

**CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003
AND
INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

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CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

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Independent Accountant's 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. and subsidiaries as of September 30, 2004 and 2003, and the related consolidated statements of income, and cash flows for the nine months ended September 30, 2004 and 2003. 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 did not review the financial statements of Grand Commercial Bank as September 30, 2003, whose statements reflect total assets constituting 15.48% of the related consolidated totals as of September 30, 2003. The financial statements of Grand Commercial Bank were reviewed by other accountants whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Grand Commercial Bank, is based solely on the report of the other accountants.

We reviewed these financial statements in accordance with Statements of Audition 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 and the reports of the other auditors, we are not aware of any material modifications that should be made to the accompanying 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 account for bills and bonds sold under repurchase agreements in which control is not surrendered as financing transactions instead of as sale transactions.

Taipei, Taiwan, ROC
October 28, 2004

Notice to Readers

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 audit 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
SEPTEMBER 30, 2004 AND 2003
(Expressed in Thousands of New Taiwan Dollars)

	September 30			
	2004		2003	
	Amount	%	Amount	%
ASSETS				
Cash and cash equivalents (Notes 2 and 4(a))	\$ 22,019,698	2	\$ 19,833,722	2
Due from Central Bank and call loans to banks (Notes 4(b))	71,133,803	5	63,891,492	5
Bills and securities purchased (Notes 2, 3, 4(c), 5 and 6)	238,520,613	17	176,205,499	15
Less: Allowance for market value decline	(994,245)	-	(1,201,093)	-
	<u>237,526,368</u>	<u>17</u>	<u>175,004,406</u>	<u>15</u>
Receivables (Notes 2, 4(d) and 5)	141,512,293	10	105,040,363	9
Less: Allowance for credit losses	(2,635,050)	-	(2,794,748)	-
	<u>138,877,243</u>	<u>10</u>	<u>102,245,615</u>	<u>9</u>
Loans (Notes 2, 4(e), and 5)	777,761,902	56	730,350,520	62
Less: Allowance for loan losses	(9,336,305)	(1)	(11,070,429)	(1)
	<u>768,425,597</u>	<u>55</u>	<u>719,280,091</u>	<u>61</u>
Long-term investments (Notes 2, 4(f), 4(g) and 6)				
Accounted for under the equity method	2,103,903	-	1,997,862	-
Accounted for under the cost method	15,583,045	1	6,318,036	1
Less: Allowance for market value decline	(722,175)	-	(1,211,592)	-
Long-term bond investments	74,399,334	5	29,276,762	2
Real estate investments	1,400	-	8,102	-
	<u>91,365,507</u>	<u>6</u>	<u>36,389,170</u>	<u>3</u>
Other financial assets (Notes 2, 4(h) and 6)	<u>23,529,631</u>	<u>2</u>	<u>17,600,073</u>	<u>1</u>
Premises and equipment (Notes 2, 4(i) and 6)				
Land and buildings, net	29,326,758	2	29,386,496	2
Equipment and other properties, net	5,192,057	-	5,012,171	-
	<u>34,518,815</u>	<u>2</u>	<u>34,398,667</u>	<u>2</u>
Intangible assets (Note 2)	3,916,148	-	7,811,527	1
Other assets (Note 2, 4(j), 4(q) and 6)	10,454,110	1	8,603,515	1
TOTAL ASSETS	<u>\$ 1,401,766,920</u>	<u>100</u>	<u>\$ 1,185,058,278</u>	<u>100</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities				
Bills and bonds sold under repurchase agreements (Notes 2, 3, and 4(c))	\$ 107,824,125	8	\$ 1,490,437	-
Due to Central Bank and other banks	58,940,034	4	72,754,075	6
Payables (Note 4(k))	35,711,050	3	28,662,050	2
Deposits and remittances (Notes 4(l) and 5)	1,007,769,422	72	911,241,829	77
Corporate bonds and financial debentures (Notes 2 and 4(m))	62,519,387	4	41,062,993	3
Financing from Central Bank and others (Note 4(n))	13,233,274	1	11,210,096	1
Other liabilities	16,116,750	1	13,099,081	1
Total liabilities	<u>1,302,114,042</u>	<u>93</u>	<u>1,079,520,561</u>	<u>90</u>
Minority interest	54,756	-	53,470	-
Stockholders' equity				
Capital stock				
Common stock (Note 4(s))	58,186,136	4	54,962,000	5
Preferred stock (Note 4(s))	2,500,000	-	12,655,429	1
Capital surplus (Note 4(s))	<u>28,902,025</u>	<u>2</u>	<u>32,088,580</u>	<u>3</u>
Retained earnings (Note 4(s))				
Legal reserve	1,429,334	-	657,724	-
Special reserve	141,362	-	110,852	-
Undistributed retained earnings	12,446,767	1	11,452,656	1
Other adjustments to stockholders' equity:				
Unrealized losses on long-term equity investments	(722,175)	-	(1,198,231)	-
Cumulative translation adjustments	(924,550)	-	(871,719)	-
Treasury stock—common stock (Notes 2 and 4(t))	(2,360,777)	-	(4,373,044)	-
Total Stockholders' Equity	<u>99,598,122</u>	<u>7</u>	<u>105,484,247</u>	<u>10</u>
Commitments and Contingencies (Notes 2 and 7)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,401,766,920</u>	<u>100</u>	<u>\$ 1,185,058,278</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 NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003
(Expressed in Thousands of New Taiwan Dollars, Except for EPS)

	For the Nine Months Ended September 30			
	2004		2003	
	Amount	%	Amount	%
Operating Revenues:				
Interest income	\$ 35,851,339	65	\$ 32,284,941	69
Commissions and fees income	13,990,695	25	9,419,365	20
Net gains on bills and securities purchased	630,947	1	3,401,707	7
Investment income accounted for under the equity method, net (Notes 4(f))	199,503	-	2,295	-
Net gains on foreign exchange	731,657	1	559,882	1
Net gains on derivative instruments	3,024,733	6	1,127,564	2
Other operating revenues	931,850	2	388,666	1
Total Operating Revenues	55,360,724	100	47,184,420	100
Operating Costs:				
Interest expense	(10,177,476)	(18)	(8,994,827)	(19)
Commissions and fees paid	(406,731)	(1)	(710,362)	(2)
Provisions for allowances and reserves	(6,426,639)	(12)	(5,352,244)	(11)
Other operating costs	(192,841)	-	(228,398)	-
Total Operating Costs	(17,203,687)	(31)	(15,285,831)	(32)
Gross Margin	38,157,037	69	31,898,589	68
Operating Expenses	(21,212,664)	(38)	(16,344,666)	(35)
Operating Taxes	(885,889)	(2)	(756,937)	(2)
Operating Income	16,058,484	29	14,796,986	31
Non-Operating Revenues	770,086	1	106,083	-
Non-Operating Expenses	(228,245)	-	(100,772)	-
Income Before Income Tax	16,600,325	30	14,802,297	31
Income Tax Expense (Notes 2 and 4(q))	(3,789,961)	(7)	(3,485,732)	(7)
Less: Minority interest income	(2,899)	-	(4,200)	-
Consolidated Net Income	\$ 12,807,465	23	\$ 11,312,365	24

	Before income tax	After income tax	Before income tax	After income tax
Basic EPS (Notes 2 and 4(u))	\$ 2.84	\$ 2.17	\$ 2.94	\$ 2.23
Basic EPS—retroactively adjusted			\$ 2.77	\$ 2.10
Diluted EPS (Notes 2 and 4(u))	\$ 2.70	\$ 2.06	\$ 2.78	\$ 2.10
Diluted EPS—retroactively adjusted			\$ 2.61	\$ 1.98

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

	<u>\$ 12,807,465</u>		<u>\$ 11,312,365</u>	
	Before income tax	After income tax	Before income tax	After income tax
Basic EPS	\$ 2.78	\$ 2.12	\$ 2.81	\$ 2.01
Diluted EPS	\$ 2.64	\$ 2.02	\$ 2.67	\$ 1.90

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 NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003
(Expressed in Thousands of New Taiwan Dollars)

	For the Nine Months Ended September 30	
	2004	2003
Cash flows from operating activities:		
Consolidated net income	\$ 12,807,465	\$ 11,312,365
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Minority interest income	2,899	4,200
Depreciation and amortization	2,628,455	1,580,139
Investment income accounted for under the equity method	(199,503)	(2,295)
Cash dividends received from subsidiaries accounted for under the equity method	171,598	-
Amortization of bonds premium	63,797	3,254
Gains on dispositions of long-term investments	(115,803)	(47,316)
Gains on loans securitization	(50,288)	-
Losses on dispositions of premises, equipment and foreclosed properties	503,788	136,367
Losses on scrapping of premises and equipment	44,787	14,146
Provision for loan losses	8,681,396	6,859,875
Provision for (reversal of) unrealized losses on bills and securities purchased	(114,419)	261,759
Reversal of guarantee reserve	(322)	(44,283)
Provision for securities trading losses reserve	6,026	9,945
Reversal of unrealized losses on foreclosed properties	(366,950)	(3,284)
Foreign exchange losses	161,969	99,879
Others	(33,936)	(4,988)
Net changes in:		
Redemption premium on convertible bonds and exchange gain or loss	454,425	35,451
Receivables	3,196,115	2,158,811
Bills and securities purchased	(94,510,421)	(54,377,460)
Payables	(3,257,791)	(3,758,095)
Trading derivative instruments, net	948,494	749,527
Net cash used in operating activities	(68,978,219)	(35,012,003)
Cash flows from investing activities:		
Net increase in loans	(98,284,098)	(986,612)
Purchase of long-term investments	(7,344,067)	(950,054)
Proceeds from disposition of long-term investments	1,643,756	102,416
Proceeds from loans securitization	4,855,000	-
Decrease (increase) in other financial assets	(5,031,804)	3,686,240
Increase in receivables	(20,196,720)	(11,686,061)
Proceeds from disposition of premises, equipment and foreclosed properties	1,633,250	4,885,456
Purchase of premises and equipment	(1,453,359)	(1,328,718)
Decrease (increase) in due from Central Bank (excluding cash equivalents)	768,137	(918,638)
Decrease in due from banks (excluding cash equivalents)	(2,226,241)	(3,781,581)
Increase in other assets	101,501	(235,452)
Cash received due to merger of Grand Commercial Bank (excluding due from banks)	-	7,021,480
Non-trading derivative instruments, net	(76,818)	(226,380)
Net cash used in investing activities	(125,611,463)	(4,417,904)
Cash flows from financing activities:		
Increase (decrease) in bills and bonds sold under repurchase agreements	105,069,453	(348,082)
Issuance of corporate bonds and financial debentures	5,500,000	13,000,000
Increase (decrease) in due to Central Bank and other banks	(17,961,310)	16,524,632
Increase in payables	7,699,681	4,429,242
Increase in deposits and remittances	79,617,039	19,261,226
Decrease in financing from Central Bank and others	(451,209)	(7,008,935)
Increase (decrease) in other liabilities	2,218,258	(4,766,763)
Increase (decrease) in minority interest	(31)	376
Remuneration to directors and supervisors	(252,878)	(312,413)
Employee bonuses	(23,758)	(178,950)
Cash dividends paid		
Preferred stock	(622,540)	(612,000)
Common stock	(5,892,152)	(4,393,392)
Preferred stock redeemed	(2,118,113)	-
Disposal of treasury stock	1,549,981	423,060
Net cash provided by financing activities	174,332,421	36,018,001
Effect of exchange rate changes	(558,346)	(193,231)
Net decrease in cash and cash equivalents	(20,815,607)	(3,605,137)
Cash and cash equivalents, at beginning of the period	78,346,315	57,744,747
Cash and cash equivalents, at end of the period	\$ 57,530,708	\$ 54,139,610
Cash and cash equivalents (Note 2):		
Cash	\$ 22,019,698	\$ 19,833,722
Call loans to banks	8,998,489	2,633,467
Due from Central Bank	13,527,180	16,220,638
Bills and securities purchased (cash equivalents)	12,985,341	15,451,783
	\$ 57,530,708	\$ 54,139,610
Supplemental disclosures of cash flows information:		
Cash paid during the period for:		
Interest	\$ 9,542,793	\$ 8,675,457
Guaranteed interest on trust funds	-	28,541
Income taxes	\$ 1,700,305	\$ 3,737,499
Investing and financing activities not affecting cash flows:		
Convertible corporate bonds payable converted to common stocks	\$ 35,672	-
Employee Bonuses	\$ 6,696	-
Remuneration to directors and supervisors	\$ 5,046	-

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

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003
(Expressed in Thousands of New Taiwan Dollars, 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 Co., Ltd. On the same date, after approval from the Securities & Futures Bureau (the "SFB") under the Ministry of Finance (the "MOF") the shares of the Company started to trade publicly, while shares of the Chinatrust Commercial Bank Co., 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 September 30, 2004, the total number of Company employees was 17.

As of September 30, 2004, the total number of the employees of the Company and its subsidiaries was 8,509.

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

As of September 30, 2004, the issued capital of the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. amounted to \$50,659,695 for common stock and \$2,500,000 for preferred stock. As of September 30, 2004, the Company acquired 100.00% equity ownership of this subsidiary whose primary business is commercial banking.

As of September 30, 2004, the issued capital of the subsidiary, Chinatrust Securities Corp., Ltd. amounted to \$5,000,000, representing 500,000 thousand common shares with par value of \$10 dollars per share. As of September 30, 2004, the Company held 498,288 thousand shares or 99.66% equity ownership in this subsidiary, which is engaged primarily in the securities and futures business.

As of September 30, 2004, the issued capital of the subsidiary, Chinatrust Insurance Brokers Corp., Ltd. amounted to \$386,602, representing 38,660 thousand common shares with par value of \$10 dollars per share. As of September 30, 2004, the Company held 38,660 thousand shares or 100.00% equity ownership in this subsidiary, which is engaged primarily in the property insurance and life insurance brokerage.

As of September 30, 2004, the issued capital of the subsidiary, Chinatrust Venture Capital Corp., Ltd. amounted to \$2,000,000, representing 200,000 thousand common shares with par value of \$10 dollars per share. As of September 30, 2004, the Company held 200,000 thousand shares or 100.00% ownership in this subsidiary, which is engaged primarily in the venture capital business.

As of September 30, 2004, the issued capital of the subsidiary, Chinatrust Asset Management Co., Ltd. amounted to \$20,000,000, representing 2,000,000 thousand common shares with par value of \$10 dollars per share. As of September 30, 2004, the Company held 2,000,000 thousand shares or 100.00% equity ownership in this subsidiary, which is primarily engaged in the asset management business.

As of September 30, 2004, the issued capital of the subsidiary, Chinatrust Bills Finance Corp. amounted to \$4,080,000, representing 408,000 thousand common shares with par value of \$10 dollars per share. As of September 30, 2004, the Company held 408,000 thousand 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 September 30, 2004, the issued capital of Chinatrust (Philippines) Commercial Bank Corporation, a subsidiary of Chinatrust Commercial Bank Co., Ltd. amounted to 1,875,000 thousand Philippine pesos, representing 187,500 thousand common shares with par value of 10 Philippines pesos per share. As of September 30, 2004, the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. held 186,386 thousand shares or 99.41% equity ownership in this Philippine bank, which is engaged primarily in commercial banking and financing business.

As of September 30, 2004, the issued capital of PT Bank Chinatrust Indonesia, a subsidiary of Chinatrust Commercial Bank Co., Ltd. amounted to Rupiah150,000,000 thousand, representing 1,500 common shares with par value of Rupiah100,000 thousand per share. As of September 30, 2004, the Company's subsidiary, Chinatrust Commercial Bank Co., 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 September 30, 2004, the issued capital of CTC Bank of Canada, a subsidiary of Chinatrust Commercial Bank Co., Ltd. amounted to CAD15,000 thousand, representing 1,500 thousand common shares with par value of CAD10 (in dollars) per share. As of September 30, 2004, the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. held 1,500 thousand shares or 100.00% equity ownership in this Canadian bank, which is primarily engaged in commercial banking and financing business.

As of September 30, 2004, the issued capital of China Trust Holdings Corp., a subsidiary of Chinatrust Commercial Bank Co., Ltd. amounted to USD1,336 (in dollars), representing 1,336 common shares with par value of USD1 (in dollars) per share. As of September 30, 2004, the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. held 1,336 shares or 100.00% equity ownership. It is primarily engaged in securities investment.

The Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. invested in Chinatrust Bank (U.S.A.) through its holding company, China Trust Holdings Corp. As of September 30, 2004, the issued capital of this US bank amounted to USD500 thousand for preferred stock and USD100 thousand for common stock. As of September 30, 2004, the equity ownership by the Company's subsidiary, Chinatrust Commercial Bank Co., 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 Co., Ltd. invested in CT Opportunity Investment Company. As of September 30, 2004, the issued capital of this subsidiary amounted to USD31,451 (in dollars), representing 31,451 common shares with par value of USD1 (in dollars) per share. As of September 30, 2004, the Company's subsidiary, Chinatrust Asset Management Co., Ltd. held 31,451 shares or 100% equity ownership in this company, which is primarily engaged in securities investment.

The Company's subsidiary, Chinatrust Asset Management Co., Ltd. invested in Chung Shin-1 Asset Management Co., Ltd. As of September 30, 2004, the issued capital of this subsidiary amounted to \$1,300,000, representing 130,000 thousand common shares with par value of \$10 dollars per share. As of September 30, 2004, the Company's subsidiary, Chinatrust Asset Management Co., Ltd. held 130,000 thousand shares or 100% equity ownership in this company, which is primarily engaged in the asset management business.

The Company's subsidiary, Chinatrust Asset Management Co., Ltd. invested in Tuo Yu Asset Management Servicing Co., Ltd. As of September 30, 2004, the issued capital of this subsidiary amounted to \$5,000, representing 500 thousand common shares with par value of \$10 dollars per share. As of September 30, 2004, the Company's subsidiary, Chinatrust Asset Management Co., Ltd. held 500 thousand shares or 100% equity ownership in this company, which is primarily engaged in the asset management business.

The Company's subsidiary, Chinatrust Securities Corp., Ltd. invested in CTCB (Mauritius) Holding Company Ltd., and reinvested in Chinatrust Securities (Hong Kong) Limited. As of September 30, 2004, the issued capital of this subsidiary amounted to USD11,113 (in dollars), representing 11,113 common shares with par value of USD1 (in dollars) per share. As of September 30, 2004, the Company's subsidiary, Chinatrust Securities Corp., Ltd. held 11,113 shares or 100% equity ownership in this company, which is primarily engaged in securities business.

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

As of September 30, 2004, CTCB (Mauritius) Holding Company Ltd. and CT Opportunity Investment Company were included in the consolidated entity. To facilitate comparisons, the consolidated financial statements for the nine months ended September 30, 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 Corp., 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 Forex Corp.	Foreign exchange brokerage	All shares were held by the Chinatrust Commercial Bank Co., Ltd. and Chinatrust (Philippines) Commercial Bank Corporation	"
GCB Finance (HK) Limited.	Corporate loans	100.00%	"
Grand Life Insurance Agent Co., Ltd.	Life insurance brokerage	99.62%	"
Grand General Insurance Agent Co., Ltd.	General Insurance brokerage	99.62%	"

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

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. The significant accounting policies and bases of measurement adopted in preparing these financial statements are summarized as follows:

(a) Cash and Cash Equivalents

Compilation of statements of cash flows is based upon cash and cash equivalents. Cash includes cash on hand, savings accounts, checking accounts, unrestricted time deposits, negotiable certificates of 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. Consequently, 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 credit card holders are reflected by the amounts reported by merchants, excluding unearned interest. Interest thereon is recognized on accrual basis using the interest method.

Credit card loan or accrued interest that is over 150 days past due is reclassified to a non-accrual account. Interest collected thereafter is included in earnings only to the extent of cash actually received.

The Company's banking subsidiaries engage in factoring and management of accounts receivable. The interest and transaction fee from factoring and management of such accounts are treated as current income. An allowance for credit losses is provided by reviewing the balance of accounts at period-end. Unpaid accounts receivables purchased from companies that sell receivables are accounted for under "payables."

(c) Loans

For the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd., loans are carried at principal amounts outstanding, net of unearned income and amounts charged-off. Interest is recognized on accrual basis using the interest method. If either of the following conditions occurs, interest accrual is suspended and such loans are reclassified to a non-accrual account:

- (i) Collection of principal or interest accrued is considered highly unlikely; or
- (ii) Principal or interest accrued is 180 days past due, or the underlying 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.

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

(d) Allowance for Credit Losses

For the Company's banking subsidiaries, Allowance for credit losses is a significant estimate regularly evaluated by management for adequacy and is established through a charge to provision for credit losses. This evaluation considers the quality of overall portfolio, which comprises of loans, accounts receivable, receivable—non-accrual account, 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 internal risk ratings. The risk of overall claims is reviewed based on past experiences. Accounts receivable—non-accrual account deemed as uncollectible are written off upon approval of the board of directors.

(e) Bills and Securities Purchased

Under Article 74-1 of the Banking Law, bills and securities, either listed stocks or stocks 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 regulations of the Securities & Futures Bureau (the "SFB"), market values are determined by the average closing prices of the last month of the period. Government and corporate bonds are valued at the lower of total cost or market if market quotes are available; otherwise bonds are carried at face value and adjusted by the accumulated unamortized discount or premium. Financial debentures, banker's acceptances, commercial paper, treasury bills and negotiable certificates of time deposits purchased 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.

Loss due to market value decline or gain on recovery in market value arising from valuation of bills and securities at the lower of total cost or market are classified as unrealized gain or loss on marketable securities. Gain on short-term notes transactions is accounted for as interest income.

Bills and securities sold under repurchase agreements or restricted are disclosed.

For subsidiaries engaged in securities business, trading securities are carried at cost. Upon sale, cost is determined by the moving-average method. Stock dividends received due to capitalization of retained earnings or capital surplus of investees are not included in investment income, and only memo entries are made on the number of shares increased.

Trading securities are valued at the lower of cost or market except for Emerging Market securities which are carried at cost at the end of an accounting period. As stipulated by the SFB, market prices refer to the closing prices at the end of an accounting period; i.e., closing prices at stock exchange for listed stocks, closing prices of the QreTai Securities Market at the end of an accounting period for listed stocks, and reference prices released by the QreTai Securities Market for government bonds.

Trading securities held for hedging are carried at cost and valued at the lower of cost or market at period-end. Upon sale, cost is obtained by the moving-average method. An allowance for market decline is provided when market value is lower than cost. When the market value recovers, recovery of allowance is limited to the original balance.

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

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

(f) Long-Term 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 at 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 where the Company has less than 20% ownership are valued at the lower of total cost or market value, and the unrealized loss 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, loss on investment is recognized in current period.

Affiliates in which the Company has 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 the MOF) do not exceed 10% of the Company's respective accounts, and if the combined assets or operating revenues of all of these subsidiaries do not each exceed 30% of the Company's respective accounts.

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.

Long-term fund investments for subsidiaries in the asset management business are recognized at acquisition costs. Considering the uncertainties arising from the collectibility of non-performing loans, based on prudence principal, investment gains and losses are recognized using cost recovery method.

Bond investments are classified as long-term bond investments if the Company intends to hold these investments until they mature. Such investments are reported on the financial statements at cost. The difference between the bond's face value and cost is amortized over the period when the bond is outstanding using the effective interest method. Upon disposal, the weighted-average method is adopted to calculate gain or loss.

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 loss is recognized currently.

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

(g) Financial assets securitization

Under the Regulations for Financial Assets Securitization, the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. securitized its mortgage loans with trustee for offering of asset-backed securities in the form of related beneficiary certificates through a special-purpose trust. Because Chinatrust Commercial Bank Co., Ltd. surrendered its rights and control on these securitized mortgage loans, such loans are derecognized from its accounts, and the gain or loss from securitization is recognized thereon, except for the retained interests in the form of subordinated seller certificates necessary for credit enhancement, which are classified as other long-term bond investments because those certificates do not have quoted market prices.

The gain or loss from securitization of the loans is determined based on the difference between the proceeds from securitization and carrying value of the securitized loans. The cost of each class of asset-backed securities was determined based on the previous carrying value of the securitized loans, which was allocated in proportion to the fair value of each class of the asset-backed securities and the retained interests on the securitization date. The fair value of each class of the asset-backed securities and the retained interests is evaluated based on the present value of future cash flows considering the expected credit loss, repayment rate, and discount rate on the loans, because the securitized loans assets have no quoted market price.

The cash receipts of subordinated seller certificates from the trustee are accounted for using the cost recovery method. On the balance sheet date, the fair value of these certificates is evaluated based on the present value of expected future cash flows, and the resulting losses (if any) are recognized as current losses.

(h) Premises, Equipment, and Depreciation

Premises and equipment are stated at cost or cost plus incremental value from revaluation. The carrying value of land is adjusted based on the Government Announced Price. Major additions, improvements, and replacements are capitalized, while maintenance and repairs are charged to current earnings. Interest incurred in the acquisition of premises 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 Paraguay Branch revalues its assets monthly per the government announced revaluation ratio, effective from the second year of the branch's operation.

Depreciation is computed using the straight-line method over the government prescribed useful lives. Premises and equipment still in use after their original estimated useful lives may be depreciated continuously over their estimated remaining useful lives. 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

(i) Amortization

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

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

(j) 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.

(k) Foreclosed Properties

Foreclosed properties received are stated at estimated net realizable value, and any difference from the nominal value of original claim is reflected as credit loss. On balance sheet date, if the foreclosed properties are still unsold, their net realizable values are reassessed. If there is sufficient evidence indicating that market value is lower than book value, the difference is recognized as current loss. Gain or loss on disposal of foreclosed properties is treated as a recovery of doubtful accounts or as an expense item by charging it to current earnings, particularly under provision for allowances and reserves.

(l) 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.

(m) Retirement Plan

Each of the Company's subsidiaries—Chinatrust Commercial Bank Co., 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.

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

(n) Bills and Bonds Sold Under Repurchase Agreements

If bills and bonds are sold under repurchase agreements in which beneficial interests and risks are not transferred within the transaction period, the transactions are treated as financing transactions. When such bills and bonds are sold, sales prices are recognized as “bills and bonds sold under repurchase agreements.” The difference between the sales price and repurchase price is recognized as interest expense.

(o) Guarantee Reserve

For subsidiaries engaged in banking and bills business, guarantee reserve is provided by evaluating the status of collectibility of the accounts after reviewing the balances of guarantees issued and acceptances receivable at period-end.

(p) Securities Trading Losses Reserve

In compliance with Rules Governing Securities Firms, subsidiaries engaged in banking, securities and bills business provide securities trading loss reserve at the rate of 10% of net gain on trading of operating securities when gain exceeds loss. This reserve is reversed in the month when the loss is realized. Provision or reversal of such reserve is charged to current earnings particularly under the loss or gain on marketable securities. An allowance is provided until the balance of the reserve reaches \$200,000.

(q) Financial Derivatives

(i) Forward

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 reflected as current gains or losses.

Accounts receivables and payables from forward contracts are offset on balance sheet date, with the balance reflected either as an asset or a liability.

(ii) Non-Delivery Forward (“NDF”)

Because there is no physical transfer of principal in non-delivery forward transactions, only memo entries of notional principals are made on contract date. On settlement, gains and losses from differences between the spot 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 gains or losses.

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

(iii) Foreign Currency Swap

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. Unrealized gains and losses from unsettled positions are computed based on the differences between contract and prevailing rates. On settlement, gains and losses due to differences between spot and contract rates are charged to current earnings.

(iv) Cross-currency swap

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 the differences between the present and market value of principal and interests in New Taiwan dollars, are recognized as unrealized gains or losses. For non-trading swaps, interest is accrued based on contract terms and principal repayment period, with interest revenue and expense recognized in the same period as hedged items affect earnings.

(v) Interest Rate Swap

Because there is no physical transfer of principal, only memo entries of notional principals are made for 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, interest is accrued based on contract terms with interest revenue and expense recognized in the same period as hedged items affect earnings.

(vi) Option

Only memo entries of notional principals are made on contract date for options. Premium collected or paid is reflected as other asset or other liability. Differences in the market and book value of premium on balance sheet date are stated as unrealized gain or loss. Gain or loss resulting from the exercise of options is recognized currently as transaction gain or loss.

(vii) Forward Rate Agreement ("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 between market interest rate and contract interest rate on balance sheet date are reported as gains or losses on derivative instruments. For non-trading FRA, interest is accrued based on contract terms with interest revenue and expense recognized in the same period as hedged items affect earnings.

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

(viii) Asset Swap

Asset Swap is an agreement with a convertible bond as its underlying asset. It involves not only the swap of fixed interest rate and bond redemption premium with market floating rate or fixed interest rate, but also convertible bond call option during the contract period. For trading purpose transactions, revaluation profit/loss is recognized using mark-to-market method; for non-trading purpose transactions, interest receivable and payable are accrued.

(ix) Credit Default Swap

Credit Default Swap is an agreement whereby the credit protection buyer transfers credit risk of the underlying debt to the credit protection seller through a periodic premium payment to the protection seller. Memo entries of nominal amounts are made on transaction day. During the contract period, not only premium paid/received but also revaluation profit/loss (mark-to-market) are recorded.

(x) Interest Rate Future

Interest Rate Future is a future contract with short-term interest or government bonds as underlying. Memo entries of nominal amounts are made on transaction day. Revaluation profit/loss is recognized using market-to-market method. Initial margin requirements are recorded as account "Refundable Deposits", which thereafter is adjusted according to the amount of margin deposit or withdrawal.

(xi) Warrants

Warrants are recorded as "Liabilities for Warrants Issued" at the issuance prices; when repurchased, they are reflected in the account captioned "Repurchase of Warrants Issued" which is treated as a contra-account of the former.

When reselling the warrants repurchased, costs of sale are calculated using moving-average method, and gains or losses resulted from the sale are recognized accordingly in the same period. "Liabilities for Warrants Issued" and "Repurchase of Warrants Issued" are valued at market price on the balance sheet date, and the differences between the book value and current market price are treated as gains or losses on warrants issued.

However, if the unrealized losses arising from the price changes of the warrants do not exceed the unrealized gains arising from the increases in market value of the hedged position, such losses are fully deferred, and the amounts exceed the aforementioned gains are recognized as current losses.

Prior to the expiry date of the warrants, unrealized gains or losses should be recognized based on fair market value method. Gains resulting from the warrant expiration would be recognized when such warrants expire without exercise.

When the holders of the warrants exercise the contracts, the Company shall recognize gains or losses with respect to the warrants based on the total of exercise prices in the contracts and market values of such warrants after deducting the market value of the underlying. Moreover, the underlying shall be treated as been sold in the market, and revenues shall be recognized at the contract price. Costs of sale are then calculated using moving-average method.

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

(r) 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.

(s) Commitments and Contingencies

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

(t) 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). Accordingly, the income tax effects from taxable temporary differences are recognized as deferred tax liability, while those deductible temporary differences, prior years' loss 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

When the Company files a consolidated corporate income tax return for the affiliated group pursuant to the ordinance of consolidated taxation, it shall determine the income tax liability of each individual member of the group in accordance with SFAS No. 22, "Accounting for Income Taxes". During the period of consolidation, the members of the group calculate and adjust deferred tax assets (liabilities) or current income tax payable (receivable) accordingly based on a reasonable, consistent and systematic method, and such adjustments should be reflected as other receivable (payable) in income tax recognition.

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

(u) Treasury Stock

The Company adopts SFAS No. 30 “Accounting for Treasury Stock” to account for repurchase of its outstanding shares, carried at cost. Upon disposal, the excess of selling price over book value is recorded as “capital surplus—treasury stock transaction.” If the selling price is lower than book value, the difference is charged against capital surplus from treasury stock, and any deficit is debited against retained earnings. The book value of purchased treasury stock is separately calculated using the weighted-average method.

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 charged against retained earnings. If the book value of treasury stock is lower than the total of capital stock and premium on stock issuance, the difference is credited to “capital surplus—treasury stock”.

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

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

(v) Earnings per Share (“EPS”)

Basic EPS is calculated by dividing net income, net of preferred stock dividends, by the weighted-average shares outstanding during the period. Dilutive EPS is calculated by dividing current net income, net of preferred stock dividends and after-tax interest expense of convertible bonds by the weighted-average number of outstanding common shares and the total number of convertible bonds and stock warrants with dilutive effect. In the event 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.

(w) 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.

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

3. REASONS FOR AND EFFECT OF ACCOUNTING CHANGES

Effective January 1, 2004, the Company's subsidiaries, Chinatrust Commercial Bank Co., Ltd. and Chinatrust Bills Finance Corp. adopted SFAS No. 33 "Accounting for Transfers of Financial Assets and Extinguishments of Liabilities", under which bills and bonds under repurchase agreements in which control is not surrendered, are treated as financing transactions instead of as sale transactions. Prior to January 1, 2004, no retroactive adjustments are required on recognition and measurement of transfers of financial assets and extinguishments of liabilities.

4. SUMMARY OF MAJOR ACCOUNTS

(a) CASH AND CASH EQUIVALENTS

	September 30	
	2004	2003
Cash on hand	\$ 8,310,085	\$ 6,181,765
Petty cash and revolving fund	9,775	10,071
Checks awaiting clearance	2,708,333	3,301,507
Cash in transit	1,903,822	963,000
Cash equivalents	686,117	1,821,373
Cash in bank	2,437,094	3,382,375
Due from other banks	5,964,472	4,173,631
Total	\$ 22,019,698	\$ 19,833,722

(b) DUE FROM CENTRAL BANK AND OTHER BANKS

	September 30	
	2004	2003
Required reserve—Account A	\$ 6,562,773	\$ 12,418,660
Required reserve—Account B	21,704,923	19,033,012
Required reserve—Foreign currency	842,010	604,412
Due from Central Bank	5,718,936	13,660,871
Call loans to other banks	36,305,161	18,174,537
Total	\$ 71,133,803	\$ 63,891,492

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)

(c) BILLS AND SECURITIES PURCHASED

	September 30	
	2004	2003
Commercial paper	\$ 6,237,463	\$ 14,860,544
Banker's acceptances purchased	-	6,006
Negotiable certificates of time deposits purchased	81,336,506	61,073,058
Treasury bills	262,828	1,014,540
Government bonds	50,112,852	23,636,141
Corporate bonds	12,165,067	10,493,015
Financial debentures	2,800,000	200,000
Convertible bonds	10,733,379	6,339,149
Investments in Bonds with Resale Agreements	6,353,210	-
Other bonds	25,709,421	18,343,123
Debt securities	195,710,726	135,965,576
Listed securities	6,513,331	4,942,601
Beneficiary certificates	9,074,971	10,252,525
Foreign currency funds	1,699,200	13,431,595
Trading securities	25,522,385	11,613,202
Subtotal	238,520,613	176,205,499
Less: Allowance for market value decline	(994,245)	(1,201,093)
Total	\$ 237,526,368	\$ 175,004,406

As of September 30, 2004, the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. sold corporate bonds and government bonds with par value of \$52,315,360 under repurchase agreement. The amount sold was \$57,756,761 (reflected under bills and bond sold under repurchase agreements) with agreed-upon repurchase amount of \$57,794,933 prior to July 14, 2005.

As of September 30, 2004 and 2003, the Company's subsidiary, Chinatrust Securities Corp., Ltd. sold with par value of \$4,441,000 and \$1,282,500, respectively under repurchase agreement. The amount sold was \$4,918,915 and \$1,490,437 (reflected under bills and bond sold under repurchase agreements), respectively, with agreed-upon repurchase amounts of \$4,921,156 and \$1,491,202 respectively, prior to October 28, 2004 and October 23, 2003.

As of September 30, 2004, the Company's subsidiary, Chinatrust Bills Finance Corp. sold (including long-term bond investments) with par value of \$40,375,500 under repurchase agreement. The amount sold was \$43,433,956 (reflected under bills and bond sold under repurchase agreements) with agreed-upon repurchase amount of \$43,457,241 prior to February 21, 2005.

Please refer to Note 6 for information in regard to the restrictions of bills and securities purchased above.

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

(d) RECEIVABLES

	September 30	
	2004	2003
Notes receivable	\$ 54,372	\$ 1,293,083
Accounts receivable	120,637,482	89,269,027
Interest receivable	6,398,866	5,222,490
Acceptances receivable	3,860,018	3,047,294
Accrued income	648,161	377,190
Tax refund receivable	1,236,790	489,602
Other receivable	8,046,295	4,671,829
Accounts receivable—non-accrual account	630,309	669,848
Subtotal	141,512,293	105,040,363
Less: Allowance for credit losses	(2,635,050)	(2,794,748)
Total	\$ 138,877,243	\$ 102,245,615

As of September 30, 2004 and 2003, accounts receivable included accounts receivable factoring of \$35,190,121 and \$16,420,213, respectively.

The movements in allowance for credit losses were as follows:

Nine Months Ended September 30, 2004	Inherent risk of overall claims	Default risk of specific claims	Total
Beginning balance	\$ 1,667,444	\$ 647,676	\$ 2,315,120
Current provisions	708,092	2,370,070	3,078,162
Current charge-offs	(154,028)	(2,547,837)	(2,701,865)
Exchange rate effect	(280)	(56,087)	(56,367)
Ending balance	\$ 2,221,228	\$ 413,822	\$ 2,635,050

Nine Months Ended September 30, 2003	Inherent risk of overall claims	Default risk of specific claims	Total
Beginning balance	\$ 1,631,771	\$ 670,483	\$ 2,302,254
Current provisions	321,155	2,029,376	2,350,531
Transfer from GCB	479,196	-	479,196
Current charge-offs	(65,884)	(2,248,243)	(2,314,127)
Exchange rate effect	(100,374)	77,268	(23,106)
Ending balance	\$ 2,265,864	\$ 528,884	\$ 2,794,748

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

(e) LOANS

	September 30	
	2004	2003
Bills purchased	\$ 17,483	\$ 445,741
Corporate loans	279,824,943	277,328,531
Mortgage loans	240,181,263	220,344,524
Automobile loans	12,606,829	8,685,612
Consumer loans	79,044,125	58,644,765
Other loans	1,514,475	14,975,421
NT dollar loans	613,189,118	580,424,594
Foreign currency loans	154,981,424	128,971,083
Non-accrual loans	9,591,360	20,954,843
Subtotal	777,761,902	730,350,520
Less: Allowance for loan losses	(9,336,305)	(11,070,429)
Total	\$ 768,425,597	\$ 719,280,091

Please refer to Note 4(v) for the industry information of the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd.

As of September 30, 2004 and 2003, non-performing loans of the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. amounted to \$10,166,666 and \$11,346,860, respectively.

As of September 30, 2004 and 2003, suspended accrual of interest for non-accrual accounts of the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. amounted to \$843,902 and \$831,303, respectively.

As of September 30, 2004 and 2003, no loans of the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. were written-off without prior recourse.

The movements in allowance for loan losses are as follows:

Nine Months Ended September 30, 2004	Inherent risk of overall claims	Default risk of specific claims	Total
Beginning balance	\$ 5,769,950	\$ 3,452,832	\$ 9,222,782
Current provisions	192,305	5,410,929	5,603,234
Current charge-offs	(127,636)	(5,330,914)	(5,458,550)
Exchange rate effect	(166,255)	135,094	(31,161)
Ending balance	\$ 5,668,364	\$ 3,667,941	\$ 9,336,305
Nine Months Ended September 30, 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	714,310	3,884,813	4,599,123
Transfer from GCB	209,328	980,889	1,190,217
Current charge-offs	(345,541)	(4,080,619)	(4,426,160)
Exchange rate effect	(401,092)	234,184	(166,908)
Ending balance	\$ 6,585,910	\$ 4,484,519	\$ 11,070,429

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

(f) Long-term investments

	September 30			
	2004		2003	
	%	Book Value	%	Book Value
Long-Term Equity Investments				
<u>Accounted for under the cost method</u>				
Listed securities (Market value at \$2,047,064 and \$1,185,517 as of September 30, 2004 and 2003, respectively)		\$ 2,769,239		\$ 2,397,109
Less: Allowance for market value decline		(722,175)		(1,211,592)
		<u>2,047,064</u>		<u>1,185,517</u>
Taipei Forex Inc.	3.43	6,800	3.43	6,800
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
Taihex Taiwan Futures Exchange	1.38	27,600	1.38	27,600
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	2.28	91,000
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 Co., Ltd.	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	5.00	2,951
WinPlus Venture Capital Corp.	5.00	25,000	5.00	25,000
Investar Capital Corp.	5.00	60,000	5.00	60,000
Global Securities Finance Corp.	2.63	173,496	2.63	173,496
Taiwan Asset Management Corp.	2.27	400,000	2.27	400,000
Taiwan Financial Asset Service Corp.	2.94	50,000	2.94	50,000
Debt Instruments Depository and Clearing Co, Taiwan	6.99	140,000	6.99	140,000
Philippine Clearing House	1.79	3,025	1.79	3,085
Banc Net Incorporated	4.35	4,199	4.35	4,282
Kinik Company	0.43	9,900	0.44	9,900
Advanced Power Electronics Corp.	-	-	1.60	18,400
Chi Mei Optoelectronics	-	-	0.30	44,840
Epitech Technology Corp.	2.22	28,654	2.73	21,590
Advantage Century Telecommunication Corp.	3.50	42,000	3.50	42,000
AcBel Polytech Inc.	-	-	0.45	39,228
AMPAK Technology, Inc.	3.29	18,750	4.21	18,750
Bcom Electronics Inc.	2.13	45,000	2.25	45,000
Boston Life Science Venture Corp.	5.00	100,000	-	-
Axiomtek Co., Ltd.	3.43	49,500	-	-
Highlink Technology Corporation	1.13	20,000	-	-
Sunjet Components Corp.	8.02	28,800	-	-
Sundapost Co., Ltd.	3.23	33,000	-	-
Double Edge Entertainment	7.76	17,000	-	-
Santarus Inc.	0.79	42,674	0.90	43,531
Novalux Acquisition Corp.	3.17	33,959	4.20	34,559
US Genomics, Inc.	1.36	33,984	1.20	34,400
New World Technology Fund	13.39	197,107	13.39	197,850
SeeUthere Com, Inc.	8.80	33,984	-	-
U-System, Inc.	2.22	27,187	-	-
<u>Accounted for under the equity method</u>		<u>6,047,803</u>		<u>4,974,947</u>
Chinatrust Forex Corp. (original investment at PHP51,045 thousand)	100.00	33,361	100.00	36,329
Chinatrust Securities Investment Consultancy Corp., Ltd. (original investment at \$9,940)	99.40	12,592	99.40	12,470
KGI Securities Investment Trust Corp., Ltd. (original investment at \$120,000)	40.00	117,363	40.00	99,824
Grand Bills Finance Corp. (original investment at \$1,010,880)	21.15	1,574,557	21.15	1,521,586
GCB Finance (HK) Limited (original investment at \$223,050)	100.00	344,902	100.00	312,395
Grand Life Insurance Agent Co., Ltd. (original investment at \$2,590)	99.62	19,576	99.62	13,360
Grand General Insurance Agent Co., Ltd. (original investment at \$2,590)	99.62	1,552	99.62	1,898
Subtotal		<u>2,103,903</u>		<u>1,997,862</u>
<u>Prepaid stocks</u>				
BAP Consulting, Inc.		303		309
Long-term fund investments				
Colony Asia Investors I, L.P.		3,246,185		131,188
Garrison Colony Asia Investors, L.P.		5,566,579		-
Long-term bonds investments		74,399,334		29,276,762
Real Estate—Land to be levied by the Government		1,400		8,102
Total		<u>\$ 91,365,507</u>		<u>\$ 36,389,170</u>

Note: Please refer to Note 6 for the restrict information of bonds investments.

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

For the nine months ended September 30, 2004 and 2003, investment income (losses) recognized under the equity method were as follows:

	Nine Months Ended September 30	
	2004	2003
Chinatrust Forex Corp.	\$ 457	\$ 760
Chinatrust Securities Investment Consultancy Co., Ltd.	726	1,579
KGI Securities Investment Trust Corp., Ltd.	15,635	(44)
Grand Bills Finance Corp.	174,619	-
GCB Finance (HK) Limited	9,544	-
Grand Life Insurance Agent Co., Ltd.	(1,062)	-
Grand General Insurance Agent Co., Ltd.	(416)	-
Total	\$ 199,503	\$ 2,295

(g) Financial assets securitization

During the third quarter of 2004, the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. securitized its mortgage loans with carrying value of \$5,031,192 with Deutsche Bank AG, Taipei Branch (Deutsche Bank), Trustee, for offering of securities in the form of beneficiary certificates. These beneficiary certificates have a duration from August 10, 2004 to August 25, 2024. Other terms of the beneficiary certificates are as follows:

Class of beneficiary certificates issued	Order of principal repayment	Issue amount	Interest rate	Payment frequency
Class A	1 st	4,325,000	the index rate +0.25%	once a month
Class B	2 nd	250,000	the index rate +0.55%	once a month
Class C	3 rd	150,000	the index rate +0.80%	once a month
Class D	4 th	130,000	the index rate +1.25%	once a month
Class E	5 th	176,192	-	once a month

Chinastrust Commercial Bank Co., Ltd. holds the Class E beneficiary certificates and retains the right on interests in excess of the amount paid to the first four order of investors. If the loan debtors default, the investor or Deutsche Bank has no right of recourse to the Bank. The repayment of the principal of Class E beneficiary certificates is subordinate to the investor's certificates and its value is affected by the credit risk, prepayment rate, and change in interest rate of those securitized loans. For the nine months ended September 30, 2004, Chinatrust Commercial Bank Co., Ltd. recognized a gain on loans securitization of \$50,288, which was reflected under non-operating income.

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

- (i) Key assumptions used in measuring retained interests
 The key economic assumptions used in measuring the subordinated seller certificates arising from the loans securitization at loans securitization date during the year were as follows:

	<u>Mortgage Loan Securitization</u>
Prepayment rate (annual rate)	
Adjustable Rate Mortgage	17.50%
Government Subsidized Mortgage	7.00%
Weighted-average life (in years)	10.5
Expected credit losses (annual rate)	3.01%
Discounting rate for residual cash flows	
— principal	5.70%
— interest	2.34%

- (ii) Sensitivity analysis
 As of September 30, 2004, the key economic assumptions and sensitivity of the current fair value of residual cash flows with immediate 10 percent and 20 percent adverse changes in these assumptions were as follows:

		<u>Mortgage Loan Securitization</u>
Carrying amount of retained interests	\$	312,132
Weighted-average life (in years)		10.5
Prepayment rate (annual rate)		
Adjustable Rate Mortgage		17.50%
Government Subsidized Mortgage		7.00%
Impact on fair value with 10% adverse change		(13,051)
Impact on fair value with 20% adverse change		(24,711)
Expected credit losses (annual rate)		3.01%
Impact on fair value with 10% adverse change		(4,485)
Impact on fair value with 20% adverse change		(8,970)

- (iii) Expected static pool credit losses
 As the securitized mortgage loans has no actual credit losses as of the balance sheet date, the expected static pool credit losses are, therefore, equal to the expected credit losses.

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

(iv) Cash flows

The cash flows received from and paid to securitization trusts were summarized as follows.

	<u>From August 10 to September 30, 2004</u>
Proceeds from securitizations	\$4,855,000
Servicing fees received	1,510
Other cash flows received on retained interests	1,620
Cash reserve (part of refundable deposits)	33,052
Repayments of cash reserve	398
Servicing advances	1,225
Repayments of servicing advances	29

(h) OTHER FINANCIAL ASSETS

	September 30	
	2004	2003
Short-term advances	\$ 1,148,273	\$ 904,691
Refundable deposits, net	13,590,816	10,042,425
Certificates of time deposits pledged	2,340,000	120,000
Derivative financial instruments	6,270,960	6,532,957
Others	179,582	-
Total	\$ 23,529,631	\$ 17,600,073

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

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

(i) PREMISES AND EQUIPMENT

September 30, 2004	Cost	Revaluation Appreciation	Total	Accumulated Depreciation	Net
Land	\$ 18,795,741	\$ 68,224	\$ 18,863,965	\$ -	\$ 18,863,965
Buildings	14,329,794	39,175	14,368,969	3,906,176	10,462,793
Transportation equipment	114,798	773	115,571	56,493	59,078
Miscellaneous equipment	9,780,574	9,469	9,790,043	5,680,527	4,109,516
Construction in progress	1,015,423	-	1,015,423	-	1,015,423
Prepayment for equipment	8,040	-	8,040	-	8,040
Total	\$ 44,044,370	\$ 117,641	\$ 44,162,011	\$ 9,643,196	\$ 34,518,815

September 30, 2003	Cost	Revaluation Appreciation	Total	Accumulated Depreciation	Net
Land	\$ 19,129,074	\$ 67,619	\$ 19,196,693	\$ -	\$ 19,196,693
Buildings	13,599,061	38,046	13,637,107	3,447,304	10,189,803
Transportation equipment	139,801	686	140,487	89,043	51,444
Miscellaneous equipment	9,724,075	8,506	9,732,581	5,362,575	4,370,006
Construction in progress	549,920	-	549,920	-	549,920
Prepayment for equipment	40,801	-	40,801	-	40,801
Total	\$ 43,182,732	\$ 114,857	\$ 43,297,589	\$ 8,898,922	\$ 34,398,667

As of September 30, 2004 and 2003, the total amount of insurance coverage for the premises and equipment referred to above amounted to \$19,817,688 and \$14,688,146, respectively.

The depreciable assets of the Company's subsidiary, Chinatrust Commercial Bank Co., 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 on September 30, 1987 based on government announced value, resulting in land appreciation of \$77,519. Pursuant to regulations set forth by the Paraguay government, the local branch revalues its assets monthly based on the announced revaluation ratio. As of September 30, 2004 and 2003, the reserve for asset revaluation appreciation amounted to PYG 2,774,405 thousand and PYG 2,830,505 thousand (approximately \$23,449 and \$21,213), respectively.

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

(j) OTHER ASSETS

	September 30	
	2004	2003
Prepayments	\$ 1,933,685	\$ 1,753,405
Deferred charges	1,774,437	1,852,756
Foreclosed properties received	4,145,473	2,961,214
Allowance for market decline on foreclosed properties received	(818,603)	(706,222)
Deferred income tax assets, net	1,231,209	500,238
Consolidated debits	203,394	217,113
Others	1,984,515	2,025,011
Total	\$ 10,454,110	\$ 8,603,515

Please refer to Note 4 (q) for further information on “deferred income tax assets, net.”

(k) PAYABLES

	September 30	
	2004	2003
Accounts payable	\$ 12,264,653	\$ 6,351,805
Accrued expense	4,812,055	3,667,445
Income tax payable	2,553,707	1,388,458
Interest payable	3,970,936	4,365,083
Draft acceptance	3,879,347	3,104,318
Collections payable	3,718,014	2,554,051
Other payables	4,512,338	7,230,890
Total	\$ 35,711,050	\$ 28,662,050

As of September 30, 2004 and 2003, accounts payable included balances arising from factoring of accounts receivable of \$11,002,447 and \$5,658,382, respectively.

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

(l) DEPOSITS AND REMITTANCES

	September 30	
	2004	2003
NT\$ Deposits		
Checking accounts	\$ 7,913,327	\$ 6,785,578
Demand deposits		
Demand deposits	53,815,932	53,525,663
Demand saving deposits	235,471,073	214,818,263
Others	1,937,362	2,024,861
	<u>291,224,367</u>	<u>270,368,787</u>
Time deposits		
Time deposits	179,477,533	146,643,419
Time saving deposits	233,581,890	250,260,977
Negotiable certificates of deposits	38,415,900	11,090,200
Deposits at interest from postal deposits	40,485,640	49,788,641
Others	10,546,482	8,255,949
	<u>502,507,445</u>	<u>466,039,186</u>
Total NT\$ Deposits	801,645,139	743,193,551
Foreign currency deposits	205,752,981	167,745,661
Remittances under custody	65,934	28,652
Remittances outstanding	305,368	273,965
Total	\$ 1,007,769,422	\$ 911,241,829

(m) CORPORATE BONDS PAYABLE AND FINANCIAL DEBENTURES

	September 30	
	2004	2003
Corporate bonds	\$ 40,369,787	\$ 23,218,493
Financial debentures	22,149,600	17,844,500
Total	\$ 62,519,387	\$ 41,062,993

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

Bonds payable

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

	September 30	
	2004	2003
Original issue size (USD400,000 thousand)	\$ 13,452,400	\$ 13,452,400
Accumulated converted amount (USD1,000 thousand and USD0 for the nine months ended September 30, 2004 and 2003)	(33,631)	-
Redemption premium payable (USD38,553 thousand and USD20,915 thousand for the nine months ended September 30, 2004 and 2003)	1,310,171	706,493
Unrealized foreign currency exchange loss	140,847	59,600
Ending balance	\$ 14,869,787	\$ 14,218,493

(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 at maturity (July 8, 2007) according to par value plus yield to 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 GDSs (Global Depositary 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 dollars per common share. The applicable conversion price will be subject to adjustment for, among other things, subdivision or consolidation of common shares, rights issues, distributions of cash or common share dividends and reorganization and other dilutive events. (The price is adjusted downward but not upward). Effective August 31, 2004, the conversion price is adjusted to \$29.541 dollars.

(ix) Resale rights of the bondholders.

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

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

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

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

- (1) 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% of the conversion price, the Company may redeem all or any portion of the bonds.
- (2) At any time, if the principal amount of the bonds outstanding is equal to or less than 10% of the original aggregate principal amount of bonds, the Company may redeem all rather than part of the bonds.
- (3) If as a result of certain changes in ROC laws or regulations occurring after the closing date, the Company becomes obligated to pay additional tax amounts, the Company may redeem all rather than part of the bonds.

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

In 2003, the Company issued seven-year and five-year unsecured subordinated bonds. The terms of the issue were as follows:

Type of bonds 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 seven-year unsecured subordinated bonds (third issue). The terms of issue were as follows:

Type of bonds 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 ranges from 6 Month LIBOR + 0.0001% to 6 Month LIBOR + 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 is subject to a minimum of 0%. Categories H to O: 120 basis point above the prime rate, which is based on page code 6165 of Associated Press, the fixed interest rate of 90-day CP/BA at 11:00am. 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 five-year unsecured subordinated bonds (first issue). The terms of issue were as follows:

Type of bonds 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 6 Month LIBOR is below 1.05%, then the coupon rate ranges from 6 Month LIBOR to 6 Month LIBOR + 0.01%. If the 6 Month LIBOR equals to or exceeds 1.05%, then the coupon rate ranges from 5.00% - 6 Month LIBOR to 5.0001% - 6 Month LIBOR and is subject to a minimum of 0%. Categories C to H: If the 6 Month LIBOR is below 1.10%, then the coupon rate ranges from 6 Month LIBOR to 6 Month LIBOR + 0.01%. If the 6 Month LIBOR is between 1.10% and 2.00%, then the coupon rate ranges from 3.80% to 3.8005%. If the 6 Month LIBOR exceeds 2.00%, then the coupon rate ranges from 4.7995% - 6 Month LIBOR to 4.80% - 6 Month LIBOR and is 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:

Type of bonds issued	First issue of secured bonds	Second issue of secured 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 interests and principal of all bonds are repayable at maturity.	The interests and principal of all bonds are 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., issued the first domestic secured bonds in 2004. The terms of issue were as follows:

Type of bonds issued	First issue of secured bonds
Issue date	March 15 to March 22, 2004
Size	\$1,500,000
Coupon rate	There are 6 categories of bonds. 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 ranges from 5.0000% - 6 Month LIBOR to 5.0005% - 6 Month LIBOR and is subject to a minimum of 0%.
Maturity date	March 15, 2009 to March 22, 2009
Collateral	Time deposits
Repayment method	The interests and principal of all bonds are repayable at maturity.

The Company's subsidiary, Chinatrust Bills Finance Corp., issued the second domestic secured bonds in 2004. The terms of issue were as follows:

Type of bonds issued	Second issue of secured bonds
Issue date	May 27, 2004
Size	\$1,500,000
Coupon rate	There are 3 categories of bonds and the coupon rate were as follows: Categories A: (6 Month LIBOR+0.7000%)*n/N Categories B: (6 Month LIBOR +0.7001%)*n/N Categories C: (6 Month LIBOR +0.7002%)*n/N The coupon rate zones of all bonds were as follows: First year: 0.50%<=6 Month LIBOR<=2.00% Second year: 0.50%<=6 Month LIBOR<=2.50% Third year: 0.50%<=6 Month LOBIR<=3.00% 4th year: 0.50%<=6 Month LIBOR<=3.50% 5th year: 0.50%<=6 Month LIBOR<=4.00% 6th year: 0.50%<=6 Month LIBOR<=4.50% 7th year: 0.50%<=6 Month LIBOR<=5.00%
Maturity date	May 27, 2011
Collateral	Time deposits
Repayment method	The interests and principal of all bonds are 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., issued the third domestic secured bonds in 2004. The terms of issue were as follows:

Type of bonds issued	Third issue of secured bonds
Issue date	June 10, 2004
Size	\$500,000
Coupon rate	The coupon rate was as follows: $4.00\% * n/N$ The applicable coupon rate of the bonds were as follows: First year: $1.10\% \leq 6 \text{ Month LIBOR} \leq 2.00\%$ Second year: $1.10\% \leq 6 \text{ Month LIBOR} \leq 2.50\%$ Third year: $1.10\% \leq 6 \text{ Month LIBOR} \leq 3.00\%$ Fourth year: $1.10\% \leq 6 \text{ Month LIBOR} \leq 3.50\%$ Fifth year: $1.10\% \leq 6 \text{ Month LIBOR} \leq 4.00\%$
Maturity date	June 10, 2009
Collateral	Time deposits
Repayment method	The interests and principal of all bonds are repayable at maturity.

Financial debentures

As of September 30, 2004 and 2003, the terms of issued financial debentures by the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. and China Trust Holdings Corp. were as follows:

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

September 30, 2004

Bonds	Terms of Transactions			Bond Issued	
	Issue date	Maturity date	Interest Rate	Type	Amount
2001-1	09/24/2001	09/24/2011	Interest is 3.85% compounding semi-annually for the first 5 years and 4.6% from the 6th year to maturity.	Unsecured subordinated financial debentures	\$ 10,000,000
2003-1	09/12/2003	09/12/2010	The single coupon rate is Bank of Taiwan's board floating interest rate for 2-year time deposit plus 80 basis points.	"	5,000,000
2003-2	10/13/2003	10/13/2010	The single coupon rate is Bank of Taiwan's board floating interest rate for 2-year time deposit plus 80 basis points.	"	2,000,000
2003-3	10/13/2003	10/13/2010	The floating interest rate is the prime rate (Note 1) plus 100 basis points.		2,000,000
2003-4	10/28/2003	10/28/2008	The 1 st year : 5% ; The 2 nd ~5 th years : if 6M LIBOR < 0.9%, the coupon rate will be 6M LIBOR. If 6M LIBOR ≥ 0.9%,the coupon rate will be 5%-6M LIBOR.	"	300,000
2003-5 (Note 2)	06/12/2003	06/12/2008	2.5%	"	2,000,000
Trust Preferred Securities (Note3)	12/18/2001	12/18/2031	LIBOR+3.6%	"	849,600
					\$ 22,149,600

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

September 30, 2003

Bonds	Terms of Transactions			Bond Issued	
	Issue date	Maturity date	Interest Rate	Type	Amount
2001-1	09/24/2001	09/24/2011	Interest is 3.85% compounding semi-annually for the first 5 years and 4.6% from the 6th year to maturity.	Unsecured subordinated financial debentures	10,000,000
2003-1	09/12/2003	09/12/2010	The single coupon rate is Bank of Taiwan's board floating interest rate for 2-year time deposit plus 80 basis points.	"	5,000,000
2003-5 (Note2)	06/12/2003	06/12/2008	2.5%	"	2,000,000
Trust Preferred Securities (Note3)	12/18/2001	12/18/2031	LIBOR+3.6%		844,500
					<u>\$ 17,844,500</u>

(Note1) The prime rate is based on page code 6165 of Associated Press, the fixed interest rate of 90-day CP/BA at 11:00am.

(Note2) Due to the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd.'s acquisition of Grand Commercial Bank, the subsidiary assumed the subordinated financial debentures previously issued by Grand Commercial Bank.

(Note3) Due to China Trust Holdings Corp., a subsidiary of Chinatrust Commercial Bank Co., Ltd., issued financial debentures amounted to USD25,000 thousand.

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

(n) FINANCING FROM THE CENTRAL BANK AND OTHER BANKS

	September 30	
	2004	2003
Financing from Central Bank	\$ 8,993,456	\$ 6,849,957
Short-term borrowings	200,000	150,777
Commercial paper payable	749,408	2,045,802
Financing from other banks and others	3,290,410	2,163,560
Total	\$ 13,233,274	\$ 11,210,096

(o) RETIREMENT PLAN

The Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. maintains a retirement plan covering all regular employees. Payments of lump-sum pension benefits are calculated based on the numbers of employees' years of service and salary of the last month prior to approved retirement, with a maximum benefit of 61 months' salary. Chinatrust Commercial Bank Co., Ltd. contributes 2% of employees' gross salary to the pension fund on a monthly basis. Furthermore, Chinatrust Commercial Bank Co., Ltd. established a Workers' Retirement Reserve Fund Supervisory Committee on May 31, 2000 upon approval of the authority-in-charge and contributes 15% of paid total monthly salary to a designated depository account with the Central Trust of China.

As of September 30, 2004 and 2003, balance of the pension fund of the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd., amounted to \$3,512,613 and \$3,069,320, 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 September 30, 2004 and 2003, the balance of the pension fund of the Company's subsidiary, Chinatrust Securities Corp., Ltd., amounted to \$20,782 and \$15,053, 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:

- (i) For employees hired after March 1, 1998, pension benefit is paid in accordance with the Labor Standards Law.
- (ii) 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 aforementioned regulation. The maximum benefit is 61 months salary.

As of September 30, 2004 and 2003, the balance of pension fund of the Company's

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

subsidiary, Chinatrust Bills Finance Corp. amounted to \$25,394 and \$26,920, respectively.

(p) STOCK OPTION PLAN

On September 4, 2001, the ROC SFB approved the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd.'s issuance of employee stock options of 100,000 units. Each unit of the stock options was endowed with the right to purchase 1,000 common shares of Chinatrust Commercial Bank Co., Ltd. at exercise price equal to the closing price on the date of issuance of Chinatrust Commercial Bank Co., Ltd.'s common stock. On January 3, 2002, Chinatrust Commercial Bank Co., Ltd, granted 65,000 units of stock option to its employees. The stock options are valid and can not be transferred for 2 years and 8 months from the issuance date. After the 2nd anniversary of option grant, the holder of such option may exercise the right to purchase the Bank's shares at \$21.1 dollars per share. As the shares of Chinatrust Commercial Bank Co., Ltd. were converted into the shares of the Company. Each option is endowed with the right to purchase 1,000 common shares of the Company. If there is any change in the structure of the Company's common stock, the exercise price will change accordingly. The new exercise price after adjustment was \$15.29 dollars per share.

The changes in the stock option plan are as follow:

	Nine Months Ended September 30, 2004
Beginning current outstanding units	65,000
Current granted	-
Current exercised	(47,852)
Current expired	(17,148)
Options outstanding, end of the period	-

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

(q) INCOME TAXES

The income tax expense and related accounts for the nine months ended September 30, 2004 and 2003 were as follows:

	Nine Months Ended September 30	
	2004	2003
Current income tax payable	\$ 3,615,848	\$ 2,740,963
Add (less): Tax effects of temporary differences		
Allowance for credit losses in excess of tax-allowable limit	7,542	37,577
Difference in pension provision for financial and tax purposes	(7,537)	14,087
Net unrealized (loss) gain on foreign exchange and derivatives instruments	(17,676)	210,143
Net foreign investment income recognized under the equity method	(14,011)	275,771
Allowance for market value decline on foreclosed properties received	92,454	-
Amortization of goodwill	106,506	-
Others	(117,783)	(103,139)
Income tax separately levied	183,817	185,399
Adjustments to prior year deferred income tax assets	(176)	(8,232)
Under-accrual of prior year's income tax	99,165	101,423
Reversal of prior years' recognition of bond prehand interest	14,392	-
10% surtax on undistributed earnings	2,366	31,740
Income tax benefit resulting from joint filing of taxes	(174,946)	-
Income tax expense	\$ 3,973,778	\$ 3,671,131

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

	September 30	
	2004	2003
Temporary differences which result in deferred income tax assets or liabilities		
Deductible temporary difference due to allowance for market decline on assumed collateral	\$ 766,074	\$ 655,143
Deductible temporary difference due to allowance for credit losses in excess of tax-allowable limit	359,531	664,416
Deductible temporary difference due to provision for cumulative translation adjustments	1,467,210	1,371,919
Taxable temporary difference due to investment income recognized under the equity method	(2,970,585)	(4,094,023)
Deductible (taxable) temporary difference due to unrealized loss (gain) on foreign exchange and derivative instruments	(763,886)	206,753
Deductible temporary difference due to amortization of goodwill	2,446,719	-
Deductible temporary differences for other reasons	3,619,767	3,196,744
Total	\$ 4,924,830	\$ 2,000,952

	September 30	
	2004	2003
Deferred income tax assets	\$ 2,220,699	\$ 1,055,172
Deferred income tax liabilities	(989,490)	(554,934)
Net deferred income tax assets	\$ 1,231,209	\$ 500,238

As of September 30, 2004, the status of the local tax office's assessments of the Company's income tax return and those of its subsidiaries, Chinatrust Venture Capital Corp., Ltd. and Chinatrust Asset Management Co., Ltd. have not been assessed.

The status of the local tax office's assessments of the others of its subsidiaries were as follows:

Subsidiaries	Year of Assessment	Pending Assessments
Chinatrust Commercial Bank Co., Ltd.	Prior to 2001	These assessments disclosed that the Tax Authority disallows the tax credit being claimed by the Bank on taxes withheld for accrued interest on bonds totaling \$697,840 for the years from 1994 to 2001. The Bank disagreed with such assessment and had filed for administrative relief. The Bank was eventually allowed to receive a refund equal to 65% of these withholding taxes in accordance with the agreement between

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

		<p>The Bankers Association of the Republic of China and National Tax Administration. The Bank's receivable from such income tax refund had been accounted for accordingly. Furthermore, the remaining 35 % of the withholding tax on the Bank's accrued interest on bonds, which was disallowed by the Tax Authority as tax credit by the Bank through year 2002, had been estimated and recognized as tax expense.</p>
Chinatrust Securities Corp., Ltd.	Prior to 2001	<p>These assessments disclosed (a) the Tax Authority disallowing the tax credit being claimed by the subsidiary on taxes withheld for accrued interest on bonds totaling \$11,944 for the years of 1997, 2000 and 2001; (b) entertainment expenses exceeding the limit set forth in the tax code by \$4,648 for 2001.</p> <p>The subsidiary has filed for administrative relief. Accounting treatment has been applied to comply with the agreement between The Bankers Association and National Tax Administration, with 60% of income tax refunded. Moreover, issues in connection with entertainment expenses exceeded the limits set forth in the tax code has been resolved and proper accounting treatment has been applied as of September 30, 2004.</p>
Chinatrust Insurance Brokers Corp., Ltd.	Prior to 2002	None.
Chinatrust Bills Finance Corp., Ltd	Prior to 2000	<p>These assessments disclosed (a) the Tax Authority disallowing the tax credit being claimed by the subsidiary on taxes withheld for accrued interest on bonds totaling \$214,134; (b) a tax effect of \$37,962 due to loss resulted from trading of short-term bills, for the years from 1996 to 2000.</p> <p>The subsidiary has filed for administrative relief. Currently judgments have passed for the subsidiary in Taipei Supreme Administrative Court and Taipei High Administrative Court in connection with taxes withheld for accrued interest on bonds for 1996 and 1997, respectively. Furthermore, claims in respect of income tax effects due to losses resulted from trading of short-term bills for 1996 and 1997 have been defeated in Taipei Supreme Administrative Court and Taipei High Administrative Court, respectively. Other claims or tax returns are still in the legal proceedings in the Administrative Courts or being assessed by the Tax Authority. Based on conservative principal, the Company has recognized the related income tax effects accordingly.</p>

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

(r) IMPUTATION CREDIT ACCOUNT

As of September 30, 2004, balance of stockholders' imputation credit account amounted to \$259,905. Estimated deductible ratio of 2004 earnings distributed is 28.02%. Actual deductible ratio of 2003 earnings distributed is 23.76% for cash dividends.

(s) STOCKHOLDERS' EQUITY

(i) Capital Stock

The Company converted shares with Chinatrust Commercial Bank Co., Ltd. on May 17, 2002. The Company converted 4,605,427 thousand shares of common stock and 250,000 thousand shares of preferred stock with conversion ratio of 1:1. Shares were issued with a par value of \$10 dollars per share.

In August 2000, the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. issued preferred shares at \$40 dollars 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 the 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 Co., Ltd. before the stock conversion, which amounted to \$4,393,387 and was accounted for under the Company's capital surplus. Capital 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 1,015,543 thousand shares of Series B preferred stock with par value of \$10 dollars and 407,501 thousand shares of common stock with par value \$10 dollars to acquire full ownership of Grand Commercial Bank. Following the stock conversion, Grand Commercial Bank became a wholly owned subsidiary of the Company. As of April 2004, all the Series B preferred stocks have been redeemed and retired.

For the nine months ended September 30, 2004, convertible bonds converted into common stock totaled 1,042 thousand shares with additional paid-in capital transferred to capital surplus (including convertible bond issue costs) amounting to \$25,023.

On June 11, 2004, the Company's stockholders' meeting resolved to capitalize capital surplus amounting to \$3,213,715. Capital after the capital increase totaled \$60,686,136.

As of September 30, 2004, the Company's authorized capital was \$100,000,000, paid-in capital on common stock was \$58,186,136, and on preferred stock was \$2,500,000.

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

(ii) Capital Surplus

Information regarding capital surplus is as follows:

	September 30	
	2004	2003
Additional paid-in capital—common stock	\$ 21,395,856	\$ 24,584,548
Additional paid-in capital—preferred stock	7,500,000	7,500,000
Assets revaluation appreciation—subsidiary	6,169	4,032
Total	\$ 28,902,025	\$ 32,088,580

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 and 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 undistributed 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 SFB Letter Ruling No. (1) 005946, the undistributed 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 and Exchange Law. Article 232, Paragraph 1 of the Company Law and Article 41, Paragraph 2 of Securities and 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 and 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 Co., Ltd.

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

As of September 30, 2004, the undistributed earnings of \$752,523 of Chinatrust Commercial Bank Co., Ltd. before the stock conversion were accounted for in the Company's books as capital surplus.

(iii) Earnings Distribution and Dividend Policy

	Nine months ended September 30	
	2004	2003
Beginning balance—January 1	\$ 7,746,609	\$ 6,577,241
Appropriation and distribution of earnings :		
Legal reserve	(771,610)	(657,724)
Special reserve	(30,510)	(110,852)
Remuneration to directors and supervisors	(252,878)	-
Employee bonuses	(3,161)	(520)
Cash dividends—common stock	(5,891,810)	(4,393,387)
Stock dividends—common stock	-	(439,338)
Cash dividends—preferred stock	(622,540)	(612,000)
Recognition of undistributed retained earning of subsidiaries	(639,826)	(221,878)
Decrease in unappropriated earnings due to non-subscription of newly issued investee shares according to ownership	-	(1,251)
Effect of restructuring on long-term investments	163,923	-
Sale of treasury stock	(58,895)	-
Net income for the nine months ended September 30, 2004 and 2003	<u>12,807,465</u>	<u>11,312,365</u>
Ending balance—September 30	<u><u>\$ 12,446,767</u></u>	<u><u>\$ 11,452,656</u></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 operation planning, stock dividends are distributed in order to retain essential earnings for funding needs, and the remainder is distributed as cash dividends. The cash dividends shall not be less than 10% of total dividends. No cash dividend is distributed if it is less than \$0.1 (in dollars). 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

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

with the Company Law. The board of directors will decide on the terms and conditions of the issuance of such shares.

Information about distributed earning for employee bonuses and remuneration to directors and supervisors of 2003 as follow:

	Amount
Employee bonuses—cash	\$ 3,161
Remuneration to directors and supervisors	252,878
	\$ 256,039

The proposal for earnings distribution for 2003 was approved by the shareholders on June 11, 2004.

(t) TREASURY STOCK

	share data in thousands			
Repurchase Reason	Beginning of the Period	Current Increase	Current Decrease	End of the Period
Held by the Company:				
Transfer to employees	18,985	-	(7,310)	11,675
Held by the subsidiaries:				
Transfer to employees	94,504	-	(41,500)	53,004
Issuance of stock options	87,420	-	(47,852)	39,568
Total	200,909	-	(96,662)	104,247

- (ii) Under the Securities and 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, additional paid-in capital, and realized capital surplus. The maximum allowable amount of common stock repurchased was \$28,763,598 with June 30, 2004 as the measurement date.
- (iii) For the nine months ended September 30, 2004, the maximum number of treasury stock held was 200,909 thousand shares and the amount was \$4,439,539, in compliance with the Securities and Exchange Law.
- (iv) In accordance with the Securities and Exchange Law, treasury stock held by a company and its subsidiary can not be pledged. Furthermore, these shares are not granted with shareholders' rights prior to transfer.

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

- (v) Chinatrust Commercial Bank Co., Ltd. owns shares of the Company amounting to \$2,012,176. Pursuant to the SFB Letter Ruling No. (3) 0920004165, shares that are not adjusted within 3 years are considered as non-issued shares and should be cancelled. In consideration of the expiration of the employee stock options issued, on September 24, 2004, the board of directors resolved to cancel treasury stocks amounted to 39,568 thousand shares to be in compliance with the regulation. The measurement date for such cancellation was October 11, 2004. The Bank has filed for registration changes to the Ministry of Economic Affairs.
- (vi) On September 30, 2004, the Company's common stocks have a market price of \$36.704 dollars per share.

(u) EARNINGS PER SHARE

	Nine Months Ended	
	September 30, 2004	
Basic EPS	Before Tax	After Tax
Consolidated net income	\$ 16,597,426	\$ 12,807,465
Preferred stock dividends	(459,000)	(459,000)
Consolidated net income available to common shareholders	<u>16,138,426</u>	<u>12,348,465</u>
Weighted-average shares of common stocks outstanding (in thousands)	<u>5,680,670</u>	<u>5,680,670</u>
Basic EPS	<u>\$ 2.84</u>	<u>\$ 2.17</u>
Diluted EPS		
Consolidated net income	\$ 16,597,426	\$ 12,807,465
Preferred stock dividends	(459,000)	(459,000)
Influence on potentially dilutive shares:		
Convertible bonds	447,659	335,744
Consolidated net income used to calculate diluted EPS	<u>\$ 16,586,085</u>	<u>\$ 12,684,209</u>
Weighted-average shares of common stocks outstanding (in thousands)	<u>5,680,670</u>	<u>5,680,670</u>
Influence on potentially dilutive shares:		
Stock options	15,866	15,866
Convertible bonds	454,495	454,495
Weighted-average shares of common stocks outstanding (in thousands)	<u>6,151,031</u>	<u>6,151,031</u>
Diluted EPS	<u>\$ 2.70</u>	<u>\$ 2.06</u>

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

	Nine Months Ended	
	September 30, 2003	
Basic EPS	Before Tax	After Tax
Consolidated net income	\$ 14,798,097	\$ 11,312,365
Preferred stock dividends	(459,628)	(459,628)
Consolidated net income available to common shareholders	14,338,469	10,852,737
Weighted-average shares of common stocks outstanding (in thousands)	4,877,216	4,877,216
Weighted-average shares of common stocks outstanding—retroactively adjusted(in thousands)	5,169,849	5,169,849
Basic EPS	\$ 2.94	\$ 2.23
Basic EPS—retroactively adjusted	\$ 2.77	\$ 2.10
Diluted EPS		
Consolidated net income	\$ 14,798,097	\$ 11,312,365
Preferred stock dividends	(459,628)	(459,628)
Influence on potentially dilutive shares:		
Convertible bonds	442,031	331,523
Consolidated net income used to calculate diluted EPS	\$ 14,780,500	\$ 11,184,260
Weighted-average shares of common stocks outstanding (in thousands)	4,877,216	4,877,216
Influence on potentially dilutive shares:		
Stock options	24,852	24,852
Convertible bonds	416,883	416,883
Weighted-average shares of common stocks outstanding used to calculate diluted EPS (in thousands)	5,318,951	5,318,951
Weighted-average shares of common stocks outstanding—retroactively adjusted (in thousands)	5,169,849	5,169,849
Stock options—retroactively adjusted	29,516	29,516
Convertible bonds—retroactively adjusted	455,381	455,381
Weighted-average shares of common stocks outstanding used to calculate diluted EPS—retroactively adjusted (in thousands)	5,654,746	5,654,746
Diluted EPS	\$ 2.78	\$ 2.10
Diluted EPS—retroactively adjusted	\$ 2.61	\$ 1.98

(v) FINANCIAL INSTRUMENTS

(i) Financial Derivatives:

The Company hedges its exposure to fluctuations in exchange rates for its foreign currency-denominated obligations and engages in cross-currency swaps and foreign currency swaps. The Company also engages in interest rate swaps to hedge the risks of interest rate fluctuations for New Taiwan Dollar-denominated obligations. For the nine months ended September 30, 2004 and 2003, the Company held the following financial derivatives:

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

(1) Contract Amount or Nominal Principal and Credit Risk

<u>Financial Instrument</u>	<u>September 30, 2004</u>	
	<u>Contract Amount (notional principle)</u>	<u>Credit Risk</u>
Non-trading		
Cross-currency swaps	\$ 6,473,952	\$ 41,501
Interest rate swaps	9,000,000	-
<u>Financial Instrument</u>	<u>September 30, 2003</u>	
	<u>Contract Amount (notional principle)</u>	<u>Credit Risk</u>
Non-trading		
Currency swaps	\$ 5,168,340	\$ -
Cross-currency swaps	5,067,000	-
Interest rate swaps	7,000,000	99,622

The amount of credit risk is the sum of contracts with positive fair market value at the balance sheet date, and represents the Company's possible loss 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.

(2) 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 gain on hedged foreign currency-denominated claims and obligations.

(3) 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.

(4) Financial derivatives held by the Company, their Purpose, and Strategy

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

The Company hedges its exposure to fluctuations in exchange rates for its foreign currency denominated obligations and engages in cross-currency swaps and foreign currency swaps. The purposes for interest rate swap are to hedge the Company's risks of interest rate fluctuations for New Taiwan Dollar-denominated obligations. The Company selects financial derivatives with opposite correlation to the fair values of the hedged items as hedging tools and evaluates such instruments periodically.

(5) Fair Value of Derivative Financial Instruments

<u>Financial Assets</u>	<u>September 30, 2004</u>	
	<u>Book value</u>	<u>Fair value</u>
Non-trading		
Cross-currency swaps	\$ 42,730	\$ 41,501
Interest rate swaps	60,733	(44,709)

<u>Financial Assets</u>	<u>September 30, 2003</u>	
	<u>Book value</u>	<u>Fair value</u>
Non-trading		
Currency swaps	\$ (76,805)	\$ (100,235)
Cross-currency swaps	13,417	(42,635)
Interest rate swaps	37,370	99,622

The Company engages in derivative financial instruments for hedging purposes. The fair values of financial derivatives have movements opposite with fair values of hedging items.

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

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

Non-Derivative Financial Instruments	September 30, 2004	
	Book Value	Fair Value
Financial Assets:		
Book value equal to fair value	\$ 1,255,077,940	\$ 1,255,077,940
Long-term investments	91,364,107	91,251,254
Total	\$ 1,346,442,047	\$ 1,346,329,194
Financial Liabilities:		
Book value equal to fair value	\$ 1,295,367,341	\$ 1,295,367,341
Non-Derivative Financial Instruments	September 30, 2003	
	Book Value	Fair Value
Financial Assets:		
Book value equal to fair value	\$ 1,091,216,209	\$ 1,091,216,209
Long-term investments	36,381,068	35,942,158
Total	\$ 1,127,597,277	\$ 1,127,158,367
Financial Liabilities:		
Book value equal to fair value	\$ 1,078,984,573	\$ 1,078,984,573

Methods and assumptions used by the Company for evaluation of financial instruments are as follows:

- (1) Fair value of short-term financial instruments is estimated by their book value on the balance sheet date. Since such instruments will mature shortly, book value serves as a reasonable basis for estimating the fair value. Such is applicable to cash and cash equivalents, notes and accounts receivable, notes and accounts payable, and call loans from and due to banks.
- (2) For marketable securities, market prices are the fair value if available. If market prices are unavailable, financial or other information is used to estimate the fair value.
- (3) Fair value of long-term liabilities is estimated by the present value of expected future 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)

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

(1) Contract Amount or Notional Principal and Credit Risk

Financial Instruments	September 30, 2004	
	Contract Amount (Notional Principal)	Credit Risk
Trading purpose		
Foreign exchange forward contracts	\$ 47,168,796	\$ 366,188
Forward interest rate agreements	1,500,000	-
Non-delivery forward contracts	120,762,231	436,879
Currency swaps	650,786,449	843,901
Cross-currency swaps	91,101,955	355,590
Interest rate swaps	653,758,121	5,818,336
Options	570,654,438	3,924,854
Asset-backed swaps	19,811,074	384,795
Credit default swaps	14,565,616	1,576,462
Interest Rate Future	679,680	223,934
Non-Trading purpose		
Foreign exchange forward contracts	101,952	20,390
Non-delivery forward contracts	711,241	-
Cross-currency swaps	1,366,580	1,087
Interest rate swaps	18,525,767	-
Asset-backed swaps	15,487,892	630,182

Financial Instruments	September 30, 2003	
	Contract Amount (Notional Principal)	Credit Risk
Trading purpose		
Foreign exchange forward contracts	\$ 32,229,780	\$ 220,824
Forward interest rate agreements	2,526,800	-
Non-delivery forward contracts	26,273,944	136,826
Currency swaps	239,500,425	185,592
Cross-currency swaps	76,932,859	595,476
Interest rate swaps	278,854,286	3,606,563
Options	335,836,053	4,817,813
Asset-backed swaps	9,998,880	52,749
Credit default swaps	3,750,000	300,613
Non-Trading purpose		
Cross-currency swaps	2,866,580	17,679
Interest rate swaps	7,815,146	52,729
Asset-backed swaps	5,419,542	-

Amount of credit risk refers to contracts with positive fair value on the balance sheet date, representing the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd.'s possible loss in the event of non-performance by counterparties to

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

contracts of financial instruments. However, if a party to a transaction is a client of the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd., the procedures for credit evaluation and authorization are performed and the transactions are confined within lines of credit granted. If deemed necessary, the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. requests for sufficient collaterals from counterparties. If a party to the transaction is a financial institution, credit lines are provided according to its worldwide ranking and credit rating, and transactions are limited therein. Therefore, the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. deems the likelihood of default as fairly remote.

(2) Market Risk

	Currency	September 30		
		2004	2003	
Exchange rate sensitivity				
(FX Delta)				
	EUR	\$	13,420	13,817
	JPY		(6,074)	14,015
	NTD		20,110	6,712
	Others		(1,844)	(36,337)
Interest rate factor				
sensitivity (PVBP)				
Forward curve	EUR		13	(25)
	JPY		23	1
	NTD		(833)	336
	USD		36	-
	Others		10	-
Cross-currency swaps curve	EUR		6	20
	NTD		1,718	783
Interest rate swaps curve	EUR		(2)	(13)
	NTD		2,251	(6)
	USD		3,482	(318)
Bond curve	NTD		(527)	40
Equity option factor				
sensitivity (Equity Delta)				
	NTD		(725)	-

The Company's subsidiary, Chinatrust Commercial Bank Ltd. (the Bank), enters into a variety of derivatives transactions for both trading and non-trading purposes. The Bank's objectives for using derivative instruments are to meet customers' needs, manage the Bank's exposure to risks and generate revenues through trading activities. The Bank trades derivative instruments on behalf of customers and for its

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

own positions. The Bank transacts derivative contracts to satisfy customer demands for structuring tailor-made derivatives for customers. The Bank also takes proprietary positions for its own accounts.

The Bank utilizes market risk factor sensitivities as a tool to manage its market risk. Market risk factor sensitivities of a position is defined as the change in the value of the position caused by a unit shift in a given market factor. Market risk factor sensitivities include interest rate, foreign exchange and equity factor sensitivities. The factor sensitivities are calculated by valuing the various product types using the current interest rate, foreign exchange rates, equity prices or volatilities increased by 1 unit, and then the resulting change in value is calculated by subtracting the initial valuation from the final valuation.

Foreign exchange factor sensitivities (FX Delta) represent the change in the net present value of the foreign exchange portfolios caused by a unit shift by 1% of the underlying currency's exchange rate. The FX delta risk comes from the FX exposure of derivatives, the hedging purpose foreign exchange position, and the foreign currency cash position. FX delta reported in the financial report as of September 30, 2003 presented the factor sensitivities generated from various derivatives products only and were calculated by moving the USD/NTD exchange rate by 0.001. This FX delta is adjusted using the same methodology described earlier in this paragraph to generate a consistent comparison basis.

Interest rate factor sensitivities (PVBP, present value of one basis point) represent the change in the net present value of the interest rate derivatives portfolios caused by a parallel unit shift by 0.01% (1bp) in a term structure of interest rates with various evaluating yield curves. Interest rate derivatives include interest rate swaps, cross-currency swaps, FRA, caps/floors, bond options, and structured products comprising of the above derivatives. Bond curve interest rate factor sensitivity represents the interest rate risk generated from bond derivatives transactions, i.e., bond options. The factor sensitivities shown in the report as of September 30, 2003 are re-categorized from by product types to risk types.

Equity factor sensitivities (Equity Delta) represent the change in the net present value of the equity derivatives portfolios caused by a unit shift by 1% of the underlying stock or indices prices. The Bank had been involved in the equity derivatives market for equity index options and equity options.

The Bank sets the market risk limits by considering the anticipated market movement, capital and annual budgets in order to estimate its risk appetite for market risk taking. It also analyzes the correlation coefficients among different market risk factors in order to estimate the potential loss using the Value-at-Risk approach and also analyzes if this potential loss is appropriate by comparing it with the annual budget. The market risk limits are determined based on the above analysis and by considering the experience of the risk-taking units and risk appetites of the Bank.

(3) Liquidity Risk and Cash Flow Risk

Since notional principals of financial derivatives are used mainly to calculate

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

payables or receivables of parties to transactions, rather than the amounts actually paid or cash demand, amounts settled are generally lower than notional principals. Since financial derivatives held by the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd., are denominated in major currencies with active trading and reverse transactions are readily available to offset positions, liquidity risk is deemed low. The subsidiary manages future cash demand by monitoring market prices periodically, and therefore cash flow risk is also considered low.

(4) Net Gains or Losses from Current Trading

Net gains or losses from current trading activities reported as net gain or loss on financial derivatives and net gain or loss on foreign exchange were as follows:

	Nine Months Ended September 30	
	2004	2003
Interest rate contracts	\$ 2,417,557	\$ 1,123,629
Foreign exchange contracts	949,001	431,007
Equity contracts	(13,395)	3,735
Net gains	\$ 3,353,163	\$ 1,558,371

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

(5) Non-Trading Financial Derivatives

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

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

Chinatrust Commercial Bank Co., 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 Co., Ltd. are the same, except that market prices of non-trading derivatives are for references only and are not recorded.

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

(6) Fair Value of Financial Instruments

Financial Assets	September 30, 2004	
	Book Value	Fair Value
Financial assets: trading purpose		
Interest rate swaps	\$ 900,772	\$ 900,772
Currency swaps	(387)	(387)
Cross-currency swaps	(993,706)	(993,706)
Forward rate agreements	(2,144)	(2,144)
Non-delivery forward	(283,408)	(283,408)
Forward	(15,672)	(15,672)
Options	(1,089,984)	(1,089,984)
Asset swaps	(411,109)	(411,109)
Credit default swaps	1,576,462	1,576,462
Interest rate futures	223,934	223,934
Financial assets: non-trading purpose		
Interest rate swaps	162,326	(359,257)
Cross-currency swaps	509	688
Asset swaps	63,085	384,538
Forward	4,274	20,390
Non-delivery forward	(8,421)	(8,421)

Financial Assets	September 30, 2003	
	Book Value	Fair Value
Financial assets: trading purpose		
Interest rate swaps	\$ 401,122	\$ 401,122
Currency swaps	(19,881)	(19,881)
Cross-currency swaps	(1,317,528)	(1,317,528)
Forward rate agreements	(853)	(853)
Non-delivery forward	77,599	77,599
Forward	(440,765)	(440,765)
Options	166,002	166,002
Asset swaps	41,404	41,404
Credit default swaps	300,613	300,613
Financial assets: non-trading purpose		
Interest rate swaps	744,056	494,580
Cross-currency swaps	(25,785)	(84,327)
Asset swaps	70,109	-

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 the 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 financial derivatives of the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd.

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

- (iv) Financial instruments with off-balance-sheet credit risk of the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd.

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

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

	September 30	
	2004	2003
Unused lines of credit	\$ 235,088,794	\$ 636,858,279
Credit card commitments	407,241,419	338,854,988
	\$ 642,330,213	\$ 975,713,267

As of September 30, 2004 and 2003, non-cancelable credit limit of unused credit facilities were \$35,975,316 and \$29,735,187, 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 worthless, credit risk is equivalent to contract amount, which is the maximum possible loss to the Bank. However, prior to providing loans, guarantee endorsements, and commercial letters of credit, the Bank performs strict credit review and grants appropriate lines of credit based upon review results.

Collateral is not required in credit card commitments. Nonetheless, the Bank periodically evaluates credit ratings of cardholders and adjusts cardholders' credit limits if necessary.

- (v) Information on Concentration of Credit Risk of the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd.

Concentrations of credit risk exist when 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 a 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 were as follows:

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

<u>By Industry</u>	<u>September 30</u>	
	<u>2004</u>	<u>2003</u>
Individual Clients	\$ 346,648,685	\$ 258,432,012
Manufacturing Sector	116,929,004	79,401,208
Public Sector	48,353,504	40,281,152
Financial Industry	44,835,247	33,616,054
Building Industry	22,576,158	17,883,115

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

(1) Contract Amount and Credit Risk

<u>Financial Instrument</u>	<u>September 30, 2004</u>	
	<u>Contract Amount</u>	<u>Credit Risk</u>
Trading		
Stock warrants	\$ 5,361,428	-
Taiex futures	455,664	-
Taiex index options sold	5,892	-
Taiex index options purchased	25,753	-

<u>Financial Instrument</u>	<u>September 30, 2003</u>	
	<u>Contract Amount</u>	<u>Credit Risk</u>
Trading		
Stock warrants	\$ 2,283,304	\$ -
Taiex futures	120,535	-
Taiex index options sold	77	-

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

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

(2) 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 Taiex futures and Taiex 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.

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

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

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 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.

- (4) 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.

- (5) 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 nine months ended September 30, 2004 and 2003, gains (losses) on futures amounted to \$43,522 and \$(28,587), respectively. As of September 30, 2004 and 2003, futures margin – proprietary fund amounted to \$267,739 and \$57,689. For the nine months ended September 30, 2004 and 2003, gains (losses) on Taiex index options amounted to \$34,724 and (15,311), respectively.

Chinatrust Securities Corp., Ltd. began to issue stock warrants in 2002. For the nine months ended September 30, 2004 and 2003, relevant transaction from issuing stock warrants, its presentation and valuation, and gains or losses on sale, are reflected as follows:

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

a) Gains (losses) on valuation

	Nine Months Ended		Account
	September 30		
	2004	2003	
Stock warrants issued	\$ 154,381	\$ (138,440)	Gains (Losses) on stock warrants issued
Stock warrants issued and repurchased	22,711	39,736	Losses on stock warrants issued
Marketable securities—hedging	3,435	12,423	Recovery (decline) in the market value of marketable

b) Losses on sale

	Nine Months Ended		Account
	September 30		
	2004	2003	
Marketable securities—hedging	\$ (182,574)	\$ 233,195	Gains (Losses) on sale of securities-hedging
Stock warrants issued and repurchased	(229,626)	(44,432)	Losses on stock warrants issued

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

	Nine Months Ended		Account
	September 30		
	2004	2003	
Stock warrants issued	\$ 10,957	\$ 90,729	Gains on stock warrants issued

d) Gains (losses) on maturity

	Nine Months Ended		Account
	September 30		
	2004	2003	
Stock warrants issued	\$ 601,717	\$115,505	Gains on stock warrants issued
Stock warrants issued and repurchased	(196,918)	(245,472)	Losses on stock warrants issued

e) Deferred losses on stock warrants issued

	Nine Months Ended		Account
	September 30		
	2004	2003	
Deferred losses stock warrants issued	\$ 40,020	\$ 10,060	Deferred losses on stock warrants issued

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

(6) Fair Value of Derivative Financial Instruments

<u>Financial Assets</u>	<u>September 30, 2004</u>	
	<u>Book Value</u>	<u>Fair Value</u>
Trading		
Taix index options	\$ 22,545	\$ 22,545
Non-trading		
Marketable securities—hedging	1,195,558	1,251,146
	<u>\$1,218,103</u>	<u>\$ 1,273,691</u>
<u>Financial Liabilities</u>		
Trading		
Stock warrants issued	\$ 366,750	\$ 366,750
Stock warrants issued and repurchased	(46,533)	(46,533)
Taix index options	2,820	2,820
	<u>\$ 323,037</u>	<u>\$ 323,037</u>
<u>September 30, 2003</u>		
<u>Financial Assets</u>	<u>Book Value</u>	<u>Fair Value</u>
Trading		
Taix index options	99	99
Non-trading		
Marketable securities—hedging	1,114,128	1,127,531
	<u>\$ 1,114,227</u>	<u>\$ 1,127,630</u>
<u>Financial Liabilities</u>		
Trading		
Stock warrants issued	\$ 334,500	\$ 334,500
Stock warrants issued and repurchased	(46,993)	(46,993)
Total	<u>\$ 287,507</u>	<u>\$ 287,507</u>

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.

(vii) 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:

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

(1) Contract Amount or Notional Principal and Credit Risk

Financial Instrument	September 30, 2004		
	Notional Principal	Credit Risk	Fair Value
Trading			
Interest rate swaps	\$ 2,000,000	\$ -	\$ (23,280)
Government bond futures	1,000,000	-	(11,565)
Non-trading			
Interest rate swaps	5,500,000	305	(37,295)

Credit risk pertains to contracts with positive fair value on balance sheet date, that represents 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.

(2) 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.

(3) 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)

(4) 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:

	Nine Months Ended	
	September 30, 2004	
	<hr/>	
Interest rate swaps	\$	(41,540)
Government bond futures		(22,973)
Interest rate future		106
	\$	<hr/> <hr/> (64,407)

(5) Non-Trading Financial Derivatives

Non-trading financial derivatives are applied primarily to hedge against interest rate risks from New Taiwan 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)

5. 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 affiliate
Chinatrust Culture Foundation	An immediate family member of the Chairman of the Company is its Chairman
China Development Industrial Bank	An immediate family member of the Chairman of the Company is its Chairman
National Credit Card Center of R.O.C.	Same Chairman
Preliminary Office of Chinatrust Charitable Foundation	"
Overseas Investment & Development Co., Ltd.	"
Rong-Shing Cultural Foundation	"
Taiwan Institute of Economic Research	"
Lukang Folk Arts Museum	"
China Development Financial Holding Corporation	An immediate family member of the Chairman of the Company is its President
Taifex Taiwan Futures Exchange	The Chairman of the Company is its director (Resigned)
Koo Foundation, Sun Yat-Sen Cancer Center	The Chairman of the Company is its director
Chinatrust Investment Co., Ltd.	"
Sunghung Investment Co., Ltd.	"
Taiwan Polypropylene Co., Ltd.	The Chairman of the Company is its director (Resigned)
United Design & Publications Inc.	An immediate family member of the President of the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. is its director
China Life Insurance Co., Ltd	The Chairman is its Honorary Chairman
Chailease Investments Corp.	An immediate family member of the Chairman of the Company is its director
United Advertising Co.	An immediate family member of the President of the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. is its director

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

Other related parties Including supervisors, managers and their families, spouses.

(b) Significant Transactions with Related Parties

(i) Rental Revenue

For the nine months ended September 30, 2004 and 2003, rental revenue of the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. received from related parties for the rental of buildings and parking spaces amounted to \$9,543 and \$46,572, respectively.

(ii) Commissions and Service Fees

For the nine months ended September 30, 2004 and 2003, commissions and service fees of the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. paid to the National Credit Card Center of the Republic of China amounted to \$115,011 and \$105,706, respectively.

(iii) Site Usage Fee

For the nine months ended September 30, 2004 and 2003, the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. paid KGI Securities Co., Ltd site usage fee and other related expenses for operations amounting to \$113,919 and \$81,532, respectively.

(iv) Donations

	Nine Months Ended September 30	
	2004	2003
Chinatrust Cultural Foundation	\$ 38,000	\$ 6,000
Rong-Shing Cultural Foundation	3,500	3,500
Preliminary office of Chinatrust Charitable Foundation	30,000	-
Lukang Folk Arts Museum	600	-
Total	\$ 72,100	\$ 9,500

(v) Guarantees

Related parties:	For the Nine Months Ended September 30, 2004				
	Date of Maximum Balance	Maximum Balance	Ending Balance	Range of Rate	Commissions and Service Fees Income
China Life Insurance Co., Ltd	2004.04.20	\$ 19,000	\$ -	0%	\$ -

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

(vi) Loans

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

Nine Months Ended September 30, 2004					
	Date of Maximum Balance	Maximum Balance	Ending Balance	Range of Rate	Interest Income
Koo Foundation Sun Yat-Sen Cancer Center Chinatrust Investment Co., Ltd.	May 7, 2004	\$ 1,615,400	\$ 1,570,000	1.85~3.73%	\$ 29,698
	February 25, 2004	447,000	90,000	2.75~3.50%	6,196
KGI Securities Co., Ltd.	April 19, 2004	200,000	-	1.61~1.67%	672
United Advertising Co.	January 1, 2004	318,890	93,600	1.93~4.75%	3,384
United Design & Publications Inc.	January 1, 2004	173,631	78,000	4.90%	5,687
Sunghung Investment Co., Ltd.	June 30, 2004	200,000	200,000	3.31%~3.64%	5,260
Others		594,113	496,693		39,038
Total		\$ 3,549,034	\$ 2,528,293		\$ 89,935

Nine Months Ended September 30, 2003					
	Date of Maximum Balance	Maximum Balance	Ending Balance	Range of Rate	Interest Income
Koo Foundation Sun Yat-Sen Cancer Center	January 24, 2003	\$ 1,662,000	\$ 1,196,680	3.7~5.25%	\$ 45,491
United Advertising Co.	January 1, 2003	614,890	318,890	3.5~8.23%	21,677
Others		87,261	228,357		4,648
Total		\$ 2,364,151	\$ 1,743,927		\$ 71,816

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

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

(vii) Deposits

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

	Nine Months Ended September 30, 2004			
	Maximum Balance	Ending Balance	Interest Rate	Interest Expense
Koo Foundation Sun Yat-Sen Cancer Center	\$ 126,352	\$ 8,973	0~1.25%	\$ 43
National Credit Card Center of R.O.C.	986,596	555,100	0~1.05%	4,094
China Life Insurance Co., Ltd.	2,567,664	805,182	0~1.40%	4,748
Taiwan Institute of Economic Research	124,896	95,640	0~1.45%	238
KGI Securities Co., Ltd.	4,979,098	1,256,100	0~1.50%	9,629
Chailease Investments Corp.	107,790	107,345	0~1.04%	649
KGI Securities Investment Trust Corp., Ltd.	166,149	155,601	0~1.35%	1,208
Grand Bill Financial Corporation	2,041,002	2,015,575	0~1.00%	9,827
Overseas Investment & Development Co., Ltd	133,905	132,024	0~2.4%	1,205
Taifex Taiwan Futures Exchange	1,112,523	1,062,406	0.6%~1.35%	9,339
Taiwan Polypropylene Co., Ltd.	615,644	509,575	0~1.85%	618
Others	4,444,564	1,672,314		12,796
Total	\$ 17,406,183	\$ 8,375,835		\$ 54,394

	Nine Months Ended September 30, 2003			
	Maximum Balance	Ending Balance	Interest Rate	Interest Expense
Overseas Investment & Development Co., Ltd.	\$ 263,159	\$ 156,985	0~5.00%	\$ 2,026
National Credit Card Center of R.O.C.	983,505	446,665	0~4.40%	6,156
KGI Securities Co., Ltd	1,302,704	1,009,821	0~5.10%	11,260
United Advertising Co.	432,162	30,159	0~0.80%	42
Others	2,178,596	1,014,968		12,336
Total	\$ 5,160,126	\$ 2,658,598		\$ 31,820

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

(viii) Financial Derivatives

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

	September 30, 2004	
	Currency	Notional Principal
Grand Bill Financial Corporation—Interest rate swaps	NTD	300,000

(ix) Trade of bills and bonds

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

	Nine Months Ended September 30, 2004	
	Bills and bonds purchase	Bills and bonds sold
Grand Bills Financial Corporation	\$ 32,218,584	\$ 34,299,872
China Development Industrial Bank	3,301,039	3,648,665
KGI Securities Co., Ltd.	3,452,667	5,598,430

	Nine Months Ended September 30, 2003	
	Bills and bonds purchase	Bills and bonds sold
KGI Securities Co., Ltd.	\$ 7,706,230	\$ 9,588,405

(x) Other

For the nine months ended September 30, 2004 and 2003, the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. traded securities through KGI Securities Co., Ltd. and commissions paid amounted to \$276 and \$23, respectively.

For the nine months ended September 30, 2004 and 2003, the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. sold 89,352 thousand and 25,883 thousand treasury shares to its employees for \$1,394,386 and \$423,060 with a cost of \$1,870,290 and \$644,938. The difference between the price and cost amounted to \$475,904 and \$221,878 were reflected as a deduction to undistributed earnings.

For the nine months ended September 30, 2004 and 2003, the Company's subsidiary, Chinatrust Insurance Brokers Corp., Ltd. received commission income from China Life Insurance Co., Ltd. amounting to \$859,438 and \$759,843, respectively.

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

September 30, 2004			
Category	Number of clients	Ending Balance	Possible losses
Consumer loans	926	\$ 276,353	None
Mortgage loans	1,357	2,520,606	None
Credit transactions in which related parties act as borrower	3,189	9,535,551	None
Credit transactions in which related parties act as guarantor	2	15,643	None
Credit transactions in which related parties act as collateral	3,231	9,577,266	None

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

September 30, 2003

Category	Number of clients	Ending Balance	Possible losses
Consumer loans	665	\$ 227,375	None
Mortgage loans	1,084	2,109,586	None
Credit transactions in which related parties act as borrower	3,045	9,753,647	None
Credit transactions in which related parties act as guarantor	6	501,651	None
Credit transactions in which related parties act as collateral	2,636	9,538,881	None

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

6. PLEDGED ASSETS

Pledged assets of the Company and subsidiaries are as follows:

Asset	September 30		Collateral
	2004	2003	
Chinatrust Financial Holding Company, Ltd.			
Government bonds	\$ 845,241	\$ 1,015,035	Collateral for loans and limits on financial transactions
NCD	2,100,000	-	"
Chinatrust Commercial Bank, Ltd.			
Time deposits	120,000	120,000	Margins for underwriters
NCD	17,000,000	16,130,000	Daytime drafts and Court
Government and other bonds	864,300	717,300	"
Government and corporate bonds	50,000	50,000	Trust fund reserves
Grand Commercial Bank, Ltd.			
Government and other bonds	-	381,100	Operation guarantee deposits and guarantees during provisional seizure
Financial debentures	-	97,000	"
Chinatrust Securities Corp., Ltd.			
Time deposits(reflected under restricted assets)	120,000	630,000	Pledged as collateral for loans
Land	149,676	181,515	"
Buildings at book value	112,458	137,251	"
Guarantee deposited for business operations	280,000	245,000	"
Settlement funds	92,825	98,123	"
Refundable deposits	169,977	184,485	"
Leased assets at net book value	48,175	-	"
Chinatrust Bills Finance Co., Ltd.			
Time deposits	8,327,084	6,202,000	Real-time gross settlement and collateral for loans
Corporate bonds	157,775	208,701	Short-term borrowings and collateral for corporate bonds
PT Bank Chinatrust Indonesia			
Government bonds	523,357	-	Transaction deposits
Chinatrust (Philippines) Commercial			
Government bonds	7,005,264	5,008,453	Transaction deposits
Total	<u>\$ 37,966,132</u>	<u>\$ 31,405,963</u>	

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

7. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

	September 30	
	2004	2003
<u>Chinatrust Financial Holding Company, Ltd.</u>		
Collateral for short-term borrowings and commercial paper	\$ 4,900,000	\$ -
<u>Subsidiary—Chinatrust Commercial Bank Co., Ltd.</u>		
Contingent liabilities from guarantees and letter of credit	90,744,155	72,117,387
Commercial paper to the Central Bank for banks' clearance	6,815,100	6,872,100
Client notes in custody	138,322,817	93,303,818
Receivables for other banks from syndicated loans	39,315,525	38,666,054
Marketable securities in custody	665,706,187	605,008,363
Travellers' cheques in custody available for sale	595,134	482,099
Special-purpose trust accounts	361,607,389	153,650,574
<u>Grand Commercial Bank, Ltd.</u>		
Bonds and bills sold under repurchase agreements	-	1,646,020
Guarantee for spot foreign exchange contract	-	6,513,572
Estimated rent for the next three years	-	698,565
Outstanding purchase commitments	-	80,335
<u>Subsidiary—Chinatrust Securities Corp., Ltd.</u>		
Promissory notes	10,000	10,000
Estimated rent for the next three years	26,148	37,659
Unpaid portion of signed contracts	150,000	10,000
<u>Subsidiary—Chinatrust Bills Finance Corp.</u>		
Guarantee for commercial paper	15,441,800	15,513,800
Bonds and bills sold under repurchase agreements	-	52,431,226
Estimated rent for the next three years	1,967	6,089
	\$ 1,323,636,222	\$ 1,047,047,661

8. SIGNIFICANT CATASTROPHIC LOSSES: NONE.

9. SIGNIFICANT SUBSEQUENT EVENTS

On July 5, 2004, the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. won in a bid to acquire the outstanding assets, liabilities and operations of Feng-Shan Credit Cooperative (FSCC). The acquisition of FSCC would enable the Bank to receive a subsidy of \$1.1 billion from the Resolution Trust Corporation (the "RTC"). Measurement date for the aforementioned acquisition was October 1, 2004. The Bank recorded an increase both in assets and liabilities of \$13.2 billion and acquired 10 branch licenses as a result of such transaction; currently 8 branches out of the total acquired are in operation.

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

10.OTHER

Personnel, Depreciation, and Amortization Expenses were as follows:

<u>Nature</u>	September 30	
	2004	2003
	Operating Expense	Operating Expense
Personnel Expense	\$ 9,154,062	\$ 7,408,809
Depreciation Expense	1,402,420	1,135,389
Amortization Expense	1,226,035	444,750
	\$ 11,782,517	\$ 8,988,948