Condition and Performance of Domestic Banks

Third Quarter 2008

■ *Summary of Condition and Performance*

The global financial market turmoil, resulting from the follow-up impact of American sub-prime mortgage crisis, began filtering through to the real economy worldwide. Due to the close relation with the US economy and the industrial cycle of the global high tech industry, Taiwan's economic growth rate was affected inevitably. Owing to the American sluggish demand, the drop in demand for electronics and precision instruments led to the decline in Taiwan's exports. In addition, lacking further stimuli for the domestic market, private investment and consumption remained austere. According to the statistics of the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, in the third quarter of 2008, the preliminary real GDP was –1.02% . Meanwhile, the GDP growth rate of the second quarter was revised to 4.56% 。

Although the financial market in September remained volatile, the asset quality of Taiwan's domestic banks kept stable due to the banking sector's efforts to enhance risk management. The NPL ratio was 1.52% at the end of September, showing a downward trend. Moreover, the sector's coverage ratio stands at 71.22% , growing by 12.71 percentage points in a year-on-year comparison. The adequate capitalization and ample liquidity indicated the banking sector is weathering the international financial crisis. However, facing the fickle global financial market, Taiwan's banking sector needs to further promote safe and sound practices.

■ *Key Trend*

In the first nine months of 2008, the sector's net income before tax grew by 111.0% compared with the same period of 2007, due mainly to a decrease in loan loss provision. The major income components are tabulated as follows.

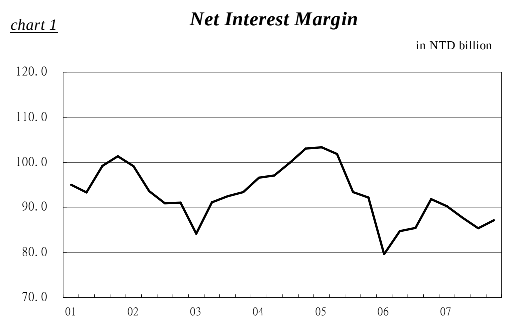
Major income components

NT$ billion

	Jan.-Sep. 2007	Jan.-Sep. 2008	% Change
Income			
Net interest income	261.9	260.0	-0.7
Net revenues other than interest	101.8	95.7	-6.0
Expense			
Loan loss provision	94.4	66.0	-30.1
Other expense	241.2	230.4	-4.5
Net income	28.1	59.3	111.0

Net Interest Margin（NIM） increased slightly

The NIM was NT$ 87.1 billion in this quarter, increasing by NT$ 1.8 billion compared with the previous quarter. (Chart 1)

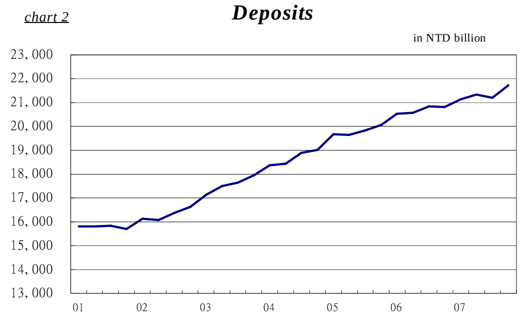


All data were on the quarter base

Deposits increased slightly

At the end of September 2008, the deposits amounted to NT$21,723.9 billion, increasing by NT$ 518.4 billion compared with the preceding quarter. It was mainly due to the upswing of saving deposits. As a result, the year-on-year growth rate of total deposits ascended to 3.89% in September, compared with an annual growth rate of 3.11% in September 2007. (Chart 2)

chart 2

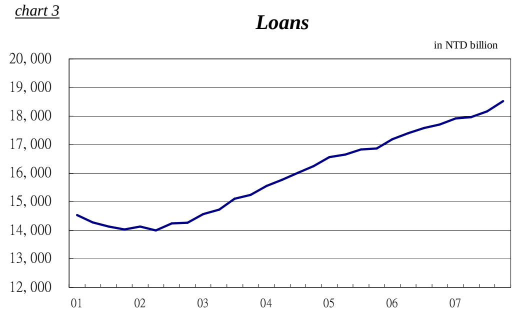


All data as of month-end

Loans increased moderately

The total loans amounted to NT$ 18,525.7 billion as of the end of September 2008, increasing by NT$ 358.4 billion on a quarter-on-quarter base, mainly due to the growth of bank claims on private sectors. In contrast with the quarterly increase, the annual growth rate was 2.10%, decreasing by 3.14 percentage points from 5.24% at the end of September 2007. (Chart 3)

chart 3

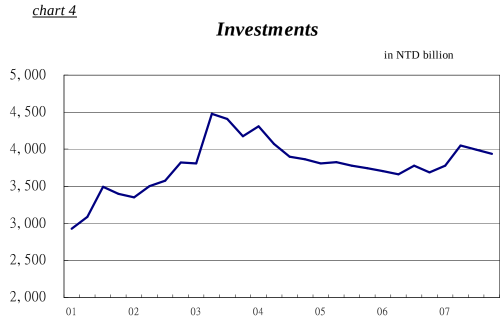


All data as of month-end

Investments decreased slightly

The total investments amounted to NT$3,937.2 billion, decreasing by NT$ 57.9 billion compared with the preceding quarter. The annual growth rate decreased by 2.16 percentage points from –0.52% at the end of September 2007 to –2.68% at the end of September 2008. (Chart 4)

chart 4

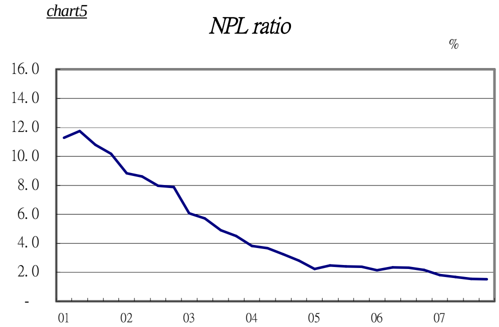


All data as of month-end

Asset quality kept healthy

Supported by the efforts to promote risk management, the asset quality of the overall banking sector continuously kept healthy. The average NPL ratio at the end of this quarter went down by 0.03 percentage points to 1.52% from 1.55% at the end of the preceding quarter. The average provision coverage ratio was 71.22%, decreasing by 0.14 percentage points from 71.36% at previous quarter's end. The sector's asset quality kept on a healthy condition. (Chart 5)

chart5

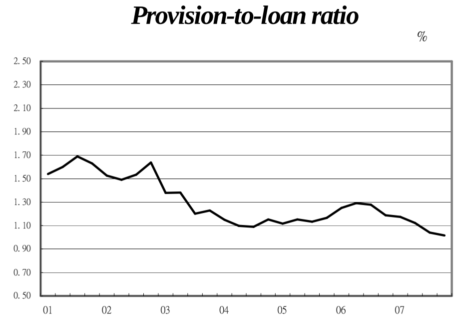


all data as of month-end

Provision-to-loan ratio decreased slightly

The provision-to-loan ratio showed 1.02％ at this quarter's end, slightly leveled off from 1.04％ at the end of the preceding quarter. It was due to the decrease of loan loss provisions and the increase of loans, reflecting the banking sector's aggressive attitude for the loan policy. （Chart 6）

chart 6

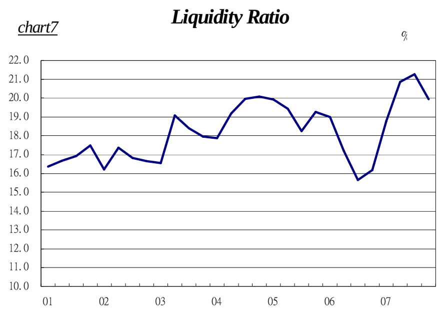


All data as of month-end

Liquidity ratio decreasing slightly

The average liquidity ratio descended to 19.93% in September 2008, after rising to 21.25％ in June 2008 from 20.86％ in March 2008. The liquidity ratio remained substantially higher than the regulatory minimum of 7％ , reflecting the domestic banking sector had ample liquidity. （Chart7）

chart7

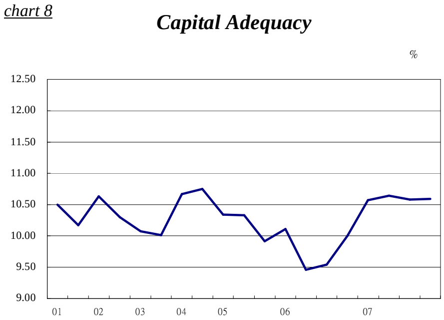


All data were in terms of the average of the last month of quarters.

Average capital adequate ratio remained well

The average capital adequacy ratio was 10.59% in September 2008, increasing by 0.01 percentage points from 10.58% in June 2008. However, this level remained well above the minimum international standard of 8％ . The ratios disclosed were based on unaudited data in this quarter. (Chart 8)

chart 8



All data as of month-end