# Condition and Performance of Domestic Banks

*Second Quarter 2006*

## ■ Summary of Condition and Performance

Affected by the high global oil price, resurgence of international terrorism as well as the domestic political unrest, market indicators in Taiwan were bearish. Moreover, the private consumption caused by the negative effects of credit and cash cards' insolvency pressed down the real domestic demand. Nevertheless, on the external front, the continued economic expansion for Taiwan major trading partners helped to boost exports. In the second quarter of 2006, the brisk growth of real exports indicated the strong performance of external sector. For Taiwanese economy, the external sector played an important role to fuel the economic growth. Moreover, benefited with the improving employment market and relative price stability, there would not be obviously deteriorated in consumption. Taken as a whole, Taiwan's real gross domestic products（GDP） increased by 4.57% from the same quarter of one year ago.

Along with the impact of assets quality on credit and cash card, the consumption debt problem dissipated the profit of overall banking sector over the first half of 2006. The domestic banks became more conservative regarding their lending practices. The average ratio of NPLs was 2.39 %, 0.07 percentage points down from 2.46% as of the end of previous quarter. The average provision coverage ratio was 41.11%, 2.50 percentage points down from 43.61% at the previous quarter's end. Generally speaking, owing to the banking sector's aggressive write-offs and sell-offs, the assets quality still remains at a stable level. The annual growth rate of deposits, loans and investments went up continuously.

## ■ Key Trend

Including the rising credit card provisions, the net revenues other than interest decreased sharply compared with the first half of 2005. The card debts negatively impacted the profitability of domestic banks over the first six months of this year. The major income components are tabulated as follows.

***Major income components***

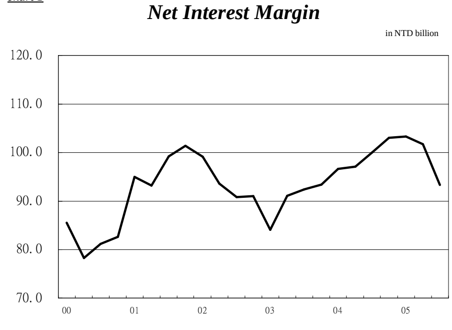
NT$ billion

| | Jan.-Jun 2005 | Jan.-Jun. 2006 | % Change |
|---|---|---|---|
| ***Income*** | | | |
| Net interest income | 197.1 | 195.1 | -1.0 |
| Net revenues other than interest | 90.7 | 57.0 | -37.2 |
| ***Expense*** | | | |
| Loan loss provision | 76.9 | 89.1 | 15.9 |
| Other expense | 127.4 | 127.0 | -0.3 |
| ***Net income*** | 83.5 | 36.0 | -56.9 |

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

The NIM was NT$93.4 billion during this quarter, decreasing by NT$8.4 billion（-8.3%） compared with the previous quarter. Although the rising interest rate, the interest spreads still trended to a low level. *（chart 1）*

*chart 1*

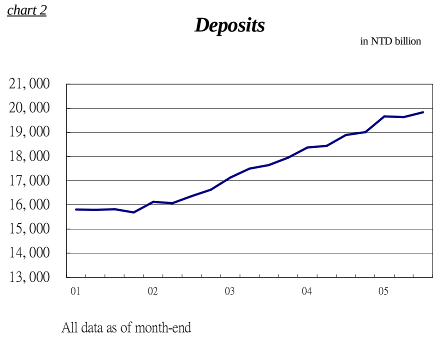



All data were on the quarter base

***Deposits increasing***

Total deposits as of the second quarter's end of 2006 were NT$19,830.4 billion, a NT$191.6 billion (0.98%) increase compared with the preceding quarter. The slight increase was mainly due to the growth of foreign currencies deposits. The annual growth rate of total deposits at this quarter was 5.02 %, 2.19 percentage points down from 7.21% a year earlier. (Chart 2)

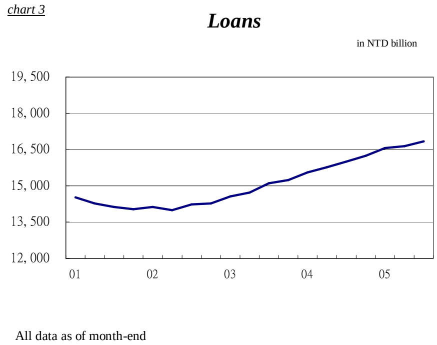
*chart 2*




***Loans grew slightly***

The total loans were NT$ 16,836.9 billion at this quarter's end, increasing by NT$190 billion (1.14%) compared with preceding quarter. This was mainly due to the shrinkage of consumer loan demand from the private sector. The annual growth rate of this quarter was 6.57% , a 0.75 percentage points upward slightly from a year earlier. (Chart 3)

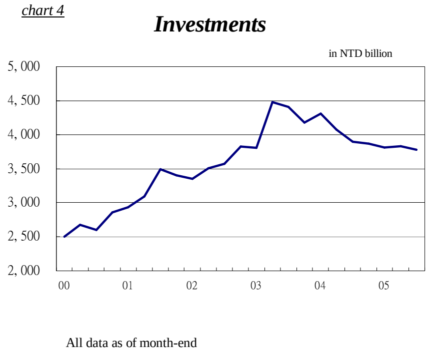
*chart 3*




***Investments decreased slightly***

The total investments amounted to NT$3,780.2 billion, decreasing by NT$47.5 billion (-1.24 %) compared with the previous quarter. 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 investments were classified to be in line with world norms since the start of 2006. The annual growth rate of investment went up dramatically by 17.00 percentage points from –6.15% at the second quarter's end last year. (Chart 4)

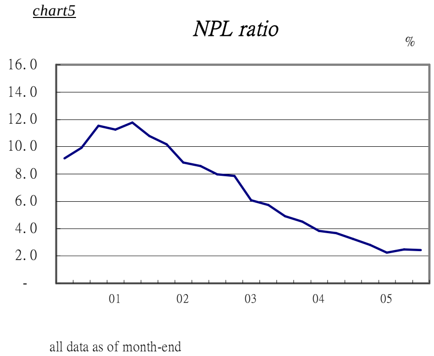
*chart 4*




***Assets quality dampened by card loans***

The rise in delinquent card loans undermined the banking sector's assets quality. The average ratio of non-performing loans at this quarter went down slightly, 0.05 percentage points down to 2.39 % . Despite of the assets quality problem, with regards to banking sector's aggressive write-offs and sell-offs, the assets quality still remains at a stable level. (Chart 5)

*chart5*



***Provision-to-loan ratio decreasing***

The provision-to-loan ratio was 1.13% , slightly down from 1.15% at the end of preceding quarter. The descending provision-to-loan ratio was mainly due to the increase of loan. It showed the improved trends of asset quality. （Chart 6）

***Liquidity Ratio decreasing slightly***

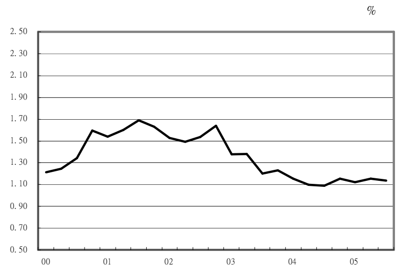
The liquidity ratios of all domestic banks were over the statutory minimum ratio (7%) in June 2006. The average liquidity ratio was 18.25%, decreasing by 1.17 percentage points from 19.42 % in March 2006. (Chart 7)

***Average Capital Adequate Ratio leveled off***

The average BIS capital adequacy ratio was 10.33% as of the end of June 2006, a decrease by 0.01 percentage point from 10.34% at the end of December 2005. Most of the capital adequacy ratios of all domestic banks were over the statutory minimum ratio, i.e. 8%.

*chart 6*

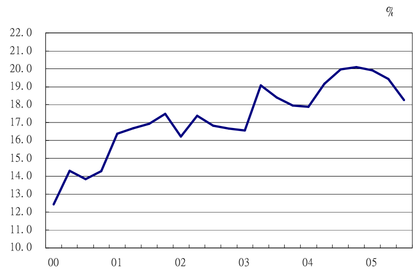
***Provision-to-loan ratio***




All data as of month-end

*chart 7*

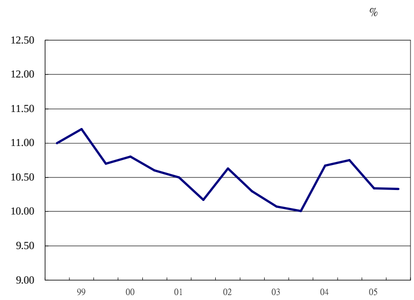
***Liquidity Ratio***




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