

### 3. Banking Sector

#### Number of Monetary Financial Institutions

At the end of 2012, the number of monetary financial institutions (defined hereafter in this chapter as excluding the central bank) amounted to 396. Among them, the number of domestic banks increased by one with the opening of DBS Bank (Taiwan). The number of foreign and Mainland Chinese banks increased by two as Bank of China and Bank of Communications set up their branches in Taiwan. The number of farmers' and fishermen's associations remained the same, while the number of credit cooperatives decreased by one as a result of one being merged into E.SUN Commercial Bank.

#### Number of Monetary Financial Institutions by Category

Types of institutions	End of 2012	End of 2011	Annual Change
Total Number of Main Offices	396	394	2
Domestic Banks	39	38	1
Foreign Banks	30	28	2
Credit Cooperatives	24	25	-1
Credit Departments of Farmers' and Fishermen's Associations	302	302	0
Department of Savings and Remittances of Chunghwa Post Co.	1	1	0
Total Number of Branches	6,077	6,052	25
Local Branches	5,905	5,887	18
Overseas Branches	110	104	6
Offshore Banking Units	62	61	1

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

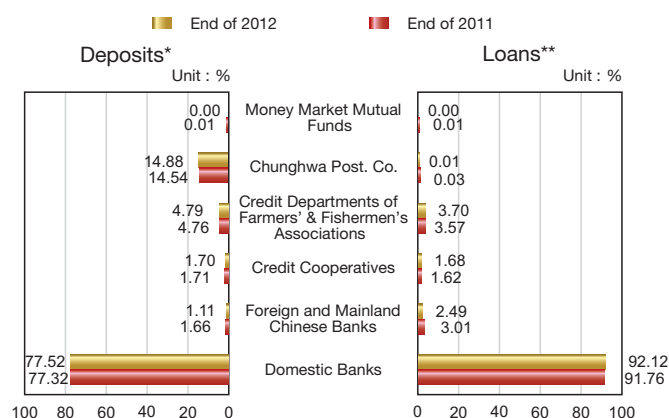
The number of money market mutual funds shrank to one at the end of 2012 because one fund offered by Taishin Bank was liquidated in October. The number of financial holding companies remained 16, the same as at the end of 2011.

#### Market Shares of Deposits and Loans

Domestic banks have played a major role in Taiwan's banking system. At the end of 2012, domestic banks accounted for 77.52 percent of deposits and 92.12 percent of loans in terms of market share, both higher than the previous year, owing to the transfer of business from DBS Bank Ltd., Taipei Branch, to the newly launched domestic-chartered DBS Bank (Taiwan) Ltd. Accordingly, foreign and Mainland Chinese banks' market shares of deposits and loans dropped to 1.11 percent and 2.49 percent, respectively. The Department of Savings and Remittances of Chunghwa Post Co.'s market share of deposits increased to 14.88 percent, while its market share of loans continued to

slip to a mere 0.01 percent because statutory restrictions on its lending business made it direct its funds into central bank redeposits and government bonds. Unlike the year before, credit departments of farmers' and fishermen's associations gained greater market shares in both deposits and loans, while credit cooperatives also saw a slight increase in their market share of loans, both attributable to their efforts to expand business. The market share of deposits for credit cooperatives, however, continued to fall owing to deposit outflows.

### 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

At the end of 2012, the sources of funds in monetary financial institutions totaled NT\$37,209 billion, increasing by NT\$1,376 billion compared to the end of 2011. Among the sources of funds, the balance of transaction deposits increased compared to the end of 2011 because Taiwan's

### Sources and Uses of Funds in Monetary Financial Institutions<sup>1</sup>

Unit: NT\$ Billion

	End of 2012		End of 2011		Annual Change	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
<b>Sources:</b>						
Transaction Deposits <sup>2</sup>	11,215	30.14	10,723	29.92	492	0.22
Non-transaction Deposits <sup>3</sup>	21,156	56.86	20,622	57.54	534	-0.68
Government Deposits	762	2.05	776	2.17	-14	-0.12
Borrowings from CBC	151	0.41	166	0.46	-15	-0.05
Other Items (Net)	3,925	10.54	3,547	9.91	378	0.63
<b>Total</b>	<b>37,209</b>	<b>100.00</b>	<b>35,833</b>	<b>100.00</b>	<b>1,376</b>	<b>0.00</b>
<b>Uses:</b>						
Net Foreign Assets <sup>4</sup>	1,481	3.98	1,540	4.30	-59	-0.32
Loans	21,650	58.19	20,961	58.50	690	-0.31
Portfolio Investments <sup>5</sup>	3,898	10.48	3,212	8.96	687	1.52
Purchases of CDs Issued by CBC	6,514	17.51	6,536	18.24	-22	-0.73
Deposits with CBC	3,666	9.84	3,585	10.00	81	-0.16

Notes: 1. Including Domestic Banks, Local Branches of Foreign and Mainland Chinese Banks, Credit Cooperatives, Credit Departments of Farmers' and Fishermen's Associations, Chunghwa Post Co., and Money Market Mutual Funds.

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

3. Including time deposits, time savings deposits, foreign currency deposits (excluding valuation changes in the exchange rate of the NT dollar against foreign currencies), postal savings deposits, non-residents' NT dollar deposits, repurchase agreements and money market mutual funds.

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

5. Measured at original costs.

Source: Financial Statistics Monthly, CBC.

stock market stabilized during the second half of 2012, resulting in a shift of funds into transaction deposits as well as a net foreign capital inflow. The balance of non-transaction deposits also increased compared to the end of 2011, yet with limited growth because of a shift of funds toward non-deposit products, such as insurance and mutual funds. Other sources of funds rose significantly, mainly owing to increased issuance of bank debentures as well as a rising amount of deposits from life insurance companies.

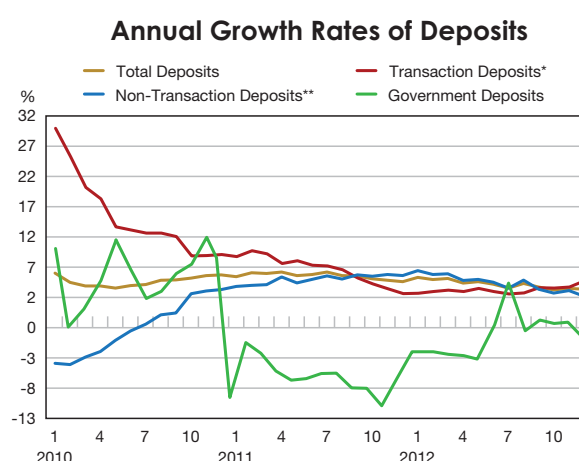
Regarding the uses of funds, because domestic economic growth was below expectation, corporate investment weakened, slowing banks' loan growth. However, with ample liquidity in the banking sector, portfolio investments continued to expand.

### Downtrend in Deposit Growth

At the end of 2012, total deposits of monetary financial institutions grew by 3.15 percent, lower than 4.31 percent at the end of the previous year. This was mainly attributable to a modest deceleration in the growth in bank loans and investments.

The annual growth rate of deposits hit a yearly high of 4.99 percent at the end of January, reflecting a stronger demand for funds during the Chinese New Year holidays. Afterwards, given vigorous trading in the stock market and net foreign capital inflows, the annual growth rate of deposits stood at 4.69 percent and 4.84 percent at the end of February and March, respectively. In April, owing to a net outflow of foreign capital, as opposed to the significant foreign capital inflow in the same period of the previous year, the annual growth rate of deposits dropped slightly to 4.09 percent. In the following months, when the stock market began to falter, along with slower growth in bank loans and investments, deposit growth slowed steadily from 4.32 percent at the end of May to 3.30 percent at the end of July. Nevertheless, deposits posted 4.07 percent growth at the end of August owing to a significant increase in foreign currency deposits incurred by a wider goods trade surplus. From September to November, with declining net foreign capital inflows and a re-allocation of funds towards non-deposit products such as insurance and mutual funds, the annual growth rate of deposits edged down from 3.45 percent to 3.23 percent. At the end of the year, the annual growth rate of deposits was 3.15 percent owing to a higher base effect.

The annual growth rate of transaction deposits rose from the end of last year's 2.50



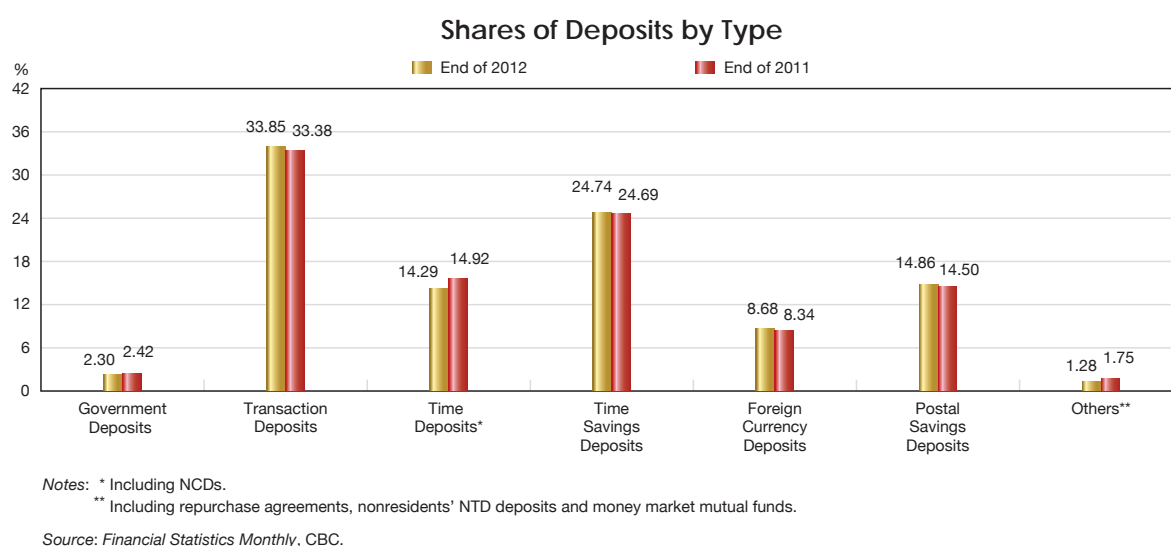
Notes: \* Including checking account deposits, passbook deposits and passbook savings deposits.

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

Source: Financial Statistics Monthly, CBC.

percent to 4.59 percent at the end of the year, and its share in total deposits also increased. The growth was attributable to a shift of deposits from non-transaction to transaction accounts in the context of a steady economic recovery and the ensuing upswing in the stock market in the second half of 2012, while the interest rate spread between these two categories of deposits remained the same. Correspondingly, the annual growth rate of non-transaction deposits declined from 5.77 percent to 2.59 percent at the year end, with its share in total deposits decreased as well.

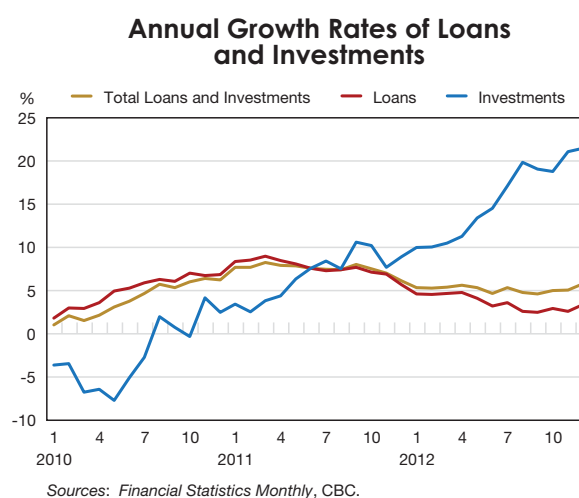
By type of non-transaction deposits, the respective shares of time savings deposits, foreign currency deposits, and postal savings deposits rose at the end of the year, while the shares of other types of non-transaction deposits decreased.



Despite a reduction in government deposits in monetary financial institutions resulting from a larger repayment of government bonds, government deposits growth improved from -7.02 percent to -1.81 percent at the end of 2012 on a lower base effect, and its share in total deposits shrank to 2.30 percent.

### Slowing Growth in Banks' Loans and Investments

The annual growth rate of loans and investments of monetary financial institutions declined to 5.69 percent at the end of 2012, compared to 6.00 percent recorded at the end



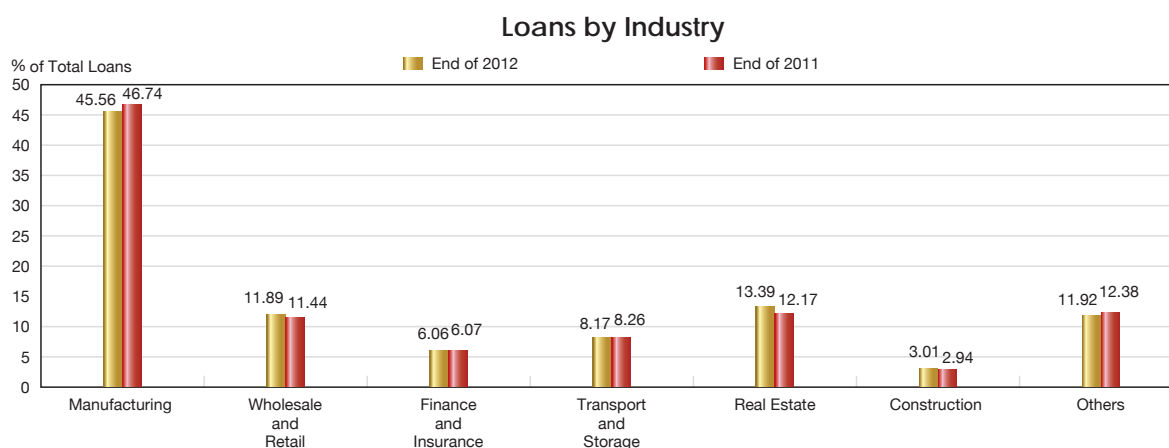
of the previous year. This was mainly due to the weak demand for funds among Taiwan's private enterprises amid a slowing global economy. Loans posted an annual growth rate of 3.29 percent at the end of 2012, lower than the 5.58 percent a year earlier, while the annual growth rate of investments rose to 21.37 percent in 2012 from the 8.84 percent in 2011 because of high liquidity in banks.

## Loans by Sector

At the end of 2012, loans extended to the private sector, government agencies and public enterprises accounted for 88.75 percent, 7.85 percent and 3.41 percent of total loans, respectively. Because demand for funds decreased and banks were more prudent in their real estate lending to enhance their risk control, the annual growth rate of loans to the private sector declined to 3.57 percent at the end of 2012 from 6.20 percent at the end of the previous year. The annual growth rate of loans to public enterprises declined to -15.85 percent at the end of 2012 from 4.13 percent, mainly because public enterprises increased the issuance of commercial paper to meet their funding needs. Meanwhile, the annual growth rate of loans to government agencies rose to 3.95 percent from 2.15 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, with its share slightly decreasing from 46.74 percent at the previous year end to 45.56 percent at the end of 2012. This was mainly due to slowing growth in bank loans to the export industry. In addition, the respective shares of loans extended to the construction industry, the real estate industry, and the wholesale and retail industry increased in 2012 from the previous year end, while those to the transport and storage industry and the finance and insurance industry fell.



Source: Financial Statistics Monthly, CBC.

## Consumer Loans

Owing to a moderating economy and further government actions to enhance the soundness of the housing market, the annual growth rate of consumer loans extended by banks decreased from 0.95 percent at the previous year end to 0.92 percent at the end of 2012.

## Investments

Boosted by flush liquidity in the market and increased issuance of corporate bonds and bills, portfolio investments by monetary financial institutions measured on a cost basis showed an annual increase of NT\$686.4 billion (an increase of NT\$712.5 billion at fair value) or 21.37 percent at year end, higher than the NT\$261.0 billion or 8.84 percent registered a year earlier. Among the investment instruments, government bonds accounted for the largest share with 59.32 percent, though lower than the 64.38 percent registered a year ago, as banks and the Department of Savings and Remittances of Chunghwa Post Co. purchased more corporate bonds and commercial paper.

## 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 to issuing securities in the markets. The total amount of funds raised by the non-financial sector during the year 2012 decreased from the previous year's NT\$1,802.9 billion to NT\$1,707.1 billion. Funds raised in the year through borrowing from financial institutions decreased from the previous year's NT\$1,783.9 billion to NT\$1,690.1 billion, mainly owing to slower growth in bank lending. Meanwhile, funds raised by issuing securities increased

### Indirect Finance vs. Direct Finance\*

Unit: NT\$ Billion

Year	Indirect Finance (1)			Direct Finance (2)	Total Funds Raised (3)=(1)+(2)
	Loans	Investments	Subtotal		
2003	711.5	4.5	716.0	961.1	1,677.1
2004	1,569.7	246.2	1,815.9	313.4	2,129.3
2005	1,458.5	321.7	1,780.2	181.5	1,961.7
2006	820.6	537.1	1,357.7	-151.3	1,206.4
2007	737.0	228.6	965.6	82.7	1,048.3
2008	649.2	563.0	1,212.2	-316.1	896.1
2009	133.0	259.3	392.3	142.8	535.1
2010	1,242.6	433.8	1,676.4	165.5	1,841.9
2011	1,141.4	642.5	1,783.9	19.0	1,802.9
2012	809.4	880.7	1,690.1	17.0	1,707.1

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.

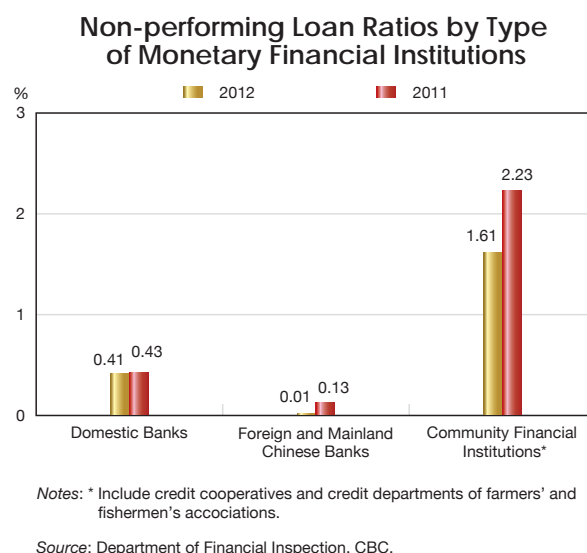
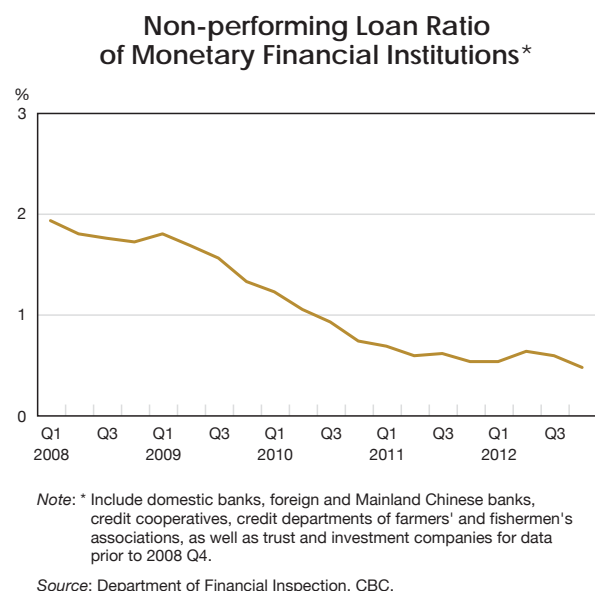
(2) Refers to the total amount of new issues of various marketable securities, including government bonds, corporate bonds, listed stocks, offshore bonds, depository receipts, short-term bills and asset-backed securities held by the non-financial sector.

Source: Financial Statistics Monthly, CBC

by NT\$17.0 billion. Based on the outstanding balance, the share of indirect finance in total funds increased from 78.30 percent at the end of 2011 to 78.90 percent at the end of 2012, while that of direct finance decreased from 21.70 percent to 21.10 percent.

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

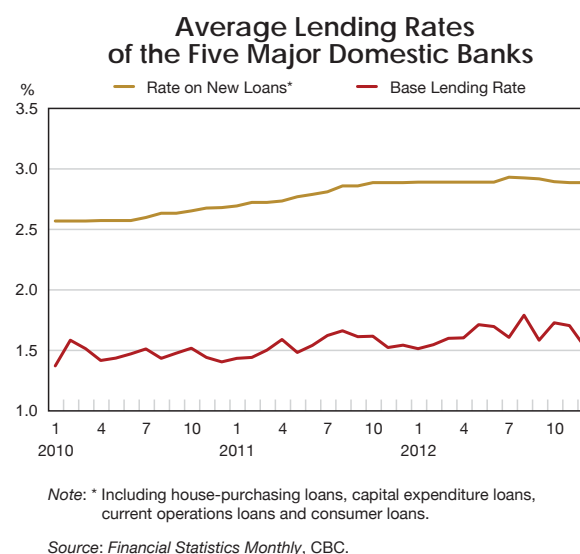
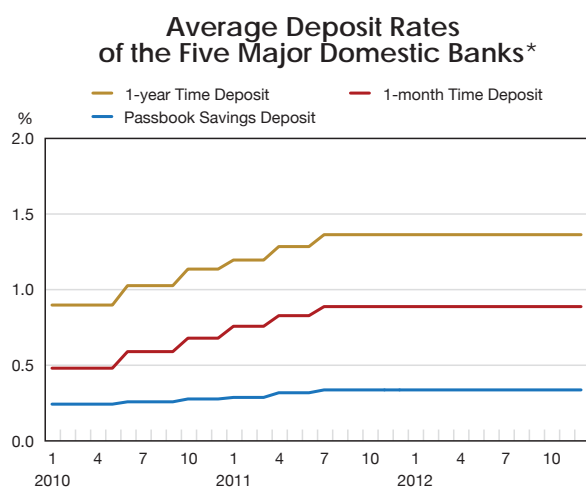
In 2012, the outstanding amount of loans continued to increase, and non-performing loans decreased gradually. As a result, the average NPL ratio of monetary financial institutions as a whole declined to 0.45 percent at the end of 2012 from the previous year's 0.51 percent, indicating improved asset quality. 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.



### Bank Interest Rates Unchanged

Against a backdrop of global economic slowdown and financial market uncertainties, domestic bank interest rates remained broadly steady as the Bank kept policy rates unchanged. In the case of the interest rates of the five major domestic banks, average fixed rates on one-month and one-year time deposits, respectively, remained at 0.88 percent and 1.36 percent at the end of 2012. Furthermore, the average base lending rate rose to 2.93 percent at the end of July from 2.88 percent at the end of 2011, but went down to 2.88 percent at the end of 2012.

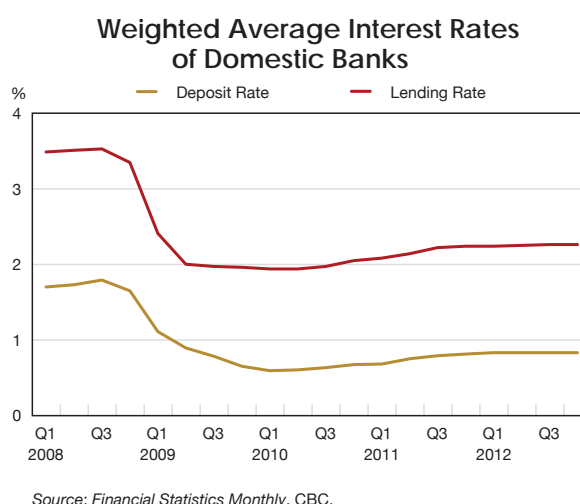
As banks' rates on current operations loans climbed in 2012, the weighted average interest rate on new loans of the five major domestic banks edged up from 1.54 percent in 2011 to 1.62



percent in 2012. Excluding central government loans, the weighted average interest rate on new loans increased from 1.57 percent in 2011 to 1.68 percent in 2012, up by 11 basis points.

The weighted average interest rates on deposits and loans of domestic banks edged up steadily in 2012. Stock market activity weakened through out the first half of the year and induced a shift of funds from transaction deposits to non-transaction deposits. The weighted average interest rate on deposits was 0.82 percent, which was 0.07 percentage points higher than that recorded in the previous year.

As some banks' base lending rates increased, the weighted average interest rate on loans moved upward from 2.16 percent to 2.24 percent during the same period. Because the increases in lending rates were more than in deposit rates, the interest rate spread between deposits and loans widened to 1.42 percentage points, slightly higher than the 1.41 percentage points recorded in 2011.



### Improved Profitability

The pre-tax profits of monetary financial institutions increased by NT\$39.3 billion to a historical high of NT\$274.5 billion in 2012. Those of domestic banks increased by NT\$39.9 billion to NT\$240.7



## Profits of Monetary Financial Institutions

Unit: NT\$ Billion

	Pre-tax Profits			Return on Assets (%)*			Return on Equity (%)**		
	2012	2011	Annual Change	2012	2011	Annual Change	2012	2011	Annual Change
Domestic Banks	240.7	200.8	39.9	0.65	0.57	0.08	9.87	9.04	0.83
Foreign and Mainland Chinese Banks	13.2	16.8	-3.6	0.55	0.59	-0.04	20.01	23.60	-3.59
Credit Cooperatives	2.3	1.8	0.5	0.38	0.30	0.08	5.83	4.61	1.22
Credit Departments of Farmers' and Fishermen's Associations	4.9	4.8	0.1	0.28	0.29	-0.01	4.70	4.85	-0.15
Department of Savings and Remittances, Chunghwa Post Co.	13.4	11.0	2.4	0.26	0.23	0.03	16.76	15.11	1.65
Total	274.5	235.2	39.3	0.58	0.52	0.06	10.06	9.39	0.67

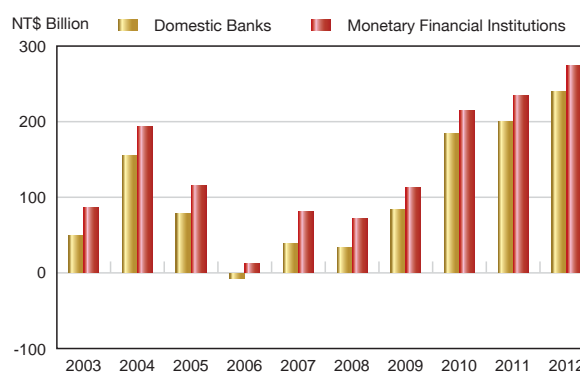
Notes: \* Return on Assets = Pre-tax Profits / Total Assets

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

Source: Department of Financial Inspection, CBC.

billion, mainly owing to both increased net interest revenues and increases in the fair value of their financial assets and revenues from portfolio investments. The pre-tax profit of the Department of Savings and Remittances, Chunghwa Post Co. increased by NT\$2.4 billion to NT\$13.4 billion because of increases in the fair value of its financial assets and revenues from portfolio investments. The pre-tax profit of foreign and Mainland Chinese banks decreased by NT\$3.6 billion to NT\$13.2 billion because of the transfer of core business from DBS Bank Ltd., Taipei Branch to DBS Bank (Taiwan) Ltd.

### Pre-tax Profits

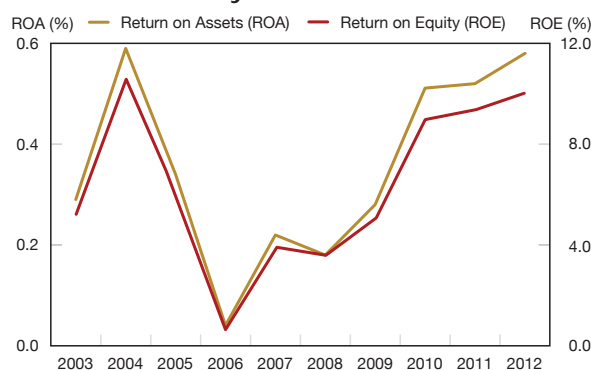


Source: Department of Financial Inspection, CBC.

### Increases in Both ROA and ROE

The average return on assets (ROA) and return on equity (ROE) of monetary financial institutions in 2012 went up to 0.58 percent and 10.06 percent, respectively, from 0.52 percent and 9.39 percent a year earlier. Except foreign and Mainland Chinese banks and credit departments of farmers' and fishermen's associations, the ROAs and ROEs of all the other monetary financial institutions strengthened during the course of the year. Among monetary financial institutions, domestic banks

### ROA and ROE of Monetary Financial Institutions

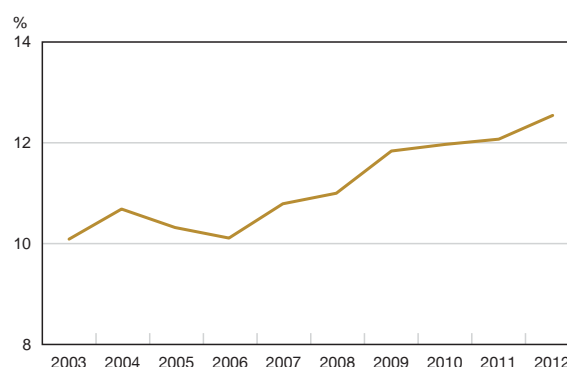


Source: Department of Financial Inspection, CBC.

were the best performers in terms of ROA, and foreign and Mainland Chinese banks performed the best in terms of ROE.

With regard to capital adequacy ratios, the average ratio for domestic banks rose to 12.55 percent at the end of the year from 12.07 percent at the previous year end on account of an increase of Tier 1 capital.

**Capital Adequacy Ratio  
of Domestic Banks**



Source: Department of Financial Inspection, CBC.

