# *Condition and Performance of Domestic Banks*

*Second Quarter 2011*

## ■ *Summary of condition and performance*

The global economy is in a dangerous new phase. Global activity has weakended and become more uneven, confidence has fallen sharply recently, and downside risks are growing. The structural problems facing the crisis-hit advanced economies have proven even more intractable than expected, and the process of devising and implementing reforms even more complicated. The outlook for these economies is thus for a continuing, but weak and bumpy, expansion. IMF World Economic Outlook (WEO) projections indicate that global growth will moderate to about 4 percent through 2012, from over 5 percent in 2010.

According to IMF Global Financial Stability Report in September 2011, overall macroeconomic risks have increased, reflecting a significant rise in sovereign vulnerabilities in advanced economies. Market and liquidity risks have risen, partly as a result of increased macroeconomic and sovereign risks. Credit risks have risen as sovereign strains have spilled over to the banking system in the euro area. Emerging markets risks have increased as rapid domestic credit growth, balance sheet releveraging, and rising asset prices may ultimately lead to deteriorating bank asset quality. At the same time, emerging markets remain vulnerable to external shock.

For local economy, the external sector kept resilience with the real exports of goods and services advanced by 4.39% in 2011 Q2. Incorporating with 2.61% growth of the domestic sector, the preliminary estimation of real gross GDP increased by 5.02% from the same quarter of the previous year. Looking forward the second half of 2011, the propelling strength of external sector will turn to moderate. Accompanying with slightly shrank domestic demand, real GDP is forecasted to grow 4.81% in 2011, 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 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 Q2 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$ 112.2 billion for the first half year of 2011, dramatically increasing by NT$ 21.8 billion or 24.1% compared to the same period in 2010. The main reason behind this was the net interest revenues increased. The major income statement components are tabulated as follows:

### *Major Income Statement Components*

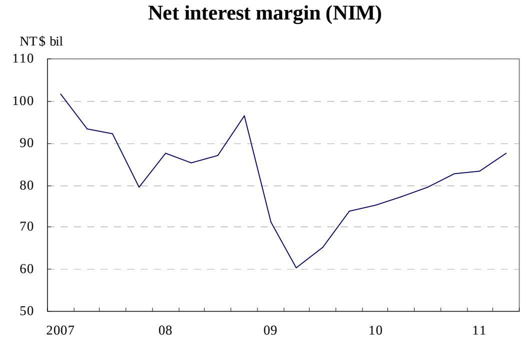
NT$ Billion

| | Jan.-June 2010 | Jan.-June 2011 | % Change |
|---|---|---|---|
| ***Income*** | | | |
| Net interest revenues | 152.7 | 170.9 | 11.9 |
| Net revenues other than interest | 98.6 | 108.9 | 10.4 |
| ***Expense*** | | | |
| Loan loss provision | 18.3 | 13.3 | -27.3 |
| Other expense | 142.6 | 154.3 | 8.2 |
| ***Net income*** | 90.4 | 112.2 | 24.1 |

## *Net interest margin（NIM）increased*

NIM reported NT$87.5 billion for the second quarter of 2011, increasing by NT$4.1 billion or 4.9% compared to the previous quarter (Chart 1).

Chart 1

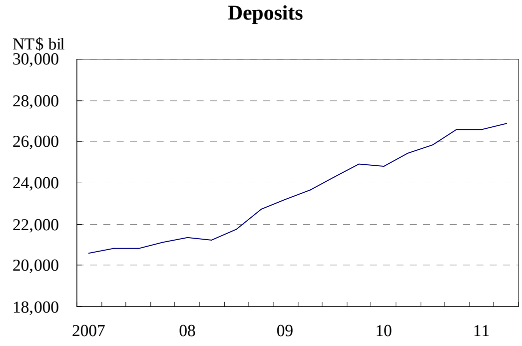



Note: Data are on a quarterly basis.

## *Deposits increased*

As of end-June 2011, total deposits amounted to NT$26,865.9 billion, increasing by NT$247.1 billion or 0.9% compared to the previous quarter. The annual growth rate of total deposits was 6.96%, increased by 1.54 percentage points from 5.42% as of end-June 2010 (Chart 2).

Chart 2

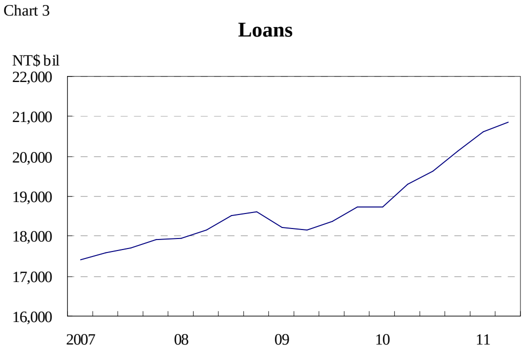



Note: Data are on a quarterly basis.

## *Loans increased*

Total loans amounted to NT$20,873.1 billion as of end-June 2011, increasing by NT$252.4 billion or 1.2% compared to the previous quarter. The annual growth rate of total loans registered 9.26%, dramatically increased by 3.88 percentage points from 5.38% as of end-June 2010 (Chart 3).

Chart 3

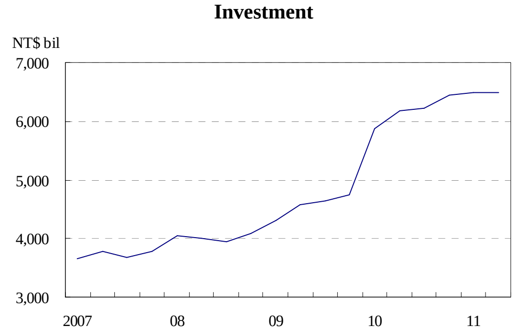



Note: Data are on a quarterly basis.

## *Investments increased*

Total investments reached NT$6,496.1 billion as of end-June 2011, increasing by NT$14.7 billion or 0.2 % compared to the previous quarter, mainly due to an increase of purchasing negotiable certificate of deposits issued by the CBC (Chart 4).

Chart 4



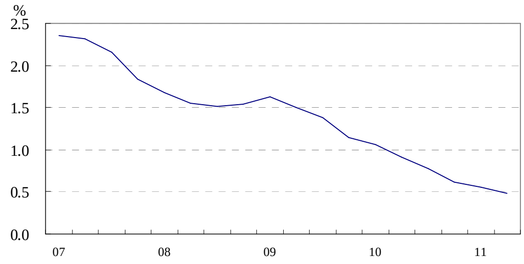

Note: Data are on a quarterly basis.

## *Asset quality remained satisfactory*

The average NPL ratio stood at 0.48% as of end-June 2011, decreasing by 0.07 percentage points compared to the previous quarter (Chart 5). Asset quality for the overall banking sector kept satisfactory. The average provision coverage ratio was 228.05%, 22.68 percentage points up from 205.37% as of end-March 2011.

Chart 5

**NPL ratio**



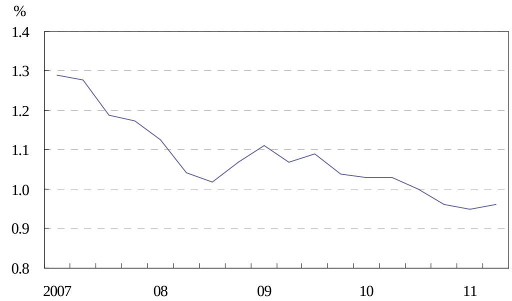

Note: Data are on a quarterly basis.

## *Provision-to-loan ratio increased slightly*

The average provision-to-loan ratio was 0.96% as of end-June 2011, slightly increasing by 0.01 percentage points compared to the end of previous quarter (Chart 6).

Chart 6

**Provision-to-loan ratio**



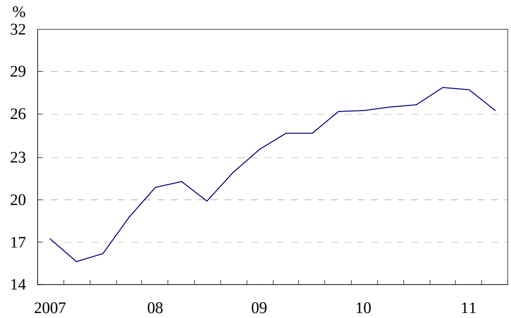

Note: Data are on a quarterly basis.

## *Liquidity kept ample*

The average liquidity ratio was 26.30% for domestic banks as a whole in June 2011, decreasing by 1.4 percentage points from 27.70% in March 2011. Every domestic bank met the regulatory liquidity ratio requirement of 7%. Liquidity for domestic banking sector kept ample. (Chart 7)

Chart 7

**Liquidity ratio**



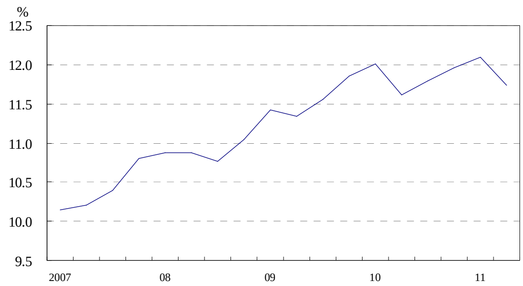

Note: Data are on a quarterly basis.

## *Average capital adequacy ratio decreased*

The average capital adequacy ratio was 11.73% as of end-June 2011, decreasing by 0.36 percentage points compare to the previous quarter (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.