2. Banking Sector

Number of Monetary Financial Institutions

At the end of 2017, the number of monetary financial institutions (defined hereafter in this chapter as excluding the central bank) decreased to 403. The number of domestic banks decreased by one because of business model transformation pursued by China Development Industrial Bank, while the numbers of the other types of institutions all remained unchanged.

Number of Monetary Financial Institutions by Type

Types of institutions	End of 2017	End of 2016	Annual Change
Total Number of Main Offices	403	404	-1
Domestic Banks	39	40	-1
Foreign and Mainland Chinese Banks	29	29	0
Credit Cooperatives	23	23	0
Credit Departments of Farmers' and Fishermen's Associations	311	311	0
Chunghwa Post	1	1	0
Total Number of Branches	6,106	6,111	-5
Local Branches	5,898	5,908	-10
Overseas Branches	147	141	6
Offshore Banking Units	61	62	-1

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

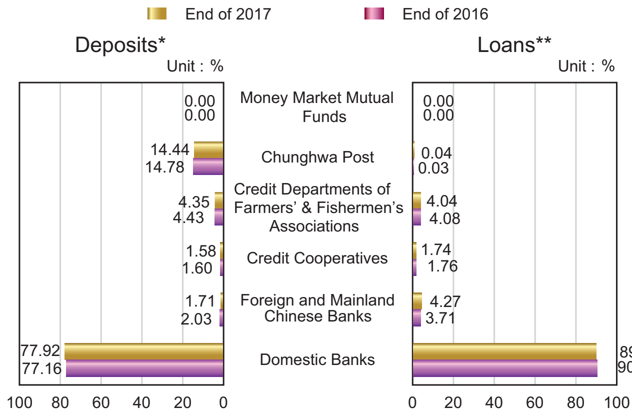
There were no money market mutual funds at the end of 2017 after the final money market mutual fund, offered by Yuanta Commercial Bank, was liquidated in May. The number of financial holding companies remained at 16, the same as in 2016.

Market Shares of Deposits and Loans

In terms of market shares of deposits, domestic banks gained a larger share of 77.92%, mainly because transaction deposits expanded amid net foreign capital inflows and a buoyant stock market. Moreover, higher USD deposit rates offered by domestic banks following Fed rate hikes and NTD appreciation both contributed to a significant increase in foreign currency deposits. As a result of deposit outflows to domestic banks, the market shares of foreign and Mainland Chinese banks, Chunghwa Post, credit departments of farmers' and fishermen's associations, and credit cooperatives declined to 1.71%, 14.44%, 4.35%, and 1.58%, respectively.

In terms of loans, the market share of domestic banks slipped to 89.91%, as the government collected more tax and treasury revenues, the CPC Corporation generated more profits amid oil price rises, and the Taiwan Power Company raised more debt, all of which caused a decrease in borrowings from domestic banks by the government and government enterprises. Meanwhile, foreign and Mainland Chinese banks' market share climbed to 4.27% as their lower lending rates boosted corporate lending. Chunghwa Post's market share edged up to 0.04% owing to an increase in lending to bills finance companies. As for credit departments of farmers' and fishermen's associations and credit cooperatives, their market shares continued to fall to 4.04% and 1.74%, respectively.

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



Notes: * Excluding the values of the host contracts of structured products issued by banks.
** Including data for securities acquired under reverse repurchase agreements.
Source: *Financial Statistics Monthly*, CBC.

Sources and Uses of Funds

At the end of 2017, the total amount of funds in monetary financial institutions was NT$48,570 billion, increasing by NT$2,157 billion compared to the end of 2016. The combined share of transaction and non-transaction deposits accounted for nearly 85%, yet the annual growth rate rose to 4.42% thanks to marked increases in both the balance and growth of foreign currency deposits. As for other items, its balance increased mainly owing to a rising amount of deposits from life insurance companies as well as the gains in banks' profits.

Regarding the uses of funds, all the items expanded at the end of 2017 compared to the end of 2016. Bank loans accounted for over 50% of total uses of funds. Both the share and growth in loans increased compared to the previous year, mainly owing to greater demand from private enterprises and individuals supported by an economic recovery, a robust stock market and a pickup in the housing market. In addition, growth in net foreign assets decreased slightly to 6.16% over the end of the previous year.

Because of ample liquidity in the banking system, both portfolio investments and banks' purchases of CDs issued by the CBC continued to post year-on-year rises at the end of 2017. Growth in portfolio investments by monetary financial institutions slowed, mainly because banks became more conservative with their investments in response to the gradual normalization of monetary policy in advanced economies and uncertainties over global economic conditions. As for banks' purchases of CDs issued by the CBC, its share remained broadly the same as in the past few years, while its growth accelerated to 4.10% at the end of 2017 from 1.00% a year earlier.

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

Unit: NT$ Billion

	End of 2017			End of 2016			Annual Change	
	Amount	Share (%)	Annual Growth Rate (%)	Amount	Share (%)	Annual Growth Rate (%)	Amount	Share (%)
Sources:								
Transaction Deposits[2]	14,950	30.78	3.12	14,497	31.24	5.61	453	-0.46
Non-transaction Deposits[3]	26,029	53.59	5.18	24,747	53.32	2.54	1,281	0.27
NT Dollar Deposits	20,357	41.91	1.17	20,122	43.35	1.14	235	-1.44
Foreign Currency Deposits	5,671	11.68	22.61	4,625	9.97	9.12	1,046	1.71
Government Deposits	938	1.93	4.81	895	1.93	5.83	43	0.00
Other Items	6,653	13.70	6.06	6,273	13.51	3.53	380	0.19
Total	48,570	100.00	4.65	46,413	100.00	3.68	2,157	0.00
Uses:								
Net Foreign Assets[4]	4,769	9.82	6.16	4,492	9.68	8.83	277	0.14
Loans	26,379	54.31	5.00	25,122	54.12	3.57	1,257	0.19
NT Dollar Loans	25,309	52.11	4.18	24,294	52.34	3.78	1,016	-0.23
Foreign Currency Loans[4]	1,069	2.20	29.11	828	1.78	-2.27	241	0.42
Portfolio Investments[5]	5,725	11.79	5.48	5,427	11.69	5.81	297	0.10
Purchases of CDs Issued by CBC	7,793	16.05	4.10	7,487	16.13	1.00	307	-0.08
Deposits with CBC	3,904	8.03	0.52	3,884	8.38	1.15	20	-0.35

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.

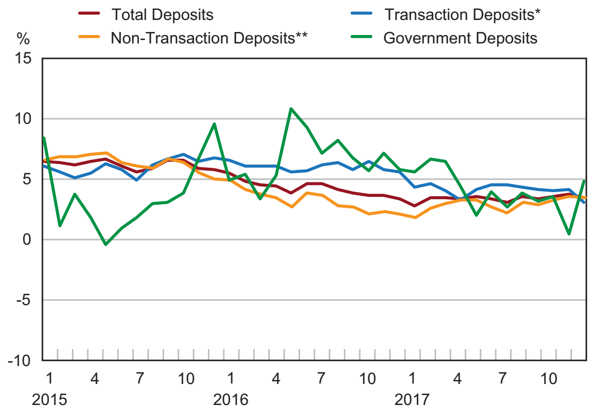
Deposit Growth

Because of an increase in net foreign capital inflows and higher growth in bank loans and investments, the annual growth rate of deposits slightly trended upward in 2017. However, owing to a higher comparison base in the previous year, the annual growth rate of deposits only increased 0.01% from 3.45% in 2016 to 3.46% in 2017.

In terms of monthly movement, the growth rate of deposits went up from January to May, except for April. In April, with lower net foreign capital inflows and the decreased deposit balance of securities giro accounts due to a decline in TAIEX trading value, the growth rate of deposits slowed.

After that, the growth rate of deposits rose during the period from May to November, except for June, July and September. Because growth momentum for bank loans and investments weakened in June and July, and net foreign capital inflows decreased and even turned into net outflows from June to July, the growth rate of deposits declined. In September, the lure of foreign currency insurance policies caused bank deposits to experience slower growth. In December, because of net foreign capital outflows and decelerating growth in bank loans and investments, the growth rate of deposits dropped to 3.46%.

Annual Growth Rates of Deposits



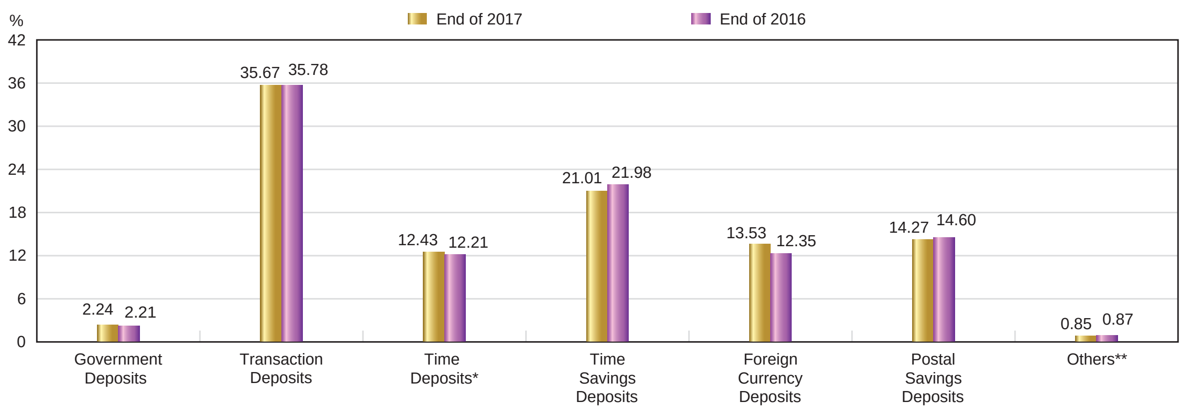
Notes: * Including checking accounts, passbook deposits and passbook savings deposits.
** Including time deposits, time savings deposits, foreign currency deposits, postal savings deposits, non-residents' NT dollar deposits, repurchase agreements, and money market mutual funds.

Source: *Financial Statistics Monthly*, CBC.

For transaction deposits, owing to a buoyant domestic stock market, the growth rate ascended in the first half of 2017 except for March and April. As a result of a shift of funds from deposits to insurance products and a decrease in TAIEX trading value, the growth rate of transaction deposits declined significantly in March and April. Growth continually declined in the third quarter because funds originally deposited into bank accounts went to insurance products. And in the fourth quarter, as the FSC was set to enforce the net stable funding ratio in 2018, some banks sought to increase their time deposits business, leading transaction deposits to partially shift to time deposits. As a result, the growth rate of transaction deposits fell to 3.12%, and its share in total deposits declined to 35.67% at the end of 2017.

For the year as a whole, non-transaction deposits posted a rise in annual growth rate from 2.17% in 2016 to 3.60% in 2017, on account of a lower comparison base and a partial shift of funds from transaction deposits to time deposits. By type of non-transaction deposits, the share of time deposits rose to 12.43% at the end of 2017, as some banks increased capital by issuing NCDs. The shares and annual growth rates of time savings deposits and postal savings deposits declined because some depositors moved their money to insurance products.

Shares of Deposits by Type



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

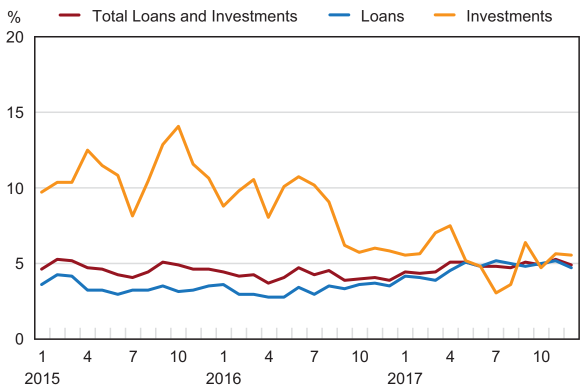
Source: *Financial Statistics Monthly*, CBC.

For foreign currency deposits, the share and annual growth rate in 2017 increased to 13.53% and 13.38%, respectively. This was mainly attributable to the NT dollar appreciation which led to more purchases of foreign currency for higher gains, for travel, or for premium payment for foreign currency insurance policies. In addition, owing to a higher base effect, the annual growth rate of government deposits dropped to 4.82%, but its share in total deposits went up to 2.24%.

Growth in Bank Loans and Investments

The annual growth rate of loans and investments of monetary financial institutions was 4.82% at the end of 2017, increasing from 3.89% at the end of 2016. Growth in loans increased to 4.68% at the end of 2017 from 3.48% at the end of the previous year, mainly owing to greater demand from private enterprises and individuals amid an economic recovery, a buoyant stock market, and a recovering housing market. In contrast, growth in portfolio investment decelerated to 5.48% at the end of 2017 from 5.80% a year earlier. Banks were still conservative with their investments on concerns about the gradual normalization of the monetary policies of the US and the UK and the uncertainties over global economic and financial conditions.

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 in the following paragraphs as including domestic banks and local branches of foreign and Mainland Chinese banks) rose to 5.16% at the end of 2017 from 4.84% at the end of 2016. The upturn was mainly due to increasing demand from private enterprises and individuals. The annual growth rate of loans to government enterprises was -3.34% at the end of 2017, mainly because the CPC Corporation and the Taiwan Power Company reduced their borrowing from banks. For the part of the CPC Corporation, the reduction was mainly a reflection of the company’s considerable gains in annual profits; as for the Taiwan Power Company, it was mainly due to the company changing its policy to raise funds for factory expansion by issuing corporate bonds instead. Though negative, the growth rate of loans to government enterprises was still higher than the -15.64% growth rate of the previous year end mainly as a result of a lower base effect. Meanwhile, the annual growth rate of loans to government agencies was -5.44% at the end of 2017, mainly on account of increased tax revenues thanks to the economic recovery and 4G network license fees of NT$20.0 billion received by the national treasury, which reduced the borrowing needs of the government.

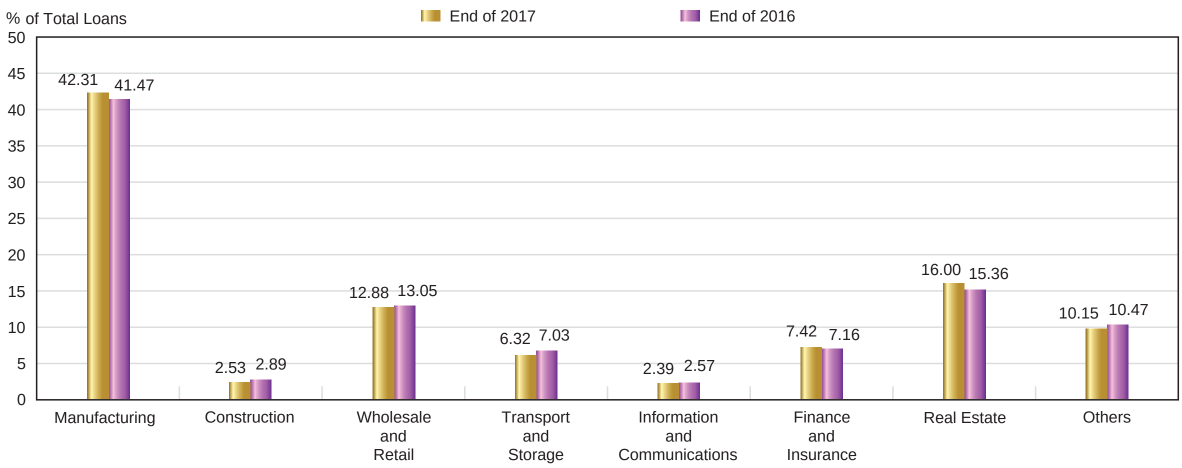
In terms of loan composition, loans extended to the private sector accounted for 92.84% of total loans at the end of 2017, higher than the 92.15% recorded at the end of 2016. Loans extended to government agencies and government enterprises accounted for 5.12% and 2.03% at the end of 2017, respectively, lower than 5.65% and 2.20% 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 42.31% at the end of 2017, increasing from 41.47% at the end of 2016. This increase was mainly due to faster growth in loans for the manufacturing of computers and electronic and optical products as the demand for new laptops and tablet computers rose. Meanwhile, compared with the end of 2016, the share of loans extended to the construction industry decreased from 2.89% to 2.53% at the end of 2017, reflecting soft loan demand from the construction sector.

Both the share and the annual growth rate of loans extended to the real estate industry increased at the end of 2017, mainly reflecting the recovery in the housing market. The share of loans extended to the finance and insurance industry also exhibited an uptrend. However, some securities firms earned profits from the stock rally, which contributed to a decrease in the annual growth rate of loans extended to this industry.

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.

Consumer Loans

The annual growth rate of consumer loans extended by banks increased from 2.86% at the end of 2016 to 3.80% at the end of 2017. Among them, house-purchasing loans increased NT$282.6 billion, or 4.44%, in 2017, a higher year-on-year increase mainly because home sales increased as a result of sellers cutting prices. As for the shares of various consumer loans, house-purchasing loans remained the largest component, with its share rising from 83.07% at the end of 2016 to 83.59% at the end of 2017. Car loans accounted for 1.67%, increasing from 1.65%, mainly because car sales were stimulated by the commodity tax cut for vehicle trade-ins. Meanwhile, house-repairing loans, revolving credit for credit cards, employees' welfare loans and other consumer loans accounted for 1.43%, 1.39%, 0.66% and 11.27%, respectively.

Investments

In terms of valuation changes, portfolio investments by monetary financial institutions, measured at fair value, recorded a year-on-year increase of NT$330.1 billion, while the increase was smaller, at NT$297.4 billion, when measured on a cost basis.

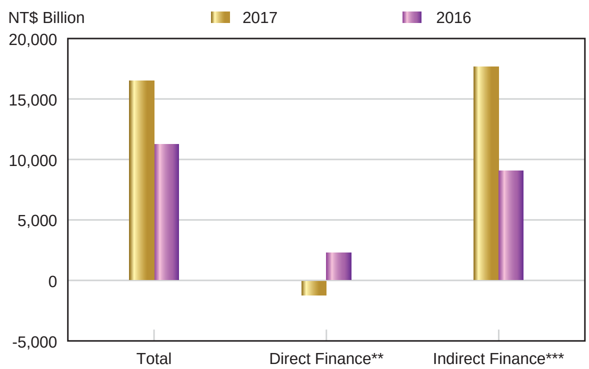
Portfolio investments by monetary financial institutions, measured on a cost basis, showed slower growth with an annual increase of 5.48% in 2017, mainly because banks became more conservative with their investments as they were watchful of the gradual normalization of monetary policy in advanced economies and uncertainties over global economic conditions.

Among the investment instruments, government bonds accounted for the largest share with 61.87%, lower than the 63.70% registered a year ago, mainly because government bond issuance declined as increased tax revenue and rising funding costs reduced the government sector's funding needs. Meanwhile, banks and the Department of Savings and Remittances of Chunghwa Post adjusted their asset allocation to invest more in securities issued by the corporate sector. At the end of 2017, commercial paper accounted for a share of 17.76%, larger than a year ago. Corporate bonds accounted for a share of 14.08%, increasing from the end of 2016.

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 credit made by financial institutions. The combined amount of direct finance and indirect finance increased from the previous year's NT$1,130.0 billion to NT$1,659.1 billion in 2017. Direct finance decreased NT$118.1 billion during 2017, compared to the previous year's increase of NT$227.4 billion. Indirect finance increased from the previous year's NT$902.6 billion to NT$1,777.2 billion, which was mainly due to higher growth

Direct Finance vs. Indirect Finance*



Notes: * Measured in terms of flow data.
** Refers to the total amount of new issues of various marketable securities, including government bonds, corporate bonds, listed stocks, offshore bonds, depositary receipts, short-term bills, and asset-backed securities held by the non-financial sector.
*** 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.

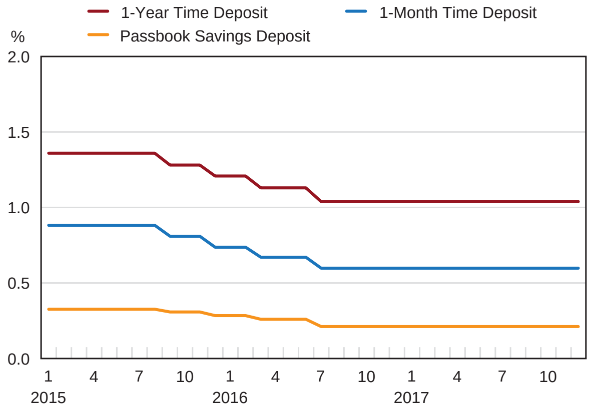
in loans and investments by financial institutions.

Based on the outstanding balance, the share of direct finance in total funds raised decreased from 20.62% a year ago to 19.82% at the end of 2017, while the share of indirect finance increased from 79.38% to 80.18%.

Bank Interest Rates Remained Steady

Throughout 2017, the domestic economy experienced a moderate recovery and inflationary pressures were modest, but global uncertainties remain. As a result, 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 0.60% and 1.04% at the end of 2017.

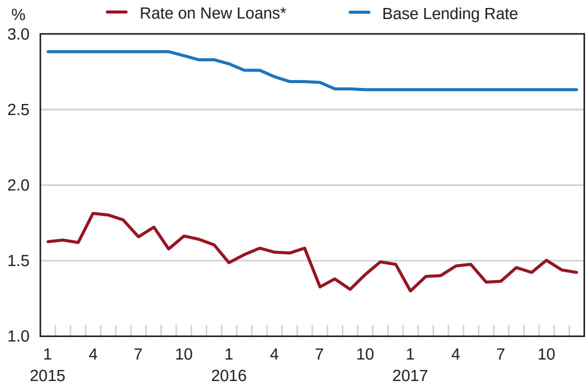
Average Deposit Rates of the Five Major Domestic Banks*



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.

The weighted average rates on deposits and loans of domestic banks showed a slightly downward trend in 2017. Because of an increase in the share of transaction deposits in total deposits, the weighted average deposit rate slightly decreased to 0.56% in the fourth quarter of 2017 from 0.57% a year ago. For the year as a whole, the weighted average interest rate on deposits of domestic banks was 0.56% in 2017, which was 0.07 percentage points lower than that recorded in the previous year.

Average Lending Rates of the Five Major Domestic Banks

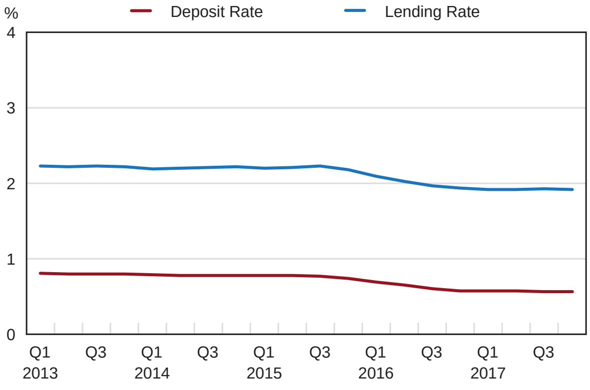


Note: * Including housing loans, capital expenditure loans, current operations loans and consumer loans.
Source: *Financial Statistics Monthly*, CBC.

As banks' rates on current operations loans dropped in 2017, the weighted average interest rate on new loans of the five major domestic banks edged down from 1.468% in 2016 to 1.414% in 2017. Excluding central government loans, the weighted average interest rate on new loans decreased from 1.560% in 2016 to 1.472% in 2017, down by 0.088 percentage points. Moreover, the average base lending rate remained at 2.632% at the end of 2017.

In the first quarter of 2017, owing to an increase in bank claims on local governments and government enterprises, the weighted average interest rate on total loans of domestic banks moved downward from 1.94% in the previous quarter to 1.92%. Then, in the third quarter, the weighted average interest rate on loans moved upward to 1.93% because the loan repayments by local governments and government enterprises were slightly greater than the amount of new loans they took out. The weighted average interest rate on loans dropped again to 1.92% in the fourth quarter. For the year as a whole, the weighted average interest rate on loans of domestic banks was 1.92%, which was 0.09 percentage points lower than that recorded in the previous year.

Weighted Average Interest Rates of Domestic Banks



Source: *Financial Statistics Monthly*, CBC.

Because the decrease in the average deposit rates was less than that in the average lending rates, the average interest rate spread between deposits and loans slightly shrank to 1.36 percentage points in 2017, which was 0.02 percentage points smaller than that recorded in the previous year.