

# Condition and Performance of Domestic Banks

## First Quarter 2003

### ■ Summary of Condition and Performance

In the first quarter of 2003, the domestic consumption, affected by the slumping stock market and unfavorable employment rate, had a weak trend. However, the government sector continually adopted a series of relieves measures. All the measures were expected to induce the motive of investment and increase domestic demand. Nevertheless, the economy was benefited from the robust intra-regional trade in Asia which derived Taiwan's exports performing quite well. The economic growth rate in this quarter reached 3.21% higher than 1.20% recorded in the same period of previous year.

To improve the assets quality, domestic banks have made strenuous efforts to dispose bad loans aggressively. The average ratio of non-performing loans to total loans was reduced from 8.04 percent, the highest record for domestic banks at the end of first quarter of 2002, to 6.11 percent. In result, some banks had reached the target of NPL ratio below 5%. The net income before tax in the first quarter of 2003 amounted to NT\$38.8 billion, a growth of 20.1% over the first quarter of 2002. Furthermore, the annual growth rate of deposits and investments in this quarter went up slightly compared to the first quarter of 2002 while the growth rate of loans declined. There was minus annual growth rate for loans, mostly attributed to the disposal of bad loans and bank's conservative loan policies.

### ■ Key Trend

Due to the shrinkage of interest rate spread, the net income before tax during the first quarter grew moderately compared to the same quarter of 2002. The major income components are tabulated as follows.

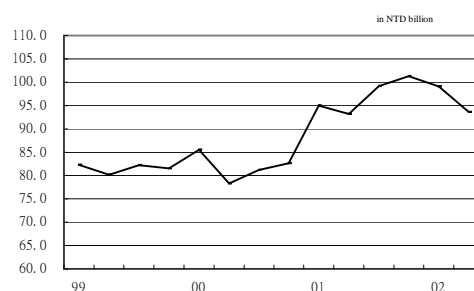
#### Major income components

|                          | NT\$ billion                    |                                 |          |
|--------------------------|---------------------------------|---------------------------------|----------|
|                          | 1 <sup>st</sup> quarter<br>2002 | 1 <sup>st</sup> quarter<br>2003 | % Change |
| <b>Revenues</b>          |                                 |                                 |          |
| Net interest income      | 93.2                            | 93.6                            | 0.4      |
| Real gains of securities | 16.5                            | 19.0                            | 15.2     |
| Noninterest income       | 18.7                            | 22.3                            | 19.3     |
| <b>Expenses</b>          |                                 |                                 |          |
| Provisioning             | 40.5                            | 41.5                            | 2.5      |
| Noninterest expense      | 63.3                            | 65.7                            | 3.8      |
| <b>Net income</b>        | 32.3                            | 38.8                            | 20.1     |

#### Net Interest Margin (NIM) shrank gradually

The loan interest rates continued to stay at a low level due to the abundant funds in the banking system. The spread between the rates of loans and deposits shrank from the third quarter, 2002. The NIM of end-March 2003 was NT\$93.6 billion, decreasing by 5.5 billion (-5.5 percent) compared to the preceding quarter. The annual growth rate only stood at 0.43 percent (chart 1)

chart 1 Net Interest Margin



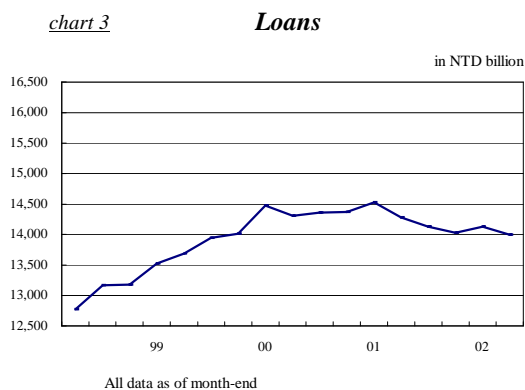
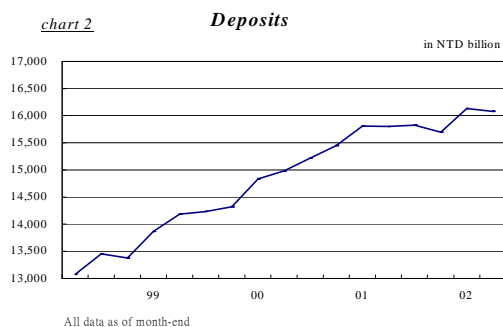
All data were on the quarter base

### *Deposits declined moderately*

Total deposits as of March 31, 2003 were NT\$16,079.0 billion, a NT\$51 billion (-0.31 percent) decrease compared to the preceding quarter. The interest rate remained at low level. The annual growth rate of end-March 2003 stood at 1.15 percent (Chart 2).

### *Loans showed a minus growth*

The total loans were NT\$13,998.3 billion in the first quarter of 2003, slightly decreasing by NT\$132.5 billion (-0.94 percent) compared to the preceding quarter. The slowdown in the growth rate of total loans was mainly owing to the slack stock market, the weak demand in investment and consumption. The annual growth rate at the end-March 2003 was minus 0.66 percent, down from 0.22 percent at the end of the same quarter in 2002 (chart 3).



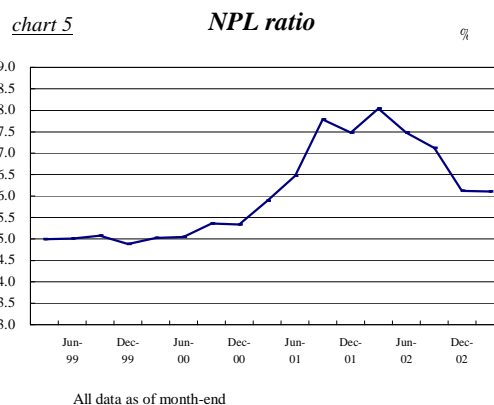
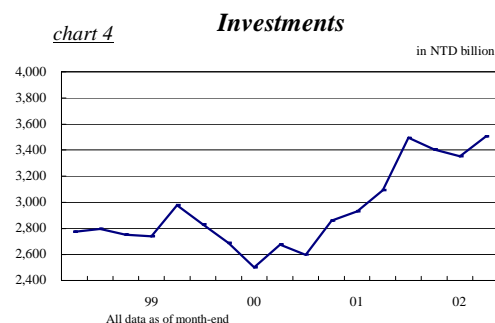
### *Investments declined in fourth quarter*

The total outstanding of investments as of end-March, 2003 amounted to NT\$3,505.6 billion, increasing slightly by NT\$152.1 billion (4.54 percent) compared to the preceding quarter. Additionally, the annual growth rate of investment still went upward with an average of 6.97 percent during this quarter (chart 4).

### ■ *Asset quality improved continually*

The average ratio of non-performing loans (NPLs) to total loans stood at 6.11 percent as of March 31, 2003. There was 0.01 percentage point down from 6.12 percent of the fourth quarter-end in 2002 (chart 5). The reasons for the improvement were mainly from the 0.94 percent decrease in total loans and the 1.09 percent decrease in the NPLs. The decrease of the NPLs was attributed to:

- Writing off bad loans;
- Selling impaired loans to asset management companies;
- Repayment by borrowers.



### ■ *Provisioning to loans ratio declining*

The provisioning to loans ratio continued to decrease from the second quarter of 2002 owing to the domestic banks' disposal of NPLs in large amount and weak profitability (chart 6) . Although provision coverage declined, the asset quality had been improved apparently in this quarter.

### ■ *Liquidity Ratio on the rise slightly*

All the liquidity ratios of domestic banks were over the statutory minimum ratio (7 percent) in March 2003. The average liquidity ratio was 17.37 percent, increasing by 1.16 percentage points from 16.21 percent of December 2002 (chart 7) .

chart6 *Ratio of provisions to loans*

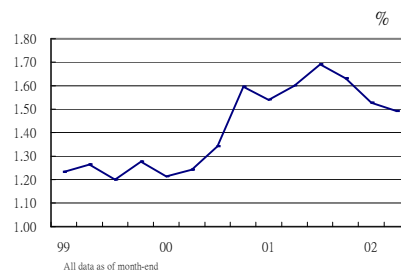
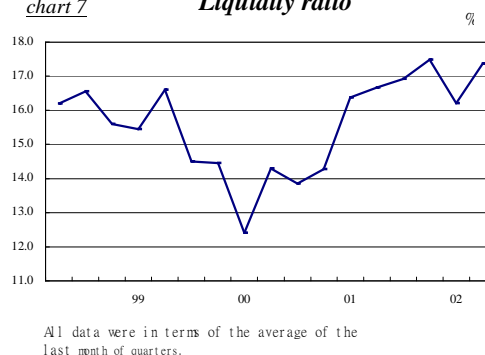


chart 7 *Liquidity ratio*



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