Condition and Performance of Domestic Banks

Fourth Quarter 2012

■ *Summary of condition and performance*

For local economy, the resilient external demand propelled the real exports of goods and services in 2012Q4. Coupling with moderate growth of the domestic sector, Taiwan's seasonally adjusted annualized rate (saar) of real GDP was 7.30% in 2012Q4. The year-on-year (yoy) growth rate of unadjusted GDP was 3.72%. For 2012 as a whole, Taiwan's real GDP grew by 1.26% and CPI increased 1.93%. The recovery momentum of world economy is anticipated to be stabilized in 2013 despite of various uncertain risks ahead. In consequence, Taiwan's export is expected to grow fairly. Added with domestic sector, the real GDP is predicted to grow by 3.59% in 2013 as CPI is expected to rise 1.37%, 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-Dec. 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 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$ 240.7 billion for 2012, increasing by NT$ 39.9 billion or 19.9% 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

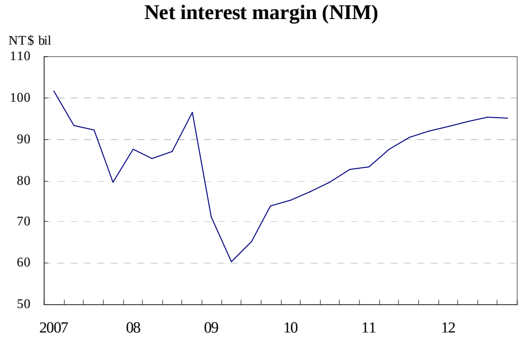
NT$ Billion

	Jan.-Dec. 2011	Jan.-Dec. 2012	% Change
Income			
Net interest revenues	353.3	377.9	7.0
Net revenues other than interest	210.9	228.8	8.5
Expense			
Loan loss provision	49.4	44.2	-10.5
Other expense	314.0	321.8	2.5
Net income	200.8	240.7	19.9

Net interest margin（NIM）slightly decreased

NIM reported NT$95.1 billion for 2012Q4, slightly decreasing by NT$0.4 billion or 0.4% compared to the previous quarter (Chart 1).

Chart 1

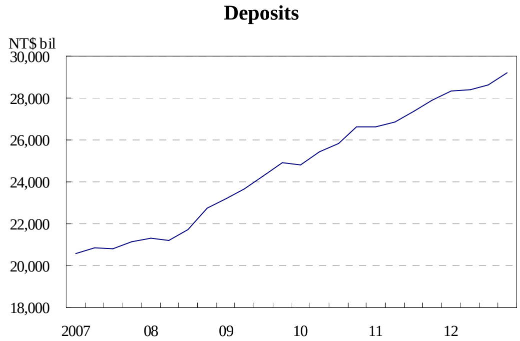


Note: Data are on a quarterly basis.

Deposits increased

As of end-Dec. 2012, total deposits amounted to NT$29,172.9 billion, increasing by NT$545.1 billion or 1.9% compared to end-Sept. 2012. The annual growth rate of deposits was 3.96% as of end-Dec. 2012, decreasing by 0.01 percentage points compared to the previous quarter (Chart 2).

Chart 2

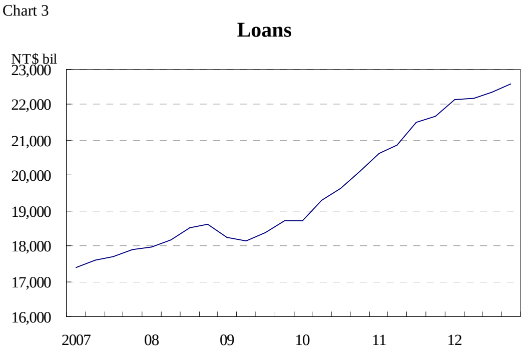


Note: Data are on a quarterly basis.

Loans increased

Total loans amounted to NT$22,604.7 billion as of end-Dec. 2012, increasing by NT$266.8 billion or 1.2% compared to end-Sept. 2012. The annual growth rate of loans registered 4.03% as of end-Dec. 2012, increasing by 1.01 percentage points compared to the previous quarter (Chart 3).

Chart 3

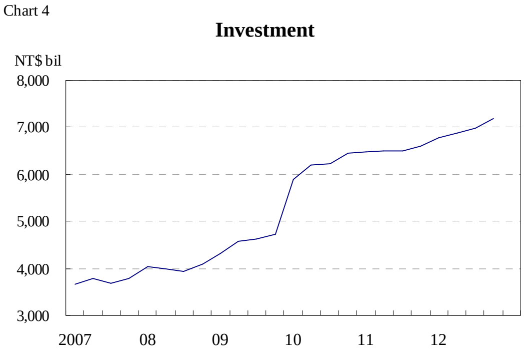


Note: Data are on a quarterly basis.

Investments increased

Total investments reached NT$7,177.5 billion as of end-Dec. 2012, increasing by NT$187.3 billion or 2.7% compared to end-Sept. 2012, mainly due to an increase of purchasing negotiable certificate of deposits issued by the Central Bank. The annual growth rate of investment reached 8.14% as of end-Dec. 2012, increasing by 0.61 percentage points compared to the previous quarter (Chart 4).

Chart 4



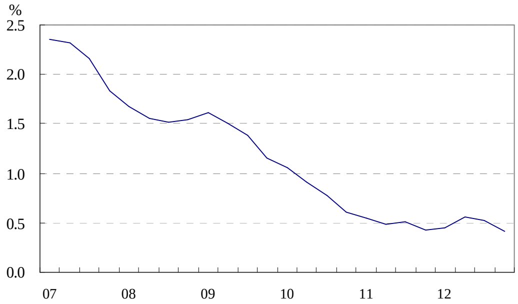
Note: Data are on a quarterly basis.

Asset quality remained satisfactory

The average NPL ratio stood at 0.41% as of end-Dec. 2012, decreasing by 0.11 percentage points compared to end-Sept.2012 (Chart 5). Asset quality for the overall banking sector kept satisfactory. The average provision coverage ratio was 373.62%, increasing by 80.17 percentage points compared to end-Sept. 2012.

Chart 5

NPL ratio



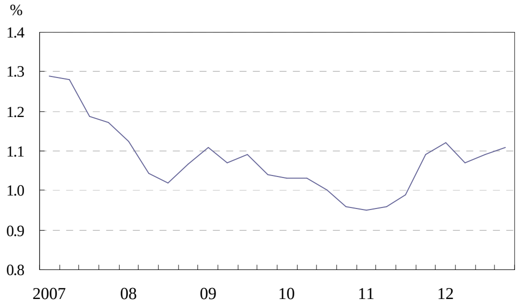
Note: Data are on a quarterly basis.

Provision-to-loan ratio increased slightly

The average provision-to-loan ratio was 1.11% as of end-Dec. 2012, increasing by 0.02 percentage points compared to end-Sept. 2012 (Chart 6).

Chart 6

Provision-to-loan ratio



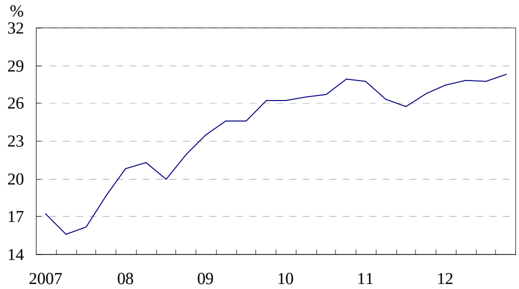
Note: Data are on a quarterly basis.

Liquidity kept ample

The average liquidity ratio was 28.29% for domestic banks as a whole in Dec. 2012, increasing by 0.55 percentage points compared to that in Sept. 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



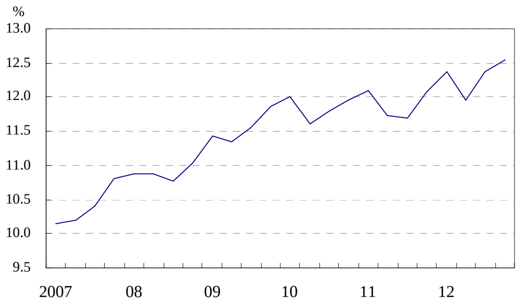
Note: Data are on a quarterly basis.

Average capital adequacy remained satisfactory

The average capital adequacy ratio was 12.55% as of end-Dec. 2012, increasing by 0.18 percentage points compared to end-Sept. 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.