

## Condition and Performance of Domestic Banks

Third Quarter 2004

### ■ Summary of Condition and Performance

The domestic economic recovery was strongly fostered in the beginning of 2004, reaching the peak in the second quarter. Along with the climbing oil prices and looming signs of inflation, the global economic recovery seemingly leveled off. The domestic economy grew in the third quarter at its relatively slow pace. However, the economic growth rate still stood at 5.27 percent this quarter, rising by 1.1 percentage points compared with 4.17 percent at the third quarter of 2003.

The non-performing loan ratio of domestic banks went down continuously this quarter, falling to 3.31 percent, whereas the amount of NPLs dropped to NT\$504.9 billion from NT\$535.6 billion at the end of previous quarter. The total loans under surveillance also declined by NT\$ 20.5 billion to NT\$ 184.0 billion. As a result, the ratio of loans under surveillance was 1.21 percent. The delinquency ratio fell down 0.37 percentage points to 4.52 percent from 4.89 percent at the end of preceding quarter. The loan loss provision coverage ratio also increased to 42.72 percent at the end of September 2004 from 39.50 percent as of June 30, 2004. Generally speaking, the banking sector's financial strength is bolstering through the endeavor to clean up the non-performing loans and more proactive loan management. Most of the domestic banks have a stabilizing financial profile in line with the wider economic stability.

### ■ Key Trend

From January to September of 2004, the net income before tax surged sharply compared to the same period of 2003. The major income components are tabulated as follows.

#### Major income components

	NT\$ billion		
	Jan.-Sep 2003	Jan.-Sep 2004	% Change
<b>Revenues</b>			
Net interest income	275.4	276.9	0.5
Real gains of securities	65.1	37.7	-27.4
Noninterest income	74.6	122.8	48.2
<b>Expenses</b>			
Provisions	155.8	109.3	-29.8
Noninterest expense	203.6	231.4	13.6
<b>Net income</b>	<b>87.8</b>	<b>125.7</b>	<b>43.2</b>

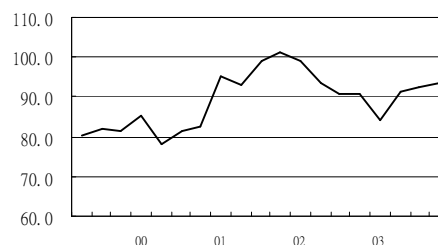
#### Net Interest Margin (NIM) increased slightly

The lending rates remained low through January to September 2004. The NIM during this quarter was NT\$93.4 billion, increasing by NT\$1.1 billion ( 1.19 percent ) compared to the preceding quarter. ( chart 1 )

chart 1

Net Interest Margin

in NT\$ billion



All data were on the quarter base

### ***Deposits increased slightly***

Total deposits as of September 30, 2004 were NT\$17,949.1 billion, a NT\$298.5 billion (1.69 percent) increase compared to the preceding quarter. The outstanding deposit balance showed a slight upward trend during this quarter, driven largely by export growth. The annual growth rate of total deposits at end-September 2004 was 9.03 percent. (Chart 2)

### ***Loans went up continuously***

The total loans were NT\$ 15,237.4 billion at the end-September of 2004, increasing by NT\$125.9 billion (0.83 percent) compared to preceding quarter mainly due to bank loans to consumers and private enterprises. The annual growth rate of end-September of 2004 was 8.86 percent, rising from 2.63 percent at the end-September of 2003. (Chart 3)

### ***Investments went down slightly***

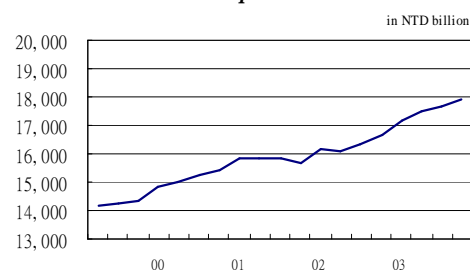
The total investments amounted to NT\$4,174.8 billion, decreasing by NT\$231.5 billion (5.25 percent) compared to the preceding quarter, largely due to the decrease of CDs issued by the Central Bank of China. Nevertheless, the annual growth rate of investment still stood at 7.06 percent at the end of this quarter. (Chart 4)

### **■ *Asset quality improved further***

The average ratio of non-performing loans was 3.31% . The NPLs and loans under surveillance amounted to NT\$688.9 billion, accounting for 4.52 % of total loans. The NPL ratio and delinquency ratio dropped by 2.31 percentage points and 1.04 percentage points, respectively, compared with the end-September of 2003. (Chart 5) In brief, writing off and selling problem assets to asset management companies has been a positive move for domestic banks.

chart 2

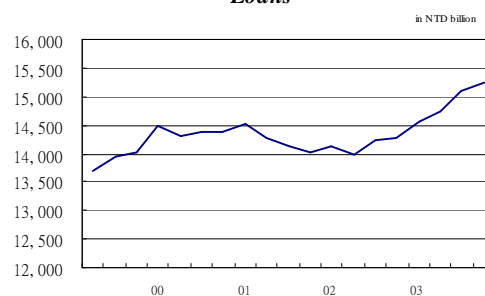
### ***Deposits***



All data as of month-end

chart 3

### ***Loans***



All data as of month-end

chart 4

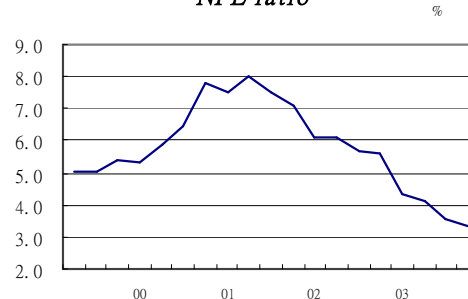
### ***Investments***



All data as of month-end

chart 5

### ***NPL ratio***



all data as of month-end

### ■ *Provisions to loans ratio went up slightly*

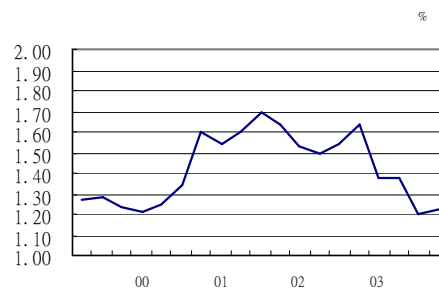
The provision-to-loan ratio was 1.16%, down from 1.64% at the end-September of 2003. The ratio of provisions to loans was upward slightly compared to the preceding quarter mainly owing to the increase of outstanding of loan loss provisions, contributing to enhance the banks' soundness. (Chart 6)

### ■ *Liquidity Ratio descended*

All the liquidity ratios of domestic banks were over the statutory minimum ratio (7 percent) in September 2004. The average liquidity ratio was 17.95 percent, increasing by 1.29 percentage points from 16.66 percent of September 2003. (Chart 7) .

chart 6

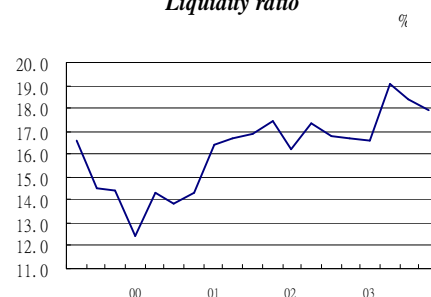
*Ratio of provisions to loans*



All data as of month-end

chart 7

*Liquidity ratio*



All data were in terms of the average of the last month of quarters.

---