

**CATHAY UNITED BANK
(FORMERLY UNITED WORLD
CHINESE COMMERCIAL BANK)
FINANCIAL STATEMENTS WITH
REPORT OF INDEPENDENT AUDITORS
FOR THE SIX-MONTH PERIODS ENDED
JUNE 30, 2004 AND 2003**

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosures information that are required for Chinese-language reports under the Regulations Governing the Preparation of Financial Statements of Public Banks by the Securities and Futures Commission and Bureau of Monetary Administration of the Republic of China. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language financial statements shall prevail.

English Translation of Report Originally Issued in Chinese
REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Cathay United Bank

We have audited the accompanying balance sheets of Cathay United Bank (formerly United World Chinese Commercial Bank) as of June 30, 2004 and 2003, and the related statements of income, changes in shareholders' equity and cash flows for each of the six-month periods ended June 30, 2004 and 2003. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the financial statements based on our audits. We did not audit the financial statements of the certain equity-basis invested companies as of the six-month periods ended June 30, 2004 and 2003, these investment accounted for by the equity method amounted to NT\$1,764,923 thousand (US\$52,434 thousand) and NT\$2,068,850 thousand (US\$59,776 thousand) as of June 30, 2004 and 2003, respectively, and related investment income of NT\$78,539 thousand (US\$2,333 thousand) and NT\$173,757 thousand (US\$5,020 thousand) recognized for the six-month periods ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it related to the amounts included for such said investee, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of China and "Guidelines for Certified Public Accountants' Examination and Reporting on Financial Statements". Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, that financial statements referred to above present fairly, in all material respects, the financial position of Cathay United Bank as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the six-month then ended in conformity with the generally accepted accounting principles and "Regulations Governing the Preparation of Financial Statements of Public Banks" in the Republic of China.

As described in Note III to the financial statements, the Bank adopted the new "Regulations Governing the Preparation of Financial statements of Public Banks" to account for its bills transactions related to resell or repurchase agreement using the financing method.

We have also reviewed the translations of New Taiwan dollar financial statements as of June 30, 2004 and 2003 into U.S. dollars on the basis stated in Note II to the financial statements and in our opinion, the U.S. dollars statements have been properly translated on such basis. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been or could in the future be, converted into U.S. dollars at this or any other exchange rate.

DIWAN, ERNST & YOUNG
Taipei, Taiwan
The Republic of China
July 22, 2004

Notice to Readers

The accompanying financial statements are intended only to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practice to audit such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese
CATHAY UNITED BANK (FORMERLY UNITED WORLD CHINESE COMMERCIAL BANK)

BALANCE SHEETS
JUNE 30, 2004 AND 2003
(Expressed in thousands of dollars)

ASSETS	NOTES	June 30,2004		June 30,2003	
		NT\$	US\$	NT\$	US\$
Cash and cash equivalents	IV	\$17,501,055	\$519,936	\$15,311,329	\$442,395
Due from Central Bank and call loans to banks	IV, V and X	55,111,864	1,637,310	61,626,014	1,780,585
Securities purchased-net	II, IV, VI and X	187,377,554	5,566,772	131,631,437	3,803,278
Receivables-net	II, IV, V and X	62,603,712	1,859,885	19,742,769	570,435
Prepayments	IV and V	1,567,759	46,577	954,297	27,573
Bills and loans-net	II, IV, V and X	537,446,957	15,966,933	399,791,378	11,551,326
Long-term investments	II, IV,VI and X				
Equity method		4,848,604	144,046	5,918,510	171,006
Cost method		5,743,394	170,630	6,148,834	177,661
Others		28,375,691	843,009	400,000	11,557
Premises and equipment	II, V, VII and X				
Cost					
Land		14,931,817	443,607	14,438,364	417,173
Building		9,062,912	269,249	8,710,220	251,668
Furniture and fixtures		3,715,600	110,386	2,729,512	78,865
Transportation equipment		88,487	2,629	76,372	2,207
Miscellaneous equipment		3,817,788	113,422	2,557,352	73,890
Total Cost		31,616,604	939,293	28,511,820	823,803
Less:Accumulated depreciation		(6,793,162)	(201,817)	(5,642,006)	(163,017)
Construction in progress and procurement		721,054	21,422	383,528	11,082
Premises and Equipment-net		25,544,496	758,898	23,253,342	671,868
Other assets	II, IV and V	5,651,720	167,906	7,424,426	214,516
TOTAL ASSETS		\$931,772,806	\$27,681,902	\$672,202,336	\$19,422,200

The accompanying notes are an integral part of the financial statements.

English Translation of Financial Statements Originally Issued in Chinese
CATHAY UNITED BANK (FORMERLY UNITED WORLD CHINESE COMMERCIAL BANK)
BALANCE SHEETS
JUNE 30, 2004 AND 2003
(Expressed in thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	June 30,2004		June 30,2003	
		NT\$	US\$	NT\$	US\$
Due to Central Bank and commercial banks	IV and X	\$79,077,377	\$2,349,298	\$52,047,244	\$1,503,821
Payables	IV and V	16,143,949	479,618	10,778,071	311,415
Advances		1,131,148	33,605	949,498	27,434
Deposits and remittances	IV, V and X	690,108,960	20,502,346	515,734,120	14,901,304
Banker's debenture payable	IV and X	27,050,000	803,625	15,000,000	433,401
Banker's acceptances and funds borrowed	IV and X	2,361,784	70,166	1,657,652	47,895
Other liabilities	IV	41,136,476	1,222,118	18,537,350	535,607
TOTAL LIABILITIES		857,009,694	25,460,776	614,703,935	17,760,877
Capital stock	IV	43,182,407	1,282,900	39,715,627	1,147,519
Capital reserves	II and IV				
Additional paid-in capital		13,449,023	399,555	4,249,096	122,771
Others		14,051	417	846,502	24,458
Retained earnings					
Legal reserve		9,951,639	295,652	9,122,517	263,580
Unappropriated earnings		8,106,651	240,839	3,585,946	103,610
Unrealized losses on long-term investments	IV	(95,426)	(2,835)	(181,931)	(5,257)
Conversion adjustments	II	154,767	4,598	160,644	4,642
TOTAL SHAREHOLDERS' EQUITY		74,763,112	2,221,126	57,498,401	1,661,323
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$931,772,806	\$27,681,902	\$672,202,336	\$19,422,200

The accompanying notes are an integral part of the financial statements.

English Translation of Financial Statements Originally Issued in Chinese
CATHAY UNITED BANK (FORMERLY UNITED WORLD CHINESE COMMERCIAL BANK)
STATEMENTS OF INCOME
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2004 AND 2003
(Expressed in thousands of dollars, except per share amounts)

ITEMS	NOTES	January 1- June 30, 2004		January 1- June 30, 2003	
		NT\$	US\$	NT\$	US\$
OPERATING INCOME:					
Interest revenue	V	\$15,478,041	\$459,835	\$11,832,185	\$341,872
Commission and handling fees	V	3,140,412	93,298	1,248,302	36,068
Gains on sales of securities-net	II	319,198	9,483	260,977	7,540
Investment income-net	II and IV	319,460	9,491	424,507	12,266
Profit on exchange-net	II	221,774	6,588	97,293	2,811
Other operating income	V	3,561,564	105,810	1,667,764	48,187
Total operating income		23,040,449	684,505	15,531,028	448,744
OPERATING COST:					
Interest expense	V	3,853,583	114,485	3,415,586	98,688
Commissions and handling charges		475,198	14,118	152,412	4,404
Provisions for possible losses	II	3,916,752	116,362	3,482,180	100,611
Operating expenses	V	5,680,315	168,756	3,584,368	103,565
Other operating expenses		274,530	8,156	412,649	11,923
Total operating cost		14,200,378	421,877	11,047,195	319,191
NET OPERATING INCOME		8,840,071	262,628	4,483,833	129,553
NON-OPERATING INCOME:					
Gains on disposal of premises and equipment	V	1,167,313	34,680	1,243	36
Others		89,101	2,647	14,943	432
Total non-operating income		1,256,414	37,327	16,186	468
NON-OPERATING EXPENSE:					
Losses on disposal of premises and equipment	II	31,930	949	26,146	756
Others		60,904	1,809	24,927	720
Total non-operating expense		92,834	2,758	51,073	1,476
INCOME BEFORE INCOME TAX		10,003,651	297,197	4,448,946	128,545
INCOME TAX EXPENSES	II and IV	(1,897,000)	(56,358)	(863,000)	(24,935)
NET INCOME		\$8,106,651	\$240,839	\$3,585,946	\$103,610
EARNING PER SHARE (In Dollars)					
INCOME BEFORE INCOME TAX	IV	\$2.32	\$0.069	\$1.12	\$0.032
INCOME TAX EXPENSES		(0.44)	(0.013)	(0.22)	(0.006)
NET INCOME		\$1.88	\$0.056	\$0.90	\$0.026

The accompanying notes are an integral part of the financial statements.

English Translation of Financial Statements Originally Issued in Chinese
CATHAY UNITED BANK (FORMERLY UNITED WORLD CHINESE COMMERCIAL BANK)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2004
(Expressed in thousands of dollars)

ITEMS	Retained Earnings								Unrealized Loss on				Total	
	Capital Stock		Capital Reserve		Legal Reserve		Unappropriated Earnings		Investments		Conversion Adjustments		(NT\$)	(US\$)
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)		
Balance, January 1, 2004	\$43,182,407	\$1,282,900	\$13,461,820	\$399,935	\$9,122,517	\$271,020	\$2,763,742	\$82,107	\$(116,783)	\$(3,469)	\$170,503	\$5,065	\$68,584,206	\$2,037,558
Appropriation and distribution of 2003 earnings (Note IV):														
Legal reserve	-	-	-	-	829,122	24,632	(829,122)	(24,632)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	(1,934,620)	(57,475)	-	-	-	-	(1,934,620)	(57,475)
Net Income for the six-month period ended June 30, 2004	-	-	-	-	-	-	8,106,651	240,839	-	-	-	-	8,106,651	240,839
Conversion adjustments	-	-	-	-	-	-	-	-	-	-	(15,736)	(467)	(15,736)	(467)
Capital reserve of investee companies of which recognized by the equity method (Note IV)	-	-	1,254	37	-	-	-	-	-	-	-	-	1,254	37
Unrealized losses on investments of investee companies of which recognized by the equity method	-	-	-	-	-	-	-	-	21,357	634	-	-	21,357	634
Balance, June 30, 2004	\$43,182,407	\$1,282,900	\$13,463,074	\$399,972	\$9,951,639	\$295,652	\$8,106,651	\$240,839	\$(95,426)	\$(2,835)	\$154,767	\$4,598	\$74,763,112	\$2,221,126

The accompanying notes are an integral part of the financial statements.

English Translation of Financial Statements Originally Issued in Chinese
CATHAY UNITED BANK (FORMERLY UNITED WORLD CHINESE COMMERCIAL BANK)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2003
(Expressed in thousands of dollars)

ITEMS	Retained Earnings										Unrealized Loss on		Conversion Adjustments		Total	
	Capital Stock		Capital Reserve		Legal Reserve		Special Reserve		Unappropriated Earnings		Investments		Conversion Adjustments		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Balance, January 1, 2003	\$39,715,627	\$1,147,519	\$5,095,598	\$147,229	\$17,447,928	\$504,129	\$257,487	\$7,440	\$(8,582,898)	\$(247,989)	\$(79,482)	\$(2,297)	\$186,568	\$5,391	\$54,040,828	\$1,561,422
Reserve used to make up deficit (Note IV)																
Legal reserve	-	-	-	-	(8,325,411)	(240,549)	-	-	8,325,411	240,549	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(257,487)	(7,440)	257,487	7,440	-	-	-	-	-	-
Net Income for the six-month period ended June 30, 2003	-	-	-	-	-	-	-	-	3,585,946	103,610	-	-	-	-	3,585,946	103,610
Conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(25,924)	(749)	(25,924)	(749)
Unrealized losses on investments of investee companies of which recognized by the equity method	-	-	-	-	-	-	-	-	-	-	(102,449)	(2,960)	-	-	(102,449)	(2,960)
Balance, June 30, 2003	<u>\$39,715,627</u>	<u>\$1,147,519</u>	<u>\$5,095,598</u>	<u>\$147,229</u>	<u>\$9,122,517</u>	<u>\$263,580</u>	<u>\$-</u>	<u>\$-</u>	<u>\$3,585,946</u>	<u>\$103,610</u>	<u>\$(181,931)</u>	<u>\$(5,257)</u>	<u>\$160,644</u>	<u>\$4,642</u>	<u>\$57,498,401</u>	<u>\$1,661,323</u>

The accompanying notes are an integral part of the financial statements.

English Translation of Financial Statements Originally Issued in Chinese
CATHAY UNITED BANK (FORMERLY UNITED WORLD CHINESE COMMERCIAL BANK)
STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2004 AND 2003
(Expressed in thousands of dollars)

ITEMS	NOTES	January 1- June 30, 2004		January 1- June 30, 2003	
		NT\$	US\$	NT\$	US\$
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income		\$8,106,651	\$240,839	\$3,585,946	\$103,610
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	II	555,986	16,518	341,900	9,879
Provisions for possible losses	II	3,916,752	116,362	3,482,180	100,612
Premises and equipment transfer to expenses		-	-	145,702	4,210
Loss (gain) on disposal of premises and equipment and non-operating assets	II	(1,135,383)	(33,731)	24,903	720
Investment income recognized by the equity method	II and IV	(210,387)	(6,250)	(317,881)	(9,185)
Cash dividends received from investee companies of which recognized by the equity method		222,397	6,607	79,874	2,308
Gain on long-term investments		(63,412)	(1,884)	(92,854)	(2,683)
Adjustment of changes in exchange rates		12,054	358	(4,012)	(116)
Increase in receivables		(7,758,908)	(230,508)	(1,705,242)	(49,270)
Decrease in prepayments		224,273	6,663	459,039	13,263
(Increase) decrease in securities purchased for trading purposes		(533,771)	(15,858)	11,018,342	318,357
Increase (decrease) in payables		(3,200,760)	(95,091)	221,186	6,390
Decrease in advances		(545,651)	(16,211)	(76,227)	(2,202)
Increase in other liabilities		14,005,591	416,091	2,613,764	75,520
Net cash provided by operating activities		<u>13,595,432</u>	<u>403,905</u>	<u>19,776,620</u>	<u>571,413</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from disposal of premises and equipment and non-operating assets		1,756,344	52,179	28,308	818
Addition in premises and equipment		(565,465)	(16,799)	(521,875)	(15,079)
Increase in long-term investments in bond		(17,144,476)	(509,343)	-	-
Proceeds from disposal of investments		5,090,397	151,230	312,659	9,034
Increase in securities purchased for non-trading purposes		(8,409,407)	(249,834)	(20,106,837)	(580,954)
Net increase in bills and loans		(28,301,685)	(840,811)	(7,567,604)	(218,654)
Decrease in other assets		2,664,687	79,165	555,919	16,062
Increase in due from Central Bank and commercial banks		(807,490)	(23,990)	(2,575,372)	(74,411)
Increase in deferred charges		(70,564)	(2,096)	(39,178)	(1,132)
Net cash used in investing activities		<u>(45,787,659)</u>	<u>(1,360,299)</u>	<u>(29,913,980)</u>	<u>(864,316)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:					
Increase (decrease) in due to Central Bank and commercial banks		(1,915,316)	(56,902)	7,837,602	226,454
Increase in deposits and remittances		30,152,040	895,783	1,058,763	30,591
Increase in banker's debenture payable		2,000,000	59,418	5,000,000	144,467
Increase (decrease) in banker's acceptances and funds borrowed		608,260	18,071	(548,933)	(15,860)
Increase in guaranty and marginal deposits		118,425	3,518	107,412	3,104
Net cash provided by financing activities		<u>30,963,409</u>	<u>919,888</u>	<u>13,454,844</u>	<u>388,756</u>
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES		(25,018)	(744)	(20,054)	(579)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		<u>(1,253,836)</u>	<u>(37,250)</u>	<u>3,297,430</u>	<u>95,274</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		<u>18,754,891</u>	<u>557,186</u>	<u>12,013,899</u>	<u>347,122</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		<u>\$17,501,055</u>	<u>\$519,936</u>	<u>\$15,311,329</u>	<u>\$442,396</u>
SUPPLEMENT DISCLOSURES OF CASH FLOWS INFORMATION:					
Interest expenses paid		\$4,196,120	\$124,662	\$3,870,978	\$111,846
Income tax paid		\$146,181	\$4,343	\$131,353	\$3,795

The accompanying notes are an integral part of the financial statements.

English Translation of Financial Statements Originally Issued in Chinese

CATHAY UNITED BANK

(FORMERLY UNITED WORLD CHINESE COMMERCIAL BANK)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004 AND 2003

(In thousands of dollars unless others stated)

I. BUSINESS

Cathay United Bank (the “Bank”) was formerly United World Chinese Commercial Bank (UWCCB) and was enfranchised by the government of the Republic of China (“ROC”) in January 1975. The Bank started its operations on May 20, 1975 and engaged in the following operations: (1) All commercial banking operations authorized by the ROC Banking Law (“Banking Law”);(2) International banking business and related operations; (3) Trust and stockbrokerage business; (4) Off-shore banking business; (5) Other financial operations related to the promotion of investments of Overseas Chinese.

The Bank’s capital stock was traded on the Taiwan Stock Exchange (TSE) until December 18, 2002. Starting from December 18, 2002, the Bank became an unlisted wholly owned subsidiary of Cathay Financial Holding Co., Ltd. through a share swap transaction.

On April 21, 2003, under the Financial Institution Merger Law, the Bank decide to merger with formerly Cathay United Bank, which is the wholly-owned subsidiary of Cathay Financial Holding Company. After the merger on October 27, 2003, formerly Cathay United Bank is a merged bank (“Merged Bank”), while UWCCB is the surviving bank and change its name as Cathay United Bank.

As of June 30, 2004 and 2003, the Bank employed 3,673 and 2,517 employees, respectively.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in conformity with “Regulations Governing the Preparation of Financial Statements of Public Banks” and accounting principles generally accepted in the ROC. The significant accounting policies are summarized as follows:

English Translation of Financial Statements Originally Issued in Chinese

1. Basis for Preparation of Financial Statements

The accompanying financial statements include the accounts of the domestic head office branches and foreign branches and representative office. All inter-branch and inter-office account balances and transactions have been eliminated when the financial statements were prepared.

2. Foreign-currencies Transactions

Foreign-currencies transactions of the head office and domestic branches are recorded in the respective currencies in which they are transacted. At the end of each month, foreign currencies denominated assets and liabilities, other than those using forward contracts, are converted into New Taiwan Dollars (“NT dollars”) at the closing rates as at the balance-sheet date. Foreign currencies income and expenses are converted into NT dollars monthly based on the month-end exchange rates. The resulting exchange gains or losses are credited to or charged against current income.

Assets and liabilities of foreign branches, which are denominated in their respective local currencies, are converted into NT dollars using the method described in the preceding paragraph. Local currencies denominated income and expenses of such branches are translated at weighted-average rate. Gains or losses resulting from the translation are treated as “Conversion adjustments” account under shareholders’ equity.

3. Derivative Financial Instruments

Forward Contracts

Foreign currency - denominated asset and liability derived from trading related forward contracts are recorded by the contract forward rate on the trade date. Upon settlement, the realized gain or loss will be recognized as current gain or loss. At each financial reporting date, for all outstanding forward deals, the Bank will adjust the forward rate according to its remaining tenor and recognize the mark to market differences as gains or losses in the current income statement. On balance sheet date, the carrying amount of the receivables and payables from forward contracts netted, and difference of which should be reported as asset or liability.

Interest Rate Swaps

There is no physical exchange of notional principals for Interest rate swaps, only memo entries are made on the trade date. For interest rate swaps transactions undertaken for trading purposes, mark to market value is calculated from discounted present value of all of future cash flows using current market rate, and the difference with contract rate and is recognized as gain or loss as of the balance sheet date. For swaps entered into for hedging purposes, the interest settlement is recorded as interest revenue or expense.

Cross-currency Swaps

For cross-currency swap contracts undertaken for non-trading purposes, principals are recorded at the forward contract rate. The interest on each settlement is recorded as revenue or expense, which these transactions may involve the exchange of fixed-rate interest payment for the market floating-rate interest payment based on a notional principal amount.

Option

For option contracts only memo entries of notional principal are made on the contract date. Premiums paid or received are recorded as assets or liabilities, respectively. As of the balance sheet date, outstanding option contracts are marked to market and the resulting gains and losses are recognize in current income statement. Gains or losses on exercise of options are recognized in current income statement.

Forward Rate Agreements (FRA)

Only memo entries of notional principals are made on the contract date for forward rate agreements. The differences between market rate and contract rate in the present value of interest revenue or expense on the balance sheet date are reported as gains or losses.

Futures

Margin deposits paid by the Bank for interest rate futures contracts entered into for trading or hedging purpose are recognized as assets. Gains or losses resulting from marking to market and from the settlement of the interest rate futures contracts are classified as hedging or non-hedging depending on the original purpose of entering interest rate contracts, and are classified as realized or unrealized gains or losses depending on whether the gains or losses had been realized.

4. Securities Purchased

Securities purchased are stated at the lower of cost and market value. Except for the parent company's equity shares held by the Bank, the lower of cost and market value is determined based on a portfolio basis with similar securities. A provision is made when the market value is lower than the cost. When the market value rises, the gain is set off against the provision to the extent of the amount made previously.

When stocks and mutual funds are sold, the cost is calculated based on the weighted-average method. For other securities, the cost is calculated based on the cost of each related individual security.

Securities purchased under resell agreements are presented in the balance sheets as part of "Securities purchased" and securities sold under repurchase agreements are presented as part of "Securities sold under agreements to repurchase." The difference between the selling or purchase price and the contracted repurchase or resale price is accounted for as interest expense or interest income, respectively.

5. Allowances for Doubtful Accounts

Allowance for doubtful accounts on receivables, bills and loans are provided based on the results of review of the collectibility of accounts balances and the guideline issued by the relevant regulations. Whenever the management of the Bank deems the receivables to be uncollectible, a charge-off that conforms to the Bank's relevant regulations is recommended to and approved by the Bank's Board of Directors.

6. Long-Term Investments

(i) Investments In Equity Securities

Investments in other companies with voting rights of more than 20% or less than 20% but the Bank and related parties totally hold over 20% of the common stock and have significant influence over the investee are accounted for under the equity method; however, when the company has not received the audited financial statements of the equity method investee company in time to recognize its equity in the investee company's income (loss), the Bank may delay the recognition of its equity in the investee company's income (loss) until the subsequent year. The difference between the cost of investment and the company's share of the investee company's equity at acquisition is deferred and amortized over five years.

Other long-term equity investments are accounted for by the cost method. For investments in listed stocks, an allowance for decline in market value is made when the carrying amounts of the investments is below the market value, with the same amount debited to shareholders' equity. For investments in unlisted stocks, provisions are made and recognized immediately as an expense when the carrying amounts are not expected to be fully recovered.

(ii) Investments In Debt Securities

Long-term investments in Debt Securities represent investments in government bonds, financial debentures; first to default credit linked note and callable corridor note linked to USD Libor issued by the international reputable financial institutions. Investments in Debt Securities are stated at cost adjusted for the amortization of premiums or discounts arising on acquisition over the periods to maturity on a straight-line basis. The amortization of premiums or discounts is included as part of interest income or interest

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expense. Costs of bonds upon maturity or disposal are determined by the specification method.

7. Premises and equipment

(1) Premises and equipment are stated at cost. Improvements, additions, and major renewals that extend the life of an asset are capitalized, while repairs and maintenance are expensed as incurred. Upon disposal of premises and equipment, the related cost and accumulated depreciation are removed from the account. Any gain or losses thereafter are charged to non-operating income or expenses.

(2) Depreciation is provided by the straight-line method over the following estimated useful lives:

Building	8~60	years
Furniture and fixtures	2~ 6	years
Transportation equipment	3~ 6	years
Miscellaneous equipment	2~10	years

The residual value of a property that is still in use at the end of the original service life is depreciated using the straight-line method over its newly estimated service life.

8. Deferred Charges

Computer software and electric wiring costs are amortized by the straight-line method over three to five years.

SOGO affinity credit cards business cost is amortized on a straight-line basis over estimated economic lives of 48 months.

9. Foreclosed Properties

Foreclosed properties represent assets acquired by repossession of collateral for realization and are stated at the lower of cost or net realizable value on the balance sheet date.

10. Reserves for Losses on Guarantees

Reserves for losses on guarantees are computed at the maximum limit allowed by the relevant laws and regulations pertaining to guarantees provided for custom duties, commodity taxes and contracts performance obligations.

11. Reserves for Losses on Stock Brokerage Transactions

Pursuant to ROC Ministry of Finance (“MOF”) regulations, a reserve for possible losses is provided based on 0.0028% of the amount of total stock brokerage transactions each month until such reserve has reached the amount of NT\$200 million.

12. Reserves for Losses on Trading Securities

Pursuant to the MOF regulations, a reserve for possible losses on trading securities is provided based on 10% of the gain derived from trading securities each month until such reserve has reached the amount of NT\$200 million. The reserve cannot be used for other purposes except to offset trading losses.

13. Pension Plans

The Bank has a pension plan covering all regular employees. Pension benefits payment under the plan is based on years of service and final average compensation of the employees. The Bank has established an employees retirement fund committee and a committee to supervise the employees retirement fund based on the regulations of the employee retirement plan. Contribution to the pension fund is made to the separate accounts of the above two committees monthly. The Bank makes contributions to the pension funds, which is administered and operated by an independent employee retirement fund committee. Therefore, the pension fund is not reflected in the above-mentioned financial statements.

The Bank adopted SFAS No. 18 “Accounting for pensions”, which requires the actuarial determination of pension assets or obligations. The unrecognized assets or obligations at transition are amortized by the straight-line method over 15 years-the average remaining service period of employees.

14. Recognition of Interest Revenue and Service Fees

Interest income is recognized on an accrual basis. The loans for which interests have been discontinued to accrue are credited to income when received.

Service fees are recognized when earned.

15. Income Tax

The Bank adopted the SFAS No. 22 “Accounting for income taxes” for interperiod and intraperiod income tax allocation. Deferred income taxes are recognized for tax effects of temporary differences. Tax effects on deductible temporary differences, operating loss carry forwards and investment tax credits are recognized as deferred tax assets. Valuation allowance is provided for deferred tax assets when their realization is in doubt.

The adjustments of prior years’ income tax are included in the current year’s income tax calculation.

The Bank's tax credits are recognized in the current period according to the ROC SFAS No.12 "Tax Credits".

Income tax at a rate of 10% on undistributed earnings is assessed if the Bank does not distribute all its current year profits. Taxes on undistributed earnings are recorded as expense in the year shareholders approve the retention of earnings.

Cathay Financial Holdings Co., Ltd. adopted the linked tax system for income tax filings with its qualified subsidiaries, including the Bank, since 2003.

16. Contingencies

A loss is recognized if it is probable that an asset will be impaired or a liability might be incurred and the amount of loss can be reasonably estimated. If the amount of loss cannot be reasonable estimated and the loss is possible, the obligation is disclosed as contingent liabilities in the footnotes to the financial statements.

17. Basis for Converting Financial Statements

The Bank's financial statements are stated in NT dollars ("NT\$"). Conversion of the June 30, 2004 and 2003 NT dollar amounts into US dollar amounts is provided solely for the convenience of the readers, using the noon buying rate of NT\$33.66 and NT\$34.61 to US\$1.00 on June 30, 2004 and 2003, respectively, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as representations that the NT dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

III. ACCOUNTING CHANGES

Effective January 1, 2004, the Bank adopted the new "Regulations Governing the Preparation of Financial statements of Public Banks" to account for its bills transactions related to resell or repurchase agreement using the financing method which resulted in an increase of NT\$99 thousand in net income for the period of January 1 to June 30, 2004.

Since the repurchase/resell transactions of the Bank are daily financing activities of great volume, and the accounting systems had been revised for several times such that historical trading data are hard to trace, calculating the cumulative effect of changes in accounting principles is difficult. Thus, the Bank cannot calculate the cumulative effect of change in accounting principles, and the pro forma information cannot be disclosed either.

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IV. BREAKDOWN OF SIGNIFICANT ACCOUNTS

1. CASH AND CASH EQUIVALENTS

	June 30,			
	2004		2003	
	NT	US	NT	US
Cash on hand	\$7,694,268	\$228,588	\$6,384,006	\$184,455
Checks for clearance	5,120,741	152,131	4,102,913	118,547
Due from commercial banks	4,686,046	139,217	4,824,410	139,393
Total	<u>\$17,501,055</u>	<u>\$519,936</u>	<u>\$15,311,329</u>	<u>\$442,395</u>

2. DUE FROM CENTRAL BANK AND CALL LOANS TO BANKS

	June 30,			
	2004		2003	
	NT	US	NT	US
Deposit reserve	\$20,107,987	\$597,385	\$14,148,873	\$408,809
General account	4,000,184	118,841	8,773,619	253,500
Deposit in Central Bank	6,536,000	194,177	6,236,000	180,179
Call loans to banks	24,467,693	726,907	32,467,522	938,097
Total	<u>\$55,111,864</u>	<u>\$1,637,310</u>	<u>\$61,626,014</u>	<u>\$1,780,585</u>

3. SECURITIES PURCHASED-NET

	June 30,			
	2004		2003	
	NT	US	NT	US
Stock	\$5,183,779	\$154,004	\$4,624,902	\$133,630
Mutual funds	3,271,377	97,189	3,177,103	91,797
Government and corporate bonds	46,267,849	1,374,565	70,072,869	2,024,642
Certificates of deposit	118,643,112	3,524,751	48,570,810	1,403,375
Commercial papers	8,070,714	239,771	3,011,254	87,005
Securities purchased under agreements to resell	6,261,652	186,026	2,749,344	79,438
Others	91,714	2,725	34,264	990
Total	187,790,197	5,579,031	132,240,546	3,820,877
Less: Allowance for decline in market price of securities	(412,643)	(12,259)	(609,109)	(17,599)
Net	<u>\$187,377,554</u>	<u>\$5,566,772</u>	<u>\$131,631,437</u>	<u>\$3,803,278</u>

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(1) Securities purchased of NT\$17,015,329 thousand and NT\$14,305,423 thousand at June 30, 2004 and 2003, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) Securities sold under agreements to repurchase were NT\$39,556,427 thousand and NT\$16,098,500 thousand at June 30, 2004 and 2003, respectively.

4. RECEIVABLES-NET

	June 30,			
	2004		2003	
	NT	US	NT	US
Accounts receivable	\$57,000,211	\$1,693,411	\$15,626,813	\$451,511
Accrued interest receivable	3,689,271	109,604	3,222,331	93,104
Customers' liabilities under acceptances	485,879	14,435	339,933	9,822
Tax refund receivable	435,140	12,928	425,496	12,294
Others	1,903,174	56,541	678,592	19,607
Total	63,513,675	1,886,919	20,293,165	586,338
Less: Allowance for doubtful accounts	(909,963)	(27,034)	(550,396)	(15,903)
Net	<u>\$62,603,712</u>	<u>\$1,859,885</u>	<u>\$19,742,769</u>	<u>\$570,435</u>

Please refer to note IV.6 for details of the allowance for doubtful accounts.

5. PREPAYMENTS

	June 30,			
	2004		2003	
	NT	US	NT	US
Inter-bank clearing funds	\$946,174	\$28,110	\$808,817	\$23,370
Others	621,585	18,467	145,480	4,203
Total	<u>\$1,567,759</u>	<u>\$46,577</u>	<u>\$954,297</u>	<u>\$27,573</u>

6. BILLS AND LOANS-NET

	June 30,			
	2004		2003	
	NT	US	NT	US
Inward-outward documentary bills purchased	\$1,090,654	\$32,402	\$830,580	\$23,998
Loans	538,402,423	15,995,319	392,492,046	11,340,423
Overdrafts	723,112	21,483	866,244	25,029
Delinquent accounts	3,274,188	97,272	11,063,590	319,665
Total	543,490,377	16,146,476	405,252,460	11,709,115
Less: Allowance for doubtful accounts	(6,043,420)	(179,543)	(5,461,082)	(157,789)
Net	<u>\$537,446,957</u>	<u>\$15,966,933</u>	<u>\$399,791,378</u>	<u>\$11,551,326</u>

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- (1) Non-accrual accounts amounted to NT\$6,001,784 thousand and NT\$11,063,590 thousand at June 30, 2004 and 2003, respectively. The unrecognized interests on the non-accrual accounts amounted to NT\$115,142 thousand and NT\$336,215 thousand for the six-month periods ended June 30, 2004 and 2003, respectively.
- (2) The additional information of bills and loans by type of industry and geographic region is shown as Note X.
- (3) The following is a summary of the activity in the allowance for doubtful accounts (including receivables, bills and loans) for the six-month periods ended June 30, 2004 and 2003 respectively.

	Jan. 1 ~June 30, 2004					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	\$4,012,984	\$119,221	\$3,518,370	\$104,527	\$7,531,354	\$223,748
Provision of doubtful account	3,907,140	116,076	-	-	3,907,140	116,076
Write-off	(4,484,030)	(133,215)	-	-	(4,484,030)	(133,215)
Reclassification	1,816,428	53,964	(1,816,428)	(53,964)	-	-
Effects of exchange rates change	-	-	(1,081)	(32)	(1,081)	(32)
Balance, end of the period	<u>\$5,252,522</u>	<u>\$156,046</u>	<u>\$1,700,861</u>	<u>\$50,531</u>	<u>\$6,953,383</u>	<u>\$206,577</u>

	Jan. 1 ~June 30, 2003					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	\$6,624,009	\$191,390	\$236,724	\$6,840	\$6,860,733	\$198,230
Provision of doubtful account	2,778,752	80,288	-	-	2,778,752	80,288
Write-off	(3,646,569)	(105,362)	-	-	(3,646,569)	(105,362)
Transfer from reserve for losses on guarantees	20,000	578	-	-	20,000	578
Reclassification	(136,279)	(3,938)	136,279	3,938	-	-
Effects of exchange rates change	-	-	(1,438)	(42)	(1,438)	(42)
Balance, end of the period	<u>\$5,639,913</u>	<u>\$162,956</u>	<u>\$371,565</u>	<u>\$10,736</u>	<u>\$6,011,478</u>	<u>\$173,692</u>

In recent years, the growth in domestic economy and financial markets has been sluggish as a result of the various local and global negative factors. The financial positions of certain corporations have deteriorated which has led to their failures to meet obligations when they fall due. The government has taken several measures to stabilize the economy and financial markets. The Bank's financial statements included provisions for possible credit losses and guarantee losses based on information available to the Bank, including defaults to the extent they can be determined or estimated. Changes in the operating and financial performance of customers and general economic conditions of the market may have an impact on the debtor's ability to repay their loans, and uncertainty related to the future realizable value of collaterals might result in amounts different from those amounts presently estimated and provided.

7. LONG-TERM INVESTMENTS

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	June 30,					
	2004			2003		
	NT	US	% of ownership	NT	US	% of ownership
(i) Investments in Equity Securities:						
Huong Yee Co., Ltd.	\$-	\$-	-	\$466,737	\$13,486	99.99
Seaward Card Co., Ltd.	51,435	1,528	99.99	38,251	1,105	99.99
Seaward Leasing Ltd.	2,220,268	65,962	99.97	2,150,970	62,149	99.97
Cathay Futures Corp. (formerly Seaward Futures Corp.)	726,444	21,582	99.82	1,662,573	48,037	99.82
Indovina Bank	427,449	12,699	50.00	418,269	12,085	50.00
Seaward Insurance Agent Corp.	-	-	-	27,719	801	99.99
Taiwan Real-estate Management Corp.	51,947	1,543	30.15	54,162	1,565	30.15
Taiwan Finance Corp.	1,269,428	37,713	24.57	1,185,654	34,258	24.57
Seaward Property Insurance Agent Corp.	-	-	-	2,000	58	99.99
Cathay Bank Property Agency of Association	8,169	243	99.80	-	-	-
Cathay Bank Life Insurance Agency of Association	79,744	2,369	99.90	-	-	-
Cathay Venture Capital Corp.	29,471	875	3.33	-	-	-
Vista Technology Venture Capital Corp.	15,087	448	5.00	-	-	-
Subtotal	4,879,442	144,962		6,006,335	173,544	
Less: Unrealized gain from intercompany transactions	(31,850)	(946)		(87,825)	(2,538)	
Prepayment in Indovina Bank	1,012	30		-	-	
Investment in equity method	4,848,604	144,046		5,918,510	171,006	
Pan Overseas Corp.	-	-	-	7,525	217	0.61
China Bills Finance Corp.	-	-	-	151,968	4,391	1.94
Taiwan Fertilizer Co., Ltd.	-	-	-	104,173	3,010	0.58
Chunghwa Telecom Co., Ltd.	438,037	13,014	0.09	541,097	15,634	0.11
International Securities Investment Trust Co., Ltd.	4,900	146	4.74	4,900	142	4.74
Wallant International Trade Inc.	-	-	2.51	-	-	2.51
Central Deposit Insurance Corp.	10	-	-	10	-	-
Chinese Products Promotion Center	1,850	55	4.87	1,850	53	4.87
Han Tech Venture Capital Corp.	154,927	4,603	8.03	154,927	4,476	7.93
Taiwan Securities Central Depository Co., Ltd.	1,850	55	0.18	1,850	53	0.18
Taipei Forex Inc.	8,000	238	4.04	8,000	231	4.04
Global Securities Finance Corp.	161,930	4,811	2.45	161,930	4,679	2.45
An Feng Enterprise Co., Ltd.	4,500	134	15.00	4,500	130	15.00
Euroc II Venture Capital Corp.	40,000	1,188	5.00	40,000	1,156	5.00
Taiwan International Merchandise Exchange Corp.	12,500	371	0.63	12,500	361	0.63
Strategic Value Fund, Limited Partnership	164,305	4,881	-	170,019	4,912	-
Chan Sheng Investment Development Co., Ltd.	7,400	220	4.90	127,400	3,681	4.90
CDIB & Partners Investment Holding Corp.	500,000	14,854	4.95	500,000	14,447	4.95
Financial Information Service Co., Ltd.	45,500	1,352	1.14	45,500	1,315	1.14

(To be continued)

(Continued)

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	2004			2003		
	NT	US	% of ownership	NT	US	% of ownership
Sheng-Hua Venture Capital Corp.	50,000	1,485	2.50	50,000	1,445	2.50
IBU Securities Co., Ltd.	1,045,000	31,046	10.31	1,045,000	30,194	10.31
Latin America Development Co., Ltd.	6,250	186	1.79	6,250	181	1.79
Capital Venture Fund II Corp.	30,000	891	5.00	30,000	867	5.00
ProTec Capital Corp.	-	-	-	8,000	231	4.88
Fu Yu Venture Capital Investment Corp.	50,000	1,485	3.70	50,000	1,445	3.70
Taipei Smart Card Corp.	25,000	743	5.00	25,000	722	5.00
New Century InfoComm Co., Ltd.	864,000	25,668	1.68	864,000	24,964	1.68
Harbinger Venture Capital Corp.	67,000	1,990	3.35	67,000	1,936	3.35
United Venture Capital Corp.	40,000	1,188	4.52	40,000	1,156	4.52
Centillion Venture Capital Corp.	60,000	1,783	5.00	60,000	1,734	5.00
Taiwan Asset Management Corp.	1,020,000	30,303	5.79	1,000,000	28,893	5.68
Taipei Financial Center Corp.	400,000	11,884	2.35	400,000	11,557	2.35
Taiwan Financial Asset Service Corp.	100,000	2,971	5.88	50,000	1,445	2.94
Kaohsiung Rapid Transit corp.	299,000	8,883	2.99	299,000	8,639	2.99
Taiwan Cooperative Bank	116,435	3,459	0.21	116,435	3,364	0.21
Mondex Taiwan Inc.	25,000	743	6.47	-	-	-
Investment in cost method	5,743,394	170,630		6,148,834	177,661	
Total	10,591,998	314,676		12,067,344	348,667	
(ii) Others						
Government Bond	12,090,150	359,185		-	-	
Financing Bond	100,000	2,971		-	-	
First to Default Credit Linked Note	2,025,000	60,160		-	-	
Callable Corridor Note Linked to USD Libor	9,427,303	280,074		-	-	
Collateralized Debt Obligation	1,349,361	40,088		-	-	
Collateral Mortgage Obligation	2,015,411	59,876		-	-	
US Treasury	668,466	19,859		-	-	
Preferred Stock	400,000	11,884		400,000	11,557	
Other	300,000	8,912		-	-	
Subtotal	28,375,691	843,009		400,000	11,557	
Total	\$38,967,689	\$1,157,685		\$12,467,344	\$360,224	

- (1) Due to the losses incurred by its investee companies, Wallant International Trade Inc. and Chan Sheng Investment Development Co., Ltd, the Bank has recognized the losses of the investees and declined its carrying value to investee's net worth.
- (2) On December 24, 2003, the shareholders of Seaward Futures Corp. has determined to reduce its capital stock for NT\$950,000 thousand, which is equal to 95,000 thousand shares and change its name as Cathay Futures Corp. The reduction of the capital has been approved by the authority-in-charge on January 16, 2004, and effective date will be on February 16, 2004.
- (3) In 2003, the liquidation process of Huong Yee Co., Ltd, Pro Tec Capital Corp. and Seaward Property Insurance Agent Corp. has been completed.
- (4) After the merger with former Cathay United Bank, the Bank increases its investments from the merged bank in Cathay Bank Life Insurance Agency of

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Association, Cathay Bank Property Agency of Association, Cathay Venture Capital Corp., and Vista Technology Venture Capital Corp. Equity method was applied for these investees, whose common stocks were held by the Bank and/or its related parties over 20%. However, the Bank defers the recognition of its investment income (loss) of Vista Technology Venture Capital Corp. until the subsequent year.

- (5) According to the board of director's meeting, Seaward Insurance Agent Corp. has scheduled to merge with Cathay Bank Life Insurance Agency of Association on February 5, 2004. Cathay Bank Life Insurance Agency of Association is the Surviving Company. The merger has been resolved by the shareholder's meeting of Seaward Insurance Agent Corp. on November 28, 2003.
- (6) As of June 30, 2004 and 2003, the Bank has unrealized losses on long-term investment of Seaward Leasing Ltd. of NT\$95,426 thousand and NT\$181,931 thousand, respectively.
- (7) According to the board of director's meeting, Indovina Bank has scheduled to increase capital US\$2,500 thousand by cash for the operational demand. The increase of the investment has been approved by the Ministry of Finance (MOF). On June 30, 2004, the Bank has remitted US\$30 thousand.
- (8) Long-term investments in government bonds, financial debentures, and notes linked to a variety of financial instruments issued by reputable international financial institutions.
- (9) Long-term investments sold under agreements to repurchase were NT\$668,466 thousand at June 30, 2004, respectively.
- (10) Long-term investments purchased of NT\$96,500 thousand at June 30, 2004, respectively, were pledged to other parties as collateral for business reserves and quarantees.

8. OTHER ASSETS

	June 30,			
	2004		2003	
	NT	US	NT	US
Refundable deposits	\$857,597	\$25,478	\$577,690	\$16,691
Foreclosed properties-net	1,872,417	55,627	3,220,282	93,045
Deferred tax assets-net	1,587,754	47,171	2,735,614	79,041
Non-operating assets-net	700,806	20,820	703,346	20,322
Deferred charges	508,663	15,112	187,494	5,417
Others	124,483	3,698	-	-
Total	<u>\$5,651,720</u>	<u>\$167,906</u>	<u>\$7,424,426</u>	<u>\$214,516</u>

9. DUE TO CENTRAL BANK AND COMMERCIAL BANKS

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	June 30,			
	2004		2003	
	NT	US	NT	US
Due to Central Bank	\$159,554	\$4,740	\$272,012	\$7,859
Due to commercial banks	40,821,195	1,212,751	25,019,618	722,902
Overdrafts from banks	813,718	24,175	476,374	13,764
Call loans from banks	37,282,910	1,107,632	26,279,240	759,296
Total	<u>\$79,077,377</u>	<u>\$2,349,298</u>	<u>\$52,047,244</u>	<u>\$1,503,821</u>

10. PAYABLES

	June 30,			
	2004		2003	
	NT	US	NT	US
Accounts payable	\$8,039,629	\$238,848	\$5,428,742	\$156,855
Accrued interest	2,032,666	60,388	1,736,131	50,163
Accrued expenses	606,480	18,018	348,228	10,061
Income tax payable	-	-	79,482	2,297
Acceptances	495,242	14,713	348,998	10,084
Collection for customers	290,446	8,629	153,856	4,445
Dividends	1,934,620	57,475	-	-
Others	2,744,866	81,547	2,682,634	77,510
Total	<u>\$16,143,949</u>	<u>\$479,618</u>	<u>\$10,778,071</u>	<u>\$311,415</u>

11. DEPOSITS AND REMITTANCES

	June 30,			
	2004		2003	
	NT	US	NT	US
Check deposits	\$12,181,259	\$361,891	\$11,439,559	\$330,527
Demand deposits	79,667,888	2,366,842	52,731,444	1,523,590
Certified deposits	134,103,973	3,984,075	105,054,678	3,035,385
Saving deposits	425,311,094	12,635,505	306,473,923	8,855,069
Foreign currencies deposits	38,546,931	1,145,185	39,881,420	1,152,309
Outward remittances	2,430	72	235	7
Remittances payable	295,385	8,776	152,861	4,417
Total	<u>\$690,108,960</u>	<u>\$20,502,346</u>	<u>\$515,734,120</u>	<u>\$14,901,304</u>

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12. BANKER'S DEBENTURE PAYABLE

	June 30,			
	2004		2003	
	NT	US	NT	US
Banker's debenture	\$14,700,000	\$436,720	\$5,000,000	\$144,467
Subordinate Banker's debenture	12,350,000	366,905	10,000,000	288,934
Total	<u>\$27,050,000</u>	<u>\$803,625</u>	<u>\$15,000,000</u>	<u>\$433,401</u>

On May 23, 2002, the Bank issued five-year subordinate banker's debenture amounting to NT\$5,000,000 thousand with a stated interest rate of 4.15%. On September 10, 2002, the Bank issued another five-year and six-month subordinate banker's debenture amounting to NT\$5,000,000 thousand with a stated interest rate of 5.9% minus the six-month LIBOR rate. The subordinate banker's debenture is repayable at maturity, and the interests are payable semiannually.

On April 28, 2003, the Bank issued five-year subordinate banker's debenture amounting to NT\$2,350,000 thousand with a stated interest rate of 2%. The subordinate banker's debenture is repayable at maturity, and the interests are payable annually.

Each subordinate banker's debenture has lower priority claim on assets and income than other debt. That is, its principal and interests are repayable only after more senior debt with higher priority has been satisfied. Subordinate banker's debenture is senior to common stock.

On June 20, 2003, the Bank issued five-year and six month banker's debenture amounting to NT\$5,000,000 thousand with a stated interest rate of 3.019%. On December 4, 2003, December 10, 2003, and December 11, 2003, the Bank issued five-year banker's debenture amounting to NT\$3,200,000 thousand, NT\$2,700,000 thousand and NT\$1,800,000 thousand, respectively, with floating interest rate; thereafter, a six-year banker's debenture amounting to NT\$2,000,000 thousand was issued with floating interest rate on March 29, 2004. The banker's debenture is repayable at maturity, and the interests are payable quarterly or semiannually. The priority claim of banker's debenture, including principal and interests, mentioned above are equal to other debts of the Bank, while that is senior to common stock.

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13. BANKER'S ACCEPTANCES AND FUNDS BORROWED

	June 30,			
	2004		2003	
	NT	US	NT	US
Borrowed funds-Central Bank	\$1,657,949	\$49,256	\$1,132,512	\$32,722
Borrowed funds-Others	703,835	20,910	525,140	15,173
Total	<u>\$2,361,784</u>	<u>\$70,166</u>	<u>\$1,657,652</u>	<u>\$47,895</u>

14. OTHER LIABILITIES

	June 30,			
	2004		2003	
	NT	US	NT	US
Reserve for losses on guarantees	\$28,795	\$856	\$18,895	\$546
Reserve for losses on stock brokerage transactions	42,820	1,272	37,181	1,074
Reserve for losses on trading securities	130,981	3,891	10,454	302
Securities sold under agreements to repurchase	39,960,389	1,187,178	17,693,761	511,233
Guarantee and margin deposits	817,608	24,290	742,627	21,457
Others	155,883	4,631	34,432	995
Total	<u>\$41,136,476</u>	<u>\$1,222,118</u>	<u>\$18,537,350</u>	<u>\$535,607</u>

15. CAPITAL STOCK

At the beginning of the year 2003, the Bank has authorized capital stock amounting to NT\$39,715,627 thousand. There were 3,971,563 thousand shares issued at par value of NT\$10.

On October 27, 2003, the Bank has merged with Cathay United Bank through a share swap transaction. The ratio for exchange of shares is 0.2808 the Bank's share for one share of Cathay United Bank. After the exchange, capital stock of the Bank increased 346,678 thousand shares. As the result, the total issued capital stock is amounting to NT\$43,182,407 thousand, while 4,318,241 thousand shares are issued.

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16. CAPITAL RESERVES

	June 30,			
	2004		2003	
	NT	US	NT	US
Capital reserves from the merged Bank	\$9,199,927	\$273,319	\$-	\$-
Additional paid-in capital	4,249,096	126,236	4,249,096	122,771
Capital reserves from merger of investee companies	-	-	773,348	22,345
Capital reserves from investee companies of which recognized by the equity method, and etc.	3,654	108	62,757	1,813
Capital reserves from treasury stock	10,397	309	10,397	300
Total	<u>\$13,463,074</u>	<u>\$399,972</u>	<u>\$5,095,598</u>	<u>\$147,229</u>

17. RETAINED EARNINGS

(1) The Bank's articles of incorporation provide that its annual net income shall be appropriated and distributed in the following order:

- (a) 30% thereof shall be set aside as legal reserve;
- (b) Special reserve to be distributed after deliberation;
- (c) Regular dividends; and
- (d) The remainder, if any, shall be distributed and appropriated as follows: extra dividends 80%, compensation to directors and supervisors 5%, employees' special bonus 10%, and contribution to welfare fund 5%.

(2) The government's regulations stipulates that the Bank must retain part of its annual net income as legal reserve, and cash dividend declaration, if any, should not exceed the limit of 15% of paid-in capital. The legal reserve may be used at any time to offset the accumulated deficit, if any, once the legal reserve reached one-half of the paid-in capital, up to 50% thereof may be transferred to capital stock.

In order to prevent an impairment of working capital, the ROC regulations require that a portion of the retained earnings equal to the deduction account of shareholders' equity, if any, becomes unavailable for dividend distribution.

(3) The Bank's directors determined the following resolution on February 6, 2004, and

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January 29, 2003, respectively. The information is as follows:

(a) Make up deficit in 2002:

- 1) NT\$ 8,325,411 thousand as legal reserve;
- 2) NT\$ 257,487 thousand as special reserve;
- 3) NT\$ 224,412 thousand from un-appropriated earnings.

The reserve used to make up deficit by the Bank's board of directors were approved on April 21, 2003.

(b) The appropriation and distribution of earnings in 2003:

- 1) NT\$ 829,122 thousand from legal reserve;
- 2) NT\$ 1,934,620 thousand as dividends to shareholders.

The above appropriation and distribution by the Bank's board of directors were approved on April 23, 2004.

18. PENSION

The Bank has adopted SFAS No.18 "Accounting for pensions", which requires actuarial determination of pension assets or obligations.

19. OPERATING EXPENSES

	Jan. 1~June 30,			
	2004		2003	
	NT	US	NT	US
Personnel expenses				
Salary expenses	\$1,806,214	\$53,661	\$1,252,030	\$36,175
Insurance expenses	170,943	5,078	128,534	3,714
Pension expenses	178,968	5,317	165,313	4,777
Others	540,110	16,046	288,784	8,344
Depreciation expenses	450,087	13,372	311,159	8,990
Amortization expenses	105,899	3,146	30,741	888
Total	<u>\$3,252,221</u>	<u>\$96,620</u>	<u>\$2,176,561</u>	<u>\$62,888</u>

20. INCOME TAX

Under a directive issued by the Ministry of Finance (MOF), a financial holding company and its domestic subsidiaries that held over 90% of shares issued by the financial holding company for 12 months within the same tax year, may choose to adopt the linked tax system for income tax filings. Cathay Financial Holding Co., Ltd. intended to adopt the linked tax system for income tax filings with its qualified subsidiaries in 2003.

(1) The reconciliation between income tax payable and income tax expense for the

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six-month periods ended June 30, 2004 and 2003 are as follows:

	Jan. 1~June 30,			
	2004		2003	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (tax rate 25%)	\$-	\$-	\$-	\$-
Interest on short-term negotiable instruments (tax rate 20%)	7,609	226	65,709	1,898
Foreign branches' income tax	17,652	525	24,183	699
Deferred tax (benefit) expenses:				
Allowance for bad debt	216,703	6,438	224,329	6,482
Allowance for pledged assets taken-over	(12,509)	(372)	(175,515)	(5,071)
Provisions for possible losses	(843)	(25)	(342)	(10)
Foreign investment income recognized by the equity method	(1,955)	(58)	3,483	101
Operating loss carryforwards	2,088,594	62,050	741,338	21,420
Others	(17,995)	(539)	(2,170)	(63)
Adjustment of prior period's income tax	(389,326)	(11,562)	(18,015)	(521)
The apportionment of income tax in consolidate tax return system	(10,930)	(325)	-	-
Income tax expenses	<u>\$1,897,000</u>	<u>\$56,358</u>	<u>\$863,000</u>	<u>\$24,935</u>

(2) Deferred tax liabilities and assets resulting from the following timing differences:

	June 30,			
	2004		2003	
	NT	US	NT	US
Taxable temporary differences:				
Unrealized losses from intercompany transactions	\$24,544	\$729	\$24,847	\$718
Others	78,382	2,329	59,279	1,713
Deductible temporary differences:				
Allowance for bad debts	963,575	28,627	1,664,922	48,105
Allowance for pledged assets taken-over	2,112,254	62,753	2,529,212	73,077
Unrealized gain from intercompany transactions	19,391	576	20,002	578
Pension expenses exceed the limit of tax law	75,809	2,252	75,809	2,190
Provisions for possible losses	60,314	1,792	54,675	1,580
Others	127,176	3,778	104,807	3,028
Operating loss carryforwards	2,818,129	83,723	6,375,965	184,223
Investment Credit	\$27,616	\$820	\$6,834	\$198
Deferred income tax assets of foreign branches	\$41,708	\$1,239	\$43,464	\$1,256
	June 30,			

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	2004		2003	
	NT	US	NT	US
(3) Deferred tax assets	\$1,613,486	\$47,936	\$2,756,646	\$79,649
Deferred tax liabilities	25,732	765	21,032	608
Net deferred tax assets	<u>\$1,587,754</u>	<u>\$47,171</u>	<u>\$2,735,614</u>	<u>\$79,041</u>

(4) A valuation allowance has been established for the Bank's income tax returns assessment for the years from 1994 to 1998 and 2000. However, the Bank disagreed with the assessment and appealed to the tax authorities. After taking the further review of the claim, the tax authority has reversed its previous decision and re-determined the income tax obligation of the Bank for the years from 1994 to 1997 and 2000 in 2004.

(5) The formerly Cathay United Bank's withholding taxes on the interest income from bonds pertaining to periods when those bonds were held by other investors (the "bond withholding taxes") in 1994, 1995, 2001 and 2002 respectively were disallowed by the tax authorities as deduction against the Bank's income tax obligations. The Bank is contesting the decisions made by the tax authorities and the amounts related to the disallowed bond withholding taxes have been accrued as taxes payable and tax expense for financial reporting purposes. The tax authority has reversed its original decision and has allowed the partial reduction amount on the income tax obligation of the Bank for the years from 1994, 1995, 2001 and 2002 in 2004.

(6) The Bank's income tax returns for the year 1998 and the years prior to the 1998 and 2000 had determined by the tax authority.

(7) Except for 1999, the tax authority has examined and assessed the formerly Cathay United Bank's income tax returns through 2002.

(8) The related information of shareholders' deductible income tax is as follows:

	June 30,			
	2004		2003	
	NT	US	NT	US
Shareholders' deductible income tax account	\$50,113	\$1,489	\$119,607	\$3,456
Un-appropriated earnings	8,106,651	240,839	3,585,946	103,610

The following is the rate of tax credit available for dividends to the Bank's shareholders for

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the year 2003:

	<u>2003</u>
Cash dividends	10.94%

21. EARNINGS PER SHARE

(1) The computations of earning per share are as follows:

	<u>Jan. 1~June 30,</u>	
	<u>2004</u>	<u>2003</u>
Weighted-averaged number of shares (in thousand shares)	<u>4,318,241</u>	<u>3,971,563</u>

	<u>Jan. 1~June 30,</u>			
	<u>2004</u>		<u>2003</u>	
	<u>NT</u>	<u>US</u>	<u>NT</u>	<u>US</u>
Income before income tax	\$10,003,651	\$297,197	\$4,448,946	\$128,545
Income tax expense	(1,897,000)	(56,358)	(863,000)	(24,935)
Net income	<u>\$8,106,651</u>	<u>\$240,839</u>	<u>\$3,585,946</u>	<u>\$103,610</u>

Earning per share (Expressed in dollars)

Income before income tax	\$2.32	\$0.069	\$1.12	\$0.032
Income tax expense	(0.44)	(0.013)	(0.22)	(0.006)
Net income	<u>\$1.88</u>	<u>\$0.056</u>	<u>\$0.90</u>	<u>\$0.026</u>

(2) The pro forma earning per share information request by Securities and Futures Commission if the dividends are assumed to distribute to employees, directors and supervisors:

No earning distributions of the Bank were appropriated to employees, directors and supervisors for the years 2003 and 2002.

V. RELATED PARTIES TRANSACTIONS

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1. Name and relation of related parties are as follows:

Name of related parties	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Cathay Life Insurance Co., Ltd. and etc.	Subsidiaries of Cathay Financial Holding Co. Ltd.
Formerly Cathay United Bank	Subsidiaries of Cathay Financial Holding Co. Ltd.(Note1)
Sanching Engineering Corp. and etc.	Related parties of Cathay Financial Group
Cathay Real Estate Corp.	Related parties of Cathay Financial Group
Cathay Futures Corp. (formerly Seaward Futures Corp.)	Investee company in equity method
Seaward Leasing Ltd.	Investee company in equity method
Huong Yee Co., Ltd.	Investee company in equity method (has been liquidated in July, 2003)
Taiwan Real-estate Management Corp.	Investee company in equity method
Taiwan Finance Corp.	Investee company in equity ,method
Seaward Card Co., Ltd.	Investee company in equity method
Indovina Bank	Investee company in equity method
Cathay Bank Life Insurance Agency of Association	Investee company in equity method
Seaward Insurance Agent Corp.	Investee company in equity method (Note2)
Cathay Bank Property Agency of Association	Investee company in equity method
Seaward Property Insurance Agent Corp.	Investee company in equity method (has been liquidated in October, 2003)
Cathay Venture capital Corp.	Investee company in equity method
Vista Technology Venture Capital Corp.	Investee company in equity method
Gemfor Tech. Co.	The Bank's Chairman of the Board is the director of the investee (Gemfor Tech. Co. has resigned the director in April, 2004)
Taipei Smart Card Corp.	Investee company
China England Company Ltd. and etc.	Investee company of the Bank's subsidiaries
Culture and Charity Foundation of Cathay United Bank	The Bank is the major sponsor of the Foundation

Note1: UWCCB has merged with formerly Cathay United Bank on October 27, 2003. After the merger, UWCCB is the Surviving Bank.

Note2: Seaward Insurance Agent Corp. has merged with Cathay Bank Life Insurance Agency of Association on February 5, 2004. After the merger, Cathay Bank Life Insurance Agency of Association is the Surviving Company.

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2. Significant transactions with the related parties are summarized as follows:

(1) Account balances

Account/Related Parties	June 30,					
	2004			2003		
	NT	US	% of account	NT	US	% of account
Bills and loans	\$4,869,926	\$144,680	0.91%	\$835,354	\$24,136	0.21%
Deposits	35,756,517	1,062,285	5.18%	13,396,214	387,062	2.60%

Call Loans to Banks	Maximum balance		June 30 balance		Interest revenue		Interest rate
	NT	US	NT	US	NT	US	
<u>Jan. 1~June 30, 2003</u>							
Formerly Cathay United Bank	\$1,038,300	\$30,000	\$761,420	\$22,000	\$4,668	\$135	1.31%- 1.54%

Transactions with related parties are similar to those with third parties dealt with in the ordinary course of business.

(2) Lease

Account/Related Parties	Jan. 1~ June 30,			
	2004		2003	
	NT	US	NT	US
<u>Rental Income</u>				
Seaward Leasing Ltd.	\$941	\$28	\$998	\$29
Taipei Smart Card Corp.	2,854	85	4,020	116
Culture and Charity Foundation of the UWCCB	500	15	250	7

Rental Expense

Cathay Life Insurance Co., Ltd.	122,097	3,627	-	-
Cathay Real Estate Corp.	6,942	206	-	-

Refundable Deposits	June 30,			
	2004		2003	
	NT	US	NT	US
Seaward Leasing Ltd. (Note 3)	\$42,000	\$1,248	\$42,090	\$1,216
Cathay Life Insurance Co., Ltd	71,262	2,117	-	-

Note 3: The Bank regards interest from refundable deposits as rental expense to Seaward Leasing Ltd.

Jan. 1~ June 30,	
2004	2003

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Account/Related Parties	NT	US	NT	US
(3) <u>Insurance Expense</u>				
Cathay Life Insurance Co., Ltd.	\$104,793	\$3,113	\$67,353	\$1,946
Cathay Century Insurance Co., Ltd.	17,089	508	-	-
(4) <u>Commissions and Handling Fees</u>				
Cathay Futures Corp.	\$1,839	\$55	\$1,432	\$41
(5) <u>Credit Card Processing Charges</u>				
Seaward Card Co., Ltd.	\$297,995	\$8,853	\$159,134	\$4,598

Related Parties	June 30,			
	2004		2003	
	NT	US	NT	US
(6) <u>Account Receivables</u>				
Cathay Futures Corp.	\$382	\$11	\$-	\$-
Cathay Financial Holding Co., Ltd.	728,717	21,649	130,844	3,781
(7) <u>Prepaid Rental Expense</u>				
Cathay Life Insurance Co., Ltd.	\$180	\$5	\$-	\$-
(8) <u>Accrued Expenses</u>				
Seaward Card Co., Ltd.	\$40,346	\$1,199	\$27,547	\$796
(9) <u>Dividends</u>				
Cathay Financial Holding Co., Ltd.	\$1,934,620	\$57,475	\$-	\$-

(10) Others

- a. The Bank has paid the project and construction management services fee to Taiwan Real-estate Management Corp. for NT\$168 thousand and NT\$398 thousand during the six-month periods ended June 30, 2004 and 2003, respectively.
- b. The Bank has paid NT\$330 thousand and NT\$792 thousand for the web design service provided by Gemfor Tech. Co. during the six-month periods ended June 30, 2004 and 2003, respectively.
- c. During the six-month periods ended June 30, 2004 and 2003, the Bank has purchased equipment amounting to NT\$2,482 thousand and NT\$158 thousand, respectively, from Gemfor Tech. Co.
- d. The Bank has paid the typing system for 24-hour self-service banking center to Sanching Engineering Corp. for NT\$87,519 thousand and NT\$3,020 thousand during the six-month periods ended June 30, 2004 and 2003, respectively.
- e. As of June 30, 2004, the Bank has entered into Forward contract and Cross-currency

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Interest Rate Swaps with Cathay Life Insurance Co., Ltd. with the nominal price amounted to USD570,000 thousand.

The Bank presents its transaction or account balance with related parties, in the aggregate, except for which represents the amount over certain percentage of account balance.

VI. ASSETS PLEDGED OR MORTGAGED

See Note IV.

VII. COMMITMENTS AND CONTINGENCIES

As of June 30, 2004, the Bank had the following commitments and contingent liabilities, which are not reflected in the abovementioned financial statements:

	<u>NT\$</u>	<u>US\$</u>
1. Entrusted Items and Guarantees:		
Trust and security held for safe keeping	\$598,448,206	\$17,779,210
Travelers checks for sale	693,702	20,609
Bills for collection	72,862,598	2,164,664
Guarantees on duties and contracts	16,656,369	494,842
Unused commercial letters of credit	3,803,911	113,010
Stamp tax, securities and memorial currency consignments in	2,076	62
Loan commitments	19,119,713	568,025
Credit card lines	228,848,020	6,798,812

2. As of June 30, 2004, the Bank had various lawsuits, claims and proceedings considered normal to its operations are pending against the Bank, the most significant ones are described below:

(1) In 1997, the certificate of certified deposit in the amount of NT\$600 million with Chung Shing Bank requested by Polaris International Securities Investment Trust Co., Ltd. was found to be a forgery made by Mr. Chung-For Su. The Bank has filed a suit in the higher court claiming the NT\$600 million.

(2) In 1996, the clients claimed that the Bank was responsible for making restitution for the amount of approximately NT\$24,000 thousand because safe deposits were stolen at Chung-Li Branch. The higher court held the bank responsible for making restitution. However, the Bank has filed an appeal and the higher Court is being processed the claim. The Bank also has filed insurance claims against Taiwan Secom Co., Ltd. related to the loss mentioned above.

(3) In 2001 unauthorized transactions were made by the Bank's employees for the amount of approximately NT\$60,204 thousand and NT\$17,900 thousand, respectively. The Bank has held the employee's personal properties or related deposits by court order or

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as collateral which maybe sold to cover the loss.

- (4) Pacific SOGO Department store (“SOGO”) has issuing its own SOGO membership card which against the contract signed with the Bank to jointly issue a cobrand credit card. The Bank deposited in collateral with the Court on February, 2004 in connection with preservation procedure and also claimed for a legal procedure to stop SOGO issuing its own membership card.

The management believes that the amount of contingent liability, if any, after deducting appropriate reserve with respect to these actions will not materially affect the financial statements of the Bank.

3. As of June 30, 2004, the Bank has entered into certain contracts to purchase premises and equipments totaling NT\$1,199,071 thousand with prepayments of NT\$721,054 thousand.
4. Derivative Financial Instruments

In the normal course of business, the Bank entered into various derivative contracts, including foreign exchange forward contracts, interest rate swap, cross-currency swap, option, and futures etc. These financial instruments involve varying degrees of risks. The related information is as follows:

- (1) The contract (nominal) amounts, credit risks, and fair values of derivative transactions were as follows: (In thousands of US Dollars)

	June 30, 2004		
	Contract (Nominal) Amount	Credit Risk	Fair Value
<u>Derivative Financial Instruments</u>			
<u>For the purposes of hedging</u>			
<u>customers' needs or hedging the</u>			
<u>Bank's exposures</u>			
Forward exchange contracts	\$2,362,667	\$219,742	\$6,706
<u>For Trading Purpose</u>			
Interest rate swap contracts	172,963	1,376	74
Option contracts	10,873	11	10
<u>For Non-trading Purpose</u>			
Interest rate swap contracts	963,200	7,828	16,816
Cross-currency swap contracts	577,707	8,419	(1,908)
	June 30, 2003		
	Contract (Nominal) Amount	Credit Risk	Fair Value
<u>Derivative Financial Instruments</u>			
<u>For the purposes of hedging</u>			

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customers' needs or hedging the

Bank's exposures

Forward exchange contracts	\$835,684	\$6,782	\$(68)
<u>For Non-trading Purpose</u>			
Option contracts	4,820	5	77
Interest rate swap contracts	203,574	8,981	32,062
Cross-currency swap contracts	89,058	435	1,250

Credit risk is the possibility of loss if a counterparty fails to perform its contractual obligations under the terms of a derivative financial instrument. And above-mentioned credit risks for different counterparties cannot be netted.

Forward contracts constitute agreements to exchange designated currencies at a specified date at a predetermined price. The Bank's clients enter into forward contracts with the Bank to hedge their trade related currency exposure. All clients are required to have approved credit limits in place prior to entering a transaction. The limit approval process is under the similar policies and procedures used for lending activities to ensure that exposure to all clients is properly monitored and controlled. Certain clients are required to provide collateral, generally in cash, before entering into these transactions. Such collateral is deemed necessary over the life of the contract to reduce the Bank's overall credit exposure.

As of June 30, 2004, remaining maturities of the Bank's outstanding Interest rate swaps range from seven months to eight years and one month. Those interest rate swap contracts represent agreements between two parties to exchange periodic interest payments, most often fixed versus floating, based on a notional principal amount. Some of them are Euro Convertible Bond related asset swap.

As of June 30, 2004, the Bank's outstanding cross-currency swaps have remaining maturities from one year and seven months to seven years. Cross-currency swaps involve an exchange of principal balance denominated in two different currencies at the inception of the contract, exchange of interest payments during the life of the contract, and re-exchange of the principal balance at a specified future date. The above non-trading swap transactions are used to hedge the exchange rate risk and interest rate risk resulted from the Bank's foreign currency securities investment and foreign currency liquidity gap, since the swap contracts counterparties are made with major international financial institutions with pre-approved credit limits based on each financial institution's world ranking and credit rating. Therefore, the risks associated with these swap contracts are limited.

All the option transactions are dealt to match with structured deposit business or other commercial needs. The option counterparties are either the Bank's depositors or major international financial institutions. Due to the options entered with the bank are linked to customers' deposits, the paid premium are supported by interest revenue earned from customer's own deposit earned interest. Consequently, the credit risks are very limited.

(2) Market risk

Market rate risk is the potential loss arising from adverse movement of market rates, such as interest rate, foreign exchange rate, and equity price. Therefore market risk

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includes interest rate risk, equity price risk and foreign exchange rate risk. The related risks for the Bank's derivative financial instruments are as follows: (In thousands of US Dollars)

Items	June 30,	
	2004	2003
Interest rate risk exposures	\$412,418	\$56,268
Foreign exchange risk exposures	144,686	467,787

The overall market risk exposures of the Bank's derivative financial instruments is less than the aggregate market risk of individual instruments mentioned above.

(3) Liquidity risk, cash flow risk and the uncertainty of amount and period of future cash flow

The liquidity of forward contracts, which are entered into by the Bank with customers, could be low. However, when the Bank provides these financial instruments to its customers as a hedging tool, it requires customers to provide supporting documents to process the trades. Since deals are based on real demand and both parties will commit to the terms of forward contracts, the liquidity risk of forward contracts should be minimal. In the meantime, the Bank also manage the forward rate risk through interbank market. The liquidity risk of this type of transaction is very low because interbank forward markets are very liquid. Liquidity risk of interest rate swap contracts and cross-currency swap contracts should be limited to a lesser extent because most of the trades are dealt for the purpose of holding to maturities. The use of derivative financial instruments by the Bank was mainly driven by customer's demand as well as the Bank's funding or hedge of investment purposes. They did not involve any effect of high leverage.

As to the asset-backed swap contracts, the cash flow is determined by the difference between fixed rate of the underlying bonds and floating rate index. As a result, there is no additional huge cash flow demand.

(4) The policies for disclosed gains or losses of derivative financial instruments on financial statements are summarized as follows:

The policies of derivative financial instruments are summarized in Note II.

The gains and losses on derivative financial instruments were as follows: (In thousands of US Dollars)

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	Account	For the Six-Month Periods Ended June 30,	
		2004	2003
<u>For trading purpose</u>			
Interest rate swap contracts			
-Realized	Gain (loss) of derivative financial instruments	\$487	\$-
-Unrealized	"	(60)	-
Option contracts			
-Realized	"	341	-
-Unrealized	"	10	-
Forward Rate Agreements			
-Realized	"	-	(16)
Futures contracts			
-Realized	"	(27)	-
<u>For Non-trading Purpose</u>			
Interest rate swap contracts			
-Realized	Interest revenue	13,528	9,300
-Realized	Interest expense	4,145	2,314
-Unrealized	Gain (loss) of derivative financial instruments	141	-
Cross-currency swap contracts			
-Realized	Interest revenue	4,578	1,642
-Realized	Interest expense	1,954	282

(5) Off-Balance-Sheet Credit Risk

The Bank entered into certain transaction with customers to repurchase or resell securities or short-term notes for business purpose. The Bank also provides various types of loans and credit card services. The term for the related loans varies and depends on the credit status of the borrowers. The interest rate for credit card loans are in 19.7%. The Bank also provides guarantees for loans and commercial letters of credit services. These guarantees represent an irrecoverable obligation to pay a third-party beneficiary in the event that a customer fails to meet a financial or performance obligation and the dates of guarantees for maturity are not in one particular period.

(6) A summary of the contract amount of each significant class of off-balance-sheet credit related financial instruments outstanding appear in the table below:

June 30,			
2004		2003	
NT	US	NT	US

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Securities purchase under agreements to resell	\$-(Note)	\$-(Note)	\$11,733,827	\$339,030
Securities sold under agreements to repurchase	-(Note)	-(Note)	19,756,812	570,841
Loan commitments	19,119,713	568,025	20,067,775	579,826
Credit card lines	228,848,020	6,798,812	40,865,144	1,180,732
Guaranty and Commercial letters of credit	20,460,280	607,851	14,581,150	421,299

Note: The Bank has adopted the law to account for its bills transactions related to resell or repurchase agreement using the financial method since January 1, 2004.

These financial instruments may not be fully paid before or at maturity. Therefore, the total amount of these contracts does not necessarily represent future cash requirement. The maximum amount of possible losses for the above off-balance-sheet credit related financial instruments is approximately equal to the contractual amount if borrowers failed to perform according to the terms of the contract, causing the existing collateral to become worthless.

The Bank maintains a strict policy to evaluate customers' credit rating when providing securities sold under agreements to repurchase, securities purchased under agreements to resell, loan commitments, and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loans, and the Bank retains the legal right to foreclose or liquidated the collateral. Generally, the collateral includes cash, real estate, securities, or other properties. Credit card lines are not secured and may be cancelled by the Bank following periodic review of the customers' credit status.

VIII. SIGNIFICANT DISASTER LOSS

None.

IX. SIGNIFICANT SUBSEQUENT EVENT

1. On July 8, and July 15, 2004, the Bank issued five-year to seven-year banker's debenture amounting to NT\$1,000,000 thousand, NT\$3,500,000 thousand, NT\$2,000,000 thousand, and NT\$1,000,000 thousand, respectively, with floating interest rate. The banker's debenture is repayable at maturity, and the interests are payable quarterly or semiannually. The priority claim of banker's debenture, including principal and interests, mentioned above are equal to other debts of the Bank, while that is senior to common stock.
2. On April 23, 2004, the Bank's board of directors has determined to split-off its securities brokerage business to Cathay Securities Crop, a new established subsidiary of Cathay Financial holding Co., Ltd. The anticipate split-off day for this transaction will be on Aug. 12, 2004.

X. OTHERS

1. Fair Value of non-derivative financial instruments

As of June 30, 2004 and 2003, except for the table summarize below, the carrying amounts of financial assets and liabilities reported on the balance sheets are approximate their

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carrying values:

Financial Assets	June 30,							
	2004				2003			
	Carrying Value		Fair Value		Carrying Value		Fair Value	
	NT	US	NT	US	NT	US	NT	US
Securities purchased	\$187,377,554	\$5,566,772	\$187,361,142	\$5,566,285	131,631,437	\$3,803,278	\$133,597,101	\$3,860,072
Long-term Investments	38,967,689	1,157,685	39,005,244	1,158,801	12,467,344	360,224	12,613,341	364,442

Fair value amounts of securities purchased and long-term investments were based on quoted market price, if available. If quoted market prices did not exist, fair values were estimated according to book value or other financial resources.

2. Others

(1) Information on concentrations of credit risk

The concentrations of credit risk exist when the counter-party to financial instrument transactions are either concentrated in certain individuals or group of individuals engaged in similar activities or having activities in the same region, which would impair their ability to meet contractual obligations under negative economic or other conditions. The Bank has not transacted with one single customer or entered into one single transaction which would expose the Bank into concentration risk. However, the Bank is likely exposed to industry concentration risk. The Bank's information on concentration of credit risk is as follows:

	June 30,			
	2004		2003	
	NT	US	NT	US
Bills and loans, customers' liabilities under acceptances and guarantees account				
Geographic Region				
Domestic	\$532,899,324	\$15,831,827	\$399,071,823	\$11,530,535
South East Asia	12,043,100	357,787	7,990,519	230,873
North East Asia	254,974	7,575	515,086	14,883
North America	7,770,855	230,863	6,500,999	187,836
Others	7,664,372	227,700	4,007,970	115,804
Total	<u>\$560,632,625</u>	<u>\$16,655,752</u>	<u>\$418,086,397</u>	<u>\$12,079,931</u>
Industry type				
Manufacturing	\$71,324,283	\$2,118,963	\$52,282,187	\$1,510,609
Financial institutions and insurance	33,006,325	980,580	24,325,067	702,834
Leasing and real estate	65,389,817	1,942,656	65,832,545	1,902,125
Individuals	278,743,955	8,281,163	173,997,156	5,027,367
Others	112,168,245	3,332,390	101,649,442	2,936,996
Total	<u>\$560,632,625</u>	<u>\$16,655,752</u>	<u>\$418,086,397</u>	<u>\$12,079,931</u>

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The amount of possible losses for the above credit-related loan approximated to notional amounts if borrowers failed to perform according to the terms of the contract, causing the existing collateral become worthless.

(2) AVERAGE BALANCES AND AVERAGE INTEREST RATE OF INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES

	Jan. 1~ June 30, 2004		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from Central Bank	\$34,878,079	\$1,036,188	1.16%
Time certificate, accepted bills... etc.	129,233,553	3,839,381	1.28%
Call loans to banks	30,238,639	898,355	1.22%
Bills and loans	530,179,011	15,751,010	3.50%
Government and corporate bonds	70,542,840	2,095,747	3.54%
Receivables-credit card	40,354,498	1,198,886	14.73%
Liabilities			
Due to banks	\$79,873,386	\$2,372,947	1.17%
Demand deposits	91,307,190	2,712,632	0.16%
Saving deposits	433,120,304	12,867,508	0.72%
Certified deposits	138,685,208	4,120,178	1.04%
Negotiable certificates of certified deposits	14,099,632	418,884	1.06%
Banker's debenture	26,082,967	774,895	3.56%
Bank's acceptances and fund borrowed	2,131,273	63,318	1.75%
Jan. 1~ June 30, 2003			
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from Central Bank	\$25,526,182	\$737,538	1.63%
Time certificate, accepted bills... etc.	72,042,845	2,081,562	1.83%
Due from other banks	31,295,649	904,237	1.39%
Bills and loans	382,263,334	11,044,881	4.53%
Government and corporate bonds	75,472,641	2,180,660	3.66%
Receivables-credit card	10,548,967	304,795	11.12%
Jan. 1~ June 30, 2003			
	Average balance		Average rate
	NT	US	(%)
Liabilities			
Due to banks	\$45,732,719	\$1,321,373	1.25%

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Demand deposits	60,944,549	1,760,894	0.21%
Saving deposits	293,218,239	8,472,067	0.92%
Certified deposits	147,564,433	4,263,636	1.57%
Negotiable certificates of certified deposits	4,869,414	140,694	1.48%
Banker's debenture	10,833,333	313,012	4.23%
Bank's acceptances and fund borrowed	2,379,176	68,742	1.69%

(3) Regulatory capital ratio

Pursuant to regulations of Banking Law, the ratio of bank's shareholders' equity to its risk-weighted assets shall not be less than 8%; if the said ratio is less than the prescribed ratio, the Bank's power to distribute surplus profits may be restricted by the authority in charge.

As of June 30, 2004 and 2003, the ratio (include subsidiaries) of the Bank's shareholders' equity to its risk-weighted assets was 11.43% and 10.96%, respectively. The equation to calculate such ratios are listed below:

$$\frac{\text{Eligible capital-Deduction item}}{\text{Weighted risk assets} + \text{Capital charges for market risk positions} \times 12.5}$$

- (4) As of June 30, 2004 and 2003, the amounts of insurance coverage for the Bank's premises and equipments are NT\$7,508,225 thousand and NT\$6,251,543 thousand, respectively.
- (5) Certain accounts for the financial statements of the periods ended June 30, 2003 have been reclassified to conform to the current presentation.
- (6) In accordance with S17 of the Trust Laws, the assets and liabilities managed under the Bank's trust are as follows:

Balance Sheet Based on Trust
June 30, 2004

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Trust Assets			Trust Liabilities		
	NT	US		NT	US
Cash and Cash equivalents	\$3,441,032	\$102,229	Trust capital		
			Trust capital-Money	\$74,064,507	\$2,200,372
Short-term investments			Trust capital-Trading	958,655	28,481
Bonds	15,334	456	Securities		
Common stock	17,498	520	Trust capital-Real	2,831,307	84,115
Mutual Fund	16,477	490	Estate		
Assigned Fund	70,672,342	2,099,594			
			Reserve and Accumulated Earnings		
Personal Estate			Net Income and	(24,360)	(724)
Trading Securities	957,660	28,451	Disbursing		
Real Estate			Commitment		
Land	2,708,970	80,480			
Buildings	796	24			
Total	<u>\$77,830,109</u>	<u>\$2,312,244</u>	Total	<u>\$77,830,109</u>	<u>\$2,312,244</u>

Balance Sheet Based on Trust
June 30, 2003

Trust Assets			Trust Liabilities		
	NT	US		NT	US
Cash and Cash equivalents	\$51,707	\$1,494	Trust capital		
			Trust capital-Money	\$22,176,007	\$640,740
Short-term investments			Trust capital-Real	1,982,029	57,267
Mutual Fund	10,000	289	Estate		
Assigned Fund	22,164,002	640,393			
			Reserve and Accumulated Earnings		
Real Estate			Net Income and	(1,975)	(57)
Land	613,347	17,722	Disbursing		
Buildings	463	13	Commitment		
Construction in progress	1,316,542	38,039			
Total	<u>\$24,156,061</u>	<u>\$697,950</u>	Total	<u>\$24,156,061</u>	<u>\$697,950</u>

Details of Trust Properties
June 30, 2004

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Investment Items	Amount	
	NT	US
Short-term Investment		
Bonds	\$15,334	\$456
Common stock	17,498	520
Mutual Fund	16,477	490
Assigned Fund	70,672,342	2,099,594
Personal Estate		
Deposits	3,441,032	102,229
Trading Securities	957,660	28,451
Real Estate		
Land	2,708,970	80,480
Buildings	796	24
Total	<u>\$77,830,109</u>	<u>\$2,312,244</u>