Condition and Performance of Domestic Banks

First Quarter 2012

Summary of condition and performance

For global economy, growth is projected to drop from 3.9% in 2011 to 3.5% in 2012, according to the World Economic Outlook issued by the IMF in April 2012. After suffering a major setback during 2011, global prospects are gradually strengthening again, but downside risks remain elevated. Improved activity in the United States during the second half of 2011 and better policies in the euro area in response to its deepening economic crisis have reduced the threat of a sharp global slowdown. Weak recovery will likely resume in the major advanced economies, and activity is expected to remain relatively solid in most emerging and developing economies. The euro area is still projected to go into a mild recession in 2012 as a result of the sovereign debt crisis and a general loss of confidence, the effects of bank deleveraging on the real economy, and the impact of fiscal consolidation in response to market pressures.

For local economy, Taiwan's export contracted and led the real exports of goods and services reducing by 3.29% in the first quarter of 2012. Incorporating with the sharply decreasing imports, net exports contributed 1.59 percentage points to the change in real GDP. Furthermore, coupling with domestic demand shrinking by 1.42%, Taiwan real GDP narrowly increased by 0.39% in 2012Q1, according to Directorate-General of Budget, Accounting and Statistics, Executive Yuan. The worries about Euro zone debt crisis and China's hard-landing add the risks on the prospect of global economy. Thus, the growth of Taiwan's export is projected to grow slightly. Combining with weak expansion of domestic demand, real GDP is anticipated to grow by 3.03% as CPI rise by 1.84% in 2012.

The average capital adequacy ratio for domestic banks as a whole was well above the regulatory requirement of 8% as of end-Mar. 2012, indicating that capital adequacy for domestic banks kept satisfactory. Asset quality remained satisfactory as the provisions for loans were sufficient to cover potential losses. The profitability for domestic banks increased in 2012 Q1 while liquidity kept ample with the liquidity ratio well above the regulatory requirement of 10%.

Key trend

Net income before tax for domestic banks as a whole reported NT$ 66.2 billion for 2012Q1, increasing by NT$ 12.6 billion or 23.5% compared to the same period in 2011, contributed by an increase of the net interest revenues. The major income statement components are tabulated as follows:

Major Income Statement Components

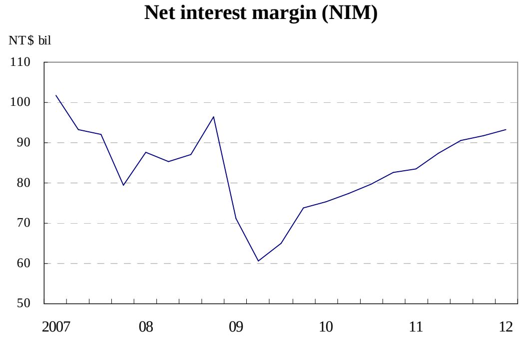
NT$ Billion

	Jan.-Mar. 2011	Jan.-Mar. 2012	% Change
Income			
Net interest revenues	83.4	93.1	11.6
Net revenues other than interest	52.4	58.0	10.7
Expense			
Loan loss provision	4.8	7.0	45.8
Other expense	77.4	77.9	0.6
Net income	53.6	66.2	23.5

Net interest margin（NIM）increased

NIM reported NT$93.1 billion for 2012Q1, increasing by NT$9.7 billion or 11.6% compared to the same period of the previous year (Chart 1).

Chart 1

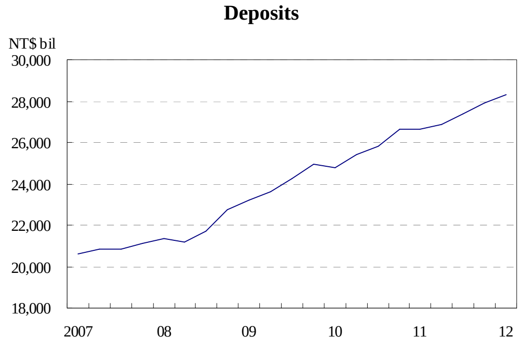


Note: Data are on a quarterly basis.

Deposits increased

As of the end-March 2012, total deposits amounted to NT$28,340.5 billion, increasing by NT$443.5 billion or 1.6% compared to end-Dec. 2011. The annual growth rate of deposits was 5.65% as of the end-March 2012, decreasing by 0.39 percentage points compared to the previous quarter (Chart 2).

Chart 2

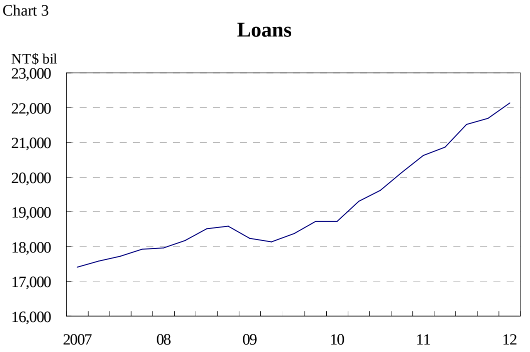


Note: Data are on a quarterly basis.

Loans increased

Total loans amounted to NT$22,140.3 billion as of the end-March 2012, increasing by NT$457.9 billion or 2.1% compared to end-Dec. 2011. The annual growth rate of loans registered 6.13% as of the end-March 2012, decreasing by 1.18 percentage points compared to the previous quarter (Chart 3).

Chart 3

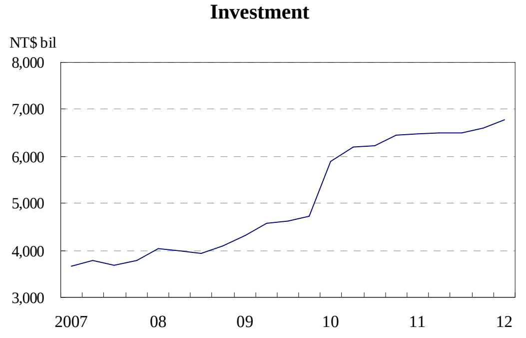


Note: Data are on a quarterly basis.

Investments increased

Total investments reached NT$6,779.5 billion as of the end-March 2012, increasing by NT$181.4 billion or 2.7% compared to end-Dec. 2011, mainly due to an increase of purchasing negotiable certificate of deposits issued by the Central Bank. The annual growth rate of investment reached 10.00% as of the end-March 2012, decreasing by 0.53 percentage points compared to the previous quarter (Chart 4).

Chart 4

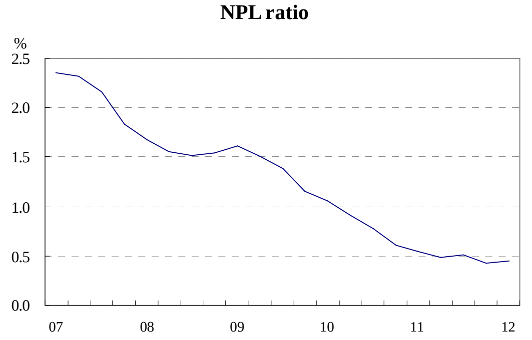


Note: Data are on a quarterly basis.

Asset quality remained satisfactory

The average NPL ratio stood at 0.45% as of the end-March 2012, increasing by 0.02 percentage points compared to end-Dec. 2011 (Chart 5). Asset quality for the overall banking sector kept satisfactory. The average provision coverage ratio was 345.72%, increasing by 6.18 percentage points compared to end-Dec. 2011.

Chart 5

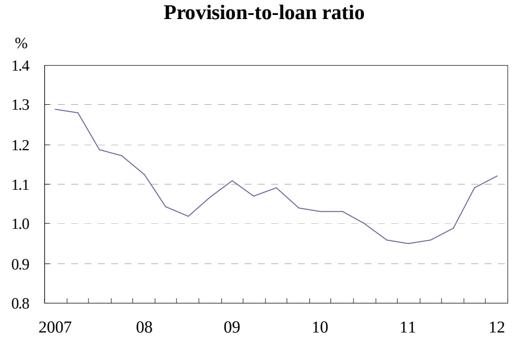


Note: Data are on a quarterly basis.

Provision-to-loan ratio increased slightly

The average provision-to-loan ratio was 1.12% as of the end-March 2012, increasing by 0.03 percentage points compared to end-Dec. 2011 (Chart 6).

Chart 6

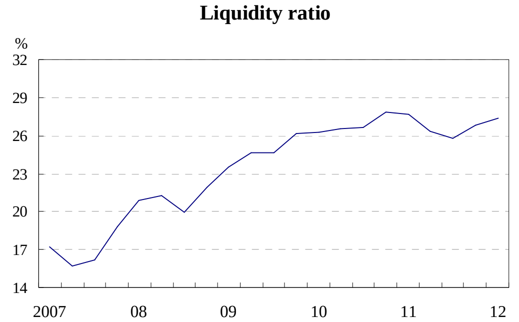


Note: Data are on a quarterly basis.

Liquidity kept ample

The average liquidity ratio was 27.41% for domestic banks as a whole in March 2012, increasing by 0.62 percentage points from 26.79% in Dec. 2011. Every domestic bank met the regulatory liquidity ratio requirement of 10%. Liquidity for domestic banking sector kept ample (Chart 7).

Chart 7

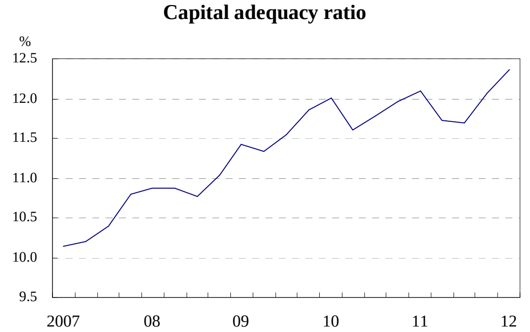


Note: Data are on a quarterly basis.

Average capital adequacy ratio increased

The average capital adequacy ratio was 12.37% as of the end-March 2012, increasing by 0.3 percentage points compared to end-Dec. 2011 (Chart 8). The average capital adequacy ratio for domestic banks as a whole remained satisfactory as the ratio for every domestic bank was well above the regulatory requirement of 8%.

Chart 8



Note: Data are on a quarterly basis.