# 2. Banking Sector

## Number of Monetary Financial Institutions

At the end of 2018, the number of monetary financial institutions (defined hereafter in this chapter as excluding the central bank) decreased to 402. The number of domestic banks decreased by one as Ta Chong Bank was merged into Yuanta Commercial Bank, while the numbers of the other types of monetary financial institutions all remained unchanged.

### Number of Monetary Financial Institutions by Type

| Types of institutions | End of 2018 | End of 2017 | Annual Change |
|---|---|---|---|
| Total Number of Main Offices | 402 | 403 | -1 |
| Domestic Banks | 38 | 39 | -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 | 6,083 | 6,106 | -23 |
| Local Branches | 5,879 | 5,898 | -19 |
| Overseas Branches | 144 | 147 | -3 |
| Offshore Banking Units | 60 | 61 | -1 |

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

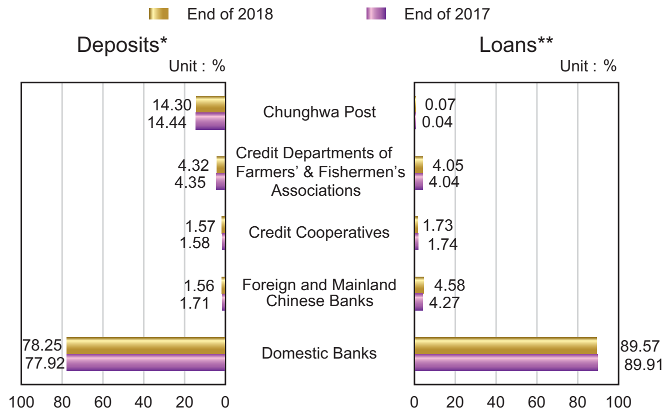
At the end of 2018, there were no money market mutual funds offered by banks, while the number of financial holding companies remained at 16, the same as 2017.

## Market Shares of Deposits and Loans

In terms of deposits, the market share of domestic banks rose to 78.25% at the end of 2018, mainly attributable to the fact that some domestic banks successively provided preferential interest rates for large-value transaction deposits and foreign currency deposits. As a result of deposit inflows 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 1.56%, 14.30%, 4.32%, and 1.57%, respectively.

In terms of loans, the market share of domestic banks continued to slip to 89.57%, mainly as the government collected more tax and treasury revenues, causing a decrease in its borrowings from domestic banks. Meanwhile, foreign and Mainland Chinese banks' market share climbed to 4.58% as their lower lending rates boosted private corporate lending. Chunghwa Post's market share rose to 0.07%, reflecting an increase in lending to bills finance companies. As for the other institution types, the market share of credit departments of farmers' and fishermen's associations edged up to 4.05%, whereas that of credit cooperatives slightly fell to 1.73%.

**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 2018, the total amount of funds in monetary financial institutions was NT$49,193 billion, increasing by NT$1,097 billion compared to the end of 2017. The combined share of transaction and non-transaction deposits was nearly 85%. While transaction deposits kept growing, the annual growth rate of non-transaction deposits fell sharply to -0.03% owing to a higher comparison base and marked decreases in foreign currency deposits along with NT dollar depreciation in the second half of the year.

In the case of fund uses, bank loans still accounted for over 50% of total uses of funds at the end of 2018. Both the share and growth in loans increased compared to the previous year, mainly owing to greater demand from government enterprises and individuals supported by the recovering housing market. As for growth in net foreign assets, it dropped sharply from 5.36% at the end of 2017 to -15.46%, mainly driven by large net foreign capital outflows and slower trade surplus growth.

Portfolio investments by monetary financial institutions continued to post year-on-year rises at the end of 2018. This mainly reflected the effect of the US-China trade conflict and a slowdown in the global economy, which caused monetary financial institutions to increase holdings of government bonds for hedging. As for banks' purchases of CDs issued by the CBC, both its share and growth decreased compared with the end of the previous year.

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

Unit: NT$ Billion

| | End of 2018 | | | End of 2017 | | | Annual Change | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Share (%) | Annual Growth Rate (%) | Amount | Share (%) | Annual Growth Rate (%) | Amount | Share (%) |
| Sources: | | | | | | | | |
| Transaction Deposits[2] | 15,773 | 32.06 | 5.51 | 14,950 | 31.08 | 3.12 | 823 | 0.98 |
| Non-transaction Deposits[3] | 26,189 | 53.26 | -0.03 | 26,197 | 54.47 | 5.27 | -8 | -1.21 |
| NT Dollar Deposits | 20,440 | 41.55 | 0.40 | 20,357 | 42.33 | 1.17 | 82 | -0.78 |
| Foreign Currency Deposits | 5,750 | 11.69 | -1.54 | 5,840 | 12.14 | 22.61 | -90 | -0.45 |
| Government Deposits | 1,043 | 2.12 | 11.13 | 938 | 1.95 | 4.82 | 104 | 0.17 |
| Other Items | 6,188 | 12.56 | 2.94 | 6,011 | 12.50 | 4.84 | 177 | 0.06 |
| Total | 49,193 | 100.00 | 2.28 | 48,096 | 100.00 | 4.53 | 1,097 | 0.00 |
| Uses: | | | | | | | | |
| Net Foreign Assets[4] | 3,675 | 7.47 | -15.46 | 4,347 | 9.04 | 5.36 | -672 | -1.57 |
| Loans | 27,660 | 56.26 | 5.06 | 26,328 | 54.74 | 4.96 | 1,332 | 1.52 |
| NT Dollar Loans | 26,666 | 54.21 | 5.36 | 25,309 | 52.62 | 4.18 | 1,357 | 1.59 |
| Foreign Currency Loans[4] | 994 | 2.02 | -2.41 | 1,018 | 2.12 | 29.11 | -24 | -0.10 |
| Portfolio Investments[5] | 6,088 | 12.37 | 6.34 | 5,725 | 11.90 | 5.48 | 363 | 0.47 |
| Purchases of CDs Issued by CBC | 7,741 | 15.74 | -0.67 | 7,793 | 16.20 | 4.04 | -52 | -0.46 |
| Deposits with CBC | 4,030 | 8.21 | 3.22 | 3,904 | 8.12 | 0.52 | 126 | 0.09 |

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.

## Deposits

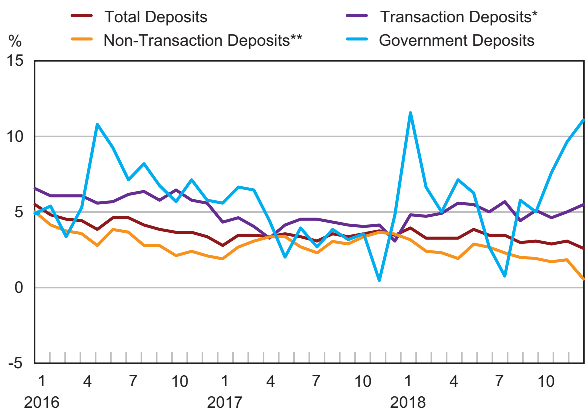
Because of people's changing asset allocation behavior, such as increased purchases of life insurance products or exchange traded funds (ETFs), the annual growth rate of deposits in 2018 was 2.60%, a significant decline from the 3.46% in 2017. Moreover, as the previous year's net foreign capital inflow turned into a net outflow in 2018, the annual growth rate of deposits showed a general downtrend as a result.

In terms of monthly movement, in the first half of the year, most months recorded declines except for April and May. In April, along with stronger growth momentum for bank loans and investments, the annual growth rate of deposits also rose. In May, because of faster growth in bank loans and investments and decreased net foreign capital outflows, the annual growth rate of deposits significantly increased.

In the second half of the year, the annual growth rate of deposits generally trended down, except for September and November when the growth momentum for bank loans and investments increased and net foreign capital outflows turned into inflows.

For transaction deposits, because banks rolled out more preferential interest rate deposit programs in March and April, the annual growth rate went up. However, in May and June, as some firms parked their funds in time deposits in preparation for dividend issuance and more effective allocation for higher returns, which caused transaction deposits to temporarily flow to time deposits, the annual growth rate of transaction deposits fell. In the other months, the rate generally fluctuated in tandem with the annual change of deposit balances of securities giro accounts. Overall, for transaction deposits, the annual growth rate roughly trended up in 2018 and its share in total deposits increased to 36.68% at the end of 2018. The uptrend was most significant in July, when pension reform caused some time savings deposits to flow to passbook savings deposits.

**Annual Growth Rates of Deposits**

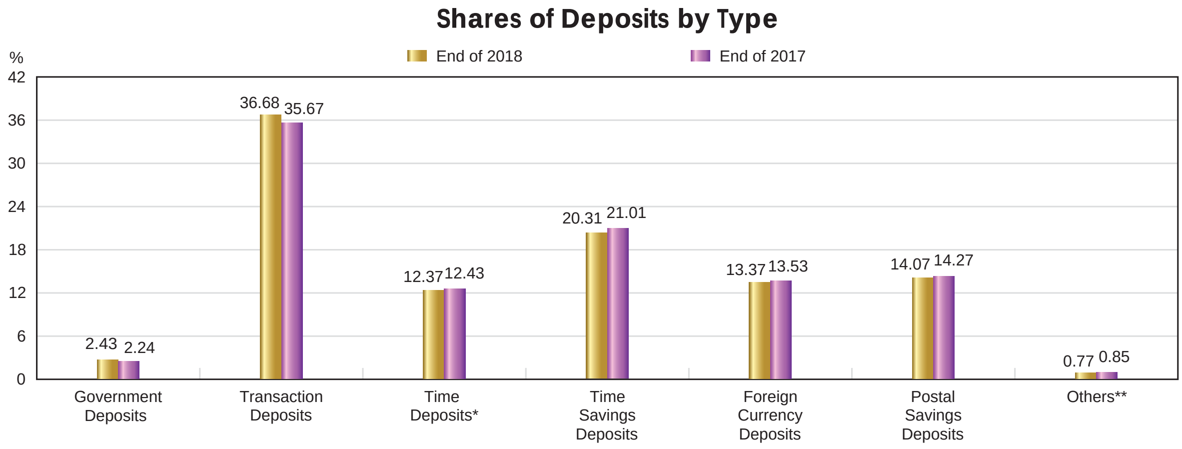



Notes: * Including checking accounts, passbook deposits and passbook savings deposits.
** Including time deposits, time savings deposits, foreign currency deposits, postal savings deposits, non-residents' NT dollar deposits, repurchase agreements, and money market mutual funds.
Source: *Financial Statistics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

For the year as a whole, non-transaction deposits posted a fall in the annual growth rate from 3.60% at the end of 2017 to 0.62% at the end of 2018, on account of a higher comparison base, preferential interest rate programs for transaction deposits and changes in people's asset allocation behavior.

By type of non-transaction deposits, the annual growth rate of time deposits declined largely owing to a higher base effect, and the share of time deposits dropped to 12.37% at the end of 2018. The shares and the annual growth rate of time savings deposits declined because of the above-mentioned influence from pension reform. The annual growth rate of postal savings deposits rose owing to a lower comparison base, but its share fell to 14.07%.

For foreign currency deposits, the share and the annual growth rate in 2018 decreased to 13.37% and 1.38%, espectively. This was mainly attributable to a shift to foreign currency-denominated insurance products. In addition, NT dollar depreciation pushed up the cost of purchases of foreign currency, thus weakening the incentive to hold foreign currency deposits. Owing to increased tax revenue, the annual growth rate of government deposits went up to 11.20%, and its share in total deposits also rose to 2.43%.

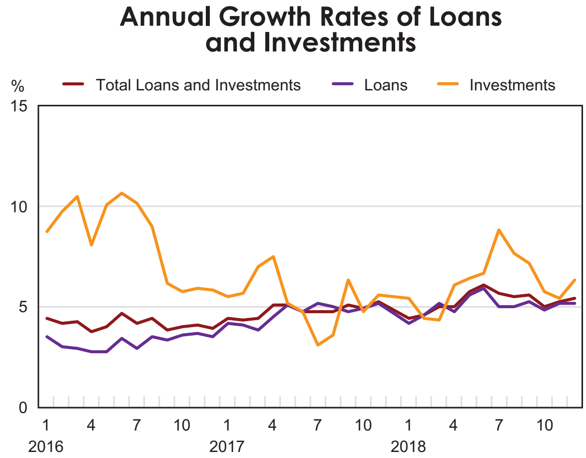



Notes: * Including NCDs.
** Including repurchase agreements, non-residents' NTD deposits and money market mutual funds.

Source: *Financial Statistics Monthly*, CBC.

## Bank Loans and Investments

The annual growth rate of loans and investments of monetary financial institutions was 5.39% at the end of 2018, increasing from 4.82% at the end of 2017. Growth in loans increased to 5.18% at the end of 2018 from 4.68% at the end of the previous year, owing to a moderate housing market recovery, one big merger deal, and greater demand from Taiwan Power Company to finance its plant expansion as well as national energy transition. Meanwhile, growth in portfolio investment accelerated to 6.34% at the end of 2018 from 5.48% a year earlier because insurance companies partially sold their massive government bond holdings to banks in order to increase their overseas investments, resulting in faster growth in banks' investment in government bonds.




Source: *Financial Statistics Monthly*, CBC.

## Loans by Sector

The annual growth rate of private sector loans extended by banks (defined in the following paragraphs as including domestic banks and local branches of foreign and Mainland Chinese banks) rose to 5.44% at the end of 2018 from 5.16% at the end of 2017. The upturn was mainly due to a recovering housing market and one big merger deal. The annual growth rate of loans to government enterprises returned to positive territory, registering 11.00% at the end of 2018 from

-3.34% at the end of 2017, as Taiwan Power Company increased borrowing from banks to facilitate its plant expansion and energy transition policies. Meanwhile, the annual growth rate of loans to government agencies was -1.52% at the end of 2018 because of reduced demand thanks to increased tax revenues. The growth rate, though negative, still represented an improvement compared to -5.44% the previous year as a result of a lower base effect.

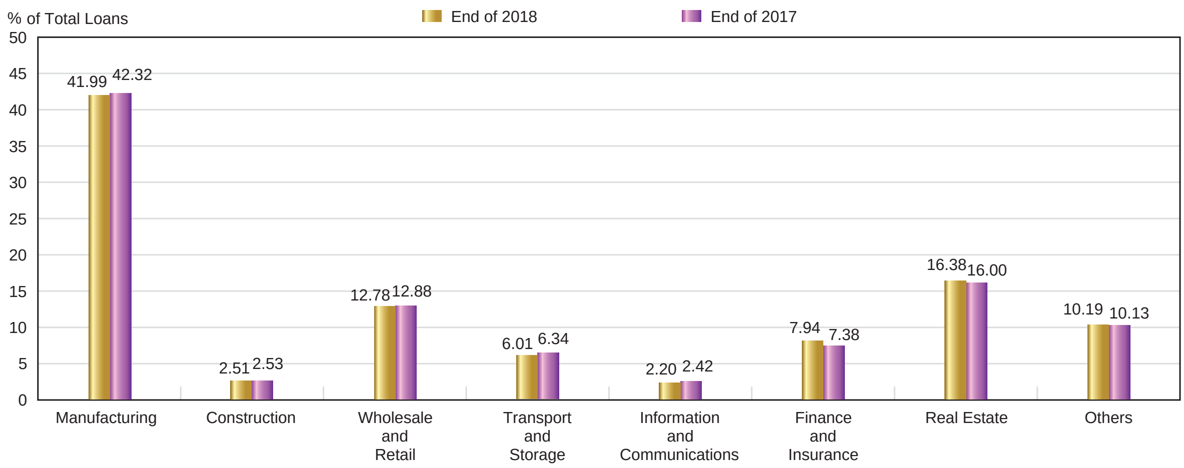
In terms of loan composition, loans extended to the private sector and government enterprises accounted for 93.06% and 2.15% of total loans at the end of 2018, respectively, higher than the 92.84% and 2.03% recorded at the end of 2017. Loans extended to government agencies accounted for 4.79% at the end of 2018, lower than 5.12% 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 41.99% at the end of 2018 compared to 42.32% at the end of 2017, with its annual growth rate also down from 6.88% to 4.76%. The fall was mainly attributable to slower growth in loans extended to electronic parts and components manufacturing, as one semiconductor manufacturing company fully repaid its borrowing for an acquisition completed in 2016 and exports declined in the fourth quarter of the year. While the share of loans extended to the construction industry slightly decreased at the end of 2018, its annual growth rate rose from -8.40% to 4.72% at the end of 2018, in line with a housing market recovery.

The recovering housing market also kept the share of loans extended to the real estate industry on an upward track. However, following the slowdown in export orders and vehicle sales, the share

**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.

of loans extended to the wholesale and retail industry shrank. Both the share and the annual growth rate of loans extended to the finance and insurance industry bounced back as a result of one big merger deal, which induced a significant volume of bank loans to this industry.

### Consumer loans

The annual growth rate of consumer loans extended by banks increased from 3.80% at the end of 2017 to 4.42% at the end of 2018. Among them, house-purchasing loans grew by NT$329.6 billion, or 4.96%, in 2018, a higher year-on-year increase mainly because home sales rose as more owner-occupied buyers entered the market and sellers cut prices. As for the shares of various consumer loans, house-purchasing loans remained the largest component, with its share rising from 83.59% at the end of 2017 to 84.02% at the end of 2018. Car loans accounted for 1.69%, increasing from 1.67%, mainly because of car loan promotion schemes. Meanwhile, house-repairing loans, revolving credit for credit cards, employee welfare loans, and other consumer loans accounted for 1.10%, 1.36%, 0.67%, and 11.16%, respectively.

### Investments

Owing to valuation changes, portfolio investments by monetary financial institutions, measured at fair value, recorded a year-on-year increase of NT$408.4 billion, while the increase was smaller, at NT$363.1 billion, when measured on a cost basis.

Portfolio investments by monetary financial institutions measured on a cost basis grew at a faster pace of 6.34% in 2018, mainly because banks increased government bond holdings to hedge risks in response to a number of uncertainties such as the US-China trade conflict and slow growth in the global economy.

Among the investment instruments, government bonds accounted for the largest share with 62.85%, higher than the 61.87% registered a year ago, mainly bolstered by massive purchases of government bonds by banks and the Department of Savings and Remittances of Chunghwa Post to seek low-risk investments. At the end of 2018, commercial paper accounted for a share of 16.72%, lower than a year ago, mainly because commercial paper issuance decreased and banks cut back such holdings. Corporate bonds accounted for a share of 14.43%, increasing from the end of 2017.

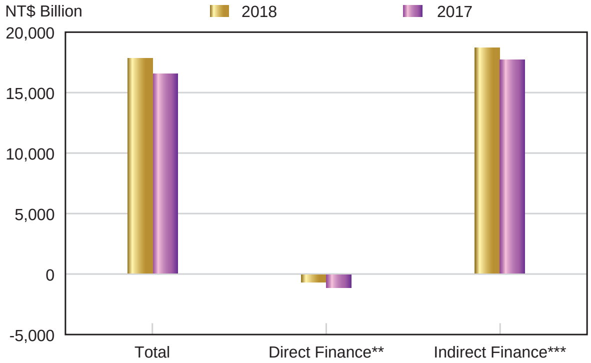
### Direct Finance and Indirect Finance

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$1,658.1 billion to NT$1,794.7 billion in 2018. Direct finance decreased by NT$80.2 billion during 2018, smaller than the decrease of NT$118.9 billion last year. Indirect finance increased from the previous year's NT$1,777.2 billion to NT$1,874.9 billion, which was mainly due to higher growth in loans and investments by financial institutions.

Based on the outstanding balance, the share of direct finance in total funds raised decreased from 19.81% a year before to 18.93% at the end of 2018, while the share of indirect finance increased from 80.19% to 81.07%.

**Direct Finance vs. Indirect Finance***

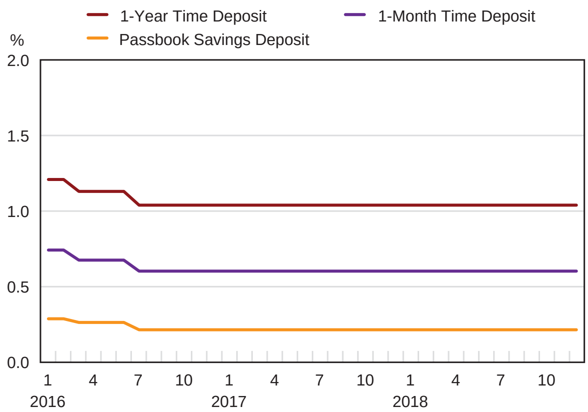



Notes: * Measured in terms of flow data.
** Refers to the total amount of new issues of various marketable securities, including government bonds, corporate bonds, listed stocks, offshore bonds, depositary receipts, short-term bills, and asset-backed securities held by the non-financial sector.
*** Refers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

## Bank Interest Rates

In the first half of 2018, the domestic economy grew steadily. However, entering the second half of the year, with the Fed interest rate increase and the US-China trade war, global financial markets fluctuated drastically. As the global economic climate cooled, and uncertainty over international economic and financial prospects increased, domestic economic growth slowed down, and inflation expectations remained mild. Against this backdrop, the Bank 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 remained at 0.60% and 1.04% at the end of 2018, respectively, both the same as the end of the previous year.

**Average Deposit Rates of the Five Major Domestic Banks***




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

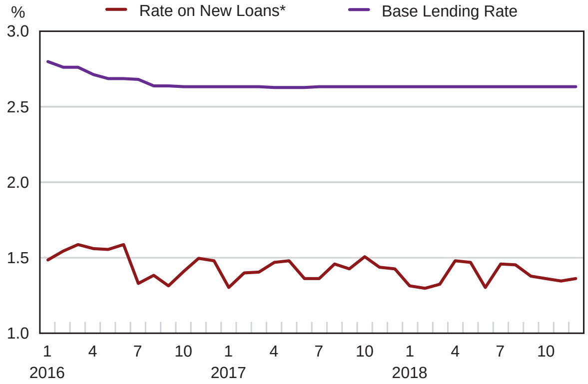
The weighted average rates on deposits and loans of domestic banks showed a slightly downward trend in 2018. Because of an increase in the share of transaction deposits, of which the interest rates were lower, in total deposits, the weighted average deposit rate slightly decreased to 0.55% in the fourth quarter of 2018 from 0.56% a year ago. The weighted average interest rate on deposits of domestic banks was stable at 0.56% in the first three quarters of 2018 but slightly dropped to 0.55% in the fourth quarter, averaging 0.56% for the whole year, which was the same as that recorded in the previous year.

As banks' rates on current operations loans dropped in 2018, the weighted average interest rate on new loans of the five major domestic banks edged down from 1.414% in the previous year to 1.370% in 2018. Excluding central government loans, the weighted average interest rate on new loans decreased from 1.472% in the previous year to 1.414% in 2018, down by 0.058 percentage points. Moreover, the average base lending rate decreased to 2.631% at the end of 2018 from 2.632% at the previous year-end.

In the first quarter of 2018, owing to an increase in bank claims on local governments and government enterprises and fierce competition in the mortgage market, some banks offered lower rates on new mortgage loans. The weighted average interest rate on total loans of domestic banks slightly decreased from 1.92% in the previous quarter to 1.91%. The rate dropped to 1.90% in the second quarter, owing to increases in low-interest loans to government enterprises and large-value loans to renowned firms. Thereafter, the rate remained broadly steady until the end of the year. For the year as a whole, the weighted average interest rate on loans of domestic banks was 1.90%, which was 0.02 percentage points lower than that recorded in the previous year.

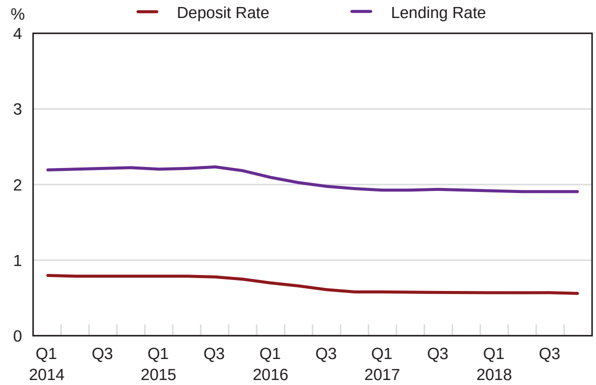
Because the average lending rate was slightly lower and the average deposit interest rate was stable, the average interest rate spread between deposits and loans slightly shrank to 1.34 percentage points in 2018, which was 0.02 percentage points smaller than that recorded in the previous year.

**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.