

Condition and Performance of Domestic Banks

Second Quarter 2004

● Summary of Condition and Performance

The domestic economy had been strengthening since the first quarter, reflecting the release of pent-up domestic demand and pick-up in external demand. The ongoing economic recovery was continuously fostered by the external demand in the second quarter. Along with the economic upturn, the economic growth rate in the second quarter was preliminarily estimated to bounce back at 7.67 percent compared with -0.20 percent in the same quarter of 2003.

The asset quality of domestic banking sector had been improving steadily. The average ratio of non-performing loans (NPLs) to total loans went down, dropped to 3.54 percent from 5.68 percent at the end of the second quarter of 2003. The ratio of loans under surveillance was 1.35 percent. The delinquency ratio fell to 4.89 percent from 7.97 percent at the same time of 2003. Besides, the average provision coverage ratio increased to 39.50 percent, up from 31.77 percent at the end of June, 2003. It was likely to continue increasing with further NPLs' reductions by the banks' write-off endeavor. Due to the strong economic recovery, the annual growth rate of deposits, loans and investments went up dramatically.

● Key Trend

From January to June of 2004, the net income before tax went up steadily compared to the same period of 2003. The major income components are tabulated as follows.

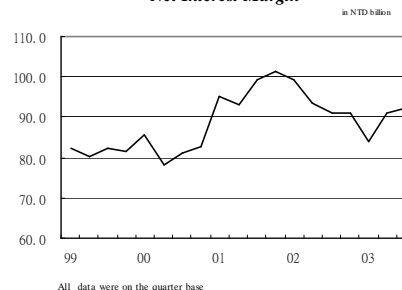
Major income components

	NT\$ billion		
	Jan.-Jun. 2003	Jan.-Jun. 2004	% Change
Revenues			
Net interest income	184.4	183.4	-0.5
Real gains of securities	42.6	23.8	-44.1
Noninterest income	47.5	78.9	66.1
Expenses			
Provisions	90.3	66.4	-26.5
Noninterest expense	133.6	152.5	14.1
Net income	73.9	84.5	14.3

Net Interest Margin (NIM) increased slightly

The interest rates still remained low from April to June 2004. The NIM during this quarter was NT\$92.3 billion, increasing by NT\$1.2 billion (1.3 percent) compared to the preceding quarter. (chart 1)

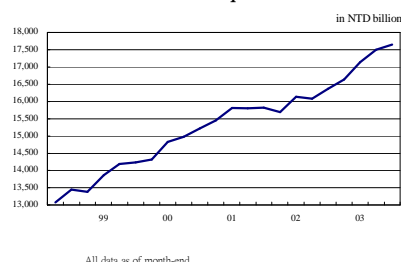
chart 1 Net Interest Margin



Deposits rose moderately

Total deposits as of June 30, 2004 were NT\$17,650.6 billion, a NT\$156.3 billion (0.9 percent) increase compared to the preceding quarter. Owing to the improvement in local investment prospect, the net foreign capital inflows and the increase of international trade surplus played the pick-up in deposit amounts. The annual growth rate of total deposits at the end-June 2004 was 9.74 percent. (Chart 2)

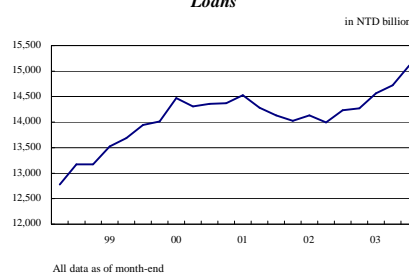
chart 2 **Deposits**



Loans grew steadily

The total loans were NT\$ 15,111.5 billion at the end-June of 2004, increasing by NT\$386.5 billion (2.62 percent) compared to preceding quarter. The annual growth rate of the end-June of 2004 was 9.00 percent, rising dramatically from 1.15 percent at the end-June of 2003. (Chart 3) The private enterprises had been increasing investment against a background of strengthening external demand, contributing to a bounce-back in loan growth.

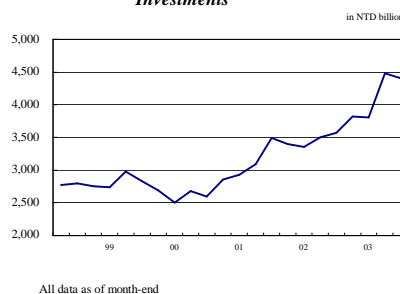
chart 3 **Loans**



Investments went up dramatically compared to the same quarter of 2003

Owing to the strong recovery, the total investments as of June 30, 2004 amounted to NT\$4,406.4 billion, increasing by NT\$832.1 billion (23.27 percent) compared to the second quarter in 2003. The annual growth rate of investment went up dramatically with an average of 11.23 percent at the end of this quarter. (Chart 4)

chart 4 **Investments**



● *Asset quality improved further*

The average ratio of non-performing loans was 3.54% . The asset quality had improved steadily. The NPL ratio is likely to further decline. The NPL ratio and delinquency ratio dropped by 0.6 percentage points and 0.83 percentage points, respectively, compared with the preceding quarter. With the banking business being more complicated and diversified the efforts are vital to further strengthen risk management. (Chart 5)

chart 5 **NPL ratio**

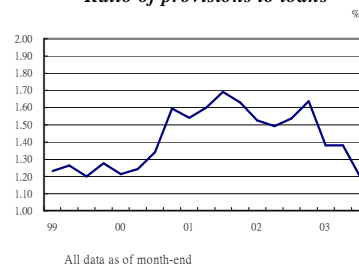


- ***Provisions to loans ratio decreasing slightly***

The provisions to loans ratio was 1.20%, down from 1.38%(revised) at the preceding quarter. The provisions to loans ratio showed downward due to the loan loss provisions outstanding decreasing by 10.79% and the loans outstanding increasing by 2.62%. (Chart 6)

chart 6

Ratio of provisions to loans

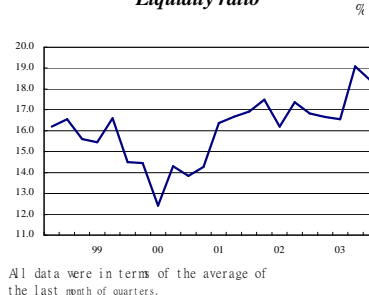


- ***Liquidity Ratio descending***

All the liquidity ratios of domestic banks were over the statutory minimum ratio (7 percent) in June 2004. The average liquidity ratio was 18.40 percent, decreasing by 0.68 percentage points from 19.08 percent as of March 2004. (Chart 7)

chart 7

Liquidity ratio



- ***Average Capital Adequacy Ratio level off***

The average BIS capital adequacy ratio stood at 10.01% as of the end-June of 2004, a slight decrease from the end-December of 2003. The decrease was mainly with the increase in risk-weighted assets from the expansion in consumer loans. (Chart 8)

chart 8

Capital Adequacy Ratio

