

Condition and Performance of Domestic Banks

Third Quarter 2003

■ *Summary of Condition and Performance*

In the first half of 2003, affected by the March-April Iraq war and Severe Acute Respiratory Syndrome (SARS), the domestic economy contracted, which undermined private consumption. However, along with SARS-free in July, the domestic economy rebounded obviously. The recovery was mainly the increase of domestic pent-up demand and external demand. The private consumption growth rate turned from -1.8 percent in the second quarter to 1.7 percent in the third quarter. Furthermore, the government sector also expanded public investment to stimulate the domestic demand. The increase of external demand brought temptation for the private investment. The growth of domestic and external demand resulted in the economic growth. The economic growth rate in the third quarter of 2003 strongly stood at 4.18 percent, exceeding the 1.73 percent in the previous quarter.

As for the banking system, the assets quality of domestic banks had continued to be improved. The average ratio of non-performing loans (NPLs) to total loans went down steadily during this quarter, falling to 5.62 percent, whereas the amount of NPLs dropped to NT\$801.6 billion from NT\$808.7 billion at the end of second quarter. The total problem loans including surveillance loans amounted to NT\$1,122.9 billion, and the delinquency ratio was 7.87%. The amount and ratio of problem loans dropped by NT\$303.3 billion or 2.3 percentage points, respectively, compared to the same period of the previous year. As a consequence, 32 banks among 52 domestic banks have met the required target of NPL ratio below

5% at the end of 2003. The net income before tax amounted to NT\$ 87.8 billion, a dramatic growth from NT\$ -76.0 billion at the same period of 2002. It was mainly attributed to the decrease of setting aside the provisions of NPLs. Benefited from the economic recovery, the annual growth rate of deposits, loans and investments went up compared to the third quarter of 2002.

■ *Key Trend*

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

Major income components

	NT\$ billion		
	Jan.-Sep. 2002	Jan.-Sep. 2003	% Change
Revenues			
Net interest income	293.8	275.4	-6.26
Real gains of securities	45.6	65.1	42.8
Noninterest income	60.5	74.6	23.3
Expenses			
Provisions	284.9	155.8	-45.3
Noninterest expense	172.7	203.5	17.8
Net income	-76.0	87.8	-

Net Interest Margin (NIM) increased slightly

The interest rate remained low through January to September 2003. The NIM in the third quarter of 2003 was NT\$91.0 billion, increasing slightly by 0.2 billion (0.22 percent) compared to the preceding quarter. (*chart 1*)

Deposits rose moderately

Total deposits as of September 30, 2003 were NT\$16,638.6 billion, a NT\$270.9 billion (1.66 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-September 2003 stood at 4.97 percent. (Chart 2)

Loans grew slightly

The total loans were NT\$ 14,273.6 billion at the end-September of 2003, increasing by NT\$41.6 billion (0.29 percent) compared to the preceding quarter. The annual growth rate at the end-September of 2003 was 2.63 percent, rising from -0.86 percent at the end-September of 2002. (Chart 3) The rise of the growth rate was mainly due to the loans to government agencies.

Investments increased sharply

The total investments amounted to NT\$3,823.2 billion, increasing by NT\$248.9 billion (6.96 percent) compared to the preceding quarter. Owing to the booming economy, the annual growth rate of investment went up sharply with an average of 8.50 percent at the end of this quarter. (Chart 4)

chart 2 Deposits

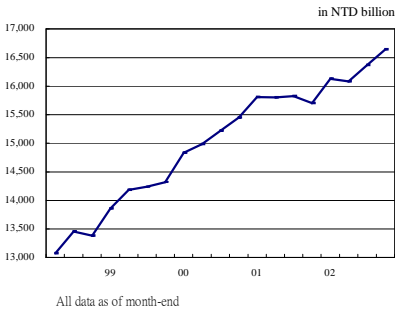


chart 3 Loans

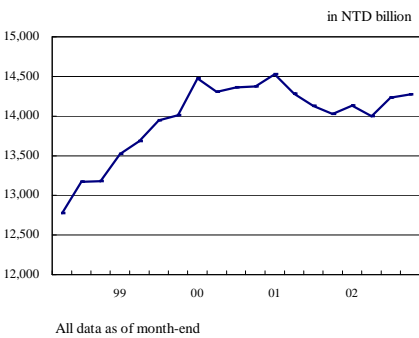


chart 4 Investments

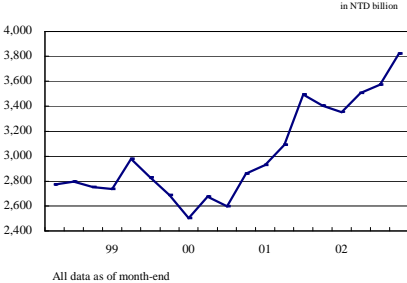
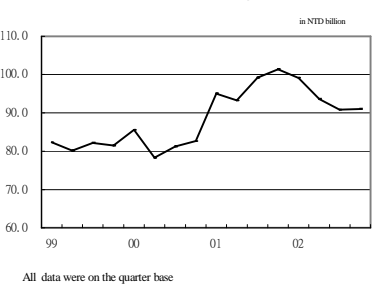


chart 1 Net Interest Margin



■ *Asset quality improved continuously*

The average ratio of non-performing loans (NPLs) to total loans stood at 5.62 percent as of September 30, 2003. There were 0.06 percentage points down from 5.68 percent of the preceding quarter-end (chart5). The reasons for the improvement were mainly from the 0.29 percent increase in total loans and the 0.88 percent decrease in the NPLs. The decrease of the NPLs was attributed to:

- Banks wrote off bad loans;
- Banks disposed of the collaterals and collected their claims;
- The borrowers paid back their debts.

■ *Provisions to loans ratio increasing slightly*

Owing to the domestic banks' disposal of NPLs in large amount and the increasing loans outstanding, the provisions to loans ratio was 1.64%, rising from 1.54% at the second quarter of 2003. The provisions to loans ratio remained upward compared to the preceding quarter, showing the banks' prudential policy for their asset quality. (chart 6)

■ *Liquidity Ratio descending*

All the liquidity ratios of domestic banks were over the statutory minimum ratio (7 percent) in September 2003. The average liquidity ratio was 16.66 percent, decreasing by 0.16 percentage points from 16.82 percent of June, 2003. (chart 7) .

chart 5

NPL ratio

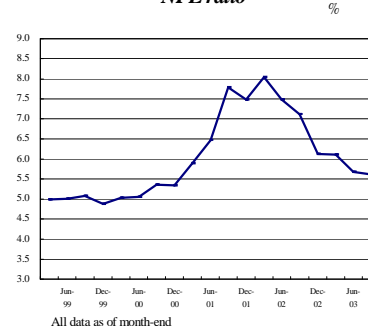


chart 6

Ratio of provisions to loans

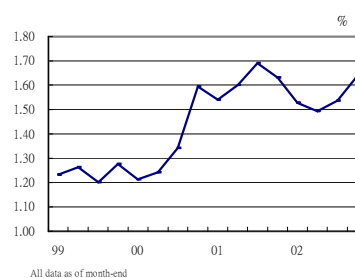


chart 7

Liquidity ratio

