

UNITED WORLD CHINESE COMMERCIAL BANK
FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIODS ENDED
JUNE 30, 2002 AND 2003

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosures information that are required for Chinese-language reports under the Regulations Governing the Preparation of Financial Statements of Public Companies by the Securities and Futures Commission and Bureau of Monetary Administration of the Republic of China. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language financial statements shall prevail.

English Translation of Financial Statements Originally Issued in Chinese

AUDITORS' REPORT

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 June 30, 2002 And 2003, and the related statements of income, changes in shareholders' equity and cash flows for each of the six-month periods ended June 30, 2002 And 2003. These financial statements are the responsibility of the Bank'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 the six-month periods ended June 30, 2002 and 2003. The investment accounted for by the equity method amounted to \$2,408,591 thousand and \$2,068,850 thousand as of June 30, 2002 and 2003, respectively, and related investment loss of \$25,295 thousand and investment gain of \$173,757 thousand recognized for the six-month periods ended. Those statements were audited by other auditors whose reports have 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 auditing standards generally accepted 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 auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, that financial statements referred to above present fairly, in all material respects, the financial position of United World Chinese Commercial Bank as of June 30, 2002 and 2003, and the results of its operations and its cash flows for the six-month 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.

We have also reviewed the translations of New Taiwan dollar financial statements as of June 30, 2003 into U.S. dollars on the basis stated in Note 2 to the financial statements and in our opinion, the U.S. dollars statements have been properly translated on such basis. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been or could in the future be, converted into U.S. dollars at this or any other exchange rate.

Taipei, Taiwan
The Republic of China
July 22, 2003

Notice to Readers

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

English Translation of FINANCIAL Statements Originally Issued in Chinese

UNITED WORLD CHINESE COMMERCIAL BANK

BALANCE SHEETS

JUNE 30, 2002 AND 2003

(Expressed in thousands of dollars)

ASSETS	NOTES	June 30		
		2002	2003	2003
		New Taiwan Dollars		U.S. Dollars
Cash and cash equivalents	IV	\$34,979,480	\$10,686,920	\$308,781
Due from Central Bank	IV, VI and X	22,871,184	29,158,492	842,488
Due from other banks	IV, V, VI and X	30,243,276	37,291,932	1,077,490
Securities purchased-net	II, IV, VI and X	127,887,983	129,082,092	3,729,618
Receivables-net	II, IV and X	21,550,178	22,492,113	649,873
Prepayments	IV	1,757,022	954,297	27,573
Bills and loans-net	II, IV, V and X	395,360,753	399,791,378	11,551,326
Investments	II, IV, X and XI			
Equity method		6,068,497	5,918,510	171,006
Cost method		6,233,389	6,148,834	177,661
Premises and equipment	II, V, VII, X and XI			
Cost				
Land		14,174,419	14,438,364	417,173
Building		8,542,766	8,710,220	251,668
Furniture and fixtures		2,460,895	2,729,512	78,865
Transportation equipment		64,671	76,372	2,207
Miscellaneous equipment		2,357,359	2,557,352	73,890
Total Cost		27,600,110	28,511,820	823,803
Less: Accumulated depreciation		(5,132,782)	(5,642,006)	(163,017)
Construction in progress and procurement		504,570	383,528	11,082
Premises and Equipment-net		22,971,898	23,253,342	671,868
Non-operating assets	II	757,995	703,346	20,322
Other assets	IV, V and XI	8,616,456	6,533,586	188,777
Deferred charges	II	138,018	187,494	5,417
TOTAL ASSETS		\$679,436,129	\$672,202,336	\$19,422,200

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

English Translation of FINANCIAL Statements Originally Issued in Chinese

UNITED WORLD CHINESE COMMERCIAL BANK

BALANCE SHEETS

JUNE 30, 2002 AND 2003

(Expressed in thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	June 30,		
		2002	2003	2003
		New Taiwan Dollars		U.S. Dollars
Due to Central Bank		\$167,811	\$272,012	\$7,859
Due to other banks	IV, V and X	42,806,505	51,775,232	1,495,962
Payables	IV and V	30,542,853	28,471,831	822,648
Advances		928,054	949,498	27,434
Deposits and remittances	IV, V and X	544,399,828	515,734,121	14,901,304
Banker's debenture	IV and X	5,000,000	15,000,000	433,401
Bankers acceptances and funds borrowed	IV, V and X	1,674,821	1,657,652	47,895
Long-term liabilities	IV	34,119	34,119	986
Reserve for possible losses	II and IV	86,004	66,530	1,922
Other liabilities	IV	997,872	742,940	21,466
TOTAL LIABILITIES		626,637,867	614,703,935	17,760,877
Capital stock	IV	37,716,644	39,715,627	1,147,519
Subscribed capital		1,998,982	-	-
Capital reserve	II and IV	5,095,598	5,095,598	147,229
Retained earnings	II and IV			
Legal reserve		17,447,928	9,122,517	263,580
Special reserve		257,488	-	-
Unappropriated earnings		(9,611,193)	3,585,946	103,610
Unrealized losses on long-term investments	II	(59,209)	(181,931)	(5,257)
Conversion adjustments	II	115,969	160,644	4,642
Treasury stock	II and IV	(163,945)	-	-
TOTAL SHAREHOLDERS' EQUITY		52,798,262	57,498,401	1,661,323
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$679,436,129	\$672,202,336	\$19,422,200

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

English Translation of FINANCIAL Statements Originally Issued in Chinese
 UNITED WORLD CHINESE COMMERCIAL BANK
 STATEMENTS OF INCOME
 FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2002 AND 2003
 (Expressed in thousands of dollars)

ITEMS	NOTES	January 1- June 30		
		2002	2003	2003
		New Taiwan Dollars		U.S. Dollars
OPERATING INCOME:				
Interest revenue	V	\$15,354,234	\$11,832,185	\$341,872
Commission and handling fees	V	835,120	1,197,746	34,607
Commission income of stock brokerage		51,997	50,556	1,461
Gains on sales of securities-net	II	1,104,332	260,977	7,540
Investment income-equity method	II, IV and XI	3,810	317,881	9,185
Investment income-others		38,417	106,626	3,081
Profit on exchange-net	II	88,090	97,293	2,811
Other operating income	V	64,309	313,722	9,064
Total operating income		<u>17,540,309</u>	<u>14,176,986</u>	<u>409,621</u>
OPERATING COST:				
Interest expense	V	6,433,559	3,415,586	98,688
Commissions and handling charges		149,568	149,235	4,312
Commission charges of stock brokerage		2,899	3,177	92
Provisions for possible losses	II	20,477,352	2,215,239	64,005
Total operating cost		<u>27,063,378</u>	<u>5,783,237</u>	<u>167,097</u>
OPERATING GROSS MARGIN		<u>(9,523,069)</u>	<u>8,393,749</u>	<u>242,524</u>
OPERATING EXPENSES:				
Business expenses	IV and V	3,623,833	3,582,007	103,497
Administration expenses		2,408	2,361	68
Total operating expenses		<u>3,626,241</u>	<u>3,584,368</u>	<u>103,565</u>
NET OPERATING INCOME (LOSS)		<u>(13,149,310)</u>	<u>4,809,381</u>	<u>138,959</u>
NON-OPERATING INCOME:				
Gains on disposal of premises and equipment	II	1,134	1,243	36
Others		105,857	102,044	2,948
Total non-operating income		<u>106,991</u>	<u>103,287</u>	<u>2,984</u>
NON-OPERATING EXPENSE:				
Losses on disposal of premises and equipment	II	275	26,146	755
Others		251,637	437,576	12,643
Total non-operating expense		<u>251,912</u>	<u>463,722</u>	<u>13,398</u>
INCOME (LOSS) BEFORE INCOME TAX		<u>(13,294,231)</u>	<u>4,448,946</u>	<u>128,545</u>
INCOME TAX BENEFIT (EXPENSES)	II and IV	<u>3,463,000</u>	<u>(863,000)</u>	<u>(24,935)</u>
NET INCOME (LOSS)		<u>\$(9,831,231)</u>	<u>\$3,585,946</u>	<u>\$103,610</u>
EARNING (DEFICIT) PER SHARE (In Dollars)				
INCOME (LOSS) BEFORE INCOME TAX		\$(3.54)	\$1.12	\$0.032
INCOME TAX BENEFIT (EXPENSES)		0.92	(0.22)	(0.006)
NET INCOME (LOSS)		<u>\$(2.62)</u>	<u>\$0.90</u>	<u>\$0.026</u>
PRO FORMA INFORMATION (If subsidiaries' investment in UWCCB is not treated as treasury stock)				
NET INCOME (LOSS)		<u>\$(9,777,888)</u>		
EARNING (DEFICIT) PER SHARE (In Dollars)		<u>\$(2.59)</u>		

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

English Translation of Financial Statements Originally Issued in Chinese

UNITED WORLD CHINESE COMMERCIAL BANK
 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
 FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2002
 (Expressed in thousands of dollars)

ITEMS	Retained Earnings						Unrealized Loss on Investments	Conversion Adjustments	Treasury Stock	Total
	Capital Stock	Subscribed Capital	Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Earnings				
Balance, January 1, 2002	\$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	-	-	-	-	22,346	(22,346)	-	-	-	-
Cash dividend	-	-	-	-	-	(1,885,832)	-	-	-	(1,885,832)
Stock dividend	-	1,320,082	-	-	-	(1,320,082)	-	-	-	-
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)	-	-	(220,038)	-	-	220,038	-	-	-	-
Net loss for the six-month period ended June 30, 2002	-	-	-	-	-	(9,831,231)	-	-	-	(9,831,231)
Conversion adjustments (Note II)	-	-	-	-	-	-	-	(87,339)	-	(87,339)
Unrealized losses on investments of investee companies of which recognized by the equity method (Note IV)	-	-	-	-	-	-	(59,209)	-	-	(59,209)
The Bank's stock held by its subsidiary as treasury stock (Note IV)	-	-	-	-	-	-	-	-	(163,945)	(163,945)
Capital reserves transferred from selling treasury stock (Note IV)	-	-	10,397	-	-	-	-	-	-	10,397
Balance, June 30, 2002	\$37,716,644	\$1,998,982	\$5,095,598	\$17,447,928	\$257,488	\$(9,611,193)	\$(59,209)	\$115,969	\$(163,945)	\$52,798,262

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

English Translation of Financial Statements Originally Issued in Chinese

UNITED WORLD CHINESE COMMERCIAL BANK
 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
 FOR THE SIX-MONTE PERIODS ENDED JUNE 30, 2003
 (Expressed in thousands of dollars)

ITEMS	Retained Earnings										Unrealized Loss on Investments		Conversion Adjustments		Total	
	Capital Stock		Capital Reserve		Legal Reserve		Special Reserve		Unappropriated Earnings		NT\$	US\$	NT\$	US\$	NT\$	US\$
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Balance, January 1, 2003	\$39,715,627	\$1,147,519	\$5,095,598	\$147,229	\$17,447,928	\$504,129	\$257,487	\$7,440	\$(8,582,898)	\$(247,989)	\$(79,482)	\$(2,297)	\$186,568	\$5,391	\$54,040,828	\$1,561,422
Appropriation and distribution of 2002 earnings (Note IV):																
Legal reserve	-	-	-	-	(8,325,411)	(240,549)	-	-	8,325,411	240,549	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(257,487)	(7,440)	257,487	7,440	-	-	-	-	-	-
Net Income for the six-month period ended June 30, 2003	-	-	-	-	-	-	-	-	3,585,946	103,610	-	-	-	-	3,585,946	103,610
Conversion adjustments (Note II)	-	-	-	-	-	-	-	-	-	-	-	-	(25,924)	(749)	(25,924)	(749)
Unrealized losses on investments of investee companies of which recognized by the equity method (Note IV)	-	-	-	-	-	-	-	-	-	-	(102,449)	(2,960)	-	-	(102,449)	(2,960)
Balance, June 30, 2003	<u>\$39,715,627</u>	<u>\$1,147,519</u>	<u>\$5,095,598</u>	<u>\$147,229</u>	<u>\$9,122,517</u>	<u>\$263,580</u>	<u>\$-</u>	<u>\$-</u>	<u>\$3,585,946</u>	<u>\$103,610</u>	<u>\$(181,931)</u>	<u>\$(5,257)</u>	<u>\$160,644</u>	<u>\$4,642</u>	<u>\$57,498,401</u>	<u>\$1,661,323</u>

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

English Translation of FINANCIAL Statements Originally Issued in Chinese
 UNITED WORLD CHINESE COMMERCIAL BANK
 STATEMENTS OF CASH FLOWS
 FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2002 AND 2003
 (Expressed in thousands of dollars)

ITEMS	NOTES	January 1- June 30,	
		2002	2003
		New Taiwan Dollars	U.S. Dollars
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)		\$(9,831,231)	\$3,585,946
Adjustments to reconcile net income(loss) to net cash provided by operating activities:			
Depreciation and amortization	II	320,066	341,900
Provisions for possible losses	II	20,477,352	2,215,239
Premises and equipment transfer to expenses		-	145,702
Loss (gain) on disposal of premises and equipment and non-operating assets	II	(859)	24,903
Investment income recognized by the equity method	II, IV and XI	(2,880)	(317,881)
Cash dividends received from investee companies of which recognized by equity method		48,157	79,874
Gain on disposal of investments		-	(92,854)
Adjustment of changes in exchange rates		5,455	(4,012)
Increase in receivables		(2,957,498)	(1,333,581)
(Increase) decrease in prepayments		(4,272,689)	459,039
Increase in securities purchased for trading purposes		(3,908,326)	(2,482,459)
Increase in payables		7,166,332	2,834,637
Increase (decrease) in advances		161,124	(76,227)
Increase in other liabilities		233,598	313
Net cash provided by operating activities		7,438,601	5,380,539
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from disposal of premises and equipment and non-operating assets		1,687	28,308
Addition in premises and equipment		(327,026)	(521,875)
Proceeds from disposal of investments		-	312,659
Increase in securities purchased for non-trading purposes		(35,788,644)	(20,382,526)
Net (increase) decrease in bills and loans		13,456,136	(6,300,663)
(Increase) decrease in other assets		(1,574,677)	555,919
Increase in due from other banks		(9,094,445)	(6,195,918)
Decrease in due from Central Bank		13,560,564	6,276
Increase in deferred charges		(50,997)	(39,178)
Net cash used in investing activities		(19,817,402)	(32,536,998)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in due to Central Bank		(176,631)	104,883
Increase in due to other banks		7,888,225	7,732,719
Increase (decrease) in deposits and remittances		(34,134,031)	1,058,763
Increase in banker's debenture		5,000,000	5,000,000
Decrease in banker's acceptances and funds borrowed		(1,595,538)	(548,933)
Increase (decrease) in guaranty and marginal deposits		(15,043)	107,412
Cash dividends paid		(1,885,832)	-
Compensation to directors and supervisors, special bonus to employees, and contribution to welfare fund		(339,450)	-
Net cash provided by (used in) financing activities		(25,258,300)	13,454,844
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES		(74,707)	(20,053)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(37,711,808)	(13,721,668)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		77,034,894	27,309,915
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	X	\$39,323,086	\$13,588,247
SUPPLEMENT DISCLOSURES OF CASH FLOWS INFORMATION:			
Interest expenses paid		\$7,338,467	\$3,870,978
Income tax paid		\$-	\$131,353

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

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UNITED WORLD CHINESE COMMERCIAL BANK

NOTES TO AUDITED FINANCIAL STATEMENTS

JUNE 30, 2002 AND 2003

(In thousands of New Taiwan Dollars unless others stated)

I. BUSINESS

United World Chinese Commercial Bank (the “Bank”) was enfranchised by the government of the Republic of China in January, 1975, and started its operations on May 20, 1975. It is engaged in the following operations:

- (1) All commercial banking operations authorized by the ROC Banking Law (“Banking Law”);
- (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 was listed on the Taiwan Stock Exchange (TSE) until December 18, 2002. Starting from December 18, 2002, the Bank became a unlisted wholly owned subsidiary company of Cathay Financial Holding Co., Ltd. through a share swap transaction.

On April 21, 2003, A merger plan was announced by Cathay United Bank and UWCCB to enhance operational efficiency, strengthen internal communication within banking operations and more effectively realize anticipated growth opportunities. The bank expect the merger to be effective starting from October 2003.

As of June 30, 2002 and 2003, the Bank employed 2,407 and 2,517 employees, respectively.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in conformity with “Regulations Governing the Preparation of Financial Statements of Public Companies” and generally accepted ROC accounting principles. The significant accounting policies are summarized as follows:

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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 respective currencies in which they are transacted. At the end of each month, foreign currencies assets and liabilities, other than those arising from forward contracts, are converted into New Taiwan Dollars (“NT dollars”) at the closing rates as at the balance-sheet date. Foreign currencies income and expenses are converted into NT 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 their respective local currencies, are converted into NT 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 “Conversion adjustments” account under shareholders’ equity.

3. Derivative Financial Instruments

Forward Contracts

When the Bank enters into forward foreign exchange contracts for trading purposes, the Bank will record a receivable and a corresponding payable based on the contracted foreign exchange amount at the contracted forward rate. At each financial reporting date, the Bank will adjust the receivable amount based on the spot rate and recognized the differences as gains or losses in the statement of income and expenditure. Upon settlement, gains or losses resulting from the difference between the foreign exchange amount at the spot rate and the carrying amount of the receivable are credited or charged to statement of income and expenditure. In addition, for financial presentation purposes, balances of these receivable and payable are netted.

Interest Rate Swaps

Interest rate swaps transactions may involve the exchange of fixed-rate interest payment for the market floating-rate interest payment obligation based on a notional principal amount. For interest rate swaps transactions undertaken for trading purposes, income and expenses arising upon settlement are netted off and recognized in the statement of income and expenditure.

Cross-currency Interest Rate Swaps

For cross-currency swap contracts undertaken for non-trading purposes, amounts to be exchanged on settlement dates are recorded at the contracted forward rate. Interest income or expenses arising during the contract period are recognized as an adjustment to the revenue or expense of the hedged items.

Option

The Bank enters into foreign-currency option contracts. Premiums paid or received or options purchased or sold are recorded as assets or liabilities, respectively. Gains or losses on exercise of options are recognized in the statement of income and expenditure.

4. Securities Purchased

Securities purchased are carried at the lower of aggregate cost and aggregate market value, provided that there is public an objective market value available. If the market value of the securities is lower than the aggregate costs, and allowance for the decline in market value is provided, with losses is recognized in the statement of earnings. The cost of equity securities and mutual funds sold are determined by weighted-average method while costs of other securities sold are based on specific identification.

5. Allowances for Doubtful Accounts

Allowance for doubtful accounts on receivables is provided based on the results of review of the collectibility of accounts balances and the guideline issued by the relevant regulations. Whenever the management of the Bank deems the receivables to be 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. Bills and Loans

Bills and loans are stated at the principal amount outstanding, interest on Bills and Loans is

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accrued as earned, based upon the principal amount outstanding.

Bills and loans are placed in delinquent accounts when payments of principal or interest are 180 days past due. If the amounts are placed in delinquent accounts after the relevant legal proceeding, the accrual of income is discontinued, subsequent interest payments are credited to income when received.

Allowance for doubtful accounts on bills and loans are provided based on the results of review of the collectibility of accounts balances and the guidelines issued by the relevant regulations. Whenever the management of the Bank deems the receivables to be 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. Investments

Investments in other companies with voting rights of at least 20% but no more than 50% are accounted for under the equity method; however, when the company has not received the audited financial statements of the equity method investee company in time to recognize its equity in the investee company's income (loss), the Bank may delay the recognition of its equity in the investee company's income (loss) until the subsequent year. The difference between the cost of investment and the company's share of the investee company's equity at acquisition is deferred and amortized over five years.

Investments in other companies with voting rights 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 value. The lower-of-cost—market compares aggregate cost aggregate market price. When there is a decline in the value of an investment, an allowance for the decline in market value is provided when the carrying amounts is not expected to fully recover.

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 thereafter are charged to non-operating income or expenses.

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

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lives:

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

The residual value of a property that is still in use at the end of the original service life is depreciated using the straight-line method over its newly estimated service life.

9. Deferred Charges

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

10. Reserves for Losses on Guarantees

Reserves for losses on guarantees are computed at the maximum limit allowed by the relevant laws and regulations pertaining to guarantees provided for custom duties, commodity taxes and contracts performance obligations.

11. Reserves for Losses on Stock Brokerage Transactions

Pursuant to ROC Ministry of Finance (“MOF”) regulations, a reserve for possible losses is provided based on 0.0028% of the amount of total stock brokerage transactions each month until such reserve has reached the amount of NT\$200 million.

12. Reserves for Losses on Trading Securities

Pursuant to the MOF regulations, a reserve for possible losses on trading securities is provided based on 10% of the gain derived from trading securities each month until such reserve has reached the amount of NT\$200 million. The reserve cannot be used for other purposes 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 the 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.

The Bank has adopted the ROC Statement of Financial Accounting Standards (SFAS) No. 30 on January 1, 2002 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 are 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 the employee retirement plan. Contribution to the pension fund is made to the separate accounts of the above two committees monthly. The Bank makes contributions to the pension funds, which is administered and operated by an independent employee 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 the 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. Recognition of Interest Revenue and Service Fees

Interest revenue on loans is recorded on an accrual basis. For overdue loans and other credits, interest revenue is recognized only upon collection.

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

Under MOF regulations, the interest revenue on credits covered by agreements that extends their maturity and recognized upon collection.

16. Income Tax

The Bank adopted the SFAS No. 22 "Accounting for income taxes" for interperiod and intraperiod income tax allocation. Deferred income taxes are recognized for tax effects of temporary differences. Tax effects on deductible temporary differences, operating loss carryforwards and investment tax credits are recognized as deferred tax assets. Valuation

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allowance is provided for deferred tax assets when their realization is in doubt.

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

Income tax at a rate of 10% on undistributed earnings is assessed if the Bank does not distribute all its current year profits. Taxes on undistributed earnings are recorded as expense in the year shareholders approve the retention of earnings.

17. Commitments and Contingent Liabilities

A loss is recognized if it is probable that a liability might be incurred and the amount of loss can be reasonably estimated. If the amount of loss cannot be reasonable estimated and the loss is possible, the obligation is disclosed as a contingent liabilities in the notes to the financial statements.

18. Basis for Converting Financial Statements

The Bank's financial statements are stated in NT dollars. Conversion of the June 30, 2003 NT dollar amounts into US dollar amounts is provided solely for the convenience of the readers, using the noon buying rate of NT34.61 to US\$1.00 on June 30, 2003, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as representations that the NT dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

III. ACCOUNTING CHANGES

None.

IV. BREAKDOWN OF SIGNIFICANT ACCOUNTS

1. CASH AND CASH EQUIVALENTS

	June 30,	
	2002	2003
	New Taiwan Dollars	U.S. Dollars
Cash on hand	\$6,262,411	\$6,384,007
Checks for clearance	6,179,964	4,102,913
Cash equivalents-certified deposits	22,537,105	200,000
Total	<u>\$34,979,480</u>	<u>\$10,686,920</u>
		<u>\$184,455</u>

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2. DUE FROM CENTRAL BANK

	June 30,		
	2002	2003	
	New Taiwan Dollars	U.S. Dollars	
Deposit reserve	\$15,953,462	\$14,148,873	408,809
General account	681,722	8,773,619	253,500
Deposit in Central Bank	6,236,000	6,236,000	180,179
Total	<u>\$22,871,184</u>	<u>\$29,158,492</u>	<u>\$842,488</u>

3. DUE FROM OTHER BANKS

	June 30,		
	2002	2003	
	New Taiwan Dollars	U.S. Dollars	
Due from banks	\$1,219,372	\$4,824,410	\$139,393
Call loans to banks	29,023,904	32,467,522	938,097
Total	<u>\$30,243,276</u>	<u>\$37,291,932</u>	<u>\$1,077,490</u>

4. SECURITIES PURCHASED-NET

	June 30,		
	2002	2003	
	New Taiwan Dollars	U.S. Dollars	
Stock	\$4,955,304	\$5,024,902	\$145,187
Mutual funds	1,884,557	3,177,103	91,797
Government and corporate bonds	58,507,399	70,072,869	2,024,642
Certificates of deposit	56,844,369	48,370,809	1,397,596
Commercial papers	6,289,872	3,011,254	87,005
Other	-	34,264	990
Total	128,481,501	129,691,201	3,747,217
Less: Allowance for decline in market price of securities	(593,518)	(609,109)	(17,599)
Net	<u>\$127,887,983</u>	<u>\$129,082,092</u>	<u>\$3,729,618</u>

(1) Securities purchased of NT\$1,324,478 thousand and NT\$14,305,423 thousand at June 30, 2002 and 2003, respectively, were pledged to other parties as collateral for business reserves and guarantees.

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(2) Securities purchased of NT\$4,343,606 thousand and NT\$2,901,327 thousand at June 30, 2002 and 2003, respectively, were considered as part of cash equivalents.

5. RECEIVABLES-NET

	June 30,		
	2002	2003	
	New Taiwan Dollars	U.S. Dollars	
Accounts receivable	\$11,155,272	\$15,626,813	\$451,511
Accrued interest receivable	4,337,002	3,222,331	93,104
Customers' liabilities under acceptances	403,602	339,933	9,822
Tax refund	128,716	425,496	12,294
Securities purchased under agreements to resell	5,904,329	2,749,344	79,438
Others	831,341	678,592	19,607
Total	22,760,262	23,042,509	665,776
Less: Allowance for doubtful accounts	(1,210,084)	(550,396)	(15,903)
Net	\$21,550,178	\$22,492,113	\$649,873

For the summary of the activity in the allowance for doubtful accounts for the June 30, 2002 and 2003, please see note IV. 7.

6. PREPAYMENTS

	June 30,		
	2002	2003	
	New Taiwan Dollars	U.S. Dollars	
Inter-bank clearing funds	\$800,856	\$808,817	\$23,370
Others	956,166	145,480	4,203
Total	\$1,757,022	\$954,297	\$27,573

7. BILLS AND LOANS-NET

	June 30,		
	2002	2003	
	New Taiwan Dollars	U.S. Dollars	
Inward-outward documentary bills purchased	\$951,208	\$830,580	\$23,998
Loans	381,096,089	392,492,046	11,340,423
Overdrafts	1,386,876	866,244	25,029
Delinquent accounts	27,635,533	11,063,590	319,665
Total	411,069,706	405,252,460	11,709,115
Less: Allowance for doubtful accounts	(15,708,953)	(5,461,082)	(157,789)
Net	\$395,360,753	\$399,791,378	\$11,551,326

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- (1) Delinquent accounts, where the accrual of interest ceased, amounted to NT\$27,635,533 thousand and NT\$11,063,590 thousand at June 30, 2002 and 2003, respectively. Unrecognized interests were NT\$913,264 thousand and NT\$336,215 thousand for the six-month periods ended June 30, 2002 and 2003, respectively.
- (2) The additional information of bills and loans by type of industry and geographic region is shown as Note X.
- (3) The following is a summary of the activity in the allowance for doubtful accounts (including receivables, bills and loans) for the six-month periods ended June 30, 2002 and 2003 respectively.

	Jan. 1 ~ June 30, 2002		
	Allocated allowance	Unallocated portion	Total
	New Taiwan Dollars		
Balance, beginning of the period	\$3,965,035	\$251,974	\$4,217,009
Provision of doubtful account	20,404,221	-	20,404,221
Write-off	(8,293,614)	-	(8,293,614)
Recoveries	600,319	-	600,319
Reclassification	(1,869,431)	1,869,431	-
Effects of changes in foreign exchange rates	170	(9,068)	(8,898)
Balance, end of the period	<u>\$14,806,700</u>	<u>\$2,112,337</u>	<u>\$16,919,037</u>

	Jan. 1 ~ June 30, 2003					
	Allocated allowance		Unallocated portion		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance, beginning of the period	\$6,624,009	\$191,390	\$236,724	\$6,840	\$6,860,733	\$198,230
Provision of doubtful account	1,511,811	43,681	-	-	1,511,811	43,681
Write-off	(3,646,569)	(105,362)	-	-	(3,646,569)	(105,362)
Recoveries	1,266,941	36,607	-	-	1,266,941	36,607
Transfer from reserve for losses on guarantees	20,000	578	-	-	20,000	578
Reclassification	(136,279)	(3,938)	136,279	3,938	-	-
Effects of changes in foreign exchange rates	-	-	(1,438)	(42)	(1,438)	(42)
Balance, end of the period	<u>\$5,639,913</u>	<u>\$162,956</u>	<u>\$371,565</u>	<u>\$10,736</u>	<u>\$6,011,478</u>	<u>\$173,692</u>

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In recent years, the local economic and financial environment has been affected by several factors, which have led to the slowdown of Taiwan's economic growth, the reduction of investment, the bearish nature of the stock market, and the depreciation of the New Taiwan dollar. Certain business enterprises, failed to meet its contractual obligations as they came due. To deal with the difficult situation, the government has taken various economy-boosting policies. The Bank's financial statements include provision for possible credit losses and guarantee losses based on information available to the Bank, including defaults to the extent they can be determined or estimated. Changes in operating or financial performance of customers and general economic conditions of the market may have an impact on the debtor's ability to repay their loans and uncertainty related to the future realizable value of collaterals might result in amounts that are different from those presently determined or estimated.

8. INVESTMENTS

	June 30,				
	2002		2003		
	NT\$	% of ownership	NT\$	US\$	% of ownership
Equity Method					
Seaward Futures Corp.	\$1,671,847	99.82	\$1,662,573	\$48,037	99.82
Seaward Leasing Ltd.	1,971,047	99.97	2,150,970	62,149	99.97
Huong Yee Co., Ltd.	647,904	99.99	466,737	13,486	99.99
Seaward Insurance Agent Corp.	14,587	99.99	27,719	801	99.99
Seaward Card Co., Ltd.	34,282	99.99	38,251	1,105	99.99
Indovina Bank	405,455	50.00	418,269	12,085	50.00
Taiwan Real-estate Management Corp.	67,307	30.15	54,162	1,565	30.15
Taiwan Finance Corp.	1,343,808	24.57	1,185,654	34,258	24.57
Seaward Property Insurance Agent Corp.	-	-	2,000	58	99.99
Subtotal	6,156,237		6,006,335	173,544	
Less: Unrealized gain from intercompany transactions	(87,740)		(87,825)	(2,538)	
Investment in equity method	6,068,497		5,918,510	171,006	
Cost Method (Lower of Cost or Market)					
Pan Overseas Corp.	7,525	0.61	7,525	217	0.61
China Bills Finance Corp.	224,508	2.86	151,968	4,391	1.94
Taiwan Fertilizer Co., Ltd.	104,173	0.58	104,173	3,010	0.58
Chunghwa Telecom Co., Ltd.	566,862	0.11	541,097	15,634	0.11
Cost Method					
International Securities Investment Trust Co., Ltd.	4,900	4.74	4,900	142	4.74
Wallant International Trade Inc.	-	2.51	-	-	2.51

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Central Deposit Insurance Corp.	10	-	10	-	-
Chinese Products Promotion Center	1,850	4.87	1,850	53	4.87
Han Tech Venture Capital Corp.	154,927	7.93	154,927	4,476	7.93
Taiwan Securities Central Depository Co., Ltd.	1,850	0.18	1,850	53	0.18
Taipei Forex Inc.	8,000	4.04	8,000	231	4.04
Global Securities Finance Corp.	161,930	2.45	161,930	4,679	2.45
An Feng Enterprise Co., Ltd.	4,500	15.00	4,500	130	15.00
Euroc II Venture Capital Corp.	40,000	5.00	40,000	1,156	5.00
Taiwan International Merchandise Exchange Corp.	12,500	0.63	12,500	361	0.63
Strategic Value Fund, Limited Partnership	156,269	-	170,019	4,912	-
Chan Sheng Investment Development Co., Ltd.	127,400	4.90	127,400	3,681	4.90
CDIB & Partners Investment Holding Corp.	500,000	4.95	500,000	14,447	4.95
Financial Information Service Co., Ltd.	45,500	1.14	45,500	1,315	1.14
Sheng-Hua Venture Capital Corp.	50,000	2.50	50,000	1,445	2.50
IBU Securities Co., Ltd.	1,045,000	14.93	1,045,000	30,194	10.31
Latin America Development Co., Ltd.	6,250	1.79	6,250	181	1.79
Capital Venture Fund II Corp.	30,000	5.00	30,000	867	5.00
ProTec Capital Corp.	8,000	4.88	8,000	231	4.88
Fu Yu Venture Capital Investment Corp.	50,000	3.70	50,000	1,445	3.70
Taipei Smart Card Corp.	25,000	5.00	25,000	722	5.00
New Century InfoComm Co., Ltd.	864,000	1.68	864,000	24,964	1.68
Harbinger Venture Capital Corp.	67,000	3.35	67,000	1,936	3.35
United Venture Capital Corp.	40,000	4.52	40,000	1,156	4.52
Centillion Venture Capital Corp.	60,000	5.00	60,000	1,734	5.00
Taiwan Asset Management Corp.	1,000,000	5.68	1,000,000	28,893	5.68
Taipei Financial Center Corp.	400,000	2.35	400,000	11,557	2.35
Taiwan Financial Asset Service Corp.	50,000	2.94	50,000	1,445	2.94
Kaohsiung Rapid Transit corp.	299,000	2.99	299,000	8,639	2.99
Taiwan Cooperative Bank	116,435	0.21	116,435	3,364	0.21
Investment in cost method	<u>6,233,389</u>		<u>6,148,834</u>	<u>177,661</u>	
Total	<u>\$12,301,886</u>		<u>\$12,067,344</u>	<u>\$348,667</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 Huang Yee Co., Ltd. have determined in the liquidation of the companies in the special meeting. As of June 30, 2003, the Huang Yee Co. is still in the liquidating process.

(3) Up to June 30, 2003, the Bank has unrealized losses on long-term investment of

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Seaward Leasing Ltd. of NT\$181,931 thousand.

(4) 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 ASSETS

	June 30,	
	2002	2003
	New Taiwan Dallars	U.S Dollars
Refundable deposits	\$692,376	\$577,690 \$16,691
Pledged assets taken-over	4,092,907	3,220,282 93,045
Deferred tax assets	3,831,173	2,735,614 79,041
Total	\$8,616,456	\$6,533,586 \$188,777

10. DUE TO OTHER BANKS

	June 30,	
	2002	2003
	New Taiwan Dallars	U.S Dollars
Due to banks	\$24,452,682	\$25,019,618 \$722,902
Overdrafts from banks	850,891	476,374 13,764
Call loans from banks	17,502,932	26,279,240 759,296
Total	\$42,806,505	\$51,775,232 \$1,495,962

11. PAYABLES

	June 30,	
	2002	2003
	New Taiwan Dallars	U.S Dollars
Accounts payable	\$7,807,721	\$5,428,742 \$156,855
Accrued interest	2,502,194	1,736,131 50,163
Accrued expenses	305,325	348,228 10,061
Income tax payable	120,839	79,482 2,297
Acceptances	412,861	348,998 10,084
Collection for customers	368,466	153,856 4,445
Securities sold under agreements to repurchase	15,787,844	17,693,761 511,233
Others	3,237,603	2,682,633 77,510
Total	\$30,542,853	\$28,471,831 \$822,648

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12. DEPOSITS AND REMITTANCES

	June 30,		
	2002	2003	
	New Taiwan Dallar	U.S Dollars	
Check deposits	\$9,048,271	\$11,439,559	\$330,527
Demand deposits	48,642,473	52,731,444	1,523,590
Certified deposits	154,116,630	105,054,678	3,035,385
Saving deposits	295,495,547	306,473,923	8,855,069
Foreign currencies deposits	36,906,965	39,881,421	1,152,309
Outward remittances	21,024	235	7
Remittances payable	168,918	152,861	4,417
Total	\$544,399,828	\$515,734,121	\$14,901,304

13. BANKER'S DEBENTURE

	June 30,		
	2002	2003	
	New Taiwan Dallar	U.S Dollars	
Banker's debenture	\$-	\$5,000,000	\$144,467
Subordinate Banker's debenture	5,000,000	10,000,000	288,934
Total	\$5,000,000	\$15,000,000	\$433,401

On June 20, 2003, the Bank issued five-year and six month banker's debenture amounting to NT\$5,000,000 thousand with a stated interest rate of 3.019%. The banker's debenture are repayable at maturity, and the interests are payable semiannually. Banker's debenture has equal to priority claim on assets and income with other debt. Banker's debenture is senior to common stock.

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

14. BANKER'S ACCEPTANCES AND FUNDS BORROWED

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	June 30,		
	2002	2003	
	New Taiwan Dallar	U.S Dollars	
Borrowed funds-Central Bank	\$1,200,186	\$1,132,512	\$32,722
Borrowed funds-Others	474,635	525,140	15,173
Total	<u>\$1,674,821</u>	<u>\$1,657,652</u>	<u>\$47,895</u>

15. LONG-TERM LIABILITIES

	June 30,		
	2002	2003	
	New Taiwan Dallar	U.S Dollars	
Reserve for land value increment tax	<u>\$34,119</u>	<u>\$34,119</u>	<u>\$986</u>

16. RESERVES FOR POSSIBLE LOSSES

	Mar. 31,		
	2002	2003	
	New Taiwan Dallar	U.S Dollars	
Reserve for losses on guarantees	\$51,567	\$18,895	\$546
Reserve for losses on stock brokerage transactions	34,366	37,181	1,074
Reserve for losses on trading securities	71	10,454	302
Total	<u>\$86,004</u>	<u>\$66,530</u>	<u>\$1,922</u>

17. OTHER LIABILITIES

	June 30,		
	2002	2003	
	New Taiwan Dallar	U.S Dollars	
Guarantee and margin deposits	\$605,983	\$742,627	\$21,457
Others	391,889	313	9
Total	<u>\$997,872</u>	<u>\$742,940</u>	<u>\$21,466</u>

18. CAPITAL STOCK

At the beginning of the year 2002, the Bank has authorized capital stock amounting to NT\$37,716,644 thousand. There were 3,771,664 thousand shares issued at par value of NT\$10.

On May 30, 2002, the Bank's shareholders determined to increase capital for NT\$1,998,983

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thousand by transfer from unappropriate earnings and employees' special bonus of NT\$1,433,233 thousand and capital reserve of NT\$565,750 thousand at their annual meeting. After the capitalization, issued and outstanding capital stock amounted to NT\$39,715,627 thousand and 3,971,563 thousand shares were issued at par value of NT\$10.

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

On October 4, 2002, the Bank's Shareholders determined to join Cathay Financial Holding Co., Ltd. The transfer of share capital in respect of Cathay Financial Holding Co., Ltd. was based on the share capital issued on December 18, 2002, and 1.6 unit of shares of the Bank can exchange 1 unit of common share of Cathay Financial Holding Co., Ltd. Therefore, the Bank has become a wholly owned subsidiary company of Cathay Financial Holding Co., Ltd.

19. CAPITAL RESERVES

	Mar. 31,		
	2002	2003	
	New Taiwan Dallar	U.S Dollars	
Gain on disposal of premises and equipment			
Additional paid-in capital	\$4,249,096	\$4,249,096	\$122,771
Capital reserves from merger of investee companies	773,348	773,348	22,345
Capital reserves from investee companies of which recognized by the equity method, and etc.	62,757	62,757	1,813
Capital reserves from treasury stock	10,397	10,397	300
Total	<u>\$5,095,598</u>	<u>\$5,095,598</u>	<u>\$147,229</u>

20. RETAINED EARNINGS

(1) The Bank's articles of incorporation provide 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%.

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- (2) The government's regulations stipulates that the Bank must retain part of its annual net income as legal reserve, and cash dividend 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, the ROC regulations require that a portion of the retained earnings equal to the deduction account of shareholders' equity, if any, becomes unavailable for dividend distribution.

- (3) The Bank's directors determined the following resolution on March 11, 2002, and January 29, 2003 respectively. The informations are as follows:

- (a) The appropriation and distribution of earnings in 2001:

- 1) NT\$ 1,577,512 thousand as legal reserve;
- 2) NT\$ 22,346 thousand as special reserve;
- 3) NT\$ 3,205,914 thousand as dividends to shareholders (NT\$ 1,885,832 thousand as cash dividend and NT\$ 1,320,082 thousand as stock dividend);
- 4) NT\$ 113,150 thousand as compensation to directors and supervisors; and
- 5) NT\$ 339,450 thousand as bonus to employees and welfare fund (NT\$ 226,300 thousand as cash and NT\$ 113,150 thousand as stock).

- (b) Make up deficit in 2002:

- 1) NT\$ 8,325,411 thousand from legal reserve;
- 2) NT\$ 257,487 thousand from special reserve;
- 3) NT\$ 224,412 thousand from Unappropriated earnings.

The appropriation and distribution states above were approved by Bank's shareholders on May 30, 2002 and by the Bank's directors on April 21, 3003, respectively.

21. TREASURY STOCK

The Bank adopted SFAS No.30 to account for its stock held by its subsidiary as treasury stock since January 1, 2002. As of June 30, 2002, the Bank has 8,749 thousand shares of stock held by its subsidiary with and amount of NT\$206,953 thousand.

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22. PENSION

The Bank has adopted SFAS No.18 “Accounting for pensions”, which requires actuarial determination of pension assets or obligations.

23. OPERATING EXPENSES

	June 30,	
	2002	2003
	New Taiwan Dallars	U.S Dollars
Personnel expenses		
Salary expenses	\$1,307,961	\$1,252,030 \$36,175
Insurance expenses	118,896	128,534 3,714
Pension expenses	154,101	165,313 4,777
Others	285,849	288,784 8,344
Depreciation expenses	296,518	311,159 8,990
Amortization expenses	23,548	30,741 888
Total	<u>\$2,186,873</u>	<u>\$2,176,561</u> <u>\$62,888</u>

24. INCOME TAX

(1) The reconciliation between income tax payable and income tax expense (benefit) for the six-month periods ended June 30, 2002 and 2003 are as follows:

	Jan. 1~June 30,	
	2002	2003
	New Taiwan Dallars	U.S Dollars
Income tax payable:		
Domestic income tax:		
General (tax rate 25%)	\$-	\$- \$-
Interest on short-term negotiable instruments (tax rate 20%)	237,874	65,709 1,898
Foreign branches' income tax	20,326	24,183 699
Deferred tax (benefit) expenses:		
Employees' welfare	5,174	- -
Allowance for bad debt	(3,019,436)	224,329 6,482
Allowance for pledged assets taken-over	-	(175,515) (5,071)
Provisions for possible losses	(312)	(342) (10)

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Foreign investment income recognized by the equity method	141	3,483	101
Operating loss carryforwards	(723,255)	741,338	21,420
Others	605	(2,170)	(63)
10% additional income tax on unappropriated earnings	7,192	-	-
Adjustment of prior period's income tax	8,691	(18,015)	(521)
Income tax (benefit) expenses	<u>\$(3,463,000)</u>	<u>\$863,000</u>	<u>\$24,935</u>

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

	June 30,		
	2002	2003	
	New Taiwan Dallar	U.S Dollars	
Taxable temporary differences:			
Unrealized losses from intercompany transactions	\$25,455	\$24,847	\$718
Others	29,081	59,279	1,713
Deductible temporary differences:			
Allowance for bad debts	12,077,745	1,664,922	48,105
Allowance for pledged assets taken-over	-	2,529,212	73,077
Unrealized gain from intercompany transactions	20,612	20,002	578
Employees' welfare	1,816	-	-
Pension expenses exceed the limit of tax law	72,098	75,809	2,190
Provisions for possible losses	51,860	54,675	1,580
Others	102,386	104,807	3,028
Operating loss carryforwards	2,893,019	6,375,965	184,223
Investment Credit	\$2,190	\$6,834	\$198
Deferred income tax assets of foreign branches	\$37,733	\$43,464	\$1,256

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	June 30,		
	2002	2003	
	New Taiwan Dallars	U.S Dollars	
(3) Deferred tax assets	\$3,844,807	\$2,756,646	\$79,649
Deferred tax liabilities	13,634	21,032	608
Net deferred tax assets	\$3,831,173	\$2,735,614	\$79,041

(4) The Bank's income tax returns for the year 1998 and the years prior to the 1998 have been determined by the tax authority.

(5) The Bank's income tax returns for the year from 1999 to 2002 are being examined by the tax authority.

(6) The tax authority assessed an additional NT\$193,319 on the Bank's 1994 income tax payment. The Bank contested the assessment and on July 30, 2002, the tax authority determined that NT\$153,319 thousand can be used to offset the additional income tax payment. The remaining NT\$40,000 thousand was paid in year 2002.

(7) A valuation allowance has been established for the Bank's income tax returns assessment for the years from 1995 to 1998. However, the Bank did not agree with the assessment and appealed to the tax authorities. The claim is currently being reviewed by the tax authority.

(8) The related informations of shareholders' deductible income tax are as follows:

	June 30,		
	2002	2003	
	New Taiwan Dallars	U.S Dollars	
Shareholders' deductible income tax account	\$868,078	\$119,607	\$3,456
Unappropriated earnings (accumulated deficit)	(9,611,193)	3,585,946	103,610

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

	2002
Cash dividend	16.57%
Stock dividend	23.80%

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25. EARNINGS (DEFICIT) PER SHARE

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

	Jan. 1~ June 30, 2002	Jan. 1~June 30, 2003	
Weighted-averaged number of shares	\$3,758,301	\$3,971,563	
(In thousand shares)			
	Jan. 1~ June 30,		
	2002	2003	
	New Taiwan Dallars	U.S Dollars	
Income (loss) before income tax	\$(13,294,231)	\$4,448,946	\$128,545
Income tax benefit (expense)	3,463,000	(863,000)	(24,935)
Net income (loss)	\$(9,831,231)	\$3,585,946	\$103,610
Earning (deficit) per share (Expressed in dollars)			
Income (loss) before income tax	\$(3.54)	\$1.12	\$0.032
Income tax benefit (expense)	0.92	(0.22)	(0.006)
Net income (loss)	\$(2.62)	\$0.90	\$0.026

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

	Jan. 1-June 30, 2002
	NT\$
Net loss	\$(9,777,888)
Deficit per share (Expressed in dollars)	\$(2.59)

V. RELATED PARTIES TRANSACTIONS

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

Name of related parties	Relationship
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 in equity Method
Taiwan Finance Corp.	Investee company in equity Method
Seaward Card Co., Ltd.	Subsidiary
Seaward Property Insurance Agent Corp.	Subsidiary
Indovina Bank	Subsidiary
Gemfor Tech. Co.	Their Chairman of the Board is the director of the Bank
Taipei Smart Card Corp.	Investee company
China England Company Ltd. and etc.	Investee company of the Bank's subsidiaries
Culture and Charity Foundation of the UWCCB	The Bank is the major sponsor of the Foundation
Taiwan Cooperative Bank, 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:

(1) Account balances

Account/Related parties	June 30,				
	2002		2003		
	NT\$	% of account	NT\$	US\$	% of account
Due from Banks					
Taiwan Cooperative Bank	\$115,335	9.46%	\$-	-	-
Bank of Taiwan	102,664	8.42%	-	-	-
Others	51,553	4.23%	-	-	-

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Account/Related parties	June 30,				
	2002		2003		
	NT\$	% of account	NT\$	US\$	% of account
Due to Banks					
Cathay United Bank	-	-	83	2	-
Directorate General of Postal					
Remittances & Savings Bank	22,180,803	90.71%	-	-	-
Others	114,272	0.47%	-	-	-
Bills and loans	2,281,249	1.46%	835,354	24,136	0.21%
Deposits	10,424,055	1.91%	13,396,214	387,062	2.60%

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

Call Loans to Banks	Maximum balance		June 30 balance		Interest		Interest rate
	NT\$	US\$	NT\$	US\$	NT\$	US\$	
<u>Jan. 1~June 30, 2002</u>							
Bank of Taiwan	\$3,266,560	\$94,382	\$266,560	\$7,702	\$2,212	\$64	1.82%- 3.46%
The International Commercial							1.91%-
Bank of China	1,465,980	42,357	967,670	27,959	4,822	139	3.65%
Taipei Bank	1,525,075	44,065	503,550	14,549	4,052	117	2.20%- 2.28%
Central Trust of China	402,840	11,639	402,840	11,639	1,682	49	2.08%- 2.22%
Taiwan Cooperative Bank	3,157,920	91,243	-	-	533	15	0.03%- 2.28%
Land Bank of Taiwan	2,335,700	67,486	335,700	9,700	2,461	71	1.84%- 2.20%
Others	1,847,120	53,370	201,420	5,820	4,838	140	1.78%- 2.30%
<u>Jan. 1~June 30, 2003</u>							
Cathay United Bank	\$1,038,300	\$30,000	\$761,420	\$22,000	\$4,668	\$135	1.31%- 1.54%

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Call Loans from Banks	Maximum balance		June 30 balance		Interest		Interest rate
	NT\$	US\$	NT\$	US\$	NT\$	US\$	
<u>Jan. 1~June 30, 2002</u>							
The International Commercial Bank of China	\$2,720,740	\$78,611	\$436,410	\$12,609	\$3,496	\$101	1.66%- 2.00%
Bank of Taiwan	6,353,600	183,577	-	-	13,950	403	2.08%- 2.40%
Chiao Tung Bank	2,507,100	72,439	503,550	14,549	2,126	61	1.87%- 2.71%
Lank Bank of Taiwan	1,028,625	29,720	167,850	4,850	2,550	74	0.07%- 1.90%
Central Trust of China	7,028,400	203,074	4,028,400	116,394	9,368	271	1.71%- 2.20%
Taiwan Cooperative Bank	3,350,050	96,794	-	-	2,074	60	1.68%- 2.30%
Others	5,783,620	167,108	271,620	7,848	5,464	158	0.04%- 2.30%
<u>Jan. 1~June 30, 2003</u>							
Cathay United Bank	\$-	\$-	\$-	\$-	\$-	\$-	-

Transactions with related parties are similar to those with third parties dealt with in the ordinary course of business.

(2) Lease

Related parties	Jan. 1~ June 30,	
	2002	2003
	New Taiwan Dollars	U.S. Dollars
<u>Rental income</u>		
Seaward Leasing Ltd.	\$1,036	\$998
Taipei Smart Card Corp.	-	4,020
Culture and Charity Foundation of the UWCCB	250	250
		7
<u>Rental Expense</u>		
Seaward Leasing Ltd.	\$-	\$257
		\$7
Related parties	June 30,	
	2002	2003
<u>Refundable deposits</u>		
Seaward Leasing Ltd.	\$42,000	\$42,090
		\$1,216

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Related parties	Jan. 1~ June 30,	
	2002	2003
	New Taiwan Dollars	U.S. Dollars
(3) <u>Insurance expense</u>		
Cathay Life Insurance Co., Ltd.	\$-	\$67,353
		\$1,946
(4) <u>Commissions and handling fees</u>		
Seaward Futures Corp.	\$609	\$1,432
		\$41
(5) <u>Credit card processing charges</u>		
Seaward Futures Corp.	\$119,829	\$159,134
		\$4,598

Related parties	June 30,	
	2002	2003
	New Taiwan Dollars	U.S Dollars
(6) <u>Accrued expenses</u>		
Seaward Card Co., Ltd.	\$23,413	\$27,547
		\$796

(7) Property transactions

- a. The Bank has received the contract price of NT\$27,739 thousand from Seaward Leasing Ltd. for the disposal of real estate in 2002.
- b. As of June 30, 2003, the Bank has paid NT\$792 thousand of total purchase amount of NT\$1,980 thousand for the web design service provided by Gemfor Tech Co.
- c. The Bank has purchased equipment amounting to NT\$32,881 thousand from Gemfor Tech Co during the six months of 2002.
- d. The Bank has paid the project and construction management services fee to Taiwan Real-estate Management Corp. for NT\$1,338 thousand and NT\$398 thousand during the six months of 2002 and 2003, respectively.
- e. The Bank has paid the typing system for 24-hour self-service banking center to Sanching Engineering Corp. for NT\$ 3,020 thousand during the six months of 2003.

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.

VI. ASSETS PLEDGED OR MORTGAGED

See Note IV

VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of June 30, 2003, the Bank had the following commitments and contingent liabilities, which are not, reflected in the abovementioned financial statements:

	NT\$	US\$
1. Collection and Guarantee Assets and Liabilities		
Securities purchased under agreements to resell	\$11,733,827	\$339,030
Securities sold under agreements to repurchase	19,756,812	570,841
Trust and security held for safe keeping	428,273,850	12,374,281
Guarantees on duties and contracts	12,494,004	360,994
Unused commercial letters of credit	2,087,146	60,305
Loan commitments	20,067,775	579,826
Credit card lines	40,865,144	1,180,732
Travelers checks for sale	735,524	21,252
Bills for collection	56,886,490	1,643,643
Stamp tax, securities and memorial currency consignments in	3,128	90

2. As of June 30, 2003, the Bank had various lawsuits, claims and proceedings considered normal to its operations are pending against the Bank, the most significant ones are described below:

(1) In 1997, the certificate of certified deposit in the amount of NT\$600 million with Chung Shing Bank 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 claiming the NT\$600 million.

(2) In 1996, the clients claimed that the bank was responsible for making restitution for the amount of approximately NT\$24,000 thousand because safe deposits were stolen at Chung-Li Branch. The higher court held the bank responsible for making restitution for NT\$12,634 thousand. The Bank has filed an appeal. The claim is still being processed by the higher Court. The Bank also has filed insurance claims against Taiwan Secom Co., Ltd. related to the loss mentioned above.

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- (3) In 2001 unauthorized transactions were made by the Bank's employees for the amount of approximately NT\$60,204 thousand and NT\$89,307 thousand, respectively. The Bank has held the employee's personal properties or related deposits by court order or as collateral which maybe 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 June 30, 2003, the Bank has entered into certain contracts to purchase premises and equipments totaling NT\$563,818 thousand with prepayments of NT\$383,528 thousand.

4. Derivative Financial Instruments

In the normal course of business, the Bank entered into various derivative contracts, including forward exchange contracts, interest rate swaps, and cross-currency interest rate swaps, and options. These financial instruments involve varying degrees of risks. These transactions are typically customer-driven and are not for trading purpose. The related informations are as follows:

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

Derivative Financial Instruments	June 30, 2002		June 30, 2003	
	Notional Amount	Credit Risk	Notional Amount	Credit Risk
Foreign Exchange Contracts				
Forward Contracts				
Commitments to purchase	\$182,305	\$942	\$571,804	\$4,908
Commitments to sell	424,709	3,414	263,880	1,874
Options				
Purchase	-	-	2,410	5
Sell	-	-	2,410	-
Interest Rate Contract, Interest rate swaps	168,251	2,142	203,574	8,981
Cross-currency interest rate swaps	95,184	1,445	89,058	435

Credit risk is the possibility of loss if a counter-party fails to perform its contractual obligations under the terms of a derivative financial instrument. The above amount of credit risk represents losses which the Bank would suffer if counterparties failed to perform according to the terms of the contract after the effects of master netting agreements.

Foreign exchange contracts constitute agreements to exchange designated currencies at a 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. Such collateral is generally deemed necessary over the life of the contract to reduce the Bank's credit exposure in foreign exchange contracts.

Cross-currency interest rate swaps entered into by the Bank, which have remaining maturities from two month to three years on June 30, 2003 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 re-exchange of the principal balance at a specified future date. The above nontrading swap transactions are used to hedge the Bank's foreign marketable securities, foreign certificates of deposit 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 risks associated with these swap contracts are limited to some extent.

Interest rate swaps entered into by the Bank with remaining maturities ranging from two years and eight months to approximately five years on June 30, 2003, represent agreements between two parties to exchange periodic interest payments, most often fixed versus floating, based on a notional principal amount.

To limit the credit exposure arising from option transactions, the Bank maintains its transactions with major financial institutions or parties who have deposits in the Bank. Consequently, the Bank does not anticipate 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)

<u>Items</u>	<u>June 30, 2002</u>	<u>June 30, 2003</u>
Interest rate risk	\$41,309	\$56,268
Foreign exchange risk	155,051	467,787

The overall market risk of the Bank's derivative financial instruments is less than the aggregate market risk of individual instruments mentioned above.

(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>June 30, 2002</u>	<u>June 30, 2003</u>
0-1 year	\$1,749	\$2,613
1-2 year	979	5,021
2-3 year	955	5,021
3-4 year	916	3,900
4 year	553	3,314

The uncertainty in future interest rate and foreign exchange rate fluctuations will affect the above expected cash outflow. The longer the time frame, the more uncertainty there will be.

The liquidity of forward exchange contracts, which are entered into by the Bank with customers, could be low. However, when the Bank provides these financial instruments to its customers as a hedging instrument, it requires customers to provide

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related trading documents for approval. Since the Bank and customers both commit to perform according to the terms of forward exchange contracts, the liquidity risk of forward exchange contracts, the liquidity risk of forward exchange contracts should be immaterial. In the meantime, the Bank also enters into forward exchange contracts with international financial institutions. The liquidity risk of this type of transaction is very low because it could buy or sell forward 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 a lesser extent because most of the trading participants will hold these financial statements to maturity.

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

Items	Notional Amount	
	June 30, 2002	June 30, 2003
Interest rate swaps	\$168,251	\$203,574
Cross-currency interest rate swaps	95,184	89,058

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

When the Bank entered into forward foreign exchange contracts for trading purposes, the Bank will record a receivable and a corresponding payable based on the contracted foreign exchange amount at the contracted forward rate. At each financial reporting date, the Bank will adjust the receivable amount based on the spot rate and recognize the differences as gains or losses in the statements of income. Upon settlement, gains or losses resulting from the difference between the foreign exchange amount at the spot rate and the carrying amount of the receivable are credited or charged to statement of income. In addition, for financial presentation purposes, balances of these receivable and payable are netted.

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 an

adjustment of interest income.

For options contracts only memorandum entires of notional principal are made on the contract date. Premiums paid or received for options purchased or sold are recorded as asset or liabilities. As of the balance sheet date, options are marked to market and the resulting gains and losses are recognized in earnings. Gain and losses on the exercise of options are recognized in the statement of income.

(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 various type of loans and credit card services. The term for the related loans varies 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 irrecoverable obligation to pay a third-party beneficiary in the event that a customer fails to meet a financial or performance obligation and the dates of guarantees for maturity are not in one particular period.

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

	June 30,		
	2002	2003	
	New Taiwan Dallars	U.S Dollars	
Securities purchase under agreements to resell	\$7,936,669	\$11,733,827	\$339,030
Securities sold under agreements to repurchase	22,671,619	19,756,812	570,841
Loan commitments	22,137,375	20,067,775	579,826
Credit card lines	31,572,652	40,865,144	1,180,732
Guaranty and Commercial letters of credit	19,438,260	14,581,150	421,299

These financial instruments may not be fully paid before or at maturity. Therefore, the total 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 is approximately equal to the contractual amount if borrowers failed to perform according to the terms of the

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contract, causing the existing collateral to become worthless.

The Bank maintains a strict policy to evaluate customers' credit rating when providing securities sold under agreements to repurchase, securities purchased under agreements to resell, loan commitments, and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loans, and the Bank retains the legal right to foreclose or liquidated the collateral. Generally, the collateral includes cash, real estate, securities, or other properties. Credit card lines are not secured and may be cancelled by the Bank following periodic review of the customers' credit status.

VIII. SIGNIFICANT DISASTER LOSS

None.

IX. SIGNIFICANT SUBSEQUENT EVENT

None.

X. OTHERS

1. Fair Value of Financial Instruments

As of June 30, 2002 and 2003, except for the table summarize below, the carrying amounts of financial assets and liabilities reported on the balance sheets are approximate their carrying values:

Financial Assets	June 30,					
	2002		2003			
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	New Taiwan Dollars			U.S. Dollars		
Securities purchased	\$127,887,983	\$128,081,457	\$129,082,092	\$131,047,757	\$3,729,618	\$3,786,413
Investments	12,301,886	12,455,789	12,067,344	12,213,341	348,666	352,885

Fair value amounts of securities purchased and 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 counterparties of financial instruments transactions are significantly concentrated on one particular person or where most of the counterparties perform similar business or have similar business characteristics, the Bank is exposed to credit risk when counterparties fail to fulfill contract obligations under certain economic circumstances. The Bank mitigates the above risk by diversifying counterparties and customers. The total below summarizes the above risk by type of industry and geographic region:

	June 30,		
	2002	2003	
	New Taiwan Dallar	U.S Dollars	
Bills and loans, customers' liabilities under acceptances and guarantees account			
Geographic Region			
Domestic	\$407,133,110	\$399,071,823	\$11,530,535
South East Asia	8,269,819	7,990,519	230,873
North East Asia	519,136	515,086	14,883
North America	6,256,667	6,500,999	187,836
Others	6,507,884	4,007,970	115,804
Total	<u>\$428,686,616</u>	<u>\$418,086,397</u>	<u>\$12,079,931</u>
Industry type			
Manufacturing	\$54,065,804	\$52,282,187	\$1,510,609
Financial institutions and insurance	29,788,629	24,325,067	702,834
Leasing and real estate	80,672,238	65,832,545	1,902,125
Individuals	162,970,846	173,997,156	5,027,367
Others	101,189,099	101,649,442	2,936,996
Total	<u>\$428,686,616</u>	<u>\$418,086,397</u>	<u>\$12,079,931</u>
Credit Card			
Gold card	\$8,290,074	\$10,004,382	\$289,061
Regular card	2,330,135	2,551,810	73,730
Advance	1,724	4,060	117

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Total	\$10,621,933	\$12,560,252	\$362,908
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The amount of possible losses for the above credit-related loan approximated to notional amounts if borrowers failed to perform according to the terms of the contract, causing the existing collateral become worthless.

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

	Jan. 1~ June 30, 2002	
	Average balance	Average rate
	NT\$	(%)
Assets		
Due from Central Bank	\$29,799,628	1.84%
Time certificate, accepted bills... etc.	119,885,106	2.50%
Due from other banks	24,362,712	2.35%
Bills and Loans	387,466,587	5.92%
Government and corporate bonds	52,192,330	4.66%

Liabilities		
Due to banks	\$38,299,136	2.75%
Demand deposits	58,976,555	0.76%
Saving deposits	312,940,581	1.91%
Certified deposits	192,293,267	2.55%
Negotiable certificates of certified deposits	8,400,823	2.77%
Bank's acceptances and fund borrowed	2,617,737	2.26%

	Jan. 1~ June 30, 2003		
	Average balance		Average rate
	NT\$	US\$	(%)
Assets			
Due from Central Bank	\$25,526,182	\$737,538	1.63%
Time certificate, accepted bills... etc.	72,042,845	2,081,562	1.83%
Due from other banks	31,295,649	904,237	1.39%
Bills and loans	382,263,334	11,044,881	4.53%
Government and corporate bonds	75,472,641	2,180,660	3.66%
Liabilities			
Due to banks	45,732,719	1,321,373	1.25%
Demand deposits	60,944,549	1,760,894	0.21%
Saving deposits	293,218,239	8,472,067	0.92%
Certified deposits	147,564,433	4,263,636	1.57%

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Negotiable certificates of certified deposits	4,869,414	140,694	1.48%
Banker's debenture	10,833,333	313,012	4.23%
Bank's acceptances and fund borrowed	2,379,176	68,742	1.69%

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(3) Regulatory capital ratio

Pursuant to Banking Law, in order to provide a sound financial position for bank, the ratio of a 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 June 30, 2002 and 2003 the ratio of the Bank's shareholders' equity to its risk-weighted assets were 9.95%. and 10.96%, respectively.

(4) As of June 30, 2002 and 2003, the amounts of insurance coverage for the Bank's premises and equipments were NT\$5,864,566 thousand and NT\$6,251,543 thousand, respectively.

(5) Certain accounts for the financial statements of the six-month periods ended June 30, 2002 have been reclassified to conform to the current presentation.

(6) To meet the requirement of the Bank Law and the related regulations, the directors of the Bank and the Cathay United Bank have resolved at their special meeting for the merger of the Banks, the Bank is the Surviving company, while the Cathay United Bank is the merged company.

(7) The trust balance sheet and details of trust properties are as follows:

Balance Sheet

June 30,2003

	Trust Assets			Trust Liabilities	
	New Taiwan Dollars	U.S. Dollars		New Taiwan Dollars	U.S. Dollars
Cash	\$517,707	\$1,494	Trust Liabilities		
Mutual Funds	10,000	289	Money	\$22,174,032	\$640,683
Trust Funds	22,164,002	640,393	Real Estate	1,982,029	57,267
Fixed Assets	1,930,352	55,774			
Total	<u>\$24,156,061</u>	<u>\$697,950</u>	Total	<u>\$24,156,061</u>	<u>\$697,950</u>

Details of Trust Properties

June 30,2003

Item	Amount	
	New Taiwan Dollars	U.S. Dollars
Mutual Funds	\$10,000	\$289
Trust Funds	22,164,002	640,393
Fixed Assets	1,930,352	55,774

English Translation of Financial Statements Originally Issued in Chinese

Total	<u>\$24,104,354</u>	<u>\$696,456</u>
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