Financial Summary

1.Condensed Balance Sheets and Statements of Income for the Past Five Years

(1)Balance Sheets

Unit: NT Million Dollars

Item \ Date		1999/6/30	1999/12/31	2000/12/31	2001/12/31	2002/12/31	2003/12/31
Cash		13,068	14,889	5,337	6,198	2,683	2,559
Due from banks		4,077	1,997	8,807	7,568	3,685	2,300
Due from CBC		5,157	6,587	6,293	10,186	13,539	17,042
Bills and securities purchased- net		9,956	8,354	7,659	8,064	14,808	13,090
Accounts receivable		1,179	1,213	1,314	1,528	1,005	828
Prepayments		15	233	211	245	96	58
Loans & advances on behalf of others –net		112,222	121,468	152,794	165,047	136,437	113,365
Long-term stock investments		13	529	1,029	1,239	1,343	1,399
Property, plant & equipment- net		3,208	3,317	3,577	2,636	2,606	2,556
Other assets		6,524	5,834	1,691	1,984	1,882	1,553
Deposits & remittances		112,580	123,903	145,097	163,164	126,527	111,529
Due to CBC(Central Bank of China) and banks		24,704	25,694	26,651	25,850	30,913	23,068
Accounts payable	Before distribution	4,555	3,858	5,238	3,527	2,632	2,452
	After distribution	4,555	3,858	5,986	4,185	2,886	-
Other liabilities		2,656	877	1,370	1,767	8,120	7,571
Capital	Before distribution	4,487	4,487	4,487	4,487	4,577	4,577
	After distribution	4,487	4,487	4,487	4,577	4,577	-
Capital surplus		3,000	3,000	3,001	3,001	3,001	3,000
Retained earnings	Before distribution	3,438	2,602	2,868	2,899	2,314	2,571
	After distribution	3,438	2,602	2,120	2,151	2,060	-
Unrecognized pension cost		-	-164,421	-	-	-	(18)
Total Assets		155,419	154,332	188,712	204,695	178,084	154,750
Total Liabilities	Before distribution	144,494	154,332	178,356	194,308	168,192	144,620
	After distribution	144,494	10,089	179,104	194,966	168,446	-
Total Stockholders' Equity	Before distribution	10,925	10,089	10,356	10,387	9,892	10,130
	After distribution	10,925		9,608	9,729	9,638	-

Note:1.Capital includes capital received in advance.

2.The financial information listed above has been audited by the Bank's independent auditors, amongst which the financial information for year 1999 has been re-listed based on the figures assessed by the Audit Department in Kaohsiung City, Ministry of Auditing.

3.Independent auditors: Chi-Hsiung Liu and Jen-Yiao Hsieh.

4.Auditors' opinion: an unqualified opinion.

(2)Statements of Income

Unit: NT Million Dollars

Account \ Year		1998/07/01 ~ 1999/06/30	1999/07/01 ~ 1999/12/31	2000/01/01 ~ 2000/12/31	2001/01/01 ~ 2001/12/31	2002/01/01 ~ 2002/12/31	2003/01/01 ~ 2003/12/31
Operating revenue		10,266	5,679	11,445	12,136	9,004	5,358
Operating costs & expenses		9,930	6,977	11,093	11,149	8,757	4,754
Operating income (loss)		336	(1,298)	352	987	247	604
Non-operating income		34	27	25	49	20	4
Non-operating expenses		17	11	24	25	36	33
Income (loss) before income tax		353	(1,282)	353	1,011	231	575
Net income		210	(835)	266	779	163	511
Earnings per share ($)	Before retroactive adjustment	0.47	(1.86)	0.59	1.74	0.36	1.12
	After retroactive adjustment	0.46	(1.82)	0.58	1.70	0.36	1.12

- ***Note:***1.The financial information listed above has been audited by the Bank's independent auditors, amongst which the financial information for year 1999 has been re-listed above based on the figures assessed by the Audit Department in Kaohsiung City, Ministry of Auditing.
  2.The financial information for year 2000 has been prepared based on pro forma financial information.
  3.Independent auditors: Chi-Hsiung Liu and Jen-Yiao Hsieh.
  4.Auditors' opinion: an unqualified opinion.

2.Financial Analysis for the Past Five Years

Item (Note) \ Year		1999	2000 (1999/07/01 ~88/12/31)	2000 (2000/01/01 ~89/12/31)	2001	2002	2003
Financial Structure	Liabilities to assets ratio (%)	92.97	93.86	94.51	94.92	94.44	93.45
	Deposits as a percentage of equity (%)	1,030.50	1,228.06	1,401.14	1,570.89	1,279.16	1,101.00
	Fixed assets as a percentage of equity (%)	29.36	32.88	34.54	25.38	26.35	25.23
Liquidity	Liquidity reserve ratio (%)	13.37	12.75	8.85	11.87	12.70	16.71
Operating efficiency	Loans to deposits ratio (%)	95.28	101.12	92.25	87.26	95.20	90.84
	Non-performing loan as a percentage of total loans (%)	5.84	2.76	2.26	2.86	2.38	1.64
	Total assets turnover ratio (times)	0.07	0.07	0.06	0.06	0.05	0.03
	Operating revenue per employee (million dollars)	9.90	11.44 (註2)	14.10	14.87	10.63	6.30
	Earnings per employee (million dollars)	0.20	(0.84) (註2)	0.33	0.95	0.19	0.60
Profitability	Return on total assets (%)	0.14	(0.52)	0.15	0.40	0.09	0.31
	Return on equity (%)	1.92	(7.95)	2.60	7.51	1.61	5.11
	Net profit margin (%)	2.04	(14.72)	2.32	6.42	1.81	9.53
	Earnings per share (NT$) Before retroactive adjustment	0.47	(1.86)	0.59	1.74	0.36	1.12
	Earnings per share (NT$) After retroactive adjustment	0.46	(1.82)	0.59	1.70	0.36	1.12
Cash flows	Cash flows ratio (%)	2.01	1.52	11.95	0.86	(11.80)	13.06
	Cash flows adequacy ratio (%)	256.68	227.73	262.51	251.21	56.36	137.90
	Cash reinvestment ratio (%)	4.00	3.23	112.05	(3.89)	(52.96)	18.72
Capital adequacy ratio		17.36	14.05	11.43	11.63	12.99	12.65
Total secured loans to related parties as a percentage of total loans (%)		1.56	1.23	0.81	0.65	0.68	0.71

- ***Note:***1.The financial information listed above has been audited by the Bank's independent auditors, amongst which the financial information for year 1999 has been re-listed above based on the figures assessed by the Audit Department in Kaohsiung City, Ministry of Auditing.
  2.Estimated annual amount by multiplying the revenue or income (loss) for the fiscal year by 2 for relevant comparisons.
  3.The Bank for International Settlements (BIS) prescribes a standard capital adequacy ratio of 8%.

The aforementioned ratios are calculated as follows:

(1)Financial Structure

1.Liabilities to assets ratio = Liabilities/Assets

2.Deposits as a percentage of equity = Deposits/Equity

3.Fixed assets as a percentage of equity = Fixed Assets/Equity

(2)Liquidity

Liquidity reserve ratio = Current assets required by the CBC/ Deposits for which the various current reserve shall be provided

(3) Operating efficiency

1. Loans to deposits ratio = Total loans/ Total deposits
2. Non-performing loans as a percentage of total loans = (Non-performing loans + overdue accounts)/ Total loans
3. Total assets turnover ratio = Operating revenue/ Average total assets
4. Operating revenue per employee = Operating revenue/ Total number of employees
5. Earnings per employee = Net income / Total number of employees

(4) Profitability

1. Return on total assets = Net income / Average total assets
2. Return on equity = Net income / Average net worth
3. Net profit margin = Net income/ Total operating revenue
4. Earnings per share = Net income/ Weighted average outstanding shares

(5) Cash flows

1.Cash flows ratio = Net cash flows from operating activities /Current liabilities

2.Cash flow adequacy ratio =Net cash flows from operating activities for the past five years/ (Capital expenditure + cash dividends) for the past five years

3.Cash reinvestment ratio = (Net cash flows from operating activities – cash dividends) /(Gross fixed assets + long-term investments + other assets + operating capital)

(6) Capital adequacy ratio = Capital base/ Risk weighted credit exposure

Earnings per share is calculated taking into account the following:

(1) Weighted average common shares were used for the calculation of earnings per share instead of outstanding shares at the end of the financial year.

(2) Where there was capital increase by cash or treasury stock transactions, the outstanding term shall be incorporated to calculate the weighted average shares.

(3) Where there was capitalization of profit or capitalization of capital surplus, earnings per share for the previous periods shall be retroactively adjusted in accordance with the capitalization ratio without having to consider the offering period of the capitalization.

Cash flows analysis was conducted taking into account the following:

(1)Net cash flows from operating activities refer to the net cash inflows from operating activities in the Statements of Cash Flows.

(2)Capital expenditures refer to the cash outlays for capital investments each year.

(3)Cash dividends refer to cash dividends from common stocks (The Bank has not issued any preferred stocks).

(4)Gross fixed assets refer to the total value of fixed assets prior to deducting accumulated depreciation.

(5)Cash flows analysis was applicable from 1989 and thereafter.

3.Net Worth, Earnings, Dividends and Market Price Per Share for the Past Three Years

Unit: NT$

Item \ Year			2001	2002	2003
Net worth per share	Before distribution		23.15	21.61	22.13
	After distribution		21.26	21.06	–
Earnings per share	Weighted average shares		448,684,318 (shares)	457,658,004 (shares)	457,658,004 (shares)
	Earnings per share	Before distribution	1.74	0.36	1.12
		After distribution	1.70	0.36	1.12
Dividends per share	Cash dividends		1.30	0.50	–
	Stock dividends		0.20	–	–
Market value per share	Highest		18.50	19.70	23.30
	Lowest		9.65	13.00	14.10
	Average		13.80	16.42	16.79

Note:1.The Bank's 2003 Earnings Distribution Proposal has yet to be resolved in the shareholders' meeting.

2.Earnings per share were calculated based on the weighted average shares in the periods where retroactive adjustments were made.

4. Supervisors' Report

To the 2004 annual shareholder' meeting Bank of Kaohsiung CO.,Ltd.

The Board of Directors have compiled and submitted to us the Bank's 2003 Business Report, Financial Statements, and statement of distribution of retained earning which are audited by the CPA firm of Horwath Chien Hsing .We have completed our examinations and found them to meet the requirements of applicable laws and regulations. This report is hereby prepared in according to Article 219 of the Company Law and submitted for your approval.

Resident Supervisor Chang Fan

Supervisor Chin-Shan, Kuo

Supervisor Yu-Hui Su

March 31, 2004

5. Financial Statements

Horwath

HORWATH CHIEN HSING
Certified Public Accountants
A member of Horwath International

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Kaohsiung, Taiwan R.O.C.
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Report of Independent Auditors
The Board of Directors and Shareholders
Bank of Kaohsiung Co., Ltd.

We have audited the accompanying balance sheets of Bank of Kaohsiung Co., Ltd. as of December 31, 2003 and 2002, and the related statements of income, changes in shareholders' 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.

We conducted our audits in accordance with the "Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants", and generally accepted auditing standards in the Republic of China. Those 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank of Kaohsiung Co., Ltd. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with the "Rules Governing the Preparation of Financial Statements of Securities Issuers" and generally accepted accounting principles in the Republic of China.

HORWATH CHIEN HSING
Certified Public Accountants
A member of Horwath International

Horwath Chien Hsing

February 16, 2004

Notice to Readers:
The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and report of independent auditors are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

BANK OF KAOHSIUNG CO., LTD.
BALANCE SHEETS
DECEMBER 31 2003 and 2002
(Expressed In New Taiwan Thousand Dollars)

ASSETS	Note	Dec. 31 ,2003 Amount	%	Dec. 31 ,2002 Amount	%
Cash	3	$ 2,559,049	1.65	$ 2,682,537	1.51
Due from banks		2,299,705	1.49	3,685,453	2.06
Due from Central Bank of China	4	17,041,810	11.01	13,539,129	7.60
Bills & securities purchased -net	2.5	13,089,854	8.46	14,807,741	8.32
Accounts receivable-net	2.6	827,820	0.53	1,005,438	0.56
Prepayments		57,763	0.04	95,795	0.05
Loans & discounts- net	2.7	113,365,259	73.26	136,437,110	76. 61
Long-term Investments					
Equity Method		$ 104,713	0.07	$ 67,921	0.04
Cost Method		1,294,665	0.83	1,274,665	0.72
Long-term Investments	2.8	$ 1,399,378	0.90	$1,342,586	0.75
Property and Equipment Cost					
Land		$ 1,302,310	0.84	$ 1,302,310	0.73
Buildings		1,153,807	0.75	1,153,807	0.65
Machinery and equipment		566,041	0.37	529,044	0.30
Transportation equipment		41,364	0.03	42,665	0.02
Miscellaneous equipment		136,470	0.09	159,622	0.09
Leasehold improvement		175,835	0.11	143,592	0.09
Total Cost		$ 3,375,827	2.19	$ 3,331,040	1.88
Less: accumulated depreciation		(819,908)	(0.53)	(725,169)	(0.41)
Construction in progress		34	0.00	34	0.00
Property, plant and equipment-net	2.9	$ 2,555,953	1.66	$ 2,605,905	1.47
Other assets	2.10	$ 1,381,261	0.89	$ 1,656,230	0.93
Refundable deposits		172,404	0.11	225,737	0.13
Total Assets		$ 154,750,256	100.00	$ 178,083,661	100.00

LIABILITIES & STOCKHOLDERS' EQUITY	Note	Dec. 31 ,2003 Amount	%	Dec. 31 ,2002 Amount	%
Liabilities					
Due to Central Bank		$ 118,850	0.08	$ 167,333	0.09
Due to banks		22,949,505	14.83	30,745,708	17.26
payables	11	2,451,867	1.58	2,631,634	1.48
Accounts collected in advance		55,789	0.04	41,353	0.02
Deposits and remittances	12	111,528,735	72.07	126,526,569	71.05
Financial bonds payable	13	3,050,000	1.97	3,050,000	1.71
Funds borrowed from Central Bank and other banks	14	3,903,873	2.52	4,531,562	2.54
Other liabilities	2.15	561,835	0.36	498,124	0.29
Total liabilities		$ 144,620,454	93.45	$ 168,192,283	94.44
Stockholders' equity					
Capital	17	$ 4,576,580	2.95	$ 4,576,580	2.58
Capital surplus		$ 3,000,061	1.94	3,000,830	1.69
Retained earnings					
Legal Reserve		$ 1,868,057	1.21	1,819,237	1.02
Special Reserve		191,656	0.12	331,998	0.19
Unappropriated earnings	18	511,857	0.34	162,733	0.09
Total Retained Earnings		$ 2,571,570	1.67	$ 2,313,968	1.30
Unrealized loss on costs of pension fund cost		($ 18,409)	(0.01)	-	0.00
Total Stockholders' Equity		$ 10,129,802	6.55	$ 9,891,378	5.56
Total Liabilities and Stockholders' Equity		$ 154,750,256	100.00	$ 178,083,661	100.00

The accompanying notes are an integral part of these financial statements. Please refer to Horwath Chien Hsing' report dated February 16, 2004.

BANK OF KAOHSIUNG CO., LTD.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2003 and 2002
(Expressed In New Taiwan Thousand Dollars, Except For Earnings Per Share)

	Note	Jan. 1, 2003~Dec. 31, 2003 Amount	%	Jan. 1, 2002~Dec. 31, 2002 Amount	%
Operating revenue					
Interest income	2	$ 4,477,569	83.57	$ 7,811,315	86.75
Commission and service fees	2	314,189	5.86	238,726	2.65
Gain on trading bills and securities-net	2	498,216	9.30	943,250	10.48
Gain on long-term stock investments-net		45,342	0.85	4,226	0.05
Gain on foreign exchange	2	22,545	0.42	6,653	0.07
Gain on derivative securities-net	2	94	0.00		0.00
Total operating revenue		$5,357,955	100.00	$9,004,170	100.00
Operating Cost					
Interest expenses		$ 2,268,556	42.35	$ 4,387,772	48.73
Commission and service expenses		22,515	0.42	23,632	0.26
Provisions expenses		615,353	11.48	2,369,792	26.32
Total operating cost		$2,906,424	54.25	$6,781,196	75.31
Gross Profit		$2,451,531	45.75	$2,222,974	24.69
Operating expenses					
Selling expenses		$ 1,676,170	31.28	$ 1,774,097	19.70
Administrative expenses		156,255	2.92	181,869	2.02
Other operating expenses		15,029	0.28	19,460	0.22
Total operating expenses		$1,847,454	34.48	$1,975,426	21.94
Operating income		$604,077	11.27	$247,548	2.75
Non-operating revenue		4,423	0.08	19,717	0.22
Non-operating expenses		33,239	0.62	36,275	0.40
Income before income tax		$575,261	10.73	$230,990	2.57
Income tax expense	2.20	64,173	1.20	68,257	0.76
Net income		$511,088	9.53	$162,733	1.81
Basic earnings per common share（NT$1）					
Before tax	21	$1.26		$0.50	
After tax	21	$1.12		$0.36	

The accompanying notes are an integral part of these financial statements. Please refer to Horwath Chien Hsing' report dated February 16, 2004.

BANK OF KAOHSIUNG CO., LTD.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(Expressed in New Taiwan Thousand Dollars)

	Capital			Retained earnings			
	Common Stock	Additional Paid-in Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Unrealized loss on costs of pension fund
Balance , January 1, 2002	$4,486,843	$ -	$3,000,830	$1,585,553	$534,544	$778,945	$ -
Return of special reserve	-	-	-	-	(202,546)	202,546	-
Appropriation & distribution of earnings:							-
Provision for legal reserve	-	-	-	233,684	-	(233,684)	-
Cash dividends	-	-	-	-	-	(583,290)	-
Stock dividends	89,737	-	-	-	-	(89,737)	-
Directors and Supervisors' remunerations	-	-	-	-	-	(14,956)	-
Employees' bonus	-	-	-	-	-	(59,824)	-
Net income for 2002	-		-	-	-	162,733	-
Balance, December 31 2002	$4,576,580	$ -	$3,000,830	$1,819,237	$331,998	$162,733	$ -
Return of special reserve	-	-	-	-	(140,342)	140,342	-
Appropriation & distribution of earnings							-
Provision for legal reserve	-	-	-	48,820		(48,820)	-
Cash dividends	-	-	-	-	-	(228,830)	-
Directors' and supervisors' remunerations	-	-	-	-	-	(5,085)	-
Employees' bonus	-	-	-	-	-	(20,340)	-
Net income for 2003	-		-	-	-	511,088	-
Return of capital surplus generated from gain on disposal of property, plant & equipment to retained earnings	-		(769)	-	-	769	-
Unrealized loss on costs of pension funds	-	-	-	-	-		(18,409)
Balance, December 31, 2003	$4,576,580	$ -	$3,000,061	$1,868,057	$191,656	$511,857	($18,409)

The accompanying notes are an integral part of these financial statements. Please refer to Horwath Chien Hsing' report dated February 16, 2004.

BANK OF KAOHSIUNG CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

(Expressed in New Taiwan Thousand Dollars)

	Jan.1,2003~Dec.31,2003	Jan.1,2002~Dec.31,2002
Cash flows from operating activities		
Net (loss) income	$511,088	$162,733
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Provisions for credit losses	601,252	2,367,926
Depreciation and amortization	359,774	359,773
Appropriation for retirement and separation reserves	9,785	8,631
Current pension payment	-	(1,036)
Recognized investment loss（gain）by equity method	(36,792)	(2,921)
Decrease （increase）on notes and bills & securities purchased	1,717,887	(6,347,690)
Guarantee responsibility reverse	1,365	(3,140)
Recovered off-set bad debt	112,188	82,339
Provision for securities trading losses reserve	-	(396,532)
Loss on sale and disposal of fixed assets	1,558	9,663
Reserve for extraordinary losses（return）	12,736	1,866
Decrease/ (increase) in accounts receivable	177,388	540,818
Decrease/ (increase) in prepayments	38,032	148,749
Increase/ (decrease) in accounts payable	(179,767)	(895,418)
Increase/ (decrease) in advance receivable	14,436	1,704
Net cash provided by/ (used in) operating activities	$3,340,930	($3,962,535)
Cash flows from investing activities		
Decrease/ (increase) in due from banks	$1,385,748	$3,882,437
Decrease/ (increase) in due from Central Bank of China	(3,502,681)	(3,353,533)
Increase in long-term investments	(20,000)	(100,500)
Decrease/ (increase) in loans and financing	22,358,641	26,142,002
Proceeds from disposal of property, plant and equipment	64	335
Acquisition of property, plant and equipment	(80,762)	(101,737)
Decrease/ (increase) in other assets	44,287	(135,567)
Decrease/ (increase) in deposits paid	53,333	-
Net cash provided by/ (used in) investing activities	$20,238,630	$26,333,437

BANK OF KAOHSIUNG CO., LTD.
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(Expressed in New Taiwan Thousand Dollars)

	Jan.1,2003~Dec.31,2003	Jan.1,2002~Dec.31,2002
Cash flows from financing activities		
Increase/ (decrease) in due to Central Bank	($48,483)	$11,143
Increase/ (decrease) in due to banks	(7,796,203)	5,051,420
Increase/ (decrease) in deposits and remittances	(14,997,834)	(36,637,656)
Increase/ (decrease) in financial bonds payable	-	2,000,000
Increase/ (decrease) in funds borrowed from Central Bank and other banks	(627,689)	4,298,689
Increase/ (decrease) in other liabilities	21,416	47,831
Cash dividends	(228,830)	(583,290)
Directors and Supervisors' remunerations	(5,085)	(14,956)
Employees' bonus	(20,340)	(59,824)
Net cash (used in)/ provided by financing activities	($23,703,048)	($25,886,643)
Net increase/ (decrease) in cash and cash equivalents	($123,488)	($3,515,741)
Balance of cash and cash equivalents at the beginning of year	2,682,537	6,198,278
Balance of cash and cash equivalents at the end of year	$2,559,049	$2,682,537
Supplementary disclosures of cash flow information:		
Interest paid during the period	$2,658,544	$5,474,735
Less: Interest capitalized	-	-
Interest paid during the period excluding interest capitalized	$2,658,544	$5,474,735
Income tax paid during the period	$32,507	$77,988

The accompanying notes are an integral part of these financial statements. Please refer to Horwath Chien Hsing' report dated February 16, 2004.

BANK OF KAOHSIUNG CO., LTD.

Notes to Financial Statements

December 31, 2003 and 2002

(Expressed in New Taiwan Thousand Dollars Unless Stated Otherwise)

1. HISTORY AND ORGANIZATION

(1) Bank of Kaohsiung Co., Ltd. is a commercial bank formed and registered in accordance with the provisions of the Banking Law of the Republic of China. The Bank obtained its registration approval in December 1981 and the Certificate of Business Registration in January the following year. The Bank's main business activities are as follows:

(A) Agent for the Kaohsiung City Treasury

(B) Management of Kaohsiung Municipal Bond

(C) Other relevant businesses authorized under the Banking Law

(D) Savings and trust operations

(E) Other relevant businesses authorized by the Central Competent Authority

The Bank operates with four departments under the Head Office namely, Business, Municipal Treasury, International Banking and Trust departments with an additional of 35 local branches and mini- branches and an Offshore Banking Unit (OBU).

Taiwan Stock Exchange Corporation (TSE) approved the Bank' application to seek listing on the Taiwan Stock Exchange and issued the approval document (Tai Jeng (87) Shan Tzu No. 11281) on April 27, 1998. The Bank was officially listed on the Taiwan Stock Exchange on May 18, 1998.

The proposal for the privatization of the Bank was approved upon assessment by the Task Force for the Privatization of Public-Owned Enterprises in its 16th Meeting and the proposal was executed on August 3, 1999 in accordance with approval document (Kaohsiung City Government Tsai 3 Tzu No. 23963). The Bank signed the relevant Underwriting Agreement with securities brokers after obtaining the letter of authorization from the Kaohsiung City Government to release its shares on September 6, 1999 and publicly solicit buyers for them. The offering of the Bank's shares to the public as part of the privatization policy of government-owned banks came into effect on August 17, 1999 upon approval by the Securities and Futures Commission of the Ministry of Finance. The Bank was officially reorganized as a private enterprise on September 27, 1999.

(2) The Bank employs a total of 850 employees as of December 31, 2003 and 847 employees as of December 31, 2002.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared in accordance with the "Rules Governing the Preparation of Financial Statements of Securities Issuers" and generally accepted accounting principles in the Republic of China. Due to the specific nature of banking operations, it is more difficult to determine the Bank's business turnover cycles. Therefore, assets and liabilities accounts have not been further classified into current or non-current categories. However, assets and liabilities have been presented in order of their relative liquidity and an analysis on the maturity of assets and liabilities is provided in Note 25. A summary of significant accounting policies of the Bank is as follows:

(1) Basis of financial statements:

The accompanying financial statements include the accounts of the head office, the OBU and all branches and representative offices. All inter-office balances and transactions have been eliminated.

(2) Foreign currency transactions:

Transactions of the Bank denominated in currencies other than the functional currency of location of the transacting individual operating unit (the "foreign currency") are recorded in their respective functional currencies at the exchange rates prevailing on the transaction date. Income and expense are translated into New Taiwan Dollars at the rates of exchange prevailing on dates when the transactions occur. The balances of the foreign currency-denominated assets and liabilities (other than those arising from forward exchange contracts) are adjusted at the end of every month to reflect the prevailing month-end exchange rate with the related exchange gains or losses included in income.

(3) Bills and Securities Purchased

Securities purchased, including marketable securities (exclude cash equivalents) such as government bond, short-term bills, financial bond, listed (OTC) stocks and beneficiary certificates are stated at cost and the total value of these securities are revalued using the lower of cost and market value method at the end of the accounting period. Costs of securities sold are determined using the specific identification method except stocks, beneficiary certificates and bonds, which are determined using the weighted-average method.

In compliance with a directive of the MOF, sales and purchases of bonds and other short-term securities with agreements on repurchase or resale transaction conditions are accounted for as outright sales and purchases.

(4) Loans and advances on behalf of customers, recognition of revenue and allowance for bad debts

A. Loans and advances on behalf of customers

Loans and advances on behalf of customers are stated at the issued principal amount. Unearned revenue is not recorded and interest income is accounted for on the accrual basis.

Accrual for interest receivable on loans and advances on behalf of customers shall be terminated immediately in any of the following event:

(1) The Governing Authority is of the opinion that it is highly likely that the principal or interest will not be repaid in accordance with the contracted terms.

(2) 6 months have lapsed since the repayment due date.

Interests during the period where no accruals are being made are recognized as income at cash in.

B. Allowance for bad debts and bad debts write-offs

The Bank makes provision for bad debts and loss on guarantees based on evaluation of specific identified risk and general risk of collectibility over loans and advances on behalf of customers.

Allowance for specific identified risk debts are evaluated internally based on the Bank's policy with an evaluation on the likelihood of debts falling overdue.

The inherent risks of the overall debt portfolios are evaluated based on past experience.

Debts of which the principal and interest repayments are 180 days overdue or are deemed uncollectable upon assessment by the management may be written off subject to prior approval.

(5) Long-term investments

Long-term investments are stated at the lower of cost or market value for listed companies and at cost for unlisted companies if the Bank owns less than 20% of the voting rights of the investee Bank and has no significant on the investee Bank's operational decisions. Unrealized loss resulting from the decline in market value of listed investees is deducted from stockholders' equity. However, when it becomes evidently clear that there has been a permanent impairment in value of investments in unlisted investees and the change of recovery is minimal, such loss is recognized in the current year's net income.

Costs of long-term investments sold are determined using the weighted-average method.

Long-term investments are accounted for using the equity method: (1) If the Bank owns at least 20% of the voting rights of the investee companies or; (2) If the Bank owns less than 20% of the investee companies but has significant influence over the investee companies' operational decisions. The excess of the acquisition cost over the investee Bank's net asset value is amortized over five years and is recognized as gain/loss on investments. Gain or loss on long-term investments is accounted for using the Treasury Stock Method.

Majority owned subsidiaries are accounted for using the equity method and the annual financial statements are prepared on a consolidated basis at the end of every accounting year. However, the total assets or operating revenues of subsidiaries will not be included in the consolidated financial statements if the total assets or operating revenues of these subsidiaries are less than 10% of the Bank's non-consolidated total assets or operating revenue respectively and that the combined total assets or operating revenues of all such unconsolidated subsidiaries are less than 30% of the Bank's non-consolidated total assets or operating revenues.

(6) Property, plant and equipment

Property, plant and equipment are stated at cost and revalued periodically. Major renewals, additions and improvements are capitalized. The related gain or loss on disposal of fixed assets is recognized as non-operating income or loss.

Depreciation is provided using the straight-line method over the assets' estimated economic service lives and any revalued assets are depreciated over their remaining service lives subsequent to the revaluation using the straight-line method. Residual values of fixed assets that are still in use after the end of their original estimated service lives are depreciated over the assets' newly estimated remaining service lives.

(7) Pension Plan

Since 1998, the Bank has set up a defined pension plan covering all regular employees pursuant to the provisions of the Statement of Financial Accounting Standards No. 18 "Accounting for Pensions".

As part of its privatization on September 27, 1999, the Bank made full payment of its entire pension obligations to all employees (including retired, terminated and retained) based on their service years pursuant to the relevant regulations. The portion of the payments made pertaining to unfunded pension obligations and compensation payments were deferred and amortized over five years starting October 1, 1999 in accordance with the directive of the MOF. Retained employees' service years will start afresh and the regulations governing the pension plan prescribed by the Labor Standards Law will apply. The Bank computes the net pension cost based on an actuarial valuation.

(8) Reserve for Guarantees

The reserve for guarantees is determined based on the balance of guarantees receivable and expected payments due to letters of credit and acceptances at the end of the accounting period and the likelihood of these payments becoming bad debts.

(9) Interest income and service fees

Interest revenue on loans is recorded at accrual basis. No interest revenue is accrued on loans and other credits extended by the Bank classified as overdue loans commencing from the date of such classification. The interest revenue on those loans is recognized only upon collection.

Pursuant to the Regulations of MOF, interest on loans or credits extended by the Bank to borrowers for the purpose of overcoming financial difficulties and where loan extension agreements have been signed shall be classified as deferred income (classified as "Other Liabilities") from the date of recognition provided that both parties agree to the recording of such interest. The interest revenue on those loans is recognized only upon collection.

Service fees are recorded as income when received or when the services are rendered.

(10) Income Tax

According to FAS No. 22, "Accounting for Income Tax," tax is provided based on accounting income after adjusting for permanent differences and inter-and intra-period allocations. The income tax effect of taxable temporary differences was recorded as a deferred income tax liability; losses available for carry forward and income tax credits were recorded as deferred income tax assets, for which a valuation allowance is provided to the extent that it is more likely than not that the tax benefits will not be realized. Deferred income tax assets or liabilities are further classified into current or non-current items on the basis of the nature of the accounts or the length of the period before the items are realized.

Overestimate or underestimate provision of previous year's income tax liabilities is included in current year's income tax as adjustment.

According to FAS No. 12, “Accounting for income tax credits”, the Bank’s income tax credits generated from the acquisition of eligible equipment or technology, expenses for research and development and losses carried forward are recognized in the period when the tax credits arise.

Subsequent to the introduction of the imputation tax system on July 1, 1998, an additional 10% corporate income tax on earnings, which are not distributed in the following year, is included as income tax expense in the year when the stockholders resolved to retain the earnings.

(11) Foreign Exchange Forwards

Assets or liabilities resulting from foreign exchange forward contracts for trading purposes are recorded at their contracted forward rates. The gains or losses, computed by multiplying the foreign currency amounts of the contracts and the differences between the contracted forward rates and the spot rates at maturity, are credited or charged to the current period’s income. The gains or losses of outstanding forward contracts, computed by multiplying the foreign currency amounts of the contracts of the open contracts and the differences between contracted forward rates and the prevailing forward rates (for the remaining term of the contracts), are credited or charged to the current period’s income.

(12) Foreign Currency Swaps

In relation to foreign currency swap contracts entered into for the Bank’s fund requirements in different types of foreign currencies, amounts exchanged at the inception of the swaps are recorded at their spot rates and amounts to be exchanged at the settlement dates are recorded using the forward rates. Gains or losses arising from the differences between spot rates and contracted rates are amortized using the straight-line method over the term of the contract and are credited or charged to interest income or expense.

(13) Asset Swaps

The underlying securities of assets swap transactions entered into for hedging purposes are specific bonds. The contracts involve the exchanging of interest payments on fixed-rate bonds and the price spread upon redemption with interest payments based on a floating rate. The Bank makes adjustments for the gains or losses arising from the differences between these rates against interest income on the bonds on the contracted settlement date or balance sheet dates.

(14) Options

Premiums received for foreign exchange options written for trading or balancing purposes are accounted for as liabilities, while premiums paid for options bought are accounted for as assets. Unrealized gains and losses arising from adjustments to the premiums of outstanding option contracts against the market value at the balance sheet dates are included in the current period's income. Gains or losses arising from performing the contracts are credited or charged to income in the period in which the contract is performed.

Premiums received for foreign exchange option contracts written for hedging purposes are accounted for as liabilities while premiums paid for options bought are account for as assets. Gains or losses arising from performing the contracts are credited or charged to income or the purchase price.

3. CASH AND CASH EQUIVALENTS

	December 31,	
	2003	2002
1. Cash		
Cash on hand	$967,126	$978,183
Cash on hand -Foreign currency	120,387	91,933
Sub-total	$1,087,513	$1,070,116
2. Checks for clearance	417,536	267,421
3. Certificates of deposits	1,000,000	1,345,000
Total	$2,559,049	$2,682,537

4. DUE FROM THE CENTRAL BANK

	December 31,	
	2003	2002
Due from CBC	$14,078,465	$10,306,575
Reserve for deposits- Type B	2,833,070	3,100,540
Deposit- FISC	130,275	132,014
Total	$17,041,810	$13,539,129

The reserve for deposits, as required by the Banking Law and the Central Bank Law, is calculated by applying the statutory rates to the average monthly balances of the various types of deposit accounts. The balance of the Bank's Reserve for Deposits- Type B as of December 31, 2003 and 2002 were NT$2,833,070 thousand and NT$3,100,540 thousand respectively. By law, the Bank is not permitted to utilize the reserve unless at the time when the balance of the reserve is adjusted.

5. BILLS AND SECURITIES PURCHASED-NET

	December 31,	
	2003	2002
Bonds	$10,832,475	$10,278,097
Securities purchased	712,341	777,595
Beneficiary certificates	1,282,349	1,264,160
Commercial papers	262,689	2,487,889
Total	$13,089,854	$14,807,741
Less: allowance for decline in market Value	-	-
Net	$13,089,854	$14,807,741

6. ACCOUNTS RECEIVABLE-NET

	December 31,	
	2003	2002
Accounts receivable	$122,032	$89,637
Income receivable	134,744	196,285
Acceptances receivable	180,388	148,994
Interest receivable	366,497	550,441
Forward exchange contract receivable	14,077	10,011
Other receivable	17,271	17,029
Sub-total	$835,009	$1,012,397
Less: allowance for bad debts	(7,189)	(6,959)
Net	$827,820	$1,005,438

7. LOANS AND DISCOUNTS-NET

	December 31,	
	2003	2002
Bills purchased and discounts	$17,948	$10,429
Short-term loan and overdrafts	41,458,812	59,862,168
Short-term secured loan and overdrafts	4,101,229	4,529,608
Medium-term loans	10,635,637	9,755,586
Medium-term secured loans	5,246,008	3,429,265
Long-term loans	29,136,297	37,208,107
Long-term secured loans	21,761,911	19,629,368
Overdue loans	1,868,354	3,258,386
Short-term advances	36,892	43,111
Sub-total	$114,263,088	$137,726,028
Less: allowance for bad debts	(897,829)	(1,288,918)
Net	$113,365,259	$136,437,110

A. Loans, bills and discounts were made out to the following parties:

	December 31,	
	2003	2002
Loan & Advances- domestic		
Private enterprises	$28,587,267	$24,339,261
Government-owned enterprises	5,237,625	6,333,252
Government organizations	46,796,872	72,539,961
Not-for-profit organizations	12,009	3,878
Individuals	30,683,461	31,397,861
Other	265,626	194,334
Sub-total	$111,582,860	$134,808,547
Loan & Advances- overseas		
Financial institutions	$475,650	$695,800
Non-financial institutions	2,204,578	2,221,681
Sub-total	$2,680,228	$2,917,481
Total	$114,263,088	$137,726,028

The Bank has not accrued any interest on overdue loans and advances shown above, which amounted to NT$1,905,246 thousand and NT$3,301,497 thousand as of December 31, 2003 and 2002, respectively. The unrecognized interest revenue on the above loans amounted to NT$112,716 thousand and NT$196,823 thousand for years ended December 31, 2003 and 2002, respectively.

B. Allowance for bad debts

	January 1, 2003 to December 31, 2003		
	Risks of non-collectibility of specific loans	Inherent risk of the overall loan portfolio	Total
Balance, January 1, 2003	$1,233,166	$62,711	$1,295,877
Provisions (reversal)	601,272	(20)	601,252
Write-offs	(1,104,244)	-	(1,104,244)
Recovery of credits	112,188	-	112,188
Exchange rate differences	-	(55)	(55)
Balance, December 31, 2003	$842,382	$62,636	$905,018

	January 1, 2002 to December 31, 2002		
	Risks of non-collectibility of specific loans	Inherent risk of the overall loan portfolio	Total
Balance, January 1, 2002	$843,006	$54,476	$897,482
Provisions	2,359,501	8,425	2,367,926
Write-offs	(2,051,680)	-	(2,051,680)
Recovery of credits	82,339	-	82,339
Exchange rate differences	-	(190)	(190)
Balance, December 31, 2002	$1,233,166	$62,711	$1,295,877

8. LONG-TERM STOCK INVESTMENTS

Name	Shareholding (Thousand Shares)	December 31, 2003 Book Value	Shareholding(%)
Equity Method			
Kaohsiung Bank Insurance Agency Co., Ltd.	200	$35,231	100.00%
Kaohsiung Bank General Insurance Agency Co., Ltd.	300	3,708	60.00%
Waterland Asset Management Co., Ltd.	6,000	65,774	20.00%
Sub-total		$104,713	
Cost Method			
Taipei Forex Inc.	700	$7,000	3.53%
Taiwan Futures Exchange Corporation	600	6,000	0.30%
Taiwan Finance Corporation	51,616	516,165	10.00%
Waterland Securities Co.,Ltd	50,000	500,000	4.93%
Taiwan Asset Management Corporation	10,000	100,000	0.57%
Taiwan Financial Asset Service Corporation	5,000	50,000	2.94%
Kaohsiung Rapid Transit Corporation	5,000	50,000	0.50%
Financial Information Service Co.,Ltd	4,550	45,500	1.14%
Debt Instruments Depository and Clearing Co. Taiwan	2,000	20,000	1.00%
Sub-total		$1,294,665	
Total long-term stock investments		$1,399,378	

Name	Shareholding (Thousand Shares)	December 31, 2002 Book Value	December 31, 2002 Shareholding(%)
Equity Method			
Kaohsiung Bank General Insurance Agency Co., Ltd.	300	$3,179	60.00%
Waterland Asset Management Co., Ltd.	6,000	61,055	20.00%
Kaohsiung Bank Insurance Agency Co., Ltd.	200	3,687	100.00%
Sub-total		$67,921	
Cost Method			
Taipei Forex Inc.	700	$7,000	3.53%
Taiwan Futures Exchange Corporation	600	6,000	0.30%
Taiwan Finance Corporation	51,616	516,165	10.00%
Waterland Securities Co.,Ltd	50,000	500,000	4.93%
Taiwan Asset Management Corporation	10,000	100,000	0.57%
Taiwan Financial Asset Service Corporation	5,000	50,000	2.94%
Kaohsiung Rapid Transit Corporation	5,000	50,000	0.50%
Financial Information Service Co.,Ltd	4,550	45,500	1.14%
Sub-total		$1,274,665	
Total long-term stock investments		$1,342,586	

(1) Long-term stock investments accounted for under the equity method and investment gains (losses):

	December 31, 2003	
	Long-term stock investment	Investment gains (losses)
Based on audited financial statements for the same period	$101,005	$36,263
Based on unaudited financial statements for the same period (note)	3,708	529
Total	$104,713	$36,792

	December 31, 2002	
	Long-term stock investment	Investment gains (losses)
Based on audited financial statements for the same period	$61,055	$1,055
Based on unaudited financial statements for the same period (note)	6,866	1,866
Total	$67,921	$2,921

Note: As the aggregate par value of the outstanding capital stock of the aforementioned investee companies, Kaohsiung Bank General Insurance Agency Co., Ltd. and Kaohsiung Bank Insurance Agency Co., Ltd. (for 2002) was less than $30 million and the operating revenue was less than $50 million or less than 10% of the total operating revenues of the Bank, the carrying amount of the investments and the related investment gains (losses) were calculated based on unaudited financial statements.

(2) Consolidation of financial statements of long-term stock investments in which the Bank owns more than 50% of the share voting rights for 2003:

Investee Company	Shareholding (%)	Consolidate (Yes/No)	Description
Kaohsiung Bank General Insurance Agency Co., Ltd.	60%	No	Assets or operating revenues of the investee company are less than 10% of the relevant balances of the Bank
Kaohsiung Bank Insurance Agency Co., Ltd.	100%	No	Assets or operating revenues of the investee company are less than 10% of the relevant balances of the Bank

9. PROPERTY AND EQUIPMENT-NET

(1)

	December 31, 2003		
	Cost	Accumulated Depreciation	Book Value
Land	$1,302,310	$ -	$1,302,310
Buildings	1,153,807	198,260	955,547
Machinery equipment	566,041	403,739	162,302
Transportation equipment	41,364	29,992	11,372
Miscellaneous equipment	136,470	104,594	31,876
Leasehold improvement	175,835	83,323	92,512
Construction in progress	34	-	34
Total	$3,375,861	$819,908	$2,555,953

(2)

	December 31, 2002		
	Cost	Accumulated Depreciation	Book Value
Land	$1,302,310	$ -	$1,302,310
Buildings	1,153,807	177,695	976,112
Machinery equipment	529,044	345,025	184,019
Transportation equipment	42,665	30,088	12,577
Miscellaneous equipment	159,622	120,137	39,485
Leasehold improvement	143,592	52,224	91,368
Construction in progress	34	-	34
Total	$3,331,074	$725,169	$2,605,905

(3) Insurance coverage for the Bank's fixed assets as of December 31, 2003 and 2002 were 1,029,636 thousand dollars and 1,028,761 thousand dollars, respectively.

(4) The Bank's fixed assets have not been appraised as of December 31, 2003.

(5) No collateral has been assumed on the Bank's fixed assets for up as of December 31, 2003.

10. OTHER ASSETS

	December 31, 2003	December 31, 2002
Deferred expenses	$42,790	$30,467
Non-operating assets	951,703	951,703
Employee pension and compensation payments	173,057	394,797
Deferred income tax assets	197,665	259,620
Other	16,046	19,643
Total	$1,381,261	$1,656,230

(1) Refer to Note 20 for descriptions of deferred income tax assets.

(2) Refer to Note 16 for the accounting treatment for employee pension and compensation payments.

11. PAYABLES

	December 31, 2003	December 31, 2002
Collections for customers	$128,010	$119,416
Accrued expenses	133,885	106,850
Interest payable	455,068	845,056
Acceptance bills	180,863	150,090
Checks for clearance	471,536	267,421
Forward remittances	14,040	30,918
Income tax payable	-	11,084
Other payables	1,068,465	1,100,799
Total	$2,451,867	$2,631,634

Refer to Note 20 for detailed calculations on income tax payable.

12. DEPOSITS AND REMITTANCES

	December 31, 2003	December 31, 2002
Checking deposits	$990,804	$912,165
Treasury deposit	8,168,088	8,154,452
Demand deposits	8,817,149	6,632,888
Demand savings deposits	27,648,149	23,762,232
Time deposits	16,280,611	31,465,614
Time savings deposits	48,956,993	54,199,793
Negotiable certificate of deposit	657,500	1,398,800
Remittances and drafts issued	9,441	625
Total	$111,528,735	$126,526,569

13. FINANCIAL BONDS PAYABLE

	Term/Interest Rate	December 31, 2003	December 31, 2002
First Bond, First Issue 2001	November 26, 2001 to November 26, 2006 3%	$1,050,000	$1,050,000
Subordinate Bond, First Issue 2001	August 19, 2002 to August 19, 2007 3.43%	2,000,000	2,000,000
Total		$3,050,000	$3,050,000

14. FUNDS BORROWED FROM CENTRAL BANK AND OTHER BANKS

	December 31, 2003	December 31, 2002
Funds borrowed from other banks	$454,498	$8,862
Funds borrowed from the Central Bank	3,449,375	4,522,700
Total	$3,903,873	$4,531,562

For the period ended December 31, 2003, interest rates on funds borrowed from other banks ranged between 0.8125% and 0.875% except for the interest rate on JPY funds, which accrued at 0.0400%; interest rates on funds borrowed from the Central Bank ranged between 1.172% and 2.20%.

For the period ended December 31, 2002, interest rates on funds borrowed from other banks ranged between 1.58% and 3.065% except for the interest rate on JPY funds, which accrued at 0.060%; interest rates on funds borrowed from the Central Bank ranged between 1.41% and 1.815%.

15. OTHER LIABILITIES

	December 31, 2003	December 31, 2002
Reserve for losses on guarantees	$19,014	$17,649
Reserve for accidental loss	22,809	10,073
Reserve for pension and termination payments	89,718	61,524
Appropriated loan funds	401,601	376,644
Guarantee deposit received	28,333	26,622
Other	360	5,612
Total	$561,835	$498,124

Appropriated loan funds mentioned above refer to the various special syndicated loans organized by the Bank, Small and Medium Enterprise Development Fund, the National Youth Commission of the Executive Yuan and the Development Fund of the Executive Yuan. The collected funds entrusted to the Bank from the respective committees to fund special project loans.

16. EMPLOYEE PENSION PLAN AND COMPENSATION PAYMENTS

1. Employee pension plan and compensation payments

The Bank was privatized on September 27, 1999. Pursuant to the standard governing the privatization of government-owned enterprises, pension and compensation payments paid to employees (payments to retained employees based on their years of service including compensation payments and termination payouts to terminated employees) amounted to approximately NT$1,635,996 thousand ; after deducting the reserve for pension funds and recognized pension liabilities, the balance amounted to approximately NT$1,109,358 thousand . In accordance with a directive of the MOF, the Bank is required to amortize this amount on a straight-line basis over five years commencing from October 1, 1999.

Retained employees' service years will start afresh and the regulations governing the pension plan prescribed by the Labor Standards Law shall apply.

2. Pension Plan

(1) The Bank started to make contributions to a pension fund upon its privatization on September 27, 1999 in accordance with the Labor Standards Law, which is deposited with the Central Trust of China. Information on the pension plan is as follows:

	Jan 1,2003 to Dec 31,2003	Jan 1,2002 to Dec 31,2002
Opening Balance	$105,913	$64,188
Add: Provisions	41,312	39,795
Interest Revenue	1,786	1,930
Less: Payment	(2,180)	-
Closing Balance	$146,831	$105,913

(2) Defined Benefit Pension Plan

(a) The funded status of the pension plan is as follows:

	December 31, 2003	December 31, 2002
Benefit obligation:		
Vested benefit obligation	($64,218)	($43,933)
Non-vested benefit obligation	(172,331)	(120,566)
Accumulated benefit obligation	(236,549)	(164,499)
Projected benefit obligation	(276,712)	(181,055)
Funded status:		
Fair value of plan assets	146,831	105,913
Funded status of pension plan	(129,881)	(75,142)
Unrecognized transition obligation (net assets)	-	-
Unrecognized gain or loss	58,572	13,618
Additional pension payable	(18,409)	-
Accrued pension payable/ prepaid pension fund at the end of the period	(89,718)	(61,524)

(b) The components of net periodic pension costs are as follows:

	2003	2002
Service Costs	$48,092	$46,014
Interest Costs	7,242	6,356
Expected return on plan assets	(4,236)	(3,209)
Amortization of unrecognized transition obligation (net assets)	-	-
Amortization of unrecognized service costs for the previous period	-	-
Amortization of unrecognized gain or loss	-	-
Net periodic pension costs	$51,098	$49,161

(c) Vested benefits: $68,759 $48,604

(d) Actuarial Assumptions used to calculate net periodic pension costs are as follows:

	2003	2002
Discount Rate of projected benefit obligation	4.0% p.a.	5.0% p.a.
Rate of increase in salaries	1.0% p.a.	2.0% p.a.
Projected long-term rate of return on pension assets	4.0% p.a.	5.0% p.a.

17. CAPITAL

	December 31, 2003	December 31, 2002
Authorized capital	$4,576,580	$4,576,580
Paid-in capital	4,576,580	4,576,580
Common stocks issued (thousand shares)	457,658	457,658
Par value	10	10

18. RETAINED EARNINGS

(1) As stipulated in the Bank's Articles of Incorporation, current year's net income, if any, shall first be used to offset prior years' operating losses and pay all taxes and then a provision of 30% of the net income shall be set aside as legal reserve. The Bank may also set aside a special reserve for business purposes pursuant to the relevant regulations. The remaining amount, if any, shall be allocated as follows: (a) 2% as Directors and Supervisors' remuneration; (b) 8% as employees' bonus; and (c) 90% as dividends to shareholders. The ratio of stock dividends and cash dividends to shareholders may be adjusted according to the status of retained earnings for the current year and business requirements upon resolution in the shareholders' meeting provided that cash dividends are not less than 5% of the total amount of dividends distributed for the income year.

(2) Information on employees' bonus and Directors and Supervisors' remuneration:

A. Appropriations resolved in the 2002 annual general shareholders' meeting on June 19, 2003:

	Amount
Employees' bonus- cash	$20,340
Directors & Supervisors' remuneration-cash	5,085
Total	$25,425

The above appropriations are consistent with the amounts resolved in the Board of Directors' Meeting held on March 27, 2003.

B. Up until February 16, 2004, the Board of Directors has not approved the 2003 earnings appropriation proposal.

C. The relevant information on employees' bonus and Directors and Supervisors' remuneration is available on the "Market Post Observation System".

D. Basic Earnings Per Share (EPS) after tax:

On the assumption that the 2002 retained earnings are distributed in cash for all items listed in A. and are recognized as expenses, basic earnings per share for FY 2002 is:

Net income (loss) after tax	A	162,733
Employees bonus and Directors & Supervisors' remuneration- Cash	B	25,425
Weighted average of outstanding common stocks (thousand shares)	C	457,658
Basic earnings per share after tax	(A-B)/C	0.30

(3) The 2002 and 2001 retained earnings were appropriated as follows in accordance with the shareholders' meeting held on June 2003 and 2002 respectively:

	Retained Earnings		Earnings Per Share ($)	
	2002	2001	2002	2001
Legal Surplus	$48,820	$233,684		
Cash dividend-common stock	228,830	583,290	$0.5	$1.3
Stock dividend-common stock	-	89,737	-	0.2
Directors & Supervisors' remuneration	5,085	14,956		
Employees' bonus	20,340	59,824		
Total	$303,075	$981,491		

19. LABOR, DEPRECIATION AND AMORTIZATION EXPENSES

	Jan 1, 2003 to Dec 31, 2003	Jan 1, 2002 to Dec 31, 2002
Labor Costs		
Wages & salaries	$888,665	$947,045
Health & labor insurance	36,494	35,306
Pension costs	51,098	49,161
Other costs	10,416	16,493
Depreciation & amortization	359,774	359,773
Total	$1,346,447	$1,407,778

20. INCOME TAX

(1) Deferred income tax assets (liabilities) – net:

	December 31, 2003	December 31, 2002
Temporary differences:		
Unrealized expense on provision of employees' pension	$17,827	$15,627
Reserve for accidental loss	6,203	2,518
Investment tax credits	19,274	-
Losses carried forward	154,361	241,475
Total	$197,665	$259,620
Less: allowance for decline in market value	-	-
Net	$197,665	$259,620

(2) Income tax expense (benefit):

	Jan 1, 2003 to Dec 31, 2003	Jan 1, 2002 to Dec 31, 2002
Income tax payable	$ -	$ -
Tax on income separately taxed	12,666	42,303
Additional 10% tax levied on unappropriated retained earnings	636	20,330
Deferred income tax expense (benefit)	61,955	4,470
(Over)/under provision of income tax of prior years	(11,084)	1,154
Income tax expense (benefit)	$64,173	$68,257

(3) Income tax payable:

A. Income tax payable (refundable) current period:

	December 31, 2003	December 31, 2002
Income tax expense in the current period	$ -	$ -
Additional 10% tax levied on unappropriated retained earnings	636	20,330
Less: temporary tax payment and interest withholding tax	(32,507)	(35,685)
Income tax payable (refundable)	($31,871)	($15,355)

B. Income tax payable:

	December 31, 2003	December 31, 2002
Income tax expense in the current period	$ -	$ -
Income tax of prior years	-	11,084
Income tax payable (refundable) at the end of the period	$ -	$11,084

(4) Reconciliation of income tax payable:

	Jan. 1, 2003 to Dec. 31, 2003	Jan. 1, 2002 to Dec. 31, 2002
Income tax payable	$143,815	$57,747
Reserve for unrealized accidental loss	3,685	465
Unrecognized pension costs	2,446	2,158
Income tax credits	(81,400)	(2,643)
Unrealized (gain) loss on decline in market value of marketable securities	-	(99,133)
Investment income accounted for under the equity method	(9,198)	(730)
Interest income on short-term bills	(14,343)	(53,946)
Net income derived by the OBU- tax exempt	(29,690)	48,813
Cash dividends	(4,145)	(5,562)
(Gain) loss on securities	(11,795)	52,553
Other tax adjustments	625	278
Income tax expense	$ -	$ -

(5) The Bank's income tax returns for the years up to and including 2001 have been assessed and approved by the Tax Authority.

(6) Imputation tax system and related information:

	December 31, 2003	December 31, 2002
Imputed tax credit for stockholders	$7,309	$20,360
Unappropriated earnings- before June 30, 1998	-	-
Unappropriated earnings- July 1, 1998 and thereafter	511,857	162,733

	2003	2002
Ratio of deductible tax credit for the appropriation of earnings	1.43% (Estimated)	31.90% (Actual)

The tax credits allocable to shareholders are based on the balance of the Imputation Credit Account (ICA) on the dividend distribution date. Accordingly, the estimated ratio of deductible tax credit for 2003 may change because the actual tax credits may differ from the tax credit projected by the Bank in accordance with the Income Tax Act.

(7) Up to December 31, 2003, details of the Bank's unutilized tax credits were as follows:

Deductible tax credit	Total Amount	Unutilized Amount	Year of Expiry
Article 6 of the "Statute for Promotion of Industrial Upgrading"	$19,274	$19,274	2006

21. BASIC EARNINGS PER SHARE

	Jan. 1, 2003 to Dec. 31, 2003	Jan. 1, 2002 to Dec. 31, 2002
Income before income tax (A)	$575,261	$230,990
Net income (B)	511,088	162,733
Weighted average outstanding common stocks (thousand shares) (C)	457,658	457,658
Earnings per share- income before income tax (A/C)	1.26	0.50
Earnings per share- net income (B/C)	1.12	0.36

22. RELATED PARTY TRANSACTIONS

Significant transactions between the Bank and related parties are summarized as follows:

(1) Names and relationships of related parties:

Name of the related parties	Relationships with the Bank
Kaohsiung City Government	The Bank's major shareholder
Other related parties	The Bank's major shareholder, Director, Supervisor, Manager, their relatives, their enterprises and the related parties
Kaohsiung Bank Insurance Agency Co., Ltd.	Subsidiary of the Bank
Kaohsiung Bank General Insurance Agency Co., Ltd.	Subsidiary of the Bank

(2) Significant transactions with related parties (Unit- New Taiwan Thousand Dollars):

A. Credit/Loan

	December 31, 2003	
Name of Related Party	Balance as of Dec. 31, 2003	Interest rate
Kaohsiung City Government	$46,635,160	1.2%-3.45%
Other related parties	101,245	1.675%-14%

	December 31, 2002	
Name of Related Party	Balance as of Dec. 31, 2002	Interest rate
Kaohsiung City Government	$72,109,067	2.58%-5.555%
Other related parties	87,092	2.20%-7.975%

a. Interest rates of credit approval extended by the Bank to the aforementioned related parties for the periods ended December 31, 2003 and 2002 are shown as above depending on the nature and purposes of these loans; the average interest rate ranges to third parties (except for pre-agreed accounts) were between 1.35% and 14.00% for the period ended December 31, 2003 and 2.0% and 14.00% for the period ended December 31, 2002.

b. Interests, commissions and fees of credit approval to Kaohsiung City Government for the years ended December 31, 2003 and 2002 were NT$1,621,366 thousand and NT$4,322,813 thousand , respectively.

B. Deposits

Name of Related Party	Dec/31/2003 Balance as of Dec. 31, 2003	Interest rate
Kaohsiung City Government	$8,168,088	0%-5.5%
Other related parties	528,226	0%-13%
Kaohsiung Bank Insurance Agency Co., Ltd.	55,891	0.15%
Kaohsiung Bank General Insurance Agency Co., Ltd.	6,510	0.15%-1.15%

Name of Related Party	Dec/31/2002 Balance as of Dec. 31, 2002	Interest rate
Kaohsiung City Government	$8,154,452	0%-5.50%
Other related parties	120,481	0%-13%
Kaohsiung Bank Insurance Agency Co., Ltd.	1,923	0.55%
Kaohsiung Bank General Insurance Agency Co., Ltd.	5,592	0.55%-1.96%

(1) Interest rates on the above related parties' deposits are shown as above depending on the nature the deposits; the average interest rates on third-party deposits were between 0% and 13%.
(2) The maximum interest rate on employees' (non-related parties) deposit accounts was 13%, which was also the maximum interest rate paid on related parties' deposit accounts depending on the nature of the deposit accounts.

C. Related parties who are acting as guarantors for the Bank's credit customers:

	December 31, 2003	December 31, 2002
Other related parties	$72,397	$126,460

D. Lease:

Details of the premises leased by the Bank from the Kaohsiung City Government:

a. Jan. 1, 2003 to Dec. 31, 2003

Leased Asset	Lease Term	Payment Method	Rental Expense
Hsiao Kang Branch	Jan. 1, 2002 ~ Dec. 31, 2003	half yearly	$231
Yen Cheng Mini-Branch	Jan. 1, 2002 ~ Dec. 31, 2003	half yearly	735
Wan Nei Branch	Jan. 1, 2002 ~ Dec. 31, 2003	half yearly	863
Shih Fu Branch	Jan. 1, 2002 ~ Dec. 31, 2003	half yearly	256
Tso Ying Branch	Jan. 1, 2002 ~ Dec. 31, 2003	half yearly	713
Kwei Lin Branch	Jan. 1, 2003 ~ Dec. 31, 2003	half yearly	285
		Total	$3,083

b. Jan. 1, 2002 to Dec. 31, 2002

Leased Asset	Lease Term	Payment Method	Rental Expense
Hsiao Kang Branch	Jan. 1, 2002 ~ Dec. 31, 2003	half yearly	$231
Yen Cheng Mini-Branch	Jan. 1, 2002 ~ Dec. 31, 2003	half yearly	735
Wan Nei Branch	Jan. 1, 2002 ~ Dec. 31, 2003	half yearly	869
Shih Fu Branch	Jan. 1, 2002 ~ Dec. 31, 2003	half yearly	256
Tso Ying Branch	Jan. 1, 2002 ~ Dec. 31, 2003	half yearly	713
Kwei Lin Branch	Oct. 21, 2001 ~ Dec. 31, 2002	half yearly	285
		Total	$3,089

c. Type of lease: operating lease.

d. Determination of the aforementioned rental expenses: adjusted according to the published land values and the present value of the building tax for the respective leased property.

E. Commission incomes received from Kaohsiung Bank Insurance Agency Co., Ltd. and Kaohsiung Bank General Insurance Agency Co., Ltd. for 2003 were NT$12,107 thousand and NT$881 thousand , respectively.

23. PLEDGED ASSETS

Details of the bank's assets pledged as collateral are as follows:

	December 31, 2003	December 31, 2002
Bills and securities purchased (par value)	$350,100	$358,700
Total	$350,100	$358,700

Bills and securities purchased were: (1) Provided as guarantee deposits for the various businesses; (2) deposited with the Court as guarantee to perform provisional seizure on the assets of the Bank's debtors; and (3) deposited with the Central Bank to provide security on overdrafts. Up to December 31, 2003, the overdraft balance of the Bank was nil but pledged certificate of time deposits amounted to NT$5,000,000 thousand .

24. COMMITMENTS AND CONTINGENT LIABILITIES

Up to December 31, 2003, major commitments of the Bank are as follows:

(1) Receivables and payables under forward contracts, collections, guarantee and accounts under custody:

Guarantees	$8,028,835
Accounts receivable under letter of credit	1,306,918
Payables on marketable securities under custody	23,042,606
Payables on travelers' checks consigned-in	188,449
Collections payable	7,523,927
Payables on joint loans	22,269,650
Revenue stamps consigned-in	433,571
Trust assets	8,055,621
Payables on underwritten marketable securities consigned-in	120,000
Payables on revenue stamps consigned-in	73,271
Bills and bonds sold under repurchase agreements	590,108
Bills and bonds purchased under resell agreements	200,219
Pre-agreed credit limit	2,832,928

(2) Lease agreements:

The Bank leased its office premise under several operating leases. Up to December 31, 2003, security deposits for the various lease agreements amounted to NT$141, 487 thousand, of which NT$131,000 thousand serve as the Bank's rental payments. Amounts payable under the Bank's lease agreements (excluding those whereby the refundable deposits serve as the rental payments) for the next five years are as follows:

Fiscal Year	Amount
2004	$55,880
2005	41,604
2006	13,902
2007	6,420
2008	600

(3) A total number of 21 former employees filed a civil suit against the Bank to ascertain their employer-employee relationships with the Bank. The Kaohsiung District Court delivered the judgment in favor of 18 of the employees, establishing the existence of an employer-employee relationship between these employees and the Bank, which was required to make salary payments to these 18 employees covering the period from May 1, 2000 to the date on which they resume employment. The remaining three employees were unsuccessful in their attempt to sue the Bank. The Bank and the three employees who lost the case appealed to higher court. The Taiwan High Court Kaohsiung Branch Court overturned the judgment and delivered the verdicts on September 24, 2003, October 8, 2003 and December 24, 2003 respectively in favor of the Bank- Chun Lao Shan Tzu No.2 (2001), Chun Lao Shan Tzu No.3 (2001) and Chun Lao Shan Tzu No.4 (2001). Twenty of the employees were unsuccessful in this litigated event except for one, whose employer-employee relationship with the Bank was established. The Bank was held liable to make salary payments to this employee covering the period from May 1, 2000 to the date on which the employee resumes employment. The Bank and 19 of the employees who lost the case appealed to higher court, refusing to accept the judgment delivered by the second Court of Instance. Up to December 31, 2003, the litigation involving the Bank and twenty of the employees were still being assessed by the third Court of Instance.

(4) Trust assets and liabilities and the property list of the trust account are disclosed as follows pursuant to Article 17 of the "Rules Governing the Implementation of the Trust Business Law":

Balance Sheet of Trust Account
December 31, 2003

Trust Asset	December 31, 2003	Trust Liabilities	December 31, 2003
Short-term investments		Trust Capital	
Trust investments	$8,055,621	Cash Trust	$8,055,621
Total trust assets	$8,055,621	Total trust liabilities	$8,055,621

Property List of Trust Account
December 31, 2003

Investments	Amount
Short-term investments	
Funds	$8,055,621
Total	$8,055,621

25. OTHER INFORMATION

1. For the purpose of speeding up the pace in dealing with the Bank's non-performing loans to strengthen the operational structure, the Bank has negotiated a price with GMAC Commercial Mortgage Japan, K.K on March 19, 2003 to dispose of it's non-performing loans, of which the principal aggregated to NT$2,029,802 thousand and any interest, penalty and advances paid on behalf of customers pertaining to the loans to GMAC. Primary details of the transaction are as follows:
   (1) Contract Date: March 19, 2003. The buyer should make a deposit payment equivalent to 10% of the purchase consideration to the Bank within three business days of the contract date.
   (2) Value Date: November 30, 2002.
   (3) Settlement Date: June 19, 2003. Any outstanding transaction post this date may be settled on settlement dates in Stage Two (stage-two settlement dates are 30, 60 and 90 days after June 19, 2003). Up to December 31, 2003, full payment of the purchase consideration has been made.
   (4) Buy-back Mechanism: The buyer may request the seller to buy back any non-performing loan found to be "Defective Assets" as defined in the agreement for the sale of non-performing loans within 180 days of the settlement dates.
2. Average balance and average interest rate of interest-earning assets and liabilities of Bank of Kaohsiung Co., Ltd.:

	January 1, 2003 ~ December 31, 2003	
	Average Balance	Average Interest Rate
Assets		
Due from CBC	$14,604,648	1.37
Bills purchased- acceptances & commercial papers	2,272,278	1.46
Bills purchased- bonds	11,988,119	2.95
Due from/ loan to other banks	5,298,541	1.24
Loans and advances on behalf of customers	113,895,574	3.66
Liabilities		
Due to banks	24,960,497	1.63
Treasury deposits	7,997,606	1.18
Demand deposits	34,062,154	0.83
Time deposits	76,243,812	1.76
Negotiable certificate of deposit	1,256,948	1.70
Financial bonds payable	3,050,000	3.28
Other borrowings	3,028,014	0.33

	January 1, 2002 ~ December 31, 2002	
	Average Balance	Average Interest Rate
Assets		
Due from CBC	$7,168,187	1.74
Bills purchased- acceptances & commercial papers	4,751,909	2.38
Bills purchased- bonds	9,956,423	3.75
Due from/ loan to other banks	9,122,737	1.91
Loans and advances on behalf of customers	134,911,619	5.52
Liabilities		
Due to banks	30,952,485	2.46
Treasury deposits	9,752,261	1.69
Demand deposits	29,896,384	1.79
Time deposits	97,522,677	2.72
Negotiable certificate of deposit	7,137,107	3.48
Financial bonds payable	1,789,724	3.17
Other borrowings	2,876,606	0.72

3. Maturity analysis of the Bank's assets and liabilities:

The maturity of the Bank's assets and liabilities is determined based on the remaining period from balance sheet dates. Maturity analysis of assets and liabilities was conducted based on the contracted maturity dates. For assets and liabilities of which a maturity date has not been specified, the maturity analysis assumed the dates on which the assets are expected to be liquidated or the liabilities are to be repaid as the maturity dates.

	December 31, 2003			
	Due in 6 months	Due between 6 months and one year	Due after one year	Total
	Amount	Amount	Amount	Amount
Assets				
Cash	$2,559,049	$ -	$ -	$2,559,049
Bills and securities purchased	2,862,868	457,668	9,769,318	13,089,854
Due from banks	2,299,705	-	-	2,299,705
Loans and discounts	43,414,052	7,949,616	62,899,420	114,263,088
Total	$51,135,674	$8,407,284	$72,668,738	$132,211,696
Liabilities				
Due to banks	$14,596,619	$8,344,886	$8,000	$22,949,505
Treasury deposits	6,988,061	1,180,027	-	8,168,088
Time deposits	30,020,329	28,809,913	6,407,362	65,237,604
Negotiable certificate of deposit	365,700	291,800	-	657,500
Financial bonds payable	-	1,115,000	1,935,000	3,050,000
Other borrowings	3,903,873	-	-	3,903,873
Total	$55,874,582	$39,741,626	$8,350,362	$103,966,570

	December 31, 2002			
	Due in 6 months	Due between 6 months and one year	Due after one year	Total
	Amount	Amount	Amount	Amount
Assets				
Cash	$2,682,537	$ -	$ -	$2,682,537
Bills and securities purchased	3,690,022	834,311	10,283,408	14,807,741
Due from banks	3,566,690	118,763	-	3,685,453
Loans and discounts	59,153,002	10,937,013	67,636,013	137,726,028
Total	$69,092,251	$11,890,087	$77,919,421	$158,901,759
Liabilities				
Due to banks	$19,564,997	$11,180,711	$ -	$30,745,708
Treasury deposits	6,856,368	1,298,084	-	8,154,452
Time deposits	41,824,294	38,700,424	5,140,689	85,665,407
Negotiable certificate of deposit	533,200	865,600	-	1,398,800
Financial bonds payable	-	-	3,050,000	3,050,000
Other borrowings	4,531,562	-	-	4,531,562
Total	$73,310,421	$52,044,819	$8,190,689	$133,545,929

26. SUPPLEMENTARY DISCLOSURE

1. Related information on significant transactions
   (1) Loans to others: not applicable.
   (2) Endorsements and guarantees provided to others: not applicable.
   (3) Marketable securities and long-term investments: The Bank is not required to disclose information on bills and securities purchased pursuant to Paragraph 1, Article 13-1 of the "Rules Governing the Preparation of Financial Statements of Securities Issuers"; Please refer to Appendix 1 for information on the Bank's long-term investments.
   (4) Cumulative balance of marketable securities purchased or sold greater than NT$ 100 million or 20% of paid-in capital: none.
   (5) Acquisition of fixed assets greater than NT$ 100 million or 20% of paid-in capital: none.
   (6) Disposal of fixed assets greater than NT$100 million or 20% of paid-in capital: none.
   (7) Sales to and purchases from related parties greater than NT$100 million or 20% of paid-in capital: not applicable.
   (8) Receivables from related parties greater than NT$100 million or 20% of paid-in capital: Appendix 2.
   (9) Derivatives transactions: Please refer to Note 28 for further details.
2. Information on investee companies: Appendix 3.
3. Investments in Mainland China: none.

27. RECLASSIFICATION

Certain accounts of the 2002 financial statements have been reclassified to conform to the presentation of financial information in the 2003 financial statements.

Appendix 1

Bank of Kaohsiung Co., Ltd.

Marketable Securities

December 31, 2003

Unit: thousand shares/ thousand dollars

Investor	Type and name of marketable securities	Relationship of the issuer with the Bank	Account	December 31, 2003				Note
				Number of shares	Book value	Shareholding percentage	Market Value	
Bank of Kaohsiung Co., Ltd.	Stock- Kaohsiung Bank Insurance Agency Co., Ltd.	Investee company accounted for under the equity method	Long-term investments	200	35,231	100%	35,231	
	Stock- Kaohsiung Bank General Insurance Agency Co., Ltd.	Investee company accounted for under the equity method	Long-term investments	300	3,708	60%	3,708	
	Stock- Waterland Asset Management Co., Ltd.	Investee company accounted for under the equity method	Long-term investments	6,000	65,774	20%	65,774	
	Stock- Taipei Forex Inc.	None	Long-term investments	700	7,000	3.53%	10,724	
	Stock- Taiwan Futures Exchange Corporation	None	Long-term investments	600	6,000	0.30%	9,948	
	Stock- Taiwan Finance Corporation	The Bank is the judicial person Director of this investee company	Long-term investments	51,616	516,165	10.00%	494,486	
	Stock- Waterland Securities Co.,Ltd	The Bank is the judicial person Director of this investee company	Long-term investments	50,000	500,000	4.93%	436,500	
	Stock- Taiwan Asset Management Corporation	None	Long-term investments	10,000	100,000	0.57%	106,600	
	Stock- Taiwan Financial Asset Service Corporation	None	Long-term investments	5,000	50,000	2.94%	50,750	
	Stock- Kaohsiung Rapid Transit Corporation	The Bank is the judicial person Director of this investee company	Long-term investments	5,000	50,000	0.5%	49,800	
	Stock- Financial Information Service Co.,Ltd	None	Long-term investments	4,550	45,500	1.14%	67,067	
	Stock- Debt Instruments Depository and Clearing Co.Taiwan	None	Long-term investments	2,000	20,000	1.00%	19,860	

Appendix 2

Bank of Kaohsiung Co., Ltd.

Receivables From Related Parties Exceeding NT$100 million or 20% of Paid-in Capital

December 31, 2003

(Expressed in New Taiwan Thousand Dollars)

Creditor	Debtor	Relationship of the debtor with the Bank	Balance of receivables from related parties	Turnover Rate	Overdue receivables from related parties		Amount of receivables collected from related parties subsequent to the event	Allowance for bad debts
					Amount	Handling procedure		
Bank of Kaohsiung Co., Ltd.	Kaohsiung City Government	Major shareholders of the Bank	46,635,160	Not applicable	None	Not applicable.	906,048 thousand dollars have been collected up to Feb. 16, 2004. The remaining balance has yet to mature.	None

Bank of Kaohsiung Co., Ltd.
Information on Investee Companies
December 31, 2003

Unit: thousand shares; NT thousand dollars

Investor	Name of investee company	Location	Main business	Original investment amount		Shares held by the Bank as at Dec 31, 2003			The net income/ (loss) of the investee company	The income/ (loss) recognized in this period	Note
				Dec 31, 2003	Dec 31, 2002	Number of shares	Percentage	Book value			
Bank of Kaohsiung Co., Ltd.	Kaohsiung Bank Insurance Agency Co., Ltd.	Kaohsiung City	Life Insurance Agency	2,000	2,000	200	100%	35,231	31,544	31,544	Based on audited financial statements for the same periods
	Kaohsiung Bank General Insurance Agency Co., Ltd.	Kaohsiung City	Property Insurance Agency	3,000	3,000	300	60%	3,708	881	529	Not based on audited financial statements for the same periods
	Waterland Asset Management Co., Ltd.	Taipei City	Securities Investment Trust Enterprise	60,000	60,000	6,000	20%	65,774	23,599	4,719	Based on audited financial statements for the same periods

28. FINANCIAL INSTRUMENTS

(1). Financial Derivatives:

Derivative transactions such as forward exchange contracts, foreign exchange swaps and foreign exchange options transactions undertaken by the Bank for trading purposes are primarily intended for meeting client needs and balancing the Bank's trading positions as well as supporting the Bank's various foreign currency funding requirements. Derivative transactions entered into for hedging purposes such as interest rate swaps, asset swaps and foreign exchange option contracts are primarily used to hedge the Bank's exposure in assets and liabilities arising from interest rate and currency exchange rate fluctuations. The Bank adopted hedging strategies that were effective in hedging against most of the market risks. The Bank used financial derivatives of which the changes in their fair value displayed significantly negative relationships to those of the hedged assets or liabilities. Periodic evaluations were also undertaken to review these positions.

Credit risk refers to the potential loss that may be suffered by the Bank in the event of a default by the counterparty to the transaction. Prior the entering into transactions with customers, the Bank undertakes the credit check and credit approval procedures and ensures that a sufficient amount of collateral is provided over the assets. Upon granting of the credit limit, the customers are then allowed to undertake transactions within the prescribed limit. An appropriate amount of guarantee deposit is also collected from customers depending on their individual credit status. The credit limit for foreign exchange transactions between the Bank and other banks is assigned in accordance with the global ranking list and the banks' credit rating and all transactions are undertaken within the credit limit. An allowance for bad debts or a reserve for loss has also been provided taking into account the Bank's credit risk.

The contract amount (notional principal), credit risk and fair value of the Bank's financial derivatives are listed as follows:

	Dec. 31, 2003			Dec. 31, 2002		
	Contract Amount (Notional Principal)	Credit Risk	Fair Value	Contract Amount (Notional Principal)	Credit Risk	Fair Value
For hedging purposes						
Asset swaps	1,155,150	3,737	61,986	1,113,280	2,957	31,416
Interest rate swaps	271,800	-	399	556,540	-	(6,929)
For trading purposes						
Forward exchange contracts	462,387	6,995	232	1,621,814	5,434	(16,790)
Foreign exchange swaps	2,552,550	4,650	(2)	1,583,320	3,800	(4,191)
Foreign exchange options						
Options purchased	23,536	2,383	1,476	-	-	-
Options sold	23,536	-	(1,476)	-	-	-

The Bank calculates the fair value of each contract based on the various foreign exchange rates and quotes reported by Reuters or the Bloomberg Information System.

The Bank engages in numerous financial derivative transactions and the contract amount or notional principal is often used to calculate the settlement amounts payable and receivable by the buyer and seller. Therefore, the notional principal is neither the actual settlement amount nor the cash requirement of the Bank. The likelihood of being unable to sell the financial derivatives issued or held by the Bank is very low. Therefore, the Bank does not anticipate substantial cash flow requirements upon the maturity of the contracts.

Details of the gains and losses on the derivative transactions of the Bank are as follows:

	2003	2002
Foreign exchange forward		
- Exchange gain (deduction)	2,580	892
Foreign exchange swap		
- Interest revenue	11,480	6,178
- Interest expense	7,171	3,107
Asset swap		
- Interest revenue	32,177	30,040
Foreign exchange option		
- Net gain on derivative instruments	94	-
Interest rate swap		
- Interest revenue	11,662	17,454

(2) Fair value of non-derivative financial instruments:

	December 31, 2003	
Asset	Book Value	Fair Value
Cash	$2,559,049	$2,559,049
Due from banks	2,299,705	2,299,705
Due from CBC	17,041,810	17,041,810
Bills and securities purchased- net	13,089,854	13,442,062
Accounts receivable- net	827,820	827,820
Loans and discounts- net	113,365,259	113,365,259
Long-term stock investments	1,399,378	1,350,448
Liabilities		
Due to CBC	118,850	118,850
Due to banks	22,949,505	22,949,505
Accounts payable	2,451,867	2,451,867
Deposits and remittances	111,528,735	111,528,735
Financial bonds payable	3,050,000	3,050,000
Funds borrowed from CBC and other banks	3,903,873	3,903,873

	December 31, 2002	
Asset	Book Value	Fair Value
Cash	$2,682,537	$2,682,537
Due from banks	3,685,453	3,685,453
Due from CBC	13,539,129	14,539,129
Bills and securities purchased- net	14,807,741	14,854,060
Accounts receivable- net	1,005,438	1,005,438
Loans and discounts- net	136,437,110	136,437,110
Long-term stock investments	1,342,586	1,196,944
Liabilities		
Due to CBC	167,333	167,333
Due to banks	30,745,708	30,745,708
Accounts payable	2,631,634	2,631,634
Deposits and remittances	126,526,569	126,526,569
Financial bonds payable	3,050,000	3,050,000
Funds borrowed from CBC and other banks	4,531,562	4,531,562

The Bank adopted the following methods and assumptions in estimating the fair value of the financial instruments:

1. The book value of short-term financial products in the balance sheet is used as the approximation of their fair value. Due to the short maturity of these instruments, this approximation approach is considered reasonable. This method shall be applied to accounts including: cash, due from banks, due from CBC, accounts receivable, due to CBC, due to banks and accounts payable.
2. Market prices for bills and securities purchased and long-term stock investments are used as the fair values for these instruments where available or other financial information is used to estimate the fair value.
3. Loans, advances on behalf of customers and deposits and remittances are interest-bearing assets and liabilities. In the majority of the cases, the interest rates are floating. Therefore, the book values of these instruments are close to the approximation of their fair values.
4. Funds borrowed from the Central Bank and other banks are financial liabilities with floating interest rates. Therefore, the book values of these liabilities are a close approximation of their fair values.

(3) Financial instruments with off-balance sheet credit risks:

The Bank has a substantial sum of credit commitments pertaining to loans granted to customers. The majority of the loans have a credit term of one year. Interest rates on loans are between 1.35% and 14.00%, except otherwise separately negotiated. The Bank also provides guarantees and issues a letter of credit to guarantee the performance of customers' obligations to third parties. The maturity dates of these guarantees are not concentrated in one specific period.

The contract amounts of financial instruments with off-balance sheet credit risks as of December 31, 2003 are as follows:

	December 31, 2003
Loan commitments	$2,832,928
Guarantees and L/C	9,335,753

The total contract amount does not necessarily represent future cash outflows as the majority of the aforementioned commitments are not expected to be utilized upon maturity. This means that the amount of future cash requirements is less than the contract amount. Assuming that the credit has been fully utilized and the value of the collateral or other guarantee is impaired, the credit risk is essentially the contract amount, which represents the maximum possible loss that may be suffered by the Bank.

The Bank evaluates the credit worthiness of each credit application strictly prior to granting a loan, guarantee or issuing a letter of credit. The Bank has a policy in place which may require appropriate forms of collateral from customers depending on the credit status of each customer prior to disbursing the funds. Collateral provided for loans and a letter of credit are often in the form of real estate, cash, inventory, marketable securities or other assets. The Bank reserves the right to dispose the collateral in the event of customer default in order to secure its credit.

(4) Information regarding concentration of credit risks

The concentration of credit risks exists when financial instruments are significantly exposed to a single customer or a group of counterparties that engage in similar business activities of a similar economic nature, making the inability to fulfill their contractual obligation during an economic downturn or other similar situations. The Bank undertakes financial instrument transactions with the Kaohsiung City Government only, causing the concentration of credit risks. As of December 31, 2003 and 2002, the balance of loans to the Kaohsiung City Government aggregated to NT$46,635,160 thousand and NT$72,109,067 thousand, respectively, representing 41% and 52% of the total outstanding loans of the Bank, respectively. The Kaohsiung City Government has deposits at the Bank totaling NT$8,168,088 thousand and NT$8,154,452 thousand as of December 31, 2003 and 2002, respectively. The Bank is of the opinion that the level of credit risk associated with loans to the Kaohsiung City Government is extremely low.

29.SEGMENT INFORMATION

(1) Operations in different industries:

The Bank engages in businesses prescribed by Article 3 of the Banking Law, which primarily include accepting deposits, extending loans, providing guarantee, foreign exchange transactions, accepting savings deposits and trust business. The Bank operates principally in one industry.

(2) Operations in different geographic areas: none.

(3) Export sales: none.

(4) Information on major customers:

FY2003：

Customers	Amount (Note)	Operating Revenue %
Kaohsiung City Government	$1,621,366	30.26%

FY2002：

Customers	Amount (Note)	Operating Revenue %
Kaohsiung City Government	$4,322,813	48.01%

Note: Interest revenue and fee income.

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(1) The Bank's financial status as at December 31, 2003

Cuugvu'* expressed in New Taiwan Thousand Dollars+<'

Cash: $2,559,049; Due from banks: $2,299,705; Due from CBC: $17,041,810; Bills and securities purchased-net: $13,089,854; Accounts receivable-net: $827,820; Prepayments: $57,763; Loans and advances on behalf of customers: $113,365,259; Long-term stock investments: $1,399,378; Fixed assets-net: $2,555,953; Other assets-net: $1,553,665; Total assets: $154,750,256, representing a decrease of $23,333,405 against total assets of $178,083,661 as of December 31, 2002.

Nkcdkkkvkgu'tpf 'Uvqemj qnf gtu,'Gs wkv{ '(expressed in New Taiwan Thousand Dollars):

Due to CBC: $118,850; Due to banks: $22,949,505; Accounts payable: $2,451,867; Collections in advance: $55,789; Deposit & remittances: $111,528,735; Financial bond: $3,050,000; Funds borrowed from CBC & other banks: $3,903,873; Other liabilities: $561,835; Total liabilities: $144,620,454, representing a decrease of $23,571,829 against total liabilities of $168,192,283 as of December 31, 2002.

Capital: $4,576,580; Capital surplus: $3,000,061; Retained earnings: $2,571,570; Unrecognized pension costs-net: ($18,409); Total Stockholders' Equity: $10,129,802 representing an increase of $238,424 against total stockholders' equity of $9,891,378 as of December 31, 2002.

(2) 2003 Profit/Loss Status (expressed in New Taiwan Thousand Dollars):

2003 Operating revenue: $5,357,955; Operating cost: $2,906,424; Gross profit: $2,451,531; Operating expenses: $1,847,454; Operating income: $604,077; Non-operating income: $4,423; Non-operating expenses: $33,239; Profit before income tax: $575,261.