

6. Financial Status Analysis, Operation Performance Analysis, and Risk Management

6-1. Financial Status

Unit: USD thousand

Item \ Year	2004	2003	Difference	
			Amount	(%)
Total Assets	2,502,808	2,110,584	392,224	18.58
Total Liabilities	2,342,638	1,964,784	377,854	19.23
Total Shareholders' Equity	160,170	145,800	14,370	9.86

Note: No analysis presented due to changes less than 20%

6-2. Operation Performance

Item \ Year	2004	2003	Difference	Increase/Decrease
			Amount	Ratio (%)
Operating revenues	71,573	74,326	(2,753)	(3.70)
Operating expenses	63,860	65,978	(2,118)	(3.21)
Gross profit	7,713	8,349	(636)	(7.61)
Non-operating income	1,191	556	635	114.20
Non-operating expenditures	124	914	(790)	(86.43)
Income before income tax	8,780	7,991	789	9.87
Net income	7,550	6,603	947	14.34

Note: Ratio Changes Disclosure

- 1-1. Non-Operating Income and Profit: The increase of non-operating income about 634 (us dollars in thousands) is due to the profit of assets under operating lease for sale about 392 (us dollars in thousands) and the increase of penalty compare with the previous year.
- 1-2. Non-Operating Expense and Loss: The reduction of non-operating expense and loss about 789 (us dollars in thousands) is due to decrease in Foreclosed allowance for decline in value compare with the previous year.

6-3. Cash Flow

6-3-1. Cash Flow Analysis

Item \ Year	2004	2003	Increase/Decrease Ratio (%)
cash flow ratio	35.60%	31.54 %	12.87%
cash flow adequacy ratio	368.18%	324.26 %	13.54%
cash reinvestment ratio	5.47%	6.31 %	(13.31)%

Note: No analysis presented due to changes less than 20%

6-3-2. Cash Flow Analysis for Next Year

Initial Cash Residual (1)	Estimated Yearly Operating Cash Flow (2)	Estimated Yearly Cash Outflow (3)	Estimated Residual Cash Amount(deficiency) (1)+(2)-(3)	Cash Deficiency Contingency Plan	
				Investment plan	Financial Management Plan
386,866	16,704	111,496	292,074	-	-

Note 1: COTA Bank estimate about 16,704 (us dollars in thousands) from cash flow from operating activities of year.

Note 2: The estimation cash outflow about 111,496(us dollars in thousands)2004, due to cash used of deposits/loan about usd26,551 and investment securities, capital expenditure about usd138,047 (us dollars in thousands)

6-4. Impact of Capital Expenditure in Recent Year

6-4-1. Funding source and utilization of capital expenditure: NONE

6-4-2. Expected benefit from capital expenditure: NONE

6-5. Reinvestment Policy, Improvement Plan and Investment Plan in Next Year

6-5-1. Reinvestment Policy and Improvement Plan

Regarding new reinvestment, the authorized unit shall submit proposal to Asset and Liability Management Committee for discussion and then get approval from Standing Committee of Board. The authorized unit shall closely monitor operation and financials of invested companies and report to Asset and Liability Management Committee in timely basis to ensure investment performance. In last year, COTA Bank did not make new investment due to limited good investment target. With

expectation of economic recovery, we will aggressively seek potential project to enhance investment yield.

6-5-2. Investment Plan in Next Year

2005 economic growth rate is expected lower than last year's. The trough of economic cycle may happen at second quarter this year and then rebound in second half year of 2005. COTA Bank will dynamically adjust equities and mutual fund position according to financial market change and industry situation. In view of rising interest rate trend, COTA Bank will increase bond portfolio gradually to mitigate market risk. Also, we will continuously search good investment target for boosting investment income.

6-6. Risk Management

6-6-1. Risk Management Organization and Policy

COTA Bank do not have specific risk management department for the present. The risk management policy including market risk, credit risk, liquidity risk, operation risk and legal risk is performed separately by relevant operation units. The internal auditor will review risk management, compliance and internal control policy. The auditing result will be reported and follow up on a regular basis.

The purpose of risk management is to ensure asset safety, shareholder's value and duly transaction procedure. To this end, all the trading, settlement and operation procedures should comply with the risk management policy. The safety and liquidity will be the first priority concern, then profitability, growth ability and social welfare.

6-6-2. Risk Control Measurement and Quantitative Information

6-6-2-1. General Disclosure

6-6-2-1-1. Policy and Procedures

We believe that a bank's success relies on a comprehensive risk control system. To strengthen the risk management system, COTA Bank establish several functional committees to set up various risk control policies including credit risk, market risk and operation risk and monitor implementation of those risk policies. The Business Line who directly executes those risk control policies is defined as BL Risk Unit. Listed below are various functional committees and relevant responsibility:

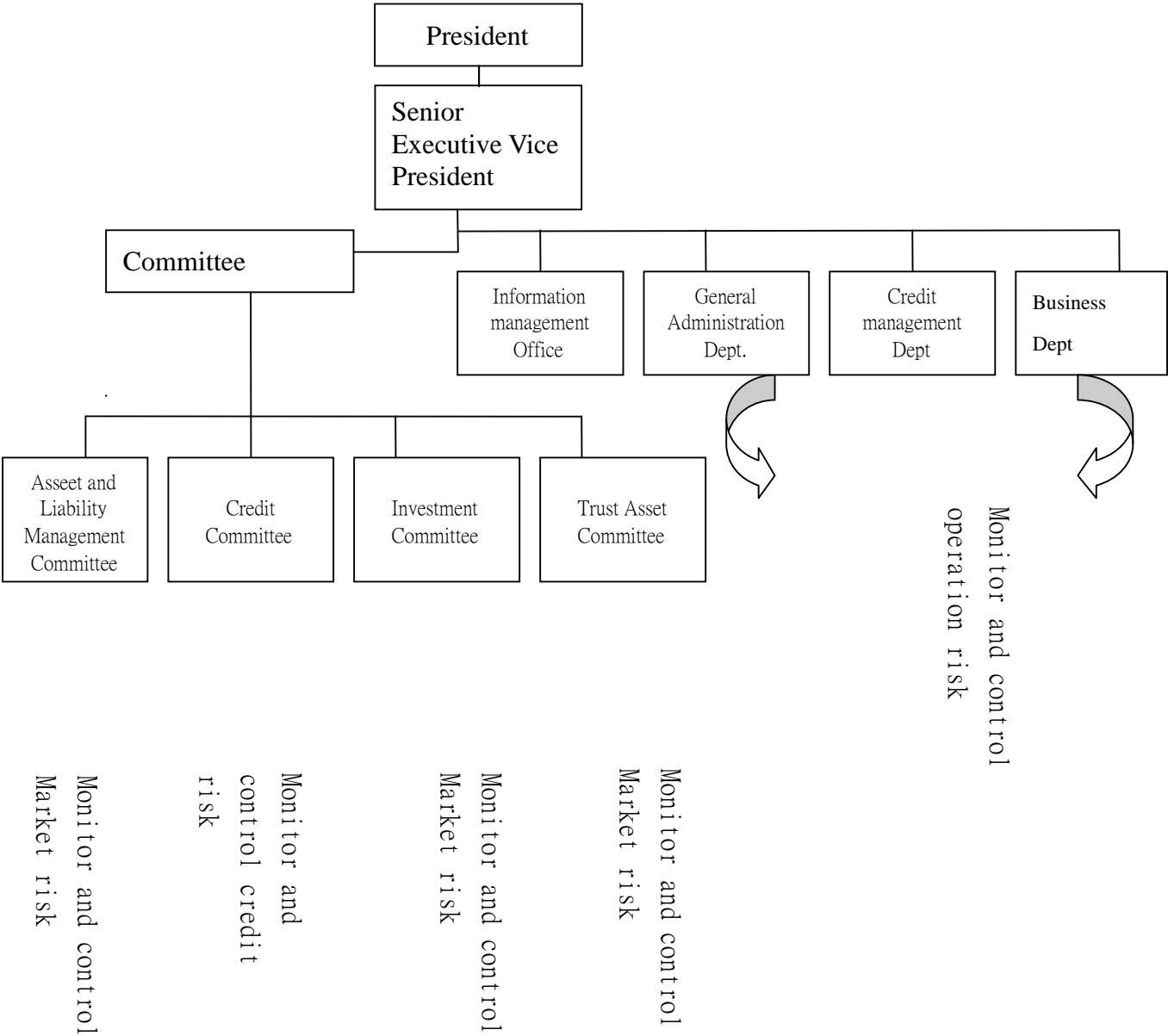
- Asset and Liability Management Committee
 - Monitor and control interest rate, FX and market risk
 - Evaluate and analyze realized or unrealized potential losses derived from items on both balance sheet and off balance sheet
 - Develop various strategies or methods to alleviate risk

- Credit Committee
 - Monitor and control credit risk and review loan project above certain exposure limit
 - Improve non-performing loan and lower down NPL ratio
 - Follow the external regulation and internal credit rules to fortify credit analysis and diversify credit exposure.
 - Set up Credit Policy to reinforce loan account management and to ensure loan asset quality

- Investment and Trust Asset Committee
 - Monitor and control market price, interest rate, FX rate risk.
 - Set up Marketable Securities Investment Policy and relevant guidelines to enhance fund management efficiency
 - According to macroeconomic environment and financial market change, set up dynamical management target and regularly assess investment portfolio to achieve effective risk control
 - Trust Asset Committee evaluates market price fluctuation of trust asset on a regular basis and take prompt action to decrease or transfer risk if it is necessary.

- Operation/Auditing/IT Department
 - Monitor and control operation risk.
 - Supervise various operation risks to avoid any loss resulted from internal procedures error, fault and mistakes of IT system and operating personnel as well as external events.

6-6-2-1-2. Risk Management Organization Chart



6-6-2-1-3. The Scope of Risk Management Report and Measurement

Currently, COTA Bank adopts standard method to measure credit risk and market risk as well as respectively required capital. For credit risk, the required capital is calculated basing on possible losses caused by counterpart default. The measurement of credit risk is to sum up the different transaction amount on/off-balance sheet weighted by specific risk factor. For market risk, the required capital is calculated basing on possible losses caused by market price fluctuation such as interest rate, FX rate and stock price change.

6-6-2-1-4. Hedge Policy and Procedure of Evaluating Hedge Effectiveness

Asset and Liability Management Committee monitor and control various market risks and develop strategies or methods to alleviate risk. Credit Review Committee review loan project via prudent credit analysis in order to avoid default risk and diversify credit exposure to ensure asset quality. Investment Committee observe macroeconomic environment and financial market change, regularly assess investment portfolio and take prompt action to decrease or transfer risk if it is necessary.

6-6-2-2. Disclosure of Credit Risk

6-6-2-2-1. Chart Item-Value of Credit Risk Assets

Unit: USD thousand as of Dec. 31, 2004

Item	Risk Weight	Risk Oriented Asset
Cash, Due from banks, Medium-term loan (Central Government)	0%	0
Medium-term loan (Local Government)	10%	6,996
Due from banks	20%	11,736
Medium-loan (Housing loan)	50%	410,014
Short/ Medium/long-term loan (Corporate)	100%	938,480
Total		1,367,226

6-6-2-2-2. Off-Balance Sheet Items— Credit Risk Oriented Asset Value

Unit: USD thousand as of dec.31, 2004

Item	Risk Oriented Asset Value
Ordinary non-charted trades	18,750
Financial derivative instruments	-
Re-purchase agreement (RP)	-
Re-sale agreement (RS)	15
Total	18,765

6-6-2-2-3. Status of Asset Securitization: NONE

6-6-3. Revelation of Risk Oriented Asset Value

Unit: USD thousand as of Dec.31, 2004

Risk Category	Capital Sum	Risk Oriented Asset Value
Interest risk	696	8,191
Security option risk	703	8,787
Foreign exchange risk	126	1,581
Product risk	-	-
Optional utilize easy process	-	-
Total	1,525	18,559

6-6-4. Liquidity Risk

6-6-4-1. Analysis of Maturity of Lines of Credit

Unit: USD thousand as of Dec.31, 2004

Assortments of Lines of Credit	Sub-total	Period & Amount to Maturity				
		0~30 days	31~90 days	91~180 days	181 days~1 year	Over 1 year
Short-term Loan & Over Draw	504,057	140,489	102,579	73,252	187,737	0
Medium-term Loan	799,167	8,585	13,974	24,251	42,673	709,684
Long-term Loan	572,861	1,441	627	1,034	7,927	561,832
Total	1,876,085	150,515	117,180	98,537	238,337	1,271,516

Note: Non-including non-performing loans where above

6-6-4-2. Analysis of Concentration of Credit Risk:

In order to reduce the significant concentration of risk of credit extensions, COTA Bank were generally based on the credit risk diversification principle for lines of credit and industries. Analysis of lines of credit of main object and industries were as follows:

Analysis of Lines of Credit of Main Object

Unit: USD thousand as of Dec.31, 2004

Year Item	Dec. 31, 2004		Dec. 31, 2004	
	Amount	Ratio to Outstanding of Loans	Amount	Ratio to Outstanding of Loans
Private Enterprises	335,589	17.41	282,483	15.85
Public Enterprises	140,615	7.30	269,449	15.11
Non-profit Corps	815	0.04	5,483	0.31
Government Agencies	242,034	12.55	196,760	11.04
Private Persons	1,208,823	62.70	1,028,292	57.69

Note: Including non-performing loans where above.

Analysis of Lines of Credit of Private/Public Enterprises

Dec. 31, 2004		Dec. 31, 2003	
Category	Ratio	Category	Ratio
Manufacturing	11.06	Manufacturing	13.68
Water & Power	3.46	Water & Power	3.34
Construction	3.8	Construction	2.09
Whole Sale & Retail	1.58	Whole Sale & Retail	1.55
Accommodation & Repast	0.39	Accommodation & Repast	0.05
Carriage, Warehousing & Communication	0.70	Carriage, Warehousing & Communication	8.27
Banking & Insurance	0.08	Banking & Insurance	0.01
Real Estate & Leasing	1.39	Real Estate & Leasing	0.70
Society Service	2.25	Society Service	2.03
Non-profit Corps	0.04	Non-profit Corps	0.31

Note 1: Including non-performing loans where above.

Note 2: Industries Summary of credit extension was based on "The credit extension objects and purpose analysis" of Central Bank of China (Taiwan) which came of the total credit extension ratio of the summary of public/private enterprises where above.

Note 3: In additional to Taiwan Railway Administration of Ministry of Transportation and Communications (Taiwan) was listed to Government Agencies (In 2003, it belongs to Public Enterprises primarily), above the ratio of Dec. 31, 2004 of carriage, warehousing & communication reduced about 7.75% less than the ratio of Dec. 31, 2003. Besides, loans also reduced about USD55 millions.

Analysis of Lines of Credit to Affiliated Parties

Unit: USD thousand

Assortment	Dec. 31, 2004		Dec. 31, 2003	
	Amount	Ratio to Outstanding of Loans	Amount	Ratio to Outstanding of Loans
Consumer Loans	501	0.03	752	0.04
Mortgage Loans for Employees	5,452	0.28	6,172	0.35
Other Transactions of Lines of Credit to Affiliated Parties	11,311	0.59	13,253	0.74

Note 1: Lines of credit to related parties which are in accordance with Banking Law.

Note 2: Ratio of lines of credit to related parties to total credit lines = Lines of credit (defined by Banking Law) / Total credit lines.

Note 3: Total credit lines include remittance bills, loans, discounts (include import/export negotiation), acceptance receivables and guarantee receivables.

Analysis of Lines of Credit

Unit: USD thousand

Tier	Dec. 31, 2004		Dec. 31, 2003	
	Amount	Ratio to Outstanding of Loans	Amount	Ratio to Outstanding of Loans
TWD1~1,000,000	329,041	17.07	226,024	12.68
TWD1,000,001~5,000,000	536,297	27.82	481,656	27.02
TWD5,000,001~10,000,000	169,126	8.77	152,364	8.55
TWD10,000,001~50,000,000	327,913	17.01	283,799	15.92
TWD50,000,001~100,000,000	146,756	7.61	113,670	6.38
TWD100,000,001~500,000,000	191,591	9.94	288,404	16.18
Over TWD500,000,001	227,152	11.78	236,551	13.27

Note: Including non-performing loans where above.

Analysis of Collateral Assortments

Unit: USD thousand

Assortment \ Year	Dec. 31, 2004		Dec. 31, 2003	
	Amount	Ratio to Outstanding of Loans	Amount	Ratio to Outstanding of Loans
Non-collateral	742,426	38.51	835,010	46.85
Collateral as Stocks	6,548	0.34	6,360	0.36
Collateral as Certificate of deposits	11,248	0.58	8,052	0.45
Collateral as Immoveable - Land	244,729	12.69	165,554	9.29
Collateral as Immoveable – Building & Land	853,182	44.26	751,731	42.17
Collateral as Moveable Property	60,250	3.13	5,608	0.31
Checks Receivable	9,243	0.48	9,243	0.52
Others	251	0.01	909	0.05

Note 1: Including non-performing loans where above.

Note 2: In addition to amount and the ratio of non-collateral loans dipped fairly and collateral as immoveable/moveable reputed, credit risk successful reduced based.

6-6-4-3. Liquidity Risk Management

In order to maintain adequate liquidity, COTA Bank makes legal reserve and liquidity reserve according to Central Bank's regulation and furthermore closely monitors the impact of liquidity gap on banking operation. COTA Bank's liquidity is healthy as evidenced by its current ratio of 10.98%, higher than regulator's minimum requirement of 7%. Besides, with the purpose of preventing liquidity risk, COTA Bank set up liquidity risk indicator. Prompt and necessary action will be duly performed when the indicator is close to warning level to avoid liquidity problem.

To deal with fluctuating macro-economic environment and financial market, COTA Bank establishes Asset and Liability Management Committee to dynamically adjust business strategy and asset/liability structure for achieving efficient cash management. To this end, COTA Bank utilized various ratios such as loan to deposit ratio, liquidity asset to total asset ratio, liquidity asset to total deposit ratio and maturity tenor analysis to measure bank's liquidity level.

6-6-4-4. Maturity Analysis of Assets and Liabilities

In order to achieve operation goal, the utmost strategy of asset management is to balance the relationship between rate of return and security and to focus on liquidity.

Most of asset in COTA Bank is extension of credit including medium-term loan and long-term loan. Most of liability is time deposit. The liquid gap in COTA Bank under one year is negative. It means the value of short-term loan is more than liquidity asset. On the other hand, the liquid gap over one year is positive because the value of medium-term and long-term is smaller than non-liquid asset. The percentage of time deposit rollover is eighty. The percentage of change in liquid asset balance is below twenty. It can cover the gap of liability gap less than one year. Because assets and liabilities management in a short term is active and the liquidity of our cash flow is good, COTA Bank uses surplus cash flow to invest re-sell agreements. Goodwill is the usual resource of long-term cash flow in COTA Bank.

Asset and Liabilities' Due Date Analysis- Local Currency

Unit: USD thousand as of Dec. 31, 2004

Item	Total	Amount Due To Date of Maturity				
		0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	More than 1 Year
Asset	2,450,387	500,266	139,455	208,478	247,924	1,354,263
Liability	2,314,942	975,092	284,425	303,287	711,690	40,449
Gap	135,445	(474,826)	(144,970)	(94,809)	(463,766)	1,313,814
Accumulative Gap	135,445	(474,826)	(619,795)	(714,604)	(1,178,369)	135,445

Note: Foreign currency not included

Asset and Liabilities' Due Date Analysis- Foreign Currency

Unit: USD thousand as of Dec. 31, 2004

Item	Total	Amount Due To Date of Maturity				
		0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	More than 1 Year
Asset	1,643	1,643	-	-	-	-
Liability	22	22	-	-	-	-
Gap	1,621	1,621	-	-	-	-
Accumulative Gap	1,621	1,621	-	-	-	-

Note: All currencies exchange into US Dollars

6-7. Major Guideline for Unforeseeable Events Handling

6-7-1. Purpose

To prevent the Bank from or reduce damage of unforeseeable events, a guideline of contingency plan is set up to obtain prompt recovery.

6-7-2. Organization

- Contingency task force is organized to handle unforeseeable events. President is the chief convener of this task force.
- Auditing Office is processed as a report center of unforeseeable events.
- Chief Auditor is designed to be emergency contact person of head office; branch general manager is designed to be emergency contact person of branches.

6-7-3. Process

Emergency contact person should immediately report the situation and process flow of unforeseeable events to head office report center.

Head office report center should conduct

- a. Report to the convener of contingency task force.
- b. Recall related offices to draw contingency plan to process unforeseeable event.

c. Report to the authorities concerned.

6-8. Other Significant Items: None