

Annual Report 2012

Central Bank of the Republic of China (Taiwan)

Taipei, Taiwan

Republic of China

Foreword



Fai-nan Perng, Governor

In the first half of 2012, Taiwan's economic performance was affected by weak demand from its major trading partners. As external demand gradually stabilized, exports began to show signs of improvement while private investment and consumption also picked up. As a result, the economy recovered moderately during the second half of 2012. For the year as a whole, the economy grew at a pace of 1.26 percent, lower than the 4.07 percent recorded in 2011.

Elevated international raw material prices and a weather-induced price surge in fresh farm produce pushed the CPI growth rate slightly higher to 1.93 percent in 2012. Nonetheless, Taiwan's inflation continued to be low and stable relative to the world's major economies.

Against this backdrop, the Bank's Board decided to keep policy rates unchanged and continued to manage market liquidity and money growth by issuing certificates of deposit. These actions were consistent with the Bank's mandates of maintaining price and financial stability and fostering economic growth. Bank credit grew at an average annual rate of 5.08 percent, while M2 rose by 4.17 percent during the year, both higher than the economic growth rate. This indicated that money supply remained sufficient to support economic activity.

Taiwan adopts a managed floating exchange rate regime with flexibility. The NT dollar exchange rate exhibited dynamic stability in 2012, closing the year at 29.136 against the US dollar, an appreciation of 3.96 percent over the previous year. Foreign exchange reserves grew by US\$17.6 billion to US\$403.2 billion at the year end, ranked fourth in the world.

In 2012, the Bank not only continued with existing measures to control risks associated with mortgages in several areas in metropolitan Taipei and land collateralized loans, but also introduced new restrictions on high-value residential mortgages in June. As a result, the concentration of real-estate related lending declined further. In addition, the government rolled out new rules to levy a tax on second (or more) homes sold within two years of purchase and changed the law to require the registration of real estate transaction values. These measures were both conducive to the development of a healthy housing market.

Over the past year, the Bank made great strides on cross-strait financial cooperation, signing a memorandum with the People's Bank of China in August 2012 that would pave the way for cross-strait currency settlement. Taiwan's DBU (Domestic Banking Unit) renminbi banking business commenced on February 6, 2013, and renminbi deposits and remittances have since taken off.

After the establishment of the renminbi settlement mechanism, the Bank consigned the Financial Information Service Co., Ltd. to set up an international currency clearing system. The system officially came on line for US dollar transactions in March 2013 and will gradually phase in more foreign currencies, including renminbi. Not only will this system help streamline currency clearing procedures and save costs, but it will also further facilitate the development of the financial services sector.

As the global economy continues to heal, concerns about the US fiscal tussle, the stagnation of the eurozone economy, and the sharp depreciation of the Japanese yen still weigh on the global economic outlook and financial stability. The Bank will continue to closely monitor the economic and financial developments in Taiwan and across the world and take appropriate and timely actions.

Finally, I would like to thank my colleagues for their dedication in putting together this publication and for their hard work during the past year. We remain committed to our missions and will strive to meet future challenges.



Fai-nan Perng
Governor
March 2013

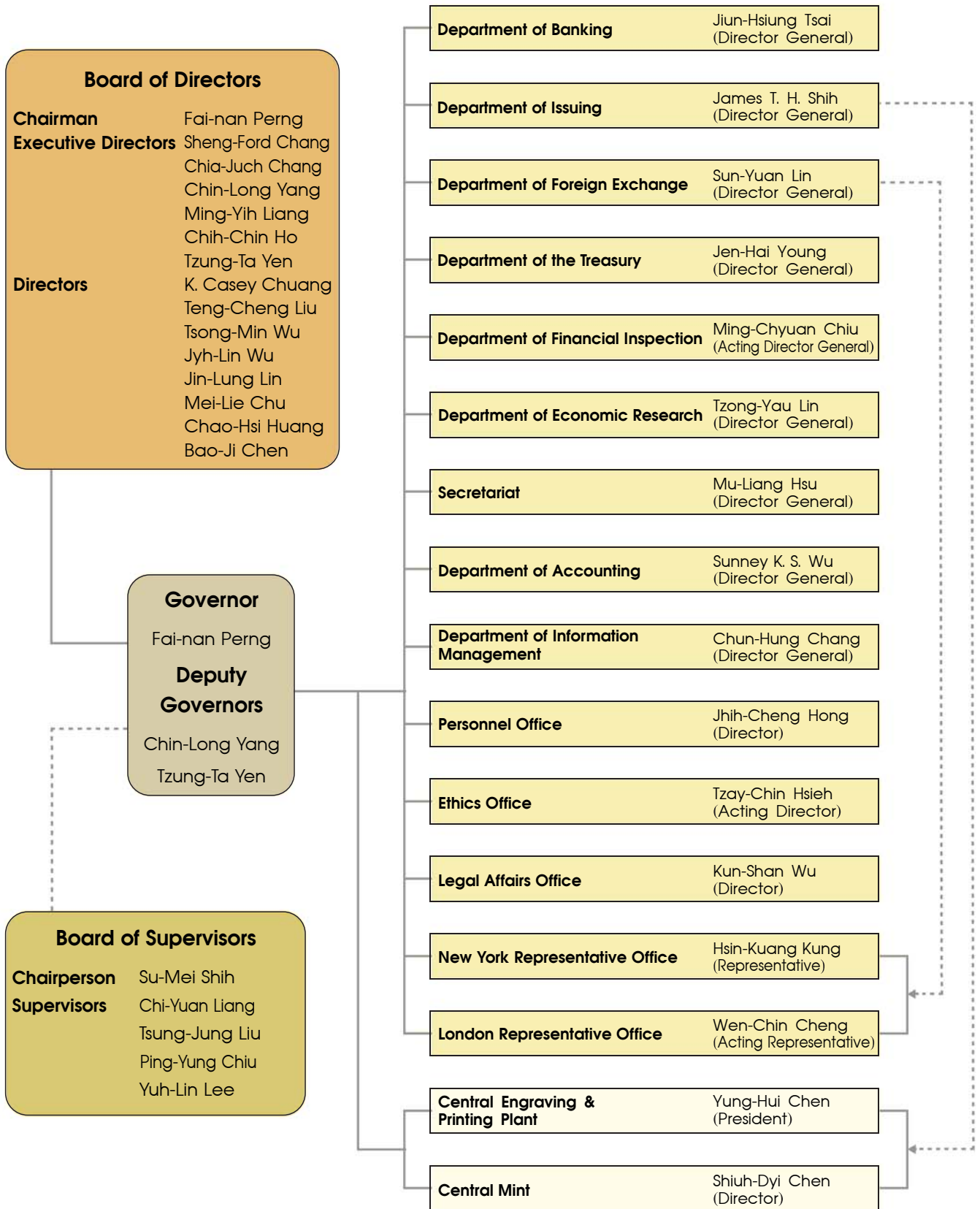
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Organization and Management of the CBC



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As of May 2013



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Board of Directors
Governor
Fai-nan Perng



Executive Director
Sheng-Ford Chang



Executive Director
Chia-Juch Chang



Executive Director
Deputy Governor
Chin-Long Yang



Executive Director
Ming-Yih Liang



Executive Director
Chih-Chin Ho



Executive Director
Deputy Governor
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Director
K. Casey Chuang



Director
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Director
Jyh-Lin Wu



Director
Jin-Lung Lin



Director
Mei-Lie Chu



Director
Chao-Hsi Huang



Director
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Board of Supervisors
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Supervisor
Ping-Yung Chiu



Supervisor
Yuh-Lin Lee



*Developments
in the Real Economy*

I. Developments in the Real Economy

1. Overview

During the first half of 2012, Taiwan's foreign trade and private investment contracted and private consumption growth slowed, as external demand remained weak amid sluggish global economic growth. However, external demand gradually stabilized in the second half of the year, boosting both exports and investment back to positive growth, and the economy picked up steadily. For the year as a whole, GDP grew at a pace of 1.26 percent.

The balance of payments registered a larger surplus of US\$15,484 million as a record-high current account surplus of US\$49,550 million more than offset a net financial account outflow of US\$31,503 million. In terms of price trends, the annual growth rate of the CPI rose to 1.93 percent over the previous year, mainly reflecting fuel and electricity price hikes and weather-related price fluctuations for fruits and vegetables. Central government revenue showed only a marginal decline, but the marked increase in expenditure on social welfare and economic development led to a larger government deficit of NT\$215.9 billion. Conditions in the labor market improved further. The unemployment rate fell to 4.18 percent in December 2012, bringing the annual average to 4.24 percent.

Economic Growth Decelerated Markedly

For the first half of 2012, with lackluster global economic growth and feeble external demand, the domestic economy experienced tepid export growth, slowing private investment and more conservative consumer spending. As a result, the economy contracted by 0.12 percent year on year in the second quarter. Over the next six months of the year, the global economy gradually stabilized, Taiwan's external trade grew at a faster pace, and private investment and consumer confidence rose steadily. Against this backdrop, GDP growth firmed up to a 3.72 percent year-on-year increase in the fourth quarter. For the year as a whole, the economy expanded by 1.26 percent, lower than the 4.07 percent of the previous year.

In terms of GDP components by expenditure, both external and domestic demand declined in comparison with the previous year. Domestic demand contributed merely 0.11 percentage points to the annual economic growth rate, while net external demand recorded a higher contribution of 1.14 percentage points. On the output side of GDP, the industrial and services sectors grew by 0.94 percent and 0.83 percent, respectively, affected by weak demand both at home and abroad. Their respective contributions to the GDP growth rate were 0.33 and 0.52 percentage points. The

agricultural sector growth was dragged down by unfavorable weather conditions to negative 5.82 percent, contributing -0.08 percentage points to the growth in GDP.

BOP Surplus Widened

In 2012, the record-high surplus in the current account helped to offset the net outflow in the financial account. The overall balance of payments showed a larger surplus of US\$15,484 million, compared to US\$6,239 million a year earlier.

In the current account, goods exports and imports both shrank, reflecting the impact of waning external demand. Exports fell by 2.4 percent, compared to the 3.6 percent drop in imports. As the decline in exports was smaller than that in imports, the trade in goods surplus increased to US\$30,735 million in 2012 from US\$27,848 million in 2011. The services account also recorded a wider surplus of US\$6,137 million, mainly owing to gains both in the receipts of merchanting trade and in travel receipts. As for the income account, as the revenue from residents' investments in foreign exchange assets and portfolio investments increased and the payments for non-residents' income from equity security investments decreased, the income account surplus rose to US\$15,277 million. Combined with a narrower current transfer deficit, the overall current account surplus grew by 20.2 percent to US\$49,550 million, rising to a share of 9.8 percent in GNP.

The financial account recorded a net outflow of US\$31,503 million. Among the components, portfolio investments exhibited a record-high net outflow of US\$42,447 million, mainly accounted for by a higher net outflow in residents' portfolio investments abroad. The net outflow of direct investment abroad observed another new high because investment in the mainland area continued to increase, as against a net inflow of inward direct investment. Overall, direct investment showed a smaller net outflow of US\$9,826 million. Furthermore, other investment had a net inflow of US\$20,442 million, mainly attributable to withdrawal of overseas deposits by the private sector and increased foreign borrowing by the banking sector.

Prices Rose Mildly

In 2012, international raw material prices trended lower on account of weak demand, leading Taiwan's import prices in NT dollar terms to fall by 1.28 percent, while prices for domestic sales and exports fell 0.59 percent and 1.62 percent, respectively. Consequently, the WPI decreased by 1.16 percent.

In terms of consumer prices, retail prices of some goods and services went up to reflect the price hikes in fuel and electricity. Prices of fruits and vegetables also climbed higher in the second half of 2012, caused by typhoons and torrential rain. For the year as a whole, the CPI grew by 1.93 percent. However, the core CPI (excluding prices of fruits, vegetables, and energy) edged up by

1.00 percent, a milder increase compared to the previous year.

Government Deficit Mounted

As tax revenue was squeezed by the economic slowdown and government-owned enterprises kept running up losses, total central government revenue declined in 2012. On the other hand, fiscal spending further increased during the year to support social welfare, transportation infrastructure, and environmental protection. As a result, the central government deficit did not continue to shrink as in the prior three years but widened instead to NT\$215.9 billion, the largest deficit in the past nine years.

In regard to revenue, income tax revenue was significantly boosted by an increase in dividend income, whereas the majority of those tax revenues susceptible to economic moderation did not fare well in 2012. Consequently, overall tax revenue edged up 1.6 percent from the previous year, accounting for 73.3 percent of total central government revenue.

In 2012, central government expenditure built up, mainly attributable to the considerably greater spending on social welfare and economic development. By category, social welfare made up the top share of total expenditure at 22.3 percent, followed by education, science and culture at 19.1 percent, and then by national defense at 16.1 percent. The proportion of spending on economic development grew from the 12.5 percent of 2011 to 14.0 percent.

The widened fiscal deficit also represented a stronger need for debt financing. At the end of 2012, the total outstanding debt of the central government rose by NT\$247.0 billion to a record NT \$5.01 trillion, and its ratio to GDP went up further from the 34.8 percent of the previous year end to 35.7 percent.

Labor Market Conditions Continued to Improve

Entering 2012, an increase in employment caused the unemployment rate to trend down to 4.10 percent in April, the lowest since August 2008. Afterwards, slowing economic growth and a seasonal effect of fresh graduates surging into the job market combined to drive the unemployment rate up to 4.40 percent in August. However, a subsequent economic pickup led the pace of unemployment growth to moderate. For the year as a whole, the unemployment rate was 4.24 percent, 0.15 percentage points lower than the year before.

Considering a sustained business demand for labor, the number of employed persons averaged 10.86 million for the year of 2012, up by 1.41 percent from the previous year. By sector, services employment increased the most, at 1.68 percent, while employment in the industrial sector and agriculture rose by 1.12 percent and 0.39 percent, respectively.

The average monthly earnings of non-farm (industrial and services sectors) workers were NT \$45,888 per person in 2012, slightly higher by 0.30 percent over the previous year. The average regular earnings of non-farm workers increased by 1.28 percent to NT\$37,346. In real terms, a year-on-year decline of 1.60 percent was recorded. The real regular earnings of non-farm workers fell by 0.64 percent compared to a year earlier. Unit labor cost advanced by 2.37 percent, reflecting a 0.75 percent drop in the labor productivity index of the industrial sector and an increase in total employee earnings.



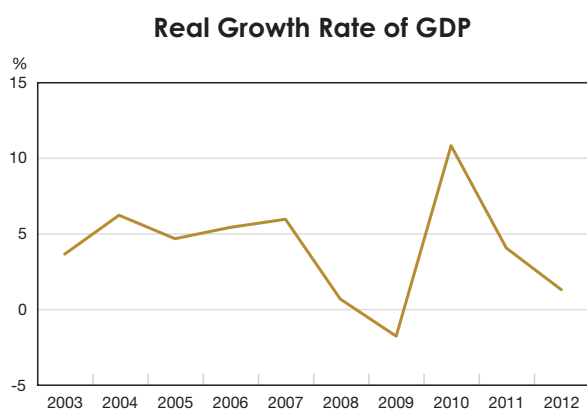
2. National Output and Income

In 2012, the Taiwanese economy expanded at a relatively mild pace, with real GDP rising only 1.26 percent over the previous year after having grown by 4.07 percent in 2011. The growth was the weakest after the 2008-2009 global financial crisis as the recovery in advanced economies suffered setbacks. Adverse trade spillovers from weakness in the euro area and beyond weighed on the performance of industry and services in Taiwan. In particular, manufacturing registered a negative growth in the first half of the year on account of a weak export growth.

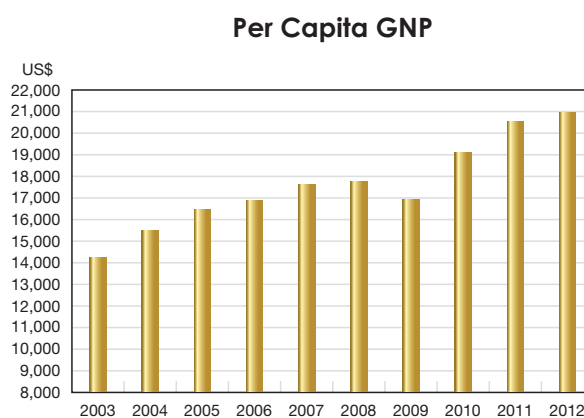
Economic growth continued to moderate during the first three quarters of the year owing to the weak external demand of advanced economies and a soft landing of China's economy. Mainly driven by low wage growth and weak stock market performance, private consumption grew at a sluggish pace. On the other hand, global economic slowdown suppressed private investment. Private consumption and private investment did not pick up until the recovery of the global economy in the fourth quarter. Meanwhile, owing to a mild increase in economic activity, per capita GNP in nominal terms increased modestly from US\$20,574 to US\$21,035.

Expenditure Components of GDP

Amid the downturn of the global economy in 2012, all expenditure components of GDP posted growth rates lower than the previous year. Among them, private consumption recorded a positive contribution of 0.80 percent for the year, replacing exports as the primary source of economic growth. Gross fixed capital formation registered a negative contribution to GDP growth of 0.74 percentage points, mainly owing to a sharp curtailment in capital expenditures induced by the declining external demand for hi-tech products. Government consumption and exports contributed



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2013.



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2013.

0.04 and 0.09 percentage points to economic growth, respectively. In terms of shares of GDP, exports and imports shares decreased further as a consequence of the contraction of global demand, accounting for 73.66 percent and 66.20 percent, respectively. The share of gross fixed capital formation went down to 19.52 percent from the previous year's 20.79 percent. On the other hand, the share of private consumption slightly increased from 60.22 percent of GDP to 60.30 percent. Nevertheless, its real growth rate declined to 1.49 percent from 3.13 percent in 2011 because of the limited increase in household spending.

(1) Small Increase in Private Consumption

Consumption spending, a category that makes up about 60 percent of GDP, rose only modestly in 2012, as real wages shrank, the improvement of labor market conditions remained sluggish, car sales contracted, and stock market performance proved to be fragile.

In the beginning of the year, consumption momentum was partly suppressed by a decline in the stock market and sluggish growth in general wages. However, with the gradual improvement of labor market conditions and an increase in the number of visitors travelling abroad, consumption expanded at an annual rate of 1.92 percent in the first quarter. In the second quarter, private consumption was boosted by the progression of spending in the retail sector and restaurant business and the increase in domestic and outbound visitor numbers. However, the debate on the reintroduction of capital gains tax on income from securities impacted the stock market; this, combined with hikes in gasoline and electricity prices, dragged down the annual growth rate of consumption to 1.61 percent. With a sharp shrinkage in the stock market's transaction volume, the third quarter witnessed the lowest annual growth rate for private consumption since the third quarter of 2009. With stock

Expenditure on Gross Domestic Product

Unit: %

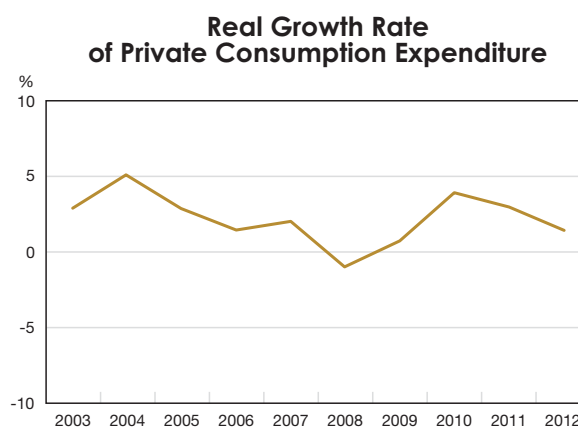
	2012			2011		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	60.30	1.49	0.80	60.22	3.13	1.69
Government Consumption	12.38	0.39	0.04	12.42	2.25	0.25
Gross Fixed Capital Formation	19.52	-4.39	-0.74	20.79	-3.10	-0.56
Change in Inventory	0.33	—	0.02	-0.05	—	-0.89
Exports of Goods and Services	73.66	0.13	0.09	76.06	4.45	3.30
(Less : Imports of Goods and Services)	66.20	(-1.87)	(-1.05)	69.44	(-0.47)	(-0.28)
Expenditure on GDP	100.00	1.26	1.26	100.00	4.07	4.07

Note: * Percentage point.

Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2013.

market resilience and a stable price level, private consumption increased at an annual rate of 1.55 percent in the final quarter. For the year as a whole, private consumption grew by 1.49 percent, lower than the figure of 3.13 percent registered in the previous year, contributing 0.80 percentage points to GDP growth.

Food consumption rose by 2.53 percent compared with an increase of 1.77 percent in 2011, while non-food consumption grew by 1.35 percent, lower than the growth rate of 3.31 percent registered in the previous year. Among the components of non-food consumption, outlays on communications recorded the largest growth of 7.02 percent for the year, reflecting an increasing demand for internet games and cellular phones as well as the continual growth of home-based businesses. Moreover, consumer spending on recreation and culture increased further, registering the second largest growth of 5.15 percent. This was primarily the consequence of an increasing demand for recreation in a more developed economy.



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2013.

(2) Modest Growth in Government Consumption

Government consumption expenditure slightly increased by 0.39 percent in real terms and contributed 0.04 percentage points to GDP growth for the year. As a consequence of a limited budget, many programs were downscaled, leading to a slightly lower share of government consumption in GDP than the previous year.

(3) Moderate Decline in Fixed Capital Formation

Fixed capital formation shrank at a 4.39 percent annual rate for the year of 2012, after contracting by 3.10 percent in 2011. On the other hand, affected by global economic upheaval and a contraction in exports through to the middle of the year, gains over the year remained uneven. However, fixed capital investment in the semiconductor industry and public transportation expanded in the second half of the year, posing a positive growth in the fourth quarter after contracting for five consecutive quarters. For the year as a whole, fixed capital formation subtracted 0.74 percentage points from GDP growth in 2012.

Regarding expenditure by type of purchaser, investment by private businesses declined by 2.25

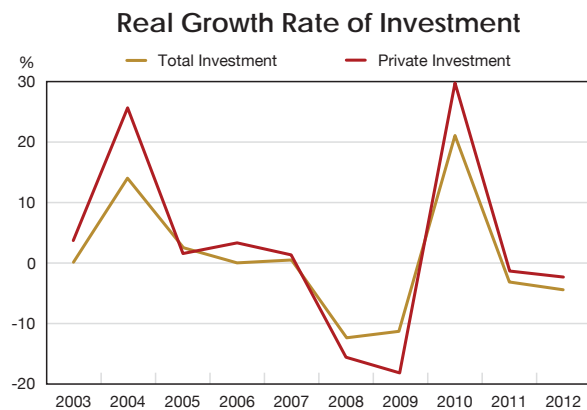
percent for the year, subtracting 0.29 percentage points from real GDP growth, following the contraction of the previous year. In the first half of the year, sinking global business sentiment accompanied by the uncertain economic outlook and the spread of the European sovereign debt crisis suppressed private investment. In the second half, as some semiconductor companies and public transport firms increased capital spending, private investment growth turned positive. Furthermore, as some public enterprises delayed project execution, investment by public enterprises decreased by 9.03 percent, subtracting 0.11 percentage points from economic growth in 2012. Government investment contracted throughout all quarters as the peak of public construction had passed. Therefore, for the year as a whole, government investment went down by 12.77 percent, subtracting 0.34 percentage points from economic growth.

In terms of the type of capital formation, the largest decrease was observed in outlays on machinery and other equipment, registering a contraction of 9.88 percent. The curtailment in investment was primarily attributable to a decrease in export orders and dropping capital utilization. As a consequence of weak external demand driven by a pessimistic global business climate, some firms were hesitant about increasing capital investment, and a double-digit dip was seen in the first two quarters. With the mitigation of the European sovereign debt crisis, investment in machinery regained its momentum in the last two quarters. Therefore, the contraction of overall capital investment narrowed.

Transportation spending decelerated in the first half of the year as a result of a poor domestic business climate and a higher base effect. With more investment in aircraft and railway industries, the growth of transportation spending turned positive in the second half amid economic recovery. Transportation spending posted a modest growth of 0.14 percent for the year as a whole. Additionally, investment in construction contracted by 1.10 percent, while investment in intangible fixed assets grew by 1.11 percent.

(4) Minor Expansion in Exports and Mild Contraction in Imports

Against the backdrop of a weaker global business climate, exports and imports of goods and services posted negative growth in the first half of the year. A significant decline was witnessed in exports of electronic products, information and telecommunications products, plastic articles and

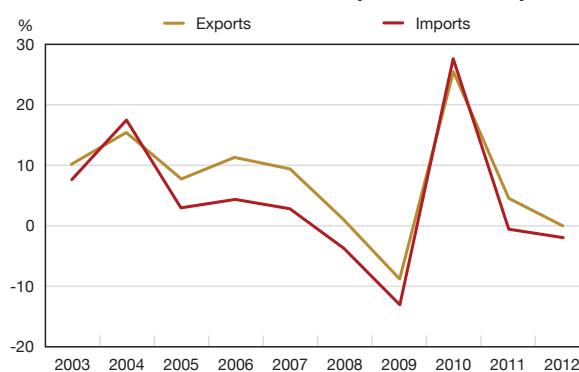


Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2013.

optical instruments. In the third quarter, exports of information and telecommunications products and primary metal-related articles continued to shrink, whereas those of mineral products grew, leading to a 2.28 percent growth of exports of goods and services. With the recovery of the global economy, a lower base effect, and higher demand before the Christmas and Chinese New Year holidays, exports of goods and services expanded at an annual rate of 3.95 percent in the fourth quarter. For the year as a whole, exports of goods and services grew by 0.13 percent, contributing 0.09 percentage points to economic growth.

Since a large proportion of the import demand is derived from exports, the growth trends of imports and exports move together. Import growth was negative in the first half of the year, while it turned positive in the second half. During the year as a whole, imports of goods and services decreased by 1.87 percent, thus subtracting 1.05 percentage points from economic growth.

Real Growth Rates of Exports and Imports



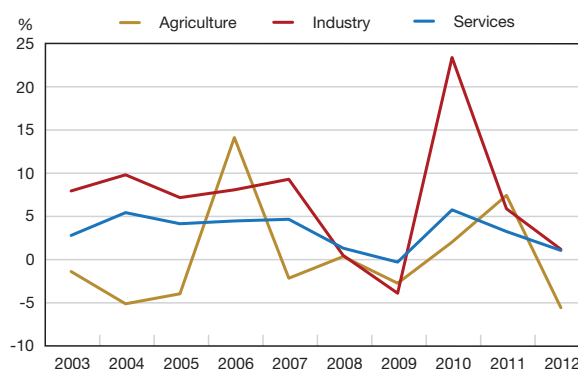
Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2013.

Sectoral Components of GDP

On the output side, while agricultural output contracted by 5.82 percent as a consequence of unfavorable weather conditions, industrial output and services advanced at a slower pace than the previous year amid a weaker global economy. Industry and services, accounting for major shares of national output, were key forces behind economic growth, contributing 0.33 and 0.52 percentage points, respectively, to economic growth for the year. Agricultural output, on the other hand, subtracted 0.08 percentage points from economic growth.

Regarding the sectoral shares of GDP in nominal terms, Taiwan's economy was dominated by the services sector with a 69.16 percent share in 2012. The industrial sector accounted for 28.97 percent of GDP, lower than the share in the previous year as a consequence of sluggish export momentum. Meanwhile, the ratio of agricultural output to GDP slightly increased to 1.87 percent.

Sectoral Components of GDP



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2013.

Gross Domestic Product by Type of Activity

Unit: %

	2012			2011		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Agriculture	1.87	-5.82	-0.08	1.81	7.19	0.10
Industry	28.97	0.94	0.33	29.76	5.65	1.97
Mining & Quarrying	0.33	10.43	0.04	0.22	2.37	0.01
Manufacturing	24.26	0.98	0.30	25.11	6.42	1.95
Construction	2.85	-0.96	-0.02	2.85	-0.07	0.00
Electricity, Gas, Water and Remediation Services	1.53	0.84	0.01	1.58	0.64	0.01
Services	69.16	0.83	0.52	68.43	3.00	1.92
Wholesale and Retail Trade	18.74	0.11	0.02	18.86	4.00	0.69
Transport & Storage	3.03	1.01	0.03	2.99	2.44	0.07
Information and Communications	3.59	3.89	0.14	3.54	4.19	0.15
Finance and Insurance	6.52	-0.13	-0.01	6.51	3.65	0.23
Real Estate	8.67	0.94	0.08	8.58	1.18	0.10
Administration and Defense	7.45	0.96	0.06	7.26	0.28	0.02
Education	4.70	1.15	0.05	4.62	1.27	0.05
Other Services	16.45	1.09	0.16	16.08	4.15	0.60
Gross Domestic Product	100.00	1.26	1.26	100.00	4.07	4.07

Note: * Percentage point.

Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2013.

(1) Significant Decline in Agricultural Output

During 2012, all agricultural production subsectors, namely agriculture, forestry, fishing and animal husbandry, decreased owing to unfavorable weather conditions, which led agricultural output to contract by 5.82 percent.

(2) Scant Growth in Industrial Output

The industrial sector, comprised of the industries of mining and quarrying, manufacturing, construction, and electricity, gas and water, grew by 0.94 percent in 2012, a modest growth compared with the previous year's 5.65 percent increase. The modest growth in industrial output this year was consistent with the weak performance of exports.

In 2012, manufacturing output exhibited an upward trend from a trough of a 2.11 percent decline in the first quarter to a 5.57 percent expansion in the fourth quarter. For the year as a whole, the manufacturing industry grew a mere 0.98 percent, in contrast to the 6.42 percent surge of the previous year, which was primarily because the global economic downturn dampened export demand. Specifically, the production index of the information and electronics industry grew moderately by 1.89 percent, compared with an 8.91 percent increase in the previous year. The index of the chemical industry increased only by 0.21 percent on account of weakened oil demand.

The production index of metal and machinery contracted by 4.64 percent from the previous year's 6.64 percent increase.

As the government imposed the Specifically Selected Goods and Service Tax in 2011 to cool the overheated housing market, along with weaker demand for commercial construction induced by an uncertain economic outlook, construction output posted a decline of 0.96 percent for the year. In contrast to a moderate growth of 2.37 percent in the previous year, output of mining and quarrying grew considerably by 10.43 percent for the year, which was primarily attributable to a price hike in natural gas and a lower base effect.

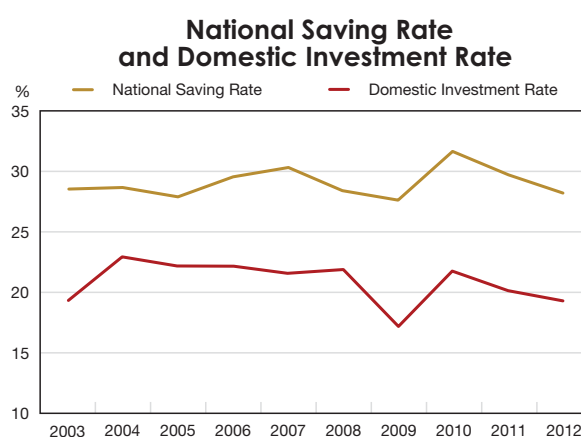
(3) Weak Performance in the Services Sector

In 2012, services output recorded a modest growth rate of 0.83 percent, lower than the growth rate of 3.00 percent of the previous year. Declining business sentiment cooled growth in all the services subsectors other than public administration and national defense.

Among the services subsectors, information and communication topped the growth among all subsectors, registering an increase of 3.89 percent for the year, reflecting the expansion of home-based businesses as well as increasing demand for smartphones, online virtual shops and internet games during the economic slowdown. Moreover, education services and transport and storage services grew by 1.15 percent and 1.01 percent, respectively. Finance and insurance services contracted by 0.13 percent, primarily owing to decreased financial trading activity and fee income amid the re-emergence of the European sovereign debt crisis.

Slight Decline in National Saving Rate

Because of the gradual improvement in labor market conditions, national consumption (including both private consumption and government consumption expenditures) grew by 2.71 percent in nominal terms for the year. As a consequence, the national saving rate (the ratio of national saving to GNP measured at current prices) declined from 29.77 percent in 2011 to 28.20 percent in 2012. The excess saving ratio, defined as the excess of national saving over gross domestic investment to GNP, declined from 9.60 percent in 2011 to 8.97 percent in 2012, reflecting the decline in national saving outpaced that in domestic investment.



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2013.

3. Balance of Payments

In 2012, the current account surplus, which accounted for 9.8 percent of nominal GNP, increased to US\$49,550 million. This represented growth of 20.2 percent and was due to increases in goods, services and income surpluses, and a decrease in the current transfer deficit. However, the financial account still reported a net outflow of US\$31,503 million, as direct investment abroad and portfolio investment by residents exhibited record-high net outflows of US\$13,031 million and US\$45,361 million, respectively. Considering the current account surplus was partly offset by the net outflow in the financial account, the overall balance recorded a surplus of US\$15,484 million, which was reflected in the increase in foreign reserve assets held by the Bank.

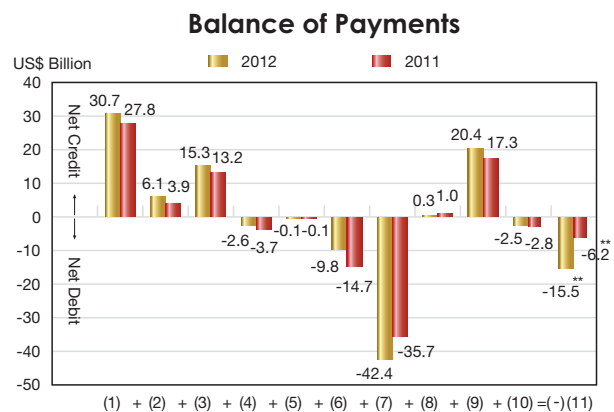
Widening Current Account Surplus

The current account consists of four major items, namely goods, services, income, and current transfers. In 2012, the surpluses of goods, services and income all reached historical highs.

(1) Goods

With a weakened global economy and a high base effect, both Taiwan's exports and imports registered negative growth in 2012. The value of exports decreased by 2.4 percent to US\$299,756 million, mainly driven by soft global demand for ICT products. The value of imports decreased by 3.6 percent to US\$269,021 million, mainly accounted for by declines in the chemicals, basic metals, machinery, and electronics categories. Owing to a larger contraction in imports over exports, the goods surplus widened to US\$30,735 million, an increase of 10.4 percent from the previous year.

As indicated by customs statistics, the top three export partners of Taiwan in 2012 were Mainland China including Hong Kong (hereafter in this chapter referred to as Mainland China), the US, and Singapore, accounting for 57.0 percent of total exports. Furthermore, the top three importing partners were Japan, Mainland China, and the US, with a combined share of 42.4 percent.



(1) Goods (2) Services (3) Income (4) Current Transfers (5) Capital Account (6) Direct Investment (7) Portfolio Investment (8) Financial Derivatives (9) Other Investment (10) Net Errors and Omissions (11) Reserves *

Notes: * Excluding valuation changes in exchange rates. ** The minus sign (-) indicates an increase in foreign exchange reserves held by the Bank.

Source: Balance of Payments, CBC.

Balance of Payments

Unit: US\$ Million

	2012	2011
A. Current Account	49,550	41,230
Goods: Exports f.o.b.	299,756	307,030
Goods: Imports f.o.b.	-269,021	-279,182
Balance on Goods	30,735	27,848
Services: Credit	49,046	45,920
Services: Debit	-42,909	-42,026
Balance on Services	6,137	3,894
Income: Credit	25,861	24,833
Income: Debit	-10,584	-11,654
Balance on Income	15,277	13,179
Current Transfers: Credit	5,446	5,547
Current Transfers: Debit	-8,045	-9,238
Balance on Current Transfers	-2,599	-3,691
B. Capital Account	-100	-119
Total, Groups A plus B	49,450	41,111
C. Financial Account	-31,503	-32,046
Direct Investment Abroad	-13,031	-12,766
Direct Investment in R.O.C. (Taiwan)	3,205	-1,957
Portfolio Investment Assets	-45,361	-19,503
Portfolio Investment Liabilities	2,914	-16,188
Financial Derivatives Assets	4,526	5,777
Financial Derivatives Liabilities	-4,198	-4,739
Other Investment Assets	5,771	-7,988
Other Investment Liabilities	14,671	25,318
Total, Groups A through C	17,947	9,065
D. Net Errors and Omissions	-2,463	-2,826
Total, Groups A through D	15,484	6,239
E. Reserves and Related Items*	-15,484	-6,239

Note: * Excluding valuation changes in exchange rates.
Source: Balance of Payments, CBC.

In terms of Taiwan's trade with Mainland China, the value of exports amounted to US\$118,646 million in 2012, down by 4.4 percent from the previous year. As a result of Mainland China rolling out measures aimed at industrial upgrade, intermediate goods imported from Taiwan were substituted by Mainland China's local industry chain, reducing the share of exports to Mainland China by 0.8 percentage points to 39.4 percent. Nevertheless, Mainland China remained Taiwan's largest export market in 2012.

Imports from Mainland China decreased by 3.8 percent to US\$43,567 million, attributable to weak demand for industrial raw materials, such as chemicals and steel. With a share of 16.1 percent, Mainland China remained Taiwan's second largest source of imports. The value of exports and imports both shrank in 2012, lowering Taiwan's foreign trade dependence on Mainland China. The trade surplus with Mainland China dropped by 4.7 percent to US\$75,079 million in 2012. However, Mainland China remained the largest source of Taiwan's trade surplus.

Direction of Trade in Goods by Country

Unit: %

	2012			2011		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
Mainland China (including Hong Kong)	118,646	39.4	-4.4	124,044	40.2	8.1
Southeast Asia 6*	55,713	18.5	9.8	50,738	16.5	22.7
U. S. A.	32,976	10.9	-9.3	36,364	11.8	15.6
Europe	28,765	9.6	-7.8	31,204	10.1	6.2
Japan	18,989	6.3	4.2	18,228	5.9	1.2
Rest of the World	46,091	15.3	-3.3	47,678	15.5	20.2
Total	301,181	100.0	-2.3	308,257	100.0	12.3
Imports						
Japan	47,574	17.6	-8.9	52,200	18.5	0.5
Mainland China (including Hong Kong)	43,567	16.1	-3.8	45,272	16.1	20.5
Southeast Asia 6*	31,364	11.6	-3.9	32,636	11.6	13.4
Europe	28,266	10.5	-4.5	29,586	10.5	13.8
U. S. A.	23,604	8.7	-8.4	25,759	9.2	1.5
Rest of the World	96,098	35.5	0.1	95,985	34.1	17.7
Total	270,473	100.0	-3.9	281,438	100.0	12.0

Note: * Including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.
Source: *Monthly Statistics of Exports and Imports*, Ministry of Finance, R. O. C. (Taiwan).

Exports to the US recorded a total value of US\$32,976 million in 2012, decreasing by 9.3 percent from 2011, comprising a lower share in total exports of 10.9 percent. Taiwan's ICT products exports to the US almost reduced by half, from US\$9,158 million in 2011 to US\$4,599 million in 2012, mainly induced by a downturn in US demand for smart phones. Imports from the US slipped by 8.4 percent, and their share in total imports dropped further to 8.7 percent, compared with 9.2 percent a year earlier. The trade surplus with the US narrowed to US\$9,372 million. The US, Taiwan's second largest source of trade surplus in the prior year, became the third in 2012.

Exports to Japan posted a record high value of US\$18,989 million, reflecting a growth of 4.2 percent and a share of 6.3 percent in total exports in 2012, mainly spurred by the demand for electronics products. Imports from Japan slipped by 8.9 percent to US\$47,574 million, with its share in total imports further declining to 17.6 percent. However, Japan remained Taiwan's largest source of imports. The trade deficit with Japan decreased to US\$28,585 million for the year.

Sustained fiscal austerity measures executed by European countries continued to suppress the region's consumption. Exports to Europe decreased by 7.8 percent in 2012, and their share in total exports fell to 9.6 percent. Imports from Europe declined by 4.5 percent, with their share in total imports remaining at 10.5 percent. Therefore, the trade surplus with Europe reduced substantially, from US\$1,618 million in 2011 to US\$499 million as a result of a larger decrease in exports over imports.

Triggered by Southeast Asia's solid economic growth, exports to the six countries in Southeast Asia, including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam, increased

by 9.8 percent to US\$55,713 million in 2012, hitting a new high in 2012. The combined share of exports to these countries in total exports topped 18.5 percent. Imports from these countries went down by 3.9 percent, with a share of 11.6 percent in total imports. In sum, the trade surplus with these six countries expanded from US\$18,103 million in 2011 to US\$24,349 million, with Singapore and the Philippines being the second and the fourth largest sources of Taiwan's trade surplus.

(2) Services

In 2012, both receipts and payments of trade in services presented historical highs. Service receipts grew by US\$3,126 million to US\$49,046 million, while payments increased by US\$883 million to US\$42,909 million.

Of the various components of the services account, transportation receipts grew by US\$273 million to US\$9,969 million, reflecting an increase in international passenger fares received by domestic air carriers. Transportation payments also grew by US\$268 million to US\$10,536 million, resulting mainly from higher passenger fares paid to foreign airlines. Overall, net transportation payments slightly decreased to US\$567 million in the year from the US\$572 million of the previous year.

Travel receipts increased by US\$642 million to US\$11,707 million as the total number of visitors registered a record-high figure of 7.31 million, of which arrivals from Mainland China, Taiwan's largest source of visitors, grew the most with a 45.0 percent gain in 2012. Meanwhile, travel payments increased by US\$518 million to US\$10,630 million. The main reason was a modest 6.8 percent growth in the number of overseas visits by residents, encouraged by visits to Japan, which witnessed the largest increase at 37.3 percent. Both receipts and payments of trade in travel showed record-high figures. In sum, net travel receipts grew from US\$953 million in 2011 to US\$1,077 million in 2012.

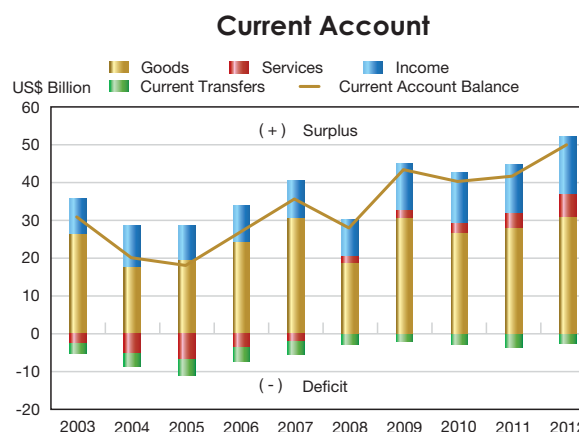
Other services receipts increased by US\$2,211 million to US\$27,370 million, mainly attributable to increases in net proceeds from merchanting. Other services payments slightly increased by US\$97 million to US\$21,743 million, mainly because of payments for professional and technical services. In all, the surplus in net other services expanded from US\$3,513 million in 2011 to US\$5,627 million in 2012.

(3) Income

In 2012, income receipts rose by US\$1,028 million to a historical high of US\$25,861 million, mainly attributable to the increases in interest earnings generated by residents' foreign exchange assets and in dividends of residents' portfolio investments. Meanwhile, income payments amounted to US\$10,584 million, US\$1,070 million less than in 2011, mostly attributable to the decrease in non-residents' investment income in local equity securities. Consequently, the surplus on the income account expanded from US\$13,179 million in 2011 to US\$15,277 million for the year of 2012, the highest level on record.

(4) Current Transfers

For the year of 2012, the respective figures of current transfer receipts and payments amounted to US\$5,446 million and US\$8,045 million. As a whole, the deficit in net current transfers shrank to US\$2,599 million in 2012 from the US\$3,691 million of the previous year when anti-trust penalties imposed by the US and European countries on Taiwan's major LCD panel producers and residents' increased outward remittances as relief donations in response to the Japanese earthquake pushed up current transfer payments in 2011.



Source: Balance of Payments, CBC.

Shrinking Capital Account Deficit

The capital account includes capital transfers (debt forgiveness, ownership transfers of fixed assets and migrants' transfers) and the acquisition and disposal of non-produced, non-financial assets. In 2012, the capital account continued to exhibit a deficit, but the gap narrowed by US\$19 million to US\$100 million, mainly owing to decreased outward remittances by migrants.

Net Outflows in the Financial Account

The financial account for the year 2012 recorded a significant net outflow of US\$31,503 million, mainly because residents increased their overseas portfolio investments. In terms of sub-categories, direct investment and portfolio investment registered net outflows of US\$9,826 million and US\$42,447 million, respectively, while other investment posted a net inflow of US\$20,442 million.

(1) Direct Investment

Direct investment abroad by residents recorded a net outflow of US\$13,031 million, an increase of US\$265 million compared with 2011. According to the statistics of approved cases, residents' direct investment in Mainland China and in other areas reported US\$10,924 million and US\$8,099 million, respectively, suggesting that Mainland China remained a major recipient of Taiwan's direct investment abroad after the implementation of the Economic Cooperation Framework Agreement in early 2011. The main investment target sectors included banking and insurance, wholesale and retail, electronic parts and components manufacturing, information and communications, and real estate. On the other hand, direct investment in Taiwan by non-residents reverted to a net inflow of US\$3,205 million, an increase of US\$5,162 million compared with a net outflow of US\$1,957 million in 2011. The main reason behind the marked increase was that for the year of 2011, foreign enterprises

transferred their equity holdings to local enterprises. Overall, direct investment exhibited a net outflow of US\$9,826 million in 2012 compared with US\$14,723 million in 2011.

(2) Portfolio Investment

In 2012, portfolio investment abroad by residents showed a record net outflow of US\$45,361 million, mostly attributable to investment in overseas debt securities by insurance companies and overseas mutual funds investment by residents. On the other hand, local portfolio investment by non-residents swung to a net inflow of US\$2,914 million, as the US quantitative easing policy triggered massive foreign capital inflows for investment in Taiwan's stock market, resulting in a net inflow of US\$2,906 million in non-residents' equity securities investments. As a whole, the net outflow of portfolio investment reached a historical high of US\$42,447 million, compared to US\$35,691 million in 2011.

(3) Financial Derivatives

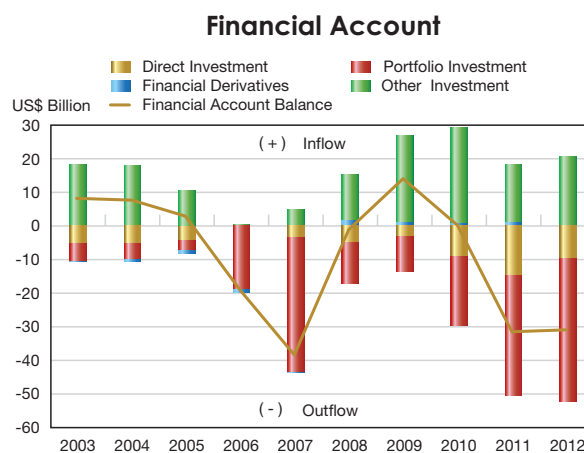
Financial derivatives recorded a net inflow of US\$328 million, due in large part to gains reaped by the banking sector from transactions of derivative instruments involving foreign exchange swaps, cross currency swaps (CCS), and interest rate swaps (IRS).

(4) Other Investment

In 2012, other investment abroad by residents turned to a net inflow of US\$5,771 million from a net outflow of US\$7,988 million a year earlier. The main reason was that the US Federal Reserve further expanded its quantitative easing policy, boosting expectations of a weaker US dollar. Consequently, the private sector withdrew their overseas deposits. Meanwhile, other inward investment by non-residents also showed a net inflow of US\$14,671 million, largely attributable to the borrowings from overseas affiliates by the banking sector, short-term liabilities of the private sector, and the cash collateral deposited by foreign investors for local securities lending. To sum up, the net inflow of other investment increased to US\$20,442 million in 2012.

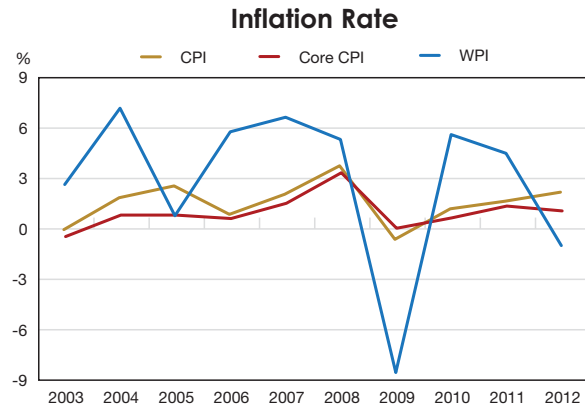
Increase in Foreign Exchange Reserves

The foreign exchange reserve assets held by the Bank increased by US\$15,484 million as a result of the current account surplus.



4. Prices

In 2012, the weakened global economy led to a decline in international primary commodity prices. As a result, Taiwan's wholesale price index (WPI) fell by 1.16 percent in 2012, down from a 4.32 percent rise in 2011. Headline inflation, measured by the consumer price index (CPI), rose by 1.93 percent, 0.51 percentage points more than the previous year, mainly owing to the weather-induced surge in vegetable and fruit prices in the second half of the year. The core CPI, which excludes fruits, vegetables, and energy, rose at an annual rate of 1.00 percent in 2012, down from a 1.26 percent increase in the previous year.



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

Slight Decrease in Wholesale Prices

The WPI slightly decreased at an annual rate of 1.16 percent in 2012, reflecting the deceleration of international raw materials prices resulting from a slowdown in global demand. In terms of monthly movements, the annual WPI inflation rate turned negative from March and exhibited a downward trend to the end of the year. In December, the annual WPI inflation rate fell to an all-year low of -3.95 percent.

Broken down by the three major components of the WPI, the annual rates of change in import prices, domestic sales excluding import prices, and export prices all decreased moderately in 2012 owing to the falling prices of international commodities.

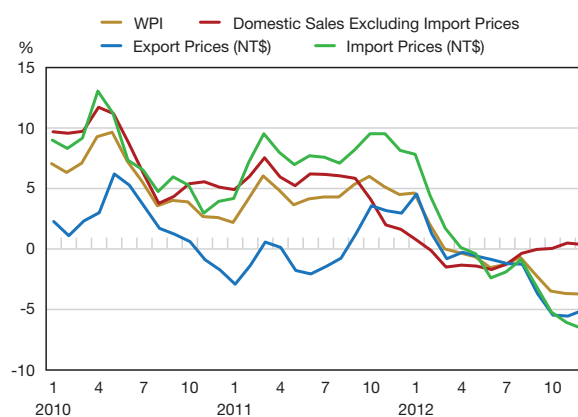
Import prices decreased by 1.91 percent in US dollar terms in 2012, compared with a 15.39 percent increase in the previous year. The decline in import prices mainly resulted from the falling prices of imported raw materials, such as cotton, iron and steel, copper, aluminum and chemical materials. As the NT dollar depreciated against the US dollar over 2012, the annual rate of change in import prices decreased by only 1.28 percent in NT dollar terms. Among the components of import prices, prices of raw materials, with a weight of 78.12 percent in the whole index, decreased by 1.86 percent and accounted for 1.48 percentage points in the 1.28 percent decrease. In contrast, prices of capital goods and consumer goods rose by 1.22 percent and 0.38 percent, respectively.

Export prices in US dollar terms decreased by 2.25 percent in 2012, down from an increase of 7.37 percent the year before. Owing to the depreciation of the NT dollar against the US dollar,

export prices fell by 1.62 percent in terms of the NT dollar. In NT dollar terms, among the basic groups, prices of chemical and industrial products accounted for the largest decline at 7.91 percent, whereas prices of primary metals and articles thereof decreased by 7.76 percent. In contrast, prices of animal products rose by 7.31 percent in 2012, mainly attributable to lower supply of eels and other frozen fish.

With the decrease in prices of primary commodities imports, prices of domestic sales excluding import prices went down 0.59 percent in 2012, compared with a 5.04 percent rise in the previous year. In terms of product group, prices of primary metal products, textile products and chemical materials fell by 7.80 percent, 5.83 percent, and 5.25 percent, respectively. In contrast, prices of petroleum and coal products rose by 7.16 percent in the year, as higher costs of crude oil were passed through to domestic oil, diesel and fuel oil prices.

Annual Rates of WPI



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

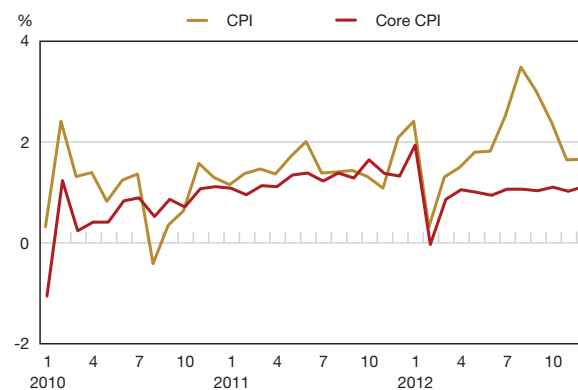
Moderate Increase in Consumer Prices

The CPI rose by 1.93 percent in 2012. The rise in CPI inflation was mainly caused by the fuel and electricity price hikes and the ensuing increase in related retail prices. In addition, typhoons and heavy rainfall induced a surge in vegetable and fruit prices, and a lower base effect added to the upward pressure on prices. After remaining stable in the first quarter of the year, monthly CPI inflation rates stepped up and peaked at 3.43 percent in August, as prices of vegetables and fruits soared because of weather-related disruptions. Subsequently, CPI inflation moderated to 1.60 percent in December.

The core CPI inflation rate was 1.00 percent in 2012. In the first two months of the year, the rate fluctuated on account of the seasonal factor of the Chinese New Year holidays. From March onwards, the core CPI remained moderate between 0.84 percent and 1.10 percent.

From 1998 to 2012, Taiwan's annual CPI inflation rate averaged merely 1.06 percent,

Annual Rates of CPI

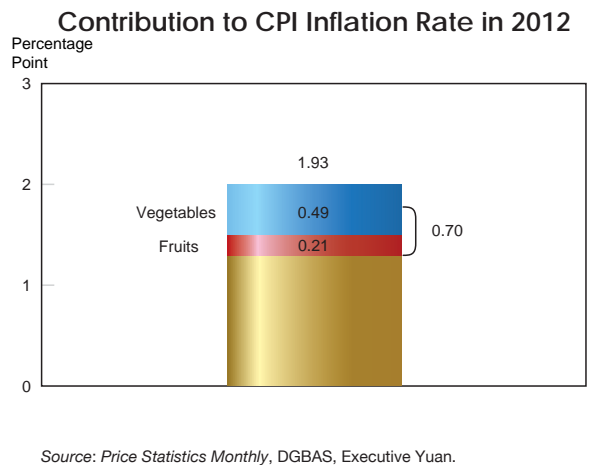
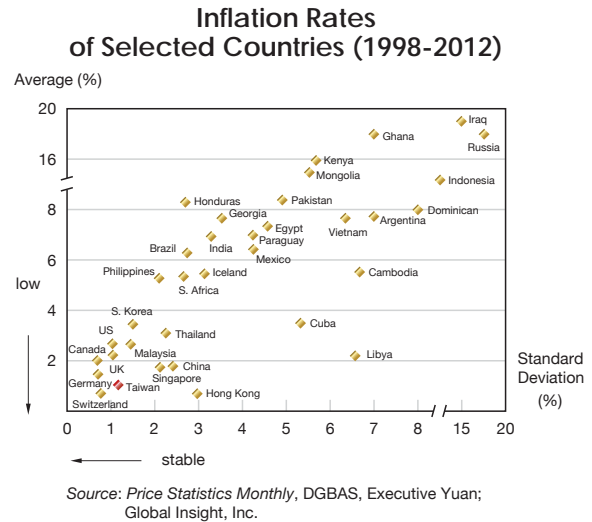


Source: Price Statistics Monthly, DGBAS, Executive Yuan.

and the standard deviation of the annual CPI inflation rate was also subdued at only 1.17 percent. Compared with major economies, Taiwan's inflation remained low and stable, conducive to maintaining the purchasing power of money and helping the general public make appropriate economic decisions.

The advance in the CPI inflation rate in 2012 was mainly boosted by food and energy prices. Food prices rose at an annual rate of 4.16 percent and contributed 1.16 percentage points to CPI inflation. The main factors contributing to the rise of CPI inflation in 2012 were as follows:

- (1) Owing to severe damage caused by typhoons and torrential rain as well as a lower base effect, prices of vegetables and fruits remarkably rose by 22.18 percent and 7.74 percent and accounted for 0.49 and 0.21 percentage points in the CPI increase, respectively.
- (2) The rise in oil, electricity, and gas costs and higher raw food prices pushed up the prices of food away from home by 2.32 percent in 2012, contributing 0.22 percentage points to CPI inflation.
- (3) International petroleum prices rose in early 2012, but the uptrend was later reversed and remained relatively flat through the second half of the year because of weak demand caused by slack global economic growth and abundant supply of shale oil from the US. Reflecting higher imported prices for petroleum and natural gas as well as the domestic oil and electricity price hikes announced in April, prices for domestic fuels and lubricants and gas moved up by 5.78 percent and 7.97 percent and accounted for 0.21 and 0.09 percentage points in the CPI increase, respectively.
- (4) In line with the increase in tour group fees, prices of education and entertainment services rose by 1.47 percent, contributing 0.19 percentage points to CPI inflation.



The main factors contributing to downward pressure on the CPI in 2012 were as follows:

- (1) Prices of communication fees declined by 6.57 percent during 2012, as fees for cell phones, the internet, and telephones adjusted downward.
- (2) Prices of meat fell by 2.28 percent in 2012 owing to weak demand resulting from concerns over ractopamine-contaminated meat and a bird flu outbreak.

Percentage Changes in the Major Components of the CPI in 2012

Item	Annual Rate of Change (%)	Contribution to CPI Inflation Rate (Percentage Point)
CPI	1.93	1.93
Vegetables	22.18	0.49
Food away from Home	2.32	0.22
Fruits	7.74	0.21
Fuels & Lubricants	5.78	0.21
Education & Entertainment Services	1.47	0.19
Residential Rent	0.62	0.11
Gas	7.97	0.09
Fish & Shellfish	3.80	0.08
Garments	2.86	0.08
Tobacco & Betel Nuts	4.28	0.08
Cereals & Cereal Products	2.20	0.06
Electricity	2.40	0.05
Total		1.87
Communication Fees	-6.57	-0.17
Meat	-2.28	-0.06
Total		-0.23
Others		0.29

Source: *Price Statistics Monthly*, DGBAS, Executive Yuan.

5. Public Finance of the Central Government

For the year 2012, with central government revenue contracting by 0.3 percent while expenditure increased by 8.6 percent, overall central government finances remained in deficit for the fourth consecutive year, and the size of the deficit increased to NT\$215.9 billion from NT\$63.1 billion in 2011.

Slight Decline in Central Government Revenue

In 2012, central government revenue decreased by NT\$4.2 billion to NT\$1,667.1 billion. Tax revenue was the major source of central government revenue, followed by surpluses of public enterprises and public utilities, with respective shares of 73.3 percent and 15.7 percent of the total revenue.

Among different types of taxes, income tax revenue increased by NT\$45.5 billion, mainly bolstered by rising corporate dividend distribution in 2011. However, revenue from securities transactions tax decreased by NT\$22.1 billion from the previous year, affected by a plunge in local stock markets amid an economic slowdown. As a result, overall tax revenue increased by a mere NT\$18.7 billion over the previous year. In terms of surpluses of public enterprises and public utilities, a decrease of NT\$2.4 billion was recorded for 2012, mainly caused by continuous losses in some public enterprises. Moreover, revenues from others sharply declined by NT\$43.6 billion owing to a higher base in the

Total Revenue and Expenditure of the Central Government

Unit: NT\$ Billion

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Total Revenue	1,320.9	1,368.2	1,464.5	1,546.4	1,635.5	1,640.9	1,553.7	1,497.4	1,671.3	1,667.1
(Ratio to GDP : %)	12.3	12.0	12.5	12.6	12.7	13.0	12.4	11.0	12.2	11.9
Total Expenditure	1,618.1	1,564.8	1,567.0	1,529.8	1,552.0	1,617.7	1,714.8	1,654.4	1,734.4	1,883.0
(Ratio to GDP : %)	15.1	13.8	13.3	12.5	12.0	12.8	13.7	12.2	12.7	13.4
Surplus/Deficit	-297.2	-196.6	-102.5	16.6	83.5	23.2	-161.1	-157.0	-63.1	-215.9
(Ratio to GDP : %)	-2.8	-1.7	-0.9	0.1	0.6	0.2	-1.3	-1.2	-0.5	-1.5
Debt Repayment	46.5	56.1	64.1	65.0	6.0	65.0	65.0	66.0	66.0	94.0
Financing:	343.7	253.5	167.3	63.9	0.0	41.8	226.1	224.2	129.1	309.9
Debt Financing	300.8	253.5	167.3	63.9	0.0	0.0	164.5	224.2	129.1	288.1
Surplus of Previous Fiscal Years	42.9	0.0	0.0	0.0	0.0	41.8	61.6	0.0	0.0	21.8
Memorandum:										
Tax Dependency Ratio**(%)	51.2	58.6	68.1	71.5	77.9	76.8	61.3	65.4	69.4	64.9
Debt Dependency Ratio***(%)	18.6	16.2	10.7	4.2	0.0	0.0	9.6	13.6	7.4	15.3

Notes: *The figures for the year 2012 are preliminary estimates.

**Tax dependency ratio is defined as the ratio of annual tax revenue to total government expenditure.

***Debt dependency ratio is defined as the ratio of annual issuance of government bonds and borrowing from banks to total government expenditure.

Sources: 1. DGBAS, Executive Yuan.

2. Department of Statistics, MOF.

previous year resulting from the huge surplus of NT\$39.0 billion from the National Stabilization Fund set up by the Executive Yuan.

As the increase in government expenditure outpaced that in tax revenue, the ratio of tax revenue to government expenditure, denoted by the tax dependency ratio, dropped to 64.9 percent in 2012 from 69.4 percent in 2011.

Expansion in Central Government Expenditure

Central government expenditure increased by NT\$148.6 billion over the previous year to NT\$1,883.0 billion in 2012. Leading the increase was a NT\$71.9 billion rise in social welfare expenditure, mainly owing to mounting expenditure on legal obligations such as subsidies for social insurance programs and less-advantaged people in response to social transformation. The second largest increase was an extra NT\$46.8 billion spent on economic development, primarily aimed at promoting economic development via infrastructure projects such as mass rapid transit systems.

In terms of share in total government expenditure, social welfare and education, science and culture were the top two categories, accounting for 22.3 percent and 19.1 percent, respectively, followed by national defense with 16.1 percent. The share of social welfare in total expenditure exceeded that of education, science and culture for the first time since 2007 and ranked first among all categories. Ranking fourth was economic development spending with a share of 14.0 percent, rising from the previous year's 12.5 percent.

Total Revenue and Expenditure of the Central Government by Category

Unit: NT\$ Billion

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Total Revenue	1,320.9	1,368.2	1,464.5	1,546.4	1,635.5	1,640.9	1,553.7	1,497.4	1,671.3	1,667.1
Taxes	828.5	916.6	1,067.8	1,094.3	1,208.7	1,242.9	1,051.6	1,082.4	1,203.4	1,222.1
Surpluses of Public Enterprises and Public Utilities	326.5	282.2	243.4	289.1	271.5	253.4	318.7	264.8	264.7	262.3
Fees, Fines and Indemnities	77.8	76.1	79.0	79.0	81.1	83.1	78.1	81.6	81.1	108.1
Proceeds from Sales of Properties and Recalled Capital	65.7	70.3	52.6	58.5	51.3	40.0	53.7	46.7	64.0	60.1
Others	22.4	23.0	21.7	25.5	22.9	21.4	51.6	21.9	58.1	14.5
Total Expenditure	1,618.1	1,564.8	1,567.0	1,529.8	1,552.0	1,617.7	1,714.8	1,654.4	1,734.4	1,883.0
General Administration	167.3	164.1	165.5	167.3	168.2	173.0	168.8	170.2	176.4	176.1
National Defense	227.7	248.9	248.5	237.1	256.7	282.4	291.2	276.8	284.2	303.4
Education, Science and Culture	300.2	302.1	301.5	303.1	308.7	310.4	326.4	342.7	356.2	359.3
Economic Development	295.5	248.9	247.0	197.0	193.3	201.3	244.4	194.5	217.1	263.9
Social Welfare	284.4	279.8	285.7	303.3	305.1	298.4	320.2	327.4	348.5	420.4
Community Development & Environmental Protection	28.7	24.8	25.2	20.4	19.4	13.5	21.4	9.0	6.6	15.9
Retirement & Compassionate Aid	125.4	123.1	130.5	134.7	134.6	133.8	133.4	134.5	138.5	138.2
Interest Payments	144.6	127.1	117.9	125.2	124.0	117.4	116.7	109.8	111.7	114.5
General Subsidies and Other Expenditure	44.3	46.0	45.2	41.7	42.0	87.5	92.3	89.5	95.2	91.3

Note: * The figures for the year 2012 are preliminary estimates.

Sources: 1. DGBAS, Executive Yuan.

2. Department of Statistics, MOF.

In sum, the ratio of central government expenditure to GDP rose from 12.7 percent in the previous year to 13.4 percent. The ratio of the fiscal deficit to GDP also moved up from 0.5 percent in 2011 to 1.5 percent, partly reflecting the economic slowdown in 2012.

Greater Demand for Debt Financing

The demand for debt financing increased in 2012 in line with the widening fiscal deficit. The NT\$215.9 billion fiscal deficit and a NT\$94.0 billion debt principal repayment combined to represent a need for the central government to finance NT\$309.9 billion for 2012. Of this amount, NT\$288.1 billion was raised through issuing government bonds and borrowing from banks, while the remaining NT\$21.8 billion was financed with surpluses from previous fiscal years. The debt dependency ratio, i.e. the ratio of annual government bond issuance and borrowing from banks to total government expenditure jumped from 7.4 percent to 15.3 percent in 2012.

Continued Increase in Outstanding Debt Obligations

The general budget and the special budget combined to require debt financing from government bond issuance and borrowing from banks. The total outstanding debt of the central government increased by NT\$247.0 billion over the previous year end, amounting to NT\$5,011.6 billion at the end of 2012. Furthermore, the ratio of outstanding central government debt to GDP rose from the previous year's 34.8 percent to 35.7 percent in 2012.

Public Debt of the Central Government

Unit: NT\$ Billion

End of Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Outstanding Debt	3,124.7	3,362.1	3,549.9	3,623.0	3,718.6	3,778.8	4,127.4	4,538.0	4,764.6	5,011.6
(Ratio to GDP : %)	29.2	29.6	30.2	29.6	28.8	29.9	33.1	33.5	34.8	35.7

Note: * The figures for the year 2012 are preliminary estimates.

Sources: 1. DGBAS, Executive Yuan.

2. Department of Statistics, MOF.

6. Labor Market

In early 2012, as business demand for labor increased, the unemployment rate dropped to 4.10 percent in April. However, with the graduation season approaching, the unemployment rate started to rise in May and hit 4.40 percent in August before declining gradually to 4.18 percent in December. For the year 2012, the average unemployment rate was 4.24 percent, the lowest since 2009.

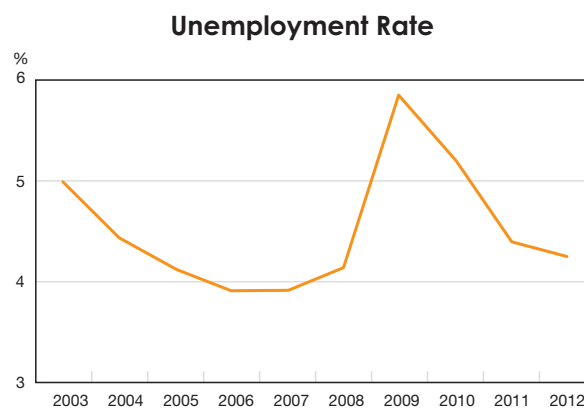
Annual average employment was 10.86 million persons in 2012, a 1.41 percent increase from 2011. Employment in the industrial and services sectors continued to grow at 1.12 percent and 1.68 percent, respectively. Employment in the agricultural sector increased 0.39 percent from the year before.

In terms of earnings and labor cost, monthly earnings per worker in the non-farm sector (the industrial and services sectors) averaged NT\$45,888 in 2012, which was a slight increase of 0.30 percent from the previous year. As total working hours increased while total production decreased, labor productivity of the industrial sector and, in particular, the manufacturing subsector fell by 0.75 percent and 0.73 percent, respectively. Additionally, unit labor cost of the industrial and services sectors increased by 2.37 percent and 2.47 percent, respectively.

Employment Continued to Grow

Despite the economic slowdown, labor market conditions in Taiwan remained favorable in the year 2012. Annual average employment in 2012 was 10.86 million, an increase of 151 thousand or 1.41 percent from the previous year.

Broken down by sector, employment in the agricultural sector increased by two thousand people or 0.39 percent. The industrial sector saw total employment increase by 43 thousand or 1.21 percent. Within this sector, manufacturing employment registered the largest increase of 26 thousand people, while construction employment also increased by 14 thousand people. Employment in the services sector grew by 106 thousand persons or 1.68 percent. Of this increase, 37 thousand were in the wholesale and retail services, the largest gain within the services sector.



Source: Monthly Bulletin of Manpower Statistics, DGBAS, Executive Yuan.

Unemployment Rate Declined

In early 2012, greater business demand for labor led the unemployment rate to drop to 4.10 percent in April. However, with an increasing turnout of job seekers around the graduation season, the unemployment rate started to rise in May and peaked at 4.40 percent in August before gradually declining to 4.18 percent in December. For the year as a whole, the average unemployment rate was 4.24 percent, the lowest since 2009.

Improving labor market conditions shortened the duration of unemployment by 1.63 weeks from the year before (26.04 weeks versus 27.67 weeks). The average number of long-term unemployed (those who were unemployed for 53 weeks or more) also declined to 77 thousand people, a decrease of 3,711 persons over the previous year. Of the long-term unemployed, 63.07 percent were male, of which 68.19 percent was in the age group between 25 and 44 and 49.42 percent held a college degree or above. This indicates that male being aged between 25 and 44 and having a higher education degree were major factors for long-term unemployment.

Total unemployment decreased by 10 thousand people or 2.15 percent from the year before. A major factor contributing to this decline was a decrease by 11 thousand in the number of unemployed persons who were laid off involuntarily because of shrinking business or temporary shutdown. Consequently, the proportion of the aforementioned group relative to the total unemployed went down to 28.46 percent compared to 30.10 percent the year before.

On the other hand, favorable labor market conditions raised people's willingness to change jobs. People who quit their jobs to seek other job opportunities made up a major part of the unemployed, with its share rising by 1.09 percentage points from the previous year to 33.72 percent.

In terms of age, the unemployment rate of the age group 15-24 was still the highest at 12.66 percent as people in this group are generally inexperienced and tend to change jobs more frequently. The unemployment rate of the age group 25-44 was 4.38 percent, while the unemployment rate of the 45-64 age group was 2.31 percent, representing respective year-on-year declines of 0.08 and 0.33 percentage points.

In terms of educational background, the unemployment rate of people with a college degree or above increased to 4.58 percent, indicating there was an excess supply of highly educated labor. On the other hand, the unemployment rates of the other two groups decreased. For people with a junior high school degree or below, the unemployment rate dropped to 3.52 percent, while that of those with a middle high school or vocational school degree decreased to 4.22 percent.

Labor Force Participation Rate Rose Modestly

The labor force rose by 1.26 percent to 11.34 million in 2012 as labor market conditions continued

to improve. Total employment amounted to 10.86 million, with an annual growth rate of 1.41 percent, while the number unemployed dropped by 2.15 percent to 481 thousand people.

The labor force participation rate reached 58.35 percent, a 0.18 percentage point increase compared to the year before. In terms of gender, the male labor force participation rate increased by 0.16 percentage points from the preceding year to 66.83 percent, while the female rate reached an all-time high of 50.19 percent, up by 0.22 percentage points over the previous year. As the government continued to improve the working environment, the willingness of females to work also increased. The labor participation rates of all age groups went up across the board, with the group aged 25-44 posting the largest increase of 0.77 percentage points to 86.33 percent. In terms of educational background, the labor participation rates for the working population with a college degree or above increased by 0.22 percentage points to 64.35 percent.

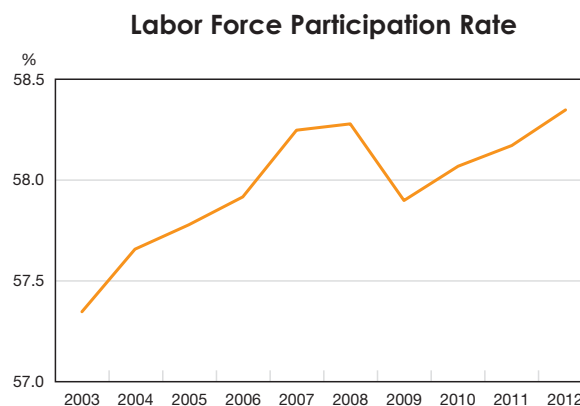
The non-labor force population totaled 8.10 million, representing a year-on-year rise of 43 thousand persons, or 0.52 percent. The ratio of those of old age and with disability to total non-labor force increased by 0.29 percentage points to 29.71 percent, an indication that Taiwan has moved toward an aging society. On the other hand, as job opportunities increased, the ratio of people in school to total non-labor force decreased 0.25 percentage points to 26.67 percent.

Earnings of Non-farm Workers Increased

The average monthly earnings per worker of the non-farm sector reached NT\$45,888 in 2012, representing a 0.30 percent increase from the year before. However, after adjustment for inflation, the average real monthly earnings actually decreased by 1.60 percent.

The average monthly earnings of industrial sector workers increased by 0.76 percent over the previous year to NT\$44,280, while their average monthly real earnings decreased by 1.15 percent. Meanwhile, the average monthly earnings of services sector workers decreased by 0.08 percent to NT\$47,233, and their average monthly real earnings also went down 1.97 percent.

A further breakdown showed that the real estate business experienced the largest real decrease in average monthly earnings, at 7.50 percent, as the government implemented several measures to cool the housing market. The water supply and pollution remediation industry also saw a 6.65 percent decrease from the previous year. On the other hand, government support for the cultural



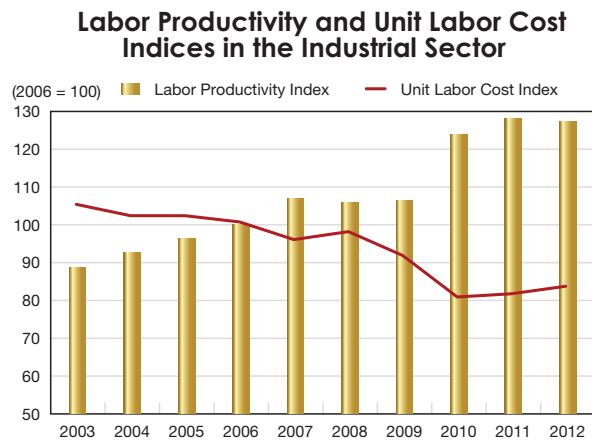
Source: Monthly Bulletin of Manpower Statistics, DGBAS, Executive Yuan.

creative industry and tourism contributed to a 4.33 percent increase in average monthly real earnings in the arts, entertainment, and leisure services industry, the largest among all industries. In terms of real regular monthly earnings per worker, the industrial sector decreased by 0.70 percent, while that of the services sector also decreased by 0.63 percent. Together, the two sectors exhibited a 0.64 percent decrease in their real regular monthly earnings compared with the previous year.

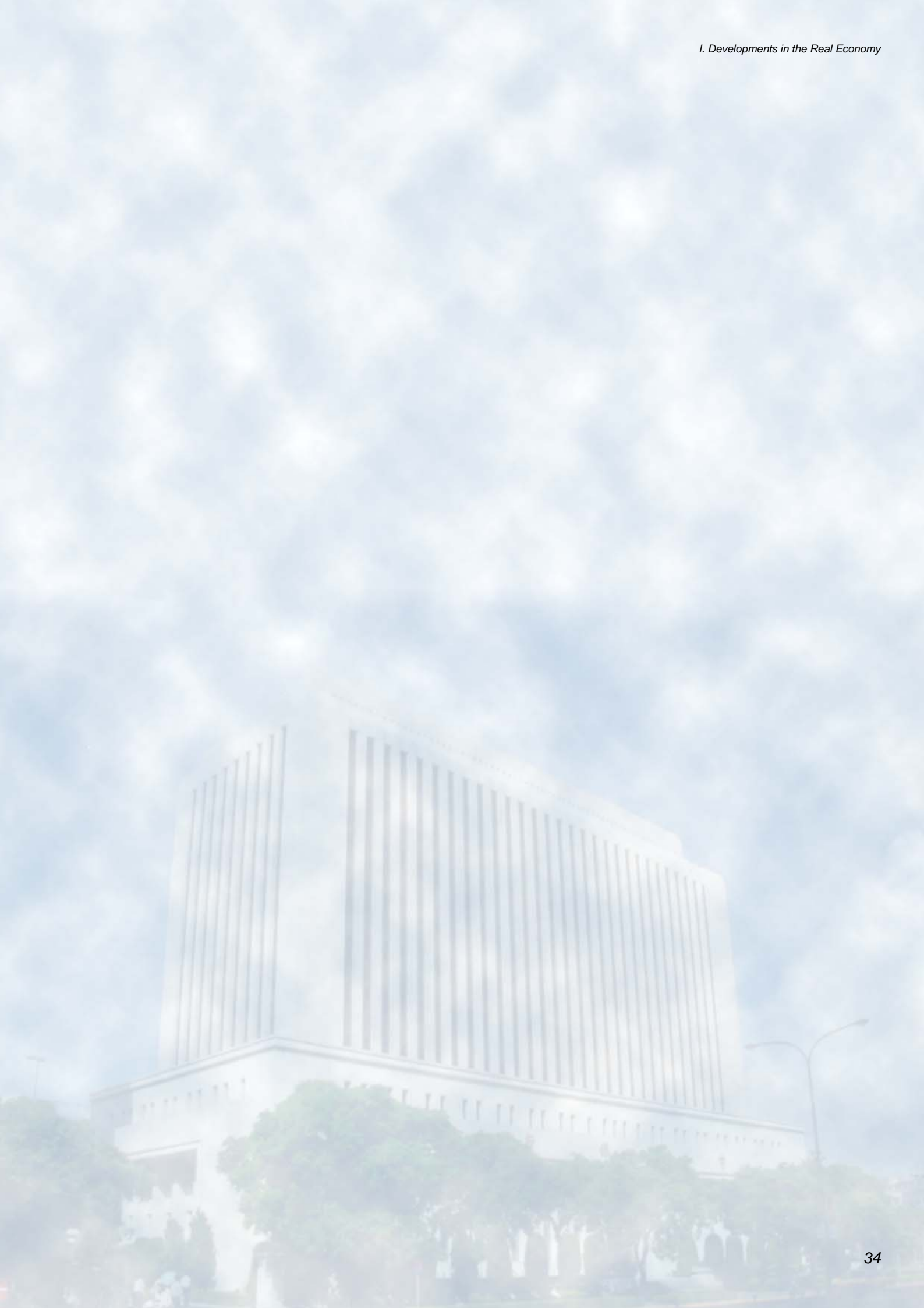
Labor Productivity Edged Down

Labor productivity declined owing to increases in total working hours and decreases in total production. The labor productivity index of the industrial sector and the manufacturing industry dropped by 0.75 and 0.73 percent, respectively. Within the manufacturing industry, the largest decrease was from machinery equipment manufacturing, which fell by 11.40 percent compared to the year before.

On the other hand, as total labor compensation grew while total production decreased, the unit labor cost in the industrial sector and the manufacturing subsector went up by 2.37 and 2.47 percent, respectively, in 2012.



Source: Monthly Bulletin of Earnings and Productivity Statistics, DGBAS, Executive Yuan.





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.

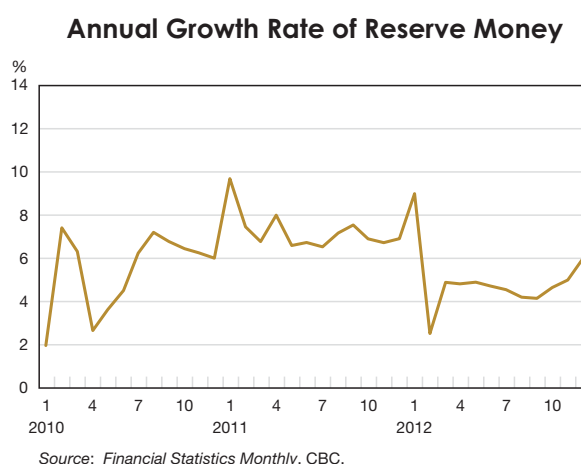
The annual growth rate of the narrow monetary aggregate M1B decelerated to 3.45 percent in 2012 from the previous year's 7.16 percent. The decline mainly resulted from a shift of funds from transaction deposits to non-transaction deposits and foreign currency deposits, and the shrinking trading volume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



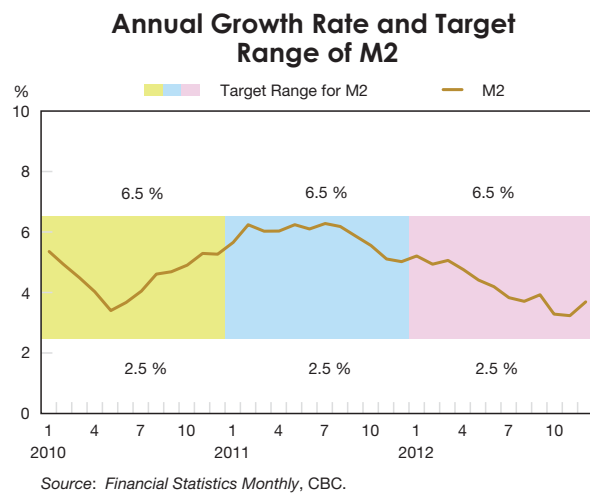
required reserve ratio, whereas there is no NT dollar reserve requirement on foreign currency deposits).

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.

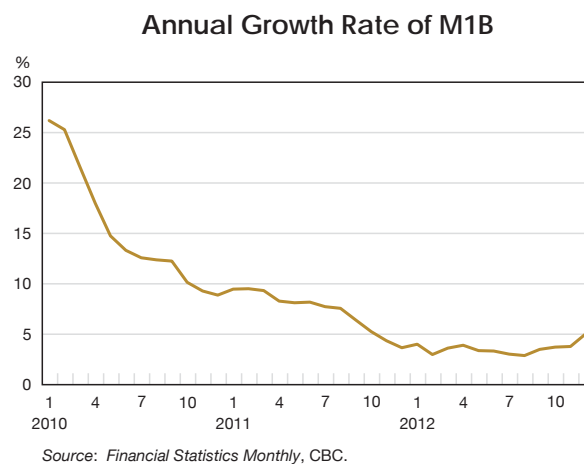


Decline in M1B Growth

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.

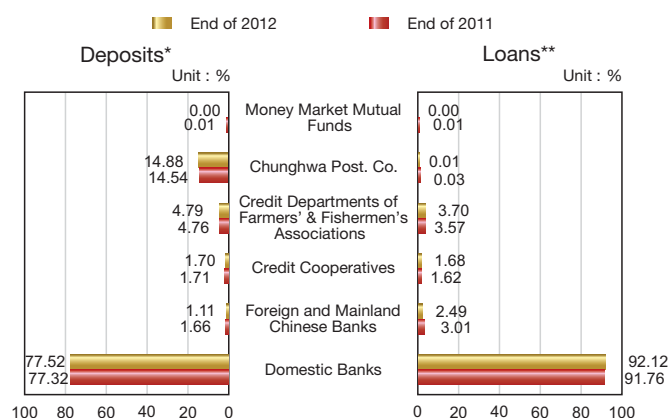
The number of money market mutual funds shrank to one at the end of 2012 because one fund offered by Taishin Bank was liquidated in October. The number of financial holding companies remained 16, the same as at the end of 2011.

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, Chungghwa 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.

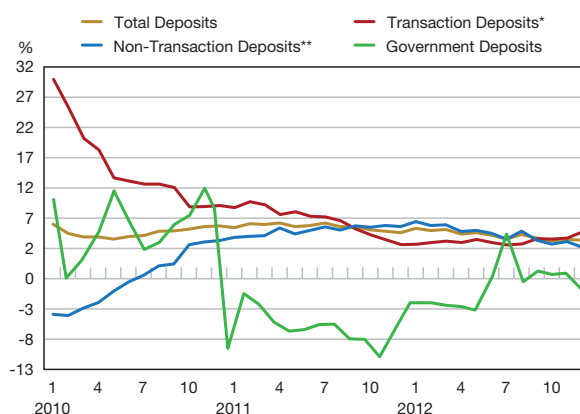
Downtrend in Deposit Growth

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

Annual Growth Rates of Deposits



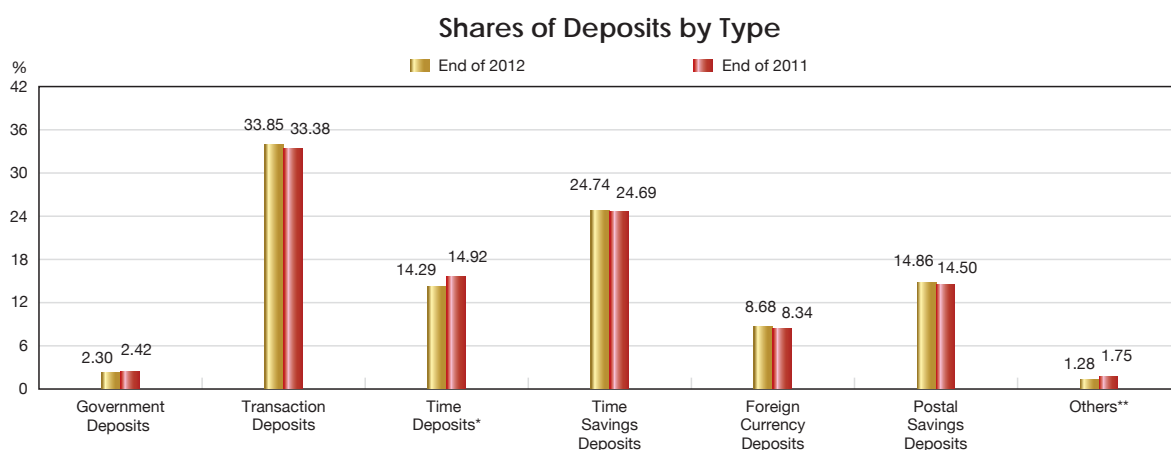
Notes: * Including checking account deposits, passbook deposits and passbook savings deposits.

** 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.



Notes: * Including NCDs.

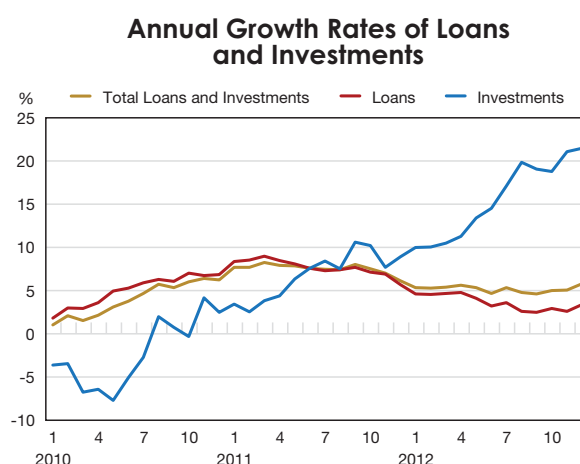
** Including repurchase agreements, nonresidents' NTD deposits and money market mutual funds.

Source: *Financial Statistics Monthly*, CBC.

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



Sources: *Financial Statistics Monthly*, CBC.

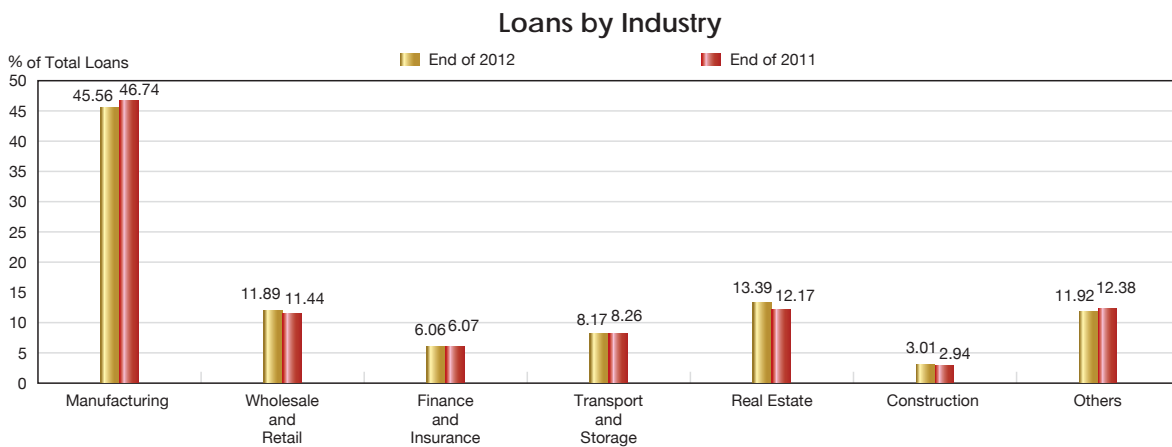
of the previous year. This was mainly due to the weak demand for funds among Taiwan's private enterprises amid a slowing global economy. Loans posted an annual growth rate of 3.29 percent at the end of 2012, lower than the 5.58 percent a year earlier, while the annual growth rate of investments rose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

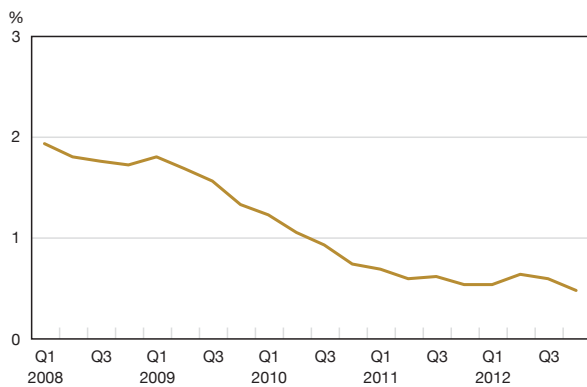
Source: Financial Statistics Monthly, CBC

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.

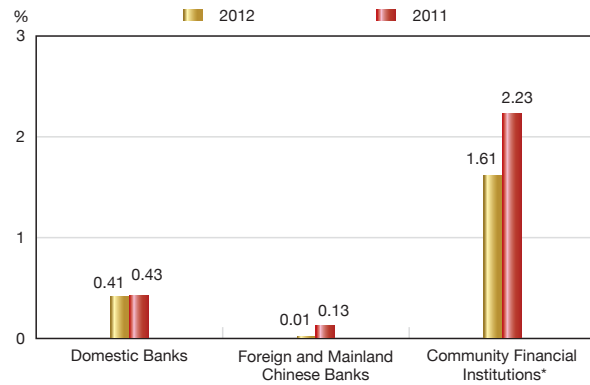
Non-performing Loan Ratio of Monetary Financial Institutions*



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.

Non-performing Loan Ratios by Type of Monetary Financial Institutions



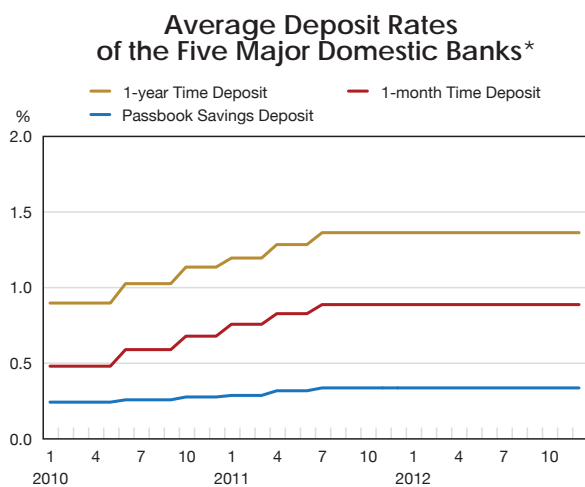
Notes: * Include credit cooperatives and credit departments of farmers' and fishermen's associations.

Source: Department of Financial Inspection, CBC.

Bank Interest Rates Unchanged

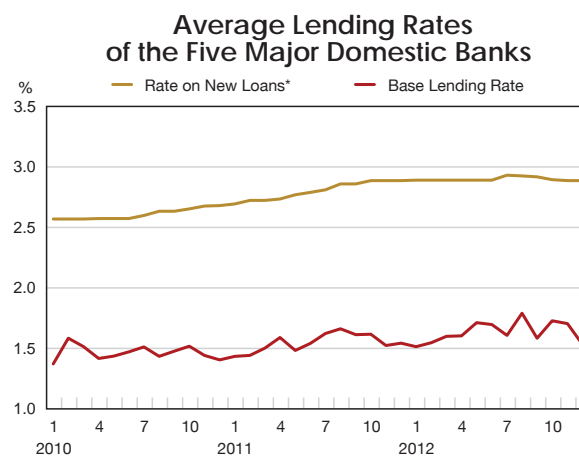
Against a backdrop of global economic slowdown and financial market uncertainties, domestic bank interest rates remained broadly steady as the Bank kept policy rates unchanged. In the case of the interest rates of the five major domestic banks, average fixed rates on one-month and one-year time deposits, 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



Note: * The five major domestic banks are Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank and Land Bank of Taiwan.

Source: Financial Statistics Monthly, CBC.



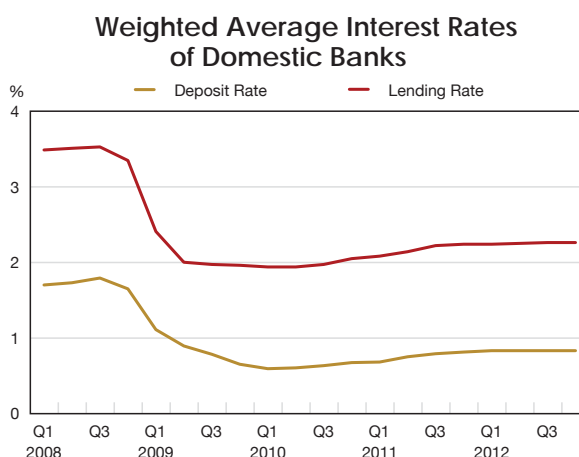
Note: * Including house-purchasing loans, capital expenditure loans, current operations loans and consumer loans.

Source: Financial Statistics Monthly, CBC.

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.



Source: Financial Statistics Monthly, CBC.

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

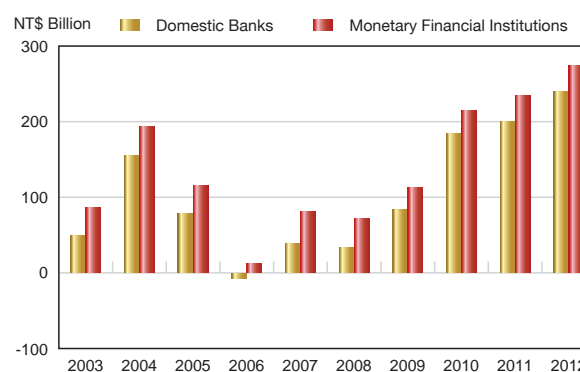
Source: Department of Financial Inspection, CBC.

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.

Increases in Both ROA and ROE

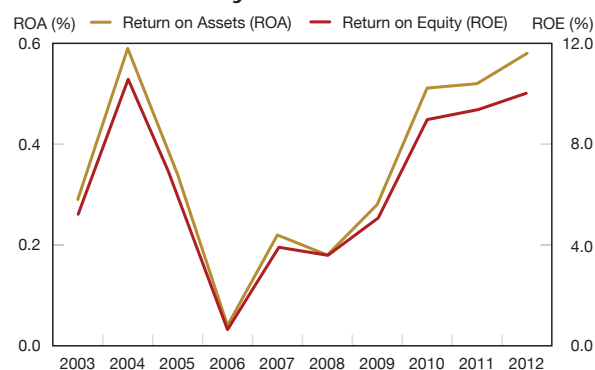
The average return on assets (ROA) and return on equity (ROE) of monetary financial institutions in 2012 went up to 0.58 percent and 10.06 percent, respectively, from 0.52 percent and 9.39 percent a year earlier. Except foreign and Mainland Chinese banks and credit departments of farmers' and fishermen's 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

Pre-tax Profits



Source: Department of Financial Inspection, CBC.

ROA and ROE of Monetary Financial Institutions

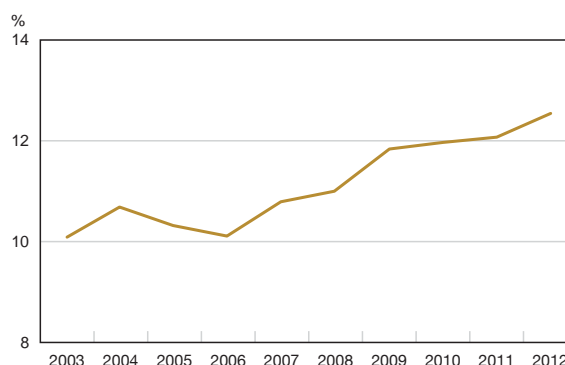


Source: Department of Financial Inspection, CBC.

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.

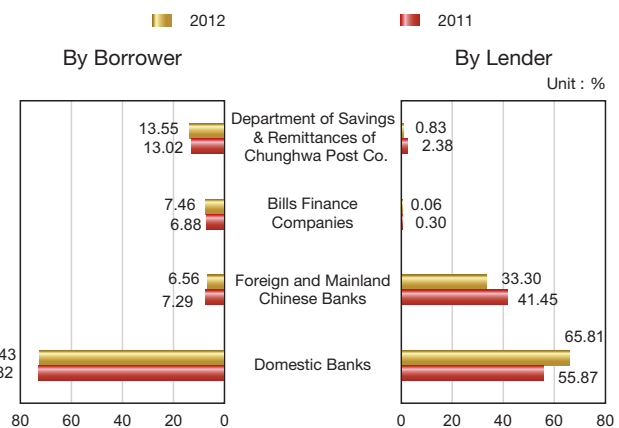
Increase in Interbank Call Loans

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

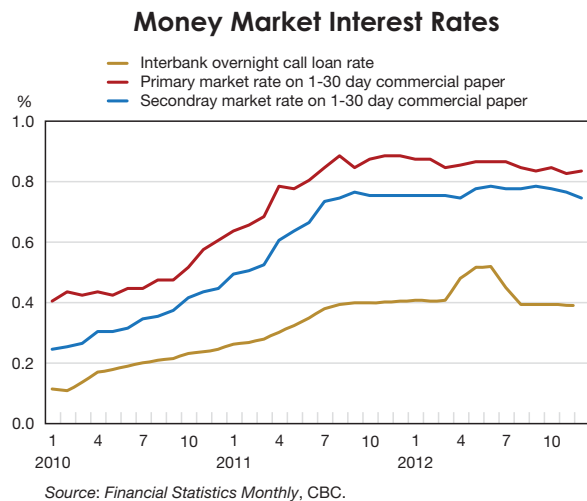
In the second quarter of 2012, the domestic economy faced growing inflationary pressures resulting from fuel and electricity price hikes. The Bank decided to absorb excess liquidity and keep banks' excess reserves in check. The interbank overnight call loan rate went up from 0.402 percent in March to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

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%

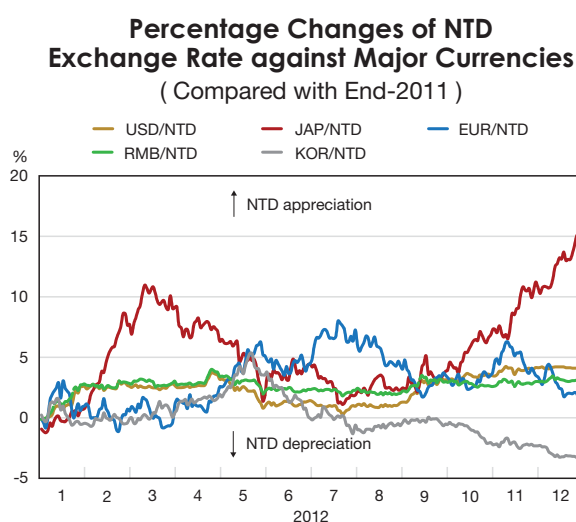
Source: Department of Economic Research, CBC.

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.

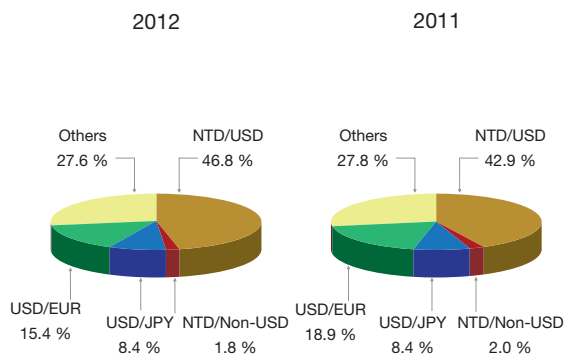
Turnover of Major Products in the Taipei Foreign Exchange Market

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

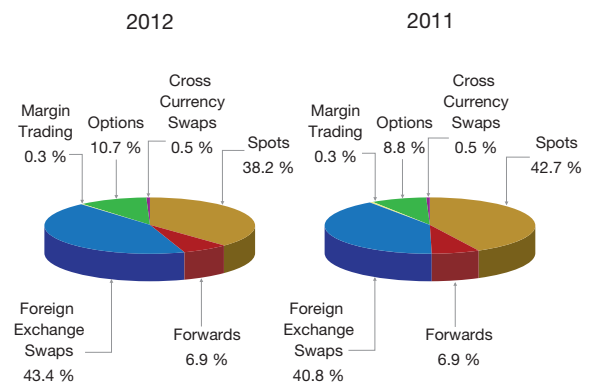
Source: Department of Foreign Exchange, CBC.

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.

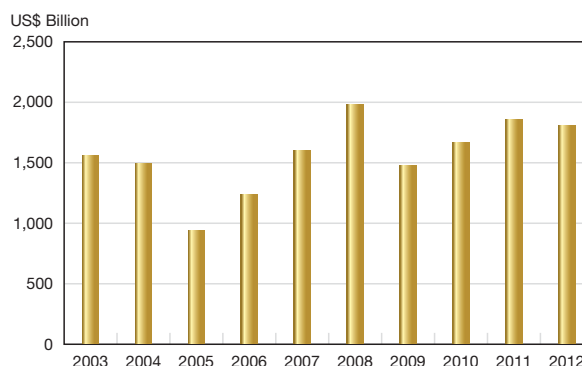
With respect to types of transactions, the major types were foreign exchange swaps and spots, accounting for 43.4 percent and 38.2 percent of total turnover, respectively. Compared with 2011, except for a decrease in spots and forwards, the trading volume and the share in the total turnover of all the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

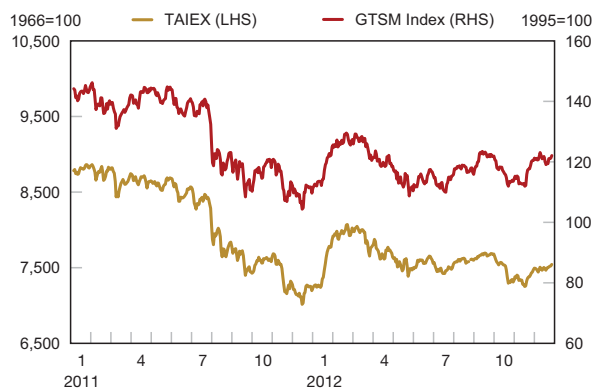
In 2012, 19 new listings brought the total number of TWSE-listed companies to 809 at the end of the year. The par value of shares issued was NT\$6.4 trillion, 3.2 percent greater than the end of the previous year. The total market capitalization grew by 11.5 percent year on year to NT\$21.4 trillion. 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.

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.

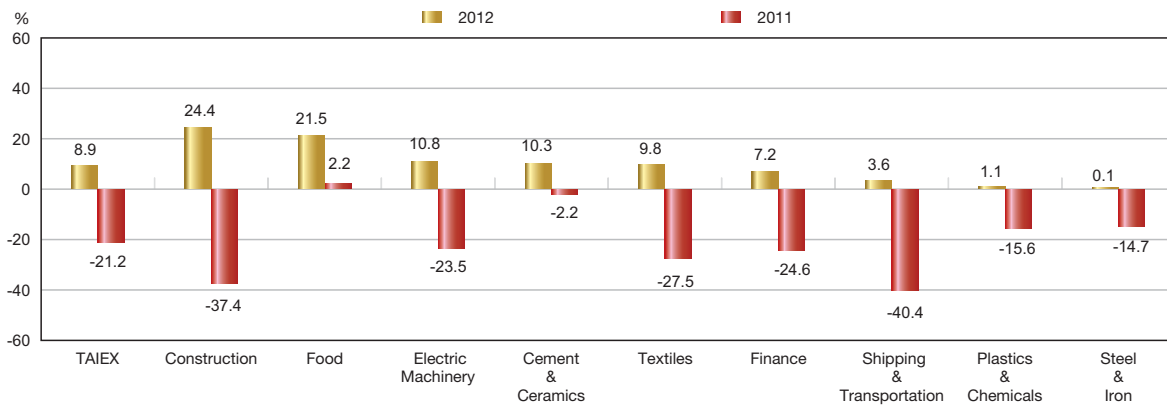
Thereafter, the European debt crisis showed signs of abating, Taiwan and China inked an MOU on cross-strait currency settlement, and the US and Japan both adopted further quantitative easing. Not only did international stock markets recover, but Taiwan's stock market also enjoyed heavy buying by foreign 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.

Stock Price Indices of the TWSE and GTSM Value



Sources: 1. Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan.
2. Gre Tai Securities Market.

Changes in Industrial Group Stock Price Indices in the TWSE Market



Note: Year-on-year changes; end of year figures.
 Source: Taiwan Stock Exchange Corporation.

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.

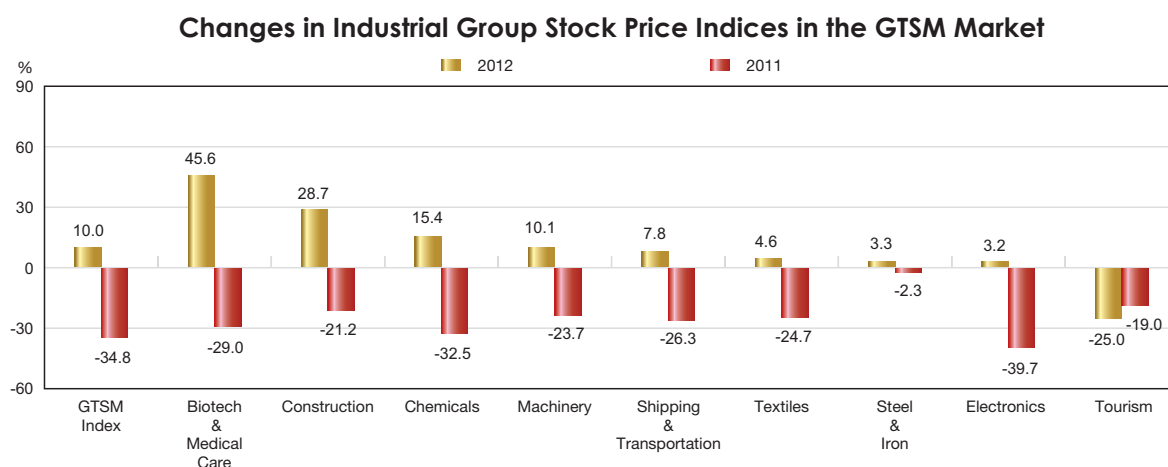
The GTSM Market

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.

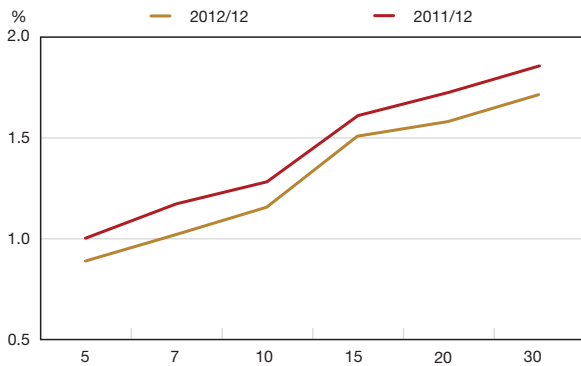
However, the unsatisfactory credit ratings of some banks that issued 7-year debt led the weighted rate to average 1.621 percent, slightly higher than the 1.605 percent issuing rate of 10-year debt. At the end of 2012, the outstanding amount of bank debentures was NT\$1,022.1 billion, growing by NT\$121.7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

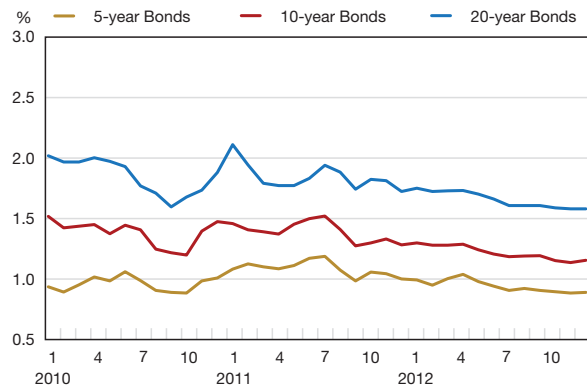
The issuance of asset securitization products contracted in 2012. In addition, five real estate securitization products and three financial asset securitization products matured, and the principal

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 & int'l 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

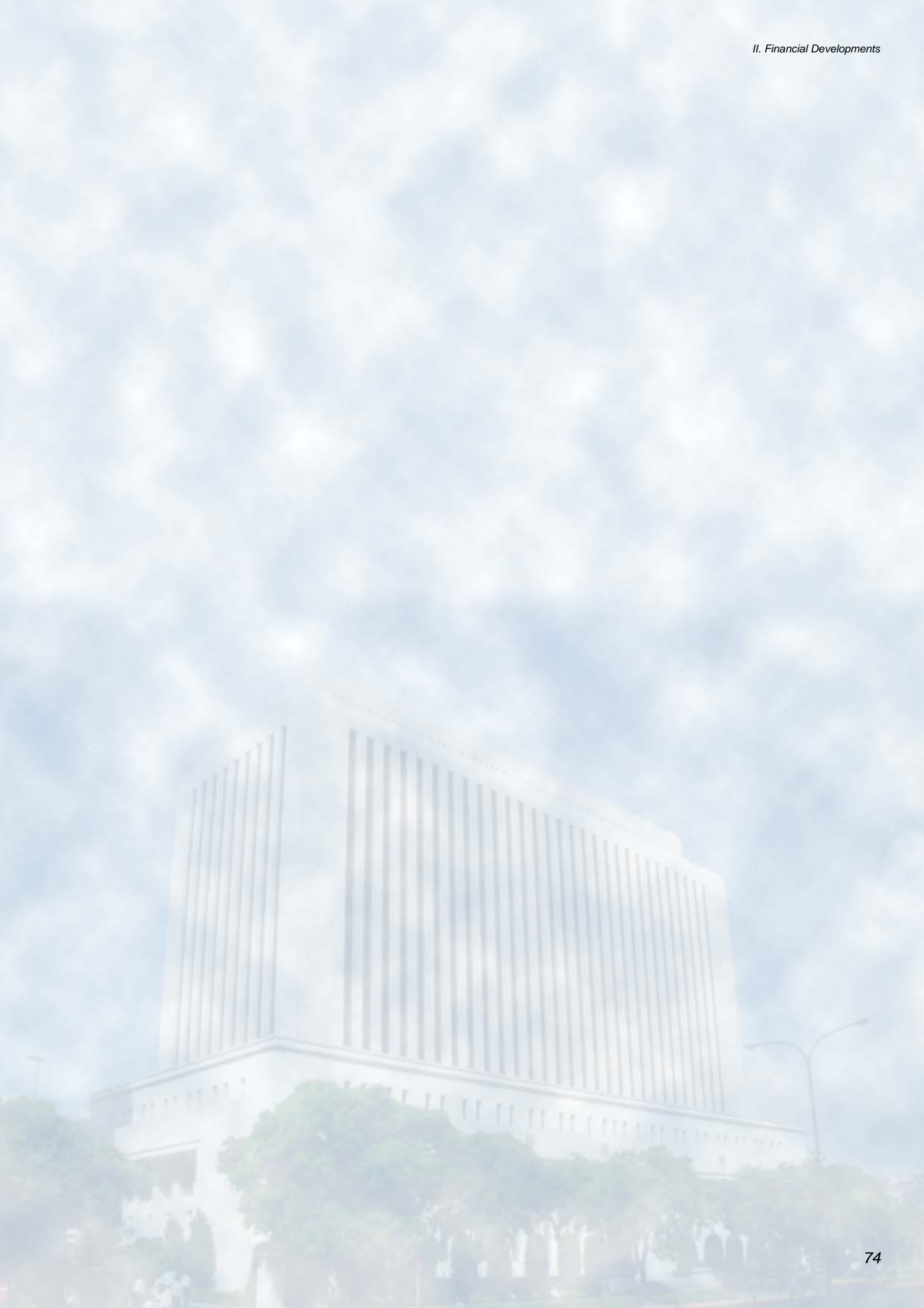
Taiwan Stock Exchange Corporation (TWSE) & GreTai Securities Market.

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.





Central Bank Operations

III. Central Bank Operations

1. Overview

In 2012, in light of global economic uncertainties, mild recovery of domestic economy, and sustained attention to inflation, the Bank kept policy rates unchanged so as to maintain price and financial stability and to ensure sound economic growth. At the end of the year, the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral were 1.875 percent, 2.25 percent, and 4.125 percent, respectively.

In response to economic and financial conditions, the Bank issued certificates of deposits (CDs) and conducted open market operations to maintain reserve money at appropriate levels and steady growth in monetary aggregates.

To curb speculative property investments, the Bank not only continued with existing measures to control risks associated with mortgages in several areas in metropolitan Taipei and land collateralized loans, but also introduced new restrictions on mortgages on high-value housing in June. As a result, the concentration of real-estate related lending declined further.

With regard to foreign exchange management, the Bank steadily promoted the internationalization of capital markets and revised relevant foreign regulations in continual cooperation with the FSC. In addition, to support the government's efforts to implement the "Program to Develop Financial Services with Cross-Strait Characteristics" and to increase cross-strait commercial activity and financial cooperation, in August 2012, the Bank and the People's Bank of China jointly signed a memorandum on cross-strait currency clearing cooperation. The Bank later announced the Shanghai branch of the Bank of Taiwan as the NTD clearing bank in the mainland area in September 2012.

To ensure smooth operation of the payment systems, the Bank closely monitored domestic payment systems and urged settlement institutions to set up backup facilities and adequate contingency plans to provide business continuity. Furthermore, to meet the need for domestic US dollar remittances, and to facilitate RMB receipt and payment and cross-strait currency settlement, the Bank has begun to set up a foreign currency settlement system.

2. Monetary Management

In 2012, in view of uncertainties in the international economic outlook and mild recovery of the domestic economy, the Bank maintained its monetary policy stance, leaving policy rates unchanged. In addition, the Bank continued to monitor financial institutions to manage their credit risks and ensure financial stability. The Bank also continued to enhance the financing mechanism for small and medium-sized enterprises (SMEs) in order to expand banks' lending to SMEs while absorbing excess funds from the financial market to an appropriate liquidity level.

Policy Rate Unchanged to Maintain Price and Financial Stability

Owing to global economic uncertainties, moderate domestic economic recovery and sustained attention to inflation, the Bank kept policy rates unchanged so as to maintain price and financial stability and to promote sound economic growth.

At the end of 2012, the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral were 1.875 percent, 2.25 percent, and 4.125 percent, respectively.

Continuing Risk Management Policy on Real Estate Loans

To urge financial institutions to manage their credit risks and ensure financial stability, the Bank continued to carry out the regulations governing land mortgage loans and housing loans by financial institutions and also amended them in June to include restrictions on high-value housing loans. Important measures related to the above mentioned regulations in 2012 include:

- (1) On February 15, for existing land mortgage loans for personal finance, the Bank announced that the rollover of such loans shall be adjusted to an appropriate loan-to-value ratio within the prescribed period therein.

CBC Policy Rates

Unit: % (percent per annum)

Effective Date	Discount Rate	Accommodation Rate with Collateral	Accommodation Rate without Collateral
2010 / Jun. 25	1.375	1.750	3.625
Oct. 1	1.500	1.875	3.750
Dec. 31	1.625	2.000	3.875
2011 / Apr. 1	1.750	2.125	4.000
Jul. 1	1.875	2.250	4.125

Source: *Financial Statistics Monthly*, CBC.

- (2) Beginning June 22, the Bank adopted targeted prudential measures with respect to high-value housing loans. Housing loans for properties located in Taipei City or New Taipei City with an appraisal or sale value of NT\$80 million or above, or those located elsewhere in Taiwan with an appraisal or sale value of NT\$50 million or above shall be subject to a loan-to-value ratio capped at 60% with no grace period.

Absorbing Excess Liquidity through Open Market Operations

In 2012, the Bank continued to issue certificates of deposit (CDs) and conduct open market operations to maintain reserve money and overnight call loan interest rates at appropriate levels. At the end of the year, the total value of CDs issued amounted to NT\$54,831 billion and the total outstanding amount of CDs issued by the Bank was NT\$6,643 billion. The average annual growth rate of reserve money in 2012 was 4.91 percent, while M2 recorded an annual growth rate of 4.17 percent, within the Bank's target range of 2.5 percent to 6.5 percent.

Keeping in line with policy rates, the Bank also kept its non-competitive bidding rates for new CDs unchanged. Consequently, in 2012, the rates on 30-day, 91-day, and 182-day CDs remained at 0.87 percent, 0.93 percent, and 1.05 percent, respectively. On the other hand, the rates on 365-day CDs exhibited a downward trend from 0.90 percent in January to 0.73 percent in December.

In the first half of the year, as a result of inflationary pressures caused by fuel and electricity price hikes, the average overnight interest rate of interbank call loans gradually increased to 0.513 percent in June from 0.403 percent in January. In the second half of the year, owing to modest

Open Market Operations

Unit: NT\$ Billion; %

Year/ Month	Amount Absorbed	Amount Offered	Weighted Average Rate on CDs Issued			
	Issues of CDs	Redemptions of CDs	1-30 Days	31-91 Days	92-182 Days	274-365 Days
2010	45,105	44,401	0.62	0.66	0.73	0.70
2011	44,310	44,279	0.82	0.88	0.99	0.95
2012	54,831	44,279	0.87	0.93	1.05	0.85
2012 / 1	3,513	3,676	0.87	0.93	1.05	0.90
2	4,285	3,817	0.87	0.93	1.05	0.89
3	4,493	4,546	0.87	0.93	1.05	0.88
4	6,056	6,129	0.87	0.93	1.05	0.89
5	4,450	4,514	0.87	0.93	1.05	0.89
6	4,136	4,256	0.87	0.93	1.05	0.88
7	4,323	4,261	0.87	0.93	1.05	0.87
8	5,033	5,036	0.87	0.93	1.05	0.85
9	4,236	4,313	0.87	0.93	1.05	0.83
10	5,139	5,152	0.87	0.93	1.05	0.81
11	4,756	4,809	0.87	0.93	1.05	0.76
12	4,412	4,405	0.87	0.93	1.05	0.73

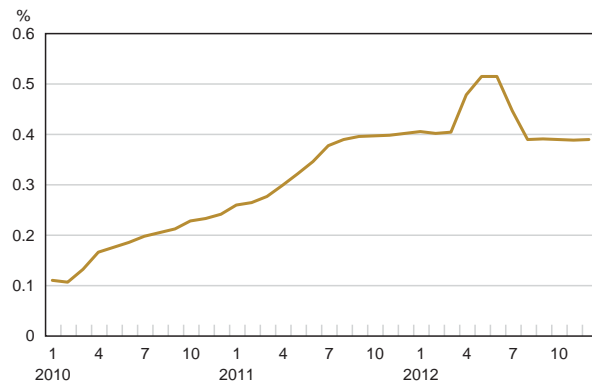
Source: Financial Statistics Monthly, CBC.

economic recovery, the average overnight interest rate decreased to 0.388 percent in August. Afterwards, the overnight call loan rate remained relatively stable.

Enhancing the SME Financing Mechanism

To provide easier access to financing for SMEs, the Bank continued to urge commercial banks to increase lending to SMEs. Furthermore, the Financial Supervisory Commission agreed with the Bank's suggestion to set banks' regional SME lending targets. The outstanding loans extended to SMEs by domestic banks increased to NT\$4,448 billion in 2012, which was a 9.13 percent rise from 2011.

Overnight Call Loan Rate



Source: Financial Statistics Monthly, CBC.

Redeposits of Financial Institutions

Accepting redeposits from Chunghwa Post Co. and commercial banks is another instrument for the Bank to influence banks' reserve positions to promote financial stability. At the end of 2012, outstanding postal savings redeposits amounted to NT\$1,624 billion. At the same time, commercial banks' redeposits totaled NT\$398 billion.

In addition, Agricultural Bank of Taiwan accepted deposits from community financial institutions and made redeposits with the Bank. At the end of 2012, its outstanding redeposits were NT\$165 billion.

3. Foreign Exchange Management

For the year 2012, the Bank followed the established managed float regime to maintain an orderly foreign exchange (FX) market. Sufficient seed funds were provided by the Bank for foreign currency swaps and call loans. The Bank's foreign exchange reserves increased by US\$17.6 billion owing to a higher return on investments and the portfolio appreciation of the euro and other currencies against the US dollar. The Bank also loosened regulations regarding foreign exchange remittances. Moreover, the Bank and the People's Bank of China jointly signed the *Memorandum on Cross-Strait Currency Clearing Cooperation*, an important step in establishing a bilateral currency clearing mechanism.

Foreign Exchange Market Management

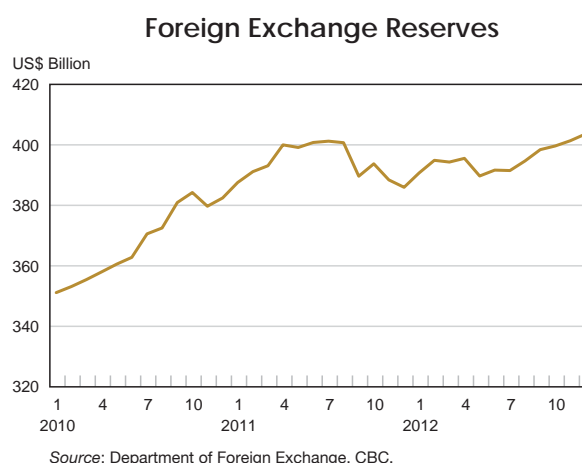
Taiwan's exchange rate is in principle guided by the market mechanism; the Bank only steps in when there is excessive exchange rate volatility. At the end of 2012, the NT\$/US\$ exchange rate appreciated by 3.96 percent from the previous year end's 30.290 to 29.136, relatively stable as compared to the euro's 2.4 percent appreciation against the US dollar, the renminbi's 0.97 percent, the won's 7.58 percent, the yen's 10.14 percent and the Singapore dollar's 6.17 percent.

In 2012, the Bank continued to implement the Real-Time Reporting System for Large-Amount Foreign Exchange Transactions to keep the market in order. Moreover, examination efforts were reinforced to ensure that forward transactions were based only on actual transactions. The Bank also urged authorized banks to enhance their exchange rate risk management. In addition, the Bank strengthened target examinations related to foreign exchange activities. The Bank also broadened the foreign exchange market by approving 905 new FX authorized banks and eight new FX derivatives, and providing liquidity for FX call loan and swap markets.

Management of the Foreign Currency Call Loan and Foreign Exchange Swap Business

In order to provide the financial system with sufficient foreign currency liquidity to meet funding needs, including corporate needs to venture into overseas markets, the Bank provided seed funds* for the Taipei Foreign Currency Call Loan Market.

* The seed funds include US\$20 billion, €1 billion and ¥ 80 billion.



Furthermore, the Bank continued to conduct foreign currency swap transactions with banks and extended foreign currency call loans to banks so as to facilitate smooth corporate financing. During 2012, the volume of foreign exchange call-loan transactions reached US\$1,806.5 billion, while that of foreign currency-NT dollar swap transactions reached US\$1,130 billion.

Foreign Exchange Reserve Management

In 2012, the Bank's foreign exchange revenues amounted to US\$1,053.6 billion, while foreign exchange expenditures were US\$1,036 billion. At the end of 2012, total foreign exchange reserves stood at US\$403.2 billion, a US\$17.6 billion increase from the end of 2011. The increase was mainly attributable to a higher return from foreign exchange reserves management and the appreciation of euro- and other currencies-denominated assets in the portfolio.

Capital Flow Management

The Bank's foreign exchange management mainly relies on the market mechanism, and capital can, in principle, flow freely in and out of Taiwan. As of 2012, foreign currency capital not involving NT dollar conversion can flow freely; neither is there any restriction on financial flows involving NT dollar conversion for commodity and service trade, as well as direct and securities investments approved by the competent authorities. However, regulation exists for short-term remittances. Annual remittances for an individual resident within US\$5 million and for a juridical person within US\$50 million can be settled by banks directly, while annual remittances above the aforementioned amounts require the approval of the Bank. Each transaction for a non-resident within US\$0.1 million can be settled by banks directly, whereas any amount of transactions above that threshold require the approval of the Bank.

Key measures with regard to the management of capital flows in 2012 included:

- (1) In order to promote the internationalization of Taiwan's capital markets, the Bank approved the following in 2012:
 - A. The issuance of overseas depositary receipts by seven domestic corporations with a total issuance amount of US\$1.4 billion, and the issuance of European Convertible Bonds by nine domestic corporations with a total of US\$1.5 billion raised;
 - B. Seventeen foreign corporations to launch initial public offerings on the TWSE or GTSM, with a total amount of NT\$13.2 billion raised; the issuance of NT Dollar Convertible Bonds by five foreign corporations, which combined to raise a total amount of NT\$2.1 billion; the offering and issuance of NT dollar-denominated bonds by the Central American Bank for Economic

Integration (CABEL), raising NT\$5 billion; the offering and issuance of foreign currency international bonds by BNP Paribas Bank for a total of no more than US\$1 billion.

(2) The Bank gave consent to an increase in residents' investments in foreign securities, detailed as follows:

- A. Twenty-nine domestic securities investment trust companies were allowed to offer 42 securities investment trust funds domestically that invest in foreign securities, with a total of NT\$537.5 billion raised;
- B. Two domestic securities investment trust companies were allowed to offer domestically two futures trust funds that invest in foreign futures trust funds and securities funds, with a total of NT\$2 billion raised;
- C. Life insurance companies were approved to invest in foreign securities with the amount totaling US\$1.5 billion through non-discretionary money trusts managed by financial institutions. Their own investments in foreign securities amounted to US\$2.6 billion, while their interest earned on foreign securities investments were hedged by forward foreign exchange contracts totaling US\$1.78 billion;
- D. Four major government pension funds, including labor pension fund, invested a total amount of US\$4.1 billion in foreign securities.

(3) The Bank loosened the following regulations regarding foreign exchange remittances:

- A. Starting from August 23, securities investment trust companies may hedge the exchange rate risk for their foreign securities investments via FX swap or cross-currency swap transactions based on the funds' hedging strategies;
- B. In step with the amendments by the Financial Supervisory Commission (FSC) to the “*Guidelines Governing Applications by Securities Investment Trust Enterprises for Offering and Issuing Trust Funds Denominated in Foreign Currencies*,” starting from October 26, the Bank approved that banks may process the exchange declaration of the NT dollar payments of foreign currency (except renminbi) denominated funds offered by securities investment trust enterprises. The Bank also issued an official letter to inform banks of the items for attention and verification for such settlements.

Management of the Foreign Exchange Business of Financial Institutions

(1) Authorized Banks

At the end of 2012, there were 3,249 authorized foreign exchange banks in total, which included

38 head offices and 3,160 branches of domestic banks, 49 branches of 28 foreign banks, two branches of Mainland Chinese banks, as well as 1,605 authorized money exchangers, post offices and financial institutions authorized to engage in basic foreign exchange business. In 2012, the Bank approved six cases for authorized banks to establish branches in Mainland China, 15 cases for domestic banks to set up branches abroad, and two cases for Mainland Chinese banks to establish branches in Taiwan.

(2) Insurance Companies

Up until the end of 2012, 19 insurance companies had been allowed to engage in foreign currency investment-linked insurance business, and 22 had been permitted to conduct business in relation to traditional foreign currency insurance products.

(3) Securities Firms

In 2012, the Bank approved three securities firms to be agents for foreign bond trading, 39 to be entrusted as agents for foreign securities trading, 17 for underwriting international bonds, three for proprietary trading of and investments in international bonds, six for proprietary foreign securities trading neither belonging to investment with their own funds nor for hedging needs, eight to issue warrants linked to foreign securities or indexes, one to issue overseas warrants linked to domestic securities, eight to conduct non-discretionary individually managed money trust wealth management business, 22 to deal onshore foreign currency bills, and five as participating dealers of offshore exchange traded funds. The Bank also permitted 43 securities firms and investment trust or investment consulting firms to be master agents for offshore public funds, 21 institutions to be mandated to place private offshore funds in Taiwan; the Bank also gave permission to 20 investment trust or investment consulting firms to conduct foreign currency discretionary investments in foreign securities, 13 as mandated institutions to publicly offer or place foreign currency-denominated funds in Taiwan, and two to be master agents for offshore exchange traded funds.

(4) Promoting Renminbi Exchange Transactions

In response to the needs for consumption purchases by Mainland Chinese and Taiwanese tourists traveling to the other side of the Taiwan Strait, renminbi (RMB) notes have been allowed to be exchanged in Taiwan since June 30, 2008.

Along with the steady increase in cross-strait activities, and the permission of Mainland Chinese free and independent travel in June 2011, banks' RMB cash exchange businesses grew markedly. Between June 30, 2008, and the end of 2012, the government approved 227 financial institutions (3,908 branches) and 238 authorized money exchangers to conduct RMB cash exchange

business. The amount of RMB purchased totaled around RMB25.02 billion, while the sale was almost identical at about RMB25.02 billion.

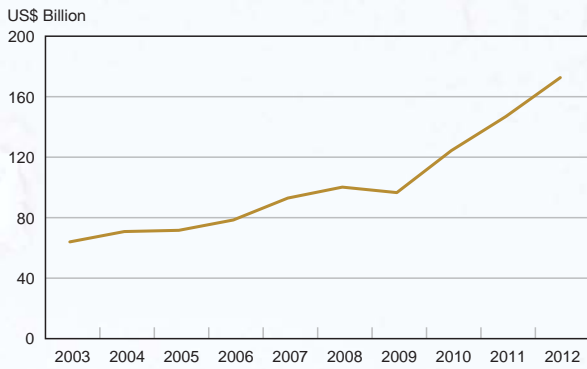
(5) Establishing a Cross-Strait Currency Clearing Mechanism

- A. In order to promote cross-strait commercial activity and financial cooperation, on August 31, 2012, the Bank and the People's Bank of China jointly signed the *Memorandum on Cross-Strait Currency Clearing Cooperation*. On September 7, 2012, the Bank promulgated the “*Regulations Governing the Selection of Designated NTD Clearing Bank in the Mainland Area*.” After the process of evaluation and selection, on September 17, the Bank announced the Shanghai branch of the Bank of Taiwan as the NTD clearing bank in the mainland area; then on December 11, the People's Bank of China designated the Taipei branch of the Bank of China as the RMB clearing bank in the Taiwan area.
- B. As a result, domestic banking units (DBUs) may conduct RMB business once the clearing banks sign the clearing and settlement agreement, finish preparation work, and the relevant regulations are amended and promulgated by the Bank. This will help increase the flexibility of Taiwanese firms' funding arrangements and support the government's efforts to implement the “Program to Develop Financial Services with Cross-Strait Characteristics.”
- C. The Bank has begun talks with the People's Bank of China to establish a cross-strait currency swap mechanism, which will form a part of future discussions on cooperation.

(6) Offshore Banking Units

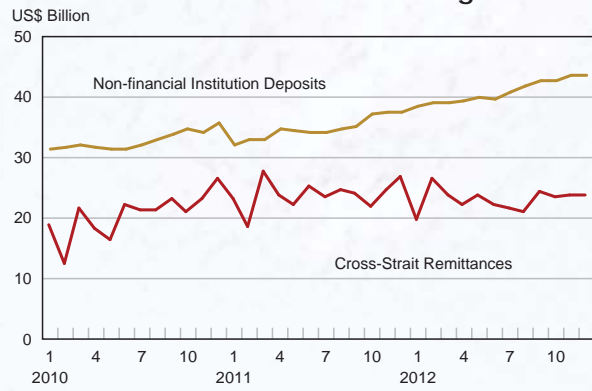
- A. On September 11, 2012, the Bank and the FSC jointly repealed the *Regulations Governing the Conduct of RMB Business for the OBUs and Overseas Branches of Taiwan's Domestic Banks*, which would then allow Offshore Banking Units (OBUs) to conduct RMB business in compliance with the Offshore Banking Act, without the need for the FSC's prior approval.
- B. The OBU business continued to grow in 2012, and by the end of the year, there were 62 OBUs in operation, with total assets worth US\$170.9 billion, which was a 17.8 percent increase from the previous year end. Non-financial institutions' deposits reached US\$44.1 billion, a 17.1 percent increase from a year ago. However, 2012 cross-strait remittances decreased by 1.9 percent from those in 2011 and registered a total of US\$277.4 billion.
- By the end of 2012, 50 out of 62 OBUs had launched RMB business, with their total assets amounting to RMB57.5 billion, an increase of 616.8 percent from the previous year end. The RMB deposit balance reached RMB24 billion, growing by 326.9 percent from the end of 2011. These developments demonstrated OBU's increasing importance as funding centers for overseas Taiwanese firms.

OBU Assets



Source: Department of Foreign Exchange, CBC.

Non-financial Institution Deposits and Cross-Strait Remittances Through OBUs



Source: Department of Foreign Exchange, CBC.

4. Financial Inspection

Pursuant to the *Central Bank of the Republic of China (Taiwan) Act*, the Bank conducts target examinations to ensure effective enforcement of policies related to monetary, credit, and foreign exchange management, and establishes an off-site monitoring system and a financial stability assessment framework to systematically monitor and assess the potential sources of risks in order to deploy appropriate policies and measures in a timely manner to fulfill its mandate of financial stability.

Implementing On-Site Target Examinations

Target examinations in 2012 inspected the handling of land collateralized loans and high-value housing loans as well as mortgage lending in legally-stipulated “specific areas,” mortgage information disclosure, required reserves, banks' offered rates, data warehousing of checking accounts, counterfeit money detection and follow-up, quality control of ATM banknotes, forex forwards, NT dollar options, the operation of foreign currency exchanges by authorized banks, banks' foreign currency bond positions, the classification and statistics of foreign exchange remittances, correctness of reporting to the Bank, etc.

Follow-Up on Banks' Compliance with Examination Findings

In light of the Bank's target examination findings and the FSC's examination findings related to the Bank's operations or regulations, the Bank continued to monitor how the examined financial institutions had improved and to urge the financial institutions to rectify related deficiencies, thus ensuring the successful implementation of the Bank's policies.

Off-Site Monitoring

Based on financial conditions and amendments to relevant laws and regulations, the Bank reviews and amends as necessary the format and content of periodical statistical data submitted by financial institutions. In 2012, developments relating to off-site monitoring for the above purpose included the following:

- (1) In line with the new required liquidity ratio raised by the Bank, criteria for assessing liquidity and compliance of domestic banks, local branches of foreign banks, credit cooperative associations, and credit departments of farmers' and fishermen's associations were amended accordingly.
- (2) The assessment criteria for domestic banks' asset quality were adjusted to also include analysis of other special mention loans and changes to loan loss provision standards and weights.

- (3) The benchmark of financial holding companies' double leverage ratios was changed in an adjustment of capital adequacy assessment.
- (4) In view of the establishment of their first Taiwan branches by two Mainland Chinese banks (Bank of China and Bank of Communications), the related statistical reports were amended and incorporated in the Bank's off-site monitoring system.

Financial Institution Information Transparency

The Bank regularly compiles and publishes various financial institution statistics and up-to-date financial regulations. The Bank also discloses related information on its website. As a result, the operational transparency of financial institutions has increased, and market self-discipline has been reinforced.

Financial Stability Assessment

The Bank compiles financial soundness indicators so that the relevant authorities, market participants and the public are kept informed of the status and sources of financial system risks in Taiwan. In 2012, the sixth *Financial Stability Report* was published. This also promotes cross-border communication and information sharing with regard to Taiwan's financial stability and surveillance.

International Cooperation in Financial Supervision

In 2012, the Bank continued to actively engage in international cooperation relating to financial supervision, including completing SEACEN Centre questionnaires regarding their learning and research needs analyses, writing to the Asian Development Bank to convey our support for the APEC Financial Regulators Training Initiative, participating in the 3rd SEACEN High-level Seminar on Financial Stability/3rd Meeting of Deputy Governors in charge of Financial Stability and Banking Supervision, and hosting the SEACEN Course on Assessing Market Risk of a Bank.

Other Important Measures

The Bank collaborated with academia in the research project "Basel III Impacts on Financial Stability and Monetary Policy" in order to explore a feasible countercyclical capital buffer mechanism for Taiwan as well as comprehensively understanding Basel III's impacts on bank credit supply and monetary policy in Taiwan.

5. Payment and Settlement Systems

The CBC Interbank Funds-Transfer System (CIFS) is the backbone of Taiwan's payment system, linking the Check Clearing House System (CCHS), the Interbank Remittance System (IRS), the Central Government Securities Settlement System (CGSS), the Bills Clearing and Settlement System (BCSS), the Securities Book-Entry Clearing System (SBECS), and the Electronic Bond Trading System (EBTS) together to constitute a comprehensive payment system.

Accordingly, the Bank, with its mandate for financial stability, plays a key role in the smooth functioning of Taiwan's payment systems. In addition to operating the CIFS and the CGSS, the Bank also monitors major payment systems based on international standards to ensure sound operation of these systems and to promote stability of the financial system.

Operation of Payment and Settlement Systems

(1) Funds Transfers via the CIFS

Launched in May 1995, the CIFS is a large-value electronic funds-transfer system. In addition to dealing with interbank funding, reserve requirement adjustments and funds settlements in financial markets, the CIFS also provides interbank final settlement services to several clearing institutions such as the Taiwan Clearing House (TCH), the Financial Information Service Co. (FISC), the Taiwan Depository and Clearing Corporation (TDCC) and the Taiwan Stock Exchange Corporation (TWSE).

At the end of 2012, participants of the CIFS included 68 banks, eight bills finance companies, and four other institutions including Chunghwa Post Co., the TWSE, and the GreTai Securities Market (GTSM). For the year as a whole, the daily average amount of funds transferred via the CIFS was NT\$1,538.6 billion, while the daily average number of transactions reached 2,846.

(2) Transactions via the CGSS

The CGSS was established in September 1997. It is a system for issuance, transfer, redemption, and interest payment of book-entry central government securities. Since its inception, central government bonds have been issued in book-entry form. In October 2001, treasury bills were included in this system and have been issued in book-entry form since then.

The CGSS linked up with the CIFS in April 2008. Since then, fund settlements, principal redemptions and interest payments have been handled through the CIFS using a delivery-versus-payment (DVP) mode. The DVP mode, promoted by the Bank for International Settlements (BIS), is an arrangement connecting securities delivery with funds settlement in a securities settlement system to ensure that

securities delivery occurs almost at the same time as the funds transfer, effectively mitigating potential risks during the transaction process.

There were 16 clearing banks with 1,690 branches that handled the registration of central government securities transfers at the end of 2012. During 2012, 402 thousand transfers with a total amount of NT\$38.9 trillion were processed by this system.

Monitoring Payment Systems

The Bank monitors the payment systems on a periodic basis to maintain their safety and efficiency. Monitoring activities include the following:

- (1) Required payment system operators and payment instrument issuers to provide detailed information on their operations and activities as a basis for monitoring payment systems.
- (2) Ensured clearing institutions set up backup systems and contingency plans for business continuity in case of emergency.
- (3) Invited clearing institutions, the FISC, the TDCC, and the TCH, to jointly hold conferences twice in 2012 to promote the sound operation of the payment systems.
- (4) Amended Article 23 in the *Regulations Governing the Business of Negotiable Instruments Exchange and Clearance of Accounts among Banks* in response to the implementation of the *Personal Information Protection Act*, and stipulated the “*Regulations Governing the Clearinghouse’s Plan of Security Measures for Personal Information*” to require clearinghouses to comply with relevant obligations defined in the *Personal Information Protection Act*, and to strengthen the management of credit information.
- (5) Urged the TCH to establish a risk management mechanism of check clearing and settlement to control counterparty risk, and completed the amendments of corresponding regulations. In addition, all updated information operating systems were launched at the end of January 2013.

Building the Foreign Currency Payment System

In October 2012, the bank assigned a task force to the effort to establishing a foreign currency settlement system, aiming to meet a growing need for domestic US dollar remittances, to assist in processing interbank US dollar spot, swap, call loans and other transactions, and to facilitate the burgeoning business of RMB receipt and payment and cross-strait currency settlement. The system is expected to be fully constructed in the first half of 2013.

International Research Cooperation

In 2012, the Bank participated in the project titled “The Role of Payment Systems in Monetary Policy and Financial Stability” held by the South East Asian Central Banks (SEACEN) Research and Training Centre, and submitted a research report on the case of Taiwan.

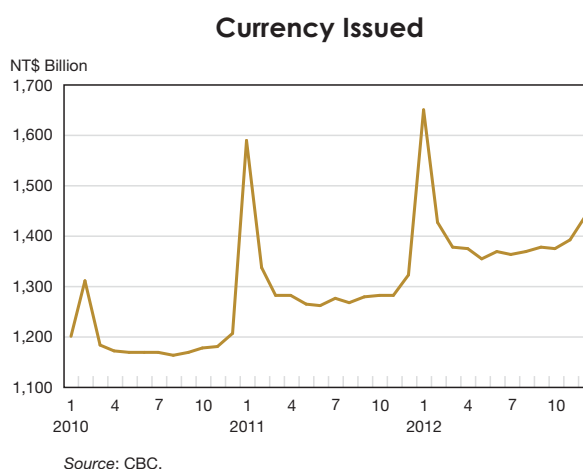
6. Currency Issuance

Currency Issuance Increased

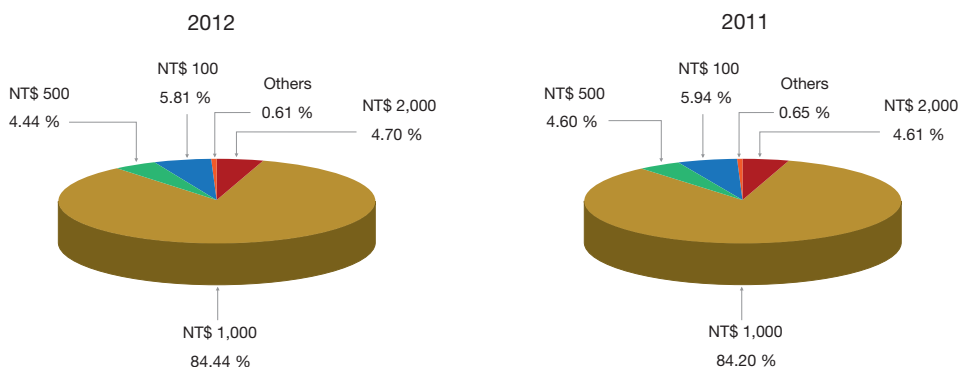
During the year of 2012, the Bank conducted currency issuance with a focus on maintaining the supply of currency at an appropriate level to meet public demand, which is dependent on the level of economic activity, seasonal factors, and the development of noncash payments instruments, etc.

In 2012, the Bank implemented an appropriate currency issuance plan for delivering banknotes and coins. The currency issued peaked at NT\$1,743.8 billion on January 20, the day before the Chinese Lunar New Year holidays, reflecting a temporary seasonal surge in cash demand. At the year end, the outstanding amount of the currency issued was NT\$1,437.5 billion, representing an increase of NT\$116.9 billion or 8.85 percent over the previous year end.

At the end of 2012, the denomination structure of NT dollar banknotes in circulation was similar to the end of 2011. The NT\$1,000 note accounted for a lion's share at 84.44 percent, followed by the NT\$100 (5.81 percent) and the NT\$2,000 (4.70 percent) notes.



Composition of NT Dollar Banknotes Issued (Year-End Figures)

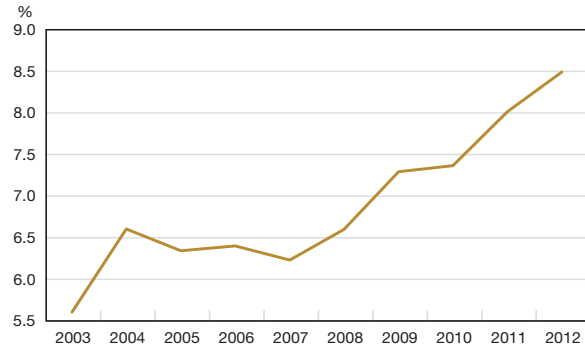


Source: CBC.

Currency in Circulation to GDP Ratio Increased

Between 2005 and 2007, currency demand for transaction purposes contracted on account of weak private consumption caused by credit card defaults. Therefore, the ratio of currency in circulation to nominal GDP trended downwards. However, owing to the low interest rate environment since September 2008, the public began to increase their currency holdings, and the ratio of currency in circulation to GDP rose significantly. It stood at 8.47 percent in 2012, a 0.47 of a percentage point gain over the previous year.

The Ratio of Currency Held by the Public to GDP



Sources: 1. CBC.
2. DGBAS, Executive Yuan.

Several Commemorative Coin Sets Were Issued

With the authority of currency issuance, the Bank may also issue gold and silver coins and commemorative notes and coins from time to time, such as for important ceremonies, national holidays, major international events or other significant national events. During the year 2012, the Bank issued a casting set of coins for the Chinese Zodiac Year of the Dragon, the commemorative gold and silver coins for the inauguration of the 13th president and vice president of the Republic of China (Taiwan), and the first coin set of the National Parks of Taiwan series - Kenting National Park.

Additionally, the Bank commissioned the Bank of Taiwan to conduct a public auction online for special number uncut commemorative NT\$100 notes in celebration of the 100th anniversary of the founding of the Republic of China.

7. Fiscal Agency Functions

The Bank acts as a banker to the central government as well as to other banks. As the fiscal agent of the government, the Bank provides various services for the Treasury, such as handling the treasury deposit account (TDA), managing central governmental agency deposit accounts, and undertaking the issuance, registration, redemption, and interest payment of central government bonds and treasury bills.

Managing the Treasury Deposit Account

The Bank manages the TDA on behalf of the Ministry of Finance (MOF), processing receipts and disbursements of the central government. For the convenience of government agencies and the general public, the Bank delegates the handling of treasury transactions to 13 financial institutions and their 358 branches, including three overseas branches located in New York, Los Angeles, and Paris. In addition, there are another 4,766 tax collection agencies set in financial institutions. In 2012, the Bank received a total of NT\$3,228.3 billion in treasury deposits, an increase of NT\$199.4 billion or 6.58 percent over the previous year. Payments made on behalf of the Treasury were NT\$3,211.1 billion, increasing by NT\$163.9 billion or 5.38 percent from 2011. At the end of 2012, the TDA balance was NT\$25.7 billion, significantly increasing by NT\$17.3 billion or 205.95 percent from the end of 2011, mainly owing to the funding operation considerations of the MOF.

Handling Central Government Agency Deposits

Central government agencies are required to make their deposits with the Bank or other delegated banks. However, the delegated banks are required by law to redeposit 60 percent of the deposits with the Bank, except those in interest-bearing accounts. At the end of 2012, the balance of central government agencies' deposits with the Bank amounted to NT\$141.7 billion, a decrease of NT\$31.6 billion or 18.23 percent over the previous year. Deposits with other delegated banks were NT\$446 billion at the end of 2012, a decrease of NT\$14.4 billion or 3.13 percent. Among them, redeposits with the Bank registered NT\$10.5 billion, merely decreasing by NT\$0.2 billion or 1.87 percent from the previous year end.

Managing Central Government Bonds

As a fiscal agent, the Bank provides services related to the issuance, registration, transfer, redemption, and interest payment of central government bonds. The Bank also conducts the auctions of central government bonds. There are 63 domestic dealers qualified to directly participate in the auctions, including 26 banks, 23 securities companies, eight bills finance companies, five

insurance companies, and Chunghwa Post Co.

In 2012, the Bank handled 19 issues of central government bonds in book-entry form worth NT\$665 billion and paid NT\$398.2 billion in principal and NT\$119.3 billion in interest for central government bonds. At the end of 2012, the outstanding amount of central government bonds was NT\$4,776.3 billion, an increase of NT\$266.7 billion or 5.91 percent from the previous year end.

Managing Treasury Bills

The Bank conducts the auctions of treasury bills, which are issued at a discount. Currently, direct bidders include banks, insurance companies, securities companies, bills finance companies, and Chunghwa Post Co.

In 2012, the Bank handled 10 issues of book-entry treasury bills with a total amount of NT\$265 billion. At the end of 2012, the outstanding amount of treasury bills was NT\$195 billion, an increase of NT\$14.7 billion or 8.15 percent from the previous year end.

Improving Operational Efficiency

To streamline treasury disbursements, the MOF and the Bank launched a mechanism of electronic transfer of treasury funds, which was effective from December 10, 2012. Thereafter, payments from the Treasury to the central government account and central government agencies' accounts were made online. Therefore, physical treasury check writing and deliveries have since become completely electronic, which has improved the operational efficiency of managing the TDA.

8. Participation in International Activities

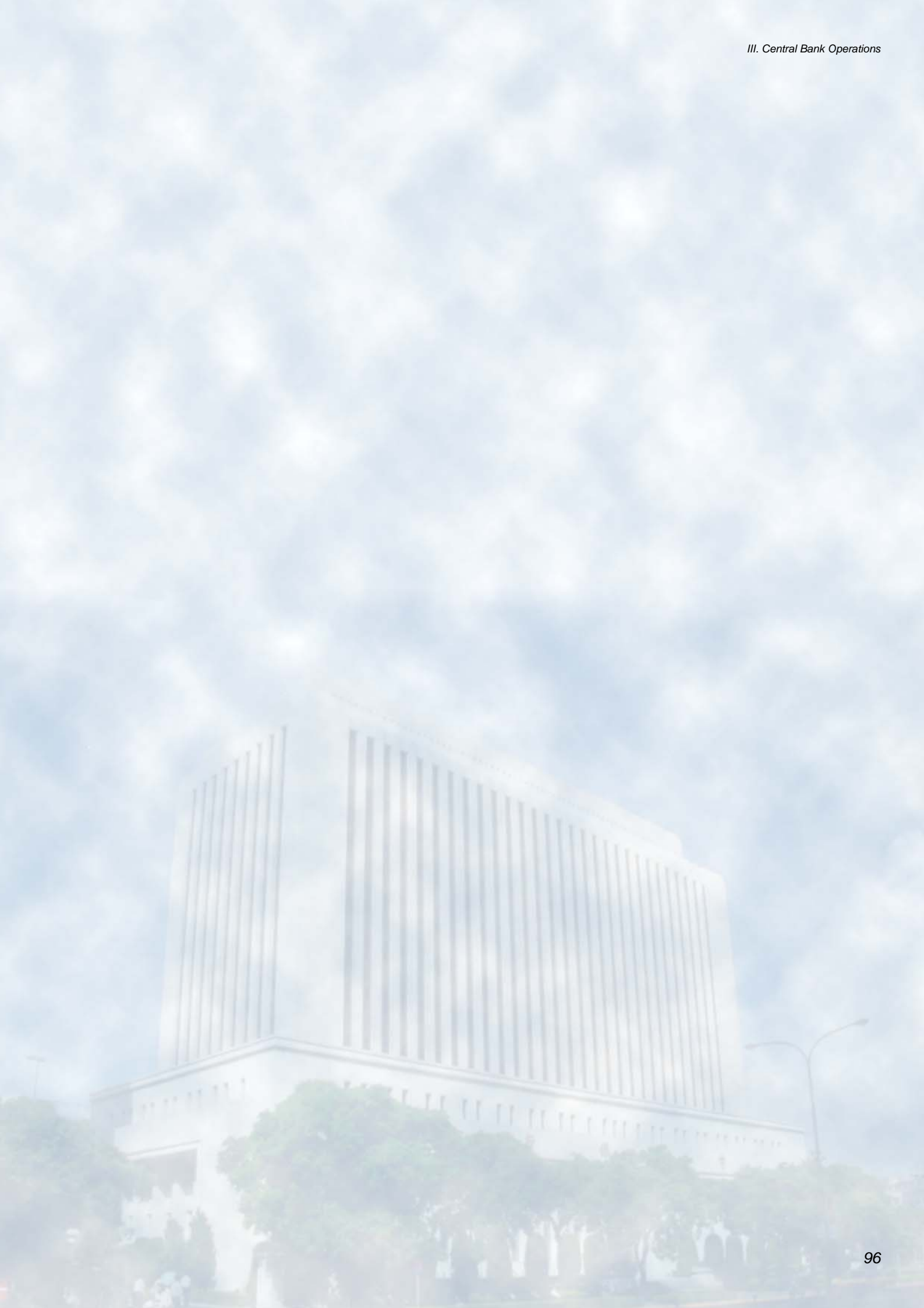
In 2012, the Bank contributed to a wide-ranging agenda of participation in international activities. As a member of various international organizations, the Bank hosts conferences, provides training courses, and attends various forums, including the annual meetings organized by the Asian Development Bank (ADB), the Central American Bank for Economic Integration (CABEI), and the South East Asian Central Banks (SEACEN) group. In addition, the Bank also maintains close relationships with the Inter-American Development Bank (IDB), the European Bank for Reconstruction and Development (EBRD) and the Bank for International Settlements (BIS). In 2012, the Bank strengthened its relationship and interaction with other central banks to exchange views on key issues of current global economic and financial situations.

The Bank is a founding member of ADB and, through this platform, has played an active role in promoting financial cooperation and stability in Asia. In May 2012, the Bank participated in the 45th annual meeting of ADB held in Manila, the Philippines, and shared views on the possibility of a formal regional exchange rate coordination mechanism in response to volatile short-term international capital flows. In addition, the issue of combining the functions of the Chiang Mai Initiative Multilateralization (CMIM) and the ASEAN+3 Macroeconomic Research Office (AMRO) by setting up the Asian Monetary Fund (AMF) was also addressed on the occasion.

The Bank is also a member of SEACEN. In February 2012, the Bank attended the 47th annual conference of governors held in Seoul, South Korea. Moreover, as SEACEN decided to move from a financial year (April to March) to a calendar year for better alignment with the operating periods of its stakeholders, the 48th annual conference of governors was held in Ulaanbaatar, Mongolia in November 2012. At these two conferences, the Bank joined other member central banks to exchange views on emerging economic and financial issues and to be updated on the world economic outlook. Furthermore, the Bank hosted the SEACEN Course on Assessing Market Risk of a Bank during November 4 to 9.

In addition, the Bank participated in the meetings held by other international organizations, such as the IDB's annual meeting of the Board of Governors held in Montevideo, Uruguay during March 16 to 19, the CABEI's ordinary meeting of the Board of Governors which took place in Roatan, Honduras on April 26 and 27, the EBRD's annual meeting of the Board of Governors held in London, UK on May 18 and 19, and the BIS annual general meeting in Basel, Switzerland on June 23 and 24.





Annex

IV. Annex

Cross-Strait Currency Clearing Mechanism

The volume of trade in goods and services across the Taiwan Strait is quite substantial. Since this trade is not always in balance, there are bound to be gaps in the demand and supply of the NT dollar (NTD) or the renminbi (RMB) if the transactions are settled in either of the two currencies. As neither the NT dollar nor the renminbi is an international reserve currency, it is necessary to establish a currency clearing mechanism in order to convert the surplus NT dollars or renminbi into international reserve currencies.

In an effort to further promote bilateral trade and finance, the two respective central banks across the Taiwan Strait signed the *Memorandum on Cross-Strait Currency Clearing Cooperation* (hereafter in the Annex the “*Memorandum*”) on August 31, 2012. On this foundation, a mechanism was inaugurated for currency clearing and settlement between the NT dollar and the renminbi.

1. Cross-Strait Currency Cooperation Before the Memorandum

(1) Currencies Exchange

Prior to the inking of the Memorandum, currency exchange between Taiwan and Mainland China was limited to that of cash notes. The Bank of China in the mainland area first accepted NT dollar notes in several designated branches in 1988 and then offered NT dollar notes in 2004. On the other hand, Taiwan's renminbi exchange services were launched in Kinmen and Matsu islands in 2005 on a trial basis. Furthermore, to meet the needs of tourists from both sides and to prevent the unlawful circulation of renminbi in Taiwan, the Bank authorized financial institutions in Taiwan to exchange renminbi banknotes in 2008.

(2) Direct Supply of RMB Banknotes

Financial institutions in Taiwan used to be able to purchase renminbi banknotes only from HSBC Hong Kong or the Bank of America. As those two institutions sourced their renminbi banknotes from offshore markets, the banknotes were often in poor condition and more costly to procure while the supply was erratic.

After several rounds of negotiations, the Bank and the People's Bank of China (PBC) reached an agreement for the Bank of Taiwan and Mega International Commercial Bank to procure renminbi banknotes from Bank of China (Hong Kong) directly. Through this channel, brand-new renminbi banknotes have been supplied to financial institutions throughout Taiwan at a lower cost than before since October 26, 2010.

(3) RMB Business at Hong Kong Branches of Taiwanese Banks

Under the prerequisite for conducting renminbi business, 19 Hong Kong branches of 17 Taiwanese banks signed the renminbi clearing and settlement agreement with Bank of China (Hong Kong) on September 24, 2009. As of February 1, 2013, 18 Hong Kong branches of Taiwanese banks conducting renminbi business have taken a total of RMB15 billion deposits.

(4) Offshore Banking Units (OBUs) and Overseas Branches Approved for Renminbi Business

To facilitate the settlement of cross-border trade for Taiwanese companies, the Bank authorized the OBUs and overseas branches of Taiwanese banks to conduct renminbi business on July 21, 2011. As of January 31, 2013, 51 OBUs in Taiwan conducted renminbi business with deposits totaling RMB26.9 billion.

2. Establishing a Cross-Strait Currency Clearing Mechanism

The Bank started to discuss the currency clearing mechanism with the PBC in October 2010. After several rounds of negotiations, the aforementioned Memorandum was signed on August 31, 2012, with the following key elements:

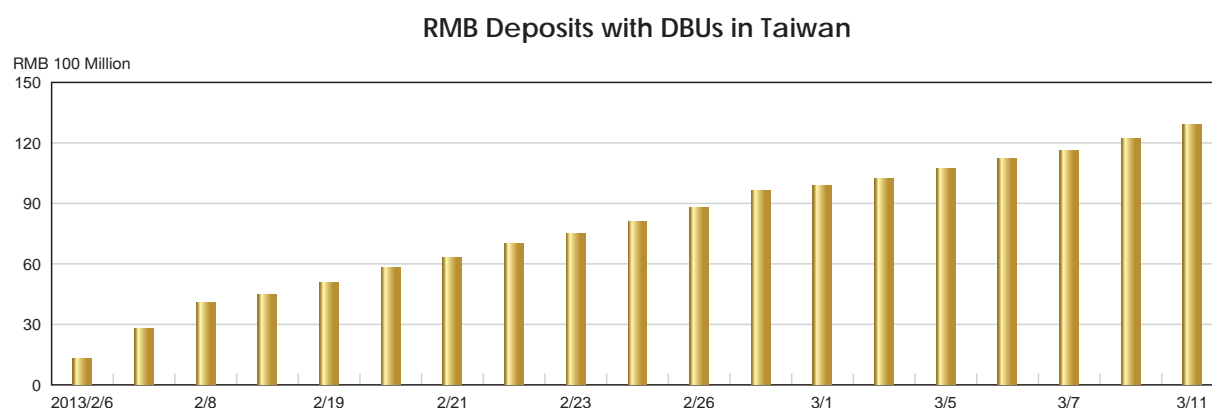
- (1) Based on the framework established in the Memorandum, the two central banks would separately designate one currency clearing institution to provide clearing and settlement services.
- (2) The Bank and the PBC agreed to coordinate the supervision of the two designated currency clearing institutions, including information sharing, protection of confidentiality, business examination, crisis management, and means of communication.

A chronology of events that mark the development of the clearing mechanism are as follows.

RMB Business in Taiwan

Date	Event
Dec. 11, 2012	The PBC designated the Taipei Branch of the Bank of China as the renminbi clearing bank in Taiwan.
Jan. 25, 2013	The PBC and the Taipei Branch of the Bank of China signed the renminbi clearing agreement.
Jan. 28, 2013	The Bank consented to the designation of the Taipei Branch of the Bank of China as the renminbi clearing bank in Taiwan.
Jan. 30, 2013	The Bank and the Taipei Branch of the Bank of China co-hosted a seminar on the regulations governing renminbi business and the clearing of renminbi.
Feb. 6, 2013	Authorized foreign exchange banks in Taiwan officially launched renminbi business.
Feb. 8, 2013	The Bank approved Chinatrust Commercial Bank to issue renminbi bonds in Taiwan.
Mar. 9, 2013	The Bank approved Deutsch Bank to issue renminbi bonds in Taiwan.
Mar. 12, 2013	Chinatrust Commercial Bank began to sell renminbi bonds (three-year bonds of up to RMB1 billion at a coupon rate of 2.9 percent) in Taiwan.

As of March 11, 2013, 53 authorized foreign exchange banks in Taiwan (a.k.a. domestic banking units, DBUs) had commenced renminbi business, taking in deposits totaling RMB12.92 billion and processing 4,181 remittances worth RMB1.87 billion. The single-day amount of cross-border renminbi settlement in Taiwan was RMB2.14 billion on March 11, 2013.



NTD Business in the Mainland Area

Date	Event
Sep. 17, 2012	The Shanghai Branch of the Bank of Taiwan was selected as the NT dollar clearing bank in the mainland area by the Bank.
Jan. 4, 2013	The Bank approved the designation of the Shanghai Branch of the Bank of Taiwan as the NT dollar clearing bank in the mainland area.
Jan. 9, 2013	The Bank gave consent to the customs authority for the export and import of NT dollar banknotes.
Feb. 4, 2013	China's State Administration of Foreign Exchange granted the customs authority permission for the import and export of NT dollar banknotes.
Apr. 2, 2013	The Shanghai Branch of the Bank of Taiwan commenced the business of exchanging NT dollar banknotes.

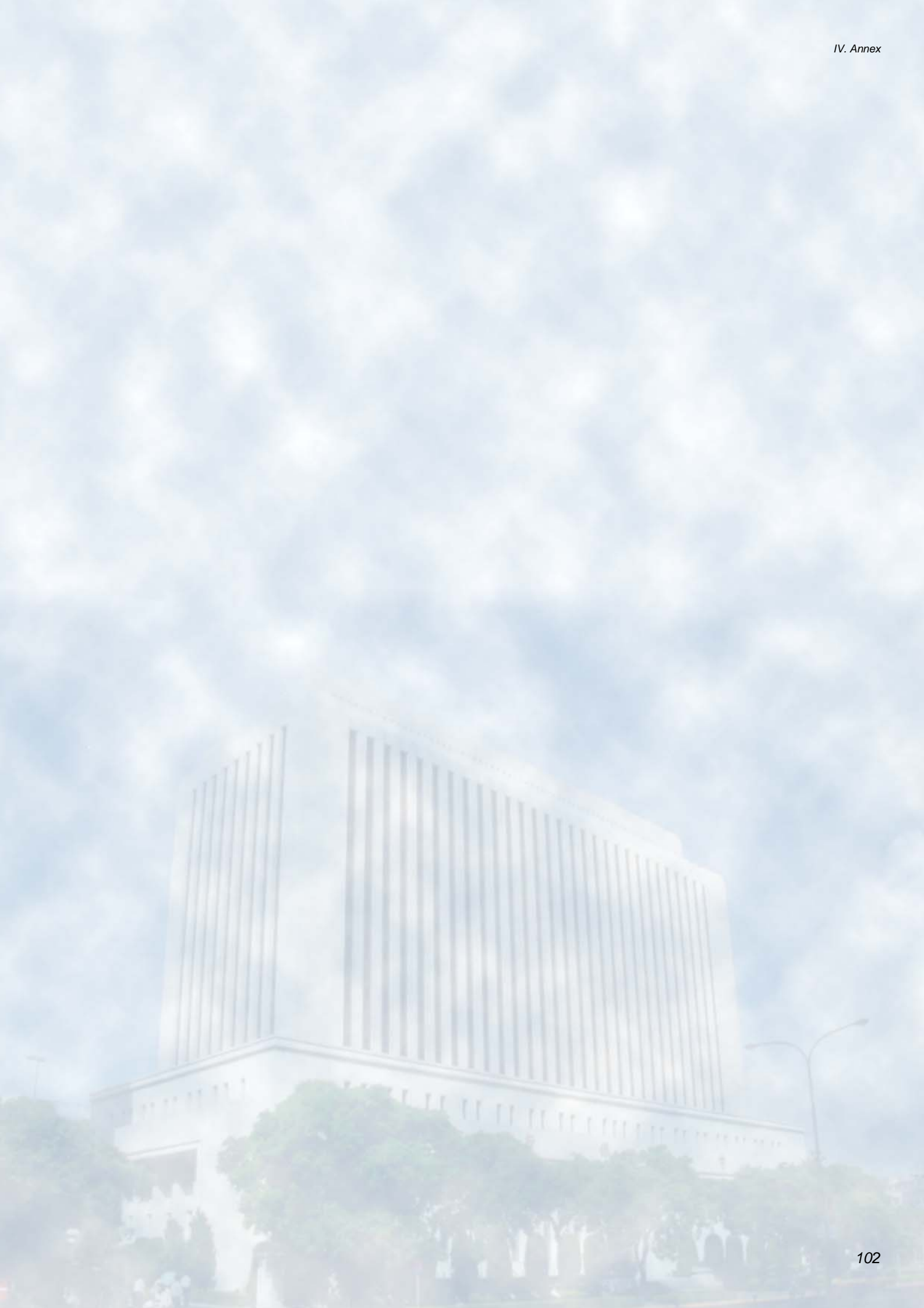
3. Benefits of the Mechanism for Cross-Strait Currency Clearing

(1) The newly-established mechanism will remove the barrier of settling cross-strait trade and investment in the respective local currencies. It helps reduce transaction and settlement costs and mitigate exchange rate risks associated with remittances, trade, and investment for either households or the corporate sector. Companies may open accounts, make deposits, take loans, make remittances, and engage in trade and investment in renminbi. With the increased number of currencies to be used for cross-strait transactions, the mechanism will also make funding more flexible for companies.

- (2) The mechanism is consistent with the government's "Program to Develop Financial Services with Cross-Strait Characteristics." It will also meet growing demand from the wealth management business, facilitating the launch of renminbi business at local financial institutions, issuance of RMB-denominated bonds in Taiwan, availability of other renminbi financial products, etc.
- (3) The mechanism will bolster Taiwan's efforts to thrive as an offshore renminbi financial center. For instance, a greater demand for funds to support the enormous trade volume across the Taiwan Strait may be met with renminbi debt financing. Renminbi corporate bonds issued on the Taiwan market not only lower the funding cost for companies but also give investors a greater variety of product choices. In addition, Taiwan's financial institutions may offer renminbi derivatives to help companies hedge against exchange rate or interest rate risks. By allowing foreign financial institutions to participate in the local renminbi clearing system, Taiwan is in a good position to become an offshore hub for renminbi business.

4. Conclusion

Taiwan has a conducive environment and great advantages for becoming an offshore renminbi market but still needs to reinforce its effort with more renminbi financial products and a better mechanism to recycle renminbi back to Mainland China. Moreover, the Bank has started to discuss with the PBC the establishment of a reciprocal RMB/NTD currency swap arrangement in order to maintain renminbi liquidity in Taiwan's financial markets.



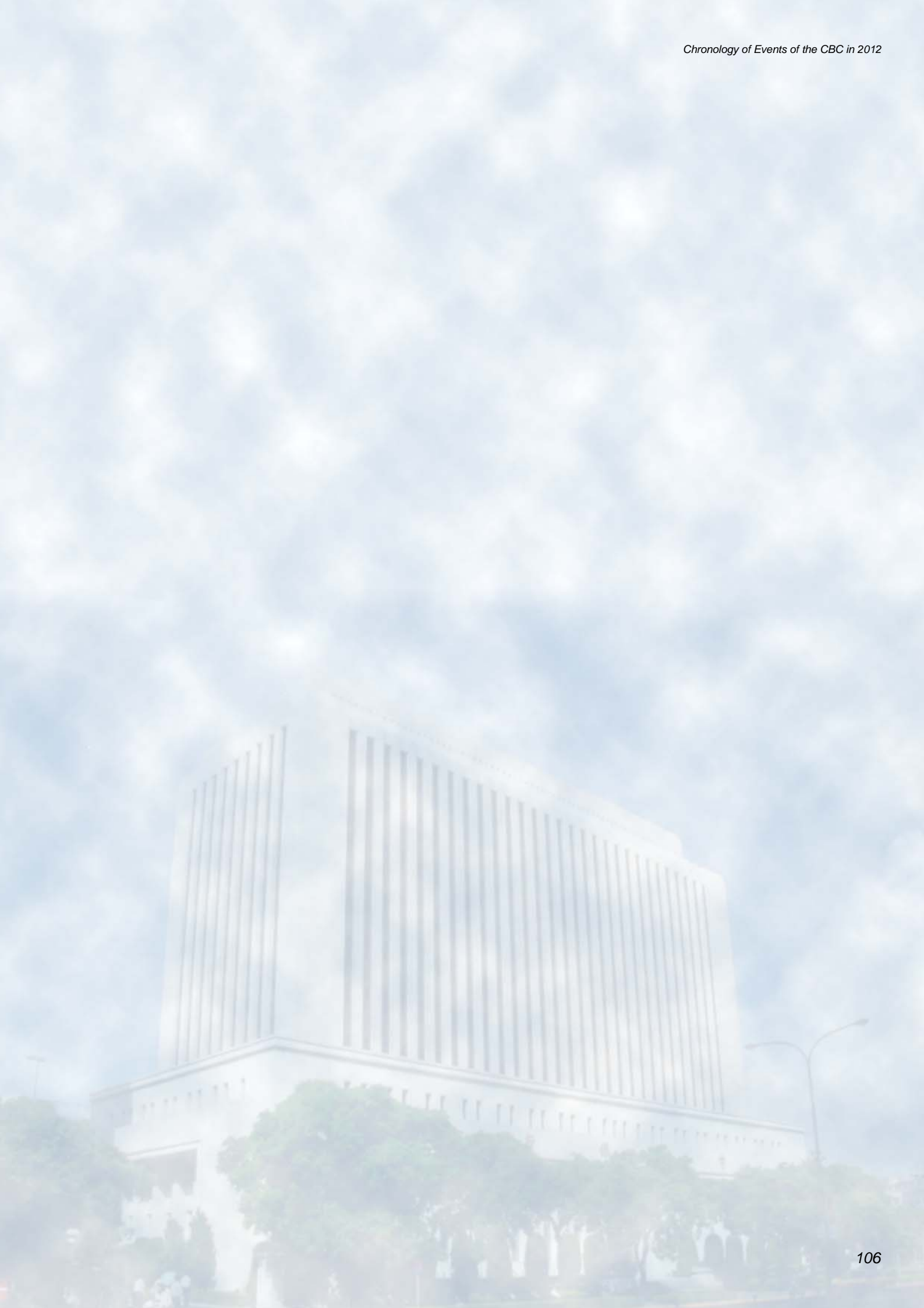


***Chronology of Events of
the CBC in 2012***

Chronology of Events of the CBC in 2012

Date	Events
Jan. 30	The Bank permitted securities investment trust enterprises (SITEs), securities investment consulting enterprises, managed futures enterprises and trust enterprises to conduct NTD discretionary investment services in foreign securities without individual application for the Bank's consent.
Feb. 15	The Bank announced its interpretations of the adjustment period for land loan renewal cases to become compliant with the cap on loan-to-value ratio prescribed in the <i>Regulations Governing the Extension of Housing Loans in Specific Areas and Land Loans by Financial Institutions</i> .
Mar. 22	The Bank's Board decided to leave the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral unchanged at 1.875 percent, 2.25 percent, and 4.125 percent, respectively.
Jun. 21	<p>The Bank's Board decided to take the following measures:</p> <ol style="list-style-type: none"> 1. Leaving the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral unchanged at 1.875 percent, 2.25 percent, and 4.125 percent, respectively. 2. Amending the <i>Regulations Governing the Extension of Housing Loans in Specific Areas and Land Loans by Financial Institutions</i> to include guidelines governing high-priced housing loans extended by financial institutions, effective from June 22, 2012.
Aug. 23	The Bank allowed SITEs to use swaps or cross-currency swaps to hedge foreign exchange exposures according to the hedging strategy of individual trust funds.
31	The Bank and the People's Bank of China signed the <i>Memorandum on Cross-Strait Currency Clearing Cooperation</i> and agreed to establish a cross-strait currency clearing mechanism based on the principles and cooperative framework as defined in this memorandum.
Sep. 7	The Bank promulgated the <i>Regulations Governing the Selection of Designated NTD Clearing Bank in the Mainland Area</i> .

Date	Events
11	The Financial Supervisory Commission (FSC) and the Bank jointly repealed the <i>Regulations Governing the Conduct of RMB Business for the OBUs and Overseas Branches of Taiwan's Domestic Banks</i> .
17	The Shanghai Branch of the Bank of Taiwan was designated as the NTD clearing bank in Mainland China.
20	The Bank's Board decided to leave the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral unchanged at 1.875 percent, 2.25 percent, and 4.125 percent, respectively.
Oct. 26	In line with the FSC's amendments to the " <i>Guidelines Governing Applications by Securities Investment Trust Enterprises for Offering and Issuing Trust Funds Denominated in Foreign Currencies</i> ," the Bank allowed banking enterprises to engage in foreign exchange settlement on behalf of their SITE customers when they offer and issue trust funds denominated in foreign currencies (excluding RMB).
Dec. 11	The Taipei Branch of the Bank of China was designated as the RMB clearing bank in Taiwan.
19	The Bank's Board decided to leave the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral unchanged at 1.875 percent, 2.25 percent, and 4.125 percent, respectively.
	The Board also set the target range of M2 growth for 2013 at 2.5 percent to 6.5 percent.
20	To strengthen liquidity management of credit cooperatives, the Bank set the reference floor value of "term to maturity analysis of NTD assets/liabilities," which is the minimal level of the negative maturity gaps of future cash flows within the following 30 days of credit cooperatives, at -5 percent, effective from January 1, 2013.



Financial Statements of the CBC

1. Balance Sheet

Unit: NT\$ Million

	December 31 2012	December 31 2011	Change	
			Amount	%
Assets				
Foreign Assets	11,900,655	11,840,581	60,074	0.51
Due from Domestic Banks	74,220	67,890	6,330	9.32
Loans and Accommodations to Financial Institutions	270,676	498,384	-227,708	-45.69
Other Assets	1,127,041	968,263	158,778	16.40
Total Assets	13,372,592	13,375,118	-2,526	-0.02
Liabilities				
Currency Issued	1,437,529	1,320,609	116,920	8.85
Deposits of Financial Institutions	1,469,052	1,404,837	64,215	4.57
Certificates of Deposit Issued	6,642,560	6,682,155	-39,595	-0.59
Redeposits of Financial Institutions	2,196,675	2,179,942	16,733	0.77
Government Deposits	167,448	181,742	-14,294	-7.86
Other Liabilities	635,447	827,208	-191,761	-23.18
Total Liabilities	12,548,711	12,596,493	-47,782	-0.38
Net Worth	823,881	778,625	45,256	5.81
Total Liabilities and Net Worth	13,372,592	13,375,118	-2,526	-0.02

2. Income Statement

Unit: NT\$ Million

	2012	2011
Income		
Interest Income	413,392	425,985
Fee Income	114	116
Subsidiaries Investment Income	1,136	1,187
Foreign Exchange Gains	9,512	23,133
Revenue from Trust Investment	17,721	17,023
Others	1,235	1,891
Total Income	443,110	469,335
Expenses		
Interest Expenses	96,868	91,211
Fee Expenses	199	193
Expenses for Coin Issuance	1,546	1,705
Allowances	112,989	141,702
Expenses for Currency Issuance	3,375	4,467
Operating Expenses	1,497	1,517
Administrative Expenses	470	483
Others	888	807
Total Expenses	217,832	242,085
Net Income	225,278	227,250

Key Economic and Financial Indicators of the Republic of China (Taiwan)

Year / Month	I. Business Indicators			II. National Income and Aggregate Demand								
	CEPD ⁽¹⁾ Total Score of Monitoring Indicators (average)	TIER ⁽²⁾ Business Climate Index (2006=100) (average)		Economic Growth Rate (%)	Per Capita GNP (US\$)	Unemploy- ment Rate (%)	Manufacturing Sector			Annual Rate of Change Industrial Production Indices (%)		
		Manufacturing Sector	Services Sector				Labor Productivity Index (2006=100)	Average Monthly Earnings (Per Employee) (NT\$)	Unit Labor Cost Index Growth Rate (%)	General	Manufacturing	Construction
2003	23	103.05	102.85	3.67	14,197	4.99	88.24	39,549	-3.92	9.09	9.55	9.02
2004	33	105.63	102.84	6.19	15,503	4.44	92.45	40,657	-3.04	9.30	9.97	4.78
2005	22	97.71	98.40	4.70	16,449	4.13	96.18	41,858	0.14	3.76	3.66	11.38
2006	22	100.00	100.00	5.44	16,911	3.91	100.00	42,393	-1.80	4.70	4.50	9.02
2007	25	102.12	96.05	5.98	17,596	3.91	107.12	43,169	-4.94	7.77	8.34	-0.48
2008	19	87.43	89.96	0.73	17,833	4.14	106.02	43,105	2.37	-1.78	-1.56	-9.26
2009	19	97.36	95.54	-1.81	16,901	5.85	106.62	39,152	-6.95	-8.08	-7.97	-19.08
2010	37	101.94	105.90	10.76	19,090	5.21	125.00	42,420	-12.29	26.93	28.60	-9.81
2011	24	95.29	99.43	4.07	20,574	4.39	129.28	43,533	1.11	5.03	5.12	7.89
2012	17	91.72	90.66	1.26	21,035	4.24	128.34	43,994	2.47	-0.05	-0.20	7.40
2012/ 1	13	90.10	89.89			4.18	132.87	83,789	32.54	-16.88	-17.32	-12.72
2	15	94.75	93.34			4.25	125.94	40,010	-19.71	8.59	8.41	31.70
3	14	97.33	97.59	0.59	5,187	4.17	127.41	38,447	6.74	-3.07	-3.57	27.08
4	14	96.45	93.37			4.10	133.31	38,512	4.80	-1.72	-1.96	8.64
5	15	90.85	93.42			4.12	128.51	38,883	-0.50	0.09	-0.02	5.93
6	15	87.70	88.05	-0.12	5,040	4.21	127.04	41,383	8.18	-2.29	-2.16	-7.25
7	16	88.53	90.21			4.31	126.74	40,302	-2.36	0.15	-0.11	14.52
8	15	90.42	88.16			4.40	127.62	40,340	-2.53	1.39	1.29	10.68
9	20	90.28	88.51	0.73	5,249	4.32	130.98	44,374	6.40	2.97	3.06	6.24
10	19	89.36	86.34			4.33	127.47	39,203	-2.15	4.83	4.74	22.89
11	21	90.41	86.75			4.27	126.16	38,212	-3.18	5.71	5.35	34.98
12	22	94.45	92.32	3.72	5,559	4.18	127.18	44,745	3.34	2.05	2.54	-21.63

Notes: (1) CEPD: Council for Economic Planning and Development, Executive Yuan.

(2) TIER: Taiwan Institute of Economic Research.

Key Economic and Financial Indicators of the Republic of China (Taiwan) Cont.

Year / Month	II. National Income and Aggregate Demand														
	Annual Rate of Change of Private Consumption Expenditure (%)	Annual Rate of Change of Gross Fixed		Gross National Savings / GNP (%)	Gross Domestic Investment / GNP (%)	External Trade of Goods on Customs Basis (in US Dollars)									
		Capital Formation (%)	Private Sector (%)			Annual Rate of Change of Total Exports					Annual Rate of		Trade Balance (US\$ Million)	Annual Rate of Change of Export Orders (%)	
						Mainland China and H. K. (%)	U. S. (%)	Japan (%)	Europe (%)	Southeast Asia ⁽³⁾ (%)	Change of Total Imports (%)	Capital Equipment (%)			
2003	2.91	-0.11	1.93	28.51	19.32	11.3	23.6	-3.0	0.5	10.4	10.5	13.0	1.0	22,590	12.6
2004	5.17	13.96	25.62	28.61	22.94	21.1	28.8	8.3	11.1	14.7	33.0	31.8	38.4	13,613	26.5
2005	2.90	2.66	1.53	27.94	22.17	8.8	12.2	1.3	9.4	-0.8	13.8	8.2	-4.8	15,817	19.2
2006	1.49	0.07	3.31	29.55	22.12	12.9	14.8	11.2	7.9	10.5	13.8	11.0	-0.5	21,319	16.7
2007	2.08	0.55	1.36	30.38	21.56	10.1	12.6	-0.9	-2.2	9.7	16.7	8.2	3.1	27,425	15.5
2008	-0.93	-12.36	-15.58	28.36	21.85	3.6	-0.8	-4.0	10.2	4.6	7.3	9.7	-8.3	15,181	1.7
2009	0.76	-11.25	-18.15	27.62	17.13	-20.3	-15.9	-23.5	-17.4	-24.6	-21.5	-27.5	-21.4	29,304	-8.3
2010	3.96	21.12	29.76	31.68	21.71	34.8	37.1	33.6	24.2	30.1	37.2	44.1	64.0	23,364	26.1
2011	3.13	-3.10	-1.26	29.77	20.17	12.3	8.1	15.6	1.2	6.2	22.7	12.0	-3.2	26,820	7.2
2012	1.49	-4.39	-2.25	28.20	19.24	-2.3	-4.4	-9.3	4.2	-7.8	9.8	-3.9	-7.9	30,708	1.1
2012/1						-16.7	-25.9	-11.3	-16.4	-11.0	-10.2	-12.2	-29.2	513	-8.6
2						10.4	5.8	-1.0	3.5	5.0	24.7	1.2	-11.6	2,876	17.6
3	1.92	-10.21	-9.10	26.60	17.56	-3.1	-7.0	-8.0	-2.1	-11.6	11.0	-5.9	-19.8	2,395	-1.6
4						-6.5	-11.7	-16.4	-9.9	2.8	4.4	1.8	-1.5	719	-3.5
5						-6.2	-10.0	-12.3	5.5	-13.4	4.0	-10.6	-20.6	2,326	-3.0
6	1.61	-7.69	-5.71	29.71	20.54	-3.1	-1.6	-14.0	7.7	-11.9	6.1	-8.5	-8.0	2,617	-2.6
7						-11.5	-10.9	-20.0	-1.0	-14.4	-5.9	-3.3	7.4	981	-4.4
8						-4.0	-5.7	-8.4	5.9	-17.4	24.1	-7.9	-4.8	3,434	-1.5
9	0.90	-0.95	1.54	28.38	20.24	10.3	6.0	2.7	27.7	-10.5	41.4	1.2	-0.1	4,088	1.9
10						-1.9	0.2	-9.5	2.1	-11.1	7.0	-1.8	4.2	3,252	3.2
11						0.8	3.6	-5.8	13.1	-6.7	4.8	0.1	-3.9	3,395	11.1
12	1.55	1.25	5.56	28.16	18.66	8.9	10.0	-1.3	16.9	10.9	15.6	1.6	3.6	4,113	8.5

Note: (3) Only includes six major countries in the region, i.e., Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

Key Economic and Financial Indicators of the Republic of China (Taiwan) Cont.

Year / Month	III. Prices					IV. Money, Banking and Finance					
	Annual Rate of Change of Price Indices (%)					Reserve Money (daily average)		Monetary Aggregates (daily average)			
	CPI	Core CPI ⁽⁴⁾	Wholesale Price	Import Price	Export Price	Amount (NT\$ Billion)	Annual Growth Rate ⁽⁵⁾ (%)	M1B		M2	
								Amount (NT\$ Billion)	Annual Growth Rate (%)	Amount ⁽⁶⁾ (NT\$ Billion)	Annual Growth Rate (%)
(in NT Dollars)											
2003	-0.28	-0.54	2.48	5.14	-1.50	1,492.3	5.24	5,803.9	11.82	20,618.6	3.68
2004	1.61	0.76	7.03	8.58	1.62	1,662.2	11.98	6,905.4	18.98	22,117.1	7.27
2005	2.30	0.73	0.61	2.42	-2.46	1,792.5	7.63	7,395.8	7.10	23,588.5	6.20
2006	0.60	0.53	5.63	8.82	2.50	1,888.1	5.62	7,787.5	5.30	24,939.0	6.18
2007	1.80	1.46	6.47	8.94	3.56	1,977.1	5.11	8,289.2	6.44	25,975.9	4.16
2008	3.52	3.26	5.14	8.84	-2.15	2,084.1	3.35	8,045.8	-2.94	26,679.3	2.71
2009	-0.86	-0.04	-8.73	-9.60	-6.59	2,298.4	11.55	9,376.5	16.54	28,667.1	7.45
2010	0.96	0.58	5.46	7.04	2.02	2,421.7	5.43	10,776.6	14.93	29,966.1	4.53
2011	1.42	1.26	4.32	7.65	0.09	2,632.3	7.24	11,547.8	7.16	31,713.9	5.83
2012	1.93	1.00	-1.16	-1.28	-1.62	2,761.6	4.91	11,946.7	3.45	33,037.6	4.17
2012/ 1	2.35	1.92	4.37	7.68	4.54	2,832.5	9.03	11,933.6	3.86	32,755.7	5.22
2	0.25	-0.05	1.83	4.23	1.26	2,799.1	2.40	11,957.2	2.84	32,971.6	4.92
3	1.25	0.84	-0.22	1.53	-0.79	2,736.0	4.88	11,879.8	3.47	32,956.8	5.05
4	1.44	1.04	-0.56	-0.04	-0.28	2,737.8	4.84	11,877.4	3.77	32,972.5	4.72
5	1.74	0.98	-0.88	-0.55	-0.60	2,731.0	4.87	11,847.4	3.24	32,968.4	4.40
6	1.76	0.92	-1.77	-2.55	-0.89	2,720.3	4.67	11,779.5	3.18	32,839.7	4.19
7	2.46	1.05	-1.55	-2.07	-1.22	2,730.1	4.53	11,804.0	2.88	32,916.5	3.80
8	3.43	1.05	-0.91	-1.06	-1.26	2,752.2	4.18	11,991.2	2.73	33,119.9	3.69
9	2.95	1.02	-2.35	-3.21	-3.68	2,762.2	4.14	12,065.2	3.35	33,181.4	3.96
10	2.33	1.09	-3.73	-5.40	-5.47	2,760.5	4.60	11,985.9	3.57	33,097.0	3.29
11	1.59	1.01	-3.92	-6.24	-5.56	2,764.1	4.99	12,005.1	3.65	33,193.3	3.26
12	1.60	1.10	-3.95	-6.70	-5.04	2,813.9	5.97	12,234.4	4.91	33,479.0	3.67

Notes: (4) Core CPI refers to CPI excluding the categories of fruits, vegetables and energy.

(5) The annual growth rates are adjusted for most recent changes in required reserve ratios on Jan. 1, 2011, and in the share of required reserves deposited with the Bank's B account in Nov. 2001.

(6) The data has included the net present value of money market mutual funds since Oct. 2004.

Key Economic and Financial Indicators of the Republic of China (Taiwan) Cont.

Year / Month	IV. Money, Banking and Finance										
	Monetary Financial Institutions (end of period)				Non-performing Loan Ratio of Domestic Banks ⁽⁹⁾ (end of period)	Interest Rates (%)					
	Deposits ⁽⁷⁾		Loans & Investments ⁽⁸⁾			CBC's Discount Rate (end of period)	Interbank Call Loan Rate	31-90 Days CP Rate In Secondary Market	10-year Gov't Bond Rate in Secondary Market	Five Major Domestic Banks ⁽¹⁰⁾	
	Amount	Annual Rate of Change	Amount	Annual Rate of Change	1-year Deposit Rate (end of period)					New Loan Rate	
	(NT\$ Billion)	(%)	(NT\$ Billion)	(%)	(%)	(average)	(average)	(average)	(average)		
2003	21,679.7	5.38	16,535.1	2.84	6.08	1.375	1.097	1.05	2.16	1.40	2.80
2004	23,148.4	6.77	17,964.0	8.64	3.80	1.750	1.061	0.99	2.66	1.52	2.24
2005	24,611.6	6.32	19,360.2	7.77	2.24	2.250	1.312	1.27	2.05	1.99	2.31
2006	25,811.5	4.88	20,153.9	4.10	2.13	2.750	1.552	1.54	1.98	2.20	2.37
2007	26,052.5	0.93	20,626.9	2.35	1.84	3.375	1.998	1.90	2.32	2.62	2.70
2008	27,865.2	6.96	21,331.5	3.42	1.54	2.000	2.014	1.92	2.29	1.42	2.80
2009	29,448.6	5.68	21,482.3	0.71	1.15	1.250	0.109	0.24	1.51	0.89	1.50
2010	31,005.7	5.29	22,803.7	6.15	0.61	1.625	0.185	0.38	1.37	1.13	1.45
2011	32,302.2	4.18	24,172.9	6.00	0.43	1.875	0.341	0.70	1.38	1.36	1.54
2012	33,300.3	3.09	25,548.8	5.69	0.40	1.875	0.428	0.79	1.21	1.36	1.62
2012/ 1	32,513.8	4.57	24,394.4	5.22	0.43	1.875	0.403	0.79	1.29	1.36	1.50
2	32,559.7	4.23	24,444.3	5.16	0.43	1.875	0.399	0.79	1.27	1.36	1.53
3	32,670.8	4.70	24,491.7	5.30	0.44	1.875	0.402	0.79	1.27	1.36	1.59
4	32,658.2	4.01	24,637.8	5.53	0.62	1.875	0.476	0.79	1.28	1.36	1.59
5	32,619.5	4.01	24,742.3	5.22	0.58	1.875	0.512	0.81	1.23	1.36	1.70
6	32,608.2	3.60	24,588.4	4.58	0.56	1.875	0.513	0.82	1.20	1.36	1.69
7	32,720.1	3.02	24,832.2	5.21	0.55	1.875	0.445	0.80	1.18	1.36	1.60
8	32,913.1	3.85	24,935.0	4.70	0.54	1.875	0.388	0.80	1.18	1.36	1.78
9	32,841.6	3.19	25,010.6	4.51	0.51	1.875	0.389	0.79	1.18	1.36	1.57
10	32,827.0	2.86	25,161.9	4.91	0.49	1.875	0.388	0.78	1.14	1.36	1.72
11	33,003.9	3.13	25,272.5	4.96	0.47	1.875	0.386	0.77	1.13	1.36	1.69
12	33,300.3	3.09	25,548.8	5.69	0.40	1.875	0.388	0.76	1.15	1.36	1.52

Notes: (7) The carrying values of the host contracts of structured products issued by banks are excluded.

(8) From Jan. 2004, includes data for securities acquired under reverse repurchase agreements. Portfolio investments are measured at original costs.

(9) The data are based on the new NPL definition released by the Financial Supervisory Commission in Dec. 2001, which include loans under surveillance.

(10) For data prior to Oct. 2008, the five major domestic banks are Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank and Chang Hwa Commercial Bank, while beginning Nov. 2008, the Chang Hwa Commercial Bank is replaced by Land Bank of Taiwan.

Key Economic and Financial Indicators of the Republic of China (Taiwan) Cont.

Year / Month	V. Securities Market					VI. Balance of Payments and Foreign Exchange Market						
	TWSE ⁽¹⁾ Stock Market		Bond Market			Balance of Payments				Foreign Exchange Reserves	Exchange Rate	Daily Average Value of Foreign Exchange Transactions
	Stock Price Index	Total Trading Value	Outstanding (end of period)	Trading Value		Current Account	Capital Account	Financial Account	Change in CBC's Net Foreign Assets ⁽¹²⁾	(end of period) (US\$ Billion)	(end of period) NT\$/US\$	(US\$ Billion)
	(1966=100) (average)	(NT\$ Billion)	(NT\$ Billion)		Share of Outright Transactions (%)	(US\$ Million)						
2003	5,162	20,333.2	4,306.6	203,624.0	62.16	30,504	-87	7,628	-37,092	206.63	33.978	7.30
2004	6,034	23,875.4	4,777.3	206,132.4	59.89	19,728	-77	7,169	-26,595	241.74	31.917	10.24
2005	6,092	18,818.9	5,145.3	319,737.0	69.49	17,578	-117	2,302	-20,056	253.29	32.850	12.07
2006	6,842	23,900.4	5,462.1	275,833.2	61.63	26,332	-118	-19,620	-6,086	266.15	32.596	15.63
2007	8,510	33,043.9	5,542.1	194,005.5	48.34	35,154	-96	-38,951	4,020	270.31	32.443	18.62
2008	7,024	26,115.4	5,771.2	135,509.5	44.09	27,505	-334	-1,660	-26,274	291.71	32.860	19.37
2009	6,460	29,680.5	5,920.3	97,547.5	40.40	42,923	-96	13,469	-54,126	348.20	32.030	16.22
2010	7,950	28,218.7	6,352.3	106,318.0	40.12	39,870	-116	-360	-40,173	382.01	30.368	20.23
2011	8,156	26,197.4	6,895.8	97,809.1	27.46	41,230	-120	-32,050	-6,239	385.55	30.290	24.17
2012	7,481	20,238.2	7,576.1	86,551.7	21.17	49,550	-100	-31,503	-15,484	403.17	29.136	23.41
2012/ 1	7,177	1,352.9	6,885.4	5,644.8	22.31					390.30	29.620	23.88
2	7,856	2,779.9	6,914.4	7,301.9	25.16					394.43	29.420	24.64
3	8,020	2,296.0	6,939.7	8,300.5	23.63	10,937	-18	-3,769	-5,094	393.87	29.530	23.11
4	7,621	1,516.6	7,042.3	7,241.6	24.38					395.07	29.232	23.62
5	7,357	1,605.0	7,126.0	7,772.6	20.07					389.28	29.860	26.14
6	7,143	1,337.3	7,258.6	8,115.5	20.92	10,762	-20	-7,760	-3,111	391.24	29.900	24.17
7	7,187	1,453.0	7,236.4	8,330.7	23.88					391.11	30.010	23.03
8	7,410	1,666.6	7,382.2	7,451.8	17.96					394.23	29.966	22.39
9	7,610	1,705.6	7,440.4	6,113.7	20.72	11,891	-40	-8,365	-3,696	397.95	29.342	24.53
10	7,438	1,385.9	7,467.8	7,371.0	20.20					399.22	29.260	22.72
11	7,256	1,512.7	7,562.2	6,979.7	19.88					400.96	29.116	22.09
12	7,631	1,626.5	7,576.1	5,927.9	14.92	15,960	-18	-11,609	-3,583	403.17	29.136	20.58

Note: (1) TWSE: Taiwan Stock Exchange Corporation.

(12) The minus sign "-" represents an increase.

Sources: 1. CEPD, Executive Yuan.

2. Taiwan Institute of Economic Research.

3. Department of Statistics, Ministry of Economic Affairs.

4. DGBAS, Executive Yuan.

5. Department of Statistics, Ministry of Finance.

6. Banking Bureau, Financial Supervisory Commission.

7. Financial Statistics Monthly and Balance of Payments Quarterly, CBC.

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