Condition and Performance of Domestic Banks

Fourth Quarter 2011

■ *Summary of condition and performance*

For the global economy, global output is projected to expand by 3.3% in 2012, a downward revision of about 0.75 percentage points relative to the September 2011, according to the World Economic Outlook Update issued by the IMF in January 2012. This is largely because the euro area economy is now expected to go into a mild recession in 2012 as a result of the rise in sovereign yields, the effects of bank deleveraging on the real economy, and the impact of additional fiscal consolidation. Growth in emerging and developing economies is also expected to slow because of the worsening external environment and a weakening of internal demand.

Accordingly, risks to stability have increased, despite various policy steps to contain the euro area debt crisis and banking problems. European policymakers have outlined significant policy measures to address the medium-term issues contributing to the crisis, and some of theses have helped to improve market sentiment, but sovereign financing remains challenging and downside risks remain, according to the IMF Global Financial Stability Report published in January 2012.

For local economy, reduced global growth pressed Taiwan's trade strength and led the real exports of goods and services narrowly grew by 0.78% in 2011Q4. Coupling with domestic demand declining by 3.46%, Taiwan's preliminarily estimated real GDP increased by 1.89% in 2011Q4. For 2011 as a whole, Taiwan's real GDP increased by 4.04%. Net exports contributed 3.72 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 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 Q4 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$ 200.8 billion for 2011, increasing by NT$ 16.0 billion or 8.7% compared to the same period in 2010, mainly contributed by an increase of the net interest revenues. The major income statement components are tabulated as follows:

Major Income Statement Components

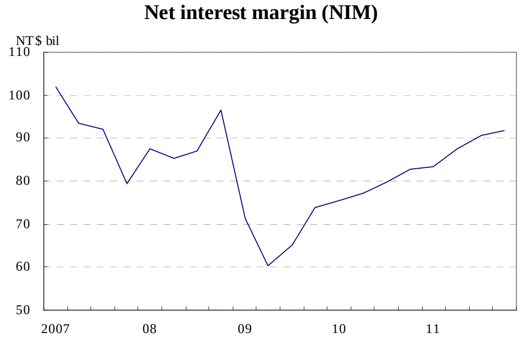
NT$ Billion

	Jan.-Dec 2010	Jan.-Dec. 2011	% Change
Income			
Net interest revenues	315.2	353.3	12.1
Net revenues other than interest	214.4	210.9	-1.6
Expense			
Loan loss provision	39.6	49.4	24.7
Other expense	305.2	314.0	2.9
Net income	184.8	200.8	8.7

Net interest margin（NIM）increased slightly

NIM reported NT$91.8 billion for 2011Q4, slightly increasing by NT$1.2 billion or 1.3% compared to the previous quarter (Chart 1).

Chart 1

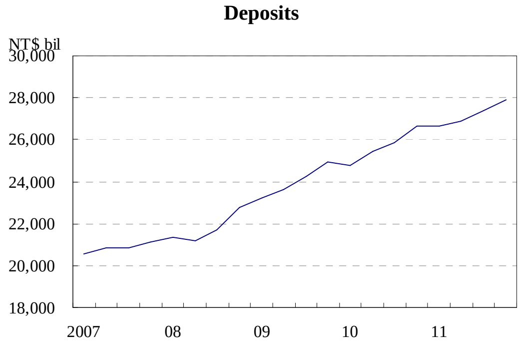


Note: Data are on a quarterly basis.

Deposits increased

As of the end of 2011, total deposits amounted to NT$27,897.0 billion, increasing by NT$525.2 billion or 1.9% compared to end-Sep. 2011. The annual growth rate of total deposits was 6.04%, decreased by 0.4 percentage points from 6.44% as of the end of 2010 (Chart 2).

Chart 2

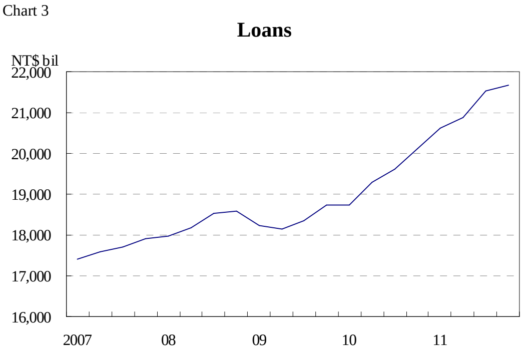


Note: Data are on a quarterly basis.

Loans increased

Total loans amounted to NT$21,682.4 billion as of the end of 2011, increasing by NT$164.1 billion or 0.8% compared to end-Sep. 2011. The annual growth rate of total loans registered 7.31%, decreased by 0.96 percentage points from 8.27% as of the end of 2010 (Chart 3).

Chart 3

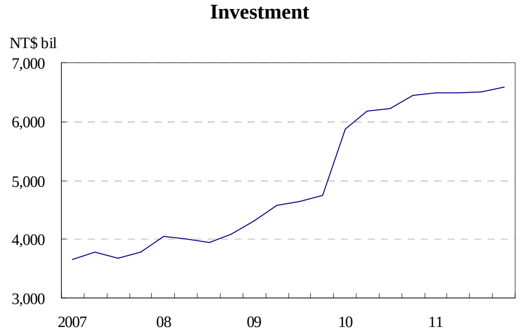


Note: Data are on a quarterly basis.

Investments increased

Total investments reached NT$6,598.1 billion as of the end of 2011, increasing by NT$90.9 billion or 1.4% compared to end-Sep. 2011, 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 0.43% as of the end of 2011, decreasing by 0.08 percentage points compared to end-Sep. 2011 (Chart 5). Asset quality for the overall banking sector kept satisfactory. The average provision coverage ratio was 339.54%, dramatically increasing by 129.42 percentage points compared to end-Sep. 2011, mainly because additional loan loss provision was required by the Financial Supervisory Commission.

Chart 5

NPL ratio

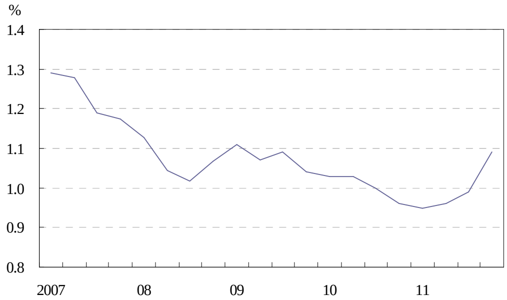
Note: Data are on a quarterly basis.

Provision-to-loan ratio increased slightly

The average provision-to-loan ratio was 1.09% as of the end of 2011, increasing by 0.1 percentage points compared to end-Sep. 2011 (Chart 6).

Chart 6

Provision-to-loan ratio



Note: Data are on a quarterly basis.

Liquidity kept ample

The average liquidity ratio was 26.79% for domestic banks as a whole in Dec. 2011, increasing by 1.03 percentage points from 25.76% in Sep. 2011. Every domestic bank met the regulatory liquidity ratio requirement of 10%. Liquidity for domestic banking sector kept ample (Chart 7).

Chart 7

Liquidity ratio

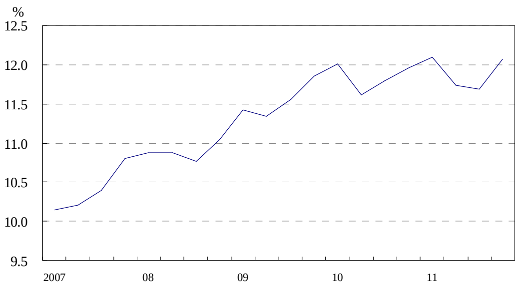
Note: Data are on a quarterly basis.

Average capital adequacy ratio increased

The average capital adequacy ratio was 12.07% as of the end of 2011, increasing by 0.38 percentage points compared to end-Sep. 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

Capital adequacy ratio



Note: Data are on a quarterly basis.