

3. Banking Sector

Decrease in the Number of Depository Institutions

There were 398 depository institutions (including deposit money banks, the Department of Savings and Remittances of Chunghwa Post Co., and money market mutual funds) operating in Taiwan at the end of 2004, a decrease of 2 from the previous year. The decrease resulted from 1 medium business bank and 3 credit cooperative associations being taken over by domestic banks, one credit department of a farmers' association resuming its operations and 2 money market mutual funds being set up in 2004. As of the end of 2004, the number of financial holding companies remained at 14, as in the previous year.

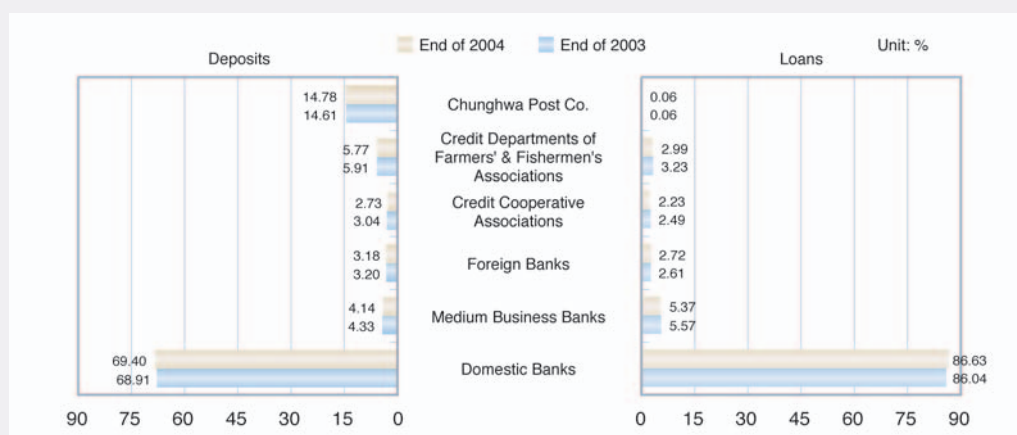
With respect to the market shares of deposits and loans by category of depository institutions at the end of 2004, domestic banks accounted for 69.40 percent of deposits and 86.63 percent of loans. Both were higher than those recorded in the previous year, mainly resulting from a medium business bank and some credit cooperative associations being merged into domestic banks. As for the foreign banks, although foreign currency deposits continued to grow, their market share of deposits dropped slightly. The share of loans, however, increased due to the marked growth in loans extended to private sectors. As for the Chunghwa Post Co. (Department of Savings and Remittances), its market share of deposits rose to 14.78 percent, and its market share of loans remained at 0.06 percent as in the previous year due to the government's restriction on its loan extension.

Number of Depository Institutions by Category

	End of 2004	End of 2003	Annual Change
Combined Number of Main Offices	398	400	-2
Domestic Banks	45	45	0
Medium Business Banks	4	5	-1
Foreign Banks	35	36	-1
Credit Cooperative Associations	32	35	-3
Credit Departments of Farmers' and Fishermen's Associations	279	278	1
Department of Savings and Remittances of Chunghwa Post Co.	1	1	0
Money Market Mutual Funds	2	0	2
Combined Number of Branches	5,911	5,923	-12
Local Branches	5,761	5,772	-11
Overseas Branches	80	81	-1
Offshore Banking Units	70	70	0

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

Market Shares of Deposits and Loans by Category of Depository Institutions



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

Sources and Uses of Funds

With respect to the sources of funds in depository institutions, owing to the continuous growth in bank lending and investments, both transaction and non-transaction deposits increased markedly. The share of transaction deposits in total sources of funds kept increasing,

Sources and Uses of Funds in Depository Institutions

	End of 2004		End of 2003		Annual Change	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Sources:						
Foreign Liabilities *	1,390	5.39	1,071	4.48	319	0.91
Transaction Deposits**	6,698	25.98	5,945	24.85	754	1.13
Non-transaction Deposits***	15,632	60.64	14,802	61.89	830	-1.25
Government Deposits	748	2.90	773	3.23	-26	-0.33
Borrowings from CBC	208	0.81	277	1.16	-69	-0.35
Other Items (Net)	1,103	4.28	1,050	4.39	53	-0.11
Total	25,778	100.00	23,917	100.00	1,861	0.00
Uses:						
Foreign Assets *	1,532	5.94	1,571	6.57	-39	-0.63
Loans	15,868	61.56	14,302	59.80	1,566	1.76
Portfolio Investments	2,096	8.13	2,202	9.21	-106	-1.08
Purchases of CDs Issued by CBC	3,518	13.65	2,924	12.23	594	1.42
Deposits with CBC	2,764	10.72	2,918	12.20	-154	-1.48

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, repurchase agreements, and money market mutual funds.

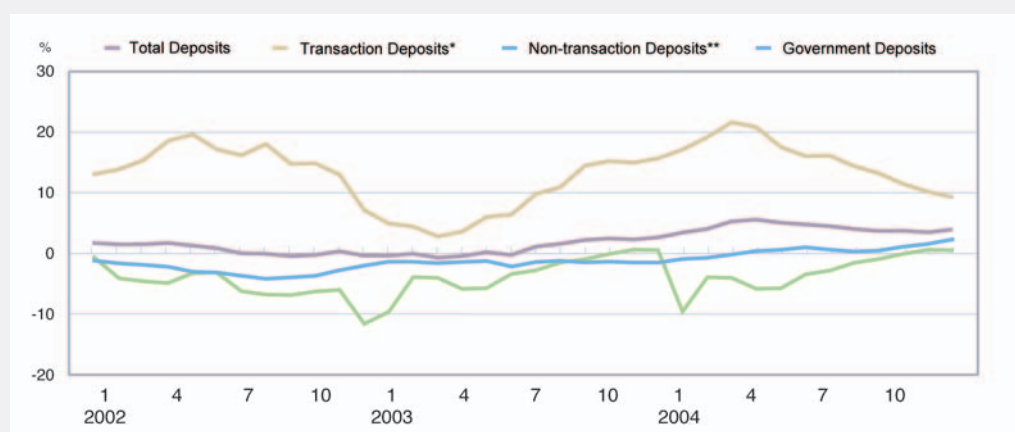
Source: Financial Statistics Monthly, Taiwan District, the Republic of China, Department of Economic Research, Central Bank of China.

whereas that of non-transaction deposits decreased slightly in 2004. With regard to the uses of funds by depository institutions, although the increments of funds raised directly from financial markets via the issues of corporate bonds and offshore bonds by enterprises shrank, the growth of loans increased significantly due to banks' aggressive attempts to expand their consumer finance business. The share of bank loans in the uses of funds rose. Portfolio investments regressed in both the amount and share of uses. However, the share of certificates of deposit issued by the Bank increased.

Uptrend in the Growth of Deposits

Total deposits of depository institutions as of the end of 2004 increased by an annual rate of 6.89 percent, higher than the rate of 5.48 percent a year earlier. All monthly growth rates of deposits exceeded 6 percent, with an annual average of 7.23 percent, significantly higher than 3.56 percent of the previous year. During the first four months of the year, bank loans and investments grew steadily and net foreign capital inflows continued. As a result, annual growth rates of deposits rose from 5.48 percent at the end of 2003 to an annual high of 8.64 percent in April. From May to July, foreign capital exhibited net outflows, leading to a decline in deposit growth. The decline persisted in August and September to reach an annual low of 6.58 percent due to the high bases of the previous year. From October onwards, net foreign capital inflows resumed, banks actively expanded consumer finance, and bank loans and investments grew further. Under these conditions, annual growth rates of deposits rebounded to 6.89 percent in December. In October 2004, the first domestic money market mutual fund

Annual Growth Rate of Deposits by Category



Notes: * 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, repurchase agreements, and money market mutual funds.

Source: *Financial Statistics Monthly, Taiwan District, the Republic of China, Department of Economic Research, Central Bank of China.*

was established. Because of their high convertibility and substitutability for bank deposits, money market mutual funds are included in time deposits of depository institutions.

In terms of the different types of deposits, the growth rates of transaction deposits trended upwards and then downwards over the course of the year. During the first three months of the year, transaction deposits growth rates increased from 19.75 percent at the previous year-end to 26.27 percent in March, the highest rate of the year. The increase was boosted by continuous net foreign capital inflows to the local stock market. From May onwards, transaction deposit growth rates dropped consecutively, affected by net foreign capital outflows, to record 20.12 percent in June. In July, massive redemptions of bond funds saw funds shifted to transaction deposits, pushing up their growth rate to 20.21 percent. Thereafter, due to the high bases of the previous year, the upward trend was reversed to hit the annual low of 12.68 percent in December. At the end of the year, the share of transaction deposits in total deposits rose from the previous year's 27.52 percent to 29.02 percent.

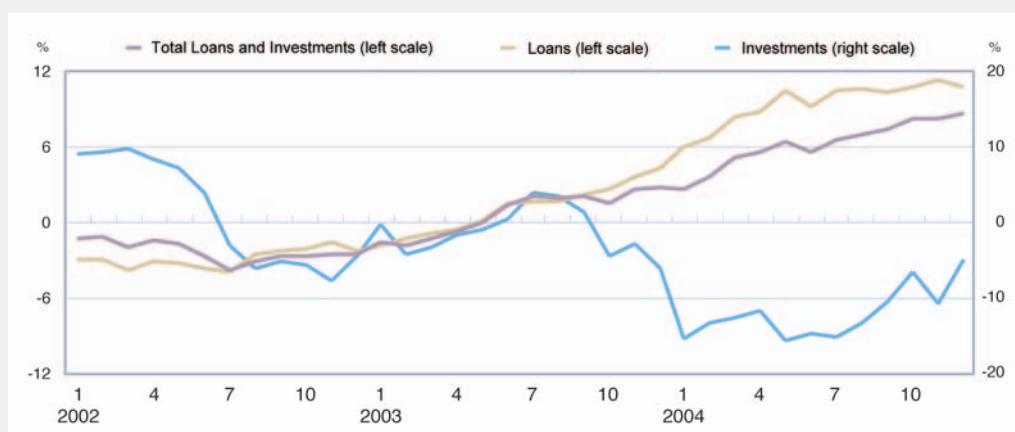
The growth rate of non-transaction deposits (including money market mutual funds) increased sharply from 0.79 percent at the end of 2003 to 5.11 percent at the end of 2004, while their share in total deposits decreased from 68.90 percent to 67.74 percent during the same period. Funds were shifted to non-transaction deposits because of the lackluster stock market and the increased interest rate spread between demand and time deposits, as banks raised time deposit rates from October onwards. In terms of different types of non-transaction deposits, the growth rate of time deposits returned to positive territory of 7.25 percent at the end of 2004 from negative 5.25 percent a year earlier. In addition, during the same period the growth rate of time savings deposits edged up from 0.30 percent to 1.26 percent. As for postal savings deposits, the growth rate rose from 1.70 percent to 6.82 percent. The growth rate of foreign currency deposits slightly increased from 12.36 percent to 12.88 percent. There were altogether 2 money market mutual funds with a total amount of NT\$1.5 billion at the end of the year.

Government deposits in depository institutions contracted 3.31 percent at the end of 2004 from a growth of 3.09 percent at the previous year-end. The ratio of government deposits to total deposits also declined from 3.58 percent to 3.24 percent.

Increasing Growth in Loans and Investments

Boosted by the significant domestic economic recovery and banks' aggressive promotion of consumer finance business, the annual growth rate of loans and investments continued to increase to 8.65 percent at the end of the year. Loans posted an annual growth rate of 10.71

Annul Growth Rate of Loans and Investments

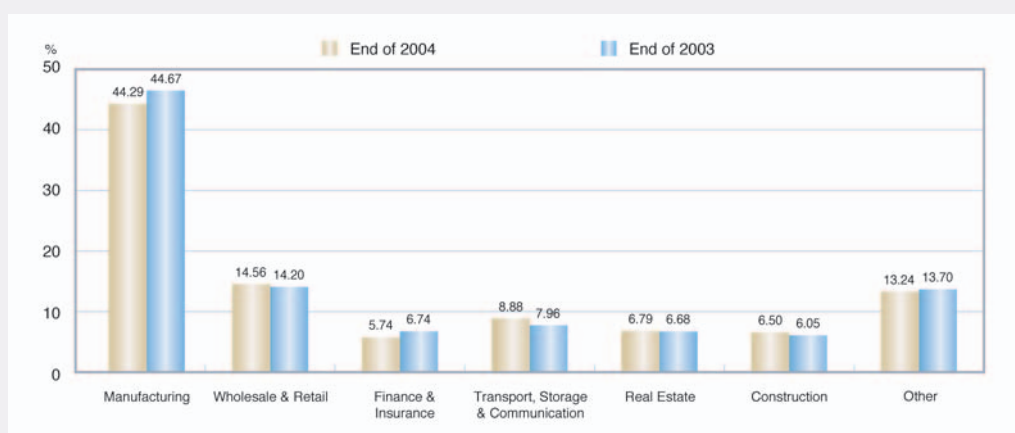


Source: Financial Statistics Monthly, Taiwan District, the Republic of China, Department of Economic Research, Central Bank of China.

percent at the year-end, compared to the 4.40 percent recorded a year earlier. The annual growth rate of investments rose to negative 4.81 percent from negative 6.15 percent of the previous year.

Loans extended to private enterprises and individuals accounted for 85.05 percent of total loans at the end of 2004, higher than the 83.39 percent recorded a year earlier. The share of loans extended to government agencies to total loans decreased to 12.08 percent from the previous year-end's 13.57 percent, mainly due to the central government's repayment of the loans contracted by the former Taiwan provincial government. The share of loans to public enterprises dropped from 2003's 3.04 percent to 2.87 percent at the end of 2004.

Composition of Loans by Industry



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

Regarding the composition of domestic banks' loans by industry, due to the domestic economic recovery and the increasing demand for funds, outstanding loans to the manufacturing industry increased, while its share fell to 44.29 percent at the year-end from the previous year-end's 44.67 percent. Some securities firms raised funds directly from financial markets, replacing part of their borrowings from banks. Thus, the share of loans extended to the financial and insurance industries declined from the previous year-end's 6.74 percent to 5.74 percent. The revival in the real estate market triggered an increase in loans extended to the real estate and construction industries, with the share climbing up from the previous year-end's 6.05 percent and 6.68 percent, to 6.50 percent and 6.79 percent, respectively. Loans to the retail and wholesale industries continued to expand as well.

With regard to consumer loans, because of banks' aggressive attempts to expand the scope of the consumer finance business, consumer loans of domestic banks continued to trend upward and recorded an increase of NT\$856.1 billion or 18.03 percent from a year earlier.

With regard to loans by currency, the share of foreign currency loans to total loans rose to 3.53 percent at the end of 2004 from 3.50 percent at the previous year-end. The increase was mainly due to the strengthening of external trade and the rising expectations of the NT dollar's appreciation from the fourth quarter onwards. The corresponding share of NT dollar loans to total loans therefore contracted slightly from 96.50 percent to 96.47 percent. As for the NT dollar loan-to-deposit ratio, it increased to 68.76 percent at the end of 2004 from 66.39 percent recorded at the end of the previous year.

With respect to the composition of investments of depository institutions, government bonds accounted for the largest share, followed by commercial paper. In the case of domestic banks, government bonds accounted for 48.75 percent of their total investments, up from the previous year-end's 38.84 percent. This was mainly due to the increased issue of government bonds for financing the fiscal deficit, along with banks' efforts in reducing excess liquidity and the overall risk of their investments. The ratio of investment on commercial paper to their total investment dropped significantly to 11.41 percent from 19.15 percent a year earlier, primarily reflecting the decline in commercial paper issued by local firms.

Increased Share of Intermediate Financing

The total amount of funds raised during the year by the non-financial sector, comprising enterprises, households and the government as a whole, showed a marked increase from the previous year's NT\$1,677.1 billion to NT\$2,129.4 billion, the highest figure since 1998. With regard to the composition of the sources of funds, due to the significant increase in loans and

Intermediate Financing vs. Market Financing*

Unit: NT\$ Billion

Year	Total Funds Raised (3)=(1)+(2)	Intermediate Financing(1)				Market Financing(2)	
		Amount			Share (%) (1)/(3)(%)	Amount	Share (2)/(3)(%)
			Loans	Investments			
1995	1,442.4	1,304.9	1,033.8	271.1	90.47	137.5	9.53
1996	1,625.9	1,372.6	721.4	651.2	84.42	253.3	15.58
1997	2,278.0	1,670.2	1,548.0	122.2	73.32	607.8	26.68
1998	1,935.4	1,404.4	886.5	517.9	72.56	531.0	27.44
1999	1,289.1	1,041.3	954.0	87.3	80.78	247.8	19.22
2000	1,377.1	1,203.2	1,053.2	150.0	87.37	173.9	12.63
2001	665.2	594.5	200.6	393.9	89.38	70.7	10.62
2002	807.5	424.8	71.7	353.1	52.61	382.7	47.39
2003	1,677.1	716.0	711.5	4.5	42.69	961.1	57.31
2004	2,129.4	1,825.2	1,579.0	246.2	85.71	304.2	14.29

Notes: * Measured in terms of flow data.

(1) Refers to loans and investments made by depository institutions, investment and trust companies, and life insurance companies, after taking into account their reclassifying of non-accrual loans and written-off bad loans.

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

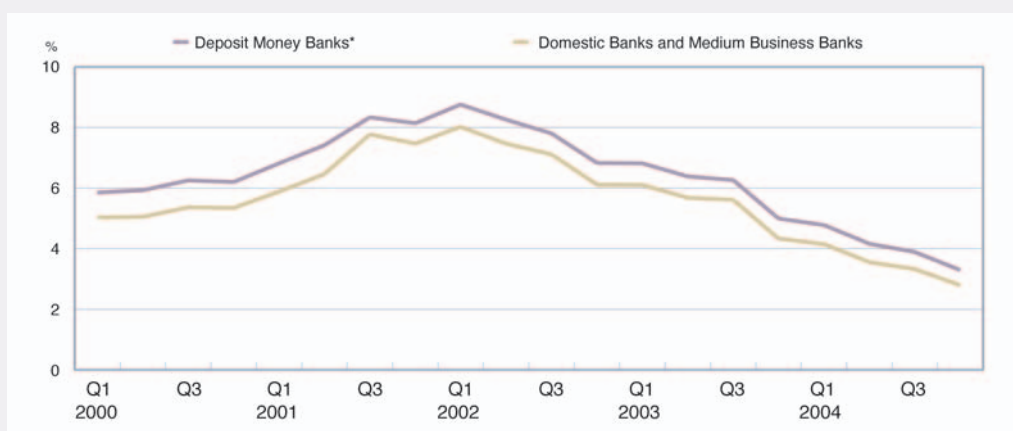
Source: Financial Statistics Monthly, Taiwan District, the Republic of China, Department of Economic Research, Central Bank of China.

investments, the share of intermediate financing, that is, those borrowed from financial institutions including depository institutions, investment and trust companies and life insurance companies, rose from 42.69 percent in 2003 to 85.71 percent in 2004. Conversely, the share of market financing, i.e., the funds raised directly from financial markets via the issues of various marketable securities by issuers to the general public without the involvement of financial institutions, decreased from 57.31 percent to 14.29 percent. The decline was mainly due to the decreasing issues of corporate bonds and offshore bonds.

Marked drop in the Non-performing Loan Ratio

With the efforts made by deposit money banks to speed up the disposal of non-performing loans (NPL), the book value of accumulated NPLs sold recorded an increase of NT\$181.5 billion during the year 2004. As local banks kept writing off bad loans with funds from their own earnings in order to improve their financial health and risk tolerance, the NPL ratio significantly declined during the year. The average NPL ratio of deposit money banks as a whole trended down quarter by quarter during 2004. As of the end of 2004, the ratio had declined to 3.28 percent from 5.00 percent recorded a year earlier. In the mean time, the corresponding NPL ratio for domestic banks and medium business banks combined (including their offshore banking units and overseas branches) also dropped from 4.33 percent at the end of the previous year to a low of 2.79 percent at the end of 2004.

Non-performing Loan Ratios of Banking Sector



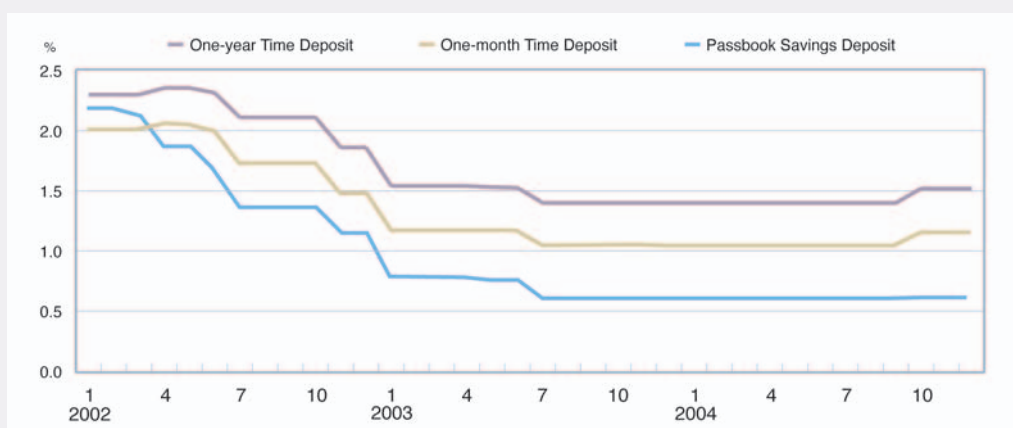
Note: * Including domestic banks, medium business banks, foreign banks, credit cooperatives and credit departments of farmers' and fishermen's associations.

Source: *Financial Statistics Monthly, Taiwan District, the Republic of China, Department of Economic Research, Central Bank of China.*

Increase in Bank Interest Rates

Banks' posted interest rates remained largely flat before October, and then began to rise, affected by an increase in the Central Bank's discount rate. 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 were 1.05 percent and 1.40 percent, respectively, at the end of 2003. Both remained unchanged until the end of September 2004, and then increased to 1.15 percent and 1.52 percent at the end of 2004. The base lending rates of the five major domestic banks were

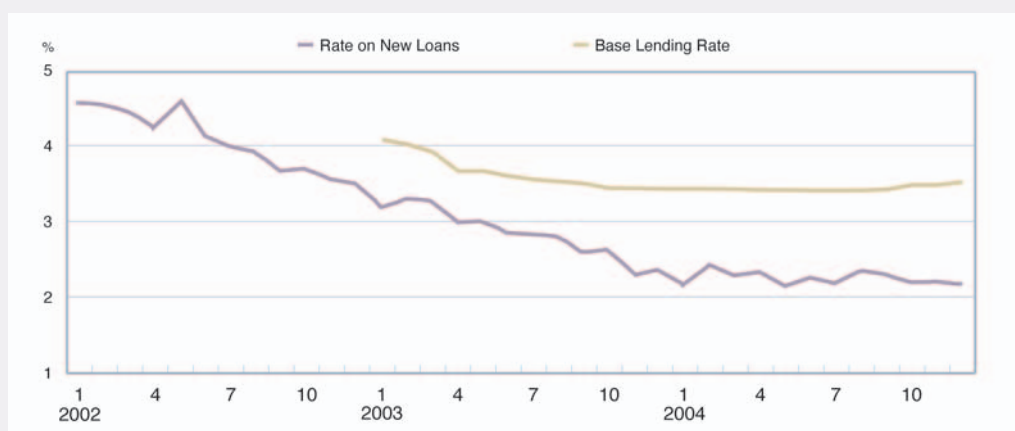
The Average Deposit Rates of the Five Major Domestic Banks*



Note: * The five major domestic banks include Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank and Chang Hwa Commercial Bank.

Source: *Financial Statistics Monthly, Taiwan District, the Republic of China, Department of Economic Research, Central Bank of China.*

The Average Lending Rate of the Five Major Domestic Banks*



Note: * The five major domestic banks include Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank and Chang Hwa Commercial Bank.

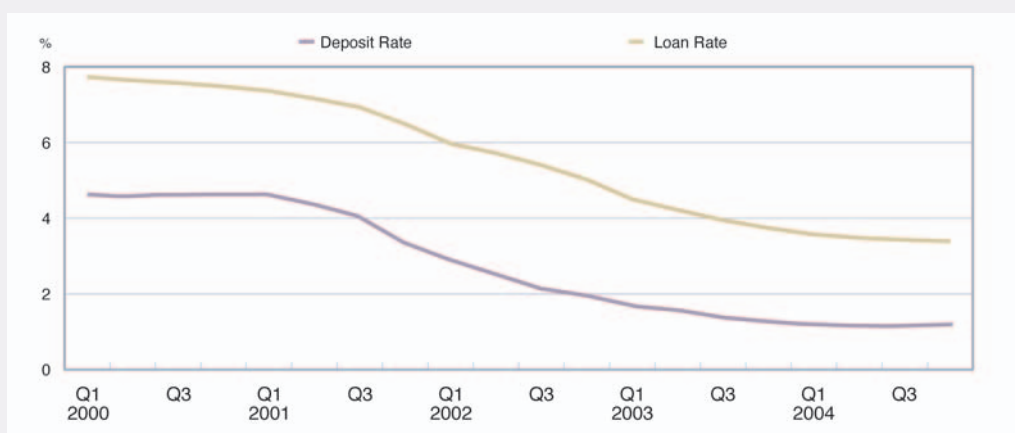
Source: *Financial Statistics Monthly, Taiwan District, the Republic of China, Department of Economic Research, Central Bank of China.*

lowered to 3.41 percent at the end of August, as compared with the 3.43 percent posted at the end of 2003, then increased to 3.52 percent at the end of December.

Against the backdrop of easy funding conditions and pursuant to the government's financial reform plan of lowering NPL ratios, banks expanded loans to government agencies and enterprises with good credit records at a lower rate. In addition, the government also implemented various policy-based loans with preferential rates. As a result, the weighted average rates on new loans of the five major domestic banks were between 2.14 percent and 2.80 percent throughout the year and hit a record low of 2.14 percent in May. The weighted average lending rate for the whole year dropped by 0.56 of a percentage point, from 2.80 percent in the previous year to 2.24 percent. The weighted average lending rate excluding the government's loans was 2.34 percent for the year as a whole.

The weighted average rates on both deposits and loans of domestic banks were lower in 2004 than in the previous year. The weighted average deposit rate continued to fall to 1.14 percent in the third quarter from 1.27 percent of the fourth quarter 2003, and then rose to 1.18 percent in the fourth quarter 2004. The weighted average deposit rate for the whole year was 1.17 percent, lower than the 1.47 percent recorded in the previous year. The weighted average lending rate declined from 3.74 percent to 3.39 percent between the fourth quarters of 2003 and 2004. The lending rate for the whole year declined from the previous year's 4.10 percent to 3.47 percent. Because the declines in lending rates were more rapid than in deposits rates during the first three quarters, the interest spread between deposits and loans continuously shrank. During the fourth quarter, deposits rates increased while lending rates dropped further,

The Weighted Average Interest Rates of Domestic Banks



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

the interest spread between deposits and loans shrank to 2.21 percentage points in the fourth quarter, less than the 2.47 percentage points recorded in the fourth quarter of 2003.

Marked Improvement in Profitability

The profitability of banks increased significantly during 2004. The combined pre-tax earnings of all depository institutions grew by NT\$107.0 billion to NT\$193.8 billion, a marked improvement when compared with that of the previous year. Of this amount, the pre-tax earnings of domestic banks and medium business banks combined increased by NT\$104.9 billion to NT\$155.3 billion.

This improved earnings performance was primarily attributable to banks' lower provisions for bad loans as nonperforming loans were reduced, as well as increased fee income after banks started charging fees for various banking services. The pre-tax profit of foreign banks increased by NT\$1.8 billion, mainly due to gains from foreign exchange business. As for credit cooperative

Profitability of Depository Institutions by Category

Unit: NT\$ Billion

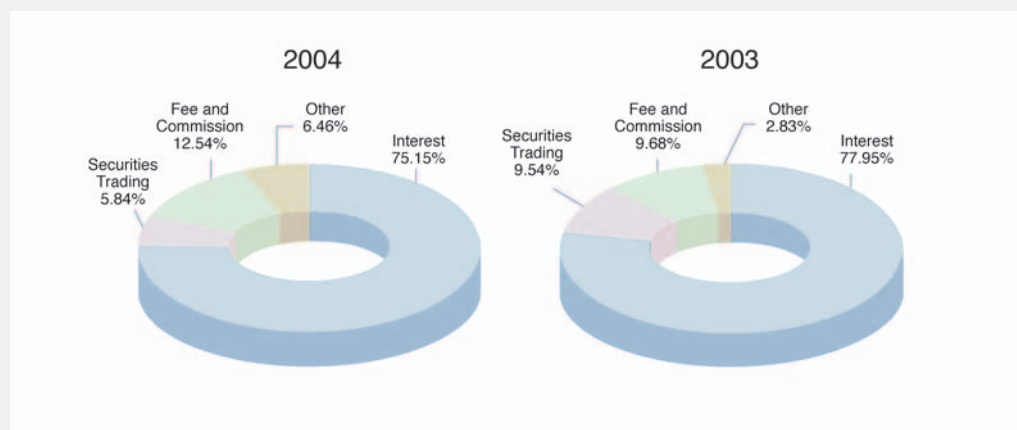
	Profit before Tax			Return on Assets (%)*			Return on Equity (%)**		
	2004	2003	Annual Change	2004	2003	Annual Change	2004	2003	Annual Change
Domestic Banks and Medium Business Banks	155.3	50.4	104.9	0.61	0.22	0.39	9.79	3.49	6.30
Foreign Banks	22.8	21.0	1.8	1.18	1.31	-0.13	37.45	38.06	-0.61
Credit Cooperative Associations	1.2	-2.0	3.2	0.17	-0.29	0.46	2.87	-4.87	7.74
Credit Departments of Farmers' and Fishermen's Associations	2.1	0.0	2.1	0.15	0.00	0.15	2.77	-0.02	2.79
Departments of Savings and Remittances of Chunghwa Post co.	12.4	17.4	-5.0	0.36	0.52	-0.16	24.43	36.95	-12.52
Total Depository Institutions	193.8	86.8	107.0	0.59	0.29	0.30	10.67	5.22	5.45

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

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

Source: Department of Financial Inspection, Central Bank of China.

Composition of Operating Income of Domestic Banks and Medium Business Banks



Source: Department of Financial Inspection, Central Bank of China.

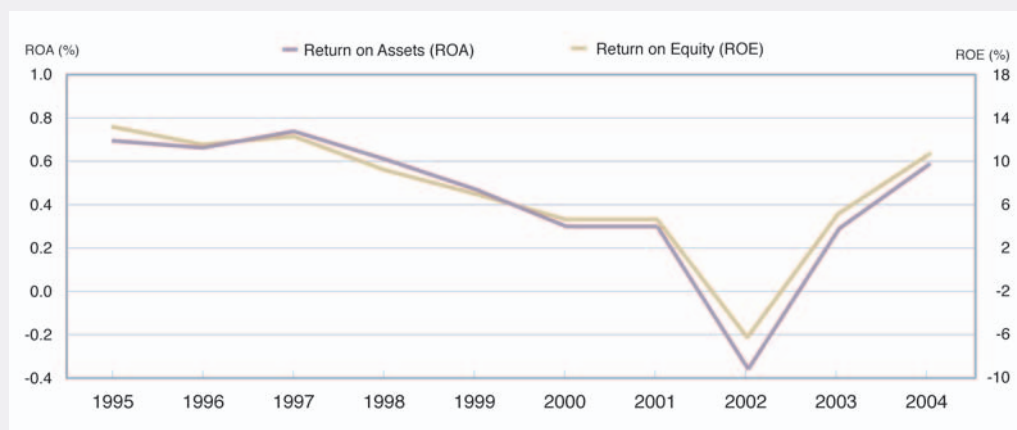
associations and the credit departments of farmers' and fishermen's associations, pre-tax earnings returned to positive territory because of a marked decrease in provisions for bad loans. However, owing to a considerable decrease in the revaluation gains from equity investments, the pre-tax profit of the Chunghwa Post Co. dropped, despite a decline in business and administrative costs.

In terms of the components of operating income of domestic banks and medium business banks combined, owing to successive decreases in banks' interest rates, the share of interest income to total operating income declined from the previous year's 77.95 percent to 75.15 percent. Affected by increases in fee income after banks started charging fees for various banking services, the share of fee and commission income rose from 9.68 percent to 12.54 percent this year. The share of earnings from securities trading fell to 5.84 percent from the 9.54 percent in the previous year, mainly due to a decline in gains from bills trading as interest rates turned to rise in the second half of the year.

Further Increase in Both ROA and ROE

The average return on assets (ROA) and return on equity (ROE) for all depository institutions rose to 0.59 percent and 10.67 percent in 2004, respectively, from 0.29 percent and 5.22 percent recorded a year earlier. Except for foreign banks and the Chunghwa Post Co., ROEs and ROAs for all other depository institutions were higher than those of the previous year. Foreign banks remained leaders in terms of ROEs and ROAs.

The Return on Assets and Equity of Depository Institutions



Source: Department of Financial Inspection, Central Bank of China.