

**CATHAY UNITED BANK
(FORMERLY UNITED WORLD
CHINESE COMMERCIAL BANK)
FINANCIAL STATEMENTS FOR THE
YEARS ENDED DECEMBER 31,
2003 AND 2002 WITH REPORT OF
INDEPENDENT AUDITORS**

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 statements shall prevail.

English Translation of Report Originally Issued in Chinese

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Cathay United Bank

We have audited the accompanying balance sheets of Cathay United Bank (formerly United World Chinese Commercial Bank) as of December 31, 2003 and 2002, and the related statements of income, changes in shareholders' equity and cash flows for the years ended December 31, 2003 and 2002. 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 audits. We did not audit the financial statements of the certain equity-basis invested companies as of and for the years ended December 31, 2003 and 2002, these investment accounted for by the equity method amounted to NT\$1,748,736 thousand and NT\$2,073,365 thousand as of December 31, 2003 and 2002, respectively, and related investment income of NT\$229,621 thousand and investment loss of NT\$375,074 thousand recognized for the years then 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 solely 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 audits 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, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay United Bank as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with the 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 December 31, 2003 and 2002 into U.S. dollars on the basis stated in Note II 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.

DIWAN, ERNST & YOUNG
Taipei, Taiwan
The Republic of China
January 27, 2004

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
CATHAY UNITED BANK (FORMERLY UNITED WORLD CHINESE COMMERCIAL BANK)
BALANCE SHEETS
DECEMBER 31, 2003 AND 2002
(Expressed in thousands of dollars)

ASSETS	NOTES	2003		2002	
		New Taiwan Dollars	U.S Dollars (Note II)	New Taiwan Dollars	U.S Dollars (Note II)
Cash and cash equivalents	IV	\$23,123,481	\$680,302	\$25,453,760	\$733,538
Due from Central Bank	IV, VI and X	29,978,608	881,983	29,164,768	840,483
Due from commercial banks	IV, V, VI and X	31,588,233	929,339	31,096,014	896,139
Securities purchased-net	II, IV, VI and X	166,843,309	4,908,600	105,171,935	3,030,891
Receivables-net	II, IV and X	56,495,510	1,662,122	21,599,990	622,478
Prepayments	IV	1,792,032	52,722	1,413,336	40,730
Bills and loans-net	II, IV, V and X	511,762,416	15,056,264	394,578,267	11,371,132
Long-term investments	II, IV, X and XI				
Equity method		5,787,084	170,259	5,929,770	170,887
Cost method		6,066,749	178,486	6,223,374	179,348
Debt Securities		14,587,555	429,172	-	-
Premises and equipment	II, V, VII, X and XI				
Cost					
Land		15,191,742	446,947	14,274,047	411,356
Building		9,299,518	273,596	8,662,279	249,633
Furniture and fixtures		3,611,754	106,259	2,595,945	74,811
Transportation equipment		85,878	2,527	70,900	2,043
Miscellaneous equipment		3,435,204	101,065	2,439,744	70,310
Total Cost		31,624,096	930,394	28,042,915	808,153
Less: Accumulated depreciation		(6,622,608)	(194,840)	(5,361,393)	(154,507)
Construction in progress and procurement		1,047,629	30,822	559,050	16,111
Premises and Equipment-net		26,049,117	766,376	23,240,572	669,757
Non-operating assets		702,074	20,655	704,619	20,306
Other assets	IV, V and XI	7,106,939	209,089	7,791,564	224,541
Deferred charges	II	543,997	16,005	179,057	5,160
TOTAL ASSETS		\$882,427,104	\$25,961,374	\$652,547,026	\$18,805,390

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

English Translation of Financial Statements Originally Issued in Chinese
CATHAY UNITED BANK (FORMERLY UNITED WORLD CHINESE COMMERCIAL BANK)
BALANCE SHEETS
DECEMBER 31, 2003 AND 2002
(Expressed in thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	2003		2002	
		New Taiwan Dollars	U.S. Dollars (Note II)	New Taiwan Dollars	U.S. Dollars (Note II)
Due to Central Bank		\$161,170	\$4,742	\$167,129	\$4,816
Due to commercial banks	IV, V and X	80,831,523	2,378,097	44,042,513	1,269,237
Payables	IV and V	43,486,650	1,279,396	25,637,194	738,824
Advances		1,676,799	49,332	1,025,725	29,560
Deposits and remittances	IV, V and X	659,956,920	19,416,208	514,675,358	14,832,143
Banker's debenture	IV and X	25,050,000	736,982	10,000,000	288,184
Banker's acceptances and funds borrowed	IV and X	1,753,524	51,589	2,206,585	63,590
Long-term liabilities	IV	34,119	1,004	34,119	984
Reserve for possible losses	II and IV	193,010	5,678	82,360	2,373
Other liabilities	IV	699,183	20,570	635,215	18,306
TOTAL LIABILITIES		813,842,898	23,943,598	598,506,198	17,248,017
Capital stock	IV	43,182,407	1,270,445	39,715,627	1,144,543
Capital reserve	II and IV				
Subscribed capital		13,449,023	395,676	4,249,096	122,452
Others		12,797	376	846,502	24,395
Retained earnings					
Legal reserve		9,122,517	268,388	17,447,928	502,822
Special reserve		-	-	257,487	7,420
Unappropriated earnings		2,763,742	81,311	(8,582,898)	(247,345)
Unrealized losses on long-term investments	IV	(116,783)	(3,436)	(79,482)	(2,291)
Conversion adjustments	II	170,503	5,016	186,568	5,377
TOTAL SHAREHOLDERS' EQUITY		68,584,206	2,017,776	54,040,828	1,557,373
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$882,427,104	\$25,961,374	\$652,547,026	\$18,805,390

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

English Translation of Financial Statements Originally Issued in Chinese
CATHAY UNITED BANK (FORMERLY UNITED WORLD CHINESE COMMERCIAL BANK)
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(Expressed in thousands of dollars, except per share amounts)

ITEMS	NOTES	2003		2002	
		New Taiwan Dollars	U.S. Dollars (Note II)	New Taiwan Dollars	U.S. Dollars (Note II)
OPERATING INCOME:					
Interest revenue	V	\$24,049,202	\$707,538	\$29,255,994	\$843,112
Commission and handling fees	V	2,943,979	86,613	1,924,842	55,471
Commission income of stock brokerage		131,835	3,879	106,427	3,067
Gains on sales of securities-net	II	915,225	26,926	1,202,487	34,654
Investment income-equity method	II, IV and XI	475,355	13,985	-	-
Investment income-others		1,061,745	31,237	95,132	2,742
Profit on exchange-net	II	248,015	7,297	231,956	6,685
Other operating income	V	375,357	11,043	125,424	3,614
Total operating income		30,200,713	888,518	32,942,262	949,345
OPERATING COST:					
Interest expense	V	6,667,623	196,164	11,123,501	320,562
Commissions and handling charges		388,142	11,420	299,064	8,619
Commission charges of stock brokerage		8,437	248	6,254	180
Investment loss-equity method		-	-	297,282	8,567
Provisions for possible losses	II	10,913,351	321,076	24,736,026	712,854
Other operating cost		244,866	7,204	-	-
Total operating cost		18,222,419	536,112	36,462,127	1,050,782
OPERATING MARGIN (LOSS)		11,978,294	352,406	(3,519,865)	(101,437)
OPERATING EXPENSES:					
Business expenses	IV and V	8,506,206	250,256	7,243,388	208,743
Administration expenses		5,355	157	5,165	149
Total operating expenses		8,511,561	250,413	7,248,553	208,892
NET OPERATING INCOME (LOSS)		3,466,733	101,993	(10,768,418)	(310,329)
NON-OPERATING INCOME:					
Gains on disposal of premises and equipment	II	1,974	58	-	-
Others		221,681	6,522	316,279	9,114
Total non-operating income		223,655	6,580	316,279	9,114
NON-OPERATING EXPENSES:					
Losses on disposal of premises and equipment	II	38,930	1,146	7,218	208
Others		1,031,057	30,334	1,467,953	42,304
Total non-operating expenses		1,069,987	31,480	1,475,171	42,512
INCOME (LOSS) BEFORE INCOME TAX		2,620,401	77,093	(11,927,310)	(343,727)
INCOME TAX BENEFIT (EXPENSES)	II and IV	85,658	2,520	3,120,000	89,914
NET INCOME (LOSS)		\$2,706,059	\$79,613	\$(8,807,310)	\$(253,813)
EARNING (DEFICIT) PER SHARE (In Dollars)					
INCOME (LOSS) BEFORE INCOME TAX	IV	\$0.65	\$0.019	\$(3.00)	\$(0.086)
INCOME TAX BENEFIT (EXPENSES)		0.02	0.001	0.78	0.022
NET INCOME (LOSS)		\$0.67	\$0.020	\$(2.22)	\$(0.064)
PRO FORMA INFORMATION (If subsidiaries' investment in the Bank is not treated as treasury stock)					
NET LOSS				\$(8,749,594)	\$(252,150)
DEFICIT PER SHARE (In Dollars)				\$(2.20)	\$(0.06)

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

English Translation of Financial Statements Originally Issued in Chinese

CATHAY UNITED BANK (FORMERLY UNITED WORLD CHINESE COMMERCIAL BANK)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2002

(Expressed in thousands of dollars)

ITEMS	Capital Stock		Capital Reserve		Retained Earnings						Unrealized Losses on Long-term Investments		Conversion Adjustments		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	Legal Reserve		Special Reserve		Unappropriated Earnings		(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
					(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Balance, January 1, 2002	\$37,716,644	\$1,086,935	\$5,870,989	\$169,193	\$15,870,416	\$457,361	\$235,142	\$6,776	\$5,258,372	\$151,538	\$-	\$-	\$203,308	\$5,859	\$65,154,871	\$1,877,662
Appropriation and distribution of 2001 earnings (Note IV):																
Legal reserve	-	-	-	-	1,577,512	45,461	-	-	(1,577,512)	(45,461)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	22,345	644	(22,345)	(644)	-	-	-	-	-	-
Cash dividend	-	-	-	-	-	-	-	-	(1,885,832)	(54,347)	-	-	-	-	(1,885,832)	(54,347)
Stock dividend	1,320,083	38,043	-	-	-	-	-	-	(1,320,083)	(38,043)	-	-	-	-	-	-
Compensation to directors and supervisors	-	-	-	-	-	-	-	-	(113,150)	(3,261)	-	-	-	-	(113,150)	(3,261)
Special bonus to employees and contribution to welfare fund	113,150	3,261	-	-	-	-	-	-	(339,450)	(9,782)	-	-	-	-	(226,300)	(6,521)
Capital increase from capital reserve (Note IV)	565,750	16,304	(565,750)	(16,304)	-	-	-	-	-	-	-	-	-	-	-	-
Reversal of capital reserve transferred from gain on disposal of premises																
and equipment (Notes II and IV)	-	-	(220,038)	(6,342)	-	-	-	-	220,038	6,342	-	-	-	-	-	-
Net loss for the year ended December 31, 2002	-	-	-	-	-	-	-	-	(8,807,310)	(253,813)	-	-	-	-	(8,807,310)	(253,813)
Conversion adjustments (Notes II and IV)	-	-	-	-	-	-	-	-	-	-	-	-	(16,740)	(482)	(16,740)	(482)
Unrealized losses on investments of investee companies of which																
recognized by the equity method (Note II)	-	-	-	-	-	-	-	-	-	-	(79,482)	(2,291)	-	-	(79,482)	(2,291)
The Bank's stock held by its subsidiary as treasury stock (Note IV)	-	-	-	-	-	-	-	-	4,374	126	-	-	-	-	4,374	126
Capital reserves transferred from disposal of treasury stock (Note IV)	-	-	10,397	300	-	-	-	-	-	-	-	-	-	-	10,397	300
Balance, December 31, 2002	<u>\$39,715,627</u>	<u>\$1,144,543</u>	<u>\$5,095,598</u>	<u>\$146,847</u>	<u>\$17,447,928</u>	<u>\$502,822</u>	<u>\$257,487</u>	<u>\$7,420</u>	<u>\$(8,582,898)</u>	<u>\$(247,345)</u>	<u>\$(79,482)</u>	<u>\$(2,291)</u>	<u>\$186,568</u>	<u>\$5,377</u>	<u>\$54,040,828</u>	<u>\$1,557,373</u>

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

English Translation of Financial Statements Originally Issued in Chinese
CATHAY UNITED BANK (FORMERLY UNITED WORLD CHINESE COMMERCIAL BANK)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2003

(Expressed in thousands of dollars)

ITEMS	Retained Earnings															
	Capital Stock		Capital Reserve		Legal Reserve		Special Reserve		Unappropriated Earnings		Unrealized Loss on Investments		Conversion Adjustments		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Balance, January 1, 2003	\$39,715,627	\$1,168,450	\$5,095,598	\$149,914	\$17,447,928	\$513,325	\$257,487	\$7,575	\$(8,582,898)	\$(252,511)	\$(79,482)	\$(2,338)	\$186,568	\$5,489	\$54,040,828	\$1,589,904
Reserves used to make up losses (Note IV):																
Legal reserve	-	-	-	-	(8,325,411)	(244,937)	-	-	8,325,411	244,937	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(257,487)	(7,575)	257,487	7,575	-	-	-	-	-	-
Net Income for the year ended December 31, 2003	-	-	-	-	-	-	-	-	2,706,059	79,613	-	-	-	-	2,706,059	79,613
Conversion adjustments (Notes II and IV)	-	-	-	-	-	-	-	-	-	-	-	-	(16,065)	(473)	(16,065)	(473)
Unrealized losses on investments of investee companies																
of which recognized by the equity method (Note II)	-	-	-	-	-	-	-	-	-	-	(37,301)	(1,098)	-	-	(37,301)	(1,098)
Capital increase for merging Bank	3,466,780	101,995	9,199,928	270,666	-	-	-	-	-	-	-	-	-	-	12,666,708	372,661
Adjustment of capital reserves from liquidation on investee companies	-	-	(833,706)	(24,528)	-	-	-	-	57,683	1,697	-	-	-	-	(776,023)	(22,831)
Balance, December 31, 2003	<u>\$43,182,407</u>	<u>\$1,270,445</u>	<u>\$13,461,820</u>	<u>\$396,052</u>	<u>\$9,122,517</u>	<u>\$268,388</u>	<u>\$-</u>	<u>\$-</u>	<u>\$2,763,742</u>	<u>\$81,311</u>	<u>\$(116,783)</u>	<u>\$(3,436)</u>	<u>\$170,503</u>	<u>\$5,016</u>	<u>\$68,584,206</u>	<u>\$2,017,776</u>

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

English Translation of Financial Statements Originally Issued in Chinese
CATHAY UNITED BANK (FORMERLY UNITED WORLD CHINESE COMMERCIAL BANK)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(Expressed in thousands of dollars)

ITEMS	NOTES	2003		2002	
		New Taiwan Dollars	U.S. Dollars (Note II)	New Taiwan Dollars	U.S. Dollars (Note II)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)		\$2,706,059	\$79,613	\$(8,807,310)	\$(253,813)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	II	732,836	21,560	636,759	18,350
Provisions for possible losses	II	10,913,351	321,075	24,736,026	712,854
Loss on disposal of premises and equipment and non-operating assets		36,955	1,087	7,218	208
Loss (gain) on disposal of investments	II	(986,195)	(29,014)	1,645	47
Investment (income) loss recognized by the equity method	II, IV and XI	(475,355)	(13,985)	284,462	8,198
Cash dividends received from investee companies of which recognized by the equity method		79,336	2,335	48,919	1,410
Adjustment of changes in exchange rates		(19,327)	(569)	(14,652)	(422)
Increase in receivables		(28,857,314)	(848,994)	(2,482,818)	(71,551)
Increase in prepayments		(306,144)	(9,007)	(193,572)	(5,578)
Increase in securities purchased for trading purposes		(11,287,397)	(332,080)	(8,280,836)	(238,641)
Increase in payables		12,452,122	366,347	2,260,673	65,149
Increase in advances		422,187	12,421	258,795	7,458
Decrease in other liabilities		-	-	(158,292)	(4,562)
Net cash provided by (used in) operating activities		<u>(14,588,886)</u>	<u>(429,211)</u>	<u>8,297,017</u>	<u>239,107</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from disposal of premises and equipment and non-operating assets		29,592	871	20,735	597
Addition in premises and equipment		(932,709)	(27,441)	(873,961)	(25,186)
Proceeds from disposal of investments		1,019,094	29,982	24,120	695
Increase in securities purchased for non-trading purposes		(44,326,131)	(1,304,093)	(11,202,555)	(322,840)
Increase in investments		-	-	(2,000)	(58)
Net decrease in bills and loans		13,930,947	409,854	11,297,848	325,586
(Increase) decrease in other assets		1,625,656	47,827	(6,316,235)	(182,024)
(Increase) decrease in due from commercial banks		7,453,590	219,288	(9,947,183)	(286,662)
Decrease in due from Central Bank		6,456,526	189,954	7,266,980	209,423
Increase in deferred charges		(213,973)	(6,295)	(104,523)	(3,012)
Net cash used in investing activities		<u>(14,957,408)</u>	<u>(440,053)</u>	<u>(9,836,774)</u>	<u>(283,481)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:					
Decrease in due to Central Bank		(5,959)	(175)	(177,313)	(5,109)
Increase in due to commercial banks		32,697,510	961,974	9,124,233	262,946
Decrease in deposits and remittances		(22,157,693)	(651,888)	(63,858,501)	(1,840,303)
Increase in banker's debenture		12,700,000	373,639	10,000,000	288,184
Decrease in banker's acceptances and funds borrowed		(612,121)	(18,009)	(1,063,774)	(30,656)
Increase in guaranty and marginal deposits		49,630	1,460	14,190	409
Cash dividends paid		-	-	(1,885,832)	(54,347)
Compensation to directors and supervisors, special bonus to employees, and contribution to welfare fund		-	-	(339,450)	(9,782)
Net cash provided by (used in) financing activities		<u>22,671,367</u>	<u>667,001</u>	<u>(48,186,447)</u>	<u>(1,388,658)</u>
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES		13,415	395	1,225	35
NET DECREASE IN CASH AND CASH EQUIVALENTS		(6,861,512)	(201,868)	(49,724,979)	(1,432,997)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEARS		27,309,915	803,469	77,034,894	2,220,026
CASH AND CASH EQUIVALENTS FROM MERGED BANK		4,305,626	126,673	-	-
CASH AND CASH EQUIVALENTS AT END OF THE YEAR\$		<u>\$24,754,029</u>	<u>\$728,274</u>	<u>\$27,309,915</u>	<u>\$787,029</u>
SUPPLEMENT DISCLOSURES OF CASH FLOWS INFORMATION:					
Interest expenses paid		\$6,549,760	\$192,697	\$12,332,318	\$355,398
Income tax paid		\$269,331	\$7,924	\$442,972	\$12,766
Non-cash assets received from the investee companies of liquidation		\$147,266	\$4,333	\$-	\$-

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

English Translation of Financial Statements Originally Issued in Chinese

CATHAY UNITED BANK

(FORMERLY UNITED WORLD CHINESE COMMERCIAL BANK)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

(In thousands of dollars unless others stated)

I. BUSINESS

Cathay United Bank (the “Bank”) was formerly United World Chinese Commercial Bank (UWCCB) and was enfranchised by the government of the Republic of China (“ROC”) in January 1975. The Bank started its operations on May 20, 1975 and 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 traded on the Taiwan Stock Exchange (TSE) until December 18, 2002. Starting from December 18, 2002, the Bank became an unlisted wholly owned subsidiary of Cathay Financial Holding Co., Ltd. through a share swap transaction.

On April 21, 2003, under the Financial Institution Merger Law, the Bank decide to merger with formerly Cathay United Bank, which is the wholly-owned subsidiary of Cathay Financial Holding Company. After the merger on October 27, 2003, formerly Cathay United Bank is a merged bank (“Merged Bank”) , while UWCCB is the surviving bank and change its name as Cathay United Bank.

As of December 31, 2003 and 2002, the Bank employed 3,854 and 2,519 employees, respectively

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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 accounting principles generally accepted in the ROC. 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 domestic head office branches and foreign branches and representative office. All inter-branch and inter-office account balances and transactions have been eliminated when the financial statements were prepared.

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 denominated assets and liabilities, other than those using 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 or charged to statement of income. 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 arises 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 arise 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.

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 carried at the lower of cost and market value. Except for the parent company's equity shares held by the Bank, the lower of cost and market value is determined based on a portfolio basis with similar securities. A provision is made when the market value is lower than the cost. When the market value rises, the gain is set off against the provision to the extent of the amount made previously.

When securities are sold, the cost is calculated based on the weighted-average method for equity securities. For other securities, the cost is calculated based on the cost of each

related individual security.

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 income for loans is recognized on an accrual basis except for loans classified as Delinquent accounts.. Delinquent accounts are loans for which the interest has been discontinued and include a) loans where the most recent payment is overdue by more than six months and b) loans where legal proceedings have been undertaken to recover payment or liquidate collateral. The accrual of income from delinquent accounts 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. Long-Term Investments

(i) Investments In Equity Securities

Investments in other companies with voting rights of at least 20% but no more than 50%, or less than 20% but the Bank and related parties totally hold over 20% of the common stock and have significant influence over the investee 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' equity at acquisition is deferred and amortized over five years.

Other long-term equity investments are accounted for by the cost method. For investments in listed stocks, an allowance for decline in market value is made when the carrying amounts of the investments is below the market value, with the same amount debited to shareholders' equity. For investments in unlisted stocks, provisions are

made and recognized immediately as an expense when the carrying amounts are not expected to be fully recovered.

(ii) Investments In Debt Securities

Long-term investments in Debt Securities represent investments in government bonds, financial debentures, first to default credit linked note and callable corridor note linked to USD Libor issued by the international reputable financial institutions. Investments in Debt Securities are stated at cost adjusted for the amortization of premiums or discounts arising on acquisition over the periods to maturity on a straight-line basis. The amortization of premiums or discounts is included as part of interest income or interest expense. Devaluation are made and recognized immediately as an expense when the carrying amounts are not expected to be fully recovered...Costs of bonds upon maturity or disposal are determined by the specification method.

8. Premises and equipment

(i) 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.

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

Building	8~60	years
Furniture and fixtures	2~ 6	years
Transportation equipment	3~ 6	years
Miscellaneous equipment	2~10	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

Computer software and electric wiring costs are amortized by the straight-line method over three to five years.

SOGO affinity credit cards business cost are amortized on a straight-line basis over estimated economic lives of 48 months.

10. Foreclosed Properties

Foreclosed properties represent assets acquired by repossession of collateral for realization and are stated at the lower of cost or net realizable value on the balance sheet date.

11. 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.

12. 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.

13. 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.

14. 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 to account for its stock held by its subsidiaries as treasury stock.

15. Pension Plans

The Bank has a pension plan covering all regular employees. Pension benefits payments 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.

16. Recognition of Interest Revenue and Service Fees

Interest income is recognized on an accrual basis except for loans classified as Delinquent accounts. The accrual of income from delinquent accounts is discontinued; subsequent interest payments are credited to income when received.

Service fees are recognized when earned.

17. 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

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distribute all its current year profits. Taxes on undistributed earnings are recorded as expense in the year shareholders approve the retention of earnings.

18. 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 reasonably estimated and the loss is possible, the obligation is disclosed as contingent liabilities in the footnotes to the financial statements.

19. Basis for Converting Financial Statements

The Bank's financial statements are stated in NT dollars ("NT\$"). Conversion of the December 31, 2002 and 2003 NT dollar amounts into US dollar amounts is provided solely for the convenience of the readers, using the noon buying rate of NT\$34.7 and NT\$33.99 to US\$1.00 on December 31, 2002 and 2003, respectively, 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

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Cash on hand	\$7,544,059	\$221,949	\$6,316,880	\$182,043
Checks for clearance	3,948,364	116,162	4,486,800	129,305
Cash equivalents-certified deposits	11,631,058	342,191	14,650,000	422,190
Total	<u>\$23,123,481</u>	<u>\$680,302</u>	<u>\$25,453,760</u>	<u>\$733,538</u>

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2. DUE FROM CENTRAL BANK

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Deposit reserve	\$19,286,501	\$567,417	\$14,629,988	\$421,613
General account	4,156,107	122,274	8,298,780	239,158
Deposit in Central Bank	6,536,000	192,292	6,236,000	179,712
Total	<u>\$29,978,608</u>	<u>\$881,983</u>	<u>\$29,164,768</u>	<u>\$840,483</u>

3. DUE FROM COMMERCIAL BANKS

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Due from banks	\$7,262,468	\$213,665	\$1,210,139	\$34,874
Call loans to banks	24,325,765	715,674	29,885,875	861,265
Total	<u>\$31,588,233</u>	<u>\$929,339</u>	<u>\$31,096,014</u>	<u>\$896,139</u>

4. SECURITIES PURCHASED-NET

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Stock	\$4,790,296	\$140,933	\$4,890,788	\$140,945
Mutual funds	3,274,562	96,339	2,498,065	71,990
Government and corporate bonds	58,947,565	1,734,262	65,814,913	1,896,683
Certificates of deposit	98,628,681	2,901,697	30,358,375	874,881
Commercial papers	1,630,548	47,971	2,224,635	64,111
Others	110,563	3,253	-	-
Total	167,382,215	4,924,455	105,786,776	3,048,610
Less: Allowance for decline in market price of securities	(538,906)	(15,855)	(614,841)	(17,719)
Net	<u>\$166,843,309</u>	<u>\$4,908,600</u>	<u>\$105,171,935</u>	<u>\$3,030,891</u>

(1) Securities purchased of NT\$15,501,378 thousand and NT\$16,509,096 thousand at December 31, 2003 and 2002, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) Securities purchased of NT\$1,630,548 thousand and NT\$1,856,155 thousand at

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December 31, 2003 and 2002, respectively, were considered as part of cash equivalents.

5. RECEIVABLES-NET

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Accounts receivable	\$50,370,055	\$1,481,908	\$13,924,280	\$401,276
Accrued interest receivable	3,588,229	105,567	3,188,030	91,874
Customers' liabilities under acceptances	589,185	17,334	526,960	15,186
Tax refund receivable	682,591	20,082	258,677	7,455
Securities purchased under agreements to resell	360,010	10,592	3,121,006	89,943
Others	1,602,503	47,147	1,078,761	31,088
Total	57,192,573	1,682,630	22,097,714	636,822
Less: Allowance for doubtful accounts	(697,063)	(20,508)	(497,724)	(14,344)
Net	<u>\$56,495,510</u>	<u>\$1,662,122</u>	<u>\$21,599,990</u>	<u>\$622,478</u>

Please refer to note IV.7 for details of the allowance for doubtful accounts.

6. PREPAYMENTS

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Inter-bank clearing funds	\$1,091,769	\$32,120	\$803,169	\$23,146
Others	700,263	20,602	610,167	17,584
Total	<u>\$1,792,032</u>	<u>\$52,722</u>	<u>\$1,413,336</u>	<u>\$40,730</u>

7. BILLS AND LOANS

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Inward-outward documentary bills purchased	\$963,075	\$28,334	\$944,211	\$27,211
Discount	100,000	2,942	-	-
Loans	511,119,713	15,037,356	383,698,453	11,057,592
Overdrafts	670,445	19,725	1,156,607	33,332
Delinquent accounts	5,743,474	168,975	15,142,005	436,369
Total	518,596,707	15,257,332	400,941,276	11,554,504
Less: Allowance for doubtful accounts	(6,834,291)	(201,068)	(6,363,009)	(183,372)
Net	<u>\$511,762,416</u>	<u>\$15,056,264</u>	<u>\$394,578,267</u>	<u>\$11,371,132</u>

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- (1) Delinquent accounts, where the accrual of interest ceased, amounted to NT\$5,743,474 thousand and NT\$15,142,005 thousand at December 31, 2003 and 2002, respectively. The unrecognized interests on the delinquent accounts amounted to NT\$263,639 thousand and NT\$693,207 thousand for the years ended December 31, 2003 and 2002, 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 years ended December 31, 2003 and 2002 respectively.

	Jan. 1 ~Dec. 31, 2003					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	\$6,624,009	\$194,881	\$236,724	\$6,965	\$6,860,733	\$201,846
Provision of doubtful account	9,235,873	271,723	-	-	9,235,873	271,723
Write-off	(17,229,965)	(506,913)	-	-	(17,229,965)	(506,913)
Recoveries	4,365,232	128,427	-	-	4,365,232	128,427
Reclassification	(3,289,154)	(96,768)	3,289,154	96,768	-	-
Increase from the merged Bank	4,306,989	126,714	-	-	4,306,989	126,714
Effects of exchange rates change	-	-	(7,508)	(221)	(7,508)	(221)
Balance, end of the period	<u>\$4,012,984</u>	<u>\$118,064</u>	<u>\$3,518,370</u>	<u>\$103,512</u>	<u>\$7,531,354</u>	<u>\$221,576</u>

	Jan. 1 ~Dec. 31, 2002					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	\$3,965,035	\$114,266	\$251,974	\$7,262	\$4,217,009	\$121,528
Provision of doubtful account	22,778,155	656,431	-	-	22,778,155	656,431
Write-off	(22,209,658)	(640,048)	-	-	(22,209,658)	(640,048)
Recoveries	2,087,175	60,149	-	-	2,087,175	60,149
Reclassification	-	-	(15,250)	(439)	(15,250)	(439)
Effects of exchange rates change	3,302	95	-	-	3,302	95

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Balance, end of the period	\$6,624,009	\$190,893	\$236,724	\$6,823	\$6,860,733	\$197,716
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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. LONG-TERM INVESTMENTS

	Dec. 31,					
	2003			2002		
	NT	US	% of ownership	NT	US	% of ownership
(i) Investments in Equity Securities:						
Cathay Futures Corp. (formerly Seaward Futures Corp.)	\$1,671,212	\$49,168	99.82	\$1,674,905	\$48,268	99.82
Seaward Leasing Ltd.	2,269,460	66,769	99.97	2,131,858	61,437	99.97
Huong Yee Co., Ltd.	-	-	-	612,716	17,657	99.99
Seaward Insurance Agent Corp.	51,987	1,530	99.99	44,133	1,272	99.99
Seaward Card Co., Ltd.	43,079	1,267	99.99	37,363	1,077	99.99
Indovina Bank	437,211	12,863	50.00	435,344	12,546	50.00
Taiwan Real-estate Management Corp.	54,162	1,593	30.15	67,307	1,940	30.15
Taiwan Finance Corp.	1,214,596	35,734	24.57	1,013,941	29,220	24.57
Cathay Bank Property Agency of Association	7,204	212	99.80	-	-	-
Cathay Bank Life Insurance Agency of Association	27,257	802	99.80	-	-	-
Cathay Venture Capital Corp.	29,131	857	3.33	-	-	-
Vista Technology Venture Capital Corp.	13,636	401	5.00	-	-	-
Subtotal	5,818,935	171,196		6,017,567	173,417	
Less: Unrealized gain from intercompany transactions	(31,851)	(937)		(87,797)	(2,530)	
Investment in equity method	5,787,084	170,259		5,929,770	170,887	
Pan Overseas Corp.	-	-	-	7,525	217	0.61
China Bills Finance Corp.	93,468	2,750	1.19	224,508	6,470	2.86
Taiwan Fertilizer Co., Ltd.	104,173	3,065	0.58	104,173	3,002	0.58
Chunghwa Telecom Co., Ltd.	438,037	12,887	0.09	541,097	15,594	0.11
International Securities Investment Trust Co., Ltd.	4,900	144	4.74	4,900	141	4.74
Wallant International Trade Inc.	-	-	2.51	-	-	2.51
Central Deposit Insurance Corp.	10	-	-	10	-	-
Chinese Products Promotion Center	1,850	54	4.87	1,850	53	4.87
Han Tech Venture Capital Corp.	154,927	4,558	8.03	154,927	4,465	7.93

(To be continued)

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	2003			2002		
	NT	US	% of ownership	NT	US	% of ownership
Taiwan Securities Central Depository Co., Ltd.	1,850	54	0.18	1,850	53	0.18
Taipei Forex Inc.	8,000	235	4.04	8,000	231	4.04
Global Securities Finance Corp.	161,930	4,764	2.45	161,930	4,667	2.45
An Feng Enterprise Co., Ltd.	4,500	132	15.00	4,500	130	15.00
Euroc II Venture Capital Corp.	40,000	1,177	5.00	40,000	1,153	5.00
Taiwan International Merchandise Exchange Corp.	12,500	368	0.63	12,500	360	0.63
Strategic Value Fund, Limited Partnership	170,019	5,002	-	170,019	4,900	-
Chan Sheng Investment Development Co., Ltd.	127,400	3,748	4.90	127,400	3,671	4.90
CDIB & Partners Investment Holding Corp.	500,000	14,710	4.95	500,000	14,409	4.95
Financial Information Service Co., Ltd.	45,500	1,339	1.14	45,500	1,311	1.14
Sheng-Hua Venture Capital Corp.	50,000	1,471	2.50	50,000	1,441	2.50
IBU Securities Co., Ltd.	1,045,000	30,744	10.31	1,045,000	30,115	10.31
Latin America Development Co., Ltd.	6,250	184	1.79	6,250	180	1.79
Capital Venture Fund II Corp.	30,000	883	5.00	30,000	865	5.00
ProTec Capital Corp.	-	-	-	8,000	231	4.88
Fu Yu Venture Capital Investment Corp.	50,000	1,471	3.70	50,000	1,441	3.70
Taipei Smart Card Corp.	25,000	736	5.00	25,000	720	5.00
New Century InfoComm Co., Ltd.	864,000	25,419	1.68	864,000	24,899	1.68
Harbinger Venture Capital Corp.	67,000	1,971	3.35	67,000	1,931	3.35
United Venture Capital Corp.	40,000	1,177	4.52	40,000	1,153	4.52
Centillion Venture Capital Corp.	60,000	1,765	5.00	60,000	1,729	5.00
Taiwan Asset Management Corp.	1,020,000	30,009	5.79	1,000,000	28,818	5.68
Taipei Financial Center Corp.	400,000	11,768	2.35	400,000	11,527	2.35
Taiwan Financial Asset Service Corp.	100,000	2,942	5.88	50,000	1,441	2.94
Kaohsiung Rapid Transit corp.	299,000	8,797	2.99	299,000	8,617	2.99
Taiwan Cooperative Bank	116,435	3,426	0.21	116,435	3,355	0.21
Mondex Taiwan Inc.	25,000	736	6.47	-	-	-
Investment in cost method	6,066,749	178,486		6,221,374	179,290	
Prepayment in Seaward Property Insurance Agent Corp.	-	-		2,000	58	
Total	11,853,833	348,745		12,153,144	350,235	
(ii) Investments in Debt Securities	14,587,555	429,172		-	-	
Total	<u>\$26,441,388</u>	<u>\$777,917</u>		<u>\$12,153,144</u>	<u>\$350,235</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 company in the special meeting. The liquidation process of Huang Yee Co. has been completed in July 2003.

- (3) In 2003, the Bank increases its investments from the merged bank in Cathay Bank Life Insurance Agency of Association, Cathay Bank Property Agency of Association, Cathay Venture Capital Corp., and Vista Technology Venture Capital Corp. Equity method was applied for the investees whose common stocks were jointly held by the Bank and its related parties over 20%. However, the Bank defers the recognition of its investment income(loss) of Vista Technology Venture Capital Corp. until the subsequent year. Investment income (loss) of Cathay Bank Life Insurance Agency of Association and Cathay Bank Property Agency of Association are recognized under equity method based on un-audited financial statements.
- (4) The Bank is not required by the regulation to prepare consolidated financial statements to incorporate the Cathay Futures Corp. (formerly Seaward Futures Corp.), Cathay Bank Property Agency of Association, Cathay Bank Life Insurance Agency of Association, Seaward Leasing Ltd., Seaward Card Co., Ltd., and the Seaward Insurance Agent Corp., because neither the total assets nor the total operating revenue of those subsidiaries are greater than 10% of the Bank's total assets or total operating revenue.
- (5) As of December 31, 2003, the Bank has unrealized losses on long-term investment of Seaward Leasing Ltd. of NT\$116,783 thousand.
- (6) On December 24, 2003, the shareholders of Seaward Futures Corp. has determined to reduce its capital stock for NT\$950,000 thousand, which is equal to 95,000 thousand shares and change its name as Cathay Futures Corp. The reduction of the capital has been approved by the authority-in-charge on January 16, 2004, and effective date will be on February 16, 2004.
- (7) According to the board of director's meeting, Seaward Insurance Agent Corp. has scheduled to merge with Cathay Bank Life Insurance Agency of Association on February 5, 2004. Cathay Bank Life Insurance Agency of Association is the Surviving Company. The merger has been resolved by the shareholder's meeting of Seaward Insurance Agent Corp. on November 28, 2003.
- (8) In 2003, the liquidation process of Pro Tec Capital Corp. has been completed. Moreover, Property Insurance Agent Corp. was established in January 2003, and liquidated in July 2003.
- (9) 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

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Refundable deposits	\$803,950	\$23,653	\$594,580	\$17,135
Foreclosed properties	2,442,968	71,873	3,663,232	105,569
Deferred tax assets-net	3,860,021	113,563	3,533,752	101,837
Total	\$7,106,939	\$209,089	\$7,791,564	\$224,541

10. DUE TO COMMERCIAL BANKS

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Due to banks	\$41,009,732	\$1,206,523	\$24,317,310	\$700,787
Overdrafts from banks	962,430	28,315	358,223	10,324
Call loans from banks	38,859,361	1,143,259	19,366,980	558,126
Total	\$80,831,523	\$2,378,097	\$44,042,513	\$1,269,237

11. PAYABLES

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Accounts payable	\$9,951,131	\$292,766	\$4,801,081	\$138,360
Accrued interest	2,354,533	69,271	2,191,664	63,160
Accrued expenses	786,514	23,140	376,976	10,864
Income tax payable	86,062	2,532	-	-
Acceptances	611,611	17,994	542,928	15,646
Collection for customers	792,131	23,305	280,855	8,094
Securities sold under agreements to repurchase	26,076,561	767,184	15,080,309	434,591
Others	2,828,107	83,204	2,363,381	68,109
Total	\$43,486,650	\$1,279,396	\$25,637,194	\$738,824

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12. DEPOSITS AND REMITTANCES

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Check deposits	\$12,465,483	\$366,740	\$8,885,145	\$256,056
Demand deposits	69,795,458	2,053,412	51,087,920	1,472,274
Certified deposits	144,748,524	4,258,562	132,422,596	3,816,213
Saving deposits	392,854,740	11,557,951	283,267,301	8,163,323
Foreign currencies deposits	39,847,005	1,172,315	38,785,171	1,117,728
Outward remittances	2,428	71	1,616	47
Remittances payable	243,282	7,157	225,609	6,502
Total	\$659,956,920	\$19,416,208	\$514,675,358	\$14,832,143

13. BANKER'S DEBENTURE

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Banker's debenture	\$12,700,000	\$373,640	\$-	\$-
Subordinate Banker's debenture	12,350,000	363,342	10,000,000	288,184
Total	\$25,050,000	\$736,982	\$10,000,000	\$288,184

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.

On April 28, 2003, the Bank issued five-year subordinate banker's debenture amounting to NT\$2,350,000 thousand with a stated interest rate of 2%. The subordinate banker's debenture are repayable at maturity, and the interests are payable annually.

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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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. On December 4, 2003, December 10, 2003, and December 11, 2003, the Bank issued five-year banker's debenture amounting to NT\$3,200,000 thousand, NT\$2,700,000 thousand, and NT\$1,800,000 thousand, respectively, with flexible interest rate. The banker's debentures are repayable at maturity, and the interests are payable semiannually.

The priority claim of Banker's debentures, including principles and interests, mentioned above is equal to other debts of the Bank, while that is prior to the common stock.

14. BANKER'S ACCEPTANCES AND FUNDS BORROWED

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Borrowed funds-Central Bank	\$1,053,679	\$30,999	\$1,711,475	\$49,322
Borrowed funds-Others	699,845	20,590	495,110	14,268
Total	<u>\$1,753,524</u>	<u>\$51,589</u>	<u>\$2,206,585</u>	<u>\$63,590</u>

15. LONG-TERM LIABILITIES

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Reserve for land value increment tax	<u>\$34,119</u>	<u>\$1,004</u>	<u>\$34,119</u>	<u>\$984</u>

16. RESERVES FOR POSSIBLE LOSSES

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Reserve for losses on guarantees	\$28,821	\$848	\$38,912	\$1,121
Reserve for losses on stock brokerage transactions	39,447	1,160	35,813	1,032
Reserve for losses on trading securities	124,742	3,670	7,635	220
Total	<u>\$193,010</u>	<u>\$5,678</u>	<u>\$82,360</u>	<u>\$2,373</u>

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17. OTHER LIABILITIES

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Guarantee and margin deposits	\$699,183	\$20,570	\$635,215	\$18,306

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\$1,998,982 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.

On October 27, 2003, the Bank has merged with Cathay United Bank through a share swap transaction. The ratio for exchange of shares is 0.2808 the Bank's share for one share of Cathay United Bank. After the exchange, capital stock of the Bank increased 346,678 thousand shares. As the result, the total issued capital stock is amounting to NT\$43,182,407 thousand, while 4,318,241 thousand shares are issued.

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19. CAPITAL RESERVES

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Capital reserves from the merged Bank	\$9,199,928	\$270,666	\$-	\$-
Additional paid-in capital	4,249,096	125,010	4,249,096	122,452
Capital reserves from merger of investee companies	-	-	773,348	22,287
Capital reserves from investee companies of which recognized by the equity method, and etc.	2,399	70	62,757	1,808
Capital reserves from treasury stock	10,397	306	10,397	300
Total	<u>\$13,461,820</u>	<u>\$396,052</u>	<u>\$5,095,598</u>	<u>\$146,847</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%.

(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.

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

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

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

(b) Make up deficit in 2002:

- 1) NT\$ 1,577,512 thousand as legal reserve;
- 2) NT\$ 22,345 thousand as special reserve;
- 3) NT\$ 3,205,914 thousand as dividends to shareholders (NT\$ 1,885,832 thousand as cash dividend and NT\$ 1,320,083 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).

Bank's shareholders have approved the appropriation and distribution stated above on May 30, 2002 and by the Bank's directors on April 21, 2003, 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 \$NT 10,397 thousand was adjusted into the capital reserve account.

22. PENSION

The Bank adopted the SFAS No.18 "Accounting for pensions" which requires actuarial determination of pension assets or obligations. The following is a summary of the components of net pension expenses for 2003 and 2002:

	2003		2002	
	NT	US	NT	US
Service cost	\$282,553	\$8,313	\$241,665	\$6,964
Interest cost	117,215	3,449	153,972	4,437
Expected return on plan assets	(89,071)	(2,621)	(125,279)	(3,610)
Net amortization	50,212	1,477	37,055	1,068
Less: the recognition from the merged Bank	(26,649)	(784)	-	-
Net pension expenses	<u>\$334,260</u>	<u>\$9,834</u>	<u>\$307,413</u>	<u>\$8,859</u>

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

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balance sheets:

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Pension benefit obligation				
Vested	\$(1,768,323)	\$(52,025)	\$(462,135)	\$(13,318)
Non-vested	(277,529)	(8,165)	(1,359,971)	(39,192)
Accumulated benefit obligation	(2,045,852)	(60,190)	(1,822,106)	(52,510)
Value of future salary projections	(1,120,494)	(32,965)	(1,310,680)	(37,772)
Projected benefit obligation	(3,166,346)	(93,155)	(3,132,786)	(90,282)
Fair value of plan assets	2,642,288	77,737	2,115,712	60,972
Projected benefit obligation in excess of plan assets	(524,058)	(15,418)	(1,017,074)	(29,310)
Unrecognized net obligation at transition	215,822	6,350	278,659	8,030
Unrecognized net loss	308,236	9,068	738,415	21,280
Prepaid pension cost	\$-	\$-	\$-	\$-

The actuarial assumptions used are:

	Dec. 31,	
	2003	2002
Discount rate	3.5%	3.5%
Growth rate in compensation levels	3.5%	3.5%
Expected long-term rate of return on plan assets	3.5%	3.5%

As of December 31, 2003 and 2002, the vested benefit, based on the Bank's pension plan, amounted to NT\$1,768,323 thousand and NT\$557,065 thousand, respectively.

23. OPERATING EXPENSES

	2003		2002	
	NT	US	NT	US
Personnel expenses				
Salary expenses	\$3,174,897	\$93,407	\$2,536,009	\$73,084
Insurance expenses	303,534	8,930	251,543	7,249
Pension expenses	335,362	9,867	308,020	8,877
Others	572,590	16,846	487,422	14,047
Depreciation expenses	642,753	18,910	596,532	17,191
Amortization expenses	90,083	2,650	40,227	1,159
Total	\$5,119,219	\$150,610	\$4,219,753	\$121,607

24. INCOME TAX

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(1) The reconciliation between income tax payable and income tax expense (benefit) for the years ended December 31, 2002 and 2003 are as follows:

	Jan. 1~Dec. 31,			
	2003		2002	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (tax rate 25%)	\$-	\$-	\$-	\$-
Interest on short-term negotiable instruments (tax rate 20%)	73,627	2,166	259,592	7,481
Foreign branches' income tax	25,435	748	18,961	547
Deferred tax (benefit) expenses:				
Employees' welfare	-	-	5,628	162
Pension expenses exceed the allowance of law	-	-	(928)	(27)
Allowance for bad debt	386,341	11,366	(640,560)	(18,460)
Allowance for pledged assets taken-over	(58,767)	(1,729)	(456,788)	(13,164)
Provisions for possible losses	(6,501)	(191)	(674)	(19)
Foreign investment income recognized by the equity method	10,214	301	4,207	121
Operating loss carryforwards	(421,711)	(12,407)	(2,342,232)	(67,499)
Others	(4,804)	(141)	(3,525)	(102)
10% additional income tax on unappropriated earnings	-	-	7,192	207
Adjustment of prior period's income tax	(89,492)	(2,633)	29,127	839
Income tax (benefit) expenses	<u>\$ (85,658)</u>	<u>\$ (2,520)</u>	<u>\$ (3,120,000)</u>	<u>\$ (89,914)</u>

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

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Taxable temporary differences:				
Unrealized losses from intercompany transactions	\$24,544	\$722	\$25,151	\$725
Others	86,201	2,536	45,347	1,307
Deductible temporary differences:				
Allowance for bad debts	\$1,830,385	\$53,851	\$2,562,239	\$73,840
Allowance for pledged assets taken-over	2,062,220	60,671	1,827,152	52,656
Unrealized gain from intercompany transactions	19,696	579	20,307	585
Pension expenses exceed the limit of tax law	75,809	2,230	75,809	2,185
Provisions for possible losses	56,941	1,675	53,307	1,536
Others	127,176	3,742	104,806	3,020
Operating loss carryforwards	\$11,172,505	\$328,700	\$9,368,927	\$269,998

(To be continued)

(Continued)

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	2003		2002	
	NT	US	NT	US
Investment Credit	\$9,544	\$281	\$4,588	\$132
Deferred income tax assets of foreign branches	\$41,980	\$1,235	\$43,653	\$1,258

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
(3) Deferred tax assets	\$3,887,707	\$114,378	\$3,551,377	\$102,345
Deferred tax liabilities	(27,686)	(815)	(17,625)	(508)
Net deferred tax assets	<u>\$3,860,021</u>	<u>\$113,563</u>	<u>\$3,533,752</u>	<u>\$101,837</u>

- (4) The Bank's income tax returns for the year 1998 and the years prior to the 1998 had 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 could 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 tax authority is currently reviewing the claim.
- (8) Except for 1999, the ROC tax authority has examined and assessed the formerly Cathay United Bank's income tax returns through 2001. In connection with such examinations, withholding taxes on the interest income from bonds pertaining to periods when those bonds were held by other investors (the "bond withholding taxes") amounting to of NT\$46,298 thousand, NT\$37,542 thousand and NT\$4,658 thousand, in 1994, 1995 and 2001 respectively were disallowed by the tax authorities as deduction against the Bank's income tax obligations. The Bank is contesting the decisions made by the tax authorities and the amounts related to the disallowed bond withholding taxes have been accrued as taxes payable and tax expense for financial reporting purposes. As of December 31, 2003, the tax returns for 1994 and 1995 were under reassessment, after the supreme administrative and advanced administrative courts had both dismissed the prior assessments by the tax authority.
- (9) The related information of shareholders' deductible income tax is as follows:

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	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Shareholders' deductible income tax account	\$166,683	\$4,904	\$54,742	\$1,578
Un-appropriated earnings (accumulated deficit)	2,763,742	81,311	(8,582,898)	(247,345)

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:

	2003	2002
Shares issued at beginning of the year	3,971,563	3,771,665
Stock dividends in 2002 and retroactive adjustment	-	188,583
Shares issued by employed special bonus in 2002 and retroactive adjustment	-	11,315
Shares increased from stock exchange of the merged Bank Cathay United Bank	62,687	-
Weighted-averaged number of shares	<u>4,034,250</u>	<u>3,971,563</u>

	Jan. 1~Dec. 31, 2003			
	2003		2002	
	NT	US	NT	US
Income (loss) before income tax	\$2,620,401	\$77,093	\$(11,927,310)	\$(343,727)
Income tax benefit	85,658	2,520	3,120,000	89,914
Net income (loss)	<u>\$2,706,059</u>	<u>\$79,613</u>	<u>\$(8,807,310)</u>	<u>\$(253,813)</u>

Earning (deficit) per share (Expressed in dollars)				
Income (loss) before income tax	\$0.65	\$0.019	\$(3.00)	\$(0.086)
Income tax benefit	0.02	0.001	0.78	0.022
Net income (loss)	<u>\$0.67</u>	<u>\$0.020</u>	<u>\$(2.22)</u>	<u>\$(0.064)</u>

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

	Jan. 1-Dec. 31, 2002	
	NT	US
Net loss	<u>\$(8,749,594)</u>	<u>\$(252,150)</u>
Deficit per share (Expressed in dollars)	<u>\$(2.20)</u>	<u>\$(0.06)</u>

(2) According to the regulations issued by Securities and Futures Commission, the Bank

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should assume that the dividends of year 2002 and 2003 would be appropriated to the employee, directors and supervisors, and estimate earnings per share for the current year. However, the Bank had deficit for the year 2002, and the board of directors has not approved the distribution of year 2003. Consequently, no dividends were appropriated for those two years.

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.
Sanching Engineering Corp. and etc.	Related parties of Cathay Financial Group
Cathay Futures Corp. (formerly Seaward Futures Corp.)	Investee company in equity method
Seaward Leasing Ltd.	Investee company in equity method
Seaward Insurance Agent Corp.	Investee company in equity method
Huong Yee Co., Ltd.	Investee company in equity method (has been liquidated in July, 2003)
Taiwan Real-estate Management Corp.	Investee company in equity Method
Taiwan Finance Corp.	Investee company in equity Method
Seaward Card Co., Ltd.	Investee company in equity method
Seaward Property Insurance Agent Corp.	Investee company in equity method (has been liquidated in October, 2003)
Indovina Bank	Investee company in equity method
Cathay Bank Life Insurance Agency of Association	Investee company in equity method
Cathay Bank Property Agency of Association	Investee company in equity method
Cathay Venture capital Corp.	Investee company in equity method
Vista Technology Venture Capital Corp.	Investee company in equity method
Gemfor Tech. Co.	Their Chairman of the Board is the director of the Bank (resigned since year 2003)
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:

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(1) Account balances

Account/Related Parties	Dec. 31,						% of account
	2003			2002			
	NT	US	% of account	NT	US	% of account	
Due from Commercial Banks							
Taiwan Cooperative Bank	\$-	\$-	-%	\$116,470	\$3,356	9.62%	
Due to Commercial Banks							
Taiwan Cooperative Bank	-	-	-%	100,555	2,898	0.41%	
Formerly Cathay United Bank (Note 1)	-	-	-%	88	3	-%	
Bills and loans	4,488,895	132,065	0.87%	5,099,960	146,973	1.27%	
Deposits	27,904,961	820,976	4.23%	30,849,280	889,028	7.70%	
	Maximum balance		Dec. 31 balance		Interest		Interest rate
Call Loans to Banks	NT	US	NT	US	NT	US	
<u>Jan. 1~Dec. 31, 2003</u>							
Formerly Cathay United Bank (Note1)	\$1,038,300	\$29,922	\$-	\$-	\$6,799	\$200	1.02%-1.54%
<u>Jan. 1~Dec. 31, 2002</u>							
China Bills Finance Corp.	\$800,000	\$23,055	\$400,000	\$11,527	\$866	\$25	1.60%-2.3%
Taiwan Finance Corp.	300,000	8,646	-	-	448	13	1.60%-2.3%
Taipei Cooperative Bank	5,176,040	149,165	-	-	2,857	82	0.03%-3.32%
Formerly Cathy United Bank (Note 1)	625,680	18,031	625,680	18,031	481	14	1.35%-1.78%
	Maximum balance		Dec. 31 balance		Interest		Interest rate
Call Loans from Banks	NT	US	NT	US	NT	US	
<u>Jan. 1~Dec. 31, 2002</u>							
China Bills Finance Corp.	\$512,000	\$14,755	\$-	\$-	\$114	\$3	2.20%-2.30%
Formerly Cathay United Bank (Note 1)	586,640	16,906	-	-	396	11	1.68%-1.76%
Taipei Cooperative Bank	5,021,400	144,709	-	-	6,939	200	1.45%-2.30%

Note 1: UWCCB merged with formerly Cathay United Bank on October 27, 2003. After the merger, UWCCB is the Surviving Bank.

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

(2) Lease

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	Jan. 1~ Dec. 31,			
	2003		2002	
	NT	US	NT	US
<u>Rental Income</u>				
Seaward Leasing Ltd.	\$1,996	\$59	\$2,034	\$59
Taipei Smart Card Corp.	6,874	202	-	-
Culture and Charity Foundation of the UWCCB	250	7	500	14
<u>Rental Expense</u>				
Seaward Leasing Ltd.	\$229	\$7	\$-	\$-
Cathay Life Insurance Co., Ltd	187,088	5,504	-	-

	Dec. 31,			
	2003		2002	
	NT	US	NT	US
<u>Refundable Deposits</u>				
Seaward Leasing Ltd. (Note 2)	\$42,000	\$1,236	\$42,180	\$1,216
Cathay Life Insurance Co., Ltd	65,964	1,941	-	-

Note 2: The Bank regards interest from refundable deposits as rental expense to Seaward Leasing Ltd.

Related Parties	Jan. 1~ Dec. 31,			
	2003		2002	
	NT	US	NT	US
<u>(3) Credit Card Processing Charges</u>				
Cathay Futures Corp. (formerly Seaward Futures Corp.)	\$3,104	\$91	\$1,658	\$48
Formerly Cathay United Bank (Note 1)	133	4	-	-
<u>(4) Commissions and Handling Fees</u>				
Seaward Card Co., Ltd.	\$351,892	\$10,353	\$261,753	\$7,543
<u>(5) Insurance Expense</u>				
Cathay Life Insurance Co., Ltd.	\$145,764	\$4,288	\$-	\$-
Cathay Century Insurance Co., Ltd	4,334	128	-	-

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<u>Related Parties</u>	<u>2003</u>		<u>2002</u>	
	<u>NT</u>	<u>US</u>	<u>NT</u>	<u>US</u>
(6) <u>Accrued Expenses</u>				
Seaward Card Co., Ltd.	\$46,866	\$1,379	\$25,500	\$735

(7) Property Transactions

- a. The Bank has received the contract price of NT\$27,739 thousand from Seaward Leasing Ltd. for the sale of real estate in 2002.
- b. In December 2002, the Bank entered into the contract amounting to 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 year of 2002.
- d. The Bank has paid the project and construction management services fee to Taiwan Real-estate Management Corp. for NT\$3,908 thousand and NT\$1,665 thousand during the year of 2003 and 2002, respectively.
- e. The Bank has paid the typing system for 24-hour self-service banking center to Sanching Engineering Corp. for NT\$ 505,756 thousand during the year of 2003.
- f. As of December 31, 2003, the Bank entered into Cross-currency Interest Rate Swaps with Cathay Life Insurance Co., Ltd. with the contract price amounted to US\$470,000 thousand.

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 December 31, 2003, the Bank had the following commitments and contingent liabilities,

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which are not, reflected in the abovementioned financial statements:

	NT\$	US\$
1. Entrusted Items and Guarantees:		
Securities purchased under agreements to resell	\$486,480	\$14,312
Securities sold under agreements to repurchase	29,749,447	875,241
Trust and security held for safe keeping	489,689,485	14,406,869
Guarantees on duties and contracts	789,665	23,232
Unused commercial letters of credit	71,774,400	2,111,633
Loan commitments	16,294,515	479,391
Credit card lines	2,599,935	76,491
Travelers checks for sale	2,966	87
Bills for collection	19,647,927	578,050
Stamp tax, securities and memorial currency consignments in	218,487,571	6,427,996

2. As of December 31, 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. 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.

3. As of December 31, 2003, the Bank has entered into certain contracts to purchase premises and equipments totaling NT\$1,558,076 thousand with prepayments of

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NT\$1,047,629 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 information is as follows:

(1) The contract (nominal) amounts, credit risks, and fair values of derivative transactions were as follows(In thousands of US Dollars)

Derivative Financial Instruments	Dec. 31, 2003		
	Notional Amount	Credit Risk	Fair Market Value
For Trading Purpose			
Forward Contracts	\$2,240,227	\$136,448	\$(19,603)
For Non-trading Purpose			
Interest rate swaps	736,352	5,162	7,576
Cross-currency interest rate swaps	294,222	5,011	7,163

Derivative Financial Instruments	Dec. 31, 2002		
	Notional Amount	Credit Risk	Fair Market Value
For Trading Purpose			
Forward Contracts	\$759,394	\$12,913	\$8,120
For Non-trading Purpose			
Interest rate swaps	177,050	7,460	24,610
Cross-currency interest rate swaps	87,510	1,982	4,961

Credit risk is the possibility of loss if 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

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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.

Interest rate swaps entered into by the Bank with remaining maturities ranging from two months to eight years and six months on December 31, 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 two years and one month to two years and ten months on December 31, 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 non-trading 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.

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	Dec. 31,	
	2003	2002
Interest rate risk	\$283,955	\$761,066
Foreign exchange risk	310,941	274,550

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	Dec. 31,	
	2003	2002
0-1 year	\$2,793	\$1,871
1-2 year	2,793	1,434
2-3 year	2,381	1,434
3-4 year	1,252	1,235
4 year	951	966

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 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	
	Dec. 31, 2003	Dec. 31, 2002
Interest rate swaps	\$736,352	\$177,050
Cross-currency interest rate swaps	294,222	87,510

(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 entries 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 types 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:

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	Dec. 31,			
	2003		2002	
	NT	US	NT	US
Securities purchase under agreements to resell	\$486,480	\$14,312	\$3,619,162	\$104,299
Securities sold under agreements to repurchase	29,749,447	875,241	21,739,849	626,509
Loan commitments	19,647,927	578,050	20,365,943	586,915
Credit card lines	218,487,571	6,427,996	34,373,577	990,593
Guaranty and Commercial letters of credit	18,894,451	555,883	14,526,641	418,635

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 LOSSES

There had been no material significant disaster losses occurred during the year.

IX. SIGNIFICANT SUBSEQUENT EVENT

There have been no material post-balance sheet events which require disclosure or adjustments to the 31 December 2003 financial statements..

X. OTHERS

1. Fair value of non-derivative financial instruments

As of December 31, 2003 and 2002, except for the table summarize below, the carrying amounts of financial assets and liabilities reported on the balance sheets are approximate their carrying values:

Dec. 31,

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Financial Assets	2003				2002			
	Carrying Value		Fair Value		Carrying Value		Fair Value	
	NT	US	NT	US	NT	US	NT	US
Securities purchased	\$166,843,309	\$4,908,600	\$167,162,137	\$4,917,980	\$105,171,935	\$3,030,891	\$106,635,506	\$3,073,069
Long-term Investments	26,441,388	711,917	26,532,513	780,598	12,153,144	350,235	12,348,770	355,872

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

2. Others

(1) Information on concentrations of credit risk

The concentrations of credit risk exist when the counter-party to financial instrument transactions are either concentrated in certain individuals or group of individuals engaged in similar activities or having activities in the same region, which would impair their ability to meet contractual obligations under negative economic or other conditions. The Bank has not transacted with one single customer or entered into one single transaction which would expose the Bank into concentration risk. However, the Bank is likely exposed to industry concentration risk. The Bank's information on concentration of credit risk is as follows:

Bills and loans, customers' liabilities under acceptances and guarantees account	Dec. 31,			
	2002		2003	
	NT	US	NT	US
Geographic Region				
Domestic	\$512,062,640	\$15,065,097	\$391,855,681	\$11,292,671
South East Asia	10,354,093	304,622	9,474,148	273,030
North East Asia	259,898	7,646	417,710	12,038
North America	6,894,411	202,836	6,602,262	190,267
Others	5,909,366	173,856	5,730,178	165,135
Total	<u>\$535,480,408</u>	<u>\$15,754,057</u>	<u>\$414,079,979</u>	<u>\$11,933,141</u>

(To be continued)

(Continued)

Dec. 31,			
2002		2003	

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Bills and loans, customers' liabilities under acceptances and guarantees account	NT	US	NT	US
Industry type				
Manufacturing	\$65,664,461	\$1,931,876	\$52,138,298	\$1,502,545
Financial institutions and insurance	28,320,639	833,205	25,815,297	743,957
Leasing and real estate	70,914,517	2,086,334	66,797,682	1,925,005
Individuals	258,982,514	7,619,374	166,615,700	4,801,605
Others	111,598,277	3,283,268	102,713,002	2,960,029
Total	<u>\$535,480,408</u>	<u>\$15,754,057</u>	<u>\$414,079,979</u>	<u>\$11,933,141</u>
Credit Card				
Global Card	\$18,784	\$552	\$-	\$-
Platinum Card	3,081,605	90,662	-	-
Gold card	5,550,022	163,284	8,596,710	247,744
Regular card	2,792,472	82,156	2,589,786	74,633
Others	35,204	1,036	-	-
Advance	7,000	206	-	-
Total	<u>\$11,485,087</u>	<u>\$337,896</u>	<u>\$11,186,496</u>	<u>\$322,377</u>

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) AVERAGE BALANCES AND AVERAGE INTEREST RATE OF INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES

	Jan. 1~ Dec. 31, 2003		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from Central Bank	\$50,595,397	\$1,488,538	1.35%
Time certificate, accepted bills... etc.	90,015,907	2,648,306	1.62%
Due from other banks	31,533,374	927,725	1.36%
Bills and loans	472,897,606	13,912,845	4.19%
Government and corporate bonds	83,763,390	2,646,354	3.32%
Receivables-credit card	17,223,912	506,735	10.44%
Liabilities			
Due to banks	\$58,515,174	\$1,721,541	1.41%
Demand deposits	70,047,474	2,060,826	0.18%
Saving deposits	354,410,503	10,426,905	0.90%
Certified deposits	171,905,245	5,057,524	1.28%
Negotiable certificates of certified deposits	6,175,558	181,687	1.34%
Banker's debenture	14,145,833	416,176	4.00%
Bank's acceptances and fund borrowed	2,245,567	66,066	1.64%
	Jan. 1~ Dec. 31, 2002		
	Average balance		Average rate

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	NT	US	(%)
Assets			
Due from Central Bank	\$28,412,703	\$818,810	1.83%
Time certificate, accepted bills... etc.	101,925,593	2,937,337	2.36%
Due from other banks	26,755,422	771,050	2.16%
Bills and Loans	384,047,932	11,067,664	5.66%
Government and corporate bonds	60,182,698	1,734,372	4.38%
Receivables-credit card	9,233,318	266,090	13.62%
Liabilities			
Due to banks	\$42,140,365	\$1,214,420	2.38%
Demand deposits	58,381,621	1,682,467	0.59%
Saving deposits	301,367,113	8,684,931	1.61%
Certified deposits	179,785,854	5,181,149	2.30%
Negotiable certificates of certified deposits	7,611,840	219,361	2.37%
Banker's debenture	7,500,000	216,138	4.16%
Bank's acceptances and fund borrowed	2,236,281	64,446	2.33%

(3) Regulatory capital ratio

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

As of December 31, 2003 and 2002, the ratios (included subsidiaries) of the Bank's shareholders' equity to its risk-weighted assets were 11.15% (11.58%) and 10.79% (11.44%), respectively. The equation to calculate such ratios are listed below:

Eligible capital-Deduction item

Weighted risk assets + Capital charges for market risk positions $\times 12.5$

(4) As of December 31, 2003 and 2002, the insurance coverage of the Bank's premises and equipments are NT\$8,311,639 thousand and NT\$6,919,958 thousand, respectively.

(5) In order to mitigate future delinquencies, on June 10, 2002, the board of directors decide to sell non-performing loans amounted to approximately NT\$8 billion, includes

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approximately NT\$4.6 billion thousand loans and approximately NT\$3.4 billion thousand un-collectible receivable principle and interest. The Bank entered into a loan sale and purchase agreement through open bid with China Development Assets Management Corp. (CDAMC). to sell non-performing loans on October 24, 2002. CDAMC paid the 20% , 30%, 25%,and 25% of the total contract amount at the bid date , the settlement date (December 20, 2002) , and six months and twelve months after the settlement date, respectively. As of December 31, 2003, the amounts mentioned above have been collected.

- (6) The formerly Cathay United Bank entered into a contract with Taiwan Assets Management Corporation (TAMC).to transfer its non-performing loan amounted to NT\$1,895,110 on March 22, 2002 . Under the contract, if TAMC receives income from the disposal of said non-performing loan greater than its cost, any profit earned by TAMC shall be shared 50% with the Bank. The resulting losses of NT\$1,894,609,. according to Article 15 of the ROC Financial Institution Merger Act, could be amortized within 5 years since April 11,2002 (The settlement date) , and the un-amortized loss on the transfer of above non-performing loan amounting to NT\$1,294,326 at October 27, 2003, was charged to statement of income after the merger.
- (7) Certain accounts for the financial statements of the periods ended December 31, 2002 have been reclassified to conform to the current presentation.
- (8) In accordance with the Trust Laws, the assets and liabilities managed under the Bank's trust are as follows:

Balance Sheet Based on Trust
Dec. 31, 2003

	Trust Assets			Trust Liabilities	
	New Taiwan Dollars	U.S. Dollars		New Taiwan Dollars	U.S. Dollars
Cash and Cash equivalents	\$3,472,460	\$102,161	Money	\$55,328,862	\$1,627,798
Short-term investments	17,830	525	Real Estate	1,455,712	42,828
Trust Funds	52,053,838	1,531,446			
Fixed Assets	1,240,446	36,494			
Total	\$56,784,574	\$1,670,626	Total	\$56,784,574	\$1,670,626

Details of Trust Properties

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Item	Amount	
	New Taiwan Dollars	U.S. Dollars
Deposits	\$3,472,460	\$102,161
Bond Investment	3,373	99
Fund Investment	52,068,295	1,531,871
Fixed Assets	1,240,446	36,495
Total	\$56,784,574	\$1,670,626