Condition and Performance of Domestic Banks

Third Quarter 2012

■ *Summary of condition and performance*

For local economy, the passive consumer sentiment curbed the private consumption and pressed the growth of domestic demand. Associated with flat external sector, the seasonally adjusted annual rate (saar) of real GDP was 3.91% in 2012Q3. Looking forward, recent Taiwan's export is benefited from pick-up of chips and components demands for the upcoming new mobile device products, which pushed the expansion of external sector in 2012Q4. In whole, real GDP is forecasted to grow by 1.13% 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-Sept. 2012, 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 the three quarters 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$ 196.5 billion for the first three quarters of 2012, increasing by NT$ 28.9 billion or 17.2% 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

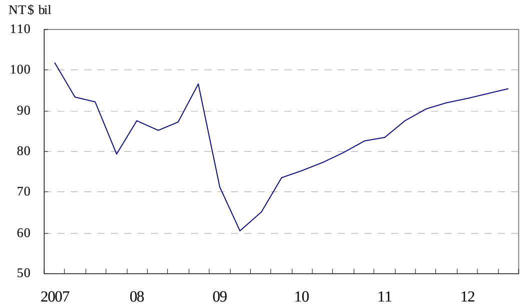
	Jan.-Sept. 2011	Jan.-Sept. 2012	% Change
Income			
Net interest revenues	261.5	282.9	8.2
Net revenues other than interest	161.9	174.8	8.0
Expense			
Loan loss provision	25.5	24.4	-4.3
Other expense	230.3	236.8	2.8
Net income	167.6	196.5	17.2

Net interest margin（NIM）slightly increased

NIM reported NT$95.5 billion for 2012Q3, slightly increasing by NT$1.2 billion or 1.3% compared to the previous quarter (Chart 1).

Chart 1

Net interest margin (NIM)



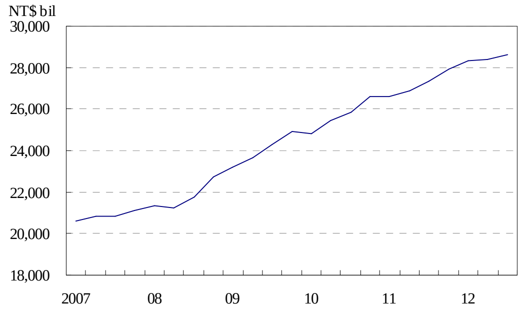
Note: Data are on a quarterly basis.

Deposits increased

As of end-Sept. 2012, total deposits amounted to NT$28,627.8 billion, increasing by NT$244.2 billion or 0.9% compared to end-June 2012. The annual growth rate of deposits was 3.97% as of end-Sept. 2012, decreasing by 0.71 percentage points compared to the previous quarter (Chart 2).

Chart 2

Deposits



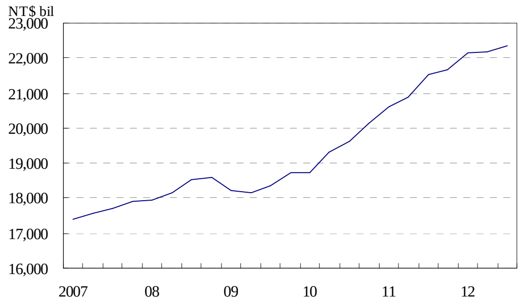
Note: Data are on a quarterly basis.

Loans increased

Total loans amounted to NT$22,337.9 billion as of end-Sept. 2012, increasing by NT$140.7 billion or 0.6% compared to end-June 2012. The annual growth rate of loans registered 3.02% as of end-Sept. 2012, decreasing by 2.78 percentage points compared to the previous quarter (Chart 3).

Chart 3

Loans



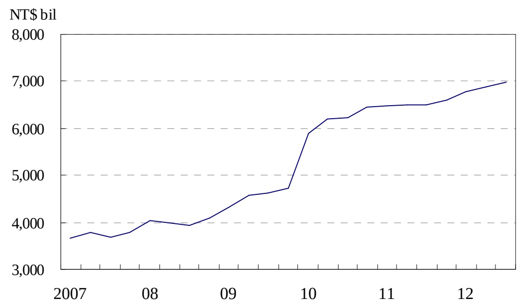
Note: Data are on a quarterly basis.

Investments increased

Total investments reached NT$6,990.2 billion as of end-Sept. 2012, increasing by NT$102.7 billion or 1.5% compared to end-June 2012, mainly due to an increase of purchasing negotiable certificate of deposits issued by the Central Bank. The annual growth rate of investment reached 7.53% as of end-Sept. 2012, increasing by 0.54 percentage points compared to the previous quarter (Chart 4).

Chart 4

Investment



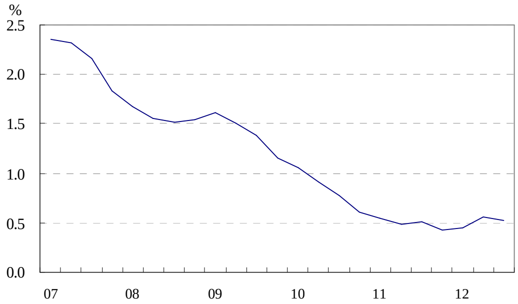
Note: Data are on a quarterly basis.

Asset quality remained satisfactory

The average NPL ratio stood at 0.52% as of end-Sept. 2012, decreasing by 0.04 percentage points compared to end-June 2012 (Chart 5). Asset quality for the overall banking sector kept satisfactory. The average provision coverage ratio was 293.45%, increasing by 25.67 percentage points compared to end-June 2012.

Chart 5

NPL ratio



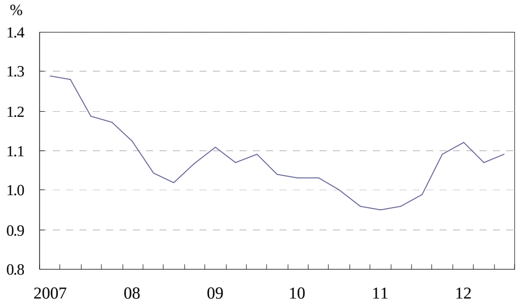
Note: Data are on a quarterly basis.

Provision-to-loan ratio increased slightly

The average provision-to-loan ratio was 1.09% as of end-Sept. 2012, increasing by 0.02 percentage points compared to end-June 2012 (Chart 6).

Chart 6

Provision-to-loan ratio



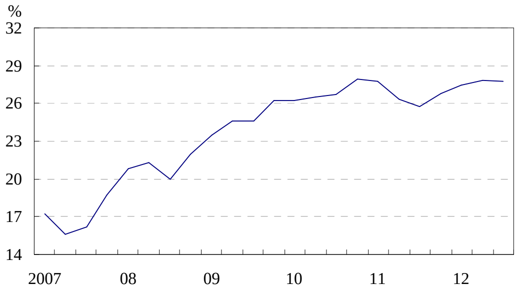
Note: Data are on a quarterly basis.

Liquidity kept ample

The average liquidity ratio was 27.74% for domestic banks as a whole in Sept. 2012, decreasing by 0.09 percentage points compared to that in June 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 12.37% as of end-Sept. 2012, increasing by 0.42 percentage points compared to end-June 2012 (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.