Condition and Performance of Domestic Banks

Third Quarter 2011

■ *Summary of condition and performance*

For the global economy, according to IMF Global Financial Stability Report published in September 2011, financial stability risks have increased substantially over the past few months. Weaker growth prospects adversely affect both public and private balance sheets and heighten the challenge of coping with heavy debt burdens. A series of shocks have recently buffeted the global financial system, including fresh market turbulence emanating from the euro area periphery, the credit downgrade of the United States, and signs of an economic slowdown. The priorities in advanced economies are to address the legacy of the sovereign debt crisis and conclude financial regulatory reforms as soon as possible in order to improve the resilience of the system. Emerging markets must limit the buildup of financial imbalances while laying the foundations of a more robust financial framework.

Accordingly, the global economy is in a dangerous new phase. Global activity has weakened and become more uneven, confidence has fallen sharply recently, and downside risks are growing. The outlook for major advanced economies is a continuing but weak and bumpy expansion. Prospects for emerging market economies have become more uncertain again, although growth is expected to remain fairly robust. IMF World Economic Outlook (WEO) projections indicate that global growth will moderate to about 4 percent through 2012, from over 5 percent in 2010.

For local economy, the external sector was slowdown with the real exports of goods and services growing by 2.09% in 2011 Q3. Coupling with domestic demand declined by 0.52%, the preliminary estimate of real GDP grew by 3.42% in 2011 Q3, and was anticipated to grow by 4.51% and 4.19% in 2011 and 2012, respectively, according to Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

The average capital adequacy ratio for domestic banks as a whole was well above the regulatory requirement of 8% as of end-Sep. 2011, 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 2011 Q3 while liquidity kept ample with the liquidity ratio well above the regulatory requirement of 7%.

■ Key trend

Net income before tax for domestic banks as a whole reported NT$ 167.6 billion for the first three quarters of 2011, dramatically increasing by NT$ 26.3 billion or 18.6% compared to the same period in 2010. The main reason behind this was the net interest revenues increased as loan loss provision decreased. The major income statement components are tabulated as follows:

Major Income Statement Components

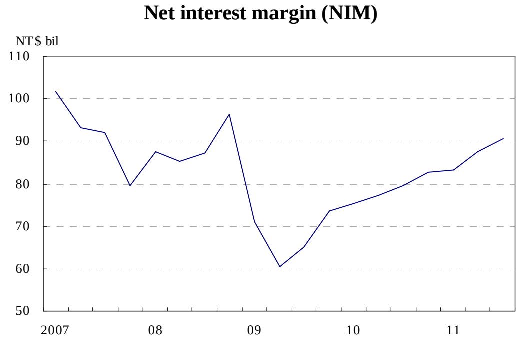
NT$ Billion

	Jan.-Sep 2010	Jan.-Sep. 2011	% Change
Income			
Net interest revenues	232.4	261.5	12.5
Net revenues other than interest	154.8	161.9	4.6
Expense			
Loan loss provision	28.3	25.5	-9.9
Other expense	217.6	230.3	5.8
Net income	141.3	167.6	18.6

Net interest margin (NIM) increased

NIM reported NT$90.6 billion for the third quarter of 2011, increasing by NT$3.1 billion or 3.5% compared to the previous quarter (Chart 1).

Chart 1

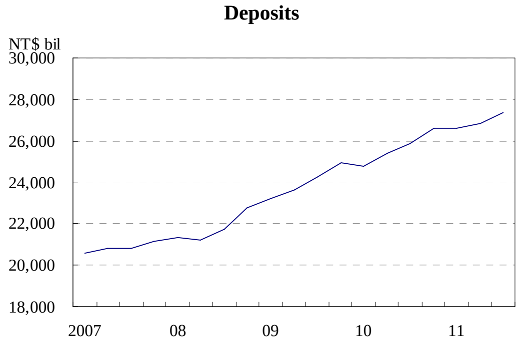


Note: Data are on a quarterly basis.

Deposits increased

As of end-Sep. 2011, total deposits amounted to NT$27,371.8 billion, increasing by NT$505.9 billion or 1.9% compared to the previous quarter. The annual growth rate of total deposits was 7.20%, increased by 0.51 percentage points from 6.69% as of end-Sep. 2010 (Chart 2).

Chart 2

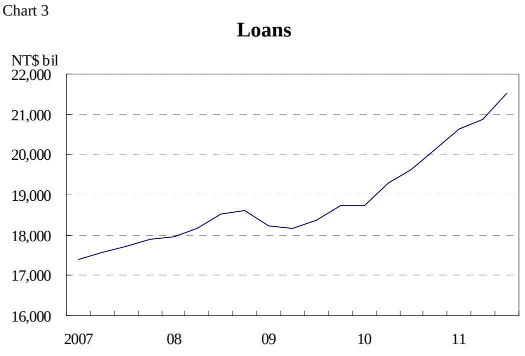


Note: Data are on a quarterly basis.

Loans increased

Total loans amounted to NT$21,518.3 billion as of end-Sep. 2011, increasing by NT$645.2 billion or 3.1% compared to the end of previous quarter. The annual growth rate of total loans registered 10.39%, increased by 3.63 percentage points from 6.76% as of end-Sep. 2010 (Chart 3).

Chart 3

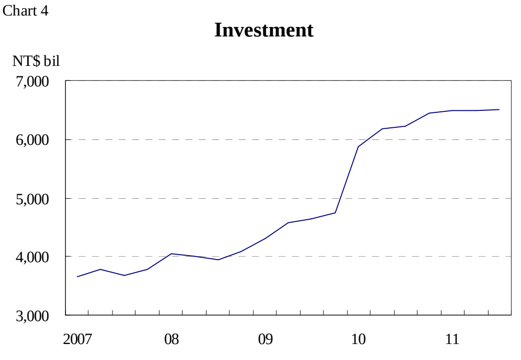


Note: Data are on a quarterly basis.

Investments increased

Total investments reached NT$6,507.2 billion as of end-Sep. 2011, increasing by NT$11.1 billion or 0.2 % compared to the end of previous quarter, mainly due to an increase of purchasing negotiable certificate of deposits issued by the CBC (Chart 4).

Chart 4



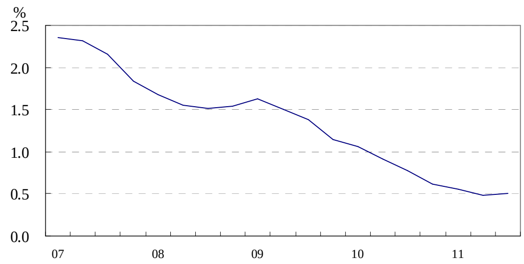
Note: Data are on a quarterly basis.

Asset quality remained satisfactory

The average NPL ratio stood at 0.51% as of end-Sep. 2011, increasing by 0.03 percentage points compared to the end of previous quarter (Chart 5). Asset quality for the overall banking sector kept satisfactory. The average provision coverage ratio was 210.12%, decreasing by 17.93 percentage points compared to the end of previous quarter.

Chart 5

NPL ratio



Note: Data are on a quarterly basis.

Provision-to-loan ratio increased slightly

The average provision-to-loan ratio was 0.99% as of end-Sep. 2011, slightly increasing by 0.03 percentage points compared to the end of previous quarter (Chart 6).

Chart 6

Provision-to-loan ratio

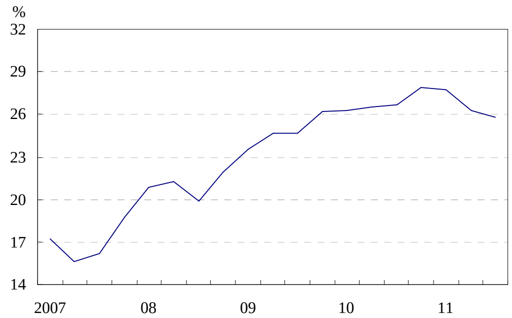
Note: Data are on a quarterly basis.

Liquidity kept ample

The average liquidity ratio was 25.76% for domestic banks as a whole in Sep. 2011, decreasing by 0.54 percentage points from 26.30% in June 2011. Every domestic bank met the regulatory liquidity ratio requirement of 7%. Liquidity for domestic banking sector kept ample (Chart 7).

Chart 7

Liquidity ratio



Note: Data are on a quarterly basis.

Average capital adequacy ratio decreased

The average capital adequacy ratio was 11.69% as of end-Sep. 2011, slightly decreasing by 0.04 percentage points compared to the previous quarter (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

Capital adequacy ratio

Note: Data are on a quarterly basis.