

# Condition and Performance of Domestic Banks

Second Quarter 2005

## ● Summary of Condition and Performance

Owing to the decline of domestic unemployment rate and the stable increase of private consumption, Taiwan's economy remained an upbeat at the end of the second quarter of 2005. According to the statistics, the robust private investment and modest private consumption supported the real demand. However, the trade figure, resulting from a light slowdown in the global economy, was less optimistic for the first half of 2005. The gross domestic products (GDP) in the second quarter of 2005 was 3.03 %, increasing by 0.49 percentage points compared with the previous quarter.

The domestic banking sector has gradually improved the asset quality, contributed from the stronger risk controls and ongoing write-offs. The average ratio of NPLs to total loans dropped to 2.46 %, 0.28 percentage points down from 2.74 % at the end of the first quarter of 2005. The ratio of loans under surveillance was 0.78 %. The delinquency ratio (90-days overdue loans to total loans, similar to the new NPL definition taking effect on July 1, 2005) fell to 3.24% from 3.66 % at the previous quarter's end. Besides, the average provision coverage ratio stood at 50.01 %, up from 44.31 % at the previous quarter-end. The provision coverage ratio has been on a rising trend. To cope with an increasingly competitive operating environment, domestic banks are making their every endeavor to enhance the risk management capability and diversify the loan portfolio. Besides, benefited from the stable economic recovery, the annual growth rate of deposits and loans went up steadily.

## ● Key Trend

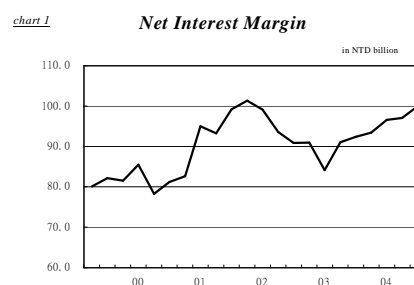
Owing to the provisions rising by 15.8 % for the first six months of 2005, the net income before tax decreased 1.2% compared with the same period of 2004. The major income components are tabulated as follows.

### Major income components

	NT\$ billion		
	Jan.-Jun. 2004	Jan.-Jun. 2005	% Change
<b>Revenues</b>			
Net interest income	183.4	197.1	7.5
Net real gains of securities	23.8	25.6	7.6
Net noninterest income	66.1	67.0	1.4
<b>Expenses</b>			
Provisions	66.4	76.9	15.8
Other operating expense	139.7	151.0	8.1
<b>Net income</b>	84.5	83.5	-1.2

### Net Interest Margin (NIM) increased slightly

The NIM was NT\$100.0 billion during this quarter, increasing by NT\$2.9 billion (3.0 %) compared with the preceding quarter, mainly due to the interest rates in a slight upward trend. (chart 1)

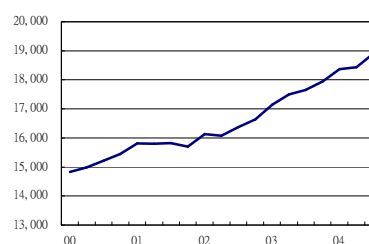


All data were on the quarter base

### ***Deposits increased moderately***

Total deposits as of June 30, 2005 were NT\$18,893.5 billion, a NT\$454.9 billion (2.5 %) increase compared with the preceding quarter. The slight pick-up of deposits was mainly due to the increase in net foreign capital inflows and bank loans. The annual growth rate of total deposits at the end of June 2005 was 7.21 %. (Chart 2)

*chart 2* **Deposits** in NTD billion

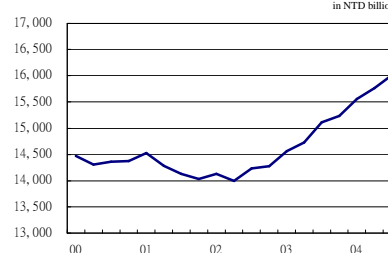


All data as of month-end

### ***Loans grew steadily***

The total loans were NT\$ 16,011.5 billion at this quarter's end, increasing by NT\$245.2 billion (1.56 %) compared with preceding quarter. This was mainly due to the increase in bank claims on the private sector. Nevertheless, resulting from the softened economic growth, the annual growth rate at this quarter was 5.82 %, a decrease by 3.18 percentage points from 9.00 % at the end of June 2004. (Chart 3)

*chart 3* **Loans** in NTD billion



All data as of month-end

### ***Investments decreased in the second quarter, 2005***

The total investments as of June 30, 2005 amounted to NT\$3,896.5 billion, decreasing by NT\$176.7 billion (4.33 %) compared with the previous quarter. It was largely due to the decrease of short-term securities invested. The annual growth rate of investment went down with an average of -6.15 % at the second quarter end of 2005. (Chart 4)

*chart 4* **Investments** in NTD billion



All data as of month-end

### ***Asset quality further improved***

The average ratio of non-performing loans went down continuously, falling to 2.46 %, whereas the amount of NPLs dropped to NT\$393.7 billion from NT\$431.8 billion at the end of previous quarter. The delinquency ratio also dropped by 0.42 percentage points from 3.66 % at the end March to 3.24 % at the end June of 2005. The banking sector's asset quality was generally getting better as a result of stronger risk controls and ongoing write-offs. (Chart 5)

*chart 5* **NPL ratio** %



all data as of month-end

### ***Provisions to loans ratio decreasing slightly***

The provision-to-loan ratio was 1.09%, slightly down from 1.10% at the end of preceding quarter. The descending provision-to-loan ratio was due to the growth of loans. (Chart 6)

### ***Liquidity Ratio increasing progressively***

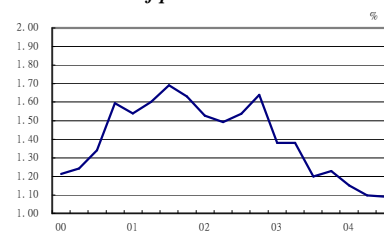
The liquidity ratios of all domestic banks were over the statutory minimum ratio (7 %) in June 2005. The average liquidity ratio was 19.96%, increasing by 0.79 percentage points from 19.17 % in March 2005. (Chart 7)

### ***Average Capital Adequacy Ratio rising slightly***

The average BIS capital adequacy ratio stood at 10.75% as of the end of June 2005, an increase by 0.08 percentage points from the end of December 2004. Banks reported their regulatory capital on a semi-annual basis. In general, most of the capital adequacy ratios of all domestic banks, excluding 3 banks under the minimum regulatory requirement were over the statutory minimum ratio (8%). (Chart 8)

*chart 6*

***Ratio of provisions to loans***



All data as of month-end

*chart 7*

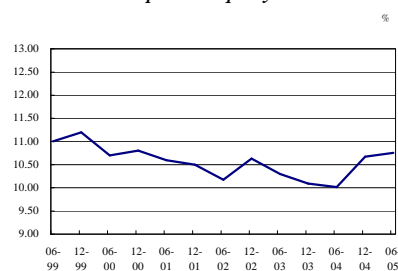
***Liquidity Ratio***



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