

Condition and Performance of Domestic Banks

First Quarter 2004

■ *Summary of Condition and Performance*

In the first quarter of 2004, along with the recovery in global economic condition, external trade showed a strong growth, which offered numerous incentives for the private sector investments. Furthermore, the public construction expansions and public services continually affected the employment expansion plan, private sector consumption also continued to increase. The economic growth rate in the first quarter of 2004 stood at 6.28 percent, exceeding the 3.53 percent in the first quarter of 2003.

As for the banking system, the asset quality of domestic banking sector has been improving. The average ratio of non-performing loans (NPLs) to total loans went down steadily during this quarter, falling to 4.14 percent, whereas the amount of NPLs dropped to NT\$609.3 billion from NT\$854.9 billion at the first quarter of 2003. The total problem loans including surveillance loans amounted to NT\$841.6 billion, and the delinquency ratio was 5.72%. The amount and ratio of problem loans dropped by NT\$362.7 billion or 2.88 percentage points, respectively, compared to the same quarter of the previous year. As a consequence, there have been 36 banks reaching the required target of NPL ratio below 5%. Although, with the banking business becoming more complicated and diversified, domestic banks still face intensifying competition and a more dynamic operating environment. However, benefited from the economic recovery, the annual growth rate of deposits, loans and investments went up sharply compared to the first quarter of 2003.

■ *Key Trend*

From January to March 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.-Mar 2003 | Jan.-Mar 2004 | % Change |
| <i>Revenues</i> | | | |
| Net interest income | 93.6 | 91.1 | -2.7 |
| Real gains of securities | 19.0 | 16.2 | -14.7 |
| Noninterest income | 22.1 | 33.8 | 52.9 |
| <i>Expenses</i> | | | |
| Provisions | 41.5 | 33.0 | -20.5 |
| Noninterest expense | 65.5 | 73.0 | 11.5 |
| <i>Net income</i> | 38.8 | 49.1 | 26.5 |

Net Interest Margin (NIM) increased slightly

The interest rates still remained low through January to March 2004. The NIM during this period was NT\$91.1 billion, increasing by NT\$7 billion (8.33 percent) compared to the preceding quarter. (*chart 1*)

chart 1 *Net Interest Margin*



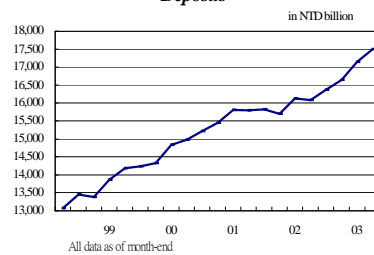
All data were on the quarter base

Deposits rose moderately

Total deposits as of March 31, 2004 were NT\$17,494.3 billion, a NT\$354.9 billion (2.07 percent) increase compared to the preceding quarter. Even though the interest rate remained at low level, affected by the net foreign capital inflows and the increase of trade surplus, the deposit amounts kept on an upward trend. The annual growth rate of total deposits at end-March 2004 was 9.72 percent. (Chart 2)

chart 2

Deposits

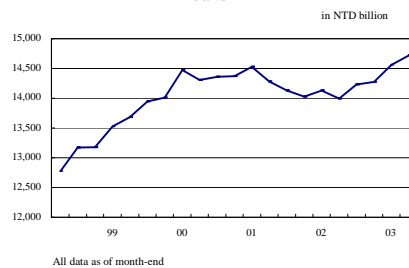


Loans grew slightly

The total loans were NT\$ 14,725.0 billion at the end-March of 2004, increasing by NT\$161.8 billion (1.11 percent) compared to preceding quarter. The annual growth rate of end-March of 2004 was 8.22 percent, rising from -0.66 percent at the end-March of 2003. (Chart 3) The rise of the growth rate was mainly due to the economic recovery resulting in the increase in banks' credit granted to private enterprises.

chart 3

Loans

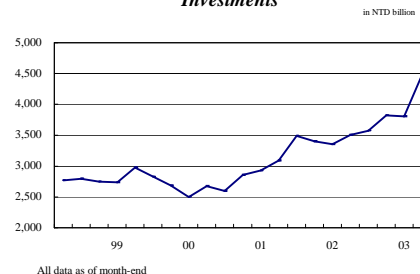


Investments went up sharply

The total investments amounted to NT\$4,480.4 billion, increasing by NT\$672.0 billion (17.64 percent) compared to the preceding quarter. Owing to the strong recovery, the annual growth rate of investment went up sharply with an average of 14.79 percent at the end of this quarter. (Chart 4)

chart 4

Investments

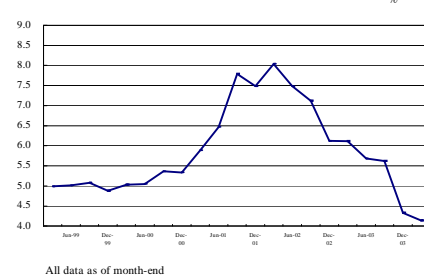


■ *Asset quality improved further*

The average ratio of non-performing loans was 4.14 % . The NPLs and loans under surveillance amounted to NT\$841.6 billion, accounting for 5.72% of total loans. The NPL ratio and delinquency ratio dropped by 0.19 percentage points and 0.36 percentage points, respectively, compared with the end of 2003, showing the banks' aggressive write-offs. (Chart 5)

chart 5

NPL ratio



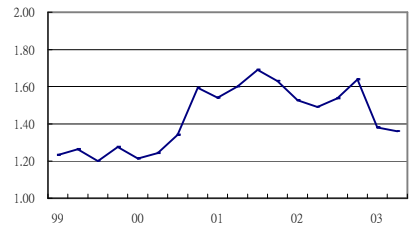
■ **Provisions to loans ratio decreasing slightly**

The provisions to loans ratio was 1.36%, down from 1.38% at the end of 2003. The provisions to loans ratio remained downward compared to the preceding quarter. (Chart 6)

■ **Liquidity Ratio ascending**

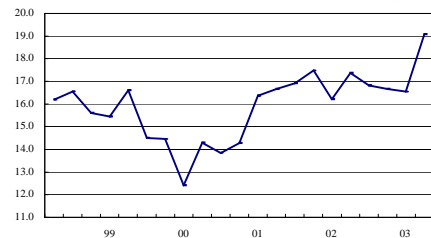
All the liquidity ratios of domestic banks were over the statutory minimum ratio (7 percent) in March 2004. The average liquidity ratio was 19.08 percent, increasing by 2.53 percentage points from 16.55 percent of December 2003. (Chart 7) .

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.
