Condition and Performance of Domestic Banks

First Quarter 2014

■ *Summary of condition and performance*

For local economy, Taiwan's commodity and service export fairly increase in 2014Q1, with the stable economy and brisk domestic tourism activities. Associated with the steady expansion of private consumption, Taiwan's GDP is estimated to increase by 3.14% in 2014Q1, compared to the same quarter of 2013, according to the latest preliminary estimation by Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

The global economy is anticipated to recover in very gradual pace, dragged by decelerating emerging economies. Taiwan's export is expected to increase modestly amid the world growth. Combining with the improved domestic demand, real GDP will grow by 2.98% in 2014. CPI will increase by 1.53%.

For domestic banks as a whole, the average capital adequacy ratio was well above the regulatory requirement of 8% as end-Mar. 2014, indicating that capital adequacy for domestic banks kept satisfactory. Asset quality remained sound as the provisions for loans were sufficient to cover potential losses. The profitability for domestic banks increased in the first quarter of 2014 while liquidity kept ample with the liquidity ratio well above the regulatory requirement of 10%.

■ Key trend

As end-Mar. 2014, domestic banks held a total of NT$40,745.1 billion in assets, increasing by NT$916.9 billion or 2.3% from the end of 2013. Total liabilities and equities amounted to NT$38,026.3 billion and 2,718.8 billion, increasing by NT$828.1 billion and NT$ 88.8 billion or 2.2% and 3.4%, respectively, compared to the end of 2013. Domestic banks as a whole posed a net income before tax of NT$83.9 billion for 2014Q1, increasing by NT$ 16.2 billion or 23.9%, compared to the same period of previous year contributed by an increase of the net revenues other than interest. The major income statement components are tabulated as follows:

Major Income Statement Components

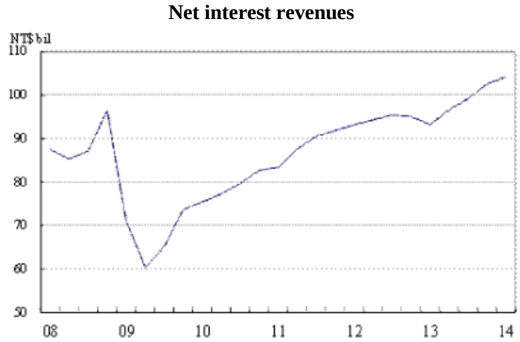
NT$ Billion

	Jan.-Mar. 2013	Jan.-Mar. 2014	% Change
Income			
Net interest revenues	93.2	104.2	11.8
Net revenues other than interest	59.7	73.5	23.1
Expense			
Loan loss provision	5.0	6.4	28.0
Other expense	80.2	87.4	9.0
Net income before tax	67.7	83.9	23.9

Net interest revenues increased

Net interest revenues reported NT$104.2 billion for 2014Q1, increasing by NT$11.0 billion or 11.8% compared to the previous quarter (Chart 1).

Chart 1

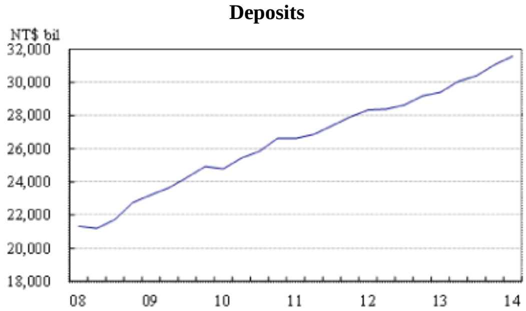


Note: Data are on a quarterly basis.

Deposits increased

As end-Mar. 2014, total deposits amounted to NT$31,562.8 billion, increasing by NT$497.7 billion or 1.6% compared to the end of 2013. The annual growth rate of deposits was 7.14% as end-Mar. 2014, increasing by 0.70 percentage points compared to the previous quarter (Chart 2).

Chart 2 2007 08 09 10 11 12 13

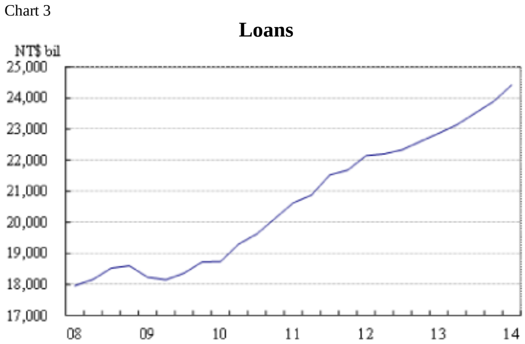


Note: Data are on a quarterly basis.

Loans increased

Total loans amounted to NT$24,416.9 billion as end-Mar. 2014, increasing by NT$532.4 billion or 2.23% compared to the end of 2013. The annual growth rate of loans registered 7.40% as end-Mar. 2014, increasing by 0.89 percentage points compared to the previous quarter (Chart 3).

Chart 3

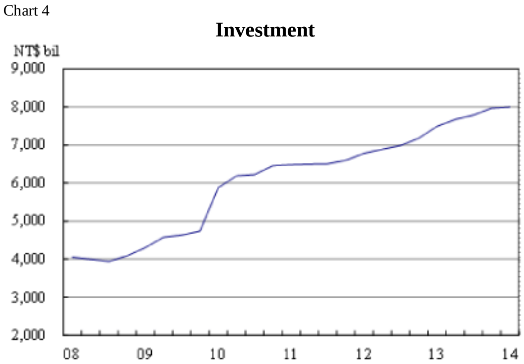


Note: Data are on a quarterly basis.

Investments increased

Total investments reached NT$8,002.0 billion as end-Mar. 2014, increasing by NT$30.5 billion or 0.38% compared to the end of 2013, mainly due to an increase of purchasing negotiable certificate of deposits issued by the Central Bank. The annual growth rate of investment reached 6.01% as end-Mar. 2014, decreasing by 1.65 percentage points compared the previous quarter (Chart 4).

Chart 4



Note: Data are on a quarterly basis.

Asset quality remained satisfactory

The average NPL ratio stood at 0.34% as end-Mar. 2014, slightly decreasing by 0.05 percentage points compared to the end of 2013 (Chart 5). Asset quality for the overall banking sector kept satisfactory. The average provision coverage ratio was 395.94%, increasing by 33.52 percentage points compared to the end of 2013.

Chart 5

NPL ratio

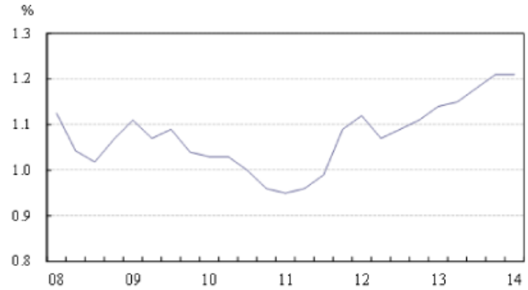
Note: Data are on a quarterly basis.

Provision-to-loan ratio increased

The average provision-to-loan ratio was 1.21% as end-Mar. 2014, leveled off compared to the end of 2013 (Chart 6).

Chart 6

Provision-to-loan ratio



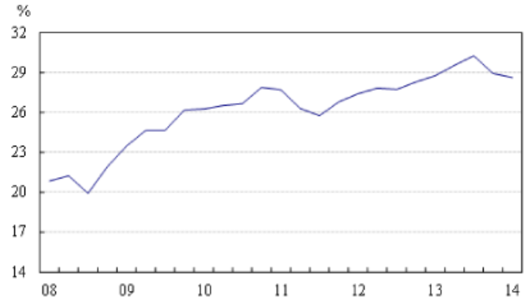
Note: Data are on a quarterly basis.

Liquidity kept ample

The average liquidity ratio was 28.63% for domestic banks as a whole in Mar. 2014, decreasing by 0.30 percentage points compared to that in Dec. 2013. Every domestic bank met the regulatory liquidity ratio requirement of 10%. Liquidity for domestic banking sector kept ample (Chart 7).

Chart 7

Liquidity ratio



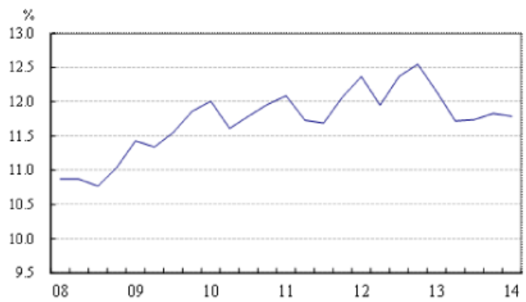
Note: Data are on a quarterly basis.

Average capital adequacy remained satisfactory

The average capital adequacy ratio was 11.79% as end-Mar. 2013, increasing by 0.04 percentage points compared to the end of 2013 (Chart 8). The capital adequacy for domestic banks as a whole remained satisfactory as the capital adequacy ratio of every domestic bank was well above the regulatory requirement of 8%.

Chart 8

Capital adequacy ratio



Note: Data are on a quarterly basis.