

3. Banking Sector

A Drop in the Number of Depository Institutions

At the end of 2005, the number of depository institutions was 390, a decrease of six from the previous year. This was the result of new openings of one domestic bank and one foreign bank and mergers by four domestic banks, three credit cooperative associations, and one credit department of a farmers' and fishermen's association into local banks.

The number of financial holding companies remained at 14 at year-end 2005, unchanged from 2004.

Market Shares of Deposits and Loans

Due to the previously mentioned mergers into domestic banks, domestic banks' market shares of deposits and loans increased to 70.02 percent and 86.86 percent, respectively, at year-end 2005. While placing great emphasis on their foreign exchange related business, foreign banks' market shares of deposits and loans remained relatively low at around three percent each. Restricted by the government regarding loan extension, the Department of Savings and Remittances of the Chunghwa Post Co.'s market share of deposits rose to 15.04 percent, whereas its market share of loans only edged up to 0.10 percent, slightly higher than that of the previous year.

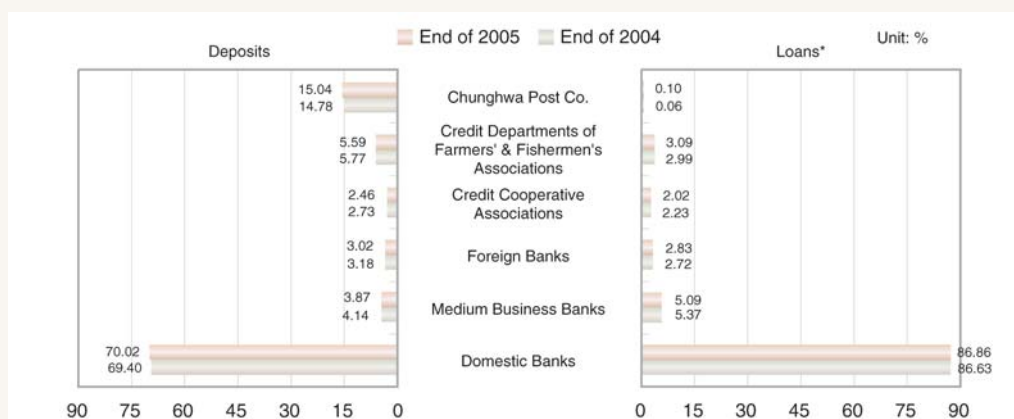
Number of Depository Institutions by Category

	End of 2005	End of 2004	Annual Change
Combined Number of Main Offices	390	396	-6
Domestic Banks	42	45	-3
Medium Business Banks	4	4	0
Foreign Banks	36	35	1
Credit Cooperative Associations	29	32	-3
Credit Departments of Farmers' and Fishermen's Associations	278	279	-1
Department of Savings and Remittances of Chunghwa Post Co.	1	1	0
Combined Number of Branches	5,938	5,911	27
Local Branches	5,789	5,761	28
Overseas Branches	79	80	-1
Offshore Banking Units	70	70	0

Sources: 1. *Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.*

2. *Department of Financial Inspection, the Central Bank of China.*

Market Shares of Deposits and Loans by Type of Depository Institutions



Note * Including data for securities acquired under reverse repurchase agreements.

Source: *Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.*

Depository Institutions' Sources and Uses of Funds

Regarding the sources of funds, both the amount and share of transaction and non-transaction deposits, especially for foreign currency deposits, increased markedly in 2005, though government deposits and borrowings from the Bank decreased. Concerning the uses

Sources and Uses of Funds in Depository Institutions

	End of 2005		End of 2004		Annual Change	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Sources:						
Transaction Deposits ⁽¹⁾	7,141	27.68	6,698	27.44	443	0.24
Non-transaction Deposits ⁽²⁾	16,636	64.48	15,672	64.21	965	0.28
Government Deposits	729	2.83	748	3.06	-18	-0.24
Borrowings from CBC	122	0.47	208	0.85	-86	-0.38
Other Items (Net)	1,172	4.54	1,083	4.44	88	0.10
Total	25,800	100.00	24,409	100.00	1,391	0.00
Uses:						
Foreign Assets ⁽³⁾	149	0.58	147	0.60	2	-0.02
Loans	17,143	66.45	15,884	65.08	1,259	1.37
Portfolio Investments	2,202	8.53	2,096	8.59	106	-0.05
Purchases of CDs Issued by CBC	3,444	13.35	3,518	14.41	-75	-1.07
Deposits with CBC	2,863	11.10	2,764	11.32	99	-0.23

Notes: (1) Including checking account deposits, passbook deposits and passbook savings deposits.

(2) Including time deposits, time savings deposits, foreign currency deposits, postal savings deposits, non-residents NT dollar deposits, repurchase agreements, and money market mutual funds.

(3) Excluding valuation changes in the exchange rate of the NT dollar against foreign currencies when calculating their annual change.

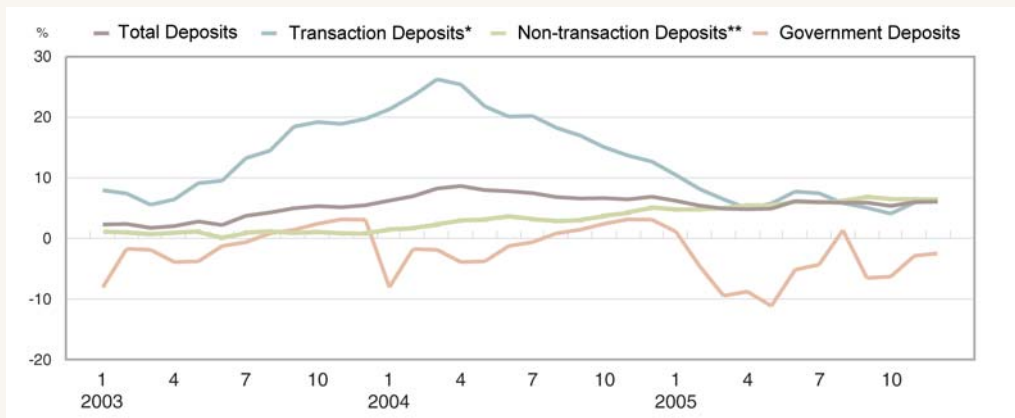
Source: *Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.*

of funds, although the increments of funds raised directly from financial markets via the issues of bonds and bills by enterprises shrank, the growth of loans increased significantly as banks aggressively expanded their consumer finance business. As a result, the share of bank loans in the uses of funds rose. Meanwhile, portfolio investments increased to some extent, despite the fact that they regressed in the share of uses. Both the share of holdings of certificates of deposit issued by the Bank and the share of deposits with the Bank, on the whole, decreased considerably from the previous year.

Downtrend in the Growth of Deposits

Total deposits of depository institutions as of the end of 2005 grew by an annual rate of 6.18 percent, lower than the 6.89 percent recorded in 2004. The annual average was 5.65 percent in 2005, compared to the 7.23 percent posted in 2004. On a monthly basis, it is evident that bank loans and investments fell gradually during the first four months of the year. In April, the annual growth rate of deposits fell to an annual low of 4.83 percent. This level of growth persisted in May. In June, deposit growth picked up as net foreign capital inflow and bank loans and investments expanded. In July, deposit growth waned due to a decline in net capital inflow. From August to October, deposit growth receded even more as the decline in capital inflow turned into an outflow as domestic investment in financial markets overseas rose. From November onwards, net foreign capital inflow resumed, and the annual growth rate of deposit rebounded to 6.18 percent in December.

Annual Growth Rate of Deposits by Type



Notes: * Including checking account deposits, passbook deposits and passbook savings deposits.
 ** Including time deposits, time savings deposits, foreign currency deposits, postal savings deposits, non-residents NT dollar deposits, repurchase agreements, and money market mutual funds.
 Source: *Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.*

The growth rate of transaction deposits was 6.61 percent in 2005, significantly lower than the 12.68 percent of the previous year. During the first two months of the year, it tumbled as demand for currency soared prior to the Chinese New Year holidays. In March and April, it tapered off as stock market activity weakened as banks repeatedly jacked up non-transaction deposits rates, thus attracting a shift of funds from transaction deposits to non-transaction deposits. In May, it rebounded. By June, continued inflow of net foreign capital and the rise in bank loans and investments helped the growth of transaction deposits to pick up momentum. However, this turn around did not last through the second half of the year. Due to higher base in the previous year, the annual growth rate dropped in July. From August to October, a reversal in net foreign capital from inflow to outflow and growth in domestic investment in overseas financial markets further weakened the growth of transaction deposits. From November onwards, the annual growth rate of transaction deposits increased due to active stock market transactions. It climbed to 6.61 percent at the end of December. At the end of 2005, the share of transaction deposits in total deposits edged up from the previous year's 29.02 percent to 29.14 percent.

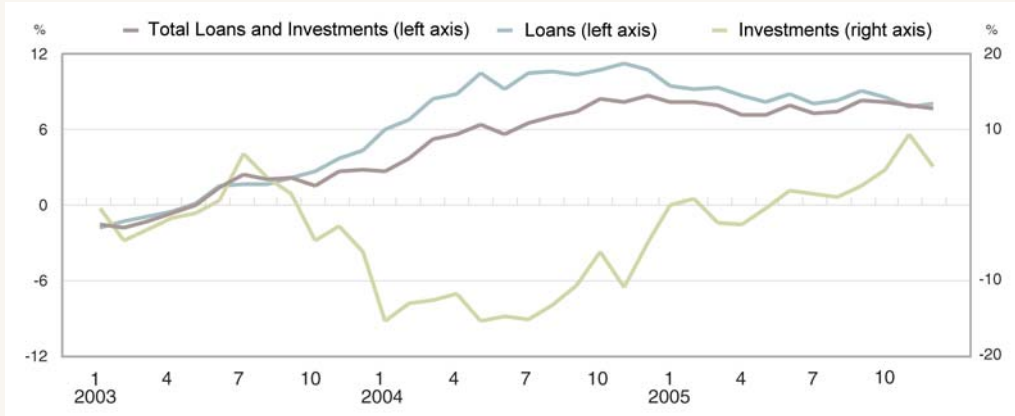
In terms of the growth rate of non-transaction deposits, it climbed from 5.11 percent at the end of 2004 to 6.42 percent at the end of 2005, while its share in total deposits edged up only slightly from 67.74 percent to 67.88 percent. The increase in non-transaction deposits mainly arose from the widening of the transaction and non-transaction deposit interest rate spread. Analyzing non-transaction deposits by type, it is noticeable that negotiable certificate of deposits (NCDs) fell while time savings deposits rose. With the decline of NCDs, the growth rate of time deposits dropped from 7.25 percent at the end of 2004 to 4.87 percent at the end of 2005. Time savings deposits, notwithstanding, grew from 1.26 percent to 4.81 percent. As for postal savings deposits, the growth rate climbed from 6.82 percent to 10.05 percent. The rate of foreign currency deposits expanded slightly from 12.88 percent to 13.99 percent due to the widening interest rate spread between the US dollar and the NT dollar deposits.

Government deposits in depository institutions contracted 2.47 percent at the end of 2005, compared to a 3.31 percent contraction at the previous year-end, which was equivalent to a drop from 3.24 percent to 2.98 percent of total deposits.

Retarded Growth in Loans and Investments

Loans posted an annual growth rate of 8.04 percent at the end of 2005, lower than that of 10.71 percent a year earlier, while the annual growth rate of investments rose to 5.04 percent in 2005 from a negative 4.81 percent reported in 2004. The annual growth rate of loans and

Annul Growth Rate of Loans and Investments



Source: Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.

investments of depository institutions fell to 7.69 percent at year-end 2005, compared to the 8.64 percent recorded in the previous year.

Shifts in Sector Share of Loans

Due to prompt growth of banks' consumer loans, loans extended to the private sector reported a huge 86.35 percent of total loans at the end of 2005, higher than that of 85.05 percent recorded a year earlier. Owing to the central government's repayment of loans, the share of loans extended to government agencies to total loans decreased to 10.40 percent from 12.08 percent in the preceding year. Meanwhile, the share of loans to public enterprises

Industry Loans Extended by Deposit Insitutions



Source: Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.

increased from 2.87 percent at year-end 2004 to 3.25 percent at year-end 2005.

Loans by Industry

The share of real estate loans extended by domestic banks ascended from the previous year-end's 6.79 percent to 7.36 percent as the real estate market showed signs of revival, while the shares of loans to other primary industries fell.

Consumer Loans

Domestic banks, local branches of foreign banks, and medium business banks recorded an annual increase of NT\$753.4 billion or 12.85 percent of total loans made due to their continual attempts to expand their consumer finance businesses. The magnitude of this increase was smaller than that of the previous year's NT\$892.1 billion or 17.95 percent due to the reduction in revolving credit allowances for credit cards and cash card loans from in the fourth quarter.

Share of Loans by Currency

The share of foreign currency loans to total loans dropped to 2.99 percent at year-end 2005 from 3.53 percent a year earlier. The drop was mainly due to rising expectations of NT dollar depreciation from the third quarter onwards. The corresponding share of NT dollar loans to total loans therefore increased from 96.47 percent to 97.01 percent. Moreover, the NT dollar loan-to-deposit ratio increased to 72.31 percent at the end of 2005 from 70.36 percent a year earlier.

Investment

Government bonds accounted for the largest share of depository institutions' total investment at 53.00 percent in 2005, up from 49.55 percent a year ago, due mainly to the Department of Savings and Remittances of the Chunghwa Post Co.'s oversized purchase of government bonds. Corporate bonds, second to government bonds in total investment shares, leaped to 12.54 percent from 6.99 percent a year earlier as banks upsized purchases to reduce excess liquidity. Commercial paper, in contrast, dropped to 9.93 percent from 12.49 percent due to a cutback in commercial paper outstanding.

Increasing Share of Intermediate Financing

The total amount of funds raised during the year by the non-financial sector, comprising enterprises, households, and the government, decreased from the previous year's NT\$2,319.2 billion to NT\$1,962.4 billion. The share of market financing to total funds raised decreased from

Intermediate Financing vs. Market Financing*

Unit: NT\$ Billion

Year	Total Funds Raised (3)=(1)+(2)	Intermediate Financing(1)				Market Financing(2)	
		Amount			Share (1)/(3)(%)	Amount	Share (2)/(3)(%)
			Loans	Investments			
1996	1,625.9	1,372.6	721.4	651.2	84.42	253.3	15.58
1997	2,278.0	1,670.2	1,548.0	122.2	73.32	607.8	26.68
1998	1,935.4	1,404.4	886.5	517.9	72.56	531.0	27.44
1999	1,289.1	1,041.3	954.0	87.3	80.78	247.8	19.22
2000	1,377.1	1,203.2	1,053.2	150.0	87.37	173.9	12.63
2001	665.2	594.5	200.6	393.9	89.38	70.7	10.62
2002	807.5	424.8	71.7	353.1	52.61	382.7	47.39
2003	1,677.1	716.0	711.5	4.5	42.69	961.1	57.31
2004	2,319.2	1,824.6	1,578.4	246.2	78.67	494.6	21.33
2005	1,962.4	1,768.8	1,447.1	321.7	90.14	193.6	9.86

Notes: * Measured in terms of flow data.

(1) Refers to loans and investments made by depository institutions, investment and trust companies, and life insurance companies, after taking account of their reclassifying of non-accrual loans and bad loans written-offs.

(2) Refers to the total amount of new issues of various marketable securities, including government bonds, corporate bonds and stocks, offshore bonds and depository receipts, and short-term bills and asset-backed securities directly held by the non-financial sectors.

Source: *Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.*

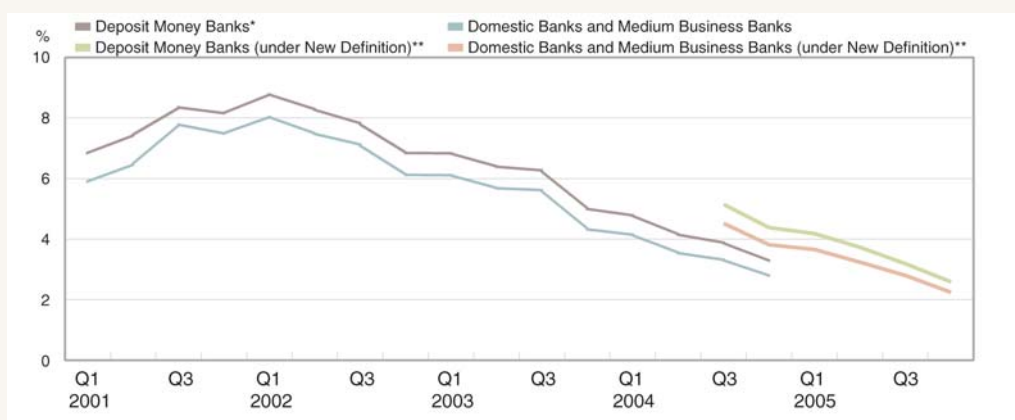
21.33 percent to 9.86 percent as the growth of offshore bonds and government bonds shrunk and short-term securities and corporate bonds outstanding diminished. Conversely, the share of intermediate financing, that is, those raised from financial institutions including depository institutions, investment and trust companies, and life insurance companies, rose from 78.67 percent in 2004 to 90.14 percent in 2005.

Substantial Decline in the Non-Performing Loan Ratio

Local banks' effort in speeding up the disposal of non-performing loans (NPLs) has led to a significant decline in the total value of NPLs. In 2005, the book value of accumulated NPLs sold recorded a remarkable increase of \$173.6 billion.

In addition to the decline in the value of NPLs, banks' effort in writing off bad loans with earnings despite of the adoption of a new definition of NPLs has led to a substantial drop in NPL ratios. Beginning in July 2005, the definition of NPLs was modified to include NPLs under the old definition plus a large portion of loans under surveillance. Those not included are restructured loans that satisfy special conditions. Estimates reported using the new definition showed a decline of the average NPL ratio of deposit money banks. It reported 2.59 percent at year-end 2005, a sharp decline from the 4.38 percent recorded a year earlier. During this period, the corresponding NPL ratio for domestic banks and medium business banks combined (including their offshore banking units and overseas branches) dropped from 3.82 percent at

Non-performing Loan Ratios of the Banking Sector



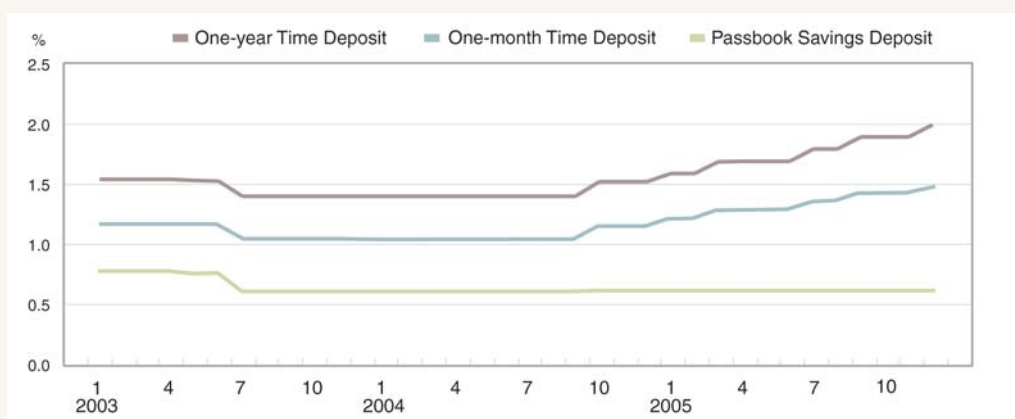
Notes: * Including domestic banks, medium business banks, foreign banks, credit cooperatives associations and credit departments of farmers' and fishermen's associations.
 ** Including loans under surveillance.
 Source: Department of Financial Inspection, the Central Bank of China.

year-end 2004 to 2.24 percent at year-end 2005.

Increase in Bank Interest Rates

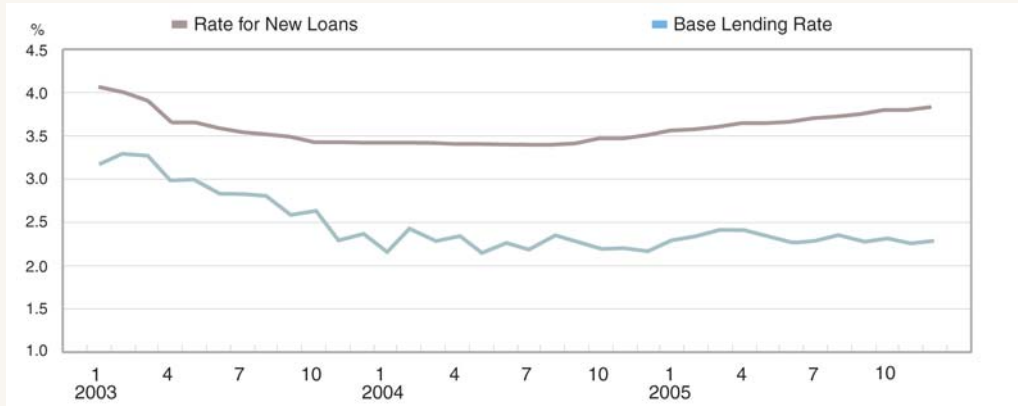
The average monthly interest rate posted by the five major domestic banks grew steadily throughout 2005 owing to increases in the central bank discount rate. Breaking these rates down by duration of deposits, rates for one-month and one-year time deposits moved upward to 1.50 percent and 1.99 percent by the end of 2005, respectively, from 1.15 percent and 1.52

The Average Deposit Rates of the Five Major Domestic Banks*



Note: * The five major domestic banks are the Bank of Taiwan, the Taiwan Cooperative Bank, the First Commercial Bank, the Hua Nan Commercial Bank and the Chang Hwa Commercial Bank.
 Source: Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.

The Average Lending Rate of the Five Major Domestic Banks*



Note: * The five major domestic banks are the Bank of Taiwan, the Taiwan Cooperative Bank, the First Commercial Bank, the Hua Nan Commercial Bank and the Chang Hwa Commercial Bank.

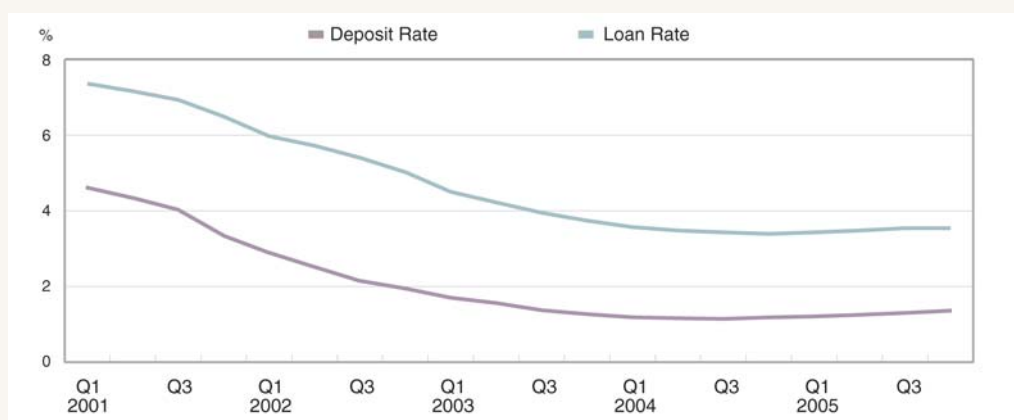
Source: *Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.*

percent at the end of 2004. Furthermore, the average base-lending rate rose to 3.85 percent from 3.52 percent.

With the baselending rate climbing, the weighted average rate for new loans employed by the five major domestic banks rose to 2.41 percent in March 2005 from 2.16 percent in December 2004. From March onwards, the rate for new loans fluctuated in a narrow range between 2.25 percent and 2.41 percent, regardless of the persistent rise in the base lending rate. This was mainly due to the extension of low interest rate loans to the government and enterprises with good credit records, and mortgages contracted where preferential rates were applied during the initial periods of the loans. On the whole, the weighted average lending rate merely increased by 0.07 of a percentage point, from 2.24 percent in 2004 to 2.31 percent in 2005. Not counting government loans, the rate was 2.34 percent for 2005, the same as that of 2004.

The weighted average rate of deposits and loans of domestic banks increased gradually throughout the year. During the fourth quarter of 2005, the weighted average rate for deposits and lending rose to 1.36 percent and 3.54 percent from that of 1.18 percent and 3.39 percent, respectively, in the fourth quarter of 2004. For 2005, the weighted average rate for deposits and lending were 1.28 percent and 3.50 percent, higher than the 1.17 percent and 3.47 percent recorded in 2004. The increase in the lending rate was greater than the increase in the deposit rate for the first three quarters of 2005. The interest rate differential for lending expanded from 2.22 percent in the first quarter to 2.24 percent in the third quarter. Nevertheless, this spread

The Weighted Average Interest Rates of Domestic Banks



Source: *Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.*

plunged to a historical low of 2.18 percent in the fourth quarter as banks cutback extensions of high interest consumer loans such as cash card loans.

A Shrinkage in Profitability

The profitability of banks shrunk significantly during 2005. The combined pre-tax earnings of all depository institutions fell by NT\$76.5 billion to NT\$116.5 billion. Of this amount, the pre-tax earnings of domestic banks and medium business banks combined decreased by NT\$76.6 billion to NT\$78.7 billion. This was primarily attributed to banks' sizable provisions for bad loans incurred from credit and cash card defaults and an increase in business and administrative costs. The pre-tax profits of foreign banks dropped by NT\$2.7 billion, mainly due to a rise in business and administrative costs. As for credit cooperative associations and the credit

Profitability of Depository Institutions by Type

Unit: NT\$ Billion

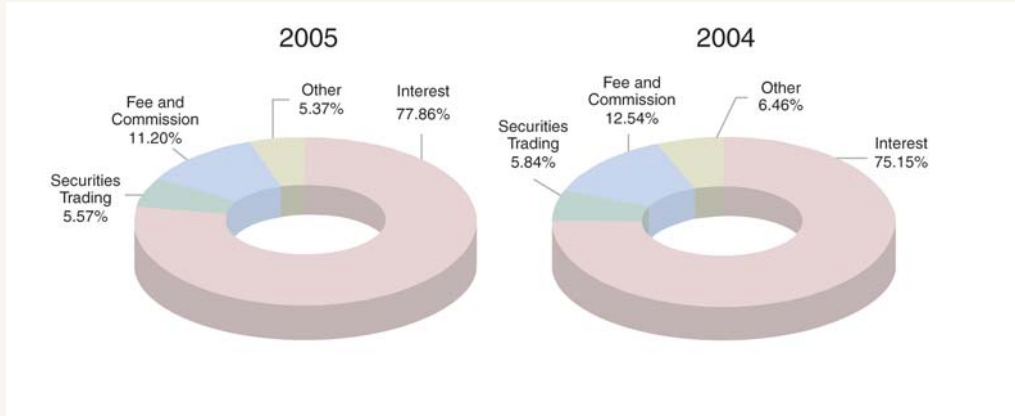
	Profit before Tax			Return on Assets (%)*			Return on Equity (%)**		
	2005	2004	Annual Change	2005	2004	Annual Change	2005	2004	Annual Change
Domestic Banks and Medium Business Banks	78.7	155.3	-76.6	0.29	0.61	-0.32	4.55	9.79	-5.24
Foreign Banks	20.1	22.8	-2.7	1.10	1.31	-0.21	37.88	37.45	0.43
Credit Cooperative Associations	1.5	1.2	0.3	0.23	0.17	0.06	3.75	2.87	0.88
Credit Departments of Farmers' and Fishermen's Associations	2.9	2.1	0.8	0.19	0.15	0.04	3.48	2.77	0.71
Department of Savings and Remittances Chunghwa Post Co.	13.3	11.6	1.7	0.35	0.33	0.02	24.90	22.88	2.02
Total Depository Institutions	116.5	193.0	-76.5	0.34	0.59	-0.25	5.95	10.62	-4.67

Notes: * Return on Assets = Profit before Tax / Total Assets

** Return on Equity = Profit before Tax / Net Worth

Source: *Department of Financial Inspection, the Central Bank of China.*

Composition of Operating Income of Domestic Banks and Medium Business Banks



Source: Department of Financial Inspection, the Central Bank of China.

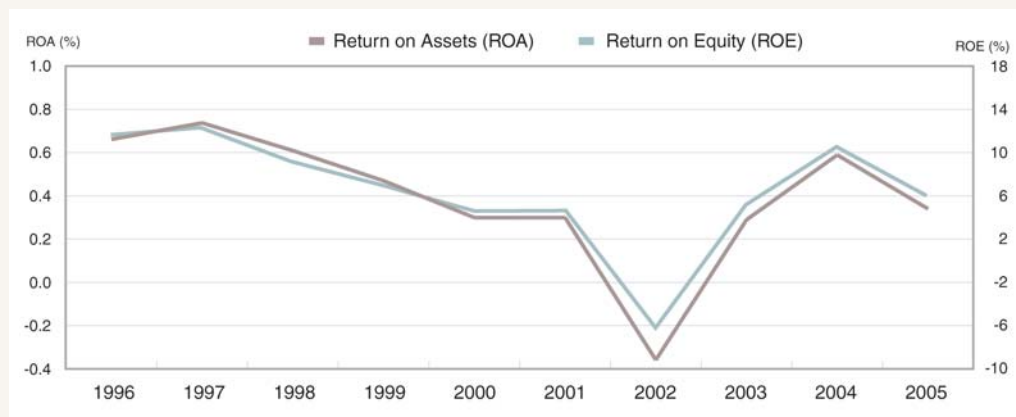
departments of farmers' and fishermen's associations, pre-tax earnings rose as banks' provisions for bad loans dwindled. In addition, the pre-tax profit of the Department of Savings and Remittances of the Chunghwa Post Co. climbed, owing to an upsurge in interest earned from bonds and dividend income.

In terms of the components of operating income of domestic banks and medium business banks combined, the share of interest income to total operating income rose from the previous year's 75.15 percent to 77.86 percent owing to an increase in banks' interest rates. As for fee and commission income, and earnings from securities trading, the shares dropped from 12.54 percent and 5.84 percent in 2004, respectively, to 11.20 percent and 5.57 percent in 2005.

A Decrease in ROA and ROE

The average return on assets (ROA) and return on equity (ROE) for all depository institutions fell to 0.34 percent and 5.95 percent in 2005, respectively, from 0.59 percent and 10.62 percent a year earlier. Among depository institutions, foreign banks remained ahead in terms of ROAs and ROEs. For 2005 they recorded lower ROAs but higher ROEs, while domestic banks and medium business banks registered both lower ROAs and ROEs than the preceding year. ROAs and ROEs for all other depository institutions surpassed those of the previous year.

The Return on Assets and Equity of Depository Institutions



Source: Department of Financial Inspection, the Central Bank of China.

