

## 3. Banking Sector

### Increase in the Number of Depository Institutions

At the end of 2007, the number of depository institutions increased by three to 386. Among them, eight of the credit departments of farmers' associations taken over by banks in 2001 and 2002 resumed operation in the year. The numbers of domestic banks, medium business banks and credit cooperatives, however, all decreased as a result of several merger and conversion cases. The number of foreign banks decreased by one as the Cetelem Bank closed its operations in Taiwan.

### Number of Depository Institutions by Category

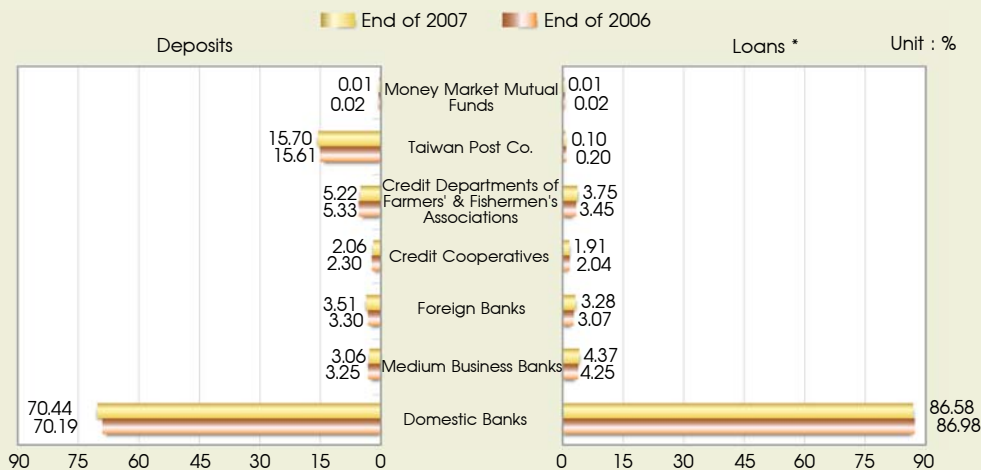
	End of 2007	End of 2006	Annual Change
Total Number of Main Offices	386	383	3
Domestic Banks	39	40	-1
Medium Business Banks	1	3	-2
Foreign Banks	32	33	-1
Credit Cooperatives	27	28	-1
Credit Departments of Farmers' and Fishermen's Associations	286	278	8
Department of Savings and Remittances of Taiwan Post Co.	1	1	0
Total Number of Branches	5,985	5,961	24
Local Branches	5,835	5,815	20
Overseas Branches	85	80	5
Offshore Banking Units	65	66	-1

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

### Market Shares of Deposits and Loans

Domestic banks have played a major role in Taiwan's banking system. Their market share of deposits increased slightly to 70.44 percent at the end of 2007 mainly because of the conversion of a credit cooperative into a domestic bank and the merger of a medium business bank with a domestic bank. With respect to loans, domestic banks also retained a dominant market share of 86.58 percent despite a decline in their loans to government agencies. Regional financial institutions, which include medium business banks, credit cooperatives and credit departments of farmers' and fishermen's associations, all recorded decreases in deposit market shares, reflecting a shift of funds from them to large banks. Foreign banks enjoyed an increase in their market shares of deposits and loans to 3.51 percent and 3.28 percent, respectively, because some foreign banks aggressively sought to enhance their presence through mergers

## Market Shares of Deposits and Loans by Category of Depository Institutions



Note: \* Including data for securities acquired under reverse repurchase agreements.  
Source: Financial Statistics Monthly, CBC.

or acquisitions. As to the Department of Savings and Remittances of the Taiwan Post Co., its market share of deposits continued to grow to 15.70 percent at the end of 2007. However, its market share of loans decreased to only 0.10 percent due to strict restrictions on its operation of loans.

### Depository Institutions' Sources and Uses of Funds

The depository institutions' sources of funds increased by only NT\$556 billion during the year, less than the NT\$1,390 billion recorded in the previous year. The much smaller increase was affected by the wide interest rate differentials between home and abroad and a significant increase in depositors' investments in overseas financial products. Among the different sources of funds, net other items and non-transaction deposits were the major sources contributing to the increase, with annual changes of NT\$351 billion and NT\$252 billion, respectively. The increase in net other items mainly reflected increases in the deposits of life insurance companies and in the net worth of depository institutions. And the increase in non-transaction deposits was caused by the increase in foreign currency deposits owing to large interest rate differentials between NT dollar deposits and foreign currency deposits.

With respect to the uses of funds, loans of depository institutions expanded by NT\$436 billion in the year, mostly in NT dollar loans. Deposits placed by depository institutions with the Bank increased by NT\$242 billion, while their purchases of CDs issued by the Bank decreased by a similar amount, reflecting changes in the Bank's sterilization policy by absorbing more

## Sources and Uses of Funds in Depository Institutions

Unit: NT\$ Billion

	End of 2007		End of 2006		Annual Change	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
<b>Sources:</b>						
Transaction Deposits **	7,457	26.34	7,464	26.89	-7	-0.55
Non-transaction Deposits***	17,819	62.93	17,568	63.28	252	-0.35
Government Deposits	746	2.63	717	2.58	29	0.05
Borrowings from CBC	81	0.29	151	0.54	-70	-0.26
Other Items (Net)	2,213	7.81	1,862	6.71	351	1.11
<b>Total</b>	<b>28,317</b>	<b>100.00</b>	<b>27,761</b>	<b>100.00</b>	<b>556</b>	<b>0.00</b>
<b>Uses:</b>						
Net Foreign Assets *	1,110	3.92	1,030	3.71	80	0.21
Loans	18,033	63.68	17,597	63.39	436	0.30
Portfolio Investments****	2,605	9.20	2,555	9.20	50	0.00
Purchases of CDs Issued by CBC	3,431	12.11	3,683	13.27	-253	-1.15
Deposits with CBC	3,139	11.08	2,896	10.43	242	0.65

Notes:\* Excluding valuation changes in the exchange rate of the NT dollar against foreign currencies when calculating their annual change.

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

\*\*\* Including time deposits, time savings deposits, foreign currency deposits, postal savings deposits, non-residents NT dollar deposits, and repurchase agreements.

\*\*\*\* Measured at original costs.

Source: *Financial Statistics Monthly*, CBC.

time deposits and issuing less CDs. Portfolio investments increased by a smaller amount of NT\$50 billion due to rising bond yields and wilder financial market fluctuations affected by the US subprime mortgage crisis.

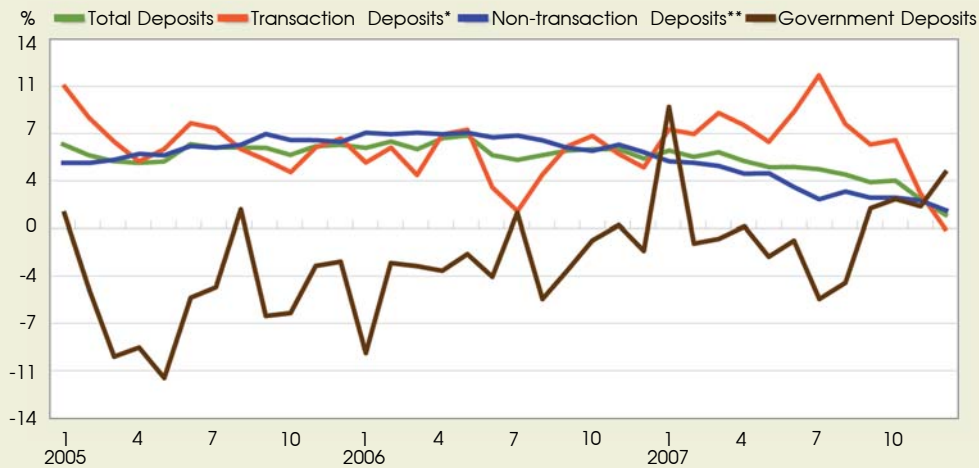
### Downtrend in the Growth of Deposits

Total deposits of depository institutions at the end of 2007 grew by 1.03 percent, lower than the 5.10 percent at the end of 2006. The decline was mainly caused by slower growth in banks' loans and investments, a deceleration in foreign capital inflows, as well as a surge in overseas financial investments by residents.

Due to the steady expansion of bank credit, the annual growth rate of deposits rose to a yearly high of 5.70 percent in January. From April to September, slower growth of bank credit pushed the annual growth rate of deposits down to 3.35 percent in September. In October, deposit growth went up as a result of an increase in foreign capital inflows. From November onwards, as the growth of bank credit slowed and foreign capital outflows strengthened, deposit growth declined further and reached a yearly low of 1.03 percent at the end of 2007.

Among different types of deposits, the annual growth rate of transaction deposits fell from the previous year's 4.53 percent to a negative 0.09 percent at the end of 2007. Their share in total deposits also edged down from 28.98 percent to 28.66 percent. This was mainly due to

### Annual Growth Rate of Deposits by Type



Notes: \* Including checking account deposits, passbook deposits and passbook savings deposits.  
 \*\* Including time deposits, time savings deposits, foreign currency deposits, postal savings deposits, non-resident NT dollar deposits, repurchase agreements, and money market mutual funds.  
 Source: *Financial Statistics Monthly*, CBC.

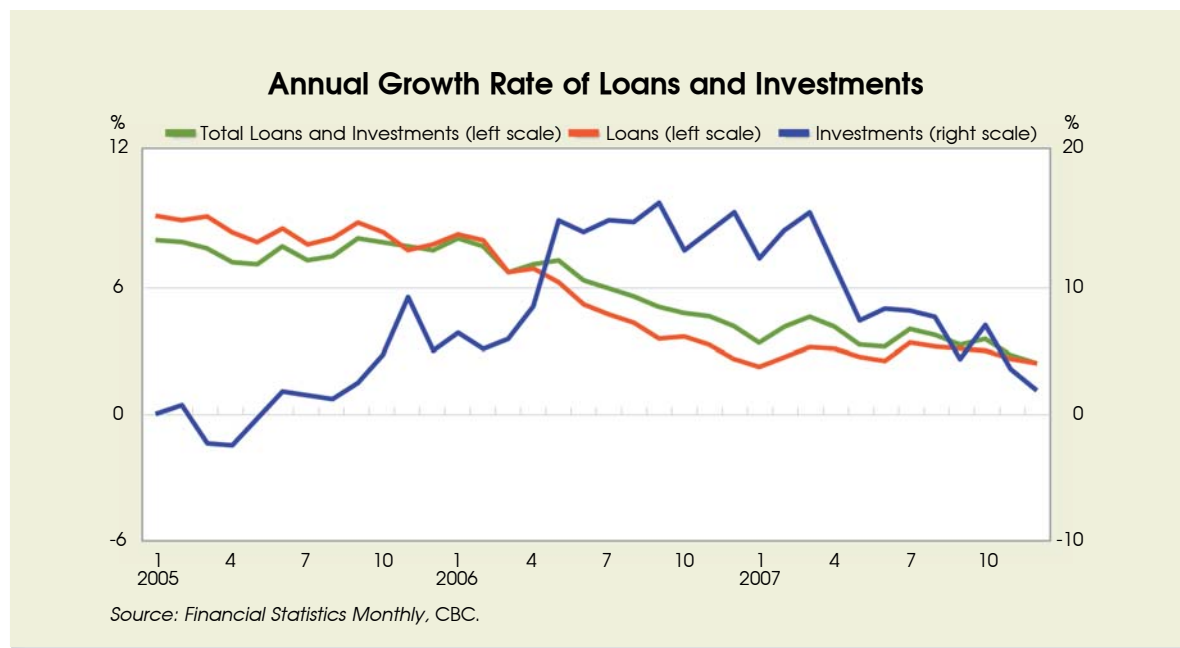
rising interest rates on time deposits and favorable interest rates on foreign currency deposits, which in turn caused a shift of funds from transaction deposits to non-transaction deposits. The annual growth rate of non-transaction deposits at all depository institutions decreased to 1.38 percent at the end of the year from the 5.65 percent of the previous year-end, while their share in total deposits edged up from 68.24 percent to 68.47 percent.

With respect to the different types of non-transaction deposits, the shares of time deposits, foreign currency deposits and NT dollar deposits held by foreigners increased at the end of the year when compared with the previous year-end, while the shares of time savings deposits and postal savings deposits declined.

The growth of government deposits in depository institutions rose from negative 1.73 percent in the previous year to 4.11 percent in 2007, reflecting significant increases in government tax revenues. Meanwhile, their share in total deposits increased from 2.78 percent to 2.87 percent.

### Slower Growth in Banks' Loans and Investments

The annual growth rate of loans and investments of depository institutions fell to 2.40 percent at year-end 2007, compared to the 4.10 percent recorded at the end of the previous year. The slowdown was owing to enterprises' weak demand for funds, the government's repayment of bank loans, as well as banks' conservative attitude toward portfolio investments. Loans posted an annual growth rate of 2.46 percent at the end of 2007, lower than the 2.57 percent



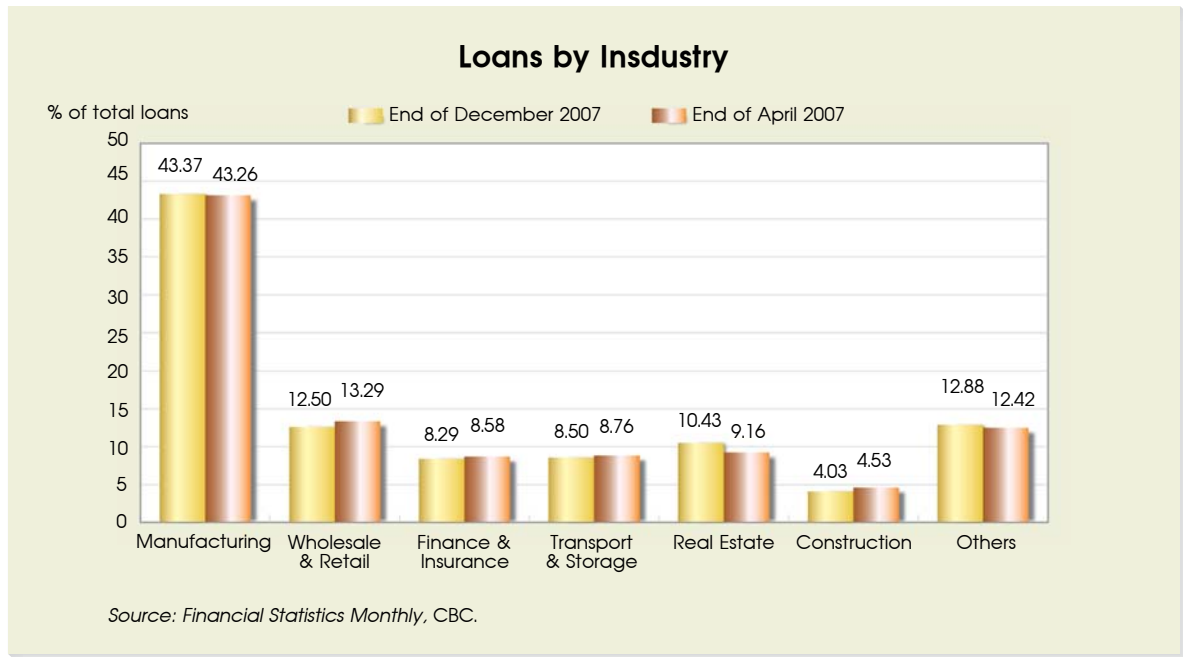
a year earlier, while the growth of investments significantly fell to 1.97 percent in 2007 from the 16.04 percent in 2006.

### Loans by Sector

Loans extended to the private sector and public enterprises at the end of 2007 accounted for 89.03 percent and 3.28 percent of total loans, respectively, higher than the 87.86 percent and 2.99 percent recorded a year earlier. Owing to the central government's repayment of loans, the share of loans extended to government agencies in total loans dropped to 7.68 percent from 9.16 percent at the previous year-end.

### Loans by Industry

The compilation of bank loans by industry has been adjusted since April 2007 according to the new industrial classification standards released by the Directorate-General of Budget, Accounting and Statistics (DGBAS) of the Execution Yuan, which influenced the time series of loans to certain industries. When data between April and December of the year are compared, the manufacturing sector still accounted for the largest portion of bank loans. Its share in total loans was 43.37 percent at the end of 2007, slightly higher than the 43.26 percent recorded in April 2007. The share of loans extended to real estate developers in total loans rose most significantly to record 10.43 percent at the end of 2007, as the property market remained vigorous. The shares of loans to other industries either recorded a marginal decrease or remained largely unchanged between April and December 2007.



## Consumer Loans

Consumer loans registered a mild increase in 2007, mainly due to the continued but slower growth of home mortgages and the flattened impact of the default problems of credit card loans and cash card loans that erupted a year ago. As a result, the outstanding balance of consumer loans extended by banks at the end of the year recorded an annual increase of NT\$99.1 billion or 1.49 percent from the previous year-end.

## Investments

Owing to less willingness to hold securities in an environment of high market volatility, portfolio investments by depository institutions measured on a cost basis showed a mere annual increase of NT\$50.2 billion or 1.97 percent, significantly lower than the NT\$353.1 billion or 16.04 percent a year earlier. Among the securities instruments, government bonds accounted for the largest share of 58.30 percent in 2007, up from 55.54 percent a year ago, mainly due to the massive purchases of government bonds by the Department of Savings and Remittances of the Taiwan Post Co. Portfolio investments by depository institutions, measured at fair values, showed a slight annual increase of NT\$0.4 billion, due to the negative revaluation adjustment of NT\$49.8 billion during the year.

## Decrease in Indirect Finance

Financing channels of the non-financial sector comprise indirect finance and direct finance,

## Indirect Finance vs. Direct Finance\*

Unit: NT\$ Billion

Year	Total Funds Raised (3)=(1)+(2)	Indirect Finance (1)			Direct Finance (2)
		Subtotal	Loans	Investments	
1998	1,935.4	1,404.4	886.5	517.9	531.0
1999	1,289.1	1,041.3	954.0	87.3	247.8
2000	1,377.1	1,203.2	1,053.2	150.0	173.9
2001	665.2	594.5	200.6	393.9	70.7
2002	807.5	424.8	71.7	353.1	382.7
2003	1,677.1	716.0	711.5	4.5	961.1
2004	2,129.3	1,815.9	1,569.7	246.2	313.4
2005	1,961.7	1,780.3	1,458.5	321.8	181.4
2006	1,223.6	1,374.8	837.8	537.0	-151.2
2007	1,028.5	951.3	722.6	228.7	77.2

Notes: \* Measured in terms of flow data.

(1) Refers to loans and investments (measured on a cost basis) made by depository 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 sectors.

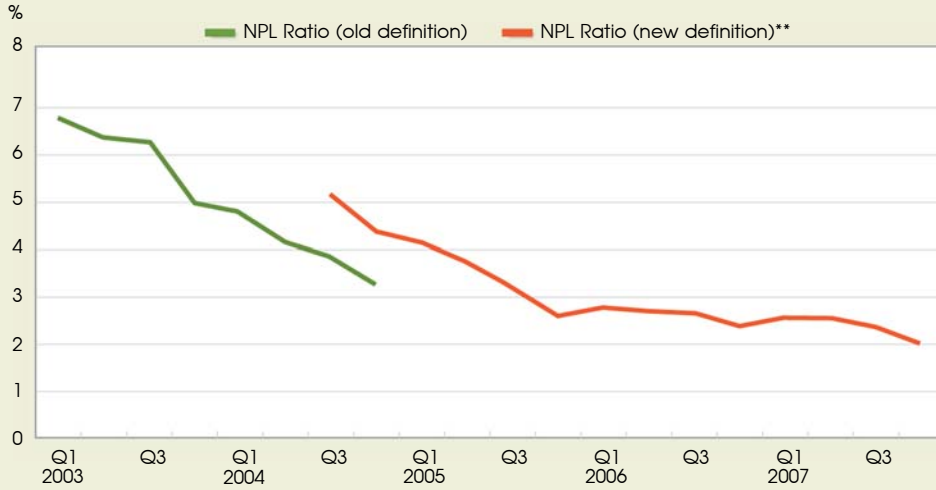
Source: *Financial Statistics Monthly*, CBC.

i.e. borrowing from financial institutions and issuing securities in the markets, respectively. Based on the flow data, the total amount of funds raised by the non-financial sector during the year 2007 decreased from the previous year's NT\$1,223.6 billion to NT\$1,028.5 billion. Funds raised through borrowing from financial institutions decreased from the previous year's NT\$1,374.8 billion to NT\$951.3 billion, while funds raised by issuing securities increased from the previous year's negative NT\$151.2 billion to positive NT\$77.2 billion, mainly due to the increased issuance of offshore bonds. If based on the data of outstanding balance, the share of indirect finance in total funds raised increased from 75.41 percent at the end of 2006 to 75.76 percent at year-end 2007, while the share of direct finance decreased from 24.59 percent to 24.24 percent.

### Decline in the Non-Performing Loan Ratio

The asset quality of financial institutions improved in 2007, with the domestic financial institutions' continuing disposal of non-performing loans (NPLs), the subdued impact of credit card and cash card debt defaults, and banks' efforts to write off bad loans. The average NPL ratio of financial institutions (including banks, community financial institutions, and trust & investment companies) as a whole declined to 2.01 percent at the end of 2007, lower than the previous year's 2.38 percent. With respect to the different types of financial institutions, the NPL ratios of most domestic financial institutions improved in the year when compared with the previous year, except the NPL ratio of trust and investment companies, which deteriorated substantially to 29.01 percent from 11.72 percent because of a significant reduction in the outstanding balance of loans due to the acquisition of China United Trust & Investment Corporation by the Cathay United Bank near the end of the year.

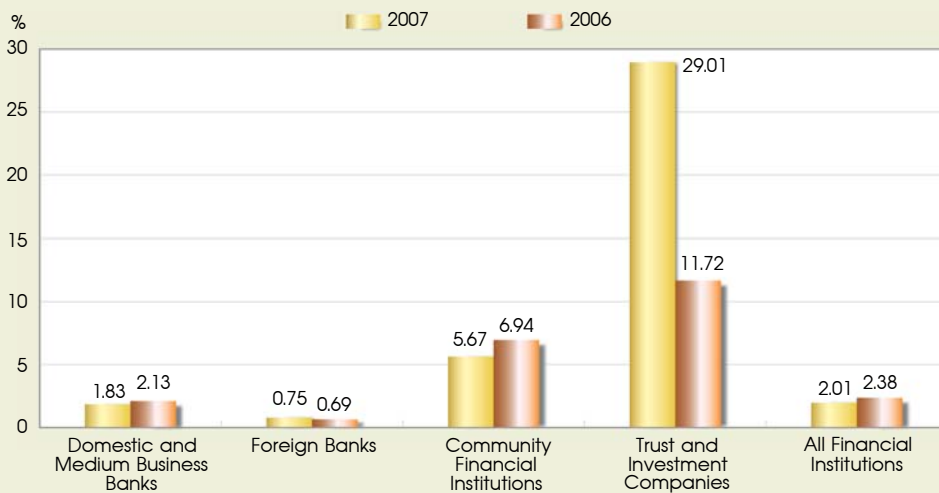
### Non-Performing Loan Ratios of Financial Institutions\*



Notes: \* Including domestic banks, medium business banks, foreign banks, credit cooperatives, credit departments of farmers' and fishermen's associations, and trust and investment companies.  
 \*\*Including loans under surveillance.

Source: Department of Financial Inspection, CBC.

### Non-Performing Loan Ratios by Type of Financial Institutions



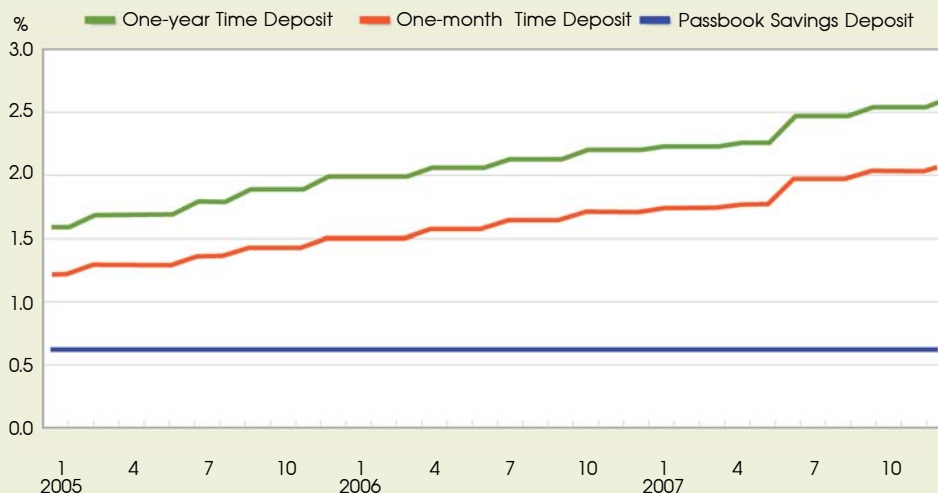
Source: Department of Financial Inspection, CBC.

### Increase in Bank Interest Rates

Bank interest rates moved up steadily throughout 2007 along with the pace of the Bank's rate rise. In the case of the interest rates of the five major domestic banks, the average fixed rates on one-month and one-year time deposits respectively moved upward to 2.09 percent



### The Average Deposit Rates of the Five Major Domestic Banks\*



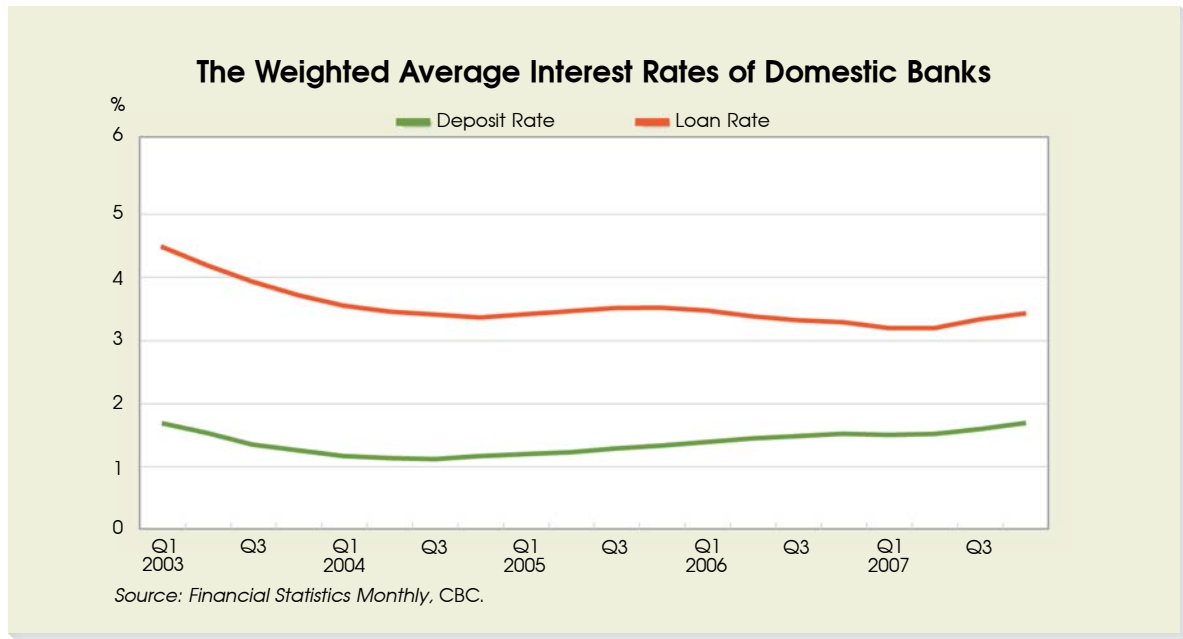
Note: \* The five major domestic banks are Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank and Chang Hwa Commercial Bank.  
Source: Financial Statistics Monthly, CBC.

and 2.62 percent at the end of 2007 from 1.71 percent and 2.20 percent at the previous year-end. The average base lending rate, however, declined to 3.96 percent at the end of January 2007 from 4.12 percent at the previous year-end because the Bank of Taiwan, one of the five major domestic banks, adopted a new pricing rule for its base lending rate. From February onwards, the average base lending rate continued to rise to 4.31 percent at the end of 2007.

### The Average Lending Rate 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 Chang Hwa Commercial Bank.  
Source: Financial Statistics Monthly, CBC.



During 2007, the weighted average lending rate on new loans extended by the five major domestic banks broadly exhibited an upward trend. It rose to 2.95 percent in June 2007 from 2.37 percent in December 2006 owing to the increases in base lending rates and the index rates for adjustable-rate mortgages. The lending rate then fluctuated within a narrow range between 2.77 percent and 2.85 percent during the second half of 2007. For the year 2007, the weighted average lending rate on new loans was 2.70 percent, higher than the 2.37 percent recorded in 2006.

In 2007, the weighted average rates on deposits and loans of domestic banks exhibited an upward trend, rising to 1.59 percent and 3.31 percent, respectively. The interest rate spread between deposits and loans gradually shrank from 1.91 percent in 2006 to 1.72 percent in 2007, mainly due to the fierce competition among banks.

### Significant Improvement in Banks' Profitability

The profits of banks increased significantly during 2007 mainly due to a rise in fee income and lower provision for credit card defaults. The combined pre-tax earnings of all depository institutions grew by NT\$69 billion to NT\$81.9 billion. Of this amount, the pre-tax earnings of domestic banks and medium business banks combined registered NT\$38.9 billion after posting a loss of NT\$7.3 billion in the previous year.

## Profits by Type of Depository Institutions

Unit: NT\$ Billion

	Profit before Tax			Return on Assets (%)*			Return on Equity (%)**		
	2007	2006	Annual Change	2007	2006	Annual Change	2007	2006	Annual Change
Domestic Banks and Medium Business Banks	38.9	-7.3	46.2	0.14	-0.03	0.17	2.15	-0.42	2.57
Foreign Banks	23.7	4.3	19.4	0.89	0.18	0.71	39.02	8.61	30.41
Credit Cooperatives	1.8	1.3	0.5	0.30	0.21	0.09	4.47	3.07	1.40
Credit Departments of Farmers' and Fishermen's Associations	4.5	3.7	0.8	0.31	0.25	0.06	5.12	4.37	0.75
Department of Savings and Remittances of Taiwan Post Co.	13.0	10.9	2.1	0.30	0.26	0.04	18.03	13.88	4.15
Total	81.9	12.9	69.0	0.22	0.04	0.18	3.95	0.65	3.30

Notes: \* Return on Assets = Profit before Tax / Total Assets

\*\* Return on Equity = Profit before Tax / Net Worth

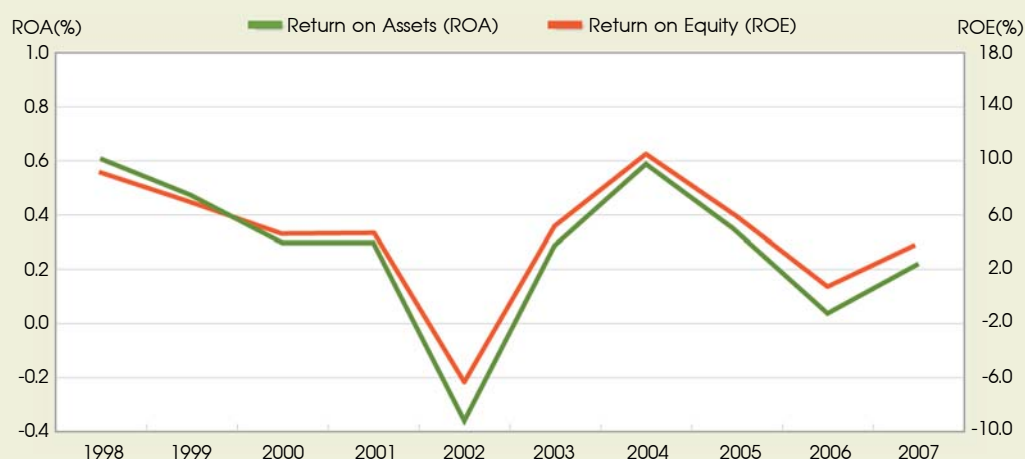
Source: Department of Financial Inspection, CBC.

### Increase in Both ROA and ROE

The average return on assets (ROA) and return on equity (ROE) for all depository institutions rose to 0.22 percent and 3.95 percent in 2007, respectively, from 0.04 percent and 0.65 percent a year earlier. Among depository institutions, foreign banks were the best performers in terms of ROAs and ROEs.

As for the capital adequacy ratio, the average ratio of domestic banks rose to 10.57 percent at the end of the year from 10.11 percent at the previous year-end on account of new capital injection and issuance of subordinated debt.

### The Return on Assets and Equity of Depository Institutions



Source: Department of Financial Inspection, CBC.