

Earnings Drivers For 2000-01

We expect loan growth and provisions will be the key earnings drivers for the banks in 2000. Given the huge diversity in business mix and asset quality, these two factors will differ significantly for individual banks.

1) Loan Growth – Banks With Stronger Consumer Banking Focus And Good Asset Quality Will Be The Winners

First, the conclusion

This section discusses the issue of loan growth in the next two years by looking at two key aspects:

- **Banks with a higher proportion of consumer lendings and established strength in this area will be able to increase their market share** (CTCB: 50%; BSP: 66%; TIB: 67%). We expect consumer banking to grow 40-60% faster than corporate lendings in the next two years. There are three key factors behind this:
 - 1) Banks' reluctance to lend to corporates after last year's mini-financial crisis.
 - 2) Consumer banking has a much better risk/reward profile and has room for further growth.
 - 3) Continuously rising disintermediation risk for banks due to the widening sources of direct financing.

- **September earthquake – the aftermath. Impact from the earthquake on this year's bank credits is expected to be minimal for the banks covered.** Sources of loan growth come from two areas:
 - 1) The NT\$150bn government-funded earthquake relief loans for new home purchase/reconstruction/companies affected. We expect the impact to be minimal.
 - 2) Increased government lendings (estimated at NT\$160bn) sourced from financial institutions. Out of the seven banks covered, only CHB has significant exposure to lendings to the government (13% of its loan portfolio). Furthermore, most of the fundings are expected to come from government-owned banks at lower margins.

In conclusion, we expect CTCB, BSP and TIB to be able to grow their loan books by 15-18% for 2000-2001, vis-à-vis the BigThree's privatised state-owned banks' 5-8% and UWCCB's low teens growth. This is the first key reason for our BUY ratings on these three banks.

3) Net Interest Margins: Favourable Interest Rate Environment

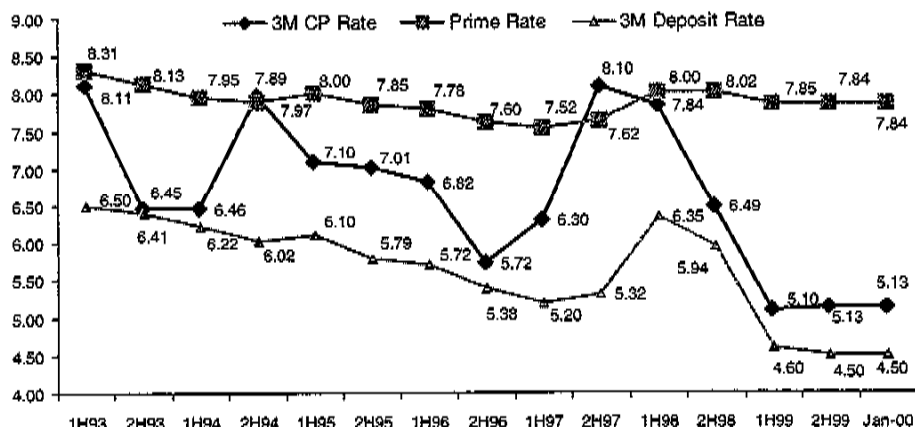
Relatively unscathed by US rate hike

For the whole of 2000, interest rates are expected to remain low as the economy continues to recover from the impact of the financial crisis in 4Q98. In fact, the Governor of the Central Bank of China (CBC) has said that despite the hike in US interest rates, Taiwan will not follow as it is currently in a different economic cycle. In fact, our economic team is of the view that this benign interest rate environment will continue into the year 2001.

The strong stock market helps

Low rates, combined with, hypothetically, a sustained strong stock market (or stable at the very least), mean that banks can continue to enjoy fat interest spreads in the year. As funds flow into the stock market, low-cost current account deposits (200-350bp below savings and fixed deposits) increase with the proportion of total customer deposits. In particular, as we mentioned before, banks that have a stronger consumer focus are expected to enjoy a steadily rising margin over the next two years. **We expect the biggest margin expansion to come from BSP and TIB (up 20-30bp in 2000 from 2H99).** Other than their consumer banking focus, these banks have the highest proportion of fixed deposits and hence stand to benefit more from the rising proportion of current account deposits under a benign interest rate environment.

Figure 36: Prime/Interbank Spread



Source: Datastream

Figure 37: Net Interest Margin - Individual Banks

	1H96	2H96	1H97	2H97	1H98	2H98	1H99	2H99F	2000F	2001F	2002F
Big Three	1.78	1.60	1.83	2.51	2.17	2.03	1.91	1.93	1.99	2.05	2.05
CTCB	2.19	2.30	2.75	2.90	2.83	2.86	2.57	2.95	2.97	2.99	3.01
UWCCB	2.38	2.24	2.36	2.95	2.72	2.55	2.46	2.31	2.48	2.47	2.48
BSP	2.50	2.85	2.84	2.63	2.65	2.08	2.03	2.22	2.53	2.64	2.63
TIB	3.13	3.24	3.22	3.50	2.92	3.00	3.43	4.05	3.93	3.97	3.97

Source: Deutsche Bank Research Estimates, Company Information

Mergers & Acquisitions – Picking The Winners

We highlight BSP as potentially the biggest winner

Overall, we would view M&As in the Taiwan banking sector positively. Given the issues regarding flexibility of cost rationalisation and the potential risk of national services, we believe the single key factor that will differentiate between a “meaningful” and “cosmetic” merger is the extent of government influence/ownership in the affected banks. **We would highlight BSP as potentially the biggest winner should an acquisition go through – the bank is the highest capitalised in our Taiwan bank universe, has a clear goal in its M&A strategy, and stands to benefit the most from enhanced business networks given the current small 1.1% market share in deposits.**

Figure 38: Taiwan Financial Institutions – A Snapshot

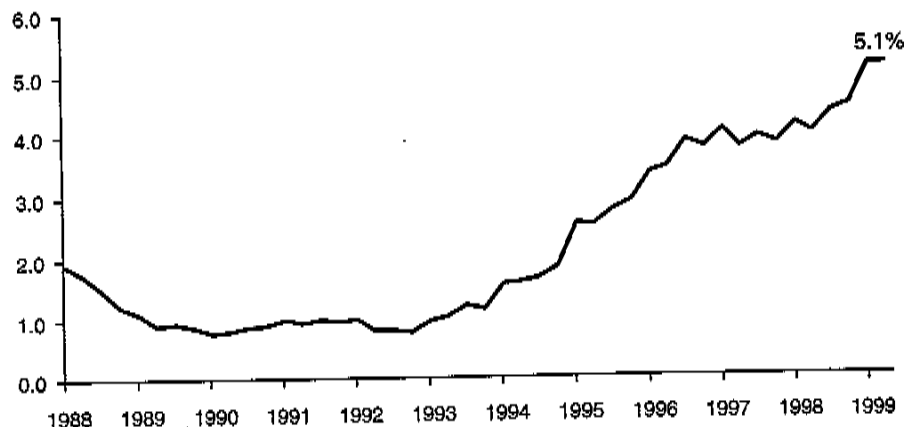
As of Sep-1999	Total No.	Total Dom Branches	Total Assets (NT\$b)	Total Deposits (NT\$b)	Total Equity (NT\$b)
Commercial Banks					
Local	53	2,567	18,696	11,191	1,495
Foreign	42	71	914	378	41
Representative Office	25	0	-	-	-
Sub-total	120	2,638	19,610	11,569	1,536
Others					
Postal Savings System	1	-	2,804	2,504	35
Investment Trust	3	36	264	154	31
Credit Co-operative	50	415	1,036	923	67
Farmers/Fishermen Co-operative	314	1,018	1,595	1,323	78
Bills Finance	27	46	158	-	123
Life Insurance (Local & Foreign)	33	132	2,302	-	182
Property/Casualty Insurance (L/F)	27	145	129	-	77
Sub-total	454	1,792	5,484	2,400	558
TOTAL	574	4,430	25,094	13,969	2,094

Source: MOF

The system needs to be fixed

We believe M&As are necessary for the long-term health of the Taiwan banking system. Since the liberalisation in 1991/2, the number of domestic banks has doubled, sector ROE had more than halved from 20%+ to 8% by 1998, and asset quality continues to deteriorate despite continued robust economic growth.

Figure 39: NPL Ratio (Domestic Banks), 1988-1999



Source: CEIC

Positive implications of M&As outweigh the negatives

As outlined below, we believe the positive impact that could potentially be generated from an M&A activity outweighs the negatives (see below).

Figure 40: M&As In Taiwan – A Checklist

Positives:

- Fundamental improvement in operations (e.g. increased market share, complementary business lines, wider distribution network, etc.)
- Potential of forming a bank holding company to facilitate cross sellings*
- Unwinding of cross shareholdings resulting in better capital employment
- Balance sheet clean-ups prior to M&A activities

Negatives:

- Inflexibility in cost reduction
- Risk of national service: potential bailouts of the troubled farmer/fishermen's associations

*The Bank Holding Company Act is expected to be introduced during 1H2000.

Source: Deutsche Bank Research

Government-directed mergers unlikely to generate economic benefit

No layoffs ...

... with bailout risks

We believe that government-directed mergers are unlikely to generate economic benefit given the likely inflexibility in cost reduction and high integration risk. The three-way merger between Bank of Taiwan, Land Bank of Taiwan and Central Trust of China announced in Dec-1999 highlights it all: the merged bank will not lay off any of the combined 14,300 workforce (given the negative political implication), actual merger plan will take another six months to come out (i.e. no detailed planning prior to the merger) and integration is likely to take three to four years to complete given the diversity of these three banks' operations (which implies the benefit of cross sellings will not accrue).

Another risk of government-directed mergers is that the banks involved may be forced to take up the troubled credit departments of the farmers/ fishermen's associations. Asset quality of these financial institutions has reached a level so poor that the MOF ceased publishing their NPL ratios in 4Q99.

Based on Sep-1999 statistics, about 25% of the farmers' associations had an NPL ratio exceeding 20%. As an incentive for the banks to merge with these institutions, the Central Deposit Insurance will reimburse a total of NT\$30bn to the acquiring banks. In our opinion, the amount of reimbursement may not be sufficient to fully absorb the NPLs, and present risks to the acquiring banks.

The biggest positive is the unwinding of cross shareholdings

Perhaps the biggest positive that would arise from government-directed mergers is the eventual unwinding of cross shareholdings. Cross shareholding was the main culprit of the crisis in late 1998, and ironically government-linked companies are among the biggest offenders. For example, each of the Big Three holds 2-7% stakes in each other and collectively holds minority stakes in other government-linked companies e.g. Taipei Bank, Taiwan Life, UWCCB, Taiwan Power, Taiwan Cement, etc. (for a detailed breakdown of these banks' equity holdings, please refer to the individual company notes). Should these cross shareholdings be unwound as a result of the mergers, this may help to eventually eliminate the cross shareholding problem in Taiwan. Currently, it is estimated that more than 60% of listed companies have cross shareholdings.

Mergers initiated by privately owned banks are much more likely to add shareholder value given the absence of government influence

In contrast, the privately owned banks are much better placed in the whole M&A scheme, given the absence of government influence, their higher operational flexibility (e.g. in cost rationalisation), and the potential to increase market share in loans/deposits. Note that no single bank in Taiwan currently holds more than 10% of the loan/deposit market.

Specifically, we would highlight BSP as potentially the biggest winner should an acquisition go through. The bank's M&A strategy is to look for targets with strength in the small/medium enterprise segment (probably more in the IT-related sector) in order to diversify from its current high mix of mortgage lendings (57% of loan portfolio). Unlike CTCB and TIB, which benefit from their parent companies' business strengths and resources, BSP is constrained by its inflexible cost of fund structure (high proportion of fixed deposits) and limited business connections in the corporate area. BSP is also the highest capitalised bank in our Taiwan bank universe, such that any leveraging effect from an acquisition should help to enhance ROE.

Figure 2: Taiwan Banks Valuation Summary

Reuters Code	CHB 2801.TW	FCB 2802.TW	HNB 2803.TW	CTCB 2815.TW	UWCCB 2826.TW	BSP* 2839.TW	TIB# 2844.TW	SECTOR
Recomm. 12-month	UP	MP	UP	B	MP	B	B	NEUTRAL
Share Price (NT\$) (Jan15)	35.30	44.70	43.40	38.60	39.10	22.40	22.40	22,850
Market Cap. (US\$m)	3,358	4,722	4,449	4,234	3,835	1,145	1,107	
Free Float (%)	68.3	68.5	70.7	60.0	50.0	74.7	60.0	3,849
Avg. daily volume (NT\$m)	632.4	840.1	688.2	771.9	655.1	183.1	78.5	124.2
Avg. daily volume (US\$m)	20.4	27.1	22.2	24.9	21.1	5.9	2.5	
Actual NPLs Sep-1999 (% loans)	10.2	7.3	7.0	3.0	3.2	1.0	2.6	
Forecast Peak NPLs (%)	10.8	7.3	7.3	3.0	3.4	1.0	2.6	
LLR/Loans Sep-1999 (%)	1.33	1.30	1.12	1.75	0.83	0.88	0.94	
L1R/NPL Sep-1999 (%)	13.1	17.8	16.0	58.2	25.9	87.8	36.3	
Fiscal Year-End	Dec	Dec	Dec	Dec	Dec	Dec	Dec	
Net Profit (NT\$m)								
1998	3,936	7,223	7,049	4,151	6,040	1,005	1,485	30,889
1999F	4,230	6,568	5,435	4,861	6,494	1,796	1,764	31,149
2000F	3,657	5,478	5,127	6,887	6,564	2,162	2,476	32,350
2001F	4,043	7,009	5,395	8,749	7,306	2,848	3,075	38,424
2002F	5,528	7,654	6,770	10,665	8,279	3,291	3,712	45,900
Fully-Diluted EPS (NT\$)								
1998	1.42	2.35	2.34	1.30	2.14	0.68	1.11	
1999F	1.43	2.01	1.71	1.43	2.14	1.13	1.15	1.64
2000F	1.24	1.67	1.61	2.03	2.16	1.28	1.56	1.69
2001F	1.37	2.14	1.70	2.57	2.40	1.58	1.75	1.98
2002F	1.87	2.34	2.13	3.14	2.72	1.82	2.11	2.37
Fully-Diluted EPS Growth (%)								
1998	(39.1)	2.9	(13.9)	(21.1)	(17.3)	(26.7)	7.4	
1999F	0.7	(14.8)	(26.8)	10.2	(0.4)	67.4	3.3	(5.9)
2000F	(13.6)	(16.6)	(5.7)	41.7	1.1	12.6	35.4	3.0
2001F	(10.6)	28.0	5.2	27.0	11.3	23.7	12.3	17.1
2002F	36.7	9.2	25.5	21.9	13.3	15.6	20.7	19.5
Fully-Diluted PER (X)								
1998	24.9	19.0	18.5	29.8	18.2	33.1	20.1	
1999F	24.6	22.3	25.4	27.0	18.3	19.8	19.5	23.1
2000F	28.5	26.7	26.9	19.1	18.1	17.6	14.4	22.3
2001F	25.8	20.9	25.6	15.0	16.3	14.2	12.8	18.8
2002F	18.8	19.1	20.4	12.3	14.4	12.3	10.6	15.7
ROA (%)								
1998	0.41	0.68	0.71	0.74	1.15	0.55	0.71	
1999F	0.40	0.56	0.50	0.80	1.12	0.89	0.74	0.63
2000F	0.32	0.43	0.45	1.01	1.04	0.96	0.96	0.60
2001F	0.33	0.52	0.44	1.10	1.05	1.09	1.07	0.66
2002F	0.42	0.54	0.51	1.17	1.06	1.09	1.14	0.72
ROE (%)								
1998	7.5	11.7	11.9	10.1	13.1	5.7	9.7	
1999F	6.4	8.4	7.5	9.7	11.3	8.9	9.5	8.6
2000F	5.3	6.7	6.7	12.3	11.2	8.9	10.9	8.3
2001F	5.7	8.1	6.8	13.7	11.8	9.8	11.2	9.2
2002F	7.5	8.4	8.1	14.5	12.5	10.2	12.1	10.2
Dividend Yield (%)								
1998	2.8	2.3	2.3	-	-	-	-	
1999F	1.4	1.6	1.4	-	-	-	-	
2000F	1.2	1.3	1.3	-	3.1	-	-	0.3
2001F	1.4	1.7	1.4	-	3.1	-	-	0.4
2002F	1.9	1.8	1.7	-	3.1	-	-	0.5
Book Value Dec-1999F (NT\$)	22.81	24.56	23.45	15.48	18.80	13.14	12.57	
P/BV (X)	1.55	1.82	1.85	2.49	2.08	1.71	1.78	1.93
CAR Dec-1999F (%)	9.6	10.6	9.9	9.3	12.7	12.4	9.3	

*Year 2000 EPS factored in a US\$150m GDR Issue (NT\$4,500m) by mid-2000
 #Year 2000 EPS factored in a US\$150m GDR issue (NT\$4,500m) by 3Q-2000

Taiwan
Banks

Deutsche Bank



January 2000

Bank SinoPac

Growing Outside Of Mortgages

Initiating coverage

BUY

Price (26 Jan 2000)

NT\$22.40

Ticker

2839.TW (Reuters)**2839 TT (Bloomberg)**

Y/E 31 Dec	Net Profit (NT\$m)	EPS (FD) (NT\$m)	EPS Growth (%)	P/E (x)	ROE (%)	P/B (x)	Yield (%)
1998	1,005	0.68	(26.7)	33.1	5.7	1.83	-
1999F	1,796	1.13	+67.4	19.8	8.9	1.71	-
2000F	2,162	1.28	+12.6	17.6	8.9	1.46	-
2001F	2,848	1.58	+23.7	14.2	9.8	1.32	-

Source: Deutsche Bank Research Estimates, Company Information

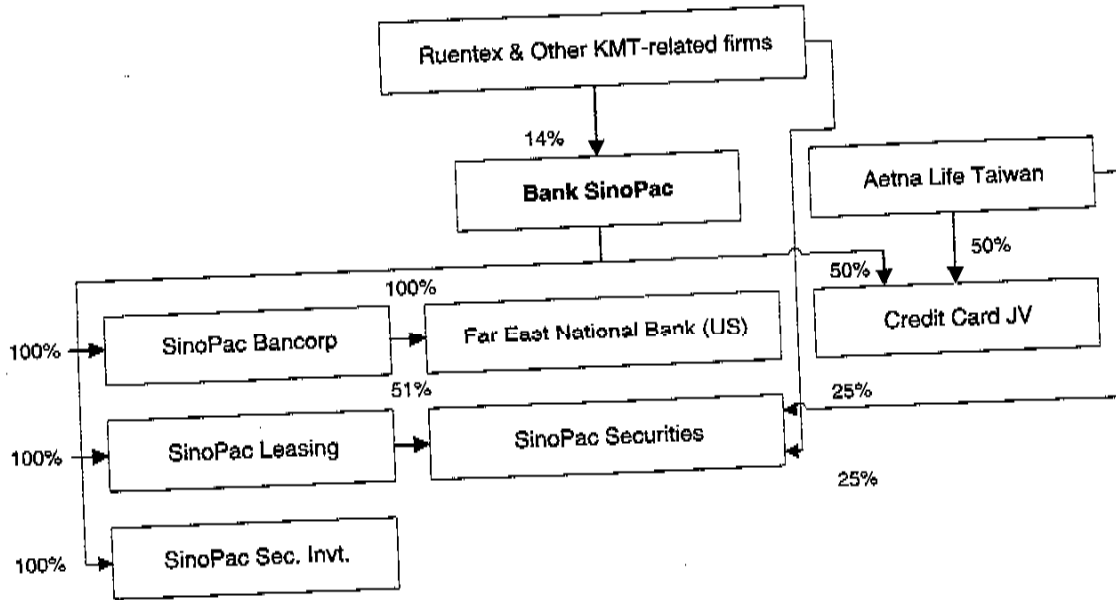
Assume GDR issue of US\$150m by mid-2000, or an equivalent 15% capital raising exercise

Shares Outstanding (m):	1,585	Market Capitalisation (US\$m):	1,145
Est. 3 Year EPS Growth (%):	32.4	Local Index:	9,581.96
Daily Volume (US\$m):	5.9	52-week High/Low (HK\$):	23.90/9.80

BSP is taking proactive steps to reduce its overreliance on residential mortgages (57% of loan portfolio) in view of the declining return in this sector. The launch of the Money Management Account (MMA) this month and the credit card JV with Aetna Life Taiwan in 1Q00 should help lower its cost of funds and improve its position in the lucrative credit card market. We view BSP as a potential winner in the industry's consolidation, given its excess capitalisation and small market share. Our 12-month target price is NT\$25.80 based on year 2001 P/B of 1.69x, or a 15% upside potential.

- **The credit card JV with Aetna Life in 1Q2000.** The tie-up should increase BSP's access to Aetna Life Taiwan's >1m policyholder base. The objective is to grow the number of credit cards issued, from the current combined 0.4m (0.3m from BSP) to 1m within two years. This should help underpin rising interest margins. Aetna Life is one of the top five life insurers in Taiwan by new business premium.
- **Launch of integrated Money Management Account (MMA) early this month.** This account combines home mortgages, forex deposits, credit card, mutual fund and securities trading services into one. Via MMA, BSP hopes to reduce its cost of funds by increasing the proportion of current account deposits (currently 6% of total).
- **Small/medium enterprise business.** We estimate the receivable factoring business (first Taiwanese bank to start, in 1998) to raise its fee income by 10-12% per annum. Earnings quality is high given the focus on technology companies. Via factoring, BSP hopes to increase its penetration in this lower-risk corporate middle market.
- **Clear acquisition strategy.** Negotiations regarding acquisitions are ongoing. With the objective of achieving a business mix of 50 (corporate):50 (retail) from the current 33:67, BSP's targets are banks that have established strength in the middle market business.

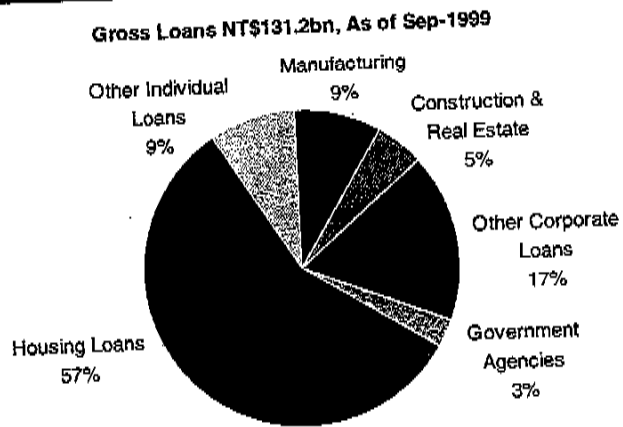
Figure 64: Bank SinoPac - Group Structure



NB Not all subsidiaries/associates are shown

Source: Deutsche Bank Research Estimates, Company Information

Figure 65: Bank SinoPac - Segmental Loan Breakdown - By Industry



Source: Deutsche Bank Research Estimates, Company Information

Figure 66: Bank SinoPac - Financial Summary

BANK SINOPAC (2839.TW)		NT\$22.40		BUY	
Current Share Price@26/01/2000					
Year end 31 December	1997	1998	1998F	2000F	2001F
SHARE RATIOS & VALUATION					
Book Value Per Share (NT\$)	11.33	12.29	13.14	15.35	16.99
Adj Book Value Per Share (NT\$)	na	na	na	na	na
Price/Book (x)	1.98	1.82	1.71	1.46	1.82
Price/Adj. Book (x)	na	na	na	na	na
ROAA (%)	0.8	0.8	0.9	1.0	1.1
ROAE (%)	8.8	5.7	8.9	8.9	9.8
ROCE (%)	8.8	5.7	8.9	8.9	9.8
ROAA (recurrent) (%)	0.8	0.8	0.9	1.0	1.1
ROAE (recurrent) (%)	8.8	5.7	8.9	8.9	9.8
EPS Growth (%)	26.6	(26.7)	67.4	12.6	23.7
EPS Growth (recurrent) (%)	26.6	(26.7)	67.4	12.6	23.7
PER (FD) (x)	24.3	33.1	19.8	17.6	14.2
PER (recurrent) (x)	24.3	33.1	19.8	17.6	14.2
TW Market PER (recurrent) (x)	23.3	35.2	27.6	24.3	16.7
TW Market PER (FD) (x)	23.3	35.2	27.6	24.3	16.7
PER Relative (FD) (x)	1.0	0.9	0.7	0.7	0.9
Gross Dividend (NT\$m)	0.00	0.00	0.00	0.00	0.00
Gross DPS (NT\$)	0.00	0.00	0.00	0.00	0.00
Dividend Yield (%)					
Issued shares (m)	1,386	1,585	1,585	1,805	1,905
Weighted avg shares (m)	1,338	1,485	1,585	1,695	1,905
Fully diluted shares (m)	1,339	1,485	1,585	1,696	1,905
Preference Share Capital (NT\$m)	0	0	0	0	0
PROFIT & LOSS (NT\$m)					
Average Earning Assets	130,627	162,072	176,623	203,120	234,455
Net Interest Margin (%)	2.70	2.37	2.14	2.53	2.64
Interest Income	10,744	13,664	12,964	14,550	17,029
Interest Expense	7,221	9,721	9,183	9,403	10,847
Net Interest Income	3,523	3,843	3,781	5,148	6,182
Loan Loss Provision Expense	325	288	799	332	207
Net Interest Income After LLPE	3,199	3,555	2,983	4,816	5,976
Noninterest Income					
Fees and Commissions	322	432	508	690	792
Dividend Income	0	0	0	0	0
Forex Income	230	71	71	85	98
Rental Income	0	0	0	0	0
Other noninterest income	219	(11)	1,422	309	305
Total Noninterest Income	770	492	2,001	1,064	1,196
Noninterest Expense					
Salaries & Benefits	0	0	0	0	0
Net Occupancy & Equipment	0	0	0	0	0
Other Expenses	2,425	2,737	2,942	3,069	3,476
Total Noninterest Expense	2,425	2,737	2,942	3,069	3,476
Pre-tax Operating Profit	1,544	1,311	2,041	2,780	3,695
Associate Profit/Loss	0	0	0	0	0
Securities & Fixed Asset Sales	0	0	0	0	0
Exceptional Gain/Loss	0	0	0	0	0
Profit Before Tax	1,544	1,311	2,041	2,780	3,696
Effective Tax	307	305	245	618	847
Minority Interests	0	0	0	0	0
Preference dividends	0	0	0	0	0
Net Profit	1,237	1,006	1,796	2,162	2,848
Recurrent Net Profit (FD)	1,237	1,006	1,796	2,162	2,848
EPS - weighted avg (NT\$)	0.92	0.68	1.13	1.28	1.58
Recurrent EPS (FD) (NT\$)	0.92	0.68	1.13	1.28	1.58
SELECTIVE BALANCE SHEET DATA (NT\$m)					
Total Assets	171,740	191,603	210,790	240,588	280,423
Total Liquid Assets	40,089	51,317	58,517	66,327	68,718
Total Loans to Customers (Gross)	114,270	120,859	134,153	154,277	178,649
Total Earning Assets	153,216	170,928	189,344	209,444	246,374
Total Customer Deposits	129,738	154,568	167,368	187,452	209,946
Certificates of Deposits	8,410	6,107	0	0	0
Other Interest Bearing Lial	15,064	10,449	9,076	13,213	10,631
Period-end Shareholders' Equity	15,885	18,479	20,814	27,701	30,649
Avg Loans	101,116	117,585	130,302	144,215	168,463
Avg Earning Assets	130,627	162,072	176,523	203,120	234,455
Avg Total Assets	146,810	181,671	201,083	225,689	280,506
Avg Deposits	114,143	142,147	165,327	177,410	198,699
Avg Shareholders' Equity	14,028	17,582	20,146	24,268	29,123
Avg Equity / Avg Assets (%)	9.6	9.7	10.0	10.7	11.2
Avg Earning Assets / Avg Assets (%)	89.0	89.2	87.8	90.0	90.0
Avg Loans / Avg Earning Assets (%)	77.4	72.5	73.8	71.0	71.0

Note: All ratios are based on the foreign share price

12M High/Low:	NT\$23.50/NT\$9.80
Market cap (US\$m)	1,146
Free Float (%) :	75.00
Major Shareholder :	Government (14%)
Performance (%)	
Bank SinoPac	1m: 23.8, 3m: 21.1, 12m: 105.4
TWSE	16.6, 24.4, 56.7
Relative to TWSE	8.2, (2.7), 31.1

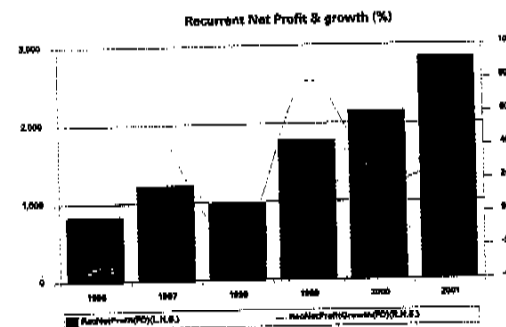
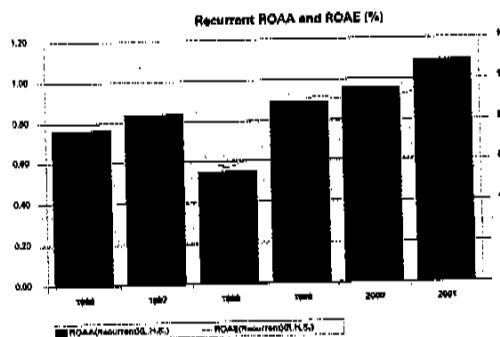
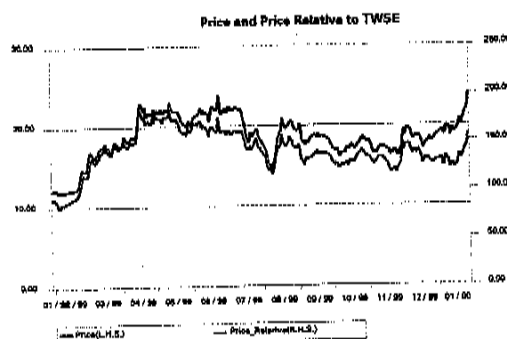
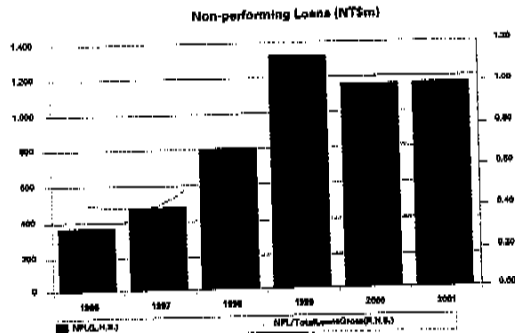


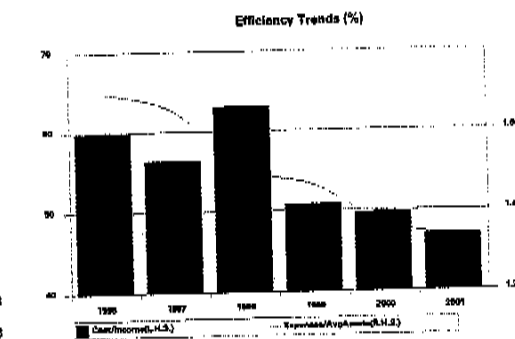
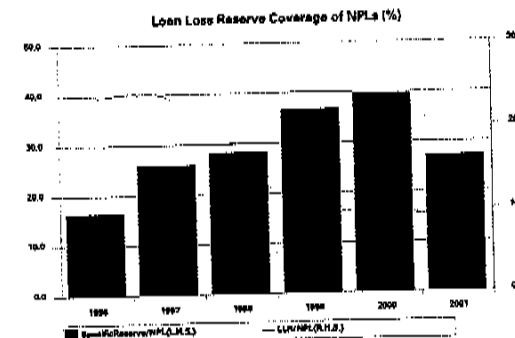
Figure 66: Bank SinoPac - Financial Summary (Cont'd)

BANK SINOPAC (2839.TW)

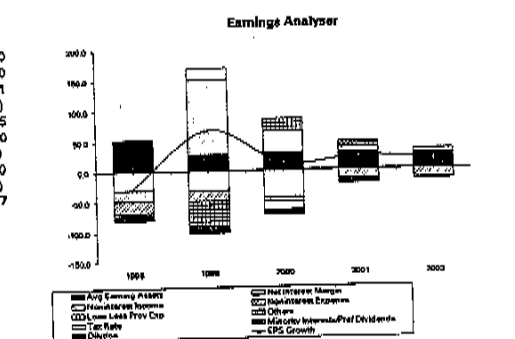
	1997	1998	1999F	2000F	2001F
ASSET QUALITY					
Non performing Loans (NT\$m)	484	806	1,327	1,158	1,166
Specific Reserve (NT\$m)	126	228	488	459	318
General Reserve (NT\$m)	1,017	1,020	840	700	873
Loan Loss Reserve (NT\$m)	1,143	1,248	1,327	1,158	991
Net Charge-offs (NT\$m)	61	182	720	500	375
NPL/Total Loans (Gross) (%)	0.42	0.67	0.89	0.76	0.55
Specific Reserve / NPLs (%)	28.00	28.35	36.75	39.62	27.28
General Reserve / NPLs (%)	210.25	126.61	83.25	80.38	57.74
LLR / Non-performing Loans (%)	236.26	154.96	100.00	100.00	85.00
LLR / Total Loans (Gross) (%)	1.00	1.03	0.99	0.75	0.55
Net Charge-Offs / Avg Loans (%)	0.08	0.15	0.55	0.35	0.23
LL Prov. Expense / Avg Loans (%)	0.32	0.74	0.81	0.23	0.12
LL Prov. Expense / Net Int Income (%)	9.21	7.48	21.12	6.45	3.34



	1997	1998	1999F	2000F	2001F
PERFORMANCE RATIOS					
Growth (%)					
Net Interest Income	29.5	9.1	(1.6)	36.1	20.1
Noninterest Income	94.2	(36.1)	308.4	(47.3)	13.4
Noninterest Expense	29.8	12.9	7.6	5.0	12.5
Recurrent Net Profit After Tax (FD)	45.8	(18.7)	78.7	20.4	31.7
Net Profit	45.8	(18.7)	78.7	20.4	31.7
Balance Sheet					
Total Loans to Customers (Gross)	29.8	6.8	11.0	15.0	15.8
Total Deposits	40.2	16.3	4.2	12.0	12.0
Avg Earning Assets	28.5	24.1	8.9	15.1	15.4
Total Interest-bearing Liabilities	40.7	11.7	2.5	14.4	9.9
Risk-weighted Assets	54.0	13.7	10.5	15.0	15.8
Revenue Breakdown (%)					
Net Interest Income/Operating Income	82.1	88.6	85.4	83.0	83.8
Fee-based Income/Operating Income	17.9	11.4	34.8	17.0	16.2
Forex Income/Operating Income	5.4	1.6	1.2	1.4	1.3
Efficiency (%)					
Cost/Income	56.5	63.1	50.9	49.8	47.1
Expenses/Avg Assets	1.7	1.5	1.5	1.4	1.3
Operational Metrics					
Revenue Per Employee (NT\$m)	4.83	3.78	4.30	4.29	4.88
Expenses Per Employee (NT\$m)	2.61	2.38	2.19	2.14	2.29
Revenue Per Branch (NT\$m)	189.7	170.0	186.7	186.4	222.8
Expenses Per Branch (NT\$m)	112.8	107.3	100.1	97.9	104.9
Net Profit Per Branch (NT\$m)	53.8	35.9	58.3	66.9	83.9
Net Interest Margin Analysis (%)					
Int. Income/Avg Earning Assets	8.23	8.37	7.34	7.16	7.28
Int. Expense/Avg Int. Bearing Liab.	5.69	6.28	6.26	6.00	5.15
Net Interest Spread	2.53	2.09	2.08	2.16	2.11
Contribution From Free Funds	0.17	0.28	0.05	0.37	0.52
Net Interest Margin	2.70	2.37	2.14	2.53	2.64
Liquidity (%)					
Avg Loans/Avg Earning Assets	77.4	72.5	73.8	71.0	71.0
Avg Liquid Assets/Avg Earning Assets	23.4	28.2	29.6	27.8	28.7
Avg Loans/Avg Deposits	88.6	82.7	78.8	81.3	82.8
Avg Loans/Avg Deposits & Equity	78.9	73.6	70.3	71.5	73.1
Period-end Loans/Deposits	88.1	78.2	80.2	82.3	85.1
Capital Information					
Tier 1 Ratio (%)	12.0	13.4	13.0	15.0	14.3
Tier 2 Ratio (%)	1.3	(0.2)	(0.5)	(0.5)	(0.5)
Total CAR (%)	13.3	13.2	12.5	14.5	13.8
Internally-generated Capital Ratio (%)	8.8	5.7	8.9	8.9	8.8
Dividend Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0



	1997	1998	1999F	2000F	2001F
EARNINGS ANALYSER (Contribution to EPS growth %)					
Avg Earning Assets	74.2	61.0	26.7	29.0	29.0
Net Interest Margin	2.3	(30.4)	(31.9)	34.7	8.0
Noninterest Income	35.7	(17.7)	123.3	(44.3)	5.1
Noninterest Expense	(53.1)	(19.9)	(16.9)	(6.9)	(13.8)
Loan Loss Prov Exp	(10.6)	2.4	(42.0)	21.9	4.5
Others	0.0	0.0	0.0	0.0	0.0
Tax Rate	(2.6)	(3.9)	18.9	(13.9)	(1.1)
Minority Interest/Pref Dividends	0.0	0.0	0.0	0.0	0.0
Dilution	(19.1)	(6.0)	(11.3)	(7.8)	(8.0)
EPS Growth	26.8	(26.7)	67.4	12.6	23.7



Taiwan
Banks

Deutsche Bank



January 2000

Taishin International Bank

Our Top Pick

Initiating coverage

BUY

Price (26 Jan 2000)

NT\$22.40

Ticker

2844.TW (Reuters)**2844.TT** (Bloomberg)

Y/E 31 Dec	Net Profit (NT\$m)	EPS (FD) (NT\$m)	EPS Growth (%)	P/E (x)	ROE (%)	P/B (x)	Yield (%)
1998	1,485	1.11	7.4	20.1	9.7	1.69	-
1999F	1,764	1.15	3.3	19.5	9.5	1.78	-
2000F	2,476	1.56	35.4	14.4	10.9	1.51	0.4
2001F	3,075	1.75	12.3	12.8	11.2	1.36	0.4

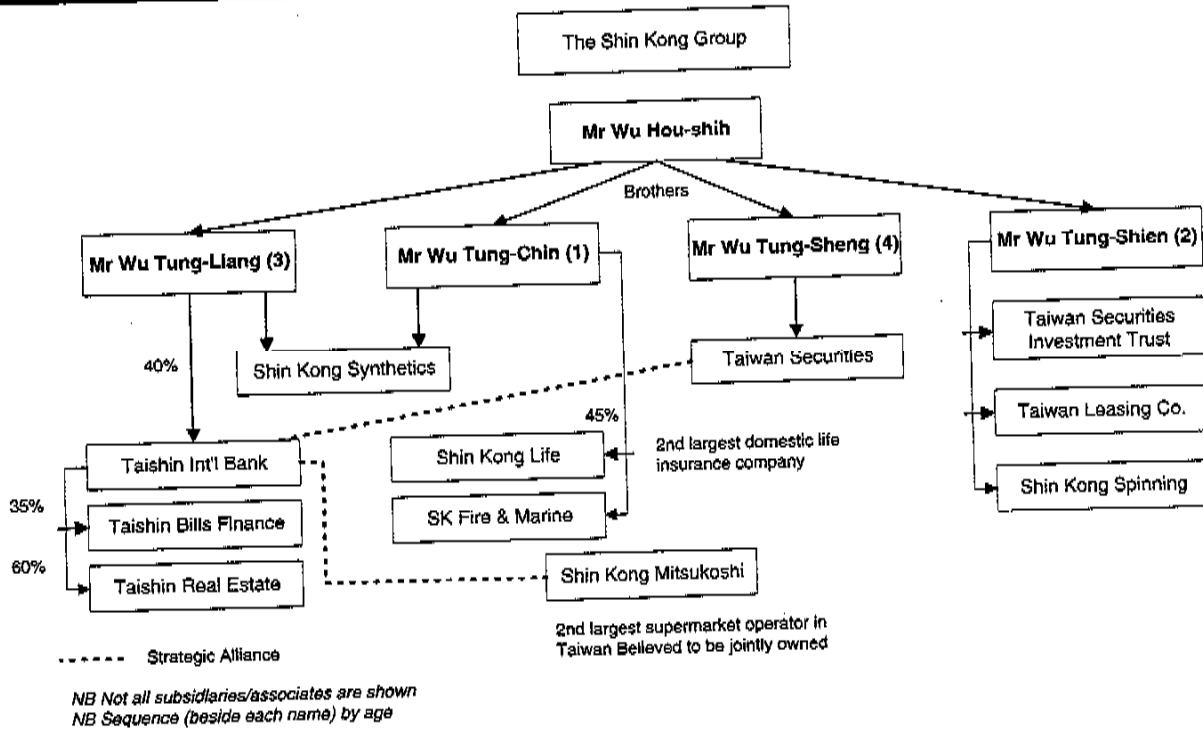
Source: Deutsche Bank Research Estimates, Company Information
Assume GDR issue of US\$150m by 3Q-2000, or an equivalent 15% capital raising exercise

Shares Outstanding (m):	1,532	Market Capitalisation (US\$m):	1,107
Est. 3 Year EPS Growth (%):	16.4	Local Index:	9,581.96
Daily Volume (US\$m):	2.5	52-week High/Low (HK\$):	23.90/10.10

TIB has the highest consumer banking focus (constitutes 67% of its non-bank loan portfolio) among the banks covered. Management has been progressive in its corporate strategy, as reflected by its focused strategy in growing the highly profitable credit card business, an acquisition in 1998, tie-ups with affiliates to increase customer penetration, and being one of the forerunners in Internet/mobile phone banking. Our 12-month target for TIB is NT\$29.40 based on 1.98x year 2001 P/B, or a 31% upside potential. TIB is our top pick in the Taiwan bank sector.

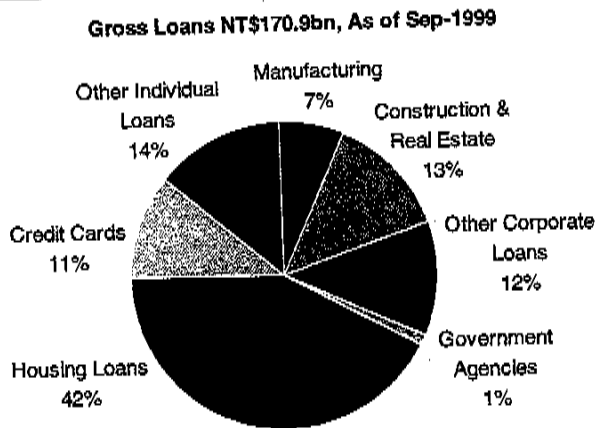
- **Development in Internet/mobile phone banking:** The MOF has recently granted TIB, along with Chinatrust and Far Eastern Bank, the permission to operate mobile phone banking. As part of the Shin Kong group, TIB capitalising on the customer base of its affiliates via JVs in the areas of retail, life insurance and stockbroking.
- **Credit card and consumer banking:** As the second-largest credit card issuer in Taiwan (8% market share with just over 1m cardholders and very close ties with Citibank) and having achieved economies of scale, TIB aims to continue focusing on this highly profitable business. Its target is to grow its membership base by 50% this year.
- **Small/medium enterprise banking.** 1999 was the year that TIB consolidated its branch operation by separating corporate/individual banking (including credit administration functions) and setting up a direct sales force to better market business by product line. TIB aims to utilise this marketing effort to enhance its position in SME lending.
- **Lower acquisition risk than peers:** We view the acquisition of Tainan First Credit Co-operative in January 1998 as value-enhancing, as it helped lower TIB's cost of funds and widen its branch network by 35%—traditionally the "new banks"'s operating disadvantage. We are not aware of further acquisition possibilities at the moment.

Figure 67: Taishin International Bank - The Shin Kong Group



Source: Deutsche Bank Research Estimates, Press

Figure 68: Taishin International Bank - Segmental Loan Breakdown - By Industry



Source: Deutsche Bank Research Estimates, Company Information

Figure 69: Taishin International Bank - Financial Summary

TAISHIN INTERNATIONAL BANK (2844.TW)
Current Share Price@26/01/2000

NT\$22.40

BUY

Year end 31 December	1997	1998	1999F	2000F	2001F
SHARE RATIOS & VALUATION					
Book Value Per Share (NT\$)	9.74	13.29	12.57	14.88	16.52
Adj Book Value Per Share (NT\$)	na	na	na	na	na
Price/Book (x)	2.30	1.69	1.78	1.51	1.38
Price/Adj. Book (x)	na	na	na	na	na
ROAA (%)	0.9	0.7	0.7	1.0	1.1
ROAE (%)	11.2	9.7	9.5	10.9	11.2
ROCE (%)	11.2	9.7	9.5	10.9	11.2
ROAA (recurrent) (%)	0.9	0.7	0.7	1.0	1.1
ROAE (recurrent) (%)	11.2	9.7	9.5	10.9	11.2
EPS Growth (%)	28.2	7.4	3.3	35.4	12.3
EPS Growth (recurrent) (%)	38.2	7.4	3.3	35.4	12.3
PER (FD) (x)	21.6	20.1	19.3	14.4	12.8
PER (recurrent) (x)	21.6	20.1	19.5	14.4	12.8
TW Market PER (recurrent) (x)	23.3	35.2	27.6	24.3	16.7
TW Market PER (FD) (x)	23.3	36.2	27.8	24.3	16.7
PER Relative (FD) (x)	0.9	0.6	0.7	0.6	0.8
Gross Dividend (NT\$m)	127	0	0	124	154
Gross DPS (NT\$)	0.10	0.00	0.00	0.08	0.09
Dividend Yield (%)	0.43	0.00	0.00	0.35	0.39
Issued shares (m)	1,332	1,332	1,532	1,757	1,757
Weighted avg shares (m)	1,332	1,332	1,532	1,598	1,757
Fully diluted shares (m)	1,332	1,332	1,532	1,588	1,767
Preference Share Capital (NT\$m)	0	0	0	0	0
PROFIT & LOSS (NT\$m)					
Average Earning Assets	137,890	131,242	218,578	237,854	266,169
Net Interest Margin (%)	3.18	3.10	3.77	3.98	3.97
Interest Income	11,758	17,724	19,321	20,628	23,610
Interest Expense	7,360	11,799	11,075	11,288	13,038
Net Interest Income	4,397	5,925	8,246	9,340	10,572
Loan Loss Provision Expense	864	817	2,780	2,186	1,790
Net Interest Income After LLPE	3,533	5,108	5,466	7,154	8,782
Noninterest Income					
Fees and Commissions	769	886	876	1,086	1,261
Dividend Income	0	0	0	0	0
Forex Income	220	73	36	38	40
Rental Income	0	0	0	0	0
Other noninterest income	200	128	613	331	218
Total Noninterest Income	1,179	1,087	1,524	1,455	1,519
Noninterest Expense					
Salaries & Benefits	0	0	0	0	0
Net Occupancy & Equipment	0	0	0	0	0
Other Expenses	3,091	4,385	4,854	5,461	6,280
Total Noninterest Expense	3,091	4,385	4,854	5,461	6,280
Pre-tax Operating Profit	1,621	1,811	2,236	3,191	4,027
Associate Profit/Loss	0	0	0	0	0
Securities & Fixed Asset Sales	0	0	0	0	0
Exceptional Gain/Loss	0	0	0	0	0
Profit Before Tax	1,621	1,811	2,236	3,191	4,027
Effective Tax	238	326	472	715	952
Minority interests	0	0	0	0	0
Preference dividends	0	0	0	0	0
Net Profit	1,383	1,485	1,764	2,476	3,075
Recurrent Net Profit (FD)	1,382	1,485	1,764	2,476	3,075
EPS - weighted avg (NT\$)	1.04	1.11	1.16	1.56	1.75
Recurrent EPS (FD) (NT\$)	1.04	1.11	1.16	1.56	1.75
SELECTIVE BALANCE SHEET DATA (NT\$m)					
Total Assets	186,728	235,621	241,489	278,565	296,822
Total Liquid Assets	35,648	48,930	41,992	56,252	46,781
Total Loans to Customers (Gross)	133,244	167,513	181,361	213,477	249,657
Total Earning Assets	167,859	214,828	221,492	267,742	294,894
Total Customer Deposits	148,084	197,135	197,315	220,983	243,092
Certificates of Deposit	0	0	0	0	0
Other Interest Bearing Liab	23,608	19,521	24,791	21,283	23,766
Period-end Shareholders' Equity	12,878	17,700	19,252	25,104	29,028
Avg Loans	112,539	150,379	174,833	197,419	231,067
Avg Earning Assets	137,890	131,242	218,578	237,854	266,169
Avg Total Assets	153,181	210,624	241,189	288,537	286,203
Avg Deposits	119,809	172,909	196,621	209,154	232,042
Avg Shareholders' Equity	12,350	15,339	18,476	22,878	27,565
Avg Equity / Avg Assets (%)	8.1	7.3	7.7	8.0	9.6
Avg Earning Assets / Avg Assets (%)	90.0	90.8	90.6	92.0	93.0
Avg Loans / Avg Earning Assets (%)	81.7	78.6	80.0	83.0	87.0

Note: All ratios are based on the foreign share price

12M High/Low:	NT\$23.80/NT\$10.09		
Market cap (US\$m)	1,107		
Free Float (%) :	60.00		
Major Shareholder :	Wu Family (40%)		
Performance (%)			
	1m	3m	12m
Taishin International Bank	25.1	16.6	117.3
TWSE	16.6	24.4	66.7
Relative to TWSE	7.4	(7.2)	39.1

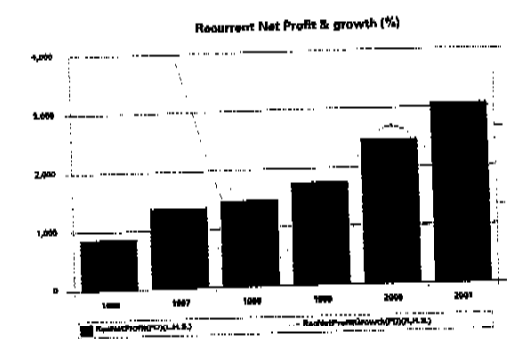
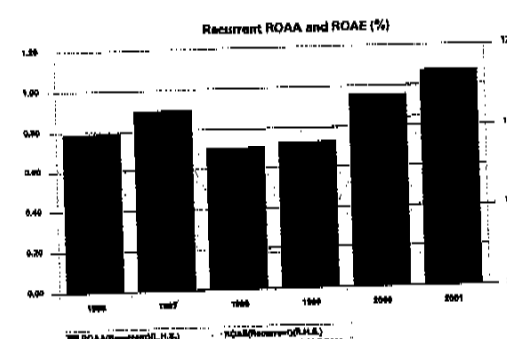
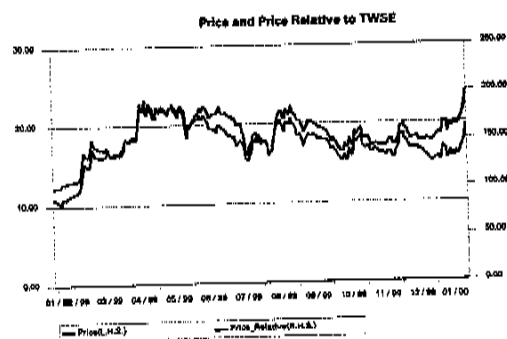


Figure 69: Taishin International Bank - Financial Summary (Cont'd)

TAISHIN INTERNATIONAL BANK (2844.TW)

	1997	1998	1999F	2000F	2001F
ASSET QUALITY					
Non performing Loans (NT\$m)	2,408	3,169	4,272	3,311	2,574
Specific Reserve (NT\$m)	618	714	868	895	345
General Reserve (NT\$m)	815	908	995	1,091	1,200
Loan Loss Reserve (NT\$m)	1,233	1,618	1,861	1,866	1,544
Net Charge-offs (NT\$m)	512	492	2,537	3,023	2,232
NPL/Total Loans (Gross) (%)	1.81	1.69	2.35	1.55	1.03
Specific Reserve / NPLs (%)	25.98	22.55	20.28	27.05	13.39
General Reserve / NPLs (%)	25.52	28.50	23.28	32.95	46.61
LLR / Non-performing Loans (%)	51.20	51.05	43.55	60.00	60.00
LLR / Total Loans (Gross) (%)	0.93	0.97	1.03	0.93	0.62
Net Charge-Offs / Avg Loans (%)	0.45	0.29	1.45	1.03	0.36
LL Prov. Expense / Avg Loans (%)	0.77	0.54	1.59	1.05	0.77
LL Prov. Expense / Net Int Income (%)	19.63	13.79	33.71	23.07	15.92
PERFORMANCE RATIOS					
Growth (%)					
Net Interest Income	36.2	34.8	39.2	13.3	13.2
Noninterest Income	119.9	(7.8)	49.4	(9.7)	3.8
Noninterest Expense	28.9	41.9	10.7	12.5	15.0
Recurrent Net Profit After Tax (FD)	57.8	7.4	18.8	40.4	24.2
Net Profit	67.9	7.4	18.8	40.4	24.2
Total Loans to Customers (Gross)	44.8	25.7	8.3	17.7	16.9
Total Deposits	61.5	32.1	0.1	12.0	10.0
Avg Earning Assets	34.9	38.7	14.3	8.8	11.9
Total Interest-bearing Liabilities	58.7	28.2	2.5	9.1	12.6
Risk-weighted Assets	44.8	25.7	33.2	17.7	18.9
Revenue Breakdown (%)					
Net Interest Income/Operating Income	78.9	84.5	83.5	86.4	87.4
Fee-based Income/Operating Income	21.1	15.5	16.5	13.6	12.6
Forx Income/Operating Income	3.9	1.0	0.4	0.4	0.3
Efficiency (%)					
Cost/Income	56.4	62.5	49.2	50.5	51.9
Expense/Avg Assets	2.0	2.1	2.0	2.1	2.2
Revenue Per Employee (NT\$m)	4.13	3.96	4.70	4.79	5.11
Expense Per Employee (NT\$m)	2.28	2.49	2.31	2.42	2.65
Revenue Per Branch (NT\$m)	150.7	177.5	235.0	239.6	255.5
Expense Per Branch (NT\$m)	83.5	111.0	115.6	121.1	132.6
Net Profit Per Branch (NT\$m)	35.5	37.1	40.1	53.6	63.4
Net Interest Margin Analysis (%)					
Int. Income/Avg Earning Assets	8.53	9.27	8.84	8.67	8.87
Int. Expense/Avg Int-Bearing Liab.	5.26	6.08	5.02	4.88	5.06
Net Interest Spread	3.27	3.19	3.82	3.81	3.81
Contribution From Fee Funds	(0.08)	(0.06)	(0.05)	0.12	0.16
Net Interest Margin	3.19	3.10	3.77	3.93	3.97
Liquidity (%)					
Avg Loans/Avg Earning Assets	81.7	78.6	80.0	83.0	87.0
Avg Liquid Assets/Avg Earning Assets	19.1	22.1	21.6	20.7	19.4
Avg Loans/Avg Deposits	94.0	87.1	88.0	94.4	99.8
Avg Loans/Avg Deposits & Equity	85.2	80.0	80.5	85.2	88.2
Period-end Loans/Deposits	90.0	85.0	91.9	96.6	102.7
Capital Information					
Tier 1 Ratio (%)	8.7	9.4	8.9	9.9	9.3
Tier 2 Ratio (%)	0.4	0.5	0.4	0.4	0.3
Total CAR (%)	9.1	9.9	9.3	10.2	9.6
Internally-generated Capital Ratio (%)	10.2	9.7	9.5	10.4	10.6
Dividend Payout Ratio (%)	9.2	0.0	0.0	5.0	5.0
EARNINGS ANALYSER (Contribution to EPS growth %)					
Avg Earning Assets	108.2	100.7	51.3	32.9	34.8
Net Interest Margin	0.8	(8.8)	75.6	15.6	3.7
Noninterest Income	81.2	(5.5)	29.4	(7.0)	1.7
Noninterest Expense	(66.0)	(77.7)	(25.7)	(28.9)	(25.5)
Loan Loss Prov Exp	(52.2)	2.8	(107.5)	27.7	11.3
Others	0.0	0.0	0.0	0.0	0.0
Tax Rate	5.9	(4.0)	(4.3)	(2.0)	(1.8)
Minority Interest/Pref dividends	0.0	0.0	0.0	0.0	0.0
Dilution	(19.7)	0.0	(15.5)	(5.0)	(11.3)
EPS Growth	38.2	7.4	3.3	36.4	12.3

