

3. Banking Sector

Number of Monetary Financial Institutions Unchanged

At the end of 2011, the number of monetary financial institutions (defined hereafter in this chapter as monetary financial institutions excluding the central bank) remained at 394. Among them, the numbers of domestic banks and foreign banks remained the same. The number of credit cooperatives decreased by one as a result of a merger. One new credit department of a farmers' and fishermen's association was set up in 2011.

Number of Monetary Financial Institutions by Category

Types of institutions	End of 2011	End of 2010	Annual Change
Total Number of Main Offices	394	394	0
Domestic Banks	38	38	0
Foreign Banks	28	28	0
Credit Cooperatives	25	26	-1
Credit Departments of Farmers' and Fishermen's Associations	302	301	1
Department of Savings and Remittances of Chunghwa Post Co.	1	1	0
Total Number of Branches	6,052	6,016	36
Local Branches	5,887	5,860	27
Overseas Branches	104	95	9
Offshore Banking Units	61	61	0

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

In addition, the number of money market mutual funds remained at 2 at the end of 2011, the same as 2010. The number of financial holdings companies was 16, an increase of one from the previous year-end.

Market Shares of Deposits and Loans

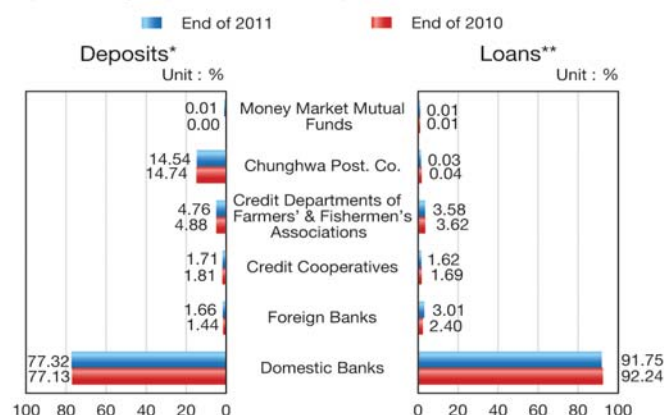
Domestic banks have played a major role in Taiwan's banking system. At the end of 2011, domestic banks achieved 77.32 percent and 91.75 percent in terms of market share of deposits and loans. Because of the vigorous activity of domestic banks, their market share of deposits increased compared with last year. On the other hand, their market share of loans decreased due to the economic slowdown and increasingly stricter credit checks for mortgage loans. In addition, foreign banks competing for more financial services with multi-national corporations gained larger market shares both in deposits and loans at 1.66 percent and 3.01 percent, respectively. Moreover, the market share of deposits of the Department of Savings and Remittances of Chunghwa Post

Co. slightly decreased to 14.54 percent at the end of 2011, while its market share of loans continued to fall to a mere 0.03 percent due to mandatory restrictions on its lending business. As for credit cooperatives and the credit departments of farmers' and fishermen's associations, their market share in terms of both deposits and loans continued to backslide because the capital flowed to large banks.

Sources and Uses of Funds in Monetary Financial Institutions

Monetary financial institutions' funds increased by NT\$1,563 billion during the year 2011 due to the increase in banks' transaction deposits and non-transaction deposits. Among the different sources of funds, the amount of banks' non-transaction deposits as well as their share in the sources of funds increased significantly owing to the interest rate rises in the first half of the year and the stock market slump during the second half of the year.

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



Note: * The carrying values of the host contracts of structured products issued by banks are excluded.

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

Source: Financial Statistics Monthly, CBC.

Sources and Uses of Funds in Monetary Financial Institutions*

Unit: NT\$ Billion

	End of 2011		End of 2010		Annual Change	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Sources:						
Transaction Deposits **	10,723	29.92	10,461	30.53	262	-0.61
Non-Transaction Deposits ***	20,622	57.54	19,490	56.88	1,132	0.66
Government Deposits	776	2.17	835	2.44	-59	-0.27
Borrowings from CBC	166	0.46	56	0.16	110	0.30
Other Items (Net)	3,546	9.91	3,428	9.99	118	-0.08
Total	35,833	100.00	34,270	100.00	1,563	0.00
Uses:						
Net Foreign Assets ****	1,540	4.30	1,469	4.29	71	0.01
Loans	20,961	58.50	19,851	57.93	1,110	0.57
Portfolio Investments *****	3,212	8.96	2,951	8.61	261	0.35
Purchases of CDs Issued by CBC	6,536	18.24	6,518	19.02	18	-0.78
Deposits with CBC	3,584	10.00	3,481	10.15	103	-0.15

Notes: * Monetary Financial Institutions include Domestic Banks, Local Branches of Foreign Banks, Credit Cooperatives, Credit Departments of Farmers' and Fishermen's Associations, Chunghwa Post Co., and Money Market Mutual Funds.

** 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.

**** Excluding valuation changes in the exchange rate of the NT dollar against foreign currencies.

***** Measured at original costs.

Source: Financial Statistics Monthly, CBC.

Transaction deposits also increased, though their share in the sources of funds shrank.

With respect to the uses of funds, banks' loans and portfolio investments contributed the most to the increase in 2011. Banks' loans and their share in the uses of funds increased owing to solid economic growth during the first half of the year. With banks' efforts to contain their investment risks amid the European sovereign debt crisis, portfolio investments, particularly those in government bonds, and their share in the uses of funds grew.

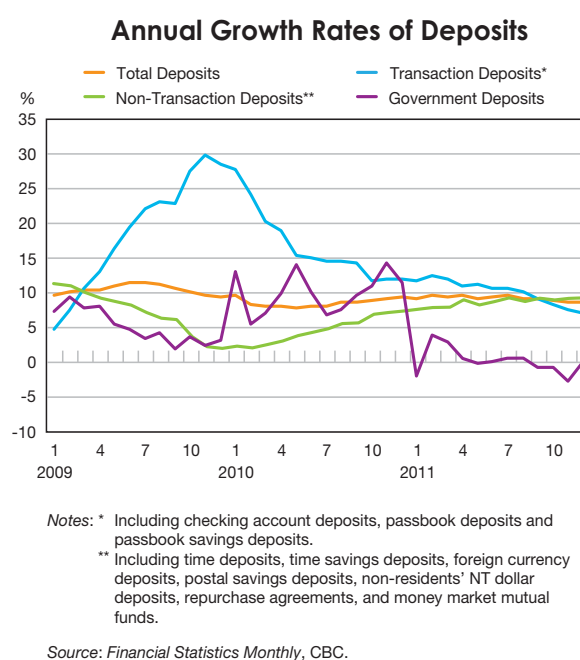
Downtrend in Deposit Growth

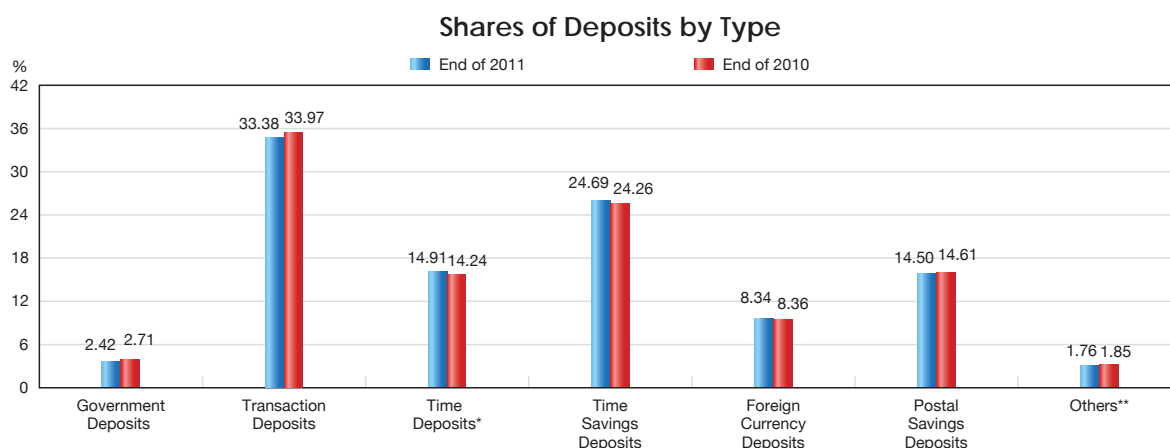
Total deposits of monetary financial institutions exhibited an upward trend except in May and August during the year 2011. However, its annual growth rate declined from the end of the previous year's 5.40 percent to 4.31 percent, mainly caused by a net foreign capital outflow.

The annual growth rate of deposits fell to 5.12 percent at the end of January due to a shift of funds from deposits to currency in circulation during the Chinese New Year holidays. However, with the currency in circulation gradually flowing back, the growth rate of deposits rose to 5.76 percent at the end of February. From March to July, the growth rates of deposits fluctuated between 5.30 percent and 5.85 percent, mainly attributable to stable growth in banks' loans and investments. From August onwards, owing to a net foreign capital outflow caused by stock price falls, coupled with a continuous decrease in banks' credit growth since October, the growth rates of deposits gradually declined to their all-year low of 4.31 percent at the end of the year.

The annual growth rate of transaction deposits declined to 2.50 percent at the end of the year from last year's 8.98 percent. The decline was because of a shift of funds from transaction deposits to non-transaction deposits caused by the downturn in stock markets and the wider interest rate spread between these two deposits after two policy rate hikes. The share of transaction deposits in total deposits also decreased in 2011. The annual growth rate of non-transaction deposits rose to 5.77 percent at the end of the year from 3.46 percent at the previous year-end; their share in total deposits also increased.

By type of non-transaction deposits, the shares of time deposits and time savings deposits





Notes: * Including NCDs.

** Including repurchase agreements, nonresidents' NTD deposits and money market mutual funds.

Source: *Financial Statistics Monthly*, CBC.

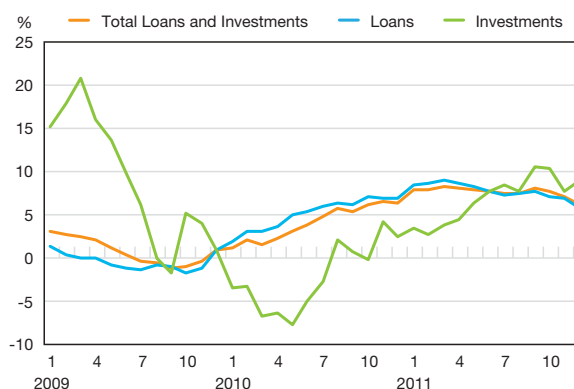
in total deposits both went up at the end of the year compared with the previous year-end, while the shares of other types of non-transaction deposits marginally declined.

The growth trend of government deposits in monetary financial institutions reversed from the previous year's 8.11 percent to -7.02 percent, reflecting an increasing efficiency of government finance. Accordingly, a smaller share in total deposits was registered.

Increase in Banks' Loans and Investments

The annual growth rate of loans and investments of monetary financial institutions declined to 6.00 percent at the end of 2011 compared to the 6.15 percent recorded at the end of the previous year. This was mainly due to slowing economic growth weakening private enterprises' demand for funds. Loans posted an annual growth rate of 5.58 percent at the end of 2011, lower than the 6.74 percent recorded a year earlier, while the growth of investments rose to 8.84 percent in 2011 from 2.36 percent in 2010.

Annual Growth Rate of Loans and Investments



Sources: *Financial Statistics Monthly*, CBC.

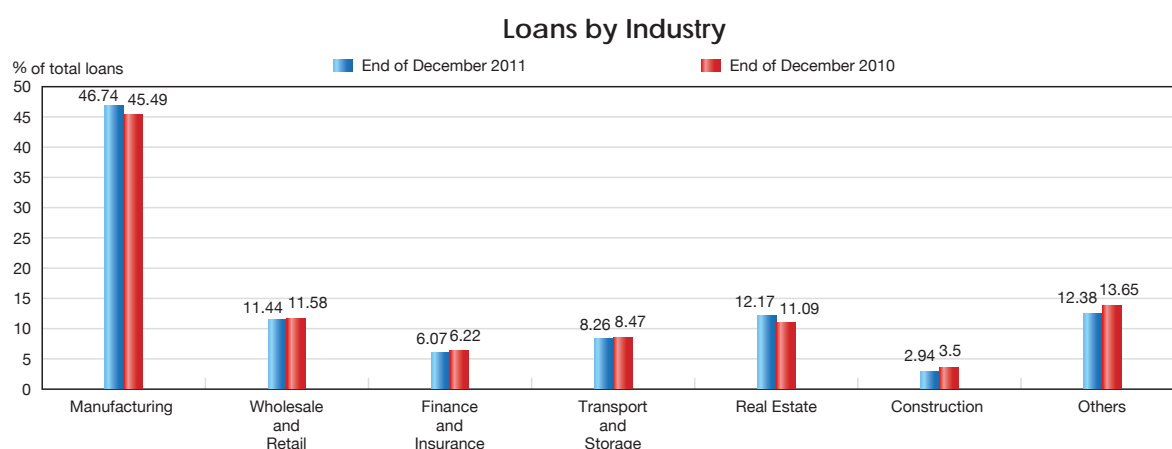
Loans by Sector

At the end of 2011, loans extended to the private sector, government agencies and public enterprises accounted for 88.08 percent, 7.76 percent and 4.16 percent of total loans, respectively.

Due to a decrease in demand for funds, the respective annual growth rates of loans to the private sector and public enterprises declined to 6.20 percent and 4.13 percent at the end of 2011 from 7.23 percent and 7.92 percent a year earlier. Meanwhile, the annual growth rate of loans to government agencies rose to 2.15 percent from the 0.95 percent of the previous year-end.

Loans by Industry

Among all industries, the manufacturing sector continued to account for the largest portion of bank loans, increasing from 45.49 percent in 2010 to 46.74 percent in 2011. This was mainly due to an increase in bank loans extended to the electronic parts and components industry. In addition, the respective shares of loans extended to the wholesale and retail industry, finance and insurance industry, transport and storage industry, construction industry and other industries fell in 2011 from the previous year-end, while those to the real estate industry increased in 2011 from the previous year-end.



Source: Financial Statistics Monthly, CBC.

Consumer Loans

With regard to consumer loans, growth was limited as a result of economic slowdown and government action to enhance credit risk control over real estate-related lending after October 2009. At the end of 2011, the outstanding balance of consumer loans extended by banks recorded an annual increase of NT\$76.8 billion or 1.14 percent from the previous year-end.

Investments

Owing to flush liquidity in the market, portfolio investments by monetary financial institutions measured on a cost basis showed an annual increase of NT\$261 billion or 8.84 percent in 2011, significantly higher than the growth of NT\$68.1 billion or 2.36 percent a year earlier. Among the

investment instruments, government bonds accounted for the largest share with 64.38 percent, higher than the 63.52 percent a year ago, mainly due to the massive purchases of government bonds by banks and the Department of Savings and Remittances of Chunghwa Post Co. Moreover, the annual growth rate of investment in government bonds rose from 6.64 percent to 9.34 percent at the end of 2011. When measured at fair value, the annual increase of portfolio investments by monetary financial institutions equalled NT\$214.1 billion.

Increase in the Share of Indirect Finance

Financing channels of the non-financial sector comprise indirect finance and direct finance, referring respectively to borrowing from financial institutions and issuing securities in the markets. The total amount of funds raised by the non-financial sector during the year 2011 decreased from the previous year(s) NT\$1841.8 billion to NT\$1,802.9 billion. Funds raised through borrowing from financial institutions increased from the previous year's NT\$1,696.7 billion to NT\$1,781.7 billion, mainly due to the increasing portfolio investments of banks and life insurance companies. Meanwhile, funds raised by issuing securities fell to NT\$21.2 billion. Based on the outstanding balance, the share of indirect finance in total funds increased from 77.76 percent at the end of 2010 to 78.36 percent at year-end 2011, while the share of direct finance decreased from 22.24 percent to 21.64 percent.

Indirect Finance vs. Direct Finance*

Unit: NT\$ Billion

Year	Total Funds Raised (3)=(1)+(2)	Indirect Finance (1)			Direct Finance (2)
		Subtotal	Loans	Investments	
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	532.5	382.4	130.4	252.0	150.1
2010	1,841.8	1,696.7	1,242.5	454.2	145.1
2011	1,802.9	1,781.7	1,141.4	640.3	21.2

Notes: *Measured in terms of flow data.

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

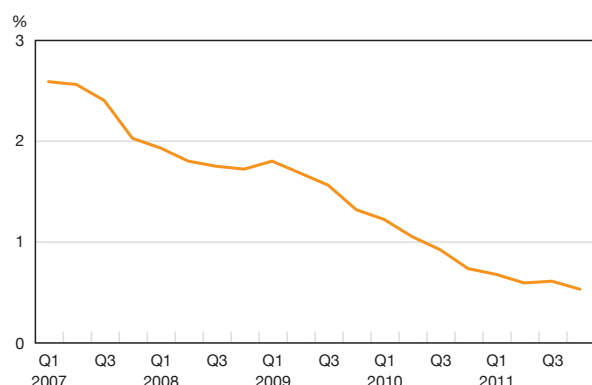
(2) Refers to the total amount of new issues of various marketable securities, including government bonds, corporate bonds, listed stocks, offshore bonds, depository receipts, short-term bills and asset-backed securities held by the non-financial sector.

Source: Financial Statistics Monthly, CBC

Decline in the Non-performing Loan (NPL) Ratio

Supported by moderate economic expansion and the better financial performance of the private sector, the asset quality of domestic financial institutions continued to improve in 2011. As

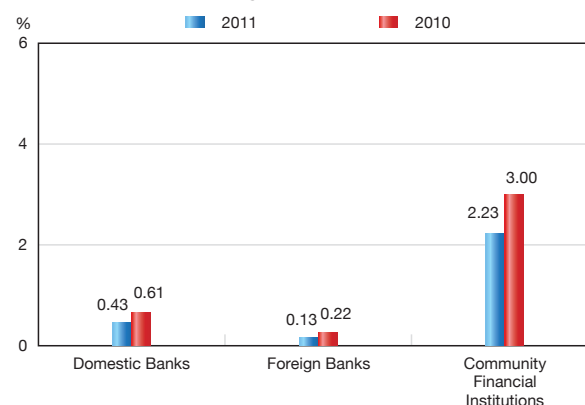
**Non-Performing Loan Ratios
of Monetary Financial Institutions***



Note: * Include domestic 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 Monetary Financial Institutions**



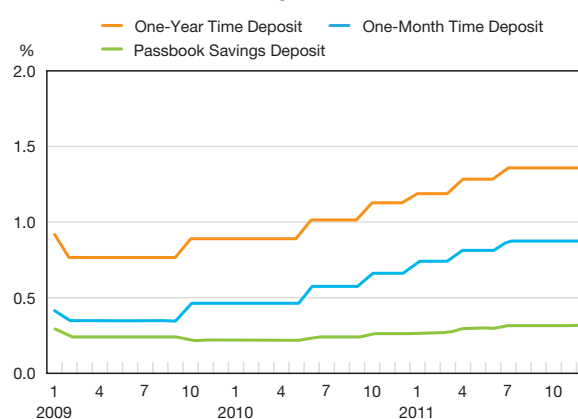
Source: Department of Financial Inspection, CBC.

a result, the average NPL ratio of monetary financial institutions as a whole declined to 0.51 percent at the end of 2011, lower than the previous year's 0.72 percent. Among the different types of financial institutions, the average NPL ratio of community financial institutions continued to show the biggest improvement during the course of the year.

Uptrend of Interest Rates

During the first half of 2011, Taiwan's economy exhibited stable growth. The Bank raised policy interest rates twice to ensure price and financial stability. However, in the second half of the year, due to the global economic downturn and uncertainties, domestic bank interest rates stopped moving up as the Bank kept policy rates unchanged. In the case of the interest rates of the five major domestic banks, the average fixed rates on one-month and one-year time deposits increased to 0.88 percent and 1.36 percent at the end of July 2011 from 0.67 percent and 1.13 percent at the previous year-end, respectively, and then remained steady until the end of the year. Furthermore, the average base lending rate rose to 2.88 percent at the end of 2011 from 2.68 percent at the previous year-end.

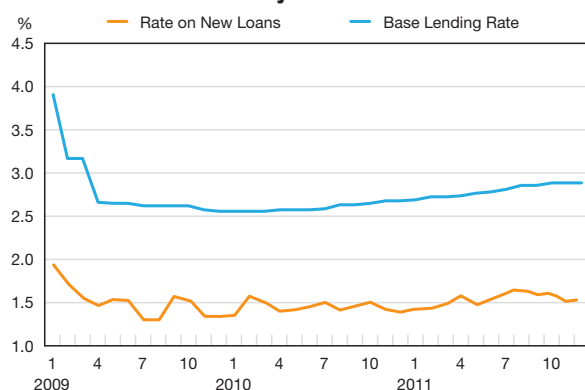
**Average Deposit Rates
of the Five Major Domestic Banks***



Note: * The five major domestic banks are Bank of Taiwan, Taiwan Cooperative Bank, Hua Nan Commercial Bank and Land Bank of Taiwan.

Source: Financial Statistics Monthly, CBC.

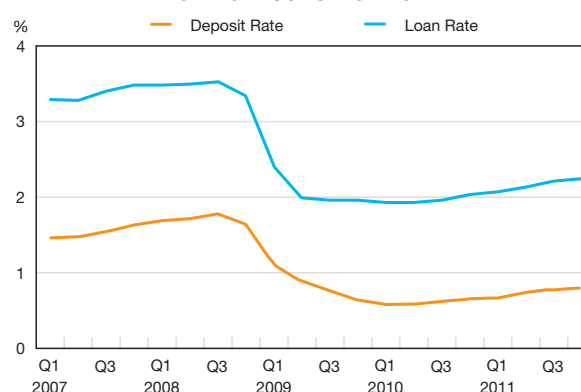
**Average Lending Rates
of the Five Major Domestic Banks***



Note: * The five major domestic banks are Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank and Land Bank of Taiwan.

Source: Financial Statistics Monthly, CBC.

**Weighted Average Interest Rates
of Domestic Banks**



Source: Financial Statistics Monthly, CBC.

As the banks' base lending rate climbed following the Bank's discount rate increase in 2011, the weighted average interest rate on new loans of the five major domestic banks mildly moved upward and fluctuated between 1.42 percent and 1.65 percent. The weighted average rate on new loans merely increased from 1.44 percent in 2010 to 1.54 percent in 2011. Excluding government loans, the weighted average rate on new loans increased from 1.49 percent in 2010 to 1.57 percent in 2011.

Following the Bank's policy interest rate hikes, the weighted average rates on deposits and loans of domestic banks edged up steadily in 2011. In the fourth quarter of the year, the weighted average interest rates on deposits and loans were 0.80 percent and 2.23 percent, respectively, up from 0.66 percent and 2.04 percent at the previous year-end. Because the increases in lending rates were more than in deposit rates, the interest rate spread between deposits and loans widened to 1.43 percentage points, more than the 1.38 percentage points recorded in the fourth quarter of 2010.

Improved Profitability

The pre-tax profits of monetary financial institutions increased by NT\$19.3 billion to a historical high of NT\$235.2 billion in 2011. Those of domestic banks increased by NT\$16.0 billion to NT\$200.8 billion, mainly due to increased net interest revenues. The pre-tax profits of the Department of Savings and Remittances, Chunghwa Post Co. decreased by NT\$4.6 billion to NT\$11.0 billion due to decreases in the fair value of its financial assets and losses from portfolio investments.

Profits of Monetary Financial Institutions

Unit: NT\$ Billion

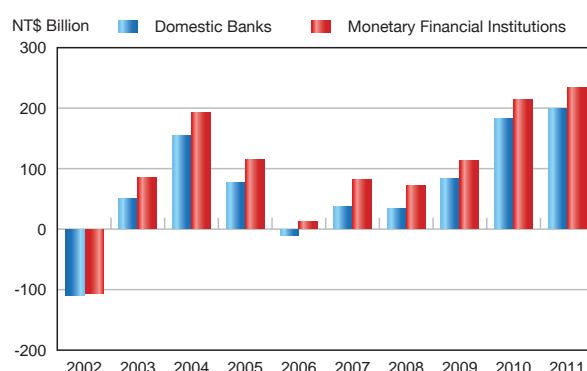
	Pre-tax Profits			Return on Assets (%)*			Return on Equity (%)**		
	2011	2010	Annual Change	2011	2010	Annual Change	2011	2010	Annual Change
Domestic Banks	200.8	184.8	16.0	0.57	0.55	0.02	9.04	8.75	0.29
Foreign Banks	16.8	10.3	6.5	0.59	0.45	0.14	23.60	15.52	8.08
Credit Cooperatives	1.8	1.7	0.1	0.30	0.28	0.02	4.61	4.16	0.45
Credit Departments of Farmers' and Fishermen's Associations	4.8	3.5	1.3	0.29	0.21	0.08	4.85	3.66	1.19
Department of Savings and Remittances, Chunghwa Post Co.	11.0	15.6	-4.6	0.23	0.33	-0.10	15.11	19.74	-4.63
Total	235.2	215.9	19.3	0.52	0.51	0.01	9.39	9.02	0.37

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

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

Source: Department of Financial Inspection, CBC.

Pre-tax Profits

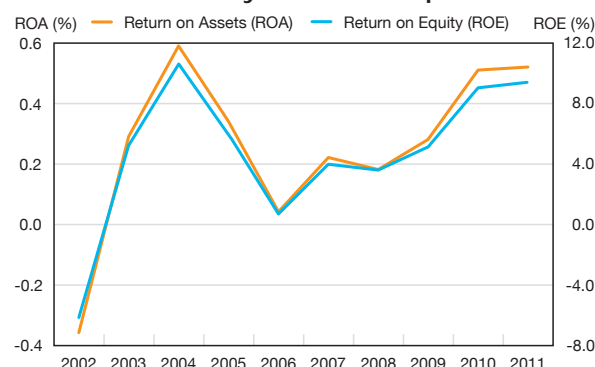


Source: Department of Financial Inspection, CBC.

Increases in Both ROA and ROE

The average return on assets (ROA) and return on equity (ROE) of monetary financial institutions in 2011 went up to 0.52 percent and 9.39 percent, respectively, from 0.51 percent and 9.02 percent a year earlier. Except the Department of Savings and Remittances, Chunghwa Post Co., ROAs and ROEs of all the other monetary financial institutions strengthened during the course of the year. Among the monetary financial institutions, foreign banks were the best performers in terms of ROA and ROE.

ROA and ROE of Monetary Financial Inspection



Source: Department of Financial Inspection, CBC.

With regard to capital adequacy ratios, the average ratio for domestic banks rose to 12.07 percent at the end of the year from 11.96 percent at the previous year-end on account of an increase of Tier 1 capital.