 6)

Liquidity Ratio decreasing slightly

The liquidity ratios of all domestic banks were over the statutory minimum ratio (7%) in March 2007. The average liquidity ratio was 17.19%, decreasing by 1.8 percentage points from 18.99 % in December 2006. As a whole, the domestic banking sector has satisfactory liquidity levels. (Chart 7)

Average Capital Adequate Ratio decreased

The average BIS capital adequacy ratio was 9.46% as of the end of March 2007, decreasing by 0.65 percentage points from 10.11% at the end of December 2006. Taken as a whole, most of the domestic banks have adequate capitalization. The average capital adequate ratio was disclosed quarterly since the third quarter of 2006. The data disclosed was based on unaudited basis. (Chart 8)

chart 6

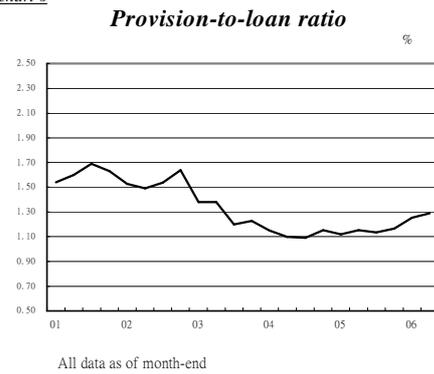


chart7

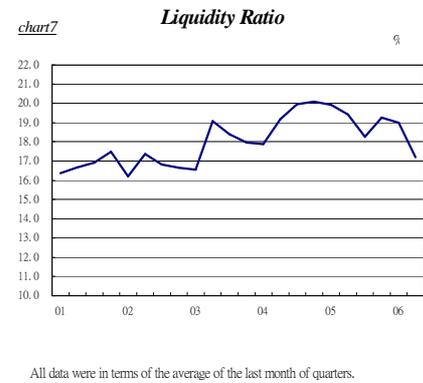


chart 8

