

Condition and Performance of Domestic Banks

Third Quarter 2002

Summary of Condition and Performance

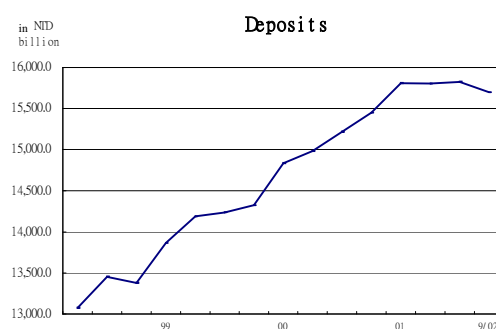
Due to the waning international stock markets, the tensions in the Middle East Asia and the rise of oil price, the major economies did not reveal apparent turn for the better in the third quarter this year. Taiwan also experienced the similar impact. However benefited from the increasing export to the Mainland China, Taiwan's economic performance still showed stable growth. As for the local stock market, influenced by the shutdown of the west ports of U.S.A, the mounting tensions between America and Iraq and the net foreign capital outflows, showed a declining trend during this quarter. Market interest rates were staying at a low level, while the banking systems were flooded with liquidity.

Net income before tax (NIBT), return on assets (ROA) and return on equity (ROE) all declined compared to the same period in 2001. The decrease in profits was mainly owing to the disposal of bad loans. However the NPL ratio had been improved from 7.79% at the end of September 2001 to 7.12%. The ratio of loans under surveillance to total loans was also downward from 3.74% to 3.05%. The cover ratio (loan loss reserves / NPLs) turned upward to 23.70% from 21.32% at end-September, 2001. The assets of domestic banks grew 0.88% comparing with the third quarter of 2001, while the numbers of domestic banks fell from 53 to 52.

Key Trends

Deposits

As of September 30, 2002 total deposits of domestic banks were NT\$15,697.5 billion. The figure decreased by NT\$126.8 billion from NT\$15,824.3 billion or 0.80% at end-June, 2002. Owing to the decreases in net foreign exchange proceeds from external trade and the successive increase in net foreign capital outflows in this quarter, the annual growth rate only stood at 0.39% on September 30, 2002.



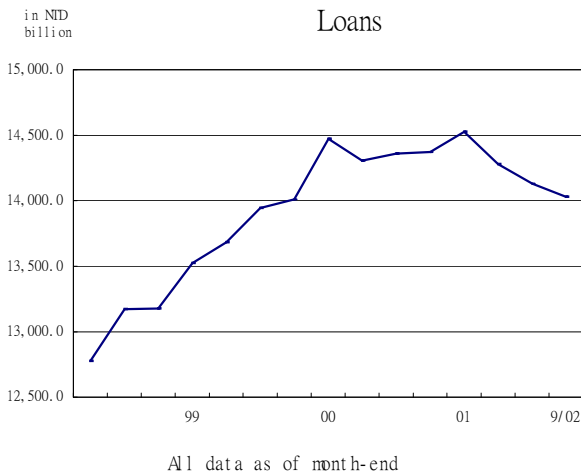
All data as of month-

Loans

As of September 30, 2002 the total outstanding loans was NT\$14,029.6 billion. It decreased by NT\$100.2 billion or 0.71% since the end of preceding quarter. In addition to a lack of demand for credit, it was mainly due to banks' selling loans to assets management companies (AMCs) or writing-off bad loans. It showed an annual growth rate of -0.86% at the end-September, 2002.

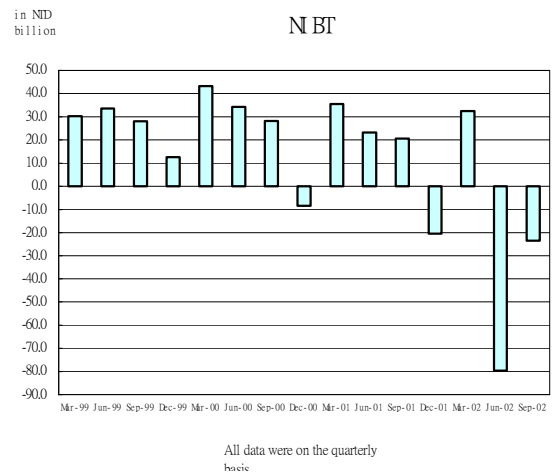
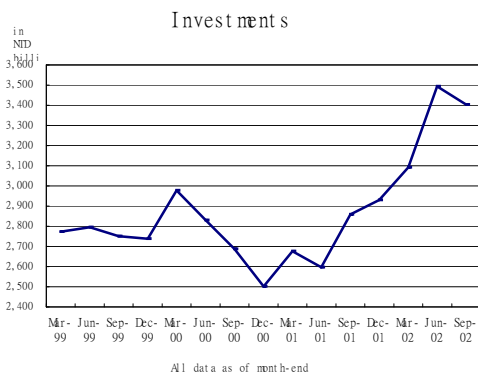
Earnings

Consolidated net income before tax (NIBT) in the third quarter of 2002 was NT\$-23.5 billion. The loss was mainly attributed to the disposal of bad loans largely. Due to the limitation of the Company Law of R.O.C, the legal reserve and the capital reserve shall not be used except for making up deficiencies of the bank. In this quarter, many banks continued to write off bad loans until their earnings became negative in order to use the reserves to improve their asset quality.



Investments

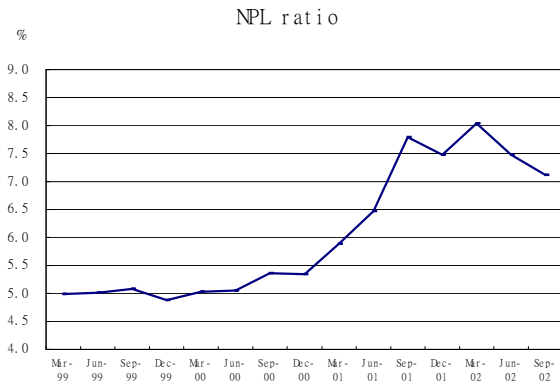
The outstanding of investments as of end-September, 2002 amounted to NT\$3,402.4 billion. The figure decreased by NT\$90.5 billion or 2.59% since the end of preceding quarter. However, the annual growth rate of investment still moved upward, standing at 1.76% compared with end-September, 2001.



Non-Performing Loan Ratio

The average ratio of non-performing loan stood at 7.12% as of September 30, 2002. Compared to the end of preceding quarter, the ratio decreased 0.36 percentage points. The decrease of the outstanding of NPLs was attributed to:

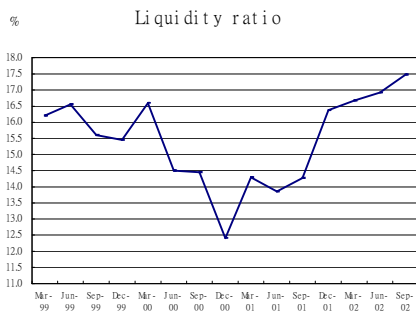
Banks wrote off bad loans in large amount
 The repayments of borrowers and the disposal of banks' collaterals increased.
 The NPLs sold to asset management companies increased.



All data as of month-end

Liquidity Ratio

The liquidity ratios of domestic banks, except Chung Shing bank, were over the statutory minimum ratio (7%) in September 2002. The average liquidity ratio was 17.48%. It rose by 3.21 percentage points from the end-September, 2001.



All data were the average of the last month of quarters

