Condition and Performance of Domestic Banks

First Quarter 2011

Summary of condition and performance

World real GDP growth is forecast to be about 4.4% and 4.5 % in 2011 and 2012, respectively, down modestly from 5% in 2010, according to IMF Economic Outlook issued in April 2011. Real GDP in advanced economies and emerging and developing economies is expected to expand by about 2.4% and 6.5%, respectively, in 2011. Downside risks continue to outweigh upside risks. In advanced economies, weak sovereign balance sheets and still-moribund real estate markets continue to present major concerns, especially in certain euro area economies. The challenge for many emerging and some developing economies is to ensure that present boom-like conditions do not develop into overheating over the coming year.

Global financial stability has improved over the past six months, bolstered by better macroeconomic policies, but fragilities remain, according to IMF Global Financial Stability Report issued in April 2011. The main task facing policymakers in advanced economies is to shift the balance of policies away from reliance on macroeconomic and liquidity support to more structured policies. This will entail reducing leverage and restoring market discipline, while avoiding financial or economic disruption during the transition. For policymakers in emerging market economies, the task is to limit overheating and a buildup of vulnerabilities. Relatively strong growth is putting pressure on some financial markets, contributing to higher leverage, potential asset price bubbles, and inflationary pressures. Policymakers will have to pay increasing attention to containing the buildup of macrofinancial risks to avoid future problems.

For local economy, in 2011 Q1, the broad-based expansion of external demand fueled Taiwan real exports of goods and services increasing 10.87%. Combining with domestic demand supported by strong private investment and robust private consumption, the preliminary real GDP grew by 6.55% from the same quarter of previous year (yoy basis), or 18.97% at seasonally adjusted annual rate (saar) 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-March 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 Q1 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$ 53.6 billion for the first quarter of 2011, dramatically increasing by NT$ 12.0 billion or 28.8% compared to the same period in 2010. The main reason behind this was the net revenues other than interest increased. The major income statement components are tabulated as follows:

Major Income Statement Components

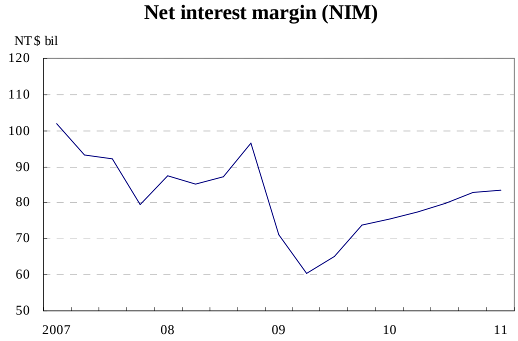
NT$ Billion

	Jan.-Mar. 2010	Jan.-Mar. 2011	% Change
Income			
Net interest revenues	75.4	83.4	10.6
Net revenues other than interest	44.5	52.4	17.8
Expense			
Loan loss provision	9.1	4.8	-47.3
Other expense	69.2	77.4	11.8
Net income	41.6	53.6	28.8

Net interest margin（NIM）increased slightly

NIM reported NT$ 83.4 billion for the first quarter of 2011, increasing by NT$0.7 billion or 0.8% compared to the previous quarter (Chart 1).

Chart 1

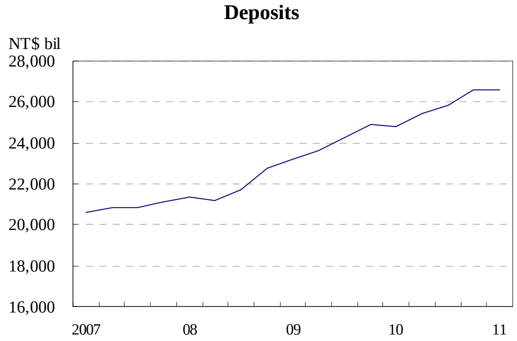


Note: Data are on a quarterly basis.

Deposits nearly leveled off

As of end-March 2011, total deposits amounted to NT$26,618.8 billion, decreasing by NT$ 3.7 billion or 0.01% compared to the previous quarter. The annual growth rate of total deposits was 8.28%, up from 3.13% as of end-March 2010 (Chart 2).

Chart 2

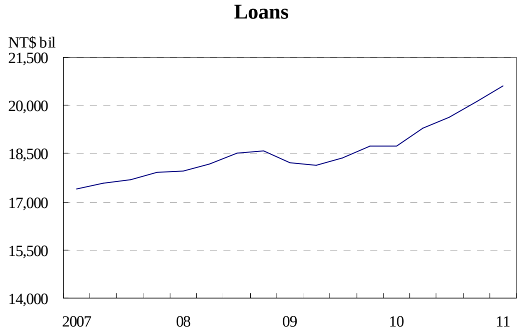


Note: Data are on a quarterly basis.

Loans increased

Total loans amounted to NT$ 20,620.7 billion as of end-March 2011, increasing by NT$ 494.1 billion or 2.5% compared to the previous quarter. The annual growth rate of total loans registered 9.64%, dramatically increased by 6.53 percentage points from 3.11% as of end-March 2010 (Chart 3).

Chart 3

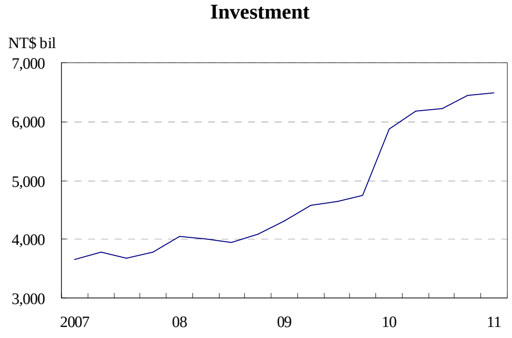


Note: Data are on a quarterly basis.

Investments increased

Total investments reached NT$ 6,481.4 billion as of end-March of 2011, increasing by NT$ 27.2 billion or 0.4 % compared to the previous quarter, mainly due to an increase of purchasing negotiable certificate of deposits issued by the CBC (Chart 4).

Chart 4



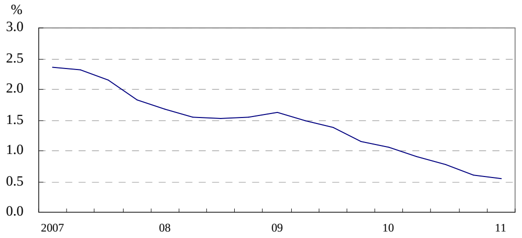
Note: Data are on a quarterly basis.

Asset quality remained satisfactory

The average NPL ratio stood at 0.55% as of end-March 2011, decreasing by 0.06 percentage points compared to the previous quarter (Chart 5). Asset quality for the overall banking sector kept satisfactory. The average provision coverage ratio was 205.37%, 21.94 percentage points up from 183.43% as of end-December 2010.

Chart 5

NPL ratio



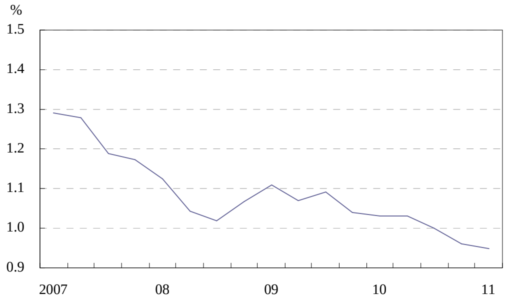
Note: Data are on a quarterly basis.

Provision-to-loan ratio decreased slightly

The average provision-to-loan ratio was 0.95% as of end-Mar. 2011, slightly decreasing by 0.01 percentage points compared to the end of previous quarter (Chart 6).

Chart 6

Provision-to-loan ratio



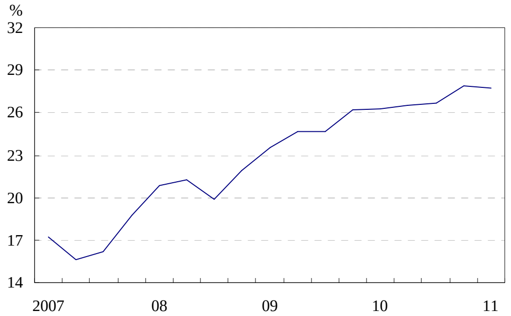
Note: Data are on a quarterly basis.

Liquidity kept ample

The average liquidity ratio was 27.70% for domestic banks as a whole in March 2011, decreasing by 0.19 percentage points from 27.89% in December 2010. Every domestic bank met the regulatory liquidity ratio requirement of 7%. Liquidity for domestic banking sector kept ample. (Chart 7)

Chart 7

Liquidity ratio



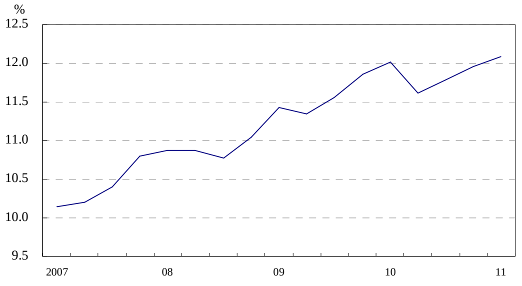
Note: Data are on a quarterly basis.

Average capital adequacy ratio increased slightly

The average capital adequacy ratio was 12.09% as of end-March 2011, increasing by 0.08 percentage points from 12.01% at end-Mar. 2010 (Chart 8). Capital adequacy for all domestic banks remained satisfactory.

Chart 8

Capital adequacy ratio



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