Condition and Performance of Domestic Banks

Third Quarter 2013

■ *Summary of condition and performance*

For local economy, subject to the weakened external demand, the seasonally adjusted real gross domestic product (GDP) increased by 1.07% at annualized rate in 2013Q3, and the unadjusted GDP grew by 1.66% compared to the same quarter of the previous year, according to the latest preliminary estimation by Directorate-General of Budget, Accounting and Statistics, Executive Yuan. Meanwhile, the predicted GDP growth rates of 2013 and 2014 are revised downward to 1.74% and 2.59% respectively.

Looking forward, recent outcome of Taiwan's export is still affected by the stronger global market competition, especially from mainland China, which slows the growth of external sector in 2013Q4. In whole, real GDP is forecasted to grow by 1.74% in 2013. CPI is predicted to rise by 0.94%.

For domestic banks as a whole, the average capital adequacy ratio was well above the regulatory requirement of 8% as of end-Sept. 2013, 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 2013Q3 while liquidity kept ample with the liquidity ratio well above the regulatory requirement of 10%.

■ Key trend

As of the end of Sept. 2013, domestic banks held a total of NT$39,125.6 billion in assets, increasing by NT$625.0 billion or 1.6% from end-June 2013. Total liabilities and equities amounted to NT$36,577.4 billion and 2,548.2 billion, increasing by NT$560.7 billion and NT$ 64.3 billion or 1.6% and 2.6%, respectively, compared to end-June 2013. Domestic banks as a whole posed a net income before tax of NT$204.4 billion for the first three quarters of 2013, increasing by NT$ 7.9 billion or 4.0%, 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

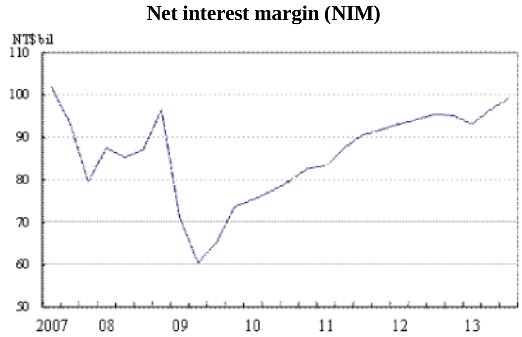
NT$ Billion

	Jan.-Sept. 2012	Jan.-Sept. 2013	% Change
Income			
Net interest revenues	282.9	289.0	2.2
Net revenues other than interest	174.8	186.9	6.9
Expense			
Loan loss provision	24.4	29.5	20.9
Other expense	236.8	242.0	2.2
Net income before tax	196.5	204.4	4.0

Net interest margin（NIM）increased

NIM reported NT$99.2 billion for 2013Q3, increasing by NT$2.6 billion or 2.7% compared to the previous quarter (Chart 1).

Chart 1

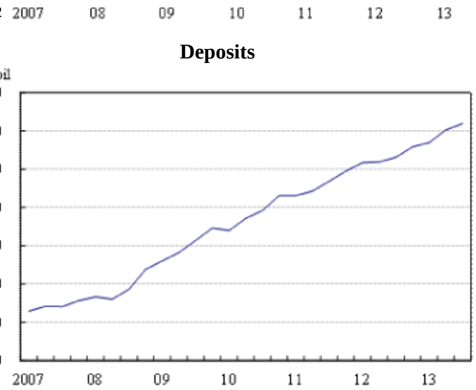


Note: Data are on a quarterly basis.

Deposits increased

As of end-Sept. 2013, total deposits amounted to NT$30,384.8 billion, increasing by NT$326.6 billion or 1.1% compared to end-June 2013. The annual growth rate of deposits was 5.60% as of end-Sept. 2013, increasing by 0.28 percentage points compared to the previous quarter (Chart 2).

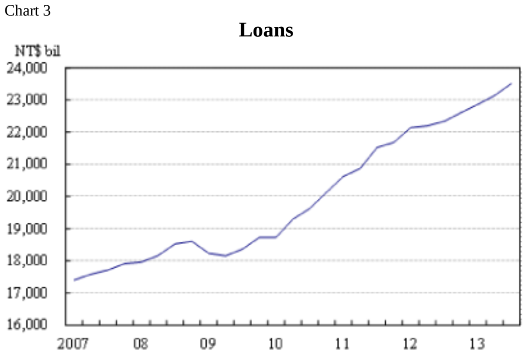
Chart 2



Loans increased

Total loans amounted to NT$23,511.0 billion as of end-Sept. 2013, increasing by NT$370.9 billion or 1.6% compared to end-June 2013. The annual growth rate of loans registered 5.87% as of end-Sept. 2013, increasing by 0.73 percentage points compared to the previous quarter (Chart 3).

Chart 3

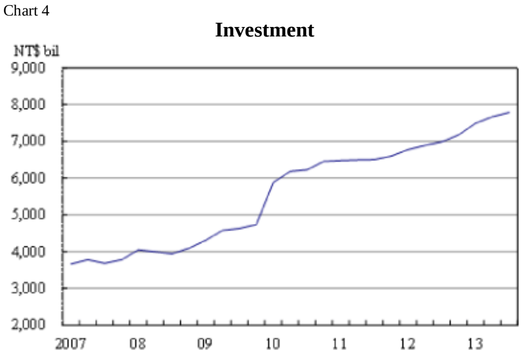


Note: Data are on a quarterly basis.

Investments increased

Total investments reached NT$7,784.9 billion as of end-Sept. 2013, increasing by NT$111.4 billion or 1.5% compared to end-June 2013, mainly due to an increase of purchasing negotiable certificate of deposits issued by the Central Bank. The annual growth rate of investment reached 11.01% as of end-Sept. 2013, decreasing by 3.4 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 0.45% as of end-Sept. 2013, levelling off compared to end-June 2013 (Chart 5). Asset quality for the overall banking sector kept satisfactory. The average provision coverage ratio was 320.51%, increasing by 6.80 percentage points compared to end-June 2013.

Chart 5

NPL ratio

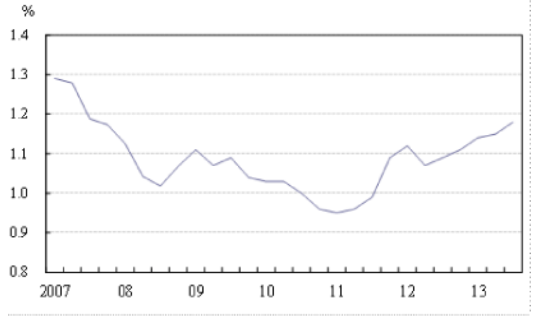
Note: Data are on a quarterly basis.

Provision-to-loan ratio increased

The average provision-to-loan ratio was 1.18% as of end-Sept. 2013, increasing by 0.03 percentage points compared to end-June. 2013 (Chart 6).

Chart 6

Provision-to-loan ratio



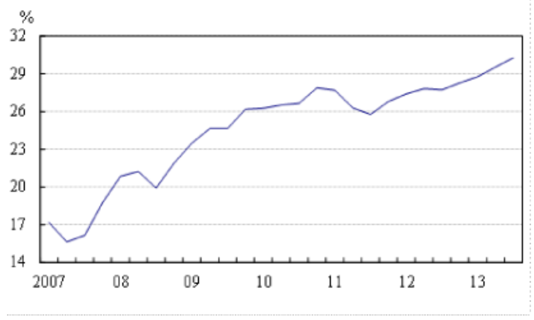
Note: Data are on a quarterly basis.

Liquidity kept ample

The average liquidity ratio was 30.27% for domestic banks as a whole in Sept. 2013, increasing by 0.73 percentage points compared to that in June 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



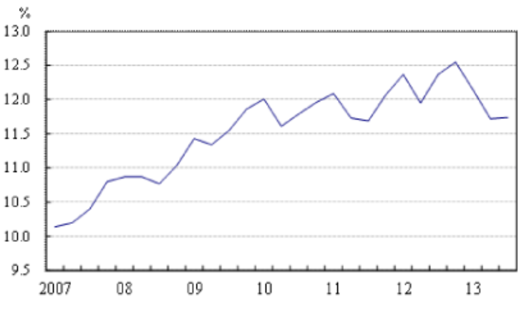
Note: Data are on a quarterly basis.

Average capital adequacy remained satisfactory

The average capital adequacy ratio was 11.74% as of end-Sept. 2013, increasing by 0.02 percentage points compared to end-June 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.

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