7. Banking Sector

There were 458 depository institutions (including deposit money banks and the Postal Savings System) at the end of 1999. During the year, five foreign banks closed their branches in Taiwan to adjust their global business. Encouraged by the government, several conversion and merger cases were launched in 1999. At the end of the year, the number of domestic banks was forty seven, representing an increase of five banks including the Industrial Bank of Taiwan, which was established in September 1999, and four other banks converted from credit cooperative associations. As to sources of funds in depository institutions, affected by the robust transactions in the stock market and the narrowing interest rate spread between demand deposits and time deposits, the share of demand deposits went up significantly. Bank loans, however, shrank significantly owing to the weak demand for loans in private sectors and banks actively dealing with their bad loans as well as the

Key Data of Depository Institutions

Item	End of 1999	End of 1998
Numbers of Depository Institutions (1)	458 (5,378)	463 (5,217)
Domestic Banks	47 (2,288)	42 (2,052)
Medium Business Banks	5 (288)	6 (352)
Foreign Banks	41 (70)	46 (72)
Credit Cooperative Associations	50 (416)	54 (446)
Farmers' and Fishermen's Associations	314 (1,020)	314 (1,007)
Postal Savings System	1 (1,296)	1 (1,288)
Numbers of Branches		
Local Branches	5,378	5,217
Overseas Branches	69	65
Offshore Banking Units	69	72
Automatic Teller Machines (ATMs)		
Numbers of Machines	13,925	12,900
Total Transactions (NT$ Billion)	5,880.3	5,187.0
Credit Cards		
Cards in Circulation (Thousand)	13,575	10,640
Expenditure (NT$ Billion)	597.8	491.1
Risk-weighted Capital Ratio (%)		
Domestic Banks (2)	11.2	10.4

Notes: (1) The figures in parentheses represent the numbers of local branches of depository institutions.

(2) Including medium business banks.

Sources: 1. Financial Statistics Monthly, Taiwan District, the Republic of China, Central Bank of China.

2. Bank Examination Department, Central Bank of China.

3. Bureau of Monetary Affairs, Ministry of Finance.

conservative attitude of banks toward lending as a result of their high past-due loan ratios. Although the past-due loan ratio of domestic banks rose from 4.36 percent at the end of December 1998 to 5.08 percent at the end of September 1999, it went down to 4.88 percent at the end of the year due to banks' speedily writing off their bad loans. The return on assets and equity in the banking sector dropped as banks increased their provisions for bad loans and decreased their disposing of long-term investments. On the other hand, the risk-weighted capital ratio of domestic banks went up to 11.2 percent as banks increased their capitalization and holdings of default-free government securities and certificates of deposit issued by the Central Bank.

Sources and Uses of Funds

Unit: NT$ Billion

Item	Annual Change in Amount (1)		End of 1999		
	1999	1998	Amount	Share (%)	Growth Rate (%)
Sources:					
Demand Deposits	555.0	136.2	3,896.0	20.75	16.61
Time and Postal Deposits	721.3	1,159.2	13,237.9	70.50	5.76
NT$ Deposits	655.6	1,119.2	12,584.0	67.02	5.50
Foreign Currency Deposits (2)	65.7	40.0	653.9	3.48	11.18
Government Deposits	53.1	-2.1	749.4	3.99	7.64
Borrowings from CBC	-24.7	0.0	310.7	1.65	-7.37
Other Items (Net)	-113.8	115.8	583.8	3.11	-16.32
Total	1,190.9	1,409.1	18,777.8	100.00	6.77
Uses:					
Net Foreign Assets (2)	175.7	77.7	355.5	1.89	97.69
Loans	608.9	680.5	13,808.8	73.54	4.61
NT$ Loans	580.5	749.8	13,235.7	70.49	4.59
Foreign Currency Loans (2)	28.4	-69.3	573.1	3.05	5.22
Portfolio Investments	-55.5	447.5	1,987.3	10.58	-2.71
Purchases of CDs issued by CBC	401.6	185.7	592.3	3.15	210.59
Deposits with CBC	60.2	17.7	2,033.9	10.84	3.05

Notes: (1) Refers to the increments in amounts of assets and liabilities outstanding in depository institutions at the end of the year.

(2) "Foreign Currency Deposits", "Foreign Currency Loans" and "Net Foreign Assets" exclude valuation changes resulting from the fluctuations in the exchange rate of the NT dollar against foreign currencies when calculating their annual changes.

Source: Financial Statistics Monthly, Taiwan District, the Republic of China, Central Bank of China.

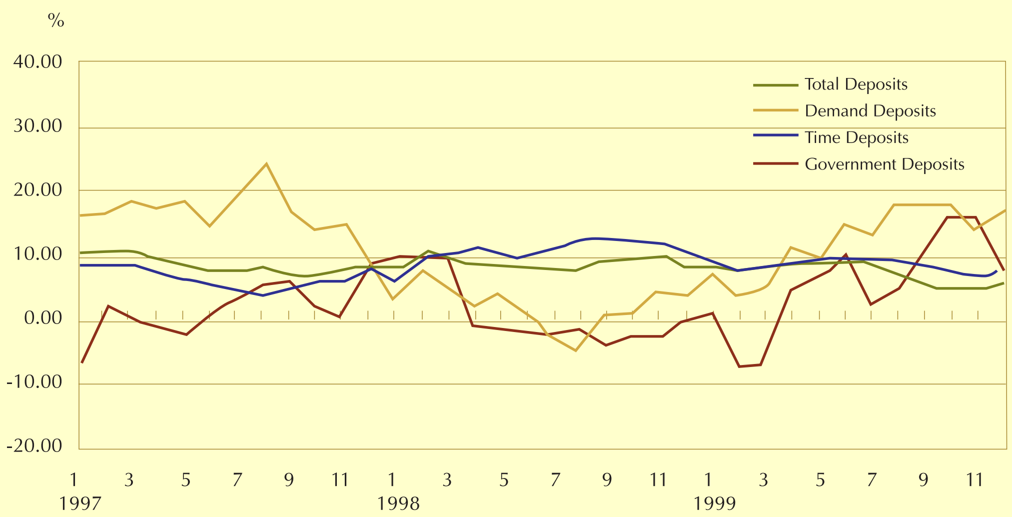
Marked Increase in Demand Deposits

During the first half of 1999, the annual growth rate of total deposits in depository institutions increased mainly due to the widened trade surplus and the continuous inflows of foreign investment into the stock market. From July onwards, the rate showed a downward trend, resulting largely from the slower growth in loans and investments as well as the adverse impact on the economy from the earthquake on September 21. For the year as a whole, the average annual growth rate of deposits was 8.49 percent, slightly lower than the 8.53 percent for the previous year.

In terms of the different kinds of deposits, demand deposits increased sharply along with the strong economic recovery, the booming stock market and the declining interest rates on time deposits. On the other hand, the growth of time deposits exhibited a downward trend. Postal savings deposits, affected by their relatively higher interest rates and the ushering in of interbank remittance services early in the year, posted fast growth. Influenced by the depreciation of the NT dollar, foreign currency deposits rose during the first three months, and then declined for the rest of the year except for the time when the tension of cross-Strait relations escalated in July and the U.S. Federal Reserve raised the federal fund rate target in November. Government deposits in depository institutions registered higher growth compared with the previous year. The increase resulted mainly from the subsidies and earthquake relief funds appropriated to the local government from the Treasury.

At the end of the year, the annual growth rates of demand deposits, time deposits, and government deposits were 16.61 percent, 5.63 percent and 7.63 percent, respectively.

Annual Growth Rate of Deposits*



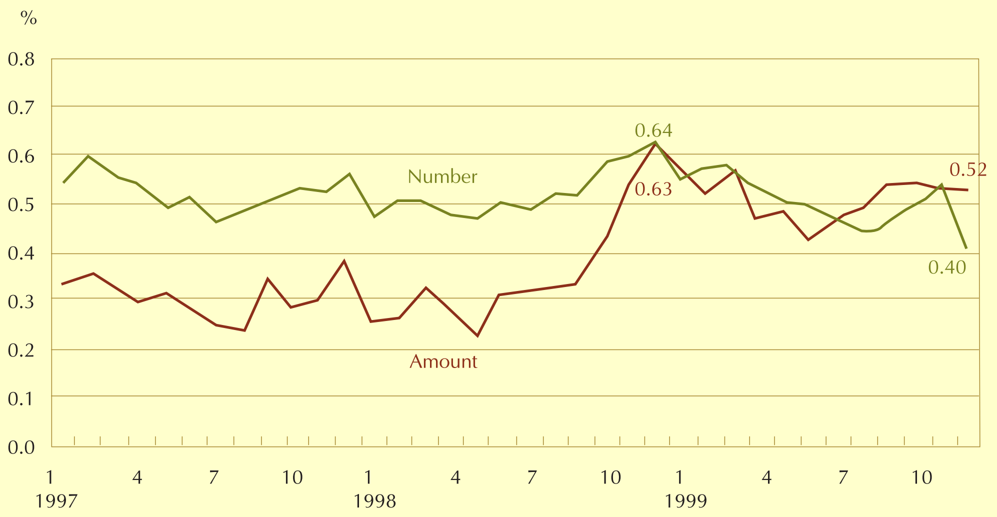
Note : * Percentage changes over twelve months.

Fluctuations in Ratios of Dishonored Checks

For 1999, the average ratio of dishonored checks in terms of the amount drawn went up to 0.49 percent from 0.36 percent a year earlier, while the corresponding ratio in terms of the number of checks drawn remained at the previous year's level of 0.52 percent.

For the first three months of the year, as the effect of the financial difficulties suffered by several corporations in the fourth quarter of 1998 spilt over to the beginning of 1999, the average ratios of dishonored checks in terms of the number drawn and the amount drawn reached high levels of 0.55 percent and 0.57 percent, respectively. The ratios then gradually declined due to the continuous economic recovery, rebounding exports and increasing industrial production, and the active stock market. From April to August, the ratios of dishonored checks in terms of the number drawn and the amount drawn fell to 0.49 percent and 0.45 percent, respectively. The severe earthquake on September 21 and the subsequent power outage and power rationing incurred losses in individual property and in manufacturing production. The ratios of dishonored checks in terms of the number drawn and the amount drawn both went up to 0.53 percent and 0.46 percent, respectively, in September. From October onwards, the ratios of dishonored checks temporarily rose due to a number of suspended checking accounts drawn in large amounts. Nevertheless, the stable economic expansion and the rather active stock market contributed to a marked decline in the ratios of dishonored checks, which fell to 0.52 percent and 0.40 percent in terms of the number of checks drawn and the amount drawn, respectively, in

Ratios of Dishonored Checks



December.

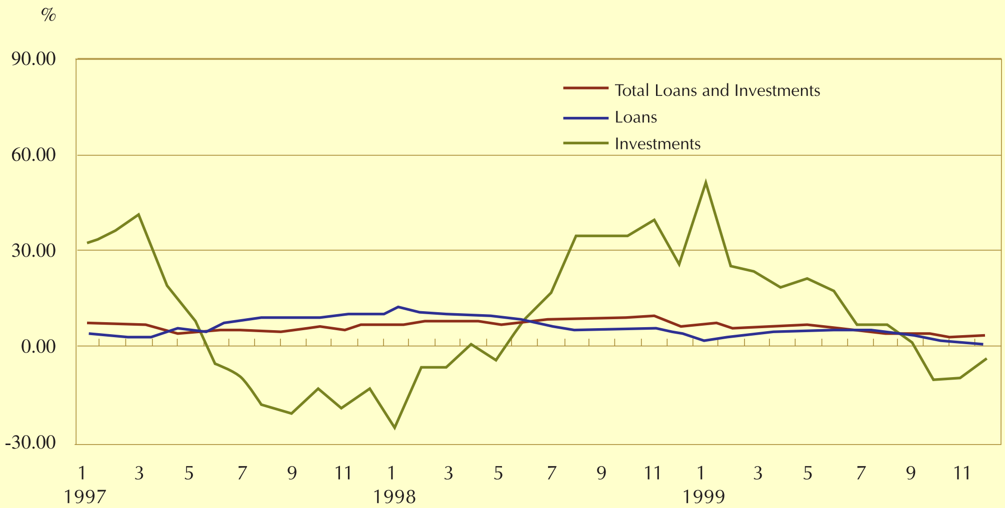
Slowing Growth of Loans and Investments

During the first half of 1999, the growth rates of loans and investments exhibited a downward trend, mainly because the revival of the domestic economy was still in an early stage and the demand for funds weakened. From the second half of the year, since the banks tended to deal with the problem of past-due loans aggressively, the loan extension policy of banks turned conservative. The growth rate of loans and investments dropped down tremendously from 7.12 percent at the end of June to 1.85 percent at the end of November. The growth rate then rebounded to 3.53 percent in December. The rise was associated with the increasing demand for funds in the stock market and the banks' regular year-end promotion of loans. For the year as a whole, the loans and investments of depository institutions registered an average annual growth rate of 5.64 percent, which was considerably lower than the corresponding 9.02 percent recorded in the previous year (see the Annex1 in this Report).

With respect to loans, the expansion was distinctly weaker with an annual growth rate of 4.5 percent at the end of 1999 as compared with a corresponding growth rate of 5.35 percent for 1998. Consequently, the NT dollar loan-to-deposit ratio declined to 76.82 percent by the year end, down by 2.45 percentage points compared with a year before. As for the loans by industries, the ratio of loans to manufacturing industries to total loans to enterprises extended by domestic banks at the end of 1999 was 42.48 percent, higher than the corresponding 40.75 percent recorded in the previous year. The ratio of loans to the real estate sector (including the construction industry), however, went down from 19.72 percent to 18.21 percent. It showed that the housing market remained in the doldrums, thus causing banks to cut back on property lending.

Portfolio investments, on the other hand, shrank by 2.71 percent over the year of 1999, which enjoyed a 28.05 percent growth at the end of the previous year. Of the components, taking domestic banks as an example, commercial paper still accounted for the largest share of their total investments, or 49.94 percent at the end of 1999, which was considerably lower than the corresponding ratio of 62.28 percent recorded in the previous year. The drop in purchasing money market bills, accompanied by the increase in extending loans, revealed the banks' strategies to reduce their

Annual Growth Rate of Loans and Investments*



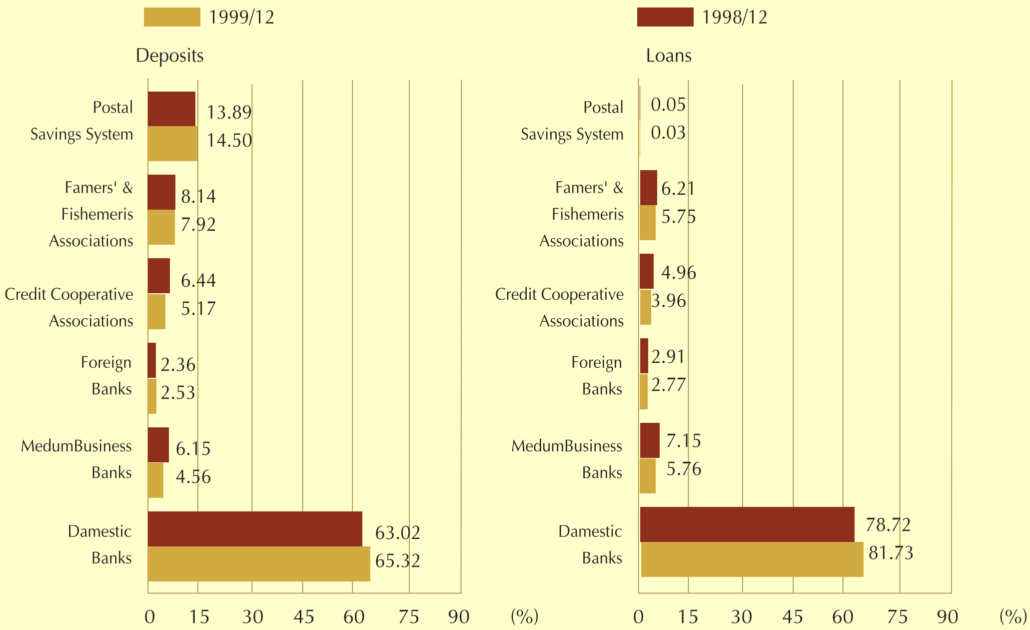
Note : Percentage changes over twelve months.

past-due loan ratios. However, the share of government securities holdings climbed to 28.40 percent at the end of 1999, having risen from 18.95 percent at the end the previous year. The upsurge in government securities holdings came about as the increased issues of government securities, which were aimed to finance the escalating budget deficit, attracted the banks that sought after safe investments.

With regard to the market shares of deposits and loans at the end of 1999, domestic banks continued to account for sizeable shares. The market shares of deposits and loans were 65.32 percent and 81.73 percent, which were respectively higher than the 63.02 percent and 78.72 percent recorded at the end of the previous year due to several conversion and merger cases. The shares of medium business banks, credit cooperative associations and farmers' & fishermen's associations, however, all declined. On account of the conservative lending policy, the share of loans attributable to foreign banks also fell at the end of the year. In contrast, the share of deposits attributable to foreign banks exhibited an upward trend owing to large inflows of foreign funds. The Postal Savings System enjoyed a 14.5 percent market share in deposits at the year-end, higher than the 13.89 percent at the end of the previous year. On the other hand, its share of loans was only 0.03 percent due to the restriction on directly extending loans by the government.

Funds raised by the non-financial sectors in the financial markets through the issuances of stocks, bonds, short-term bills and overseas securities net

Market Shares of Deposits and Loans by the Categories of Depository Institutions



of banks' portfolio investments also exhibited a slow growth in 1999, reflecting the weakness in total demand for funds from enterprises. The ratio of funds raised directly from the financial markets to total financing in terms of flow data increased from 37.9 percent in 1998 to 43.1 percent in 1999 mainly due to the increased issues of government securities and the decrease in banks' portfolio investments. The ratio of funds borrowed from financial institutions, however, decreased from 62.1 percent to 56.9 percent during the same period.

Bank Vs. Securities Financing to Non-Bank Sectors

Unit: NT$ Billion

	Annual Change in 1999		Annual Change in 1998		Annual Change in 1997	
	Amount	Share(%)	Amount	Share(%)	Amount	Share(%)
Bank Loans(1)	594.7	64.9	670.4	38.7	1,340.5	64.7
Securities Issues(2)	321.3	35.1	1,062.0	61.3	730.1	35.3
(of which held with banking institutions)(3)	(-73.2)	(-7.3)	(405.5)	(23.4)	(-156.4)	(-7.3)
Equity*	222.4	24.3	43.5	2.5	500.9	24.2
Debt Instruments**	70.4	7.7	626.1	36.1	181.2	8.8
Overseas Securities***	28.5	3.1	0.8	0.0	48.0	2.3
Total:(1)+(2)=(4)+(5)	916.0	100.0	1,732.4	100.0	2,070.6	100.0
Financing through Banking Intermediaries (4)=(1)+(3)	521.5	56.9	1,075.6	62.1	1,184.1	57.2
Financing through Securities Markets (5)=(2)-(3)	394.5	43.1	656.5	37.9	886.5	42.8

Notes: * Represents the cash offerings in the stock market.

** Includes commercial paper, bankers' acceptances, corporate bonds and govemment securities issued in domestic markets.

*** Includes foreign currency-denominated convertable bonds and global depository receipts issued in the intemational markets.

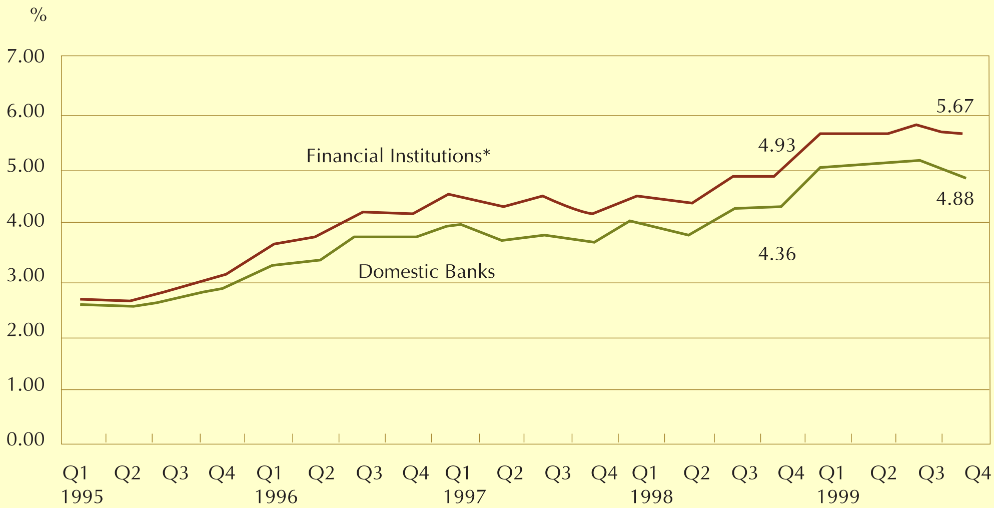
Increasing Past-due Loan Ratios

The past-due loan ratio in respect of financial institutions as a whole (comprising depository institutions and investment and trust companies) continued to rise from 4.93 percent at the end of 1998 to 5.67 percent at the end of 1999. The corresponding ratio for domestic banks and medium business banks (including offshore banking units and overseas branches) also rose from 4.36 percent to 4.88 percent during the same period.

During the first three quarters of the year, although the economic recovery was on track, the decrease in private fixed investment, the weak demand for funds from the corporate sector and the conservative lending policy adopted by banks all contributed to limited loan growth. On top of these, the real-estate market remained in the doldrums, making it difficult for banks to dispose of collateral. The past-due loan ratio thus continued to rise. From the fourth quarter, banks engaged in year-end loan promotion, the stock market turned active with increasing buying on margin, and domestic banks speedily wrote off their bad debts. Consequently, the past-due loan ratio started to decline.

To improve loan quality, the Ministry of Finance required financial institutions to regularly reduce past-due loan ratios. The extra revenue derived from lowering required reserve ratios and cutting business tax rates was used exclusively to write off bad debts. The past-due loan ratio of financial institutions from the end of September 1999 onwards should not exceed that recorded in April of the same year. By the end of June 2003, all financial institutions, while allowed to set their own timetables within the time frame, should reduce their past-due loan ratios to below 2.5 percent. The past-due loans written off by domestic banks amounted to NT$136.3 billion in 1999, far exceeding the NT$20.5 billion revenue derived from cutting business tax rates and lowering required reserve ratios. With the continuous efforts taken by banks, past-due loan ratios are expected to decline further.

Past-due Loan Ratios



Note : * Financial institutions include depository institutions and investment and trust companies.

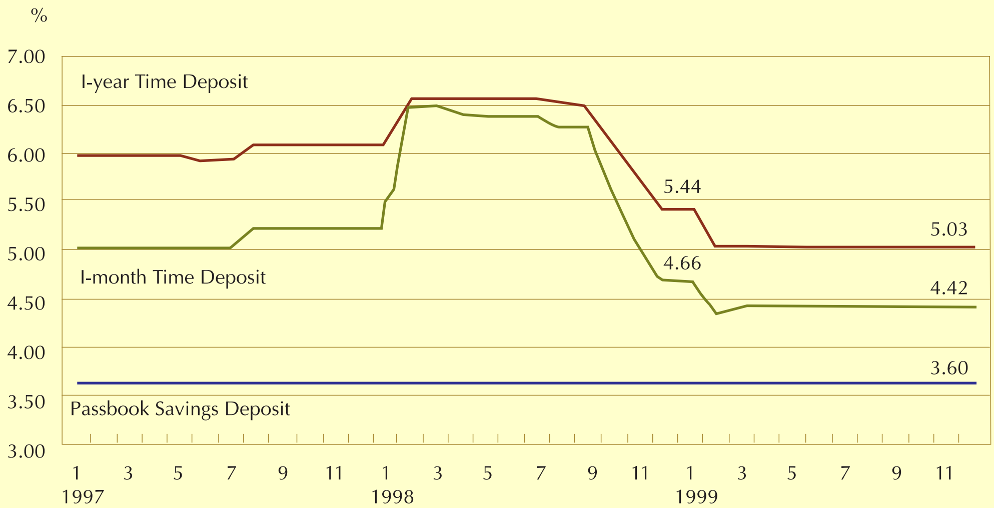
Declining Bank Interest Rates

In 1999, bank interest rates exhibited a downward trend. At the beginning of the year, in order to stimulate the domestic economy and to improve banks' asset quality and profitability, the Bank adopted a moderately easy monetary policy, lowering the required reserve ratios and reducing the rediscount rate and interest rate on accommodations against secured loans. Many banks followed suit by lowering interest rates on deposits and loans. With the interest rate on demand deposits remaining unchanged, the spread between the time and demand deposit rates narrowed. In addition, considering declining profits as a result of speedily writing off bad debts, banks were cautious in lowering their prime rates. This resulted in the deposit rates of banks being much lower than their loan rates.

Taking the five leading domestic banks as examples, the average fixed rates on one-month time deposits and one-year time deposits at the end of April were 4.42 percent and 5.02 percent, respectively, 0.24 of a percentage point and 0.42 of a percentage point lower than the figures at the end of 1998. They were little changed through the end of the year. The average prime rate was 7.67 percent from February onwards, 0.03 of a percentage point lower than the figure at the end of the previous year.

Due to the moderately easy funding conditions and banks' policies to promote loans to reduce past-due loan ratios, the banks extended short-term loans to the government and enterprises with good credit records directly at money market rates instead of by purchasing money market bills. In addition,

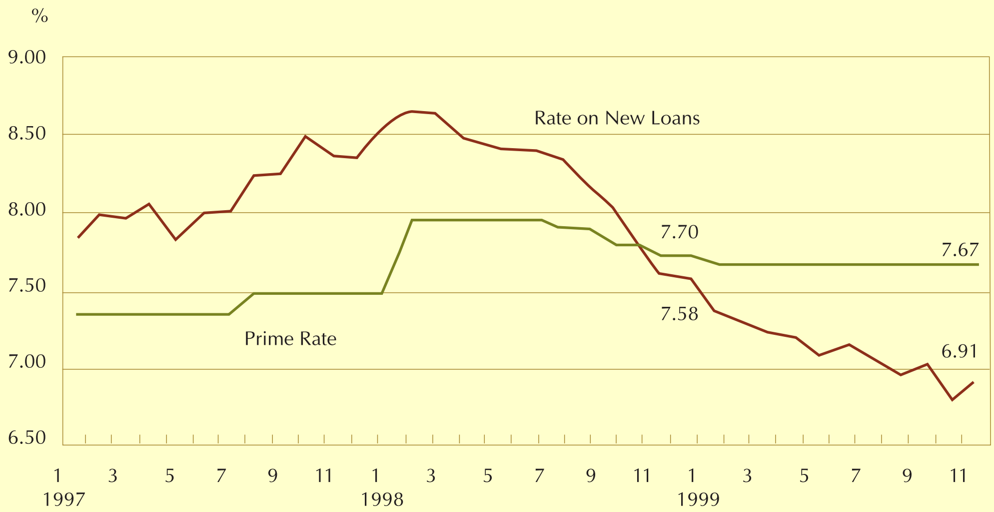
The Average Deposit Rates of the Five Leading Banks*



Note : * Refers to Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank and Chang Hwa Bank.

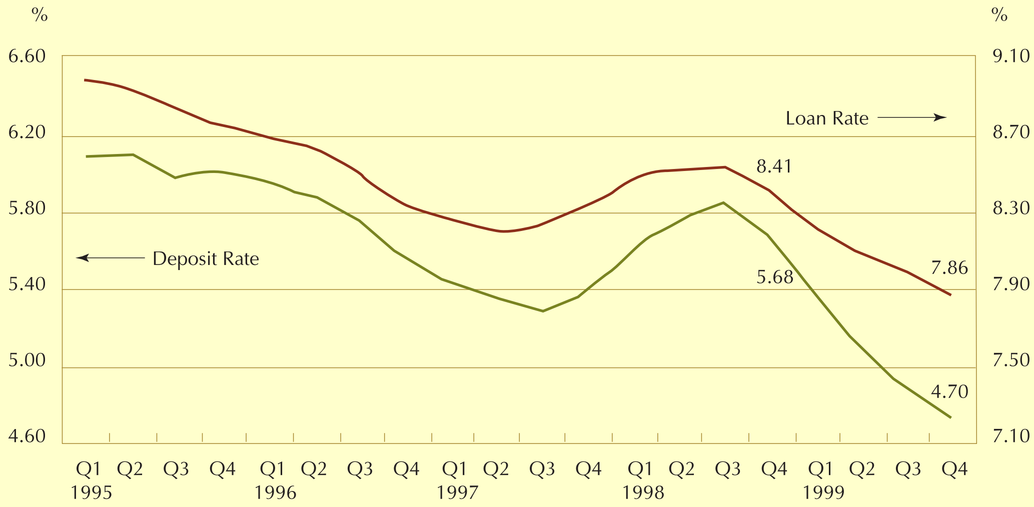
the government adopted some preferential loan policies to stimulate the economy as well. The weighted average rate on new loans therefore exhibited a downward trend and was 6.80 percent in November, the lowest level since 1994. The rate rebounded to 6.91 percent in December, 0.67 of a percentage point lower than its corresponding figure in 1998. The yearly weighted average rates for the deposits and loans of all domestic banks dropped to 5.00 percent and 8.03 percent, respectively, or 0.72 of a percentage point and 0.45 of a percentage point lower than the figures in the previous year.

The Average Prime Rate and the Rate on New Loans of the Five Leading Banks*



Note : * Refers to Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank and Chang Hwa Bank.

The Weighted Average Interest Rates of Domestic Banks



Shrinking Profitability

Early in 1999, to improve the soundness of banks' operations, the Bank lowered the required reserve ratios on deposits and lifted up the remunerated rate on required reserves. The Ministry of Finance also lowered the banks' business tax rate. However, due to the increased provisions for bad loans, and the decrease in disposing of long-term investments as well as in foreign exchange business, the profitability of the banking sector continued to contract on average. A combined pre-tax profit of all depository institutions was NT$120.9 billion for the whole year, a decrease of NT$23.7 billion compared with the previous year. Of this amount, the pre-tax profits of domestic banks significantly decreased by NT$12.8 billion. As for foreign banks, a distinct decrease in foreign exchange business, along with less commission revenue from guarantee services, also resulted in a decline in their pre-tax profits.

The average return on assets (ROA) and return on equity (ROE) for all depository institutions were 0.47 percent and 6.95 percent in 1999 respectively, both lower than those in the previous year. Foreign banks continued to achieve the highest ROA and the Postal Savings System exhibited the highest ROE, while medium business banks suffered both negative ROA and ROE.

Profitability of Depository Institutions in 1999

Unit: NT$ Billion

By Institution	Profit Before Tax		Return on Assets		Return on Equtiy	
	Amount	Annual Change in Amount	Profit Before Tax / Total Assets (%)	Annual Change in Percentage Point	Profit Before Tax / Net Worth (%)	Annual Change in Percentage Point
Domestic Banks	105.2	-12.8	0.58	-0.13	7.25	-2.20
Medium Business Banks	-1.0	-4.2	-0.08	-0.31	-1.33	-4.72
Foreign Banks	4.7	-2.2	0.62	-0.38	12.14	-3.99
Credit Cooperative Associations	4.0	-1.7	0.39	-0.10	5.97	-1.20
Farmers' and Fishermen's Associations	3.7	-3.2	0.24	-0.22	5.03	-4.31
Postal Savings System	4.3	0.4	0.15	0.00	12.22	1.51
Total	120.9	-23.7	0.47	-0.14	6.95	-2.22

Source: Bank Examination Department, Central Bank of China.