

Condition and Performance of Domestic Banks

Fourth Quarter 2004

● Summary of Condition and Performance

Taiwan's economy, driven by robust domestic demand and external trade, had a stable growth in 2004. According to the Directorate-General of Budget, Statistics and Accounting (DGBAS), the economy grew by 3.25 % in the fourth quarter, down from 5.27 % in the third quarter due to the higher energy costs and raising interest rate in main industry countries. Nevertheless, the domestic economic growth rate all year round was preliminarily estimated at 5.71 %.

The asset quality of domestic banking sector has been improving continuously, resulting from the banks' endeavor to shed their non-performing loans (NPLs). The average ratio of NPLs to total loans went down steadily, dropped to 2.79 % from 3.31 % at the end of the third quarter of 2004. The ratio of loans under surveillance was 1.01 %. The delinquency ratio fell to 3.80 % from 4.52 % at the previous quarter's end. Besides, the average provision coverage ratio increased to 46.68 %, up from 34.70 % at the end of 2003. The NPL ratio and provision coverage ratio have reached the target of policy, i.e. NPL ratio below 5 % and coverage ratio above 40 %, respectively. Owing to the banking sector's writing off in non-performing loans, it had been a positive impetus for domestic banks to improve their performance. In addition, benefited from the stable economic recovery, the annual growth rate of deposits, loans and investments went up steadily.

● Key Trend

Owing to the non-interest income rising by 67.6 % in 2004, the net income before tax grew in a large amount compared with the year of 2003. The major income components are tabulated as follows.

Major income components

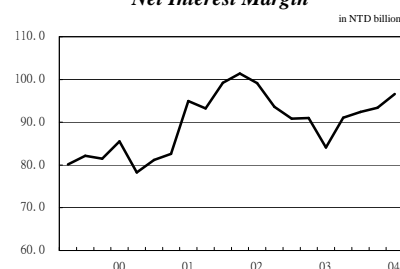
	NT\$ billion		
	Jan.-Dec. 2003	Jan.-Dec. 2004	% Change
Revenues			
Net interest income	359.5	373.5	3.9
Net Real gains of securities	78.6	48.3	-38.5
Noninterest income	82.7	138.6	67.6
Expenses			
Provisions	238.1	163.4	-31.4
Noninterest expense	257.0	292.9	14.0
Net income	50.4	155.3	208.1

Net Interest Margin (NIM) increased slightly

The interest rates rose slightly during the latest quarter of 2004. The NIM was NT\$96.6 billion during this quarter, increasing by NT\$3.2 billion (3.4 %) compared with the preceding quarter. (chart 1)

chart 1

Net Interest Margin

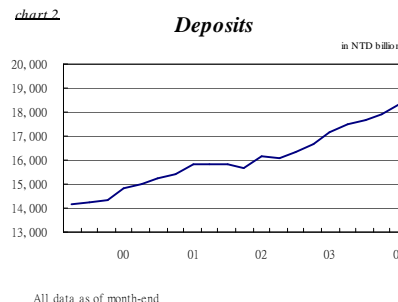


All data were on the quarter base

Deposits rose steadily

Total deposits as of December 31, 2004 were NT\$18,373.9 billion, a NT\$424.8 billion (2.4 %) increase compared with the preceding quarter. The slight pick-up of deposits was largely the result of increased demand from bank loans. The annual growth rate of total deposits at the end of 2004 was 7.61 %. (Chart 2)

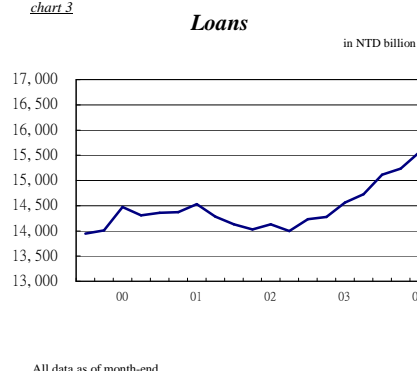
chart 2



Loans grew steadily

The total loans were NT\$ 15,558.3 billion at the end of 2004, increasing by NT\$320.9 billion (2.11 %) compared with preceding quarter. The annual growth rate at the end of 2004 was 6.50 %, remaining sound from 6.15 % at the end of 2003. (Chart 3) The slight increase largely reflected higher consumer borrowing rather than lending to companies.

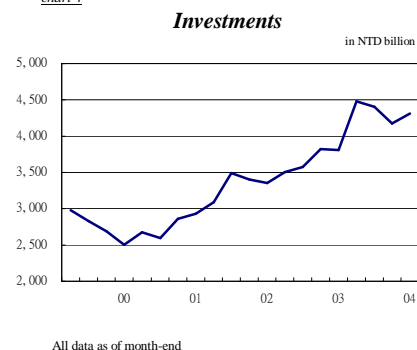
chart 3



Investments increased slightly in the fourth quarter, 2004

The total investments as of the end of 2004 amounted to NT\$4,309.6 billion, increasing slightly by NT\$134.8 billion (3.23 %) compared with the third quarter in 2004, mainly due to the increase of CDs issued by the Central Bank of China, Taipei. The annual growth rate of investment went up with an average of 10.53 % at the end of 2004 compared with 7.22% at the end of 2003. (Chart 4)

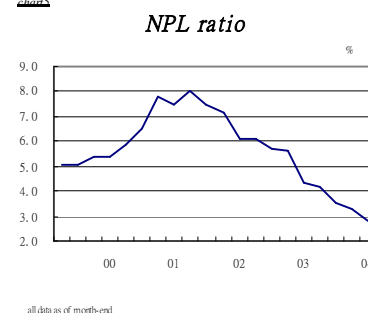
chart 4



Asset quality improved further

The average ratio of non-performing loans went down steadily, falling to 2.79 %, whereas the amount of NPLs dropped to NT\$433.5 billion from NT\$505.8 billion at the end of previous quarter. The delinquency ratio also dropped by 0.2 percentage points from 1.21 % at the end of September 2004 to 1.01 % at the end of 2004. Along with the banking sector's ongoing write-offs, the overall quality of assets was satisfactory. (Chart 5)

chart 5



Provisions to loans ratio decreasing slightly

The provision-to-loan ratio was 1.15%, down from 1.23% at the end of preceding quarter. The provision-to-loan ratio showed downward mainly due to the improvement of asset quality. (Chart 6)

Liquidity Ratio descending

All the liquidity ratios of domestic banks were over the statutory minimum ratio (7 %) in December 2004. The average liquidity ratio was 17.88 %, decreasing by 0.07 percentage points from 17.64 % as of September 2004. (Chart 7)

Average Capital Adequacy Ratio rising slightly

The average BIS capital adequacy ratio stood at 10.69% as of the end of December 2004, an increase by 0.68 percentage points from the end of June 2004. There were 4 banks’ ratios under the minimum regulatory requirement (8%) , including Chung Shing Bank (-196.69 %) , Enterprise Bank of Hualien(3.42 %) , Bowa Bank(3.76 %) and Taitung Business Bank (7.02 %) . (Chart 8)

