

Condition and Performance of Domestic Banks

Second Quarter 2003

■ *Summary of Condition and Performance*

From the beginning of this year, domestic economy has been in the process of recovery. However, the domestic consumption, affected by the Severe Acute Respiratory Syndrome (SARS), showed a sharp fall resulting in a minus growth in the second quarter. The economic growth rate turned to be negative(-0.8 percent), falling down from 3.53 percent in the previous quarter. Along with the regional outbreak of SARS being on the wane, the epidemic in Taiwan was also under control quickly. Furthermore, the government sector planned a series of projects to relaunch the investment and domestic demand. The demand for Taiwan's exports continued to grow in this quarter. The economic growth rate in the first half of 2003 still stood at 1.73%.

As for the banking system, the assets quality of domestic banks has continuously been improved due to the writing-off of bad loans and selling NPLs to asset management companies. The average ratio of non-performing loans to total loans was declined to 5.68 percent, whereas the amount of such loans dropped to NT\$808.7 billion from NT\$854.9 billion at the end of first quarter. The total problem loans including surveillance loans amounted to NT\$1,134.0 billion, and the delinquency ratio was 7.97%. The amount and ratio of problem loans dropped by NT\$396.5 billion or 2.86 percentage points, respectively, compared with the same period of the previous year. As a result, there were 33 banks among 52 domestic banks have reached the target of NPL ratio below 5% at the end of 2003. The net income before tax in the first half of 2003 amounted to NT\$ 73.9

billion, an obvious growth from NT\$ -47.3 billion at the same period of 2002. It was mainly attributed to the decrease of setting aside the provisions of NPLs. In this quarter, the annual growth rate of deposits, loans and investments went up slightly compared to the second quarter of 2002.

■ *Key Trend*

From January to June of 2003, the net income before tax grew in large amount compared to the same period of 2002. The major income components are tabulated as follows.

Major income components

	NT\$ billion		
	Jan.-Jun. 2002	Jan.-Jun. 2003	% Change
Revenues			
Net interest income	192.4	184.4	-4.2
Real gains of securities	30.6	42.6	39.2
Noninterest income	38.1	47.5	24.7
Expenses			
Provisions	186.6	90.3	-51.6
Noninterest expense	126.2	133.6	5.9
Net income	-47.3	73.9	-

Net Interest Margin (NIM) squeezed continuously

The interest spreads continued to be squeezed in a declining interest rate situation. The NIM in the second quarter of 2003 was NT\$90.8 billion, decreasing by 2.8 billion (-3.0 percent) compared to the preceding quarter. As a consequence, the annual growth rate was -8.5 percent. (*chart 1*)

Deposits rose moderately

Total deposits as of June 30, 2003 were NT\$16,367.7 billion, a NT\$288.7 billion (1.80 percent) increase compared to the preceding quarter. Although the interest rate remained at low level, affected by the continuous net foreign capital inflows and the increase of net foreign exchange proceeds from the international trade, the deposit amounts kept on an upward trend. The annual growth rate of total deposits at end-June 2003 stood at 2.86 percent. (chart 2)

Loans showed a slow growth

The total loans were NT\$ 14,232.0 billion at the end-June of 2003, slightly increasing by NT\$233.7 billion (1.67 percent) compared to the preceding quarter. The annual growth rate at the end-June of 2003 was 1.15 percent, raised from -1.13 percent at the end of the same quarter in 2002 (chart 3). The rise of the growth rate was mainly due to the increase in margin credit of stock market, as well as the mass promotion of consumer banking business.

Investments increased in second quarter continuously

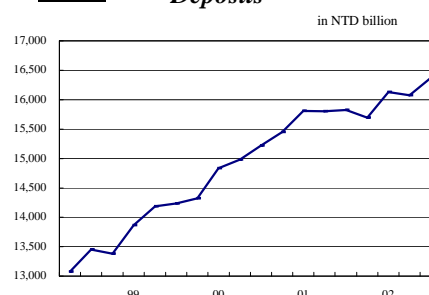
The total outstanding of investments as of end-June, 2003 amounted to NT\$3,574.3 billion, increasing slightly by NT\$68.7 billion (1.96 percent) compared to the preceding quarter. Additionally, the annual growth rate of investment still went upward with an average of 1.82 percent at the end of this quarter. (chart 4)

chart 1 **Net Interest Margin**



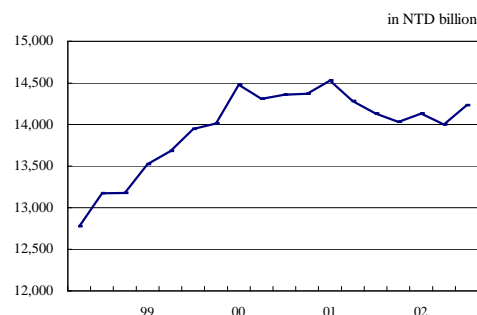
All data were on the quarter base

chart 2 **Deposits**



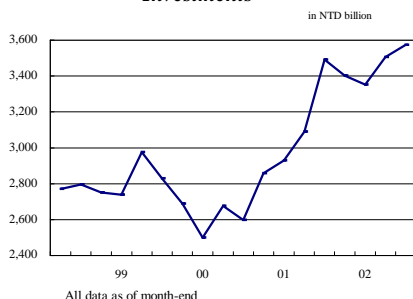
All data as of month-end

chart 3 **Loans**



All data as of month-end

chart 4 Investments



■ Asset quality improved apparently

The average ratio of non-performing loans (NPLs) to total loans stood at 5.68 percent as of June 30, 2003. There were 0.43 percentage points down from 6.11 percent of the preceding quarter-end (chart5). The reasons for the improvement were mainly from the 1.67 percent increase in total loans and the 5.41 percent decrease in the NPLs. The decrease of the NPLs was attributed to:

- Banks sold NPLs to asset management companies;
- Banks wrote off bad loans;
- Banks disposed of collaterals and the borrowers repaid their debts.

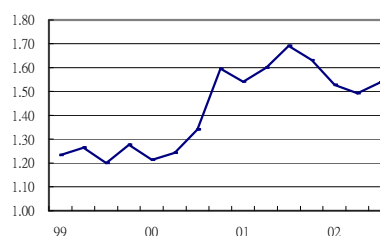
chart 5 NPL ratio



■ Provisions to loans ratio increasing slightly

The provisions to loans ratio was 1.54%, down from 1.69% at the second quarter of 2002 owing to the domestic banks' disposal of NPLs in large amount and the increasing loans outstanding. From the provisions to loans ratio increased compared to the preceding quarter, it showed the banks' prudential policy for their asset quality. (chart 6)

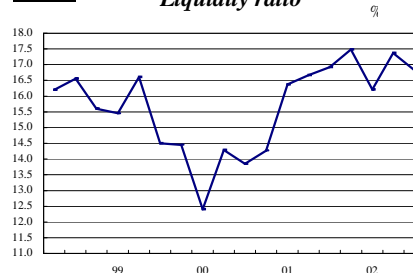
Ratio of provisions to loans



■ Liquidity Ratio descending

All the liquidity ratios of domestic banks were over the statutory minimum ratio (7 percent) in June 2003. The average liquidity ratio was 16.82 percent, decreasing by 0.55 percentage points from 17.37 percent of March, 2002. (chart 7)

chart 7 Liquidity ratio



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

■ *Average Capital Adequacy Ratio downward*

The average BIS capital adequacy ratio stood 10.32% at the end-June of 2003, a slightly decline from the end-December of 2002. This decline occurred was mainly caused by the increase in risk-weighted assets accompanying the expansion in household loans and consumer loans.(chart 8)

chart 8 *Capital Adequacy Ratio*



