

### 3. Banking Sector

#### Number of Depository Institutions Decreased

There were 394 depository institutions at the end of 2010, a decrease of three compared with the previous year-end. The number of foreign banks decreased by four because three were merged and one closed its branches in Taiwan. The number of domestic banks remained the same as a result of Chinfon Commercial Bank's merger and the HSBC Bank (Taiwan)'s new opening. As for medium business banks and credit cooperatives, the numbers remained the same. However, one new credit department of a farmers' and fishermen's association was set up in 2010.

#### Number of Depository Institutions by Category

Types of institutions	End of 2010	End of 2009	Annual Change
Total Number of Main Offices	394	397	-3
Domestic Banks	37	37	0
Medium Business Banks	1	1	0
Foreign Banks	28	32	-4
Credit Cooperatives	26	26	0
Credit Departments of Farmers' and Fishermen's Associations	301	300	1
Department of Savings and Remittances of Chunghwa Post Co.	1	1	0
Total Number of Branches	6,016	5,998	18
Local Branches	5,860	5,844	16
Overseas Branches	95	91	4
Offshore Banking Units	61	63	-2

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 2010.

#### Market Shares of Deposits and Loans

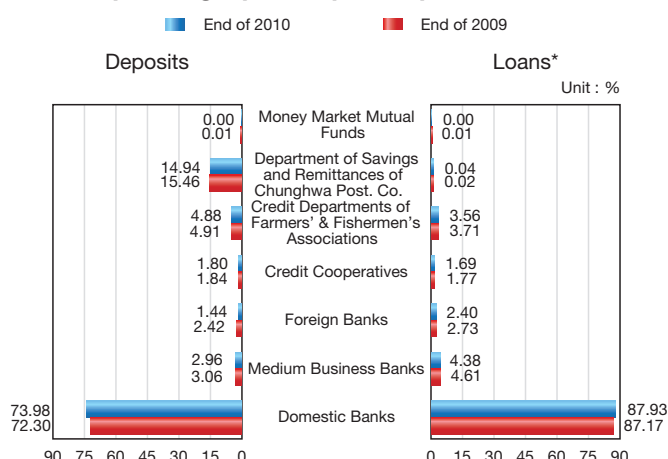
Domestic banks have played a major role in Taiwan's banking system. At the end of 2010, domestic banks accounted for 73.98 percent of deposits and 87.93 percent of loans in terms of market share. Both were higher than those of the previous year, mainly due to the transfer of business from the Taipei Branch of Hongkong and Shanghai Banking Corp., to the newly formed HSBC Bank (Taiwan). As a result, foreign banks' market shares of deposits and loans decreased to 1.44 percent and 2.40 percent, respectively. The Department of Savings and Remittances of Chunghwa Post Co.'s market share of deposits slightly decreased to 14.94 percent at the end of 2010, but its market

share of loans increased modestly to 0.04 percent due to securities acquired under reverse repurchase agreements. As for medium business banks, credit cooperatives and the credit departments of farmers' and fishermen's associations, their market shares of deposits and loans slightly decreased.

## Depository Institutions' Sources and Uses of Funds

Depository institutions' funds increased significantly by NT\$1,856 billion during the year 2010 as growth in banks' loans and investments boosted banks' deposits. Among the different sources of funds, banks' transaction deposits and non-transaction deposits were the major contributors to the increase. Driven by booming stock markets, banks' transaction deposits as well as their combined share in the sources of funds increased significantly. Non-transaction deposits also increased, despite a shrinking share in the sources of funds.

## 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.

## Sources and Uses of Funds in Depository Institutions

Unit: NT\$ Billion

	End of 2010		End of 2009		Annual Change	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
<b>Sources:</b>						
Transaction Deposits *	10,461	30.50	9,599	29.59	862	0.91
Non-Transaction Deposits**	19,497	56.85	18,826	58.04	671	-1.18
Government Deposits	835	2.43	772	2.38	63	0.05
Borrowings from CBC	56	0.16	191	0.59	-135	-0.42
Other Items (Net)	3,446	10.06	3,051	9.40	395	0.66
<b>Total</b>	<b>34,294</b>	<b>100.00</b>	<b>32,439</b>	<b>100.00</b>	<b>1,856</b>	<b>0.00</b>
<b>Uses:</b>						
Net Foreign Assets ***	1,474	4.30	1,837	5.66	-364	-1.37
Loans	19,870	57.94	18,579	57.27	1,291	0.67
Portfolio Investments****	2,951	8.60	2,883	8.89	68	-0.28
Purchases of CDs Issued by CBC	6,518	19.01	5,787	17.84	731	1.17
Deposits with CBC	3,482	10.15	3,353	10.34	129	-0.18

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

\*\* Including time deposits, time savings deposits, foreign currency deposits, postal savings deposits, non-residents' NT dollar deposits, and repurchase agreements. From 2010, non-transaction deposits exclude the carrying value of the host contracts of structured products issued by banks to enterprises and individuals and non-residents.

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

\*\*\*\* Measured at original costs.

Source: Financial Statistics Monthly, CBC.

With respect to the uses of funds, banks' loans increased amid the economic recovery leading to a bigger share in the total use of funds. The funds used for purchasing certificates of deposit (CDs) issued by the Bank increased, taking up a larger share in terms of fund usage, as the Bank increased its issuance of 364-day CDs each month from April 2010 to ensure an appropriate level of liquidity in the banking system. Net foreign assets declined in the year because of the decrease in dues from other branches, and the increase in liabilities to OBUs.

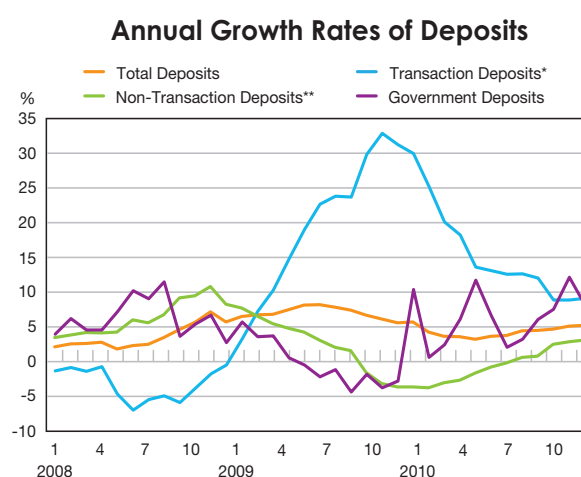
### Downtrend in the Growth of Deposits

Total deposits of depository institutions grew by 5.01 percent during the year. This was lower than the 5.38 percent at the end of 2009, mainly caused by an increase in residents' net capital outflows.

Due to growth in banks' loans and investments and a net foreign capital inflow, the annual growth rate of deposits hit a yearly high of 5.49 percent in January. From February onwards, an increase in residents' net capital outflows and a net foreign capital outflow, pushed the annual growth rate of deposits to fall to its yearly low of 3.02 percent in May. In the following months, the annual growth rate of deposits gradually rose to 5.01 percent by the end of 2010 due to the continuous growth in banks' loans and investments. The average annual growth rate recorded 4.09 percent, lower than the previous year's 6.71 percent.

Due to a higher base effect, the annual growth rate of transaction deposits declined from the previous year's 31.13 percent to 8.98 percent at the end of 2010. Its share in total deposits increased from 32.74 percent to 33.97 percent. This was mainly attributable to greater demand for transaction deposits as the economic recovery boosted trading in the stock market.

Beginning January 2010, the carrying value of the host contracts of structured products issued by banks were excluded from non-transaction deposits and relisted under other liabilities. The annual growth rate of non-transaction deposits at all depository institutions rose to 2.88 percent at the end of the year in contrast to -3.85 percent in the previous year. This was mainly due to the wider interest rate spread between different types of deposits, inducing a shift of funds from transaction deposits to non-transaction deposits. However, the share of non-transaction deposits in total



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

\*\* Including time deposits, time savings deposits, foreign currency deposits, postal savings deposits, non-residents' NT dollar deposits, repurchase agreements, and money market mutual funds. Beginning Jan. 2010, the carrying value of the host contracts of structured products issued by banks were excluded.

Source: Financial Statistics Monthly, CBC.

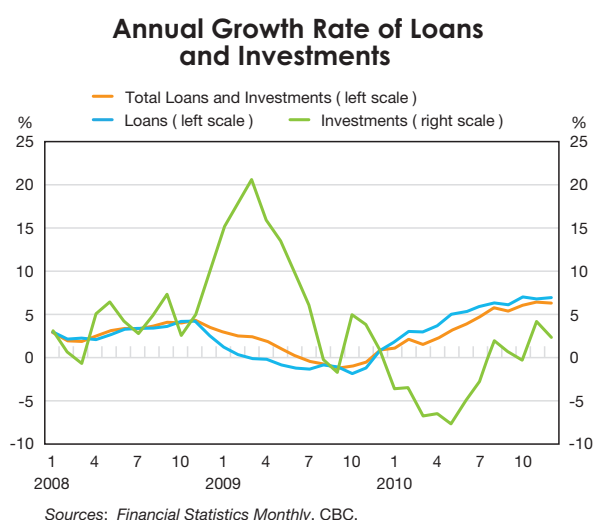
deposits edged down from 64.63 percent to 63.32 percent.

By type of non-transaction deposits, the shares of all types (except for time savings deposits and postal savings deposits) 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 reversed from the previous year's -2.88 percent to 8.11 percent at the end of 2010, reflecting an increase in tax revenues. Meanwhile, its share in total deposits increased slightly from 2.63 percent to 2.71 percent.

### Increase in Banks' Loans and Investments

The annual growth rate of loans and investments of depository institutions rose to 6.19 percent at year-end 2010, compared to the 0.75 percent recorded at the end of the previous year. This was mainly because economic activity had overcome the adverse impacts of the global financial crisis and private enterprises' demand for funds strengthened. Loans posted an annual growth rate of 6.78 percent at the end of 2010, higher than the 0.74 percent a year earlier, while the growth of investments rose to 2.36 percent in 2010 from 0.76 percent in 2009.

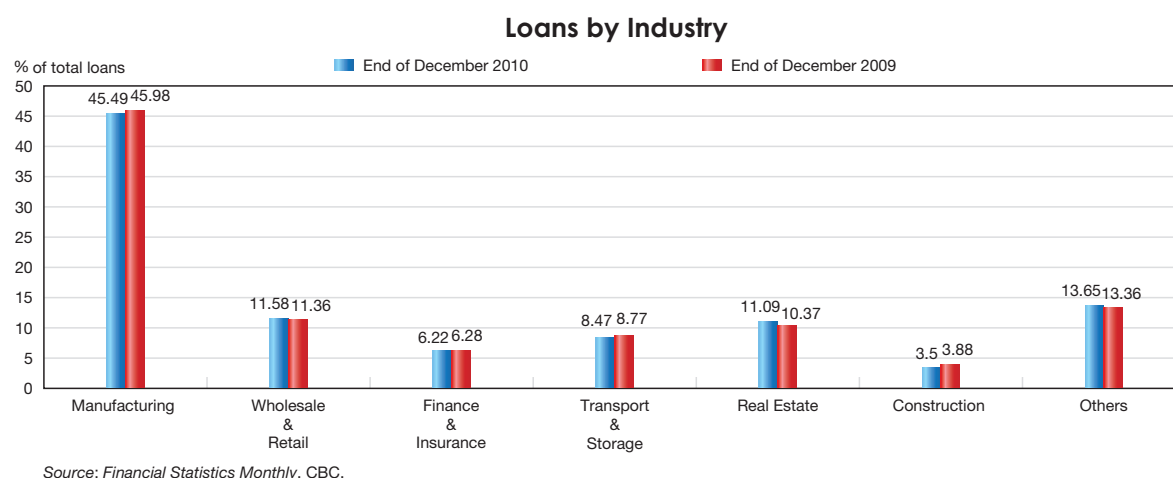


### Loans by Sector

At the end of 2010, loans extended to the private sector, government agencies and public enterprises accounted for 87.75 percent, 8.03 percent and 4.22 percent of total loans, respectively. Due to an increase in demand for funds, the annual growth rate of loans to the private sector and public enterprises rose to 7.29 percent and 7.92 percent, respectively, at the end of 2010 from -0.19 percent and -3.47 percent at the end of 2009. Meanwhile, the annual growth rate of loans to government agencies declined significantly to 0.95 percent compared to the 19.09 percent growth rate of the previous year-end.

### Loans by Industry

Among all industries, the manufacturing sector continued to account for the largest portion of bank loans, slightly shrinking from 45.98 percent in 2009 to 45.49 percent in 2010. The share of loans extended to the finance & insurance industry, transport & storage industry and construction industry



fell in 2010 from the previous year-end, while those to real estate and other industries increased in 2010 from the previous year-end.

### Consumer Loans

With regard to consumer loans, a modest increase in private consumption and reinvigoration in the real estate market led consumer loans to continue an uptrend in 2010. As a result, the outstanding balance of consumer loans extended by banks at the end of 2010 recorded an annual increase of NT\$171.8 billion or 2.53 percent from the previous year-end.

### Investments

Owing to a liquidity flush in the market, portfolio investments by depository institutions measured on a cost basis showed an annual increase of NT\$68.1 billion or 2.36 percent in 2010, significantly higher than the growth of NT\$21.7 billion or 0.76 percent a year earlier. Among the investment instruments, government bonds accounted for the largest share with 63.52 percent, higher than the 60.97 percent share recorded a year ago, mainly due to the massive purchases of government bonds by the Department of Savings and Remittances of Chunghwa Post Co. Meanwhile, the annual growth rate of investment in government bonds rose from 5.64 percent to 6.64 percent at end-2010. When measured at fair value, the annual increase of portfolio investments by depository institutions became NT\$67.3 billion.

### Increase in the Share of Indirect Finance

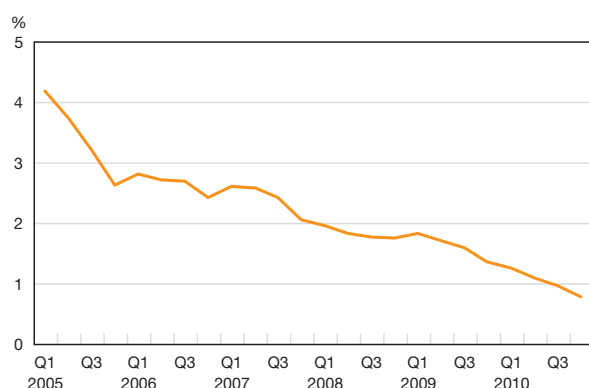
Financing channels of the non-financial sector comprise indirect finance and direct finance, i.e. borrowing from financial institutions and issuing securities in the markets, respectively. The total amount of funds raised by the non-financial sector during the year 2010 increased from the previous year's NT\$540.8 billion to NT\$1,851.0 billion. Funds raised through borrowing from financial institutions increased from the previous year's NT\$390.8 billion to NT\$1,704.9 billion. Funds raised by issuing

securities increased NT\$146.1 billion, mainly due to the increasing issuance of public offerings of stocks and government bonds. Based on outstanding balance data, the share of indirect finance in total funds increased from 76.89 percent at the end of 2009 to 77.76 percent at year-end 2010, while the share of direct finance decreased from 23.11 percent to 22.24 percent.

## Decline in the Non-Performing Loan (NPL) Ratio

Affected by the significant economic recovery and the improved financial condition of the private sector, the asset quality of domestic financial institutions continued to improve in 2010. As a result, the average NPL ratio of depository institutions as a whole declined to 0.72 percent at the

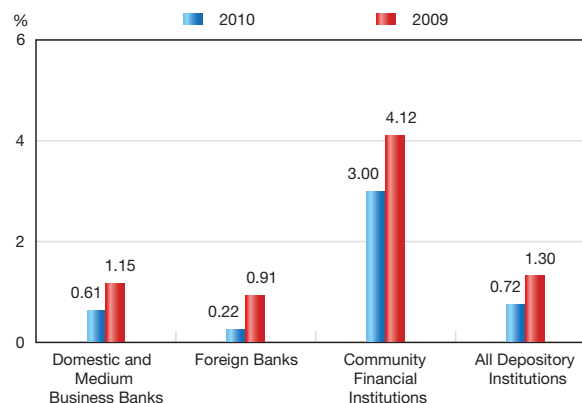
**Non-Performing Loan Ratios of Depository Institutions\***



Note: \* 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.

Source: Department of Financial Inspection, CBC.

**Non-Performing Loan Ratios by Type of Depository Institutions**



Source: Department of Financial Inspection, CBC.

## Indirect Finance vs. Direct Finance\*

Unit: NT\$ Billion

Year	Total Funds Raised (3)=(1)+(2)	Indirect Finance (1)			Direct Finance (2)
		Subtotal	Loans	Investments	
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	390.8	138.7	252.1	150.0
2010	1,851.0	1,704.9	1,251.7	453.2	146.1

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, 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 market able 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.

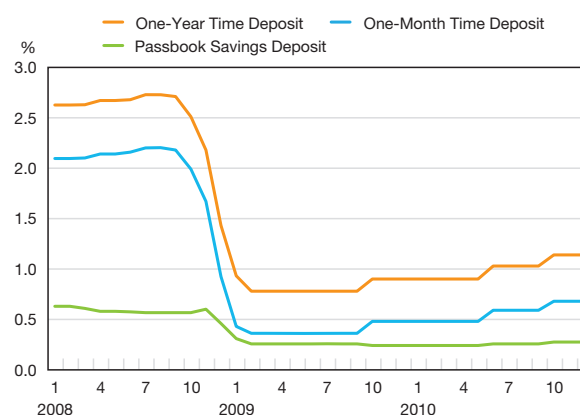
end of 2010, lower than the previous year's 1.30 percent. With respect to different types of financial institutions, the NPL ratios of community financial institutions continued to show the biggest improvement during the course of the year.

### Uptrend in Bank Interest Rates

As both the global and domestic economies continued to recover from the beginning of 2010, the Bank gradually removed its quantitative easing policy to maintain financial stability. The Bank raised policy rates in June, October and December, respectively, to guide market rates up gently. As a result, banks' posted interest rates on deposits and loans rose modestly. In the case of the five major domestic banks, the average fixed rates on one-month and one-year time deposits moved upward to 0.67 percent and 1.13 percent, respectively, by the end of 2010 from 0.47 percent and 0.89 percent at the previous year-end. In the same period, the average base lending rate rose to 2.68 percent from 2.56 percent.

The weighted average rate on new loans of the five major domestic banks slightly fluctuated throughout 2010. The banks' base lending rate increased gradually in the second half of the year

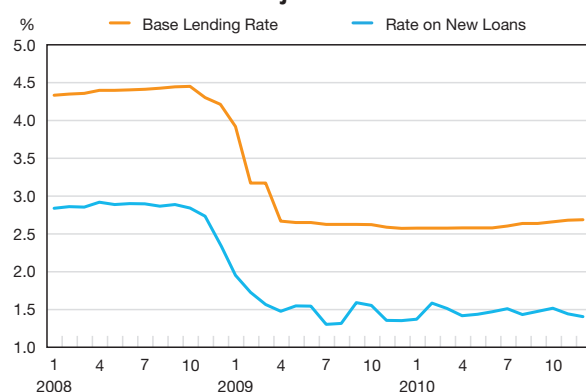
### Average Deposit Rates of the Five Major Domestic Banks\*



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 excluded from the major five and was replaced by Land Bank of Taiwan.

Source: Financial Statistics Monthly, CBC.

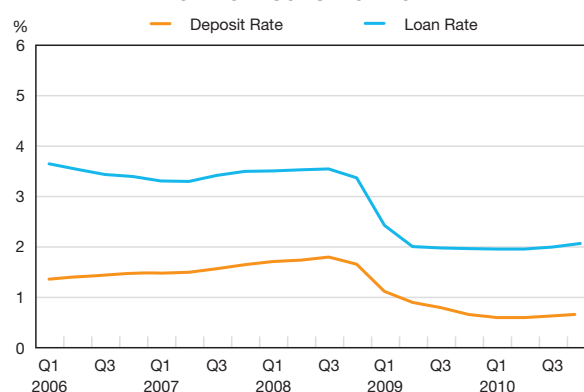
### Average Lending Rates of the Five Major Domestic Banks\*



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 excluded from the major five and was replaced by Land Bank of Taiwan.

Source: Financial Statistics Monthly, CBC.

### Weighted Average Interest Rates of Domestic Banks



Source: Financial Statistics Monthly, CBC.

owing to increases in the central bank discount rate. The weighted average rate on new loans ranged between 1.35 percent and 1.51 percent with easy funding conditions. On average, the weighted average rate on new loans declined from 1.50 percent in 2009 to 1.44 percent in 2010.

The weighted average rates on deposits and loans of domestic banks remained largely unchanged in the first half of 2010, and then started to climb smoothly in the second half of the year as the Bank raised policy interest rates. In the fourth quarter of 2010, the weighted average interest rates on deposits and loans, respectively, were 0.65 percent and 2.05 percent from 0.64 percent and 1.95 percent at the previous year-end. The interest rate spread between deposits and loans widened to 1.40 percentage points, more than the 1.31 percentage points recorded in the fourth quarter of 2009.

### Increase in Profitability

The pre-tax profits of all depository institutions increased by NT\$102.2 billion to NT\$215.9 billion in 2010. Those of domestic banks and medium business banks increased by NT\$99.7 billion to NT\$184.8 billion, mainly due to the increased net interest revenue and the significantly decreased provisions for bad loans. The pre-tax profits of Department of Savings & Remittances, Chunghwa Post Co. increased by NT\$2.4 billion to NT\$15.6 billion due to increases in the fair value of financial assets and the profits from portfolio investments.

### Increases in Both ROA and ROE

The average return on assets (ROA) and return on equity (ROE) for all depository institutions in 2010 went up to 0.51 percent and 9.02 percent, respectively, from 0.28 percent and 5.10 percent a year earlier, mainly due to the improved ROAs and ROEs of domestic banks and medium business banks. Among the depository institutions, domestic banks and medium business banks were the

### Profits of Depository Institutions

Unit: NT\$ Billion

	Pre-tax Profits			Return on Assets (%)*			Return on Equity (%)**		
	2010	2009	Annual Change	2010	2009	Annual Change	2010	2009	Annual Change
Domestic Banks and Medium Business Banks	184.8	85.1	99.7	0.55	0.27	0.28	8.75	4.35	4.40
Foreign Banks	10.3	12.1	-1.8	0.45	0.54	-0.09	15.52	17.16	-1.64
Credit Cooperatives	1.7	0.2	1.5	0.28	0.03	0.25	4.16	0.42	3.74
Credit Departments of Farmers' and Fishermen's Associations	3.5	3.1	0.4	0.21	0.20	0.01	3.66	3.39	0.27
Department of Savings & Remittances, Chunghwa Post Co.	15.6	13.2	2.4	0.33	0.28	0.05	19.74	17.85	1.89
Total	215.9	113.7	102.2	0.51	0.28	0.23	9.02	5.10	3.92

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

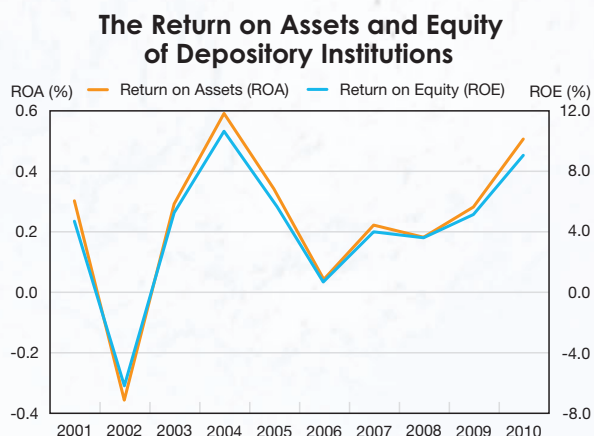
\*\* Return on Equity = Pre-tax Profits / Net Worth

Source: Department of Financial Inspection, CBC.



best performers in terms of ROA, while Department of Savings & Remittances, Chunghwa Post Co. recorded the highest ROE.

As for the capital adequacy ratio, the average ratio of domestic banks rose to 11.96 percent at the end of the year from 11.83 percent at the previous year-end on account of increased regulatory capital and reduced risk-weighted assets.



Source: Department of Financial Inspection, CBC.