

Condition and Performance of Domestic Banks

First Quarter 2005

■ Summary of Condition and Performance

Due to a pick-up in global economic growth, both of Taiwan's exports and private investment grew significantly faster in 2004, reflecting a robust economic growth. Nevertheless, the higher energy costs and raising interest rate in main industry countries resulted in a waning trade flow. The economic condition softened gradually since the end of 2004. According to the Directorate-General of Budget, Statistics and Accounting (DGBAS), the economic growth rate was preliminary estimated at 2.54 % in the first quarter of 2005, down from 3.25 % at the last quarter of 2004.

As for the banking sector, the non-performing loans had continued to fall, having reached to 2.74 % of total loans at the end-March, 2005, compared with 2.81% in December 2004. The improvement reflected growth in the total loans. The ratio of loans under surveillance was 0.92%. The delinquency ratio fell to 3.66 % at the end of this quarter from 3.80% of preceding quarter. The provision coverage ratio was also above the target ratio (40%) , standing at 44.31 %. Most of the domestic banks benefited from the stable economic growth; the annual growth rate of deposits and loans were upward compared with the same quarter in preceding year.

■ Key Trend

From January to March of 2005, the net income before tax went down slightly compared with the same period of 2004. The major income components were tabulated as follows.

Major income components

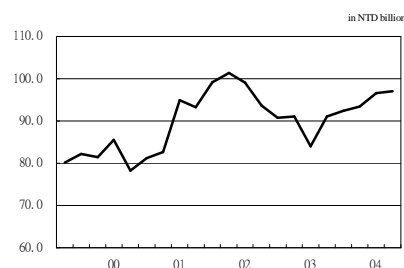
	NT\$ billion		
	Jan.-Mar 2004	Jan.-Mar 2005	% Change
Revenues			
Net interest income	91.1	97.1	6.6
Real gains of securities	16.2	10.5	-35.2
Noninterest income	27.7	34.7	25.3
Expenses			
Provisions	33.0	30.7	-7.0
Noninterest expense	66.9	73.8	10.3
Net income	49.1	46.6	-5.1

Net Interest Margin (NIM) subtly elevated

The lending rates had a slightly upward trend since the second half of 2004. The NIM during this quarter was NT\$97.1 billion, increasing by NT\$0.5 billion (0.52 %) compared with the preceding quarter. (chart 1)

chart 1

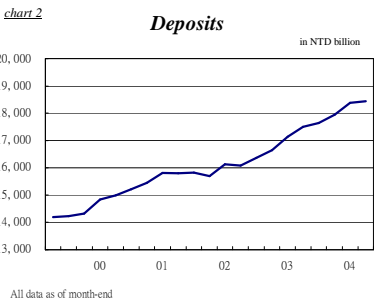
Net Interest Margin



All data were on the quarter base

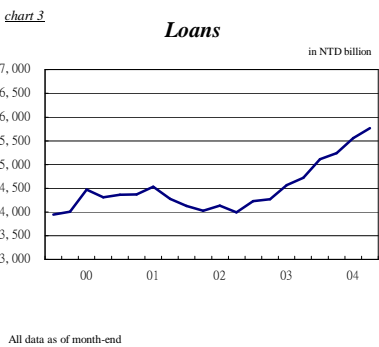
Deposits leveled off

The deposit outstanding as of March 31, 2005 was NT\$18,438.6 billion, leveling off compared with the preceding quarter. Owing to the exchange rate fluctuated, the foreign currencies deposits decreased by NT\$ 81.8 billion. However, the total outstanding still had a NT\$65 billion (0.35 %) increase compared with preceding quarter. The annual growth rate of total deposits at end-March 2005 was 7.83 %. (Chart 2)



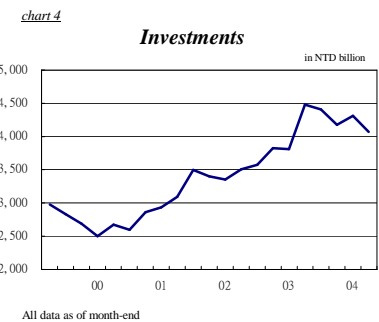
Loans went up moderately

The total loans were NT\$ 15,766.3 billion at the end-March of 2005, increasing by NT\$208.0 billion (1.34 %) compared with preceding quarter's end, mainly due to the rise in consumer loan demand. The annual growth rate of end-March of 2005 was 8.02 %. (Chart 3)



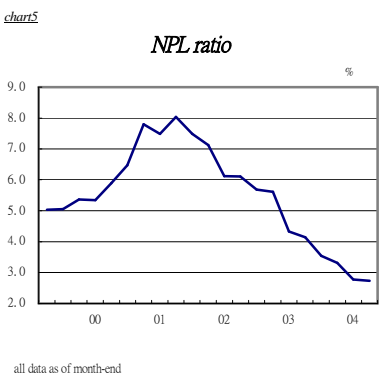
Investments went down

The total investments amounted to NT\$4,073.1 billion, decreasing by NT\$236.5 billion (-5.49 %) compared with the preceding quarter, largely due to the decrease of Negotiable Certificate Deposits purchased. The annual growth rate of investment was -5.40 % at the end of this quarter. (Chart 4)



Asset quality further improved

Both of the average ratio of non-performing loans and the ratio of loans under surveillance continued to fall, having reached 2.74% and 0.92%, respectively, at end-March of 2005. Compared with the high peak of 8.04% in March 2002, the NPL ratio dropped by 5.3 percentage points at the first quarter's end of 2005. (Chart 5) The improvement reflected relatively robust growth in the total loans component. Nevertheless, the banking system also needs to further improve the risk management ability to cope with the dynamic operating environment.



Provisions to loans ratio went down slightly

The provision-to-loan ratio was 1.10%, slightly down from 1.15% at the end-March of 2004. The ratio of provisions to loans was downward slightly mainly owing to writing off the NPLs, reflecting the decrease of loan loss provisions. (Chart 6)

Liquidity Ratio ascended

All the liquidity ratios of domestic banks were over the statutory minimum ratio (7 %) in March 2005. The average liquidity ratio was 19.17 %, increasing by 1.29 percentage points from 17.88 % of December 2004. (Chart 7) The increase chiefly reflected the influx of currency back to the banking system after the Chinese Lunar New Year Holiday .

