2. Banking Sector

Number of Monetary Financial Institutions

At the end of 2019, the number of monetary financial institutions (defined hereafter in this chapter as excluding the central bank) decreased to 401. The number of domestic banks decreased by one as ANZ Bank (Taiwan) Limited was merged into Australia and New Zealand Banking Group Limited, Taipei Branch. As for money market mutual funds, the number remained zero after the last remaining fund was liquidated in May 2017. The numbers of the other types of monetary financial institutions all stood unchanged.

In addition to the monetary financial institutions, the number of financial holding companies was 16, the same as 2018.

Number of Monetary Financial Institutions by Type

Types of institutions		End of 2019	End of 2018	Annual Change
Total Number of Main Offices		401	402	-1
	Domestic Banks	37	38	-1
	Foreign and Mainland Chinese Banks	29	29	0
	Credit Cooperatives	23	23	0
	Credit Departments of Farmers' and Fishermen's Associations	311	311	0
	Chunghwa Post	1	1	0
Total Number of Branches		6,092	6,083	9
	Local Branches	5,888	5,879	9
	Overseas Branches	145	144	1
	Offshore Banking Units	59	60	-1

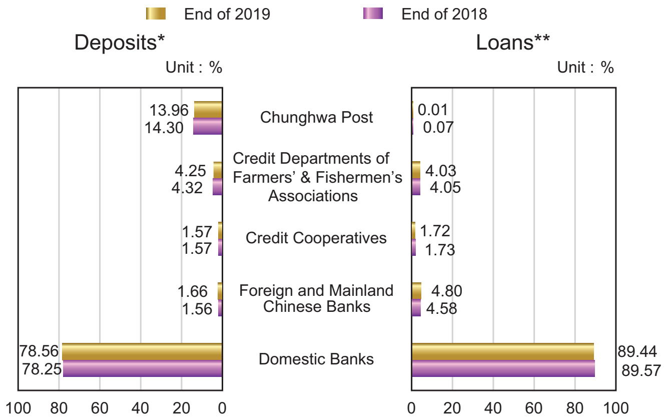
Sources: 1. *Financial Statistics Monthly*, CBC.
2. Department of Financial Inspection, CBC.

Market Shares of Deposits and Loans

In terms of deposits, the market share of domestic banks grew to 78.56% at the end of 2019, mainly because a year-on-year increases in inward remittances of overseas sales revenues - which were then converted into local currency - caused transaction and non-transaction deposits to rise. The market share of foreign and Mainland Chinese banks rose to 1.66% at the end of 2019 because some foreign and Mainland Chinese banks provided some firms with preferential interest rates for large-value transaction deposits and foreign currency deposits, which caused their passbook deposits and foreign currency deposits to increase.

Chunghwa Post's market share narrowed to 13.96% as postal savings deposits registered an increase smaller than that in total deposits. The market share of credit departments of farmers' and fishermen's associations declined to 4.25%. The market share of credit cooperatives was the same as the previous year.

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



Notes: * Excluding the values of the host contracts of structured products issued by banks.
** Including data for securities acquired under reverse repurchase agreements.

Source: *Financial Statistics Monthly*, CBC.

In terms of loans, the market share of domestic banks continued to slip to 89.44%, mainly because CPC Corporation generated more profits amid international oil price rises and the Taiwan Railways Administration issued more commercial paper, both of which caused a decrease in borrowings from domestic banks. Meanwhile, foreign and Mainland Chinese banks' market share climbed to 4.80% because of faster growth in loans to enterprises. Chunghwa Post's market share declined to 0.01%, reflecting a decrease in lending to bills finance companies. As for the other institution types, the market share of credit departments of farmers' and fishermen's associations fell to 4.03%, while that of credit cooperatives edged down to 1.72%.

Sources and Uses of Funds

At the end of 2019, the total amount of funds in monetary financial institutions was NT$51,695 billion, increasing by NT$2,597 billion compared to the end of 2018. The combined share of transaction and non-transaction deposits was nearly 85%. Against a backdrop of abundant market liquidity, the balances of transaction deposits and non-transaction deposits kept growing, with annual growth rates of 7.44% and 2.91%, respectively.

In the case of fund uses, bank loans still accounted for over 50% of total uses of funds at the end of 2019. Although affected by the US-China trade conflict in the first half of the year, the balance of lending by monetary financial institutions increased by NT$1,371 billion from the end of the previous year owing to stronger demand for funds in the corporate sector in the second half of the year. The annual growth rate was 4.96%, which was lower than the 5.07% at the end of the previous year. As for net foreign assets, the annual growth rate rose to 24.99% under the influence of net foreign capital inflows.

Portfolio investments by monetary financial institutions measured on a cost basis grew at a slower pace of 5.32% in 2019, mainly because banks became more conservative with their investments as they were watchful of uncertainties over global economic conditions. As for banks' purchases of CDs issued by the CBC, its share remained broadly the same as in the previous year, while its growth rate turned positive at 0.44% at the end of 2019 from -0.67% a year earlier.

Sources and Uses of Funds in Monetary Financial Institutions[1]

Unit: NT$ Billion

	End of 2019			End of 2018			Annual Change	
	Amount	Share (%)	Annual Growth Rate (%)	Amount	Share (%)	Annual Growth Rate (%)	Amount	Share (%)
Sources:								
Transaction Deposits[2]	16,946	32.78	7.44	15,773	32.13	5.51	1,173	0.65
Non-transaction Deposits[3]	26,831	51.90	2.91	26,072	53.10	-0.02	759	-1.20
NT Dollar Deposits	20,797	40.23	1.75	20,439	41.63	0.40	358	-1.40
Foreign Currency Deposits[4]	6,034	11.67	7.13	5,633	11.47	-1.54	402	0.20
Government Deposits	1,069	2.07	2.53	1,043	2.12	11.13	26	-0.05
Other Items	6,849	13.25	10.29	6,210	12.65	3.15	639	0.60
Total	51,695	100.00	5.29	49,098	100.00	2.32	2,597	0.00
Uses:								
Net Foreign Assets[4]	4,500	8.70	24.99	3,600	7.33	-15.46	900	1.37
Loans	29,011	56.12	4.96	27,640	56.29	5.07	1,371	-0.17
NT Dollar Loans	28,063	54.29	5.24	26,666	54.31	5.36	1,397	-0.02
Foreign Currency Loans[4]	948	1.83	-2.63	973	1.98	-2.41	-26	-0.15
Portfolio Investments[5]	6,411	12.40	5.32	6,088	12.40	6.34	324	0.00
Purchases of CDs Issued by CBC	7,775	15.04	0.44	7,741	15.77	-0.67	34	-0.73
Deposits with CBC	3,999	7.74	-0.78	4,030	8.21	3.22	-31	-0.47

Notes: 1. Monetary Financial Institutions include Domestic Banks, Local Branches of Foreign and Mainland Chinese Banks, Credit Cooperatives, Credit Departments of Farmers' and Fishermen's Associations, Chunghwa Post and Money Market Mutual Funds.
2. Including checking accounts, passbook deposits and passbook savings deposits.
3. Including time deposits, time savings deposits, foreign currency deposits, 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.

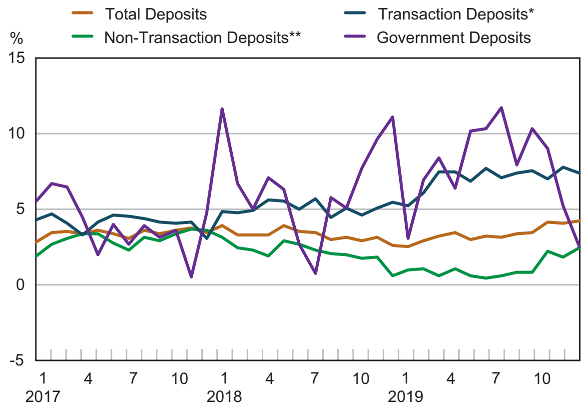
Source: *Financial Statistics Monthly*, CBC.

Deposits

As a net foreign capital outflow in 2018 turned into an inflow in 2019, and the net domestic capital outflow in 2019 was lower than in 2018, the annual growth rate of deposits showed a general uptrend, climbing significantly to 4.28% in 2019 from 2.60% in 2018. The annual growth rates for each month in 2019 increased compared to the previous month, except for May, July, and November. The May downtrend was due to a significant decrease in the deposit balance of securities giro accounts amid local stock market sluggishness and a negative growth rate of foreign currency deposits as a result of firms' payments for overseas purchases and repayments for borrowings. July's dip was caused by a higher base effect and outward foreign currency remittances by some firms. As for November, the annual deposit growth rate dropped because the greater amount of inward remittances from firms' overseas sales revenues in 2018 constituted a higher comparison base.

For transaction deposits, except for May, July, October and December, the annual growth rate in 2019 showed monthly uptrends. At the end of 2019, the annual growth rate increased from 5.51% to 7.44% and its share in total deposits increased to 37.79%, which was mainly due to a year-on-year increase in the deposit balance of securities giro accounts, incentive programs to attract large-value deposits with preferential interest rates, and liquidity management actions by firms.

Annual Growth Rates of Deposits



Notes: * Including checking accounts, 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.

Looking at the months recording slower annual growth, in May, it was because the deposit balance of securities giro accounts decreased significantly. In July, slower growth resulted from a higher base effect and an increase in time savings deposits as some retail investors chose to park their cash dividends there. In October, the drop was attributable to employee bonus payments, a year-on-year increase in provisional payments for profit-seeking enterprise income tax, and common share buyback by some financial holding companies to boost the financial structures of their life insurance subsidiaries. As for December, annual growth in transaction deposits was driven down by a negative checking account annual growth rate, which was because companies withdrew the funds obtained from capital increases or land sales and then parked them in their checking accounts in November to make payments in December.

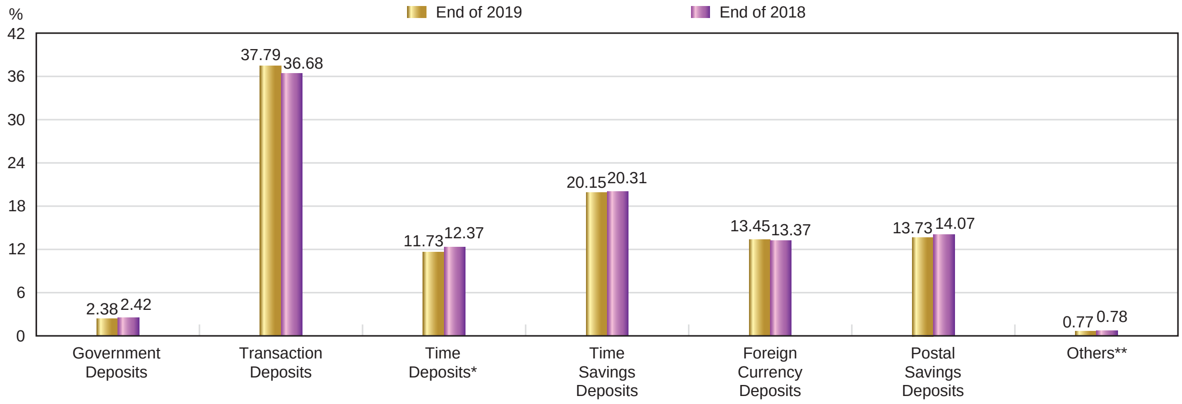
For non-transaction deposits, the annual growth rate rose to 2.45% at the end of 2019 because some firms increased inward remittances of overseas sales revenue to meet their needs for funds to pay taxes, dividends, and bonuses.

By type of non-transaction deposits, the share and annual growth rate of foreign currency deposits rose to 13.46% and 4.94% at the end of 2019, respectively, owing to a decrease in net domestic capital outflows and an increase in inward remittances of foreign sales revenue.

The share and the annual growth rate of time deposits declined to 11.73% and -1.12% at the end of 2019, respectively. It was mainly because some funds in time deposits flowed into time savings deposits as some banks opted against renewing maturing NCDs, citing high costs of issuance.

The annual growth rate of time savings deposits returned to positive territory with a 3.49%

Shares of Deposits by Type



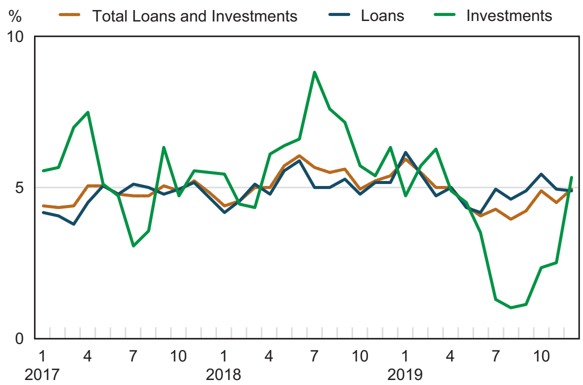
Notes: * Including NCDs.
** Including repurchase agreements, non-residents' NTD deposits and money market mutual funds.
Source: *Financial Statistics Monthly*, CBC.

increase at the end of 2019 from -0.81% at the end of 2018 because of a lower base effect and yield-searching capital flows into time savings deposits. However, its share decreased to 20.15%. The annual growth rate of postal savings deposits went up owing to a larger increase in passbook savings deposits than in 2018, but its share fell to 13.73%.

Bank Loans and Investments

The annual growth rate of loans and investments of monetary financial institutions was 4.96% at the end of 2019, decreasing from 5.39% at the end of 2018. Growth in loans decreased to 4.88% at the end of 2019 from 5.18% at the end of the previous year, owing to a greater repayment by CPC Corporation and the Taiwan Railways Administration and soft demand by private enterprises amid slower economic growth. Meanwhile, growth in portfolio investment decelerated to 5.32% at the end of 2019 from 6.34% a year earlier because more government bonds were repaid, resulting in slower growth in banks' investment in government bonds.

Annual Growth Rates of Loans and Investments



Source: *Financial Statistics Monthly*, CBC.

Loans by Sector

The annual growth rate of private sector loans extended by banks (defined in the following paragraphs as including domestic banks and local branches of foreign and Mainland Chinese banks) slightly rose to 5.47% at the end of 2019 from 5.44% a year earlier, mostly driven by a housing market recovery that contributed to faster growth in house-purchasing loans and construction loans. The annual growth rate of loans to government enterprises returned to negative territory, registering -3.08% at the end of 2019 from 11.00% a year earlier, as CPC Corporation earned more profits and the Taiwan Railways Administration issued more commercial paper, both of which caused a decrease in borrowings from banks. Meanwhile, the annual growth rate of loans to government agencies improved from -1.52% to 0.45% at the end of 2019 given a greater need for funds for government bond repayment.

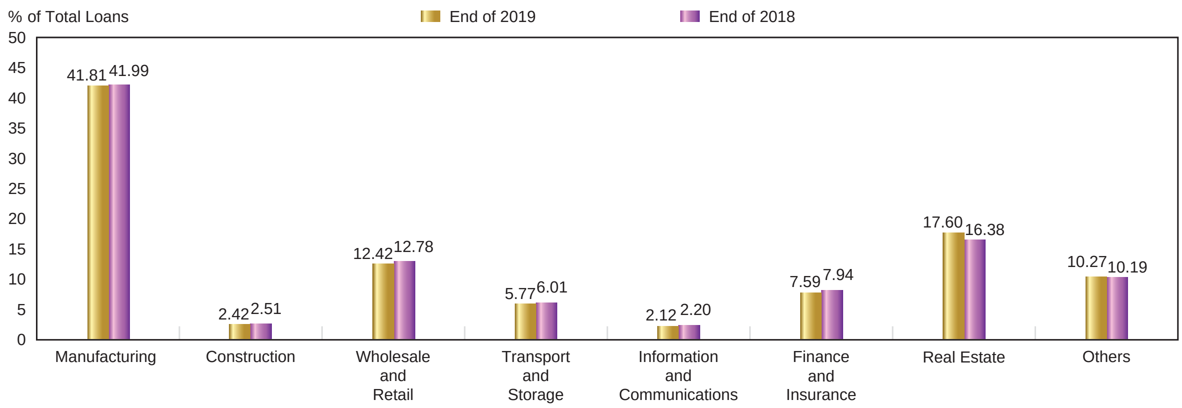
In terms of loan composition, loans extended to the private sector accounted for 93.44% of total loans at the end of 2019, higher than the 93.06% recorded at the end of 2018. Loans extended to government enterprises and government agencies accounted for 1.98% and 4.58%, respectively, at the end of 2019, lower than 2.15% and 4.79% at the end of the previous year.

Loans by Industry

Broken down by industry sector, bank loans to the manufacturing sector continued to account for the largest portion, at 41.81% at the end of 2019 compared to 41.99% at the end of 2018, with its annual growth rate also down from 4.76% to 4.32%. The fall was mainly attributable to a decline in loans extended to computers, electronic and optical products manufacturing as exports shrank in 2019. Meanwhile, the share of loans extended to the construction industry decreased, with its annual growth rate down from 4.72% to 1.05% at the end of 2019 as a result of a higher base effect.

Against a background of housing market recovery and government programs launched to attract overseas Taiwanese businesses to invest in Taiwan, both the share and the annual growth rate of loans extended to the real estate industry trended up. However, the share and the annual

Loans by Industry



Note: Figures include the data of domestic banks and local branches of foreign and Mainland Chinese banks but exclude their data on securities acquired under reverse repurchase agreements.

Source: *Financial Statistics Monthly*, CBC.

growth rate of loans extended to the wholesale and retail industry continued to drop amid trade headwinds in 2019. As for the finance and insurance industry, the share and the annual growth rate of loans to this sector declined because of a greater repayment of its syndicated loan by one investment holding company.

Consumer loans

The annual growth rate of consumer loans extended by banks increased from 4.42% at the end of 2018 to 5.65% at the end of 2019. Among them, house-purchasing loans grew by NT$435.1 billion, or 6.24%, in 2019, mainly because the housing market rebounded, overseas Taiwanese businesses returned to invest in Taiwan, and some home sellers cut prices. As for the shares of various consumer loans, house-purchasing loans remained the largest component, with its share rising from 84.02% at the end of 2018 to 84.49% at the end of 2019. Car loans accounted for 1.72%, increasing from 1.69%, mainly because of imported car sales promotion strategies. Meanwhile, house-repairing loans, revolving credit for credit cards, employee welfare loans, and other consumer loans accounted for 0.84%, 1.29%, 0.60%, and 11.06%, respectively.

Investments

Owing to valuation changes, portfolio investments by monetary financial institutions, measured at fair value, recorded a year-on-year increase of NT$390.9 billion, while the increase was smaller, at NT$323.8 billion, when measured on a cost basis.

Portfolio investments by monetary financial institutions measured on a cost basis grew at a slower pace of 5.32% in 2019, mainly because banks became more conservative with their investments as they were watchful of uncertainties over global economic conditions.

Among the investment instruments, government bonds accounted for the largest share with 60.39%, lower than the 62.85% registered a year ago, mainly because government bonds outstanding declined as increased tax revenue helped service bond repayment. Meanwhile, banks and the Department of Savings and Remittances of Chunghwa Post adjusted their asset allocation to invest more in securities issued by the corporate sector. At the end of 2019, commercial paper accounted for a share of 18.52%, higher than a year ago, mainly because commercial paper issuance increased. Corporate bonds accounted for a share of 14.36%, decreasing from the end of 2018 as banks invested less in government enterprise bonds.

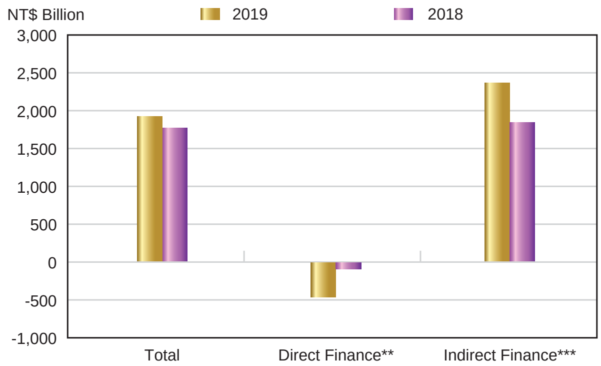
Direct Finance and Indirect Finance

Financing channels of the non-financial sector comprise direct finance and indirect finance, referring respectively to issuing securities in the markets and credit made by financial institutions. The combined amount of direct finance and indirect finance increased from the previous year's

NT$1,794.4 billion to NT$1,945.3 billion in 2019. Direct finance decreased by NT$454.3 billion during 2019, a larger drop than the NT$80.3 billion the previous year. Indirect finance increased from the previous year's NT$1,874.7 billion to NT$2,399.6 billion, which was mainly due to an increase in investments by financial institutions.

Based on the outstanding balance, the share of direct finance in total funds raised decreased from 18.93% a year before to 17.39% at the end of 2019, while the share of indirect finance increased from 81.07% to 82.61%.

Direct Finance vs. Indirect Finance*



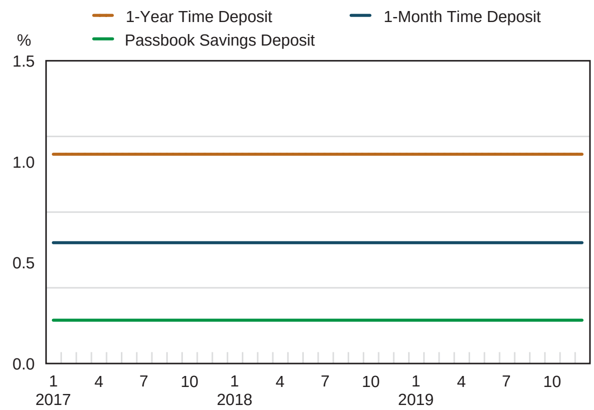
Notes: * Measured in terms of flow data.
** Refers to the total amount of new issues of various marketable securities, including government bonds, corporate bonds, listed stocks, offshore bonds, depositary receipts, short-term bills, and asset-backed securities held by the non-financial sector.
*** Refers 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.

Source: *Financial Statistics Monthly,* CBC.

Bank Interest Rates

As the Bank continued with an easy monetary policy stance and kept policy rates unchanged, domestic bank interest rates remained broadly steady. In the case of the interest rates of the five major domestic banks, their average fixed rates on one-month and one-year time deposits remained at 0.60% and 1.04% at the end of 2019, respectively, both the same as the end of the previous year.

Average Deposit Rates of the Five Major Domestic Banks*



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.

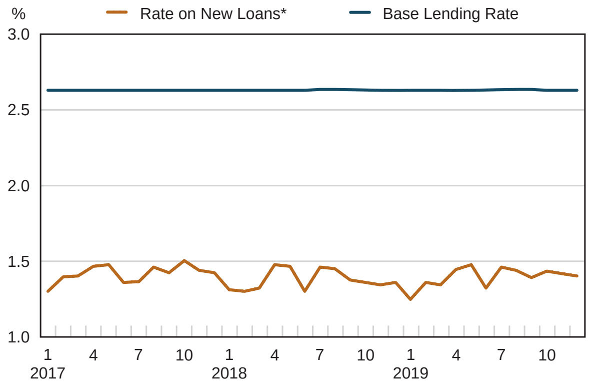
The weighted average rates on deposits and loans of domestic banks showed a slightly downward trend in 2019. During the first half of the year, the weighted average interest rate on deposits of domestic banks was stable at 0.56%. In the third quarter, the rate marginally declined to 0.55% owing to the increase in the share of transaction deposits in total deposits. Thereafter, the rate remained broadly steady until the end of the year. On the whole, the weighted average interest rate on total deposits of domestic banks was 0.55% in 2019, which was 0.01 percentage points lower than that recorded in the previous year.

As banks' rates on current operations loans increased in 2019, the weighted average interest rate on new loans of the five major domestic banks moved upward from 1.370% in the previous year to 1.386% in 2019. Excluding central government loans, the weighted average interest rate on new loans decreased from 1.414% in the previous year to 1.409% in 2019, down by 0.005 percentage points. Moreover, the average base lending rate remained at 2.631% at the end of 2019.

In the first quarter of 2019, owing to an increase in bank claims on local governments and government enterprises and fierce market competition, some banks offered lower rates on new loans. The weighted average interest rate on total loans of domestic banks slightly decreased from 1.90% in the fourth quarter of 2018 to 1.88%, and it dropped further to 1.87% in the third quarter. Thereafter, the rate remained broadly steady until the end of the year. For the year as a whole, the weighted average interest rate on loans of domestic banks was 1.87%, which was 0.03 percentage points lower than that recorded in the previous year.

Because the decrease in the average deposit rate was less than that in the average lending rate, the average interest rate spread between deposits and loans slightly shrank to 1.32 percentage points in 2019, which was 0.02 percentage points smaller than that recorded in the previous year.

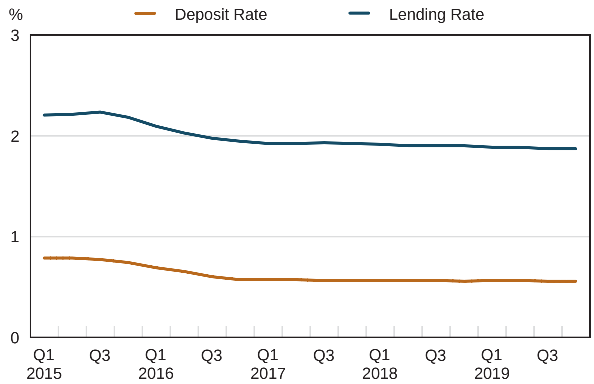
Average Lending Rates of the Five Major Domestic Banks



Note: * Including housing loans, capital expenditure loans, current operations loans and consumer loans.

Source: *Financial Statistics Monthly*, CBC.

Weighted Average Interest Rates of Domestic Banks



Source: *Financial Statistics Monthly*, CBC.