

Condition and Performance of Domestic Banks

Fourth Quarter 2003

■ *Summary of Condition and Performance*

The economic growth rate in Taiwan was 3.24% in 2003, with growth dampened by the outbreak of SARS during the second quarter of the year. The spread of the disease resulted in a sharp drop-off in export growth and domestic consumption. Along with SARS-free in July, the economy has rebounded considerably since then. The rapid recovery was mainly the result from the improvement of domestic pent-up demand and external demand. All the factors included a stronger export growth, the external demand pushing up domestic investment growth, and the public investment inducing the private consumption.

The asset quality of domestic banking sector has 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 lowered to 4.33 percent, whereas the amount of such loans dropped to NT\$630.6 billion from NT\$801.6 billion at the end of the third quarter. The total problem loans including surveillance loans amounted to NT\$885.8 billion, and the total delinquency ratio was 6.08%. The amount and ratio of problem loans dropped by NT\$365.4 billion and 2.77 percentage points, respectively, compared with the end of 2002. As a result, there were 37 banks among 50 domestic banks have reached the target of NPL ratio below 5% at the end of 2003. The net income before tax of 2003 amounted to NT\$ 50.4 billion, an obvious growth from NT\$ -108.9 billion at the year of 2002. There were 8 banks suffering net loss during this year mainly attributed to the increase of setting aside the provisions of NPLs. However, benefited from the recovery of global economy, the annual growth rate of deposits, loans and investments went up strongly compared to the end of 2002.

■ *Key Trend*

The net income before tax this year grew in large amount compared to 2002. The major income components are tabulated as follows.

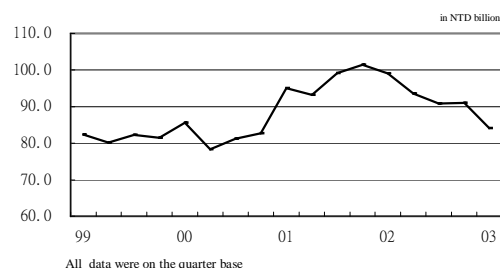
Major income components

	NT\$ billion		
	2002	2003	% Change
Revenues			
Net interest income	392.9	359.5	-8.5
Real gains of securities	60.1	78.6	30.8
Noninterest income	85.8	103.3	20.4
Expenses			
Provisions	354.0	238.1	-32.7
Noninterest expense	272.1	277.6	2.0
Net income	-108.9	50.4	-

Net Interest Margin (NIM) squeezed continuously

The interest spreads were still squeezed in a low interest rate situation. The NIM in the fourth quarter of 2003 was NT\$84.1 billion, decreasing by 6.9 billion (-7.6 percent) compared to preceding quarter. As a consequence, the annual growth rate was -8.5 percent. (chart 1)

chart 1 **Net Interest Margin**



Deposits rose moderately

Total deposits as of December 31, 2003 were NT\$17,139.4 billion, a NT\$500.8 billion (3.01 percent) increase compared to preceding quarter. Although the interest rate of deposits remained at low level, resulted from the net foreign capital inflows and the increase of net foreign exchange proceeds from the international trade, the deposit amounts kept on a steady uptrend. The annual growth rate of total deposits at end-December 2003 stood strongly at 7.0 percent. (chart 2)

Loans went up dramatically

The total loans were NT\$ 14,563.2 billion at the end-December of 2003, slightly increasing by NT\$289.6 billion (2.03 percent) compared to preceding quarter. The annual growth rate at the end-December of 2003 was 6.15 percent, dramatically increased from -0.73 percent at the end-December of 2002 (chart 3). The rise of annual growth rate was mainly owing to the resilience of real estate loans and consumption loans.

Investments decreased slightly

The total investments outstanding as of end-December 2003 amounted to NT\$3,808.4 billion, decreasing slightly by NT\$14.8 billion (-0.39 percent) compared to preceding quarter. (chart 4)

Asset quality met required target

The average ratio of non-performing loans (NPLs) to total loans stood at 4.33 percent as of December 31, 2003, consistent with the required target below 5%. There were 1.29 percentage points down from 5.62 percent of preceding quarter-end (chart 5). The reasons for the improvement were mainly from the 2.03 percent increase in total loans and the 21.33 percent decrease in the NPLs. The decrease of the NPLs was attributed to:

- Bad loans written off;
- NPLs sold to asset management companies;
- Disposal of collaterals and collection of their claims.

chart 2

Deposits

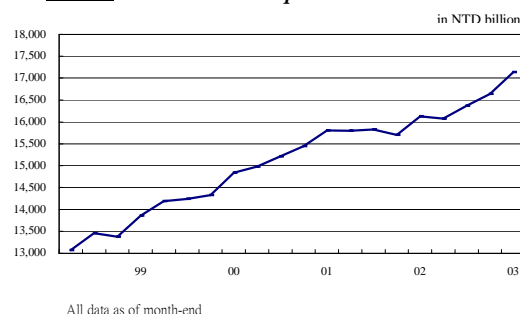


chart 3

Loans

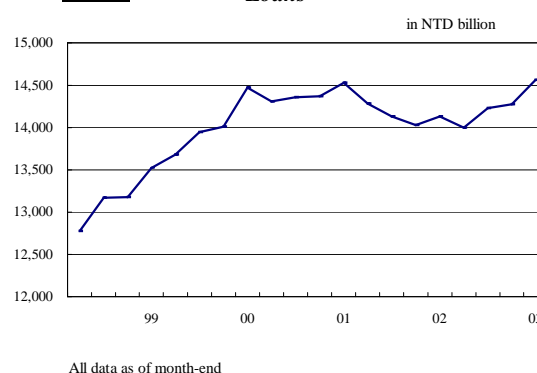
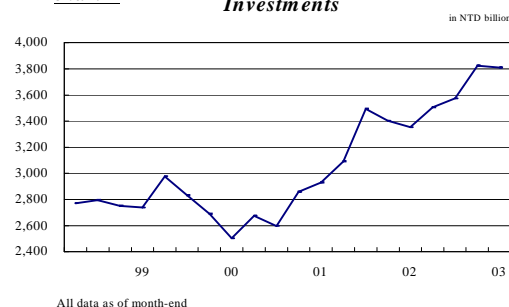


chart 4

Investments



■ *Provisions to loans ratio decreased*

The provisions to loans ratio was 1.38%, down from 1.64% at the third quarter of 2002 owing to the domestic banks' disposal of NPLs in large amount and the increase of loans outstanding. It showed there was no need for domestic banks to set aside large amount provisions for bad debts. (chart 6)

■ *Liquidity ratio descended slightly*

All the liquidity ratios of domestic banks were over the statutory minimum ratio (7 percent) in December 2003. The average liquidity ratio was 16.55 percent, decreasing by 0.11 percentage points from 16.66 percent in June, 2003 (chart 7) .

■ *Average Capital Adequacy Ratio went down*

The average capital adequacy ratio stood at 10.09% at the end-December of 2003, a 0.23 percentage points down from 10.32% at the end-June of 2003 (chart 8) . This decline was mainly caused by the increase in risk-weighted assets accompanying the expansion in mortgage loans and consumer loans. As of the end-December, 2003, there were 45 banks over the minimum requirement of 8 percent, while the remaining 5 banks needed to be improved. (Note: Capital Adequacy Ratios are reported every half year, both end-June and end-December)

chart 5

NPL ratio

%



chart 6

Ratio of provisions to loans

%

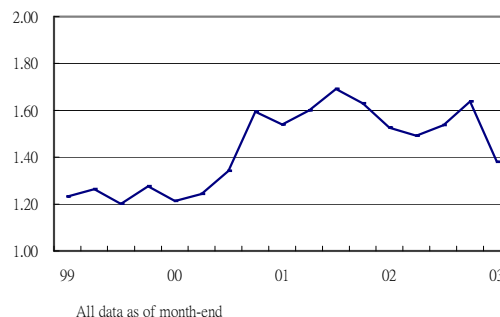


chart 8

Capital Adequacy Ratio

%

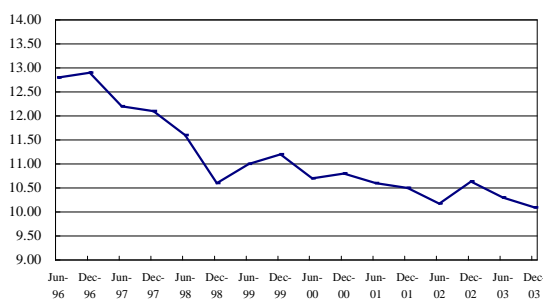
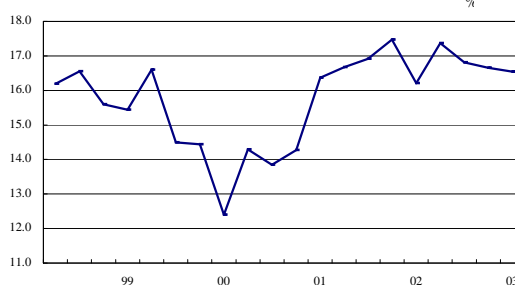


chart 7

Liquidity ratio

%



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

