Condition and Performance of Domestic Banks

Fourth Quarter 2006

■ *Summary of Condition and Performance*

In the fourth quarter of 2006, benefited from the continued economic expansion, the domestic economic growth was pulled by exports. Furthermore, both the declining of international oil price and the falling of domestic unemployment rate increased the private demand slightly. The negative impact from the insolvency of credit card and cash card has also been tailed off. Taken as a whole, based on the stronger external demand and the firmer price index, Taiwan's domestic economy remained in a moderate growth in 2006. According to the statistics of Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the preliminary real GDP growth rate was 4.02% in the fourth quarter of 2006. The whole year of GDP grew by 4.62%, increasing by 0.59 percentage points from 4.03% in 2005.

Many domestic banks with exposure to unsecured consumer loans were severely burnt, resulting in the poor performance of the banking industry in 2006. Nevertheless, along with the aggressive write-off from banks, the delinquencies of unsecured consumer loan have been improved. Generally speaking, due to the adequate capital of the banking sector, the nonperforming assets still remain manageable. The average ratio of NPLs was 2.13% , 0.27 percentage points down from 2.40% as of the end of previous quarter. The average provision coverage ratio was 57.73% , 13.8 percentage points up sharply from 43.93% at the previous quarter's end. The annual growth rate of deposits, loans and investments went up continuously.

■ Key Trend

The net revenues other than interest including the credit card provisions in 2006 showed a dramatic decrease compared with the year of 2005. Higher provisions against card sector apparently dampen the banking profitability. The major income components are tabulated as follows.

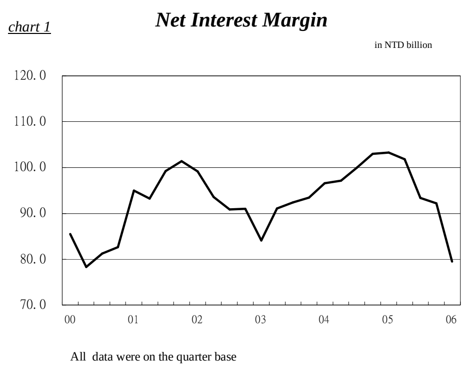
Major income components

NT$ billion

	Jan.-Dec. 2005	Jan.-Dec. 2006	% Change
Income			
Net interest income	403.4	366.9	-9.1
Net revenues other than interest	181.4	82.2	-54.7
Expense			
Loan loss provision	239.6	187.3	-21.8
Other expense	266.6	269.1	0.9
Net income	78.6	-7.3	-

Net Interest Margin（NIM） decreasing

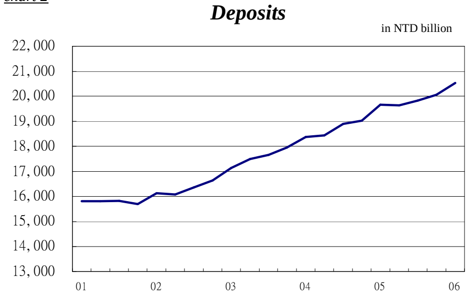
The NIM was NT$79.5 billion during this quarter, decreasing by NT$12.7 billion（-13.8%） compared with the previous quarter due to the contraction of spread between loan and deposit. (Chart 1)



Deposits increased moderately

Total deposits as of the fourth quarter's end of 2006 were NT$20,530.0 billion, increasing by NT$469.8 billion (2.34%) compared with the preceding quarter. The slight increase was mainly due to the increase in net foreign capital inflows. The annual growth rate of total deposits in 2006 was 5.04 %, 2.84 percentage points down from 7.88% in 2005. (Chart 2)

chart 2

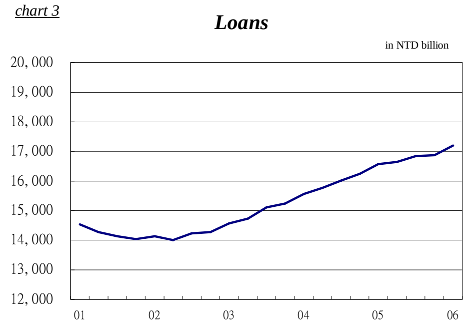


All data as of month-end

Loans grew slightly

The total loans were NT$ 17,196.0 billion at this quarter's end, increasing by NT$323.0 billion (1.91%) compared with preceding quarter. The lower growth rate was mainly due to the restrictions on consumer credit. However, the annual loan growth rate still stood 4.98%. (Chart 3)

chart 3

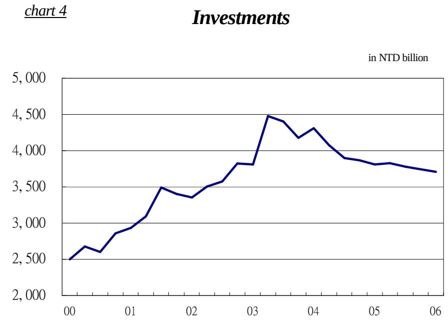


All data as of month-end

Investments decreased slightly

The investments were classified to be in line with new norms since the beginning of 2006 according to 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 based on the new classification amounted to NT$3,706.5 billion, decreasing by NT$35.4 billion (-0.95 %) compared with the previous quarter. (Chart 4)

chart 4

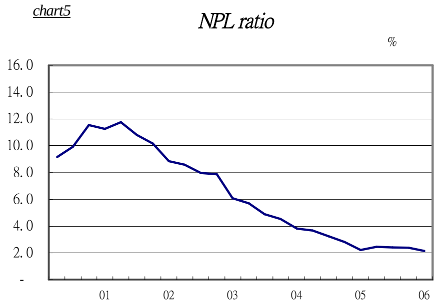


All data as of month-end

Asset quality improved continuously

Several banks came under pressure during the year due to rising delinquencies on unsecured consumer loan. The average ratio of non-performing loans at this quarter went by 0.27 percentage points down to 2.13 %. Owing to most banks have adequate capital buffers to cover write-offs, the non-performing assets of the overall banking sector remain manageable. Moreover, the average provision coverage ratio was 57.73%, 13.8 percentage points increased from 43.93% as of previous quarter end. (Chart 5)

chart5



all data as of month-end

Provision-to-loan ratio on a slight rising trend

The provision-to-loan ratio was 1.25%, slightly up from 1.17% at the end of preceding quarter. The increased provision-to-loan ratio was mainly due to the increase of loan loss provisions, reflecting the conservative credit practices of domestic banking sector. (Chart 6)

Liquidity Ratio decreasing slightly

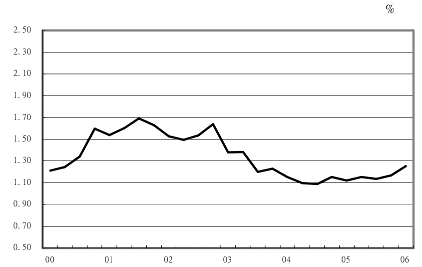
The liquidity ratios of all domestic banks were over the statutory minimum ratio (7%) in December 2006. The average liquidity ratio was 18.99%, decreasing by 0.27 percentage points from 19.26 % in September 2006. As a whole, the domestic banking sector has satisfactory liquidity levels. (Chart 7)

Average Capital Adequate Ratio increased

The average BIS capital adequacy ratio was 10.11% as of the end of December 2006, increasing by 0.2 percentage points from 9.91% at the end of September 2006. Taken as a whole, most of the domestic banks have adequate capitalization. The average capital adequacy ratio was disclosed quarterly since the third quarter of 2006. The data disclosed at each first quarter and third quarter's end were based on unaudited basis. (Chart 8)

chart 6

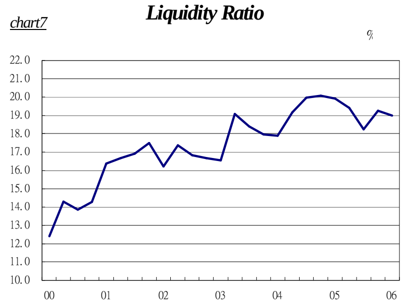
Provision-to-loan ratio



All data as of month-end

chart7

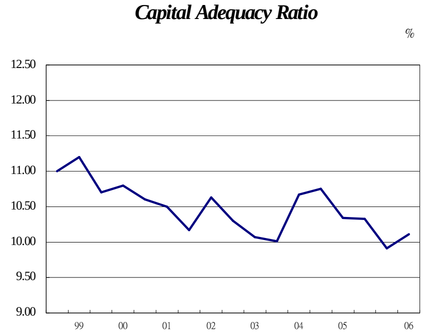
Liquidity Ratio



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

chart 8

Capital Adequacy Ratio



All data as of month-end