2. Banking Sector

Number of Monetary Financial Institutions

At the end of 2020, the number of monetary financial institutions (defined hereafter in this chapter as excluding the central bank) increased to 402. The number of domestic banks increased by one with the opening of Rakuten International Commercial Bank Co., Ltd. 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 monetary financial institutions, the number of financial holding companies was 16, the same as 2019.

Number of Monetary Financial Institutions by Type

Types of institutions	End of 2019	End of 2018	Annual Change
Total Number of Main Offices	402	401	1
Domestic Banks	38	37	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	6,090	6,092	-2
Local Branches	5,885	5,888	-3
Overseas Branches	146	145	1
Offshore Banking Units	59	59	0

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

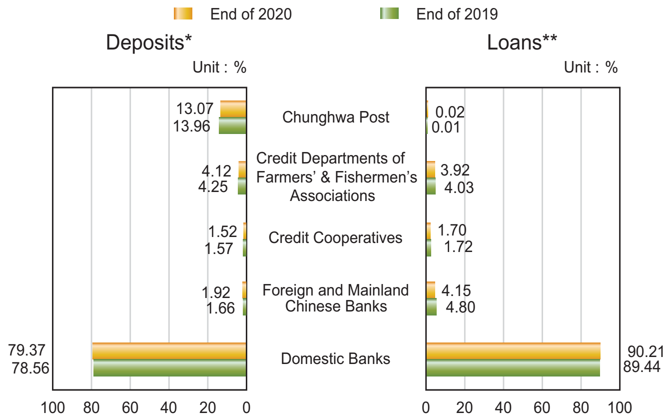
Market Shares of Deposits and Loans

In terms of deposits, the market share of domestic banks grew to 79.37% at the end of 2020, mainly because of an increase in inward remittances of overseas sales revenues owing to export growth in 2020. The market share of foreign and Mainland Chinese banks also rose to 1.92% at the end of 2020.

Although postal savings deposits showed a small increase, Chunghwa Post's market share still declined to 13.07%. The market share of credit departments of farmers' and fishermen's associations declined to 4.12%. The market share of credit cooperatives also dropped to 1.52% at the end of 2020.

In terms of loans, the market share of domestic banks rose to 90.21%, mainly owing to faster growth in loans to small and medium enterprises (SMEs), house-purchasing loans, relief loans for workers, as well as government loans. This rise also reflected banks' supportive programs as part of the government's relief policy measures in response to the COVID-19 pandemic. In contrast, foreign and Mainland Chinese banks' market share declined to 4.15%. For the other institution types, Chunghwa Post's market share edged up to 0.02% as a result of an increase in loans to bills finance companies. For credit departments of farmers' and fishermen's associations and credit cooperatives, which tend to have higher lending rates, their market shares continued to drop to 3.92% and 1.70%, respectively.

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.

Main Sources and Uses of Funds in Monetary Institutions

At the end of 2020, the total amount of funds in monetary financial institutions was NT$55,323 billion, increasing by NT$3,917 billion compared to the end of 2019. The combined share of transaction and non-transaction deposits was around 86%. Against a backdrop of abundant market liquidity, the balances of transaction deposits and non-transaction deposits kept growing, posting annual growth rates of 17.67% and 5.27%, respectively.

In the case of fund uses, bank loans still accounted for over 50% of total uses of funds at the end of 2020. While domestic economic growth was dampened by the pandemic in the first half of the year, loan growth increased in line with the government's financial relief measures. In the second half of the year, the coronavirus outbreak eased, export growth rebounded, and corporate funding needs grew. As the domestic housing market heated up, house-purchasing loans and construction loans continued to grow. At the end of the year, the loan balance of monetary financial institutions increased by NT$2,082 billion from the end of the previous year, with an annual growth rate of 7.19%, higher than the 4.78% registered at the end of the previous year. As for net foreign assets, the annual growth rate rose to 23.37%, which was higher than the 18.35% registered at the end of the previous year owing to growing exports and an increase in investment in bonds and bills.

Portfolio investments by monetary financial institutions measured on a cost basis showed an annual growth rate of 5.81% in 2020. As for banks' purchases of certificates of deposit (CDs) issued

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]	19,940	36.04	17.67	16,946	32.97	7.44	2,994	3.07
Non-transaction Deposits[3]	27,908	50.45	5.27	26,511	51.58	1.68	1,397	-1.13
NT Dollar Deposits	21,015	37.99	1.05	20,797	40.46	1.75	218	-2.47
Foreign Currency Deposits[4]	6,893	12.46	20.63	5,714	11.12	1.44	1,179	1.34
Government Deposits	1,135	2.05	6.18	1,069	2.08	2.53	66	-0.03
Other Items	6,340	11.46	-7.85	6,880	13.37	10.78	-540	-1.91
Total	55,323	100.00	7.62	51,406	100.00	4.70	3,917	0.00
Uses:								
Net Foreign Assets[4]	5,256	9.50	23.37	4,261	8.29	18.35	996	1.21
Loans	31,042	56.11	7.19	28,961	56.34	4.78	2,082	-0.23
NT Dollar Loans	30,026	54.27	6.99	28,063	54.59	5.24	1,963	-0.32
Foreign Currency Loans[4]	1,016	1.84	13.21	898	1.75	-7.80	119	0.09
Portfolio Investments[5]	6,784	12.26	5.81	6,411	12.47	5.32	373	-0.21
Purchases of CDs Issued by CBC	8,244	14.90	6.03	7,775	15.12	0.44	469	-0.22
Deposits with CBC	3,996	7.23	-0.07	3,999	7.78	-0.78	-3	-0.55

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.

by the central bank, its share of total uses of funds remained broadly the same as in the previous year, and its annual growth rate increased significantly from 0.44% at the end of the previous year to 6.03%, mainly owing to ample funds.

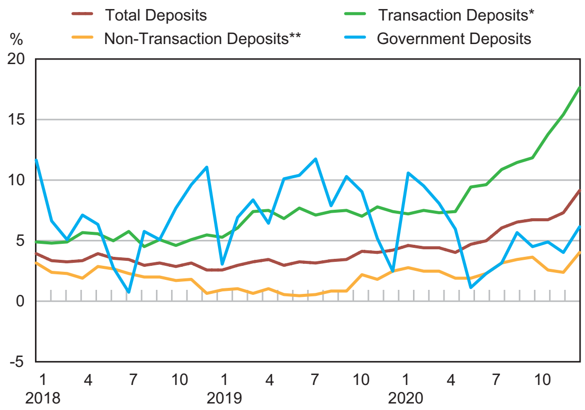
Deposits

In 2020, factors affecting bank deposits included the Bank's March rate cut and loan relief policy to mitigate the pandemic's economic impact, a larger capital outflow compared to 2019, and a wave of repatriation of offshore funds encouraged by tax incentives. Against this backdrop, the annual growth rate of deposits was, by and large, on the rise during the course of the year, climbing significantly to 9.22% at the end of 2020 from 4.28% a year ago.

However, the above-mentioned monthly rises in the annual deposit growth rate was not seen during February to April. The downtrend in that period was mainly due to a significant decrease in the deposit balance of securities giro accounts because of the pandemic-induced stock market decline, along with net foreign capital outflows from February to March and a decrease in inward remittances from firms' overseas sales revenues in April.

For transaction deposits, the annual growth rate in 2020 showed monthly uptrends, except for January and March. At the end of 2020, the annual growth rate increased to 17.67% and its share in total deposits increased to 40.71%, which was mainly due to a year-on-year increase in the deposit balance of securities giro accounts as the stock market rose in the second half of the year, and a partial shift in non-transaction deposits into transaction deposits as the interest rate spread between non-transaction and transaction deposits became smaller following the policy rate cut in March.

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.

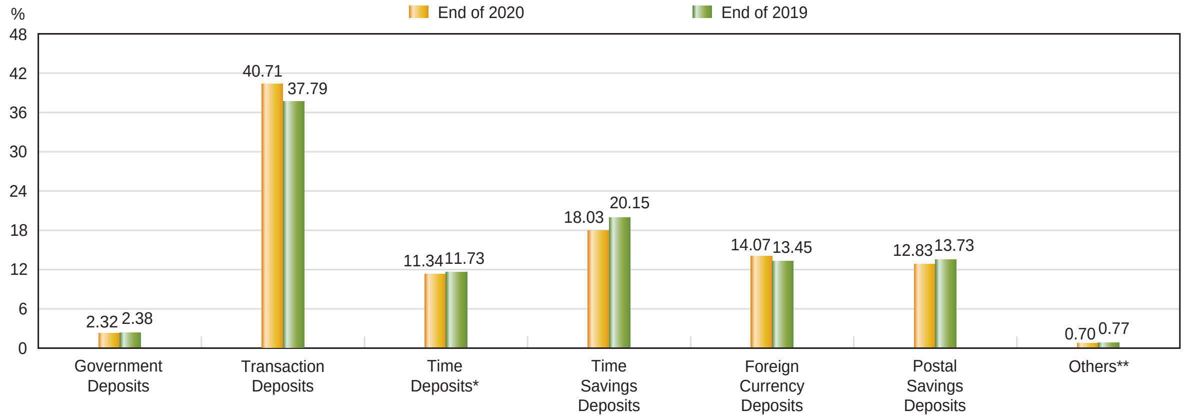
As for the two months showing slower annual growth, in January, the drop was because of the Lunar New Year holiday as firms tended to issue special and yearly bonuses, causing the deposit balance of passbook deposits to drop. In March, stock market weakness led the deposit balance of securities giro accounts to drop.

For non-transaction deposits, the annual growth rate rose to 4.01% at the end of 2020 because of increases in foreign currency deposits and time deposits.

By type of non-transaction deposits, the annual growth rate of foreign currency deposits roughly rose in the first half of the year and then fell in the second half of the year. The share and annual growth rate were 14.07% and 14.23% at the end of 2020, respectively. The uptrend in the first half of the year was mainly because of a decrease in net domestic capital outflows and an increase in inward remittances of overseas sales revenues. The annual growth rate of foreign currency deposits reached its peak at 15.27% in August, and then gradually decreased because the appreciation of the NT dollar against the US dollar caused some firms to convert their funds into NT dollars. By December, the growth rate of foreign currency deposits picked up again because of another increase in inward remittances.

Time deposits saw its annual growth rate rise to 5.62% and its share decline to 11.34% at the end of 2020. The faster growth was because inward remittances of overseas sales revenues increased as some firms expected the appreciation of the NT dollar against the US dollar would continue, thus weakening the incentive to hold foreign currency deposits. Meanwhile, banks implemented preferential interest rate programs to obtain long-term stable time deposits funds.

Shares of Deposits by Type



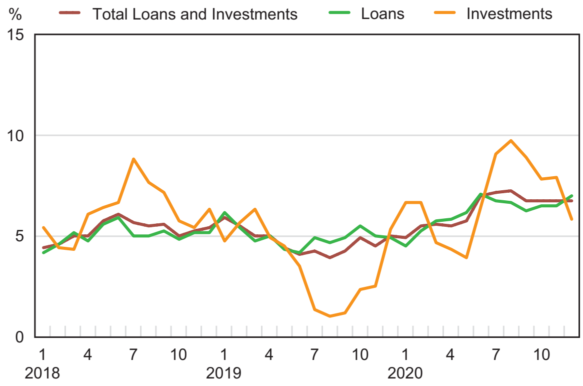
Notes: * Including NCDs.
** Including repurchase agreements, non-residents' NTD deposits and money market mutual funds.
Source: *Financial Statistics Monthly*, CBC.

The annual growth rate of time savings deposits trended down in the year and reached -2.31% at the end of 2020 as savers reduced their time savings deposits owing to lower interest rates, and the market share also decreased to 18.03%. The annual growth rate of postal savings deposits was 2.00%, along with a drop in its share to 12.83%.

Bank Loans and Investments

The annual growth rate of loans and investments of monetary financial institutions was 6.79% at the end of 2020, up from 4.96% at the end of 2019. Growth in loans increased to an annual pace of 7.00% at the end of 2020 from 4.88% at the end of the previous year, owing to faster loan growth in support of the government's relief measures during the pandemic, an increase of house-purchasing loans, and stronger funding needs of enterprises on account of robust exports. Meanwhile, growth in portfolio investment accelerated to 5.81% at the end of 2020 from 5.32% a year earlier, as enterprises issued a significant amount of corporate bonds and commercial paper to lock in mid- to long-term funding costs at low levels, resulting in faster growth in banks' investment in corporate bonds and commercial paper.

Annual Growth Rates of Loans and Investments



Source: *Financial Statistics Monthly*, CBC.

Loans by Sector

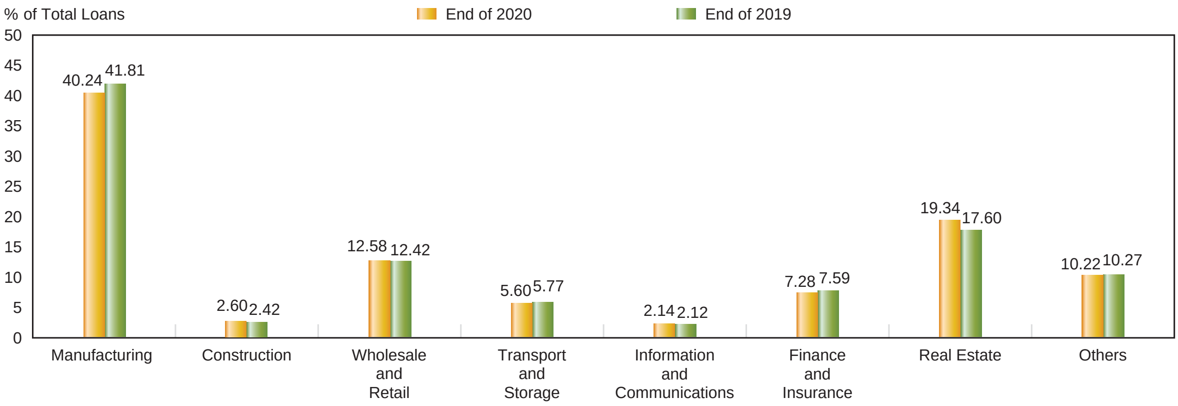
The annual growth rate of private sector loans extended by banks (defined in the following paragraphs as including domestic banks and local branches of foreign and Mainland Chinese banks) climbed to 7.70% at the end of 2020 from 5.47% a year earlier. The growth was largely driven by an increase of loans to SMEs, relief loans for workers, and a buoyant housing market that contributed to faster growth in house-purchasing loans and construction loans. The annual growth rate of loans to government enterprises continued to slide, registering -22.38% at the end of 2020 from -3.08% a year earlier, because increased issuance of commercial paper caused a decrease in borrowings from banks. Meanwhile, the annual growth rate of loans to government agencies saw a surge from 0.45% to 9.94% at the end of 2020 given a greater need for funds as a result of the pandemic.

In terms of loans composition, loans extended to the private sector and to government agencies accounted for 93.87% and 4.70% of total loans at the end of 2020, respectively, higher than the 93.44% and 4.58% recorded at the end of 2019. Loans extended to government enterprises accounted for 1.43% at the end of 2020, lower than 1.98% 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 40.24% at the end of 2020 compared to 41.81% at the end of 2019, with its annual growth rate also down from 4.32% to 1.18%. The contraction was mainly due to a decline in loans extended to electronic parts and components manufacturing as some enterprises met their funding needs by issuing bonds and commercial paper rather than borrowing from banks. Meanwhile, the share of loans extended to the construction industry resumed a rise, with its 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 soaring from 1.05% to 13.23% at the end of 2020, reflecting strong loan demand from this industry amid the housing market boom.

Similarly, the share and the annual growth rate of loans extended to the real estate industry also witnessed an upward trend. Meanwhile, the share and the annual growth rate of loans extended to the wholesale and retail industry rebounded, mostly fueled by a consumption pickup as the pandemic subsided domestically and by strong growth in IC exports. However, the share of loans extended to the finance and insurance industry shrank, brought about by a rise in bonds and commercial paper issuance by this industry, reducing demand for bank loans.

Consumer loans

The annual growth rate of consumer loans extended by banks increased from 5.65% at the end of 2019 to 8.96% at the end of 2020. Among them, house-purchasing loans grew by NT$629.8 billion, or 8.50%, in 2020 because the housing market rebounded. As for the shares of various consumer loans, house-purchasing loans remained the largest component, with its share slightly decreasing from 84.49% at the end of 2019 to 84.13% at the end of 2020. Car loans accounted for 1.78%, increasing from 1.72% mainly because of the expiration of government tax incentives and car sales promotion strategies. Meanwhile, house-repairing loans, revolving credit for credit cards, employee welfare loans, and other consumer loans accounted for 0.65%, 1.10%, 0.57%, and 11.77%, respectively.

Investments

Owing to valuation changes, portfolio investments by monetary financial institutions, measured at fair value, recorded a year-on-year increase of NT$408.2 billion, while the increase was smaller, at NT$372.8 billion, when measured on a cost basis.

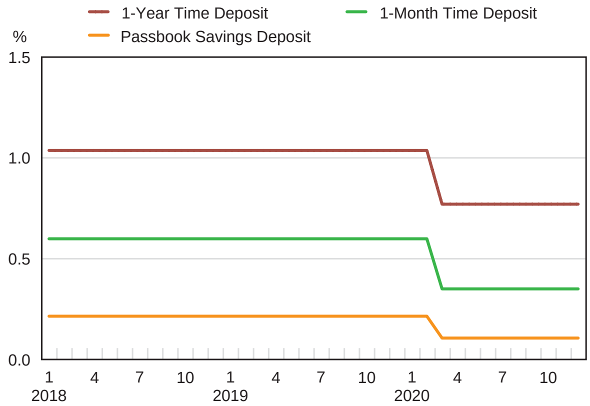
Portfolio investments by monetary financial institutions, measured on a cost basis, grew at a higher rate of 5.81% in 2020, mainly because major economies maintained an accommodative monetary policy stance as they were watchful of uncertainties relating to the COVID-19 pandemic and the implications for economic conditions. Meanwhile, domestic financial system liquidity remained ample. In addition, corporates increased interest-related securities issuance to meet funding needs as interest rates stayed low.

Among the investment instruments, government bonds accounted for the largest share with 54.96%, lower than the 60.39% registered a year ago, mainly because the Bank cut policy rates and market interest rates remained low. Meanwhile, banks and the Department of Savings and Remittances of Chunghwa Post sought to increase their returns on investments by adjusting their asset allocations to invest more in corporate securities. At the end of 2020, commercial paper accounted for a share of 19.84%, higher than a year ago, mainly because banks increased government enterprise commercial paper positions. Corporate bonds accounted for a share of 17.52%, increasing from the end of 2019 as banks invested more in private enterprise bonds.

Bank Interest Rates

The spread of the COVID-19 pandemic in 2020 has led to a sharp deterioration in the global economic outlook, severe fluctuations in the international financial market, and a slowdown in the domestic economy. The uncertainty surrounding business operations increased, which impacted the job market. Considering the destabilizing effect of large capital movements, and in order to support the continued operation of enterprises, the Bank lowered the policy interest rates by 25 basis points on March 19 to stimulate the economy. As a result, the posted interest rates on deposits of banks went down. 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 decreased to 0.35% and 0.77% at the end of March 2020 from 0.60% and 1.04% at the end of February, respectively, while remaining steady for the rest of the 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 also generally showed a downward trend in 2020. In the first quarter of 2020, the deposit rate declined to 0.54% from 0.55% in the fourth quarter of the previous year, mainly owing to the increase in the share of transaction deposits in total deposits and the Bank's rate cut in March while some maturing fixed-rate time deposits would begin to use lowered new rates if renewed. In the second quarter, the rate fell sharply to 0.44% and further declined to 0.40% in the fourth quarter. On the whole, the weighted average interest rate on total deposits of domestic banks was 0.45% in 2020, which was 0.10 percentage points lower than that recorded in the previous year.

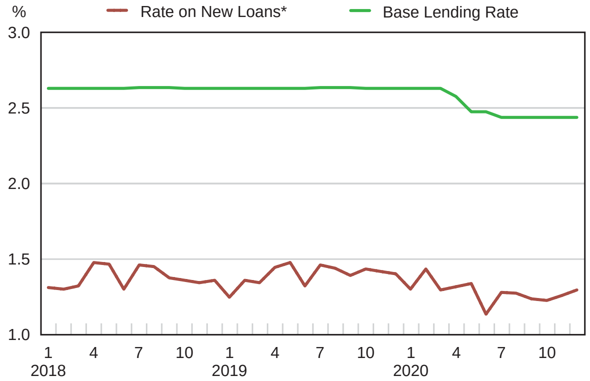
After the Bank's March rate cut, various banks successively lowered their base lending rates and the index rates on adjustable-rate mortgages, as well as further rate reductions for relief loans. As a result, the weighted average interest rate on new loans of the five major domestic banks broadly trended downward to between 1.135% and 1.434%. For the year as a whole, the rate dropped from 1.386% in the previous year to 1.273% in 2020. Excluding central government loans, the weighted average interest rate on new loans decreased from 1.409% in the previous year to

1.302% in 2020, down by 0.107 percentage points. The average base lending rate decreased to 2.442% at the end of 2020 from 2.631% at the previous year-end.

In the first quarter of 2020, owing to the spread of the COVID-19 pandemic, the low demand for funds, the effect of the Bank's interest rate cut, and the additional rate cuts in line with the government's relief loan measures, the weighted average interest rate on total loans of domestic banks slightly fell from 1.87% in the fourth quarter of 2019 to 1.85%, and it dropped further to 1.66% in the second quarter. In the fourth quarter, the expiration of banks' additional lending rate reduction in line with the government's relief efforts caused the rate to rise slightly from 1.61% in the third quarter to 1.62%. For the year as a whole, the weighted average interest rate on loans of domestic banks was 1.68%, which was 0.19 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 declined to 1.23 percentage points in 2020, which was 0.09 percentage points smaller than that recorded in the previous year.

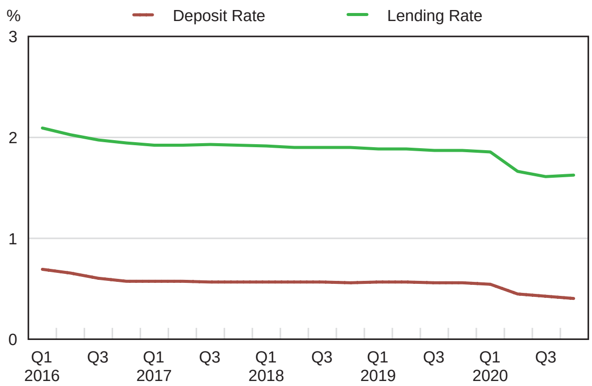
Average Lending Rates of the Five Major Domestic Banks



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.