

Financial Developments

II. Financial Developments

1. Overview

With the spread of the European sovereign debt crisis and a weakened global economy, domestic economic activity in 2012 advanced at a tepid pace and the demand for funds was not strong. These factors led to slower expansion in bank loans and investments, thereby curbing M2 growth. As uncertainty intensified for the global economy and domestic inflationary pressures increased, the Bank decided to keep policy rates unchanged. As a result, most banks held their posted interest rates on deposits and loans steady for the year. In terms of exchange rate movements, the NT dollar fluctuated against the US dollar with modest volatility during the year. In Taiwan's stock market, both the price indices and trading volume fell mainly owing to unstable international financial markets, fuel and electricity price hikes, and debate over a capital gains tax on income from securities. In addition, bond yields trended lower compared to those of the previous year because of the sluggish global economy and weak domestic demand.

Growth in Monetary Aggregates Decreased

Affected by the spillover of the European debt problem and frail domestic demand, the growth in banks' corporate lending moderated in 2012. The monetary aggregate M2 recorded an annual growth rate of 4.17 percent, lower than the previous year's 5.83 percent and remaining within the Bank's 2.5 percent to 6.5 percent target range for the year. The annual growth rate of M1B decelerated to 3.45 percent, decreasing by 3.71 percentage points from the previous year. The decline mostly reflected weakened demand for funds owing to sluggish economic activity and the shift of funds from transaction deposits to non-transaction deposits and foreign currency deposits. Moreover, strained by the issue of reintroducing a capital gains tax and fuel and electricity price hikes, stock market trading volume shrank for the year, which also depressed the growth rate of M1B.

Growth in Bank Loans and Investments Slowed

In the first three quarters of the year, the growth rate of bank loans and investments slid from 5.22 percent in January to 4.51 percent in September, mainly because the demand for funds was dampened by the economic slowdown. However, the growth in bank loans and investments soared as the economy recovered in the fourth quarter. At the end of December, the loans and investments of monetary financial institutions grew at an annual rate of 5.69 percent, slightly lower than 6.00 percent registered a year earlier. If the loans and investments of life insurance companies, non-accrual loans reclassified, and bad loans written off by monetary financial institutions, as well as

funds raised directly from capital markets, were all taken into account, the total funds raised by the non-financial sector would register an annual growth rate of 4.55 percent at the end of December, lower than the 5.06 percent recorded a year earlier.

Financial Health of Domestic Banks Continued to Improve

Although the European debt crisis heightened the uncertainty surrounding global financial markets, the asset quality of Taiwan's banks remained sound owing to limited exposure to European debt. The overall non-performing loan ratio decreased from the previous year end's 0.43 percent to 0.40 percent at year end. The pre-tax profits of monetary financial institutions kept growing during the year, and their average return on assets and return on equity were both higher than those of the previous year, rising respectively from 0.59 percent and 9.33 percent to 0.68 percent and 10.41 percent.

Average Interest Rates on Deposits and Loans Rose Mildly

In view of greater uncertainty in the global economy and the increasing pressures of domestic inflation, the Bank decided to keep policy rates unchanged to maintain price and economic stability. As a result, most banks held their posted interest rates on deposits and loans steady throughout 2012. The average fixed rate on one-year time deposits of the five major domestic banks maintained the same level as that at the end of December 2011, while their weighted average rate on new loans rose slightly because of increases in the rate on current operations loans. For the whole year of 2012, the weighted average interest rate on deposits in domestic banks showed an increase from 0.75 percent in the previous year to 0.82 percent, mainly owing to the flat transaction demand for money and the shift of funds from demand deposits to time deposits in the first half of the year. The average interest rate on loans also rose slightly from 2.16 percent to 2.24 percent during the same period because some banks raised their base lending rates.

Money Market Rates Rose Slightly

As the government announced the prices of both fuel and electricity would be adjusted upward in April, the Bank conducted open market operations more aggressively to ensure price stability and prevent excess liquidity from affecting the stability of financial markets. As a result, the interbank overnight call loan rate rose from 0.402 percent in March to 0.513 percent in June. In the second half of the year, the eurozone recession, China's cooling economy and the weak expansion of the US economy added to the risks to Taiwan's economic outlook. Consequently, businesses and consumers became cautious, and the interbank call-loan rate trended down and then remained steady. For the year 2012, the average interbank overnight call loan rate was 0.428 percent, increasing by 8.7 basis points from the previous year. Compared to the overnight call loan rate, the rate on commercial paper was more stable, mainly attributable to the easy funding conditions in

primary and secondary markets.

Exchange Rate Movements Were Mixed

From January to April, the NT dollar appreciated moderately against the US dollar and the closing interbank exchange rate climbed up from 30.290 the previous year end to 29.232 at the end of April. Thereafter, hedge demand caused the US dollar to strengthen, mainly because of the deteriorating European sovereign debt crisis, decelerating global economic growth and sluggish international stock markets. Meanwhile, foreign investors sold off in Taiwan's stock market. All these factors led the interbank closing exchange rate down to 30.010 at the end of July. From September, with the Fed's third round of quantitative easing (QE3) and the ECB's Outright Monetary Transaction (OMT) bond buying program, international capital flowed into Asia's emerging economies and the NT dollar firmed. At the end of 2012, the NT dollar appreciated against the US dollar by 3.96 percent compared to the end of the previous year. However, the NT dollar depreciated against the US dollar by 0.51 percent on a daily average basis.

Stock Market Experienced Sharper Swings

Early in the year, with rising hopes for the resolution of the European sovereign debt crisis and the improved US economic performance, Taiwan's economy was expected to grow mildly and the Taiwan Stock Exchange Capitalization Weighted Stock Index (TAIEX) reached a yearly high of 8,144 on March 2. From April, the issue of capital gains tax and a price hike for fuel and electricity, combined with the European debt woes and the sluggish economic growth of the US, Europe and China, caused the TAIEX to fall to a yearly low of 6,895 on June 4. In August, coupled with the easing of the European sovereign debt crisis, investors turned optimistic and Taiwan's stock market turned bullish. In September, bolstered by the ECB's announcement of the OMT and the US and Japan both adopting quantitative easing, global stock markets rallied. Moreover, with the recovery of Taiwan's exports and the signing of the MOU on cross-strait currency settlement, the TAIEX continued to soar. In October, the confidence of investors turned weak and the TAIEX declined, owing to the uncertainties of the US "fiscal cliff", a change in the National Health Insurance regime to require a supplementary premium from stock dividends, and the investment losses of the government pension funds. Afterwards, with positive developments in US "fiscal cliff" negotiations and a stimulus package for the stock market proposed by the government, the TAIEX went up to 7,700 on December 28, an increase of 8.9 percent as compared to the end of 2011. However, measured on a daily average basis, the TAIEX was 7,481 in 2012, a decline of 8.3 percent as compared to 2011.

Declining Bond Yields Boosted Corporate Bond Issuance

In 2012, the yields on government bonds recorded a moderate downtrend owing to the frail

international financial conditions and the moderation of the domestic economy. The yields on government bonds at each maturity averaged lower than in the previous year. Yield spreads between long-term and short-term bonds were almost the same as those in the previous year, and the yield curve was still flat. The yield on benchmark 10-year government bonds edged down from 1.2856 percent at the end of the previous year to 1.1673 percent at the end of 2012. Regarding corporate bond issuance, because the demand for funds shrank amid the moderating economic growth, the willingness to issue bonds weakened in the first half of the year. However, from the middle of the year onwards, declining interest rates on government bonds, which led the cost of issuing corporate bonds lower, boosted the willingness of companies to tap the corporate bonds market. Compared to the previous year, the issuing amount of corporate bonds increased considerably. The weighted average rates of corporate bonds went down compared to those in the previous year, owing to the ample liquidity in the market.



2. Monetary Aggregates

The Bank has selected the monetary aggregate M2 as the intermediate target since 1992. For the year 2012, M2 recorded an annual growth rate of 4.17 percent, lower than the previous year's 5.83 percent but still within the Bank's target range of 2.5 percent to 6.5 percent. Compared with the 1.26 percent GDP growth, the money growth indicated there was sufficient liquidity to support economic activity.

The annual growth rate of the narrow monetary aggregate M1B decelerated to 3.45 percent in 2012 from the previous year's 7.16 percent. The decline mainly resulted from a shift of funds from transaction deposits to non-transaction deposits and foreign currency deposits, and the shrinking trading volume in the stock market during the year.

Moderate Growth of Reserve Money

For the year 2012, reserve money grew at a slower pace, with the average annual growth rate falling from the previous year's 7.24 percent to 4.91 percent. As for the components of reserve money, bank reserves grew slower at 2.19 percent when compared with the previous year's 5.46 percent, while the growth of currency held by the non-bank public decreased to 8.74 percent from 9.84 percent one year earlier.

In terms of the monthly movements of reserve money, as the Chinese New Year holidays fell on different months in 2012 and 2011, the annual growth rates of reserve money for January and February were more volatile, which combined to average 5.63 percent. In subsequent months, the annual growth rates generally trended down and reached an all-year low of 4.14 percent in September. With the economic recovery and a lower base effect, the annual growth rates of reserve money turned upwards from October onwards.

On the demand side, currency held by the non-bank public grew moderately because the low interest rates paid on bank deposits enhanced the willingness to hold currency in hand. For banks, slower expansion of loans and the shift of money from transaction deposits to non-transaction deposits and foreign currency deposits both reduced banks' demand for reserves (time deposits are subject to a lower

Annual Growth Rate of Reserve Money



Source: Financial Statistics Monthly, CBC.

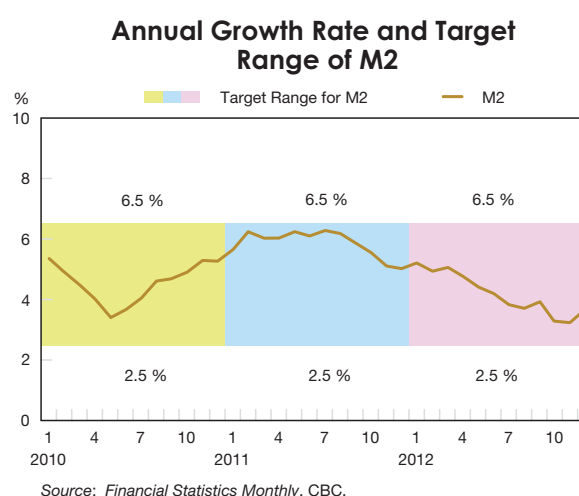
required reserve ratio, whereas there is no NT dollar reserve requirement on foreign currency deposits).

From the supply side perspective, the balance sheet of the Bank revealed the sources of changes in reserve money. The increase mostly resulted from the increase in foreign assets and the decrease in the issuance of certificates of deposit (CDs), while the decrease was mainly attributable to the decrease in claims on financial institutions.

Tepid Growth of M2

The monetary aggregate M2 is comprised of currency in circulation, deposits in banks' checking and passbook accounts, and quasi-money. The annual growth rate of M2 in 2012 was 4.17 percent, 1.66 percentage points down from the previous year's figure and slightly lower than the median of the Bank's target range.

The monthly movements of the M2 annual growth rate in 2012 were all within the Bank's target range and generally exhibited a downward trend. In January, M2 growth reached its all-year high of 5.22 percent because of the Chinese New Year factor and net foreign capital inflows. For the rest of the year, slower growth in bank loans and investments and re-allocation of funds towards non-deposit products such as insurance and mutual funds brought down the pace of monthly M2 growth. The M2 growth rate hit a yearly low of 3.26 percent in November.

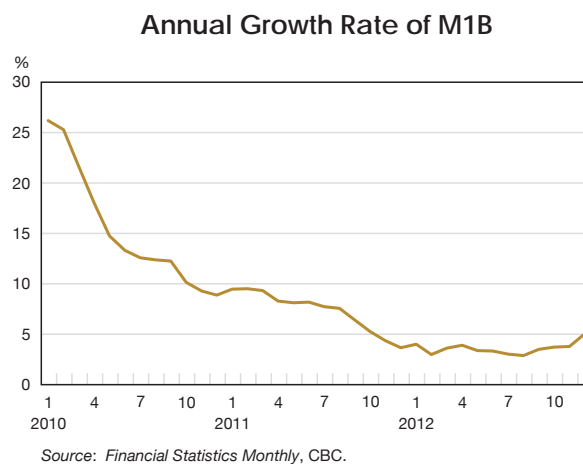


Decline in M1B Growth

In the first three quarters of 2012, the stock trading volume declined and money shifted from transaction deposits to non-transaction deposits and foreign currency deposits owing to the global economic slowdown and the concern about the reintroduction of a capital gains tax. As a result, the M1B growth rates were driven down. In the fourth quarter, the trend reversed up as the economy mildly recovered. The average annual growth rate of M1B recorded 3.45 percent in 2012, 3.71 percentage points down from the previous year.

As for the monthly movements of M1B, the growth rates were greatly affected by the Chinese New Year factor in the first two months of the year. The annual growth rate of M1B rose to 3.47 percent in March because of a rally in the stock market. The M1B growth rate further went up to

3.77 percent in April. Between May and August, the M1B growth rate trended down owing to shrinking transactions in the stock market, the prolonged European debt crisis and the issue of the capital gains tax. The M1B growth rate hit a yearly low of 2.73 percent in August. From September onwards, the M1B growth rate trended up because of a rally in the stock market and net foreign capital inflows. The M1B growth rate reached a yearly high of 4.91 percent in December.



3. Banking Sector

Number of Monetary Financial Institutions

At the end of 2012, the number of monetary financial institutions (defined hereafter in this chapter as excluding the central bank) amounted to 396. Among them, the number of domestic banks increased by one with the opening of DBS Bank (Taiwan). The number of foreign and Mainland Chinese banks increased by two as Bank of China and Bank of Communications set up their branches in Taiwan. The number of farmers' and fishermen's associations remained the same, while the number of credit cooperatives decreased by one as a result of one being merged into E.SUN Commercial Bank.

Number of Monetary Financial Institutions by Category

Types of institutions	End of 2012	End of 2011	Annual Change
Total Number of Main Offices	396	394	2
Domestic Banks	39	38	1
Foreign Banks	30	28	2
Credit Cooperatives	24	25	-1
Credit Departments of Farmers' and Fishermen's Associations	302	302	0
Department of Savings and Remittances of Chunghwa Post Co.	1	1	0
Total Number of Branches	6,077	6,052	25
Local Branches	5,905	5,887	18
Overseas Branches	110	104	6
Offshore Banking Units	62	61	1

Sources: 1. *Financial Statistics Monthly*, CBC.
2. Department of Financial Inspection, CBC.

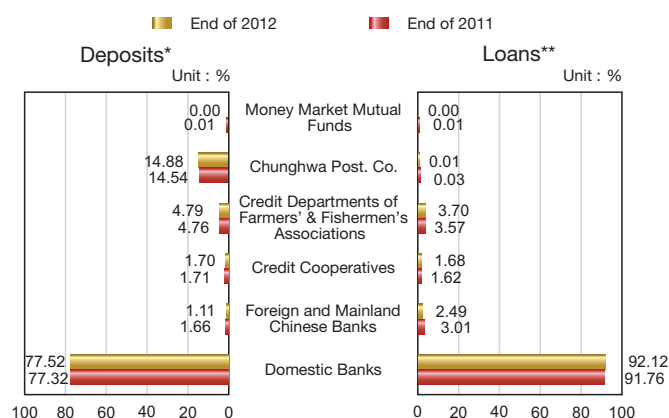
The number of money market mutual funds shrank to one at the end of 2012 because one fund offered by Taishin Bank was liquidated in October. The number of financial holding companies remained 16, the same as at the end of 2011.

Market Shares of Deposits and Loans

Domestic banks have played a major role in Taiwan's banking system. At the end of 2012, domestic banks accounted for 77.52 percent of deposits and 92.12 percent of loans in terms of market share, both higher than the previous year, owing to the transfer of business from DBS Bank Ltd., Taipei Branch, to the newly launched domestic-chartered DBS Bank (Taiwan) Ltd. Accordingly, foreign and Mainland Chinese banks' market shares of deposits and loans dropped to 1.11 percent and 2.49 percent, respectively. The Department of Savings and Remittances of Chunghwa Post Co.'s market share of deposits increased to 14.88 percent, while its market share of loans continued to

slip to a mere 0.01 percent because statutory restrictions on its lending business made it direct its funds into central bank redeposits and government bonds. Unlike the year before, credit departments of farmers' and fishermen's associations gained greater market shares in both deposits and loans, while credit cooperatives also saw a slight increase in their market share of loans, both attributable to their efforts to expand business. The market share of deposits for credit cooperatives, however, continued to fall owing to deposit outflows.

Market Shares of Deposits and Loans by Category of Monetary Financial Institutions



Note: * The carrying values of the host contracts of structured products issued by banks are excluded.

** Including data for securities acquired under reverse repurchase agreements.

Source: Financial Statistics Monthly, CBC.

Sources and Uses of Funds in Monetary Financial Institutions

At the end of 2012, the sources of funds in monetary financial institutions totaled NT\$37,209 billion, increasing by NT\$1,376 billion compared to the end of 2011. Among the sources of funds, the balance of transaction deposits increased compared to the end of 2011 because Taiwan's

Sources and Uses of Funds in Monetary Financial Institutions¹

Unit: NT\$ Billion

	End of 2012		End of 2011		Annual Change	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Sources:						
Transaction Deposits ²	11,215	30.14	10,723	29.92	492	0.22
Non-transaction Deposits ³	21,156	56.86	20,622	57.54	534	-0.68
Government Deposits	762	2.05	776	2.17	-14	-0.12
Borrowings from CBC	151	0.41	166	0.46	-15	-0.05
Other Items (Net)	3,925	10.54	3,547	9.91	378	0.63
Total	37,209	100.00	35,833	100.00	1,376	0.00
Uses:						
Net Foreign Assets ⁴	1,481	3.98	1,540	4.30	-59	-0.32
Loans	21,650	58.19	20,961	58.50	690	-0.31
Portfolio Investments ⁵	3,898	10.48	3,212	8.96	687	1.52
Purchases of CDs Issued by CBC	6,514	17.51	6,536	18.24	-22	-0.73
Deposits with CBC	3,666	9.84	3,585	10.00	81	-0.16

Notes: 1. Including Domestic Banks, Local Branches of Foreign and Mainland Chinese Banks, Credit Cooperatives, Credit Departments of Farmers' and Fishermen's Associations, Chunghwa Post Co., and Money Market Mutual Funds.

2. Including checking account deposits, passbook deposits and passbook savings deposits.

3. Including time deposits, time savings deposits, foreign currency deposits (excluding valuation changes in the exchange rate of the NT dollar against foreign currencies), postal savings deposits, non-residents' NT dollar deposits, repurchase agreements and money market mutual funds.

4. Excluding valuation changes in the exchange rate of the NT dollar against foreign currencies.

5. Measured at original costs.

Source: Financial Statistics Monthly, CBC.

stock market stabilized during the second half of 2012, resulting in a shift of funds into transaction deposits as well as a net foreign capital inflow. The balance of non-transaction deposits also increased compared to the end of 2011, yet with limited growth because of a shift of funds toward non-deposit products, such as insurance and mutual funds. Other sources of funds rose significantly, mainly owing to increased issuance of bank debentures as well as a rising amount of deposits from life insurance companies.

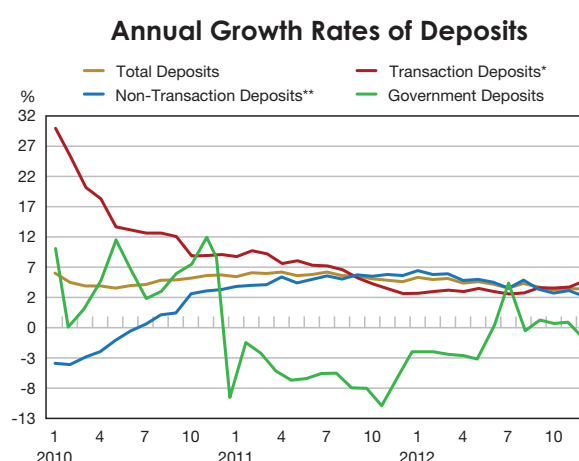
Regarding the uses of funds, because domestic economic growth was below expectation, corporate investment weakened, slowing banks' loan growth. However, with ample liquidity in the banking sector, portfolio investments continued to expand.

Downtrend in Deposit Growth

At the end of 2012, total deposits of monetary financial institutions grew by 3.15 percent, lower than 4.31 percent at the end of the previous year. This was mainly attributable to a modest deceleration in the growth in bank loans and investments.

The annual growth rate of deposits hit a yearly high of 4.99 percent at the end of January, reflecting a stronger demand for funds during the Chinese New Year holidays. Afterwards, given vigorous trading in the stock market and net foreign capital inflows, the annual growth rate of deposits stood at 4.69 percent and 4.84 percent at the end of February and March, respectively. In April, owing to a net outflow of foreign capital, as opposed to the significant foreign capital inflow in the same period of the previous year, the annual growth rate of deposits dropped slightly to 4.09 percent. In the following months, when the stock market began to falter, along with slower growth in bank loans and investments, deposit growth slowed steadily from 4.32 percent at the end of May to 3.30 percent at the end of July. Nevertheless, deposits posted 4.07 percent growth at the end of August owing to a significant increase in foreign currency deposits incurred by a wider goods trade surplus. From September to November, with declining net foreign capital inflows and a re-allocation of funds towards non-deposit products such as insurance and mutual funds, the annual growth rate of deposits edged down from 3.45 percent to 3.23 percent. At the end of the year, the annual growth rate of deposits was 3.15 percent owing to a higher base effect.

The annual growth rate of transaction deposits rose from the end of last year's 2.50



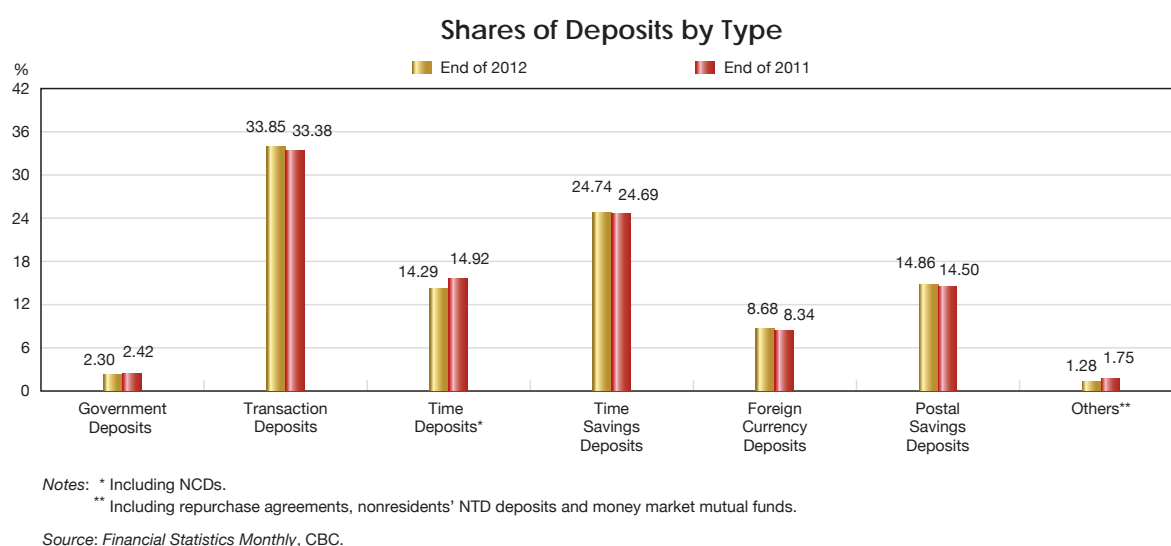
Notes: * Including checking account deposits, passbook deposits and passbook savings deposits.

** Including time deposits, time savings deposits, foreign currency deposits, postal savings deposits, non-residents' NT dollar deposits, repurchase agreements, and money market mutual funds.

Source: Financial Statistics Monthly, CBC.

percent to 4.59 percent at the end of the year, and its share in total deposits also increased. The growth was attributable to a shift of deposits from non-transaction to transaction accounts in the context of a steady economic recovery and the ensuing upswing in the stock market in the second half of 2012, while the interest rate spread between these two categories of deposits remained the same. Correspondingly, the annual growth rate of non-transaction deposits declined from 5.77 percent to 2.59 percent at the year end, with its share in total deposits decreased as well.

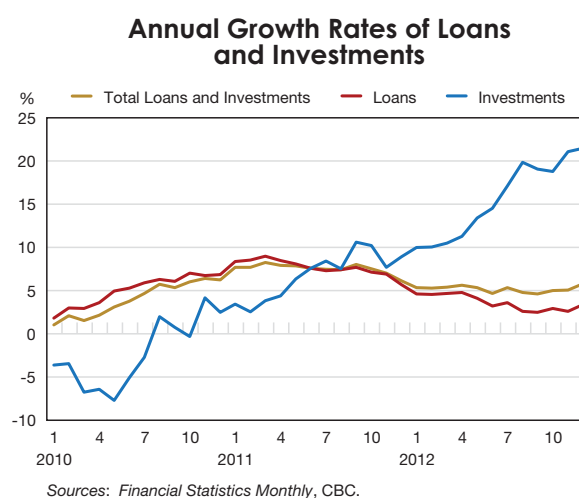
By type of non-transaction deposits, the respective shares of time savings deposits, foreign currency deposits, and postal savings deposits rose at the end of the year, while the shares of other types of non-transaction deposits decreased.



Despite a reduction in government deposits in monetary financial institutions resulting from a larger repayment of government bonds, government deposits growth improved from -7.02 percent to -1.81 percent at the end of 2012 on a lower base effect, and its share in total deposits shrank to 2.30 percent.

Slowing Growth in Banks' Loans and Investments

The annual growth rate of loans and investments of monetary financial institutions declined to 5.69 percent at the end of 2012, compared to 6.00 percent recorded at the end



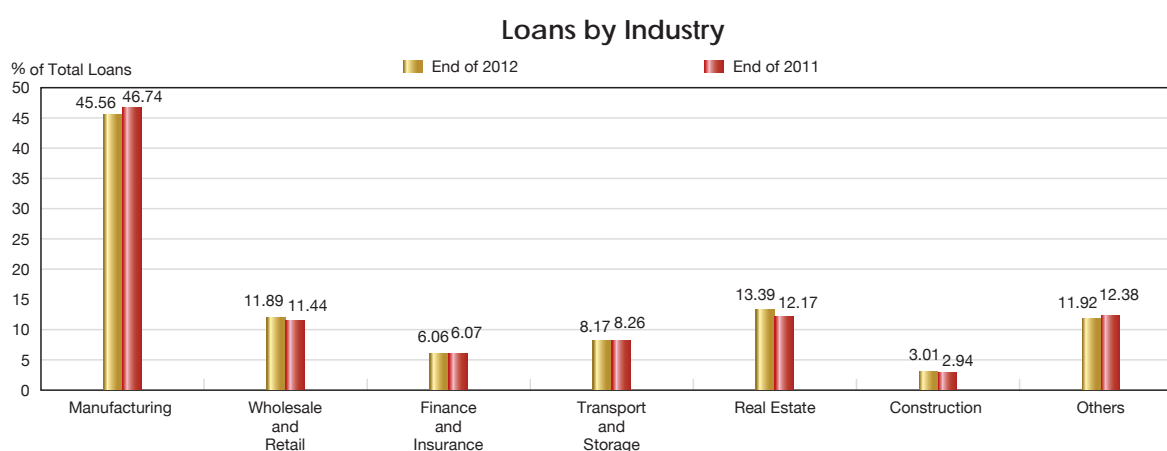
of the previous year. This was mainly due to the weak demand for funds among Taiwan's private enterprises amid a slowing global economy. Loans posted an annual growth rate of 3.29 percent at the end of 2012, lower than the 5.58 percent a year earlier, while the annual growth rate of investments rose to 21.37 percent in 2012 from the 8.84 percent in 2011 because of high liquidity in banks.

Loans by Sector

At the end of 2012, loans extended to the private sector, government agencies and public enterprises accounted for 88.75 percent, 7.85 percent and 3.41 percent of total loans, respectively. Because demand for funds decreased and banks were more prudent in their real estate lending to enhance their risk control, the annual growth rate of loans to the private sector declined to 3.57 percent at the end of 2012 from 6.20 percent at the end of the previous year. The annual growth rate of loans to public enterprises declined to -15.85 percent at the end of 2012 from 4.13 percent, mainly because public enterprises increased the issuance of commercial paper to meet their funding needs. Meanwhile, the annual growth rate of loans to government agencies rose to 3.95 percent from 2.15 percent of the previous year end.

Loans by Industry

Among all industries, the manufacturing sector continued to account for the largest portion of bank loans, with its share slightly decreasing from 46.74 percent at the previous year end to 45.56 percent at the end of 2012. This was mainly due to slowing growth in bank loans to the export industry. In addition, the respective shares of loans extended to the construction industry, the real estate industry, and the wholesale and retail industry increased in 2012 from the previous year end, while those to the transport and storage industry and the finance and insurance industry fell.



Source: Financial Statistics Monthly, CBC.

Consumer Loans

Owing to a moderating economy and further government actions to enhance the soundness of the housing market, the annual growth rate of consumer loans extended by banks decreased from 0.95 percent at the previous year end to 0.92 percent at the end of 2012.

Investments

Boosted by flush liquidity in the market and increased issuance of corporate bonds and bills, portfolio investments by monetary financial institutions measured on a cost basis showed an annual increase of NT\$686.4 billion (an increase of NT\$712.5 billion at fair value) or 21.37 percent at year end, higher than the NT\$261.0 billion or 8.84 percent registered a year earlier. Among the investment instruments, government bonds accounted for the largest share with 59.32 percent, though lower than the 64.38 percent registered a year ago, as banks and the Department of Savings and Remittances of Chunghwa Post Co. purchased more corporate bonds and commercial paper.

Increase in the Share of Indirect Finance

Financing channels of the non-financial sector comprise indirect finance and direct finance, referring respectively to borrowing from financial institutions and to issuing securities in the markets. The total amount of funds raised by the non-financial sector during the year 2012 decreased from the previous year's NT\$1,802.9 billion to NT\$1,707.1 billion. Funds raised in the year through borrowing from financial institutions decreased from the previous year's NT\$1,783.9 billion to NT\$1,690.1 billion, mainly owing to slower growth in bank lending. Meanwhile, funds raised by issuing securities increased

Indirect Finance vs. Direct Finance*

Unit: NT\$ Billion

Year	Indirect Finance (1)			Direct Finance (2)	Total Funds Raised (3)=(1)+(2)
	Loans	Investments	Subtotal		
2003	711.5	4.5	716.0	961.1	1,677.1
2004	1,569.7	246.2	1,815.9	313.4	2,129.3
2005	1,458.5	321.7	1,780.2	181.5	1,961.7
2006	820.6	537.1	1,357.7	-151.3	1,206.4
2007	737.0	228.6	965.6	82.7	1,048.3
2008	649.2	563.0	1,212.2	-316.1	896.1
2009	133.0	259.3	392.3	142.8	535.1
2010	1,242.6	433.8	1,676.4	165.5	1,841.9
2011	1,141.4	642.5	1,783.9	19.0	1,802.9
2012	809.4	880.7	1,690.1	17.0	1,707.1

Notes: * Measured in terms of flow data.

(1) Refers to loans and investments (measured on a cost basis) made by monetary financial institutions, trust and investment companies, and life insurance companies, after taking account of their non-accrual loans reclassified and bad loans written-off.

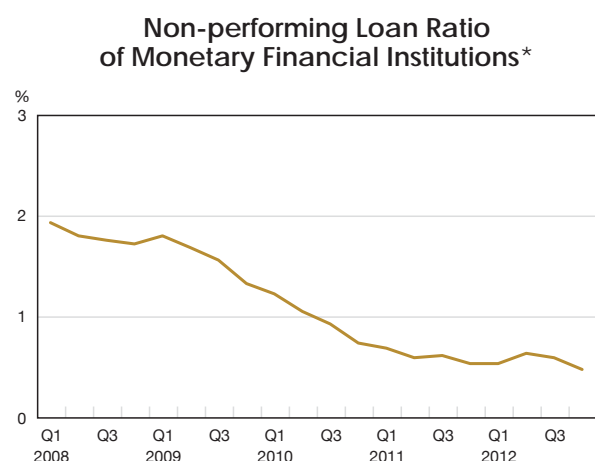
(2) Refers to the total amount of new issues of various marketable securities, including government bonds, corporate bonds, listed stocks, offshore bonds, depository receipts, short-term bills and asset-backed securities held by the non-financial sector.

Source: Financial Statistics Monthly, CBC

by NT\$17.0 billion. Based on the outstanding balance, the share of indirect finance in total funds increased from 78.30 percent at the end of 2011 to 78.90 percent at the end of 2012, while that of direct finance decreased from 21.70 percent to 21.10 percent.

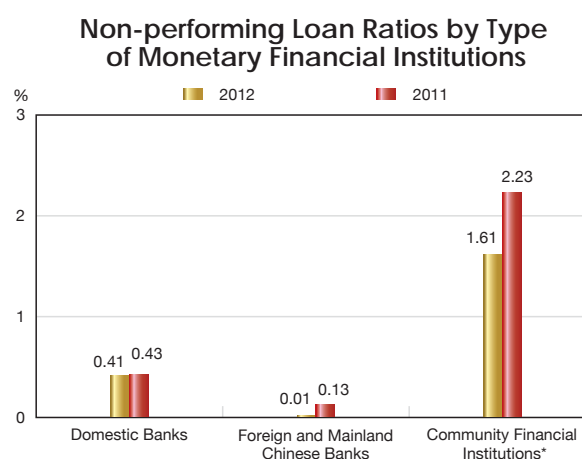
Decline in the Non-performing Loan (NPL) Ratio

In 2012, the outstanding amount of loans continued to increase, and non-performing loans decreased gradually. As a result, the average NPL ratio of monetary financial institutions as a whole declined to 0.45 percent at the end of 2012 from the previous year's 0.51 percent, indicating improved asset quality. Among the different types of financial institutions, the average NPL ratio of community financial institutions continued to show the biggest improvement during the course of the year.



Note: * Include domestic banks, foreign and Mainland Chinese banks, credit cooperatives, credit departments of farmers' and fishermen's associations, as well as trust and investment companies for data prior to 2008 Q4.

Source: Department of Financial Inspection, CBC.



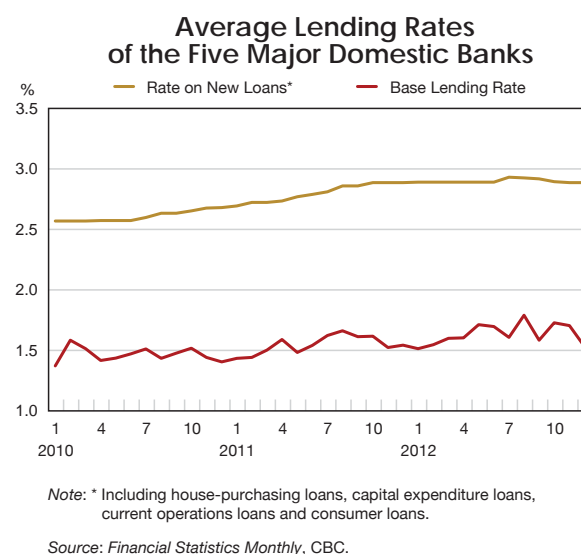
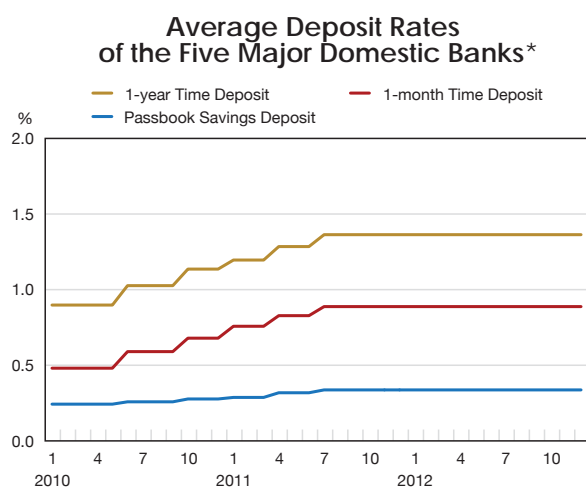
Notes: * Include credit cooperatives and credit departments of farmers' and fishermen's associations.

Source: Department of Financial Inspection, CBC.

Bank Interest Rates Unchanged

Against a backdrop of global economic slowdown and financial market uncertainties, domestic bank interest rates remained broadly steady as the Bank kept policy rates unchanged. In the case of the interest rates of the five major domestic banks, average fixed rates on one-month and one-year time deposits, respectively, remained at 0.88 percent and 1.36 percent at the end of 2012. Furthermore, the average base lending rate rose to 2.93 percent at the end of July from 2.88 percent at the end of 2011, but went down to 2.88 percent at the end of 2012.

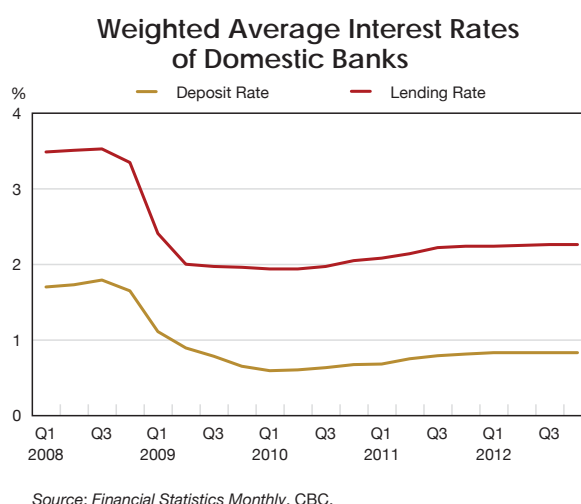
As banks' rates on current operations loans climbed in 2012, the weighted average interest rate on new loans of the five major domestic banks edged up from 1.54 percent in 2011 to 1.62



percent in 2012. Excluding central government loans, the weighted average interest rate on new loans increased from 1.57 percent in 2011 to 1.68 percent in 2012, up by 11 basis points.

The weighted average interest rates on deposits and loans of domestic banks edged up steadily in 2012. Stock market activity weakened through out the first half of the year and induced a shift of funds from transaction deposits to non-transaction deposits. The weighted average interest rate on deposits was 0.82 percent, which was 0.07 percentage points higher than that recorded in the previous year.

As some banks' base lending rates increased, the weighted average interest rate on loans moved upward from 2.16 percent to 2.24 percent during the same period. Because the increases in lending rates were more than in deposit rates, the interest rate spread between deposits and loans widened to 1.42 percentage points, slightly higher than the 1.41 percentage points recorded in 2011.



Improved Profitability

The pre-tax profits of monetary financial institutions increased by NT\$39.3 billion to a historical high of NT\$274.5 billion in 2012. Those of domestic banks increased by NT\$39.9 billion to NT\$240.7

Profits of Monetary Financial Institutions

Unit: NT\$ Billion

	Pre-tax Profits			Return on Assets (%)*			Return on Equity (%)**		
	2012	2011	Annual Change	2012	2011	Annual Change	2012	2011	Annual Change
Domestic Banks	240.7	200.8	39.9	0.65	0.57	0.08	9.87	9.04	0.83
Foreign and Mainland Chinese Banks	13.2	16.8	-3.6	0.55	0.59	-0.04	20.01	23.60	-3.59
Credit Cooperatives	2.3	1.8	0.5	0.38	0.30	0.08	5.83	4.61	1.22
Credit Departments of Farmers' and Fishermen's Associations	4.9	4.8	0.1	0.28	0.29	-0.01	4.70	4.85	-0.15
Department of Savings and Remittances, Chunghwa Post Co.	13.4	11.0	2.4	0.26	0.23	0.03	16.76	15.11	1.65
Total	274.5	235.2	39.3	0.58	0.52	0.06	10.06	9.39	0.67

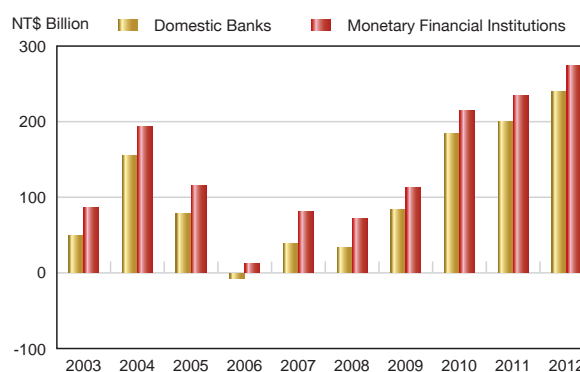
Notes: * Return on Assets = Pre-tax Profits / Total Assets

** Return on Equity = Pre-tax Profits / Net Worth

Source: Department of Financial Inspection, CBC.

billion, mainly owing to both increased net interest revenues and increases in the fair value of their financial assets and revenues from portfolio investments. The pre-tax profit of the Department of Savings and Remittances, Chunghwa Post Co. increased by NT\$2.4 billion to NT\$13.4 billion because of increases in the fair value of its financial assets and revenues from portfolio investments. The pre-tax profit of foreign and Mainland Chinese banks decreased by NT\$3.6 billion to NT\$13.2 billion because of the transfer of core business from DBS Bank Ltd., Taipei Branch to DBS Bank (Taiwan) Ltd.

Pre-tax Profits

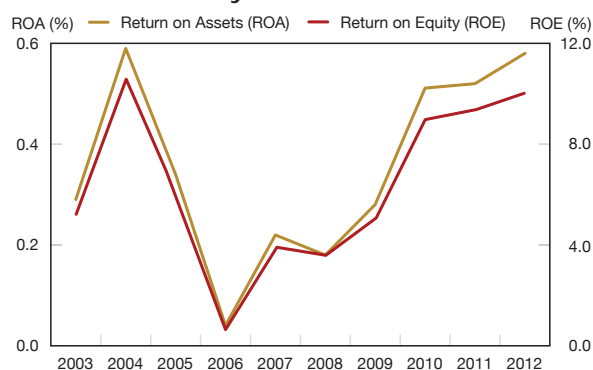


Source: Department of Financial Inspection, CBC.

Increases in Both ROA and ROE

The average return on assets (ROA) and return on equity (ROE) of monetary financial institutions in 2012 went up to 0.58 percent and 10.06 percent, respectively, from 0.52 percent and 9.39 percent a year earlier. Except foreign and Mainland Chinese banks and credit departments of farmers' and fishermen's associations, the ROAs and ROEs of all the other monetary financial institutions strengthened during the course of the year. Among monetary financial institutions, domestic banks

ROA and ROE of Monetary Financial Institutions

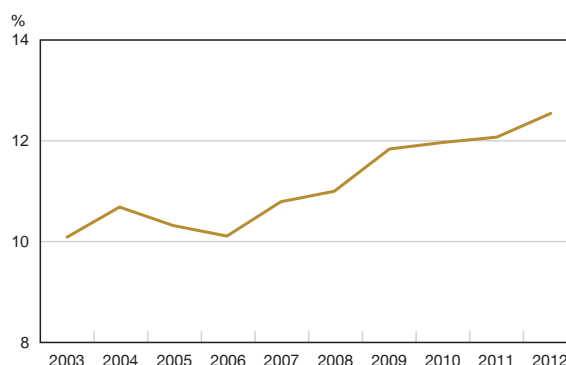


Source: Department of Financial Inspection, CBC.

were the best performers in terms of ROA, and foreign and Mainland Chinese banks performed the best in terms of ROE.

With regard to capital adequacy ratios, the average ratio for domestic banks rose to 12.55 percent at the end of the year from 12.07 percent at the previous year end on account of an increase of Tier 1 capital.

**Capital Adequacy Ratio
of Domestic Banks**



Source: Department of Financial Inspection, CBC.



4. Money Market

In April 2012, owing to the growing inflationary pressures resulting from fuel and electricity price hikes, the Bank decided to absorb excess liquidity and keep banks' excess reserves in check. As a result, the interbank overnight call loan rate went up slightly. In the second half of the year, because of the continuing economic slowdown, money market interest rates trended down and remained broadly stable at a low level. Total turnover in both the interbank call loan market and short-term bills market increased for the year.

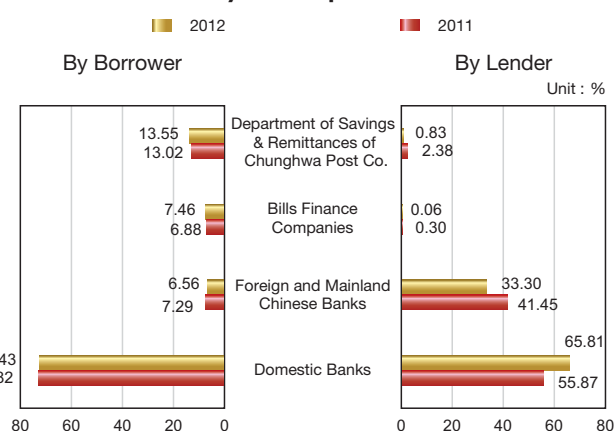
Increase in Interbank Call Loans

In 2012, total annual turnover of interbank call loans amounted to NT\$34,876.3 billion, showing an increase of 6.68 percent when compared with the previous year. The main cause was the interbank overnight call loan rate went up remarkably in the second quarter of the year. As a result, trading in shorter maturities in the interbank call loan market increased.

With regard to borrowers, domestic banks were still the largest player during the year, accounting for 72.43 percent of total transactions, followed by the Department of Savings & Remittances of Chunghwa Post Co., bills finance companies and foreign and Mainland Chinese banks, with shares of 13.55 percent, 7.46 percent and 6.56 percent, respectively. The amount borrowed by bills finance companies increased by 15.78 percent during the year because of their strong demand for funds, which was associated with commercial paper underwriting. The borrowed amount of the Department of Savings & Remittances of Chunghwa Post Co. and domestic banks also increased by 11.00 percent and 6.12 percent, respectively.

With respect to lenders, domestic banks continued to be the largest supplier of funds, accounting for 65.81 percent of total transactions in 2012. Those with smaller proportions were foreign and Mainland Chinese banks, the Department of Savings & Remittances of Chunghwa Post Co. and bills finance companies, with respective shares of 33.30 percent, 0.83 percent and 0.06 percent. The amount lent by domestic banks increased by 25.65 percent compared with the previous year because bills finance companies' borrowing needs became

Composition of Interbank Call Loan Market by Participant



Source: Financial Statistics Monthly, CBC.

stronger. Owing to the transfer of business from the Taipei Branch of DBS Bank Ltd. to the newly launched DBS Bank (Taiwan) Ltd., the amount lent by foreign and Mainland Chinese banks decreased by 14.29 percent, with the share declining from 41.45 percent in the previous year to 33.30 percent.

In terms of maturity, as the interbank overnight call loan rate went up in the first half of 2012, trading in shorter maturities in the interbank call loan market increased moderately. If broken down further, overnight interbank call loans remained the most actively traded instrument in the market with a predominant share of 66.94 percent, up by 2.53 percentage points from that of the previous year. Second were those with a maturity of 1 week, accounting for 29.36 percent, down by 2.40 percentage points from that of the previous year. The share of loans with a 2-week maturity declined to 2.97 percent from 3.59 percent in the previous year. Shares for the trading of those with maturities of 3 weeks, 1 month, 2-6 months, and above 6 months were negligible.

Increased Transactions in Short-Term Bills

In 2012, newly issued short-term bills totaled NT\$8,187.7 billion. Of the new issues of short-term bills, commercial paper continued to account for the lion's share of 89.30 percent. Second were negotiable certificates of deposit with a share of 7.17 percent, followed by treasury bills with a share of 3.24 percent. Bankers' acceptances made up a marginal share of 0.29 percent. Because market interest rates remained at low levels, private and government enterprises were more willing to issue commercial paper. Compared with the previous year, the growth rate of commercial paper issued was 16.60 percent. In contrast, the Ministry of Finance decreased the issues of treasury bills to lessen the financial burden of the government. As of the end of 2012, total outstanding short-term bills amounted to NT\$1,454.0 billion, 21.92 percent more than that of the previous year end.

Short-Term Bills Market

Unit: NT\$ Billion

Year	Total		Treasury Bills		Commercial Papers		Bankers' Acceptances		Negotiable Certificates of Deposit	
	Issues	Year-end Outstanding	Issues	Year-end Outstanding	Issues	Year-end Outstanding	Issues	Year-end Outstanding	Issues	Year-end Outstanding
2003	7,547.7	1,194.4	60.0	60.0	6,815.1	808.8	34.5	6.8	638.1	318.7
2004	6,888.8	1,316.5	130.9	130.9	5,642.7	775.6	35.2	7.6	1,080.0	402.4
2005	7,121.0	1,168.1	115.0	45.0	5,690.4	747.0	31.1	7.7	1,284.5	368.5
2006	7,004.0	1,092.4	45.0	25.0	5,879.8	717.6	36.1	8.1	1,043.1	341.7
2007	6,495.1	925.3	88.0	28.0	5,577.2	664.8	38.2	8.4	791.7	224.0
2008	6,948.6	969.8	240.0	106.8	6,074.7	690.2	33.3	4.9	600.6	167.8
2009	6,293.4	1,043.1	435.0	215.0	5,397.7	651.3	21.9	4.9	438.8	171.9
2010	7,140.8	1,167.5	365.0	240.0	5,903.4	686.1	33.1	6.2	839.3	235.2
2011	7,424.0	1,192.6	321.2	180.3	6,270.5	735.2	30.1	5.7	802.2	271.5
2012	8,187.7	1,454.0	265.0	195.0	7,311.6	1,023.6	24.2	4.3	586.9	231.1
2011-2012 Change	763.7	261.4	-56.2	14.7	1041.1	288.4	-5.9	-1.4	-215.3	-40.4
Growth Rate (%)	10.29	21.92	-17.50	8.15	16.60	39.23	-19.60	-24.56	-26.84	-14.88

Source: Financial Statistics Monthly, CBC.

In the secondary market, the total turnover of short-term bills in 2012 increased by 4.67 percent to NT\$59,371.6 billion. Of the total transactions, commercial paper still made up the largest share of 59.61 percent, representing a decrease of 3.39 percentage points compared with the previous year. It was followed by negotiable certificates of deposit with a share of 37.72 percent, representing an increase of 3.92 percentage points over 2011. Treasury bills and bankers' acceptances made up a negligible share of transactions. With respect to market participants, banks were the largest player in the market with a share of 38.73 percent, followed by private enterprises with a share of 32.25 percent.

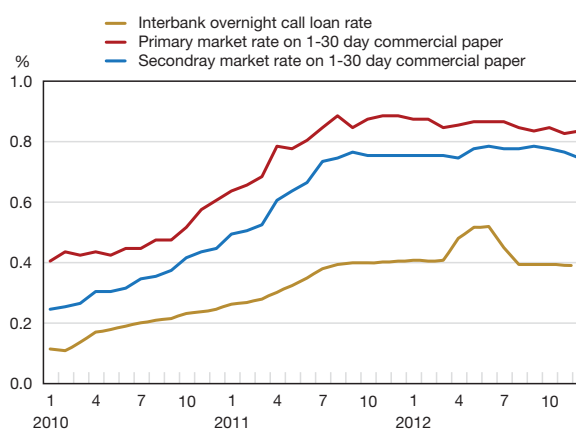
Stable Money Market Rates

In the second quarter of 2012, the domestic economy faced growing inflationary pressures resulting from fuel and electricity price hikes. The Bank decided to absorb excess liquidity and keep banks' excess reserves in check. The interbank overnight call loan rate went up from 0.402 percent in March to 0.513 percent in June.

In the second half of the year, owing to weaker external demand, export growth continued to contract and weighed on private investment and consumption. The interbank overnight call loan rate trended down to 0.388 percent in August and remained broadly stable in subsequent months. The average interbank overnight call loan rate was 0.428 percent in 2012, showing an increase of 8.7 basis points over the previous year.

The primary market rate on commercial paper with maturities of 1-30 days moved downward from 0.87 percent in January of 2012 to 0.83 percent in December of the same year. The secondary market rate on commercial paper with maturities of 1-30 days also descended slightly from 0.75 percent to 0.74 percent during the same period.

Money Market Interest Rates



Source: Financial Statistics Monthly, CBC.

Decrease in Money Market Funds

All quasi-money market funds have been converted to money market funds since the end of 2011. At the end of 2012, there were a total of 47 money market funds in Taiwan with total assets reaching NT\$713.2 billion, a decrease of NT\$42.5 billion or 5.6 percent over the previous year. With regard to portfolio composition, the largest use of the funds was bank deposits with a share of 74.0

percent at the end of the year, followed by repurchase agreements and short-term bills, with shares of 17.2 percent and 8.5 percent, respectively. The increase in bank deposits was mainly because the deposit rates were higher than the interest rates of repurchase agreements during the same period. The bond holding ratio of all money market funds, however, registered only 0.3 percent.

Portfolio Composition of Money Market Funds

Unit: %; NT\$ Billion

Year/Month End	Total	Bank Deposits		Repurchase Agreements		Short-Term Bills		Bonds	
		Amount	Share	Amount	Share	Amount	Share	Amount	Share
2010	779.1	495.6	63.6	172.1	22.1	82.2	10.6	29.2	3.7
2011	755.7	501.8	66.4	155.0	20.5	92.2	12.2	6.7	0.9
2012	713.2	527.7	74.0	123.0	17.2	60.6	8.5	1.9	0.3
2012 / 1	780.5	533.9	68.4	162.4	20.8	78.5	10.1	5.7	0.7
2	786.0	525.9	66.9	145.5	18.5	108.9	13.9	5.7	0.7
3	782.6	570.2	72.9	132.0	16.9	74.8	9.5	5.6	0.7
4	775.9	538.8	69.4	121.8	15.7	109.8	14.2	5.5	0.7
5	730.9	518.5	70.9	93.2	12.7	114.4	15.7	4.8	0.7
6	759.2	504.5	66.4	131.8	17.4	118.5	15.6	4.4	0.6
7	757.9	518.8	68.4	114.0	15.0	122.2	16.2	2.9	0.4
8	769.1	528.1	68.7	135.0	17.6	103.1	13.3	2.9	0.4
9	703.9	515.0	73.2	108.1	15.4	78.2	11.1	2.6	0.4
10	747.3	519.6	69.5	139.0	18.6	86.3	11.6	2.4	0.3
11	761.9	539.6	70.8	145.1	19.0	75.3	10.0	1.9	0.2
12	713.2	527.7	74.0	123.0	17.2	60.6	8.5	1.9	0.3

Note: 2010 data is Quasi-money Market Funds.

Source: Securities Investment Trust & Consulting Association of the R. O. C. (Taiwan).

5. Foreign Exchange Market

Slight Appreciation of the NT Dollar

On a daily average basis, the trade-weighted nominal effective exchange rate index of the NT dollar slightly increased by 0.28 percent in 2012. The exchange rate movements of the NT dollar against the US dollar, the euro, the Japanese yen, the Chinese renminbi (RMB), and the Korean won are analyzed as follows.

The NT dollar appreciated against the US dollar for the most part of the year. Because of the moderate recovery of the US economy and a rebound in global stock markets at the beginning of the year, international capital returned to Asian countries, leading the NT dollar to appreciate against the US dollar during this period to reach a high of 29.232 on April 30. In May, international stock markets slid as the European sovereign debt crisis worsened again. Foreign investors sold off in Taiwan's stock market, weakening the NT\$/US\$ exchange rate to a new yearly low of 30.206 on July 25. Thereafter, as a result of the third round of quantitative easing (QE3) announced by the US Federal Reserve and the unresolved US "fiscal cliff" problem, foreign capital flowed into Asia's emerging economies. The US dollar depreciated and the NT\$/US\$ exchange rate soared to a yearly high of 29.090 on November 12. Compared with the end of 2011, the NT dollar appreciated by 3.96 percent against the US dollar at the end of 2012. However, on a daily average basis, the NT\$/US\$ exchange rate depreciated by 0.51 percent in 2012.

With respect to the NT dollar exchange rate against the euro, it first appreciated and climbed to 38.069 on January 16 after S&P downgraded the credit ratings of nine member states of the eurozone. Then the NT\$/€ exchange rate hovered between 38.277 and 39.605 from mid-January to April. After May, there were concerns that Greece might leave the eurozone, and the government bond yield rate in Spain and Italy also rose sharply. Meanwhile, Moody's downgraded Germany's,

Percentage Changes of NTD Exchange Rate Against Major Currencies

	NTD/USD	NTD/EUR	NTD/JPY	NTD/RMB	NTD/KRW
Exchange Rate (2012/12/28)	29.136	38.610	0.33753	4.6741	0.027215
Exchange Rate (2011/12/30)	30.290	39.200	0.39049	4.8125	0.026298
Percentage Change	3.96%	1.53%	15.69%	2.96%	-3.37%
Average Exchange Rate (2012)	29.614	38.068	0.37115	4.6914	0.026288
Average Exchange Rate (2011)	29.464	40.959	0.36919	4.5599	0.026585
Percentage Change	-0.51%	7.59%	-0.53%	-2.80%	1.13%

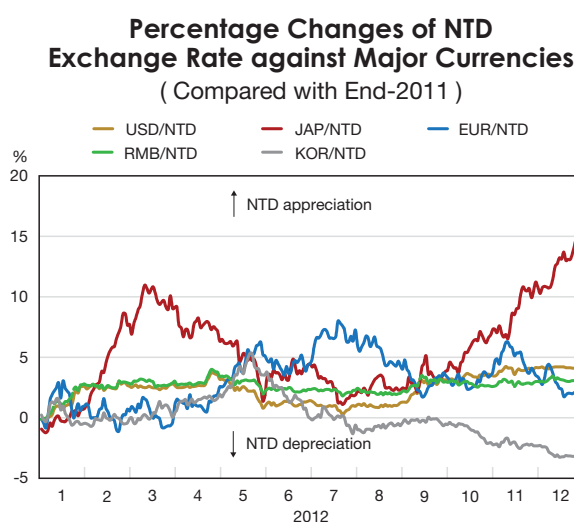
Source: Department of Economic Research, CBC.

Netherlands' and Luxembourg's credit ratings, and the market confidence in the euro deteriorated. Consequently, the NT\$/€ exchange rate rose to a yearly high of 36.391 on July 23. After that, the European Central Bank pledged to defend the euro, and member states also declared that they would safeguard the integrity of the eurozone. Thus, the euro appreciated and the NT\$/€ exchange rate declined to 38.536 on September 17. After October, the mixed messages of the eurozone economic outlook caused the NT\$/€ exchange rate to fluctuate between 36.960 and 38.610. Compared to the end of the previous year, the NT dollar appreciated against the euro by 1.53 percent. On a daily average basis, the NT dollar appreciated against the euro by 7.59 percent.

Early in the year, because Japan's trade deficit widened, the Japanese yen weakened. The NT dollar against the Japanese yen appreciated to 0.353 on March 15. Then, owing to the prolonged European debt crisis, the inflows of global hedge funds pushed the yen up. The NT\$/¥ exchange rate thus depreciated to 0.385 on June 4. From July to September, the yen fluctuated between 0.372 and 0.386. Towards the end of the year, market expectations of a weaker yen rose because Japan's incoming prime minister Abe asked the Bank of Japan to implement a more aggressive and easing monetary policy. This sent the yen lower, and the NT dollar against the yen rose to a yearly high of 0.338 on December 28. At the end of 2012, the NT dollar appreciated by 15.69 percent against the Japanese yen compared to the end of 2011. However, on a daily average basis, the NT\$/¥ exchange rate depreciated by 0.53 percent compared with 2011.

Owing to a decrease in the export surplus and the slowdown of China's economy, the RMB retreated to a yearly low of 6.389 against the US dollar on July 25. Thereafter, as a consequence of the Fed's QE3, the RMB climbed to a yearly high of 6.222 against the US dollar on November 27. Compared to the end of the previous year, the NT dollar strengthened against the RMB by 2.96 percent. However, on a daily average basis, the NT dollar depreciated by 2.80 percent against the RMB when compared with the previous year.

The NT dollar against the Korean won hovered between 0.0258 and 0.0265 from January to April. In May, as a result of the intensified European debt crisis and foreign capital outflows from the Korean stock market, the won went down, and the NT dollar appreciated against the won to a yearly high of 0.0250 on May 25. Afterwards, because Fitch upgraded Korea's credit rating, coupled with



the effect of the US QE3, foreign capital returned to Korea, attracted by the country's bright outlook for both exports and the economy. The won appreciated sharply against the US dollar, and the NT dollar declined to a yearly low of 0.0272 against the Korean won on December 28. The NT dollar against the Korean won depreciated by 3.37 percent between the end of 2011 and 2012. However, on a daily average basis, the NT dollar rose by 1.13 percent against the Korean won in 2012 compared with the previous year.

Mild Market Contraction

Trading in the Taipei foreign exchange market contracted in 2012. Total net trading volume for the year decreased by 2.0 percent from the previous year to US\$5,893.2 billion. The daily average turnover stood at US\$23.4 billion. The decline in turnover mainly resulted from shrinking international trade.

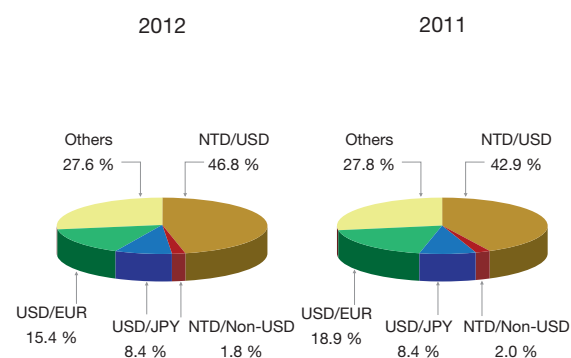
Turnover of Major Products in the Taipei Foreign Exchange Market

Unit: US\$ Million

Year	Spots	Forwards	Forex Swaps	Margin Trading	Options	Cross Currency Swaps	Total
2008	2,455,394	459,393	1,548,763	34,871	307,857	40,097	4,846,375
2009	1,841,951	283,233	1,627,020	20,809	311,353	26,927	4,111,293
2010	2,192,719	290,075	2,166,897	18,295	423,261	23,848	5,115,095
2011	2,570,319	415,459	2,454,626	19,016	529,351	24,587	6,013,357
2012	2,249,684	406,831	2,558,288	19,419	627,958	30,993	5,893,172
2011-2012 Growth Rate (%)	-12.5	-2.1	42	2.1	18.6	26.1	-2.0

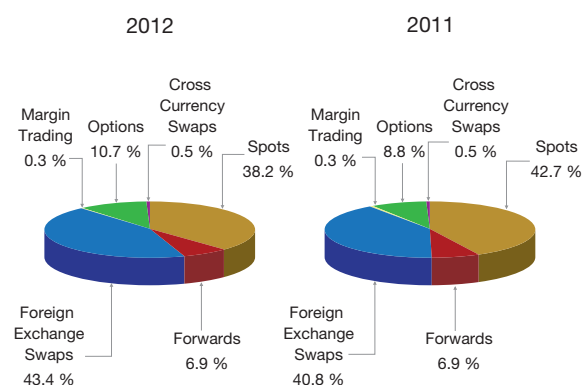
Source: Department of Foreign Exchange, CBC.

Composition of Foreign Exchange Transactions by Traded Currency



Source: Department of Foreign Exchange, CBC.

Composition of Foreign Exchange Transactions by Product



Source: Department of Foreign Exchange, CBC.

Turnover of Other Products in the Taipei Foreign Exchange Market

Unit: US\$ Million

Year	Interest Rate-Related Products					Commodity-Related Products	Stock Index Options	Credit Derivatives	Total
	Forward Rate Agreements	Interest Rate Swaps	Interest Rate Options	Foreign Currency Interest Rate Futures	Subtotal	Commodity Options			
2008	18,799	205,911	8,860	172,918	406,488	17,875	126	3,586	428,075
2009	5,715	469,003	4,999	208,566	688,283	18,360	51	3,312	710,006
2010	842	125,541	6,043	392,368	524,794	18,060	105	10,126	553,085
2011	902	76,153	3,569	254,703	335,327	22,728	421	5,204	363,681
2012	1,069	51,887	4,320	142,310	199,586	15,440	955	2,243	218,223
2011-2012 Growth Rate (%)	18.5	-31.9	21.0	-44.1	-40.5	-32.1	126.7	-56.9	-40.0

Source: Department of Foreign Exchange, CBC.

In terms of trading partners, transactions between banks and non-bank customers accounted for 26.9 percent of the total net turnover, while inter-bank transactions made up 73.1 percent, including 26.7 percent for transactions among local banks and 46.4 percent for those between local banks and overseas banks.

As far as traded currencies were concerned, NT dollar trading against foreign currencies accounted for 48.6 percent of the total trading volume, of which trading against the US dollar made up a dominant 46.8 percent. Transactions in third currencies contributed to 51.4 percent of the total trading volume, with trading in currency pairs of US dollar-euro and US dollar-yen accounting for respective shares of 15.4 percent and 8.4 percent. Compared with 2011, NT dollar trading against foreign currencies increased by 6.1 percent, and transactions in third currencies decreased by 8.6 percent.

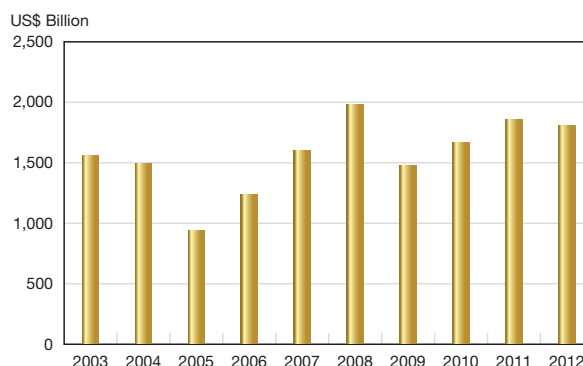
With respect to types of transactions, the major types were foreign exchange swaps and spots, accounting for 43.4 percent and 38.2 percent of total turnover, respectively. Compared with 2011, except for a decrease in spots and forwards, the trading volume and the share in the total turnover of all the other types of transactions increased.

In 2012, the total turnover of forwards, swaps, and options based on foreign currency interest rates, stock price indices, commodity prices, and credit derivatives amounted to US\$218.2 billion. Of this amount, interest rate-related derivatives accounted for the lion's share with US\$199.6 billion, or 91.5 percent, with a negative annual growth rate of 40.5 percent. Interest rate futures accounted for the majority of this decline, with a decrease of US\$112.4 billion. The main reason was that most countries maintained a lower interest rate environment, causing investor enthusiasm to cool on the contracted volatility of market interest rates.

Decreasing Transactions in the Foreign Currency Call Loan Market

The transaction volume in the foreign currency call loan market in 2012 was US\$1,807.3 billion, a decrease of 2.6 percent over the previous year. Of this amount, US dollar transactions made up a dominant share with US\$1,793.0 billion, making up 99.2 percent of the total and decreasing 2.3 percent from 2011. The decrease was mainly because banks had accepted plenty of foreign currency deposits, hence reducing their demand for foreign currency call loans. Japanese yen transactions reached ¥871.7 billion in 2012, a small share of only 0.6 percent and a decrease of 8.3 percent compared to 2011. The amount of euro transactions totaled €0.3 billion, a share of less than 0.1 percent. Other currencies accounted for 0.2 percent of the total transaction volume.

Transactions in the Taipei Foreign Currency Call Loan Market



Source: Department of Foreign Exchange, CBC.

Growing Assets of Offshore Banking Units

There were 62 offshore banking units (OBUs) at the end of 2012. Domestic banks operated 37 of these OBUs, while foreign banks ran the other 25. Owing to larger loans to non-residents, the total assets of all OBUs grew to US\$170.9 billion at the end of the year, representing an increase of US\$25.8 billion or 17.8 percent from the previous year end. Domestic OBUs made up 81.1 percent of these combined assets with an amount of US\$138.6 billion, and the OBUs of foreign banks accounted for US\$32.3 billion, or 18.9 percent of the total. In terms of the uses of funds, loans to non-financial institutions, at US\$67.8 billion, represented the majority share of 40.5 percent of OBU

Consolidated Balance Sheet of Offshore Banking Units in Banking System

Unit: US\$ Million

Year/Month	Loans to Non-financial Institutions	Portfolio Investment	Claims on Financial Institutions	Other Assets	Total Assets= Total Liabilities	Deposits of Non-financial Institutions	Due to Financial Institutions	Securities Issued	Other Liabilities
2008/12	32,481	10,851	48,141	7,159	98,632	31,133	60,198	724	6,577
2009/12	29,988	13,757	43,954	7,352	95,051	32,493	54,070	352	8,136
2010/12	40,752	15,952	55,878	10,348	122,930	35,587	75,270	364	11,709
2011/12	58,976	15,760	56,900	13,465	145,101	37,645	91,662	370	15,424
2012/12	67,811	18,240	60,200	24,655	170,906	44,102	100,389	364	26,051
2011/12-2012/12 Growth Rate (%)	5.0	15.7	5.8	83.1	17.8	17.2	9.5	-1.6	68.9

Source: Financial Statistics Monthly, CBC.

lending, mainly because many Taiwanese firms in Mainland China raised funds from OBUs. Claims on financial institutions were 35.2 percent of total OBU assets. In terms of the destination for funds, Asia accounted for the majority with 63.3 percent, followed by America at 24.7 percent.

The OBUs' main source of funds came from the due to financial institutions, which accounted for 58.8 percent of total liabilities. Among them, deposits of non-financial institutions reached a historical high, which increased 17.2 percent compared to the previous year. In recent years, OBUs have been the funding centers for overseas Taiwanese firms. By geographical origin, 71.2 percent of the funds came from Asia and 17.8 percent from America.

Owing to the growth of RMB-related business, the forex-trading turnover of all OBUs in 2012 increased by 39.4 percent and registered US\$376.1 billion, of which US\$193.4 billion went for spot transactions, US\$99.3 billion for forward transactions and US\$83.3 billion for foreign exchange swap transactions. Compared with the previous year, the growth rates of the trading of spots, forwards and foreign exchange swaps were 36.3 percent, 28.9 percent and 64.0 percent, respectively.

The total turnover of derivatives products amounted to US\$417.1 billion, a decrease of 12.3 percent over the previous year. Of this amount, interest rate futures recorded a decline of 43.3 percent from 2011. On the other hand, supported by an increase in currency options trading, transactions of options registered US\$248.4 billion, 33.6 percent higher than 2011.

6. Stock Market

In 2012, Taiwan's stock markets fluctuated in a mixed trend, affected by factors including the re-introduction of a tax on capital gains from securities investment, fuel and electricity price hikes, the eurozone sovereign debt debacle, and the US "fiscal cliff".

The Taiwan Stock Exchange (TWSE) Capitalization Weighted Stock Index (TAIEX) closed the year up 8.9 percent over the previous year end. All industrial groups rose compared to the previous year, with construction and food shares recording the top two highest increases. The TAIEX daily average trading value was NT\$81.0 billion, decreasing sharply by 23.7 percent compared to the previous year.

At the end of 2012, the weighted stock price index of the GreTai Securities Market (GTSM), an over-the-counter market, posted an annual increase of 10.0 percent. All industrial groups except tourism went up, with biotech and medical care shares posting the greatest increase at 45.6 percent. The daily average trading value was NT\$11.8 billion, a decrease of 27.0 percent from the previous year.

Major Statistics of the TWSE Market

Year/Month	Stock Price Index* (1966=100)	Daily Average Trading Value (NT\$ Billion)	Turnover Rate (%)	Market Capitalization* (NT\$ Billion)	Net Buying Positions** (NT\$ Billion)		
					Foreign Investors Net Buy/Sell	Securities Investment Trust Companies Net Buy/Sell	Securities Dealers Net Buy/Sell
2010	8,972.5	112.4	136.7	23,811	281.2	-67.8	2.7
2011	7,072.1	106.1	119.9	19,216	-277.6	9.4	-45.6
2012	7,699.5	81.0	97.3	21,352	144.2	-16.1	-2.2
2012/ 1	7,517.1	90.2	6.6	20,458	51.3	-7.1	4.6
2	8,121.4	139.0	12.6	22,116	63.5	-5.2	8.7
3	7,933.0	99.8	10.6	21,641	32.3	-5.5	-8.0
4	7,501.7	75.8	7.4	20,480	-31.2	-1.6	-5.9
5	7,301.5	73.0	8.1	19,943	-112.8	0.7	-1.6
6	7,296.3	63.7	6.7	19,981	-26.2	2.7	4.2
7	7,270.5	66.1	7.3	19,914	-47.0	9.4	3.6
8	7,397.1	75.8	8.2	20,353	92.1	5.5	-0.9
9	7,715.2	85.3	8.0	21,222	58.7	-3.4	2.2
10	7,166.1	63.0	7.0	19,769	-28.7	-2.7	-13.4
11	7,580.2	68.8	7.2	20,916	42.8	2.3	3.2
12	7,699.5	77.5	7.6	21,352	49.5	-11.1	1.1

Notes: * Refers to end-of-period data.

** Minus sign "-" indicates net sale positions.

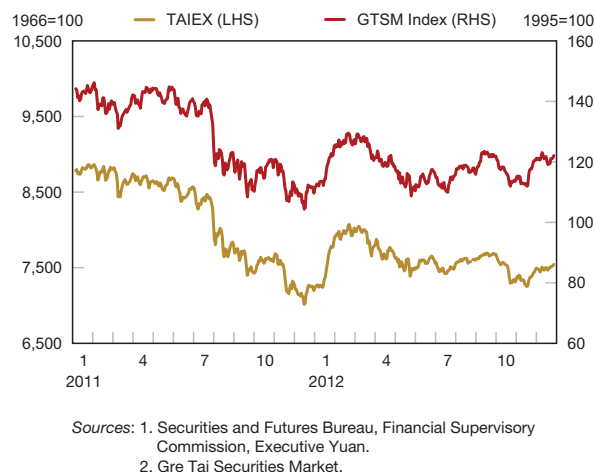
Source: Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan.

The TWSE Market

Listings and Capitalization Both Increased

In 2012, 19 new listings brought the total number of TWSE-listed companies to 809 at the end of the year. The par value of shares issued was NT\$6.4 trillion, 3.2 percent greater than the end of the previous year. The total market capitalization grew by 11.5 percent year on year to NT\$21.4 trillion. While there were no new issuances of Taiwan Depositary Receipts (TDRs) in 2012, three were de-listed, trimming the number of total TDRs on the TWSE to 31 at year end.

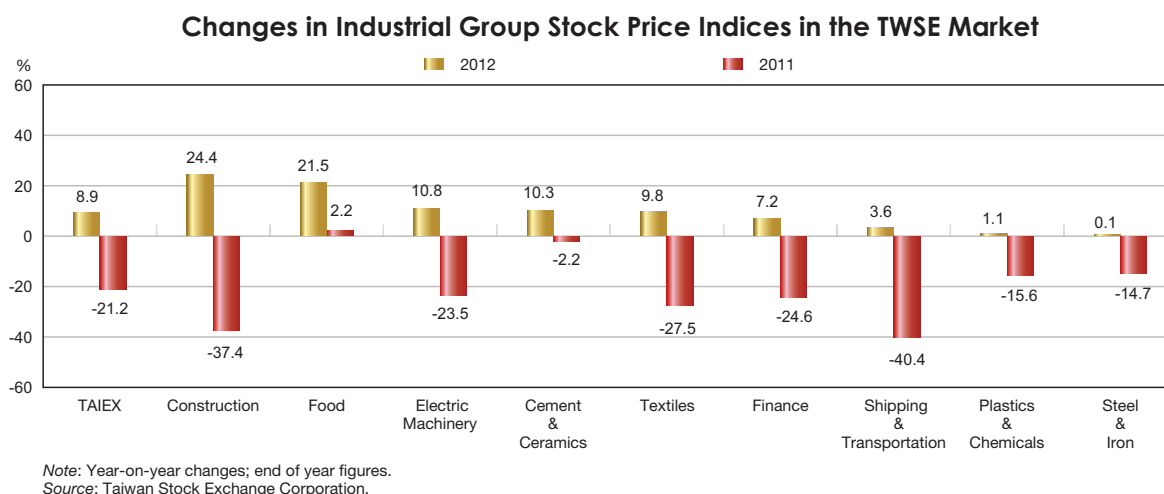
Stock Price Indices of the TWSE and GTSM Value



TAIEX Experienced Sharper Swings

The TAIEX surged in the first two months of 2012 on several factors. Domestically, the conclusion of Taiwan's presidential election removed the uncertainty factor; internationally, the US Fed decided to maintain extremely low interest rates, and eurozone finance ministers reached a deal on a Greek bailout. Extended gains in international stock markets and strong buying by foreign investors boosted the TAIEX to a yearly high of 8,144 on March 2. However, the TAIEX was then dragged down by several factors, including an international stock market slump on weaker-than-expected US and European economic growth and a deepening European debt crisis, in addition to a foreign investor sell-off of TAIEX holdings as the market was impacted by a possible levy on capital gains and fuel and electricity price hikes. A series of price declines finally led the TAIEX to its yearly low of 6,895 on June 4.

Thereafter, the European debt crisis showed signs of abating, Taiwan and China inked an MOU on cross-strait currency settlement, and the US and Japan both adopted further quantitative easing. Not only did international stock markets recover, but Taiwan's stock market also enjoyed heavy buying by foreign investors, spurring the TAIEX to rally to 7,782 on September 19. Afterwards, as the effect of the Fed's third round of quantitative easing (QE3) faded over time, Apple's low share price put strains on TWSE-listed companies along its supply chain, and re-emerging concerns over the US "fiscal cliff" further dented investor confidence. The ensuing pressures thus pushed the TAIEX lower to 7,088 on November 21. While hopes rose in US "fiscal cliff" negotiations and the Fed announced more quantitative easing, Taiwan's cabinet was also working on a stimulus package to bolster the local stock markets. As a result, the TAIEX rallied on strong buying by foreign investors, climbing to 7,700 on December 28 and closing the year 8.9 percent higher than 7,072 at the end of 2011.



Broken down by subcategory, stock prices in all industrial groups rose on heavy buying by foreign investors as the deep decline in the previous year attracted value investing. Among the industrial groups that rebounded, construction shares went up 24.4 percent, food industry shares 21.5 percent, and electric machinery shares 10.8 percent.

Turnover Shrank Markedly

In 2012, the TWSE market turnover, measured on a daily average basis, declined significantly by 23.7 percent from the NT\$106.1 billion of the previous year to NT\$81.0 billion. This was mainly because market sentiment turned cautious amid the debate over the reintroduction of a capital gains tax, the lingering European debt crisis, and domestic economic slowdown. Trading therefore cooled off considerably, reaching a daily average low of NT\$63.0 billion in October.

Foreign Investors Net Bought While Domestic Institutional Investors Net Sold

In terms of trading positions in the TWSE market in 2012, foreign investors bought a net NT\$144.2 billion, while local securities investment trust companies and local securities dealers net sold NT\$16.1 billion and NT\$2.2 billion, respectively.

Large net sales by foreign investors were recorded between April and July because of the impact of the capital gains tax and renewed European debt woes, and in October because of the severe loss on the government pension fund and the US “fiscal cliff” concerns. In the other months of the year, foreign investors net bought TAIEX shares, attributable to the conclusion of Taiwan's presidential election, gradual stabilization of the European debt crisis, the Fed's two announcements of quantitative easing, and the subsequent rally in international stock markets.

Local securities investment trust companies net bought between May and August and in November on bargain hunting amid market corrections. From January to March, net sales were recorded owing to profit-taking. Net sales in April resulted from the proposed reintroduction of a levy on capital gains, while a net sale of NT\$11.1 billion in December was induced by redemption pressures from fund investors and accounting considerations.

As for local securities dealers, who are inclined toward short-swing trading, they net sold on falling prices in March, April, May and October and net bought on rising prices in January, February, November and December. Net purchases in June and July, however, were due to bargain hunting after the TAIEX plunged in May.

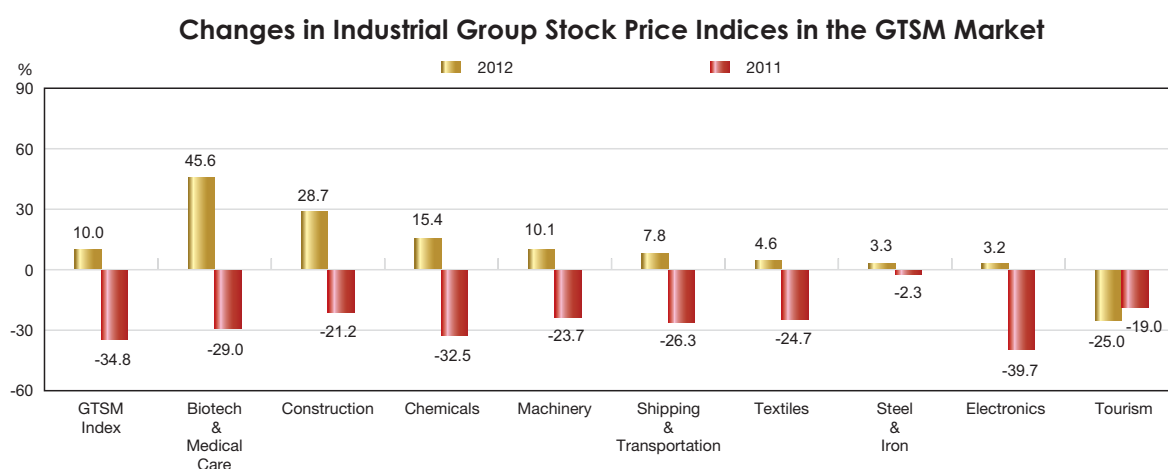
The GTSM Market

GTSM Listings Increased

In 2012, the number of GTSM listings increased by 31 to a total of 638 at the end of the year. The par value of total shares amounted to NT\$667.5 billion, falling by 8.8 percent from the previous year end. However, market capitalization posted a year-on-year increase of 22.6 percent, standing at NT\$1.74 trillion at the end of 2012.

Share Prices Rose before Weakening

GTSM shares experienced an uptrend in 2012 as did TWSE shares. The GTSM index peaked at 120.5 on March 3 and fell to a yearly low of 93.9 on November 21 on account of the expected capital gains tax, European debt concerns, and economic slowdown. Thereafter, the effect of the Fed's further quantitative easing boosted international stock markets, while Taiwan's cabinet planned to offer a policy package to spur the domestic stock markets. These positive developments combined



Note: Year-on-year changes; end of year figures.
Source: GreTai Securities Market.

to prop up the GTSM index to close the year at 103.3 on December 28, 10.0 percent higher than the 93.9 points recorded at the end of 2011.

For the year of 2012, foreign investors net bought NT\$20 million in the GTSM market, local securities investment trust companies also bought a net NT\$2.1 billion, while securities dealers net sold NT\$0.1 billion. The daily average turnover in the GTSM market was NT\$11.8 billion, reducing by 27.2 percent from NT\$16.2 billion the previous year.

Key Measures for the Stock Markets

In 2012, the key measures for Taiwan's stock markets include:

- (1) On March 14, in an effort to enhance competitiveness, the Financial Supervisory Commission (FSC) approved that securities firms may trade securities issued by the Mainland Chinese government or corporate entities in Hong Kong, Macau or other overseas markets.
- (2) On July 3, the FSC agreed that public companies may issue renminbi-denominated straight corporate bonds in overseas markets, which would increase funding channels for Taiwanese enterprises in renminbi (RMB) financing.
- (3) On July 25, the Legislative Yuan passed the amendments to the Income Tax Act and the amendments to the Income Basic Tax Act in pursuit of tax equity. As a result, a tax on one's income from securities transactions, which was suspended in 1990, would take effect on January 1, 2013.
- (4) On August 31, to deepen cross-strait financial cooperation, the Central Bank of the Republic of China (Taiwan) and the People's Bank of China announced simultaneously the inking of the "MOU on Cross-Strait Currency Settlement," which would enter into force within 60 days from the signing date once respective preparation work was completed on each side of the Taiwan Strait.
- (5) On October 17, to increase the incentive to invest in foreign currency-denominated funds, the FSC approved that securities investment trust companies may offer RMB-denominated funds, of which the shares can be purchased in NT dollars.

7. Bond Market

For the year of 2012, Taiwan's capital market conditions were steady. New issues of bonds amounted to NT\$1,434.6 billion, showing an increase of NT\$40.7 billion or 2.92 percent over the previous year.

Issuance of central government bonds increased by NT\$45.0 billion, or 7.26 percent, to NT\$665.0 billion in order to support fiscal funding needs.

In terms of corporate bonds, for the first half of 2012, with the domestic economic slowdown, corporations' weak demand for funds lowered their willingness to issue bonds. However, entering the second half of the year, their willingness to issue bonds was enhanced following the decline of yields on government bonds. Issuance of corporate bonds for 2012 totaled NT\$482.5 billion, showing an increase of NT\$85.8 billion or 21.63 percent over the previous year.

Regarding bank debentures, banks issued bonds in order to strengthen capital base. For the year as a whole, bank debentures totaled an issuance of NT\$180.4 billion, decreasing by NT\$14.3 billion or 7.34 percent over the previous year.

With respect to asset securitization, several products matured during the year, while the volume of products on a revolving issuance basis declined from the previous year. As a result, the outstanding balance of asset securitization products decreased. Furthermore, one new international bond was issued, whereas foreign bonds recorded no new issues this year.

At the end of 2012, the outstanding amount of bonds issued stood at NT\$7,751.8 billion, an increase of NT\$638.3 billion or 8.97 percent from the previous year end. In the secondary market, annual transactions totaled NT\$86,551.7 billion, contracting by 11.51 percent over the previous year. In addition, only one fixed income fund remained in the market with a volume of NT\$3.2 billion at the end of 2012.

Continuous Increase in Government Bond Issuance

In 2012, central government bond issuance in support of fiscal funding needs totaled NT\$665.0 billion, an increase of NT\$45.0 billion or 7.26 percent, compared with the previous year.

Issues of 5-year, 10-year and 20-year government bonds were NT\$140.0 billion, NT\$185.0 billion and NT\$180.0 billion, respectively. In addition, there were also 2-year bond issuances worth NT\$30.0 billion and 30-year bond issuances worth NT\$130.0 billion to meet market demand.

In terms of issuing rates, the weighted average issuing rates on the central government bonds

with maturities above 5 years in 2012 were all lower than the previous year on account of supply/demand factors and a decline in market interest rates. The weighted average issuing rate on 10-year bonds declined to 1.214 percent from the previous year's 1.365 percent, whereas the rate on 2-year bonds rose from the previous year's 0.717 percent to 0.744 percent. Despite the rate hike, market demand for 2-year bonds remained strong.

The government of Kaohsiung Special Municipality issued construction bonds in November and December of 2012 with a combined amount of NT\$23.4 billion to repay maturing debts.

In sum, government bond issuance amounted to NT\$688.4 billion in 2012, an increase of NT\$48.4 billion or 7.56 percent from 2011. The outstanding amount continued to rise to NT\$4,934.4 billion at year end, an increase of NT\$290.0 billion or 6.24 percent from the previous year end.

Continued Growth in Corporate Bond Issuance

During the first half of 2012, with the domestic economic slowdown, corporations' weak demand for funds lowered their willingness to issue bonds. However, entering the second half of the year, their willingness to issue bonds was enhanced because of the decline of yields on government bonds. Issuance of corporate bonds for 2012 totaled NT\$482.5 billion, showing an increase of NT\$85.8 billion or 21.63 percent over the previous year.

Issues and Outstanding Values in Bond Market by Category

Unit: NT\$ Billion

Year/ Month	Total		Central Government Bonds		Local Government Bonds		Corporate Bonds		Bank Debentures		Beneficiary Securities**		Foreign & Int'l Bonds*	
	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding
2010	1,393.6	6,618.2	610.0	4,187.6	19.3	146.7	329.7	1,202.2	158.5	815.8	256.8	216.8	19.3	53.1
2011	1,393.9	7,113.5	620.0	4,509.6	20.0	134.8	396.7	1,351.0	194.7	900.4	162.5	178.3	0.0	39.4
2012	1,434.6	7,751.8	665.0	4,776.3	23.4	158.1	482.5	1,619.5	180.4	1,022.1	76.9	148.3	6.2	28.5
2012/1	121.7	7,103.2	80.0	4,479.6	-	134.8	26.3	1,362.0	14.3	909.0	1.1	178.4	0.0	39.4
2	103.0	7,129.1	65.0	4,504.6	-	134.8	18.6	1,371.9	2.0	903.1	17.4	175.3	0.0	39.4
3	118.3	7,148.2	80.0	4,504.6	-	134.8	34.6	1,398.3	2.6	902.0	1.1	169.1	0.0	39.4
4	118.0	7,246.0	80.0	4,584.6	-	134.8	24.7	1,408.8	12.2	914.1	1.1	164.3	0.0	39.4
5	128.4	7,329.6	65.0	4,649.6	-	134.7	29.2	1,418.2	16.8	923.4	17.4	164.3	0.0	39.4
6	155.8	7,440.4	40.0	4,689.6	-	134.7	88.8	1,490.7	25.9	943.6	1.1	150.9	0.0	30.9
7	66.5	7,418.6	30.0	4,669.6	-	134.7	35.4	1,491.5	0.0	940.6	1.1	151.3	0.0	30.9
8	175.6	7,564.3	60.0	4,729.6	-	134.7	82.9	1,562.0	15.3	955.8	17.4	151.3	0.0	30.9
9	108.6	7,622.6	35.0	4,734.6	-	134.7	53.5	1,596.4	19.0	974.6	1.1	151.4	0.0	30.9
10	73.9	7,659.4	30.0	4,736.4	-	134.7	23.9	1,612.8	12.7	983.9	1.1	154.5	6.2	37.1
11	131.1	7,743.0	60.0	4,796.3	12.5	147.2	26.9	1,623.7	14.7	995.0	17.0	152.3	0.0	28.5
12	133.7	7,751.8	40.0	4,776.3	10.9	158.1	37.8	1,619.5	45.0	1,022.1	0.0	148.3	0.0	28.5

Notes: * Including NT dollar and foreign currency-denominated bonds issued in Taiwan by international financial institutions.

** Including those purchased back by originators for credit enhancement.

Sources: 1. *Financial Statistics Monthly*, CBC.

2. Banking Bureau, Financial Supervisory Commission.

3. Department of Foreign Exchange, CBC.

State-owned enterprises issued bonds worth NT\$111.3 billion, making up 20 percent of total corporate bond issuance in 2012. In the private sector, Formosa Plastics Group came in first place with its yearly bond issuance reaching NT\$77.0 billion, while Taiwan Semiconductor Manufacturing Company came in second with yearly bond issuance of NT\$62.0 billion. Additionally, the respective bond issues of shipping firms and financial holdings companies exceeded NT\$30.0 billion.

Owing to the decline of bond yields, weighted average issuing rates on 3-year, 5-year 7-year and 10-year corporate bonds fell from the previous year to 1.4278 percent, 1.3473 percent, 1.5304 percent, and 1.4855 percent, respectively. As of the end of 2012, the outstanding amount of corporate bonds was NT\$1,619.5 billion, rising by NT\$268.5 billion or 19.87 percent from the previous year end.

Slowdown in Bank Debenture Growth

A total of 26 financial institutions issued bank debentures in 2012. For the year as a whole, bank debenture issuance totaled NT\$180.4 billion, which was NT\$14.3 billion or 7.34 percent lower than the previous year. As the domestic economy did not expand as expected, banks tended to adopt cautious capital management. Thus the major issuance went for subordinated debts to bolster capital adequacy. The ratio of subordinated debts issuance to the total issuance of bank debentures rose from 72.60 percent the previous year to 83.38 percent.

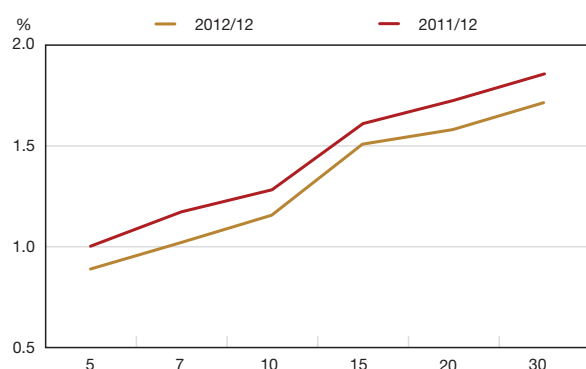
In terms of the volume of issuance, long-term interest rates remained at low levels, conducive to the issuance of long-term bank debentures. The major types of bank debentures issued were 7-year and 10-year bank debentures, making up shares of 41.13 percent and 46.66 percent in total issuance, respectively.

However, the unsatisfactory credit ratings of some banks that issued 7-year debt led the weighted rate to average 1.621 percent, slightly higher than the 1.605 percent issuing rate of 10-year debt. At the end of 2012, the outstanding amount of bank debentures was NT\$1,022.1 billion, growing by NT\$121.7 billion or 13.52 percent from the end of the previous year.

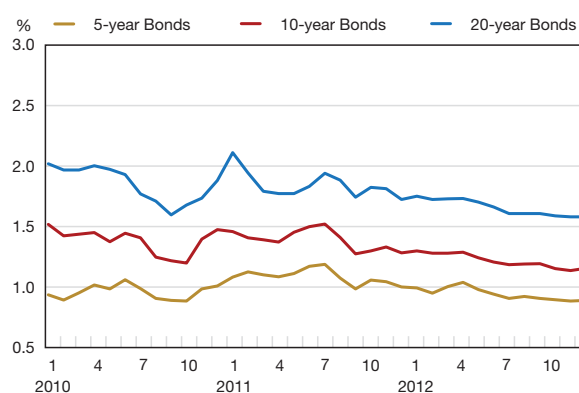
Significant Decline in Asset Securitization

As housing prices remained high, enterprises became lukewarm about issuing real estate securitization products. This, combined with banks' reserved attitude toward financial asset securitization, resulted in no new issues of asset securitization products in 2012. Moreover, revolving issuance declined, thus dragging the amount of total issues of asset securitization products lower by NT\$85.6 billion or 52.68 percent from 2011 to NT\$76.9 billion.

The issuance of asset securitization products contracted in 2012. In addition, five real estate securitization products and three financial asset securitization products matured, and the principal

Yield Curve of Central Government Bonds

Source: GreTai Securities Market.

Central Government Bonds Yield with Different Maturities

Source: GreTai Securities Market.

was repaid. As a result, at the end of 2012, the outstanding amount of asset securitization decreased by NT\$30.0 billion or 16.83 percent from the previous year end to NT\$148.3 billion.

Higher Foreign Bond Issuance

A 3-year unsecured international bond worth AU\$200 million, equivalent to NT\$6.2 billion, was issued by a foreign bank in 2012. Besides, two more international bonds matured and the principal was repaid. In terms of foreign bonds, new issues were nil and none of the previously issued bonds reached maturity in 2012. At the end of the year, the outstanding amount was NT\$28.5 billion, a decline of NT\$10.9 billion or 27.66 percent over the previous year end.

Decline in Bond Transactions and Yields

The yields on government bonds for the whole year of 2012 went down owing to global economic uncertainties, domestic economic slowdown, and poor performance of the TAIEX.

In the first quarter of 2012, the transaction volume and stock prices of Taiwan's stock market both surged, attracting more funds flowing in for stock investment. However, as the Directorate-General of Budget, Accounting and Statistics (DGBAS) revised down the forecast of 2012 GDP growth, the yield on the benchmark 10-year government bond fluctuated between 1.25 percent and 1.30 percent.

During the second quarter, investors were drawn back to the bond market, owing to the deepening eurozone debt crisis, economic slowdown, and slow trading in the stock market owing to the issue over a capital gains tax on securities income. As a result, the 10-year bond yield declined and ended the month of June at 1.2191 percent.

In the third quarter, major countries lowered interest rates because of the unresolved European debt crisis. Investors turned to the bond market for safety, sending the 10-year bond yield to descend significantly to 1.1276 percent on July 26. Later, with the rise of the US bond yield and the rally in domestic stock prices, the 10-year bond yield rose rapidly to 1.18 percent in early August. However, dragged down by a decline in the stock market, the yield dropped to 1.1692 percent at the end of September.

As the TAIEX fell in the fourth quarter, investors turned to the bond market, leading the 10-year bond yield to reach a yearly low of 1.1153 percent on November 20. Later, the domestic stock

Bond Transactions in the Over-the-Counter Market

Unit: NT\$ Billion

Year/ Month	Total	Outright Transactions		Repurchase Agreement Transactions	
		Amount	Share (%)	Amount	Share (%)
2010	106,318.0	42,651.6	40.1	63,666.4	59.9
2011	97,809.1	26,856.8	27.5	70,952.3	72.5
2012	86,551.7	18,435.8	21.3	68,115.9	78.7
2012/1	5,644.8	1,259.4	22.3	4,385.4	77.7
2	7,301.9	1,836.9	25.2	5,465.0	74.8
3	8,300.5	1,961.0	23.6	6,339.5	76.4
4	7,241.6	1,765.3	24.4	5,476.3	75.6
5	7,772.6	1,560.3	20.1	6,212.3	79.9
6	8,115.5	1,697.5	20.9	6,418.0	79.1
7	8,330.7	1,989.2	23.9	6,341.5	76.1
8	7,451.8	1,338.5	18.0	6,113.3	82.0
9	6,113.7	1,266.5	20.7	4,847.2	79.3
10	7,371.0	1,489.0	20.2	5,882.0	79.8
11	6,979.7	1,387.5	19.9	5,592.2	80.1
12	5,927.9	884.7	14.9	5,043.2	85.1

Source: Taiwan Stock Exchange Corporation (TWSE) & GreTai Securities Market.

Turnover in Bond Market by Category

Unit: NT\$ Billion

Year/ Month	Total	TWSE Market Corporate Bonds (Convertible)	Subtotal	GreTai Market					
				Government Bonds	Corporate Bonds		Bank Debentures	Beneficiary Securities	Foreign & intl Bonds
					Nonconvertible	Convertible			
2010	106,318.0	-	106,318.0	95,211.4	8,405.5	1,155.6	1,361.8	123.3	60.5
2011	97,809.1	-	97,809.1	81,096.0	12,820.8	2,001.5	1,676.8	152.2	61.8
2012	86,551.7	-	86,551.7	68,974.8	14,442.9	1,150.0	1,859.2	103.4	21.4
2012 / 1	5,644.8	-	5,644.8	4,451.0	992.5	85.5	104.6	10.0	1.2
2	7,301.9	-	7,301.9	5,954.2	1,103.5	110.6	122.1	9.3	2.2
3	8,300.5	-	8,300.5	6,780.7	1,230.2	138.8	132.2	16.9	1.7
4	7,241.6	-	7,241.6	5,935.4	1,055.8	101.2	139.5	8.0	1.7
5	7,772.6	-	7,772.6	6,310.8	1,177.0	114.1	161.9	7.0	1.8
6	8,115.5	-	8,115.5	6,519.2	1,295.3	113.2	171.5	14.6	1.7
7	8,330.7	-	8,330.7	6,871.6	1,226.2	94.1	131.1	6.0	1.7
8	7,451.8	-	7,451.8	5,821.8	1,355.4	96.8	169.3	5.9	2.6
9	6,113.7	-	6,113.7	4,667.0	1,212.0	75.4	148.4	9.3	1.6
10	7,371.0	-	7,371.0	5,856.6	1,273.1	75.3	159.0	5.0	2.0
11	6,979.7	-	6,979.7	5,437.0	1,271.5	71.5	192.6	5.5	1.6
12	5,927.9	-	5,927.9	4,369.5	1,250.4	73.5	227.0	5.9	1.6

Taiwan Stock Exchange Corporation (TWSE) & GreTai Securities Market.

market rebounded, taking the 10-year bond yield up to 1.1673 percent on December 28, 11.83 basis points lower than the 1.2856 percent of the previous year end.

For the year 2012, average yields on government bonds in every maturity range were lower than the previous year. Long-term and short-term yield spreads were approximately similar to the previous year, and the yield curve remained flattened.

In terms of transaction volume, government bonds saw a decline in the second half of 2012, mainly because a TAIEX rally diverted bond investment to the stock market and an increasingly lower long-term bond yield turned investor sentiment more cautious. As a result, total bond transactions for 2012 contracted by NT\$11,257.4 billion or 11.50 percent from the previous year to NT\$86,551.7 billion. Of the components, outright transactions decreased by NT\$8,421.0 billion or 31.36 percent over the previous year. Repo transactions fell by NT\$2,836.4 billion or 4.00 percent.

By type of bonds, government bonds accounted for 80 percent of total bond transactions with an annual trading volume of NT\$68,974.8 billion. Corporate bonds came in second at NT\$15,592.8 billion. Bank debentures, asset securitization products, and foreign bonds each made up marginal shares of less than 3 percent in total transactions, with their respective annual trading reaching NT\$1,859.2 billion, NT\$103.4 billion, and NT\$21.4 billion.

