Condition and Performance of Domestic Banks

Fourth Quarter 2010

■ *Summary of condition and performance*

Global recovery advances but remains uneven. The two-speed recovery continues. In advanced economies, activity has moderated less than expected while growth remains subdued, unemployment is still high, and renewed stresses in the euro area periphery are contributing to downside risks. In many emerging economies, activity remains buoyant, inflation pressures are emerging, and there are now some signs of overheating, driven in part by strong capital inflows. Global output is projected to expand by 4.4 percent in 2011, according to World Economic Outlook, IMF. Global financial stability has yet to be secured even though global economic growth has accelerated, according to Global Financial Stability Report, IMF. Balance sheet restructuring is incomplete and proceeding slowly, and leverage is still high. The interaction between banking and sovereign credit risks in the euro area remains a critical factor, and policies are needed to tackle fiscal and banking sector vulnerabilities. At the global level, regulatory reforms are still required to put the financial sector on a sounder footing. At the same time, accommodative policies in advanced economies and relatively favorable fundamentals in some emerging market countries are spurring capital inflows, indicating asset price bubbles and excessive credit warrant closer attention in emerging market countries.

For local economy, in 2010 Q4, the external sector continues brisk advance with the real exports of goods and services gained by 14.90%. Combining with 5.14% growth of the domestic sector, the preliminary real GDP increased by 6.92% from the same quarter of one year ago. For 2010 as a whole, Taiwan real GDP increased by 10.82%. Net exports contributed 2.33 percentage points to the change in real GDP. Meanwhile, real domestic demand expanded by 9.92% and contributed 8.49 percentage points to the change in real GDP, 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 the end of 2010, indicating that capital adequacy for domestic banks kept satisfactory. Asset quality remained satisfactory as the provisions for loans and investment portfolios were sufficient to cover potential losses. The profitability for domestic banks increased in 2010 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$ 184.8 billion for 2010, increasing dramatically by NT$ 99.7 billion or 117.2% compared to that for 2009. The main reasons behind this were the net interest revenues increased as loan loss provision decreased. The major income statement components are tabulated as follows:

Major Income Statement Components

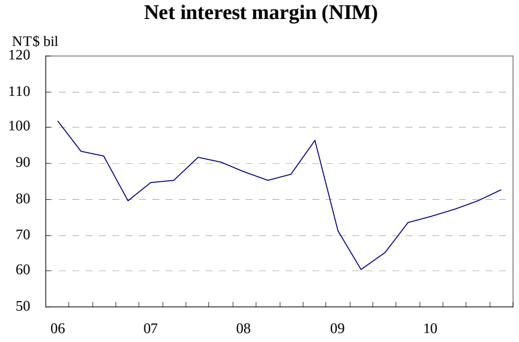
NT$ Billion

	Jan.-Dec. 2009	Jan.-Dec. 2010	% Change
Income			
Net interest revenues	270.5	315.2	16.5
Net revenues other than interest	183.8	214.4	16.6
Expense			
Loan loss provision	80.6	39.6	-50.9
Other expense	288.6	305.2	5.8
Net income	85.1	184.8	117.2

Net interest margin（NIM）increased

NIM reported NT$ 82.7 billion for the fourth quarter of 2010, increasing by NT$3.0 billion or 3.8% compared to the previous quarter (Chart 1).

Chart 1

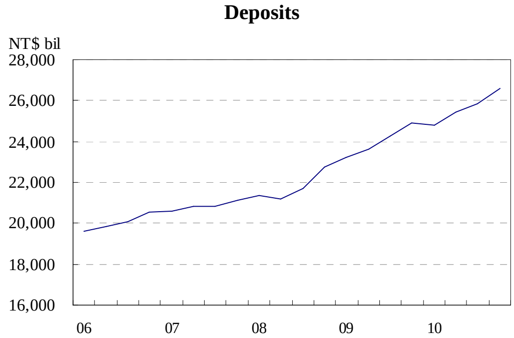


Note: Data are on a quarterly basis.

Deposits increased

As of end-Dec. 2010, total deposits amounted to NT$26,622.5 billion, increasing by NT$ 774.2 billion or 3.0% compared to the previous quarter. The annual growth rate of total deposits was 6.49%, up from 4.52% as of end-Dec. 2009 (Chart 2).

Chart 2

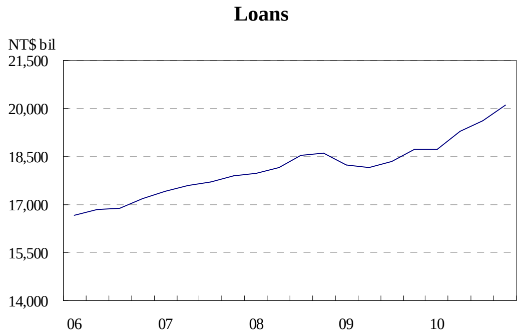


Note: Data are on a quarterly basis.

Loans increased

Total loans amounted to NT$ 20,126.6 billion as of end-Dec. 2010, increasing by NT$ 500.6 billion or 2.6% compared to the previous quarter. The annual growth rate of total loans registered 8.27%, dramatically increased by 8.57 percentage points from –0.30% as of the end of 2009 (Chart 3).

Chart 3

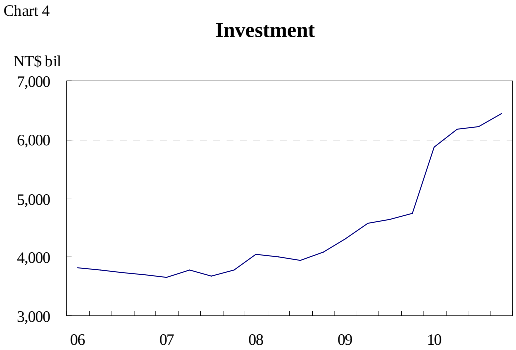


Note: Data are on a quarterly basis.

Investments increased

Total investments reached NT$ 6,454.2 billion as of end-Dec. of 2010, increasing by NT$228.4 billion or 3.7 % compared to the previous quarter, mainly due to an increase of purchasing negotiable certificate of deposits issued by the CBC (Chart 4).

Chart 4



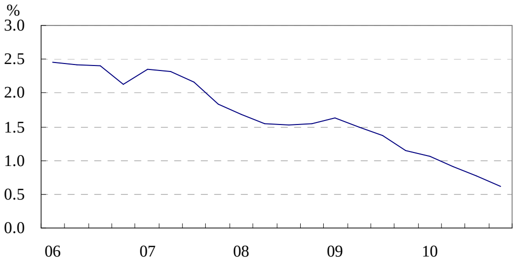
Note: Data are on a quarterly basis.

Asset quality remained satisfactory

The average NPL ratio stood at 0.61% as of end-Dec. 2010, decreasing by 0.17 percentage points compared to the previous quarter (Chart 5). Asset quality for the overall banking sector kept satisfactory. The average provision coverage ratio was 183.43%, 27.95 percentage points up from 155.48% as of end-Sep. 2010.

Chart 5

NPL ratio



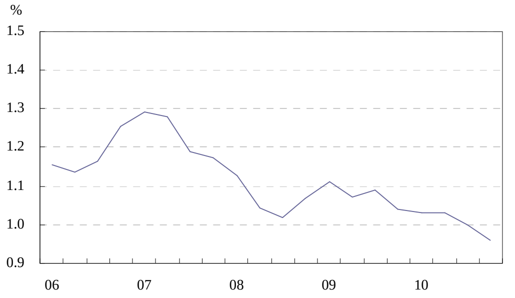
Note: Data are on a quarterly basis.

Provision-to-loan ratio decreased slightly

The average provision-to-loan ratio was 0.96% as of end-Dec. 2010, slightly decreasing by 0.03 percentage points compared to the end of previous quarter（Chart 6）.

Chart 6

Provision-to-loan ratio



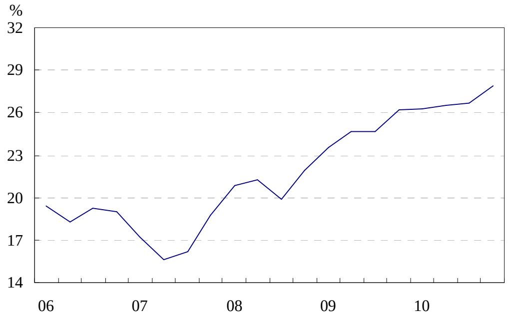
Note: Data are on a quarterly basis.

Liquidity kept ample

The average liquidity ratio was 27.89% for domestic banks as a whole in December 2010, increasing by 1.23 percentage points from 26.66% in September 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



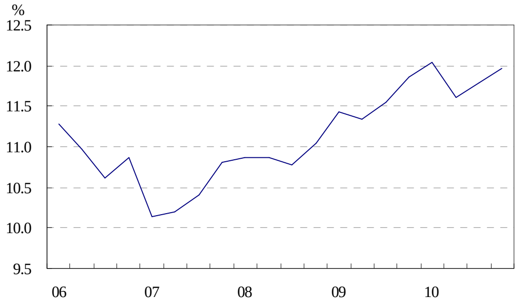
Note: Data are on a quarterly basis.

Average capital adequacy ratio increased slightly

The average capital adequacy ratio was 11.96% as of end-Dec. 2010, increasing by 0.17 percentage points from 11.79% at end-Sep. 2010 (Chart 8). Capital adequacy for most domestic banks remained satisfactory.

Chart 8

Capital adequacy ratio



Note: Data are on a quarterly basis.