Condition and Performance of Domestic Banks

First Quarter 2008

■ *Summary of Condition and Performance*

Due to the slowdown of the USA economy, global economic growth appeared to decelerate mostly. Moreover, the high oil price deteriorated the global economy, resulting in an unstable financial market. The high oil prices also reduced the domestic substantial merchandise trade. Nevertheless, Taiwan's export, supported by the growth of major trading partners, remained robust in the first quarter. The bullish external demand also helped to uphold industrial production for domestic consumption to surge ahead. According to the statistics of Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the preliminary real GDP growth rate was 6.06% in the first quarter of 2008, increasing 1.87 percentage points from 4.19 % at the same quarter of previous year.

Supported by efforts to strengthen risk management, the asset quality of Taiwan's domestic banks had improved significantly and remained stable. The NPL ratio was 1.68 at this end of quarter, showing a downward trend compared with 1.83% at the end of previous quarter. Moreover, the sector's ratio of loan loss provisions to problem loans kept an upward trend with the adequate capital. Based on the adequate capital and ample liquidity, banks grasped diversified business opportunities and performed better management of risks. Taken as a whole, the banking sector still maintained an optimistic view about the financial market.

■ Key Trend

Benefited from the net revenues other than interest, the sector's net income before tax in the first quarter of 2008 grew dramatically compared with the same period of 2007. The major income components are tabulated as follows.

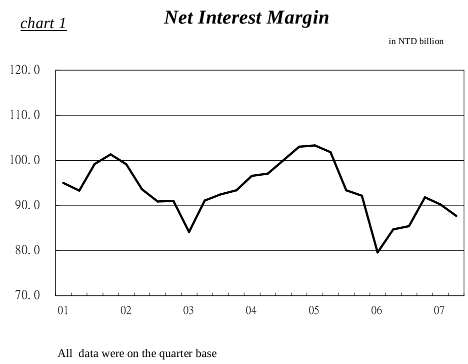
Major income components

NT$ billion

	Jan.-Mar. 2007	Jan.-Mar. 2008	% Change
Income			
Net interest income	84.7	87.6	3.4
Net revenues other than interest	8.0	39.6	395.0
Expense			
Loan loss provision	31.0	25.3	-18.4
Other expense	66.3	74.8	12.8
Net income	-4.6	27.0	-

Net Interest Margin（NIM） decreased slightly

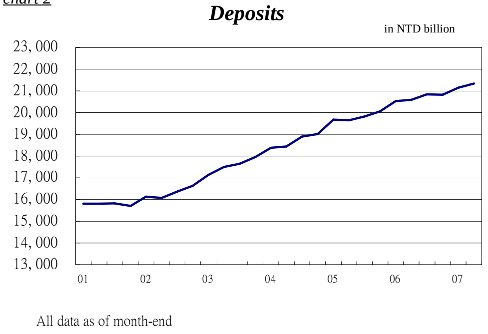
The NIM was NT$ 87.6 billion during this quarter, slightly decreasing by NT$ 2.7 billion（-2.99%） compared with the previous quarter . (Chart 1)



Deposits increased slightly

Total deposits as of the first quarter's end of 2008 were NT$21,333.7 billion, increasing by NT$ 197.1 billion compared with the preceding quarter. It was mainly due to the increase in time deposits. The annual growth rate of total deposits decreased 3.23 percentage points from 7.36% as of the first quarter's end of 2007. (Chart 2)

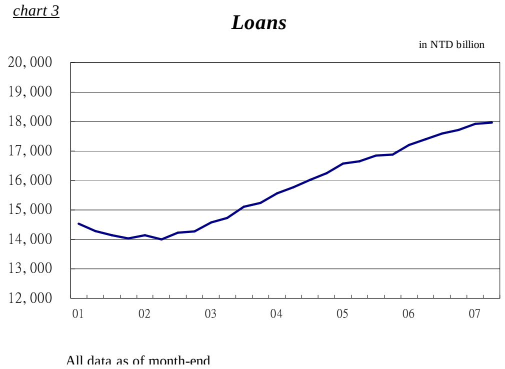
chart 2



Loans leveled off

The total loans were NT$ 17,958.0 billion at this quarter's end, increasing by NT$ 42.9 billion (0.24%) compared with preceding quarter. The annual growth rate was 2.18%, decreasing 4.78 percentage points from 6.96% as of the same period of 2007. The trend was mainly due to a slowdown of bank claims on government and private sectors. (Chart 3)

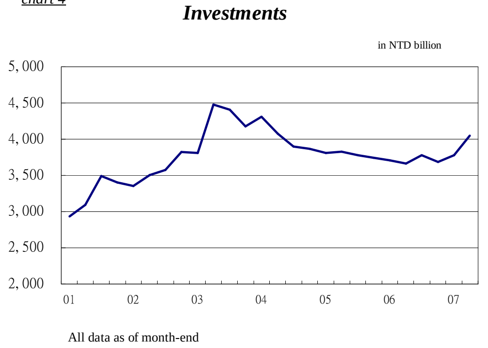
chart 3



Investments increased slightly

The total investments amounted to NT$4,049.3 billion, increasing by NT$ 269.5 billion (7.13 %) compared with the previous quarter, mainly due to an increasing purchase on Negotiable Certificate of Deposits（NCDs） issued by CBC. (Chart 4)

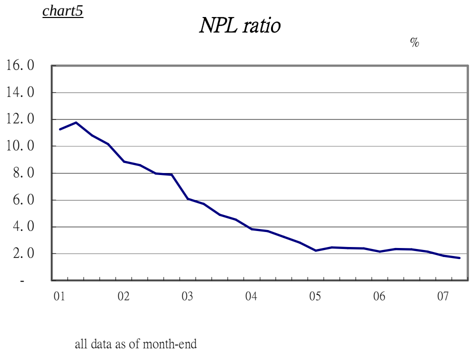
chart 4



Asset quality remained improving

The average NPL ratio at the end of this quarter went down by 0.15 percentage points to 1.68% from previous quarter. Along with the efforts to enhance risk management, the asset quality of the overall banking sector continuously kept healthy. The average provision coverage ratio was 72.32%, 4.32 percentage points up from 67.0% as of previous quarter's end. The sector's average provision coverage ratio kept on an upward trend with the strengthening capacity of risk management. (Chart 5)

chart5



Provision-to-loan ratio leveled off

The provision-to-loan ratio was 1.13% at this quarter's end, slightly leveled off from 1.17% at the end of preceding quarter. It was due to the slight decrease of loan loss provisions and increase of loans, showing the banking sector's optimistic attitude for the loan policy. （Chart 6）

Liquidity Ratio increasing slightly

The liquidity ratios of all domestic banks were over the statutory minimum ratio (7%) in March 2008. The average liquidity ratio was 20.86%, increasing by 2.08 percentage points from 18.78% in December 2007. Generally speaking, the domestic banking sector had ample liquidity. (Chart 7)

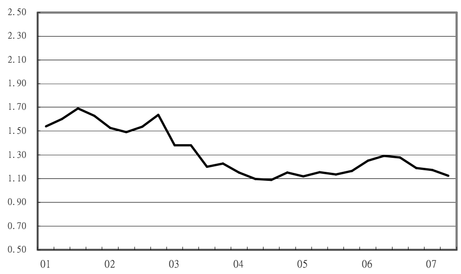
Average Capital Adequate Ratio increased

The average BIS capital adequacy ratio was 10.64% as of the end of March 2008, increasing by 0.07 percentage points from 10.57% at the end of December 2007. Taken as a whole, most of the domestic banks have adequate capital. The average capital adequate ratio has been disclosed quarterly since the third quarter of 2006. The data disclosed was based on unaudited reports. (Chart 8)

chart 6

Provision-to-loan ratio

%

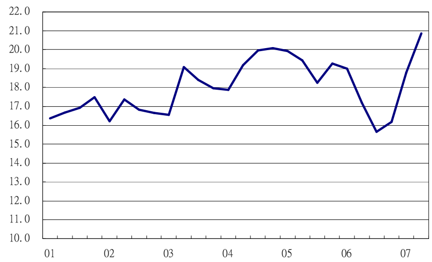


All data as of month-end

chart7

Liquidity Ratio

%

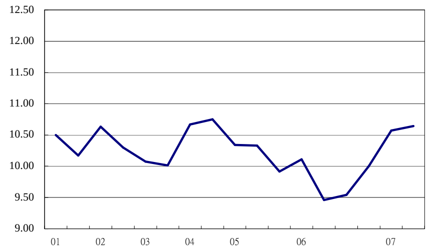


All data were in terms of the average of the last month of quarters.

chart 8

Capital Adequacy

%



All data as of month-end