

Cathay United Bank
Financial Statements With
Review Report of Independent Auditors
For The Three-Month Periods Ended March 31,
2004 and 2005

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 as of March 31, 2004 and 2005, and the related statements of income and cash flows for the three-month period ended March 31, 2004 and 2005. 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 discussed in Note III to the financial statements, effective from January 1, 2005, the Bank adopted the R.O.C. Statement of Financial Accounting Standards No. 35, "Accounting for Asset Impairment" to account for the impairment of its assets.

We have also reviewed the translations of New Taiwan dollar financial statements as of March 31, 2004 and 2005 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
April 17, 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 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

Unaudited Balance sheets

March 31, 2004 and 2005

(Expressed in thousands of dollars)

ASSETS	NOTES	March 31, 2004		March 31, 2005	
		NT\$	US\$ (Note II)	NT\$	US\$ (Note II)
Cash and cash equivalents	IV.1	\$23,618,773	\$715,720	\$17,184,701	\$546,240
Due from Central Bank and call loans to banks	IV.2, V and X	71,182,900	2,157,057	56,626,405	1,799,949
Securities purchased-net	II, IV.3, VI and X	197,559,393	5,986,649	240,672,391	7,650,108
Receivables-net	II, IV.4, V, and X	58,474,485	1,771,954	54,929,255	1,746,003
Prepayments	IV.5 and V	1,635,869	49,572	1,392,394	44,259
Bills and loans-net	II, IV.6, V and X	530,642,552	16,080,077	594,629,774	18,901,137
Long-term investments	IV.7, V, VI, and X				
Equity method		4,955,466	150,166	5,126,955	162,967
Cost method		5,758,356	174,496	5,342,818	169,829
Others		18,126,121	549,276	30,693,231	975,627
Premises and equipment	II, V, VII, X and XI				
Cost					
Land		14,846,798	449,903	14,014,806	445,480
Building		9,057,825	274,480	9,150,425	290,859
Furniture and fixtures		3,685,834	111,692	3,704,371	117,749
Transportation equipment		84,983	2,575	78,361	2,491
Miscellaneous equipment		3,555,363	107,738	4,204,800	133,655
Total Cost		31,230,803	946,388	31,152,763	990,234
Less: Accumulated depreciation		(6,620,205)	(200,613)	(6,954,331)	(221,053)
Construction in progress and procurement		857,727	25,992	696,914	22,152
Less: Allowance for asset impairment		-	-	(59,562)	(1,893)
Premises and equipment-net		25,468,325	771,767	24,835,784	789,440
Other assets	II and IV.8	7,215,019	218,637	4,143,364	131,703
TOTAL ASSETS		\$944,637,259	\$28,625,371	\$1,035,577,072	\$32,917,262

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Unaudited Balance sheets

March 31, 2004 and 2005

(Expressed in thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	March 31, 2004		March 31, 2005	
		NT\$	US\$ (Note II)	NT\$	US\$ (Note II)
Due to Central Bank and commercial banks	IV.9 and X	\$77,624,169	\$2,352,248	\$79,855,960	\$2,538,333
Payables	IV.10 and V	18,414,706	558,021	14,445,226	459,162
Advances		1,193,679	36,172	1,097,978	34,900
Deposits and remittances	IV.11, V and X	718,191,648	21,763,383	756,979,392	24,061,646
Financial debentures payable	IV.12 and X	27,050,000	819,697	52,050,000	1,654,482
Banker's acceptances and funds borrowed	IV.13 and X	2,027,403	61,436	1,223,275	38,884
Other liabilities	IV.14	26,934,406	816,194	46,078,933	1,464,683
TOTAL LIABILITIES		871,436,011	26,407,151	951,730,764	30,252,090
Capital stock	IV.15	43,182,407	1,308,558	43,182,407	1,372,613
Capital reserves	II and IV.16				
Additional paid-in capital		13,449,023	407,546	13,449,023	427,496
Others		12,609	382	14,163	450
Retained earnings	IV.17				
Legal reserve		9,122,517	276,440	9,951,639	316,327
Unappropriated earnings		7,413,114	224,640	17,336,975	551,080
Unrealized losses on long-term investments	IV.7	(93,835)	(2,843)	(104,653)	(3,327)
Conversion adjustments	II	115,413	3,497	16,754	533
TOTAL SHAREHOLDERS' EQUITY		73,201,248	2,218,220	83,846,308	2,665,172
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$944,637,259	\$28,625,371	\$1,035,577,072	\$32,917,262

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Unaudited Statements of income

For The Three-Month Periods Ended March 31, 2004 and 2005

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

ITEMS	NOTES	January 1- March 31, 2004		January 1- March 31, 2005	
		NT\$	US\$ (Note II)	NT\$	US\$ (Note II)
OPERATING INCOME:					
Interest revenue	V	\$7,631,707	\$231,264	\$9,009,487	\$286,379
Commission and handling fees	V	1,499,918	45,452	1,790,650	56,918
Gains on sales of securities-net	II	593,137	17,974	106,546	3,387
Investment income-net	II, and IV.7	164,002	4,970	54,651	1,737
Profit on exchange-net	II	50,282	1,523	85,545	2,719
Other operating income	V	220,763	6,690	805,685	25,610
Total operating income		<u>10,159,809</u>	<u>307,873</u>	<u>11,852,564</u>	<u>376,750</u>
OPERATING COST:					
Interest expense	V	1,898,233	57,522	2,717,041	86,365
Commissions and handling charges		299,547	9,077	323,347	10,278
Provisions for possible losses	II	834,173	25,278	4,453	142
Operating expenses	IV.19 and V	2,711,916	82,179	3,520,262	111,896
Other operating expenses		68,139	2,065	358,500	11,395
Total operating cost		<u>5,812,008</u>	<u>176,121</u>	<u>6,923,603</u>	<u>220,076</u>
NET OPERATING INCOME		<u>4,347,801</u>	<u>131,752</u>	<u>4,928,961</u>	<u>156,674</u>
NON-OPERATING INCOME:					
Gains on disposal of premises and equipment	II	1,167,121	35,367	22,504	715
Others		35,337	1,071	16,578	527
Total non-operating income		<u>1,202,458</u>	<u>36,438</u>	<u>39,082</u>	<u>1,242</u>
NON-OPERATING LOSS:					
Losses on disposal of premises and equipment	II	31,930	968	2,424	77
Losses on asset impairment		-	-	372,751	11,848
Others		40,956	1,241	140	5
Total non-operating loss		<u>72,886</u>	<u>2,209</u>	<u>375,315</u>	<u>11,930</u>
INCOME BEFORE INCOME TAX		<u>5,477,373</u>	<u>165,981</u>	<u>4,592,728</u>	<u>145,986</u>
INCOME TAX BENEFIT (EXPENSES)	II and IV.20	<u>(828,000)</u>	<u>(25,091)</u>	<u>(1,135,000)</u>	<u>(36,077)</u>
NET INCOME		<u>\$4,649,373</u>	<u>\$140,890</u>	<u>\$3,457,728</u>	<u>\$109,909</u>
EARNINGS PER SHARE (IN NT DOLLARS)					
INCOME BEFORE INCOME TAX	IV.21	\$1.27	\$0.039	\$1.06	\$0.033
INCOME TAX BENEFIT (EXPENSES)		(0.19)	(0.006)	(0.26)	(0.008)
NET INCOME		<u>\$1.08</u>	<u>\$0.033</u>	<u>\$0.80</u>	<u>\$0.025</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Unaudited Statements of cash flows

For The Three-Month Periods Ended March 31, 2004 and 2005

(Expressed in thousands of dollars)

ITEMS	NOTES	January 1- March 31, 2004		January 1- March 31, 2005	
		NT\$	US\$ (Note II)	NT\$	US\$ (Note II)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income		\$4,649,373	140,890	\$3,457,728	\$109,909
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	II	270,001	8,182	300,447	9,550
Provisions for possible losses	II	834,173	25,278	4,453	142
Gain on disposal of premises and equipment and non-operating assets	II	(1,135,191)	(34,400)	(20,081)	(638)
Losses on asset impairment	II	-	-	372,751	11,848
Investment income recognized by the equity method		(104,710)	(3,173)	(5,053)	(161)
Gain on long-term investments		(59,292)	(1,796)	(47,814)	(1,520)
Adjustment of changes in exchange rates		21,221	643	16,341	520
(Increase) decrease in receivables		(4,385,132)	(132,883)	1,161,634	36,924
(Increase) decrease in prepayments		156,163	4,732	(9,873)	(314)
(Increase) decrease in securities purchased for trading purposes		(2,858,488)	(86,621)	4,453,519	141,561
Increase (decrease) in payables		1,004,617	30,443	(2,805,907)	(89,190)
Decrease in advances		(483,120)	(14,640)	(87,618)	(2,785)
Decrease in other liabilities		(75,861)	(2,299)	(4,064,540)	(129,197)
Net cash provided by (used in) operating activities		(2,166,246)	(65,644)	2,725,987	86,649
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from disposal of premises and equipment and non-operating assets		1,756,305	53,221	126,698	4,027
Addition in premises and equipment		(254,535)	(7,713)	(348,944)	(11,091)
Increase in long-term investments in bonds		(5,260,105)	(159,397)	(3,783,156)	(120,253)
Proceeds from disposal of investments		4,111,017	124,576	72,714	2,311
Increase in securities purchased for non-trading purposes		(15,577,219)	(472,037)	(5,042,526)	(160,283)
Net increase in bills and loans		(19,022,640)	(576,443)	(8,173,395)	(259,803)
Decrease in other assets		1,085,454	32,893	114,142	3,628
Increase in due from Central Bank and commercial banks		(16,878,527)	(511,471)	(1,029,023)	(32,709)
Increase in deferred charges		(3,404)	(103)	(33,980)	(1,080)
Net cash used in investing activities		(50,043,654)	(1,516,474)	(18,097,470)	(575,253)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Decrease in due to Central Bank and commercial banks		(3,368,524)	(102,077)	(323,555)	(10,284)
Increase in deposits and remittances		58,234,728	1,764,689	11,690,826	371,609
Increase in banker's debenture payable		2,000,000	60,606	3,500,000	111,252
Increase (decrease) in banker's acceptances and funds borrowed		273,879	8,299	(191,411)	(6,084)
Increase (decrease) in guaranty and marginal deposits		(928)	(28)	8,372	266
Net cash provided by financing activities		57,139,155	1,731,489	14,684,232	466,759
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES		(65,373)	(1,981)	11,759	374
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		4,863,882	147,390	(675,492)	(21,471)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		18,754,891	568,330	17,860,193	567,711
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		\$23,618,773	\$715,720	\$17,184,701	\$546,240
SUPPLEMENT DISCLOSURES OF CASH FLOWS INFORMATION:					
Interest expenses paid		\$1,869,540	\$56,653	\$2,561,684	\$81,427
Income tax paid		\$84,414	\$2,558	\$134,442	\$4,273

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

English Translation of Financial Statements Originally Issued in Chinese

CATHAY UNITED BANK

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2004 and 2005

(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 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 March 31, 2004 and 2005, the Bank employed 4,016 and 3,558 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 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. The difference between the cost of investment and the company's share of the investee company's equity at acquisition is deferred and amortized over five years.

Other long-term equity investments are accounted for by the cost method. For investments in listed stocks, an allowance for decline in market value is made when the carrying amounts of the investments 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; relevant promulgated principle should be applied if impairment been found, while repairs and maintenance are expensed as incurred. Upon disposal of premises and equipment, the related cost, accumulated depreciation and accumulated impairment loss 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

When impairment loss been recognized, the depreciation of specified assets should be recalculated base on the adjusted value over the estimated useful lives.

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. Asset Impairment

The Bank assesses impairment for all its assets within the scope of SFAS No. 35 if impairment indicators were found. The Bank shall compare the carrying amount with the recoverable amount of the assets or the cash-generating unit (“CGU”) and write down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of net fair values or usage value.

For recognized impairment losses, the Bank shall assess, at each balance sheet date, whether there is any evidence shows that it may no longer exist or decreased. If such evidence been found, the Bank shall re-estimate the recoverable amount of the asset. Once the recoverable amount increased, the Company shall reverse the recognized impairment loss to the extent the carrying amount as if no impairment loss been recognized to against the assets.

Impairment loss (reversal) is classified as non-operating losses/(income).

11. 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.

12. 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.

13. 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.

14. 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.

15. 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.

16. 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.

17. 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.

18. The interim financial statement

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

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19. Basis for converting financial statements

The Bank's financial statements are stated in NT dollars ("NT\$"). Conversion of the March 31, 2004 and 2005 NT dollar amounts into US dollar amounts is provided solely for the convenience of the readers, using the noon buying rate of NT\$31.46 and NT\$33 to US\$1.00 on March 31, 2004 and 2005, 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

The Bank adopted the R.O.C. Statement of Financial Accounting Standards No. 35, "Accounting for Asset Impairment" ("SFAS No.35") to account for the impairment of its assets, effective from January 1, 2005. No retroactive adjustment is required under SFAS No. 35. Such a change in accounting principles decreased the Company's property, plant and equipment and non-operating assets by NT\$59,562 and NT\$313,189 thousand, respectively, as of March 31, 2005 and decreased the Bank's net income and earnings per share before tax by NT\$372,751 thousand and NT\$0.09, respectively, for the three-month period ended March 31, 2005.

IV. Breakdown of Significant Accounts

1. Cash and cash equivalents

	Mar. 31,			
	2004		2005	
	NT	US	NT	US
Cash on hand	\$8,182,184	\$247,945	\$8,899,367	\$282,879
Checks for clearance	5,780,333	175,161	4,074,242	129,506
Due from commercial banks	9,656,256	292,614	4,211,092	133,855
Total	<u>\$23,618,773</u>	<u>\$715,720</u>	<u>\$17,184,701</u>	<u>\$546,240</u>

2. Due from central bank and call loans to banks

	Mar. 31,			
	2004		2005	
	NT	US	NT	US
Deposit reserve	\$19,718,820	\$597,540	\$20,935,478	\$665,463
General account	15,496,870	469,602	12,633,166	401,563
Deposit in Central Bank	6,536,000	198,060	-	-
Call loans to banks	29,431,210	891,855	23,057,761	732,923
Total	<u>\$71,182,900</u>	<u>\$2,157,057</u>	<u>\$56,626,405</u>	<u>\$1,799,949</u>

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3. Securities purchased-net

	Mar. 31,			
	2004		2005	
	NT	US	NT	US
Stock	\$4,085,784	\$123,812	\$5,780,360	\$183,737
Mutual funds	3,220,156	97,580	2,660,435	84,566
Government and corporate bonds	51,104,726	1,548,628	62,706,905	1,993,226
Certificates of deposit	129,659,249	3,929,068	161,172,610	5,123,096
Commercial papers	7,065,919	214,119	6,509,569	206,916
Securities purchased under agreements to resell	2,440,531	73,956	1,928,750	61,308
Others	101,047	3,062	28,163	895
Total	197,677,412	5,990,225	240,786,792	7,653,744
Less: Allowance for decline in market price of securities	(118,019)	(3,576)	(114,401)	(3,636)
Net	<u>\$197,559,393</u>	<u>\$5,986,649</u>	<u>\$240,672,391</u>	<u>\$7,650,108</u>

(1) NT\$16,793,507 and NT\$16,769,805 of the securities purchased under agreements to resell on March 31, 2004 and 2005, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of March 31, 2004 and 2005, bond repurchase agreements in the notional amount of NT\$24,311,100 and NT\$36,109,700 were entered into in connection with NT\$25,993,975 and NT\$37,790,840 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\$26,041,882 and NT\$37,845,502 before September 24, 2004 and September 26, 2005, respectively.

4. Receivables-net

	Mar. 31,			
	2004		2005	
	NT	US	NT	US
Accounts receivable	\$51,683,464	\$1,566,165	\$47,845,106	\$1,520,824
Accrued interest receivable	3,461,494	104,894	3,667,049	116,562
Customers' liabilities under acceptances	655,092	19,851	828,095	26,322
Tax refundable	772,792	23,418	371,729	11,816
Others	2,799,150	84,823	3,164,410	100,585
Total	59,371,992	1,799,151	55,876,389	1,776,109
Less: Allowance for doubtful accounts	(897,507)	(27,197)	(947,134)	(30,106)
Net	<u>\$58,474,485</u>	<u>\$1,771,954</u>	<u>\$54,929,255</u>	<u>\$1,746,003</u>

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

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5. Prepayments

	Mar. 31,			
	2004		2005	
	NT	US	NT	US
Inter-bank clearing funds	\$930,483	\$28,196	\$801,989	\$25,492
Others	705,386	21,376	590,405	18,767
Total	\$1,635,869	\$49,572	\$1,392,394	\$44,259

6. Bills and loans-net

	Mar. 31,			
	2004		2005	
	NT	US	NT	US
Inward-outward documentary bills purchased	\$754,832	\$22,874	\$916,476	\$29,131
Discounts	100,000	3,030	-	-
Loans	532,759,088	16,144,215	593,670,086	18,870,632
Overdrafts	563,033	17,061	698,500	22,203
Delinquent accounts	4,019,698	121,809	5,154,110	163,831
Total	538,196,651	16,308,989	600,439,172	19,085,797
Less: Allowance for doubtful accounts	(7,554,099)	(228,912)	(5,809,398)	(184,660)
Net	\$530,642,552	\$16,080,077	\$594,629,774	\$18,901,137

(1) Non-accrual accounts amounted to NT\$10,874,401 and NT\$7,119,747 as of March 31, 2004 and 2005, respectively. The unrecognized interest on the non-accrual accounts amounted to NT\$114,075 and NT\$44,969 for the years ended March 31, 2004 and 2005, respectively.

(2) For the years ended of March 31, 2004 and 2005, 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:

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	Jan. 1 ~Mar. 31, 2004					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	\$4,012,984	\$121,606	\$3,518,370	\$106,617	\$7,531,354	\$228,223
Provision of doubtful account	825,753	25,023	-	-	825,753	25,023
Write-off	(1,438,926)	(43,604)	-	-	(1,438,926)	(43,604)
	1,538,230	46,613	-	-	1,538,230	46,613
Reclassification	(457,841)	(13,874)	457,841	13,874	-	-
Effects of exchange rates change	-	-	(4,805)	(146)	(4,805)	(146)
Balance, end of the period	<u>\$4,480,200</u>	<u>\$135,764</u>	<u>\$3,971,406</u>	<u>\$120,345</u>	<u>\$8,451,606</u>	<u>\$256,109</u>

	Jan. 1 ~Mar. 31, 2005					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	\$4,744,621	\$150,815	\$2,140,887	\$68,051	\$6,885,508	\$218,866
Provision (reversion) of doubtful account	(182,853)	(5,812)	-	-	(182,853)	(5,812)
Write-off	(2,162,520)	(68,739)	-	-	(2,162,520)	(68,739)
Recoveries	2,217,370	70,482	-	-	2,217,370	70,482
Reclassification	278,202	8,843	(278,202)	(8,843)	-	-
Effects of exchange rates change	-	-	(973)	(31)	(973)	(31)
Balance, end of the period	<u>\$4,894,820</u>	<u>\$155,589</u>	<u>\$1,861,712</u>	<u>\$59,177</u>	<u>\$6,756,532</u>	<u>\$214,766</u>

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.

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7. Long-term investments

	Mar. 31,					
	2004			2005		
	NT	US	% of ownership	NT	US	% of ownership
(i) Investments in Equity Securities:						
Seaward Card Co., Ltd.	\$46,760	\$1,417	99.99	\$78,679	\$2,501	100.00
Seaward Leasing Ltd.	2,316,052	70,183	99.97	2,223,440	70,675	100.00
Cathay Futures Corp.	730,065	22,123	99.82	718,074	22,825	99.99
Cathay Bank Life Insurance Agency of Association	105,663	3,202	99.90	187,820	5,970	99.98
Cathay Bank Property Agency of Association	8,073	245	99.80	12,070	384	99.97
Indovina Bank	439,039	13,304	50.00	514,020	16,339	50.00
Taiwan Real-estate Management Corp.	54,162	1,641	30.15	21,789	692	30.15
Taiwan Finance Corp.	1,244,395	37,709	24.57	1,367,258	43,460	24.57
Vista Technology Venture Capital Corp.	13,636	413	5.00	7,866	250	5.00
Cathay Venture Capital Corp.	29,471	894	3.33	27,786	883	3.33
Subtotal	4,987,316	151,131		5,158,802	163,979	
Less: Unrealized gain from intercompany transactions	(31,850)	(965)		(31,847)	(1,012)	
Investment in equity method	4,955,466	150,166		5,126,955	162,967	
China Bills Finance Corp.	14,097	427	0.12	-	-	-
Chunghwa Telecom Co., Ltd.	438,037	13,274	0.09	128,857	4,096	0.03
Taiwan Cooperative Bank	116,435	3,528	0.21	116,435	3,701	0.21
International Securities Investment Trust Co., Ltd.	4,900	149	4.74	-	-	-
Wallant International Trade Inc.	-	-	2.51	-	-	2.51
Central Deposit Insurance Corp.	10	-	-	10	-	-
Chinese Products Promotion Center	1,850	56	4.87	1,850	59	4.87
Han Tech Venture Capital Corp.	154,927	4,695	8.03	154,927	4,925	8.03
Taiwan Securities Central Depository Co., Ltd.	1,850	56	0.18	1,850	59	0.18
Taipei Forex Inc.	8,000	242	4.04	8,000	254	4.04
Global Securities Finance Corp.	161,930	4,907	2.45	161,930	5,147	2.45

(To be continued)

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	Mar. 31,					
	2004			2005		
	NT	US	% of ownership	NT	US	% of ownership
(Continued)						
An Feng Enterprise Co., Ltd.	4,500	136	15.00	4,500	143	15.00
Euroc II Venture Capital Corp.	40,000	1,212	5.00	40,000	1,271	5.00
Taiwan International Merchandise Exchange Corp.	12,500	379	0.63	12,490	397	0.62
Strategic Value Fund, Limited Partnership	165,170	5,005	-	97,819	3,109	-
Chan Sheng Investment Development Co., Ltd.	7,400	224	4.90	7,400	235	4.90
CDIB & Partners Investment Holding Corp.	500,000	15,152	4.95	500,000	15,893	4.95
Financial Information Service Co., Ltd.	45,500	1,379	1.14	45,500	1,446	1.14
IBU Securities Co., Ltd.	1,045,000	31,667	10.31	1,045,000	33,217	10.31
Sheng-Hua Venture Capital Corp.	50,000	1,515	2.50	50,000	1,589	2.50
Latin America Development Co., Ltd.	6,250	190	1.79	6,250	199	1.79
Capital Venture Fund II Corp.	30,000	909	5.00	30,000	954	5.00
Fu Yu Venture Capital Investment Corp.	50,000	1,515	3.70	50,000	1,589	3.70
Taipei Smart Card Corp.	25,000	758	5.00	25,000	795	5.00
New Century InfoComm Co., Ltd.	864,000	26,182	1.68	864,000	27,463	1.68
Harbinger Venture Capital Corp.	67,000	2,030	3.35	67,000	2,130	3.35
United Venture Capital Corp.	40,000	1,212	4.52	40,000	1,272	4.52
Centillion Venture Capital Corp.	60,000	1,818	5.00	60,000	1,907	5.00
Taiwan Asset Management Corp.	1,020,000	30,909	5.79	1,020,000	32,422	5.79
Taipei Financial Center Corp.	400,000	12,121	2.35	400,000	12,715	2.35
Taiwan Financial Asset Service Corp.	100,000	3,030	5.88	100,000	3,179	5.88
Mondex Taiwan Inc.	25,000	758	6.47	5,000	159	6.47
Kaohsiung Rapid Transit Corp.	299,000	9,061	2.99	299,000	9,504	2.99
Investment in cost method	5,758,356	174,496		5,342,818	169,829	
Subtotal	10,713,822	324,662		10,469,773	332,796	

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	Mar. 31,					
	2004			2005		
	NT	US	% of ownership	NT	US	% of ownership
(Continued)						
(ii) Others						
Government Bonds	8,071,674	244,596		11,192,305	355,763	
Financial Bonds	100,000	3,030		80,000	2,543	
Linked Note	662,600	20,079		1,425,150	45,300	
Callable Corridor Note	6,604,807	200,146		10,107,506	321,281	
Collateralized Debt Obligation	1,324,531	40,137		1,646,359	52,332	
Collateral Mortgage Obligation	662,509	20,076		4,278,648	136,003	
Foreign Government Bond	-	-		1,263,263	40,155	
Preferred Stock	400,000	12,121		400,000	12,714	
Other Bonds	300,000	9,091		300,000	9,536	
Subtotal	<u>18,126,121</u>	<u>549,276</u>		<u>30,693,231</u>	<u>975,627</u>	
Total	<u>\$28,839,943</u>	<u>\$873,938</u>		<u>\$41,163,004</u>	<u>\$1,308,423</u>	

- (1) As of March 31, 2004 and 2005, the Bank had recorded unrealized losses on long-term investment of Seaward Leasing Ltd. amounting to NT\$93,835 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) Equity method was applied for Cathay Venture Capital Corp. and Vista Technology Venture Capital Corp. due to its common stock was held by the Bank and/or its related parties in an amount over 20%.
- (6) Due to the recurring losses incurred by Wallant International Trade Inc., Chan Sheng Investment Development Co., Ltd., Strategic Value Fund, Limited Partnership and Mondex Taiwan Inc., the Bank has recognized the losses for these investees based on their net equity.

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- (7) Certain of the above long-term investments and related investment gains (losses) accounted for by equity method as of and for the three-month periods ended March 31, 2004 and 2005 were recognized based on the investees' unreviewed financial statements. No material adjustments were anticipated, has those financial statements been reviewed.
- (8) As of March 31, 2005, a bond repurchase agreement in the notional amount of NT\$7,025,000 was entered into in connection with NT\$7,342,812 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\$7,353,958 by July 6, 2005.
- (9) Long-term investments in government bonds of NT\$213,190 on March 31, 2005 were pledged to other parties as collateral for business reserves and guarantees.

8. Other assets

	Mar. 31,			
	2004		2005	
	NT	US	NT	US
Refundable deposits	\$848,346	\$25,708	\$1,054,953	33,533
Foreclosed properties-net	2,141,180	64,884	894,362	28,429
Deferred tax assets-net	3,031,446	91,862	445,382	14,157
Non-operating assets-net	701,440	21,256	1,179,888	37,504
Deferred charges	492,094	14,912	504,980	16,052
Others	513	15	63,799	2,028
Total	\$7,215,019	\$218,637	\$4,143,364	\$131,703

9. Due to central bank and commercial banks

	Mar. 31,			
	2004		2005	
	NT	US	NT	US
Due to Central Bank	\$159,278	\$4,827	\$307,555	\$9,776
Due to commercial banks	41,441,655	1,255,808	33,719,441	1,071,820
Overdrafts from banks	703,180	21,308	143,872	4,573
Call loans from banks	35,320,056	1,070,305	45,685,092	1,452,164
Total	\$77,624,169	\$2,352,248	\$79,855,960	\$2,538,333

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10. Payables

	Mar. 31,			
	2004		2005	
	NT	US	NT	US
Accounts payable	\$10,555,963	\$319,877	\$6,449,916	\$205,020
Accrued interest	2,396,496	72,621	2,638,428	83,866
Accrued expenses	539,837	16,359	1,015,226	32,270
Income tax payable	87,746	2,659	53,511	1,701
Acceptances	660,259	20,008	836,665	26,595
Collection for customers	439,569	13,320	274,668	8,731
Others	3,734,836	113,177	3,176,812	100,979
Total	\$18,414,706	\$558,021	\$14,445,226	\$459,162

11. Deposits and remittances

	Mar. 31,			
	2004		2005	
	NT	US	NT	US
Check deposits	\$13,590,091	\$411,821	\$10,544,093	\$335,159
Demand deposits	83,324,917	2,524,997	74,736,573	2,375,606
Certified deposits	130,941,422	3,967,922	164,262,454	5,221,311
Saving deposits	450,553,233	13,653,128	460,174,209	14,627,280
Foreign currencies deposits	39,560,512	1,198,803	46,773,825	1,486,771
Outward remittances	2,690	82	226,796	7,209
Remittances payable	218,783	6,630	261,442	8,310
Total	\$718,191,648	\$21,763,383	\$756,979,392	\$24,061,646

12. Financial debentures payable

	Mar. 31,			
	2004		2005	
	NT	US	NT	US
Financial debentures	\$14,700,000	\$445,455	\$39,700,000	\$1,261,920
Subordinated Financial debentures	12,350,000	374,242	12,350,000	392,562
Total	\$27,050,000	\$819,697	\$52,050,000	\$1,654,482

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.

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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 and on January 14 and February 22, 2005 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, NT\$1,000,000, NT\$2,000,000 and NT\$1,500,000, 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 and is senior to common stock.

13. Banker's acceptances and funds borrowed

	Mar. 31,			
	2004		2005	
	NT	US	NT	US
Borrowed funds-Central Bank	\$1,327,558	\$40,229	\$791,750	\$25,167
Borrowed funds-Others	699,845	21,207	431,525	13,717
Total	<u>\$2,027,403</u>	<u>\$61,436</u>	<u>\$1,223,275</u>	<u>\$38,884</u>

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14. Other liabilities

	Mar. 31,			
	2004		2005	
	NT	US	NT	US
Reserve for losses on guarantees	\$28,723	\$870	\$28,555	\$908
Reserve for losses on stock brokerage transactions	41,628	1,262	-	-
Reserve for losses on trading securities	130,981	3,969	136,800	4,348
Securities sold under agreements to repurchase	25,993,975	787,696	45,133,652	1,434,636
Guarantee and margin deposits	698,255	21,159	681,059	21,648
Others	40,844	1,238	98,867	3,143
Total	\$26,934,406	\$816,194	\$46,078,933	\$1,464,683

15. Capital Stock

The Bank had authorized capital stock amounting to NT\$43,182,407 divided into 4,318,241 shares, each with a par value of NT\$10 per share.

16. Capital reserves

	Mar. 31,			
	2004		2005	
	NT	US	NT	US
Capital reserves from the merger	\$9,199,927	\$278,786	\$9,199,927	\$292,433
Additional paid-in capital	4,249,096	128,760	4,249,096	135,063
Capital reserves from equity investees	2,212	67	3,766	120
Capital reserves from treasury stock	10,398	315	10,397	330
Total	\$13,461,632	\$407,928	\$13,463,186	\$427,946

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 February 6, 2004, and February 2, 2005, respectively. The information is as follows:
- (a) 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.

- (b) The appropriation and distribution of earnings in 2004:
- 1) NT\$ 4,163,774 from legal reserve; and
 - 2) NT\$ 9,713,473 as dividends to shareholders; and
 - 3) NT\$ 2,000 as compensation to directors and supervisors and employees' bonus.

The above appropriation and distribution by the Bank's board of directors is expected to be approved on April 22, 2005.

18. Pension

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

19. Operating expenses

As of March 31, 2004 and 2005, the amounts of personnel, depreciation and amortization is as follows:

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	Jan. 1 ~ Mar. 31,			
	2004		2005	
	NT	US	NT	US
Personnel expenses				
Salary expenses	\$895,766	\$27,144	\$1,093,148	\$34,747
Insurance expenses	69,411	2,103	113,360	3,603
Pension expenses	89,522	2,713	92,617	2,944
Others	267,786	8,115	368,249	11,705
Depreciation expenses	214,694	6,506	245,831	7,814
Amortization expenses	55,307	1,676	54,853	1,744
Total	<u>\$1,592,486</u>	<u>\$48,257</u>	<u>\$1,968,058</u>	<u>\$62,557</u>

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 March 31, 2004 and 2005 is as follows:

	Jan. 1~Mar. 31,			
	2004		2005	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (tax rate 25%)	\$-	\$-	\$940,986	\$29,910
Interest on short-term negotiable instruments (tax rate 20%)	2,187	66	4,540	144
Foreign branches' income tax	8,283	251	19,904	633
Deferred tax (benefit) expenses:				
Allowance for bad debt	(177,674)	(5,384)	38,983	1,239
Allowance for pledged assets taken-over	15,083	457	133,549	4,245
Provisions for possible losses	(545)	(17)	-	-
Foreign investment income recognized by the equity method	3,160	96	3,500	111
Operating loss carryforwards	991,868	30,057	-	-
Others	(1,360)	(41)	(10,099)	(321)
Adjustment of prior period's income tax	(13,002)	(394)	3,637	116
Income tax expenses	<u>\$828,000</u>	<u>\$25,091</u>	<u>\$1,135,000</u>	<u>\$36,077</u>

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

	Mar. 31,			
	2004		2005	
	NT	US	NT	US
Taxable temporary differences:				
Unrealized losses from intercompany transactions	\$24,392	\$739	\$24,088	\$766
Others	98,840	2,995	108,099	3,436
Deductible temporary differences:				
Allowance for bad debts	\$2,541,081	\$77,002	\$412,027	\$13,097
Allowance for pledged assets taken-over	2,001,890	60,663	875,551	27,831
Unrealized gain from intercompany transactions	19,544	592	18,933	602
Pension expenses exceed the limit of tax law	75,809	2,297	75,809	2,410
Provisions for possible losses	59,122	1,792	20,000	636
Others	127,176	3,854	233,793	7,431
Operating loss carryforwards	7,216,861	218,693	-	-
Investment Credit	\$10,942	\$332	\$-	\$-
Deferred income tax assets of foreign branches	\$40,941	\$1,241	\$69,400	\$2,206

	Mar. 31,			
	2004		2005	
	NT	US	NT	US
(3) Deferred tax assets	\$3,062,254	\$92,796	\$478,429	\$15,207
Deferred tax liabilities	(30,808)	(934)	(33,047)	(1,050)
Net deferred tax assets	<u>\$3,031,446</u>	<u>\$91,862</u>	<u>\$445,382</u>	<u>\$14,157</u>

(4) The Bank's income tax returns for the years from 1994 to 1998, 2000 and 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; another year 2001 in 2005.

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- (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 income tax returns of 2002 withholding taxes on the interest income from bonds pertaining to periods when those bonds were held by other investors was 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:

	Mar. 31,			
	2004		2005	
	NT	US	NT	US
Shareholders' deductible income tax account	\$292,355	\$8,859	\$112,981	\$3,591
Unappropriated earnings	7,413,114	224,640	17,336,975	551,080

21. Earning per share

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

	Jan. 1~Mar. 31	
	2004	2005
Weighted-averaged number of shares (in thousands of shares)	4,318,241	4,318,241

	Jan. 1~Mar. 31			
	2004		2005	
	NT	US	NT	US
Income before income tax	\$5,477,373	\$165,981	\$4,592,728	\$145,986
Income tax expense	(828,000)	(25,091)	(1,135,000)	(36,077)
Net income	\$4,649,373	\$140,890	\$3,457,728	\$109,909
Earning per share (Expressed in dollars)				
Income before income tax	\$1.27	\$0.039	\$1.06	\$0.033
Income tax expense	(0.19)	(0.006)	(0.26)	(0.008)
Net income	\$1.08	\$0.033	\$0.80	\$0.025

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(2) No earning distributions of the Bank were appropriated to employees, directors and supervisors for the years 2003. According to the regulations issued by the Securities and Futures Bureau, the Bank should calculate an estimate earnings per share for the current year assuming that the dividends of year 2004 would be appropriated to the employee, directors and supervisors, as follows:

	<u>2004</u>
A. Distribution:	
Employees' bonus	\$1,500
Directors and supervisors' remunerations	500

B. Estimated earnings per share (In New Taiwan Dollar) \$3.21

The formula for calculating an estimated earnings per share is as follows:

$$\text{Estimated earnings per share} = \frac{\text{Net income} - \text{employees' bonus} - \text{directors and supervisors' remunerations}}{\text{Weighted-averaged number of common stocks outstanding}}$$

V. Related parties transactions

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

<u>Name of related parties</u>	<u>Relationship</u>
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.
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.	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

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Name of related parties	Relationship
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 (Note1)
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
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: 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

Account/ Related Parties	March 31,									
	2004					2005				
	NT	US	% of account	Interest Revenue (Expense)		NT	US	% of account	Interest Revenue (Expense)	
			NT	US	NT	US		NT	US	
Bills and loans	\$5,215,715	\$158,052	0.97%	\$21,198	\$642	\$2,437,787	\$77,488	0.41%	\$13,791	\$438
Deposits	29,179,431	884,225	4.06%	(119,450)	(3,620)	42,303,385	1,344,672	5.59%	(101,730)	(3,234)

Call Loans to Banks	Maximum balance		Mar. 31 balance		Interest revenue		Interest rate
	NT	US	NT	US	NT	US	
<u>Jan. 1~Mar. 31, 2005</u>							
Indovina Bank	585,895	18,623	490,885	15,603	3,781	120	2.48%-3.44%

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

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(2) Lease

<u>Account/Related Parties</u>	Jan. 1~ Mar. 31,			
	2004		2005	
	NT	US	NT	US
<u>Rental Income</u>				
Seaward Leasing Ltd.	\$471	\$14	\$33	\$1
Taipei Smart Card Corp.	1,427	43	1,427	45
Culture and Charity Foundation of Cathay United Bank	250	8	250	8
Cathay Securities Investment Co., Ltd.	-	-	2,360	75

<u>Account/Related Parties</u>	Jan. 1~ Mar. 31,			
	2004		2005	
	NT	US	NT	US
<u>Rental Expense</u>				
Cathay Life Insurance Co., Ltd.	\$57,347	\$1,738	\$65,847	\$2,093
Cathay Real Estate Corp.	-	-	3,471	110

<u>Account/Related Parties</u>	March 31,			
	2004		2005	
	NT	US	NT	US
<u>Refundable Deposits</u>				
Seaward Leasing Ltd. (Note 2)	\$42,000	\$1,273	\$42,000	\$1,335
Cathay Life Insurance Co., Ltd.	66,389	2,012	73,535	2,337
Cathay Real Estate Corp.	-	-	3,408	108
<u>Guarantee Deposits</u>				
Cathay Securities Investment Co., Ltd.	\$-	\$-	\$2,334	\$74

Note 2: Interest from refundable deposits was used to offset against rental expense payable to Seaward Leasing Ltd.

<u>Account/Related Parties</u>	Jan. 1~ Mar.			
	2004		2005	
	NT	US	NT	US
<u>(3) Commissions and handling fees</u>				
Cathay Futures Corp.	870	26	-	-
<u>(4) Credit card processing charges</u>				
Seaward Card Co., Ltd.	126,111	3,822	271,001	8,614

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Account/Related Parties	Jan. 1~ Mar.			
	2004		2005	
	NT	US	NT	US
(5) <u>Insurance expense</u>				
Cathay Life Insurance Co., Ltd.	\$52,554	\$1,593	\$55,355	\$1,760
Cathay Century Insurance Co., Ltd.	7,842	238	8,312	264
(6) <u>Other expense</u>				
Cathay Real Estate Corp.	1,200	36	1,800	57
Account/Related Parties	March 31,			
	2004		2005	
	NT	US	NT	US
(7) <u>Account receivables</u>				
Cathay Financial Holding Co., Ltd.	\$-	-	571,606	18,169
Cathay Futures Corp.	387	12	-	-
(8) <u>Prepaid rental expense</u>				
Cathay Life Insurance Co., Ltd.	302	9	288	9
(9) <u>Refundable Deposit</u>				
Cathay Futures Corp.	-	-	4,072	129
(10) <u>Accrued expenses</u>				
Seaward Card Co., Ltd.	35,076	1,063	82,908	2,635
(11) <u>Account payables</u>				
Cathay Financial Holding Co., Ltd.	-	-	1,314,730	41,791
(12) <u>Others</u>				

- a. The Bank paid project and construction management fees to Taiwan Real-Estate Management Corp. in the amount of NT\$56 during the first quarter of 2004.
- b. The Bank purchased automated systems for the 24-hour self-service banking center from Sanching engineering Corp. in the amount of NT\$52,625 and NT\$3,820 during the first quarter of 2004 and 2005, respectively.
- c. The Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management Co., Ltd. in the amount of NT\$2,280 during the first quarter of 2005.

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- d. As of March 31, 2004 and 2005, the notional amount of the forward and interest rate swap contracts the Bank entered into with Cathay Life Insurance Co., Ltd. was US\$570,000 and US\$698,000, respectively.

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. In 2004, the fund has been collected.

VI. ASSETS PLEDGED OR MORTGAGED

See Note IV.3 and 7.

VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of March 31, 2005, the Bank had the following commitments and contingent liabilities, which are not reflected in the financial statements:

	<u>NT\$</u>	<u>US\$</u>
1. Entrusted Items and Guarantees:		
Trust and security held for safe keeping	\$586,979,017	\$18,657,947
Travelers checks for sale	659,057	20,949
Bills for collection	51,871,700	1,648,814
Guarantees on duties and contracts	16,177,196	514,215
Unused commercial letters of credit	3,958,073	125,813
Loan commitments	26,857,603	853,706
Credit card lines	282,661,154	8,984,779
Stamp tax, securities and memorial currency consignments	1,757	56
2. As of March 31, 2005, 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. The Taiwan High Court then reversed its previous decision but Chung Shing Bank has filed an appeal to the Supreme Court to against the result.
 - (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 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 March 31, 2005, the Bank had entered into certain contracts to purchase premises and equipments totaling NT\$793,123 with prepayments of NT\$696,914.

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:

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

Derivative Financial Instruments	Mar. 31, 2004		
	Contract (Notional) Amount	Credit Risk	Fair Value
<u>For the purpose of hedging customers' needs or hedging the Bank's exposures</u>			
Forward foreign exchange contracts	\$3,679,985	\$61,779	\$208,970
Interest rate swap contracts	60,368	869	12
Option contracts	47,665	8	(49)
<u>For non-trading purpose</u>			
Interest rate swap contracts	805,960	8,276	32,312
Cross-currency swap contracts	354,067	6,604	4,859
Derivative Financial Instruments	Mar. 31, 2005		
	Contract (Notional) Amount	Credit Risk	Fair Value
<u>For the purpose of hedging customers' needs or hedging the Bank's exposures</u>			
Forward foreign exchange contracts	\$3,113,313	\$147,490	\$783,414
<u>For trading purpose</u>			
Interest rate swap contracts	639,410	4,552	(83)
Option contracts	261,469	603	1,019
Future contracts	947	-	1,101
<u>For non-trading purpose</u>			
Interest rate swap contracts	1,497,371	11,450	34,218
Cross-currency swap contracts	573,171	9,074	14,733

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 March 31, 2005, the maturities of the Bank's outstanding interest rate swaps ranged from seven months to four years and two 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 March 31, 2005, the Bank's outstanding cross-currency swaps had remaining maturities from one year and seven months to six years and four 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)

Items	Mar. 31,	
	2004	2005
Interest rate risk exposures	\$246,524	\$479,993
Foreign exchange risk exposures	205,692	324,102

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 three-month periods ended March 31,	
		2004	2005
<u>For Trading Purpose</u>			
Forward foreign exchange contracts			
-Realized	Interest revenue	\$2,779	\$4,955
-Realized	Interest expense	1,195	2,403
Interest rate swap contracts			
-Realized	Gain (loss) of derivative financial instruments	27	(8)
-Unrealized	"	-	23
Option contracts			
-Realized	"	-	348
-Unrealized	"	7	19
Futures contracts			
-Realized	"	-	254
-Unrealized	"	-	(14)
<u>For Non-trading Purpose</u>			
Interest rate swap contracts			
-Realized	Interest revenue	8,595	9,702
-Realized	Interest expense	1,750	5,251
Cross-currency swap contracts			
-Realized	Interest revenue	2,476	3,432
-Realized	Interest expense	877	3,792

(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:

	Mar. 31,			
	2004		2005	
	NT	US	NT	US
Loan commitments	\$21,823,573	\$661,320	\$26,857,603	853,706
Credit card lines	223,516,819	6,773,237	282,661,154	8,984,779
Guaranty and Commercial letters of credit	18,932,505	573,712	20,135,269	640,028

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 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.

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VIII. Significant disaster losses

None.

IX. Significant subsequent event

None.

X. Others

1. Fair value of non-derivative financial instruments

As of March 31, 2004 and 2005, 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:

Financial Assets	Mar. 31,							
	2004				2005			
	Carrying Value		Fair Value		Carrying Value		Fair Value	
	NT	US	NT	US	NT	US	NT	US
Securities purchased	\$197,559,393	\$5,986,648	\$198,665,823	\$6,020,176	\$240,672,391	\$7,650,108	\$241,087,694	\$7,663,309
Long-term Investments	28,839,943	873,938	28,897,431	875,680	41,163,004	1,308,424	41,217,763	1,310,164

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:

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	Mar. 31,			
	2004		2005	
	NT	US	NT	US
Bills and loans, customers' liabilities under acceptances and guarantees account				
Geographic Region				
Domestic	\$532,724,220	\$16,143,158	\$584,323,533	\$18,573,539
South East Asia	10,541,787	319,448	11,267,333	358,148
North East Asia	255,957	7,757	45,450	1,445
North America	6,511,565	197,320	8,263,541	262,668
Others	4,980,687	150,930	13,544,606	430,534
Total	<u>\$555,014,216</u>	<u>\$16,818,613</u>	<u>\$617,444,463</u>	<u>\$19,626,334</u>

	Mar. 31,			
	2004		2005	
	NT	US	NT	US
Industry type				
Manufacturing	\$67,950,717	\$2,059,113	\$72,692,566	\$2,310,635
Financial institutions and insurance	34,594,127	1,048,307	72,939,276	2,318,477
Leasing and real estate	70,716,975	2,142,939	25,858,815	821,958
Individuals	268,874,077	8,147,699	332,416,564	10,566,324
Others	112,878,320	3,420,555	113,537,242	3,608,940
Total	<u>\$555,014,216</u>	<u>\$16,818,613</u>	<u>\$617,444,463</u>	<u>\$19,626,334</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.

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

	Jan. 1~ Mar. 31, 2004		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from Central Bank	\$34,043,796	\$1,031,630	1.26%
Time certificate, accepted bills... etc.	125,219,129	3,794,519	1.31%
Due from commercial banks and call loans to banks	27,360,238	829,098	1.18%
Bills and loans	524,906,903	15,906,270	3.52%
Government and corporate bonds	68,685,910	2,081,391	3.44%
Receivables-credit card	38,196,293	1,157,463	14.92%

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Liabilities			
Due to banks	\$76,661,084	\$2,323,063	1.02%
Demand deposits	89,201,833	2,703,086	0.17%
Saving deposits	426,620,249	12,927,886	0.76%
Certified deposits	146,541,076	4,440,639	1.06%
Negotiable certificates of certified deposits	11,862,091	359,457	1.14%
Financial bonds payable	25,115,934	761,089	3.59%
Bank's acceptances and fund borrowed	1,850,907	56,088	1.81%

Jan. 1~ Mar. 31, 2005

	Average balance		Average rate (%)
	NT	US	
Assets			
Due from Central Bank	\$20,923,398	\$665,079	1.50%
Time certificate, accepted bills... etc.	170,716,282	5,426,455	1.24%
Due from commercial banks and call loans to banks	22,181,030	705,055	1.63%
Bills and loans	561,256,961	17,840,336	3.62%
Government and corporate bonds	84,943,398	2,700,044	3.21%
Receivables-credit card	59,309,465	1,885,234	13.28%

Liabilities			
Due to banks	\$79,084,940	\$2,513,825	1.92%
Demand deposits	91,449,481	2,906,849	0.21%
Saving deposits	453,335,398	14,409,898	0.76%
Certified deposits	151,875,312	4,827,569	1.37%
Negotiable certificates of certified deposits	34,190,575	1,086,795	1.08%
Financial bonds payable	50,894,444	1,617,751	2.62%
Bank's acceptances and fund borrowed	1,362,046	43,295	2.57%

(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 of the Bank's shareholders' equity to its risk-weighted assets was 11.15% and 11.69%, respectively. The equation to calculate such ratio is as follows:

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Eligible capital-Deduction item

Weighted risk assets + Capital charges for market risk positions $\times 12.5$

- (4) As of March 31, 2004 and 2005, the amounts of insurance coverage over the Bank's premises and equipments were NT\$8,205,531 and NT\$8,524,005, respectively.
- (5) Certain accounts of the financial statements for the periods ended March 31, 2004 have been reclassified to conform to the current presentation.
- (6) As of March 31, 2004 and 2005, The assets and liabilities managed under the Bank's trust were NT\$63,997,648 and NT\$88,273,831.