Condition and Performance of Domestic Banks

Second Quarter 2008

■ *Summary of Condition and Performance*

Stemming from the American sub-prime mortgage crisis and the follow-up impact to the global economy, global economic growth showed a downward trend. In addition, the rising prices for international oil and raw materials also decreased domestic consumption and reduced domestic trade. Fortunately, Taiwan's exports to other neighboring countries continued to grow steadily, contributing to the moderate growth for the domestic economy in the second quarter. According to the statistics of the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, in the second quarter of 2008, the preliminary real GDP grew by 4.32％ , decreasing 0.92 percentage points compared with the same quarter of the previous year, reflecting a slower pace of growth.

The asset quality of Taiwan's domestic banks improved significantly, supported by efforts to enhance risk management. The NPL ratio was 1.55％ at the end of June, showing a continuous downward trend. Moreover, the sector's coverage ratio stands at 71.36％ , growing by 17.05 percentage points in a year-on-year comparison. Capitalization and liquidity remain strong, indicating the banking sector is weathering the international financial crisis. However, facing increasing uncertainty in the global financial market, Taiwan's banking sector needs to further strengthen their risk management to keep pace with diversified products.

■ *Key Trend*

In the first half of 2008, the sector's net income before tax grew by 69.3％ compared with the same period of 2007, due mainly to an increase in net revenues other than interest and an improvement in loan quality. The major income components are tabulated as follows.

Major income components

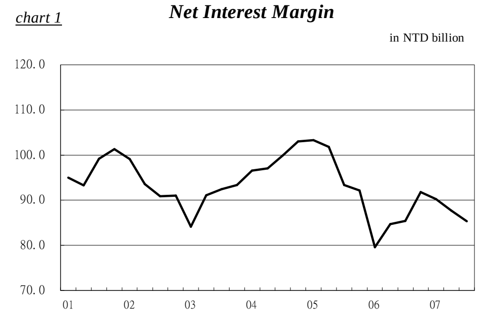
NT$ billion

	Jan.-Jun. 2007	Jan.-Jun. 2008	% Change
Income			
Net interest income	170.1	172.9	1.7
Net revenues other than interest	61.6	81.0	31.5
Expense			
Loan loss provision	63.5	44.8	-29.4
Other expense	135.9	154.4	13.6
Net income	32.3	54.7	69.3

Net Interest Margin（NIM） decreased slightly

The NIM was NT$ 85.3 billion in this assessment quarter, decreasing by NT$ 2.3 billion compared with the previous quarter. (Chart 1) The decreases in loan & discount interest income and interest income due from banks were a main cause.

chart 1



All data were on the quarter base

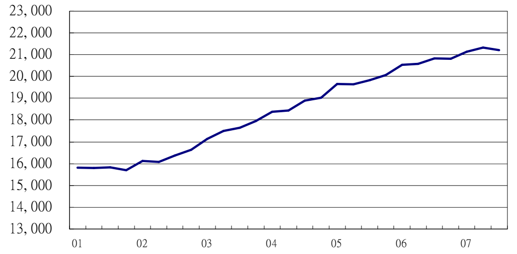
Deposits decreased slightly

At the end of June 2008, the deposits amounted to NT$21,205.5 billion, decreasing by NT$ 128.1 billion compared with the preceding quarter. It was mainly due to the thinner trading in the stock market and the continuous net foreign capital outflow. As a result, the year-on-year growth rate of total deposits dropped to 1.40% in June, compared with an annual growth rate of 5.70% in June, 2007. (Chart 2)

chart 2

Deposits

in NTD billion



All data as of month-end

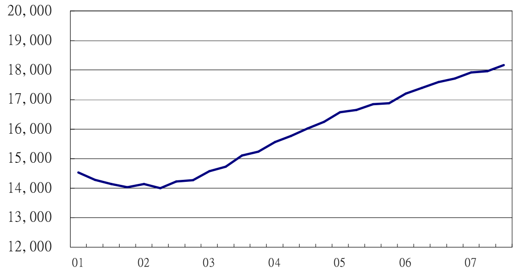
Loans increased moderately

The total loans amounted to NT$ 18,167.3 billion as of the end of June 2008, increasing by NT$ 209.3 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 2.44%, decreasing by 2.30 percentage points from 4.74% as of the same period of 2007. (Chart 3)

chart 3

Loans

in NTD billion



All data as of month-end

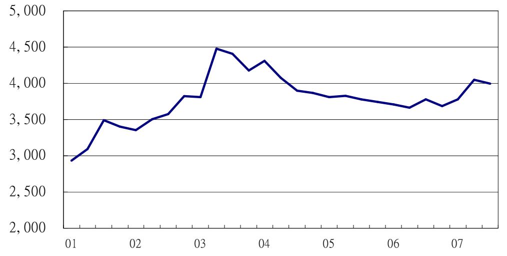
Investments decreased slightly

The total investments amounted to NT$3,995.1 billion, decreasing by NT$ 54.2 billion compared with the preceding quarter. The annual growth rate decreased by 0.12 percentage points from 0.89% as of the end of June 2007 to 0.77% as of the end of June 2008. (Chart 4)

chart 4

Investments

in NTD billion



All data as of month-end

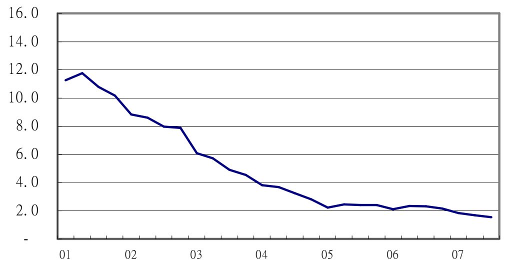
Asset quality kept healthy

Supported by the efforts to strengthen 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 0.13 percentage points to 1.55% from 1.68% at the end of the preceding quarter. The average provision coverage ratio was 71.36%, decreasing by 0.96 percentage points from 72.32% at previous quarter's end. The sector's average provision coverage ratio kept on a stable trend. (Chart 5)

chart5

NPL ratio

%

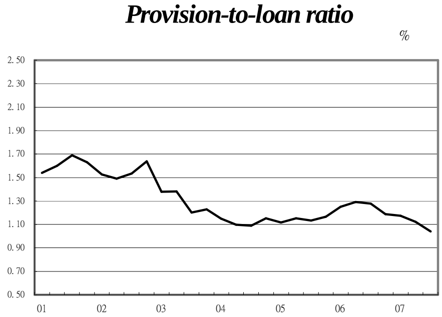


all data as of month-end

Provision-to-loan ratio decreased slightly

The provision-to-loan ratio showed 1.04% at this quarter's end, slightly leveled off from 1.13% 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 optimistic attitude for the loan policy. （Chart 6）

chart 6

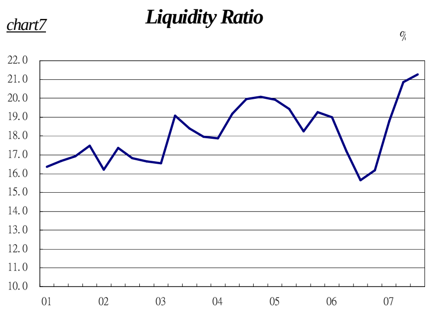


All data as of month-end

Liquidity Ratio increasing slightly

The average liquidity ratio went up to 21.25% in June 2008, after rising to 20.86% in March 2008 from 18.78% in December 2007. The liquidity ratio remained substantially higher than the regulatory minimum of 7%, indicating the domestic banking sector had ample liquidity. （Chart7）

chart7

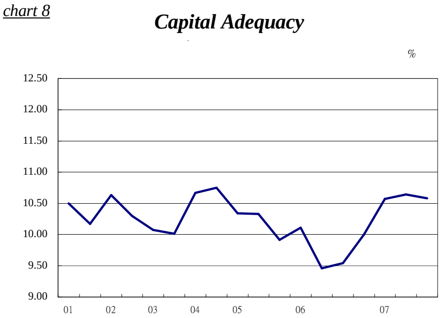


All data were in terms of the average of the last month of quarters.

Average Capital Adequate Ratio decreased

The average capital adequacy ratio was 10.58% in June 2008, decreasing by 0.06 percentage points from 10.64% in March 2008. However, most of the domestic banks have adequate capital. The average adequate ratio has been disclosed quarterly since the third quarter of 2006. The ratios disclosed were based on unaudited data. (Chart 8)

chart 8



All data as of month-end