

## *Condition and Performance of Domestic Banks*

### *Fourth Quarter 2007*

#### ■ *Summary of Condition and Performance*

Affected by the problem of US sub-prime mortgage, the global economy appeared a downward trend. Moreover, the increasing oil price deteriorated the global economy, resulting in an unstable financial market. Nevertheless, supported by the continued expansion of external sector, the Taiwanese domestic economic growth remained bullish. The solid growth has been driven by surging external demand for electronic parts and components. Generally speaking, the external sector showed brilliant performance in the forth quarter of 2007, in spite of spiraling prices for international oil and raw materials. According to the statistics of Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the preliminary real GDP growth rate was 6.39% in the forth quarter of 2007, increasing 2.32 percentage points from 4.07 % at the same quarter of previous year.

Aside from traditional deposit taking and lending, the domestic banks have expanded into wealth management, asset management, treasury, and trust business to diversify their revenues in 2007. Benefited from the remarkable performance, the banks developed sustainable income from fee-based business. Fee income represented a large portion of total revenues in 2007. Meanwhile, supported by efforts to strengthen risk controls, assets quality has improved significantly and is expected to remain stable. The sector's ratio of loan loss provisions to problem loans kept an upward trend with the adequate capital. However, banks still needed to enhance their risk management to keep pace with a highly competitive banking environment.

#### ■ *Key Trend*

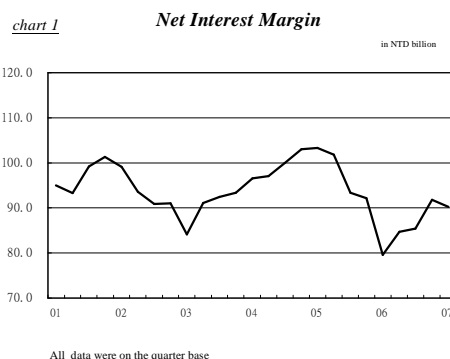
Although the domestic banks continue to suffer from a lower interest spread and fierce competition, benefited from the fee income of wealth management, the sector's net income before tax in 2007 grew dramatically compared with 2006. The major income components are tabulated as follows.

##### *Major income components*

	NT\$ billion		
	Jan.-Dec. 2006	Jan.-Dec. 2007	% Change
<b>Income</b>			
Net interest income	366.9	352.1	-4.0
Net revenues other than interest	82.2	158.6	92.9
<b>Expense</b>			
Loan loss provision	187.3	144.6	-22.8
Other expense	269.1	327.2	22.1
<b>Net income</b>	-7.3	38.9	21.6

##### *Net Interest Margin (NIM) decreasing slightly*

The NIM was NT\$ 90.3 billion during this quarter, slightly decreasing by NT\$ 1.5 billion (-1.63%) compared with the previous quarter. (Chart 1)



## ***Deposits increased***

Total deposits as of the forth quarter's end of 2007 were NT\$21,136.6 billion, increasing by NT\$ 316.0 billion compared with the preceding quarter. It was mainly due to the increase in time deposits and foreign currency deposits. The annual growth rate of total deposits decreased 3.25 percentage points from 5.04% as of the forth quarter's end of 2006. (Chart 2)

## ***Loans grew slightly***

The total loans were NT\$ 17,915.1 billion at this quarter's end, increasing by NT\$ 206.3 billion (1.16%) compared with preceding quarter. The annual growth rate was 3.20%, decreasing 1.78 percentage points from 4.98% as of the same period of 2006. The decrease resulted from a slowing growth in bank claims against the private enterprises. (Chart 3)

## ***Investments increased slightly***

The total investments amounted to NT\$3,779.8 billion, increasing by NT\$ 93.2 billion (2.53 %) compared with the previous quarter, mainly due to an increasing purchase on NCDs issued by CBC. (Chart 4)

## ***Asset quality kept an improved status***

The average ratio of non-performing loans at this quarter went down by 0.33 percentage points to 1.83%. Supported by efforts to strengthen risk controls, the non-performing assets of the overall banking sector remained improving and were kept at stable level. The average provision coverage ratio was 67.00%, 8.49 percentage points up from 58.51% as of previous quarter's end. The sector's average provision coverage ratio was on an upward trend with the strengthening capacity of risk management and discipline. (Chart 5)

chart 2

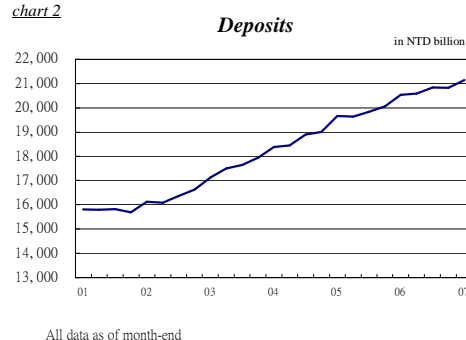


chart 3

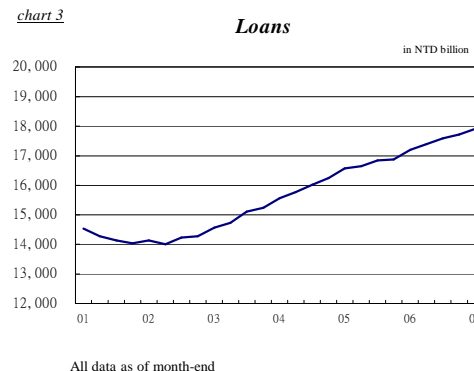


chart 4

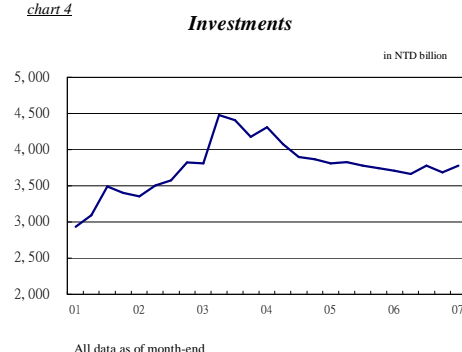
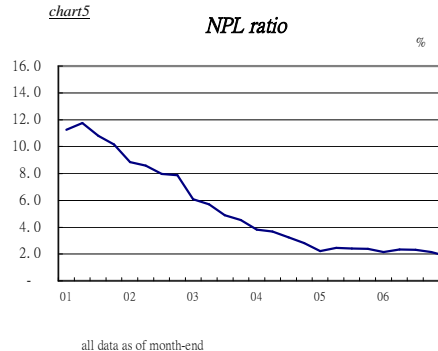


chart5



***Provision-to-loan ratio leveled off***

The provision-to-loan ratio was 1.17% , slightly leveled off from 1.19% at the end of preceding quarter. It was due to the slight decrease of loan loss provisions and increase of loans. (Chart 6)

***Liquidity Ratio increasing slightly***

The liquidity ratios of all domestic banks were over the statutory minimum ratio (7%) in December 2007. The average liquidity ratio was 18.78%, increasing by 2.61 percentage points from 16.17% in September 2007. Generally speaking, the domestic banking sector had ample liquidity. (Chart 7)

***Average Capital Adequate Ratio increased***

The average BIS capital adequacy ratio was 10.57% as of the end of December 2007, increasing by 0.57 percentage points from 10.00% at the end of September 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 basis. (Chart 8)

chart 6

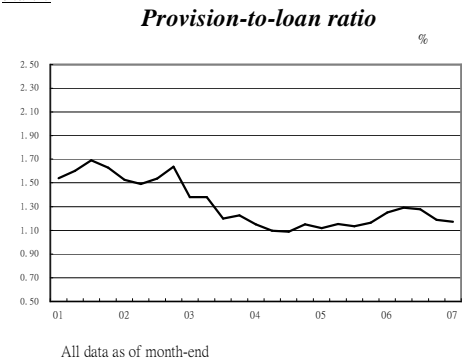


chart7

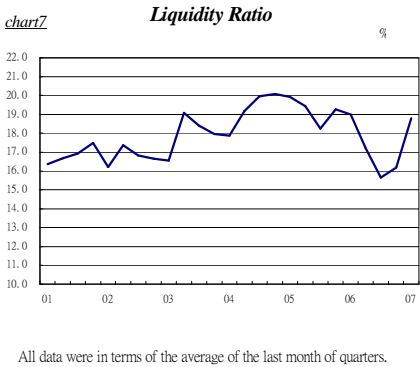


chart 8

