Cathay United Bank
Financial Statements With
Report of Independent Auditors
For The Years Ended December 31,
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

Report of Independent Auditors

The Board of Directors
Cathay United Bank

We have audited the accompanying balance sheets of Cathay United Bank as of December 31, 2003 and 2004, and the related statements of income, changes in shareholders' equity and cash flows for the years ended December 31, 2003 and 2004. 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 and for the years ended December 31, 2003 and 2004, these investment accounted for by the equity method amounted to NT$1,748,736 thousand (US$51,449 thousand) and NT$1,915,421 thousand (US$60,347 thousand) as of December 31, 2003 and 2004, respectively, and related investment income of NT$229,621 thousand (US$6,756 thousand) and NT$175,289thousand (US$5,523 thousand) recognized for the years then 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, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay United Bank as of December 31, 2003 and 2004, and the results of its operations and its cash flows for the years 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 financial method.

We have also reviewed the translations of New Taiwan dollar financial statements as of December 31, 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
January 27, 2005

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

Balance sheets

December 31, 2003 and 2004

(Expressed in thousands of dollars)

		December 31, 2003		December 31, 2004	
ASSETS	NOTES	NT$	US$ (Note II)	NT$	US$ (Note II)
Cash and cash equivalents	IV.1	$18,754,891	$551,777	$17,860,193	$562,703
Due from Central Bank and call loans to banks	IV.2, V and X	54,304,373	1,597,657	55,597,382	1,751,650
Securities purchased-net	II, IV.3, VI and X	178,434,377	5,249,614	240,083,384	7,564,064
Receivables-net	II, IV.4, V, and X	56,557,857	1,663,956	56,933,442	1,793,744
Prepayments	IV.5 and V	1,792,032	52,722	1,382,521	43,558
Bills and loans-net	II, IV.6, V and X	511,762,416	15,056,264	585,618,279	18,450,481
Long-term investments	IV.7, V,VI, and X				
Equity method		5,787,084	170,259	5,123,460	161,420
Cost method		6,066,749	178,486	5,365,686	169,051
Others		14,987,555	440,940	26,910,075	847,829
Premises and equipment	II, V, VII, X and XI				
Cost					
Land		15,191,742	446,947	14,004,736	441,233
Building		9,299,518	273,596	9,130,407	287,663
Furniture and fixtures		3,611,754	106,259	3,662,697	115,397
Transportation equipment		85,878	2,527	79,700	2,511
Miscellaneous equipment		3,435,204	101,065	4,071,163	128,266
Total Cost		31,624,096	930,394	30,948,703	975,070
Less:Accumulated depreciation		(6,622,608)	(194,840)	(6,751,064)	(212,699)
Construction in progress and procurement		1,047,629	30,822	596,560	18,795
Premises and Equipment-net		26,049,117	766,376	24,794,199	781,166
Other assets	II and IV.8	7,930,653	233,323	4,696,134	147,956
TOTAL ASSETS		$882,427,104	$25,961,374	$1,024,364,755	$32,273,622

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statements of income

For The Year Ended December 31, 2004

(Expressed in thousands of dollars, except per share amounts)

ITEMS	NOTES	2003 NT$	2003 US$ (Note II)	2004 NT$	2004 US$ (Note II)
OPERATING INCOME:					
Interest revenue	V	$24,049,202	$707,538	$31,990,552	$1,007,894
Commission and handling fees	V	3,075,814	90,492	6,910,192	217,712
Gains on sales of securities-net	II	915,225	26,926	515,548	16,243
Investment income-net	II, and IV.7	1,537,100	45,222	694,072	21,867
Profit on exchange-net	II	248,015	7,297	316,177	9,962
Other operating income	V	525,113	15,449	1,424,486	44,880
Total operating income		30,350,469	892,924	41,851,027	1,318,558
OPERATING COST:					
Interest expense	V	(6,667,623)	(196,164)	(8,295,883)	(261,370)
Commissions and handling charges		(396,579)	(11,668)	(1,003,986)	(31,632)
Provisions for possible losses	II	(10,913,351)	(321,076)	(2,555,113)	(80,501)
Operating expenses	IV.19 and V	(8,511,561)	(250,413)	(12,503,201)	(393,926)
Other operating expenses		(1,208,577)	(35,557)	(964,424)	(30,385)
Total operating cost		(27,697,691)	(814,878)	(25,322,607)	(797,814)
NET OPERATING INCOME		2,652,778	78,046	16,528,420	520,744
NON-OPERATING INCOME:					
Gains on disposal of premises and equipment	II	1,974	58	1,168,129	36,803
Others		72,366	2,129	119,357	3,760
Total non-operating income		74,340	2,187	1,287,486	40,563
NON-OPERATING LOSS:					
Losses on disposal of premises and equipment	II	(38,930)	(1,146)	(41,233)	(1,299)
Others		(67,787)	(1,994)	(106,426)	(3,353)
Total non-operating loss		(106,717)	(3,140)	(147,659)	(4,652)
INCOME BEFORE INCOME TAX		2,620,401	77,093	17,668,247	556,655
INCOME TAX BENEFIT (EXPENSES)	II and IV.20	85,658	2,520	(3,789,000)	(119,376)
NET INCOME		$2,706,059	$79,613	$13,879,247	$437,279
EARNINGS PER SHARE (IN NT DOLLARS)	IV.21				
INCOME BEFORE INCOME TAX		$0.65	$0.019	$4.09	$0.129
INCOME TAX BENEFIT (EXPENSES)		0.02	0.001	(0.88)	(0.028)
NET INCOME		$0.67	$0.020	$3.21	$0.101

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statement of Changes in Shareholders' Equity

For The Year Ended December 31, 2004

(Expressed in thousands of dollars)

					Retained Earnings											
ITEMS	Capital Stock		Capital Reserve		Legal Reserve		Special Reserve		Unappropriated Earnings		Unrealized Loss on 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	$1,168,450	$5,095,598	$149,914	$17,447,928	$513,325	$257,487	$7,575	$(8,582,898)	$(252,511)	$(79,482)	$(2,338)	$186,568	$5,489	$54,040,828	$1,589,904
Reserves used to make up deficit (Note IV.17):																
Legal reserve	-	-	-	-	(8,325,411)	(244,937)	-	-	8,325,411	244,937	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(257,487)	(7,575)	257,487	7,575	-	-	-	-	-	-
Net Income for the year ended December 31, 2003	-	-	-	-	-	-	-	-	2,706,059	79,613	-	-	-	-	2,706,059	79,613
Conversion adjustments (Note II)	-	-	-	-	-	-	-	-	-	-	-	-	(16,065)	(473)	(16,065)	(473)
Unrealized losses on investments of investee companies																
of which recognized by the equity method (IV.7)	-	-	-	-	-	-	-	-	-	-	(37,301)	(1,098)	-	-	(37,301)	(1,098)
Capital increase for merging Bank (Note I)	3,466,780	101,995	9,199,928	270,666	-	-	-	-	-	-	-	-	-	-	12,666,708	372,661
Adjustment of capital reserves from liquidation on investee companies	-	-	(833,706)	(24,528)	-	-	-	-	57,683	1,697	-	-	-	-	(776,023)	(22,831)
Balance, December 31, 2003	$43,182,407	$1,270,445	$13,461,820	$396,052	$9,122,517	$268,388	$-	$-	$2,763,742	$81,311	$(116,783)	$(3,436)	$170,503	$5,016	$68,584,206	$2,017,776

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statement of Changes in Shareholders' Equity

For The Year Ended December 31, 2004

(Expressed in thousands of dollars)

					Retained Earnings									
	Capital Stock		Capital Reserve		Legal Reserve		Unappropriated Earnings		Unrealized Losses on Long-term Investments		Conversion Adjustments		Total	
ITEMS	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)
Balance, January 1, 2004	$43,182,407	$1,360,504	$13,461,820	$424,128	$9,122,517	$287,414	$2,763,742	$87,074	$(116,783)	$(3,679)	$170,503	$5,372	$68,584,206	$2,160,813
Appropriation and distribution of 2003 earnings (Note IV.17):														
Legal reserve	-	-	-	-	829,122	26,122	(829,122)	(26,122)	-	-	-	-	-	-
Cash dividend	-	-	-	-	-	-	(1,934,620)	(60,952)	-	-	-	-	(1,934,620)	(60,952)
Net income for the year ended December 31, 2004	-	-	-	-	-	-	13,879,247	437,279	-	-	-	-	13,879,247	437,279
Conversion adjustments (Note II)	-	-	-	-	-	-	-	-	-	-	(182,059)	(5,736)	(182,059)	(5,736)
Capital reserves of investee companies of which recognized by the equity method (Note IV.7)	-	-	1,254	40	-	-	-	-	-	-	-	-	1,254	40
Unrealized losses on investments of investee companies of which recognized by the equity method (Note IV.16)	-	-	-	-	-	-	-	-	12,130	382	-	-	12,130	382
Balance, December 31, 2004	$43,182,407	$1,360,504	$13,463,074	$424,168	$9,951,639	$313,536	$13,879,247	$437,279	$(104,653)	$(3,297)	$(11,556)	$(364)	$80,360,158	$2,531,826

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statements of cash flows

For The Year Ended December 31, 2004

(Expressed in thousands of dollars)

ITEMS	NOTES	January 1- December 31, 2003 NT$	January 1- December 31, 2003 US$ (Note II)	January 1- December 31, 2004 NT$	January 1- December 31, 2004 US$ (Note II)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income		$2,706,059	79,613	$13,879,247	$437,279
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	II	732,836	21,560	1,153,500	36,342
Provisions for possible losses	II	10,913,351	321,075	2,555,113	80,501
Loss (gain) on disposal of premises and equipment and non-operating assets	II	36,955	1,087	(1,127,354)	(35,518)
Investment income recognized by the equity method	II	(475,355)	(13,985)	(437,287)	(13,777)
Cash dividends received from investee companies using by the equity method		79,336	2,335	222,397	7,007
Gain on long-term investments		(986,195)	(29,014)	(247,309)	(7,792)
Adjustment of changes in exchange rates		(19,327)	(569)	36,042	1,135
(Increase) decrease in receivables		(31,891,951)	(938,275)	2,970,753	93,597
(Increase) decrease in prepayments		(306,144)	(9,007)	409,511	12,902
Decrease in securities purchased for trading purposes		4,818,758	141,770	3,113,509	98,094
Increase (decrease) in payables		1,455,869	42,832	(158,956)	(5,008)
Increase (decrease) in advances		422,187	12,421	(491,203)	(15,475)
Increase in other liabilities		10,996,254	323,514	23,151,118	729,399
Net cash provided by (used in) operating activities		(1,517,367)	(44,643)	45,029,081	1,418,686
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from disposal of premises and equipment and non-operating assets		29,592	871	1,767,915	55,700
Addition in premises and equipment		(932,709)	(27,441)	(1,223,598)	(38,550)
Increase in long-term investments in bonds		-	-	(18,784,955)	(591,839)
Proceeds from disposal of investments		1,019,094	29,982	8,619,098	271,553
Increase in securities purchased for non-trading purposes		(54,426,741)	(1,601,256)	(64,762,516)	(2,040,407)
Net (increase) decrease in bills and loans		13,930,948	409,854	(79,749,710)	(2,512,593)
Decrease in other assets		1,899,295	55,878	4,111,946	129,551
(Increase) decrease in due from Central Bank and commercial banks		19,962,445	587,304	(1,293,009)	(40,738)
Increase in deferred charges		(213,973)	(6,295)	(193,429)	(6,094)
Net cash used in investing activities		(18,732,049)	(551,103)	(151,508,258)	(4,773,417)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Increase (decrease) in due to Central Bank and commercial banks		32,691,551	961,799	(813,178)	(25,620)
Increase (decrease) in deposits and remittances		(22,157,693)	(651,888)	85,331,646	2,688,458
Increase in financial bonds payable		12,700,000	373,639	23,500,000	740,391
Decrease in banker's acceptances and funds borrowed		(612,121)	(18,009)	(338,838)	(10,676)
Increase (decrease) in guaranty and marginal deposits		49,630	1,460	(26,496)	(835)
Distribution of cash dividends		-	-	(1,934,620)	(60,952)
Net cash provided by financing activities		22,671,367	667,001	105,718,514	3,330,766
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES		13,415	395	(134,035)	(4,223)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		2,435,366	71,650	(894,698)	(28,188)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		12,013,899	353,454	18,754,891	590,891
CASH AND CASH EQUIVALENTS FROM MERGED BANK		4,305,626	126,673	-	-
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		$18,754,891	$551,777	$17,860,193	$562,703
SUPPLEMENT DISCLOSURES OF CASH FLOWS INFORMATION:					
Interest expenses paid		$6,549,760	$192,697	$8,186,611	$257,927
Income tax paid		$269,331	$7,924	$347,065	$10,935
Non-cash assets received from the investee companies of liquidation		$147,266	$4,333	$-	$-

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

CATHAY UNITED BANK

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 and 2004

(Amounts in thousands except for share and per share data and unless other stated)

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.

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 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; 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 Finance (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 December 31, 2003 and 2004, the Bank employed 3,854 and 4,050 employees, respectively.

II. Summary of Significant Accounting Policies

The financial statements were prepared in conformity with “Regulations 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:

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 and 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 stocks, 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. Devaluation 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

(i) 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.

(ii) 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 to offset trading losses.

13. Pension plans

The Bank has a pension plan covering all regular employees. Pension benefits 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.

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 on 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. Basis for converting financial statements

The Bank's financial statements are stated in NT dollars ("NT$"). Conversion of the December 31, 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$33.99 and NT$31.74 to US$1.00 on December 31, 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.

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 agreements using the financing method which resulted in an increase of NT$140 in net income for the period from January 1 to December 31, 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

	Dec. 31,			
	2003		2004	
	NT	US	NT	US
Cash on hand	$7,544,059	$221,949	$8,033,338	$253,098
Checks for clearance	3,948,364	116,163	4,611,189	145,280
Due from commercial banks	7,262,468	213,665	5,215,666	164,325
Total	$18,754,891	$551,777	$17,860,193	$562,703

2. Due from central bank and call loans to banks

	Dec. 31, 2003 NT	Dec. 31, 2003 US	Dec. 31, 2004 NT	Dec. 31, 2004 US
Deposit reserve	$19,286,501	$567,417	$20,610,504	$649,354
General account	4,156,107	122,274	12,233,263	385,421
Deposit in Central Bank	6,536,000	192,292	-	-
Call loans to banks	24,325,765	715,674	22,753,615	716,875
Total	$54,304,373	$1,597,657	$55,597,382	$1,751,650

3. Securities purchased-net

	Dec. 31, 2003 NT	Dec. 31, 2003 US	Dec. 31, 2004 NT	Dec. 31, 2004 US
Stock	$4,390,296	$129,164	$4,039,299	$127,262
Mutual funds	3,274,562	96,339	2,273,417	71,626
Government and corporate bonds	57,947,565	1,704,842	52,751,821	1,661,998
Certificates of deposit	111,259,739	3,273,308	164,190,335	5,172,979
Commercial papers	1,630,548	47,971	10,022,952	315,783
Securities purchased under agreements to resell	360,010	10,592	6,849,350	215,796
Others	110,563	3,253	71,171	2,242
Total	178,973,283	5,265,469	240,198,345	7,567,686
Less: Allowance for decline in market price of securities	(538,906)	(15,855)	(114,961)	(3,622)
Net	$178,434,377	$5,249,614	$240,083,384	$7,564,064

(1) NT$15,501,378 and NT$16,001,506 of the securities purchased under agreements to resell on December 31, 2003 and 2004, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of December 31, 2003 and 2004, bond repurchase agreements in the notional amount of NT$23,723,600 and NT$38,039,900 were entered into in connection with NT$26,076,561 and NT$40,360,354 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$26,126,256 and NT$40,411,884 before June 28, 2004 and June 29, 2005, respectively.

4. Receivables-net

	Dec. 31,			
	2003		2004	
	NT	US	NT	US
Accounts receivable	$50,370,055	$1,481,908	$50,622,877	$1,594,924
Accrued interest receivable	3,588,229	105,567	3,779,600	119,080
Customers' liabilities under acceptances	589,185	17,334	540,923	17,042
Tax refundable	408,949	12,032	431,818	13,605
Others	2,298,502	67,623	2,415,853	76,114
Total	57,254,920	1,684,464	57,791,071	1,820,765
Less: Allowance for doubtful accounts	(697,063)	(20,508)	(857,629)	(27,021)
Net	$56,557,857	$1,663,956	$56,933,442	$1,793,744

Please refer to note IV.6(4) for details of the allowance for doubtful accounts.

5. Prepayments

	Dec. 31,			
	2003		2004	
	NT	US	NT	US
Inter-bank clearing funds	$1,091,769	$32,120	$807,414	$25,439
Others	700,263	20,602	575,107	18,119
Total	$1,792,032	$52,722	$1,382,521	$43,558

6. Bills and loans-net

	Dec. 31,			
	2003		2004	
	NT	US	NT	US
Inward-outward documentary bills purchased	$963,075	$28,334	$1,197,272	$37,721
Discounts	100,000	2,942	-	-
Loans	511,119,713	15,037,356	584,706,602	18,421,758
Overdrafts	670,445	19,725	561,781	17,699
Delinquent accounts	5,743,474	168,975	5,180,503	163,217
Total	518,596,707	15,257,332	591,646,158	18,640,395
Less: Allowance for doubtful accounts	(6,834,291)	(201,068)	(6,027,879)	(189,914)
Net	$511,762,416	$15,056,264	$585,618,279	$18,450,481

(1) Non-accrual accounts amounted to NT$5,743,474 and NT$6,306,697 as of December 31, 2003 and 2004, respectively. The unrecognized interest on the non-accrual accounts amounted to NT$263,639 and NT$95,596 for the years ended December 31, 2003 and 2004, respectively.

(2) For the years ended of December 31, 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 ~Dec. 31, 2003					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$6,624,009	$194,881	$236,724	$6,965	$6,860,733	$201,846
Provision of doubtful account	9,235,873	271,723	-	-	9,235,873	271,723
Write-off	(17,229,965)	(506,913)	-	-	(17,229,965)	(506,913)
Recoveries	4,365,232	128,427	-	-	4,365,232	128,427
Reclassification	(3,289,154)	(96,768)	3,289,154	96,768	-	-
Increase from the merged Bank	4,306,989	126,714	-	-	4,306,989	126,714
Effects of exchange rates change	-	-	(7,508)	(221)	(7,508)	(221)
Balance, end of the period	$4,012,984	$118,064	$3,518,370	$103,512	$7,531,354	$221,576

	Jan. 1 ~Dec. 31, 2004					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$4,012,984	$126,433	$3,518,370	$110,850	$7,531,354	$237,283
Provision of doubtful account	2,547,508	80,262	-	-	2,547,508	80,262
Write-off	(9,189,043)	(289,510)	-	-	(9,189,043)	(289,510)
Recoveries	6,008,825	189,314	-	-	6,008,825	189,314
Reclassification	1,364,347	42,985	(1,364,347)	(42,985)	-	-
Effects of exchange rates change	-	-	(13,136)	(414)	(13,136)	(414)
Balance, end of the period	$4,744,621	$149,484	$2,140,887	$67,451	$6,885,508	$216,935

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 collaterals might result in amounts that are different from those presently determined or estimated.

7. Long-term investments

	Dec. 31,					
	2003			2004		
	NT	US	% of ownership	NT	US	% of ownership
(i) Investments in Equity Securities:						
Seaward Card Co., Ltd.	$43,079	$1,267	99.99	$70,031	$2,206	100.00
Seaward Leasing Ltd.	2,269,460	66,769	99.97	2,247,640	70,814	100.00
Cathay Futures Corp. (the former Seaward Futures Corp.)	1,671,212	49,168	99.82	722,812	22,773	99.99
Cathay Bank Life Insurance Agency of Association	27,257	802	99.80	160,941	5,071	99.98
Cathay Bank Property Agency of Association	7,204	212	99.80	10,676	336	99.97
Indovina Bank	437,211	12,863	50.00	500,047	15,754	50.00
Seaward Insurance Agent Corp.	51,987	1,530	99.99	-	-	-
Taiwan Real-estate Management Corp.	54,162	1,593	30.15	51,947	1,637	30.15
Taiwan Finance Corp.	1,214,596	35,734	24.57	1,353,601	42,647	24.57
Vista Technology Venture Capital Corp.	13,636	401	5.00	9,825	310	5.00
Cathay Venture Capital Corp.	29,131	857	3.33	27,788	875	3.33
Subtotal	5,818,935	171,196		5,155,308	162,423	
Less: Unrealized gain from intercompany transactions	(31,851)	(937)		(31,848)	(1,003)	
Investment in equity method	5,787,084	170,259		5,123,460	161,420	

(To be continued)

(Continued)	Dec. 31, 2003 NT	2003 US	2003 % of ownership	2004 NT	2004 US	2004 % of ownership
China Bills Finance Corp.	93,468	2,750	1.19	-	-	-
Chunghwa Telecom Co., Ltd.	438,037	12,887	0.09	128,857	4,060	0.03
Taiwan Fertilizer Co., Ltd.	104,173	3,065	0.58	-	-	-
Taiwan Cooperative Bank	116,435	3,426	0.21	116,435	3,668	0.21
International Securities Investment Trust Co., Ltd.	4,900	144	4.74	4,900	154	4.74
Wallant International Trade Inc.	-	-	2.51	-	-	2.51
Central Deposit Insurance Corp.	10	-	-	10	-	-
Chinese Products Promotion Center	1,850	54	4.87	1,850	58	4.87
Han Tech Venture Capital Corp.	154,927	4,558	8.03	154,927	4,881	8.03
Taiwan Securities Central Depository Co., Ltd.	1,850	54	0.18	1,850	58	0.18
Taipei Forex Inc.	8,000	235	4.04	8,000	252	4.04
Global Securities Finance Corp.	161,930	4,764	2.45	161,930	5,102	2.45
An Feng Enterprise Co., Ltd.	4,500	132	15.00	4,500	142	15.00
Euroc II Venture Capital Corp.	40,000	1,177	5.00	40,000	1,260	5.00
Taiwan International Merchandise Exchange Corp.	12,500	368	0.63	12,490	394	0.62
Strategic Value Fund, Limited Partnership	170,019	5,002	-	95,787	3,018	-
Chan Sheng Investment Development Co., Ltd.	127,400	3,748	4.90	7,400	233	4.90
CDIB & Partners Investment Holding Corp.	500,000	14,710	4.95	500,000	15,753	4.95
Financial Information Service Co., Ltd.	45,500	1,339	1.14	45,500	1,434	1.14
IBU Securities Co., Ltd.	1,045,000	30,744	10.31	1,045,000	32,924	10.31
Sheng-Hua Venture Capital Corp.	50,000	1,471	2.50	50,000	1,575	2.50
Latin America Development Co., Ltd.	6,250	184	1.79	6,250	197	1.79
Capital Venture Fund II Corp.	30,000	883	5.00	30,000	945	5.00
Fu Yu Venture Capital Investment Corp.	50,000	1,471	3.70	50,000	1,575	3.70
Taipei Smart Card Corp.	25,000	736	5.00	25,000	788	5.00
New Century InfoComm Co., Ltd.	864,000	25,419	1.68	864,000	27,221	1.68
Harbinger Venture Capital Corp.	67,000	1,971	3.35	67,000	2,111	3.35
United Venture Capital Corp.	40,000	1,177	4.52	40,000	1,260	4.52
Centillion Venture Capital Corp.	60,000	1,765	5.00	60,000	1,890	5.00
Taiwan Asset Management Corp.	1,020,000	30,009	5.79	1,020,000	32,136	5.79
Taipei Financial Center Corp.	400,000	11,768	2.35	400,000	12,603	2.35

(To be continued)

(Continued)	Dec. 31, 2003 NT	2003 US	2003 % of ownership	2004 NT	2004 US	2004 % of ownership
Taiwan Financial Asset Service Corp.	100,000	2,942	5.88	100,000	3,151	5.88
Mondex Taiwan Inc.	25,000	736	6.47	25,000	788	6.47
Kaohsiung Rapid Transit Corp.	299,000	8,797	2.99	299,000	9,420	2.99
Investment in cost method	6,066,749	178,486		5,365,686	169,051	
Total	11,853,833	348,745		10,489,146	330,471	
(ii) Others						
Government Bonds	8,082,597	237,793		11,273,370	355,179	
Financial Bonds	100,000	2,942		80,000	2,520	
First to Default Credit Linked Note	679,400	19,988		1,432,125	45,121	
Callable Corridor Note Linked to USD Libor	3,745,786	110,203		6,028,838	189,945	
Collateralized Debt Obligation	678,672	19,967		1,654,377	52,123	
Collateral Mortage Obligation	-	-		5,109,250	160,972	
US Treasury	1,001,100	29,453		632,115	19,915	
Preferred Stock	400,000	11,768		400,000	12,602	
Other Bonds	300,000	8,826		300,000	9,452	
Subtotal	14,987,555	440,940		26,910,075	847,829	
Total	$26,841,388	$789,685		$37,399,221	$1,178,300	

(1) As of December 31, 2003 and 2004, the Bank had recorded unrealized losses on long-term investment of Seaward Leasing Ltd. amounting to NT$116,783 and NT$104,653, respectively, with the same amount debited to shareholders’ equity.

(2) On December 24, 2003, the shareholders of Seaward Futures Corp. determined to reduce its capital stock by NT$950,000, or 95,000 shares, and change its name to Cathay Futures Corp. The reduction of the capital was approved by the authority-in-charge on January 16, 2004, and the effective date was February 16, 2004.

(3) 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.

(4) 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.

(5) 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.

(6) Due to the recurring losses incurred by Wallant International Trade Inc., Chan Sheng Investment Development Co., Ltd. and Strategic Value Fund, Limited Partnership, the Bank has recognized the losses for these investees based on their net equity.

(7) As of December 31, 2004, a bond repurchase agreement in the notional amount of NT$8,752,000 was entered into in connection with NT$8,894,000 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$8,902,955 by March 9, 2005.

(8) Long-term investments in government bonds of NT$205,439 on December 31, 2004 were pledged to other parties as collateral for business reserves and guarantees.

(9) Due to the total assets and operating revenue of each subsidiary that the Bank holds more than 50% of its common stockholders equity are less than 10% of that of the Bank; and the total assets and operating revenue of all the subsidiaries which have not reached the standard for including in the consolidated statements are not more than 30% of that of the Bank, consolidated financial statements are then not required.

8. Other assets

	Dec. 31,			
	2003		2004	
	NT	US	NT	US
Refundable deposits	$803,950	$23,653	$916,588	28,878
Foreclosed properties-net	2,442,968	71,873	1,063,014	33,491
Deferred tax assets-net	3,437,664	101,137	582,677	18,358
Non-operating assets-net	702,074	20,655	1,597,643	50,335
Deferred charges	543,997	16,005	525,854	16,568
Others	-	-	10,358	326
Total	$7,930,653	$233,323	$4,696,134	$147,956

9. Due to central bank and commercial banks

	Dec. 31,			
	2003		2004	
	NT	US	NT	US
Due to Central Bank	$161,170	$4,742	$159,988	$5,041
Due to commercial banks	41,009,732	1,206,523	35,754,096	1,126,468
Overdrafts from banks	962,430	28,315	1,094,745	34,491
Call loans from banks	38,859,361	1,143,259	43,170,686	1,360,135
Total	$80,992,693	$2,382,839	$80,179,515	$2,526,135

10. Payables

	Dec. 31,			
	2003		2004	
	NT	US	NT	US
Accounts payable	$9,951,131	$292,766	$9,541,264	$300,607
Accrued interest	2,354,533	69,271	2,479,484	78,118
Accrued expenses	786,514	23,140	1,053,473	33,191
Income tax payable	86,062	2,532	12,305	388
Acceptances	611,611	17,994	557,990	17,580
Collection for customers	792,131	23,305	589,774	18,581
Others	2,828,107	83,204	3,016,843	95,049
Total	$17,410,089	$512,212	$17,251,133	$543,514

11. Deposits and remittances

	Dec. 31,			
	2003		2004	
	NT	US	NT	US
Check deposits	$12,465,483	$366,740	$13,009,491	$409,877
Demand deposits	69,795,458	2,053,412	78,341,712	2,468,233
Certified deposits	144,748,524	4,258,562	155,152,351	4,888,228
Saving deposits	392,854,740	11,557,951	451,837,992	14,235,601
Foreign currencies deposits	39,847,005	1,172,315	46,506,552	1,465,235
Outward remittances	2,428	71	222,061	6,996
Remittances payable	243,282	7,157	218,407	6,881
Total	$659,956,920	$19,416,208	$745,288,566	$23,481,051

12. Financial debentures payable

	Dec. 31,			
	2003		2004	
	NT	US	NT	US
Financial debentures	$12,700,000	$373,640	$36,200,000	$1,140,517
Subordinated Financial debentures	12,350,000	363,342	12,350,000	389,099
Total	$25,050,000	$736,982	$48,550,000	$1,529,616

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 or 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 debenture 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.

On June 20, 2003, the Bank issued five-year and six month financial debentures amounting to NT$5,000,000 with anti-floating interest rate. 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 anti-floating interest rate or biconditional rate. These financial debentures are repayable at maturity, and the interest is payable quarterly or semi-annually. On November 10, November 25, November 26, December 9, December 10, December 22, December 23 and December 29, 2004, the Bank issued five-year to seven-year financial debentures amounting to NT$2,500,000, NT$1,500,000, NT$1,500,000, NT$2,500,000, NT$1,500,000, NT$2,500,000, NT$1,000,000 and NT$1,000,000, respectively, with a stated interest rate. These financial debentures are repayable at maturity, and the interest rate is payable quarterly.

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

13. Banker's acceptances and funds borrowed

	Dec. 31,			
	2003		2004	
	NT	US	NT	US
Borrowed funds-Central Bank	$1,053,679	$30,999	$795,625	$25,067
Borrowed funds-Others	699,845	20,590	619,061	19,504
Total	$1,753,524	$51,589	$1,414,686	$44,571

14. Other liabilities

	Dec. 31,			
	2003		2004	
	NT	US	NT	US
Reserve for losses on guarantees	$28,821	$848	$28,573	$900
Reserve for losses on stock brokerage transactions	39,447	1,161	-	-
Reserve for losses on trading securities	124,742	3,670	132,347	4,170
Securities sold under agreements to repurchase	26,076,561	767,183	49,254,354	1,551,807
Guarantee and margin deposits	699,183	20,570	672,687	21,194
Others	34,119	1,004	47,140	1,485
Total	$27,002,873	$794,436	$50,135,101	$1,579,556

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

	Dec. 31,			
	2003		2004	
	NT	US	NT	US
Capital reserves from the merger	$9,199,928	$270,666	$9,199,927	$289,853
Additional paid-in capital	4,249,096	125,010	4,249,096	133,872
Capital reserves from equity investees	2,399	70	3,654	115
Capital reserves from treasury stock	10,397	306	10,397	328
Total	$13,461,820	$396,052	$13,463,074	$424,168

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 approved 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 the SFAS No.18 "Accounting for pensions", which requires actuarial determination of pension assets or obligations. The following is a summary of the components of net pension expenses for 2003 and 2004:

	2003		2004	
	NT	US	NT	US
Service cost	$282,553	$8,313	$305,810	$9,635
Interest cost	117,215	3,449	110,822	3,492
Expected return on plan assets	(89,071)	(2,621)	(92,480)	(2,914)
Net amortization	50,212	1,477	32,498	1,024
Less: the recognition from the merged Bank	(26,649)	(784)	-	-
Net pension expenses	$334,260	$9,834	$356,650	$11,237

The following is reconciliation between the funded status and amounts recognized on balance sheets:

	Dec. 31,			
	2003		2004	
	NT	US	NT	US
Pension benefit obligation				
Vested	$(1,768,323)	$(52,025)	$(1,433,581)	$(45,167)
Non-vested	(277,529)	(8,165)	(68,439)	(2,156)
Accumulated benefit obligation	(2,045,852)	(60,190)	(1,502,020)	(47,323)
Value of future salary projections	(1,120,494)	(32,965)	(1,531,928)	(48,265)
Projected benefit obligation	(3,166,346)	(93,155)	(3,033,948)	(95,588)
Fair value of plan assets	2,642,288	77,737	2,887,610	90,977
Projected benefit obligation in excess of plan assets	(524,058)	(15,418)	(146,338)	(4,611)
Unrecognized net obligation at transition	215,822	6,350	183,324	5,776
Unrecognized net loss (gain)	308,236	9,068	(36,986)	(1,165)
Prepaid pension cost	$-	$-	$-	$-

The actuarial assumptions used are:

	Dec. 31,	
	2003	2004
Discount rate	3.5%	3.5%
Growth rate in compensation levels	3.5%	4.0%
Expected long-term rate of return on plan assets	3.5%	3.5%

As of December 31, 2003 and 2004, the vested benefit, based on the Bank's pension plan, amounted to NT$1,768,323 and NT$1,433,581, respectively.

19. Operating expenses

	Jan. 1 ~ Dec. 31,			
	2003		2004	
	NT	US	NT	US
Personnel expenses				
Salary expenses	$3,174,897	$93,407	$4,005,658	$126,202
Insurance expenses	303,534	8,930	427,061	13,455
Pension expenses	335,362	9,867	357,549	11,265
Others	572,590	16,846	945,113	29,777
Depreciation expenses	642,753	18,910	941,928	29,676
Amortization expenses	90,083	2,650	211,572	6,666
Total	$5,119,219	$150,610	$6,888,881	$217,041

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 years ended December 31, 2003 and 2004 is as follows:

	Jan. 1~Dec. 31,			
	2003		2004	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (tax rate 25%)	$-	$-	$829,749	$26,142
Interest on short-term negotiable instruments (tax rate 20%)	73,627	2,166	19,489	614
Foreign branches' income tax	25,435	748	27,706	873
Deferred tax (benefit) expenses:				
Allowance for bad debt	386,341	11,366	315,607	9,943
Allowance for pledged assets taken-over	(58,767)	(1,729)	163,118	5,139
Provisions for possible losses	(6,501)	(191)	9,235	291
Foreign investment income recognized by the equity method	10,214	301	1,974	62
Operating loss carryforwards	(421,711)	(12,407)	2,370,769	74,694
Others	(4,804)	(141)	(6,934)	(218)
Adjustment of prior period's income tax	(89,492)	(2,633)	58,287	1,836
Income tax (benefit) expenses	$(85,658)	$(2,520)	$3,789,000	$119,376

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

	Dec. 31,			
	2003		2004	
	NT	US	NT	US
Taxable temporary differences:				
Unrealized losses from intercompany transactions	$24,544	$722	$24,088	$759
Others	86,201	2,536	94,098	2,965
Deductible temporary differences:				
Allowance for bad debts	$1,830,385	$53,851	$567,959	$17,894
Allowance for pledged assets taken-over	2,062,220	60,671	1,409,747	44,415
Unrealized gain from intercompany transactions	19,696	579	19,086	601
Pension expenses exceed the limit of tax law	75,809	2,230	75,809	2,388
Provisions for possible losses	56,941	1,675	20,000	630
Others	127,176	3,742	193,243	6,088
Operating loss carryforwards	9,483,077	278,996	-	-
Investment Credit	$9,544	$281	$-	$-
Deferred income tax assets of foreign branches	$41,980	$1,235	$40,763	$1,285

	Dec. 31,			
	2003		2004	
	NT	US	NT	US
(3) Deferred tax assets	$3,465,350	$101,952	$612,224	$19,289
Deferred tax liabilities	(27,686)	(815)	(29,547)	(931)
Net deferred tax assets	$3,437,664	$101,137	$582,677	$18,358

(4) The Bank's income tax returns for the years from 1994 to 1998 and 2000 to 2001 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.

(6) The Bank's income tax returns for the years prior to 2000 had been assessed by the Tax Authority, except for 1999.

(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:

	Dec. 31,			
	2003		2004	
	NT	US	NT	US
Shareholders' deductible income tax account	$184,273	$5,421	$93,564	$2,948
Unappropriated earnings	2,763,742	81,311	13,879,247	437,279

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. Earning per share

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

	2003	2004
Shares issued at beginning of the year	3,971,563	4,318,241
Shares increased from stock exchange of the merged Bank (Cathay United Bank)	62,687	-
Weighted-averaged number of shares (in thousands of shares)	4,034,250	4,318,241

	Jan. 1~Dec. 31			
	2003		2004	
	NT	US	NT	US
Income before income tax	$2,620,401	$77,093	$17,668,247	$556,655
Income tax expense	85,658	2,520	(3,789,000)	(119,376)
Net income	$2,706,059	$79,613	$13,879,247	$437,279
Earning per share (Expressed in dollars)				
Income before income tax	$0.65	$0.019	$4.09	$0.129
Income tax expense	0.02	0.001	(0.88)	(0.028)
Net income	$0.67	$0.020	$3.21	$0.101

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

22. 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
Seaward Property Insurance Agent Corp.	Investee company in equity method (liquidated in October 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
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 served as a director of Gemfor Tech. Co. (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.

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

(1) Account balances

	December 31,									
	2003					2004				
Account/ Related Parties	NT	US	% of account	Interest Revenue (Expense) NT	Interest Revenue (Expense) US	NT	US	% of account	Interest Revenue (Expense) NT	Interest Revenue (Expense) US
Bills and loans	$4,488,895	$132,065	0.87%	$78,159	$2,299	$1,997,390	$62,930	0.34%	$32,619	$1,028
Deposits	27,904,961	820,976	4.23%	(148,483)	(4,368)	39,539,917	1,245,744	4.77%	(251,452)	(7,922)

	Maximum balance		Dec. 31 balance		Interest revenue		Interest
Call Loans to Banks	NT	US	NT	US	NT	US	rate
Jan. 1~Dec. 31, 2003							
The former Cathay United Bank	$1,038,300	$30,547	$-	$-	$6,799	$200	1.02%-1.54%
Jan. 1~Dec. 31, 2004							
Indovina Bank	1,087,680	34,268	588,763	18,550	12,063	380	1.44%-2.90%

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		Dec. 31 balance		Service Fees	
	NT	US	NT	US	NT	US
Jan. 1~Dec. 31, 2004	$412,165	$12,986	$-	$-	$-	$-

(3) Lease

Account/Related Parties	Jan. 1~ Dec. 31, 2003 NT	2003 US	2004 NT	2004 US
Rental Income				
Seaward Leasing Ltd.	$1,996	$59	$1,482	$47
Taipei Smart Card Corp.	6,874	202	5,707	180
Culture and Charity Foundation of Cathay United Bank	250	7	1,000	32
Cathay Securities Investment Co., Ltd.	-	-	3,933	124

Account/Related Parties	Jan. 1~ Dec. 31, 2003 NT	2003 US	2004 NT	2004 US
Rental Expense				
Cathay Life Insurance Co., Ltd.	$187,088	$5,504	$250,536	$7,893
Cathay Real Estate Corp.	-	-	13,884	437

Account/Related Parties	December 31, 2003 NT	2003 US	2004 NT	2004 US
Refundable Deposits				
Seaward Leasing Ltd. (Note 3)	$42,000	$1,236	$42,000	$1,323
Cathay Life Insurance Co., Ltd.	65,964	1,941	73,516	2,316
Cathay Real Estate Corp.	-	-	3,408	107
Guarantee Deposits				
Cathay Securities Investment Co., Ltd.	$-	$-	$2,334	$74

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

Account/Related Parties	Jan. 1~ Dec 31, 2003 NT	2003 US	2004 NT	2004 US
(4) Insurance expense				
Cathay Life Insurance Co., Ltd.	$145,764	$4,288	$214,501	$6,758
Cathay Century Insurance Co., Ltd.	4,334	128	34,451	1,085
(5) Commissions and handling fees				
Cathay Futures Corp.	3,104	91	2,146	68
The former Cathay United Bank (Note 1)	133	4	-	-
(6) Credit card processing charges				
Seaward Card Co., Ltd.	351,892	10,353	739,744	23,306

Account/Related Parties	December 31, 2003 NT	2003 US	2004 NT	2004 US
(7) Account receivables				
Cathay Financial Holding Co., Ltd.	695,999	20,477	571,606	18,009
(8) Prepaid rental expense				
Cathay Life Insurance Co., Ltd.	-	-	396	12
(9) Refundable Deposit				
Cathay Futures Corp.	-	-	4,072	128
(10) Accrued expenses				
Seaward Card Co., Ltd.	46,866	1,379	92,394	2,911
(11) Account payables				
Cathay Financial Holding Co., Ltd.	-	-	508,186	16,010

(12) Others

a. The Bank paid project and construction management fees to Taiwan Real-Estate Management Corp. in the amount of NT$3,908 and NT$217 during the year of 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$88,575 during the year of 2003 and 2004, respectively.

c. The Bank paid construction planning and desigh maintance services fees to Lin Yuan Property Management Co., Ltd. in the amount of NT$10,865 during the year of 2004.

d. As of December 31, 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$470,000 and US$380,000, respectively.

e. 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.

(13) 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$414,930, resulting in no gain or loss. As of December 31, 2004, the fund has been collected.

VI. ASSETS PLEDGED OR MORTGAGED

See Note IV.3 and 7.

VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 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	$644,797,470	$20,314,980
Travelers checks for sale	691,260	21,779
Bills for collection	58,836,321	1,853,696
Guarantees on duties and contracts	17,028,500	536,500
Unused commercial letters of credit	3,792,093	119,474
Loan commitments	29,325,137	923,917
Credit card lines	279,345,149	8,801,044
Stamp tax, securities and memorial currency consignments	1,888	59

2. As of December 31, 2004, the Bank had various 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.

(5) On December 25, 2004, embezzlement acts in the amount of NT$24,971 made by the Bank's employee has been examined by Jurisdiction of Taipei District Prosecutors Office.

3. As of December 31, 2004, the Bank had entered into certain contracts to purchase premises and equipments totaling NT$848,399 with prepayments of NT$596,560.

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)

	Dec. 31, 2003		
Derivative Financial Instruments	Contract (Notional) Amount	Credit Risk	Fair Value
For the purpose of hedging customers' needs or hedging the Bank's exposures			
Forward foreign exchange contracts	$2,035,038	$136,448	$(7,975)
For non-trading purpose			
Interest rate swap contracts	736,352	5,166	7,579
Cross-currency swap contracts	294,222	5,011	7,613

Derivative Financial Instruments	Dec. 31, 2004 Contract (Notional) Amount	Credit Risk	Fair Value
For the purpose of hedging customers' needs or hedging the Bank's exposures			
Forward foreign exchange contracts	$4,851,586	$84,465	$356,599
For trading purpose			
Interest rate swap contracts	337,934	3,170	(45)
Option contracts	109,409	779	396
For non-trading purpose			
Interest rate swap contracts	1,505,642	12,426	37,242
Cross-currency swap contracts	573,171	11,182	15,355

Credit risk is the possibility of loss if 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.

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 December 31, 2004, the maturities of the Bank's outstanding interest rate swaps ranged from two months to five years and seven 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 December 31, 2004, the Bank's outstanding cross-currency swaps had remaining maturities from one month to six years and seven 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 contacts 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 contacts is the present value of interest differences between market rate and contract rate. Therefore, the credit risks associated with forward rate contacts are limited.

(2) Market risk

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

	Dec. 31,	
Items	2003	2004
Interest rate risk exposures	$283,955	$451,984
Foreign exchange risk exposures	310,941	92,093

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.

(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)

		For the year ended December 31,	
	Account	2003	2004
For Trading Purpose			
Forward foreign exchange contracts			
-Realized	Interest revenue	$7,135	$10,046
-Realized	Interest expense	3,063	7,400
Interest rate swap contracts			
-Realized	Gain (loss) of derivative financial instruments	-	711
-Unrealized	〃	-	(46)
Option contracts			
-Realized	〃	9	230
-Unrealized	〃	1	16
Forward rate agreements			
-Realized	〃	(24)	-
Futures contracts			
-Realized	〃	-	118

For Non-trading Purpose			
Interest rate swap contracts			
-Realized	Interest revenue	22,120	30,662
-Realized	Interest expense	4,788	12,324
Cross-currency swap contracts			
-Realized	Interest revenue	2,193	12,500
-Realized	Interest expense	788	7,572

(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 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 were 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 is in the table below:

	Dec. 31,			
	2003		2004	
	NT	US	NT	US
Securities purchase under agreements to resell	$486,480	$14,312	$-(Note)	$-(Note)
Securities sold under agreements to repurchase	29,749,447	875,241	-(Note)	-(Note)
Loan commitments	19,647,927	578,050	29,325,137	923,917
Credit card lines	218,487,571	6,427,996	279,345,149	8,801,044
Guaranty and Commercial letters of credit	18,894,451	555,883	20,820,593	655,973

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 losses

None.

IX. Significant subsequent event

None.

X. Others

1. Fair value of non-derivative financial instruments

As of December 31, 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:

	Dec. 31,							
	2003				2004			
Financial Assets	Carrying Value		Fair Value		Carrying Value		Fair Value	
	NT	US	NT	US	NT	US	NT	US
Securities purchased	$178,434,377	$5,249,614	$178,753,205	$5,258,994	$240,083,384	$7,564,064	$240,859,150	$7,588,505
Long-term Investments	26,841,388	789,685	26,932,513	792,366	37,399,221	1,178,299	37,471,333	1,180,571

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 value or other financial sources.

2. Others

(1) Information on concentrations of credit risk

Concentrations of credit risk exist when the counter party 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:

	Dec. 31,			
	2003		2004	
Bills and loans, customers' liabilities under acceptances and guarantees account	NT	US	NT	US
Geographic Region				
Domestic	$512,062,640	$15,065,097	$574,862,475	$18,111,609
South East Asia	10,354,093	304,622	11,954,704	376,645
North East Asia	259,898	7,646	34,178	1,077
North America	6,894,411	202,836	9,751,533	307,232
Others	5,909,366	173,856	12,612,691	397,375
Total	$535,480,408	$15,754,057	$609,215,581	$19,193,938

	Dec. 31,			
	2003		2004	
	NT	US	NT	US
Industry type				
Manufacturing	$65,664,461	$1,931,876	$73,569,084	$2,317,867
Financial institutions and insurance	28,320,639	833,205	75,014,571	2,363,408
Leasing and real estate	70,914,517	2,086,334	22,540,469	710,160
Individuals	258,982,514	7,619,374	322,070,197	10,147,139
Others	111,598,277	3,283,268	116,021,260	3,655,364
Total	$535,480,408	$15,754,057	$609,215,581	$19,193,938

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.

(2) Average balances and average interest rate of interest-earning assets and interest-bearing liabilities

	Jan. 1~ Dec. 31, 2003		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from Central Bank	$50,595,397	$1,488,538	1.35%
Time certificate, accepted bills… etc.	90,015,907	2,648,306	1.62%
Due from commercial banks and call loans to banks	31,533,374	927,725	1.36%
Bills and loans	472,897,606	13,912,845	4.19%
Government and corporate bonds	83,763,390	2,464,354	3.32%
Receivables-credit card	17,223,912	506,735	10.44%
Liabilities			
Due to banks	$58,515,174	$1,721,541	1.41%
Demand deposits	70,047,474	2,060,826	0.18%
Saving deposits	354,410,503	10,426,905	0.90%
Certified deposits	171,905,245	5,057,524	1.28%
Negotiable certificates of certified deposits	6,175,558	181,687	1.34%
Financial bonds payable	14,145,833	416,176	4.00%
Bank's acceptances and fund borrowed	2,245,567	66,066	1.64%

	Jan. 1~ Dec. 31, 2004		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from Central Bank	$34,176,874	$1,076,776	1.11%
Time certificate, accepted bills… etc.	133,387,884	4,202,517	1.22%
Due from commercial banks and call loans to banks	26,436,737	832,915	1.34%
Bills and loans	538,803,029	16,975,521	3.52%
Government and corporate bonds	73,363,668	2,311,395	3.34%
Receivables-credit card	45,390,494	1,430,072	14.00%

Liabilities			
Due to banks	$77,125,320	$2,429,909	1.37%
Demand deposits	92,877,492	2,926,197	0.16%
Saving deposits	434,998,223	13,705,048	0.72%
Certified deposits	133,386,857	4,202,484	1.07%
Negotiable certificates of certified deposits	24,049,974	757,718	1.01%
Financial bonds payable	31,074,590	979,036	3.40%
Bank's acceptances and fund borrowed	2,072,660	65,301	1.87%

(3) Regulatory capital ratio

Pursuant to the regulations of 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 December 31, 2003 and 2004, the ratio (included subsidiaries) of the Bank's shareholders' equity to its risk-weighted assets was 11.15% (11.58%) and 11.69% (11.99%), respectively. The equation to calculate such ratio is as follows:

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

(4) As of December 31, 2003 and 2004, the amounts of insurance coverage over the Bank's premises and equipments were NT$8,311,639 and NT$9,106,745, respectively.

(5) Certain accounts of the financial statements for the periods ended December 31, 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:

English Translation of Financial Statements Originally Issued in Chinese

Balance Sheet Based on Trust
Dec. 31, 2003

Trust Assets	NT	US	Trust Liabilities	NT	US
Cash and Cash Equivalents	$3,472,460	$102,161	Trust Capital		
			Trust capital-Money	$55,332,322	$1,627,900
Short-term Investments			Trust capital-Real	1,455,712	42,828
Bonds	3,373	99	Reserve and Accumulated Earnings		
Mutual Fund	14,457	425	Net Income	(3,460)	(102)
Assigned Fund	52,053,838	1,531,446	Total	$56,784,574	$1,670,626
Real Estate					
Land	1,239,983	36,481			
Buildings	463	14			
Total	$56,784,574	$1,670,626			

Balance Sheet Based on Trust
Dec. 31, 2004

Trust Assets	NT	US	Trust Liabilities	NT	US
Cash and Cash Equivalents	$2,934,295	$92,448	Trust Capital		
			Trust capital-Money	$77,284,463	$2,434,923
Short-term Investments			Trust capital-Trading Securities	1,619,460	51,023
Bonds	26,638	839			
Common Stock	18,542	584	Trust capital-Real Estate	3,166,545	99,765
Mutual Fund	28,806	908			
Assigned Fund	74,349,248	2,342,446			
Personal Estate			Reserve and Accumulated Earnings		
Trading Securities	1,617,660	50,966	Commitment	(62,003)	(1,953)
Real Estate			Disbursing	(19,508)	(615)
Land	3,062,253	96,479	Net Income	50,919	1,604
Buildings	2,434	77			
Total	$82,039,876	$2,584,747	Total	$82,039,876	$2,584,747

Details of Trust Properties

Dec. 31, 2004

Investment Items	Amount	
	NT	US
Short-term Investment		
Bonds	$26,638	$839
Common stock	18,542	584
Mutual Fund	28,806	908
Assigned Fund	74,349,248	2,342,446
Personal Estate		
Deposits	2,934,295	92,448
Trading Securities	1,617,660	50,966
Real Estate		
Land	3,062,253	96,479
Buildings	2,434	77
Total	$82,039,876	$2,584,747