

## **Union Bank of Taiwan**

**Financial Statements for the  
Years Ended December 31, 2004 and 2003 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Stockholders  
Union Bank of Taiwan

We have audited the accompanying balance sheets of Union Bank of Taiwan as of December 31, 2004 and 2003 and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. However, the financial statements as of and for the years ended December 31, 2004 and 2003 of the following investees accounted for by the equity method were audited by other auditors: Union Bills Finance Corporation, Union Finance and Leasing International Corporation, Union Bank Futures Corporation, Union Finance International (H.K.) Limited, Union Security Investment Trust Corporation and Union Real-Estate Management Corporation. The balances of these long-term equity-method investments were 1.39% (NT\$3,444,659 thousand) and 1.45% (NT\$2,966,741 thousand) of the Bank's total assets as of December 31, 2004 and 2003, respectively. The equity in the investees' net income, in 2004 and 2003 was 35.18% (NT\$522,939 thousand) and 21.21% (NT\$311,785 thousand), respectively, of pretax income, based on the investees' 2004 and 2003 audited financial statements. Since the investees' financial statements were audited by other auditors, whose reports have been furnished to us, our opinion, insofar as it relates to the amounts included for these investees, is based solely on the reports of other auditors.

We conducted our audits in accordance with Rules Governing the Audit of Financial Statements of Financial Institution by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

As stated in Note 11 to the financial statements, the Bank sold part of its nonperforming loans to asset management companies in 2003 and 2002, for which the Bank recognized deferred losses (included in other assets) of NT\$3,331,972 thousand and NT\$7,781,652 thousand, respectively, to be amortized over 60 months as required by the Financial Institution Consolidation Law. Had the above losses not been deferred, the pretax income would have increased by NT\$2,218,846 thousand in 2004 and decreased by NT\$1,470,328 thousand in 2003, and the balances of the other assets and unappropriated earnings would have increased by NT\$6,757,544 thousand and decreased by NT\$8,987,269 thousand as of December 31, 2004 and 2003, respectively.

In our opinion, based on our audits and the reports of other auditors, except for the matter described in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Union Bank of Taiwan as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with the Criteria Governing the Preparation of Financial Reports by Public Banks (effective January 1, 2004), Criteria Governing the Preparation of Financial Reports by Securities Issuers (applicable to financial statements for 2003) and accounting principles generally accepted in the Republic of China.

As described in Note 3, sales and purchases of bonds and short-term bills under resell or repurchase agreements were treated as outright sales or purchases in 2003. In 2004, under the Criteria Governing the Preparation of Financial Reports by Public Banks effective January 1, 2004, the repurchase/resell transactions began to be treated as financing.

February 17, 2005

Notice to Readers

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

*For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.*

# UNION BANK OF TAIWAN

## BALANCE SHEETS

DECEMBER 31, 2004 AND 2003

(In Thousands of New Taiwan Dollars, Except Par Value of Capital Stock)

ASSETS	2004		2003	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 4 and 22)	\$ 3,605,231	1	\$ 3,178,425	2
DUE FROM THE CENTRAL BANK AND OTHER BANKS (Notes 5 and 22)	8,459,447	3	9,514,259	5
SECURITIES PURCHASED, NET (Notes 2, 6, 22 and 23)	23,881,686	10	20,490,238	10
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 2, 3, 22 and 24)	9,180,055	4	-	-
RECEIVABLES, NET (Notes 2, 7 and 22)	38,708,022	16	29,210,204	14
PREPAYMENTS	512,750	-	527,185	-
BILLS PURCHASED, DISCOUNTS AND LOANS, NET (Notes 2, 8 and 22)	141,367,952	57	120,815,370	59
LONG-TERM INVESTMENTS, NET (Notes 2 and 9)				
Equity method	3,737,442	2	3,191,679	2
Cost method	980,353	-	980,353	-
Bond investments	<u>4,150,810</u>	<u>2</u>	<u>628,453</u>	<u>-</u>
Long-term investments, net	<u>8,868,605</u>	<u>4</u>	<u>4,800,485</u>	<u>2</u>
PROPERTY AND EQUIPMENT (Notes 2 and 10)				
Cost				
Land	1,101,076	-	1,587,698	1
Buildings and improvements	833,957	-	807,140	-
Office equipment	1,206,459	1	1,142,253	1
Transportation equipment	154,308	-	148,103	-
Leasehold improvements	<u>208,204</u>	<u>-</u>	<u>223,390</u>	<u>-</u>
	3,504,004	1	3,908,584	2
Accumulated depreciation	<u>1,229,390</u>	<u>-</u>	<u>1,196,977</u>	<u>1</u>
	2,274,614	1	2,711,607	1
Prepayments for equipment (Note 24)	<u>70,768</u>	<u>-</u>	<u>49,270</u>	<u>-</u>
Net properties and equipment	<u>2,345,382</u>	<u>1</u>	<u>2,760,877</u>	<u>1</u>
OTHER ASSETS (Notes 2, 11, 20 and 22)	<u>10,103,972</u>	<u>4</u>	<u>13,198,793</u>	<u>7</u>
TOTAL	<u>\$ 247,033,102</u>	<u>100</u>	<u>\$ 204,495,836</u>	<u>100</u>

LIABILITIES AND STOCKHOLDERS' EQUITY	2004		2003	
	Amount	%	Amount	%
LIABILITIES				
Due to banks (Notes 12 and 22)	\$ 4,712,951	2	\$ 5,832,135	3
Payables and advance receipts (Notes 13 and 22)	4,014,418	2	4,214,907	2
Securities sold under repurchase agreements (Notes 2, 3, 6 and 24)	2,687,438	1	-	-
Deposits and remittances (Notes 14 and 22)	205,035,613	83	173,518,839	85
Bank debenture (Notes 15 and 22)	11,194,000	4	3,500,000	2
Other liabilities (Notes 2 and 18)	<u>657,936</u>	<u>-</u>	<u>709,784</u>	<u>-</u>
Total liabilities	<u>228,302,356</u>	<u>92</u>	<u>187,775,665</u>	<u>92</u>
STOCKHOLDERS' EQUITY				
Capital stock - \$10 par value; authorized 2,488,926,389 shares and issued 1,517,129,154 shares in 2004; authorized and issued 1,488,926,389 shares in 2003	15,171,292	6	14,889,264	7
Capital surplus	57,783	-	39,016	-
Retained earnings:				
Legal reserve	901,090	-	504,806	-
Special reserve	999,713	1	75,049	-
Unappropriated earnings	1,599,625	1	1,320,948	1
Unrealized loss on long-term equity investments	(20,190)	-	(22,931)	-
Cumulative translation adjustments	21,433	-	58,705	-
Net loss not recognized as pension cost	-	-	(535)	-
Treasury stock - at cost: 19,091,000 shares in 2003	<u>-</u>	<u>-</u>	<u>(144,151)</u>	<u>-</u>
Total stockholders' equity	<u>18,730,746</u>	<u>8</u>	<u>16,720,171</u>	<u>8</u>
CONTINGENCIES AND COMMITMENTS (Notes 22, 24 and 28)				
TOTAL	<u>\$ 247,033,102</u>	<u>100</u>	<u>\$ 204,495,836</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated February 17, 2005)

# UNION BANK OF TAIWAN

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2004 AND 2003

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	<b>2004</b>		<b>2003</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>OPERATING REVENUES</b>				
Interest revenue (Notes 2 and 22)	\$ 10,976,491	75	\$ 8,670,983	75
Service fee revenue (Notes 2 and 22)	2,421,566	17	1,956,074	17
Income on securities, net (Note 2)	493,995	3	473,367	4
Gain from long-term equity investments under the equity method (Notes 2 and 9)	624,297	4	390,359	4
Foreign exchange gain, net (Note 2)	52,223	-	11,081	-
Other operating revenue	<u>133,880</u>	<u>1</u>	<u>8,181</u>	<u>-</u>
Total operating revenues	<u>14,702,452</u>	<u>100</u>	<u>11,510,045</u>	<u>100</u>
<b>OPERATING COSTS AND EXPENSES</b>				
Interest expense (Notes 2 and 22)	2,585,000	18	2,553,008	22
Service charge expense	831,822	6	635,127	5
Provisions for credit and other losses (Notes 2 and 8)	2,529,762	17	542,450	5
Other operating costs (Notes 2 and 11)	2,218,846	15	1,875,115	16
Operating and administrative expenses (Notes 2, 18, 19 and 22)	<u>5,425,260</u>	<u>37</u>	<u>4,925,438</u>	<u>43</u>
Total operating costs and expenses	<u>13,590,690</u>	<u>93</u>	<u>10,531,138</u>	<u>91</u>
<b>OPERATING INCOME</b>	<u>1,111,762</u>	<u>7</u>	<u>978,907</u>	<u>9</u>
<b>NONOPERATING INCOME AND GAIN (Note 22)</b>	564,164	4	1,078,294	9
<b>NONOPERATING EXPENSE AND LOSS</b>	<u>(189,250)</u>	<u>(1)</u>	<u>(587,128)</u>	<u>(5)</u>
<b>INCOME BEFORE INCOME TAX</b>	1,486,676	10	1,470,073	13
<b>INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 20)</b>	<u>112,949</u>	<u>1</u>	<u>(149,125)</u>	<u>(2)</u>
<b>NET INCOME</b>	<u>\$ 1,599,625</u>	<u>11</u>	<u>\$ 1,320,948</u>	<u>11</u>
	<b>2004</b>		<b>2003</b>	
	<b>Before Tax</b>	<b>After Tax</b>	<b>Before Tax</b>	<b>After Tax</b>
<b>EARNINGS PER SHARE (Note 21)</b>				
Basic earnings per share	<u>\$ 1.00</u>	<u>\$ 1.07</u>	<u>\$ 1.02</u>	<u>\$ 0.91</u>
Diluted earnings per share	<u>\$ 0.95</u>	<u>\$ 1.02</u>	<u>\$ -</u>	<u>\$ -</u>

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

(With Deloitte & Touche audit report dated February 17, 2005)

UNION BANK OF TAIWAN

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003  
(In Thousands of New Taiwan Dollars)

	Capital Surplus (Notes 2 and 16)						Retained Earnings (Note 16)				Unrealized Loss on Long-term Equity Investments (Notes 2 and 9)	Cumulative Translation Adjustment (Notes 2 and 9)	Net Loss Not Recognized as Pension Cost (Notes 2 and 9)	Treasury Stock (Notes 2 and 17)		Total Stockholders' Equity
	Capital Stock		Additional Paid-in Capital	Donated Capital	Gain on Reissuance of Treasury Stock		Legal Reserve	Special Reserve	Unappropriated Earnings (Deficit)					Shares (in Thousands)	Amount	
	Shares (in Thousands)	Amount			Stock	Total			Earnings (Deficit)	Total						
BALANCE, JANUARY 1, 2003	1,488,926	\$ 14,889,264	\$ -	\$ 1,398	\$ -	\$ 1,398	\$ 1,809,297	\$ 75,049	\$ (1,304,491)	\$ 579,855	\$ (42,670)	\$ 68,476	\$ (535)	(45,237)	\$ (295,262)	\$ 15,200,526
Offset of deficit against legal reserve	-	-	-	-	-	-	(1,304,491)	-	1,304,491	-	-	-	-	-	-	-
Net income in 2003	-	-	-	-	-	-	-	-	1,320,948	1,320,948	-	-	-	-	-	1,320,948
Reversal of unrealized loss on long-term equity investments under the equity method	-	-	-	-	-	-	-	-	-	-	19,739	-	-	-	-	19,739
Translation adjustment on long-term equity investments	-	-	-	-	-	-	-	-	-	-	-	(9,771)	-	-	-	(9,771)
Reissuance of treasury stock	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,618</u>	<u>37,618</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,146</u>	<u>151,111</u>	<u>188,729</u>
BALANCE, DECEMBER 31, 2003	1,488,926	14,889,264	-	1,398	37,618	39,016	504,806	75,049	1,320,948	1,900,803	(22,931)	58,705	(535)	(19,091)	(144,151)	16,720,171
Appropriation of 2003 earnings																
Legal reserve	-	-	-	-	-	-	396,284	-	(396,284)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	924,664	(924,664)	-	-	-	-	-	-	-
Net income in 2004	-	-	-	-	-	-	-	-	1,599,625	1,599,625	-	-	-	-		1,599,625
Convertible bank debenture transferred to common stock	28,203	282,028	23,972	-	-	23,972	-	-	-	-	-	-	-	-	-	306,000
Reversal of unrealized loss on long-term equity investments under the equity method	-	-	-	-	-	-	-	-	-	-	2,741	-	-	-	-	2,741
Translation adjustment on long-term equity investments	-	-	-	-	-	-	-	-	-	-	-	(37,272)	-	-	-	(37,272)
Reissuance of treasury stock	-	-	-	-	(5,205)	(5,205)	-	-	-	-	-	-	-	19,091	144,151	138,946
Reversal of investees' loss not recognized as pension cost under the equity method	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>535</u>	<u>-</u>	<u>-</u>	<u>535</u>
BALANCE, DECEMBER 31, 2004	<u>1,517,129</u>	<u>\$ 15,171,292</u>	<u>\$ 23,972</u>	<u>\$ 1,398</u>	<u>\$ 32,413</u>	<u>\$ 57,783</u>	<u>\$ 901,090</u>	<u>\$ 999,713</u>	<u>\$ 1,599,625</u>	<u>\$ 3,500,428</u>	<u>\$ (20,190)</u>	<u>\$ 21,433</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 18,730,746</u>

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

(With Deloitte & Touche audit report dated February 17, 2005)

# UNION BANK OF TAIWAN

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 (In Thousands of New Taiwan Dollars)

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 1,599,625	\$ 1,320,948
Adjustments to determine net cash attributable to operating activities:		
Gain from long-term equity investments under the equity method	(624,297)	(390,359)
Cash dividend and remuneration to directors and supervisors recognized by the equity method	44,538	44,810
Depreciation and amortization	248,232	271,855
Amortization of loss from sale of nonperforming loans	2,218,846	1,875,115
Loss (gain) on disposal of properties, net	(70,011)	112,913
Provision for credit and other losses	2,529,762	542,450
Provision (reversal of allowance) for allowance for decline in market value of securities purchased	50,997	(268,139)
Reversal of allowance for decline in market value of collaterals assumed	(78,085)	(80,000)
Permanent loss from reclassification of securities purchased as long-term investment	-	49,297
Deferred income taxes	(144,353)	67,668
Increase in securities purchased - for trading purposes	(5,296,755)	(4,799,969)
Increase in receivables	(9,323,678)	(10,228,895)
Decrease in prepayments	14,435	118,805
Decrease in payables and advance receipts	<u>(200,489)</u>	<u>(253,396)</u>
Net cash used in operating activities	<u>(9,031,233)</u>	<u>(11,616,897)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in securities purchased under resell agreements	(9,180,055)	-
Decrease (increase) in due from the Central Bank and other banks	1,054,812	(1,631,074)
Decrease in securities purchased - for investing purposes	1,854,310	748,630
Increase in bills purchased, discounts and loans	(23,253,750)	(13,064,055)
Proceeds from disposal of nonperforming loans	-	117,069
Increase in long-term equity investments	-	(33,230)
Increase in long-term bond investments	(3,522,357)	(405,766)
Acquisition of property and equipment	(314,950)	(231,955)
Proceeds from disposal of property and equipment	536,296	237,959
Decrease (increase) in other assets	<u>1,114,341</u>	<u>(1,759,366)</u>
Net cash used in investing activities	<u>(31,711,353)</u>	<u>(16,021,788)</u>

(Continued)

	2004	2003
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) due to banks	\$ (1,119,184 )	\$ 4,232,470
Increase in securities sold under repurchase agreements	2,687,438	-
Increase in deposits and remittances	31,516,774	23,560,018
Decrease in other liabilities	(54,582 )	(112,330 )
Increase in bank debentures	8,000,000	-
Reissuance of treasury stock	<u>138,946</u>	<u>188,729</u>
Net cash provided by financing activities	<u>41,169,392</u>	<u>27,868,887</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	426,806	230,202
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>3,178,425</u>	<u>2,948,223</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 3,605,231</u>	<u>\$ 3,178,425</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 2,550,223</u>	<u>\$ 2,847,183</u>
Income tax paid	<u>\$ 97,185</u>	<u>\$ 56,026</u>
<b>NONCASH INVESTING ACTIVITIES</b>		
Convertible bank debenture transferred to common stock	<u>\$ 306,000</u>	<u>\$ -</u>
Reclassification of securities purchased as long-term investments	<u>\$ -</u>	<u>\$ 222,687</u>

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

(With Deloitte & Touche audit report dated February 17, 2005)

(Concluded)



# UNION BANK OF TAIWAN

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. ORGANIZATION AND OPERATIONS

Union Bank of Taiwan (the “Bank”) obtained approval from the Ministry of Finance (MOF) to be established on August 1, 1991 and was incorporated on December 31, 1991. It started operations on January 21, 1992.

The Bank engages in activities allowed under the Banking Law: Deposits, loans, discounts, remittances, acceptances, issuance of guarantees and letters of credit, short-term bill transactions, investments, foreign exchange transactions, savings, trust, etc.

As of December 31, 2004, the Bank’s operating units included Banking, Trust, Security Finance and International Banking Department of the Head Office; an Offshore Banking Unit (OBU), two overseas representative offices in Hong Kong and Vietnam, and 39 domestic branches.

The operations of the Bank’s Trust Department are (1) trust business planning, managing and operating; and (2) custodianship of non-discretionary trust fund in domestic and overseas securities and mutual funds. These foregoing operations are regulated under the Banking Law and Trust Law.

The Bank’s shares of stock are traded on the Taiwan Stock Exchange (the “TSE”).

To expand the scale of operations and enhance operating performance, the Bank signed a contract to take over Chung Shing Commercial Bank’s total assets, liabilities and operation for the amount of \$7,108,000. This takeover was approved by the stockholders on February 2, 2005.

As of December 31, 2004 and 2003, the Bank had 2,780 and 2,647 employees, respectively.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

The accompanying financial statements include the accounts of the Head Office, OBU, branches, and representative offices. All interoffice transactions and balances have been eliminated.

The Bank’s financial statements have been prepared in conformity with the Criteria Governing the Preparation of Financial Reports by Public Banks (effective January 1, 2004), Criteria Governing the Preparation of Financial Reports by Securities Issuers (applicable to financial statements for 2003) and generally accepted accounting principles in the ROC. In preparing financial statements in conformity with these criteria and principles, the Bank is required to make certain estimates and assumptions that could affect the amounts of allowance for credit losses, property depreciation, pension, losses on suspended lawsuits and provision for losses on guarantees. Actual results could differ from these estimates.

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

The Bank's significant accounting policies are summarized as follows:

### **Securities Purchased**

Securities purchased include short-term bills, stocks, beneficiary certificates, bank debentures, corporate bonds and government bonds. Short-term bills, bank debentures and unlisted bonds are stated at cost. Stocks, beneficiary certificates, government bonds and corporate bonds traded on the GreTai Securities Market (the "OTC exchange") are stated at the lower of cost or market. Cost of securities sold is determined using weighted-average cost, except the cost of bonds and short-term bills, which is determined using the specific identification method. Market prices are determined as follows: (a) listed stocks - average closing prices in the last month of the accounting period, published by the Taiwan Stock Exchange; (b) over-the-counter stocks - average closing prices in the last month of the accounting period, published by the OTC Exchange; (c) beneficiary certificates (open-end funds), net asset values as of the balance sheet date; and (d) government bonds and corporate bonds traded on the OTC exchange - reference prices published by the OTC exchange as of the balance sheet date.

Under the directive of the MOF, sales and purchases of bonds and short-term bills under repurchase or resell agreements are treated as outright sales and purchases. However, under the Criteria Governing the Preparation of Financial Reports by Public Banks," effective January 1, 2004, the repurchase/resale transactions will be treated as financing.

### **Nonperforming Loans**

Under guidelines issued by the MOF, the balances of loans and other credits extended by the Bank and the related accrued interest are classified as nonperforming when the loan is six months overdue.

### **Allowance for Credit Losses and Provision for Losses on Guarantees**

In determining the allowance for credit losses and provision for losses on guarantees, the Bank assesses the collectibility on the balances of loans, discounts and bills purchased, accounts, interest and other receivables, and nonperforming loans, as well as guarantees and acceptances as of the balance sheet dates.

Under "The Rules for Bank Asset Evaluation, Loss Reserve Provision, and Disposal of Overdue Loans and Bad Debts" (the "Rules") issued by the MOF, the Bank evaluates the collectibility on credit losses on the basis of its borrowers'/clients' financial conditions, delinquency record and collaterals provided.

The Bank evaluates losses on particular loans in accordance with the Rules stated above. The Rules provide that the minimum provision for credit losses should be not be less than the aggregate of 50% of the doubtful credits and 100% of the irrecoverable credits.

Under the MOF guidelines, specific loans may be written off under the approval of the board of directors and this write-off may be offset against the recorded allowance for loan losses.

### **Long-term Investments**

Long-term equity investments are accounted for by the equity method if the Bank has significant influence on the investees; otherwise, by the cost method. Under the equity method, investments are stated at cost plus (or minus) a proportionate share in net earnings (losses) or changes in net worth of investees. Cash dividends received are considered as a deduction of the investments.

Investments accounted for by the cost method are carried at cost. Cash dividends received after the acquisition year are recognized as dividend revenue. Stock dividends result only in an increase in the number of shares and are not recognized as investment income. If the market value of an investment falls below carrying value and this decline is considered other than temporary, the carrying value of an investment is reduced to the extent of such decline, and an allowance for losses is provided and charged to current income.

Long-term bond investments are stated at cost. The premiums and discounts of the bonds, if any, are amortized over the remaining holding period of the debt instruments using the straight-line method and are treated as adjustments to interest revenue. Upon maturity or sale of the bond, the cost is determined using the specific identification method.

For the listed bonds reclassified from securities purchased to long-term investments, when the market value is lower than the carrying amount, a realized loss for market value decline is recognized and the related cost is adjusted to market value.

### **Properties and Equipment**

Properties and equipment are stated at cost less accumulated depreciation. Major renewals and betterments are capitalized; repairs and maintenance are expensed as incurred.

Upon sale or disposal of properties and equipment, their cost and related accumulated depreciation are removed from the respective accounts. Any resulting gain (loss) is credited (charged) to current income.

Depreciation is calculated by the straight-line method based on service lives estimated as follows: buildings and improvements, 50 to 55 years; office equipment, 3 to 5 years; transportation equipment, 3 to 5 years; and leasehold improvements, 5 years. For assets still in use beyond their original estimated service lives, further depreciation is calculated on the basis of reestimated service lives.

### **Other Assets**

Deferred charges, which include costs of computer system software and telephone installation, are amortized using the straight-line method over period of five years.

The loss on sale of nonperforming loans (accounted for as other operating costs) is amortized over 60 months in accordance with Rule No. 15 of the Financial Institution Consolidation Law.

### **Collaterals Assumed**

Collaterals assumed (included in other assets) are recorded at cost, which includes the assumed prices and any necessary repairs to make the collaterals saleable, and revalued at the lower of cost or net realizable value as of balance sheet dates.

### **Convertible Bank Debenture**

Under the book-value method applied for the conversion of convertible bank debenture, the carrying value were converted into capital stocks in the amount of face value, while the remaining amount were recorded into capital surplus on the conversion date.

### **Recognition of Interest Revenue and Service Fees**

Interest revenue on loans is recorded on the accrual basis. No interest revenue is recognized in the accompanying financial statements on loans and other credits extended by the Bank that are classified as nonperforming loans. The interest revenue on those loans/credits is recognized upon collection.

Under the MOF regulation, the interest revenue on credits covered by agreements that extend their maturities is recognized upon collection.

Service fees are recorded as income upon receipt and substantial completion of activities involved in the earnings process.

## **Income Tax**

Inter-period income tax allocation is applied, by which tax effects of deductible temporary differences, unused investment tax credits and loss carryforwards are recognized as deferred income tax assets and those of taxable temporary differences are recognized as deferred income tax liabilities. A valuation allowance is provided for deferred income tax assets that are not certain to be realized.

Adjustments of prior years' tax liabilities are included in the current year's tax expense.

Tax credits for certain research and development and personnel trainings expenditure are recognized as reduction of current income tax.

Income tax (10%) on unappropriated earnings is recorded as income tax in the year when the stockholders resolve to retain the earnings.

## **Pension**

Pension expense is determined on the basis of actuarial calculations.

## **Contingencies**

A loss is recognized if it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. If the amount of loss cannot be reasonably estimated or the loss is possible, a footnote disclosure of the circumstances that might give rise to the possible loss should be made.

## **Foreign-currency Transactions**

The Bank records foreign-currency transactions in the respective currencies in which these are denominated. At month-end, foreign-currency income and expenses are translated into New Taiwan dollars at the prevailing spot rates. Foreign-currency assets and liabilities are translated into New Taiwan dollars at prevailing rates as of the balance sheet dates. Realized and unrealized foreign exchange gains or losses are credited or charged to current income. Gains or losses resulting from restatement of period-end foreign-currency long-term equity investments accounted for by the equity method are credited or charged to cumulative translation adjustment under stockholders' equity in the balance sheet.

## **Derivative Financial Instruments**

### **a. Forward exchange contracts**

Foreign-currency assets and liabilities arising from forward exchange contracts, which are used mainly to accommodate customers' needs or to manage the Bank's own currency positions, are recorded at the forward rates. Gains or losses arising from the differences between the forward rates and spot rates on settlement date are credited or charged to current income. For contracts open as of the balance sheet dates, gains or losses arising from the differences between the contracted forward rates and the forward rates available for the remaining terms of the contracts are credited or charged to current income, and receivables and payables on the contracts are netted out.

### **b. Currency swap contracts**

Assets or liabilities on currency swap contracts, which are mainly used to accommodate customers' needs or to manage the Bank's own currency positions, are recorded at the spot rates on the starting dates of the contracts. The corresponding forward-position assets or liabilities are recorded at the contracted forward rates, with receivables netted against the related payable.

The related discounts or premiums are amortized by the straight-line basis over the contract period.

c. Cross-currency swaps

Cross-currency swap contracts are recorded at spot rates on the contract dates. The net interest receivable or payable on the settlement or balance sheet date is recorded as an adjustment to the revenue or expense associated with the item being hedged.

d. Asset swaps

Asset swaps involve exchanging the fixed rate interest and stock conversion rights of convertible bonds for floating rate interest. These transactions are recorded as memorandum entries on the contract date since no actual exchange of contract (notional) principals is involved. Asset swaps are entered into for hedging purposes, i.e., to hedge interest rate exposure on foreign-currency convertible bonds. Net interests on each settlement date/balance sheet date are recorded as adjustments to interest revenue or expenses associated with the bonds being hedged.

e. Options

Options bought and/or held and options written, which are mainly used to accommodate customers' needs or to manage the Bank's currency positions, are recorded as memorandum entries only because there is no principal transfer. The premiums on the instruments are recorded as income and loss when they are exercised. Gains or losses on the exercise of options are also included in current income. The carrying values of the instruments are charged to income when they are not exercised.

### **Treasury Stock**

Capital stock acquired is carried at cost and presented as a deduction to arrive at stockholders' equity. The treasury stocks acquired are to be reissued to employees. The reissuance of the treasury stocks are accounted for as follows: (a) reissue price higher than the acquisition cost - the excess is credited to additional paid-in capital on treasury stock; and (b) reissue price less than the acquisition cost - initially charged to additional paid-in capital on treasury stock, with any remaining deficiency charged to retained earnings.

### **Reclassifications**

Certain accounts of the 2003 financial statements have been reclassified to conform to the presentation of the 2004 financial statements.

## **3. ACCOUNTING CHANGES**

Under a directive issued by the MOF, bonds and short-term bills under agreements to repurchase or to resell were treated as outright sales or purchases. However, under the "Criteria Governing the Preparation of Financial Reports by Public Banks" effective January 1, 2004, the repurchase/resell transactions are treated as financing. As a result of this change, pre-tax income for the 2004 increased by \$137,105 thousand.

Since the repurchase/resell transactions of the Bank are daily financing activities with great volume, and the accounting systems had been revised for several times, the historical trading data are hard to trace, thus, calculating the cumulative effect of change in accounting principle is difficult. Thus, the Bank cannot calculate the cumulative effect of the change in accounting principle nor disclose the pro forma information.

#### 4. CASH AND CASH EQUIVALENTS

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Cash on hand	\$ 1,710,624	\$ 1,744,189
Due from banks	1,056,050	711,604
Checks for clearing	<u>838,557</u>	<u>722,632</u>
	<u>\$ 3,605,231</u>	<u>\$ 3,178,425</u>

#### 5. DUE FROM THE CENTRAL BANK AND BANKS

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Due from the Central Bank		
Deposit reserve - checking account	\$ 4,529,569	\$ 3,800,845
Required deposit reserve	3,253,521	2,749,619
Deposits in the Central Bank	-	1,552,000
Reserves for deposits - foreign-currency deposits	<u>6,989</u>	<u>13,599</u>
	7,790,079	8,116,063
Call loans to banks and bank's overdrafts	<u>669,368</u>	<u>1,398,196</u>
	<u>\$ 8,459,447</u>	<u>\$ 9,514,259</u>

The denominated required deposit reserve is determined monthly at prescribed rates on the average balances of customers' New Taiwan dollar-denominated deposits and are subject to withdrawal restrictions. The foreign currency deposit reserves may be withdrawn anytime and are noninterest earnings.

#### 6. SECURITIES PURCHASED

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Listed and OTC traded		
Government bonds	\$ 4,272,759	\$ 1,907,298
Stocks	264,936	320,856
Corporate bonds	<u>229,853</u>	<u>-</u>
	<u>4,767,548</u>	<u>2,228,154</u>
Beneficiary certificates	2,081,245	2,305,240
Negotiable certificates of deposits	16,350,000	8,770,108
Commercial paper	29,912	6,255,419
Bank debentures	605,100	800,000
Overseas corporate bonds	<u>158,840</u>	<u>195,488</u>
	23,992,645	20,554,409
Less: Allowance for decline in market value	<u>110,959</u>	<u>64,171</u>
	<u>\$ 23,881,686</u>	<u>\$ 20,490,238</u>

The market values of listed and OTC government bonds, stocks and beneficiary certificates as of December 31, 2004 and 2003 were as follows:

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Government bonds	\$ 4,248,548	\$ 1,919,893
Stocks	265,922	312,314
Corporate bonds	251,506	-
Beneficiary certificates	2,043,355	2,345,453

As of December 31, 2004, the Bank held securities purchased amounting to \$2,687,438 thousand under repurchase agreements (Note 3).

## 7. RECEIVABLES

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Accounts receivable	\$ 36,334,918	\$ 27,317,673
Interest receivable	1,256,323	1,073,475
Accrued revenue	369,604	303,607
Acceptances receivable	267,715	318,672
Merchant receivable	287,900	-
Inter-bank clearing fund receivable	253,477	150,847
Other	<u>622,913</u>	<u>904,898</u>
	39,392,850	30,069,172
Less: Allowance for credit losses	<u>684,828</u>	<u>858,968</u>
	<u>\$ 38,708,022</u>	<u>\$ 29,210,204</u>

## 8. BILLS PURCHASED, DISCOUNTS AND LOANS

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Discounts and overdraft	\$ 719,921	\$ 829,302
Loans		
Short-term - unsecured	23,153,068	20,515,944
- secured	6,353,797	6,194,683
Midterm - unsecured	21,455,474	16,360,641
- secured	16,456,511	16,082,600
Long-term - unsecured	6,741,811	4,173,176
- secured	63,670,208	52,060,734
Bills purchased and import/export negotiations	115,492	240,849
Nonperforming loans	<u>4,007,087</u>	<u>5,238,984</u>
	142,673,369	121,696,913
Less: Allowance for credit losses	<u>1,305,417</u>	<u>881,543</u>
	<u>\$ 141,367,952</u>	<u>\$ 120,815,370</u>

As of December 31, 2004 and 2003, the balances of nonaccrual loans were \$4,007,087 thousand and \$5,238,984 thousand, respectively. The unrecognized interest revenues on nonperforming loans amounted to \$262,792 thousand in 2004 and \$305,819 thousand in 2003.

In 2004 and 2003, all credits written off had been subjected to legal proceedings before being written off.

The changes in details of the allowance for credit losses of loans, discounts and bills purchased are summarized as follows:

	<b>2004</b>		
	<b>Specific Provision</b>	<b>General Provision</b>	<b>Total</b>
Balance, beginning of year	\$ 840,264	\$ 41,279	\$ 881,543
Provision	1,092,264	(34,151 )	1,058,113
Write-off	(798,522 )	-	(798,522 )
Recovery of written-off credits	168,373	-	168,373
Effects of exchange rate changes	(4,090 )	-	(4,090 )
Balance, end of year	<u>\$ 1,298,289</u>	<u>\$ 7,128</u>	<u>\$ 1,305,417</u>

  

	<b>2003</b>		
	<b>Specific Provision</b>	<b>General Provision</b>	<b>Total</b>
Balance, beginning of year	\$ 623,967	\$ 1,146,218	\$ 1,770,185
Provision	442,750	-	442,750
Write-off	(858,141 )	-	(858,141 )
Recovery of written-off credits	122,970	-	122,970
Reclassifications	510,152	(1,104,939 )	(594,787 )
Effects of exchange rate changes	(1,434 )	-	(1,434 )
Balance, end of year	<u>\$ 840,264</u>	<u>\$ 41,279</u>	<u>\$ 881,543</u>

## 9. LONG-TERM INVESTMENTS

	<b>December 31</b>			
	<b>2004</b>		<b>2003</b>	
	<b>Amount</b>	<b>Holding Ratio (%)</b>	<b>Amount</b>	<b>Holding Ratio (%)</b>
Equity investments				
Equity method				
Union Bills Finance Corporation	\$ 1,400,232	42.76	\$ 1,282,534	42.76
Union Finance and Leasing International Corporation	1,185,911	99.99	743,402	99.99
Union Bank Futures Corporation	512,255	99.07	599,652	99.07
Union Finance International (H.K.) Limited	188,512	99.99	195,543	99.99
Union Information Technology Corporation	182,531	99.92	141,211	99.92
Union Security Investment Trust Corporation	119,274	35.00	118,620	35.00
Union Insurance Broker Company	50,513	90.07	60,971	90.07
MSUB Asset Management Corporation	49,158	49.00	13,730	49.00
Union Real-Estate Management Corporation	38,475	40.00	26,990	40.00
Union Securities Investment Consulting Company	10,581	99.40	9,026	99.40
	<u>3,737,442</u>		<u>3,191,679</u>	

(Continued)



	December 31			
	2004		2003	
	Amount	Holding Ratio (%)	Amount	Holding Ratio (%)
Cost method				
Entie Securities Finance Company	\$ 622,188	12.15	\$ 622,188	12.15
Taiwan Asset Management Corporation	100,000	0.57	100,000	0.57
Universal Venture Fund Inc.	80,000	4.76	80,000	4.76
Taiwan Financial Asset Service Corporation	50,000	2.94	50,000	2.94
Financial Information Service Company	45,500	1.14	45,500	1.14
Euroc III Venture Capital COT.	30,000	5.00	30,000	5.00
NCTU Spring I Technology Venture Capital Investment Corporation	21,615	5.00	21,615	5.00
Debt Instrument Depository and Clearing Co., Taiwan	20,000	1.00	20,000	1.00
Taiwan Future Exchange Corporation	10,250	0.51	10,250	0.51
Taipei Forex Inc.	800	0.40	800	0.40
	<u>980,353</u>		<u>980,353</u>	
Bond investments				
Long-term bond investments	<u>4,150,810</u>		<u>628,453</u>	
	<u>\$ 8,868,605</u>		<u>\$ 4,800,485</u>	

The equity in net gain of equity-method investees was \$624,297 thousand in 2004 and \$390,359 thousand in 2003 based on the investees' audited financial statements for 2004 and 2003, respectively.

As of December 31, 2004 and 2003, the unrealized losses on equity-method investments due to decline in the market value of listed stocks held by the investees amounted to \$20,190 thousand and \$22,931 thousand, respectively. As of December 31, 2004 and 2003, the cumulative translation adjustments - resulting from the exchange rate change by Union Finance International (H.K.) Limited - on equity-method investments amounted to \$7,768 thousand and \$31,580 thousand, respectively.

As of December 2003, the Bank recognized \$535 thousand as its equity in an investee's net loss not recognized as pension cost.

The total assets or total operating revenues of the Bank's subsidiaries were individually less than 10% and collectively less than 30% of those of the Bank. Accordingly, the accounts of these subsidiaries were not included in consolidated financial statement.

## 10. PROPERTY AND EQUIPMENT

	December 31	
	2004	2003
Cost	<u>\$ 3,504,004</u>	<u>\$ 3,908,584</u>
Accumulated depreciation		
Buildings and improvements	111,287	97,652
Office equipment	904,356	845,484

(Continued)

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Transportation equipment	\$ 116,124	\$ 105,065
Leasehold improvements	<u>97,623</u>	<u>148,776</u>
	1,229,390	1,196,977
Prepayments for equipment	<u>70,768</u>	<u>49,270</u>
	<u>\$ 2,345,382</u>	<u>\$ 2,760,877</u>

## 11. OTHER ASSETS

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Deferred loss from sale of nonperforming loans	\$ 6,757,544	\$ 8,987,269
Collaterals assumed, net	1,560,287	2,407,274
Guarantee deposits	1,089,454	1,281,370
Deferred tax assets, net	458,864	314,511
Deferred charges	<u>237,823</u>	<u>208,369</u>
	<u>\$ 10,103,972</u>	<u>\$ 13,198,793</u>

In 2002, the Bank sold nonperforming loans amounting to with carrying value of \$8,831,652 thousand at the contract price of \$1,050,000 thousand to Taiwan Asset Management Corporation and recognized losses of \$7,781,652 thousand.

In 2003, the Bank sold nonperforming loans with a carrying value of \$3,449,041 thousand at the contract price of \$117,069 thousand to Morgan Stanley Union Bank Asset Management Corporation and recognized a loss of \$3,331,972 thousand.

The above loss has been deferred and amortized over 60 months in accordance with the Financial Institution Consolidation Law. The remaining unamortized balance was recorded as other assets.

Had the above loss not been deferred, the net income would have increased by \$2,218,846 thousand in 2004 and decreased by \$1,470,328 thousand in 2003, and the balances of the other assets and unappropriated earnings would have decreased by \$6,757,544 thousand and \$8,987,269 thousand as of December 31, 2004 and 2003. As of December 31, 2004 and 2003, the total contract price of \$58,535 thousand and \$87,802 thousand, respectively, had not been received from the Morgan Stanley Union Bank Asset Management Corporation.

## 12. DUE TO BANKS

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Call loans	\$ 3,094,493	\$ 3,944,382
Due to the Central Bank and other banks	1,587,176	1,786,482
Overdraft	<u>31,282</u>	<u>101,271</u>
	<u>\$ 4,712,951</u>	<u>\$ 5,832,135</u>

### 13. PAYABLES AND ADVANCE RECEIPTS

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Notes and checks in clearing	\$ 838,557	\$ 722,632
Interest payable	715,012	679,877
Accrued expenses	571,576	387,023
Advance receipts	357,862	953,792
Bank acceptances payable	274,193	320,068
Notes and checks in clearing - branches	269,261	235,255
Other	<u>987,957</u>	<u>916,260</u>
	<u>\$ 4,014,418</u>	<u>\$ 4,214,907</u>

### 14. DEPOSITS AND REMITTANCES

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Savings	\$ 114,948,127	\$ 90,875,581
Time	39,585,823	38,822,595
Due to the Postal Remittances and Savings Bank	20,105,317	19,390,822
Demand	18,244,150	15,569,431
Negotiable certificates of deposit	10,027,800	7,013,400
Checking	2,112,715	1,831,971
Inward and outward remittances	<u>11,681</u>	<u>15,039</u>
	<u>\$ 205,035,613</u>	<u>\$ 173,518,839</u>

### 15. BANK DEBENTURES

To maintain its capital adequacy ratio, the Bank needs to have long-term operating capital. Thus, the Bank applied to the MOF for approval to issue bank debentures amounting to \$11,500,000 thousand. The Bank issued in November 2002, September 2004 and December 2004.

	<b>December 31</b>		
	<b>2004</b>	<b>2003</b>	<b>Term</b>
First subordinated bank debentures issued in 2002	\$ 3,500,000	\$ 3,500,000	Fixed interest rate of 3.8%; maturity: November 2007.
First unsecured, convertible bank debentures issued in 2004	2,694,000	-	Zero coupon; maturity: September 2009; the bondholders may convert the debentures into common shares of the Bank during the period between one month after the issuance date and 10 days prior to maturity.

(Continued)

	<b>December 31</b>		<b>Term</b>
	<b>2004</b>	<b>2003</b>	
First subordinated bank debentures issued in 2004	\$ 1,500,000	\$ -	- Average one year time savings deposit rate of First Bank, Hua Nan Bank, Chang Hwa Bank, Land Bank, Taiwan Cooperative Bank and Bank of Taiwan plus 1%; maturity: June 2010.
Second subordinated bank debentures issued in 2004	3,500,000	-	- Fixed interest rate of 3.55%; maturity: June 2010.
	<u>\$ 11,194,000</u>	<u>\$ 3,500,000</u>	

The Bank issued \$3,000,000 thousand of zero coupon par valued convertible bank debentures (the “Debentures”) in the denomination of \$100 thousand each on September 13, 2004. Other issue terms are as follows:

a. Redemption terms

Unless previously redeemed, purchased and cancelled or converted, the Debentures will be redeemed on maturity at the par value.

- 1) Early redemption at the option of the Bank: The Debentures may be wholly or partly redeemed at their par amount, at the Bank’s option under any of these conditions:
  - a) After one year from the issue date and before 40 days prior to maturity, the balance of unconverted debentures is lower than \$300,000 thousand.
  - b) After one year from the issue date and before 40 days prior to maturity, the closing prices of the Bank’s common shares on the TSE for 30 consecutive trading days have not exceeded 50% of the conversion price.
- 2) Redemption at the option of the bondholders: In the second, third and fourth year of the issue date is the “put date.” The Bank will redeem all or any portion of the Debentures at par value; yield rate of 0%.

b. Pledged: None

c. Conversion period and conversion right

Except during the closed period or suspension period, the bondholders may convert the Debentures into common shares of the Bank at any time between after one month of issuance date and 10 days before the conversion date.

d. Conversion price

The initial conversion price was set at NT\$10.85.

## 16. STOCKHOLDERS' EQUITY

### a. Capital surplus

Under the Company Law, capital surplus from the issuance of shares in excess of par value and donation may be transferred to common stock with the stockholders' approval.

Capital surplus from the issuance of shares in excess of par value may except in the year it arises, be distributed as stock dividends. This distribution can be made within specified limits each year. These restrictions are based on regulations issued by the Securities and Futures Bureau (the SFB).

Capital surplus from equity-method investments may not be distributed for any purpose.

### b. Retained earnings

The Bank's Articles of Incorporation provide that annual net income less any prior years' deficit should be appropriated in the following order:

- 1) 30% as legal reserve;
- 2) Special reserve, as deemed proper;
- 3) Dividends;
- 4) The remainder:
  - a) Employees' bonus of at least 10%;
  - b) Retained earnings, as deemed proper;
  - c) The remainder, together with prior year's unappropriated earnings: 95% as bonus to stockholders and 5% as remuneration to directors and supervisors.

These appropriations should be resolved by the stockholders in the following year and given effect to in the financial statements of that year.

The board of directors (BOD) decides the appropriation and distribution of cash and stock dividends, taking into account the Bank's overall financial and economic condition, future profitability and capital expenditure requirements. In view of the Bank's need for capital to expand its operations and meeting of capital adequacy ratios, primarily cash dividends will be declared in the next three years, with the related proposal to be submitted in the stockholders' meeting for approval.

After the stockholders' approval, the declaration of stock dividend needs further approval by the SFB.

In their meeting on June 11, 2004, the stockholders approved the appropriation of a legal reserve of \$396,284 thousand from the 2003 earnings, and from the remainder, a special reserve \$924,664 thousand for deferred loss from sale of nonperforming loans. In addition, the stockholders approved the revision of the Bank's Articles to effect a capital increase to \$24,889,260 thousand. From the increase, a special reserve of \$10,000,000 thousand was also appropriated for issuance of warrant.

As of December 31, 2004, the Bank's capital was \$15,171,292 thousand, and representing 1,517,129,154 common shares. In 2004, some debenture were converted into 28,202,765 common shares in accordance with the conversion terms. The shares are expected to be issued after obtaining government approval in April 2005 of the change in the number of the Bank's shares.

In their meeting on May 27, 2003 meeting, the stockholders approved the offset of a deficit of \$1,304,491 thousand against legal reserve. Because of this offset, there was no appropriation of employees' bonus and remunerations to directors and supervisors from the 2003 earnings. Information on appropriations may be accessed online through the Market Observation Post System (MOPS) on the Web site of the Taiwan Stock Exchange.

Under an SFB directive, a special reserve should be appropriated from retained earnings at an amount equal to the debit balance of an account in stockholders' equity, such as unrealized loss on long-term equity investments and cumulative translation adjustment but excluding treasury stock. The balance of the special reserve is adjusted to reflect any changes in the debit balances of the related account.

Under an SFB directive, if a financial institution's nonperforming loans are sold to an asset management corporation, and the loss on this sale is amortized over five years, a special reserve should be appropriated from retained earnings at an amount equal to the difference of the loss on sale of nonperforming loans and the amortized amount, as required by the Financial Institution Consolidation Law.

Under the Company Law, legal reserve should be appropriated until the reserve equals the Bank's paid-in capital. This reserve is only used to offset deficit. When the reserve reaches 50% of the Bank's paid-in capital, up to 50% of the reserve may be capitalized. In addition, the Banking Law provides that, if the balance of legal reserve is less than the Bank's paid-in capital, annual cash dividends and bonuses to directors, bonus to supervisors and employees should not exceed 15% of the Bank's paid-in capital.

Under the Integrated Income Tax System, noncorporate and ROC-resident stockholders are allowed tax credits for the income tax paid by the Bank on earnings generated since January 1, 1998.

## 17. TREASURY STOCK

Reasons for Redemption	(Shares in Thousands)			
	Beginning of Year	Increase	Decrease	End of Year
<u>2004</u>				
Reissuance to employees	19,091	-	19,091	-
<u>2003</u>				
Reissuance to employees	45,237	-	26,146	19,091

Under the Securities and Exchange Law, the Bank should not acquire treasury stock in excess of 10% of the total shares issued and the total acquisition cost should not exceed the sum of the retained earnings, paid-in capital in excess of par value, and capital surplus arising from gains on disposal of properties and donated capital. The Bank is prohibited from using the treasury stock to secure any of its obligations and to exercise stockholder's rights on those stocks.

In 2004 and 2003, the highest number of treasury shares held by the Bank was 19,091,000 shares and 45,237,000 shares, respectively, and the highest balance of treasury stock were \$144,151 thousand and \$295,262 thousand, respectively.

Of the shares repurchased, 19,091,000 shares and 26,146,000 shares were reissued to employees in January 2004 and November 2003, respectively.

## 18. PENSION

The Bank has a defined benefit noncontributory pension plan covering all regular employees. The Bank makes monthly contributions to the pension fund, which is managed by the employees' pension fund administrative committee and the supervisory committee of labor retirement reserve.

The changes in the pension fund are summarized as follows:

	2004	2003
Balance, beginning of year	\$ 349,021	\$ 313,779
Contributions	40,533	40,535
Interest income	5,247	4,495
Benefits paid	<u>(7,761)</u>	<u>(9,788)</u>
Balance, end of year	<u>\$ 387,040</u>	<u>\$ 349,021</u>

a. Net pension costs in 2004 and 2003 are summarized below:

	2004	2003
Service cost	\$ 45,647	\$ 42,507
Interest cost	12,260	11,636
Actual return on assets	\$ (5,929)	\$ (7,662)
Deferred assets gains	<u>(6,864)</u>	<u>(5,146)</u>
Expected return on plan assets	(12,793)	(12,808)
Net amortization and deferral	<u>(519)</u>	<u>(519)</u>
Net pension cost	44,595	40,816
Adjustment - reflect actual pension cost	<u>(4,033)</u>	<u>-</u>
Pension expense	<u>\$ 40,562</u>	<u>\$ 40,816</u>

b. The reconciliation of the funded status of the plan and accrued pension cost as of December 31, 2004 and 2003 is as follows:

	<u>December 31</u>	
	2004	2003
Benefit obligation		
Vested benefit obligation	\$ 74,532	\$ 40,431
Non-vested benefit obligation	<u>258,786</u>	<u>211,287</u>
Accumulated benefit obligation	333,318	251,718
Additional benefits based on future salaries	<u>133,448</u>	<u>100,065</u>
Projected benefit obligation	466,766	351,783
Fair value of plan assets	<u>(388,313)</u>	<u>(346,503)</u>
Funded status	78,453	5,280
Unrecognized net transitional obligation	-	-
Unrecognized prior service cost	8,037	8,556
Unrecognized pension loss	<u>(80,464)</u>	<u>(7,838)</u>
Accrued pension cost	<u>\$ 6,026</u>	<u>\$ 5,998</u>
c. Vested benefits obligation	<u>\$ 85,962</u>	<u>\$ 45,261</u>

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
d. Actuarial assumptions		
Discount rate used in determining present values	3.5%	3.5%
Future salary increase rate	0-2.5%	0-2.5%
Expected rate of return on plan assets	3.5%	3.5%

## 19. OPERATING AND ADMINISTRATIVE EXPENSES

	<b>2004</b>	<b>2003</b>
Personnel expenses		
Salaries and wages	\$ 1,370,917	\$ 1,274,797
Bonus and rewards	437,467	399,278
Labor insurance and national health insurance	122,046	111,421
Pension	40,562	40,815
Other	16,017	10,738
Depreciation	194,476	211,438
Amortization	53,756	60,417
Other	<u>3,190,019</u>	<u>2,816,534</u>
	<u>\$ 5,425,260</u>	<u>\$ 4,925,438</u>

## 20. INCOME TAX

- a. The components of income tax were as follows:

	<b>2004</b>	<b>2003</b>
Income tax on income before income tax at 25% statutory rate	\$ 371,659	\$ 367,508
Permanent difference	(305,917)	(188,048)
Temporary difference	129,854	(179,460)
Loss carryforward	(195,066)	-
Investment tax credit	(530)	(20,490)
Tax on unappropriated retained earnings (10%)	<u>-</u>	<u>40,981</u>
Current tax payable	-	20,491
Change in deferred income tax	(144,353)	67,668
Prior year's income tax adjustment	4,560	47,029
Separate tax on interest income on short-term bills	<u>26,844</u>	<u>13,937</u>
Income tax expense (benefit)	<u>\$ (112,949)</u>	<u>\$ 149,125</u>



- b. As of December 31, 2004 and 2003, net deferred income tax consisted of the tax effects of the following:

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Loss carryforwards	\$ 337,096	\$ 512,017
Unrealized foreign exchange loss (gain)	101,285	(72,156)
Unrealized loss on collaterals assumed	50,475	69,996
Investment tax credit	20,732	14,143
Provision for credit losses	20,492	62,407
Equity in net income of equity-method investee	(17,065)	(15,461)
Provision for default reserve	<u>8,145</u>	<u>7,471</u>
	521,160	578,417
Allowance for valuation of deferred income tax assets	<u>62,296</u>	<u>263,906</u>
Net deferred income tax assets (included in other assets)	<u>\$ 458,864</u>	<u>\$ 314,511</u>

The loss carryforwards as of December 31, 2004 may be used to reduce the Bank's taxable income until 2008; investment tax credits of research development and personnel training expense may be used to reduce the Bank's taxable income until 2008.

- c. The related information under the Integrated Income Tax System is as follows:

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Balances of the imputation credit account	<u>\$ 376,555</u>	<u>\$ 346,218</u>

As of December 31, 2004, the Bank had no earnings available for distribution; thus, a creditable tax ratio was not estimated.

The Bank's income tax returns through 2002 had been examined and cleared by the tax authorities.

In December 2003, the tax authorities and the Bank reached a compromise on the lawsuit in regards to withholding tax. Under the compromise agreement, the Bank will get a 65% refund on the withholding tax for the years prior to Year 2002. Thus, the Bank recognized an income tax expense for the unrefunded 35% of the tax.

## 21. EARNINGS PER SHARE

The numerators and denominators used in computing earnings per share (EPS) are summarized as follows:

	<b>Numerator (Amounts)</b>		<b>Denominator</b>	<b>Earnings</b>	
	<b>Pretax</b>	<b>After Tax</b>	<b>(Shares in Thousands)</b>	<b>Per Share (NT\$)</b>	
				<b>Pretax</b>	<b>After Tax</b>
<u>2004</u>					
Basic EPS	\$ 1,486,676	\$ 1,599,625	1,489,146	<u>\$ 1.00</u>	<u>\$ 1.07</u>
Diluted effect on common shares:					
Convertible bank debenture	<u>-</u>	<u>-</u>	<u>74,624</u>		
Diluted EPS	<u>\$ 1,486,676</u>	<u>\$ 1,599,625</u>	<u>1,563,770</u>	<u>\$ 0.95</u>	<u>\$ 1.02</u>

(Continued)

	<u>Numerator (Amounts)</u>		<u>Denominator</u>	<u>Earnings</u>	
	<u>Pretax</u>	<u>After Tax</u>	<u>(Shares in Thousands)</u>	<u>Per Share (NT\$)</u>	<u>Pretax After Tax</u>
<u>2003</u>					
Basic EPS					
Net income of common stockholders	<u>\$ 1,470,073</u>	<u>\$ 1,320,948</u>	<u>1,447,128</u>	<u>\$ 1.02</u>	<u>\$ 0.91</u>

## 22. RELATED PARTY TRANSACTIONS

The Bank's related parties were as follows:

### a. Related parties

<u>Name</u>	<u>Relationship with the Bank</u>
Yu-Pang Co., Ltd. (Yu-Pang)	Director
Yong-Xuan Co., Ltd. (Yong-Xuan)	Its chairman is a Bank's director
Union Enterprise Construction Co., Ltd. (UECC)	Its chairman is a Bank's director
Hung-Kou Construction Inc., Ltd. (Hung-Kou)	Its chairman is a second-degree relative of the Bank's director
Union Bills Finance Corporation (UBF)	Equity-method investee
Union Finance and Leasing International Corporation (UFLIC)	Subsidiary
Union Securities Investment Trust Corporation (USITC)	Equity-method investee
MSUB Assets Management Corporation (MSUB)	Equity-method investee
Union Real Estate Management Corporation (UREMC)	Equity-method investee
Other	Directors, supervisors, managers, their relatives and affiliates. Some of the related parties with which the Bank that had no transactions in 2004 and 2003 are shown in Table 3 (attached)

### b. Significant transactions with related parties:

#### 1) Loans

	<u>December 31</u>		<u>Interest Revenue</u>		
	<u>Amount</u>	<u>%</u>	<u>Rate</u>	<u>Amount</u>	<u>%</u>
2004	\$ 5,651,563	3.96	1.675%-14%	\$ 72,168	0.66
2003	4,401,190	3.62	0%-11.75%	78,028	0.90

#### 2) Deposits

	<u>December 31</u>		<u>Interest Expense</u>		
	<u>Amount</u>	<u>%</u>	<u>Rate</u>	<u>Amount</u>	<u>%</u>
2004	\$ 4,757,045	2.32	0%-7.40%	\$ 58,951	2.28
2003	3,720,361	2.14	0%-7.40%	52,262	2.05

3) Guarantees and letters of credit

	<b>December 31</b>	
	<b>Amount</b>	<b>%</b>
2004	\$ 186,222	1.88
2003	218,944	2.72

4) Due from banks - UBF

	<b>Highest Balance During the Year</b>	<b>Balance as of December 31</b>	<b>Rate</b>	<b>Interest Revenue</b>
2004	\$ 1,705,000	\$ -	0.90%-1.18%	\$ 5,207
2003	500,000	-	0.70%-1.50%	621

5) Call loans - UBF

	<b>Highest Balance During the Year</b>	<b>Balance as of December 31</b>	<b>Rate</b>	<b>Interest Expense</b>
2004	\$ 670,000	\$ -	0.865%-1.65%	\$ 631
2003	628,000	57,000	0.68%-1.20%	435

6) Securities purchased/sold under agreements to resell/repurchase

	<b>December 31</b>			
	<b>2004</b>		<b>2003</b>	
	<b>Amount</b>	<b>Rate</b>	<b>Amount</b>	<b>Rate</b>
Securities purchased under agreements to resell	\$ 1,077,370	1.00%-1.21%	\$ 376,788	0.925%-1.085%

7) Securities brokerage fees

	<b>For the Years Ended December 31</b>	
	<b>Amount</b>	<b>%</b>
2004	\$ 8,294	7.44
2003	4,062	3.77

8) Consulting and advisory contract

The Bank and UFLIC entered into a three year consulting and advisory contract on auto financing operations which expires in 2007. UFLIC's services include consultation on management, marketing, and promotional activities of auto loans, as well as on loan management and collection of overdue loans, etc. Upon expiration of the contract, the contract will automatically extended for next 3 years if no objection has been received from either party. The consulting fees and related expenses paid in 2004 and 2003 were \$457,251 thousand and \$399,944 thousand, respectively, and the accrued expenses as of December 31, 2004 and 2003 were \$64,253 thousand and \$40,275 thousand, respectively.

## 9) Leases

### a) The Bank as lessee

Under operating lease agreements with terms between one year and seven years, the Bank rents from related parties office spaces for the Head Office, Trust, International Banking, Consumer Banking Dept., Security Finance Dept., Credit Card Dept. and four branches. Rentals are payable quarterly, with some contracts allowing placement with the lessor of lease deposits with the lessor in lieu of rental payments. Rental expenses were as follows:

	<u>Lease Deposit</u>		<u>Rental Expense</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>2004</u>				
Yu-Pang	\$ 454,220	41.69	\$ 13,137	2.89
Hung-Kuo	231,775	21.27	126,906	27.94
Yong-Xuan	19,346	1.78	29,173	6.42
UECC	4,172	0.38	7,862	1.73
UBF	91	0.01	243	0.05
UFLIC	66	0.01	264	0.06
<u>2003</u>				
Yu-Pang	454,220	35.45	15,287	3.68
Hung-Kuo	231,775	18.09	127,587	30.69
UECC	3,684	0.29	7,787	1.82
Yong-Xuan	414	0.03	1,745	0.42
UFLIC	66	0.01	265	0.06

### b) The Bank as lessor

The Bank's Tauring Branch has leased part of its office premises to UFLIC since December 1999. The lease term is 10 years until December 2009. The leasing revenues received were \$913 thousand each in 2004 and 2003.

## 10) Property transaction

The Bank's Board of Directors resolved to sell to UREMC the collaterals assumed located in Shindan City for \$80,000 thousand and recognized a gain of \$8,930 thousand.

## 11) The sale of nonperforming loans and assuming of related collateral

The Bank sold to MSUB part of its nonperforming loans and related collateral property assumed, which amounted to \$205,849 thousand. Of this amount, \$102,925 thousand had not been paid as of December 31, 2004.

## 12) Securities purchased

As of December 31, 2004 and 2003, the Bank bought 25,840,000 and 29,159,000 units of beneficiary certificates amounting to \$231,238 thousand and \$241,251 thousand, respectively, through USITC.

## 13) Bank debentures

As of December 31, 2004, UBF held the Bank's debentures amounting to \$983,800 thousand.

Under the Banking Law, except for customer loans, credits extended by the Bank to any related party should be fully secured, and the terms of credits extended to related parties should be similar to those for third parties.

The terms of transactions with related parties are similar to those for third parties, except for the more favorable interest rate for employees' savings within a prescribed limit.

### **23. PLEDGED ASSETS**

As of December 31, 2004 and 2003, government bonds, bank debentures and negotiable certificates of deposit, which amounted to \$1,331,700 thousand and \$955,400 thousand, respectively, had been provided to the courts, the Central Trust Bureau and the Central Bank as guarantee deposits on provisional seizures against the debtors' properties, as reserve of credit card receivables, as guarantee deposits on bills finance operations, and as trust reserve. In addition, negotiable certificates of deposit aggregating \$2,300,000 thousand had been provided to the Central Bank as collateral for the day-time overdraft as of December 31, 2004 and 2003, respectively.

### **24. CONTINGENCIES AND COMMITMENTS**

Financial instruments, contingencies and commitments of the Bank, in addition to those disclosed in Note 28, are summarized as follows:

#### **a. Operating leases**

The Bank rents several office premises for its branches under operating leases ranging from 2 to 10 years. Rentals are payable monthly, quarterly or annually. For the Nanking E. Rd., San Chung and Shindon branches, lease deposits are made in lieu of lease payments, and rental expenses are recognized at imputed interests of 1.0%. Future minimum lease payments are as follows:

<b>Year</b>	<b>Amount</b>
2005	\$ 333,823
2006	208,596
2007	175,868
2008	144,224
2009	76,294

The present value of total rentals beyond 2009 amounted to \$3,216 thousand, is about \$2,933 thousand using the Bank's one-year time deposit interest rate of 1.55% posted on January 1, 2005.

#### **b. Computer equipment purchase contracts**

The Bank is under contracts for acquisition of computer equipment and software for \$102,393 thousand, of which \$62,568 thousand had been paid as of December 31, 2004

#### **c. Short-term bills and bonds sold under repurchase agreements**

As of December 31, 2004, short-term bills and bonds under repurchase agreements with a total cost of \$2,687,438 thousand will be sold for \$2,688,406 thousand in January 2005

#### **d. Short-term bills and bonds purchased under resell agreements**

As of December 31, 2004, short-term bills and bonds with a total cost of \$9,180,055 thousand were purchased under agreements to resell for \$9,180,209 thousand in January 2005.

- e. As of December 31, 2004, the Bank had issued a US\$3,000 thousand standby letter of credit to guarantee the credit line of Union Finance International (H.K.) Limited, an equity-method investee.
- f. Balance sheet of trust accounts and trust properties accounts

**Balance Sheet of Trust Accounts  
December 31, 2004**

<b>Trust Assets</b>	<b>Amount</b>	<b>Trust Liabilities and Capital</b>	<b>Amount</b>
Bank deposits	\$ 25,598	Trust capital	\$ 13,260,378
Short-term investments		Reserve and deficit	<u>9,363</u>
Bonds	100,760		
Mutual funds	12,905,245		
Long-term investments	101,190		
Interest receivable	298		
Real estate - land and building	<u>136,650</u>		
Total	<u>\$ 13,269,741</u>	Total	<u>\$ 13,269,741</u>

**Trust Property Accounts  
December 31, 2004**

<b>Investment Portfolio</b>	<b>Amount</b>
Demand deposits	\$ 25,896
Short-term investments	
Bonds	100,760
Mutual funds	12,905,245
Long-term investments	101,190
Real estate - land and building	<u>136,650</u>
	<u>\$ 13,269,741</u>

- g. On December 9, 2004, the Bank won the bid for Chung Shing Bank's total assets, liabilities and operating rights from Central Deposit Insurance Corporation and signed the contract on December 13 of the same year. The related Bank acquisition is at contract price of \$7,108,000 thousand and will take effect on March 19, 2005.

## **25. CAPITAL ADEQUACY RATIO**

The Banking law and related regulations require that the Bank maintain a capital adequacy ratio (CAR) of at least 8%. If the Bank's CAR falls below 8%, the MOF may impose certain restrictions on the cash dividends that the Bank may declare or, in certain conditions, totally prohibit the Bank from declaring cash dividends.

As of December 31, 2004, the Bank's stand-alone and consolidated CARS were 12.40% and 12.48%, respectively.

As of December 31, 2003, the Bank's stand-alone and consolidated CARS were 10.29% and 11.76%, respectively.

## 26. AVERAGE AMOUNT AND AVERAGE INTEREST RATE OF INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES

Average balance is calculated by the daily average balance of interest-earning assets and interest-bearing liabilities.

	2004		2003	
	Average Amount	Average Rate (%)	Average Amount	Average Rate (%)
<u>Assets</u>				
Cash and cash equivalents - due from banks	\$ 860,002	1.09	\$ 856,494	1.66
Due from the Central Bank and call loans	9,127,943	1.09	8,160,170	1.27
Securities purchased	27,709,381	1.78	17,693,477	2.68
Bills purchased, discounts and loans	131,223,207	4.79	113,582,214	4.97
Long-term bond investment	2,645,421	4.49	32,371	3.77
<u>Liabilities</u>				
Due to banks	8,300,974	1.21	4,048,795	1.24
Demand	15,302,490	0.35	12,300,579	0.34
Savings	32,891,048	0.69	27,757,857	0.84
Time	39,593,957	1.27	32,336,924	1.52
Due to postal remittances and savings bank	19,743,051	1.61	18,516,098	1.82
Time-savings	68,870,508	1.60	58,745,809	2.03
Negotiable certificates of deposit	6,961,333	1.18	4,403,667	1.12
Bank debentures	4,508,727	2.98	3,500,000	3.80

## 27. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	December 31, 2004			
	Due in One Year	Due Between One Year and Seven Years	Due After Seven Years	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 3,605,231	\$ -	\$ -	\$ 3,605,231
Due from the Central Bank and other banks	8,459,447	-	-	8,459,447
Securities purchased	23,992,645	-	-	23,992,645
Receivables	39,392,850	-	-	39,392,850
Bills purchased, discounts and loans	43,840,744	30,716,207	68,116,418	142,673,369
Long-term bond investments	-	4,150,810	-	4,150,810
	<u>\$ 119,290,917</u>	<u>\$ 34,867,017</u>	<u>\$ 68,116,418</u>	<u>\$ 222,274,352</u>

(Continued)

<b>December 31, 2004</b>				
	<b>Due in One Year</b>	<b>Due Between One Year and Seven Years</b>	<b>Due After Seven Years</b>	<b>Total</b>
<u>Liabilities</u>				
Due to banks	\$ 4,712,951	\$ -	\$ -	\$ 4,712,951
Payables and advance receipts	4,014,418	-	-	4,014,418
Deposits and remittances	186,030,157	19,005,456	-	205,035,613
Bank debentures	-	11,194,000	-	11,194,000
	<u>\$ 194,757,526</u>	<u>\$ 30,199,456</u>	<u>\$ -</u>	<u>\$ 224,956,982</u>

<b>December 31, 2003</b>				
	<b>Due in One Year</b>	<b>Due Between One Year and Seven Years</b>	<b>Due After Seven Years</b>	<b>Total</b>
<u>Assets</u>				
Cash and cash equivalents	\$ 3,178,425	\$ -	\$ -	\$ 3,178,425
Due from the Central Bank and other banks	9,514,259	-	-	9,514,259
Securities purchased	20,554,409	-	-	20,554,409
Receivables	30,069,172	-	-	30,069,172
Bills purchased, discounts and loans	33,378,549	34,127,970	54,190,394	121,696,913
Long-term bond investments	-	628,453	-	628,453
	<u>\$ 96,694,814</u>	<u>\$ 34,756,423</u>	<u>\$ 54,190,394</u>	<u>\$ 185,641,631</u>

<u>Liabilities</u>				
Due to banks	\$ 5,832,135	\$ -	\$ -	\$ 5,832,135
Payables and advance receipts	4,214,907	-	-	4,214,907
Deposits and remittances	167,513,165	6,005,674	-	173,518,839
Bank debentures	-	3,500,000	-	3,500,000
	<u>\$ 177,560,207</u>	<u>\$ 9,505,674</u>	<u>\$ -</u>	<u>\$ 187,065,881</u>

## 28. FINANCIAL INSTRUMENTS

### a. Derivative financial instruments

The Bank engages in derivative transactions mainly to accommodate customers' needs and to manage its own exposures. It also enters into derivative transactions to hedge the effects of foreign exchange or interest rate fluctuations on its foreign-currency net assets, net liabilities or commitments. The Bank's strategy is to hedge most of its market risk exposures, using hedging instruments with changes in market value having a highly negative correlation with the changes in the market value of the hedged items. The Bank also assesses the hedging effectiveness of the instruments periodically.



The Bank is exposed to credit risk from counter-parties' default on contracts. The Bank enters into contracts with customers that pass the credit approval process and provide the necessary collateral. Guarantee deposits may also be required, depending on the customer's credit standing. The transactions are then made within each customer's credit limit. Transactions with other banks are made within the trading limit prescribed for each bank based on the bank's credit rating and its worldwide ranking. Thus, no significant losses resulting from counter-parties' defaults are anticipated.

The contract (notional) amounts, credit risk and fair values of open contracts were as follows:

	<b>December 31, 2004</b>			<b>December 31, 2003</b>		
	<b>Contract (Notional) Amount</b>	<b>Credit Risk</b>	<b>Fair Value</b>	<b>Contract (Notional) Amount</b>	<b>Credit Risk</b>	<b>Fair Value</b>
For nontrading purposes:						
Asset swap contracts	\$ 285,912	\$ 20,004	\$ 20,004	\$ 93,495	\$ 18,539	\$ 18,536
For accommodating customers' needs and managing the Bank's exposures:						
Forward contracts	3,288,513	32,529	24,290	9,199,343	550	(1,094)
Currency swap contracts	3,301,937	7,712	12,523	9,007,278	66,589	50,411
Cross-currency swap contracts	65,729	164	164	-	-	-

The fair value of each contract is determined using the quotation from Reuters or the Telerate Information system.

The principal amounts in certain derivative contracts are only notional amounts, i.e., used solely as a basis for calculating the receivable and payable on the contracts and are not exchanged at the start or end of a contract. Thus, the notional amount does not represent potential cash inflows or outflows. The possibility that derivative financial instruments held or issued by the Bank cannot be sold at a reasonable price is minimal, thus, no significant cash demand is expected.

The gains and losses on derivative financial instruments for the years ended December 31, 2004 and 2003 were insignificant.

b. Fair values of nonderivative financial instruments

	<b>December 31, 2004</b>		<b>December 31, 2003</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<b><u>Assets</u></b>				
Financial assets - with fair values approximating carrying amounts	\$ 202,410,161	\$ 202,410,161	\$ 163,999,628	\$ 163,999,628
Securities purchased, net	23,881,686	23,881,686	20,490,238	20,490,238
Long-term investment, net	8,868,605	8,868,605	4,800,485	4,800,485
<b><u>Liabilities</u></b>				
Financial liabilities - with fair values approximating carrying amounts	216,320,075	216,320,075	182,813,822	182,813,822
Bank debentures	11,194,000	11,536,979	3,500,000	3,575,786

Methods and assumptions applied in estimating the fair values of nonderivative financial instruments are as follows:

- 1) The carrying amounts of cash and cash equivalents, due from the Central Bank and banks, securities purchased under agreements to resell, receivables, securities sold under agreements to repurchase, payables, due to banks, deposit and remittance approximate their fair values because of the short maturities of these instruments.
- 2) The fair values of securities purchased, long-term bond investments and bank debentures issued are based on their market prices if market prices are available. Otherwise, fair values are estimated at carrying amounts.
- 3) The fair values of long-term equity investments are based on their quoted market prices if these prices are available and on carrying amounts if market prices are not available.
- 4) Loans, discounts, bills purchased and loan fund liabilities are interest-earning assets and interest-bearing liabilities. Thus, their carrying amounts represent fair values. Fair value of nonperforming loans is based on carrying amounts net of allowance for credit losses.
- 5) Fair values of refundable deposits and guarantee deposits are based on their carrying amounts because these deposits do not have specific due dates.

Certain financial instruments and all nonfinancial instruments are excluded from disclosure of fair value. Accordingly, the aggregate fair values presented above are not the underlying value of the Bank.

c. Off-balance-sheet credit risks

The Bank has significant credit commitments principally relating to credit cards issued and credit facilities extended. The terms of most of the credit commitments range from half year to ten years. For the years ended December 31, 2004 and 2003, the loan interest rates ranged from 1.45% to 13.09% and 1.45% to 15.11%, respectively, and the highest interest rate for credit cards was 19.71%. The Bank also provided guarantees on customers' loans and letters of credit obtained from third parties. The maturity dates of these commitments are not concentrated in a particular period.

The amounts of financial contracts with off-balance-sheet credit risks as of December 31, 2004 and 2003 were as follows:

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Irrevocable loan commitments	\$ 969,813	\$ 153,000
Credit commitments for credit cards	764,577,789	560,564,925
Guarantees and issuance of letters of credit	9,920,312	8,040,725

Since most of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank's maximum credit risk on these commitments is the amount of the commitment assuming that the customer uses the full amount of the commitment and the related collateral or other security turns out to be worthless.

The Bank makes credit commitments and issues financial guarantees and standby letters of credit only after careful evaluation of customers' credit worthiness. On the basis of the result of the credit evaluation, the Bank may require collateral before allowing drawings to be made against the credit facilities. As of December 31, 2004 and 2003, secured loans amounted to about 62.93% and 64.66%, respectively, of the total loans. In addition, the coverage ratios of guarantees and standby letters of credit secured by collaterals were 60.80% and 43.43% as of December 31, 2004 and 2003, respectively. Collaterals held vary but may include real estate, cash, inventory, marketable securities, and other

property. If the customers default, the Bank will, as required by circumstances, foreclose the collateral or execute other rights on the guarantees given. For credit card facilities, no collateral is required but the credit status of each credit cardholder is closely monitored. Depending on the results of the credit status monitoring, appropriate measures are adopted, which include amending the credit limit and, if necessary, canceling the facility.

## 29. CREDIT RISK CONCENTRATION

Credit risk concentrations exist when the financial instrument counter-parties are individuals or groups engaged in similar activities or activities in the same region, which would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Credit risk concentration involved individuals and certain industries, which accounted for 7% or more of the outstanding loans, discounts and bills purchased as of December 31, 2004 and 2003, as follows:

	2004		2003	
	Amount	%	Amount	%
Individuals	\$ 95,147,187	66.69	\$ 75,742,301	62.24
Real-estate	7,610,414	5.33	9,588,261	7.88
Manufacturing industry	7,751,270	5.43	8,813,922	7.24

The net positions on the major foreign-currency transactions as of December 31, 2004 and 2003 were as follows:

2004			2003		
Foreign-currency Amounts (in Thousands)		New Taiwan Dollar Amounts (in Thousands)	Foreign-currency Amounts (in Thousands)		New Taiwan Dollar Amounts (in Thousands)
1. USD	38,039	\$ 1,208,422	1. USD	32,384	\$ 1,100,986
2. JPY	2,504,966	774,035	2. JPY	316,463	100,604
3. EUR	1,922	83,082	3. EUR	132	5,623
4. NZD	1,154	26,370	4. SGD	468	9,354
5. HKD	2,994	12,230	5. HKD	5,039	22,068

## 30. MAJOR RISK EXPOSURE SITUATIONS, MANAGEMENT POLICY AND PRACTICE OF CREDIT RISK, MARKET RISK, LIQUIDITY RISK, OPERATING RISK AND LEGAL RISK

### a. Credit risks

#### 1) Asset quality

(In Thousands of New Taiwan Dollars, %)

Items	Year December 31, 2004	December 31, 2003
Overdue loans (including nonperforming loans) (Note 1)	\$ 3,598,624	\$ 4,678,056
Nonperforming loans	4,007,087	5,238,984
Overdue loan ratio (Note 2)	2.52%	3.84%
Classified loans (Note 3)	1,793,851	2,229,018
Ratios of classified loans to total loans	1.26%	1.83%
Allowance for credit losses	1,305,417	881,543

Note 1: The overdue loans disclosure is based directive No. 832292834 and No. 86656564 issued by the MOF.

Note 2: Overdue loans ratio:  $\text{Overdue loans (including nonperforming loans)} / (\text{Outstanding loan} + \text{Nonperforming loans})$

Note 3: Loans classified as under surveillance are as follows:

- a) Medium and long-term loans with installment repayments delinquent for more than three months but less than six months;
- b) Other loans with principal repayments overdue by less than three months and interest thereon is overdue by more than three months but less than six months;
- c) Loans exempted from surveillance reporting are loans for which an agreement has been reached to extend repayment schedules, loans for which a credit insurance fund will cover such repayment (as evidenced by a sufficient certificate of deposit or reserve), and loans extended under other approved exempt loan programs.
- d) Loans for which the collateral has been sold at auction and the proceeds of the auction are yet to be distributed.

## 2) Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

Items	December 31, 2004		December 31, 2003	
Credit extensions to interest parties	6,559,695		5,367,679	
Ratios of credit extensions to interest parties	4.45%		4.36%	
Ratios of credit extensions secured by pledged stocks	1.84%		2.51%	
Industry concentration (the top three industries by industry credit ratio)	Industry	Percentage	Industry	Percentage
	Finance, insurance and real estate	9.83%	Finance, insurance and real estate	12.93%
	Manufacturing	5.25%	Manufacturing	6.25%
	Wholesale, retail sale and food	3.70%	Wholesale, retail sale and food	3.73%

Note: a) Total credits include bills, discounts and loans (including those for import and export negotiations), acceptances and guarantees.

b) Ratio of credit extensions to interest parties:  $\text{Credit extensions to interested parties} \div \text{Total credits}$ .

c) Ratio of credit extensions secured by pledged stocks:  $\text{Credit extensions secured by pledged stocks} \div \text{Total credits}$

d) Credit extensions to interested parties are defined by the Banking Law.

3) Policy on the loans, nonperforming loans and allowance for credit losses: Note 2.

4) Concentrations of risk: Note 28.

b. Market risk

- 1) Average amount and average interest rate of interest-earning assets and interest-bearing liabilities: Note 26.

- 2) Market risk sensitivity

(%)

Items	December 31, 2004	December 31, 2003
Ratio of interest rate-sensitive assets to liabilities	91.35	75.19
Ratio of interest rate-sensitive gap to net worth	(85.26)	(231.66)

Note: a) Interest-earning assets and interest-bearing liabilities are the cost or revenue of market risk-sensitivity assets and liabilities that would be affected by interest rate fluctuations.

b) Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets/Interest rate-sensitive liabilities (in New Taiwan Dollars, with maturities of less than one year).

c) Interest rate-sensitive gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.

- 3) The net positions of the main foreign-currency transactions: Note 29

c. Liquidity risk

- 1) Profitability:

(%)

Items	2004	2003
Return on total assets	0.66	0.77
Return on net worth	8.39	9.21
Profit margin	10.88	11.48

Note: a) Return on total assets = Income before income tax/Average total assets

b) Return on net worth = Income before income tax/Average net worth

c) Profit margin = Income after income tax/Total operating revenues

d) Income before income tax represents income in 2004 and 2003.

- 2) Maturity analysis of assets and liabilities:

**December 31, 2004**

**(In Thousands of New Taiwan Dollars)**

	Total	Amount for the Remaining Period Before the Maturity Date				
		0-30 Days	31-90 Days	91-180 Days	181 Days to One Year	Over One Year
Assets	\$ 229,736	\$ 55,367	\$ 14,075	\$ 16,768	\$ 22,862	\$ 120,664
Liabilities	236,000	26,490	23,446	53,064	92,017	40,983
Gap	(6,264)	28,877	(9,371)	(36,296)	(69,155)	79,681
Accumulated gap	(6,264)	28,877	19,506	(16,790)	(85,945)	(6,264)

Note: The above amounts include only New Taiwan dollar amounts held in the onshore branch of the Bank (i.e. excluding foreign currencies).

d. Operating risk law risk

**Matters Requiring Special Notation  
December 31, 2004**

(In Thousands of New Taiwan Dollars)

	Summary and Amount
Within the past one year, a responsible person or professional employee, violated the law in the course of business, resulting in an indictment by a prosecutor.	None
Within the past one year, a fine was levied on the Bank for violations of the Banking Law.	None
Within the past one year, misconduct occurred that resulted in the Ministry of Finance's imposing strict corrective measures.	None
Within the past one year, the loss from one incident or the total losses from employee corruption, workplace accidents or failure to abide by the "Guidelines for the Maintenance of Soundness of Financial Institutions" exceeded NT\$50 million dollars.	None
Others	None

Note: 1) The term "within the past one year" means one year before the balance sheet date.

2) The fine mentioned above means a fine levied by the Bureau of Monetary Affairs, Securities and Futures Bureau or Insurance Bureau.

**31. CAPITAL ADEQUACY**

(%)

Year	December 31, 2004	December 31, 2003
Items		
Capital adequacy ratio	12.40	10.29
Ratios of debt to net worth	1,218.86	1,123.05

Note: Capital adequacy ratio = Eligible capital/Risk-based assets. Under the Banking Law and related regulations No. 0090345106 issued by the MOF.

**32. BORROWERS, GUARANTEES OR COLLATERAL PROVIDERS AS INTEREST PARTIES**

Category	Account Volume	December 31, 2004	The Possibility of Loss (Note c)
Consumer loans (Note a.)	1,306	\$ 1,203,683	-
Employees' home mortgage loans	108	244,066	-
Other credit extensions (Note b.)	35	5,356,012	-
Guarantees	220	2,493,588	-
Collateral providers	9	12,955	-

Instruction: The interest parties mentioned above are subject to Article 33-1 of the Banking Law.

- Note:
- a. Consumer loans are regulated by Article 32 of the Banking Law.
  - b. Excluding consumer loans and loans for employees' home mortgage loans.
  - c. Loss should be estimated if it is significant.

### 33. ADDITIONAL DISCLOSURES

- a. Following are the additional disclosures required by the Securities and Futures Commission for the Bank and its affiliates:

There are no other significant transactions or investment related information except the following:

- 1) Marketable securities held: Table 1 (attached);
- 2) Endorsement/guarantee provided: Table 2 (attached);
- 3) Names, locations, and other information of investees on which the Bank exercises significant influence: Table 3 (attached);
- 4) Derivative financial transactions: For the Bank's related information, please see Note 28. The investees' related information is as follows:

#### Union Bank Futures Corporation (UBFC)

The financial and nonfinancial instruments used in managing UBFC's exposure as well as trading activities are stated at fair value on the balance sheet. The change in realized or unrealized fair value is accounted for as gain or loss during the period the value changes. Interest revenue from and interest expense for transactions for trading purposes are recognized as interest revenue and expense during the period but not as gain or loss on such transaction.

- a) The notional amount and credit risk

Financial Instruments	<u>December 31, 2004</u>		<u>December 31, 2003</u>	
	Notional Amounts	Credit Risk	Notional Amounts	Credit Risk
For trading purposes				
TAIEX Futures	\$ 498,981	(Note)	\$ 644,590	(Note)
Option - call	319	(Note)	285	(Note)
Option - put	7,527	(Note)	3,765	(Note)

Note: The counter-parties of UBFC are large financial institutions and domestic futures brokers with high credit ratings. Thus, no significant credit risk is anticipated.

- b) Market price risk

UBFC engages in futures trading for trading purposes, in which price risk results from futures buying and selling. Every futures contract has a reasonable fair market value. Thus, the possibility that the futures contract cannot be sold at fair value is minimal.

## Derivatives

Item	Transaction Type	December 31, 2004			
		<u>Opening Positions</u>		Carrying Value/ Premium Paid (Received)	Fair Value
		Long/Short	Volume		
Futures	Electronic sector index futures	Long	10	\$ 9,120	\$ 9,236
Options	TAIEX futures	Long	400	489,861	495,040
	Call options	Long	110	319	557
	Put options	Short	4,945	(7,527)	7,397

Methods and assumptions applied in estimating the fair values of financial instruments are as follows:

The fair value of derivative financial instrument is the amount that UBFC must pay or is expected to receive to settle contracts at the balance sheet date. Generally, the fair value includes the unrealized gain or loss on unsettled contracts. The fair value of UBFC's derivatives is calculated on the basis of quotations from financial institutions.

- c) Liquidity risk, cash flow risk and the uncertainty of the amount and period of future cash flow
  - i. Liquidity risk: None.
  - ii. Cash flow risk: None.
  - iii. Uncertainty of the amount and period of future cash flow:

UBFC trades derivatives having contract (notional) amounts. In addition, the initial margin deposit on the stock index contract is higher than its maintenance margin deposit. Thus, there are no additional future cash requirement and risk on uncertainty.

- d) The particular risk of future dealer transaction

The derivative merchandise which dealt by future dealer have to be approve by SFB and traded in the limit authorized by UBFC. As transactions like such is considered as trading, the gains and losses which operated by future dealer have to be absorbed by UBFC itself. Because leverage ratio of derivative transaction is high, the fluctuation of the price is high as well. The risks of future dealer included those on credit, market, liquidity, operation and legislation, etc. To decrease transaction risk, the internal control of UBFC focuses on operating procedures, including delegation of authority at different levels of hierarchy, control of deal amount, valuation of operating performance and the transaction position, reports of operation, internal auditing and the limit of trading gain or loss.

- e) The presentation of derivatives in the financial statements

- i) In 2004 and 2003, the gains (loss) on futures transactions were as follows

	2004	2003
Realized gain on futures contracts	\$ 28,200	\$ 40,355
Unrealized gain on futures contracts	3,897	772
Realized gain on option transactions	(48,558)	4,912
Unrealized gain (loss) on option transactions	(2,389)	1,680



- ii) As of December 31, 2004 and 2003, the presentation of derivatives in the financial statement was as follows:

<b>Financial Instruments</b>	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Asset		
TAIEX futures - margin deposit	\$ 124,643	\$ 85,784
Options - long options	557	261
Liability		
Options - short options	7,657	2,062

Union Bills Finance Corporation (UBF)

UBF enters into interest rate swap, asset swap and structured time deposit for cash flow and risk management.

- a) The contract (notional) amount and credit risk of derivative financial instruments as of December 31, 2004 and 2003 were as follows:

	<b>December 31</b>		<b>Credit Risk</b>
	<b>2004</b>	<b>2003</b>	
	<b>Contract (Notional) Amounts</b>	<b>Contract (Notional) Amounts</b>	
<u>Trading purposes</u>			
Interest rate swap	\$ 2,800,000	\$ -	(Note 1)
Assets swap	105,000	-	
<u>Nontrading purposes</u>			
Interest rate swap	\$ 3,100,000	-	(Note 2)
Structured time deposit	5,400,000	-	

Note 1: UBF enters into interest rate swap for trading purpose with other banks. Since UBF awards credit limit to its counterparties based on their credit rating and only enters into contracts within the authorized credit limit, it believes credit risk is minimal.

Note 2: The purposes that UBF enters into interest rate swap are

- (1) Finance dispatches.
- (2) To hedge its interest rate fluctuation exposures on assets and liabilities.

UBF's hedging strategy is to hedge most of the market risk that mainly associate with floating rate risk of first secured corporate bonds and fixed rate risk of commercial paper. Since UBF awards credit limit to its counterparties based on their credit rating and only enters into contracts within the authorized credit limit, it believes credit risk is minimal.

b) Market price risk

- i) The purpose of the interest rate swap contracts is to hedge the interest risk of liabilities. Gains or losses resulting from changes in interest rates will be offset by those of the item being hedged. Therefore, market risk is insignificant. For trading purpose contracts, it will estimate internal return ratio by taking long and short positions into consideration. In addition, UBF has set up stop-loss points by risk. Since the loss is within an expectable range, market risk is considered to be insignificant.
- ii) UBF enters into government bond future contracts for trading purpose. The objects which are allowed to trade in domestic market is stock index future and future option. The price of this object will fluctuate accounting to stock price. UBF has set up stop-loss points by risk. Loss is in expectable range, thus, market risk is insignificant.

c) Liquidity risk, cash flow risk and the uncertainty of the amount and period of future cash flow

- i) UBF's working capital can cope with the expected cash requirements of interest rate swap contracts, government bond future contracts and other derivative financial instruments. No significant cash flow is expected.
- ii) As of December 31, 2004, the risk of cash flow from derivative financial instruments was as follows:

Item	Contract Amount
Interest rate swap - trading purposes	\$ 2,800,000
Interest rate swap - nontrading purposes	<u>3,100,000</u>
	<u>\$ 5,900,000</u>

d) The varieties, objectives and strategies of derivative instrument

UBF entered derivative contracts for trading and nontrading purposes. The purpose of entering into interest rate swap contract is to hedge floating rate risk of issuance of corporate bonds and commercial papers. UBF's hedging strategy is to hedge most of the market risk it is exposed to through hedging instruments with market value changes that have a high negative correlation with the changes in the market of the exposures being hedged. UBF also reassesses the hedge effectiveness of the instruments periodically.

e) The presentation of derivative financial instruments on finance report

- i) For interest rate swap contracts and government bond future contracts that UBF enters into for trading purposes, the gains or losses from evaluating, reversing, write-off and settling were accounted as current gain or loss. Futures contracts that are not settled as of the balance sheet date are marked to market. The difference between original margin deposit and the market price is accounted for as "gain or loss on derivative" using the market value method.
- ii) For interest rate swap that UBF enters into for nontrading purpose, the gain or loss are included in "interest revenue and expense" as current gain or loss. In 2004, the related net gain was \$19,007 thousand.

iii) For interest rate swap contracts and futures option contracts that UBF enters into for trading purposes, the resulted gains or losses were included in “interest revenue and expense” and “gain or loss on derivative transactions”, respectively. In 2004, the net gains on these derivative instruments was \$27,570 thousand.

f) The gains and losses on derivative financial instruments and presentation

The net gains and losses which included in operating income (operating cost) in the income statement are as follow:

<b>Financial Instruments</b>	<b>2004</b>
Interest rate swap	
Interest income	\$ 86,862
Interest expense	(40,285 )
Future	(7,479 )
Option	<u>(952 )</u>
	<u>\$ 38,146</u>

c. Information related to investment in Mainland China: None.

### **34. SEGMENT INFORMATION**

The Bank engages only in banking activities allowed under the Banking Law and operates entirely in the Republic of China. The Bank has no single customer that accounts for 10% or more of the Bank’s operating revenues. Thus no geographic and customer information is required to be disclosed.

**TABLE 1****UNION BANK OF TAIWAN****MARKETABLE SECURITIES HELD****DECEMBER 31, 2004****(Amounts in Thousands of New Taiwan Dollars and Foreign Currency, Unless Otherwise Stated)**

Held Company Name	Type and Name of Marketable Securities	Relationship	Financial Statement Account	December 31, 2004				Note
				Shares/Piece/Units (In Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Union Finance and Leasing International Corporation	<u>Stock</u>							
	China Chemical Corporation	-	Long-term equity investments	324	\$ 16,338	0.12%	\$ 4,478	-
	Formosa International Hotel Corporation	-	Long-term equity investments	1,527	55,439	0.71%	57,813	-
	Union Capital (Cayman) Corp.	Subsidiary Affiliate	Long-term equity investments	50	426,003	100.00%	427,861	-
	Union Bills Finance Corporation		Long-term equity investments	2,100	26,250	0.71%	23,250	-
	Photronics Semiconductor Mask Corp.		Long-term equity investments	536	14,909	0.18%	4,159	-
	Union Semi-Conductors Technology Corp.	-	Long-term equity investments	1,600	548	2.65%	(24,423 )	-
Union Bank Futures Corporation	<u>Stock</u>							
	Taiwan Future Exchange Corporation	-	Long-term equity investments	3,050	30,500	1.53%	70,455	-
Union Bills Finance Corporation	<u>Stock</u>							
	Debt Instrument Depository and Clearing Co., Taiwan	-	Long-term equity investments	4,000	40,000	2.00%	40,040	-
	<u>Corporate bond</u>							
	Taishin Financial Holding Co., Ltd., 2003	-	Short-term investments	10 pieces	100,000	-	99,927	-
	Microelec CB1	-	Short-term investments	930 pieces	99,756	-	97,287	-
	Hsin Kuang CB2	-	Short-term investments	427 pieces	44,882	-	45,185	-
	Evergreen CB2	-	Short-term investments	54 pieces	6,194	-	6,369	-
	China Airlines CB2	-	Short-term investments	626 pieces	65,617	-	68,591	-
	Quanta CB1	-	Short-term investments	765 pieces	80,830	-	73,624	-
	AOC CB1	-	Short-term investments	90 pieces	9,031	-	8,688	-
	Plastron CB1	-	Short-term investments	300 pieces	30,000	-	34,800	-
	Shin Kong FCB1	-	Short-term investments	107 pieces	15,571	-	15,845	-
	Polaris SEC CB1	-	Short-term investments	208 pieces	24,653	-	23,949	-
	Concord SEC CB1	-	Short-term investments	106 pieces	11,514	-	11,440	-
	<u>Bank debentures</u>							
	Hua Nan Commercial Bank's 2002 Series 3 Subordinated - term S	-	Short-term investments	15 pieces	146,563	-	149,973	-

(Continued)

Held Company Name	Type and Name of Marketable Securities	Relationship	Financial Statement Account	December 31, 2004				Note
				Shares/Piece/Units (In Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Taishin Bank's 2002 Series 1-2 Subordinated - term H	-	Short-term investments	15 pieces	\$ 147,877	-	\$ 150,000	-
	Jin Sun International Bank's 2002 Series 1-1 Subordinated	-	Short-term investments	41 pieces	39,856	-	42,449	-
	EnTie Bank's 2002 Series 1 Subordinated - term G	-	Short-term investments	15 pieces	145,019	-	150,021	-
	Union Bank's 2002 Series 1 Subordinated	Investee accounted for by the equity method	Short-term investments	6 pieces	58,315	-	62,019	-
	Ta Chong Bank's Domestic 1st unsecured convertible	-	Short-term investments	558 pieces	57,833	-	66,938	-
	Fubon Bank's 2004 Series 5	-	Short-term investments	30 pieces	300,000	-	300,000	-
	Far Eastern International Bank's 2004 Series 1	-	Short-term investments	30 pieces	300,000	-	300,000	-
	Taishin Bank's 2003 Series 1-5 Subordinated	-	Short-term investments	20 pieces	200,000	-	200,000	-
	Taishin Bank's 2003 Series 1-6 Subordinated	-	Short-term investments	30 pieces	300,000	-	300,000	-
	Union Bank's Domestic 1st unsecured convertible	Investee accounted for by the equity method	Short-term investments	408 pieces	406,392	-	434,307	-
	EnTie Bank's 2004 Series 1-1 Subordinated - term A	-	Short-term investments	10 pieces	100,000	-	100,000	-
	Mocoto Bank's 2001 Series 1-1 subordinated	-	Short-term investments	40 pieces	401,829	-	400,000	-
	Jin Sun International Bank's 2004 Series 1 Subordinated	-	Short-term investments	150 pieces	1,513,219	-	1,517,864	-
	EnTie Bank's 2004 Series 1-9	-	Short-term investments	50 pieces	500,000	-	499,996	-
	Union Bank's 2004 Series 1 Subordinated	Investee accounted for by the equity method	Short-term investments	423 pieces	423,000	-	423,000	-
	Union Bank's 2004 Series 2 Subordinated	Investee accounted for by the equity method	Short-term investments	10 pieces	100,000	-	100,000	-
	<u>Beneficiary certificate</u>							
	Entrus Phoenix Bond Fund	-	Long-term investment	4,110	60,000	-	60,364	-
	Union Bond Fund	Affiliate	Long-term investment	12,316	145,000	-	145,906	-
	Shinkong Chi-Shin Fund	-	Long-term investment	1,448	20,000	-	20,202	-
	Sheng Hua 1699 Bond Fund	-	Long-term investment	2,488	30,000	-	30,083	-
	Cosmos Bank George & Mary Cash Card 2003 Securitization Certificates - ESR Certificates	-	Long-term investment	20 pieces	71,171	-	-	Note 2
	Special Purpose Trust for Securitization of Corporate Loans Originated by Bank SinoPac-M-1 Tranch	-	Long-term investment	20 pieces	100,000	-	-	Note 2

(Continued)

Held Company Name	Type and Name of Marketable Securities	Relationship	Financial Statement Account	December 31, 2004				Note
				Shares/Piece/Units (In Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Union Security Investment Trust Corporation	<u>Beneficiary certificate</u>							
	Union Bond Fund	Beneficiary certificate issuer	Short-term investments	1,114	\$ 13,000	-	\$ 13,200	-
	Union Yo-Li Bond Fund	Beneficiary certificate issuer	Short-term investments	1,227	13,000	-	13,216	-
	CITC Safe Income Fund	-	Short-term investments	848	12,000	-	12,237	-
	NITC Bond Fund	-	Short-term investments	57	9,000	-	9,136	-
	NITC Taiwan Bond Fund	-	Short-term investments	926	12,500	-	12,699	-
	NT High Yield Fund	-	Short-term investments	188	3,000	-	3,047	-
	Sheng Hua 5599 Bond Fund	-	Short-term investments	372	4,000	-	4,066	-
	CITC Cash Reserves	-	Short-term investments	316	3,500	-	3,600	-
	Union China Fund	Beneficiary certificate issuer	Short-term investments	950	10,000	-	8,969	-
	Union Balance Fund	Beneficiary certificate issuer	Short-term investments	490	5,000	-	5,118	-
Union Information Technology Corporation	<u>Stock</u>							
	ELTA Technology Co., Ltd.	Equity method investee	Long-term equity investments	2,000	14,468	21.05%	12,342	-
	eBizServe, Inc.	-	Long-term equity investments	1,650	3,066	16.02%	3,284	-
	Lin San Hao International Co., Ltd.	-	Short-term investments	1	13	-	-	-
	<u>Beneficiary certificate</u>							
	Union Win Win Fund	The beneficiary certificate issuer is an affiliate of Union Information Technology Corporation	Short-term investments	4,635	31,613	-	27,812	-
	Union Balance Fund	The beneficiary certificate issuer is an affiliate of Union Information Technology Corporation	Short-term investments	3,795	40,000	-	39,637	-
	President Pao-An Balance Fund	-	Short-term investments	2,730	27,301	-	26,980	-
	ABN-AMRO Asia Growth Guaranteed Fund	-	Short-term investments	1,500	15,054	-	14,340	-
	ABN-AMRO Value Fund	-	Short-term investments	856	10,030	-	9,030	-
	ABN-AMRO Taiwan Bond Fund	-	Short-term investments	2,963	31,185	-	31,415	-
	ABN-AMRO Global Balanced Fund	-	Short-term investments	1,032	10,594	-	11,400	-
Union Security Investment Consulting Company	<u>Beneficiary certificate</u>							
	Union Bond Fund	The beneficiary certificate issuer is an affiliate of Union Security Investment Consulting Corporation	Short-term investments	224	2,500	-	2,658	-
Union Finance International (HK) Limited	<u>Bond</u>							
	China Petrochemical Euro Convertible Bond of DLJ Emerging Market LDC	-	Long-term investment	1,910 pieces	US\$ 1,910	-	-	Note 2
	Capital One Bank Senior Notes	-	Long-term investment	500 pieces	US\$ 500	-	-	Note 2
	Federal Home Loan Bank Bond	-	Long-term investment	10,000 pieces	US\$ 1,000	-	-	Note 2
	Hannstar Display Corp. Credit Limited Note	-	Short-term investments	3 pieces	US\$ 3,000	-	-	Note 2
	Teco Electric and Machinery Corp. Credit Limited Note	-	Short-term investments	3 pieces	US\$ 3,000	-	-	Note 2

(Continued)

Held Company Name	Type and Name of Marketable Securities	Relationship	Financial Statement Account	December 31, 2004				Note
				Shares/Piece/Units (In Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Union Insurance Broker Company	Applied Materials Inc. Equity Linked Note	-	Short-term investments	5 pieces	US\$ 495	-	\$ -	Note 2
	Oracle Corp. Equity Linked Note	-	Short-term investments	2 pieces	US\$ 199	-	-	Note 2
	<u>Stock</u>							
	Cosco Systems Inc.	-	Short-term investments	18	US\$ 400	-	US\$ 353	-
	Intel Corp.	-	Short-term investments	19	US\$ 500	-	US\$ 436	-
	Askey Computer Corp.	-	Short-term investments	106	2,564	0.03%	1,925	-
	Hold-Key Electric Wire & Cable Co., Ltd.	-	Short-term investments	87	2,371	0.05%	1,077	-
	China Petochemical Development Corporation	-	Short-term investments	200	1,692	0.01%	1,376	-
	Tycoons Group Enterprise co., Ltd.	-	Short-term investments	200	2,897	0.04%	2,092	-
	Kent World Co., Ltd.	-	Short-term investments	20	533	0.02%	218	-

Note 1: The Bank's investees had investments in companies with shares having no quoted market prices. The net asset values of these companies were based on the following:

- Union Capital (Cayman) Corp., Union Bills Finance Corporation and Debt Instrument Depository and Clearing Co., Taiwan - the audited stockholders equity as of December 31, 2004.
- ELTA Technology Co., Ltd. - the audited stockholders equity as of December 31, 2003.
- Other companies - unaudited stockholders' equity as of December 31, 2004.

The market value of the listed and OTC stocks were based on the average daily closing prices in December 2004. Beneficiary certificates were based on net asset values as of the balance sheet date.

Note 2: There are no open market in the bonds, thus no market value is available.

**TABLE 2**

**UNION BANK OF TAIWAN**

**ENDORSEMENT/GUARANTEE PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(In Thousands of New Taiwan Dollars)**

No.	Endorsement/Guarantee Provider	Counter-party		Limits on Individual Endorsement/ Guarantee Amounts	Maximum Balance for the Period	Ending Balance	Endorsement/ Guarantee Amount Collateralized by Properties	Ratio of Accumulated Amount of Endorsement/ Guarantee to Net Asset Value of the Latest Financial Statement (Note)	Maximum Endorsement/ Guarantee Amounts Allowable
		Name	Nature of Relationship						
1	Union Financing and Leasing International Corporation	Union Capital (Cayman) Corp.	Subsidiary	-	US\$28,000	US\$28,000	-	5.16%	

Note: The provider’s net asset value is based on Union Bank’s audited financial statements as of December 31, 2004.



**TABLE 3**

**UNION BANK OF TAIWAN**

**NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(Amounts in Thousands of New Taiwan Dollars and Foreign Currency, Unless Otherwise Stated)**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2004			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				Dec. 31, 2004	Dec. 31, 2003	Shares (in Thousands)	Percentage of Ownership	Carrying Value			
Union Bank of Taiwan	Union Bills Finance Corporation	15th Floor, 109, Sec. 3 Min-Sheng E. Road., Taipei, Taiwan	1. Brokerage and short-term bills dealing 2. Notes underwriting, licensing and endorsing (as guarantor) 3. Brokerage and government bond dealing 4. Licensing, underwriting, brokerage and bank debenture dealing 5. Corporate bond dealing	\$ 1,238,450	\$ 1,238,450	126,576	42.76%	\$ 1,400,232	\$ 274,003	\$ 117,164	-
	Union Financing and Leasing International Corporation	8th Floor, 109, Sec. 3 Min-Sheng E. Road, Taipei, Taiwan	Installment, leasing and accounts receivable factoring	1,000,000	1,000,000	100,000	99.99%	1,185,911	463,626	463,580	-
	Union Bank Futures Corporation	3F-1, 137, Sec. 2 Nanking E. Road, Taipei, Taiwan	Futures brokerage	594,397	594,397	59,440	99.07%	512,255	(88,217)	(87,397)	-
	Union Finance International (HK) Limited	Unit C and D, 8F, Entertainment Building, 30, Queen's Road, Central, Hong Kong	Import and export accommodation	106,589	106,589	30,000	99.99%	188,512	6,429	6,428	-
	Union Information Technology Corporation	6th Floor, 399, Rui-Kuang Road, Taipei, Taiwan	Distribution of computer hardware and software, development of system program in sourcing of system construction, design of web pages and web sites and e-commerce	90,650	90,650	12,950	99.92%	182,531	49,010	48,508	-
	Union Security Investment Trust Corporation	6th Floor, 137, Sec. 2 Nanking E. Road, Taipei, Taiwan	Securities investment trust	105,000	105,000	10,500	35.00%	119,274	34,338	11,679	-
	Union Insurance Broker Company	21, Alley 6, Lane 113, Sec. 3 Min-Sheng E. Road Taipei, Taiwan	Personal insurance agency	25,220	25,220	2,522	90.07%	50,513	20,312	15,867	-
	Union Real Estate Management Corporation	6th Floor, 10, Sec. 3 Chong-Xin Road, Sanchong, Taipei, Taiwan	Construction plan review and consulting	20,000	20,000	2,000	40.00%	38,475	28,712	11,485	-
	MSUB Asset Management Corporation	8th Floor, 109, Sec. 3 Min-Sheng E. Road, Taipei, Taiwan	Purchase, sell and manage nonperforming loans from financial institution; does accounts receivable factoring	13,230	13,230	1,323	49.00%	49,158	72,302	35,428	-
	Union Security Investment Consulting Company	6F-1, 137, Sec. 2 Nanking E. Road, Taipei, Taiwan	Securities investment consulting	9,940	9,940	994	99.40%	10,581	1,564	1,555	-
Union Financing and Leasing International Corporation	Union Capital (Cayman) Corp.	P.O. Box 1034, George Town Grand Cayman, Cayman Islands, British West Inies	Foreign trade and general leasing	1,644	1,644	50	100.00%	426,003	US\$ 6,365	208,517	-
Union Information Technology Corporation	ELTA Technology Co., Ltd.	8th Floor, 2, Sec. 2. Ren-Ai Road, Taipei, Taiwan	Software and hardware product retail and distribution services	22,500	22,500	2,000	21.05%	14,468	11,049	1,017	Note 1

Note 1: The equity of Union Information Technology Corporation in the net gain and loss of its equity-accounted investee, ELTA Technology Co., Ltd., was based on the investees' 2003 audited financial statements.