

Condition and Performance of Domestic Banks

Fourth Quarter 2005

■ Summary of Condition and Performance

The global economy, owing to the avian influenza and high oil prices, proved a slowdown in the first half of 2005. This trend dragged the strength of Taiwan's economic growth. Nevertheless, supported by the favorable exports and improving industrial production, Taiwan's economy rebounded in the second half of 2005. Moreover, the falling unemployment rate and the rising domestic consumption bolstered the domestic demand growth. The preliminary real GDP (Gross Domestic Product) growth rate in the fourth quarter is 6.40%, increasing by 2.02 percentage points compared with previous quarter. For 2005 as a whole, real GDP was 4.09%.

Supported by aggressive NPLs' write-offs by domestic banks in a stable economic environment, the banking sector's asset quality has being remained at a satisfying level. The average ratio of NPLs to total loans was 2.24%, 0.56 percentage points down from 2.80% as of the end of previous quarter. Besides, the average provision coverage ratio stood at 47.03%, 3.23 percentage points up from 43.80% at the previous quarter-end. Nevertheless, some banks, facing the intensifying and divergent competition, aggressively provided unsecured credit products but lack of risk management. Some of them may be immersed in the new problem assets owing to their acceleration in consumer lending. To keep a prudential operational attitude and adequate risk controls, the provision coverage ratio showed an upward trend this quarter. Generally speaking, the domestic banks, supported by sufficient liquidity and good market confidence, the NPL ratio is expected to remain stable. The annual growth rate of deposits, loans and investments went up continuously.

■ Key Trend

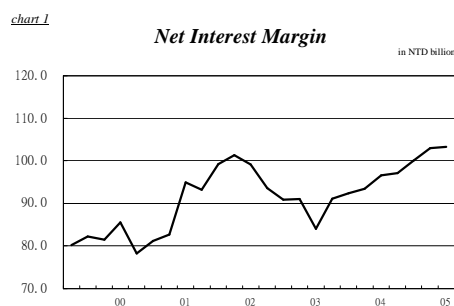
Owing to the deterioration in asset quality of credit cards and cash cards, the rising provision increasing 46.6% compared with the previous year dampened the net income before tax in 2005. The major income components are tabulated as follows

Major income components

	NT\$ billion		
	Jan.-Dec 2004	Jan.-Dec. 2005	% Change
Income			
Net interest income	373.5	403.4	8.0
Net real gains of securities	48.3	54.1	12.1
Net noninterest income	138.6	139.9	0.9
Expense			
Provision	163.4	239.6	46.6
Other operating expense	292.9	317.0	8.2
Net income	155.3	78.7	-49.3

Net Interest Margin (NIM) leveled off

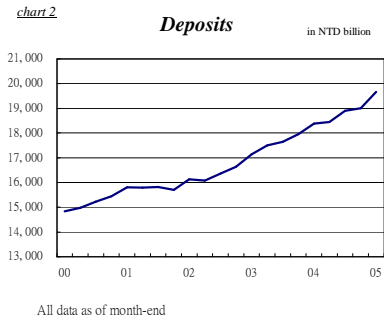
The NIM was NT\$103.3 billion during this quarter, increasing by NT\$0.3 billion (0.29%) compared with the preceding quarter, mainly due to the interest spreads on a shrinking trend. (chart 1)



All data were on the quarter base

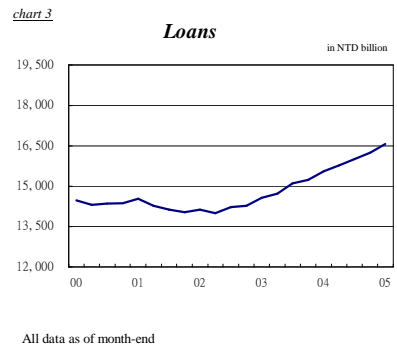
Deposits rose moderately

Total deposits as of the end of 2005 were NT\$19,665.1 billion, a NT\$650.2 billion (3.42 %) increase compared with the preceding quarter. The quarterly growth of deposits was due to the active trading in the stock market and a substantial increase in net foreign capital inflow. The annual growth rate of total deposits at the end of 2005 was 7.88 %, slightly up 0.27 percentage points from 7.61% a year earlier. (Chart 2)



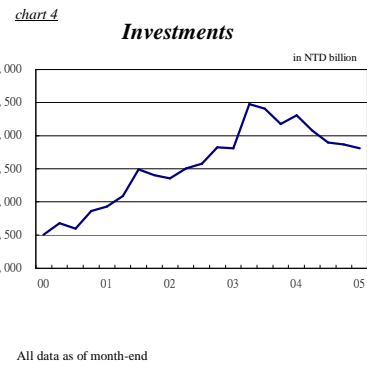
Loans grew continuously

The total loans were NT\$ 16,566.6 billion at this quarter's end, increasing by NT\$322.1 billion (1.98 %) compared with preceding quarter. This was mainly due to the small increase in bank claims on the private sector. Nevertheless, based on the stable economic growth, the annual growth rate at this quarter was 7.24 % , up 0.74 percentage points from 6.50% as of the end of 2004. (Chart 3)



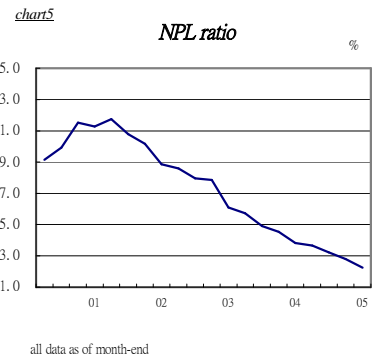
Investments decreased

The total investments as of the end of 2005 amounted to NT\$3,812.1 billion, decreasing by NT\$54.0 billion (-1.40 %) compared with the previous quarter. It was largely due to the decrease of NCDs purchased. The annual growth rate of investment went down 5.28 percentage points from 10.53% at the end a year earlier. (Chart 4)



Asset quality improved under stricter definition

The historical ratios of NPLs in this quarterly report have been revised based on the new NPLs' definition. The average ratio of non-performing loans at the end of 2005 went down continuously, falling to 2.24 %, whereas the amount of NPLs counted for NT\$ 370.5 billion, decreasing NT\$ 84.5 billion from NT\$ 455.0 billion at the previous quarter's end. Under the stricter definition, the domestic banking sector's asset quality had been further improved to keep pace with risk management capability. (Chart 5)



Provision-to-loan ratio decreasing

The provision-to-loan ratio was 1.12% slightly down from 1.15% at the end of preceding quarter. The descending provision-to-loan ratio was mainly due to the increase of total outstanding loans. (Chart 6)

Liquidity Ratio decreasing slightly

The liquidity ratios of all domestic banks were over the statutory minimum ratio (7 %) in December 2005. The average liquidity ratio was 19.92%, decreasing by 0.16 percentage points from 20.08 % in September 2005. (Chart 7)

Average Capital Adequacy Ratio decreasing slightly

The average BIS capital adequacy ratio stood at 10.27 % as of the end of December 2005, a decrease by 0.40 percentage points from 10.67% at 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 were over the statutory minimum ratio (8%). (Chart 8)

