

Cathay United Bank
(The Former United World Chinese Commercial Bank)
Financial Statements
With Review Report of Independent Auditors
For The Nine-Month
Periods Ended September 30, 2003 and 2004

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosure information that is required for Chinese-language reports under the Guidelines Governing the Preparation of Financial Statements of Public Banks by the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, R.O.C. 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

Review report of independent auditors

The Board of Directors
Cathay United Bank

We have reviewed the accompanying balance sheets of Cathay United Bank (The former United World Chinese Commercial Bank) as of September 30, 2003 and 2004, and the related statements of income and cash flows for each of the nine-month periods ended September 30, 2003 and 2004. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a review report on these financial statements based on our review.

Our review was made in accordance with the statements for auditing standards No. 36 "Review of Financial Statements" generally accepted in the Republic of China, which consist principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the "Guidelines Governing the Preparation of Financial Statements of Public Banks", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the Republic of China.

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

We have also reviewed the translation of New Taiwan dollar financial statements as of September 30, 2003 and 2004 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
October 15, 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 review 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 (THE FORMER UNITED WORLD CHINESE COMMERCIAL BANK)
UNAUDITED BALANCE SHEETS
SEPTEMBER 30, 2003 AND 2004
(Expressed in thousands of dollars)

ASSETS	NOTES	September 30, 2003		September 30, 2004	
		NT\$	US\$ (Note II)	NT\$	US\$ (Note II)
Cash and cash equivalents	IV.1	\$15,652,870	\$463,377	\$16,576,802	\$487,696
Due from Central Bank and call loans to banks	IV.2, V and X	50,688,605	1,500,551	52,736,394	1,551,527
Securities purchased-net	II, IV.3, VI and X	159,732,321	4,728,605	185,864,690	5,468,217
Receivables-net	II, IV.4, V and X	20,886,785	618,319	68,147,156	2,004,918
Prepayments	IV.5 and V	969,350	28,696	1,479,362	43,523
Bills and loans-net	II, IV.6, V and X	396,790,672	11,746,319	548,579,361	16,139,434
Long-term investments	I, IV.7, V, VI and X				
Equity method		5,587,375	165,405	5,029,484	147,970
Cost method		5,996,129	177,505	5,737,749	168,807
Others		400,000	11,841	28,935,720	851,301
Premises and equipment	II, V, VII and X				
Cost					
Land		14,437,985	427,412	14,910,991	438,688
Building		8,763,182	259,419	9,063,004	266,638
Furniture and fixtures		2,739,815	81,108	3,807,772	112,026
Transportation equipment		74,102	2,194	81,615	2,401
Miscellaneous equipment		2,580,062	76,378	3,997,949	117,621
Total Cost		28,595,146	846,511	31,861,331	937,374
Less: Accumulated depreciation		(5,755,744)	(170,389)	(6,994,412)	(205,779)
Construction in progress and procurement		309,403	9,159	796,458	23,432
Premises and Equipment-net		23,148,805	685,281	25,663,377	755,027
Other assets	II and IV.8	6,805,252	201,459	4,459,099	131,189
TOTAL ASSETS		\$686,658,164	\$20,327,358	\$943,209,194	\$27,749,609

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

English Translation of Financial Statements Originally Issued in Chinese
CATHAY UNITED BANK (THE FORMER UNITED WORLD CHINESE COMMERCIAL BANK)
UNAUDITED BALANCE SHEETS (CONTINUED)
SEPTEMBER 30, 2003 AND 2004
(Expressed in thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	September 30, 2003		September 30, 2004	
		NT\$	US\$ (Note II)	NT\$	US\$ (Note II)
Due to Central Bank and commercial banks	IV.9 and X	\$50,294,397	\$1,488,881	\$75,085,702	\$2,209,053
Payables	IV.10 and V	13,963,330	413,361	14,559,282	428,340
Advances		933,859	27,645	979,694	28,823
Deposits and remittances	IV.11, V and X	528,397,495	15,642,318	703,318,830	20,691,934
Financial debentures payable	IV.12 and X	15,000,000	444,050	34,550,000	1,016,475
Banker's acceptances and funds borrowed	IV.13 and X	1,952,788	57,809	1,997,029	58,754
Other liabilities	IV.14	16,827,926	498,162	34,409,555	1,012,343
TOTAL LIABILITIES		627,369,795	18,572,226	864,900,092	25,445,722
Capital stock	IV.15	39,715,627	1,175,714	43,182,407	1,270,445
Capital reserves	II and IV.16				
Additional paid-in capital		4,249,096	125,787	13,449,023	395,676
Others		12,796	379	14,051	413
Retained earnings	IV.17				
Legal reserve		9,122,517	270,057	9,951,639	292,781
Unappropriated earnings		6,259,489	185,302	11,637,433	342,378
Unrealized losses on long-term investments	IV.7	(181,931)	(5,386)	(95,426)	(2,807)
Conversion adjustments	II	110,775	3,279	169,975	5,001
TOTAL SHAREHOLDERS' EQUITY		59,288,369	1,755,132	78,309,102	2,303,887
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$686,658,164	\$20,327,358	\$943,209,194	\$27,749,609

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

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

ITEMS	NOTES	January 1- September 30, 2003		January 1- September 30, 2004	
		NT\$	US\$ (Note II)	NT\$	US\$ (Note II)
OPERATING INCOME:					
Interest revenue	V	\$17,383,506	\$514,609	\$23,564,581	\$693,280
Commission and handling fees	V	2,002,638	59,285	5,031,330	148,024
Gains on sales of securities-net	II	756,362	22,391	407,769	11,997
Investment income-net	II and IV.7	1,430,470	42,346	557,584	16,404
Profit on exchange-net	II	164,567	4,872	337,562	9,931
Other operating income	V	473,695	14,023	715,031	21,037
Total operating income		22,211,238	657,526	30,613,857	900,673
OPERATING COST:					
Interest expense	V	(4,852,464)	(143,649)	(5,994,830)	(176,371)
Commissions and handling charges		(243,524)	(7,209)	(700,064)	(20,596)
Provisions for possible losses	II	(3,651,107)	(108,085)	(922,419)	(27,138)
Operating expenses	IV.19 and V	(5,354,713)	(158,517)	(8,930,253)	(262,732)
Other operating expenses		(783,043)	(23,181)	(493,646)	(14,523)
Total operating cost		(14,884,851)	(440,641)	(17,041,212)	(501,360)
NET OPERATING INCOME		7,326,387	216,885	13,572,645	399,313
NON-OPERATING INCOME:					
Gains on disposal of premises and equipment	II	1,728	51	1,167,794	34,357
Others		44,677	1,323	103,002	3,030
Total non-operating income		46,405	1,374	1,270,796	37,387
NON-OPERATING LOSS:					
Losses on disposal of premises and equipment	II	(27,102)	(802)	(31,968)	(940)
Others		(31,883)	(944)	(83,040)	(2,443)
Total non-operating loss		(58,985)	(1,746)	(115,008)	(3,383)
INCOME BEFORE INCOME TAX		7,313,807	216,513	14,728,433	433,317
INCOME TAX EXPENSES	II and IV.20	(1,112,000)	(32,919)	(3,091,000)	(90,939)
NET INCOME		\$6,201,807	\$183,594	\$11,637,433	\$342,378
EARNINGS PER SHARE (IN NT DOLLARS)					
INCOME BEFORE INCOME TAX	IV.21	\$1.84	\$0.054	\$3.41	\$0.100
INCOME TAX EXPENSES		(0.28)	(0.008)	(0.72)	(0.021)
NET INCOME		\$1.56	\$0.046	\$2.69	\$0.079

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

English Translation of Financial Statements Originally Issued in Chinese
 CATHAY UNITED BANK (THE FORMER UNITED WORLD CHINESE COMMERCIAL BANK)
 UNAUDITED STATEMENTS OF CASH FLOWS
 FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2004
 (Expressed in thousands of dollars)

ITEMS	NOTES	January 1- September 30, 2003		January 1- September 30, 2004	
		NT\$	US\$ (Note II)	NT\$	US\$ (Note II)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income		\$6,201,807	\$183,594	\$11,637,433	\$342,378
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	II	502,944	14,889	848,510	24,963
Provisions for possible losses	II	3,651,107	108,085	922,419	27,138
Premises and equipment transfer to expenses		178,522	5,285	-	-
Loss (gain) on disposal of premises and equipment and non-operating assets	II	25,374	751	(1,135,826)	(33,416)
Investment income recognized by the equity method	II and IV.7	(379,375)	(11,231)	(303,815)	(8,938)
Cash dividends received from investee companies using by the equity method		50,802	1,504	222,397	6,543
Gain on long-term investments		(975,544)	(28,879)	(195,723)	(5,758)
Adjustment of changes in exchange rates		47	1	8,036	236
Increase in receivables		(3,096,435)	(91,665)	(9,440,486)	(277,743)
Decrease in prepayments		443,986	13,143	312,670	9,199
Decrease in securities purchased for trading purposes		13,562,308	401,489	18,144,399	533,816
Increase (decrease) in payables		3,384,075	100,180	(2,850,807)	(83,872)
Decrease in advances		(91,866)	(2,719)	(697,105)	(20,509)
Increase in other liabilities		961,371	28,460	7,426,887	218,502
Net cash provided by operating activities		24,419,123	722,887	24,898,989	732,539
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from disposal of premises and equipment and non-operating assets		29,385	870	1,767,725	52,007
Addition in premises and equipment		(596,358)	(17,654)	(971,410)	(28,579)
Increase in long-term investments in bonds		-	-	(18,899,868)	(556,042)
Proceeds from disposal of investments		982,797	29,094	6,299,015	185,320
Increase in securities purchased for non-trading purposes		(50,751,690)	(1,502,418)	(25,574,712)	(752,419)
Net increase in bills and loans		(4,642,757)	(137,441)	(40,304,123)	(1,185,764)
Decrease in other assets		1,359,871	40,257	3,878,366	114,103
Decrease in due from Central Bank and commercial banks		8,362,038	247,544	1,567,979	46,131
Increase in deferred charges		(62,898)	(1,862)	(108,171)	(3,183)
Net cash used in investing activities		(45,319,612)	(1,341,610)	(72,345,199)	(2,128,426)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Increase (decrease) in due to Central Bank and commercial banks		6,084,755	180,129	(5,906,991)	(173,786)
Increase in deposits and remittances		13,722,137	406,221	43,361,910	1,275,726
Increase in financial bonds payable		5,000,000	148,016	9,500,000	279,493
Increase (decrease) in banker's acceptances and funds borrowed		(253,797)	(7,513)	243,505	7,165
Increase (decrease) in guaranty and marginal deposits		49,259	1,458	(26,618)	(783)
Cash dividends paid		-	-	(1,934,620)	(56,918)
Net cash provided by financing activities		24,602,354	728,311	45,237,186	1,330,897
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES		(62,894)	(1,862)	30,935	910
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		3,638,971	107,726	(2,178,089)	(64,080)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		12,013,899	355,651	18,754,891	551,776
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		\$15,652,870	\$463,377	\$16,576,802	\$487,696
SUPPLEMENT DISCLOSURES OF CASH FLOWS INFORMATION:					
Interest expenses paid		\$5,316,662	\$157,391	\$5,914,444	\$174,005
Income tax paid		\$188,094	\$5,568	\$252,122	\$7,418

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

(The Former United World Chinese Commercial Bank)

Notes to financial statements

September 30, 2003 and 2004

(In thousands of dollars except share and per share data and unless others stated)

I. Business

Cathay United Bank (the “Bank”), originally named United World Chinese Commercial Bank (“UWCCB”), was enfranchised by the government of the Republic of China (“ROC”) in January 1975. The Bank started its operations on May 20, 1975 and engages 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 business; (4) off-shore banking business; and (5) other financial operations related to the promotion of investments of overseas Chinese.

The Bank’s stock was traded on the Taiwan Stock Exchange (TSE) until December 18, 2002. On December 18, 2002, the Bank became a wholly-owned subsidiary of Cathay Financial Holding Co., Ltd. (“Cathay Financial Holdings”) through a conversion transaction and delisted from the TSE since that date.

As approved by the board of directors of the Bank on April 21, 2003 and approved by the ROC Ministry of Financial (the “MOF”) on June 26, 2003, under the Financial Institution Merger Law, the Bank engaged in a merger with the former Cathay United Bank, a wholly-owned subsidiary of Cathay Financial Holdings. The record date for such merger was October 27, 2003 and the former Cathay United Bank was dissolved, while UWCCB survived and was named Cathay United Bank.

As of September 30, 2003 and 2004, the Bank employed 2,551 and 3,981 employees, respectively.

II. Summary of significant accounting policies

The financial statements were prepared in conformity with “Guidelines Governing the Preparation of Financial Statements of Public Banks”, “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” 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 head office, domestic 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-currency transactions

Foreign-currency 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 foreign exchange contracts, are converted into New Taiwan dollars ("NT dollars") at the exchange rates as at the balance sheet date. Foreign currency income and expenses are converted into NT dollars each month based on the month-end exchange rates. The exchange gains or losses incurred are credited to or charged against current income.

Assets and liabilities of foreign branches, which are denominated in their respective foreign currencies, are converted into NT dollars using the method described in the preceding paragraph. Foreign currency denominated income and expenses of such branches are translated at the weighted-average exchange rate. Gains or losses resulting from the translation are treated as "conversion adjustments" under shareholders' equity.

3. Derivative financial instruments

Forward foreign exchange contracts

Foreign currency-denominated assets and liabilities derived from trading related to forward foreign exchange contracts are recorded by the contracted 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 term and recognize the mark-to-market differences as gains or losses in the current income statement. On the balance sheet date, the carrying amount of the receivables and payables from forward contracts are netted, and the difference is reported as an asset or liability.

Interest rate swaps

There is no physical exchange of notional principal amounts for interest rate swaps. Instead, memo entries are made on the trade date. For interest rate swap transactions undertaken for trading purposes, mark-to-market value is calculated based on the discounted present value of all future cash flows using the current market rate at each balance sheet date. Any difference between the carrying amount and mark-to-market value is recognized as gain or loss. For swaps entered into for hedging purposes, interest income or expense is recognized upon settlement.

Cross-currency swaps

For cross-currency swap contracts undertaken for non-trading purposes, amounts to be exchanged on settlement dates are recorded at the contracted forward rate. The interest, which may involve the exchange of fixed-rate interest payments for floating-rate interest payments based on a notional principal amount, on each settlement date is recorded as revenue or expense.

Options

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

Forward rate agreements (FRA)

Only memo entries for notional principal amounts are made on the contract date for forward rate agreements. The differences between the market rate and the contracted 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 purposes 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 into the interest rate contracts, and are classified as realized or unrealized gains or losses depending on whether the gains or losses have been realized.

4. Securities purchased

Securities purchased are stated at the lower of cost or market value. Except for the parent company's equity shares held by the Bank, the lower of cost or 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 offset against the provision to the extent of the provision 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 using specific identification method.

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.

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 guidelines issued by the relevant regulations. When receivables are considered uncollectible, a write-off should be made after 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 at least 20% but no more than 50%, or less than 20% but the Bank and related parties in the aggregate hold over 20% of the common stock and have significant influence over the investee are accounted for under the equity method; however, if the audited financial statements of the equity method investee company is not received in time for the equity income (loss) recognition, the Bank may delay the recognition until the following year. The difference between the cost of investment and the company's share of the investee company' 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 stock, an allowance for decline in market value is made when the carrying amounts of the investments are below the market value, with the same amount debited to shareholders' equity. For investments in unlisted stock, 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 bonds, first to default credit linked notes and callable corridor notes linked to USD LIBOR issued by internationally recognized financial institutions. Investments in debt securities are stated at cost, adjusted for the amortization of premiums or discounts over the periods from the acquisition to maturity on a straight-line basis. The amortization of premiums or discounts is included as part of interest income or interest expense. Devaluations are made and recognized immediately as an expense when the carrying amounts are not expected to be fully recovered. Costs of bonds upon maturity or disposal are determined by the specific identification 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 gains or losses thereafter are charged to non-operating income or loss.
- (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.

Costs associated with the SOGO affinity credit cards business are amortized on a straight-line basis over an estimated economic life 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 provided at the maximum limit allowed by the relevant laws and regulations pertaining to guarantees provided for customs duties, commodity taxes and contracts performance obligations.

11. Reserves for losses on stock brokerage transactions

Pursuant to 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 for offsetting trading losses.

13. Pension plans

The Bank has a pension plan covering all regular employees. Pension benefit payments under the plan are based on years of service and final average compensation of the employees. The Bank has established an employee retirement fund committee and a committee to supervise the employee 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 plan, which is administered and operated by an independent employee retirement fund committee. The pension plan is not reflected in the Bank's 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 the employees' average remaining service period of 15 years.

14. Recognition of interest revenue and service fees

Interest income is recognized on an accrual basis except for loans classified as delinquent accounts. The accrual of income from delinquent accounts is discontinued; subsequent interest payments 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.

English Translation of Financial Statements Originally Issued in Chinese

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 has 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 reasonably estimated and the loss is possible, the obligation is disclosed as contingent liabilities in the footnotes to the financial statements.

17. The interim financial statement

The Bank's interim financial statements are prepared according to the ROC SFAS No.23, "Interim financial report and disclosures".

18. Basis for converting financial statements

The Bank's financial statements are stated in NT dollars ("NT\$"). Conversion of the September 30, 2003 and 2004 NT dollar amounts into US dollar amounts is provided solely for the convenience of the readers, using the noon buying rate of NT\$33.78 and NT\$33.99 to US\$1.00 on September 30, 2003 and 2004, 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.

English Translation of Financial Statements Originally Issued in Chinese

III. Accounting Changes

Effective January 1, 2004, the Bank adopted the new “Guidelines Governing the Preparation of Financial Statements of Public Banks” to account for its bills transactions related to resell or repurchase agreements using the financing method which resulted in an increase of NT\$170 in net income for the period from January 1 to September 30, 2004.

Since the repurchase/resell transactions involve a significant volume of daily activities, and the accounting systems had been altered several times, the historical trading data for periods prior to January 1, 2004 are difficult to trace and accordingly, calculating the cumulative effect of this change in accounting principles is difficult for those prior periods. Thus, the Bank did not calculate the cumulative effect of this change in accounting principles, and the pro forma information was not disclosed for those prior periods.

IV. Breakdown of Significant Accounts

1. Cash and cash equivalents

	September 30,			
	2003		2004	
	NT	US	NT	US
Cash on hand	\$6,532,910	\$193,396	\$7,851,445	\$230,993
Checks for clearance	4,147,227	122,772	4,311,258	126,839
Due from commercial banks	4,972,733	147,209	4,414,099	129,864
Total	<u>\$15,652,870</u>	<u>\$463,377</u>	<u>\$16,576,802</u>	<u>\$487,696</u>

2. Due from Central Bank and call loans to banks

	September 30,			
	2003		2004	
	NT	US	NT	US
Deposit reserve	\$14,971,908	\$443,218	\$20,069,432	\$590,451
General account	5,752,129	170,282	12,782,961	376,080
Deposit in Central Bank	6,236,000	184,606	6,536,000	192,292
Call loans to banks	23,728,568	702,445	13,348,001	392,704
Total	<u>\$50,688,605</u>	<u>\$1,500,551</u>	<u>\$52,736,394</u>	<u>\$1,551,527</u>

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3. Securities purchased-net

	September 30,			
	2003		2004	
	NT	US	NT	US
Stock	\$3,999,868	\$118,409	\$4,757,773	\$139,976
Mutual funds	2,661,793	78,798	2,882,921	84,817
Government and corporate bonds	49,907,965	1,477,441	49,198,522	1,447,441
Certificates of deposit	98,585,510	2,918,458	116,604,721	3,430,560
Commercial papers	2,614,438	77,396	8,411,206	247,461
Securities purchased under agreements to resell	2,402,821	71,131	4,354,403	128,108
Others	20,260	600	79,714	2,345
Total	160,192,655	4,742,233	186,289,260	5,480,708
Less: Allowance for decline in market price of securities	(460,334)	(13,628)	(424,570)	(12,491)
Net	<u>\$159,732,321</u>	<u>\$4,728,605</u>	<u>\$185,864,690</u>	<u>\$5,468,217</u>

(1) NT\$14,375,164 and NT\$16,127,907 of the securities purchased on September 30, 2003 and 2004, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of September 30, 2003 and 2004, bond repurchase agreements in the notional amount of NT\$16,041,680 and NT\$29,572,759 were entered into in connection with NT\$14,548,100 and NT\$27,886,400 of the above government and corporate bonds, respectively. Such repurchase agreements were recorded under other liability account. The Bank is required to repurchase at a price of NT\$16,077,226 and NT\$29,608,173 before March 26, 2004 and March 28, 2005, respectively.

4. Receivables-net

	September 30,			
	2003		2004	
	NT	US	NT	US
Accounts receivable	\$15,989,522	\$473,343	\$62,974,098	\$1,852,724
Accrued interest receivable	3,072,865	90,967	3,617,164	106,419
Customers' liabilities under acceptances	251,103	7,434	681,786	20,058
Tax refundable	453,074	13,413	421,474	12,400
Others	1,668,236	49,385	1,395,706	41,062
Total	21,434,800	634,542	69,090,228	2,032,663
Less: Allowance for doubtful accounts	(548,015)	(16,223)	(943,072)	(27,745)
Net	<u>\$20,886,785</u>	<u>\$618,319</u>	<u>\$68,147,156</u>	<u>\$2,004,918</u>

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

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5. Prepayments

	September 30,			
	2003		2004	
	NT	US	NT	US
Inter-bank clearing funds	\$821,762	\$24,327	\$811,131	\$23,864
Others	147,588	4,369	668,231	19,659
Total	<u>\$969,350</u>	<u>\$28,696</u>	<u>\$1,479,362</u>	<u>\$43,523</u>

6. Bills and loans-net

	September 30,			
	2003		2004	
	NT	US	NT	US
Inward-outward documentary bills purchased	\$892,428	\$26,419	\$1,236,847	\$36,389
Loans	392,428,795	11,617,193	549,101,128	16,154,784
Overdrafts	716,432	21,209	438,232	12,893
Delinquent accounts	9,346,366	276,683	3,666,727	107,877
Total	403,384,021	11,941,504	554,442,934	16,311,943
Less: Allowance for doubtful accounts	(6,593,349)	(195,185)	(5,863,573)	(172,509)
Net	<u>\$396,790,672</u>	<u>\$11,746,319</u>	<u>\$548,579,361</u>	<u>\$16,139,434</u>

(1) Non-accrual accounts amounted to NT\$9,346,366 and NT\$8,250,524 as of September 30, 2003 and 2004, respectively. The unrecognized interest on the non-accrual accounts amounted to NT\$358,380 and NT\$102,254 for the nine-month periods ended September 30, 2003 and 2004, respectively.

(2) For the nine-month periods ended September 30, 2003 and 2004, the Bank had not written off any bills and loans before legal proceedings to collect these bills and loans had been initiated.

(3) Additional information on bills and loans by type of industry and geographic region is shown in Note X.2.

(4) Information on bad and doubtful accounts (including receivables, bills and loans) is as follows:

	Jan. 1 ~Sept. 30, 2003					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	\$6,624,009	\$196,093	\$236,724	\$7,007	\$6,860,733	\$203,100
Provision of doubtful account	3,118,871	92,329	-	-	3,118,871	92,329
Write-off	(5,662,749)	(167,636)	-	-	(5,662,749)	(167,636)
Recoveries	2,834,014	83,896	-	-	2,834,014	83,896
Reclassification	(1,442,847)	(42,713)	1,442,847	42,713	-	-
Effects of exchange rates change	-	-	(9,505)	(281)	(9,505)	(281)
Balance, end of the period	<u>\$5,471,298</u>	<u>\$161,969</u>	<u>\$1,670,066</u>	<u>\$49,439</u>	<u>\$7,141,364</u>	<u>\$211,408</u>

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	Jan. 1 ~Sept. 30, 2004					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	\$4,012,984	\$118,063	\$3,518,370	\$103,512	\$7,531,354	\$221,575
Provision of doubtful account	916,009	26,949	-	-	916,009	26,949
Write-off	(6,241,313)	(183,622)	-	-	(6,241,313)	(183,622)
Recoveries	4,600,159	135,339	-	-	4,600,159	135,339
Reclassification	1,019,391	29,991	(1,019,391)	(29,991)	-	-
Effects of exchange rates change	-	-	436	13	436	13
Balance, end of the period	<u>\$4,307,230</u>	<u>\$126,720</u>	<u>\$2,499,415</u>	<u>\$73,534</u>	<u>\$6,806,645</u>	<u>\$200,254</u>

In recent years, the local economic and financial environment has been affected by several factors, which have led to the slowdown of Taiwan's economic growth, the reduction of investment, the bearish nature of the stock market, and the depreciation of the New Taiwan dollar. As a result, certain business enterprises failed to meet their contractual obligations as they came due. To deal with the difficult situation, the government has taken various economy-boosting policies. The Bank's financial statements include provision 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 operating or 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 collateral might result in amounts that are different from those presently determined or estimated.

7. Long-term investments

	September 30,					
	2003			2004		
	NT	US	% of ownership	NT	US	% of ownership
(i) Investments in Equity Securities:						
Seaward Card Co., Ltd.	\$40,280	\$1,193	99.99	\$59,635	\$1,755	99.99
Seaward Leasing Ltd.	2,171,173	64,274	99.97	2,237,710	65,835	99.97
Cathay Futures Corp. (the former Seaward Futures Corp.)	1,671,020	49,468	99.82	721,533	21,228	99.82
Indovina Bank	443,882	13,140	50.00	527,149	15,509	50.00
Seaward Insurance Agent Corp.	40,325	1,194	99.99	-	-	-
Taiwan Real-estate Management Corp.	54,162	1,603	30.15	51,947	1,528	30.15
Taiwan Finance Corp.	1,196,385	35,417	24.57	1,296,483	38,143	24.57
Seaward Property Insurance Agent Corp.	2,000	59	99.99	-	-	-
Cathay Bank Property Agency of Association	-	-	-	9,388	276	99.80
Cathay Bank Life Insurance Agency of Association	-	-	-	117,846	3,467	99.90
Cathay Venture Capital Corp.	-	-	-	29,817	877	3.33

(To be continued)

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(Continued)

	September 30,					
	2003			2004		
	NT	US	% of ownership	NT	US	% of ownership
Vista Technology Venture Capital Corp.	-	-	-	9,825	289	5.00
Subtotal	5,619,227	166,348		5,061,333	148,907	
Less: Unrealized gain from intercompany transactions	(31,852)	(943)		(31,849)	(937)	
Investment in equity method	5,587,375	165,405		5,029,484	147,970	
China Bills Finance Corp.	109,848	3,252	1.40	-	-	-
Taiwan Fertilizer Co., Ltd.	104,173	3,084	0.58	-	-	-
Chunghwa Telecom Co., Ltd.	438,037	12,967	0.09	438,037	12,887	0.09
International Securities Investment Trust Co., Ltd.	4,900	145	4.74	4,900	144	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	54	4.87
Han Tech Venture Capital Corp.	154,927	4,586	8.03	154,927	4,558	8.03
Taiwan Securities Central Depository Co., Ltd.	1,850	55	0.18	1,850	54	0.18
Taipei Forex Inc.	8,000	237	4.04	8,000	235	4.04
Global Securities Finance Corp.	161,930	4,794	2.45	161,930	4,764	2.45
An Feng Enterprise Co., Ltd.	4,500	133	15.00	4,500	132	15.00
Euroc II Venture Capital Corp.	40,000	1,184	5.00	40,000	1,177	5.00
Taiwan International Merchandise Exchange Corp.	12,500	370	0.63	12,490	368	0.63
Strategic Value Fund, Limited Partnership	170,019	5,033	-	158,670	4,668	-
Chan Sheng Investment Development Co., Ltd.	127,400	3,772	4.90	7,400	218	4.90
CDIB & Partners Investment Holding Corp.	500,000	14,802	4.95	500,000	14,710	4.95
Financial Information Service Co., Ltd.	45,500	1,347	1.14	45,500	1,339	1.14
Sheng-Hua Venture Capital Corp.	50,000	1,480	2.50	50,000	1,471	2.50
IBU Securities Co., Ltd.	1,045,000	30,936	10.31	1,045,000	30,744	10.31
Latin America Development Co., Ltd.	6,250	185	1.79	6,250	184	1.79
Capital Venture Fund II Corp.	30,000	888	5.00	30,000	883	5.00
ProTec Capital Corp.	8,000	237	4.88	-	-	-
Fu Yu Venture Capital Investment Corp.	50,000	1,480	3.70	50,000	1,471	3.70

(To be continued)

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(Continued)

	September 30,					
	2003			2004		
	NT	US	% of ownership	NT	US	% of ownership
Taipei Smart Card Corp.	25,000	740	5.00	25,000	736	5.00
New Century InfoComm Co., Ltd.	864,000	25,577	1.68	864,000	25,419	1.68
Harbinger Venture Capital Corp.	67,000	1,984	3.35	67,000	1,971	3.35
United Venture Capital Corp.	40,000	1,184	4.52	40,000	1,177	4.52
Centillion Venture Capital Corp.	60,000	1,776	5.00	60,000	1,765	5.00
Taiwan Asset Management Corp.	1,000,000	29,603	5.68	1,020,000	30,009	5.79
Taipei Financial Center Corp.	400,000	11,841	2.35	400,000	11,768	2.35
Taiwan Financial Asset Service Corp.	50,000	1,480	2.94	100,000	2,942	5.88
Kaohsiung Rapid Transit corp.	299,000	8,851	2.99	299,000	8,797	2.99
Taiwan Cooperative Bank	116,435	3,447	0.21	116,435	3,426	0.21
Mondex Taiwan Inc.	-	-	-	25,000	736	6.47
Investment in cost method	5,996,129	177,505		5,737,749	168,807	
Total	11,583,504	342,910		10,767,233	316,777	
(ii) Others						
Government Bond	-	-		12,054,929	354,661	
Financial Bonds	-	-		80,000	2,354	
Foreign Financial Bonds	-	-		300,000	8,826	
First to Default Credit Linked Note	-	-		1,529,550	45,000	
Callable Corridor Note Linked to USD						
Libor	-	-		9,494,557	279,334	
Collateralized Debt Obligation	-	-		1,766,879	51,982	
Collateral Mortgage Obligation	-	-		2,635,636	77,542	
US Treasury	-	-		674,169	19,834	
Preferred Stock	400,000	11,841		400,000	11,768	
Subtotal	400,000	11,841		28,935,720	851,301	
Total	\$11,983,504	\$354,751		\$39,702,953	\$1,168,078	

(1) Due to the recurring losses incurred by Wallant International Trade Inc. and Chan Sheng Investment Development Co., Ltd., the Bank has recognized the losses of the investees based on their net equity.

(2) On December 24, 2003, the shareholders of Seaward Futures Corp. resolved to reduce its capital stock by NT\$950,000, or 95,000 shares, and change its name to Cathay Futures Corp. The effective date of reducing capital was set on February 16, 2004.

(3) In 2003, the liquidation process of Pro Tec Capital Corp. and Seaward Property Insurance Agent Corp. was completed.

- (4) Due to the merger with the former Cathay United Bank, four investments: Cathay Bank Life Insurance Agency of Association, Cathay Bank Property Agency of Association, Cathay Venture Capital Corp., and Vista Technology Venture Capital Corp., have been added into the Bank's portfolio. Equity method was applied for these investees whose common stock was held by the Bank and/or its related parties in an amount over 20%. However, the Bank has deferred the recognition of its investment income (loss) in Vista Technology Venture Capital Corp. until the following year.
- (5) According to the board of director's meeting, Seaward Insurance Agent Corp. 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 was approved by the shareholder's meeting of Seaward Insurance Agent Corp. on November 28, 2003.
- (6) As of September 30, 2003 and 2004, the Bank had recorded unrealized losses on long-term investment of Seaward Leasing Ltd. amounting to NT\$181,931 and NT\$95,426, respectively, with the same amount debited to shareholders' equity.
- (7) According to the board of director's meeting, Indovina Bank has scheduled to increase capital by US\$2,500 by cash for its operational requirements. The increase has been approved by the MOF.
- (8) Certain of the above long-term investments and related investment gains (losses) accounted for by the equity method as of and for the nine-month periods ended September 30, 2003 and 2004 were recognized based on the investees' unreviewed financial statements. No material adjustments were anticipated had those financial statements been reviewed.
- (9) As of September 30, 2004, a bond repurchase agreement in the notional amount of NT\$3,962,232 was entered into in connection with NT\$3,979,800 government bonds and US treasury investments. Such repurchase agreement was recorded under other liability account. The Bank is required to repurchase at a price of NT\$3,967,123 by October 15, 2004.
- (10) Long-term investments in government bond of NT\$144,746 on September 30, 2004 were pledged to other parties as collateral for business reserves and guarantees.

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8. Other assets

	September 30,			
	2003		2004	
	NT	US	NT	US
Refundable deposits	\$548,129	\$16,227	\$901,576	\$26,525
Foreclosed properties-net	2,911,331	86,185	1,541,327	45,347
Deferred tax assets-net	2,447,775	72,462	767,273	22,574
Non-operating assets-net	702,709	20,803	736,000	21,653
Deferred charges	195,308	5,782	494,525	14,549
Others	-	-	18,398	541
Total	\$6,805,252	\$201,459	\$4,459,099	\$131,189

9. Due to Central Bank and commercial banks

	September 30,			
	2003		2004	
	NT	US	NT	US
Due to Central Bank	\$147,182	\$4,357	\$918,738	\$27,030
Due to commercial banks	24,451,336	723,841	40,258,731	1,184,429
Overdrafts from banks	632,581	18,726	337,487	9,929
Call loans from banks	25,063,298	741,957	33,570,746	987,665
Total	\$50,294,397	\$1,488,881	\$75,085,702	\$2,209,053

10. Payables

	September 30,			
	2003		2004	
	NT	US	NT	US
Accounts payable	\$5,111,413	\$151,315	\$7,142,636	\$210,139
Accrued interest	1,736,862	51,417	2,486,608	73,157
Accrued expenses	318,510	9,429	712,371	20,958
Acceptances	270,223	8,000	688,759	20,264
Collection for customers	2,529,226	74,873	1,483,615	43,649
Others	3,997,096	118,327	2,045,293	60,173
Total	\$13,963,330	\$413,361	\$14,559,282	\$428,340

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11. Deposits and remittances

	September 30,			
	2003		2004	
	NT	US	NT	US
Check deposits	\$10,823,714	\$320,418	\$11,854,038	\$348,751
Demand deposits	53,787,167	1,592,279	74,927,369	2,204,395
Certified deposits	99,751,705	2,952,981	138,492,320	4,074,502
Saving deposits	324,463,597	9,605,198	435,449,840	12,811,116
Foreign currencies deposits	39,321,378	1,164,043	42,268,099	1,243,545
Outward remittances	373	11	715	21
Remittances payable	249,561	7,388	326,449	9,604
Total	\$528,397,495	\$15,642,318	\$703,318,830	\$20,691,934

12. Financial debentures payable

	September 30,			
	2003		2004	
	NT	US	NT	US
Financial debentures	\$5,000,000	\$148,017	\$22,200,000	\$653,133
Subordinated Financial debentures	10,000,000	296,033	12,350,000	363,342
Total	\$15,000,000	\$444,050	\$34,550,000	\$1,016,475

On May 23, 2002, the Bank issued a five-year subordinated financial debentures amounting to NT\$5,000,000 with a stated interest rate of 4.15%. On September 10, 2002, the Bank issued another five-year and six-month subordinated financial debentures amounting to NT\$5,000,000 with a stated interest rate of 5.9% minus the six-month LIBOR rate. The subordinated financial debentures are repayable at maturity, and the interest is payable semi-annually

On April 28, 2003, the Bank issued a five-year subordinated financial debentures amounting to NT\$2,350,000 with a stated interest rate of 2%. The subordinated financial debentures is repayable at maturity, and the interest is payable annually.

Each subordinated financial debentures has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.

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On June 20, 2003, the Bank issued five-year and six month financial debentures amounting to NT\$5,000,000 with a stated interest rate of 3.019%. On December 4, 2003, December 10, 2003, and December 11, 2003, the Bank issued five-year financial debentures amounting to NT\$3,200,000, NT\$2,700,000 and NT\$1,800,000, respectively, with floating interest rates; thereafter, a six-year financial debentures amounting to NT\$2,000,000 was issued with floating interest rate on March 29, 2004. These financial debentures are repayable at maturity, and the interest is payable quarterly or semi-annually.

On July 8 and July 15, 2004, the Bank issued five-year to seven-year financial debentures amounting to NT\$1,000,000, NT\$3,500,000, NT\$2,000,000, and NT\$1,000,000, respectively, with floating interest rate. These financial debentures are repayable at maturity, and the interest is payable quarterly or semi-annually.

The priority claim of these financial debentures, including principal and interest, is equal to the other debts of the Bank but is senior to common stock.

13. Banker's acceptances and funds borrowed

	September 30,			
	2003		2004	
	NT	US	NT	US
Borrowed funds-Central Bank	\$1,416,728	\$41,940	\$1,297,658	\$38,178
Borrowed funds-Others	536,060	15,869	699,371	20,576
Total	<u>\$1,952,788</u>	<u>\$57,809</u>	<u>\$1,997,029</u>	<u>\$58,754</u>

14. Other liabilities

	September 30,			
	2003		2004	
	NT	US	NT	US
Reserve for losses on guarantees	\$18,796	\$556	\$28,823	\$848
Reserve for losses on stock brokerage transactions	38,403	1,137	-	-
Reserve for losses on trading securities	10,454	310	131,152	3,859
Securities sold under agreements to repurchase	16,041,680	474,887	33,534,991	986,613
Guarantee and margin deposits	684,474	20,262	672,565	19,787
Others	34,119	1,010	42,024	1,236
Total	<u>\$16,827,926</u>	<u>\$498,162</u>	<u>\$34,409,555</u>	<u>\$1,012,343</u>

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15. Capital stock

At the beginning of the year 2003, the Bank had authorized capital stock amounting to NT\$39,715,627 divided into 3,971,563 shares, each with a par value of NT\$10 per share.

On October 27, 2003, the Bank merged with the former Cathay United Bank through a conversion transaction. The ratio for exchange of shares was 0.2808 the Bank's share for one share of the former Cathay United Bank. After the exchange, capital stock of the Bank increased by 346,678 shares. As the result, the total issued capital stock amounted to NT\$43,182,407 divided into 4,318,241 shares.

16. Capital reserves

	September 30,			
	2003		2004	
	NT	US	NT	US
Capital reserves from the merger	\$-	\$-	\$9,199,927	\$270,666
Additional paid-in capital	4,249,096	125,787	4,249,096	125,010
Capital reserves from equity investees	2,399	71	3,654	107
Capital reserves from treasury stock	10,397	308	10,397	306
Total	<u>\$4,261,892</u>	<u>\$126,166</u>	<u>\$13,463,074</u>	<u>\$396,089</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 stipulate 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.

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(3) The Bank's directors resolved the following resolution on January 29, 2003 and February 6, 2004, respectively. The information is as follows:

(a) Make up deficit in 2002 by:

- 1) legal reserve of NT\$ 8,325,411;
- 2) special reserve of NT\$ 257,487; and
- 3) undistributed earnings of NT\$ 224,412.

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

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

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

The above appropriation and distribution by the Bank's board of directors was 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~ September 30,			
	2003		2004	
	NT	US	NT	US
Personnel expenses				
Salary expenses	\$1,898,450	\$56,201	\$2,842,651	\$84,050
Insurance expenses	191,612	5,672	277,027	8,150
Pension expenses	247,070	7,314	268,377	7,896
Others	409,695	12,128	696,898	20,085
Depreciation expenses	456,296	13,508	690,867	20,326
Amortization expenses	46,648	1,381	157,643	4,638
Total	<u>\$3,249,771</u>	<u>\$96,204</u>	<u>\$4,933,463</u>	<u>\$145,145</u>

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20. Income tax

Under a directive issued by the 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 Holdings adopted 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 nine-month periods ended September 30, 2003 and 2004 is as follows:

	Jan. 1~ September 30,			
	2003		2004	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (tax rate 25%)	\$-	\$-	\$352,704	\$10,377
Interest on short-term negotiable instruments (tax rate 20%)	73,404	2,173	13,592	400
Foreign branches' income tax	33,402	989	28,680	844
Deferred tax (benefit) expenses:				
Allowance for bad debt	(104,716)	(3,100)	271,204	7,979
Allowance for pledged assets taken-over	(131,115)	(3,881)	8,198	241
Provisions for possible losses	(6,240)	(185)	9,235	272
Foreign investment income recognized by the equity method	5,390	159	517	15
Operating loss carryforwards	1,317,897	39,014	2,793,126	82,175
Others	(3,284)	(97)	10,492	309
Adjustment of prior period's income tax	(72,738)	(2,153)	(396,748)	(11,673)
The apportionment of income tax in consolidate tax return system	-	-	-	-
Income tax expenses	<u>\$1,112,000</u>	<u>\$32,919</u>	<u>\$3,091,000</u>	<u>\$90,939</u>

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

	September 30,			
	2003		2004	
	NT	US	NT	US
Taxable temporary differences:				
Unrealized losses from intercompany transactions	\$24,695	\$732	\$24,088	\$709
Others	66,908	1,981	88,271	2,597
Deductible temporary differences:				
Allowance for bad debts	2,981,101	88,250	745,569	21,935
Allowance for pledged assets taken-over	2,351,610	69,615	2,029,431	59,707
Unrealized gain from intercompany transactions	19,849	588	19,238	566
Pension expenses exceed the limit of tax law	75,809	2,244	75,809	2,230
Provisions for possible losses	78,267	2,317	20,000	588
Others	105,349	3,119	123,389	3,630
Operating loss carryforwards	4,069,727	120,477	-	-
Investment Credit	\$7,851	\$232	\$-	\$-
Deferred income tax assets of foreign branches	\$42,397	\$1,255	\$42,004	\$1,236
September 30,				
2003				
2004				
	NT	US	NT	US
(3) Deferred tax assets	\$2,470,676	\$73,140	\$795,363	\$23,400
Deferred tax liabilities	(22,901)	(678)	(28,090)	(826)
Net deferred tax assets	<u>\$2,447,775</u>	<u>\$72,462</u>	<u>\$767,273</u>	<u>\$22,574</u>

(4) The Bank's income tax returns for the years from 1994 to 1998 and 2000 have been assessed by the Tax Authority. The Bank accrued appropriate tax provisions. However, the Bank disagreed with the assessment and appealed to the Tax Authority. After further review, the Tax Authority has reversed its previous decision and re-determined the income tax obligation of the Bank for the years from 1994 to 1998 and 2000 in 2004.

(5) For the former Cathay United Bank's income tax returns of 1994, 1995 and 2001, withholding taxes on the interest income from bonds pertaining to periods when those bonds were held by other investors (the "bond withholding taxes") were disallowed by the Tax Authority as a deduction. The Bank was not satisfied with the authority's decisions and, after accruing appropriate tax provisions, filed for administrative remediation. In 2004, the original determination of the Tax Authority was cancelled and appropriate accounting treatments were applied in this case. In 2004, the Bank entered into a settlement with the Tax Authority.

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- (6) The Bank's income tax returns for the years prior to 2000 had been assessed by the Tax Authority, except for 1998.
- (7) Except for 1999, the Tax Authority has examined and assessed the former Cathay United Bank's income tax returns through 2002.
- (8) The related information of shareholders' deductible income tax is as follows:

	September 30,			
	2003		2004	
	NT	US	NT	US
Shareholders' deductible income tax account	\$165,507	\$4,900	\$91,508	\$2,692
Unappropriated earnings	6,259,489	185,302	11,637,433	342,378

The following is the rate of tax credit available for dividends to the Bank's shareholders for the year 2003:

	2003
Cash dividends	10.94%

21. Earnings per share

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

	Jan. 1~ September 30,	
	2003	2004
Weighted-averaged number of shares (in thousands of shares)	3,971,563	4,318,241

	Jan. 1~September 30,			
	2003		2004	
	NT	US	NT	US
Income before income tax	\$7,313,807	\$216,513	\$14,728,433	\$433,317
Income tax expense	(1,112,000)	(32,919)	(3,091,000)	(90,939)
Net income	\$6,201,807	\$183,594	\$11,637,433	\$342,378

Earnings per share (Expressed in dollars)

Income before income tax	\$1.84	\$0.054	\$3.41	\$0.100
Income tax expense	(0.28)	(0.008)	(0.72)	(0.021)
Net income	\$1.56	\$0.046	\$2.69	\$0.079

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

V. Related parties transactions

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 other subsidiaries of Cathay Financial Holdings	Subsidiaries of Cathay Financial Holding Co., Ltd.
The former Cathay United Bank	Subsidiary of Cathay Financial Holding Co., Ltd.(Note1)
Sanching Engineering Corp. and other affiliated companies of Cathay Financial Holdings	Related parties of Cathay Financial Group
Cathay Securities Investment Co., Ltd.	Related party of Cathay Financial Group
Cathay Real Estate Corp.	Related party of Cathay Financial Group
Cathay Futures Corp. (the former Seaward Futures Corp.)	Investee company in equity method
Seaward Leasing Ltd.	Investee company in equity method
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 (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., Ltd.	The Bank's Chairman of the Board served as a director of the investee (resigned in April 2004)
Taipei Smart Card Corp.	Investee company
China England Company Ltd. and etc.	Investee companies of the Bank's subsidiaries
Culture and Charity Foundation of Cathay United Bank	The Bank is the major sponsor of the Foundation

Note1: The former Cathay United bank merged into the Bank on October 27, 2003.

Note2: Seaward Insurance Agent Corp. merged into Cathay Bank Life Insurance Agency of Association on February 5, 2004.

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

(1) Account balances

Account/ Related Parties	September 30,									
	2003					2004				
	NT	US	% of account	Interest Revenue (Expense)		NT	US	% of account	Interest Revenue (Expense)	
				NT	US				NT	US
Due from Banks										
The former Cathay United Bank	\$571	\$17	0.01%	\$2	\$-	\$-	\$-	-	\$-	\$-
Bills and loans	3,841,275	113,714	0.95%	76,794	2,273	2,039,973	60,017	0.37%	28,759	846
Deposits	12,846,686	380,304	2.43%	(103,859)	(3,075)	41,836,195	1,230,838	5.95%	(253,645)	(7,462)

Call Loans to Banks	Maximum balance		Sept.30 balance		Interest revenue		Interest rate
	NT	US	NT	US	NT	US	
Jan. 1~Sept. 30, 2003							
The former Cathay United Bank	\$1,038,300	\$30,737	\$1,012,800	\$29,982	\$5,834	\$173	1.02% -1.54%

Transactions terms with related parties are similar to those with third parties.

(2) Guarantees

The Bank had provided guarantees for Cathay Life Insurance Co., Ltd. as follows:

	Maximum balance		Sept. 30 balance		Service Fees	
	NT	US	NT	US	NT	US
Jan. 1~Sept. 30, 2004	\$412,165	\$12,126	\$-	\$-	\$-	\$-

(3) Lease

Account/Related Parties	Jan. 1~ September 30,			
	2003		2004	
	NT	US	NT	US
<u>Rental Income</u>				
Seaward Leasing Ltd.	\$1,497	\$44	\$1,412	\$42
Taipei Smart Card Corp.	5,447	161	4,280	126
Culture and Charity Foundation of Cathay United Bank	250	7	750	22
Cathay Securities Investment Co., Ltd.	-	-	1,573	46

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Account/Related Parties	Jan. 1~ September 30,			
	2003		2004	
	NT	US	NT	US
<u>Rental Expense</u>				
Cathay Life Insurance Co., Ltd.	\$-	\$-	\$185,099	\$5,446
Cathay Real Estate Corp.	-	-	10,397	306

Account/Related Parties	September 30,			
	2003		2004	
	NT	US	NT	US
<u>Refundable Deposits</u>				
Seaward Leasing Ltd. (Note 3)	\$42,000	\$1,243	\$42,000	\$1,236
Cathay Life Insurance Co., Ltd.	-	-	71,532	2,105
Cathay Real Estate Corp.	-	-	3,408	100

Note 3: Interest from refundable deposits was used to offset against rental expense payable to Seaward Leasing Ltd.

Account/Related Parties	Jan. 1~ September 30,			
	2003		2004	
	NT	US	NT	US
<u>(4) Insurance expense</u>				
Cathay Life Insurance Co., Ltd.	\$100,891	\$2,987	\$158,801	\$4,672
Cathay Century Insurance Co., Ltd.	-	-	24,310	715
<u>(5) Commissions and handling fees</u>				
Cathay Futures Corp.	\$2,258	\$67	\$2,146	\$63
The former Cathay United Bank	133	4	-	-
<u>(6) Credit card processing charges</u>				
Seaward Card Co., Ltd.	\$242,458	\$7,178	\$515,353	\$15,162

Account/Related Parties	September 30,			
	2003		2004	
	NT	US	NT	US
<u>(7) Account receivables</u>				
Cathay Futures Corp.	\$-	\$-	\$242	\$7
Cathay Financial Holding Co., Ltd.	188,094	5,568	571,606	16,817
<u>(8) Prepaid rental expense</u>				
Cathay Life Insurance Co., Ltd.	\$-	\$-	\$72	\$2
<u>(9) Accrued expenses</u>				
Seaward Card Co., Ltd.	\$25,494	\$755	\$47,753	\$1,405
<u>(10) Account payables</u>				
Cathay Financial Holding Co., Ltd.	\$-	\$-	\$100,582	\$2,959

(11) Others

- a. The Bank paid project and construction management fees to Taiwan Real-Estate Management Corp. in the amount of NT\$558 and NT\$217 during the nine-month periods ended September 30, 2003 and 2004, respectively.
- b. The Bank purchased automated systems for the 24-hour self-service banking center from Sanching engineering Corp. in the amount of NT\$3,020 and NT\$88,422 during the nine-month periods ended September 30, 2003 and 2004, respectively.
- c. As of September 30, 2003 and 2004, the notional amount of the forward and interest rate swap contracts the Bank entered into with Cathay Life Insurance Co., Ltd. was US\$200,000 and US\$550,000, respectively.
- d. The Bank sold 1,000 shares of Taiwan International Merchandise Exchange Corp. to Cathay Securities Corp., a subsidiary of Cathay Financial Holding Co., Ltd, at NT\$18.07 per share for the Cathay Securities Corp.'s commencement of futures business.

Combined disclosures are made for transactions with related parties under a certain percentage of the total amounts of transactions with related parties and non-related parties.

(12) Spin-Off

Based on the board of directors' resolution on April 23, 2004, the Bank spun off its securities brokerage division to Cathay Securities Corp. on August 13, 2004. In accordance with the spin-off agreement, all assets and liabilities of the securities brokerage division were transferred at their book value, which in aggregate was NT\$54,724, resulting in no gain or loss. As of September 30, 2004, the fund has been collected.

VI. Assets pledged or mortgaged

See Note IV.3 and 7.

VII. Commitments and contingencies

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

	NT	US
1. Entrusted Items and Guarantees:		
Trust and security held for safe keeping	\$591,792,536	\$17,410,784
Travelers checks for sale	677,083	19,920
Bills for collection	61,643,714	1,813,584
Guarantees on duties and contracts	16,694,716	491,166
Unused commercial letters of credit	5,280,340	155,350
Stamp tax, securities and memorial currency consignments	1,997	59
Loan commitments	20,186,154	593,885
Credit card lines	253,783,202	7,466,408

2. As of September 30, 2004, the Bank had various pending lawsuits, claims and proceedings. The most significant ones are described below:

- (1) In 1997, the Bank, as requested by Polaris International Securities Investment Trust Co., Ltd., issued a check payable to Chung Shing Bank in an amount of NT\$600,000 for the purchase of its certificate of time deposits. Chung Shing Bank honored the check and the certificate was later found to be forged by Mr. Chung-For Su. The Bank has filed a suit later against Chung Shing Bank, seeking the return of the unjustified benefit. The Bank obtained a judgment rendered by Taiwan High Court in favor of Chung Shing Bank and has appealed against such decision. This case is currently pending in the Taiwan Supreme Court.
- (2) In 1996, several clients of the Bank filed a lawsuit against the Bank, claiming restitution in the amount of NT\$24,000 for thievery of their properties stored in a safe at Chung-Li Branch. The higher court has held the bank responsible for making restitution. However, the Bank has filed an appeal and the higher court is processing the appeal. The Bank also has filed an insurance claim against Taiwan Secom Co., Ltd. related to the loss mentioned above.
- (3) In 2001, embezzlement and illegal acts in the amount of NT\$60,204 and NT\$17,900, respectively, were made by the Bank's employees. The Bank has filed a motion of injunction against the employees' personal properties.
- (4) On January 1, 2004, Pacific SOGO Department store ("SOGO") issued its own SOGO membership card, which the Company believes constitutes a breach of its co-branded card contract with the Bank. The Bank has filed a motion of injunction against certain of SOGO's properties and the issuance of its own membership card.

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3. As of September 30, 2004, the Bank had entered into certain contracts to purchase premises and equipment totaling NT\$966,985 with prepayments of NT\$796,458.

4. Derivative financial instruments

In the normal course of business, the Bank enters into various derivative contracts, including forward foreign exchange contracts, interest rate swaps, cross-currency swaps, options, 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)

<u>Derivative Financial Instruments</u>	<u>September 30, 2003</u>		
	<u>Contract (Nominal) Amount</u>	<u>Credit Risk</u>	<u>Fair Value</u>
<u>For the purpose of hedging customers' needs or hedging the Bank's exposures</u>			
Forward foreign exchange contracts	\$1,302,603	\$14,541	\$1,257
Forward rate agreements	50,000	-	(2)
<u>For non-trading purpose</u>			
Interest rate swap contracts	645,848	4,771	11,558
Cross-currency swap contracts	17,995	188	92
	<u>September 30, 2004</u>		
<u>Derivative Financial Instruments</u>	<u>Contract (Nominal) Amount</u>	<u>Credit Risk</u>	<u>Fair Value</u>
<u>For the purpose of hedging customers' needs or hedging the Bank's exposures</u>			
Forward foreign exchange contracts	\$2,382,810	\$199,961	\$(3,812)
<u>For trading purpose</u>			
Interest rate swap contracts	314,320	4,384	(10)
Option contracts	90,247	1,797	706
Futures	294	-	(1)
<u>For non-trading purpose</u>			
Interest rate swap contracts	952,991	7,858	25,846
Cross-currency swap contracts	577,707	9,935	7,866
Option contracts	370	-	(52)

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 credit risks for different counterparties cannot be netted. The above amount of credit risk represents losses which the Bank would suffer if counterparties failed to perform according to the terms of the contract after the effects of master netting agreements.

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Forward foreign exchange contracts represent agreements to exchange designated currencies at a specified date at a predetermined price. The Bank's clients enter into forward foreign exchange contracts with the Bank to hedge their trading 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 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 September 30, 2004, the maturities of the Bank's outstanding interest rate swaps ranged from seven months to seven years and ten months. Those interest rate swap contracts represent agreements between two parties to exchange periodic interest payments, usually fixed versus floating, based on a notional principal amount. Some of them are Euro Convertible Bond related asset swaps.

As of September 30, 2004, the Bank's outstanding cross-currency swaps had remaining maturities from one year and seven months to six years and ten months. 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 resulting from the Bank's foreign currency securities investment and foreign currency liquidity gap. Since the swap contracts are entered into with major international financial institutions with pre-approved credit limits based on each financial institution's world ranking and credit rating the Bank believes that risks associated with these swap contracts are limited.

All the option transactions are designed to match the Bank's structured deposit business or other commercial needs. The option counterparties are either the Bank's depositors or major international financial institutions. Due to the fact that the options are linked to clients' deposits, the paid premiums are supported by interest revenue from their own deposits with the Bank. Consequently, the credit risks are considered very limited.

Forward rate transactions are for the purposes of hedging risks derived from transactions with customers or hedging the Bank's exposures. The forward rate contracts are made with major international financial institutions under pre-approved credit limits that are based on each financial institution's worldwide ranking and credit rating. In addition, the settlement amount of forward rate contracts is the present value of interest differences between market rate and contract rate. Therefore, the credit risks associated with forward rate contracts are limited.

(2) Market risk

Market rate risk is the potential loss arising from adverse movement of market rates, such as interest rates and foreign exchange rates. The related risks for the Bank's derivative financial instruments are as follows: (In thousands of US Dollars)

Items	September 30,	
	2003	2004
Interest rate risk exposures	\$77,465	\$415,986
Foreign exchange risk exposures	422,438	363,700

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

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

The liquidity of forward foreign exchange contracts, which are entered into by the Bank with customers, could be low. When the Bank provides these financial instruments to its customers as hedging instruments, 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 foreign exchange contracts should be minimal. The Bank also manages the forward rate risk through the 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 less 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 demands as well as the Bank's funding or hedging investment purposes. They did not involve any degree of high leverage.

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

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- (4) The policies for disclosing gains or losses of derivative financial instruments on financial statements are summarized below:

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)

Account	For the Nine-Month Periods Ended September 30,		
	2003	2004	
<u>For Trading Purpose</u>			
Forward foreign exchange contracts			
-Realized	Interest revenue	\$4,587	\$7,342
-Unrealized	Interest expense	1,670	5,465
Interest rate swap contracts			
-Realized	Gain (loss) of derivative financial instruments	-	685
-Unrealized	"	-	31
Option contracts			
-Realized	"	9	397
-Unrealized	"	-	13
Forward rate agreements			
-Realized	"	(24)	-
Futures contracts			
-Realized	"	-	153
-Unrealized	"	-	(1)
<u>For Non-trading Purpose</u>			
Interest rate swap contracts			
-Realized	Interest revenue	15,207	21,074
-Realized	Interest expense	3,517	7,897
Cross-currency swap contracts			
-Realized	Interest revenue	1,365	8,145
-Realized	Interest expense	446	4,343

- (5) Off-balance sheet credit risk

The Bank enters into certain transactions with customers to repurchase or resell securities or short-term notes for business purpose from time to time. The Bank also provides various types of loans and credit card services. The terms for the related loans vary with the credit status of the borrowers. The interest rate for credit card loans was 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.

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

	September 30,			
	2003		2004	
	NT	US	NT	US
Securities purchase under agreements to resell	\$3,029,856	\$89,694	\$-(Note)	\$-(Note)
Securities sold under agreements to repurchase	19,358,623	573,079	-(Note)	-(Note)
Loan commitments	19,353,121	572,917	20,186,154	593,885
Credit card lines	41,237,566	1,220,769	253,783,202	7,466,408
Guaranty and Commercial letters of credit	14,737,726	436,286	21,975,056	646,516

Note: The Bank has adopted the law to account for its bills transactions relating to resell and repurchase agreements 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 demand. The maximum amount of possible losses for the above off-balance sheet credit related financial instruments are approximately equal to the contractual amount if borrowers failed to perform the terms of the contract.

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

None.

X. Others

1. Fair value of non-derivative financial instruments

As of September 30, 2003 and 2004, except as shown in the table below, the carrying amounts of financial assets and liabilities reported on the balance sheets were approximately equal to their carrying values:

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Financial Assets	September 30,							
	2003				2004			
	Carrying Value		Fair Value		Carrying Value		Fair Value	
	NT	US	NT	US	NT	US	NT	US
Securities purchased	\$159,732,321	\$4,728,606	\$160,556,102	\$4,752,993	\$185,864,690	\$5,468,217	\$185,975,328	\$5,471,472
Long-term Investments	11,983,504	354,751	12,069,845	357,307	39,702,953	1,168,077	39,729,141	1,168,848

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

2. Others

(1) Information on concentrations of credit risk

Concentrations of credit risk exist when the counterparty to financial instrument transactions are either concentrated in certain individuals or group of individuals 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 to concentration risk. However, the Bank is likely to be exposed to industry concentration risk. The Bank's information on concentration of credit risk is as follows:

	September 30,			
	2003		2004	
	NT	US	NT	US
Bills and loans, customers' liabilities under acceptances and guarantees account				
Geographic Region				
Domestic	\$396,379,472	\$11,734,147	\$539,642,267	\$15,876,501
South East Asia	9,409,948	278,566	12,682,716	373,131
North East Asia	516,427	15,288	252,133	7,418
North America	6,322,975	187,181	8,911,243	262,172
Others	3,756,754	111,212	10,331,077	303,945
Total	<u>\$416,385,576</u>	<u>\$12,326,394</u>	<u>\$571,819,436</u>	<u>\$16,823,167</u>
Industry type				
Manufacturing	\$50,518,626	\$1,495,519	\$72,089,905	\$2,120,915
Financial institutions and insurance	25,996,870	769,594	31,623,145	930,366
Leasing and real estate	65,602,629	1,942,055	65,892,910	1,938,597
Individuals	180,048,395	5,330,030	285,060,153	8,386,589
Others	94,219,056	2,789,196	117,153,323	3,446,700
Total	<u>\$416,385,576</u>	<u>\$12,326,394</u>	<u>\$571,819,436</u>	<u>\$16,823,167</u>

The credit risk represents the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value.

(3) Regulatory capital ratio

Pursuant to regulations of the Banking Law, the ratio of bank's shareholders' equity to its risk-weighted assets may 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, 2003 and 2004, the ratio of the Bank's shareholders' equity to its risk-weighted assets was 10.96% and 11.43%, respectively. The equation to calculate such ratio is as follows:

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

- (4) As of September 30, 2003 and 2004, the amounts of insurance coverage over the Bank's premises and equipment was NT\$6,176,189 and NT\$7,614,120, respectively.
- (5) Certain accounts of the financial statements for the period ended September 30, 2003 have been reclassified to conform to the current presentation.
- (6) The assets and liabilities managed under the Bank's trust are NT\$79,457,932.