

Condition and Performance of Domestic Banks

Third Quarter 2005

■ Summary of Condition and Performance

Affected by the avian influenza and high oil prices, the global economy proved a light slowdown in the third quarter of 2005. This trend softened the expansion of Taiwan's exports and the strength of Taiwan's economy. Nevertheless, resulting from the apparent falls in domestic unemployment rate, Taiwan's domestic demand growth has been bolstered from the second quarter of 2005. The industrial production also supported the increase of external trade. According to the statistics of Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the preliminary real GDP growth rate of the third quarter is 4.38 % , increasing by 1.41 percentage points compared with the previous quarter of 2005.

The asset quality of domestic banking sector has been obviously improved since 2003 and still remained stable as a result of risk controls and ongoing write-offs. To be in line with world norms, the regulator's new NPL definition (90 days overdue instead of 180 days)has taken effect on 1 July, 2005. The domestic banks, resulting from the stricter definition, have aggressively disposed the problem loans. The average ratio of NPLs to total loans was 2.80% , 0.44 percentage points down from 3.24% (according to the new NPL definition) as of the end of previous quarter. Besides, the average provision coverage ratio stood at 43.80 % , down from 50.01 % at the previous quarter-end. The provision coverage ratio, based on the new NPL definition, showed a downward trend this quarter. However, benefited from the stable economic growth, the annual growth rate of deposits, loans and investments went up continuously.

■ Key Trend

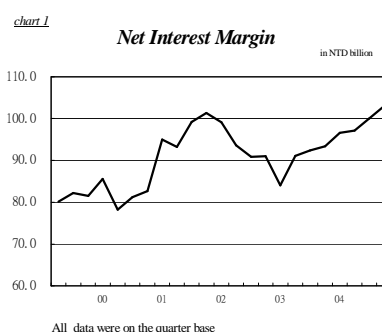
Owing to the provision rising by 15.4 % for the first three quarters of 2005, the net income before tax decreased 3.2% compared with the same period a year earlier. The major income components are tabulated as follows

Major income components

	NT\$ billion		
	Jan.-Sep. 2004	Jan.-Sep. 2005	% Change
Income			
Net interest income	276.9	300.1	8.4
Net real gains of securities	37.7	41.5	10.1
Net noninterest income	103.3	105.1	1.7
Expense			
Provision	109.3	126.1	15.4
Other operating expense	211.9	229.9	8.5
Net income	127.2	123.1	-3.2

Net Interest Margin (NIM) increased slightly

The NIM was NT\$103.0 billion during this quarter, increasing by NT\$3.0 billion (3.0 %) compared with the preceding quarter, mainly due to the interest rates on a rising trend . (chart 1)



Deposits leveled off

Total deposits as of September 30, 2005 were NT\$19,014.9 billion, a NT\$121.4 billion (0.6 %) increase compared with the preceding quarter. The quarterly growth rate of deposits, due to the net foreign capital outflow and overseas remittance by local residents, was leveled off. However, the annual growth rate of total deposits at the end of September 2005 was 7.02 %. (Chart 2)

Loans grew continuously

The total loans were NT\$ 16,244.5 billion at this quarter's end, increasing by NT\$233.0 billion (1.45 %) compared with preceding quarter. This was mainly due to the expansion of loans to the private entities. Nevertheless, resulting from the softened economic growth, the annual growth rate at this quarter was 6.56 %, a decrease by 2.30 percentage points from 8.86% at the end of September 2004. (Chart 3)

Investments decreased in the third quarter, 2005

The total investments as of September 30, 2005 amounted to NT\$3,866.1 billion, decreasing by NT\$30.3 billion (0.78 %) compared with the previous quarter. It was largely due to the decrease of government securities invested. The annual growth rate of investment went up with an average of 1.14 % at the third quarter end of 2005. (Chart 4)

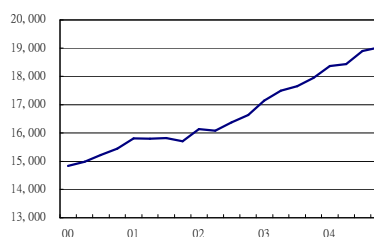
Asset quality in line with world norms

The regulator's new NPL definition (90 days overdue instead of 180 days, mostly equivalent to old definition of NPLs and loans under surveillance) had been implemented from July 1, 2005. The historical ratios of NPLs in this quarterly report also have been revised based on the new definition. The average ratio of non-performing loans at the September end of 2005 went down stably, falling to 2.80 %, whereas the amount of NPLs counted for NT\$455.0 billion. Under the stricter definition, the domestic banking sector's asset quality was brought into line with world norms. Moreover, it needed to be further improved to keep pace with risk management capability. (Chart 5)

chart 2

Deposits

in NTD billion

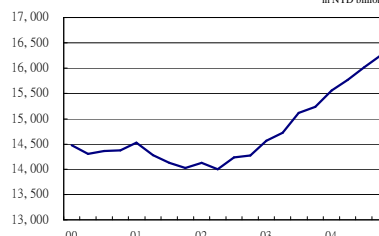


All data as of month-end

chart 3

Loans

in NTD billion

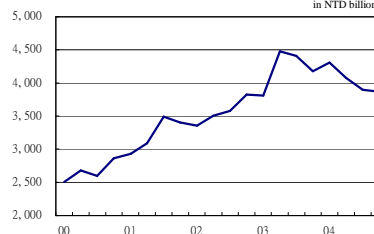


All data as of month-end

chart 4

Investments

in NTD billion



All data as of month-end

chart5

NPL ratio

%



all data as of month-end

Provision-to-loan ratio increasing slightly

The provision-to-loan ratio was 1.15% slightly up from 1.09% at the end of preceding quarter. The ascending provision-to-loan ratio showed the banks’ prudential attitude regarding to asset quality. (Chart 6)

Liquidity Ratio decreasing

The liquidity ratios of all domestic banks were over the statutory minimum ratio (7 %) in September 2005. The average liquidity ratio was 20.08%, decreasing by 0.12 percentage points from 19.96 % in June 2005. (Chart 7)

