

Condition and Performance of Domestic Banks

First Quarter 2006

■ **Summary of Condition and Performance**

Affected by the surge of international commodity prices and industry inventory adjustments, the domestic economy was underperforming. Nevertheless, factors affecting the domestic consumption including the stability of general price level and the employment prospect have been improved continuously. The strong international demand of the consumer electronics in the first quarter has bolstered the steady expansion in manufacturing and exporting sectors. According to the statistics of Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the preliminary real GDP growth rate has expanded at 4.93% for the first quarter of 2006, increasing by 2.44 percentage points compared with the same quarter of 2005.

The continuing growth of credit and cash card loans on several banks' market strategies recently has shifted a rise in non-performing loans. Nevertheless, most banks remained stable growth by a fairly benign macroeconomic environment and adequate capitalization. The average ratio of NPLs to total loans was 2.46% , 0.22 percentage points up from 2.24% as of the end of previous quarter. The average provision coverage ratio was 43.61% , 3.42 percentage points down from 47.03% at the previous quarter's end. Despite the growing asset quality problem, the banking sector is expected to manage this situation. In general speaking, the banking industry's adequate capitalization provides some cushioning against the rising credit costs of credit and cash card loans. The annual growth rate of deposits, loans and investments went up continuously.

■ **Key Trend**

The deteriorating asset quality of card loans, the rising loan provisions and the decreasing net revenues other than interest compared with the first quarter of 2005 dampened the net income before tax of the first quarter of 2006. The major income components are tabulated as follows.

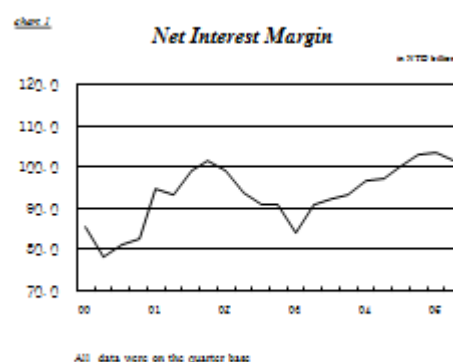
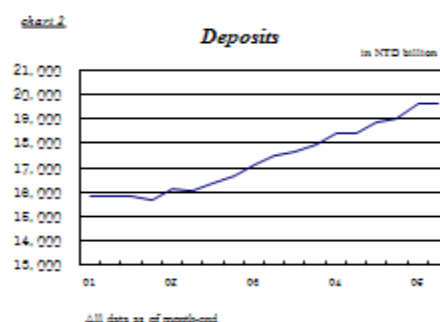
Major income components

	NT\$ billion		
	Jan.-Mar. 2005	Jan.-Mar. 2006	% Change
Income			
Net interest income	97.1	101.8	4.8
Net revenues other than interest	38.5	30.7	-20.2
Expense			
Loan loss provision	30.7	40.9	33.2
Other expense	58.3	62.2	6.7
Net income	46.6	29.4	-36.9

Net Interest Margin (NIM) decreasing

The NIM was NT\$101.8 billion during this quarter, decreasing by NT\$1.5 billion (-1.5 %) compared with the previous quarter, mainly due to the interest spreads on a low level . (chart 1)

Deposits leveled off



Total deposits as of the first quarter's end of 2006 were NT\$19,638.8 billion, a NT\$26.3 billion (-0.13 %) decrease compared with the preceding quarter. The growth rate was lower than that recorded in the previous quarter due to a weakening growth of bank loans and investment. The annual growth rate of total deposits at this quarter was 5.77 % , 2.06 percentage points down from 7.83% a year earlier. (Chart 2)

Loans grew slightly

The total loans were NT\$ 16,646.9 billion at this quarter's end, increasing by NT\$80.3 billion (0.48 %) compared with preceding quarter. This was mainly due to a slight increase in bank claims on non-government enterprises. Nevertheless, based on the stable economic growth, the annual growth rate at this quarter stood at 5.43% . (Chart 3)

Investments increased slightly

The total investments amounted to NT\$3,827.7 billion, increasing by NT\$15.6 billion (0.41 %) compared with the previous quarter. Based on the SFAS No.34 "Financial instruments : Recognition and Measurement", the investments were classified to be in line with world norms. The annual growth rate of investment went up dramatically by 15.58 percentage points from -5.40% at the first quarter's end a year earlier. (Chart 4)

Asset quality dampened by card loans

The rapid growth of credit and cash card loans of several banks resulted in a rise in non-performing loans. The average ratio of non-performing loans at this quarter went up slightly, up to 2.46 % . However, despite the growing asset quality problem, banks' adequate capitalization provided cushioning against the credit costs of card loans by a benign domestic economic growth. (Chart 5)

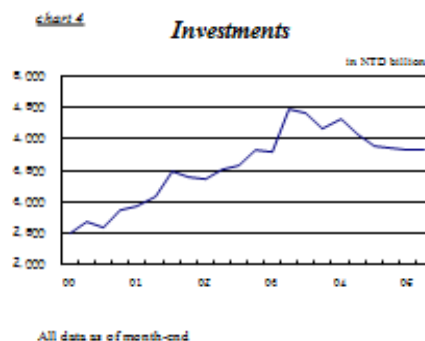
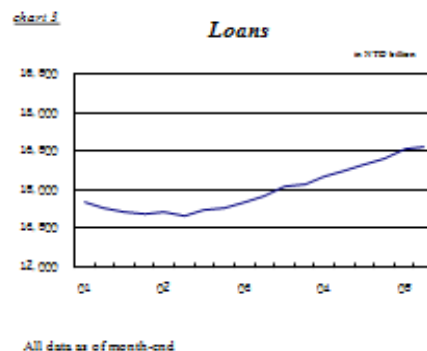
Provision-to-loan ratio increasing

The provision-to-loan ratio was 1.15% slightly up from 1.12% at the end of preceding quarter. The ascending provision-to-loan ratio was mainly due to the increase of loan loss provisions. (Chart 6)

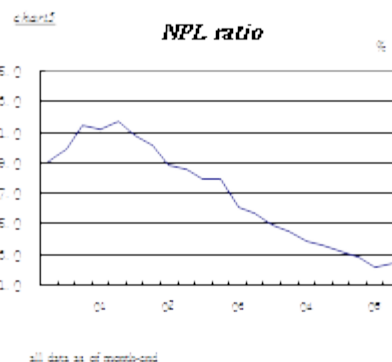
Liquidity Ratio decreasing slightly

The liquidity ratios of all domestic banks were over the

statutory minimum ratio (7 %) in March 2006. The average



liquidity ratio was 19.42%, decreasing by 0.50 percentage



points from 19.92 % in December 2005. (Chart 7)

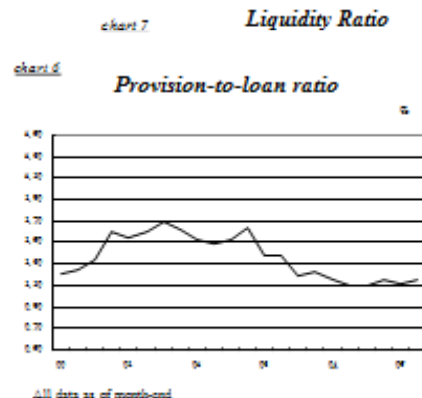


chart 7

Liquidity Ratio

