3. Banking Sector

Number of Monetary Financial Institutions

At the end of 2015, the number of monetary financial institutions (defined hereafter in this chapter as excluding the central bank) amounted to 403. The number of credit departments of farmers' and fishermen's associations increased by three owing to new openings, while the other types of institutions all remained unchanged.

Number of Monetary Financial Institutions by Category

Types of institutions	End of 2015	End of 2014	Annual Change
Total Number of Main Offices	403	400	3
Domestic Banks	40	40	0
Foreign and Mainland Chinese Banks	30	30	0
Credit Cooperatives	23	23	0
Credit Departments of Farmers' and Fishermen's Associations	309	306	3
Chunghwa Post	1	1	0
Total Number of Branches	6,119	6,113	6
Local Branches	5,925	5,932	-7
Overseas Branches	132	119	13
Offshore Banking Units	62	62	0

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.

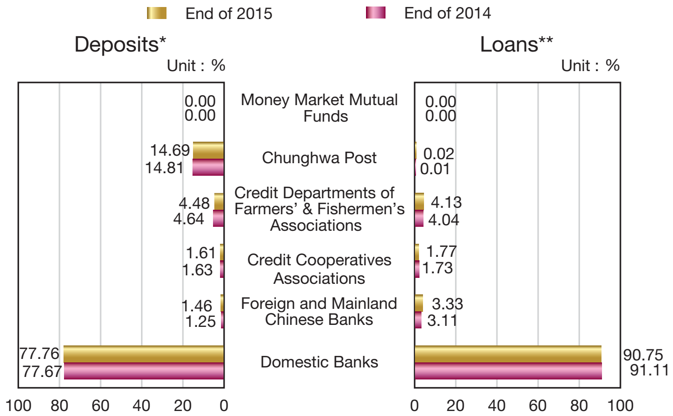
Market Shares of Deposits and Loans

In terms of market shares of deposits, domestic banks accounted for 77.76% at the end of 2015, while the market share of foreign and Mainland Chinese banks grew to 2.21%. Both ratios were higher than the previous year, mainly owing to a significant increase in transaction and non-transaction deposits caused by net foreign capital inflows at the end of 2015 and repatriation of firms' receivables amid international financial turmoil during the second half of the year. Chunghwa Post's market share shrank to 14.69%, affected by lower interest rates on deposits than other financial institutions. The market share of credit departments of farmers' and fishermen's associations also became smaller owing to deposits outflows, while credit cooperatives' market share slightly contracted.

In terms of loans, the market share of domestic banks shrank to 90.75% for the year, owing to sizable decreases in borrowings by the government, thanks to increased tax revenue, and by more profitable public enterprises, caused by cost reductions reflecting the continued slump in international oil prices.

The share of foreign and Mainland Chinese banks slightly went up to 3.33%. Chunghwa Post's market share of loans ascended marginally. The market share of credit departments of farmers' and fishermen's associations increased to 4.13% with three new openings. Additionally, the share of credit cooperatives rose to 1.77%.

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 2015, the total amount of funds in monetary financial institutions was NT$44,703 billion, increasing by NT$2,618 billion compared to the end of 2014. Despite the CBC's rate cuts in September and December, the combined share of transaction deposits and non-transaction deposits reduced slightly to 85% as a result of a sharp decline in net foreign capital inflows. As some savers switched to transaction deposits and insurance products in response to a narrowing spread between long- and short-term rates, growth in non-transaction deposits became slower.

As for foreign currency deposits, the expectation of the Fed lifting interest rates and the significant depreciation of the renminbi (RMB) not only led to a shift between RMB deposits and USD deposits but also caused the share of foreign currency deposits to increase compared to the previous year. Meanwhile, the increase in other items largely came from banks' profits, capital increases by cash, and more issuance of bank debentures.

In the case of fund uses, except for foreign currency loans by the corporate sector, which decreased owing to the expectation of USD appreciation, all items increased at the end of 2015 compared to the end of 2014. Among them, the share of bank loans slid mainly owing to weaker demand from private enterprises amid a sluggish economy. Furthermore, both the balance and the share of net foreign assets increased because of a stronger USD over the end of the previous year.

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

Unit: NT$ Billion

	End of 2015		End of 2014		Annual Change	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Sources:						
Transaction Deposits[2]	13,727	30.71	12,849	30.53	878	0.18
Non-transaction Deposits[3]	24,400	54.59	23,387	55.57	1,013	-0.98
NT Dollar Deposits	19,895	44.51	19,226	45.68	669	-1.17
Foreign Currency Deposits	4,505	10.08	4,161	9.89	344	0.19
Government Deposits	846	1.89	772	1.83	74	0.06
Other Items	5,730	12.81	5,077	12.07	653	0.74
Total	44,703	100.00	42,085	100.00	2,618	0.00
Uses:						
Net Foreign Assets[4]	4,080	9.13	3,198	7.60	883	1.53
Loans	24,242	54.23	23,473	55.78	769	-1.55
NT Dollar Loans	23,409	52.37	22,502	53.47	907	-1.10
Foreign Currency Loans[4]	833	1.86	970	2.31	-1.38	-0.45
Portfolio Investments[5]	5,129	11.47	4,638	11.02	491	0.45
Purchases of CDs Issued by CBC	7,412	16.58	7,020	16.68	392	-0.10
Deposits with CBC	3,840	8.59	3,757	8.92	83	-0.33

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 of ample liquidity in the banking system, both portfolio investments and banks' purchases of CDs issued by the CBC rose at the end of 2015 compared to the end of 2014. The share of portfolio investments by monetary financial institutions grew higher mainly because banks increased bond investments in response to the rate cuts by the CBC and global financial turmoil. In addition, diversified uses of funds resulted in the continuously declining share of banks' purchases of CDs issued by the CBC during recent years.

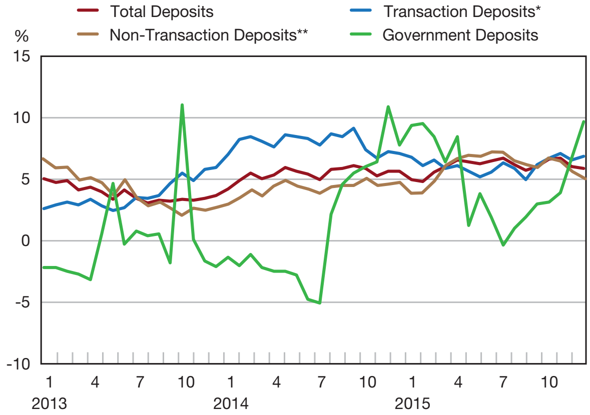
Downtrend in Deposit Growth

At the end of 2015, total deposits of monetary financial institutions stood at NT$39,164.6 billion, registering an annual growth rate of 5.83%, lower than last year's 5.99%. This was mainly attributable to unstable international financial conditions, weak global economic growth, and sluggish domestic export growth in the second half of the year.

With the Chinese New Year holidays boosting demand for currency in February, the annual growth rate of deposits lowered to 6.36%. Currency demand of the general public remained strong through to March owing to a long weekend 228 Peace Memorial Day holiday, so the deposit growth rate declined further to 6.24%.

The deposit growth rate trended up in April and May, reflecting increases in transaction deposits and foreign currency deposits caused by larger net capital inflows and a buoyant stock market. However, the growth rate of total deposits slid to 6.15% and 5.68% in June and July, respectively, owing to decreases in transaction deposits and non-transaction deposits caused by weakened domestic economic growth and larger net foreign capital outflows. Afterwards, with significant growth in loans and investments and an increase in foreign currency deposits pushed up by the expectation of the Fed's rate hike, the deposit growth rate went up to 6.64% in September.

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.

The uptrend continued in October, because of larger net foreign capital inflows and a stabilized stock market. However, it turned into a downtrend in November and December, with the deposit growth rate falling to 5.96% and 5.83%, respectively. The decline was because foreign capital registered a net outflow and because some people moved their deposits to insurance products after another policy rate cut.

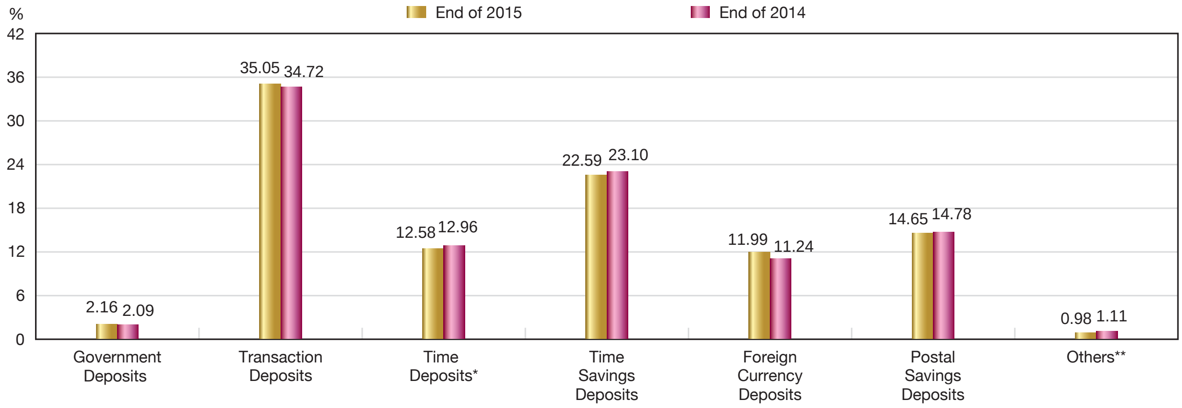
Transaction deposits posted a higher annual growth rate of 6.83% for the whole year, up from 5.83% the year before, with its share in total deposits climbing to 35.05% from 34.72%. The faster growth was mostly caused by a booming stock market in the first half of the year and a shift in some non-transaction deposits into transaction deposits following policy rate cuts in the second half of the year.

Moreover, there was a notable rise in foreign currency deposits on account of increases in firms' sales revenue from overseas markets from the beginning of the year; therefore, the annual growth rate of non-transaction deposits showed an uptrend in the first half of the year. Afterwards, with a significant net outflow of foreign capital and a partial switch from non-transaction to transaction deposits, the annual growth rate of non-transaction deposits dropped to 5.15% from 6.07% the previous year. Its share in total deposits fell to 62.79% at the year end, from 63.19% at the end of the previous year.

By type of non-transaction deposit, the share of foreign currency deposits went up to 11.99% owing to market expectation of a Fed rate hike at the end of the year; however, a higher base effect and the significant depreciation of the RMB led the growth rate of foreign currency deposits to slide substantially to 12.87%. The shares of time deposits and time savings deposits both continually declined, whereas the share of postal savings deposits grew slightly to 14.65%.

Owing to a higher comparison base in the corresponding period of the previous year, the annual growth rate of government deposits trended down in the first half of the year. However, with greater tax revenues and less expenditure in the second half of the year, it exhibited an uptrend, climbing to 9.62%. Its share in total deposits edged up to 2.16% at year end.

Shares of Deposits by Type

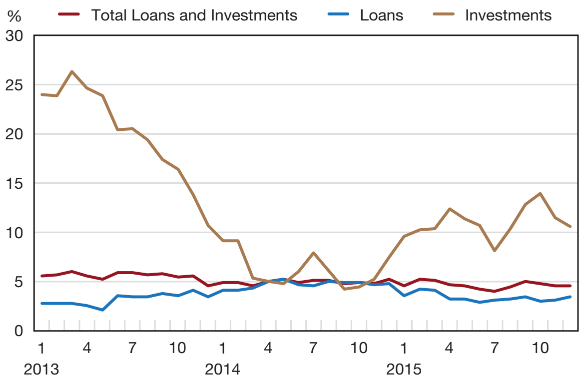


Notes: * Including NCDs.
** Including repurchase agreements, non-residents' NTD deposits and money market mutual funds.
Source: *Financial Statistics Monthly*, CBC.

Lower Growth in Bank Loans and Investments

The annual growth rate of loans and investments of monetary financial institutions was 4.61% at the end of 2015, decreasing from 5.20% at the end of 2014. Growth in loans decelerated to 3.43% at the end of 2015 from 4.77% at the end of the previous year, mainly owing to weaker demand from private enterprises amid a sluggish economy. In contrast, growth in portfolio investment accelerated to 10.59% at the end of 2015 from 7.46% a year earlier, mainly owing to higher growth in investments in securities issued by non-financial institutions.

Annual Growth Rates of Loans and Investments



Source: *Financial Statistics Monthly*, CBC.

Loans by Sector

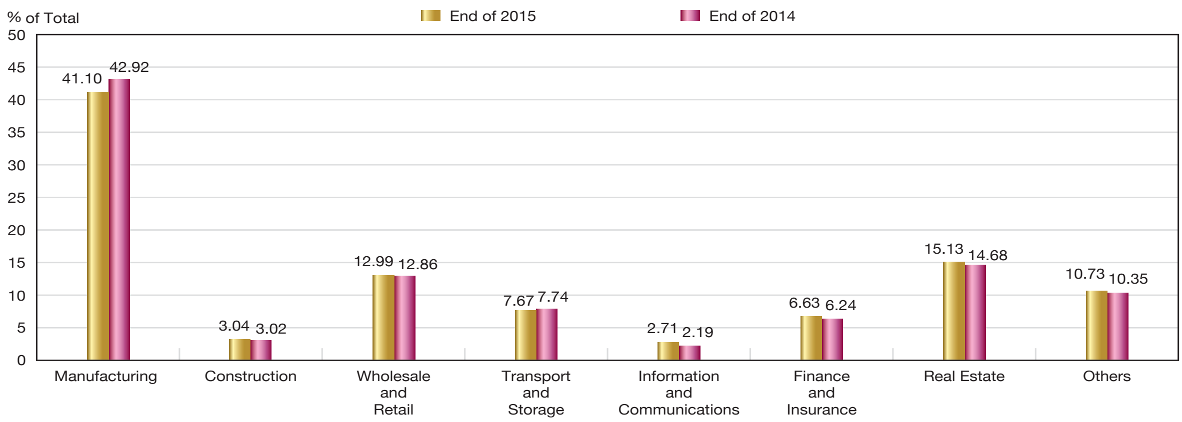
The annual growth rate of private sector loans by banks (defined hereafter in the following paragraphs as including domestic banks and local branches of foreign and Mainland Chinese banks) fell to 3.80% at the end of 2015 from 5.52% at the end of 2014. The downturn was mainly due to decreasing demand from private enterprises. In terms of loans to public enterprises, the amount of total outstanding loans to this group shrank in 2015, as the Taiwan Power Company reduced its borrowing from banks, largely reflecting the considerable gains in annual profits resulting from lower oil prices. However, due to a low base effect, the annual decline in loans to public enterprises slowed from -10.25% at the end of 2014 to -3.40% at the end of 2015. Meanwhile, the annual growth rate of loans to government agencies declined to -4.56% at the end of 2015 from -0.74% at the end of 2014, mainly on account of the decrease in borrowing resulting from increased income tax revenues thanks to solid economic growth in 2014.

In terms of loan composition, loans extended to the private sector accounted for 91.22% of total loans at the end of 2015, higher than the 90.56% recorded at the end of 2014. Loans extended to government agencies and public enterprises accounted for 6.08% and 2.70% at the end of 2015, respectively, lower than 6.56% and 2.88% 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 41.10% at the end of 2015, decreasing from 42.92% at the end of 2014. This decrease was mainly due to slower growth and the decreasing shares in loans extended to petroleum and coal products manufacturing, chemical material manufacturing, electronic parts and components manufacturing, fabricated metal products manufacturing, and basic metal manufacturing at the end of 2015. Meanwhile, compared with the share of loans extended to the construction industry at the end of 2014, the change in the share at the end of 2015 was quite negligible, slightly increasing from 3.02% to 3.04%. However, compared with that at the end of 2013, the share shrank from 3.11% to 3.04%, reflecting a conservative outlook for the housing market.

Loans by Industry



Note: Figures include the data of domestic banks and local branches of foreign and Mainland Chinese banks but exclude their data on securities acquired under reverse repurchase agreements.
Source: *Financial Statistics Monthly*, CBC.

Both the share and the annual growth rate of loans extended to the transport and storage industry decreased at the end of 2015, mainly reflecting the slowdown in international trade. The shares of loans extended to the remaining industries exhibited uptrends. To take the information and communication industry as an example. The second-stage release of 4G licenses and the policy initiated by the Financial Supervisory Commission to assist creative industries to get business loans both contributed to the increase in loans extended to the information and communication industry.

Consumer Loans

The annual growth rate of consumer loans extended by banks increased from 2.81% at the end of 2014 to 3.42% at the end of 2015. Among them, house-purchasing loans increased NT$265.3 billion in 2015 with an annual increase of 4.52%, representing higher growth for the year, mainly because home sales increased before the commencement of the integrated housing and land tax in January 2016. As for the shares of various consumer loans, house-purchasing loans remained the largest component, with its share rising from 81.46% at the end of 2014 to 82.32% at the end of 2015. Car loans accounted for 1.60%, decreasing from 1.62%, mainly because car sales were dampened by weaker economic conditions as well as a higher base in the previous year. Meanwhile, house-repairing loans and revolving credit for credit cards accounted for 2.47% and 1.44%, respectively, both decreasing from the end of the previous year.

Investments

Portfolio investments by monetary financial institutions, measured on a cost basis, showed higher growth with an annual increase of 10.59% in 2015, mainly because banks increased bond investments in response to the rate cuts by the CBC and global financial turmoil.

Among the investment instruments, government bonds accounted for the largest share with 61.46%, higher than the 60.97% a year ago, mainly bolstered by massive purchases of government bonds by banks and the Department of Savings and Remittances of Chunghwa Post to hedge against market risks. Meanwhile, as the CBC cut the policy rates to keep monetary conditions accommodative, banks turned to corporate bonds instead of commercial paper in order to raise the rate of return. At the end of 2015, corporate bonds accounted for a share of 15.58%, larger than a year ago. Commercial paper accounted for a share of 13.67%, decreasing from the end of 2014.

In terms of annual growth trends, portfolio investments by monetary financial institutions, measured at fair value, recorded a year-on-year increase of NT$476.5 billion, while the increase was larger, at NT$491.3 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,

Direct Finance vs. Indirect Finance*

Unit: NT$ Billion

Year	Direct Finance (1)	Indirect Finance (2)			Total Funds Raised (3)=(1)+(2)
		Loans	Investments	Subtotal	
2006	-151.3	820.6	537.1	1357.7	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	234.3	1,248.6	217.8	1,466.4	1,700.7
2015	64.5	865.1	144.3	1,009.4	1,073.9

Notes: * Measured in terms of flow data.
(1)refers to the total amount of new issues of various marketable securities, including government bonds, corporate bonds, listed stocks, offshor bonds, depositary receipts, short-term bills, and asset-backed securities held by the non-financial sector.
(2)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.
Source: *Financial Statistics Monthly*, CBC

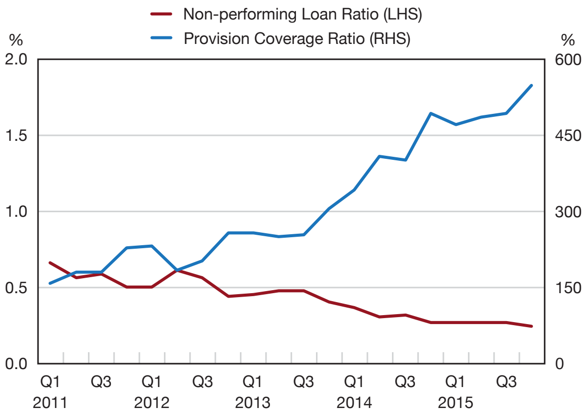
referring respectively to issuing securities in the markets and borrowing from financial institutions. The annual increase in direct finance and indirect finance combined shrank in 2015 from the previous year's NT$1,700.7 billion to NT$1,073.9 billion. Direct finance increased NT$64.5 billion during 2015, lower than the previous year's increase of NT$234.3 billion. Indirect finance decreased from the previous year's NT$1,466.4 to NT$1,009.4 billion, which was mainly due to slower growth in loans by financial institutions.

Based on the outstanding balance, the share of direct finance in total funds raised decreased from 20.63% at the end of 2014 to 20.53%, while the share of indirect finance increased from 79.34% to 79.47%.

Decline in Non-performing Loan (NPL) Ratio

With improved asset quality, the average NPL ratio of monetary financial institutions as a whole declined further to 0.25% at the end of 2015 from the previous year's 0.27%. Among the different types of financial institutions, community financial institutions continued to show the biggest improvement in the average NPL ratio in 2015.

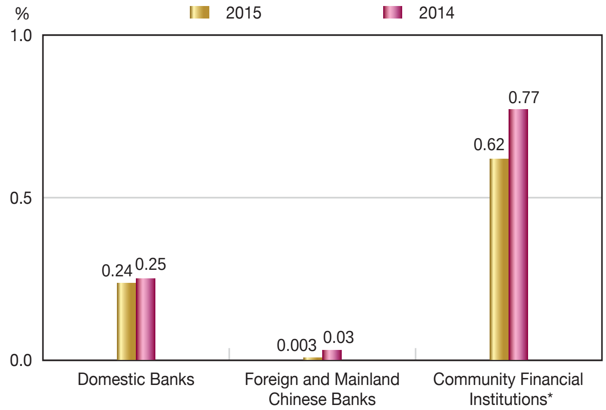
Non-performing Loan Ratio and Provision Coverage Ratio of Monetary Financial Institutions*



Note: * Including 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.

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 547.47% at the end of 2015 from 491.81% the previous year.

Non-performing Loan Ratios by Type of Monetary Financial Institutions

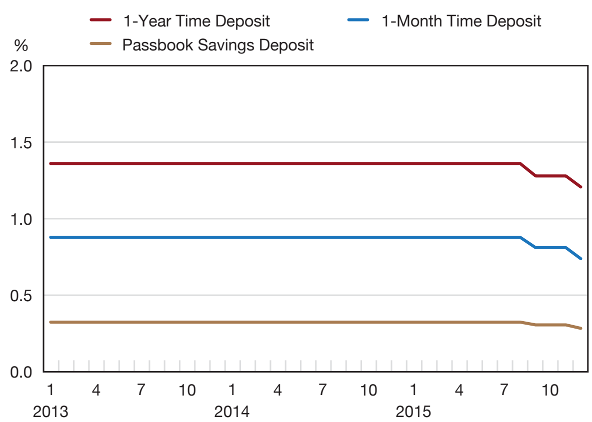


Note: * Including credit cooperatives and credit departments of farmers' and fishermen's accociations.
Source: Department of Financial Inspection, CBC.

Decline in Bank Interest Rates

In view of downward revisions of the domestic growth forecast since the second quarter of 2015 amid a slowing global recovery, as well as subdued inflation expectations, the CBC lowered the policy rates twice on September 25 and December 18 to stimulate the economy. As a result, bank interest rates on deposits and loans went down from September onwards. 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% and 1.36% prior to the end of August 2015, and then decreased to 0.74% and 1.21% at the end of 2015. Moreover, the average base lending rate decreased to 2.83% at the end of 2015 from 2.88% at the previous year-end.

Average Deposit Rates of the Five Major Domestic Banks*



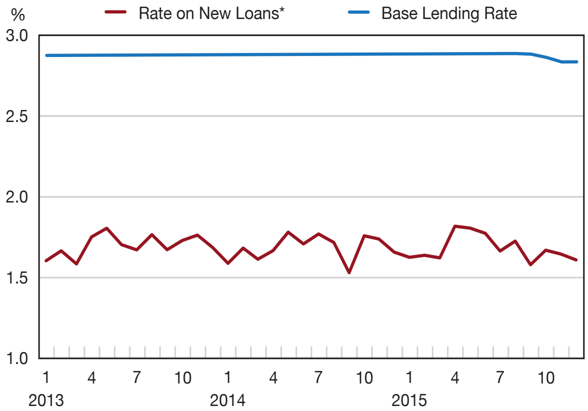
Note: * The five major domestic banks are Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank and Land Bank of Taiwan.
Source: *Financial Statistics Monthly*, CBC.

During the first half of the year, the weighted average interest rate on total deposits of domestic banks remained broadly steady. In the third quarter, the weighted average deposit rate slightly declined to 0.77% owing to the decrease in the share of time deposits in total deposits. In the fourth quarter, the CBC's rate cut led the weighted average deposit rate to decrease to 0.74%. On the whole, the weighted average interest rate on total deposits of domestic banks was 0.77% in 2015, which was 0.01 percentage points lower than that recorded in the previous year.

With respect to the weighted average interest rate on new loans of the five major domestic banks, it fluctuated within a narrow range between 1.58% and 1.81% during the January to October period. Then it decreased to 1.64% in November owing to decreases in base lending rates and the index rates on adjustable-rate mortgages. In December, it declined further to 1.60%. On the whole, the weighted average interest rate on new loans slightly decreased from 1.68% in 2014 to 1.67% in 2015, down by 0.01 percentage points. Excluding central government loans, the weighted average interest rate on new loans decreased from 1.74% in 2014 to 1.73% in 2015, down by 0.01 percentage points.

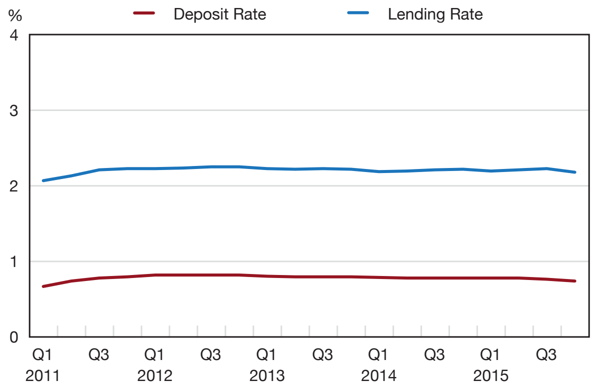
In the first quarter of the year, owing to higher growth in bank claims on local governments, the weighted average interest rate on total loans of domestic banks moved downward from 2.22% in the fourth quarter of 2014 to 2.20%. In the second quarter, the weighted average lending rate moved slightly upward to 2.21% owing to the increase in the weighted average interest rate on new loans. In the third quarter, because some enterprises repaid their low-interest rate loans and some banks' interest rates on consumer loans and long-term loans rose, the weighted average lending rate moved upward to 2.23%. In the fourth quarter, as a result of the CBC's rate cut and an increase in bank claims on local governments and government enterprises, the weighted average interest rate on loans declined to 2.18%. For the year as a whole, the weighted average interest rate on loans of domestic banks was 2.20%, which was 0.01 percentage points lower than that recorded in the previous year.

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.

Weighted Average Interest Rates of Domestic Banks



Source: *Financial Statistics Monthly*, CBC.

Because the decreases in deposit rates were as much as those in lending rates, the interest rate spread between deposits and loans remained at 1.43 percentage points.

Slight Reduction in Profitability

Affected by weaker economic growth, the pre-tax profits of monetary financial institution slightly decreased by NT$0.1 billion in 2015. Those of domestic banks slightly decreased by NT$0.1 billion to NT$320.6 billion, mainly owing to a decrease in investment revenues resulting from the decline in the valuation of portfolio investments. The pre-tax profits of Chunghwa Post decreased by NT$0.3 billion, while the pre-tax profits of foreign and Mainland Chinese banks slightly increased by NT$0.1 billion.

Profits of Monetary Financial Institutions

Unit: NT$ Billion

	Pre-tax Profits			Return on Assets (%)*			Return on Equity (%)**		
	2015	2014	Annual Change	2015	2014	Annual Change	2015	2014	Annual Change
Domestic Banks	320.6	320.7	-0.1	0.73	0.77	-0.04	10.65	11.62	-0.97
Foreign and Mainland Chinese Banks	25.8	25.7	0.1	0.57	0.60	-0.03	22.45	25.55	-3.10
Credit Cooperatives	2.5	2.5	0.0	0.37	0.39	-0.02	5.54	5.72	-0.18
Credit Departments of Farmers' and Fishermen's Associations	5.8	5.6	0.2	0.31	0.30	0.01	4.90	4.93	-0.03
Chunghwa Post	13.5	13.8	-0.3	0.23	0.25	-0.02	12.46	13.92	-0.83
Total	368.2	368.3	-0.1	0.65	0.68	-0.03	10.84	11.80	-0.96

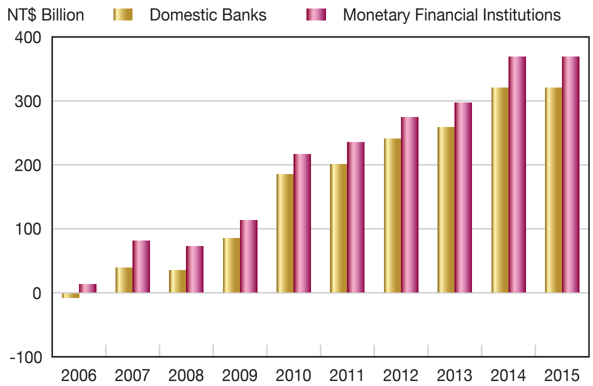
Notes: * Return on Assets = Pre-tax Profits / Average Assets
** Return on Equity = Pre-tax Profits / Average Equity
Source: Department of Financial Inspection, CBC.

Decreases in ROA and ROE

The average return on assets (ROA) of monetary financial institutions in 2015 decreased to 0.65% from 0.68% the previous year, and their return on equity (ROE) also went down to10.84% from 11.80% a year earlier. Among monetary financial institutions, domestic banks were the best performers in terms of ROA, and foreign and Mainland Chinese banks posted the highest ROE.

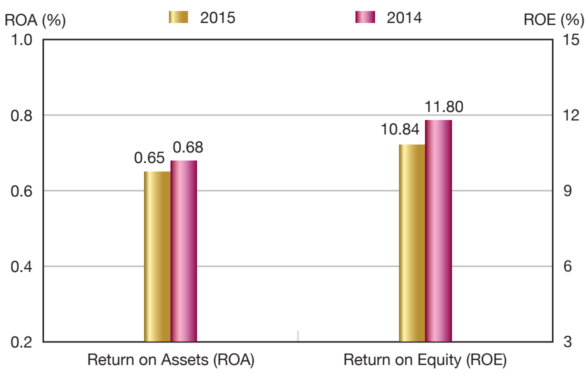
With regard to capital adequacy ratios, the average ratio for domestic banks increased to 12.93% at the end of the year from 12.35% a year before, mainly owing to capital increases by some domestic banks.

Pre-tax Profits



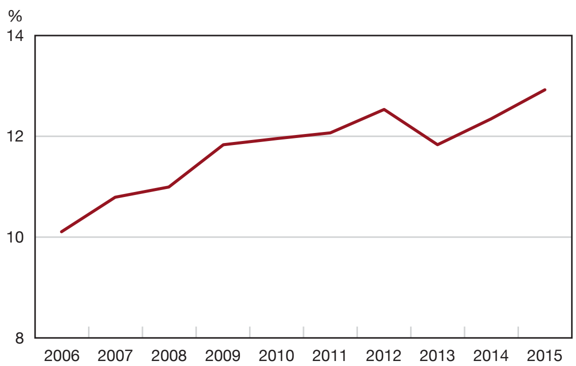
Source: Department of Financial Inspection, CBC.

ROA and ROE of Monetary Financial Institutions



Source: Department of Financial Inspection, CBC.

Capital Adequacy Ratio of Domestic Banks



Source: Department of Financial Inspection, CBC.