
Independent Auditors' Report

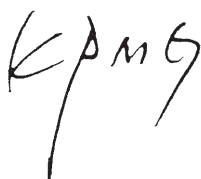
The Board of Directors

Chinatrust Financial Holding Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Chinatrust Financial Holding Co., Ltd. and subsidiaries as of December 31, 2002, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the period from May 17, 2002 to December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain subsidiaries of which the statements reflect total assets constituting 11.35 percent and total operating revenues constituting 12.32 percent of the related consolidated totals for the period from May 17, 2002 to December 31, 2002. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for those subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chinatrust Financial Holding Co., Ltd. and subsidiaries as of December 31, 2002, and the results of their operations and their cash flows for the period from May 17, 2002 to December 31, 2002, in conformity with accounting principles generally accepted in Republic of China.



Taipei, Taiwan, R.O.C.
February 7, 2003

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

Consolidated Balance Sheet

December 31, 2002
(New Taiwan Dollars in Thousands)

	December 31, 2002	
	Amount	%
ASSETS		
Cash (Note 4.1)	\$ 11,191,069	1
Call loan to and due from banks	21,169,427	3
Deposits with the Central Bank (Notes 4.2 and 6)	24,992,643	3
Marketable securities (Notes 2, 4.3 and 6)	150,093,314	16
Less: Allowance for market decline	(907,218)	-
	<u>149,186,096</u>	<u>16</u>
Receivables (Notes 2 and 4.4)	87,908,234	9
Less: Allowance for credit losses	(2,302,254)	-
	<u>85,605,980</u>	<u>9</u>
Loans (Notes 2, 4.5 and 5)	603,071,923	64
Less : Allowance for credit losses	(9,874,157)	(1)
	<u>593,197,766</u>	<u>63</u>
Long-term investments (Notes 2 and 4.6)	3,644,019	-
Premises and property (Notes 2 and 4.7)		
Land and buildings, net	24,536,248	3
Equipments and other properties, net	3,543,838	-
	<u>28,080,086</u>	<u>3</u>
Other assets (Notes 2, 4.8, and 6)	19,532,778	2
TOTAL ASSETS	<u>\$ 936,599,864</u>	<u>100</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Call loans from and due to banks (Note 4.9)	\$ 53,031,617	6
Payables (Note 4.10)	21,848,411	2
Deposits at interest (Notes 4.11 and 5)	728,203,566	78
Borrowings and other financing (Note 4.12)	47,815,766	5
Other liabilities	6,490,843	1
Total liabilities	<u>857,390,203</u>	<u>92</u>
Minority interest	63,243	-
Stockholders' equity		
Common stock (Note 4.13)	46,054,268	5
Preferred stock (Note 4.13)	2,500,000	-
Capital surplus (Note 4.14)	30,902,024	3
Retained earnings	6,577,241	1
Unrealized long - term equity investments market decline	(1,270,188)	-
Cumulative translation adjustments	(604,964)	-
Treasury stock (Notes 2 and 4.15)	(5,011,963)	(1)
Total Stockholders' Equity	<u>79,146,418</u>	<u>8</u>
Commitments and Contingencies (Note 7)		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 936,599,864</u>	<u>100</u>

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

Consolidated Statement of Income

For the Period From May 17, 2002 to December 31, 2002
(New Taiwan Dollars in Thousands, Except for EPS)

	May 17, 2002~December 31, 2002	
	Amount	%
Operating Revenues :		
Interest income	\$ 49,924,597	77
Commission and handling fees	10,461,154	16
Gain on marketable securities, net	3,084,229	5
Exchange gain, net	1,199,176	2
Rental revenue	191,560	-
Other operating revenues	36,638	-
Total Operating Revenues	<u>64,897,354</u>	<u>100</u>
Operating Costs:		
Interest expense (Note 4.20)	(16,555,179)	(26)
Handling fees paid	(1,010,514)	(1)
Loss on long-term equity investments, net	(9,695)	-
Provisions for allowances and reserves	(10,422,218)	(16)
Loss on financial derivatives, net	(491,345)	(1)
Other operating costs	(113,125)	-
Total Operating Costs	<u>(28,602,076)</u>	<u>(44)</u>
Gross Margin	36,295,278	56
Operating Expenses	(19,754,015)	(30)
Taxes	(1,114,927)	(2)
Operating Income	<u>15,426,336</u>	<u>24</u>
Non-Operating Revenues	340,668	-
Non-Operating Expenses	(145,326)	-
Income Before Income Tax	15,621,678	24
Income Tax Expense (Notes 2 and 4.18)	(3,842,954)	(6)
Combined Net Income	<u>11,778,724</u>	<u>18</u>
Less: Minority interest income	(15,268)	-
Income before merger and acquisition	(5,186,215)	(8)
Consolidated Net Income	<u>\$ 6,577,241</u>	<u>10</u>
	After income tax	
Basic EPS (Notes 2 and 4.23)	<u>\$ 1.36</u>	
Diluted EPS (Notes 2 and 4.23)	<u>\$ 1.32</u>	
Pro forma data assuming Company shares held by subsidiaries are not considered treasury stock but investments:		
Consolidated Net Income	<u>\$ 6,577,241</u>	
	After income tax	
Basic EPS	<u>\$ 1.30</u>	
Diluted EPS	<u>\$ 1.26</u>	

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

Consolidated Statement of Changes in Stockholders' Equity

For the Period From May 17, 2002 to December 31, 2002
(New Taiwan Dollars in Thousands)

	Common stock	Preferred stock	Capital surplus	Retained earnings	Unrealized loss on long-term equity investments due to market decline	Cumulative translation adjustments	Treasury stock	Total
Established on May 17, 2002 through stock conversion	\$46,054,268	\$2,500,000	\$30,896,474		\$(1,241,729)	\$(522,570)	\$(4,774,086)	\$72,912,357
Recognition of capital surplus of subsidiaries	-	-	5,550	-	-	-	-	5,550
Recognition of translation adjustment of subsidiaries	-	-	-	-	-	(82,394)	-	(82,394)
Recognition of unrealized loss on long-term equity investments of subsidiaries	-	-	-	-	(28,459)	-	-	(28,459)
Effect of restructuring on long-term investments				(241,280)				(241,280)
Recognition of accumulated earnings of subsidiaries				241,280				241,280
Purchase of treasury stock							(237,877)	(237,877)
Net income for the period from May 17, 2002 to December 31, 2002	-	-	-	6,577,241	-	-	-	6,577,241
Ending Balance - December 31, 2002	<u>\$46,054,268</u>	<u>\$2,500,000</u>	<u>\$30,902,024</u>	<u>\$6,577,241</u>	<u>\$(1,270,188)</u>	<u>\$(604,964)</u>	<u>\$(5,011,963)</u>	<u>\$79,146,418</u>

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

Consolidated Statement of Cash Flows

For the Period From May 17, 2002 to December 31, 2002
(New Taiwan Dollars in Thousands)

Cash flows from operating activities:	May 17, 2002 ~ December 31, 2002
Consolidated net income	\$ 6,577,241
Adjustments to reconcile net income to net cash provided by operating activities:	
Minority interest income	15,268
Income before merger and acquisition	5,186,215
Depreciation and amortization	1,752,459
Gain on investment recognized under the equity method over cash dividends received	4,055
Loss on disposal of long-term investment	22,195
Loss on reclassification	3,668
Amortization of bonds premium	2,928
Loss on disposition of premises and property and collaterals	154,968
Loss on scrapping of premises and property	17,300
Provision for allowance for credit losses	11,768,799
Provision for allowance for market decline in marketable securities	709,189
Reversal of guarantee reserve	(91,657)
Provision for securities trading loss reserve	(7,392)
Provision for market decline in collaterals received	212,849
Provision for pension liability	944
Provision for default loss	6,963
Exchange gain	35,783
Others	12,609
Changes in operating assets and liabilities:	
Interest accrued on convertible bond	281,842
Receivables	(168,140)
Marketable securities	(17,551,760)
Trading securities	(919,600)
Payables	(1,923,397)
Bonds sold under repurchase agreements	197,715
Trading financial derivatives, net	215,023
Non-trading financial derivatives, net	(74,421)
Net cash provided by operating activities	<u>6,441,646</u>
Cash flows from investing activities:	
Increase in loans	(46,528,315)
Purchase of funds and long-term equity investments	(105,907)
Increase in receivables	(2,880,352)
Proceeds from disposal of long-term equity investments	255,452
Proceeds from disposition of premises and property and collaterals	1,335,582
Purchase of premises and property	(1,865,590)
Increase in deposits with the Central Bank (excluding cash equivalents)	(795,101)
Decrease in deposits with others banks (excluding cash equivalents)	(4,644,433)
Decrease in other assets	(6,510,818)
Net cash used in investing activities	<u>(61,739,482)</u>
Cash flows from financing activities:	
Increase in borrowings and other financing	15,785,557
Increase in call loans from banks	4,990,467
Increase in payables	1,647,232
Increase in deposits	14,752,038
Increase in other liabilities	1,106,416
Remuneration to directors and supervisors	(188,172)
Employee bonus	(201,109)
Repurchase of treasury stock	(1,868,425)
Preferred stock dividends	(612,000)
Common stock cash dividends	(3,996,652)
Net cash provided by financing activities	<u>31,415,352</u>
Exchange rate effects	<u>(42,819)</u>
Net decrease in cash and cash equivalents	(23,925,303)
Cash and cash equivalents, beginning of the year	81,670,050
Cash and cash equivalents, end of the year	<u>\$ 57,744,747</u>
Cash and cash equivalents(Note 2)	
Cash	\$ 11,191,069
Deposits with other banks	9,482,960
Deposits with the Central Bank	10,446,229
Negotiable certificate of time deposits purchased	18,036,316
Commercial paper	8,588,173
Supplemental disclosures of cash flow information:	<u>\$ 57,744,747</u>
Cash paid during the year for:	
Interest paid	<u>\$ 19,204,461</u>
Guaranteed interest on trust funds	<u>\$ 129,741</u>
Income taxes	<u>\$ 1,622,552</u>
Non-cash financing and investing activities:	
Employees bonus	<u>\$ 77</u>

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

Notes to Consolidated Financial Statements

(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

1. Basis of Presentation

Chinatrust Financial Holding Company, Ltd. (the "Company") was established on May 17, 2002 through a stock conversion (conversion ratio: one to one) with Chinatrust Commercial Bank, Ltd. On the same date, after approval from the Securities & Futures Commissions ("SFC") under the Ministry of Finance ("MOF"), shares of the Company started to trade publicly, while shares of the Chinatrust Commercial Bank, Ltd. were delisted.

The Company conducts business in the following areas:

(1) The Company is approved to invest in the following businesses:

- A. Banking.
- B. Bills financing.
- C. Credit Cards.
- D. Trusts.
- E. Insurance.
- F. Securities.
- G. Futures.
- H. Venture Capital.
- I. Investments in overseas financial institutions as approved by the MOF.
- J. Other related financing as approved by the MOF.
- K. Other related investments.

(2) Management of above businesses.

(3) Investments in businesses other than the ones listed in (1) as approved by the MOF.

(4) Other related businesses as approved by the MOF.

As of December 31, 2002, issued capital of the Company's investee, Chinatrust Commercial Bank, Ltd. amounted to common stock of \$46,054,268 and preferred stock of \$2,500,000. As of December 31, 2002, the Company acquired 100% ownership. Primary business scope is commercial banking.

As of December 31, 2002, issued capital of the investee company, Chinatrust Securities Corp., Ltd. amounted to \$3,500,000, representing 350,000,000 common shares of par value NT\$10 per share. As of December 31, 2002, the Company held 348,048,575 shares, equal to 99.44% ownership. It primarily engages in the securities and futures business.

As of December 31, 2002, issued capital of the investee company, Chinatrust Insurance Brokers Co., Ltd. amounted to \$2,000, representing 200,000 common shares of par value NT\$10 per share. As of December 31, 2002, the Company held 200,000 shares, equal to 100% ownership. It primarily engages in the property insurance and life insurance brokerage.

As of December 31, 2002, issued capital of Chinatrust (Philippines) Commercial Bank Corporation, a subsidiary of Chinatrust Commercial Bank, Ltd. amounted to Philippines pesos 1,875,000,000, representing 187,500,000 common shares with par value of 10 Philippines pesos per share. As of December 31, 2002, the Company's investee, Chinatrust Commercial Bank, Ltd. held 186,386,255 shares, equal to 99.41% ownership. Primary business scope is commercial banking and financing business.

As of December 31, 2002, issued capital of Chinatrust Bills Finance Corp., a subsidiary of Chinatrust Commercial Bank, Ltd. amounted to \$3,725,000, representing 372,500,000 common shares with par value of NT\$10 per share. As of December 31, 2002, the Company's investee, Chinatrust Commercial Bank, Ltd. held 327,494,000 shares, equal to 99.998% ownership. It primarily engages in proprietary trading and brokerage of short-term bills and the underwriting, certification, guarantee and endorsement of commercial paper.

As of December 31, 2002, issued capital of PT Bank Chinatrust Indonesia, a subsidiary of Chinatrust Commercial Bank, Ltd. amounted to Rupiah 150,000,000,000, representing 1,500 common shares with par value of Rupiah 100,000,000 per share. As of December 31, 2002, the Company's investee, Chinatrust Commercial Bank, Ltd. held 1,485 shares, equal to 99.00% ownership. Its primary business scope is commercial banking and financing business.

As of December 31, 2002, issued capital of CTC Bank of Canada, a subsidiary of Chinatrust Commercial Bank, Ltd. amounted to CAD 15,000,000, representing 1,500,000 common shares with par value of CAD10 per share. As of December 31, 2002, the Company's investee, Chinatrust Commercial Bank, Ltd. held 1,500,000 shares, 100% ownership. Its primary business scope is commercial banking and financing business.

As of December 31, 2002, issued capital of China Trust Capital AS, a subsidiary of Chinatrust Commercial Bank, Ltd. amounted to US\$79,000, representing 600 common shares with par value of US\$132 per share. As of December 31, 2002, the Company's investee, Chinatrust Commercial Bank, Ltd. held all its 600 shares. It primarily engages in the business of securities investment.

As of December 31, 2002, issued capital of China Trust Holding Corp., a subsidiary of Chinatrust Commercial Bank, Ltd. amounted to US\$1,336 representing 1,336 common shares with par value of US\$1 per share. As of December 31, 2002, the Company's investee, Chinatrust Commercial Bank, Ltd. held 890 shares, equal to 66.62% ownership. It primarily engages in securities investment.

The Company's investee, Chinatrust Commercial Bank, Ltd. invested in Chinatrust Bank (U.S.A.) through its holdings of China Trust Capital AS and China Trust Holdings Corp. As of December 31, 2002, paid-in capital amounted to preferred stock of US\$500,000 and common stock of US\$99,693. As of December 31, 2002, ownership by the Company's investee, Chinatrust Commercial Bank, Ltd. was 100%, and it primarily engages in commercial banking.

According to the requirements set forth in the Statement of Financial Accounting Standards No.7, "Consolidated Financial Statements", the Company's investee, Chinatrust Commercial Bank, Ltd. compiles consolidated financial statements to include accounts of the investee companies where the ownership by the Company's investee, Chinatrust Commercial Bank, Ltd. exceeds 50%. These companies include Chinatrust (Philippines) Commercial Bank Corporation, Chinatrust Bills Finance Corp., CTC Bank of Canada, PT Bank Chinatrust Indonesia, China Trust Capital AS and China Trust Holding Corp. Detailed information on unconsolidated investee companies are shown below:

<u>Name of Investee Company</u>	<u>Primary business scope</u>	<u>Ownership</u>	<u>Reasons for non-consolidation</u>
Chinatrust Securities Investment Consultancy Co., Ltd.	Securities investment and consultancy services	99.40%	Total assets and total operating income do not exceed 10% of the Company's investee, Chinatrust Commercial Bank, Ltd.'s respective accounts. Also, total assets and total operating income of all such investee companies do not exceed 30% of Chinatrust Commercial Bank, Ltd.'s respective accounts.
Chinatrust Forex Corp.	Foreign exchange brokerage	Chinatrust Forex Corp. and Chinatrust (Philippines) Commercial Bank Corp. hold all shares.	"

2. Summary of Significant Accounting Policies

a. Statements of Cash Flows

For purposes of the statement, cash equivalents are defined as short-term and highly liquid investments readily convertible to known amounts of cash or will mature with short notice. Interest rate volatility has little effect on their values.

b. Accounts Receivable

For the Company's investee, Chinatrust Commercial Bank, Ltd., consumer loans to cardholders are reflected by the amounts reported by merchants, excluding unearned interest, and interest is recognized on accrual basis under the interest method. Credit card loans or accrued interest that is 6 months past due are reclassified to non-accrual account. Interest thereafter collected is included in earnings only to the extent of cash actually received.

Chinatrust Commercial Bank, Ltd. engages in factoring and management of accounts receivable. The interest and transaction fee from the factoring and management of such accounts are treated as current income. An allowance for credit losses is provided by reviewing the balance of accounts at year-end.

Unpaid accounts receivables purchased from the companies which sell the respective receivables are reflected under "payables."

c. Loans

For the Company's investee, Chinatrust Commercial Bank, Ltd., loans are reflected by the amount of principal outstanding, excluding unearned interest, and interest is recognized on accrual basis under the interest method. Should either of the following conditions occur, interest accrual should be suspended and such loans are reclassified to non-accrual account:

- (1) Collection of principal or interest accrued is considered highly unlikely; or
- (2) Principal or interest is 6 months past due, or the collateral received is insufficient to cover unpaid principal and accrued interest.

Interest thereafter collected is included in earnings only to the extent of cash actually received.

d. Allowance for Credit Losses

For the Company's investee, Chinatrust Commercial Bank, Ltd., the allowance for credit losses is a significant estimate regularly evaluated by the management for adequacy and is established through a charge to the provision for credit losses. This evaluation considers quality of the overall portfolio, which comprises of loans, accounts receivable and overdue, outstanding guarantees, and review of specific delinquent claims. Risk of specific delinquent claims refers to the default likelihood and is subject to review under internal risk ratings. Risk of overall claims is reviewed based on past experiences. Accounts overdue deemed as uncollectible are written off upon approval of the Board of Directors.

e. Marketable Securities

Under Article 74-1 of the Banking Law, marketable securities, either listed or OTC stocks, are valued at the lower of total cost or market, a practice commonly adopted in the banking industry. Per SFC regulations, market values are determined by the average closing prices of the last month of a fiscal year, except for underwritten securities, which are valued by the closing prices on the balance sheet date.

Government bonds and corporate bonds are valued at the lower of total cost or market if market quotes are available; otherwise they are carried at par and adjusted by accumulated amortization of discount or premium. Financial debentures, bank acceptances, commercial paper and Treasury bills are carried at cost. Overseas debt securities are valued at the lower of total cost or market, and the redeemable value is used if it is lower than market prices.

Loss due to market decline or gain on recovery of marketable securities which are valued at the lower of total cost or market are stated under gain on marketable securities as unrealized gain or loss. Gain on short-term notes transactions is stated under interest income.

Trading securities are valued at the lower of total cost or market at year-end, with proprietary and underwriting trading valued separately. When the market is lower than cost, an allowance for market decline is provided and will be deducted on subsequent market recovery. Such recovery is limited to the extent of allowance provided.

Securities listed on the Emerging Stock Market are carried at cost and accounted for under the cost method.

Hedged positions are valued at lower of total cost or market at year-end according to newly purchased or originally held securities used for hedging purposes. When the market is lower than cost, an allowance for market decline for hedge positions is provided and will be deducted on subsequent market recovery. Such recovery is limited to the extent of allowance provided.

Upon sale, cost of trading securities is calculated by the moving-average method.

f. Long-Term Equity and Real Estate Investments

According to Accounting Research and Development Foundation of the Republic of China Interpretation Letter No. (90) 182 dated October 29, 2001, when a financial holding company is established through conversion of shares of a financial institution, the invested capital of investments acquired by the financial holding company should be valued by taking the difference of their asset book value and liability book value. The portion at par value is capital stock and the portion in excess of par is capital surplus.

Long-term equity investments are carried at cost. Investments in listed companies with less than 20% ownership are valued at the lower of total cost or market value, and unrealized loss of market decline below cost is charged against stockholders' equity. Investments in non-listed companies are carried at cost. If impairment in value is other than temporary such that recovery of carrying amount is deemed unlikely, loss on investment is recognized currently.

Twenty-to-fifty-percent-owned affiliates are accounted for under the equity method. For majority-owned affiliates, per Financial Holding Company Law, the Company prepares consolidated financial statements at each quarter. However, if total assets and operating revenues of a subsidiary (excluding subsidiary banks and those required by MOF) do not exceed 10% of the Company's respective accounts, and if the combined assets or operating revenues of all such subsidiaries do not each exceed 30% of the Company's respective accounts, consolidated statements are not required.

Upon sale of long-term equity investments at cost, the moving-average method is used to compute cost, with gains or losses included in current revenue.

Real estate investments are carried at cost. If value impairment is other than temporary such that recovery of the carrying amount is unlikely, investment loss is recognized currently.

g. Premises, Equipment, and Depreciation

Premises and equipment are stated at cost or cost plus revaluation appreciation. Land is revalued by the government announced prices to adjust the carrying values. Major additions, improvement, and replacement are capitalized, while maintenance and repairs are charged to current earnings. Interests incurred in the acquisition of premises and equipment until their ready use are capitalized as part of the acquisition costs. Pursuant to the regulations set forth by the Paraguay government, the local branch revalues its assets annually per the government announced revaluation ratio, effective the second year of the branch's operation.

Depreciation of premises and equipment is provided by the straight-line method over the useful lives of the related assets as prescribed by the government. Premises and equipment still in use after full depreciation are depreciated by their estimated remaining useful lives. Useful lives of major premises and equipment are the following:

Buildings and premises	10 to 56 years
Transportation equipment	3 to 6 years
Miscellaneous equipment	3 to 10 years

h. Amortization

Software expenses are amortized over a period of 5 to 10 years.

i. Collateral

Collaterals received are stated by the estimated net realizable value, and the discrepancies from the original claims' nominal values are stated as credit losses. On the balance sheet date, if a collateral is still not disposed of, its net realizable value should be reassessed. Should there exists sufficient evidence indicating that the market value is lower than the book value, the difference is accounted for as current loss.

Disposal of collateral is reflected under provisions for allowances and reserves as recovery of doubtful accounts.

j. Convertible Bonds

Due to the inseparability of the conversion option and debt elements of the convertible bonds, the convertible bonds should be carried at the total proceeds received on the issuance day.

The direct and necessary costs of issuing convertible bonds should be recognized as issue expense and amortized using the straight-line method over the duration of the bond or over the period from issuance to expiry of the put option, whichever is shorter. If repayment occurs prior to maturity, then remaining unamortized issue expense is stated as current expense according to the proportion of early redemption.

The redemption premium of puttable convertible bonds, which is the difference between the specified put price and the par value, should be amortized by using the interest method and be recognized as a liability over the period from the issuance date of the bonds to the expiry date of the put option.

When bondholders exercise their conversion rights, the issuer should write off the unamortized issue costs, recognized redemption premium, and par value of the convertible bonds. The common stock exchange certificate and the common stock should be valued as the net written-off amount (book value approach). The excess of the net written-off carrying amount over the par value of the common stock exchange certificate or common stock should be recognized as additional paid-in capital.

k. Retirement Plan

The Company's investees – Chinatrust Commercial Bank, Ltd., Chinatrust Bills Finance Corp. and Chinatrust Securities Corp., Ltd. sponsor a retirement plan covering all regular employees and recognizes pension expenses according to the actuarial report. Annual contributions to their interest-bearing pension fund are within 15% of gross salaries paid. Pension fund is not reflected in the financial statements.

l. Guarantee Reserve

A guarantee reserve is provided for by evaluating the possibility of doubtful accounts occurring after reviewing the balances of guarantees issued and acceptances receivable at year-end.

m. Securities Trading Loss Reserve

In compliance with regulations governing security houses, the Company's subsidiaries are required to provide securities trading loss reserve at a rate of 10% of net gain on dealership of operating securities when net gain exceeds loss. The reserve is reversed in the month when the loss was realized and an allowance is provided to unrealized gain or loss reflected under gain to marketable securities. An allowance is made until the balance of the reserve reaches \$200,000.

n. Financial Derivatives

(1) Foreign Exchange Forward Contracts

Foreign-denominated assets and liabilities of foreign exchange forward contracts are recorded in New Taiwan Dollars and translated by exchange rates in effect as transactions occur. Gains or losses of exchange rate discrepancies at maturity are charged to current earnings. On the balance sheet date, unsettled positions are adjusted by the forward exchange rate for the remaining contract period, with differences caused thereby stated as current exchange gains or losses.

Accounts receivables and payables arising from forward contracts offset one another on the balance sheet date with the balance reflected as an asset or a liability.

(2) Non-Delivery Forward (NDF) Contracts

Since there is no physical transfer of principals in non-delivery forward transactions, only memorandum entries of notional principals are made on the contract date. On settlement, gains or losses due to differences between the prevailing and contract rates are included in current earnings. Unsettled positions on the balance sheet date are adjusted by the forward rates for the remaining contract period, with differences stated as exchange gain or loss.

(3) Foreign Currency Swaps

Memo entries of notional principals are made on the contract date for foreign currency swaps. On the balance sheet date, forward accounts receivables offset payables with difference reflected as an asset or a liability. Interest is accrued on the duration of contracts as receivable or payable for trading swaps. Gains and losses on settlement due to differences from the prevailing rate are included in current earnings. Gains and losses of unsettled positions are computed by differences between the contract and forward rates for the remaining contract periods. Interest is accrued on non-trading currency swaps over the duration of contracts. Receivables or payables accrued and the hedged positions are reported as current interest revenue or expense.

(4) Cross Currency Swaps

Memo entries of notional principals are made on the contract date for cross currency swaps. Forward accounts receivables offset payables on the balance sheet date with the difference reflected as other asset. For trading swaps, exchange gains and losses are the differences between the present and market value of principal and interest in New Taiwan dollars. Interest is accrued per contract terms and principal repayment of non-trading swaps, with receivables or payables resulted thereby and the hedged positions reported as current interest revenue or expense.

(5) Interest Rate Swaps

Since there is no physical transfer of principal, only memo entries of notional principals are made of interest rate swaps. For trading swaps, differences between the present and market values of interest receivables or payables are reported exchange gains or losses. For non-trading swaps, interests receivables or payables on settlement or the balance sheet date and the hedged positions are reported as current interest revenue or expenses.

(6) Options

Only memo entries of notional principals are made on the contract date for options. Premium collected or paid is reflected as interest revenue or expense. Differences in the market value of premium on the balance sheet date is stated as exchange gain or loss.

(7) Forward Interest Rate Agreements (FRA)

Only memorandum entries of notional principals are made on the contract date for forward interest 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.

(8) Asset-Backed Swaps

Convertible bonds are the underlying assets of asset-backed swaps. The Company swaps the fixed interest rate and difference in redeeming value of the bonds for floating rates at market with counter-parties. Interest computed by the floating rate at market is reported as interest revenue.

o. Translation of Foreign Currency

Foreign currency transactions are recorded in the functional currency. Foreign exchange gain and loss on settlement of foreign-denominated assets and liabilities and adjustments to such assets and liabilities by spot rates on the balance sheet date are included in current earnings.

Foreign-denominated assets and liabilities of overseas subsidiaries are translated at the spot rate of the balance sheets date; stockholders' equity is translated by historical rate except for the beginning balance of retained earnings, where the spot rate at the beginning of the year is used. Income statement accounts are translated at the weighted-average rate of the year, with difference reflected as translation adjustments to stockholders' equity.

p. Commitments and Contingencies

Should losses from commitments and contingencies be deemed highly likely and the amount can be reasonably estimated, such loss is recognized currently; otherwise only the nature of commitments and contingencies is disclosed in the notes to financial statements.

q. Income Taxes

The Company adopted SFAS No. 22 "Accounting for Income Taxes" to make inter- and intra- period income tax allocation, in addition to the calculation of current income tax expense (benefit). Further, income tax effects from taxable temporary differences are taken as deferred tax liability, while deductible temporary differences, prior years' loss carry forwards, and investment tax credits are reflected as deferred tax assets. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not.

Adjustments to prior year's income tax expenses are reflected as current income tax expense. Investment tax credits are recognized currently. Income taxes separately levied on interest revenues from short-term bills are reported as current income tax expense.

The 10% surtax on undistributed earnings is recorded as current expense on the date of the Stockholder's Meeting to declare earnings distribution.

r. Treasury Stock

The Company adopted SFAS No. 30 "Accounting for Treasury Stock" to account for repurchase of its outstanding shares, carried at cost. Upon disposition, the excess of sales price over book value is recorded as "capital surplus—treasury stock." Should sales price be lower than the book value, the difference is charged against capital surplus from treasury stock in the same category, and any deficit is debited to retained earnings. The book value of treasury stock is separately computed by reasons of purchase and the weighted-average method is adopted.

Upon retirement, "capital surplus—premium on stock issuance and capital stock" shall be debited on a pro rata basis. If the book value exceeds premium on stock issuance and capital stock, the difference will offset "capital surplus—treasury stock" in the same category, and any deficit will charge against retained earnings. If the book value is lower than total of capital stock and premium on stock issuance, the difference will be credited to "capital surplus" treasury stock" in the same category.

Treasury stock, which are bought back by subsidiaries prior to stock conversion and eventually are converted to shares of the Company, are considered and treated as treasury stock and deducted from the Company's stockholders' equity.

According to SFC Letter Ruling No.(6)111467, financial institutions which purchase their own stock shares to be treasury stock pursuant to Article 28-2, Paragraph 1 of Securities Trading Law, are converted to a subsidiary of a financial holding company, so that these treasury stock should be converted to the stock of the financial holding company by Article 31 of Financial Holding Company Law, then the financial institutions still consider these stock shares to be treasury stock and deducted from stockholders' equity, and the financial holding company also should treat those stock shares as treasury stock.

s. Earnings per Share

Earnings per share is calculated by dividing net income after tax by the weighted-average number of shares outstanding in each period, net of preferred stock dividends. In the event of capitalization of retained earnings, capital surplus, or employee bonus, the number of shares outstanding is retroactively adjusted upon approval of the Ministry of Economic Affairs (MOEA), regardless of the outstanding period of such incremental shares.

t. Consolidated Debits (Credits)

For the amortization of the differences between original investment and equity net worth, if it is not plausible to analyze the underlying causes, upon consolidation these differences are reflected as consolidated debits (credits) and amortized equally over twenty years.

3. Reasons for and Effects of Accounting Changes : None.

4. Summary of Major Accounts

(1) Cash

	<u>December 31, 2002</u>
Cash on hand	\$ 4,511,689
Petty cash and revolving fund	9,866
Checks awaiting clearance	2,517,729
Cash in transit	524,691
Cash in bank	3,148,936
Cash equivalents	478,158
Total	<u>\$ 11,191,069</u>

(2) Deposits with the Central Bank

	<u>December 31, 2002</u>
Required reserve - Account A	\$ 7,197,864
Required reserve - Account B	14,083,452
Required reserve - Foreign Currency	3,685,453
Deposits with the Central Bank	25,874
Total	<u>\$ 24,992,643</u>

By applying the required reserve ratio on the average monthly balances of various deposits, the Bank appropriates funds and deposits them with the Central Bank of China. Deposits in "Required reserve—Account A" are interest-free and can be withdrawn at any time; interest accrues on "Required reserve—Account B", which cannot be withdrawn except for monthly adjustment to the required reserve.

(3) Marketable Securities

	<u>December 31, 2002</u>
Commercial paper	\$ 11,241,148
Negotiable certificates of time deposits purchased	63,830,106
Treasury bills	2,206,528
Governments bonds	16,259,779
Corporate bonds	12,333,506
Financial debentures	509,100
Convertible bonds	4,584,576
Other bonds	14,164,622
Debt securities	<u>125,129,365</u>
Listed securities	4,492,318
Beneficiary certificates	1,520,055
Foreign currency funds	13,764,130
Trading securities	5,187,446
Subtotal	<u>150,093,314</u>
Less : Allowance for market decline	(907,218)
Total	<u>\$ 149,186,096</u>

As of December 31, 2002, negotiable certificates of time deposits purchased, government and corporate bonds, financial debentures, and other bonds provided by the Company's investee, Chinatrust Commercial Bank, Ltd. as deposits to National Credit Card Center of R.O.C. and to the courts for provincial seizures amounted to \$11,548,404.

According to the Banking Law and Trust Law, the Company's investee, Chinatrust Commercial Bank, Ltd. sets aside 15% to 20% of the average daily balance of the trust funds and deposits it with the Central Bank of China as reserve for damage reimbursement, should violation of regulations or breach of fiduciary interest occur. As of December 31, 2002, government and corporate bonds provided by the Company's investee, Chinatrust Commercial Bank, Ltd. as reserve amounted to \$880,000.

(4) Receivables

	<u>December 31, 2002</u>
Notes receivable	\$ 18,315
Accounts receivable	77,998,891
Interest receivable	3,705,556
Acceptances receivable	2,483,644
Accrued income	478,581
Tax refund receivable	496,623
Other receivables	1,728,656
Accounts receivable-non-accrual account	997,968
Subtotal	<u>87,908,234</u>
Less : Allowance for doubtful accounts	<u>(2,302,254)</u>
Total	<u>\$ 85,605,980</u>

As of December 31, 2002, accounts receivable which includes accounts receivable factoring amounted to \$8,578,917.

Changes in allowance for doubtful accounts are the following:

<u>December 31, 2002</u>	Inherent risk of overall claims	Default risk of specific claims	Total
Beginning balance	\$ 1,983,670	\$ 1,026,651	\$ 3,010,321
Current provisions	198,162	3,046,609	3,244,771
Current charge-offs	(542,050)	(3,402,777)	(3,944,827)
Exchange rate effects	(8,011)	-	(8,011)
Ending balance	<u>\$ 1,631,771</u>	<u>\$ 670,483</u>	<u>\$ 2,302,254</u>

(5) Loans

	<u>December 31, 2002</u>
Corporate loans	\$ 216,890,160
Mortgage loans	180,866,335
Automobile loans	8,208,904
Consumer loans	53,700,781
Other loans	2,475,981
NT dollar loans	462,142,161
Foreign currency loans	127,687,248
Non-accrual loans	13,242,514
Subtotal	<u>603,071,923</u>
Less : Allowance for doubtful accounts	<u>(9,874,157)</u>
Total	<u>\$ 593,197,766</u>

As of December 31, 2002, non-performing loans of the Company's investee, Chinatrust Commercial Bank, Ltd. were \$13,510,514.

Interest accrual has been suspended for accounts receivable-non-accrual account. As of December 31, 2002, interest accrued on non-performing loans of the Company's investee, Chinatrust Commercial Bank, Ltd. was \$742,768.

As of December 31, 2002, there were no loans of the Company's investee, Chinatrust Commercial Bank, Ltd. charged-off without prior recourse.

Changes in allowances for doubtful accounts of the Company's investee, Chinatrust Commercial Bank, Ltd. are as follows:

<u>December 31, 2002</u>	<u>Inherent risk of overall claims</u>	<u>Default risk of specific claims</u>	<u>Total</u>
Beginning balance	\$ 6,704,057	\$ 1,729,430	\$ 8,433,487
Current provisions	329,115	8,632,452	8,961,567
Current charge-offs	(601,255)	(6,890,312)	(7,491,567)
Exchange rate effects	(23,012)	(6,318)	(29,330)
Ending balance	<u>\$ 6,408,905</u>	<u>\$ 3,465,252</u>	<u>\$ 9,874,157</u>

(6) Long-Term Equity and Real Estate Investments

	<u>December 31, 2002</u>	
	<u>%</u>	<u>Book value</u>
Corporate bonds		\$ 155,616
Add : unamortized premium		3,125
Subtotal		<u>158,741</u>
Long - Term Equity Investments		
<u>Accounted for under the cost method</u>		
Listed securities		
(Market value at \$996,277 and as of December 31, 2002)		2,266,463
Less : Allowance for market decline		<u>(1,270,186)</u>
		996,277
Taipei Forex Inc.	3.03	6,000
Asian Finance and Investment Corp.	8.66	461,037
Taiwan Aerospace Corp.	5.00	262,113
Pacific Venture Corp.	5.00	30,000
Taiwan Futures Exchange corp.	0.69	17,350
Union Service corp.	5.00	1,250
Jupiter venture Capital Co., Ltd.	5.00	30,000
Venus venture Capital Co., Ltd.	4.72	25,000
Mercury Venture Capital Co., Ltd.	5.00	30,000
Fu Yu Venture Capital Investment Corp.	3.70	50,000
Financial Information Service Co., Ltd.	1.14	45,500
Taipei Financial Center Corp.	4.41	785,438
KGEx. Com. Corp., Ltd.	5.00	175,000
KG Ventures Corp.	5.00	260,000
Overseas Investment & Development Corp.	14.90	133,074
Taipei Smart Card Corp.	2.25	12,256
Philippine Clearing House Corp.	1.79	3,280
Banc Net Incorporated	4.35	4,553

Accounted for under the equity method (all in thousands)

Chinatrust Forex Corp. (original investment at PHP 51,045)	100.00	37,961
Chinatrust Securities Investment Consultancy Co., Ltd. (original investment at \$9,940)	99.40	10,891
KGI Securities Investment Trust corp., Ltd. (original investment at \$120,000)	40.00	99,868
Prepaid Stock		
BAP Consulting, Inc.	-	328
Subtotal		<u>3,477,176</u>
Real Estate - Land to be Levied by the Government		8,102
Total		<u>\$ 3,644,019</u>

For the year ended December 31, 2002, investment income (loss) recognized under the equity method based on audited financial reports prepared by investee companies were as follows:

	<u>2002</u>
KGI Futures Corp., Ltd.	\$ 7,056
Chinatrust forex Corp.	1,832
Chinatrust Securities Investment Consultancy Co., Ltd.	304
KGI Securities Investment Trust Corp. Ltd.	<u>(10,369)</u>
Total	<u>\$ (1,177)</u>

(7) Premises and Property

December 31, 2002	Cost	Revaluation Appreciation	Total	Accumulated Depreciation	Net
Land	\$ 14,341,933	\$ 67,300	\$ 14,409,233	\$ -	\$ 14,409,233
Buildings	12,706,055	37,453	12,743,508	2,616,493	10,127,015
Transportation equipment	90,857	640	91,497	56,810	34,687
Miscellaneous equipment	7,130,262	7,874	7,138,136	3,829,955	3,308,181
Construction in progress	102,518	-	102,518	-	102,518
Prepayment for equipment	98,452	-	98,452	-	98,452
Total	<u>\$ 34,470,077</u>	<u>\$ 113,267</u>	<u>\$ 34,583,344</u>	<u>\$ 6,503,258</u>	<u>\$ 28,080,086</u>

As of December 31, 2002, insurance coverage of premises and property of the Company's investee, Chinatrust Commercial Bank, Ltd. referred to above amounted to \$13,476,611.

Depreciable assets of the Company's investee, Chinatrust Commercial Bank, Ltd. were revalued on December 31, 1974 and 1980, resulting in total appreciation of \$13,510 and \$53,123, respectively. In addition, land was revalued on September 30, 1987 per government announced price, resulting in land appreciation of \$77,519. Pursuant to regulations in Paraguay, the Paraguay Branch revalues its assets annually per announced revaluation ratio by the Paraguay government, effective the second year of operation. As of December 31, 2002, reserve for asset revaluation appreciation amounted to PYG2,593,728 (approximately \$16,816).

(8) Other Assets

	<u>December 31, 2002</u>
Foreign currency purchased	\$ 10,050
Prepayments	1,679,940
Short-term advances	264,928
Refundable deposits	19,707,595
Securities serving as refundable deposits	(11,869,904)
Clearing and settlement fund	74,989
Deferred charges	1,981,736
Collateral received	2,188,705
Allowance for collateral market decline	(436,428)
Deferred income tax assets, net	687,539
Temporary debits	360
Certificates of time deposits pledged	321,500
Consolidated debits	227,643
Otehrs	4,694,125
Total	<u>\$ 19,532,778</u>

Please refer to Note 4.18 for "deferred income tax assets, net."

Certificates of time deposits above are used as guaranty for National Credit Card Center of R.O.C., bond dealers and underwriters.

(9) Call Loans from Banks

	<u>December 31, 2002</u>
Short - term borrowings	\$ 9,589,915
Call loans from banks	41,603,183
Bonds sold under repurchase agreement	1,838,519
Total	<u>\$ 53,031,617</u>

(10) Payables

	<u>December 31, 2002</u>
Accounts Payable	\$ 2,843,064
Accrued expense	4,155,718
Income tax Payable	1,915,596
Interest payable	4,159,244
Acceptance draft	2,547,772
Collection payable	1,197,470
Tax payable	476,476
Dividend and bonus payable	59,780
Other Payable	4,493,291
Total	<u>\$ 21,848,411</u>

As of December 31, 2002, accounts payable of the Company's investee, Chinatrust Commercial Bank, Ltd. which includes accounts receivable factoring amounted to \$2,299,922.

(11) Deposits at Interest

	<u>December 31, 2002</u>
NT\$ Deposits	
Checking accounts	\$ 5,067,660
Demand deposits	
Demand deposits	38,719,140
Demand saving deposits	146,860,120
Others	<u>3,345,767</u>
	<u>188,925,027</u>
Time deposits	
Time deposits	79,832,067
Time saving deposits	200,055,105
Negotiable certificates of time deposits	9,062,900
Deposits at interest from postal deposits	35,878,023
Others	<u>27,399,205</u>
	<u>352,227,300</u>
Total NT\$ Deposits	546,219,987
Foreign currency deposits	178,370,099
Time Trust funds	3,613,480
Total	<u>\$ 728,203,566</u>

Time trust funds were special-purpose trust funds carried over from its prior entity as a trust company in 1992 and before. The Company guarantees full repayment of principal and minimum yield upon maturity. Pursuant to the enactment of the Trust Law on July 19, 2000, the fund should be phased out in 3 years. The Company's investee, Chinatrust Commercial Bank, Ltd. submitted a fund elimination proposal to the Finance Bureau of the Ministry of Finance.

(12) Borrowings and Other Financing

	<u>December 31, 2002</u>
Financial debentures	\$ 10,000,000
Corporate bonds	15,183,042
Refinancing from the Central Bank	11,920,279
Appropriation to funds available for loan - making	378,040
Euro medium - Term note	6,371,259
Other	<u>3,963,146</u>
Total	<u>\$ 47,815,766</u>

1. Financial debentures

In September 2001, the Company's investee, Chinatrust Commercial Bank, Ltd. Bank issued subordinate financial debentures for \$10,000,000 with period to maturity 10 years. Interest is paid annually and the rate is 3.85% per annum. If redemption right is not exercised 5 years after the initial issue, interest rate becomes 4.6%.

2. Convertible bonds payable

In 2002, the Company issued overseas unsecured convertible bonds with a period of maturity of 5 years. As of December 31, 2002, principal amounted to \$13,901,200 and redemption premium payable amounted to \$281,842, for a total of \$14,183,042.

a. Issue Date:

July 8, 2002.

b. Place of issue:

Luxembourg Stock Exchange.

c. Size:

USD 400 million.

d. Duration:

Five years, from July 8, 2002 to July 8, 2007.

e. Coupon rate:

0% per annum.

f. Repayment of principal:

Unless previously redeemed, converted into common shares, or resold to the Company, the bonds will be redeemed on maturity (July 8, 2007) according to par value plus yield rate at maturity.

g. Conversion period and underlying asset:

From August 7, 2002 to July 1, 2007, bondholders can elect to have bonds converted into common stocks or GDSs (Global Depository Shares)

h. Conversion price and adjustment:

The initial conversion price is \$37.16 per common share. The applicable conversion price will be subject to adjustment for, among other things, subdivision or consolidation of common shares, rights issues, cash or common share dividends and reorganization and other dilutive events.

i. Resale rights of the bondholders:

The bondholders will have the right to require the Company to repurchase the bonds at the issue price on the original issue date with a gross compound yield of 4.17% per annum (calculated on a semi-annual basis) if any of the following events occur:

(a) Unless the bonds have been previously redeemed, repurchased and cancelled, or converted, the bondholders will have the right to require the Company to repurchase all or part of the bonds on July 8, 2005.

(b) If at any time the common shares of the Company are officially delisted from the Taiwan Stock Exchange for a period exceeding 5 consecutive trading days.

(c) If at any time a change of control occurs with respect to the Company.

j. The Company's rights to repurchase the bond:

The Company may, at the issue price on the original issue date with a gross compound yield of 4.17% per annum (calculated on a semi-annual basis), repurchase the bonds if any of the following events occur:

(a) On or at any time after July 8, 2005, if the closing price of the common shares of the Company on Taiwan Stock Exchange for 30 consecutive trading days is at least 130% of the conversion price.

(b) At any time, if the principal amount of the bonds outstanding is equal to or less than 10% of the original aggregate principal amount of bonds.

(c) If as a result of certain changes in ROC laws or regulations occurring after the closing date, the Company becomes obligated to pay additional tax amounts.

Subsidiary Chinatrust Bills Finance Corp. issued domestic secured bonds on July 19, 2002 and December 23, 2002 totaling \$1,000,000. Terms of issue are as follows:

	<u>July 19, 2002</u>	<u>December 23, 2002</u>
Size	500,000	500,000
Face value	500,000	500,000
Coupon rate	2.91%	1.82%
Issue price	500,000	500,000
Maturity date	2005/7/19	2005/12/31
Collateral	Time deposits and Corporate bonds	Time deposits
Repayment method	Payment of principal at maturity	Payment of principal at maturity

3. Refinancing from the Central Bank

As of December 31, 2002, to facilitate business expansion of overseas subsidiaries, the Company's investee, Chinatrust Commercial Bank, Ltd. borrowed US\$343,000 from the Central Bank with interest rates ranging from 1.40% to 1.80%. Interest is paid at maturity or semi-annually.

4. Long-term debt

In August 1997, the Company's investee, Chinatrust Commercial Bank, Ltd. raised a loan of JPY 2,000,000 from Nippon Life Insurance Co. with an annual interest rate of 2.237% and a term of 5 years. Interest is paid annually. The loan matured in August 2002.

5. Appropriation to funds available for loan-making

Fund Management Committee of the Medium & Small Size Business Development Fund of MOEA appropriated funds to the Company's investee, Chinatrust Commercial Bank, Ltd. at a 2% annual interest rate. The Company's investee, Chinatrust Commercial Bank, Ltd. agreed to lend to medium and small size businesses at agreed-upon rates to improve their operations.

The Executive Yuan Development Fund Committee appropriated funds to the Company's investee, Chinatrust Commercial Bank, Ltd. at a 0.9% annual interest rate. The Company's investee, Chinatrust Commercial Bank, Ltd. agreed to lend to medium and small size businesses at agreed-upon rates to support industry upgrading, environment protection, and purchase of automatic machinery.

The same Committee appropriated funds to the Company's investee, Chinatrust Commercial Bank, Ltd. at an annual interest rate of 1.5%. The Company's investee, Chinatrust Commercial Bank, Ltd. is requested to lend to China Development Corp. at an agreed-upon rate for the construction of Taipei International Finance Building.

6. Euro medium term note

As of December 31, 2002, Euro medium term notes issued by the Company's investee, Chinatrust Commercial Bank, Ltd. were US\$145,000 and HK\$300,000. Interest rates range from 1.63% to 2.14%, and period to maturity is 3 years. Interest is paid quarterly or semi-annually.

(13) Capital

The Company converted shares with Chinatrust Commercial Bank, Ltd. on May 17, 2002. The conversion ratio was 1:1 and only shares were converted. The Company converted 4,605,427,000 shares of common stock and 250,000,000 shares of preferred stock. Shares issued have a par value of \$10 per share. As of December 31, 2002, issued capital amounted to \$48,554,268 and authorized capital amounted to \$100,000,000.

In August 2000, the Company's investee, Chinatrust Commercial Bank, Ltd. issued 250,000,000 preferred shares at premium with a value of \$40 per share (par value of \$10 per share, totaling \$10,000,000, with a term of 6 years). The preferred cash dividend pays 6.12% per annum in a lump sum. In the event of no earnings or deficient earnings, dividends are distributed once there is a sufficient amount of earnings. Preferred stock cannot participate in distribution of the transfer of earnings and capital surplus for cash and capital.

During common shareholders' meetings, preferred shareholders do not have the right to vote on issues nor the right to vote for elected officers but have the right to be elected as Board of Directors and Supervisors. During preferred shareholders' meetings, preferred shareholders have the right to vote on issues.

The Company acquired the above preferred stock of its investee after converting preferred stock with similar terms and conditions.

(14) Capital Surplus

Information regarding capital surplus is as follows:

	<u>December 31, 2002</u>
Paid - in capital in excess of par - common stock	\$ 23,396,474
Paid - in capital in excess of par - preferred stock	7,500,000
Assets revaluation appreciation - subsidiary	2,955
Other additional paid - in capital - subsidiary	2,595
Total	<u>\$ 30,902,024</u>

According to SFC Letter Ruling No. (1) 005946, for financial institutions which are converted into financial holding companies, their respective unappropriated earnings are reflected under the capital surpluses of the financial holding companies pursuant to Article 17, Paragraph 4 of Financial Holding Company Law and Article 41, Paragraph 2 of Securities Exchange Law. According to Article 232, Paragraph 1 of Company Law and Article 31, Paragraph 2 of Securities Exchange Law, capital surplus is used to offset cumulative losses before it can be transferred to increase capital. The amount of capital surplus used to increase capital is not restricted by Article 41, Paragraph 2 of Securities Exchange Law and Article 8 of Securities Exchange Law Implementation Rule.

Pursuant to Financial Holding Company Law, financial institutions which are converted into financial holding companies, their respective unappropriated earnings are reflected under the capital surpluses of the financial holding companies but are not restricted by Article 241, Paragraph 1 of Company Law.

Pursuant to Accounting Research and Development Foundation of the Republic of China Ruling Letter No. (90) 182 dated October 29, 2001, stock premium resulting from the above stock conversion amounted to \$30,896,474.

As of December 31, 2002, unappropriated earnings previously belonging to Chinatrust Commercial Bank, Ltd. before the stock conversion which is now reflected under the Company's capital surplus amounted to \$5,517,525.

(15) Treasury Stock

a.

Repurchase Reason	Beginning of the Period	Share data in thousands		End of the Period
		Current Increase	Current decrease	
Held by the Company:				
Transfer to employees	-	9,670	-	9,670
Held by the subsidiaries:				
Transfer to employees	130,287	-	-	130,287
Issuance of stock option	<u>87,420</u>	<u>-</u>	<u>-</u>	<u>87,420</u>
Total	<u>217,707</u>	<u>9,670</u>	<u>-</u>	<u>227,377</u>

b. According to the Securities Exchange Law, a company's repurchase of treasury stock can not exceed 10% of total issued outstanding shares, and the acquisition amount cannot exceed the sum of retained earnings, issuance premium, and realized capital surplus. The maximum amount of treasury stock repurchase program was \$24,238,749 with June 30, 2002 as the measurement date.

c. In 2002, the maximum number of treasury shares held was 227,377,000, and the amount was \$5,011,963, which complied with the Securities Exchange Law. As of December 31, 2002, treasury shares were not transferred yet.

- d. According to the Securities Exchange Law, treasury shares held by a company and its subsidiary cannot be pledged. Further, they are not endowed with shareholders' rights prior to transfer.
- e. Chinatrust Commercial Bank, Ltd. owns shares of the Company amounting to \$4,774,086. These treasury shares should be adjusted within 3 years. Shares that are not adjusted within 3 years are considered as non-issued shares and should be cancelled.
- f. As of December 31, 2002, the Company's shares have a market price of \$28.3.

(16) Stock Option Plan

On January 3, 2002, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. granted 65,000 units of stock option to its employees, and each unit of stock option is endowed with the right to purchase 1,000 common shares of the Company's investee, Chinatrust Commercial Bank, Ltd. Shares of Chinatrust Commercial Bank, Ltd. were converted to shares of the Company on May 17, 2002 and therefore employees are now endowed with the right to purchase 1,000 common shares of the Company. After the 2nd anniversary of option granting, its holder may exercise the right to purchase the Company's common stock at \$21.1 per share. Should there be any change in the structure of the Company's common stock, exercise price will change accordingly.

(17) Earnings Distribution and Dividend Policy

The Company adopted the residual dividend policy for its ongoing expansion, profit growth, and the maintenance of capital sufficiency ratio.

After-tax earnings, if any, shall pay for taxes, offset cumulative losses, and the remainder will be set aside as legal reserve and special surplus. Then, preferred stock dividends will be distributed, prior to other distribution. The remaining balance should be distributed in accordance with the resolution from the Stockholders' Meeting. The total amount of dividends distributed cannot be less than 50% of the remaining balance. The total amount of employee bonus distributed should be between 0.01% and 0.05%, and any adjustments are made in accordance with the resolution from the Stockholders' Meeting.

In consideration of the Company's operations planning, essential earnings are retained for funding needs, and the remainder is distributed as cash dividends. The cash dividends shall not be less than 10% of total dividends. If the amount of cash dividend is less than \$0.1, then it is not distributed and the Board of Directors will adjust earnings distribution with resolution from the Stockholders' Meeting.

The proposal for the appropriation of employee bonus and compensation to directors and supervisors for 2002 has yet to be presented in the shareholders' meeting. Information regarding employee bonus and compensation to directors and supervisors distributed shall be posted on the market observation post system after the related meetings are held.

The Company was established on May 17, 2002 through a 100% stock conversion with Chinatrust Commercial Bank, Ltd. No actual employee bonus or compensation to directors and supervisors has been appropriated.

The Company's investee, Chinatrust Commercial Bank, Ltd. pays income taxes, pursuant to the R.O.C. Income Tax Law, and 30% of the after-tax earnings are appropriated as legal reserve. Before legal reserve reaches total paid-in capital, cash dividends are limited to 15% of total paid-in capital. As legal reserve reaches total paid-in capital, such rules no longer apply.

After the appropriation of legal reserve, special surplus, and the declaration of preferred stock's cash dividends, the Company's investee, Chinatrust Commercial Bank, Ltd. may distribute the remainder in the following ratio:

- a. Compensation to directors and supervisors: 4%.
- b. Employee bonuses: 2% to 4%, based upon the proposal submitted by the Board of Directors to the Stockholders' Meeting for resolutions.

According to the budget plan of the Company's investee, Chinatrust Commercial Bank, Ltd., stock and cash dividends are declared in the annual stockholder's meeting and approved by the Bank's shareholders. Under the Article 50 of the Banking Law, at least 10% of dividends should be distributed in cash.

Information regarding the Company's 2001 earnings distribution for compensation of directors and supervisors and employee bonuses is as follows:

	<u>Amount</u>
Employee bonus - cash	\$ 188,172
Compensation of directors and supervisors	<u>188,172</u>
Total	<u>\$ 376,344</u>

If the above employee bonus and compensation to directors and supervisors were included in current expenses, then calculated basic earnings per share (after tax) would be \$1.53.

Any after-tax earnings of the Company's investee, Chinatrust Insurance Brokers Co., Ltd. shall be used to pay for taxes, offset cumulative losses, and 10% of the after-tax earnings will be appropriated as legal reserve. The remaining balance should be distributed in accordance with the resolution from the Stockholders' Meeting. The total amount of employee bonus distributed should be no less than 0.1%.

After-tax earnings of the investee, Chinatrust Securities Corp., Ltd., shall first offset cumulative losses, and 10% of the remainder will be set aside as legal reserve and 20% as special reserve. The rest will be distributed in the following way:

- a. Compensation to directors and supervisors: 4%;
- b. Employee bonus: 2% to 4%, based upon the proposal of the Board Meeting and the resolutions of Stockholders' Meeting; and
- c. Stockholders' dividends are declared in the Stockholders' Meeting, contingent on current earnings status.

After-tax earnings of the investee, Chinatrust (Philippines) Commercial Bank Corporation are distributed in the following ratio:

- a. Compensation to directors and supervisors: 4%
- b. Employee bonuses: 10%

After-tax earnings of the investee company, Chinatrust Bills Finance Corp., shall first offset cumulative losses, and 30% of the remainder is set aside as legal reserve. The rest is distributed in the following way:

- a. Stockholders' dividends;
- b. Stockholders' bonus;
- c. Compensation to directors and supervisor;
- d. Employee bonus: 2% to 9%; and
- e. Special reserve.

Detailed distribution shall follow the resolutions of the Stockholders' Meeting in accordance with proposal of the Board of Directors.

After-tax earnings of the investee bank, PT Bank Chinatrust Indonesia are distributed according to resolutions of the Stockholders' Meeting.

After-tax earnings of the investee bank, CTC Bank of Canada, are distributed according to resolutions of the Stockholder' Meeting.

After-tax earnings of the investee bank, Chinatrust Bank (U.S.A.) are distributed according to the resolutions of the Stockholders' Meeting.

(18) Income Taxes

Income taxes for 2002 are the following:

	<u>2002</u>
Current income tax payable	\$ 2,936,718
Add (less) : Tax effect due to temporary differences	
Adjustment to prior years' deferred income tax assets	(165,369)
Allowance for doubtful account over tax-allowable limit	841,689
Pension provision over tax - allowable limit	36,170
Net unrealized gain on exchange and financial derivatives	(378,814)
Net gain on foreign investments recognized under the equity method	305,858
Others	(553,578)
Income tax separately levied	331,123
Under - accrual of prior year's income tax	368,314
10% surtax on undistributed earnings	120,843
Income tax expense	<u>\$ 3,842,954</u>

	<u>December 31, 2002</u>
Deferred income tax assets or liabilities from temporary differences:	
• Deductible temporary difference due to provision for credit losses over tax - allowable limit	\$ 641,850
• Deductible temporary difference due to provision for cumulative translation adjustments	1,113,713
• Taxable temporary difference due to gain on investment recognized under the equity method	(2,990,937)
• Deductible temporary difference due to unrealized gain on exchange and financial derivatives	1,319,428
• Other deductible temporary differences	2,681,374
Total	<u>\$ 2,765,428</u>

Deferred tax assets	\$ 931,833
Deferred tax liabilities	(240,475)
Net deferred tax assets	<u>\$ 691,358</u>

Income tax returns of the Company's subsidiary, Chinatrust Commercial Bank, Ltd. through 2000 have been approved by the Tax Authority. It was assessed that the Bank should pay additional tax of \$584,670 for the years 1994 to 2000. The Company's investee, Chinatrust Commercial Bank, Ltd. has filed for administrative appeal and made accounting treatment accordingly.

Income tax returns of the Company's subsidiary, Chinatrust Securities Corp., Ltd., have been approved by the Tax Authority through 2000. It was assessed the subsidiary should pay additional tax of \$5,369 due to excessive tax refund collected from bond-interest withheld in 1997 and 2000. The subsidiary has filed for administrative relief.

Income tax returns of the Company's subsidiary, Chinatrust Insurance Brokers Co., Ltd. have been approved by the Tax Authority through 2000.

Income tax returns of the subsidiary, Chinatrust Bill Finance Corp., have been assessed by the Tax Authority through 2000. Regarding tax refunds from 1996 to 1999, the Tax Authority denied deduction for the reason that the subsidiary has transferred tax refund collected from bond-interest withheld to securities trading costs. The subsidiary has filed for administrative relief and made accounting treatment accordingly based on prudence principle. An effect on income taxes of \$199,742 was estimated from evaluating the bond-interest withheld from natural persons. An allowance of the same amount was provided for under accounts receivable. Tax refund collected from 1996 to 2002 for bond-interest withheld amounted to \$428,679.

(19) Imputation Credit Account and Deductible Ratio

As of December 31, 2002, balance of stockholders' imputation credit account amounted to \$29,234. The Company estimates that after filing for corporate income tax returns, deductible ratio of 2002 earnings distributed to R.O.C. residents will approximately be 27.24%.

(20) Retirement Plan

The Company's subsidiary, Chinatrust Commercial Bank, Ltd. sponsors a retirement plan covering all regular employees. Lump-sum pension payment is calculated according to years of service and salary of the last month prior to retirement, with a maximum benefit of 61 months' salary. Chinatrust Commercial Bank, Ltd. contributes 2% of gross salary to the pension fund on a monthly basis. Chinatrust Commercial Bank, Ltd. also set up a Workers' Retirement Reserve Fund Supervisory Committee on May 31, 2000 and deposits 15% of gross salary paid to a designated account with the Central Trust of China.

As of December 31, 2002, balance of the pension fund of the Company's subsidiary, Chinatrust Commercial Bank amounted to \$2,725,067.

As of December 31, 2002, balance of the pension fund of the Company's subsidiary, Chinatrust Securities Corp., Ltd. amounted to \$11,895.

As of December 31, 2002, balance of the pension fund of the Company's subsidiary, Chinatrust Bills Finance Corp. amounted to \$24,023.

As of December 31, 2002, reconciliation of funded status and accrued pension liabilities per books of the Company's subsidiary, Chinatrust Commercial Bank were the following:

	<u>December 31, 2002</u>
Benefit obligation :	
Vested benefit obligation	\$ (446,011)
Non-vested benefit obligation	<u>(2,145,810)</u>
Accumulated benefit obligation	(2,591,821)
Effect of future salary increase	<u>(1,260,893)</u>
Estimated benefit obligation	(3,852,714)
Fair value of pension fund assets	<u>2,765,341</u>
Funded status	(1,087,373)
Unrecognized net transitional benefit obligation	302,462
Unrecognized gain on pension fund	681,413
Accrued pension liabilities	<u>\$ (103,498)</u>

Actuarial assumptions used in pension costs calculation were the following:

	<u>2002</u>
Discount rate	5.00%
Future salary increase rate	3.00%
Estimated long-term rate of return on pension fund assets	5.00%

In 2002, components of net pension costs were the following:

	<u>2002</u>
Service cost	\$ 306,815
Interest cost	165,492
Estimated return on pension fund assets	(117,849)
Amortization and deferral	<u>39,575</u>
Net pension costs	<u>\$ 394,033</u>

As of December 31, 2002, vested benefit obligation was \$495,568.

As of December 31, 2002, reconciliation of funded status and accrued pension liabilities per books of the Company's subsidiary, Chinatrust Securities Corp., Ltd. were the following:

	<u>December 31, 2002</u>
Benefit obligation:	
Vested benefit obligation	\$ -
Non-vested benefit obligation	<u>16,199</u>
Accumulated benefit obligation	16,199
Effect of future salary increase	<u>4,620</u>
Estimated benefit obligation	20,819
Fair value of pension fund assets	<u>(11,895)</u>
Funded status	8,924
Unrecognized net transitional benefit obligation	(4,428)
Unrecognized gain on pension fund	<u>2,216</u>
Accrued pension liabilities	<u>\$ 6,712</u>

Actuarial assumptions used by the Company's subsidiary, Chinatrust Securities Corp., Ltd. in pension costs calculation were the following:

	<u>2002</u>
Discount rate	5.00%
Future salary increase rate	3.00%
Estimated long-term rate of return on pension fund assets	5.00%

In 2002, components of net pension costs of the Company's subsidiary, Chinatrust Securities Corp., Ltd. were the following:

	<u>2002</u>
Service cost	\$ 3,974
Interest cost	894
Estimated return on pension fund assets	(384)
Amortization and deferral	<u>442</u>
Net pension costs	<u>\$ 4,926</u>

As of December 31, 2002, vested benefit obligation of the Company's subsidiary, Chinatrust Securities Corp., Ltd. was \$0.

As of December 31, 2002, reconciliation of funded status and accrued pension liabilities per books of the Company's subsidiary, Chinatrust Bills Finance Corp. were the following:

	<u>December 31, 2002</u>
Benefit obligation:	
Vested benefit obligation	\$ -
Non - vested benefit obligation	<u>(16,265)</u>
Accumulated benefit obligation	(16,265)
Effect of future salary increase	<u>(8,497)</u>
Estimated benefit obligation	(24,762)
Fair value of pension fund assets	<u>24,023</u>
Funded status	(739)
Unrecognized net transitional benefit obligation	(439)
Unrecognized prior service cost	1,619
Unrecognized gain on pension fund	<u>5,385</u>
Prepaid pension expense	<u>\$ 5,826</u>

Actuarial assumptions used by the Company's subsidiary, Chinatrust Bills Finance Corp. in pension costs calculation were the following:

	<u>2002</u>
Discount rate	4.50%
Future salary increase rate	3.25%
Estimated long-term rate of return on pension fund assets	3.25%

In 2002, components of net pension costs of the Company's subsidiary, Chinatrust Bills Finance Corp. were the following:

	<u>2002</u>
Service cost	\$ 2,182
Interest cost	1,031
Estimated return on pension fund assets	(810)
Amortization of unrecognized transitional net oblig	(49)
Amortization of unrecognized prior service cost	231
Amortization of unrecognized pension fund gain	517
Net pension costs	<u>\$ 3,102</u>

As of December 31, 2002, vested benefit obligation of the Company's subsidiary, Chinatrust Bills Finance Corp. was \$0.

(21) Interest Expense

	<u>2002</u>
Interest expense	\$ 16,556,766
Less : Interest capitalized	(1,587)
Total	<u>\$ 16,555,179</u>
Interest rate applied in capitalization	<u>2.08%</u>

(22) Net Income

The Company was established through a stock conversion with Chinatrust Commercial Bank, Ltd. on May 17, 2002. If including the net income of Chinatrust Commercial Bank, Ltd. from January 1, 2002 to May 16, 2002, the Company's net income of 2002 is \$11,763,456. Calculation of net income is as follows:

	<u>Amount</u>
Financial Holding company Net Income (not including Chinatrust Commercial Bank, Ltd. net income)	\$ (268,424)
Add : Net income of Chinatrust Commercial Bank, Ltd. for the period from May 17, 2002 to December 31, 2002	<u>6,845,665</u>
Net Income	6,577,241
Add : Net income of Chinatrust Commercial Bank, Ltd. prior to conversion	<u>5,186,215</u>
	<u>\$ 11,763,456</u>

(23) Earnings Per Share

For the period from May 17, 2002 to December 31, 2002, Basic and diluted earnings per share were the following:

	<u>From May 17 to December 31, 2002</u>	
	<u>After Income Tax</u>	
<u>Basic EPS</u>		
Consolidated Net income	\$	6,577,241
Preferred stock dividend		(612,000)
Consolidated Net income available to common shareholders		<u>5,965,241</u>
Weighted - average common shares outstanding, in thousands		<u>4,383,642</u>
Basic EPS	\$	<u>1.36</u>
<u>Diluted EPS</u>		
Consolidated Net income	\$	6,577,241
Preferred stock dividend		(612,000)
Influence on potentially diluted shares:		
Convertible bonds		210,281
Net income used to calculate diluted EPS	\$	<u>6,175,522</u>
Weighted - average common shares outstanding, in thousand	\$	<u>4,383,642</u>
Influence on potentially diluted shares:		
Stock option		16,036
Convertible bonds		<u>279,457</u>
Weighted - average common shares outstanding used to calculate diluted EPS	\$	<u>4,679,135</u>
Diluted EPS	\$	<u>1.32</u>

(24) Financial Instruments

1. Financial derivatives

Information regarding the Company's transaction in cross currency swaps in order to hedge foreign exchange risk is as follows:

a. Contract Amount or Nominal Principle and Credit Risk

<u>Financial Instrument</u>	<u>December 31, 2002</u>	
	<u>Contract amount (nominal principle)</u>	<u>Credit Risk</u>
Non-trading		
Cross currency swaps	\$ 4,865,420	\$ 225,694

The amount of credit risk is the sum of contracts with positive fair market value at period-end, and represents the Company's possible loss in the event of default by counter-parties. The counter-parties are mostly reputable financial institutions with good credit ratings. As a result, the management deems the possibility of default to be rather low.

b. Market Risk

The Company engages in cross currency swaps that have fixed interest rates and therefore, the market risk resulting from fluctuating interest rates is minimal. The Company is subject to market risk, whereas loss is offset by exchange gain on hedged foreign-denominated assets and liabilities.

c. Liquidity Risk, Cash Flow Risk and Future Demand for Cash

The Company transacts in cross currency swaps that have corresponding incoming and outgoing cash flow at maturity. In addition, since the exchange rates of the swaps are fixed, there is minimal liquidity risk and cash flow risk.

d. Financial derivatives held by the Company:

The Company engages in cross currency swaps to hedge against risk from foreign-denominated liability due to potential fluctuations in exchange rates.

Non-trading financial derivatives comprise of cross currency swaps and are applied primarily to hedge against exchange and interest rate risks from the Company's foreign-denominated assets and liabilities. The Company periodically evaluates the fair value of financial derivatives which have movements negatively correlated with movements of the fair values of hedging items.

e. Fair Value of Financial Instruments

	December 31, 2002	
	Book value	Fair value
<u>Financial Assets</u>		
Non-trading		
Cross currency swaps	\$ 162,008	\$ 224,363

f. Fair Value of Non-Derivative Financial Instruments

	December 31, 2002	
	Book value	Fair value
<u>Non - Derivative financial Instruments</u>		
Financial assets :		
Book value equal to fair value	\$ 898,545,407	\$ 898,545,407
Long - term investments	3,644,019	3,186,095
Total	<u>\$ 902,189,426</u>	<u>\$ 901,731,502</u>
Financial Liabilities :		
Book value equal to fair value	\$ 854,020,637	\$ 854,020,637
Total	<u>\$ 854,020,637</u>	<u>\$ 854,020,637</u>

Method and assumptions used by the Company for evaluation of financial instruments are as follows:

- (a) Fair value of short-term financial instruments is estimated by their face value on the balance sheets. Since such instruments will mature shortly, face value is a reasonable basis in estimating the fair value. Such is applicable to cash and cash equivalents, notes and accounts receivable, and call loans from and due to banks.
- (b) For marketable securities, market prices are the fair value if available. If market prices are unavailable, financial or other information will be used to estimate the fair value.
- (c) Fair value of long-term liabilities is estimated by present value of expected cash flows. Discount rate is based on rates of equivalent loans available elsewhere; that is, loans with similar maturity date and terms.
- (d) Fair value of financial derivatives is established by the amount of cash to pay or receive, based on the assumption of contract termination on the balance sheet date. In general, it includes unrealized gain or loss on outstanding contracts of the current period. There are reference reports from financial institutions for most of the Bank's financial derivatives.

g. Financial derivatives of Chinatrust Commercial Bank, Ltd.

(a) Contract Amount or Notional Principal and Credit Risk

Financial Instrument	December 31, 2002	
	Contract amount (Nominal Principal)	Credit Risk
Trading :		
Foreign exchange forward contracts	\$ 78,307,918	\$ 11,915,195
Forward interest rate agreements (FRAs)	2,300,000	112
Non - delivery forward (NDF) contracts	13,966,267	38,841
Foreign currency swaps	9,450,990	-
Cross currency swaps	69,456,965	1,703,664
Interest rate swaps	180,081,593	3,765,874
Options	230,571,577	2,614,384
Non - Trading :		
Foreign exchange forward contracts	75,831	15,152
Foreign currency swaps	23,869,984	227,572
Cross currency swaps	3,010,950	203,975
Interest rate swaps	10,538,310	40,948
Asset - backed swaps	3,914,619	-

Amount of credit risk refers to contracts of positive fair value on the balance sheet date, representing Chinatrust Commercial Bank, Ltd.'s possible loss in the event of non-performance by counter-parties to contracts of financial instruments. However, should a party to transaction be client of Chinatrust Commercial Bank, Ltd., procedures of credit evaluation and authorization will be performed and transactions will be confined within lines of credit granted. If deemed necessary, Chinatrust Commercial Bank, Ltd. requests sufficient collaterals from counter-parties. If a party to transaction is a financial institution, credit lines are provided according to its worldwide ranking and credit rating, and transactions are limited therein. As a consequence, Chinatrust Commercial Bank, Ltd. deems the likelihood of default as fairly remote.

(b) Market Risk

Interest rate sensitivity	Currency	December 31, 2002
		NTD
	USD	644
	JPY	(42)
	Others	64
Exchange rate sensitivity		325

Chinatrust Commercial Bank, Ltd. estimates market risk by interest rate and exchange rates sensitivity.

Interest rate sensitivity indicates the impact of a 0.01% parallel downward movement in the term structure of interest rate on the present value of cash flows of derivative transactions' on the balance sheet date. (Present value one-basis-point, PVBP).

Exchange rate sensitivity is the impact of a one-basis-point (0.001) appreciation in U.S. dollars relative to New Taiwan dollars on foreign currency positions.

In addition of financial derivative positions (including forward forex, NDF, and exchange rate options), Chinatrust Commercial Bank, Ltd. administers and manages exchange rate risk by integrating the risks of hedging spot positions of foreign currencies.

Approval of the market risk limit is based on profit target, trader experience, market volatility, and Chinatrust Commercial Bank, Ltd.'s aggregate risk tolerance. Chinatrust Commercial Bank, Ltd. calculates and manages the market risk limit on a daily basis such that the risk is within the Chinatrust Commercial Bank, Ltd.'s control.

Non-trading financial derivatives held by Chinatrust Commercial Bank, Ltd. are for hedging. Since gain or loss from interest rate or exchange rate fluctuations largely offset those of hedged items, market risk is fairly low.

(c) Liquidity Risk and Cash Flow Risk

Since notional principals of financial derivatives are used mainly to calculate payables or receivables of parties to transactions, rather than the amounts actually paid or cash demand, settlement amounts are generally lower than notional principals. Financial derivatives held by Chinatrust Commercial Bank, Ltd. are denominated in major currencies with active trading and reverse transactions are readily available to square-off positions, liquidity risk is deemed low. Chinatrust Commercial Bank, Ltd. controls future cash demand by market prices periodically, therefore the cash flow risk is also low.

(d) Net Gains or Losses from Current Trading

Net gains or losses from current trading activities are reported net gain or loss on financial derivatives, and are summarized below:

	2002
Interest rate contracts	\$ (585,467)
Foreign exchange contracts	(286,626)
Equity contracts	(57,045)
Net gain (loss)	<u>\$ (929,138)</u>

Since exchange rate derivatives are hedged by spot exchange contracts, overall net exchange gain or loss, including spot positions, amounted to \$121,000 for the year ended December 31, 2002.

(e) Non-Trading Financial Derivatives

Non-trading financial derivatives are applied primarily to hedge against exchange and interest rate risks from Chinatrust Commercial Bank, Ltd.'s foreign-denominated assets and liabilities.

Non-trading financial derivatives held or issued by Chinatrust Commercial Bank, Ltd. are accounted for by the accrual basis with receivables or payables caused thereby recorded as interest income or expense.

Chinatrust Commercial Bank, Ltd. does not have any committed or uncommitted contracts.

Valuation methods to establish fair value of trading or non-trading financial derivatives held or issued by Chinatrust Commercial Bank, Ltd. are the same, except that market prices of non-trading derivatives are for reference purpose only and are not recorded.

(f) Fair Value of Financial Instruments

Financial Assets	December 31, 2002	
	Book Value	Fair Value
Financial assets for trading :		
Interest rate swaps (IRS)	\$ 46,857	\$ 46,857
Foreign currency swaps	(3,600)	(3,600)
Cross currency swaps	(1,222,710)	(1,222,710)
Forward interest rate agreements (FRAs)	(3,743)	(3,743)
Non-delivery forward contracts (NDF)	(60,035)	(60,035)
Foreign exchange forward contracts	113,416	113,416
Options	309,845	309,845
Margin trading	161,447	161,447
Non-trading financial assets:		
Interest rate swaps (IRS)	62,704	(85,872)
Cross currency swaps	(50,968)	(175,934)
Foreign currency swaps	74,205	66,889
Foreign exchange forward contracts	75,831	15,152
Asset - backed swaps	3,914,619	-

Fair value of financial derivatives is established by the amount of cash to pay or receive, based on the assumption of contract termination on the balance sheet date. In general, it includes unrealized gain or loss on outstanding contracts of the current period. There are reference reports from financial institutions for most of the Bank's financial derivatives.

5. Related Party Transactions

(1) Name of Related Party and Relationship with the Bank

Name of related parties	Relationship with the Company
Chinatrust Investment Co., Ltd.	An affiliate
KGI Securities Co., Ltd.	"
National Credit Card Center of R.O.C.	Same Chairman
Grand Pacific Leasing Co., Ltd.	"
Chinatrust Cultural Foundation	"
Overseas Investment & Development Co., Ltd.	"
Koo Foundation, Sun Yat-Sen Cancer Center	The Company's subsidiary, Chinatrust Commercial Bank accounts for over 1/3 of the Foundation's donations.
KGI Futures Co., Ltd.	An investee company accounted for under equity method(sold in December 2002)
China Life Insurance Company, Ltd.	An immediate family member of the Chairman of the Company is its Chairman
Other related parties	Including supervisors, managers and their families, spouses and investee companies under the equity method.

(2) Significant Transactions with Related Parties

a. Rental Revenue

Rental revenue of the Company's subsidiary, Chinatrust Commercial Bank from buildings and parking spaces rent to related parties in 2002 amounted to \$31,130, or 16.25% of total rental revenue.

b. Commissions and Service Fees

In 2002, commissions and service fees of the Company's subsidiary, Chinatrust Commercial Bank paid to the National Credit Card Center of R.O.C. amounted to \$117,404, or 11.62% of total commissions and fees paid.

c. Site Usage Fee

In 2002, site usage fee and other related expenses of the Company's subsidiary, Chinatrust Commercial Bank paid to KGI Securities Co., Ltd. for operations amounted to \$133,202.

d. Donations

In 2002, donations of the Company's subsidiary, Chinatrust Commercial Bank to related-parties were as follows:

Chinatrust Cultural Foundation	<u>\$38,300</u>
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There are no specific commitments between the Company's subsidiary, Chinatrust Commercial Bank and related-parties.

f. Property Transactions

The Bank sold shares of KGI Futures Corp., Ltd. for cash in December 2002 to develop Chinatrust Securities Corp., Ltd. futures business. The shares were transferred to KGI Securities Co., Ltd.

Name	shares (thousands)	%	Amount	Disposal loss
KGI Futures Co., Ltd.	14,040	28.08%	\$148,543	\$(409)

e. Loans

The Company's investee, Chinatrust Commercial Bank, Ltd.:

	Date of Maximum Balance	Maximum Balance	2002		Interest Income
			Ending Balance	Range of Interest Rate	
Koo Foundation sun Yat sen Cancer Center	2002.12.31	\$1,689,384	\$1,689,384	3.73~5.25%	\$ 72,800
Grand Pacific Leasing Co., Ltd.	2002.01.01	2,016,000	-	2.77~2.94%	40,476
Others		265,214	147,174		5,487
Total		<u>\$3,970,598</u>	<u>\$1,836,558</u>		<u>\$ 118,763</u>

Interest rates of loans to related parties are the same as those with other parties.

g. Deposits

The Company's investee, Chinatrust Commercial Bank, Ltd.:

	2002			
	Maximum Balance	Ending Balance	Interest Rate	Interest Expense
China Life Insurance Co., Ltd.	\$ 11,392,971	\$ 11,392,971	0~4.90%	\$ 211,123
Overseas Investment & Development Co., Ltd.	363,068	265,172	0~5.00%	7,051
National credit Card Center of R.O.C.	693,303	503,971	0~4.40%	8,306
KGI Securities Co., Ltd.	1,269,795	1,048,702	0~5.10%	20,939
KGI Futures Co., Ltd.	1,322,834	650,996	0~5.00%	9,270
Others	2,202,852	854,978	0~13.00%	21,126
Total	<u>\$ 17,244,823</u>	<u>\$ 14,716,790</u>		<u>\$ 277,815</u>

Interest rates of deposits by related-parties are the same as those with other parties.

h. Others

In 2002, the Company's investee, Chinatrust Commercial Bank, Ltd. traded securities in KGI Securities Co., Ltd. and commissions paid amounted to \$83, respectively.

In 2002, government bonds and short-term bills purchased from KGI Securities Co., Ltd. by Chinatrust Commercial Bank, Ltd. amounted to \$15,752,296. In 2002, government bonds and short-term bills sold to KGI Securities Co., Ltd. by the Bank amounted to \$14,667,870.

6. Pledged Assets

Please refer to Note 4 for details.

7. Significant Commitments and Contingencies

	<u>December 31, 2002</u>
<u>The Company's investee, Chinatrust Commercial Bank, Ltd.</u>	
Contingent liabilities from guarantees and letter of credit business	\$ 79,732,473
Commercial paper to the Central Bank for Banks' clearance	6,772,100
Client notes in custody	100,838,285
Receivables for other banks from syndicated loans	29,448,904
Marketable securities in custody	504,994,524
Travellers' cheques in custody available for sale	535,056
Special - purpose trust accounts	92,858,038
<u>Subsidiary - Chinatrust securities Corp., Ltd.</u>	
Promissory notes issued as guarantee	10,000
Lease commitments	6,960
<u>Subsidiary - Chinatrust Bills Finance Co., Ltd.</u>	
Guarantee for commercial paper	18,300,300
Bonds and notes sold under repurchase agreements	36,751,567
Bonds and notes purchased under resale agreements	1,344,173
Total	<u>\$ 871,592,380</u>

8. Significant Catastrophic Losses : None.

9. Significant Subsequent Events : None.

10. Others

(1) Duration analysis of the Company's investee, Chinatrust Commercial Bank, Ltd.'s assets and liabilities as of December 31, 2002 are as follows:

	<u>Within 6 months</u>	<u>Between 6 months and 1 year</u>	<u>Over 1 year</u>	<u>Total</u>
Assets				
Call loan to and due from bank	\$ 8,348,439	\$ -	\$ 11,092,734	\$ 19,441,173
Deposits with the Central Bank	-	-	24,307,236	24,307,236
Marketable securities (Note 1)	64,489,118	20,896,293	18,178,845	103,564,256
Loans (Note 2)	158,267,661	70,554,755	303,721,748	532,544,164
Liabilities				
Deposits	\$323,940,065	\$136,693,866	\$216,788,876	\$677,422,807
Borrowings and other financing	11,920,279	2,899,267	13,850,032	28,669,578

Note 1 : Debt securities here only include debt securities.

Note 2 : Loans here exclude non-accrual account.

(2) In 2002, average value of the Company's investee, Chinatrust Commercial Bank, Ltd.'s interest bearing (or yield) assets and liabilities and average interest rates were as follows:

	Average Value	Average Interest Rate (%)
Assets		
Call loans to and due from banks	\$ 16,484,269	1.42
Deposits with the Central Bank	27,500,290	1.69
Marketable securities	99,270,565	2.92
Loans	516,097,164	5.96
Receivable and others	67,551,979	14.95
Liabilities		
Deposits	\$ 651,838,773	2.01
Call loans from banks	44,962,164	2.29
Borrowings and other financing	29,477,681	1.83

(3) Statement of Income presented by profitability drivers

	2002	
	Amount	%
Interest income	\$ 49,924,597	103
Interest expense	(16,555,179)	(34)
Interest income, net	33,369,418	69
Non interest income		
Commissions and handings fees	9,626,833	20
Gain on sale of marketable securities, net	3,084,229	6
Gain on sale of financial derivatives and others	2,602,363	5
Total non - interest income	15,313,425	31
Operating revenue before provision for credit losses	48,682,843	100
Provision for credit losses	(10,422,218)	(21)
Operating revenue after provision for credit losses	38,260,625	79
Non - interest expenses		
Operating expenses	(19,754,015)	(41)
Taxes	(1,114,927)	(2)
Gain on long - term equity investments, net	(9,695)	-
Commissions and handling fees	(1,760,310)	(4)
Total non - interest expenses	(22,638,947)	(47)
Income before income tax	15,621,678	32
Income tax expense	(3,842,954)	(8)
Comprehensive Income	11,778,724	24
Less : Minority interest income	(15,268)	-
Income before merger and acquisition	(5,186,215)	(11)
Consolidated Net Income	\$ 6,577,241	14
	After income tax	
Basic EPS	\$ 1.36	
Diluted EPS	\$ 1.32	

11.Segment Information : None.

12.Pro Forma Data Comparative Statement :

Pro Forma Consolidated Balance Sheets

December 31, 2002 and 2001 (New Taiwan Dollars in Thousands)

	2002		2001	
	Amount	%	Amount	%
ASSETS				
Cash	\$ 11,191,069	1	\$ 10,092,257	1
Call loan to and due from banks	21,169,427	3	11,518,262	1
Deposits with the Central Bank	24,992,643	3	24,465,673	3
Marketable securities	150,093,314	16	161,363,905	18
Less: Allowance for market decline	(907,218)	-	(494,421)	-
	<u>149,186,096</u>	<u>16</u>	<u>160,869,484</u>	<u>18</u>
Receivables	87,908,234	9	90,105,632	10
Less: Allowance for credit losses	(2,302,254)	-	(2,742,392)	-
	<u>85,605,980</u>	<u>9</u>	<u>87,363,240</u>	<u>10</u>
Loans	603,071,923	64	562,893,057	63
Less: Allowance for credit losses	(9,874,157)	(1)	(8,433,489)	(1)
	<u>593,197,766</u>	<u>63</u>	<u>554,459,568</u>	<u>62</u>
Long-term investments	3,644,019	-	3,540,325	1
Premises and property				
Land and buildings, net	24,536,248	3	24,482,439	3
Equipments and other properties, net	3,543,838	-	3,060,939	-
	<u>28,080,086</u>	<u>3</u>	<u>27,543,378</u>	<u>3</u>
Other assets	19,532,778	2	13,978,480	1
TOTAL ASSETS	<u>\$ 936,599,864</u>	<u>100</u>	<u>\$ 893,830,667</u>	<u>100</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities				
Call loans from and due to banks	\$ 53,031,617	6	\$ 47,922,199	6
Payables	21,848,411	2	22,926,466	3
Deposits at interest	728,203,566	78	714,417,878	80
Borrowings and other financing	47,815,766	5	30,378,410	3
Other liabilities	6,490,843	1	4,195,335	-
Total liabilities	<u>857,390,203</u>	<u>92</u>	<u>819,840,288</u>	<u>92</u>
Minority interest	63,243	-	65,200	-
Stockholders' equity				
Common stock	46,054,268	5	46,054,268	5
Preferred stock	2,500,000	-	2,500,000	-
Capital surplus	27,014,646	3	27,111,496	3
Retained earnings	10,464,619	1	3,582,352	-
Unrealized long-term equity investments market decline	(1,270,188)	-	(1,620,966)	-
Cumulative translation adjustments	(604,964)	-	(552,493)	-
Treasury stock	(5,011,963)	(1)	(3,149,478)	-
Total Stockholders' Equity	<u>79,146,418</u>	<u>8</u>	<u>73,925,179</u>	<u>8</u>
Commitments and Contingencies				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 936,599,864</u>	<u>100</u>	<u>\$ 893,830,667</u>	<u>100</u>

Pro Forma Consolidated Statements of Income

For the Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Except for EPS)

	2002		2001	
	Amount	%	Amount	%
Operating Revenues :				
Interest income	\$ 49,924,597	77	\$ 57,974,531	78
Commission and handling fees	10,461,154	16	8,460,695	11
Gain on marketable securities, net	3,084,229	5	5,567,510	8
Gain on long-term equity investments, net	-	-	50,187	-
Exchange gain, net	1,199,176	2	-	-
Rental revenue	191,560	-	127,605	-
Gain on financial derivatives, net	-	-	2,093,584	3
Other operating revenues	36,638	-	83,942	-
Total Operating Revenues	<u>64,897,354</u>	<u>100</u>	<u>74,358,054</u>	<u>100</u>
Operating Costs:				
Interest expense	(16,555,179)	(26)	(29,703,250)	(40)
Commission and handling fees paid	(1,010,514)	(1)	(751,890)	(1)
Exchange loss, net	-	-	(340,988)	-
Loss on long-term equity investments, net	(9,695)	-	-	-
Provisions for allowances and reserves	(10,422,218)	(16)	(15,106,724)	(20)
Loss on financial derivatives, net	(491,345)	(1)	-	-
Other operating costs	(113,125)	-	(68,938)	-
Total Operating Costs	<u>(28,602,076)</u>	<u>(44)</u>	<u>(45,971,790)</u>	<u>(61)</u>
Gross Margin	36,295,278	56	28,386,264	38
Operating Expenses	(19,754,015)	(30)	(17,158,191)	(23)
Taxes	(1,114,927)	(2)	(1,189,316)	(2)
Operating Income	<u>15,426,336</u>	<u>24</u>	<u>10,038,757</u>	<u>14</u>
Non-Operating Revenues:				
Total Non-Operating Revenues	<u>340,668</u>	<u>1</u>	<u>529,401</u>	<u>1</u>
Non-Operating Expenses:				
Total Non-Operating Expenses	<u>(145,326)</u>	<u>-</u>	<u>(262,828)</u>	<u>-</u>
Income Before Income Tax	15,621,678	25	10,305,330	15
Income Tax Expense	(3,842,954)	(6)	(2,266,553)	(3)
Combined Net Income	11,778,724	19	8,038,777	12
Less: Minority interest income	(15,268)	-	(128,829)	-
Income before merger and acquisition	-	-	(247,321)	-
Consolidated Net Income	<u>\$ 11,763,456</u>	<u>19</u>	<u>\$ 7,662,627</u>	<u>12</u>
	After		After	
	income tax		income tax	
Basic EPS	<u>\$ 2.53</u>		<u>\$ 1.61</u>	
Diluted EPS	<u>\$ 2.42</u>		<u>\$ -</u>	

13. Condensed Balance Sheet and Income Statement for Subsidiaries with Controlling Interests

(New Taiwan Dollars in Thousands)

(1) Chinatrust Commercial Bank

1. Condensed balance sheet

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Cash	\$ 7,526,954	\$ 6,965,152
Call loan to and Due from banks	19,441,173	9,541,949
Deposits with the Central Bank	24,307,236	24,129,431
Marketable securities	121,395,716	130,879,821
Receivables	84,019,672	84,650,086
Loans	537,167,769	502,433,426
Long - term equity investments	19,622,811	20,947,054
Premises and property	26,902,952	26,388,303
Other assets	8,871,024	8,884,795
Total Assets	849,255,307	814,820,017
Call loans from and Due to banks	39,495,817	37,033,806
Payables	19,601,187	20,169,741
Deposits at interest	677,422,807	653,129,282
Borrowings and other financing	28,669,578	27,618,137
Other liabilities	4,171,918	2,943,872
Total liabilities	769,391,307	740,894,838
Capital stock	46,054,268	46,054,268
Preferred stock	2,500,000	2,500,000
Capital surplus	8,059,635	8,156,485
Retained earnings	29,929,335	22,537,363
Unrealized long - term equity investment market decline	(1,270,188)	(1,620,966)
Cumulative translation adjustments	(604,964)	(552,493)
Treasury stock	(4,774,086)	(3,149,478)
Stockholders' equity, net	79,894,000	73,925,179

2. Condensed income statement

	<u>Year Ended December 31, 2002</u>	<u>Year Ended December 31, 2001</u>
Operating Revenues	\$ 58,968,921	\$ 67,346,521
Gross Profit	33,746,094	25,216,715
Operating Income	14,951,526	8,946,059
Non - operating income	281,963	442,482
Non - operating expenses	(122,849)	(258,955)
Income Before Income Tax	15,110,640	9,129,586
Net Income	12,031,880	7,662,627
Earnings per share - before retroactively adjusted	2.59	1.61
Earnings per share - after retroactively adjusted	-	1.61

(2) Chinatrust Insurance Brokers Co., Ltd.

1. Condensed balance sheet

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Cash and cash in bank	\$ 507,963	\$ 132,268
Short - term investments	14,414	-
Receivables	39,285	-
Other current assets	25,880	-
Long - term equity investments	616	636
Premises and property	1,533	677
Other assets	9,009	948
Total Assets	598,700	134,529
Accrued expenses	12,947	7,138

Tax payable	129,084	16,111
Custodial collections	17,416	26,312
Other current liabilities	6,268	2,643
Total liabilities	165,715	52,204
Capital stock	2,000	2,000
Capital surplus	3,221	3,221
Retained earnings	427,764	77,104
Stockholders' equity, net	432,985	82,325

2. Condensed income statement

	Year Ended December 31, 2002	Year Ended December 31, 2001
Operating revenues	\$ 622,483	\$ 125,809
Operating Income	573,558	100,413
Non - operating income	2,158	2,309
Non - operating expenses	(5,696)	-
Income before Income Tax	570,020	102,722
Net Income	427,762	77,104
Earnings per share	2,138.81	385.52

(3) Chinatrust Securities Corp., Ltd.

1. Condensed balance sheet

	December 31, 2002	December 31, 2001
Cash and cash equivalents	\$ 1,489,817	\$ 453,215
Short - term investments, net	558,048	810,000
Securities - Proprietary trading	2,864,089	3,008,192
Securities - Underwriting	1,447,480	1,153,768
Securities - Hedging	75,600	-
Receivables	294,674	82,100
Pledged time deposits	173,000	58,242
Other current assets	110,819	42,265
Long - term equity investments	3,600	3,600
Premises and property	388,931	380,088
Other assets	382,749	282,952
Client's Position - Debit	1,217	4,635
Total assets	7,790,024	6,279,057
Short - term borrowings	1,280,000	380,000
Commercial paper	299,915	-
Securities issued under repurchase agreement	1,838,519	1,640,804
Liabilities for stock warrants issued	70,500	-
Repurchased stock warrants	(38,639)	-
Payables	15,689	299,602
Custodial collections	648,908	34,564
Accrual expense	102,880	106,230
Other current liabilities	70,003	15,026
Other liabilities	74,123	48,518
Total liabilities	4,361,898	2,524,744
Capital stock	3,500,000	3,500,000
Capital surplus	305,000	305,000
Accumulated loss	(376,874)	(50,687)
Stockholders' equity, net	3,428,126	3,754,313

2. Condensed income statement

	Year Ended December 31, 2002	Year Ended December 31, 2001
Total revenue	\$ 1,080,776	\$ 1,065,421
Total expenses	1,350,341	511,873
Income before tax	(269,565)	553,548
Net Income	(326,187)	553,461
Earnings per share	(0.93)	1.52