

### 3. Business Operation

#### 3-1. Business Report

##### 3-1-1. Comparison over the Past Five Years

###### 3-1-1-1. Deposits

COTA Bank deposits business are mainly to absorb the saving deposits in the public and the working capitals from the company, the item of deposit business including Checking Deposits, Demand Deposits, Demand Savings Deposits, Time Deposits and Time Savings Deposits. In order to improve our quality and volume of the deposits structure, we'll not only make every effort to approach companies and individuals with good credit, but also enhance our internet banking and phone banking. At the end of 2004, total deposits in the bank stood at TWD73.499 billion; compared with the end of 2003, this was an increase of TWD8.476 billion, for a growth rate of 13.04%.

###### Structure of Deposits

Unit: TWD million

Item \ Year	2004		2003		2002		2001		2000	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Checking Deposits	1,348	1.83	1,279	1.97	1,025	1.82	813	1.51	1,085	2.14
Demand Deposits	5,211	7.09	4,569	7.02	3,226	5.74	2,533	4.70	2,187	4.38
Demand Savings Deposits	17,028	23.17	15,453	23.77	12,661	22.50	11,047	20.49	9,660	19.33
Time Deposits	13,069	17.78	9,102	14.00	6,715	11.94	8,427	15.63	8,550	17.11
Time Savings Deposits	36,843	50.13	34,620	53.24	32,633	58.00	31,086	57.67	28,482	57.01
<b>Total</b>	<b>73,499</b>	<b>100.00</b>	<b>65,023</b>	<b>100.00</b>	<b>56,260</b>	<b>100.00</b>	<b>53,906</b>	<b>100.00</b>	<b>49,964</b>	<b>100.00</b>

###### 3-1-1-2. Loans

The outstanding of loans as the end of 2004 totaled NTD 63.06 billion. Compared with the end of 2003, this was an increase of NTD 4.97 billion, for an increase rate of 8.55%, and an increase rate of 12.54% from 2000 through 2004. From 2000 to 2001, loans were mainly concentrated to mortgage, but recent years many financial products were developed and launched. The Bank promoted several loans of tailor-made to fit in client's need in 2002. In addition, in order to

strengthen loan structure, the Bank invited government-run enterprises and government agencies as loan customer and participated in syndication loan in recent years.

### Structure of Loans

Unit: TWD million

Item \ Year	2004		2003		2002		2001		2000	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Overdrafts	42	0.07	42	0.07	60	0.13	76	0.21	79	0.20
Bills Discount	285	0.45	210	0.36	94	0.20	168	0.46	277	0.70
Car Loans	1,814	2.88	1,175	2.03	629	1.33	0	0.00	0	0.00
Mortgage Loans	14,660	23.25	13,287	22.87	12,484	26.28	11,223	30.80	11,967	30.444
Other Unsecured Loans	27,096	42.96	25,063	43.14	16,278	34.27	6,312	17.32	6,243	15.88
Other Secured Loans	17,635	27.96	17,029	29.31	17,193	36.20	17,890	49.09	19,602	49.87
Indirect Loans	1,531	2.43	1,291	2.22	757	1.59	772	2.12	1,143	2.91
<b>Total</b>	<b>63,063</b>	<b>100</b>	<b>58,097</b>	<b>100</b>	<b>47,495</b>	<b>100</b>	<b>36,441</b>	<b>100</b>	<b>39,311</b>	<b>100</b>

### 3-1-1-3. Wealth Management

Wealth Management of the Bank is mainly as agency for domestic trust funds and insurance.

Unit: TWD thousand

Item		2004	2003	2002
Domestic Trust Funds	Number of Funds	176	119	80
	Trust Amount	701,608	359,589	48,680
	Balance Amount	397,843	246,473	45,821
Insurance Agency	Fee Income of Life Insurance	526,418	518,210	-
	Fee Income of Property Insurance	911	-	-

## **3-1-2. Business Plan for 2005**

### 3-1-2-1. Operating Plan

#### 3-1-2-1-1. Organization Development

- Set up International Banking Department.
- Seek the target of merge or acquisition to enlarge branch channels.
- Enlarge the scope and scale of the wealth management and consumer banking.
- Execute the function of corporate banking account officer to maintain loan clients.
- Establish regional consumer banking center.
- Streamline operation flow and organization hierarchy.
- Align organization structure and human capital to meet business development.

#### 3-1-2-1-2. Consumer Banking

- Develop new financial products to satisfy customers' need.
- Enhance CIS and promote corporate image.
- Continue to accept demand deposit and adjust the deposits structure.
- Train proficient personnel.
- Promote multi-function services platform.
- Establish justified performance appraisal to encourage outstanding employees
- Enhance all kinds of fee incomes.
- Continue to replace ATM Chip Card to integrate high-security and value-add products.
- Increase the profits of products and expand market share
- Promote credit cards business and increase effective cards issued and amount of consumption
- Continue to promote credit card loan, cash borrowing, and easy payments to provide convenient financial services to cardholders
- Increase the business of the consumer loans and develop structured financial products
- Promote phone banking and internet banking to provide real time financial information services
- Establish customers' information management system to maintain good relationship with customers

#### 3-1-2-1-3. Corporate Banking

- Promote the corporate loans to enlarge the scope of business
- Seek to loan outstanding corporations and potential high growth companies
- Train employees to have knowledge about industries and have ability to review credit quality
- Participate in syndication loans to well-managed companies

#### 3-1-2-1-4. Foreign Exchange Business

- Continue to train foreign exchange business staff to provide efficient foreign exchange service to our clients and incorporate the competitiveness of international financial.
- Build up the foreign exchange business system platform to supply complete and effective service of the foreign exchange to our client.
- Expand the number and geography of correspondent banks to improve communication efficiency for foreign exchange business.
- Scheme to set up the branch of authorized foreign exchange bank to supply our regional clients with more convenient and direct service.
- Obtain the permission of expanding business area to Mainland-China to promote our foreign exchange service area and customers.
- Prepare to set up offshore banking unit to go forward to be an omnibus foreign exchange bank

#### 3-1-2-1-5. Financial Consulting service and Trust Business

- Train the proficient financial consultants to strengthen customer's financial service.
- Construct the CRM database through the Customer Relationship Management System.
- Train the proficient trust banking staff to enhance trust business
- Develop the new financial products to meet the clients' demand.
- Seek for cooperative partner to enhance asset trust management business.
- Take advantage of CRM database to connect with target clients and increase the interaction of clients and promote our products.

#### 3-1-2-1-6. Asset and Liability Management and Capital Operation

- Improve market share of loans and deposits to keep appropriate ratio and control fund cost.
- Careful manage funds gap to limit the liquidity risks and improve operating efficiency.
- Switch and adjust the structure of deposits and loans toward to superior quality.
- Decline the risk of capital operation by diversifying investment under the compliance of law and regulation.

#### 3-1-2-1-7. Quality of service and Human Capital

- Build up proficient, executive and high performing team by continually recruit, evaluate and train potential staff
- Establish performance-driving bonus system to attract competent employee.
- Improve the proficient capability of IT staff to extend the application of information technology to operating system.

### 3-1-2-2. Major Business Plans

The business plans for 2005 are planning mainly by integrate the operation volume of the past years and the measure for future development. Each of business items is budgeting as follows:

Unit: TWD thousand

Business Item	2005 Budget	2004 footing	Increasing Volume	
			Amount	%
Average Balance of deposits	75,000,000	67,471,214	7,528,787	11.16
Average balance of loans	62,774,604	58,870,354	3,904,250	6.63

### 3-1-2-3. Major Business Objectives

#### 3-1-2-3-1. Deposits

The analysis of deposits budget for 2005 is based on the use of deposits product niche to lead the increase of low-cost demand deposits.

Unit: TWD million

Business item	2005 Budget		2004 Footing		Average increasing volume	
	Average Balance	%	Average Balance	%	Amount	%
Checking Deposits	1,245	1.66	1,091	1.62	154	14.12
Demand Deposits	4,905	6.54	4,204	6.23	701	16.67
Demand Saving Deposits	17,445	23.26	15,621	23.15	1,824	11.68
Time Deposits	51,405	68.54	46,555	69.00	4,850	10.42
<b>Total</b>	<b>75,000</b>	<b>100.0</b>	<b>67,471</b>	<b>100.0</b>	<b>7,529</b>	<b>11.16</b>

#### 3-1-2-3-2. Loans

In order to acquire more revenues, the bank will continue aggressively to expand consumer loan business and to cooperate with government setting up of the loan projects. Meanwhile, COTA Bank will also to improve the quality and structure of loans. It is predicted that total loan business average budget balance for 2005 is TWD 62,775 billions; compared with the end of 2004, this is able to increase of TWD 3,904 billions, for an increase rate of 6.63%.

#### 3-1-2-3-3. Wealth Management

With our international banking department formally open and in order to satisfy our customer demand for investment, COTA Bank is planning to start business of non-discretionary trust funds by investing in foreign valuable securities. Besides, COTA Bank will aggressively to offer more variable insurance product cooperating with insurance companies. The goal of Business is as follows:

Unit: TWD thousand

Business Item			2005 Budget	2004 Footing	Increasing Volume	
					Amount	%
Trust funds	Domestic Trust Funds	Trust Amount	653,000	397,843	255,157	64
		Fee Incomes	1,630	1,418	212	15
	Overseas Trust Funds	Trust Amount	60,000	-	60,000	-
		Fee Incomes	1,000	-	1,000	-
Insurance Agency	Life Insurance	Premium Incomes	600,000	526,418	73,582	14
		Fee Incomes	16,000	14,485	1,515	10
	Property Insurance	Premium Incomes	1,600	911	689	76
		Fee Incomes	300	210	90	43

### 3-1-3. Market analysis

Since the government has passed laws such as Merge Act for Financial Institutions and Act of Financial Holding, the financial resources are gradually centralized and banks expand their scale by continuous merges to improve their competitive advantages. Under this over competitive environment in Taiwan, many banks are encountering the bottleneck in the operation. Bank in merge process will expedite the merges. In proportion to overseas countries, they are all integral developing in the different scale of financial institutions. With the recovery of economy, business environment for banks will be improved and banks will be less willing to be merged or price will be higher if they wanted to. According to our 'Professional; Efficiency; Friendly; Service' operational objective and leading by the professional management, we will make merges more difficult by our high performance and profit and achieve the purpose of developing to the national bank from the local bank.

Under this over competitive environment by the Financial Holding Institution growing, although we are the smallest scale bank in Taiwan, we are going to build the capital service distribution center and motivating to service local customer for the operational strategy. Moreover, we still not only continue to strengthen our competitive ability, but also develop a more

comprehensive and effective local bank in Taiwan. Besides, our business strategy in the future is conservative; we are not going to merge with poor quality bank or to join the Financial Holding unless our customers, stockholders and staffs have more advantage.

#### **3-1-4. Financial Commodity Research and Development**

- In order to enhance the bank revenues and meet customers' demand, we are continue to integrate all of internal resource , seeking more deposits and loans, developing structured financial products.
- Development of factoring and real estate trust business to meet customers' need and diversify assets.
- Seek to loan small-medium corporations and enhance our banking service competition
- Continue to replace ATM Chip Card and Credit Card for transaction safe and provide more diversified banking service.
- Aggressively to participate in the syndication of loans to well-managed companies and enhance our ability to review credit quality.
- Continue to develop new products, pursue innovations and offer more comprehensive investment options to client.

#### **3-1-5. Long/Short Term Business Development Plan**

- Orientation and Aspiration

Given the intensifying competition between international financial institutions and the guidance of Financial Holding Company Law, COTA Bank faces more challenge and impact in management to compare with foreign banks & all local financial holding companies. Due to scale of bank size and regional restriction, COTA Bank has no plan to develop as a financial holding company temporarily, but set up an ultimate goal to build itself to be a “delicate & professional bank” to make maximum bank advantage and lasting operation as well as to consolidate customer relationship and provide satisfactory service and products to each family.

- Strategy

COTA Bank drafts four strategies: Popularization of Product, Professionalization of Operation, Personalization of Performance and Communalization of Customer to meet clients' demand completely. In consideration of operation risk control, COTA Bank expands different financial products aggressively to pursue stable profit and growth.

- Popularization of Product

Financial market gradually open after Taiwan joined WTO, foreign companies raise products and market more plentiful and competitive with their sufficient fund and diversified knowledge. COTA Bank makes efforts to develop creative products to all clients and take profit such as fixed, interest-offset and smart housing loan to satisfy the mortgage loan requirements of different customer groups. We also map out various easy and instant consumer loans to youth class, “King Boss Loan” for medium enterprises. Meanwhile, we offer chip credit card and ATM card that make clients safe to use.

- Expertization of Operation

To achieve the goal of permanent banking operation, COTA Bank centralizes to process business including credit, appraisal, urge repayment, consumer banking, corporate banking, foreign exchange, wealth management and educates staff to be professional. Now COTA Bank has established Consumer Banking Department, Trust Department and International Banking Department, we will set up Regional Loan Center and Corporate Banking Department in the future and via branch location to provide customer more convenient and innovative financial services. We also take advantage of reconstructing organization and managing knowledge to contribute our superiority.

- Personalization of Performance

Each department of COTA Bank fixes their target since banking business divided by specialty. We set up system to assign staff especially in private banking, wealth management, corporate account and general deposit business. In reviewing staff performance in business, we combine with contribution, reward and punishment to prevent subjective judgment by supervisor and encourage staff to raise benefits.

- Communalization of Customer

To produce advantages in regional banking business, COTA Bank trains staff actively visit communities with professional knowledge, good manners and convenient service without the need to visit bank in person to increase and extend our reputation.

### 3-1-5-3. Strategy of Branch Management

Up to present, COTA Bank established 18 branches that include 11 branches in Taichung, 1 branch in Fengyuan, Changhwa, Yuanlin, Taoyuan, Panchiao and Taipei separately. We run banking business throughout north and central Taiwan. In order to improve and increase impetus for the progress of bank business, we apply to set up new branch still step by step even under strict review and comply with government policies, if fail to catch any new one, we can adjust our



foothold to strengthen marketing network and bank constitution such as we have combined Taoyuan, Panchiao and Taipei branches to be northern regional center. To sum up COTA Bank will devote to create maximum return, raise turnover and gradually extend our base of operation and look forward to be a nation-wide bank finally.

As most of our centers and branches located in central Taiwan, but all management and supervisors have mutual connection to make banking business easily to coordinate and arrange. Efficiency of branch management is our best advantage to compete with rapid changeable market. At the same time, we work out E-Document system to accelerate operation and communications that match up with centralized management to reach to be a nation-wide bank.

#### 3-1-5-4. Strategy of Product Pricing

Aim at quickly reflection on real market price, COTA Bank takes “Flexible Pricing” policy and collect market information with term reviewing by Business Department to make sure our competitive strength. The first target to develop for all banks is “Customer Banking Business” because of its small amount, distracted risk and higher profit. We maintain this business for long time and will keep advantages to promote more convenient and various financial services to customers. To strengthen staff performance in this field, we arrange exclusive staff and reward to bring out the maximum efficiency.

COTA Bank stands and serves customers in central Taiwan from long time ago, therefore, we have good reputation to enterprises with fully understanding and relationship that provides opportunity for us to develop corporate financial market in northern Taiwan. We wish our corporate banking business grow rapidly driven by kindly and efficient service in the future.

### 3-2. Human Capital

Information of Educational Background for Employees in Recent Two Years

Year		Up to Jan.31,2005	2004	2003
Item				
Number of Employee		898	896	728
Average Age		35	34	35
Average Seniority		10	10	11
Structure of Education	PHD	0	0	0
	Graduate	24	24	15
	University/College	646	643	519
	Senior High School	223	224	191
	Below	5	5	3

Certificated Proficiency Tests of Employees	Total (Up to 2005/01/31)
Basic Proficiency Test for Bank Lending Personnel	211
Advanced Proficiency Test for Bank Lending Personnel	16
Basic Proficiency Test for International Banking Personnel	111
Proficiency Test for Bank Internal Control Personnel	373
Proficiency Test for Financial Planning Personnel	188
Proficiency Test for Trust Operations Personnel	342
Securities Investment Analysts	2
Senior Specialist	41
Specialist	45
Future Specialist	31
Securities Investment Trust & Consulting Professionals	32
Life Insurance Specialist	267
Investing Insurance Specialist	100
PRM	1

### 3-3. Responsibility and Ethical Code

COTA Bank is a famous financial institution in central Taiwan that set up around 90 years and

upgraded from Taichung Third Credit Cooperatives. Accumulating experience from long term and stable operation, we have great image and sound reputation in central Taiwan. In order to repay for society support, we set up “Cota Culture & Education Foundation” to develop the public welfare of old persons concern as well as be the sponsor of society welfare, arts appreciation and communities care.

### **3-4. IT Equipment**

COTA Bank uses IBM UNIX server for Business System, Testing System and Utility System separately and TANDEM for internet banking. Software includes Demand Deposits System, Time Deposit System, Cash Card System, Bill Payments System, Credit System, Trust Business System, Checks Clearing System, ATM & Chip-Card System, Internet Banking System, Automatic Phone Voice Service System, Personnel & Wages System, Correspondent System, Credit Checking System, Chops System, Messaging System, Accounting System, Simple Foreign Exchange System and Safe System. The above-mentioned systems were developed by ourselves, and we expect to launch Foreign Exchange System and E-Document System online in 2005.

COTA Bank uses mirror disks to protect all transactions data completely and keeps duplicates of disc and magnetic film every working day also for CD-ROM periodically. To enhance secure transactions, we set up strictly control and management of internet banking platform. Furthermore, we dispose another control room and backup system to prevent any damage from disaster.

### **3-5. Labor-Capital Relations**

#### **3-5-1. Present Agreement of Labor-Capital and Commentary**

To stabilize the quality of staff life and improve the efficiency, COTA Bank takes care of the welfare for staff with regard to give birth, marriage and funeral affairs, medical treatment and accidents.

- **Group Insurance**

In accordance with laws and decrees, COTA Bank applies Labor Insurance and National Health Insurance for all staff. We will give cash and medical payment through Bureau of Labor Insurance and Bureau of National Health Insurance separately if any accident. Moreover, we have accident insurance with Shin Kong Life too.

- **Bonus**

Depends on operations, COTA Bank provides extra bonus at Lunar New Year, Dragon Boat

Festival and Mid-Autumn Festival each year. The net earnings by fix ratio are used to be bonus for staff with good performance after covering prior years' deficits, pay income tax, legal reserves and distribute dividends.

- Incentive Interest Rate

COTA Bank provides favorable interest rate of deposits or loan for all staff.

- Security and Hygiene

To prevent occupational disaster and ensure staff health, COTA Bank takes care of security and hygiene in accordance with related laws of worker safety sanitation.

- Enhance Staff Training

To promote staff of a best possible quality and intelligence, COTA Bank chooses suitable staff to attend various and professional trainings. In the meantime, we carry out pre-education of recruit, on-the-job training and technical training. We also appoint outstanding staff to observe related financial business or have advanced study in colleges or graduate schools

COTA Bank pension fund is pursuant to old version and updated version (from Mar.1, 1998) of "Staff Retirement Plan". The benefit payments and credits suit separately by the above-mentioned plans and based on the years of service and final salary. In accordance with Labor Law, we will calculate 15% of total salaried employees by month (except appointed management) to be retirement payment that was deposited in the pension account in the Central Trust of China. We have another account for appointed management that calculated 8% of their salary each month. COTA Bank has no any argument between labors and capital at present.

### **3-5-2. Damage from Argument between Labor-Capital in Recent Two Years**

All personnel management and staff welfares of COTA Bank are conformed to Labor Law. we have agreeable labor-capital relationship and never suffered damage from arguments and wish so forever.

### 3-6. Significant Contracts

Nature of Contract	Concern Party	Contractual Period	Major Content
Deposit Insurance Contract	Central Deposit Insurance Corp.	Engaged on Aug. 15, 1995	To enhance protection of customer deposits
Bank Comprehensive Insurance	Fubon Insurance Co., Ltd.	From Feb. 1, 2005 to Feb. 1, 2006	<ol style="list-style-type: none"><li>1. Staff unfaithful behavior</li><li>2. Asset of branches</li><li>3. Asset in transit</li><li>4. Forgery of drafts and securities</li><li>5. Forge cash</li><li>6. Damage of equipment</li><li>7. Fault of securities or contracts</li></ol>

**3-7. Apply for Securitization and Related Information in Recent Year:**  
**None**