Condition and Performance of Domestic Banks

Second Quarter 2012

■ *Summary of condition and performance*

For global economy, in the past three months, the global recovery, which was not strong to start with, has shown signs of further weakness. Financial market and sovereign stress in the euro area periphery have ratcheted up, close to end-2011 levels. Growth in a number of major emerging market economies has been lower than forecast. Overall, global growth is projected to moderate to 3.5% in 2012 and 3.9% in 2013, according to the World Economic Outlook Update issued by the IMF in June 2012. Global consumer price inflation is projected to ease as demand softens and commodity prices recede. Headline inflation is expected to slip from 4.5% in the last quarter of 2011 to 3% to 3.5% in 2012-13.

Risks to financial stability have increased since the April 2012 Global Financial Stability Report (GFSR). Sovereign yields in southern Europe have risen sharply amid further erosion of the investor base. Growth prospects in other advanced countries and emerging markets have also weakened leaving them less able to deal with spillovers from the euro area crisis or to address their own home-grown fiscal and financial vulnerabilities. Uncertainties on the fiscal outlook and federal debt ceiling in the United States present a latent risk to financial stability.

For local economy, weakened external demand caused the real exports of goods and services to decline by 2% in 2012Q2. Incorporating with mild contraction of domestic sector, GDP declined by 0.18% from the same quarter of the previous year. Looking forward, the growth of external sector will be limited due to weak global demand and obstructed export competitiveness. Combining with sluggish domestic demand, real GDP is forecasted to grow 1.66% in 2012. CPI is predicted to rise by 1.93%, 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-June 2012, 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 the first half of 2012 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$ 133.0 billion for the first half of 2012, increasing by NT$ 20.8 billion or 18.5% compared to the same period in 2011, contributed by an increase of the net interest revenues and a decrease of loan loss provision. The major income statement components are tabulated as follows:

Major Income Statement Components

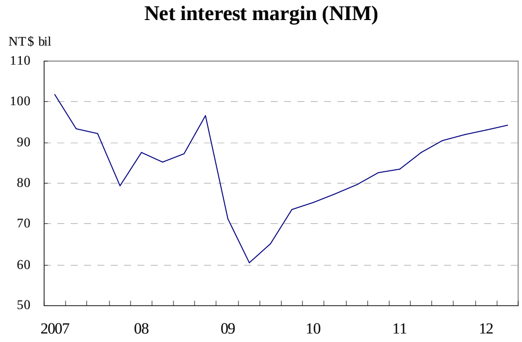
NT$ Billion

	Jan.-June. 2011	Jan.-June 2012	% Change
Income			
Net interest revenues	170.9	187.4	9.7
Net revenues other than interest	108.9	115.2	5.8
Expense			
Loan loss provision	13.3	11.0	-17.3
Other expense	154.3	158.6	2.8
Net income	112.2	133.0	18.5

Net interest margin（NIM）slightly increased

NIM reported NT$94.3 billion for 2012Q2, slightly increasing by NT$1.2 billion or 1.3% compared to the previous quarter (Chart 1).

Chart 1

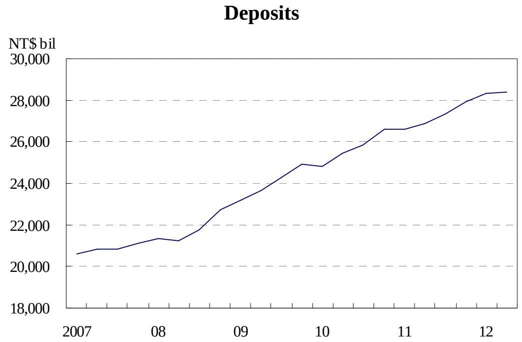


Note: Data are on a quarterly basis.

Deposits increased

As of the end-June 2012, total deposits amounted to NT$28,383.6 billion, increasing by NT$43.1 billion or 0.2% compared to end-Mar. 2012. The annual growth rate of deposits was 4.68% as of the end-June 2012, decreasing by 0.97 percentage points compared to the previous quarter (Chart 2).

Chart 2

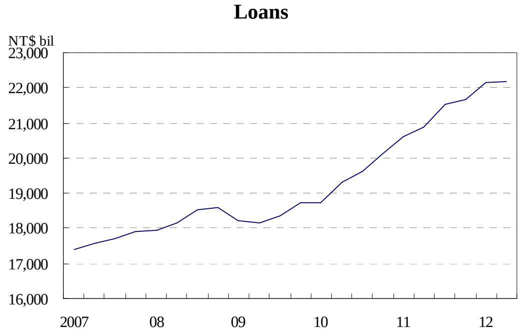


Note: Data are on a quarterly basis.

Loans decreased

Total loans amounted to NT$22,197.2 billion as of the end-June 2012, decreasing by NT$56.9 billion or 0.3% compared to end-Mar. 2012. The annual growth rate of loans registered 5.80% as of the end-June 2012, decreasing by 0.33 percentage points compared to the previous quarter (Chart 3).

Chart 3

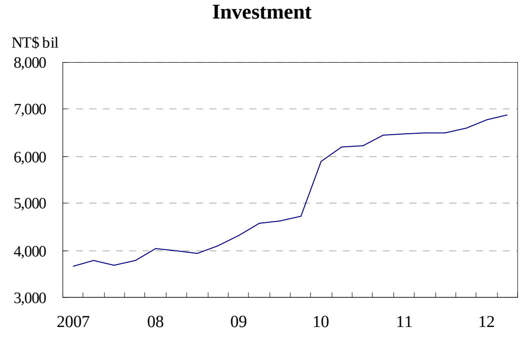


Note: Data are on a quarterly basis.

Investments increased

Total investments reached NT$6,887.5 billion as of the end-June 2012, increasing by NT$108.0 billion or 1.6% compared to end-Mar. 2012, mainly due to an increase of purchasing negotiable certificate of deposits issued by the Central Bank. The annual growth rate of investment reached 6.99% as of the end-June 2012, decreasing by 3.01 percentage points compared to the previous quarter (Chart 4).

Chart 4



Note: Data are on a quarterly basis.

Asset quality remained satisfactory

The average NPL ratio stood at 0.56% as of the end-June 2012, increasing by 0.11 percentage points compared to end-Mar. 2012 (Chart 5). Asset quality for the overall banking sector kept satisfactory. The average provision coverage ratio was 267.78%, decreasing by 77.94 percentage points compared to end-March 2012.

Chart 5

NPL ratio

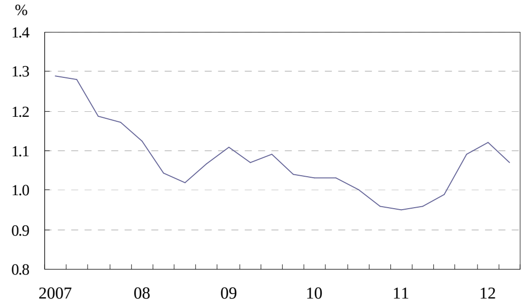
Note: Data are on a quarterly basis.

Provision-to-loan ratio decreased slightly

The average provision-to-loan ratio was 1.07% as of the end-June 2012, decreasing by 0.05 percentage points compared to end-Mar. 2012 (Chart 6).

Chart 6

Provision-to-loan ratio



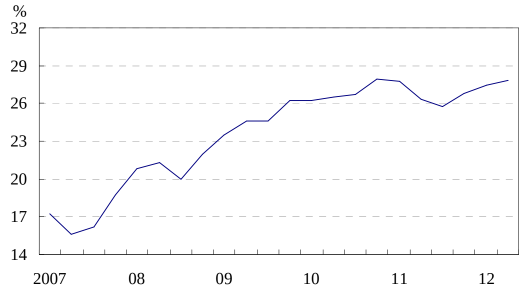
Note: Data are on a quarterly basis.

Liquidity kept ample

The average liquidity ratio was 27.83% for domestic banks as a whole in June 2012, increasing by 0.42 percentage points from 27.41% in March 2012. Every domestic bank met the regulatory liquidity ratio requirement of 10%. Liquidity for domestic banking sector kept ample (Chart 7).

Chart 7

Liquidity ratio



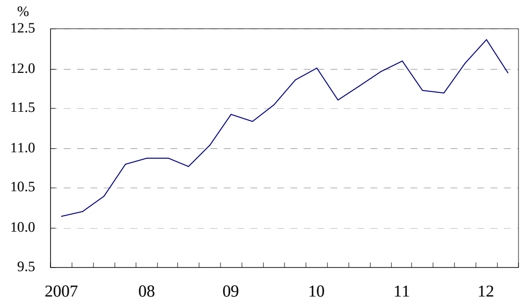
Note: Data are on a quarterly basis.

Average capital adequacy remained satisfactory

The average capital adequacy ratio was 11.95% as of the end-June 2012, decreasing by 0.42 percentage points compared to end-Mar. 2012 (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.