Condition and Performance of Domestic Banks

Fourth Quarter 2002

■ *Summary of Condition and Performance*

Bolstered by robust intra-regional trade in Asia, Taiwan's exports had performed favorably in 2002. The economic growth rate in the fourth quarter of 2002 rose to 4.22%. The annual growth rate was 3.54%, higher than minus 2.18% of previous year. Prices remained stable during 2002 with CPI of minus 0.2%. Although subject to budget limitation, the government sector continually push public investment. In private sector, the public still took conservative attitude in consumption. Private investment could be rebound under some preferential treatments adopted by the government.

During the fourth quarter of 2002, most domestic banks were much more active in improving their assets quality by writing off or selling bad loans to assets management companies. Therefore, it resulted in substantially decrease in net income before tax in 2002. There were 25 banks suffering net loss during this year, compared to 10 banks in 2001. However, the average ratio of non-performing loans to total loans was going down from 8.04 percent, the highest record for domestic banks at the end of first quarter of 2002, to 6.12 percent. Average capital adequacy ratio also improved slightly, from 10.17 percent at the end of June 2002, up to 10.63 percent at the end of December 2002. Furthermore, the growth rate of deposits and loans in the fourth quarter went up slightly while the growth rate of investments declined. There was minus annual growth rate for loans, mostly for reasons of slowdown of domestic economic recovery and disposal of large amount of loans.

■ *Key Trends*

Deposits rose slowly

Total deposits as of December 31, 2002 were NT$16,130.0 billion, a NT$432.5 billion (2.76 percent) increase through the fourth quarter. Although the interest rates of deposits declined, the public still prefers to keep liquidity in the way of deposit accounts. As a result, the annual growth rate of 2002 stood at 1.72 percent (Chart 1).

chart 1 **Deposits**

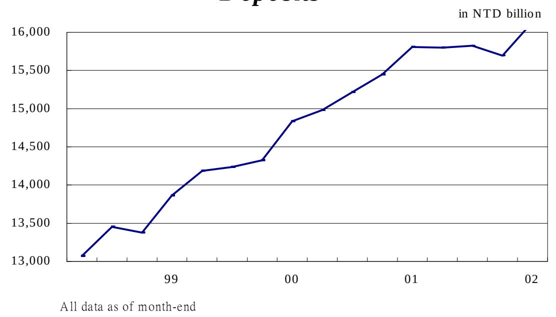
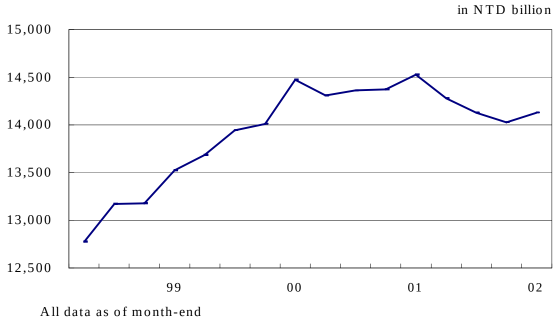


chart 2 **Loans**



Loans increased slightly

The total loans were NT$14,130.7 billion at the end of 2002, slightly increasing by NT$101.2 billion (0.72 percent) compared to preceding quarter, but still below the highest peak in 2001. The slowdown in the growth rate of total loans was mainly caused by selling loans to assets management companies (AMCs) or writing off bad loans, and partly by shrinking of credit demand. The annual growth rate in 2002 was minus 0.73 percent, down from 0.90 percent in 2001 (chart 2).

Investments declined in fourth quarter

The outstanding balance of investments as of end-December, 2002 amounted to NT$3,353.5 billion, decreasing slightly by NT$48.9 billion (1.44%) during the fourth quarter. However, the annual growth rate of investment still went upward with an average of 5.55 percent in 2002 (chart 3).

■ *Profitability still declined modestly*

Consolidated net income before tax (NIBT) in 2002 was minus NT$108.9 billion (chart 4). The loss was mainly attributed to the disposal of bad loans. Due to the limitation of the Company Law of R.O.C, the legal reserve and the capital reserve only can be used to make up deficiencies of the banks. During this quarter, most banks continued to write off bad loans until their earnings became negative in order to use the reserves to improve their asset quality.

■ *Asset quality improved continually*

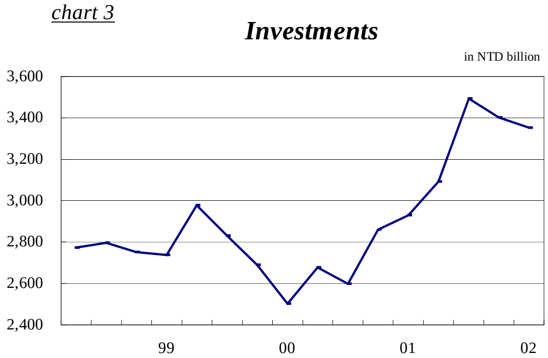
The average ratio of non-performing loan (NPLs) to total loans stood at 6.12 percent as of December 31, 2002, 1 percentage point down from 7.12 percent of the third quarter-end (chart 5). The reasons for the improvement were mainly for the 0.72 percent increase in total loans and the 13.46 percent decrease in the NPLs. The decrease of the NPLs was attributed to:

- Writing off bad loans in large amount;
- Selling NPLs to asset management companies;
- Disposing of collateral and repayment by borrowers.

■ *Average capital Adequacy Ratio slightly improved*

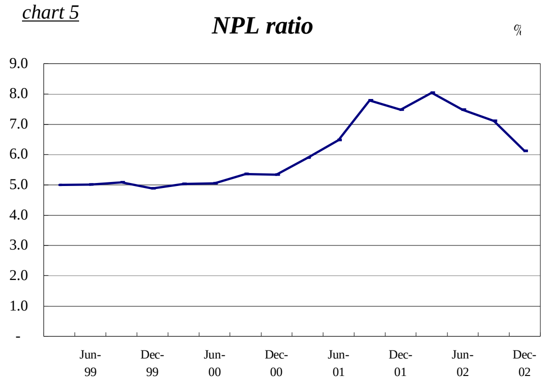
At the end-December, 2002, the average Capital Adequacy Ratio was 10.63 percent, which was 0.46 percentage points upward from the end-June of 2002 (chart

chart 3



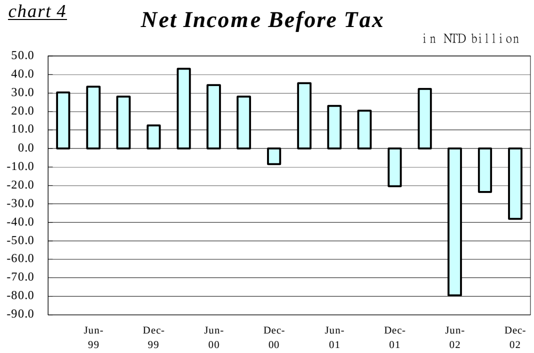
All data as of month-end

chart 5



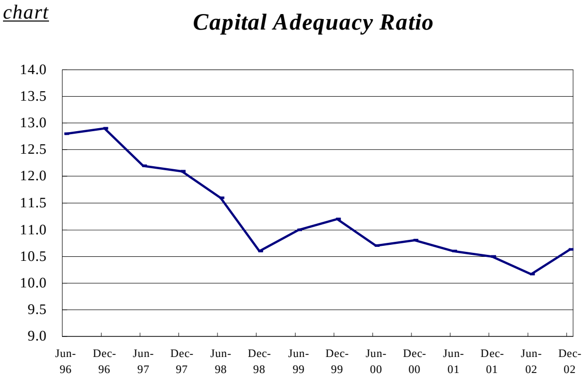
All data as of month-end

chart 4



All data were on the quarterly basis.

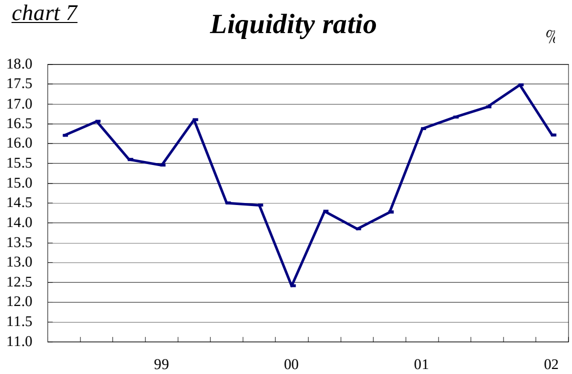
chart



6). The main cause of improvement was subordinated debts issued from banks. As of the end-December, 2002, there were 46 banks over the minimum requirement of 8 percent, in contrast with the remains of 6 banks needed to be improved. (Note: Capital Adequacy Ratios are

chart 7

Liquidity ratio



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

reported every half year, both June and December)

■ *Liquidity Ratio declined slightly*

All the liquidity ratios of domestic banks, except Chung Shing bank, were over the statutory minimum ratio (7 percent) in December 2002. The average liquidity ratio was 16.21 percent, declining by 1.27 percentage points from 17.48 percent of September 2002.