

Condition and Performance of Domestic Banks

Fourth Quarter 2008

■ Summary of Condition and Performance

The global financial crisis has intensified since September 2008, resulting from the impact of the financial market turmoil, which triggered widespread distress among financial institutions internationally. As financial institutions faced increasing liquidity difficulties, the credit crisis rose sharply. The impact of the financial volatility weakened the global economic activity deeply. Owing to intensified links with the global economic activity, Taiwan's economic growth contracted dramatically year on year. The contraction stemmed from the sluggish private consumption, while merchandise exports were lackluster due to reducing demands from major overseas markets. As a whole, the global financial crisis remained in the doldrums and domestic unemployment rate continued to rise. In the fourth quarter of 2008, according to the statistics of the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the preliminary real GDP contracted by 8.36% , compared to the same quarter of the previous year.

The domestic financial market in December remained volatile. The profitability of Taiwan's domestic banks declined because of narrow interest spread and a rise in provisions for loans and investment portfolios. Nevertheless, the asset quality of domestic banks continued to improve steadily. The NPL ratio was 1.54% at the end of 2008, indicating a stable trend. Moreover, the sector's coverage ratio stood at 76.57% , increasing by 9.57 percentage points year on year.

■ Key Trend

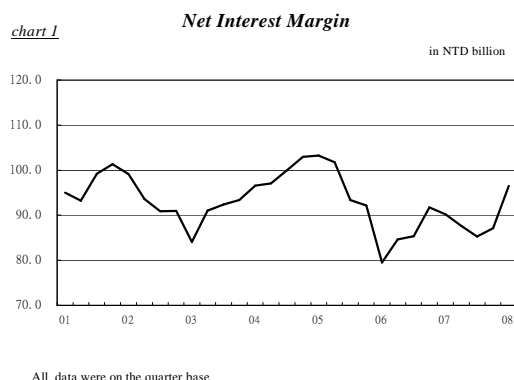
The banking sector's net income before tax declined by 11.6% in the assessment period compared to the same period of 2007, which was mainly due to lower interest income and an increase in provisions for loans and investment portfolios amid the sub-prime crisis. The major income components are tabulated as follows.

Major income components

	NT\$ billion		
	Jan.-Dec. 2007	Jan.-Dec. 2008	% Change
Income			
Net interest income	352.1	356.5	1.2
Net revenues other than interest	158.6	97.4	-38.6
Expense			
Loan loss provision	144.6	106.4	-26.4
Other expense	327.2	313.1	-4.3
Net income	38.9	34.4	-11.6

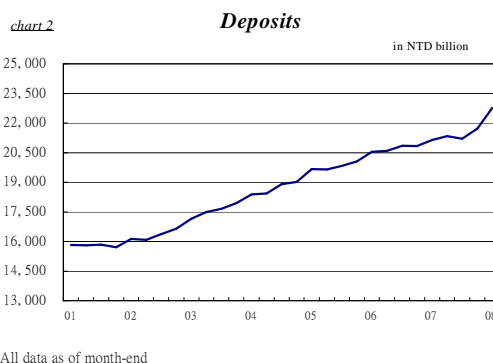
Net Interest Margin (NIM) increased slightly

The NIM was NT\$ 96.5 billion in this quarter, increasing by NT\$ 9.4 billion compared to the previous quarter. (Chart 1)



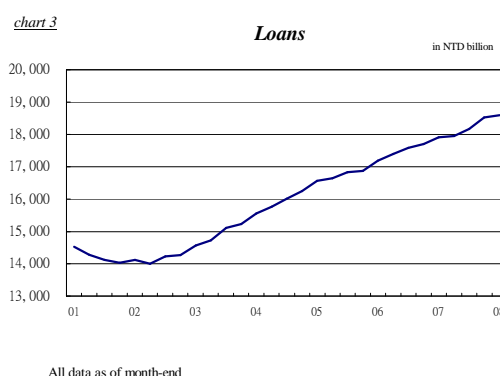
Deposits increased slightly

At the end of December 2008, the deposits amounted to NT\$22,756.4 billion, increasing by NT\$ 1,032.5 billion compared to the preceding quarter. It was mainly due to the upswing of time and saving deposits. As a result, the annual growth rate of total deposits ascended to 6.14% at the end of December 2008, increasing by 4.35 percentage points from the annual growth rate of 1.79% at the end of December 2007. (Chart 2)



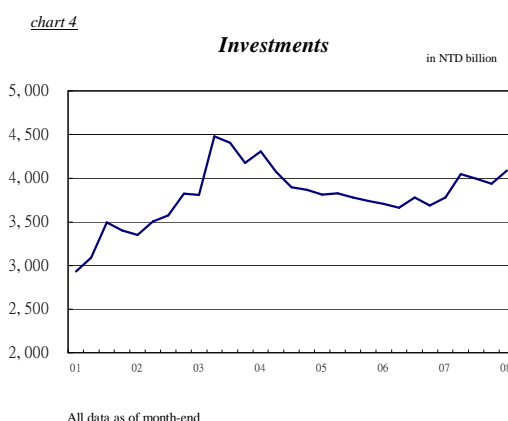
Loans increased slightly

The total loans amounted to NT\$ 18,600.4 billion as of the end of December 2008, increasing by NT\$ 74.7 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 2.00%, decreasing by 1.2 percentage points from 3.20% at the end of December 2007. (Chart 3)



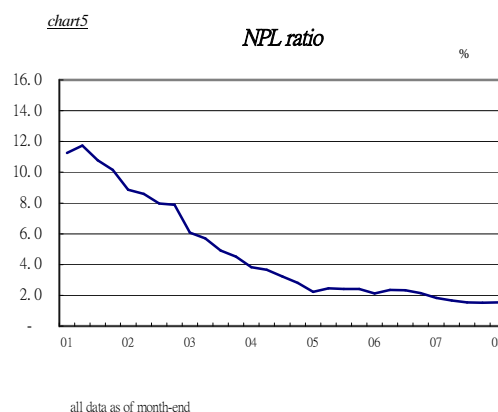
Investments increased slightly

The total investments amounted to NT\$4,088.4 billion, increasing by NT\$ 151.2 billion compared to the preceding quarter. The annual growth rate was -1.29% at the end-December of 2008. (Chart 4)



Asset quality remained healthy

Due to the ongoing write-off and sales of non-performing loans, the asset quality of the overall banking sector continuously remained healthy. The average NPL ratio at the end of this quarter leveled off by 1.54% at the end of 2008. The average provision coverage ratio stood at 76.57%, increasing by 5.35 percentage points from 71.22% at the end of the previous quarter. The banking sector's asset quality remained at a healthy condition. (Chart 5)



Provision-to-loan ratio increased slightly

The provision-to-loan ratio was 1.07% at this end-quarter, slightly increased by 0.05 percentage points from 1.02% at the end of the preceding quarter. It was due to the increase of loan loss provisions and the loans outstanding, reflecting the banking sector's prudential attitude for the loan policy. (Chart 6)

Liquidity ratio increasing

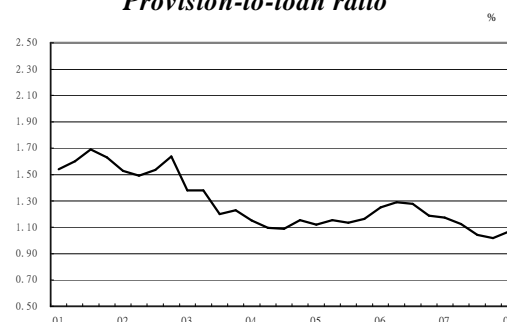
The average liquidity ratio increased to 21.92% in December 2008, after falling to 19.93% in September 2008 from 21.25% in June 2008. The liquidity ratio remained substantially higher than the regulatory minimum of 7% , reflecting the funding remained in good supply in the domestic banking sector. (Chart7)

Average capital adequate ratio remained well

The average capital adequacy ratio was 10.83% in December 2008, increasing by 0.24 percentage points from 10.59% in September 2008. However, this level remained well above the minimum international standard of 8% . (Chart 8)

chart 6

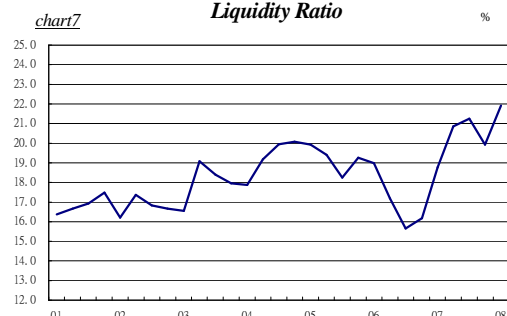
Provision-to-loan ratio



All data as of month-end

chart7

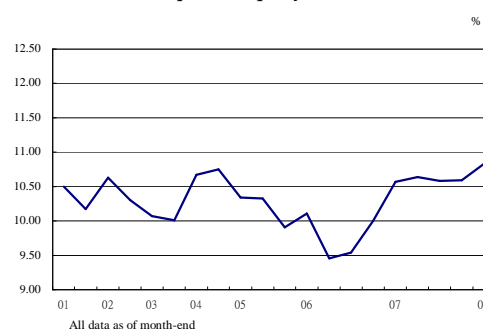
Liquidity Ratio



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

