

### 3. Banking Sector

#### Increase in the Number of Depository Institutions

At the end of 2008, the number of depository institutions was 387, an increase of one from the previous year-end. Among them, the number of domestic banks decreased by two as a result of the merging of two domestic banks into two different foreign banks. The number of foreign banks remained at 32, as one new bank was established and one existing bank was merged into a domestic bank. However, the number of credit departments of farmers' and fishermen's associations increased by three owing to the opening of three new ones.

#### Number of Depository Institutions by Category

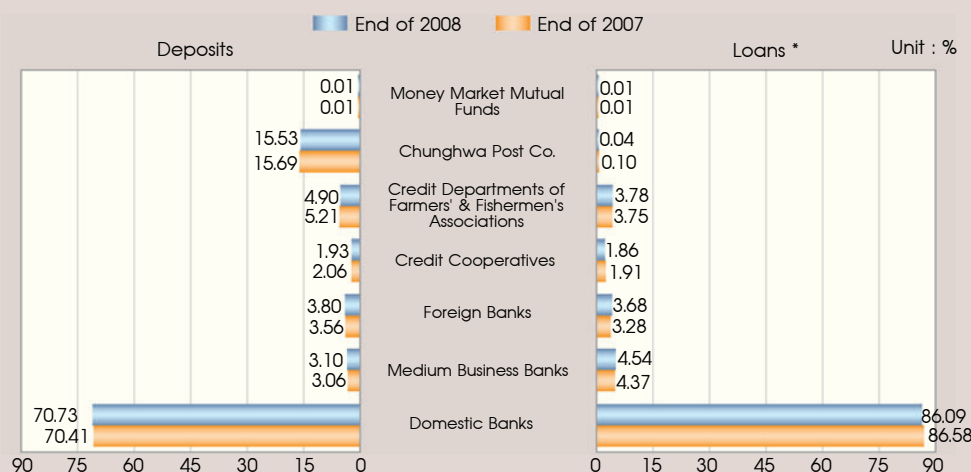
	End of 2008	End of 2007	Annual Change
Combined Number of Main Offices	387	386	1
Domestic Banks	37	39	--2
Medium Business Banks	1	1	0
Foreign Banks	32	32	0
Credit Cooperatives	27	27	0
Credit Departments of Farmers' and Fishermen's Associations	289	286	3
Department of Savings and Remittances of Chunghwa Post Co.	1	1	0
Combined Number of Branches	6,002	5,985	17
Local Branches	5,852	5,835	17
Overseas Branches	87	85	2
Offshore Banking Units	63	65	--2

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 70.73 percent at the end of 2008 mainly because depositors of regional financial institutions such as credit cooperatives and credit departments of farmers' and fishermen's associations shifted their deposits to larger domestic banks to shun the impacts of the global financial turmoil. However, the market share of domestic banks' loans decreased slightly to 86.09 percent because of the merging of two domestic banks into two foreign banks. The Department of Savings and Remittances of Chunghwa Post Co.'s market share of deposits slightly decreased to 15.53 percent at the end of 2008, while its market share of loans decreased to a mere 0.04 percent due to strict restrictions on its operation of loans. Foreign banks enjoyed an increase in their market shares of deposits and loans because two domestic banks were

## 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.

merged into two foreign banks. The medium business bank's market shares of deposits and loans also increased. Credit cooperatives and the credit departments of farmers' and fishermen's associations recorded decreases in their market shares of deposits, reflecting the shift of funds from these institutions to larger banks. Credit cooperatives' market share of loans fell, while that of the credit departments of farmers' and fishermen's associations slightly rose.

### Depository Institutions' Sources and Uses of Funds

The depository institutions' funds increased significantly by NT\$2,030 billion during the year 2008, more than the NT\$556 billion increase recorded in the previous year, owing to the downturn in local stock market and the repatriation of residents' investment in overseas financial markets. Among the different sources of funds, non-transaction deposits and other items (net) contributed the most to the increase, with annual changes of NT\$1,864 billion and NT\$278 billion, respectively.

With respect to the uses of funds, depository institutions' loans expanded by NT\$442 billion in 2008, in line with the increase in their deposits. With banks' efforts to contain their investment risks amid the global financial turmoil, portfolio investments, particularly in the purchases of government-issued securities and the CDs issued by the Bank, also increased. Net foreign assets also increased markedly in the year because of increases in dues from and to foreign financial institutions and net claims on OBUs.

## Sources and Uses of Funds in Depository Institutions

Unit: NT\$ Billion

	End of 2008		End of 2007		Annual Change	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Sources:						
Transaction Deposits **	7,320	24.09	7,457	26.30	-137	-2.21
Non-transaction Deposits***	19,710	64.86	17,846	62.93	1,864	1.93
Government Deposits	795	2.62	746	2.63	49	-0.01
Borrowings from CBC	58	0.19	81	0.29	-23	-0.10
Other Items (Net)	2,504	8.24	2,227	7.85	278	0.39
Total	30,387	100.00	28,357	100.00	2,030	0.00
Uses:						
Net Foreign Assets *	1,586	5.22	1,155	4.07	431	1.15
Loans	18,470	60.78	18,028	63.58	442	-2.79
Portfolio Investments****	2,862	9.42	2,605	9.19	267	0.23
Purchases of CDs Issued by CBC	4,298	14.14	3,431	12.10	868	2.05
Deposits with CBC	3,170	10.43	3,139	11.07	32	-0.63

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.

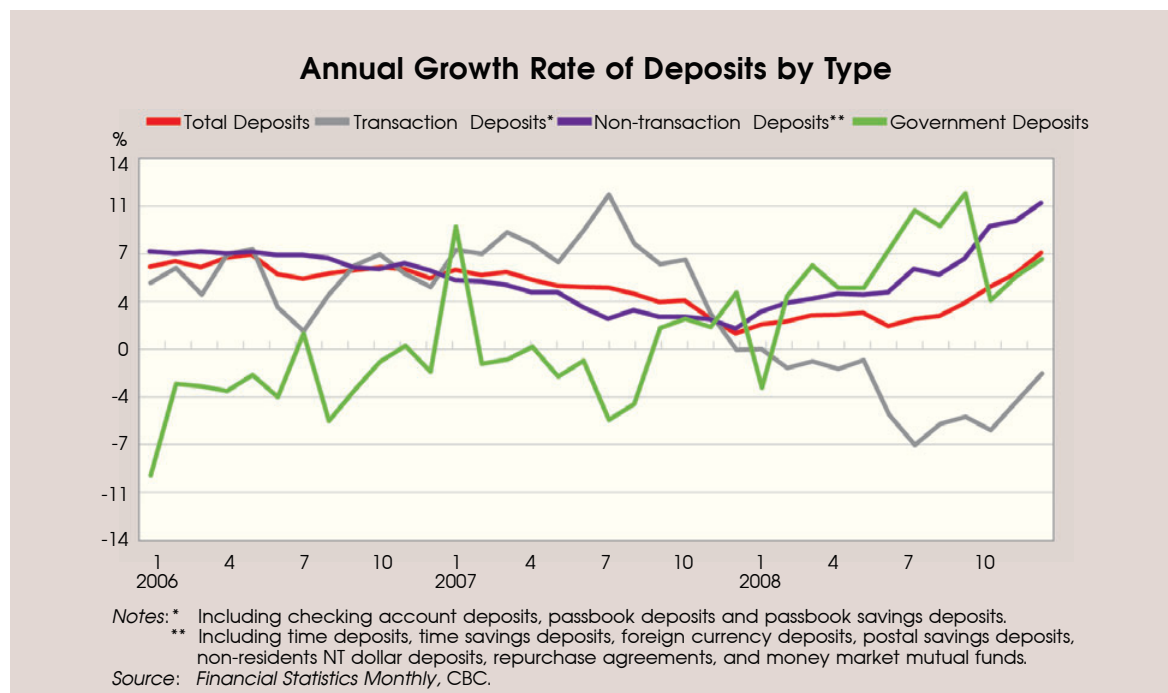
Source: Financial Statistics Monthly, CBC.

## Uptrend in the Growth of Deposits

Total deposits of depository institutions at the end of 2008 grew by 6.92 percent during the year, higher than the 1.03 percent at the end of 2007. The increase was mainly caused by steady growth in banks' loans and investments, as well as acceleration in residents' net capital inflows from September.

Due to substantial net foreign capital inflows, the annual growth rate of deposits rose to 2.35 percent in March. From April onwards, foreign capital turned into an outflow, pushing the annual growth rate of deposits down to a yearly low of 1.57 percent in June before rising to 2.27 percent in August. From September onwards, deposit growth went up as a result of an increase in residents' net capital inflows. The annual growth rate of deposits rose further and reached a yearly high of 6.92 percent at the end of 2008.

The annual growth rate of transaction deposits fell from the previous year's negative 0.09 percent to negative 1.84 percent at the end of 2008. Their share in total deposits also edged down from 28.66 percent to 26.31 percent. This was mainly due to rising interest rates on time deposits in the first half of the year and subdued demand for transaction deposits as stock market activity weakened through the second half of the year, thus inducing a shift of funds from transaction deposits to non-transaction deposits. The annual growth rate of non-transaction



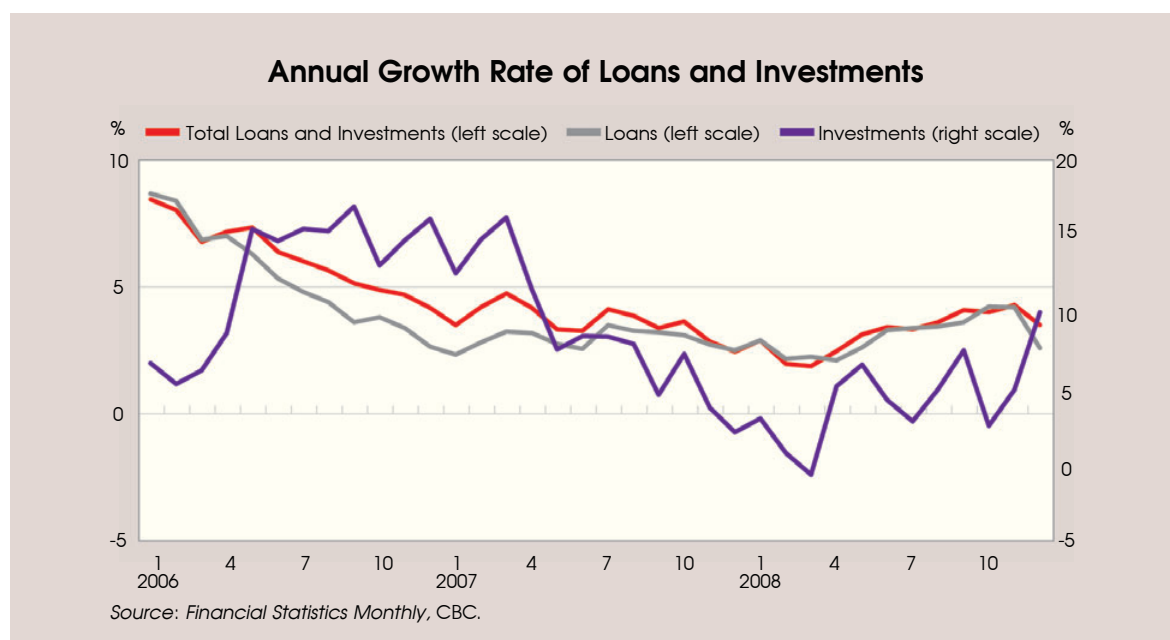
deposits at all depository institutions increased to 10.61 percent at the end of the year from the 1.38 percent of the previous year-end, while their share in total deposits edged up from 68.47 percent to 70.83 percent.

With respect to the different types of non-transaction deposits, the shares of time deposits and foreign currency deposits in total deposits rose at the end of the year when compared with the previous year-end. The shares of time savings deposits, postal savings deposits and NT dollar deposits held by foreigners all shrank.

The annual growth rate of government deposits in depository institutions rose from 4.11 percent in the previous year-end to 6.55 percent at the end of 2008, reflecting an increase in tax revenues. Meanwhile, their share in total deposits declined from 2.87 percent to 2.86 percent.

### Steady Rise in Banks' Loans and Investments

The annual growth rate of loans and investments of depository institutions rose to 3.42 percent at year-end 2008, compared to the 2.35 percent recorded at the end of the previous year. The upturn was owing to public enterprises' stronger demand for funds and a substantial growth in portfolio investments by depository institutions. Loans posted an annual growth rate of 2.49 percent at the end of 2008, edging higher than the 2.40 percent a year earlier, while the growth of investments significantly rose to 9.88 percent in 2008 from the 1.97 percent in 2007.



## Loans by Sector

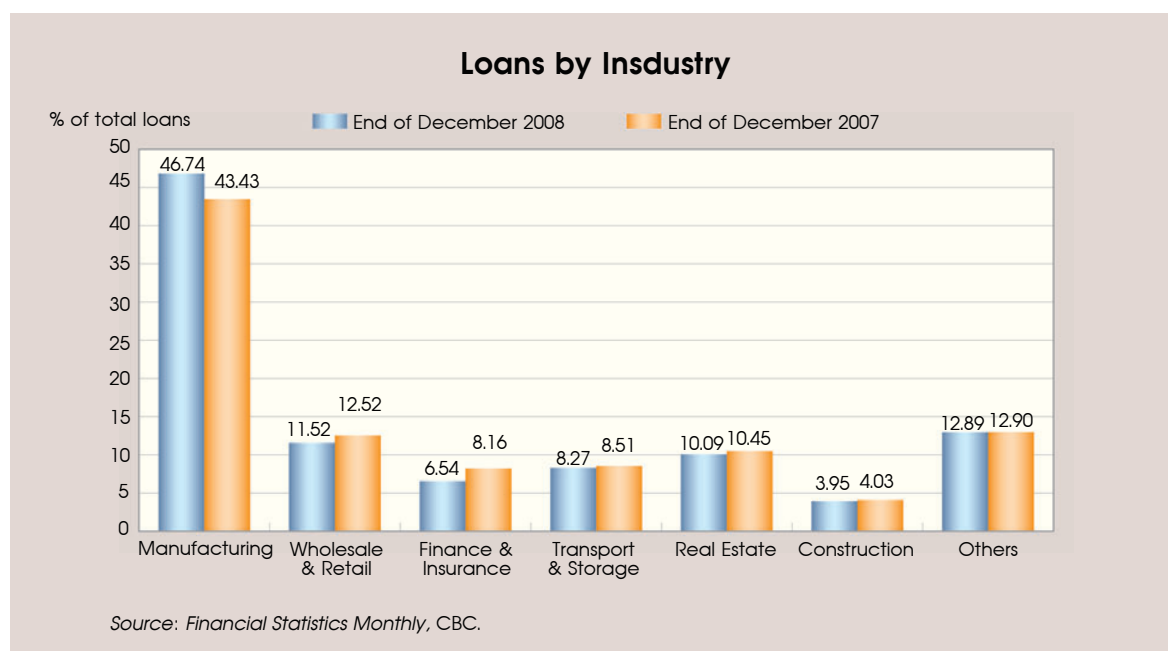
At the end of 2008, loans extended to the private sector and public enterprises accounted for 88.42 percent and 4.37 percent, respectively, of total loans. Compared to the previous year-end, the annual growth rate of loans of the private sector fell from 4.23 percent to 2.50 percent, while that of public enterprises markedly rose from 12.66 percent to 28.43 percent. Owing to the central government's repayment of bank loans by increased bond issuance, the share of loans extended to government agencies in total loans dropped to 7.21 percent from 8.04 percent at the previous year-end, posting an annual growth rate of -8.00 percent. However, the negative growth rate still showed a considerable improvement since early 2008.

## Loans by Industry

Among all industries in 2008, the manufacturing sector continued to account for the largest portion of bank loans, rising from 2007's 43.43 percent to 46.74 percent in 2008. The rise was mainly due to a large increase in bank loans extended to the electronic parts & components industry, the petroleum products industry, and the base metals industry. In addition, the share of loans extended to other industries recorded a marginal decrease mainly due to an economic downturn and a more cautious attitude taken by banks toward lending.

## Consumer Loans

Compared to the previous year, consumer loans registered a mild decrease in 2008, mainly



due to lower private consumption and slower growth of home mortgages on account of the global financial crisis. As a result, the outstanding balance of consumer loans extended by banks at the end of 2008 recorded an annual decrease of NT\$51.4 billion or 0.76 percent from the previous year-end.

## Investments

Owing to greater willingness to purchase securities with excess loanable funds, portfolio investments by depository institutions measured on a cost basis showed an annual increase of NT\$257.3 billion or 9.88 percent in 2008, significantly higher than the NT\$50.2 billion or 1.97 percent a year earlier. Among the investment instruments, government bonds accounted for the largest share with 58.13 percent, edging down from 58.30 percent a year ago. Meanwhile, the annual growth rate of investment in government bonds rose from 7.04 percent to 9.57 percent, mainly due to the massive purchases of government bonds by domestic banks and the Department of Savings and Remittances of the Chunghwa Post Co. When measured at fair value, the annual increase of portfolio investments by depository institutions became NT \$168.4 billion. The negative revaluation adjustment was thus NT\$89.0 billion, an increase from the NT\$49.8 billion of the previous year.

## Decrease in Direct 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	
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	321.9	181.4
2006	1,223.6	1,374.8	837.8	537.0	-151.2
2007	1,044.2	961.8	733.2	228.6	82.4
2008	892.6	1,230.5	647.5	583.0	-337.9

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.

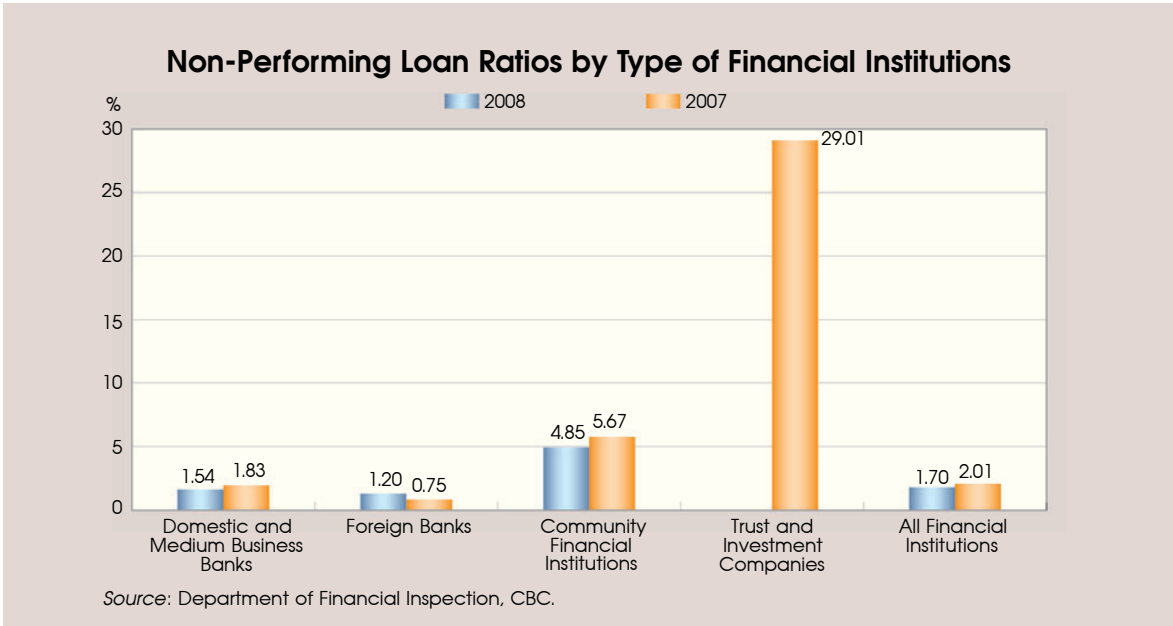
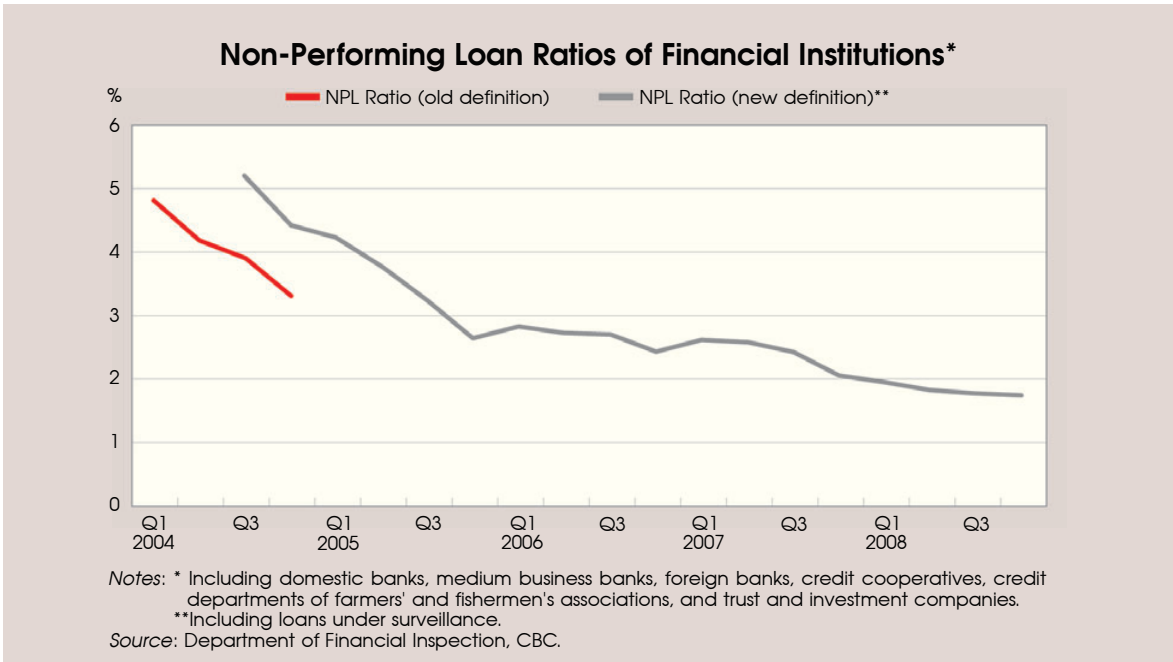
(2) Refers to the total amount of new issues of various marketable securities, including government bonds, corporate bonds, listed stocks, offshore bonds, depository receipts, short-term bills and asset-backed securities held by the non-financial sectors.

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 2008 decreased from the previous year's NT\$1,044.2 billion to NT\$892.6 billion. Funds raised through borrowing from financial institutions increased from the previous year's NT\$961.8 billion to NT\$1,230.5 billion. Funds raised by issuing securities decreased from the previous year's NT\$82.4 billion to negative NT\$337.9 billion, mainly due to the decreased issuance of offshore bonds and domestic securitized beneficiary certificates. If based on the data of outstanding balance, the share of indirect finance in total funds raised increased from 75.76 percent at the end of 2007 to 77.06 percent at year-end 2008, while the share of direct finance decreased from 24.24 percent to 22.94 percent.

## Decline in the Non-Performing Loan Ratio

The asset quality of domestic financial institutions improved in 2008, with the continuing disposal of non-performing loans (NPLs) and efforts in writing off bad loans. The average NPL ratio of financial institutions as a whole declined to 1.70 percent at the end of 2008, lower than the previous year's 2.01 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 foreign banks, which jumped to 1.20 percent from the previous year's 0.75 percent due to the increase of non-performing loans resulting from the acquisition of the Chinese Bank by the Hongkong and Shanghai Banking Corporation Ltd. (HSBC) as well as the acquisition of Bowa Bank by the Development Bank of Singapore Ltd. (DBS) during the year.

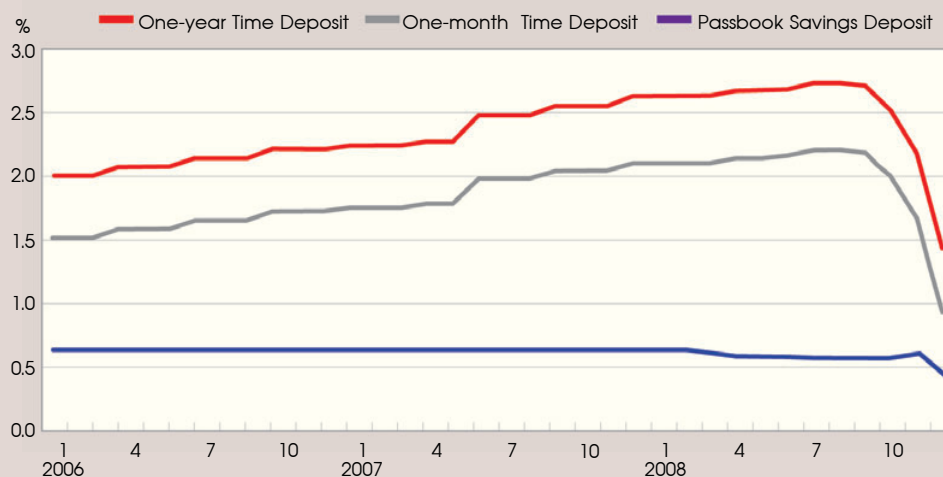


### Increase and Subsequent Decline in Bank Interest Rates

At the beginning of the year, the Bank raised the policy rate twice on March and June to curb inflation. However, in the second half of the year, due to negative growth in exports, rising unemployment rates and sluggish consumer and business spending affected by the global economic slowdown, the Bank lowered the policy rate five times in the September-December period to stimulate the economy. As a result, interest rates on deposits and loans of many



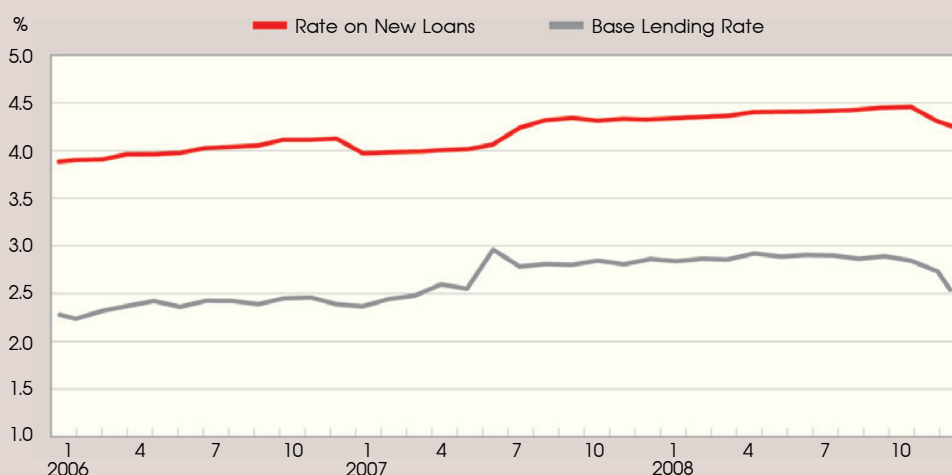
### The Average Deposit Rates of the Five Major Domestic Banks\*



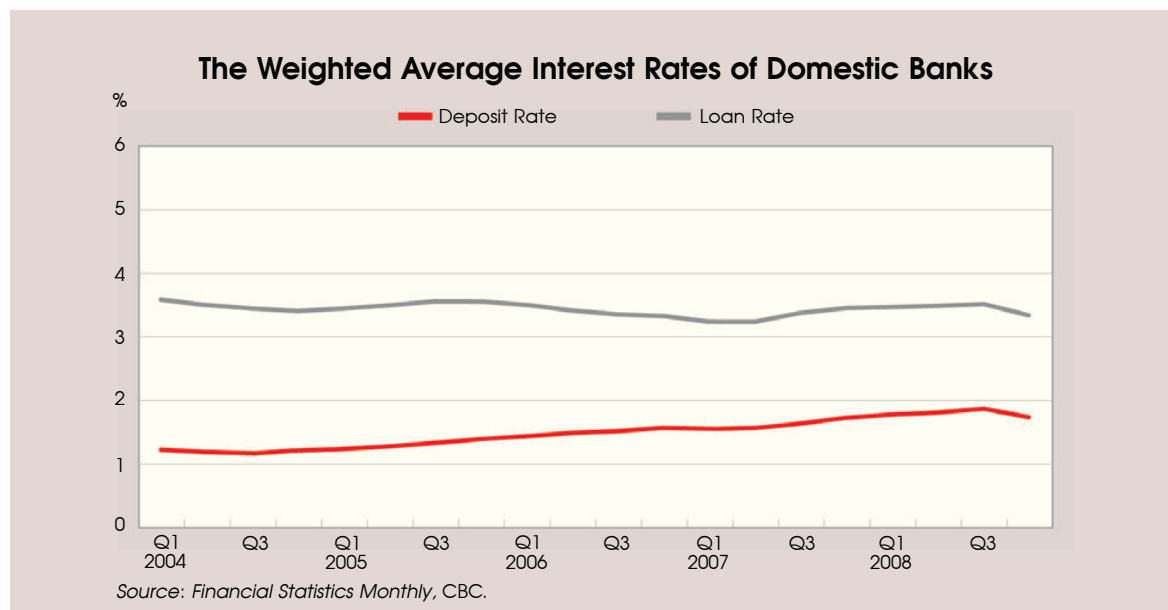
Note: \* Prior to Oct. 2008, the five major domestic banks were Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank and Chang Hwa Commercial Bank, while beginning Nov. 2008, the Chang Hwa Commercial Bank is replaced by Land Bank of Taiwan.  
Source: Financial Statistics Monthly, CBC.

banks went down significantly during the fourth quarter, despite an upward trend during the first three quarters. 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 2.19 percent and 2.72 percent at the end of August 2008 from 2.09 percent and 2.62 percent at the previous year-end. From September onwards, the interest rates started to decrease to

### The Average Lending Rate of the Five Major Domestic Banks\*



Note: \* Prior to Oct. 2008, the five major domestic banks were Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank and Chang Hwa Commercial Bank, while beginning Nov. 2008, the Chang Hwa Commercial Bank is replaced by Land Bank of Taiwan.  
Source: Financial Statistics Monthly, CBC.



0.91 percent and 1.42 percent, respectively, at the end of 2008. Besides, the average base lending rate rose to 4.44 percent at the end of October 2008 from 4.31 percent at the previous year-end, but went down to 4.21 percent at the end of 2008.

With respect to the weighted average lending rate on new loans, it fluctuated within a narrow range between 2.83 percent and 2.91 percent during the January to October period. Then it dropped to 2.72 percent in November 2008 owing to the decreases in base lending rates and the index rates for adjustable-rate mortgages. In December, the rate declined to 2.35 percent. On the whole, the weighted average lending rate still increased from 2.70 percent in 2007 to 2.80 percent in 2008.

As for the weighted average rates on all deposits and loans of domestic banks, these rates exhibited the same trend as the policy rate during 2008. For the year as a whole, the weighted average interest rates on deposits and loans were 1.77 percent and 3.44 percent respectively, which were 0.18 percentage points and 0.13 percentage points higher than those recorded in the previous year. The interest rate spread between deposits and loans continuously shrank to 1.67 percentage points in 2008, lower than the 1.72 percentage points in 2007.

### Decrease in Profitability

The combined pre-tax earnings of all depository institutions fell by NT\$9.5 billion to NT\$72.4 billion during 2008. Of this amount, due to reductions in the fair value of financial assets and in the profits from portfolio investments, the pre-tax earnings of domestic banks and medium business banks combined decreased by NT\$4.5 billion to NT\$34.4 billion, and the pre-tax earnings

of Chunghwa Post Co. decreased by NT\$5.2 billion to NT\$7.8 billion.

### Profits by Type of Depository Institutions

Unit: NT\$ Billion

	Profit before Tax			Return on Assets (%)*			Return on Equity (%)**		
	2008	2007	Annual Change	2008	2007	Annual Change	2008	2007	Annual Change
Domestic Banks and Medium Business Banks	34.4	38.9	-4.5	0.12	0.14	-0.02	1.90	2.15	-0.25
Foreign Banks	24.6	23.7	0.9	0.75	0.89	-0.14	33.05	39.02	-5.97
Credit Cooperatives	1.8	1.8	0.0	0.31	0.30	0.01	4.53	4.47	0.06
Credit Departments of Farmers' and Fishermen's Associations	3.8	4.5	-0.7	0.26	0.31	-0.05	4.17	5.12	-0.95
Chunghwa Post Co.	7.8	13.0	-5.2	0.17	0.30	-0.13	47.66	18.03	29.63
Total	72.4	81.9	-9.5	0.18	0.22	-0.04	3.56	3.95	-0.39

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

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

Source: Department of Financial Inspection, CBC.

### Decrease in Both ROA and ROE

The average return on assets (ROA) and return on equity (ROE) for all depository institutions went down to 0.18 percent and 3.56 percent in 2008, respectively, from 0.22 percent and 3.95 percent a year earlier. ROAs and ROEs of most depository institutions fell during the year. Among depository institutions, foreign banks were the best performers in terms of ROA and Chunghwa Post Co. was the best performer in terms of ROE.

As for the capital adequacy ratio, the average ratio of domestic banks rose to 11.00 percent at the end of the year from 10.80 percent at the previous year-end on account of new issuance of subordinated debt.

