3.2 Financial institutions

In 2024, domestic financial institutions performed well. Domestic banks achieved record-high profits, while maintaining sound asset quality and adequate capital levels. Life insurance companies saw a notable rebound in profits, and their overall capital levels remained satisfactory, yet they still faced elevated market risk. Bills finance companies also experienced stronger profit growth; despite a high liquidity risk, their capital stayed at satisfactory levels. Overall, domestic banks, life insurance companies, and bills finance companies maintained stable and sound operations.

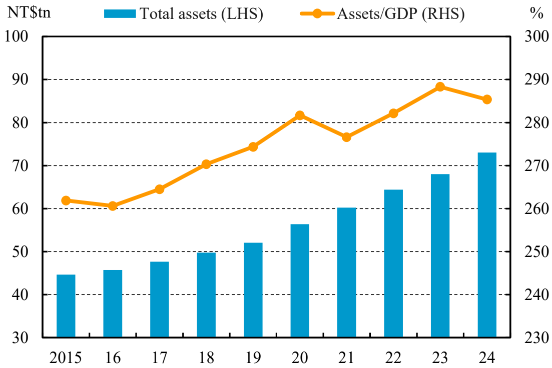
3.2.1 Domestic banks

In 2024, the total assets of domestic banks[34] continued to expand, while asset quality improved. The sectoral concentration of corporate loans and the concentration in real estate-secured credit both declined marginally, and exposures to China continued to decline. While credit quality of overseas real estate-secured lending improved moderately, vulnerabilities remained elevated. The estimated value at risk (VaR) associated with market risk exposures increased, albeit with limited impact on capital adequacy ratios. Liquidity in the banking system was ample, and overall liquidity risk remained relatively low. The profits of domestic banks reached a historical high in 2024. Although the average capital adequacy ratio declined slightly, the capacity to absorb losses remained satisfactory.

Total assets kept growing

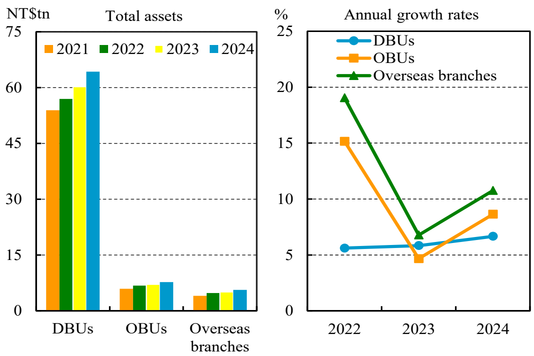
The total assets of domestic banks kept growing in 2024 and reached NT$73.03 trillion at the end of the year, with an annual growth rate of 7.35% compared to 5.66% a

Chart 3.19 Total assets of domestic banks



Sources:CBC and DGBAS.

Chart 3.20 Total assets of domestic banks by sector

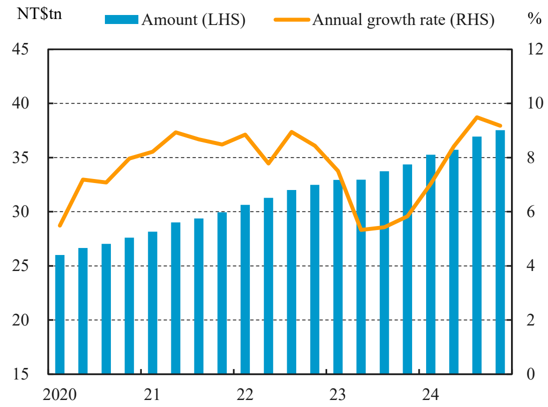


Note: Figures for total assets include interbranch transactions.
Source: CBC.

34 Includes the Agricultural Bank of Taiwan. As of the end of 2024, there were 39 domestic banks in total.

year earlier. Given the relatively larger increase in domestic GDP, the ratio of total assets to annual GDP declined to 285.37% (Chart 3.19). By sector, the annual asset growth rates of offshore banking units (OBUs) and overseas branches rebounded notably, driven by robust growth in both investment and loans. Meanwhile, the asset growth rate of domestic banking units (DBUs) also continued on an upward trend (Chart 3.20).

Chart 3.21 Outstanding loans in domestic banks



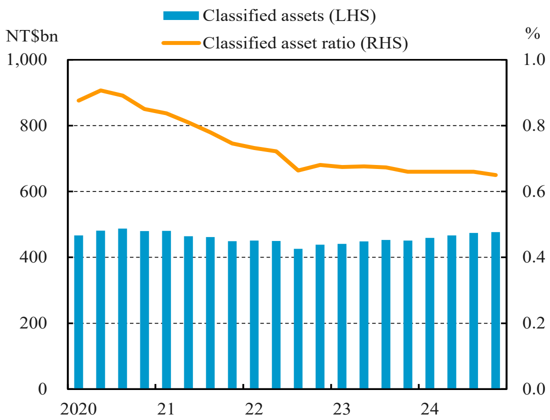
Note: Loans of OBUs and overseas branches are excluded.
Source: CBC.

Credit risk

Customer loan growth accelerated

Customer loans [35] remained the primary source of credit risk for domestic banks. The outstanding customer loans of DBUs stood at NT$37.52 trillion at the end of 2024, accounting for 51.38% of total assets, with the annual growth rate accelerating from 5.83% a year earlier to 9.17% (Chart 3.21). Among these loans, the annual growth rate of household borrowing rose steadily from 7.03% a year earlier to 11.95%, driven by sustained demand for housing loans. The annual growth rate of corporate loans also increased from 5.61% a year earlier to 6.57%, reflecting stronger corporate funding demand amid an improvement in the domestic economy. Moreover, the annual growth rate of government loans rebounded from -5.91% in 2023 to 3.06% as the government stepped up borrowing to support higher public expenditure.

Chart 3.22 Classified assets of domestic banks



Note: Classified asset ratio = classified assets/total assets.
Source: CBC.

Asset quality remained sound

At the end of 2024, the outstanding classified assets [36] of domestic banks amounted to

[35] The term “customer loans” refers to discounting, overdrafts, other loans, and import bill advances, but excludes export bill purchases, collections, and interbank call loans.

[36] Assets of domestic banks are broken down into five categories: normal, special mention, substandard, doubtful, and loss. The term “classified assets” herein includes all assets classified under the latter four categories.

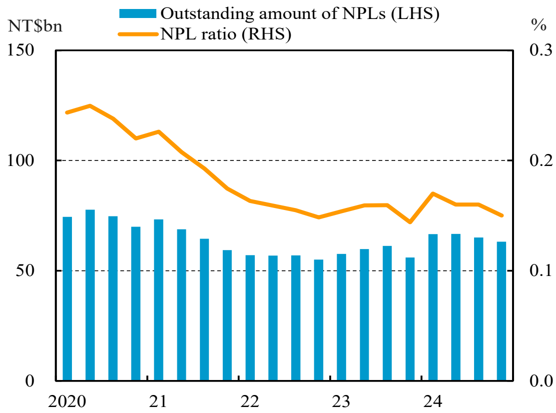
NT$476.4 billion, reflecting a 5.65% increase from a year earlier. Nevertheless, the average classified asset ratio edged down by 0.01 pps to 0.65% (Chart 3.22). Although the amount of the expected losses of classified assets[37] increased by NT$1.8 billion year-on-year to NT$52.3 billion, they only accounted for 8.31% of allowances for doubtful accounts and loss provisions, indicating sufficient provisions to cover expected losses without eroding equity.

The outstanding NPLs of domestic banks registered NT$63.1 billion at the end of 2024, increasing by 12.76% from the end of the previous year. The average NPL ratio also rose slightly from 0.14% to 0.15% over the same period (Chart 3.23). Furthermore, with total provisions showing a smaller increase, both the loan coverage ratio and the NPL coverage ratio dropped to 1.36% and 919.15%, respectively, at the end of 2024 (Chart 3.24). Nonetheless, the overall capacity of domestic banks to cover potential loan losses remained adequate.

The share of real estate-secured credit declined

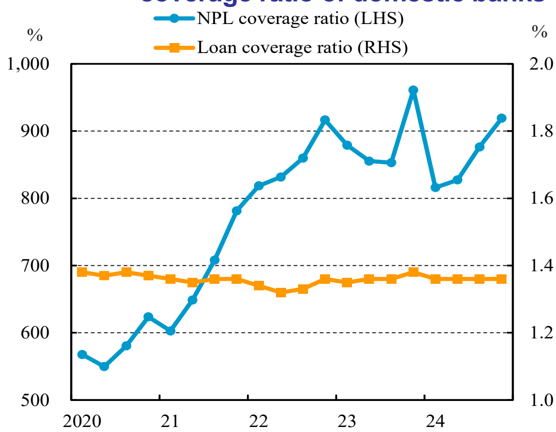
At the end of 2024, real estate-secured credit granted by domestic banks amounted to NT$25.61 trillion, accounting for 57.93% of total credit.[38] The ratio decreased marginally by 0.06 pps from the previous year, indicating a slight reduction in concentration (Chart

Chart 3.23 NPLs of domestic banks



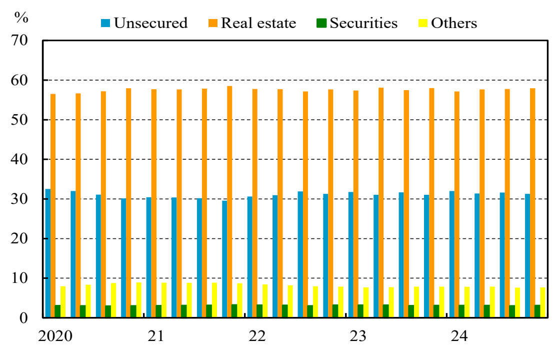
Note: Excludes interbank loans.
Source: CBC.

Chart 3.24 NPL coverage ratio and loan coverage ratio of domestic banks



Notes: 1. NPL coverage ratio = total provisions/non-performing loans.
2. Loan coverage ratio = total provisions/total loans.
3. Excludes interbank loans.
Source: CBC.

Chart 3.25 Credit by type of collateral in domestic banks

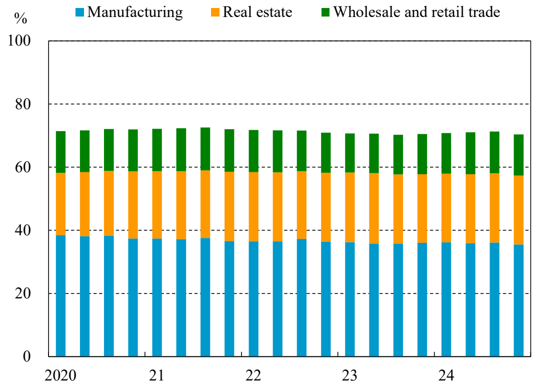


Source: CBC.

37 Such loss refers to losses from loans, acceptances, guarantees, credit cards, and factoring without recourse.
38 The term "credit" herein includes loans, guarantee payments receivable, and acceptances receivable.

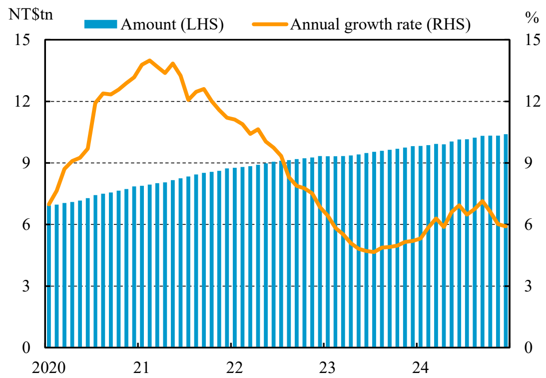
3.25). In the second half of 2024, with the Bank tightening selective credit control measures and banks adopting stricter loan approval processes, housing market transaction volumes declined, and housing price increases moderated. Given that lingering uncertainties over domestic and external economic and financial conditions could dampen homebuying sentiment, and considering the ongoing pressure from inventory overhang of unsold newly-built housing units, future developments in the real estate market should be closely monitored for their potential impact on banks' credit quality.

Chart 3.26 Shares of corporate loans of the three largest industries



Notes: 1. Industry share = loans to industry / total corporate loans outstanding.
2. Exposures of OBUs and overseas branches were excluded.
Source: CBC.

Chart 3.27 Outstanding SME loans in domestic banks



Source: CBC.

Credit concentration in corporate loans slightly decreased

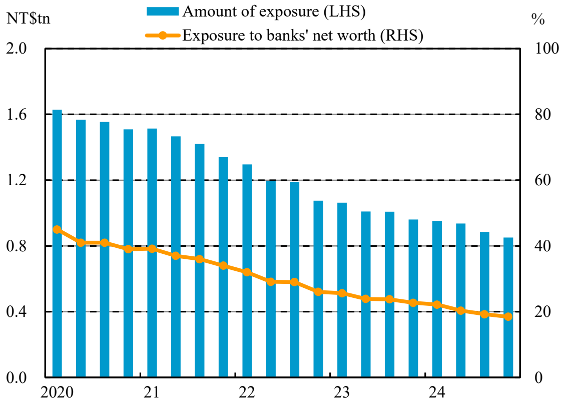
Corporate loans granted by the DBUs of domestic banks (excluding OBUs and overseas branches) stood at NT$16.18 trillion at the end of 2024, with the largest three industries being manufacturing (NT$5.75 trillion), real estate (NT$3.53 trillion), and wholesale and retail trade (NT$2.11 trillion). Combined, these three industries accounted for 70.38% of corporate loans, slightly down from 70.52% in the previous year (Chart 3.26), indicating that credit concentration in corporate loans decreased modestly. Within manufacturing,[39] which was the largest corporate-lending sector, loans to the electronics industry made up the largest share at 33.02% with an amount of NT$1.90 trillion at the end of 2024, expanding slightly from a share of 32.36% in the previous year.

Regarding credit extended to small and medium-sized enterprises (SMEs), the outstanding balance of SME loans granted by domestic banks grew by NT$580.8 billion year on year, reaching NT$10.40 trillion at the end of 2024, with a faster annual growth rate of 5.91% (Chart

[39] Loans to the manufacturing sector are divided into five categories by industry, including: (1) electronics, (2) mining of metals and non-metals, (3) petrochemicals, (4) traditional manufacturing, and (5) others.

3.27). The share of SME loans in total corporate loans declined slightly from 64.69% at the end of the previous year to 64.29%. In addition, the outstanding balance of SME loans guaranteed by the Small and Medium Enterprise Credit Guarantee Fund (SMEG) rose by 19.20% year on year to NT$1.37 trillion at the end of 2024, mainly driven by banks' lending under the government's post-pandemic revitalization loan programs and low-carbon smart loan schemes.

Chart 3.28 Exposures of domestic banks to China



Source: FSC.

Credit quality of overseas CRE showed a slight improvement, but vulnerabilities remained elevated

In the first half of 2024, the credit quality of US and European CRE loans extended by domestic banks deteriorated, driven by weakened demand owing to the post-pandemic shift to remote work, higher borrowing costs, and a sharp decline in office building prices. Although there was a slight improvement in the second half of the year, vulnerabilities remained high. Nonetheless, as the above US and European CRE exposures accounted for less than 0.5% of total loans of domestic banks, the associated risk was deemed manageable.

Considering that vulnerabilities associated with the global CRE sector remain high, several international organizations and foreign regulatory authorities, such as the IMF, the Fed and the Financial Stability Oversight Council, have recently urged that countries should strengthen the monitoring and management of risks associated with CRE loans.[40] Therefore, domestic banks should also take note and closely monitor developments in the credit quality of overseas CRE exposures.

Exposures to China continued to decline, but potential risks increased

At the end of 2024, the exposures of domestic banks to China amounted to NT$0.85 trillion, a decrease of 11.38% from the previous year driven primarily by a 12.47% reduction in credit extended. The above exposures as a percentage of net worth decreased to 18% (Chart 3.28), hitting a new record low and remaining well below the statutory ceiling of 100%.

Given the ongoing adjustment in China's property market, subdued domestic demand, and a shrinking labor force, short-term economic growth in China remains constrained. In addition,

[40] Please refer to IMF (2024), *Global Financial Stability Report*, October; Fed (2024), *Financial Stability Report*, November; FSOC (2024), *Annual Report*, December.

the new US administration's policies have accelerated the decoupling of US industries from China, with further higher tariffs and tighter technology restrictions. These developments may heighten economic and financial risks in China. Accordingly, domestic banks should continue to closely monitor the potential impact on the credit quality of their exposures to China.

Market risk

Estimated VaR for market risk exposures increased

At the end of 2024, among the market risk exposures of domestic banks, net positions in interest rate-sensitive instruments were the largest, followed by net FX positions, while net equity positions were the smallest. Based on the Bank's VaR model,[41] the estimated total VaR for market risk exposures of domestic banks stood at NT$433 billion at the end of 2024, increasing by NT$74.3 billion or 20.71% compared to a year earlier (Table 3.1). Among the components, the interest rate VaR rose by 20.04% year on year owing to higher net positions in debt securities and heightened volatility in short-term US and Taiwanese government bonds. The equities VaR increased by 22.56% as banks significantly expanded their net positions in equity securities. The FX VaR surged by 104.17% compared to the end of the previous year, driven by heightened

Table 3.1 Market risks in domestic banks

Unit: NT$bn

Type of risk	Item	End-Dec. 2023	End-Dec. 2024	Changes	
				Amount	pps
Foreign exchange	Net position	178.5	176.8	-1.7	-0.95
	VaR	2.4	4.9	2.5	104.17
	VaR/net position (%)	1.34	2.77		1.43
Interest rate	Net position	8,723.9	8,924.0	200.1	2.29
	VaR	339.9	408.0	68.1	20.04
	VaR/net position (%)	3.90	4.57		0.67
Equities	Net position	91.9	115.4	23.5	25.57
	VaR	16.4	20.1	3.7	22.56
	VaR/net position (%)	17.85	17.42		-0.43
Total VaR		358.7	433.0	74.3	20.71

Source: CBC.

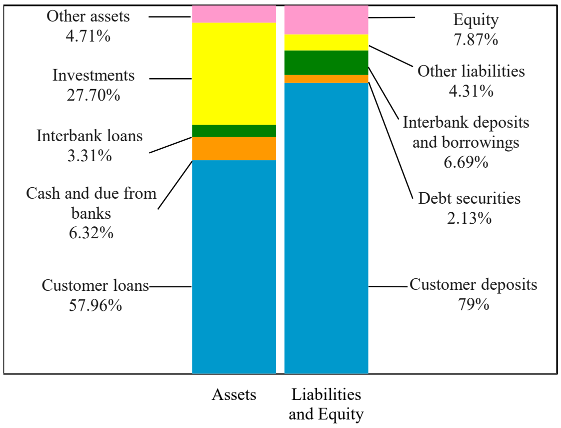
[41] The Bank's market risk model applies a dynamic Nelson-Siegel term structure model and a multivariate first-order vector autoregressive model (VAR(1)) for interest rate risk, a random walk model for exchange rate risk, and an AR(1)-EGARCH(1,1) model for equity price risk. See CBC (2016), Box 2, *Financial Stability Report (Issue 10)* for details. The model primarily measures net trading book positions affected by market price fluctuations. In addition to assuming a normal distribution, it also supports alternative distributional assumptions including the t-distribution and SGED, providing users with greater flexibility for risk assessment.

volatility in the NT dollar exchange rate against the US dollar (Table 3.1).

The impact of market risk on capital adequacy ratios was limited

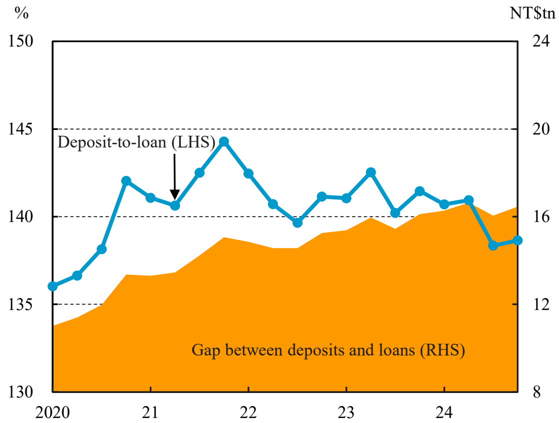
According to the estimation mentioned above, the total VaR would lead to a decrease of 1.44 pps[42] in the average capital adequacy ratio of domestic banks, causing the ratio to drop from 15.03% to 13.59%. Nevertheless, it would still remain above the statutory minimum requirement of 10.5%. Considering that policy uncertainties stemming from a series of tariff hikes and other measures proposed by the Trump administration have amplified financial market volatility, coupled with persistent global geopolitical tensions that may further intensify market turbulence and elevate market risk, related developments warrant close attention.

Chart 3.29 Asset/liability structure of domestic banks



Notes: 1. Figures are as of end-December 2024.
2. Equity includes loss provisions. Interbank deposits include deposits with the CBC.
Source: CBC.

Chart 3.30 Deposit-to-loan ratio of domestic banks



Source: CBC.

Liquidity risk

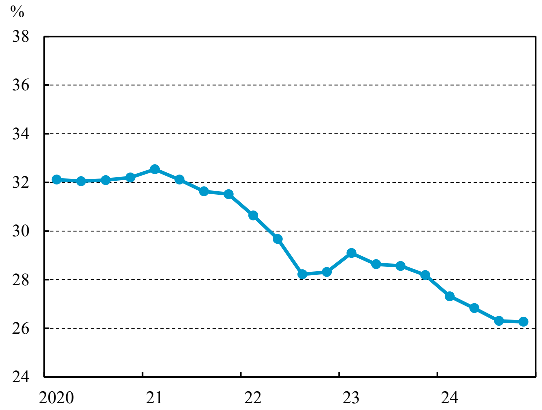
Liquidity in the banking system remained ample

The asset and liability structure of domestic banks remained largely unchanged in 2024. In terms of the sources of funds, customer deposits, which tend to be relatively stable, still accounted for the largest share with 79% of the total, followed by equity at 7.87%. As for the uses of funds, customer loans constituted the largest portion at 57.96%, followed by securities investments at 27.70% (Chart 3.29).

[42] Domestic banks had already set aside capital for market risk in accordance with relevant regulations. To avoid double counting, the impacts of market risk on the capital adequacy ratio herein were estimated using capital shortfalls after considering the aforementioned market risk capital.

At the end of 2024, loan growth outpaced deposit growth, resulting in a decline in the average deposit-to-loan ratio of domestic banks to 138.65%, lower than that at the end of the previous year. The funding surplus (i.e., the amount by which deposits exceed loans) was NT$16.46 trillion (Chart 3.30). The overall liquidity position of domestic banks remained abundant.

Chart 3.31 Liquid reserve ratio of domestic banks

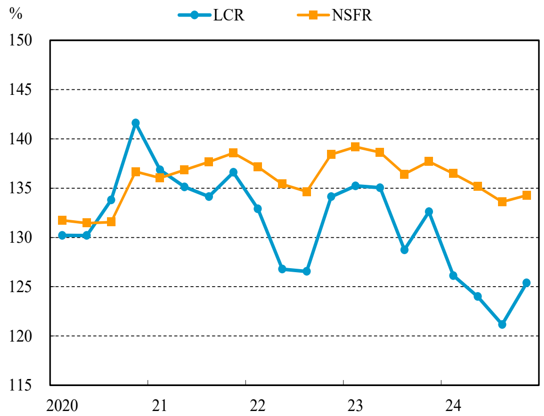


Note: Figures are the average daily data in the last month of each quarter.
Source: CBC.

Overall liquidity risk remained relatively low

The average NT dollar liquid reserve ratio of domestic banks remained well above the statutory minimum standard of 10% throughout 2024, registering 26.27% in December (Chart 3.31), a decrease of 1.92 pps compared to the same period of the previous year, while the ratios of the individual banks each exceeded 15%. At the end of 2024, the average liquidity coverage ratio (LCR) of domestic banks declined to 125.38% from 132.60% at the end of the previous year (Chart 3.32) mainly because significant increases in unsecured wholesale deposits and other deposits led to higher cash outflows. Meanwhile, the average net stable funding ratio (NSFR) of domestic banks fell from 137.71% at the end of the previous year to 134.28% (Chart 3.32), primarily driven by a substantial rise in claims on non-financial institutions with maturities exceeding one year. Nonetheless, as all banks maintained their NSFRs well above the statutory minimum standard,[43] the overall liquidity risk of domestic banks was relatively low.

Chart 3.32 LCR and NSFR of domestic banks



Source: CBC.

[43] According to the *Standards Implementing the Net Stable Funding Ratio of Banks*, the minimum standard for banks is 100%.

Profitability

Profits in 2024 hit new historical highs

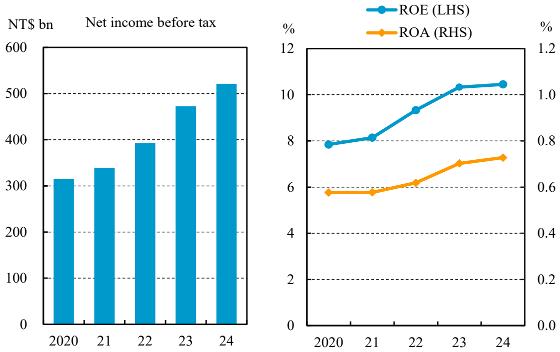
Benefiting from increases in net gains from valuations and in disposals of financial assets, along with a significant rise in net fee income, the net income before tax of domestic banks increased by 10.31% over the previous year to NT$521.3 billion, marking a new historical high. The average ROE and ROA also went up to 10.45% and 0.73%, respectively (Chart 3.33).

In 2024, four small banks posted operating losses. They nonetheless met the statutory minimum capital adequacy requirement, so the impact on the overall financial system was limited. All the other banks remained profitable, with the individual banks' ROE and ROA exhibiting a mixed performance. The number of banks with an ROE of 10% or higher remained unchanged at 16. Meanwhile, six banks recorded ROAs above the international benchmark of 1%, up from five banks in the previous year (Chart 3.34).

Factors that might affect future profitability

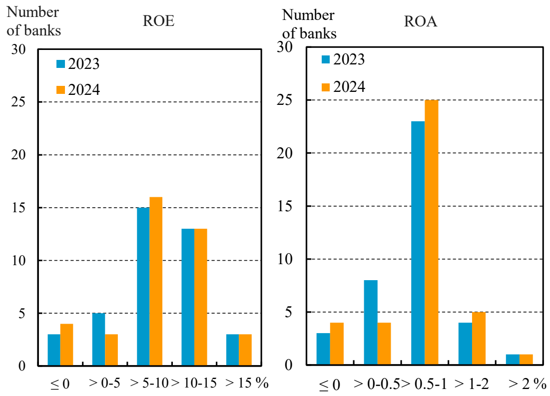
As preferential deposit schemes launched by some banks significantly pushed up deposit rates, the average interest rate spread between deposits and loans of domestic banks narrowed from 1.39% at the end of the previous year to 1.36% at the end of 2024 (Chart 3.35). This could dampen future profitability. Other

Chart 3.33 Net income before tax of domestic banks



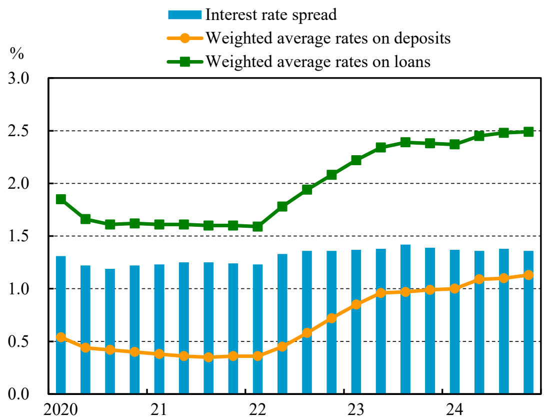
Notes: 1. ROE = net income before tax/average equity.
2. ROA = net income before tax/average assets.
Source: CBC.

Chart 3.34 Domestic banks classified by ROE and ROA



Source: CBC.

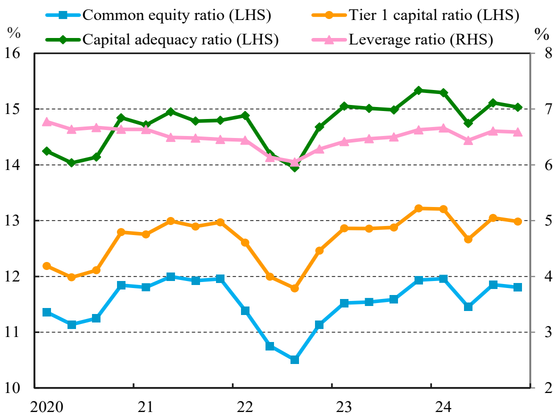
Chart 3.35 Interest rate spread of domestic banks



Notes: 1. Interest rate spread = weighted average interest rates on loans - weighted average interest rates on deposits.
2. The weighted average interest rates on deposits and loans exclude preferential deposits of retired government employees and central government loans.
Source: CBC.

factors that may weigh on profitability include: (1) US tariff policies, which may directly or indirectly undermine the repayment capacity of corporate and household sectors, thereby impacting banks' asset quality and profitability; and (2) mounting global geopolitical risks and high uncertainty surrounding US tariff policies may significantly raise financial market volatility, which could in turn adversely affect the valuation and realized gains of banks' equity and bond investments, ultimately constraining the growth of future investment income.

Chart 3.36 Capital ratios and leverage ratios of domestic banks



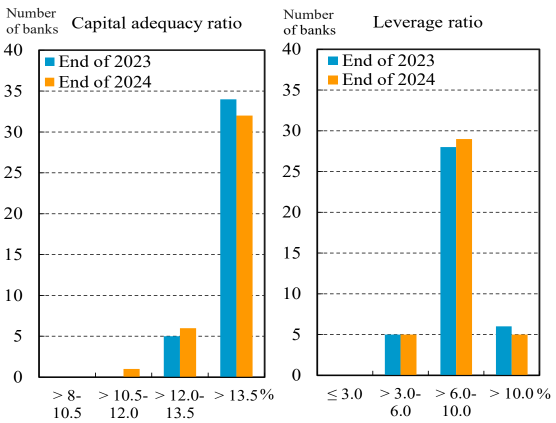
Notes: 1. Common equity ratio = common equity Tier 1 capital/risk-weighted assets.
2. Tier 1 capital ratio = Tier 1 capital/risk-weighted assets.
3. Capital adequacy ratio = regulatory capital/risk-weighted assets.
4. Leverage ratio = Tier 1 capital/total exposure.

Source: CBC.

Capital adequacy

Capital ratios slightly decreased but still showed satisfactory adequacy

Chart 3.37 Capital ratios and leverage ratios of domestic banks



Source: CBC.

In 2024, benefiting from accumulated earnings and a decrease in valuation losses on financial assets, the regulatory capital of domestic banks rose compared to the previous year. However, the expansion in loans led to a greater increase in risk-weighted assets. As a result, the average common equity ratio, Tier 1 capital ratio, and capital adequacy ratio declined to 11.81%, 12.98%, and 15.03%, respectively, at the end of 2024 (Chart 3.36), all slightly lower compared to the end of the previous year.

Among the components of regulatory capital, common equity Tier 1 (CET1) capital accounted for 78.53%. The high proportion of CET1 capital, which features the best loss-bearing capacity, showed that the capital quality of domestic banks was satisfactory. Moreover, the average leverage ratio of domestic banks stood at 6.59% at the end of 2024 (Chart 3.36), down slightly from 6.63% a year earlier but still well above the statutory standard of 3%, indicating that financial leverage remained at a sound level.

All domestic banks had capital ratios and leverage ratios above the statutory minimum

At the end of 2024, the capital ratios of six domestic systemically important banks (D-SIBs) and non-D-SIBs were all above the statutory minimum standards or the relevant capital buffer requirements set by the FSC in 2024.[44] The leverage ratios of all domestic banks also exceeded the statutory minimum standard of 3% (Chart 3.37).

Table 3.2 Systemic risk indicators for the banking system

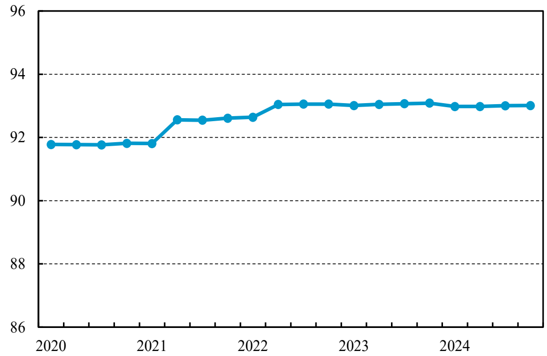
Banking System	Standard & Poor's		Fitch	
	BICRA		BSI/MPI	
	2024/2	2025/2	2023/7	2024/9
Singapore	2	2	aa/2	aa/1
Hong Kong	2	2	a/2	a/2
Japan	3	3	a/3	a/2
South Korea	3	3	a/2	a/2
Taiwan	**4**	**4**	**bbb/2**	**bbb/1**
Malaysia	4	4	bbb/1	bbb/1
Philippines	5	5	bb/1	bb/1
China	6	6	bbb/1	bbb/1
Thailand	7	7	bbb/1	bbb/1
Indonesia	6	6	bb/1	bb/1

Sources: Standard & Poor's and Fitch Ratings.

Credit ratings

Average credit rating level improved

Chart 3.38 Credit rating index of domestic banks



Sources: Taiwan Ratings and Fitch Ratings, index compiled by the CBC.

Of the overall risk assessments of Taiwan's banking system made by credit rating agencies, Standard & Poor's kept Taiwan's Banking Industry Country Risk Assessment (BICRA)[45] unchanged at Group 4 with moderate risk. Compared to other Asian economies, the systemic risk level of Taiwan was the same as that of Malaysia, but much lower than those of the Philippines, China, Thailand and Indonesia. Meanwhile, Fitch Ratings upgraded Taiwan's banking system's rating from bbb/2 to bbb/1 in its Banking System Indicators/Macro-Prudential Indicator (BSI/MPI),[46] citing a projected small decline in the credit-to-GDP ratio of Taiwan's banking system in 2024[47] that could reduce overall vulnerabilities in the macro environment (Table 3.2).

[44] The statutory standards for the common equity ratio, Tier 1 capital ratio, and capital adequacy ratio of non-D-SIBs are 7%, 8.5% and 10.5%, respectively. D-SIBs are required to set aside an additional 2% of buffer capital and 2% of internal management capital according to the requirement of the FSC. The additional capital must be achieved before the end of each of the four years equally starting from the next year after the designated date (the enforcement of the internal management capital requirement was postponed for one year and must be achieved before each year-end of the four years equally from 2022 onwards).

[45] BICRA is scored on a scale from 1 to 10, ranging from the lowest-risk (group 1) to the highest-risk (group 10), which indicates the assessment results by Standard & Poor's of economic and industry risks of a country's banking system.

[46] Fitch Ratings assesses banking system vulnerability with two complementary measures, the BSI and the MPI. These two indicators are brought together in a Systemic Risk Matrix. The BSI represents banking system strength on a scale from aaa (strongest), aa, a, bbb, bb, b, ccc, cc, c to f (fail). The MPI indicates the vulnerability of the macro environment on a scale from 1 (lowest vulnerability), 2, 2* to 3 (highest vulnerability).

[47] See Fitch Ratings (2024), "Macro-Prudential Risk Monitor," September.

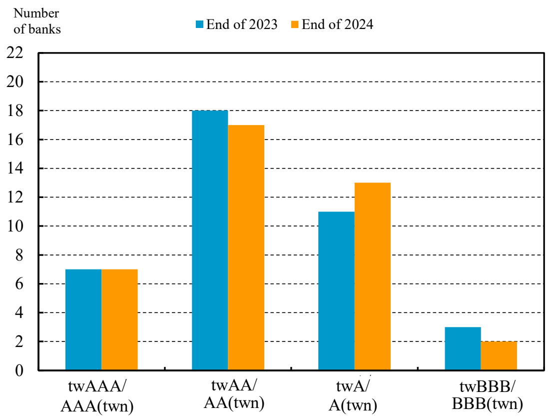
In addition, the weighted average credit rating index[48] was broadly the same as that at the end of the previous year (Chart 3.38). Overall, the credit rating level remained steady.

Rating outlooks for most domestic banks remained stable or positive

As of the end of 2024, most domestic banks maintained credit ratings of twAA/twA (Taiwan Ratings) or AA(twn)/A(twn) (Fitch Ratings) and none had credit ratings lower than twBB/BB(twn) (Chart 3.39).[49] In terms of rating outlooks, except for two banks with a "rating watch – developing" status, those of the rest remained stable or positive.

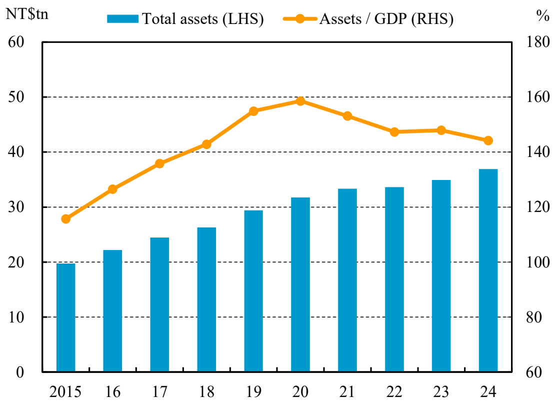
Taiwan Ratings projected that in 2025, Taiwan's banking industry would experience steady growth in both net interest income and fee income, and the NPL ratio would remain at a low level. Furthermore, the banks' sound capital levels would support their resilience against potential economic shocks.[50]

Chart 3.39 Number of domestic banks classified by credit ratings



Sources: Taiwan Ratings and Fitch Ratings.

Chart 3.40 Total assets of life insurance companies



Sources: TIGF and DGBAS.

3.2.2 Life insurance companies

In 2024, the total assets of life insurance companies continued to grow. The average equity to asset ratio improved, and overall credit ratings remained stable. Their profits significantly increased and foreign investment positions continued to expand, but FX risk, interest rate risk, and equity risk all increased. In addition, premium income returned to positive growth, but the net cash outflow for the whole year widened, warranting continued attention to future developments of cash flows.

[48] The credit rating index is an asset-weighted average rating score of rated domestic banks, measuring the overall creditworthiness of those banks on a scale from 1 (weakest) to 100 (strongest). The rating score for banks is determined according to their long-term issuer ratings from Taiwan Ratings or national long-term ratings from Fitch Ratings. The higher the index is, the better the bank's overall solvency.

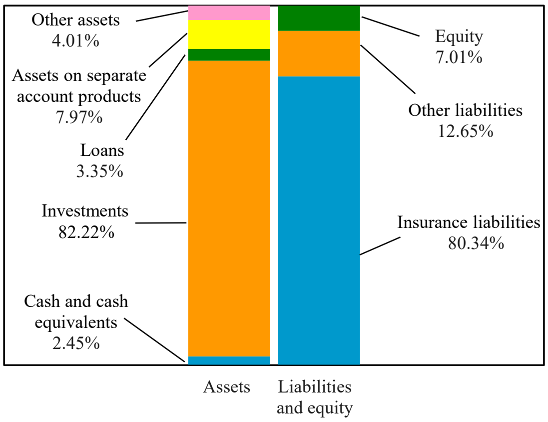
[49] Since one bank was downgraded from twAA- to twA+, and the other bank's credit rating changed from twBBB+ to A-(twn) as of switching the rating agency, the number of domestic banks with credit ratings of twAA/AA(twn) decreased by one, twA/A(twn) increased by two, and twBBB/BBB(twn) decreased by one as of the end of 2024.

[50] Press release by Taiwan Ratings on December 17, 2024.

Assets kept growing

The total assets of life insurance companies reached NT$36.90 trillion at the end of 2024, equivalent to 144.18% of annual GDP (Chart 3.40). The annual growth rate of total assets increased to 5.72% from 3.81% a year earlier, indicating sustained asset growth. The market structure of the life insurance industry remained roughly unchanged at the end of 2024, as the top three companies in terms of assets held a combined market share of 54.64%.

Chart 3.41 Asset/liability structure of life insurance companies

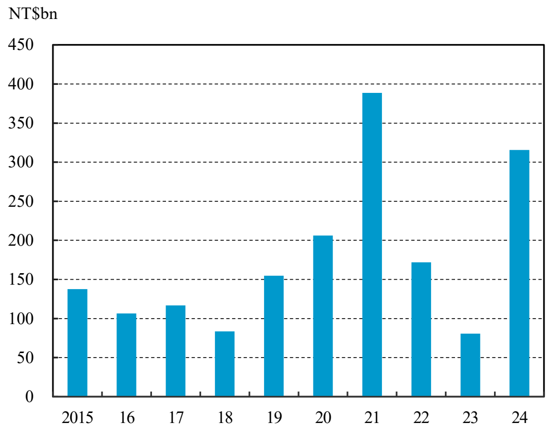


Note: Figures are as of the end of 2024.
Source: TIGF.

Investment positions slightly decreased

In terms of the use of funds of life insurance companies as of the end of 2024, investments continued to take up the primary share of total assets, but the share declined slightly to 82.22%.[51] As for the sources of funds, insurance liabilities accounted for the largest share, comprising 80.34%. Meanwhile, the share of equity increased to 7.01% mainly owing to significant profit growth and the stabilization of the domestic stock market (Chart 3.41).

Chart 3.42 Net income before tax of life insurance companies



Source: TIGF.

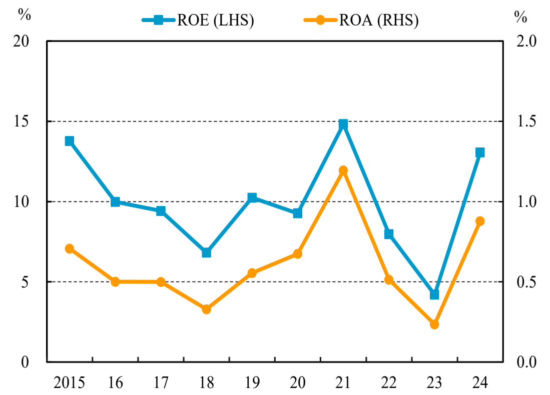
Pretax income rebounded substantially in 2024

Benefiting from the growth in net investment income, life insurance companies posted a pre-tax net income of NT$315.5 billion in 2024, a considerable year-on-year increase of 291.24% from NT$80.6 billion a year earlier (Chart 3.42). Their average ROE and ROA were 13.06%

[51] Foreign investments and domestic portfolio investments (including investments in insurance-related enterprises) made up 62.40% and 16.87% of total assets, respectively.

and 0.88%, respectively, much higher than the 4.20% and 0.24% registered a year earlier (Chart 3.43).

Chart 3.43 ROE & ROA of life insurance companies

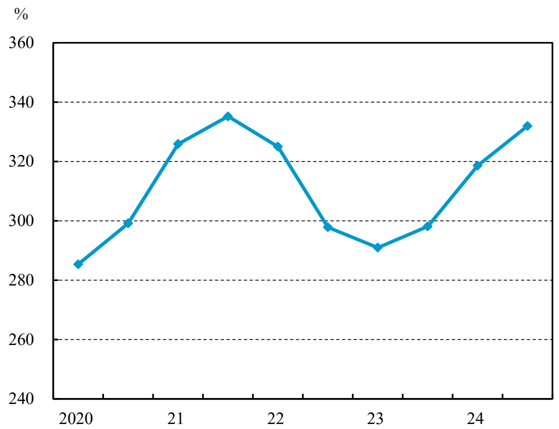


Notes: 1. ROE = net income before tax/average equity.
2. ROA = net income before tax/average assets.
Source: TIGF.

Average RBC ratio and equity to asset ratio both increased

At the end of 2024, the average RBC ratio rose to 331.95% from 298.09% a year earlier, mainly driven by capital injections through the issuance of long-term subordinated bonds and sustained profitability (Chart 3.44).[52] Among life insurers, one life insurance company saw its ratio fall below the statutory minimum of 200% (Chart 3.45).

Chart 3.44 RBC ratio of life insurance companies



Notes: 1. RBC ratio = regulatory capital/risk-based capital.
2. Figures are exclusive of life insurance companies in receivership.
Source: TIGF.

Furthermore, benefiting from higher retained earnings owing to increased profits, the average equity to asset ratio rebounded to 7.62% at the end of 2024, slightly higher than the 7.12% registered a year earlier (Chart 3.46). However, one life insurance company's ratio was still below the statutory minimum of 3%.

Overall credit ratings remained stable

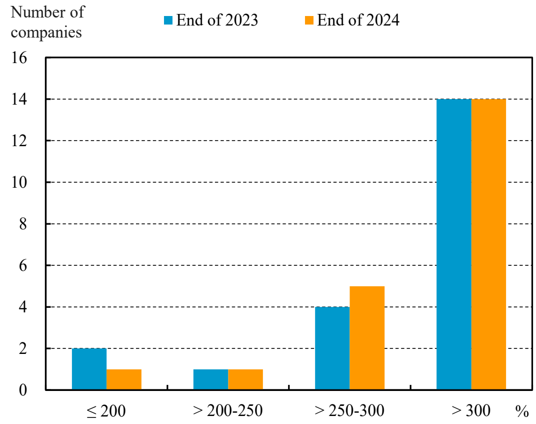
Among the 16 life insurance companies rated by credit rating agencies in 2024, one company was upgraded by Taiwan Ratings to twAA+ due to improved capital adequacy and profitability, while another one was downgraded to twA+ as a result of persistently weak operating performance. The credit ratings for the remaining companies were unchanged. At the year-end, with the exception of one company rated twA-, all the other life insurance companies maintained credit ratings above twA or its equivalent. Among them, the top three companies in terms of assets all retained twAA or twAA+ ratings, representing a strong capacity to meet their financial commitments. As for rating prospects, one company was assigned with a negative outlook due to weak operating performance. Two

[52] Life insurance companies are required to report their capital adequacy ratio data to the regulatory authority every six months.

other companies were placed on CreditWatch Developing and CreditWatch Negative, respectively, due to uncertainties related to a possible merger between their parent companies. The remaining companies were assigned with stable outlooks.

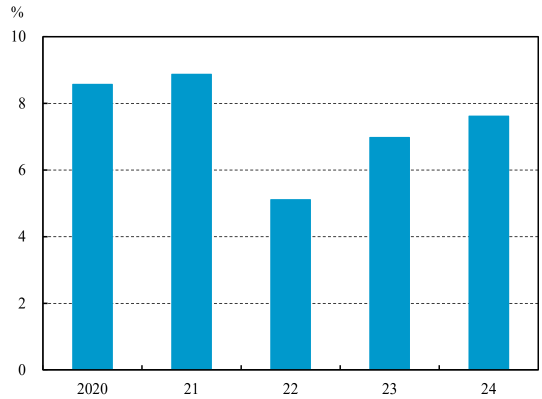
Taiwan Ratings indicated [53] that the profitability of life insurers is expected to maintain steady growth in 2025, ahead of the implementation of the new-generation solvency regime. However, FX risk and market uncertainties remain key influencing factors and warrant continued monitoring.

Chart 3.45 Number of life insurance companies classified by RBC ratios



Source: TIGF.

Chart 3.46 Equity to asset ratios of life insurance companies



Note: For assets, the assets of investment-linked insurance products in separate accounts are excluded.
Source: TIGF.

Amid recent sharp fluctuations in financial markets, foreign investment positions faced higher market risk

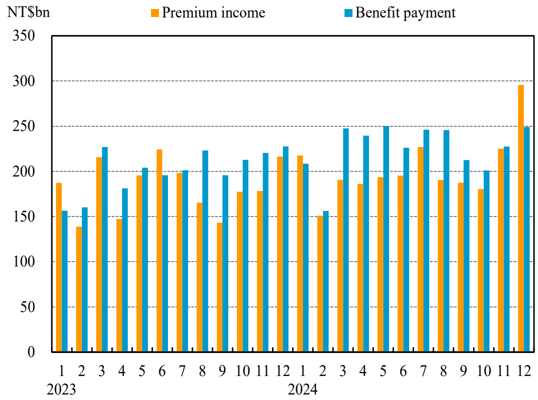
Foreign investment positions of life insurance companies grew continuously and reached NT$23.03 trillion at the end of 2024. Securities investments constituted the largest share, of which about 90% went to bills and bonds and 10% to equities. Domestic securities investments also continued to grow, amounting to NT$6.40 trillion, of which approximately 70% was invested in bonds and 30% in stocks. In April 2025, the announcement of reciprocal tariff policies by the US triggered a sharp downturn in global stock markets and substantial volatility in US Treasury yields. Although financial markets temporarily stabilized following the postponement of the tariff implementation, uncertainties remained elevated. While most bond holdings by life insurers are classified as held-to-maturity, the positions of financial assets measured at fair value remain substantial and are vulnerable to fluctuations in financial markets, resulting in higher risks in related stock investment and interest rate exposure.

Furthermore, foreign investment positions of life insurance companies were primarily

[53] Taiwan Ratings (2024), "2025 Taiwan Credit Outlook," December.

denominated in US dollars. In order to mitigate the impacts of exchange rate fluctuations, life insurance companies actively employed derivative financial instruments for FX hedging, basket currency hedging, as well as the accumulation of FX valuation reserves. To enhance the flexibility of hedging strategies and strengthen capital adequacy, the FSC amended and promulgated the *Directions for the Appropriation of Foreign Exchange Valuation Reserves by Life Insurance Enterprises* (new approach) in September 2024, raising the rates of charge and offset to valuation reserves. As of the end of December 2024, four life insurers had applied for and received approval to adopt the new approach. However, the NT dollar has experienced increased volatility against the US dollar since May 2025, resulting in heightened FX risk for unhedged positions. Continued close monitoring of the potential impact on life insurers is warranted.

Chart 3.47 Premium income and benefit payment of life insurance companies



Note: Benefit payment includes maturity, survival repayment and termination.
Source: Taiwan Insurance Institute.

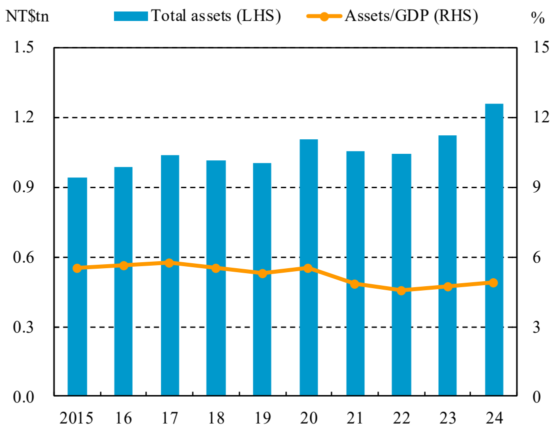
Close attention should be paid to future changes in cash flows

As the US dollar appreciated, there was a surge in policy surrenders in USD-denominated insurance policies. As a result, monthly premium income during the first three quarters of 2024 was mostly lower than benefit payment (Chart 3.47), resulting in a continued widening of net cash outflow. However, in the fourth quarter, net cash flow turned positive and amounted to NT$23.4 billion, supported by a rebound in the sales of investment-linked and interest-sensitive insurance policies. Nevertheless, the total net cash outflow for the year still reached NT$269.6 billion, higher than the NT$217.5 billion recorded in the previous year. At the end of 2024, life insurance companies held NT$903.8 billion in cash and cash equivalents, which was sufficient to cover the cash outflows. That said, the recent sharp appreciation of the NT dollar may exert additional pressure on their cash flows. The FSC has strengthened its monitoring of cash flows from the operating, investing, and financing activities of life insurers. Furthermore, it will adjust regulatory measures as needed in response to market and policy changes to ensure market stability and protect the interests of policyholders.

3.2.3 Bills finance companies

In 2024, the total assets of bills finance companies expanded, along with an increase in their guarantee balances. Meanwhile, there was a higher concentration of credit secured by real estate. Nevertheless, the quality of credit assets remained satisfactory. The capital adequacy ratio trended downwards due to a greater increase in risk-weighted assets. While liquidity risk and interest rate risk were still high, profitability improved.

Chart 3.48 Total assets of bills finance companies

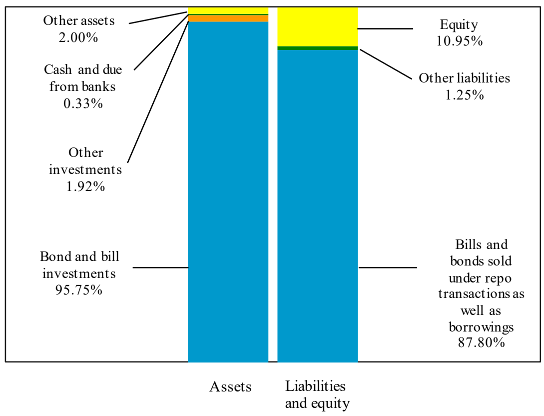


Sources: CBC and DGBAS.

Total assets increased

The total assets of bills finance companies stood at NT$1.26 trillion at the end of 2024, an increase of 11.96% from a year earlier, mainly owing to greater investments in corporate bonds and CP. The ratio of their total assets to annual GDP rose further to 4.90% over the same period (Chart 3.48).

Chart 3.49 Asset/liability structure of bills finance companies



Note: Figures are as of the end of 2024.
Sources: CBC and FSC.

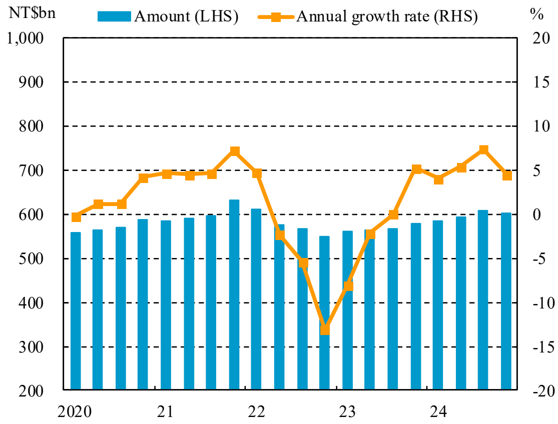
In terms of the asset and liability structure of bills finance companies, bill and bond investments constituted the largest share, at 95.75% of total assets as of the end of 2024. On the liability side, bills and bonds sold under short-term repo transactions as well as borrowings accounted for 87.80% of total liabilities, while the proportion of equity declined to 10.95% (Chart 3.49). The asset and liability structure remained roughly unchanged compared to a year earlier.

Credit risk

Guarantee liabilities increased, and the concentration of real estate-secured credit rose

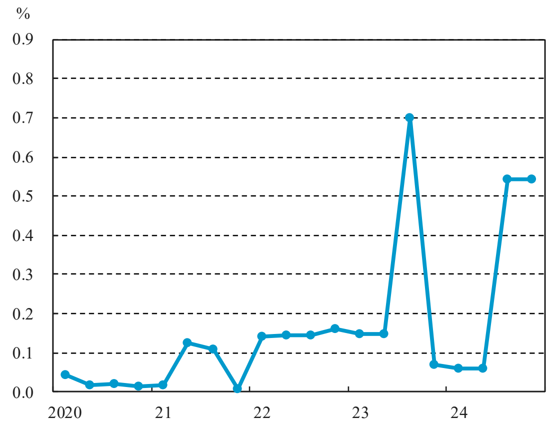
The amount of CP guaranteed by bills finance companies registered NT$603.9 billion at the end of 2024, increasing by 4.53% year on year (Chart 3.50). This was because of stronger willingness to issue CP driven by a rebound in corporate investment. However, owing to a greater increase in equity, the average ratio of guarantee liabilities to equity declined to a multiple of 4.70 times, and the ratio for each company remained below the regulatory ceiling of 5 or 5.5 times.

Chart 3.50 Outstanding CP guaranteed by bills finance companies



Source: CBC.

Chart 3.51 Guaranteed advances ratio of bills finance companies



Note: Guaranteed advances ratio = overdue guarantee advances/(overdue guarantee advances + guarantees).
Source: CBC.

At the end of 2024, guarantees granted to the real estate and construction industries increased to 31.02% of the total credit of bills finance companies. Among these, the proportion of guarantees to the real estate industry regulated by the FSC expanded to 26.67%, still below the regulatory ceiling of 30%. In addition, the share of credit secured by real estate also increased to 41.36%. Considering a recent slowdown in domestic real estate market transactions, still-high housing prices, and ongoing inventory overhang pressures from unsold newly built residential housing units, bills finance companies should monitor closely the potential impacts of these factors on the asset quality of their mortgage-related credit.

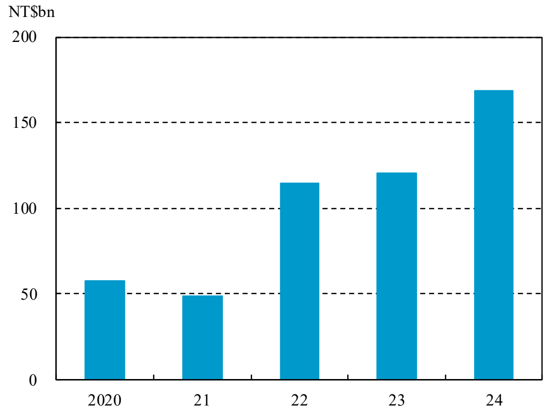
Guaranteed advances ratio rose, while credit quality remained sound

At the end of 2024, the guaranteed advances ratio of bills finance companies substantially rose to 0.54% (Chart 3.51), mainly owing to an increase in guaranteed advances triggered by defaults from certain syndicated loan borrowers. Nonetheless, the overall credit quality remained sound. The ratio of credit loss reserves to guaranteed advances[54] dropped to 2.39 times because of a greater increase in the amount of guaranteed advances, but the reserves remained sufficient to cover potential credit losses.

Investment in non-guaranteed CP issued by the securities industry reached a historical high, and its potential credit risk warrants attention

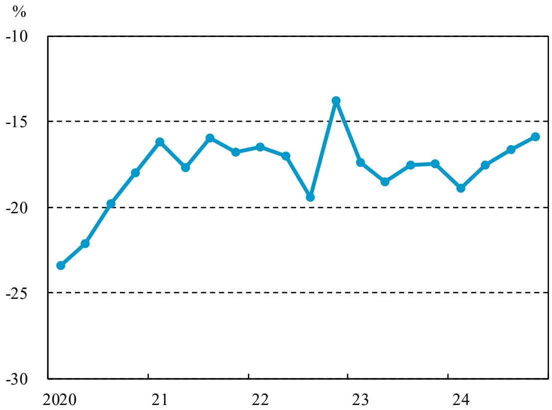
The non-guaranteed CP investment of bills finance companies stood at NT$168.7 billion at the end of 2024, representing an increase of 39.80% year on year (Chart 3.52). This was because bills finance companies increased their holdings of non-guaranteed CP to obtain wider yield spreads between long-term bond investments and short-term reverse repo transactions amid rising interest rates in the primary market. Each company's ratio of non-guaranteed CP investment to equity remained below the ceiling of 2 times. The investment in non-guaranteed CP issued by the securities industry surged from NT$17.2 billion at the end of the previous year to a record high of NT$55.6 billion. This was mainly due to the fact that securities firms actively issued non-guaranteed CP (CP2) to meet their customers' financing needs while expanding securities financing business and investment positions amid the booming stock market in recent years. The securities industry accounted for the biggest share, at 32.82%, of the issuers' total non-guaranteed CP investments, followed by the leasing industry with non-guaranteed CP investments reaching NT$40.3 billion.

Chart 3.52 Outstanding amount of non-guaranteed CP investments of bills finance companies



Source: CBC.

Chart 3.53 0-30 day maturity gap ratio of bills finance companies



Note: 0-30 day maturity gap ratio = net NTD cash flow within 0-30 days/total assets denominated in NTD.
Source: CBC.

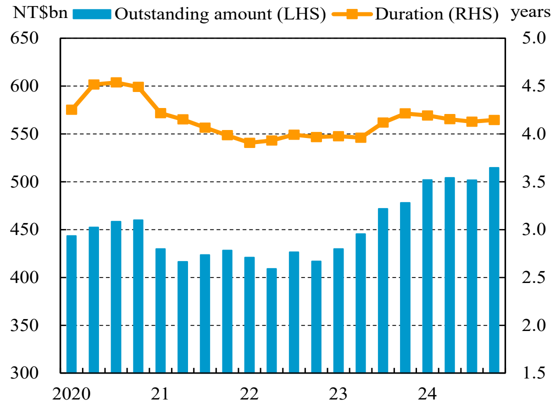
[54] Credit loss reserves to guaranteed advances ratio = (provisions + loss reserves to guarantees)/guaranteed advances.

Considering that the securities and leasing industries could pose higher potential credit risks as they tend to rely on short-term sources for funding long-term investments, such impacts on the asset quality of bills finance companies warrant close attention.

Liquidity risk remained high

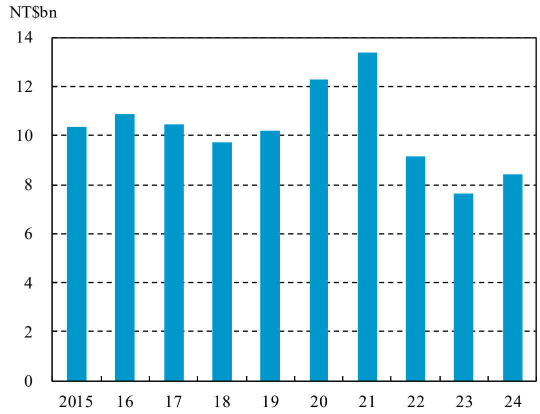
As of the end of 2024, more than 80% of funding for bills finance companies came from short-term interbank borrowing and repurchase agreements with financial institutions, while more than 90% of their assets were invested in bills and bonds, 42.24% of which were long-term bonds. Given the above structure, there continued to be a maturity mismatch between assets and liabilities. Nevertheless, the average ratio of the 0-30 day maturity gap to total NTD-denominated assets trended down to -15.88% at the end of the year (Chart 3.53), reflecting a declining but still high liquidity risk.

Chart 3.54 Outstanding amount of fixed-rate bond investments and bond duration of bills finance companies



Source: FSC.

Chart 3.55 Net income before tax of bills finance companies



Source: CBC.

Moreover, the average ratio of major liabilities[55] to equity rose to 8.55 times at the end of 2024 because the expansion in bill and bond repo transactions resulted in an increase in major liabilities and led to a higher degree of overall financial leverage. However, the leverage ratios of all bills finance companies stayed below the regulatory ceilings of 10 or 12 times.

Interest rate risk of bond investments remained high

In 2024, the outstanding amount of fixed-rate bond investments of bills finance companies increased by 7.70% to NT$514.8 billion with the average duration shortened to 4.15 years (Chart 3.54). Given a myriad of uncertainties surrounding the global economic outlook, the

[55] Major liabilities include call loans, repo transactions, as well as issuance of corporate bonds and CP.

divergence in major central banks' monetary policies could widen, further exacerbating financial market volatility. Therefore, the interest rate risk of bond investments warrants close attention.

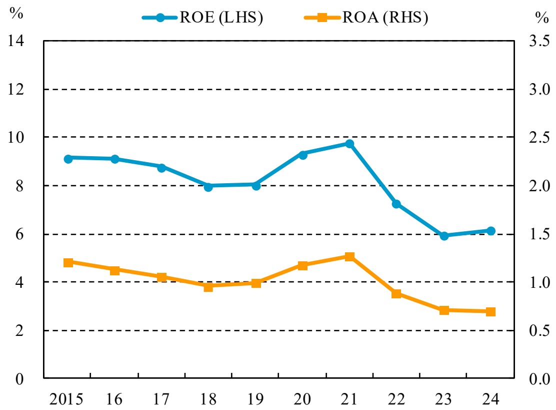
Profitability rebounded

The net income before tax of bills finance companies increased by 10.31% year on year to NT$8.4 billion in 2024 (Chart 3.55). This was due to increases in gains from the disposal of debt instruments and net interest income. Thus, the average ROE rose to 6.16%, while the average ROA decreased to 0.70% because of a greater increase in assets (Chart 3.56).

Average capital adequacy ratio declined

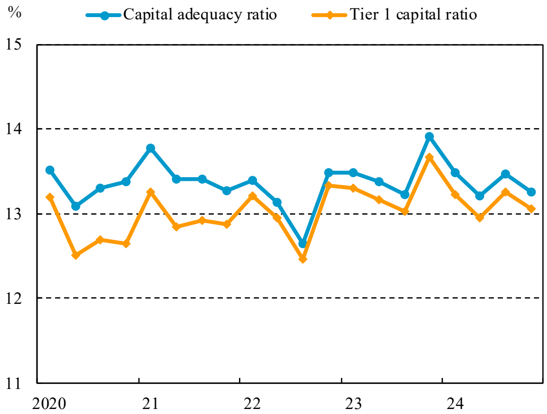
At the end of 2024, the average Tier 1 capital ratio and capital adequacy ratio declined to 13.05% and 13.26%, respectively (Chart 3.57), mainly because of a significant increase in risk-weighted assets resulting from the expansion of CP guarantee business. Notwithstanding, the capital adequacy ratio stayed well above the statutory minimum of 8% for each company.

Chart 3.56 ROE & ROA of bills finance companies



Notes: 1. ROE = net income before tax/average equity.
2. ROA = net income before tax/average assets.
Source: CBC.

Chart 3.57 Average capital adequacy ratios of bills finance companies



Source: CBC.