

UNITED WORLD CHINESE COMMERCIAL BANK

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2002 AND 2001

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders
United World Chinese Commercial Bank

We have audited the accompanying balance sheets of United World Chinese Commercial Bank as of December 31, 2002 and 2001 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 Corporation's management. Our responsibility is to express an opinion on the financial statements based on our audit. We did not audit the financial statements of the equity-basis investee as of and for the year ended December 31, 2002 and 2001. The long-term investment accounted for by the equity method amounted to \$2,073,365 thousand and \$2,474,162 thousand as of December 31, 2002 and 2001, respectively, and related investment loss of \$375,074 thousand and investment gain of \$65,874 thousand recognized for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it related to the amounts included for such said investee, is based on the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in the Republic of China and "Guidelines for Certified Public Accountants' Examination and Reporting on Financial Statements". 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 audit and the report of other auditor provide a reasonable basis for our opinion.

In our opinion, based on our examinations the financial statements referred to above present fairly, in all material respects, the financial position of United World Chinese Commercial Bank as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with the generally accepted accounting principles and "Regulations Governing the Preparation of Financial Statements of Public Companies" in the Republic of China.

As described in Note 3 to the financial statements, United World Chinese Commercial Bank has adopted Statement of Financial Accounting Standards of the Republic of China No. 30, "Accounting for Treasury Stock", to account for its stock held by subsidiaries as treasury stock since January 1, 2002.

January 23, 2003
Taipei, Taiwan
Republic of China

UNITED WORLD CHINESE COMMERCIAL BANK
BALANCE SHEETS
DECEMBER 31, 2002 AND 2001
(In thousands of New Taiwan Dollars)

ASSETS	2002	2001
Cash (Note IV)	\$10,803,760	\$11,947,694
Due from Central Bank (Notes IV, VI and X)	29,164,768	36,431,748
Due from other banks (Notes IV, V, VI and X)	31,096,014	21,148,831
Marketable securities-net (Notes II, IV, VI and X)	119,821,935	149,006,489
Receivables-net (Notes II, IV and X)	21,599,990	19,883,172
Prepayments (Notes IV)	1,413,336	1,219,764
Loans, discounts and bills purchased-net (Notes II, IV, V and X)	394,578,267	427,930,788
Long-term investments-net (Notes II, IV and X)	12,153,144	12,577,702
Premises and equipment (Notes II, V, VII, VIII and X)		
Cost:		
Land	14,274,047	13,995,709
Building	8,662,279	8,438,321
Furniture and fixtures	2,595,945	2,364,799
Transportation equipment	70,900	68,346
Miscellaneous equipment	2,439,744	2,306,757
Total Cost	<u>28,042,915</u>	<u>27,173,932</u>
Less: Accumulated depreciation	(5,361,393)	(4,855,480)
Construction in progress and procurement	<u>559,050</u>	<u>622,732</u>
Premises and Equipment-net	23,240,572	22,941,184
Non-operating assets (Note II)	704,619	759,334
Other assets (Note IV and V)	7,791,564	3,306,348
Deferred charges (Note II)	<u>179,057</u>	<u>110,569</u>
TOTAL ASSETS	<u><u>\$652,547,026</u></u>	<u><u>\$707,263,623</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Due to Central Bank	\$167,129	\$344,442
Due to other banks (Notes IV, V and X)	44,042,513	34,918,280
Payables (Note IV and V)	25,637,194	23,376,521
Advances from customers	1,025,725	766,930
Deposits and remittances (Notes IV, V and X)	514,675,358	578,533,859
Banker's debenture (Notes IV)	10,000,000	-
Bankers acceptances and funds borrowed (Notes IV, V and X)	2,206,585	3,270,359
Long-term liabilities (Note IV)	34,119	34,119
Reserve for possible losses (Notes II and IV)	82,360	84,925
Other Liabilities (IV)	<u>635,215</u>	<u>779,317</u>
TOTAL LIABILITIES	<u>598,506,198</u>	<u>642,108,752</u>
Capital stock (Note IV)	39,715,627	37,716,644
Capital reserve (Notes II and IV)	5,095,598	5,870,989
Retained earnings (Note IV)		
Legal reserve	17,447,928	15,870,416
Special reserve	257,487	235,142
Unappropriated earnings	(8,582,898)	5,258,372
Unrealized losses on long-term investments (Notes IV)	(79,482)	-
Translation adjustments (Notes II)	<u>186,568</u>	<u>203,308</u>
TOTAL SHAREHOLDERS' EQUITY	<u>54,040,828</u>	<u>65,154,871</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$652,547,026</u></u>	<u><u>\$707,263,623</u></u>

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

UNITED WORLD CHINESE COMMERCIAL BANK
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001
(In thousands of New Taiwan Dollars, except earnings per share amounts)

ITEMS	2002	2001
OPERATING INCOME:		
Interest revenue (Note V)	\$29,255,994	\$37,247,539
Commission and handling fees (Note V)	1,924,842	1,471,438
Commission income of stock brokerage	106,427	71,189
Gains on sales of securities-net (Note II)	1,202,487	1,192,973
Investment income-net (Notes II and IV)	-	149,583
Profit on exchange-net (Note II)	231,956	284,263
Other operating income (Note V)	125,424	546,407
Total	32,847,130	40,963,392
OPERATING COST:		
Interest expense (Note V)	11,123,501	21,209,219
Commissions and handling charges	299,064	261,360
Commission charges of stock brokerage	6,254	3,880
Loss from investment - net (Notes II and IV)	202,150	
Provisions for possible losses (Note II)	24,736,026	5,814,760
Operating expenses (Note V)	7,243,388	7,167,896
Administration expenses	5,165	6,718
Total	43,615,548	34,463,833
NET OPERATING INCOME (LOSS)	(10,768,418)	6,499,559
NON-OPERATING INCOME:		
Gain on disposal of premises and equipment (Note II)	-	2,070
Others	316,279	77,254
Total	316,279	79,324
NON-OPERATING EXPENSE:		
Miscellaneous expenses (Notes II and VIII)	1,475,171	265,311
INCOME (LOSS) BEFORE INCOME TAX	(11,927,310)	6,313,572
INCOME TAX BENEFIT (EXPENSE) (Notes II and IV)	3,120,000	(1,055,200)
NET INCOME (LOSS)	\$(8,807,310)	\$5,258,372
EARNING (LOSS) PER SHARE (In New Taiwan Dollars)(Note IV)		
INCOME (LOSS) BEFORE INCOME TAX	\$(3.00)	\$1.59
INCOME TAX BENEFIT (EXPENSES)	0.78	(0.27)
NET INCOME (LOSS)	\$(2.22)	\$1.32
PRO FORMA INFORMATION (If subsidiaries' investment in UWCCB is not treated as treasury stock) (Note IV)		
NET LOSS	\$(8,749,594)	
LOSS PER SHARE (In New Taiwan Dollars)	\$(2.20)	

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

UNITED WORLD CHINESE COMMERCIAL BANK
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001
(In thousands of New Taiwan Dollars)

ITEMS	Capital Stock	Capital Reserve	Retained Earnings			Unrealized Loss on Long-Term Investments	Translation Adjustments	Treasury Stock	Total
			Legal Reserve	Special Reserve	Unappropriated Earnings				
Balance, January 1, 2001	\$34,176,203	\$8,433,079	\$13,813,572	\$199,148	\$6,856,146	\$(19,707)	\$133,839	\$(346,461)	\$63,245,819
Appropriation and distribution of 2000 earnings (Note IV):									
Legal reserve	-	-	2,056,844	-	(2,056,844)	-	-	-	-
Special reserve	-	-	-	35,994	(35,994)	-	-	-	-
Cash dividends	-	-	-	-	(3,417,620)	-	-	-	(3,417,620)
Stock dividends	854,405	-	-	-	(854,405)	-	-	-	-
Compensation to directors and supervisors	-	-	-	-	(122,821)	-	-	-	(122,821)
Special bonus to employees and contribution to welfare fund	122,821	-	-	-	(368,462)	-	-	-	(245,641)
Capital increase from capital reserve (Note IV)	2,563,215	(2,563,215)	-	-	-	-	-	-	-
Net income of 2001	-	-	-	-	5,258,372	-	-	-	5,258,372
Translation adjustments (Note II)	-	-	-	-	-	-	69,469	-	69,469
Reversal of unrealized losses on long-term investments of investee companies of which recognized by the equity method (Note IV)	-	-	-	-	-	19,707	-	-	19,707
Treasury stock purchased (Notes II and IV)	-	1,125	-	-	-	-	-	346,461	347,586
Balance, December 31, 2001	37,716,644	5,870,989	15,870,416	235,142	5,258,372	-	203,308	-	65,154,871
Appropriation and distribution of 2001 earnings (Note IV):									
Legal reserve	-	-	1,577,512	-	(1,577,512)	-	-	-	-
Special reserve	-	-	-	22,345	(22,345)	-	-	-	-
Cash dividends	-	-	-	-	(1,885,832)	-	-	-	(1,885,832)
Stock dividends	1,320,083	-	-	-	(1,320,083)	-	-	-	-
Compensation to directors and supervisors	-	-	-	-	(113,150)	-	-	-	(113,150)
Special bonus to employees and contribution to welfare fund	113,150	-	-	-	(339,450)	-	-	-	(226,300)
Capital increase from capital reserve (Note IV)	565,750	(565,750)	-	-	-	-	-	-	-
Reversal of capital reserve transferred from gain on disposal of premises and equipment (Notes II and IV)	-	(220,039)	-	-	220,039	-	-	-	-
Net loss of 2002	-	-	-	-	(8,807,310)	-	-	-	(8,807,310)
Translation adjustments (Note II)	-	-	-	-	-	-	(16,740)	-	(16,740)
Unrealized losses on long-term investments of investee companies of which recognized by the equity method (Note IV)	-	-	-	-	-	(79,482)	-	-	(79,482)
Capital reserve transferred from selling treasury stock	-	10,398	-	-	-	-	-	-	10,398
Reversal of cash dividends to the subsidiary accounted as treasury stock	-	-	-	-	4,373	-	-	-	4,373
Balance, December 31, 2002	\$39,715,627	\$5,095,598	\$17,447,928	\$257,487	\$(8,582,898)	\$(79,482)	\$186,568	\$-	\$54,040,828

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

UNITED WORLD CHINESE COMMERCIAL BANK
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001
(In thousands of New Taiwan Dollars)

ITEMS	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$(8,807,310)	\$5,258,372
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization (Note II)	636,759	643,487
Provisions for possible losses (Note II)	24,736,026	5,814,760
Loss on disposal of premises and equipment and non-operating assets (Notes II and IV)	7,218	30,806
Investment (income) loss recognized by the equity method (Notes II and IV)	284,462	(86,572)
Cash dividends received from investee companies of which recognized by the equity method	48,919	73,721
Reversal of allowance for decline in market price of securities (Note II)	-	(421,897)
Gain on disposal of long-term investments	1,645	-
Adjustment of changes in exchange rates	(14,652)	(12,672)
Increase in receivables	(2,482,818)	(5,329,331)
Increase in prepayments	(193,572)	(228,829)
Increase in marketable securities for trading purposes	(8,280,836)	(3,755,459)
Increase in payables	2,260,673	4,235,891
Increase in advances from customers	258,795	239,130
Increase (decrease) in deferred income	(158,292)	158,292
Net cash provided by operating activities	<u>8,297,017</u>	<u>6,619,699</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of premises and equipment and non-operating assets	20,735	2,705
Addition in premises and equipment	(873,961)	(1,276,199)
Proceeds from disposal of long-term investments	24,120	10,500
(Increase) decrease in marketable securities for non-trading purposes	(11,202,555)	15,712,518
Increase in long-term investments	(2,000)	(2,573,776)
Net (increase) decrease in loans, discounts, and bills purchased	11,297,848	(7,301,734)
Increase in other assets	(6,316,235)	(40,833)
Increase in due from other banks	(9,947,183)	(2,899,896)
(Increase) decrease in due from Central Bank	7,266,980	(8,453,782)
Increase in deferred charges	(104,523)	(61,112)
Net cash used in investing activities	<u>(9,836,774)</u>	<u>(6,881,609)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in due to Central Bank	(177,313)	191,501
Increase (decrease) in due to other banks	9,124,233	(8,036,423)
Increase (decrease) in deposits and remittances	(63,858,501)	46,978,598
Increase in banker's debenture	10,000,000	-
Increase (decrease) in banker's acceptances and funds borrowed	(1,063,774)	430,882
Increase in guaranty and marginal deposits	14,190	43,608
Cash dividends paid	(1,885,832)	(3,417,620)
Compensation to directors and supervisors, special bonus to employees, and contribution to welfare fund	(339,450)	(368,462)
Treasury stock reissued	-	347,586
Net cash provided by (used in) financing activities	<u>(48,186,447)</u>	<u>36,169,670</u>
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES	<u>1,225</u>	<u>62,093</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(49,724,979)</u>	<u>35,969,853</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR (Note X)	<u>77,034,894</u>	<u>41,065,041</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note X)	<u>\$27,309,915</u>	<u>\$77,034,894</u>
SUPPLEMENT DISCLOSURES OF CASH FLOWS INFORMATION:		
Interest expenses paid	<u>\$12,332,318</u>	<u>\$21,578,095</u>
Income tax paid	<u>\$442,972</u>	<u>\$1,199,350</u>

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

UNITED WORLD CHINESE COMMERCIAL BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(In thousands of New Taiwan Dollars unless others stated)

I. BUSINESS

The Bank was enfranchised by the government of the Republic of China on January 1975, and started its operations on May 20, 1975. Its is engaged in the following operations:

- (1) All commercial banking operations authorized by the Banking Law in the Republic of China;
- (2) International banking business and related operations;
- (3) Trust and stockbrokerage business;
- (4) Off-shore banking business;
- (5) Other financial operations related to the promotion of investments of Overseas Chinese.

The Bank's capital stock is listed on the Taiwan Stock Exchange (TSE) since November 1996. On October 4, 2002, the Bank's Shareholders determined to join Cathay Financial Holding Co., Ltd. Therefore, the Bank become the subsidiary company of Cathay Financial Holding Co., Ltd. by share swap on December 18, 2002 with the swap ratio at 1.6:1.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis for Preparation of Financial Statements

The accompanying financial statements include the accounts of the head office and all of the domestic and foreign branches. All inter-branch account balances and transactions among the head office and the branches have been eliminated.

2. Foreign-currencies Transactions

Foreign-currencies transactions of the head office and domestic branches are recorded in the currencies in which these are denominated. Foreign currencies assets and liabilities, other than those arising from forward contracts, are translated into New Taiwan Dollars at the closing rates as at the balance-sheet date. Foreign currencies income and expenses are translated into New Taiwan Dollars monthly based on the month-end exchange rates. The resulting exchange gains or losses are credited to or charged against current income.

Assets and liabilities of foreign branches, which are denominated in its local currencies, are translated into New Taiwan Dollars using the method described in the preceding paragraph. Local currencies denominated income and expenses of such branches are translated at weighted-average rate. Gains or losses resulting from the translation are treated as “Translation Adjustments” account under shareholders’ equity.

Forward Contracts

Assets and liabilities arising from trading forward contracts are recorded at the contracted forward rate. Upon settlement, gains or losses caused by the difference between the spot rate at the settlement date and the contracted forward rate are credited or charged to income. At balance-sheet date, the gains or losses on outstanding forward contracts arising from the differences between the forward rate available for the remaining period of each contract and the contracted forward rate are credited or charged to income.

The balances of accounts receivable and payable caused by forward contracts are netted on the balance-sheet date, and the differences are treated as on asset or liability.

Interest Rate Swaps

Interest rate swap represents agreements between two parties to exchange periodic interest payment, most often fixed vs. floating, is based on a notional principal amount. The differential to be received or paid is recorded as adjustment of interest income.

Cross-currency Interest Rate Swaps

Cross-currency interest rate swaps involve the exchange of principal balances denominated in two different currencies at the inception of the contract, exchange of interest payments during the life of the contract, and re-exchange of the principal balance at an agreed-upon rate at a specified future date.

Assets and liabilities are recorded at the agree-upon forward rate. The differential to be received or paid is recorded as adjustment of interest income.

Option

Premiums paid or received for options are recorded as assets or liabilities, respectively. Gains or losses on exercise of such option are credited to or charged again current income. At balance sheet dates, options are marked to market and the resulting gains or losses are recognized currently.

3. Cash Equivalents

The Bank considers all highly liquidated debt instruments with maturity of three months or less to be cash equivalents.

4. Marketable securities

Marketable securities are stated at cost. However, if the market value is lower than the carrying value at balance-sheet date, an allowance for market value decline is provided. Cost of stocks and mutual funds sold is determined based on weighted-average method. Cost of other securities sold is determined based on specific identification method. Bonds purchased under agreements to resell or sold under agreements to repurchase are treated as receivables and payables under the collateralized financing approach.

5. Allowances for Doubtful Accounts

Allowance for doubtful accounts on receivables are provided based on the results of review of the collectibility of accounts balances and the rates adopted by the relevant regulations. Whenever the management of the Bank determines the receivables are deemed uncollectible, a charge-off that conforms to the Bank's relevant regulations is recommended to and approved by the Bank's Board of Directors.

6. Loans, discounts and bills purchased

Loans, discounts and bills purchased are stated at the principal amount outstanding, interest on loans, discounts and bills purchased are accrued as earned, based upon the principal amount outstanding.

Loans, discounts and bills purchased are placed on delinquent accounts when payments of principal or interest are 180 days past due or if, have performed the relevant legal proceeding, when they are placed on delinquent accounts, the accrual of income is discontinued, subsequent interest payments are credited to income when received.

Allowance for doubtful accounts on loans, discounts and bills purchased are provided based on the results of review of the collectibility of accounts balances and the rates adopted by the relevant regulations. Whenever the management of the Bank determines the receivables are deemed uncollectible, a charge-off that conforms to the Bank's relevant regulations is recommended to and approved by the Bank's Board of Directors.

7. Long-term Investments

Long-term investments, which own 20% or more than 20% of the common shares of investee, are accounted for by the equity method. The differences between investment cost and net worth of the investee are amortized over five years. Long-term investments, which own less than 20% of the common shares of investee are stated at cost, except for investment in listed companies, which are stated at, lower of cost or market. The lower-of-cost-market compares aggregate cost with aggregate market price. When a decline in value of an investment is considered not recoverable, the allowance for the investment loss will be provided until the carrying value was zero. Stock dividends received are accounted for only increase in the number of shares held and not recognized as investment income.

8. Premises and Equipment

(1) Premises and equipment are stated at cost. Improvements, additions, and major renewals that extend the life of an asset are capitalized, while repairs and maintenance are expensed as incurred. Upon disposal of premises and equipment, the related cost and accumulated depreciation are removed from the account. Any gain or losses thereon is charged to non-operating income or expenses; and then the gain is transferred, after deducting relevant income tax, to capital reserve. Effective from 2001, this rule is no longer applied due to the change of related law and regulations.

(2) Depreciation is provided by using the straight-line method over the following estimated useful lives:

Building	8	60	years
Furniture and fixtures	2	60	years
Transportation equipment	3	6	years
Miscellaneous equipment	2	25	years

Depreciation is still provided over the above premises and equipment when the assets used up the useful lives until the carrying value is zero.

9. Deferred Charges

Deferred changes are amortized by the straight-line method over five years.

10. Reserve for Losses on Guarantees

Reserve for losses on guarantees are computed at the maximum limit allowed by the relevant laws and regulations based on the account balance of guarantees for custom duties, commodity taxes and contracts.

11. Reserve for Losses on Stock Brokerage Transactions

Pursuant to the regulations issued by the Ministry of Finance, a reserve for possible losses on stock brokerage transactions is based on 0.0028% of the amount of total stock traded derived from stock brokerage business until such reserve reached the amount of \$200 million.

12. Reserve for Losses on Trading Securities

Pursuant to the regulations by ministry of Finance, 10% of the gain derived from trading securities is reserved for possible loss on trading securities until such reserve reached the amount of \$200 million. The reserve cannot be used except to offset trading losses.

13. Treasury stock

The treasury stock is stated at the acquisition cost except for the donated treasury stock, which is stated at market value. When the treasury stock is sold, the cost is computed by weighted-average-method, while gain or loss of selling treasury stock is credited to or charged against Capital Reserve. Cost of treasury stock is shown as a deduction to shareholders' equity on the balance sheets.

Since January 1, 2002, the Bank has adopted the Statements of Financial Accounting Standards in Republic of China (SFAS) No. 30 to account for its stock held by its subsidiaries as treasury stock.

14. Pension Plans

The Bank has a pension plan covering all regular employees. Pension benefits payment under the plan is based on years of service and final average compensation of the employees. The Bank has established an employees retirement fund committee and a committee to supervise the employees retirement fund based on the regulations of employees retirement plan. Contribution to the pension fund is appropriated to the separate accounts of the above two committees based on actuarial report on monthly basis. The Bank makes contributions to the pension funds, which is administered and operated by an independent employees retirement fund committee. Therefore, the pension fund is not reflected in the above-mentioned financial statements.

The Bank adopted SFAS No. 18 “Accounting for pensions”, which requires actuarial determination of pension assets or obligations. The unrecognized assets or obligations at transition are amortized by the straight-line method over 15 years-the average remaining service period of employees.

15. Income Tax

The Bank adopted the SFAS No. 22 “Accounting for income taxes” for interperiod and intraperiod income tax allocation. Tax effects on taxable temporary differences are recognized as deferred tax liabilities. Tax effects on deductible temporary differences, operating loss carryforwards and investment tax credits are recognized as deferred tax assets. Valuation allowance for deferred tax assets will be set up for their realizability.

The adjustments of prior years’ income tax are included in the current year’s income tax calculation.

If the Bank does not distribute all its current year profits as calculated on a tax basis, an additional 10% income tax will be levied on the portion of undistributed profits.

16. Commitments and Contingent Liabilities

Contingent liabilities and commitments should be recorded at estimated amounts if it is probable that they have been incurred and the amounts can be reasonably estimated. If it is not probable, or it is probable but the amounts cannot be reasonably estimated, the disclosure should be made in the footnote of financial statements.

III. ACCOUNTING CHANGES

Since January 1, 2002, the Bank has adopted SFAS No. 30 to account for its stock held by its subsidiaries as treasury stock. Such a change resulted in an increase in net loss or loss per share \$57,716 thousand or \$0.02, respectively, while the capital reserve was increased by \$10,398 thousand.

IV. BREAKDOWN OF SIGNIFICANT ACCOUNTS

1. CASH

	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Cash on hand	\$6,316,880	\$5,719,817
Post-dated checks for clearance	4,486,880	6,227,877
Total	<u>\$10,803,760</u>	<u>\$11,947,694</u>

2. DUE FROM CANTRAL BANK

	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Deposit reserve account	\$14,629,988	\$15,149,635
General account	14,534,780	21,282,113
Total	<u>\$29,164,768</u>	<u>\$36,431,748</u>

3. DUE FROM OTHER BANKS

	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Due from banks	\$1,210,139	\$2,011,455
Call loans to banks	29,885,875	19,137,376
Total	<u>\$31,096,014</u>	<u>\$21,148,831</u>

As of December 31, 2001, the certificate of certified deposits amounting \$120,000 thousand were pledged to other parties for business reserve and guarantees.

4. MARKETABLE SECURITIES

	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Stock of listed companies	\$4,890,788	\$5,114,299
Mutual funds	2,498,065	1,752,056
Government and corporate bonds	65,814,913	51,451,327
Certified Deposits	45,008,375	51,970,680
Commercial papers	2,224,635	39,261,466
Total	120,436,776	149,549,828
Less: Allowance for decline in market price of securities	(614,841)	(543,339)
Net	<u>\$119,821,935</u>	<u>\$149,006,489</u>

(1) Marketable securities of \$16,509,096 thousand and \$1,452,825 thousand at December 31, 2002 and 2001, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) Marketable securities of \$16,506,155 thousand and \$65,087,200 thousand at December 31, 2002 and 2001, respectively, were considered as part of cash equivalents.

5. RECEIVABLES

	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Accounts receivable	\$13,924,280	\$9,830,572
Accrued interest receivable	3,188,030	3,912,056
Customers' liabilities under acceptances	526,960	466,472
Tax refund	258,677	73,813
Securities purchased under agreements to resell	3,121,006	4,671,193
Others	1,078,761	1,085,429
Total	<u>22,097,714</u>	<u>20,039,535</u>
Less: Allowance for doubtful accounts	<u>(497,724)</u>	<u>(156,363)</u>
Net	<u>\$21,599,990</u>	<u>\$19,883,172</u>

The summary of the activity in the allowance for doubtful accounts for the year ended December 31, 2002 and 2001, please see note IV. 7.

6. PREPAYMENTS

	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Inter-bank clearing funds	\$803,169	\$802,518
Others	610,167	417,246
Total	<u>\$1,413,336</u>	<u>\$1,219,764</u>

7. LOANS, DISCOUNTS, AND BILLS PURCHASED

	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Inward-outward documentary bills purchased	\$944,211	\$999,860
Loans	383,698,453	396,283,458
Overdrafts	1,156,607	1,824,972
Delinquent accounts	15,142,005	32,883,144
Total	<u>400,941,276</u>	<u>431,991,434</u>
Less: Allowance for doubtful accounts	<u>(6,363,009)</u>	<u>(4,060,646)</u>
Net	<u>\$394,578,267</u>	<u>\$427,930,788</u>

- (1) Delinquent accounts, where the accrual of interest ceased, amounted to \$15,142,005 thousand and \$32,883,144 thousand at December 31, 2002 and 2001, respectively. Unrecognized interest is \$693,207 thousand and \$1,430,723 thousand for the years ended December 31, 2002, and 2001, respectively.
- (2) The additional information of loans, discounts, and bills purchased by type of industry and geographic region is shown as notes X.
- (3) The following is a summary of the activity in the allowance for doubtful accounts (included are for receivables, loan, discounts and bills purchased) for the years ended December 31, 2002 and 2001 respectively.

	2002		
	Allocated allowance	Unallocated portion	Total
Balance, beginning of the year	\$3,965,035	\$251,974	\$4,217,009
Provision of doubtful account	22,778,155	-	22,778,155
Write-off	(22,209,658)	-	(22,209,658)
Recoveries	2,087,175	-	2,087,175
Reclassification	-	(15,250)	(15,250)
Effects of changes in foreign exchange rates	3,302	-	3,302
Balance, end of the year	<u>\$6,624,009</u>	<u>\$236,724</u>	<u>\$6,860,733</u>
	2001		
	Allocated allowance	Unallocated portion	Total
Balance, beginning of the year	\$3,644,836	\$283,608	\$3,928,444
Provision of doubtful account	5,813,018	-	5,813,018
Allowance transferred from merged Farmers Associations	3,599,525	-	3,599,525
Write-off	(9,503,519)	-	(9,503,519)
Recoveries	214,312	-	214,312
Reclassification	196,863	(36,863)	160,000
Effects of changes in foreign exchange rates	-	5,229	5,229
Balance, end of the year	<u>\$3,965,035</u>	<u>\$251,974</u>	<u>\$4,217,009</u>

In recent years, the local economic and financial environment has been affected by several factors, including the country's economic growth has decelerated, investment is reduced, the stock market is bearish, and the New Taiwan dollar depreciated. Certain business enterprises, failed to meet its contractual obligations. To deal with the difficult situation, the government has taken various economy-boosting policies.

The Bank's financial statements include allowance for doubtful accounts based on information available to the Bank, including defaults to the extent of which can be determined or estimated. However, any adjustment that might be required when related contingent liabilities become probable or determinable in the future are not included.

8. LONG-TERM INVESTMENTS

Investees	Dec. 31, 2002		Dec. 31, 2001		Basis of valuation
	Book value	Percentage of ownership	Book value	Percentage of ownership	
Long-term Investment:					
Seaward Futures Corp.	\$1,674,905	99.82	\$1,679,392	99.82	Equity method
Seaward Leasing Ltd.	2,131,858	99.97	2,183,894	99.97	"
Huong Yee Co., Ltd.	612,716	99.99	666,906	99.99	"
Seaward Insurance Agent Corp.	44,133	99.99	4,516	99.99	"
Seaward Card Co., Ltd.	37,363	99.99	33,276	99.99	"
Indovina Bank	435,344	50.00	444,238	50.00	"
Taiwan Real-estate Management Corp.	67,307	30.15	77,119	30.15	"
Taiwan Finance Corp.	1,013,941	24.57	1,341,724	24.57	"
Pan Overseas Corp.	7,525	0.61	7,525	0.61	Cost method (Lower of cost or market)
China Bills Finance Corp.	224,508	2.86	224,508	2.86	"
Taiwan Fertilizer Co., Ltd.	104,173	0.58	104,173	0.58	"
Chunghwa Telecom Co., Ltd.	541,097	0.11	566,862	0.11	"
International Securities Investment Trust Co., Ltd.	4,900	4.74	4,900	4.74	Cost method
Wallant International Trade Inc.	-	2.51	-	2.51	"
Central Deposit Insurance Corp.	10	-	10	-	"
Chinese Products Promotion Center	1,850	4.87	1,850	4.87	"
Han Tech Venture Capital Corp.	154,927	7.93	154,927	7.93	"
Taiwan Securities Central Depository Co., Ltd.	1,850	0.18	1,850	0.18	"

Investees	Dec. 31, 2002		Dec. 31, 2001		Basis of valuation
	Book value	Percentage of ownership	Book value	Percentage of ownership	
Taipei Forex Inc.	8,000	4.04	8,000	4.04	Cost method
Global Securities Finance Corp.	161,930	2.45	161,930	2.45	"
An Feng Enterprise Co., Ltd.	4,500	15.00	4,500	15.00	"
Euroc II Venture Capital Corp.	40,000	5.00	40,000	5.00	"
Taiwan International Merchandise Exchange Corp.	12,500	0.63	12,500	0.63	"
Strategic Value Fund, Limited Partnership	170,019	-	157,200	-	"
Chan Sheng Investment Development Co., Ltd.	127,400	4.90	127,400	4.90	"
CDIB & Partners Investment Holding Corp.	500,000	4.95	500,000	4.95	"
Financial Information Service Co., Ltd.	45,500	1.14	45,500	1.14	"
Sheng-Hua Venture Capital Corp.	50,000	2.50	50,000	2.50	"
IBU Securities Co., Ltd.	1,045,000	10.31	1,045,000	14.93	"
Latin America Development Co., Ltd.	6,250	1.79	6,250	1.79	"
Capital Venture Fund II Corp.	30,000	5.00	30,000	5.00	"
ProTec Capital Corp.	8,000	4.88	8,000	4.88	"
Fu Yu Venture Capital Investment Corp.	50,000	3.70	50,000	3.70	"
Taipei Smart Card Corp.	25,000	5.00	25,000	5.00	"
New Century InfoComm Co., Ltd.	864,000	1.68	864,000	1.68	"
Harbinger Venture Capital Corp.	67,000	3.35	67,000	3.35	"
United Venture Capital Corp.	40,000	4.52	40,000	4.52	"
Centillion Venture Capital Corp.	60,000	5.00	60,000	5.00	"
Taiwan Asset Management Corp.	1,000,000	5.68	1,000,000	5.68	"
Taipei Financial Center Corp.	400,000	2.35	400,000	2.35	"
Taiwan Financial Asset Service Corp.	50,000	2.94	50,000	2.94	"
Kaohsiung Rapid Transit corp.	299,000	2.99	-	-	"
Taiwan Cooperative Bank	116,435	0.21	-	-	"
Prepayment of investment:					
Kaohsiung Rapid Transit Corp.	-		299,000		
Taiwan Cooperative Bank	-		116,435		
Seaward Property Insurance Agent Corp.	2,000		-		
Total	12,240,941		12,665,385		
Less: Unrealized gain from intercompany transactions	(87,797)		(87,683)		
Net	<u>\$12,153,144</u>		<u>\$12,577,702</u>		

- (1) Due to the losses incurred by its investee company. Wallant International Trade Inc., the Bank has fully appropriated the allowance for investment value decline against the original carrying value.
- (2) In April 1996, the shareholders of Huong Yee Co., Ltd. have determined in the liquidation of the companies in the special meeting. As of December 31, 2001, the Huong Yee Co. is still in the liquidating process.
- (3) The Bank is not required by the regulation to prepare consolidated financial statements to incorporate the Seaward Futures Corp., Seaward Leasing Ltd., Huong Yee Co., Ltd., Seaward Card Co., Ltd., and the Seaward Insurance Agent Corp., because neither the total assets nor the total operating revenue of those subsidiaries are greater than 10% of the Bank's total assets or total operating revenue.
- (4) Up to December 31, 2002, the Bank has unrealized losses on long-term investment of Seaward Leasing Ltd. of \$79,482 thousand.
- (5) Since January 1, 2002, the Bank has adopted SFAS No. 30 to account for its stock held by its subsidiaries as treasury stock.

9. OTHER ASESTS

	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Refundable deposits	\$594,580	\$766,186
Pledged assets taken-over	3,663,232	2,444,420
Deferred Tax Assets	<u>3,533,752</u>	<u>95,742</u>
Total	<u><u>\$7,791,564</u></u>	<u><u>\$3,306,348</u></u>

10. DUE TO OTHER BANKS

	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Due to banks	\$24,317,310	\$26,076,295
Overdrafts from banks	358,223	2,245,665
Call loans from banks	<u>19,366,980</u>	<u>6,596,320</u>
Total	<u><u>\$44,042,513</u></u>	<u><u>\$34,918,280</u></u>

11. PAYABLES

	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Accounts payable	\$4,801,081	\$6,769,839
Accrued interest	2,191,664	3,398,217
Accrued expenses	376,976	357,833
Income tax payable	-	124,962
Acceptances	542,928	510,842
Collection for customers	280,855	258,119
Securities sold under agreements to repurchase	15,080,309	9,799,756
Others	2,363,381	2,156,953
Total	<u>\$25,637,194</u>	<u>\$23,376,521</u>

12. DEPOSITS AND REMITTANCES

	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Check deposits	\$8,885,145	\$9,920,424
Demand deposits	51,087,920	53,939,718
Certified deposits	132,422,596	172,687,014
Saving deposits	283,267,301	299,455,284
Foreign currencies deposits	38,785,171	42,106,199
Outward remittances	1,616	10,395
Remittances payable	225,609	414,825
Total	<u>\$514,675,358</u>	<u>\$578,533,859</u>

13. BANKER' S DEBENTURE

	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Subordinate Banker' s debenture	<u>\$10,000,000</u>	<u>\$-</u>

On May 23, 3002, the Bank issued five-year subordinate banker' s debenture amounting to \$5,000,000 thousand with stated interest rate of 4.15%. On September 10, 2002, the Bank issued another five-year and six-month subordinate banker' s debenture amounting to \$5,000,000 thousand with stated interest rate of 5.9% minus the six-month LIBOR rate. The subordinate banker' s debenture are repayable at maturity date and the interests are payable semiannually. Subordinate Banker' s debenture with lower priority claim on assets and income than other debt. That is, repayable of principal and interest only after other debts with a higher claim have been satisfied; but senior to common stock.

14. BANKER'S ACCEPTANCES AND DUNDS BORROWED

	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Borrowed funds-Central Bank	\$1,711,475	\$2,749,141
Borrowed funds-Others	495,110	521,218
Total	<u>\$2,206,585</u>	<u>\$3,270,359</u>

15. LONG-TERM LIABILITIES

	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Reserve for land value increment tax	\$34,119	\$34,119

16. RESERVES FOR POSSIBLE LOSSES

	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Reserve for losses on guarantees	\$38,912	\$51,737
Reserve for losses on stock brokerage transactions	35,813	33,117
Reserve for losses on trading securities	7,635	71
Total	<u>\$82,360</u>	<u>\$84,925</u>

17. OTHER LIABILITIES

	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Guarantee and margin deposits	\$635,215	\$621,025
Deferred income	-	158,292
Total	<u>\$635,215</u>	<u>\$779,317</u>

18. CAPITAL STOCK

At beginning of the year 2001, the Bank has authorized capital stock amounting to \$34,176,203 thousand. 3,417,620 thousand shares were issued at par value of \$10 and made available to the public.

On May 22, 2001, the Bank's shareholders determined to increase capital for \$3,540,441 thousand by transfer from unappropriate earnings and employees' special bonus of \$977,226 thousand and capital reserve of \$2,563,215 thousand at their annual meeting. After the capitalization, issued and outstanding capital stock amounted to \$37,716,644 thousand.

On May 30, 2002, the Bank's shareholders determined to increase capital for \$1,998,983 thousand by transfer from unappropriate earnings and employees' special bonus of \$1,433,233 thousand and capital reserve of \$565,750 thousand at their annual meeting. After the capitalization, issued and outstanding capital stock amounted to \$39,715,627 thousand 3,971,563 thousand shares were issued at par value of \$10 and made available to the public.

The Bank's increase in capital mentioned above has been approved by the authority-in-charge.

19. CAPITAL RESERVE

	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Gain on disposal of premises and equipment	\$-	\$220,038
Additional paid-in capital	4,249,096	4,814,846
Capital reserve from merger of investee companies	773,348	773,348
Capital reserve from investee companies of which recognized by the equity method, and etc.	62,757	62,757
Capital reserve from selling treasury stock	<u>10,397</u>	<u>-</u>
Total	<u><u>\$5,095,598</u></u>	<u><u>\$5,870,989</u></u>

In order to agree with the revision of Company Law, the Bank's Shareholders determined to reverse the above gain on disposal of premises and equipment from capital reserve to unappropriated earnings at their annual meeting on May 30, 2002.

20. RETAINED EARNINGS

The Bank's Articles of Incorporation provides that its annual net income shall be appropriated and distributed in the following order:

- (a) 30% thereof shall be set aside as legal reserve;
- (b) Special reserve to be distributed after deliberation;
- (c) Regular dividends; and
- (d) The remainder, if any, shall be distributed and appropriated as follows: extra dividends 80%, compensation to directors and supervisors 5%, employees' special bonus 10%, and contribution to welfare fund 5%.

The government's regulations stipulates that the Bank must retain part of its annual net income as legal reserve, and cash dividends declaration, if any, should not exceed the limit of 15% of paid-in capital, until such retention of legal reserve reached the amount of paid-in capital. The legal reserve may be used at any time to offset the accumulated deficit, if any, once the legal reserve reached one-half of the paid-in capital, up to 50% thereof may be transferred to capital stock.

In order to prevent an impairment of working capital, based on the regulations of authority-in-charge, a portion of the retained earnings equal to the deduction account of shareholders' equity, if any, becomes unavailable for dividend distribution.

The Bank has deficit for the year 2002. Consequently, no dividend will be distributed for that year. Please refer to the website of Securities and Futures Commission, for the related announcement.

The employees' bonus and the directors' and supervisors' bonus for the year 2001 have been described in Note 4 (24).

21. TREASURY STOCK

(1) The following is a summary of the movement of treasury stock. (In thousand shares)

<u>Purposes</u>	<u>Jan. 1, 2002</u>	<u>Addition</u>	<u>Disposal</u>	<u>Dec. 31, 2001</u>
Resale to employees	<u>16,133</u>	<u>-</u>	<u>16,133</u>	<u>-</u>

(2) Since January 1, 2002, the Bank has adopted SFAS No. 30 to account for its stock held by its subsidiaries as treasury stock. 9,036 thousand shares of the Bank's stocks were sold by Seaward Leasing Ltd. and the transaction is treated as sales of treasury stocks in 2002. Consequently, the amount of \$10,398 thousand should be adjusted into capital reserve account.

22. PENSION

The Bank adopted the SFAS No.18 "Accounting for pensions" which requires actuarial determination of pension assets or obligations. The following is a summary of the components of net pension expenses for 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Service cost	\$241,665	\$248,563
Interest cost	153,972	177,115
Expected return on plan assets	(125,279)	(161,281)
Net amortization	<u>37,055</u>	<u>34,832</u>
Net pension expenses	<u>\$307,413</u>	<u>\$299,229</u>

The following is reconciliation between the funded status and amounts recognized on balance sheets:

	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Pension benefit obligation		
Vested	\$(462,135)	\$(569,434)
Non-vested	(1,359,971)	(1,209,519)
Accumulated benefit obligation	(1,822,106)	(1,778,953)
Value of future salary projections	(1,310,680)	(1,850,492)
Projected benefit obligation	(3,132,786)	(3,629,445)
Fair value of plan assets	2,115,712	2,901,879
Projected benefit obligation in excess of plan assets	(1,017,074)	(727,566)
Unrecognized net obligation at transition	278,659	313,491
Unrecognized net loss	738,415	414,075
Prepaid pension cost	\$-	\$-

The actuarial assumptions used are:

	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Discount rate	3.5%	5%
Growth rate in compensation levels	3.5%	5%
Expected long-term rate of return on plan assets	3.5%	5%

As of December 31, 2002 and 2001, the vested benefit, based on the Bank's pension plan, amounted to \$557,065 thousand and \$774,227 thousand, respectively.

23. INCOME TAX

(1) The reconciliation between income tax payable and income tax expense (benefit) for 2002 and 2001 are as follows:

	<u>2002</u>	<u>2001</u>
Income tax payable:		
Domestic income tax:		
General (tax rate 25%)	\$-	\$378,096
Interest on short-term negotiable instruments (tax rate 20%)	259,592	593,949
Foreign branches' income tax	18,961	31,812

Deferred tax (benefit) expenses:

Deferred tax expenses resulting from employees' welfare	5,628	10,348
Deferred tax benefit resulting from pension expenses exceed the allowance of law	(928)	(18,024)
Allowance for bad debt	(640,560)	-
Allowance for pledged assets taken-over	(456,788)	-
Deferred tax benefit resulting from provisions for possible losses	(674)	55,200
Foreign investment income recognized by the equity method	4,207	6,186
Operating loss carryforward	(2,342,232)	-
Others	(3,525)	(640)
10% additional income tax on unappropriated earnings	7,192	26,391
Adjustment of income tax	29,127	(28,118)
Income tax expense (benefit)	<u><u>\$(3,120,000)</u></u>	<u><u>\$1,055,200</u></u>

(2) Deferred tax liabilities and assets resulting from the following timing differences:

	<u>2002</u>	<u>2001</u>
Taxable temporary differences:		
Unrealized losses from intercompany transactions	\$25,151	\$25,758
Others	45,347	28,518
Deductible temporary differences:		
Allowance for bad debts	\$2,562,239	\$-
Allowance for pledged assets taken-over	1,827,152	-
Unrealized gain from intercompany transactions	20,307	20,918
Employees' welfare	-	22,512
Pension expenses exceed the allowance of law	75,809	72,098
Provisions for possible losses	53,307	50,612
Others	104,806	113,562
Operating loss carryforwards	\$9,368,927	\$-
Deferred income tax assets of foreign branches	\$43,653	\$39,385
Income tax credit	\$4,588	\$-

(3) Deferred tax assets	\$3,551,377	\$109,311
Deferred tax liabilities	<u>(17,625)</u>	<u>(13,569)</u>
Net deferred tax assets	<u><u>\$3,533,752</u></u>	<u><u>\$95,742</u></u>

(4) The Bank's income tax returns for the year 1998 and the year's prior to the 1998 have been

determined by the tax authorities.

- (5) The Bank's income tax returns of 1999 and 2001 are being examined by the tax authorities.
- (6) On July 30, 2002, the tax authorities has determined that the amount of \$153,319 thousand could be deductible for the income tax totally amounting to \$193,319 thousand for the year 1994. The rest amount has been paid in the current year.
- (7) A valuation allowance has been established due to the Bank's income tax returns for the years from 1995 to 1998 that have been determined by the tax authorities, however, the Bank did not agree with the assessment and appealed to the tax authorities. The claim is in the process by the tax authority.
- (8) The related informations of shareholders' deductible income tax are as follows:

	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Shareholders' deductible income tax account	\$24,777	\$614,869
Unappropriated earnings (accumulated deficit) after 1998	(8,582,898)	5,258,372

The following is the rate of tax credit available for dividends to the Bank's shareholders for the year 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Cash dividend	16.57%	21.11%
Stock dividend	23.80%	32.49%

24. EARNINGS PER SHARE

(1) The computations of earning per share are as follows:

	<u>2002</u>	<u>2001</u>
Shares issued at beginning of the year	3,771,665	3,401,487
Treasury stock reissued	-	14,740
Stock dividends in 2001	-	341,623
Shares issued by employees' special bonus in 2001	-	12,277
Stock dividends in 2002 and retroactive adjustment	188,583	188,506
Shares issued by employed special bonus in 2002 and retroactive adjustment	11,315	11,315
Weighted-averaged number of shares	<u>3,971,563</u>	<u>3,969,948</u>
	(In thousands of New Taiwan Dollars)	
Income (Loss) before income tax	\$(11,927,310)	\$6,313,572
Income tax benefit (expense)	<u>3,120,000</u>	<u>(1,055,200)</u>
Net income (loss)	<u>\$(8,807,310)</u>	<u>\$5,258,372</u>
	(In New Taiwan Dollars)	
Earning (Loss) per share		
Income (Loss) before income tax	\$(3.00)	\$1.59
Income tax benefit (expense)	<u>0.78</u>	<u>(0.27)</u>
Net income (loss)	<u>\$(2.22)</u>	<u>\$1.32</u>

Pro forma information on earnings is set out as follows: (If subsidiaries' investment in Bank is not treated as treasury stock)

Net loss	<u>\$(8,749,594)</u>
Loss per share (In New Taiwan Dollars)	<u>(2.20)</u>

According to the regulations issued by Securities and Futures Commission, the Bank should assume that the dividends of year 2001 would be appropriated to the employee, directors and supervisors, and estimate earnings per share for the current year.

	<u>2001</u>
A. Distribution	
Bonus to the directors and supervisors	\$113,150
Cash dividends for the employees	226,300
Stock dividends for the employees	
a. Amount	\$113,150 thousand
b. Number of shares	11,315 thousand shares
c. Ratio to the weighted average number of stocks outstanding	0.3%
B. Estimated earnings per share (In New Taiwan Dollar)	\$1.27

$$\text{Estimated earnings per share} = \frac{\text{Net income-employees' bonus-directors' and supervisors' bonus}}{\text{Weighted average number of common stocks outstanding}}$$

The Bank has deficit for the year 2002. Consequently, no dividend will be distributed for that year.

V. RELATED PARTIES TRANSACTIONS

1. Name and relation of related parties are as follows:

<u>Name of related parties</u>	<u>Relationship</u>
Cathay Financial Holding Co., Ltd.	Parent Company
Cathay Life Insurance Co., Ltd. and etc.	Subsidiaries of Cathay Financial Holding Co. Ltd.
Seaward Futures Corp.	Subsidiary
Seaward Leasing Ltd.	Subsidiary
Seaward Insurance Agent Corp.	Subsidiary
Huong Yee Co., Ltd.	Subsidiary
Taiwan Real-estate Management Corp.	Investee Company
Taiwan Finance Corp.	Investee Company
Seaward Card Co., Ltd.	Subsidiary
Indovina Bank	Subsidiary
Gemfor Tech. Co.	Their Chairman of the Board is the president of the Bank
China England Company Ltd. and etc.	Investee company of the Bank's subsidiaries
China Bills Finance Corp.	Investee Companies
Grand Pacific Petrochemical Corp.	Their vice chairman is the Chairman of the Bank
Culture and Charity Foundation of the UWCCB	The Bank is the major sponsor of the Foundation
The International Commercial Bank of China, and etc.	Former directors or supervisors of the Bank (resigned since December 18, 2002 as the Bank join the Cathay Financial Holding Group)

2. Significant transactions with the related parties are summarized as follows (In thousands of New

Taiwan Dollars):

(1) Account balances

Account/Related parties	Dec. 31, 2002		Dec.31, 2001	
	Amount	Percentage of account	Amount	Percentage of account
Due from Banks				
Taiwan Cooperative Bank	\$116,470	9.62%	\$307,421	15.28%
The International Commercial Bank of China	-	-	22,189	1.10%
Bank of Taiwan	-	-	44,902	2.23%
The Farmers Bank of China	-	-	212,367	10.56%
Others	-	-	10,034	0.50%
Due to Banks				
Taiwan Cooperative Bank	100,555	0.41%	24,465,818	93.82%
Cathay United Bank	88	-	111,693	0.43%
Loans, discounts and bills purchased	5,099,960	1.27%	6,709,428	1.55%
Deposits	30,849,280	7.70%	9,298,430	1.61%

Since December 18, 2002, Cathay Financial holding Co., Ltd. (Parent Company) becomes the sole shareholder of the Bank. Consequently, all of the directors and supervisors are reappointed by the Parent Company.

Call Loans to Banks	Maximum balance	Year-end balance	Interest	Interest rate
<u>2002</u>				
China Bills Finance Corp.	\$800,000	\$400,000	\$886	1.60%-2.30%
Taiwan Bills Finance Corp.	300,000	-	448	1.60%-2.30%
Taiwan Cooperative Bank	5,176,040	-	2,857	0.03%-3.32%
Cathay United Bank	625,680	625,680	481	1.35%-1.78%
<u>2001</u>				
The International Commercial Bank of China	\$1,000,000	\$154,750	\$958	2.45%-6.69%
Taipei Bank	1,000,000	-	411	3.45%-3.85%
Bank of Taiwan	1,000,000	-	6,208	2.45%-5.98%
Central Trust of China	500,000	105,120	4,243	4.35%
Taiwan Cooperative Bank	5,000,000	-	4,287	2.70%-5.03%
Land Bank of Taiwan	792,960	-	17,347	2.02%-6.91%
The Farmers Bank of China	500,000	175,200	3,411	1.87%-6.91%
Directorate General of Postal Remittances & Savings Bank	3,000,000	-	2,959	2.40%

Call Loans from Banks	Maximum	Year-end	Interest	Interest rate
	balance	balance		
<u>2002</u>				
China Bills Finance Corp.	\$512,000	\$-	\$114	2.20%-2.30%
Cathay United Bank	586,640	-	396	1.68%-1.76%
Taiwan Cooperative Bank	5,021,400	-	6,939	1.45%-2.30%
<u>2001</u>				
The International Commercial Bank of China	\$1,226,400	\$805,920	\$26,197	1.72%-6.75%
Kung Hwa Commercial Bank	414,360	210,240	2,529	2.62%-3.80%
Taipei Bank	4,000,000	-	39,367	2.35%-5.35%
The Farmers Bank of China	4,500,000	-	21,812	3.30%-6.48%
Taiwan Cooperative Bank	3,000,000	-	4,443	2.38%-4.55%
Chiao Tung Bank	4,000,000	1,576,800	51,769	2.08%-5.80%
Land Bank of Taiwan	3,000,000	-	4,732	0.07%-6.57%
Central Trust of China	2,962,700	-	9,514	1.98%-6.66%
Indoivna Bank	172,250	-	3,728	2.20%-6.55%
<u>Funds borrowed</u>				
<u>2001</u>				
Taiwan Cooperative Bank	\$45,000	\$45,000	\$646	5.80%

The transactions with the related parties were dealt with in the ordinary course of business similar to those with third parties.

(2) Lease

Related parties	Rental income	
	2002	2001
Seaward Leasing Ltd.	\$2,034	\$2,110
Culture and Charity Foundation of the UWCCB	500	583
<u>Refundable deposits</u>		
Related parties	Dec. 31, 2002	Dec. 31, 2001
Seaward Leasing Ltd.	\$42,180	\$42,000

(3) Commissions and handling fees

<u>Related parties</u>	<u>2002</u>	<u>2001</u>
Seaward Futures Corp.	\$1,658	\$1,045

(4) Credit card processing charges

<u>Related parties</u>	<u>2002</u>	<u>2001</u>
Seaward Card Co., Ltd.	\$261,753	\$174,606

(5) Accrued expenses

<u>Related parties</u>	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Seaward Card Co., Ltd.	\$25,500	\$18,464

(6) Property transactions

- a. As of December 31, 2002, the Bank has received the amount of \$9,300 thousand from Seaward Leasing Ltd. for the disposal of the real estate with the contract price of \$27,739 thousand.
- b. As of December 31, 2002, the Bank has paid off \$3,000 thousand of contact price for the web design service provided by Gemfor Tech Co.
- c. During 2002, the Bank has purchased equipment amounting to \$32,881 thousand from Gemfor Tech Co.
- d. The Bank has paid the project and construction management services fee to Taiwan Real-estate Management Corp. for \$1,665 thousand and \$8,721 thousand in 2002 and 2001, respectively.

The Bank presents its transaction or account balance with related parties, in the aggregate, except for which represents the amount over certain percentage of account balance.

IV. ASSETS PLEDGED OR MORTGAGED

See note IV

VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2002, the Bank had the following commitments and contingent liabilities, which are not, reflected in the abovementioned financial statements:

1. Collection and Guarantee Assets and Liabilities :

Securities purchased under agreements to resell	\$3,619,162
Securities sold under agreements to repurchase	21,739,849
Trust and security held for safe keeping (included trustee amount of \$16,167,653)	406,985,388
Travelers checks for sale	849,809
Bills for collection	57,785,266
Guarantees on duties and contracts	12,611,743
Unused commercial letters of credit	1,914,898
Stamp tax, securities and memorial currency consignments in	4,643
Loan commitments	20,365,943
Credit card lines	34,373,577

2. As of December 31, 2001, various lawsuits, claims and proceedings of a nature considered normal to its business are pending against the Bank, the most significant ones are described below:

- (1) In 1997, the certificate of certified deposit for the amount of \$600 million with Chung Shing BAANK REQUESTED BY Polaris International Securities Investment Trust Co., Ltd. (formerly Chronicle Securities Investment Trust Co., Ltd.) was found to be a forgery made by Mr. Chung-For Su. The Bank has filed a suit in the higher court to claims for the \$600 million.
- (2) In 1996, the clients claimed that the bank should be responsible in making restitution for approximately the amount of \$24,000 thousand because safe deposits were stolen at Chung-Li Branch. The higher court held the bank responsible in making restitution for \$12,634 thousand. The Bank is filing for an appeal. The daim is still in the process by the Supreme Court. The Bank also has filed insurance claims against Taiwan Secom Co., Ltd. related to loss mentioned above.

(3) In 2001 unauthorized transactions were made by the Bank's employees for the amount of approximately \$60,204 thousand and \$89,307 thousand, respectively. The Bank has held the employee's personal properties or related deposits by the court order or as collateral which may be sold to cover the loss.

The management believes that the amount of contingent liability, if any, after deducting appropriate reserve with respect to these actions will not materially affect the financial statements of the Bank.

3. As of December 31, 2001, the Bank has entered into certain contracts to purchase premises and equipments totaling \$717,528 thousand with prepayments of \$559,050,thousand.

4. Derivative Financial Instruments

In a normal course of business, the Bank is a party to a variety of off-balance-sheet and derivative instruments including forward exchange contracts, interest rate swaps, and cross-currency interest rate swaps. These financial instruments involve to varying degrees of risks. These transactions are typically customer-driven and are not for trading purpose. The related in formations are as follows:

(1) Notional and Credit Risk Amounts for Derivative Financial Instruments (In thousands of US Dollars)

<u>Derivative Financial Instruments</u>	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Notional Amount</u>	<u>Credit Risk</u>	<u>Notional Amount</u>	<u>Credit Risk</u>
Foreign Exchange Contracts				
Forward Contracts				
Commitments to purchase	\$303,249	\$1,426	\$136,345	\$305
Commitments to sell	456,145	12,687	181,723	4,594
Interest Rate Contract, Interest rate swaps	177,050	7,460	168,668	993
Cross-currency interest rate swaps	87,510	782	105,398	1,787

Credit risk is the possibility of loss if a counter party fails to fully perform under the term of a derivative financial instrument. The above amount of credit risk represents that the Bank would suffer if counter parties failed to perform according to the terms of the contract after the effects of master netting agreements. Credit risk is calculated based on the positive amount at yearend.

Foreign exchange contracts constitute agreements to exchange designated currencies at specified date at a predetermined price. The Bank enters into foreign exchange contracts to provide foreign exchange to its clients as hedging instruments. All client positions are entered into under the approved credit limits and under the similar policies and procedures used for lending activities to ensure that exposure to all clients is actively monitored and controlled. Certain clients are required to provide collateral, generally cash, before entering into these transactions and are deemed necessary over the life of the contract to reduce the Bank's credit exposure on these position.

Interest rate swaps entered into by the Bank with remaining maturities range from five months to approximately six years and five months December 31, 2002 represents agreements between two parties to exchange periodic interest payments, most often fixed vs. floating, are based on a notional principal amount. Cross-currency interest rate swaps entered into by the Bank, which have remaining maturities from four months to three years and one month on December 31, 2002 involve an exchange of principal balance denominated in two different currencies at the inception of the contract, exchange of interest payments during the life of the contract, and reexchange of the principal balance at a specified future date. The above nontrading swap transactions are used to hedge Bank's balance sheet position of foreign marketable securities, foreign certified deposits and foreign liquidity gap, since the swap contracts entered into by the Bank are made with major international financial institutions only within approved credit limits based on each financial institution's world ranking and credit rating. Therefore, the risk associated with these swap contracts is limited to a less extent.

To limit the credit exposure arising from option transaction, the Bank maintains its transactions with counterparty who have deposit in the Bank on major financial institutions. Consequently, the Bank does not anticipate any significant loss due to credit risk.

(2) Market Risk

Market risk is the potential loss arising from adverse future changes in market rates and prices, such as interest rate, foreign currency exchange rate, and price of equity securities. Market risk includes interest rate risk, equity price risk and foreign exchange rate risk. The related risks for the Bank's derivative financial instruments are as follows: (In thousands of US Dollars)

Items	Dec. 31, 2002	Dec. 31, 2001
Interest rate risk	\$761,066	\$38,203
Foreign exchange risk	274,550	179,528

The overall value of marker risk of the Bank's derivative financial instruments is less than the accumulated value of the above risks.

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

Flow

The table below summarizes the expected cash outflow for the Bank's derivative financial instrument activities: (In thousands of US Dollars)

<u>Period</u>	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
0-1 year	\$1,871	\$1,753
1-2 year	1,434	951
2-3 year	1,434	589
3-4 year	1,235	543
4 year	966	474

The uncertainty of the fluctuation for future interest rate and foreign exchange rate will affect the amount of the above expected cash outflow. The longer time frame is the more uncertainty will be.

The liquidity of forward exchange contracts, which are entered by the Bank with customers, could be low. However, the Bank provides this financial instrument to its customers as a hedge instrument and also requires customers to provide the related trading documents to execute the trade. Since the Bank and customers both commit to perform according to the term of forward exchange contract, the liquidity risk of the forward exchange contract should be immaterial. In the meantime, the Bank also enters forward exchange contracts with international financial institutions. The liquidity risk of this type of transaction is very low because it could buy or sell for ward exchange contracts at any time on secondary market. Though the liquidity of interest rate swaps and cross-currency interest rate swaps is not high, the liquidity risk associated with these financial instruments should be limited to less extent because most of the trading participants will held these financial statements to maturity.

A summary of the notional amount of the Bank's liquidity risk related to derivative financial instruments outstanding appears in the table below: (In thousands of US Dollars)

<u>Items</u>	<u>Notional Amount</u>	
	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2001</u>
Interest rate swaps	\$177,050	\$168,668
Cross-currency interest rate swaps	87,510	105,398

- (4) The policies for disclosed gains or losses of derivative financial instruments on financial statements are summarized as follows:

Assets and liabilities arising from trading forward contracts are recorded at the contract

forward rate. Upon settlement, gains or losses caused by the difference between the spot rate at the settlement date and the contracted forward rate are credited or charged to income. At balance-sheet date, the gains or losses on outstanding forward contracts arising from the differences between the forward available for the remaining period of each contract and the contracted forward rate are credited or charged to income. The balance of account receivable and payable caused by forward contracts are netted on the balance-sheet date, and the difference are treated as an asset or liability.

The notional amount is not recorded for interest rate swaps. In the meantime, the differential to be received or paid which was calculated by fixed vs. floating is recorded as adjustment of interest income.

Assets and liabilities caused by cross-currency interest rate swaps are recorded at the agree-upon forward rate. The differential to be received or paid is recorded as adjustment of interest income.

For options contracts only memorandum entries of notional principle are made on the contract date. Gains or losses on exercise of the option are credited to or charged again current income. At balance sheet dates, options are marked to market and the resulting gains or losses are recognized currently.

(5) Off-Balance-Sheet Credit Risk

The Bank entered into certain transaction with customers to repurchase or resell securities or short-term notes for business purpose. The Bank also provides a various type of loans and credit card services. The term for the related loans is various and depends on the credit status of the borrowers. The interest rate for credit card loans are in 19.7%. The Bank also provides guarantees for loans and commercial letters of credit services. These guarantees represent an irrevocable obligation to pay a third-party beneficiary in the event a customer fails to meet a financial or performance obligation and the dates of guarantees for maturity are not in one particular period.

A summary of the contract amount of each significant class of off-balance-sheet credit related financial instruments outstanding appear in the table below: (In thousands of US Dollars)

Items	Dec. 31, 2002	Dec. 31, 2001
Securities purchase under agreements to resell	\$3,619,162	\$20,743,688
Securities sold under agreements to repurchase	21,739,849	15,867,953
Loan commitments	20,365,943	28,729,959

Credit card lines	34,373,577	23,819,280
Guaranty and Commercial letters of credit	14,526,641	27,887,125

These financial instruments will not be fully paid before maturity. Therefore, the total contract amount of these contracts does not necessarily represent future cash requirement. The maximum amount of possible losses for the above off-balance-sheet credit related financial instruments approximate to those contractual amounts if borrowers failed to perform according to the terms of the contract and the value of existing collateral became worthless.

The Bank conducts a strict policy to evaluate customers' credit status when provided securities sold under agreements to repurchase, securities purchase under agreements to resell, loan commitments, and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loan and the Bank retains the legal right to foreclose or liquidated the collateral. Generally, these collateral include cash, real estate, securities, or other properties. Credit card lines are not secured and may be cancel by the Bank after periodically review of customers' credit status.

VIII. SIGNIFICANT DISASTER LOSS

The typhoon in September 2001 caused the damages to premises and equipment of the Bank for approximately \$25,153 thousand and to the bonds in custody of the Bank will have to be replaced for related expenses of approximately \$10,000 thousand recognized as miscellaneous \$10,000 thousand recognized as miscellaneous non-operating expenses.

IX. SIGNIFICANT SUBSEQUENT EVENT

None

X. OTHERS

1. Fair Value of Financial Instruments

As of December 31, 2002 and 2001, except for the table summarize below, the carrying amounts of financial assets and liabilities reported on the balance sheets are approximately equal to their carrying values: (In thousands of New Taiwan Dollars)

<u>Financial Assets</u>	<u>Dec. 31, 2002</u>		<u>Dec. 31, 2001</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>

Marketable securities	\$119,821,935	\$121,285,506	\$149,006,489	\$150,516,120
Long-term investments	12,153,144	12,348,770	12,577,702	12,610,290

Fair value amounts of marketable securities and long-term investments were based on quoted market price, if available. If quoted market prices did not exist, fair values were estimated according to book value or other financial resources.

2. Others

(1) Concentration Aggregation of Credit Risk

When counter parties of financial instrument transactions are significantly concentrated on one particular person or most of the counter parties perform the similar business or have the similar business characteristic, the Bank is exposed to credit risk while counter parties fail to live up the terms of the contract under certain economic circumstances. The Bank mitigates the above risk by diversifying counter parties and customers. The below table summarizes the above risk by type of industry and geographic region: (In thousands of New Taiwan Dollars)

Items	Dec. 31, 2002	Dec. 31, 2001
Loans, discounts, bills purchased, customers' liabilities under acceptances and guarantees account		
Geographic Region		
Domestic	\$391,855,681	\$435,550,138
South East Asia	9,474,148	8,337,174
North East Asia	417,710	1,057,514
North America	6,602,262	6,261,143
Others	5,730,178	7,471,770
Total	\$414,079,979	\$458,677,739
Industry type		
Manufacturing	\$52,138,298	\$56,868,553
Financial institutions and insurer	25,815,297	28,682,013
Leasing and real estate	66,797,682	89,175,121
Individuals	166,615,700	176,117,185
Others	102,713,002	107,834,867
Total	\$414,079,979	\$458,677,739
Credit Card		
Gold card	\$8,596,710	\$7,496,612
Regular card	2,589,786	1,825,852

Total	<u>\$11,186,496</u>	<u>\$9,322,464</u>
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The amount of possible losses for the above credit related loan approximated to those notional amounts if borrowers failed to perform according to the terms of the contract and the value of existing collateral became worthless.

(2) Assets and liabilities-average balance and average rate

	2002	
	<u>Average balance</u>	<u>Average rate</u>
Assets		
Due from Central Bank	\$28,412,703	1.83%
Time certificate, accepted bills.. etc.	101,925,593	2.36%
Due from other banks	26,755,422	2.16%
Loans, discounts and bills purchased	384,047,932	5.66%
Government and corporate bonds	60,182,698	4.38%
Liabilities		
Due to banks	\$42,140,365	2.38%
Demand deposits	58,381,621	0.59%
Saving deposits	301,367,113	1.61%
Certified deposits	179,785,854	2.30%
Negotiable certificates of certified deposits	7,611,840	2.37%
Bank' s acceptances and fund borrowed	2,236,281	2.33%
	2001	
	<u>Average balance</u>	<u>Average rate</u>
Assets		
Due from Central Bank	\$28,719,073	2.49%
Time certificate, accepted bills.. etc.	85,639,192	4.09%
Due from other banks	20,861,490	3.88%
Loans, discounts and bills purchased	400,136,457	7.16%
Government and corporate bonds	51,395,665	5.79%
Liabilities		
Due to banks	\$41,462,081	4.39%
Demand deposits	50,431,324	1.47%
Saving deposits	270,374,117	3.36%
Certified deposits	213,189,696	4.20%
Negotiable certificates of certified deposits	14,515,665	4.27%
Bank' s acceptances and fund borrowed	2,852,694	4.60%

(3) Regulatory capital Ratio

Pursuant to the regulations of Banking Law, in order to provide for a sound financial position for banks, the ratio of bank's shareholders' equity to its risk weighted assets shall not be less than 8%; if the said ratio is less than the prescribed ratio, the Bank's power to distribute surplus profits may be restricted by the authority in charge.

As of December 31, 2002 and 2001 the ratio of Bank's shareholders equity to its risk weighted assets were 11.44% and 10.40, respectively.

(4) As of December 31, 2002 and 2001, the amount of insurance coverage for Bank's premises and equipments were \$6,919,958 thousand and \$5,748,461 thousand, respectively.

(5) In order to mitigate future delinquencies, on June 10, 2002, the board of directors has reach an agreement of selling non-performing loans for the amount of approximately \$ 8,000,000 thousand in total, which includes loans amount of approximately \$4,600,000 thousand and uncollectible receivable principle and interest for the amount of approximately \$3,400,000 thousand. The Bank enters into the contract with China Development Assets Management Corp. (buyer) to transfer the non-performing loans on October 24, 2002 the bid date. In accordance with the contract, the buyer pay the 20% of the total contract amount as the guarantee deposit and down payment and the rest amount of contract will be paid in installments: 30% on December 20, 2002 the settlement date, and each 25% in six months and twelve months after the settlement date, respectively.

- (6) In 2001, the government's financial rehabilitation fund management committee established a financial rehabilitation fund to absorb troubled financial institution with negative net worth, ahead of the transfer of their operations to stronger bank through mergers and or acquisitions. The Central Deposit Insurance Corporation (herein after referred to as the "CDIC") on behalf of the fund mentioned above has entered into an agreement with the Bank to take over Song Shan Farmers Association and Ping Tong Association as the Bank's branches because of these two Associations' unsound financial conditions. CDIC, on the other hand, agreed to pay off the liabilities exceeding the assets appraised as of takeover date, September 1st, 2001 and September 15th, 2001 for Song Shan Farmers Association and Ping Tong Farmers Association, respectively. CDIC will reimburse the Bank a total of \$4,654,000 thousand, negative net worth of these two associations.
- (7) Certain accounts of 2001 financial statements have been reclassified to conform to the current presentation.