

UNITED WORLD CHINESE COMMERCIAL BANK
FINANCIAL STATEMENTS
TOGETHER WITH REVIEW REPORT
FOR THE NINE-MONTH PERIODS ENDED
SEPTEMBER 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.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors and Shareholders
United World Chinese Commercial Bank

We have reviewed the accompanying balance sheets of United World Chinese Commercial Bank (the “Bank”) as of September 30, 2002 and 2003, and the related statement of income and cash flows for each of the nine-month periods ended September 30, 2002 and 2003. All information included in these financial statements is the representation of the Bank’s management. Our responsibility is to issue a review report on these financial statements based on our review.

Our review was made in accordance with the statements for auditing standards No. 36 “Review of Financial Statements” generally accepted in the Republic of China, which consist principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the Republic of China.

DIWAN, ERNST & YOUNG
Taipei, Taiwan
The Republic of China
October 15, 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 or review 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

UNAUDITED BALANCE SHEETS

SEPTEMBER 30, 2002 AND 2003

(Expressed in thousands of dollars)

ASSETS	NOTES	September 30		
		2002	2003	2003 (Note II)
		New Taiwan Dollars		U.S. Dollars
Cash and cash equivalents	IV	\$26,252,176	\$17,811,150	\$527,269
Due from Central Bank	IV, VI and X	25,101,815	26,960,037	798,106
Due from other banks	IV, V, VI and X	31,296,840	28,701,301	849,654
Securities purchased-net	II, IV, VI and X	117,065,500	150,598,487	4,458,214
Receivables-net	II, IV and X	20,396,855	23,289,606	689,450
Prepayments	IV	1,669,158	969,350	28,696
Bills and loans-net	II, IV, V and X	393,778,417	396,790,672	11,746,319
Investments	II, IV, X and XI			
Equity method		6,327,871	5,587,375	165,405
Cost method		6,215,400	5,996,129	177,505
Premises and equipment	II, V, VII, X and XI			
Cost				
Land		14,184,882	14,437,985	427,412
Building		8,537,424	8,763,182	259,419
Furniture and fixtures		2,499,841	2,739,815	81,108
Transportation equipment		68,590	74,102	2,194
Miscellaneous equipment		2,414,628	2,580,062	76,378
Total Cost		27,705,365	28,595,146	846,511
Less: Accumulated depreciation		(5,282,409)	(5,755,744)	(170,389)
Construction in progress and procurement		611,451	309,403	9,159
Premises and Equipment-net		23,034,407	23,148,805	685,281
Non-operating assets	II	757,325	702,709	20,803
Other assets	IV, V and XI	8,028,379	5,907,235	174,874
Deferred charges	II	135,448	195,308	5,782
TOTAL ASSETS		\$660,059,591	\$686,658,164	\$20,327,358

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

UNAUDITED BALANCE SHEETS

SEPTEMBER 30, 2002 AND 2003

(Expressed in thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	September 30,		
		2002	2003	2003 (Note II)
		New Taiwan Dollars		U.S. Dollars
Due to Central Bank		\$660,305	\$147,182	\$4,357
Due to other banks	IV, V and X	47,148,347	50,147,215	1,484,524
Payables	IV and V	29,495,739	30,005,010	888,248
Advances		1,042,616	933,859	27,645
Deposits and remittances	IV, V and X	516,009,748	528,397,495	15,642,318
Banker's debenture	IV and X	10,000,000	15,000,000	444,050
Bankers acceptances and funds borrowed	IV, V and X	1,882,792	1,952,788	57,809
Long-term liabilities	IV	34,119	34,119	1,010
Reserve for possible losses	II and IV	190,968	67,653	2,003
Other liabilities	IV	1,081,992	684,474	20,262
TOTAL LIABILITIES		607,546,626	627,369,795	18,572,226
Capital stock	IV	37,716,644	39,715,627	1,175,714
Subscribed capital		1,998,982	-	-
Capital reserve	II and IV	5,102,231	4,261,892	126,166
Retained earnings	II and IV			
Legal reserve		17,447,928	9,122,517	270,057
Special reserve		257,488	-	-
Unappropriated earnings		(10,062,805)	6,259,489	185,302
Unrealized losses on long-term investments	II	(59,209)	(181,931)	(5,386)
Conversion adjustments	II	192,866	110,775	3,279
Treasury stock	II and IV	(81,160)	-	-
TOTAL SHAREHOLDERS' EQUITY		52,512,965	59,288,369	1,755,132
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$660,059,591	\$686,658,164	\$20,327,358

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
 UNAUDITED STATEMENTS OF INCOME
 FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2002 AND 2003
 (Expressed in thousands of dollars)

ITEMS	NOTES	January 1- September 30		
		2002	2003	2003 (Note II)
		New Taiwan Dollars		U.S. Dollars
OPERATING INCOME:				
Interest revenue	V	\$22,534,271	\$17,383,506	\$514,609
Commission and handling fees	V	1,365,303	1,907,873	56,479
Commission income of stock brokerage		80,851	94,765	2,805
Gains on sales of securities-net	II	1,262,463	756,362	22,391
Investment income-equity method	II, IV and XI	136,571	379,375	11,231
Investment income-others		66,890	1,051,095	31,116
Profit on exchange-net	II	178,116	164,567	4,872
Other operating income	V	95,286	344,709	10,205
Total operating income		<u>25,719,751</u>	<u>22,082,252</u>	<u>653,708</u>
OPERATING COST:				
Interest expense	V	8,901,406	4,852,464	143,649
Commissions and handling charges		227,745	237,512	7,031
Commission charges of stock brokerage		4,675	6,012	178
Provisions for possible losses	II	24,685,266	3,651,107	108,085
Total operating cost		<u>33,819,092</u>	<u>8,747,095</u>	<u>258,943</u>
OPERATING GROSS MARGIN		<u>(8,099,341)</u>	<u>13,335,157</u>	<u>394,765</u>
OPERATING EXPENSES:				
Business expenses	IV and V	5,449,900	5,350,975	158,406
Administration expenses		3,773	3,738	111
Total operating expenses		<u>5,453,673</u>	<u>5,354,713</u>	<u>158,517</u>
NET OPERATING INCOME (LOSS)		<u>(13,553,014)</u>	<u>7,980,444</u>	<u>236,248</u>
NON-OPERATING INCOME:				
Gains on disposal of premises and equipment	II	1,575	1,728	51
Others		178,231	173,188	5,127
Total non-operating income		<u>179,806</u>	<u>174,916</u>	<u>5,178</u>
NON-OPERATING EXPENSE:				
Losses on disposal of premises and equipment	II	9,637	27,102	802
Others		555,975	814,451	24,111
Total non-operating expense		<u>565,612</u>	<u>841,553</u>	<u>24,913</u>
INCOME (LOSS) BEFORE INCOME TAX		<u>(13,938,820)</u>	<u>7,313,807</u>	<u>216,513</u>
INCOME TAX BENEFIT (EXPENSES)	II and IV	<u>3,651,605</u>	<u>(1,112,000)</u>	<u>(32,919)</u>
NET INCOME (LOSS)		<u>\$ (10,287,215)</u>	<u>\$6,201,807</u>	<u>\$183,594</u>
EARNING (DEFICIT) PER SHARE (In Dollars)				
INCOME (LOSS) BEFORE INCOME TAX		\$(3.71)	\$1.84	\$0.054
INCOME TAX BENEFIT (EXPENSES)		0.97	(0.28)	(0.01)
NET INCOME (LOSS)		<u>\$(2.74)</u>	<u>\$1.56</u>	<u>\$0.046</u>
PRO FORMA INFORMATION (If subsidiaries' investment in UWCCB is not treated as treasury stock)				
NET INCOME (LOSS)		<u>\$ (10,227,240)</u>		
EARNING (DEFICIT) PER SHARE (In Dollars)		<u>\$(2.71)</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
 UNAUDITED STATEMENTS OF CASH FLOWS
 FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2002 AND 2003
 (Expressed in thousands of dollars)

ITEMS	NOTES	January 1- September 30,		2003 (Note II) U.S. Dollars
		2002 New Taiwan Dollars	2003 New Taiwan Dollars	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)		\$(10,287,215)	\$6,201,807	\$183,594
Adjustments to reconcile net income(loss) to net cash provided by operating activities:				
Depreciation and amortization	II	482,916	502,944	14,889
Provisions for possible losses	II	24,685,266	3,651,107	108,085
Premises and equipment transfer to expenses		-	178,522	5,285
Loss (gain) on disposal of premises and equipment and non-operating assets	II	8,062	25,374	751
Investment income recognized by the equity method	II, IV and XI	(117,652)	(379,375)	(11,231)
Cash dividends received from investee companies of which recognized by equity method		26,672	50,802	1,504
Gain on disposal of investments		-	(975,544)	(28,879)
Adjustment of changes in exchange rates		(9,953)	47	1
Increase in receivables		(1,218,718)	(2,378,251)	(70,404)
(Increase) decrease in prepayments		(449,395)	443,986	13,143
(Increase) decrease in securities purchased for trading purposes		(7,315,316)	135,858	4,022
Increase in payables		6,119,218	4,345,446	128,640
Increase (decrease) in advances		275,686	(91,866)	(2,720)
Increase in other liabilities		274,334	-	-
Net cash provided by operating activities		<u>12,473,905</u>	<u>11,710,857</u>	<u>346,680</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from disposal of premises and equipment and non-operating assets		12,612	29,385	870
Addition in premises and equipment		(557,938)	(596,358)	(17,654)
Proceeds from disposal of investments		-	982,797	29,094
Increase in securities purchased for non-trading purposes		(24,428,337)	(44,863,974)	(1,328,122)
Net (increase) decrease in bills and loans		12,457,654	(4,642,757)	(137,441)
(Increase) decrease in other assets		(6,565,460)	1,359,871	40,257
(Increase) decrease in due from other banks		(10,148,009)	2,394,712	70,891
Decrease in due from Central Bank		11,329,933	2,204,731	65,267
Increase in deferred charges		(62,204)	(62,898)	(1,862)
Net cash used in investing activities		<u>(17,961,749)</u>	<u>(43,194,491)</u>	<u>(1,278,700)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase (decrease) in due to Central Bank		315,863	(19,947)	(590)
Increase in due to other banks		12,230,067	6,104,702	180,719
Increase (decrease) in deposits and remittances		(62,524,111)	13,722,137	406,221
Increase in banker's debenture		10,000,000	5,000,000	148,016
Decrease in banker's acceptances and funds borrowed		(1,387,567)	(253,797)	(7,513)
Increase in guaranty and marginal deposits		28,341	49,259	1,458
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		<u>(43,562,689)</u>	<u>24,602,354</u>	<u>728,311</u>
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES		6,414	(62,894)	(1,862)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(49,044,119)	(6,944,174)	(205,571)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		77,034,894	27,309,915	808,464
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	X	<u>\$27,990,775</u>	<u>\$20,365,741</u>	<u>\$602,893</u>
SUPPLEMENT DISCLOSURES OF CASH FLOWS INFORMATION:				
Interest expenses paid		\$9,711,369	\$5,316,662	\$157,391
Income tax paid		\$-	\$188,094	\$5,568

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
NOTES TO UNAUDITED FINANCIAL STATEMENTS
SEPTEMBER 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 27, 2003.

As of September 30, 2002 and 2003, the Bank employed 2,477 and 2,551 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:

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 . 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 to or charged against statement of income . In addition, for financial presentation purposes, balances of these receivable and payable are netted.

English Translation of Financial Statements Originally Issued in Chinese

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 .

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 and 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 .

Forward Rate Agreements (FRA)

Only memo entries of notional principals are made on the contract date for forward rate agreements. For trading FRA, differences in the present value of interest revenue or expense on the balance sheet date are reported as exchange gains or losses. For non-trading FRA, interest receivables or payables accrued per contract rates and the hedged positions are reported as current interest revenue or expense.

4. Securities Purchased

Securities purchased are stated 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, an allowance for the decline in market value is provided, with losses is recognized in the statement of income. 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 method.

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 accrued as earned, based upon the principal amount outstanding.

Bills and loans are placed in delinquent accounts when payments of principal or interest are six month 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 more than 20% are accounted for under the equity method; however, when the Bank has not received the audited financial statements of the equity method investee company with voting rights less than 50% 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' 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 with 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 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 since 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 is 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 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.

The Bank’s tax credits are recognized in the current period according to the ROC SFAS No.12 “Tax Credits”.

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. Contingencies

A loss is recognized if it is probable that an asset will be impaired or 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 footnotes to the financial statements.

18. The interim financial statement

The Bank’s interim financial statements are recorded and disclosed according to the ROC SFAS No.23 “Interim Financial Report and Disclosures”.

English Translation of Financial Statements Originally Issued in Chinese

19. Basis for Converting Financial Statements

The Bank's financial statements are stated in NT dollars. Conversion of the September 30, 2003 NT dollar amounts into US dollar amounts is provided solely for the convenience of the readers, using the noon buying rate of NT33.78 to US\$1.00 on September 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

	September 30,	
	2002	2003
	New Taiwan Dollars	U.S. Dollars
Cash on hand	\$6,253,479	\$6,532,910
Checks for clearance	4,072,697	122,772
Cash equivalents-certified deposits	15,926,000	211,101
Total	<u>\$26,252,176</u>	<u>\$17,811,150</u>

2. DUE FROM CENTRAL BANK

	September 30,	
	2002	2003
	New Taiwan Dollars	U.S. Dollars
Deposit reserve	\$9,598,825	\$14,971,908
General account	9,266,990	170,282
Deposit in Central Bank	6,236,000	184,606
Total	<u>\$25,101,815</u>	<u>\$26,960,037</u>

3. DUE FROM OTHER BANKS

	September 30,	
	2002	2003
	New Taiwan Dollars	U.S. Dollars
Due from banks	\$1,843,288	\$4,972,733
Call loans to banks	29,453,552	702,444
Total	<u>\$31,296,840</u>	<u>\$849,654</u>

English Translation of Financial Statements Originally Issued in Chinese

4. SECURITIES PURCHASED-NET

	September 30,		
	2002	2003	
	New Taiwan Dollars	New Taiwan Dollars	U.S. Dollars
Stock	\$5,059,095	\$4,399,868	\$130,251
Mutual funds	2,108,403	2,661,793	78,798
Government and corporate bonds	61,511,140	50,907,966	1,507,044
Certificates of deposit	47,115,188	90,454,496	2,677,753
Commercial papers	2,141,999	2,614,438	77,396
Others	-	20,260	600
Total	117,935,825	151,058,821	4,471,842
Less: Allowance for decline in market price of securities	(870,325)	(460,334)	(13,628)
Net	<u>\$117,065,500</u>	<u>\$150,598,487</u>	<u>\$4,458,214</u>

(1) Securities purchased of NT\$16,293,367 thousand and NT\$14,375,164 thousand at September 30, 2002 and 2003, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) Securities purchased of NT\$1,738,599 thousand and NT\$2,554,591 thousand at September 30, 2002 and 2003, respectively, were considered as part of cash equivalents.

5. RECEIVABLES-NET

	September 30,		
	2002	2003	
	New Taiwan Dollars	New Taiwan Dollars	U.S. Dollars
Accounts receivable	\$10,978,545	\$15,989,522	\$473,343
Accrued interest receivable	3,989,798	3,072,865	90,967
Customers' liabilities under acceptances	449,080	251,103	7,434
Tax refund	199,343	453,074	13,413
Securities purchased under agreements to resell	3,120,741	2,402,821	71,131
Others	2,287,692	1,668,236	49,385
Total	21,025,199	23,837,621	705,673
Less: Allowance for doubtful accounts	(628,344)	(548,015)	(16,223)
Net	<u>\$20,396,855</u>	<u>\$23,289,606</u>	<u>\$689,450</u>

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

English Translation of Financial Statements Originally Issued in Chinese

6. PREPAYMENTS

	September 30,	
	2002	2003
	New Taiwan Dollars	U.S. Dollars
Inter-bank clearing funds	\$800,681	\$821,762 \$24,327
Others	868,477	147,588 4,369
Total	\$1,669,158	\$969,350 \$28,696

7. BILLS AND LOANS-NET

	September 30,	
	2002	2003
	New Taiwan Dollars	U.S. Dollars
Inward-outward documentary bills purchased	\$914,376	\$892,428 \$26,419
Loans	378,388,005	392,428,795 11,617,193
Overdrafts	1,388,754	716,432 21,209
Delinquent accounts	23,650,076	9,346,366 276,683
Total	404,341,211	403,384,021 11,941,504
Less: Allowance for doubtful accounts	(10,562,794)	(6,593,349) (195,185)
Net	\$393,778,417	\$396,790,672 \$11,746,319

(1) Delinquent accounts, where the accrual of interest ceased, amounted to NT\$23,650,076 thousand and NT\$9,346,366 thousand at September 30, 2002 and 2003, respectively. Unrecognized interests were NT\$1,003,128 thousand and NT\$358,380 thousand for the nine-month periods ended September 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 nine-month periods ended September 30, 2002 and 2003 respectively.

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	January. 1 ~ September 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	22,399,745	-	22,399,745
Write-off	(16,707,219)	-	(16,707,219)
Recoveries	1,282,027	-	1,282,027
Reclassification	(356,346)	356,346	-
Effects of changes in foreign exchange rates	8	(432)	(424)
Balance, end of the period	<u>\$10,583,250</u>	<u>\$607,888</u>	<u>\$11,191,138</u>

	January. 1 ~September 30, 2003					
	Allocated allowance		Unallocated portion		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance, beginning of the period	\$6,624,009	\$196,093	\$236,724	\$7,007	\$6,860,733	\$203,100
Provision of doubtful account	3,118,871	92,329	-	-	3,118,871	92,329
Write-off	(5,662,749)	(167,636)	-	-	(5,662,749)	(167,636)
Recoveries	2,834,014	83,896	-	-	2,834,014	83,896
Reclassification	(1,442,847)	(42,713)	1,442,847	42,713	-	-
Effects of changes in foreign exchange rates	-	-	(9,505)	(281)	(9,505)	(281)
Balance, end of the period	<u>\$5,471,298</u>	<u>\$161,969</u>	<u>\$1,670,066</u>	<u>\$49,439</u>	<u>\$7,141,364</u>	<u>\$211,408</u>

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.

English Translation of Financial Statements Originally Issued in Chinese

8. INVESTMENTS

	September 30,				
	2002		2003		
	NT\$	% of ownership	NT\$	US\$	% of ownership
Equity Method					
Seaward Futures Corp.	\$1,676,048	99.82	\$1,671,020	\$49,468	99.82
Seaward Leasing Ltd.	2,070,400	99.97	2,171,173	64,274	99.97
Huong Yee Co., Ltd.	649,511	99.99	-	-	-
Seaward Insurance Agent Corp.	39,435	99.99	40,325	1,194	99.99
Seaward Card Co., Ltd.	34,008	99.99	40,280	1,193	99.99
Indovina Bank	462,105	50.00	443,882	13,140	50.00
Taiwan Real-estate Management Corp.	67,307	30.15	54,162	1,603	30.15
Taiwan Finance Corp.	1,416,826	24.57	1,196,385	35,417	24.57
Seaward Property Insurance Agent Corp.	-	-	2,000	59	99.99
Subtotal	6,415,640		5,619,227	166,348	
Less: Unrealized gain from intercompany transactions	(87,769)		(31,852)	(943)	
Investment in equity method	6,327,871		5,587,375	165,405	
Cost Method (Lower of Cost or Market)					
Pan Overseas Corp.	7,525	0.61	-	-	-
China Bills Finance Corp.	224,508	2.86	109,848	3,252	1.40
Taiwan Fertilizer Co., Ltd.	104,173	0.58	104,173	3,084	0.58
Chunghwa Telecom Co., Ltd.	566,862	0.11	438,037	12,967	0.09
Cost Method					
International Securities Investment Trust Co., Ltd.	4,900	4.74	4,900	145	4.74
Wallant International Trade Inc.	-	2.51	-	-	2.51
Central Deposit Insurance Corp.	10	-	10	-	-
Chinese Products Promotion Center	1,850	4.87	1,850	55	4.87
Han Tech Venture Capital Corp.	154,927	7.93	154,927	4,586	7.93
Taiwan Securities Central Depository Co., Ltd.	1,850	0.18	1,850	55	0.18
Taipei Forex Inc.	8,000	4.04	8,000	237	4.04
Global Securities Finance Corp.	161,930	2.45	161,930	4,794	2.45
An Feng Enterprise Co., Ltd.	4,500	15.00	4,500	133	15.00
Euroc II Venture Capital Corp.	40,000	5.00	40,000	1,184	5.00
Taiwan International Merchandise Exchange Corp.	12,500	0.63	12,500	370	0.63
Strategic Value Fund, Limited Partnership	138,280	-	170,019	5,033	-
Chan Sheng Investment Development Co., Ltd.	127,400	4.90	127,400	3,772	4.90
CDIB & Partners Investment Holding Corp.	500,000	4.95	500,000	14,802	4.95

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Financial Information Service Co., Ltd.	45,500	1.14	45,500	1,347	1.14
Sheng-Hua Venture Capital Corp.	50,000	2.50	50,000	1,480	2.50
IBU Securities Co., Ltd.	1,045,000	10.31	1,045,000	30,936	10.31
Latin America Development Co., Ltd.	6,250	1.79	6,250	185	1.79
Capital Venture Fund II Corp.	30,000	5.00	30,000	888	5.00
ProTec Capital Corp.	8,000	4.88	8,000	237	4.88
Fu Yu Venture Capital Investment Corp.	50,000	3.70	50,000	1,480	3.70
Taipei Smart Card Corp.	25,000	5.00	25,000	740	5.00
New Century InfoComm Co., Ltd.	864,000	1.68	864,000	25,577	1.68
Harbinger Venture Capital Corp.	67,000	3.35	67,000	1,984	3.35
United Venture Capital Corp.	40,000	4.52	40,000	1,184	4.52
Centillion Venture Capital Corp.	60,000	5.00	60,000	1,776	5.00
Taiwan Asset Management Corp.	1,000,000	5.68	1,000,000	29,603	5.68
Taipei Financial Center Corp.	400,000	2.35	400,000	11,841	2.35
Taiwan Financial Asset Service Corp.	50,000	2.94	50,000	1,480	2.94
Kaohsiung Rapid Transit corp.	299,000	2.99	299,000	8,851	2.99
Taiwan Cooperative Bank	116,435	0.21	116,435	3,447	0.21
Investment in cost method	<u>6,215,400</u>		<u>5,996,129</u>	<u>177,505</u>	
Total	<u>\$12,543,271</u>		<u>\$11,583,504</u>	<u>\$342,910</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 their special meeting. And the process of liquidation had been completed in July 2003.
- (3) The long-term investments and related investment gains accounted for by the equity method for the nine-month periods ended September 30, 2002 and 2003 were recognized in accordance with the financial statements prepared by the investee companies. No material adjustments are anticipated, if the Bank recognized gains or losses by the audited or reviewed reports of the investee companies.
- (4) Up to September 30, 2003, the Bank has recognized the unrealized losses of NT\$181,931 thousand on long-term investment of Seaward Leasing Ltd.
- (5) Since January 1, 2002, the Bank has adopted SFAS No. 30 to account for its stock held by its subsidiaries as treasury stock.

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9. OTHER ASSETS

	September 30,	
	2002	2003
	New Taiwan Dollars	U.S Dollars
Refundable deposits	\$675,996	\$548,129 \$16,227
Pledged assets taken-over	3,318,021	2,911,331 86,185
Deferred tax assets	4,034,362	2,447,775 72,462
Total	\$8,028,379	\$5,907,235 174,874

10. DUE TO OTHER BANKS

	September 30,	
	2002	2003
	New Taiwan Dollars	U.S Dollars
Due to banks	\$24,217,873	\$24,451,336 \$723,841
Overdrafts from banks	1,104,835	632,581 18,726
Call loans from banks	21,825,639	25,063,298 741,957
Total	\$47,148,347	\$50,147,215 \$1,484,524

11. PAYABLES

	September 30,	
	2002	2003
	New Taiwan Dollars	U.S Dollars
Accounts payable	\$4,452,060	\$5,111,413 \$151,315
Accrued interest	2,597,833	1,736,862 51,417
Accrued expenses	288,684	318,510 9,429
Income tax payable	84,112	- -
Acceptances	456,883	270,223 8,000
Collection for customers	1,641,332	2,529,226 74,873
Securities sold under agreements to repurchase	15,702,407	16,041,680 474,887
Others	4,272,428	3,997,096 118,327
Total	\$29,495,739	\$30,005,010 \$888,248

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12. DEPOSITS AND REMITTANCES

	September 30,		
	2002	2003	
	New Taiwan Dollars	New Taiwan Dollars	U.S Dollars
Check deposits	\$7,955,256	\$10,823,714	\$320,418
Demand deposits	44,862,847	53,787,167	1,592,279
Certified deposits	141,897,944	99,751,705	2,952,981
Saving deposits	283,612,115	324,463,597	9,605,198
Foreign currencies deposits	37,376,351	39,321,378	1,164,043
Outward remittances	5,791	373	11
Remittances payable	299,444	249,561	7,388
Total	\$516,009,748	\$528,397,495	\$15,642,318

13. BANKER'S DEBENTURE

	September 30,		
	2002	2003	
	New Taiwan Dollars	New Taiwan Dollars	U.S Dollars
Banker's debenture	\$-	\$5,000,000	\$148,017
Subordinate Banker's debenture	10,000,000	10,000,000	296,033
Total	\$10,000,000	\$15,000,000	\$444,050

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.

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14. BANKER'S ACCEPTANCES AND FUNDS BORROWED

	September 30,		
	2002	2003	
	New Taiwan Dollars	U.S Dollars	
Borrowed funds-Central Bank	\$1,398,601	\$1,416,728	\$41,940
Borrowed funds-Others	484,191	536,060	15,869
Total	<u>\$1,882,792</u>	<u>\$1,952,788</u>	<u>\$57,809</u>

15. LONG-TERM LIABILITIES

	September 30,		
	2002	2003	
	New Taiwan Dollars	U.S Dollars	
Reserve for land value increment tax	\$34,119	\$34,119	\$1,010

16. RESERVES FOR POSSIBLE LOSSES

	September 30,		
	2002	2003	
	New Taiwan Dollars	U.S Dollars	
Reserve for losses on guarantees	\$152,453	\$18,796	\$556
Reserve for losses on stock brokerage transactions	35,132	38,403	1,137
Reserve for losses on trading securities	3,383	10,454	310
Total	<u>\$190,968</u>	<u>\$67,653</u>	<u>\$2,003</u>

17. OTHER LIABILITIES

	September 30,		
	2002	2003	
	New Taiwan Dollars	U.S Dollars	
Guarantee and margin deposits	\$649,367	\$684,474	\$20,262
Others	432,625	-	-
Total	<u>\$1,081,992</u>	<u>\$684,474</u>	<u>\$20,262</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.

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On May 30, 2002, the Bank's shareholders determined to increase capital for NT\$1,998,982 thousand by transfer from unappropriate earnings and employees' special bonus of NT\$1,433,232 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

	September 30,	
	2002	2003
	New Taiwan Dollars	U.S Dollars
Additional paid-in capital	\$4,249,096	\$4,249,096
Capital reserves from merger of investee companies	773,348	-
Capital reserves from investee companies of which recognized by the equity method, and etc.	62,757	2,399
Capital reserves from treasury stock	17,030	10,397
Total	<u>\$5,102,231</u>	<u>\$4,261,892</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%.

English Translation of Financial Statements Originally Issued in Chinese

- (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 government's 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. 9,036 thousand shares of the Bank's stocks were sold by Seaward Leasing Ltd., and the transaction was treated as sales of treasury stocks in 2002. Consequently, the amount of \$17,030 thousand was adjusted into the capital reserve account. As of September 30, 2002, 5,249 thousand shares of Bank's stock held by its subsidiary with amount of NT\$124,143 thousand.

22. PENSION

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

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23. OPERATING EXPENSES

	September 30,	
	2002	2003
	New Taiwan Dollars	U.S Dollars
Personnel expenses		
Salary expenses	\$1,921,308	\$1,898,450
Insurance expenses	181,719	191,612
Pension expenses	231,106	247,070
Others	377,096	409,695
Depreciation expenses	445,592	456,296
Amortization expenses	37,324	46,648
Total	<u>\$3,194,145</u>	<u>\$3,249,771</u>

24. INCOME TAX

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

	January. 1~September 30,	
	2002	2003
	New Taiwan Dollars	U.S Dollars
Income tax payable:		
Domestic income tax:		
General (tax rate 25%)	\$-	\$-
Interest on short-term negotiable instruments (tax rate 20%)	280,263	73,404
Foreign branches' income tax	32,727	33,402
Deferred tax (benefit) expenses:		
Employees' welfare	5,628	-
Allowance for bad debt	(1,740,188)	(104,716)
Allowance for pledged assets taken-over	(460,857)	(131,115)
Provisions for possible losses	(503)	(6,240)
Foreign investment income recognized by the equity method	1,639	5,390
Operating loss carryforwards	(1,744,116)	1,317,897
Others	(302)	(3,284)
10% additional income tax on unappropriated earnings	7,192	-
Adjustment of prior period's income tax	(33,088)	(72,738)
Income tax (benefit) expenses	<u>\$ (3,651,605)</u>	<u>\$ 32,919</u>

English Translation of Financial Statements Originally Issued in Chinese

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

	September 30,		
	2002	2003	
	New Taiwan Dollars	U.S Dollars	
Taxable temporary differences:			
Unrealized losses from intercompany transactions	\$25,455	\$24,695	\$732
Others	35,073	66,908	1,981
Deductible temporary differences:			
Allowance for bad debts	6,960,750	2,981,101	88,250
Allowance for pledged assets taken-over	1,843,430	2,351,610	69,615
Unrealized gain from intercompany transactions	20,460	19,849	588
Pension expenses exceed the limit of tax law	72,098	75,809	2,244
Provisions for possible losses	52,625	78,267	2,317
Others	102,386	105,349	3,119
Operating loss carryforwards	6,976,463	4,069,727	120,477
Investment Credit	\$3,134	\$7,851	\$232
Deferred income tax assets of foreign branches	\$39,307	\$42,397	\$1,255

	September 30,		
	2002	2003	
	New Taiwan Dollars	U.S Dollars	
(3) Deferred tax assets	\$4,049,494	\$2,470,676	\$73,140
Deferred tax liabilities	(15,132)	(22,901)	(678)
Net deferred tax assets	<u>\$4,034,362</u>	<u>\$2,447,775</u>	<u>\$72,462</u>

(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.

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- (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:

	September 30,	
	2002	2003
	New Taiwan Dollars	U.S Dollars
Shareholders' deductible income tax account	\$315,404	\$165,507 \$4,900
Unappropriated earnings (accumulated deficit)	(10,062,805)	6,259,489 185,302

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%

25. EARINGS (DEFICIT) PER SHARE

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

	January. 1~September 30, 2002	January. 1~September 30, 2003
Weighted-averaged number of shares (In thousand shares)	<u>3,760,422</u>	<u>3,971,563</u>

English Translation of Financial Statements Originally Issued in Chinese

	January. 1~ September 30,		
	2002	2003	
		New Taiwan Dollars	U.S Dollars
Income (loss) before income tax	\$(13,938,820)	\$7,313,807	\$216,513
Income tax benefit (expense)	3,651,605	(1,112,000)	(32,919)
Net income (loss)	<u>\$(10,287,215)</u>	<u>\$6,201,807</u>	<u>\$183,594</u>
Earning (deficit) per share (Expressed in dollars)			
Income (loss) before income tax	\$(3.71)	\$1.84	\$0.054
Income tax benefit (expense)	0.97	(0.28)	(0.008)
Net income (loss)	<u>\$(2.74)</u>	<u>\$1.56</u>	<u>\$0.046</u>

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

	January. 1-September 30, 2002
	NT\$
Net loss	<u>\$(10,227,240)</u>
Deficit per share (Expressed in dollars)	<u>\$(2.71)</u>

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
Seaward Property Insurance Agent Corp.	Subsidiary
Indovina Bank	Subsidiary
Gemfor Tech. Co.	Their Chairman of the Board is the director of the Bank

English Translation of Financial Statements Originally Issued in Chinese

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 and accounts balance with the related parties are summarized as follows:

(1) Account balances

Account/Related parties	September 30,				
	2002		2003		
	NT\$	% of account	NT\$	US\$	% of account
Due from Banks					
Taiwan Cooperative Bank	\$8,400	0.46%	\$-	-	-
Bank of Taiwan	328,481	17.82%	-	-	-
Cathay United Bank	-	-	571	17	0.01%
Others	43,504	2.36%	-	-	-
Account/Related parties	September 30,				
	2002		2003		
	NT\$	% of account	NT\$	US\$	% of account
Due to Banks					
Directorate General of Postal Remittances & Savings Bank					
Remittances & Savings Bank	21,987,930	90.79%	-	-	-
Others	114,621	0.47%	-	-	-
Call loans from banks					
Bank of Taiwan	1,500,000	6.87%	-	-	-
Bills and loans	4,861,260	1.20%	3,841,275	113,714	0.95%
Deposits	43,622,121	8.45%	12,846,686	380,304	2.43%

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

English Translation of Financial Statements Originally Issued in Chinese

Call Loans to Banks	Maximum balance		September 30 balance		Interest		Interest rate
	NT\$	US\$	NT\$	US\$	NT\$	US\$	
<u>January. 1~September 30, 2002</u>							
Bank of Taiwan	\$3,276,660	\$97,000	\$349,700	\$10,352	\$3,537	\$105	1.81%-3.46%
The International Commercial							1.78%-3.65%
Bank of China	1,483,380	43,913	454,610	13,458	6,489	192	
Taipei Bank	1,699,400	50,308	524,550	15,528	7,179	213	1.95%-2.28%
Central Trust of China	419,640	12,423	174,850	5,176	3,889	115	2.08%-2.22%
Taiwan Cooperative Bank	5,171,300	153,088	-	-	1,483	44	0.03%-2.28%
Land Bank of Taiwan	2,349,700	69,559	-	-	2,748	81	1.84%-2.20%
Others	3,804,310	112,620	594,490	17,599	6,604	196	1.78%-2.28%

January. 1~September 30, 2003

Cathay United Bank	1,038,300	30,737	1,012,800	29,982	5,834	173	1.02%-1.54%
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Call Loans to Banks	Maximum balance		September 30 balance		Interest		Interest rate
	NT\$	US\$	NT\$	US\$	NT\$	US\$	
<u>January. 1~September 30, 2002</u>							
The International Commercial	\$2,744,190	\$81,237	\$594,490	\$17,599	\$1,995	\$59	1.66%-2.02%
Bank of China							
Bank of Taiwan	6,353,600	188,088	874,250	25,881	11,147	330	1.75%-2.40%
Taipei Bank	3,223,950	95,440	699,400	20,705	6,401	189	1.77%-2.71%
Land Bank of Taiwan	3,049,100	90,263	174,850	5,176	3,176	94	0.07%-2.05%
Central Trust of China	7,196,400	213,037	-	-	29,446	872	1.71%-2.20%
Taiwan Cooperative Bank	4,849,700	143,567	-	-	5,397	160	1.68%-2.30%
Others	5,281,195	156,341	209,820	6,211	4,934	146	0.04%-2.28%

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

English Translation of Financial Statements Originally Issued in Chinese

(2) Lease

Related parties	January. 1~ September 30,	
	2002	2003
	New Taiwan Dollars	U.S. Dollars
<u>Rental income</u>		
Seaward Leasing Ltd.	\$1,535	\$1,497 \$44
Taipei Smart Card Corp.	-	5,447 161
Culture and Charity Foundation of the UWCCB	250	250 7
<u>Rental Expense</u>		
Seaward Leasing Ltd.	\$-	\$257 \$8
Related parties	September 30,	
	2002	2003
	New Taiwan Dollars	U.S. Dollars
<u>Refundable deposits</u>		
Seaward Leasing Ltd.	\$42,000	\$42,000 \$1,243
Related parties	January. 1~ September 30,	
	2002	2003
	New Taiwan Dollars	U.S. Dollars
(3) <u>Insurance expense</u>		
Cathay Life Insurance Co., Ltd.	\$-	\$100,891 \$2,987
(4) <u>Commissions and handling fees</u>		
Seaward Futures Corp.	\$801	\$2,258 \$67
Cathay United Bank	-	133 4
(5) <u>Credit card processing charges</u>		
Seaward Futures Corp.	\$182,405	\$242,458 \$7,178
Related parties	September 30,	
	2002	2003
	New Taiwan Dollars	U.S Dollars
(6) <u>Accrued expenses</u>		
Seaward Card Co., Ltd.	\$24,934	\$25,494 \$755

(7) Property transactions

- a. As of September 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.
- b. The Bank has purchased equipment amounting to NT\$32,881 thousand from Gemfor Tech Co during the nine months of 2002.
- c. The Bank has paid the project and construction management services fee to Taiwan Real-estate Management Corp. for NT\$1,573 thousand and NT\$558 thousand during the nine months of 2002 and 2003, respectively.
- d. 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 nine months of 2003.
- e. As of September 30, 2003, the Bank entered into Cross-currency Interest Rate Swaps with Cathay Life Insurance Co., Ltd. and Cathay United Bank. The contract amount are US\$200,000 thousand and US\$10,000 thousand, 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.

VI. ASSETS PLEDGED OR MORTGAGED

See Note IV

VII. COMMITMENTS AND CONTINGENT LIABILITIES

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

English Translation of Financial Statements Originally Issued in Chinese

	NT\$	US\$
	<hr/>	<hr/>
1. Collection and Guarantee Assets and Liabilities		
Securities purchased under agreements to resell	\$3,029,856	\$89,694
Securities sold under agreements to repurchase	19,358,623	573,079
Trust and security held for safe keeping	433,695,621	12,838,828
Guarantees on duties and contracts	12,750,451	377,456
Unused commercial letters of credit	1,987,275	58,830
Loan commitments	19,353,121	572,917
Credit card lines	41,237,566	1,220,769
Travelers checks for sale	751,060	22,234
Bills for collection	52,652,301	1,558,683
Stamp tax, securities and memorial currency consignments in	2,573	76

2. As of September 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.

(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.

English Translation of Financial Statements Originally Issued in Chinese

3. As of September 30, 2003, the Bank has entered into certain contracts to purchase premises and equipments totaling NT\$528,326 thousand with prepayments of NT\$309,403 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)

<u>Derivative Financial Instruments</u>	<u>September 30, 2002</u>		<u>September 30, 2003</u>	
	<u>Notional Amount</u>	<u>Credit Risk</u>	<u>Notional Amount</u>	<u>Credit Risk</u>
Foreign Exchange Contracts				
Forward Contracts	\$718,833	\$8,804	\$1,302,603	\$14,541
Options	1,527	3	-	-
Interest Rate Contracts				
Interest Rate Swaps	158,722	4,133	177,037	4,771
Forward Rate Agreement	-	-	50,000	-
Cross-currency Interest Rate Swaps	93,270	627	17,995	188

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.

English Translation of Financial Statements Originally Issued in Chinese

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

Cross-currency interest rate swaps entered into by the Bank, which have remaining maturities from three month to two years and nine months on September 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 interest rate-related 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.

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)

Items	September 30, 2002	September 30, 2003
Interest rate risk	\$120,697	\$77,465
Foreign exchange risk	139,330	422,438

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)

Period	September 30, 2002	September 30, 2003
0-1 year	\$1,492	\$716
1-2 year	955	2,785
2-3 year	954	2,785
3-4 year	890	2,389
4 year	169	2,215

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 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)

English Translation of Financial Statements Originally Issued in Chinese

Items	Notional Amount	
	September 30, 2002	September 30, 2003
Interest rate swaps	\$158,722	\$177,037
Cross-currency interest rate swaps	93,270	17,995

(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.

Only memo entries of notional principals are made on the contract date for forward rate agreements. For trading FRA, differences in the present value of interest revenue or expense on the balance sheet date are reported as exchange gains or losses. For non-trading FRA, interest receivables or payables accrued per contract rates and the hedged positions are reported as current interest revenue or expense.

(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:

	September 30,		
	2002	2003	
	New Taiwan Dallars	U.S Dollars	
Securities purchase under agreements to resell	\$3,248,379	\$3,029,856	\$89,694
Securities sold under agreements to repurchase	21,257,879	19,358,623	573,079
Loan commitments	22,212,455	19,353,121	572,917
Credit card lines	32,605,909	41,237,566	1,220,769
Guaranty and Commercial letters of credit	16,480,172	14,737,726	436,286

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 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 September 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:

	September 30,					
	2002			2003		
	Carrying		Carrying		Carrying	
	Value	Fair Value	Value	Fair Value	Value	Fair Value
Financial Assets	New Taiwan Dollars				U.S. Dollars	
Securities purchased	\$117,065,500	\$117,380,245	\$150,598,487	\$151,422,268	\$4,458,214	\$4,482,601
Investments	12,543,271	12,565,000	11,583,504	11,669,845	342,910	345,466

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:

English Translation of Financial Statements Originally Issued in Chinese

	September 30,		
	2002	2003	
	New Taiwan Dallar	U.S Dollars	U.S Dollars
Bills and loans, customers' liabilities			
under acceptances and guarantees account			
Geographic Region			
Domestic	\$397,934,846	\$396,379,472	\$11,734,147
South East Asia	8,438,416	9,409,948	278,566
North East Asia	429,490	516,427	15,288
North America	5,986,820	6,322,975	187,181
Others	6,645,286	3,756,754	111,212
Total	\$419,434,858	\$416,385,576	\$12,326,394
Industry type			
Manufacturing	\$54,039,161	\$50,518,626	\$1,495,519
Financial institutions and insurance	24,196,488	25,996,870	769,594
Leasing and real estate	75,111,049	65,602,629	1,942,055
Individuals	163,057,045	180,048,395	5,330,030
Others	103,031,115	94,219,056	2,789,196
Total	\$419,434,858	\$416,385,576	\$12,326,394
Credit Card			
Gold card	\$8,190,442	\$11,025,811	\$326,401
Regular card	2,486,281	2,621,765	77,613
Advance	2,120	6,327	187
Total	\$10,678,843	\$13,653,903	\$404,201

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.

English Translation of Financial Statements Originally Issued in Chinese

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

	January. 1~ September 30, 2002	
	Average balance	Average rate
	NT\$	(%)
Assets		
Due from Central Bank	\$28,984,756	2.77%
Time certificate, accepted bills... etc.	110,646,429	2.44%
Due from other banks	25,309,979	3.42%
Bills and Loans	385,174,414	8.73%
Government and corporate bonds	57,191,182	4.48%
Account Receivable-Credit Card	9,072,462	13.77%

Liabilities		
Due to banks	\$41,205,314	3.79%
Demand deposits	58,272,451	1.00%
Saving deposits	305,834,531	2.61%
Certified deposits	185,573,129	3.64%
Negotiable certificates of certified deposits	8,129,725	2.52%
Bank's acceptances and fund borrowed	2,314,027	3.53%

	January. 1~ September 30, 2003		
	Average balance		Average rate
	NT\$	US\$	(%)
Assets			
Due from Central Bank	\$26,113,185	\$773,037	1.53%
Time certificate, accepted bills... etc.	79,502,207	2,353,529	1.71%
Due from other banks	31,459,527	931,306	1.42%
Bills and loans	386,378,871	11,438,096	4.37%
Government and corporate bonds	73,879,054	2,187,065	3.61%
Account Receivable-Credit Card	11,070,266	327,717	10.46%

Liabilities			
Due to banks	\$46,625,272	\$1,380,263	1.21%
Demand deposits	63,671,622	1,884,891	0.18%
Saving deposits	302,495,740	8,954,877	0.91%
Certified deposits	140,503,241	4,159,362	1.48%
Negotiable certificates of certified deposits	4,872,835	144,252	1.38%
Banker's debenture	12,222,222	361,818	4.12%
Bank's acceptances and fund borrowed	2,158,479	63,898	1.68%

(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 September 30, 2002 and 2003, the amounts of insurance coverage for the Bank's premises and equipments were NT\$5,962,689 thousand and NT\$6,176,189 thousand, respectively.
- (5) Certain accounts for the financial statements of the nine-month periods ended September 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.