3. Banking Sector

Number of Monetary Financial Institutions

At the end of 2013, the number of monetary financial institutions (defined hereafter in this chapter as excluding the central bank) amounted to 399. Among them, the number of domestic banks increased by one with the opening of ANZ Bank (Taiwan). The number of foreign and Mainland Chinese banks increased by one as China Construction Bank set up its branch in Taiwan. The number of credit cooperatives remained the same, while the number of credit departments of farmers' and fishermen's associations increased by one owing to a re-opening.

Number of Monetary Financial Institutions by Category

Types of institutions		End of 2013	End of 2012	Annual Change
Total Number of Main Offices		399	396	3
	Domestic Banks	40	39	1
	Credit and Mainland Chinese Banks	31	30	1
	Credit Cooperatives	24	24	0
	Credit Departments of Farmers' and Fishermen's Associations	303	302	1
	Chunghwa Post	1	1	0
Total Number of Branches		6,102	6,077	25
	Local Branches	5,927	5,905	22
	Overseas Branches	112	110	2
	Offshore Banking Units	63	62	1

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

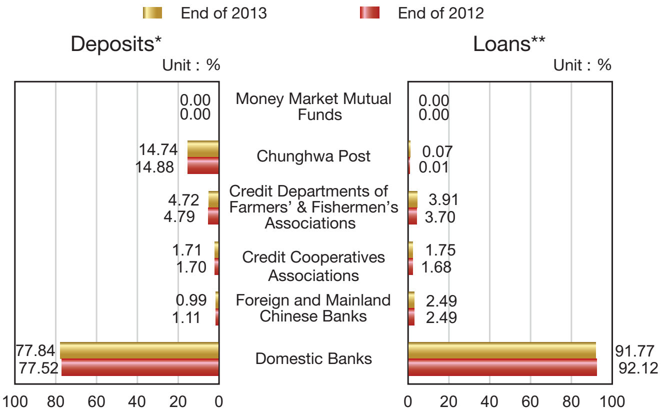
The number of money market mutual funds and the number of financial holding companies remained at 1 and 16, respectively, with the former being a fund raised and managed by Yuanta Commercial Bank.

Market Shares of Deposits and Loans

In terms of market share of deposits, domestic banks accounted for 77.84 percent at the end of 2013, higher than the previous year, owing to their efforts to solicit renminbi (RMB) deposits following the commencement of RMB business in February of the year. As the RMB deposits flowed into domestic banks, foreign and Mainland Chinese banks, credit departments of farmers' and fishermen's associations, and the Chunghwa Post lost some of their market shares of deposits which slipped to 0.99 percent, 4.72 percent, and 14.74 percent, respectively. The market share of deposits for credit cooperatives slightly increased by 0.01 percentage points.

In terms of loans, the market share of domestic banks dropped to 91.77 percent for the year, owing to a greater amount of government repayment, while the share of foreign and Mainland Chinese banks remained at 2.49 percent. The Chunghwa Post's market share of loans edged up to 0.07 percent, reflecting an increase in lending to bills finance companies with its excess cash. As for credit departments of farmers' and fishermen's associations and credit cooperatives, their market shares in loans continued to climb, both attributable to their efforts to expand business.

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



Notes: * 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 2013, the total amount of funds in monetary financial institutions was NT$39,530 billion, increasing by NT$2,321 billion compared to the end of 2012. Because of a significant increase in net foreign capital inflows, all the sources of funds except government deposits increased. However, as the stock market rebounded, it attracted a shift of funds from non-transaction deposits to transaction deposits. As a result, the share of non-transaction deposits shrank, while that of transaction deposits rose.

As the RMB deposits business commenced in February 2013, the outstanding balance of foreign currency deposits climbed. Therefore, foreign currency deposits took up a greater share in total non-transaction deposits, while the share of NT dollar deposits decreased, compared to the end of the previous year. Furthermore, the net worth of other items increased, mainly coming from banks' increasing profits and capital increase by cash.

Regarding the uses of funds, all items increased at the end of 2013 compared to the end of 2012. More specifically, a robust real estate market and improving foreign trade pushed up personal and corporate demand for capital, leading the outstanding balance of NT dollar loans to increase. On the other hand, affected by banks' aggressive expansions in overseas loans and the Chinese government's credit tightening, both the claims on banks' OBUs and foreign currency loans increased. They resulted in increasing shares of both net foreign assets and foreign currency loans compared to the end of 2012.

Sources and Uses of Funds in Monetary Financial Institutions[1]

Unit: NT$ Billion

	End of 2013		End of 2012		Annual Change	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Sources:						
Transaction Deposits[2]	12,141	30.71	11,215	30.14	926	0.57
Non-transaction Deposits[3]	22,048	55.77	21,156	56.86	892	-1.09
NT Dollar Deposits	18,573	46.98	18,281	49.13	292	-2.15
Foreign Currency Deposits	3,475	8.79	2,875	7.73	600	1.06
Government Deposits	725	1.84	762	2.05	-37	-0.21
Borrowings from CBC	358	0.90	151	0.41	207	0.49
Other Items (Net)	4,258	10.78	3,925	10.54	333	0.24
Total	39,530	100.00	37,209	100.00	2,321	0.00
Uses:						
Net Foreign Assets[4]	2,310	5.84	1,481	3.98	829	1.86
Loans	22,413	56.70	21,650	58.19	763	-1.49
NT Dollar Loans	21,463	54.30	20,828	55.98	635	-1.68
Foreign Currency Loans[4]	950	2.40	822	2.21	127	0.19
Portfolio Investments[5]	4,316	10.92	3,898	10.48	418	0.44
Purchases of CDs Issued by CBC	6,725	17.01	6,514	17.51	211	-0.50
Deposits with CBC	3,767	9.53	3,666	9.84	101	-0.31

Notes: 1. Monetary Financial Institutions include Domestic Banks, Local Branches of Foreign and Mainland Chinese Banks, Credit Cooperatives, Credit Departments of Farmers' and Fishermen's Associations, Chunghwa Post and Money Market Mutual Funds.
2. Including checking accounts, passbook deposits and passbook savings deposits.
3. Including time deposits, time savings deposits, foreign currency deposits, 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.

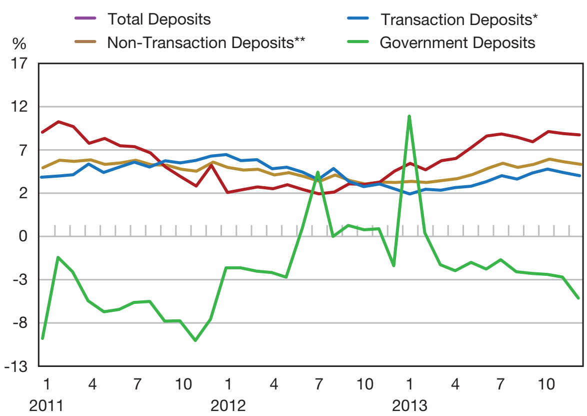
Source: Financial Statistics Monthly, CBC.

The share of portfolio investments rose at the end of 2013 compared to the end of 2012. However, affected by the US Fed's QE tapering in the second half of the year, each month's year-on-year growth rate increased at first and then decreased afterwards. Moreover, the shares of banks' purchases of CDs issued by the CBC and their deposits with the CBC decreased compared to the previous year's end as banks extended their businesses overseas.

Uptrend in Deposit Growth

At the end of 2013, total deposits of monetary financial institutions registered an annual growth rate of 5.38 percent, higher than last year's 3.15 percent. This was mainly attributable to a net

Annual Growth Rates of Deposits



Notes: * Including checking accounts, 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.

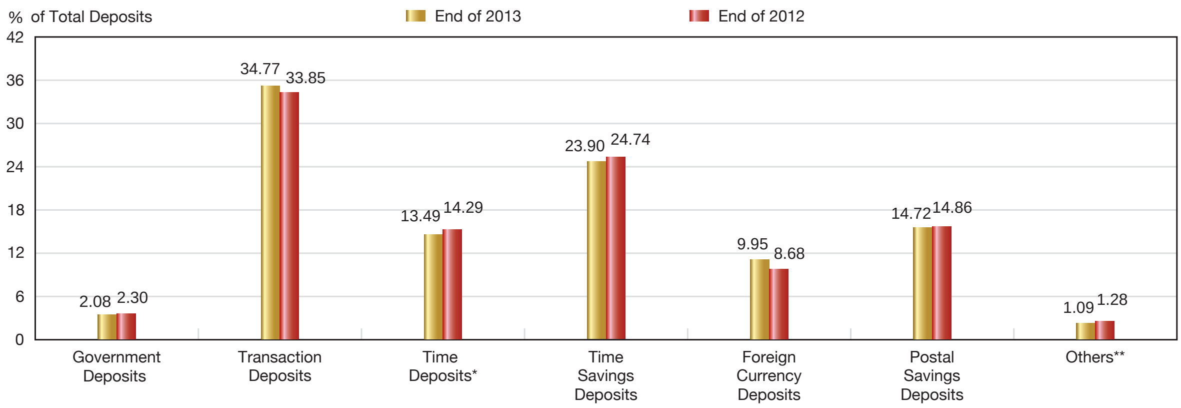
inflow of foreign capital, as well as modest growth in bank loans and investments.

As net foreign capital inflows continued, the annual growth rate of deposits exhibited an upward trend from January to May, except for February when a stronger demand for currency during the Chinese New Year holidays turned the deposit growth slightly down to 3.26 percent. In June, despite the Fed's hint of QE tapering which caused a net outflow of foreign capital, the annual growth rate of deposits stood at 4.87 percent, mostly contributed to by significant redemption of residents' investments in foreign financial products. Then, the annual growth rate of deposits fluctuated along with the movement of foreign capital until October, when the growth rate touched a yearly high of 5.94 percent as a result of a rebound in the stock market. Deposit growth slowed in November because of a decrease in net foreign capital inflows compared to the same period of last year. With a deceleration in the growth of bank loans and investments, the annual growth rate of deposits went further down to 5.38 percent at the end of the year.

Owing to a gradual rebound in the stock market and a net foreign capital inflow for the year, transaction deposits posted an annual growth rate of 8.26 percent at the end of the year, higher than the previous year's 4.59 percent, leading its share in total deposits to rise to 34.77 percent. Meanwhile, given a moderate economic recovery, the annual growth rate of non-transaction deposits also increased from 2.59 percent to 4.22 percent at year end. Its share in total deposits, however, declined to 63.15 percent because of a larger increase in transaction deposits associated with equity investment.

By type of non-transaction deposits, the share of foreign currency deposits rose at year end owing to banks' solicitation of RMB deposits, while the shares of other types of non-transaction deposits declined.

Shares of Deposits by Type

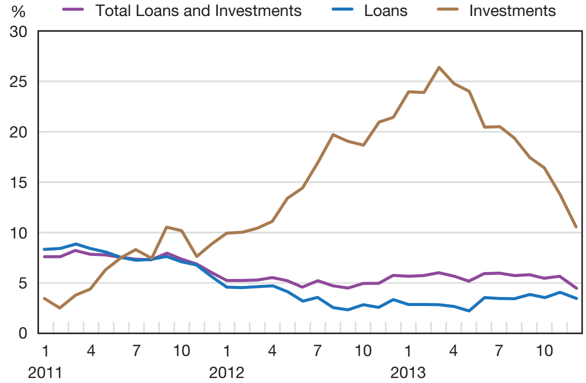


Notes: * Including NCDs.
** Including repurchase agreements, nonresidents' NTD deposits and money market mutual funds.

Source: *Financial Statistics Monthly*, CBC.

Considering a greater repayment of government bonds and increased efficiency of government funds management, which lowered government deposits with monetary financial institutions, the annual growth rate of government deposits dropped from -1.81 percent to -4.79 percent, while its share in total deposits slid to 2.08 percent at the end of the year.

Annual Growth Rates of Loans and Investments



Source: *Financial Statistics Monthly*, CBC.

Growth in Bank Loans and Investments

The annual growth rate of loans and investments of monetary financial institutions was 4.59 percent at the end of 2013, decreasing from 5.69 percent at the end of 2012. Growth in loans accelerated to 3.48 percent at the end of 2013 from 3.29 percent at the end of the previous year, mainly owing to a greater demand from individuals boosted by active trading in the stock market and the real estate market. In contrast, growth in portfolio investment decelerated dramatically to 10.71 percent at the end of 2013 from 21.37 percent at the end of the previous year, mainly owing to the more conservative investment strategies of banks in response to the US Fed's decision to gradually reduce the pace of its asset purchases. Growth in banks' investments in all types of instruments exhibited a downward trend.

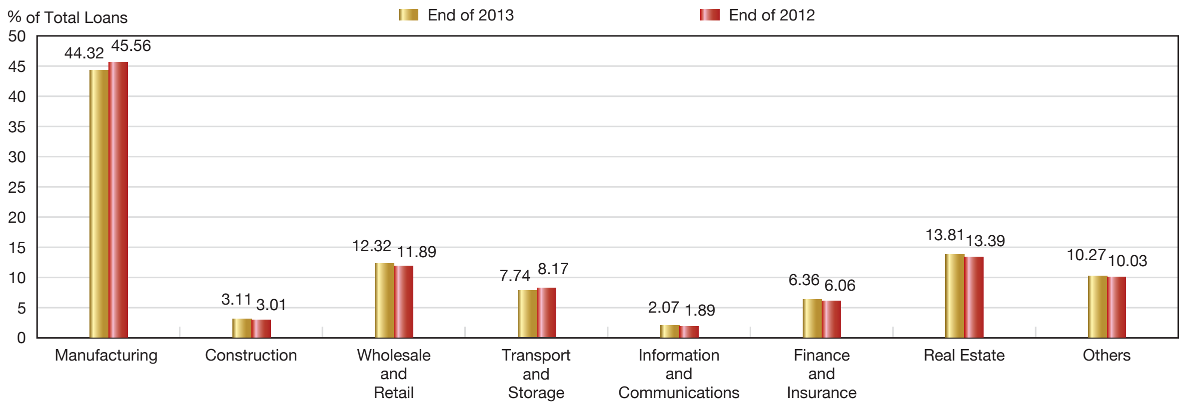
Loans by Sector

The annual growth rate of loans extended to the private sector rose to 4.11 percent at the end of 2013 from 3.57 percent at the end of 2012. The upturn was mainly due to an increasing demand from individuals. The annual growth rate of loans to public enterprises increased to 1.51 percent at the end of 2013 from -15.85 percent, mainly because the Taiwan Power Company turned to raise funds via borrowing instead of financing via bond issuance at unfavorably high rates. Meanwhile, the annual growth rate of loans to government agencies decreased to -9.25 percent from 3.95 percent, mainly because the national treasury received the fees from the 4G mobile-phone service license auction amounting to NT$118.7 billion. Loans extended to the private sector accounted for 89.72 percent of total loans, higher than the 88.74 percent recorded at the end of 2012. Loans extended to government agencies and public enterprises accounted for 6.92 percent and 3.36 percent, respectively, both lower than those recorded at the end of the previous year.

Loans by Industry

With regard to loans broken down by industry sector, the manufacturing sector continued to account for the largest portion of bank loans, at 44.32 percent at the end of 2013, decreasing from 45.56 percent at the end of the previous year. The decrease was mainly due to the effect of a higher base in loans extended to chemical material manufacturers at the end of the previous year. Influenced by a robust real estate market, the share of loans extended to the construction industry exhibited an uptrend as the number of new construction projects in progress soared. The respective shares of loans extended to the wholesale and retail industry, the information and communications industry, the finance and insurance industry, and the real estate industry also increased at the end of 2013.

Shares of Loans by Industry



Source: *Financial Statistics Monthly*, CBC.

Consumer Loans

The annual growth rate of consumer loans extended by banks increased from 0.94 percent at the end of 2012 to 2.36 percent at the end of 2013. Among them, housing loans rose from 2.77 percent to 4.18 percent, mainly owing to an increase in the number of house transactions. As for the shares of various consumer loans, housing loans remained the largest component, rising from 79.20 percent at the end of 2012 to 80.60 percent at the end of 2013. Car loans accounted for 1.49 percent, increasing from 1.24 percent, whereas housing repair loans and revolving credit for credit cards accounted for 4.25 percent and 1.68 percent, respectively, decreasing from the end of the previous year.

Investments

Portfolio investments by monetary financial institutions, measured on a cost basis, showed slow growth with an annual increase of 10.71 percent in 2013, mainly owing to banks' more conservative investment strategies in response to the Fed's QE tapering.

Among the investment instruments, government bonds accounted for the largest share with 57.88 percent, lower than the 59.30 percent a year ago, mainly because the government decreased its bond issuance for the purpose of lowering interest payments in view of rising long-term interest rates. Meanwhile, banks turned to purchase corporate bonds and commercial paper instead. The corporate bonds and commercial paper accounted for shares of 13.87 and 14.82 percent at the end of 2013, respectively, increasing from the end of the previous year.

When measured at fair value, the annual increase of portfolio investments by monetary financial institutions was NT$434.0 billion, higher than that measured on a cost basis of NT$417.6 billion.

Indirect Finance and Direct Finance

Financing channels of the non-financial sector comprise direct finance and indirect finance, referring respectively to issuing securities in the markets and borrowing from financial institutions. The total amount of funds raised by the non-financial sector during the year 2013 increased from the previous year's NT$1,707.1 billion to NT$1,873.1 billion. Funds raised by issuing securities increased by NT$62.5 billion, mainly boosted by increased stock issuance by some financial holding companies. Meanwhile, funds raised through borrowing from financial institutions also increased by NT$120.5 billion, which was mainly due to growth in bank loans.

Based on the outstanding balance, the share of indirect finance in total funds raised increased from 78.90 percent at the end of 2012 to 79.35 percent, while the share of direct finance decreased from 21.10 percent to 20.65 percent.

Indirect Finance vs. Direct Finance*

Unit: NT$ Billion

Year	Indirect Finance (1)			Direct Finance (2)	Total Funds Raised (3)=(1)+(2)
	Loans	Investments	Subtotal		
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
2013	1,007.2	803.4	1,810.6	62.5	1,873.1

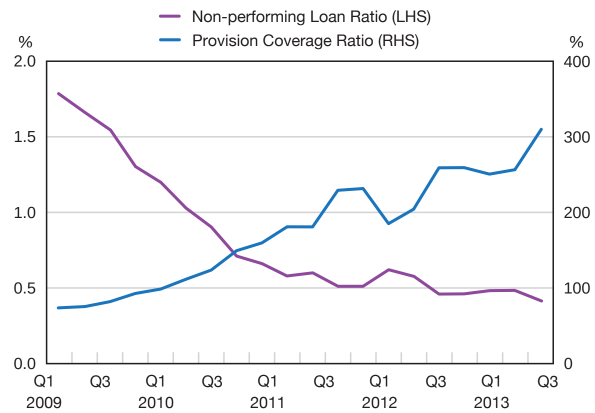
Notes: * Measured in terms of flow data.
(1) Refers to loans and investments (measured on a cost basis) made by monetary financial institutions, trust and investment companies, and life insurance companies, after taking account of their non-accrual loans reclassified and bad loans written-off.
(2) Refers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

Decline in the Non-performing Loan (NPL) Ratio

Owing to the improved asset quality, the average NPL ratio of monetary financial institutions as a whole declined to 0.41 percent at the end of 2013 from the previous year's 0.45 percent. Among the different types of financial institutions, community financial institutions continued to show the biggest improvement of the average NPL ratio during the course of the year.

In addition, as banks reacted to the government's call for setting aside more loan loss provisions, the average provision coverage ratio of monetary financial institutions increased to 306.09 percent at the end of 2013 from 257.22 percent the previous year.

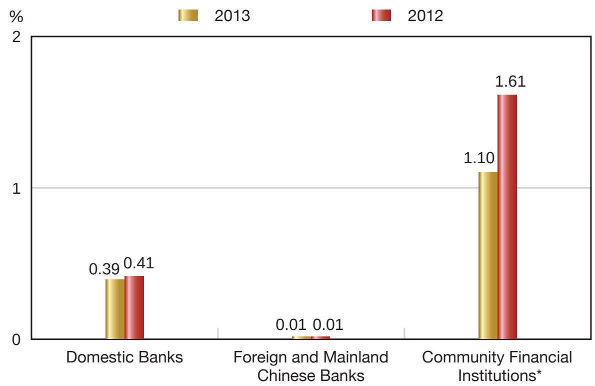
Non-performing Loan Ratio and Provision Coverage Ratio of Monetary Financial Institutions*



Note: * Include domestic banks, foreign and Mainland Chinese banks, credit cooperatives, credit departments of farmers' and fishermen's associations.
Non-performing Loan Ratio = Non-performing Loans / Total Loans
Provision Coverage Ratio = Loan Loss Provisions / Non-performing Loans

Source: Department of Financial Inspection, CBC.

Non-performing Loan Ratios by Type of Monetary Financial Institutions



Note: * Include credit cooperatives and credit departments of farmers' and fishermen's associations.

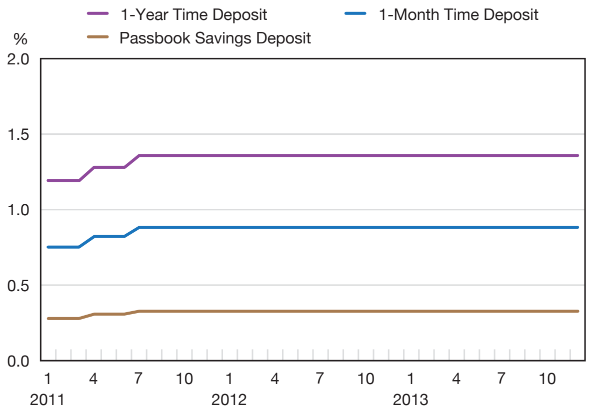
Source: Department of Financial Inspection, CBC.

Bank Interest Rates Unchanged

Throughout 2013, the domestic economy experienced a moderate recovery and inflationary pressures subdued. However, global uncertainties led the CBC to decide to keep policy rates unchanged; hence domestic bank interest rates remained broadly steady. In the case of the interest rates of the five major domestic banks, their 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 2013.

Stock market trading activity became more vigorous during the first half of the year and induced a shift of funds from non-transaction deposits to transaction deposits. The weighted average interest rate on total deposits of domestic banks was 0.80 percent in 2013, which was 0.02 percentage points lower than that recorded in the previous year.

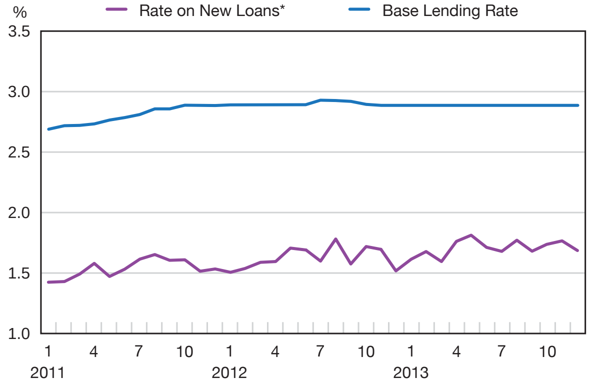
Average Deposit Rates of the Five Major Domestic Banks*



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.

Average Lending Rates of the Five Major Domestic Banks

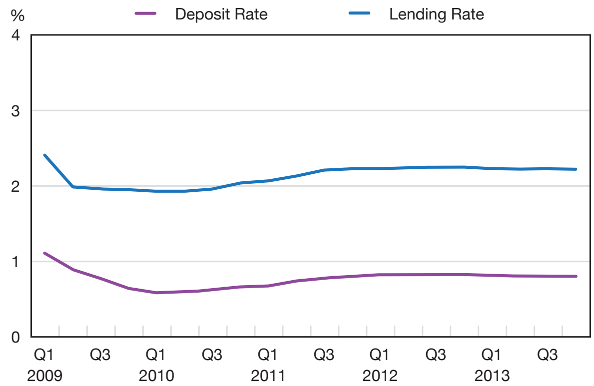


Note: * Including house-purchasing loans, capital expenditure loans, current operations loans and consumer loans.

Source: *Financial Statistics Monthly*, CBC.

Regarding the loan rate, the average base lending rate remained at 2.88 percent at the end of 2013. As banks' rates on current operations loans climbed in 2013, the weighted average interest rate on new loans of the five major domestic banks edged up from 1.62 percent in 2012 to 1.70 percent in 2013, up by 8 basis points. Excluding central government loans, the weighted average interest rate on new loans increased from 1.68 percent in 2012 to 1.75 percent in 2013, up by 7 basis points.

Weighted Average Interest Rates of Domestic Banks



Source: *Financial Statistics Monthly*, CBC.

During the first half of the year, the weighted average interest rate on total loans of domestic banks moved downward from 2.25 percent in the fourth quarter of 2012 to 2.22 percent in the second quarter of 2013. In the third quarter, owing to an increase in the interest rates of loans for land and construction, the weighted average interest rate moved slightly upward to 2.23 percent. Nevertheless, as some banks lowered their rates on long-term secured loans, the weighted average interest rate on loans declined back to 2.22 percent in the fourth quarter. For the year as a whole, the weighted average interest rate on loans of domestic banks was 2.23 percent, which was 0.01 percentage points lower than that recorded in the previous year.

Profits of Monetary Financial Institutions

Unit: NT$ Billion

	Pre-tax Profits			Return on Assets (%)*			Return on Equity (%)**		
	2013	2012	Annual Change	2013	2012	Annual Change	2013	2012	Annual Change
Domestic Banks	258.2	240.7	17.5	0.65	0.65	0.00	9.82	9.87	-0.05
Foreign and Mainland Chinese Banks	16.3	13.2	3.1	0.46	0.55	-0.09	22.05	20.01	2.04
Credit Cooperatives	3.5	2.3	1.2	0.55	0.38	0.17	8.09	5.83	2.26
Credit Departments of Farmers' and Fishermen's Associations	4.9	4.9	0.0	0.27	0.28	-0.01	4.48	4.70	-0.22
Chunghwa Post	13.7	13.4	0.3	0.25	0.26	-0.01	13.85	16.76	-2.91
Total	296.6	274.5	22.1	0.58	0.58	0.00	10.04	10.06	-0.02

Notes: * Return on Assets = Pre-tax Profits / Total Assets
** Return on Equity = Pre-tax Profits / Net Worth
Source: Department of Financial Inspection, CBC.

Because the decrease in the deposit rate was more than in the lending rate, the interest rate spread between deposits and loans of domestic banks widened to 1.43 percentage points, slightly higher than the 1.42 percentage points recorded in the previous year.

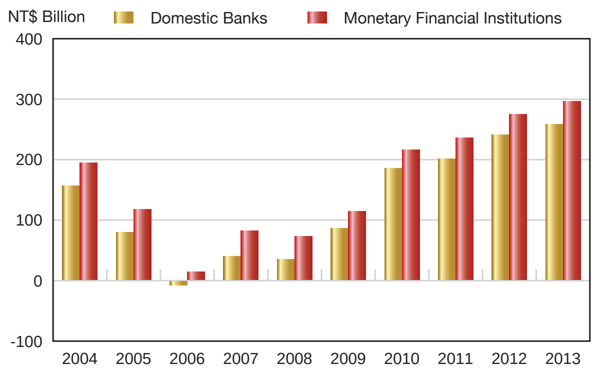
Improved Profitability

Supported by a moderate economic recovery, the pre-tax profits[1] of monetary financial institutions increased by NT$22.1 billion to a historical high of NT$296.6 billion in 2013. Those of domestic banks increased by NT$17.5 billion to NT$258.2 billion, mainly owing to increases in net interest revenues and the fair value of banks' financial assets. The pre-tax profit of Chunghwa Post increased by NT$0.3 billion to NT$13.7 billion because its exchange transactions registered large revenues instead of losses as in the previous year.

ROA Flat While ROE Lower

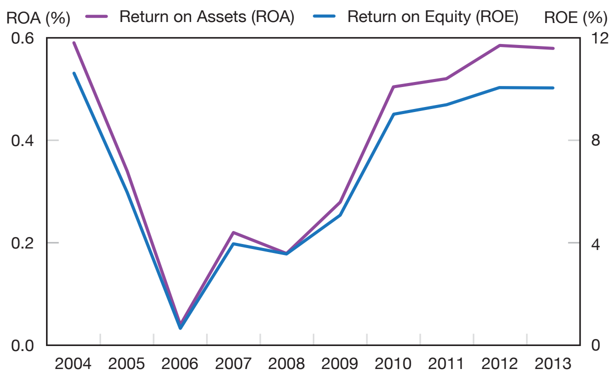
The average return on assets (ROA) of monetary financial institutions in 2013 was 0.58 percent, the same as that of the previous year,

Pre-tax Profits



Source: Department of Financial Inspection, CBC.

ROA and ROE of Monetary Financial Institutions

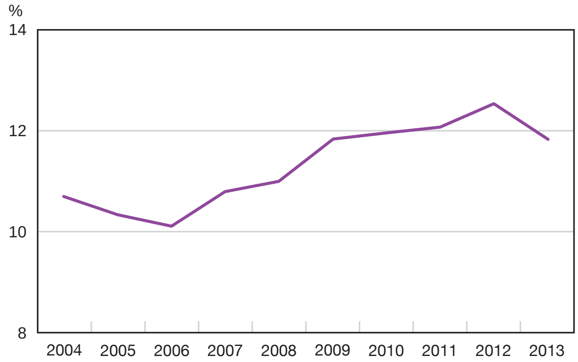


Source: Department of Financial Inspection, CBC.

[1] Local banks and Chunghwa Post have adopted International Financial Reporting Standards (IFRS) since the year of 2013.

while their return on equity (ROE) went down to 10.04 percent from 10.06 percent a year earlier, resulting from faster growth in net worth than in pre-tax profits as a result of some banks' cash capital increases. Among monetary financial institutions, domestic banks were the best performers in terms of ROA, and foreign and Mainland Chinese banks performed the best in terms of ROE.

Capital Adequacy Ratio of Domestic Banks



Source: Department of Financial Inspection, CBC.

With regard to capital adequacy ratios, the average ratio for domestic banks decreased to 11.83 percent at the end of the year from 12.54 percent at the previous year end. The main reasons behind the decrease were the adoption of Basel III standards and IFRS beginning 2013. Basel III standards introduced a new formula approach to capital calculation and an expanded scope of risk-weighted assets, which resulted in a significant increase in the credit risk-weighted assets. Meanwhile, with the adoption of IFRS, banks had to allocate liability reserves for retired employees' preferred deposits, which further impacted the capital adequacy ratio.