THE INTERNATIONAL
COMMERCIAL BANK OF CHINA

Mega Financial Group

Annual Report 2004

ANNUAL REPORT 2004

MEGA FINANCIAL GROUP

THE INTERNATIONAL COMMERCIAL BANK OF CHINA

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Tzong-Yeong Lin, Chairman of the Board

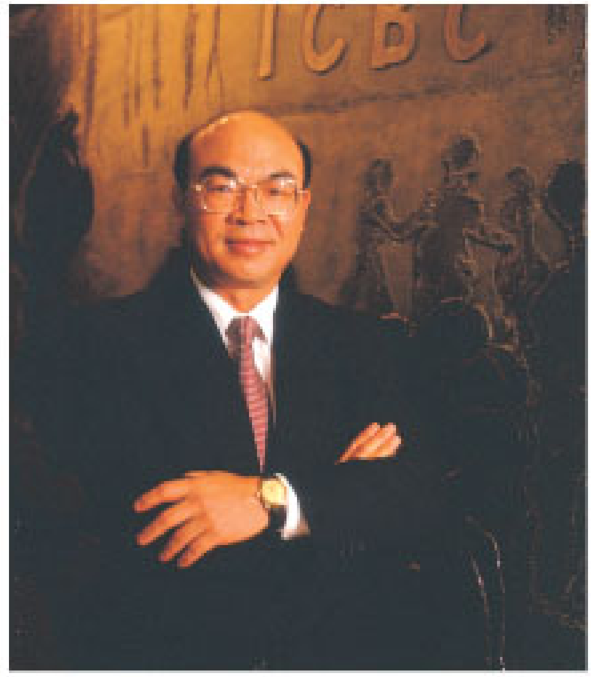
Message from the Chairman and President

The global economic expansion has remained broadly on track in 2004, but competition in the financial industry becomes fiercer by the day in Taiwan. ICBC still occupies the leading position in the market, and was last year named "The Best Trade Finance Bank" by *Global Finance* magazine for the fourth consecutive year, and won top prize at the Asian Bankers' Association's "Winner of the Asian Banking Awards 2004."

ICBC has existed for over a century, and has always been renowned for its sincerity, reliability and stable operation. On December 31st, 2002, the Bank joined the Mega Financial Group. In recent years, after restructuring, making cost savings and improving operating efficiency, with the unrelenting efforts of all employees, ICBC's profits have repeatedly reached historic highs. Last year, pre-tax income exceeded NT$11 billion, and each area of business continued to grow significantly. Outstanding among them have been our enduringly reputable foreign exchange business, increasing 38.16% over the previous year to US$253 billion. As regards other main areas of business, deposits and loans amounted to NT$662 billion and NT$550 billion respectively, representing a growth of 12.69% and 10.77% from the previous year. It is noteworthy that trust business, which is actively expanding, reached NT$130 billion, apparently showing a 29.4% increase over the previous year.

ICBC's continued robust and prosperous expansion is by no means fortuitous. To cope with changes in the financial market, we strived to innovate in all areas, for example:

- Our Global eBanking network, a unique transaction platform, has earned the top spot in the domestic financial sector. The second-to-none network enables direct connection with overseas branches to process online transactions immediately.
- ICBC pushed out such brand-new electronic banking services as On-line Foreign Exchange and Web ATM to raise the quality and efficiency of our services, winning a universally favorable response from the market.
- ICBC's selection by the Taiwan Stock Exchange Corporation and the Gretai Securities Market as the first and only domestic clearing bank for foreign currency bonds, reaffirms its expertise and reliability in foreign exchange transactions.
- In consumer banking, which has been promoted vigorously lately, ICBC introduced a wealth management service, combining various products provided by other Mega Financial Group subsidiaries, to offer our customers a more comprehensive choice.



Yeou-Tsair Tsai, President and Chief Executive Officer

- ICBC established the Investment Banking Department last year, a professional financial advisor for enterprises to deliver services from financing planning to arranging, not to mention to design asset securitization products, which became the focus of market attention, fully displaying its strong ambition to expand sources of profit and lines of business.

In addition, with the global recovery expected to continue at a moderate pace, ICBC is in the process of accelerating expansion of its overseas business. In addition to upgrading the Bangkok branch to a subsidiary bank and establishing more branches in Thailand, ICBC has been authorized by the UK FSA to open a London representative office, and is to apply for permission to set up a branch in Hanoi, Vietnam, in order to serve even more customers and further increase profits.

With satisfactory risk management mechanisms, ICBC is committed to working to become one of the world's leading banks by continuously improving financial strength and asset quality. As far as business capacity is concerned, we expect to have total deposits of NT$717 billion, total loans of NT$612.6 billion, and foreign exchange trading of US$272.7 billion by year-end 2005.

This year, the Bank will continue to implement resource sharing with other subsidiaries of Mega Financial Group to expand business. ICBC has always claimed to stand for "Intelligent Customers' Best Choice." With the support of customers, we will continue to make every effort to be worthy of that claim.

Tzong-Yeong Lin

Tzong-Yeong Lin

Chairman of the Board

Yeou-Tsair Tsai

McKinney Tsai

President and Chief Executive Officer


中國商銀
中國國際商業銀行

Historical Overview

The International Commercial Bank of China (ICBC) is one of the most time-honored banks in the Republic of China. ICBC and its predecessors have the longest history among all Chinese banks, dating back to 1904. Throughout its long history, ICBC has served as the sovereign bank of the Ching Dynasty, and the central bank and the designated international foreign exchange bank of the Republic of China. ICBC has established a strong franchise in international banking and a close relationship with the government. Today, according to *the Banker* July 2004, the Bank stands as the eighth largest bank in Taiwan in terms of tier one capital, with an incontestable leadership in the international banking supported by an established clientele with state-owned enterprises and large private corporations.

The Bank's predecessor, the Hubu Bank, was established as the first government-owned and operated bank in China. The Hubu Bank was later renamed the Da-Ching Bank, which acted as the Ching Dynasty's sovereign bank. Following the establishment of the Republic of China in 1911, the Da-Ching Bank was reorganized into Bank of China as the Republic's central bank and in charge of its treasury. In 1928, the Republic established the Central Bank of China to replace Bank of China as the central bank. While granted special status by the Ministry of Finance as the country's designated international foreign exchange bank, Bank of China remained in charge of currency issuance and the treasury until 1942 when the Central Bank of China took over the full central bank responsibilities from it.

As the ROC government moved to Taiwan in 1949, Bank of China was subsequently relocated to Taiwan as well. While the Bank's domestic operation stopped completely between 1949 and 1960, its international operations remained active during those years, and the Bank performed as the ROC government's agent for international transactions, managed the country's offshore assets and served as windows for collecting deposits and remittances from overseas Chinese. In 1960, the Bank re-opened the Foreign Department in Taipei as its first domestic operating unit, began to build its domestic commercial banking operation with a focus on international trade and forex-related banking services.

In 1971, the Legislative Yuan passed the ICBC Act, converting Bank of China to a private commercial bank and renaming it as the International Commercial Bank of China. To cope with the up-to-date market, ICBC joined the Mega Financial Group on December 31, 2002.

Over 70% of the Bank's commercial clients are of large corporations, many of which have been the pillar of Taiwanese economic development. Building on such an impressive client base, combined with its consistently sincere and innovative management style, ICBC has grown to be a leading Taiwanese commercial bank with superior asset quality and strong capitalization. In order to remain competitive in an increasingly challenging operating environment, ICBC already possesses one of the most complete range of products and services in Taiwan, ranging from conventional lending and deposit-taking products to credit card, investment banking, and custodian services.

The ICBC head office is responsible for the management and supervision of all of its banking operations, including those of its branches and representative offices in various domestic and foreign cities. As of the end of 2004, the Bank has 75 domestic branches, 18 foreign units, including 17 branches and 1 representative office, and 1 subsidiary in Canada, with 3,405 employees and total capital of NT$37.26 billion.

Financial Highlights

Credit Rating

	Long-term Credit Rating	Short-term Credit Rating	Financial Strength Rating or Outlook
Moody's	A2	P-1	C-
S&P	A-	A-2	Stable

Condensed Balance Sheets

Unit: Thousands of New Taiwan Dollars

	2004	2003	2002
Cash and Cash Equivalents, Due from the Central Bank of China and Call Loans to Banks — net	**193,528,720**	198,169,952	232,181,737
Securities Purchased — net	**280,859,506**	268,775,276	190,359,635
Bills and Loans — net	**598,914,297**	523,150,927	494,953,048
Receivables — net	**51,689,121**	38,241,314	21,862,991
Investments	**17,246,108**	18,069,128	16,697,915
Net Properties and Equipment	**10,241,926**	10,486,307	10,801,317
Prepayments and Other Assets	**3,057,167**	2,728,651	3,370,129
Due to the Central Bank of China and Commercial Banks	**238,247,786**	232,919,788	230,259,681
Deposits and Remittances	**705,392,799**	635,388,320	580,137,459
Bonds Issued & Borrowed Funds	**81,576,090**	72,593,458	58,036,711
Payables, Advances, Accrued Pension Liabilities, and Other Liabilities	**57,628,325**	51,106,974	39,704,361
Capital Stock	**37,261,000**	37,261,000	37,261,000
Total Capital Surplus	**2,928,754**	2,927,446	2,927,446
Total Retained Earnings (Before Appropriation)	**32,325,528**	26,874,744	21,709,810
Cumulative Translation Adjustments	**176,563**	549,825	190,304
Total Assets	**1,155,536,845**	1,059,621,555	970,226,772
Total Liabilities (Before Appropriation)	**1,082,845,000**	992,008,540	908,138,212
Total Shareholders' Equity (Before Appropriation)	**72,691,845**	67,613,015	62,088,560

Condensed Statements of Income

Unit: Thousands of New Taiwan Dollars

	2004	2003	2002
Total Operating Income	**38,974,485**	34,987,402	36,395,238
Total Operating Expenses	**27,278,056**	26,421,665	32,537,364
Income from Operations	**11,696,429**	8,565,737	3,857,874
Non-operating Income	**235,583**	567,748	396,032
Non-operating Expense and Loss	**59,239**	96,708	123,632
Total Income	**39,210,068**	35,555,150	36,791,270
Total Expenses	**27,337,295**	26,518,373	32,660,996
Pre-tax Income	**11,872,773**	9,036,777	4,130,274
Cumulative Effect of Change in Accounting Principle	—	—	542,291
Net Income	**10,185,475**	7,494,407	3,572,746

Financial Analysis

			2004	2003	2002
Financial Ratio (%)	Total Liabilities to Total Assets		**93.71**	93.62	93.59
	Total Deposits to Net Worth		**961**	933	922
	Fixed Assets to Net Worth		**14.09**	15.51	17.37
Solvency (%)	Liquidity Reserve Ratio		**51.27**	50.37	33.14
Operating Performance Analysis	Loan to Deposits Ratio (%)		**86.70**	84.01	88.12
	NPL Ratio (%)		**0.77**	1.74	2.36
	Total Assets Turnover		**0.04**	0.03	0.04
	Average Operating Income per Employee (Thousands of NTD)		**11,446**	10,567	11,022
	Average Earnings per Employee (Thousands of NTD)		**2,991**	2,263	1,082
Profitability Analysis	ROA (Return on Assets) (%)		**0.92**	0.74	0.38
	ROE (Return on Equity) (%)		**14.52**	11.56	5.83
	Pre-tax Income as a Percentage of Capital Stock (%)		**31.86**	24.25	11.08
	Net Income as a Percentage of Operating Income (%)		**26.13**	21.42	9.81
	Earnings per Share (New Taiwan dollar)		**2.74**	2.01	0.96
	Cash Dividends per Share (New Taiwan dollar)		**1.12**	1.24	0.61
	Shareholder's Equity per Share (New Taiwan dollar)	Before Appropriation	**19.51**	18.15	16.66
		After Appropriation	**18.34**	16.88	16.04
Capital Adequacy Ratio (%)			**10.82**	10.22	11.01

2004 Economic Review & Market Dynamics of the ROC

Economic Achievements

Though recovery in domestic consumption remained very gradual, Taiwan posted a solid economic growth rate of 7.29% in the first half of 2004, as robust external demand proved the main driver of growth, supporting an upturn in industrial output. However, export momentum slowed during the second half, reflecting easing global demand by persistently high global oil prices and China's macroeconomic adjustment policy, compounded by appreciation in the New Taiwan dollar. The GDP growth rate dropped to 5.27% in the third quarter, followed by a further fall in the fourth quarter to 3.25%. Average economic growth for the whole year was nevertheless 5.71%, the highest since 1997.

Looking forward in 2005, owing to softening demand in OECD economies and China, and because of base effects that reflect strong growth in this component in 2004, economic growth appears to be slowing. The Directorate General of Budget, Accounting and Statistics (DGBAS) forecasts 2005 economic growth rate to fall to 4.21%, which, though lower than that of 2004, still represents a stable and healthy growth.

The banking sector continued to consolidate. The average NPL ratio for all domestic banks declined to 2.78%, well within the government's financial reform target of 5% or less. In addition, because the economy is taking a favorable turn, the banking sector is also seeing a marked return to rising profitability. At the end of December 2004, average ROA for all domestic banks was 0.63%, while average ROE was 10.30%, both highs for the past 5 years.

Financial Market

In the first half of 2004, average overnight interest rate changed slightly between 0.95% and 1.02%, but essentially demonstrated a downward trend. However, in response to an anticipated rise in international raw material prices, the Central Bank of China has been raising its interest rate twice, by a total of 37.5 basis points, in line with a steady pace of tightening by the US Federal Reserve, which started last June. At the end of December, the overnight interest rate had been sent upward to 1.205%. Looking forward in 2005, further monetary tightening is expected. With nascent inflationary pressures, the Central Bank will probably increase the interest rate further to shift the real interest rate into positive territory. Nevertheless, some factors may slow the scope and speed of interest rate hikes as the New Taiwan dollar continues to strengthen and competition in the financial sector intensifies.

As for the exchange rate, the New Taiwan dollar fluctuated only slightly against the US dollar — between NT$33 and NT$34 per US dollar — in the first three quarters. It wasn't until the end of October, when China unexpectedly announced an interest rate rise and the US dollar started on a downward trend, that the New Taiwan dollar began to appreciate sharply. By the end of last year, the New Taiwan dollar had appreciated to NT$31.917 against the US dollar, up 6.5% from year-end 2003, 5% of which occurred in the last two months. In 2005, because of expectations of continuing US dollar weakening, foreign capital inflows, higher commodity prices and an increasing possibility of Renminbi (RMB) appreciation, the New Taiwan dollar is unlikely to be diverted from its upward course against the US dollar which started in the last quarter of 2004, but the range of appreciation will be affected by the tendency of the RMB.

Financial Reform

Last October, the government launched its "Second Financial Reform" to achieve a comprehensive improvement in the Taiwan financial sector's global competitiveness by encouraging mergers and acquisitions (M&A) and efforts to attract foreign capital. Four major goals of the reform are:

- Before the end of 2005, to help the top three domestic financial institutions expand their market share to over 10% each.
- Before the end of 2005, to reduce the number of government-linked financial institutions from 12 to 6.
- Before the end of 2006, to halve the number of financial holding companies from 14 to 7.
- Before the end of 2006, at least one financial institution must be run by foreign investors or listed on an overseas stock market.

In addition, the government continues to make a great effort to develop Taiwan as a regional financial services center, forecasting that, by 2008, the output of its financial services sector will have risen from 11.5% to 13% of GDP. Up to three domestic financial institutions should by then have become regional financial institutions, and foreign-owned stocks should have risen from 18.8% to 25% of the total market value. At the same time, investment in Taiwan by international companies and institutions will have multiplied. The circulation of stocks and shares will have increased fourfold; and the total assets of financial institutions will have grown by over 30%.

ICBC Business Activities

2004 Business Overview

Although competition in the market was fierce, each business continued to grow significantly, thanks to the hard work of each and every employee.

- In 2004, ICBC's consumer loans upsurged to an average of NT$105.5 billion — an increase of 55% over the previous year — of which home loans accounted for NT$76.5 billion, an increase of 40% over the previous year.
- Commission and service fees in each business increased significantly. Commission and service fees from fund sales, for example, grew by 25% over the previous year, while those from the trust business grew by 59%.
- The number of electronic banking customers is also growing steadily. At present, ICBC maintains over 2,000 FEDI (Financial Electronic Data Interchange) accounts and over 5,000 Global eBanking accounts (including transaction accounts and balance inquiry accounts).
- Factoring business grew to NT$112.5 billion, a substantial increase over the previous year.
- According to statistics from the magazine *International Financing Review* (IFR), the bank handled 34 syndication loans last year, in the amount of US$3.2 billion, an 11% market share.
- To create an abundant source of Australian dollars, and help improve liquidity management, ICBC's Sydney branch successfully issued a Commercial Paper (CP), Transferable Certificate of Deposit (TD) and Mid-term Note to the value of A$500 million.
- ICBC's Investment Banking Department issued collateralized loan obligations (CLOs) in the sum of NT$5.35 billion.

Operational Results

◆ Income & Expenses

At the end of 2004, total assets was NT$1,156 billion, of which bills and loans constituted 52%, the largest item. The second largest item was securities purchased, accounting for 24%. Total liabilities was NT$1,083 billion, with deposits and remittances taking up as much as 61% of total liabilities and shareholders' equity.

ICBC's total income in 2004 rose NT$3.65 billion to NT$39.21 billion, while total expenses increased slightly to NT$27.34 billion, the balance giving a pre-tax income of NT$11.87 billion, an increase of NT$2.84 billion over the previous year. The main reason for this was a large increase in investment income, of NT$4.35 billion, twice the amount generated in the previous year. Given NT$1.69 billion in income tax, the Bank reported a net profit of NT$10.19 billion.

◆ Profitability Analysis

As of the end of 2004, ICBC reported pre-tax income accounted for 31.86% of the Bank's capital stock, while returns on assets (ROA) and returns on equity (ROE) stood at 0.92% and 14.52% respectively, all of which broke record highs for recent years. In addition, the net profit rate (net income as a percentage of operating income) rose to 26.13% from 21.42% in the previous year, and earnings per share (EPS) increased to NT$2.74 from NT$2.01.

◆ Asset Quality

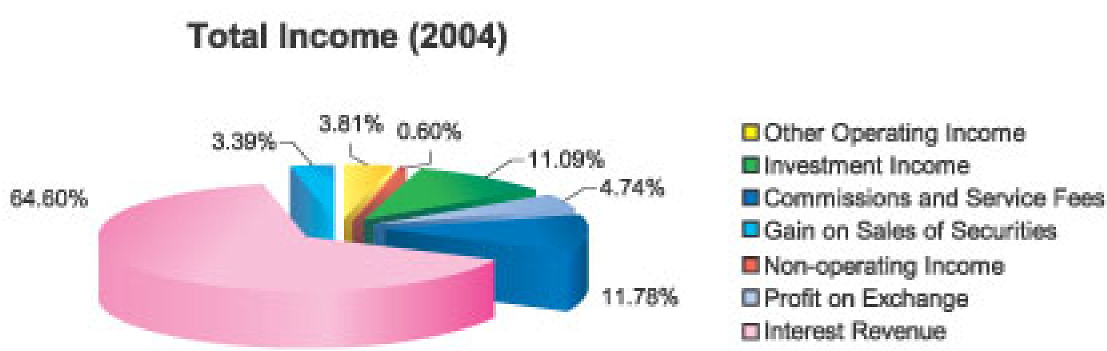
While pursuing business growth and generating profits on the one hand, ICBC made every effort to improve asset quality on the other. The non-performing loan (NPL) ratio, declining year by year, fell to 0.77% by the end of 2004, well below the average of all domestic banks. In addition, the coverage ratio rose to 150%, higher than those of most of the Bank's competitors.

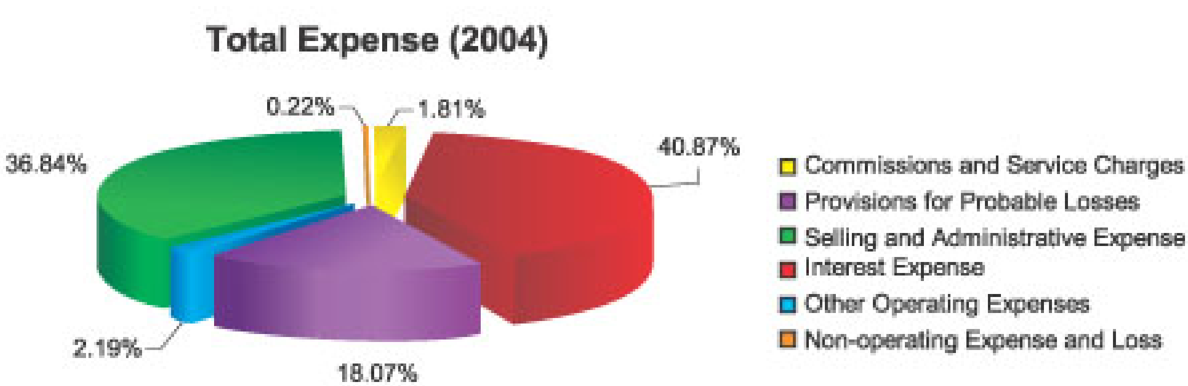
Risk Management

Over all, in relation to each of its businesses, ICBC already has sufficient mechanisms to identify, supervise and control risk, and to carry out calibrated and strict management of risk. In the near future, under the regulations in the new Basel capital accord (BASEL II), ICBC will establish an independent risk management unit.

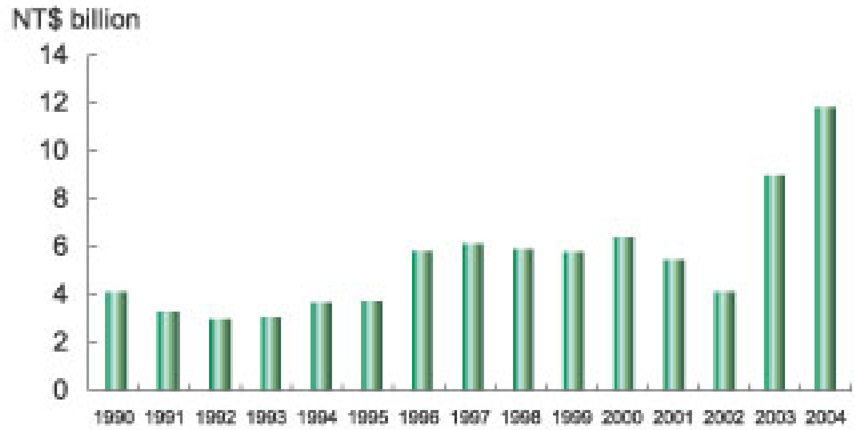
For a long time, in order to guarantee the security of operations and to improve operational results, ICBC has regularly convened meetings of its Investment Committee, Loan Committee and Problem Loan Committee, to confirm precisely the outcomes, strengths and weaknesses of its risk management measures, and make any necessary adjustments. Apart from this, the Corporate Banking Department, Controller's Department, Treasury Department, Trust Department and all business units are responsible for carrying out routine risk management. Regular, detailed, risk management reports are submitted to the Board of Directors.

Exposure of risk to such categories as clients, industries, collaterals, countries, and so on, complies with the different regulations drawn up by the different competent authorities, and is regularly reviewed and adjusted to control the level of exposure to risk. At the end of 2004, none had exceeded its limit.

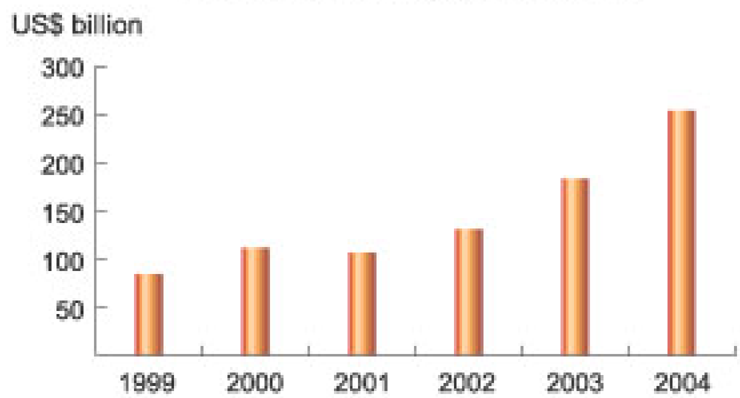




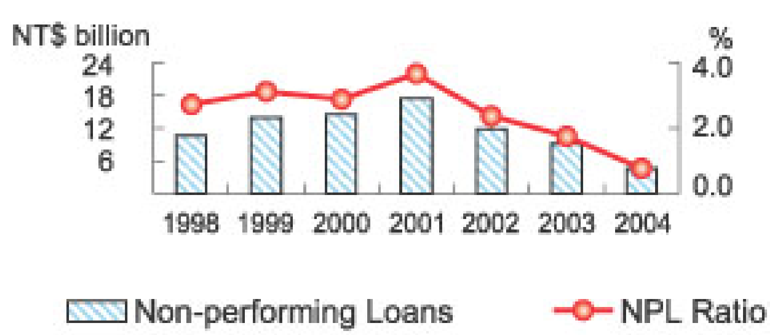
Income before Income Taxes (1990-2004)



Foreign Exchange Trading



Non-performing Loans and NPL Ratio



Plans for the Future

Competitive Strategies and Vision

- Utilize financial expertise and competitive advantage in the corporate banking business, and seek opportunities to attempt major project financing activities.
- Continue to drive growth in lending to overseas Taiwan businesses in China, Southeast Asia and Australia to further extend our superior OBU business, through the operations of the Bank's Asia-Pacific Group.
- Assess the possibility of setting up representative offices or branches in other major financial centers to increase our global reach.
- Upgrade Global eBanking services to maintain our position as 'the best network trade platform.'
- Promote internet banking transactions to increase the proportion of electronic trading and then reduce operating costs.
- Expand investment banking business and strive for a direct finance market.
- Improve the Bank's liquidity, capitalization, and asset quality.
- Continue to promote the wealth management services.
- Increase the avenues for the sale of consumer banking products to raise the market share.

Positive Factors

- In overseas remittances, the Bank has an almost indispensable importance, giving it a strong competitive advantage in the foreign exchange business:
  - * ICBC's New York Agency is the only Taiwanese bank in the New York area participating in CHIPS, FEDWIRE and ACH.
  - * The government conducts foreign exchange transactions and fund management through ICBC. Central Bank of China, the country's central bank, for example, has selected ICBC to serve as its long-term Agent Bank to handle foreign exchange and maintain a stable exchange rate.
- ICBC has the most overseas branches of all Taiwanese banks.
- ICBC's overseas fund raising costs are relatively cheap, because its asset quality is outstanding and its credit rating is one of the best enjoyed by any domestic bank.
- The economy is recovering, and industry and commerce are demanding funds, giving a favorable stimulus to the banking sector.

Negative Factors

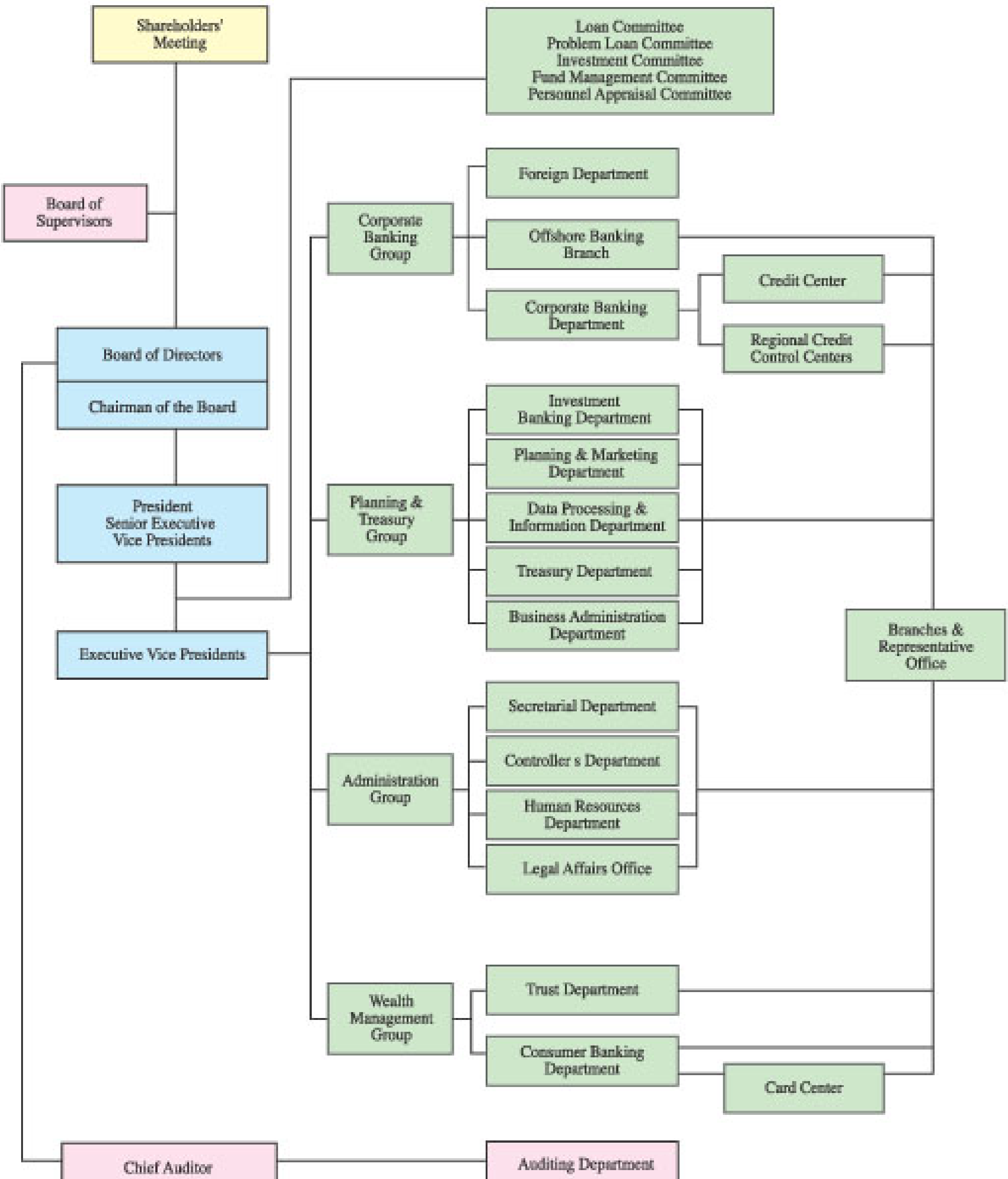
- Competition in the financial markets is still quite keen.
- Direct financing continues to prevail, taking business away from traditional banking.

Board of Directors & Supervisors

December 31, 2004

Chairman of the Board	**Tzong-Yeong Lin**	**Executive Supervisor**	**Shieh-Chiang Lin**
Managing Directors	Yeou-Tsair Tsai Teng-Cheng Liu Chao-Cheng Mai Ming-Feng Yeh	**Supervisors**	Ching-Wen Sun Jiunny Shiow Chen
Directors	Chen-Min Hsu Ching-Chyi Lai Shui-Cheng Huang Shun-Min Yeh Lai-Hsi Lee Koay Keat Loon Kuo-Shyong Lee Rong-Tzaw Yeh Hsing-Cheng Tsao Chi-Chang Huang		

Organization Chart of ICBC




EXCHANGE
SPOT
SELLING
米ドル
$
現金 (CASH)
118.55
ユーロ
Money
Cash
Business
US. dollar
NT$

Auditors' Report

English Translation of a Report Originally Issued in Chinese

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
The International Commercial Bank of China Co., Ltd.

We have audited the accompanying balance sheets of The International Commercial Bank of China Co., Ltd. as of December 31, 2003 and 2004, and 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 these financial statements based on our audit.

We conducted our audit in accordance with the "Guidelines for Certified Public Accountants' Examination and Reporting on Financial Statements" and auditing standards generally accepted in the Republic of China. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The International Commercial Bank of China Co., Ltd. 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 generally accepted accounting principles, "Guidelines Governing the Preparation of Financial Reports by Public Banks" and "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" in the Republic of China.

In addition, we have also audited the consolidated financial statements of The International Commercial Bank of China Co., Ltd. as of December 31, 2004 and the separate auditors' report with unqualified opinion was issued for 2004.

Diwan, Ernst & Young

Diwan Ernst & Young
March 7, 2005
Taipei, Taiwan
Republic of China

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 jurisdiction. The standard, procedures and practice to audit or review such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese
THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD.
BALANCE SHEETS
December 31, 2003 AND 2004
(Expressed in Thousands of Dollars)

ASSETS	December 31 2003	2004	2004
	New Taiwan Dollars		U.S. Dollars
ASSETS			
CASH AND CASH EQUIVALENTS (Note IV)	$29,556,246	$34,705,807	$1,092,477
DUE FROM THE CENTRAL BANK OF CHINA AND CALL LOANS TO BANKS (Notes II , IV and V) – NET	168,613,706	158,822,913	4,999,462
SECURITIES PURCHASED – NET (Notes II , IV, V and VI)	268,775,276	280,859,506	8,840,957
RECEIVABLES – NET (Notes II and IV)	38,241,314	51,689,121	1,627,081
PREPAYMENTS	1,415,986	1,638,762	51,585
BILLS AND LOANS-NET (Notes II , IV and V)	523,150,927	598,914,297	18,852,754
INVESTMENTS (Notes II , IV, VI and X)			
Equity securities	9,366,718	8,125,325	255,771
Bonds	8,702,410	9,120,783	287,106
PROPERTIES AND EQUIPMENT (Notes II)			
Land (including revaluation increment)	4,828,597	4,824,655	151,872
Buildings and improvements	7,372,155	7,344,044	231,177
Other office equipment	353,049	354,190	11,149
Computers and peripheral equipment	2,006,159	2,090,197	65,796
Transportation and communications equipment	145,486	137,789	4,337
Miscellaneous equipment	837,324	869,858	27,382
Total costs and revaluation increment	15,542,770	15,620,733	491,713
Less – accumulated depreciation	(5,056,463)	(5,378,807)	(169,315)
Net Properties and Equipment	10,486,307	10,241,926	322,398
OTHER ASSETS-NET (Notes II and IV)	1,312,665	1,418,405	44,649
TOTAL ASSETS	$1,059,621,555	$1,155,536,845	$36,374,240

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31 2003	2004	2004
	New Taiwan Dollars		U.S. Dollars
LIABILITIES			
DUE TO THE CENTRAL BANK OF CHINA AND COMMERCIAL BANKS (Notes IV)	$232,919,788	$238,247,786	$7,499,616
PAYABLES (Notes IV and V)	33,154,815	42,415,498	1,335,164
ADVANCES	787,457	783,767	24,672
DEPOSITS AND REMITTANCES (Notes IV and V)	635,388,320	705,392,799	22,204,508
BONDS ISSUED (Note II and IV)	14,124,245	20,528,554	646,202
BORROWED FUNDS (Note IV)	58,469,213	61,047,536	1,921,667
ACCRUED PENSION LIABILITIES	1,336,821	1,293,136	40,706
OTHER LIABILITIES (Notes II and IV)	15,827,881	13,135,924	413,495
Total Liabilities	992,008,540	1,082,845,000	34,086,030
SHAREHOLDERS' EQUITY			
CAPITAL STOCK (Note IV)	37,261,000	37,261,000	1,172,910
CAPITAL RESERVE:			
Paid-in capital in excess of par value	2,582,788	2,582,788	81,302
Others	344,658	345,966	10,890
Total Capital Reserve	2,927,446	2,928,754	92,192
RETAINED EARNINGS (Note IV):			
Legal reserve	18,525,893	20,774,215	653,935
Special reserve	827,584	1,336,903	42,083
Unappropriated earnings	7,521,267	10,214,410	321,532
Total Retained Earnings	26,874,744	32,325,528	1,017,550
CUMULATIVE TRANSLATION ADJUSTMENTS (Note II)	549,825	176,563	5,558
Total Shareholders' Equity	67,613,015	72,691,845	2,288,210
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,059,621,555	$1,155,536,845	$36,374,240

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

English Translation of Financial Statements Originally Issued in Chinese

THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2004

(Expressed in Thousands of Dollars, Except Per Share Amounts)

	THE YEARS ENDED DECEMBER 31		
	2003	2004	2004
	New Taiwan Dollars		U.S. Dollars
OPERATING INCOME			
Interest revenue (Note II)	$24,905,092	$25,329,433	$797,325
Commissions and service fees (Note II)	4,114,083	4,617,810	145,360
Gain on sales of securities-net	1,827,844	1,327,547	41,789
Investment income – net (Note II)	2,038,661	4,347,755	136,860
Profit on exchange – net (Note II)	1,319,769	1,859,065	58,520
Other operating income	781,953	1,492,875	46,993
Total Operating Income	34,987,402	38,974,485	1,226,847
OPERATING EXPENSES			
Interest expense	10,603,259	11,173,496	351,722
Commissions and service charges	455,892	495,225	15,589
Provisions for probable losses (Note II)	5,164,517	4,940,771	155,526
Selling and administrative expense (Note V)	9,846,441	10,070,052	316,987
Other operating expenses (Note II)	351,556	598,512	18,840
Total Operating Expenses	26,421,665	27,278,056	858,664
INCOME FROM OPERATIONS	8,565,737	11,696,429	368,183
NON-OPERATING INCOME	567,748	235,583	7,416
NON-OPERATING EXPENSE AND LOSS	96,708	59,239	1,865
INCOME BEFORE INCOME TAX	9,036,777	11,872,773	373,734
INCOME TAX (Notes II and IV)	(1,542,370)	(1,687,298)	(53,113)
NET INCOME	$7,494,407	$10,185,475	$320,621
EARNINGS PER SHARE (In Dollars) (Note IV)			
Income per share before income tax	$2.43	$3.19	$0.10
Income tax per share	(0.42)	(0.45)	(0.01)
Earnings per share	$2.01	$2.74	$0.09

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

English Translation of Financial Statements Originally Issued in Chinese

THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2003

(Expressed In thousands of New Taiwan Dollars)

			Retained Earnings			Cumulative	
Items	Capital Stock	Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Earnings	Translation Adjustments	Total
Balance, January 1, 2003	$37,261,000	$2,927,446	$17,454,069	$600,786	$3,654,955	$190,304	$62,088,560
Reversal of special reserve	-	-	-	(93,949)	93,949	-	-
Appropriations of earnings (Note IV)							
Legal reserve	-	-	1,071,824	-	(1,071,824)	-	-
Special reserve	-	-	-	320,747	(320,747)	-	-
Cash dividends and bonus	-	-	-	-	(2,272,921)	-	(2,272,921)
Bonus to employees	-	-	-	-	(56,552)	-	(56,552)
Net income	-	-	-	-	7,494,407	-	7,494,407
Cumulative Translation Adjustments (Note II)	-	-	-	-	-	359,521	359,521
Balance, December 31, 2003	$37,261,000	$2,927,446	$18,525,893	$827,584	$7,521,267	$549,825	$67,613,015

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

English Translation of Financial Statements Originally Issued in Chinese

THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2004

(Expressed In thousands of New Taiwan Dollars)

			Retained Earnings			Cumulative	
	Capital	Capital	Legal	Special	Unappropriated	Translation	
Items	Stock	Reserve	Reserve	Reserve	Earnings	Adjustments	Total
Balance, January 1, 2004	$37,261,000	$2,927,446	$18,525,893	$827,584	$7,521,267	$549,825	$67,613,015
Appropriations of earnings (Note IV)							
Legal reserve	-	-	2,248,322	-	(2,248,322)	-	-
Special reserve	-	-	-	509,319	(509,319)	-	-
Cash dividends and bonus	-	-	-	-	(4,620,364)	-	(4,620,364)
Bonus to employees	-	-	-	-	(114,327)	-	(114,327)
Net income	-	-	-	-	10,185,475	-	10,185,475
Changes in equity of investee	-	1,308	-	-	-	-	1,308
Cumulative Translation Adjustments (Note II)	-	-	-	-	-	(373,262)	(373,262)
Balance, December 31, 2004	$37,261,000	$2,928,754	$20,774,215	$1,336,903	$10,214,410	$176,563	$72,691,845

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

English Translation of Financial Statements Originally Issued in Chinese

THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2004

(Expressed In thousands of U.S. Dollars)

			Retained Earnings			Cumulative	
	Capital	Capital	Legal	Special	Unappropriated	Translation	
Items	Stock	Reserve	Reserve	Reserve	Earnings	Adjustments	Total
Balance, January 1, 2004	$1,172,910	$92,151	$583,162	$26,051	$236,756	$17,308	$2,128,338
Appropriations of earnings (Note IV)							
Legal reserve	-	-	70,773	-	(70,773)	-	-
Special reserve	-	-	-	16,032	(16,032)	-	-
Cash dividends and bonus	-	-	-	-	(145,441)	-	(145,441)
Bonus to employees	-	-	-	-	(3,599)	-	(3,599)
Net income	-	-	-	-	320,621	-	320,621
Changes in equity of investee	-	41	-	-	-	-	41
Cumulative Translation Adjustments (Note II)	-	-	-	-	-	(11,750)	(11,750)
Balance, December 31, 2004	$1,172,910	$92,192	$653,935	$42,083	$321,532	$5,558	$2,288,210

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

English Translation of Financial Statements Originally Issued in Chinese

THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2004

(Expressed In Thousands of Dollars)

	THE YEARS ENDED DECEMBER 31		
	2003	2004	2004
	New Taiwan Dollars		U.S. Dollars
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$7,494,407	$10,185,475	$320,621
Adjustments to reconcile net income to net cash used in operating activities:			
Provisions for probable losses	5,164,517	4,940,771	155,526
Recovery of written-off credits and reserve for losses on accident	1,039,805	1,802,846	56,750
Equity in net income of investees, net of cash dividends received	(443,332)	(147,038)	(4,628)
Realized losses of equity securities due to price decline	198,855	319,428	10,055
Gain on sales of equity securities	(1,431,457)	(4,001,607)	(125,964)
Gain on sales of properties and equipment	(447,678)	(136,225)	(4,288)
Depreciation and amortization	610,838	625,119	19,678
Deferred income taxes (increase) decrease	714,391	(82,173)	(2,587)
Provision for pension cost	126,790	396,500	12,481
Payment of pension benefits	(48,996)	(437,828)	(13,782)
Changes in operating assets and liabilities:			
Increase in trading of securities purchased	(76,415,641)	(12,084,230)	(380,390)
Increase in receivables	(16,949,462)	(15,060,862)	(474,089)
Increase in prepayments	(112,185)	(222,563)	(7,006)
Increase in payables	7,885,952	9,260,683	291,510
Increase (decrease) in advances	120,841	(3,690)	(116)
Net Cash Used in Operating Activities	(72,492,355)	(4,645,394)	(146,229)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in due from the Central Bank and call loans to banks	(6,678,068)	9,797,501	308,408
Increase in bills and loans	(33,508,241)	(80,689,119)	(2,539,949)
Increase in bond investments	(1,393,754)	(1,000,838)	(31,505)
Proceeds from sales of equity securities	1,775,115	4,911,248	154,597
Additions to properties and equipment	(291,390)	(355,383)	(11,187)
Proceeds from sales of properties and equipment	461,611	144,645	4,553
Increase in non-trading of securities purchased	(2,000,000)	-	-
Increase in other assets	(13,871)	(105,709)	(3,327)
Net Cash Used in Investing Activities	(41,648,598)	(67,297,655)	(2,118,410)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in due to the Central Bank and commercial banks	2,660,107	5,327,998	167,716
Increase in deposits and remittances	55,250,861	70,004,479	2,203,616
Increase in bonds issued	7,424,245	6,404,309	201,597
Increase in borrowed funds	7,132,502	2,578,323	81,161
Increase (decrease) in other liabilities	3,002,795	(2,636,678)	(82,998)
Cash dividends and bonus to employees in cash	(2,329,473)	(4,734,691)	(149,040)
Net Cash Provided by Financing Activities	73,141,037	76,943,740	2,422,052
EFFECTS OF EXCHANGE RATE CHANGES	329,153	148,870	4,686
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT	(40,670,763)	5,149,561	162,099
CASH AND CASH EQUIVALENT, BEGINNING OF YEAR	70,227,009	29,556,246	930,378
CASH AND CASH EQUIVALENT, END OF YEAR	$29,556,246	$34,705,807	$1,092,477
SUPPLEMENTAL INFORMATION			
Interest paid	$11,478,328	$10,749,220	$338,366
Income taxes paid	$1,743,559	$-	$-

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

THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2004

(In Thousands of Dollars, Unless Otherwise Stated)

I. ORGANIZATION AND OPERATIONS

The International Commercial Bank of China Co., Ltd. (The Bank) was formerly the Bank of China, it has been reorganized to the present form in accordance with "Law for International Commercial Bank of China" as announced by the President of the Republic of China (ROC) on December 17, 1971 and its related regulations. The Bank engages in the following operations: (a) all commercial banking operations under the Banking Law in the ROC; (b) foreign exchange and related operations; (c) import and export financing and guarantees; (d) financial operations related to international trade; (e) trust; and (f) related operations approved by the ROC government.

The Bank's business and operations are integrated and managed by the head office. The Bank expands its network by opening branches in key locations in both domestic and foreign markets. The Bank had 75 domestic branches, 17 foreign branches and 1 foreign representative office as of December 31, 2004.

The Bank has a Trust Department whose trust investments business is regulated under the ROC Banking Law.

The Bank's stock was traded on the Taiwan Stock Exchange until December 30, 2002. Starting from December 31, 2002, the Bank became an unlisted wholly owned subsidiary of Mega Financial Holding Co. Ltd., through a share swap transaction.

As of December 31, 2003 and 2004, the Bank employed 3,311, and 3,405 employees, respectively.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in conformity with the "Guidelines Governing the Preparation of Financial Reports by Public Banks", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the Republic of China. The significant accounting policies are summarized as follows:

1. Basis for preparation of financial statements

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

Under ROC GAAP, a company is required to include in its annual consolidated financial statements only those subsidiaries, which are directly or in-directly owned by the company for over 50% of the ownership. For directly-owned subsidiaries with total assets and total net sales less than 10% of the parent's unconsolidated total assets and total net sales may be exempt from preparing consolidated statement. In addition, since 2004 under the Guidelines Governing the Preparation of Financial Reports by Public Banks, the Bank is required to include in its annual consolidated financial statements those subsidiary banks which are invested by the Bank even its total assets and net sales less than 10% of the Bank.

2. Foreign-currency transactions

The Bank maintains its accounts at the currencies in which transactions are denominated. Foreign currencies revenues and expenses are recorded in New Taiwan dollars at the exchange rates prevailing on the transaction dates. At the end of each month, those foreign-currency denominated assets and liabilities other than those using forward foreign exchange contracts to hedge the exposure, are restated at the prevailing exchange rates and the resulting differences are recorded as follows: 1) For equity securities accounted for by the equity method – as cumulative translation adjustment in the shareholders' equity; 2) For equity securities accounted for by the cost method – as cumulative translation adjustments in the shareholders' equity if restated New Taiwan dollar amounts are lower than the carrying amount. Otherwise, no adjustment is made; 3) For other assets and liabilities – credited or charged to current income.

3. Translation for the statements of foreign branches and representative office

The foreign-currency denominated financial statements of foreign branches and the representative office are restated into New Taiwan dollars at the following exchange rates: 1) assets and liabilities – at the prevailing rates at the balance sheet date, 2) head office account – except for the retained earnings carried forward from last year are stated at last year rates, the remaining balances are stated at historical rates, 3) dividends – at the rates when the dividends are declared, and 4) Income and expenses – at weighted-average rates for the year. The cumulative translation adjustments are included in the shareholders' equity account. When a foreign operation is disposed of or sold, the cumulative translation adjustment is charged to current income.

4. Securities purchased

Securities purchased are carried at the lower of cost and market value on a portfolio basis. When market value is lower than the cost, a provision is made for the impairment loss. When the market value rises, the gain is set off against the provision made. When stocks are sold, the cost is calculated based on the weighted-average method for equity securities. Other securities are based on individual assessment.

5. Bonds purchased/sold under resell/repurchase agreements

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

6. Overdue loans

According to "The Rules for Bank Asset Evaluation, Loss Reserve Provision, and Disposal of Overdue Loans, Non-accrual Loans and Bad Debts", the Bank classified all loans and other receivables that are overdue for six months or above as overdue loans.

7. Allowances for probable losses

The allowances for probable losses is provided for due from call loan to banks, receivables, and bills and loans based on collectability review.

According to "The Rules for Bank Asset Evaluation, Loss Reserve Provision, and Disposal of Overdue Loans, Non-accrual Loans and Bad Debts", reserves set aside for probable loan losses are based on the estimation of potential unrecoverable exposures, net of collateral. A significant degree of management discretion is used in the estimation process, which includes the assessment of the borrower's ability to pay and of the value of the underlying collateral.

Based on the Bank's guidelines, allowances for specific loans are provided as follows: (a) credit assets that are totally uncollectible – 100%; and (b) credit assets that are difficult to collect – at least 50%.

Balances of uncollectible accounts are written off against allowance for probable losses only upon the approval by the board of directors.

8. Investments

Investments in bonds are stated at cost adjusted for the amortization of premiums or discounts arising on acquisition over the periods to maturity on a straight line basis. The amortization of premiums or discounts is included as part of interest income or interest expense. Costs of bonds upon maturity or disposal are determined by the specification method.

The equity method is used for long-term equity investment where the Bank has control, joint control or significant influence over the investee enterprises. These investments are initially recorded at cost and adjusted thereafter for the post-acquisition change in the Bank's share of the investee's net assets. The Bank will continue to recognize its equity in the net loss of an investee notwithstanding that such will result in a negative investment carrying amount (with this negative amount shown as liability) if the Bank had guaranteed the investee's debt or the Bank had obligated to provide financial support or the loss is temporary. Cash dividends received are accounted for as a reduction in the carrying amount of the investments. Stock dividends received are accounted for the increase in number of shares held by the Bank without impact to the carrying amount of the investments and net income. If an investee's capital reserve increases because of property revaluation, the Bank will recognize the proportional increase in the carrying amount of the investment and the gain will be included in the capital reserve in the shareholders' equity. The difference between the investment cost and the equity in the book value of the net assets of the investees (except the portion pertaining to the difference between the fair value and the book value of land) when a stock is acquired or when the equity method is first adopted, is amortized over 5 to 10 years.

Other long-term equity investments are accounted for by the cost method. These investments are carried at cost plus the aggregate par value of any stock dividends received before 1984. For investments in listed stocks, an allowance for decline in market value is made when the carrying amounts of the investments is below the market value, with the same amount debited to shareholders' equity. For investments in unlisted stocks, provisions are made and recognized immediately as an expense when the carrying amounts are not expected to be fully recovered.

An investment in the common stock of a foreign investee is also accounted for by the cost method when there are restrictions on its ability to remit its earnings to the Bank or when the Bank in unable exercise significant influence over the financial and operating policy decisions of at least 20%-owned affiliates.

Upon disposal, the costs of stocks sold are determined using the weighted-average method.

9. Properties and Equipment

Properties and equipment, other than those acquired in 1972 or before which are stated at cost plus any revaluation surplus, are stated at cost less accumulated depreciation.

Major improvements and renewals are capitalized as cost, and repairs and maintenance are expensed as incurred. Upon sale or disposal of properties and equipment, the related cost, revaluation increment and accumulated depreciation are written off from the books, and any gain or loss is credited or charged to income.

Depreciation is calculated on a straight-line basis over the estimated useful lives as follows:

Buildings and improvements	3 to 60 years
Computers and peripheral equipment	3 to 6 years
Other office equipment	3 to 15 years
Transportation and communications equipment	3 to 12 years
Miscellaneous equipment	3 to 10 years

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

10. Foreclosed property

Foreclosed properties are stated at the lower of cost or net realizable value on the balance sheet date.

11. Exchangeable Notes

Direct costs of issuing Exchangeable Notes are amortized on straight-line basis over two years. When Notes holders exercise their right to exchange for reference shares, the book value of Notes is to be offset by the book value of the investment in reference shares and the related difference is recognized as gain or loss on disposal of investment.

12. Pension plans

The Bank has pension plans for all regular employees under the relevant domestic and foreign government regulations. The Bank makes monthly contributions to a pension fund, which is administered by the workers' fund administration committee, at amounts up to 15% of the employees' salaries for domestic employees. The pension fund and the money is deposited in the Central Trust of China under the name of the committee. In addition, the bank makes contribution and payment for foreign employees under the relevant foreign government regulations

Pension costs are based on actuarial calculations, with the unrecognized net transitional obligation being amortized over 15 years to 22 years.

13. Provision for losses on guarantees

Provision for losses on guarantees are based on collectability review on the balances pertaining to customers' customs duties, commodity tax and contract performance obligations.

14. Derivative financial instruments

a. Forward foreign exchange contracts

When the Bank entered into forward foreign exchange contracts for trading purposes, the Bank will record a receivable and a corresponding payable based on the contracted foreign exchange amount at the contracted forward rate. At each financial reporting date, the Bank will adjust the receivable amount based on the spot rate and recognized the differences as gains or losses in the statement of income and expenditure. Upon settlement, gains or losses resulting from the difference between the foreign exchange amount at the spot rate and the carrying amount of the receivable are credited or charged to statement of income. In addition, for financial presentation purposes, balances of these receivable and payable are netted.

For forward foreign exchange contracts undertaken for hedging purposes, the difference between the spot rate and the contracted forward rate is recorded as an adjustment to the exchange gain and loss resulted from those hedged foreign currency denominated assets and liabilities.

b. Interest rate swaps

For interest rate swaps transactions undertaken for trading purposes, income and expenses arises upon settlement and balance sheet date are netted off and recognized in the statement of income.

The Bank may enter into interest rate swap transactions for hedging purposes. These transactions may involve the exchange of fixed-rate interest payments for the market floating-rate interest payments during the term of certain bonds and loans. The interest differential on balance sheet or each settlement date is recorded as adjustment to the interest income or expenses of those hedged bonds and loans.

c. Cross-currency swaps

For cross-currency swap contracts undertaken for trading purposes, the amounts to be exchanged are recorded at the rates prevailing on the date of contract. Interest income or expenses arise during the contract period are recognized as exchange gains or losses in the statement of income.

For contracts undertaken for non-trading purposes, amounts to be exchanged are recorded at the contracted forward rate. Interest income or expenses arise during the contract period are recognized as an adjustment to the income or expense of the hedged items.

d. Options

The Bank enters into foreign-currency option contracts. Premiums received or paid are recorded as liability or asset and are amortized on a straight-line method over the contract period and recorded as income or expense, respectively. Gains or losses from the exercise of options are recognized in the statement of income.

e. Financial Asset Securitization

Under the "Regulations for Financial Assets Securitization", the Bank securitized part of its enterprise loans and transferred those loans to the special purpose trustee in return for the issuance of the related beneficiary certificates. Thus, the Bank derecognizes the loans and records gain or loss because the control of contractual rights-except for subordinated retained interests for credit enhancement, which were reclassified as investments in bonds -on the loans has been surrendered and transferred to a special purpose trustee.

The gain or loss on the sale of the loans is the difference between the proceeds and carrying amount of the loans. The previous carrying amount of the loans should be allocated in appropriation of the part retained and the part sold on their fair values on the date of sale. Because quotes are not available for loans and retained interests, the Bank estimates fair value at the present value of expected cash flows, using management's key assumptions on credit losses and discount rates commensurate to the risks involved.

The Bank recognizes interest revenue of subordinated beneficiary certificates when received from the special purpose trustee.

15. Recognition of interest revenue and service fees

Interest income for loans is recognized on an accrual basis except for loans classified as non-accural loans. The accrual of income from non-accrual loans is discontinued; subsequent interest received are credited to income upon collection.

Under the regulations of the Ministry of Finance, the interest income on credits covered by agreements that extend their maturity is recognized upon collection.

Service fees income is recognized when the services are rendered.

16. Contingencies

A loss is recognized if it is probable that an asset will be impaired or a liability will be incurred and the amount of loss can be reasonably estimated. Where it is possible that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability in the footnotes to the financial statements.

17. Income tax

Income tax represents income tax paid and payable for the current period and the movement in the deferred tax assets and liabilities during the period. Deferred taxes are recognized for tax effects of temporary differences and unused tax credits. A valuation allowance is provided for deferred tax assets that are not certain to be realized. Adjustments of prior years' income taxes are recognized in the current period.

Tax credits generated from acquisitions of certain equipment or technology, research and development expenditure, personnel training expenditure and equity investment acquisition, are recognized in the current period.

Income taxes on undistributed earnings are charged at 10% rate and recorded as expense in the year in which shareholders approve the retention of the earnings.

Since 2003, Mega Financial Holding Co., Ltd. adopted the linked tax system for income tax filings with its qualified subsidiaries, including the Bank.

18. Statements Convenience Translation into US Dollars

The Bank's financial statements are stated in New Taiwan dollars ("NT$"). Translation of the December 31, 2004 New Taiwan dollar amounts into US dollar amounts is provided solely for the convenience of the readers, using the 10:00AM buying rate of NT$31.768 to US$1, as provided by the Central Bank of China on December 31, 2004. 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 rate or any other rate of exchange.

III. CHANGES IN ACCOUNTING POLICIES

Nil.

IV. DETAILS OF SIGNIFICANT ACCOUNT BALANCES

1. CASH AND CASH EQUIVALENTS

	December 31, 2003	December 31, 2004	December 31, 2004
	New Taiwan Dollars		U.S. Dollars
Cash on hand	$7,973,296	$8,259,642	$259,999
Checks for clearing	3,760,512	1,532,967	48,255
Petty cash	2,754	3,566	112
Due from commercial bank	17,819,684	24,909,632	784,111
Total	$29,556,246	$34,705,807	$1,092,477

2. DUE FROM THE CENTRAL BANK OF CHINA AND CALL LOANS TO BANKS-NET

	December 31, 2003	December 31, 2004	December 31, 2004
	New Taiwan Dollars		U.S. Dollars
Due from the Central Bank of China:			
Reserve for deposits-category B	$10,691,121	$12,261,370	$385,966
Reserve for deposits- category A	9,442,886	10,058,107	316,611
Reserve for deposits-foreign currency	246,626	207,634	6,536
General deposits	3,877,301	282	9
Call loans to banks	144,371,012	136,307,902	4,290,730
Overdraft to banks	3,850	-	-
Total	168,632,796	158,835,295	4,999,852
Less: allowance for probable losses	(19,090)	(12,382)	(390)
Net	$168,613,706	$158,822,913	$4,999,462

As required by law, the Reserves for Deposits are calculated at prescribed rates on the average balances of various deposit accounts. The Reserve for Deposits – Category A and Foreign Currency Deposits accounts are non-interest bearing and call on demand. Reserve for Deposits – Category B earns interest but its use is restricted under relevant regulations.

3. SECURITIES PURCHASED

	December 31, 2003	December 31, 2004	December 31, 2004
	New Taiwan Dollars		U.S. Dollars
Stocks, bonds and mutual funds	$95,061,716	$95,086,630	$2,993,158
Commercial papers and acceptances	2,794,448	6,153,358	193,697
Trust funds and trust deposits	1,722,275	1,937,008	60,973
Certificates of deposit	164,840,000	175,715,000	5,531,195
Bonds purchased under agreements to resell	4,356,837	1,967,510	61,934
Total	268,775,276	280,859,506	8,840,957
Less: allowance for decline in market price of securities	-	-	-
Net	$268,775,276	$280,859,506	$8,840,957

4. RECEIVABLES – NET

	December 31, 2003	December 31, 2004	December 31, 2004
	New Taiwan Dollars		U.S. Dollars
Accounts receivable	$27,419,601	$40,951,859	$1,289,091
Acceptances	6,458,558	6,905,702	217,379
Accrued interest	4,384,016	3,452,163	108,668
Earned revenue receivable	315,444	630,954	19,861
Other receivable	544,485	578,676	18,216
Total	39,122,104	52,519,354	1,653,215
Less: allowance for probable losses	(880,790)	(830,233)	(26,134)
Net	$38,241,314	$51,689,121	$1,627,081

5. BILLS AND LOANS-NET

	December 31, 2003	December 31, 2004	December 31, 2004
	New Taiwan Dollars		U.S. Dollars
Loans	$508,160,556	$587,558,875	$18,495,306
Outward documentary bills	12,313,667	13,347,500	420,155
Inward documentary bills	273,310	221,856	6,984
Bills purchased	144,371	141,791	4,463
Discounts	282,491	155,411	4,892
Overdue loans	8,577,643	4,502,756	141,739
Total	529,752,038	605,928,189	19,073,539
Less: allowance for probable losses	(6,601,111)	(7,013,892)	(220,785)
Net	$523,150,927	$598,914,297	$18,852,754

As of December 31, 2003 and 2004, all balances of bills and loans for which interest revenue was no longer accrued were NT$8,577,643 and NT$4,502,756, respectively. The unrecognized interest revenue on the above bills and loans amounted to NT$742,263 and NT$178,185 for the years ended December 31, 2003 and 2004, respectively.

For the years ended December 31, 2003 and 2004, the Bank had not written off bills and loans without initiating any legal proceedings to collect these bills and loans.

The changes in allowance for probable losses on bills and loans are summarized as follows:

	Specific Risk	General Risk	Total
January 1, 2003 to December 31, 2003	New Taiwan Dollars		
Balance, January 1, 2003	$2,942,245	$2,914,319	$5,856,564
Provisions	3,799,379	617,338	4,416,717
Write-off-net	(4,565,815)	-	(4,565,815)
Recovery of written-off credits	886,376	-	886,376
Effects of exchange rate changes	(3,188)	10,457	7,269
Balance, December 31, 2003	$3,058,997	$3,542,114	$6,601,111

January 1, 2004 to December 31, 2004	Specific Risk	General Risk	Total	Specific Risk	General Risk	Total
	New Taiwan Dollars			U.S. Dollars		
Balance, January 1, 2004	$3,058,997	$3,542,114	$6,601,111	$96,292	$111,499	$207,791
Provisions	2,223,750	1,172,939	3,396,689	70,000	36,922	106,922
Write-off-net	(4,512,969)	-	(4,512,969)	(142,060)	-	(142,060)
Recovery of written-off credits	1,678,135	-	1,678,135	52,824	-	52,824
Effects of exchange rate changes	(66,119)	(82,955)	(149,074)	(2,081)	(2,611)	(4,692)
Balance, December 31, 2004	$2,381,794	$4,632,098	$7,013,892	$74,975	$145,810	$220,785

The Bank's financial statements included provisions for probable credit losses and guarantee losses based on information available to the Bank, including defaults to the extent they can be determined or estimated. Changes in the operating and financial performance of customers and general economic conditions of the market may have an impact on the debtor's ability to repay their loans, and uncertainty related to the future realizable value of collaterals may result in amounts different from those amounts presently estimated and provided.

6. INVESTMENTS

	December 31, 2003	December 31, 2004	December 31, 2004
	New Taiwan Dollars		U.S. Dollars
Equity securities	$9,366,718	$8,125,325	$255,771
Bonds	8,702,410	9,120,783	287,106
Total	$18,069,128	$17,246,108	$542,877

Investments in equity securities are summarized as follows:

Investees	December 31, 2003 Amount	December 31, 2003 Ownership %	December 31, 2004 Amount	December 31, 2004 Ownership %	December 31, 2004 Amount
	New Taiwan Dollars				U.S. Dollars
Accounted for by the equity method					
Unlisted stocks:					
Taiwan Finance Co.	$1,207,832	24.55	$1,352,499	24.55	$42,574
Cathay Investment & Development Corporation (Bahamas)	950,093	100.00	907,987	100.00	28,582
International Commercial Bank of Cathay (Canada)	602,469	100.00	634,207	100.00	19,964
Yung-Shing Industries Co.	540,190	95.22	447,995	95.22	14,102
Others	191,253	-	138,164	-	4,349
Subtotal	3,491,837		3,480,852		109,571

Accounted for by the cost method					
Listed stocks:					
Cathay Financial Holding Co., Ltd.	948,548	1.65	337,540	0.59	10,625
China Development Financial Holding Corp.	776,334	1.24	776,334	1.31	24,438
Waterland Financial Holdings Corp.	283,825	2.47	283,825	2.47	8,934
Trade-Van Information Services Co., Ltd.	69,229	4.50	69,229	4.48	2,179
Subtotal	2,077,936		1,466,928		46,176
Unlisted stocks:					
Waterland Securities Co., Ltd.	1,044,000	10.30	1,044,000	10.30	32,863
Taiwan Fixed Network Corporation	800,000	0.87	560,000	0.87	17,628
CDIB & Partners Investment Holding Corp.	500,000	4.95	500,000	4.95	15,739
Central Leasing Co., Ltd.	294,178	19.08	-	19.08	-
Fubon Securities Finance Co.	119,890	1.97	76,121	1.97	2,396
Taiwan Asset Management Corporation	300,000	1.70	300,000	1.70	9,444
Taiwan Financial Asset Service Corporation	50,000	2.94	50,000	2.94	1,574
Others	688,877	-	647,424	-	20,380
Subtotal	3,796,945		3,177,545		100,024
Total	$9,366,718		$8,125,325		$255,771

(1) The related investment income of International Commercial Bank of Cathay (Canada), Taiwan Finance Co., Yung-Shing Industries Co., Cathay Investment & Warehousing Co., S.A. and An Feng Enterprise Co., Ltd., which accounted for by the equity method, were recognized in accordance with the audited financial statements prepared by the auditors.

(2) On May 27, 2003, the Bank issued zero coupon Exchangeable Notes which are exchangeable for common stocks of Cathay Financial Holding Co., Ltd. Please refer to Note IV 11 for details of the Exchangeable Notes.

(3) Realized losses of long-term investments due to price decline amounted to NT$198,855 and NT$319,428 for the years ended December 31, 2003 and 2004, respectively, were accounted for as a reduction of investment income.

(4) Due to the changes in ownership percentage in investees accounted for under the equity method for 2004, the difference NT$1,308 is adjusted to capital reserve.

(5) The individual total assets and operating income of all subsidiaries were less than 10% of the unconsolidated total assets and operating income, respectively, of the Bank. In addition, the combined total assets and operating income of those subsidiaries were less than 30% of the unconsolidated total assets and revenues of the Bank. Thus, the Bank was not required and did not prepare consolidated financial statements. However, since 2004 under the Guidelines Governing the Preparation of Financial Reports by Public Banks, the Bank is required to include in its annual consolidated financial statements those subsidiary banks – International Commercial Bank of Cathay (Canada), which are invested by the Bank even its total assets and net sales less than 10% of the Bank.

Bonds consisted of:

	December 31, 2003	December 31, 2004	December 31, 2004
	New Taiwan Dollars		U.S. Dollars
U.S. bonds	$4,631,301	$3,213,809	$101,165
Euro bonds	1,341,765	1,095,388	34,481
Thailand bonds	865,023	1,011,728	31,847
Subordinated beneficiary certificates-retained interests of securitization	-	1,070,000	33,682
Others	1,864,321	2,729,858	85,931
Total	$8,702,410	$9,120,783	$287,106

a. In December 2004, the Bank sold part of its enterprise loans under securitization transactions. The Bank entrusted these loans to the special purpose trustee- The Hongkong and Shanghai Banking Corporation Limited (HSBC) for issuing beneficiary certificates. The investors of the subordinated certificates have a right over any remaining interest paid after fixed interest has been paid to the holders of the senior certificates in accordance with the principal amount. When the debtors fail to pay on schedule, the investors and HSBC have no recourse to the other assets of the Bank. Due to the holders of subordinated certificates have a lower priority claim than the holders of senior certificates on the assets of the trust, the value of the subordinated certificates is subject to credit, prepayment and interest rate risks on the transferred financial assets.

The terms and key economic assumptions used in measuring retained interests were as follows:

Terms	Enterprise Loans under Securitization
Date of issuance	December 16, 2004
Carrying amount of enterprise loans	NT$5,350,000
Gain (loss) on securitization	NT$-

	Senior		
Series of certificates	First Tranche	Second Tranche	Subordinated
Principal amount	NT$3,424,000	NT$856,000	NT$1,070,000
Annual interest	Floating interest rate plus 0.4%	Floating interest rate plus 1.0%	-

Key assumptions used in measuring retained interests	
Prepayment pace (annual rate)	0%
Expected weighted-average life (in years)	3 years
Expected credit losses (annual rate)	0%
Discounted rate for residual cash flows	1.192%

b. Sensitivity analysis:

As of December 31, 2004, key economic assumptions and sensitivity of the current fair value of residual cash flows to immediate 10 percent and 20 percent adverse changes in these assumptions were as follows:

Terms	Enterprise Loans
Carrying amount of retained interest	NT$1,070,000
Weighted-average life (in years)	3 years
Discount rate of residual cash flows (annual rate)	1.237%
Impact on fair value of 10% adverse change	NT$(365)
Impact on fair value of 20% adverse change	NT$(640)

c. The securitized enterprise loans had not resulted in any credit losses as of December 31, 2004, thus, the expected static pool credit losses are equal to the expected credit losses. The Bank anticipated that no credit losses came from the securitized enterprise loans since there is no case in default on those loans.

d. Cash flows:

Proceeds from new securitizations is NT$4,280,000.

7. OTHER ASSETS – NET

	December 31, 2003	December 31, 2004	December 31, 2004
	New Taiwan Dollars		U.S. Dollars
Deferred income tax – net (Note IV-18)	$348,353	$430,526	$13,552
Refundable deposits	337,840	359,364	11,312
Temporary payments	404,467	349,541	11,003
Foreclosed property	55,029	111,718	3,517
Less: allowance for probable losses and accumulated depreciation of foreclosed property	(52,011)	(36,964)	(1,164)
Others	218,987	204,220	6,429
Net	$1,312,665	$1,418,405	$44,649

8. DUE TO THE CENTRAL BANK OF CHINA AND COMMERCIAL BANKS

	December 31, 2003	December 31, 2004	December 31, 2004
	New Taiwan Dollars		U.S. Dollars
Due to the Central Bank of China	$156,918,599	$153,917,548	$4,845,050
Call loans from banks	11,247,772	20,099,264	632,689
Due to commercial banks	61,991,781	62,783,037	1,976,298
Overdrafts from banks	2,761,636	1,447,937	45,579
Total	$232,919,788	$238,247,786	$7,499,616

9. PAYABLES

	December 31, 2003	December 31, 2004	December 31, 2004
	New Taiwan Dollars		U.S. Dollars
Accounts payable	$12,717,660	$15,747,776	$495,712
Acceptances	6,620,462	7,381,915	232,370
Accrued interest	1,578,722	2,002,996	63,051
Accrued expense	2,233,436	2,636,781	83,001
Income tax payable	1,199,814	2,238,660	70,469
Dividends payable	5,369,654	5,369,654	169,027
Collection for customers	853,630	433,890	13,658
Forward exchange contract payable-net	1,385,693	4,840,634	152,374
Miscellaneous	1,195,744	1,763,192	55,502
Total	$33,154,815	$42,415,498	$1,335,164

10. DEPOSITS AND REMITTANCES

	December 31, 2003	December 31, 2004	December 31, 2004
	New Taiwan Dollars		U.S. Dollars
Deposits:			
Time deposit	$222,165,096	$238,454,994	$7,506,138
Savings-time	104,819,362	119,327,953	3,756,231
Savings – demand	110,081,227	133,743,644	4,210,011
Demand deposit	172,006,184	187,357,998	5,897,696
Checking	18,553,965	17,559,316	552,736
Negotiable certificates of deposit	2,983,900	2,395,200	75,397
Remittances	4,778,586	6,553,694	206,299
Total	$635,388,320	$705,392,799	$22,204,508

11. BONDS ISSUED

	December 31, 2003	December 31, 2004	December 31, 2004
	New Taiwan Dollars		U.S. Dollars
Subordinated Bonds	$6,700,000	$13,900,000	$437,547
Coordinated Bonds	-	3,900,000	122,765
Exchangeable Notes	7,424,245	2,728,554	85,890
Total	$14,124,245	$20,528,554	$646,202

(1) The Bank issued five-year, and five-year and six-month to seven-year coordinated bonds amounting to NT$3,900,000 with stated interest rates of 2.254% through 3.80% for the first six-month periods from the issue date and with interest rates counted according to stated adjustment formula for the rest of outstanding periods. The Bonds are repayable at maturity, and the interest are payable semiannually. In addition, the Bank issued another five-year and seven-month, and five-year and six-month subordinated bonds of NT$7,200,000 with a stated interest rate of 2.7% and 2.85%. The subordinated bonds are repayable at maturity, and the interest are payable annually.

(2) On December 10, 2001, the Bank issued five-year subordinated bonds of NT$6,700,000 with a stated interest rate of 2.99%. The subordinated bonds are payable at maturity, and the interest are payable annually.

(3) The Bank issued zero coupon Exchangeable Notes which are exchangeable for 144,760,000 shares of Cathay Financial Holding Co., Ltd., at a face value of US$1,000 dollars on May 27, 2003. The total value issued amounted to US$218,373 thousand and the maturity date is May 27, 2008. The Notes are exchangeable, at the option of the noteholder, at any time on or after June 26, 2003 and on or prior to April 28, 2008, for common shares of Cathay Financial Holding Co., Ltd. at an exchange price defined in the offering memorandum. Unless previously redeemed, exchanged, repurchased or cancelled, the Notes will be redeemed at compound annual rate of 1% of their principal amount in U.S. Dollars on May 27, 2008.

The noteholders have exercised their rights to exchange their bonds with the total principal amount of US$132,483 thousand for the year ended December 31, 2004.

12. BORROWED FUNDS

	December 31, 2003	December 31, 2004	December 31, 2004
	New Taiwan Dollars		U.S. Dollars
Commercial papers payable	$5,094,260	$9,755,440	$307,084
Less: discounted commercial papers payable	(35,623)	-	-
Net	5,058,637	9,755,440	307,084
Central Bank of China	42,723,778	29,761,359	936,835
Other financial institutions	10,686,798	21,530,737	677,748
Total	$58,469,213	$61,047,536	$1,921,667

13. PENSION

Following is some pension information:

	January 1 to December 31		
	2003	2004	2004
	New Taiwan Dollars		U.S. Dollars
a. Net periodic pension cost			
Service cost	$351,241	$363,432	$11,440
Interest cost	212,376	177,116	5,575
Projected return on plan assets	(70,074)	(62,135)	(1,956)
Amortization	(132,057)	(81,913)	(2,578)
Total	$361,486	$396,500	$12,481
b. Funded status of pension plans			
Vested benefit obligation	$(1,942,420)	$(2,522,630)	$(79,408)
Non-vested benefit obligation	(2,886,240)	(2,734,029)	(86,062)
Accumulated benefit obligation	(4,828,660)	(5,256,659)	(165,470)
Effects of future increase in salaries	(1,255,338)	(1,296,169)	(40,801)
Projected benefit obligation	(6,083,998)	(6,552,828)	(206,271)
Fair value of plan assets	5,187,404	5,528,666	174,032
Pension fund contributions	(896,594)	(1,024,162)	(32,239)
Unrecognized benefit obligation at transition	308,531	283,300	8,918
Unrecognized net gain or loss	(748,758)	(552,274)	(17,385)
Reserve for pension benefits	$(1,336,821)	$(1,293,136)	$(40,706)
c. Vested benefits-undiscounted	$(2,310,497)	$(2,992,228)	$(94,190)
d. Actuarial assumptions	2003	2004	
Discount rate	3.0%	3.0%	
Rate of future increase in salaries	2.0%	2.0%	
Expected rate of return	3.0%	3.0%	

14. OTHER LIABILITIES

	December 31, 2003	December 31, 2004	December 31, 2004
	New Taiwan Dollars		U.S. Dollars
Guarantees and marginal deposits	$3,913,002	$1,841,725	$57,974
Reserve for losses on guarantees	1,138,684	1,184,641	37,290
Bonds sold under agreements to repurchase	8,298,912	8,055,533	253,574
Temporary credits	1,424,720	1,166,017	36,704
Others	1,052,563	888,008	27,953
Total	$15,827,881	$13,135,924	$413,495

15. CAPITAL STOCK

As of January 1, 2003, the Bank had an authorized, issued and outstanding share capital of NT$37,261,000, divided into 3,726,100,000 shares of NT$10 dollars each.

16. RETAINED EARNINGS

(1) The Bank's Articles of Incorporation ("Articles") provides that its annual net income shall be appropriated and distributed as follows:

1) 30% as legal reserve;

2) Special reserve based on operating requirements; and

3) The remainder: bonus to employees – 2.4%; dividends and bonus to shareholders – to be determined by the shareholders.

In view of the industrial competitive environment as well as the needs to expand its business, it is the policy of the Bank to apportion cash dividend be at least 60% of the total dividends paid/distributed and the remaining balance be stock dividend. Cash dividends is payable within two months from the declaration date.

Dividends and bonus to shareholders should be calculated to the nearest cent; any remainder from this calculation will be combined with the retained earnings of the following year.

The above appropriations should be resolved by the shareholders in the following year and given effect to in the financial statements of that year.

(2) Under SFC regulations, when appropriating the current year's net income, the Bank should set up a special reserve, which is equal to the debit balance of cumulative translation adjustments and unrealized loss resulting from the decline of value of long-term equity investments. A portion of this reserve is reverted to unappropriated earnings when the debit balances of the foregoing accounts decline.

In addition, under the Company Law, a legal reserve should be appropriated until the reserve equals the aggregate par value of the Bank's outstanding share capital. This reserve can only be used to reduce or offset a deficit, and when the balance of the reserve reaches 50% of the aggregate par value of the Bank's outstanding share capital, up to 50% thereof can be transferred to capital (as stock dividend). The Banking Law limits the total amount of cash dividends and additional bonuses to shareholders that can be paid by the Bank to 15% of the aggregate par value of the Bank's outstanding share capital until the legal reserve equals the aggregate par value of the Bank's outstanding share capital.

Under the Integrated Income Tax System, which took effect on January 1, 1998, ROC resident shareholders are allowed a tax credit for the income tax paid by the Bank on earnings generated since 1998.

(3) The appropriations and distributions were approved by the Bank's board of directors on March 26, 2003 and May 19, 2004, respectively. The information is as follows:

	2002	2003
Dividends and bonuses to shareholders – cash	NT$0.61 Dollars Per share	NT$1.24 Dollars Per share
Bonus to employees – cash	NT$56,552	NT$114,327

17. SELLING AND ADMINISTRATIVE EXPENSES

(1) The amount of selling and administrative expense for the year ended December 31, 2004 includes NT$7,444,594 of selling expense, NT$2,252,189 of administrative expense and NT$373,269 of others.

(2) The following is a summary of the components of staff, depreciation and amortization expenses for the years ended December 31, 2003 and 2004:

By function / By nature	January 1, 2004 to December 31, 2004					
	New Taiwan Dollars			U.S. Dollars		
	Selling expense	Administrative expense	Total	Selling expense	Administrative expense	Total
Staff Expenses						
Payroll	$3,690,741	$1,493,394	$5,184,135	$116,178	$47,009	$163,187
Staff insurance	209,904	37,559	247,463	6,607	1,182	7,789
Pension	320,028	76,472	396,500	10,074	2,407	12,481
Other staff expenses	199,731	37,334	237,065	6,287	1,175	7,462
Depreciation	373,704	171,599	545,303	11,763	5,402	17,165
Amortization	79,352	464	79,816	2,498	15	2,513

By function / By nature	January 1, 2003 to December 31, 2003 New Taiwan Dollars		
	Selling expense	Administrative expense	Total
Staff Expenses			
Payroll expense	$3,651,664	$1,316,330	$4,967,994
Staff insurance	209,461	36,920	246,381
Pension	292,051	69,435	361,486
Other staff expenses	183,756	39,798	223,554
Depreciation	385,269	174,105	559,374
Amortization	51,336	128	51,464

18. INCOME TAX

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

(1) The reconciliation between income tax payable and income tax expense is as follows:

	January 1 to December 31		
	2003	2004	2004
	New Taiwan Dollars		U.S. Dollars
Tax on pretax accounting income at maximum statutory rate (25%)	$2,259,184	$2,968,193	$93,433
Tax-exempt income	(928,325)	(712,019)	(22,413)
Add (deduct) tax effects of:			
Permanent differences	(479,111)	(1,479,582)	(46,575)
Temporary differences	202,533	82,173	2,587
Foreign income taxes over the statutory limit	496,211	947,275	29,819
Current income tax expense	1,550,492	1,806,040	56,851
Deferred			
Allowance for probable losses on loans and receivables	(283,187)	41,447	1,305
Cumulative equity in net income of foreign investees	16,779	13,364	421
Pension benefits	21,659	-	-
Employee benefits	13,345	9,877	311
Accumulated depreciation	(22,665)	(4,004)	(126)
Unrealized foreign exchange gain	88,871	(13,128)	(414)
Others	(37,335)	(97,135)	(3,058)
Loss carryforwards	-	(32,594)	(1,026)
Adjustment of prior year's tax	194,411	(212,922)	(6,702)
Income taxes (10%) on undistributed earnings	-	176,353	5,551
Income tax expense	$1,542,370	$1,687,298	$53,113

Income tax is based on taxable income from all sources. Foreign income taxes paid are creditable to the domestic income tax obligations to the extent of domestic income tax applicable to the foreign-source income.

(2) Deferred income taxes as of December 31, 2003 and 2004 consisted of deferred income tax assets – net (presented as part of other assets), as follows:

	December 31		
	2003	2004	2004
	New Taiwan Dollars		U.S. Dollars
Deferred income tax assets			
Loss carryforwards	$-	$32,594	$1,026
Allowance for possible losses on loans and receivables	380,586	339,139	10,676
Reserve for pension benefits	295,765	295,765	9,310
Accumulated depreciation	131,147	135,151	4,254
Employee benefits	17,816	7,939	250
Other	68,928	166,063	5,227
Total	894,242	976,651	30,743
Deferred income tax liabilities			
Cumulative equity in net income of foreign investees	(231,978)	(245,342)	(7,723)
Unrealized foreign exchange gain	(313,911)	(300,783)	(9,468)
Total	(545,889)	(546,125)	(17,191)
Deferred income tax assets-net	$348,353	$430,526	$13,552

(3) The information on the implementation of the integrated income tax system as of December 31, 2003 and 2004 is as follows:

	December 31		
	2003	2004	2004
	New Taiwan Dollars		U.S. Dollars
Balances of the imputed tax	$112,486	$184,431	$5,806
Unappropriated earnings before 1998	$10,923	$10,923	$344
Unappropriated earnings after 1998	7,510,344	10,203,487	321,188
Total	$7,521,267	$10,214,410	$321,532

The creditable tax ratios for distributing 2002 and 2003 earnings were 6.91% and 0.72%, respectively.

The income tax returns of the Bank through 2001 had been examined by the tax authorities. In connection with such examinations, the Bank disagreed with the assessment and appealed to the tax authorities for 1996, 1998 to 2000.

Interesting income tax levied on the interest income gained by preceding holders of bonds during 1996 to 2002 amounted to NT$248,971 were disallowed to be an deduction against the Bank's income tax obligations by tax authorities. The Bank recorded tax payable and tax expense derived from the bond withholding tax thereafter. The tax authorities have the result about the above examination and the Bank has made proper adjustment for the result.

19. EARNINGS PER SHARE

For the years ended	Numerator Pre-tax	Numerator After Tax	Denominator (Shares in Thousands)	EPS Pre-tax	EPS After Tax
	In Thousands of NT Dollars			In NT Dollars	
December 31, 2003	$9,036,777	$7,494,407	3,726,100	$2.43	$2.01
December 31, 2004	$11,872,773	$10,185,475	3,726,100	$3.19	$2.74
	In Thousands of US Dollars			In US Dollars	
December 31, 2004	$373,734	$320,621	3,726,100	$0.10	$0.09

20. AVERAGE BALANCES AND AVERAGE INTEREST RATE OF INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES

The average balances of interest-earning assets and interest-bearing liabilities for the years ended December 31, 2003 and 2004, calculated by the daily average balances of these assets and liabilities, were as follows:

	For the years ended December 31, 2003		December 31, 2004		
	Average Balance	Average Rate (%)	Average Balance	Average Rate (%)	Average Balance
	New Taiwan Dollars		New Taiwan dollars		U.S. Dollars
Assets					
Due from commercial banks	$210,386,540	1.24	$155,134,158	1.40	$4,883,347
Due from the Central Bank of China	17,785,352	1.44	19,275,218	1.15	606,749
Securities purchased and bond investments	210,613,514	2.15	277,399,590	1.61	8,732,045
Receivable from securities credit	126,196	6.51	-	-	-
Bills and loans	508,268,453	3.06	562,871,449	2.77	17,718,190
Accounts receivable-credit card	7,322,563	19.06	10,139,312	18.45	319,167
Accounts receivable-factoring	2,459,224	2.00	7,935,895	2.22	249,808
Bonds purchased under agreements to resell	822,778	1.20	1,413,283	1.23	44,488

Liabilities					
Due to the Central Bank of China	186,035,072	0.92	145,282,866	1.16	4,573,246
Due to commercial banks	85,820,800	1.54	80,030,627	1.42	2,519,221
Bonds sold under agreements to repurchase	7,594,820	0.58	10,166,538	0.77	320,024
Demand deposits	154,671,644	0.22	186,773,799	0.22	5,879,306
Savings deposits-demand	99,599,607	0.92	123,283,986	0.77	3,880,760
Time deposits	222,011,458	1.25	237,672,929	1.30	7,481,520
Savings deposits-time	105,047,200	1.91	111,169,832	1.55	3,499,428
Negotiable certificates of deposit	4,077,028	1.24	2,412,994	0.73	75,957
Bonds-Coordinated	-	-	3,297,000	2.25	103,784
Bonds- subordinated	6,700,000	2.99	9,053,772	2.91	284,997
Bonds-exchangeable notes	7,424,245	1.28	6,135,953	0.08	193,149
Borrowed fund	51,912,512	1.29	66,336,186	1.36	2,088,145
Commercial papers payable-net	550,706	5.31	5,760,383	5.56	181,327

21. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The maturity of the Bank's assets and liabilities is based on the remaining period from balance sheet dates. The remaining period to maturity is based on maturity dates specified under agreements, and, if there are no specified maturity dates, on expected collection dates.

Maturity of assets and liabilities states as follows:

	December 31, 2003 (New Taiwan Dollars)		
	Due in One Year	Due after One Year	Total
Assets			
Cash and cash equivalent	$29,556,246	$-	$29,556,246
Due from the Central Bank of China and call loans to banks	168,632,796	-	168,632,796
Securities purchased	268,775,276	-	268,775,276
Receivables	39,122,104	-	39,122,104
Bills and loans	360,507,136	169,244,902	529,752,038
Investments-bonds	701,399	8,001,011	8,702,410
Total	$867,294,957	$177,245,913	$1,044,540,870
Liabilities			
Due to the Central Bank of China and commercial banks	$232,919,788	$-	$232,919,788
Securities sold under agreements to repurchase	8,298,912	-	8,298,912
Payables	33,154,815	-	33,154,815
Deposits and remittances	623,767,320	11,621,000	635,388,320
Bonds issued	-	14,124,245	14,124,245
Borrowed funds	57,687,259	781,954	58,469,213
Total	$955,828,094	$26,527,199	$982,355,293

	December 31, 2004 (New Taiwan Dollars)		
	Due in One Year	Due after One Year	Total
Assets			
Cash and cash equivalent	$34,705,807	$-	$34,705,807
Due from the Central Bank of China and call loans to banks	158,835,295	-	158,835,295
Securities purchased	198,825,254	82,034,252	280,859,506
Receivables	52,519,354	-	52,519,354
Bills and loans	293,846,716	312,081,473	605,928,189
Investments-bonds	1,474,330	7,646,453	9,120,783
Total	$740,206,756	$401,762,178	$1,141,968,934
Liabilities			
Due to the Central Bank of China and commercial banks	$238,247,786	$-	$238,247,786
Securities sold under agreements to repurchase	8,055,533	-	8,055,533
Payables	42,415,498	-	42,415,498
Deposits and remittances	682,556,271	22,836,528	705,392,799
Bonds issued	2,728,554	17,800,000	20,528,554
Borrowed funds	34,485,704	26,561,832	61,047,536
Total	$1,008,489,346	$67,198,360	$1,075,687,706

	December 31, 2004 (U.S. Dollars)		
	Due in One Year	Due after One Year	Total
Assets			
Cash and cash equivalent	$1,092,477	$-	$1,092,477
Due from the Central Bank of China and call loans to banks	4,999,852	-	4,999,852
Securities purchased	6,258,665	2,582,292	8,840,957
Receivables	1,653,215	-	1,653,215
Loans and bills	9,249,771	9,823,768	19,073,539
Investments-bonds	46,409	240,697	287,106
Total	$23,300,389	$12,646,757	$35,947,146

Liabilities			
Due to the Central Bank of China and commercial banks	$7,499,616	$-	$7,499,616
Securities sold under agreements to repurchase	253,574	-	253,574
Payables	1,335,164	-	1,335,164
Deposits and remittances	21,485,655	718,853	22,204,508
Bonds issued	85,890	560,312	646,202
Borrowed funds	1,085,548	836,119	1,921,667
Total	$31,745,447	$2,115,284	$33,860,731

V. RELATED-PARTY TRANSACTIONS

Related parties	Relationship
Mega Financial Holdings Co., Ltd.	Parent company
International Commercial Bank of Cathay(Canada)	The subsidiary
Chiaotung Bank	Subsidiary of Mega Financial Holding Co., Ltd.
Chung Hsing Bills Finance Corp.	An investee of Mega Financial Holding Co., Ltd. accounted for equity method
Taiwan Finance Co.	An investee accounted for equity method
Cathay Investment & Development Corporation (Bahamas)	The Subsidiary
Yung-Sing Industries Co.	The Subsidiary
Wing Card Co., Ltd.	The indirect subsidiary
China Post Corporation Limited	The director of Mega Financial Holding Co., Ltd.
Others	Certain directors, supervisors, managers and relatives of the Bank's chairman and general managers

The transactions with the foregoing related parties are summarized in Exhibit I.

VI. PLEDGED ASSETS

As of December 31, 2003 and 2004, the following assets had been provided as collaterals or refundable deposits:

	December 31		
	2003	2004	2004
	New Taiwan Dollars		U.S. Dollars
Securities purchased	$10,548,400	$10,433,400	$328,425
Bond investments	3,830,522	2,406,806	75,762
Total	$14,378,922	$12,840,206	$404,187