

3. Banking Sector

Number of Depository Institutions Increased

There were 397 depository institutions at the end of 2009, an increase of ten compared with the previous year-end. The numbers of domestic banks, medium business banks and foreign banks remained the same. The number of credit cooperatives decreased by one as a result of a merger. Eleven new credit departments of farmers' and fishermen's associations were set up in 2009.

Number of Depository Institutions by Category

Types of institutions	End of 2009	End of 2008	Annual Change
Total Number of Main Offices	397	387	10
Domestic Banks	37	37	0
Medium Business Banks	1	1	0
Foreign Banks	32	32	0
Credit Cooperatives	26	27	-1
Credit Departments of Farmers' and Fishermen's Associations	300	289	11
Department of Savings and Remittances of Chunghwa Post Co.	1	1	0
Total Number of Branches	5,998	6,002	-4
Local Branches	5,844	5,852	-8
Overseas Branches	91	87	4
Offshore Banking Units	63	63	0

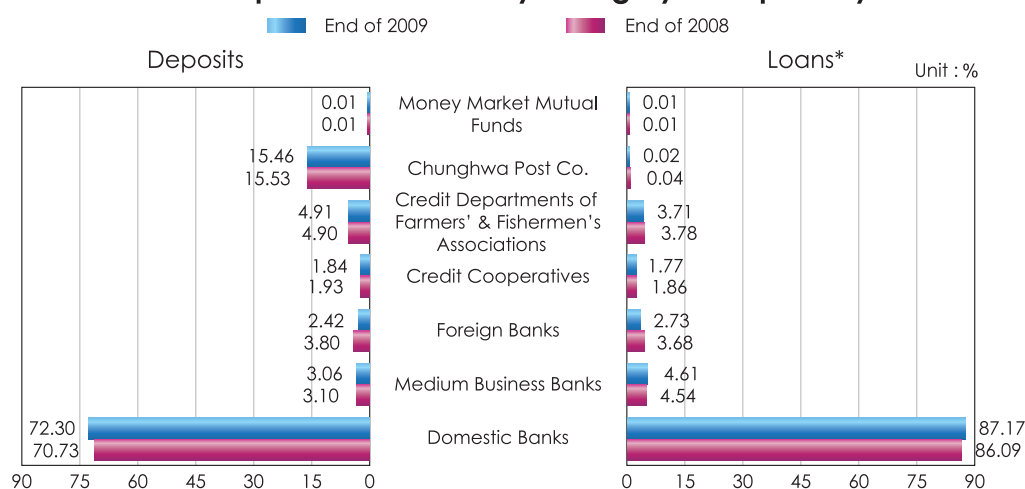
Sources: 1. *Financial Statistics Monthly*, CBC.
2. Department of Financial Inspection, CBC.

In addition, the numbers of financial holding companies and money market mutual funds remained at 15 and 2, respectively, at year-end 2009.

Market Shares of Deposits and Loans

Domestic banks have played a major role in Taiwan's banking system. At the end of 2009, domestic banks accounted for 72.30 percent of deposits and 87.17 percent of loans in terms of market share. Both were higher than those of the previous year, mainly due to the transfer of business from the Citibank N.A., Taipei Branch to the newly formed Citibank Taiwan Limited. As a result, foreign banks' market shares of deposits and loans decreased to 2.42 percent and 2.73 percent, respectively. The Department of Savings and Remittances of Chunghwa Post Co.'s market share of deposits slightly decreased to 15.46 percent at the end of 2009, while its market share of loans continued to fall to a mere 0.02 percent due to mandated restrictions

Market Shares of Deposits and Loans by Category of Depository Institutions



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

Source: Financial Statistics Monthly, CBC.

on its lending business. As for medium business banks, their market share of deposits dropped slightly to 3.06 percent, while their market share of loans rose to 4.61 percent. Credit cooperatives recorded modest decreases in their market share of deposits and loans. As for the credit departments of farmers' and fishermen's associations, their market share of deposits rose while that of loans decreased.

Depository Institutions' Sources and Uses of Funds

Depository institutions' funds increased significantly by NT\$2,239 billion during the year 2009 owing to the current account surplus and huge capital inflows. Among the different sources of funds, transaction deposits and net other items were the major contributors to the increase. A notable shift of funds from non-transaction deposits to transaction deposits was the main reason for the increase in transaction deposits and the decrease in non-transaction deposits.

With respect to the uses of funds, the ratio of loans to the total use of funds declined as depository institutions' loans expanded more slowly than deposits. With banks' efforts to contain their investment risks, the funds used for purchasing CDs issued by the CBC increased, taking up a larger share in terms of fund usage. Net foreign assets increased in the year because of increases in dues from other branches and dues to other branches, and in net claims on OBUs.

Sources and Uses of Funds in Depository Institutions

Unit: NT\$ Billion

	End of 2009		End of 2008		Annual Change	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Sources:						
Transaction Deposits **	9,599	29.47	7,320	24.14	2,279	5.34
Non-Transaction Deposits ***	18,951	58.19	19,649	64.79	-698	-6.60
Government Deposits	772	2.37	795	2.62	-23	-0.25
Borrowings from CBC	191	0.59	58	0.19	133	0.39
Other Items (Net)	3,055	9.38	2,507	8.27	548	1.11
Total	32,568	100.00	30,329	100.00	2,239	0.00
Uses:						
Net Foreign Assets *	1,938	5.95	1,543	5.09	395	0.86
Loans	18,608	57.13	18,456	60.58	151	-3.72
Portfolio Investments ****	2,883	8.85	2,861	9.43	22	-0.58
Purchases of CDs Issued by CBC	5,787	17.77	4,298	14.17	1,489	3.60
Deposits with CBC	3,353	10.30	3,170	10.45	183	-0.16

Notes: * Excluding valuation changes in the exchange rate of the NT dollar against foreign currencies when calculating their annual change.

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

*** Including time deposits, time savings deposits, foreign currency deposits, postal savings deposits, non-residents NT dollar deposits, and repurchase agreements.

**** Measured at original costs.

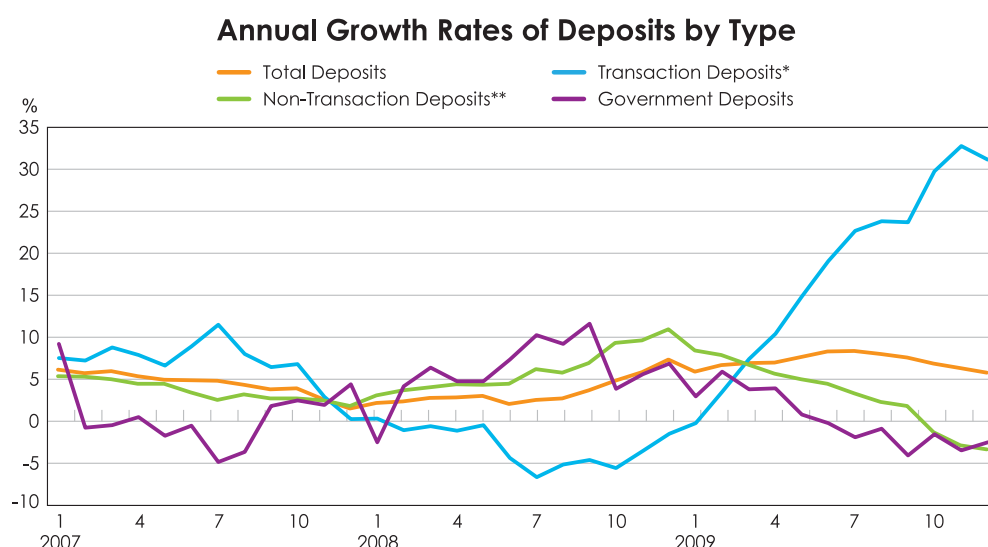
Source: Financial Statistics Monthly, CBC.

Downtrend in the Growth of Deposits

At the end of 2009, total deposits of depository institutions grew by 5.38 percent during the year. This was lower than the 6.92 percent at the end of 2008, mainly caused by slower growth in banks' loans and investments.

Due to the expanding current account surplus, the annual growth rate of deposits rose to 6.26 percent in February. From March onwards, foreign capital turned to a net inflow, pushing the annual growth rate of deposits to climb to a yearly high of 7.98 percent in July. From August onwards, deposit growth went down as a result of an increase in residents' net capital outflows. The annual growth rate of deposits declined and reached a yearly low of 5.38 percent at the end of 2009.

The annual growth rate of transaction deposits jumped from the previous year's -1.84 percent to 31.13 percent at the end of 2009. Its share in total deposits also increased from 26.31 percent to 32.74 percent. This was mainly due to the higher demand for transaction deposits, as active trading in the stock market was boosted by the economic recovery and the lower interest rate spread between different deposits, inducing a shift of funds from non-transaction deposits to transaction deposits. The annual growth rate of non-transaction deposits at all depository institutions declined to -3.85 percent at the end of the year in contrast to the



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

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

Source: Financial Statistics Monthly, CBC.

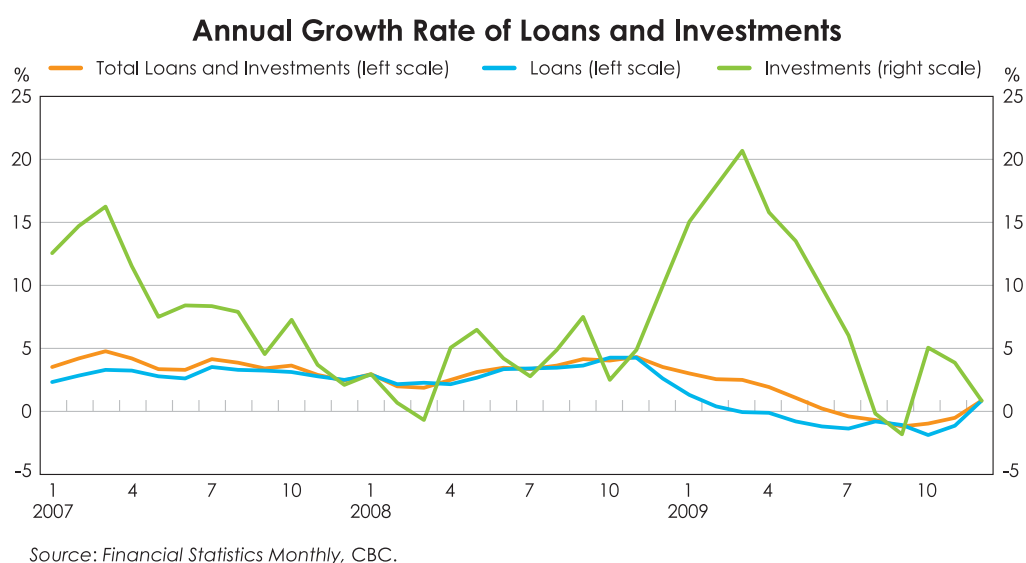
10.61 percent increase of the previous year-end, while their share in total deposits edged down from 70.83 percent to 64.63 percent.

With respect to the different types of non-transaction deposits, the shares of each of them in total deposits went down at the end of the year when compared with the previous year-end.

The annual growth rate of government deposits in depository institutions declined from 6.55 percent at the end of previous year to -2.88 percent at the end of 2009, reflecting a decrease in tax revenues. Meanwhile, their share in total deposits declined slightly from 2.86 percent to 2.63 percent.

Decrease in Banks' Loans and Investments

The annual growth rate of loans and investments of depository institutions declined to 0.75 percent at year-end 2009, compared to the 3.42 percent recorded at the end of the previous year. This was mainly because private enterprises' demand for funds weakened and the growth of portfolio investment slowed in the wake of the global financial crisis and economic downturn. Loans posted an annual growth rate of 0.74 percent at the end of 2009, lower than the 2.49 percent a year earlier, while the growth of investments significantly declined to 0.76 percent in 2009 from the 9.84 percent in 2008.

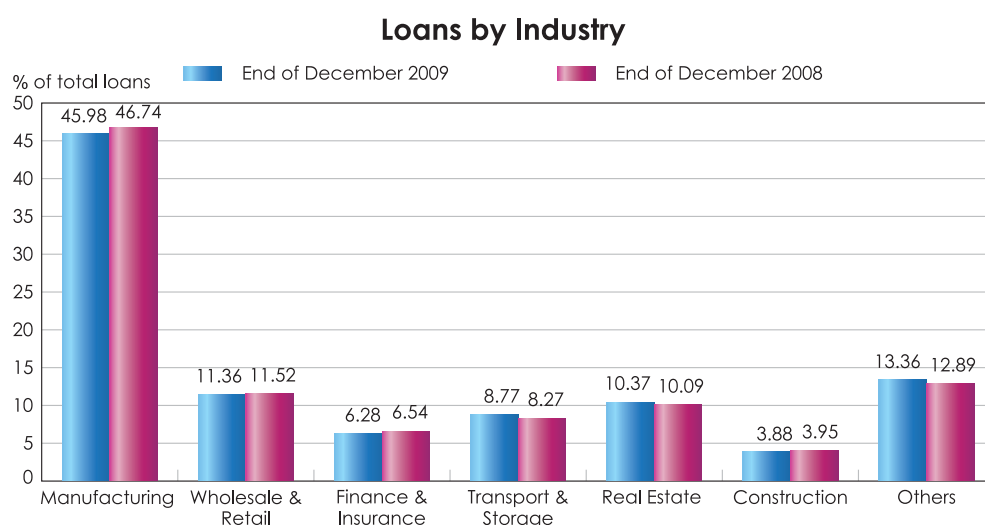


Loans by Sector

At the end of 2009, loans extended to the private sector and public enterprises accounted for 87.33 percent and 4.18 percent of total loans, respectively. Compared to the previous year-end, the annual growth rate of loans to the private sector fell from 2.50 percent to -0.18 percent, while those to public enterprises fell markedly from 28.42 percent to -3.47 percent. Owing to the central government's expanded public spending and lower tax revenue, the share of loans extended to government agencies in total loans rose to 8.49 percent from 7.21 percent at the previous year-end, posting an annual growth rate of 19.09 percent.

Loans by Industry

Among all industries, the manufacturing sector continued to account for the largest portion of bank loans, slightly falling from 46.74 percent in 2008 to 45.98 percent in 2009. This was mainly due to a decrease in bank loans extended to the electronic parts & components industry, the petroleum products industry, and the chemical material industry. In addition, the share of loans extended to the wholesale & retail industry, finance & insurance industry and construction industry also decreased in 2009 from the previous year-end.



Source: Financial Statistics Monthly, CBC.

Consumer Loans

Compared to the previous year, consumer loans registered an increase in 2009, mainly due to a modest increase in private consumption and growth in the real estate market. As a result, the outstanding balance of consumer loans extended by banks at the end of 2009 recorded an annual increase of NT\$154.2 billion or 2.32 percent from the previous year-end.

Investments

Owing to a more conservative attitude to purchase securities during the global financial crisis, portfolio investments by depository institutions measured on a cost basis showed an annual increase of NT\$21.7 billion or 0.76 percent in 2009, significantly lower than the NT\$256.2 billion or 9.84 percent a year earlier. Among the investment instruments, government bonds accounted for the largest share with 60.97 percent, higher than the 58.16 percent a year ago, mainly due to the massive purchases of government bonds by domestic banks and the Department of Savings and Remittances of the Chunghwa Post Co. Meanwhile, the annual growth rate of investment in government bonds fell from 9.57 percent to 5.64 percent. When measured at fair value, the annual increase of portfolio investments by depository institutions became NT\$116.5 billion. The revaluation adjustment was thus an increase of NT\$94.8 billion, compared to the negative NT\$89.0 billion of the previous year.

Decrease in the Share of Indirect Finance

Financing channels of the non-financial sector comprise indirect finance and direct finance,

Indirect Finance vs. Direct Finance*

Unit: NT\$ Billion

Year	Total Funds Raised (3)=(1)+(2)	Indirect Finance (1)			Direct Finance (2)
		Subtotal	Loans	Investments	
2000	1,377.1	1,203.2	1,053.2	150.0	173.9
2001	665.2	594.5	200.6	393.9	70.7
2002	807.5	424.8	71.7	353.1	382.7
2003	1,677.1	716.0	711.5	4.5	961.1
2004	2,129.3	1,815.9	1,569.7	246.2	313.4
2005	1,961.7	1,780.3	1,458.5	321.8	181.4
2006	1,223.6	1,374.8	837.8	537.0	-151.2
2007	1,044.5	961.8	733.2	228.6	82.7
2008	894.4	1,222.8	647.5	575.3	-328.4
2009	540.8	390.7	138.7	252.0	150.1

Notes: * Measured in terms of flow data.

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

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

Source: *Financial Statistics Monthly*, CBC.

i.e. borrowing from financial institutions and issuing securities in the markets, respectively. The total amount of funds raised by the non-financial sector during the year 2009 decreased from the previous year's NT\$894.4 billion to NT\$540.8 billion. Funds raised through borrowing from financial institutions decreased from the previous year's NT\$1,222.8 billion to NT\$390.7 billion. Funds raised by issuing securities increased from the previous year's negative NT\$328.4 billion to positive NT\$150.1 billion, mainly due to the increasing issuance of offshore bonds, public offerings of stocks, and government bonds. Based on outstanding balance data, the share of indirect finance in total funds raised decreased from 77.04 percent at the end of 2008 to 76.89 percent at year-end 2009, while the share of direct finance increased from 22.96 percent to 23.11 percent.

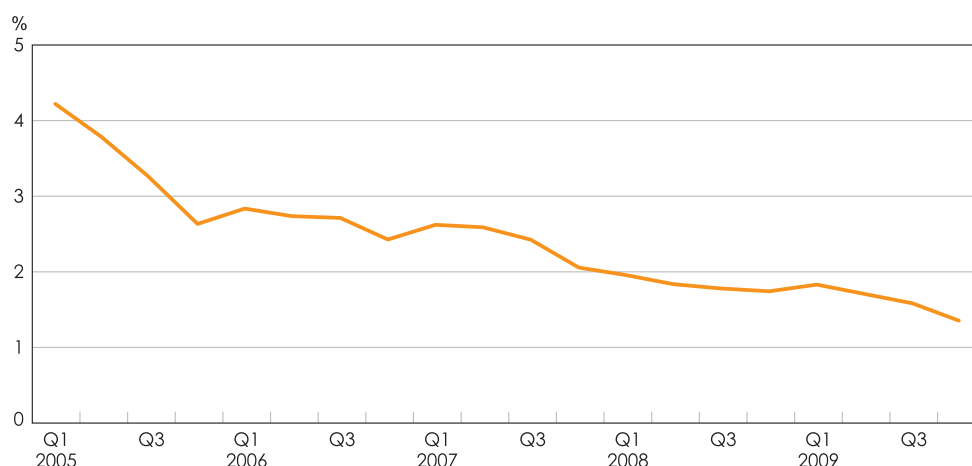
Decline in the Non-Performing Loan (NPL) Ratio

As the asset quality of domestic financial institutions continued to improve in 2009 along with efforts to write off bad loans, the average NPL ratio of financial institutions as a whole declined to 1.30 percent at the end of 2009, lower than the previous year's 1.70 percent. With respect to different types of financial institutions, the NPL ratios of community financial institutions showed the biggest improvement during the course of the year.

Steady Decline in Bank Interest Rates

In 2009, the Bank adopted an easy monetary policy and cut its policy rate twice to stimulate the economy. As a result, interest rates on deposits and loans of many banks remained low for the whole year. In the case of the interest rates of the five major domestic banks, the

Non-Performing Loan Ratios of Financial Institutions

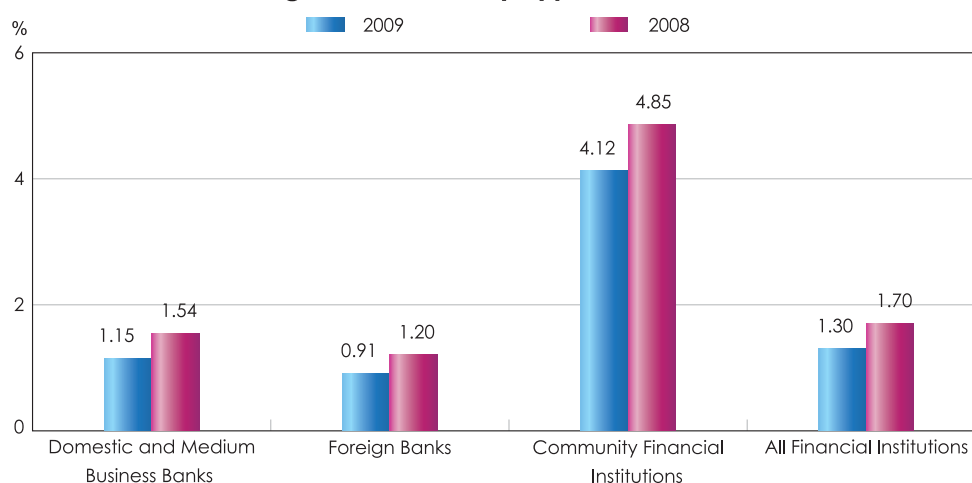


Notes: 1. Financial institutions include domestic banks, medium business banks, foreign banks, credit cooperatives, credit departments of farmers' and fishermen's associations, as well as trust and investment companies for data prior to 2008 Q4.

2. Data of loans include loans under surveillance.

Source: Department of Financial Inspection, CBC.

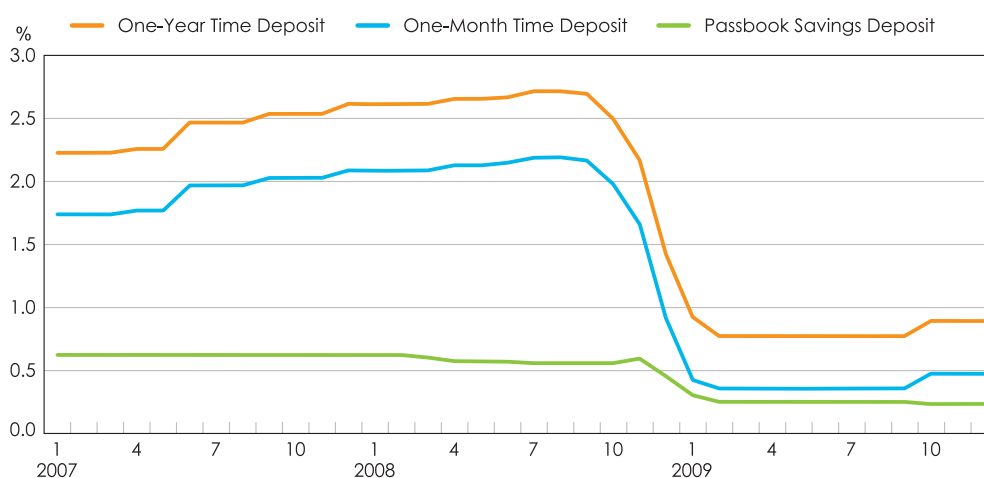
Non-Performing Loan Ratios by Type of Financial Institutions



Source: Department of Financial Inspection, CBC.

average fixed rates on one-month and one-year time deposits, respectively, declined to 0.35 percent and 0.77 percent at the end of September 2009 from 0.91 percent and 1.42 percent at the end of 2008, but turned to rise to 0.47 percent and 0.89 percent at the end of 2009. This was because many banks adjusted to reverse the situation where floating interest rates on deposits were higher than fixed rates. Furthermore, the average base lending rate continued to decline to 2.56 percent in 2009 from 4.21 percent in 2008.

The Average Deposit Rates of the Five Major Domestic Banks*

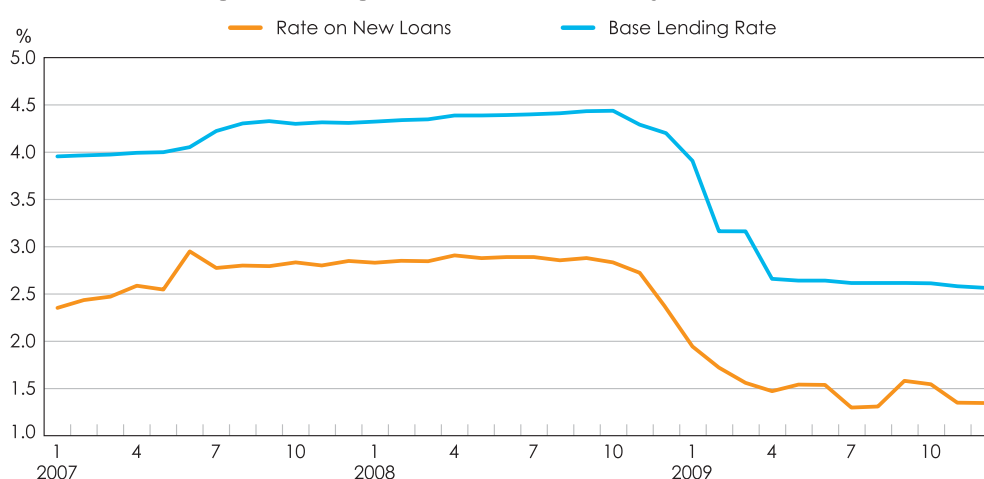


Note: * Prior to Oct. 2008, the five major domestic banks were Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank and Chang Hwa Commercial Bank, while beginning Nov. 2008, Chang Hwa Commercial Bank was replaced by Land Bank of Taiwan.

Source: Financial Statistics Monthly, CBC.

During 2009, owing to easy funding conditions, the weighted average lending rate on new loans extended by the five major domestic banks broadly exhibited a downward trend. It fell to a yearly low of 1.29 percent in July 2009, and then fluctuated between 1.30 percent and 1.58 percent for the rest of the year. On the whole, the weighted average lending rate declined from 2.80 percent in 2008 to 1.50 percent in 2009.

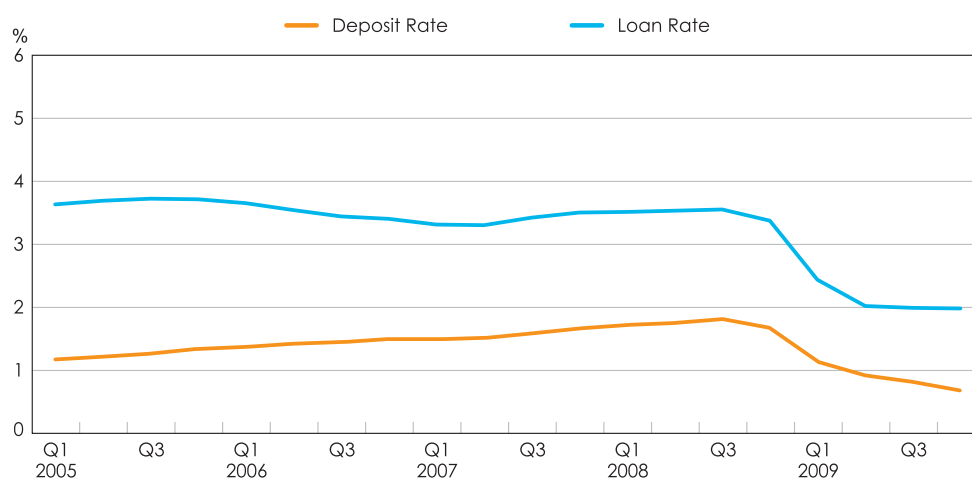
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Source: Financial Statistics Monthly, CBC.

The Weighted Average Interest Rates of Domestic Banks



Source: Financial Statistics Monthly, CBC.

The weighted average rates on deposits and loans of domestic banks showed a downward trend as well. In the fourth quarter of 2009, the weighted average interest rates on deposits and loans were 0.64 percent and 1.95 percent, respectively, which were 1 percentage point and 1.4 percentage points lower than those recorded in the previous year. The interest rate spread between deposits and loans shrank to 1.11 percentage points in the second quarter from 1.71 percentage points in the fourth quarter of 2008 because loan rates declined more than deposit rates, and rose to 1.31 percentage points in the fourth quarter of 2009, as many time deposits with higher fixed rates matured.

Increase in Profitability

The pre-tax profits of all depository institutions increased by NT\$41.3 billion to NT\$113.7

Profits of Depository Institutions

Unit: NT\$ Billion

	Pre-tax Profits			Return on Assets (%)*			Return on Equity (%)**		
	2009	2008	Annual Change	2009	2008	Annual Change	2009	2008	Annual Change
Domestic Banks and Medium Business Banks	85.1	34.4	50.7	0.27	0.12	0.15	4.35	1.90	2.45
Foreign Banks	12.1	24.6	-12.5	0.54	0.75	-0.21	17.16	33.05	-15.89
Credit Cooperatives	0.2	1.8	-1.6	0.03	0.31	-0.28	0.42	4.53	-4.11
Credit Departments of Farmers' and Fishermen's Associations	3.1	3.8	-0.7	0.20	0.26	-0.06	3.39	4.17	-0.78
Chunghwa Post Co.	13.2	7.8	5.4	0.28	0.17	0.11	17.85	47.66	-29.81
Total	113.7	72.4	41.3	0.28	0.18	0.10	5.10	3.56	1.54

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

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

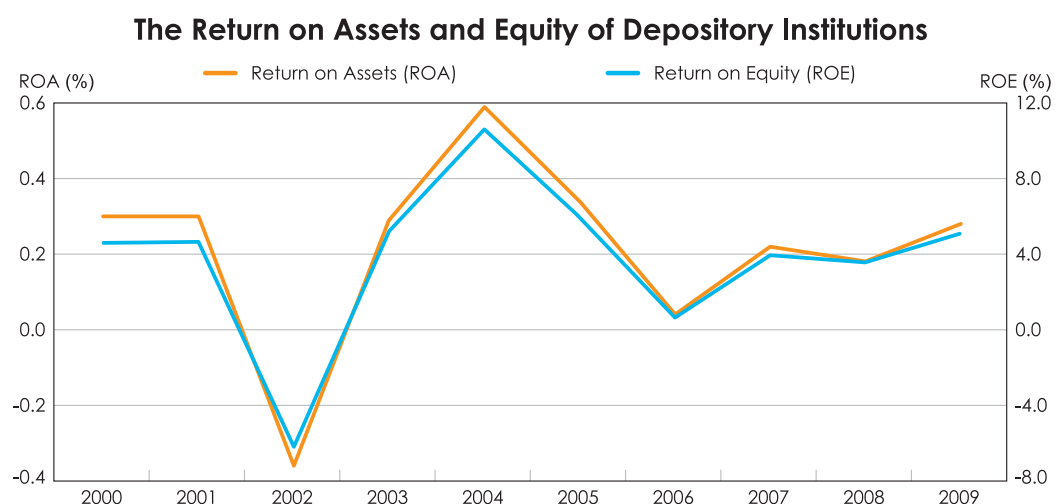
Source: Department of Financial Inspection, CBC.

billion. Of which, due to increases in the fair value of financial assets and the profits from portfolio investments, domestic banks and medium business banks increased by NT\$50.7 billion to NT\$85.1 billion, and Chunghwa Post Co. increased by NT\$5.4 billion to NT\$13.2 billion.

Increase in Both ROA and ROE

The average return on assets (ROA) and return on equity (ROE) for all depository institutions went up to 0.28 percent and 5.10 percent in 2009, respectively, from 0.18 percent and 3.56 percent a year earlier, mainly due to improved ROAs and ROEs of domestic banks and medium business banks. Among the depository institutions, foreign banks were the best performers in terms of ROA, while Chunghwa Post Co. posted the highest ROE.

As for the capital adequacy ratio, the average ratio of domestic banks rose to 11.85 percent at the end of the year from 11.04 percent at the previous year-end on account of increased regulatory capital and reduced risk-weighted assets.



Source: Department of Financial Inspection, CBC.