

7. Banking Sector

There were 455 depository institutions (including deposit money banks and the Postal Savings System) at the end of 2000, a decrease of three institutions compared with the previous year. The number of foreign banks decreased by two because two foreign banks were merged and one closed its branch in Taiwan to adjust its global operations. Encouraged by the government, two credit cooperative associations were merged and at the same time converted into a commercial bank. Therefore, there were two less credit cooperative associations and one more domestic bank. As to sources of funds, under the influence of the sluggish stock market from the second quarter onwards, the share of demand deposits declined significantly, while that of time deposits increased. In addition, the amount and share of foreign currency deposits rose rapidly along with the depreciating trend of the NT dollar exchange rate against the US dollar from September onwards. With regard to the uses of funds, although banks successively extended preferential loans and increased lending to the government, bank lending, if excluding valuation changes in the exchange rate of the NT dollar against foreign currencies, still exhibited a small decline and portfolio investment also registered negative growth. The main reasons were weak corporate fund demand due to dim business prospects and the conservative attitude of banks toward lending as a result of their high past-due loan ratios. The past-due loan ratio of financial institutions rose from 5.67 percent at the end of 1999 to 6.26 percent in September 2000, before falling to 6.20 percent at the end of 2000 due to banks actively writing off bad debts. The return on assets and equity in the banking sector dropped except in the case of foreign banks. The reasons for the decline included banks increasing their provisions for bad loans, a decrease in banks' income from purchase and sale of bills and bonds, and a loss from banks' portfolio investment due to the sagging stock market. The risk-weighted capital adequacy ratio of domestic banks declined to 10.75 percent from 11.17 percent at the end of 1999. The reduction came about as banks increasingly wrote off bad debts, bought back their own stocks thereby reducing their net worth, and decreased their holdings of default-free government securities and certificates of deposits issued by the Bank.

Number of Depository Institutions by Category

Item	Annual Change	End of 2000	End of 1999
Combined Number of Main Offices	-3	455	458
Domestic Banks	1	48	47
Medium Business Banks	0	5	5
Foreign Banks	-2	39	41
Credit Cooperative Associations	-2	48	50
Farmers' and Fishermen's Associations	0	314	314
Postal Savings System	0	1	1
Combined Number of Branches	110	5,626	5,516
Local Branches	106	5,484	5,378
Overseas Branches	5	74	69
Offshore Banking Units	-1	68	69

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

Sources and Uses of Funds in Depository Institutions

Unit: NT\$ Billion

Item	Annual Change		End of 2000		End of 1999	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Sources:						
Demand Deposits	68.3	-0.52	3,964.3	20.17	3,896.0	20.69
Time and Postal Deposits	1,134.6	2.81	14,405.7	73.30	13,271.1	70.49
NT\$ Deposits	644.8	0.47	13,228.8	67.31	12,584.0	66.84
Foreign Currency Deposits*	489.8	2.34	1,176.9	5.99	687.1	3.65
Government Deposits	48.1	0.08	797.5	4.06	749.4	3.98
Borrowings from CBC	-28.4	-0.21	282.3	1.44	310.7	1.65
Other Items (Net)	-395.7	-2.16	203.8	1.03	599.5	3.19
Total	826.9	0.00	19,653.6	100.00	18,826.7	100.00
Uses:						
Net Foreign Assets*	375.1	1.83	750.4	3.82	375.3	1.99
Loans	628.0	0.10	14,465.9	73.60	13,837.9	73.50
NT\$ Loans	679.4	0.50	13,915.1	70.80	13,235.7	70.30
Foreign Currency Loans*	-51.4	-0.40	550.8	2.80	602.2	3.20
Portfolio Investments	-166.4	-1.30	1,820.9	9.26	1,987.3	10.56
Purchases of CDs issued by CBC	-55.7	-0.42	536.6	2.73	592.3	3.15
Deposits with CBC	45.9	-0.21	2,079.8	10.59	2,033.9	10.80

Note: * "Foreign Currency Deposits", "Foreign Currency Loans" and "Net Foreign Assets" exclude valuation changes in the exchange rate of the NT dollar against foreign currencies when calculating their annual changes.

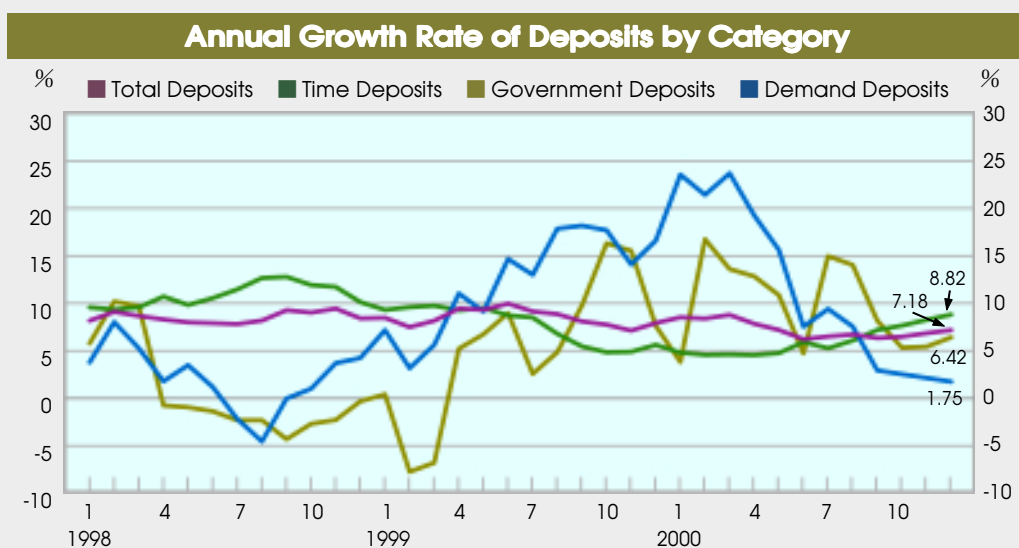
Source: Financial Statistics Monthly, Taiwan District, the Republic of China, Central Bank of China.

Sharp Decrease in Demand Deposits

The annual growth of total deposits in depository institutions was 7.18 percent at the end of 2000, lower than 7.93 percent recorded a year earlier. The decline was mainly because of the economic slowdown in the fourth quarter, coupled with the sluggish stock market, which largely reduced the trading demand for funds. Measured as a monthly average, the annual growth of

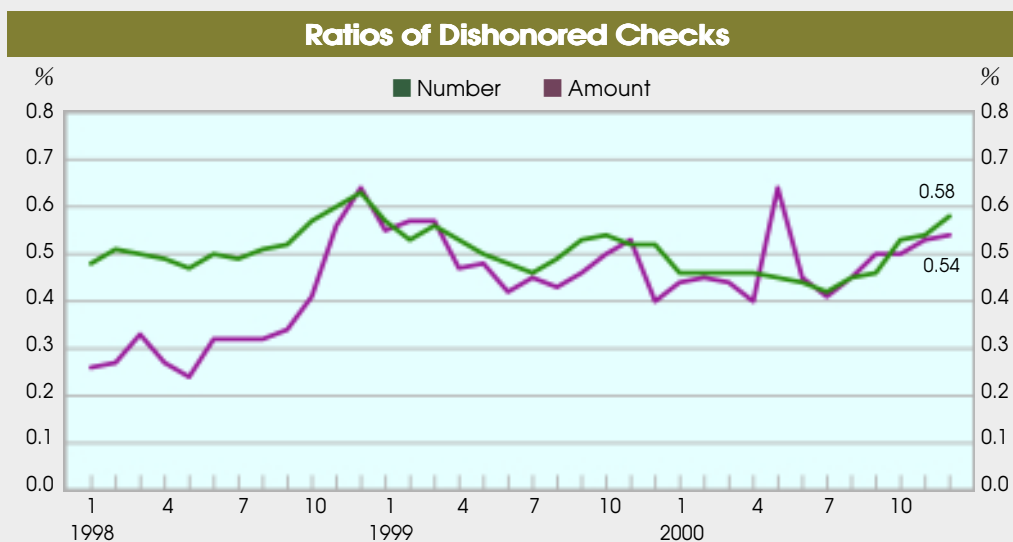
deposits for 2000 was 7.26 percent, representing a marked decrease from 8.49 percent recorded in the previous year.

In terms of the different types of deposits, demand deposits registered an annual growth of over 20 percent in each month of the first quarter with a peak of 23.69 percent recorded at the end of March. Shoring up the high growth rates were the active stock market and continual inflows of foreign capital. From the second quarter onwards, due to the uprising expectations of economic slowdown, the sluggish stock market and the depreciation of the NT dollar, demand deposits were shifted toward time deposits and foreign currency deposits. As a result, the annual growth of demand deposits declined month by month to an all-year low of 1.75 percent at the year-end. By contrast, the annual growth of time deposits rose from 5.63 percent at the end of 1999 to 8.82 percent at the end of 2000. Of the different kinds of time deposits, NT dollar time deposits recorded a reduction of 2.92 percent, affected by successive reductions in domestic interest rates and the shifts from NT dollar deposits to foreign currency deposits following the depreciation of the NT dollar. Time savings deposits posted stable growth but with a lower rate of 4.69 percent, compared with 12.03 percent in the previous year. As for foreign currency deposits, the consecutive three interest rate hikes by the U.S. Federal Reserve caused the interest rate spread between US dollar and NT dollar deposits to widen, which in turn led to the depreciation of the NT dollar. Subsequently, foreign currency deposits increased rapidly with an annual growth of 79.99 percent, a significant surge from the 8.34 percent recorded in the previous year. Government deposits in depository institutions declined by a small measure from 7.63 percent at the end of 1999 to 6.42 percent at the end of 2000.



Fluctuations in Ratios of Dishonored Checks

In the first half of 2000, the ratios of dishonored checks stayed at a low level. The main reasons for this were the significant growth of Taiwan's exports led by global economic and trade expansion, active trading in the stock market during the first four months and easy fund conditions. Measured on a monthly basis, the average ratio of dishonored checks remained between 0.40 percent to 0.46 percent during the first half of the year, except in May when defaults of certain enterprises caused the ratio to rise to 0.64 percent. However, the ratio trended upwards in the second half of the year. The reasons for this included lack of investor confidence, more difficulties faced by traditional industries, higher non-performing loans of financial institutions, the gloomy stock market affected by precipitating U.S. high-tech shares, and the prolonged doldrums of the housing market. The ratios of dishonored checks in terms of the number drawn and the amount drawn were 0.58 percent and 0.54 percent, respectively, in December. Nevertheless, for the year as a whole, the average ratios of dishonored checks in terms of the number drawn and the amount drawn were both lower than those recorded in the previous year, decreasing from 0.52 percent to 0.47 percent and from 0.49 percent to 0.48 percent, respectively, during the year.



With respect to the types of accounts, the share of dishonored checks drawn by corporate accounts increased in 2000. This was mainly due to excessive expansion, poor investment and financial mismanagement of certain enterprises over recent years. The share of dishonored checks accounted for by corporate accounts in terms of the number drawn went up from 29.39 percent

in the previous year to 30.7 percent in 2000; while that in terms of the amount drawn increased from 45.24 percent to 48.71 percent. Among corporate accounts, the share of dishonored checks accounted for by large corporations in terms of the number drawn rose from 13.46 percent to 13.91 percent over the year; while those in terms of the amount drawn increased from 38.88 percent to 40.14 percent.

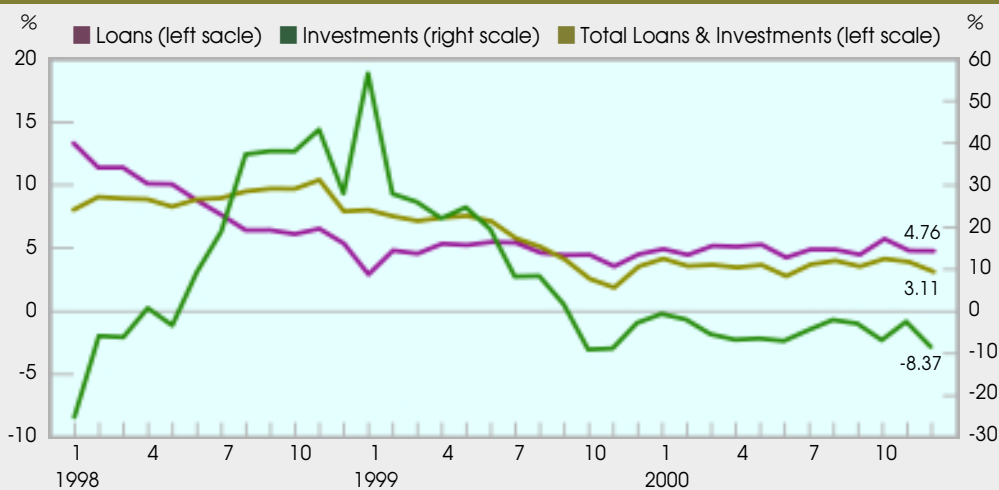
Slowing Growth of Loans and Investments

The loans and investments of depository institutions exhibited slow growth in 2000. The reasons included the following: (1) banks actively dealt with non-performing loans and wrote off bad debts; (2) non-bank financial institutions, such as life insurance companies, used their ample funds to promote lending, taking over some market share of the lending business; (3) the construction and other traditional industries suffered shrinking business and trimmed expansion and investment plans due to dim prospects; (4) indirect (intermediate) finance was gradually substituted by direct (market) finance; and (5) banks adopted a conservative attitude toward lending on concerns over the financial difficulties of some enterprises. Throughout the year, the annual growth rates of loans and investments on a monthly basis fluctuated between 2.76 percent to 4.15 percent. The average annual growth rate of loans and investments for 2000 was 3.63 percent, which was lower than the corresponding 5.33 percent recorded in the previous year.

With respect to loans, the annual growth rates fluctuated between 4.24 percent and 5.72 percent during 2000. As for loans by industry, the share of loans granted by domestic banks to the manufacturing industry rose to 45.30 percent at the end of the year from 42.48 percent recorded a year ago. The rise was mainly due to a special loan project amounting to NT\$450 billion, which was launched by the Executive Yuan (Cabinet) to revitalize traditional industries. The share of loans to the real estate sector (including the construction industry), however, went down from 18.21 percent to 16.94 percent. The decline reflected the conservative attitude of banks toward lending to the real estate related businesses. As for the NT dollar loan-to-deposit ratio, it rose to 77.35 percent by year-end, representing an increase of 0.53 of a percentage point over the year.

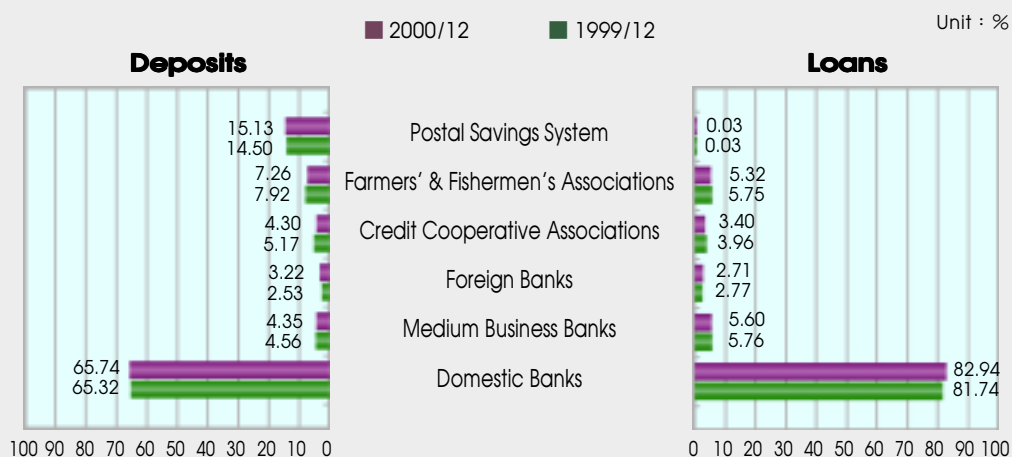
Portfolio investments, on the other hand, shrank by 8.37 percent over the year 2000, with each month registering a negative annual growth rate. Of the components, taking domestic banks as an example, commercial paper still accounted for the largest share of their total investments, or 41.96 percent at the end of 2000, which was considerably lower than the corresponding ratio of 49.94 percent recorded in the previous year. The drop was mainly because banks, in order to lower their non-performing loan ratios, used the available funds derived from the decrease in purchases of money market bills to boost loan extension. In addition, enterprises

Annual Growth Rate of Loans & Investments



also decreased their issues of commercial paper owing to the weak demand for funds. However, the share of government securities held by domestic banks rose to 29.30 percent at the year-end from 28.40 percent a year ago. The increase was the result that the government successively issued bonds and Treasury bills to make up for a decrease in government revenue, which occurred because the sluggish real estate and stock markets caused tax revenue to decrease and the revenue from the flotation of the government-owned Chunghua Telecom Co., Ltd. was less than satisfactory. Meanwhile, banks purchased government-issued bills in order to seek safe investments.

Market Shares of Deposits & Loans by Category



With respect to the market shares of deposits and loans at the end of 2000, domestic banks continued to make up a sizeable proportion. Under the influence of some credit cooperative associations being converted into banks, domestic banks accounted for 65.74 percent and 82.94 percent, respectively, of deposits and loans. Both were higher than the respective shares of 65.32 percent and 81.74 percent in the previous year. As for the local branches of foreign banks, on account of their conservative lending policies, the market share of loans fell at the end of the year. Their market share of deposits, however, increased due to the rise in foreign currency deposits. The farmers' and fishermen's associations suffered a large decrease in deposits under the influence of high non-performing loan ratios and financial problems, drawing their market share further down. As for the Postal Savings System, the market share in deposits continued to show an upward trend. Its share of loans remained at 0.03 percent as in the previous year due to the restriction on extending loans by the government.

Intermediate Financing vs. Market Financing

Unit: NTS Billion

Item	Annual Change in 2000		Annual Change in 1999		Annual Change in 1998	
	Amount	Share(%)	Amount	Share(%)	Amount	Share(%)
Financial Institution Loans(A)	735.1	69.4	630.3	65.3	736.9	41.3
Securities Issues(B)	324.1	30.6	335.1	34.7	1,049.0	58.7
(held by financial institutions)(C)	(77.4)	(9.5)	(44.4)	(6.6)	(508.9)	(40.8)
Equity ⁽¹⁾	250.2	23.6	222.4	23.0	435.1	24.4
Debt Instruments ⁽²⁾	9.3	0.9	70.4	7.3	613.0	34.3
Overseas Securities ⁽³⁾	64.7	6.1	42.3	4.4	0.8	0.0
Total:(A)+(B)-(D)+(E)	1,059.2	100.0	965.4	100.0	1,785.9	100.0
Financing through Financial Institutions(D)=(A)+(C) ⁽⁴⁾	812.5	76.7	674.7	69.9	1,245.8	69.8
Financing through Securities Markets(E)=(B)-(C)	246.7	23.3	290.7	30.1	540.1	30.2

Notes: (1) Represents the cash offerings in the stock market.

(2) Includes commercial paper, bankers' acceptances, corporate bonds and government securities issued in domestic markets.

(3) Includes foreign currency-denominated convertible bonds and global depository receipts issued in the offshore financial centers.

(4) Financial institutions include depository institutions, investment and trust companies, and life insurance companies in Taiwan.

Source: Economic Research Department, Central Bank of China.

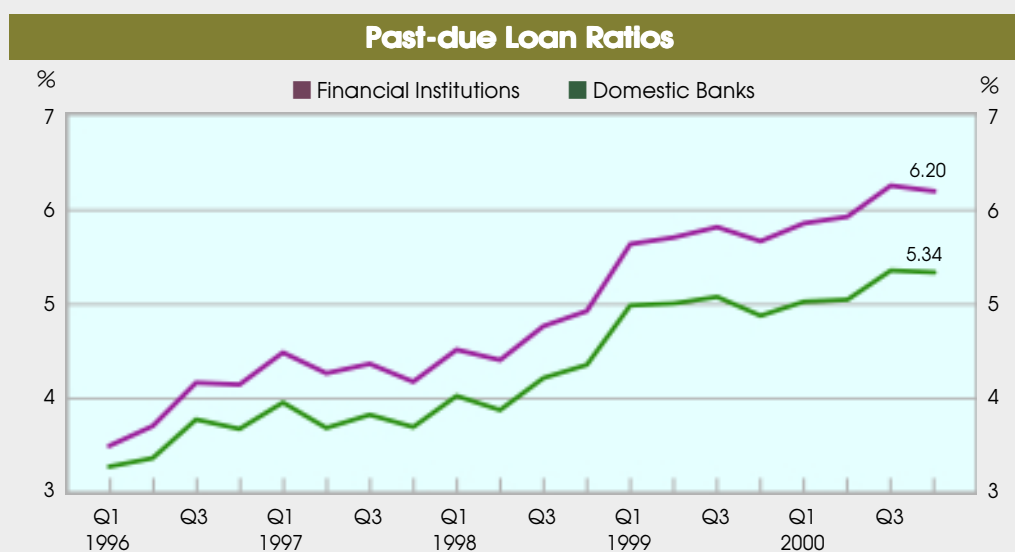
In recent years, non-bank financial institutions, such as life insurance companies, used their profuse funds to promote loans, replacing part of the market share of banks in loans. Hence, taking into account the loans provided by life insurance companies and investment and trust companies, despite general weakness in fund demand, the total demand for funds from enterprises still showed an increase in 2000. In terms of cash flows, the ratio of funds borrowed from financial institutions increased from 69.9 percent at the end of the previous year to 76.7 percent, mainly due to the decreased issues of short-term bills and the increase in loans and investments of financial institutions. In contrast, funds raised from non-financial sectors decreased

from 30.1 percent to 23.3 percent during the same period.

Increasing Past-due Loan Ratios

The past-due loan ratio for financial institutions as a whole (comprising depository institutions and investment and trust companies) continued to rise from 5.67 percent at the end of 1999 to 6.20 percent at the end of 2000. The corresponding ratio for domestic banks and medium business banks (including offshore banking units and overseas branches) rose from 4.88 percent to 5.34 percent during the same period.

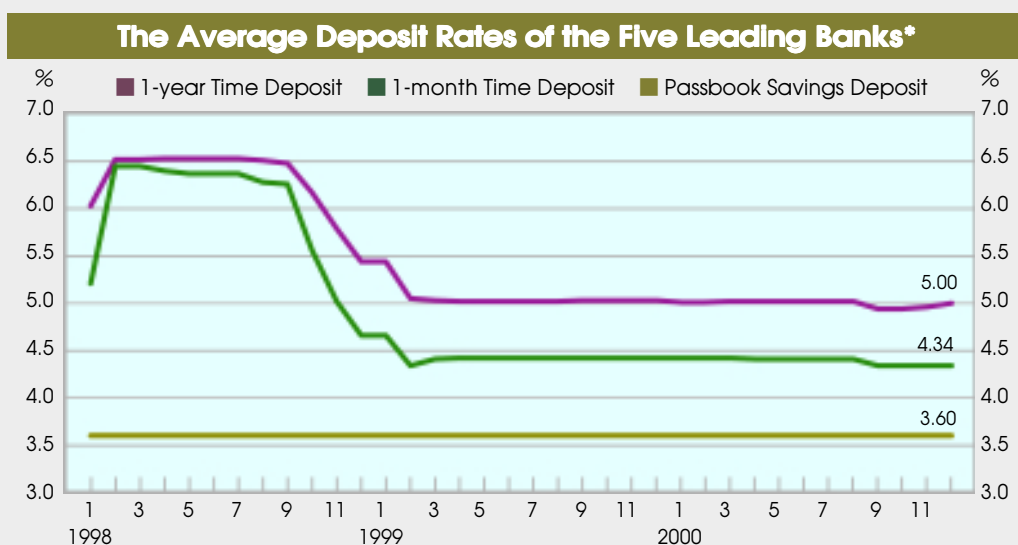
During the first quarter of the year, the Taiwan economy underwent expansion, led by brisk exports and a pickup in domestic demand. However, the lack of recovery in major traditional industries adversely affected certain corporations and the higher unemployment rate reduced the debt-service ability of individuals. As a result, the past-due loan ratio rose persistently in the first half of the year. During the third quarter, the slowdown of the U.S. economy brought about global repercussions. Under this influence, Taiwan's stock market suffered a severe downward correction. Meanwhile, the unemployment rate climbed further and the overall economy lost momentum. Moreover, the prolonged doldrums in the real estate market added to the difficulty of financial institutions in disposing of collateral. As a consequence, the increasing amount of past-due loans, compounded by the slowdown in the lending growth of financial institutions, resulted in a peak in past-due loan ratios. The fourth quarter saw a surge in lending due to an increase in government borrowings and disbursements of major private investment projects. Subsequently, the past-due loan ratio declined slightly at the end of December.



Declining Bank Interest Rates

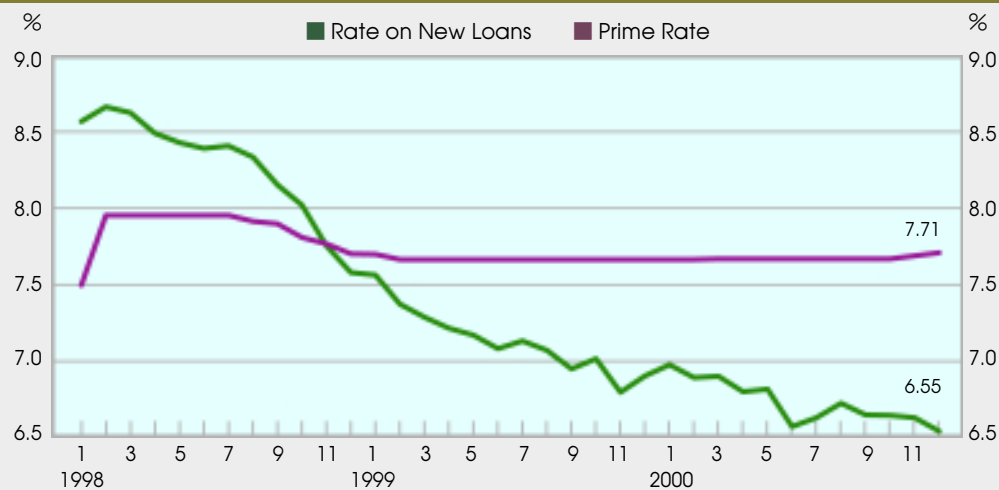
From the second quarter of 2000 onwards, under the expectations of international and domestic economic downturn, Taiwan's stock market plummeted, the NT dollar depreciated, and foreign currency deposits surged. This resulted in slightly tightened monetary conditions for NT dollar funds. However, as the Bank maintained an easy monetary policy and as the demand for corporate funds remained weak, the monetary conditions in the banking sector were still comfortably loose and bank interest rates showed a general downward trend. A slight rebound was seen toward the end of 2000 as a result of preparatory fund needs for the coming new year period. Taking the five leading domestic banks as examples, the average fixed rates on one-month time deposits and one-year time deposits were 4.34 percent and 5 percent, respectively, 0.08 of a percentage point and 0.03 of a percentage point lower than the figures at the end of 1999. However, prime rates showed a mild upward trend due to the reduction in profit incurred by banks writing off bad debts. The average prime rate of the five leading domestic banks was 7.71 percent at the end of 2000, a rise of 0.04 of a percentage point compared to the previous year.

With regard to interest rates on new loans, under the impact of financial difficulties faced by some traditional industries, banks adopted a conservative attitude toward lending. In addition, banks, in order to improve the quality and profitability of their assets, vied for customers with minimal credit risk and extended loans at money market rates. Meanwhile, the lack of success in the flotation of government-owned enterprise shares against the backdrop of a sluggish stock



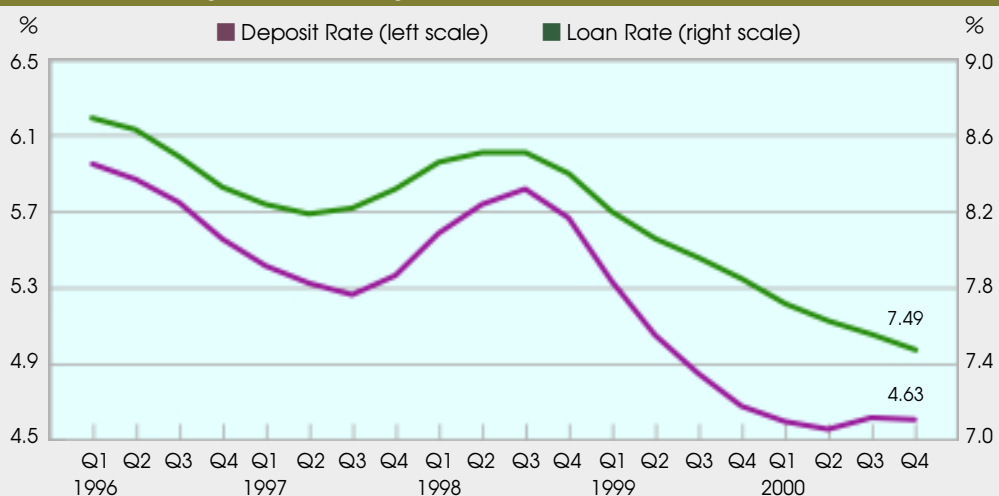
Note: *Refer to Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank and Chang Hwa Commercial Bank

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



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

The Weighted Average Interest Rates of Domestic Banks



market prompted government borrowing to increase continually throughout the year. The government also launched several preferential loan packages to stimulate the economy. As a result, the weighted average rate on new loans hit an all-year low of 6.55 percent at the end of 2000, 0.36 of a percentage point lower than in 1999. During the year, the spread between the interest rates on new loans and the prime rates of the five leading domestic banks widened continually due to the persistent decline in interest rates.

Throughout 2000, the interest rates for domestic banks' deposits and loans exhibited a

downward trend. The yearly weighted average deposit rate dropped to 4.62 percent from 5 percent a year ago; while the yearly weighted average lending rate sank to 7.61 percent from 8.03 percent. Moreover, the spread between lending and deposit rates narrowed because several less healthy banks increased their deposit rates in order to prevent massive deposit withdrawals, and banks in general lowered lending rates to reduce the cost of corporate funds for the promotion of economic growth.

Shrinking Profitability

In order to lower banks' operating costs, the Bank in July 2000 further raised the remunerative rate on banks' required reserves on deposits. However, under the influence of increasing bank provisions for bad debts, shrinking income from the purchase and sale of bills and bonds resulting from decreasing issues of commercial paper, and falling stock prices causing the value of banks' portfolio investment to decrease, the profitability of banks generally contracted with the exception of the local branches of foreign banks. The combined pre-tax profit of all depository institutions was NT\$81.8 billion, a large decrease of NT\$39.1 billion compared with the previous year. Of this amount, the pre-tax profits of domestic banks decreased by NT\$7.4 billion. As for foreign banks, the pre-tax profits increased by NT\$5.9 billion mainly due to an increase in commission revenue from guarantor services and the depreciating NT dollar adding to their foreign exchange income.

The average return on assets (ROA) and return on equity (ROE) for all depository institutions were 0.30 percent and 4.60 percent, respectively, both lower than those recorded in the previous year. Among depository institutions, foreign banks achieved the highest ROA and ROE. Except for foreign banks, all the other depository institutions registered lower ROAs and ROEs than in the previous year. Especially in the case of the Postal Savings System, both its ROA and ROE turned from positive to negative.

Profitability of Depository Institutions by Category

Unit: NT\$ Billion

By Institution	Profit Before Tax		Return on Assets		Return on Equity	
	Amount	Annual Change in Amount	Profit Before Tax / Total Assets (%)	Annual Change in Percent (%)	Profit Before Tax / Net Worth (%)	Annual Change in Percent (%)
Domestic Banks*	96.8	-7.4	0.47	-0.07	6.05	-0.78
Foreign Banks	10.6	5.9	1.09	0.47	25.70	13.56
Credit Co-operative Associations	0.7	-3.3	0.08	-0.31	1.20	-4.77
Farmers' and Fishermen's Associations	0.9	-2.8	0.06	-0.18	1.23	-3.80
Postal Savings System	-27.2	-31.5	-0.88	-1.03	-335.81	-348.03
Total	81.8	-39.1	0.30	-0.17	4.60	-2.35

Note: * Includes medium business banks.

Source: Bank Examination Department, Central Bank of China.