

**CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31,
2004 AND 2003
AND
INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

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CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

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Independent Accountants' Review Report

The Board of Directors
Chinatrust Financial Holding Company, Ltd.:

We have reviewed the accompanying consolidated balance sheets of Chinatrust Financial Holding Company, Ltd. as of March 31, 2004 and 2003, and the related consolidated statements of income and cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our review.

We have reviewed these consolidated financial statements in accordance with Statements of Auditing Standards No. 36 "Review of Financial Statements." A review is limited primarily to inquiries of company personnel and applying analytical procedures to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion. Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements for them to be in conformity with generally accepted accounting principles in the Republic of China.

As described in Note 3, effective January 1, 2004, the Company's subsidiaries, Chinatrust Commercial Bank, Ltd. and Chinatrust Bills Finance Corp. adopted SFAS No. 33 "Accounting for Transfers of Financial Assets and Extinguishments of Liabilities" to treat bills and bonds under repurchase agreements in which no loss of control has occurred as financing transactions instead of as sale transactions.

Taipei, Taiwan, ROC
April 26, 2004

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

Reviewed only, not audited in accordance with generally accepted auditing standards.
CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2004 AND 2003
(New Taiwan Dollars in Thousands)

	March 31, 2004		March 31, 2003	
	Amount	%	Amount	%
ASSETS				
Cash and cash equivalents (Notes 2 and 4)	\$ 26,335,321	2	\$ 16,560,137	2
Deposits with banks(Note 5)	79,998,627	6	37,425,602	4
Marketable securities (Notes 2,6 and 27)	310,391,475	22	145,513,055	16
Less: Allowance for market value decline	(386,451)	-	(1,349,486)	-
	<u>310,005,024</u>	<u>22</u>	<u>144,163,569</u>	<u>16</u>
Receivables (Notes 2 and 7)	130,893,340	9	79,793,038	9
Less: Allowance for credit losses	(2,182,183)	-	(2,056,055)	-
	<u>128,711,157</u>	<u>9</u>	<u>77,736,983</u>	<u>9</u>
Loans (Notes 2, 8, and 26)	692,228,936	50	592,544,826	64
Less: Allowance for loan losses	(8,899,452)	(1)	(9,780,177)	(1)
	<u>683,329,484</u>	<u>49</u>	<u>582,764,649</u>	<u>63</u>
Long-term investments (Notes 2 and 9)				
Accounted for under the equity method	2,151,385	-	145,026	-
Accounted for under the cost method	9,853,113	1	4,598,580	-
Less: Allowance for market value decline	(700,498)	-	(1,234,387)	-
Bonds investments	69,317,749	5	19,215,824	2
Real estate investments	1,400	-	8,102	-
	<u>80,623,149</u>	<u>6</u>	<u>22,733,145</u>	<u>2</u>
Other financial assets (Notes 2, 10, 25 and 27)	21,770,656	2	12,187,371	1
Premises and equipment (Notes 2 and 11)				
Land and buildings, net	29,417,422	3	24,527,128	2
Equipment and other properties, net	5,107,109	-	3,736,019	-
	<u>34,524,531</u>	<u>3</u>	<u>28,263,147</u>	<u>2</u>
Intangible assets (Note 2)	4,395,677	-	-	-
Other assets (Note 2 , 12and 20)	11,679,098	1	8,981,382	1
TOTAL ASSETS	<u>\$ 1,381,372,724</u>	<u>100</u>	<u>\$ 930,815,985</u>	<u>100</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities				
Short-term borrowings (Notes 2 and 13)	\$ 127,491,989	9	\$ 8,272,600	1
Deposits of the Central Bank and other banks	67,278,841	5	44,158,088	5
Payables (Note 14)	29,190,513	2	19,072,981	2
Deposits and remittances (Notes 15 and 26)	959,448,290	70	728,326,752	78
Corporate bonds and financial debentures (Notes 2 and 16)	58,953,298	4	25,328,237	3
Refinancing from the Central Bank and other banks (Note 17)	26,294,507	2	15,164,900	2
Other liabilities	15,516,167	1	7,822,794	1
Total liabilities	<u>1,284,173,605</u>	<u>93</u>	<u>848,146,352</u>	<u>92</u>
Minority interest	55,207	-	53,462	-
Stockholders' equity				
Capital stock				
Common stock (Note 22)	54,972,422	4	46,054,268	5
Preferred stock (Note 22)	2,500,000	-	2,500,000	-
Capital surplus (Note 22)	32,114,926	2	30,530,624	3
Retained earnings (Note 22)				
Legal reserve	657,724	-	-	-
Special reserve	110,852	-	-	-
Undistributed earnings	12,099,960	1	9,999,305	-
Other adjustments to stockholders' equity:				
Unrealized losses on long-term equity investments	(700,498)	-	(1,234,389)	-
Cumulative translation adjustments	(1,324,099)	-	(600,409)	-
Treasury stock-common stock (Notes 2 and 23)	(3,287,375)	-	(4,633,228)	-
Treasury stock-preferred stock (Notes 2 and 22)	-	-	-	-
Total Stockholders' Equity	<u>97,143,912</u>	<u>7</u>	<u>82,616,171</u>	<u>8</u>
Commitments and Contingencies (Notes 2 and 28)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,381,372,724</u>	<u>100</u>	<u>\$ 930,815,985</u>	<u>100</u>

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

Reviewed only, not audited in accordance with generally accepted auditing standards.
CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003
(New Taiwan Dollars in Thousands , Except For Per Share Data)

	From January 1, 2004 to March 31, 2004		From January 1, 2003 to March 31, 2003	
	Amount	%	Amount	%
Operating Revenues:				
Interest income	\$ 11,663,181	62	\$ 11,425,461	73
Commissions and fees income	4,613,796	24	2,657,899	17
Net gains on marketable securities	979,275	5	1,007,601	6
Investment income accounted for under the equity method	82,445	-	-	-
Net gains on foreign exchange	710,851	4	-	-
Net gains on derivative instruments	823,255	4	542,346	4
Other operating revenues	224,145	1	24,818	-
Total Operating Revenues	19,096,948	100	15,658,125	100
Operating Costs:				
Interest expense	(3,337,286)	(17)	(3,237,906)	(21)
Commissions and fees paid	(143,704)	(1)	(205,252)	-
Investment losses accounted for under the equity method	-	-	(3,406)	-
Provisions for allowances and reserves	(3,087,180)	(16)	(1,797,621)	(11)
Net losses on foreign exchange	-	-	(90,320)	(1)
Other operating costs	(61,045)	-	(278,185)	(2)
Total Operating Costs	(6,629,215)	(34)	(5,612,690)	(35)
Gross Margin	12,467,733	66	10,045,435	65
Operating Expenses	(6,765,369)	(35)	(5,028,997)	(32)
Operating Taxes	(297,027)	(2)	(267,342)	(2)
Operating Income	5,405,337	29	4,749,096	31
Non-Operating Revenues	296,459	-	52,914	-
Non-Operating Expenses	(90,795)	-	(69,956)	-
Income Before Income Tax	5,611,001	29	4,732,054	31
Income Tax Expense (Notes 2 and 20)	(1,070,679)	(6)	(1,202,255)	(8)
Less: Minority interest income	(2,267)	-	(1,507)	-
Consolidated Net Income	\$ 4,538,055	23	\$ 3,528,292	23

	Before income tax	After income tax	Before income tax	After income tax
Basic EPS (Notes 2 and 24)	<u>\$ 1.02</u>	<u>\$ 0.82</u>	<u>\$ 1.04</u>	<u>\$ 0.77</u>
Basic EPS - retroactively adjusted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0.94</u>	<u>\$ 0.69</u>
Diluted EPS (Notes 2 and 24)	<u>\$ 0.97</u>	<u>\$ 0.78</u>	<u>\$ 0.99</u>	<u>\$ 0.73</u>
Diluted EPS - retroactively adjusted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0.89</u>	<u>\$ 0.66</u>

Pro forma data assuming Company shares held by subsidiaries not considered as treasury stock:

Consolidated Net Income	\$ 4,538,055	\$ 3,528,292														
	<table border="1"> <thead> <tr> <th></th> <th style="text-align: center;">Before income tax</th> <th style="text-align: center;">After income tax</th> <th style="text-align: center;">Before income tax</th> <th style="text-align: center;">After income tax</th> </tr> </thead> <tbody> <tr> <td>Basic EPS</td> <td style="text-align: right;"><u>\$ 1.00</u></td> <td style="text-align: right;"><u>\$ 0.80</u></td> <td style="text-align: right;"><u>\$ 0.90</u></td> <td style="text-align: right;"><u>\$ 0.66</u></td> </tr> <tr> <td>Diluted EPS</td> <td style="text-align: right;"><u>\$ 0.95</u></td> <td style="text-align: right;"><u>\$ 0.76</u></td> <td style="text-align: right;"><u>\$ 0.85</u></td> <td style="text-align: right;"><u>\$ 0.63</u></td> </tr> </tbody> </table>		Before income tax	After income tax	Before income tax	After income tax	Basic EPS	<u>\$ 1.00</u>	<u>\$ 0.80</u>	<u>\$ 0.90</u>	<u>\$ 0.66</u>	Diluted EPS	<u>\$ 0.95</u>	<u>\$ 0.76</u>	<u>\$ 0.85</u>	<u>\$ 0.63</u>
	Before income tax	After income tax	Before income tax	After income tax												
Basic EPS	<u>\$ 1.00</u>	<u>\$ 0.80</u>	<u>\$ 0.90</u>	<u>\$ 0.66</u>												
Diluted EPS	<u>\$ 0.95</u>	<u>\$ 0.76</u>	<u>\$ 0.85</u>	<u>\$ 0.63</u>												

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

Reviewed only, not audited in accordance with generally accepted auditing standards.
CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003
(New Taiwan Dollars in Thousands)

	From January 1, 2004 to March 31, 2004	From January 1, 2003 to March 31, 2003
Cash flows from operating activities:		
Consolidated net income	\$ 4,538,055	\$ 3,528,292
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Minority interest income	2,267	1,507
Depreciation and amortization	874,136	502,997
Investment (income) loss accounted for under the equity method over cash dividends received	(82,445)	3,406
Amortization of bonds premium	20,921	732
Gains on dispositions of long-term investments	(54,261)	-
Losses on dispositions of premises and equipment and foreclosed properties	36,040	42,959
Losses on scrapping of premises and equipment	10,049	3,904
Provision for loan losses	4,055,179	2,125,976
Provision for (reversal of) unrealized losses in marketable securities	(672,931)	440,976
Reversal of guarantee reserve	(108,091)	(7,816)
Provision for securities trading losses reserve	12,432	95,929
Provision for (reversal of) unrealized losses on foreclosed properties	(70,903)	20,028
Provision for default losses	2,206	1,153
Foreign exchange gains	81,837	83,013
Others	19,349	2,035
Net change in:		
Accrued interest on convertible bonds	(262,063)	145,195
Receivables	(5,569,332)	(2,119,950)
Marketable securities	(127,536,344)	(23,903,326)
Payables	170,258	5,472,457
Trading derivative instruments, net	320,101	(52,519)
Non-trading derivative instruments, net	(44,923)	(56,355)
Net cash used in operating activities	(124,258,463)	(13,669,407)
Cash flows from investing activities:		
Net decrease (increase) in loans	(6,628,756)	9,060,064
Purchase of long-term equity investments	(30,566,923)	-
Proceeds from disposition of long-term equity investments	284,905	-
Net increase in other financial assets	(391,638)	(868,424)
Decrease (increase) in receivables	(3,556,948)	6,455,467
Proceeds from disposition of premises, equipment and foreclosed properties	268,805	210,066
Purchase of premises and equipment	(503,092)	(545,297)
Decrease (increase) in deposits with the Central Bank (excluding cash equivalents)	2,138,779	(257,812)
Decrease (increase) in due from banks (excluding cash equivalents)	402,747	(2,803,819)
Increase in other assets	(329,024)	(744,795)
Net cash provided by (used in) investing activities	(38,881,145)	10,505,450
Cash flows from financing activities:		
Issue of corporate bonds	3,500,000	-
Increase (decrease) in short-term borrowings	111,127,684	(3,155,834)
Increase (decrease) in deposits of the Central Bank and other banks	1,804,863	(600,111)
Increase (decrease) in payables	1,172,940	(4,840,777)
Increase (decrease) in deposits and remittances	32,687,991	(3,829,509)
Increase (decrease) in refinancing from Central Bank and other banks	12,915,485	(717,574)
Increase in other liabilities	1,682,969	205,772
Increase (decrease) in minority interest	(31)	376
Employee bonus	-	75,779
Preferred stock redeemed	(343,005)	-
Treasury stock transferred to employees	973,479	277,226
Net cash provided by (used in) financing activities	165,522,375	(12,584,652)
Effect of exchange rate changes on cash and cash equivalents	(1,687,765)	(80,792)
Net increase (decrease) in cash and cash equivalents	695,002	(15,829,401)
Cash and cash equivalents, at beginning of period	78,346,315	57,744,747
Cash and cash equivalents, at end of period	\$ 79,041,317	\$ 41,915,346
Cash and cash equivalents (Note 2)		
Cash	\$ 26,335,321	\$ 13,932,661
Call loans to Banks	11,395,869	3,497,310
Deposits with the Central Bank	21,597,743	7,263,526
Negotiable certificates of time deposits purchased	250,103	8,680,000
Commercial paper purchased	19,462,281	8,541,849
	\$ 79,041,317	\$ 41,915,346
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 3,055,935	\$ 3,129,149
Guaranteed interest on trust funds	\$ -	\$ 485
Income taxes	\$ 840,183	\$ 643,541
Investing and financing activities with no cash flow effect:		
Preferred stock redeemed	\$ 2,118,113	\$ -
Less : Payables at end of period	(1,775,108)	-
	\$ 343,005	\$ -
Convertible corporate bonds payable converted to common stocks	\$ 35,672	\$ -

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

Review only, not audited in accordance with general accepted auditing standards.
CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Three Months Ended March 31, 2004 and 2003
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

(1) Basis of Presentation

Chinatrust Financial Holding Company, Ltd. (the “Company”) was established on May 17, 2002 through a stock conversion (conversion ratio: one to one) with Chinatrust Commercial Bank, Ltd. On the same date, after securing the approval from the Securities and Futures Commissions (“SFC”) under the Ministry of Finance (“MOF”), the shares of the Company started to be traded publicly, while the shares of the Chinatrust Commercial Bank, Ltd. were delisted.

The Company conducts business in the following areas:

- (a) The Company has been approved to invest in the following businesses:
 - (i) Banking
 - (ii) Bills financing
 - (iii) Credit cards
 - (iv) Trusts
 - (v) Insurance
 - (vi) Securities
 - (vii) Futures
 - (viii) Venture capital
 - (ix) Investments in overseas financial institutions as approved by the MOF.
 - (x) Other related financing as approved by the MOF.
 - (xi) Other related investments.
- (b) Management of above businesses.
- (c) Investments in businesses other than the ones listed in item (a) as approved by the MOF.
- (d) Other related businesses as approved by the MOF.

As of March 31, 2004, the total number of Company employees was 24.

As of March 31, 2004, the total number of the employees of the Company and its subsidiaries was 8,800.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

As of March 31, 2004, the issued capital of the Company's subsidiary, Chinatrust Commercial Bank, Ltd. amounted to \$50,659,695 for common stock and \$2,500,000 for preferred stock. As of March 31, 2004, the Company acquired 100.00% equity ownership of this subsidiary whose primary business is commercial banking. As of March 31, 2004, the issued capital of the subsidiary, Chinatrust Securities Corp., Ltd. amounted to \$5,000,000 representing 500,000,000 common shares with par value of \$10 (in dollars) per share. As of March 31, 2004, the Company held 498,287,797 shares or 99.66% equity ownership in this subsidiary, which is engaged primarily in the securities and futures business.

As of March 31, 2004, the issued capital of the subsidiary, Chinatrust Insurance Brokers Co., Ltd. amounted to \$386,602 representing 38,660,410 common shares with par value of \$10 (in dollars) per share. As of March 31, 2004, the Company held 38,660,410 shares or 100.00% equity ownership in this subsidiary, which is engaged primarily in the property insurance and life insurance brokerage.

As of March 31, 2004, the issued capital of the subsidiary, Chinatrust Venture Capital Corp., Ltd. amounted to \$2,000,000 representing 200,000,000 common shares with par value of \$10 (in dollars) per share. As of March 31, 2004, the Company held 200,000,000 shares or 100.00% ownership in this subsidiary, which is engaged primarily in the venture capital business.

As of March 31, 2004, the issued capital of the subsidiary, Chinatrust Asset Management Corp., Ltd. amounted to \$20,000,000 representing 2,000,000,000 common shares with par value of \$10 (in dollars) per share. As of March 31, 2004, the Company held 2,000,000,000 shares or 100.00% equity ownership in this subsidiary, which is primarily engaged in the asset management business.

As of March 31, 2004, the issued capital of the subsidiary, Chinatrust Bills Finance Corp. amounted to \$4,080,000, representing 408,000,000 common shares with par value of \$10 (in dollars) per share. As of March 31, 2004, the Company held 408,000,000 shares or 100.00% equity ownership in this subsidiary. It is primarily engaged in proprietary trading, brokerage of short-term bills, underwriting, certification, guarantee and endorsement of commercial paper.

As of March 31, 2004, the issued capital of Chinatrust (Philippines) Commercial Bank Corporation, a subsidiary of Chinatrust Commercial Bank, Ltd. amounted to 1,875,000 Philippine pesos representing 187,500,000 common shares with par value of 10 Philippines pesos per share. As of March 31, 2004, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. held 186,386,255 shares or 99.41% equity ownership in this Philippine bank, which is engaged primarily in commercial banking and financing business.

As of March 31, 2004, the issued capital of PT Bank Chinatrust Indonesia, a subsidiary of Chinatrust Commercial Bank, Ltd. amounted to Rupiah150,000,000, representing 1,500 common shares with par value of Rupiah100,000 per share. As of March 31, 2004, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. held 1,485 shares or 99.00% equity ownership in this Indonesian bank, which is primarily engaged in commercial banking and financing business.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

As of March 31, 2004, the issued capital of CTC Bank of Canada, a subsidiary of Chinatrust Commercial Bank, Ltd. amounted to CAD15,000 representing 1,500,000 common shares with par value of CAD10 (in dollars) per share. As of March 31, 2004, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. held 1,500,000 shares or 100.00% equity ownership in this Canadian bank, which is primarily engaged in commercial banking and financing business.

As of March 31, 2004, the issued capital of China Trust Holdings Corp., a subsidiary of Chinatrust Commercial Bank, Ltd. amounted to USD1,336 (in dollars) representing 1,336 common shares with par value of USD1 (in dollars) per share. As of March 31, 2004, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. held 1,336 shares or 100.00% equity ownership. It is primarily engaged in securities investment.

The Company's subsidiary, Chinatrust Commercial Bank, Ltd. invested in Chinatrust Bank (U.S.A.) through its holding company, China Trust Holdings Corp. As of March 31, 2004, the issued capital of this US bank amounted to USD500 for preferred stock and USD100 for common stock. As of March 31, 2004, the equity ownership by the Company's subsidiary, Chinatrust Commercial Bank, Ltd. was 100.00% in this US bank, which is primarily engaged in commercial banking and financing business.

The Company's subsidiary, Chinatrust Asset Management Corp., Ltd. invested in CT Opportunity Investment Company. As of March 31, 2004, the issued capital of this subsidiary amounted to USD16,951 representing 16,951 common shares with par value of USD1 (in dollars) per share. As of March 31, 2004, the Company's subsidiary, Chinatrust Asset Management Corp., Ltd. held 16,951 shares or 100% equity ownership in this company, which is primarily engaged in securities investment.

For the three months ended March 31, 2004, Chinatrust Venture Capital Corp., Ltd. was included in the consolidated entity. To facilitate comparison, the consolidated financial statements for the three months ended March 31, 2003 were restated.

Investee companies in which the Company and subsidiaries have more than 50% ownership have been consolidated except for those shown below:

Name of Investee Company	Primary business scope	Ownership	Reason for not consolidating
Chinatrust Securities Investment Consultancy Co., Ltd.	Securities investment and consultancy services	99.40%	The total assets and total operating income of this investee company do not exceed 10% of the Company's respective accounts. Also, the combined total assets and total operating income of this subsidiary and those of other investee companies do not exceed 30% of the Company's respective accounts.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Name of Investee Company	Primary business scope	Ownership	Reason for not consolidating
Chinatrust Forex Corp.	Foreign exchange brokerage	All shares were held by the Chinatrust Commercial Bank, Ltd. and Chinatrust (Philippines) Commercial Bank Corporation	"
GCB Finance (HK) Limited.	Corporate loans	100%	"
Grand Life Insurance Agent Co., Ltd.	Life insurance brokerage	99.62%	"
Grand General Insurance Agent Co., Ltd.	General Insurance brokerage	99.62%	"

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements were prepared in accordance with generally accepted accounting principles of the Republic of China. These significant accounting policies are summarized as follows:

(a) Cash and Cash Equivalents

The compilation of the statements of cash flows is based upon cash and cash equivalents. Cash includes cash on hand, savings accounts, checking accounts, unrestricted time deposits, negotiable time deposits, and cash equivalents. Cash equivalents consist of short-term and highly liquid investments that are readily convertible to known amount of cash with maturities within three months so that the interest rate fluctuations have little effect on their value. Cash equivalents include treasury bills, commercial paper, and banker's acceptances. Cash equivalents of banks are reflected as a separate item on the balance sheet.

(b) Accounts Receivable

For the Company's banking subsidiaries, consumer loans to cardholders are reflected by the amounts reported by merchants, excluding unearned interest, and interest thereon is recognized on accrual basis using the interest method.

Credit card loan or accrued interest that is 6 months past due is reclassified to non-accrual account. Interest collected thereafter is included in earnings only to the extent of cash actually received.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The interest and transaction fee from factoring and management of accounts receivable by the Company's banking subsidiaries are treated as current income. An allowance for credit losses is provided by reviewing the balance of accounts at year-end.

Unpaid accounts receivables purchased from the companies which sell receivables are accounted for under "payables."

(c) Loans

For the Company's subsidiary, Chinatrust Commercial Bank, Ltd., loans are reflected by the amount of principal outstanding, excluding unearned interest, and interest is recognized on accrual basis using the interest method. If either of the following conditions occur, interest accrual is suspended and such loans are reclassified to non-accrual account:

- (i) Collection of principal or interest accrued is considered highly unlikely; or
- (ii) Principal or interest is 6 months past due, or the collateral received is insufficient to cover unpaid principal and accrued interest.

Interest collected thereafter is included in earnings only to the extent of cash actually received.

(d) Allowance for Credit Losses

For the Company's banking subsidiaries, the allowance for credit losses is a significant estimate regularly evaluated by the management for adequacy and is established through a charge to the provision for credit losses. This evaluation considers the quality of overall portfolio, which comprises of loans, accounts receivable, receivable-non-accrual, outstanding guarantees, and review of specific delinquent claims. The risk of specific delinquent claims refers to the likelihood of default and is subject to review using the internal risk ratings. The risk of overall claims is reviewed based on past experiences. Accounts overdue deemed as uncollectible are written off upon approval of the Board of Directors.

(e) Marketable Securities

Under Article 74-1 of the Banking Law, marketable securities, either listed or being traded OTC, are valued at the lower of total cost or market, a practice commonly adopted in the banking industry. In accordance with the SFC regulations, market values are determined by the average closing prices of the last month of the period.

Government bonds and corporate bonds are valued at the lower of total cost or market if market quotes are available; otherwise, are carried at par and adjusted by accumulated amortization of discount or premium. Financial debentures, bank acceptances, commercial paper, treasury bills and purchased negotiable certificates of time deposits are carried at cost. Overseas debt securities are valued at the lower of total cost or market, and redeemable value is adopted if it is lower than market price.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Losses due to market value decline or gains on recovery in market value arising from valuation of marketable securities at the lower of total cost or market are classified as unrealized gains or losses on marketable securities. Gains on short-term notes transactions are accounted for as interest income.

Trading securities are valued at the lower of total cost or market at year-end, with proprietary and underwriting trading valued separately. When the market is lower than cost, an allowance for market decline is provided and is deducted on subsequent market recovery. Such deduction is limited to the extent of allowance provided.

Trading securities which include Repurchase Agreements or have restrictions placed by contracts should be specifically stated.

Securities listed on the Emerging Stock Market are carried at cost.

Hedged positions are valued at lower of total cost or market at year-end according to newly purchased or originally held securities used for hedging purposes. When the market is lower than cost, an allowance for market decline for hedge positions is provided and is deducted on subsequent market recovery. Such deduction is limited to the extent of allowance provided.

Upon sale, the cost of trading securities is calculated by the moving-average method.

(f) Long-Term Equity Investments and Real Estate Investments

Under the Interpretation Letter No. (90) 182 issued by the Accounting Research and Development Foundation of the Republic of China on October 29, 2001, when a financial holding company is established through conversion of shares of a financial institution, the invested capital acquired by the financial holding company is valued on the basis of the difference between the book value of their assets and liabilities. Portion of the investment acquired equal to par value of the shares issued is accounted for as capital stock and that portion exceeding par value is accounted for as capital surplus.

Long-term equity investments are carried at cost. Investments in listed companies with less than 20% ownership are valued at the lower of total cost or market value, and the unrealized losses from the decline in market value below cost is charged against stockholders' equity. Investments in non-listed companies are carried at cost. If the impairment in the value of investment is other than temporary and the recovery of the carrying amount is deemed unlikely, losses on investment is recognized currently.

Affiliates with equity ownership of 20% to 50% are accounted for under the equity method. The Company prepares consolidated financial statements every quarter for majority-owned affiliates, in accordance with the Financial Holding Company Law. However, consolidated statements are not prepared if the total assets and operating revenues of a subsidiary (excluding subsidiary banks and those required by MOF) do not exceed 10% of those of the Company's accounts, and if the combined assets or operating revenues of all of these subsidiaries do not each exceed 30% of those of the Company's accounts.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The moving-average method is adopted in calculating the cost upon the sale of long-term equity investments carried at cost, with gains or losses included in current earnings.

Bond investments are classified as Long-term investments in bonds if the Company has the intention to hold onto the bond investment until the bond matures. On the financial statements, such investments are carried at cost. The difference between the cost of the investment and the face value of the investment is amortized using the effective interest method. The moving-average method is adopted in calculating the cost upon the sale of long-term investments in bonds carried at cost, with gains or losses included in Gains on disposition of long-term investments.

Real estate investments are carried at cost. If the impairment in value is other than temporary such that the recovery of the carrying amount is unlikely, investment losses are recognized currently.

(g) Premises, Equipment, and Depreciation

Premises and equipment are stated at cost or cost plus the incremental value from revaluation. Land is revalued using the government announced prices to adjust the carrying value. Major additions, improvements, and replacements are capitalized, while maintenance and repairs are charged to current earnings. Interest incurred in the acquisition of premises and equipment until they are ready for their intended use are capitalized as part of the acquisition costs. Pursuant to the regulations set forth by the Paraguay government, the local branch revalues its assets monthly based on the government announced revaluation ratio, effective from the second year of the branch's operation.

Depreciation of premises and equipment is provided using the straight-line method over the useful lives of the related assets as stipulated by the government. Premises and equipment still in use after full depreciation are depreciated over their estimated remaining useful lives. The useful lives of major premises and equipment are as follows:

Buildings and premises	5 to 56 years
Transportation equipment	3 to 6 years
Miscellaneous equipment	3 to 10 years

(h) Amortization

Software expenses are amortized over a period of 5 to 10 years.

(i) Intangible Assets

Goodwill resulting from merger is amortized over 5 years using the straight-line method. If goodwill is impaired or its future economic benefit is deemed unlikely, the remaining unamortized balance is written down to its devalued amount and such write down is recognized as non-operating expense.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(j) Foreclosed Properties

Foreclosed properties received are stated at the estimated net realizable value, and any discrepancies from the original claims' nominal value is reflected as credit losses. On the balance sheet date, if foreclosed properties are still unsold, its net realizable value should be reassessed. Should there exist sufficient evidence indicating that the market value is lower than the book value, the difference is recognized as current losses. Gains or losses on disposal of foreclosed properties are reflected under provisions for allowances and reserves as recovery of doubtful accounts.

(k) Convertible Bonds

Due to the inseparability of its conversion option and debt elements, convertible bond is stated at the total proceeds received on issuance day.

The direct and necessary cost of issuing convertible bond is recognized as issue expense and amortized using the straight-line method over the term of the bond or over the period from issuance to expiry of the put option, whichever is shorter. If repayment occurs prior to maturity, then the remaining unamortized issue expense is recognized as current expense in proportion of early redemption.

The redemption premium of puttable convertible bonds, which represents the difference between the specified put price and par value, is amortized using the interest method and is recognized as a liability over the period from the issuance date of the bonds to the expiry date of the put option.

When bondholders exercise their conversion rights, the issuer writes off the unamortized issue costs, redemption premium, and par value of the convertible bonds. The common stock exchange certificate and the common stock are valued at net written-off amount (book value approach). The excess of the net written-off carrying amount over the par value of the common stock exchange certificate or common stock is recognized as additional paid-in capital.

(l) Retirement Plan

Each of the Company's subsidiaries -- Chinatrust Commercial Bank, Ltd., Chinatrust Securities Corp., Ltd. and Chinatrust Bills Finance Corp. maintains a retirement plan covering all regular employees and recognizes pension expense based on the actuarial report. Annual contribution to this interest-bearing pension fund is made at rates ranging within 15% of gross salaries paid. This pension fund is not reflected in the consolidated financial statements.

(m) Bills and Bond Liabilities Sold Under Repurchase Agreements

When bills and bonds sold under repurchase agreements are sold and the benefits and risks are not transferred within the transaction period, then the transaction is treated as a financing transaction. When such bills and bonds are sold, they are recorded at their sales price and reflected under "bills and bond liabilities sold under repurchase agreements." The difference between the sales price and repurchase price is reflected as interest expense.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(n) Guarantee Reserve

Guarantee reserve is provided by evaluating the status of collectibility of the accounts after reviewing the balances of guarantees issued and acceptances receivable at year-end.

(o) Securities Trading Losses Reserve

In compliance with Rules Governing Securities Firms, the Company's subsidiaries provide securities trading losses reserve at the rate of 10% of net gains on trading of operating securities when gains exceeds losses. This reserve is reversed in the month when the losses is realized and an allowance is provided for unrealized gains or losses classified under gains on marketable securities. An allowance is provided until the balance of the reserve reaches \$200,000.

(p) Financial Derivatives

(i) Foreign Exchange Forward Contracts

Foreign-currency-denominated assets and liabilities of foreign exchange forward contracts are recorded in New Taiwan Dollars and translated at exchange rates in effect when the transactions occur. Gains or losses due to exchange rates differences at maturity are included in current earnings. On balance sheet date, unsettled positions are adjusted at forward exchange rate, with differences caused thereby reflected as current exchange gains or losses.

Accounts receivables and payables from forwards offset one another on the balance sheet date with the balance reflected either as asset or liability.

(ii) Non-Delivery Forward (NDF) Contracts

Because there is no physical transfer of principals in non-delivery forward transactions, only memorandum entries of notional principals are made on contract date. On settlement, gains or losses due to differences between the prevailing and contract rates are included in current earnings. Unsettled positions on balance sheet date are adjusted at forward rates for the remaining contract period, with differences recognized as exchange gains or losses.

(iii) Currency Swaps

Memorandum entries of notional principals are made on contract date for foreign currency swaps. On balance sheet date, forward accounts receivables are offset against payables with difference reflected either as an asset or a liability. Interest is accrued on the duration of contracts as receivable or payable for trading swaps. Gains and losses on settlement due to differences in the prevailing rate are included in current earnings. Gains and losses from unsettled positions are computed based on the differences between the contract and forward rates for the remaining contract periods. Interest is accrued on non-trading currency swaps over the period of the contracts. Receivables or payables accrued and the hedged positions are reported as current interest revenue or expense.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(iv) Cross Currency Swaps

Memo entries of notional principals are made on the contract date for cross currency swaps. Forward accounts receivables are offset against payables on balance sheet date with the difference reflected either as an asset or a liability. For trading swaps, gains or losses on derivative instruments arise from the differences between the present and market value of principal and interests in New Taiwan dollars. For non-trading swaps, interest is accrued based on contract terms and principal repayment period, resulting from the realization of either receivables or payables and the hedged positions reported as current interest revenue or expense.

(v) Interest Rate Swaps

Because there is no physical transfer of principal, only memo entries of notional principals are made of interest rate swaps. For trading swaps, the differences between the present and market values of interest receivables or payables arising thereon are reported as gains or losses on derivative instruments. For non-trading swaps, interests receivables or payables on settlement on the balance sheet date and the hedged positions are reported as current interest revenue or expenses.

(vi) Options

Only memo entries of notional principals are made on the contract date for options. Premium collected or paid is reflected as other asset or other liability. Differences in the market value of premium on balance sheet date are reported as gains or losses on derivative instruments. Gains or losses resulting from the exercise of options are recognized currently as transaction gains or losses.

(vii) Forward Interest Rate Agreements (FRA)

Only memo entries of notional principals are made on the contract date for forward interest rate agreements. For trading FRA, differences in the present value of interest revenue or expense resulting from the difference between market interest rate and contract interest rates on the balance sheet date are reported as gains or losses on derivative instruments. For non-trading FRA, interest receivables or payables accrued per contract rates and the hedged positions are reported as current interest revenue or expense.

(viii) Asset-Backed Swaps

Convertible bonds are the underlying assets of asset-backed swaps. The Company swaps the fixed interest rate and difference in redeeming value of the bonds for floating rates at market with counterparties. For trading asset-backed swaps, unrealized gains or losses during the contract period are calculated using standard market pricing models. For non-trading asset-backed swap, interest is accrued using the rates stated on the contract at the appropriate dates stated on the contract.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(q) Foreign Currency Translation

Foreign currency transactions are recorded in their original currency. Foreign exchange gains and losses arising from settlement of foreign-currency-denominated assets and liabilities and adjustments from translating such assets and liabilities at spot rates on balance sheet date are included in current earnings.

Foreign-currency-denominated assets and liabilities of overseas subsidiaries are translated at spot rate on balance sheet date; the components of their stockholders' equity is translated at historical rate except for the beginning balance of retained earnings, for which the spot rate at the beginning of the year is used. Dividends are translated at the exchange rate on the date of declaration. Income statement accounts are translated at the weighted-average rate of the year, with difference reflected as translation adjustments to stockholders' equity.

(r) Commitments and Contingencies

If losses from commitments and contingencies are deemed probable and the amounts thereof can be reasonably estimated, such losses are recognized currently; otherwise only the nature of commitments and contingencies are disclosed in the notes to financial statements.

(s) Income Taxes

The Company adopts the Statement of Financial Accounting Standards ("SFAS") No. 22 "Accounting for Income Taxes" for purposes of making inter- and intra- period income tax allocation, in addition to calculating the current income tax expense (benefit). Furthermore, the income tax effects from taxable temporary differences are recognized as deferred tax liability, while those deductible temporary differences, prior years' losses carry forward benefits, and investment tax credits are accounted for as deferred tax assets but subject to management's judgment that realization is more likely than not.

Adjustments to prior year's income tax expenses are charged against current income tax expense. Investment tax credits are recognized currently. Income taxes separately levied on interest revenue from short-term bills are reported as current income tax expense.

The 10% surtax on undistributed earnings is recorded as current expense on the date when the stockholders resolved not to distribute the earnings.

(t) Treasury Stock

The Company adopts SFAS No. 30 "Accounting for Treasury Stock" to account for repurchase of its outstanding shares, carried at cost. Upon the disposition of this treasury stock, the excess of selling price over its book value is recorded as "capital surplus—treasury stock." If the selling price is lower than book value, the difference is charged against capital surplus from treasury stock in the same category, and any deficit is debited against retained earnings. The book value of treasury stock is separately computed by reasons of purchase and using the weighted-average method.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Upon retirement, the “capital surplus—premium on issuance of capital stock” is debited on a pro rata basis. If the book value exceeds the premium on issuance of capital stock, the difference is offset against “capital surplus—treasury stock” in the same classification, and any deficit is charge against retained earnings. If the book value is lower than the total of capital stock and premium on stock issuance, the difference is credited to “capital surplus—treasury stock” in the same.

The Company treats the treasury stock held by subsidiaries prior to stock conversion as treasury stock and as deduction from stockholders’ equity.

Under the SFC Letter Ruling No. (6) 111467, a financial institution which purchases its treasury stock pursuant to Article 28-2, Paragraph 1 of Securities Trading Law, and it subsequently becomes a subsidiary of a financial holding company through a stock conversion, its treasury stock is converted to shares of the financial holding company in accordance with Article 31 of Financial Holding Company Law. The financial institution shall continue to treat the converted shares as treasury stock and as deduction from stockholders’ equity. The financial holding company shall treat these converted shares as treasury stock.

(u) Earnings per Share

Earnings per share is calculated by dividing the net income after tax, net of preferred stock dividends, by the weighted-average shares outstanding during the period. In the case of capital increase through capitalization of retained earnings, capital surplus, or employee bonus, the number of shares outstanding is retroactively adjusted by the capitalization ratio, regardless of the period when such incremental shares remain outstanding.

(v) Consolidated Debits (Credits)

If it is not possible to analyze the underlying causes of the differences between the amount of original investment and net equity, these differences are reflected as consolidated debits (credits) on consolidation and amortized equally over 20 years.

(3) Reasons for and Effect of Accounting Changes

Effective January 1, 2004, the Company’s subsidiaries, Chinatrust Commercial Bank, Ltd. and Chinatrust Bills Finance Corp. adopted SFAS No. 33 “Accounting for Transfers of Financial Assets and Extinguishments of Liabilities” to treat bills and bonds under repurchase agreements in which no losses of control has occurred as financing transactions instead of sale transactions. According to the above statement, prior to January 1, 2004, recognition and measurement of transfers of financial assets and extinguishments of liabilities are not required to be retroactively adjusted.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(4) CASH AND CASH EQUIVALENTS

	<u>2004.3.31</u>	<u>2003.3.31</u>
Cash on hand	\$ 8,398,164	\$ 4,898,609
Petty cash and revolving fund	9,893	10,518
Checks awaiting clearance	2,566,826	2,041,514
Cash in transit	1,583,045	725,609
Cash equivalents	8,705,042	1,097,583
Cash in bank	1,145,619	1,878,730
Gold and silver	751	-
Due from banks	3,925,981	5,907,574
Total	<u>\$ 26,335,321</u>	<u>\$ 16,560,137</u>

(5) DEPOSITS WITH BANKS

	<u>2004.3.31</u>	<u>2003.3.31</u>
Required reserve - Account A	\$ 10,531,099	\$ 4,010,173
Required reserve - Account B	20,994,448	14,381,999
Required reserve - Foreign currency	750,503	318,421
Deposits with the Central Bank	10,067,807	3,354,889
Call loans to Banks	37,654,770	15,360,120
Total	<u>\$ 79,998,627</u>	<u>\$ 37,425,602</u>

Based on the required ratio for reserve on the average monthly balances of various deposits, the Bank appropriates funds and deposits them with the Central Bank of China. Deposits in “Required reserve - Account A” are interest-free and can be withdrawn any time; interest is accrued on “Required reserve - Account B”, which cannot be withdrawn except for the monthly adjustment to the required reserve.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(6) MARKETABLE SECURITIES

	<u>2004.3.31</u>	<u>2003.3.31</u>
Commercial paper	\$ 12,457,984	\$ 15,183,273
Banker's acceptances purchased	-	-
Negotiable certificates of time deposits purchased	128,705,799	70,366,534
Treasury bills	2,385,432	2,107,213
Government bonds	53,003,715	6,572,186
Corporate bonds	6,764,546	6,667,013
Financial debentures	-	-
Convertible bonds	13,148,443	4,295,857
Investments in Bonds with Resale Agreements	9,110,773	199,353
Other bonds	25,060,502	12,365,239
Debt securities	<u>250,637,194</u>	<u>117,756,668</u>
Listed securities	5,830,120	3,859,794
Beneficiary certificates	12,696,170	2,252,627
Foreign currency funds	2,087,776	13,772,251
Other equity securities	39,140,215	7,871,715
Subtotal	310,391,475	145,513,055
Less: Allowance for market value decline	(386,451)	(1,349,486)
Total	<u><u>\$ 310,005,024</u></u>	<u><u>\$ 144,163,569</u></u>

As of March 31, 2004 and 2003, negotiable certificates of time deposits purchased, government and corporate bonds, financial debentures, other bonds provided by the Bank as deposits to National Credit Card Center of ROC and the courts for provincial seizures, cross currency swaps transactions and daytime overdrafts amounted to \$16,043,100 and \$16,893,900, respectively.

In accordance with the Banking Law and Trust Enterprise Act, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. sets aside 15% to 20% of the average daily balance of the trust funds and deposits it with the Central Bank of China as reserve for indemnity obligation, in the event of non-compliance with the regulations or breach of fiduciary interest. As of March 31, 2004 and 2003, government and corporate bonds provided by the Company's subsidiary, Chinatrust Commercial Bank, Ltd. as reserve amounted to \$50,000 and \$590,000, respectively.

As of March 31, 2004 and 2003, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. sold corporate bonds and government bonds with par value of \$55,001,560 under re-purchase agreement. The amount sold was \$60,582,267 (reflected under bills and bond sold under repurchase agreements) with agreed-upon repurchase amount of \$60,628,781 prior to March 17, 2005.

As of March 31, 2004 and 2003, the Company's subsidiary, Chinatrust Securities Corp., Ltd sold proprietary government bonds, corporate bonds and convertible bonds amounting to \$2,664,000 and \$1,974,000, respectively under repurchase agreement. The amount sold was \$2,967,913 and \$2,162,600 (reflected under bills and bond sold under repurchase agreements), respectively, with agreed-upon repurchase amounts of \$2,969,515 and \$2,168,362, respectively, prior to May 11, 2004 and May 29, 2003.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

As of March 31, 2004, the Company's subsidiary, Chinatrust Bills Finance Corp had repurchase agreement transactions of \$21,538,375 (par value of \$21,569,600.)

(7) RECEIVABLES

	<u>2004.3.31</u>	<u>2003.3.31</u>
Notes receivable	\$ 65,299	\$ 82,019
Accounts receivable	106,300,115	70,152,904
Interest receivable	5,249,285	3,924,515
Acceptances receivable	3,037,464	2,428,354
Accrued income	568,157	744,791
Tax refund receivable	1,234,748	522,530
Other receivables	13,713,590	1,162,113
Accounts receivable-non-accrual account	724,682	775,812
Subtotal	<u>130,893,340</u>	<u>79,793,038</u>
Less: Allowance for credit losses	<u>(2,182,183)</u>	<u>(2,056,055)</u>
Total	<u><u>\$ 128,711,157</u></u>	<u><u>\$ 77,736,983</u></u>

As of March 31, 2004 and 2003, accounts receivable, which included factoring accounts receivable of \$33,063,700 and \$6,229,873, respectively.

The movements in allowance for credit losses were as follows:

<u>For the three months ended March 31, 2004</u>	<u>Inherent risk of overall claims</u>	<u>Default risk of specific claims</u>	<u>Total</u>
Beginning balance	\$ 1,667,444	\$ 647,676	\$ 2,315,120
Current provisions	332,689	540,062	872,751
Current charge-offs	(14,556)	(796,604)	(811,160)
Exchange rate effects	(206,821)	12,293	(194,528)
Ending balance	<u><u>\$ 1,778,756</u></u>	<u><u>\$ 403,427</u></u>	<u><u>\$ 2,182,183</u></u>

<u>For the three months ended March 31, 2003</u>	<u>Inherent risk of overall claims</u>	<u>Default risk of specific claims</u>	<u>Total</u>
Beginning balance	\$ 1,631,771	\$ 670,483	\$ 2,302,254
Current provisions	(4,242)	525,678	521,436
Current charge-offs	(28,062)	(700,961)	(729,023)
Exchange rate effects	(38,612)	-	(38,612)
Ending balance	<u><u>\$ 1,560,855</u></u>	<u><u>\$ 495,200</u></u>	<u><u>\$ 2,056,055</u></u>

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(8) LOANS

	2004.3.31	2003.3.31
Bills purchased	\$ 5,574	\$ 16,260
Corporate loans	253,933,140	208,567,411
Mortgage loans	217,993,295	181,732,388
Automobile loans	9,670,556	7,982,998
Consumer loans	66,901,687	51,568,482
Other loans	1,752,748	2,271,619
NT dollar loans	550,257,000	452,139,158
Foreign currency loans	132,512,470	127,447,353
Non-accrual loans	9,459,466	12,958,315
Subtotal	692,228,936	592,544,826
Less: Allowance for loan losses	(8,899,452)	(9,780,177)
Total	\$ 683,329,484	\$ 582,764,649

Refer to Note 25 for industry information.

As of March 31, 2004 and 2003, non-performing loans of the Company's subsidiary, Chinatrust Commercial Bank, Ltd. were \$11,017,112 and \$13,629,950, respectively.

Accrual of interest has been suspended for accounts receivable-non-accrual account. As of March 31, 2004 and 2003, interest accrued on non-performing loans of the Company's subsidiary, Chinatrust Commercial Bank, Ltd. was \$922,055 and \$785,242, respectively.

As of March 31, 2004 and 2003, no loans of the Company's subsidiary, Chinatrust Commercial Bank, Ltd. were written-off without prior recourse.

The movements in allowance for loan losses are as follows:

For the three months ended March 31, 2004	Inherent risk of overall claims	Default risk of specific claims	Total
Beginning balance	\$ 6,408,905	\$ 3,465,252	\$ 9,874,157
Current provisions	(579,076)	3,926,894	3,347,818
Current charge-offs	(66,618)	(3,450,352)	(3,516,970)
Exchange rate effects	(804,647)	(906)	(805,553)
Ending balance	\$ 4,958,564	\$ 3,940,888	\$ 8,899,452

For the three months ended March 31, 2003	Inherent risk of overall claims	Default risk of specific claims	Total
Beginning balance	\$ 6,408,905	\$ 3,465,252	\$ 9,874,157
Current provisions	833,134	1,385,179	2,218,313
Current charge-offs	(449,392)	(1,685,858)	(2,135,250)
Exchange rate effects	(173,731)	(3,312)	(177,043)
Ending balance	\$ 6,618,916	\$ 3,161,261	\$ 9,780,177

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(9) Long-Term Investments

	2004.03.31		2003.03.31	
	%	Book value	%	Book value
Long-Term Equity Investments				
<u>Accounted for under the cost method</u>				
Listed securities				
(Market value at \$1,672,252 and \$1,032,076 as of March 31, 2004 and 2003, respectively)		\$ 2,372,750		\$ 2,266,463
Less: Allowance for market decline		(700,498)		(1,234,387)
		<u>1,672,252</u>		<u>1,032,076</u>
Taipei Forex Inc.	3.43	6,800	3.03	6,000
Asian Finance and Investment Corp.	8.66	461,037	8.66	461,037
Taiwan Aerospace Corp.	5.00	262,113	5.00	262,113
Pacific Venture Corp.	5.00	30,000	5.00	30,000
Taiwan Futures Exchange Corp.	3.00	27,600	0.87	17,350
Union Service Corp.	5.00	1,250	5.00	1,250
Jupiter Venture Capital Co., Ltd.	5.00	30,000	5.00	30,000
Venus Venture Capital Co., Ltd.	4.72	25,000	4.72	25,000
Mercury Venture Capital Co., Ltd.	5.00	30,000	5.00	30,000
Fu Yu Venture Capital Investment Corp.	3.70	50,000	3.70	50,000
Financial Information Service Co., Ltd.	2.28	91,000	1.14	45,500
Taipei Financial Center Corp.	4.41	785,438	4.41	785,438
KGEx. Com. Corp., Ltd.	5.00	175,000	5.00	175,000
KG Ventures Corp.	5.00	260,000	5.00	260,000
Overseas Investment & Development Corp.	14.90	133,074	14.90	133,074
Taipei Smart Card Corp.	2.25	12,256	2.25	12,256
BankPro E-Service Technology Co., Ltd.	3.33	2,952	-	-
WinPlus Venture Capital Corp.	5.00	25,000	-	-
Investar Capital Corp.	5.00	60,000	-	-
Global Securities Finance Corporation	2.63	173,496	-	-
Taiwan Asset Management Corp.	2.35	400,000	-	-
Taiwan Financial Asset Service Corp.	2.94	50,000	-	-
Debt instrument depository and clearing Co.,Ltd	4.99	140,000	-	-
Philippine Clearing House Corp.	1.79	2,945	1.79	3,255
Banc Net Incorporated	4.35	4,088	4.35	4,518
Kinik Company	0.44	9,900	-	-
Advanced Power Electronics Corp.	1.58	18,400	-	-
Epitech Technology Corp.	2.22	28,654	-	-
Advantage Century Telecommunication Corp.	3.50	42,000	-	-
AMPAK Technology, Inc.	4.21	18,750	-	-
Bcom Electronics Inc.	2.14	45,000	-	-
Boston Life Science Venture Corp.	5.00	100,000	-	-
AXIOMTEK Co., Ltd.	3.57	49,500	-	-
Highlink Technology Corp.	1.13	20,000	-	-
Sunject Components Corp.	8.02	28,800	-	-
Santarus Inc.	0.95	41,463	-	-
Novalux Acquisitin Corp	4.23	32,996	-	-
US GENOMICS INC	1.20	33,020	-	-
New World Technology Fund	4.40	191,516	-	-
See U There Technology Fund	8.80	33,020	-	-
U-System, Inc.	2.00	26,416	-	-
Colony Asia Investors I, L. P.	99.57	3,521,584	-	-
Subtotal		<u>9,152,320</u>		<u>3,363,867</u>
<u>Accounted for under the equity method</u>				
Chinatrust Forex Corp.				
(original investment at PHP 51,045)	100.00	35,411	100.00	37,983
Chinatrust Securities Investment Consultancy Co.,Ltd				
(original investment at \$9,940)	99.40	12,361	99.40	11,654
KGI Securities Investment Trust Corp., Ltd.				
(original investment at \$120,000)	40.00	103,839	40.00	95,389
Grand Bills Finance Corp.				
(original investment at \$1,010,880)	21.15	1,648,957	-	-
GCB Finance (HK) Limited				
(original investment at \$223,050)	100.00	328,629	-	-
Grand Life Insurance Agent Co., Ltd.				
(original investment at \$2,590)	99.62	20,424	-	-
Grand General Insurance Agent Co., Ltd.				
(original investment at \$2,590)	99.62	1,764	-	-
Subtotal		<u>2,151,385</u>		<u>145,026</u>
Prepaid Stock				
BAP Consulting, Inc.	-	295	-	326
Bonds Investments		69,317,749		19,215,824
Real Estate-Land to be Levied by the Government		1,400		8,102
Total		<u>\$ 80,623,149</u>		<u>\$ 22,733,145</u>

Review only, not audited in accordance with general accepted auditing standards.
CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Three Months Ended March 31, 2004 and 2003
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

For the three months ended March 31, 2004 and 2003, investment income (losses) recognized under the equity method were as follows:

	For the three months ended March 31	
	2004	2003
Chinatrust Forex Corp.	\$ 387	\$ 310
Chinatrust Securities Investment Advisory	496	763
KGI Securities Investment Trust Corp., Ltd.	2,111	(4,479)
CTCB (Mauritius) Holding Company Ltd.		-
Grand Bills Finance Corp.	77,421	-
GCB Finance (HK) Limited	2,448	-
Grand Life Insurance Agent Co., Ltd.	(214)	-
Grand General Insurance Agent Co., Ltd.	(204)	-
Total	\$ 82,445	\$ (3,406)

(10) OTHER FINANCIAL ASSETS

	2004.3.31	2003.3.31
Short-term advances	\$ 829,600	\$ 1,720,406
Refundable deposits, net	11,801,555	8,382,170
Certificates of time deposits pledged	244,000	220,000
Financial derivatives assets	8,598,346	1,830,332
Other	297,155	34,463
Total	\$ 21,770,656	\$ 12,187,371

The certificates of time deposits above were used as guarantee with bond dealers, underwriters and debts.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(11) PREMISES AND EQUIPMENT

2004.3.31	Cost	Revaluation Appreciation	Total	Accumulated Depreciation	Net
Land	\$ 18,790,650	\$ 67,974	\$ 18,858,624	\$ -	\$ 18,858,624
Buildings	14,202,635	38,708	14,241,343	3,682,545	10,558,798
Transportation equipment	110,444	737	111,181	55,359	55,822
Miscellaneous equipment	10,002,583	9,087	10,011,670	5,743,103	4,268,567
Construction in progress	719,124	-	719,124	-	719,124
Prepayment for equipment	63,596	-	63,596	-	63,596
Total	\$ 43,889,032	\$ 116,506	\$ 44,005,538	\$ 9,481,007	\$ 34,524,531

2003.3.31	Cost	Revaluation Appreciation	Total	Accumulated Depreciation	Net
Land	\$ 14,342,046	\$ 67,762	\$ 14,409,808	\$ -	\$ 14,409,808
Buildings	12,792,712	38,183	12,830,895	2,713,575	10,117,320
Transportation equipment	92,990	690	93,680	57,402	36,278
Miscellaneous equipment	7,435,932	8,442	7,444,374	3,925,613	3,518,761
Construction in progress	79,315	-	79,315	-	79,315
Prepayment for equipment	101,665	-	101,665	-	101,665
Total	\$ 34,844,660	\$ 115,077	\$ 34,959,737	\$ 6,696,590	\$ 28,263,147

As of March 31, 2004 and 2003, the total amount of insurance coverage for the premises and equipment referred to above amounted to \$18,060,217 and \$13,800,039, respectively.

The depreciable assets of the Company's subsidiary, Chinatrust Commercial Bank, Ltd. were revalued on December 31, 1974 and December 31, 1980, resulting in total appreciation of \$13,510 and \$53,123, respectively. In addition, land was revalued based on government announced value on September 30, 1987, resulting in land appreciation of \$77,519. Pursuant to regulations in Paraguay, the Paraguay Branch revalues its assets monthly based on the announced revaluation ratio by the Paraguay government, effective the second year of operation. As of March 31, 2004 and 2003, the reserve for asset revaluation appreciation amounted to PYG 3,063,212 (approximately \$22,636) and PYG2,910,093 (approximately \$22,045), respectively.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(12) OTHER ASSETS

	<u>2004.3.31</u>	<u>2003.3.31</u>
Prepayments	\$ 2,104,565	\$ 1,624,028
Deferred charges	1,767,092	1,959,047
Foreclosed properties received	5,098,034	2,324,506
Allowance for market value decline on foreclosed properties received	(1,071,218)	(456,500)
Deferred income tax assets, net	1,613,646	338,669
Consolidated debits	210,087	224,132
Other	1,956,892	2,967,500
Total	<u>\$ 11,679,098</u>	<u>\$ 8,981,382</u>

Please refer to Note 20 for further information on “deferred income tax assets, net.”

(13) SHORT-TERM BORROWINGS

	<u>2004.3.31</u>	<u>2003.3.31</u>
Short-term borrowings	\$ 8,614,297	\$ 5,610,000
Bills and Bonds sold under repurchase agreement	116,781,576	2,162,600
Commercial paper payable	2,096,116	500,000
Total	<u>\$ 127,491,989</u>	<u>\$ 8,272,600</u>

(14) PAYABLES

	<u>2004.3.31</u>	<u>2003.3.31</u>
Accounts payable	\$ 10,376,742	\$ 3,000,213
Accrued expense	2,913,550	2,471,923
Income tax payable	1,620,183	2,198,015
Interest payable	4,271,485	4,349,697
Acceptance draft	3,072,337	2,465,172
Collection payable	1,111,640	708,068
Tax payable	163,401	142,241
Dividend and bonus payable	106,518	99,121
Checks awaiting clearance	2,428,355	1,833,921
Other payables	3,126,302	1,804,610
Total	<u>\$ 29,190,513</u>	<u>\$ 19,072,981</u>

As of March 31, 2004 and 2003, accounts payable included factoring accounts receivable of \$9,766,651 and \$2,269,363, respectively.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(15) DEPOSITS AND REMITTANCES

	<u>2004.3.31</u>	<u>2003.3.31</u>
NT\$ Deposits		
Checking accounts	\$ 6,646,645	\$ 4,357,908
Demand deposits		
Demand deposits	49,049,527	25,323,942
Demand saving deposits	243,286,595	155,991,635
Other	1,996,122	895,756
	<u>294,332,244</u>	<u>182,211,333</u>
Time deposits		
Time deposits	162,913,098	92,492,495
Time saving deposits	234,097,904	205,039,815
Negotiable certificates of time deposits	12,433,100	5,690,000
Deposits at interest from postal deposits	43,850,564	36,484,390
Other	18,453,889	21,445,387
	<u>471,748,555</u>	<u>361,152,087</u>
Total NT\$ Deposits	<u>772,727,444</u>	<u>547,721,328</u>
Foreign currency deposits	186,384,908	176,940,488
Time Trust funds	-	3,364,426
Remittances under Custody	67,541	79,837
Remittances Outstanding	268,397	220,673
Total	<u><u>\$ 959,448,290</u></u>	<u><u>\$ 728,326,752</u></u>

Time trust funds were special-purpose trust funds carried over from the Company's subsidiary, Chinatrust Commercial Bank, Ltd., when it was still a trust company in 1992 and prior year. The Bank guarantees full repayment of principal and minimum yield upon maturity. Pursuant to the enactment of the Trust Enterprise Law on July 19, 2000, the trust fund should be phased out within 3 years. The Bank has phased out these funds.

(16) CORPORATE BONDS AND FINANCIAL DEBENTURES

	<u>2004.3.31</u>	<u>2003.3.31</u>
Corporate bonds	\$ 37,653,298	\$ 15,328,237
Financial debentures	21,300,000	10,000,000
Total	<u><u>\$ 58,953,298</u></u>	<u><u>\$ 25,328,237</u></u>

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(a) Corporate bonds

In 2002, the Company issued overseas unsecured convertible bonds with maturity period of 5 years. The terms of issue were as follow:

	<u>2004.3.31</u>	<u>2003.3.31</u>
Original issue size(US\$400,000)	\$ 13,452,400	\$ 13,452,400
Converted amount(US\$1,000 and US\$0 for the three months ended March 31, 2004 and 2003)	(33,631)	-
Redemption premium payable(US\$29,628 and US\$12,323 for the three months ended March 31, 2004 and 2003)	978,318	428,237
Exchange loss (gain)	(243,789)	447,600
Ending balance	<u>\$ 14,153,298</u>	<u>\$ 14,328,237</u>

(i) Issue Date:

July 8, 2002

(ii) Place of issue:

Luxembourg Stock Exchange

(iii) Size:

USD 400 million.

(iv) Duration:

Five years, from July 8, 2002 to July 8, 2007

(v) Coupon rate:

0% per annum.

(vi) Repayment of principal:

Unless previously redeemed, converted into common shares, or resold to the Company, the bonds will be redeemed on maturity (July 8, 2007) according to par value plus yield rate at maturity.

(vii) Conversion period and underlying asset:

From August 7, 2002 to July 1, 2007, bondholders can elect to have bonds converted into common stock or Global Depository Shares.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(viii) Conversion price and adjustment:

The initial conversion price is \$37.16 per common share. The applicable conversion price is subject to adjustment for, among other things, subdivision or consolidation of common shares, rights issues, cash or common share dividends and reorganization and other dilutive events. (The price is adjusted downward but not upward.). From August 27, 2003, the conversion price was adjusted to \$32.269.

(ix) Resale rights of the bondholders.

The bondholders have the right to require the Company to repurchase the bonds at face value with a gross compound yield of 4.17% per annum (calculated on a semi-annual basis) if any of the following events occur:

- i) Unless the bonds have been previously redeemed, repurchased and cancelled, or converted, the bondholders have the right to require the Company to repurchase all or part of the bonds on July 8, 2005.
- ii) If at any time the common shares of the Company are officially delisted from the Taiwan Stock Exchange for a period exceeding 5 consecutive trading days.
- iii) If at any time a change of control occurs with respect to the Company.

(x) The Company's rights to repurchase the bond:

The Company may, at face value with a gross compound yield of 4.17% per annum (calculated on a semi-annual basis), repurchase the bonds if any of the following events occur:

- i) On or at any time after July 8, 2005, if the closing price of the common shares of the Company on Taiwan Stock Exchange for 30 consecutive trading days is at least 130.00% of the conversion price.
- ii) At any time, if the principal amount of the bonds outstanding is equal to or less than 10.00% of the original aggregate principal amount of bonds.
- iii) If as a result of certain changes in ROC laws or regulations occurring after the issuing date, the Company becomes obligated to pay additional tax amounts.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

In 2003, the Company issued unsecured subordinated bonds (first and second issue). The terms of issue were as follows:

Type of bond issued	First issue of unsecured subordinated bonds	Second issue of unsecured subordinated bonds
Issue date	April 7, 2003	From June 24, 2003 to June 27, 2003
Size	\$ 5,000,000	\$ 3,000,000
Coupon rate	There are 12 categories of bonds. For the first year, the coupon rate is 3%. Starting from the second year, the coupon rate ranges from 4.0000% - 6 Month Libor to 4.0011% - 6 Month Libor. The above coupon rates are subject to a minimum of 0%.	There are 3 categories of bonds. The coupon rate for category A is 1.5%. Simple interest is accrued annually. The coupon rate for category B is 1.4944%. Compound interest is accrued semi-annually. The coupon rate for category C is 1.4916%. Compound interest is accrued quarterly. All interest for bonds totaling \$1,000 is computed to the unit's digit and decimals are rounded up.
Maturity date	April 7, 2010	From June 24, 2008 to June 27, 2008
Repayment method	The principal of all bonds is repayable at maturity.	The principal of all bonds is repayable at maturity.

In 2003, the Company issued unsecured subordinated bonds (third issue). The terms of issue were as follows:

Type of bond issued	Third issue of unsecured subordinated bonds
Issue date	October 13, 2003 to October 22, 2003
Size	\$11,000,000
Coupon rate	There are 15 categories of bonds. Categories A to G: If the 6 Month LIBOR is below 0.60%, then the coupon rate is 6 Month LIBOR + 0.0001% to 0.0007%. If the 6 Month LIBOR is between 0.60% and 2.50%, then the coupon rate is 5.50%. If the 6 Month LIBOR exceeds 2.50%, then the coupon rate is 6.55% - 6 Month LIBOR and subject to a minimum of 0%. Categories H to O: 120 basic point above the fixed rate of the USD 6-month LIBOR as it appears on Moneyline Telerate page 6165 at 11 am London time. The annual interest rates for categories H to O are adjusted every 3 months. If the date of adjustment is a non-business day in the location of payment, then the interest rates are adjusted on the following business day.
Maturity date	October 13, 2010 to October 22, 2010
Repayment method	The principal of all bonds is repayable at maturity.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

In 2004, the Company issued unsecured subordinated bonds (first issue). The terms of issue were as follows:

Type of bond issued	First issue of unsecured subordinated bonds
Issue date	March 3, 2004
Size	\$2,000,000
Coupon rate	There are 8 categories of bonds. Categories A to B: If the USD 6 Month LIBOR is below 1.05%, then the coupon rate is USD 6 Month LIBOR to USD 6 Month LIBOR + 0.01%. If the USD 6 Month LIBOR equal to or exceeds 1.05%, then the coupon rate is 5.00% - USD 6 Month LIBOR to 5.0001% - USD 6 Month LIBOR and subject to a minimum of 0%. Categories C to H: If the USD 6 Month LIBOR is below 1.10%, then the coupon rate is USD 6 Month LIBOR to USD 6 Month LIBOR + 0.05%. If the USD 6 Month LIBOR is between 1.10% and 2.00%, then the coupon rate is 3.80% to 3.8005%. If the USD 6 Month LIBOR exceeds 2.00%, then the coupon rate is 4.7995% - USD 6 Month LIBOR to 4.80% - USD 6 Month LIBOR and subject to a minimum of 0%.
Maturity date	March 3, 2009
Repayment method	The principal of all bonds is repayable at maturity.

The Company's subsidiary Chinatrust Bills Finance Corp. issued domestic secured bonds in 2002. The terms of issue were as follows:

	First issue of secured subordinated bonds	Second issue of secured subordinated bonds
Issue date	July 19, 2002	December 23, 2002
Size	\$500,000	\$500,000
Coupon rate	2.91%	1.82%
Maturity date	July 19, 2005	December 23, 2005
Collateral	Time deposits and corporate bonds	Time deposits
Repayment method	The principal of all bonds is repayable at maturity.	The principal of all bonds is repayable at maturity.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The Company's subsidiary Chinatrust Bills Finance Corp. first issued domestic unsecured subordinated bonds in 2004. The terms of issue were as follows:

	First issue of unsecured subordinated bonds
Issue date	March 15 to March 22, 2004
Size	\$1,500,000
Coupon rate	There are 6 categories of bonds. Categories A to F: If the 6 Month LIBOR is below 1.10%, then the coupon rate is 6 Month LIBOR. If the 6 Month LIBOR is between 1.10% and 2.10%, then the coupon rate is 3.00%. If the 6 Month LIBOR exceeds 2.10%, then the coupon rate is 5.0000% - 6 Month LIBOR to 5.0005% - 6 Month LIBOR and subject to a minimum of 0%.
Maturity date	March 15, 2009 to March 22, 2009
Repayment method	The principal of all bonds is repayable at maturity.

(b) Financial debentures

In September 2001, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. issued subordinate financial debentures totaling \$10,000,000 with maturity period of 10 years. Interest is paid annually at the rate of 3.85% per annum. If the redemption right is not exercised within 5 years after the initial issue, the interest rate increases to 4.6% per annum.

In September 2003, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. issued unsecured subordinated financial debentures (first issue) totaling \$5,000,000, with maturity period of 7 years. Interest is paid annually and the rate is 80 basis points above the floating rate for a two-year time deposit with the Bank of Taiwan. Simple interest is accrued and repayment of principal occurs at maturity.

On October 13, 2003, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. issued unsecured subordinated financial debentures (second and third issue) totaling \$4,000,000, with maturity period of 7 years. Interest is paid annually and payment of principal occurs at maturity.

On October 28, 2003, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. issued unsecured subordinated financial debentures (fourth issue) totaling \$300,000, with maturity period of 5 years. Interest is paid semi-annually and payment of principal occurs at maturity.

Due to the Bank's acquisition of Grand Commercial Bank, the Bank assumed unsecured subordinated financial debentures totaling \$2,000,000 previously issued on June 12, 2003, with maturity period of 5 years. These debentures bear annual interest rate of 2.5%. Interest is paid semi-annually and payment of principal occurs at maturity.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(17) REFINANCING FROM THE CENTRAL BANK AND OTHER BANKS

	2004.3.31	2003.3.31
Refinancing from the Central Bank	\$ 20,922,897	\$ 12,961,750
Refinancing from other banks	5,371,610	2,203,150
Total	\$ 26,294,507	\$ 15,164,900

(a) Refinancing from the Central Bank

As of March 31, 2004, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. borrowed US\$630,000 from the Central Bank in order to facilitate business expansion of its overseas subsidiaries. This loan bears interest at annual rate of 1.05~1.17%. Interest is payable at maturity date of August 27, 2004.

(b) Refinancing from other banks

As of March 31, 2004, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. borrowed US\$18,000 from other banks with annual rate of 2.66% to 2.96%. Interest is payable at the maturity date of June 14, 2004.

(18) RETIREMENT PLAN

The Company's subsidiary, Chinatrust Commercial Bank, Ltd. maintains a retirement plan covering all regular employees. Lump-sum pension payment is calculated based on the employee's years of service and salary of the last month prior to retirement, with a maximum benefit of 61 months' salary. Chinatrust Commercial Bank, Ltd. contributes 2% of employees gross salary to the pension fund on a monthly basis. Chinatrust Commercial Bank, Ltd. also set up a Workers' Retirement Reserve Fund Supervisory Committee on May 31, 2000 and deposits 15% of paid gross monthly salary to a designated account with the Central Trust of China.

As of March 31, 2004 and 2003, balance of the pension fund of the Company's subsidiary, Chinatrust Commercial Bank amounted to \$3,512,765 and \$2,860,959, respectively.

The Company's subsidiary, Chinatrust Securities Corp., Ltd. also maintains a retirement plan covering all regular employees. Pension payment is calculated based on the employee's years of service and average salary of the last six months prior to retirement.

As of March 31, 2004 and 2003, the balance of the pension fund of the Company's subsidiary, Chinatrust Securities Corp., Ltd. amounted to \$17,978 and \$13,234, respectively.

The Company's subsidiary, Chinatrust Bills Finance Corp. maintains a retirement plan covering all regular employees. Under this plan, pension payment is made as follows:

- (a) For employees hired after March 1, 1998, pension benefit is paid in accordance with the Labor Standards Law.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (b) For employees hired prior to February 28, 1998, one month's salary is granted for half year of service prior to February 28, 1998 up to the 15th year, and additional one month salary thereafter. Pension payment for service years after March 1, 1998 is granted in accordance with the above mentioned regulation. The maximum benefit is 61 months salary.

As of March 31, 2004 and 2003, the balance of pension fund of the Company's subsidiary, Chinatrust Bills Finance Corp. amounted to \$29,469 and \$26,036, respectively.

(19) STOCK OPTION PLAN

On January 3, 2002, the Company's subsidiary, Chinatrust Commercial Bank, Ltd., granted 65,000 units of stock option to its employees, and each unit of stock option is endowed with the right to purchase 1,000 common shares of the Chinatrust Commercial Bank, Ltd. As the shares of Chinatrust Commercial Bank, Ltd. were converted to the shares of the Company on May 17, 2002, the employees of this bank are now endowed with the right to purchase 1,000 common shares of the Company. After the 2nd anniversary of stock option grant, its holder may exercise the right to purchase the Company's common stock at \$21.1 dollars per share. If there is any change in the structure of the Company's common stock, the exercise price will change accordingly. As of March 31, 2004, the adjusted exercise price was \$17.3.

The change of stock option plan as follow:

	For the three months ended March 31, 2004
Options outstanding, beginning of the period	\$ 65,000
Options granted	-
Options exercised	(38,962)
Options outstanding, end of the period	\$ 26,038

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(20) INCOME TAXES

The income tax expense and related accounts for the three months ended March 31, 2004 and 2003 were as follows:

	For the three months ended March 31	
	2004	2003
Current income tax payable	\$ 1,876,706	\$ 627,773
Add (less): Tax effect due to temporary differences		
Difference in Allowance for credit losses		
for financial and tax purposes	278	67,410
Difference in Pension provision		
for financial and tax purposes	(3,582)	5,895
Net unrealized gain (loss) on exchange and financial derivatives	(273,009)	329,490
Net gain on foreign investment recognized under the equity method	1,376	100,915
Allowance for market value decline on assumed collateral	17,892	-
Amortization of goodwill	35,502	-
Others	(576,451)	(49,786)
Income tax separately levied	72,187	89,728
Under-accrual of prior year's income tax	-	-
Reversal of prior years' recognition of bond prehand interest	14,392	-
10% surtax on undistributed earnings	-	30,830
Income tax benefit resulting from joint filing of taxes	(94,612)	-
Income tax expense	\$ 1,070,679	\$ 1,202,255

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	<u>2004.03.31</u>	<u>2003.03.31</u>
Temporary differences which result in deferred income tax assets or liabilities		
Deductible temporary difference due to allowance for market decline on assumed collateral	\$ 1,062,141	\$ -
Deductible temporary difference due to allowance for doubtful accounts in excess of tax-allowable limit	45,656	669,974
Deductible temporary difference due to provision for cumulative translation adjustments	1,891,455	1,111,167
Taxable temporary difference due to gain on investment recognized under the equity method	(3,031,991)	(3,394,597)
Deductible (taxable) temporary difference due to unrealized loss (gain) on foreign exchange and financial derivatives transactions	187,807	(270,084)
Deductible temporary difference due to amortization of goodwill	2,730,735	-
Deductible temporary differences for other reasons	3,568,782	3,238,765
Total	<u>\$ 6,454,585</u>	<u>\$ 1,355,225</u>

	<u>2004.03.31</u>	<u>2003.03.31</u>
Deferred income tax assets	\$ 2,371,644	\$ 820,959
Deferred income tax liabilities	(757,998)	(482,290)
Net deferred income tax assets	<u>\$ 1,613,646</u>	<u>\$ 338,669</u>

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The status of the local tax office's assessments of the Company's income tax return and those of its subsidiaries were as follows:

	Year of Assessment	Pending Assessments
Chinatrust Commercial Bank, Ltd.	Prior to 2001	It was assessed that the Bank should pay additional tax of \$584,670 for the years 1994 to 2001. The Company's subsidiary, Chinatrust Commercial Bank, Ltd. has filed for administrative relief. Accounting treatment has been completed to comply to the agreement between the Bankers Association of the Republic of China and National Tax Administration, with 65% of income tax refunded. Additional tax amounts paid for bond prehand interest for the years 2001 and 2002 have been estimated and recognized.
Chinatrust Securities Corp., Ltd.	Prior to 2001	Additional tax of \$11,944 due to excessive tax refund collected from bond-interest withheld in 1997, 2000, and 2001 and entertainment expenses over-limit of \$4,648 were assessed. The subsidiary has filed for administrative relief. Accounting treatment has been completed to comply to the agreement between Chinese Securities Association and National Tax Administration, with 60% of income tax refunded.
Chinatrust Insurance Brokers Corp., Ltd.	Prior to 2001	None.
Chinatrust Bill Finance Corp.	Prior to 2000	Additional tax of \$214,134 due to excessive tax refund collected from bond-interest withheld in 1996 and 1999 and \$37,962 tax effect due to loss on short-term bills was assessed. The subsidiary has filed for administrative relief. The Taipei High Court ruled in favor of the Company for the tax return for 1997. All other tax returns are still being reviewed by the Tax Authority.

(21) IMPUTATION CREDIT ACCOUNT

As of March 31, 2004, balance of stockholders' imputation tax credit account amounted to \$459,714. The Bank estimated that the tax deductible ratio to 2003 earnings distribution for ROC residents was approximately 15.96%.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(22) STOCKHOLDERS' EQUITY

(a) Capital Stock

The Company converted shares with Chinatrust Commercial Bank, Ltd. on May 17, 2002. The conversion ratio was 1:1 and only shares were converted. The Company planned to convert 4,605,426,788 shares of common stock and 250,000,000 shares of preferred stock. Shares were issued with a par value of \$10 per share.

In August 2000, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. issued preferred shares at \$40 per share, totaling \$10,000,000, with a term of 6 years. The preferred cash dividend is payable on a lump sum basis at 6.12% per annum. In the event of no earnings or insufficient earnings, dividends are distributed once there is a sufficient amount of earnings. Holders of preferred stock are not allowed to participate in the distribution of earnings for cash and capitalization of earnings and capital surplus. During common shareholders' meetings, preferred shareholders are not granted the right to vote on issues nor the right to vote for election of officers but are granted the right to be elected as members of the board of directors and supervisors. The Company acquired the above preferred stock of its subsidiary after converting its preferred stock under similar terms and conditions.

On June 6, 2003, the Company's stockholders resolved to capitalize the Company's undistributed earnings of \$439,338 and the undistributed earnings of Chinatrust Commercial Bank, Ltd. before the stock conversion, which amounted to \$4,393,387 and was accounted for under the Company's capital surplus. The outstanding capital increased to \$4,393,387 following after the capital increase totaled \$53,386,993.

On August 20, 2003, the Company's shareholders resolved to acquire Grand Commercial Bank through a stock conversion on September 30, 2003. Each share of the common stock of Grand Commercial Bank was exchanged for 0.633 shares of the Company's preferred stock and 0.254 shares of the Company's common stock. The Company issued 1,015,542,920 shares of Series B preferred stock with par value of \$10 and 407,500,634 shares of common stock with par value \$10 to acquire full ownership of Grand Commercial Bank. Following the stock conversion, Grand Commercial Bank became a wholly owned subsidiary of the Company. All Series B preferred shares have been retired and change in registration is still being processed.

In 2004, corporate bonds converted to common stock totaled 1,042,206 shares with premium transferred to capital surplus (including bond issue costs) of \$25,023.

As of March 31, 2004, the Company's paid-in capital on common stock was \$54,972,422, preferred stock was \$2,500,000, and authorized capital was \$100,000,000.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Capital Surplus

Capital surplus consisted of the following:

	<u>2004.03.31</u>	<u>2003.03.31</u>
Additional paid-in capital - common stock	\$ 24,609,571	\$ 23,025,860
Additional paid-in capital - preferred stock	7,500,000	7,500,000
Assets revaluation appreciation - subsidiary	5,355	4,764
Total	<u>\$ 32,114,926</u>	<u>\$ 30,530,624</u>

Under the Company Law, capital surplus is used exclusively to offset cumulative losses when legal reserve is not sufficient to offset losses or to increase capital pursuant to Article 241, Paragraph 1 of Company Law. Furthermore, Article 8 of Securities Exchange Law Implementation Rules requires that the amount of additional paid-in capital used to increase capital shall not exceed 10% of total paid-in capital. The capital surplus arising from a capital increase can be capitalized only

in the following fiscal year after being registered by the company with the competent authority for approval.

Under the Financial Holding Company Law, the unappropriated earnings of financial institutions which are converted into financial holding companies, are accounted for as capital surplus of the financial holding companies but are not subject to restriction under Article 241, Paragraph 1 of the Company Law.

Based on the SFC Letter Ruling No. (1) 005946, the unappropriated earnings of financial institutions which are converted into financial holding companies, are accounted for as capital surplus of the financial holding companies pursuant to Article 47, Paragraph 4 of Financial Holding Company Law and Article 41, Paragraph 2 of Securities Exchange Law. Article 232, Paragraph 1 of the Company Law and Article 41, Paragraph 2 of Securities Exchange Law require that capital surplus shall be used to offset against cumulative losses before it can be used to increase capital. The amount of capital surplus used to increase capital is not subject to restriction under Article 41, Paragraph 2 of Securities Exchange Law and Article 8 of Securities Exchange Law Implementation Rule.

Pursuant to Letter Ruling No. (90) 182 of the Accounting Research and Development Foundation of the Republic of China dated October 29, 2001, additional paid-in capital of \$30,896,474 was recognized from the stock conversion between the Company and Chinatrust Commercial Bank, Ltd.

As of March 31, 2004, the unappropriated earnings of \$753,523 of Chinatrust Commercial Bank, Ltd. before the stock conversion were accounted for in the Company's books as capital surplus.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(c) Earnings Distribution and Dividend Policy

	<u>2004.03.31</u>	<u>2003.03.31</u>
Undistributed earnings as of January 1	\$ 7,746,609	\$ 6,577,241
Earnings distribution:		
Recognition of subsidiaries' accumulated deficit	(289,732)	(106,228)
Effect of restructuring on long-term investments	163,923	-
Sale of treasury stock	(58,895)	-
Net income	4,538,055	3,528,292
Undistributed earnings as of March 31	<u>\$ 12,099,960</u>	<u>\$ 9,999,305</u>

The Company adopted the residual dividend policy to maintain on-going expansion, profit growth, and conform to related regulations. In consideration of the Company's operating plan, stock dividends are distributed in order to retain essential earnings for funding needs, and the remainder is distributed as cash dividends. Cash dividends shall not be less than 10% of total dividends. No cash dividend is distributed if it is less than \$0.1. The board of directors may adjust the earnings distribution upon approval of a resolution approved by the shareholders during their meeting.

After-tax earnings, if any, are used to pay for taxes, offset cumulative losses, appropriate legal reserve and special reserve. Then, preferred stock dividends are distributed prior to the other distribution of the remaining earnings. The total amount for the distribution of employee bonus is based on rates ranging from 0.01% and 0.05%. The total amount for the remuneration to directors and supervisors is determined at the rate of 4% and any adjustments thereon are made in accordance with the resolution approved by the shareholders during their meeting.

Distributions of employees bonus and actual earnings as discussed above are subject to resolutions by the board of directors. If new shares are issued for employees bonus, the employees of the Company's subsidiaries may receive the shares in compliance with the Company Law. The board of directors will decide on the terms and conditions of the issuance of such shares.

The proposal for the distribution of earnings in 2003 has yet to be presented in the shareholders' meeting. The information regarding earnings distribution can be found on the market observation post system after the related meetings are held.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(23) TREASURY STOCK

(a) Common stock

share data in thousands

<u>Reason for repurchase</u>	<u>Beginning of the Period</u>	<u>Current Increase</u>	<u>Current Decrease</u>	<u>End of the Period</u>
Held by the Company:				
Transferred to employees	18,985	-	(7,310)	11,675
Held by the subsidiaries:				
Transferred to employees	94,504	-	(10,548)	83,956
Issuance of stock option	87,420	-	(38,962)	48,458
Total	<u>200,909</u>	<u>-</u>	<u>(56,820)</u>	<u>144,089</u>

- (i) Under the Securities Exchange Law, a company's repurchase of treasury stock shall not exceed 10% of total issued and outstanding shares, and the acquisition amount shall not exceed the sum of retained earnings, stock issuance premium, and realized capital surplus. The maximum purchasable amount of treasury stock was \$36,428,173 with September 30, 2003 as the measurement date.
- (ii) For the three months ended March 31, 2004, the maximum number of treasury stock held was 200,909,000 shares which were valued at \$4,439,539, in compliance with the Securities Exchange Law.
- (iii) In accordance with the Securities Exchange Law, treasury stocks held by the company and its subsidiary cannot be pledged. Furthermore, these shares are not granted with shareholders' rights prior to transfer.
- (iv) Chinatrust Commercial Bank, Ltd. owns shares of the Company amounting to \$2,938,773. Pursuant to Letter Ruling No. 0920004165, shares that are not adjusted within 3 years are considered as non-issued shares and should be cancelled
- (v) As of March 31, 2004, the Company's shares have a market price of \$39.5 per share.

(b) Preferred stock

For the three months ended March 31, 2004, 1,015,542,920 shares of Series B preferred stock worth \$10,155,429 were redeemed. As of March 31, 2004, the Company redeemed and retired all Series B preferred stock and is applying for the relevant registration change.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(24) EARNINGS PER SHARE

	For The Three Months Ended March 31, 2004	
	Before Tax	After Tax
Basic EPS		
Consolidated net income	\$ 5,608,734	\$ 4,538,055
Preferred stock dividends	(153,000)	(153,000)
Consolidated net income available to common shareholders	5,455,734	4,385,055
Weighted-average common shares outstanding, in thousands	5,334,015	5,334,015
Basic EPS	\$ 1.02	\$ 0.82
Diluted EPS		
Consolidated net income	\$ 5,608,734	\$ 4,538,055
Preferred stock dividends	(153,000)	(153,000)
Influence on potentially dilutive shares:		
Convertible bonds	146,105	109,579
Net income used to calculate diluted EPS	\$ 5,601,839	\$ 4,494,634
Weighted-average common shares outstanding, in thousands	5,334,015	5,334,015
Influence on potentially dilutive shares:		
Stock warrants	20,127	20,127
Convertible bonds	416,536	416,536
thousands	\$ 5,770,678	\$ 5,770,678
Diluted EPS	\$ 0.97	\$ 0.78

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	For The Three Months Ended March 31, 2003	
	Before Tax	After Tax
Basic EPS		
Consolidated net income	\$ 4,730,547	\$ 3,528,292
Preferred stock dividends	(153,000)	(153,000)
Net income available to common shareholders	4,577,547	3,375,292
Weighted-average common shares outstanding, in thousands	4,389,728	4,389,728
Weighted-average common shares outstanding, in thousands	4,872,598	4,872,598
Basic EPS	\$ 1.04	\$ 0.77
Basic EPS- retroactively adjusted	\$ 0.94	\$ 0.69
Diluted EPS		
Consolidated net income	\$ 4,730,547	\$ 3,528,292
Preferred stock dividends	(153,000)	(153,000)
Influence on potentially dilutive shares:		
Convertible bonds	146,347	109,761
Net income used to calculate diluted EPS	\$ 4,723,894	\$ 3,485,053
Weighted-average common shares outstanding, in thousands	4,389,728	4,389,728
Weighted-average common shares outstanding, in thousands	4,872,598	4,872,598
Influence on potentially dilutive shares:		
Stock warrants	17,663	17,663
Convertible bonds	362,024	362,024
Stock warrants- retroactively adjusted	26,188	26,188
Convertible bonds- retroactively adjusted	416,883	416,883
Weighted-average common shares outstanding used to calculate diluted EPS	4,769,415	4,769,415
Weighted-average common shares outstanding used to calculate diluted EPS-retroactively adjusted	5,315,669	5,315,669
Diluted EPS	\$ 0.99	\$ 0.73
Diluted EPS- retroactively adjusted	\$ 0.89	\$ 0.66

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(25) FINANCIAL INSTRUMENTS

(a) Financial derivatives

The Company's foreign currency swaps transactions, cross currency swaps to hedge foreign exchange risk and interest rate swaps to hedge fluctuations in market interest rates for New Taiwan Dollar-denominated bonds were as follows:

(i) Contract Amount or Nominal Principal and Credit Risk

	2004.03.31	
Financial Instruments	Contract Amount (nominal principal)	Credit Risk
Non-trading		
Currency swaps	\$ 5,499,570	\$ -
Cross currency swaps	6,290,310	-
Interest rate swaps	9,000,000	111,408

	2004.03.31	
Financial Instruments	Contract Amount (nominal principal)	Credit Risk
Non-trading		
Currency swaps	\$ 3,475,000	\$ -
Cross currency swaps	4,517,500	196,705

The amount of credit risk is the sum of contracts with positive fair market value on the balance sheet date, and represents the Company's possible losses in the event of default by counterparties. The counterparties are mostly reputable financial institutions with good credit ratings. As a result, the management deems the possibility of default was low.

(ii) Market Risk

The Company engages in foreign currency swaps and cross currency swaps with fixed interest rates and therefore, the market risk resulting from interest rates fluctuation is minimal. Interest rates swaps for which the Company had entered into have a hedging characteristic, whereby the gains or losses resulting from changes in interest rates are offset by gains or losses on the hedged items. Therefore, market risk is not significant. Any market risk that the Company is subject to is offset by exchange gains on hedged foreign-denominated claims and obligations.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(iii) Liquidity Risk, Cash Flow Risk and Amount, Period and Uncertainty of Future Demand for Cash

The Company entered into cross currency swaps and currency swaps transactions that have corresponding incoming and outgoing cash flow at maturity. Because the exchange rates of these swaps are fixed, there are minimal liquidity risk and cash flow risk.

The Company entered into interest rate swap transactions. On settlement date, the Company collects or pays interest calculated by multiplying the notional principal by the differences in interest rates. The amounts are insignificant because there are no incoming and outgoing cash flow of principal at maturity. Therefore, there is no additional demand for cash.

(iv) Type, Purpose and Strategy of financial derivatives held by the Company

The Company entered into foreign currency swaps and cross currency swaps to hedge risk from potential fluctuations in exchange rates on foreign-denominated obligations. Also, it entered into interest rate swaps to hedge the risk of interest rate fluctuations on New Taiwan Dollars-denominated obligations. The Company periodically evaluates the fair value of financial derivatives, which have movements opposite with fair values of hedged items.

(v) Fair Value of Financial Instruments

Financial Assets	2004.03.31	
	Book value	Fair value
Non-trading		
Currency swaps	\$ (54,364)	\$ (111,105)
Cross currency swaps	(142,265)	(145,599)
Interest rate swaps	66,184	62,457
Financial Assets	2003.03.31	
	Book value	Fair value
Non-trading		
Currency swaps	\$ 2,900	\$ (150)
Cross currency swaps	155,838	196,705

The Company is engaged in derivative financial instruments for hedging purposes. The fair value of financial derivatives have movements opposite with fair values of hedged items.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) **Fair Value of Non-Derivative Financial Instruments of the Company and subsidiaries are as follows:**

<u>Non-Derivative Financial Instruments</u>	2004.03.31	
	<u>Book Value</u>	<u>Fair Value</u>
Financial Assets:		
Book value equal to fair value	\$ 1,241,254,768	\$ 1,241,254,768
Long-term investments	80,623,149	79,986,783
Total	<u><u>\$ 1,321,877,917</u></u>	<u><u>\$ 1,321,241,551</u></u>
Financial Liabilities:		
Book value equal to fair value	<u><u>\$ 1,271,884,142</u></u>	<u><u>\$ 1,271,884,142</u></u>
<u>Non-Derivative Financial Instruments</u>	2003.03.31	
	<u>Book Value</u>	<u>Fair Value</u>
Financial Assets:		
Book value equal to fair value	\$ 887,796,508	\$ 887,796,508
Long-term investments	22,733,145	22,237,710
Total	<u><u>\$ 910,529,653</u></u>	<u><u>\$ 910,034,218</u></u>
Financial Liabilities:		
Book value equal to fair value	<u><u>\$ 840,378,796</u></u>	<u><u>\$ 840,378,796</u></u>

The methods and assumptions used by the Company in evaluating its financial instruments were as follows:

- (i) Fair value of short-term financial instruments is estimated by their book value on balance sheet date. Because the maturity period for this type of financial instrument is short, its book value serves as a reasonable basis for estimating the fair value. Such instruments include cash and cash equivalents, notes and accounts receivable, notes and accounts payable, and call loans from and due to banks.
- (ii) For marketable securities, market prices, if available are used as basis for determining the fair value. If market prices are unavailable, financial or other information is used to estimate their fair values.
- (iii) Fair value of long-term liabilities is estimated by present value of expected cash flows. Discount rate is based on rates of equivalent loans available elsewhere; that is, loans with similar maturity date and terms.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(c) **Financial derivatives of the Company's subsidiary, Chinatrust Commercial Bank, Ltd.**

(i) Contract Amount or Notional Principal and Credit Risk

Financial Instruments	2004.03.31	
	Contract Amount (Notional Principal)	Credit Risk
Trading purpose		
Foreign exchange forward contracts	\$ 40,487,381	\$ 207,105
Forward interest rate agreements	500,000	-
Non-delivery forward contracts	70,764,864	180,214
Currency swaps	454,433,688	473,286
Cross currency swaps	92,294,402	557,064
Interest rate swaps	439,277,143	4,813,832
Options	469,792,299	5,067,209
Asset-backed swaps	24,490,934	1,508,563
Credit default swaps	4,443,420	519,231
Non-Trading purpose		
Non-delivery forward contracts	528,800	4,244
Cross currency swaps	2,866,580	-
Interest rate swaps	20,531,682	63,612
Asset-backed swaps	18,024,654	433,344

Financial Instruments	2003.03.31	
	Contract Amount (Notional Principal)	Credit Risk
Trading purpose		
Foreign exchange forward contracts	\$ 70,366,953	\$ 7,193,574
Forward interest rate agreements	6,475,000	1,002
Non-delivery forward contracts	14,633,162	10,488
Currency swaps	15,769,302	8,010
Cross currency swaps	74,417,765	767,259
Interest rate swaps	192,484,077	4,255,229
Options	264,430,473	2,922,249
Non-Trading purpose		
Foreign exchange forward contracts	48,016	8,163
Currency swaps	8,006,953	57,048
Cross currency swaps	2,838,000	4,911
Interest rate swaps	9,617,881	42,949
Asset - backed swaps	4,018,625	-

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Credit risk pertains to contracts with positive fair value on balance sheet date, that represent potential losses for the Chinatrust Commercial Bank, Ltd. in the event of non-performance by counterparties to contracts on financial instruments. However, if the party to a transaction is a client of Chinatrust Commercial Bank, Ltd., procedures for credit evaluation and authorization are performed and transactions are confined within lines of credit granted. If deemed necessary, Chinatrust Commercial Bank, Ltd. also requests for sufficient collaterals from counterparties. If a party to a transaction is a financial institution, credit lines are provided according to its worldwide ranking and credit rating, and transactions are limited therein. Therefore, Chinatrust Commercial Bank, Ltd. deems the likelihood of default as fairly remote.

(ii) Market Risk

<u>Interest rate sensitivity</u>	<u>Currency</u>	<u>2004.03.31</u>	<u>2003.03.31</u>
	NTD	\$ 1,534	\$ (264)
	USD	(234)	838
	JPY	(29)	(132)
	Other	13	91
<u>Exchange rate sensitivity</u>		154,231	261,000

Chinatrust Commercial Bank, Ltd. estimates market risk by interest rate and exchange rate sensitivity.

Interest rate sensitivity indicates the impact of a 0.01% parallel downward movement in the term structure of interest rate on the present value of cash flows of derivative transactions on the balance sheet date. (Present value one-basis-point, PVBP).

Exchange rate sensitivity is the impact of a one-basis-point (0.001) appreciation in U.S. dollars relative to New Taiwan dollars on foreign currency positions.

In addition to managing financial derivative positions (including forward forex, NDF, and exchange rate options), Chinatrust Commercial Bank, Ltd. administers and manages exchange rate risk by integrating the risks of hedging spot positions of foreign currencies.

Approval of the market risk limit is based on earnings target, trader experience, market volatility, and Chinatrust Commercial Bank, Ltd.'s aggregate risk tolerance. Chinatrust Commercial Bank, Ltd. calculates and manages the market risk limit on a daily basis such that the risk is within the Chinatrust Commercial Bank, Ltd.'s control.

Non-trading financial derivatives held by Chinatrust Commercial Bank, Ltd. are for hedging. Because the gains or losses from interest rate or exchange rate fluctuations largely offset those of hedged items, market risk is fairly low.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(iii) Liquidity Risk and Cash Flow Risk

Since notional principals of financial derivatives are used mainly to calculate payables or receivables of parties to transactions, rather than the amounts actually paid or cash demand, settlement amounts are generally lower than notional principals. Financial derivatives held by Chinatrust Commercial Bank, Ltd. are denominated in actively traded major currencies with reverse transactions readily available to offset positions, and therefore liquidity risk is deemed low. Chinatrust Commercial Bank, Ltd. manages future cash demand by evaluating market prices periodically, and therefore cash flow risk is also low.

(iv) Net Gains or Losses from Current Trading

Net gains or losses from current trading activities are reported net gains or losses on financial derivatives, and are summarized below:

	For the three months ended March 31,	
	2004	2003
Interest rate contracts	\$ 1,047,498	\$ 124,186
Foreign exchange contracts	395,080	107,497
Equity contracts	(4,531)	182,480
Net gains	\$ 1,438,047	\$ 414,163

Since exchange rate derivatives are hedged by spot exchange contracts, therefore net gains for all contracts includes gains on spot positions.

(v) Non-Trading Financial Derivatives

Non-trading financial derivatives are applied primarily to hedge against exchange and interest rate risks from Chinatrust Commercial Bank, Ltd.'s foreign-denominated assets and liabilities.

Non-trading financial derivatives held or issued by Chinatrust Commercial Bank, Ltd. are accounted for by the accrual basis with receivables or payables caused thereby recorded as interest income or expense.

Chinatrust Commercial Bank, Ltd. does not have any committed or uncommitted forecasted transactions.

Valuation methods to establish fair value of trading or non-trading financial derivatives held or issued by Chinatrust Commercial Bank, Ltd. are the same, except that market prices of non-trading derivatives are for reference purposes only and are not recorded.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(vi) Fair Value of Financial Instruments

Financial Assets	2004.03.31	
	Book Value	Fair Value
Financial assets : trading purpose		
Interest rate swaps (IRS)	\$ 514,268	\$ 514,268
Currency swaps	(42,597)	(42,597)
Cross currency swaps	(862,438)	(862,438)
Forward interest rate agreements (FRAs)	(1,670)	(1,670)
Non-delivery forward contracts (NDF)	42,729	47,729
Foreign exchange forward contracts	(576,104)	(576,104)
Options	(351,383)	(351,383)
Asset-backed swaps	(189,362)	(189,362)
Credit default swaps	519,231	519,231
Financial assets : non-trading purpose		
Interest rate swaps (IRS)	254,501	(277,893)
Cross currency swaps	(71,371)	(105,931)
Non-delivery forward contracts (NDF)	22,565	22,565
Asset-backed swaps	38,354	297,065

Financial Assets	2003.03.31	
	Book Value	Fair Value
Financial assets : trading purpose		
Interest rate swaps (IRS)	\$ (216,733)	\$ (216,733)
Currency swaps	4,839	4,839
Cross currency swaps	(1,329,946)	(1,329,946)
Forward interest rate agreements (FRAs)	(334)	(334)
Non-delivery forward contracts (NDF)	(20,188)	(20,188)
Foreign exchange forward contracts	376,491	376,491
Options	554,337	554,337
Financial assets : non-trading purpose		
Interest rate swaps (IRS)	91,141	(56,673)
Cross currency swaps	(68,527)	(166,174)
Currency swaps	55,977	51,232
Foreign exchange forward contracts	40,816	8,163
Asset-backed swaps	4,018,625	-

Fair value of financial derivatives is established by the amount of cash to be paid or to be received, assuming that the contract will be terminated on balance sheet date. In general, it includes unrealized gains or losses on outstanding contracts of the current period. There are reference reports from financial institutions for most of the Bank's financial derivatives.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(d) Off-Balance-Sheet Credit Risk of the Company's subsidiary, Chinatrust Commercial Bank, Ltd.

Since Chinatrust Commercial Bank, Ltd. provides loans and issues credit cards, it has substantial credit commitments with most of credit commitments confined within one year. Further more, the Bank provides guarantee endorsements and commercial letters of credit as guarantee for clients' obligations to third parties (included in loan commitments).

Contract amounts of financial instruments with off-balance-sheet credit risk were as follows:

	<u>2004.03.31</u>	<u>2003.3.31</u>
Unused lines of credit	\$ 724,963,392	\$ 574,166,739
Credit card commitments	393,031,469	301,788,197
	<u>\$ 1,117,994,861</u>	<u>\$ 875,954,936</u>

As of March 31, 2004 and 2003, un-cancelable credit limits of unused credit facilities amounted to \$20,263,844 and \$28,457,693, respectively.

Since such financial instruments are not settled prior to maturity, contract amount does not represent cash outflow in the future; that is, demand for cash in the future is lower than the contract amount. If lines of credit are reached and collateral or other guarantees are completely written off, credit risk is equivalent to contract amount, which is the maximum possible losses to Chinatrust Commercial Bank, Ltd. However, prior to providing loans, guarantee endorsements, and commercial letters of credit, Chinatrust Commercial Bank, Ltd. performs strict credit review and grants appropriate lines of credit based upon review results.

Collateral is not required in credit card commitments, yet Chinatrust Commercial Bank, Ltd. periodically evaluates credit rating of cardholders and adjusts cardholders' credit limits if necessary.

(e) Concentration Risk of the Company's subsidiary, Chinatrust Commercial Bank, Ltd.

Concentrations of credit risk exist as there is only one party to transaction of financial instruments, or a number of counterparties engaging in similar activities are located in the same region or share other similar economic characteristics that would induce their ability to meet obligations to be similarly affected by changes in economic or other conditions.

There is no concentration of credit risk in terms of a single client, a party to transaction, or clients being in one single industry, except for clients being located in nearby regions with similar economic characteristics. Contracts with concentration of credit risk of Chinatrust Commercial Bank, Ltd. were as follows:

<u>By Industry</u>	<u>2004.03.31</u>	<u>2003.03.31</u>
Individuals	\$ 307,550,362	\$ 251,189,449
Manufacturing industry	99,237,719	82,484,260
Public Sector	47,761,601	40,648,324
Financial industry	36,910,425	31,675,322

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(f) Financial derivatives of the Company's subsidiary, Chinatrust Securities Corp., Ltd.

(i) Contract Amount and Credit Risk

Financial Instrument	2004.03.31	
	Contract Amount	Credit Risk
Trading		
Stock warrants	\$ 463,600	\$ -
Taix futures	475,244	-
Taix index options purchased	19,478	-
Taix index options sold	22,474	-

Financial Instrument	2003.03.31	
	Contract Amount	Credit Risk
Trading		
Stock warrants	\$ 224,200	\$ -

Chinatrust Securities Corp., Ltd. collects premium from investors prior to issuing stock warrants, and therefore, does not assume any credit risk.

Taix futures and Taix index options are purchased and sold through Taiwan Futures Exchange and therefore there is no significant credit risk.

(ii) Market Risk

Market risk of stock warrants issued arise from changes in prices of the underlying securities, and therefore market risk can be hedged by adjusting stock warrants and their corresponding hedged items.

Market risk of Taix futures and Taix index options arises from the purchase and sell of futures and options. Every future and option has a fair value, and stop-losses points are established in order to manage risk. Losses is within prediction, and therefore there is no significant market risk.

(iii) Liquidity Risk, Cash Flow Risk and Amount, Period, and Uncertainty of Future Demand for Cash

Chinatrust Securities Corp., Ltd. establishes hedging positions by collecting premium and providing additional funds prior to the issue of stock warrants which are based on the underlying securities. Furthermore, since the underlying securities meet market price and diversification requirements, the risk of not being able to sell the securities at reasonable prices is low, and therefore liquidity risk is low. The only risk arises when there is need to adjust hedged positions due to changes in the price of securities. However, under the assumption of market liquidity, cash flow risk is low.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Chinatrust Securities Corp., Ltd. deposits margins when entering into Taiex index futures contracts and Taiex index options contracts. Due to fluctuations in market price, additional margin may be required to be deposited during margin calls. Chinatrust Securities Corp., Ltd. has sufficient operating funds to provide additional deposits for margin. As a result, there is no liquidity risk, cash flow risk, or significant cash demand.

Stock warrants expire one year from the issue date. Except for cash flows from hedging transactions, there is no additional cash demand.

- (iv) Type, Purpose and Strategy of financial derivatives held by the Company's subsidiary, Chinatrust Securities Corp., Ltd.:

Non-trading marketable securities hedging positions are used to hedge the risk resulting from investors' exercising of stock warrants issued and changes in stock warrant positions. Chinatrust Securities Corp., Ltd's strategy is to hedge most of the market risk. Financial derivatives exhibiting highly positive correlation with the fair values of hedged items are used as hedging instruments and evaluated periodically.

Chinatrust Securities Corp., Ltd. issues stock warrants and transacts in Taiex futures and Taiex index options for trading purposes.

- (v) Presentation of financial derivatives

Margins of stock index futures are included in current assets as futures margin – proprietary fund, and the settlement difference is reported as current gains or losses. For the three months ended March 31, 2004 and 2003, losses on futures amounted to \$28,681 and \$685. As of March 31, 2004 and 2003, futures margin – proprietary fund amounted to \$197,797 and \$0. For the three months ended March 31, 2004, losses on Taiex index options amounted to \$48,901.

Chinatrust Securities Corp., Ltd. began to issue stock warrants in 2002. For the three months ended March 31, 2004 and 2003, relevant transaction from issuing stock warrants, its presentation and valuation, and gains or losses on sale, are reflected as follows:

- i) Gains (losses) on valuation

	For the three months ended March 31,		Account
	2004	2003	
Stock warrants issued	\$ (21,598)	\$ 97,700	Gains (losses) on stock warrants
Stock warrants issued and repurchased	56,896	(4,710)	Gains (losses) on stock warrants issued
Marketable securities - hedging	1,746	(23,679)	Recovery (decline) in the market value of marketable securities

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

ii) Gains (losses) on sale

	For the three months ended March 31,		Account
	2004	2003	
Marketable securities-hedging	\$ 46,340	\$ (1,714)	Gains (Losses) on sale of securities - hedging
Stock warrants issued and repurchased	(30,027)	(38,233)	Losses on stock warrants issued

iii) Gains due to the exercise of options prior to maturity

	For the three months ended March 31,		Account
	2004	2003	
Stock warrants issued	\$ 10,914	\$ -	Gains on stock warrants issued

iv) Gains (losses) on maturity

	For the three months ended March 31,		Account
	2004	2003	
Stock warrants issued	\$ 169,852	\$ -	Gains on stock warrants issued
Stock warrants issued and repurchased	(154,826)	-	Losses on stock warrants issued

v) Deferred losses for stock warrants

	For the three months ended March 31,		Account
	2004	2003	
Deferred losses for stock warrants	\$ 47,971	\$ -	Deferred losses for stock warrants

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(vi) Fair Value of Derivative Financial Instruments

		2004.03.31	
Financial Assets	Book Value	Fair Value	
Trading			
Taiex index options	\$ 28,552	\$ 28,552	
Non-trading			
Marketable securities - hedging	765,873	814,086	
	\$ 794,425	\$ 842,638	
Financial Liabilities			
Trading			
Stock warrants issued	\$ 388,500	\$ 388,500	
Stock warrants issued and repurchased	(229,231)	(229,231)	
Taiex index options	15,701	15,701	
	\$ 174,970	\$ 174,970	
		2003.03.31	
Financial Assets	Book Value	Fair Value	
Non-trading			
Marketable securities - hedging	\$ 257,509	\$ 257,509	
Financial Liabilities			
Trading			
Stock warrants issued	\$ 50,000	\$ 50,000	
Stock warrants issued and repurchased	(10,801)	(10,801)	
Total	\$ 39,199	\$ 39,199	

Market prices are the fair values of stock warrants issued and repurchased. For other derivative financial instruments, the fair value is the estimated amount received or paid assuming if the contract were terminated on the balance sheet date. These generally consist of current unrealized gains or losses from unsettled contracts.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(g) Chinatrust Bills Finance Corp.

Fair Value of Derivative Financial Instruments

Chinatrust Bills Finance Corp. engages in non-hedging interest rate swaps in order to increase the manipulation of financial instruments and to increase returns. Hedging interest rate swaps are used primarily to hedge fluctuations in the interest rates for New Taiwan Dollar-denominated liabilities. Related information is as follows:

(i) Contract amount or Notional Principal and Credit Risk

<u>Financial Instrument</u>	<u>2004.03.31</u>		
	<u>Notional Principal</u>	<u>Credit Risk</u>	<u>Fair Value</u>
Trading			
Interest rate swaps	\$ 300,000	\$ -	\$ (1,018)
Non-trading			
Interest rate swaps	1,500,000	-	(2,124)

Credit risk pertains to contracts with positive fair value on balance sheet date, that represent potential losses for the Chinatrust Bills Finance Corp. in the event of non-performance by counterparties to contracts on financial instruments. However, if the party to a transaction is a client of Chinatrust Bills Finance Corp., procedures for credit evaluation and authorization are performed and transactions are confined within lines of credit granted. If deemed necessary, Chinatrust Bills Finance Corp. also requests for sufficient collaterals from counterparties. If a party to a transaction is a financial institution, credit lines are provided according to its worldwide ranking and credit rating, and transactions are limited therein. Therefore, Chinatrust Bills Finance Corp. deems the likelihood of default as fairly remote.

(ii) Market Risk

Non-trading financial derivatives held by Chinatrust Bills Finance Corp. are for hedging. Because the gains or losses from interest rate fluctuations largely offset those of hedged items, market risk is fairly low.

Trading financial derivatives held by Chinatrust Bills Finance Corp. each has fair market value. The amount of risk assumed is minimized in order to manage risk. Losses are within prediction, and therefore there is no significant market risk.

(iii) Liquidity Risk and Cash Flow Risk

Since notional principals of financial derivatives are used mainly to calculate payables or receivables of parties to transactions, rather than the amounts actually paid or cash demand, settlement amounts are generally lower than notional principals. Financial derivatives held by Chinatrust Bills Finance Corp. are actively traded with reverse transactions readily available to offset positions, and therefore liquidity risk is deemed low. Chinatrust Bills Finance Corp. manages future cash demand by evaluating future cash flows periodically, and therefore cash flow risk is also low.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(iv) Net Gains or Losses from Current Trading

Net gains or losses from current trading activities are reported net gains or losses on financial derivatives, and are summarized below:

	For the three months ended	
	March 31,2004	
Interest rate contracts		
Interest income	\$	715
Interest expense		(1,018)
	\$	(303)

(v) Non-Trading Financial Derivatives

Non-trading financial derivatives are applied primarily to hedge against interest rate risks from NT Dollar denominated liabilities.

Non-trading financial derivatives are accounted for by the accrual basis with receivables or payables caused thereby recorded as interest income or expense.

Chinatrust Bills Finance Corp. does not have any committed or uncommitted forecasted transactions.

Valuation methods to establish fair value of trading or non-trading financial derivatives held or issued by Chinatrust Bills Finance Corp. are the same, except that market prices of non-trading derivatives are for reference purposes only and are not recorded.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(26) RELATED PARTY TRANSACTIONS

(a) Name of Related Party and Relationship with the Company

<u>Name of related parties</u>	<u>Relationship with the Company</u>
Chinatrust Forex Corporation	An investee company carried under equity method.
Chinatrust Securities Investment Consultancy Corp.,Ltd.	"
KGI Securities Investment Trust Corp.Ltd	"
Grand Bills Financial Corporation	"
GCB Finance (HK) Limited	"
Grand Life Insurance Agent Co., Ltd.	"
Grand General Insurance Agent Co., Ltd.	"
KGI Securities Co., Ltd.	An immediate family member of the Chairman of the Company is its President
National Credit Card Center of R.O.C.	Same Chairman
Chinatrust Cultural Foundation	"
Overseas Investment & Development Co., Ltd.	"
Rong-Shing Cultural Foundation	"
Taiwan Institute of Economic Research	"
Taifex Taiwan Futures Exchange	The Chairman is its director
Koo Foundation, Sun Yat-Sen Cancer Center	"
Chinatrust Investment Co., Ltd.	"
Sunghung Investment Co., Ltd.	"
Taiwan Polypropylene Co., Ltd.	"
United Design&Publications Inc.	"
China Life Insurance Co.,Ltd	Related party
United Advertising Co.	An immediate family member of the President of the Bank is its director
Other related parties	Including supervisors, managers and their families, spouses .

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Significant Transactions with Related Parties

(i) Rental Revenue

For the three months ended March 31, 2004 and 2003, rental revenue of the Company's subsidiary, Chinatrust Commercial Bank received from related parties for the rental of buildings and parking spaces amounted to \$4,099 and \$2,009, or 18.48% and 5.82%, respectively, of total rental revenue.

(ii) Commissions and Service Fees

For the three months ended March 31, 2004 and 2003, commissions and service fees of the Company's subsidiary, Chinatrust Commercial Bank paid to the National Credit Card Center of R.O.C. amounted to \$40,069 and \$32,566, or 29.42% and 15.06%, respectively, of total commissions and fees paid.

(iii) Site Usage Fee

For the three months ended March 31, 2004 and 2003, site usage fee and other related expenses for operations amounting to \$38,205 and \$24,778, respectively, of the Company's subsidiary, Chinatrust Commercial Bank were paid to KGI Securities Co., Ltd.

(iv) Loans

The Company's subsidiary, Chinatrust Commercial Bank, Ltd.:

	For the three months ended March 31, 2004				
	Date of Maximum Balance	Maximum Balance	Ending Balance	Range of Rate	Interest Income
Koo Foundation Sun Yat Sen Cancer Center	2004.01.27	\$ 1,270,400	\$ 1,241,400	2.85~3.60%	\$ 17,205
Chinatrust Investment Co., Ltd.	2004.02.25	447,000	447,000	2.75~3.50%	6,246
KGI Securities Co., Ltd.	2004.01.30	126,246	107,900	1.61~1.64%	247
United Advertising Co.	2004.01.01	318,890	170,000	2.00~3.50%	4,855
United Design&Publications Inc.	2004.01.01	173,631	173,631	4.90%	3,772
Sunghung Investment Co., Ltd.	2004.01.01	176,000	176,000	3.73%	2,953
Others		472,936	386,580		4,426
Total		\$ 2,985,103	\$ 2,702,511		\$ 39,704

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

For the three months ended March 31, 2003					
	Date of Maximum Balance	Maximum Balance	Ending Balance	Range of Rate	Interest Income
Koo Fundation Sun Yat Sen Cancer Center	2003.01.24	\$ 1,662,000	\$ 1,604,136	3.73~5.25%	\$ 17,321
Chinatrust Investment Co., Ltd.	2003.02.25	155,000	155,000	5.25~10.20%	1,559
Others		79,298	58,099		601
Total		\$ 1,896,298	\$ 1,817,235		\$ 19,481

Interest rates of loans to related parties are the same as those with other parties.

(v) Deposits

The Company's subsidiary, Chinatrust Commercial Bank, Ltd.:

For the three months ended March 31, 2004				
	Maximum Balance	Ending Balance	Interest Rate	Interest Expense
China Life Insurance Co.,Ltd	\$2,567,664	\$ 813,722	0~1.30%	\$ 1,727
Taifex Taiwan Futures Exchange	1,112,523	1,071,627	0.10~1.30%	4,283
Overseas Investment & Development Co., Ltd.	107,716	102,667	0~1.30%	327
National Credit Card Center of R.O.C.	915,971	785,442	0~0.20%	1,513
KGI Securities Co., Ltd.	1,472,161	1,316,732	0~0.1%	2,910
KGI Securities Investment Trust Corp.Ltd	119,829	107,532	0~1.30%	759
Taiwan Polypropylene Co., Ltd.	328,469	319,583	0~1.85%	323
Others	2,943,951	1,640,276		6,122
Total	\$9,568,284	\$6,157,581		\$17,964

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	For the three months ended March 31, 2003			
	Maximum Balance	Ending Balance	Interest Rate	Interest Expense
Overseas Investment & Development Co., Ltd.	\$ 263,159	\$ 145,593	0~5.00%	\$ 736
National Credit Card Center of R.O.C.	983,505	472,875	0~4.40%	2,299
KGI Securities Co., Ltd.	990,283	887,339	0~5.10%	3,967
Others	1,534,312	1,035,870		3,307
Total	\$3,771,259	\$2,541,677		\$10,309

Interest rates of deposits by related parties are the same as those with other parties.

(vi) Other

For the three months ended March 31, 2004 and 2003, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. traded securities through KGI Securities Co., Ltd. and commissions paid amounted to \$263 and \$23, respectively.

For the three months ended March 31, 2004 and 2003, government bonds and short-term bills purchased from KGI Securities Co., Ltd. by Chinatrust Commercial Bank, Ltd. amounted to \$0 and \$3,983,155, respectively. For the three months ended March 31, 2004 and 2003, government bonds and short-term bills sold to KGI Securities Co., Ltd. by the bank amounted to \$0 and \$6,074,385, respectively.

For the three months ended March 31, 2004 and 2003, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. sold 49,510,000 and 15,337,000 treasury shares to its employees for \$817,884 and 277,226 with a cost of \$943,693 and \$382,159. The difference between the price and cost amounted to \$125,809 and \$104,933 were reflected as a deduction to undistributed earnings.

For the three months ended March 31, 2004 and 2003, the Company's subsidiary, Chinatrust Insurance Brokers Corp., Ltd. received commission income from China Life Insurance Co., Ltd. amounting to \$437,536 and \$282,080, respectively.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(c) **Transaction information regarding related parties acting as borrower, guarantor, and collateral provider for the Company's subsidiary, Chinatrust Commercial Bank, Ltd.**

2004.03.31			
Category	Number of	Ending Balance	Possible losses
Consumer loans	20	\$ 6,608	None
Mortgage loans	171	345,517	None
Credit transactions in which related parties act as borrower	775	7,346,116	None
Credit transactions in which related parties act as guarantor	2	221,000	None
Credit transactions in which related parties act as collateral	636	5,441,113	None

2003.03.31			
Category	Number of	Ending Balance	Possible losses
Consumer loans	12	\$ 5,753	None
Mortgage loans	145	303,627	None
Credit transactions in which related parties act as borrower	797	8,633,182	None
Credit transactions in which related parties act as guarantor	15	439,284	None
Credit transactions in which related parties act as collateral	575	6,576,644	None

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(27) PLEDGED ASSETS

Pledged assets of the Company and subsidiaries are as follows:

<u>Asset</u>	<u>2004.03.31</u>	<u>2003.3.31</u>	<u>Collateral</u>
Chinatrust Financial Holding Company, Ltd.			
Government bonds	\$ 1,267,377	\$ -	Collateral for loans and limits on financial transactions
NCD	1,200,000	-	"
Chinatrust Commercial Bank, Ltd.			
Time deposits	120,000	120,000	Margins for underwriters
NCD	14,900,000	16,100,000	Daytime drafts and Court
Government and other bonds	1,143,100	793,900	"
Government and corporate bonds	50,000	590,000	Trust fund reserves
Chinatrust Securities Corp., Ltd.			
Time deposits(reflected under restricted assets)	124,000	100,000	Pledged as collateral for loans or restricted assets
Trading securities-proprietary	25,646	-	"
Trading securities-underwriting	-	439,655	"
Land	149,676	181,515	"
Buildings at book value	115,808	142,189	"
Guarantee deposited for business operations	280,000	225,000	"
Settlement funds	92,825	78,624	"
Refundable deposits	212,277	95,285	"
Leased assets at net book value	48,589	-	"
Chinatrust Bills Finance Co., Ltd.			
Government bonds	-	156,044	Bank loans and litigation
Time deposits	6,909,500	6,949,500	Real-time gross settlement and collateral for loans
Court deposits	12,500	5,500	Litigation deposits
Corporate bonds	158,229	199,573	Short-term borrowings and collateral for corporate bonds
Total	<u>\$ 26,809,527</u>	<u>\$ 26,176,785</u>	

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(28) SIGNIFICANT COMMITMENTS AND CONTINGENCIES

	2004.03.31	2003.03.31
<u>Chinatrust Financial Holding Company, Ltd.</u>		
Collateral for short-term borrowings and commercial paper	\$ 3,400,000	\$ -
<u>Subsidiary - Chinatrust Commercial Bank, Ltd.</u>		
Contingent liabilities from guarantees and letter of credit	90,813,066	77,901,195
Commercial paper to the Central Bank for banks' clearance	6,872,100	6,772,100
Client notes in custody	137,968,774	98,955,719
Receivables for other banks from syndicated loans	38,613,655	29,527,304
Marketable securities in custody	792,276,608	535,248,410
Travellers' cheques in custody available for sale	681,940	587,842
Special-purpose trust accounts	207,245,046	99,758,702
<u>Subsidiary - Chinatrust Securities Corp., Ltd.</u>		
Promissory notes	10,000	10,000
Estimated rent for the next three years	45,571	52,439
Unpaid portion of signed contracts	600,000	-
<u>Subsidiary - Chinatrust Bills Finance Corp.</u>		
Guarantee for commercial paper	16,079,100	15,848,500
Bonds and bills sold under repurchase agreements	-	46,664,420
Bonds and bills purchased under resale agreements	-	916,081
Estimated rent for the next three years	4,185	10,903
	\$ 1,294,610,045	\$ 912,253,615

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(29) OTHER

- (a) As of March 31, 2004 and 2003, the maturity periods of the assets and liabilities of the Company's subsidiary, Chinatrust Commercial Bank, Ltd. were analyzed as follows:

	2004.03.31			
	Within 6 months	Between 6 months and 1 year	Over 1 year	Total
Assets				
Call loans to banks	\$ 1,248,547	\$ 990,000	\$ 832,117	\$ 3,070,664
Due from banks	37,406,436	-	-	37,406,436
Deposits with the Central Bank	9,074,000	700,000	31,660,594	41,434,594
Bills and securities purchased (Note 1)	119,809,837	60,906,700	43,785,253	224,501,790
Foreign currency purchased, discounts, and loans (Note 2)	536,585,218	30,101,155	66,782,001	633,468,374
Liabilities				
Due to Central Bank and other	\$ 52,017,195	\$ 84,344	\$ 12,291,262	\$ 64,392,801
Deposits and remittances	751,756,324	119,389,355	39,299,645	910,445,324
Refinancing from Central Bank and other banks	21,396,960	-	-	21,396,960
Financial debentures payable	-	-	21,300,000	21,300,000

	2004.03.31			
	Within 6 months	Between 6 months and 1 year	Over 1 year	Total
Assets				
Call loans to banks	\$ 882,570	\$ -	\$ 1,744,906	\$ 2,627,476
Due from banks	15,360,120	-	-	15,360,120
Deposits with the Central Bank	-	-	21,399,264	21,399,264
Bills and securities purchased (Note 1)	73,795,980	13,375,271	11,849,272	99,020,523
Foreign currency purchased, discounts, and loans (Note 2)	156,004,680	58,179,771	310,781,540	524,965,991
Liabilities				
Due to Central Bank and other	\$ 39,737,731	\$ -	\$ 2,565,185	\$ 42,302,916
Deposits and remittances	292,280,728	139,017,937	240,516,957	671,815,622
Refinancing from Central Bank and other banks	-	-	12,961,750	12,961,750
Financial debentures payable	-	-	10,000,000	10,000,000

Note 1: Bills and securities purchased only include debt securities.

Note 2: Foreign currency purchased, discounts, and loans exclude non-accrual accounts.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Personnel, Depreciation, and Amortization Expense

<u>Nature</u>	<u>For the three months ended</u> <u>March 31, 2004</u>	<u>For the three months ended</u> <u>March 31, 2003</u>
	<u>Operating Expense</u>	<u>Operating Expense</u>
Personnel Expense	\$ 2,914,486	\$ 2,540,901
Depreciation Expense	465,803	364,856
Amortization Expense	408,333	138,141
	<u>\$ 3,788,622</u>	<u>\$ 3,043,898</u>

(C) Consolidated statements of income presented by profitability drivers

	<u>For the three months ended</u> <u>march 31,2004</u>		<u>For the three months ended</u> <u>march 31,2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Interest income	\$ 11,663,181	73	\$ 11,425,461	92
Interest expense	(3,337,286)	(22)	(3,237,906)	(26)
Interest income, net	<u>8,325,895</u>	<u>51</u>	<u>8,187,555</u>	<u>66</u>
Non-interest income				
Commissions and fees income	4,613,796	30	2,657,899	21
Investment Income on Equity-Method Investees, net	82,445	1	-	-
Gain on sale of marketable securities, net	979,275	6	1,007,601	8
Gain on sale of derivative instruments and foreign exchange gains				
Client transactions	658,656	4	324,514	3
Proprietary trading	875,450	5	127,512	1
Other income	<u>520,605</u>	<u>3</u>	<u>77,732</u>	<u>1</u>
Total non-interest income	<u>7,730,227</u>	<u>49</u>	<u>4,195,258</u>	<u>34</u>
Operating revenue before provision for credit losses	16,056,122	100	12,382,813	100
Provision for credit losses	(3,087,180)	(19)	(1,797,621)	(15)
Operating revenue after provision for credit losses	<u>12,968,942</u>	<u>81</u>	<u>10,585,192</u>	<u>85</u>
Non-interest expenses				
Operating expenses	(6,765,369)	(42)	(5,028,997)	(41)
Operating taxes	(297,027)	(2)	(267,342)	(2)
Loss on long-term equity investments, net				
Investment Loss on Equity-Method Investees, net	-	-	(3,406)	-
Commissions and other fees paid	<u>(295,545)</u>	<u>(2)</u>	<u>(553,393)</u>	<u>(4)</u>
Total non-interest expenses	<u>(7,357,941)</u>	<u>(46)</u>	<u>(5,853,138)</u>	<u>(47)</u>
Income before income tax	5,611,001	35	4,732,054	38
Income tax expense	(1,070,679)	(7)	(1,202,255)	(10)
Less: Minority interest income	(2,267)	-	(1,507)	-
Consolidated Net Income	<u>\$ 4,538,055</u>	<u>28</u>	<u>\$ 3,528,292</u>	<u>28</u>
		<u>After</u>		
	<u>Befor tax</u>	<u>tax</u>	<u>Befor tax</u>	<u>After tax</u>
Basic EPS (unit:New Taiwan Dollars)	<u>\$ 1.02</u>	<u>\$ 0.82</u>	<u>\$ 1.04</u>	<u>\$ 0.77</u>
Basic EPS -retroactively adjusted (unit:New Taiwan Dollars)			<u>\$ 0.94</u>	<u>\$ 0.69</u>
Diluted EPS	<u>\$ 0.97</u>	<u>\$ 0.78</u>	<u>\$ 0.99</u>	<u>\$ 0.73</u>
Diluted EPS -retroactively adjusted			<u>\$ 0.89</u>	<u>\$ 0.66</u>

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(d) Account reclassification

Certain prior year accounts of the financial statements were reclassified to conform to the presentation in these financial statements.