3. Banking Sector

Number of Monetary Financial Institutions

At the end of 2014, the number of monetary financial institutions (defined hereafter in this chapter as excluding the central bank) amounted to 400. Among them, the number of domestic banks remained unchanged. The number of foreign and Mainland Chinese banks decreased by one as The Standard Bank of South Africa withdrew from Taiwan's market in March. The number of credit cooperatives decreased by one as a credit cooperative was acquired by a bank, while the number of credit departments of farmers' and fishermen's associations increased by three owing to new openings.

Number of Monetary Financial Institutions by Category

Types of institutions		End of 2014	End of 2013	Annual Change
Total Number of Main Offices		400	399	1
	Domestic Banks	40	40	0
	Credit and Mainland Chinese Banks	30	31	-1
	Credit Cooperatives	23	24	-1
	Credit Departments of Farmers' and Fishermen's Associations	306	303	3
	Chunghwa Post	1	1	0
Total Number of Branches		6,113	6,102	11
	Local Branches	5,932	5,927	5
	Overseas Branches	119	112	7
	Offshore Banking Units	62	63	-1

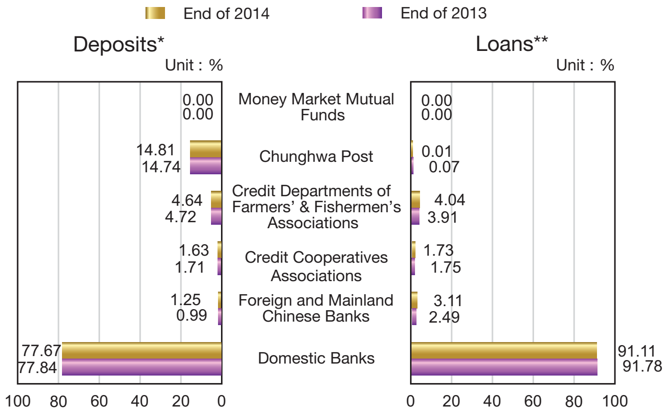
Sources: 1. *Financial Statistics Monthly*, CBC.
2. Department of Financial Inspection, CBC.

The number of money market mutual funds and the number of financial holding companies remained at one 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 77.67 percent at the end of 2014, lower than the previous year, mainly owing to the reduction of NCD issuance by domestic banks. The market share of foreign and Mainland Chinese banks grew to 1.25 percent as a result of a significant increase in foreign currency deposits caused by the depreciation of the NTD. Chunghwa Post gained a larger market share, reaching 14.81 percent, with its effort to expand business. The market share of credit departments of farmers' and fishermen's associations slipped owing to deposits outflows, while credit cooperatives' market share contracted as a result of a merger.

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.

In terms of loans, the market share of domestic banks shrank to 91.15 percent for the year, owing to a greater repayment of borrowings by government and public enterprises. The share of foreign and Mainland Chinese banks went up to 3.11 percent with expanded lending to the private sector. Chunghwa Post's market share of loans slid to 0.01 percent, resulting from a significant decrease in lending to bills finance companies. The market share of credit departments of farmers' and fishermen's associations rose to 4.01 percent with three new openings, whereas the share of credit cooperatives dropped to 1.73 percent with one closing.

Sources and Uses of Funds in Monetary Financial Institutions

At the end of 2014, the total amount of funds in monetary financial institutions was NT$42,078 billion, increasing by NT$2,548 billion compared to the end of 2013. A booming stock market and net foreign capital inflows thanks to an economic recovery led all the sources of funds to increase. Transaction deposits and non-transaction deposits accounted for over 86 percent of total sources of funds. In terms of non-transaction deposits, the effect of NT dollar (NTD) depreciation not only led to a shift in shares taken up by foreign currency deposits and NTD deposits but also caused the balance of foreign currency deposits to soar. As for government deposits, the amount slightly edged up by NT$47.5 billion, but the share remained unchanged. In addition, there was a greater amount of other items, mainly resulting from the increased issuance of bank debentures as well as banks' increasing profits.

As for the uses of funds, the amount of all items except deposits with the CBC increased at the end of 2014 compared to the end of 2013. Among them, the share of bank loans dropped mainly owing to the significantly decreasing demand from government and public enterprises because of rising income tax revenues and higher profits of public enterprises, and the reduction in foreign currency loans by the corporate sector. Furthermore, both the balance and the share of net foreign assets increased over the end of the previous year.

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

Unit: NT$ Billion

	End of 2014		End of 2013		Annual Change	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Sources:						
Transaction Deposits[2]	12,849	30.54	12,141	30.71	708	-0.17
Non-transaction Deposits[3]	23,386	55.58	22,048	55.77	1,338	-0.19
NT Dollar Deposits	19,226	45.69	18,573	46.98	653	-1.29
Foreign Currency Deposits	4,161	9.89	3,475	8.79	685	1.10
Government Deposits	773	1.84	725	1.84	48	0.00
Other Items	5,069	12.04	4,616	11.68	454	0.36
Total	42,078	100.00	39,530	100.00	2,548	0.00
Uses:						
Net Foreign Assets[4]	3,198	7.60	2,310	5.84	888	1.76
Loans	23,465	55.77	22,413	56.70	1,052	-0.93
NT Dollar Loans	22,495	53.46	21,463	54.30	1,032	-0.84
Foreign Currency Loans[4]	970	2.31	950	2.40	21	-0.09
Portfolio Investments[5]	4,638	11.02	4,316	10.92	322	0.10
Purchases of CDs Issued by CBC	7,020	16.68	6,725	17.01	295	-0.33
Deposits with CBC	3,757	8.93	3,767	9.53	-10	-0.60

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.

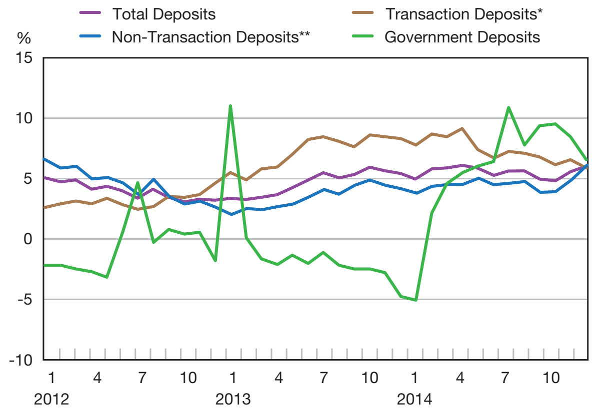
Because funds in the banking system were at ample levels, both portfolio investments and banks' purchases of CDs issued by the CBC rose at the end of 2014 compared to the end of 2013. However, portfolio investments grew slower, mainly owing to geopolitical risks and fluctuations in global financial markets, but the share still increased at the end of 2014 from a year before. In addition, diversified uses of funds have resulted in the share of banks' purchases of CDs issued by the CBC continuously declining during recent years.

Pickup in Deposit Growth

At the end of 2014, total deposits of monetary financial institutions stood at NT$37,008.3 billion, registering an annual growth rate of 6.00 percent, higher than last year's 5.38 percent. This was mainly attributable to steady economic growth and a significant net inflow of foreign capital.

With the Chinese New Year holidays boosting demand for currency in January, the annual growth rate of deposits lowered to 4.93 percent. The growth rate climbed upwards in February because money started to flow back to banks after the holidays and social security funds also increased their transaction deposits. This trend continued in March on account of larger net foreign capital inflows and a buoyant stock market. The deposit growth rate reached its peak of 6.08 percent in April due to a lower base the previous year as the Taiwan Insurance Guaranty Fund transferred a deposit to one life insurance company (which is not included in the deposits of monetary financial institutions) last year. After May, when companies paid more corporate income taxes compared to the same period the year before annual deposit growth began to drop. From July, the growth rate fluctuated along with the movement of foreign capital. It declined to 4.75 percent in October due to a net foreign capital outflow and a wavering stock market, but rose in November when the outflow in foreign capital reversed. At the end of the year, despite a net foreign capital outflow, the annual growth rate of deposits went up to 6.00 percent, mainly because of faster growth in bank loans and investments.

Annual Growth Rates of Deposits

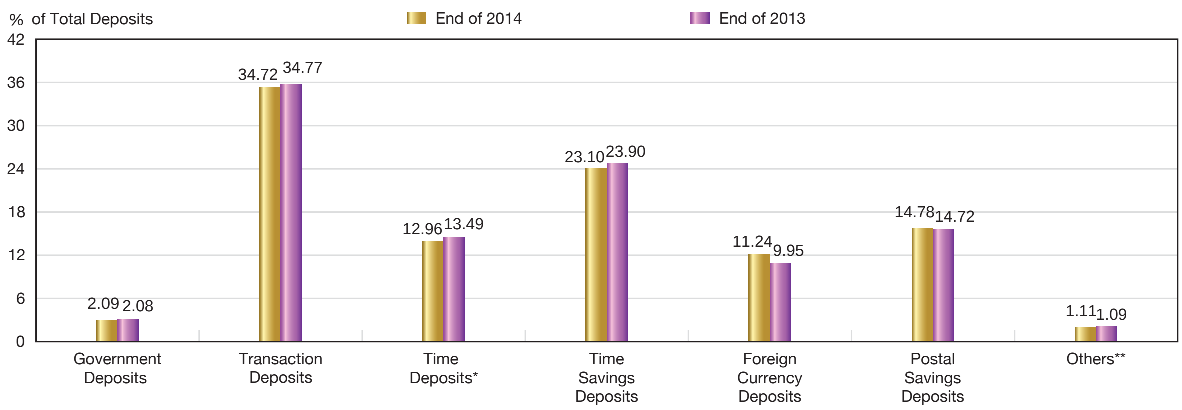


Notes: * Including checking accounts, passbook deposits and passbook savings deposits.
** Including time deposits, time savings deposits, foreign currency deposits, postal savings deposits, non-residents' NT dollar deposits, repurchase agreements, and money market mutual funds.

Source: *Financial Statistics Monthly*, CBC.

Despite an upswing in the stock market in the first half of the year, transaction deposits posted a lower annual growth rate of 5.83 percent for the whole year, down from 8.26 percent last year, with its share in total deposits declining to 34.72 percent from 34.77 percent. The slower growth was mostly caused by the increased volatility in the domestic stock market in the second half of the year as monetary policy divergence among major economies heightened uncertainties. Meanwhile,

Shares of Deposits by Type



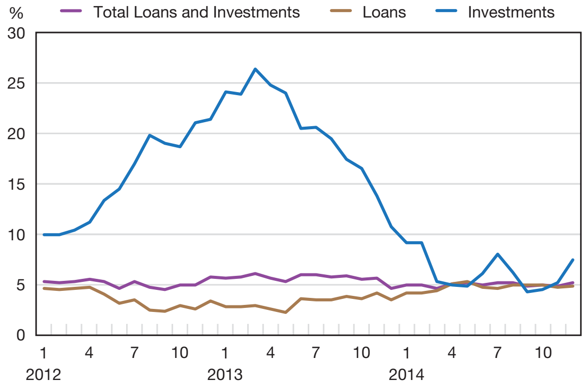
Notes: * Including NCDs.
** Including repurchase agreements, non-residents' NTD deposits and money market mutual funds.

Source: *Financial Statistics Monthly*, CBC.

with moderate economic growth and a significant net inflow of foreign capital, the annual growth rate of non-transaction deposits rose to 6.07 percent from 4.22 percent the previous year. Its share in total deposits climbed to 63.19 percent at the year end, up from 63.15 percent the year before.

By type of non-transaction deposits, the depreciation of the NTD helped foreign currency deposits to take up a larger share by the year end, though the growth of RMB deposits slowed down from last year. In contrast, the shares of time deposits and time savings deposits declined. The share of postal savings deposits grew slightly to 14.78 percent.

Annual Growth Rates of Loans and Investments



Source: *Financial Statistics Monthly*, CBC.

With greater tax revenues and more earnings contributed to the nation's treasury by public enterprises, the annual growth rate of government deposits returned to positive territory at 6.54 percent from -4.79 percent last year. Its share in total deposits edged up to 2.09 percent at year end.

Higher Growth in Bank Loans and Investments

The annual growth rate of loans and investments of monetary financial institutions was 5.20 percent at the end of 2014, increasing from 4.59 percent at the end of 2013. Growth in loans accelerated to 4.77 percent at the end of 2014 from 3.48 percent at the end of the previous year, mainly owing to a greater demand from private enterprises and individuals amid a recovering economy and active trading in the stock market. In contrast, growth in portfolio investment decelerated to 7.46 percent at the end of 2014 from 10.71 percent a year earlier, mainly owing to slower growth of investments in commercial paper.

Loans by Sector

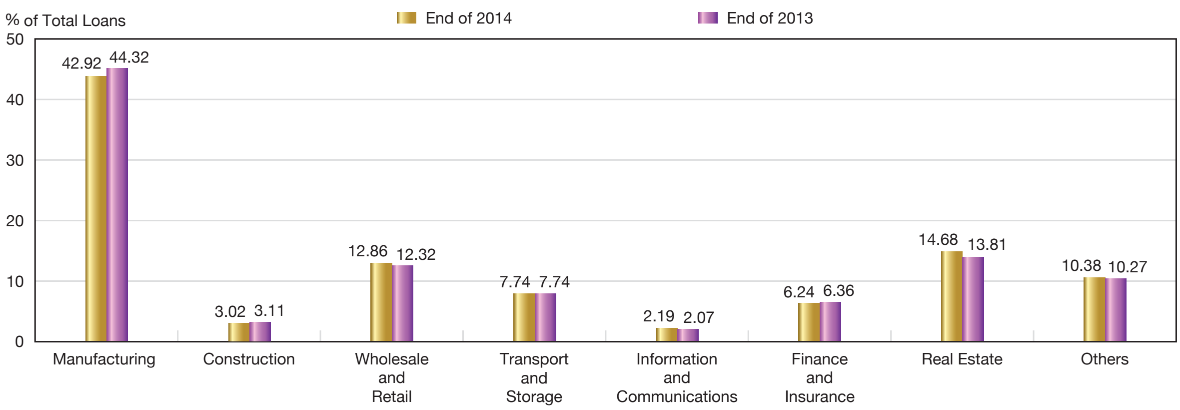
The annual growth rate of loans extended to the private sector rose to 5.52 percent at the end of 2014 from 4.11 percent at the end of 2013. The upturn was mainly due to increasing demand from individuals and private enterprises. The annual growth rate of loans to public enterprises decreased significantly to -10.25 percent at the end of 2014 from 1.51 percent, mainly because the Taiwan Power Company and the CPC Corporation, Taiwan, reduced their borrowing from banks. For the part of Taiwan Power Company, the reduction was mainly a reflection of the company's considerable gains in annual profits; as for the CPC Corporation, it was mainly due to the company changing its policy to raise funds by issuing corporate bonds instead. Meanwhile, the annual growth rate of loans to government agencies was -0.74 percent at the end of 2014, mainly on account of increased income tax revenues thanks to the economic recovery. However, the negative growth still represented a remarkable improvement compared to the -9.25 percent of the previous year end, mainly owing to a lower base effect in 2013 resulting from 4G network license fees of NT$118.7 billion received by the treasury which hugely reduced the borrowing needs to the government.

In terms of loan composition, loans extended to the private sector accounted for 90.56 percent of total loans, higher than the 89.72 percent recorded at the end of 2013. Loans extended to government agencies and public enterprises accounted for 6.56 percent and 2.88 percent, respectively, both lower than those recorded at the end of the previous year.

Loans by Industry

Broken down by industry sector, bank loans to the manufacturing sector continued to account for the largest portion, at 42.92 percent at the end of 2014, decreasing from 44.32 percent at the end of the previous year. The decrease was mainly due to slower growth in loans extended to the electronics industry at the end of 2014. The shares of loans extended to the construction industry and the finance and insurance industry also exhibited downtrends. Meanwhile, the shares of loans extended to the wholesale and retail industry, the information and communications industry, and the real estate industry increased at the end of 2014.

Shares of Loans by Industry



Source: *Financial Statistics Monthly*, CBC.

Consumer Loans

The annual growth rate of consumer loans extended by banks increased from 2.36 percent at the end of 2013 to 2.81 percent at the end of 2014. Among them, house-purchasing loans increased NT$220.2 billion in 2014, mainly owing to an increase in the number of new home sales, but the annual increase of 3.90 percent showed slowing growth for the year. As for the shares of various consumer loans, house-purchasing loans remained the largest component, with its share rising from 80.60 percent at the end of 2013 to 81.46 percent at the end of 2014. Car loans accounted for 1.62 percent, increasing from 1.49 percent mainly because car sales were boosted by low oil prices and a surge in replacement purchases. Meanwhile, house-repairing loans and revolving credit for credit cards accounted for 3.31 percent and 1.56 percent, respectively, both decreasing from the end of the previous year.

Investments

Portfolio investments by monetary financial institutions, measured on a cost basis, showed slower growth with an annual increase of 7.46 percent in 2014, mainly because banks became more cautious with their investments in response to the uncertainties in the global economic recovery and geopolitical risks.

Among the investment instruments, government bonds accounted for the largest share with 60.97 percent, higher than the 57.88 percent a year ago, mainly bolstered by the massive purchases of government bonds by banks and the Department of Savings and Remittances of Chunghwa Post for safety reasons. Meanwhile, banks anticipated interest rates may probably not rise in the near term because more monetary stimulus was announced by the ECB and the BoJ. In order to raise the rate of return, banks turned to purchase corporate bonds instead of commercial paper. Corporate bonds accounted for a share of 14.53 percent at the end of 2014, larger than a year ago. Commercial paper accounted for a share of 14.18 percent, decreasing from the end of 2013.

In terms of annual growth trends, portfolio investments by monetary financial institutions, measured at fair value, recorded a year-on-year increase of NT$329.2 billion, while the increase was smaller, at NT$321.8.0 billion, when measured on a cost basis.

Direct Finance and Indirect 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 annual increase in direct finance and indirect finance in 2014 shrank from the previous year's NT$1,873.1 billion to NT$1,699.6 billion. Direct finance increased NT$234.2 billion during 2014, higher than last year's increase of NT$62.6 billion. Indirect finance decreased from the previous year's NT$1,810.5 to NT$1,465.4 billion, which was mainly due to slower growth in investments by financial institutions.

Based on the outstanding balance, the share of direct finance in total funds raised decreased from 20.65 percent at the end of 2013 to 20.63 percent, while the share of indirect finance increased from 79.35 percent to 79.37 percent.

Direct Finance vs. Indirect Finance*

Unit: NT$ Billion

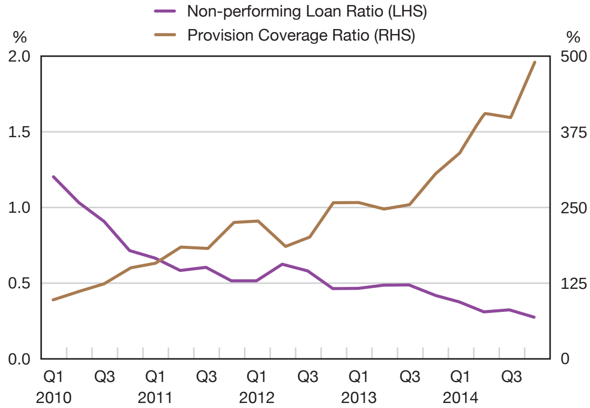
Year	Direct Finance (1)	Indirect Finance (2)			Total Funds Raised (3)=(1)+(2)
		Loans	Investments	Subtotal	
2005	181.5	1,458.5	321.7	1,780.2	1,961.7
2006	-151.3	820.6	537.1	1,357.7	1,206.4
2007	82.7	737.0	228.6	965.6	1,048.3
2008	-316.1	649.2	563.0	1,212.2	896.1
2009	142.8	133.0	259.3	392.3	535.1
2010	165.5	1,242.6	433.8	1,676.4	1,841.9
2011	19.0	1,141.4	642.5	1,783.9	1,802.9
2012	17.0	809.4	880.7	1,690.1	1,707.1
2013	62.6	1,007.2	803.3	1,810.5	1,873.1
2014	234.2	1,247.9	217.9	1,465.8	1,700.0

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

With improved asset quality, the average NPL ratio of monetary financial institutions as a whole declined further to 0.27 percent at the end of 2014 from the previous year's 0.41 percent. Among the different types of financial institutions, community financial institutions continued to show the biggest improvement in the average NPL ratio during the course of the year.

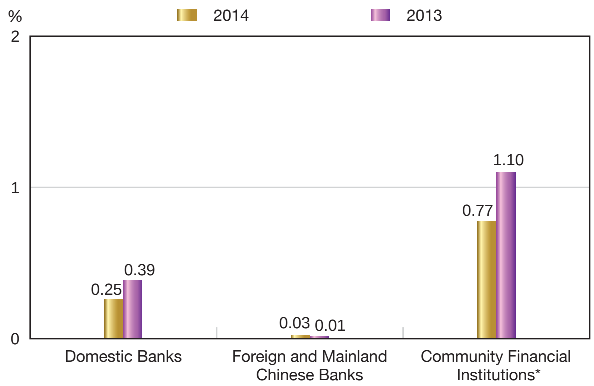
Non-performing Loan Ratio and Provision Coverage Ratio of Monetary Financial Institutions*



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 accociations.

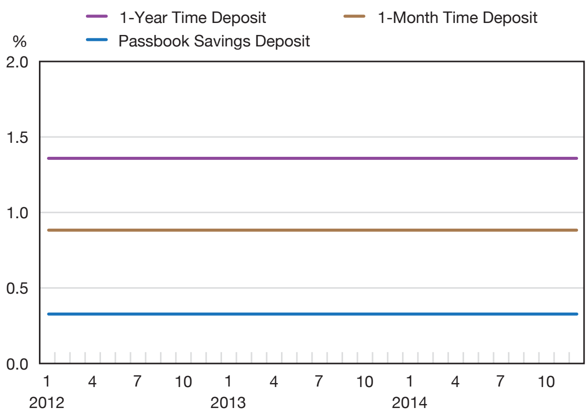
Source: Department of Financial Inspection, CBC.

Owing to an increase in loan loss provisions and the decline in the average NPL ratio, the average provision coverage ratio of monetary financial institutions climbed to 491.81 percent at the end of 2014 from 306.09 percent the previous year.

Bank Interest Rates Unchanged

Throughout 2014, the domestic economy experienced a moderate recovery and inflationary pressures were muted. However, because of an uneven pace of recovery among major economies, global uncertainties lingered. The CBC decided 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 2014.

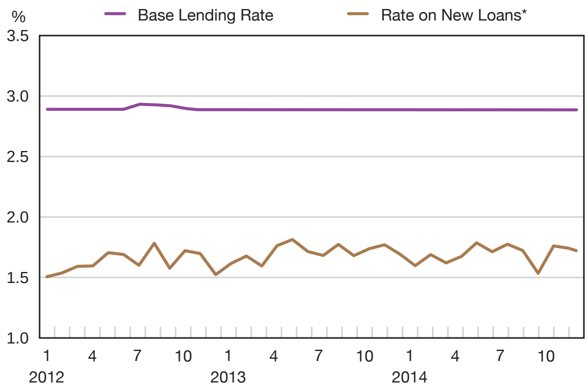
Average Deposit Rates of the Five Major Domestic Banks*



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



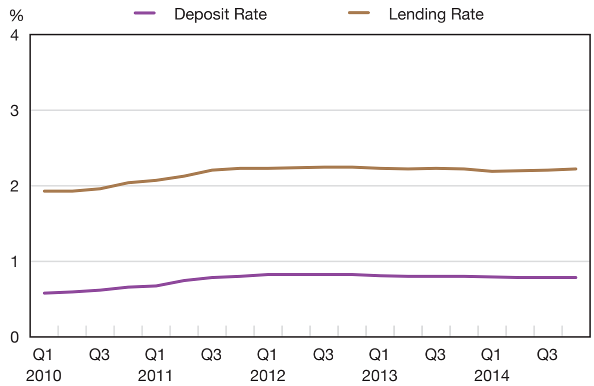
Note: * Including housing loans, capital expenditure loans, current operations loans and consumer loans.

Source: *Financial Statistics Monthly*, CBC.

Stock market trading activity became more vigorous during the first half of the year and resulted in an increased share of transaction deposits in total deposits. The weighted average interest rate on total deposits of domestic banks was 0.78 percent in 2014, which was 0.02 percentage points lower than that recorded in the previous year.

Regarding the loan rate, the average base lending rate remained at 2.88 percent at the

Weighted Average Interest Rates of Domestic Banks



Source: *Financial Statistics Monthly*, CBC.

end of 2014. As banks' rates on central government loans declined in 2014, bringing down banks' rates on current operations loans, the weighted average interest rate on new loans of the five major domestic banks decreased from 1.70 percent in 2013 to 1.68 percent in 2014, down by 0.02 percentage points. However, because some banks enhanced mortgage-related risk management, the interest rate on housing loans rose slightly from 1.95 percent in 2013 to 1.96 percent in 2014. Excluding central government loans, the weighted average interest rate on new loans decreased from 1.75 percent in 2013 to 1.74 percent in 2014, down by 0.01 percentage points.

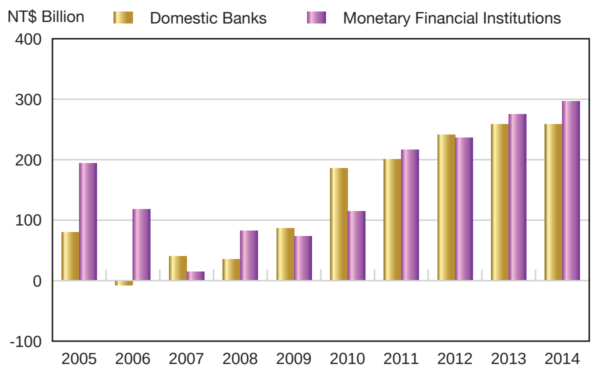
In the first quarter of the year, owing to higher growth in bank claims on local governments, the weighted average interest rate on total loans of domestic banks moved downward from 2.22 percent in the fourth quarter of 2013 to 2.19 percent. In the second quarter, as some banks' interest rates on loans for land and construction climbed, the weighted average interest rate moved slightly upward to 2.20 percent. Henceforward, because some local governments repaid their low-interest rate loans, the weighted average interest rate on loans moved upward 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 2.21 percent, which was 0.02 percentage points lower than that recorded in the previous year.

Because the decreases in deposit rates were more than in lending rates, the interest rate spread between deposits and loans widened to 1.44 percentage points, more than the 1.42 percentage points recorded in the fourth quarter of 2013.

Record Profitability

Benefitting from moderate economic growth,

Pre-tax Profits



Source: Department of Financial Inspection, CBC.

Profits of Monetary Financial Institutions

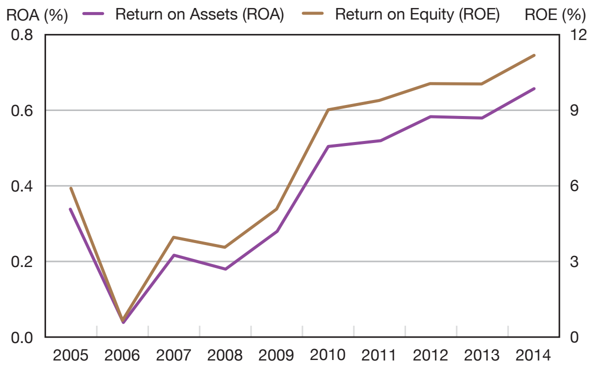
Unit: NT$ Billion

	Pre-tax Profits			Return on Assets (%)*			Return on Equity (%)**		
	2014	2013	Annual Change	2014	2013	Annual Change	2014	2013	Annual Change
Domestic Banks	320.7	258.2	62.5	0.75	0.65	0.10	11.00	9.82	1.18
Foreign and Mainland Chinese Banks	25.7	16.3	9.4	0.55	0.46	0.09	26.71	22.05	4.66
Credit Cooperatives	2.5	3.5	-1.0	0.39	0.55	-0.16	5.71	8.09	-2.38
Credit Departments of Farmers' and Fishermen's Associations	5.6	4.9	0.7	0.29	0.27	0.02	4.78	4.48	0.30
Chunghwa Post	13.8	13.7	0.1	0.24	0.25	-0.01	12.68	13.85	-1.17
Total	368.3	296.6	71.7	0.66	0.58	0.08	11.23	10.04	1.19

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

the pre-tax profits of monetary financial institutions increased by NT$71.7 billion to a historical high of NT$368.3 billion in 2014. Those of domestic banks increased by NT$62.5 billion to NT$320.7 billion, mainly owing to increases in net interest revenue and net fee income, as well as realized gains from an overseas merger and acquisition. The pre-tax profit of foreign and Mainland Chinese banks increased by NT$9.4 billion, and the pre-tax profit of Chunghwa Post also slightly increased by NT$0.1 billion.

ROA and ROE of Monetary Financial Institutions



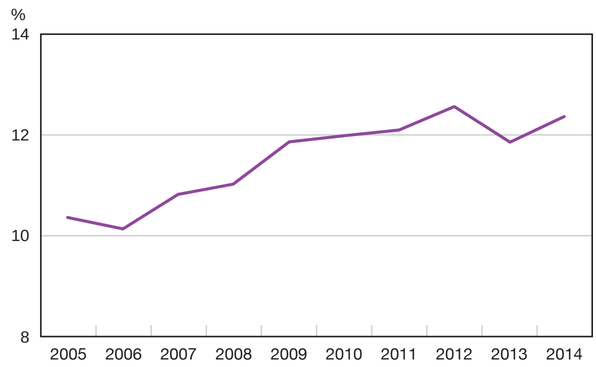
Source: Department of Financial Inspection, CBC.

Increases in both ROA and ROE

The average return on assets (ROA) of monetary financial institutions in 2014 increased to 0.66 percent from 0.58 percent the previous year, as their return on equity (ROE) also went up to 11.23 percent from 10.04 percent a year earlier. 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.

With regard to capital adequacy ratios, the average ratio for domestic banks increased to 12.34 percent at the end of the year from 11.83 percent at the previous year end, mainly owing to capital increases by some domestic banks.

Capital Adequacy Ratio of Domestic Banks



Source: Department of Financial Inspection, CBC.